OPEC

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Monthly Oil Market Report

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Feature Article:
Impact of the Euro-zone debt crisis on the oil market

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Oil Market Highlights

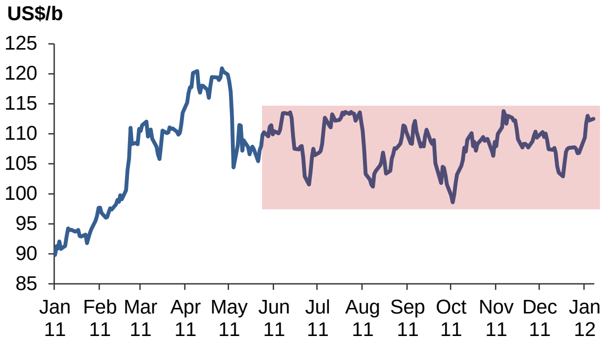
- The **OPEC Reference Basket** decreased in December to settle at $107.34/b. The downward movement of the Basket was driven by revived fears about Europe's debt crisis, concerns about economic growth in Europe and China, and a slumping euro exchange rate. Supportive bullish US economic data, as well as geopolitical concerns in the Middle East helped change the course of the market, particularly toward the end of the month and into January. On 13 January, the OPEC Reference Basket stood at $111.75/b.
- **World economic growth** has been revised down marginally to 3.5% in 2012 and remains at 3.6% for 2011. The US economy has gained some momentum recently and growth expectations for 2012 have been increased from 1.7% to 2.2%. The Euro-zone seems to continue its deceleration and growth expectations for 2012 have been lowered to 0.2% from 0.4%. Japan's recovery remains fragile, but growth is expected to remain unchanged at 1.9%, mainly due to government support. Growth in China remains resilient and, while slightly slowing, expectations for 2012 have been lowered from 8.7% to 8.5%. India is now forecast to grow by 7.4%, revised down from 7.5% in the previous month. Downside risks prevail for the world economy and close monitoring will be needed on the Euro-zone debt crisis, slowing activity in the developing economies and the improvement of the US economy.
- **World oil demand** in 2012 is forecast to grow by 1.1 mb/d in 2012, following growth of 0.9 mb/d last year, unchanged from the previous report. The OECD region is expected to consume less oil than last year; however, non-OECD oil demand is likely to grow by more than 1.0 mb/d. The pace of oil demand growth in some non-OECD countries is expected to be lower than in the previous year. Higher prices for retail petroleum products could also negatively affect oil demand across the globe. The transportation and industrial sectors would likely be the most affected, with the use of oil in both sectors slowing noticeably worldwide.
- **Non-OPEC oil supply** growth in 2011 is estimated at 0.1 mb/d, representing a downward revision from the previous assessment. In 2012, non-OPEC oil supply is expected to increase by 0.7 mb/d. Growth is expected to come mainly from Brazil, the US, Canada, Colombia and the FSU, while Syria, Norway, Mexico, Sudan and the UK are seen to decline in 2012. OPEC NGL and non-conventional oils are expected to increase by 0.4 mb/d in 2012. In December, total OPEC crude production is reported to average 30.82 mb/d, the highest level since October 2008, indicating an increase of 170 tb/d over the previous month.
- In the **product markets**, lackluster demand due to the weak pace of the economic recovery kept crack spreads for the top of the barrel at the lowest level in years. This was despite signs of some improvement in the Asian naphtha market. Additionally, milder-than-expected winter weather in the Northern Hemisphere has eased the tight market for middle distillates seen over the last months and fuelled bearish sentiment in product markets worldwide in December. Refinery margins have also continued to fall across the board.
- Spot freight rates for VLCCs in the **tanker market** remained steady in December due to balanced tonnage positions, while Suezmax and Aframax rates increased on weather conditions. OPEC sailings rose in December by 0.31 mb/d.
- In December, **US commercial oil inventories** fell for the fourth consecutive month, declining by 9.7 mb. This drop was attributed to both crude and products, which fell by 6.4 mb and 3.3 mb respectively, partly due to end-of-the-year tax considerations. Despite this drop, US commercial stocks still indicate a surplus with the five-year average of 14.1 mb or 1.4%. In Japan, the most recent monthly data shows that commercial oil inventories declined by 2.0 mb in November, driven by a 2.5 mb decline in crude, as product stocks rose 0.6 mb. Commercial inventories in Japan stood 10.1 mb below the seasonal norm.
- **Demand for OPEC crude** in 2011 has been revised up by 0.1 mb/d from the previous assessment to stand at 30.1 mb/d. At this level, the demand for OPEC crude stood at 0.4 mb/d above the previous year. In 2012, the demand for OPEC crude is projected to average 30.1 mb/d, unchanged from last year and about 0.1 mb/d higher than in the previous report.

Impact of the Euro-zone debt crisis on the oil market

In the fourth quarter 2011, crude oil prices remained volatile despite the partial return of supply from Libya and higher OPEC production, which should have reduced price volatility associated with the fear of a supply shortage. The OPEC Reference Basket remained volatile, fluctuating in a range between $98-114/b (*see **Graph 1***). This volatility was mainly due to the impact of Europe's debt crisis on market sentiment and worries that possible contagion effects could seriously undermine economic growth in Europe and the rest of the world. More recently, these bearish economic concerns have been offset by increased geopolitical uncertainties as well as civil unrest in some producing countries, boosting the risk premium in the market.

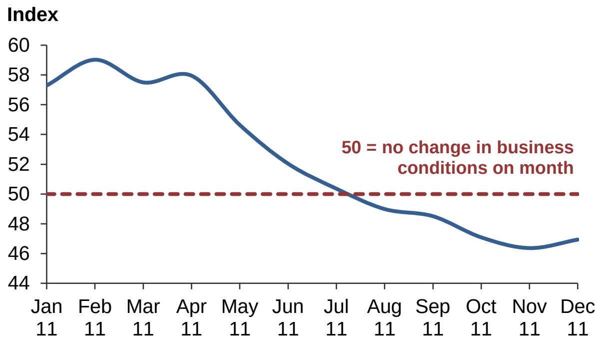
Undoubtedly, the Euro-zone debt crisis constituted a key challenge for the global economy in recent months and is expected to continue to do so for at least some time in 2012. While Euro-zone leaders have made a continuing effort to tackle the sovereign debt crisis at the beginning of the year, capital markets have not yet been convinced by the provided solutions to deal with the crisis. The euro fell to its lowest level versus the US dollar in 16 months and compared to the yen even reached an 11-year low. The Euro-zone debt crisis and its consequence have had a considerable effect on the global economy in the second half of last year through reduced international trade, implementation of austerity measures, and a growing credit crunch in the region with pass-through effects on the global banking system.

Graph 1: OPEC Reference Basket



Source: OPEC Secretariat

Graph 2: Euro-zone Manufacturing PMI



Source: Markit

The long-standing inverse correlation between the US dollar/euro exchange rate and the price of oil has weakened recently. As a result, the strength in the US dollar has had little impact on crude oil prices. It is unclear whether this decoupling will persist. With the strengthening momentum in the US economy along with the weaker outlook for the Euro-zone, the euro is not likely to see a recovery against the dollar in the near term, unless there is a quick solution to the region's debt crisis.

There is still some additional risk that the Euro-zone economy could even contract this year. This can be seen in the declining trend in Euro-zone PMI over the last six months to well below 50 (*see **Graph 2***), the level separating contraction from expansion. Even Germany, the strongest economy in the Euro-zone, is showing a sign of weakness, with GDP estimated to decline by 0.25% in the last quarter of 2011 according to the government's statistics office. Overall, this implies a reduction in regional and international trade and consequently would result in a further decrease in the demand for oil. Already, the most recent data shows that exports to the EU from China – a key trading partner with the region – have fallen since August.

Moreover, the need for large capital injections into Euro-zone banks could also reduce the amount of liquidity available for investment and trade, not only in Europe, but also on a global basis. This might lead to an additional slow-down in global trading and investment activity, and further entrench the negative growth trend.

Although the Euro- zone crisis has been a key factor behind oil price volatility, so far it has had little impact on market fundamentals in other regions. However, if the situation were to worsen, the effect on the oil market could be seen not only through a further decline in oil demand in Europe but also with spillover effects on oil demand in the emerging economies, amid an adequately supplied market. Whether this materializes, the ongoing impact of the Euro-zone debt crisis on market sentiment is also likely to add to oil price volatility. Effective steps to meet these challenges should lead to an improvement in economic growth and increased oil market stability. At the same time, geopolitical uncertainties are likely to continue impacting crude oil prices going forward, either by increasing or reducing the risk premium in the market.

Crude Oil Price Movements

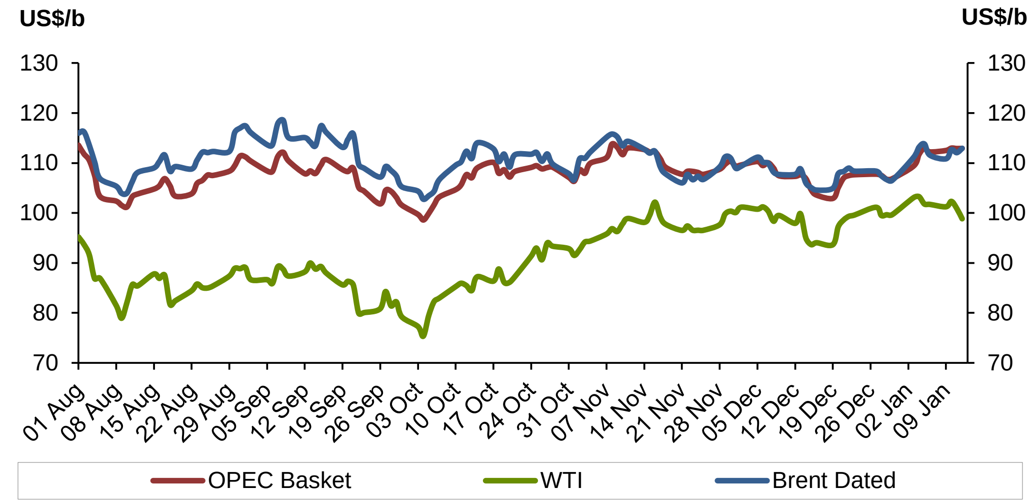
OPEC Reference Basket averaged $107.46/b in 2011

OPEC Reference Basket

In December, the OPEC Reference Basket decreased to settle at $107.34/b. Nevertheless, the Basket ended the year for the first time significantly above $100 at $107.46/b. This represents an increase of around $30/b or 39% over the previous year and marks a new all-time high. The downward movement of the Basket in December was driven by revived fears about Europe's debt crisis, a warning by Fitch that it may downgrade France and six other Euro-zone countries, concerns about economic growth in Europe and China, and a slumping euro exchange rate. Supportive bullish oil stocks and US economic data, as well as geopolitical concerns in the Middle East changed the course of the market, particularly toward the end of the month.

On a monthly basis, the OPEC Reference Basket declined to average $107.34/b in December, representing a decrease of $2.74/b or 2.5% over the month of November. However, in annual terms, the Basket averaged $107.46/b in 2011 compared to $76.45/b the year before, representing a substantial increase of $30/b or almost 40%.

Graph 1.1: Crude oil price movement, 2011-2012



All Basket components decreased in December, with Ecuador’s Oriente and Brent-related grades showing the most significant losses. Brent-related crudes Saharan Blend, Es Sider and Bonny Light slumped by a hefty 3% to average $109.31/b, down by $3.38/b for the month. On the other hand, Middle Eastern crudes Murban, Arab Light and Qatar Marine dropped to $108.27/b, lower by $2.28/b or over 2%. By far, Ecuador’s Oriente showed the largest decrease of all components, registering a $4.76 drop or more than 4.5% for a monthly average of $100.99/b, while Venezuelan crude averaged around $101.44/b, above the $100/b level for two consecutive months.

The poor performance in all Basket components in December mirrored international crude oil market sentiment as dampened expectations for dramatic action to tackle the Euro-zone region's debt crisis and concerns about economic growth in many parts of the world exerted downward pressure on prices, particularly in the Brent market. This is despite bullish US government oil data that showed crude oil stocks posted their largest one-week fall in a decade amid mounting supply worries as oil workers protested in Kazakhstan and ongoing geopolitical developments in the Middle East. In yearly terms, all Basket grades rose sharply in 2011, particularly Brent-related components, amid turbulences in the MENA area – mostly in Libya – disrupting exports, coupled with a supply deficit from other regions including the North Sea and West Africa.

In the new year, the OPEC Reference Basket moved higher to reach $111.75/b on 13 January.

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

			Change	Year	
	Nov 11	Dec 11	Dec/Nov	2010	2011
OPEC Reference Basket	**110.08**	**107.34**	**-2.74**	**77.45**	**107.46**
Arab Light	110.59	107.96	-2.63	77.82	107.82
Basrah Light	108.47	106.06	-2.41	76.79	106.17
Bonny Light	114.21	110.71	-3.50	81.07	114.15
Es Sider	111.46	108.66	-2.80	79.13	111.90
Girassol	111.73	109.07	-2.66	79.53	111.57
Iran Heavy	109.20	106.83	-2.37	76.74	106.11
Kuwait Export	109.46	107.06	-2.40	76.32	105.63
Marine	109.14	107.36	-1.78	78.18	106.53
Merey	105.05	101.44	-3.61	69.70	97.94
Murban	111.92	109.49	-2.43	79.94	109.77
Oriente	105.75	100.99	-4.76	72.82	101.03
Saharan Blend	112.41	108.56	-3.85	80.35	112.92
Other Crudes					
Minas	117.85	114.35	-3.50	82.28	114.79
Dubai	108.94	106.43	-2.51	78.10	106.21
Isthmus	111.54	110.27	-1.27	77.86	105.64
T.J. Light	109.64	108.28	-1.36	76.22	103.66
Brent	110.66	107.86	-2.80	79.60	111.36
West Texas Intermediate	97.11	98.58	1.47	79.42	94.99
Urals	110.54	107.31	-3.23	78.39	109.19
Differentials					
WTI/Brent	-13.55	-9.28	4.27	-0.18	-16.38
Brent/Dubai	1.72	1.43	-0.29	1.50	5.15

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

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

The oil futures market

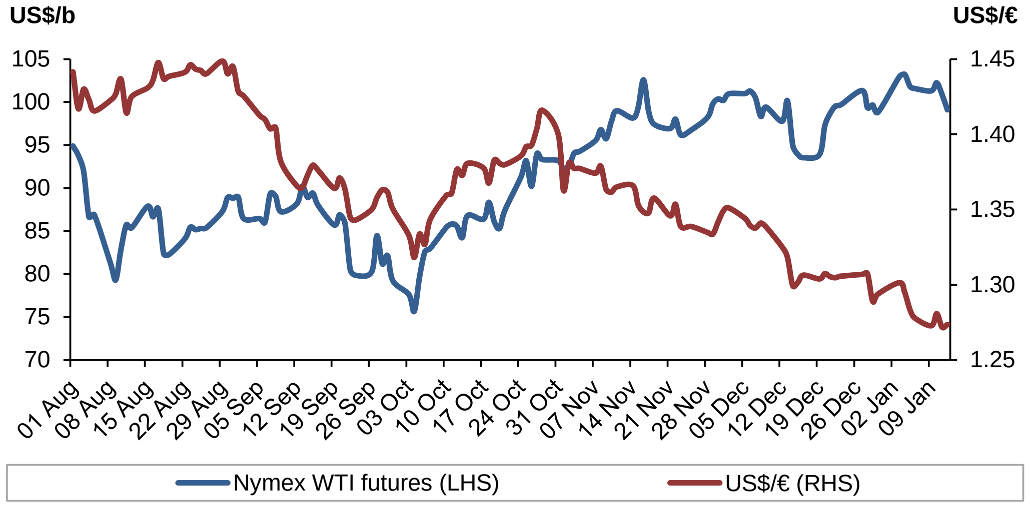
Crude futures were mixed in December but ended 2011 with record gains

The crude oil futures markets were mixed in December. The WTI front-month continued the positive performance of the previous month, though at a much lower rate, to end with the highest monthly average in more than six months. Supportive data for the US economy and sharp draws in US crude oil stocks in the first two weeks of the month – showing the largest one-week fall in a decade during the month of December – have been the major factors behind the rise in WTI front-month prices last month. Moreover, worries over possible supply disruptions due to rising tensions in the Middle East continued to support prices. In contrast, ICE Brent prices decreased over December on worries that the still-unresolved Euro-zone sovereign debt crisis is leaving little room for potential economic growth. A warning by Fitch that it may downgrade France and six other Euro-zone countries helped fuel a sell-off that weighed on the market. On the Nymex, the WTI front-month improved by $1.42 to average $98.58/b in December, while ICE Brent decreased by $2.76 to average $107.73/b.

The WTI front-month traded as low as $93.93/b in the middle of December before rallying to stand at above $97/b in the second decade of the month. WTI was then pushed to $101/b on heightened tensions in the Middle East. Meanwhile, ICE Brent steadily decreased from $109/b to $103/b in the first two decades of December, but ended the month at around $107/b, primarily on geopolitical concerns and despite worries about the Euro-zone economy.

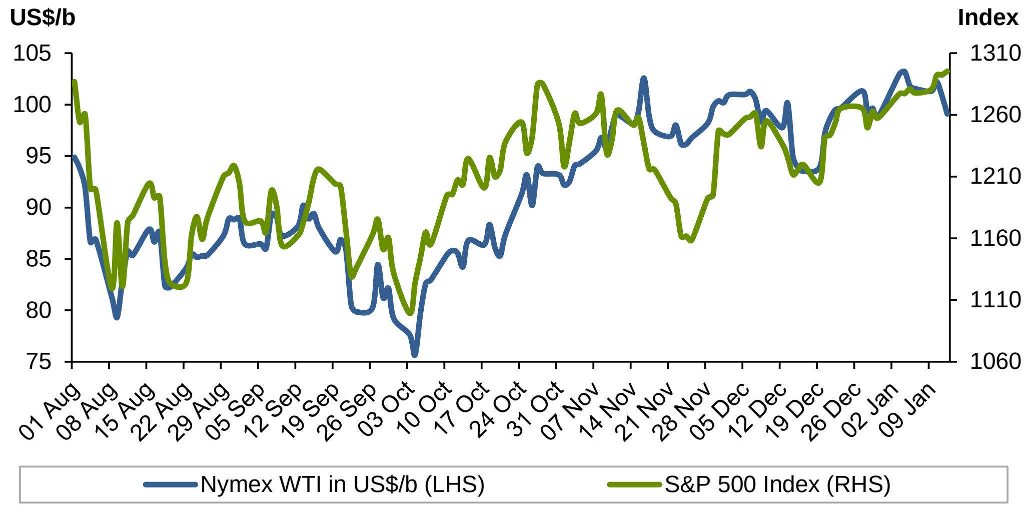
After a volatile year, marked by turmoil in the Middle East and North Africa, as well as concerns about the global economy in general and Euro-zone in particular, oil prices in 2011 struck their highest annual average since 2008. The year saw a number of supply shocks amid the temporary loss of crude from Libya, Syria, Yemen, Sudan, Nigeria, North Sea and elsewhere. Moreover, oil markets were volatile in 2011, but not to the same extent as in 2008-09, when prices rallied to $147 before collapsing to around $30. Compared to the previous year, front-month WTI gained almost 20% to average $95.12/b, while ICE Brent increased by 38% to average $110.91/b.

Graph 1.2: Nymex WTI futures and US$ exchange rate, 2011-2012



Over the first week of January, crude oil futures prices maintained their momentum when Nymex WTI settled above $100.07/b and ICE Brent moved up above $112.00/b. On 13 January, Nymex WTI stood at $98.70/b and ICE Brent at $110.44/b.

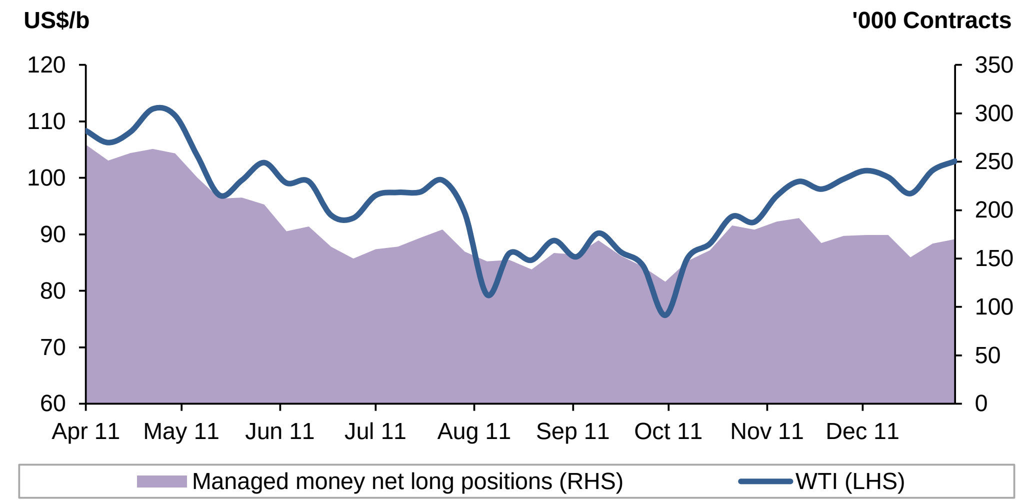
Graph 1.3: Nymex WTI futures vs. S&P 500 index, 2011-2012



Data from the US Commodity Futures Trading Commission (CFTC) showed that, on average, speculators reduced net long positions in US crude oil futures and options positions in the month of December. Hedge funds and other large investors decreased net long positions on the Nymex by 13,472 contracts to 166,378 lots, a decrease of almost 7.5%. The data showed, however, that much of the decrease was due to a decline in long positions. Outright longs were down by a hefty 14,474, while shorts were cut by just 1,003, suggesting that as prices rose, bullish traders were not backing the move. Moreover, plans by the world's two largest commodity indices to change their component weights to reflect growing trade in Brent crude at the expense of WTI may have contributed to the reduction in speculative positions. Furthermore, open interest volume for the month of December dropped marginally by 7,522 contracts to 1,325 million lots, supporting earlier arguments.

The daily average traded volume during December for WTI Nymex contracts decreased by a further 146,182 lots to average 490,377 contracts or almost 493 mb/d. For ICE Brent, the volume dropped by almost 30% to 395,935 contracts, while open interest decreased by 5% to 893,375 lots, signifying the continuation of strong bearish sentiment among investors in the paper market despite end of the month geopolitical turbulence.

Graph 1.4: Nymex WTI price vs. speculative activity, 2011-2012

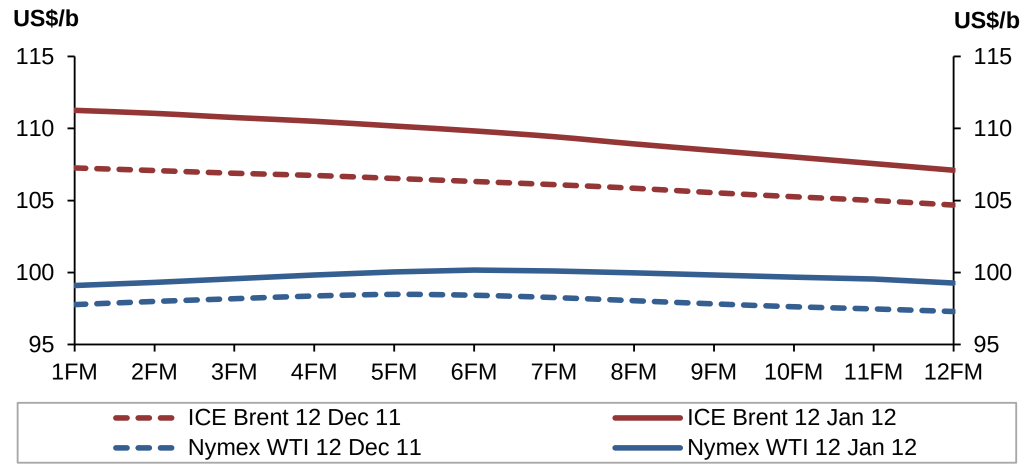


The futures market structure

Nymex structure remained in contango and ICE Brent further contracted its backwardation

Nymex WTI market structure remained in contango for the entire month of December, with the first month versus second month time spread averaging around 15¢/b, 5¢ wider from November. Meanwhile, ICE Brent market structure further narrowed its backwardation, despite weather-related supply disruptions in the North Sea, where more than ten Ekofisk cargoes have been delayed in December to as far out as January due to heavy storms and high waves. The spread between the second and the first month of ICE Brent contract averaged around 52¢/b in December, the lowest in four months, compared to 76¢/b in the previous month.

Graph 1.5: Nymex WTI and ICE Brent forward curve, 2011-2012



FM = future month

The transatlantic (Brent vs. WTI) spread narrowed slightly in December after a massive volatile contraction in October/November due to the announcement of the reversal of the Seaway pipeline. On average, the Brent/WTI differential was at $9.15/b, down $4.18/b from November.

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

	1st FM	2nd FM	3rd FM	6th FM	12th FM
Nymex WTI					
12 Dec 11	97.77	97.99	98.18	98.42	97.29
12 Jan 12	99.10	99.31	99.56	100.16	99.27
ICE Brent					
12 Dec 11	107.26	107.08	106.89	106.32	104.68
12 Jan 12	111.26	111.05	110.76	109.83	107.10

FM = future month

Light-sweet/heavy-sour spread widened in all regions, supported by light distillates

The sweet/sour crude spread

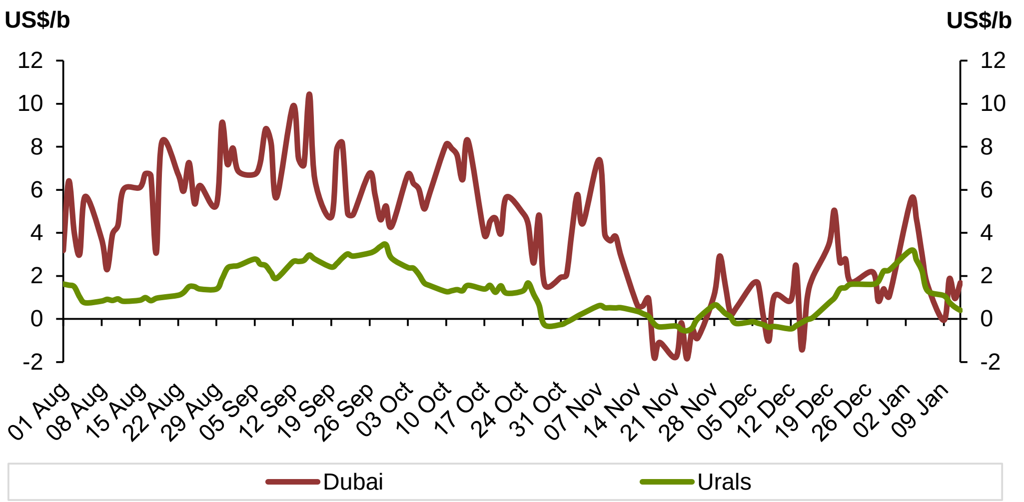
Light-sweet/heavy-sour differentials widened globally, supported by the recovery in the light distillates cracks.

In Asia, light-sweet/heavy-sour differentials widened amid sustained improvement in light distillates cracks, namely naphtha and gasoline. Naphtha crack saw the greatest gains amid emerging demand from South Korea and Taiwan as both countries were rebuilding stocks for the start of the New Year. Moreover, increased exports from the Middle East of medium sour grades, particularly from Saudi Arabia and Iraq, also helped pressured the heavy/medium-sour market in the region. As a result, the Tapis monthly average premium to Dubai in December widened to $9.40/b, compared to a premium of $8.30/b in November, representing an increase of $1.10/b.

In Europe, Urals, which up until recently had traded at the longest continued premium to Dated Brent, fell to a discount amid soft buying as sluggish middle distillates cracking margins weighed on the economics of using Urals in more complex setups. On the other hand, the light sweet crude market was supported by delays in the Forties loading schedule and open arbitrage to Asia on the back of the narrow Brent/Dubai EFS spread. High outflows of West African crude to Asia have also helped tighten the market for sweet crude in Europe. Consequently, the Urals differential to Dated Brent in December dropped from a slight premium at the end of November to average minus 55¢/b to Dated Brent.

The US Gulf Coast (USGC) sweet and sour grades spread, represented by the LLS/Mars spread, widened in December, in line with developments in the product markets in the USGC. The USGC cracking margins for LLS were steady in December. Gasoline cracks versus LLS posted gains in December, despite record seasonal high-level inventories amid enduring stagnant demand and record-high refinery operation. Meanwhile, the middle distillate market lost ground on the back of weakening domestic demand. The LLS-Mars spread averaged $3.80/b in December, up from $3.60/b in the previous month, a gain of 20¢.

Graph 1.6: Brent Dated vs. Sour grades (Urals and Dubai) spread, 2011-2012



Commodity Markets

A decline across commodity prices in December

Trends in selected commodity markets

The **World Bank (WB) index** for non-energy commodities dropped by 2.7% m-o-m in December, compared to a 2.8% fall in the previous month, driven mainly by losses in grains. By contrast, the decline in base metal prices was relatively milder. The **energy commodity index** edged down by 1% m-o-m December. Commodity prices recovered modestly in November, but these decreased again in December amid high volatility, dramatically higher risk for global economic growth in OECD countries and deceleration in developing countries, especially China, the Euro-zone debt crisis, as well as still pending US problems. The **WB energy commodity price index** (crude oil, natural gas and coal) edged down by 1% m-o-m in December, due to huge losses across the complex.

Table 2.1: Commodity price data, 2011

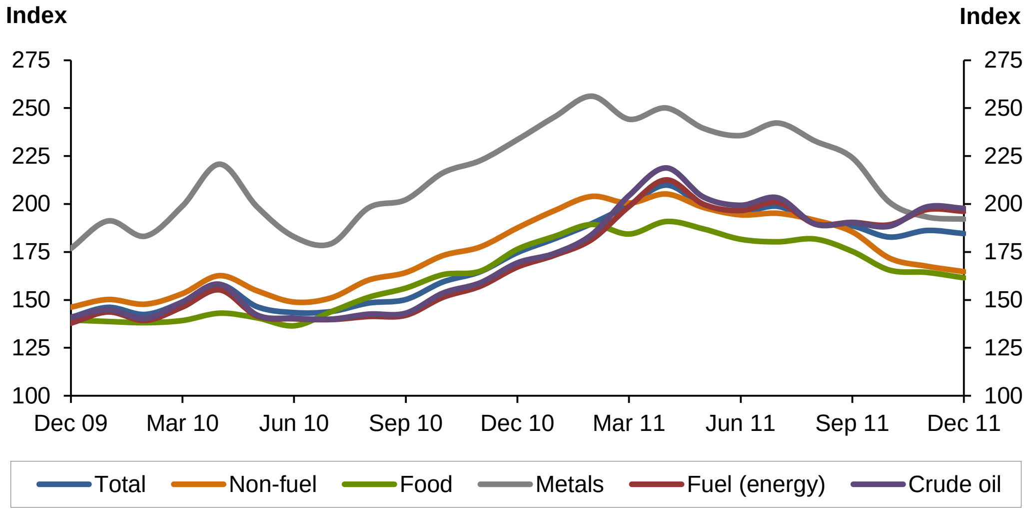
Commodity	Unit	Monthly averages			% Change		
		Oct 11	Nov 11	Dec 11	Oct/Sep	Nov/Oct	Dec/Nov
World Bank commodity price indices for low and middle income countries (2005 = 100)							
Energy		181.8	189.8	187.6	-0.9	4.4	-1.2
Coal, Australia	$/mt	119.0	113.8	109.7	-2.9	-4.4	-3.6
Crude oil, average	$/bbl	99.8	105.4	104.2	-1.0	5.6	-1.1
Natural gas, US	$/mmbtu	3.6	3.2	3.2	-8.5	-9.1	-2.4
Non Energy		194.1	188.7	183.7	-6.6	-2.7	-2.7
Agriculture		196.6	190.7	184.9	-5.3	-3.0	-3.0
Food		200.2	199.1	193.4	-5.2	-0.5	-2.9
Soybean meal	$/mt	373.8	354.0	341.0	-5.4	-5.3	-3.7
Soybean oil	$/mt	1220.0	1217.0	1203.0	-6.5	-0.2	-1.2
Soybeans	$/mt	503.0	486.0	477.0	-7.4	-3.4	-1.9
Grains		233.0	233.3	221.7	-5.2	0.1	-5.0
Maize	$/mt	274.8	274.4	258.6	-6.9	-0.1	-5.7
Sorghum	$/mt	263.7	265.4	256.4	-8.7	0.7	-3.4
Wheat, US, HRW	$/mt	289.0	281.0	269.0	-8.5	-2.8	-4.3
Sugar World	¢/kg	56.1	53.0	50.8	-4.5	-5.6	-4.1
Base Metal		164.7	164.7	163.0	-9.0	0.0	-1.0
Aluminum	$/mt	2180.7	2080.0	2022.3	-4.9	-4.6	-2.8
Copper	$/mt	7394.2	7581.0	7565.5	-10.9	2.5	-0.2
Iron ore, spot, cfr China	¢/dmtu	150.4	135.5	136.4	-15.1	-9.9	0.6
Lead	¢/kg	196.0	199.4	202.2	-14.3	1.7	1.4
Nickel	$/mt	19039.1	17873.0	18266.8	-6.6	-6.1	2.2
Steel products index	2005=100	146.8	142.9	141.7	0.0	-2.6	-0.9
Tin	¢/kg	2186.9	2129.2	1937.5	-2.9	-2.6	-9.0
Zinc	¢/kg	187.1	193.5	190.5	-9.8	3.4	-1.6
Precious Metals							
Gold	$/toz	1665.2	1738.1	1641.8	-6.0	4.4	-5.5
Silver	¢/toz	3206.3	3326.5	3013.3	-15.9	3.7	-9.4

Source: World Bank, Commodity price data

The **Henry Hub (HH) natural gas price** fell by 2% m-o-m in December compared to 9% a month earlier. As in previous months, the HH natural gas price came under pressure from the high storage levels and milder weather. High oil, NGL & condensate prices have attracted capital to liquid-rich shales (the Marcellus in Pennsylvania and Eagle Ford in Texas — considered more a liquid than a natural gas play), boosting gas output despite low prices. However, natural gas prices at $3.13/mmBtu, are close to a secular bottom, given average mid-cycle breakeven costs for conventional dry gas of $4.19/mmBtu and very warm winter weather. Curtailed US production, mandated shutdowns in Alberta to protect well pressure in the oil sands and a somewhat stronger US economy should boost prices back over the $4 mark by late 2012 and in 2013.

