DME

FUTURES INSIGHTS

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APRIL CONTRACT

Russian oil price shock, how markets are reacting

$91.96
OSP

13.991
MILLION BARRELS
Total Delivery

93,732
CONTRACTS
Total Exchange Volume

4,933
CONTRACTS
ADV

The major conflict in eastern Europe following Russia's invasion of Ukraine has jolted global oil markets as oil buyers increasingly shun oil exports from one of the world's top three producers. This paper looks at some of the major implications for oil pricing.

Global crude oil prices rallied to the highest levels since 2008 after Russia's invasion of neighboring Ukraine sent shockwaves through energy markets amid fears over energy shortages, particularly in Europe.

Benchmark Oman crude futures on the Dubai Mercantile Exchange traded at the highest levels in over 13 years in the week starting March 7, as oil traders and refiners look to secure supplies in what was already a tight supply/demand balance moving into 2022.

Although the United States and European Union have stopped short of imposing direct sanctions on Russian energy supplies, a series of measures including targeting Russian banks, along with shipping and insurance obstacles are hampering sales.

US investment bank JPMorgan said that around 70% of Russian oil exports are facing difficulties in finding outlets, while a growing number of oil companies have taken the option to 'self-sanction' on lifting Russia crude or accepting Russian-flagged tankers.

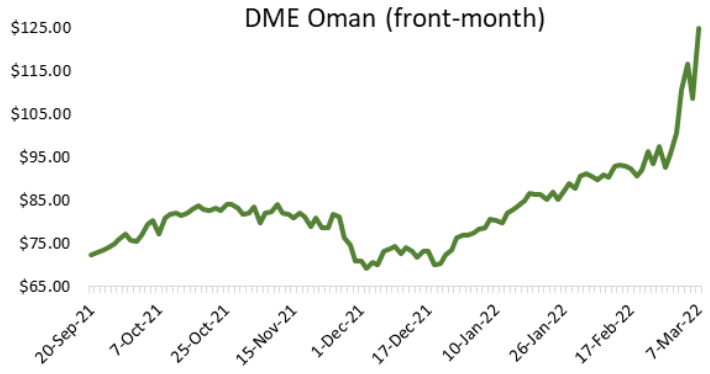
While Saudi Arabia is the world's largest exporter of crude oil, Russia is the world's top exporter of crude and oil products combined with exports of about 7 million barrels per day (bpd), or around 7% of global supply.

Global oil benchmarks have faced unprecedented intraday volatility during the early part of March, but overall prices have soared higher.

The DME Oman May22 contract Marker Price settled above $125/b on March 7, although earlier in the session Oman crude was as one point well above $130/b.

In the fist week of March, the May22 Marker Price surged some 30% compared to the final February price of $98.57/b.

The Marker Price is used by the Oman government in calculating its monthly Official Selling Price (OSP), while several other National Oil Companies use the DME Oman monthly average in calculating OSPs, including Saudi Arabia, Kuwait, Bahrain and Dubai.



Supplies

As Russian oil supplies are increasingly shut out from international markets, analysts say there is little spare capacity on a global basis.

Most OPEC+ members have little spare oil production capacity at the moment, with only Saudi Arabia and the United Arab Emirates seen as having made the investment to be in a position to ramp up output at relatively short notice.

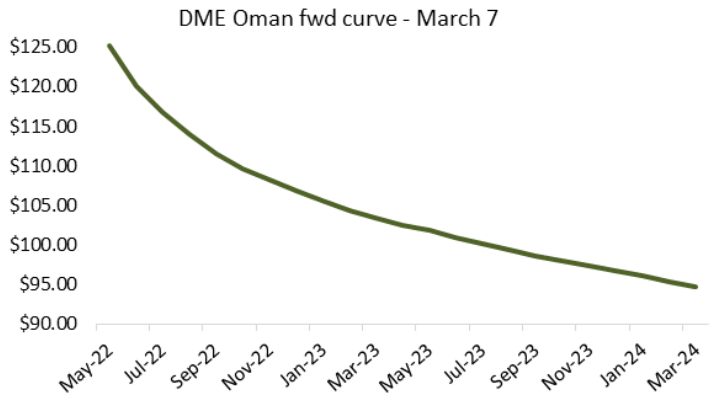
Most OPEC+ producers have struggled to meet output targets in recent months and collectively the group is some 900,000 barrels per day below target, according to the International Energy Agency.

Market Structure

DME Oman Market structure, which is seen as a measure of prompt demand, soared to record levels in early March, reflecting wider fears over supply shortages.

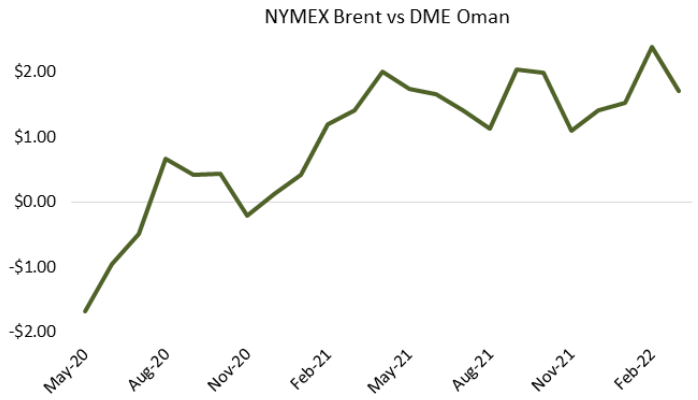
Backwardation, a term for when prompt prices are higher than those further along the curve, reached a number of record landmarks.

This includes the key M1/M3 spread, which is used by NOCs in OSP calculations, surging to a record of around $9/b, while the 12-month spread reached an all-time high of over $23/b.



Brent/Oman

Despite wild swings in outright crude oil prices, the spread between the two benchmarks have remained relatively stable this month. The key Brent/Oman spread, which is a measure of Middle East medium sour crude against North Sea light sweet, was averaging around $1/b in early March but has since widened to around $2/b.



Refined products

Refined products have seen extreme volatility over the past 10 days, particularly the key distillates market, which make up the largest share of oil demand in East of Suez markets.

Europe is a net short of diesel and jet, making it reliant on Middle East and Asian imports to cover any shortfalls. With huge uncertainty surrounding Russian diesel exports, premiums for middle distillate against DME Oman soared to levels not seen since 2014.

The 10ppm Singapore gasoil crack spread against DME Oman, which measures the difference between gasoil and Oman crude, rocketed to $25/b on March 7, compared to around $15/b at the end of February. Likewise, the Singapore jet crack has strengthened from DME Oman +$11.70/b at end of February to more than $17/b, while gasoline cracks are relatively stable from late February at DME Oman +$13/b.

Conclusion

While global geopolitical events remain at heightened levels, analysts expect oil prices to remain volatile and at elevated levels. The conflict has also raised awareness of broader energy shortages as global markets continue to rebound from the Covid-19 pandemic.

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