

# OPEC

Organization of the Petroleum Exporting Countries

## Monthly Oil Market Report

***August 2012***

*Feature Article:*  
***Growing impact of emerging economies on the oil market***

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# Oil Market Highlights

§ The **OPEC Reference Basket** in July rebounded from a three-month long declining streak to settle near \$100/b, almost 6% above the previous monthly level. All Basket component values improved by around \$6. Year-to-date, the Basket averaged \$110.28/b. Crude oil futures prices recovered from the low levels reached in June, although most of the fundamental reasons behind the fall remain in play as the greater uncertainty economic outlook persists and global crude inventories are somewhat high. ICE Brent front-month prices increased by over 7% to settle at \$102.72/b, while the WTI front-month improved by \$5.53 to average \$87.93/b. So far this month, the OPEC Reference Basket has continued to rise, standing at \$108.36/b on 8 August.

§ **World economic growth** forecasts remain unchanged at 3.3% for 2012 and 3.2% for 2013. The US economy has seen some marginal improvements, leading an upward revision of 0.1 percentage points (pp) to the 2012 projection, which now stands at 2.2%, while the forecast for 2013 remains at 2.0%. Other forecasts remain broadly unchanged. Japan's recovery continues to face external challenges and growth is forecast at 2.5% in 2012 and 1.2% in 2013. Uncertainties prevail in the Euro-zone and the economy is expected to contract by 0.4% this year before expanding by 0.1% in 2013. Amid efforts to stimulate the economy, China's growth forecast for 2012 remains at an encouraging 8.1% in 2012 and at 8.0% in 2013. India is seen growing at 6.4% and 6.6% respectively in 2012 and 2013.

§ **World oil demand** has overcome earlier expectations of a declining momentum and moved to a more stabilized trend, supported by the summer driving season, the summer heat, and the continued shutdown of most of Japan's nuclear capacity. As a result, the forecast for global oil demand growth in 2012 remains unchanged at 0.9 mb/d. There is considerable uncertainty surrounding the forecast for world oil demand growth in 2013, which remains unchanged at 0.8 mb/d. However, risks are currently seen to be skewed to the downside.

§ **Non-OPEC supply** is expected to increase by 0.7 mb/d in 2012, following an upward adjustment to the absolute level, mainly due to historical revisions, as well as an improved outlook and higher-than-expected output from the US, Australia, the Sudans, and Yemen. In 2013, non-OPEC oil supply is forecast to grow by 0.9 mb/d, unchanged from the previous report, supported by projected increases in the US, Canada, Brazil, Kazakhstan, and the Sudans. OPEC NGLs and non-conventional oils are projected to increase by 0.4 mb/d in 2012 and 0.2 mb/d in 2013, unchanged from the previous assessment. In July, total OPEC crude oil output averaged 31.19 mb/d, according to secondary sources, representing a drop of 0.16 mb/d from the previous month.

§ The positive performance in light and middle distillates allowed **product markets** to continue strengthening in the Atlantic Basin. Despite weaker fuel oil demand and increasing crude prices cracks remained on the healthy side. In Asia, refinery margins exhibited a sharp recovery on the back of rising demand in naphtha and gasoline amid tighter sentiment due to refinery shutdowns and heavy maintenance in the region.

§ The **tanker market** was very quiet in July with spot freight rates for dirty carriers declining on all classes. This decrease was driven by high tonnage availability and lower tonnage demand. Clean tanker spot freight rates fell west of Suez, but increased east of Suez, amid healthier activity. In July, OPEC spot fixtures rose by 1.3%, while OPEC sailings stayed almost stable to average 23.93 mb/d. Arrivals in North America and West Asia increased, while arrivals in Europe and the Far East fell.

§ **US total commercial oil stocks** rose for the third consecutive month in July, up 7.3 mb, to end the month at 1,105.4 mb, the highest level since October 2011. Inventories stood 3.6 mb above a year ago and 27.8 mb over the five-year average. The build was attributed mainly to products, which rose by 16.6 mb, while crude declined by 9.3 mb. In Japan, the most recent monthly data shows commercial oil stocks increased a further 0.5 mb in June, the fourth consecutive gain, to stand at 177.5 mb. Inventories stood 1.6 mb over a year ago and 1.1 mb above the five-year average. The total stock-build came from products, which rose 1.3 mb, while crude stocks fell 0.9 mb.

§ **Demand for OPEC crude** for this year has been revised slightly down from the previous assessment, but remain at 29.9 mb/d, representing a decline of 0.1 mb/d compared to the 2011 level. Demand for OPEC crude in 2013 is forecast to average 29.5 mb/d, a drop of 0.4 mb/d from the current year and representing a downward adjustment of 0.1 mb/d from the previous report.

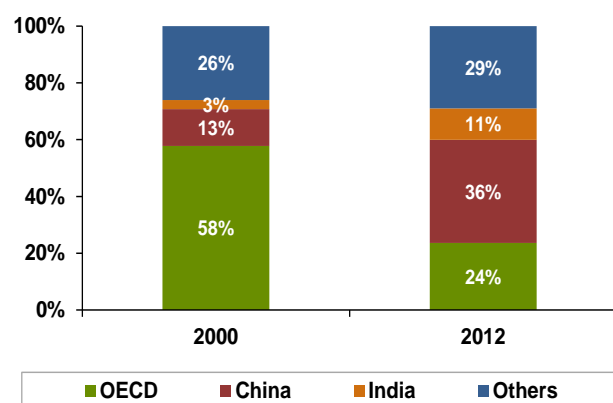


## Growing impact of emerging economies on the oil market

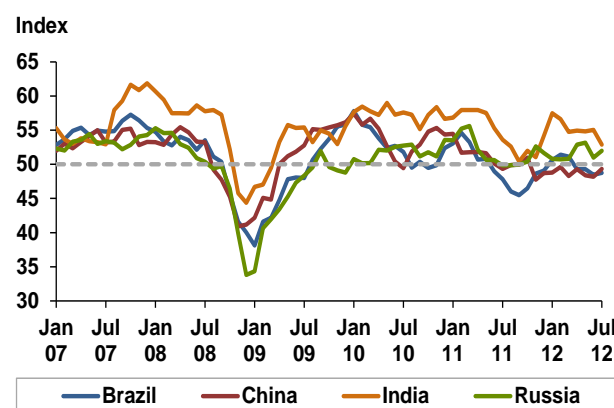
The expansion of the emerging economies in recent years has been a major factor contributing to demand for oil and other key commodities. While representing only 42% of global economic growth at the start of the last decade, developing and emerging economies are expected to contribute 76% of this year's 3.3% global growth, with the biggest part coming from China and India (see **Graph 1**).

This steady shift in contribution to total GDP has led to a substantial hike in demand for energy in the developing and emerging economies, particularly from China, India, Latin America and the Middle East. In recent years, developing and emerging economies have constituted the sole source of incremental oil demand growth, amounting to a cumulative increase of 15 mb/d since 2000. Given its strong economic growth, China alone has doubled its oil consumption over the past 12 years. This represents a marked contrast to the developed economies, which have seen a contraction in their oil demand of more than 4 mb/d since 2005, driven largely by energy policies. As these divergent trends are expected to continue, non-OECD consumption will exceed that of the OECD within the next few years. This change in the overall demand structure is already altering oil demand seasonality, putting the third quarter on top due to summer cooling needs and agricultural sector demand in the developing world, in addition to the traditional higher oil consumption in the developed economies during the driving season. Thus, oil prices have become increasingly sensitive to the economic conditions in these dynamic regions, particularly China.

**Graph 1: Contribution to total GDP growth**



**Graph 2: Manufacturing PMI in BRICs**



A review of current economic developments shows that the impact of the recent global slowdown — originating from developed economies, mainly the Euro-zone — is particularly visible in emerging Asia. Manufacturing activity in China and India slowed in the first half of the year (see **Graph 2**). Meanwhile, some developed economies are also being affected, including South Korea which in July suffered its sharpest fall in exports since 2009, declining 8.8% from a year earlier. Meanwhile, Japan has also faced a drop in exports and the pace of its economic recovery continues to be restrained.

Bank deleveraging policies in the European Union have also negatively affected the funding flows to developing and emerging economies. The escalation of the Eurozone crisis has dented immediate growth prospects for Eastern Europe, as well as Latin America, including its largest economy, Brazil. The recovery in the MENA region has also been constrained by such factors as decelerating domestic consumption and softening demand from the EU.

Despite these short-term difficulties, the medium-term outlook is more positive. Emerging Asia is expected to continue to benefit from China's position as a major driving force behind global growth. In Latin America, policy initiatives adopted to boost economic activities should begin to show more of an impact by the second half of 2013.

While the Euro-zone crisis is likely to remain a major source of uncertainty in the oil market during the second half of the year, positive developments in the emerging markets could help to underpin global growth, as well as to ease some of the challenges faced by the developed economies, which are their main trading partners. This would also provide steady support for oil and other commodities.



# Crude Oil Price Movements

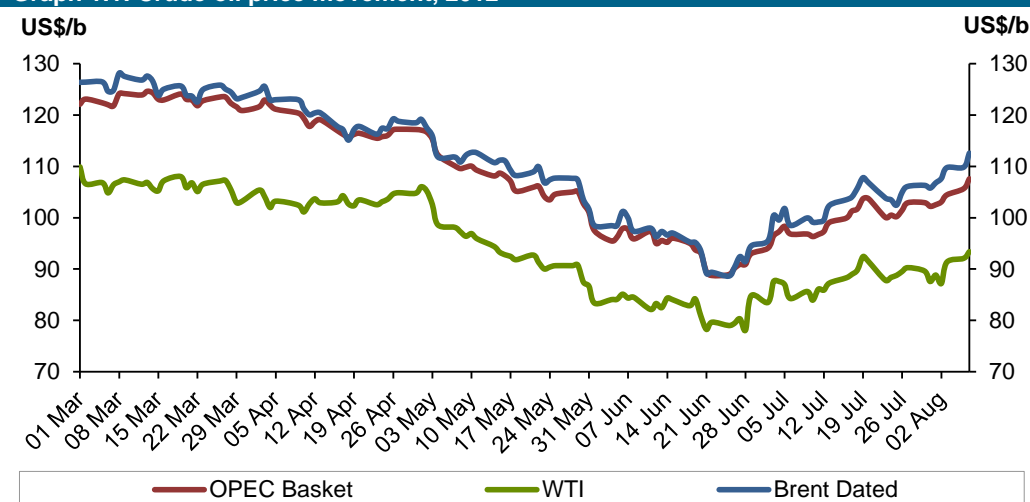
*OPEC Reference Basket rebounded sharply in July to near key \$100/b*

## OPEC Reference Basket

The OPEC Reference Basket rebounded in July from its three-month-long declining streak to settle near the key \$100/b mark at \$99.55/b, almost 6% above the previous month's level. Although the global economic slowdown continued to dominate the scene over the month, the re-emergence of geopolitical tensions, production problems in the North Sea and hopes that the world's major economies would act to ease monetary policy to support their economies were among the main reasons for the overall increase in global crude oil prices. Also, sporadic positive economic data, which was not as bad as predicted from the US and China, was seen as an optimistic sign that pushed prices higher in most equity and commodity markets, including crude oil. Furthermore, increasing money-managed long positions also contributed to the upward momentum in market sentiment.

The Basket rose to \$99.55/b in July, a significant \$5.57 or 5.9% higher than the previous month. Year-to-date, the Basket averaged \$110.22/b, compared with last year's average of \$107.41/b for the same period, an increase of \$2.81 or 2.6%.

**Graph 1.1: Crude oil price movement, 2012**



All the Basket's component values improved by around \$6 in July, but were a long way from redeeming the significant drop of the previous month. Saharan Blend, Es Sider, Bonny Light and Girassol – or "Brent-related" crudes – rose by \$6.36 to an average of \$102.45/b, up by 6.6% for the month. Meanwhile, Middle Eastern grades Murban and Qatar Marine, along with the Latin American Basket components, Ecuador's Oriente and Venezuelan Merey, increased by around 5% to \$100.48/b and \$93/b respectively. The remaining Basket components, namely Arab Light, Basrah Light, Kuwait Export and Iran Heavy, rose by over 6% in July to end at \$98.91/b, which was \$5.67 higher than in the previous month.

Brent-related Basket components, light-sweet African crudes and European-bound Middle Eastern sour grades were supported by the production disruptions in the North Sea fields due to the short-lived Norwegian strikes, coupled with the tight medium-sour crude market in the Mediterranean which sent spot crudes to record highs. Furthermore, loading problems with alternative crudes, such as Iraqi Kirkuk, also supported the increase in spot prices for crudes that Middle Eastern export formula prices are benchmarked against, such as Urals. Asian or Dubai/Oman related Basket components rose the least over the month in a well-supplied market, as seen by the narrowing backwardation in the Dubai market structure, implying that the market was less tight than last month. Part of the reason for this was China freeing up available Middle Eastern supply for other buyers, after taking the bulk of the surplus sanctioned crudes on offer. The shutdown of the Motiva expansion also resulted in an additional surplus flow to Asia. In the US Gulf Coast (USGC), Light Louisiana Sweet (LLS)

gained some ground on West Texas Intermediate (WTI), but it lagged behind the pace of Brent, based on the much-cited supply effect on LLS from increasing the blending of light, tight oil into the grades pool. The relative improvement in the USGC light sweet crude, LLS, has positively affected the overall prices of the Latin American Basket components. The medium-sour crude, Mars, remained largely unchanged for much of the month, but made some gains over the end of the month, after the Energy Information Administration's (EIA's) inventory data was released. At the end of July, the market received confirmation of a prolonged outage at the Motiva refinery. A new 325,000 b/d crude distillation unit at the facility will remain offline until early 2013. It is likely that the volumes of Saudi crude heading for the USGC will go down significantly, as Saudi Aramco is a joint owner of the refinery.

On 8 August, the Basket stood at \$108.36/b, almost \$9 above the July average.

**Table 1.1: OPEC Reference Basket and selected crudes, US\$/b**

	<u>Jun 12</u>	<u>Jul 12</u>	<u>Change</u> <u>Jul/Jun</u>	<u>Year-to-date</u>	
	<u>2011</u>	<u>2012</u>			
<b>OPEC Reference Basket</b>	<b>93.98</b>	<b>99.55</b>	<b>5.57</b>	<b>107.41</b>	<b>110.22</b>
Arab Light	94.51	99.90	5.39	107.82	110.79
Basrah Light	92.02	98.16	6.14	106.10	108.61
Bonny Light	97.19	104.24	7.05	114.83	114.25
Es Sider	96.04	102.89	6.85	112.46	112.59
Girassol	96.44	103.01	6.57	112.23	113.05
Iran Heavy	93.09	98.81	5.72	106.01	109.56
Kuwait Export	93.32	98.75	5.43	105.33	109.68
Marine	94.86	99.47	4.61	106.52	109.93
Merey	87.52	91.86	4.34	95.75	102.36
Murban	96.76	101.48	4.72	109.96	112.40
Oriente	89.22	94.13	4.91	100.04	104.82
Saharan Blend	94.69	99.64	4.95	113.59	111.84
<b>Other Crudes</b>					
Brent	95.19	102.59	7.40	112.11	111.84
Dubai	94.44	99.15	4.71	106.25	109.52
Isthmus	93.16	100.08	6.92	105.12	108.72
Mars	91.94	98.51	6.57	107.53	108.12
Minas	104.83	106.62	1.79	114.95	120.27
Urals	93.81	102.63	8.82	109.22	110.55
WTI	82.33	87.79	5.46	98.10	96.63
<b>Differentials</b>					
WTI/Brent	-12.86	-14.80	-1.94	-14.01	-15.21
Brent/Dubai	0.75	3.44	2.69	5.86	2.32

*Note: Arab Light and other Saudi Arabian crudes as well as Basrah Light preliminarily based on American Crude Market (ACM) and subject to revision.*

*Source: Platt's, Direct Communication and Secretariat's assessments.*

### The oil futures market

*Crude futures recovered from lower levels reached in June*

Crude oil futures prices recovered in July from the significant record low levels reached in June, although most of the fundamental reasons behind the fall are still at play in the market, as economic outlooks continue to worsen, while global stocks remain somewhat high. Economic woes continued to dominate the headlines, led by the International Monetary Fund's (IMF's) downgrading of global growth for both 2012 and 2013. Growth has slowed not only in troubled OECD countries, but also in key non-OECD economies, such as China, India and Brazil. The massive stock-builds over the first half of the year are still in play, although they are beginning to decline. China, in particular, appeared to have ramped up crude-buying for storage. According to official statistics, the country had an implied stock-build of .d in the first half. This build is very much in line with the country's strategic storage objective, as well as with the high Middle Eastern production seen in the first half. Nevertheless, the resurfacing of geopolitical tensions, production glitches in the North Sea, successive large crude oil inventory-draws and optimism that the world's major economies would act to ease monetary policy to revive economic growth were the main reasons for the recovery in an already oversold market in July. Positive economic data from the US and China, although limited, was seen as an optimistic sign that pushed prices higher in most

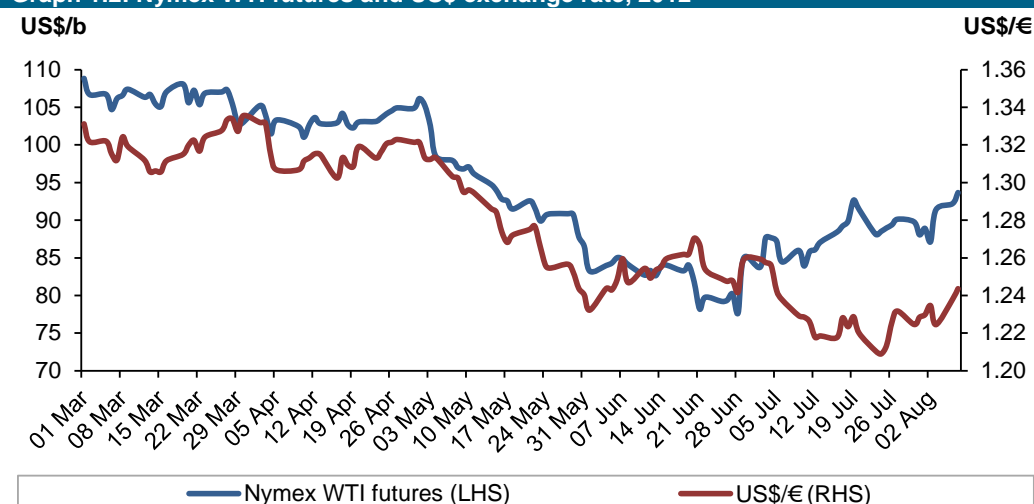


asset classes, including crude oil. Additionally, increasing money-managed long positions also reflected the bullish sentiment in the global crude oil futures markets.

Intercontinental Exchange (ICE) Brent front-month prices increased in July by \$6.80 or over 7% to settle at \$102.72/b, back above the significant \$100/b mark, after briefly retracting from this level last month. Similarly, the WTI front-month price rose by 6.7% or \$5.53 to average \$87.93/b in July. The year-to-date average of \$112.07/b for the ICE Brent front-month was almost identical to that of the same period last year, namely \$111.98/b. On the other hand, WTI's front-month year-to-date average value was \$1.45/b lower than that of last year, at \$96.74/b, indicating a 1.5% decline from the same period last year.

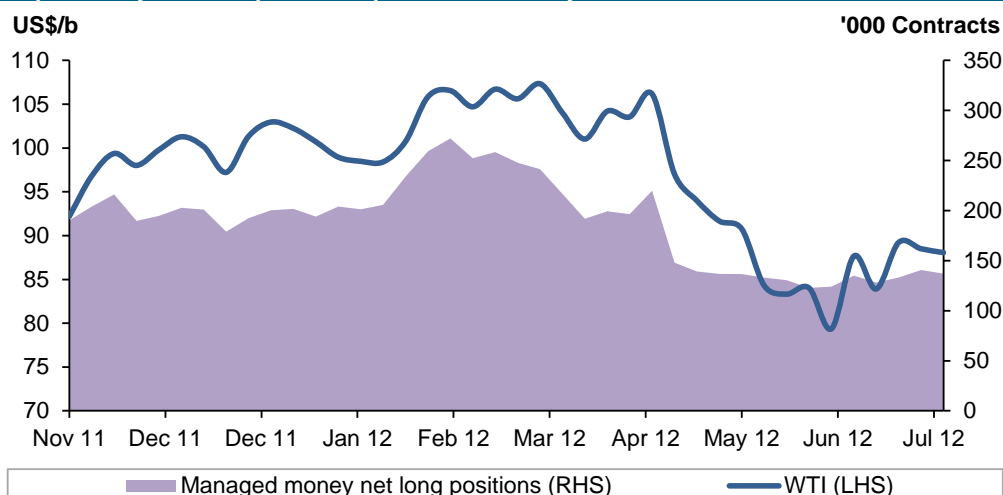
Crude oil futures prices kept their upward momentum in the first week of August, when New York Mercantile Exchange (Nymex) WTI settled at \$93.35/b and ICE Brent moved up to \$112.14/b on 8 August.

**Graph 1.2: Nymex WTI futures and US\$ exchange rate, 2012**



Data from the US Commodity Futures Trading Commission (CFTC) showed that speculators reversed their last-month's trading patterns and increased net long positions in US crude oil futures and options positions in July to 140,636 lots. Hedge funds and other large investors increased their net long positions on the Nymex by 16,620 contracts, indicating higher hedge funds and money-manager bullish trading activity in July. This represented an increase of 14%, compared with a decrease of 10% last month, when hedge funds and money managers were bearish on the contract. The data also showed that both new outright long and short positions increased at the same rate. Speculator activity in ICE Brent crude oil futures and options was seen as significantly more bullish on the upward momentum, as the 50% month-on-month increase in net long futures and options positions in July signified. The net long futures and options positions contracts for ICE Brent crude oil increased by 25,398 lots to stand at 77,510 contracts at the end of July.

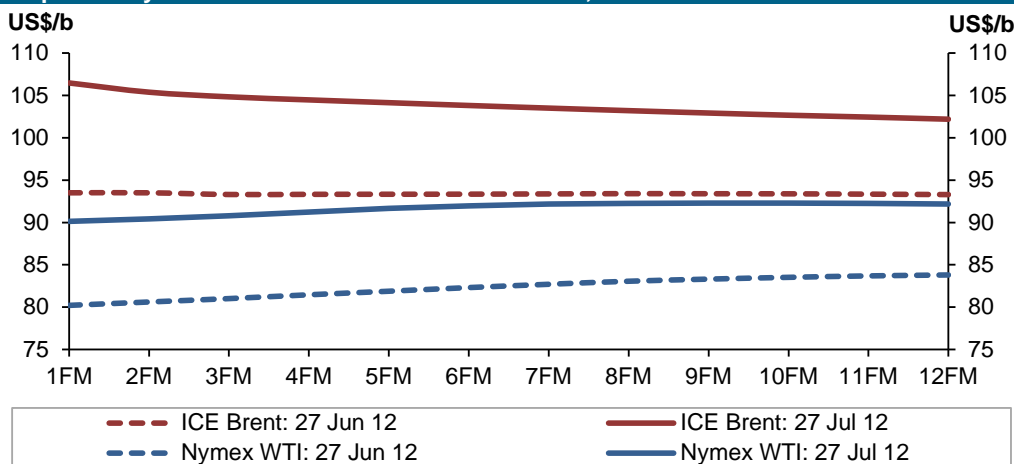
The daily average traded futures volume during July for WTI Nymex front-month futures contracts decreased by a sharp 82,311 lots, to average 517,326 contracts. In addition, open interest fell to 1.4 million lots, on average. For ICE Brent front-month, the volume also decreased by a large 117,453 contracts to 593,272 contracts, while open interest decreased marginally to reach 1.2 million lots. It is worth noting that ICE Brent crude oil futures continued to gain market share over WTI Nymex, with the former volume surpassing the latter for the third consecutive month. In terms of open interest, Nymex WTI was still ahead, but ICE Brent was rapidly closing the gap.

**Graph 1.3: Nymex WTI price vs. speculative activity, 2011–12**

*Nymex remained in contango and ICE Brent backwardation steepened*

### The futures market structure

The Nymex WTI market structure remained in contango in July, where the 1st-versus-2nd-month spread was around minus 30¢/b, unchanged from the previous months. Although the stock level at Oklahoma had come down from the recent all-time high, the market structure had not moved much, supporting the argument that the 150,000 b/d spearhead link between Cushing and the USGC was not enough to overcome the higher inflow from Canada and US shale production. Meanwhile, ICE Brent steepened its backwardation significantly in July, amid tightness in the prompt market due to North Sea supply glitches, the deferral of Norwegian crudes on the back of the recent strike and upcoming maintenance at the Buzzard field. On average, the spread between the second and the first month of the ICE Brent contract averaged around 65¢/b in July, compared with about 5¢/b in June.

**Graph 1.4: Nymex WTI and ICE Brent forward curve, 2012**

FM = future month

The transatlantic (Brent versus WTI) spread widened sharply in July, at a time of growing pressure in the WTI market from rising shale crude production. This contrasted with tightness in the Brent market, due to North Sea supply glitches and seasonal maintenance. On average, the front-month ICE Brent/Nymex WTI spread was, at \$14.80/b, wider by \$1.30 from June, in favour of Brent.

**Table 1.2: Nymex WTI and ICE Brent forward price, US\$/b**

<b>Nymex WTI</b>						
	<u>1st FM</u>	<u>2nd FM</u>	<u>3rd FM</u>	<u>6th FM</u>	<u>12th FM</u>	
27 Jun 12	80.21	80.61	81.01	82.31	83.80	
27 Jul 12	90.13	90.42	90.79	91.96	92.17	
<b>ICE Brent</b>						
	<u>1st FM</u>	<u>2nd FM</u>	<u>3rd FM</u>	<u>6th FM</u>	<u>12th FM</u>	
27 Jun 12	93.50	93.50	93.30	93.34	93.29	
27 Jul 12	106.47	105.38	104.83	103.81	102.19	

FM = future month.

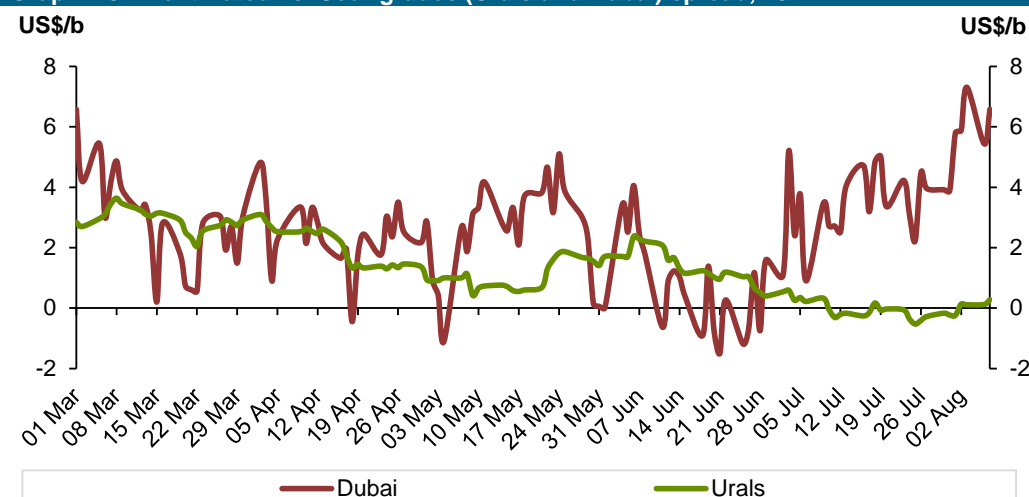
### The sweet/sour crude spread

Light-sweet/heavy-sour spreads were mixed during July. The LLS/Mars and Dubai/Tapis spreads of the US and Asia respectively widened in favour of light-sweet crudes. However, in Europe, the Dated Brent/Urals spread narrowed significantly and flipped into negative.

A rebound in naphtha and gasoline cracks, on the back of a healthier petrochemical market, supported wider light-sweet/heavy-sour differentials in Asia in July, as represented by the Dubai/Tapis spread. Moreover, the wider Brent/Dubai spread, signifying a strong Brent market, coupled with tighter loading schedules, limited the flow of competing West African light sweet crudes to Asia, which also supported a sustained wider Tapis/Dubai spread. On top of this, a higher fuel oil arbitrage to Asia buoyed a wider spread in favour of light sweet Tapis. Over the month, the spread widened by almost \$2, to firm up, at the end of the month, at around \$6.50/b.

As a result of the full implementation of the European Union (EU) embargo on Iranian crudes imports in July, the Dated Brent/Urals spread in the Mediterranean went into negative territory, with the medium-sour crude, Urals, now trading at a premium to light-sweet Brent. The region was under pressure to secure alternative medium-sour crudes, and refiners were willing to pay a high premium for suitable alternatives. Moreover, the fact that the coming into effect of the EU ban on Iranian barrels coincided with the period of the seasonally strongest demand for crude from the Middle Eastern producer enhanced its impact on differentials in the region. In recent years, European buyers imported the highest annual amount of Iranian crude in July. The Urals crude differentials to Dated Brent in July averaged around -5¢/b, compared with +\$1.40/b in the previous month.

In the US, the LLS/Mars spread widened briefly by more than \$4 to \$8/b between the end of June and late-July, but then came under pressure, ending the month at around \$5/b. The wavy ride was reflected in the product markets, as gasoline and naphtha both posted a strong recovery in mid-July, only to subsequently weaken at the end of the month. The shutdown of Motiva's new 325,000 b/d crude unit played a role in weakening differentials for heavier grades.

**Graph 1.5: Brent Dated vs. Sour grades (Urals and Dubai) spread, 2012**

*Light-sweet/  
heavy-sour spreads  
widened in Asia  
and US, while  
becoming negative  
in Europe*

# Commodity Markets

*Commodity prices rebounded in July, essentially due to the drought in the US*

## Trends in selected commodity markets

The World Bank's commodity price indices reversed the strong decline posted in the previous month, with energy up by 5.6% and non-energy gaining 4.6% month-on-month (m-o-m) in July. The recovery in some commodity prices, despite the fragile global economic situation, was essentially related to supply tightness emerging from extremely hot weather, especially in the US, that affected the food complex and US natural gas. The latter commodity and crude oil led the energy sector price rebound. Concerning the non-energy components, food prices jumped by 10% m-o-m, compared with a 1% fall the previous month, driven by the drought in the US that led grains and soybeans to recently reach record-high prices. By contrast, gold prices lost 0.6% m-o-m, while base metal prices slightly recovered by 0.8% m-o-m, following a 6.1% drop a month earlier.

The same bearish factors that affected commodity markets the previous month continued to exert pressure on prices in July: macroeconomic uncertainty, especially apprehension over the Euro-zone's sovereign debt crisis, slower growth in the emerging economies, a weak US economy and a firmer dollar were the main negative factors.

**Table 2.1: Commodity price data, 2012**

Commodity	Unit	Monthly averages			% Change		
		May 12	Jun 12	Jul 12	May/Apr	Jun/May	Jul/Jun
World Bank commodity price indices for low and middle income countries (2005 = 100)							
Energy		185.7	163.6	172.8	-7.6	-11.9	5.6
Coal, Australia	\$/mt	94.5	85.6	84.4	-7.0	-9.4	-1.4
Crude oil, average	\$/bbl	104.1	90.7	96.8	-8.4	-12.8	6.6
Natural gas, US	\$/mmbtu	2.4	2.5	2.9	25.2	0.7	20.0
Non Energy		189.9	183.2	191.6	-2.5	-3.6	4.6
Agriculture		192.3	187.0	200.7	-1.7	-2.7	7.3
Food		206.2	203.8	224.9	-2.1	-1.1	10.3
Soybean meal	\$/mt	496.0	504.0	585.0	7.1	1.6	16.1
Soybean oil	\$/mt	1218.0	1180.0	1239.0	-7.0	-3.1	5.0
Soybeans	\$/mt	573.0	567.0	662.0	-0.3	-1.0	16.8
Grains		227.9	228.7	265.4	1.5	0.4	16.0
Maize	\$/mt	269.3	267.3	333.1	-1.7	-0.7	24.6
Sorghum	\$/mt	216.7	n.a.	n.a.	-15.0	n.a.	n.a.
Wheat, US, HRW	\$/mt	264.4	276.2	345.7	-0.7	4.5	25.2
Sugar World	¢/kg	45.9	45.1	50.4	-8.5	-1.6	11.8
Base Metal		167.4	157.2	158.5	-3.8	-6.1	0.8
Aluminum	\$/mt	2007.6	1890.2	1876.3	-2.1	-5.9	-0.7
Copper	\$/mt	7955.6	7423.0	7584.3	-4.0	-6.7	2.2
Iron ore, spot, cfr China	¢/dmtu	136.6	134.7	127.9	-7.5	-1.4	-5.0
Lead	¢/kg	201.3	185.4	188.1	-2.8	-7.9	1.5
Nickel	\$/mt	17068.2	16549.1	16128.4	-4.9	-3.0	-2.5
Steel products index	2005=100	137.1	137.1	n.a.	-0.1	0.0	n.a.
Tin	¢/kg	2040.5	1927.1	1854.6	-8.1	-5.6	-3.8
Zinc	¢/kg	193.6	185.9	184.8	-3.3	-4.0	-0.6
Precious Metals							
Gold	\$/toz	1589.0	1598.8	1589.9	-3.6	0.6	-0.6
Silver	¢/toz	2872.0	2798.4	2744.0	-8.9	-2.6	-1.9

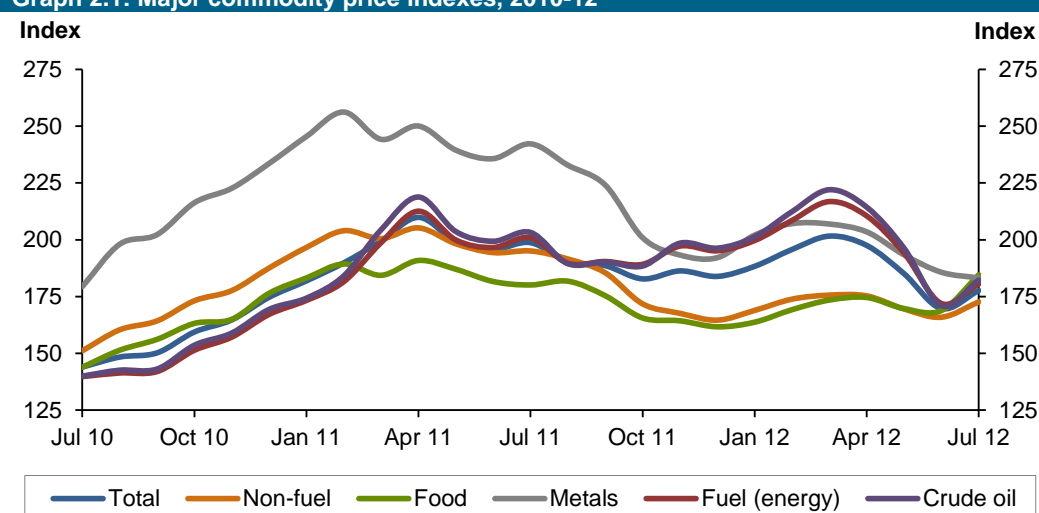
Source: World Bank, Commodity price data.

The **Henry Hub (HH) natural gas price** index increased by 16% m-o-m in July, boosted by short-term factors, such as strong demand from the power-generation sector, due to the hot weather. This was able to reduce the overhang of natural gas in storage this year. Nevertheless, these are deemed temporal factors and a price correction is expected to come in September-October.

The **agricultural price index** rebounded by 7% m-o-m in July (as against minus 2.8% a month earlier), as food surged by 10%, driven by wheat, corn and soybeans, especially in the US during that month, essentially due to the drought. The 'La Niña' phenomenon (South America) also had an impact on some agricultural markets,

including soybeans. There were large downgrades to grain production in the Black Sea. The drought in the US led fundamentals to outweigh unfavourable macroeconomic factors. Grain prices jumped by 16% m-o-m, compared with 0.4% m-o-m the previous month, with corn and wheat posting gains of 25% each on a monthly basis; and soybeans and soybean meal increased by 16.8% and 16% m-o-m respectively for July. Grain and soybean prices found support in dryer-than-normal, hot weather in the US Midwest and in Chinese imports for June, with subsequent China Customs trade data showing remarkable increases in corn, soybean and sugar imports. China's corn imports kept growing since the previous month, jumping by 354% to 528.6 kilotonnes on a monthly basis, while exports were weak. Thus, China became a net importer of corn in June. Chinese soybean imports continued the upward movement since March, rising by 31% year-on-year to 5.6 million tonnes. It is worth noting that there is concern over the possible negative impact of a spike in food price inflation on Chinese economic growth prospects. Wheat was also affected by unfavourable weather that led to Black Sea producers downgrading Russian and Ukrainian wheat crops, and dry weather in the North China Plains also had an impact on grain crops.