Agricultural prices kept declining by around 3% m-o-m in December, impacted by a negative macroeconomic outlook. Grain prices felt the pressure of a bearish *World Agricultural Supply and Demand Estimates* (WASDE) report, which revealed higher-than-expected ending stocks. Chinese trade data for November was negative for some items, such as soybean and soybean oil.

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

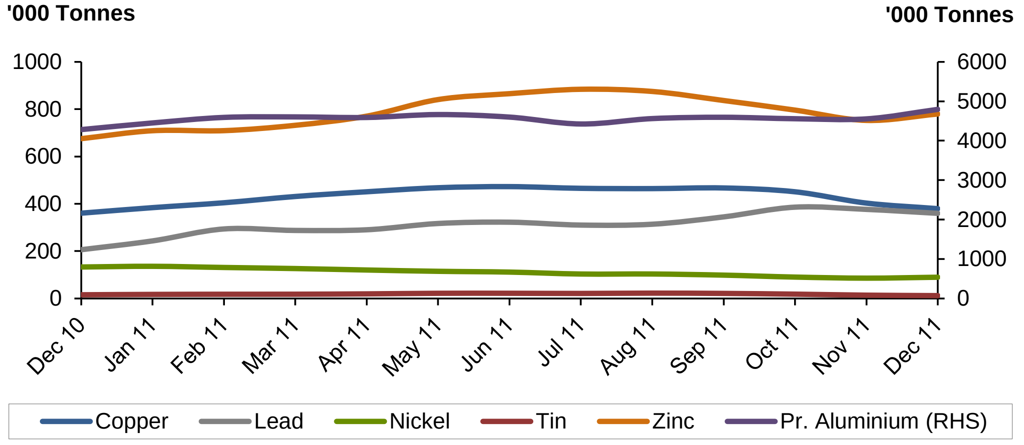
Base metal prices declined by 1% m-o-m in December amid high volatility and worsening global macroeconomic conditions. Nevertheless, there were diverse trends in the complex. Some base metal prices on the London Metal Exchange (LME) showed a drop in December from the previous month. Copper prices fell by 0.2% m-o-m (2.5%). Aluminium declined by 2.8% (-4.6%) and tin prices plummeted by 9% (3.7%). Zinc also decreased by 1.6% (3.4%). Other metals like nickel and lead were able to keep the recovery from November, owing to tightened fundamentals. Despite the fall in base metal prices for December, induced by the gloomy outlook for Europe and concerns about China demand, which prompted bearish market sentiment and risk reduction, base metal prices were the best performer in relative terms as some metal prices were supported by strong imports from China in the previous month. By contrast, inventories at the LME increased by 3.7% in December, but stock trends were also diverse with copper inventories and lead declining, while others increased.

The outlook for base metals is closely tied to the performance of the Chinese economy, with a soft landing likely to sustain prices. There are some positive signs: After tightening credit conditions to contain inflation, China has shifted to a ‘pro-growth stance’, cutting the required reserve ratio for large banks by 50 basis points to 21.0% on 5 December – earlier than expected – and permitting more bank lending. A drop in November’s ‘Purchasing Managers’ Index’ to 47.7 – indicating contracting manufacturing activity – triggered this shift. Further easing is expected soon, given moderating food & consumer price inflation, which stands at 4.2% in November, down from last July’s three-year high of 6.5%, as well as decelerating property prices (+ 2.2% y-o-y) and concern over ‘hot money’ outflows from China.

Copper prices experienced a mild drop of 0.2% m-o-m in December. This took place despite a 6% m-o-m drop in inventories at the LME duet to open arbitrage attributable to Chinese restocking. Total Chinese copper imports hit a record in November reaching 660 kt, overcoming the previous high of 646 kt in June 2009. As already pointed out, there are also bullish factors such as labour problems in Indonesia and Peru which are still affecting production. Copper showed a supply deficit in late 2011, with global consumption exceeding refined metal production, and is likely to remain in a deficit in 2012, even with a 6% increase in global mine supply after a mere 0.4% increase in 2011. World mine output has increased only 1.1% per annum from 2007 in the face of rapid demand growth in China and ‘emerging’ Asia, lifting prices onto a higher plane. Much of the recent pickup in refined copper imports into China has reflected stockpiling by property developers for use as collateral for bank credits. However, China's industrial demand should strengthen again next spring, with prices surging back to $4. Copper prices could remain just under the $4 mark through much of 2013. Nevertheless, the severe problems in the economic outlook have been impacting copper demand with emerging nations still the main source of demand.

Gold prices lost 5% in December compared to a 4.4% drop a month earlier due to softer physical demand, the stronger dollar, low risk appetite and the lack of further Fed measures at the last Federal Open Market Committee (FOMC). Nevertheless, these are short-term factors and gold is expected to reach new highs due to uncertainties in the financial markets, sovereign debt, real interest rates and inflationary pressures.

Graph 2.2: Inventories at the LME



Source: LME

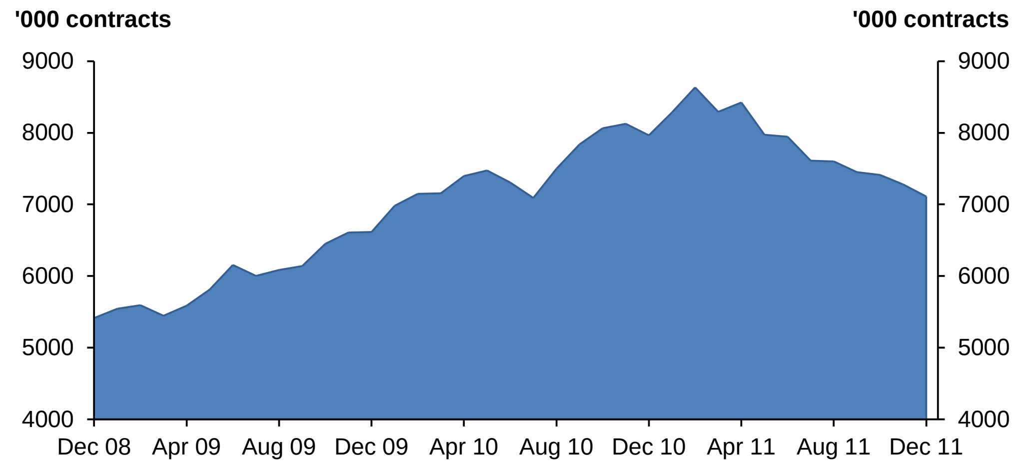
Investment flows into commodities

A bearish mood in December across commodity markets

Investments into commodities decreased sharply in December on continued concerns about the Euro-zone fiscal crisis and approaching recession in the area as well as deceleration in emerging countries and other worries related to the health of the global economy.

Total open interest volume (OIV) in major commodity markets in the US fell by 2.4% m-o-m to 7,209,999 contracts in December compared to a 1.7% fall a month earlier. A 5% m-o-m drop in total long speculative positions combined with a 11.8% rise in speculative shorts to leave speculative net length at 413,316 contracts, 25% lower than in the previous month.

Graph 2.3: Total open interest volume

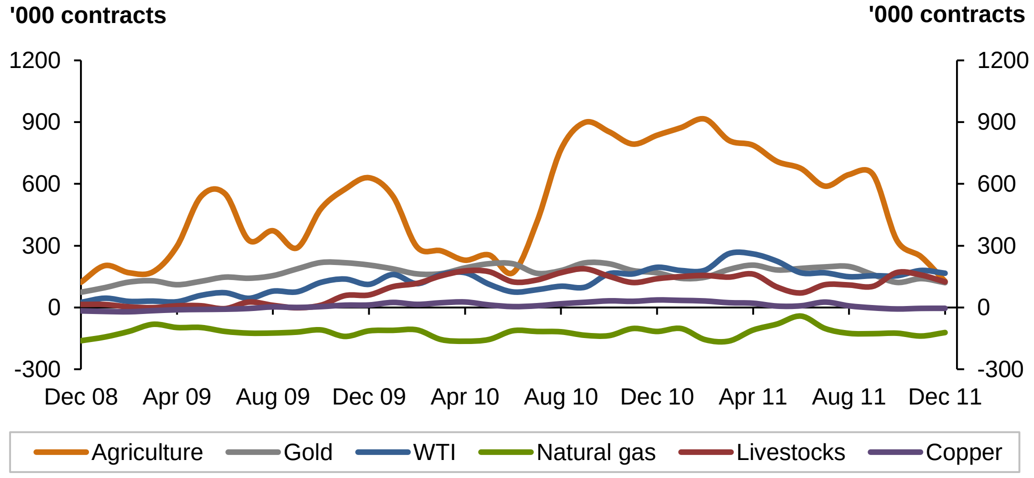


Source: CFTC

Agricultural open interest volume (OIV) decreased by 2.9% m-o-m to 3,661,630 contracts in December compared to a 0.7% fall in November. Money managers' net long positions plummeted by 48.5% m-o-m to 127,027 contracts in December. This was the result of an 18% increase in speculative shorts and a 6% drop in longs.

HH natural gas OIV decreased by 6% m-o-m to 115,612 contracts in December compared to a 2% fall the previous month. Speculative net long positions increased by 12% m-o-m compared to an 11% drop in November, as shorts increased more than longs.

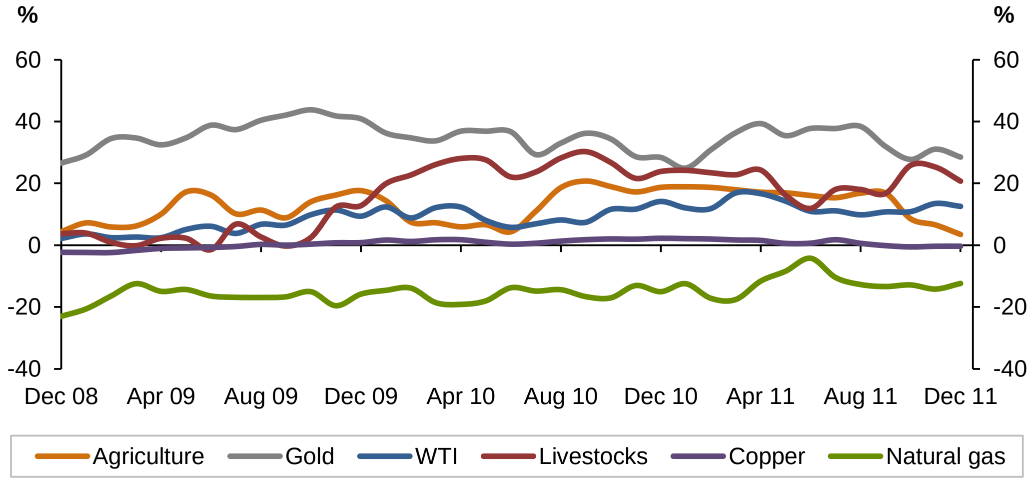
Graph 2.4: Speculative activity in key commodities, net length



Source: CFTC

Copper OIV declined by 2% m-o-m to 123,298 contracts in November, compared to a 4.9% gain in October. The net-length of money manager positions rose by 7% in December compared to a 40% rise in the previous month, driven by a higher rise in longs than in shorts.

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



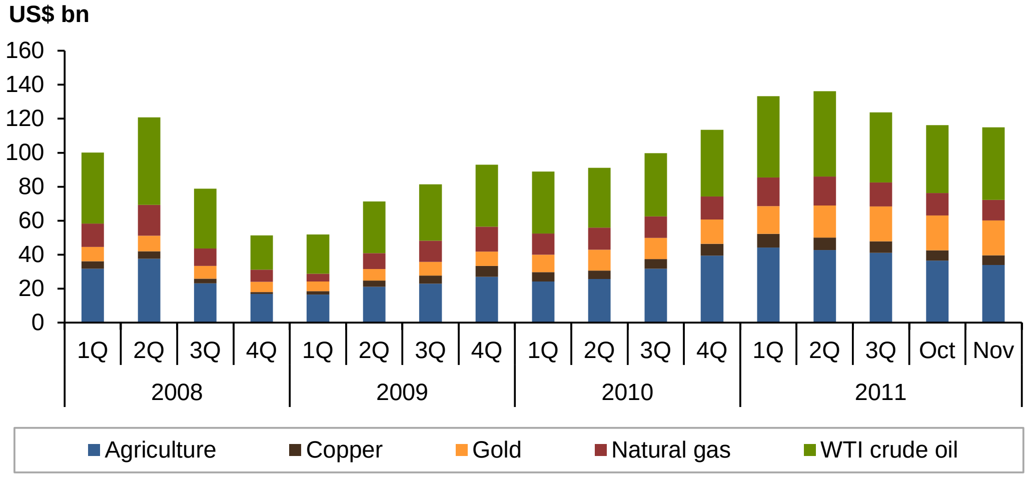
Source: CFTC

Gold OIV declined by 6% m-o-m to 423,266 contracts in December reversing the gains in the earlier month. Net long speculative positions declined by 14% m-o-m in December as a result of an 11.5% fall in longs and a 27.9% gain in shorts. The bearish sentiment came amid falling prices in December.

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

	Open interest		*Net length*			
	Nov 11	Dec 11	Nov 11	% OIV	Dec 11	% OIV
Crude Oil	1333	1326	180	13	166	13
Natural Gas	975	982	-138	-14	-121	-12
Agriculture	3771	3662	247	7	127	3
Precious Metals	559	523	152	27	129	25
Copper	123	116	-4	-3	-4	-3
Livestock	625	602	158	25	125	21
Total	**7,387**	**7,210**	**594**	**8**	**422**	**6**

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



Source: CFTC

Following a recovery in October, dollar investment inflow into commodities declined by 1% m-o-m to $114.9 bn in November. Except for crude oil, all the commodities considered saw an outflow of investment in November. In the case of gold, the dollar inflow remained the same in November compared to the previous month.

World Economy

Table 3.1: Economic growth rates 2011-2012, %

	World	OECD	US	Japan	Euro-zone	China	India
2011	3.6	1.7	1.7	-0.7	1.6	9.0	7.4
2012	3.5	1.6	2.2	1.9	0.2	8.5	7.4

Industrialised countries

US

US economy continues to recover. Unemployment fell to 8.5% in December, supporting consumer confidence. Industrial production rose in November by 3.7% y-o-y and manufacturing orders by 11.9%.

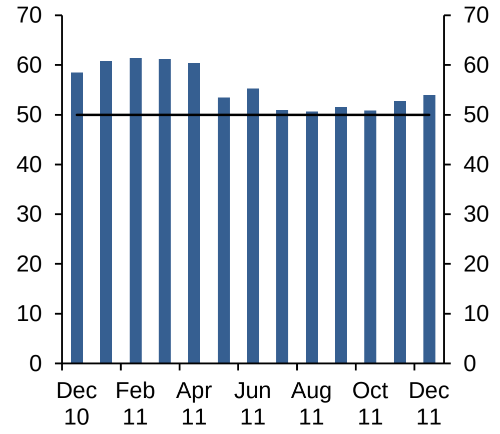
The US economy has shown tentative signs of regaining momentum, after a first half of 2011 (1H11) when it expanded significantly below historic averages and potential. Growth in the third quarter of the year (3Q11) was finally reported by the Bureau of Economic Analysis to have been at 1.8%. This was after it had announced, in its first estimate, a figure of 2.5% and, in its second one, a figure of 2.0%. This is much better than the 1H11 expansion of 0.4% in 1Q11 and 1.3% in 2Q11, but still considerably below the historic average of around 2.5% and a short-term growth potential that would be even higher.

Looking to the future, the most recent indicators for 4Q11 and 1Q12 show an improvement, and, based on current information, it is expected that the levels of expansion will continue to increase. In particular, the recent labour market improvement offers hope that private household consumption might pick up further, while industrial production and manufacturing orders are currently holding up well at solid levels. However, many uncertainties will stay for the near future, and the recent marginal increase in retail sales in December — the most important month, due to year-end seasonal sales — has shown that the economy is still in a relatively fragile state. With the government's spending ability fairly limited now, it is mainly the consumer that is expected to support the economy this year. While fiscal spending may be limited in 2012, the administration may find other ways of continuing to support the economy, with the upcoming presidential elections and the desirability of a positive economic outcome this year. One important aspect that could still be used is a further monetary stimulus, and this is in the hands of the independent Federal Reserve Board (FED). But, so far, the FED has clearly expressed its aim to improve the labour market situation, and, while some progress has already been made, it is still too early to say whether this will be enough for the FED — as seems to be the case for now — or whether it will decide, in the coming months, to stimulate the economy further via, probably, additional quantitative easing or other extraordinary monetary measures.

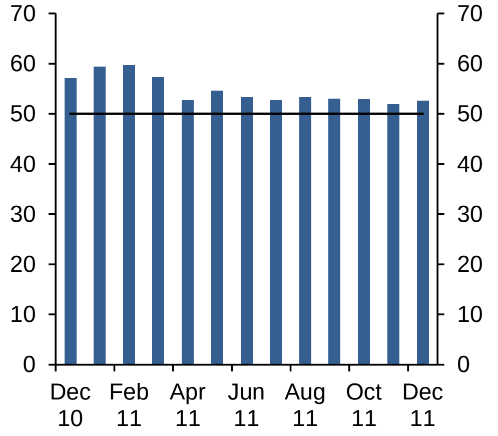
The unemployment rate fell again in December to 8.5% from 8.7% in November. This is the fourth consecutive month of improvement and it is the third month in which the rate has been below 9.0%. Also, it is the lowest rate since March 2009, when the global and US economies reached a trough. Furthermore, non-farm payroll additions were better than forecast at 200.000 new jobs, again considerably higher than the previous month, which itself had an already encouraging 100.000 additions. This brings the number of new jobs since the recovery started in the second half of 2009 to more than two million. While this is an encouraging development, it should not be forgotten that, on the other side, more than eight million jobs were lost in the crisis. All these must be re-established, in order to bring the unemployment rate back to levels of around 5%. Long-term unemployment has come down as well. The share of the labour market that has been unemployed by more than 27 weeks has fallen to 42.5%, still a high number, but it compares with the peak level of 45.5% in March 2011. Correspondingly, consumer confidence moved up sharply in December to stand at 64.5, compared with 55.2 in November, according to the Conference Board.

Output-related indicators continued their expansion. Industrial production increased in November by 3.7% y-o-y, after a rise of 4.3% in October. Manufacturing orders, which had been in decline up to September, also rose in November at 11.9% y-o-y, compared with 11.1% in October, the third consecutive month of rising orders. The Institute for Supply Management (ISM) figure for the manufacturing sector supported this uptick in the manufacturing area. It rose from 52.7 in November to 53.9 in December, the highest level since July. The ISM for the services sector increased to 52.6, from 52.0 in November.

Graph 3.1: ISM manufacturing index



Graph 3.2: ISM non-manufacturing index



Source: Institute for Supply Management

With these developments, the forecast for 2012 has been raised to 2.2% from 1.7%. However, it should be stressed again that the US economy remains in a fragile state, as there still is the likelihood that the challenges from the Euro-zone sovereign debt crisis will have an impact on it and that the US housing sector is only slowly showing signs of improvement. Nevertheless, the economy is expected to be strong enough to withstand these challenges via the growing momentum in underlying consumption. Growth estimates for 2011 are unchanged at 1.7%.

Japan

Large stimulus measures in Japan announced in 2011 should have effect on 2012 growth. But, due to still muted domestic demand and current global economic slowdown, most recent activity has been low. Machinery orders in November fell by 6.8% y-o-y and retail sales by 2.3%.

Japan initiated relatively large stimulus measures in 2011 that should be felt in 2012. But, due to still muted domestic demand and the current global economic slowdown, most recent activity has been lower than would normally be expected after such a significant event as the triple-disaster in 1H11, which would usually be followed by a strong rebound due to the recovery efforts undertaken. At the end of the year, the government announced a stimulus package — the third supplementary budget of 2011 — which was proposed by the government in October and enacted by the Japanese legislature, the Diet, at the end of November. This stimulus addresses primarily the issue of improving the economic situation after the 1H11 tragedy, through rebuilding the infrastructure in the affected regions, helping companies in need and supporting disaster-affected people. The package is at a considerable cost of 12 trillion yen (US$150 billion), which brings the total fiscal stimulus announced since 2Q11 for addressing the negative effects of the triple-disaster to a total of 16.1 trillion yen. It is estimated that this will help the economy in 2012 by around 2.5–3.0%. So the economy is forecast to continue its recovery, although developments remain volatile and many uncertainties prevail.

It is relatively unclear how strong the current underlying recovery really is, since there are many counterbalancing effects. But it seems that domestic demand remains sluggish, a trend that had already started at the end of 2010, after most of the consumer incentives had come to an end. The March earthquake affected the economy at a time when this downtrend had already set in. However, the needed replacement of many consumer goods, combined with the large stimulus, should be expected to support domestic demand. But, for August to November, the first three months saw declining retail sales and the latest available figure for November also showed a decline, of 2.3%. Machinery orders in November — as a front-running indicator — fell by 6.8% y-o-y, lower than the post-earthquake figure of July, which was down by 6.1%. So, despite all the government support, the November figure is the lowest for more than two years. It is clear that it is mainly shrinking exports that are affecting this development. Foreign orders declined by 15.6% y-o-y in October, again higher than the already elevated level of September of –14.8% y-o-y. While the situation with domestic orders seems a little bit better, it remains volatile and not as supportive as expected, with order levels of –11.7% y-o-y in August, 11.0% in September and, just recently, again a fall of 1.1% y-o-y. This also had an effect on industrial production, which fell by 2.6% m-o-m in November. On a yearly base, the trend is negative for every month since March 2011, with only the exception of October, when industrial production rose by a meagre 0.1% y-o-y.

The purchasing manufacturers' index (PMI) figures for Japan also indicate that the economy remains at subdued expansion levels. The composite PMI stood at 50.1 in December, after 48.9 in November, according to Markit. Both the services and the manufacturing sub-indices are only slightly above the growth-indicating level of 50, which highlights the continued fragility of the economy.

Acknowledging the fragile momentum for the coming months, while, at the same time, anticipating a positive impact from the recent announcement of stimulus measures and the slight improvements for the other main trading partners — mainly the US — the 2012 forecast has been kept at 1.9%. And, after the recent major revision by the statistical office, GDP growth for 2011 has been revised to –0.7%, compared with 0.2% in the previous month.

Euro-zone

While sentiment has improved recently, Euro-zone is still challenged by its sovereign debt issues and austerity measures. Unemployment rate remained at 10.3% in November, retail trade declined by 0.8% m-o-m and industrial production fell by 0.3% y-o-y.

While the situation regarding the sovereign debt challenges for the Euro-zone has not changed very much, sentiment improved very recently after debt auctions in Italy and Spain had been relatively successful, being oversubscribed and pushing down the yields accordingly. Spain and Italy successfully sold about €22 bn of government debt at sharply lower costs than in recent auctions, highlighting the tentative improvement in investor sentiment. Spain sold €10 bn, twice the amount that had been originally planned for this auction, in the second week of January. Italy sold €8.5 bn successfully at lower-than-expected rates. The ten-year treasury yields moved down for both countries. Italy's ten-year debt yielded 6.57%, down 37 basis points, and Spain's yield stood at 5.13%, down 12 basis points, after the successful auctions. While this was a first positive development, the levels are still high and probably too high in the medium term to allow the governments to manage the current situation properly via reducing public spending, particularly in the case of Italy where the current yield of almost 7% seems to be at the upper-limit. Therefore, it remains to be seen whether a combination of support via the International Monetary Fund (IMF), the European Central Bank (ECB), the European Commission and the corresponding authorities of the Euro-zone with the austerity measures in these countries will suffice to further calm the fears of investors and push down yields to more reasonable levels.

Furthermore, it is important to consider that the situation of absolute debt levels has not changed over the last four weeks and that the challenges for many economies in the Euro-zone will remain for some time. Italy will have to refinance around €320 bn in 2012, which, in relation to the available emergency facilities of the Euro-zone and the IMF of around €750 bn, is a big number. Other peripheral countries are faced with significant refinancing rounds in 2012 too, with Spain at €142 bn and Ireland, Portugal and Greece together at €75 bn. Adding all this up, more than €500 bn will have to be refinanced this year. All this could probably be supported by the European Financial Stability Facility, the European Stability Mechanism and the IMF together, with the support of the ECB, but it remains to be seen if the underlying problems can be solved in the meantime or if — again — it means only postponing the most important structural fiscal issues.

One of the elements that calmed markets after the summit in December was the general agreement of all EU member countries — with the exception of the United Kingdom — to create a fiscal union as a prerequisite for further cooperation, which was seen as an important factor for the wealthier nations to continue providing financial support. To date, many details remain unknown and the legal basis of this accord could prove challenging, since, already in December, Ireland announced that a referendum cannot be ruled out and some other countries might follow. Furthermore, while the Euro-zone countries are currently trying to keep all 17 nations under the umbrella of the common currency, it still cannot be ruled out entirely that some of the weaker economies could leave the Euro-zone in 2012, an event that could have a severe impact on the global economy.

Austerity measures are considered to constitute one important factor that is going ahead. And, while they have started to be implemented in the ailing economies already, their impact can be felt already in the most recent economic indicators and growth figures. Even the German economy, the strongest in the Euro-zone, is forecast to have declined by 0.3% on a quarterly basis in 4Q11, according to the statistics office. This negative trend is mirrored in the PMI figures of recent months, and a declining economy in 4Q11 and 1Q12 seems likely to be based on this and other information. The composite PMI — comprising not only the manufacturing sector, but also the services sector and construction — still stands below 50, indicating a contraction, at 48.3 in December. This is an improvement from 47.0 in November, but still suggests that the decline is expected to continue in 1Q12 at least. And so the first half of the year should be expected to see a decline.

Industrial production decelerated significantly for three consecutive months. It rose by 2.2% y-o-y in September and by 1.0% y-o-y in October, before falling by 0.3% in November. This deceleration is visible in manufacturing orders too, and these stood at only 1.5% y-o-y in October, compared with 1.7% in September and 5.9% y-o-y in August. The unemployment rate in November also continued to stay at the new record level of October of 10.3%, which is the highest rate since the introduction of the euro. Accordingly, retail trade fell in November by 0.8% m-o-m.

With the many uncertainties for the near-term future prevailing, the GDP growth forecast for 2012 has been lowered to 0.2% from 0.4% in the previous month, while the 2011 estimate remains unchanged at 1.6%.

Emerging markets

December PMI in China, India and Brazil were better than expected, following a rise in sentiment

The Euro-zone debt crisis has various consequences for the emerging market economies. Weakening external demand, lower business confidence and problems attracting capital inflows dramatically affected the economies in the region during the second half of 2011. However, important factors should be considered when measuring the effect on different countries, such as: the state of the economy before the shock, the importance of sales to the European Union (EU), the underlying strength of home demand and the scope for macro policy to provide some offset. It could be safely concluded that the Central European economies remain the most affected by the crisis, after being strongly positive six months earlier.

On the other hand, a different picture could be painted for other emerging markets in Asia and Latin America. The publication of PMIs for China, Brazil and India in December, which were better than those in November, indicated that these countries had reached the low point of deceleration. This will soften the risks to growth across the emerging markets by mid-2012 in the case of the political and economic attempts to contain the Euro-zone crisis succeeding, together with broadly positive news from the US. To add to the positive indicators, both the Chinese and Brazilian central banks are expected to loosen policy further in the next few months to support demand, after getting their inflation problems under control. But in India, such a move will have to wait for a decisive fall in inflation.

The Central and Eastern European economies of the EU have been the most exposed to the Euro-zone debt crisis and, therefore, have seen the largest downgrades. In addition to a weaker export outlook, efforts to avoid financial contagion have prompted governments to reinforce their own fiscal-tightening efforts — with adverse implications for consumer spending. Because of its longstanding problems, Hungary has been the most affected — its currency has weakened significantly, its bond yields have risen and its government has had to implement another round of major fiscal austerity for 2012. For the Czech Republic, Hungary and Romania, the deterioration in the external situation is particularly worrying, as their recoveries since the crisis have been driven overwhelmingly by exports and industry, while consumer spending in all three has remained dismally weak.

China

China's inflation rate dipped to 4% in December

China's economy will grow by around 8.5% this year. GDP growth is expected to drop in the first quarter of the year, only to accelerate in the second quarter and beat last year's growth rate in the third quarter. First-quarter growth would be dragged down by falling property investment and lower exports to Europe and to the US. The rebound in the second and third quarters will be brought about mainly by Euro-zone improvements, loosening domestic monetary policies and fiscal measures that encourage consumption and investment in the public sector.

Consumer prices are predicted to grow at a much slower year-on-year rate of 2.8% this year. The country's Consumer Price Index (CPI) dipped to 4% in December, easing from a three-year high of 6.5% in July. However, it still gained 5.4% year-on-year in the first 11 months of 2011, well above the government's full-year target of 4%. The CPI eased to a 15-month low in December. But high food prices remained a reminder of the risks the government is weighing up, as it tilts policy towards boosting growth as internal and external demand for Chinese goods falters. An uptick in the annual rate of food inflation to 9.1% from November's 8.8% — the lowest since September 2010 — would be troubling for China's government if it signalled a rebounding trend in the cost of basic foodstuffs.

The Chinese PMI readings in December showed an improvement — albeit remaining well below trend levels. This comes after weak PMI records in November which reduced sentiment and negatively affected property markets. Decline in house prices in Q411 highlighted the difficulties for the Chinese economy, which is currently going through one of its weakest patches of the last decade.

However, resilient domestic demand, reflected by robust imports and retail sales in November's figures, should limit the downside risks to growth. And, with inflation pressure declining noticeably in recent months, particularly in manufactured goods, monetary policy is likely to be eased further in the next few months.

Statistics released by the General Administration of Customs show that the trade surplus for 2011 decreased by 14.5% from a year earlier to $155.14 bn. Exports grew by 20.3% and imports by 24.9% year-on-year during the same period. The previous year saw exports rise by 31.3% and imports by 38.7%.

Since November, the reserve required ratio by banks was 50 bp lower when the People's Bank of China cut the rate to 21%, the first such cut in three years. This was intended to boost corporate credit lines and help firms cushion falling demand at home and abroad.

India

New data gives the Reserve Bank of India incentive to hold interest rates steady

India's PMI in December, similarly to China and Brazil, showed a surprise rise to 54.2 from 51.0 in November. In the Indian case, the surge was widespread and across components. Output jumped to 55.8 in December from 50.5 the previous month, and, more importantly from a forward-looking perspective, new orders surged to 57.9 from 52.8.

