

A Global Outlook on Energy Markets

Presentation given to the 7th OIC Member State's Stock Exchanges Forum

Istanbul, September 19th, 2013



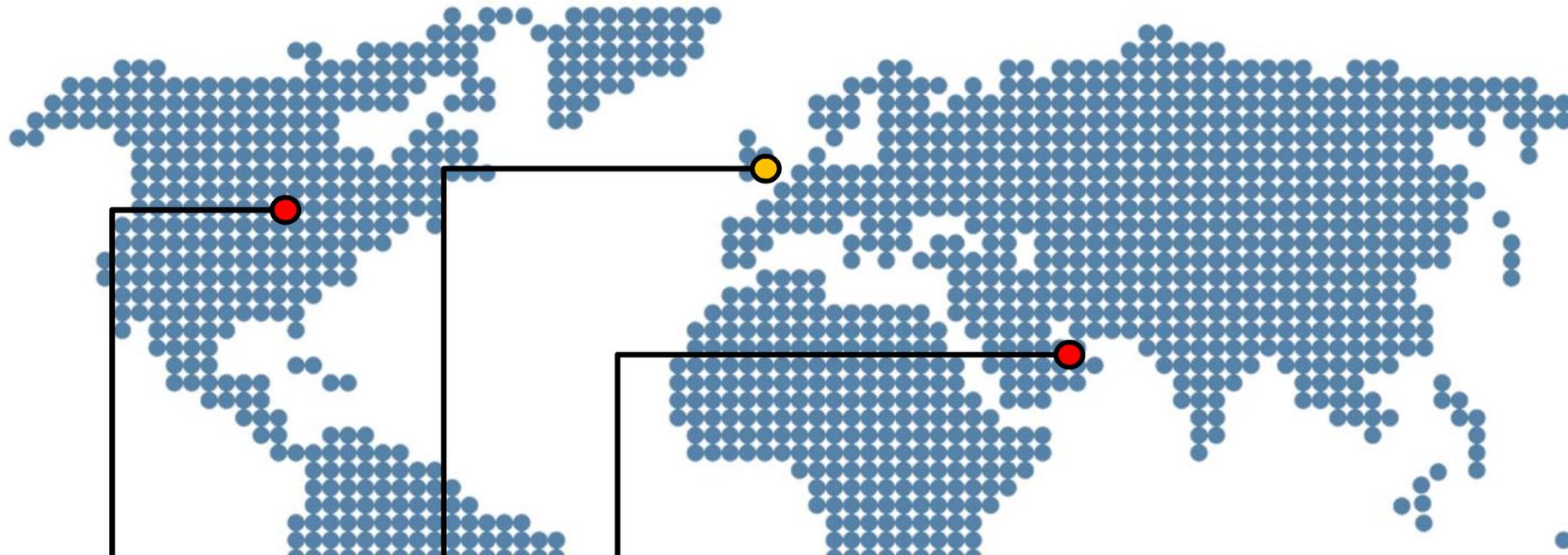
DME

About the DME

Perspectives on global oil markets

We are Asia's only physical energy exchange

● Paper contract ● Physically settled contract



 CME Group

Founded: 1898
Oil contract: West-Texas Intermediate (launched 1982)



Founded: 2000
Oil contract: Brent (launched 1986)

 DME

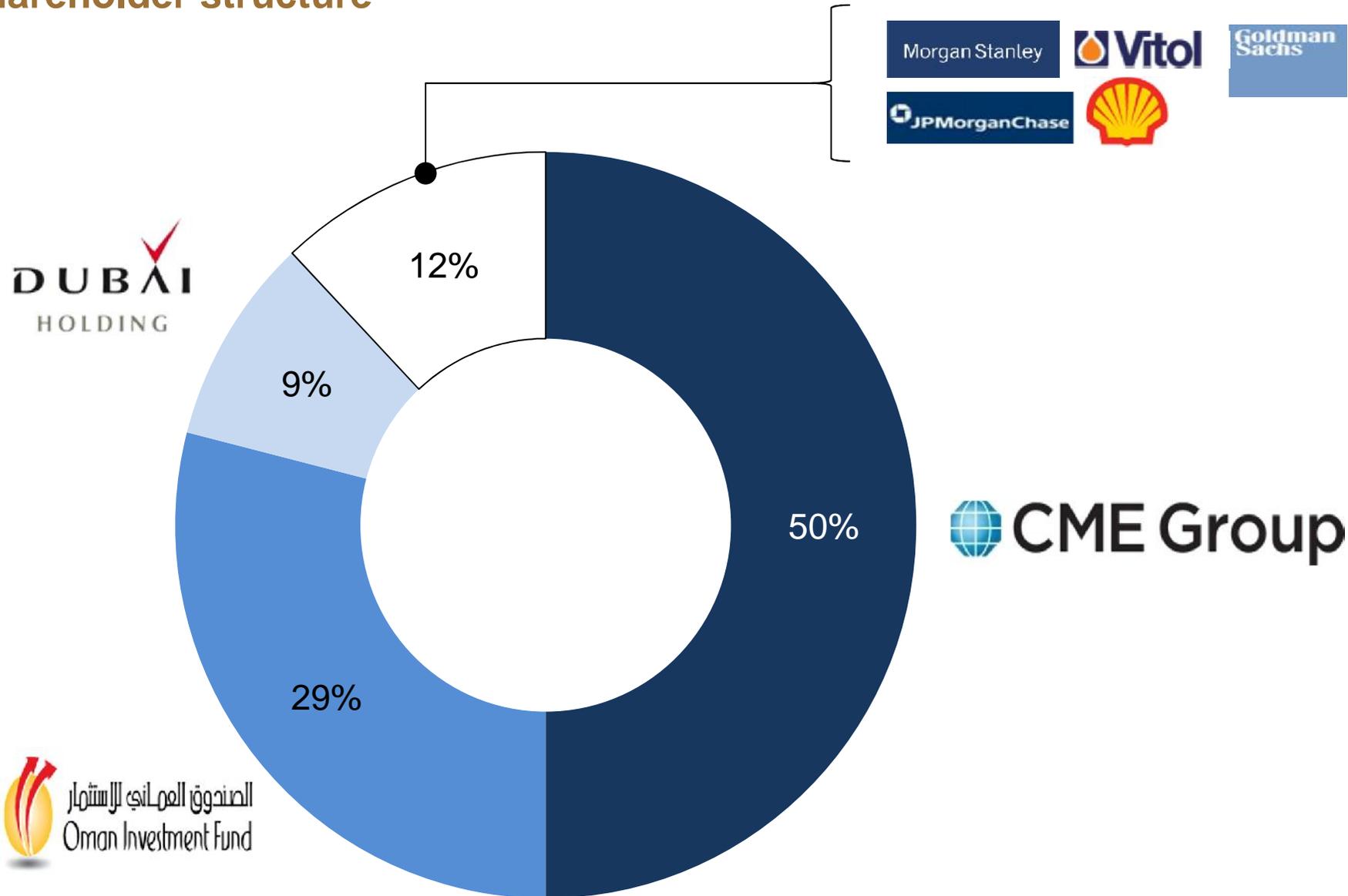
Founded: 2006
Oil contract: DME Oman (launched 2007)

