OPEC

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

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Feature Article:
Continued divergence in key benchmarks

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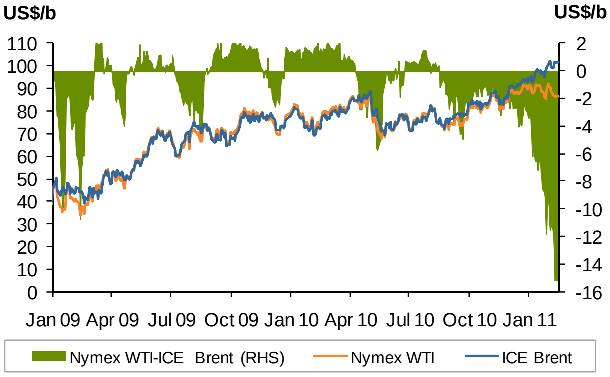
Oil Market Highlights

- The **OPEC Reference Basket** maintained its momentum in January, moving within a $90-95/b range, which resulted in a monthly average of $92.83/b, up $4.27 or 4.8% from the previous month. This upward trend was attributed to bullish sentiment in the futures markets, which pushed both Nymex WTI and ICE Brent front months to 28-month highs. Improving macroeconomic sentiment, cold weather pushing demand higher, as well as growing investment in the paper market and recent geo-political concerns, were the main contributors to the strong market. Traded volumes of ICE Brent hit a record high in January and resulted in a large premium of Brent over WTI, as WTI futures remained affected by ample stocks in Cushing, Oklahoma. The OPEC Basket stood at $96.93/b on 9 February.
- **World economic growth** remains unchanged at 4.5% for 2010 and 3.9% for 2011. OECD growth for 2011, now forecast at 2.3%, has improved due to the additional US stimulus which was introduced at the end of last year. The US is now expected to expand by 2.9% and the Euro-zone was raised to 1.4%. Growth for Developing Countries remained almost unchanged, with China growing at 9.7% and 8.8% and India at 8.0% and 8.5% in 2010 and 2011, respectively. Despite increased activity in the manufacturing sector, which has led to a broad-based improvement in global sentiment, significant challenges remain. The extraordinary sovereign debt levels and the high unemployment in the OECD, rising inflation rates, combined with the possibility of overheating in Developing Countries, constitute concerns that might influence the 2011 growth trend.
- Winter petroleum product consumption increased, leading to an adjustment in the total **world oil demand** forecast for 2010 and 2011. Furthermore, a sudden increase in natural gas prices has discouraged power plants from fuel switching, not only in the OECD, but also in some parts of Asia. Furthermore, sturdier industrial activity within the US and China, ignited by stimulus plans and government incentives, boosted demand. As a result, total world oil demand growth was revised up by around 0.2 mb/d for 2010 and 2011 to stand at 1.8 mb/d and 1.4 mb/d respectively.
- **Non-OPEC supply** is expected to have increased by 1.1 mb/d in 2010, following a marginal upward revision, mainly due to adjustments to actual fourth quarter production data. In 2011, non-OPEC oil supply is forecast to increase by 0.4 mb/d following a minor upward revision. In January, total OPEC crude oil production averaged 29.72 mb/d, according to secondary sources, representing an increase of about 400 tb/d from the previous month.
- Stronger heating oil demand due to colder-than-expected weather along with higher diesel demand has kept **product market** sentiment bullish. The sustained momentum in the middle distillate market has kept refining margins healthy, however expectations of lower demand for light distillates and fuel oil could start to exert pressure on refinery margins.
- **OPEC sailings** were steady in January at 23.6 mb/d. Dirty Spot freight rates declined in January due to plentiful tonnage supply, improved weather conditions, new Worldscale flat rates and lower tonnage demand. VLCC rates decreased 21%, Suezmax dropped 41% and Aframax declined 32% in January.
- **US commercial inventories** rose around 11 mb in January after four consecutive months of decline. The build was divided between crude and products which increased by 7.9 mb and 3.3 mb respectively. At 1074.9 mb, US commercial oil stocks in January remained well above the historical norm. The most recent data for December shows that commercial oil inventories in Japan declined by 3.1 mb, with products showing a drop of 7.1 mb, while crude continued to build, increasing by 4.0 mb. Preliminary indications show that commercial oil stocks dropped further by 4.2 mb in January.
- **The demand for OPEC crude** in 2010 is estimated at 29.3 mb/d, around 0.2 mb/d higher than the previous report. With this adjustment, the demand for OPEC crude stood at about 0.2 mb/d higher than 2009. In 2011, the demand for OPEC crude is expected to average 29.8 mb/d, up about 0.5 mb/d from 2010 and 0.4 mb/d above the previous assessment.

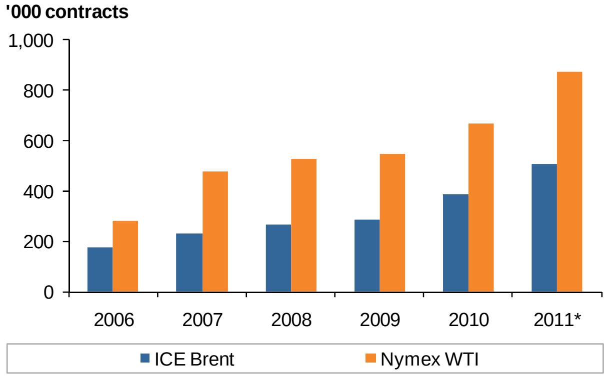
Continued divergence in key benchmarks

The US crude oil benchmark, WTI, has historically traded at a premium to its Brent counterpart, due to its relatively better quality and proximity to the world's single biggest market for crude oil. However, since 2007, the premium for Nymex WTI has at times temporarily shifted to WTI trading at a discount to ICE Brent. The deepest discount occurred in early 2009, when WTI traded at $10/b below Brent. More recently, Brent has begun to trade at a continuous premium to WTI (***Graph 1***). Between mid-August 2010 and the end of the year, the Brent premium averaged around $2.20/b, but it has widened sharply, reaching more than $15/b on 9 February. Given the influential role these benchmarks play in setting global price levels world-wide in many consuming regions, it is important to consider whether the factors driving this shift reflect wider oil market conditions.

Graph 1: Nymex WTI-ICE Brent spread, US$/b



Graph 2: Trading volume in Nymex WTI and ICE Brent



** Up to date*

There are several reasons why the US benchmark has been trading at a discount to Brent: some are related to fundamental factors, while others reflect financial developments. On the fundamentals side, the WTI price has been depressed by the excessive accumulation of physical inventories around the contract's delivery point of Cushing, Oklahoma. Following the steady increase reported in recent weeks, Cushing inventories reached a record high of 38.3 mb in the week ending 28 January. The build-up in crude in Cushing has been mainly due to infrastructural constraints, including constraints in pipelines and storage facilities, as well as limited options for moving the excess crude out of the land-locked area. As a result, the WTI contract has been responding more to local conditions, rather than reflecting broader market trends. This situation is likely to persist, as these infrastructural issues will not likely be resolved before the end of 2012 at the earliest.

At the same time, the strengthening of ICE Brent has occurred for reasons specific to that benchmark. Production in the mature North Sea fields, whose crudes make up the Brent contract, have been declining for several years. Oil field maintenance and unexpected outages have at times further reduced output. This was the situation in February, when the number of available cargoes underlying the contract dropped sharply, leading to the possibility of a squeeze in the market. As a result, the Brent front-month contract surged, pushing the forward structure temporarily into backwardation. Moreover, the inadequate physical base for ICE Brent is bound to increase the potential risk of squeezes and distortions as has been seen in the past.

In addition, financial factors have also been driving the recent strength in ICE Brent. Over the last year, there has been growing investor interest in the North Sea benchmark, given its strong role in pricing physical market trade as well as direct and indirect links to the increasing demand in Asia. In 2010, the traded volumes for both benchmarks set record highs, even higher than the levels seen in 2008 (***Graph 2***). While the volume of WTI traded rose by just under 25%, the Brent volume traded increased by more than 43%. This growing interest has also been reflected in commodity indices, which have recently been re-weighted to provide increased exposure to ICE Brent. The increase in investment flows could also be a factor behind the higher price fluctuations in Brent, relative to WTI. ICE Brent has moved within a $30 range since mid-August 2010, compared to only $20 for Nymex WTI, making Brent more attractive for speculators.

Geopolitical concerns have also been putting pressure on the market. Supply fears are, however, unfounded, as any halt in shipments through the Suez Canal, or the Sumed pipeline, could be compensated relatively quickly, by rerouting crude cargoes. Even before the crisis, these routes were not being utilized at full capacity, mainly due to the ample tanker availability on other routes.

As can, therefore, be seen, recent price trends in the WTI and Brent benchmarks are more a reflection of the specific circumstances of their underlying crudes, rather than an indicator of any tightness in the physical market as a whole. In view of evolving market dynamics in recent years, this raises questions about their ongoing effectiveness as barometers for the international crude market.

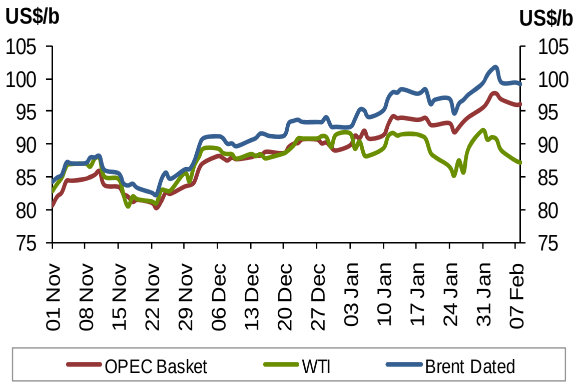
Crude Oil Price Movements

OPEC Basket moved within a higher range of $90-95 in January 2011

OPEC Reference Basket

The OPEC Reference Basket maintained its momentum in January to move within a higher range of $90-95/b compared to $85-90/b in December, resulting in a monthly average of $92.83/b, up $4.27 or 4.8% from the previous month and $16.82 or 22% from January 2010.

Graph 1.1: Crude oil price movement



Following this increase – the sixth month in a row – the OPEC Reference Basket stood at its highest level since the $96.85/b of September 2008.

Again, the continuous upward movement in the OPEC Basket was driven by a rally in crude oil futures prices, particularly those of Brent.

All Basket components increased, particularly Brent-related crudes, which showed higher gains than the Basket and other components. African crudes – Saharan Blend, Es Sider, Bonny Light and Girassol – rose by between 5.3% and 5.5%. Bonny Light and Saharan Blend stood at the top of list with $98.10/b and $97.50/b respectively, after having gained more than $5/b each. African crudes were supported by strong demand from European and Asian buyers as well as tight supply, particularly following disruptions in the North Sea in early January. Most March cargoes of Girassol were sold up to Dated Brent plus 30-50¢/b.

Middle Eastern crudes increased further as the market remained bullish after Oman traded at high premiums of around 55¢/b to Dubai quotes, supported by expectations that refiners from the US West Coast would look for alternative grades around the Pacific following the shutdown of the Trans-Alaska-Pipeline. In addition to strong demand from Asian buyers, the naphtha crack reaching a 3-year record high and gasoil crack spreads standing at their strongest levels in two years also contributed to the bullishness of the Middle East crude oil market. However, Middle Eastern crudes came under pressure at the end of the month on the back of higher availability of prompt cargoes and weaker naphtha cracks, which fell to a four-month low. Middle Eastern grades were also pressured by lower premiums of rival ESPO, which fell from December record highs. At the end of the month, Oman cargoes were valued as low as minus 20¢/b to Dubai quotes, compared to plus 40-55¢/b previously. The widening Brent/Dubai spread also continued supporting Middle East market sentiment by limiting the opportunities of arbitrage for African and Russian crudes to Asia.

Apart from Qatar Marine and Murban, which rose 4.0% and 4.4% respectively, the remaining Middle Eastern grades showed increases higher than the average of the Reference Basket, with Iran Heavy leading gains with 5%, followed by Arab Light with 4.9% and Basrah Light and Kuwait Export with 4.8% each.

Latin American crudes Merey and Oriente followed the same trend and increased further by 4.4% and 2.2%, supported by stronger demand from US West Coast refiners as the shipment of the Alaskan crude was interrupted in the second week of January following the shutdown of the Trans-Alaska-Pipeline. Latin American crudes weakened once Alaskan crude started flowing again through the pipeline, after repairs at the North Slope pumping station were made.

The OPEC Reference Basket moved beyond $95/b on the last day of January before standing at $97.71/b in the first week of February, following an upward trend of seven consecutive gains as market sentiment strengthened further.

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

	Dec 10	Jan 11	Change Jan/Dec	Year-to-Date 2010	Year-to-Date 2011
OPEC Reference Basket	**88.56**	**92.83**	**4.27**	**76.01**	**92.83**
Arab Light	89.24	93.59	4.35	76.46	93.59
Basrah Light	88.09	92.33	4.24	75.74	92.33
Bonny Light	93.08	98.10	5.02	77.39	98.10
Es Sider	91.13	96.10	4.97	76.14	96.10
Girassol	91.36	96.18	4.82	76.78	96.18
Iran Heavy	87.81	92.22	4.41	75.72	92.22
Kuwait Export	87.25	91.45	4.20	75.69	91.45
Marine	88.98	92.69	3.71	77.07	92.69
Merey	77.30	80.09	2.79	71.27	80.09
Murban	91.06	95.04	3.98	78.19	95.04
Oriente	82.99	84.80	1.81	72.94	84.80
Saharan Blend	92.46	97.50	5.04	76.79	97.50
Other Crudes					
Minas	94.98	99.74	4.76	79.82	99.74
Dubai	89.17	92.33	3.16	76.69	92.33
Isthmus	88.17	90.46	2.29	76.10	90.46
T.J. Light	85.97	88.37	2.40	74.66	88.37
Brent	91.53	96.35	4.82	76.19	96.35
West Texas Intermediate	89.15	89.49	0.34	78.30	89.49
Urals	89.74	93.56	3.82	76.09	93.56
Differentials					
WTI/Brent	-2.38	-6.86	-4.48	2.11	-6.87
Brent/Dubai	2.36	4.02	1.66	-0.50	4.03

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

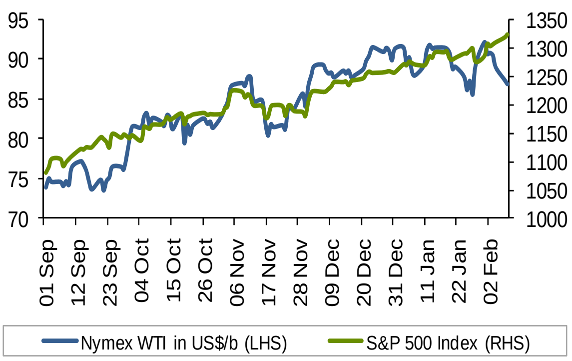
Source: Platt's, Direct Communication and Secretariat's assessments

The oil futures market

US crude oil futures rose further to average $89.58/b in January, up $11.18 from a year ago

Crude oil futures market sentiment remained bullish in early 2011 with Nymex WTI and ICE Brent hitting their highest levels since September 2008.

Graph 1.2: Nymex WTI futures and S&P 500 Index



On the Nymex, the WTI front-month started 2011 above $91.5/b, supported, like the equity markets, by positive macro-economic data showing US manufacturing growing at its fastest pace in seven months in December and marking the 17th consecutive month of growth in the manufacturing industry. Supporting data was not limited to the US, but was also to be found in the Euro-zone where the Markit Euro-zone PMI, which records manufacturing activity across all the major euro-area economies, strengthened. Additionally, expectations of another decline in US crude oil stocks in the last week of December– the fifth decline in a row – contributed to bullishness in the oil market. Prices faced resistance and retreated in the following days to settle around $88/b on 7 January on the back of profit-taking by investors. However, the correction was temporary, with the WTI front-month price moving higher to $91.86/b in the second week of January, supported by concerns about supplies following the shutdown of the Trans-Alaska-Pipeline because of a leak at the North Slope pumping station. There was also a shutdown of the Snorre and Vigdis fields in the North Sea by Statoil, due to a gas leak. Data showing US crude oil inventories fell for the sixth consecutive week added more support to crude oil WTI futures and further positive macroeconomic data on US industrial output and retail sales also added more support to WTI futures. Additionally, prices were to some extent lifted by a relatively weaker US dollar. Prices remained above $90/b until 20 January when WTI settled at $88.86/b before falling to $85.64/b in the middle of the last week of the month following news that shipments through the Trans-Alaska-Pipeline would soon flow at normal rates and that US crude oil inventories had risen unexpectedly in the previous week. The Nymex front month rose sharply in the last two trading days to settle at $92.19/b on 31 January, after data showed the US economy grew 3.2% in the fourth quarter of 2010, fuelling sentiment among investors with expectations of strong oil demand. Prices were also driven by growing demand, particularly because of the cold weather.

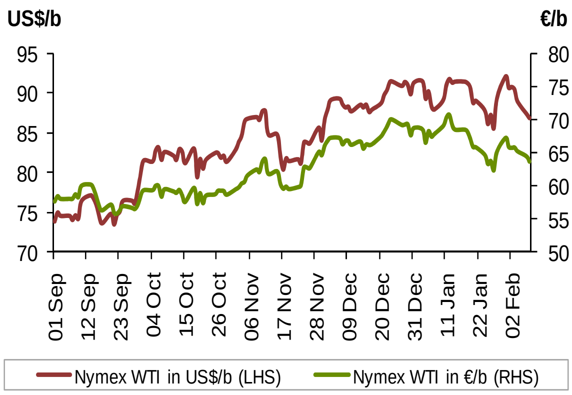
On a monthly basis, the Nymex WTI front month rose 35¢ to average $89.58/b. Compared to a year earlier over the same period, WTI gained 14.3% in January 2011.

WTI front-month prices and the S&P 500 Index continued to move in tandem, with macroeconomic sentiment remaining one of the main driving forces of crude oil market direction.

ICE Brent rose further by $4.65 in January to average $96.91/b

ICE Brent continued to perform better than Nymex WTI, gaining a further $4.65, or 5%, to average $96.91/b in January compared with a gain of just 35¢ or 0.4% for Nymex WTI, resulting in a Brent-WTI spread of $7.33/b. ICE Brent started the year at around $94.8/b to later flirt with $100/b – lifted essentially by supply disruptions in the North Sea – but failed to settle at this level. Nevertheless, the Egyptian turmoil added more concern about supply tightness, which helped ICE Brent break $100/b and settle at $101.01/b on the last trading day of January, the highest since end-September 2008.

Graph 1.3: Nymex WTI futures in US$/b and €/b

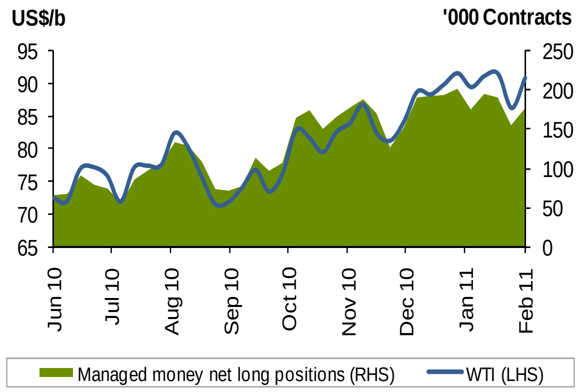


ICE Brent increased further in early February to move beyond $102/b on continuous fears about a supply shortage from the Egyptian unrest, which eased.

Increasing investor interest in the crude oil paper market, particularly in ICE Brent contracts, also remained behind the rise in crude oil prices. Open interest of both Nymex WTI and ICE Brent rose significantly in January to hit a record-high. Open interest of Nymex WTI futures reached almost 1.52 million contracts in mid-January, 15% higher than a year ago and 30% higher than mid-January 2009. For ICE Brent, open interest increased at a higher level, moving for the first time beyond 900,000 contracts in January to hit a record high of almost 965,000 on 26 January, implying an increase of 27% from a year earlier and 55% from 26 January 2009.

Crude oil futures prices continued to move in line with speculator activity. Money managers cut their net long crude oil futures positions on Nymex from their record high, or more than 202,000 in the week through 28 December, to less than 176,000 contracts in the following week, a week when prices fell below $90/b. Money managers again cut their net long positions in the week through 25 January to less than 156,000 contracts, the lowest since the week ending 30 November, coinciding with a sharp decline in the WTI front-month price by $5.2 to settle at 86.19/b, the lowest since end-November, on a weekly basis. However, speculators increased their net long positions again by 21,000 contracts to 176,450 lots in the week through 1 February.

Graph 1.4: Nymex WTI price vs. Speculative activity

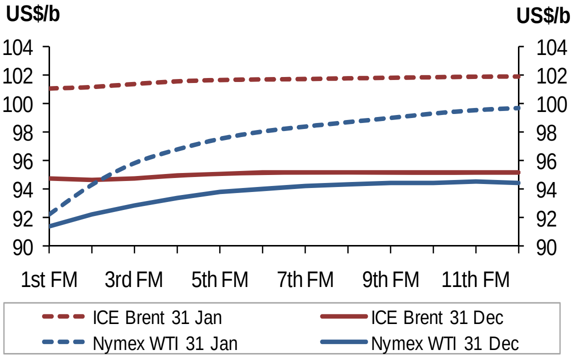


The WTI contango widened, while for ICE Brent, just the front of the curve was in backwardation

The futures market structure

Ample stocks at Cushing, Oklahoma, the physical delivery point for WTI, which hit a fresh record high recently, continued to pressure prompt prices of Nymex WTI. The spread between the second and the first months more than doubled in January to average $1.8/b compared with 61¢/b in December, the highest since $2.77/b of May 2010, when the WTI front month lost more than $10 in just once month and stocks at Cushing, Oklahoma approached 38 mb, a record high at the time. The forward months at the end of the curve increased more than those at the front of the curve. While the spread between the second and the first month rose 126%, the spread between the sixth and the first month increased 134% to average more than $4.8/b. The difference between the 12th and the first month jumped by more than 150% to around $6/b. High inventories will likely keep Nymex WTI mostly in contango in 2011 with the consequence of seeing more crude moving to storage, including floating storage.

Graph 1.5: Nymex WTI and ICE Brent forward curve



FM = future month

ICE Brent remained in backwardation at the front of the curve most of the time for January. For the whole month, the spread between the second and the front month even widened to an average of minus 11¢ compared to minus 1¢ in December, while forward months remained in contango. The spread between the second and the first month moved to up to 15¢ on 28 January, the highest since mid-December's 19¢. The shift in contango reflects current ample supply and growing fears of a supply shortage in the future because of the Egyptian turmoil.

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

Nymex WTI	1st FM	2nd FM	3rd FM	6th FM	12th FM
31 Jan 2011	92.19	94.28	95.82	98.05	99.71
31 Dec 2010	91.38	92.22	92.91	94.06	94.43

ICE Brent	1st FM	2nd FM	3rd FM	6th FM	12th FM
31 Jan 2011	101.01	101.12	101.34	101.67	101.88
31 Dec 2010	94.75	94.67	94.81	95.15	95.15

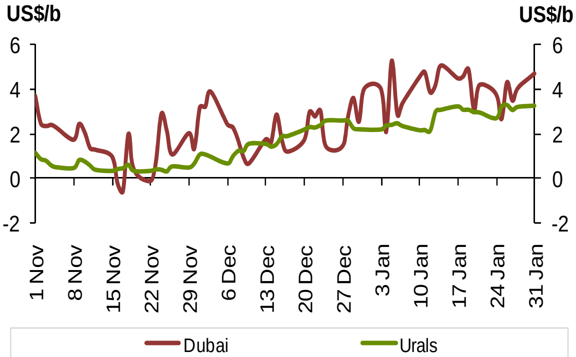
FM = future month

WTI sold at a huge discount to Mars sour, while Dated Brent strengthened against other grades

The sour/sweet crude spread

The weakness in WTI because of storage infrastructure constraints at Cushing made US spot crude lose ground against other grades. Mars sour crude, which usually sells at a discount to WTI because of its lower quality, has been trading at a premium since the first week of December 2010. The WTI discount to Mars sour widened to almost $3/b in January from 12¢/b in December and a premium of $1.4/b in November 2010. The discount moved beyond $6.8/b in early February. The differential between Light Louisiana Sweet and WTI rose to more than $12.5/b on 27 January compared with an average of around $5.2/b in December 2010.

Graph 1.6: Brent Dated vs. Sour grades (Urals and Dubai) spread



Contrary to WTI, tight local supply continued to support Dated Brent. The Dated Brent premium over Urals strengthened for the second consecutive month to average nearly $2.8/b in January, up $1 from the previous month and a record high since July 2008 when Brent hit an all-time high.

Bullish sentiment in the Brent market also helped Dated Brent gain further on Dubai, resulting in a Brent-Dubai differential of more than $4/b in January, up $1.66 or 70% from the previous month. However, a year ago, Dubai was trading at premium of 50¢/b on average to Dated Brent due to reduced availability of Middle Eastern supplies at that time.

Commodity Markets

Although increasing at slower pace of growth in January, commodity prices remained high and volatile

Trends in selected commodity markets

The World Bank (WB) energy index increased by 4.3% m-o-m in January, slowing down compared to 6.7% a month earlier, while the **non-energy commodity price index** went up at a slightly higher rate in January by 5.4% m-o-m, compared to 4.8% m-o-m the previous month. Commodity prices have been extremely volatile following macroeconomic news, especially those concerned with public debt in the Euro-zone and indicators in the US as well as inflation and monetary policy in the emerging economies.

Table 2.1: Commodity price data, 2010-2011

Commodity	Monthly averages			% Change		
	Nov 10	Dec 10	Jan 11	Nov/Oct	Dec/Nov	Jan/Dec
World Bank commodity price indices for low and middle income countries (2000 = 100)						
Energy	287.8	307.2	320.4	3.6	6.7	4.3
Coal, Australia	103.2	115.2	137.0	5.9	11.7	18.9
Crude oil, average	84.5	90.0	92.7	3.4	6.5	3.0
Crude oil, Brent	85.7	91.8	96.3	3.3	7.2	4.9
Crude oil, WTI	84.2	89.1	89.4	2.9	5.8	0.3
Natural gas index	151.1	158.8	170.6	4.3	5.1	7.5
Natural gas, US	3.7	4.2	4.5	8.6	13.7	6.0
Non Energy	305.6	320.2	337.6	3.2	4.8	5.4
Agriculture	264.0	278.3	294.5	5.0	5.4	5.8
Beverages	264.6	277.4	289.8	2.9	4.8	4.5
Food	259.3	273.1	284.8	4.3	5.3	4.3
Soybean meal	429.0	433.0	452.0	4.9	0.9	4.4
Soybean oil	1247.0	1322.0	1384.0	7.8	6.0	4.7
Soybeans	525.8	547.0	572.0	6.7	4.0	4.6
Grains	255.9	271.8	281.0	2.6	6.2	3.4
Maize	238.2	250.4	264.9	1.0	5.1	5.8
Sorghum	203.2	221.6	246.3	1.1	9.0	11.2
Wheat, Canada	376.2	408.9	440.5	2.9	8.7	7.7
Wheat, US, HRW	274.1	306.5	326.6	1.4	11.8	6.5
Wheat, US, SRW	278.5	308.6	320.4	4.1	10.8	3.8
Sugar US	85.6	84.7	84.8	1.6	-1.1	0.1
Raw Materials	407.2	442.6	501.2	10.4	8.7	13.3
Fertilizers	332.7	339.8	347.8	5.5	2.1	2.4
Base Metals	331.0	350.9	367.2	0.8	6.0	4.6
Aluminum	2333.1	2350.7	2439.5	-0.6	0.8	3.8
Copper	8469.9	9147.3	9555.7	2.1	8.0	4.5
Iron ore	182.0	182.0	194.0	0.0	0.0	6.6
Lead	237.7	241.3	260.2	-0.1	1.5	7.8
Nickel	22909.3	24111.2	25646.3	-3.8	5.2	6.4
Steel products index	233.5	233.5	240.9	-0.5	0.0	3.2
Tin	2551.9	2616.3	2746.5	-3.1	2.5	5.0
Zinc	229.2	228.1	237.2	-3.4	-0.5	4.0
Precious Metals						
Gold	1369.9	1390.6	1356.4	2.1	1.5	-2.5
Silver	2657.2	2937.4	2855.2	13.2	10.5	-2.8

Source: World Bank, Commodity price data

The **WB energy commodity index** (crude oil, natural gas and coal) gained 6% m-o-m compared to 4.8% the previous month. Prices in the complex were driven by easing growth in Henry Hub (HH) natural gas and crude oil, while coal prices were pressured by the flood in Australia.

The **HH natural gas price** increased by 6% m-o-m, significantly lower growth than the 13.7% achieved the previous month. Gas prices benefited from cold weather causing strong heating demand and expected higher industrial demand due to positive macroeconomic data, but the increase in demand could not match the supply expansion. The outlook for the market remained bearish due to high production and declining, but still high, stocks. It must be pointed out that the forecast for normal and above-normal temperatures in mid February also exerted pressure on this market. The US Energy Information Administration forecasts strong supply of natural gas for the rest of 2011 and 2012, which should keep prices under $5/MMBtu as spring approaches.