According to some estimates, India's benchmark wholesale-price inflation probably eased to 7.40% in December from 9.11% in November (the official figure will be released on 16 January). The food-price index in India fell for a second straight week, declining by 2.9% in the period ending 31 December from a year earlier, the Commerce Ministry said. The country's inflation reading would still be higher than the levels in the other three 'BRIC' nations, Brazil, Russia and China. Consumer prices rose by 6.5% in Brazil, 6.1% in Russia and 4.1% in China last month. However, China has the scope to loosen fiscal and monetary policy, making it better placed than India to weather a global economic slowdown. India has a currency that is under pressure, an "inflation problem" and a large fiscal shortfall. Industrial output strengthened in November, as cement production increased by 16.6% from a year earlier, after stalling the previous month, according to Commerce Ministry data released last month. Steel production gained 5.1%. The data gives the Reserve Bank of India (RBI), which was following an aggressive rate policy that had begun to dampen growth, some room to hold interest rates steady as it waits for inflation, which has been above 9% for most of the last two years, to ease. Nonetheless, the RBI is unlikely to reverse months of rate hikes when it meets 24 January, unless it gets strong evidence that inflation is cooling.

A crisis of confidence has gripped private sector India as it struggles to forget 2011, which saw growth falter, inflation soar and global investment sentiment turn negative. Investment proposals in India plunged 45% to a five-year low in 2011, as companies halted projects, citing administrative hassles, according to a report in India's Economic Times, which quoted data from the Centre for Monitoring Indian Economy.

In an attempt to arrest the sharp slide of the rupee, the RBI intervened in the forex market for a third consecutive month in November, in its biggest sale of dollars for more than two and a half years. Net inflows into Indian debt so far in January stand at about $2.07 bn, substantially more than the $387.15 million invested in equities. The rupee, Asia's worst-performing currency in 2011, has borne the brunt of risk-aversion stemming from the Euro-zone's debt crisis, which has magnified concern about India's high inflation, slowing growth and the risk of an increase in the fiscal deficit. RBI data shows that the foreign exchange reserves shrank by $4.18 bn to $296.69 bn in the week ending 30 December, dropping below $300 bn for the first time since February, after reaching a record high of $320.80 bn in September. However, analysts say that the current level of India's foreign currency reserves is not a cause for concern as it far exceeds the current account deficit and short-term external liabilities.

Brazil

Economic activity in Brazil seems to have reached its low point, as most indicators, such as consumer confidence, auto sales and, more importantly, employment have signalled some rebound in November. The modest increase in November industrial production suggests that the worst should be behind us. Brazil's November retail sales rose at the fastest pace in 15 months. Sales climbed by 1.3% from October, the national statistics agency said. And they rose by 6.8% from a year earlier.

The Brazilian government is using tax cuts and lower borrowing costs to try to revive growth in Latin America's biggest economy. There are many expectations that the central bank will cut its benchmark interest rate for a fourth straight meeting next week, to 10.5%.

Annual inflation slowed for a third straight month in December, to 6.50%, allowing Brazil to meet its inflation target for an eighth consecutive year. The central bank targets inflation of 4.5%, plus or minus two percentage points. There are signs that the headline figure will decelerate even further over the next few months, on the back of lower commodities and durable goods prices, as well as the favourable effects of the new weighting system to be implemented in 2012. The government plan to stimulate growth, which was launched in early December, along with the monetary easing already implemented, could provide at least a temporary boost to activity in the months to come. The plan has a set of measures that relate to fiscal incentives to encourage domestic consumption.

Russia

Russia reduced its benchmark rate on December, as an end to the campaign of inflation-fighting, as policy-makers seem to believe that an external economic slump might be more challenging to the country than inflation. Russia, in this sense, is joining nations such as Brazil and Indonesia that are easing borrowing costs to manage the spillover effect from the slowdown in China and Europe's debt crisis.

The refinancing rate was reduced to 8% from 8.25%, the Central Bank of Russia said. The difference between the main lending and deposit rates was cut a quarter-point to 1.25 percentage points, the narrowest ever.

OPEC Member Countries

The non-oil sector is expected to drive Nigeria's economic growth in 2012, with the country's GDP expected to grow at 6.6%. Private consumption remains robust. A recovery in oil production, following the Niger Delta amnesty, will play a supporting role. The 2012 official budget proposal assumed an exchange rate of N155.00 to the US dollar, average inflation of 9.5% and GDP growth of 7.2%. The Central Bank of Nigeria (CBN) has a target of single-digit inflation. It left interest rates on hold at 12% at its last rate meeting of 2011, after raising lending levels at six meetings running in an effort to curb high inflation and support the naira. The Governor of the CBN, Malam Sanusi Lamido Sanusi, however, expected that inflation could rise to about 14–15% by the middle of this year, up from its current position of 10.5%, due to the impact of the energy subsidy removal.

The IMF, in a recent report, said that, while the outlook for Qatar's economy is positive, the real GDP growth rate is projected to moderate to 6% this year (our forecast is 9.0%), a third of what the fund estimated the 2011 rate to be. This slowdown would not be a result of any structural weaknesses in the Qatari economy, the IMF said in its report issued in mid-December, but instead would be due to the country completing its latest cycle of expansion for its hydrocarbons industry, which has now reached the production levels set for it under Doha's long-term economic development plans.

Oil prices, US dollar and inflation

Dollar strengthened against all major currencies in December. In nominal terms, OPEC Reference Basket declined by 2.5% or $2.74/b from $110.08/b in November to $107.34/b in December.

The US dollar continued strengthening against all major currencies in December, a prolongation of the trend of November. Versus the euro, it appreciated by 3.0% and against the Swiss France by 2.8%. Versus the pound sterling, it increased its value by 1.5% and, compared with the yen, it gained 0.4%. The average exchange rate of the dollar, compared with the euro, stood at $1.3176/€ in December, compared with the November rate of $1.3580/€.

The euro's weakness was significant in December, but it could hold above the crucial $1.30/€ level, and sentiment improved considerably after the Euro-zone leaders' summit in Brussels at the beginning of December, which concluded with the need for a fiscal union, as well as deciding on an expansion of the emergency facilities for ailing Euro-zone economies. However, many challenges for the Euro-zone remain and, with indicators for the US economy providing some tentative evidence over the past weeks that the economy is improving, the dollar continued its strengthening and pushed the exchange rate at the beginning of January to a 16-month low of around $1.27/€. Compared with the yen, the euro fell to the lowest level for more than 11 years at the beginning of January, to reach around ¥98.0/€. The near-term future development depends mainly on the ability of the Euro-zone to convince market participants that the strategy to resolve the Euro-zone issues is working and, secondly, to be successful in implementing the necessary budget-restructuring efforts. Furthermore, it remains to be seen how the development of the US economy is continuing.

In nominal terms, the OPEC Reference Basket price declined by 2.5%, or $2.74/b, from $110.08/b in November to $107.34/b in December. In real terms, after accounting for inflation and currency fluctuations, the Basket price fell by 0.9%, or $0.63/b, to $66.24/b from $66.87/b (base June 2001=100). Over the same period, the dollar increased by 1.7% against the import-weighted modified Geneva I + US dollar basket, while inflation rose by 0.1%.*

* *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 growth estimated at 0.9 mb/d in 2011 and expected to grow by 1.1 mb/d in 2012

World oil demand

To a certain degree, the world economic turbulence is affecting oil demand. However, the effect is considerably milder than in 2009. Oil demand will grow in 2012, but not without a great amount of uncertainty. The Euro-zone's fate will most likely become more evident over the course of the year. And the spillover effect on other economies will certainly be felt. The OECD region will consume less oil than last year; however, the Non-OECD region will consume about 1 mb/d more. It is worth noting that some parts of the Non-OECD region are likely to experience less economic prosperity than anticipated. As a result, oil demand in these regions is expected to grow, but at a slower pace than last year. Retail petroleum product prices, if they go up for any reason, are also expected to negatively affect oil demand across the globe. The transportation and industrial sectors are likely to be the ones most affected, with the use of oil in both slowing noticeably worldwide.

World oil demand growth is estimated at 0.9 mb/d to average 87.8 mb/d in 2011 and is projected at 1.1 mb/d to average 88.9 mb/d in 2012.

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

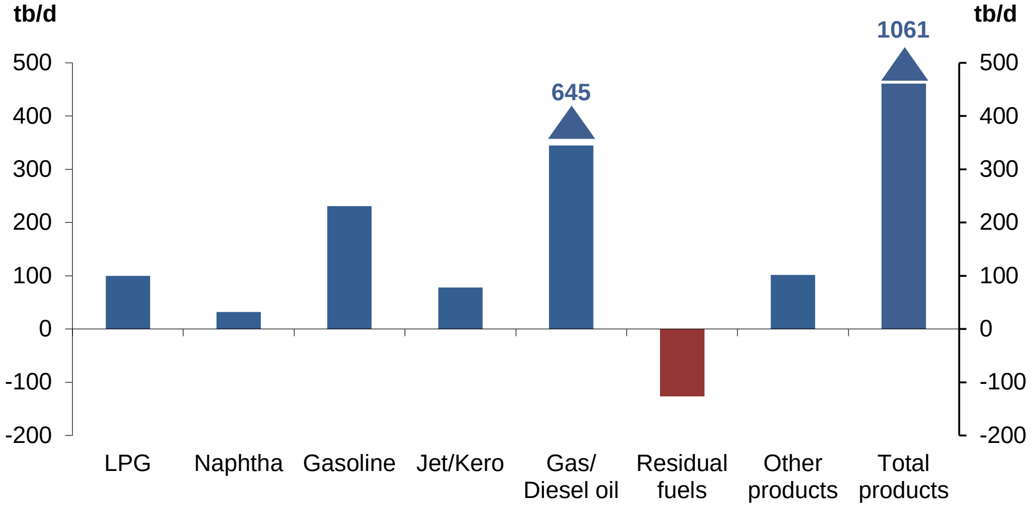


Table 4.1: World oil demand forecast for 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011	Change 2011/10 Growth	Change 2011/10 %
North America	23.76	23.81	23.34	23.59	23.60	23.59	-0.17	-0.72
Western Europe	14.58	14.18	14.11	14.78	14.60	14.42	-0.16	-1.10
OECD Pacific	7.82	8.35	7.12	7.73	8.25	7.86	0.05	0.59
Total OECD	**46.15**	**46.34**	**44.57**	**46.10**	**46.45**	**45.87**	**-0.29**	**-0.62**
Other Asia	10.18	10.33	10.52	10.37	10.60	10.46	0.27	2.68
Latin America	6.18	6.16	6.33	6.51	6.42	6.36	0.18	2.93
Middle East	7.28	7.32	7.38	7.71	7.41	7.46	0.18	2.43
Africa	3.36	3.42	3.39	3.25	3.42	3.37	0.01	0.40
Total DCs	**27.00**	**27.24**	**27.62**	**27.84**	**27.87**	**27.64**	**0.64**	**2.39**
FSU	4.14	4.13	3.97	4.39	4.45	4.24	0.09	2.24
Other Europe	0.69	0.69	0.65	0.69	0.76	0.69	0.00	0.29
China	8.95	9.13	9.54	9.37	9.56	9.40	0.45	5.02
Total "Other regions"	**13.79**	**13.95**	**14.15**	**14.44**	**14.77**	**14.33**	**0.54**	**3.95**
Total world	**86.94**	**87.52**	**86.33**	**88.38**	**89.09**	**87.84**	**0.90**	**1.04**
Previous estimate	86.93	87.47	86.31	88.30	89.07	87.80	0.86	0.99
Revision	0.00	0.05	0.02	0.08	0.02	0.04	0.04	0.05

Totals may not add up due to independent rounding

Table 4.2: 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	23.41	23.81	0.40	1.72	23.69	23.34	-0.35	-1.46
Western Europe	14.31	14.18	-0.13	-0.91	14.25	14.11	-0.14	-0.99
OECD Pacific	8.23	8.35	0.12	1.46	7.34	7.12	-0.23	-3.10
Total OECD	**45.95**	**46.34**	**0.39**	**0.86**	**45.29**	**44.57**	**-0.72**	**-1.58**
Other Asia	10.11	10.33	0.23	2.26	10.23	10.52	0.29	2.81
Latin America	5.94	6.16	0.22	3.78	6.15	6.33	0.18	2.91
Middle East	7.18	7.32	0.14	1.96	7.17	7.38	0.21	2.86
Africa	3.38	3.42	0.04	1.10	3.37	3.39	0.01	0.44
Total DCs	**26.61**	**27.24**	**0.63**	**2.37**	**26.93**	**27.62**	**0.69**	**2.55**
FSU	4.02	4.13	0.11	2.67	3.86	3.97	0.11	2.72
Other Europe	0.69	0.69	0.00	0.46	0.64	0.65	0.00	0.76
China	8.37	9.13	0.76	9.06	9.09	9.54	0.44	4.87
Total "Other regions"	**13.08**	**13.95**	**0.87**	**6.65**	**13.60**	**14.15**	**0.55**	**4.06**
Total world	**85.63**	**87.52**	**1.89**	**2.21**	**85.81**	**86.33**	**0.52**	**0.61**

Totals may not add up due to independent rounding

Table 4.3: Third and fourth quarter world oil demand comparison for 2011, mb/d

			Change 2011/10				Change 2011/10	
	3Q10	3Q11	Volume	%	4Q10	4Q11	Volume	%
North America	24.07	23.59	-0.48	-2.00	23.85	23.60	-0.25	-1.05
Western Europe	14.92	14.78	-0.14	-0.97	14.83	14.60	-0.23	-1.54
OECD Pacific	7.62	7.73	0.11	1.42	8.07	8.25	0.18	2.26
Total OECD	**46.62**	**46.10**	**-0.52**	**-1.11**	**46.75**	**46.45**	**-0.30**	**-0.63**
Other Asia	10.10	10.37	0.27	2.69	10.30	10.60	0.30	2.95
Latin America	6.34	6.51	0.17	2.65	6.27	6.42	0.15	2.42
Middle East	7.50	7.71	0.21	2.82	7.26	7.41	0.15	2.06
Africa	3.24	3.25	0.01	0.24	3.43	3.42	0.00	-0.15
Total DCs	**27.18**	**27.84**	**0.66**	**2.43**	**27.27**	**27.87**	**0.60**	**2.20**
FSU	4.30	4.39	0.09	1.98	4.38	4.45	0.07	1.70
Other Europe	0.68	0.69	0.00	0.57	0.76	0.76	0.00	-0.53
China	9.23	9.37	0.14	1.52	9.10	9.56	0.46	5.09
Total "Other regions"	**14.21**	**14.44**	**0.23**	**1.61**	**14.24**	**14.77**	**0.53**	**3.75**
Total world	**88.01**	**88.38**	**0.37**	**0.42**	**88.25**	**89.09**	**0.84**	**0.95**

Totals may not add up due to independent rounding

OECD – North America

For 2011, North American oil demand is expected to have shrunk by 0.17 mb/d. In 2012, it is projected to grow again, but by only 0.05 mb/d to average 23.6 mb/d.

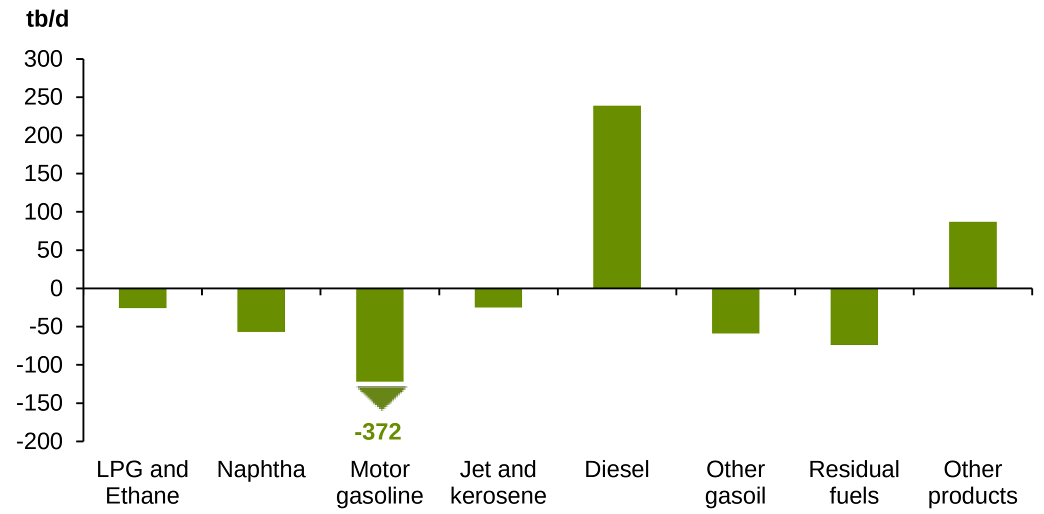
The latest monthly **US** oil consumption data for October shows a 1.8% year-on-year (y-o-y) contraction, in line with the recent patterns observed during the second and third quarters of the year. The usage of transportation fuels and especially gasoline accounted for the bulk of this contraction, and this was attributed to a decline in driving mileage which, in turn, resulted from higher fuel prices, increased vehicle fleet efficiency and gloomy expectations for the economy. The growth in distillate consumption continued to be weak, as a result of frail industrial production. In line with weak industrial activity, the consumption of residual fuel oil contracted during the month. Moreover, the consumption of jet/kerosene also decreased substantially.

Preliminary weekly data for November and December has shown similar contractions in US oil consumption. Transportation fuels constitute the product category most affected, while industrial fuels are also influenced by a weak economy. Furthermore, the whole of 2011 saw decreasing y-o-y consumption for all product categories, with the only exceptions being distillate fuel oil and jet fuel. Motor gasoline and residual fuel oil showed the strongest contractions of all products. The signs for US oil consumption for 2012 remain rather pessimistic, depending on the development of the economy. This winter has been rather warm so far and this has led to less fuel and heating oil consumption. Furthermore, retail gasoline prices. along with the development of the economy. will play a major role in the upcoming driving season in the US. Total oil demand for the year is forecast to be slightly on the positive side; however, the down-side risk possibility is very apparent.

The latest reported figures for **Mexico**'s oil consumption, for November, were relatively flat, compared with last year. Increases in some industrial fuels were offset by decreasing requirements for transportation and residual fuels. The latest available data from **Canada**, in October, indicated that the country's oil demand contracted slightly, by 1.3%. Weak petroleum product demand was attributed to the transportation sector. Both Mexican and Canadian oil demand are expected to show minor growth in 2012. However, this growth will be less than what was seen last year, as both economies are expected to experience a slowdown within the year.

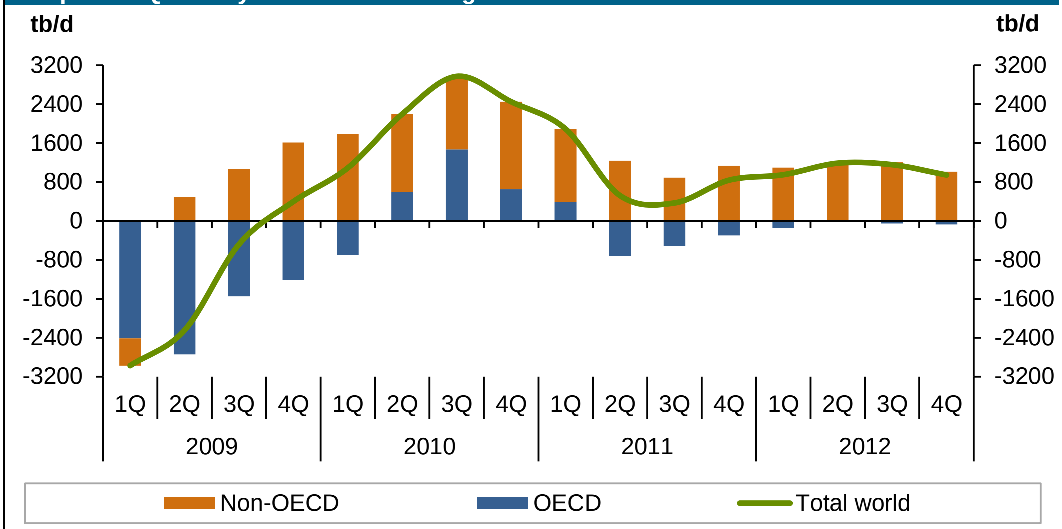
For all 2011, North American oil demand is expected to have shrunk by 0.17 mb/d. For 2012, it is projected to grow slightly again, but by only 0.05 mb/d, to average 23.6 mb/d.

Graph 4.2: OECD product demand changes, 2011



As in November, December US vehicle sales rose strongly, by around 9% y-o-y. This was the fourth consecutive month of growth, despite weak employment and housing markets. Two reasons for this growth were the delay in customer purchases and slow, but steadily improving sentiment about the economy. As before, the bulk of vehicles sold were trucks and SUVs, resulting from their relatively low prices, compared with smaller cars. The latest available Canadian data shows that vehicle sales in Canada grew strongly, by 2.6%, in December y-o-y for the third consecutive month. According to the Mexican Automobile Industry Association, Mexico's auto sales, production and exports grew robustly in November, by 10%, 11.3% and 18.3% respectively.

Graph 4.3: Quarterly world oil demand growth



OECD – Europe

OECD Europe's oil demand contracted by 0.16 mb/d in 2011. For 2012, it is expected to shrink again by 0.16 mb/d

November auto sales across the **Euro-zone** fell by 3.3% y-o-y, and this trend is expected to be worse in December. The reason behind this grim picture is the troubled European economic situation caused by the continental debt crisis.

European oil consumption contracted again in November, the third month in a row. It fell in Germany, France, Italy and UK as a result of decreasing demand in transportation fuels and weak industrial activity. The short- and medium-term development of European oil consumption will be determined mainly by the continuing debt problems in several European economies. Oil demand in the European 'Big Four' decreased by 0.11 mb/d in November, compared with November 2010. The Big Four's consumption of transportation and industrial fuels continued to be negative during November, while some small increases were registered for distillates.

The region's total contraction in oil demand stood at 0.16 mb/d in 2011. For 2012, it is expected to shrink again by 0.16 mb/d, as a result of the rather pessimistic economic developments and higher taxes. Furthermore, strict government policies have been playing a major role in curbing oil-use within OECD Europe.

According to the latest figures from the European Automobile Manufacturer's Association, the continent's new passenger car registrations decreased by 3.5% in November y-o-y. Germany was the only major market which grew, by 2.6%, while the decreases in other European countries ranged from –4.2% in the UK to –6.4% in Spain, –7.7% in France and –9.2% in Italy.

On an accumulative basis from January to November, the market picture was mixed across the region, leading to an overall decline y-o-y of 1.4%. In detail, the UK, Italy and Spain contracted by –4.5%, –10.6% and –18.8% respectively, while France remained relatively stable at –0.3% and Germany registered strong growth of 9.1%.

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

	Nov 11	Nov 10	Change from Nov 10	Change from Nov 10 %
LPG	428	438	-10	-2.3
Gasoline	1,228	1,231	-3	-0.2
Jet/Kerosene	753	763	-9	-1.2
Gas/Diesel oil	3,384	3,366	18	0.5
Fuel oil	384	430	-45	-10.5
Other products	1,139	1,202	-63	-5.2
Total	**7,316**	**7,428**	**-112**	**-1.5**

** Germany, France, Italy and the UK*

OECD – Pacific

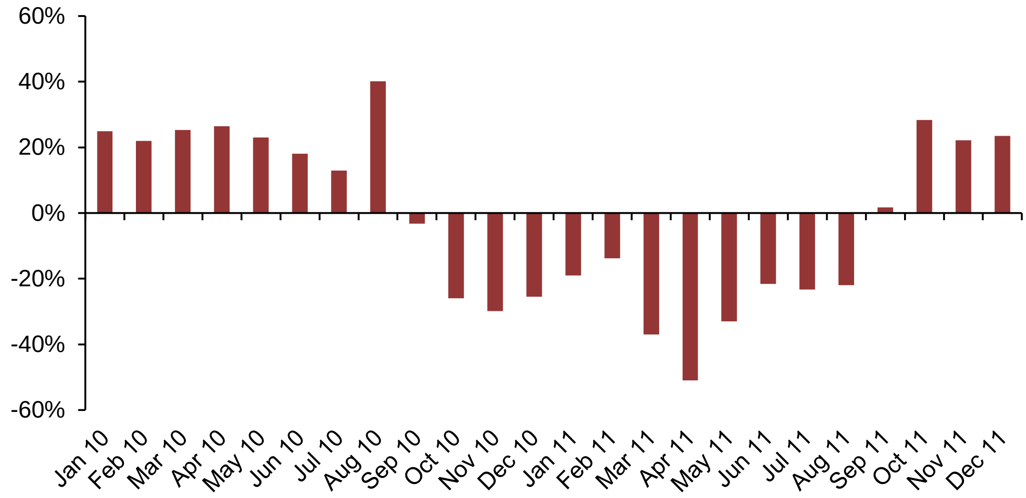
OECD Pacific oil consumption is expected to show slight growth during 2011 and 2012

In **Japan**, the latest monthly data for November is dominated by a strong increase in crude oil direct use, as a result of nuclear plants being shut down. Power plants have been using crude and LNG for electricity power generation. All other product categories contracted sharply during November, as a result of the weak economy. According to the Institute of Energy Economics Japan (IEEJ), the country's oil consumption is expected to fall by approximately 4% in the next financial year, starting April 2012, if nuclear plants are allowed to resume operations from next summer. Moreover, the consumption of natural gas for power generation would drop by 13%, after a strong rise in the financial year 2010/2011. The IEEJ, however, expects the nation's demand for oil, gas and thermal coal for power generation to rise sharply in 2012/13, if no reactors that have been shut for maintenance are allowed to restart. In South Korea, October oil demand came up flat; increases in fuels used in the petrochemical industry, such as LPG and naphtha, have been offset by decreasing oil demand for transportation and other industrial fuels.

OECD Pacific oil consumption is expected to show slight growth during 2011 and 2012, by 0.05 mb/d each, although these projections are heavily dependent upon whether the nuclear plants resume operations.

Japanese auto sales continued to rise strongly in December, by 23.5%, following very strong growth in October and November. The high growth in December also reflected the low base during 2010 and reacted positively to government subsidies during 2011 for fuel-efficient cars. Furthermore, after a year of disasters, the Toyota Motor Corporation expects to see record sales in 2012. It forecasts global sales reaching 8.48 million vehicles in 2012 year, an increase of 20%.

Graph 4.4: Japanese new passenger car registrations, y-o-y % changes

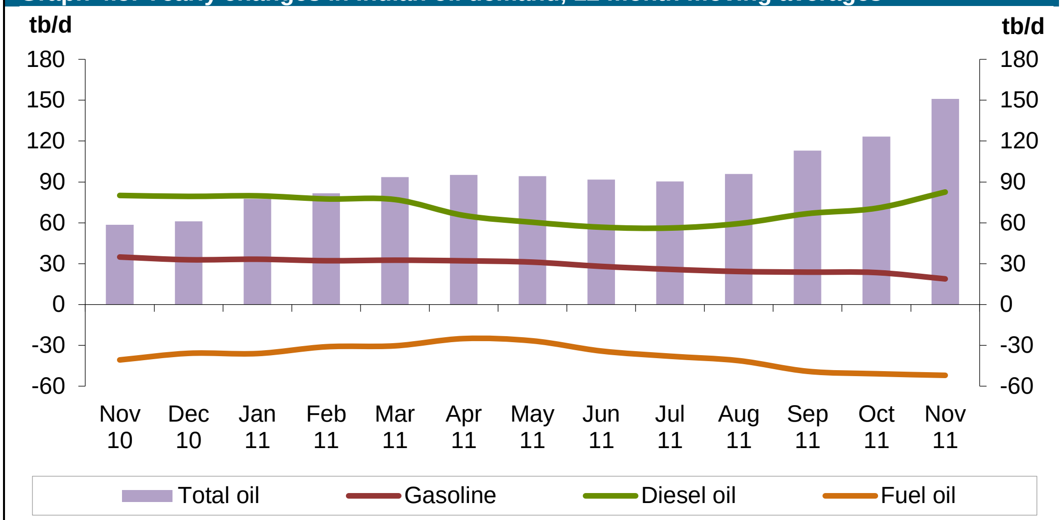


Developing countries

DC oil demand growth estimated at 0.64 mb/d to average 27.6 mb/d in 2011 and at 0.6 mb/d to average 28.2 mb/d in 2012

Following slow oil demand in June through August, **India**n diesel demand increased in November by 8% y-o-y, due to the use of independent power-generators for electricity. Although gasoline and fuel oil demand declined in November, almost all major products exhibited strong growth. This led to an overall increase in India's oil demand of 11.3%, or 350 tb/d, in November. The majority of the growth was for naphtha and LPG, resulting from huge demand in the petrochemical industry. With regards to the transport industry, the planned increase in gasoline prices was delayed. However, when it comes into force in the near future, it is expected to marginally dent oil demand. The massive increase in vehicle sales will push up transport fuel consumption in 2012. It was forecast that India's oil demand would grow by 0.2 mb/d in the fourth quarter of 2011 — this would lead to annual growth of 4.3% for the year. The Indian economy will grow in 2012, although at a slower pace than in 2011. However, assuming GDP growth of 7.3%, Indian oil demand growth is expected to be 0.12 mb/d y-o-y in 2012. Considering the strong Indian oil demand, Other Asia demand has been revised up by 0.1 mb/d in the fourth quarter to end 2011 with growth of 0.24 mb/d y-o-y. Other Asia demand for this year will grow strongly, but slightly down on last year. The region's oil demand is forecast to grow by 0.2 mb/d y-o-y in 2012.

Graph 4.5: Yearly changes in Indian oil demand, 12 month moving averages



Indian oil demand growth is expected to be 0.12 mb/d y-o-y in 2012

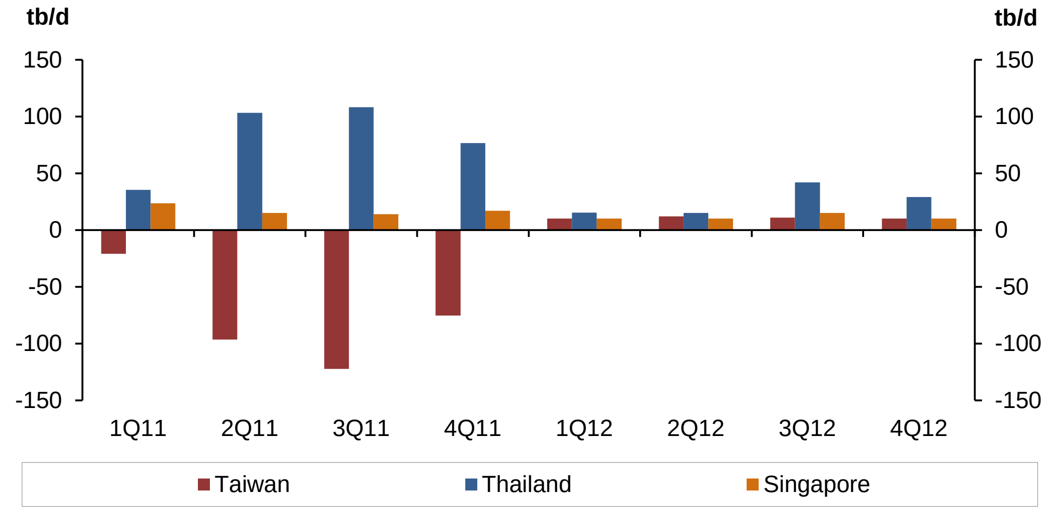
According to the Society of Indian Automobile Manufacturers (SIAM), domestic passenger car sales increased by 7% during November y-o-y. However, SIAM has sharply lowered its forecast for the next fiscal year to 2–4% from originally 10%. This reduction is the result of higher fuel costs — state-run oil firms increased prices four times in 2011 — and relatively high borrowing costs.

