OPEC

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

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Feature Article:
Oil market outlook for 2012

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Oil Market Highlights

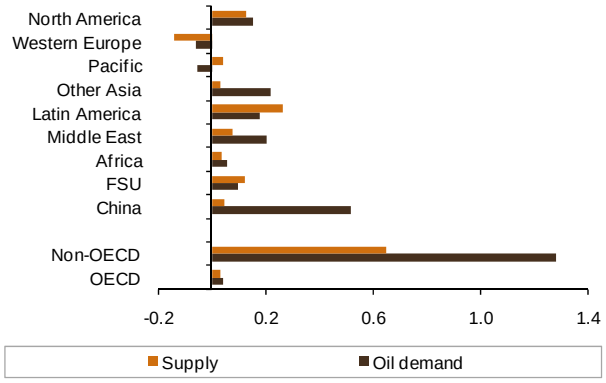
- The **OPEC Reference Basket** remained volatile in June, moving within a wide range of $102-$114/b. In monthly terms, the Basket fell for the second consecutive month to average $109.04/b, down 90¢ from the previous month. Futures prices also declined as macroeconomic sentiment weakened across many regions, as well as on the temporary impact of the IEA's decision to release oil from strategic reserves. The Nymex WTI front-month fell a further $5 or 5% to average $96.29/b. ICE Brent also declined but at a slower pace, due to lower supplies of light sweet crude and constraints in North Sea production. As a result, the Brent spread over WTI jumped to a record high on a monthly basis of around $17.60/b. In early July, the market remained volatile due to reduced speculative activity and weaker economic data. The Basket stood at $111.35/b on 11 July.
- The forecast for **world economic growth** in 2011 remains at 3.9% following off-setting revisions in the US, Japan and Euro-zone. Growth in the developing countries remains unchanged, with China growing by 9.0% and India by 8.1% this year. In 2012, the world economy is expected to grow by 4.1%, slightly higher than in 2011. The OECD is forecast to grow by 2.5%, compared with this year's growth of 2.1%. OECD growth is supported by the recovery in the Japanese economy, which is expected to expand by 2.5%. US growth is forecast at a higher 2.9%, while growth in the Euro-zone is seen slowing to 1.5%, due to planned austerity measures. The strong expansion in the developing countries is expected to ease somewhat, with China forecast at 8.5% and India at 7.7%.
- **World oil demand** is forecast to grow by 1.36 mb/d in 2011, slightly lower than in the previous report, as the unsteady global economy has added risks to the forecast. In 2012, global oil demand is expected to grow at a slightly lower 1.32 mb/d. The global economic recovery has been facing challenges across the OECD, adding to the uncertainties to next year's forecast. US gasoline demand is expected to be back in its normal growing mode; however it will remain a major factor affecting oil demand projections. The disruption in nuclear power generation in Japan could also increase oil consumption in the coming year.
- **Non-OPEC supply** is expected to increase by 0.6 mb/d in 2011, representing a marginal downward revision from last month, primarily due to weaker production data in the first half of the year. In 2012, non-OPEC oil supply is expected to grow by 0.7 mb/d. Brazil, Canada, the US, and Colombia are forecast to be the main contributors to the growth, while Norway, the UK, Malaysia, and Mexico are seen experiencing the largest declines. OPEC NGLs and non-conventional oils are seen reaching 5.7 mb/d in 2012, indicating an increase of 0.4 mb/d over this year. In June, according to secondary sources, OPEC production is estimated at 29.60 mb/d, a gain of 520 tb/d over the previous month.
- **Product markets** continued to be impacted by weaker-than-expected demand growth at the onset of the driving season. The bearish sentiment for light distillates was further fuelled by a sharp drop in naphtha demand from the petrochemical sector globally. The disappointing performance at the top of the barrel was partially offset by improvements at the bottom. Looking ahead, the expected increase in summer demand is likely to be offset by higher refinery runs, limiting any upward pressure on product markets.
- The **tanker market** was mixed in June as VLCC rates increased, while Suezmax and Aframax spot rates declined. Chinese activity supported the increase in VLCC rates while limited activities as well as excess tonnage availability influenced the Suezmax and Aframax markets. Product spot freight rates fell 18% in June, reflecting reduced activities. OPEC sailing increased by 1% last month.
- **US commercial inventories** rose a further 4.1 mb in June. The build was attributed to products which rose 19.4 mb, while crude stocks fell 15.2 mb. The surplus with the five-year average stood at 7.1 mb. In Japan, the most recent data for May shows that commercial oil inventories declined slightly by 0.7 mb. Crude and products showed a mixed picture with crude up 1.7 mb and total products inventories down 2.4 mb. Japanese oil stocks stood at 1.9 mb below the five-year average.
- The **demand for OPEC crude** in 2011 is estimated at 30.0 mb/d, around 0.1 mb/d higher than in the previous report. This indicates a rise of 0.4 mb/d over the previous year. In 2012, the initial forecasts for world oil demand, non-OPEC supply and OPEC NGLs indicate a demand for OPEC crude of 30.3 mb/d, an increase of 0.3 mb/d over the current year. However, these forecasts could be impacted by unforeseen events.

Oil market outlook for 2012

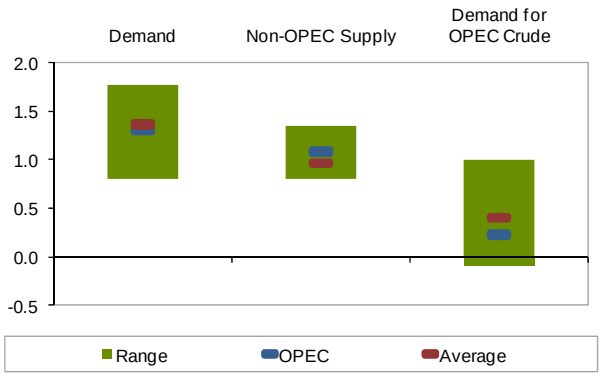
Despite actual data for the first quarter and strong indications for the second, oil market forecasts for this year continue to show a divergence among various sources for projections for world economic growth and consequently incremental global oil demand. This has resulted in a range of views on the real needs of the market in the second half of this year. Amid these uncertainties, projecting oil market developments for the coming year has been particularly challenging.

With the winding down of government-led stimulus, risks to the forecast for global economic growth have expanded in 2012. Austerity measures, combined with high levels of both debt and unemployment, are likely to dent the fragile recovery in major OECD countries. In the developing countries, rising inflation has forced central banks to raise interest rates in an effort to address the overheating in their economies. At the same time, the rebound in Japan from the sharp contraction seen following the tragic events last March is likely to support economic momentum. In 2012, world economic growth is forecast to reach 4.1%, up from 3.9% in the current year. While the OECD is expected to gain momentum, developing countries are expected to expand at a lower rate than the strong growth seen this year.

Graph 1: Source of oil demand and supply growth for 2012, mb/d



Graph 2: Range of uncertainty in the growth in demand for OPEC crude for 2012, mb/d



With the continued recovery in the global economy, world oil demand growth is expected to remain stable at 1.3 mb/d in 2012 (***Graph 1***), slightly lower than the expected growth for the current year. The bulk of the increase in oil demand will take place in non-OECD countries, mainly China, India, the Middle East and Latin America. There is a considerable range of uncertainty affecting next year's oil demand forecast, due in large part to the pace of the economic recovery in OECD. US gasoline demand is expected to return to its normal growing mode; however, it will remain a major uncertainty as motor fuel consumption could be negatively impacted by the country's economic challenges. The reduction in subsidies for petroleum products and higher taxes for transportation fuels in some developing countries could also negatively impact demand over the coming year. In contrast, the disruption in nuclear power generation in Japan is likely to lead to higher oil consumption.

Non-OPEC production is expected to increase by 0.7 mb/d in 2012 (***Graph 1***). On a regional basis, significant growth is expected to come from Latin America followed by North America and the FSU region. These gains are likely to be partially offset by OECD Europe which is projected to experience a decline. The outlook for non-OPEC supply shows considerable risks and uncertainties. These include decline rates across various regions and progress in the new supply frontiers, as well as marginal production costs and oil price levels. Moreover, new challenges to global deepwater production have added further uncertainty to the supply side. In comparison, OPEC NGLs and non-conventional oils are expected to face less uncertainty, increasing a further 0.4 mb/d in 2012.

Taken together, the initial forecasts for 2012 indicate that the growth in global oil demand will outpace the rise in total non-OPEC supply including OPEC NGLs. This would lead to an increase in the demand for OPEC crude of 0.3 mb/d over the previous year, to average 30.3 mb/d.

In recent years, oil prices have moved closely with financial factors and speculative activity has continued to push prices beyond levels justified by fundamentals. The market reaction to the recent decision to release of Strategic Petroleum Reserves (SPR) provides a good example. Immediately after the decision, ICE Brent and Nymex WTI crude oil prices fell for three consecutive trading days but then rebounded again within the week.

Reflecting the considerable uncertainties facing the market, the forecast for the demand for OPEC crude in 2012 shows a wide range across various sources, from a slight contraction to an increase of 0.9 mb/d *(**Graph 2**)*. This reflects divergent expectations for global economic growth for the coming year. At the same time, unforeseen events will add to the uncertainties affecting these forecasts.

Crude Oil Price Movements

The OPEC Basket very volatile in June, trading in a wide range in the month

OPEC Reference Basket

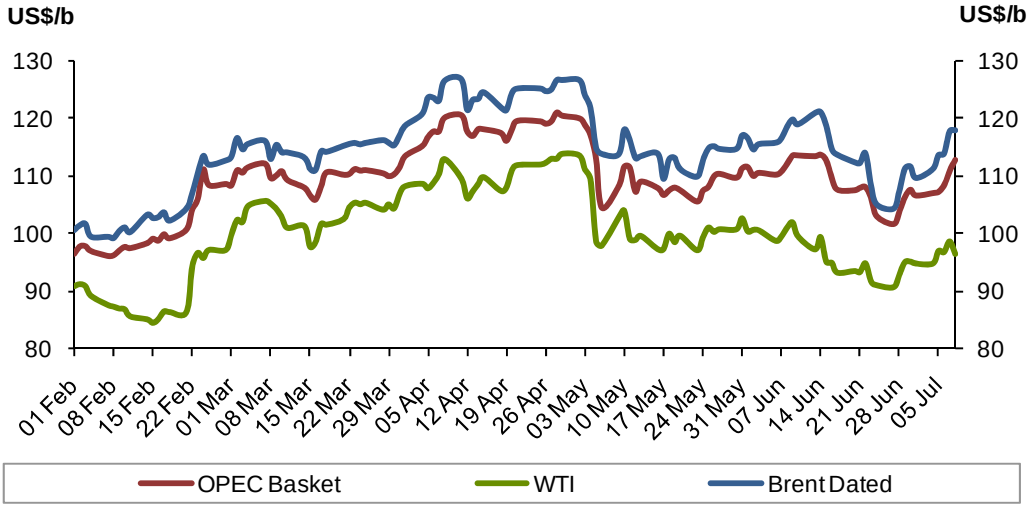
The **OPEC Reference Basket** moved within a large range of $102-114/b in June, but on average fell for the second consecutive month to stand at $109.04/b, down 90¢ from the previous month. Nevertheless, when compared with a year ago, the OPEC Reference Basket showed a y-o-y increase of $36.09 or nearly 50%.

The decline in the OPEC Reference Basket came in line with the weakness of futures prices as macroeconomic sentiment deteriorated.

All Basket components decreased with Ecuadorian crude leading losses and tumbling $5.76 or 5.5%, followed by the Venezuelan grade Merey, which lost almost $1.5 or 1.5%. Latin American crudes were the most affected because of weaker markets for heavy-sour grades within the region.

African grades also continued to drop, despite the loss of Libyan crude. Nigerian Bonny Light lost more than $1.6 and Saharan Blend and Es Sider fell more than $1 each on the back of relatively ample supply of July-loading crude and some prompt offers. Additionally, prices were pressured by reduced opportunities of arbitrage to the US and Asia. African crudes weakened further during the last trading days of June when premiums for Nigerian light sweet crude for spot cargoes hit a four-month low amid increasing supplies and expectations of further available crude in the coming weeks, following the IEA's decision to release oil from its members' strategic reserves. Nigerian benchmarks Bonny Light and Qua Iboe continued to weaken in early July when they were discussed below dated Brent plus $2.0/b for the first time since last January.

Graph 1.1: Crude oil price movement, 2011



Middle Eastern crudes followed the same trend and fell, particularly Murban which lost a further $1.31. Similarly, the weakness in Middle Eastern crudes was attributed to ample available spot supplies which pushed the Dubai swaps curve to flip into contango, while the Brent-Dubai Exchange of Futures for Swaps (EFS) jumped to its highest level since 2005. In addition, crude oil market sentiment in the Middle East was also pressured by weak naphtha cracks because of reduced demand for petrochemicals, particularly from Japan, where plants remained affected by the earthquake and tsunami of last March. Furthermore, Middle Eastern crude was also pressured by the weakening Russian grade ESPO. As for other crude, Middle Eastern grades were hit in the last week of June by the IEA's decision to release oil from its emergency oil reserves. That led the Dubai curve to shift into deep contango and made Oman crude trade on the Dubai Mercantile Exchange at a discount to Dubai after months of steady premiums.

However, despite a total decline of more than $9 during May and June, the OPEC Reference Basket posted a gain of $10.91 or 11% in the second quarter of this year, compared with the first quarter. At $112.18/b in the 2Q11, the OPEC Reference Basket was up $35.65 or 47% from the same period a year earlier. Year-to-date the Basket averaged around $106.7/b, up some 40% from the $76/b seen a year earlier.

In the first weeks of July, the OPEC Reference Basket has drifted slightly higher to stand at $111.35/b on 11 July.

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

	May 11	Jun 11	Change Jun/May	Year-to-Date 2010	Year-to-Date 2011
OPEC Reference Basket	**109.94**	**109.04**	**-0.90**	**76.01**	**106.72**
Arab Light	110.08	109.37	-0.71	76.54	107.20
Basrah Light	107.93	106.65	-1.28	75.32	105.48
Bonny Light	118.88	117.27	-1.61	78.68	114.03
Es Sider	115.90	114.84	-1.06	76.97	111.60
Girassol	114.91	114.07	-0.84	77.53	111.51
Iran Heavy	108.28	107.39	-0.89	75.55	105.29
Kuwait Export	107.59	106.65	-0.94	75.37	104.67
Marine	109.10	107.83	-1.27	77.09	105.89
Merey	98.44	99.92	1.48	69.06	94.51
Murban	113.37	112.06	-1.31	78.76	109.25
Oriente	104.63	98.87	-5.76	71.28	99.48
Saharan Blend	116.80	115.74	-1.06	77.83	112.98
Other Crudes					
Minas	119.69	116.28	-3.41	81.56	113.84
Dubai	108.76	107.77	-0.99	76.92	105.64
Isthmus	109.62	106.30	-3.32	76.66	104.55
T.J. Light	107.97	104.28	-3.69	75.09	102.48
Brent	115.10	114.04	-1.06	77.37	111.33
West Texas Intermediate	101.19	96.21	-4.98	78.25	98.25
Urals	111.50	111.68	0.18	76.18	108.29
Differentials					
WTI/Brent	-13.91	-17.83	-3.92	0.88	-13.07
Brent/Dubai	6.34	6.27	-0.07	0.44	5.69

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

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

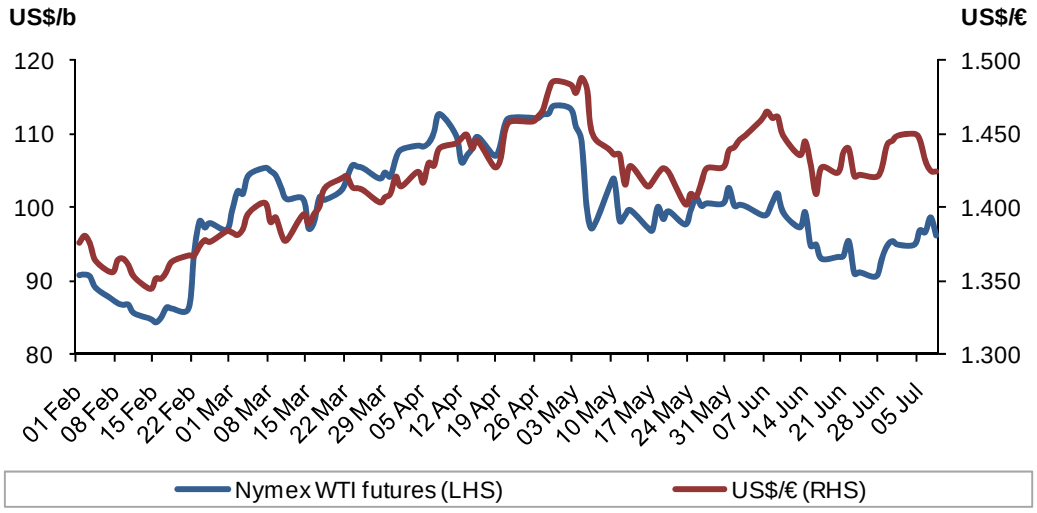
The oil futures market

US crude oil futures declined further amid growing uncertainties

Crude oil futures prices witnessed another plunge in June. The decline was not limited to crude oil, but hit other basic goods as macroeconomic sentiment weakened across many regions, particularly in the Euro-zone, where Greece has been facing difficulties over its sovereign debt. Concerns about US economic growth added more bearishness to the market. In the case of crude oil, anticipation of more supplies from some Middle Eastern countries first, and then from IEA strategic stocks, helped to put downward pressure on prices.