Reasons for setting up DME:

1. Legacy sour crude benchmark shrinking physical base – producers and Asian consumers looking for replacement
2. Asia commoditizing and opportunity exists to capture Asian business
3. Transfer know-how and establish regional trading ecosystem

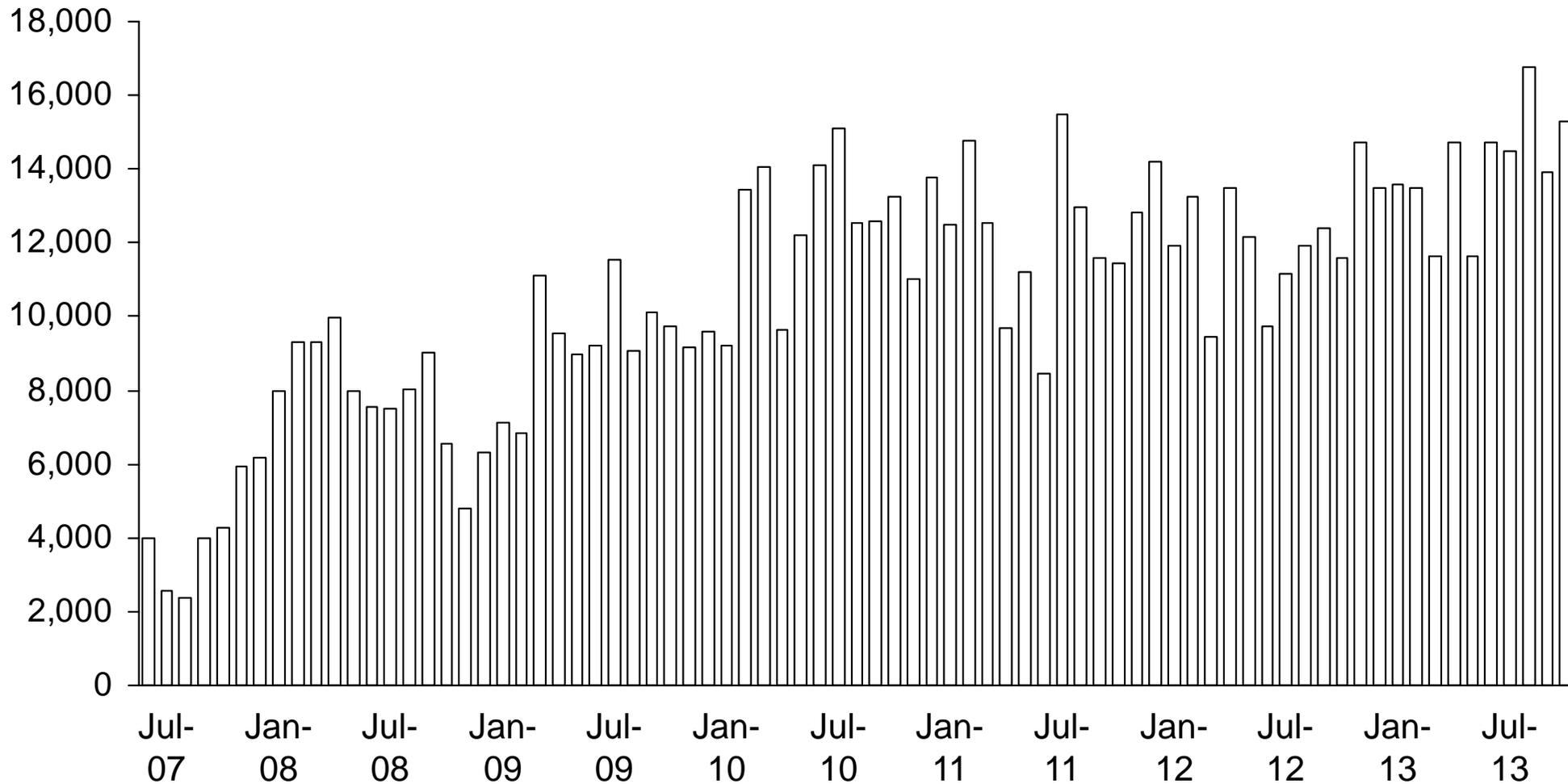
We are a partnership between three core shareholders and several strategic partners

