DME

FUTURES INSIGHTS

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Oil price rebound

OSP	TOTAL DELIVERY	TOTAL EXCHANGE VOLUME	ADV
$69.38	15.910 MILLION BARRELS	108,132 CONTRACTS	4,915 CONTRACTS

This paper revisits the relative performance of key global benchmarks and marker crudes as global economies emerge from the pandemic, albeit at a staggered pace.

Oil price rebound

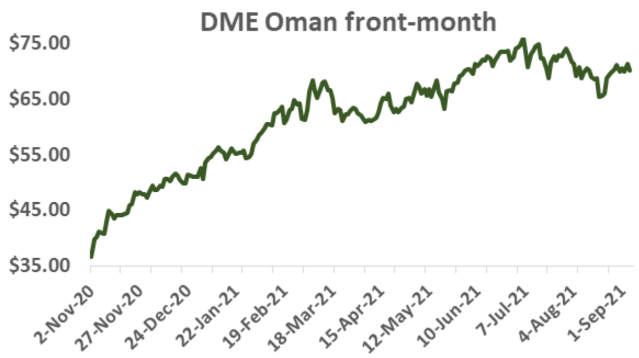
Oil prices have broadly been in an upwards trend for most of 2021 as the economic recovery and subsequent uptick in demand, along with supply management from the OPEC+ alliance, reestablished the demand/supply equilibrium.

Among the key global benchmark futures contracts, DME Oman has consolidated at around the $70/b mark, while North Sea Brent sits at a premium to both Oman and the US WTI benchmark.

Brent and WTI are classified as light sweet crudes, while Oman is a medium sour grade and representative of the wider Middle East slate of crude oil.

However, within the three benchmarks Brent and WTI have largely outperformed Oman in terms of price, as the summer demand recovery was led by road transport fuels, while the steep fall in US shale output has underpinned prices in the US and Europe.

Light grades fared less well in Asia though in recent months, primarily due to the slowdown in spot buying from China.



DME Oman prices reflect the strong price rebound during 2020

Brent/Oman

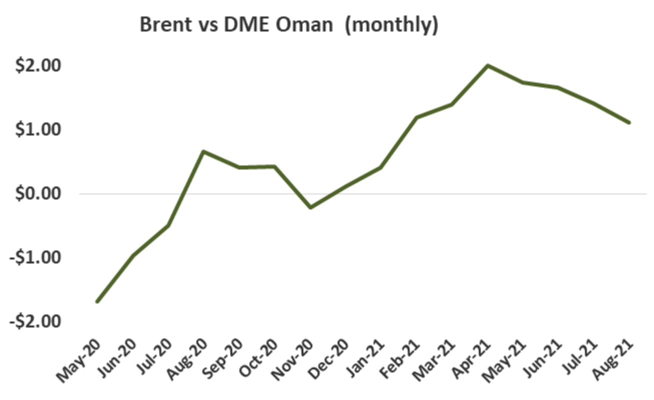
Historically, Brent has traded at a premium to medium sour crudes such as Oman and up until 2018, the North Sea benchmark would regularly trade at $1.50-$3.00/b over the Middle East Oman sour crude benchmark.
The Brent/Oman spread is a key gauge of price differentials between the North Sea and Asia, helping refiners to track arbitrage opportunities into Asia and measure quality differentials between various grades.

Light sweet crudes with their higher yield of transport fuels such as gasoline, diesel and jet have historically commanded a premium over medium sour crudes. Heavier barrels have a higher cut of residual fuel, which require further expensive processing to produce the more sought-after refined products.

The expansion of the US shale industry, which is light sweet crude, saw total oil production ramp up to around 13 million bpd pre-pandemic and established the US as a crude exporter, which in turn tipped the scales against lighter grades in the global market, even pushing Brent to a discount versus DME Oman.

The onset of the Covid-19 pandemic in the first quarter of 2020 initially saw demand in Asia plummet, but this was soon replaced by Europe and by May of 2020 Brent was trading at record discounts to DME Oman.

Road transport fuels have broadly lead the price recovery this year, helping to reestablish Brent at a premium to DME Oman in the +$1.00-$2.00/b range since early 2021.



China buying

While the US largely led the demand recovery this year, and to a lesser extend Europe, the Asia demand recovery has faltered as Covid outbreaks have prompted frequent lockdowns and travel restrictions.

