China’s crude futures to launch this month

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China plans this month to launch its long-awaited crude oil futures contract that will allow the country to further open up its markets, develop China’s own benchmark for oil pricing and potentially expand the use of its currency.  
Chinese oil futures contracts will be offered by the Shanghai Futures Exchange through its Shanghai International Energy Exchange March 26. It will be the first crude oil benchmark in Asia, where oil consumption is growing rapidly.  
The contracts will compete with two other crude derivatives, US West Texas Intermediate (WTI) and London’s Brent, which are traded mainly on the New York Mercantile Exchange (Nymex) owned by the CME Group and the Intercontinental Exchange.  
“The oil futures contracts will allow Chinese investors to lock in oil prices on future dates up to three years and pay in the Chinese currency (yuan). For the first time, foreign investors will be allowed to invest on China’s commodity futures markets. The participation of international investors is fundamental to the success of the China’s oil futures as the vast majority of acceptable grades of oil for physical delivery are produced outside of China,” Jian Yang, research director at the J.P. Morgan Center for Commodities at the University of Colorado Denver business school, said in an email.  
Yang said the Chinese oil futures combined with the Belt and Road Initiative should help raise the visibility of the yuan in the global oil market. “It is hard to imagine that the so-called petro-yuan would be able to challenge the US dollar’s dominance in global oil markets as the use of the US dollar in the oil market is an entrenched practice and the US dollar historically is considered a safe-haven currency,” he said.  
Stephen Innes, head of Asia trading for OANDA in Singapore, said “this move is all about China stretching their economic clout along with their move to internationalize the yuan”.  
“I think the market supports this as an attempt to liberalize and expand mainland economic markets. ... The yuan will continue to evolve as a go-to currency and over time the mainland oil contract should gain greater appeal,” he said.  
Yang believes that the launch of crude oil futures will help reduce price volatility and promote better production and planning for gasoline and heating oil supplies in China.  
Innes said that “by eliminating the foreign exchange risk of hedging forward contracts in USD (US dollars), it will reduce currency risk. But more importantly, it will undoubtedly provide China with higher weight in pricing crude distributed in Asia.”

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