Shareholder structure



Physical deliveries between 8 – 17 million bbls per month

Physical delivery volumes (2007 – 2013), '000 bbls per month



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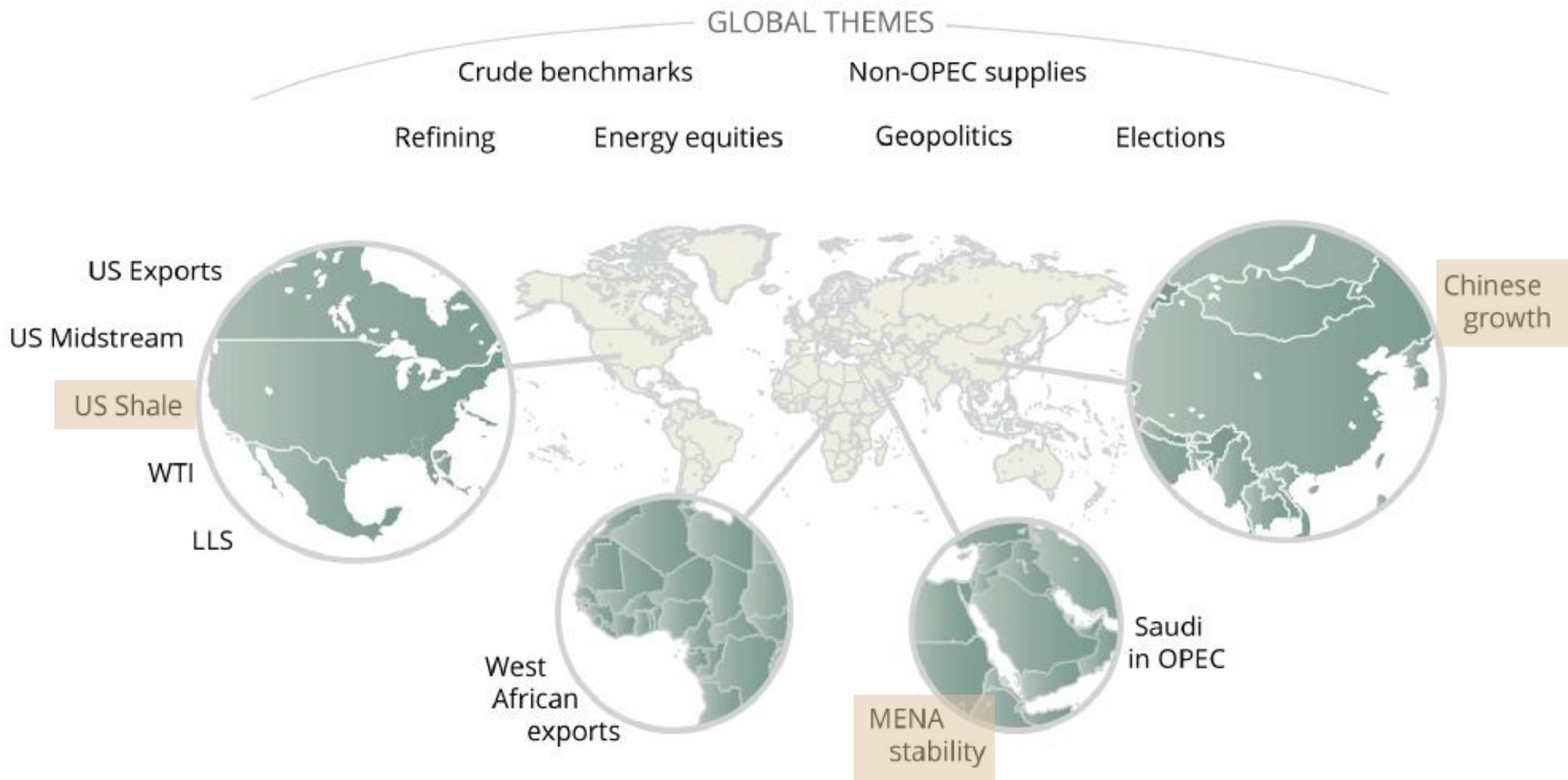
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 **Supply/demand fundamentals**

 Market structure

Themes governing oil markets in 2013



Focus themes for today

1

US Shale revolution

Higher oil price and technology improvements unlock shale reserves. RoW is looking to imitate US model. *Will the shale revolution be exportable? How will Middle Eastern producers be affected?*

2

Persistent supply disruptions

Significant capacity shutdown due to political challenges: Iraq (Kirkuk pipeline sabotage), Iran (sanctions), Sudan (transit tariff issue), Syria (insurgency), Libya (internal politics), Nigeria (politics). *What is keeping the market in check?*