**Graph 2.1: Major commodity price indexes, 2010-12**



**Commodity price index, 2005 = 100**

**Total:** Includes both fuel and non-fuel.  
**Non-fuel:** Includes food and beverages and industrial inputs.  
**Food:** Includes cereal, vegetable oils, meat, seafood, sugar, bananas and oranges.  
**Metals:** Includes copper, aluminum, iron ore, tin, nickel, zinc, lead and uranium.  
**Fuel (energy):** Includes crude oil (petroleum), natural gas and coal.  
**Crude oil:** Is the simple average of three spot prices: Dated Brent, West Texas Intermediate and Dubai Fateh.

Source: IMF.

The **World Bank's base metal price index** went up by 0.8% m-o-m in July, after a 6% m-o-m drop the previous month. Nevertheless, the base metal price performance continued to rely upon broadly bearish macroeconomic conditions, particularly the deceleration in emerging economies, the Euro-zone debt-crisis and a slowdown in global manufacturing. The whole complex suffered from uncertainties in global demand. Indeed, the key issue in base metal markets is the absence of positive economic data from important demand regions.

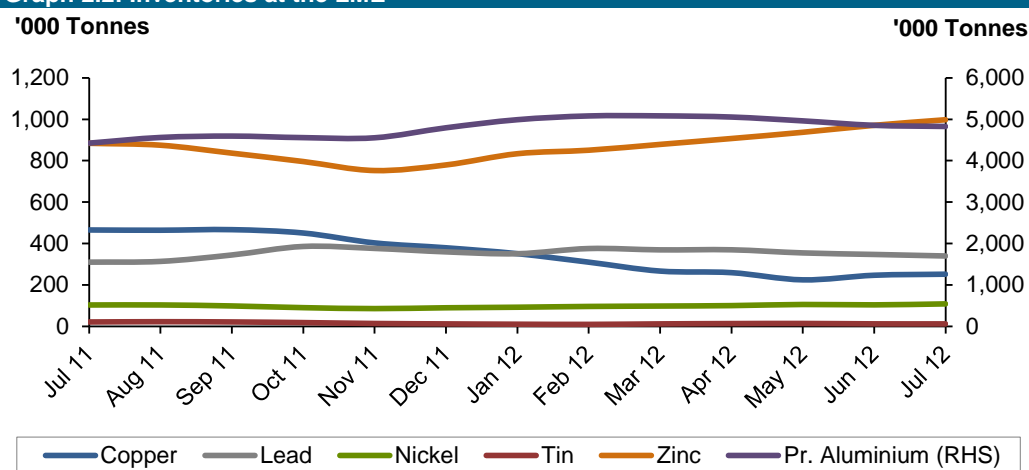
**Copper prices** at the Chicago Board of Trade (CBOT) were up 2% m-o-m in July due to tight supply, limiting the downside. On the role of Chinese imports, base metal imports decreased on a monthly basis. Refined copper imports were down 17% m-o-m, owing to delays in some contracted shipments and reduced spot demand. An additional negative factor was still weak arbitrage between Shanghai Futures Exchange (SHFE) and the London Metal Exchange (LME): higher stocks at the SHFE and bonded warehouse stocks increasing to 50 Kt from the five-month low in mid-June. There was also a move into contango of the nearby SHFE time-spreads, after remaining in backwardation for the past 2.5 months. However, there is no evidence of over-supply in China and the physical premium is still firm. The outlook for copper, as for other base

metals, will depend on the possibility of an improvement in end-demand in the second half of 2012.

**Aluminium prices** fell 0.7% m-o-m in July, after a 5.9% decline the previous month. The improvement in prices was partly driven by higher primary aluminium imports from China, due to favourable arbitrage between SHFE prices and the LME. Nevertheless, considering that the majority of these imports came to Qindao port and that there was plentiful domestic supply, it seems that these imports were guided by arbitrage and not by end-use demand. Aluminium exports were affected by the negative economic situation in Europe.

The **gold price** fell by 0.6% m-o-m. This commodity continued to struggle to re-establish its safe-haven status, but the major mover was the physical market in the near term. The physical market was still soft, as buying was weaker in China, despite which Exchange Traded Products (ETP) holdings remained relatively resilient. The lack of further monetary stimulus by the US Federal Reserve Board (Fed) also weighed on this market. The dollar's appreciation against other major currencies continued putting pressure on gold markets in July.

**Graph 2.2: Inventories at the LME**



Source: London metal exchange.

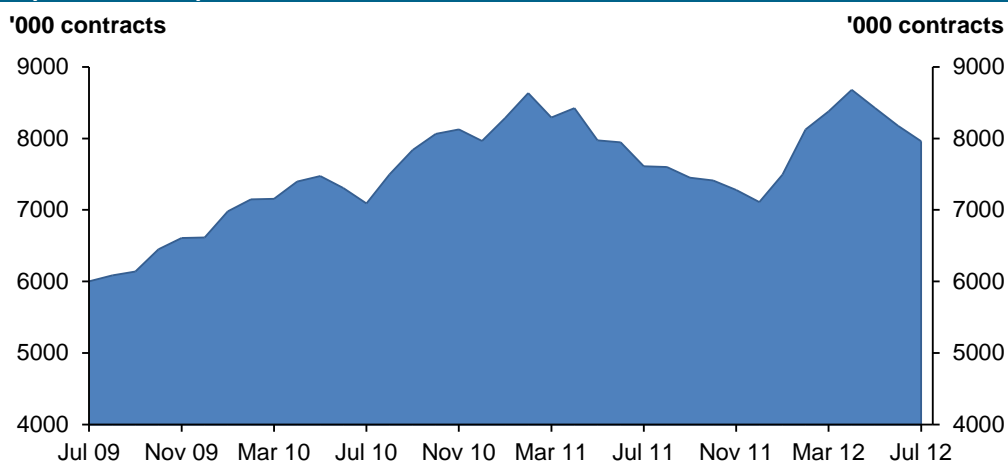
### Investment flows into commodities

The rebound in commodity prices in July contributed to easing the strong risk aversion seen the previous month.

The **total open interest volume (OIV)** in major commodity markets in the US declined by 2.6% m-o-m to 7,960,514 contracts in July, the third consecutive drop since May. Although some commodity markets, notably agriculture, reached important price gains, as a whole investors remained cautious, due to the fragile global macroeconomic picture.

Total **net long speculative positions** surged by 80% m-o-m to 1,007,637 contracts in July, after a 10% decline the previous month. Long positions increased by 9% m-o-m, which, combined with a massive drop of 32.8% m-o-m, resulted in net length, as a percentage of OIV, to rise from 6.9% in June to 12.7% in July. Following the price revival, the bulk of strategic investment was focused on agriculture.

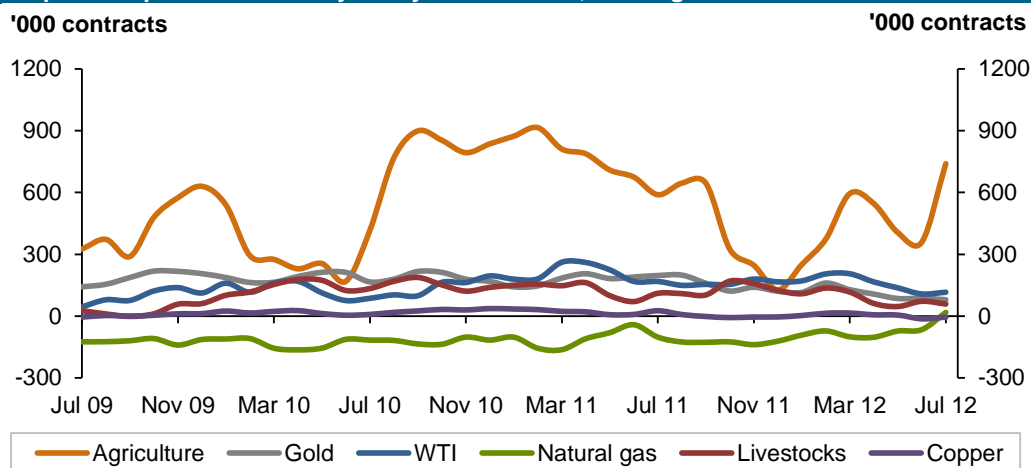
*Some revival in strategic investment in July*

**Graph 2.3: Total open interest volume**

Source: US commodity futures trading commission.

The **agricultural** OIV decreased by 1.6% m-o-m to 4,292,581 contracts in July, after a 2% fall the previous month. Money managers' net long positions in agricultural markets jumped by over 100% m-o-m to 739,597 contracts in July, owing to recent price gains, especially in grains, soybeans and sugar. Short positions plummeted by 47.6% m-o-m, while longs rose by 16.7%.

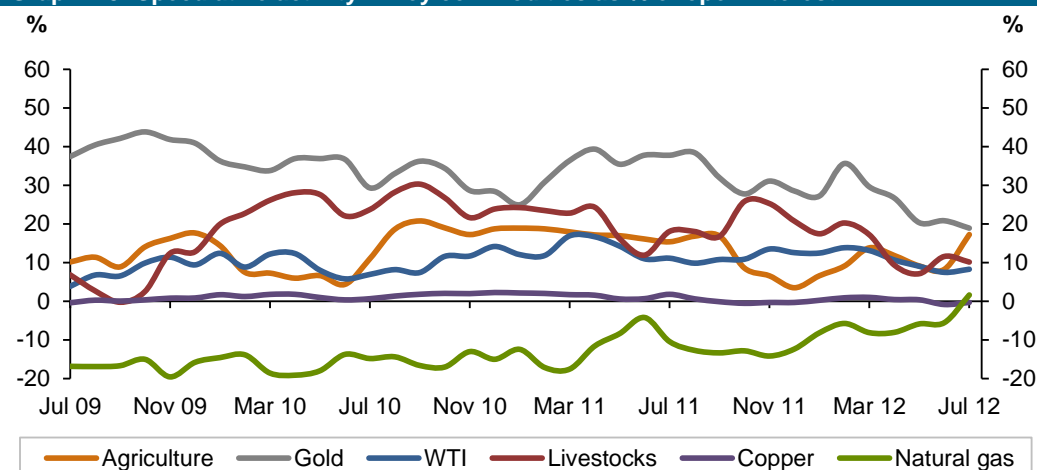
The **HH natural gas** OIV dropped by a further 4.9% m-o-m to 1,119,940 contracts in July, after a 3.8% drop the previous month. Money managers' net positions increased by 127% m-o-m to 17,958 contracts, due to a rise of 5% in long positions and a decrease of 28% in shorts. Investors were encouraged by price gains due to extremely hot weather.

**Graph 2.4: Speculative activity in key commodities, net length**

Source: US commodity futures trading commission.

The **copper** OIV declined by 7.5% m-o-m to 138,610 contracts in July, following a 1.9% gain in June. Money managers' net long positions were up 65% m-o-m to minus 4,526 lots. While short positions declined by 12.8% m-o-m, longs increased by 11% m-o-m.



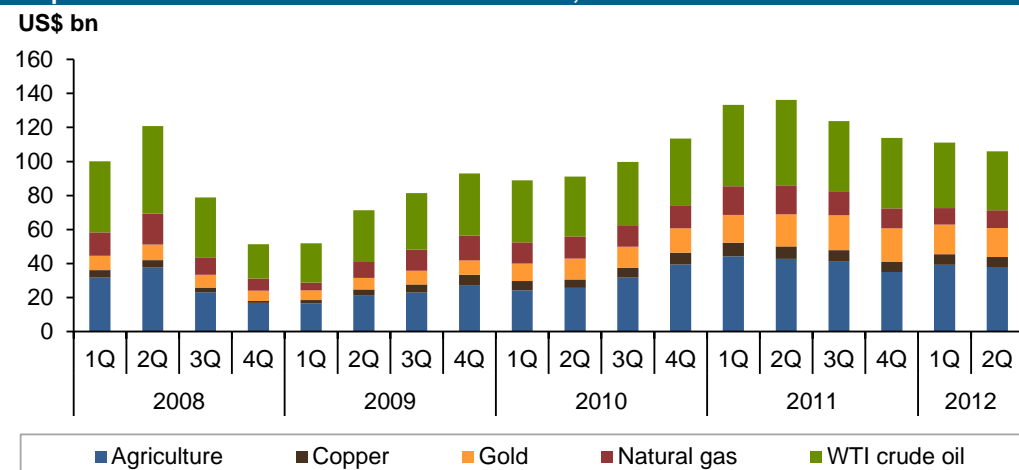
**Graph 2.5: Speculative activity in key commodities as % of open interest**

Source: US commodity futures trading commission.

The **gold** OIV rose by 1% m-o-m to 421,988 contracts in July. Strategic investment in gold fell by 8% m-o-m to 79,706 contracts. Short positions declined by 7.5% m-o-m, while long positions fell 8% m-o-m.

**Table 2.2: CFTC data on non-commercial positions, '000 contracts**

	Open interest		Net length			
	Jun 12	Jul 12	Jun 12	% OIV	Jul 12	% OIV
Crude Oil	1445	1407	108	7	116	8
Natural Gas	1178	1120	-66	-6	18	2
Agriculture	4362	4293	359	8	740	17
Precious Metals	539	545	92	17	85	16
Copper	150	139	-13	-9	-5	-3
Livestock	625	580	72	12	59	10
<b>Total</b>	<b>8,298</b>	<b>8,083</b>	<b>552</b>	<b>7</b>	<b>1,013</b>	<b>13</b>

**Graph 2.6: Inflow of investment into commodities, 2008 to date**

Source: US commodity futures trading commission.



# World Economy

**Table 3.1: Economic growth rates 2012-13, %**

	World	OECD	US	Japan	Euro-zone	China	India
2012	3.3	1.5	2.2	2.5	-0.4	8.1	6.4
2013	3.2	1.4	2.0	1.2	0.1	8.0	6.6

## Industrialised countries

### US

*The most recent indicators point at a somewhat mixed recovery in the US, with the 2012 growth forecast revised up from 2.1% to 2.2% and the 2013 forecast unchanged at 2.0%*

The US economy continues to grow below its growth potential but remains one of the more resilient developed economies. The most recent indicators point at a somewhat mixed recovery. The positive momentum in output, while having decelerated recently, seems to continue, although the unemployment rate has risen by a tiny margin. There have been, on the other side, some positive elements in the recent jobs report. Leading indicators point to balanced growth in the near future of around 2% annually. But this will also be influenced by the handling and management of the sovereign debt situation in the near future, particularly in 2013, after the presidential elections. The current expectation is that the fiscal issues will not largely drag growth down next year and that the open issues will be sorted out in a constructive manner. The Congressional Budget Office (CBO) however estimates that the combination of policies under current law will reduce the federal budget deficit by \$607 billion, or 4.0% of GDP, between fiscal years 2012 and 2013. According to this estimate, growth will be 0.5% in 2013, with the CBO expecting the economy to contract at an annual rate of 1.3% in the first half of the year and expand at an annual rate of 2.3% in the second half. This implies that no agreement will be found in Congress to avoid the so called "fiscal cliff".

The release of the GDP estimate for 2Q12 growth has highlighted a low but so far well supported growth trend. 2Q12 grew at 1.5% seasonally adjusted and annualized. This is lower than 1Q12 output, which was revised to 2.0%. Personal consumption contributed 1.1 percentage points to the growth of 1.5% in 2Q12, which is a continuation of a positive trend over the last several quarters and should be taken as a positive element. This release came together with the revision of GDP numbers back to 2009 and showed that the recession of 2009 was not as deep as initially thought, with an upward revision of 0.4 percentage points—from -3.5% to -3.1%—while the growth calculation for 2010 had to be revised down by 0.6 percentage points, from 3.0% to 2.4%. In terms of the accuracy of past numbers, it is important to say that the revisions did not reverse the direction of change in real GDP (whether increase or decrease) for any quarter; it only slightly changed the magnitude. These revisions were smaller than last year's July revisions.

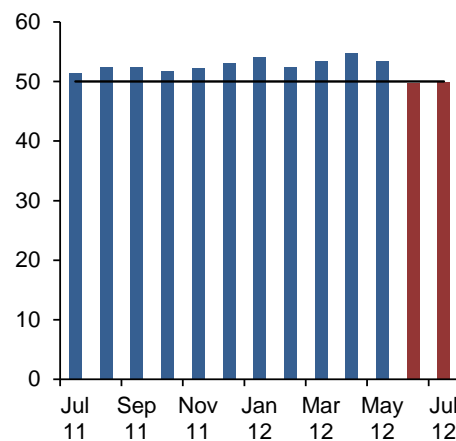
The labour market report for July was mixed. While job additions in the non-farm payroll area continued at a substantial magnitude of 163,000, with the private sector even having added 172,000, the unemployment rate moved from 8.2% to 8.3%. Furthermore, the share of long-term unemployment moved from 41.9% in June to 40.7% in July. This is the third consecutive month of improvement in this important area. This compares to 42.8% in May and to last year's peak levels of more the 45%. It is still a large number and a major improvement is not expected anytime soon. But a decline of the current share of around a monthly level of 1 percentage point should provide some support to the economy. The participation rate is almost at the previous month's level, standing at 63.7%.

The labour market, therefore, should be considered as still relatively weak. The improvements are slow but some build-up in momentum can be observed. In this environment it should not come as a surprise that consumer confidence is building up again slightly. But this depends on further improvements in the labour market, which could bounce further in the near future. The consumer confidence index of the Conference Board was recorded at 65.9 in July, compared to 62.7 in June and to this year's peak level of 71.6 in February. The other consumer sentiment index of importance, the index of the University of Michigan, remained at almost the same level as in June. It stood at 72.3 in July, after 73.2 in the previous month and below May's level of 79.3, which was the highest level since October 2007. Monthly retail sales numbers fell again in June by 0.5%, the third consecutive month of decline, after -0.2% in May and -0.5% in April. But with

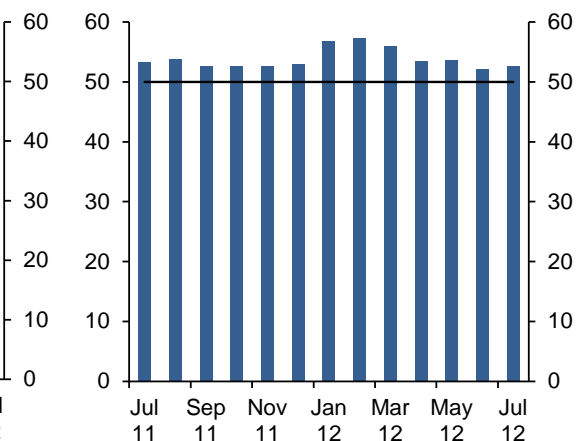
improvements in consumer sentiment, it should be expected to improve in the coming months.

Industrial production continues expanding on a yearly base. It grew by 4.7% y-o-y in June, compared to 4.4 % y-o-y in May and compared to 5.0% in April. Manufacturing orders seem to currently support the trend at a growth rate of 2.5% y-o-y, but the momentum seems to decelerate. This decelerating output growth is supported also by the latest ISM numbers for the manufacturing sector. The ISM number for the manufacturing sector in July stood at 49.8, barely higher than the June number of 49.7 and still below the growth-indicating level of 50. The ISM for the services sector improved slightly to 52.6 from 52.1.

**Graph 3.1: ISM manufacturing index**



**Graph 3.2: ISM non-manufacturing index**



Source: Institute for Supply Management.

The very important housing sector continues improving but remains weak. After having fallen by 5.5% in April, pending home sales rose by 5.9% in May but recently declined again slightly by 1.9% in June, according to the National Association of Realtors. Pending home sales are considered a leading indicator of progress in real estate because they track contract signings. The yearly change of the house pricing index of the Federal Housing Finance Agency (FHFA) has continued its rising trend at a monthly price rise of 3.7% in May, after 3.0% in April and 2.5% in March.

So by taking the most recent revision of the previous year's number into account, the growth forecast for 2012 was revised up to 2.2% from 2.1%. Considering the challenges for the economy ahead, the 2013 forecast remains unchanged at 2.0%.

### Japan

*Japan's economy remains impacted by slowly growing domestic demand and by the global slowdown, with growth forecasts unchanged at 2.5% in 2012 and 1.2% in 2013*

Japan's economy remains impacted by slowly growing domestic demand. Its recovery has been dominated by government-led stimulus in the past several months and by the global slowdown that has been rooted primarily in the Euro-zone. With industrial production and exports having slid recently, and with manufacturing orders and lead indicators pointing to a continued deceleration, the economy is facing a challenging second half of the year. It should be expected to grow at a lower rate next year as global trade is not expected to significantly rebound and the ability of the government to stimulate the economy is limited, especially considering that it is bearing the highest debt level of all major OECD economies. Growth is one issue in the Japanese economy, but the fiscal balance will certainly gain further attention as the debt issues so far have not been addressed as vigorously as in other developed economies. This widely known situation is expected to lead to an increase in taxation and social security contributions, and will therefore impact the spending ability of the economy's private sector. Finding new sources of revenue, therefore, should be a key issue in the future. Additional sovereign funding needs will probably hold back next year's expansion, after this year's efforts to support the economy regardless of fiscal conditions.

Furthermore, the economy remains burdened by the shut-down of all nuclear facilities with the exception of two, which is a major reason that the economy has recorded a

trade deficit since last year's triple disaster. The shortage of electricity has been compensated with imports of fossil fuels for burning to generate electricity. This is not only more expensive, given that the nuclear infrastructure provided relatively cheap energy, but it is also a burden to the economy as it is resulting in a constant trade deficit. Trade surpluses had previously been an important source of funding for the economy. It is not expected that the country will return to its nuclear facilities anywhere soon, which in the short-term should have a negative impact on the economy. The pattern of a monthly trade deficit started in March 2011, when the country was hit by the tragic events. The April 2011 gap was the highest at 701 billion yen. After the most recent May 2012 number of 618 billion yen, the level eased to around 300 billion yen in June. Between January and June of this year, the trade deficit stood at 2.92 trillion yen, according to the finance ministry. This exceeded the 2.62 trillion yen deficit, which had been recorded in the first half of 1980, when the import bill was rising sharply due to an increase in oil prices. Nuclear facilities in Japan have typically provided more than a third of electricity to its highly industrialised economy. Still, after last year's nuclear accident, there remains to be major public suspicion for nuclear energy in the country, it remains to be seen how this will develop and if nuclear power can again play a large role as an energy supplier. In the meantime, Japanese demonstrations against nuclear power have begun to generate serious concern.

The sudden rise in Japan's import bill has been the immediate cause of a shift toward deficits, but exports have also been weakening. They declined 2.3% in June compared to last year. They recorded only 7 positive months out of the last 18 months, highlighting the decelerating effect on the economy. Export-dependent Japanese manufacturers have also struggled to contend with the effects of the yen's sharp rise. The yen continued its strength, particularly against the US dollar, and traded mostly below the ¥80.0/\$ level in the past weeks. If Japanese enterprises cannot cut costs in other ways, a strong yen will force companies that make goods in Japan to raise prices overseas or accept lower profit margins.

The current softening momentum is visible in various economic indicators as well. Retail trade fell by 2.1% m-o-m in June, the sharpest decline since March of last year. Industrial production was sliding for a third consecutive month in June on a monthly basis, while it improved slightly from the -3.4% in May to -0.1% in June. However, on a yearly comparison, the June number is 0.8% lower than last year's June production, although this, like many yearly comparisons, is inflated by the higher expansion after the triple disaster of last year. The indications for future production are even more worrying with machinery orders, as a lead indicator for industrial output in the coming months, having declined by 14.8% on a monthly basis in May, the sharpest decline in more than a decade. The July composite Purchasing Managers Index (PMI) fell sharply again from 49.1 to 47.4, remaining below the growth-indicating level of 50. The PMI for the manufacturing sector is forecast to decline with an index level of 47.9, after 49.9 in June.

Despite the strained budgetary situation, expectations are building up that the government might again announce stimulus measures in a supplementary budget as it had done last year. For now, it is mainly the fiscal side that is expected to support the economy as the Bank of Japan (BoJ) is not being expected to ease its monetary policy in the near-term. However, the actions of the European Central Bank (ECB) and probably the Federal Reserve Board (FED) might trigger some action in order to avoid continued strengthening of the yen. The BoJ has kept extra monetary stimulus in reserve in July, underlining its commitment to keep interest rates low but dashing hopes of more powerful actions to check the rise of the yen.

Backed largely by the momentum of the first half of the year, growth is expected at 2.5% in 2012, unchanged from the previous month's forecast. However, the slowdown in the global economy combined with the need to tackle the fiscal situation and the expected continued declaration in domestic demand is forecast to drag the expansion to lower levels again in the next year, close to historical averages, to stand at an unchanged 1.2%.

*The Euro-zone's debt situation and its slowing economy remain major issues impacting global growth*

*The expansion of the economy for 2013 stands unchanged at 0.1%, while the current year is forecast to decline by 0.4%*

## Euro-zone

The Euro-zone's debt problems remain an important issue for the current global economic slowdown. Many challenges remain and while the problems of Portugal and Ireland seem to have receded a bit into the background, the issue of Greece remains in the forefront. While the magnitude of these three economies is relatively minor, the challenges of Italy and Spain remain even more important. Recent comments by the European Central Bank (ECB) and European politicians have highlighted the aim of providing enough facilities to support ailing economies and avoid any further deterioration of the Euro-zone. But many uncertainties prevail. The constitutional court in Germany will decide upon the European Stability Mechanism (ESM) in September, when elections will be held in the Netherlands and the so-called Troika will report on current developments in Greece. It remains to be seen if the country will be able to achieve the agreed upon cost cuts and thus receive the bail-out funds needed. Ireland and Portugal, on the other hand, are reported to have made good progress and seem to be out of the danger zone for the time being.

After the ECB's president recently highlighted the willingness of his institution to protect the Euro with further extraordinary measures, requesting additional help from Euro-zone leaders, confidence in the euro has increased. But the situation remains fragile as highlighted in the recent yield development of the peripheral economies, particularly for Spain. End of July 10-year yields stood at 6.61% for Spain and were again higher in August, trading at more than 6.7% but lower than the record level of 7% that has been sought by investors previously. For Italy, the situation was slightly better, with the 10-year sovereign debt trading at 6.08% at the end of July, while it moved to 5.9% in August. In Greece the Troika has reported some progress, but it still seems too early to assume that the economy is making enough progress to satisfy the requested austerity plan. Details of the structure of the enhanced support mechanism of the ESM will be discussed among Euro-zone finance ministers in September and be presented in October. In the meantime, the ECB has kept its key interest rate at 0.75% and its deposit rate at 0%. In recent statements from ECB officials, it has become clear that a lot of stress still exists in the European banking system and that the ECB's broad support is vital for the functioning of the financial system. Hence, the banking system relies on the life-line provided by the ECB.

While the debt issues seem to be contained somehow, the overall economic situation has continued worsening. The real economy continues to decline and the negative trend that has been observed in the first half is expected to prevail in the second half. This dire situation is forecast to have an impact on growth in the next year. Industrial production has declined for six consecutive months, from the end of last year to May, while May has posted the sharpest drop of 2.5% y-o-y. Manufacturing orders do not point at an improvement yet at a decline of 3.3% in April, leading to a continuation of this negative momentum. The same negative spin is provided by the latest Purchase Managers Index (PMI) numbers published by Markit. The July composite PMI remains at almost the previous month's level of 46.5, compared to 46.4 in June. It is currently mainly the manufacturing sector that seems to operate at very low levels, with the PMI for the manufacturing sector at 44.0, again sharply lower than the 45.1 from June. This low industrial activity leads to another record high unemployment rate of 11.2%, the same level as in May. The worst level has again been recorded in Spain at 24.8%, compared to Germany's lowest level in recent years of 5.4% in June. This reflects the different strength of the economies within the Euro-zone. Youth unemployment for the Euro-zone was again high at depressing 22.4%, almost matching the record level of 22.5% in May and, again, the highest level has been in Spain with a stunning 52.7%. Consequently, retail trade has been negative for more than a year for every consecutive month, with the latest number for June declining by 1.2% y-o-y, again higher than the May level of -0.3%.

While it is forecast that the second half of the year will be impacted significantly by this negative momentum, it is expected that it will improve by the end of the year. This will depend largely on the ability of the Euro-zone to manage the sovereign debt crisis and to promote enough growth, while at the same time being able to contain the debt burden from increasing and, ideally, to reduce it. This assumption leads to an expected expansion of the economy of 0.1% in 2013, unchanged from the previous

*Slowdown in emerging markets over the last few months due to weaker, US growth and continuing economic crisis in Euro-zone*

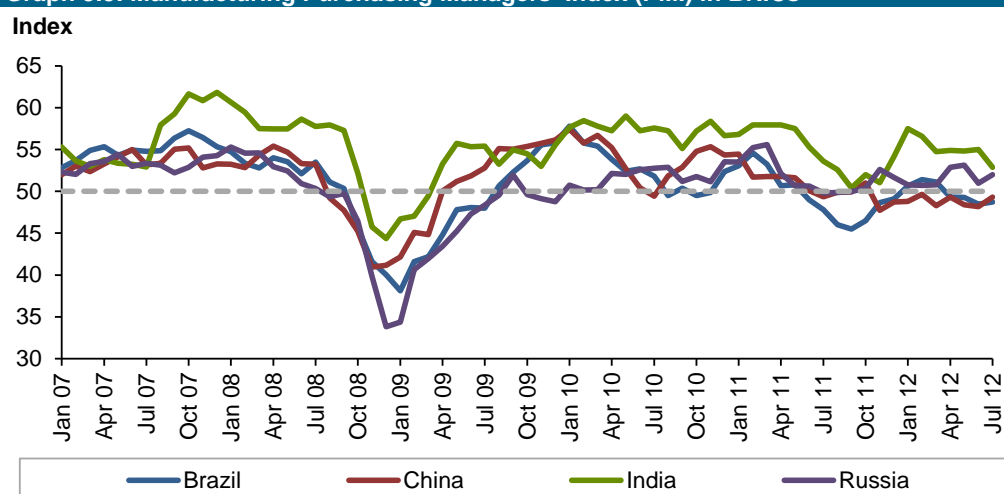
month, while the negative consequences of the current situation will be largely felt this year, which is forecast to decline by 0.4%.

## Emerging markets

The effects of weaker economic growth in the US and the continuation of the Euro-zone economic crisis are now being felt in emerging markets (EMs) stronger than before. The US economy, which seemed reasonably robust in January, has slowed in the last few months and in Europe it is not clear yet that European bank and sovereign deleveraging, which is reducing the amount of financing available to businesses and households, could even prevent the crisis from deepening. The impact of the global economic slowdown seems to be particularly acute in emerging Asia where economic growth has been closely linked with foreign trade and the expansion of the global economy. China and India recorded slower manufacturing growth for July and Taiwan's economy also had been contracting in 2Q. It has become increasingly evident that the Euro-zone debt crisis that has affected growth in Europe for more than a year now has started to translate into reduced demand for exports from Asia and other EMs. Sovereign and bank deleveraging policies in the Euro-zone have also affected the flow of investments to Eastern Europe.

The escalation of the Euro-zone crisis has dented immediate growth prospects for Eastern Europe's key export market and added to uncertainties about the medium-term outlook. External bank loans and foreign direct investment (FDI) is expected to be subdued in 2012. Western European banks are strengthening their capital adequacy ratio in order to withstand the impact of losses and potential losses and to meet the requirements of the EU banking regulator. Latin America's economy is slowing down, led by the largest economy of the region, Brazil. In recent years the region has been, and will continue to be, supported by China's demand for soft and hard commodities exports. However, a lack of competitiveness in manufacturing sectors, together with strong domestic demand, has caused a growing current account deficit in 2011 for the region compared to a surplus in 2007. This has increased Latin America's vulnerability to shifts in market sentiment and has been reflected in pressures on the region's currencies. In the MENA region, economic recovery has been constrained because of weaker EU demand and weakness in some countries that are still suffering from internal strife.

**Graph 3.3: Manufacturing Purchasing Managers' Index (PMI) in BRICs**



The fear is that emerging Asia, as exhibited by the recent data, will worsen further in second half of the year not only because of the poor economic performance of the OECD but also because of lacklustre growth in other emerging economies. This might reduce the prospect of global growth in 2012 even further. The slowdown in Latin America, a region with strong and growing trade ties with emerging Asia, for example, might dampen economic performance in emerging Asia in coming months. The largest economy of the region, Brazil, is now expected to grow only 2.1% in 2012. Although Brazil—and to some extent India—are feeling the effects of their own policy shortcomings, they are also suffering from reduced demand for their exports, weaker



*The Euro-zone debt crisis and weak US recovery have exerted negative impact on the growth rates of emerging economies*

capital inflows and a general increase in investor risk aversion, all consequences of the ongoing Euro-zone crisis. Ironically, the recent collapse of a major part of India's power distribution grid, which affected economic activity in a large area from New Delhi in the north to Calcutta in the east, happened just hours after the Reserve Bank of India cut its forecast for India's GDP growth this year to 6.5%, down from the 7.3% forecast made in April.

Against the short-run difficulties in EMs and the damage to sentiment stemming from the Euro-zone debt crisis, the medium-term picture seems to be positive. This is because of the sound fundamentals of Asia's economies, in general, with the exception of India. Levels of debt (both government and private) are generally low compared to those in the OECD. Also, the Asian banking sector is mostly in good shape, having passed through the global financial crisis without large losses. Emerging Asia will continue to benefit from China's emergence as an engine of regional growth, as China's middle class expands and as the government adopts policies to encourage growth in private consumption. In Latin America, particularly in Brazil, the policy initiatives adopted to boost economic activities are expected to begin affecting economic growth approaching to second half of 2013. This implies that GDP growth is most likely to remain subdued in the second half of 2012 and early 2013. Commodity prices have been slipping since late March, reflecting a number of trends discussed above: financial instability, weaker than expected economic growth in the US, and distinct signs of a slowdown in a number of the large EMs.

Policy mixes adopted in EMs to support economic growth differ significantly according to their economic circumstances. While in many EMs in Central and Eastern Europe tight monetary policy is still on the agenda to curb elevated inflation, in Asia and Latin America a more accommodative monetary policy is being adopted on concerns over sluggish economic growth. Inflation in Latin America has been lower allowing policy-makers to turn to economic growth policies. The Central Bank of Brazil cut 50 basis points off its policy interest rate on 11 July on top of its interest rate cuts earlier this year. It is expected that Brazil will further reduce its benchmark interest rate in August to stimulate demand for money and investment. A series of initiatives totalling 1.5% of GDP are also envisaged to shield domestic industries from external competition. India's Central Bank (RBI) is also cut its policy rate by surprised 50 basis points at its next meeting on 17 April, double the expected 25 basis points. However, due to accelerating inflation another interest rate cut in current year is unlikely and even the central bank might move to increase interest rate in early 2013 to curb inflation. India's rupee is expected to remain under pressure due to the country's current account deficit, as well as its government deficit. Meanwhile, China's central bank has cut its policy interest rate for the second time in less than a month, reducing the prime lending interest rate to 6%. Considering recent decelerations in manufacturing production in China, another cut in benchmark interest rate in China cannot be ruled out in the coming months. In Russia, private consumption and investment demand both remain firm, and the manufacturing PMI had an upward move in July. Although the labour market is tight and unemployment remains low, the accelerating inflation and the recent flood might exert a negative impact on consumption growth. **Table 3.2** below summarizes our estimate of the economic performance of the BRICs at the macro level.

**Table 3.2: Summary of macroeconomic performance of BRIC economies**

	GDP growth rate		Consumer price index, % change y-o-y		Current account balance, US\$ bn		Government fiscal balance, % of GDP	
	2012	2013	2012	2013	2012	2013	2012	2013
<b>Brazil</b>	2.1	3.3	4.9	5.4	-56.6	-67.0	-2.6	-2.7
<b>China</b>	8.1	8.0	3.0	3.5	201.7	191.5	-2.3	-2.0
<b>India</b>	6.4	6.6	8.4	7.6	-61.8	-61.0	-5.7	-5.1
<b>Russia</b>	3.7	3.4	6.3	5.7	87.5	54.8	-0.9	-1.1

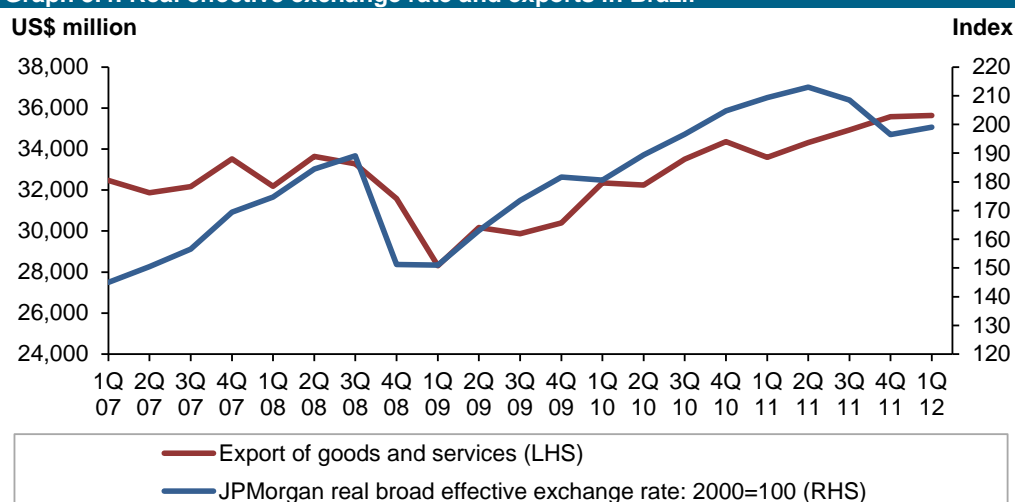
Source: Data Services Department, OPEC Secretariat for GDP growth rates; Concensus Forecast, July 2012, for prices and current accounts; Economic Intelligence Unit, July and August 2012, for government fiscal balance.