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

	Oct 11	Oct 10	Change	Change %
LPG	216	198	18	8.9
Gasoline	117	125	-8	-6.7
Jet Fuel/Kerosene	83	81	2	2.5
Diesel	304	291	13	4.5
Fuel oil	43	39	4	9.8
Other products	106	75	31	42.1
Total	**869**	**810**	**60**	**7.4**

Source: JODI/EPPO

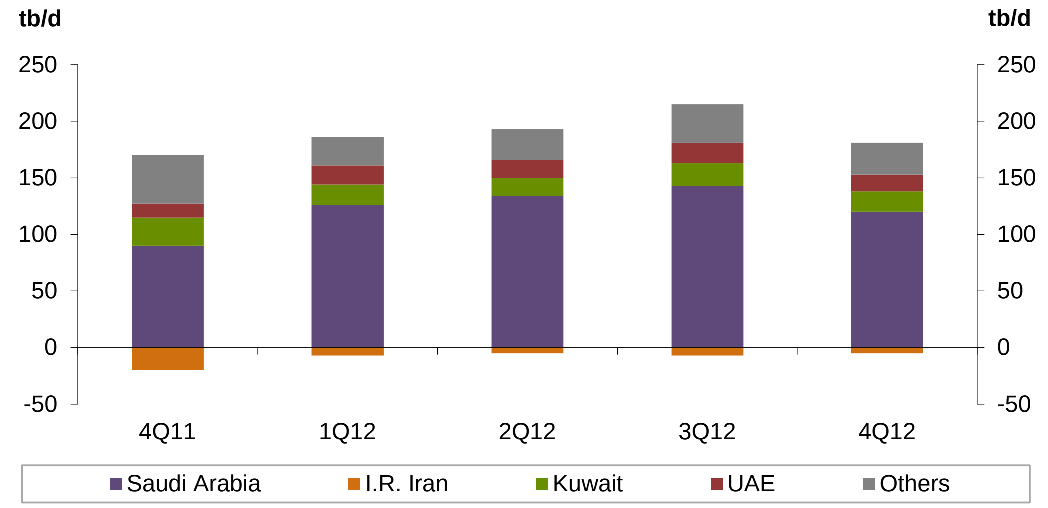
Graph 4.6: Oil consumption in selected Asian countries, y-o-y growth



Middle East oil demand growth reached 0.17 mb/d in 2011

The low seasonality in the **Middle East** in the fourth quarter caused a minor slowdown in the region's biggest consuming countries, Saudi Arabia and Iran. Summer electricity consumption pushed up third-quarter oil demand by 0.2 mb/d, in line with the normal seasonal pattern. Middle East oil demand growth reached 0.17 mb/d in 2011. The factors that drive oil demand in the Middle East will not be different this year from last year. Hence, oil demand for 2012 is forecast to grow by 0.19 mb/d y-o-y.

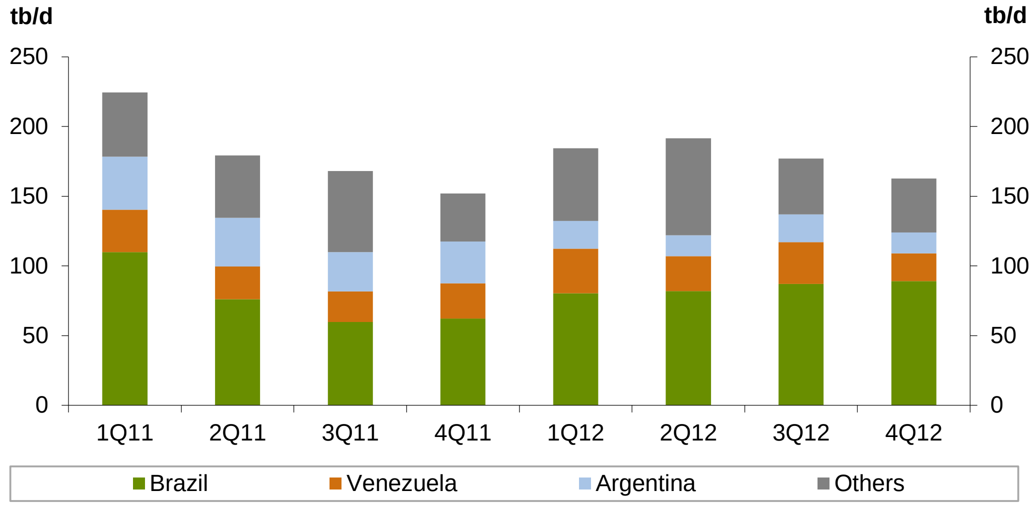
Graph 4.7: Yearly oil demand growth in the Middle East



Latin American oil demand growth estimated at 0.16 mb/d in fourth quarter and 0.18 mb/d in all 2011

Brazilian oil demand growth in October turned out to be lower than expected. Despite this temporary weakness, the country's oil demand in the whole of the fourth quarter is in line with expectations. Latin America's oil demand growth has been estimated at 0.16 mb/d in the fourth quarter and 0.18 mb/d in 2011. Like other Non-OECD regions, growing economies are pushing up Latin America's oil demand in mainly the transport and petrochemical sectors.

Graph 4.8: Yearly oil demand growth in the Latin America



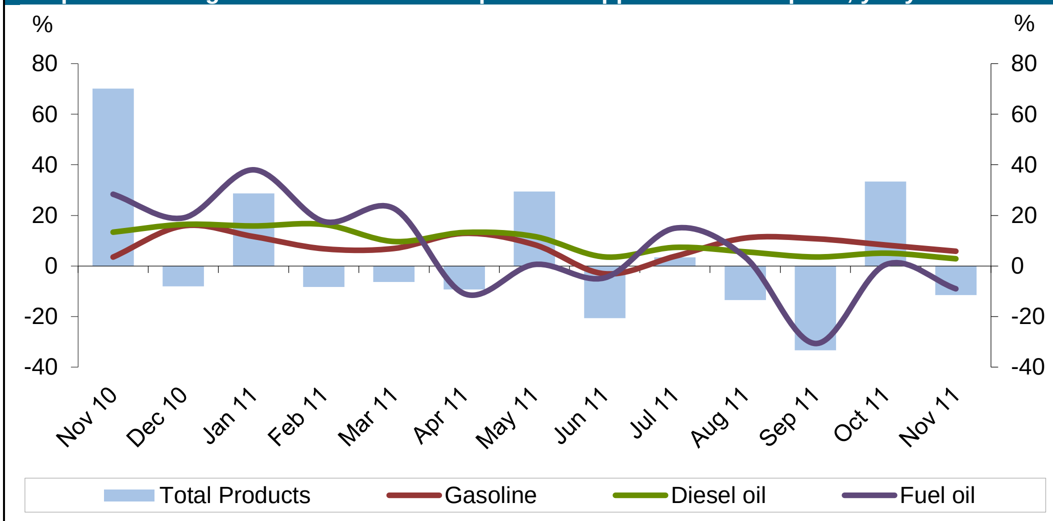
Overall, oil demand growth in Developing Countries has been estimated at 0.64 mb/d y-o-y in 2011, averaging 27.6 mb/d. Given a slightly smaller difference in the region's GDP, oil demand growth in 2012 has been forecast at 0.6 mb/d to average 28.2 mb/d.

Other regions

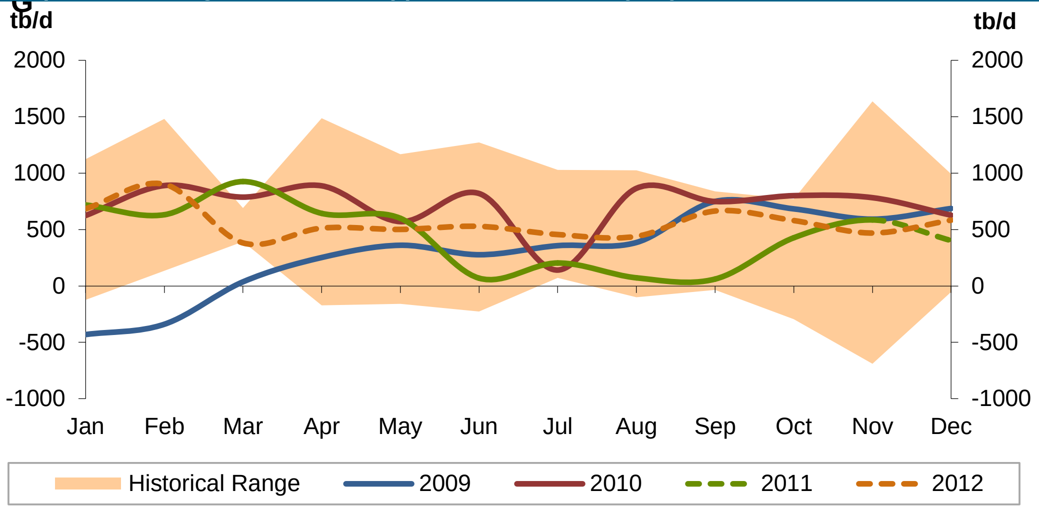
With weaker GDP expected for China in 2012, the country's oil demand for the year is forecast to grow by 0.42 mb/d y-o-y

Strong oil imports, along with a 0.3 mb/d stock-draw, hiked up **China**'s oil demand in November. This was the second month in a row that Chinese oil demand had shown a strong trend. The setback of the third quarter is not expected to be repeated in the fourth quarter. The recent strong oil demand came about despite some signs of economic concern in the past two months. The product that grew the most in volume was gasoline. Gasoline demand grew by 0.1 mb/d in November, to average 1.85 mb/d. Diesel demand was strong as well, resulting partially from the use of independent power-generation. November diesel demand inched up by 2.9% y-o-y, averaging 3.5 mb/d. Given the turbulence in the third quarter, Chinese oil demand is now expected to grow by 0.54 mb/d in 2011, a bit less than forecast. With weaker GDP for China expected in 2012, the country's oil demand for the year is forecast to grow by 0.42 mb/d.

Graph 4.9: Changes in Chinese main oil products apparent consumption, y-o-y



Graph 4.10: Changes in Chinese apparent oil demand, y-o-y



Data from the China Association of Automobile Manufacturers has shown that the country's automobile sales decreased for the second month in a row during November, by 2.4%, compared with a year earlier. This was due to a very high base in the same month of 2010 and a recent sharp drop in commercial vehicle sales. Moreover, a 0.3% growth in passenger vehicles during November was much lower than in previous months. Despite the substantial weakening in auto sales in late summer, as a result of the expiry of sales incentives in the form of tax-breaks for small-engined vehicles, the whole year's auto sales rose by more than 32%.

The **Russia**n economy's exposure to the European debt crisis has been minimal, which has given the FSU GDP growth of more than 4% since 2010. The FSU's oil demand growth hit the 100 tb/d mark last year. Given the resilience of the Russian economy, the FSU's 2012 oil demand is forecast to grow by 2.5% y-o-y.

Table 4.6: World oil demand forecast for 2012, mb/d

							Change 2012/11	
	2011	1Q12	2Q12	3Q12	4Q12	2012	Growth	%
North America	23.59	23.73	23.43	23.68	23.69	23.63	0.05	0.21
Western Europe	14.42	14.02	13.95	14.62	14.43	14.26	-0.16	-1.11
OECD Pacific	7.86	8.44	7.19	7.74	8.26	7.91	0.05	0.59
Total OECD	**45.87**	**46.19**	**44.57**	**46.05**	**46.38**	**45.80**	**-0.07**	**-0.14**
Other Asia	10.46	10.53	10.73	10.59	10.80	10.66	0.20	1.95
Latin America	6.36	6.34	6.52	6.68	6.59	6.53	0.18	2.81
Middle East	7.46	7.50	7.57	7.92	7.59	7.65	0.19	2.52
Africa	3.37	3.45	3.41	3.29	3.45	3.40	0.03	0.86
Total DCs	**27.64**	**27.82**	**28.23**	**28.48**	**28.42**	**28.24**	**0.60**	**2.17**
FSU	4.24	4.24	4.08	4.50	4.54	4.34	0.10	2.47
Other Europe	0.69	0.69	0.65	0.69	0.76	0.70	0.00	0.66
China	9.40	9.53	9.99	9.81	9.94	9.82	0.42	4.44
Total "Other regions"	**14.33**	**14.46**	**14.72**	**15.00**	**15.24**	**14.86**	**0.53**	**3.68**
Total world	**87.84**	**88.48**	**87.52**	**89.54**	**90.04**	**88.90**	**1.06**	**1.21**
Previous estimate	87.80	88.43	87.51	89.47	90.03	88.87	1.07	1.22
Revision	0.04	0.04	0.01	0.07	0.00	0.03	-0.01	-0.01

Totals may not add up due to independent rounding

Table 4.7: First and second quarter world oil demand comparison for 2012, mb/d

			Change 2012/11				Change 2012/11	
	1Q11	1Q12	Volume	%	2Q11	2Q12	Volume	%
North America	23.81	23.73	-0.08	-0.33	23.34	23.43	0.09	0.38
Western Europe	14.18	14.02	-0.16	-1.10	14.11	13.95	-0.16	-1.14
OECD Pacific	8.35	8.44	0.09	1.09	7.12	7.19	0.07	1.04
Total OECD	**46.34**	**46.19**	**-0.14**	**-0.31**	**44.57**	**44.57**	**0.00**	**0.01**
Other Asia	10.33	10.53	0.19	1.85	10.52	10.73	0.21	1.99
Latin America	6.16	6.34	0.18	2.99	6.33	6.52	0.19	3.03
Middle East	7.32	7.50	0.18	2.45	7.38	7.57	0.19	2.55
Africa	3.42	3.45	0.03	0.84	3.39	3.41	0.03	0.75
Total DCs	**27.24**	**27.82**	**0.58**	**2.14**	**27.62**	**28.23**	**0.61**	**2.22**
FSU	4.13	4.24	0.11	2.67	3.97	4.08	0.11	2.81
Other Europe	0.69	0.69	0.00	-0.19	0.65	0.65	0.01	0.78
China	9.13	9.53	0.40	4.41	9.54	9.99	0.46	4.78
Total "Other regions"	**13.95**	**14.46**	**0.51**	**3.67**	**14.15**	**14.72**	**0.57**	**4.04**
Total world	**87.52**	**88.48**	**0.95**	**1.09**	**86.33**	**87.52**	**1.19**	**1.38**

Totals may not add up due to independent rounding

Table 4.8: Third and fourth quarter world oil demand comparison for 2012, mb/d

			Change 2012/11				Change 2012/11	
	3Q11	3Q12	Volume	%	4Q11	4Q12	Volume	%
North America	23.59	23.68	0.09	0.40	23.60	23.69	0.09	0.38
Western Europe	14.78	14.62	-0.15	-1.04	14.60	14.43	-0.17	-1.17
OECD Pacific	7.73	7.74	0.01	0.15	8.25	8.26	0.01	0.13
Total OECD	**46.10**	**46.05**	**-0.05**	**-0.11**	**46.45**	**46.38**	**-0.07**	**-0.15**
Other Asia	10.37	10.59	0.22	2.15	10.60	10.80	0.19	1.80
Latin America	6.51	6.68	0.18	2.72	6.42	6.59	0.16	2.53
Middle East	7.71	7.92	0.21	2.70	7.41	7.59	0.18	2.37
Africa	3.25	3.29	0.04	1.16	3.42	3.45	0.02	0.69
Total DCs	**27.84**	**28.48**	**0.65**	**2.32**	**27.87**	**28.42**	**0.55**	**1.99**
FSU	4.39	4.50	0.11	2.58	4.45	4.54	0.08	1.91
Other Europe	0.69	0.69	0.01	1.15	0.76	0.76	0.01	0.88
China	9.37	9.81	0.44	4.70	9.56	9.94	0.37	3.89
Total "Other regions"	**14.44**	**15.00**	**0.56**	**3.88**	**14.77**	**15.24**	**0.46**	**3.14**
Total world	**88.38**	**89.54**	**1.16**	**1.31**	**89.09**	**90.04**	**0.95**	**1.06**

Totals may not add up due to independent rounding

World Oil Supply

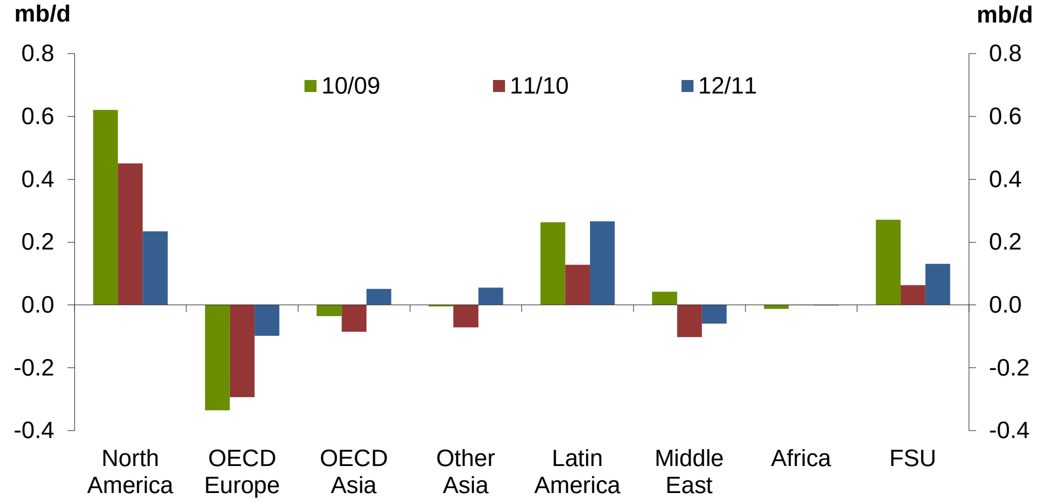
Non-OPEC

Estimate for 2011

Non-OPEC supply estimated to grow by only 130 tb/d in 2011

Non-OPEC oil supply is estimated to have increased by 130 tb/d in 2011 to average 52.41 mb/d, indicating a downward revision of 40 tb/d compared to the previous assessment. The ongoing trend of downward revision to 2011 supply estimates continued in this *Monthly Oil Market Report* (MOMR), as actual production data became available. Further revisions are expected in the coming period as more actual data attained.

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



By and large, non-OPEC supply in 2011 encountered various setbacks. The initial forecast called for growth of 0.34 mb/d; however, the strong output during the first quarter compelled a series of upward revisions that pushed the growth forecast to as high as 660 tb/d. However, non-OPEC supply during the second and third quarter encountered many hurdles, due to unplanned shutdowns, political turbulence, and unfavourable weather conditions that required many downward revisions to reach the current growth level of 130 tb/d. The difficulties mainly impacted the output of the North Sea, Middle East, Caspian, Brazil, and China. Despite the strong growth in North America, the decline and limited growth in other regions kept non-OPEC growth at a depressed level in 2011. On a quarterly basis, non-OPEC supply is estimated at 52.77 mb/d, 51.96 mb/d, 52.08 mb/d, and 52.85 mb/d respectively.

Revisions to the 2011 estimate

Non-OPEC supply estimates in the first three quarters of 2011 remained relatively steady compared to the previous MOMR, with a minor downward revision of 10 tb/d for the second quarter and an upward revision of 50 tb/d in the third. Fourth quarter supply estimates experienced a significant downward revision of 200 tb/d compared to a month earlier. On an annual basis, the 2011 supply estimate for the US and Canada encountered upward revisions from the previous month, while the supply figure of Denmark, India, Indonesia, Brazil, Oman, Syria, Yemen, Kazakhstan, and China were revised down. Almost all the revisions were introduced to adjust for updated production data. The downward revisions outpaced the upward adjustments, thus resulting in a downward revision of 40 tb/d compared to the previous MOMR.

Despite a large downward revision to the fourth quarter 2011, the quarterly output remains the highest compared to the other quarters of the year, with a slight increase from the first quarter. The increase is supported by the return of North Sea output from heavy maintenance and the shutdown period. Additionally, growth in North America continued to be healthy on higher oil sand and tight oil output.

Table 5.1: Non-OPEC oil supply in 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10
North America	14.99	15.31	15.20	15.50	15.75	15.44	0.45
Western Europe	4.39	4.31	4.06	3.85	4.19	4.10	-0.29
OECD Pacific	0.60	0.51	0.50	0.51	0.55	0.52	-0.09
Total OECD	**19.99**	**20.13**	**19.75**	**19.85**	**20.49**	**20.06**	**0.07**
Other Asia	3.68	3.69	3.54	3.58	3.64	3.61	-0.07
Latin America	4.67	4.75	4.73	4.78	4.93	4.80	0.13
Middle East	1.78	1.78	1.65	1.70	1.56	1.67	-0.10
Africa	2.59	2.61	2.57	2.59	2.57	2.58	0.00
Total DCs	**12.71**	**12.83**	**12.49**	**12.65**	**12.70**	**12.67**	**-0.05**
FSU	13.22	13.32	13.25	13.23	13.36	13.29	0.06
Other Europe	0.14	0.14	0.14	0.14	0.13	0.14	0.00
China	4.12	4.22	4.19	4.08	4.04	4.13	0.01
Total "Other regions"	**17.48**	**17.68**	**17.58**	**17.44**	**17.52**	**17.56**	**0.07**
Total Non-OPEC production	**50.18**	**50.64**	**49.83**	**49.95**	**50.72**	**50.28**	**0.10**
Processing gains	2.10	2.13	2.13	2.13	2.13	2.13	0.03
Total Non-OPEC supply	**52.28**	**52.77**	**51.96**	**52.08**	**52.85**	**52.41**	**0.13**
Previous estimate	52.28	52.77	51.97	52.03	53.06	52.46	0.17
Revision	0.00	0.00	-0.01	0.05	-0.21	-0.04	-0.04

The US oil supply estimate for 2011 encountered an upward revision of 25 tb/d compared to the previous assessment. Oil supply from the US is estimated to have increased by 0.34 mb/d in 2011 to average 8.98 mb/d, the largest growth among all non-OPEC countries. The upward revision affected the second half of 2011, as updated production data came above previous levels. The strong growth of the tight oil developments supported the upward revision. Furthermore, the startup of Who Dat and improved output from Alaska further supported the revision. The upward revision came despite the shutdown of Abengoa ethanol plants due to poor margins. The Canada oil supply profile experienced an upward revision of 20 tb/d compared to the previous month. The upward revision came to adjust for updated production data that indicated higher output as maintenance work had been completed in different projects including Syncrude and Terra Nova. Canada oil supply is seen to have increased by 120 tb/d in 2011 to average 3.52 mb/d.

Updated production data for the fourth quarter 2011 necessitated various downward revisions. Supply estimated for Denmark, India, Indonesia, Oman, and Kazakhstan encountered downward revisions to adjust for updated production data that came in below expectation. Brazil oil supply in 2011 is estimated at 2.68 mb/d, an increase of 20 tb/d from the previous year, indicating a downward revision of 10 tb/d compared to the previous MOMR. The revision was undertaken to adjust for updated production data. Despite record high output in November, Brazil's supply estimate for 2011 experienced a downward revision as data showed that output is below the expected level mainly on lower biofuels output as well as slow ramp-ups of new developments. Syria and Yemen supply estimates encountered downward revisions, mainly due to the political situation. China oil supply is estimated to have averaged 4.13 mb/d in 2011, steady from the previous year, indicating a downward revision of 15 tb/d compared to the previous MOMR. The downward revision was introduced to adjust for updated production data that was impacted by the shutdown of the Pangyu and Huizhou platforms due to a gas leak towards the end of 2011.

Forecast for 2012

Non-OPEC supply to increase by 0.69 mb/d in 2012 and average 53.10 mb/d

In 2012, non-OPEC supply is forecast to increase by 0.69 mb/d over the previous year and average 53.10 mb/d. The current supply expectation indicates a minor downward revision of 25 tb/d to total non-OPEC supply, while anticipated growth experienced an upward revision of 20 tb/d from a month earlier. The downward revision to total non-OPEC supply was due to the carryover of some of the revisions introduced to 2011 supply estimates, while the upward revision to growth came from various updates to individual supply profiles. On a quarterly basis, non-OPEC supply is expected to average 53.14 mb/d, 52.93 mb/d, 52.98 mb/d, and 53.34 respectively.

Table 5.2: Non-OPEC oil supply in 2012, mb/d

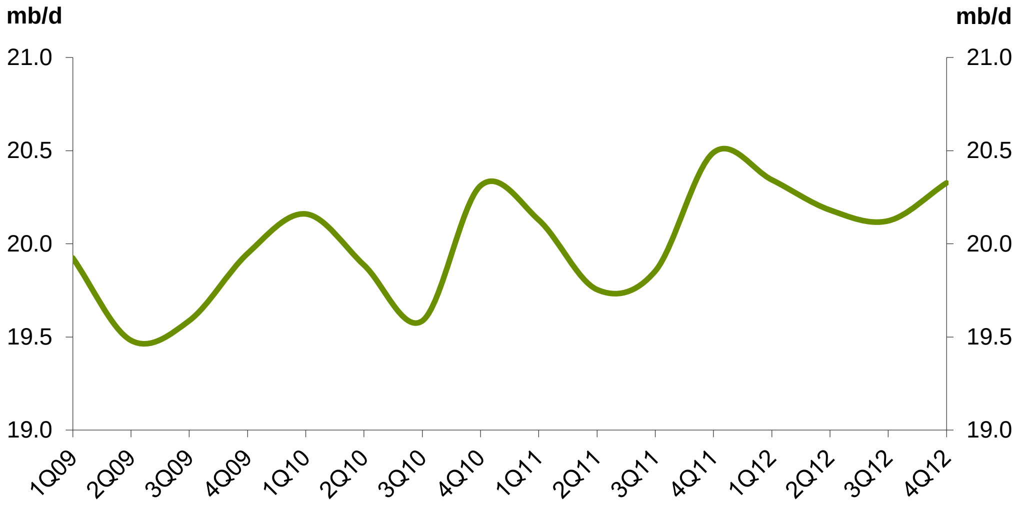
	2011	1Q12	2Q12	3Q12	4Q12	2012	Change 12/11
North America	15.44	15.63	15.63	15.67	15.76	15.68	0.23
Western Europe	4.10	4.15	3.97	3.87	4.01	4.00	-0.10
OECD Pacific	0.52	0.56	0.58	0.58	0.55	0.57	0.05
Total OECD	**20.06**	**20.34**	**20.18**	**20.12**	**20.33**	**20.24**	**0.19**
Other Asia	3.61	3.66	3.66	3.67	3.68	3.67	0.05
Latin America	4.80	5.01	5.03	5.09	5.12	5.06	0.27
Middle East	1.67	1.62	1.61	1.62	1.61	1.61	-0.06
Africa	2.58	2.59	2.58	2.58	2.57	2.58	0.00
Total DCs	**12.67**	**12.87**	**12.89**	**12.96**	**12.99**	**12.93**	**0.26**
FSU	13.29	13.44	13.37	13.40	13.47	13.42	0.13
Other Europe	0.14	0.14	0.14	0.14	0.15	0.14	0.01
China	4.13	4.16	4.16	4.17	4.21	4.18	0.04
Total "Other regions"	**17.56**	**17.73**	**17.67**	**17.71**	**17.83**	**17.74**	**0.18**
Total Non-OPEC production	**50.28**	**50.95**	**50.74**	**50.79**	**51.15**	**50.91**	**0.63**
Processing gains	2.13	2.19	2.19	2.19	2.19	2.19	0.06
Total Non-OPEC supply	**52.41**	**53.14**	**52.93**	**52.98**	**53.34**	**53.10**	**0.69**
Previous estimate	52.46	53.17	52.95	53.01	53.37	53.13	0.67
Revision	-0.04	-0.03	-0.02	-0.03	-0.03	-0.03	0.02

OECD

OECD production to increase by 0.19 mb/d in 2012 to average 20.24 mb/d

OECD total oil supply in 2012 is expected to average 20.24 mb/d, an increase of 0.19 mb/d compared to the previous year and an upward revision of 45 tb/d from the previous report. The upward revision came from North America and Western Europe, while the OECD Pacific forecast remained steady. Within the OECD, supply in the North American and Asia-Pacific regions are foreseen to show growth in 2012, while OECD Western Europe is expected to decline. On a quarterly basis, total OECD supply is seen to stand at 20.34 mb/d, 20.18 mb/d, 20.12 mb/d and 20.33 mb/d respectively. According to preliminary data, OECD oil supply averaged 20.49 mb/d in the fourth quarter of 2011, showing growth of 0.18 mb/d over the same period in 2010.

Graph 5.2: OECD's quarterly production



North America

OECD North America oil supply is anticipated to increase by 0.23 mb/d in 2012 over the previous year to average 15.68 mb/d, representing an upward revision of 15 tb/d compared to the previous month. Both the US and Canadian oil supply are expected to show growth in 2012, while Mexico is estimated to decline. On a quarterly basis, North American oil supply is forecast to average 15.63 mb/d, 15.63 mb/d, 15.67 mb/d and 15.76 mb/d respectively.

US oil production to increase by 0.16 mb/d in 2012

US

US oil supply is projected to increase by 0.16 mb/d in 2012 to average 9.14 mb/d, representing a minor upward revision of 15 tb/d compared to previous MOMR. The upward revision was supported by the revision seen in 2011. Additionally, the increase in capital expenditure (capex) in 2011 as well as for 2012 is supporting growth. The anticipated supply growth is backed by the expected strong increase of the tight oil from the Bakken, Barnett, and Eagle Ford formations. Additionally, conventional projects such as the Cascade and Chinook, Caesar Tonga, Isabela, Santa Cruz, and Marcellus are seen to support US production in 2012.

The recently experienced increase of the active oil rigs is seen as a positive factor for the supply in 2012, despite the decline of gas rigs. Furthermore, the improvement of the permit issuing for Gulf of Mexico drilling is expected to improve the output of the region in 2012. Moreover, the increase of the biofuels mandate for 2012 is seen to support the output, despite the removal of the tax credit and tariffs on imports. On the other hand, Alaska oil supply is expected to continue the mature decline, which is expected to be offset by the supply growth in other areas. However, a high level of uncertainty remains surrounding US oil output in 2012 on the back of weather conditions, decline rate, environmental, and price factors. On a quarterly basis, US oil supply is anticipated to stand at 9.10 mb/d, 9.12 mb/d, 9.13 mb/d, and 9.22 mb/d respectively.

Oil sand and tight oil to drive growth in Canada's oil supply in 2012

Canada and Mexico

Canada's oil production is forecast to average 3.65 mb/d in 2012, growth of 0.13 mb/d over the previous year, unchanged from the previous month. The announcement by many operators of capex increases in 2012 is seen to support growth in 2012. During 2012, Canadian oil supply is expected to come across healthy growth from both oil sand and tight oil developments, with operators signaling strong activity levels. The strong land sale in 2011 is supporting the expectation for healthy growth in 2012. The Montney shale play is expected to add volume in 2012 in addition to the Bakken formation. Furthermore, startups and ramp-ups of oil sand projects such as Jackfish, Christina Lake, Scotford, Firebag, Jack Pine, and Kearl Lake are seen to strongly support growth in 2012. However, the risk to the forecast is on the high side as unplanned shutdowns have negatively impacted growth in 2011. On a quarterly basis, Canada's supply is expected to average 3.62 mb/d, 3.64 mb/d, 3.66 mb/d and 3.68 mb/d respectively.

Mexico supply to average 2.88 mb/d in 2012, a decline of 60 t/d

Mexico oil supply is expected to decline by 60 tb/d in 2012 compared to the previous year to average 2.88 mb/d, broadly unchanged from the last MOMR. Despite the relatively healthy output in 2011, where supply remained steady on the back of output stabilization efforts, Mexico production in 2012 is seen to experience a minor decline. The lack of significant new developments is the main factor behind the anticipated decline in 2012. Output from Mexico's main producing field, the Ku-Maloop-Zaap (KMZ), has reached a peak and is seen to remain at that level in 2012. However, the slow ramp-up of the Chicontepec project, due to its geological complexity, is expected to continue in 2012. The limited new volume anticipated in 2012 is not expected to be enough to offset the decline at other mature producing fields such as the Cantarell. Nonetheless, the uncertainty surrounding the 2012 forecast remains on both sides, especially related to the decline rate. On a quarterly basis, Mexico's oil supply is seen to average 2.91 mb/d, 2.87 mb/d, 2.88 mb/d, and 2.86 mb/d respectively.

Western Europe

OECD Western Europe oil supply is predicted to decline by 0.10 mb/d over the previous year to average 4.00 mb/d in 2012, indicating an upward revision of 30 tb/d compared to the previous MOMR. Output from the region in 2012 is expected to continue the downward trend yet at lower rate than the unplanned shutdown effect on output in 2011. OECD Western Europe is expected to have quarterly supply of 4.15 mb/d, 3.97 mb/d, 3.87 mb/d and 4.01 mb/d respectively.

Norway supply expected to decline by 80 tb/d in 2012 to average 1.97 mb/d

Norway oil supply is foreseen to drop 0.08 mb/d compared to the previous year to average 1.97 mb/d in 2012, unchanged from last month. The decline is anticipated on the back of mature fields' natural decline coupled with limited new developments. Despite the plan by operators to fast track some fields, mostly small and satellite projects, the new volume is not expected to be enough to offset the anticipated natural decline. Projects such as the Skarv and Idun are seen to support output in 2012. However, maintenance and decline is seen to have a heavier impact on output in 2012. Moreover, reports suggested that Gullfaks output will remain curtailed in some parts of 2012; the field output experienced a major reduction in 2010 due to technical factors. The risk on the forecast relies on the ability of producers to reduce their production shutdowns in 2012. On a quarterly basis, Norway's production is seen to average 2.05 mb/d, 1.93 mb/d, 1.89 mb/d and 1.99 mb/d respectively.