3

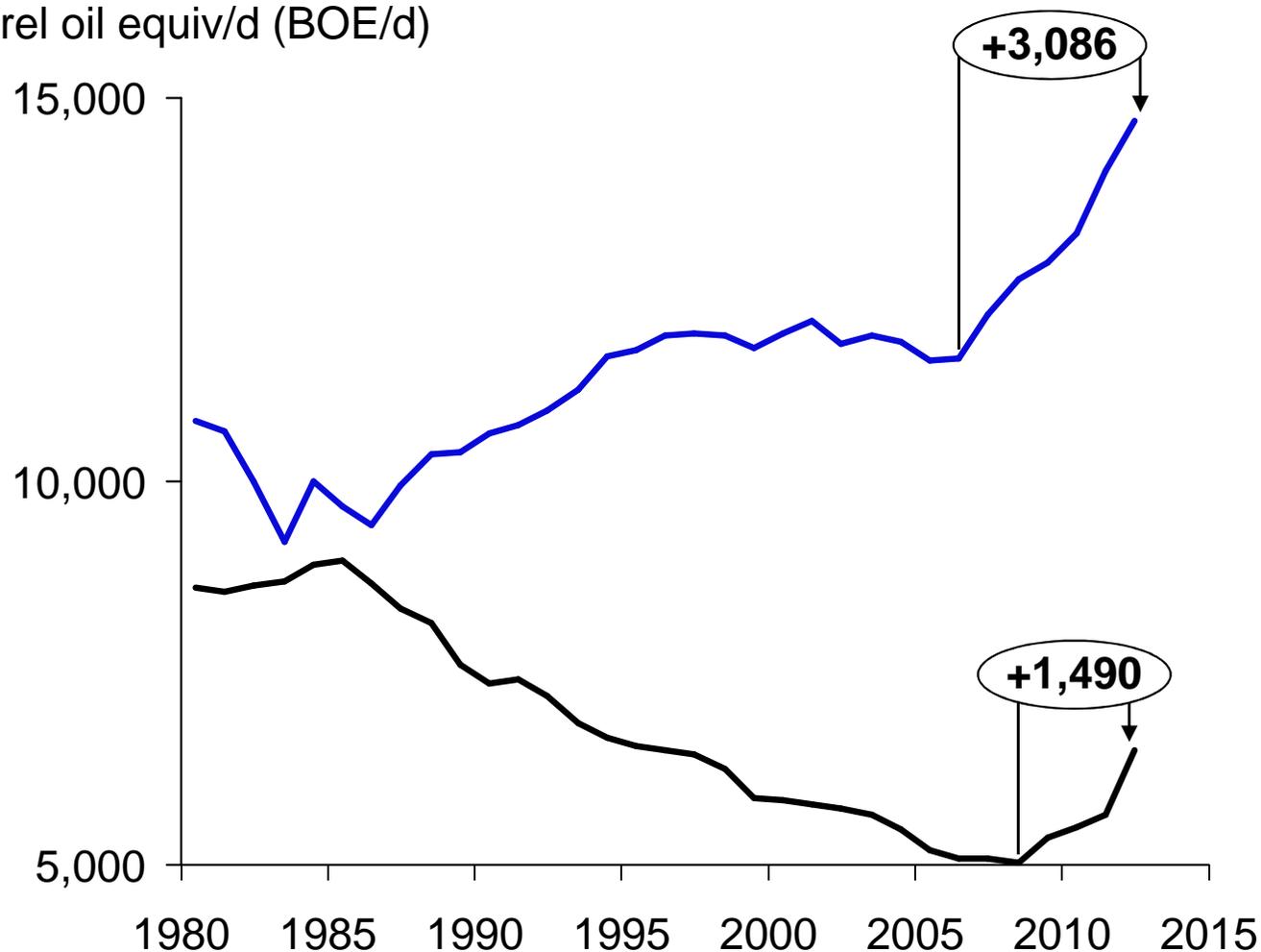
China resumes demand growth

Short-term stimulus package stimulates demand growth. Longer-term, economy needs to rebalance for more sustainability. *Will China continue to consume additional production capacity?*

Shale domino effect felt domestically and internationally

Daily production

Barrel oil equiv/d (BOE/d)



US domestic impact

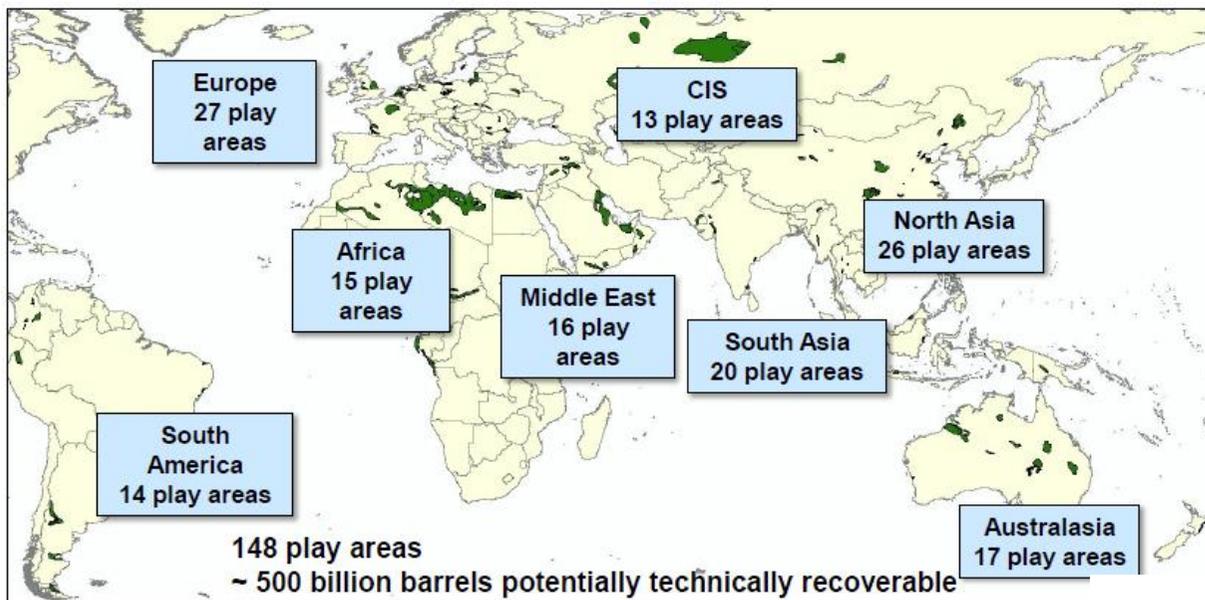
- Reduced oil imports (energy security)
- Transition to NatGas economy (economic recovery)

International impact

- Pressure on oil-linked pricing for NatGas (producer revenue impact)
- Accelerate rise of spot LNG markets

...but is the revolution exportable?

Map of shale oil basis outside North America

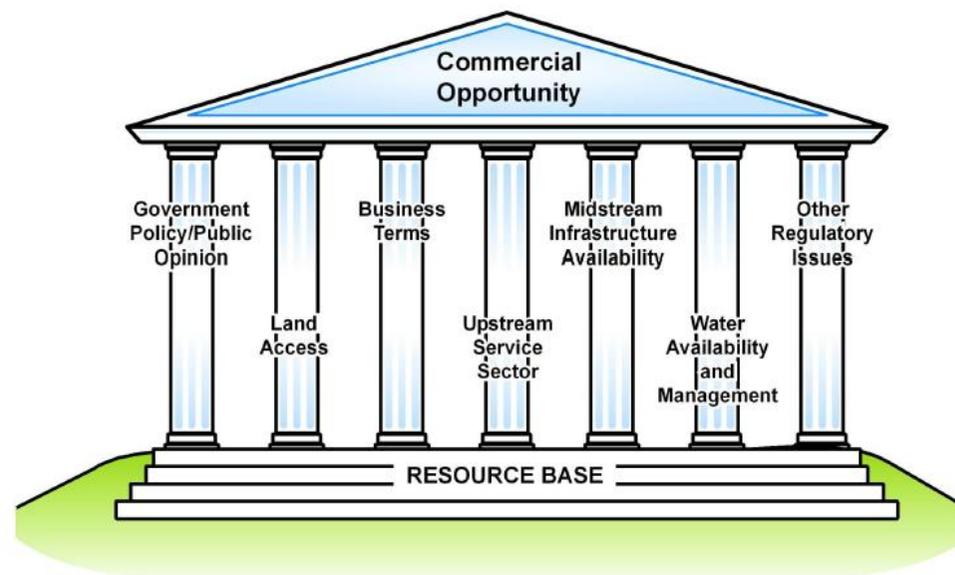


...but above-ground factors will impact exportability of US model

- Public opinion
- Land access
- Business terms
- Upstream service sector
- Midstream infrastructure
- Water availability & management
- Regulatory issues

Significant shale oil resources outside North America...