Figures for India are from the fiscal year 2012-2013 and 2013-2014.

### Brazil

The economy's performance in 2012 has been disappointing in 1Q but a stimulus driven rebound is expected for the 2H

Consensus on Brazil's GDP growth has shifted downward following new data released by the country's economic authority. Brazil's economic growth has been disappointing in the first half of the year, given first quarter data and a continuous slump in Brazil's manufacturing sector, where output has languished below the 2010 level. External factors have also been affecting Brazil's economy in an unfavourable way. In addition to weaker than expected growth of OECD and Chinese economies, the hard landing in neighbouring Argentina, which is an important market for Brazil's manufacturing (particularly its car industry), has reduced demand for Brazil's exports. Although a 15% depreciation of the real, the country's currency, since March has improved export conditions and may eventually relieve, to some extent, the industry from external competition, the impacts of the real's depreciation on domestic private consumption and its inflationary impact have prompted the government to take measures like tax cuts, monetary easing and credit policy to boost domestic demand and support economic recovery. Fiscal policy is also now less restrictive compared to 2011, and public expenditure and lending by public banks has increased. Therefore, a stimulus-driven rebound is expected for the later months of the year; but this should be qualified, given the performance of the economy in first half of the year and current global economic conditions. The forecast for GDP growth in 2012 has been revised down in Brazil to 2.1% this month (from 2.5% last month), as denoted in Table 3.2 above, because the strength needed to increase the annualized GDP growth rate much above this figure cannot be underestimated.

**Graph 3.4: Real effective exchange rate and exports in Brazil**

The manufacturing sector is expected to underperform in the short- to medium-term but it will expand in the longer-term by a similar rate of economic growth. Manufacturing output is expected to be supported by growing domestic and regional demand despite structural competitiveness problems. Assuming a soft landing for the Chinese economy, commodity processing and extracting industries can be expanded further by external demand as well. Retail, financial services and construction are

expected to outperform overall economic growth while agricultural performance will still depend on whether technological improvements and credit will support an expansion of activities. Bank credit has recovered in June with a pickup in new loans and an easing in credit standards. However, this has been mainly loans extended to households for car purchases. Therefore, while a rebound in economic activities is visible in recent months, there is no decisive indication yet of a substantial expansion in activity.

Inflation has eased to 4.9% in June and there is no sign of its possible acceleration given several interest rate cuts since last year. This would encourage the government to adopt a more aggressive monetary easing policy needed for stimulating the recovery. However, it is worth noting that the current rate of inflation is still higher than inflation central target of 4.4% for 2014-16. Sticky service wages and prices, high indexation and infrastructure bottlenecks are believed to be responsible for the relatively high inflation in Brazil as inflation remains vulnerable to food supply in the short-run. Since February, the real has depreciated from R1.7/\$ to R2/\$. The Euro-zone crisis and a tax on financial transactions and loans have eased this downward trend for the real. In spite of the recent depreciation of the real, the current account deficit is expected to rise as import growth outpaces export growth.

### China

*China's July PMI of 50.1 and new order index of 49.0 (NBS) suggest a slow expansion of the economy in the coming months*

Given the recent deceleration in electricity output and considering the close relationship between economic growth and electricity use in China, where the industrial sector forms almost half of the economy, China's economic data for the second quarter of 2012 seems to be somewhat inconsistent. Real GDP growth in 2Q is reported to be 7.6% (on an annualized basis) while electricity output grew only by 4.3% y-o-y. Considering the close correlation between electricity use and economic activities in China, the significant gap between rates of economic growth and electricity output has increased uncertainties regarding forecasting Chinese GDP growth in the second half of the year. According to JP Morgan, during the first half of 2012 industrial use accounted for 87.2% while residential use accounted for the remaining 12.8% of electricity output. On the other hand, the industrial sector has been 48.9% of total GDP in first half of 2012, with shares of services and agriculture in GDP at 43.5% and 8.6%, respectively. It seems that the annualized 8.3% growth rate of the industry and the 9.1% growth rate of services in the second quarter of 2012 are not consistent with the growth rate of electricity use for the period, unless the structure of the Chinese economy has been changing fast or electricity intensity has reduced significantly in 2012 compared to 2011.

Following a meeting in late July, the State Council of China (the chief administrative authority of the country) decided to expand the VAT reform in an attempt to lower the tax burden. It also called for support of economic growth in central China as a strategic base for agriculture production, energy and raw materials, manufacturing and high-tech industries. These decisions come after two interest rate cuts in June and July that reduced the benchmark interest rate to 6%. A further interest rate cut of 25 basis points is expected in the third quarter of the year that will bring the benchmark rate to 5.75%. The recent cuts in the benchmark interest rate by the Central Bank has been interpreted as the government's move to boost economic activity by lowering the cost of borrowing from the banking system considering the fact that annual rate of inflation is now falling. The reserve requirement ration (RRR) was also reduced by 50 basis points effective from 18 May. This has been the third reserve ratio cut in six months in line with the Central Bank's statement that targeted actions would be taken to ensure stable credit growth. Pressures for appreciation of yuan against US dollar are also expected to ease in 2012 considering the downward trend in the trade surplus of the country



**Graph 3.3: China's Purchasing Managers' Index (PMI) seasonally adjusted, %**

<b>2012</b>	<b>PMI</b>	<i>Production index</i>	<i>New orders index</i>	<i>Main raw materials inventory index</i>	<i>Employed person index</i>	<i>Supplier delivery time index</i>
January	<b>50.5</b>	53.6	50.4	49.7	47.1	49.7
February	<b>51.0</b>	53.8	51.0	48.8	49.5	50.3
March	<b>53.1</b>	55.2	55.1	49.5	51.0	48.9
April	<b>53.3</b>	57.2	54.5	48.5	51.0	49.6
May	<b>50.4</b>	52.9	49.8	45.1	50.5	49.0
June	<b>50.2</b>	52.0	49.2	48.2	49.7	49.1
July	<b>50.1</b>	51.8	49.0	48.5	49.5	49.0

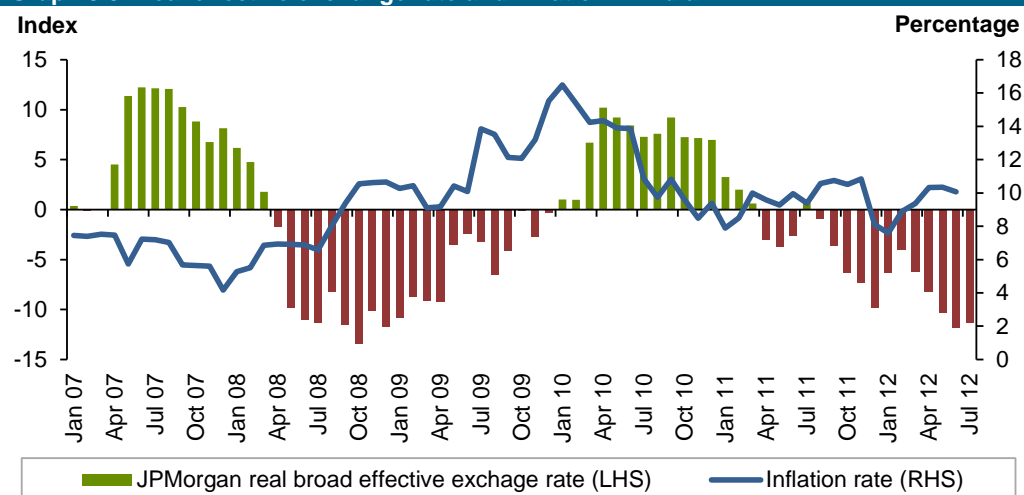
Source: China's National Bureau of Statistics.

Looking to the second half of 2012, the risks associated with China's economic growth remain mainly driven by the Euro-zone's economic crisis and slowing growth in the US economy. Constrained credit demand has brought renewed calls for the government to provide a fiscal stimulus to the economy. The Chinese government has already stepped in this direction by increasing its spending by 26% on an annual basis in January-April, above the 12.5% increase in revenue. The government has also been trying to raise its investments in major infrastructure projects. Low unemployment and a steady increase in real wages have reduced the imperative to intervene more. Having brought down inflation in recent months, it might be seen imprudent by the government to overstimulate the economy and thereby risk a return of elevated inflation. Therefore a dramatic softening of fiscal policy seems unlikely unless GDP growth appears to be falling below the government's comfort zone of around 7-7.5%. The forecast for economic growth remains unchanged at 8.1% for 2012 and 8.0% for the next year. On the demand side, the fact that finished goods inventory has recently been rising implies weak domestic and external demand. Further declines in new orders including exports orders suggest that the Chinese economy still faces downside risk in the coming months.

### India

Despite pressures for a further cut in interest rates following its April action, whereby the Reserve Bank of India (RBI) lowered the benchmark interest rate by 50 basis points after nearly three years and reduced borrowing cost to 8.0%, the RBI has decided to keep the benchmark interest rate on hold for the time being. This is due primarily to elevated inflation. Following the poor performance of the economy in the second quarter of the year, economic activists have called for a more accommodative monetary policy by the government in order to boost economic growth. Ironically, the recent collapse of a major part of India's power distribution grid in late July, which affected the lives and economic activities of 650 million people in a large area from New Delhi in the north to Calcutta in the east, happened just hours after the RBI cut its forecast for India's gross domestic product growth this year to 6.5%, down from the 7.3% forecast made in April. Although India, like Brazil, is feeling the effects of its own policy shortcomings, the country is also suffering from reduced external demand and foreign investment due to a slowdown of global economy. Although the RBI has given no indication of its policy direction over the coming months, the chance for more monetary easing appears to have receded. On the other hand, monetary authorities have implied that a more consolidated fiscal stance would be needed for further monetary easing. Financing India's huge budget deficit by the government has had a crowding out effect and has dampened private sector investment necessary for economic growth. So far, government attempts to reform public finance and improve the taxation system have been met with political opposition.

*The collapse of a part of India's power grid highlights the country's infrastructural inadequacies and delayed investment opportunities*

**Graph 3.5: Real effective exchange rate and inflation in India**

Both wholesale and retail inflation have remained high in recent months. The wholesale price index over the first months of the year rose by an average rate of 7.5% on an annualized basis while the CPI grew by 10.1% on average in April-May, up from 7.2% in the first quarter of 2012. The weak rupee and the huge fiscal deficit are sources of inflationary pressure, although lower commodity prices in international markets have eased inflationary pressures to some extent. The widening trade and fiscal deficits have put downward pressure on the rupee. Last year, the rupee depreciated to a record low level under the influence of these factors and growing global risk aversion. It is expected that the rupee will remain weak in the coming months due to the ongoing Euro-zone crisis that has raised demand for the US dollar and triggered a fall in capital inflows to the Indian economy, which could depress GDP growth in second half of the year. Capital inflows have been financing India's current account deficit, but the renewed escalation of the Euro-zone crisis is triggering a fresh rise in investor risk aversion (EIU, July 2012).

The current account deficit is expected to widen from an equivalent of 2.2% of GDP last year due to a sustained growth in imports and falling demand for India's exports. It is expected that India's imports will also decelerate in 2012. However, export growth will fall even more as the main markets of India's exports in Europe and North America face continued economic slowdown. Many observers blame weak economic policies for the poor performance of the economy since last year. The coalition government that has been in office for the past three years has failed to introduce and implement any major reforms, which has undermined investor confidence in the economy. The massive subsidies, particularly for energy and petroleum products, and expenditures on welfare programs, have fuelled inflation while preventing any effective fiscal stimulus to GDP growth.

### Russia

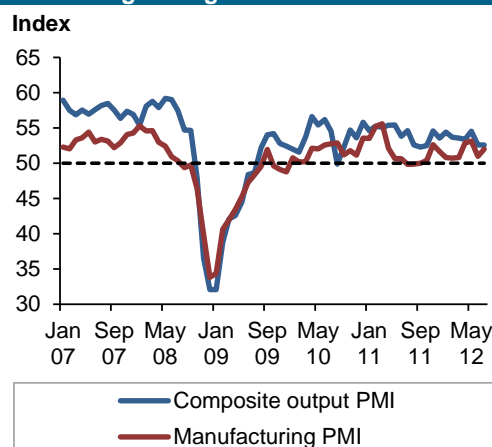
The Russian economy expanded by 4.9% in first quarter y-o-y above its long-term trend. This has been supported by a 15% surge in gross fixed investment and a 7.2% rise in household consumption. Consumer confidence has also been firm. Unemployment fell to 5.4%, its lowest level since 1999, while industrial output picked up and grew 3.4% in May. The manufacturing PMI in July was almost 52 (51.99) compared to 50.97 in June, indicating an ongoing expansion of industrial activities in recent months. High oil prices have caused a surplus in the first half of 2012. Government revenues reached \$203 bn yielding a surplus of \$7.7 bn in this period. Currently the falling crude price has been offset by a weakening ruble, but lower commodity and oil prices could deteriorate the prospects for economic growth.

Fiscal policy for the coming years will be based on new fiscal rules, which will limit budgetary spending in line with oil prices movements. Budget spending in 2013-15 will be based on an average of oil prices. The new rule allows planned spending to rise by 5% in 2013. This would not help to reduce the dependence of government expenditure on oil prices as it is projected that the non-oil deficit will shrink to 1% of

*A surge in investment and increase in consumption have supported Russia's GDP growth in 2Q*

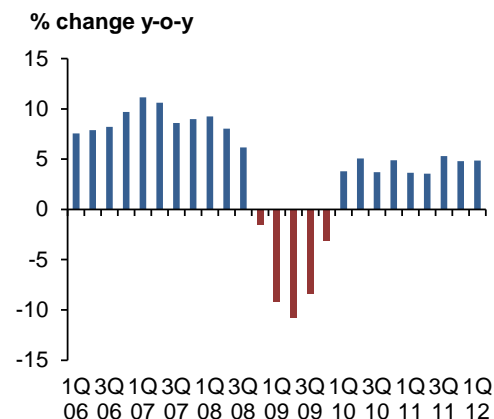
GDP in 2014 from 11.3% in 2012.

**Graph 3.6: Composite and manufacturing Purchasing Managers' Index**



Source: HSBC, Markit and Haver analytics.

**Graph 3.7: Russia's GDP growth (SAAR)**



Source: Federal state statistics service and Haver analytics.

Monetary policy, on the other hand, has been more prudent as the central bank has left the key refinancing interest rate unchanged at 8% at its latest meeting in July. Rising inflationary expectations have been the main reason for keeping interest rates on hold over the last six months. After higher than expected inflation in June and the increase in utilities tariffs in early July, the central bank is expected to wait for a clear indication of inflation before it considers changes to monetary policy. There is an official commitment to move towards a floating exchange rate with Russian Central Bank (RCB) intervention confined to preventing excessive currency volatility (EIU, July 2012).

Russian GDP growth in the second half of the year will be influenced by global commodity and oil prices. It is expected to decelerate as the global economy slows down. One channel of transmission of global financial turbulences to the Russian economy would be inflows of capital and direct investments in Russia. Although a slowdown in economic activity in response to a deceleration of global economic growth is possible, a sharp decline in economic growth is not expected. We forecast 3.7% GDP growth in Russia in 2012 and 3.4% in 2013.

#### *Inflation in Korea slid*

**South Korean** inflation in July slid far more than expected to a 12-year low as the economy cooled, reinforcing the market's growing view for a back-to-back interest rate cut next week. Indonesia, meanwhile, reported a slight pick-up in inflation for July due to a jump in food prices ahead of the Muslim fasting month, adding pressure on the central bank to keep its policy rate steady despite slumping exports. The Bank of Thailand revised down its forecasts for economic growth and inflation, and said downside risks and uncertainty emanating from the global economy are likely to increase this time.

#### *IMF upgrades MENA growth prospects*

The IMF now expects the **MENA region** to grow at a rate of 5.5% in 2012, on par with the average for emerging economies. This is up 1.3% after its April forecast of just 4.3%, and is by far the largest positive revision for any region or country. The IMF forecasts strong growth of around 6% for most GCC countries. The regional average was dragged down by oil importing countries, with growth rates forecast at around 2-3% for most countries, but with a contraction in Yemen and Syria.

#### *Sub-Saharan Africa enjoys strong FDI flows*

FDI flows into **Sub-Saharan Africa** (SSA) shot to a record high of \$35 billion in 2011 from \$27.4 billion posted in 2010. West Africa received the bulk of this with 46%. Ghana, Nigeria and South Africa collectively attracted half of the 2011 FDI that flowed into the area. Ghana and Nigeria together made up 75% of the sub-region's inflows, which were concentrated in the petroleum industry. The continent's powerhouse, South Africa, is among the slower performers, with growth estimates of 2.5%, with its more integrated economy vulnerable to global tremors.

*Saudi growth prospects for 2012 improve, driven by government spending*

## OPEC Member Countries

**Saudi Arabia's** real GDP is projected to slow down to around 5.0% in 2012 compared with 6.8% in 2011, but a surge in oil income will likely widen its fiscal surplus. Government spending will remain the main driver for the growth of the national economy. The Saudi economy is well prepared to adapt to the current global economic slowdown, even in case the debt crisis in the Euro-zone remains out of control. Oil revenues increased by 37.6% compared with last year due to the increase of production and oil prices. The increase, in terms of production and prices, has correlated to Saudi economic growth in three elements: The oil sector constitutes the major part of GDP; it is a major source of revenues for the state budget; and the country's oil sector enjoys a competitive global advantage.

The central bank of **Iran** has reported that the inflation rate has been rising since the beginning of the year. While the inflation rate was declining last year, it started to rise again this year, from 21.8% in the first month to 22.9% in the fourth month.

*The US dollar continued its relative strength on a monthly average from June-July*

## Oil prices, US dollar and inflation

As in the previous months, the US dollar continued its relative strength. On a monthly average from June to July, it rose significantly by 2% versus the euro and 2.1% compared to the Swiss franc, while versus the yen it fell by 0.4% and relative to the pound sterling it stayed almost flat at -0.2%. This support for the US dollar over the recent months highlights the relative strength of the US economy combined with its continued status as a safe haven, which has been accentuated by the weakness of the euro and the depth of US financial markets. Over the last six months (i.e. since February), it gained 7.2% versus the euro and the Swiss Franc, 1.3% compared to the pound sterling and 0.8% versus the yen.

The euro held up relatively well given ongoing issues in the economy, but the accelerating trend of the US dollar is obvious and it should be expected to continue as many unresolved issues in the Euro-zone prevail. It averaged \$1.2274/€ in July, but depending on further developments in the Euro-zone's sovereign debt crisis, it is likely that it will touch down to the \$1.20/€ level, which is the next big support line. Of some interest is the recent development of the yen to the US dollar, which remained largely below the critical ¥80/\$ level. The Bank of Japan seems not to have significantly intervened in the currency markets lately, although the yen has been trading at this relatively high level since already the beginning of May.

*The Basket price rose by 6.8% or \$3.99/b to \$62.91/b from \$58.93/b*

In nominal terms, the OPEC Reference Basket rose by \$5.6/b or 5.9% from this year's bottom level in June of \$93.98/b to \$99.55/b. In real terms, after accounting for inflation and currency fluctuations, the Basket price rose by 6.8% or \$3.99/b to \$62.91/b from \$58.93/b (base June 2001=100). Over the same period, the US dollar rose by 1.0% against the import-weighted modified Geneva I + US dollar basket, while inflation increased by 0.2%.\*

\* The 'modified Geneva I+US\$ basket' includes the euro, the Japanese yen, the US dollar, the pound sterling and the Swiss franc, weighted according to the merchandise imports of OPEC Member Countries from the countries in the basket.

# World Oil Demand

World oil demand forecast to grow by 0.9 mb/d in 2012, averaging 88.7 mb/d

## World oil demand in 2012

Despite the economic turbulence in the OECD, oil consumption is following its usual seasonal pattern worldwide. The summer heat is putting pressure on oil usage among power plants, leading to extra use of fuel oil. Given the summer driving season, the heat and the shutdown of Japanese nuclear power plants, world oil demand has overcome the earlier notion of declining momentum and moved to a more stable trend. Oil use in the US, Japan and India has been growing for various reasons. Furthermore, demand in non-OECD countries is gaining some strength. The only exception is European demand, which continues its downward trend. Hence the world oil demand forecast is unchanged from the last estimate, with growth projected at 0.9 mb/d y-o-y to average 88.7 mb/d.

Graph 4.1: Forecast y-o-y growth in 2012 world oil demand, by product

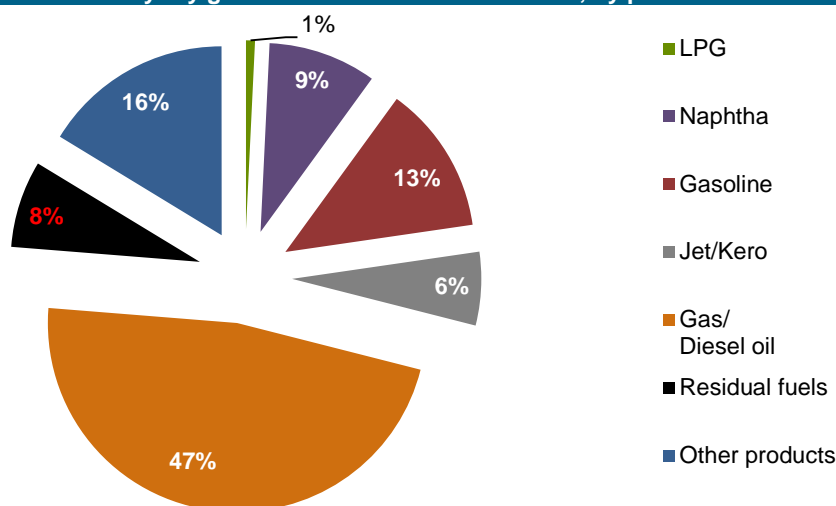


Table 4.1: World oil demand forecast for 2012, mb/d

	2011	1Q12	2Q12	3Q12	4Q12	2012	Change 2012/11	
							Growth	%
North America	23.51	23.09	23.25	23.68	23.48	23.38	-0.13	-0.54
Western Europe	14.28	13.72	13.72	14.38	13.86	13.92	-0.36	-2.50
OECD Pacific	7.89	8.85	7.69	7.88	8.42	8.21	0.32	4.03
<b>Total OECD</b>	<b>45.67</b>	<b>45.66</b>	<b>44.65</b>	<b>45.94</b>	<b>45.76</b>	<b>45.51</b>	<b>-0.17</b>	<b>-0.37</b>
Other Asia	10.46	10.50	10.72	10.66	10.80	10.67	0.21	1.98
Latin America	6.37	6.28	6.48	6.71	6.66	6.54	0.17	2.59
Middle East	7.56	7.64	7.66	8.07	7.68	7.76	0.21	2.72
Africa	3.36	3.36	3.37	3.28	3.43	3.36	0.00	0.01
<b>Total DCs</b>	<b>27.75</b>	<b>27.78</b>	<b>28.23</b>	<b>28.72</b>	<b>28.57</b>	<b>28.33</b>	<b>0.58</b>	<b>2.08</b>
FSU	4.29	4.24	4.09	4.51	4.75	4.40	0.11	2.56
Other Europe	0.70	0.69	0.65	0.69	0.77	0.70	0.00	0.66
China	9.41	9.47	9.88	9.79	9.97	9.78	0.37	3.93
<b>Total "Other regions"</b>	<b>14.40</b>	<b>14.40</b>	<b>14.62</b>	<b>15.00</b>	<b>15.50</b>	<b>14.88</b>	<b>0.48</b>	<b>3.37</b>
<b>Total world</b>	<b>87.82</b>	<b>87.83</b>	<b>87.51</b>	<b>89.66</b>	<b>89.83</b>	<b>88.72</b>	<b>0.90</b>	<b>1.02</b>
Previous estimate	87.79	87.80	87.46	89.62	89.81	88.68	0.89	1.01
Revision	0.03	0.04	0.05	0.04	0.02	0.03	0.01	0.01

Totals may not add up due to independent rounding.

Indian oil demand has been heavily affected by the massive electricity shutdown and summertime flooding. The use of independent power-generators has led to massive diesel usage countrywide. Furthermore, the shutdown of most of Japan's nuclear power plants has led to excess use of crude and fuel oil burning. Since most of the push on oil demand has been related to incidents or seasonal events, this has presented an unclear picture for the fourth-quarter outlook. US and European demand will contribute a large share of the uncertainty in the fourth quarter.

**Table 4.2: First and second quarter world oil demand comparison for 2012, mb/d**

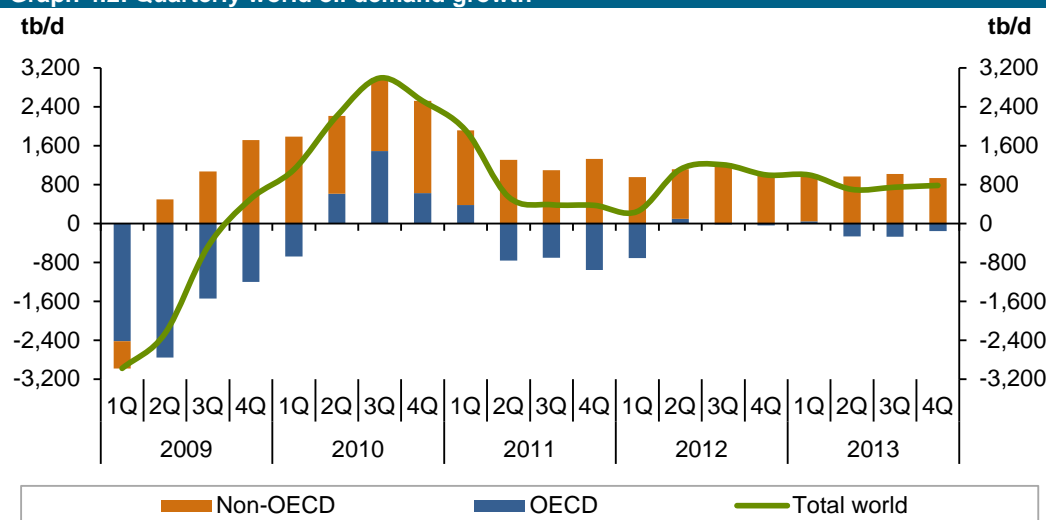
	Change 2012/11				Change 2012/11			
	1Q11	1Q12	Volume	%	2Q11	2Q12	Volume	%
North America	23.78	23.09	-0.69	-2.89	23.31	23.25	-0.06	-0.24
Western Europe	14.22	13.72	-0.50	-3.53	14.12	13.72	-0.40	-2.85
OECD Pacific	8.37	8.85	0.48	5.75	7.13	7.69	0.55	7.76
<b>Total OECD</b>	<b>46.37</b>	<b>45.66</b>	<b>-0.71</b>	<b>-1.53</b>	<b>44.56</b>	<b>44.65</b>	<b>0.09</b>	<b>0.21</b>
Other Asia	10.27	10.50	0.23	2.21	10.54	10.72	0.19	1.79
Latin America	6.11	6.28	0.17	2.85	6.34	6.48	0.15	2.31
Middle East	7.48	7.64	0.15	2.06	7.43	7.66	0.23	3.14
Africa	3.39	3.36	-0.04	-1.07	3.38	3.37	-0.01	-0.28
<b>Total DCs</b>	<b>27.26</b>	<b>27.78</b>	<b>0.52</b>	<b>1.90</b>	<b>27.67</b>	<b>28.23</b>	<b>0.56</b>	<b>2.02</b>
FSU	4.14	4.24	0.10	2.42	3.98	4.09	0.11	2.80
Other Europe	0.69	0.69	0.00	-0.19	0.65	0.65	0.01	0.78
China	9.13	9.47	0.34	3.71	9.54	9.88	0.35	3.63
<b>Total "Other regions"</b>	<b>13.96</b>	<b>14.40</b>	<b>0.44</b>	<b>3.13</b>	<b>14.16</b>	<b>14.62</b>	<b>0.46</b>	<b>3.26</b>
<b>Total world</b>	<b>87.59</b>	<b>87.83</b>	<b>0.25</b>	<b>0.28</b>	<b>86.39</b>	<b>87.51</b>	<b>1.12</b>	<b>1.29</b>

Totals may not add up due to independent rounding.

**Table 4.3: Third and fourth quarter world oil demand comparison for 2012, mb/d**

	Change 2012/11				Change 2012/11			
	3Q11	3Q12	Volume	%	4Q11	4Q12	Volume	%
North America	23.56	23.68	0.12	0.52	23.38	23.48	0.10	0.43
Western Europe	14.69	14.38	-0.31	-2.08	14.08	13.86	-0.22	-1.57
OECD Pacific	7.72	7.88	0.16	2.09	8.34	8.42	0.08	0.96
<b>Total OECD</b>	<b>45.96</b>	<b>45.94</b>	<b>-0.02</b>	<b>-0.05</b>	<b>45.80</b>	<b>45.76</b>	<b>-0.04</b>	<b>-0.09</b>
Other Asia	10.44	10.66	0.22	2.14	10.61	10.80	0.19	1.80
Latin America	6.54	6.71	0.18	2.71	6.50	6.66	0.16	2.50
Middle East	7.81	8.07	0.26	3.30	7.50	7.68	0.18	2.35
Africa	3.25	3.28	0.03	0.85	3.42	3.43	0.02	0.55
<b>Total DCs</b>	<b>28.03</b>	<b>28.72</b>	<b>0.69</b>	<b>2.45</b>	<b>28.02</b>	<b>28.57</b>	<b>0.55</b>	<b>1.96</b>
FSU	4.40	4.51	0.11	2.57	4.64	4.75	0.11	2.48
Other Europe	0.69	0.69	0.01	1.15	0.76	0.77	0.01	0.87
China	9.37	9.79	0.42	4.51	9.60	9.97	0.37	3.88
<b>Total "Other regions"</b>	<b>14.45</b>	<b>15.00</b>	<b>0.54</b>	<b>3.76</b>	<b>15.00</b>	<b>15.50</b>	<b>0.49</b>	<b>3.29</b>
<b>Total world</b>	<b>88.45</b>	<b>89.66</b>	<b>1.21</b>	<b>1.37</b>	<b>88.83</b>	<b>89.83</b>	<b>1.00</b>	<b>1.13</b>

Totals may not add up due to independent rounding.

**Graph 4.2: Quarterly world oil demand growth**



### Alternative fuel

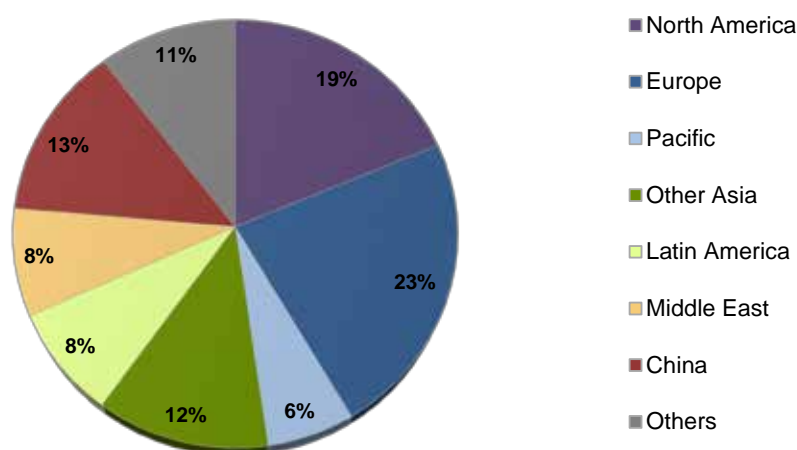
Extreme drought in the US has affected the outcome of seasonal crops, upon which the biofuel industry is dependent. Due to the expected shortages in various crop harvests, not only would the biofuel industry feel the impact, but food shortages would also be prominent. US ethanol output sank to its lowest level in two years during July, as corn prices were hiked up, squeezing most of the biofuel industry into loss. Hence the US has reduced its biofuel blending mandate temporarily to avoid food price increases. The biofuel industry has long been accused of not only increasing food prices worldwide, but also of being less green than depicted since its inception.

2012 oil demand for North America projected to decrease by 0.13 mb/d

### OECD — North America

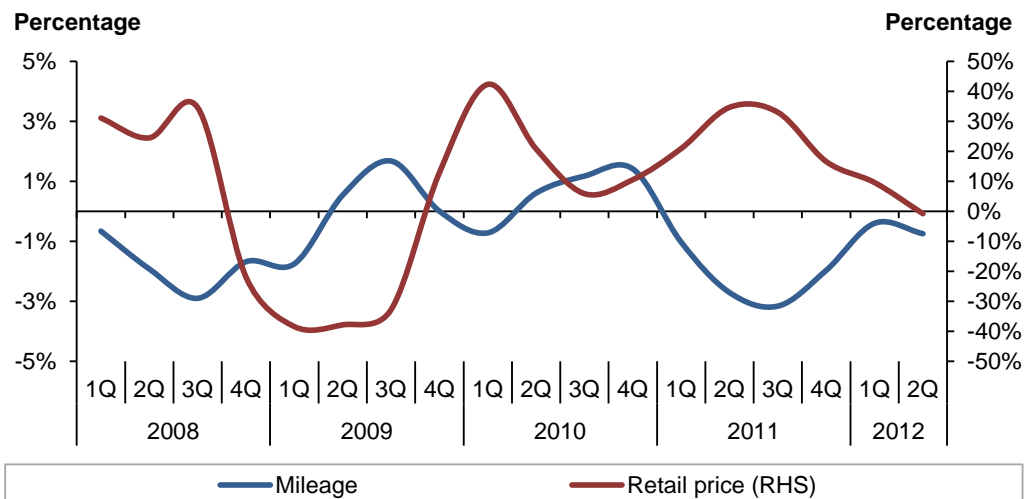
Economic slowdown in the US, along with higher retail petroleum prices, led to a 2.3% decrease in gasoline usage in July y-o-y. Gasoline consumption has been negative since May and decreased by 0.7% in the first seven months of this year. Although the country's oil demand experienced a small push in early August due to industrial activity, the outlook for the rest of the year is not promising. The picture remains rather pessimistic, depending upon the development of the economy and the transportation fuel price levels.

Graph 4.3: Regional shares in diesel consumption 2012



The latest monthly US oil consumption data for May showed an increase of 1.9% y-o-y. This was the first rise after 13 contractions in a row, with the last observed growth occurring in March 2011. All the main product categories, with the exception of residual fuel oil and jet fuel, noted increases, and the bulk of these were seen in gasoline and distillate consumption, as a result of increasing industrial production and lower fuel prices at the time. The first seven months of 2012 were, however, generally quite disappointing for US consumption, with contractions in almost all product categories, and these were especially strong for residual fuel oil and distillates. The main factors influencing consumption during that period were ongoing economic concern, relatively high fuel prices and fuel-switching. As for the recent weekly data, this showed a contraction in US oil consumption of 0.5% in June and an increase of 1.6% in July.

The latest available data for Canadian oil demand in May revealed a sharp increase of 5%, compared with last year; oil usage in transportation and industrial products dominated this increase. Almost one-third of the rise was related to gasoline consumption. Nevertheless, the country's oil demand showed no growth at all in the first five months of the year. Also, Canadian oil demand is tied to the economic situation of the US.

**Graph 4.4: US mileage vs. prices**

The latest report on Mexican oil consumption in June noted an increase of around 1%, compared with the same month last year. All product categories were positive, except fuel oil, with increases in industrial fuels dominating. In contrast to the US, Mexican demand was positive for the first half of the year. Resulting from strong diesel demand, the country's total oil demand grew by 2.4% y-o-y. It is forecast that Mexican demand will end the year with growth of 30 tb/d, to average 2.1 mb/d.

Despite the expected improvement in North America's oil demand in the fourth quarter, total demand for 2012 is projected to decrease by 0.13 mb/d.