The **WB non-energy commodity price index** increased further by 5.4% m-o-m in January from 4.8% m-o-m in December amid extremely volatile markets.

Industrial metal prices saw lower growth rates but the outlook for 2011 is bullish

The **WB industrial metal price index** was up by 4.6% m-o-m in January compared to 6% m-o-m a month earlier. There was mixed performance in the complex. The slowing growth trend in metal prices took place in the first half of January, with a rebound taking place mainly in the second half of the month. Industrial metal prices were very volatile.

Copper at Comex rose by 4.5% m-o-m compared to 8% in December as a result of rising inventories at the LME (4%). Although copper prices still went up on strong fundamentals, the low activity caused by the Chinese New Year holiday weighed on the market and Chinese imports in December declined, which may be due to destocking. On the other hand, the market is expected to be in deficit during 2011, because of underperformance of the mines, which was reflected in the world mine capacity utilization rate being below 80%. At the same time, demand recovered in Europe, US and Japan.

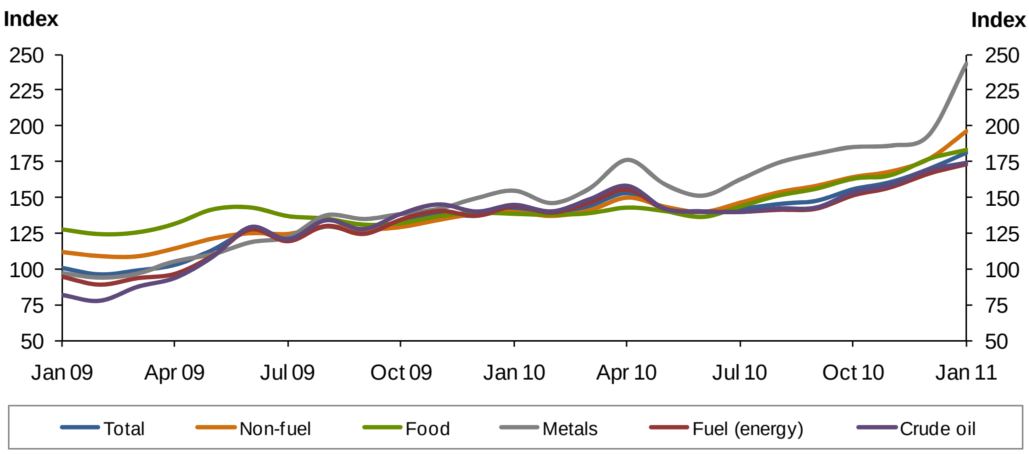
Aluminum at Comex rose further by 3.8% in January, compared to 0.8% in December, on positive sentiment that demand should remain healthy in 2011. For some analysts, zinc prices may find support from long-lasting Chinese power cutting measures that will imply high global aluminium trade and a contraction of inventories.

Tin prices at Comex jumped by 5% m-o-m in January compared to 2.5% in December on the worsening of supply concerns.

Nickel prices at Comex gained 6% in January compared to 5% in December. This market has been experiencing the impact of energy efficiency measures in China and the foreseen delays in some refinery starts. There was healthy demand in January and inventories at the LME remained stable. Additionally, the floods in Australia and the associated spike in the coking coal price further undermined the belief that the increasing cost of production for Chinese NPI producers will last.

Agricultural prices grew by 5.8% m-o-m in January compared to 4.8% a month earlier. Some correction took place in the grains complex, but outlook for prices is bullish due to strong fundamentals owing to supply downgrades linked to bad weather, healthy demand – including China – and inventory declines as the spring planting season begins in the Northern Hemisphere. There was a downgrade of crops for corn and soybeans by the USDA on 13th. January. Wheat prices saw much more moderate increases due to record price levels in the last months and the more modest support from the USDA report for wheat.

Graph 2.1: Major commodity price indexes, 2009-2011



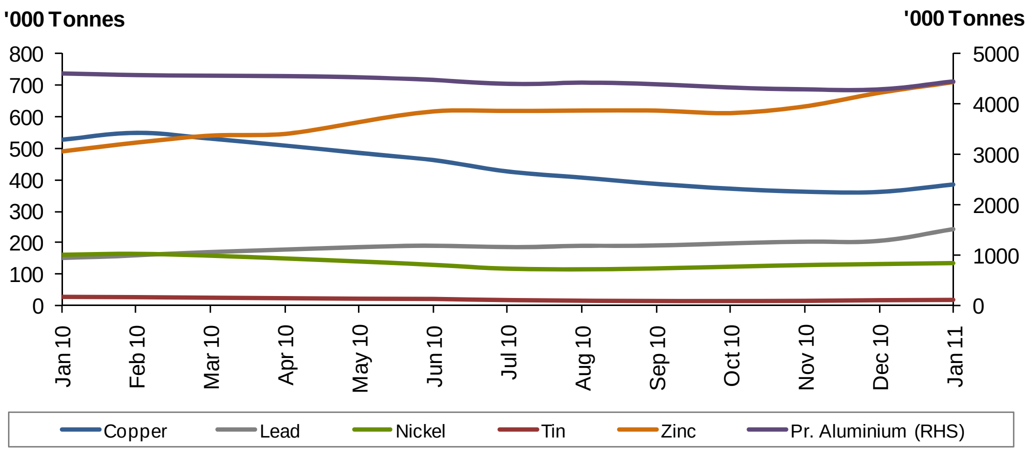
Commodity price index, 2005 = 100

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

US sugar prices increased slightly by 0.1% in January after a 1.2% fall in December and experienced a huge jump at the CBO at the end of the month and beginning of February. The factors behind this upward movement are as follows: Speculation on the possibility that the visit of the Chinese President to the US could be used to order grains; downward revisions for the ending stocks and the stocks-to-use ratio in the US forecast by the USDA; high demand for ethanol exports – the perception that US demand would remain strong and the impulse was given by high crude oil prices; continued rains which are expected to damage Argentinian sugar crops and speculative activity.

Graph 2.2: Inventories at the LME



Gold prices decreased further by 3% m-o-m in January despite a weaker dollar. Gold and silver dropped by around 3% m-o-m in January to stand at $1342.1/oz and $27.44/oz, respectively, despite the dollar weakening against the euro. This was related to the following factors: The continuation of better-than-expected macroeconomic data; the CME renewed increase in margin requirements; a decline in ETP flows and speculative interest.

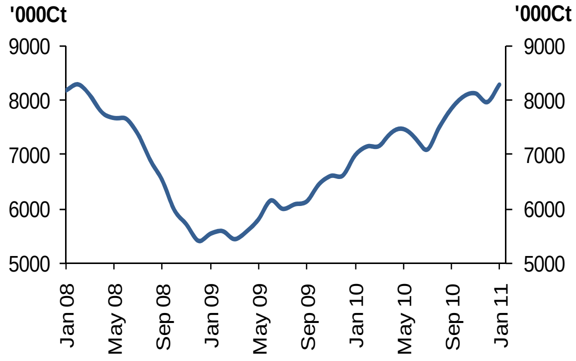
Investment flow into commodities

Open interest volume for US commodity markets rose in January

Data from the CFTC recovered by 3.9% m-o-m for open interest volume (OIV) to 8,417,975 contracts for major US commodity markets in January. WTI, Livestock and natural gas gained the most.

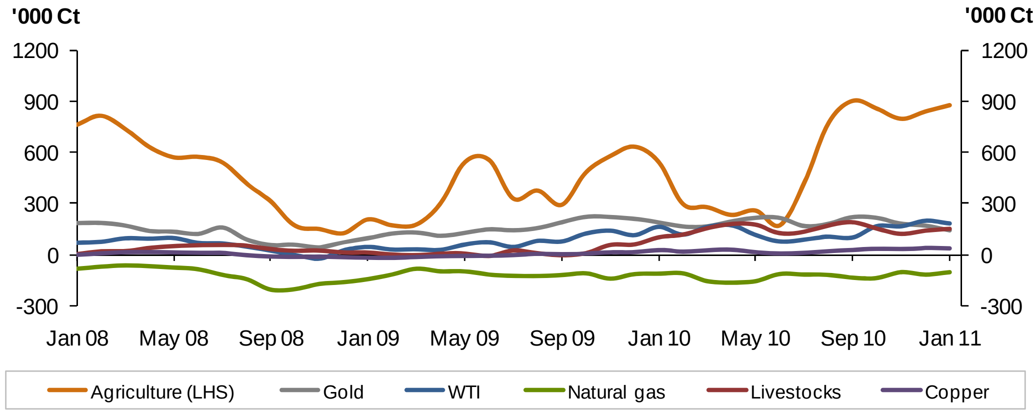
Long and short positions of money managers went up by 1.1% m-o-m in January compared to December, so net length as percentage of OIV remained flat at 71.5% in January.

Graph 2.3: Total open interest volume



Source: CFTC

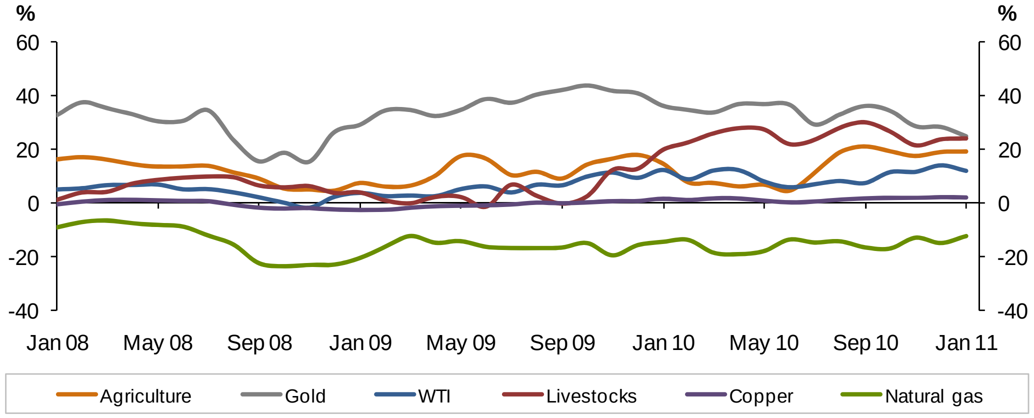
Graph 2.4: Speculative activity in key commodities, net length



Source: CFTC

Agricultural OIV recovered the losses from the previous month, rising by 3.4% m-o-m to stand at 4,622,543 contracts in January. A 2.2% m-o-m increase in money manager longs compared to a 8.9% m-o-m drop in shorts resulted in the speculative net length as percentage of OIV to rise slightly to 18.9% in January from 18.7% in December. Investors focused their interests on the grain markets.

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



Source: CFTC

OIV growth for **precious metals** fell by 3.6% m-o-m to 702,210 contracts in January compared to a 8% drop in the previous month. A drop of 9.7% m-o-m in money manager longs, combined with a jump of 65.8% m-o-m in shorts caused the net length as a percentage of open interest volume to drop from 26.7% in December to 23.3% in January.

Nymex natural gas open interest volume rebounded by 5.9% m-o-m to 818,378 contracts in January, from a drop of 1.6% in December to 772,752 lots. Money mangager long positions jumped by 10.5% m-o-m in January while short positions delined by 1.3%. Thus, the net length as percentage of OIV declined from minus 15.0% in December to 12.5% in January.

Copper OIV slipped by 0.2% m-o-m to 163,365 contracts in January. Money managers' short positions saw a strong 26.7% m-o-m increase while longs only gained 2.9%. As a result, the net speculative length as percentage of OIV declined by 5.6% m-o-m to 21% in January. This occurred parallel to a moderation in the growth trend in copper prices.

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

		Net length							
	Open interest	**Swap positions**		**Money positions**		**Other positions**		**Non-commercials**	
	Jan 11	**Jan**	**% OIV**	**Jan**	**% OIV**	**Jan**	**% OIV**	**Jan**	**% OIV**
Crude Oil	1491	-44	-3	180	12	-22	-2	114	8
Natural Gas	818	191	23	-102	-12	-101	-12	-12	-1
Agriculture	4623	756	16	873	19	288	6	1,917	41
Precious Metals	702	-80	-11	164	23	42	6	125	18
Copper	163	37	23	35	21	-6	-3	66	40
Livestock	620	190	31	150	24	-31	-5	309	50
Total	**8,418**	**1,050**	**12**	**1,299**	**15**	**170**	**2**	**2,519**	**30**
		Net length							
	Open interest	**Swap positions**		**Money positions**		**Other positions**		**Non-commercials**	
	Dec 10	**Dec**	**% OIV**	**Dec**	**% OIV**	**Dec**	**% OIV**	**Dec**	**% OIV**
Crude Oil	1380	-34	-2	195	14	-30	-2	132	10
Natural Gas	773	164	21	-116	-15	-74	-10	-26	-3
Agriculture	4469	800	18	836	19	280	6	1916	43
Precious Metals	728	-103	-14	194	27	56	8	148	20
Copper	164	38	23	37	22	-6	-4	68	42
Livestock	586	187	32	140	24	-23	-4	303	52
Total	**8,099**	**1,053**	**13**	**1,286**	**16**	**202**	**2**	**2,541**	**31**

World Economy

Table 3.1: Economic growth rates 2010-2011,%

	World	OECD	USA	Japan	Euro-zone	China	India
2010	4.5	2.8	2.9	4.3	1.5	9.7	8.5
2011	3.9	2.3	2.9	1.5	1.4	8.8	8.0

Industrialised countries

USA

The US economy continues its expansion, supported by fiscal and monetary stimulus. The 4Q10 GDP expansion was recorded at 3.2% and with the labour market showing slight improvements, business and consumer confidence starts to rise again.

The US economy enjoys a surprisingly solid recovery. Not only is the latest 4Q10 GDP number of 3.2% evidence that the recovery has maintained momentum at the end of the year, the most recent labour market numbers for January also show the recovery is gaining traction. This appears to be, to a large extent, the result of the continued effort by the US administration to support the economy through fiscal and monetary stimulus. But the improvement in the labour market could be the start for a broad-based recovery. Still, it seems that this may take some years, and the side-effect will be the highest debt level witnessed for many decades, but it probably paves the way for a consumer-led upswing. It should be expected that the recovery will face challenges, but the current trend is – at least in the short-term – encouraging. The most recent labour market report provided the positive headline message that the unemployment rate declined from 9.4% to 9.0% in January. Given that consumption is the major element of the US economy and that the labour market is of great importance to a broad-based recovery, a closer look into the most recent labour market report should offer more evidence of whether a consumer-led recovery might be expected.

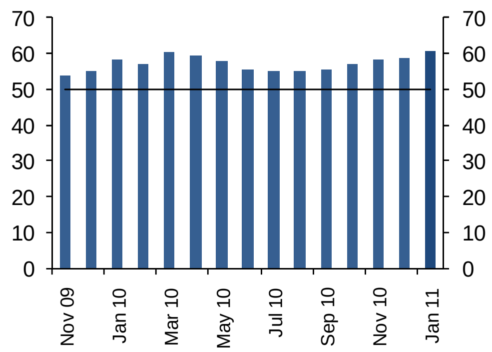
The participation rate (the civilian labor force as a percent of the civilian non-institutional population) fell to a new 25 year low of 64.2%. From a macro-economic point of view, this is not very convincing, even if the unemployment rate is improving. The population that is not registered in the labour-force has grown to a record of 86.2 million people. But the number of people that were leaving the labour force because they were discouraged by meager job-prospects fell by 25% in January, giving the improvement in unemployment a better standing. The number of people who are looking for a job and are not accounted for in the labour force has declined from 6.47 million in December to 6.41 million in January. But while the December number was the highest since January 1994, the improvement is relatively minor. The average duration of unemployment increased to 36.9 weeks in January from 34.2 weeks in December, again a new 25 year high.

So while the current trend in the labour market is mixed and slightly geared to the positive side, the improvements will take time. It must be remembered that more than 8.8 million jobs were lost from February 2008 to February 2010 in the most important non-farm private sector, and that within these two years there was not one single month with a positive job growth number. Since March 2010, there have been 11 months with job additions, and they only sum up to 1.3 million. The January number with 50,000 job additions marked the lowest level.

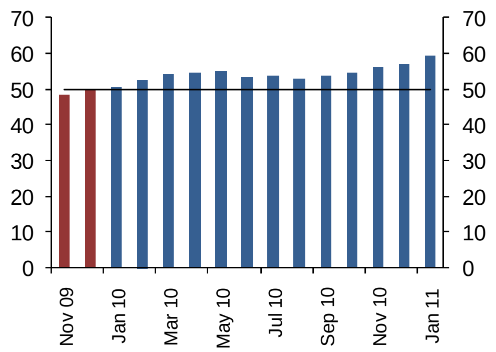
Confidence, in general, has improved in the US. Consumer confidence has improved just recently, with the index of the University of Michigan reaching its highest level since June 2010 in December, at 74.5. It stayed at almost the same level (74.2) in January, but even more importantly, the sub-index of the economic expectations moved up to 69.3 from 67.5 in December. The index of the conference board painted an even more bullish picture, increasing to 60.6 in January from 53.3 in December.

The positive sentiment can also be observed in the business sector. The ISM for manufacturing in January increased to 60.8 from 58.5 in December. This is the highest level in almost seven years. The new orders index – as a front running indicator – gave strong indication of a continued expansion at 67.8, having moved up from 62.0 over the same period. In addition, the ISM for the services sector moved higher to 59.4 from 57.1.

Graph 3.1: ISM manufacturing index



Graph 3.2: ISM non-manufacturing index



Source: Institute for Supply Management

Based on the stimulus-infused positive trend, the growth expectations for 2011 were increased to 2.9% from 2.6% in the previous forecast, while the 2010 expectations were increased by 0.1 percentage point to 2.9%. The development in the near future of the manufacturing sector and the labour market may provide more evidence as to whether the the most recently announced stimulus will finally lead the economy onto a sustainable recovery path.

Japan

Japanese GDP growth is expected to continue in 2011 at a lower level than in 2010. Exports continue to expand again, after the lows in October, while the stimulus-led domestic consumption growth has come to an end recently.

Japan experienced impressive growth in 2010, but it should be remembered that this followed a 6.3% decline in 2009 and a decline of 1.2% in 2008 so that the absolute level of Japanese GDP remains at 2006 levels. The signals are currently pointing – like in the other OECD countries – at a continued expansion, although the growth trend in 2011 is expected to be at a lower level than in 2010. Also, growth in 4Q10 is expected to be negative when compared to 3Q10, due to the end of some very effective stimulus measures that were ended in 3Q. The measures had lifted the quarter's domestic demand growth.

Exports are beginning to improve again. While the expansion in exports was 7.8% y-o-y in October, the rate has since recovered to 9.1% y-o-y in November and to 13.0% y-o-y in December. This expansion has been led by a recovery in shipments to the Asian economies, mainly China, which constitutes Japan's most important business partner. The success of the Chinese economy in avoiding overheating so far and continuing to grow at high single digit levels, combined with the successful stimulus measures at the end of last year in the US (an equally important export market), might enable Japan's export-led growth to continue. One important factor that must be considered is the re-emerging strength of the yen. This seems to have contributed to a decline in Japanese exports in 4Q10, but much of the currency impact should have been felt already and should not be an issue in the near future if the yen does not strengthen beyond the current level of around ¥83/$ (the average over the previous three months).

The domestic front is expected to improve, but compared to the trend in exports it is still lagging momentum. Total retail sales declined in December by 2.0% y-o-y, after an increase of 1.5% in November and a decline of 0.2% in October. This makes 4Q10 the worst quarter in retail sales for 2010, which is certainly the result of the ending stimulus in relation to various consumer goods. In particular, motor vehicle sales were highly incentivized up to the end of 3Q, but sales declined by a monthly average of almost 25% y-o-y in 4Q10. For the near future, the lowered unemployment rate might support domestic demand. It decreased from 5.1% in November to 4.9% in December. Another supportive element for local demand might be the expectation of the re-emerging inflationary trend. On a yearly base, the consumer price index expanded by 0.2% in October, by 0.1% in November and was flat in December, but it must be noted that this inflationary trend is mainly driven by the rise in energy and food prices. Therefore it could turn negative quickly, should prices in these volatile areas start to fall again.

Business sentiment is still on the positive side in Japan. The Markit PMI numbers, particularly for the manufacturing sector, were pointing at a continuation of the growth trend in the 1Q11. The PMI for manufacturing moved above the expansion-indication 50 level for the first time since last August, to 51.4 in January after 48.3 in December.

This provided hope that following a potential decline in GDP in 4Q10, the economy is recovering from this quarterly decline. A similar conclusion can be drawn when looking into the PMI numbers for the services sector, which moved to 50.4 in January, after 50.2 in December. This was the first time for two consecutive months that it held above the 50 level since December 2007. The growth rate of the manufacturing orders in October and November, at plus 22.6% y-o-y and 16.8% y-o-y respectively, again are supportive of a recovery. The industrial production number for December rose by 4.7% y-o-y.

The positive momentum provides evidence that the Japanese economy continues its expansion in 2011, although it is currently expected to be at a much lower level than in 2010. Both year's growth forecasts remain unchanged at 4.3% for 2010 and 1.5% for 2011, but the current development in the 1Q11 will be carefully reviewed for evidence of a potentially stronger-than-expected growth potential in the current year.

Euro-zone

The Euro-zone trend is improving with the sovereign-debt challenges contained so far and the expansion in manufacturing leading to higher growth expectations.

The Euro-zone continues to be characterized by a two-tier development. While the Euro-zone as a whole enjoys a remarkable recovery, particularly when taking into account the major issues it was facing with regards to the sovereign debt crisis last year, in the weaker countries on the Euro-zone periphery, growth is relatively sluggish. But Germany and France in particular continue to support the Euro-zone's growth. While the concerns about the sovereign debt issue have receded over the past weeks, they may return sooner rather than later, when most of the countries in weaker positions will have to refinance a large portion of their debt at potentially higher yields, i.e. risk rates. By the end of spring, the European Union will undertake the next round of stress tests for its banks, with tougher rules than those of last summer. It remains unclear, however, if these results will be published. The most recent debt auctions have been successful and most recently Portugal's yield fell back to below 7%, indicating confidence in the market that the sovereign debt crisis might be contained. By the end of 2Q11, Portugal – currently regarded as the weakest of the sovereign debt-laden peripheral countries – has to refinance 9.5bn euros, and it remains to be seen that it will successfully manage to do so.

Germany is still leading the recovery and is growing at a more solid and higher level than most of the other countries in the Euro-zone. Exports held up well in November and are still a key source of Germany's above-average expansion. They rose by 20.8% y-o-y, and while there is a small decline in the trend of the expansion, it should be noted that this is the seventh consecutive month in which exports have grown at above 20% on a yearly comparison. This is a remarkable trend and one has to look back to the beginning of the previous decade to find a similar pattern. Industrial production has maintained a rate of growth of above 10% y-o-y for the sixth consecutive month, mirroring this trend, despite a deceleration in the rate of expansion. Industrial production grew at 10.0% y-o-y in November, compared to 10.9% in October. This strong production can also be seen in Germany's utilization rate, which now stands at 84.9%. This is the highest level since the fourth quarter of 2008. The growth of manufacturing orders in 4Q10 stood at 23.8% when compared to last year's level. This is notable for the continuation of the current growth trend in 1Q11. The weakness of the German economy – while improving – remains the domestic side. Retail sales in December were muted on a yearly basis, growing only at 0.3% y-o-y, while having gained by 4.4% in November and 1.1% October. There was a still an impressive quarterly growth in 4Q10. The consumer sentiment, according to the GfK institute, continues to improve at an index level of 6.0 in February, compared to 5.8 in January and 5.7 in December last year. These are levels that were recorded at the end of 2007, a time when the outcome of the great recession was still relatively far away. In addition, the Ifo index, the widely watched German business confidence index, reached a new high of 110.3 in January. Manufacturing orders in France pointed to the upside in November and October at 16.6% y-o-y and 11.4% respectively. Indeed, industrial new orders for the whole Euro-zone exhibited 19.9% y-o-y growth in November, after 14.8% y-o-y growth in October. The growth in the Euro-zone in 1Q11 should therefore be on a sound footing.

This trend in manufacturing was also seen in the most recent Markit PMI numbers, which have improved to 57.3 in January from 57.1 in December. Business perception for the services sector, increasing by 1.7 to 55.9, has also improved over the same period.

The growing confidence is mirrored in a constantly declining savings rate that in 3Q10 fell by 13.8% (the seventh consecutive month of decline), from a level of 16.0% in 1Q09. However, while the German and the French economies are the main drivers of the expansion through the strength of their domestic retail sectors, the weaker and highly-indebted peripheral countries are suffering from austerity measures that have been implemented. Retail trade for the whole Euro-zone declined by 0.9% y-o-y in December, after a 0.8% increase in November. This relative weakness is underpinned by the labour market which had an unemployment rate of 10.0% in November (the ninth month showing an unemployment rate of, or above, 10%). A further concern with regards to domestic demand (but also for the economy as a whole), may be seen in increased inflation. It now stands at 2.4% and is well above the around 2% target the European Central Bank (ECB) considers healthy. This, in turn, could potentially put pressure on the ECB to increase interest rates soon.

While the Euro-zone is again enjoying a positive growth momentum, the underlying challenges of the sovereign debt crisis and the relatively high unemployment rate remain. Therefore, the 2010 GDP estimate remains unchanged at 1.5%. Taking into account the positive current momentum, however, the forecast for 2011 has been increased to 1.4% from 1.2% in the previous month.

Emerging Markets

Emerging economies continue to show good performance

Most emerging economies performed strongly in the closing months of 2010. Economic data and reports released on emerging markets imply a continuation of the general pattern of last year’s economic recovery in early months of this year, albeit with descending momentum in some regions. In Asia Pacific region, it is expected that most emerging economies, including China, will see their rate of growth moderated in 2011. In this region, only Indonesia might surpass its economic performance of last year.

In South Asia, the Indian economy is struggling with inflation and there have been signs that fighting inflation is taking its toll on economic growth. The same applies to Brazil, where a strong real (Brazil’s national currency) amid a widening foreign trade deficit and fiscal excess, means that raising interest rates are the only effective tool to curb inflation. However, tightening monetary policy is bound to dampen economic growth in an economy that enjoys low unemployment and faces wage inflation.

Price inflation is a major source of concern in Russia too. The Russian economy, which is still recovering from its worst recession of recent years in 2009 when investment dropped as much as 15%, has to deal with its public sector deficit, particularly in terms of the non-oil budget deficit. In December last year, the IMF stated that Russia should take more effective measures to curb its non-oil budget deficit to avoid its negative impact on growth and rising inflation. The consumer price index in Russia increased by 9.5% in January compared to the CPI of January 2010. In spite of a 25 basis point increase on 24 December 2010, the official interest rate remains quite low in Russia (3% for 1-week deposit).

The table below summarizes our estimates of economic rates of growth in four major emerging economies, namely the BRICs, for 2010 and 2011. As inflationary pressures appear to be a common concern in these economies, estimates of consumer price indices on an annual basis also are given. The table also contains estimates of trade balance and public sector borrowing requirements in these economies for the years 2011 and 2012. While Brazil enjoys a budget surplus of about 2.5% of its GDP, all other members of the group have emerged from the recent economic crisis with significant public sector deficits accumulated mainly due to fiscal expansion and stimulus packages introduced by their governments to rescue the economy from recession. These stimulus schedules were introduced to avoid economic recession, in the case of China and India, and to prevent a severe economic crisis in case of Russia, where the economy was hit in 2009 by a drop in GDP of almost -8% in real terms.

Table 3.2: Summary of macro-economic performance of the BRICs countries

	GDP growth rate		CPI,* % y-o-y		Trade balance*		PSBR,* % of GDP	
	2010	2011	2010	2011	2011	2012	2011	2012
Brazil	7.2	4.0	5.9	5.1	-64	-75	2.5	2.2
China	9.7	8.8	3.9	4.3	297	303	-2.1	-1.8
India	8.5	8.0	9.7	6.9	-50	-60	-6.7	-6.6
Russia	4.0	4.0	9.0	7.9	63	53	-2.3	-1.4
BRICs**	-	8.4	-	7.4	246	221	-2.6	-2.4

CPI = Consumer price index
PSBR = Public sector borrowing requirement

*Source: *Consensuses forecast, January 2011, figures for trade balance are rounded*
*** Weighted average*

Signs of slowing economic activity in Brazil

Brazil

There have been signs of economic activities slowing down in Brazil since quarter four last year. In January, industrial production fell 0.7%, having a negative impact on other sectors. In December 2010, the manufacturing PMI increased from 49.9 to 52.4 and improved further in January 2011. Also, business confidence remains at a historically high level. Although industrial production has been almost flat since March, final demand remains firm and retail sales are still robust. It seems that Brazil, however, loses competition in the industrial sector to China to some extent. Higher unit costs of production and an appreciation of its currency (the real) are among factors contributing to the economy's current account deficit. Inflation in these circumstances could exacerbate the situation further.

