

Outlook for Asia-Pacific crude oil benchmarks

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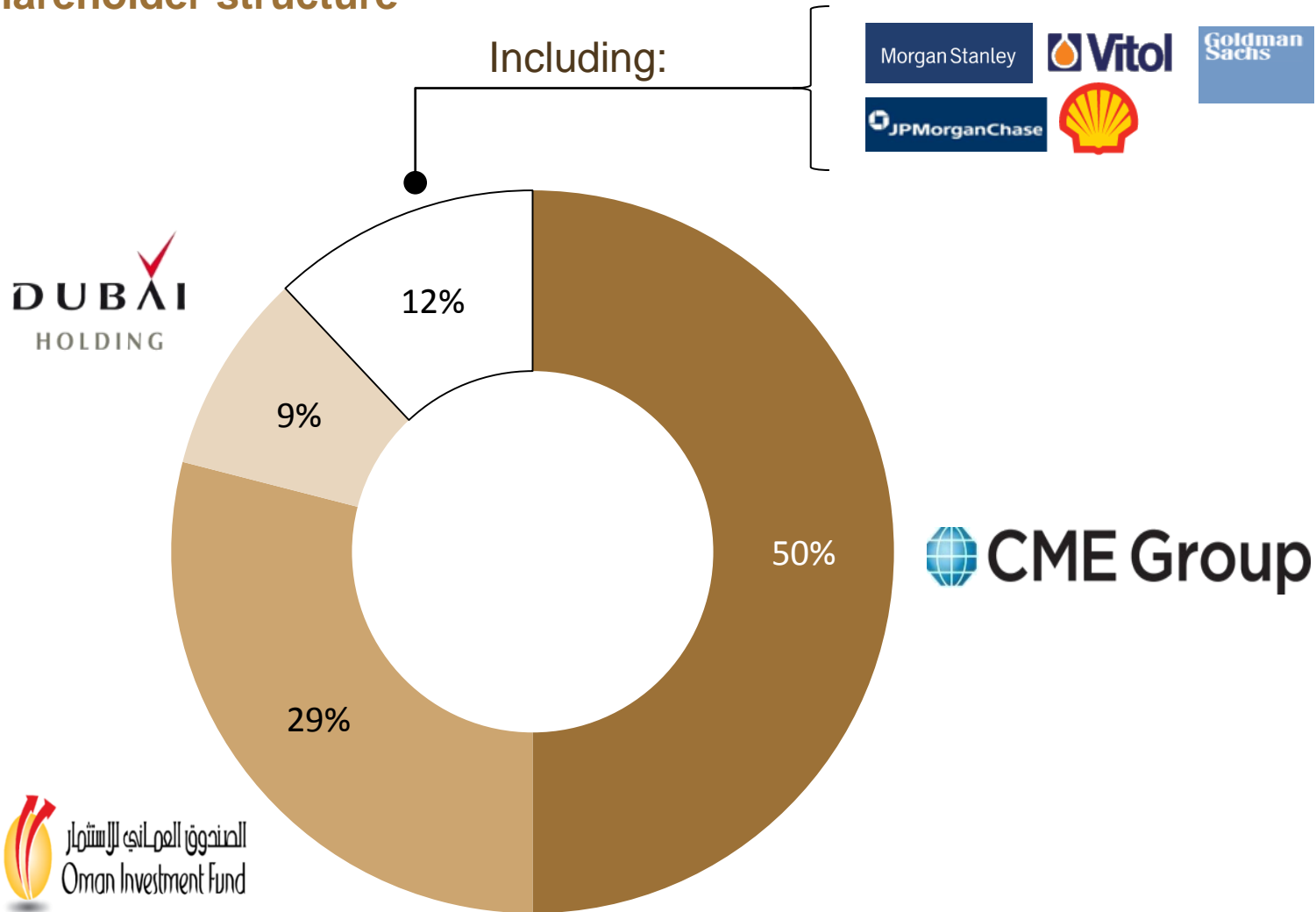
May 2014



DME is a Dubai-based commodities exchange created to promote trading in the Middle East



Shareholder structure



Reasons for the birth of WTI & Brent

1

End of US price controls in early 1981 allowed markets to trade more freely

2

Huge price volatility amid multiple diplomatic and military issues in the Gulf during the 1970s-80s encouraged oil market participants to hedge

3

The London and New York banks encouraged hedging and participated in trading – oil becomes an asset class

As a result ...