On the Nymex, **US benchmark WTI** front-month started the month above $100/b before following a steep downward trend to settle around $91/b on 23 June, pressured by concerns over the global growth outlook after the IMF's warning about risks to Spain's economy came to worsen the economic future of the Euro-zone. Nymex front-month futures fell further to close at $90.61/b two days later, following the IEA's decision to release 60 mb of oil from the strategic reserves of its member countries and forecasts of lower growth in the United States as well as data showing some slowing in the growth in China's factory sector. Prices recovered slightly in the following days, but ended the month at $95.42/b, some $7.28 lower than the settlement of 31 May. The weakness in US crude oil prices was also attributed, to some extent, to the strength of the US dollar.

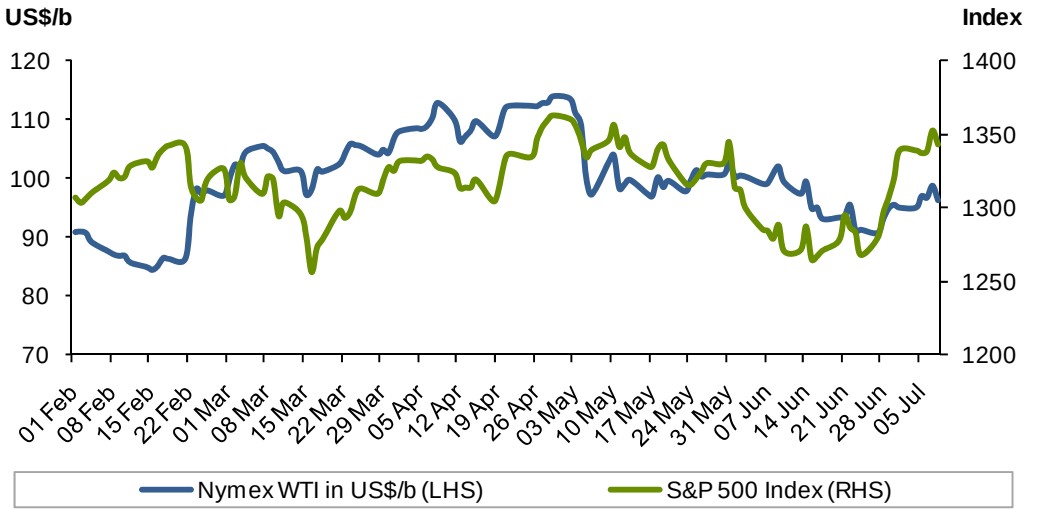
Graph 1.2: Nymex WTI futures and US$ exchange rate, 2011



For the month, the Nymex WTI front-month fell a further $5.07 or 5% to average $96.29/b, the lowest level since the $102.98/b of last March. Over two months – May and June – the Nymex WTI tumbled by $13.75 or 12.5% as market sentiment deteriorated on the back of rising concerns about global economic growth and its implications on oil demand.

In London, **ICE Brent** also dropped, but at a slower pace than the Nymex WTI, as it remained relatively supported by reduced supplies of North Sea grades as well as the ongoing outage of Libyan crude. The Brent front-month lost just 62¢ in June to average $113.90/b, compared with a loss of $8.57 in the previous month. The $113.90/b was the lowest monthly average since the $114.67/b of last March. However, it is worth mentioning that ICE Brent moved within a wide range of $105-120/b in June as the market became increasingly volatile amid growing uncertainties.

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



Brent-WTI spread hit a record high in June

The small decline in ICE Brent compared with Nymex WTI has resulted in a wider trans-Atlantic spread in favour of Brent. Thus, the Brent-WTI spread widened to a record high, on a monthly basis, of around $17.60/b in June. This compares with a premium of $7.24/b last January.

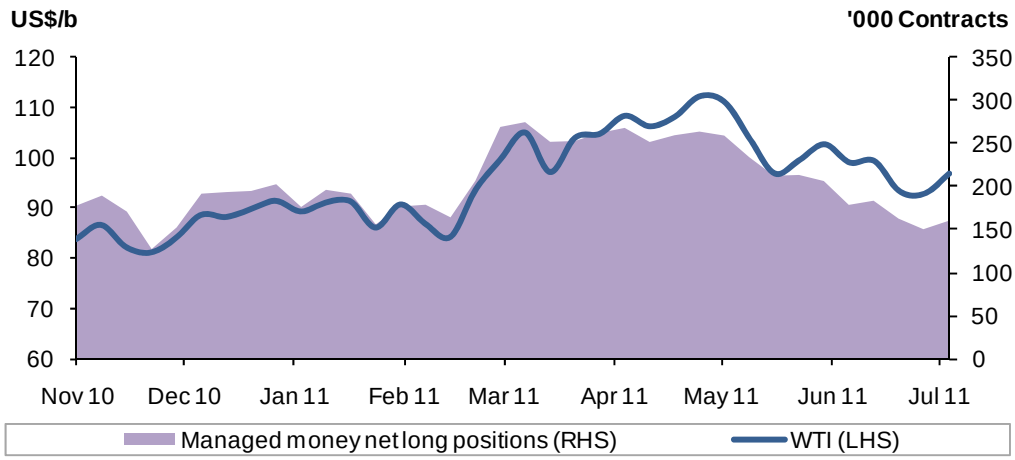
Trading activities on the exchanges were stable until 23 June, the day the IEA announced that it will release 60 mb of oil from its members' strategic reserves over a period of 30 days – or roughly 2 mb/d – to offset the disruption to Libya's output and keep prices from rising significantly. More than 2 million contracts were traded on the exchanges (Nymex and ICE), compared with around just 1 million contracts a day before. On the same day, the WTI front-month fell to a four-month low.

The sharp increase in trading volume came as traders rushed to liquidate positions on expectations that the IEA's decision will result in a weakness of the market over the coming days. However, trading volume dropped in the following days to be in line with averages seen before the announcement of the IEA's decision. This has coincided with prices moving back to their previous range.

Open interest for US crude oil on the Nymex slowed down from the record high of 1,664,400 of 12 May, to fluctuate between 1.5 million and 1.6 million contracts in June. The same trend was observed with ICE Brent contracts where open interest also dropped to move between 776,000 and 904,000 contracts in June.

Speculators or money managers sharply cut net long crude oil positions in June to stand at 150,000 contracts in the week through 28 June as uncertainties about global economic growth and oil demand increased and expectations of lower prices ahead increased following the IEA's decision to release oil from its strategic reserves. At 150,000 contracts, money managers' net long positions were the lowest since the week ending 23 November 2010.

Graph 1.4: Nymex WTI price vs. speculative activity

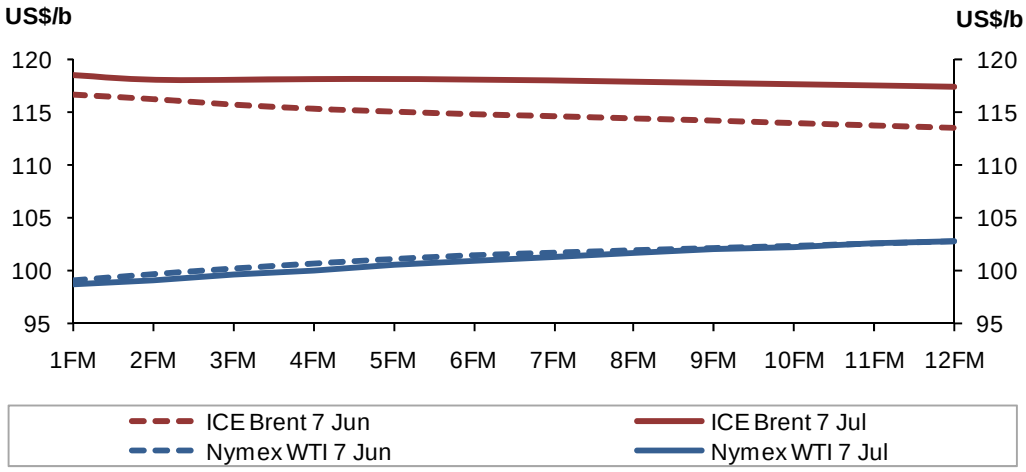


The futures market structure

WTI contango widened while ICE Brent backwardation narrowed

The Nymex WTI curve remained in contango in June at the front month and shifted from the small backwardation to a contango starting from the ninth month as traders expected more crude oil to come to the market from Middle Eastern countries, as well as from IEA strategic reserves.

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



FM = future month

The spread between the Nymex second and first months remained stable at around 54¢/b, whereas the difference between the ninth and the eighth months moved from minus 4¢/b in May to plus 27¢/b in June.

In Europe, ICE Brent's curve remained in backwardation. The spread between the second and first month widened from minus 45¢/b to 49¢/b, while the inter-month spreads for the following months narrowed on the expectation of a less tight market because of the expected higher supply.

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

Nymex WTI	1st FM	2nd FM	3rd FM	6th FM	12th FM
7 Jun 2011	99.09	99.69	100.23	101.51	102.86
7 Jul 2011	98.67	99.14	99.59	100.94	102.87
ICE Brent	**1st FM**	**2nd FM**	**3rd FM**	**6th FM**	**12th FM**
7 Jun 2011	116.78	116.34	115.81	114.88	113.56
7 Jul 2011	118.59	118.11	118.12	118.14	117.41

FM = future month

The sweet/sour crude spread

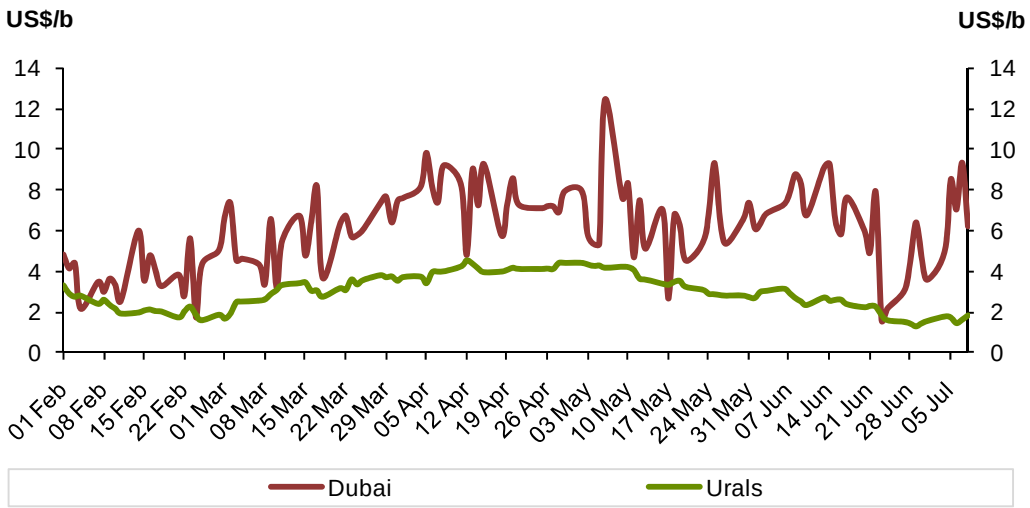
Sweet-sour spread narrowed further but remained strong

The light sweet-heavy sour spread remained strong in June, but narrowed slightly from the previous month.

The Dated Brent-Dubai spread fell from $6.34/b to $6.27/b, a drop of 7¢ only. However, the spread shrank to $1.61/b on 23 June, the day when the IEA announced that member countries would release 60 mb of oil from strategic reserves. The decision put downward pressure on Brent crude. However, the spread started to move back close to its previous levels in the following days as traders digested the impact of the IEA's decision. The same pattern was observed on the Brent-Urals differential which fell a further $1.24 to average $2.36/b, the lowest since the $3.10/b of March. The narrowing spread is attributed essentially to strength in Urals on the back of a relatively tight supply and growing demand from refiners. On 30 June, Urals crude hit the best level so far this year, supported by reduced supplies, while Brent was hit by the IEA's decision.

A year ago, the Brent-Dubai spread stood below 90¢/b and the Brent-Urals differential was less than 50¢/b.

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



Commodity Markets

Commodity market prices declined at a milder rate in June, compared with last May

Trends in selected commodity markets

Both energy and non-energy prices experienced a drop in June amid high volatility, but this compared favourably with the hefty decline seen the previous month. Commodity markets have been receiving the negative influence of the Greek debt situation and sovereign debt concerns in other EU economies, global inflationary pressures and the ongoing growth restraint in China to fight inflation. Further, the still mixed macroeconomic panorama across several key economies and a severe risk reduction in financial markets also added to this context.

The **WB energy commodity price index** (crude oil, natural gas and coal) retreated by 1.7% m-o-m in June, reversing mostly on falling crude oil prices.

Table 2.1: Commodity price data, 2011

Commodity	Unit	Monthly averages			% Change		
		Apr 11	May 11	Jun 11	Apr/Mar	May/Apr	Jun/May
World Bank commodity price indices for low and middle income countries (2000 = 100)							
Energy		389.0	364.1	357.7	6.5	-6.4	-1.7
Coal, Australia	$/mt	122.5	119.1	119.3	-2.9	-2.8	0.1
Crude oil, average	$/bbl	116.2	108.1	105.8	7.0	-7.0	-2.1
Natural gas, US	$/mmbtu	4.2	4.3	4.5	6.9	1.6	5.6
Non Energy		340.6	328.0	326.6	2.0	-3.7	-0.4
Agriculture		300.1	288.8	286.7	1.5	-3.8	-0.7
Food		279.9	275.9	277.1	0.9	-1.4	0.4
Soybean meal	$/mt	403.0	402.0	394.0	-3.6	-0.2	-2.0
Soybean oil	$/mt	1315.0	1294.0	1324.0	0.6	-1.6	2.3
Soybeans	$/mt	556.0	556.0	558.0	0.5	0.0	0.4
Grains		304.0	302.5	302.3	5.8	-0.5	-0.1
Maize	$/mt	319.3	307.9	310.6	9.9	-3.6	0.9
Sorghum	$/mt	289.6	261.3	260.4	8.8	-9.8	-0.3
Wheat, US, HRW	$/mt	314.9	308.6	282.2	3.9	-2.0	-8.6
Sugar World	¢/kg	53.7	48.4	55.6	-7.2	-9.9	14.9
Base Metals		374.2	352.1	351.3	0.9	-5.9	-0.2
Aluminum	$/mt	2678.1	2596.5	2557.8	4.8	-3.0	-1.5
Copper	$/mt	9492.8	8959.9	9066.9	-0.1	-5.6	1.2
Iron ore, spot, cfr China	¢/dmtu	179.3	177.1	170.9	5.9	-1.3	-3.5
Lead	¢/kg	270.1	242.8	252.5	2.9	-10.1	4.0
Nickel	$/mt	26408.3	24236.7	22420.9	-1.1	-8.2	-7.5
Steel products index	2000=100	272.5	273.5	272.6	2.8	0.4	-0.3
Tin	¢/kg	3236.3	2867.6	2552.0	5.8	-11.4	-11.0
Zinc	¢/kg	236.2	216.7	223.4	0.9	-8.2	3.1
Precious Metals							
Gold	$/toz	1479.8	1512.6	1528.7	3.9	2.2	1.1
Silver	¢/toz	4279.8	3708.1	3584.1	19.1	-13.4	-3.3

Source: World Bank, Commodity price data

Henry Hub (HH) natural gas prices increased by 5.6% m-o-m in June due to a price rebound in the first week of June associated to an early heat wave but prices declined later owing to colder summer temperatures. Fundamentals point to a further decline.

The WB non-energy commodity price index fell 0.4% m-o-m compared to a 4.7% drop in May. Copper, lead and zinc as well as some agricultural items showed a stronger recovery from May, registering positive growth. Gold price growth ameliorated in June compared to May.

Metals markets improved, with lead, zinc and copper seeing gains

Base metal prices declined at a slower pace in June (0.2% m-o-m), compared with a near 6% fall in May. As with other commodities, this group was hit by financial and macro uncertainty and especially by concerns over Chinese demand and lower imports in May. Nevertheless, some recovery, with positive price growth, was seen in copper and lead as a result of supply side constraints. Some observers forecast a rebound in industrial metal prices for the second half of the year. The pace of inventory drawdown is increasing.

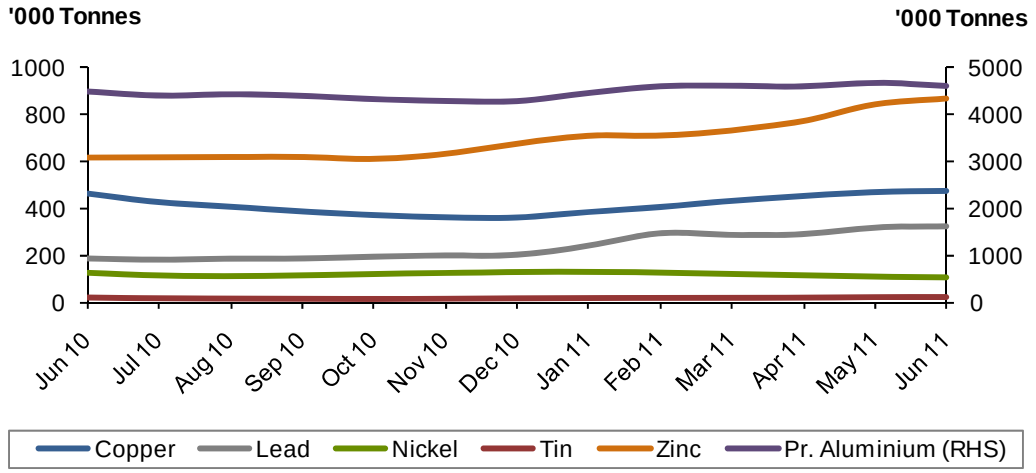
Aluminium prices decreased by 1.5% m-o-m in June, compared with a 3% drop in May. This metal has outperformed other base metals recently on higher energy costs as it is the most energy-intensive of the metals and over concern about long-term energy availability. Aluminium also faced supply risks caused by power-related production problems in China. Chinese aluminium imports declined by 50% m-o-m in May, but a 9% m-o-m increase in production, as well as the downward trend in aluminium SHFE stocks since mid-March and a 34% y-o-y Jump in May of the National Borough of Statistics (NBS) semis production, may be suggesting strong Chinese aluminium demand for the second half of 2011.