US auto sales decelerated in July, indicating a slowdown in the overall economic outlook. Even though July sales fell heavily, by approximately 9% from a year earlier, this was still less harsh than the strong decreases of around 17% in June. Some of the reasons for this slowdown were declining consumer sentiment, as a result of higher unemployment, and unclear government policies on tax cuts for newly bought vehicles. Nevertheless 2012 sales are expected to show an increase of 10% y-o-y. The higher demand for cars has resulted from last year's lower base, in combination with the replacement of aging vehicles. Vehicle sales in Canada grew in July y-o-y for the tenth month in a row, at a solid 5%, as a result of numerous incentive programmes, such as financing loans and employee discount schemes. Moreover, an increasing number of consumers replacing their vehicles with revamped or fuel-efficient cars and trucks helped push up sales. According to the Mexican Automobile Industry Association, Mexico's auto production and sales and exports grew strongly, by 14%, 15% and 22% respectively y-o-y, in June. Exports to Brazil continued to play a major role in the development of the already robust status of the Mexican auto industry.

### OECD — Europe

The European debt crisis still overshadows the continent's economic perspective. The negative sentiment is spreading across the region, leading to declining economic activity and hence reducing the use of energy in all sectors. European oil consumption contracted for the tenth month in a row in June. June oil consumption in Germany, France, Italy and the UK fell, as a result of decreasing demand for industrial fuels and weak industrial activity. Nevertheless, the short- and medium-term development of European oil consumption will be mostly determined by the continuing debt problems in several European economies. The European 'Big Four's' oil demand decreased by 0.12 mb/d in June, compared with June 2011. The Big Four's consumption of industrial fuels and transportation fuels accounted for the bulk of these decreases. Should the current economic situation persist, the future decline in European energy demand would ease off.

*For 2012, oil consumption is expected to shrink by 0.36 mb/d, as a result of economic turbulence in several economies in the region*



**Table 4.4: Europe Big 4\* oil demand, mb/d**

	<u>Jun 12</u>	<u>Jun 11</u>	<u>Change from Jun 11</u>	<u>Change from Jun 11 %</u>
LPG	318	401	-84	-20.9
Gasoline	1,206	1,252	-46	-3.7
Jet/Kerosene	786	797	-11	-1.4
Gas/Diesel oil	2,999	3,034	-35	-1.2
Fuel oil	381	422	-40	-9.6
Other products	1,313	1,218	95	7.8
<b>Total</b>	<b>7,002</b>	<b>7,124</b>	<b>-122</b>	<b>-1.7</b>

\* Germany, France, Italy and the UK.

For 2012, oil consumption is expected to shrink by 0.36 mb/d, as a result of the economic turbulence in several countries in the region.

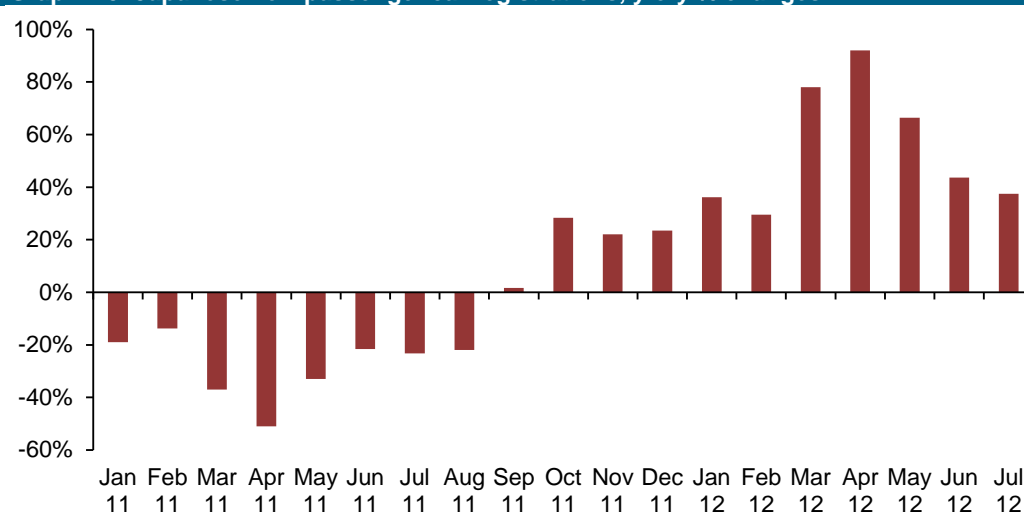
According to the latest figures from the European Automobile Manufacturer's Association, European new passenger car registrations decreased for the ninth consecutive month in June, by 2.8% y-o-y — however, this was somewhat milder than in previous months. During the first five months of 2012, sales were down by 6.8%, as compared with last year. The picture among the major markets was diverse. Italy (–24.4%) and Spain (–12.1%) recorded double-digit downturns, while the UK and Germany posted growth of 2.9% and 3.5% respectively.

As for the rest of the year, the European auto market will almost certainly be dominated by economic concern and austerity measures in several countries, especially in the southern part of the region. Furthermore, the future trend for smaller, more fuel-efficient cars will dominate across the region. The 2012 expectations still show a decreasing market, of as much as 6% y-o-y, depending upon the magnitude of the sovereign debt crisis in the region.

### OECD — Pacific

Record rainfall in July caused flooding and landslides in southern Japan. This affected the country's oil demand in that region. The decision to restart some nuclear power plants to meet peak electricity demand has slightly affected the country's total consumption of crude and fuel oil.

OECD Pacific oil consumption is expected to grow in 2012 by 0.32 mb/d

**Graph 4.5: Japanese new passenger car registrations, y-o-y % changes**

The latest monthly data for June was once more dominated by strong increases in the direct use of crude and residual fuel oil, as a result of the nuclear plants' partial shutdowns. As a result, Japan's use of direct crude and residual fuel burning for electricity production is expected to continue throughout 2012. Power plants are using crude — only those crudes with a low sulphur content — fuel oil and LNG for electricity power-generation. Moreover, driven by the increased mileage and number of vehicles, as a result of government incentives, as well as starting from a very low baseline, transportation fuel consumption increased too. In South Korea, oil demand rose

strongly in May with an increase of a remarkable 11.5% y-o-y. The strongest additions were observed in gas/diesel oil, fuel oil, jet fuel and gasoline.

Unlike with the rest of the OECD, OECD Pacific oil consumption is expected to grow in 2012, by 0.32 mb/d. The bulk of the increase will result from direct crude/fuel oil burning for electricity-generation and substituting nuclear plants.

Driven by strong tax incentives and subsidies, as well as coming from a low baseline, Japanese auto sales continued to rise strongly in July, by a remarkable 37.5%. This increase started during the fourth quarter of last year. Japanese auto demand is expected to rise strongly also for the whole of 2012, partly due to higher sales in tsunami-hit areas and government efforts to stimulate demand. The incentives especially favour hybrids, pure electric cars and other vehicles that employ advanced technology and efficiency. Given the low baseline and government incentives, the upcoming month's auto sales are expected to show high growth. South Korean domestic car sales contracted by a slight 0.5% y-o-y in July, while, for the same month, exports also grew by 0.5% y-o-y.

### Developing countries

*Developing countries' oil demand growth forecast at 0.6 mb/d, averaging 28.3 mb/d in 2012*

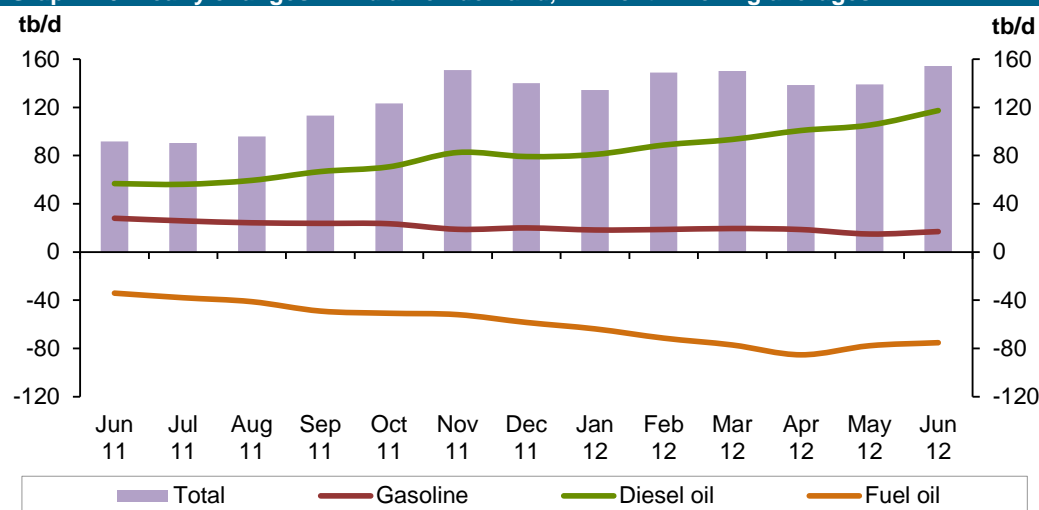
*Due to recent summer crisis, India's oil demand growth could slightly exceed growth of 4%*

India has experienced a massive power shut-down, as the country is trying to keep up with summertime's high power demand. The crisis with the grid left 600 million people without electricity. Excessive uploading of the electricity line has crippled the total system a number of times, and this has led to the use of independent diesel-operated power-generation. As a result, diesel usage increased by 9%. Such an event has been seen not only in India, but also in China last year. It is anticipated that the country will see future partial power shutdowns and hence further diesel use.

In June, Indian oil demand hiked up sharply by 7.2% y-o-y; this was the strongest demand since February. Oil use peaks in the summer in India, as the season's power demand increases and the agricultural season gets into full swing. Almost two-thirds of this increase resulted from diesel demand. The country consumed 1.5 mb/d of diesel in June. Earlier forecasts indicated that Indian oil demand would grow by 3.5%; however, due to the recent summer crisis, the country's oil demand growth might reach and slightly exceed y-o-y growth of 4%.

According to the Society of Indian Automobile Manufacturers, domestic passenger car sales increased robustly for another month, by 8%, during June y-o-y, despite higher fuel prices and higher excise duties on all cars.

**Graph 4.6: Yearly changes in Indian oil demand, 12 month moving averages**



*Other Asia's oil demand growth estimated at 0.2 mb/d y-o-y*

Indonesian oil demand grew by 4.3% in May y-o-y, adding another 55 tb/d to the country's total oil demand. More than 90% of this increase was related to gasoline. Gasoline demand in Indonesia grew by 11%, reaching around half a million barrels. The country's oil demand for the first half of the year is forecast to grow by 2.1% y-o-y. As for the entire year, Indonesia will consume 1.4 mb/d, denoting growth of 22 tb/d.

Strong usage of industrial fuel pushed Thailand's oil demand up by 7.2% in May y-o-y. Industrial use of fuel oil and diesel has been the engine behind Thailand's oil demand this year. The country is forecast to consume 30 tb/d more oil this year than last year.

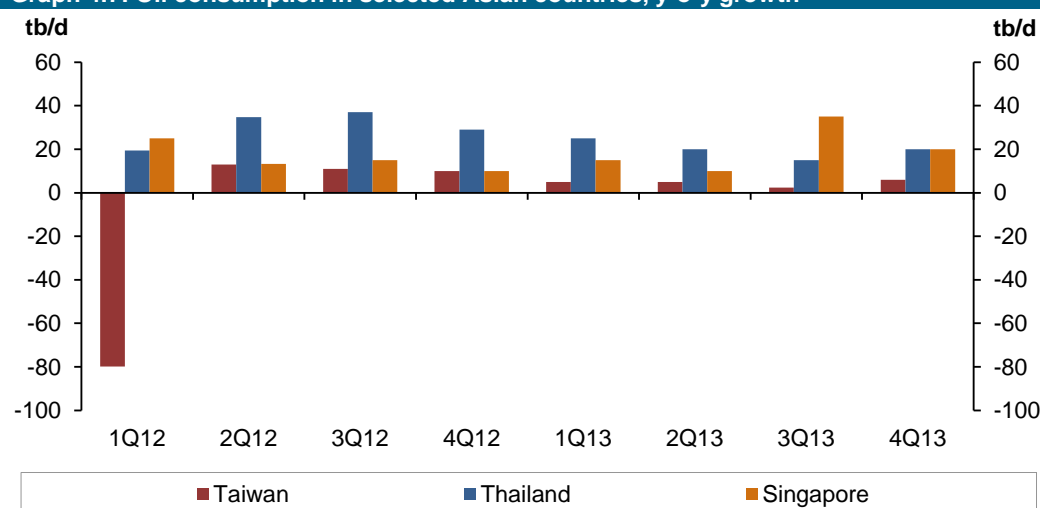
**Table 4.5: Consumption of petroleum products in Thailand, tb/d**

	<u>May 12</u>	<u>May 11</u>	<u>Change</u>	<u>Change %</u>
LPG	234	220	15	6.6
Gasoline	128	124	4	3.4
Jet Fuel/Kerosene	78	79	-1	-1.3
Diesel	366	342	24	7.1
Fuel oil	67	36	31	85.9
Other products	127	133	-5	-4.1
<b>Total</b>	<b>1,001</b>	<b>933</b>	<b>68</b>	<b>7.2</b>

Source: JODI/EPPO.

Given the healthy economies in most of Other Asia, along with the power crisis in India, Other Asia's oil demand growth is estimated at 0.2 mb/d y-o-y.

**Graph 4.7: Oil consumption in selected Asian countries, y-o-y growth**

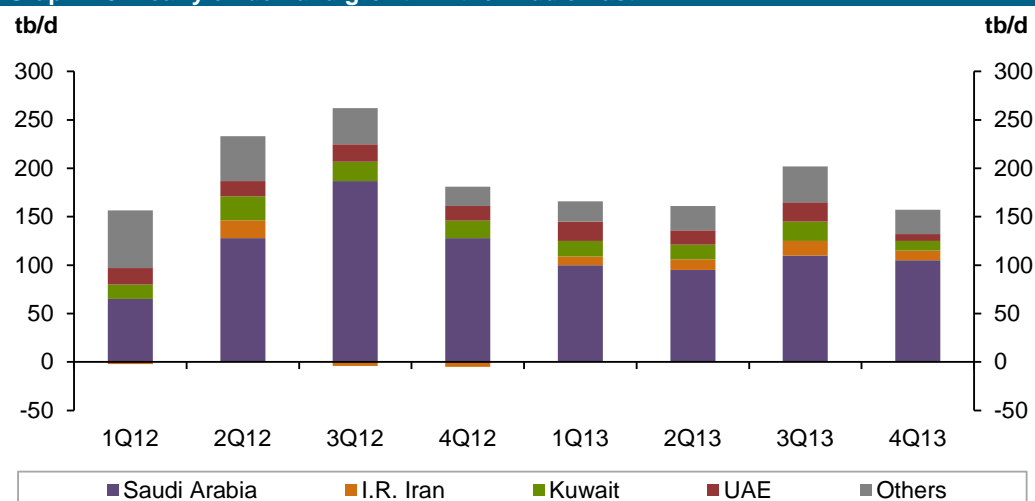


*Middle East oil demand forecast to grow by 2.7% in 2012, averaging 7.8 mb/d*

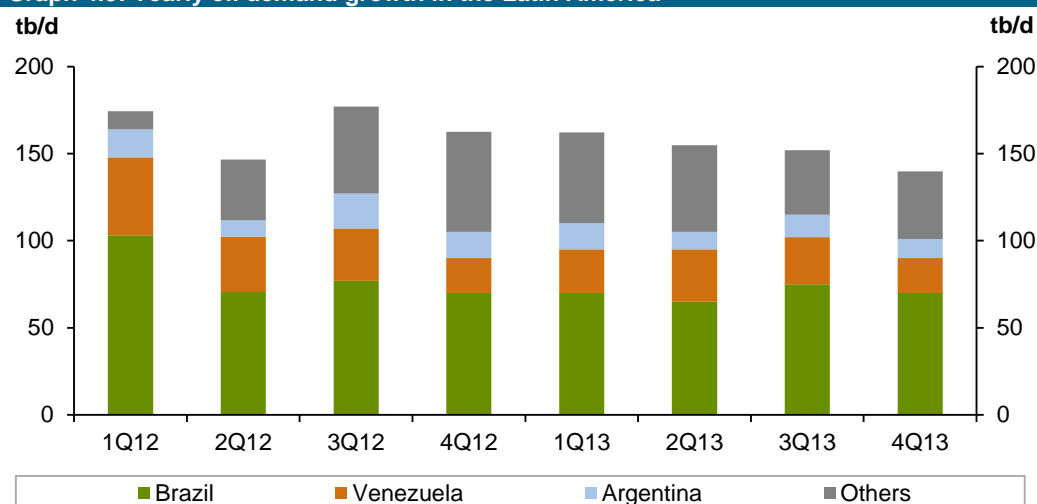
In spite of the decline in LPG and fuel oil usage in Saudi Arabia, transport fuel use rose sharply, leading to total growth of 12% in June y-o-y. Furthermore, the demand for electricity, as a result of the hot summer, pushed up crude burning by 26% in June alone. The country's electricity demand hit a record this summer. In the first six months, its oil demand rose by 4.9% y-o-y, adding another 0.1 mb/d to total oil demand.

Iran's oil demand stabilized in May, showing growth of 7.9% or 0.1 mb/d. Most of the growth was related to gasoline consumption. In the first five months of the year, the country's gasoline usage went up by 22% y-o-y. However, it is forecast that its oil demand will be flat this year, averaging 1.8 mb/d.

Middle East oil demand is forecast to grow by 2.7% in 2012, to average 7.8 mb/d.

**Graph 4.8: Yearly oil demand growth in the Middle East**

Brazil's oil demand growth in the second quarter was a down by a third. However, the second quarter has low seasonality by nature. Brazil's 2.1% GDP growth is calling for extra oil this year, estimated at 80 tb/d. Energy-related alcohol has had a rising trend so far this year. The country's average consumption of energy-related alcohol was estimated at 0.16 mb/d in the first quarter of the year.

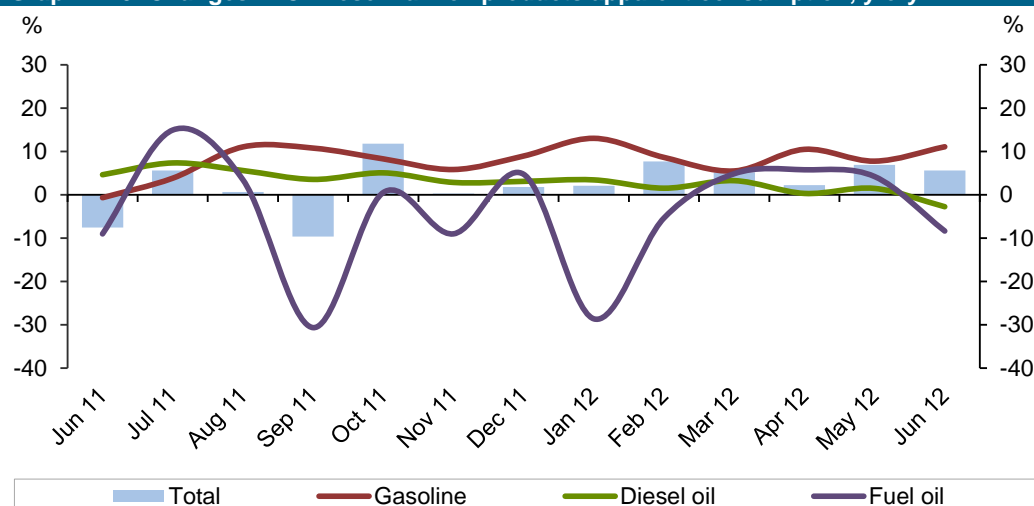
**Graph 4.9: Yearly oil demand growth in the Latin America**

Developing countries' (DC) oil demand growth is forecast at 0.6 mb/d in 2012, averaging 28.3 mb/d.

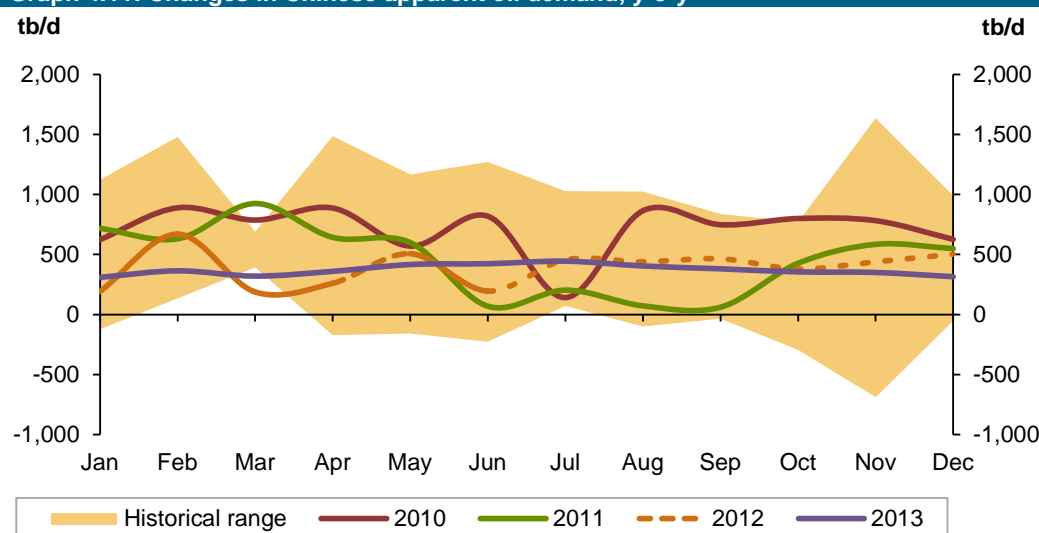
### Other regions

Despite its high oil imports, China's oil demand eased in June, as half of its imports ended up in the country's stockpile during that month. However, as the summer peaks, the country's demand is expected to follow suite in July and August. Chinese demand seasonality is prominent in the third quarter, when the transport and agricultural sectors kick in during the same season. Its demand grew by only 2% y-o-y in June and this was less than half of what was seen in May. June is considered a low season, as far as Chinese oil consumption is concerned. Nevertheless, gasoline usage picked up by 11% in the same month to average 1.9 mb/d. Despite this weakness in China's demand in the second quarter, the country's consumption of oil in the third quarter is expected to maintain its normal trend. Its demand in the third quarter is expected to grow by 0.4 mb/d y-o-y. In the first half of the year, China used 4% more oil than it did the same time last year. The second half of the year is forecast to maintain the same growth ratio.

*China's 3Q12 oil demand expected to grow by 0.4 mb/d y-o-y*

**Graph 4.10: Changes in Chinese main oil products apparent consumption, y-o-y**

Data from the China Association of Automobile Manufacturers shows that the country's automobile sales grew by 10% in June y-o-y, attributed to stronger demand for sedans, SUVs and multipurpose vehicles. Meanwhile, overall sales for the first six months of 2012 rose by a mere 5.5%. This is due to the expiry of tax incentives for small cars and the authorities' efforts to combat traffic congestion and pollution in major cities. As of the beginning of this month, Guangzhou (after Beijing, Shanghai and Guiyang) became the fourth city in China limiting car sales, in order to alleviate traffic conditions and pollution. There are indications that more cities (e.g. Shenzhen, Dalian and Hangzhou) will release a policy to limit car purchases by clamping down on vehicle registrations.

**Graph 4.11: Changes in Chinese apparent oil demand, y-o-y**

### World oil demand in 2013

*World oil demand to grow in 2013 to reach 0.8 mb/d and average 89.5 mb/d*

Despite the similarity in world GDP between this year and next year, global oil demand growth is estimated to be almost 0.1 mb/d lower compared to 2012. The economic picture is vague and the horizon full of turbulence. There is much uncertainty surrounding the world's oil-use estimate in 2013. Next year's oil demand forecast is based on assumptions, such as higher GDP, the same level of retail petroleum prices as this year and uncertainty in the total world economy during the year. The downward risk potential has greater probability in the forecast than the upward risk one.

Therefore, the gloomy picture could reduce the world oil demand growth forecast by 20% next year.

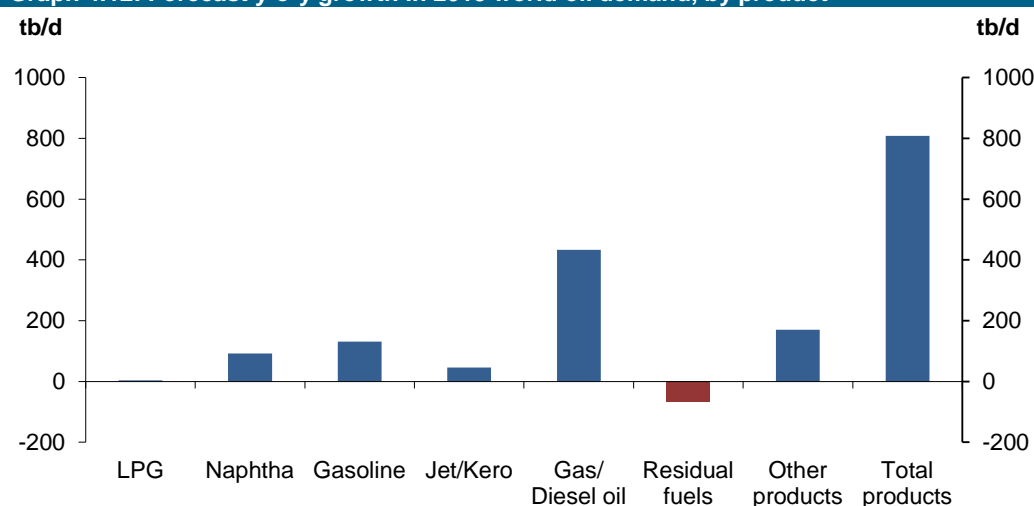
**Table 4.6: World oil demand forecast for 2013, mb/d**

	2012	1Q13	2Q13	3Q13	4Q13	2013	Change 2013/12	
							Growth	%
North America	23.38	23.26	23.16	23.62	23.54	23.40	0.02	0.07
Western Europe	13.92	13.53	13.49	14.10	13.59	13.68	-0.24	-1.75
OECD Pacific	8.21	8.92	7.75	7.95	8.48	8.27	0.07	0.81
<b>Total OECD</b>	<b>45.51</b>	<b>45.70</b>	<b>44.39</b>	<b>45.67</b>	<b>45.61</b>	<b>45.34</b>	<b>-0.16</b>	<b>-0.35</b>
Other Asia	10.67	10.68	10.91	10.85	10.99	10.86	0.19	1.76
Latin America	6.54	6.45	6.64	6.87	6.80	6.69	0.15	2.33
Middle East	7.76	7.80	7.82	8.27	7.84	7.93	0.17	2.21
Africa	3.36	3.36	3.37	3.28	3.43	3.36	0.00	0.06
<b>Total DCs</b>	<b>28.33</b>	<b>28.30</b>	<b>28.74</b>	<b>29.27</b>	<b>29.06</b>	<b>28.84</b>	<b>0.51</b>	<b>1.81</b>
FSU	4.40	4.34	4.17	4.58	4.86	4.49	0.09	2.05
Other Europe	0.70	0.70	0.65	0.70	0.78	0.71	0.00	0.68
China	9.78	9.80	10.26	10.18	10.31	10.14	0.36	3.68
<b>Total "Other regions"</b>	<b>14.88</b>	<b>14.84</b>	<b>15.08</b>	<b>15.47</b>	<b>15.95</b>	<b>15.34</b>	<b>0.46</b>	<b>3.06</b>
<b>Total world</b>	<b>88.72</b>	<b>88.83</b>	<b>88.21</b>	<b>90.40</b>	<b>90.61</b>	<b>89.52</b>	<b>0.81</b>	<b>0.91</b>
Previous estimate	88.68	88.80	88.18	90.35	90.62	89.50	0.82	0.92
Revision	0.03	0.04	0.03	0.05	0.00	0.03	-0.01	-0.01

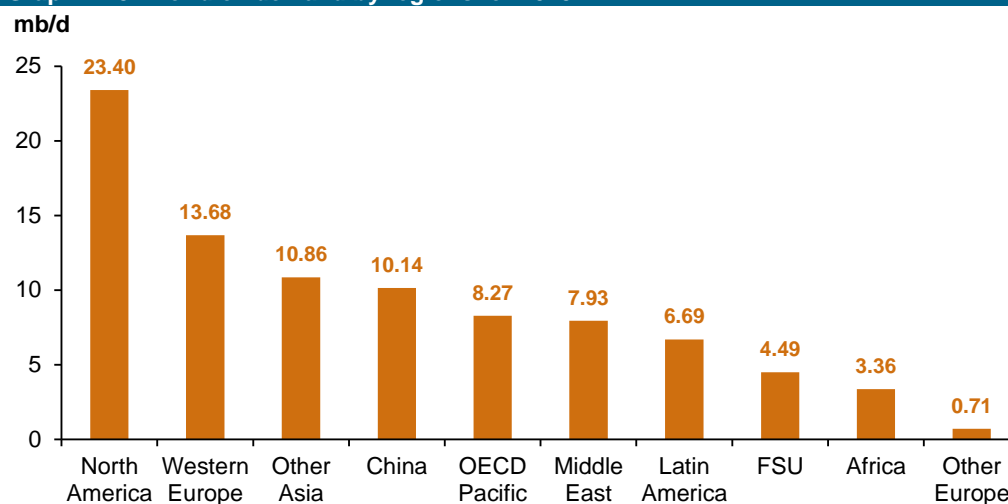
Totals may not add up due to independent rounding.

Furthermore, US oil demand, which is the main player in next year's world oil demand, can change the rhythm of the oil demand pattern. This, of course, would be dependent on the health of the economy and international oil prices.

For 2013, US auto sales are expected to slow down to growth of approximately 3%, reflecting lower expectations in the US and European economies. Canadian vehicle sales are projected to increase by only a slight 1%, as a result of rather pessimistic market sentiment. As a result of gloomy expectations about the development of the economy, 2013 is forecast to be another declining year for the European car industry at approximately the same level as in 2012. Demand for new cars in Japan is expected to grow again strongly, however at to a lesser degree than this year's 8% y-o-y. The outlook for the South Korean market is largely dependent upon developments in the US and Euro-zone economies, while Chinese domestic auto sales are forecast to show an increase of around 11%.

**Graph 4.12: Forecast y-o-y growth in 2013 world oil demand, by product**

World oil demand is forecast to continue its growth during 2013 to reach 0.8 mb/d y-o-y and average 89.5 mb/d.

**Graph 4.13: World oil demand by regions for 2013****Table 4.7: First and second quarter world oil demand comparison for 2013, mb/d**

	Change 2013/12				Change 2013/12			
	<u>1Q12</u>	<u>1Q13</u>	<u>Volume</u>	<u>%</u>	<u>2Q10</u>	<u>2Q13</u>	<u>Volume</u>	<u>%</u>
North America	23.09	23.26	0.17	0.72	23.69	23.16	-0.53	-2.24
Western Europe	13.72	13.53	-0.19	-1.38	14.26	13.49	-0.78	-5.44
OECD Pacific	8.85	8.92	0.07	0.79	7.38	7.75	0.37	5.04
<b>Total OECD</b>	<b>45.66</b>	<b>45.70</b>	<b>0.05</b>	<b>0.10</b>	<b>45.32</b>	<b>44.39</b>	<b>-0.94</b>	<b>-2.06</b>
Other Asia	10.50	10.68	0.18	1.75	10.20	10.91	0.71	6.95
Latin America	6.28	6.45	0.16	2.58	6.08	6.64	0.56	9.17
Middle East	7.64	7.80	0.17	2.17	7.28	7.82	0.54	7.48
Africa	3.36	3.36	0.00	0.12	3.37	3.37	0.00	0.09
<b>Total DCs</b>	<b>27.78</b>	<b>28.30</b>	<b>0.52</b>	<b>1.86</b>	<b>26.93</b>	<b>28.74</b>	<b>1.81</b>	<b>6.74</b>
FSU	4.24	4.34	0.10	2.38	3.86	4.17	0.31	7.90
Other Europe	0.69	0.70	0.01	0.87	0.64	0.65	0.01	2.02
China	9.47	9.80	0.33	3.49	9.09	10.26	1.17	12.85
<b>Total "Other regions"</b>	<b>14.40</b>	<b>14.84</b>	<b>0.44</b>	<b>3.03</b>	<b>13.60</b>	<b>15.08</b>	<b>1.49</b>	<b>10.93</b>
<b>Total world</b>	<b>87.83</b>	<b>88.83</b>	<b>1.00</b>	<b>1.14</b>	<b>85.84</b>	<b>88.21</b>	<b>2.37</b>	<b>2.76</b>

Totals may not add up due to independent rounding.

**Table 4.8: Third and fourth quarter world oil demand comparison for 2013, mb/d**

	Change 2013/12				Change 2013/12			
	<u>3Q12</u>	<u>3Q13</u>	<u>Volume</u>	<u>%</u>	<u>4Q12</u>	<u>4Q13</u>	<u>Volume</u>	<u>%</u>
North America	23.68	23.62	-0.06	-0.24	23.48	23.54	0.05	0.22
Western Europe	14.38	14.10	-0.28	-1.97	13.86	13.59	-0.27	-1.95
OECD Pacific	7.88	7.95	0.07	0.89	8.42	8.48	0.07	0.78
<b>Total OECD</b>	<b>45.94</b>	<b>45.67</b>	<b>-0.27</b>	<b>-0.59</b>	<b>45.76</b>	<b>45.61</b>	<b>-0.15</b>	<b>-0.33</b>
Other Asia	10.66	10.85	0.19	1.79	10.80	10.99	0.19	1.78
Latin America	6.71	6.87	0.15	2.26	6.66	6.80	0.14	2.10
Middle East	8.07	8.27	0.20	2.50	7.68	7.84	0.16	2.05
Africa	3.28	3.28	0.00	0.13	3.43	3.43	0.00	-0.13
<b>Total DCs</b>	<b>28.72</b>	<b>29.27</b>	<b>0.55</b>	<b>1.91</b>	<b>28.57</b>	<b>29.06</b>	<b>0.49</b>	<b>1.70</b>
FSU	4.51	4.58	0.08	1.67	4.75	4.86	0.11	2.23
Other Europe	0.69	0.70	0.01	0.72	0.77	0.78	0.01	0.65
China	9.79	10.18	0.39	3.98	9.97	10.31	0.34	3.41
<b>Total "Other regions"</b>	<b>15.00</b>	<b>15.47</b>	<b>0.47</b>	<b>3.14</b>	<b>15.50</b>	<b>15.95</b>	<b>0.45</b>	<b>2.91</b>
<b>Total world</b>	<b>89.66</b>	<b>90.40</b>	<b>0.75</b>	<b>0.83</b>	<b>89.83</b>	<b>90.61</b>	<b>0.78</b>	<b>0.87</b>

Totals may not add up due to independent rounding.

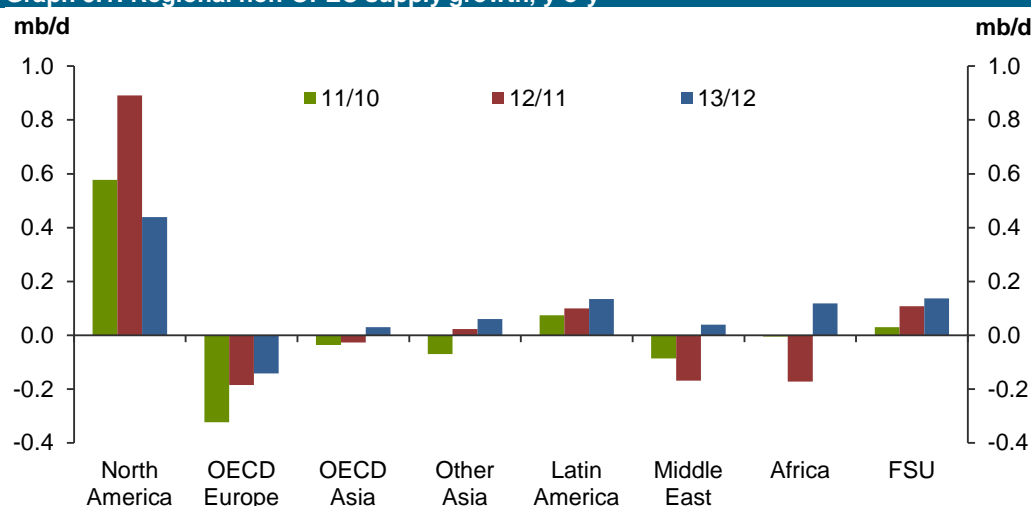
# World Oil Supply

*Non-OPEC supply expected to increase by 0.69 mb/d in 2012 to 53.18 mb/d*

## Non-OPEC Forecast for 2012

Non-OPEC oil supply is expected to increase by 0.69 mb/d in 2012 to average 53.18 mb/d. The forecast for non-OPEC supply shows an upward revision of 120 tb/d to the absolute level, while anticipated growth experienced an upward adjustment of 20 tb/d. A historical revision to the 2011 oil supply estimate led to the upward revision to average non-OPEC supply in 2012, while certain changes to individual countries' supply profile impacted the growth forecast. A few upward and downward revisions were introduced this month to supply expectations, mainly on updated production data and weather-related factors that are seen to affect biofuel supply in 2012. Fourth quarter oil supply estimates saw the largest upward revision, while the second quarter had the only downward revision. On a regional basis, Africa was revised the most from the previous month, followed by North America, OECD Pacific and the Middle East. On a quarterly basis, non-OPEC supply is expected to stand at 53.31 mb/d, 52.75 mb/d, 53.01 mb/d and 53.65 mb/d respectively.

