

Oil Traders Eye Middle East's New Frontiers

BY JONTY RUSHFORTH, HEAD OF PRICING, S&P GLOBAL PLATTS

The rapid evolution of the Middle East's budding energy trading ecosystem is on track to create a new oil products hub alongside behemoths Rotterdam and Singapore within a decade. The UAE's Port of Fujairah is leading this charge to become a global energy hub; a multifaceted and challenging goal.

Rising throughput and increasingly sophisticated infrastructure at the port - the world's second-largest bunkering hub behind Singapore - have galvanized local government and energy stakeholders' intentions to carve out a trading identity. The ecosystem is developing the essential building blocks of a commodity hub: transparent data, regulatory and legal clarity, robust volumes, independent oil benchmarks and a strong talent pool. The location of the hub means that it is at the pivot point of global oil trade between east and west, both physically and in terms of the trading day.

Three key developments in the last few months may demonstrate the principle of 'build it and they will come' as the port seeks to send a clear message to global trading communities that it is ready for the major leagues.

Fujairah's launch of the first very large crude carrier (VLCC) jetty on the Indian Ocean coast of the Arabian peninsula in late-September places the port in a select group of globally focused oil locations, making it 'arbitrage ready'. Much of the major flow of oil between global regions is carried on the very largest vessels, and the \$175 million jetty sits at the core of the key oil route between east and west.

Trade flows for crude and oil products have changed dramatically over the last few years, marked by a clear shift towards satisfying Asian demand. Historically, crude was mostly shipped out of the Middle East to refineries abroad and re-imported as oil products, such as gasoline, diesel, gasoil, jet fuel and fuel oil to serve Middle Eastern demand. Today, the growth of refining capacity in the Middle East and increased demand for oil products are changing historical trading patterns, with oil products now flowing both ways through the Gulf.

Also in September, the port announced that it would be publishing weekly inventory data for major oil products to provide insight on the market's supply-demand balance. Improved transparency will whet the appetite of traders based in the Gulf, as well as at trading desks in the world's major trading hubs of Houston, Rotterdam and Singapore. Information on market fundamentals is a key requisite for trading commodities, and this step lowers one of the barriers to entry for the Middle East oil market.

Further support comes from S&P Global Platts' launch of new Middle East assessments for oil products on October 3. This adds another vital layer of transparency, especially for the local spot market. The assessments, reflecting loadings from the region's ports - Saudi Arabia's Ras Tanura, Kuwait's Mina Abdulla, Oman's Sohar and Qatar's Ras Laffan, for example - are normalized to loadings at the Port of Fujairah and, in doing so, help cement its global significance. These assessments offer the increasingly savvy market players in the Middle East an independent alter-

native to the netback prices derived from Singapore, but do not attempt to replace them.

However, challenges remain if Fujairah is to reach the status of the major energy trading hubs. An active market will require a clearer and firmer legal structure, to boost participants' confidence. The UAE's legal architecture is just 44 years old and the speed at which greater clarity is provided will directly correlate with the motivation of traders, brokers, accountants, bankers and all other relevant professions to embrace what is largely an untested market. For example, will the Port of Fujairah fall under federal law that is spearheaded by Abu Dhabi, or are the country's global energy interests best served by appointing the port as a legal island, from a trading perspective?

The high cost of soft infrastructure also needs more attention, as escalating telecommunication costs for trading stakeholders in the Gulf threaten to curb momentum, especially for small and medium-sized enterprises. The most efficient connection provided by a leased line between, say, a US city and Dubai incurs crippling costs. An affordable alternative is required in today's environment where profit margins are under stress.

The pace of Fujairah's efforts to establish itself as a key global energy trading hub to rival Rotterdam and Singapore is impressive. If it continues to pay attention to the needs of the oil trading community, Fujairah will reap the benefits of its geographical location and grow from strength to strength. ■