# Keeping Pace with the Gulf's Evolving Crude Markets

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**It is little surprise that crude benchmarks in the** Middle East are rapidly evolving against a backdrop of accelerated local and Asian demand. In the Gulf, the 220 million tonnes of oil equivalent consumed in 2001 nearly doubled by 2010 and is expected to nearly double again by 2020, while Asia's appetite is spearheaded by China's position as the world's largest net importer of oil.

Although Dubai is a small oil producer, it is still the main physical market benchmark reference for crude oil delivered to Asian refineries from the Middle East and Far Eastern Russia. S&P Global Platts' Dubai benchmark, which also includes Oman and Upper Zakum crudes, is used to price more than 12 million barrels a day (b/d) of such exports.

The Dubai benchmark, like Brent and WTI, must adjust as the Gulf collectively aims to strengthen its position as a global commodity trading hub. The region's strategic position allows oil producers, traders and the freight market to nurture the increasingly busy trade routes along the New Silk road – stretching from Beijing to Lagos – with the Port of Fujairah on the Straits of Hormuz providing an ideal parking spot.

S&P Global Platts is committed to reviewing its methodologies to ensure that they are always best-suited to measure the markets they cover and are relevant to market needs. Accordingly, S&P Global Platts implemented changes to the Dubai benchmark so that Qatar's Al Shaheen crude and Abu Dhabi's Murban crude blend would become deliverable grades from January 4.

In addition, following two months of close consultations in late-2015 and further engagement with market participants earlier this year, S&P Global Platts introduced a Quality Premium for Abu Dhabi's Murban on July 1. The quality premium for Murban reflects 60% of the net price differences between Platts front-month cash Murban assessment and S&P Global Platts' front-month cash Oman assessment during the full month prior to announcement.

S&P Global Platts' priority is to ensure that its assessments reflect actual market behaviour in the physical spot markets with futures and other derivatives acting as signposts towards the physical market's natural evolution. Its three new deliverables this year are a considered response to volumes on the Dubai Market on Close (MoC) price assessment process hitting record highs last year, seven times higher than in 2009.

S&P Global Platts' new deliverable grades mean that more than 2.4 million b/d, or three times the volume deliverable into Brent is now available. This comfortably represents more than one hundred cargoes available for trading and delivery during its price assessment process each month. The addition of new crudes not only bolsters the Dubai benchmark but ensures that there is a suitable availability of crudes for delivery to meet spot market demand. In the MOC process for delivered crude between the launch in January and the 11 July, Platts had a total of 31 cargoes declared; sixteen cargoes of Al Shaheen, twelve cargoes of Upper Zakum and three cargoes of Oman crude. In the first quarter of this year, China Oil represented over a third of the total MoC volumes at 35%, while Unipec and Shell reported the second and third highest volumes at 30% and 16%, respectively.

It is not S&P Global Platts' goal for its new products this year to emerge as the region's most widely used deliverables, but instead, to provide Dubai's evolving market with several viable and sustainable trading options. For example, the majority of Omani crude is exported to China, India, Taiwan and the Philippines and we would expect Murban to provide a reliable alternative if Omani crude was temporarily unable to meet a surge in Asian demand.

Fujairah's ongoing efforts to elevate its physical infrastructure will also prove key in facilitating the region's rising trade volumes with the recent completion of its first jetty for very large crude carriers (VLCCs), and plans underway to increase the port's storage for petroleum products by 75% to 14 million tonnes by 2020.

Enhancing the level of trading expertise in the Gulf by investing in human capital – both local and foreign talent – is also integral to the continued growth of the region's crude benchmarks. For example, Singapore's vast trading community means the market is continually swapping ideas and exchanging information, thus accelerating the evolution and global competitiveness of that market. The significant changes in the Gulf's crude market over the last two years illustrate how this transfer of local and foreign knowledge into the local market is already well underway. But it still is a long-distance relationship.

S&P Global Platts remains fully committed to the integrity of its processes and methodology – transparency is its utmost priority. As the Gulf's crude market enters an unprecedented period of change, it will ensure that its services continue to support what is a thriving market. ■