1982

NYMEX (later CME Group) launched WTI

1986

IPE (later ICE) launched Brent

Then Asia follows ...

2001

Tokyo Commodity Exchange launches Oman/Dubai

2002

Singapore Exchange launches Oman/Dubai

2005

India's MCX launches WTI

2007

DME launches Oman

Next

INE launches

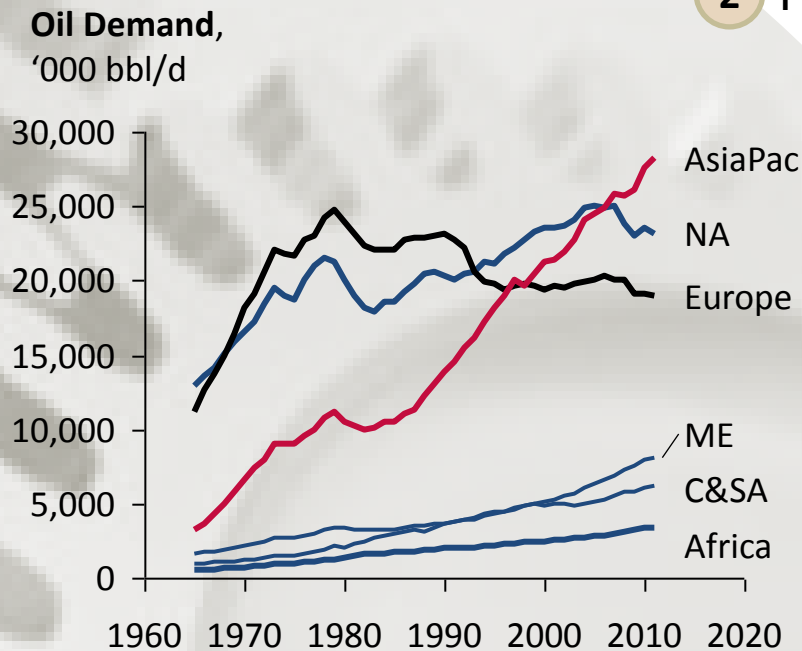
Rise of Asian demand is causing structural changes in oil markets

1 New price levels are established

2 Historical trade patterns are rewired

3 Market participation is expanded and diversified

4 New pricing models and price discovery mechanisms are established



Crude oil futures have proved difficult in Asia



15 crude oil contracts were launched in Asia in the past 15 years:



