



DME

Futures Insights

Issue 13 - April 2020

Oil price collapse heralds a new Super Contango

MAY 2020
CONTRACT

OSP
\$34.85



TOTAL
DELIVERY
9.792
MILLION BARRELS



TOTAL EXCHANGE
VOLUME

114,138

CONTRACTS



ADV

5,189

CONTRACTS





Oil price collapse heralds a new Super Contango

DME historical analysis of market structure

The collapse in prices has seen oil markets return to contango levels not seen since the height of the global credit crunch in 2008/2009, and looks to be heading towards an even deeper market structure as prompt prices lag behind those further out.

Oman futures trading on Dubai Mercantile Exchange (DME) - which used as a key benchmark for Middle East oil producers and refiners across Asia, are on track in April to register the steepest front-month contango ever recorded as prompt oil demand collapses in reaction to the coronavirus sweeping the globe.

Middle East oil typically trades two months forward, allowing producers sufficient time to meet demand and for refiners to fine-tune modelling and secure the required crude grades.

June is the front-month DME contract during the month of April, and the June vs July spread has widened to more than -\$3.00 per barrel for the first time since November 2008.

On a month-average basis the front-month contango has only dipped below -\$2.00/b on one occasion, let alone -\$3/b, so barring a dramatic turnaround in fortunes, April 2020 looks on course to be the deepest sustained contango ever recorded.

DME Oman futures launched in June 2007, but fourth quarter 2008 is acknowledged as the steepest contango period in the history of oil markets.

DME front-month spread

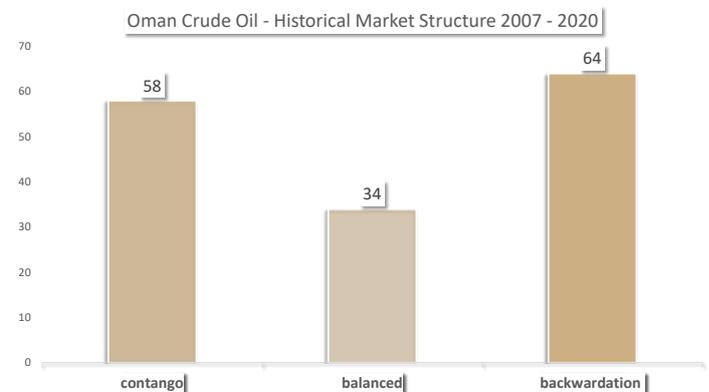


Oil markets typically move in cycles of backwardation and contango, following global supply/demand fundamentals.

Since the launch of Oman futures on DME the average front-month structure has been just +\$0.04 – a sign that over time oil markets function very efficiently and price signals from the forward curve will help balance the market.

Oman moved into a contango structure for the first time since early 2017 in February 2020, and that structure has been widening ever since to reach more than -\$3/b in early April

Out of 156 trading months DME Oman has been in contango a total of 58 months, backwardated for 64 months and balanced for 34 months (based on a -\$0.20 to +0.20 parameter)



Super Contango and storage

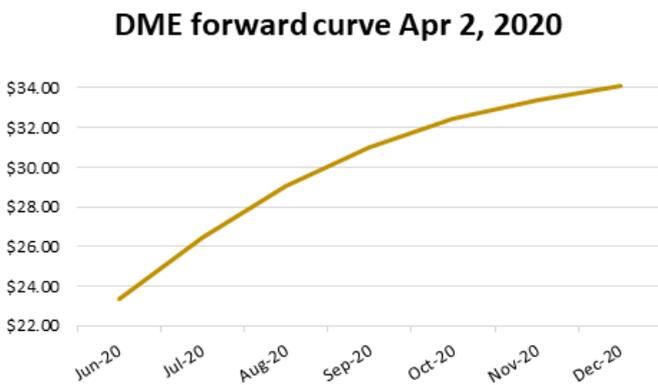
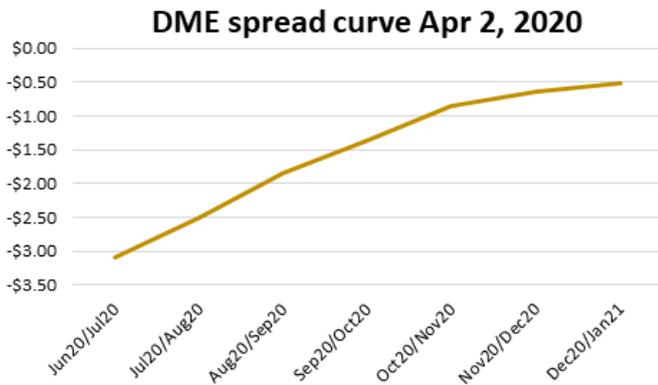
When a market moves into what is termed as a Super Contango – where there is a deep underlying contango structure going many months out – storage becomes a major feature of the oil pricing.

As of April 2 the six-month DME contango was totaled more than \$10/b.

This included June/July at more than -3.00 and July/August at over -\$2.



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At these levels traders will book storage tanks to store prompt oil, hedge in the futures market, then deliver to customers at a later date.

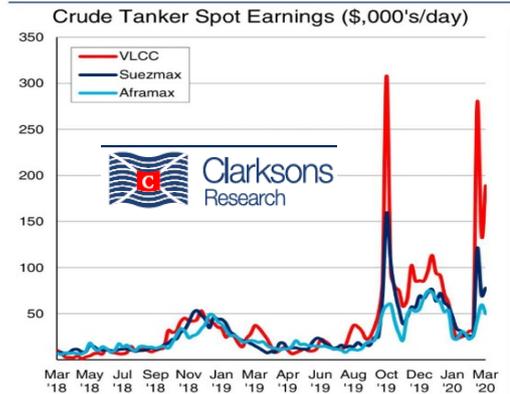
Landed storage facilities across the globe have already been largely filled and the Middle East trading and storage hub of Fujairah was reported as the latest hub to effectively reach tank tops by early April. The next level of storage is chartering tankers to keep oil at sea.

In early 2009 it was widely reported over 100 million barrels of crude and refined products were being stored at sea. Already in 2020 upwards of 80 million barrels of oil is being held on tankers, with traders making fresh enquiries every day to charter further tonnage as floating storage.

Leading tanker broker Clarkson's reported a huge surge in tanker rates in late March with the largest class of oil tanker – a VLCC holding approximately 2 million barrels – reaching around \$200,000 per day

– which could effectively make the cost of floating storage more than a trader could expect to earn from the contango structure.

Crude Tanker Spot Market



Some estimates are putting the levels of demand destruction at around 25 million bpd as a result of the coronavirus, or around a quarter of global demand.

With Middle East exports - particularly from Saudi Arabia - set to increase in the second quarter of 2020 the Super Contango looks here to stay for the foreseeable future.