

The Dubai Mercantile Exchange: Trading, Prices and Market Efficiency

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The Dubai Mercantile Exchange Limited (DME) is the energy commodities exchange located in the DIFC that lists and trades the Oman Crude Oil Futures Contracts (DME Oman). The DME Oman is the sole benchmark for Oman and Dubai crude oil official selling prices, and the only market listing sour crude in the region. To date, over two million contracts or two billion barrels of crude oil have been traded over the DME since its launch in June 2007. Furthermore, the average daily volumes in DME touched 3,000 contracts during Q1 2011 with the highest record reached in January 2011 when the average daily volume was 3,570 contracts (equivalent to 3.5 million barrels of oil per day). Today, it is considered the largest physically-delivered crude oil futures contract in the world with a 35% (at an annual rate) rise in trading volume in 1Q2011.

Against this backdrop it is important to test the market efficiency of DME and also test whether the prices are reliable and not subject to manipulation. This Economic Note 14, titled "[The Dubai Mercantile Exchange: Trading, Prices and Market Efficiency](#)" analyzes the efficiency of DME oil market by using the "weak form of market efficiency", which posits that future prices are optimal predictors of spot prices. Furthermore, the analysis is done using the Hansen and Hodrick correction which allows treating the overlapping observation problem. Our empirical results are consistent with the hypothesis that the DME market is efficient with reliable

prices that reflect available market information. The DME has added value to oil markets by providing a transparent market price mechanism at a time of higher than average volatility in oil prices and market conditions.