Middle East Sour failed



WTI contract very liquid but Brent and Middle East Sour have ceased trading



Middle East Sour failed



Middle East Sour is seeing volumes decline



WTI is small but surviving, Brent has ceased to trade



Middle East Sour failed



TFEX Brent is close to ceasing trading



Both failed and were delisted



DGCX Brent has failed; WTI is very illiquid



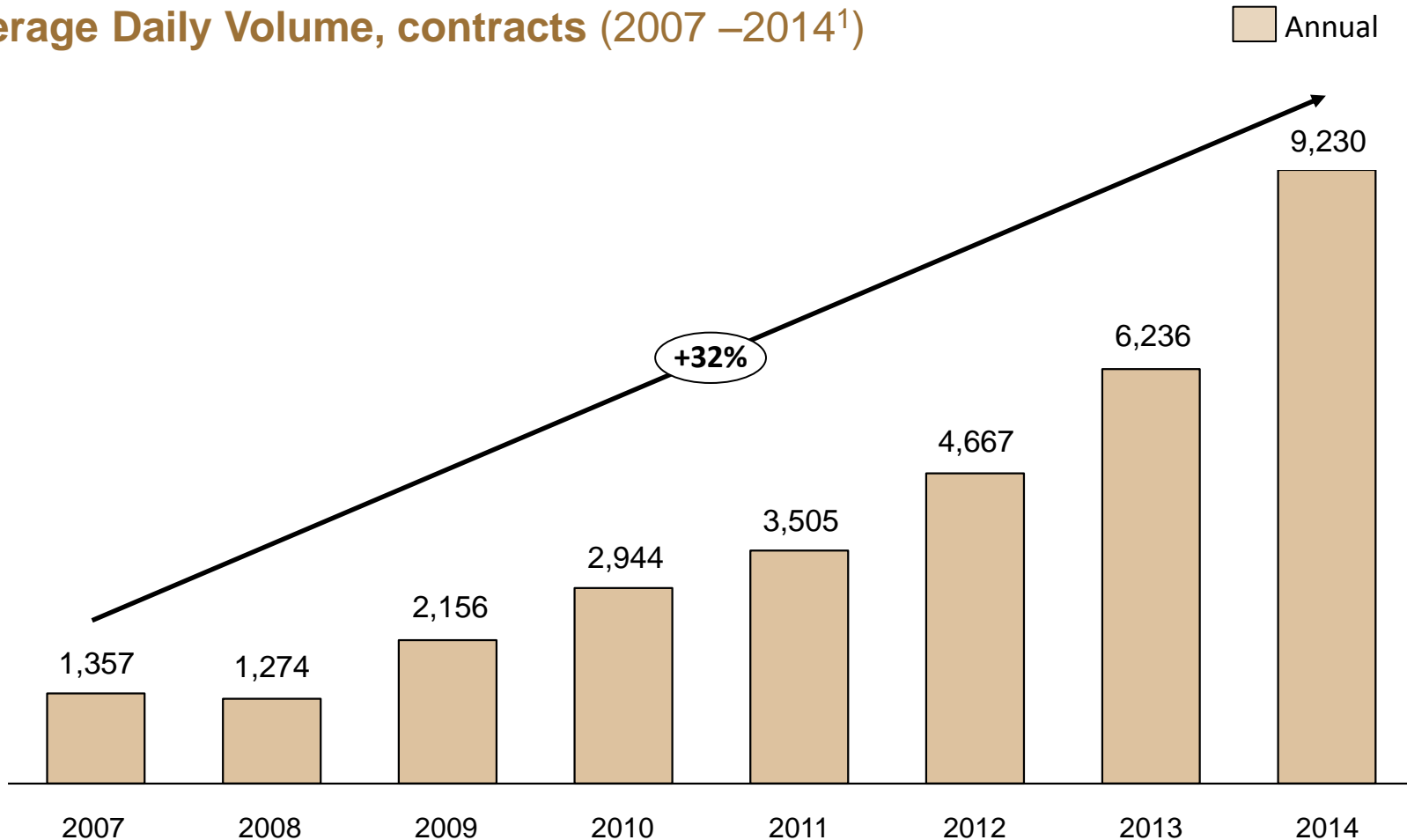
Record Volumes & Open Interest

Only three of the 15 contracts still trade good size and only DME is growing...

DME Oman has seen volumes grow consistently since launch



Average Daily Volume, contracts (2007 –2014¹)