**Graph 5.1: Regional non-OPEC supply growth, y-o-y**



**Table 5.1: Non-OPEC oil supply in 2012, mb/d**

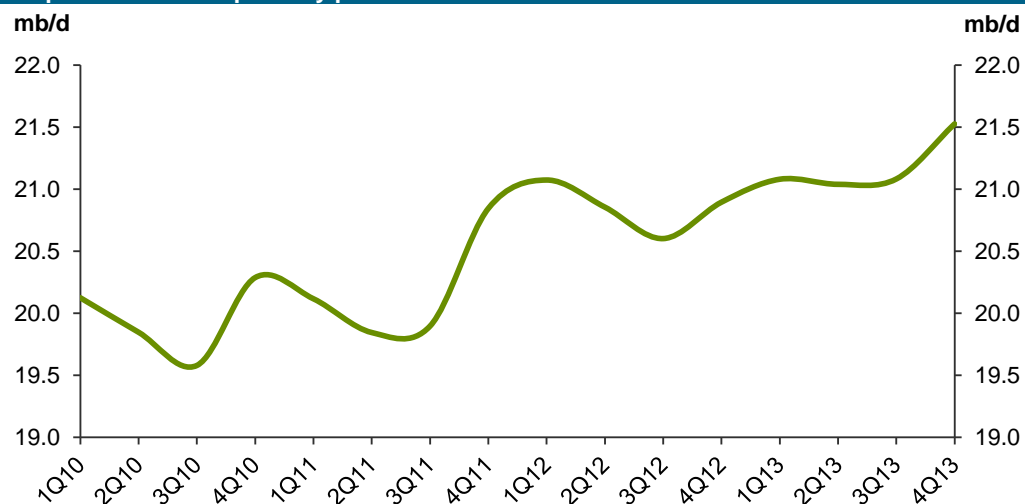
	2011	1Q12	2Q12	3Q12	4Q12	2012	Change 12/11
North America	15.54	16.49	16.45	16.33	16.46	16.43	0.89
Western Europe	4.07	4.07	3.86	3.71	3.90	3.88	-0.18
OECD Pacific	0.57	0.51	0.54	0.57	0.54	0.54	-0.03
<b>Total OECD</b>	<b>20.18</b>	<b>21.07</b>	<b>20.86</b>	<b>20.60</b>	<b>20.90</b>	<b>20.86</b>	<b>0.68</b>
Other Asia	3.63	3.65	3.60	3.68	3.70	3.66	0.02
Latin America	4.75	4.89	4.74	4.87	4.90	4.85	0.10
Middle East	1.69	1.46	1.53	1.54	1.57	1.52	-0.17
Africa	2.59	2.41	2.31	2.43	2.54	2.42	-0.17
<b>Total DCs</b>	<b>12.67</b>	<b>12.40</b>	<b>12.18</b>	<b>12.52</b>	<b>12.70</b>	<b>12.45</b>	<b>-0.22</b>
FSU	13.24	13.36	13.25	13.35	13.43	13.35	0.11
Other Europe	0.14	0.14	0.14	0.15	0.15	0.14	0.00
China	4.14	4.16	4.16	4.22	4.30	4.21	0.07
<b>Total "Other regions"</b>	<b>17.52</b>	<b>17.66</b>	<b>17.54</b>	<b>17.72</b>	<b>17.88</b>	<b>17.70</b>	<b>0.18</b>
<b>Total Non-OPEC production</b>	<b>50.37</b>	<b>51.14</b>	<b>50.58</b>	<b>50.84</b>	<b>51.48</b>	<b>51.01</b>	<b>0.64</b>
Processing gains	2.12	2.17	2.17	2.17	2.17	2.17	0.05
<b>Total Non-OPEC supply</b>	<b>52.49</b>	<b>53.31</b>	<b>52.75</b>	<b>53.01</b>	<b>53.65</b>	<b>53.18</b>	<b>0.69</b>
Previous estimate	52.39	53.24	52.76	52.86	53.38	53.06	0.67
Revision	0.10	0.06	-0.01	0.14	0.27	0.12	0.02



## OECD

Total OECD oil supply is forecast to increase by 0.68 mb/d in 2012 to average 20.86 mb/d, constituting an upward revision of 75 tb/d from the previous month. The supply forecasts for the US, Canada, Norway and Australia were revised up, while that for the UK was adjusted down. North America remains the only region within the OECD with expected supply growth in 2012, while supply from OECD Western Europe and the Pacific is expected to decline. On a quarterly basis, OECD oil supply is seen to average 21.07 mb/d, 20.86 mb/d, 20.60 mb/d and 20.90 mb/d respectively.

**Graph 5.2: OECD's quarterly production**



## North America

North America's oil production is projected to average 16.43 mb/d in 2012, an increase of 0.89 mb/d over the previous year. This represents an upward revision of 50 tb/d from the previous *MOMR*. It came from the US and Canada, while Mexico's supply estimate remained steady. North America's supply is expected to have the highest regional growth among all the non-OPEC regions in 2012, supported by the strong growth forecasts from the US and Canada, as well as a limited decline from Mexico. According to preliminary data, the region's supply averaged 16.47 mb/d during the first half of 2012, which is a significant 1.24 mb/d higher than the same period in 2011. On a quarterly basis, North America's oil supply in 2012 is estimated to stand at 16.49 mb/d, 16.45 mb/d, 16.33 mb/d and 16.46 mb/d respectively.

## US

US oil supply is forecast to average 9.74 mb/d in 2012, indicating growth of 0.70 mb/d over the previous year and an upward revision of 40 tb/d from the previous *MOMR*. This growth is the highest among all the non-OPEC countries. It came, in part, from a historical adjustment to the 2011 supply estimate, as well as from updated production data during the first half of 2012 that was partly carried over to the rest of the year. The upward revision from the previous month occurred despite the worst drought for more than half a century that is having an impact on the US agricultural areas. It is altering the expectations of ethanol supply, since corn prices have reached a record-high level. Furthermore, the situation might affect the water supply for shale operations and affect tight oil production.

The continued surge in US tight oil supply from shale development is the main factor supporting expected growth in 2012. During the first half of 2012, US oil supply increased by 0.92 mb/d from the same period of 2011. This growth was supported mainly by oil output from shale development, while the short shutdown of the Gulf of Mexico, due to Hurricane Debby, did not have a major impact on output. During the first half of 2012, North Dakota's oil supply increased by around 230 tb/d or 65% from the same period of 2011, driven mainly by the tight oil supply from shale development. During the same period, oil supply in Texas increased by around 450 tb/d or 35%, supported by an increase in tight oil supply. On a quarterly basis, US oil supply is expected to average 9.77 mb/d, 9.74 mb/d, 9.68 mb/d and 9.75 mb/d respectively.

*US supply to grow by 0.70 mb/d in 2012, to average 9.74 mb/d*

*Maintenance to curb Canada's supply in third quarter*

### **Canada and Mexico**

Canada's oil supply forecast has been revised up by a slight 10 tb/d from the previous month. It now averages 3.79 mb/d in 2012, exhibiting, at 0.23 mb/d above the previous year, the highest annual growth for decades. The upward revision was introduced mainly in the first half of the year, to adjust for updated production data. The second quarter was revised up by 35 tb/d, with production data showing slightly stronger output than has been expected. Canadian production is expected slightly decline in the third quarter, compared with the second, due to maintenance at different projects. Output from the White Rose and Terra Nova developments is seen to be affected by maintenance, as well as the Long Lake facilities. During the first half of 2012, Canada's oil supply increased by around 0.35 mb/d from the same period of 2011. On a quarterly basis, it is seen to average 3.81 mb/d, 3.78 mb/d, 3.74 mb/d and 3.82 mb/d respectively.

*KMZ field output in Mexico to be lower on maintenance in July*

Mexico's oil supply is projected to average 2.91 mb/d in 2012, steady from the previous year, albeit with a minor decline of 30 tb/d, and unchanged from the previous *MOMR*. According to recent production data, it averaged 2.93 mb/d during the first half of 2012, constituting a minor decline of 40 tb/d from the same period of 2011. Its actual data in the first half of 2012 indicated a slowdown of the long-term decline in production that started in 2005. However, the risk to the forecast remains higher on the decline rate development in mature producing areas, as well as on weather and technical factors. In July, the Ku-Maloob-Zaap (KMZ) field's output is expected to have dropped by around 25 tb/d, due to maintenance. On a quarterly basis, Mexico's oil supply is expected to average 2.92 mb/d, 2.93 mb/d, 2.90 mb/d and 2.88 mb/d respectively.

*Western Europe's supply to fall 0.18 mb/d in 2012 to 3.88 mb/d*

### **Western Europe**

Total OECD Western Europe's oil supply is forecast to decrease 0.18 mb/d in 2012 to average 3.88 mb/d, representing a downward revision of 10 tb/d from the previous *MOMR*. Upward and downward revisions among the region's countries led to this minor revision. On a quarterly basis, its supply is expected to stand at 4.07 mb/d, 3.86 mb/d, 3.71 mb/d and 3.90 mb/d respectively. According to preliminary data, it fell 0.21 mb/d in the first half of 2012 from the same period of 2011.

*Norway's oil supply forecast to drop 80 tb/d in 2012 to 1.96 mb/d*

Norway's oil production is predicted to decline by 0.10 mb/d from 2011 to average 1.96 mb/d in 2012, representing a minor upward revision of 10 tb/d from the last *MOMR*. The revision came in the second quarter to adjust for updated production data that was slightly higher than expected. The return of production from the Gullfaks A field, after the shutdown due to a leak, supported this. On the other hand, reports have suggested problems with the Yme field drilling rig, which is bringing further delays to the field's restart. Norway's production dropped in June to average 1.86 mb/d, the lowest level so far in 2012 and due mainly to the strike action. On a quarterly basis, supply is expected to average 2.08 mb/d, 1.98 mb/d, 1.83 mb/d and 1.95 mb/d respectively. According to preliminary data, it dropped 30 tb/d during the first half of 2012, compared with the same period of 2011.

*UK Buzzard field's problems defer three cargos from July loading*

UK oil supply is estimated to have decreased by 0.10 mb/d from 2011 to average 1.02 mb/d in 2012, representing a downward revision of 20 tb/d from the previous month. The revision came mainly in the second quarter to adjust for updated production data. Unscheduled outages and summer maintenance affected second-quarter output. Additionally, the shutdown of the Elgin project had a negative impact on UK output. And, on top of that, the Buzzard field continued to suffer problems ahead of maintenance in September. The field's reduced output in July led to the deferral of three cargoes from the July loading programme. According to preliminary data, UK oil supply declined by around 0.19 mb/d during the first half of 2012, compared with the same period in 2011. On a quarterly basis, it is seen to stand at 1.08 mb/d, 0.97 mb/d, 0.98 mb/d and 1.05 mb/d respectively.

### **Asia Pacific**

The OECD Pacific's oil supply is forecast to average 0.54 mb/d in 2012, a drop of 30 tb/d from 2011 and an upward revision of 35 tb/d from last month. On a quarterly basis, it is estimated to average 0.51 mb/d, 0.54 mb/d, 0.57 mb/d and 0.54 mb/d respectively.

*Australian supply to drop 30 tb/d in 2012*

Australian oil supply is expected to decline by 30 tb/d in 2012 to average 0.45 mb/d, constituting an upward revision of 35 tb/d from the previous *MOMR*. This came mainly from a historical revision to 2011 production, as well as to that of the first half of 2012. Updated new production data indicated that first-quarter supply declined from the fourth quarter, due to weather conditions. Second-quarter supply is reported to be higher than in the first quarter, as weather-related shutdowns return to operation. According to preliminary data, Australia's supply averaged 0.44 mb/d during the first half of 2012, 40 tb/d lower than in the same period of 2011. On a quarterly basis, it is expected to stand at 0.43 mb/d, 0.46 mb/d, 0.48 mb/d and 0.45 mb/d respectively.

*DC supply to average 12.45 mb/d in 2012, a drop of 0.22 mb/d*

### Developing countries

Total developing country (DC) oil supply is forecast to average 12.45 mb/d in 2012, representing a decrease of 0.22 mb/d over 2011 and an upward revision of 75 tb/d from the previous month. Latin America and Other Asia are the only two regions with forecast growth, while the Middle East and Africa are expected to experience declines in 2012. The upward revision to the DCs' supply forecast came from Africa and the Middle East, while Latin America and Other Asia experienced downward revisions from the previous *MOMR*. Latin America is now forecast to experience the third-largest increase among all non-OPEC regions, supported by both Brazil and Colombia. On a quarterly basis, total supply in the DCs is seen to average 12.40 mb/d, 12.18 mb/d, 12.52 mb/d and 12.70 mb/d respectively.

**Graph 5.3: Developing Countries' quarterly production**



*Other Asia supply to increase by 20 tb/d in 2012*

Other Asia's oil supply is expected to remain relatively steady in 2012, averaging 3.66 mb/d, compared with a year earlier, with a minor increase of 20 tb/d, indicating a downward revision of 10 tb/d from the previous month. Brunei's supply forecast was revised down, due mainly to new production data for the first half of 2012 that revealed slightly lower output than expected. Its supply is estimated to remain steady in 2012, compared with the previous year, and average 0.17 mb/d, as output is seen to return to normal levels in the second half of 2012. India's supply is seen to average 0.90 mb/d in 2012, which is 10 tb/d higher than in the previous year and a downward revision of around 10 tb/d from the previous *MOMR*. The revision came from the first half of 2012, when updated production data showed lower output than expected. On a quarterly basis, Other Asia's supply is forecast to stand at 3.65 mb/d, 3.60 mb/d, 3.68 mb/d and 3.70 mb/d respectively.

Vietnam's supply is expected to increase by 30 tb/d in 2012 and average 0.38 mb/d, flat from the previous *MOMR*. This growth is the highest among the region's countries. The start-up of production from the second platform of the Te Giac Trang field is expected to support growth in 2012. Malaysia's supply is seen to average 0.65 mb/d in 2012, a minor increase of 10 tb/d and unchanged from the previous month. It is forecast to average 0.98 mb/d in 2012, a decline of 40 tb/d from the previous year. Limited new developments and the decline rate are the main factors behind the expected drop. During the first half of 2012, Indonesia's supply declined by 40 tb/d from the same period a year earlier.

*Latin America's supply to grow by 0.10 mb/d in 2012 to 4.85 mb/d*

Latin American oil production is projected to increase by 0.10 mb/d over 2011 to average 4.85 mb/d in 2012, indicating a downward revision of 25 tb/d from the previous month. The revision took Latin America's growth to third on the list from among all the non-OPEC regions. Both Brazil and Colombia are expected to support this growth, while Argentina and Trinidad and Tobago are seen to decline slightly in 2012. Argentina's supply is expected to decline by 20 tb/d in 2012 to average 0.72 mb/d, indicating an upward revision of 10 tb/d from the previous *MOMR*. This revision came partly from a historical data update, as well as from the restart of the 90 tb/d Cerro Dragon production in July, after the strike action that had curtailed production in June. Compared with the same period of 2011, Argentina's supply remained steady in the first half of 2012. Colombia's supply is expected to average 0.99 mb/d in 2012, constituting growth of 60 tb/d and a downward revision of 5 tb/d from last month. The revision adjusted for updated production data. The continued attacks on oil infrastructure led Colombia's main producer to revise its production target in 2012. The operator reported that 11 tb/d were lost during the first half of 2012, due to the attacks. Its supply forecasts are suffering increasingly from violence, which is adding to the risk to the outlook, with output being halted in some facilities due to the attacks. On a quarterly basis, Latin America's supply is expected to stand at 4.89 mb/d, 4.74 mb/d, 4.87 mb/d and 4.90 mb/d respectively.

*Frade restart delayed further — Brazil*

Brazil's oil supply is forecast to increase by 0.10 mb/d over 2011 to average 2.71 mb/d in 2012, indicating a downward revision of 30 tb/d to the previous *MOMR*. The revision was introduced to partly adjust for updated production data in the second quarter that turned out to be lower than expected and which was carried over to the rest of the year. Unfavourable weather conditions continued to affect biofuel production, in addition to better margins for sugar production from sugarcane than for ethanol. Furthermore, a court issued a 'stop order' for the restart of the Frade production, after regulators had said that output could be restarted, which further influenced the downward revision. On the other hand, the Peregrino field has reached its plateau of 100 tb/d. On a quarterly basis, Brazil's oil supply is seen to stand at 2.76 mb/d, 2.61 mb/d, 2.72 mb/d and 2.73 mb/d respectively.

*Yemen Marib link repaired in July and output is expected to return gradually*

Middle East oil supply is expected to decrease by 170 tb/d from 2011 to average 1.52 mb/d in 2012, representing an upward revision of 25 tb/d from the previous month. Within the Middle East, supply from Oman and Bahrain is expected to grow in 2012, while output in Yemen and Syria is seen to decline. Oman's production is forecast to average 0.91 mb/d in 2012, representing growth of 20 tb/d from the previous year and flat from the last *MOMR*. The pipeline issues at Block 8 had an impact on the output of the project. Repairs to the damaged pipeline in Yemen were completed in mid-July and output started to resume at the shutdown fields. The shutdown of the Marib link, affecting 120 tb/d, lasted more than nine months. Production is expected to increase gradually to reach the level of the pre-pipeline attacks. Accordingly, an upward revision of 20 tb/d was introduced and oil supply from Yemen is expected to average 0.18 mb/d, a decline of 50 tb/d from the previous year. On a quarterly basis, Middle East supply is seen to average 1.46 mb/d, 1.53 mb/d, 1.54 mb/d and 1.57 mb/d respectively.

*Agreement is reached between South Sudan and Sudan on oil transit*

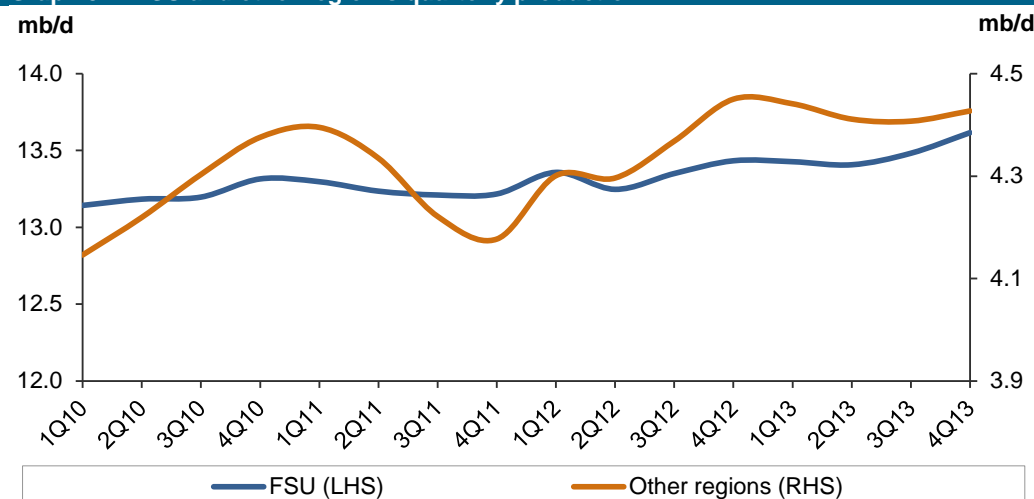
African oil production is anticipated to drop by 170 tb/d in 2012 to 2.42 mb/d, indicating an upward revision of 85 tb/d from the previous *MOMR*. The revision was introduced to the South Sudan and Sudan oil supply forecast. Reports indicated an agreement had been reached between the two nations in early August and the halted output is expected resume gradually. The Sudans' production is expected to increase on average by 140 tb/d in the second half of 2012, compared with the first half. However, risks remain associated with the forecast, as the details of the agreement remain unknown and the security situation will play a major role in the supply situation. The upward revision from the Sudans offset a minor downward revision to Congo's production forecast due to updated production data. Gabon's supply forecast has been revised up slightly, due to updated historical data. On a quarterly basis, supply from Africa is expected to average 2.41 mb/d, 2.31 mb/d, 2.43 mb/d and 2.54 mb/d respectively.

*FSU supply to increase by 110 tb/d in 2012 to 13.35 mb/d*

### FSU, Other regions

Total former Soviet Union's (FSU) oil supply is estimated to increase by 0.11 mb/d in 2012 to average 13.35 mb/d, representing a downward revision of 25 tb/d from the previous month. The revision came from Azerbaijan and Other FSU, while the supply forecasts for Russia and Kazakhstan remained steady from the previous *MOMR*. Russia's supply is expected to drive the growth in the FSU, while Kazakhstan's and Azerbaijan's supply is seen as remaining flat in 2012. According to preliminary data, FSU supply averaged 13.30 mb/d in the first half of 2012, an increase of 30 tb/d from the same period of 2011. On a quarterly basis, total supply is forecast to average 13.36 mb/d, 13.25 mb/d, 13.35 mb/d and 13.43 mb/d respectively. Supply in China is seen to increase by 70 tb/d to average 4.21 mb/d in 2012. Other Europe's supply is expected to remain unchanged from 2011 and average 0.14 mb/d in 2012.

**Graph 5.4: FSU and other region's quarterly production**



*Russia's output expected to increase by 70 tb/d in 2012 to 10.34 mb/d*

### Russia

Russian oil production is forecast to increase by 70 tb/d to average 10.34 mb/d in 2012, unchanged from the previous *MOMR*. The expected growth in 2012 is the lowest since 2008. Preliminary data indicated that Russian supply averaged 10.32 in July, close to the highest level achieved so far in 2012. July's healthy production level is in line with forecasts. The expected increase in the Vankor field's output, in addition to other developments, supports Russia's supply outlook. Additionally, new barrels from the Nenets regions are seen as providing further support to growth in 2012. However, the risk to the forecast remains at a high level, especially on price, decline rates, and technical and taxation developments. According to preliminary data, Russia's supply averaged 10.33 mb/d during the first seven months of the year, constituting an increase of 0.10 mb/d on the same period of 2011. On a quarterly basis, it is seen to average 10.34 mb/d, 10.32 mb/d, 10.34 mb/d and 10.36 mb/d respectively.

### Caspian

*Kazakh supply to average 1.61 mb/d in 2012*

Kazakhstan's oil production is projected to remain relatively steady in 2012, compared with the previous year, with a minor increase of 10 tb/d to average 1.61 mb/d, unchanged from the previous *MOMR*. Despite this steady state, the second quarter's supply estimate was revised down on the back of updated production data, yet it did not affect the annual figure. The shutdown of various operations due to maintenance affected Kazakhstan supply in the first half of 2012, with average output declining by 30 tb/d from the same period a year earlier. Kazakhstan's production is seen to improve in the second half of 2012, on expected lower maintenance-related output shutdowns. On a quarterly basis, it is estimated to stand at 1.62 mb/d, 1.57 mb/d, 1.61 mb/d and 1.65 mb/d respectively.

*Azeri oil production to average 0.96 mb/d in 2012*

Azerbaijan's oil production is forecast to remain steady in 2012, compared with the previous year, and average 0.96 mb/d, constituting a downward revision of 10 tb/d from the previous month. The revision was introduced to adjust for updated production figures in the second quarter that were lower than expected. Azerbaijan's supply in the first half of 2012 declined by 60 tb/d from the same period a year earlier. This was



driven by maintenance and natural decline, coupled with limited new developments. The West Chirag project, the main new development in Azerbaijan at the Azeri-Chirag-Guneshli (ACG) field, which is expected to add 100 tb/d, is seen to start up by late-2013. On a quarterly basis, Azerbaijan's supply is forecast to stand at 0.96 mb/d, 0.92 mb/d, 0.96 mb/d, and 0.99 mb/d respectively.

Other FSU oil supply is expected to average 0.44 mb/d in 2012, an increase of 20 tb/d on the previous year and a downward revision of 10 tb/d from the last *MOMR*. The downward was introduced on the back of a historical data adjustment.

### China

China's oil supply is forecast to average 4.21 mb/d in 2012, which is 0.07 mb/d higher than in the previous year and represents a downward revision of 10 tb/d from the last *MOMR*. The revision was introduced in the second quarter to adjust for updated production data that was lower than expected. Output from the offshore Bohai Bay installation showed some reduction, as well as from the Daqing field. Despite the downward revision, China's supply is expected to reach a new record in 2012, supported by new barrels coming from offshore developments. It is seen to improve in the second half of 2012. According to preliminary data, it averaged 4.16 mb/d during the first half of 2012, a decrease of 60 tb/d from the same period of 2011. On a quarterly basis, it is seen to stand at 4.16 mb/d, 4.16 mb/d, 4.22 mb/d and 4.30 mb/d respectively.

### Forecast for 2013

Non-OPEC oil supply in 2013 is expected to grow by 0.92 mb/d to average 54.10 mb/d, indicating an upward revision of 120 tb/d to the average, while expected growth has remained unchanged from the previous *MOMR*. Historical revisions to 2011 and 2012 have been carried over to the 2013 supply forecast. Additionally, there have been a few revisions that have changed the supply profile of some individual countries. On a regional basis, North America is expected to have the highest growth in 2013, followed by the FSU, Latin America and Africa, while OECD Western Europe is seen to decline. On a quarterly basis, non-OPEC supply in 2013 is expected to average 53.83 mb/d, 53.75 mb/d, 54.04 mb/d and 54.77 mb/d respectively.

**Table 5.2: Non-OPEC oil supply in 2013, mb/d**

	<u>2012</u>	<u>1Q13</u>	<u>2Q13</u>	<u>3Q13</u>	<u>4Q13</u>	<u>2013</u>	Change <u>13/12</u>
North America	16.43	16.64	16.75	16.88	17.21	16.87	0.44
Western Europe	3.88	3.90	3.71	3.62	3.75	3.74	-0.14
OECD Pacific	0.54	0.55	0.58	0.59	0.57	0.57	0.03
<b>Total OECD</b>	<b>20.86</b>	<b>21.08</b>	<b>21.04</b>	<b>21.08</b>	<b>21.53</b>	<b>21.18</b>	<b>0.33</b>
Other Asia	3.66	3.69	3.71	3.72	3.75	3.72	0.06
Latin America	4.85	4.90	4.92	5.03	5.09	4.99	0.13
Middle East	1.52	1.54	1.53	1.57	1.61	1.56	0.04
Africa	2.42	2.54	2.53	2.54	2.55	2.54	0.12
<b>Total DCs</b>	<b>12.45</b>	<b>12.67</b>	<b>12.69</b>	<b>12.86</b>	<b>12.99</b>	<b>12.80</b>	<b>0.35</b>
FSU	13.35	13.43	13.41	13.48	13.62	13.48	0.14
Other Europe	0.14	0.15	0.15	0.15	0.15	0.15	0.00
China	4.21	4.29	4.26	4.26	4.28	4.27	0.06
<b>Total "Other regions"</b>	<b>17.70</b>	<b>17.87</b>	<b>17.82</b>	<b>17.89</b>	<b>18.04</b>	<b>17.91</b>	<b>0.20</b>
<b>Total Non-OPEC production</b>	<b>51.01</b>	<b>51.62</b>	<b>51.54</b>	<b>51.83</b>	<b>52.56</b>	<b>51.89</b>	<b>0.88</b>
Processing gains	2.17	2.21	2.21	2.21	2.21	2.21	0.04
<b>Total Non-OPEC supply</b>	<b>53.18</b>	<b>53.83</b>	<b>53.75</b>	<b>54.04</b>	<b>54.77</b>	<b>54.10</b>	<b>0.92</b>
Previous estimate	53.06	53.62	53.59	53.95	54.75	53.98	0.92
Revision	0.12	0.20	0.17	0.10	0.02	0.12	0.00

### Revisions to the 2013 forecast

The oil supply forecasts for the US, Norway, Denmark, Australia, Vietnam, Argentina, Yemen, Gabon and the Sudans have experienced some upward revisions for 2013, while the supply projections for the UK, Malaysia, Brazil, Colombia, Syria, Kazakhstan and Other FSU have been revised down. The majority of the revisions were due to

*China's supply to grow by 70 tb/d in 2012*

*Non-OPEC supply to increase by 0.92 mb/d in 2013*

changes to the 2011 estimate and 2012 forecast, which were carried over to 2013. The Sudans' supply is forecast to grow by 0.12 mb/d in 2013 to average 0.33 mb/d, an upward revision of 180 tb/d from the previous *MOMR*. The revision was introduced when an agreement was reached between the two sides on oil transit. Yemen's supply is expected to increase by 40 tb/d in 2013 to 0.21 mb/d, representing a 25 tb/d upward revision to growth from the previous month. The revision came as Yemen's Marib link is repaired and output from the fields is expected to resume. Brazil's supply is expected to average 2.81 mb/d in 2013, an increase of 0.10 mb/d over 2012; this is a 70 tb/d downward revision to growth, compared with the previous assessment, due to a re-evaluation of the production of biofuels and other projects.

## OPEC natural gas liquids and non-conventional oils

Production of OPEC natural gas liquids (NGLs) and non-conventional oils in 2012 are expected to increase by 0.35 mb/d over the previous year to 5.67 mb/d. In 2013, OPEC NGLs and nonconventional oils are forecast to grow by 0.24 mb/d to 5.91 mb/d.

**Table 5.3: OPEC NGLs + non-conventional oils, 2010-12**

	2010	2011	Change					Change		Change
			11/10	1Q12	2Q12	3Q12	4Q12	2012	12/11	2013
<b>Total OPEC</b>	<b>4.98</b>	<b>5.32</b>	0.34	5.49	5.60	5.73	5.86	<b>5.67</b>	0.35	<b>5.91</b>
										0.24

## OPEC crude oil production

Total OPEC crude oil production averaged 31.19 mb/d in July, according to secondary sources, down by 0.16 mb/d from the previous month. Crude oil output experienced a decrease from Iran, Saudi Arabia, Libya and Angola, while production increased in Iraq and Kuwait. According to secondary sources, OPEC crude production, not including Iraq, stood at 28.12 mb/d in July, a drop of 0.27 mb/d over the previous month.

**Table 5.4: OPEC crude oil production based on secondary sources, tb/d**

	2010	2011	4Q11	1Q12	2Q12	May 12	Jun 12	Jul 12	Jul/Jun
Algeria	1,250	1,240	1,228	1,233	1,209	1,208	1,202	1,197	-4.8
Angola	1,786	1,667	1,766	1,763	1,738	1,750	1,692	1,653	-39.5
Ecuador	475	490	493	492	491	494	489	488	-0.5
Iran, I.R.	3,706	3,621	3,563	3,383	3,108	3,140	2,990	2,817	-173.0
Iraq	2,401	2,665	2,666	2,705	2,967	2,949	2,964	3,079	115.2
Kuwait	2,297	2,538	2,695	2,768	2,796	2,803	2,799	2,825	26.2
Libya	1,559	462	562	1,213	1,426	1,441	1,434	1,394	-39.8
Nigeria	2,061	2,111	2,027	2,075	2,144	2,130	2,148	2,157	9.9
Qatar	791	794	796	786	747	747	743	743	0.0
Saudi Arabia	8,257	9,268	9,641	9,794	9,909	9,875	9,926	9,875	-50.5
UAE	2,304	2,517	2,557	2,564	2,574	2,516	2,599	2,599	0.0
Venezuela	2,338	2,380	2,371	2,379	2,366	2,363	2,367	2,367	0.0
<b>Total OPEC</b>	<b>29,225</b>	<b>29,754</b>	<b>30,366</b>	<b>31,155</b>	<b>31,475</b>	<b>31,415</b>	<b>31,352</b>	<b>31,195</b>	<b>-156.8</b>
<b>OPEC excl. Iraq</b>	<b>26,824</b>	<b>27,088</b>	<b>27,699</b>	<b>28,451</b>	<b>28,509</b>	<b>28,466</b>	<b>28,388</b>	<b>28,115</b>	<b>-272.0</b>

*Totals may not add up due to independent rounding.*

*OPEC crude oil production decreased to 31.19 mb/d in July*



**Table 5.5: OPEC crude oil production based on *direct communication*, tb/d**

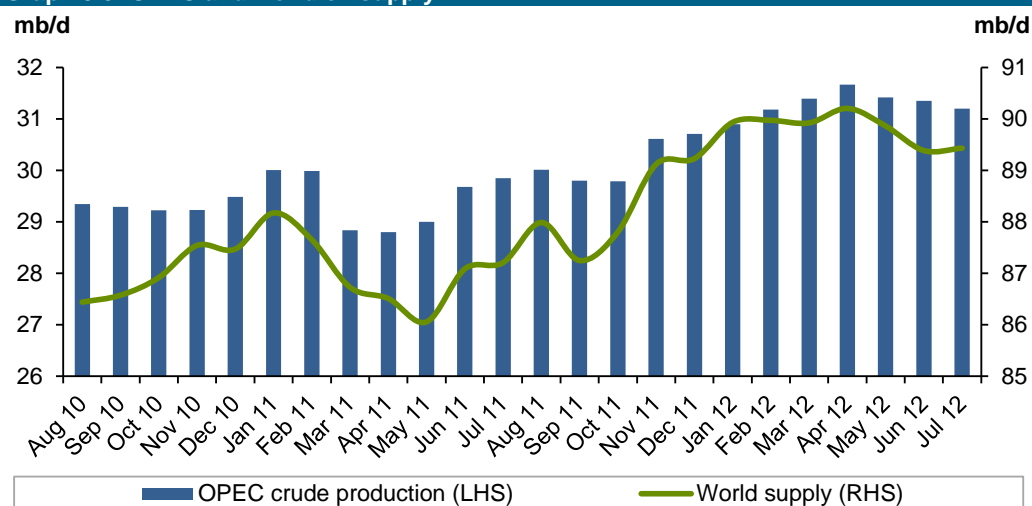
	<b>2010</b>	<b>2011</b>	<b>4Q11</b>	<b>1Q12</b>	<b>2Q12</b>	<b>May 12</b>	<b>Jun 12</b>	<b>Jul 12</b>	<b>Jul/Jun</b>
Algeria	1,184	1,173	1,180	1,215	1,213	1,206	1,212	..	..
Angola	1,691	1,618	1,685	1,734	1,716	1,762	1,614	..	..
Ecuador	475	500	503	502	500	498	502	508	6.2
Iran, I.R.	3,544	3,576	3,609	3,742	3,758	3,760	3,756	..	..
Iraq	2,358	2,653	2,638	2,628	2,936	2,915	2,951	3,051	100.0
Kuwait	2,312	2,660	2,909	2,995	2,990	2,984	2,981	2,940	-40.7
Libya	1,487	462	697	1,296	1,503	1,552	1,453	1,423	-29.4
Nigeria	1,968	1,896	1,836	1,880	..	1,917	..	..	..
Qatar	733	734	733	745	737	732	746	719	-27.1
Saudi Arabia	8,166	9,311	9,736	9,883	10,002	9,807	10,103	9,801	-302.6
UAE	2,324	2,565	2,549	2,602	2,615	2,383	2,753	2,776	22.4
Venezuela	2,779	2,795	2,809	2,792	2,819	2,813	2,812	..	..
<b>Total OPEC</b>	<b>29,020</b>	<b>29,942</b>	<b>30,883</b>	<b>32,015</b>	<b>..</b>	<b>32,327</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>OPEC excl. Iraq</b>	<b>26,662</b>	<b>27,290</b>	<b>28,245</b>	<b>29,387</b>	<b>..</b>	<b>29,412</b>	<b>..</b>	<b>..</b>	<b>..</b>

Totals may not add up due to independent rounding.

.. Not available

## World Oil Supply

Preliminary figures indicate that global oil supply increased by 0.05 mb/d in July to average 89.43 mb/d. Non-OPEC supply saw growth of 0.20 mb/d while OPEC crude production decreased by 0.16 mb/d. The share of OPEC crude oil in global production remained steady at 35%. The estimate is based on preliminary data for non-OPEC supply, estimates for OPEC NGLs and OPEC crude production from secondary sources.