UK decline in 2012 seen lower than in 2011 on the expectation of fewer shutdowns

UK oil output is forecast to average 1.12 mb/d in 2012, representing a decline of 20 tb/d over the previous year and an upward revision of 20 tb/d compared to the previous MOMR. The upward revision was introduced on the back of the carry-over for the fourth quarter 2011 adjustment, where actual production data indicated improvement from the previously expected level. The anticipated production drop in 2012 is significantly lower than the decline experienced in 2011 as supply is seen to encounter less unplanned shutdowns in 2012 compared to 2011, in addition to a lower impact of maintenance. Furthermore, developments such as Athena, Cheviot and Rochelle are expected to support output in 2012. On a quarterly basis, UK oil output is expected to average 1.18 mb/d, 1.12 mb/d, 1.06 mb/d and 1.12 mb/d respectively.

Asia Pacific

OECD Asia Pacific oil supply is estimated to increase by 50 tb/d in 2012 to average 0.57 mb/d, flat compared to the previous month. Australia oil supply is anticipated to drive the growth in 2012, while New Zealand production is forecast to remain unchanged from a year earlier. On a quarterly basis, total OECD Asia Pacific oil supply is expected to average 0.56 mb/d, 0.58 mb/d, 0.58 mb/d and 0.55 mb/d respectively.

Australia oil supply is expected to increase by 50 tb/d in 2012 to average 0.47 mb/d

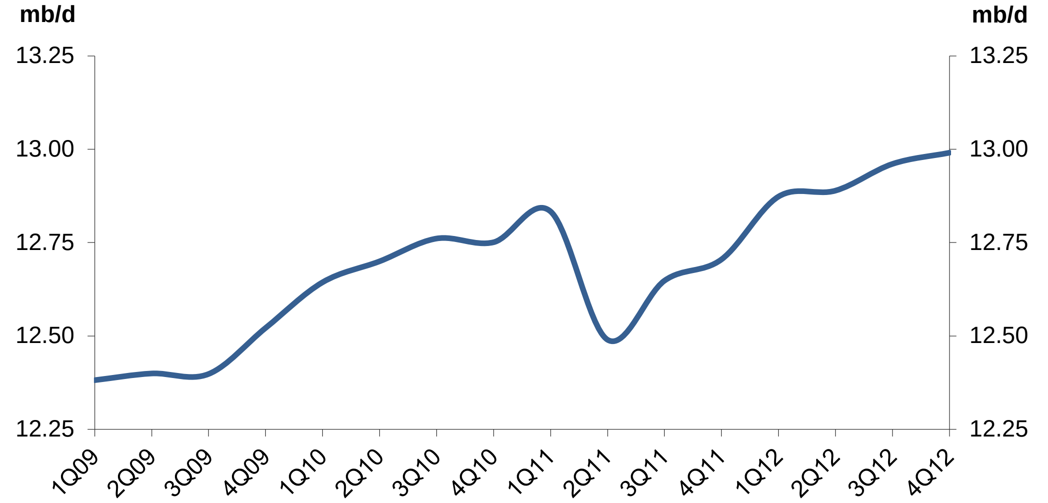
Australia oil supply is foreseen to increase 50 tb/d in 2012 to average 0.47 mb/d, unchanged from the last MOMR. The expected increase is supported by startups and ramp-ups of developments such as the Kitan, Montara, and Pyrenees projects. Furthermore, the capex increase in 2011, as well as an expected increase in 2012, is seen to support production. However, the risk of the forecast is on the high side, as part of the growth in 2012 is expected from the return to normal output levels that had been negatively impacted by the cyclone season in 2011. However, the current season that started with cyclone Heidi, which forced the shutdown of various fields, might impact growth in 2012. Additionally, the delays of the Montara startup, which could experience further postponements, might negatively influence the supply increase in 2012. On a quarterly basis, Australian oil supply is seen to stand at 0.46 mb/d, 0.49 mb/d, 0.49 mb/d and 0.46 mb/d respectively.

Developing Countries

DC supply is expected to increase by 0.26 mb/d in 2012 to average 12.93 mb/d

Total Developing Countries' (DCs) oil production is projected to grow by 0.26 mb/d over the previous year to average 12.93 mb/d in 2012, representing a downward revision of 35 tb/d from the previous month. Growth is supported mainly by Latin America and Other Asia while Middle East supply is seen to drop in 2012 and Africa output is seen to remain steady. The anticipated growth in 2012 is expected after flat supply in 2011, which was mainly due to weather, delays, maintenance, and political factors. On a quarterly basis, total oil supply in DCs is seen to average 12.87 mb/d, 12.89 mb/d, 12.96 mb/d and 12.99 mb/d respectively. According to preliminary data, total DCs' oil supply averaged 12.70 mb/d in the fourth quarter of 2011, a decline of 50 tb/d over the same period in 2010.

Graph 5.3: Developing Countries' quarterly production



Vietnam to lead the growth in Other Asia in 2012

Oil production from **Other Asia** is expected to increase by 50 tb/d in 2012 to average 3.67 mb/d, representing a downward revision of 30 tb/d compared to the previous MOMR. The downward revision was introduced to Other Asia and India oil supply forecasts. Other Asia oil supply experienced a downward revision during the fourth quarter 2011 which was carried over to 2012. India oil supply is expected to increase by 30 tb/d in 2012 to average 0.92 mb/d, indicating a downward revision of 10 tb/d compared to the previous month. The downward revision that impacted the fourth quarter 2011 supply was partially carried over to 2012. The expected growth in India oil production is supported by the ramp-up of the Mangala projects. On a quarterly basis, Other Asia supply is seen to average 3.66 mb/d, 3.66 mb/d, 3.67 mb/d and 3.68 mb/d respectively.

Indonesia oil production is anticipated to decline by 20 tb/d in 2012 to average 0.97 mb/d, unchanged from the previous evaluation. The foreseen supply drop is driven by mature field decline, while the new developments are partially offsetting the decline. Developments such as Cepu, Mahakam, West Madura, and Tambang are expected to add new volumes in 2012. Malaysia oil supply is projected to experience a minor decline of 10 tb/d in 2012 to average 0.63 mb/d. The lack of significant developments coupled with mature decline is behind the anticipated steady state. Vietnam oil supply is expected to increase 40 tb/d in 2012, the largest growth among Other Asia supply, to average 0.39 mb/d. Growth is supported by new volumes from the Rang Dong, Te Giac Trang, Su Tu Trang, and Lan Do projects.

Brazil and Colombia to support Latin America supply grow of 0.27 mb/d in 2012

Latin America oil supply is forecast to grow by 0.27 mb/d in 2012, the highest growth among all non-OPEC regions, to average 5.06 mb/d, unchanged from the previous MOMR. The expected growth is supported by Colombia and Brazil while output from Argentina and other producers in the region is seen to remain steady. Colombia oil supply is foreseen to grow by 90 tb/d in 2012 to average 1.03 mb/d. The expected growth is supported by the Quifa and Rubiales developments. Additionally, new infrastructure projects are expected to support growth, such as the Bicentennial pipeline which is expected to be commissioned in 2012. Argentina oil production is expected to decline by 10 tb/d in 2012 to average 0.72 mb/d. The minor decline is expected as the projected biodiesel growth is seen to offset most of the decline at mature producing areas. On a quarterly basis, Latin American supply is expected to stand at 5.01 mb/d, 5.03 mb/d, 5.09 mb/d and 5.12 mb/d respectively.

Brazil oil supply is foreseen to average 2.86 mb/d in 2012, an increase of 0.17 mb/d over the previous year, the largest growth among all non-OPEC countries, unchanged from the previous MOMR. The anticipated supply increase is supported by new developments such as Roncador P-55, Jubarte P-57, Marlim Sul P-56, and Waimea, which is expected to reach 60 tb/d in 2012. Furthermore, a rebound in biofuel production is anticipated in 2012 with healthy growth against the experienced decline in 2011 on the back of unfavourable weather conditions. However, the risk of the forecast is expected to be high on weather, shutdown, and delay issues. On a quarterly basis, Brazil oil supply is expected to stand at 2.82 mb/d, 2.83 mb/d, 2.88 mb/d and 2.90 mb/d respectively.

Middle East supply is expected to decline 60 tb/d in 2012 with high level of risk

Middle East oil supply is estimated to decrease by 60 tb/d from the previous year to average 1.61 mb/d in 2012, steady from the previous MOMR. Despite the steady state, there were minor upward and downward revisions for the group of countries that offset each other. Oman oil supply is expected to increase by 50 tb/d in 2012 to average 0.94 mb/d. Growth is supported by the ramp-up of the Mukhaizna, Qarn Alam, and Daleel developments. Syria oil output is expected to drop 130 tb/d in 2012 to average 0.25 mb/d. The anticipated decline is the largest among all non-OPEC countries. The drop is projected on the back of the political situation. Yemen oil production is expected to average 0.21 mb/d in 2012, steady from 2011. The Middle East supply forecast is associated with a very high level of risk which could dramatically change the outlook in both directions, mainly due on political factors. On a quarterly basis, Middle East supply is seen to average 1.62 mb/d, 1.61 mb/d, 1.62 mb/d and 1.61 mb/d respectively.

Africa supply is expected to average 2.58 mb/d in 2012

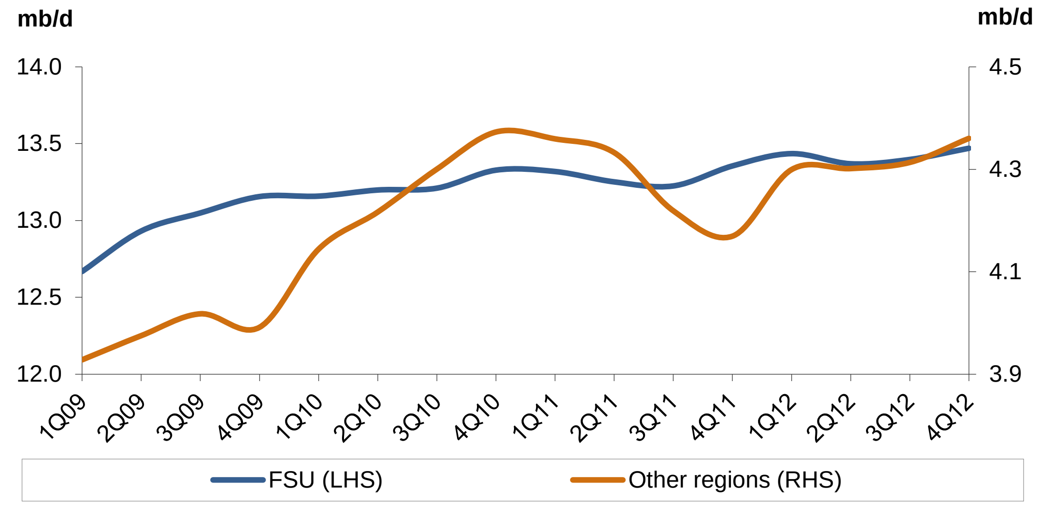
Africa oil supply is predicted to average 2.58 mb/d in 2012, steady from the previous year, unchanged from last month. Ghana oil supply is expected increase in 2012 by around 50 tb/d, the largest growth within the group. The expected growth is driven by the ramp-up of the Jubilee project. Oil supply from Congo and Equatorial Guinea is expected to experience a minor increase in 2012 while output from Chad, Egypt, South Africa, and Sudan is seen to decline. Sudan and South Sudan oil supply is expected to decline by 40 tb/d in 2012 to average 0.38 mb/d. The decline is expected on the back of the political situation. On a quarterly basis, Africa oil supply is expected to average 2.59 mb/d, 2.58 mb/d, 2.58 mb/d and 2.57 mb/d respectively.

FSU, Other Regions

FSU supply is forecast to grow by 0.13 mb/d in 2012 and average 13.42 mb/d

Total **FSU** oil supply is projected to increase by 0.13 mb/d in 2012 to average 13.42 mb/d, indicating a minor downward revision of 10 tb/d compared to the previous month. The expected FSU supply increase in 2012 is twice the growth seen in 2011, despite the relatively low growth level compared to the past five years. Part of the expected growth in 2012 is coming from the assumption that output will return to normal levels from the maintenance and shutdown-inflicted output in 2011. All the major producers in the FSU are expected to show supply growth in 2012. On a quarterly basis, total oil supply from the FSU is seen to average 13.44 mb/d, 13.37 mb/d, 13.40 mb/d and 13.47 mb/d respectively. **China** oil supply is expected to grow by 40 tb/d in 2012 to average 4.18 mb/d and **Other Europe** is seen to remain steady in 2012 at 0.14 mb/d.

Graph 5.4: FSU and other region's quarterly production



Russia

Russia supply to increase by 60 tb/d in 2012 and average 10.33 mb/d

Russia oil supply is expected to increase by 60 tb/d in 2012 to average 10.33 mb/d, indicating a minor upward revision of 10 tb/d compared to the previous MOMR. The upward revision came as the adjustment in the fourth quarter 2011 was carried over to 2012. The forecast increase is supported by new volumes from developments such as the Vankor, Uvat, Prirazlom, and Verkhnechonye. Additionally, the expected increase of capex by some producers is seen to support growth in 2012 and combat natural decline. The evolution of natural decline at mature fields will play an important role in the outcome of Russia oil supply in 2012 as the relatively limited new expected volume is seen to barely offset the anticipated decline in mature fields. The Vankor oil project is expected to add 50-60 tb/d in 2012, lower than the growth seen in previous years. Accordingly, Russia oil supply forecast in 2012 has a high level of risk and uncertainty, mainly on decline, price, taxation, and delay issues. According to preliminary data, Russia oil supply averaged 10.33 mb/d in the fourth quarter 2011, an increase of 0.11 mb/d compared to the same period in 2010. On a quarterly basis, Russian oil supply is believed to average 10.32 mb/d, 10.31 mb/d, 10.34 mb/d and 10.35 mb/d respectively.

Caspian

Kazakh supply expected to increase 40 tb/d in 2012

Oil supply from **Kazakhstan** is seen to increase by 40 tb/d over the previous year to average 1.65 mb/d in 2012, unchanged from the previous month. Limited new developments are foreseen in 2012 and the increase is expected on the back of the return to normal operation levels in 2012, from the strike and maintenance-impacted output in 2011. The giant Kashagan oil field is not seen to support output in 2012 as it is only expected to start up in the third quarter 2013 instead of the fourth quarter 2012. Uncertainties surrounding the unrest and strike actions in some oil producing areas could impact output in 2012. On a quarterly basis, Kazakhstan oil supply is expected to average 1.66 mb/d, 1.60 mb/d, 1.54 mb/d, and 1.64 mb/d respectively.

Azeri supply to increase by 20 tb/d in 2012

Azerbaijan oil supply is forecast to increase by 20 tb/d over the previous year to average 1.00 mb/d in 2012, representing a downward revision of 20 tb/d from the previous MOMR. The downward revision was partially carried over from updates to the 2011 estimate. Limited new development is influencing the supply forecast for 2012, where the expected growth is much lower than the growth average of the past five years of 120 tb/d. The minor increase is expected on the back of the return to normal operating levels in some fields where output was curtailed due to maintenance and technical issues in 2011. During the second half of 2011, Azerbaijan oil supply is estimated at 0.95 mb/d, a drop of 120 tb/d compared to the same period of 2010. On a quarterly basis, Azerbaijan oil supply is seen to stand at 1.02 mb/d, 0.99 mb/d, 0.98 mb/d and 1.01 mb/d respectively.

China

China Peng Lai field return will be a major risk factor for supply in 2012

China oil production is anticipated to increase by 40 tb/d over the previous year to average 4.18 mb/d in 2012, indicating a minor downward revision of 10 tb/d compared to the previous month. The downward revision was introduced to adjust for updated production from China in the fourth quarter 2011. The expected growth is supported by new volume from the Shengli and Lufeng fields in 2012. The resumption of full production from the Peng Lai field will play a vital role shaping China oil supply in 2012. It is not clear yet when the partially shutdown field will return to full output after the June spill that led to a full shutdown of the field in September 2011. Accordingly, the risk associated with the forecast is high mainly on the progress of the return of the Peng Lai field to full volume. On a quarterly basis, China oil supply is seen to average 4.16 mb/d, 4.16 mb/d, 4.17 mb/d and 4.21 mb/d respectively.

OPEC natural gas liquids and non-conventional oils

OPEC NGLs and non-conventional oils are estimated to average 5.29 mb/d in 2011, representing growth of 0.39 mb/d over the previous year. In 2012, OPEC NGLs are projected to average 5.65 mb/d, an increase of 0.36 mb/d over the previous year.

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

	2009	**2010**	Change 10/09	1Q11	2Q11	3Q11	4Q11	**2011**	Change 11/10	**2012**	Change 12/11
Total OPEC	**4.35**	**4.90**	0.55	5.12	5.26	5.37	5.42	**5.29**	0.39	**5.65**	0.36

OPEC crude oil production

OPEC crude oil production increased 0.17 mb/d in December

According to secondary sources, total OPEC crude oil production averaged 30.82 mb/d in December, an increase of 0.17 mb/d over the previous month. Crude oil output saw an increase from Libya, the UAE and Iraq while production fell in Nigeria, Iran, Saudi Arabia, Angola, Algeria, and Venezuela. According to secondary sources, OPEC crude production, not including Iraq, stood at 28.01 mb/d in December, an increase of 0.13 mb/d over the previous month.

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

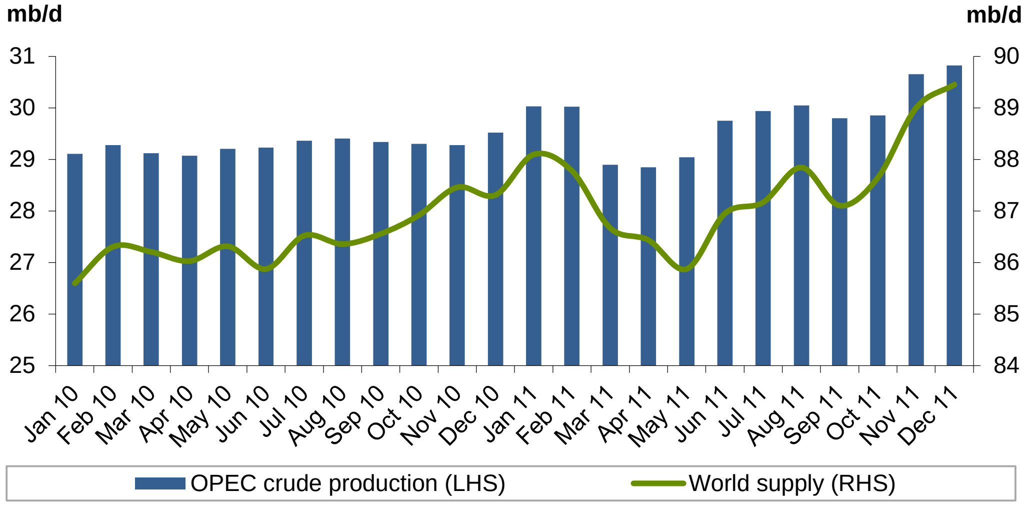
	2010	**2011**	**2Q11**	**3Q11**	**4Q11**	**Oct 11**	**Nov 11**	**Dec 11**	***Dec/Nov***
Algeria	1,258	1,256	1,255	1,260	1,249	1,259	1,253	1,235	*-17.5*
Angola	1,783	1,666	1,548	1,674	1,777	1,729	1,811	1,791	*-20.1*
Ecuador	475	489	490	486	492	492	494	491	*-2.9*
Iran, I.R.	3,706	3,616	3,658	3,603	3,548	3,559	3,553	3,531	*-22.1*
Iraq	2,401	2,672	2,671	2,685	2,682	2,637	2,686	2,723	*37.1*
Kuwait	2,297	2,529	2,483	2,570	2,685	2,646	2,703	2,706	*2.9*
Libya	1,559	462	153	47	561	348	563	773	*209.2*
Nigeria	2,061	2,113	2,147	2,180	2,041	1,994	2,087	2,043	*-43.8*
Qatar	801	808	807	810	808	808	810	805	*-4.8*
Saudi Arabia	8,284	9,289	9,106	9,655	9,651	9,411	9,783	9,763	*-20.8*
UAE	2,304	2,520	2,519	2,561	2,558	2,567	2,520	2,588	*67.5*
Venezuela	2,338	2,385	2,375	2,396	2,386	2,399	2,387	2,373	*-14.3*
Total OPEC	**29,267**	**29,805**	**29,211**	**29,926**	**30,439**	**29,850**	**30,651**	**30,822**	***170.5***
OPEC excl. Iraq	**26,866**	**27,133**	**26,540**	**27,241**	**27,757**	**27,213**	**27,965**	**28,099**	***133.4***

Totals may not add up due to independent rounding

World Oil Supply

Preliminary data indicates that global oil supply increased by 0.45 mb/d in December compared to the previous month. The increase in non-OPEC supply in December supported global output, in addition to the increase of OPEC crude oil production. The share of OPEC crude oil in global production remained steady at 34.5% in December. The estimate is based on preliminary data for non-OPEC supply, estimates for OPEC NGLs and OPEC crude production from secondary sources.

Graph 5.5: OPEC and world oil supply

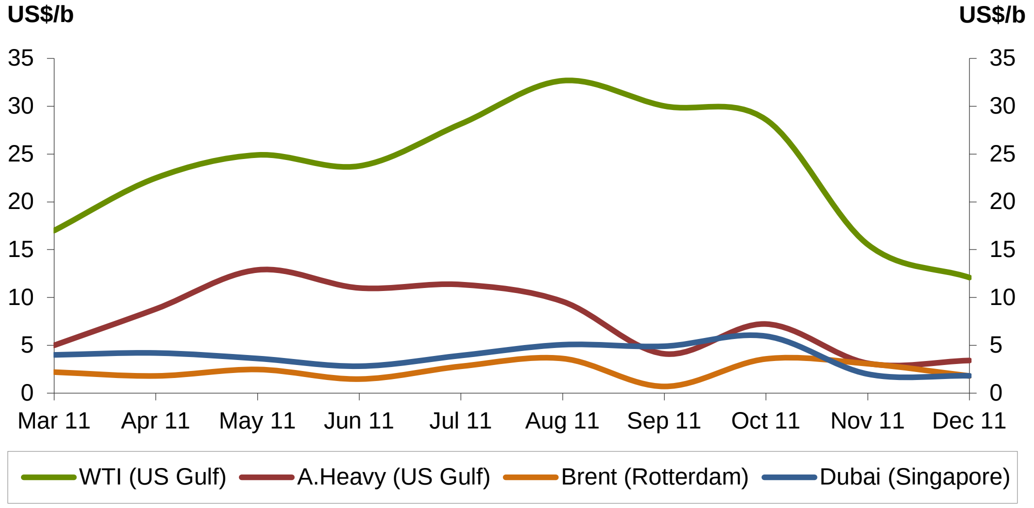


Product Markets and Refinery Operations

Refinery margins continued falling

The lacklustre demand due to the weakening pace of economic growth kept the crack spread for the top-of-the-barrel at the lowest level seen in years, despite signs of some recovery starting in the Asian naphtha market. Additionally, the milder-than-expected winter weather has eased the tight middle distillate market seen over the last months and fuelled bearish sentiment into product markets worldwide during December. As a result, refinery margins continued falling across the board.

Graph 6.1: Refining margins, 2011



The margin for WTI crude on the US Gulf Coast showed a sharp drop of $4 to stand at around $12/b in December, reflecting the continued decline in crack spreads across the barrel and the correction in the WTI price, which recovered more than $4/b against Brent. Meanwhile, the margin for Arab Heavy on the US Gulf Coast remained around $3/b, as the benchmark weakened during the month.

In Europe, product market sentiment continued to be bearish due to weaker domestic demand, increasing inventories and reduced export opportunities. The top of the barrel has not recovered from the loss seen last month, while the middle and heavy parts of the barrel remained stable on the back of a drop in the benchmark crude price. The refinery margin for Brent crude in Rotterdam showed a decline of $1 in December to stand at around $2/b.

Light distillates continued weaker in Asia, despite the slight temporary recovery in regional gasoline demand and signs of buying interest in naphtha from the petrochemical industry; however, cracks have not yet recovered after plummeting in November. On the other hand, the mild winter in the Northern Hemisphere has eased the tightness in the middle distillates market in the region. Bearish sentiment has continued exerting pressure and over the month refinery margins remained at the lowest level seen this year at around $2/b.

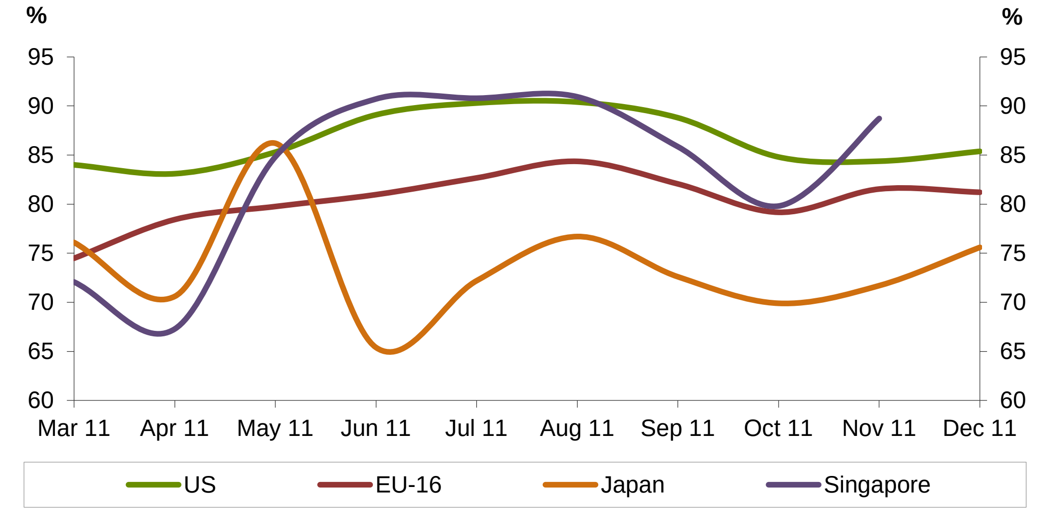
Refinery operations

Refinery runs hit lowest level in Europe

Despite lower light distillate demand and a further fall in margins due to a stronger WTI price, strong export opportunities encouraged US refiners to continue increasing refinery runs to average 85.4% of capacity in December, 1% higher than in the previous month.

In addition, refiners continued to maximize gasoil production, with stocks returning to the five-year average, while mild weather eased the tight gasoil market across the globe.

Graph 6.2: Refinery utilization rates, 2011



European refiners have continued to moderate throughput in response to deteriorating refining margins, the weak economy and excess of capacity in the global refining system. Refinery runs remained at around 81% over the last months and the average for the year was the lowest seen in a decade. Low runs had kept the distillate market tight, helping margins to increase over the last two months; however, the tightness has eased due to increasing inflows into the region coming from the US, India and Russia. On the other hand, the structurally unbalanced market at the top of the barrel has continued to see record-low cracks, pushing refinery runs down.

Asian refinery runs remained on the rise as India finished maintenance and saw runs over 88% in November, 5% higher than the previous month, while the Chinese were up around 90% to meet the rising demand during this period. Refiners in Asia have been maximising kerosene production for heating purposes, however milder-than-expected winter conditions have kept inventories high and started to exert pressure on middle distillate margins.

Japan has increased throughput to around 75%, after finishing some maintenance. Runs in Singapore have recovered to 88% as refineries return online.

US market

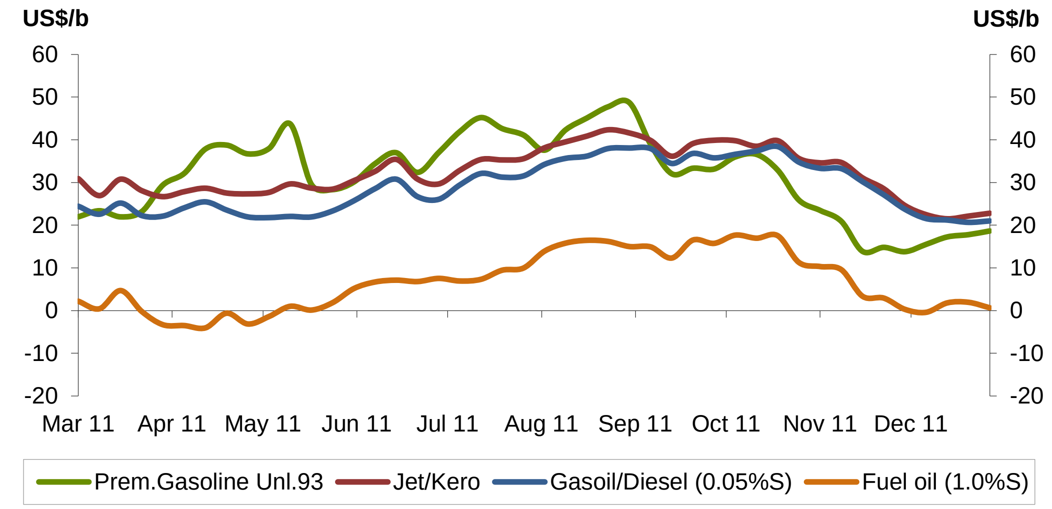
The mild winter caused middle distillate cracks to fall

US gasoline demand stood at around 8.8 mb/d in December, an increase of 177 tb/d over the previous month and a decline of 88 tb/d from the same month a year earlier.

Weak US gasoline demand continued at the low seasonal level, although the gasoline crack spread partially offset the WTI price correction due to temporary support over the holidays and stronger export opportunities.

The gasoline crack averaged $16.60/b in December, a slightly drop of around $1.70 compared to the previous month. The loss was dampened by the support coming from increasing requirements from the West Coast ahead of planned turnarounds in January, partially offsetting the bearish sentiment fuelled by the inventory build-up.

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



Middle distillate demand stood at around 4.05 mb/d in December, an increase of 96 tb/d over the previous month, however 124 tb/d lower than in the same month the previous year.

The middle distillate market remained relatively healthy; however it has been losing strength since the middle of the month on the back of weakening domestic demand as heating oil requirement has so far been hampered by the warmer weather in the region.

The market was partially supported by healthy diesel exports to Latin America, specifically Chile, due to higher diesel requirements for power generation caused by a severe drought and some arbitrage opportunities to Europe. However, this support was more than offset by the pressure from inventories increasing to the typical average as refineries were maximising gasoil production.

The gasoil crack on the US Gulf Coast showed a decrease of almost $10 to average $21/b. The loss was higher than the correction in WTI, as heating oil demand remained poor with the Northeast yet to experience its first winter storm.

The US fuel oil market turned bearish as the domestic demand weakened, due to mild weather conditions limiting utility requirements and limited export opportunities to Latin America, which had given support in previous months.

The fuel oil crack dropped from a premium of almost $7/b over WTI in November to around minus $1/b in December, in line with a weaker market and the correction exhibited by the WTI crude price.

European market

European Gasoline cracks remain in the doldrums

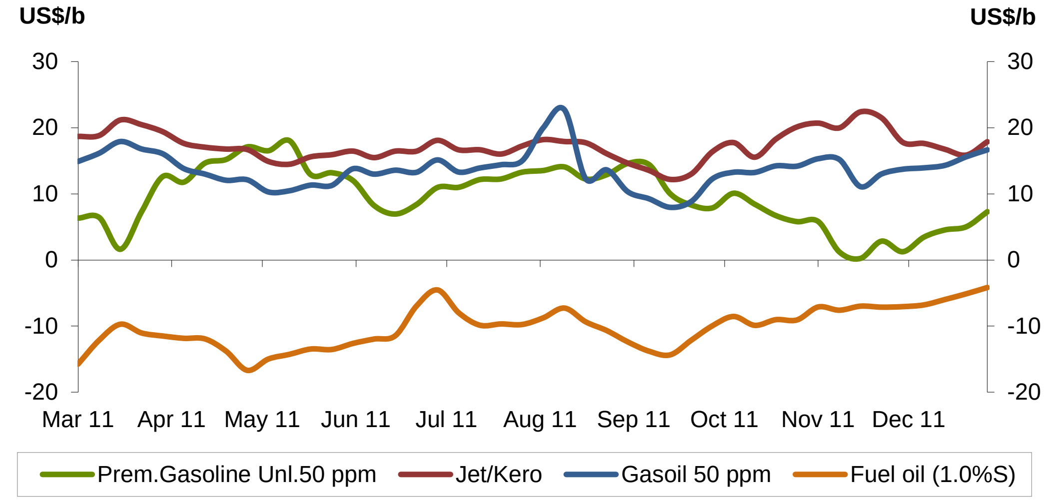
Product markets weakened, due to lacklustre demand in the region and poor export opportunities, however crack spreads showed a minor recovery on the back of the drop in the benchmark price.