Copper prices rose by 1.2% m-o-m in June, compared with a near 6% fall in the previous month. Copper prices have been under pressure, due to demand concerns in China, the US and Europe. A Chinese destocking has been taking place since the beginning of the year, with Chinese net copper imports also seen declining (6.9% m-o-m in May). Nevertheless, there is optimism concerning copper prices because of strong fundamentals as there are signs of supply tightening in the copper market for the second half of the year. The drawdown of inventories in China has slowed and with the supply side chain inventory fully destocked, market participants are beginning to turn to the SHFE and bonded warehouses. It is also worth noting that there are some constraining supply factors in the copper markets as mine supply may contract, due to several factors, such as lower ore head grades, technical problems, weather-related problems and labour disputes.

Lead was the best price performer in June, increasing by 4% m-o-m, compared with a 10% drop the previous month. With the largest lead mine still shut in and no alternatives to the lead-acid battery operations, there are still upside risks for lead prices. Chinese lead refined imports increased by 122% m-o-m in May, but net refined imports declined by 72% m-o-m.

Lead imports were softening, due to lower demand, caused by the closing of lead-acid battery operators, following more cases of poisoning, as well as new restrictions on lead acid batteries.

Graph 2.1: Inventories at the LME

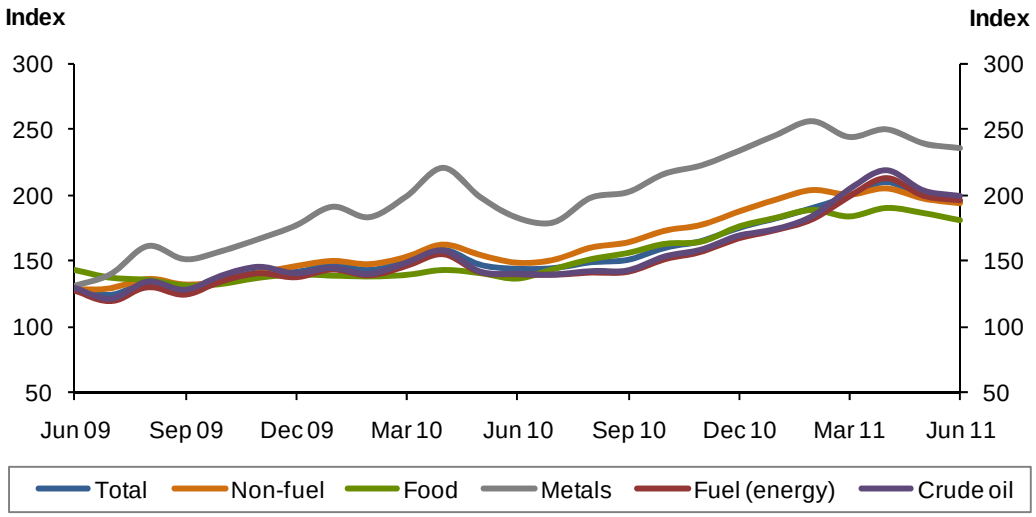


Source: LME

Zinc prices rose by 3% m-o-m in June, compared with a 8% drop in May. It seems that despite the fact that the market remains in surplus, demand growth may be expanding faster than supply. China's net refined zinc imports doubled from April levels to 22.4 kt, although this represented a 15% y-o-y drop. Refined imports also plummeted by 16% m-o-m in May. The markets remain in surplus with inventories continuing to build. The apparent demand fell by 2% y-o-y, due to weak production and rising SHFE inventories that reflected weaker demand from an oversupplied galvanized steel sector.

Gold prices increased by 1% m-o-m in June, compared with 2% in May. Gold prices continued to be supported by a combination of growing inflation expectations, a low US real interest rate and the Greek debt problems. Investors showed preference for gold relative to silver in June.

Graph 2.2: 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

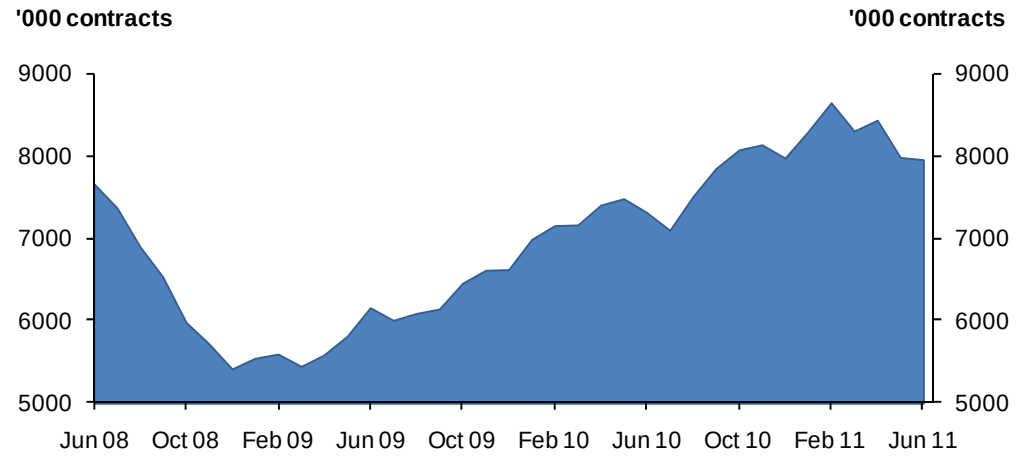
The **Agriculture World Bank price index** fell by 0.7% m-o-m in June, compared with 5.5% in May. Grain prices declined by 0.1% in June being under pressure from uneasy macroeconomic concerns and lower Chinese imports in May. A bearish USDA Acreage and Quarterly Stocks report in the last week of June also contributed to the fall in corn, soybean and wheat. An important risk reduction took place in the grains futures markets. Some agricultural commodities, such as sugar, rallied in June (14.6%) as a result of downward revisions to Brazil's production and delays in loading at Brazilian ports. These facts offset higher Indian exports and expected higher sugar production from Russia.

Investment flows into commodities

OIV declined in major US commodity markets

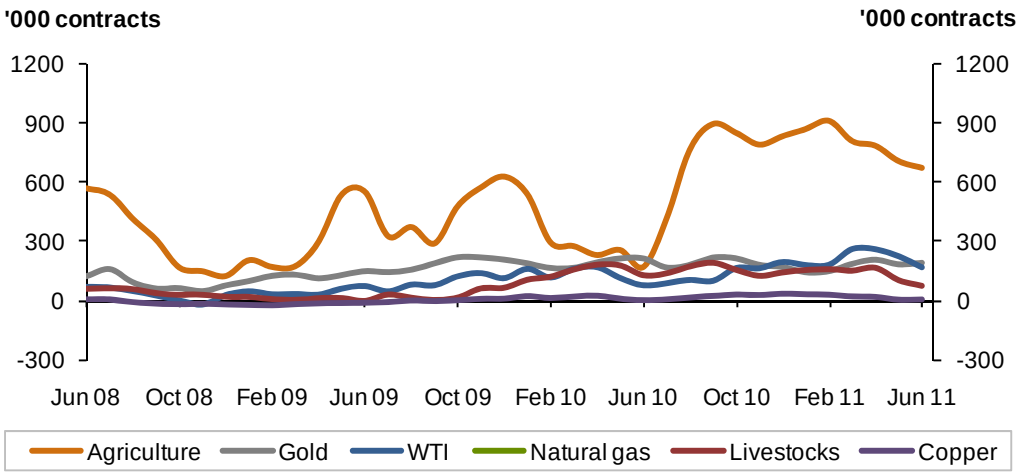
Open interest volume (OIV) for major commodity markets in the US exhibited a 0.7% m-o-m fall to 8,063,491 contracts in June, compared with a drop of 5.5% m-o-m in May. The recovery in the total number of contracts was encouraged by agriculture, copper and HH natural gas.

Graph 2.3: Total open interest volume



Source: CFTC

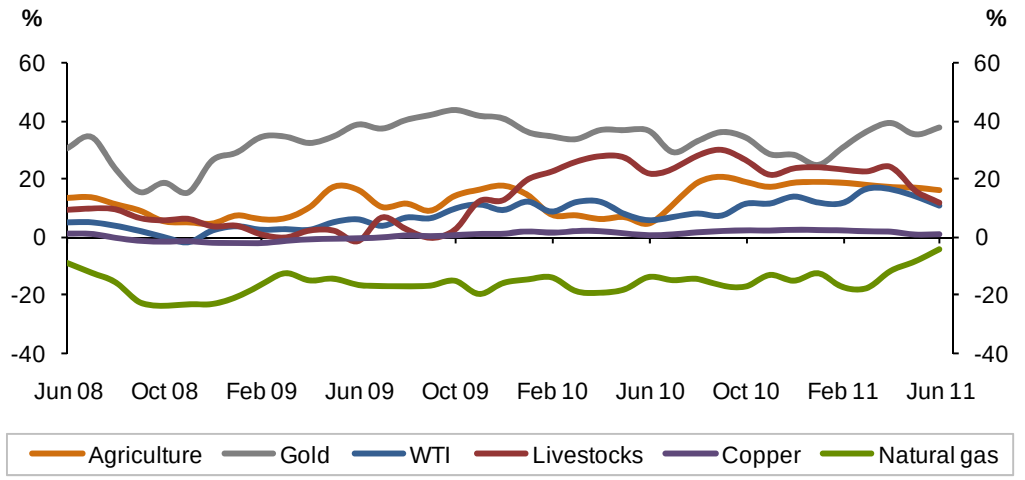
Graph 2.4: Speculative activity in key commodities, net length



Source: CFTC

A closer look at data for June, indicates that HH natural gas, WTI, corn and livestock were the major losers.

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



Source: CFTC

Agricultural OIV increased by 0.2% m-o-m to 4,197,473 contracts in June. Net length of money managers' positions declined by 5.1% m-o-m to 674,639 in June. Shorts went up by 7.3% m-o-m, while longs decreased by 1.8% m-o-m. Thus the net length as a percentage of OIV restrained from 16.9% in May to 16% in June. Corn reported a risk reduction 6.6% m-o-m, while wheat speculative let length still increased in June.

HH natural gas OIV rose by 2.9% m-o-m to 983,076 contracts in June, but speculative positions in money managers' positions dropped by 4.2% m-o-m in June. A significant decline in shorts (13.9% m-o-m) partly offset the 16.2% m-o-m increase in longs.

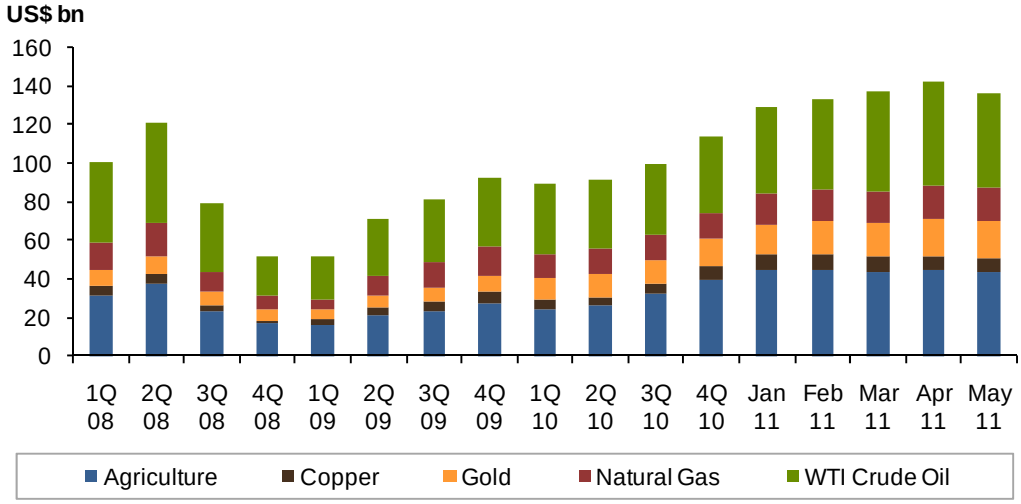
Table 2.2: CFTC data on non-commercial positions, '000 contracts

	Open interest		*Net length*			
	May 11	Jun 11	May 11	% OIV	Jun 11	% OIV
Crude Oil	1578	1539	225	14	168	11
Natural Gas	955	983	-80	-8	-42	-4
Agriculture	4187	4197	709	17	675	16
Precious Metals	638	621	199	31	205	33
Copper	122	128	7	6	8	6
Livestock	615	595	99	16	71	12
Total	**8,096**	**8,063**	**1,159**	**14**	**1,086**	**13**

Copper saw a 5.1% m-o-m rise in the OIV to 128,424 contracts in June. The net length of money manager positions jumped by 20% m-o-m to 8,345 contracts in June. A reduction of 15% in shorts combined with a 4.8% m-o-m drop in longs to increase the net length as a percentage of OIV from 5.7% in May to 6.5% in June. This took place in the middle of a rebound in copper prices.

Precious metals OIV fell by 2.7% m-o-m to 621,353 contracts in June, compared with a 4.3% drop in May. Net speculative positions went up 3.3% m-o-m to 205,204 contracts in June, which compared with a 14.7% m-o-m drop in May. A huge 20% m-o-m decrease in short money managers' positions combined with a 1.6% m-o-m increase in longs to move the net length as a percentage of OIV from 31% in May to 33% in June.

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



World Economy

Table 3.1: Economic growth rates 2011-2012,%

	World	OECD	US	Japan	Euro-zone	China	India
2011	3.9	2.1	2.6	-0.8	2.0	9.0	8.1
2012	4.1	2.5	2.9	2.5	1.5	8.5	7.7

Industrialised countries

US

The economy continues to expand and labour market expected to improve in the 2H11, with possible support from the dynamic in the manufacturing sector

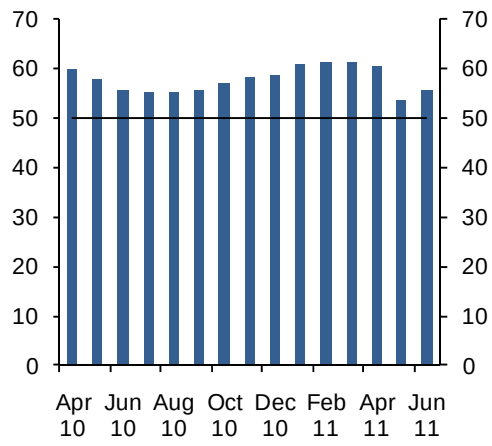
While the US economy is expected to see stronger growth in the second half, compared with the first half, most recent indicators have pointed to a lower level than previously anticipated. After the most recent increase in the unemployment numbers, the expectation is currently that this development might continue at least during July. Consumer sentiment has therefore as well moved back a little bit in June, while on the positive side manufacturing related indicators have improved and pointed to the expected pick-up of activity in the second half, while growth in the services sector – constituting around two-thirds of the economy – is decelerating. So the economy continues to expand, while indicators highlight the continued weakness in the labour market and, at the same time, raising hopes that with the increased activity in particularly the manufacturing sector, this dynamic might have a positive effect on job creation, lowering unemployment and supporting consumer spending. One of the biggest short-term concerns remains to be the still not finalized discussion to raise the federal debt ceiling, which is adding to the worries of the economy. This is in combination with the most recent ending of quantitative easing by the Federal Reserve Board (Fed) and is providing evidence that the ability of the government to support the economy by various measures of stimulus is fading. Most of the stimulus has been spent or has been eaten up by inflation and with the decision of the Fed not to extend the quantitative easing - at least for the time being – the stimulus has broadly come to an end, with only the exception of some extraordinary monetary facilities still provided by the Fed and certainly the historically low interest rates. Therefore, the underlying economy, not influenced by governmental support, now seems to be in a position to further lift growth. An average population growth of around 1% should provide one supportive effect for the US economy, but to achieve at least the 20-year average growth rate of 2.5%, consumers will have to be convinced that it is safe to spend money, either via the again increasing consumer credit, or via savings. The room for maneuver for the administration has become certainly smaller.

After the unemployment numbers have again reached 9.0% in May and 9.2% in June and job-creation again decelerated significantly, consumer confidence followed. The Conference Board index stood at 58.5 in June, after hitting 61.7 in May. The same conclusion can be drawn by reading the Reuters consumer sentiment index, which moved back at about the same magnitude, when it stood at 71.5 in June, after recording 74.3 in May. The most recent retail sales numbers have mirrored these sentiment indicators. Monthly retail sales for April have been revised down from 0.5% to 0.3% and the May number turned negative with a decline of 0.2%. Based on those numbers, it seems that the June number will not be that much better, while the most recent improvements in factory orders should lead to a better situation in the labour market and lead to an increase in the spending habit in the second half of the year.

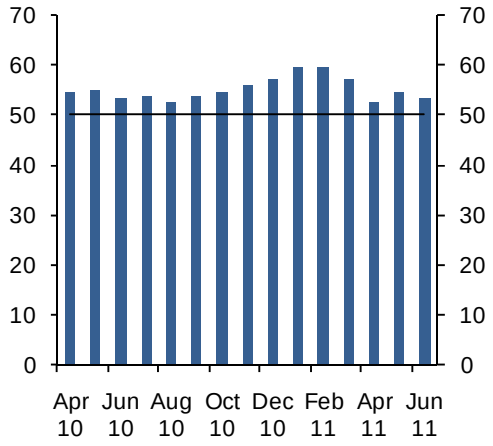
Factory orders have improved in May, when orders increased by 0.8% m-o-m, compared with a decline of 0.9% m-o-m in April, positively revised from a decline of 1.2% in its earlier estimate. With monthly factory orders having increased at an average of 1.4% from January to May and considering that the dip in April should have been as well affected by the problems the Japanese economy was facing, i.e. supply chain disruptions combined with lower imports from the United States, there is evidence of a continued expansion of the manufacturing sector heading into the 2H11. On a yearly base, the average increase of manufacturing orders – a lead indicator for production - from January to May stood at 12.1% y-o-y, which underpins the support the sector should receive in the second half.