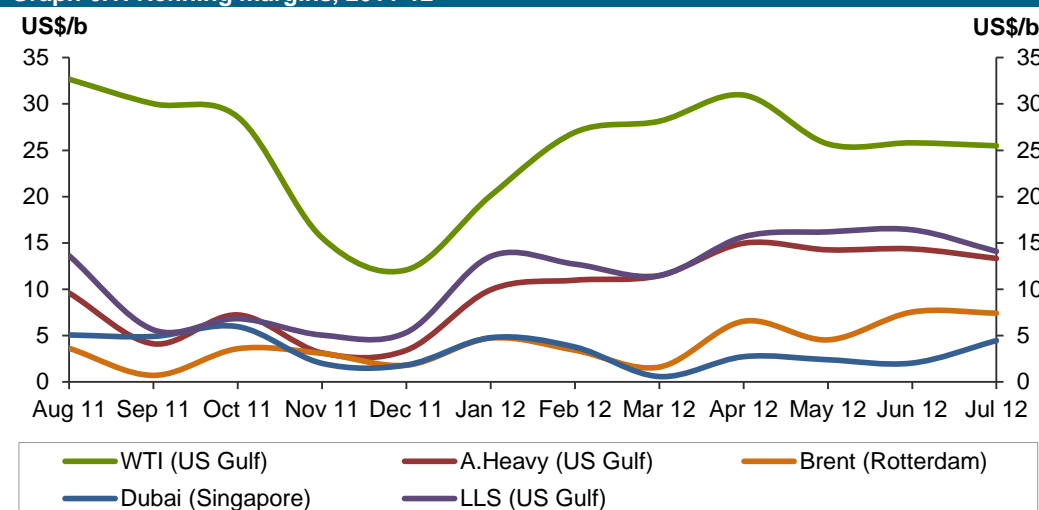
**Graph 5.5: OPEC and world oil supply**

# Product Markets and Refinery Operations

*Refinery margins on the healthy side in Atlantic Basin, and with sharp recovery in Asia*

Product market sentiment remained relatively healthy in July in the Atlantic Basin, with distillates continuing to strengthen on the back of tightening supply, while fuel oil weakened on lack of demand. The positive performance of distillates allowed the margins to remain healthy, despite weaker fuel oil and the increase in crude prices. In Asia, refinery margins showed a sharp recovery, on the back of rising demand in light distillates and tight sentiment, due to refinery shutdowns and heavy maintenance in the region.

**Graph 6.1: Refining margins, 2011-12**



The margin for West Texas Intermediate (WTI) crude on the US Gulf Coast showed a slight decrease of 50¢ to stand at around \$25.5/b in July. This was mostly on the back of weakening product cracks, which came under pressure due primarily to higher crude prices. However, the loss in the margin was limited by healthy middle distillates offsetting the fall in fuel oil cracks, as a consequence of the decline in bunker fuel demand.

Despite the deterioration in domestic demand, the US market continued to be supported by export opportunities to Latin America, with distillate exports remaining on the rise and inventories continuing below the typical average. Refinery margins for Arab Heavy crude on the US Gulf Coast showed a drop of \$1, to stand at \$13.3/b, due to the disappointing performance of fuel oil.

Product prices rose on tightening supply and firmer demand, with the exception of fuel oil, which weakened worldwide due to lower demand, while middle distillates remained stable and healthy on the back of a tight environment in the region. However, the strengthening in products was offset by increasing crude prices in Europe, thus weighing on refining margins, which hardly managed to maintain the levels reached last month, dropping by 10¢ to around \$7.4/b; however, this was the second-highest level seen in several months.

Singapore refining margins posted an impressive performance to reach the highest level since February, mainly on the back of positive developments across the light and middle distillate spectrum. At the top of the barrel, the gasoline crack witnessed the highest gain, as sentiment was lifted by healthy demand amid tightening supply.

These developments caused cracking margins to recover momentum, despite the rise in crude oil prices and the weaker fuel oil performance, and allowed Singapore refinery margins to show a sharp gain of \$2.5 to average \$4.5/b in July.

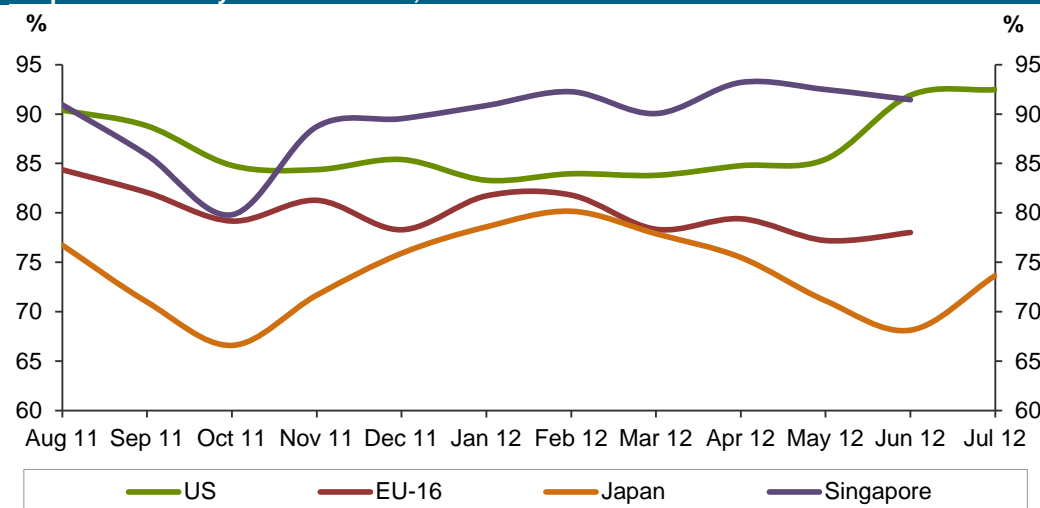
*Refinery runs in the US hit five-year highs in July*

## Refinery operations

**Despite weak domestic demand, US refinery runs hit a five-year record high in July, with export opportunities continuing to lend support. This, along with healthy margins, encouraged refiners to keep run-levels high.**

US refinery runs averaged 92.5% of capacity in July, 0.6 percentage points (pp) higher than in the previous month and hitting a five-year record high. This was despite the shutdown of some refineries in the region. Even at this refining level, distillate and gasoline inventories continued below the five-year average, due to high export levels from the US to markets worldwide, mainly in Latin America and Europe.

**Graph 6.2: Refinery utilization rates, 2011-12**



European refiners continued to operate at moderate throughputs, in response to deteriorating margins, maintenance and closures. Refinery runs stood at around 78% in June.

Since June, a relative tightening of Atlantic Basin balances has allowed margins to become healthier in Europe, despite the increases in crude prices. However, considering that the demand-side fundamentals are still weak, refiners are expected to keep moderate run-levels, despite some refineries in the region returning from maintenance and others restarting after having been shut down.

The Asian refinery maintenance season continued and there was an unplanned shutdown of units in the region. This situation made the market tighter, in addition to increasing light and middle distillate demand supporting the market, which allowed margins to recover. This could encourage refiners to increase their runs in the coming months.

Japanese throughputs remained at around 74% of capacity in July. However, the sector suffered unscheduled shutdowns in two refineries, which could affect next month's refining level.

### US market

**US gasoline demand decreased by around 160 tb/d from the previous month to stand at around 8.8 mb/d in July. This level represented a drop of 200 tb/d from the same month a year earlier.**

US gasoline demand picked up in June, most likely in anticipation of increased travel over the Independence Day holiday and with the summer driving season under way. However, during July, domestic demand dropped and, on a y-o-y basis, was down by more than 2%.

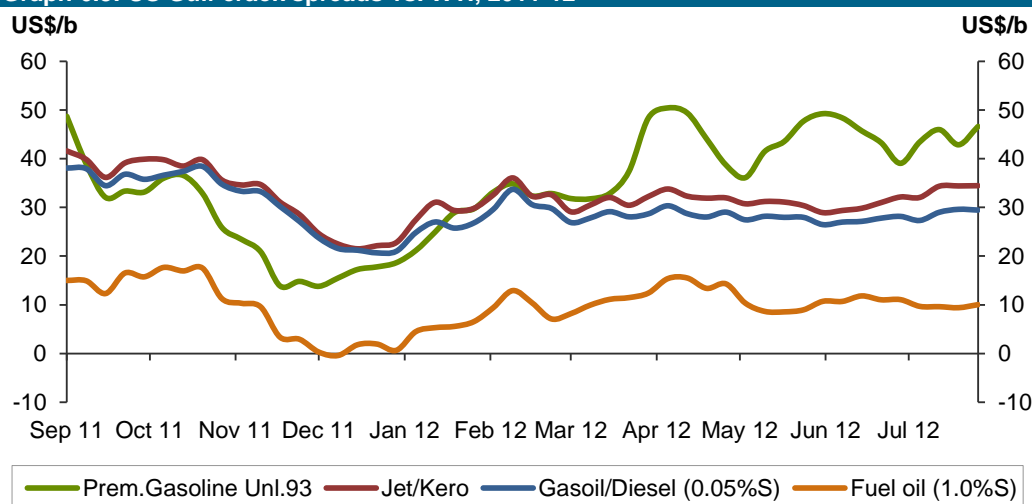
The gasoline crack witnessed a slight loss, partly attributed to developments with crude, as the gasoline market continued to be supported by solid demand from Latin America,

*US gasoline crack remained healthy despite weak domestic demand*

and inventories remained below average — although showing some increase during the month — despite rising refinery runs in recent months.

The gasoline crack averaged \$45/b in July, a slight loss of \$1 from the previous month's average.

**Graph 6.3: US Gulf crack spreads vs. WTI, 2011-12**



**Middle distillate demand stood at around 3.5 mb/d in July, decreasing by 260 tb/d from the previous month, but remaining at a similar level from the same month a year ago.**

Middle distillates continued increasing their margins, despite crude prices rising during July.

Domestic diesel demand was relatively healthy last month, fuelling positive sentiment in the market. Good ongoing import requirements from South America also contributed towards this development, mainly from Ecuador, Argentina and Costa Rica. Additionally, Chile and Peru were shipping cargoes from the US West Coast.

Arbitrage opportunities to Europe and inventories, which remained below the latest five-year average, lent additional support to the market.

The gasoil crack on the US Gulf Coast gained almost \$1 to stand at around \$29/b in July.

Fuel oil cracks lost the ground recovered in the previous month. This was mainly due to the decline in demand amid increasing crude prices.

At the bottom of the barrel, fuel oil put on a weak performance over the month, with domestic demand falling, as bunker fuel demand was low on the US East Coast. In addition, export demand was poor, with limited fresh fixtures to Asia-Pacific from the Gulf Coast or Caribbean.

The fuel oil crack averaged \$8/b in July, losing \$4 from the previous month.

Fuel oil market participants continued to be concerned about the impact of the North American Emission Control Area, which would come into effect on 1 August and require vessels sailing within 200 nautical miles of the coast to burn fuel with a maximum 1% of sulphur, instead of the previous quality of 3.5%.

#### **European market**

**Product market sentiment weakened at the top and bottom of the barrel due to weaker demand, and their cracks were reduced further due to higher crude prices. The exception was for middle distillates, which continued stable and healthy on the back of a tightening situation.**

*Middle distillate cracks remained healthy in Europe*

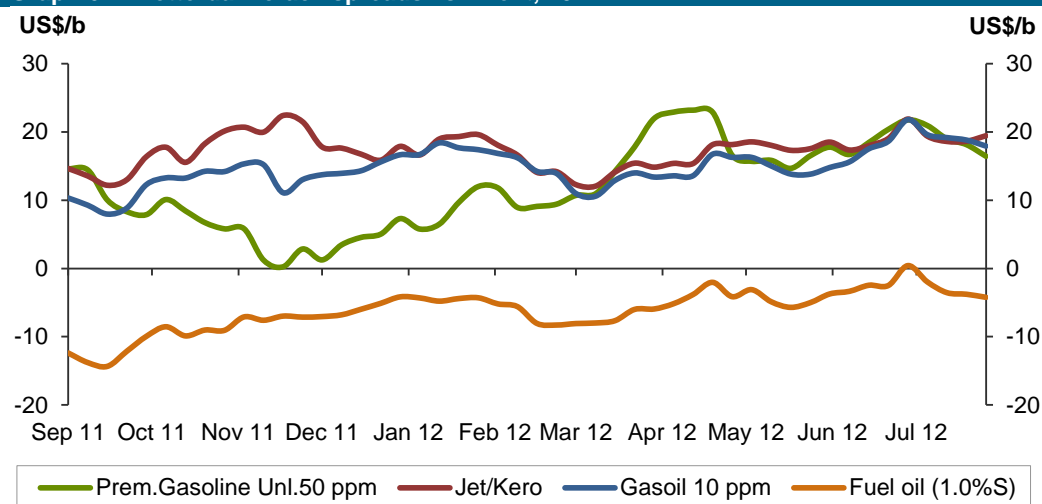
The European gasoline market lost part of the momentum gained in June, with the continuing support from transatlantic exports being outweighed by reduced exports to Africa, as well as poor domestic demand.

Supply fundamentals remained fairly supportive and were able to cap losses, as the shutdown of the Coryton refinery in the UK helped tighten supplies in the region.

The gasoline crack spread against Brent crude showed a loss of almost \$2, to average around \$18.5/b in July.

The naphtha market continued weak in July, with European petrochemical demand slipping, since the market had been over-supplied and crude was maintaining its rising trend in Europe.

**Graph 6.4: Rotterdam crack spreads vs. Brent, 2011-12**



Middle distillates in North-West Europe managed to hold the healthy levels gained in June, with cracks remaining basically unchanged, despite the increase in crude prices.

In spite of relatively weak demand in the region, some short-term support remained during the month, in light of the typical rising demand in the summer driving season. The more positive fundamental picture showed stronger regional demand, mainly from Germany, Greece, Israel and Turkey. Additional support came from rising exports to North Africa and the Middle East, with Saudi Arabia increasing imports over this period to meet summer utility demand.

The supply side started to exert pressure, due to increasing exports from Russia. However, the market was balanced and became relatively tight, owing to a problem with a hydrocracker at Pernis refinery in Rotterdam, as well as the shortfall following the closure of the Coryton refinery.

The gasoil crack spread against Brent crude at Rotterdam remained at around an average of \$19/b in July, similar to the previous month.

At the bottom of the barrel, fuel oil cracks failed to outperform crude, due to pressure from lower demand for high-sulphur, straight-run fuel oil, with Morocco's Mohammedia refinery ceasing imports and the Coryton refinery having shut down. Increasing supplies from the Baltic, with ARA fuel oil stocks rising amid weaker traded volumes in the Rotterdam barge market and arbitrage opportunities to Singapore becoming difficult, exerted further pressure and caused the fuel crack to fall.

The North-West European fuel oil crack spread against Brent showed a loss of \$2.5 in July, to stand at minus \$3.5/b.

*Light distillates recovered on the back of stronger demand in Asia*

### Asian market

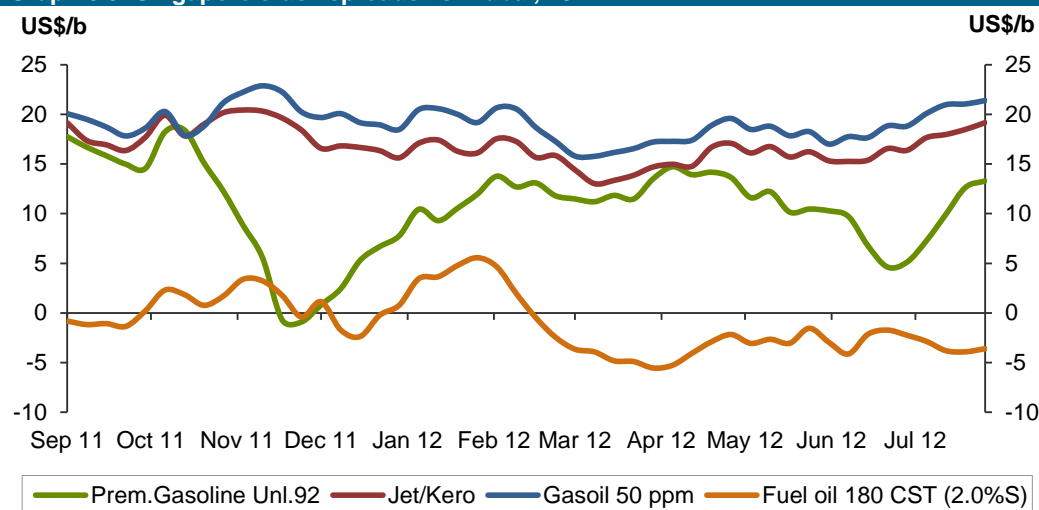
**Asian refineries reduced supplies due to maintenance and additional unscheduled shutdowns, tightening the market amid strong distillate demand and causing the cracking margins to recover momentum, despite the rise in crude oil prices. The only product to weaken was fuel oil, due to over-supply in the region and lower demand.**

The gasoline crack recovered the ground lost during June, as sentiment was lifted by healthy regional demand, mainly from Asian importers: Indonesia's Pertamina had higher requirements; in Pakistan, supply shortages in natural gas contributed to higher gasoline imports; and Sri Lanka had to cover domestic shortfalls during maintenance at its Kelaniya refinery. Additional support came from the supply side, due to the unexpected Chiba refinery shut-down and the closure of the Mizushima refinery in Japan, while Thailand was expected to import cargoes following the Bangkok refinery shut-down.

The gasoline crack spread against Dubai crude in Singapore recovered \$2 to average \$11/b in July.

Naphtha cracks developed similarly, recovering some ground, since demand side fundamentals were supportive, with firmer buying interest from South Korea because of higher petrochemical demand. Supplies became tighter, with naphtha exports from India decreasing, as Indian refiners were directing naphtha to the more lucrative gasoline pool instead.

**Graph 6.5: Singapore crack spreads vs. Dubai, 2011-12**



Middle distillates continued maintaining healthy crack levels, with fundamentals remaining largely stable in a relatively tight gasoil market.

Support for the gasoil crack stemmed from increased buying interest from the Philippines, Vietnam, India and Sri Lanka. Supply side fundamentals also provided support, with refinery maintenance at the Shell refinery in Singapore contributing to lower gasoil volumes, along with another refinery shutdown in the region causing the market to tighten and Singapore middle distillate stocks to fall. Further support also came from higher Saudi Arabian import requirements.

The gasoil crack spread in Singapore against Dubai averaged around \$21/b in July, gaining \$1.4 from the previous month.

At the bottom of the barrel, the fuel oil crack experienced a loss, most likely due to lower regional demand. Limited demand from the bunker sector and independent Chinese refiners weighed on the fuel oil market, offsetting buying interest from utilities in South Korea and Pakistan, while Japanese oil imports fell.

Meanwhile, supplies remained ample in the region, with rising arbitrage arrivals

contributing to the widening discount on Singapore's fuel oil.

The fuel oil crack spread in Singapore against Dubai dropped \$2 to average minus \$3.5/b in July.

**Table 6.1: Refinery operations in selected OECD countries**

	Refinery throughput, mb/d			Refinery utilization, %		
	Jun 12	Jul 12	Jul/Jun	Jun 12	Jul 12	Jul/Jun
<b>US</b>	15.62	15.67	0.05	91.90	92.48	0.57
<b>France</b>	1.10	-	-	63.71	-	-
<b>Germany</b>	1.75	-	-	72.48	-	-
<b>Italy</b>	1.41	-	-	60.37	-	-
<b>UK</b>	1.48	-	-	83.97	-	-
<b>Euro-16</b>	10.36	-	-	78.02	-	-
<b>Japan</b>	3.05	3.30	0.25	68.13	73.65	5.52

Sources: OPEC statistics; Argus; Euroilstock Inventory Report; IEA; EIA/DoE; METI; PAJ.

**Table 6.2: Refined product prices, US\$/b**

		May 12	Jun 12	Jul 12	Change Jul/Jun
<b>US Gulf (Cargoes):</b>					
Naphtha		111.69	99.86	102.69	2.83
Premium gasoline	(unleaded 93)	138.08	126.73	133.03	6.30
Regular gasoline	(unleaded 87)	121.73	111.45	115.99	4.54
Jet/Kerosene		125.27	112.86	121.94	9.08
Gasoil	(0.05% S)	122.38	109.83	116.92	7.09
Fuel oil	(1.0% S)	103.57	90.83	96.04	5.21
Fuel oil	(3.0% S)	98.48	86.92	91.51	4.59
<b>Rotterdam (Barges FoB):</b>					
Naphtha		97.01	80.61	91.27	10.66
Premium gasoline	(unleaded 10 ppm)	107.71	97.77	103.28	5.50
Premium gasoline	(unleaded 95)	126.22	114.57	121.02	6.45
Jet/Kerosene		128.15	114.30	121.58	7.28
Gasoil/Diesel	(10 ppm)	124.84	113.43	121.32	7.88
Fuel oil	(1.0% S)	105.70	93.24	99.09	5.85
Fuel oil	(3.5% S)	100.23	88.76	93.14	4.38
<b>Mediterranean</b>					
Naphtha		94.66	78.22	89.07	10.85
Premium gasoline	(50 ppm)	124.04	113.27	115.56	2.29
Jet/Kerosene		122.80	108.98	112.56	3.58
Gasoil/Diesel	(50 ppm)	111.75	100.70	102.12	1.42
Fuel oil	(1.0% S)	105.45	92.17	95.12	2.95
Fuel oil	(3.5% S)	100.00	88.38	89.77	1.38
<b>Singapore (Cargoes):</b>					
Naphtha		98.40	80.72	91.13	10.41
Premium gasoline	(unleaded 95)	121.57	104.46	113.37	8.91
Regular gasoline	(unleaded 92)	118.19	101.16	110.19	9.03
Jet/Kerosene		123.38	110.29	117.52	7.23
Gasoil/Diesel	(50 ppm)	125.40	112.65	120.06	7.41
Fuel oil	(180 cst 2.0% S)	105.23	93.07	96.70	3.63
Fuel oil	(380 cst 3.5% S)	103.62	91.40	95.30	3.90



# Tanker Market

In July, OPEC spot fixtures increased by 1.3% to 23.93 mb/d

In July, the tanker market followed the general trend that persisted strongly in the previous period. The quiet market, lower tonnage demand and the over-supply of ships together led to a decline in the tanker market situation in July and drove freight rates to low levels. Weak market sentiment affected all ship classes to varying degrees. The wide positions' list kept the market in favour of charterers who were trying to obtain the lowest rates, while the increase in bunker prices caused owners' earnings to bottom out.

Global oil fixtures increased in July by 11.5% to stand at 20.73 mb/d. OPEC fixtures increased by 1.3% to average 11.79 mb/d. Preliminary data showed that OPEC sailings remained almost flat in July, to stand at 23.93 mb/d. In an annual comparison, OPEC sailings increased by 5%; however, Middle East sailings saw a minor decrease of 0.1%, to stand at 17.59 mb/d.

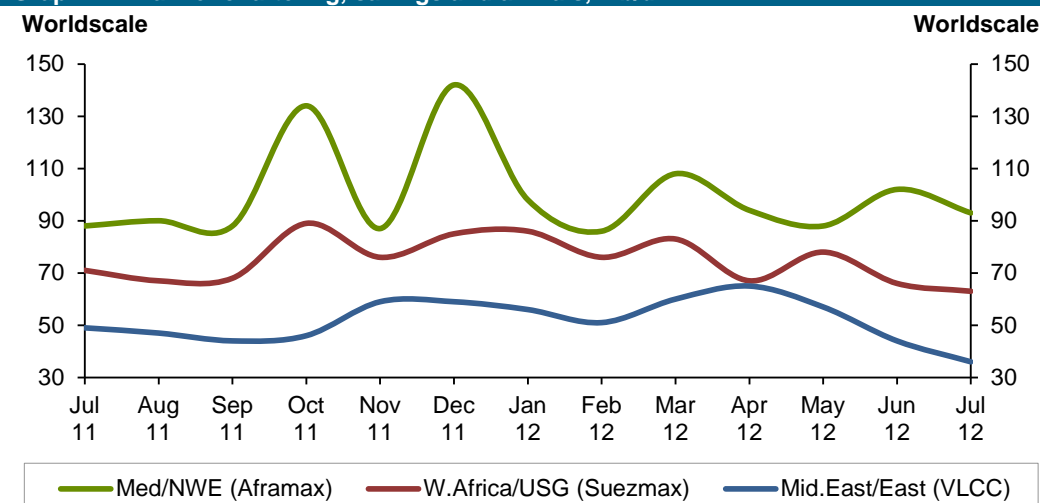
**Table 7.1: Tanker chartering, sailings and arrivals, mb/d**

	<u>May 12</u>	<u>Jun 12</u>	<u>Jul 12</u>	<u>Change Jul/Jun</u>
<b>Spot Chartering</b>				
All areas	18.37	18.34	20.73	2.39
OPEC	11.00	11.64	11.79	0.15
Middle East/East	5.35	5.90	5.20	-0.70
Middle East/West	2.19	1.88	2.43	0.55
Outside Middle East	3.47	3.86	4.17	0.31
<b>Sailings</b>				
OPEC	24.12	23.90	23.93	0.03
Middle East	17.89	17.61	17.59	-0.02
<b>Arrivals</b>				
North America	9.90	8.80	9.28	0.48
Europe	12.03	11.86	11.26	-0.60
Far East	8.93	8.66	8.55	-0.11
West Asia	4.32	4.24	4.34	0.11

Source: "Oil Movements" and Lloyd's Marine Intelligence Unit.

According to preliminary data, arrivals saw a mixed pattern in July. North America and West Asia arrivals saw gains of 5.4% and 2.5% respectively, while arrivals in Europe and the Far East decreased by 5% and 1.3% respectively. In comparison with the same period a year ago, the figures displayed the opposite tendency, as arrivals in North America and West Asia decreased by 4% and 9%, while arrivals in Europe and the Far East increased by 2.1% and 4.5% respectively.

**Graph 7.1: Tanker chartering, sailings and arrivals, mb/d**



*Dirty tanker spot freight rates decreased in July on VLCC, Suezmax and Aframax*

Generally, spot freight rates saw declines on all sectors and routes, with minor exceptions on some routes in the clean market. In the dirty tanker market, average spot freight rates for VLCCs dropped by 18%, while, for Suezmax and Aframax, they fell by 7.1% and 8.1% respectively. In the clean tanker market, West of Suez rates decreased by 9.9%, while East of Suez rates managed to close the month with a gain of 10.7% in July.

In July, the **VLCC** market continued declining, with the softening trend persisting for the whole month, as tonnage over-supply and weak demand continued to put pressure on the rates. VLCC spot freight rates declined on all reported routes in July. Middle East-to-East and Middle East-to-West rates experienced drops of 18.2% and 21.2% to average WS36 and WS26 points. In comparison with the same period a year ago, the average spot freight rate for said routes decreased by 27% and 33% respectively. Rates for West Africa-to-the-East dropped by 15.6% from June to stand at WS38 points, reflecting a decrease of 19% from the same month a year ago. Moreover, rates reached year-to-date low levels in July and the lump sum amount hit the lowest level this year.

**Suezmax** monthly average spot freight rates dropped by 7.1% to stand at WS59 points in July, while West Africa-to-US Gulf Coast rates decreased by 4.5% and the North-West Europe-to-USEC-USGC route saw a larger drop of 9.8% to stand at WS55 points. Seemingly, Suezmax tankers were in competition with VLCC tankers, which were loading on a part-cargo basis.

**Aframax** average spot freight rates in July dropped 8.1%, with declining rates seen on all reported routes. The greatest drop was seen on the Caribbean-to-US East Coast route, falling by 13% in July to WS94 points. This fall came as a result of a quiet market, low activity and the available tonnage outnumbering the available cargoes. The same factors also influenced the Mediterranean; thus the Mediterranean-to-Mediterranean and Mediterranean-to-North-West Europe rates each saw a drop of 8.9% to stand at WS92 and WS93 points respectively. This decline came on the back of excess availability of prompt vessels in the area, despite some ships running late and a tight positions' list at the beginning of the month. The Aframax market was also affected by the Norwegian oil-field strike, which resulted in some tanker fixtures being cancelled, leading to an increase in built-up tonnage and preventing a rise in rates. Another negative impact on the Aframax market in July was the pipeline maintenance at Primorsk, causing a loss of 10–12 cargoes, which otherwise could have been loaded.

Towards the end of the month, the Aframax market picked up. However, this was not enough to offset the declines in the rates, as an excess supply of ships continued to drag them down.

**Table 7.2: Spot tanker crude freight rates, Worldscale**

	Size 1,000 DWT	May 12	Jun 12	Jul 12	Change Jul/Jun
<b>Crude</b>					
Middle East/East	230-280	57	44	36	-8
Middle East/West	270-285	41	33	26	-7
West Africa/East	260	60	45	38	-7
West Africa/US Gulf Coast	130-135	78	66	63	-3
NW Europe/USEC-USGC	130-135	66	61	55	-6
Indonesia/US West Coast	80-85	84	86	86	0
Caribbean/US East Coast	80-85	117	108	94	-14
Mediterranean/Mediterranean	80-85	87	101	92	-9
Mediterranean/North-West Europe	80-85	88	102	93	-9

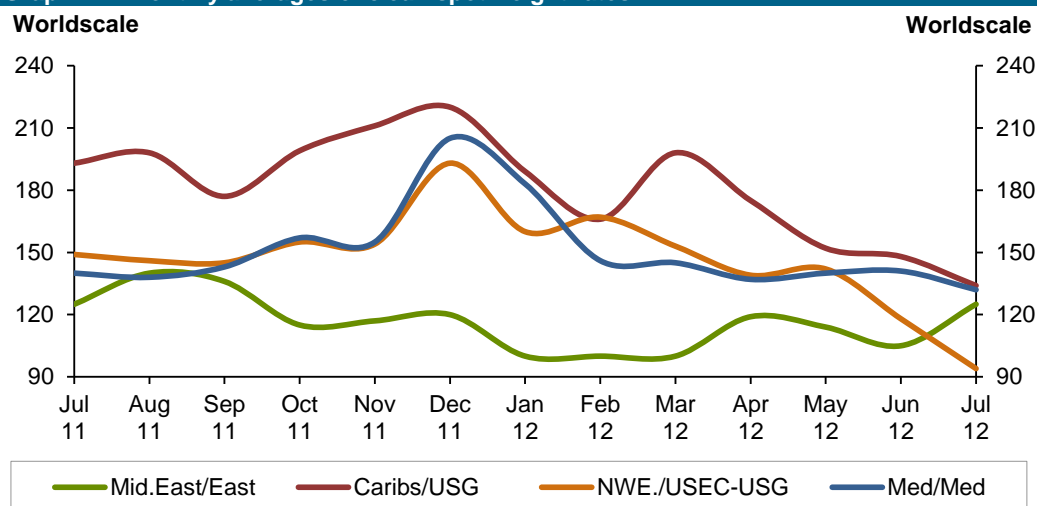
Source: Galbraith's Tanker Market Report and Platt's.

*Clean tanker spot freight rates increased East of Suez*

The clean tanker market had mixed fortunes in July, while West of Suez average spot freight rates decreased by 9.9% to stand at WS126 points. East of Suez was the only route, in all classes, to see a gain — of 10.7%, to stand at WS125 points in July. Middle East-to-East rates gained 19%, in comparison with the previous month; this gain was mainly due to a relatively strong market in the Middle East. The West of Suez route

showed a generally declining trend, as demand for tankers in the West was weak in July. Caribbean-to-US clean spot freight rates declined by 9.5% from a month earlier, to stand at WS134 points. As for the Mediterranean-to-Mediterranean and Mediterranean-to-North-West Europe routes, these saw drops of 6.4% and 5.3% to stand at WS132 and WS142 points respectively. The greatest drop was registered on the North-West Europe-to-USEC-USGC route, down 20.3% from the previous month. Overall, the clean tanker market was sluggish in July, since the current returns barely covered the owners' operating costs.

**Graph 7.2: Monthly averages of clean spot freight rates**



**Table 7.3: Spot tanker product freight rates, Worldscale**

Products	Size 1,000 DWT	May 12			Change Jul/Jun
		May 12	Jun 12	Jul 12	
Middle East/East	30-35	114	105	125	20
Singapore/East	30-35	126	120	124	4
Caribbean/US Gulf Coast	38-40	152	148	134	-14
NW Europe/USEC-USGC	33-37	142	118	94	-24
Mediterranean/Mediterranean	30-35	140	141	132	-9
Mediterranean/North-West Europe	30-35	150	150	142	-8

Source: Galbraith's Tanker Market Report and Platt's.

# Oil Trade

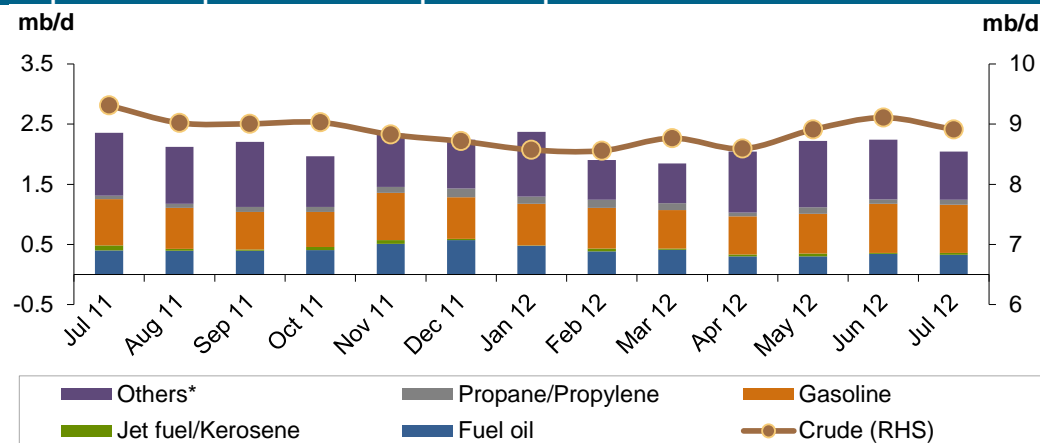
*US crude imports in July decreased by 197.4 tb/d to 8.9 mb/d*

## US

Preliminary data shows that US crude oil imports in July decreased by around 200 tb/d or 2.2%, to average 8.9 mb/d. This constituted a decline of 400 tb/d or 4.3% from the same period last year.

Product imports in the US saw a decrease of 200 tb/d or 8.9% on a month-on-month (m-o-m) basis, to average 2 mb/d; they were 316 tb/d or 13.4% lower on a year-on-year (y-o-y) basis. On a year-to-date analysis, crude and product imports fell by 1.7% and 20.3% respectively.

**Graph 8.1: US imports of crude and petroleum products**

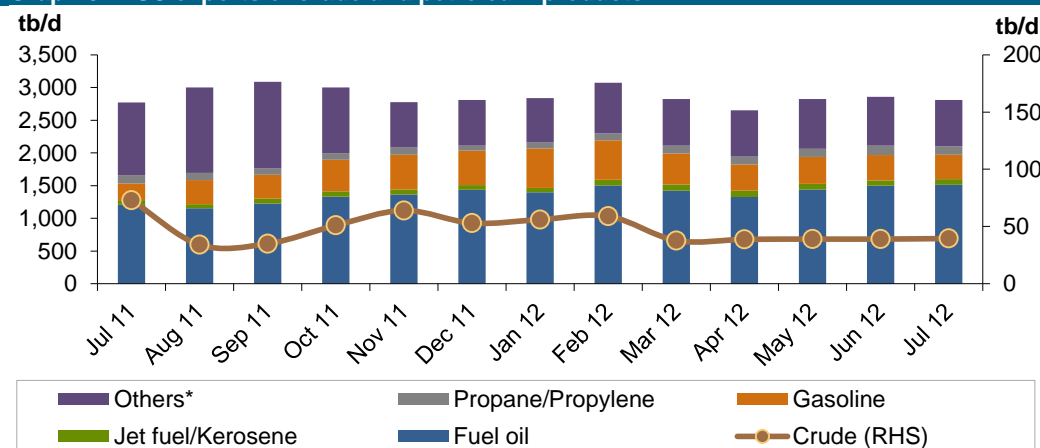


\*Others: Contains natural gas liquids, liquefied refinery gases (LRG's), other liquids and all finished petroleum products except gasoline, jet fuel/kerosene, fuel oil and propane/propylene.

The declining trend applied to exports as well. Product exports fell in July by 45.2 tb/d or 1.56% from the previous month, to average 2.8 mb/d. However, on an annual basis, there was an increase of 3 tb/d or 0.12%. Consequently, US net oil imports declined in July by 352 tb/d to 8.06 mb/d, representing a decrease of 4.2% m-o-m and 7.8% y-o-y.

May saw an increase in US crude oil imported from OPEC Member Countries, on both an m-o-m and y-o-y basis. Amounting to 49.3% of total US crude oil imports, this reflected an increase of 7.5% from levels seen in April and is the highest figure since July 2011. Annually, imports from OPEC countries were 3% higher than in the previous year.