Brazil's inflation expectations continued rising, following an upward trend of inflation in late 2010. The consumer price indices for January 2011 were also reported higher than expected. The BCB's (Central Bank of Brazil) latest Focus report has projected inflation expectations for 2011 at 5.64%, compared to its previous projection of 5.53%. Expectations for next year's inflation have continued to accelerate, implying that the market is skeptical about the effectiveness of diversified monetary policies in curbing future inflation.

The public sector balance, released by the central bank last month, showed a surprised surplus for December 2010. The government budget in December is usually in deficit, due to year-end payroll. A positive public sector balance in December helped the government to reach its target of a 2.15% of GDP surplus in 2010. Extraordinary revenue from the sale of exploration rights in deep water regions and higher than average dividends contributed to the surplus. Federal expenditure grew even faster than its revenue in 2010; 10% against a 9% increase in real revenue. The same pace of expenditure growth was recorded in 2009, when the principal concern was on overheating. This indicates that if public sector expenditure increases with the same rate, a drop in government revenue could cause severe problems for the economy.

No tangible signs of deceleration in China's economy

China

Although so far there has been no tangible sign of deceleration in China's real economic growth (in the fourth quarter of 2010, it reached 9.8%), a moderation in such growth is expected in 2011 since the government has begun tightening monetary and fiscal policies to control inflation. In fact, China's National Bureau of Statistics manufacturing PMI moderated to 52.9 in January from 53.9 in December. This was the second month of easing in the NBS manufacturing PMI, after the index had risen steadily since August last year. The latest PMI figures suggest that the economy enters 2011 expanding on a solid and steady growth rate, although that rate is less than in 2010. With the global economy forecast to grow at close to 4% in 2011, strong external demand is expected to enforce growing household demand on the domestic front, fueling investment and steady economic growth in 2011 and 2012.

According to a J.P.Morgan February report, the NBS PMI output component decreased 2.2pts from December 2010 to 55.3 in January this year. Among the forward looking components, new orders eased to 54.9 in January from 55.4 in December, while on the external front the export orders in the NBS series fell 2.8pts from December to 50.7 in January. Also, the NBS PMI input price index has rebounded in January. In particular, the index input component for raw materials, energy and intermediate goods remained high which could increase unit cost of Chinese exports, thus putting pressure on competitiveness of the economy.

Recent trade developments have not been completely positive. In December, export growth showed signs of decelerating while imports were up by an impressive 25.6% on a year on year basis. Booming imports have supported a government fiscal stance, as imports tariff revenue grew by 35.9% in 2010 accounting for 13.6% of the government's total tax revenue. A Chinese government initiative in 2009 to boost vehicle sales was brought to an end at the start of this year. The programme was extremely successful in promoting vehicle sales in China. Even in its second year, passenger car sales were up by 33.3% year on year, to 13.7m units. In addition to a small car tax cut, a trade-in programme for older vehicles was also instituted under which around $1bn was expended in subsidies on more than 459,000 purchases in 2010. (Economist Intelligence Unit (EIU), Country report, February 2011). This programme, too, was terminated at the end of 2010. The removal of fiscal support will most likely dampen car sales in 2011.

As mentioned above, curbing inflation appears to have become a major priority of Chinese economic policy. In December 2010, the Peoples Bank of China (PBC) took a number of measures to control inflation. There was an interest rate increase of 25 basis points on 25 December, thus lifting the benchmark lending rate to 5.81%. Bank reserve requirement ratios were also raised twice (in December 2010 and January 2011) by 0.5 of a percentage point on each occasion. However, some observers noticed that the central bank may have lost its control over lending, as the amount of lending in 2010 exceeded the government targeted ceiling by almost 8%, reaching to an equivalent of around $1200bn. This would help to explain why year on year, broad money (M2) growth had accelerated to around 20% by the end of 2010.

India

Higher GDP in the first half of the fiscal year in India

India's real GDP rose by 8.9% year on year in the first half of the 2010/11 fiscal year. The OECD's outlook for India is for a "stable pace of expansion". However it is argued that two consecutive quarters of economic expansion above 8.5% would cause inflationary pressures. Despite raising the benchmark interest rate in 2010 and early 2011 (25 bp on 26 January, raising interest rate to 6.5%), the real rate of interest is still negative, encouraging private spending. Meanwhile, expansionary fiscal policies continue through tax cutting policies or massive public spending programmes that stimulate aggregate demand. However, there has been a slump in industrial production in the last quarter of 2010 suggesting that perhaps structural constraints have dampened the impact of monetary and fiscal stimulus on economic growth.

Inflationary pressure is becoming a major concern for India. There has been an unexpected surge in inflation, driven by, but not confined to, a sharp rise in food prices. Inflation, measured by the WPI, rose from 7.5% year on year in November to 8.4% in December, well above the Reserve Bank of India comfort zone of 5.5% (EIU, Country report, February 2010). Economic authorities have indicated that the next five-year plan, which starts in 2012/13, will focus on keeping inflation in check.

Meanwhile, the other major economic issue believed to have important implications, namely India's current account deficit, has eased considerably thanks to an exceptional surge in India's exports in late 2010. Merchandise exports surged by 36.4% year on year to $22.5bn in December, and imports contracted. The performance of exports has raised the prospect that the value of exports might exceed the planned target of $200bn for the fiscal year of 2011/12.

Russia

Recovery in Russia's economy, leading to GDP growth of around 4% in 2010 and 2011

The Russian economy is still recovering from the severe recession experienced in 2009. In 2010 Russia was suffering from two pressing problems: rising inflation and an expanding budget deficit. These issues remain the economy's major problems today. In December 2010, the IMF stated that Russia should do more to decrease its non-oil budget deficit in order to avoid a slump in economic growth and rising inflation (Consensus Forecasts, January 2011). Some observers have estimated that the "break even" oil price that would balance Russia's public sector budget is about $100/b, which highlights the un-sustainability of the current spending strategy. It is argued that the government's fiscal expansion in recent years has had a so-called crowding-out effect on the Russian economy. The private sector finds the investment environment unfavorable as the government becomes involved more and more in economic activities. It is estimated that in 2010, $32bn of capital out-flowed from Russian financial markets.

The other issue, namely inflation, could be even more damaging for the Russian economy. In December 2010, inflation surged to 8.7% from 8.12% in November. Rising for five consecutive months, it drove up food prices and the consumer price index (CPI) of non-food goods rose by 4.7% year on year in November. Similarly, prices of consumer services were up 8.1% year on year (EIU, Country report, January 2011). Industrial producer prices also rose higher than the previous quarter, in the fourth quarter of 2010.

The accommodating monetary policy followed by the Russian Central Bank (RCB) in 2010 was aimed at stabilizing the financial system and stimulating domestic credit growth. These policies appear to have produced some results. The RCB has estimated that domestic credit growth reached 12% year on year in 2010, which is well below the 40-50% credit growth recorded before the crisis, but still a sign of recovery. To improve its fiscal position, Russia has approved the selling of its share of 114 state run companies. The programme is expected to raise around $7bn, $6.2bn and $7.0bn, in 2011, 2012 and 2013 respectively. It is also planning to sell other companies, including some power generation and shipping companies. These programmes, if successfully accomplished, could enhance the Russian public sector's fiscal stance. The government reforms in financial markets and the banking system, and adopting more effective and flexible monetary policies, could set the ground for a higher rate of private investment and economic growth in the future.

OPEC Member Countries

Acceleration in activities of OPEC Member Countries in 4Q10

The last quarter of 2010 has been favorable for OPEC MCs since their revenue increased moderately, but steadily, compared to early 2010 and 2009, due to a stable market and reasonable oil prices. It is expected that continuation of the current oil market conditions will encourage MCs to investment in the expansion of their production capacity.

Algeria

Algeria has projected an economic growth rate of 4% for 2011 and plans to spend about $86.3bn in 2011 to attain its economic goals. It is unlikely that the Algerian public sector budget will run a deficit as the budget is based on oil prices of $37/b. According to the central bank of Algeria, the economy grew by 2.4% in 2009 despite a sharp decline in oil and gas prices.

Ecuador

Ecuador has seen the 2011 budget approved by the National Assembly with no major amendment. The 2011 budget represents a 12.5% increase on 2010 at close to 40% of officially projected GDP. Recent data released by the government's internal revenue service points to a further improvement in the public finances in the first 11 months of 2010.The figures released in December show a 16.5% increase in January-November tax collection in 2009. IMF International Financial Statistics estimate a 3.4% and 8.0% increase for consumer and producer price indices respectively by the end of 2011 (EIU, Country report, February 2011).

Kuwait

Kuwait citizens are to be granted a cash transfer of around $3600 and will be offered 13 months of free food rations from February 2011 according to KUNA, the state news agency. Inflation increased to a 22 month high of 5.9% year on year in November mainly driven by food prices. The cash transfer programme might push inflation up as demand increases.

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The US-dollar weakened against all major currencies in January, trading at an average rate of $1.3357/€. The OPEC Reference Basket price rose by 4.8% in January

Oil prices, US dollar and inflation

The US Dollar weakened on average in January against all major currencies, compared to December levels. It fell by 1.1% against the euro, by 1.0% versus the yen, 1.0% compared to the pound sterling and 1.5% compared to the Swiss franc. With regard to the euro, the trading range of the previous months of $1.30/€ to $1.40/€ was re-established and even touched the upper-level of the band at the beginning of February, when concerns about the situation in Egypt reached their peak. The average for January was $1.3357/€ compared to $1.3219/€ a month earlier. The most recent successful debt auctions of peripheral Euro-zone member countries managed to calm fears and supported the euro. Consensus forecast for the end of February now stands at $1.308/€ compared to the current level of $1.367/€. While the US-dollar may strengthen in the mid-term, the fluctuation of the Euro versus the US-dollar is expected to remain high.

Furthermore, higher inflation in the Euro-zone might lead to an earlier rate hike than in the US, which some ECB members have already argued for, while such a move does not seem to be imminent. On the other side, the potential continuation of sovereign debt worries in the Euro-zone might continue to keep the euro under pressure.

In nominal terms, the OPEC Reference Basket increased by 4.8% or $4.27/b from $88.56/b in December 2010 to $92.83/b in January 2011. In real terms, after accounting for inflation and currency fluctuations, the Basket price increased by 4.3% or $2.39/b to $58.36/b from $55.97/b (base June 2001=100). Over the same period, the US dollar fell by 0.7% against the import-weighted modified Geneva I + US dollar basket, while inflation fell 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.*

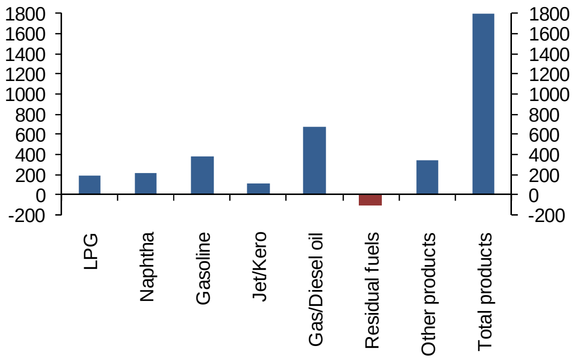
World Oil Demand

World oil demand forecast to grow by 1.8 mb/d in 2010 and 1.4 mb/d in 2011

World oil demand

Bitter winter has been hammering most of the OECD region since last November leading to a noticeable increase in energy usage. Winter petroleum product consumption increased, leading to an adjustment in the total world oil demand forecast not only in 2010, but in 2011 as well. Furthermore, a sudden increase in natural gas (NG) prices has discouraged power plants to fuel-switch from liquid. This has been experienced not only in the OECD but in some parts of Asia as well. Heavy holiday season travel in the US pushed the country's gasoline usage up by 2% in January. Another force that led to an additional use of oil is sturdier industrial activity within the US and China; this was ignited by stimulus plans and government incentives. As a result, the total world oil demand forecast was revised up in both the fourth quarter of last year and the first quarter of this year by 0.5 mb/d and 0.4 mb/d respectively. Hence, world oil demand is forecast to grow by 1.8 mb/d in 2010 to 86.3 mb/d and 1.4 mb/d in 2011, averaging 87.7 mb/d.

Graph 4.1: Forecasted y-o-y growth in 2010 world oil demand



World economic activity along with the effect of frigid winter temperatures pushed January oil demand up by 2.0 mb/d y-o-y for total world energy use. The down risk for the total world oil demand forecast lies with international oil prices. Should strong prices remain, this will lead to a reduction in the use of transportation fuel. This effect will not only spread throughout the OECD, but also the Non-OECD.

Graph 4.2: Forecasted y-o-y growth in 2011 world oil demand

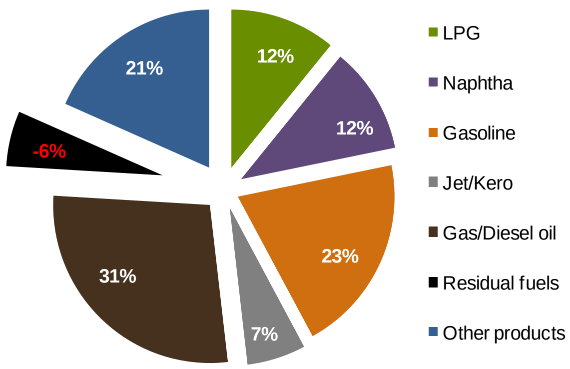


Table 4.1: World oil demand forecast for 2010, mb/d

	2009	1Q10	2Q10	3Q10	4Q10	2010	Change 2010/09 Volume	%
North America	23.30	23.45	23.74	24.24	23.91	23.84	0.54	2.30
Western Europe	14.52	14.17	14.12	14.79	14.61	14.42	-0.10	-0.66
OECD Pacific	7.66	8.19	7.30	7.60	7.99	7.77	0.11	1.48
Total OECD	**45.47**	**45.81**	**45.15**	**46.62**	**46.51**	**46.03**	**0.55**	**1.22**
Other Asia	9.85	9.95	10.13	9.87	10.07	10.00	0.15	1.57
Latin America	5.93	5.83	6.09	6.28	6.21	6.10	0.17	2.89
Middle East	7.09	7.18	7.16	7.48	7.20	7.26	0.17	2.39
Africa	3.25	3.30	3.28	3.16	3.31	3.26	0.02	0.55
Total DCs	**26.11**	**26.27**	**26.66**	**26.79**	**26.79**	**26.63**	**0.51**	**1.97**
FSU	3.97	3.96	3.78	4.22	4.27	4.06	0.09	2.17
Other Europe	0.73	0.69	0.64	0.66	0.70	0.67	-0.05	-7.31
China	8.25	8.37	9.09	9.23	9.10	8.95	0.70	8.44
Total "Other regions"	**12.95**	**13.02**	**13.52**	**14.11**	**14.07**	**13.68**	**0.73**	**5.64**
Total world	**84.54**	**85.09**	**85.33**	**87.52**	**87.37**	**86.34**	**1.80**	**2.13**
Previous estimate	84.49	84.97	85.16	87.38	86.82	86.09	1.60	1.90
Revision	0.05	0.12	0.17	0.14	0.55	0.25	0.19	0.23

Totals may not add due to independent rounding

Table 4.2: First and second quarter world oil demand comparison for 2010, mb/d

			Change 2010/09				Change 2010/09	
	1Q09	1Q10	Volume	%	2Q09	2Q10	Volume	%
North America	23.43	23.45	0.02	0.09	22.94	23.74	0.80	3.49
Western Europe	14.89	14.17	-0.73	-4.88	14.26	14.12	-0.15	-1.02
OECD Pacific	8.12	8.19	0.07	0.84	7.27	7.30	0.02	0.29
Total OECD	**46.44**	**45.81**	**-0.64**	**-1.37**	**44.48**	**45.15**	**0.68**	**1.52**
Other Asia	9.73	9.95	0.22	2.26	9.92	10.13	0.21	2.13
Latin America	5.68	5.83	0.15	2.71	5.88	6.09	0.21	3.56
Middle East	6.95	7.18	0.23	3.28	7.07	7.16	0.09	1.27
Africa	3.27	3.30	0.03	0.98	3.25	3.28	0.03	1.06
Total DCs	**25.63**	**26.27**	**0.63**	**2.47**	**26.12**	**26.66**	**0.54**	**2.09**
FSU	3.87	3.96	0.09	2.42	3.70	3.78	0.08	2.16
Other Europe	0.74	0.69	-0.05	-6.77	0.69	0.64	-0.05	-7.37
China	7.61	8.37	0.76	10.03	8.38	9.09	0.71	8.46
Total "Other regions"	**12.22**	**13.02**	**0.81**	**6.60**	**12.78**	**13.52**	**0.74**	**5.78**
Total world	**84.29**	**85.09**	**0.80**	**0.95**	**83.37**	**85.33**	**1.96**	**2.35**

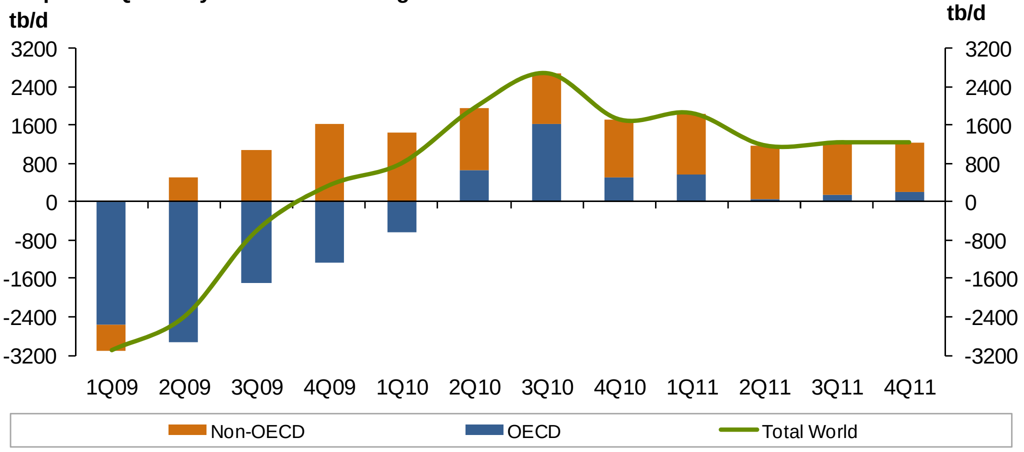
Totals may not add due to independent rounding

Table 4.3: Third and fourth quarter world oil demand comparison for 2010, mb/d

			Change 2010/09				Change 2010/09	
	3Q09	3Q10	Volume	%	4Q09	4Q10	Volume	%
North America	23.28	24.24	0.96	4.12	23.55	23.91	0.36	1.51
Western Europe	14.47	14.79	0.32	2.21	14.45	14.61	0.15	1.07
OECD Pacific	7.25	7.60	0.35	4.84	7.99	7.99	0.01	0.12
Total OECD	**44.99**	**46.62**	**1.63**	**3.63**	**45.99**	**46.51**	**0.52**	**1.13**
Other Asia	9.79	9.87	0.08	0.83	9.96	10.07	0.11	1.08
Latin America	6.09	6.28	0.19	3.06	6.07	6.21	0.14	2.26
Middle East	7.30	7.48	0.19	2.55	7.03	7.20	0.17	2.48
Africa	3.16	3.16	0.00	-0.07	3.31	3.31	0.01	0.21
Total DCs	**26.34**	**26.79**	**0.45**	**1.71**	**26.36**	**26.79**	**0.43**	**1.62**
FSU	4.14	4.22	0.08	1.93	4.18	4.27	0.09	2.18
Other Europe	0.71	0.66	-0.05	-7.14	0.76	0.70	-0.06	-7.93
China	8.66	9.23	0.58	6.64	8.36	9.10	0.74	8.89
Total "Other regions"	**13.51**	**14.11**	**0.60**	**4.47**	**13.29**	**14.07**	**0.77**	**5.82**
Total world	**84.83**	**87.52**	**2.69**	**3.17**	**85.65**	**87.37**	**1.72**	**2.01**

Totals may not add due to independent rounding

Graph 4.3: Quarterly world oil demand growth

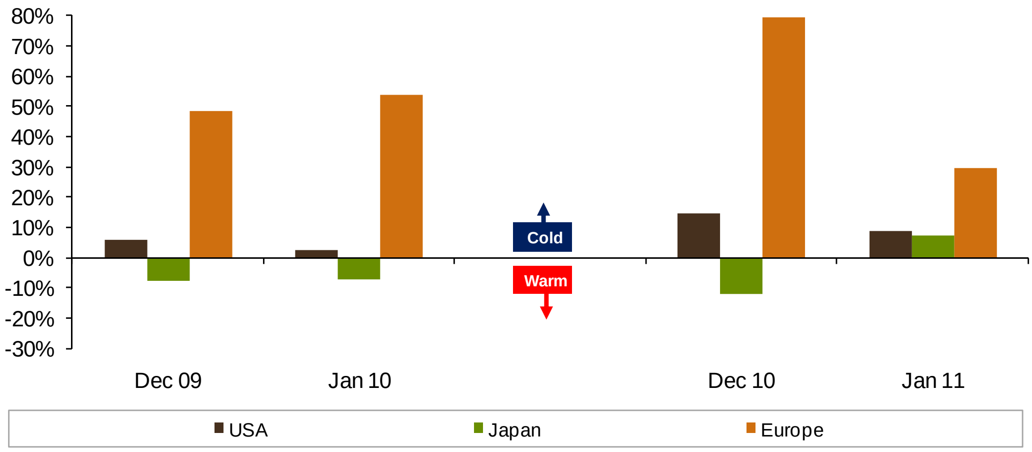


In 2011, North American oil demand is expected to react to normal economic drivers and show normal seasonal growth in all quarters with total yearly growth of 0.3 mb/d

OECD - North America

Despite the effect of the cold weather on oil demand, this year has started with a bearish trend for US oil consumption. Although January 2010 was a low base line, oil consumption during January 2011 was weaker than expected, as shown by preliminary weekly official US data. It seems that the pace of recovery in US oil consumption is slower than anticipated. As in previous reports, the preliminary character of this data requires caution. The most recent monthly US data is for November 2010, illustrating moderate growth of US oil consumption of around 1.7% y-o-y. This reflects an increasing requirement for industrial products and contracting demand for transportation fuels, as well as some industrial fuel products, such as propane/propylene. Despite economic growth this year, US oil demand is not anticipated to exceed what was seen last year.

Graph 4.4: Heating degree days, % of normal



In Mexico, December figures were again on the decline with decreasing consumption in all product categories. Mexican oil consumption closed 2010 on the negative side, basically due to less demand for industrial products. Transportation fuels experienced increases; however these were marginal.

Driven by a low baseline and cold weather, Canadian oil demand continued its high growth rate during November and December with sharp increases in distillates and gasoline.

For the whole of 2010, North American oil demand grew by 0.5 mb/d, while 4Q10 growth was lower than the growth in 2Q10 and 3Q10. In 2011, North American oil demand is expected to react to normal economic drivers and show normal seasonal growth in all quarters with a total annual growth of 0.3 mb/d.

US auto sales continued to rise in January, exceeding 17% growth, to indicate higher consumer confidence. This was despite uncertain expectations about the economy and the oil price. However, with automakers becoming increasingly dependent upon foreign sales, there is concern that demand may be cooling off in rapidly emerging economies, such as China. Furthermore, there are growing concerns in the auto industry that the bulk of improvements during 2010 were a result of strong government incentives. This January, growth came about due to easing credit and a recovering economy.

In Canada, car and light truck sales in January 2011 increased by 4%, compared to the same month last year, with light trucks accounting for more than 62% of the market share. Mexican auto production during 2010 has increased by almost 50% with the majority of cars being exported to the US market.

Table 4.4: World oil demand forecast for 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011	Change 2011/10 Volume	%
North America	23.84	23.91	23.91	24.48	24.21	24.13	0.29	1.23
Western Europe	14.42	14.30	14.06	14.71	14.55	14.41	-0.02	-0.11
OECD Pacific	7.77	8.17	7.25	7.58	7.97	7.74	-0.03	-0.35
Total OECD	**46.03**	**46.38**	**45.23**	**46.77**	**46.73**	**46.28**	**0.25**	**0.54**
Other Asia	10.00	10.15	10.35	10.08	10.28	10.22	0.21	2.12
Latin America	6.10	6.02	6.24	6.46	6.36	6.27	0.17	2.74
Middle East	7.26	7.40	7.33	7.67	7.40	7.45	0.20	2.69
Africa	3.26	3.32	3.30	3.19	3.34	3.29	0.02	0.73
Total DCs	**26.63**	**26.90**	**27.22**	**27.39**	**27.38**	**27.23**	**0.60**	**2.25**
FSU	4.06	4.05	3.84	4.29	4.34	4.13	0.07	1.70
Other Europe	0.67	0.68	0.62	0.65	0.67	0.65	-0.02	-2.76
China	8.95	8.89	9.64	9.72	9.54	9.45	0.50	5.60
Total "Other regions"	**13.68**	**13.62**	**14.10**	**14.66**	**14.55**	**14.24**	**0.55**	**4.03**
Total world	**86.34**	**86.90**	**86.55**	**88.82**	**88.66**	**87.74**	**1.40**	**1.62**
Previous estimate	86.09	86.33	86.24	88.62	88.06	87.32	1.23	1.43
Revision	0.25	0.56	0.31	0.20	0.60	0.42	0.17	0.19

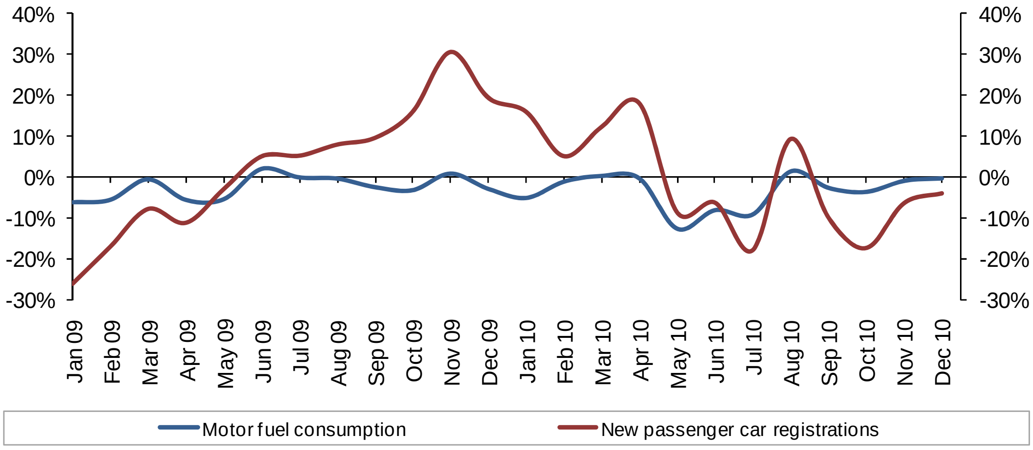
Totals may not add due to independent rounding

OECD - Europe

Given the recent weather, contraction in total OECD Europe oil demand is expected to be less than earlier forecast and currently stands at 0.10 mb/d in 2010

December's weather was bitterly cold in Europe, causing fourth quarter energy usage to rise markedly. The increase was caused solely by significantly higher consumption in heating oil products. Nevertheless, continuing economic slowdown in most European countries along with government policies are some of the factors that will most probably impose future declines in European oil consumption during 2011. The European Big Four's oil demand increased by 281 tb/d in December, compared to 377 tb/d in November. German heating oil fill-ups early in the winter led to this increase. Stronger distillate consumption in Germany, France and the UK was driven by cold weather and a low baseline during 2009, while consumption of transportation fuels remained on the decline. During December, German and UK oil consumption were up by 8% and 12% respectively, while oil consumption in France and Italy was on the decline by 4% and 0.4%.

Graph 4.5: European new passenger car registrations & motor fuel consumption, y-o-y % changes



Given the recent weather, contraction in OECD Europe's total oil demand is expected to be less than earlier forecast and currently stands at 0.10 mb/d in 2010.

The effect of the cold weather is expected to push Europe's first quarter oil demand up into the green, adding another 133 tb/d y-o-y. As for the whole year, 2011 oil consumption is expected to shrink again, however at a lower magnitude of only 0.02 mb/d. European energy policies, along with the slow economic recovery, will play a major role in curbing the continent's oil demand this year.

According to the latest December information by ACEA, European demand for new cars fell by 3%, while during 2010 a total of approximately 6% fewer cars were registered compared to 2009. The picture in major markets in December varied considerably. The demand for new cars declined significantly in Spain, by -23%, Italy -22% and the UK -18%, while the French auto market remained stable and Germany expanded by approximately 7%.

As for 2010, Spain and UK new car registrations increased by 3% and 2% respectively, whereas Germany, France and Italy recorded declines of 23%, 9% and 2% respectively.

