Versatility key for crude benchmarks to withstand COVID test

Availability of alternative delivery mechanisms enabled traditional benchmarks to evolve and maintain stability and relevance under COVID-19 changing market fundamentals

LONDON, July 7, 2020 /PRNewswire/ -- S&P Global Platts, the leading independent provider of information and benchmark prices for the commodities and energy markets published a research paper under the Energy Comment series of the Oxford Institute for Energy Studies, focused on global crude oil benchmarks.

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Written by Jonty Rushforth, Head of Pricing, S&P Global Platts andVera Blei, Head of Oil Markets, S&P Global Platts, the research paper - *Yields vs. sulphur: What is driving crude benchmarks in 2020?*examined the core question of what a crude benchmark, and in particular the Asian benchmarks Dubai and Oman should represent.

The crude oil market has witnessed some of the highest volatility in living memory, casting a spotlight on the value of different benchmarks and the quality definitions and yield of crude that is delivered into them.

The major global oil benchmarks, Brent, WTI and Dubai/Oman – must reflect the physical realities of the crude markets, both in terms of comparative crudes and also in terms of refining economics. They have to evolve in order to provide consistent and stable price indications to the broader market segments they represent. Importantly, they should not be beholden to buy or sell-side imbalances or regulatory interference in order to avoid becoming disconnected from the wider market complex.

Vera Blei, Head of Oil Markets, S&P Global Platts and co-author of the report said:"For a crude benchmark to be robust it must have a variety of often disparate characteristics. These include abundance in production volume, steady quality, diversity of buyers and sellers, geographic relevance and absence of interference, from political forces for example. Many crudes around the world share some of these characteristics but only a handful fulfil all criteria".

The paper examined the performance of crude benchmarks, in particular the Asian crude benchmarksDubai and Oman, following the introduction of the IMO sulfur marine cap in January 2019 and the demand destruction caused by COVID-19 on transportation fuels in the first half of 2020. It focused on the fundamental question whether market focus should move from the sweet-sour spread, to light versus heavy? – or the spread between crudes that produce a lot of gasoline, and those that produce more diesel or other heavier products. In the 'new normal', is sulfur suddenly irrelevant? and should benchmarks be constructed to a particular yield instead?

"The traditional definitions of theDubai and Oman benchmarks around sulfur and gravity have withstood the test of time over the last 40 years", added Blei. "They did so because they evolved and adapted to the changing market fundamentals and thereby maintained all the key attributes that ensured their robustness and relevance to the wider market they represented".

Both Platts Dubai and Platts Oman offer an alternative delivery mechanism, which means that more than one crude grade can help form the daily value of the assessment and ensure sufficient liquidity for the benchmark. For Platts Dubai, this includes the alternative delivery of Oman, Upper Zakum, Al Shaheen and Murban. For Platts Oman, Murban is also acceptable as an alternative deliverable grade.

Murban, which is among the lighter and sweeter crude grades across the Middle East, has the highest yield of gasoline among all the crudes in the Platts Dubai and Platts Oman alternative delivery mechanisms. This explains why it is has typically been valued the highest. However, with gasoline demand decimated due to COVID-19, Murban was more competitively valued versus the other grades as it yield values shifted to reflect the economics of refining the grade.

"Murban proved itself relatively protected from the impact of price controls in China that affect the Oman grade, and hence provided an important level of protection for refiners across Asia. Without that protection, refiners outside of China would have faced crude prices well above the economics of the oil they were processing", **said Jonty Rushforth, Head of Pricing, S&P Global Platts and co-author of the report**. "That Murban, and by extension Platts Dubai and Oman, was weaker as a result of low refinery margins is exactly what one would expect in an efficient crude market".

The full report can be downloaded from the *Oxford Institute for Energy Studies* **here**.

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