Based on the orders situation, the production side should be lifted in the coming months. Industrial production grew by 3.5% in May, considerably lower than the 4.7% seen in April and the 5.1% recorded in March and February. However, there should be as well an element of the Japanese supply and demand disruptions affecting these lower growth numbers. Further evidence of an expansion comes from an increase in the ISM manufacturing index, which moved back to 55.3 in June, from 53.5 in May, again a number that is supporting a continuation of the expansion in the sector. Contrary to the solid expectations for manufacturing, the services sector is still suffering from the low consumer confidence. The ISM non-manufacturing sector index has moved to 53.4 from 53.6. While the decline is very little, it is the third month of decline and it compares with an index level of 59.7 in March.

Graph 3.1: ISM manufacturing index



Graph 3.2: ISM non-manufacturing index



Source: Institute for Supply Management

Another concern remains to be the consumer price inflation. The consumer price index (CPI) increased by 3.4% y-o-y in May, after reaching 3.1% in April. Firstly, this is certainly a high inflation level and while it has been highlighted on many occasions by the FED that this is mainly driven by energy and food prices, it should be highlighted that the core inflation – excluding these two volatile areas – is as well on the rise to now stand at 1.5% y-o-y in May, after registering 1.3% in March and therefore moving in the direction of 2%. This is not worrying, but given the price development in food and energy on top of this underlying price level, it is considerable. This has to be carefully watched as it might force the Fed to raise interest rates earlier than it would be sensible to do so, given the still high unemployment rate, which is a key measure for the Fed to become active in the monetary market and when considering the still fragile recovery in general.

The second half is expected to be stronger than the first half of this year, but due to the ongoing concern regarding the labour market with its latest deterioration and the deceleration in the services sector, combined with the effect of the Japanese supply and demand on the economy, the growth is expected to be lower than anticipated and stands now at 2.5% for 2011, compared with 2.6% in the previous month. The development in 2012 should be positively affected by a rebound in Japan and improvements in the labour market situation. Therefore, consumption and exports are expected to have a positive impact then. Despite the almost inexistent governmental-led stimulus, which still had an impact on this year's growth, the expansion in the next year is being considered to be slightly healthier, i.e. most of it should come from the underlying real economy. This effect should support the economy to expand by 2.9%, slightly higher than this year. Challenges to this forecast certainly remain, particularly in the form of a worse than expected development in the labour market, a further deterioration of public finances, leading to austerity measures and a further increase in inflation, forcing the Fed to increase interest rates. All could dampen growth.

The impact of Japan's triple catastrophe on the 1H11 even more severe than initially thought; however, a strong recovery expected in 2H11

Japan

The Japanese economy is still suffering from the tragic events seen in the country in March this year, but continues to recover. Latest indicators suggest that the supply disruptions are coming to an end soon and that a pick-up in domestic demand and exports should mitigate the massive output decline from the previous months. The power shortages have been managed well in recent weeks, while only the latest heat wave is endangering these improvements.

Industrial production growth is highlighting the recovery since the economy has reached its trough levels in March this year. While it had declined by 13.1% y-o-y in March, it slightly improved in February to minus 12.3% y-o-y and now in May it has moved back to the single digit territory of minus 7.2% y-o-y, which on a monthly comparison represents strong growth of 5.7%, which has been the strongest monthly increase over the last 50 years. As a comparison, the rebound the month after the 1995 Kobe earthquake stood at 2.2% y-o-y, while certainly this time the contraction has been much more severe. The number of machinery orders is supporting the likelihood that in the coming months the rebound will turn out to be able to at least compensate to a certain extent the shortfall from the 1H11. Machinery orders in May increased by 11.8% y-o-y, after a 7.1% increase in April. Particularly, domestic demand surged to an increase of 18.7% y-o-y. Retail sales – while still being in negative territory – improved as well in May, when they declined by 1.3% y-o-y from minus 4.8% y-o-y in April and minus 8.3% y-o-y in March. The main negative driver here is still motor vehicle sales, which declined by 24.3% y-o-y in May, although better than the 37.8% decline seen in April. This negative momentum should come to an end soon with motor vehicle registrations increasing by 48.2% in June. On the export side, there is still room for the upside with the three most recent months all being in negative growth areas and with the latest number for May recorded at minus 9.3%.

The unemployment rate offered hope too that domestic demand will improve in the rest of the year. It stood at 4.5% in May, after hitting 4.7% in April. This is the lowest level since March 2009, when the global economy hit its bottom. Since then it has seen a constant improvement from its highs of 5.5% in July 2009. This development in the labour market is accompanied by the fact that the average monthly earnings in May as well increased by 1.9%, after a decline of 1.5% in April.

The most recent lead indicators have pointed to a recovery in the 2H11. The PMI for manufacturing remains above the 50 level in June and now stands at 50.8, a slight decline compared with the May level of 51.3. The services PMI is still lagging the recovery at a level of 45.4 in June, but it managed to improve from the 43.8 seen in May, but much better than the 35.0 registered in April.

The reconstruction of the affected areas should furthermore lift production and demand in the 2H11. With the estimate of the government of the damage to be at around 17,000 trillion Yen, the reconstruction council estimated that around 14,000 trillion Yen will be funded by the state, while it is not clear yet how this will be financed.

By taking the more-than-expected decline of the economy in March and April into consideration, the 2011 GDP forecast has been revised from minus 0.5% to minus 0.8%. It is obvious that many uncertainties remain and hopefully things will turn out better, but currently it seems as though the shortfall from the 1H11 cannot be entirely compensated in the 2H11. Still, it is not entirely clear what the strategy will be for repairing the damage inflicted on the country during the tragic March events, but currently the forecast is incorporating a considerable effort for this, which will naturally be supported by private households and not only via government money. By applying the average growth capability of the Japanese economy and assuming the extraordinary effects of the reconstruction, 2012 growth is estimated to stand at 2.5%.

Euro-zone

While the Euro-zone continues to suffer from the fiscal situation in many countries, primarily Greece, the dynamic of the underlying economy continues, but is expected to slow down in the 2H11

The Euro-zone remains to be primarily focused on solving the sovereign debt crisis. While the underlying real economy continues to expand, the economies in the peripheral countries and the effects of austerity measures, in order to bring back the debt levels, are starting to dent the expansion. Mainly Germany and France continue to grow, while others – specifically the highly indebted economies are lagging.

While the rating agencies have continued warning about the debt situation in many of the peripheral countries in the Euro-zone, the European Commission has issued an estimate of the bail-out needs for Greece in the three-year rescue plan. The current estimate is for €172 billion euros over three years. Of this, €57 billion are covered in the already signed off first bail-out programme, which was originally scheduled to be processed until mid-2013. Some €30 billion of the remaining €115 billion are expected to be raised by Greece itself through primarily the privatization of government assets. The Euro-zone countries, the European Central Bank (ECB) and the IMF are then being asked to shoulder €85 billion. The undertakings – led by Germany – to include the private sector, i.e. primarily banks that are holding government debt to participate in the bail-out and as well share some of the burden, are still undergoing and it is not clear in which way and to which amount the banking sector is willing and able to participate. In the meantime, the ECB has warned that the governments of the Euro-zone should not assume private-sector banks will participate in any debt-restructuring. Estimates are that the German and French Banks are holding around €15 billion in Greek government bonds. The ECB is estimated to hold Greek bonds in the range of around €40 billion and the Greek Central Bank to hold around €7 billion. Not included in this overview are other economies with exposure to the Greek debt situation via their finance sectors – particularly the Greek finance sector –, but it is obvious that a default would have wide implications. It has turned out that the first €110 billion bail-out package was obviously short of €70 billion, which is an impressive number and an obvious miscalculation, based on very positive assumptions, when it has been worked out in 2010. So while the current package might be suffice, this experience and the consequent need this year for again emergency support, leaves the question if this time it will be enough or if the economy will again face funding needs in due course. A third time would certainly be challenging to work out. It seems that currently the Euro-zone countries are faced with almost no other choice than continuing what they have started last year. For now, the sovereign debt sphere and its issues seem to be contained, but if there is any further deepening trouble – and the litmus test will most probably come in 2012 – it would have the ability to produce severe consequences for not only the Euro-zone economies, but would most likely have an impact on a global base through, as well, second-round effects attached to derivatives on sovereign bonds. While the consequences should be better known than at the time the financial industry faced the problems in 2008, there are still many unknowns.

The sovereign debt situation has the potential to seriously impact growth expectations

The underlying economy is, however, expanding nicely, although an expected deceleration in the 2H11 is expected, due mainly to the austerity measures that have been implemented across the Euro-zone and the interest rates that the ECB has just recently increased from 1.25% to 1.50%, in order to control inflation, which stood again at 2.7% in June. Furthermore, some slow-down in exports should be expected, due to the measures that the main developing economies have implemented, in order to manage the expansion to avoid overheating. But it remains to be seen if a pick-up in demand from the US and Japan might be able to compensate for this effect and probably even overcompensate.

Industrial new orders point at continued expansion. They increased by 0.7% m-o-m in April, after a decline of 1.5% in March, which was the only negative month for orders this year so far. Industrial production in April was up by 0.2% m-o-m, an increase from no growth in March. Despite on a yearly basis being the lowest production growth in 2011, it was still 5.5% higher, when compared with last year's level. This positive momentum in production can as well be drawn from the latest PMI numbers, which have been published by Markit. They are now standing at 52.0 for the manufacturing area in June, which is lower than May's 54.8, but still pointing nicely at an expansion. The level for the services sector is even higher at 54.2, compared with the May number of 55.4.

This momentum of the 1H11 and the carry-over into July and probably August was the main reason for lifting the GDP growth forecast for 2011 from 1.8% to 2.0%. For the next year a considerable slow-down is currently expected. The ongoing concerns regarding the fiscal situation of many Euro-zone countries and the austerity measures that had to be implemented, in order to bring back the debt levels to more reasonable levels, is providing the reasoning for lower growth next year. Furthermore, the increase in interest rates into most probably next year of up to 2.0%, compared with this year's average level of around 1.25%, will most probably as well keep growth from significantly expanding. Therefore, the current growth estimates for 2012 stand at 1.5%, 0.5 percentage points lower than this year's forecast.

Developing countries

Currently, in many developing countries GDP is expanding above pre-crisis levels and growth in international trade and demand for energy are mainly due to DC growth

Developing countries, including emerging markets, constitute about 48% of global GDP on purchasing power parity terms. According to the IMF World Economic Outlook (2011), China with 13.6% of world GDP is the largest emerging market by far, followed by India, Russia and Brazil with 5.4%, 3% and 2.9%, respectively. The IMF predicts that, in 2016 China, will become the world's largest economy on a purchasing–parity basis. On the basis of market exchange rates, it would take longer - up to 2020 - for China to attain that position. Rapid expansion of emerging economies is particularly interesting for commodity and energy-exporting countries since the main portion of the incremental increase in demand for commodity and oil stems from developing economies' growth. Currently, in many emerging and developing economies, GDP growth is above pre-crisis levels. Inflation, however, emerges as a main concern in developing countries as there have been signs of overheating in some major developing economies.

Global economic growth moderated last month, due to several factors, ranging from higher-than-expected commodity prices, the impact of the natural disaster followed by the nuclear catastrophe in Japan and renewed concern over sovereign debt in the Euro-zone. In some major emerging markets, such as India and Brazil, inflation is running close to, or above, the authorities' targets. In many DCs, budget deficit to GDP ratios exceeded the prudential levels, while in some emerging markets credit growth has experienced very fast growth. Since the second half of 2010, accelerating food and energy prices have contributed to rising CPI in the DCs. Curbing inflation is particularly important in those DCs where the share of food and fuel costs in household expenditure is significant. The main challenges facing developing and emerging countries in the current circumstances range from accelerating inflationary pressures, particularly in food and energy prices, capital inflow in emerging markets with open financial markets and the appreciation of exchange rates. Unemployment is also still high in some developing countries, specifically among the young.

In South America, economic growth has been decelerating towards potential rates. Monetary policy is being tightened to control inflationary pressures. Capital inflow has been driven by low interest rates in the US and other OECD countries. This has been a major contributor to the region's economic rebound, following the downturn of 2009. However, this has had a mixed impact, prompting concern over currency appreciation of the major currencies in the region, strengthened by positive terms of trade, caused by upward commodity price movements. In addition, strong domestic demand has been fuelling inflationary pressures. Central banks have responded by tightening monetary policy. Both interest rates and bank reserve ratios have been raised to control inflation in the last couple of years with hiking interest rates becoming the main policy option for tightening monetary expansion since the start of this year. The latest series of increases in interest rates across the region has been on 12 May in Peru, 8 June in Brazil, 14 June in Chile and 17 June in Colombia. It is expected that monetary tightening will contribute to the slowdown in growth in the region, although inflation is set to rise in a number of countries in the region.

In developing Asia, despite moderation, the economy is still expanding at a promising pace. In China, manufacturing PMIs have eased to some extent in May, but the economy is expected to grow close to 8% in the second quarter. Inflation remains high and is expected to peak in July or August. In India, the main concern is high inflation, particularly after the government decision to increase petroleum product

prices. A chronic budget deficit is another major problem affecting India's economy and it is feared that the situation could worsen considering the rising trend seen in commodity prices. However, the government has appeared to be in good control of its spending, despite having to eliminate 5% of custom duties on crude oil. GDP growth is expected to remain higher than its potential trend and close to 8% in the second quarter of the year. In ASEAN countries, domestic demand has remained resilient, despite the shocks to the automobile industry in recent months after the Japanese earthquake. The high trade dependency of most economies in Asia means that they are vulnerable to an extension of the soft patch seen in Western economies. Many states also have strong trade ties with disaster-stricken Japan. Nevertheless, if Western economies manage to overcome the recent difficulties and Japan rebounds in the second half of the year, Asian economies are expected to continue their economic growth, albeit at a moderated pace. Policymakers have already been forced to take measures to prevent overheating. In general, they have been slow to raise interest and rein in stimulus programmes, with the result that inflationary pressures have been building. Policy stimulus is now being withdrawn across the region, which together with weaker external demand, will result in a deceleration in growth. Asia will nonetheless remain the fastest-growing region in the years to 2015.

Economic growth in the Middle East and North Africa (MENA), which accelerated in 2010 on the back of the recovery in oil prices and a stronger global economy, has been negatively affected by civil unrest in many countries of the region since early 2011. For the MENA region, economic growth of around 3.5% is expected in 2011, accelerating to 4.5% in 2012, assuming a resolution to current political turmoil in the region can be found and the global economic recovery continues with favorable oil prices. Meanwhile, the South African economy is experiencing robust growth in consumer spending on the back of steady economic growth of around 3.5% this year and next. Inflation is expected to slow down to 4.9% (from 5%) in 2011, although it is likely to rise again in 2011 if interest rates are not increased by the end of the year.

BRIC's

A soft landing has become a major issue for large emerging economies, such as the BRICs, where overheating of the economy has put to the test the effectiveness of their policies

In 2011, it is expected that major emerging economies, including China, will see their rate of growth moderated, compared with last year. The Indian economy is struggling with inflation and there have been signs that fighting inflation is taking its toll on the country's economic growth. The same applies to Brazil where a strong real (Brazil's national currency), amid a widening foreign trade deficit and fiscal surplus, have left raising interest rates the only effective tool for curbing inflation, although tightening monetary policy is bound to dampen economic growth in an economy that enjoys low unemployment and faces wage inflation. Price inflation is a main source of concern in Russia too. The Russian economy, which is still recovering from its worst recession in recent years in 2009, has to deal with its public sector deficit, particularly when it comes to the non-oil budget deficit.

Table 3.2 summarizes our estimates of economic rates of growth in four major emerging economies, namely the BRICs, for 2011 and 2012. As inflationary pressures appear to be a common concern in these economies, estimates of consumer price indices on an annual basis also are given. The table also contains consensus estimates of trade balance and public sector borrowing requirements in these economies for the years 2011 and 2012. While Brazil enjoys a budget surplus, all other three members of the group have emerged from the recent economic crisis with significant public sector deficits, accumulated mainly as a result of fiscal expansion and stimulus packages introduced by the governments of these countries to rescue the respective economies from recession.

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

	GDP growth rate		CPI,* % y-o-y change			Current account balance, US$ bn		PSBR,* % of GDP	
	2011	2012	2010	2011	2012	2011	2012	2011	2012
Brazil	4.1	4.2	5.9	6.2	5.1	-60.1	-74.6	2.6	2.4
China	9.0	8.5	3.3	4.8	3.8	281.1	281.8	-1.9	-1.6
India	8.1	7.7	10.2	7.8	6.7	-49.6	-53.5	-4.7	-4.6
Russia	4.1	4.5	8.8	8.2	7.2	85.1	61.8	-1.3	-2.5

CPI = Consumer price index
PSBR = Public sector borrowing requirement

**Source: Consensuses Forecast, June 2011, figures for India are from the fiscal year 2010-2011 and 2011-2012*

Although Brazil has benefited from favourable terms of trade and capital inflow in recent years, its competitiveness has come under pressure amid monetary tightening and the appreciation of its currency, the real.