Table 4.5: Europe Big 4* oil demand, tb/d

	Dec 10	Dec 09	Change from Dec 09	Change from Dec 09, %
LPG	453	482	-29	-6.0
Gasoline	1,201	1,243	-42	-3.3
Jet/Kerosene	738	739	-1	-0.1
Gas/Diesel oil	3,629	3,264	365	11.2
Fuel oil	512	522	-10	-1.9
Other products	891	894	-3	-0.4
Total	**7,424**	**7,144**	**281**	**3.9**

** Germany, France, Italy and the UK*

OECD - Pacific

Annual oil demand is forecast to average 7.7 mb/d in 2011

In Japan, data for twelve months shows that last year evolved into a recovery year, showing an increase of approximately 1.7% in oil consumption. This was driven by naphtha, transportation fuels, crude direct use and residual fuel oil use in power plants. The increase in Japanese oil consumption is the first since 2005, and the low baseline played a decisive role. Japanese naphtha consumption increased the most last year, adding more than 50 tb/d to the country's total oil consumption. Another factor that inflated Japan's oil usage is crude burning, mostly in power plants. Further development of Japanese oil consumption is heavily dependent upon the implementation of an additional stimulus plan, which is expected to take place in the first half of 2011 and is part of a supplementary budget for the current Japanese fiscal year.

In South Korea, November saw sharp increases in the consumption of all products, especially in the industrial and transportation sectors. Unlike Japanese oil demand, South Korean oil demand has been on the upward swing since 2009 and is expected to maintain this trend throughout the year. South Korean oil demand closed 2010 with 1.5% growth, mainly attributed to the use of kerosene. The country's healthy economy has kept the use of energy growing. Given 4% growth in the country's GDP, oil demand is forecast to grow by 0.4% this year.

OECD Pacific oil demand showed minor growth of 0.1 mb/d in 2010, averaging 7.8 mb/d. However, as a result of the expected decline in Japan's oil demand, along with lower GDP in the region, this year's oil demand is forecast to average 7.7 mb/d.

Table 4.6: First and second quarter world oil demand comparison for 2011, mb/d

			Change 2011/10				Change 2011/10	
	1Q10	1Q11	Volume	%	2Q10	2Q11	Volume	%
North America	23.45	23.91	0.46	1.96	23.74	23.91	0.17	0.70
Western Europe	14.17	14.30	0.13	0.94	14.12	14.06	-0.05	-0.38
OECD Pacific	8.19	8.17	-0.02	-0.27	7.30	7.25	-0.04	-0.57
Total OECD	**45.81**	**46.38**	**0.57**	**1.25**	**45.15**	**45.23**	**0.07**	**0.16**
Other Asia	9.95	10.15	0.21	2.10	10.13	10.35	0.22	2.14
Latin America	5.83	6.02	0.19	3.24	6.09	6.24	0.15	2.38
Middle East	7.18	7.40	0.22	2.99	7.16	7.33	0.17	2.43
Africa	3.30	3.32	0.02	0.61	3.28	3.30	0.02	0.73
Total DCs	**26.27**	**26.90**	**0.63**	**2.41**	**26.66**	**27.22**	**0.56**	**2.10**
FSU	3.96	4.05	0.09	2.15	3.78	3.84	0.06	1.59
Other Europe	0.69	0.68	-0.01	-0.73	0.64	0.62	-0.03	-3.90
China	8.37	8.89	0.52	6.20	9.09	9.64	0.55	6.06
Total "Other regions"	**13.02**	**13.62**	**0.60**	**4.60**	**13.52**	**14.10**	**0.59**	**4.34**
Total world	**85.09**	**86.90**	**1.80**	**2.12**	**85.33**	**86.55**	**1.22**	**1.43**

Totals may not add due to independent rounding

Table 4.7: Third and fourth quarter world oil demand comparison for 2011, mb/d

	3Q10	3Q11	Change 2011/10 Volume	%	4Q10	4Q11	Change 2011/10 Volume	%
North America	24.24	24.48	0.24	1.01	23.91	24.21	0.30	1.25
Western Europe	14.79	14.71	-0.08	-0.53	14.61	14.55	-0.06	-0.40
OECD Pacific	7.60	7.58	-0.02	-0.28	7.99	7.97	-0.02	-0.28
Total OECD	**46.62**	**46.77**	**0.14**	**0.31**	**46.51**	**46.73**	**0.22**	**0.47**
Other Asia	9.87	10.08	0.21	2.10	10.07	10.28	0.21	2.13
Latin America	6.28	6.46	0.18	2.92	6.21	6.36	0.15	2.45
Middle East	7.48	7.67	0.19	2.57	7.20	7.40	0.20	2.78
Africa	3.16	3.19	0.03	0.82	3.31	3.34	0.02	0.75
Total DCs	**26.79**	**27.39**	**0.61**	**2.27**	**26.79**	**27.38**	**0.59**	**2.21**
FSU	4.22	4.29	0.07	1.54	4.27	4.34	0.07	1.55
Other Europe	0.66	0.65	-0.02	-2.26	0.70	0.67	-0.03	-4.16
China	9.23	9.72	0.49	5.34	9.10	9.54	0.44	4.86
Total "Other regions"	**14.11**	**14.66**	**0.54**	**3.85**	**14.07**	**14.55**	**0.48**	**3.41**
Total world	**87.52**	**88.82**	**1.30**	**1.48**	**87.37**	**88.66**	**1.29**	**1.48**

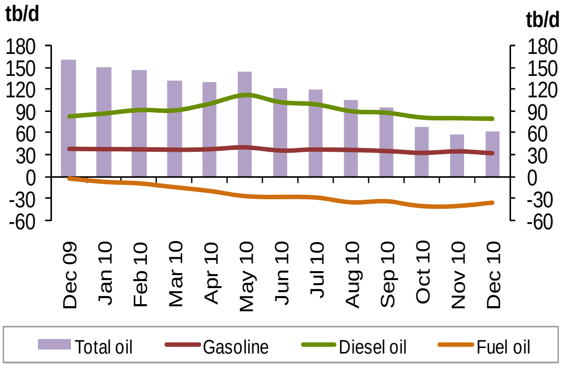
Totals may not add due to independent rounding

Developing Countries

Developing Countries were estimated to have grwon by 0.5 mb/d in 2010

The effect of winter on oil demand has finally caught up with India. Increasing world NG prices have discouraged India from fuel switching since December. This pushed up India's oil demand in the industrial sector substantially. The country's oil demand for December grew by 6.7%, adding another 0.2 mb/d y-o-y, the strongest growth in all of 2010. December Indian oil data indicated a 9% increase in transport fuel use as a result of strong new car registrations during 2010.

Graph 4.6: Yearly changes in Indian oil demand (12 month moving averages)



An early forecast of India's oil demand growth of 4.6% for 2010 did not materialize and it barely reached 2%

Fuel switching among power and petrochemical plants to NG reduced the use of oil last year by a noticeable amount. However, only NG future prices will determine this trend in India for the rest of the year.

An early forecast of India's oil demand growth of 4.6% for 2010 did not materialize and it barely reached 2%. All major products performed strongly, led by transport fuel; however products used by power plants were on the decline. India's oil demand for 2011 is forecast to grow by 3.4%; however, new energy policies will of course affect this forecast.

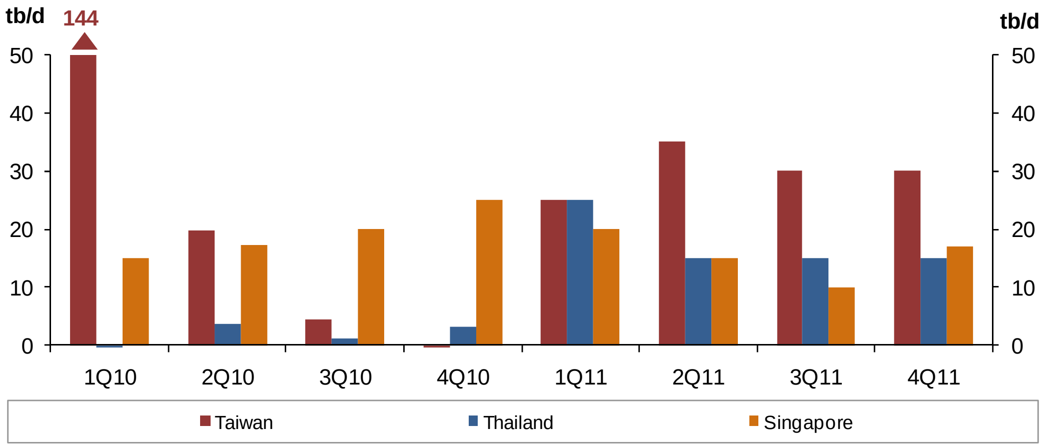
Due to the recent adjustment in Other Asia GDP, the region's oil demand was revised up marginally by 20 tb/d to show y-o-y growth of 0.2 mb/d in 2011

The booming Indonesian economy kept the country's oil use growing last year, with y-o-y growth of 1.7%. Nevertheless, this year's forecast indicated weaker growth despite the 0.2% increase in the country's GDP, with Indonesia's oil demand growth forecast to marginally exceed 1.0% y-o-y. Strong industrial use of diesel hiked Thailand's November oil demand substantially, exceeding 22% y-o-y. However, this recent increase in oil usage has been preceded by weak performance in the first three quarters of 2010.

Given the recent strength in India's oil demand, Other Asia oil demand growth is forecast at 0.1 mb/d in the fourth quarter 2010.

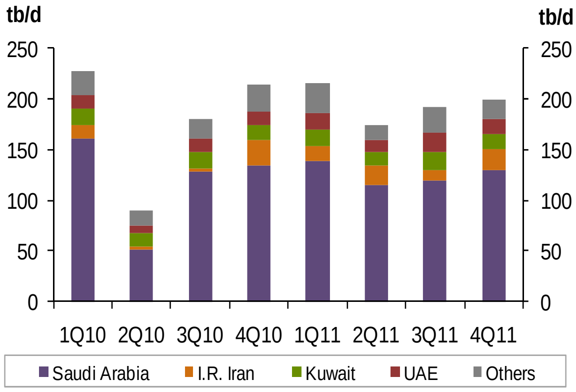
Due to the recent adjustment in Other Asia GDP, the region's oil demand was revised up marginally by 20 tb/d to show y-o-y growth of 0.2 mb/d in 2011.

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



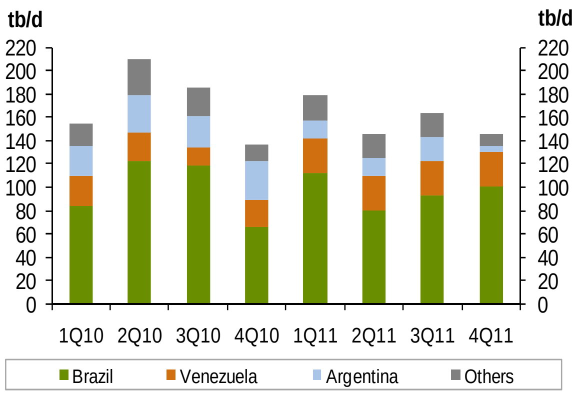
Enormous oil demand from the industrial sector, including power plants, hiked Saudi Arabian oil demand by 0.2 mb/d in December y-o-y. This was more than enough to off-set the continuous decline in Iranian oil usage. Due to the slowdown in Iran's gasoline demand in the second half of the year, the region's total oil demand growth is forecast at 2.3% or 0.16 mb/d for 2010. Despite there being no change in the region's GDP, oil demand for this year is expected to surpass last year's growth by 30 tb/d. Most of this growth is attributed to Saudi Arabia's energy usage.

Graph 4.8: Yearly oil demand growth in the Middle East



Latin American oil demand growth has been accelerated by Brazil's energy requirement. Although Brazilian oil demand cooled down in the fourth quarter, massive growth early in the year added 137 tb/d to the country's total oil demand in 2010. Brazilian oil demand is expected to keep up the momentum with economic growth this year. The country's oil demand growth is forecast to be less than last year, at 0.9 mb/d in 2011.

Graph 4.9: Yearly oil demand growth in Latin America



Argentina has put a cap on the country's gasoline retail prices in an effort to curb inflation. This move is not expected to largely affect the rate of demand in the near future. Like other large Latin American countries, Argentina's oil demand is growing and is expected to stick to this trend for the year. Like last year, the country's oil demand is expected to grow by 30 tb/d in 2011.

Developing Countries' first quarter oil demand growth is forecast at 0.63 mb/d y-o-y, averaging 26.3 mb/d.

Table 4.8: Consumption of petroleum products in Thailand, tb/d

	Nov 10	Nov 09	Change, tb/d	Change, %
LPG	198	176	22	12.3
Gasoline	133	123	9	7.6
Jet Fuel/Kerosene	85	82	3	3.8
Diesel	391	309	82	26.4
Fuel oil	42	47	-5	-10.4
Other products	125	60	65	108.2
Total	**974**	**798**	**176**	**22.1**

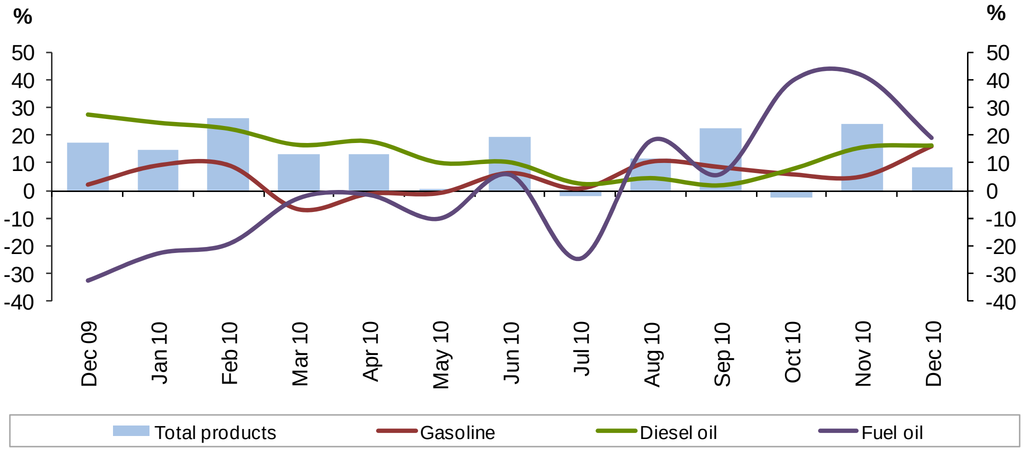
Source: JODI/EPPO

Other regions

China's oil demand growth was revised up by70 tb/d to stand at 0.5 mb/d for 2011

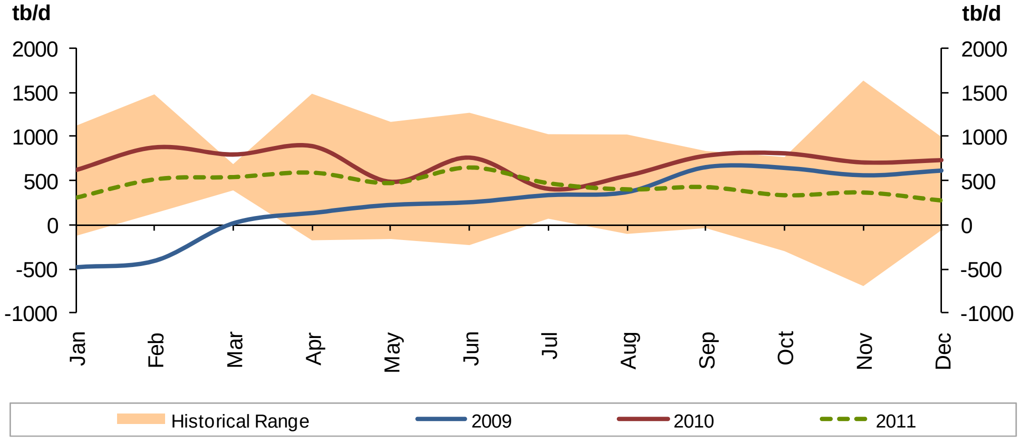
China's oil demand has been beating all expectations for the past six months and is expected to maintain this trend at least for the first half of this year. Winter's effect, along with the Chinese holidays, hiked the country's oil demand up in both December and January. December data indicated 9% y-o-y growth in the country's oil consumption. The largest recorded growth was in diesel which reached 16.4% y-o-y. Diesel usage was attributed not only to the transport sector but also to industrial and agricultural sectors as well. Gasoline consumption grew sharply by 15.8% in December adding another 245 tb/d y-o-y to total demand. Driven mileage, along with new vehicle registration, was behind the massive growth in transport fuel consumption this winter. Despite government efforts to cool down the country's energy demand, China's oil demand is expected to perform stronger than earlier expected. Hence, China's oil demand growth was revised up by 70 tb/d to stand at 0.5 mb/d for 2011.

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



Sales of China's passenger vehicles, including cars, multi-purpose vehicles (MPVs), sport utility vehicles (SUVs) and minivans rose 33% in 2010 compared to 2009. In December, the country registered 1.3 million new passenger vehicles, up 17% y-o-y, but down 3% m-o-m. In the same month, car sales went up 12% y-o-y. MPV sales surged 46% y-o-y, while SUV sales jumped 37% from 2009.

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



FSU oil demand growth for this year is forecast at 0.1 mb/d or 1.7% y-o-y.

FSU GDP is expected to outgrow that of last year by 0.02%. This translates into more oil consumption. The latest upward revision of the region's GDP called for a minor adjustment of last year's oil demand growth. FSU oil demand growth for this year is forecast at 0.1 mb/d or 1.7% y-o-y. Industrial and transport sectors are the factors most likely to contribute to the country's total oil demand growth this year.

World Oil Supply

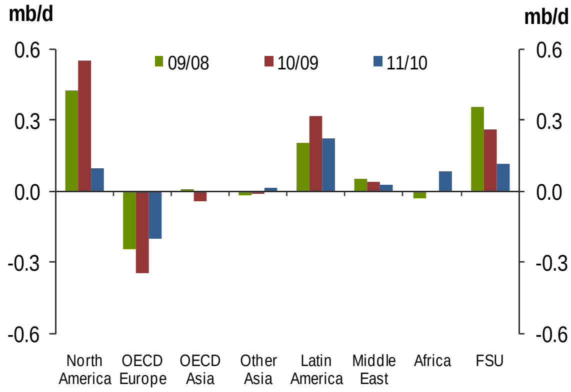
Non-OPEC

Forecast for 2010

Non-OPEC supply is estimated to have increased 1.14 mb/d in 2010 to average 52.26 mb/d

Non-OPEC oil supply is estimated to have averaged 52.26 mb/d in 2010, a growth of 1.14 mb/d over the previous year, relatively steady from the previous month. Despite the relatively steady non-OPEC supply growth from the previous month, there were various changes, experienced mainly in the fourth quarter 2010. The overall situation remains the same for the non-OPEC supply increase in 2010, with growth being supported mainly by the US, China, Russia, Brazil, Canada and Colombia, while output drops in Norway, the UK and Australia negatively affected 2010 non-OPEC supply. On a regional basis, North American oil supply encountered the highest growth in 2010 among all non-OPEC regions. However, the supply decline from OECD Western Europe and Asia Pacific both offset a considerable part of the growth from North America. Accordingly, OECD oil supply is estimated to have increased by 0.17 mb/d in 2010, compared to the previous year.

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



Developing Countries' oil supply is estimated to have grown by 0.35 mb/d in 2010, considerably higher than the average growth of the last five years. Growth was supported by increases in Latin America and the Middle East, while output from Other Asia and Africa is estimated to have declined slightly. Brazil, Colombia, and India were the main drivers of estimated growth in 2010.

Table 5.1: Non-OPEC oil supply in 2010, mb/d

	2009	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09
North America	14.36	14.71	14.86	14.92	15.18	14.92	0.55
Western Europe	4.73	4.70	4.40	4.01	4.40	4.38	-0.35
OECD Pacific	0.64	0.61	0.60	0.60	0.57	0.60	-0.04
Total OECD	**19.72**	**20.03**	**19.86**	**19.53**	**20.15**	**19.89**	**0.17**
Other Asia	3.70	3.68	3.67	3.71	3.72	3.69	-0.01
Latin America	4.41	4.67	4.74	4.74	4.76	4.73	0.32
Middle East	1.73	1.77	1.77	1.77	1.78	1.77	0.04
Africa	2.61	2.62	2.59	2.61	2.62	2.61	-0.01
Total DCs	**12.46**	**12.74**	**12.77**	**12.83**	**12.87**	**12.80**	**0.35**
FSU	12.96	13.12	13.18	13.21	13.35	13.22	0.26
Other Europe	0.14	0.14	0.14	0.14	0.13	0.14	0.00
China	3.85	4.03	4.10	4.18	4.25	4.14	0.29
Total "Other regions"	**16.95**	**17.29**	**17.42**	**17.53**	**17.73**	**17.49**	**0.55**
Total Non-OPEC production	**49.13**	**50.05**	**50.04**	**49.89**	**50.75**	**50.19**	**1.06**
Processing gains	2.00	2.08	2.08	2.08	2.08	2.08	0.08
Total Non-OPEC supply	**51.13**	**52.13**	**52.12**	**51.97**	**52.83**	**52.26**	**1.14**
Previous estimate	51.13	52.12	52.11	51.96	52.82	52.26	1.13
Revision	0.00	0.01	0.01	0.01	0.01	0.01	0.01

FSU oil supply continued to grow in 2010, despite various forecasts of decline in 2010. Growth was lower than the last five-year average. The increase in Russia oil output in 2010 drove the growth in FSU supply, with relatively smaller growth coming from Kazakhstan and Azerbaijan. China oil supply growth in 2010 strongly supported non-OPEC output. The country recorded the second largest growth among all non-OPEC supply countries in 2010, after the US. On a quarterly basis, non-OPEC supply is estimated at 52.13 mb/d, 52.12 mb/d, 51.97 mb/d and 52.83 mb/d respectively.

Revisions to the 2010 estimate

Non-OPEC supply estimates encountered only minor upward revisions of less than 10 tb/d compared to the previous month. The estimates in the first three quarters of 2010 encountered minor revisions while the fourth quarter supply estimates experienced the majority of revisions compared to last month's evaluation. However, fourth quarter revisions offset each other and hence minimized the revision on the whole for the non-OPEC supply estimates in 2010. Supply estimates for the US, Other Western Europe, Australia, India, Other Latin America, Sudan, Azerbaijan, and China showed amendments.

Updated actual production data meant that the revisions in the fourth quarter were required, in addition to minor historical updates. Improved shale oil output, in addition to higher-than-expected production, necessitated the upward revision experienced in US oil supply estimates in 2010 compared to the previous month. The US revision represents the highest absolute amendment encountered in this month's update among all non-OPEC revisions in 2010. Australia's supply estimate in 2010 experienced a minor downward revision, mainly due to poor weather conditions during the last period of the fourth quarter that forced operators to shutdown production. Oil output during October and November 2010 remained relatively steady, yet registered a drop of around 8% compared to the previous year.

India's oil supply estimate in 2010 encountered an upward revision, with output data in the fourth quarter making the revision necessary. The ramp-up of the Mangala development supported output. In Peru, updated production data indicated healthy growth of 8% in 2010 compared to the previous year, which has required a minor upward revision. Sudan's oil supply estimate in 2010 experienced a minor upward revision as recent reports suggested that production in the fourth quarter was higher than previously anticipated.

China's oil supply estimates in 2010 experienced a minor downward revision compared to the previous month. The downward revision came due to lower December output compared to November, where output reached a new record high. Despite the downward revision, output from China experienced significant growth in 2010. The growth came mainly from Yanchang and the new offshore development. The North and Northwest regions of China provided a considerable part of growth in 2010.

Forecast for 2011

Non-OPEC supply forecast to grow by 0.42 mb/d in 2011, to average 52.68 mb/d

Non-OPEC supply is expected to grow by 0.42 mb/d over the previous year to average 52.68 mb/d, representing an upward revision of 20 tb/d compared to the previous month. The upward revision came due to changes to individual countries' supply profiles, in addition to carrying over some of the revisions introduced to 2010 supply estimates. On a quarterly basis, non-OPEC supply is expected to average 52.74 mb/d, 52.61 mb/d, 52.38 mb/d and 53.00 mb/d respectively.

OECD

OECD supply to average 19.79 mb/d in 2011, a decrease of 100 tb/d

Total OECD oil supply in 2011 is projected to decline by 100 tb/d compared to the previous year, to average 19.79 mb/d, indicating a downward revision of around 30 tb/d compared to the previous month. The downward revision was driven by an adjustment carried over from historical data, as well as some changes to supply elements that affected the production forecasts of the US, Norway, Other Western Europe, and Australia. The OECD supply profile remains unchanged, with growth anticipated in North America, while declines are expected to continue in Western Europe and OECD Pacific is expected to remain steady in 2011. On a quarterly basis,

Graph 5.2: OECD's quarterly production

OECD oil supply is forecast to stand at 19.96 mb/d, 19.76 mb/d, 19.54 mb/d and 19.89 mb/d, respectively. According to preliminary data, OECD oil supply averaged 20.15 mb/d in the fourth quarter of 2010, an increase of 0.63 mb/d over the previous quarter.

North America

Oil production from **North America** is foreseen to increase by 90 tb/d over 2010 to average 15.01 mb/d in 2011, indicating an upward revision of 400 tb/d compared to last month. The oil production forecast remains relatively unchanged from the previous month with the US and Canada expected to add volumes, while Mexico is seen to experience declines in 2011. On a quarterly basis, North American oil supply in 2011 is expected to stand at 15.00 mb/d, 15.02 mb/d, 14.92 mb/d, and 15.11 mb/d respectively.

US

Delays hit Cascade, Chinook and Caesar Tonga developments

US oil production is forecast to increase by 50 tb/d in 2011 to average 8.64 mb/d, following an upward revision of 30 tb/d from the previous month. The upward revision was driven mainly by updates in 2010 supply estimates in addition to other factors in 2011. However, the there were changes within the 2011 supply elements that partially offset the upward revision. Shale oil production is seen to be among the drivers of supply growth in 2011, especially with the price level that is providing strong economical returns for operators. Additionally, the US Environmental Protection Agency's (EPA) approval of E15 (gasoline containing 15% ethanol) for cars and light trucks built after 2001 is expected to support the biofuel industry and improve output. Furthermore, the record high reached in January for active oil rigs further supports the upward revision.

On the other hand, various developments have negatively affected the US oil supply forecast in 2011 and partially offset the upward revision. The startup delay of the Cascade and Chinook developments, expected by late first quarter, has negatively affected the forecast, for example. Additionally, the startup delay of Caesar Tonga (from mid-2011 to early 2012) further affected the US supply projection in 2011. Moreover, the slow offshore well approval process, as well as the drop of Alaskan output due to the pipeline shutdown in January, all negatively influenced the supply forecast in 2011. On a quarterly basis, US oil production is seen to stand at 8.70 mb/d, 8.67 mb/d, 8.56 mb/d, and 8.64 mb/d respectively.

Canada and Mexico

Horizon remains shut after the fire

Canadian oil supply is expected to increase by 0.11 mb/d over the previous year to average 3.47 mb/d in 2011, relatively unchanged from the previous month. The supply forecast in 2011 remained steady, despite an upward revision to fourth quarter 2010 supply on the back of higher-than-expected output figures. However, the issue of a Stop-Use order for the Horizon project after the lift of the Stop-Work order has negatively affected the forecast, as it is still not clear when the project will return to operation and how much will be produced. The government issued the Stop-Use order in early February, and it is unclear when the order will be lifted since it needs to be satisfied that the cause of the incident has been established. Furthermore, the authorities require that measures have been put in place to mitigate risks of a similar incident occurring again. Additionally, the continued low output from the Long Lake project, where production remained at less than 50% of capacity in December, further pressured the output forecast in 2011. On the other hand, the expectation that more oil and gas wells will be drilled in 2011 is positively affecting the forecast. Moreover, the startup of the Leismer Demonstration Project, with an initial capacity of 10 tb/d, is seen to be supporting output.

Mexico oil production to decline by 60 tb/d in 2011

Oil supply from **Mexico** is anticipated to decline by 60 tb/d from the previous year to average 2.90 mb/d in 2011, unchanged from last month. There was no change despite a minor upward revision of the fourth quarter 2010 supply estimate, which came as output increased in December compared to the previous month. Despite the minor increase, 2010 supply represents the lowest level in 20 years. In 2011, there were different indicators that kept Mexico supply forecast steady from the previous month. The stepping up of investment in the offshore Tabasco Littoral to stabilize output in the short-term positively supported the forecast, in addition to the stabilized output that was achieved in 2010. However, the continued decline at Cantarell, where production reached around 500 tb/d in 2010 compared to 2.1 mb/d in 2001, negatively affected the forecast. Additionally, the slow ramp-up of the Chicontepec development in the previous year further offset the positive momentum of supply stabilization. According to preliminary data, Mexico's oil output averaged 2.93 mb/d in the fourth quarter of 2010, a small decline from the same period of 2009.