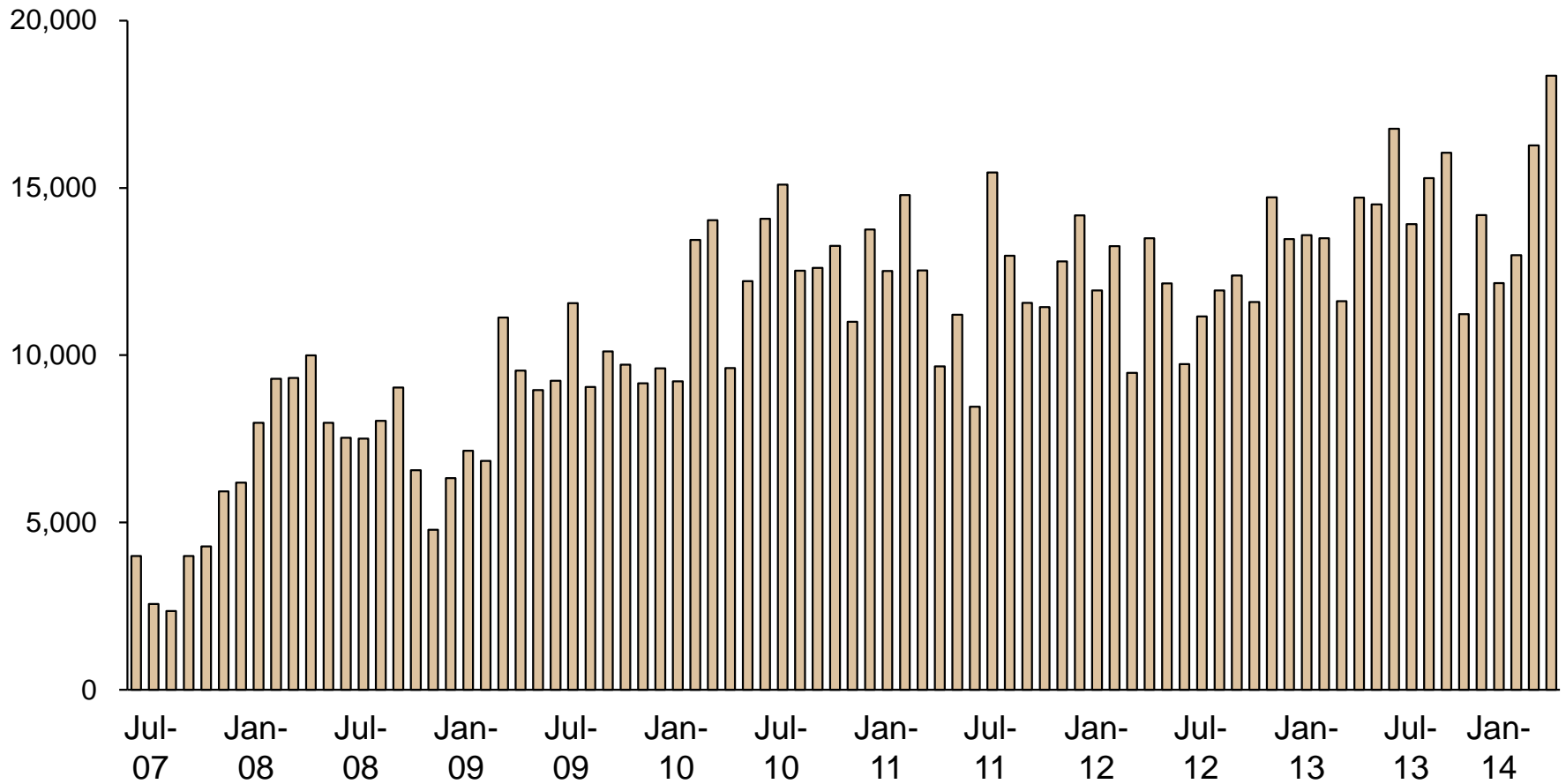


¹ Until April 2014 data