Brazil

Brazil, like other commodity exporters of the region, has benefited both from favourable terms of trade and from growing capital inflows and easy external financing conditions. It is projected that Brazil's economic growth can even improve to 4.2% in 2012 from 4.1%in 2011 considering growing domestic demand and investment and the government's strong performance in its fiscal stance. Brazil now has a budget surplus more than its target of 3.1% of GDP. This gives the government the capability of easing its fiscal expenditure if it was needed as a stimulus. Surprisingly, growth picked up speed in the first quarter of 2011, despite government efforts to cool the expansion. GDP increased by 1.3% in the first quarter from the previous three-month period, and by 4.2% from a year ago. The breakdown in expenditure shows that growth was driven mainly by domestic demand. Investment growth accelerated to 1.2% quarter-on-quarter, while consumer spending growth eased to 0.6%, compared with the last quarter. Exceeding investment growth over private consumption is a good sign as the capacity-building would ease overheating pressures in the future; however, a widening current account balance of the economy remains one of its concerns.

Robust private demand on the back of a strong credit expansion has led to a widening current account deficit amid appreciation of the real, the country's currency, due to the favourable terms of trade that has encouraged the growing imports. On the other hand, high commodity revenue and capital inflow keep an appreciating pressure on the real, with a likely negative impact on domestic exporters and manufacturers. This in turn has reduced the market share of domestic producers that face stiff competition from abroad. Although there has been greater diversity in foreign trade, at the same time this has come with larger dependency on commodities. Brazil is still relatively a closed economy and manufacturers are not dependant on external demand. But at the same time domestic consumers are increasingly substituting domestic products with cheaper imports.

With continued strong growth and output already around its potential level, inflation has become a major concern, as is the case in many other countries of the region. Headline inflation is affected by both demand factors and high food and energy prices, similar to other BRIC countries, particularly India. Despite some recent easing in fuel and some food items, commodity prices remain high. Therefore, tightening monetary expansion and fiscal spending have been in order since the second half of 2010. On 8 June the monetary authorities increased the policy interest rate by 25 bp and the Selic (the Brazilian Central Bank's system for performing open market operation in execution of monetary policy and can be compared with the Fed Funds rate in the US) is now 12.25% with two more interest rate hikes possible in the coming months to curb inflation.

Robust domestic demand is being supported by improving labour market conditions. Economic data released in recent weeks indicate that manufacturing is finally moving forward after a long period of stagnation. Capital goods and durable goods production led the IP rise at the end of the first quarter. This strong performance of the economy in the first three months of 2011 reinforces the supportive growth outlook. Credit growth also picked up in May and June. Despite tighter credit standards for households and a downshift in the growth of earmarked credit, loans appear to be

increasing at a significant pace. In terms of credit progress, after slowing in the first quarter of 2011, real consumer credit increased 0.9% on a monthly basis in May, while corporate credit decreased 1% month-on-month, while expanding 1%, compared with the previous quarter.

Another sign of the strong economic performance of the country is its May balance of payments figures. There is evidence that the current account deficit has been contained, while capital inflow remains resilient in the second quarter of 2011, led by FDI and external borrowing. In the capital account, FDI long-term loans are on the rise, offsetting most of negative impact on capital inflows targeted by the tax on international financial transactions (IOF). FDI reached $4.0 bn in May (a $64.0 bn inflow in the last 12 months), while fixed income investment, affected by 6% IOF tax recorded a $0.4 bn outflow in the January-May period.

China

China seems to have succeeded in curbing inflation without harming its economic growth, but its dependence on high levels of investment may turn out to be a bigger challenge in the coming years

After growing by 10.3% in 2010, China's economic expansion is projected to remain firm at 9.0% this year. For 2012, we believe that there could be more moderation in economic growth and forecast economic growth of 8.5% in China next year. It is worth noting that the official target of GDP growth, reflected in the country's 12th five-year economic plan, finalized in March 2011 by the National People's Congress (NPC), is to achieve an average 7% GDP growth per year in 2011-15. The government has taken measures, in monetary and fiscal policies, to curb inflation and prevent an overheating of the economy. However, as for the last five-year plan, when the economy expanded faster than the officially announced 7.5% a year, it is believed that the economy will expand faster than the 7.0% target of the 12th five-year plan, on average. Many provinces have already set targets higher than 7.0% for their regional economic growth and other indicators, such as investment to GDP ratio, also suggest higher GDP growth as well.

The Chinese government realizes that the current economic growth path is not sustainable and therefore finding a way for less resource-intensive growth has become crucial for China's sustainable development. It is quoted that Premier Jiabao in 2007 bluntly described China's economy as "unstable, unbalanced, uncoordinated and unsustainable". For these reasons, it is clear that China is set to moderate its GDP growth to achieve a more balanced and inclusive economic growth.

One of the salient features of China's 12th five-year economic plan is its emphasis on energy conservation. China is now the largest energy-consuming nation in the world with 20% of global consumption. This surpasses the US with 19%, according to the Statistical Review of World Energy 2011, published by BP in June 2011. Because of rapidly growing demand and its sluggish domestic supply of energy, China has become heavily dependent on imports of energy, particularly imported oil and gas. Around 54% of its oil needs was imported in 2010 with 13% of its natural gas also supplied by imports. Long range forecasts, prepared by BP, show China becoming 80% dependent on imported oil by 2030, and 40% dependent on gas imports in the same time frame. In the light of these worrisome predictions, the government has outlined ambitious plans for lower energy intensive growth. China will aim to cut energy intensity by 16% in 2011-15. A corresponding reduction by 17% of its carbon intensity over the same period is viewed as being in line with China's existing goal of slashing carbon intensity by 40-45% from 2005 levels by 2020. It is also aimed that by 2020, some 15% of the country's energy mix should come from non-fossil fuel sources.

China recorded a budget deficit equivalent to 2.1% of GDP in 2010 and its budget deficit for 2011 is estimated to be around 1.9% of its GDP. It is forecast that the deficit will remain at around this level in the next couple of years, before easing in 2014. Spending on stimulus-related infrastructure projects (which rose sharply in 2009-10) will come to an end. However, this will be offset by a substantial rise in expenditure on education, healthcare and pensions, in line with the government's "harmonious society" programme. In general, in China's 2011 budget, an attempt has been made to rebalance expenditure from infrastructure towards social spending. Expenditure on the agricultural sector will be increased by 16% in the 2011 budget. Further help for both low income rural and urban households is to come in the form of increased social security coverage. Spending on social welfare is expected to grow by 14% in 2011.

The current policy-tightening cycle has focused on restricting purchases of housing, limiting growth in bank credit and draining liquidity from the money supply through bond issuance and increased bank reserve requirements. Interest rates have also been raised. In December 2010, amid growing concern about inflation, the government altered its monetary policy stance from "appropriately loose" to "prudent". In addition, the People's Bank of China began to raise interest rates. The latest interest rate hike was on July 7 by 25 basis points that increased the one-year cost of borrowing working capital to 6.56%. However, it is expected that there will be no more interest rate hikes in 2011 as the authorities believe that core inflation has now been brought under control. However, the government's ability to control credit expansion through the state-owned banking sector means that quantitative controls on monetary and credit expansion are more important in policy terms than interest rates. The government might increase bank reserve requirements further early in the forecast period to contain inflation. In addition, banks will remain subject to monthly and quarterly credit quotas.

So far, government policies to prevent the economy from overheating have been met with mixed success. It is expected that the headline CPI inflation rate will peak at around August and begin to moderate afterwards, descending below 5% in the fourth quarter of the year. China's NBS manufacturing PMI eased more than expected in June, suggesting that economic growth has continued to decelerate. The latest reports on manufacturing PMI showed a notable slowdown in both output and new orders, while stock of finished goods picked up at the same time. It is expected that the sequential trend in China's industrial activity growth will continue moderating with sequential IP growth slowing from 14.8% quarter-on-quarter in May to 9.3% by August. Accordingly, GDP growth is expected to moderate in the third quarter to around 8.5%, before increasing again to around 9% in the fourth quarter.

India

Striking a balance between its growing current account deficit and large public sector borrowing requirement remains a major challenge for India's economy at the macro level

Indian economic growth has been robust in the first quarter of 2011 and is expected to remain above trend, albeit with some moderation, compared with last year. The rate of GDP growth for 2011 is forecast to be around 8.0%, slowing marginally to 7.7% in 2012. The Central Statistical Organization (CSO) has made a significant revision to its growth figures and GDP growth in the first quarter of 2010-11 has been revised up to 9.3% and in the third quarter to 8.4%. The agricultural sector has made a strong contribution to overall economic performance, growing by 6.6%. The manufacturing sector grew by 8.3%, down from 8.8% in the previous 12-month period. Services expanded by 10.3%, up from 9.7% in the 2009-10 fiscal year. The latest data from the CSO confirm that the economy is slowing with real GDP growth in the final quarter of the fiscal year 2010-11 declining to 7.8% year-on-year from 8.4% in the third quarter. The Planning Commission has set 9.0-9.5% as its target for average GDP growth in the 12th five-year plan period 2013-14 to 2017-18). The Central Bank of India, on the other hand, estimates 8.0% GDP growth for 2011-12, but some private sector economists in India expect growth in the current fiscal year to be lower at around 7.5%. More recent economic indicators suggest a further moderation in activity. The industrial sector rose by 6.3% in April, down from 8.9% in March and 6.9%, compared with a year ago. The services sector expanded at its lowest pace in 20 months in May, according to the HSBC Business Activity Index. Meanwhile, the HSBC purchasing Managers' Index for the manufacturing sector fell to 57.5 in May from 58 in April. Domestic car sales growth also slowed sharply for the second consecutive month in May amid rising input cost, higher fuel costs and increased borrowing costs.

The Reserve Bank of India (RBI) raised its policy rate by 25 bp on 16 June increasing the benchmark interest rate to 7.5%. The main reason for the interest rate hikes since 2010 has been curbing the accelerating inflation that rose to 9.1% year-on-year in May 2011. Food prices increased by 9.1% in early June, compared with a year ago. The monetary authority has expressed its concern over the impact of high commodity prices on wages and the entire supply chain.

There has been a national manufacturing policy initiative (NMP) in June, the aim of which is to raise the share of the industrial sector from 14.2% in 2020-11 to 25% by 2025-26. The Indian industrial sector is still relatively small, compared with other emerging economies. Also, India plans to begin a major highway construction project

with $12 bn investment from the public sector. According to the National Highways Authority of India (NHAI), the money will be spent on 7300 km of roads, including building new motorways and widening existing roads.

In reaction to rising oil product prices in international markets, the Indian government decided to increase the administrated prices of key petroleum products. Rising food and fuel prices had raised the possibility of raising the budget deficit to 6% of India's GDP, particularly as the government eliminated 5% customs duty on crude oil and slashed the excise duty on diesel by 50%. Despite these reforms on energy subsidies and taxes, the Oil Ministry of India has indicated that the energy price increase has cost India around 1.3% of its GDP. However, it is expected that the foregone revenue from the duty cuts will be lower than estimated because the crude price assumed in the budget is lower than the prices used for projecting these losses. On the revenue side of the government budget, it is expected that government revenue will increase in the current fiscal year. The budget assumed a gross tax collection growth of 17% in the 2010-11 fiscal year. The overall projection for India's budget deficit in the 2010-11 fiscal year is about 4.7%, slowing slightly to 4.6% in the next fiscal year.

Russia

Having recovered in 2009 from its worst recession, the Russian economy is approaching its potential growth trend on the back of favourable energy and commodity prices and strong domestic demand

The Russian economy is forecast to grow by 4.1% in 2011 and by 4.5% in 2012. Last year, the Russian economy experienced a swift recovery, pulling out of a deep recession in 2009, when real GDP contracted by minus 7.2%; arguably the deepest economic downturn since 1991. Among the BRICs, the Russian economy suffered most from the global recession. A review of the Russian economy suggests that the recovery in 2011 is expected to remain moderate. While growth in the first quarter of 2011 accelerated to 4.1% y-o-y from 3.1% in the last quarter of 2010, it is expected to reach 3.6% y-o-y in the second quarter of the year and 4.1% for 2011 as a whole. The economy and the government budget both remain very dependent on oil price developments. Income from oil and gas accounts for about 25% of GDP, and every $1 rise in the oil price translates into about $2 bn in revenue, according to official estimates. Apart from this factor, the fragility of the banking sector, burdened with bad-loan problems and the substantial under-employment in the economy, may limit improvements in investment and private consumption.

The Russian economy is expected to grow by 4.1% in 2011. However, the pace of industrial growth slowed in April. The manufacturing sector grew 0.6% month-on-month, while machinery and equipment output continued to rise rapidly by 3.9% on a monthly basis. This has been driven by a recovery in car output, which rose 64% year-on-year in April. There have been signs of a recovery in domestic demand, with investment and retail sales showing robust growth. Foreign trade data suggest strong investment growth with machinery and equipment increasing by 55% year-on-year in the first quarter of 2011. Private consumption indicated by retail sales also grew significantly, rising 5.8%, compared with a year ago. The Federal State Statistics Service reported an increase of 1.8% in wages above the level seen in 2010.

In May 2011, price inflation in the country was 9.6% higher than in May 2010. Food prices, which make up about one-third of the consumer price basket, were unchanged in May, compared with the previous month. However, the country could face drought in its black earth area in 2011 if temperatures remain high during the next few weeks. Lifting the ban on grain exports that was introduced in response to the crop shortage in 2011, may push domestic prices higher.

According to the Russian Central Bank, foreign direct investment inflows into Russia increased to $11.6 bn in the first quarter of 2011, compared with an inflow of $6.7 bn in the first quarter of 2010. Russian flagship companies have been allowed to sell stakes to foreign multinationals. However, the Rosneft swap with BP has collapsed following objections from Russian shareholders and despite signs of a more open climate.

On economic policies, the government has revised its federal budget for 2011 as higher-than-expected oil prices promise higher revenue for the public sector. The revised budget is based on $105/b and if it materializes would reduce the budget deficit in 2011 to 1.3% of GDP. Monetary policy is being tightened steadily and the Central Bank increased its benchmark interest rate to 3.5% at the end of May.

The financing and repo rates were left unchanged at 8.25% and 5.50%, respectively. The authority has to strike a delicate balance between the risk of economic slowdown and accelerating inflation. The RCB had already raised the banks' reserve requirements by 100 bp, in an attempt to confine monetary expansion to its target levels. Also, it seems that the Russian monetary authorities have ignored the appreciation of the ruble to some extent to avoid the impact of a weak ruble on inflation.

On the monetary sector of the economy, a new strategy for the banking sector is being adopted by the government. The objective of this strategy is to bring Russian banking standards to an international level and complying with the Basel II and Basel III requirements on capital adequacy and liquidity.

OPEC Member Countries

Middle East and North Africa

The region is expected to grow steadily in coming years, assuming robust international demand for oil and gas

GDP growth in 2009 for the Middle East and North Africa (MENA) was around 2.1%, less than half the rate seen in the previous year. However, very few countries in the region experienced negative growth. Economic growth recovered to 3.9% in 2010 and is forecast to stabilize at around 3.5% this year. Growth will continue to be supported by loose domestic policies and the moderate global recovery; however, spreading social unrest, rising sovereign risk premium and elevated inflation will constrain growth prospects in several countries of the region. We expect an economic growth close to 4.2% for the region, assuming a continuation of current oil and gas prices.

Higher commodity prices and external demand are boosting production and exports in the region. In addition, government spending, particularly in the oil-exporting countries, is fostering economic recovery. However, political uncertainties, unemployment, particularly amongst the youth, and inflationary pressures marked by rising food prices, are affecting economic developments negatively. In the group of oil exporters, economic growth is expected to be higher compared with the average of the region. Amongst energy exporters, Qatar and Saudi Arabia are particularly expected to perform well on the back of continued expansion of natural gas projects and government investment in infrastructure, respectively. In the oil-importing countries, the economies of Egypt and Tunisia are prone to slower growth, due to political turmoil and the events' impact on these economies' leading financial and tourism sectors.

Inflation is high in most countries of the region, being elevated by rising commodity and food prices. In most countries of the region, food constitutes a significant share of the household expenditure. According to the IMF, inflation across the region could be projected as high as 10%. Inflationary pressures in the energy-exporting counties of the region are mainly due to expansion of the monetary base of the economies, induced by oil dollars incurred by the governments, and the significant increase in public sector spending. The overall regional current account surplus is now projected to rise by over 12% of GDP, compared with 15% in 2008. Should the global economic recovery prove to be slower than expected, the export earnings of the region and prospects for its economic growth would be adversely affected.

Fiscal policy has played a critical role in cushioning the impact of the global economic crisis on the region. Public sector spending on infrastructure and their support of the lower income groups of society will continue to boost domestic demand in the near term in many oil-exporting countries. To shield populations from surging food and fuel prices, many governments in the region have increased social transfer and fuel and food subsides. However, high unemployment, particularly among the young and educated population, remains the main economic challenge of the region. According to the IMF, unemployment rates range from around 10% to more than 30% in the region. The fact that unemployment has remained so high for so long suggests that the problem is largely structural. The industrial production index, as a proxy for economic activity, indicates that in most economies of the sample group, industrial production has been almost stagnant for the last several years and has only started to pick up in recent months. A lasting solution to the region's unemployment problem will require a combination of permanently higher and inclusive economic growth and

reforms to improve the responsiveness of the labour markets.

For OPEC as a whole, economic expansion is expected at 3.5% in 2011 and 4.7% in 2012.

Oil prices, US dollar and inflation

The US dollar's fall almost came to a halt in June, with the exception of the Swiss franc, against which it fell by almost 4%.

The US dollar did not move very much in June, compared with its four major counterparts. However, in this month, the decline of the US dollar seems to have come to a halt, at least for the time being. Against the euro the dollar was almost stable on an average monthly basis, when it lost only 0.3%, while versus the pound sterling it gained 0.7%. On the other side, it again lost versus the Yen, against which it fell by 0.9%. Only the move versus the Swiss franc was considerable. It fell by another 4% against the Swiss franc to move to a new low of $0.84/Swiss franc. This means that over the last 12 months, the dollar has lost 26% or more than a quarter of its value versus the Swiss franc.