Western Europe

OECD Western Europe oil production is foreseen to decline by 0.20 mb/d to average 4.18 mb/d in 2011, indicating a downward revision of 50 tb/d compared to the previous month. The downward revision was introduced to adjust for historical revisions, mainly for Other Western Europe. Additionally, some minor downward revision was introduced to the Norway supply profile in 2011. OECD Western Europe supply is seen to have a quarterly supply of 4.36 mb/d, 4.14 mb/d, 4.03 mb/d and 4.20 mb/d respectively.

Gullfaks output restricted toward 2012

Oil production from **Norway** is estimated to drop by 0.11 mb/d to average 2.03 mb/d in 2011, indicating a downward revision of 30 tb/d compared to the previous month. The downward revision was experienced partially on the back of a historical revision to the fourth quarter 2010 supply estimate. Moreover, the heavy drop seen in 2010 due to higher mature field declines, delayed and limited new developments and increased technical problems supported the minor downward revision. Additionally, there were changes to the supply forecast in 2011 that further increased the downward revision. The various technical problems at the Troll and Oseberg developments, while short in duration, have affected the supply forecast. Furthermore, the output restriction of the Gullfaks field toward 2012 is further supportive of the downward revision.

Brent production shut down

The UK oil supply is foreseen to decline 70 tb/d to average 1.30 mb/d in 2011, steady compared to last month. Despite this, a minor downward revision was introduced to the first quarter due to the shutdown of the Brent field. There were a few indicators that UK oil supply might experience a heavier decline than currently expected, such as the decline in offshore drilling in 2010. Reports suggested that UK offshore oil and gas drilling dropped 9% in 2010 compared to 2009. However, the anticipated startup of developments such as Athena and Bacchus is seen to offset the negative momentum of the UK output forecast in 2011.

Oil supply from Denmark is predicted to experience a minor drop of 20 tb/d from the 2010 level to average 0.23 mb/d in 2011, unchanged from the previous month. It remained unchanged as most recent production data indicated an increase in output in the early part of the fourth quarter as production from Halfdan and Nini developments increased. **Other Western Europe** oil supply is forecast to average 0.62 mb/d in 2011, steady from the previous year, and indicating a downward revision of 10 tb/d compared to the previous month. The downward revision came on the back of a historical revision.

Asia Pacific

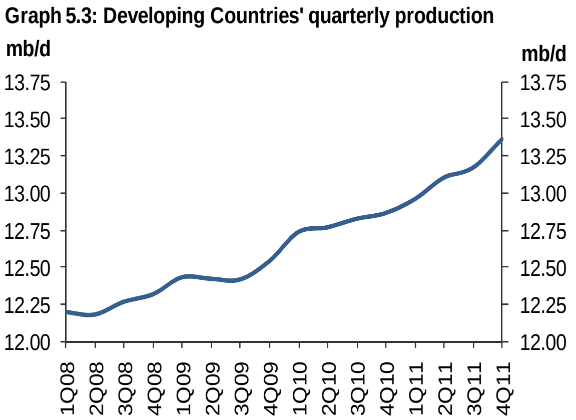
Oil supply from OECD Asia Pacific is expected to remain flat in 2011, compared to 2010, to average 0.59 mb/d, indicating a downward revision of around 20 tb/d from the previous month. On a quarterly basis, OECD Pacific total oil supply is estimated to average 0.60 mb/d, 0.60 mb/d, 0.60 mb/d and 0.58 mb/d respectively.

Adverse weather conditions reduced Australia's forecast in 2011

Oil production from Australia is expected to remain relatively flat in 2011 with a minor increase of 10 tb/d to average 0.51 mb/d, representing a downward revision of around 20 tb/d from the previous month. The downward revision came on the back various short shutdowns due to adverse weather conditions, such as at Van Gogh, Stag and Pyrenees. Additionally, weather conditions have forced the shutdown of some ethanol production. Furthermore, the announced startup delay of the Kipper and Turrum developments supported the downward revision, in addition to maintenance at the Mutineer-Exeter.

Developing Countries

DC supply is expected to drive non-OPEC supply growth in 2011



Developing Countries (DCs) oil supply is foreseen to grow by 0.35 mb/d to average 13.15 mb/d in 2011, indicating an upward revision of 25 tb/d from last month. Most of the upward revision came on the back of historical amendments, while the actual changes to the forecast for 2011 were minimal. Most of the DCs experienced some upward revisions, with the Middle East remaining steady from the previous month. Other Asia, Latin America, and Africa all experienced minor upward revisions. Latin America remains the region with the highest expected growth in 2011 among all non-OPEC regions. DCs' share of non-OPEC supply is seen to remain steady in 2011 as per the forecast at 26%, yet this group remains the highest contributor to non-OPEC growth. DCs' supply growth in 2011 is expected to be gradual throughout the year. On a quarterly basis, total oil supply in DCs is expected to average 12.96 mb/d, 13.11 mb/d, 13.17 mb/d and 13.37 mb/d respectively.

Other Asia supply to remain flat in 2011

Oil supply from **Other Asia** is estimated to remain relatively flat in 2011 and experience a minor increase of 10 tb/d to average 3.71 mb/d, indicating a minor upward revision of 10 tb/d compared to last month. The overall supply situation remains relatively unchanged with India and Vietnam seen to encounter supply growth in 2011, while Indonesia and Malaysia supply is seen to decline. India's oil supply forecast in 2011 experienced a minor upward revision on the back of historical adjustments to 2010 fourth quarter estimates. The increase was supported by the ramp-up of the Mangala development. India oil supply is forecast to increase by 50 tb/d in 2011. Similarly, Thailand's oil supply projection experienced a minor downward revision due to a historical adjustment in the fourth quarter 2010. On a quarterly basis, Other Asia supply is seen to average 3.70 mb/d, 3.69 mb/d, 3.71 mb/d and 3.73 mb/d respectively.

Malaysia oil supply is forecast to experience the largest decline among all Other Asia countries of 40 tb/d in 2011 to average 0.66 mb/d, flat from the previous month. Reports of the Kikeh field maintaining output of around 100 tb/d during 2011 support output. However, the anticipated decline in mature producing areas drives the expectation of decline in 2011, coupled with limited new developments. Vietnam oil supply is expected to show minor growth of 20 tb/d in 2011, supported by various new developments such as the recently started Bach Ho project. According to preliminary data, Other Asia oil supply stood at 3.72 mb/d in the fourth quarter 2010.

Latin America expected to experience the highest growth among all non-OPEC regions in 2011

Latin America oil supply is forecast to increase by 0.23 mb/d to average 4.95 mb/d in 2011, displaying a minor upward revision of 10 tb/d compared to last month. The minor amendment came from historical revisions to the Peru oil supply estimate, which showed improved output in 2010. Latin America forecast supply growth remains the highest among all non-OPEC regions in 2011. The supply forecast remains unchanged from the previous month with Brazil and Colombia driving growth, while Argentina and Trinidad and Tobago are seen to exhibit declines in 2011. On a quarterly basis, Latin American supply is estimated at 4.83 mb/d, 4.94 mb/d, 4.96 mb/d and 5.08 mb/d respectively.

Brazil oil supply is expected to increase by 0.16 mb/d in 2011 to average 2.87 mb/d, flat from the previous month. The healthy production level in December 2010 compared to the previous month required an upward revision to the fourth quarter 2010 oil supply estimate. However, the shutdown of one of the producing platforms due to a fire offset the increase witnessed in December. Additionally, the expected startup of the Peregrino project in late March is seen to support growth of Brazilian oil supply. Brazil remains the country with the highest expected supply growth in 2011. According to preliminary data, Brazil oil supply stood at 2.85 mb/d in December 2010. Colombia oil supply is expected to increase by 80 tb/d in 2011 to average 0.88 mb/d, unchanged from the previous month. The anticipated growth is supported by the Quifa and Rubiales developments. The healthy level of output in December 2010, which indicated y-o-y growth of 12%, is supporting anticipated growth in 2011. However, risk remains with the Colombia supply forecast as transportation bottlenecks might affect the production of certain projects. Preliminary data indicates that Latin America output stood at 4.76 mb/d in the fourth quarter 2010.

Oman is forecast to drive minor growth in Middle East supply in 2011

Oil supply from the **Middle East** is expected to average 1.80 mb/d in 2011, a minor increase of 20 tb/d from 2010, unchanged from last month. The expected supply growth from Oman in 2011 is seen to offset the anticipated decline from Syria and Yemen. Syria oil production in 2010 saw minor growth of 10 tb/d, which supported the growth of the region. On a quarterly basis, Middle East supply is expected to average 1.79 mb/d, 1.79 mb/d, 1.80 mb/d and 1.81 mb/d respectively. According to preliminary data, Middle East oil supply stood at 1.78 mb/d during the fourth quarter 2010.

Delays in project startups in Equatorial Guinea and Uganda

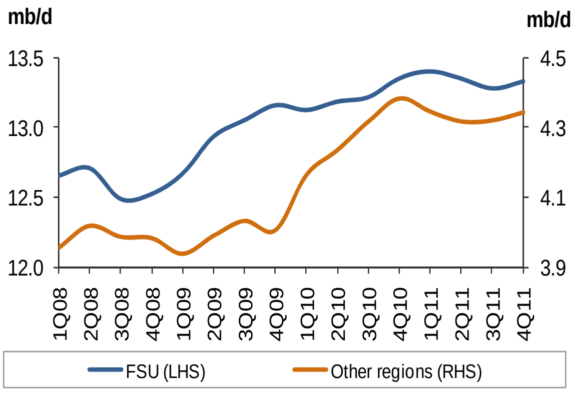
Africa oil supply is forecast to average 2.69 mb/d in 2011, representing an increase of 90 tb/d from the previous year and a minor upward revision of 10 tb/d compared to the previous month. Ghana remains the main driver of growth in 2011 supported by the Jubilee developments. Equatorial Guinea, Sudan and Uganda oil supply forecasts experienced revisions compared to the previous month. Sudan oil supply is forecast to increase slightly in 2011 to average 0.47 mb/d, indicating an upward revision of 20 tb/d compared to a month earlier. The upward revision came mainly from historical data in the fourth quarter of 2010, where production indicated a healthier level than previously expected. On the other hand, oil supply forecasts from Equatorial Guinea and Uganda experienced minor downward revisions compared to the previous month's evaluation. The downward revision came on reports of startup delays of Aseng, Alen and Kasemene developments. On a quarterly basis, Africa supply is seen to average 2.64 mb/d, 2.68 mb/d, 2.70 mb/d and 2.75 mb/d respectively.

FSU, Other Regions

FSU supply growth in 2011 is seen lower than the five-year average

FSU total oil supply is projected to average 13.34 mb/d in 2011, an increase of 0.12 mb/d over 2010, unchanged compared to the previous month. Despite the steady state of FSU supply, there were minor changes to individual country supply estimates. Growth is expected from all major producers in the region. Expected growth in 2011 is less than 50% of the average supply growth seen in the last five years. Limited new developments, coupled with transportation and fiscal issues as well as declines in mature producing areas, curbed anticipated growth in the FSU in 2011. However, the FSU remains the leading region in terms of production among all non-OPEC regions. FSU production is expected to maintain a 26% share of global output in 2011. On a quarterly basis, total oil supply from the FSU is seen to average 13.40 mb/d, 13.35 mb/d, 13.28 mb/d and 13.33 mb/d respectively. China oil supply is seen to grow by 50 tb/d to average 4.19 mb/d in 2011. Other Europe supply is expected to remain steady at an average of 0.14 mb/d in 2011.

Graph 5.4: FSU and other region's quarterly production



Russia

High risk continues to surround Russia output forecast in 2011

Russian oil production is forecast to increase by 20 tb/d to average 10.16 mb/d in 2011, representing a minor upward revision of 10 tb/d from last month. The upward revision came on the back of healthy production levels in January, which indicated a minor increase from December 2010. The supply forecast for the world's largest oil producer is associated with a high level of risk. The current Russia oil forecast in 2011 demonstrates gradual decline through all the quarters compared to the previous quarter. Despite the decline, Russian oil supply is expected to remain relatively flat in 2011, compared to 2010. The steady state is driven mainly by the limited new volume expected in 2011, in addition to the effect of mature declines on overall supply. However, taxation uncertainties (some major producers reported that taxation could reduce their growth in 2011) could change the production profile in both directions in 2011. Additionally, improved drilling techniques could also reduce the effect of the mature area decline, while the potential of heavier-than-anticipated decline remains on the horizon. Accordingly, the risk of forecast change continues to exist at the highest level among all non-OPEC countries for Russia supply. On a quarterly basis, Russian oil supply is expected to average 10.20 mb/d, 10.18 mb/d, 10.13 mb/d and 10.13 mb/d respectively. Preliminary figures indicate that Russia oil production stood at 10.19 mb/d in January, slightly higher than the previous month.

Caspian

Kazakhstan to double oil export duties in 2011

Oil supply from Kazakhstan is anticipated to increase by 60 tb/d to average 1.66 mb/d in 2011, steady from the previous month. The upward revision that affected the fourth quarter 2010 supply estimate, on the back of higher output, did not affect the forecast in 2011, as a doubling of export duties is expected to slightly affect the supply in 2011. On quarterly basis, Kazakh oil supply is seen to average 1.67 mb/d, 1.64 mb/d, 1.63 mb/d, and 1.68 mb/d respectively.

Azeri supply to average 1.11 mb/d in 2011

Azerbaijan oil supply is foreseen to average 1.11 mb/d in 2011, showing growth of 40 tb/d over 2010, flat compared to the previous month. However, there were minor downward revisions that affected the first half forecast, on the back of changes to the fourth quarter 2010 supply estimate, as preliminary data suggested lower-than-expected output. The quarterly breakdown stands at 1.12 mb/d, 1.11 mb/d, 1.11 mb/d and 1.11 mb/d respectively.

China

China supply to increase by 50 tb/d in 2011

Oil supply from China is predicted to increase by 50 tb/d over 2010 to average 4.19 mb/d in 2011, indicating an upward revision of 15 tb/d from the previous month. The upward amendment came despite the downward revision that affected the fourth quarter 2010 supply estimate. The strong supply growth experienced in 2010 is seen to lose some momentum in 2011, yet supply is expected to register a further increase, but lower than what has been achieved in 2010. Biofuel production is also seen to support the supply in China in 2011. The quarterly figures are seen to average 4.21 mb/d, 4.18 mb/d, 4.18 mb/d, and 4.20 mb/d respectively.

Table 5.2: Non-OPEC oil supply in 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10
North America	14.92	15.00	15.02	14.92	15.11	15.01	0.09
Western Europe	4.38	4.36	4.14	4.03	4.20	4.18	-0.20
OECD Pacific	0.60	0.60	0.60	0.60	0.58	0.59	0.00
Total OECD	**19.89**	**19.96**	**19.76**	**19.54**	**19.89**	**19.79**	**-0.10**
Other Asia	3.69	3.70	3.69	3.71	3.73	3.71	0.01
Latin America	4.73	4.83	4.94	4.96	5.08	4.95	0.23
Middle East	1.77	1.79	1.79	1.80	1.81	1.80	0.02
Africa	2.61	2.64	2.68	2.70	2.75	2.69	0.09
Total DCs	**12.80**	**12.96**	**13.11**	**13.17**	**13.37**	**13.15**	**0.35**
FSU	13.22	13.40	13.35	13.28	13.33	13.34	0.12
Other Europe	0.14	0.14	0.14	0.14	0.14	0.14	0.00
China	4.14	4.21	4.18	4.18	4.20	4.19	0.05
Total "Other regions"	**17.49**	**17.74**	**17.66**	**17.60**	**17.67**	**17.67**	**0.17**
Total Non-OPEC production	**50.19**	**50.66**	**50.53**	**50.31**	**50.93**	**50.61**	**0.42**
Processing gains	2.08	2.08	2.08	2.08	2.08	2.08	0.00
Total Non-OPEC supply	**52.26**	**52.74**	**52.61**	**52.38**	**53.00**	**52.68**	**0.42**
Previous estimate	52.26	52.74	52.60	52.35	52.98	52.67	0.41
Revision	0.01	0.00	0.00	0.04	0.02	0.02	0.01

OPEC crude production averaged 29.72 mb/din January 2011

OPEC natural gas liquids and non-conventional oils

OPEC NGLs and non-conventional oils are forecast to average 5.25 mb mb/d in 2011, growth of 0. 46 mb mb/d over the previous year. In 2010, OPEC NGLs are estimated to have averaged 4.79 mb mb/d, an increase of 0.44 mb mb/d over 2009.

Table 5.3: OPEC NGLs + non-conventional oils, 2008-2011

	2008	2009	Change 09/08	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09	2011	Change 11/10
Total OPEC	**4.14**	**4.35**	0.21	4.60	4.77	4.81	4.96	**4.79**	0.44	**5.25**	0.46

OPEC crude oil production

Total OPEC crude oil production averaged 29.72 mb/d in January, the highest since December 2008, which indicates an increase of 397 tb/d, according to secondary sources. OPEC production not including Iraq averaged 27.01 mb/d, up by 138 tb/d from December. Crude oil production experienced increase from Iraq, Saudi Arabia, Angola, and the UAE. While crude output from Nigeria and Iran experienced decline.

Table 5.4: OPEC crude oil production based on secondary sources, 1,000 b/d

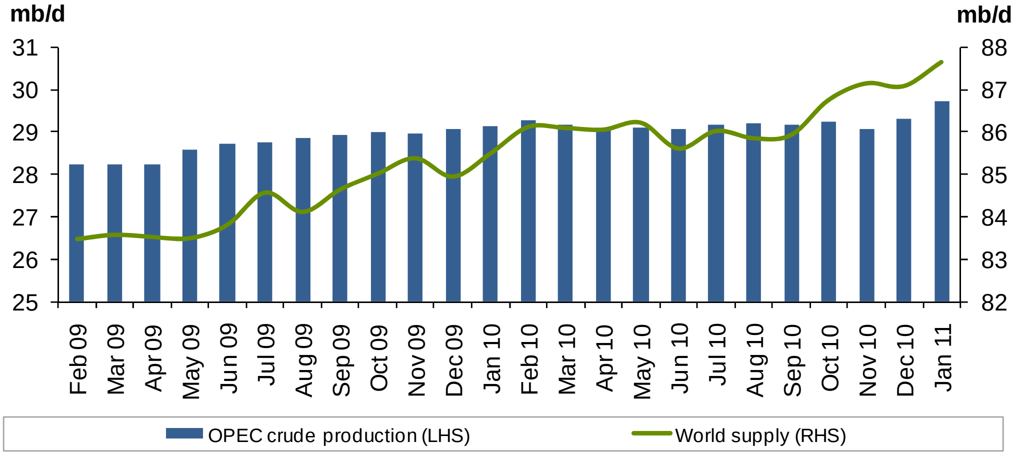
	2009	2010	2Q10	3Q10	4Q10	Nov 10	Dec 10	Jan 11	*Jan/Dec*
Algeria	1,270	1,270	1,270	1,269	1,269	1,268	1,270	1,276	*6.0*
Angola	1,786	1,787	1,850	1,749	1,642	1,665	1,576	1,618	*42.5*
Ecuador	477	473	471	475	473	472	476	481	*4.5*
Iran, I.R.	3,725	3,708	3,730	3,682	3,676	3,678	3,679	3,658	*-20.8*
Iraq	2,422	2,397	2,356	2,355	2,415	2,405	2,448	2,706	*258.8*
Kuwait	2,263	2,307	2,305	2,313	2,320	2,314	2,336	2,354	*18.2*
Libya, S.P.A.J.	1,557	1,560	1,561	1,567	1,568	1,568	1,572	1,574	*2.0*
Nigeria	1,812	2,064	1,971	2,115	2,179	2,143	2,204	2,172	*-32.0*
Qatar	781	804	801	805	807	806	816	813	*-2.4*
Saudi Arabia	8,051	8,208	8,154	8,248	8,297	8,266	8,361	8,433	*72.0*
UAE	2,256	2,305	2,309	2,318	2,312	2,268	2,340	2,375	*34.9*
Venezuela	2,309	2,281	2,294	2,285	2,252	2,228	2,243	2,256	*13.7*
Total OPEC	**28,708**	**29,163**	**29,073**	**29,181**	**29,210**	**29,081**	**29,320**	**29,717**	***397.3***
OPEC excl. Iraq	**26,286**	**26,766**	**26,717**	**26,826**	**26,795**	**26,676**	**26,872**	**27,011**	***138.5***

Totals may not add due to independent rounding

World Oil Supply

Preliminary figures for the month of January indicate that world oil supply averaged 87.66 mb/d, an increase of 0.57 m/d over the December figure, with OPEC's crude share at around 34%. 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

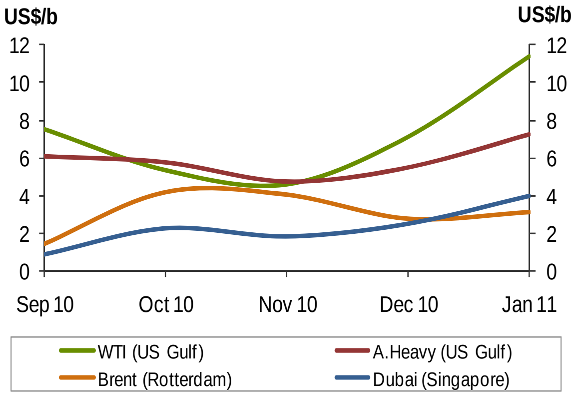


Product Markets and Refinery Operations

Winter demand and weak WTI boosted US refining margins

The sustained momentum in the middle distillates market has received support from the colder weather in the Atlantic Basin – the deepest winter for the last decades in some areas – creating stronger heating oil demand.

Graph 6.1: Refining margins, 2010-2011



Further support came from higher diesel demand for trucks, as a sign of positive developments in the global economy and sustained Chinese diesel demand for re-stocking due to last month's shortage.

The healthy middle distillate demand ahead of the refinery maintenance season as well as moderated refinery runs will keep supporting refinery margins in the coming months and could offset the lower cracks in the top and bottom of the barrel.

US refining industry performance kept improving in January on the back of the middle distillate cracks, which rose due to a colder-than-average winter in the Northeastern part of the US. The margin for WTI crude on the US Gulf Coast reached $11.4/b, the highest level since last May. Another contributor to the margins was the lower WTI price due to the build in inventories in Cushing, Oklahoma.

In Europe, the improvement in the middle distillate cracks due to stronger global demand was able to offset the weakness in the top and bottom of the barrel and the margin for Brent crude in Rotterdam remained around the level reached last month.

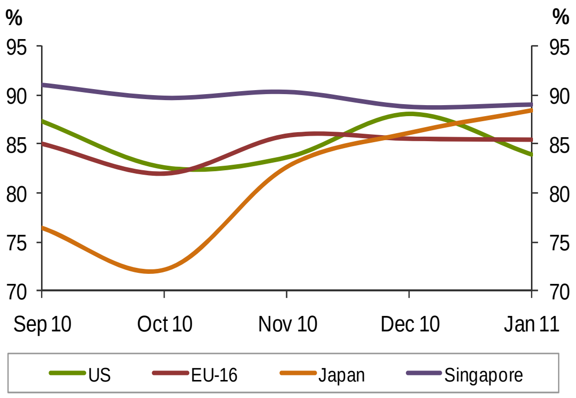
Refining margins for Dubai crude oil in Singapore were supported by the gains in light and middle distillate cracks – sustained recovery in the gasoline crack spreads – which, allowed refinery margins to keep rising in January to gain $1.5/b.

Refinery operations

Refining runs increasing in Asia to meet higher gasoil demand

American refiners boosted refinery runs in December, however, as gasoline and middle distillate stocks started building again, despite the higher distillate demand, they decided to reduce refinery runs from 88% on average in December to 85% in January. This, along with the drop in the price of WTI, has contributed to the increase in refining margins.

Graph 6.2: Refinery utilization rates, 2010-2011



European refiners have maintained moderated throughputs over the last months – around 85% – in an effort to protect margins, while Asian refiners continued to increase runs to face higher distillate demand, and Japan has pushed throughput to 89%, the highest level in refinery utilization since 2008.

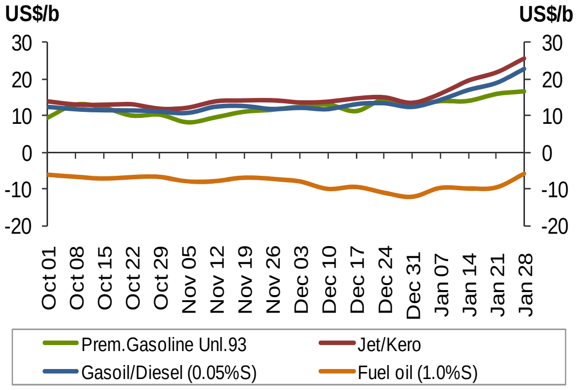
Looking ahead, positive global signals will maintain the bullish market, mainly in middle distillates. However, high inventories in the Atlantic Basin along with maintenance in the petrochemical sector will encourage moderated refinery runs in the Atlantic Basin, while Asian refineries will drop runs once they replenish gasoil stocks.

Colder weather lifted product prices in the US

US market

According to the EIA, US gasoline demand dropped to 8.7 mb/d in January, 500 tb/d lower than a month earlier, but 217 tb/d above same month last year.

Graph 6.3: US Gulf crack spread vs. WTI, 2010-2011



Regional demand has been dampened by the adverse weather conditions seen in the US over the last weeks and higher retail gasoline pump prices, although there have been cuts in refinery runs, which were not enough to avoid the rise in US gasoline inventories. Over the last weeks, some arbitrage opportunities were open to the US Atlantic Coast from the US Gulf Coast and from Europe, encouraged by the economic advantage of blending naphtha in the gasoline pools.

Notwithstanding the bearish factors in the gasoline market, the weakness in WTI due to high stocks in Cushing, Oklahoma, allowed the gasoline crack spread at the US Gulf Coast to exhibit a sharp increase, reaching $15/b on average in January, from an average of $12.8/b in December.

Middle distillate demand remained strong in the US, but lower than last month – 3.7 mb/d in January versus 3.8 mb/d in December. This is 26 tb/d lower than the y-o-y average.

The cold weather along the East Coast and the winter storm in the US Northeast kept demand for heating oil strong in the whole Atlantic Basin, pushing prices higher. The positive sentiment in the US distillates market was reinforced by the additional export opportunities of diesel to Latin America and Europe.

The US gasoil crack on the Gulf Coast jumped to $18/b, the highest level seen for the last two years, gaining more than $5 over last month's average of $12.5/b.

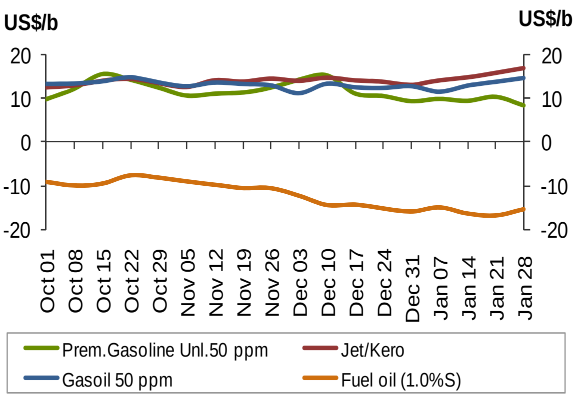
Following these developments, the bullish sentiment caused heating oil managed money traders on Nymex to increase net long positions to 63.831 lots in December.

Middle distillates lent support to refining margins in Europe

European market

Product market sentiment in Europe continued to be mixed as products from the top and bottom of the barrel remained weaker, while middle distillates recovered momentum.

Graph 6.4: Rotterdam crack spreads vs. Brent, 2010-2011



The European gasoline market has been losing ground since the end of the year because of limited demand within the region and limited arbitrage to the US, causing ARA gasoline stocks to rise to record levels in the last months. The gasoline crack spread against Brent crude showed a sharp drop of more than $2.5/b from around $12/b December, to an average of $9.4/b in January.

The European naphtha market lost ground due to oversupply amid lackluster demand from the petrochemical sector, where naphtha has become less attractive than propane and butane as feedstock. In addition, bearish sentiment was fueled by limited arbitrage to Asia, which had kept the naphtha market strong in previous months.

Weak regional demand and a steam cracker shutdown in the Netherlands will keep the naphtha market pressured during coming months.

Stronger heating oil demand as well as additional gasoil demand in Latin America, the US and Asia Pacific lent support to the middle distillate market. This situation offset ample German supply and limited trade on the Rhine at the end of January. The gasoil crack spread against Brent crude at Rotterdam gained 80¢/b to rise from an average of $12.6/b in December to $13.4/b in January. Refinery maintenance, including the Pernis Hydrocracker shutdown, and stronger demand due to the harsh winter, will maintain the positive momentum in the European gasoil market.