- ~500 billion bbls are technically recoverable

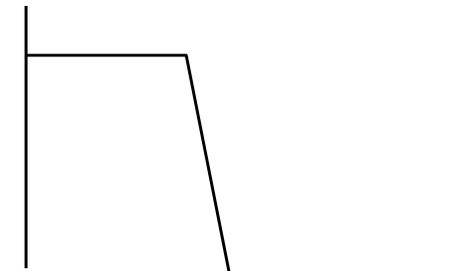
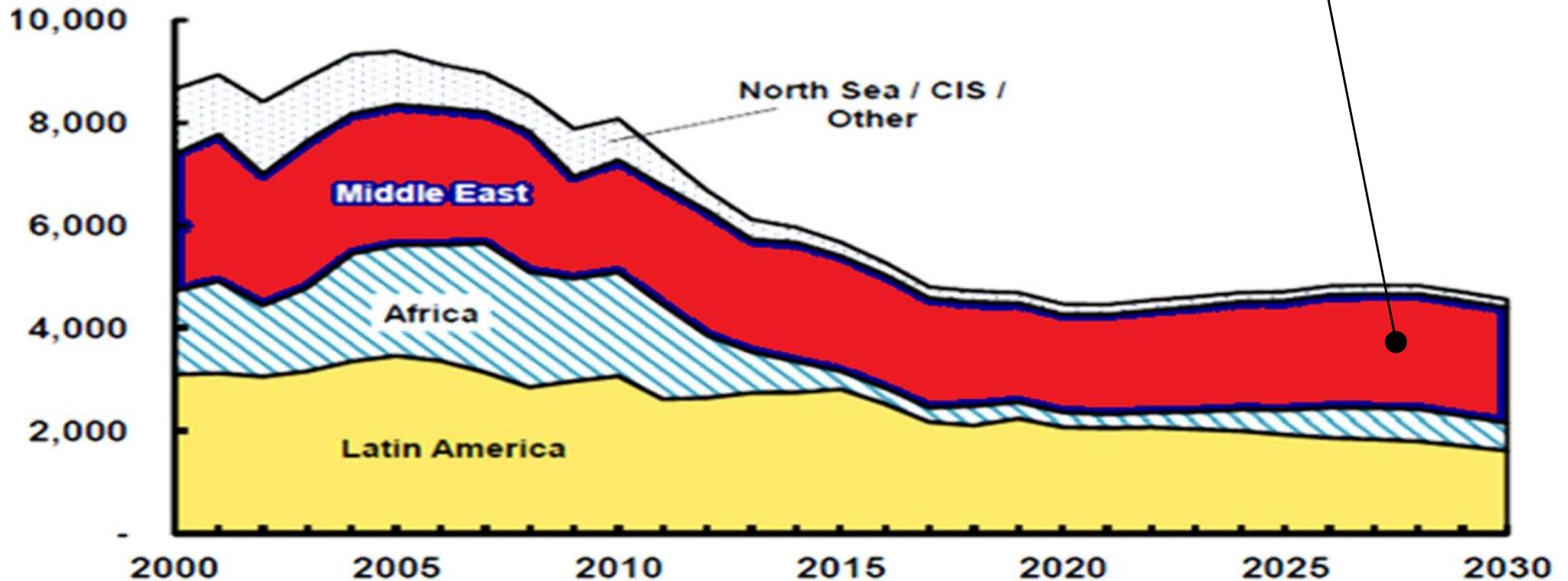


No reduction in imports of Middle East crude

North America offshore crude imports by source, '000 bbls/d

US markets continue to rely on Middle East crude

- Captive refining capacity owned by Mid East producers
- Westbound oil prices kept attractive
- Quality of crude essential to US refining economics