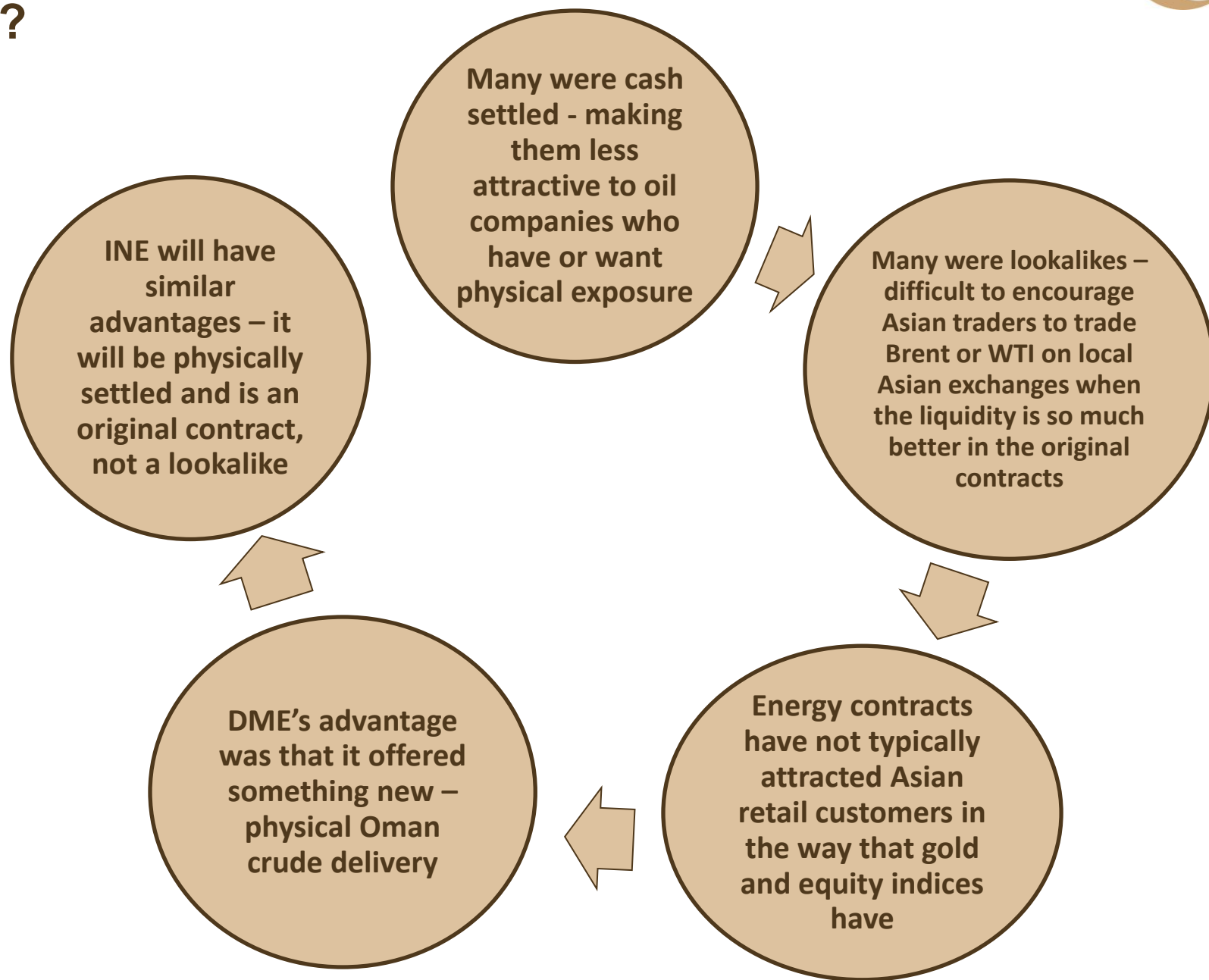
Physical deliveries averaged 15 million bbls per month in 2014