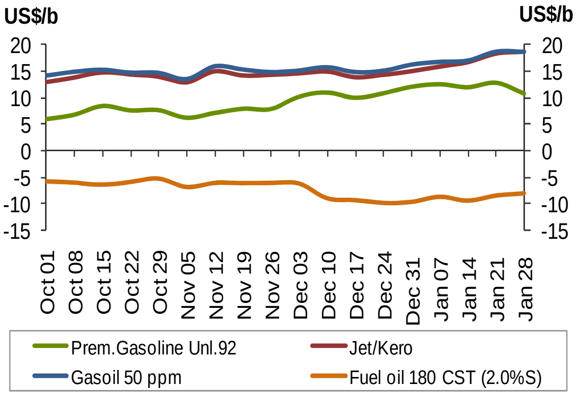
The European fuel oil market continued losing ground last month on the back of weaker demand in the region amid limited arbitrage opportunities. The fuel oil crack spread against Brent dropped sharply during this month to minus $16/b, the lowest level seen in twelve months.

Asian market

Product markets remained strong in a Asia, amid sustained demand

The Asian naphtha market maintained gains made to mid-January on the back of strong petrochemical activity due to very healthy demand from the NE Asian cracker units. However, sentiment has become bearish over the last weeks due to higher Western naphtha inflows and the impending cracker maintenance season (early March) in the region.

Graph 6.5: Singapore crack spreads vs. Dubai, 2010-2011



The Asian gasoline market retained the support gained over the last month on stronger regional demand, mainly due to higher requirements in Pakistan and Indonesia.

The gasoline crack spread against Dubai crude oil in Singapore showed a rise from an average $10.8/b in December to $12/b in January, higher than in any month last year. However, gasoline started losing some ground towards the end of the month, due to the shift in seasonal demand and an oversupplied market.

Expectation of higher inflows in the coming months and moderated demand will keep pressure on the Asian gasoline market.

Middle distillate cracks remained supported by regional heating oil and diesel demand, due to colder-than-expected weather which has increased heating oil requirements and offset higher refinery runs.

The gasoil crack spread in Singapore against Dubai gained additional support from the deep winter and surpassed $18/b at the end of January – the highest level seen in two years. Support is expected to continue from stronger Asian demand.

The Asian fuel oil market remains under pressure because of higher western arbitrage and low shipping activity. However, this has been offset by support from stronger regional demand – a deep winter in Japan and increased power generation in South Korea.

Following these developments, the high sulfur fuel oil crack spread in Singapore against Dubai resisted a further drop to remain around $8.6/b on average in January, unchanged from the previous month.

Table 6.1: Refined product prices, US$/b

		Nov 10	Dec 10	Jan 11	Change Jan/Dec
US Gulf (Cargoes):					
Naphtha		88.79	96.23	99.02	2.79
Premium gasoline	*(unleaded 93)*	94.38	102.07	104.41	2.34
Regular gasoline	*(unleaded 87)*	89.53	97.76	101.07	3.31
Jet/Kerosene		97.56	103.09	110.16	7.07
Gasoil	*(0.05% S)*	96.13	101.68	107.68	6.00
Fuel oil	*(1.0% S)*	76.58	78.59	80.60	2.01
Fuel oil	*(3.0% S)*	72.31	75.74	79.05	3.30
Rotterdam (Barges FoB):					
Naphtha		86.37	93.15	94.52	1.37
Premium gasoline	*(unleaded 10 ppm)*	96.83	103.44	105.73	2.29
Premium gasoline	*(unleaded 95)*	94.14	100.57	102.79	2.22
Jet/Kerosene		99.07	105.26	112.02	6.76
Gasoil/Diesel	*(10 ppm)*	98.67	104.15	109.99	5.84
Fuel oil	*(1.0% S)*	75.18	76.54	80.36	3.82
Fuel oil	*(3.5% S)*	74.09	76.19	79.99	3.80
Mediterranean					
Naphtha		84.55	90.81	92.56	1.75
Premium gasoline	*(50 ppm)*	99.91	106.73	109.09	2.36
Jet/Kerosene		96.79	102.77	110.24	7.47
Gasoil/Diesel	*(50 ppm)*	97.50	104.16	107.00	2.84
Fuel oil	*(1.0% S)*	74.36	75.98	80.05	4.07
Fuel oil	*(3.5% S)*	72.38	73.77	79.01	5.24
Singapore (Cargoes):					
Naphtha		87.26	93.83	95.16	1.33
Premium gasoline	*(unleaded 95)*	93.21	102.09	106.38	4.29
Regular gasoline	*(unleaded 92)*	91.15	100.02	104.34	4.32
Jet/Kerosene		97.87	103.53	109.89	6.36
Gasoil/Diesel	*(50 ppm)*	98.59	104.40	105.18	0.78
Fuel oil	*(180 cst 2.0% S)*	77.71	80.20	83.71	3.51
Fuel oil	*(380 cst 3.5% S)*	75.85	78.57	82.81	4.24

Table 6.2: Refinery operations in selected OECD countries

	Refinery throughput, mb/d			Refinery utilization, %		
	Dec 10	Jan 11	Jan/Dec	Dec 10	Jan 11	Jan/Dec
US	14.9	14.4	-0.6	87.8	84.4	-3.4
France	1.4	-	-	75.6	-	-
Germany	1.9	-	-	85.9	-	-
Italy	1.7	-	-	80.9	-	-
UK	1.4	-	-	77.3	-	-
Euro-16	11.2	11.2	0.0	85.5	85.4	-0.1
Japan	3.9	4.0	0.1	86.3	88.5	2.2

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

Tanker Market

OPEC spot fixtures decreased by 12% while sailings remained steady in January

OPEC spot fixtures decreased by 1.63 mb/d or 12% in January from the previous month to average 13.05 mb/d. The decrease in fixtures was within the typical range for the holiday season as well as the upcoming maintenance season. Additionally, the higher level of fixtures in December partially offset the decline in January.

Middle East to Eastbound fixtures decreased by 0.6 mb/d or 10% in January compared to the previous month, whereas Westbound fixtures declined by 0.4 mb/d. Compared to a year earlier, Middle East fixtures to the East increased by 44% and to the West increased by 15% in January.

Preliminary data shows that January OPEC sailings remained steady compared to the previous month, with a minor increase of 20tb/d or 0.1% to average 23.61 mb/d. OPEC sailings in January showed an increase of 3% compared to the same month last year.

Arrivals in almost all selected discharging ports increased in January due mainly to the previous month's liftings. North America arrivals increased by 60 tb/d, Europe arrivals increased by 90 tb/d or 0.7%, and the Far East by 270tb/d or 3.3%.

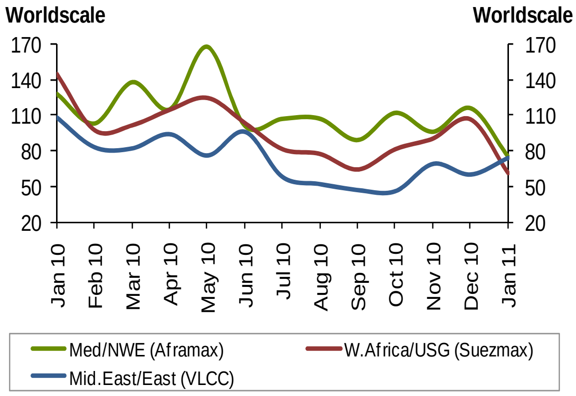
Table 7.1: Tanker chartering, sailings and arrivals, mb/d

	Nov 10	Dec 10	Jan 11	Change Jan/Dec
Spot Chartering				
All areas	18.37	20.03	18.54	-1.49
OPEC	12.94	14.68	13.05	-1.63
Middle East/East	5.90	6.82	6.24	-0.58
Middle East/West	1.33	1.50	1.09	-0.41
Outside Middle East	5.71	6.36	5.72	-0.64
Sailings				
OPEC	23.33	23.59	23.61	0.02
Middle East	17.24	17.50	17.55	0.05
Arrivals				
North America	8.45	8.66	8.72	0.06
Europe	12.32	11.58	11.67	0.09
Far East	8.15	8.06	8.33	0.27
West Asia	4.77	4.70	4.50	-0.20

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

The crude oil tanker market weakened over all segments

Graph 7.1: Monthly averages of crude oil spot freight rates



The **crude oil tanker market** experienced strong bearish sentiment in January compared to the previous month. Dirty tanker spot freight rates declined in January throughout all market segments as a result of the availability of excess tonnage. New deliveries supported tonnage availability as well as lower tonnage demand and improved weather conditions. Moreover, changes to the new Worldscale flat rate further pressured the rates in January. On average and in nominal terms, VLCC spot freight rates decreased by 21%, Suezmax dropped 41% and Aframax declined by 32% in January compared to the previous month.

In the **VLCC** segment, spot freight rates for VLCC operating the long-haul route Middle East to East declined by 22% in January compared to the previous month. The drop was driven generally by lower tonnage demand in Asia, and China in particular, as many Chinese charterers went on holiday. Refinery maintenance schedules in Taiwan and other locations further pressured the decline of spot freight rates.

From the Middle East to West destinations, VLCC spot freight rates for long haul voyages registered a decline of 20% in January from the previous month. Similarly, tanker oversupply was one of the main factors weighing on spot freight rates on the Middle East/West route. Additionally, weather conditions, lower tonnage demand as well as Worldscale flat rate adjustments contributed to the decline of spot freight rates. Spot freight rates for VLCC operating on the West Africa to East route dropped by 20% in January compared to the previous month. The decline was driven mainly by lower tonnage demand from Asia and tonnage oversupply.

Taking into consideration the new flat rate 2011, the VLCC sector slipped 5% on average in January. Looking at the selected routes, Middle East/East, Middle East/West and West Africa/East routes for VLCC spot freight rates declined 7%, 3% and 3% respectively.

Suezmax spot freight rates witnessed the biggest drop compared to all other segments. Spot freight rates for Suezmax operating on West Africa to the US Gulf declined 43% in January compared to the previous month, the largest decline among all reported routes. On the Northwest Europe to US Gulf Coast route, Suezmax spot freight rates dropped 38% in January compared to the previous month. The decline of Suezmax spot freight rates was mainly due to the impact of tonnage oversupply resulting from lower transatlantic activity due to the upcoming maintenance season on the Gulf Coast. The improved weather conditions reduced delays in Northern Hampshire, which further supported availability and pressured spot freight rates.

The **Aframax** sector also came under pressure in January. Spot freight rates for Aframax operating on the Indonesia to East route declined by 22% in January compared to the previous month. On the Caribbean to the US East Coast, rates decreased by 25% and on the Mediterranean to Mediterranean as well as Mediterranean to Northwest Europe routes, spot freight rates dropped 44% and 35% respectively. The drop in Mediterranean to Mediterranean and Mediterranean to Northwest Europe Aframax spot freight rates was mainly due to the impact of lower activity in the North Sea and Baltic routes on Russian crude activity. Additionally, the shortened delays at the Turkish straits as weather conditions improved strongly supported vessel availability in January. The drop in Aframax spot freight rates on the Caribbean to US East Coast route was backed by lower tonnage demand from the US due to the upcoming maintenance season on the US Gulf Coast.

Table 7.2: Spot tanker crude freight rates, Worldscale

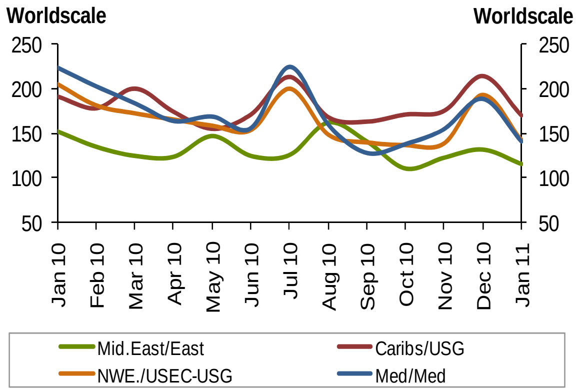
	Size *1,000 DWT*	**Nov 10**	**Dec 10**	**Jan 11**	**Change Jan/Dec**
Crude					
Middle East/East	230-280	69	60	47	-13
Middle East/West	270-285	45	40	32	-8
West Africa/East	260	66	64	51	-13
West Africa/US Gulf Coast	130-135	90	106	61	-45
NW Europe/USEC-USGC	130-135	84	99	61	-38
Indonesia/US West Coast	80-85	105	112	87	-25
Caribbean/US East Coast	80-85	127	157	118	-39
Mediterranean/Mediterranean	80-85	94	133	74	-59
Mediterranean/North-West Europe	80-85	96	116	75	-41

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

Clean market rates decreased on all routes

In the **clean markets**, spot freight rates weakened on all routes in January after a rebound on many routes in the previous month. East of Suez decreased by 13% and west of Suez dropped 24%.

Graph 7.2: Monthly averages of clean spot freight rates



The biggest drop on clean tanker spot freight rates was seen on the Northwest Europe to US East Coast– US Gulf Coast route, which registered a decline of 26% compared to the previous month. The decline came on the back of closed arbitrage of gasoil as well as shortened delays due to better weather conditions. Additionally, tonnage oversupply further pressured rates. Higher gasoline stocks in the US supported the closure of arbitrage.

The second biggest decline of clean spot freight rates was registered in the Mediterranean. Clean spot freight rates for tankers operating on the Mediterranean to Mediterranean and Mediterranean to Northwest Europe routes decreased by 25% and 24% in January compared to the previous month, mainly on tonnage oversupply and fewer delays at the Turkish straits.

Clean spot freight rates for voyages on the Middle East to East and Singapore to East routes declined by 12% and 13% respectively. Tonnage availability was among the main reasons for the decline as naphtha arbitrage closed and Chinese charterers went on holiday.

The use of the new Worldscale flat rate was a considerable factor behind the drop of clean spot freight rates, as the higher price of bunkering in 2010 supported the increase of the flat rate.

Table 7.3: Spot tanker product freight rates, Worldscale

	Size *1,000 DWT*	Nov 10	Dec 10	Jan 11	Change Jan/Dec
Products					
Middle East/East	30-35	123	132	116	-16
Singapore/East	30-35	136	163	142	-21
Caribbean/US Gulf Coast	38-40	175	214	170	-44
NW Europe/USEC-USGC	33-37	138	193	142	-51
Mediterranean/Mediterranean	30-35	155	189	141	-48
Mediterranean/North-West Europe	30-35	165	199	151	-48

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

Oil Trade

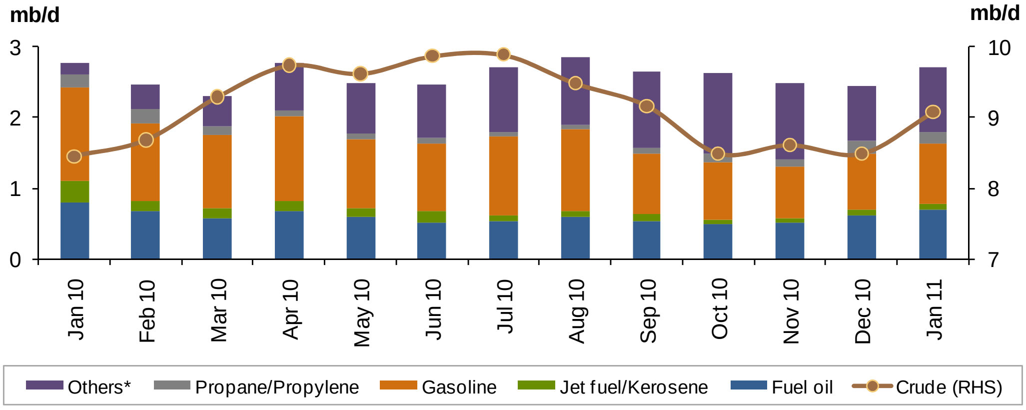
US crude oil imports recovered in January to move beyond 9.0 mb/d for the first time since last September

USA

US crude oil imports recovered sharply in January to average almost 9.1 m/d, according to preliminary data. That was 0.59 mb/d or 7% higher than December's level and 0.62 mb/d or 7.3% higher than a year ago. It was the first time for crude oil imports to stand above 9 mb/d since the 9.2 mb/d of last September. The rise in crude oil imports came in line with the seasonal trend as imports increased because of stronger demand from refineries and cold weather as well as a correction from the low levels of December, due to reducing crude oil stocks for year-end tax purposes.

Following the same trend, product imports jumped 0.26 mb/d or 10.8% to move to 2.71 mb/d, the highest level since last July when imports also stood at 2.71 mb/d. However, compared to a year earlier, product imports in January 2011 were some 68 tb/d or 2.5% lower.

Graph 8.1: US imports of crude and petroleum products



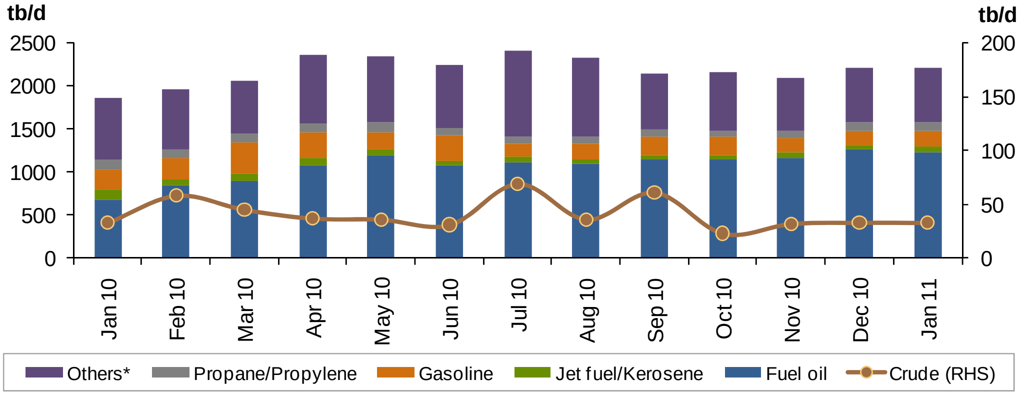
**Others: Contains natural gas liquids, liquefied refinery gases (LRG's), other liquids and all finished petroleum products except gasoline, jet fuel/kerosene, fuel oil and propane/propylene*

Together, crude oil and product imports rose 0.85 mb/d or 7.8% to nearly 11.8 mb/d in January, the highest level since July 2009. The strong recovery in US oil imports reflects stronger oil demand and continued build in oil inventories.

Both crude oil and product exports remained unchanged in January at 33 tb/d and 2.2 mb/d, respectively. Nevertheless, compared to a year earlier, product imports were 0.36 mb/d or almost 20% higher this year.

As a result, **US total net oil imports averaged more than 9.5 mb/d, up 0.85 mb/d or 9.8% from December and up 0.19 mb/d or 2% from a year ago.** At 9.5 mb/d, US net oil imports were at their highest level since the almost 10.0 mb/d of August 2010.

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*

The US imported more than 4.1 mb/d of its crude oil from OPEC Member Countries in November 2010, corresponding to a share of 48.4% of total crude oil imports, down 1.4 percentage points from a year earlier. However, by country, Canada was the main supplier of US crude oil imports in November with almost 2.0 mb/d or 23%, followed by Mexico with 1.2 mb/d or 14% and Saudi Arabia with 1.1 mb/d or 13%.

On the product side, imports from OPEC Member Countries accounted for 0.35 mb/d or 14% of US product imports. Imports from Algeria accounted for 0.19 mb/d or 7.8% of total US product imports, while Canada remained the main supplier with more than 0.53 mb/d or 21.6%, followed by Russia with 0.47 mb/d or 18.9%.

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

	Nov 10	Dec 10	Jan 11	Change Jan/Dec
Crude oil	8,576	8,450	9,040	590
Total products	-34	242	502	260
Total crude and products	**8,542**	**8,693**	**9,542**	**849**

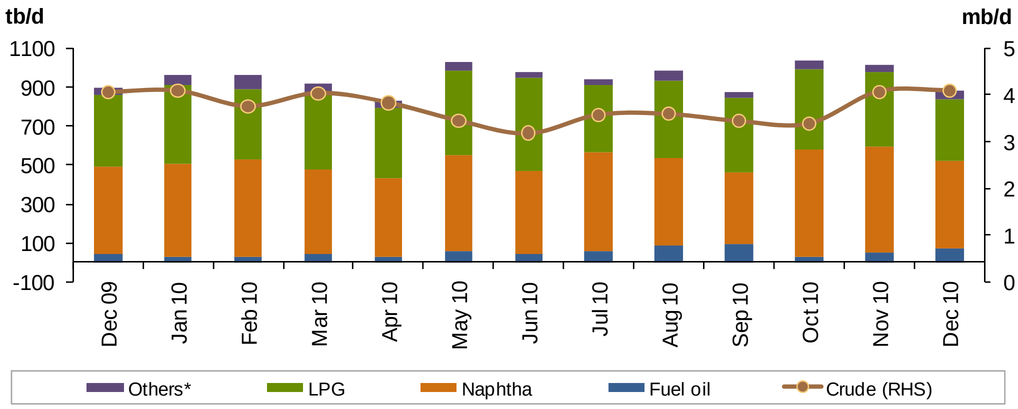
Japan

Japan's net oil imports recovered in 2010, but remained below the level before the economic crisis

Japan's crude oil imports increased a further 21 tb/d or 0.5% in December to remain around 4.1 mb/d, the highest level since February 2009. Compared to a year earlier, December imports were 35 tb/d or almost 1% higher in 2010. The growth in crude oil imports for the second consecutive month was in line with a recovery in the economy, which resulted in higher refining throughputs. Stock building also contributed to the recovery in crude oil imports.

For 2010, Japan imported 3.7 mb/d of crude oil on average, up 60 tb/d or 1.6% from a year ago when imports fell to their lowest levels in two decades amid lower demand because of the economic crisis. However, despite this growth, Japan's crude oil imports remained below the levels of around 4.1 mb/d seen between 2005 and 2008.

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



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

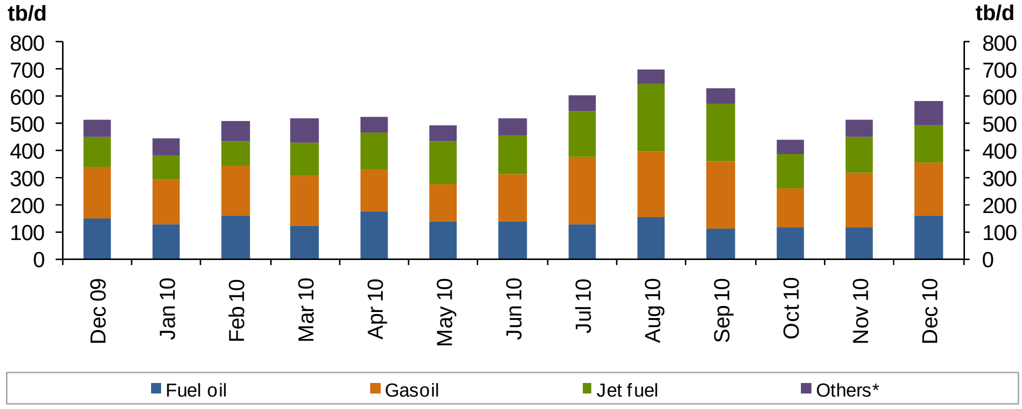
In contrast to crude oil, product imports including LPG, fell sharply in December to 0.88 mb/d, down 133 tb/d or 13% from the 1.0 mb/d of November. Almost all products saw their imports reduced in December, except kerosene and fuel oil. Naphtha imports – the main imported product with LPG – fell by almost 100 tb/d or 18% to 442 tb/d. LPG imports followed the same trend and fell 66 tb/d or more than 17% to average 0.32 mb/d, the lowest level in more than a year.

In 2010, Japan's product imports averaged 0.95 mb/d, up 94 tb/d or 11% from a year earlier, reflecting healthier demand, yet remained below the 1.2 mb/d of 2007.

In December, Japan's total product exports, including LPG, increased to 0.58 mb/d, up 67 tb/d from a month earlier, lifted by the huge availability of fuel oil because of weaker demand and increasing production from refineries. Gasoline exports also rose sharply by 22% to stand at more than 63 tb/d, the highest since March 2010. For the whole year of 2010, Japan's product imports were at 0.54 mb/d, slightly below the 0.55 mb/d of the previous year.

As a result, **Japan's net oil imports fell 178 tb/d or 3.9% in December to average 4.4 mb/d.** Compared to a year earlier, the decline was lower by 46 tb/d, or just 1%. Nevertheless, considering the whole year, net oil imports were at 4.1 mb/d in 2010, up 163 tb/d or 4.1% from a year earlier.

Graph 8.4: Japan's exports of petroleum products



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

Saudi Arabia remained the main supplier of Japan's crude oil in December 2010 with 1.2 mb/d or 29% of total imports, followed by the United Arab Emirates with 21%, Qatar (11%), Russia (10.6%) and Iran (8.6%). However, while Saudi Arabia, the UAE and Qatar kept their positions, Russia saw its share rise sharply from 3.9% a year ago. That was mainly at the expense of Iran, which saw its share drop from nearly 13% to 8.6% in December 2010. Imports from Russia rose from 0.16 mb/d in December 2009 to 0.44 mb/d a year later, lifted by the start of exports of the ESPO blend, while imports from Iran dropped from 0.53 mb/d to 0.35 mb/d over the same period.

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

	Oct 10	Nov 10	Dec 10	Change Dec/Nov
Crude oil	3,579	4,191	4,080	-112
Total products	592	498	298	-200
Total crude and products	**3,986**	**4,567**	**4,389**	**-178**

China

China's net oil imports increased further to hit a record high of 5.1 mb/d for 2010, reflecting sustained strong demand

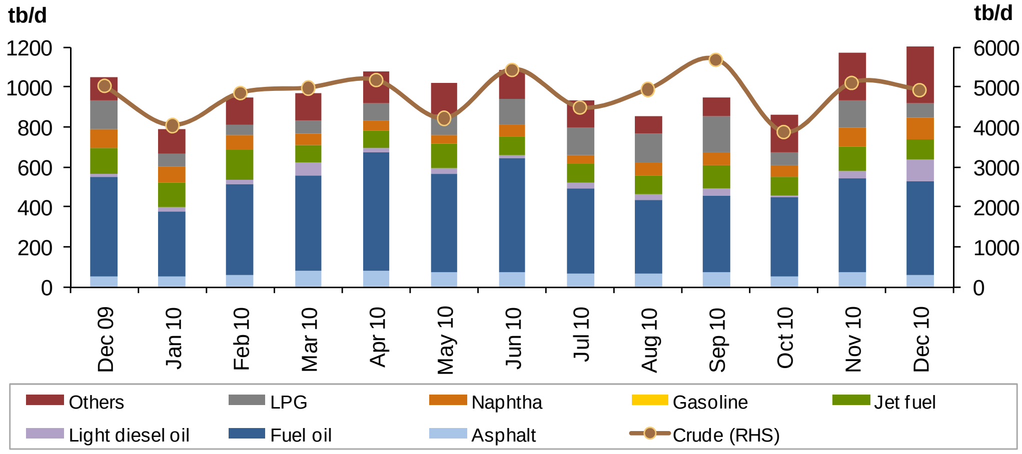
China's crude oil imports fell 177 tb/d or 3.5% in December to average 4.93 mb/d compared with 5.11 mb/d in November and were slightly down from a year earlier, despite growth in refining throughput. Part of the decline in crude oil imports was offset by a drop of more than 80 tb/d in crude oil exports which stood at just 57 tb/d, compared with 141 tb/d a month earlier, the lowest since July 2010.

Contrary to crude oil, China's product imports rose sharply in December to average 1.37 mb/d, up nearly 200 tb/d or 17% from a month earlier, whereas exports fell 61 tb/d or 10% to 0.55 mb/d. As a result, Chinese net product imports jumped 261 tb/d or 46.7% to average 0.82 mb/d, the highest since the 0.84 mb/d of May 2008, just before the start of the Olympics. A year earlier, in 2009, China's net product imports were at just 85 tb/d. The significant increase in China's net product imports was attributed to strong demand and rising commercial inventories, which jumped 8.7% according to data from official Xinhua News Agency.

Consequently, total Chinese oil imports (crude oil and products) increased for the second month in a row to average 6.3 mb/d, up 22 tb/d or 0.2% from November and 221 tb/d or 3.6% from a year ago.

In 2010, China imported a record high of more than 4.8 mb/d of crude oil, 713 tb/d or 17.4% more than the previous year, as refinery throughput jumped by more than 11%, according to industry sources. In the last five years (2005-2010), China has almost doubled its crude oil imports, rising from 2.55 mb/d to nearly 4.81 mb/d while the US, the main consumer, saw its crude oil imports falling from 10.2 mb/d in 2005 to 9.1 mb/d in 2010. Similarly, Chinese product imports hit a record high after passing 1 mb/d for the first time. Again, this explains China's robust demand for oil.