The slowdown in terms of crude oil procurement has been most prominent in China, with imports this summer tumbling to around 10 million bpd compared to imports of over 13 million bpd last summer when Chinese refiners stocked up on cheap crude oil as prices slumped to 20-year lows at the height of the pandemic.

The slowdown in Chinese imports has also been prompted by restrictions on China's independent refining sector, including sharply lower crude oil import quotas during the second half of the year.

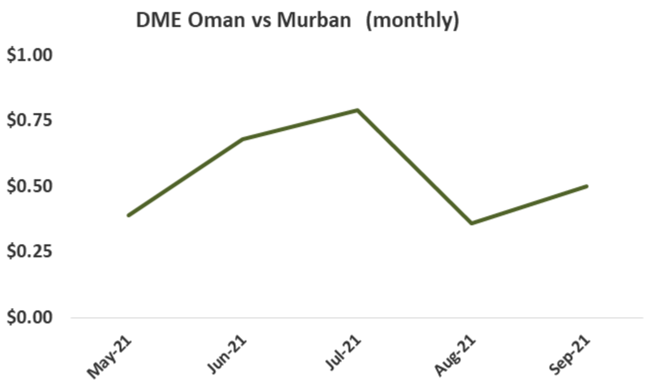
However, despite reduced demand from the world's largest crude oil importer Oman and Middle East sour crudes have held up well, while Russian grades exported from the Pacific have come under strong downwards pressure.

Russian ESPO, which is a lighter crude than typical Middle East medium sour crude grades, has slumped to discounts against DME Oman on a like-for-like basis, while Sokol at one point dipped less than a $1/b against Oman.

In the second half of 2020 ESPO averaged around $1.60/b over DME Oman, but regularly traded at the equivalent of a $1/b discount to Oman in August 2021. Sokol was typically at $3/b or more against Oman and similar Middle East grades during 2020.

The Middle East flagship light sweet Murban crude has also been hit by weakness in the Russian grades, which compete for customers in the same market.

Murban futures were trading at averaging around $0.75/b against DME Oman during June and July of this year, but that premium halved during August as Murban faced stiff competition from the cheaper Russian grades.

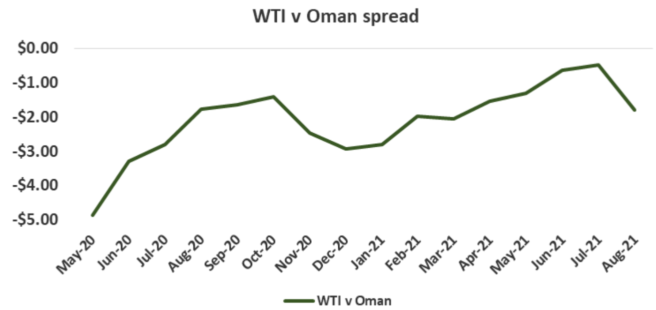


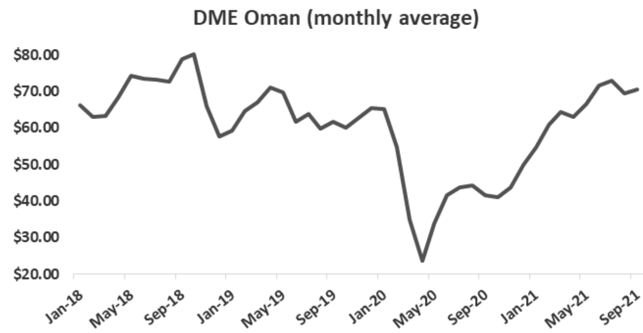
WTI 2021 rebound

WTI has been the strongest performer in price terms among the global futures benchmarks, as firmer US demand and tumbling crude inventories underpin the US market.

The WTI/Oman spread averaged minus $0.64/b in June, the narrowest spread since January 2017, although then more recent slowdown in the US has seen WTI prices slip back against Oman. The widespread shutdown of US production in the Gulf of Mexico following hurricane Ida had shut in around 1.5 million bpd of crude even 10 days after Ida struck.

However, the impact has been largely felt in the heavier crude market, with the flagship Mars sour grade in early September trading at a small premium to the WTI Cushing benchmark. This compares to a discount of around $1.50/b prior to the hurricane.





DME Oman tracks the global impact of Covid-19 and market recovery

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