Physical delivery volumes (2007 – 2014), '000 bbls per month



Why did so many other Asian crude oil contracts fail?



More Asian oil contracts are still under discussion

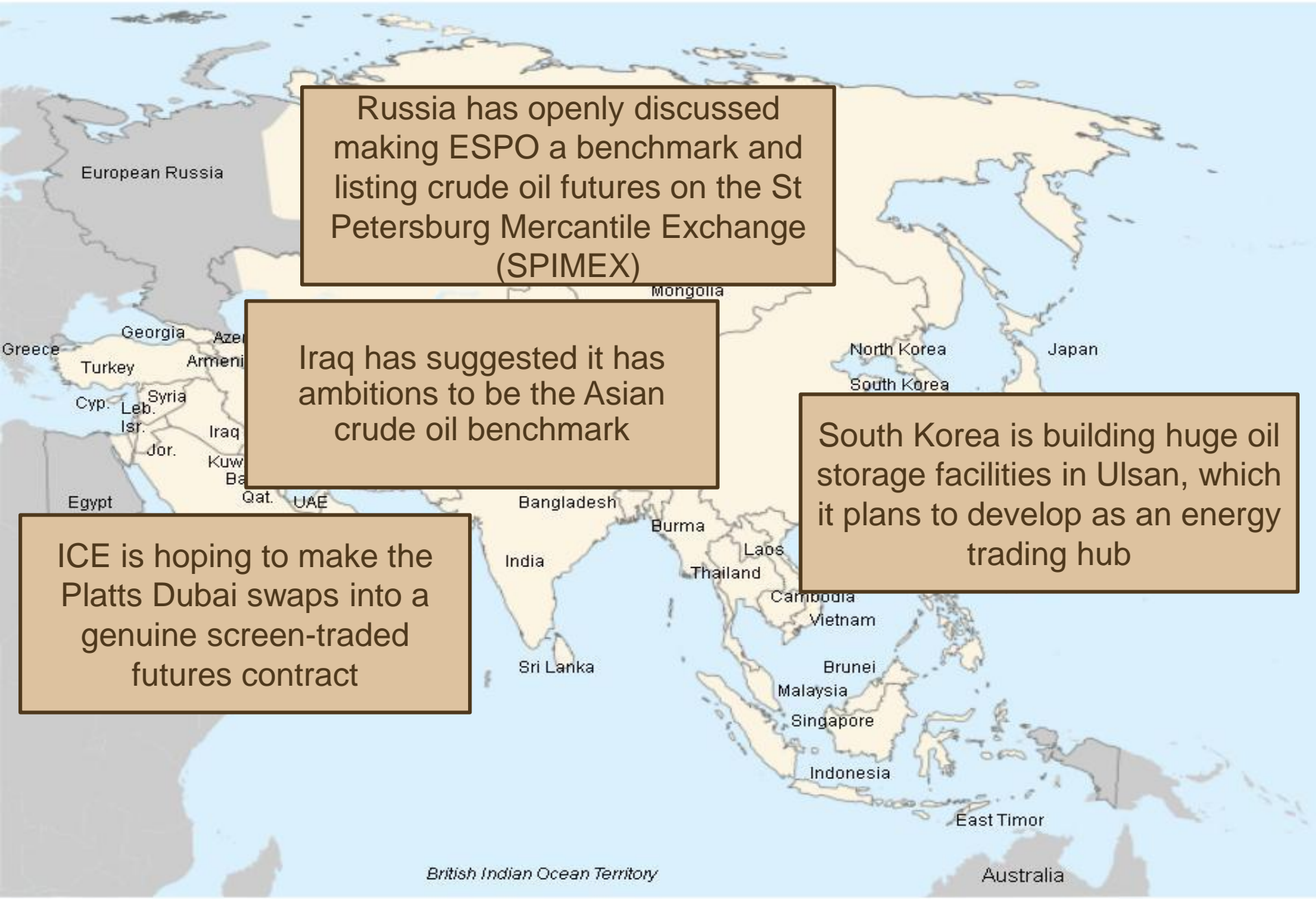


Russia has openly discussed making ESPO a benchmark and listing crude oil futures on the St Petersburg Mercantile Exchange (SPIMEX)

Iraq has suggested it has ambitions to be the Asian crude oil benchmark

South Korea is building huge oil storage facilities in Ulsan, which it plans to develop as an energy trading hub

ICE is hoping to make the Platts Dubai swaps into a genuine screen-traded futures contract



The opportunities are clear for INE



1

There is clearly an appetite for a new benchmark for Asian crude oil

2

Increased regulation globally is encouraging markets to move towards the futures model, particularly for benchmark pricing