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

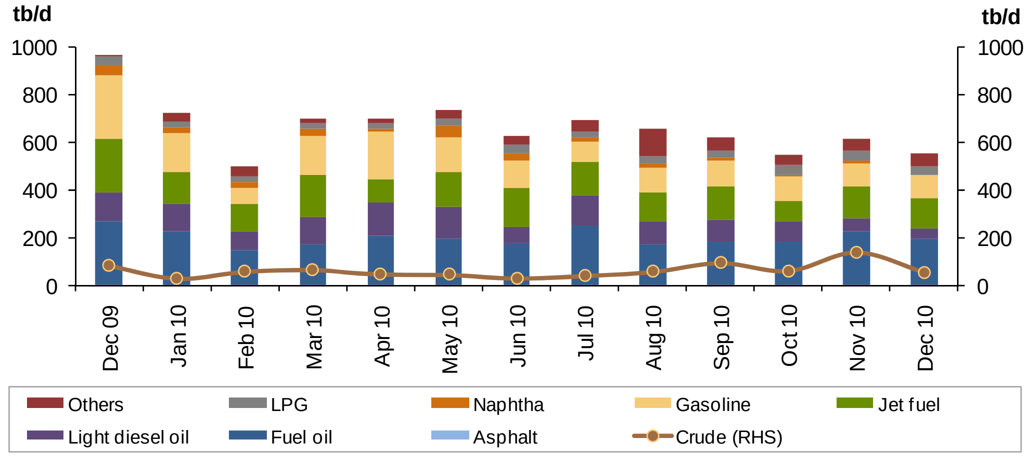


On the export side, China's crude oil exports saw a decline over the last five years to move from 161 tb/d in 2005 to just 61 tb/d in 2010. The decline in crude oil exports in 2010 came despite growth in production, highlighting that more crude is used by local refineries to respond to domestic demand and exports. Contrary to crude oil, Chinese product exports increased further to hit a record high of almost 640 tb/d compared with 363 tb/d in 2005. The increase in China's exports came as a result of expanding refining capacity over recent years.

China's net oil imports hit a record high of almost 5.1 mb/d for 2010 compared to 2.9 mb/d in 2005. Crude oil net imports stood at 4.75 mb/d, up 19% from 2009, while product net imports hit an eight-month low of 0.36 mb/d. The sustained strong growth in China's net oil imports reflects the growing robust demand and building stocks.

It is worth mentioning that while China's net crude oil imports rose by 98% between 2005 and 2010, net product imports dropped by 33%, resulting in an increase of total net oil imports of just 74% with some barrels designated for storage.

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



As to the main suppliers of China's crude oil in 2010, Saudi Arabia remained on the top of the list with almost 0.90 mb/d, followed by Angola (0.80 mb/d), Iran (0.43 mb/d.), Oman (0.32 mb/d), Russia (0.31 mb/d), Sudan (0.25 mb/d), Iraq (0.23 mb/d) and Kazakhstan (0.20 mb/d). It is worth mentioning that imports from Kazakhstan and Iraq rose by 67% and 57%, respectively. Crude oil imports from Oman increased by 35%, while imports from Iran fell almost 8%.

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

	Oct 10	Nov 10	Dec 10	Change Dec/Nov
Crude oil	3,813	4,967	4,875	-92
Total products	312	558	819	261
Total crude and products	**4,126**	**5,525**	**5,693**	**168**

India

India's product imports increased to their highest level since July 2010

India's crude oil imports, excluding import figures by Reliance Industries for its 580 tb/d refinery at Jamnager in western India, fell almost 0.3 mb/d or 13% in December to average 2.6 mb/d.

Product imports increased for the second consecutive month to average 0.37 mb/d, up 35 tb/d or 10% from November. The increase was attributed to kerosene, which added 18 tb/d, while gasoline and LPG saw their imports decline.

On the export side, India's product exports, excluding exports from Reliance Industries at Jamnager, fell slightly to 0.49 mb/d. Imports including Reliance Industries figures amounted to 1.3 mb/d in October 2010. **As a result, India's net oil imports rose 0.34 mb/d in December to 2.4 mb/d.**

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

	Oct 10	Nov 10	Dec 10	Change Dec/Nov
Crude oil	3,072	2,304	2,601	297
Total products	-981	-162	-118	44
Total crude and products	**2,090**	**2,142**	**2,483**	**340**

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

FSU

Total FSU oil exports stood at 9.6 mb/d in December, up 5% from a month earlier. 2010 oil exports rose a marginal 61 tb/d or 0.6% from the previous year

Crude oil exports from FSU recovered sharply in December 2010 to reach almost 6.98 mb/d, up 417 tb/d or 6.4% from November. Compared to a year ago, crude oil exports were 287 tb/d or 7.5% higher in December 2010.

Shipments through the Russian pipeline system accounted for almost half of growth with total exports at 4.1 mb/d, up from 3.9 mb/d in November. Exports through the Baltic Sea were the main contributor to the increase in shipments through the Transneft system after having jumped 164 tb/d or 11.3% from the previous month to average more than 1.61 mb/d, but remained below the 1.64 mb/d of October. The increase was attributed to growing exports of Russian Urals crude. However, Russian exports from the Baltic Sea ports are expected to have fallen in January due to pipeline maintenance. Exports from the Black Sea were also on the rise with 63 tb/d or 7% more than in November. Crude oil shipment through the Druzhba pipeline lost 33 tb/d or 2.8%. The drop could be attributed to temporarily reduced Russian flows to Poland and Germany after maintenance works caused a fire on a pipeline section in Belarus. Exports from the Pacific port of Kozmino edged down slightly to 325 tb/d as some cargoes of ESPO were rerouted to the Chinese pipeline. Deliveries to China rose to 70 tb/d.

Crude oil exports through the railway network and other routes rose 215 tb/d or 8% to average nearly 2.9 mb/d, with shipments along the Russian railway jumping 178 tb/d or 87% to average 384 tb/d. Deliveries through the Caspian Pipeline Consortium (CPC) rose by 140 tb/d or 21% to 805 tb/d and Baku-Tbilisi-Ceyhan deliveries were up 41 tb/d at 807 tb/d.

Supported by increasing production from Russia, FSU crude oil exports rose to 6.75 mb/d in 2010 compared with 6.65 mb/d a year earlier, implying growth of around 100 tb/d or 1.5%. Growth is attributed to the start of ESPO exports to Asia-Pacific in December 2009. The additional 310 tb/d of ESPO from the Pacific port of Kozmino was offset, to some extent, by a decline of almost 210 tb/d through the Black Sea.

Following the same trend, FSU product exports recovered in December to average 2.62 mb/d, some 42 tb/d or 1.6% more than the previous month. Fuel oil, the main exported product, rose 61 tb/d or 5.1% to 1.24 mb/d followed by gasoil, which increased 22, tb/d or 2.8% to 813 tb/d. Gasoline exports increased to 129 tb/d and are expected to rise further in January, which is traditionally considered the busiest month of the year for gasoline exports. For the whole year of 2010, FSU product exports moved down 36 tb/d to 2.80 mb/d, on the back of growing domestic demand.

Crude oil and product exports averaged almost 9.6 mb/d in December compared with 9.1 mb/d in November, implying an increase of 0.46 mb/d or 5%, while for the whole year, growth is much lower at just 61 tb/d as 2010 saw total FSU exports at 9.55 mb/d, compared to 9.49 mb/d in 2009.

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

	2009	2010	2Q10	3Q10	4Q10	Nov 11	Dec 10*
Crude							
Russian pipeline							
Black Sea	1,201	994	976	1,038	933	898	961
Baltic	1,577	1,564	1,629	1,530	1,569	1,452	1,616
Druzhba	1,112	1,126	1,091	1,155	1,136	1,162	1,129
Kozmino	*0*	*309*	*323*	320	336	326	325
Total	**3,922**	**4,005**	**4,019**	**4,043**	**4,018**	**3,898**	**4,101**
Other routes							
Russian rail	280	330	324	331	280	205	384
Russian-Far East	283	276	296	204	313	305	338
Kazakh rail	18	1	18	6	0	0	0
Vadandey	155	152	167	150	127	142	102
Kaliningrad	0	24	22	24	24	20	22
CPC	736	743	732	755	749	665	805
BTC	805	775	809	812	796	766	807
Kenkiyak-Alashankou	157	204	200	205	204	208	203
Caspian	281	239	271	195	197	197	213
Total crude exports	**6,653**	**6,750**	**6,858**	**6,726**	**6,759**	**6,557**	**6,975**
Products							
Gasoline	221	152	155	127	124	124	129
Naphtha	269	275	270	289	245	259	249
Jet	47	20	31	23	15	18	18
Gasoil	948	878	892	822	824	791	813
Fuel oil	1,116	1,235	1,312	1,331	1,225	1,185	1,246
VGO	235	242	287	232	218	200	164
Total	**2,837**	**2,801**	**2,947**	**2,824**	**2,651**	**2,577**	**2,619**
Total oil exports	**9,490**	**9,551**	**9,805**	**9,550**	**9,410**	**9,135**	**9,594**

** Preliminary*
Totals may not add due to independent rounding

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

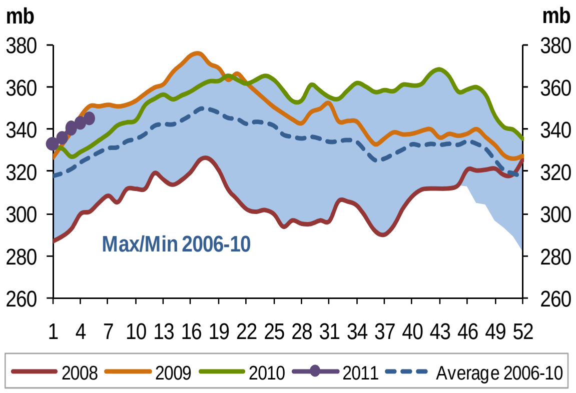
Stock Movements

US commercial oil stocks rose in January, well above the historical norm

USA

Total **US commercial oil inventories** at the end of January reversed the downward trend observed over the last four months and rose by 11.2 mb to stand at 1074.9 mb. It is worth to be noted that the build in January occurred against the seasonal draw during this month of the year. The build in total US commercial oil stocks was divided between crude and products as they increased by 7.9 mb and 3.3 mb respectively. At 1074.9 mb, total US inventories stood at 20 mb or 1.9% above a year ago at the same time and 43 mb or 4.2% above the five-year average.

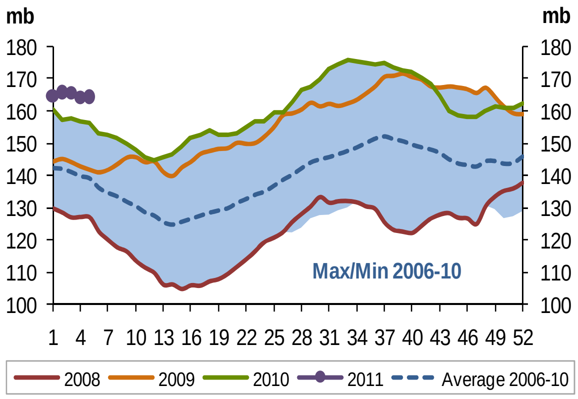
Graph 9.1: US weekly commercial crude oil inventories



After showing a substantial draw in December and November, **US commercial crude stocks** in January observed a contra-seasonal build of 7.9 mb to end the month at 343.2 mb. This build could be attributed to the rise in crude oil imports, which increased by 650 tb/d, to average more than 9.0 mb/d. US crude oil imports are also higher by almost the same amount as January a year earlier. The decline of almost 700 tb/d in UScrude oil refinery input below the December level also contributed to this build. At 14.3 mb/d, US crude runs correspond to a refinery utilization rate of 84.5%, down 3.5% from the previous month. However, this rate has remained very high compared to 77.7% seen last year over the same period. With this build, US commercial crude oil stocks remained at 9.3 mb or 2.8% above a year ago over the same period and 17.3 mb or 5.3% higher than the average of the last five years. Adding to the healthy level of US crude commercial stocks, crude inventories at Cushing jumped another 600,000 barrels to reach a new record high of 38.3 mb in the week ending 28 January. This high stock level is pressuring the WTI price, which has fallen to levels of more than ten dollars below Brent.

US total products also rose 3.3 mb to 731.7 mb after four consecutive months of decline. This build could be attributed to the fall in total product demand in January, indicating a decline of around 1 mb/d over December. However, total product consumption remained 4.4% above the same period last year. With the exception of a small drop in jet fuel stocks, all other products experienced a build. Gasoline stocks led this build as they rose by 18.1 mb to end the month at 236.1 mb, the highest level since 1993. The build in gasoline was driven by lower demand, which dropped by 510,000 barrels in January over December to stand at 8.7 mb/d. January is typically a period of low demand and the weather conditions across the country have not been conducive to driving. The build in gasoline inventories came despite the 100,000-barrel fall in gasoline production, averaging 8.8 mb/d. With this build, US gasoline stocks stood at 1.8% above a year ago and 4.3% above the seasonal norm. Gasoline stocks should remain on a bearish trend over the next two months, before starting to climb, as economic fundamentals and warmer weather encourage demand.

Graph 9.2: US weekly distillate stocks



Distillate inventories alos rose 2.0 mb to 164.1 mb, following two consecutive months of increase. This build is driven mainly by the increase in diesel as heating oil inventories showed a drop. With this build, distillate stocks remained at healthy levels, indicating a surplus of 9.3 mb or 2.8% above a year ago and 17.3 mb or 5.3% more than the last five-year average. The build in US distillate stocks in January was supported by the drop of about 200 tb/d in demand to average 3.7 mb/d. This build came despite the decline in production as refiners put the brakes on output, reflecting the weakness in transport fuel demand. Given the weather conditions, the strength of demand rested within heating oil. Looking forward, cold weather will retain some strength in the distillates market, but with the upcoming end of the heating season end of February, the weakness of winter demand, along with high supplies, should lead to a bearish market.

Table 9.1: US onland commercial petroleum stocks, mb

	Nov 10	Dec 10	Jan 11	Change Jan 11/Dec 10	Jan 10	04 Feb 11 *
Crude oil	350.6	335.3	343.2	7.9	333.9	345.1
Gasoline	212.7	218.1	236.2	18.1	232.1	240.9
Distillate fuel	161.9	162.1	164.1	2.0	163.0	164.4
Residual fuel oil	40.6	38.9	40.1	1.2	40.3	39.1
Jet fuel	44.0	44.1	43.8	-0.3	43.7	42.9
Total	**1099.1**	**1063.7**	**1074.9**	**11.2**	**1054.9**	**1078.1**
SPR	726.5	726.5	726.5	0.0	726.6	726.5

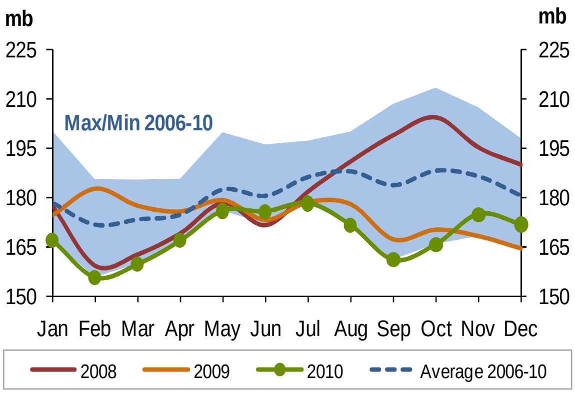
** Latest available data at time of report's release*
Source: US Department of Energy's Energy Information Administration

Japan

In December, Japanese stocks fell with preliminary data for January indicating a further drop

In December, **commercial oil stocks** in Japan reversed the upward trend observed over the last two months and declined by 3.1 mb, less than the normal seasonal drop during this month of the year. At 171.6 mb, commercial oil stocks in Japan remained at 7.4 mb or 4.5% above a year ago at the same time, but stood at 16.0 mb or 8.5% below the five-year average. Within crude and product inventories, the picture was mixed, with crude oil stocks continuing the build for the second consecutive month as they increased by 4.0 mb, while total product inventories declined by 7.1 mb after two consecutive months of building.

Graph 9.3: Japan's commercial oil stocks



At 101.1 mb, **Japanese crude oil stocks** stood at the highest level since August 2010 to end the month at 8.6 mb or 9.3 % above a year ago at the same period, while the deficit with the historical norm has narrowed to 6% from 14% a month earlier. The build in crude oil stocks in December could be attributed to the 0.5% rise in crude oil imports, averaging 4.1 mb/d. Crude oil imports in December were 0.9% above the level seen in the same period last year. The build in crude oil stocks came despite refiners running at the highest rate of 86.3%, 3.6% up from a month earlier and 6.5% above a year ago at the same period.

Total product stocks in December declined 7.1 mb to end the year at 70.5 mb, the lowest level since May 2010. This stock draw has widened the deficit with the five-year average to 12% from around 8% last month. The gap with a year ago also widened to 1.7% from around 1% a month earlier. The main reason behind the drop in total product inventories could be attributed to the increase by 9.6% in Japanese oil product sales to an average of 3.7 mb/d, reflecting strong heating oil demand. For the whole year of 2010, total oil product sales rose 1.6% from a year earlier, pushed by strong demand due to a summer heat wave from July to September leading to more oil consumption for air conditioning in homes and factories. All products saw a drop in December with distillate stocks showing the largest stock draw of 4.0 mb. Naphtha and gasoline inventories declined by 1.6 mb and 1.1 mb respectively, while residual fuel oil went down slightly by 0.5 mb. At 31.0 mb, total distillate stocks stood at the lowest level since August 2010 and indicated a deficit of 2.2 mb or 6.7% with a year ago at the same period. At the same time, they remained 6.7 mb or 7.3% below the five-year average. Within the components of middle distillates, kerosene stocks saw the largest draw of 19% followed by jet fuel and gasoil which declined by 5.4% and 1.9% respectively. The drop in kerosene inventories came on the back of a significant increase of more than 50% in domestic sales, reflecting more use of heating oil. The increase of around 33% in kerosene imports also supported the decline in kerosene inventories. The decline in gasoil stocks could be attributed to higher domestic sales, which rose by 5.5%. However, the fall in jet fuel stocks came on the back of lower production as domestic sales remained almost unchanged, compared to a month earlier. Gasoline stocks also fell to end the month at 12.5 mb, remaining in line with the seasonal norm, but indicating a slight surplus of 3.7% with a year ago at the same time. The decline in gasoline stocks could be attributed to the rise of 6.4% in gasoline consumption. In 2010, gasoline sale rose 1.4%, following a 0.3% rise in 2009, supported by the cuts in highway tolls at the weekends and on some public holidays. Naphtha stocks declined to 11.2 mb showing a surplus of 11.0% with a year ago at the same time. Higher domestic sales combined with lower imports were behind the decline in naphtha stocks. Fuel oil inventories went down slightly to 15.7 mb to stand at a deficit of 3.4% with last year and 19% with the five-year average. Within fuel oil components, the picture was mixed; fuel oil A saw a drop of 10.6%, while fuel oil B.C went up by 1.9%. Higher domestic sales combined with lower imports were the main raison behind the fall in fuel oil A inventories, while the increased in both output and imports supported the build in fuel oil B.C inventories.

Preliminary indications for January based on weekly data published by PAJ show that commercial oil stocks dropped further by 4.2 mb for the second consecutive month to stand at 167.4 mb. Crude and total products saw a mixed picture. Crude oil declined by 7.1 mb, reversing the build incurred over the last two months, while product inventories rose by 2.9 mb. With this draw, Japanese total commercial oil stocks remained 10.8% below the five-year average, however, the surplus with a year ago stands at 4.5%. The drop in crude oil stocks came mainly from robust crude runs as refineries were running at a very high rate of almost 88.6% at the week ending 29 January, 0.5% above a week earlier and 6.4% more over the same period a year ago. The build in total product inventories was driven by gasoline and naphtha, and to lesser extent by residual fuel oil, while middle distillates are the only products experiencing a drop. Distillate stocks fell by 0.4 mb for the second consecutive month to stand at 30.6 mb, lifting the deficit with the five-year average at 6.7%. The bulk of the decline came from kerosene products, driven by colder weather boosting kerosene sales from a year earlier by a double-digit percentage for the last two weeks in January.

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

	Oct 10	Nov 10	Dec 10	Change Dec 10/Nov 10	Dec 09
Crude oil	88.9	97.1	101.1	4.0	92.5
Gasoline	13.2	13.7	12.5	-1.2	12.1
Naphtha	11.7	12.8	11.2	-1.6	10.1
Middle distillates	35.5	35.0	31.0	-4.0	33.2
Residual fuel oil	16.3	16.2	15.7	-0.5	16.3
Total products	76.7	77.6	70.5	-7.1	71.7
Total**	**165.6**	**174.7**	**171.6**	**-3.1**	**164.2**

* *At end of month*
** *Includes crude oil and main products only*
Source: METI, Japan

Singapore and Amsterdam-Rotterdam-Antwerp (ARA)

Singapore product stocks fell in December

At the end of December, **product stocks** held in Singapore fell by 1.42 mb for the fourth consecutive month to stand at 43.56 mb, the lowest level since June 2010. With this draw, total product stocks stood at 1.4 mb or 3.2% below a year ago at the same time. Light and middle distillate stocks experienced a drop of 1.14 mb and 1.0 mb respectively, while fuel oil inventories went up by 0.7 mb. The drop in light distillate stocks to 9.27 mb came on the back of healthy demand from Indonesia and Vietnam, Asia's two largest gasoline importers. It was reported that Indonesia Pertamina locked in 8.0-8.5 mb for December delivery, up from 6.8 mb from November. This level is expected to climb higher in January as Pertamina is expected to shut around 83,000 b/d in February for one month for repairs. The stock draw in light distillates left them at 16% below a year ago in December, reversing the surplus occurred last month. Middle distillate inventories dropped further for the second month to 13.19 mb, leaving them at 1.7 mb or 11% below a year ago at the same time. The fall in middle distillate stocks came on the back of higher imports to Malaysia and they are expected to fall further in the coming month as Vietnam will buy more spot cargoes to feed growing demand. Fuel oil stocks in December rose to end the year at 21.1 mb, reversing three consecutive months of decline. This build came on the back of slower demand combined with lower Western cargoes to Asia. The ease of Chinese buying, especially in the second half of the month, also supported the build in fuel oil stocks. With this build, fuel oil stocks stood at 2.1 mb or 11% more than a year ago at the same time.

Product stocks in ARA rose in December

Product stocks in ARA at the end of December rose for the second consecutive month by 1.19 mb to reach 38.03 mb, however, despite this build, they still remained at 4.1 mb or 9.7% below a year ago at the same time. The main build came from gasoline and jet fuel stocks as they increased by 2.1 mb and 1.1 mb respectively, while fuel oil, gasoil and naphtha saw a decline of less than 1.0 mb. Gasoline stocks rose after two consecutive months of decline to end December at 6.23 mb, but remain 1.7 mb or 21% below a year ago at the same period. The build in gasoline could be attributed to heavy imports, mainly from Russia and France which outpaced exports to Western Africa and Mexico. Jet fuel stocks also rose to 5.85 mb mb, but stood at 1.0 mb or 15% below a year earlier over the same period. Gasoil stocks fell 0.87 mb in December after a significant build in November to end the month at 20.54 mb. Despite this drop, gasoil remained at 0.3 mb or 1.6% above a year earlier over the same period. The fall in gasoil inventories was supported by higher exports to Asia. Fuel oil stocks also fell by 0.82 mb for the third consecutive month. At 4.83 mb, fuel oil stock inventories stood at 1.4 mb or 23% below a year ago at the same time. The drop in fuel oil stocks came on the back of higher exports as very large crude carriers loaded fuel oil for delivery to Singapore. Naphtha stocks fell 0.29 mb to 0.58 mb leaving them at 25% below last year at the same time.

Balance of Supply and Demand

Estimate for 2010

Required OPEC crude for 2010 estimated at 29.3 mb/d, 0.2 mb/d higher than the previous year

Demand for OPEC crude for 2010 was revised up by 0.2 mb/d to currently stand at 29.3 mb/d, reflecting the upward adjustment in world oil demand as non-OPEC supply and OPEC NGLs remained almost unchanged. All quarters saw an upward revision, mostly in 4Q10, which was revised up by 0.5 mb/d, reflecting up-to-date data. With this adjustment, the demand for OPEC crude stood 0.2 mb/d above 2009. The first quarter of the year is still showing a drop of 0.9 mb/d, while the second quarter is estimated to see slight growth of 0.2 mb/d. The third quarter is estimated to a see positive increase of 1.5 mb/d while the fourth quarter is seen to remain flat compared to the previous year over the same period.

Table 10.1: Summarized supply/demand balance for 2010, mb/d

	2009	1Q10	2Q10	3Q10	4Q10	2010
(a) World oil demand	**84.54**	**85.09**	**85.33**	**87.52**	**87.37**	**86.34**
Non-OPEC supply	51.13	52.13	52.12	51.97	52.83	52.26
OPEC NGLs and non-conventionals	4.35	4.60	4.77	4.81	4.96	4.79
(b) Total supply excluding OPEC crude	**55.48**	**56.73**	**56.89**	**56.78**	**57.79**	**57.05**
Difference (a-b)	**29.07**	**28.37**	**28.44**	**30.74**	**29.58**	**29.29**
OPEC crude oil production	28.71	29.19	29.07	29.18	29.21	29.16
Balance	-0.36	0.82	0.63	-1.56	-0.37	-0.13

Totals may not add due to independent rounding

Forecast for 2011

Demand for OPEC crude in 2011 forecast at 29.8 mb/d, 0.5 mb/d more than the previous year

The demand for OPEC crude is projected to average 29.8 mb/d, an upward revision of 0.4 mb/d from the previous assessment, mainly due to the adjustment in world oil demand, as total non-OPEC supply, including OPEC NGLs, remained almost unchanged. The bulk of the revision came from the first and fourth quarters, both revised up by 0.6 mb/d. Required OPEC crude is forecast to increase by 0.5 mb/d this year. The first quarter is expected to see growth of around 0.7 mb/d, while the second quarter is forecast to see less growth of 0.3 mb/d. The third quarter is projected to see growth of 0.4 mb/d; however, the fourth quarter is expected to see higher growth of 0.7 mb/d compared to the last year over the same period.