Naphtha cracks continued weak, as demand from the petrochemical sector remains low with some naphtha crackers running as low as at 70% of capacity in Europe. However, some support came from export opportunities to Asia.

The European gasoline market continued to be weak over the last months, as a result of lacklustre domestic demand; however, some support came from export opportunities, not only to the US where the imports have stood at very low levels, but also to Africa and the Middle East, which has partially offset the pressure from the high stocks of gasoline in Europe and allowed a slight recovery in the gasoline cracks.

The gasoline crack spread against Brent crude remained at the lowest level seen in years, but showed a slight recovery of $1.80 from an average of $2.50/b in November to $4.30/b in December.

Graph 6.4: Rotterdam crack spreads vs. Brent, 2011



Despite moderated European refinery runs, the tightness in the European gasoil market has eased as inflows increase, with open arbitrage from the US.

In addition to ample US exports – more than 1.2 mb at the end of the month – cargoes of ULSD were booked from India to Northwest Europe.

Additional pressure came from the supply side as inflows from Russia are also increasing and Libyan barrels have begun to be offered on the European market.

On the demand side, although some support came from higher Turkish requirements, this has been offset by weaker regional demand due to the persistently mild weather in inland Europe limiting heating oil buying interest and the middle distillate cracks did not exhibit a strong recovery during December, despite the drop in crude prices.

The gasoil crack spread against Brent crude at Rotterdam showed a gain of $1 to stand around $15/b, however the gain was lower than the drop in the crude price.

Looking ahead, the expected increasing requirements from North Africa and the possible colder weather in the middle of the winter season could lend support to the middle distillates market in the region in the coming months.

At the bottom of the barrel, fuel oil cracks held the ground gained last month on the back of a relatively tight market, due to moderated regional refinery output – lower run rates – while inflows from other regions remained limited. The lower regional demand from utilities was compensated for by export opportunities to Asia, mainly to China. The Northwest European fuel oil crack spread against Brent showed a gain of $1.40 this month to stand at minus $5.80/b.

Asian market

Fundamentals remained weak at the top of the barrel

Asian cracking margins continued to be weak over the month, as bearish sentiment in the light distillates market persisted after the crack suffered a slump in November.

The weaker seasonal gasoline market showed a slight recovery in the Singapore gasoline cracking margin; however, demand remained at the lowest level seen in the last two years after plummeting last month, gaining more than $1/b over the month, due to positive developments at the top of the barrel.

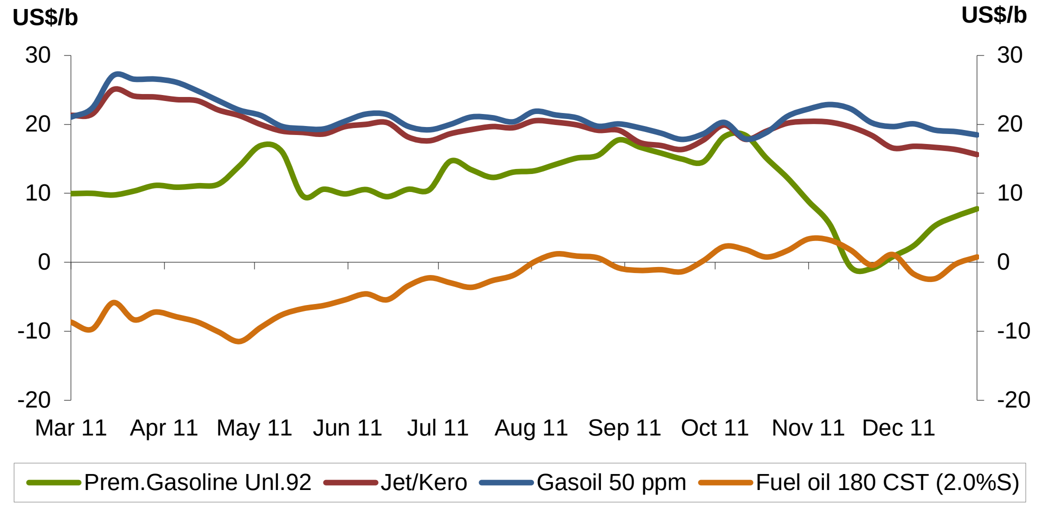
The gasoline market saw some improved sentiment due to re-emerging regional demand, mainly from China, Sri Lanka, Pakistan and Kenya.

While partially offset by ample regional supplies, the scheduled maintenance at the Formosa gasoline producer unit also supported supply-side fundamentals; however, overall, the gasoline market remained bearish.

The naphtha crack also posted gains as sentiment was temporarily boosted by increasing buying interest from the petrochemical sector, mainly from South Korea and Taiwan, due to the replenishing of low inventories ahead of the start of the new year, despite still weak petrochemical margins.

The gasoline crack spread against Dubai crude in Singapore slightly recovered by $1.3, which represents only 10% of the margin lost two months ago, to average around $4.6/b in December.

Graph 6.5: Singapore crack spreads vs. Dubai, 2011



The middle distillates market remained relatively balanced as the supply-side supported the market. Some refineries were maximizing the production of kerosene for heating purposes, keeping gasoil supplies comparatively tight, amid strong regional demand mainly from Indonesia, the Philippines and Sri Lanka.

However, limited arbitrage opportunities from India to the West exerted some pressure on regional supplies and caused the gasoil crack spread in Singapore against Dubai to fall $2 from the previous month to stand on average around $19/b in December.

At the bottom of the barrel, fuel oil cracks showed a sharp drop of $2.50 to stand at minus 50¢/b from the premium of $2.00/b over Dubai seen the previous month, which was the highest level seen in two years.

Market sentiment turned bearish from the supply side due to higher volumes coming from India and the Middle East, and expectations of three-month-high Western arbitrage arrivals of over 4 million tonnes next month.

Table 6.1: Refinery operations in selected OECD countries

	Refinery throughput, mb/d			*Refinery utilization, %*		
	Nov 11	Dec 11	Dec/Nov	Nov 11	Dec 11	Dec/Nov
US	14.59	14.77	0.18	84.38	85.38	1.01
France	1.36	1.39	0.03	73.92	75.33	1.41
Germany	1.90	1.88	-0.01	79.50	77.93	-1.57
Italy	1.53	1.50	-0.04	67.17	63.97	-3.21
UK	1.41	1.41	0.00	79.89	80.00	0.11
Euro-16	10.68	10.64	-0.04	81.54	81.21	-0.33
Japan	3.39	3.58	0.19	71.70	75.60	3.90

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

Table 6.2: Refined product prices, US$/b

		Oct 11	Nov 11	Dec 11	Change Dec/Nov
US Gulf (Cargoes):					
Naphtha		110.04	105.11	107.57	2.46
Premium gasoline	*(unleaded 93)*	118.78	114.75	115.62	0.87
Regular gasoline	*(unleaded 87)*	114.28	108.27	107.83	-0.44
Jet/Kerosene		124.72	128.62	120.86	-7.76
Gasoil	*(0.05% S)*	123.11	127.43	119.79	-7.64
Fuel oil	*(1.0% S)*	102.04	103.07	99.40	-3.67
Fuel oil	*(3.0% S)*	99.27	100.07	95.25	-4.82
Rotterdam (Barges FoB):					
Naphtha		97.59	95.62	96.97	1.35
Premium gasoline	*(unleaded 10 ppm)*	117.08	112.81	112.46	-0.35
Premium gasoline	*(unleaded 95)*	114.63	110.45	110.10	-0.34
Jet/Kerosene		127.57	131.30	124.89	-6.41
Gasoil/Diesel	*(10 ppm)*	129.00	131.36	128.16	-3.19
Fuel oil	*(1.0% S)*	100.42	103.47	102.11	-1.36
Fuel oil	*(3.5% S)*	99.30	100.69	97.12	-3.57
Mediterranean					
Naphtha		95.47	93.51	94.06	0.55
Premium gasoline	*(50 ppm)*	112.98	112.98	112.63	-0.35
Jet/Kerosene		125.16	125.16	119.05	-6.11
Gasoil/Diesel	*(50 ppm)*	110.06	110.06	107.39	-2.67
Fuel oil	*(1.0% S)*	100.19	103.15	102.06	-1.09
Fuel oil	*(3.5% S)*	99.29	99.67	95.22	-4.45
Singapore (Cargoes):					
Naphtha		96.19	95.25	98.61	3.36
Premium gasoline	*(unleaded 95)*	121.63	112.86	113.86	1.00
Regular gasoline	*(unleaded 92)*	119.62	111.17	111.50	0.33
Jet/Kerosene		123.25	127.99	122.87	-5.12
Gasoil/Diesel	*(50 ppm)*	123.56	130.36	125.71	-4.65
Fuel oil	*(180 cst 2.0% S)*	105.82	110.76	105.72	-5.04
Fuel oil	*(380 cst 3.5% S)*	102.08	105.89	102.52	-3.37

Tanker Market

OPEC spot fixtures remained steady in December

In December, OPEC spot fixtures remained relatively steady from the previous month, averaging 11.76 mb/d, according to preliminary data. The balanced spot fixtures were attributed mainly to the 2% gain in spot fixtures from the Middle East-to-Eastern destinations, which offset the 4% decline in Middle East-to-Western ports. On an annual basis, OPEC spot fixtures dropped 19% in December, while Middle East-to-East fixtures increased by 2%.

OPEC sailings increased by 0.31 mb/d or 1.3% in December from the previous month to stand at 23.43 mb/d, supported mainly by an increase in Middle East-to-East liftings. In December, Middle East sailings gained 2.7% to stand at 13.19 mb/b. Compared with the same month last year, OPEC sailings declined slightly by 0.7%, while Middle East sailings increased by 3.5% in December.

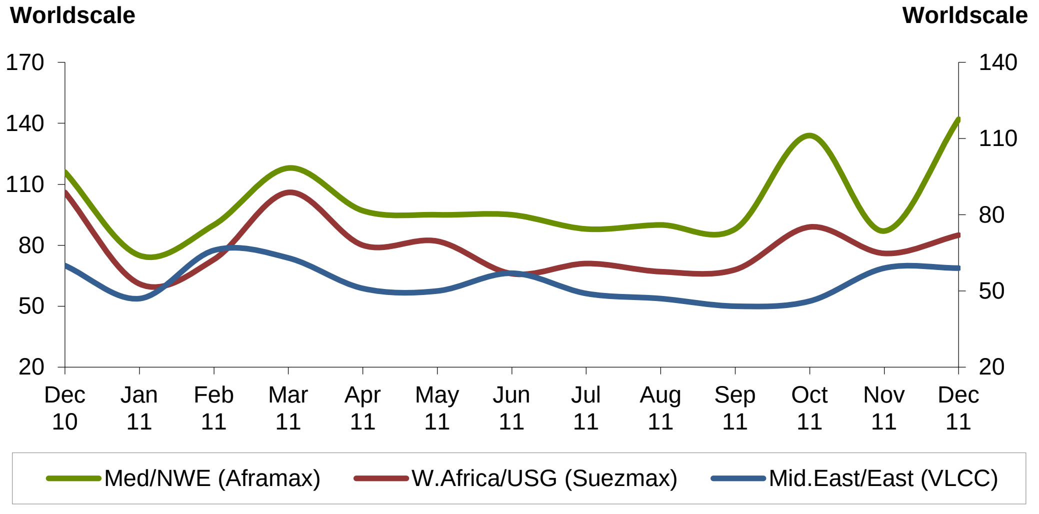
Table 7.1: Tanker chartering, sailings and arrivals, mb/d

	Oct 11	Nov 11	Dec 11	Change Dec/Nov
Spot Chartering				
All areas	16.64	18.10	20.33	2.23
OPEC	10.82	11.74	11.76	0.02
Middle East/East	6.07	6.81	6.93	0.11
Middle East/West	1.50	1.35	1.30	-0.06
Outside Middle East	3.25	3.58	3.54	-0.04
Sailings				
OPEC	22.48	23.12	23.43	0.31
Middle East	12.35	12.84	13.19	0.34
Arrivals				
North America	8.52	8.59	8.79	0.20
Europe	12.31	12.37	12.32	-0.04
Far East	8.18	8.49	8.35	-0.13
West Asia	4.67	4.51	4.62	0.11

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

Oil arrivals increased in December, compared with the previous month, in both North America and West Asia, by 2.4% and 2.4% respectively, to stand at 8.79 mb/d and 4.62 mb/d, according to preliminary data. However, arrivals in Europe and the Far East showed slight declines in December, according to preliminary data.

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



Despite flat VLCC spot freight rates in December, compared with the previous month, the average crude spot freight rate for all reported routes gained 17%, supported by 32% for Aframax and 9% for Suezmax. East and West healthy liftings of cargoes, as well as Turkish delays, supported the gains in dirty tanker market sentiment. On the clean tanker market, West of Suez spot freight rates gained 22% in December, supported by the naphtha trade, while East of Suez rates remained steady. On an annual basis, dirty tanker spot freight rates declined, while clean tanker rates remained steady.

Crude oil spot freight rates gained 17% in December

VLCC spot freight rates remained flat in December from the previous month, due to balanced steady activity in the reported routes. The rates for VLCCs operating on the Middle East-to-East route remained flat in December, as a result of balanced tonnage supply and demand. Westbound route rates declined by 5% in December, as a result of sufficient tonnage in the market and lower enquiries. However, rates for long-haul routes from West Africa to the East gained 5% in December. The gains were supported by higher Chinese requirements from West Africa, as well as from Latin America and that Caribbean, that absorbed the available tonnage.

Different sentiment prevailed in the **Suezmax** market, as spot freight rates increased by 10% in December, compared with the previous month. On the West Africa-to-US route, rates gained 12% in December. The increases were supported mainly by increasing tonnage demand and bullish sentiment in the market before the Christmas holiday. The same factors prevailed on the Northwest Europe-to-US route, supported additionally by the weather conditions. There rates increased by 7% in December, compared with the month before.

Developments with **Aframax** spot freight rates were very healthy in December, experiencing increases on different routes. In the West, Mediterranean-to-Mediterranean rates rose by 64% and Mediterranean-to-Northwest Europe were up by 63% in December, compared with the previous month, due mainly to Turkish Strait delays of around seven days and higher exports from the Black Sea. For the Caribbean-to-the US, rates increased by 7% in December, in support of delays caused by the Gulf of Mexico weather conditions. East of Suez, the Indonesia-to-East rates gained 3% in December over the previous month, due to higher trade.

Compared with a year ago, VLCC spot freight on selected routes remained almost at the same level, while Suezmax and Aframax gained ground in both spot rates and transportation costs/b.

Table 7.2: Spot tanker crude freight rates, Worldscale

	Size *1,000 DWT*	Oct 11	Nov 11	Dec 11	Change Dec/Nov
Crude					
Middle East/East	230-280	46	59	59	0
Middle East/West	270-285	35	41	39	-2
West Africa/East	260	48	58	61	3
West Africa/US Gulf Coast	130-135	89	76	85	9
NW Europe/USEC-USGC	130-135	78	72	77	5
Indonesia/US West Coast	80-85	95	102	105	3
Caribbean/US East Coast	80-85	100	108	116	8
Mediterranean/Mediterranean	80-85	134	86	141	55
Mediterranean/North-West Europe	80-85	134	87	142	55

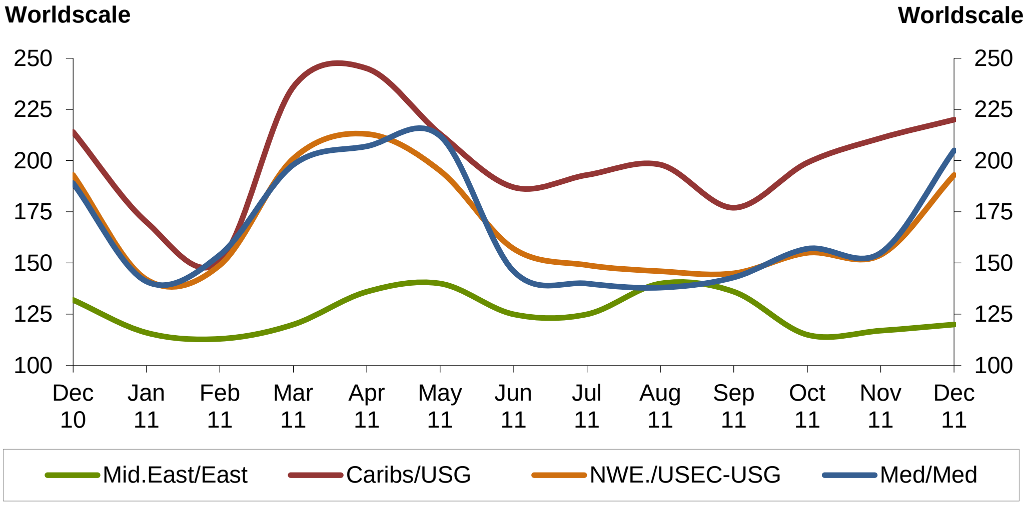
Source: Galbraith's Tanker Market Report and Platt's

Clean spot freight rates continued to gain momentum in December

Clean tanker spot freight rates gained some ground in December, supported mainly by increasing tonnage demand ahead of the Christmas holiday, tonnage availability and weather conditions. The West of Suez rates increased on all reported routes in December, compared with the previous month.

The Mediterranean tanker market showed the strongest gains in December. Mediterranean-to-Mediterranean clean spot freight rates gained 32% and the Mediterranean-to-Northwest Europe rates increased by 31% in December from the previous month. Rates were supported by delays in the Turkish Strait and bad weather conditions in the Mediterranean area. Both the Caribbean-to-US and Northwest Europe-to-US rates registered gains of 4% and 25% respectively, as a result of healthy diesel demand from Latin America and gasoline demand from Europe ahead of the Christmas holiday and weather conditions in the Gulf of Mexico.

Graph 7.2: Monthly averages of clean spot freight rates



In the East, clean tanker spot freight rates from the Middle East to the East gained 3% and from Singapore to the East declined by 1.3% in December, compared with the previous month. The Middle East-to-East gains were supported by the higher naphtha trade resulting from firm demand from South Korea together with petrochemical activity, while balanced trading activity kept the Singapore-to-East rates nearly flat.

Compared with a year ago, West of Suez clean spot freight rates gained ground, supported mainly by the Caribbean market, while East of Suez rates remained flat.

Table 7.3: Spot tanker product freight rates, Worldscale

	Size *1,000 DWT*	**Oct 11**	**Nov 11**	**Dec 11**	**Change Dec/Nov**
Products					
Middle East/East	30-35	115	117	120	3
Singapore/East	30-35	151	154	152	-2
Caribbean/US Gulf Coast	38-40	199	211	220	9
NW Europe/USEC-USGC	33-37	155	154	193	39
Mediterranean/Mediterranean	30-35	157	155	205	50
Mediterranean/North-West Europe	30-35	161	162	213	51

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

Oil Trade

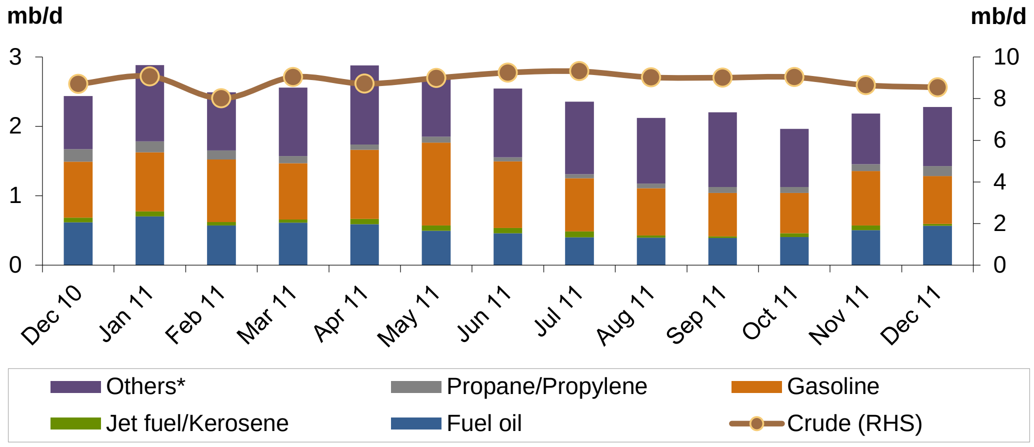
US crude oil imports declined to 8.54 mb/d in December

US

Preliminary data indicates that US crude oil imports declined by 100 tb/d, or 1.16%, to an average of around 8.54 mb/d in December. They were 152 tb/d, or 1.7%, lower than the previous year's level, when they stood at 8.7 mb/d. Year-to-date (y-t-d) imports were 322 tb/d, or 3.5%, lower than those of the year before. They averaged 8.9 mb/d between January and December, compared with 9.2 mb/d for the same period a year ago, implying a 3.5% decline.

Product imports increased again in December, after declining steadily from April to October, and reached 2.28 mb/d. Compared with the month before, the increase was 92 tb/d, or 4.19%. Y-o-y, a drop of around 158 tb/d, or 6.5%, in December was registered. The y-t-d figure averaged 2.43 mb/d between January and December, compared with 2.6 mb/d for the same period a year ago, indicating a 5.9% decline.

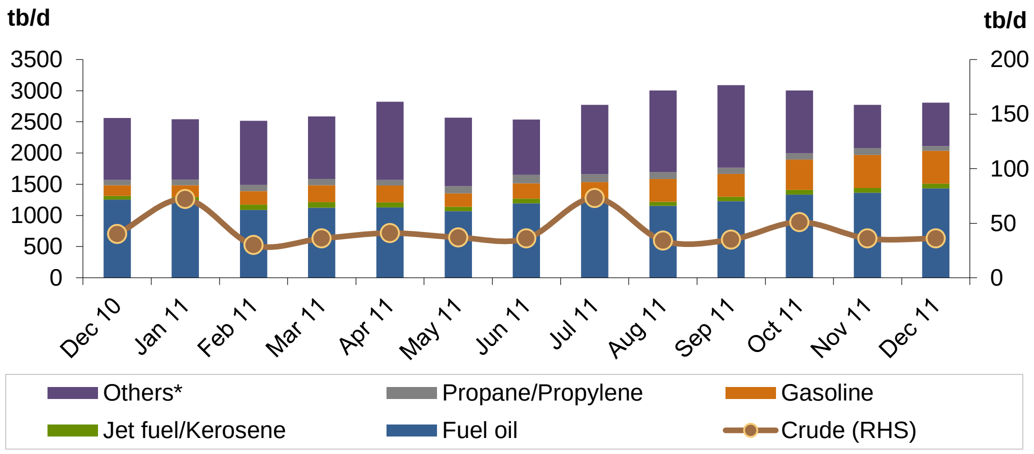
Graph 8.1: US imports of crude and petroleum products



**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*

Product exports increased slightly in December to 2.85 mb/d — by 34 tb/d, or 1.21%, m-o-m and by 241 tb/d, or 9.3%, y-o-y. The y-t-d averaged 2.80 mb/d between January and December, compared with 2.31 mb/d for the same period a year ago, implying an increase of around 21%.

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*

As a result, **US net oil imports declined in December to 7.9 mb/d, down 43 tb/d, or 0.53%, m-o-m.** However, they remained almost 6.4% below the year-ago level. The y-t-d averaged 8.48 mb/d between January and December, compared with 9.44 mb/d for the same period a year ago, implying a decline of around 10.2%.

The US imported around 4.04 mb/d crude oil from OPEC Member Countries in October, and this constituted a 44.79% share of total imports to the US. M-o-m, a slight increase of 12 tb/d, or 0.30%, is shown. Canada remained the main supplier, with 2.27 mb/d or 25.2%, followed by Saudi Arabia with 1.12 mb/d or 12.4%, Mexico with 1.08 mb/d or 12.0%, Venezuela with around 0.86 mb/d or 9.5%, and Nigeria with 0.63 mb/d or 7.0%.

On the product side, US imports from OPEC Member Countries decreased by 72 tb/d, or 24.4%, to average around 223 tb/d in October. OPEC held an 11.3% share of total US product imports. Canada and Russia remained the main suppliers, accounting for 421 tb/d, or 21.4%, and 305 tb/d, or 15.5%, respectively, followed by the Virgin Islands with 151 tb/d, or 7.7%, the UK with 122 tb/d, or 6.2%, and Algeria with 110 tb/d, or 5.6%.

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

	Oct 11	Nov 11	Dec 11	*Change* Dec/Nov
Crude oil	8,978	8,607	8,507	-100
Total products	-1,087	-624	-566	58
Total crude and products	**7,891**	**7,984**	**7,941**	**-43**

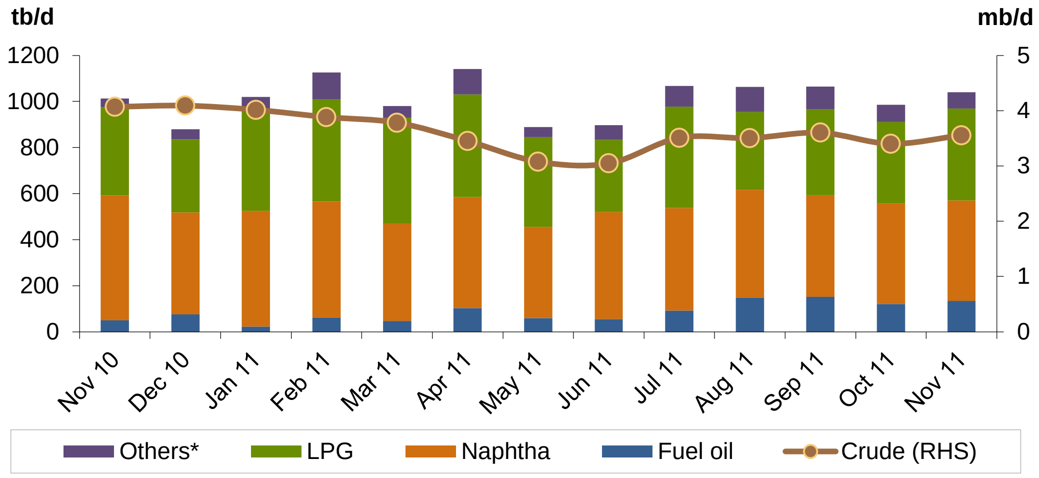
Japan

Japan's crude oil imports increased 4.5% in November to 3.6 mb/d

Japan's crude oil imports increased in November after declining in October, which had brought to end a stable period of two months in July-August and an increase in imports in September.

November crude imports increased from October to 3.6 mb/d, constituting a rise of 153 tb/d, or 4.5%. Y-o-y, November's level represented a decline of 515 tb/d, or 12.7%. Comparing the first 11 months, which stood at an average monthly level of 3.53 mb/d, we observe a decrease of 4.0%, or 148 tb/d, versus the same period the year before, when the figure was 3.68 mb/d.

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

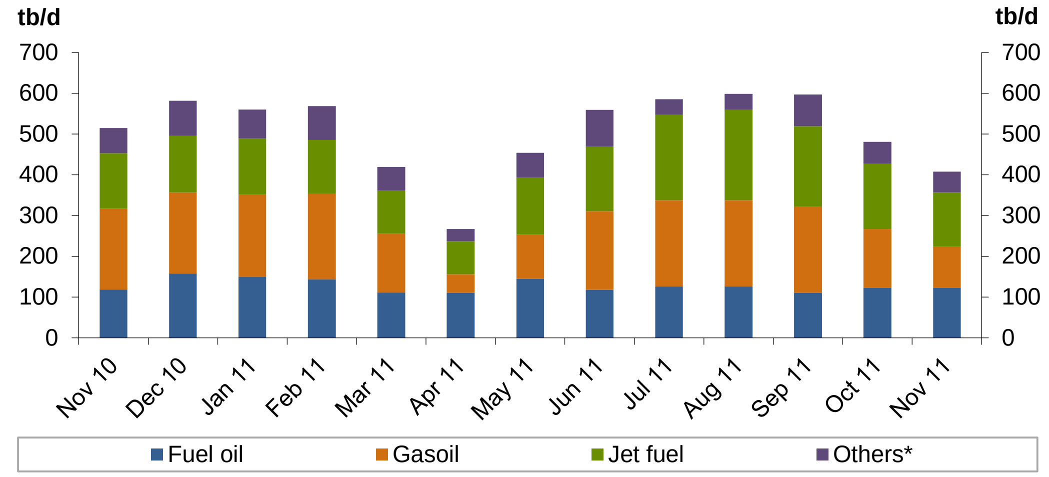


**Others: Contains gasoline, jet fuel, kerosene, gasoil, asphalt and paraffin wax*

Product imports, including LPG, increased to 1.04 mb/d, which represented an increase of 5.6%, or 55 tb/d, compared with the month before and an increase of 2.8%, or 28 tb/d, on a y-o-y basis. Comparing the first 11 months, a level of 1.02 mb/d was reached, which was 7.0%, or 67 tb/d, higher than the same period a year ago, when the figure was 957 tb/d.

Product exports, including LPG, declined by 74 tb/d, or 15.3%, averaging 0.41 mb/d. Y-o-y, we observe a decrease of 20.8%, or 107 tb/d. The first 11 months saw a slight decline of 6.9%, or 37 tb/d, compared with the same period the year before, when the level was 536 tb/d.

Graph 8.4: Japan's exports of petroleum products



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

As a result, **Japan's net oil imports increased in November to 4.2 mb/d, up 282 tb/d, or 7.2%, from the month before**. On a y-o-y basis, a decline of 379 tb/d, or 8.3%, can be seen. The decline can be attributed mainly to the net trade in crude oil, which was down 12.7%, or 515, tb/d on a m-o-m basis.

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

	Sep 11	Oct 11	Nov 11	Change Nov/Oct
Crude oil	3,602	3,401	3,555	153
Total products	468	505	633	129
Total crude and products	**4,069**	**3,906**	**4,188**	**282**

China

China's crude oil imports rose in November to 5.6 mb/d

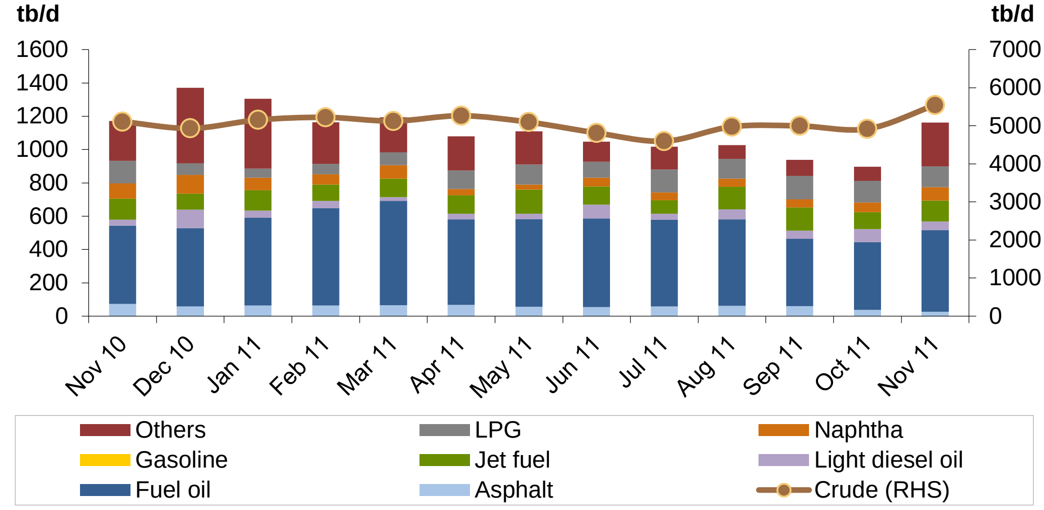
China's crude oil imports came to 5.55 mb/d, or 22.7 million tonnes, in November (an increase of 9.1% on a tonnage basis, or 12.7% on a b/d basis or 625 tb/d). This substantial increase in November can be attributed mainly to the domestic refinery runs, since they increased their processing volumes in the wake of the oil-shortage breaking out in parts of China in mid-October. The refining runs peaked in November, when crude imports hit a second monthly high of 22.69 mt, which draw near to the historic high level of September 2010 of 23.29 mt. Y-o-y, an 8.5% increase, representing 437 tb/d, compared with the previous year's level of 5.11 mb/d, is shown.