**Graph 8.2: US exports of crude and petroleum products**



\*Others: Contains natural gas liquids, liquefied refinery gases (LRG's), other liquids and all finished petroleum products except gasoline, jet fuel/kerosene, fuel oil and propane/propylene.

With regard to the sources of crude oil imports, the top suppliers to the US in May were in the same order as in the previous month. Canada and Saudi Arabia were ranked as the first and second suppliers, although both saw decreases in their crude oil volumes exported to the US in May, of 1.78% and 7.69% respectively. While crude imports from Mexico, the third-ranked supplier to the US, saw a small increase of 0.3%, crude oil imports from Venezuela fell by 1.7% in May. Y-o-y, rises of 18.5% and 22.4% were registered for crude imports from Canada and Saudi Arabia, while imports from Mexico and Venezuela fell by 17.2% and 8.3%.

Imports of petroleum products from Member Countries in May declined by 29 tb/d or 9%, both m-o-m and y-o-y. Canada and Russia were the first and second sources of product supply, as in the previous month, with shares of 28.8% and 20% respectively. In third position came Algeria, which increased its product exports to the US from April to hold a share of 7.2%. The Netherlands and the UK ranked fourth, with an equal share of 5.4%.

As to the latest monthly data, this shows that US crude oil imports increased in May by 3.7% from April. This is seen as the highest rise since October 2011. Moreover, the volume imported from the Middle East region hit its highest level since April 2003. This came as a result of larger quantities lifted from Iraq, which increased its exports to the US in May, to stand as the fifth-highest supplier to that country. Annually, Iraq increased its exports to the US by 66% from last year's level, while Kuwait, which was ranked as the sixth-largest supplier to the US in May, more than doubled its exports to the US from last year's levels.

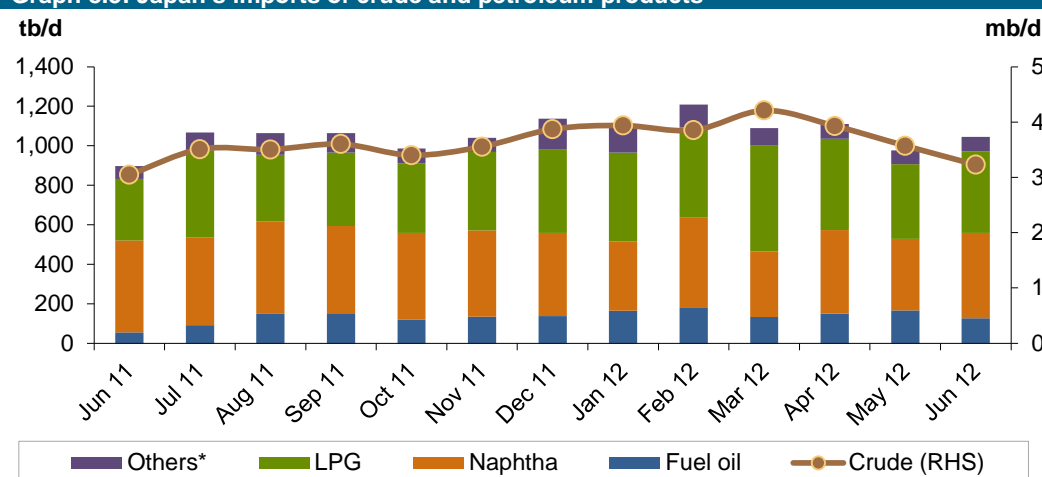
**Table 8.1: US crude and product net imports, tb/d**

	<u>May 12</u>	<u>Jun 12</u>	<u>Jul 12</u>	<u>Change Jul/Jun</u>
Crude oil	8,840	9,069	8,871	-198
Total products	-901	-654	-807	-154
<b>Total crude and products</b>	<b>7,956</b>	<b>8,416</b>	<b>8,064</b>	<b>-352</b>

### Japan

Japan's crude oil imports declined in June by 344 tb/d or 9.6% to 3.23 mb/d m-o-m. But y-o-y, the figure represented an increase of 6%, making this the fourth consecutive monthly rise. In terms of suppliers, Saudi Arabia, the largest crude oil supplier to Japan, gained 7.1% on an annual basis. And yet, on a monthly basis, imports from Saudi Arabia in June were lower than the volumes reported in the previous month. This decline came on the back of the start of the refinery-maintenance season in Japan.

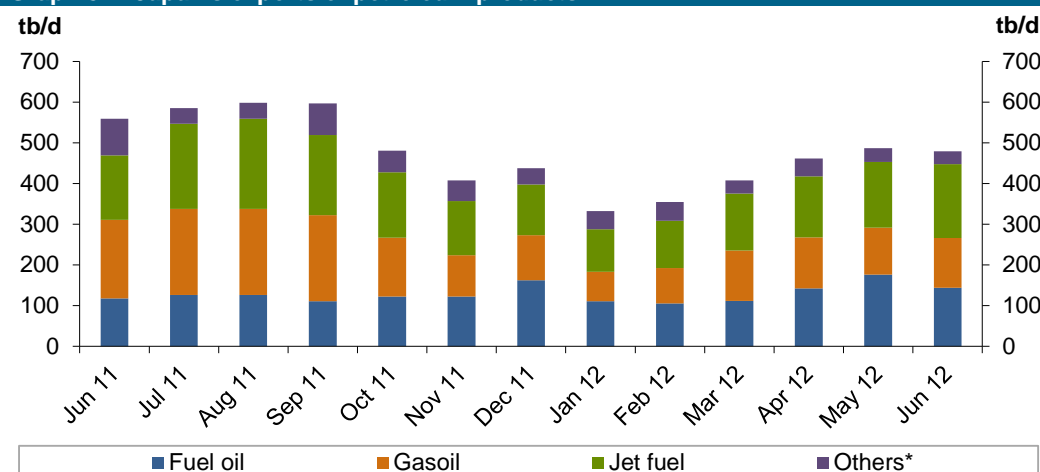
**Graph 8.3: Japan's imports of crude and petroleum products**



\*Others: Contains gasoline, jet fuel, kerosene, gasoil, asphalt and paraffin wax.

Product imports increased by 6% in June, to 633 tb/d. Annually, they rose by 49 tb/d or 8.4%. Product exports in June decreased by 0.6% m-o-m to average 475 tb/d, and they fell by 83 tb/d or 14.9% y-o-y. Consequently, Japan's net oil imports decreased by 305 tb/d from the previous month to reach 3.4 mb/d, constituting an 8.3% decrease m-o-m, but a 10.2% gain y-o-y.

Japan's crude oil imports in June declined by 344 tb/d to 3.23 mb/d

**Graph 8.4: Japan's exports of petroleum products**

\*Others: Contains LPG, gasoline, naphtha, kerosene, lubricating oil, asphalt and paraffin wax.

In terms of market share, Saudi Arabia maintained its position as the largest supplier of crude oil to Japan, with 30.5% of imports in June, followed by the UAE, Qatar and Kuwait, with 20.1%, 10.9% and 6.5% respectively.

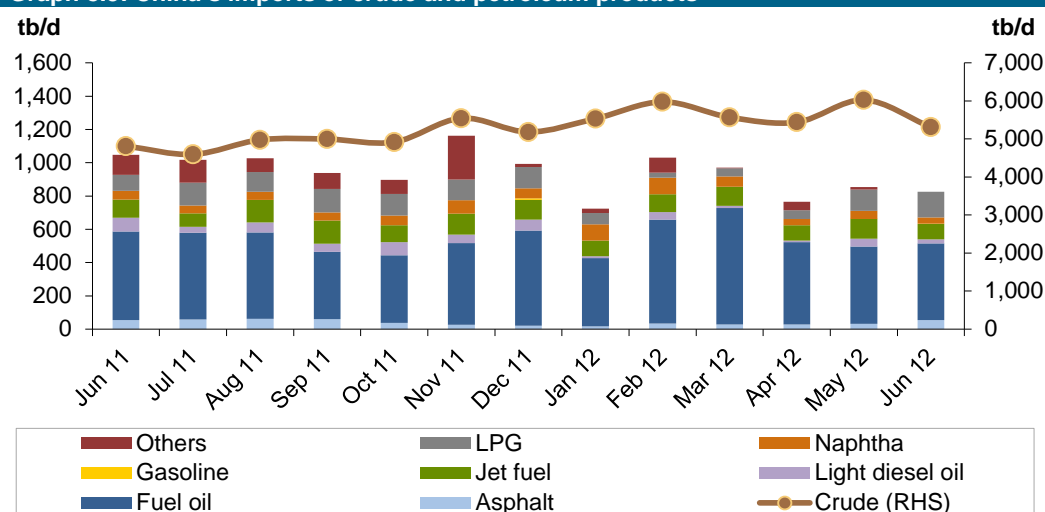
**Table 8.2: Japan's crude and product net imports, tb/d**

	<u>Apr 12</u>	<u>May 12</u>	<u>Jun 12</u>	<u>Change Jun/May</u>
Crude oil	3,931	3,572	3,228	-344
Total products	193	120	159	39
<b>Total crude and products</b>	<b>4,124</b>	<b>3,692</b>	<b>3,387</b>	<b>-305</b>

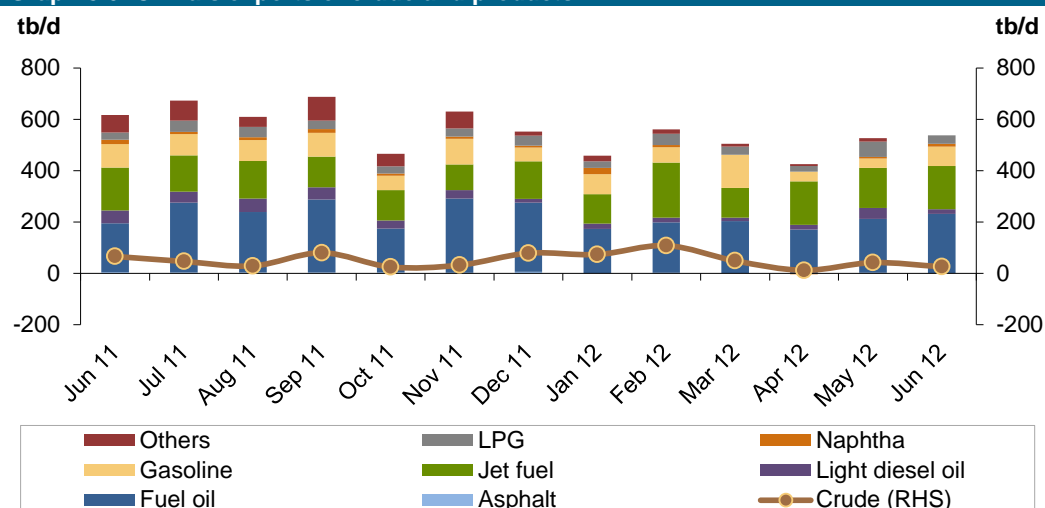
### China

*China's crude oil imports declined in June by 717 tb/d to 5.3 mb/d*

China's crude oil imports declined in June by 717 tb/d or 11.9% m-o-m to 5.3 mb/d. The decrease, which was the highest in 2012, came as a result of a sharp fall in local refining volumes and after Chinese crude imports had reached a record high level in May. Y-o-y, this meant an increase of 494 tb/d or 10.3%. In terms of sources, Saudi Arabia, Angola, Iran and Russia were the top-ranked suppliers to China, with percentages of 22.6%, 17.3%, 12% and 9.1% respectively. Product imports fell in June by 108 tb/d or 12.7% m-o-m, to reach the lowest volume since January, as well as registering a decrease of 303 tb/d or 28.9% y-o-y.

**Graph 8.5: China's imports of crude and petroleum products**

China's crude oil exports fell in June by 16 tb/d or 38% to average 26 tb/d. Y-o-y, the decrease was 40 tb/d or 60.8%.

**Graph 8.6: China's exports of crude and products**

China's product exports saw a minor decrease in June of 1 tb/d or 0.2% m-o-m, while, y-o-y, the decline was 90 tb/d or 14.7%. Therefore, China's net oil imports dropped by 809 tb/d from May to average 5.5 mb/d. From last year's figures, this showed a gain of 322 tb/d or 6.2%.

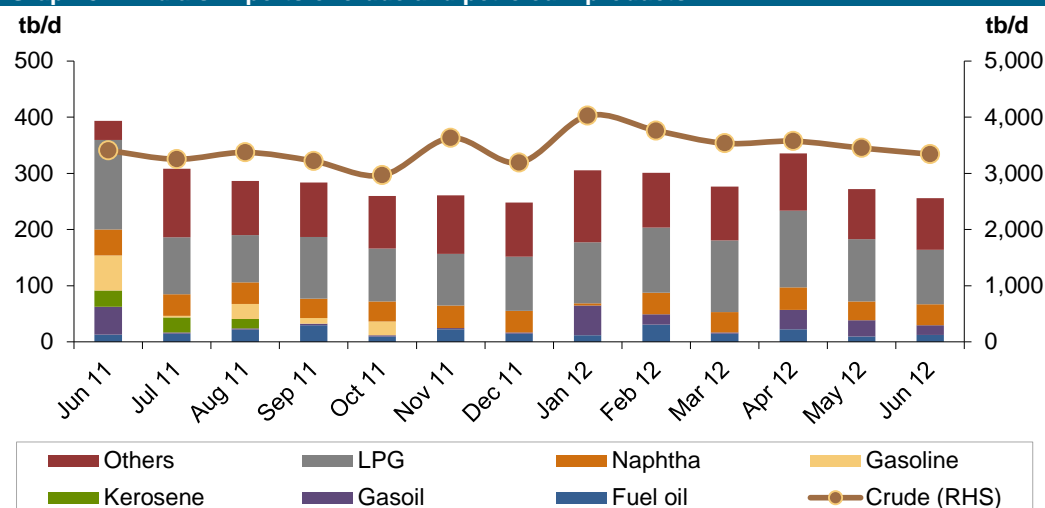
**Table 8.3: China's crude and product net imports, tb/d**

	<u>Apr 12</u>	<u>May 12</u>	<u>Jun 12</u>	<u>Change Jun/May</u>
Crude oil	5,427	5,983	5,281	-701
Total products	344	326	219	-107
<b>Total crude and products</b>	<b>5,771</b>	<b>6,309</b>	<b>5,500</b>	<b>-809</b>

## India

India's crude oil imports fell in June by 110 tb/d to 3.3 mb/d

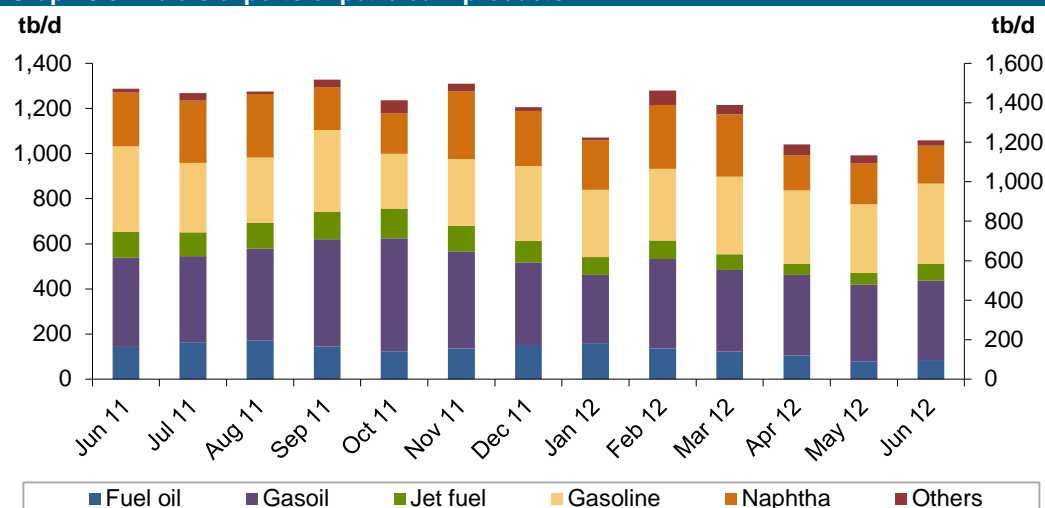
India's crude oil imports fell by 110 tb/d or 3.2% in June to 3.3 mb/d. The y-o-y decline was 1.9%.

**Graph 8.7: India's imports of crude and petroleum products**

In terms of products, India's imports fell by 16tb/d from the previous month to 256 tb/d, equating to a drop of 5.8% m-o-m and 31.8% y-o-y.

Annually, there were decreases for all product imports, with the greatest drop for petrol and liquefied petroleum gas (LPG).



**Graph 8.8: India's exports of petroleum products**

India's product exports gained 66tb/d in June to average 1.06 mb/d. This increase came on the back of higher exported volumes of petrol, jet fuel, diesel and fuel oil. Yet annually, exports fell by 18.9%. This drop was seen for all exported products. As a result, India's net oil imports decreased by 192 tb/d or 7% from May, and yet gained 63 tb/d or 2.6 % from the previous year's level.

**Table 8.4: India's crude and product net imports, tb/d**

	<u>Apr 12</u>	<u>May 12</u>	<u>Jun 12</u>	<u>Change Jun/May</u>
Crude oil	3,572	3,450	3,340	-110
Total products	-705	-721	-802	-82
<b>Total crude and products</b>	<b>2,867</b>	<b>2,729</b>	<b>2,538</b>	<b>-192</b>

Note: India data table does not include information for crude import and product export by Reliance Industries.

## FSU

*FSU crude exports in June decreased by 82 tb/d to 6.3 mb/d, while product exports fell by 106 tb/d to 2.6 mb/d*

Total FSU crude exports dropped in June by 82 tb/d to average 6.3 mb/d, down 1.3% m-o-m and 0.3% y-o-y. Generally, total Russian pipeline crude exports fell in June by 4.9% from the previous month to average 4.2 mb/d, as a result of lower supplies to the Baltic ports and central and western Europe. Yet the figures still showed an increase of 5.8% y-o-y.

Exports from the Druzhba pipeline fell 6.9% m-o-m to average 1.1 mb/d. But year-to-date, they increased by 4.2%, due to higher supplies to Poland and Germany.

Exports from Kozmino port and the Black Sea rose by 14.5% and 3.2% from last month to average 957 tb/d and 322 tb/d respectively. CPC blend exports increased by 14.7% to average 696 tb/d m-o-m, and, on a year-to-date basis, CPC loadings dropped by 7.5%, as a result of fewer loadings by Rosneft and TNK-BP. While BTC exports saw an increase of 2.8% on a monthly basis, they witnessed 16.6% losses from the same month last year.

FSU total product exports fell by 4% or 106 tb/d to 2.6 mb/d. This decline was driven by lower exported volumes of naphtha, gasoil, fuel oil and VGO, which were down by 15.5%, 3.1%, 4.3% and 0.7% respectively.

**Table 8.5: Recent FSU exports of crude and products by sources, tb/d**

	<u>2010</u>	<u>2011</u>	<u>4Q11</u>	<u>1Q12</u>	<u>2Q12</u>	<u>May 12</u>	<u>Jun 12*</u>
<b>Crude</b>							
<b>Russian pipeline</b>							
Black Sea	994	935	930	876	900	836	957
Baltic	1,564	1,461	1,526	1,444	1,725	1,778	1,514
Druzhba	1,126	1,170	1,241	1,243	1,109	1,151	1,072
Kozmino	309	306	295	307	317	312	322
<b>Total</b>	<b>4,005</b>	<b>4,178</b>	<b>4,310</b>	<b>4,161</b>	<b>4,356</b>	<b>4,380</b>	<b>4,167</b>
<b>Other routes</b>							
Russian rail	330	173	213	176	137	120	114
Russian-Far East	276	279	272	269	265	279	260
Kazakh rail	123	157	198	167	128	110	105
Vadandey	152	82	81	46	41	34	53
Kaliningrad	24	23	26	24	18	19	20
CPC	743	679	640	622	685	607	696
BTC	775	695	643	727	681	645	663
Kenkiyak-Alashankou	204	222	180	207	186	177	198
Caspian	239	170	146	169	168	156	163
<b>Total crude exports</b>	<b>6,750</b>	<b>6,500</b>	<b>6,511</b>	<b>6,401</b>	<b>6,538</b>	<b>6,417</b>	<b>6,335</b>
<b>Products</b>							
Gasoline	141	149	124	155	113	99	108
Naphtha	253	243	204	277	295	310	262
Jet	18	10	2	3	5	1	11
Gasoil	809	716	688	848	744	711	689
Fuel oil	1,129	1,201	1,239	1,260	1,277	1,287	1,232
VGO	228	198	168	180	264	273	271
<b>Total</b>	<b>2,578</b>	<b>2,518</b>	<b>2,426</b>	<b>2,723</b>	<b>2,697</b>	<b>2,680</b>	<b>2,574</b>
<b>Total oil exports</b>	<b>9,328</b>	<b>9,018</b>	<b>8,937</b>	<b>9,124</b>	<b>9,235</b>	<b>9,097</b>	<b>8,909</b>

\* Preliminary

Totals may not add due to independent rounding.

Source: Nefte Transport, Global Markets, Argus Fundamentals, Argus FSU and OPEC.

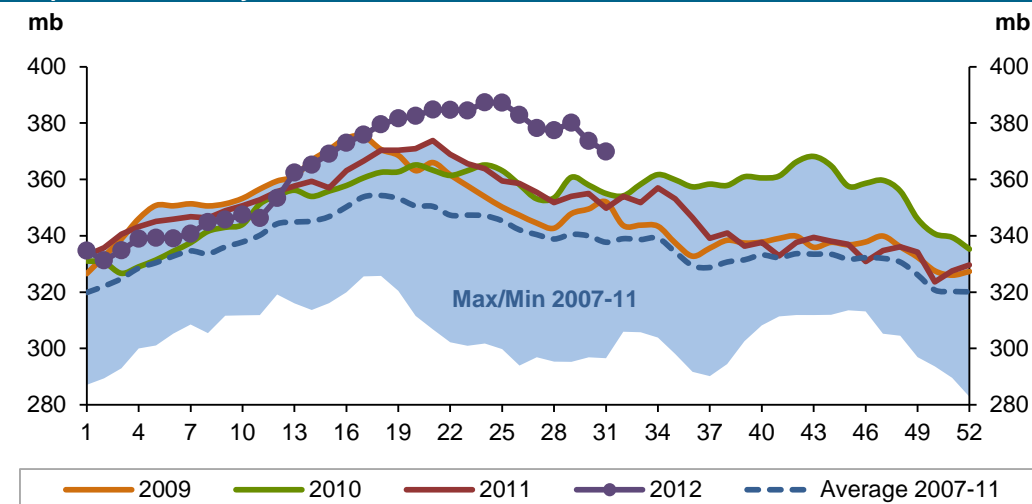
# Stock Movements

*US commercial stocks rose for third consecutive month in July, by 7.3 mb*

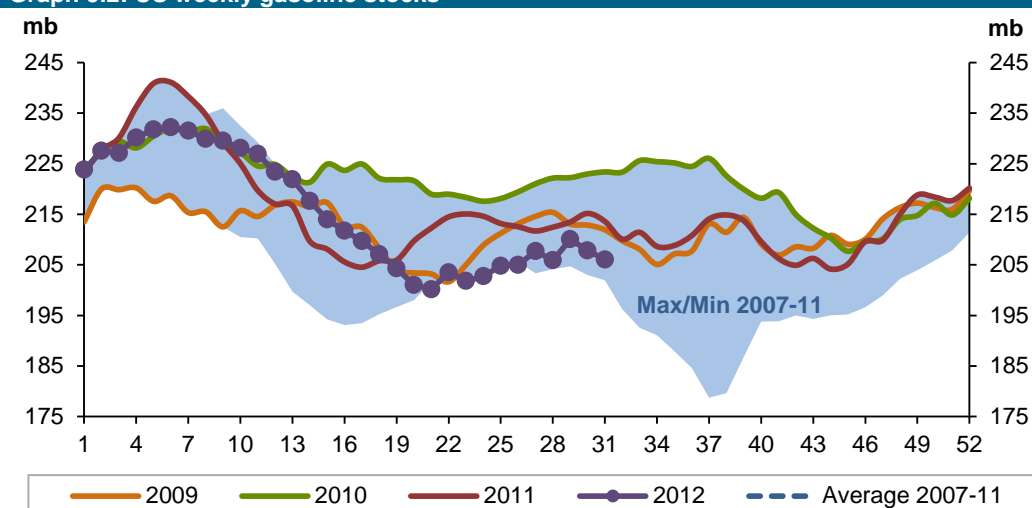
## US

**US total commercial oil stocks** rose for the third consecutive month in July, increasing by 7.3 mb to end the month at 1,105.4 mb, the highest level since October. Thus, they stood at 3.6 mb or 0.3% above the level of a year ago, while the surplus on the five-year average was 27.8 mb or 2.6%. The build was attributed mainly to products, as they increased by 16.6 mb, while crude countered this build, declining by 9.3 mb.

**Graph 9.1: US weekly commercial crude oil inventories**



In July, **US commercial crude stocks** fell for the second consecutive month, to end the month down 9.3 mb at 373.6 mb. However, despite this stock-draw, they remained 25.4 mb or 7.3% above the same time last year, representing a surplus of 37.5 mb or 11.1% on the five-year average. This draw came from lower crude oil imports, decreasing by around 214,000 b/d from the previous month to an average of 8.9 mb/d. This level was also lower, by about 430,000 b/d, than the same time last year. Higher crude oil refinery inputs, increasing by nearly 50,000 b/d to average 15.6 mb/d, also contributed to the fall in US crude oil stocks. The level of US crude runs was also above the same period a year ago, by nearly 250,000 b/d. In July, US refineries operated at 92.5%, which was 0.6 percentage points (pp) higher than in the previous month and 3.5 pp above the same month last year. It should be highlighted here that, on a weekly basis, the bulk of the draw on US crude oil stocks came during the week ending 27 July, when inventories plunged by more than 6 mb. This drop reflected the strong fall in US crude oil imports, as they declined by 1.2 mb/d, averaging just 8.4 mb/d. This was related to the huge fall in US crude imports, as Saudi Arabian crude flowing to the Gulf Coast declined due to long-term maintenance work at the 600,000 b/d Motiva refinery in Port Arthur. The fog last week in Houston Ship Channel, which halted imports, also contributed to the decline in US crude imports. Cushing stocks fell by more than 2.5 mb, to end July at 45.1 mb, but they still remained at a higher level.

**Graph 9.2: US weekly gasoline stocks**

On the **product side**, with the exception of residual fuel oil, all products experienced a build, with the bulk coming from distillate stocks, as they increased by 6.5 mb, followed by propylene inventories, showing a build of 5.2 mb. The build in total product stocks in July came mainly from lower consumption. Indeed, US apparent demand fell by nearly 330,000 b/d from the previous month to an average of 18.8 mb/d. This level was also slightly lower than the same time last year. Gasoline stocks reversed the drop of last week and increased by 2.9 mb to end July at 207.9 mb. Despite this build, they remained 8.9 mb or 4.1% below last year's level and 4.4 mb or 2.1% below the five-year average. This build was driven by disappointing demand, which declined by 160,000 b/d to average nearly 8.8 mb/d. This level remained much lower than the same period a year ago, reflecting the bearish macroeconomic prospects. The decline in gasoline production limited the build in inventories. Distillate stocks rose in July, after six consecutive months of decline, to finish the month at 124.3 mb; however, they remained at 33.9 mb or 21.4% below the year-ago level and 26.0 mb or 17.3% lower than the seasonal norm. Lower apparent demand was the main driver behind the build in distillate stocks. In fact, distillate demand fell by 260,000 b/d in July from the previous month to an average of 3.5 mb/d, which was also nearly 90,000 b/d lower than the same time last year. The continued strength of distillate exports, surpassing 1.0 mb/d, was the main factor limiting the build in distillate stocks.

**Table 9.1: US onland commercial petroleum stocks, mb**

	<u>May 12</u>	<u>Jun 12</u>	<u>Jul 12</u>	<u>Change</u> <u>Jul 12/Jun 12</u>	<u>Jul 11</u>
<b>Crude oil</b>	385.6	382.9	373.6	-9.3	348.1
Gasoline	205.3	205.0	207.9	2.9	216.8
Distillate fuel	121.7	117.8	124.3	6.5	158.1
Residual fuel oil	33.0	35.0	34.1	-0.9	37.4
Jet fuel	39.8	37.8	40.6	2.8	44.4
<b>Total</b>	<b>1097.6</b>	<b>1098.1</b>	<b>1105.4</b>	<b>7.3</b>	<b>1101.8</b>
SPR	696.0	696.0	696.0	0.0	718.2

Source: US Department of Energy's Energy Information Administration.

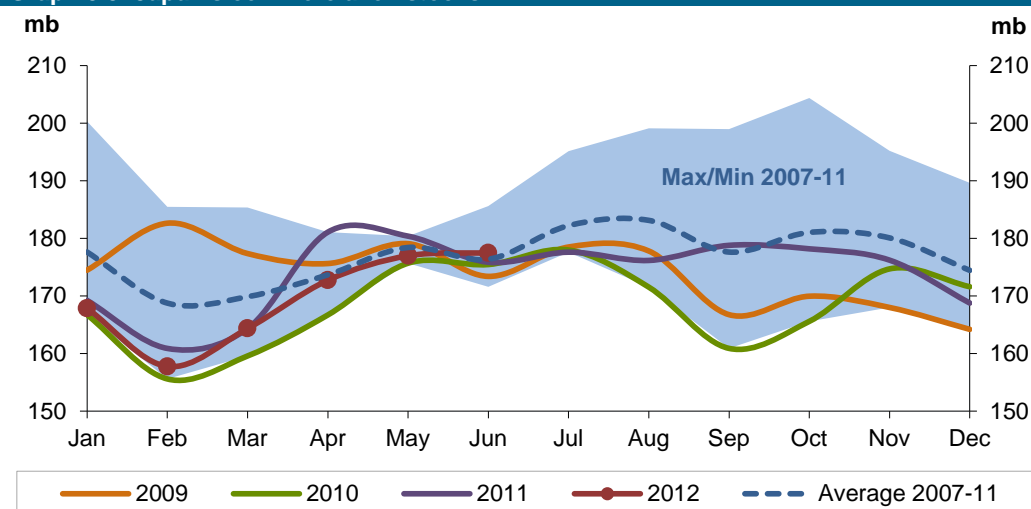
Jet fuel oil stocks rose by 2.8 mb from the previous month, following two consecutive months of decline. At 40.6 mb, they were 3.8 mb or 8.6% lower than a year ago, and 3.8 mb or 8.5% below the seasonal norm. Residual oil stocks fell by 0.9 mb, ending July at 34.1 mb/d. At this level, they were 3.3 mb or 8.9% lower than the same month a year ago and 3.8 mb or 8.5% below the latest five-year average.

*In June, Japan's commercial oil stocks rose for the fourth consecutive month by 0.5 mb*

## Japan

In June, **commercial oil stocks** in Japan rose for the fourth consecutive month, by 0.5 mb to stand at 177.5 mb, the highest level since October. With this build, they switched the deficit with a year ago a month earlier to a surplus of 1.6 mb or 0.9%. This build also helped change the deficit with the five-year average into a surplus of 1.1 mb or 0.6%. The total stock-build came from products, as they increased by 1.3 mb, while crude stocks countered this build and decreased by 0.9 mb.

**Graph 9.3: Japan's commercial oil stocks**



**Japanese commercial crude oil stocks** reversed the build of the last three months and fell by 0.9 mb, ending June at 106.6 mb. Despite this drop, they remained at 3.2 mb or 2.1% above the same time a year ago and showed a surplus of 2.1 mb or 2.0% on the seasonal average.

The drop in crude oil stocks came mainly from lower imports, which declined by 344,000 b/d or 9.6% to an average of 3.2 mb/d. However, this level was still 6.0% above that of the same time a year ago. This stock-draw came despite lower refinery runs averaging 3.1 mb/d, around 100,000 b/d lower than the previous month; but they remained 0.8% higher than the same period last year. In June, refineries were running at 68.0%, which was 2.4 pp lower than in the previous month, but 2.6 pp higher than the same period last year. It should be highlighted that direct crude burning in power plants in June eased from the previous month, when they declined by 24% to stand at 234,400 b/d, but they remained 72% higher than the level of June 2011.

**Japan's total product inventories** rose for the third consecutive month, by 1.3 mb, to end June at 70.8 mb, the highest level since the beginning of this year. Despite this build, they remained 1.7 mb or 2.3% below the same period the previous year and 1.0 mb or 1.4% lower than the seasonal average. This stock-build for total products came on the back of weaker domestic product sales, which declined by about 50,000 b/d or 1.7% to average 3.0 mb/d. But, at this level, Japanese demand was still 2.5% higher than a year earlier and showed the seventh straight month of year-on-year gains, driven by higher fuel oil sales used for power-generation.

Within the products, the picture was mixed; gasoline and fuel oil stocks experienced drops, while distillates and naphtha saw builds. Gasoline stocks fell by 0.5 mb, ending June at 13.6 mb. At this level, they were 1.0 mb or 7.8% higher than a year ago at the same time, representing a surplus of 0.3 mb or 2.3% on the seasonal average. The fall in gasoline stocks could be attributed to lower production, as they declined by 6.1%. Lower domestic sales limited the fall in gasoline stocks. Residual fuel oil stocks also dropped for the second consecutive month in June, by 0.6 mb to stand at 16.2 mb. At this level, they were 0.7 mb or 4.1% below the same period a year ago and 1.2 mb or 7.1% below the five-year average. Within the components of fuel oil, fuel oil A saw a drop of 4.6%, while fuel oil B.C stocks declined by 3.5%. Domestic sales of B.C fuel oil, which is used partly for power utilities, jumped by 43.9% in June from a year ago. However, domestic sales remained almost at the same level as a month earlier. Fuel oil

A domestic sales were also higher, but to a lesser degree, as they increased by 4.1% from the same month last year. Distillate stocks rose for the third month running, by 0.3 mb, to end June at 30.0 mb, the highest level since the beginning of this year. Despite this build, they still showed a deficit of 2.1 mb or 6.6%, compared with a year ago, and were 0.2 mb or 0.7% below the five-year average. Within the components of distillates, jet fuel and kerosene saw builds, while gasoil stocks experienced a drop. Jet fuel inventories rose by 5.7%, driven by higher production as they increased by 4.3%, combined with lower domestic sales, declining by around 12%. Kerosene stocks rose by 2.8%, supported by lower demand, as they decreased by about 1%, while the stock-draw of 3.8% in gasoil came from higher domestic sales combined with relatively healthy exports. Naphtha inventories rose by 2.3 mb in June from a month earlier and ended the month at 11.1 mb, the highest level since October. At this level, they turned the deficit with a year ago in the previous month into a surplus of 1.4%. This build also helped change the deficit with the five-year average to a surplus of 1.0%. The build in naphtha stocks came on the back of lower domestic sales, as they declined by 9.6% from a month early. Higher imports, which increased by about 15%, also helped the build in naphtha stocks.

**Table 9.2: Japan's commercial oil stocks\*, mb**

	<u>Apr 12</u>	<u>May 12</u>	<u>Jun 12</u>	<u>Change</u> <u>Jun 12/May 12</u>	<u>Jun 11</u>
<b>Crude oil</b>	103.6	107.5	106.6	-0.9	103.3
Gasoline	14.1	14.1	13.6	-0.5	12.6
Naphtha	10.9	8.8	11.1	2.3	10.9
Middle distillates	27.2	29.7	30.0	0.3	32.1
Residual fuel oil	16.9	16.8	16.2	-0.6	16.9
<b>Total products</b>	69.2	69.5	70.8	1.3	72.5
<b>Total**</b>	<b>172.7</b>	<b>177.0</b>	<b>177.5</b>	<b>0.5</b>	<b>175.9</b>

\* At end of month

\*\* Includes crude oil and main products only

Source: Ministry of Economy, Trade and Industry, Japan.

### Singapore and Amsterdam-Rotterdam-Antwerp (ARA)

At the end of June, **product stocks in Singapore** reversed the drops of the last three months and rose by 3.2 mb to end the month at 41.2 mb. Despite this build, they remained at 3.5 mb or 7.9% below the same time a year ago.

Within products, the picture was mixed; light distillates and fuel oil stocks saw a build, while middle distillate stocks declined. Light distillate stocks ended June 2.2 mb higher than in the previous month and stood at 11.2 mb, the highest level since November. At this level, they were 2.2 mb or 1.6% above a year ago at the same time. Higher gasoline exports to Singapore from South Korea and India contributed to push inventories higher. At the same time, Thailand's gasoline exports to Singapore were more than double, also helping the build in light distillate stocks. Fuel oil stocks rose by 1.7 mb in June, ending the month at 22.0 mb and representing a surplus of 2.6 mb or 13.3% on the same period a year ago. Higher arrivals from Western countries, which increased by nearly half, were behind the build in fuel oil stocks. However, the fall in Middle East exports to Singapore, as domestic demand for power-generation peaked during summer, limited the fuel oil inventory-build. In contrast to the increases in light distillate and fuel oil stocks, middle distillates fell for the fourth consecutive month, decreasing by a further 0.7 mb to 8.1 mb at the end of June. At this level, they were 7.7 mb or almost a half lower than a year ago at the same time. The shutdown of the refinery in Singapore curbed the supply of diesel, leading to more stock-draws in the country. Additionally, healthy diesel demand in Australia and Malaysia, encouraging exports to those countries, also contributed to the fall in middle distillate inventories.