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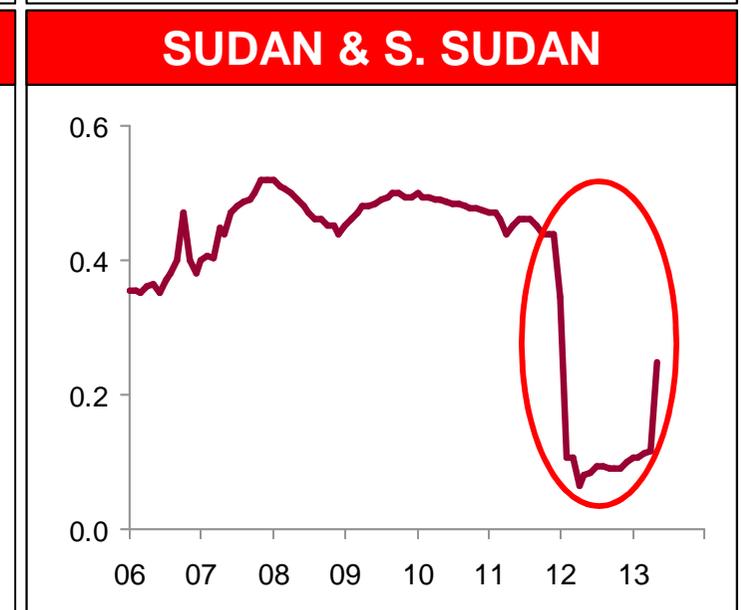
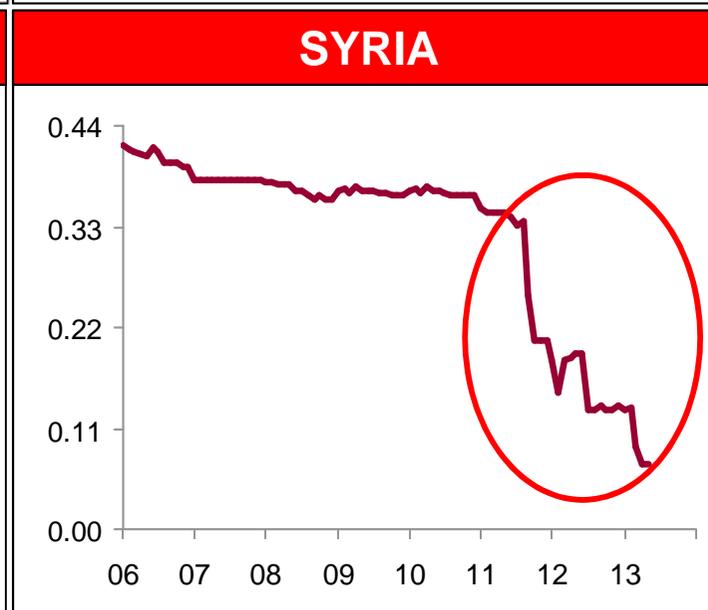
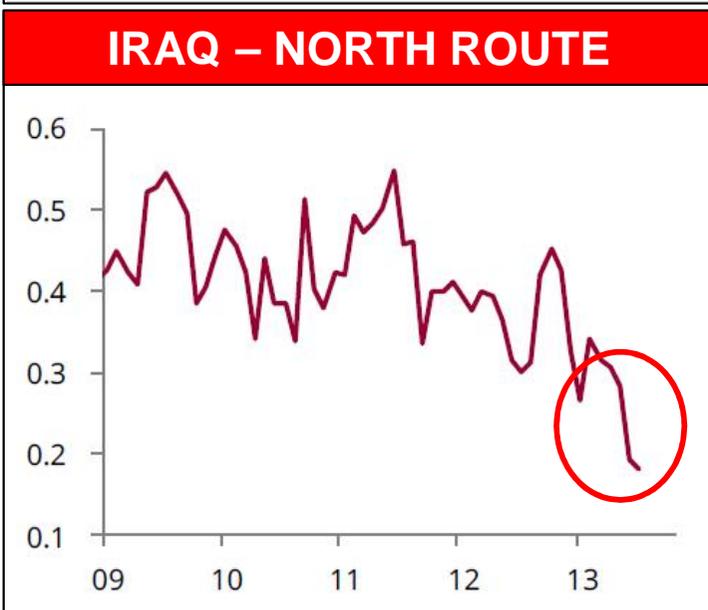
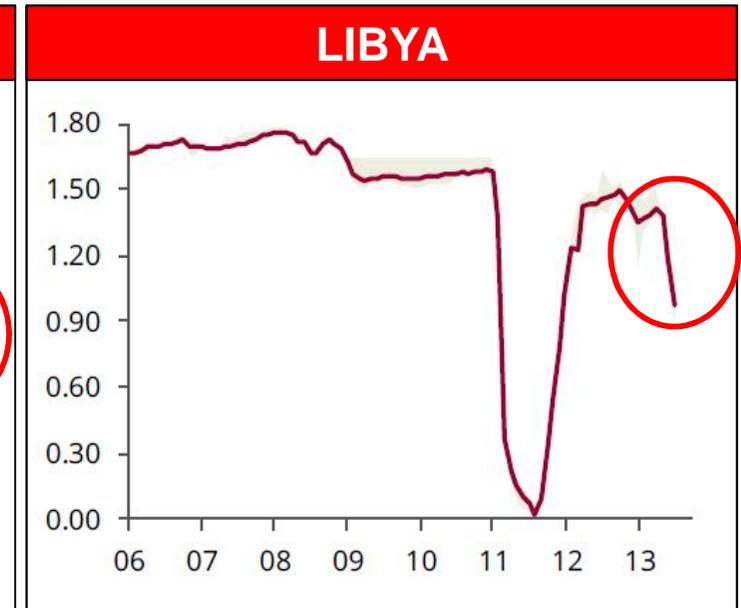
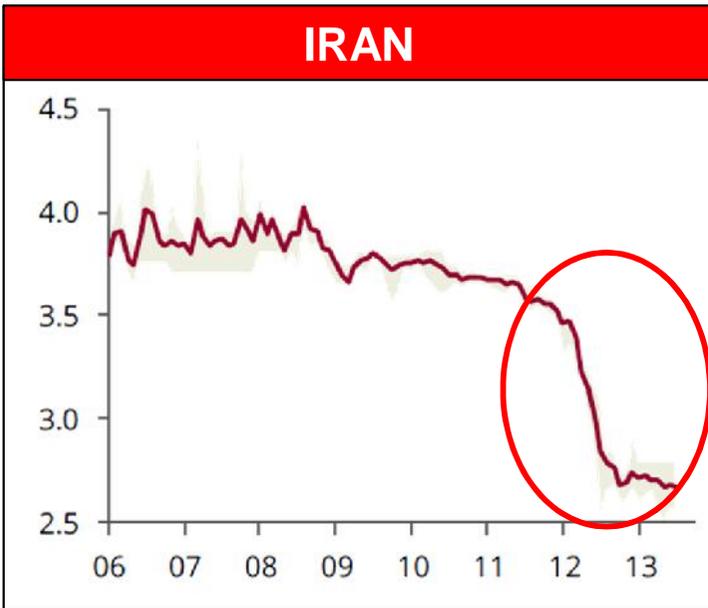
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China resumes demand growth

Short-term stimulus package stimulates demand growth. Longer-term, economy needs to rebalance for more sustainability. *Will China continue to consume additional production capacity?*