Comparing the first 11 months with the same period the year before, China's crude imports stood at 5.06 mb/d, a 5.6% increase, or 267 tb/d, on a y-o-y basis.

Oil product supply by imports registered a boost of 30%, or 266 tb/d, in November m-o-m. Y-o-y, a decrease of 0.8%, or 9 tb/d, is shown. This rise in product imports can be explained by a cut in product oil tariffs.

A comparison of the first 11 months for China's product imports shows an increase of 1.08 mb/d, or 11.7%, representing 113 tb/d, compared with the same period the year before.

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

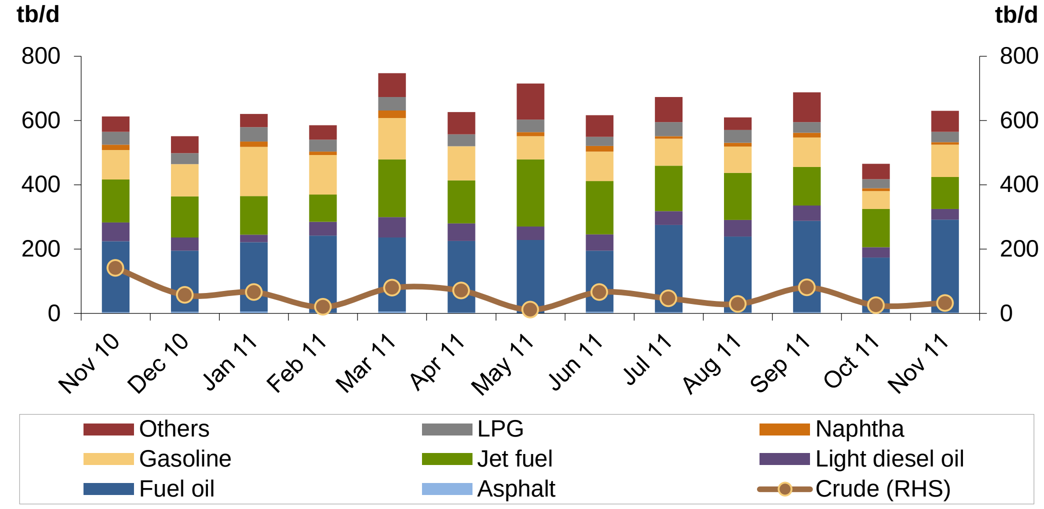


China's crude oil exports showed a moderate increase m-o-m in November of around 29%, or 7 tb/d, to 32 tb/d, from 25 tb/d. Comparing crude exports y-o-y, a decline of around 21.8%, or 13 tb/d, is shown.

Oil product exports also showed an increase in November, of around 35% or 164 tb/d, m-o-m. On a y-o-y basis, the increase is 2.7%, or 17 tb/d. Y-t-d, a level of 627 tb/d indicates a decline of 3.1%, or 20 tb/d, from the previous year's level of 647 tb/d.

As a result, **China's total net oil imports increased by 720 tb/d, or 13.5%, in November m-o-m to stand at 6.05 mb/d.** This increase can be attributed to crude and product net imports, which rose by 619 tb/d to 5.51 mb/d and by 101 tb/d to 0.53 mb/d respectively.

Graph 8.6: China's exports of crude and products



Looking at the first 11 months of 2011, China's total net oil imports rose by 414 tb/d, or 8.2%, to 5.47 mb/d.

The top-five suppliers to the Chinese market were ranked as Saudi Arabia with 1.18 mb/d, Angola with 0.75 mb/d, Iran with 0.62 mb/d, Russia with 0.46 mb/d and Oman with 0.39 mb/d.

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

	Sep 11	Oct 11	Nov 11	Change Nov/Oct
Crude oil	4,916	4,894	5,513	619
Total products	250	431	532	101
Total crude and products	**5,166**	**5,325**	**6,045**	**720**

India

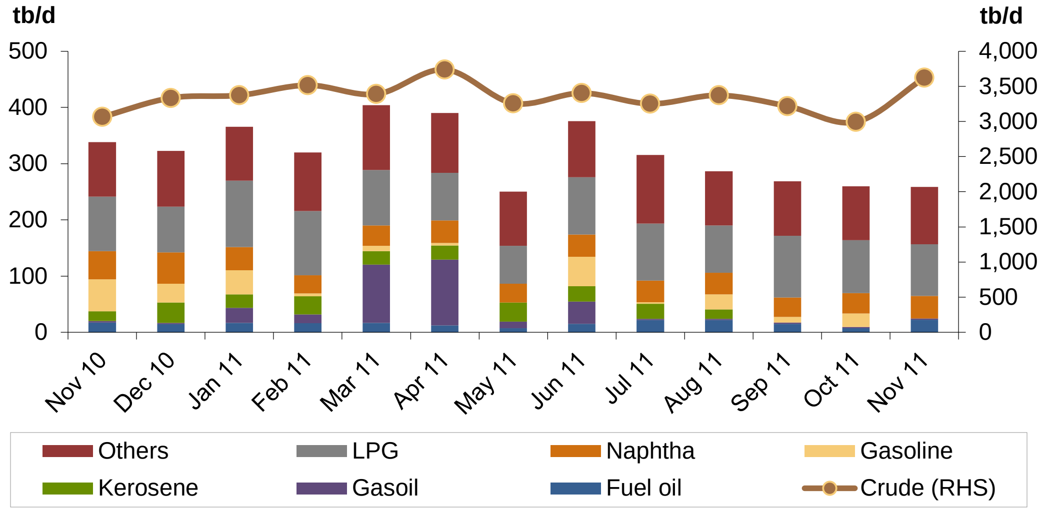
India's crude oil imports increased by 21% in November to 3.62 mb/d

India's crude oil imports increased m-o-m by 628 tb/d, or 21.0%, in November, to stand at 3.62 mb/d. In the first 11 months of 2011, they were 3.37 mb/d, which was 230 tb/d, or 7.3%, higher than in the same period of the previous year.

Product imports decreased slightly for sixth consecutive months up to November by 0.5%, or 1 tb/d, to an average of around 259 tb/d. Despite increases in gasoline and fuel oil imports in November, the overall decline in product imports continued at a slower pace. However, India's product imports remained above the 250 tb/d level, the lowest from May in 2011. Compared with a year ago, November's product imports were 25.7% lower. LPG was also a contributor to the product import decrease in November 2011 aside from the fact that there were no deliveries for gasoline and kerosene. LPG declined by around 2.0%, or 1.8 tb/d, compared with the month before, to 92.0 tb/d.

India's product imports in the first 11 months were 315 tb/d, which represented a decline of around 5.4%, or 18 tb/d, compared with the same period the previous year, when it was 333 tb/d.

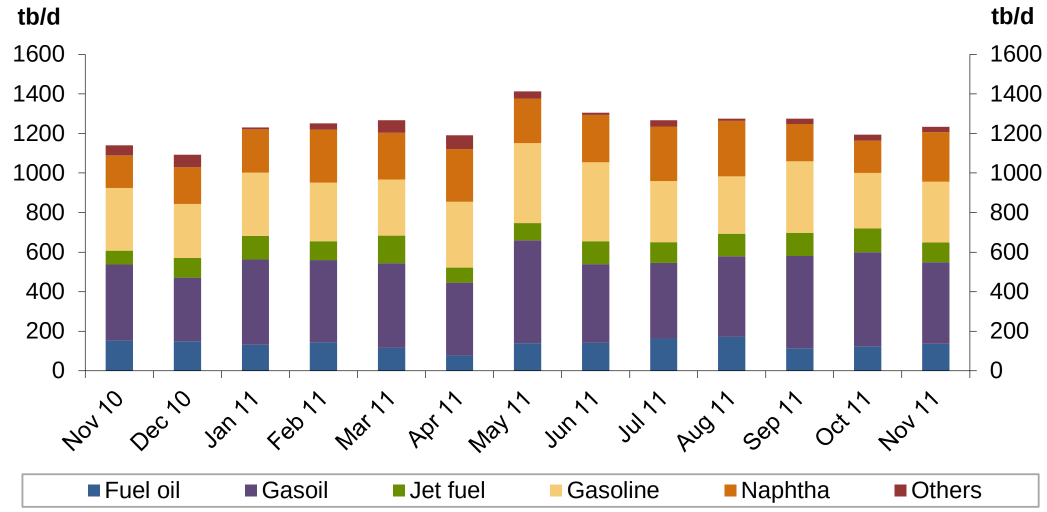
Graph 8.7: India's imports of crude and petroleum products



On the export side, products decreased by 40 tb/d, or 3.3%, in November m-o-m, to 1.23 mb/d. On a y-o-y basis, product exports increased by 8.2% in November. Over the first 11 months, they showed an increase of 19.6%, or 207 tb/d, to reach 1.26 mb/d, compared with the same period of 2010, when they were 1.06 mb/d.

As a result, **India's net oil imports increased by 586 tb/d, or 28.5%, to an average of 2.65 mb/d,** which was the second-highest level since 2.94 mb/d in April. Year-on-year, they showed a rise of 16.5%.

Graph 8.8: India's exports of petroleum products



Comparing the first 11 months, which saw a level of 2.42 mb/d, we can note a moderate increase of 2.0%, or 5.0 tb/d, compared with the previous year's 2.42 tb/d.

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

	Sep 11	Oct 11	Nov 11	*Change Nov/Oct*
Crude oil	3,218	2,993	3,621	628
Total products	-1,006	-934	-975	-41
Total crude and products	**2,212**	**2,059**	**2,646**	**586**

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

FSU

FSU crude exports rose 3.4% to 6.68 mb/d in November; products fell by 1.5% to 2.42 mb/d

Total FSU crude exports increased in November by 221 tb/d, or 3.4%, m-o-m to 6.68 mb/d. The increase can be seen as being mainly due to the attempt to maximize crude oil exports in November, ahead of an increase in export duty which was supposed to start in January 2012. However, increased pipeline exports from Russia were partially offset by reduced exports from Azerbaijan. Exports of Azeri crude, using the Baku-Tbilisi-Ceyhan pipeline, dropped to 613 tb/d, down by 63 tb/d or 9.3%, in November, due to a planned production shutdown caused by field maintenance.

Shipments through Russia's Transneft pipeline system rose by 6.3% to 4.48 mb/d, the highest level since April 2007. In addition to the rush to avoid the export duty hike, as mentioned above, loadings were increased by continuing maintenance at Russian refineries.

Exports of Kazakh crude to China through the Kenkiyak-Alashankou pipeline were raised in November m-o-m by 9.6%, or 16 tb/d, after the steep 30%, or 75 tb/d, decline in October.

Exports of CPC Blend through the Caspian Pipeline Consortium terminal at Novorossiysk were up m-o-m in November by 49 tb/d, or 7.8%, to 677 tb/d, reflecting higher shipments by Russia's Rosneft and increased output in Kazakhstan. Black Sea pipeline exports were up m-o-m to 1.02 mb/d, by 81 tb/d, or 8.7%, compared with October.

Shipments of Russian crude along the Druzhba pipeline increased m-o-m by 3.4%, or 41 tb/d, after a high level of supply during October. Exports of ESPO Blend from Russia's far-eastern Kozmino terminal were down by 15 tb/d, or 5.3%, to 269 tb/d in November, while direct pipeline exports to China were stable at 313 tb/d.

Exports from Sakhalin fell in November as a result of the drop in loadings of light sweet offshore grade Sokol, bringing overall exports from Russia's far east to 274 tb/d, a decline of 7.4%, or 22 tb/d, compared with the month before.

Crude exports from Varandey terminal in northern Russia dropped sharply in November to 53 tb/d from 138 tb/d. The high level in October was due to the loading of accumulated oil storage at the port.

The FSU's product exports were broadly stable in November, with only a marginal decline of 1.5% to 2.42 mb/d, compared with October. It was mainly the conclusion of routine seasonal maintenance in Russian refineries that limited exports of most products. In particular, supplies of fuel oil rose slightly, by 3.4% or 43 tb/d, although this was countered by a decrease in gasoil of 0.6%, or 4 tb/d, after the Energy Ministry ordered oil companies to minimize exports of 10ppm sulphur gasoil in November to ensure sufficient domestic supply, following the ban on sales of gasoil with sulphur content exceeding 500ppm.

Jet exports rose sharply, by 3 tb/d, to 4.0 tb/d in November, compared with 1 tb/d in October. The low figure in October followed an acute shortage of jet fuel at Russian airports in September and also reflected reduced output of the product by Russian refineries. Gasoline and naphtha exports declined by around 41.4%, or 58 tb/d, to 82 tb/d and by 13.3%, or 30 tb/d, to 196 tb/d respectively in November m-o-m.

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

	2009	2010	1Q11	2Q11	3Q11	Oct 11	Nov 11*
Crude							
Russian pipeline							
Black Sea	1,201	994	970	886	951	935	1,016
Baltic	1,577	1,564	1,445	1,534	1,342	1,485	1,641
Druzhba	1,112	1,126	1,140	1,118	1,178	1,202	1,243
Kozmino	0	309	294	315	319	284	269
Total	**3,922**	**4,005**	**4,155**	**4,157**	**4,087**	**4,218**	**4,483**
Other routes							
Russian rail	280	330	197	145	137	202	195
Russian-Far East	283	276	299	286	260	296	274
Kazakh rail	18	1	0	128	126	184	178
Vadandey	155	152	111	92	67	138	53
Kaliningrad	0	24	23	21	22	30	28
CPC	736	743	737	671	668	628	677
BTC	805	775	710	761	691	676	613
Kenkiyak-Alashankou	157	204	230	239	240	166	182
Caspian	281	239	183	141	123	99	171
Total crude exports	**6,653**	**6,750**	**6,646**	**6,525**	**6,295**	**6,454**	**6,675**
Products							
Gasoline	221	152	205	220	101	140	82
Naphtha	269	275	285	302	246	226	196
Jet	47	20	7	17	16	1	4
Gasoil	948	878	896	793	711	698	694
Fuel oil	1,116	1,235	1,178	1,448	1,330	1,223	1,265
VGO	235	242	179	294	189	172	181
Total	**2,837**	**2,801**	**2,750**	**3,074**	**2,594**	**2,460**	**2,422**
Total oil exports	**9,490**	**9,551**	**9,396**	**9,600**	**8,889**	**8,914**	**9,097**

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

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

Stock Movements

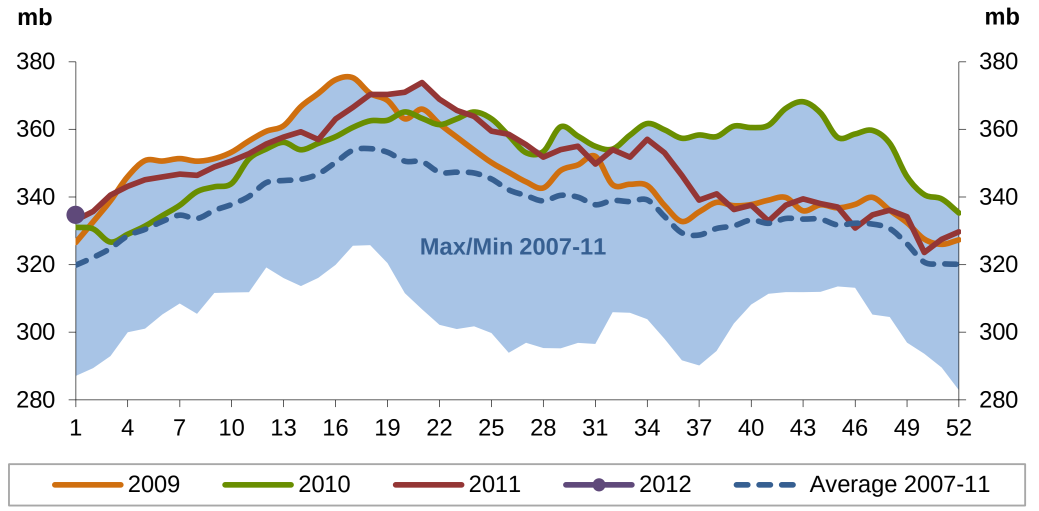
US

US commercial oil stocks continue to fall in December, declining by 9.7 mb

US commercial oil stocks fell for the fourth consecutive month in December, losing nearly 60 mb since September. At the end of December, they dropped by 9.7 mb to stand at 1,044.3 mb, the lowest level since April. This drop was attributed to both crude and products, which fell by 6.4 mb and 3.3 mb respectively. As a result of this decline in total inventories, the deficit with a year ago stood at 22.7 mb, or 2.1%; however, they still displayed a surplus with the five-year average of 14.1 mb, or 1.4%.

US commercial crude stocks fell for the second consecutive month by 6.4 mb, to stand at 329.7 mb. Despite this draw, they still showed a surplus of 13.4 mb, or 4.2%, over the last five-year average; however, they remained 2.3 mb, or 0.7%, below the year-ago level. The drop came mainly from a more-than-100,000 b/d decline in crude oil imports, which averaged 8.5 mb/d, although this level is almost 150,000 b/d above that of the previous year. The fall in crude oil stocks came despite lower US crude oil refinery inputs, which declined by 170,000 b/d over the previous month, averaging 14.7 mb/d; this level is 300,000 b/d lower than a year ago over the same period. In December, US refineries operated at 84.8%, 0.9 percentage points (pp) lower than same rate the previous month and 3.1 pp lower than the same month of the year before. It should be noted that the bulk of the decline in US crude stocks occurred in the first half of December, since the last two weeks showed a rebound from their 10 mb plunge two weeks before. This build was supported by a strong recovery in crude oil imports, climbing over 9.0 mb/d in the last week of 2011. Cushing stocks continued to fall, by around 2.0 mb to just 293 mb, the lowest level in over two years.

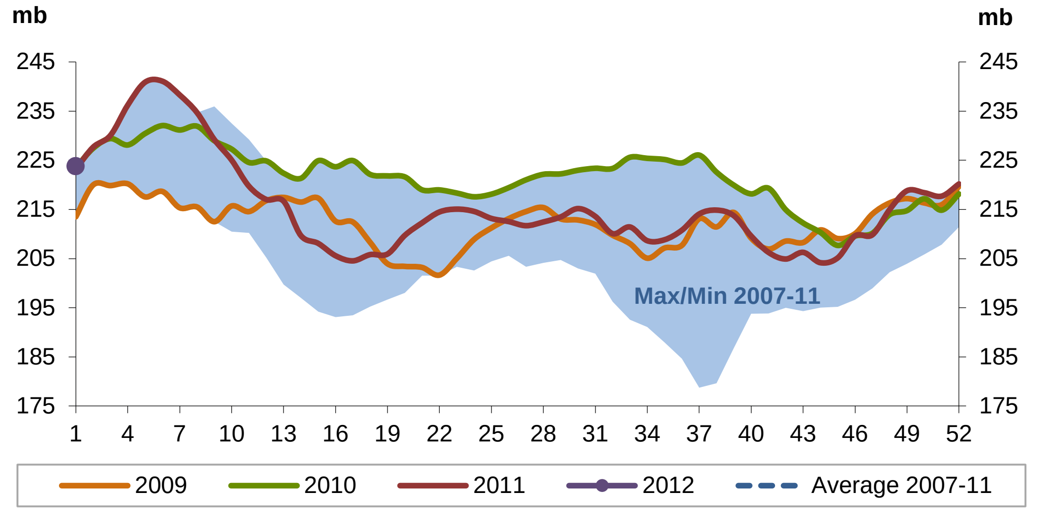
Graph 9.1: US weekly commercial crude oil inventories



US product stocks declined for the fourth consecutive month in December to stand at 714.6 mb, the lowest level since June. However, the fall in December was less than the seasonal drop, widening the gap with the five-year average to 14.1 mb, or 1.4%. However, they stood at a deficit of 20.4 mb, or 0.7%, with a year ago. The drop reflected mainly lower refinery output, since total demand remained almost unchanged from the previous month.

Within products, the picture was mixed. Other unfinished product stocks saw the bulk of the drop, declining by 3.6 mb, followed by 2.2 mb for residual fuel oil and 0.7 mb for jet fuel. In contrast, gasoline and distillate stocks saw builds of 5.2 mb and 2.6 mb respectively. Gasoline stocks rose by 5.2 mb in December, following a build of 6.6 mb a month earlier, leaving them at 0.7 mb, or 0.3%, above the previous year's level and 2.9 mb, or 1.4%, higher than the last five-year average. Higher production, which reached more than 9.3 mb/d, was behind this build. Gasoline demand, which declined to just 8.7 mb/d, also contributed to the build in gasoline stocks. Weaker gasoline markets should continue alleviating pressure on gasoline and could lead to a further build in gasoline inventories. Distillate stocks reversed the drop incurred over the last five months and increased by 2.6 mb to end the month at 143.6 mb. Despite this build, distillate stocks remained at 20.9 mb, or 12.7%, below the same period the year before and 7.2 mb or 4.8% less than the seasonal norm. The build in distillate stocks came on the back of larger distillate production, averaging 4.9 mb/d in December, a historically high level. Domestic demand remained almost stable, averaging 3.9 mb/d. However, in the last week of December, demand declined to around 3.6 mb/d amid a relatively quiet and warm holiday week.

Graph 9.2: US weekly gasoline stocks



Preliminary export figures were strong at over 1 mb/d, which should maintain some pressure on distillate inventories. Residual fuel oil and jet fuel stocks fell by 2.2 mb and 0.7 mb respectively. At 36.4 mb, residual fuel stocks stood at 4.9 mb, or 11.8%, below last year and 2.9 mb, or 7.3%, beneath the seasonal norm. Jet fuel oil stocks ended December at 41.4 mb, the lowest level since June. This meant a surplus of 0.8 mb, or 1.9%, on the five-year average, but a deficit of 0.7 mb, or 1.8%, with the same month the year before.

Table 9.1: US onland commercial petroleum stocks, mb

	Oct 11	Nov 11	Dec 11	Change Dec 11/Nov 11	Dec 10	06 Jan 12 *
Crude oil	338.6	336.1	329.7	-6.4	333.4	334.6
Gasoline	208.4	215.0	220.2	5.2	219.4	223.8
Distillate fuel	142.9	141.0	143.6	2.6	164.3	147.6
Residual fuel oil	36.8	38.6	36.4	-2.2	41.3	35.8
Jet fuel	45.6	42.2	41.4	-0.7	43.2	41.5
Total	**1073.9**	**1054.0**	**1044.3**	**-9.7**	**1067.6**	**1053.76**
SPR	696.0	696.0	696.0	0.0	726.5	696.0

** Latest available data at time of report's release*

Source: US Department of Energy's Energy Information Administration

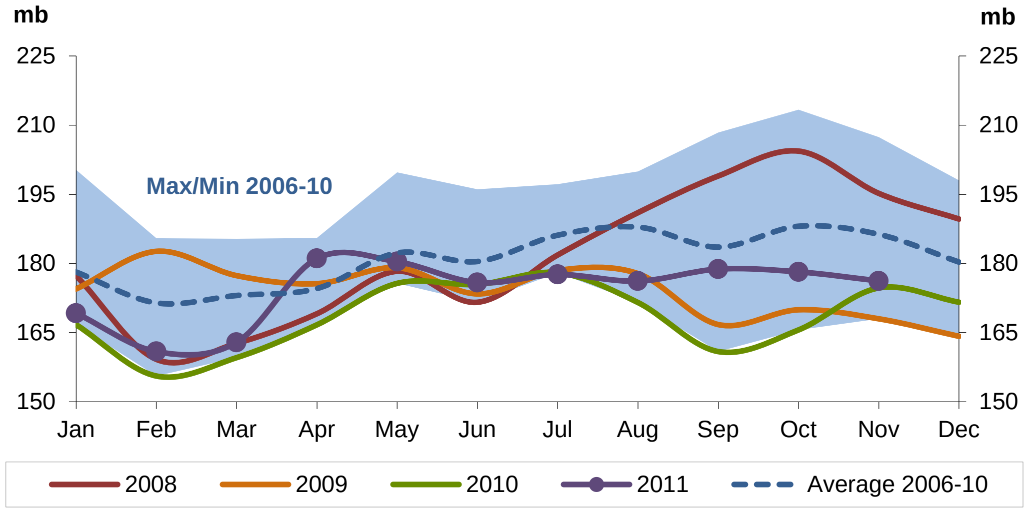
Japan

In Japan, commercial oil stocks fell for the second consecutive month in December

In November, **commercial oil stocks** in Japan fell for the second consecutive month, by 2.0 mb to 176.2 mb. Despite this draw, they still showed a surplus with a year ago of 1.5 mb, or 0.9%, while the deficit with the five-year average widened to 10.1 mb, or 5.4%. This stock draw was attributed to the fall in crude inventories, which declined by 2.5 mb, while, in contrast, product oil stocks rose by 0.6 mb.

Japanese **commercial crude oil stocks** in November reversed the build of the two previous months, declining by 2.5 mb to end the month at 98.4 mb. With this draw, they narrowed the surplus with a year before to 0.9%, from 7.6% a month earlier. However, the deficit with the seasonal norm remained almost unchanged at 5.4%. The drop in November came from higher crude throughput, which increased by around 240,000 b/d, or 7.6%, from the previous month, to average 3.39 mb/d. However, this level is still 12.7% below that of the same period the year before and corresponds to a refinery utilization rate of 75.3%, which, in turn, is 5.4 pp higher than previous month and 7.4 pp less than the same period the year before. It is important to note that direct crude burning continued to increase to more than three times the level seen the previous year in the same month. An increase in Japanese crude oil imports has limited the fall in crude oil stocks. In fact, imports rose by around 150,000 b/d, or 4.5%, from the month before to average 3.6 mb/d, but they are down by 12.7% from the previous year, the first year-on-year fall for three months.

Graph 9.3: Japan's commercial oil stocks



In contrast to the fall in crude oil, Japanese total **product inventories** rose in November, reversing the drop of last month to stand at 77.8 mb. With this build, the deficit with the last five-year average has narrowed to 6.9% from 10.1% a month earlier, while the surplus with the same period the year before remained at 0.2%. The build came from higher refinery output, which increased by 6.2% to average 3.2 mb/d, but remained 7.8% lower than the same time the year before. This build came despite a 200,000 b/d, or 6.5%, increase in Japanese oil product sales in November to 3.4 mb/d; however, they remained 3.4% below the same period the year before, representing the lowest level in 26 years for the month. This indicates that overall demand in Japan remained weak, despite a jump in low-sulphur fuel oil used for power-generation.

With the exception of naphtha, which dropped by 0.9 mb, all products saw a build, with the bulk of the gain coming from distillate stocks, which rose by 1.1 mb. This was followed by a build of 0.3 mb in gasoline stocks, while fuel oil inventories remained almost unchanged. At 38.2 mb, distillate stocks showed a surplus of 3.2 mb, or 9.2%, over the same period the year before, while they narrowed the deficit with the five-year average to 5.2% from 10.4% last month. Within the components of distillates, the picture was mixed. The build in gasoil came on the back of higher imports, which increased by 26%, while the build in kerosene could be attributed to lower domestic sales, as demand for kerosene for heating oil fell by 14.7%, with temperatures in November warmer than normal. In contrast, the drop in jet fuel stocks could be attributed to lower output, declining by almost 26%. Gasoline stocks also saw a build, to end the month at 12.9 mb, but remained 5.8% below a year ago and 5.2% lower than the seasonal norm. The build in gasoline inventories came on the back of higher gasoline output, which increased by 2.7% from the previous month, combined with lower domestic sales, which declined by 1.6%. Residual fuel stocks remained almost unchanged, ending November at 16.2 mb and showing a slight surplus of 0.2% with the same time the year before, while the deficit with the last five-year average stood at 10.8%. Within the components of fuel oil, fuel oil A inventories saw a drop of 1.4% while fuel oil B.C stocks went up by 1.3%. The stock draw in fuel oil A came on the back of higher domestic sales, which increased by 8.9%, while higher output was behind the build in fuel oil B.C stocks. Fuel oil B.C is used partly for power generation and stocks rose by 0.4% from a month earlier, but stand more than 50% lower than a year ago. Naphtha stocks saw a drop of 0.8 mb, ending the month at 10.5 mb, indicating a deficit of 17% with the same period a year ago and 11% below the seasonal average.

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

	Sep 11	Oct 11	Nov 11	Change Nov 11/Oct 11	Nov 10
Crude oil	99.9	101.0	98.4	-2.6	97.1
Gasoline	12.9	12.6	12.9	0.3	13.7
Naphtha	10.8	11.4	10.5	-0.9	12.8
Middle distillates	37.8	37.1	38.2	1.1	35.0
Residual fuel oil	17.5	16.2	16.2	0.0	16.2
Total products	78.9	77.2	77.8	0.6	77.6
Total**	**178.8**	**178.2**	**176.2**	**-2.0**	**174.7**

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

Singapore and Amsterdam-Rotterdam-Antwerp (ARA)

Product stocks in Singapore continue to fall in November

At the end of November, **product stocks in Singapore** continued their downward trend for the fifth consecutive month, falling by 1.0 mb to end the month at 39.3 mb, the lowest level since January 2009. With this draw, they stood at 5.7 mb, or 12.7%, below the same time the year before.

Within products, the picture was mixed. Light distillates rose by 1.0 mb, while middle distillates and fuel oil declined by 1.3 mb and 0.7 mb respectively. Singapore light distillate stocks continued their build for the third consecutive month, ending November at 12.2 mb, to stand at 18 mb, or 17.4%, above the same time the year before. The build in light distillate stocks could be attributed to softer regional demand. In contrast, middle distillates experienced a stock draw for the second consecutive month, ending November at 9.4 mb. They stood at 4.8 mb, or 33%, below the same time the year before. Healthy Western demand, which increased exports from Singapore, and lower imports from North Asian refiners were behind the stock draw in middle distillates. Additionally, the impact of lower output from Shell's 500,000 b/d refinery in Singapore contributed to the decline in middle distillate inventories. Fuel oil stocks also declined, to end November at 17.6 mb, and were 2.8 mb, or 13.5%, below the same period the year before. This low inventory level is partly due to strong demand from regional buyers, particularly China. A steep backwardated structure also contributed to the stock-draw in fuel oil.

In November, ARA product stocks reversed the draw of a month earlier to build

Product stocks in ARA reversed the draw of the previous month and rose by 1.4 mb to end November at 308 mb. With this build, the deficit with the year before stood at 6.1 mb, or 16.4%. Within products, the picture was mixed. Gasoil, naphtha and gasoline saw gains, while jet fuel and fuel oil stocks experienced draws.

Gasoil reversed the drop of the last six months and increased by 1.6 mb, to finish the month at 15.8 mb, which was 5.5 mb, or 26%, below the same period a year ago. Low water levels in the River Rhine were a problem throughout November, pushing up freight rates, since barges could not travel at full capacity. This bottleneck sent ARA stocks higher. Gasoline stocks also went up by 0.4 mb, to end the month at 5.4 mb, which was 1.2 mb, or almost 30%, above the previous year in the same period. This build came mainly from higher imports outpacing the outgoing flows from the ARA region. Naphtha stocks rose by 0.5 mb to end the month at 1.08 mb, the highest level for the year and 0.2 mb or 24% above the previous year's level. This build was supported by arrivals from Russia and Spain. Jet fuel stocks fell by 1.0 mb, reversing the build of the previous month and ending November at 3.5 mb. They stood at 1.3 mb, or 27%, below the same month the year before. Fuel oil stocks tightened and were below 5 mb for the first time since February, showing a deficit of 0.7 mb, or 12%, over the same period a year earlier. Lower inflows, including those from Russia, were behind their decline.

Balance of Supply and Demand

Required OPEC crude for 2011 estimated at 30.1 mb/d, 0.4 mb/d higher than in the previous year.

Estimate for 2011

Demand for OPEC crude for 2011 has been revised up by around 0.1 mb/d from the previous report, driven mainly by an upward revision in the first and fourth quarter of 0.1 mb/d and 0.2 mb/d respectively. This adjustment reflects a downward revision in non-OPEC supply as demand remained unchanged. At 30.1 mb/d, the demand for OPEC crude stood at 0.4 mb/d over the previous year. Growth in 1Q11 and 2Q11 is estimated at 0.9 mb/d and 0.2 mb/d respectively, while the third quarter is estimated to remain unchanged. Growth in 4Q11 is expected at 0.4 mb/d over a year ago.