Singapore product stocks rose by 3.2 mb in June, after three months of decline

*Product stocks in ARA at end of June reversed falls of last two months and rose 0.7 mb*

Product stocks in **ARA** at the end of June reversed the falls of the last two months and increased by 0.7 mb to 31.6 mb. At this level, they were at 4.7 mb or 13.0% below last year's level in the same period.

Within products, gasoline and naphtha saw declines, while gasoil, jet fuel oil and fuel oil witnessed builds. Gasoline stocks fell by 0.8 mb to 5.0 mb, leaving them 1.0 mb or 16.4% below a year ago. The fall in gasoline came as exports to the US, Mexico and West Africa outpaced arrivals from France and the UK. Naphtha stocks also went down, by 0.1 mb, ending June at 1.0 mb. At this level, they were 0.1 mb or 9.7% above the year-ago level. The decline came on the back of higher demand for naphtha, which is blended into the motor fuel in the region. Gasoil oil saw a slight increase of 0.5 mb, finishing the month at 17.4 mb, and was 3.4 mb or 16.3% below the same time last year. This build was supported by higher demand from Germany, as prices came down, and German consumers used this opportunity to fill their fuel tanks. However, steep backwardation limited the build in gasoil inventories. Fuel oil stocks also went up, by 0.9 mb, to stand at 5.6 mb, leaving them 0.4 mb or 6.9% above a year ago. This build was supported by greater arrivals from France, Brazil and the UK. Jet fuel inventories rose by 0.2 mb to stand at 2.6 mb. At this level, they were 0.8 mb or 24% below last year's level. This build was supported mainly by arrivals from the UAE.



# Balance of Supply and Demand

*Required OPEC crude for 2012 estimated at 29.9 mb/d, down 0.1 mb/d from 2011*

## Forecast for 2012

Demand for OPEC crude for 2012 is projected to average 29.9 mb/d, about 80,000 b/d lower than last month's estimate, due mainly to an upward revision to non-OPEC supply, since demand has remained unchanged. Within the quarters, 1Q12 remains unchanged. 2Q12 sees an upward revision of 0.1 mb/d, while 3Q12 and 4Q12 have been revised down by 0.1 mb/d and 0.3 mb/d respectively. Demand for OPEC crude in 2012 shows a decrease of 0.1 mb/d from last year. 1Q12 is estimated to decline by 0.6 mb/d versus the same quarter last year; 2Q12 and 3Q12 are projected to increase by 0.2 mb/d and 0.1 mb/d respectively, while 4Q12 is forecast to decline by 0.2 mb/d.

**Table 10.1: Summarized supply/demand balance for 2012, mb/d**

	<u>2011</u>	<u>1Q12</u>	<u>2Q12</u>	<u>3Q12</u>	<u>4Q12</u>	<u>2012</u>
<b>(a) World oil demand</b>	<b>87.82</b>	<b>87.83</b>	<b>87.51</b>	<b>89.66</b>	<b>89.83</b>	<b>88.72</b>
Non-OPEC supply	52.49	53.31	52.75	53.01	53.65	53.18
OPEC NGLs and non-conventionals	5.32	5.49	5.60	5.73	5.86	5.67
<b>(b) Total supply excluding OPEC crude</b>	<b>57.81</b>	<b>58.79</b>	<b>58.35</b>	<b>58.74</b>	<b>59.51</b>	<b>58.85</b>
<b>Difference (a-b)</b>	<b>30.01</b>	<b>29.04</b>	<b>29.16</b>	<b>30.92</b>	<b>30.32</b>	<b>29.87</b>
OPEC crude oil production	29.75	31.16	31.48			
Balance	-0.25	2.11	2.32			

*Totals may not add up due to independent rounding.*

## Forecast for 2013

Demand for OPEC crude for 2013 has been revised down by 0.1 mb, reflecting the upward revision to non-OPEC supply as global demand remains unchanged. 1Q13 and 2Q13 see downward adjustments of 0.2 mb/d and 0.1 mb/d respectively, while 3Q13 and 4Q13 remains unchanged. The required OPEC crude is forecast to average 29.5 mb/d, which is 0.4 mb/d lower than in 2012. 1Q13 is estimated to increase by 0.1 mb/d versus the same quarter last year, while the other quarters are expected to see negative growth, with the bulk of the decrease coming from 2Q13, falling by 0.5 mb/d. 3Q13 and 4Q13 are forecast to drop by 0.5 mb/d and 0.4 mb/d respectively.

**Table 10.2: Summarized supply/demand balance for 2013, mb/d**

	<u>2012</u>	<u>1Q13</u>	<u>2Q13</u>	<u>3Q13</u>	<u>4Q13</u>	<u>2013</u>
<b>(a) World oil demand</b>	<b>88.72</b>	<b>88.83</b>	<b>88.21</b>	<b>90.40</b>	<b>90.61</b>	<b>89.52</b>
Non-OPEC supply	53.18	53.83	53.75	54.04	54.77	54.10
OPEC NGLs and non-conventionals	5.67	5.87	5.89	5.92	5.96	5.91
<b>(b) Total supply excluding OPEC crude</b>	<b>58.85</b>	<b>59.70</b>	<b>59.65</b>	<b>59.97</b>	<b>60.74</b>	<b>60.01</b>
<b>Difference (a-b)</b>	<b>29.87</b>	<b>29.14</b>	<b>28.56</b>	<b>30.44</b>	<b>29.88</b>	<b>29.51</b>

*Totals may not add up due to independent rounding.*

**Graph 10.1: Balance of supply and demand**

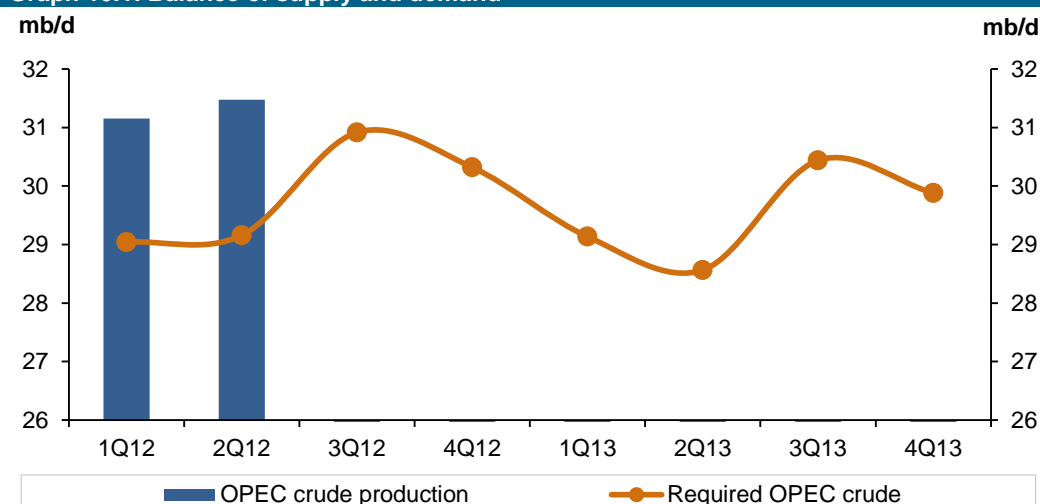


Table 10.3: World oil demand/supply balance, mb/d

	2007	2008	2009	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013
<b>World demand</b>															
OECD	49.4	47.6	45.7	46.2	45.7	45.7	44.7	45.9	45.8	45.5	45.7	44.4	45.7	45.6	45.3
North America	25.5	24.2	23.3	23.8	23.5	23.1	23.3	23.7	23.5	23.4	23.3	23.2	23.6	23.5	23.4
Western Europe	15.5	15.4	14.7	14.6	14.3	13.7	13.7	14.4	13.9	13.9	13.5	13.5	14.1	13.6	13.7
Pacific	8.4	8.1	7.7	7.9	7.9	8.8	7.7	7.9	8.4	8.2	8.9	7.7	7.9	8.5	8.3
DCs	24.8	25.6	26.2	27.0	27.7	27.8	28.2	28.7	28.6	28.3	28.3	28.7	29.3	29.1	28.8
FSU	4.0	4.1	4.0	4.2	4.3	4.2	4.1	4.5	4.8	4.4	4.3	4.2	4.6	4.9	4.5
Other Europe	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7
China	7.6	8.0	8.3	9.0	9.4	9.5	9.9	9.8	10.0	9.8	9.8	10.3	10.2	10.3	10.1
(a) Total world demand	86.6	86.1	84.8	87.0	87.8	87.8	87.5	89.7	89.8	88.7	88.8	88.2	90.4	90.6	89.5
<b>Non-OPEC supply</b>															
OECD	20.0	19.5	19.7	20.0	20.2	21.1	20.9	20.6	20.9	20.9	21.1	21.0	21.1	21.5	21.2
North America	14.3	13.9	14.4	15.0	15.5	16.5	16.5	16.3	16.5	16.4	16.6	16.8	16.9	17.2	16.9
Western Europe	5.2	4.9	4.7	4.4	4.1	4.1	3.9	3.7	3.9	3.9	3.9	3.7	3.6	3.7	3.7
Pacific	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.5	0.5	0.5	0.6	0.6	0.6	0.6
DCs	11.9	12.2	12.4	12.8	12.7	12.4	12.2	12.5	12.7	12.5	12.7	12.7	12.9	13.0	12.8
FSU	12.5	12.6	13.0	13.2	13.2	13.4	13.2	13.4	13.4	13.3	13.4	13.4	13.5	13.6	13.5
Other Europe	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.8	3.8	3.8	4.1	4.1	4.2	4.2	4.2	4.3	4.2	4.3	4.3	4.3	4.3	4.3
Processing gains	2.0	2.0	2.0	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Total non-OPEC supply	50.4	50.3	51.1	52.3	52.5	53.3	52.7	53.0	53.6	53.2	53.8	53.8	54.0	54.8	54.1
OPEC NGLs + non-conventional oils	3.9	4.1	4.3	5.0	5.3	5.5	5.6	5.7	5.9	5.7	5.9	5.9	5.9	6.0	5.9
(b) Total non-OPEC supply and OPEC NGLs	54.4	54.4	55.4	57.3	57.8	58.8	58.4	58.7	59.5	58.8	59.7	59.6	60.0	60.7	60.0
OPEC crude oil production (secondary sources)	30.2	31.3	29.8	29.2	29.8	31.2	31.5								
Total supply	84.6	85.7	84.2	86.5	87.6	89.9	89.8								
Balance (stock change and miscellaneous)	-2.0	-0.4	-0.6	-0.5	-0.3	2.1	2.3								
<b>OECD closing stock levels (mb)</b>															
Commercial	2554	2679	2641	2670	2601	2637	2660								
SPR	1524	1527	1564	1561	1532	1532	1531								
Total	4079	4206	4205	4230	4133	4168	4191								
Oil-on-water	948	969	919	871	825	787	830								
<b>Days of forward consumption in OECD</b>															
Commercial onland stocks	54	59	57	58	57	59	58								
SPR	32	33	34	34	34	34	33								
Total	86	92	91	93	91	93	91								
<b>Memo items</b>															
FSU net exports	8.5	8.5	9.0	9.0	8.9	9.1	9.2	8.8	8.7	8.9	9.1	9.2	8.9	8.8	9.0
(a) - (b)	32.2	31.7	29.4	29.7	30.0	29.0	29.2	30.9	30.3	29.9	29.1	28.6	30.4	29.9	29.5

Note: Totals may not add up due to independent rounding.

**Table 10.4: World oil demand/supply balance: changes from last month's table\*, mb/d**

	2007	2008	2009	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013
<b>World demand</b>															
OECD	-	-	-	-	-	-	0.1	-	-	0.1	-	0.1	-	-	0.1
North America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Western Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	0.1	-	-	0.1	-	0.1	-	-	0.1
DCs	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-	-	-
(a) Total world demand	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>World demand growth</b>															
<b>Non-OPEC supply</b>															
OECD	-	-	-	-	0.1	0.1	0.1	-	0.1	0.1	0.1	-	-	-	-
North America	-	-	-	-	-	0.1	0.1	-	-	-	-	-	-	-	-
Western Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	0.1	0.2	0.1	0.2	0.2	0.1	0.1	0.1
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.1
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	0.1	0.1	-	0.1	0.3	0.1	0.2	0.2	0.1	-	0.1
<b>Total non-OPEC supply growth</b>	-	-	-	-	<b>0.09</b>	-	<b>-0.11</b>	-	<b>0.17</b>	-	<b>0.14</b>	<b>0.18</b>	-	<b>-0.25</b>	-
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	0.1	0.1	-	0.1	0.3	0.1	0.2	0.2	0.1	-	0.1
<b>OPEC crude oil production (secondary sources)</b>															
<b>Total supply</b>	-	-	-	-	-	0.1	0.1	-	-	-	-	-	-	-	-
<b>Balance (stock change and miscellaneous)</b>	-	-	-	-	0.1	-	-0.1	-	-	-	-	-	-	-	-
<b>OECD closing stock levels (mb)</b>															
Commercial	-	-	-	-	-	10	-	-	-	-	-	-	-	-	-
SPR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	10	-	-	-	-	-	-	-	-	-
<b>Oil-on-water</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Days of forward consumption in OECD</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Commercial onland stocks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SPR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Memo items</b>															
FSU net exports	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.1
(a) - (b)	-	-	-	-	-0.1	-	-	-0.1	-0.3	-0.1	-0.2	-0.1	-	-	-0.1

\* This compares Table 10.3 in this issue of the MOMR with Table 10.3 in the July 2012 issue.

This table shows only where changes have occurred.

Table 10.5: OECD oil stocks and oil on water at the end of period

	2007	2008	2009	2010	2011	2008	2008	2009	2009	2010	2010	2011	2011	2011	2012	2012
Closing stock levels, mb																
OECD onland commercial	2,554	2,679	2,641	2,670	2,601	2,553	2,584	2,641	2,679	2,731	2,745	2,763	2,641	2,675	2,757	2,747
North America	1,211	1,282	1,286	1,330	1,312	1,197	1,221	1,259	1,282	1,332	1,367	1,373	1,286	1,314	1,370	1,398
Western Europe	937	991	972	948	898	961	954	952	991	991	976	971	972	975	982	947
OECD Pacific	407	407	383	391	390	394	409	431	407	408	401	419	383	386	405	402
OECD SPR	1,524	1,527	1,564	1,561	1,532	1,529	1,526	1,522	1,527	1,547	1,561	1,564	1,564	1,567	1,562	1,549
North America	699	704	729	729	697	702	708	704	704	715	726	727	729	729	729	728
Western Europe	421	416	426	423	422	423	414	414	416	424	427	429	426	429	422	419
OECD Pacific	404	406	409	410	414	404	404	403	406	408	408	408	409	409	411	402
OECD total	4,079	4,206	4,205	4,230	4,133	4,082	4,110	4,164	4,206	4,278	4,306	4,327	4,205	4,241	4,319	4,296
Oil-on-water	948	969	919	871	825	935	925	885	969	899	899	869	919	919	897	926
Days of forward consumption in OECD																
OECD onland commercial	54	59	57	58	57	54	55	56	57	61	61	60	57	59	59	58
North America	50	55	54	57	57	49	52	53	55	58	59	58	55	55	57	59
Western Europe	61	68	67	66	66	63	61	62	66	69	67	67	68	66	66	64
OECD Pacific	50	53	49	50	44	50	54	54	50	55	55	52	46	52	53	50
OECD SPR	32	33	34	34	34	32	33	32	33	35	35	34	34	35	33	33
North America	29	30	31	31	30	29	30	29	30	31	31	31	31	31	30	31
Western Europe	27	28	29	30	31	28	27	27	28	29	29	30	30	30	28	28
OECD Pacific	50	53	52	52	47	51	54	51	50	56	56	51	50	55	54	50
OECD total	86	92	91	93	91	86	88	88	90	96	95	94	91	94	93	92

	2007	2008	2009	2010	Change 2010	2011	3Q11	4Q11	2011	Change 2011	1Q12	2012	3Q12	4Q12	2012	Change 2012	12/11	2013	3Q13	4Q13	2013	Change 2013
US	7.47	7.50	8.14	8.64	0.50	8.73	8.94	9.55	9.04	0.40	9.77	9.74	9.68	9.75	9.74	0.70	9.93	10.04	10.07	10.30	10.08	0.35
Canada	3.31	3.25	3.23	3.36	0.13	3.54	3.32	3.75	3.56	0.20	3.81	3.78	3.74	3.82	3.79	0.23	3.84	3.89	3.98	4.09	3.95	0.17
Mexico	3.49	3.17	2.98	2.96	-0.02	2.97	2.96	2.92	2.94	-0.02	2.92	2.93	2.90	2.88	2.91	-0.03	2.87	2.82	2.83	2.81	2.83	-0.08
North America	14.26	13.92	14.35	14.96	0.61	15.24	15.22	15.47	16.22	15.54	16.49	16.45	16.33	16.46	16.43	0.89	16.64	16.75	16.88	17.21	16.87	0.44
Norway	2.55	2.47	2.36	2.14	-0.22	2.14	1.98	1.99	2.05	2.04	-0.10	2.08	1.96	1.83	1.95	1.96	-0.08	1.98	1.87	1.81	1.89	-0.08
UK	1.69	1.57	1.48	1.37	-0.12	1.27	1.16	0.94	1.11	1.12	-0.24	1.08	0.97	0.98	1.05	1.01	-0.02	1.01	0.94	0.91	0.96	-0.06
Denmark	0.31	0.28	0.26	0.25	-0.02	0.23	0.25	0.23	0.21	0.23	-0.02	0.22	0.22	0.21	0.20	0.21	-0.02	0.20	0.20	0.19	0.18	-0.01
Other Western Europe	0.62	0.62	0.63	0.64	0.01	0.67	0.66	0.70	0.68	0.68	0.04	0.69	0.69	0.69	0.69	0.69	0.01	0.70	0.70	0.71	0.70	0.01
Western Europe	5.17	4.94	4.74	4.39	-0.35	4.32	4.05	3.86	4.05	4.07	-0.32	4.07	3.86	3.71	3.90	3.88	-0.18	3.90	3.71	3.62	3.75	-0.14
Australia	0.53	0.53	0.54	0.51	-0.03	0.47	0.49	0.48	0.49	0.48	-0.03	0.43	0.46	0.48	0.45	0.45	-0.03	0.47	0.50	0.51	0.50	0.04
Other Pacific	0.08	0.10	0.10	0.10	0.00	0.09	0.08	0.09	0.09	0.09	-0.01	0.09	0.09	0.09	0.09	0.09	0.00	0.08	0.08	0.08	0.08	-0.01
OPEC	0.60	0.63	0.64	0.60	-0.03	0.56	0.57	0.57	0.58	0.57	-0.04	0.51	0.54	0.57	0.54	0.54	-0.03	0.55	0.58	0.59	0.57	0.03
OECD Pacific	20.03	19.49	19.72	19.96	0.23	20.12	19.85	19.90	20.84	20.18	0.22	21.07	20.86	20.60	20.90	20.86	0.68	21.08	21.04	21.08	21.53	0.33
Total OECD	0.19	0.17	0.16	0.17	0.00	0.17	0.17	0.17	0.17	0.17	0.00	0.16	0.15	0.18	0.18	0.17	0.00	0.18	0.18	0.18	0.18	0.01
Brazil	0.80	0.80	0.78	0.86	0.08	0.90	0.89	0.87	0.89	0.89	0.03	0.87	0.89	0.91	0.92	0.90	0.01	0.93	0.93	0.93	0.93	0.03
India	1.02	1.05	1.03	1.04	0.02	1.03	1.02	1.01	1.02	1.02	-0.02	0.99	0.97	0.98	0.98	0.98	-0.04	0.96	0.95	0.94	0.95	-0.03
Indonesia	0.76	0.76	0.73	0.70	-0.03	0.69	0.60	0.63	0.65	0.64	-0.06	0.68	0.65	0.64	0.63	0.65	0.01	0.64	0.66	0.69	0.72	0.68
Malaysia	0.33	0.36	0.37	0.35	-0.02	0.34	0.34	0.33	0.33	0.33	-0.01	0.35	0.35	0.33	0.33	0.33	0.01	0.33	0.33	0.32	0.33	-0.01
Thailand	0.35	0.33	0.37	0.35	-0.02	0.35	0.33	0.34	0.38	0.35	0.00	0.38	0.38	0.38	0.39	0.38	0.03	0.40	0.40	0.40	0.40	0.02
Vietnam	0.26	0.26	0.25	0.23	-0.02	0.23	0.23	0.23	0.23	0.23	0.00	0.22	0.22	0.25	0.26	0.24	0.01	0.25	0.25	0.25	0.25	0.01
Asia others	3.70	3.73	3.69	3.70	0.01	3.70	3.56	3.62	3.65	-0.07	3.65	3.60	3.68	3.70	3.66	0.02	3.69	3.71	3.72	3.75	3.72	0.06
Other Asia	0.77	0.78	0.76	0.76	-0.01	0.76	0.69	0.75	0.74	-0.02	0.75	0.73	0.71	0.72	0.72	0.72	-0.02	0.71	0.70	0.69	0.68	-0.03
Argentina	2.22	2.38	2.51	2.66	0.16	2.61	2.62	2.70	2.64	0.03	2.76	2.61	2.72	2.73	2.71	0.07	2.74	2.75	2.85	2.89	2.81	0.10
Brazil	0.54	0.60	0.68	0.80	0.11	0.88	0.94	0.94	0.96	0.93	0.13	0.95	0.96	1.01	1.03	0.99	0.06	1.03	1.04	1.06	1.05	0.06
Colombia	0.16	0.15	0.15	0.15	-0.01	0.14	0.14	0.13	0.13	0.14	-0.01	0.12	0.13	0.12	0.12	0.12	-0.01	0.12	0.12	0.11	0.12	-0.01
Trinidad & Tobago	0.28	0.28	0.30	0.32	0.01	0.31	0.31	0.31	0.31	0.31	0.00	0.31	0.31	0.31	0.31	0.31	0.00	0.31	0.32	0.33	0.32	0.01
Latin America others	3.97	4.20	4.40	4.68	0.27	4.71	4.69	4.85	4.75	0.07	4.89	4.74	4.87	4.90	4.85	0.10	4.90	4.92	5.03	5.09	4.99	0.13
Barain	0.21	0.21	0.21	0.20	0.00	0.21	0.21	0.22	0.21	0.01	0.22	0.22	0.22	0.22	0.22	0.01	0.23	0.23	0.23	0.23	0.23	0.01
Oman	0.71	0.76	0.81	0.86	0.05	0.89	0.87	0.89	0.89	0.89	0.02	0.89	0.91	0.92	0.91	0.02	0.92	0.93	0.93	0.93	0.93	0.02
Syria	0.42	0.41	0.41	0.42	0.01	0.42	0.42	0.42	0.42	0.37	-0.05	0.21	0.24	0.21	0.22	-0.15	0.18	0.17	0.20	0.22	0.21	-0.03
Yemen	0.33	0.30	0.30	0.29	-0.01	0.29	0.19	0.24	0.18	0.23	-0.06	0.14	0.16	0.19	0.22	0.18	-0.05	0.21	0.21	0.21	0.21	0.04
Middle East	1.66	1.68	1.73	1.78	0.05	1.81	1.69	1.72	1.55	-0.09	1.46	1.53	1.54	1.57	1.52	-0.17	1.54	1.53	1.57	1.61	1.56	0.04
Chad	0.15	0.14	0.14	0.15	0.01	0.14	0.14	0.14	0.14	0.14	0.00	0.14	0.13	0.13	0.13	0.13	-0.01	0.12	0.12	0.13	0.13	-0.01
Congo	0.24	0.26	0.27	0.30	0.02	0.29	0.29	0.30	0.30	0.30	0.00	0.30	0.30	0.30	0.30	0.30	0.00	0.30	0.29	0.30	0.30	0.00
Egypt	0.66	0.69	0.69	0.71	0.01	0.70	0.70	0.70	0.70	0.70	-0.01	0.71	0.71	0.69	0.70	0.69	0.00	0.70	0.69	0.68	0.69	-0.02
Equatorial Guinea	0.37	0.38	0.36	0.32	-0.03	0.31	0.30	0.29	0.30	0.30	-0.02	0.32	0.31	0.33	0.34	0.32	0.02	0.34	0.33	0.33	0.33	0.01
Gabon	0.25	0.24	0.24	0.25	0.01	0.26	0.24	0.25	0.25	0.25	0.00	0.26	0.26	0.26	0.25	0.25	0.00	0.25	0.25	0.25	0.25	-0.01
South Africa	0.18	0.18	0.17	0.18	0.01	0.18	0.18	0.19	0.18	0.18	0.00	0.19	0.18	0.18	0.18	0.18	0.00	0.18	0.17	0.17	0.17	-0.01
Sudan	0.48	0.46	0.48	0.46	-0.01	0.45	0.45	0.43	0.38	0.43	-0.03	0.19	0.09	0.23	0.33	0.21	-0.22	0.34	0.33	0.33	0.33	0.12
Africa other	0.28	0.27	0.25	0.23	-0.02	0.27	0.30	0.30	0.29	0.30	0.06	0.31	0.31	0.31	0.31	0.31	0.02	0.33	0.34	0.35	0.34	0.03
Africa	2.60	2.62	2.60	2.60	0.00	2.61	2.60	2.55	2.59	0.00	2.41	2.31	2.43	2.54	2.42	-0.17	2.54	2.53	2.54	2.55	2.54	0.12
Total DCs	11.94	12.23	12.43	12.76	0.33	12.84	12.55	12.67	12.67	-0.09	12.40	12.40	12.52	12.70	12.45	-0.22	12.67	12.69	12.86	12.99	12.80	0.35
FSU	12.54	12.60	12.95	13.21	0.26	13.30	13.24	13.22	13.24	0.03	13.36	13.25	13.35	13.43	13.35	0.11	13.43	13.41	13.48	13.62	13.48	0.14
Russia	9.87	9.78	9.92	10.14	0.22	10.21	10.23	10.28	10.34	10.27	0.12	10.34	10.32	10.34	10.36	10.34	0.07	10.36	10.37	10.40	10.39	0.05
Kazakhstan	1.35	1.41	1.54	1.60	0.06	1.66	1.60	1.54	1.61	1.60	0.01	1.62	1.57	1.61	1.65	1.61	0.01	1.64	1.68	1.76	1.68	0.06
Azerbaijan	0.87	0.94	1.06	1.07	0.01	1.02	0.99	0.96	0.84	0.95	-0.12	0.96	0.92	0.96	0.99	0.96	0.00	0.98	0.94	0.96	0.96	0.00
FSU others	0.45	0.46	0.44	0.40	-0.03	0.41	0.41	0.42	0.42	0.42	0.02	0.44	0.44	0.43	0.44	0.44	0.02	0.45	0.45	0.47	0.46	0.02
Other Europe	0.15	0.15	0.14	0.14	0.00	0.14	0.14	0.14	0.14	0.14	0.00	0.14	0.14	0.15	0.15	0.14	0.00	0.15	0.15	0.15	0.15	0.00
China	3.77	3.84	3.84	4.12	0.28	4.25	4.19	4.08	4.14	4.14	0.02	4.16	4.16	4.22	4.30	4.21	0.07	4.29	4.26	4.28	4.27	0.06
Non-OPEC production	48.43	48.31	49.09	50.19	1.10	50.65	49.97	50.01	50.84	50.37	0.18	51.14	50.84	50.84	51.48	51.01	0.64	51.62	51.54	51.83	52.56	0.88
Processing gains	1.99	1.97	2.00	2.11	0.11	2.12	2.12	2.12	2.12	2.12	0.01	2.17	2.17	2.17	2.17	2.17	0.05	2.21	2.21	2.21	2.21	0.04
Non-OPEC supply	50.42	50.27	51.09	52.30	1.21	52.77	52.09	52.14	52.97	52.49	0.19	53.31	52.75	53.01	53.65	53.18	0.69	53.83	53.75	54.04	54.77	0.92
OPEC NGL	3.86	4.04	4.24	4.87	0.63	5.02	5.14	5.28	5.20	5.16	0.29	5.27	5.36	5.44	5.52	5.40	0.24	5.53	5.55	5.57	5.59	0.16
Non-conventional OPEC (NGL+NCF)	0.08	0.11	0.11	0.11	0.00	0.13	0.16	0.18	0.16	0.16	0.05	0.21	0.24	0.29	0.34	0.27	0.11	0.34	0.34	0.35	0.37	0.08
Non-OPEC & OPEC (NGL+NCF)	3.95	4.14	4.35	4.98	0.63	5.14	5.30	5.38	5.32	5.32	0.34	5.49	5.60	5.73	5.86	5.67	0.35	5.87	5.89	5.92	5.96	0.24
Non-OPEC & OPEC (NGL+NCF)	54.36	54.42	55.44	57.28	1.84	57.91	57.39	57.59	58.34	57.81	0.53	58.79	58.35	58.74	59.51	58.85	1.04	59.70	59.65	59.97	60.74	1.16

Note: Totals may not add up due to independent rounding.

Table 10.7: World Rig Count

	10Q9	20Q9	3Q09	4Q09	2009	09Q8	Change				Change				Change				Jul/Jun	Change			
							1Q10	2Q10	3Q10	4Q10	2010	10Q9	1Q11	2Q11	3Q11	4Q11	2011	11Q10	1Q12	2Q12	Jun	Jul	
US	1,326	936	956	1,108	1,081	-796	1,345	1,508	1,622	1,687	1,541	459	1,717	1,829	1,945	2,031	1,881	340	1,990	1,971	1,972	1,945	-27
Canada	328	91	177	277	218	-161	470	166	364	389	347	129	587	188	443	474	423	76	599	172	226	307	81
Mexico	128	128	135	123	128	26	118	106	84	80	97	-31	83	87	103	104	94	-3	98	110	113	110	-3
North America	1,782	1,154	1,267	1,508	1,428	-931	1,933	1,780	2,070	2,156	1,985	557	2,386	2,104	2,492	2,609	2,398	413	2,688	2,253	2,311	2,362	51
Norway	25	18	18	20	20	0	21	18	13	20	18	-2	21	17	16	16	17	-1	17	18	17	15	-2
UK	22	19	16	15	18	-4	15	20	21	21	19	1	18	17	15	15	16	-3	14	19	18	15	-3
Western Europe	90	82	76	85	83	-15	87	96	92	100	94	11	118	112	123	119	118	24	112	117	115	110	-5
OECD Pacific	27	25	26	23	25	-11	22	18	23	22	21	-4	17	17	17	18	17	-4	19	25	26	28	2
Total OECD	1,945	1,299	1,368	1,616	1,557	-978	2,042	1,893	2,185	2,278	2,100	543	2,521	2,232	2,632	2,745	2,532	433	2,819	2,395	2,452	2,500	48
Other Asia	212	212	213	233	217	1	235	249	253	255	248	31	257	234	232	233	239	-9	231	216	203	205	2
Latin America	164	147	149	169	157	-34	183	203	220	213	205	48	191	192	196	201	195	-10	191	190	187	171	-16
Middle East	162	151	139	147	150	-18	152	150	163	159	156	6	101	107	102	107	104	-52	116	112	110	112	2
Africa	8	11	9	12	10	-2	20	19	19	18	19	9	1	2	0	5	2	-17	3	3	5	9	4
Total DCS	546	520	510	561	534	-52	589	621	655	645	628	93	549	535	530	546	540	-88	542	522	505	497	-8
Non-OPEC rig count	2,491	1,819	1,878	2,177	2,091	-1,030	2,632	2,514	2,840	2,924	2,727	636	3,070	2,768	3,161	3,291	3,072	345	3,361	2,916	2,957	2,997	40
Algeria	24	30	27	27	27	1	23	28	24	24	25	-2	29	33	30	33	31	6	31	31	41	45	4
Angola	5	3	3	4	4	-1	10	8	9	9	9	5	11	11	11	8	10	1	10	12	12	6	-6
Ecuador	10	10	10	10	10	0	11	11	11	11	11	1	11	11	11	15	12	1	17	17	14	20	6
Iran**	51	52	52	52	52	2	52	52	52	52	52	0	54	54	54	54	54	2	54	54	54	54	0
Iraq**	36	36	36	36	36	7	36	36	36	36	36	0	36	36	36	36	36	0	36	50	79	81	2
Kuwait**	12	11	14	13	13	0	19	18	21	23	20	8	56	56	57	60	57	37	56	56	61	62	1
Libya**	15	13	14	15	14	-1	17	17	14	15	16	1	10	3	8	9	8	-8	12	11	10	9	-1
Nigeria	7	6	6	7	6	-1	11	13	18	17	15	8	35	35	36	36	36	21	37	35	38	36	-2
Qatar	9	9	9	9	9	-2	8	8	9	9	9	0	10	8	7	7	8	-1	8	7	7	10	3
Saudi Arabia	72	67	67	66	68	-9	68	67	67	65	67	-1	98	98	98	105	100	33	106	114	115	113	-2
UAE	13	12	13	12	12	0	13	13	13	13	13	1	17	21	24	22	21	8	22	24	25	20	-5
Venezuela	69	64	54	54	60	-20	66	64	70	80	70	10	125	125	125	113	122	52	126	122	121	114	-7
OPEC rig count	322	314	302	305	311	-24	334	335	344	355	342	31	493	490	495	498	494	152	515	534	577	570	-7
Worldwide rig count*	2,813	2,133	2,180	2,483	2,402	-1,054	2,965	2,849	3,184	3,278	3,069	667	3,563	3,258	3,656	3,789	3,566	497	3,876	3,451	3,534	3,567	33
of which:																							
Oil	1,283	1,069	1,182	1,356	1,222	-210	1,590	1,534	1,783	1,896	1,701	479	2,197	2,023	2,354	2,453	2,257	556	2,709	2,528	2,673	2,699	26
Gas	1,450	993	965	1,092	1,125	-825	1,333	1,276	1,356	1,337	1,325	200	1,319	1,187	1,257	1,286	1,262	-63	1,116	879	821	823	2
Others	35	35	34	37	35	3	43	40	42	46	43	8	48	49	47	52	49	6	54	46	43	48	5

Note: Totals may not add up due to independent rounding.

na: Not available

Source: Baker Hughes Incorporated &amp; Secretariat's estimates.

\* Excludes China and FSU  
\*\* Estimated figure when Baker Hughes Incorporated did not reported the data

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## OPEC Basket average price

US\$ per barrel

<b>↑</b>	<i>up \$5.57 in July</i>	<b>July 2012</b>	<b>99.55</b>
		June 2012	93.98
		Year-to-date	110.22

## July OPEC crude production

in million barrels per day, according to secondary sources

<b>↓</b>	<i>down 0.16 in July</i>	<b>July 2012</b>	<b>31.19</b>
		June 2012	31.35

## World economy

Global growth expectations for 2012 and 2013 remain unchanged at 3.3% and 3.2% respectively. The US forecast for 2012 has been revised slightly higher to 2.2% in 2012, while 2013 remains unchanged at 2.0%. Japan is expected to decelerate from 2.5% this year to 1.2% in 2013. The Euro-zone is seen returning to growth next year of 0.1%, after a contraction of 0.4% in 2012. Growth expectations for China stand at 8.1% in 2012 and 8.0% in 2013, while India's expansion is forecast at 6.4% in 2012 and at 6.6% in 2013.

## Supply and demand

in million barrels per day

<b>2012</b>			11/12	<b>2013</b>			12/13
World demand	88.7		<b>0.9</b>	World demand	89.5		<b>0.8</b>
Non-OPEC supply	53.2		<b>0.7</b>	Non-OPEC supply	54.1		<b>0.9</b>
OPEC NGLs	5.7		<b>0.4</b>	OPEC NGLs	5.9		<b>0.2</b>
<b>Difference</b>	<b>29.9</b>		<b>-0.1</b>	<b>Difference</b>	<b>29.5</b>		<b>-0.4</b>

Totals July not add due to independent rounding

## Stocks

US commercial oil stocks rose by 7.3 mb in July, the highest level since October 2011. Thus, they stood at 3.6 mb above the year-ago level and 27.8 mb above the latest five-year average. The build was attributed mainly to products, which increased by 16.6 mb, while crude fell 9.3 mb. In Japan, the most recent monthly data for June shows commercial oil stocks rose a further 0.5 mb. Products increased by 1.3 mb, while crude stocks abated the build and decreased by 0.9 mb.