Another steep decline against the euro currently appears relatively unlikely as the range of $1.40/€ to $1.50/€ seems relatively well established for both of the currencies and while the ECB has increased interest rates as expected in July from 1.25% to 1.50%, the euro had almost no reaction to the already anticipated news. A further increase in the euro is currently not likely, given the weakness of the economy on the fiscal side and the anticipation of further rate hikes in the market. Contrary to this, a further deterioration of the fiscal side in the Euro-zone might lead to a depreciation.

The OPEC Reference Basket price fell by 0.8% in June.

In nominal terms, the OPEC Reference Basket price was almost unchanged in June, when it fell by 0.8% or $0.9/b from $109.94/b in May to $109.04/b in June. In real terms, after accounting for inflation and currency fluctuations, the Basket price declined by 0.8% or $0.53/b to $65.43/b from $64.97/b (base June 2001=100). Over the same period, the US dollar fell by 0.2% against the import-weighted modified Geneva I + US dollar basket, while a decline in inflation of 0.2% compensated for this fall.*

* *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

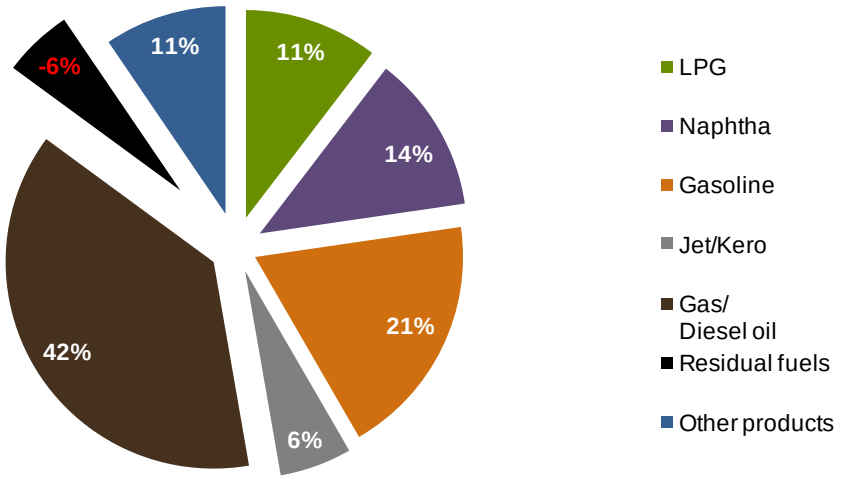
World oil demand estimated to grow by 1.4 mb/d in 2011, averaging 88.1 mb/d

World oil demand in 2011

The oil market has been volatile, making future oil demand estimates hard to predict. An unsteady world economy is negatively affecting the oil market and imposing a high range of uncertainty for the short term.

The most influencing factor is the fate of the US economy for the next 12 months. US oil demand has been in the negative since May, causing year-to-date total US oil demand growth to become almost flat. Another factor that might add more ambiguity to the country's oil demand is the summer driving season. Giving the easing oil prices, transport fuel demand might exceed expectations, leading to more upward risk. As for Japan, the effect of its natural disaster has been hammering the country's economy, hence putting a huge downward pressure on the country's oil demand. The Chinese oil situation is also creating more uncertainty as the government is placing more emphasis on energy efficiency, while the booming economy is calling for more energy. Furthermore, anticipated electricity shortages will push for more diesel use by independent power generators. Other Non-OECD countries are increasing the use of oil, offsetting the decline in the OECD region.

Graph 4.1: Forecast y-o-y growth in 2011 world oil demand, by product



That said, as mentioned in the last *MOMR*, it is too early to alter the existing forecast for world oil demand as risks are nearly balanced with regard to upward and downward movements. However, should higher international oil prices persist, or should further setbacks in the OECD economies occur, then it might impose a stronger reverse elasticity on oil demand, putting more weight on the downward risk. This risk might be translated into a reduction of current growth by 200 tb/d.

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	23.91	23.98	23.72	24.35	24.18	24.06	0.15	0.62
Western Europe	14.45	14.17	14.01	14.70	14.62	14.38	-0.07	-0.52
OECD Pacific	7.79	8.32	7.20	7.56	8.02	7.77	-0.01	-0.17
Total OECD	**46.15**	**46.46**	**44.93**	**46.61**	**46.81**	**46.21**	**0.06**	**0.13**
Other Asia	10.12	10.28	10.47	10.26	10.48	10.37	0.25	2.46
Latin America	6.17	6.13	6.28	6.50	6.42	6.33	0.16	2.63
Middle East	7.24	7.28	7.30	7.68	7.43	7.42	0.19	2.56
Africa	3.35	3.41	3.39	3.27	3.45	3.38	0.03	0.78
Total DCs	**26.89**	**27.11**	**27.43**	**27.70**	**27.79**	**27.51**	**0.62**	**2.32**
FSU	4.14	4.11	3.94	4.38	4.46	4.22	0.08	1.91
Other Europe	0.69	0.67	0.62	0.67	0.73	0.67	-0.02	-3.03
China	8.95	9.13	9.71	9.80	9.64	9.57	0.62	6.95
Total "Other regions"	**13.79**	**13.91**	**14.27**	**14.84**	**14.83**	**14.47**	**0.68**	**4.93**
Total world	**86.82**	**87.48**	**86.64**	**89.15**	**89.43**	**88.18**	**1.36**	**1.57**
Previous estimate	86.77	87.36	86.79	89.07	89.31	88.14	1.38	1.59
Revision	0.05	0.12	-0.16	0.07	0.13	0.04	-0.01	-0.02

Totals may not add up due to independent rounding

World oil demand is estimated to grow by 2.1 mb/d in 2010 and by 1.4 mb/d in 2011, averaging 88.1 mb/d.

Table 4.2: First and second quarter world oil demand comparison for 2011, mb/d

	1Q10	1Q11	Change 2011/10 Volume	Change 2011/10 %	2Q10	2Q11	Change 2011/10 Volume	Change 2011/10 %
North America	23.58	23.98	0.40	1.71	23.76	23.72	-0.04	-0.18
Western Europe	14.18	14.17	-0.01	-0.09	14.12	14.01	-0.11	-0.80
OECD Pacific	8.19	8.32	0.12	1.52	7.32	7.20	-0.11	-1.53
Total OECD	**45.95**	**46.46**	**0.51**	**1.12**	**45.20**	**44.93**	**-0.27**	**-0.59**
Other Asia	10.05	10.28	0.24	2.38	10.23	10.47	0.24	2.31
Latin America	5.93	6.13	0.20	3.37	6.14	6.28	0.14	2.20
Middle East	7.15	7.28	0.14	1.89	7.12	7.30	0.17	2.44
Africa	3.38	3.41	0.03	0.89	3.36	3.39	0.02	0.71
Total DCs	**26.51**	**27.11**	**0.60**	**2.28**	**26.86**	**27.43**	**0.57**	**2.12**
FSU	4.02	4.11	0.09	2.11	3.86	3.94	0.08	2.07
Other Europe	0.69	0.67	-0.02	-2.18	0.64	0.62	-0.03	-3.90
China	8.37	9.13	0.76	9.07	9.09	9.71	0.62	6.83
Total "Other regions"	**13.08**	**13.91**	**0.83**	**6.34**	**13.60**	**14.27**	**0.68**	**4.97**
Total world	**85.54**	**87.48**	**1.95**	**2.28**	**85.66**	**86.64**	**0.98**	**1.14**

Totals may not add up due to independent rounding

Graph 4.2: Quarterly world oil demand growth

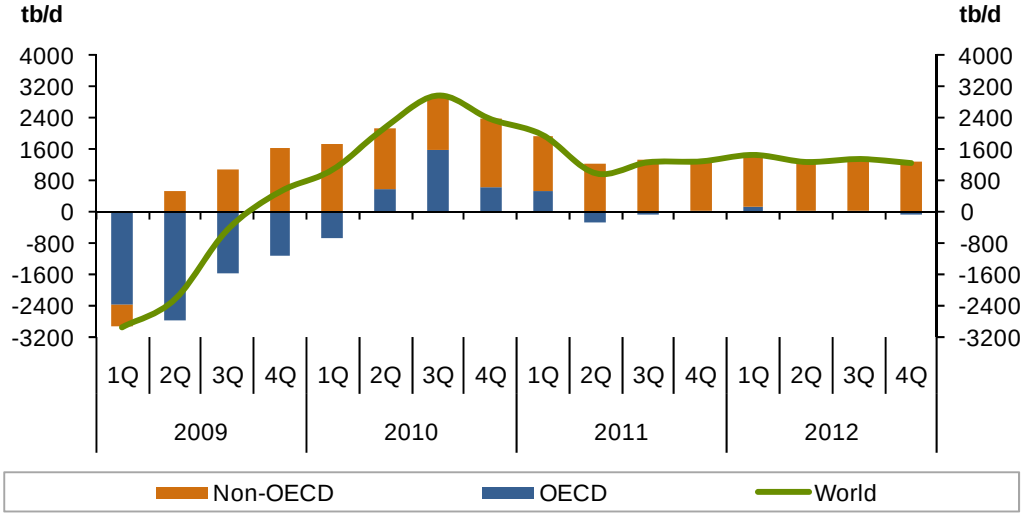


Table 4.3: Third and fourth quarter world oil demand comparison for 2011, mb/d

			Change 2011/10				Change 2011/10	
	3Q10	3Q11	Volume	%	4Q10	4Q11	Volume	%
North America	24.26	24.35	0.08	0.35	24.03	24.18	0.15	0.62
Western Europe	14.79	14.70	-0.09	-0.64	14.70	14.62	-0.08	-0.53
OECD Pacific	7.60	7.56	-0.04	-0.54	8.04	8.02	-0.02	-0.28
Total OECD	**46.66**	**46.61**	**-0.05**	**-0.11**	**46.77**	**46.81**	**0.05**	**0.10**
Other Asia	10.00	10.26	0.26	2.57	10.22	10.48	0.26	2.58
Latin America	6.33	6.50	0.16	2.57	6.27	6.42	0.15	2.43
Middle East	7.45	7.68	0.23	3.12	7.23	7.43	0.20	2.77
Africa	3.24	3.27	0.03	0.80	3.43	3.45	0.02	0.73
Total DCs	**27.02**	**27.70**	**0.68**	**2.51**	**27.15**	**27.79**	**0.64**	**2.36**
FSU	4.30	4.38	0.08	1.74	4.38	4.46	0.08	1.74
Other Europe	0.68	0.67	-0.02	-2.20	0.76	0.73	-0.03	-3.82
China	9.23	9.80	0.57	6.18	9.10	9.64	0.54	5.96
Total "Other regions"	**14.21**	**14.84**	**0.63**	**4.43**	**14.24**	**14.83**	**0.59**	**4.14**
Total world	**87.89**	**89.15**	**1.26**	**1.43**	**88.15**	**89.43**	**1.28**	**1.45**

Totals may not add up due to independent rounding

Alternative fuel

Biofuel subsidies have been a huge burden on many OECD governments and, with recent financial troubles, these governments are having a hard time allocating more subsidies to such a costly industry. Recently in the US, biofuel subsidies have become a hot topic before the country's Senate. The Senate is considering whether to continue injecting life into such a money-draining industry at a time of huge budgetary deficit, or to use the funds more efficiently in other sectors of the economy. The cost to the government is billions of dollars, which could otherwise be efficiently utilized in supporting the country's economic recovery.

North American oil demand forecast revised down by 0.06 mb/d to show growth of only 0.1 mb/d

OECD – North America

According to the latest weekly US oil demand data, the country's oil consumption has been in the negative since May, squeezing the second quarter into the red. Gasoline usage declined by 1.7% in the second quarter, as opposed to a normal growth of 1.6%. Industrial products are also not performing well, reflecting the slowing economy. The weakness in the second quarter caused the first half of the year's growth to be flat. US oil demand is the wild card in this year's world oil demand growth assessment. Despite this pre-summer trend, the total year forecast aims at a growth of a little over 0.1 mb/d.

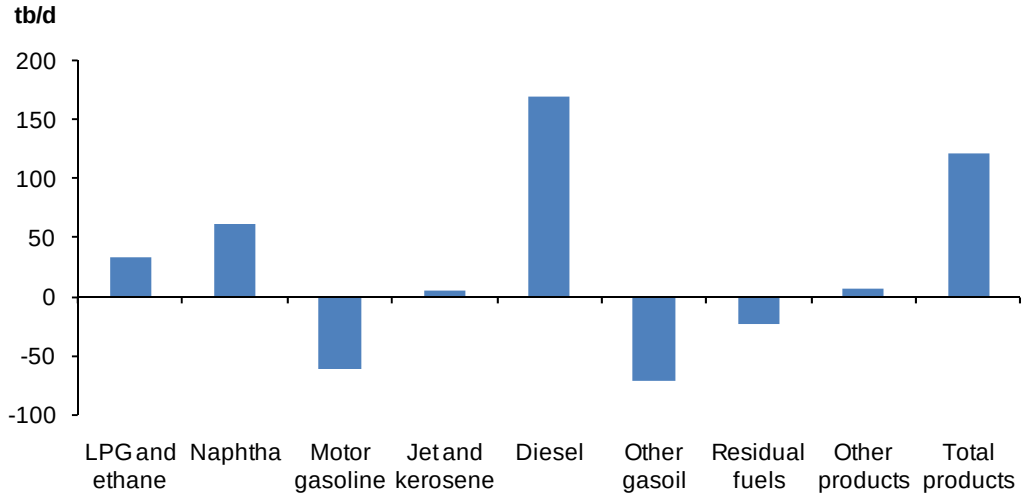
Moreover, the latest monthly US oil consumption data considerably revised the picture for April, showing a substantial yearly contraction of 1.5%, the largest observed since January 2010. The main reason for this decrease was the lower consumption of motor gasoline, which was attributed partly to higher fuel prices and thus lower mileage, as well as pessimistic expectations about the economy. In addition, growth in distillate consumption was very weak, while jet/kerosene, residual fuel oil and propane/propylene were continuously on the plus side during the first fourth months of 2011. As mentioned during last month's MOMR, the development of the US driving season is certainly a challenge for the fate of US oil consumption during the summer. Unfortunately, up-to-date indications call for a rather downward risk.

May Mexican oil consumption was down by 2.2%, compared with last year, a fact that is basically due to decreasing consumption in all products, with the exception of diesel, and largely fuel oil and gasoline; lower industrial activity is reflected in the non-growth consumption of industrial fuels.

The latest available April Canadian oil demand data indicated a weaker y-o-y growth in the first quarter, due to less consumption in heating fuels, while, at the same time, consumption of industrial and transportation fuels remained strong.

Affected by the recent decline in US oil demand, the North American oil demand forecast was revised down by 0.06 mb/d to show growth of only 0.1 mb/d. In 2012, North America is projected to grow by only 0.15 mb/d.

Graph 4.3: OECD product demand changes, 2011



US car sales rose by 7.1% in June; however this increase was weaker than expected as consumers were faced with higher prices for many vehicles after US automakers reduced deals on their vehicles. In addition, automakers raised prices of their cars and trucks after the catastrophic Japan earthquake that reduced inventories. The segments of small- and mid-sized cars marked the biggest increases, while sales of large and luxury cars contracted. Furthermore, as a result of sales incentives, sales of SUVs recorded remarkable increases of almost 25% y-o-y. During the first six months of 2011, the US auto market grew by 13%, with SUVs being the segment with the highest increase. The latest available Canadian data shows auto sales in Canada falling by 3.8% in May as high gasoline prices influenced truck sales; however as the Canadian auto market usually lags behind the US, June is expected to see a reverse of May trends. According to the Mexican Automobile Industry Association, Mexico's auto sales, exports and production grew robustly in May by 11.4%, 21.0% and 19.0%, respectively.

OECD – Europe

Given the deep dip in the second quarter, the region's total contraction in oil demand stands at 0.7 mb/d in 2011

European oil consumption continued to fall during May, reaching minus 0.09 mb/d, with declines occurring in France, Italy and the UK. The short-term development of European oil consumption will be most determined by the continuing debt problems in several European economies, in particular Greece, Ireland and Portugal, as a further deterioration of these economies will substantially influence the whole region. The European Big Four oil demand decreased by 0.07 mb/d in May, compared with May 2010. However, French and UK oil consumption were down by 2% and 0.9%, respectively. The Big Four oil consumption of transportation fuels continued to be in the minus during May, while industry fuels were on the plus side.

Given the deep dip in the second quarter, the region's total contraction in oil demand stands at 0.7 mb/d in 2011. For 2012, oil consumption is expected to shrink again, as a result of the rather pessimistic economic developments in a slightly higher magnitude of 0.06 mb/d.

According to the latest information by ACEA, European demand for new passenger cars in May contracted by 7.1%, compared with the same month in 2010, while the first five months of the year saw a fall of 0.8% over the same period last year. During the first months of 2011, most markets expanded, including Germany and France. However, during the same period, the British, Spanish and Italian markets contracted, leading to an overall slight decrease for the whole region. During May, all major markets increased with the only exceptions being Spain and the UK, which showed contractions of 23.3% and 1.7%, respectively. Demand for new cars was up in May by 22.0% in Germany, 6.1% in France and 3.6% in Italy.