Table 10.2: Summarized supply/demand balance for 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011
(a) World oil demand	**86.34**	**86.90**	**86.55**	**88.82**	**88.66**	**87.74**
Non-OPEC supply	52.26	52.74	52.61	52.38	53.00	52.68
OPEC NGLs and non-conventionals	4.79	5.08	5.22	5.33	5.38	5.25
(b) Total supply excluding OPEC crude	**57.05**	**57.82**	**57.82**	**57.71**	**58.38**	**57.93**
Difference (a-b)	**29.29**	**29.08**	**28.73**	**31.11**	**30.28**	**29.80**
OPEC crude oil production	29.16					
Balance	-0.13					

Totals may not add due to independent rounding

Graph 10.1: Balance of supply and demand

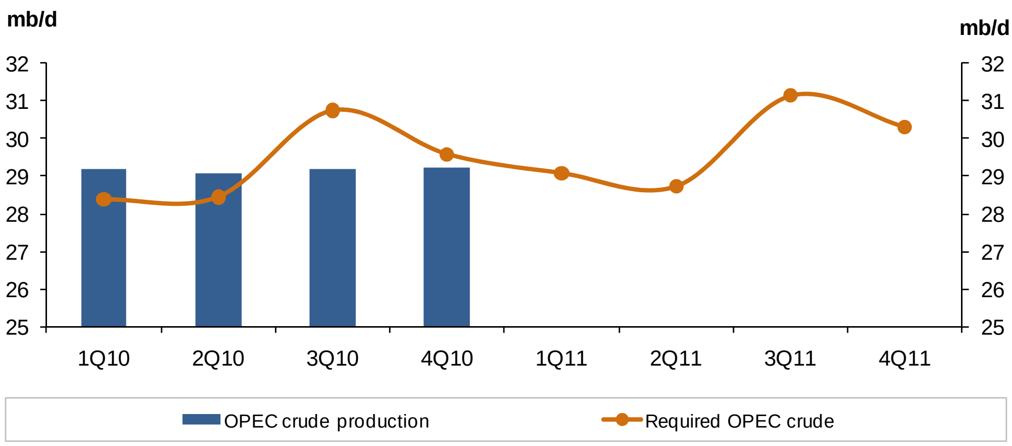


Table 10.3: World oil demand/supply balance, mb/d

	2005	2006	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11	4Q11	2011
World demand															
OECD	49.9	49.6	49.3	47.6	45.5	45.8	45.2	46.6	46.5	46.0	46.4	45.2	46.8	46.7	46.3
North America	25.6	25.4	25.5	24.2	23.3	23.5	23.7	24.2	23.9	23.8	23.9	23.9	24.5	24.2	24.1
Western Europe	15.7	15.7	15.5	15.4	14.5	14.2	14.1	14.8	14.6	14.4	14.3	14.1	14.7	14.6	14.4
Pacific	8.6	8.5	8.4	8.0	7.7	8.2	7.3	7.6	8.0	7.8	8.2	7.3	7.6	8.0	7.7
DCs	22.8	23.6	24.7	25.5	26.1	26.3	26.7	26.8	26.8	26.6	26.9	27.2	27.4	27.4	27.2
FSU	3.9	4.0	4.0	4.1	4.0	4.0	3.8	4.2	4.3	4.1	4.0	3.8	4.3	4.3	4.1
Other Europe	0.8	0.9	0.8	0.8	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.6	0.6	0.7	0.7
China	6.7	7.2	7.6	8.0	8.3	8.4	9.1	9.2	9.1	9.0	8.9	9.6	9.7	9.5	9.5
(a) Total world demand	84.1	85.2	86.5	86.0	84.5	85.1	85.3	87.5	87.4	86.3	86.9	86.5	88.8	88.7	87.7
Non-OPEC supply															
OECD	20.4	20.1	20.0	19.5	19.7	20.0	19.9	19.5	20.2	19.9	20.0	19.8	19.5	19.9	19.8
North America	14.1	14.2	14.3	13.9	14.4	14.7	14.9	14.9	15.2	14.9	15.0	15.0	14.9	15.1	15.0
Western Europe	5.7	5.3	5.2	5.0	4.7	4.7	4.4	4.0	4.4	4.4	4.4	4.1	4.0	4.2	4.2
Pacific	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
DCs	11.9	12.0	12.0	12.2	12.5	12.7	12.8	12.8	12.9	12.8	13.0	13.1	13.2	13.4	13.2
FSU	11.5	12.0	12.5	12.6	13.0	13.1	13.2	13.2	13.3	13.2	13.4	13.3	13.3	13.3	13.3
Other Europe	0.2	0.2	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
China	3.6	3.7	3.8	3.8	3.9	4.0	4.1	4.2	4.2	4.1	4.2	4.2	4.2	4.2	4.2
Processing gains	1.9	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Total non-OPEC supply	49.6	49.9	50.4	50.3	51.1	52.1	52.1	52.0	52.8	52.3	52.7	52.6	52.4	53.0	52.7
OPEC NGLs + non-conventional oils	3.9	3.9	3.9	4.1	4.3	4.6	4.8	4.8	5.0	4.8	5.1	5.2	5.3	5.4	5.3
(b) Total non-OPEC supply and OPEC NGLs	53.5	53.8	54.4	54.5	55.5	56.7	56.9	56.8	57.8	57.0	57.8	57.8	57.7	58.4	57.9
OPEC crude oil production (secondary sources)	30.7	30.5	30.2	31.2	28.7	29.2	29.1	29.2	29.2	29.2					
Total supply	84.2	84.4	84.6	85.7	84.2	85.9	86.0	86.0	87.0	86.2					
Balance (stock change and miscellaneous)	0.1	-0.9	-1.9	-0.3	-0.4	0.8	0.6	-1.6	-0.4	-0.1					
OECD closing stock levels (mb)															
Commercial	2587	2668	2572	2697	2680	2680	2762	2743							
SPR	1487	1499	1524	1527	1567	1567	1563	1549							
Total	4073	4167	4096	4224	4247	4247	4325	4293							
Oil-on-water	954	919	948	969	894	894	897	926							
Days of forward consumption in OECD															
Commercial onland stocks	52	54	54	59	58	59	59	59							
SPR	30	30	32	34	34	35	34	33							
Total	82	84	86	93	92	94	93	92							
Memo items															
FSU net exports	7.7	8.0	8.5	8.5	9.0	9.2	9.4	9.0	9.1	9.2	9.3	9.5	9.0	9.0	9.2
(a) - (b)	30.6	31.4	32.1	31.5	29.1	28.4	28.4	30.7	29.6	29.3	29.1	28.7	31.1	30.3	29.8

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

	2005	2006	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11	4Q11	2011
World demand															
OECD	-	-	-	-	-	-	-	-	0.3	0.1	-	-	-	-	-
North America	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-
Western Europe	-	-	-	-	-	-	-	-	0.2	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	0.1	-	0.1	0.1	0.1	0.1	0.1	0.1
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	0.1	0.2	-	0.2	0.1	0.2	0.3	-	0.2	0.2
(a) Total world demand	-	-	-	-	-	0.1	0.2	0.1	0.6	0.2	0.6	0.3	0.2	0.6	0.4
World demand growth	*-0.05*	*-*	*-*	*-*	*-*	*0.07*	*0.12*	*0.09*	*0.50*	*0.19*	*0.44*	*0.14*	*0.06*	*0.05*	*0.17*
Non-OPEC supply															
OECD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-
Western Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply growth	*0.01*	*-*	*-*	*-*	*-*	*0.01*	*0.01*	*0.01*	*0.01*	*0.01*	*-0.01*	*-0.01*	*0.03*	*0.02*	*0.01*
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OPEC crude oil production (secondary sources)	-	-	-	-	-	-	-	-							
Total supply	-	-	-	-	-	- -		-							
Balance (stock change and miscellaneous)	-	-	-	-	-0.1	-0.1	-0.2	-0.1							
OECD closing stock levels (*mb*)															
Commercial	-	-	-	-	-	-	-	-							
SPR	-	-	-	-	-	-	-	-							
Total	-	-	-	-	-	-	-	-							
Oil-on-water	-	-	-	-	21	21	21	-							
Days of forward consumption in OECD															
Commercial onland stocks	-	-	-	-	-	-	-	-							
SPR	-	-	-	-	-	-	-	-							
Total	-	-	-	-	-	-	-	-							
Memo items															
FSU net exports	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(a) - (b)	-	-	-	-	-	0.1	0.2	0.1	0.5	0.2	0.6	0.3	0.2	0.6	0.4

** This compares Table 10.3 in this issue of the MOMR with Table 10.3 in the December 2010 issue*
This table shows only where changes have occurred

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

	2003	2004	2005	2006	2007	2008	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10
Closing stock levels *mb*																								
OECD onland commercial	2,511	2,538	2,587	2,668	2,572	2,697	2,649	2,761	2,668	2,601	2,661	2,646	2,572	2,572	2,602	2,664	2,697	2,752	2,761	2,777	2,664	2,680	2,762	2,743
North America	1,161	1,193	1,257	1,277	1,229	1,301	1,277	1,351	1,277	1,238	1,294	1,285	1,229	1,216	1,240	1,282	1,301	1,355	1,388	1,390	1,309	1,322	1,377	1,398
Western Europe	915	915	935	963	937	989	936	949	963	943	940	929	937	961	953	951	989	990	971	968	972	973	980	943
OECD Pacific	435	430	394	429	407	407	436	461	429	420	428	432	407	394	409	431	407	408	401	419	383	386	405	403
OECD SPR	1,411	1,450	1,487	1,499	1,524	1,527	1,493	1,495	1,499	1,507	1,506	1,520	1,524	1,529	1,526	1,522	1,527	1,547	1,561	1,564	1,564	1,567	1,563	1,549
North America	640	678	687	691	699	704	690	690	691	691	692	695	699	702	708	704	704	715	726	727	729	729	729	728
Western Europe	374	377	407	412	421	416	411	412	412	415	413	423	421	423	414	414	416	424	427	429	426	429	424	419
OECD Pacific	396	396	393	396	404	406	393	393	396	401	401	403	404	404	404	403	406	408	408	408	409	409	411	402
OECD total	3,922	3,988	4,073	4,167	4,096	4,224	4,142	4,256	4,167	4,108	4,168	4,166	4,096	4,101	4,128	4,186	4,224	4,299	4,322	4,341	4,228	4,247	4,325	4,293
Oil-on-water	882	905	954	919	948	969	975	974	919	916	891	917	948	935	925	885	969	899	899	869	927	894	897	926
Days of forward consumption in OECD																								
OECD onland commercial	51	51	52	54	54	59	54	55	54	54	54	53	52	54	56	56	58	62	61	60	58	59	59	59
North America	46	47	49	50	51	56	50	53	50	49	51	50	50	50	53	54	56	59	60	59	56	56	57	58
Western Europe	59	58	60	62	61	68	60	60	63	62	60	59	61	64	61	62	66	69	67	67	69	69	66	65
OECD Pacific	51	50	47	51	51	53	55	53	48	53	54	49	46	50	54	54	50	56	55	52	47	53	53	50
OECD SPR	28	29	30	30	32	34	30	30	30	31	31	30	31	32	33	32	33	35	35	34	34	35	34	33
North America	25	26	27	27	29	30	27	27	27	27	27	27	28	29	30	29	30	31	31	31	31	31	30	30
Western Europe	24	24	26	27	27	29	26	26	27	27	26	27	27	28	27	27	28	30	29	30	30	30	29	29
OECD Pacific	46	46	46	47	50	53	50	45	44	51	51	46	45	52	54	51	50	56	56	51	50	56	54	50
OECD total	79	80	82	84	86	93	84	85	84	85	85	83	84	87	88	89	91	97	96	94	92	94	93	92

n.a. not available

Table 10.6: Non-OPEC supply and OPEC natural gas liquids, mb/d

	2005	2006	2007	2008	Change 08/07	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10
USA	7.34	7.36	7.47	7.50	0.03	7.84	8.08	8.29	8.36	8.14	0.64	8.44	8.52	8.60	8.80	8.59	0.45	8.70	8.67	8.56	8.64	8.64	0.05
Canada	3.03	3.20	3.31	3.27	-0.04	3.32	3.13	3.23	3.27	3.24	-0.03	3.27	3.37	3.37	3.44	3.36	0.12	3.39	3.44	3.47	3.57	3.47	0.11
Mexico	3.77	3.69	3.49	3.17	-0.31	3.04	2.97	2.94	2.96	2.98	-0.19	2.99	2.97	2.95	2.93	2.96	-0.02	2.91	2.90	2.88	2.91	2.90	-0.06
North America	14.14	14.24	14.26	13.94	-0.33	14.21	14.18	14.46	14.59	14.36	0.42	14.71	14.86	14.92	15.18	14.92	0.55	15.00	15.02	14.92	15.11	15.01	0.09
Norway	2.97	2.78	2.56	2.47	-0.09	2.53	2.21	2.29	2.39	2.36	-0.11	2.33	2.12	1.93	2.17	2.13	-0.22	2.16	1.98	1.93	2.03	2.03	-0.11
UK	1.89	1.71	1.69	1.58	-0.11	1.63	1.57	1.27	1.46	1.48	-0.10	1.51	1.40	1.21	1.37	1.37	-0.11	1.33	1.29	1.26	1.32	1.30	-0.07
Denmark	0.38	0.34	0.31	0.28	-0.03	0.28	0.27	0.27	0.24	0.26	-0.02	0.25	0.25	0.23	0.26	0.25	-0.02	0.25	0.24	0.21	0.22	0.23	-0.02
Other Western Europe	0.49	0.51	0.62	0.64	0.03	0.62	0.62	0.64	0.63	0.63	-0.02	0.61	0.63	0.64	0.61	0.62	0.00	0.63	0.63	0.62	0.62	0.62	0.00
Western Europe	5.72	5.34	5.17	4.97	-0.20	5.07	4.67	4.47	4.71	4.73	-0.24	4.70	4.40	4.01	4.40	4.38	-0.35	4.36	4.14	4.03	4.20	4.18	-0.20
Australia	0.53	0.51	0.53	0.53	0.01	0.55	0.53	0.55	0.53	0.54	0.01	0.51	0.50	0.50	0.48	0.50	-0.04	0.51	0.52	0.52	0.51	0.51	0.01
Other Pacific	0.05	0.05	0.08	0.10	0.02	0.09	0.09	0.10	0.10	0.10	0.00	0.10	0.10	0.10	0.09	0.10	0.00	0.09	0.09	0.08	0.07	0.08	-0.01
OECD Pacific	0.58	0.56	0.60	0.63	0.03	0.64	0.62	0.65	0.63	0.64	0.01	0.61	0.60	0.60	0.57	0.60	-0.04	0.60	0.60	0.60	0.58	0.59	0.00
Total OECD	20.44	20.14	20.04	19.54	-0.50	19.91	19.47	19.58	19.94	19.72	0.19	20.03	19.86	19.53	20.15	19.89	0.17	19.96	19.76	19.54	19.89	19.79	-0.10
Brunei	0.21	0.22	0.19	0.17	-0.01	0.17	0.15	0.16	0.19	0.17	0.00	0.18	0.16	0.17	0.17	0.17	0.00	0.17	0.17	0.17	0.17	0.17	0.00
India	0.76	0.78	0.80	0.80	0.00	0.77	0.78	0.79	0.80	0.79	-0.01	0.82	0.83	0.87	0.90	0.85	0.07	0.90	0.88	0.91	0.92	0.90	0.05
Indonesia	1.12	1.07	1.02	1.04	0.02	1.03	1.02	1.02	1.03	1.03	-0.01	1.03	1.04	1.03	1.01	1.03	0.00	1.01	1.00	0.99	0.98	1.00	-0.03
Malaysia	0.77	0.76	0.76	0.76	0.00	0.74	0.72	0.73	0.71	0.73	-0.03	0.73	0.70	0.69	0.68	0.70	-0.02	0.67	0.67	0.66	0.66	0.66	-0.04
Thailand	0.29	0.32	0.33	0.36	0.02	0.37	0.37	0.36	0.37	0.37	0.01	0.35	0.35	0.36	0.34	0.35	-0.02	0.35	0.35	0.34	0.34	0.34	0.00
Vietnam	0.39	0.37	0.35	0.33	-0.01	0.40	0.39	0.37	0.33	0.37	0.04	0.35	0.35	0.36	0.37	0.36	-0.02	0.35	0.37	0.38	0.40	0.38	0.02
Asia others	0.26	0.26	0.26	0.26	0.00	0.25	0.26	0.25	0.25	0.25	-0.01	0.22	0.24	0.24	0.25	0.24	-0.02	0.24	0.25	0.25	0.26	0.25	0.01
Other Asia	3.79	3.78	3.70	3.72	0.02	3.74	3.70	3.68	3.69	3.70	-0.02	3.68	3.67	3.71	3.72	3.69	-0.01	3.70	3.69	3.71	3.73	3.71	0.01
Argentina	0.78	0.77	0.77	0.78	0.01	0.78	0.77	0.74	0.76	0.76	-0.02	0.77	0.76	0.76	0.74	0.76	-0.01	0.74	0.74	0.74	0.75	0.74	-0.01
Brazil	1.98	2.11	2.22	2.38	0.16	2.47	2.49	2.51	2.55	2.51	0.12	2.67	2.73	2.71	2.75	2.71	0.21	2.80	2.88	2.87	2.94	2.87	0.16
Colombia	0.53	0.54	0.54	0.60	0.06	0.65	0.67	0.68	0.73	0.68	0.09	0.77	0.79	0.80	0.82	0.79	0.11	0.84	0.87	0.89	0.91	0.88	0.08
Trinidad & Tobago	0.18	0.18	0.16	0.16	-0.01	0.15	0.15	0.15	0.15	0.15	0.00	0.15	0.15	0.15	0.14	0.15	0.00	0.13	0.13	0.13	0.14	0.13	-0.02
L. America others	0.30	0.26	0.28	0.28	0.01	0.31	0.30	0.31	0.30	0.30	0.02	0.31	0.31	0.32	0.31	0.31	0.01	0.31	0.32	0.33	0.34	0.33	0.01
Latin America	3.77	3.87	3.97	4.20	0.23	4.36	4.38	4.39	4.50	4.41	0.21	4.67	4.74	4.74	4.76	4.73	0.32	4.83	4.94	4.96	5.08	4.95	0.23
Bahrain	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00
Oman	0.78	0.75	0.71	0.76	0.05	0.79	0.80	0.83	0.83	0.81	0.06	0.86	0.86	0.87	0.88	0.87	0.05	0.89	0.91	0.92	0.94	0.92	0.05
Syria	0.45	0.44	0.42	0.41	0.00	0.41	0.41	0.41	0.41	0.41	0.00	0.42	0.43	0.42	0.42	0.42	0.01	0.42	0.41	0.41	0.40	0.41	-0.01
Yemen	0.41	0.37	0.33	0.30	-0.03	0.30	0.30	0.30	0.30	0.30	0.00	0.29	0.28	0.28	0.27	0.28	-0.02	0.27	0.26	0.26	0.26	0.26	-0.02
Middle East	1.85	1.76	1.66	1.68	0.02	1.71	1.72	1.75	1.75	1.73	0.05	1.77	1.77	1.77	1.78	1.77	0.04	1.79	1.79	1.80	1.81	1.80	0.02
Chad	0.18	0.15	0.15	0.15	0.00	0.14	0.14	0.14	0.14	0.14	-0.01	0.15	0.15	0.15	0.15	0.15	0.01	0.14	0.14	0.14	0.14	0.14	-0.01
Congo	0.24	0.25	0.24	0.26	0.02	0.27	0.27	0.27	0.29	0.27	0.02	0.30	0.30	0.30	0.30	0.30	0.02	0.30	0.31	0.31	0.32	0.31	0.01
Egypt	0.70	0.66	0.66	0.69	0.04	0.72	0.72	0.69	0.71	0.71	0.01	0.71	0.72	0.73	0.73	0.72	0.01	0.73	0.73	0.72	0.71	0.72	0.00
Equatorial Guinea	0.36	0.37	0.37	0.38	0.01	0.37	0.36	0.35	0.34	0.36	-0.02	0.33	0.33	0.32	0.31	0.32	-0.03	0.31	0.31	0.30	0.30	0.30	-0.02
Gabon	0.25	0.25	0.25	0.24	-0.01	0.23	0.23	0.24	0.25	0.24	0.00	0.25	0.23	0.25	0.25	0.25	0.01	0.25	0.26	0.26	0.26	0.26	0.01
South Africa	0.19	0.19	0.18	0.18	0.00	0.18	0.18	0.17	0.16	0.17	-0.01	0.18	0.18	0.18	0.18	0.18	0.01	0.18	0.18	0.18	0.18	0.18	0.00
Sudan	0.34	0.40	0.50	0.48	-0.02	0.47	0.48	0.48	0.48	0.48	0.00	0.47	0.46	0.46	0.47	0.46	-0.01	0.47	0.47	0.48	0.47	0.47	0.01
Africa other	0.23	0.29	0.28	0.27	-0.01	0.27	0.26	0.25	0.25	0.26	-0.01	0.24	0.23	0.23	0.23	0.24	-0.02	0.27	0.30	0.32	0.38	0.32	0.08
Africa	2.49	2.55	2.62	2.64	0.02	2.63	2.62	2.60	2.60	2.61	-0.03	2.62	2.59	2.61	2.62	2.61	-0.01	2.64	2.68	2.70	2.75	2.69	0.09
Total DCs	11.90	11.96	11.96	12.24	0.29	12.44	12.42	12.42	12.54	12.46	0.21	12.74	12.77	12.83	12.87	12.80	0.35	12.96	13.11	13.17	13.37	13.15	0.35
FSU	11.55	12.02	12.53	12.60	0.06	12.67	12.93	13.05	13.16	12.96	0.36	13.12	13.18	13.21	13.35	13.22	0.26	13.40	13.35	13.28	13.33	13.34	0.12
Russia	9.44	9.65	9.87	9.78	-0.08	9.78	9.87	9.97	10.07	9.92	0.14	10.09	10.12	10.13	10.22	10.14	0.22	10.20	10.18	10.13	10.12	10.16	0.02
Kazakhstan	1.23	1.30	1.35	1.41	0.06	1.48	1.51	1.54	1.61	1.54	0.12	1.61	1.56	1.57	1.65	1.60	0.06	1.67	1.64	1.63	1.68	1.66	0.06
Azerbaijan	0.44	0.65	0.87	0.94	0.07	0.97	1.11	1.09	1.06	1.06	0.12	1.01	1.09	1.10	1.07	1.07	0.01	1.12	1.11	1.11	1.11	1.11	0.04
FSU others	0.44	0.42	0.44	0.46	0.01	0.45	0.44	0.44	0.42	0.44	-0.02	0.42	0.42	0.41	0.40	0.41	-0.03	0.41	0.41	0.41	0.41	0.41	0.00
Other Europe	0.16	0.15	0.15	0.15	-0.01	0.14	0.13	0.14	0.14	0.14	-0.01	0.14	0.14	0.14	0.13	0.14	0.00	0.14	0.14	0.14	0.14	0.14	0.00
China	3.64	3.69	3.77	3.84	0.07	3.79	3.86	3.89	3.87	3.85	0.01	4.03	4.10	4.18	4.25	4.14	0.29	4.21	4.18	4.18	4.20	4.19	0.05
Non-OPEC production	47.69	47.97	48.45	48.36	-0.09	48.96	48.82	49.08	49.64	49.13	0.77	50.05	50.04	49.89	50.75	50.19	1.06	50.66	50.53	50.31	50.93	50.61	0.42
Processing gains	1.91	1.96	1.99	1.97	-0.02	2.00	2.00	2.00	2.00	2.00	0.03	2.08	2.08	2.08	2.08	2.08	0.08	2.08	2.08	2.08	2.08	2.08	0.00
Non-OPEC supply	49.60	49.93	50.43	50.33	-0.11	50.96	50.82	51.08	51.64	51.13	0.80	52.13	52.12	51.97	52.83	52.26	1.14	52.74	52.61	52.38	53.00	52.68	0.42
OPEC NGL	3.74	3.76	3.86	4.04	0.18	3.99	4.19	4.41	4.37	4.24	0.21	4.49	4.67	4.71	4.86	4.68	0.44	4.95	5.06	5.15	5.20	5.09	0.41
OPEC Non-conventional	0.16	0.14	0.09	0.11	0.02	0.11	0.11	0.11	0.11	0.11	0.00	0.10	0.10	0.10	0.10	0.10	0.00	0.13	0.16	0.18	0.18	0.16	0.06
OPEC (NGL+NCF)	3.89	3.89	3.95	4.14	0.19	4.10	4.30	4.52	4.48	4.35	0.21	4.60	4.77	4.81	4.96	4.79	0.44	5.08	5.22	5.33	5.38	5.25	0.46
Non-OPEC & OPEC (NGL+NCF)	53.49	53.82	54.38	54.47	0.09	55.06	55.12	55.60	56.12	55.48	1.01	56.73	56.89	56.78	57.79	57.05	1.57	57.82	57.82	57.71	58.38	57.93	0.89

Note: Totals may not add up due to independent rounding. Indonesia has been included in non-OPEC supply for purpose of comparison

Table 10.7: World Rig Count

	2005	2006	Change 06/05	3Q07	4Q07	2007	Change 07/06	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09	**Jan 11**	Jan/Dec
USA	1,381	1,647	267	1,788	1,790	1,767	119	1,770	1,864	1,978	1,898	1,877	111	1,326	936	956	1,108	1,081	-796	1,345	1,508	1,622	1687	1541	459	1711	1
Canada	458	470	12	348	356	344	-126	507	169	432	408	379	35	328	91	177	277	218	-161	470	166	364	389	347	129	564	166
Mexico	107	83	-24	96	93	92	9	96	106	103	106	103	11	128	128	135	123	128	26	118	106	84	80	97	-31	79	-1
North America	1,945	2,200	255	2,231	2,240	2,202	2	2,373	2,139	2,513	2,411	2,359	157	1,782	1,154	1,267	1,508	1,428	-931	1,933	1,780	2,070	2156	1985	557	2354	166
Norway	17	17	0	18	17	18	1	17	21	21	21	20	2	25	18	18	20	20	0	21	18	13	20	18	-2	23	4
UK	21	27	5	27	22	26	-1	19	21	24	24	22	-4	22	19	16	15	18	-4	15	20	21	21	19	1	23	3
Western Europe	70	77	7	79	77	78	0	91	97	101	103	98	20	90	82	76	85	83	-15	87	96	92	100	94	11	117	12
OECD Pacific	25	26	2	32	30	29	2	32	39	39	34	36	7	27	25	26	23	25	-11	22	18	23	22	21	-4	20	-2
Total OECD	2,078	2,347	269	2,387	2,385	2,352	4	2,532	2,317	2,698	2,593	2,535	183	1,945	1,299	1,368	1,616	1,557	-978	2,042	1,893	2,185	2278	2100	543	2491	176
Other Asia	200	202	2	212	216	212	10	213	220	218	212	216	4	212	212	213	233	217	1	235	249	253	255	248	31	266	6
Latin America	129	149	19	171	179	175	27	187	184	195	197	191	16	164	147	149	169	157	-34	183	203	220	213	205	48	219	8
Middle East	131	132	1	154	154	149	18	158	165	175	171	167	18	162	151	139	147	150	-18	152	150	163	159	156	6	161	2
Africa	8	10	2	14	14	14	4	10	13	14	11	12	-2	8	11	9	12	10	-2	20	19	19	18	19	9	17	0
Total DCs	468	493	25	550	563	551	58	569	583	602	591	586	36	546	520	510	561	534	-52	589	621	655	645	628	93	663	16
Non-OPEC Rig Count	2,546	2,840	294	2,937	2,948	2,903	62	3,101	2,900	3,300	3,183	3,121	219	2,491	1,819	1,878	2,177	2,091	-1,030	2,632	2,514	2,840	2924	2727	636	3154	192
Algeria	21	24	4	28	28	27	2	26	27	24	26	26	-1	24	30	27	27	27	1	23	28	24	24	25	-2	32	8
Angola	3	4	1	3	5	4	1	5	6	5	5	5	1	5	3	3	4	4	-1	10	8	9	9	9	5	8	-3
Ecuador	12	11	0	11	10	11	-1	7	9	12	13	10	-1	10	10	10	10	10	0	11	11	11	11	11	1	11	1
Iran	40	44	4	51	50	50	6	50	50	50	51	50	0	51	52	52	52	52	2	52	52	52	52	52	0	52	0
Iraq	0	0	0	0	0	0	0	29	29	29	29	29	29	36	36	36	36	36	7	36	36	36	36	36	0	36	0
Kuwait	12	14	1	13	11	12	-1	12	11	12	12	12	0	12	11	14	13	13	0	19	18	21	23	20	8	25	1
Libya	9	10	1	14	14	13	3	14	15	15	15	15	2	15	13	14	15	14	-1	17	17	14	15	16	1	15	-1
Nigeria	9	10	1	8	10	8	-1	9	8	6	6	7	-1	7	6	6	7	6	-1	11	13	18	17	15	8	14	3
Qatar	12	11	-1	13	14	13	2	11	12	11	11	11	-1	9	9	9	9	9	-2	8	8	9	9	9	0	11	1
Saudi Arabia	37	65	28	78	77	77	11	78	77	76	76	77	0	72	67	67	66	68	-9	68	67	67	65	67	-1	59	-1
UAE	16	16	0	15	14	15	-2	12	12	13	12	12	-2	13	12	13	12	12	0	13	13	13	13	13	1	12	-1
Venezuela	68	81	13	77	71	76	-5	82	81	77	81	80	4	69	64	54	54	60	-20	66	64	70	80	70	10	94	11
OPEC Rig Count	238	290	51	311	302	305	16	336	337	330	336	335	29	322	314	302	305	311	-24	334	335	344	355	342	31	369	19
Worldwide Rig Count*	2,785	3,130	345	3,249	3,250	3,208	78	3,438	3,237	3,630	3,519	3,456	248	2,813	2,133	2,180	2,483	2,402	-1,054	2,965	2,849	3,184	3278	3069	667	3523	211
of which:																											
Oil	980	1,124	144	1,254	1,285	1,242	119	1,408	1,351	1,479	1,490	1,432	190	1283	1,069	1182	1356	1222	-210	1,590	1,534	1,783	1896	1701	479	2134	209
Gas	1,746	1,947	201	1,931	1,904	1,903	-44	1,969	1,814	2,070	1,948	1,950	47	1450	993	965	1092	1125	-825	1,333	1,276	1,356	1337	1325	200	1342	4
Others	21	17	-4	20	25	20	4	26	32	36	37	33	12	35	35	34	37	35	3	43	40	42	46	43	8	48	-3

*/ *Excludes China and FSU*
na: Not available
Note: Totals may not add up due to independent rounding
Source: Baker Hughes International & Secretariat's Estimates

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Data Summary February 2011

OPEC Basket average price

US$ per barrel

⬆ *up $4.27 in January*	***January 2011***	***92.83***
	December 2010	*88.56*

January OPEC production

in million barrels per day, according to secondary sources

⬆ *up 0.40 in January*	***January 2011***	***29.72***
	December 2010	*29.32*

World economy

Global growth expectations for 2010 and 2011 remain unchanged at 4.5% and 3.9% respectively. OECD growth has been increased to 2.3% for 2011, supported by the additional stimulus in the US, which is now forecast to grow by 2.9% this year. China's growth level remains at 9.7% and 8.8% in 2010 and 2011 respectively, while India's forecast for 2010 remains at 8.5% and 8.0%. for 2011.

Supply and demand

in million barrels per day

2010		***2011***	
World demand	*86.3*	*World demand*	*87.7*
Non-OPEC supply	*52.3*	*Non-OPEC supply*	*52.7*
OPEC NGLs	*4.8*	*OPEC NGLs*	*5.3*
Difference	***29.3***	***Difference***	***29.8***

Totals may not add due to independent rounding

Stocks

US commercial inventories rose around 11 mb in January, with the build divided between crude and products. At 1,074.9 mb, US commercial oil stocks remained well above the historical norm. Commercial oil inventories in Japan declined by 3.1 mb in December, while preliminary indications show that commercial oil stocks dropped further by 4.2 mb in January.

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Data covered up to the end of January 2011 unless otherwise noted