Table 10.1: Summarized supply/demand balance for 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011
(a) World oil demand	**86.94**	**87.52**	**86.33**	**88.38**	**89.09**	**87.84**
Non-OPEC supply	52.28	52.77	51.96	52.08	52.85	52.41
OPEC NGLs and non-conventionals	4.90	5.12	5.26	5.37	5.42	5.29
(b) Total supply excluding OPEC crude	**57.19**	**57.89**	**57.22**	**57.44**	**58.27**	**57.70**
Difference (a-b)	**29.75**	**29.64**	**29.12**	**30.93**	**30.82**	**30.13**
OPEC crude oil production	29.27	29.63	29.21	29.93	30.44	29.81
Balance	-0.48	0.00	0.09	-1.01	-0.38	-0.33

Totals may not add up due to independent rounding

Demand for OPEC crude in 2012 forecast at 30.1 mb/d, broadly unchanged from the previous year

Forecast for 2012

The demand for OPEC crude in 2012 is projected to average 30.1 mb/d, about 60,000 b/d higher than in the previous report. Within the quarters, the first and third quarters were revised up by 0.1 mb/d, while the second and fourth remained unchanged. Required OPEC crude is forecast to remain flat from the previous year. 1Q12 is estimated to see growth of 0.2 mb/d, followed by a contraction of 0.1 mb/d in 2Q12, while 3Q12 and 4Q12 are forecast to experience an increase of 0.1 mb/d over a year ago.

Table 10.2: Summarized supply/demand balance for 2012, mb/d

	2011	1Q12	2Q12	3Q12	4Q12	2012
(a) World oil demand	**87.84**	**88.48**	**87.52**	**89.54**	**90.04**	**88.90**
Non-OPEC supply	52.41	53.14	52.93	52.98	53.34	53.10
OPEC NGLs and non-conventionals	5.29	5.50	5.61	5.71	5.79	5.65
(b) Total supply excluding OPEC crude	**57.70**	**58.64**	**58.54**	**58.69**	**59.13**	**58.75**
Difference (a-b)	**30.13**	**29.84**	**28.98**	**30.84**	**30.91**	**30.15**

Totals may not add up due to independent rounding

Graph 10.1: Balance of supply and demand

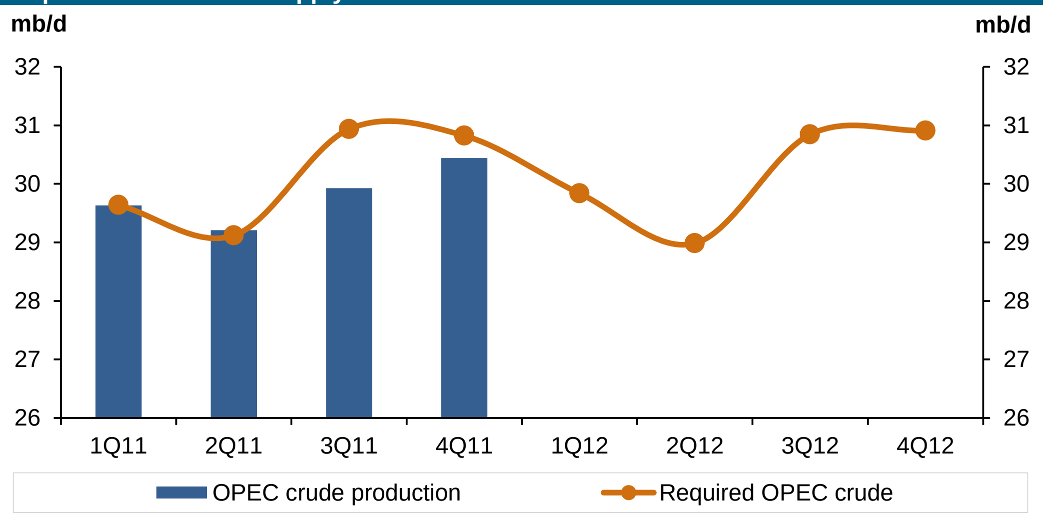


Table 10.3: World oil demand/supply balance, mb/d

	2006	2007	2008	2009	2010	1Q11	2Q11	3Q11	4Q11	2011	1Q12	2Q12	3Q12	4Q12	2012
World demand															
OECD	49.5	49.3	47.6	45.6	46.2	46.3	44.6	46.1	46.5	45.9	46.2	44.6	46.1	46.4	45.8
North America	25.4	25.5	24.2	23.3	23.8	23.8	23.3	23.6	23.6	23.6	23.7	23.4	23.7	23.7	23.6
Western Europe	15.7	15.5	15.4	14.7	14.6	14.2	14.1	14.8	14.6	14.4	14.0	14.0	14.6	14.4	14.3
Pacific	8.5	8.4	8.0	7.7	7.8	8.3	7.1	7.7	8.3	7.9	8.4	7.2	7.7	8.3	7.9
DCs	23.6	24.8	25.6	26.2	27.0	27.2	27.6	27.8	27.9	27.6	27.8	28.2	28.5	28.4	28.2
FSU	4.0	4.0	4.1	4.0	4.1	4.1	4.0	4.4	4.5	4.2	4.2	4.1	4.5	4.5	4.3
Other Europe	0.9	0.8	0.8	0.7	0.7	0.7	0.6	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7
China	7.2	7.6	8.0	8.3	9.0	9.1	9.5	9.4	9.6	9.4	9.5	10.0	9.8	9.9	9.8
(a) Total world demand	85.2	86.5	86.1	84.7	86.9	87.5	86.3	88.4	89.1	87.8	88.5	87.5	89.5	90.0	88.9
Non-OPEC supply															
OECD	20.1	20.0	19.5	19.7	20.0	20.1	19.8	19.9	20.5	20.1	20.3	20.2	20.1	20.3	20.2
North America	14.2	14.3	13.9	14.4	15.0	15.3	15.2	15.5	15.7	15.4	15.6	15.6	15.7	15.8	15.7
Western Europe	5.3	5.2	4.9	4.7	4.4	4.3	4.1	3.8	4.2	4.1	4.2	4.0	3.9	4.0	4.0
Pacific	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.5	0.6
DCs	11.9	11.9	12.2	12.4	12.7	12.8	12.5	12.6	12.7	12.7	12.9	12.9	13.0	13.0	12.9
FSU	12.0	12.5	12.6	13.0	13.2	13.3	13.3	13.2	13.4	13.3	13.4	13.4	13.4	13.5	13.4
Other Europe	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	0.1
China	3.7	3.8	3.8	3.8	4.1	4.2	4.2	4.1	4.0	4.1	4.2	4.2	4.2	4.2	4.2
Processing gains	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.2	2.2	2.2	2.2	2.2
Total non-OPEC supply	49.9	50.4	50.3	51.1	52.3	52.8	52.0	52.1	52.8	52.4	53.1	52.9	53.0	53.3	53.1
OPEC NGLs + non-conventional oils	3.9	3.9	4.1	4.3	4.9	5.1	5.3	5.4	5.4	5.3	5.5	5.6	5.7	5.8	5.7
(b) Total non-OPEC supply and OPEC NGLs	53.8	54.4	54.4	55.4	57.2	57.9	57.2	57.4	58.3	57.7	58.6	58.5	58.7	59.1	58.8
OPEC crude oil production (secondary sources)	30.6	30.2	31.3	28.8	29.3	29.6	29.2	29.9	30.4	29.8					
Total supply	84.4	84.6	85.7	84.2	86.5	87.5	86.4	87.4	88.7	87.5					
Balance (stock change and miscellaneous)	-0.9	-2.0	-0.4	-0.5	-0.5	0.0	0.1	-1.0	-0.4	-0.3					
OECD closing stock levels (mb)															
Commercial	2655	2554	2679	2641	2670	2631	2676	2667							
SPR	1499	1524	1527	1564	1561	1558	1561	1526							
Total	4154	4079	4206	4205	4230	4188	4237	4192							
Oil-on-water	919	948	969	919	871	891	853	835							
Days of forward consumption in OECD															
Commercial onland stocks	54	54	59	57	58	59	58	57							
SPR	30	32	33	34	34	35	34	33							
Total	84	86	92	91	92	94	92	90							
Memo items															
FSU net exports	8.1	8.5	8.5	9.0	9.1	9.2	9.3	8.8	8.9	9.1	9.2	9.3	8.9	8.9	9.1
(a) - (b)	31.4	32.2	31.6	29.3	29.7	29.6	29.1	30.9	30.8	30.1	29.8	29.0	30.8	30.9	30.1

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

	2006	2007	2008	2009	2010	1Q11	2Q11	3Q11	4Q11	2011	1Q12	2Q12	3Q12	4Q12	2012
World demand															
OECD	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-
North America	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-0.1
Western Europe	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-
Pacific	-	-	-	-	-	-	-	-	0.2	-	0.1	-	-	0.2	0.1
DCs	-	-	-	-	-	-	0.1	-	-	-	-	0.1	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	0.1	-	-	-	-	0.1	-
(a) Total world demand	-	-	-	-	-	-	-	0.1	-	-	-	-	0.1	-	-
World demand growth	-	-	-	-	-	-	-	*0.08*	-	-	-	-	-	-	-
Non-OPEC supply	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OECD	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	0.1	0.1	-	-	-	-	-	-
Western Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	-	-0.2	-	-	-	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	-	-	-	-0.2	-	-	-	-	-	-
Total non-OPEC supply growth	-	-	-	-	-	-	-	-	*-0.21*	-	-	-	*-0.08*	*0.18*	-
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	-	-	-	-0.2	-	-	-	-	-	-
OPEC crude oil production (secondary sources)	-	-	-	-	-	-	-	-							
Total supply	-	-	-	-	-	-	-	0.1							
Balance (stock change and miscellaneous)	-	-	-	-	-	-	-	-							
OECD closing stock levels (*mb*)															
Commercial	-	-	-	-	2	1	-	-17							
SPR	-	-	-	-	-	-	-	-							
Total	-	-	-	-	2	1	-	-17							
Oil-on-water	-	-	-	-	-	-	-	-							
Days of forward consumption in OECD	-	-	-	-	-	-	-	-							
Commercial onland stocks	-	-	-	-	-	-	-	-							
SPR	-	-	-	-	-	-	-	-							
Total	-	-	-	-	-	-	-	-							
Memo items															
FSU net exports	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(a) - (b)	-	-	-	-	-	-	-	-	0.2	0.1	0.1	-	0.1	-	0.1

* *This compares Table 10.3 in this issue of the MOMR with Table 10.3 in the December 2011 issue*

This table shows only where changes have occurred

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

	2004	2005	2006	2007	2008	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
Closing stock levels *mb*																							
OECD onland commercial	2,531	2,576	2,655	2,554	2,679	2,643	2,629	2,554	2,553	2,584	2,641	2,679	2,731	2,745	2,763	2,641	2,675	2,757	2,750	2,670	2,631	2,676	2,667
North America	1,186	1,247	1,264	1,211	1,282	1,275	1,267	1,211	1,197	1,221	1,259	1,282	1,332	1,367	1,373	1,286	1,314	1,370	1,402	1,331	1,295	1,339	1,345
Western Europe	915	935	963	937	991	940	929	937	961	954	952	991	991	976	971	972	975	982	947	949	954	932	910
OECD Pacific	430	394	429	407	407	428	432	407	394	409	431	407	408	401	419	383	386	405	402	390	382	405	412
OECD SPR	1,450	1,487	1,499	1,524	1,527	1,506	1,520	1,524	1,529	1,526	1,522	1,527	1,547	1,561	1,564	1,564	1,567	1,562	1,549	1,561	1,558	1,561	1,526
North America	678	687	691	699	704	692	695	699	702	708	704	704	715	726	727	729	729	729	728	729	727	727	696
Western Europe	377	407	412	421	416	413	423	421	423	414	414	416	424	427	429	426	429	422	419	423	420	423	420
OECD Pacific	396	393	396	404	406	401	403	404	404	404	403	406	408	408	408	409	409	411	402	410	411	411	409
OECD total	3,982	4,063	4,154	4,079	4,206	4,149	4,149	4,079	4,082	4,110	4,164	4,206	4,278	4,306	4,327	4,205	4,241	4,319	4,299	4,230	4,188	4,237	4,192
Oil-on-water	905	954	919	948	969	891	917	948	935	925	885	969	899	899	869	919	919	897	926	871	891	853	835
Days of forward consumption in OECD																							
OECD onland commercial	51	52	54	54	59	54	53	52	54	55	56	57	61	61	60	57	59	59	59	58	59	58	57
North America	46	49	50	50	55	50	50	49	49	52	53	55	58	59	58	55	55	57	59	56	55	57	57
Western Europe	58	60	62	61	68	60	59	61	63	61	62	66	69	67	67	68	68	66	64	67	68	63	62
OECD Pacific	50	47	51	51	53	54	49	46	50	54	54	50	56	55	52	47	53	53	50	47	54	52	50
OECD SPR	29	30	30	32	33	31	30	31	32	33	32	33	35	35	34	34	35	34	33	34	35	34	33
North America	26	27	27	29	30	27	27	28	29	30	29	30	31	31	31	31	31	30	31	31	31	31	29
Western Europe	24	26	27	27	28	26	27	27	28	27	27	28	29	29	30	30	30	28	28	30	30	29	29
OECD Pacific	46	46	47	50	53	51	46	45	51	54	51	50	56	56	51	50	56	54	50	49	58	53	50
OECD total	80	82	84	86	92	85	83	83	86	88	88	90	96	95	94	92	94	93	92	91	94	92	90

n.a. not available

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

	2006	2007	2008	2009	Change 09/08	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10	1Q12	2Q12	3Q12	4Q12	2012	Change 12/11
US	7.36	7.47	7.50	8.14	0.64	8.55	8.52	8.63	8.84	8.64	0.49	8.76	8.94	9.00	9.21	8.98	0.34	9.10	9.12	9.13	9.22	9.14	0.16
Canada	3.20	3.31	3.27	3.25	-0.02	3.28	3.37	3.38	3.54	3.39	0.15	3.57	3.30	3.58	3.61	3.52	0.12	3.62	3.64	3.66	3.68	3.65	0.13
Mexico	3.69	3.49	3.17	2.98	-0.19	2.99	2.97	2.95	2.93	2.96	-0.02	2.97	2.96	2.92	2.93	2.94	-0.02	2.91	2.87	2.88	2.86	2.88	-0.06
North America	14.24	14.26	13.94	14.37	0.43	14.82	14.86	14.96	15.31	14.99	0.62	15.31	15.20	15.50	15.75	15.44	0.45	15.63	15.63	15.67	15.76	15.68	0.23
Norway	2.78	2.55	2.47	2.36	-0.11	2.32	2.12	1.93	2.17	2.14	-0.22	2.14	1.98	1.99	2.08	2.05	-0.09	2.05	1.93	1.89	1.99	1.97	-0.08
UK	1.71	1.69	1.57	1.48	-0.10	1.52	1.40	1.20	1.35	1.37	-0.11	1.27	1.17	0.93	1.20	1.14	-0.23	1.18	1.12	1.06	1.12	1.12	-0.02
Denmark	0.34	0.31	0.28	0.26	-0.02	0.25	0.25	0.23	0.26	0.25	-0.02	0.23	0.25	0.23	0.22	0.23	-0.02	0.23	0.22	0.22	0.21	0.22	-0.01
Other Western Europe	0.51	0.62	0.62	0.63	0.01	0.63	0.65	0.66	0.64	0.64	0.01	0.67	0.66	0.70	0.70	0.68	0.04	0.69	0.70	0.70	0.70	0.70	0.02
Western Europe	5.34	5.17	4.94	4.73	-0.21	4.72	4.42	4.03	4.42	4.39	-0.33	4.31	4.06	3.85	4.19	4.10	-0.29	4.15	3.97	3.87	4.01	4.00	-0.10
Australia	0.51	0.53	0.53	0.54	0.01	0.52	0.50	0.50	0.48	0.50	-0.04	0.42	0.41	0.42	0.46	0.43	-0.08	0.46	0.49	0.49	0.46	0.47	0.05
Other Pacific	0.05	0.08	0.10	0.10	0.00	0.10	0.10	0.10	0.09	0.10	0.00	0.09	0.09	0.09	0.09	0.09	-0.01	0.09	0.09	0.09	0.09	0.09	0.00
OECD Pacific	0.56	0.60	0.63	0.64	0.01	0.62	0.61	0.60	0.58	0.60	-0.04	0.51	0.50	0.51	0.55	0.52	-0.09	0.56	0.58	0.58	0.55	0.57	0.05
Total OECD	20.14	20.03	19.51	19.73	0.23	20.16	19.89	19.59	20.31	19.99	0.25	20.13	19.75	19.85	20.49	20.06	0.07	20.34	20.18	20.12	20.33	20.24	0.19
Brunei	0.22	0.19	0.17	0.16	-0.01	0.17	0.15	0.17	0.17	0.17	0.00	0.17	0.16	0.17	0.18	0.17	0.00	0.18	0.18	0.18	0.18	0.18	0.01
India	0.78	0.80	0.80	0.78	-0.02	0.82	0.83	0.88	0.90	0.86	0.08	0.90	0.89	0.88	0.90	0.89	0.04	0.92	0.92	0.92	0.93	0.92	0.03
Indonesia	1.07	1.02	1.05	1.03	-0.02	1.03	1.04	1.03	1.00	1.03	0.00	1.01	1.00	1.00	0.97	0.99	-0.03	0.98	0.97	0.97	0.97	0.97	-0.02
Malaysia	0.76	0.76	0.76	0.73	-0.03	0.72	0.70	0.68	0.69	0.70	-0.03	0.68	0.60	0.63	0.65	0.64	-0.06	0.64	0.63	0.62	0.61	0.63	-0.01
Thailand	0.32	0.33	0.36	0.37	0.01	0.34	0.35	0.36	0.33	0.35	-0.02	0.34	0.33	0.33	0.34	0.34	-0.01	0.33	0.33	0.33	0.34	0.33	0.00
Vietnam	0.37	0.35	0.33	0.37	0.04	0.35	0.35	0.36	0.37	0.35	-0.02	0.34	0.33	0.34	0.38	0.35	-0.01	0.37	0.38	0.39	0.40	0.39	0.04
Asia others	0.26	0.26	0.26	0.25	-0.01	0.22	0.24	0.24	0.23	0.23	-0.02	0.23	0.23	0.23	0.23	0.23	0.00	0.24	0.25	0.26	0.26	0.25	0.02
Other Asia	3.78	3.70	3.73	3.69	-0.04	3.66	3.67	3.70	3.70	3.68	0.00	3.69	3.54	3.58	3.64	3.61	-0.07	3.66	3.66	3.67	3.68	3.67	0.05
Argentina	0.77	0.77	0.78	0.76	-0.02	0.76	0.76	0.76	0.71	0.75	-0.01	0.76	0.68	0.74	0.75	0.73	-0.02	0.73	0.72	0.72	0.71	0.72	-0.01
Brazil	2.11	2.22	2.38	2.51	0.12	2.61	2.67	2.66	2.70	2.66	0.16	2.66	2.67	2.65	2.75	2.68	0.02	2.82	2.83	2.88	2.90	2.86	0.17
Colombia	0.54	0.54	0.60	0.68	0.09	0.77	0.79	0.80	0.83	0.80	0.12	0.88	0.94	0.94	0.98	0.93	0.13	1.00	1.02	1.04	1.05	1.03	0.09
Trinidad & Tobago	0.18	0.16	0.16	0.15	0.00	0.15	0.15	0.15	0.13	0.15	-0.01	0.14	0.14	0.14	0.13	0.14	-0.01	0.14	0.14	0.14	0.14	0.14	0.00
L. America others	0.26	0.28	0.28	0.30	0.02	0.31	0.31	0.32	0.32	0.32	0.01	0.31	0.31	0.31	0.31	0.31	-0.01	0.31	0.31	0.31	0.31	0.31	0.00
Latin America	3.87	3.97	4.20	4.40	0.20	4.61	4.69	4.68	4.70	4.67	0.26	4.75	4.73	4.78	4.93	4.80	0.13	5.01	5.03	5.09	5.12	5.06	0.27
Bahrain	0.21	0.21	0.21	0.21	0.00	0.21	0.20	0.20	0.21	0.20	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.22	0.22	0.21	0.01
Oman	0.75	0.71	0.76	0.81	0.06	0.86	0.86	0.87	0.88	0.86	0.05	0.89	0.87	0.89	0.90	0.89	0.03	0.93	0.93	0.94	0.95	0.94	0.05
Syria	0.44	0.42	0.41	0.41	0.00	0.42	0.43	0.42	0.42	0.42	0.01	0.42	0.42	0.40	0.28	0.38	-0.04	0.26	0.26	0.25	0.25	0.25	-0.13
Yemen	0.37	0.33	0.30	0.30	0.00	0.30	0.29	0.28	0.27	0.29	-0.02	0.27	0.16	0.20	0.17	0.20	-0.09	0.21	0.21	0.21	0.20	0.21	0.01
Middle East	1.76	1.66	1.68	1.73	0.05	1.78	1.77	1.78	1.78	1.78	0.04	1.78	1.65	1.70	1.56	1.67	-0.10	1.62	1.61	1.62	1.61	1.61	-0.06
Chad	0.15	0.15	0.15	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	0.00	0.14	0.13	0.13	0.13	0.13	-0.01
Congo	0.25	0.24	0.26	0.27	0.02	0.30	0.30	0.29	0.29	0.30	0.02	0.29	0.29	0.30	0.30	0.29	0.00	0.31	0.30	0.30	0.29	0.30	0.01
Egypt	0.66	0.66	0.69	0.69	0.00	0.69	0.71	0.72	0.71	0.71	0.01	0.71	0.71	0.71	0.71	0.71	0.00	0.70	0.70	0.70	0.69	0.70	-0.01
Equatorial Guinea	0.37	0.37	0.38	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	0.31	0.31	0.32	0.33	0.32	0.01
Gabon	0.25	0.25	0.24	0.24	0.00	0.25	0.23	0.25	0.25	0.25	0.01	0.26	0.24	0.24	0.25	0.25	0.00	0.25	0.25	0.25	0.24	0.25	0.00
South Africa	0.19	0.18	0.18	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	0.17	0.17	0.17	0.17	0.17	-0.01
Sudan	0.36	0.48	0.46	0.48	0.02	0.46	0.46	0.47	0.47	0.46	-0.01	0.46	0.42	0.42	0.39	0.42	-0.04	0.39	0.38	0.38	0.37	0.38	-0.04
Africa other	0.29	0.28	0.27	0.25	-0.01	0.24	0.23	0.23	0.22	0.23	-0.02	0.27	0.29	0.30	0.31	0.29	0.06	0.34	0.34	0.35	0.35	0.34	0.05
Africa	2.51	2.60	2.62	2.60	-0.02	2.59	2.57	2.60	2.58	2.59	-0.01	2.61	2.57	2.59	2.57	2.58	0.00	2.59	2.58	2.58	2.57	2.58	0.00
Total DCs	11.92	11.94	12.23	12.43	0.20	12.64	12.70	12.76	12.75	12.71	0.29	12.83	12.49	12.65	12.70	12.67	-0.05	12.87	12.89	12.96	12.99	12.93	0.26
FSU	12.03	12.54	12.60	12.95	0.35	13.16	13.20	13.21	13.33	13.22	0.27	13.32	13.25	13.23	13.36	13.29	0.06	13.44	13.37	13.40	13.47	13.42	0.13
Russia	9.65	9.87	9.78	9.92	0.14	10.09	10.12	10.13	10.22	10.14	0.22	10.21	10.23	10.28	10.33	10.26	0.12	10.32	10.31	10.34	10.35	10.33	0.06
Kazakhstan	1.30	1.35	1.41	1.54	0.12	1.60	1.56	1.57	1.65	1.60	0.06	1.66	1.60	1.54	1.64	1.61	0.01	1.66	1.63	1.64	1.68	1.65	0.04
Azerbaijan	0.65	0.87	0.94	1.06	0.12	1.05	1.10	1.10	1.03	1.07	0.01	1.02	0.99	0.96	0.94	0.98	-0.09	1.02	0.99	0.98	1.01	1.00	0.02
FSU others	0.43	0.45	0.46	0.44	-0.02	0.42	0.42	0.41	0.42	0.42	-0.02	0.43	0.43	0.44	0.44	0.43	0.02	0.44	0.44	0.44	0.44	0.44	0.00
Other Europe	0.15	0.15	0.15	0.14	-0.01	0.14	0.14	0.14	0.14	0.14	0.00	0.14	0.14	0.14	0.13	0.14	0.00	0.14	0.14	0.14	0.15	0.14	0.01
China	3.69	3.77	3.84	3.84	0.00	4.01	4.08	4.16	4.24	4.12	0.28	4.22	4.19	4.08	4.04	4.13	0.01	4.16	4.16	4.17	4.21	4.18	0.04
Non-OPEC production	47.94	48.43	48.32	49.09	0.77	50.11	50.00	49.86	50.76	50.18	1.09	50.64	49.83	49.95	50.72	50.28	0.10	50.95	50.74	50.79	51.15	50.91	0.63
Processing gains	1.96	1.99	1.97	2.00	0.03	2.10	2.10	2.10	2.10	2.10	0.10	2.13	2.13	2.13	2.13	2.13	0.03	2.19	2.19	2.19	2.19	2.19	0.06
Non-OPEC supply	49.90	50.42	50.29	51.09	0.80	52.21	52.10	51.96	52.86	52.28	1.19	52.77	51.96	52.08	52.85	52.41	0.13	53.14	52.93	52.98	53.34	53.10	0.69
OPEC NGL	3.76	3.86	4.04	4.24	0.21	4.55	4.70	5.04	4.89	4.79	0.55	4.99	5.10	5.19	5.24	5.13	0.34	5.28	5.36	5.41	5.44	5.38	0.25
OPEC Non-conventional	0.14	0.08	0.11	0.11	0.00	0.11	0.11	0.11	0.11	0.11	0.00	0.13	0.16	0.18	0.18	0.16	0.05	0.21	0.24	0.29	0.34	0.27	0.11
OPEC (NGL+NCF)	3.89	3.95	4.14	4.35	0.21	4.66	4.81	5.15	5.00	4.90	0.55	5.12	5.26	5.37	5.42	5.29	0.39	5.50	5.61	5.71	5.79	5.65	0.36
Non-OPEC & OPEC (NGL+NCF)	53.79	54.36	54.43	55.44	1.01	56.86	56.91	57.11	57.86	57.19	1.75	57.89	57.22	57.44	58.27	57.70	0.52	58.64	58.54	58.69	59.13	58.75	1.05

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

Table 10.7: World Rig Count

	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	1Q11	2Q11	3Q11	4Q11	Nov	Dec	Dec/Nov
US	1,767	119	1,770	1,864	1,978	1,898	1,877	111	1,326	936	956	1,108	1,081	-796	1345	1508	1622	1687	1541	459	1717	1829	1945	2031	2011	2063	52
Canada	344	-126	507	169	432	408	379	35	328	91	177	277	218	-161	470	166	364	389	347	129	587	188	443	474	487	429	-58
Mexico	92	9	96	106	103	106	103	11	128	128	135	123	128	26	118	106	84	80	97	-31	83	87	103	104	102	105	3
North America	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	1933	1780	2070	2156	1985	557	2386	2104	2492	2609	2600	2597	-3
Norway	18	1	17	21	21	21	20	2	25	18	18	20	20	0	21	18	13	20	18	-2	21	17	16	16	19	10	-9
UK	26	-1	19	21	24	24	22	-4	22	19	16	15	18	-4	15	20	21	21	19	1	18	17	15	15	15	16	1
Western Europe	78	0	91	97	101	103	98	20	90	82	76	85	83	-15	87	96	92	100	94	11	118	112	123	119	122	112	-10
OECD Pacific	29	2	32	39	39	34	36	7	27	25	26	23	25	-11	22	18	23	22	21	-4	17	17	17	18	16	18	2
Total OECD	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	2042	1893	2185	2278	2100	543	2521	2232	2632	2745	2738	2727	-11
Other Asia	212	10	213	220	218	212	216	4	212	212	213	233	217	1	235	249	253	255	248	31	257	234	232	233	231	229	-2
Latin America	175	27	187	184	195	197	191	16	164	147	149	169	157	-34	183	203	220	213	205	48	191	192	196	201	198	207	9
Middle East	149	18	158	165	175	171	167	18	162	151	139	147	150	-18	152	150	163	159	156	6	101	107	102	107	110	110	0
Africa	14	4	10	13	14	11	12	-2	8	11	9	12	10	-2	20	19	19	18	19	9	1	2	0	5	8	2	-6
Total DCs	551	58	569	583	602	591	586	36	546	520	510	561	534	-52	589	621	655	645	628	93	549	535	530	546	547	548	1
Non-OPEC Rig Count	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	2632	2514	2840	2924	2727	636	3070	2768	3161	3291	3285	3275	-10
Algeria	27	2	26	27	24	26	26	-1	24	30	27	27	27	1	23	28	24	24	25	-2	29	33	30	33	33	33	0
Angola	4	1	5	6	5	5	5	1	5	3	3	4	4	-1	10	8	9	9	9	5	11	11	11	8	8	8	0
Ecuador	11	-1	7	9	12	13	10	-1	10	10	10	10	10	0	11	11	11	11	11	1	11	11	11	15	13	15	2
Iran	50	6	50	50	50	51	50	0	51	52	52	52	52	2	52	52	52	52	52	0	54	54	54	54	54	54	0
Iraq	0	0	29	29	29	29	29	29	36	36	36	36	36	7	36	36	36	36	36	0	36	36	36	36	36	36	0
Kuwait	12	-1	12	11	12	12	12	0	12	11	14	13	13	0	19	18	21	23	20	8	56	56	57	60	60	58	-2
Libya	13	3	14	15	15	15	15	2	15	13	14	15	14	-1	17	17	14	15	16	1	10	0	0	0	0	0	0
Nigeria	8	-1	9	8	6	6	7	-1	7	6	6	7	6	-1	11	13	18	17	15	8	35	35	36	36	37	36	-1
Qatar	13	2	11	12	11	11	11	-1	9	9	9	9	9	-2	8	8	9	9	9	0	10	8	7	7	6	8	2
Saudi Arabia	77	11	78	77	76	76	77	0	72	67	67	66	68	-9	68	67	67	65	67	-1	98	98	98	105	105	107	2
UAE	15	-2	12	12	13	12	12	-2	13	12	13	12	12	0	13	13	13	13	13	1	17	21	24	22	23	19	-4
Venezuela	76	-5	82	81	77	81	80	4	69	64	54	54	60	-20	66	64	70	80	70	10	125	125	125	113	109	111	2
OPEC Rig Count	305	16	336	337	330	336	335	29	322	314	302	305	311	-24	334	335	344	355	342	31	492	487	487	489	484	485	1
Worldwide Rig Count*	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	2965	2849	3184	3278	3069	667	3562	3255	3649	3779	3769	3760	-9
of which:																											
Oil	1,242	119	1,408	1,351	1479	1490	1,432	190	1283	1069	1182	1,356	1,222	-210	1590	1534	1783	1896	1701	479	2197	2020	2347	2444	2440	2458	18
Gas	1,903	-44	1,969	1,814	2070	1948	1,950	47	1450	993	965	1,092	1,125	-825	1333	1276	1356	1337	1325	200	1319	1187	1257	1286	1278	1257	-21
Others	20	4	26	32	36	37	33	12	35	35	34	37	35	3	43	40	42	46	43	8	48	49	47	52	55	47	-8

*/ 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

January 2012

OPEC Basket average price

US$ per barrel

down $2.74 in December

December 2011	**107.34**
November 2011	110.08
Year 2011	107.46

December OPEC production

in million barrels per day, according to secondary sources

up 0.17 in December

December 2011	**30.82**
November 2011	30.65

World economy

Global growth expectations for 2012 have been revised down slightly by 0.1 percentage point to 3.5%, while 2011 remains unchanged at 3.6%. OECD growth for 2012 was revised up to 1.6% from 1.5%. Growth expectations for China and India for this year were lowered marginally to 8.5% from 8.7% and to 7.4% from 7.5% respectively.

Supply and demand

in million barrels per day

2011		10/11
World demand	87.8	**0.9**
Non-OPEC supply	52.4	**0.1**
OPEC NGLs	5.3	**0.4**
Difference	**30.1**	**0.4**

2012		11/12
World demand	88.9	**1.1**
Non-OPEC supply	53.1	**0.7**
OPEC NGLs	5.7	**0.4**
Difference	**30.1**	**0.0**

Totals may not add due to independent rounding

Stocks

US commercial oil inventories fell for the fourth consecutive month in December, declining by 9.7 mb. This drop was attributed to both crude and products which fell by 6.4 mb and 3.3 mb respectively, but still indicates a surplus with the five-year average of 14.1 mb. In Japan, the most recent monthly data shows that commercial oil inventories in Japan declined by 2.0 mb in November, driven solely by a drop in crude.

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Data covered up to the end of December 2011 unless otherwise stated.