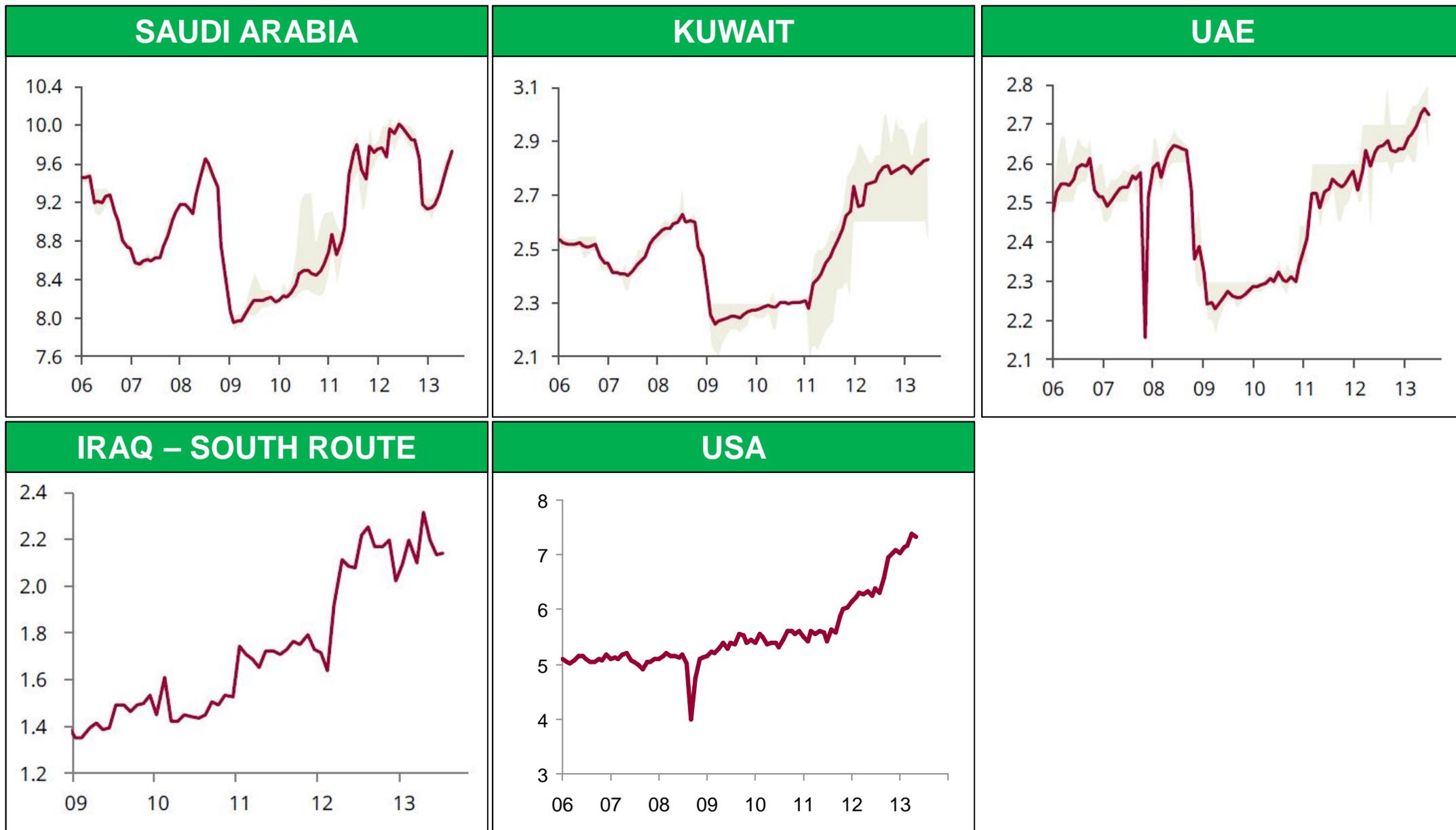
Approximately 2 million bbls taken off market

