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Argus White Paper:

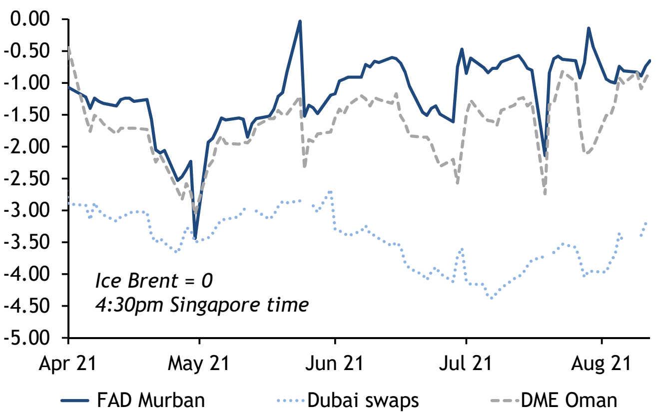
Murban: a fledgling benchmark for Middle East and Asia-Pacific crude

The presence of crude from so many different regions converging in the Asia-Pacific market has created an unprecedented need from Middle Eastern producers to make their crude more competitive and to ensure that their barrels can clear relative to those that are arriving, whether it's from the North Sea, from North America, from Latin America, or from Asia-Pacific itself. The competition is also in terms of the barrels that are coming from the Middle East itself. The recent Opec+ dispute between Saudi Arabia and the UAE that eventually led to an agreement demonstrates that there is also competition to ensure that each member has a higher production baseline.

In terms of pricing, this has a direct impact on how much Middle Eastern producers can sell to their clients. Abu Dhabi has invested a lot of effort to ensure a transparent price of their flagship Murban export crude. In March 2021, the UAE launched a futures contract – IFAD Murban – to price all its physical supplies, also including Umm Lulu, Das and Upper Zakum.

Since launch, because the qualities are similar, the IFAD Murban price has been unexpectedly close to Brent. Murban

Crude differentials to Ice Brent $/bl



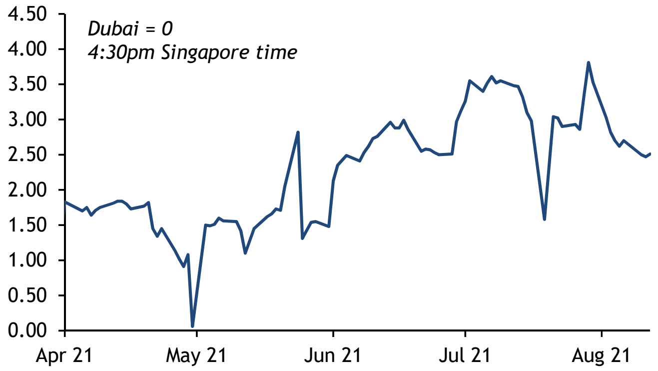
is not just competing with other Middle Eastern barrels of similar quality that go to Asia, but also with the Atlantic basin barrels. Because of this, IFAD Murban is extremely relevant for the Middle East national oil companies and their ability to compete with growing North American production amidst the return of barrels to the Asian market after the pandemic.

Murban has been higher in price relative to other Middle East benchmarks. One of the key things to understand whether a benchmark might be disconnected or not relative to the rest of the market is to do comparisons across the board. The Dubai marker has been under pressure, reflecting the fundamentals of the medium-to-heavy sour market relative to Murban. It's difficult to pinpoint exclusive responsibility to one or the other as being volatile, as both have been relatively unstable recently. To bring in the full market view, DME Oman mostly behaves in tandem with IFAD Murban, while also showing some deviations depending on the specific fundamentals for Oman crude as traded on the DME exchange.