3

Chinese futures exchanges have established a track record of success

4

DME has shown that physical crude delivery is very appealing in Asia

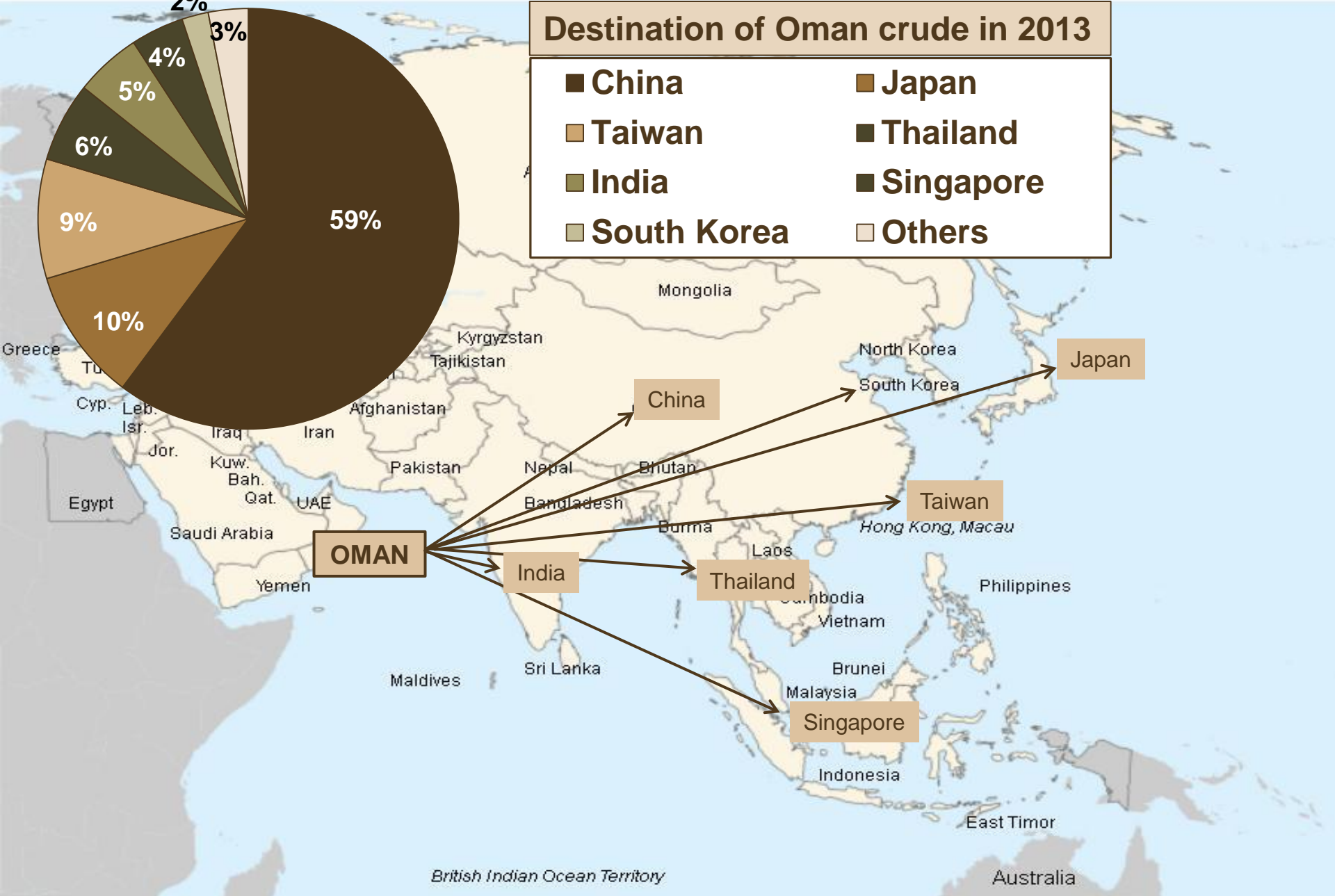
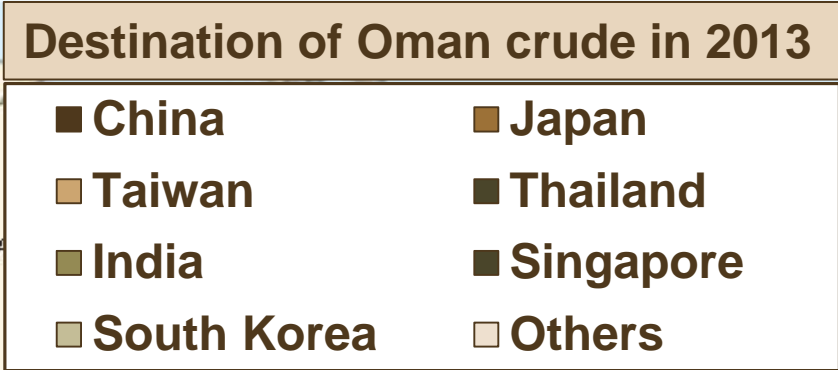
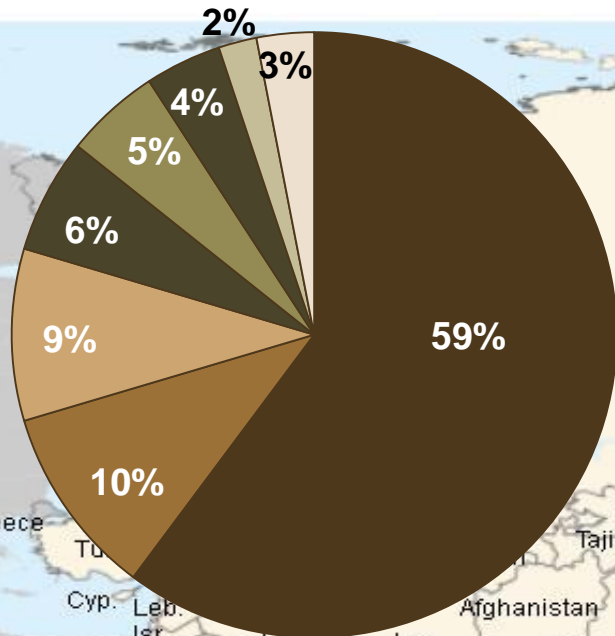
5

The DME-INE spread will reflect the economics of importing oil from the Gulf to China (freight, insurance, FX etc) which will keep both contracts aligned

Futures traders love to look at spreads



The next big oil spread trade will be INE vs DME



- Futures are the “gold standard” for commodity pricing
- Many Exchanges have tried and failed to launch oil futures contracts in Asia
- DME is still small but it is the only growing Asian oil contract
- INE has a similar design concept to DME and should be successful
- Spread trade will benefit both Exchanges
- Asia deserves its own pricing benchmarks



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