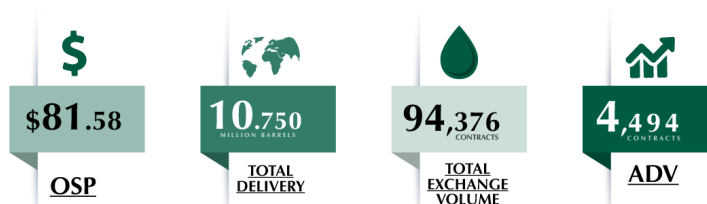




FUTURES INSIGHTS

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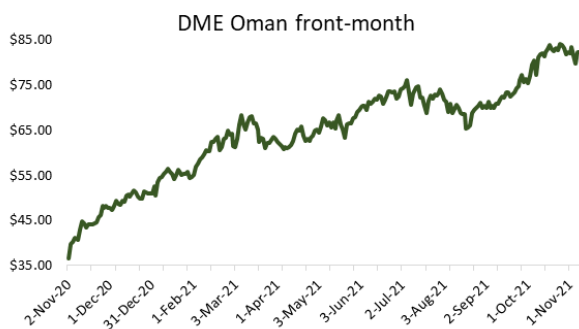
Pricing focus on Middle East as crude oil flows pick up



The vast majority of the world's spare oil capacity lies in the Middle East, so as supply increases to meet returning demand, Middle East benchmarks will be critical to global oil markets.

Oil prices have rallied sharply over the past year, more than doubling in the space of 12 months, according to DME Oman historical data.

Since the initial Covid-19 vaccine breakthrough in November 2020, DME Oman futures have strengthened from under \$40 per barrel to around \$80 barrel in the early part of November 2021.



The price rally comes as demand returns towards pre-pandemic levels, with global consumption moving up to around 100 million barrels per day (bpd) in the fourth quarter, while the OPEC+ group steps up output to meet demand requirements.

The producer group is adding 2 million barrels of output between August and December of this year at a rate of 400,000 bpd each month, which is getting snapped up by refiners, particularly those in Asia looking to build oil inventories ahead of the crunch winter-demand period.

Latest figures show that the core OPEC 13 countries pumped around 27.5 million bpd of crude in October, while Russia and eight other partners added around 13.65 million bpd.

However, some members of the OPEC+ alliance have struggled to make output quotas, particularly those in West Africa, which means

the world will be increasingly reliant on key Middle East producers such as Saudi Arabia, Kuwait, UAE and Iraq, along with Russia for further output hikes.

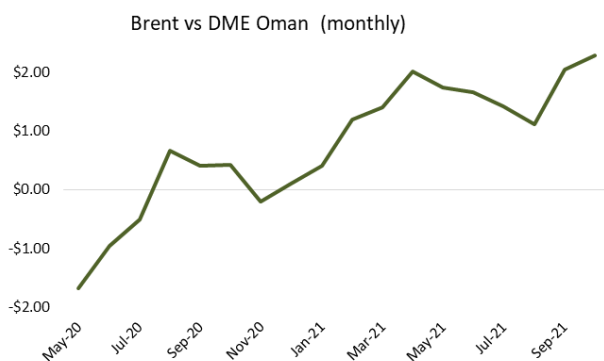
In fact, most of the world's spare production capacity sits with that narrow group of producers, elevating Middle East benchmark prices in terms of importance.

Within that group, Saudi Arabia and Kuwait price 50% of Asian sales against DME Oman, UAE prices all of its grades against its Murban oil futures, Iraq uses PRA prices for Asia sales, while most of Russia's sales of Urals crude are against Dated Brent.

Saudi Arabia saw the biggest increase month on month, adding 130,000 bpd, according to market surveys, with the Kingdom up to around 9.8 million bpd in October, the highest level since April 2020 amid healthy demand for its crude.

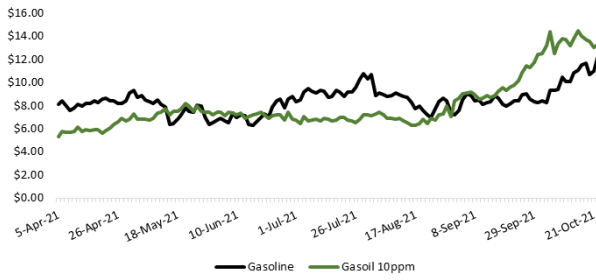
Oman Pricing

DME Oman acts as a key indicator in valuing Middle East crudes oil versus barrels from other regions, with an increasing number of Asia refiners looking to pull in crude cargoes from other regions, including the Americas, West Africa and the North Sea.



Light sweet Brent and WTI benchmarks outperformed Middle East medium sour grades for most of this year, underpinned by soaring margins for distillates (gasoil/jet) and light ends (gasoline/naphtha) as overall refining margins turned profitable in the third quarter.

Road fuels vs DME Oman



China

However, crude oil sales into China have dropped sharply this year, as the world's largest importer dipped in inventories after building huge stockpiles when prices tumbled sharply in 2020.

The flow of crude oil from the Middle East to Asia averaged 400 million barrels/month over January-September, down 3.8% year on year and 7.5% lower than in 2019, according to figures from analytics company Kpler, primarily due to weaker imports from China.

China's crude oil imports slumped below the 9 million b/d mark to a 39-month low of 8.94 million b/d in October as both state-owned and private refiners slowed down buying, data from the General Administration of Customs showed.

However, depleting inventories and the crunch heating-demand season over winter are expected to lead to higher Chinese imports for the balance of 2021 and into 2022.

Hurricane global impact

The main disruption event for crude oil flows this year came in the form of Hurricane Ida, which in the immediate aftermath knocked out around 1.7 million bpd of US sour crude in the Gulf of Mexico, with full production only returning late in the year after ongoing problems with some facilities operated by Shell.

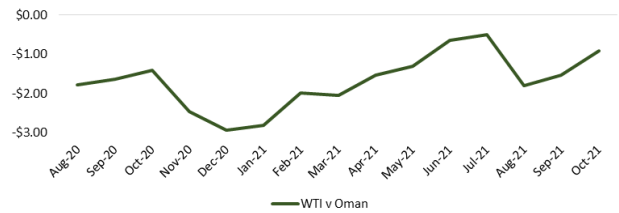
US exports were heavily impacted by production outages in the Gulf of Mexico from Hurricane Ida last month, with data from Kpler showing a slump in shipments to Asia over

September.

Kpler assessed only 750,000 barrels of U.S. crude left for Asia in the week starting Oct. 4, none the prior week and 3.25 million barrels in the week starting Sept. 20.

In contrast, in the four weeks prior to Ida, U.S. exports to Asia were at a moving average of 6.52 million barrels a week, according to Kpler.

WTI v Oman spread (monthly)



Imports of crude oil from outside Asia/Middle East are expected to remain expensive options for Asia refiners moving into the new year, so turning to Middle East barrels will be essential, while monitoring global crude oil spreads will be critical.



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