Daily oil production, million bbls/d



OPEC top producers and US shale filling the gap

Daily oil production, million bbls/d



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Supply/demand fundamentals

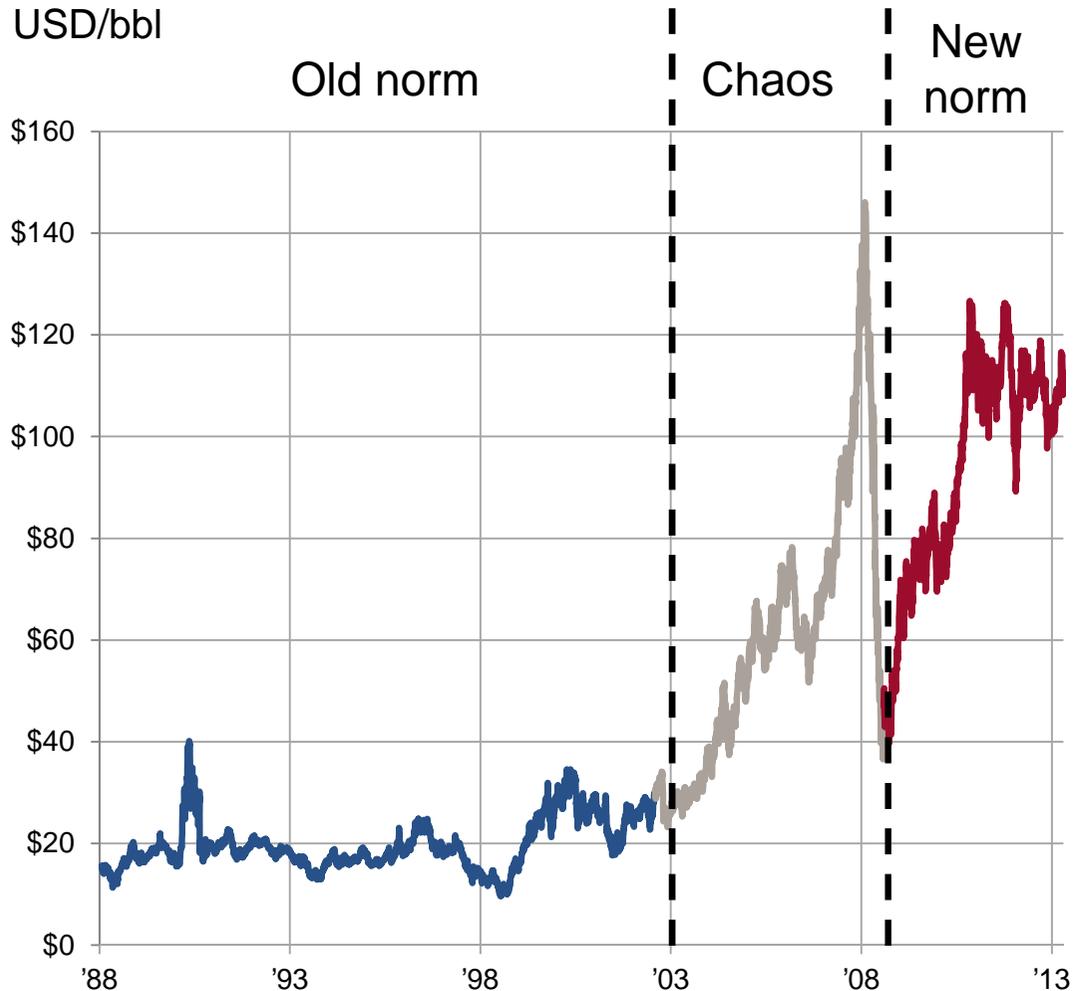


Market structure

Oil markets transitioned to new norm

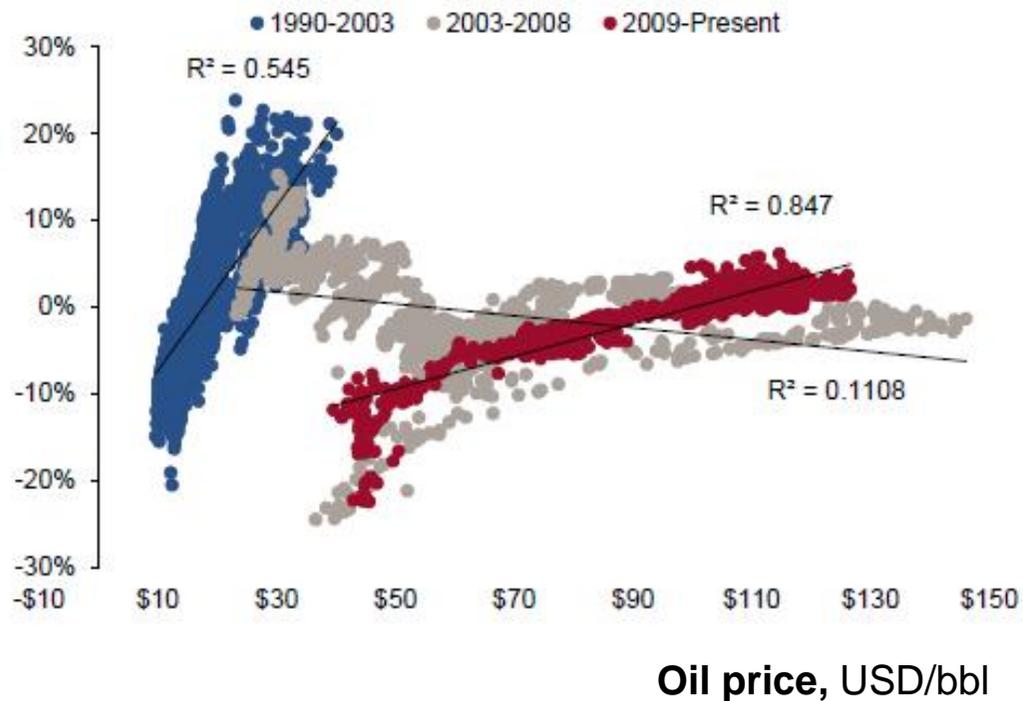
Markets transitioned from old norm to new norm through a chaotic 5 year period...

Oil price, USD/bbl



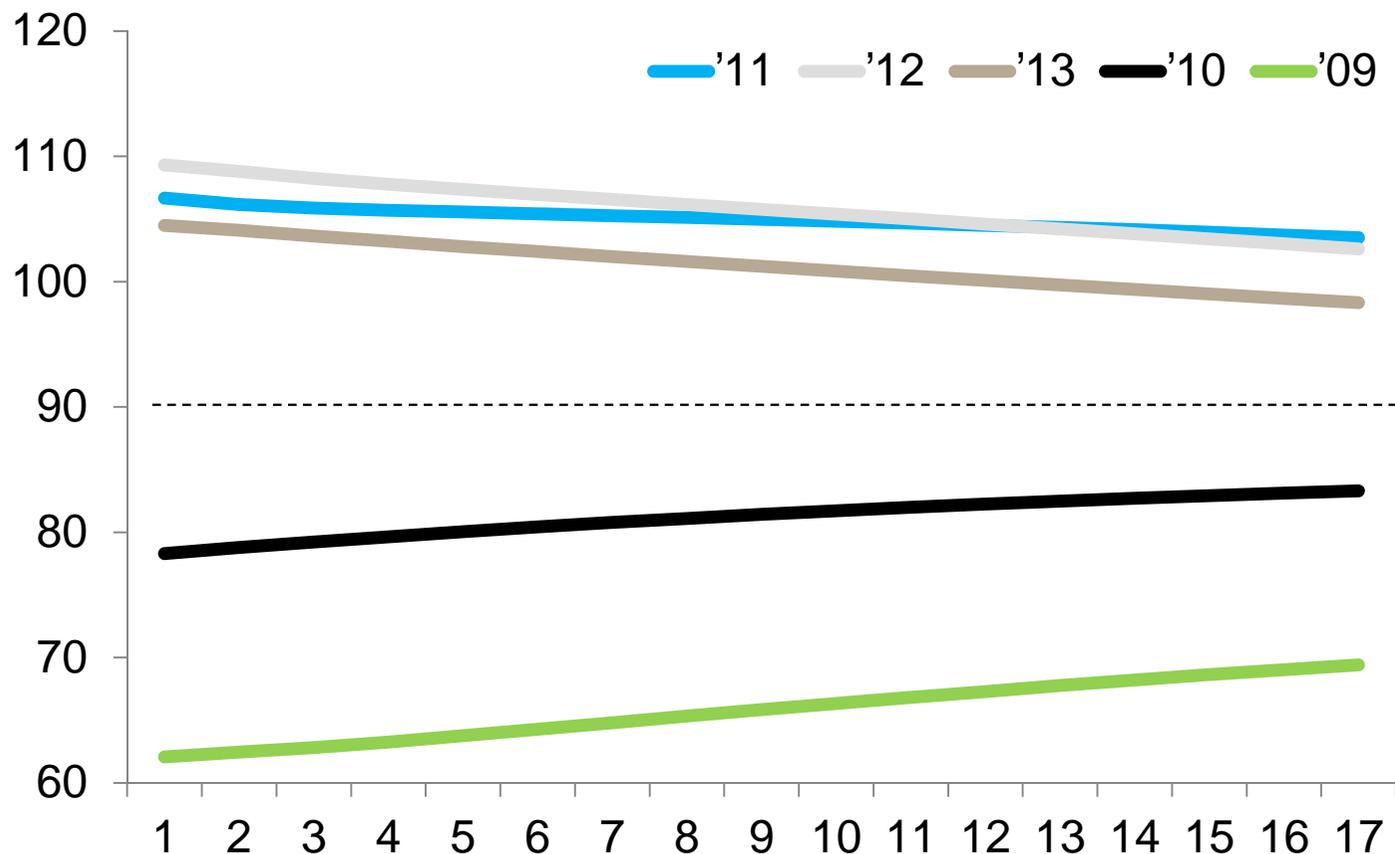
...another representation of transition

Month 1 – 6 spread as % of flat price, pct



Supply tightness pushes curve into permanent backwardation

DME Oman forward curve, USD/bbl



From 2011 onwards, market characterized by supply tightness

- Forward curves backwardated
- 2013 in particular steepest backwardation

Between 2009 – 2010 markets well supplied

- Curve in contango

Thank you

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