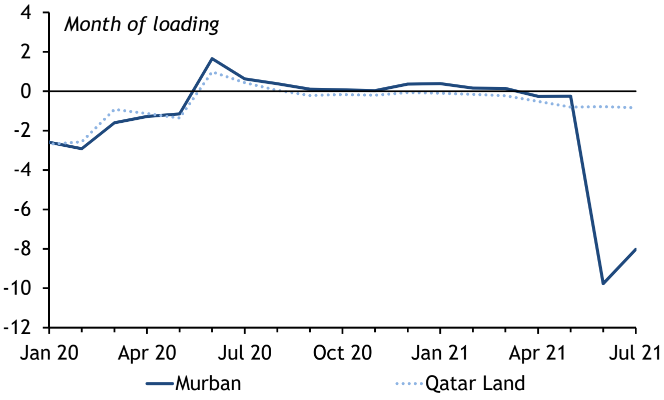
But the relationship between Murban and Dubai is the market's key interest. Why? Because the launch of the Murban futures contract has resulted in a misalignment between the way that Abu Dhabi crude trades on a spot basis against Dubai, relative to the way that term barrels are being priced against the IFAD Murban futures contract. This Dubai to Murban differential is key to understand whether participants may be more interested in buying barrels from Abu Dhabi or from the rest of the region.

Murban is of better quality than the basket of grades that are considered for the pricing of Dubai. But this still means that the recent volatility, with IFAD Murban sometimes closing at premiums of close to $3.50/bl relative to Dubai, make it very important to ensure that we are looking at that pricing relationship. As a result of the changes in the market two months ago, Argus has introduced differentials for Abu

Murban differential to Dubai $/bl



Differentials to Arab Extra Light $/bl



Dhabi grades relative to Dubai to reflect how they are trading in the spot market.

Argus has also recently introduced differentials for Abu Dhabi grades relative to Murban. These differentials are calculated based on a refinery gate value or gross product worth (GPW), which anchors the refining value of each of these grades relative to Murban. This gives the market a much more stable indication of the value of each grade relative to the OSP benchmark. Argus Crude, where all of these assessments are available, also includes the various spot differentials against Dubai.

Looking at the actual price that Asian refiners are paying for competing grades coming from the Middle East, and using Arab Extra Light as the benchmark of comparison, we can see that the June 2021 trade month already responds to the new methodology used by IFAD Murban futures, since Murban crude on an outright basis was priced a full two months in advance relative to competing Qatari or Saudi grades. Based on this comparison, Asian participants actually paid about $10/bl less for Murban than for other grades from the region.

Of course, participants are hedging that outright price on the futures market, which is reflected in the level of open interest and liquidity in the Murban futures contracts. This misalignment between the outright price being two full months forward for Murban relative to the other grades where we only know the differentials to the OSPs a month in advance, helps us realize the role that the exchange is playing in allowing for that hedging.

So how have Asian market participants reacted to the launch of IFAD Murban? First of all, IFAD Murban has become a successful pricing mechanism for Abu Dhabi crude, and the physical barrels being traded are being priced on that basis. All refiners across Asia-Pacific are taking that price at face value, and that's the price for Murban.

At the same time, when the levels of liquidity come down towards the end of the month, volatility levels become similar to those seen for DME Oman over the past several years, but as participants increasingly hedge via the exchange and volumes go up, this volatility is expected to decrease.

IFAD is a good way to price surplus or deficit cargoes in the spot market, rendering Abu Dhabi crude more competitive. The market is still divided on whether or not IFAD Murban will gain benchmark status and whether spot cargoes of Abu Dhabi crude will start trading against Murban, and time will tell if the market will fully transition away from the Dubai marker.

Regardless, there's a high level of interest in the pricing of these Abu Dhabi grades, not only on a Dubai basis, but also in relation to the new Murban benchmark. This reinforces the importance of Argus' differentials for Abu Dhabi grades on an RGV (refinery gate value) basis. These assessments ensure there's transparency for the value of those grades, providing an anchor that relates to the refining value of those grades relative to Murban and establishing consistent pricing around what we call a new or fledgling benchmark.

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