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

	May 11	May 10	Change from May 10	Change from May 10, %
LPG	367	403	-37	-9.1
Gasoline	1,211	1,274	-63	-5.0
Jet/Kerosene	795	771	25	3.2
Gas/Diesel oil	3,045	2,987	59	2.0
Fuel oil	408	396	12	3.1
Other products	1,090	1,112	-22	-2.0
Total	**6,916**	**6,942**	**-26**	**-0.4**

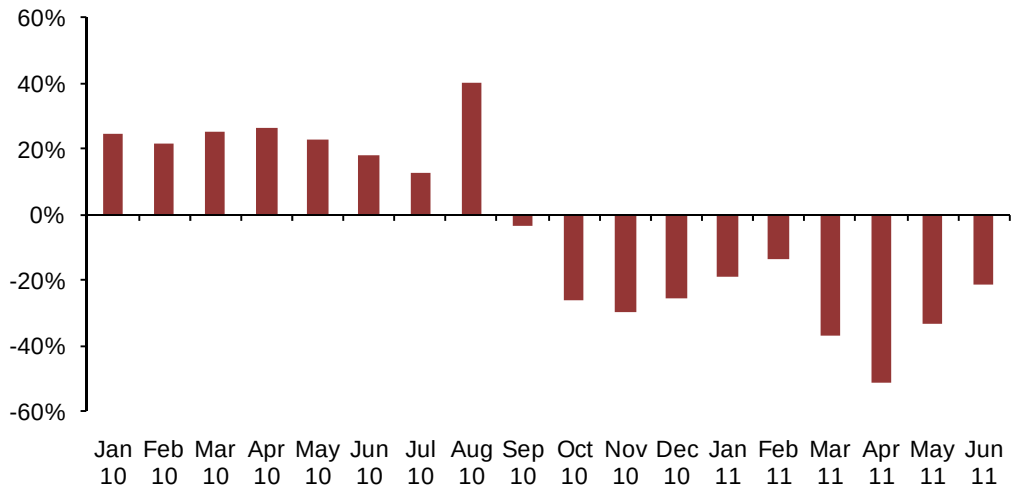
** Germany, France, Italy and the UK*

OECD – Pacific

As a result of better-than-expected performance in Japan oil usage, OECD Pacific oil consumption is now expected to be almost flat during 2011

The impact of the catastrophic earthquake on Japan became evidently weaker in May as the latest monthly data implies, showing a decrease in oil consumption y-o-y of only 0.07 mb/d. All product category contractions were smaller, and for some, like diesel and LPG, consumption grew slightly. Furthermore, natural gas seems to be the largest alternative to the nuclear problem for the production of electricity, as crude direct burning was flat during May in comparison with last year. As mentioned previously, further development of Japanese oil consumption during 2011 is heavily dependent upon the speed of resolving the ongoing nuclear crisis at the Fukushima plant. Unfortunately, up to now, there is no concrete information as to how long it will take until the nuclear crisis is resolved. Plant by plant, Japan's nuclear power industry is gradually shutting down. At least 35 reactors across the country are out of operation at this time. Many are down for routine inspection, maintenance, refueling, or for other reasons, with no immediate prospect that they will be allowed to restart.

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



In South Korea, April data indicated a sharp decrease in the consumption of all products, largely fuel oil and LPG, as a result of fuel switching.

As a result of a better-than-expected performance in Japan oil usage, OECD Pacific oil consumption is now expected to be almost flat during 2011 and 2012, while projections are heavily dependent upon the speed of recovery in Japan.

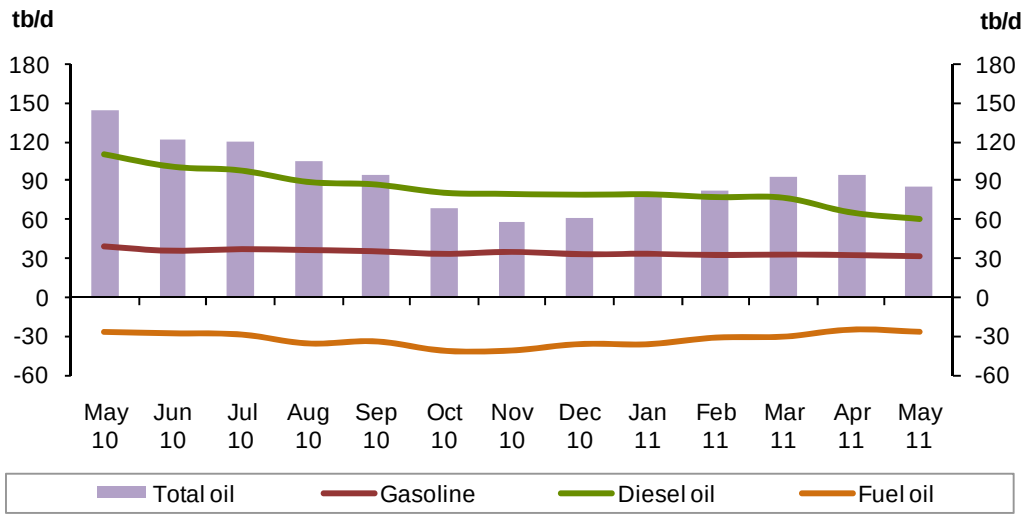
Japan's auto sales continued to fall by 22% in June 2011 y-o-y. It remains to be seen when the Japanese auto industry will recover from the effects of the March earthquake; the most optimistic views consider this to take place late this year.

Developing countries

India's oil demand forecast growth is expected to maintain our earlier assessment, exceeding annual growth of 4% in 2011

Indian oil demand has been picking up, reaching average growth of 4.3% or 146 tb/d in the first five months of the year. May's growth was the highest this year. Diesel demand was the reason behind the strength in India's oil demand. Diesel is used mainly by the transport, industrial and agricultural sectors. The country's oil usage inched up by 5.5% or 180 tb/d in May y-o-y. Diesel demand alone contributed 63 tb/d to total demand, followed by LPG with 56 tb/d of growth. This strength in demand came about despite the 23% decline in fuel oil usage. India's oil consumption averaged 3.4 mb/d in May. India's oil demand accounts for one-third of Other Asia total oil demand. As mentioned last month, India's retail petroleum product price increase is not expected to dent the country's oil demand this year. The booming Indian economy is calling for more energy this year; hence, India's oil demand forecast growth is expected to maintain our earlier assessment, exceeding annual growth of 4% y-o-y, averaging 3.4 mb/d for 2011.

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



Indian domestic auto sales in May grew by only 7.0% over the same month last year. This is the lowest observed monthly growth since May 2009. The market trend is heading toward a downturn, caused by a combination of the following factors: the impact of Japan's earthquake, higher fuel prices, and rising inflation.

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

	Apr 11	Apr 10	Change, tb/d	Change, %
LPG	221	184	37	20.1
Gasoline	129	127	2	1.8
Jet Fuel/Kerosene	90	81	9	11.2
Diesel	348	325	23	7.1
Fuel oil	40	46	-6	-13.2
Other products	138	98	39	40.3
Total	**965**	**860**	**105**	**12.2**

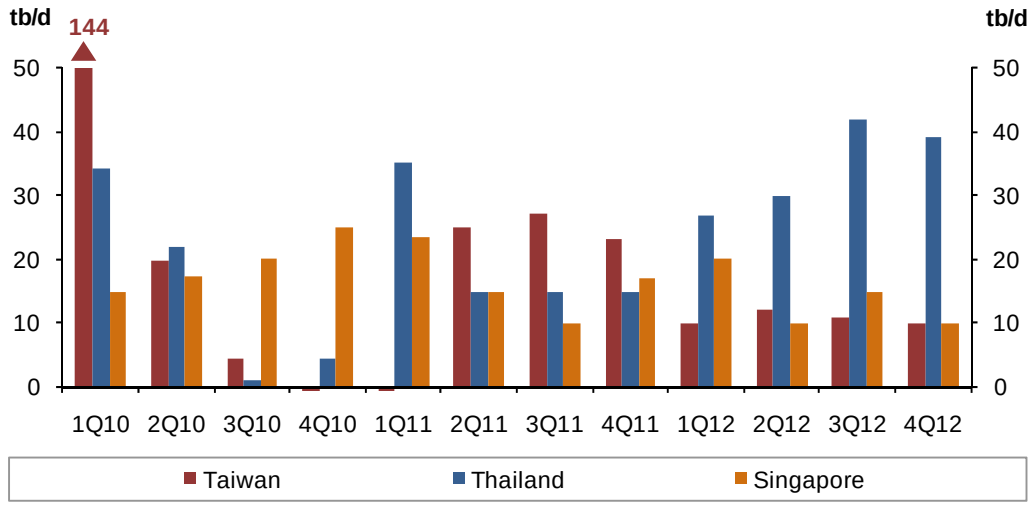
Source: JODI/EPPO

Given the recent strength in India's oil demand, Other Asia oil demand growth is forecast at 0.25 mb/d in 2011

Thailand's oil demand is maintaining its strength with the support of all products except fuel oil. Latest data indicated growth of 12.2% in April. Industrial usage of LPG pushed demand for such products up by 20% y-o-y. Diesel demand grew by 7% as well. The industrial sector increased total oil demand in the first four months by 6%, averaging 0.93 mb/d. However, oil demand in Taiwan, the second-largest oil-consuming country in Other Asia, has been in the negative since the start of the year. Most of the decline is attributed to the industrial sector, while the transport sector's oil usage is barely above flat level. Taiwan's oil demand in the first four months of the year declined by 3% y-o-y.

Given the recent strength in India's oil demand, Other Asia oil demand growth is forecast at 0.25 mb/d in 2011, averaging 10.4 mb/d.

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

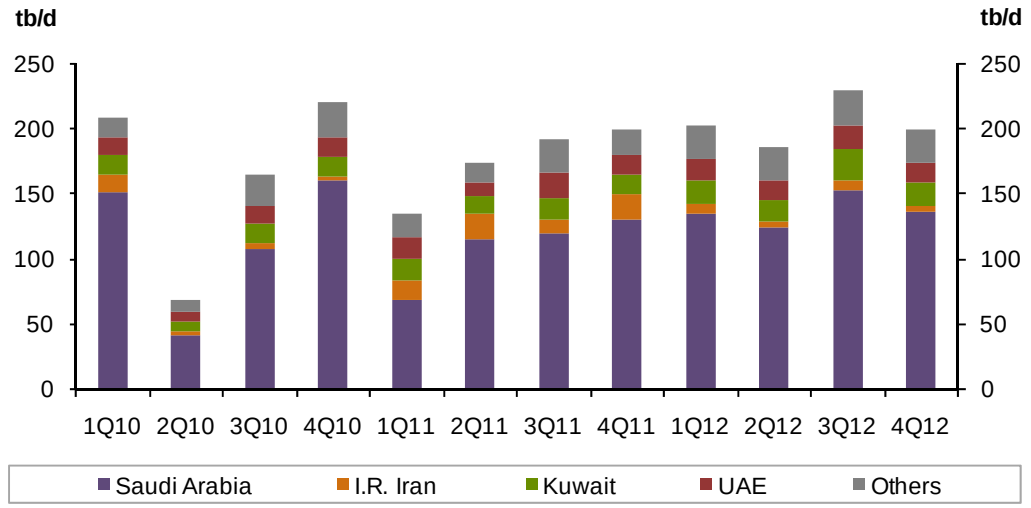


Middle East oil demand growth forecast at 0.2 mb/d in 2011

Summer heat pushed Saudi oil demand up by 7.8% in May y-o-y. Summer is the high season for oil consumption within the Middle East as electricity demand peaks and, therefore, fuel oil and diesel needs skyrocket. Other factors that are moving up the region's oil demand are economic activities, mainly construction projects. Contraction in gasoline and fuel oil usage dampened Iran's oil demand by 2.9% in May y-o-y.

Middle East oil demand growth is forecast at 0.2 mb/d in 2011, averaging 7.4 mb/d.

Graph 4.7: Yearly oil demand growth in the Middle East

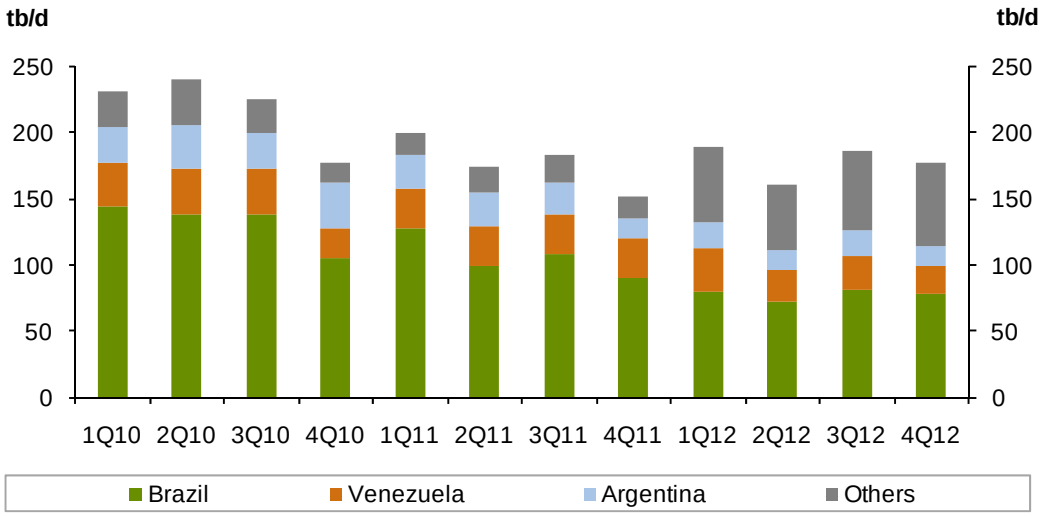


Developing Countries' oil demand growth forecast at 0.62 mb/d y-o-y

The rebound in Brazilian oil demand in May changed the trend which has been seen since March. The growth in the third and fourth quarters is expected to be much stronger than what was seen in the second quarter. Brazil's gasoline consumption already passed the half-a-million barrel per day level and is expected to maintain its growing mode.

Developing Countries' oil demand growth is forecast at 0.62 mb/d y-o-y, averaging 27.5 mb/d.

Graph 4.8: Yearly oil demand growth in the Latin America

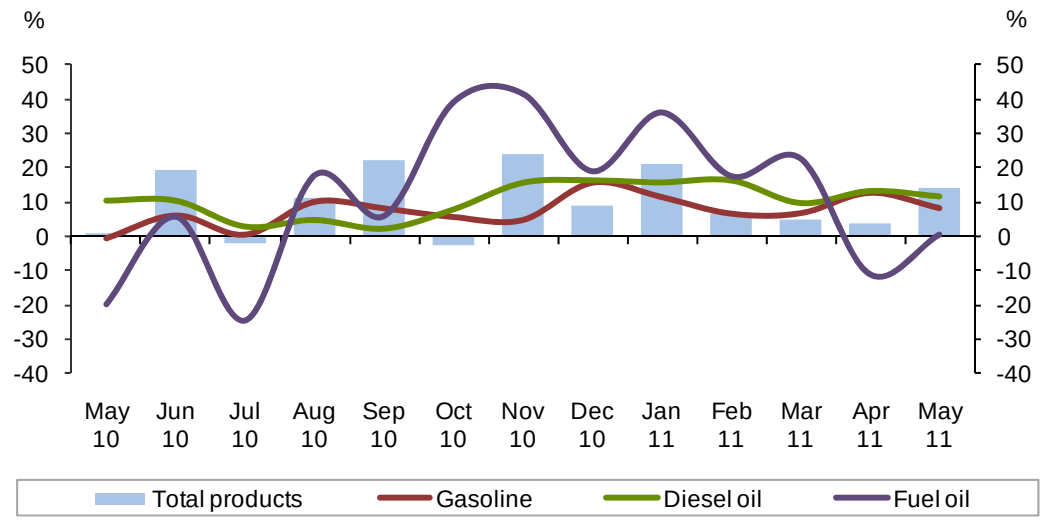


Other regions

China's oil demand expected to grow by 0.62 mb/d in 2011

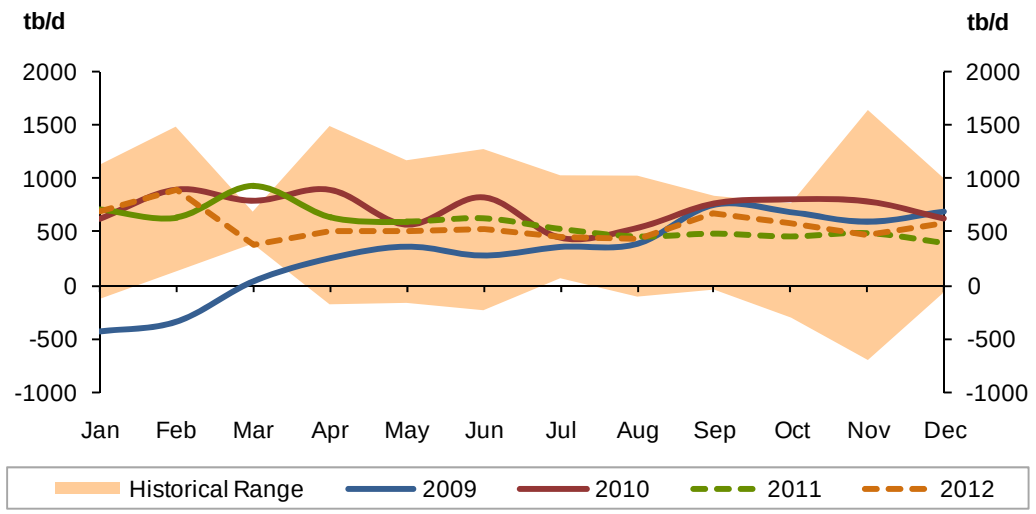
China's net oil imports exceeded expectations, increasing by 1.2 mb/d or 27% in May y-o-y. This has led to an increase in the country's apparent oil demand. China's summer oil demand has been following an expected trend, reaching high growth of 6.5% or 600 tb/d y-o-y in May. It is expected that the country's third quarter oil demand will perform strongly, reaching growth of 570 tb/d and denoting an upward revision of 0.04 mb/d. China's oil demand has always surprised analysts, despite the official announcement of curbing the country's oil usage. Despite last month's announcement of applying a new tariff on electricity, in order to reduce demand ahead of the peak season, the expectation is that the country might have a supply shortage. Hence, independent diesel-power generators will be used. Diesel demand will be affected to a certain degree. The product that grew the most in the first six months of the year is diesel. Diesel demand grew by more than 0.4 mb/d y-o-y, reflecting activities in the industrial, transport and agricultural sectors. Gasoline demand growth was the second-largest growing product after diesel. This came about despite the government's limitations on new car registrations. Gasoline inched up by 10% in the first half of the year. This strong growth trend is expected until year-end. However, government efforts to close the gap between domestic and international oil prices might have a slight effect on the consumption of certain products.

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



Resulting from strong economic growth, China's oil demand is expected to grow by 0.62 mb/d in 2011, averaging 9.6 mb/d.

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



Data from the China Association of Automobile Manufacturers (CAAM) showed that China's automobile sales slowed to only 10.9% growth in June from a year earlier. This trend is continuing for the third month in a row, after the Chinese government introduced limits on new car procurements, stopped offering incentives and imposed a new 10% tax on new car sales. The Chinese auto industry is also being affected by the impact of Japan's earthquake, higher fuel prices and rising inflation.

World oil demand in 2012

World oil demand forecast to continue its growth in 2012 to reach 1.3 mb/d

The global economic recovery has been facing turbulence across the OECD and is placing a great rate of uncertainty for next year. World GDP for next year is forecast at a slightly higher base than this year. It is forecast that next year's oil demand growth will take place in the non-OECD region, mainly China, India, the Middle East and Latin America. By sector, the industrial and transport sectors will contribute the most to expected oil demand growth. Petrochemical activities are expected to push oil demand up next year in the non-OECD region. US gasoline demand is expected to be back in its normal growing mode; however, it will remain the wild card for 2012 as it could also be negatively influenced by the country's economic turbulence, state policies and retail petroleum product prices. World oil demand is forecast to continue its growth during 2012 to reach 1.3 mb/d y-o-y, averaging 89.5 mb/d.

Graph 4.11: Forecast y-o-y growth in 2012 world oil demand

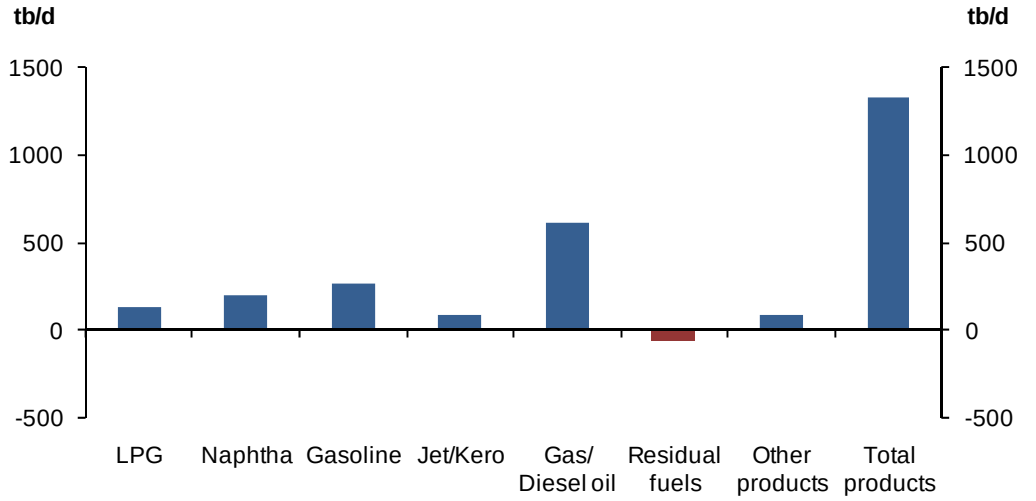


Table 4.6: World oil demand forecast for 2012, mb/d

	2011	1Q12	2Q12	3Q12	4Q12	2012	Change 2012/11 Growth	Change 2012/11 %
North America	24.06	24.15	23.83	24.52	24.34	24.21	0.15	0.64
Western Europe	14.38	14.21	13.92	14.62	14.51	14.32	-0.06	-0.42
OECD Pacific	7.77	8.24	7.23	7.47	7.94	7.72	-0.05	-0.70
Total OECD	**46.21**	**46.60**	**44.98**	**46.61**	**46.79**	**46.25**	**0.04**	**0.09**
Other Asia	10.37	10.51	10.67	10.48	10.71	10.59	0.22	2.10
Latin America	6.33	6.32	6.44	6.68	6.60	6.51	0.18	2.82
Middle East	7.42	7.49	7.48	7.91	7.63	7.63	0.20	2.75
Africa	3.38	3.46	3.45	3.33	3.51	3.44	0.06	1.71
Total DCs	**27.51**	**27.77**	**28.04**	**28.40**	**28.45**	**28.17**	**0.66**	**2.39**
FSU	4.22	4.21	4.03	4.47	4.56	4.32	0.10	2.34
Other Europe	0.67	0.67	0.62	0.68	0.74	0.68	0.00	0.69
China	9.57	9.67	10.22	10.33	10.15	10.09	0.52	5.42
Total "Other regions"	**14.47**	**14.56**	**14.87**	**15.47**	**15.44**	**15.09**	**0.62**	**4.30**
Total world	**88.18**	**88.93**	**87.90**	**90.49**	**90.67**	**89.50**	**1.32**	**1.50**
Previous estimate	88.14							
Revision	0.04							

Totals may not add up due to independent rounding

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

	1Q11	1Q12	Change 2012/11 Volume	Change 2012/11 %	2Q11	2Q12	Change 2012/11 Volume	Change 2012/11 %
North America	23.98	24.15	0.17	0.72	23.72	23.83	0.12	0.50
Western Europe	14.17	14.21	0.04	0.27	14.01	13.92	-0.09	-0.65
OECD Pacific	8.32	8.24	-0.07	-0.89	7.20	7.23	0.02	0.33
Total OECD	**46.46**	**46.60**	**0.14**	**0.29**	**44.93**	**44.98**	**0.05**	**0.11**
Other Asia	10.28	10.51	0.22	2.15	10.47	10.67	0.20	1.95
Latin America	6.13	6.32	0.19	3.09	6.28	6.44	0.16	2.57
Middle East	7.28	7.49	0.20	2.78	7.30	7.48	0.19	2.56
Africa	3.41	3.46	0.05	1.43	3.39	3.45	0.06	1.78
Total DCs	**27.11**	**27.77**	**0.66**	**2.44**	**27.43**	**28.04**	**0.61**	**2.23**
FSU	4.11	4.21	0.11	2.56	3.94	4.03	0.09	2.32
Other Europe	0.67	0.67	0.00	-0.19	0.62	0.62	0.01	0.82
China	9.13	9.67	0.54	5.94	9.71	10.22	0.51	5.21
Total "Other regions"	**13.91**	**14.56**	**0.65**	**4.65**	**14.27**	**14.87**	**0.60**	**4.22**
Total world	**87.48**	**88.93**	**1.44**	**1.65**	**86.64**	**87.90**	**1.27**	**1.46**

Totals may not add up due to independent rounding

Like this year, industrial fuel, mainly diesel and naphtha, will be the products growing the most in world oil demand in 2012. The industrial sector will be the key oil consumption driver. The year 2012 will not enjoy the low baseline seen in 2011; however more stable economic activities will push gasoline and jet fuel consumption up. Yet, the bulk is coming from the growing transport sector in non-OECD countries, as well as some amounts from North America and the Pacific. Non-OECD countries' oil demand growth of 1.28 mb/d will account once again for almost all the world's oil demand growth next year, whereas the OECD will show a moderate demand increase.

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	24.35	24.52	0.17	0.70	24.18	24.34	0.16	0.66
Western Europe	14.70	14.62	-0.08	-0.54	14.62	14.51	-0.11	-0.73
OECD Pacific	7.56	7.47	-0.09	-1.13	8.02	7.94	-0.08	-1.01
Total OECD	**46.61**	**46.61**	**0.01**	**0.01**	**46.81**	**46.79**	**-0.03**	**-0.06**
Other Asia	10.26	10.48	0.22	2.18	10.48	10.71	0.22	2.11
Latin America	6.50	6.68	0.19	2.88	6.42	6.60	0.18	2.77
Middle East	7.68	7.91	0.23	2.98	7.43	7.63	0.20	2.67
Africa	3.27	3.33	0.06	1.92	3.45	3.51	0.06	1.70
Total DCs	**27.70**	**28.40**	**0.70**	**2.53**	**27.79**	**28.45**	**0.66**	**2.36**
FSU	4.38	4.47	0.10	2.26	4.46	4.56	0.10	2.24
Other Europe	0.67	0.68	0.01	1.19	0.73	0.74	0.01	0.91
China	9.80	10.33	0.53	5.36	9.64	10.15	0.50	5.22
Total "Other regions"	**14.84**	**15.47**	**0.63**	**4.26**	**14.83**	**15.44**	**0.61**	**4.11**
Total world	**89.15**	**90.49**	**1.34**	**1.50**	**89.43**	**90.67**	**1.24**	**1.38**

Totals may not add up due to independent rounding

OECD

OECD oil demand to increase marginally by only 0.04 mb/d in 2012

The OECD region's oil demand is projected to show a slight increase with Europe and the Pacific showing a decline of around 0.05 mb/d each. North America's oil usage is expected to increase by 0.15 mb/d. The decline in OECD Europe oil demand comes as a result of debt problems within the continent, leading to a slowing economy. These factors are putting the transportation sector fuel use in a stagnant mode. Furthermore, the OECD Pacific, mainly Japan, will continue to show a further decline of 2.6%, as a result of not only normal efficiency trends, but mainly the effect of March's natural disaster. Higher energy taxes, energy conservation, efficiency, alternative fuels, and other factors are also contributing to the decline in OECD oil demand. As a result, OECD oil demand is forecast to increase slightly by only 0.04 mb/d y-o-y in 2012 to average 46.3 mb/d.

Non-OECD

China's apparent oil demand to grow by 0.5 mb/d in 2012, 80 tb/d less than in 2011

China has issued a new policy, part of which was dedicated to support and encourage technology that aims to increase energy diversification, renewables, and energy storage. Of course, these laws are aimed at long-term goals. China's government will interfere in the country's oil consumption next year. However, the effect is expected to be limited. China's 2012 oil demand will be a bit lower than this year as the country's GDP estimate is lower to start with. The upward risk does exist as the country's economy might show a better performance than anticipated. All economic sectors are expected to perform strongly, calling for more energy usage. The main sectors that will affect energy demand the most are transportation, industry, and agriculture. China is expected to contribute the most to world oil demand growth in 2012. China's successful measures to minimize the negative effects of the world economic crisis will also continue during 2012. It should be noted, however, that other sectors in China, which serve as major energy drivers, such as industrial production, in-land cargo, agriculture, construction, transportation and fishing, will show strong growth in 2012. An expected government push to curb energy usage, such as the increase in its retail fuel prices and taxes, ending the new vehicle registration incentive, more biofuel usage and the building of more electric powered inter- and intra-city railroads, will affect, to a certain degree, the consumption of transport fuel next year. As part of China's long-term planning, the country is increasing the use of nuclear- and hydro-powered plants, which will negatively influence the consumption of coal and oil. China's apparent oil demand is forecast to grow by 0.5 mb/d y-o-y in 2012, 80 tb/d less than the estimate for the current year.

India and the **Middle East** are estimated to show y-o-y oil demand growth of 0.1 mb/d and 0.2 mb/d, respectively for 2012. The transport, construction and petrochemical sectors will be the main drivers behind strong Middle East oil demand next year, as has been the case this year. Although the agricultural, industrial and transportation sectors are expected to be strong in India next year, the partial removal of price subsidies and other government policies are downside risks for oil demand growth in 2012.

Oil demand forecast assumptions 2012

The world oil demand forecast for the year 2012 is based on the following assumptions:

- World GDP will grow at a higher pace than last year.
- Oil prices will have an impact on transport fuel demand.
- Normal weather is assumed.
- The Chinese economy is forecast to grow at 8.5% in 2012, down slightly from last year, and further domestic price and tax hikes are expected.
- Most governments will place emphasis on energy conservation and will increase the use of alternative fuels.
- World stimulus plans, if any, will have little effect on oil demand in 2012.
- The Middle Eastern economy will show the same growth this year as last year.
- Apart from the slow economic recovery, various factors will slightly thin oil demand growth in Other Asia, such as price subsidy removal, fuel switching, and energy conservation programmes.
- There will be a stronger utilization of nuclear power plants.
- Japan's disaster will affect the country's next year recovery.
- Usage of biofuels will grow rapidly, adding another 0.2 mb/d.
- The world will see a strong movement toward the use of smaller and more economical vehicles.
- Most of the growth in oil usage will be in the transport, industrial and petrochemical sectors.
- Oil demand is expected to grow; however it will remain as a wild card in 2012 oil demand.
- The OECD economic recovery will have major rate of uncertainty.

Oil demand forecast scenarios

There is a great range of uncertainty affecting next year's oil demand forecast. This is suggesting two more scenarios as an upper and lower range for oil demand growth:

The UPPER range for world oil demand growth is forecast at 1.5 mb/d, which will reflect settlement in oil prices, strong oil demand growth in the US, improvements in OECD Europe economies and a serious recovery in Japan. It is suggested that a quick recovery of the US economy, along with a stronger dollar value, will lead to cheaper oil for US consumers. A healthy US economy will speed up other non-OECD economies as well, such as the Middle East, Other Asia and Latin America. One important factor that might affect world oil demand is the price of natural gas. Should NG prices in 2012 move to the upper side, then fuel oil consumption would increase worldwide as a result of less fuel-switching, especially during a strong winter.

A more PESSIMISTIC approach suggests lower oil demand growth of 1.1 mb/d, reflecting a delay and more turbulence in the economic recovery within OECD countries, which, in the end, would affect many other economies. Higher gasoline prices would have a reflex effect on US motorists. The Japanese nuclear problem might cause further delays for the country's rebuilding efforts and dampen not only Japanese oil demand but also that of the entire Pacific region. Strong retail petroleum products would suppress transport fuel consumption mostly in the OECD. Weaker gasoline consumption alone could trim at least 100 tb/d from expected oil demand growth next year. Efforts by China and India to remove price subsidies and place more taxes on fuel would put a dent in oil usage, mainly transport fuel. Should the winter be warm, then a further decline in winter products will be seen.

World Oil Supply

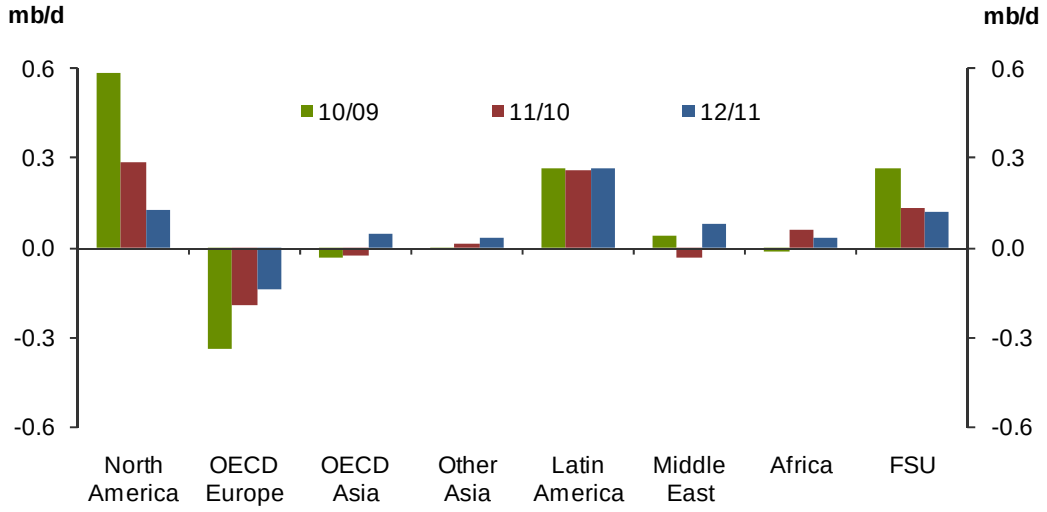
Non-OPEC

Forecast for 2011

Non-OPEC supply to increase by 0.62 mb/d to average 52.89 mb/d in 2011

Non-OPEC oil supply is expected to average 52.89 mb/d in 2011, an increase of 0.62 mb/d over 2010, indicating a downward revision of 30 tb/d from the previous month. The revisions were introduced partially to adjust for updated production data for the second quarter that came lower than expected. Additionally, there were few events that caused supply disruptions, such as strikes, that further affected the forecast. Moreover, various changes were introduced in the third and fourth quarter forecasts that collectively resulted in the subsequent downward revision. On a quarterly basis, all quarters experienced downward revisions from the previous month, except the first three months which encountered an upward revision. The downward revisions affected the supply forecasts for the UK, Malaysia, Vietnam, Argentina, Brazil, Yemen, Kazakhstan and Azerbaijan, while the US, Canada, Mexico, Norway, Colombia and Russia experienced upwnward revisions. On a quarterly basis, non-OPEC supply in 2011 is expected to stand at 52.89 mb/d, 52.55 mb/d, 52.78 mb/d and 53.32 mb/d, respectively.

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



Revisions to the 2011 forecast

The non-OPEC supply forecast in 2011 remains associated with a high degree of risk, due to various factors, such as the hurricane season, maintenance and decline rate developments. OECD oil supply is expected to average 20.00 mb/d in 2011, growth of 60 tb/d compared with 2010 and representing an upward revision of 36 tb/d from the previous month. US oil production for 2011 encountered an upward revision of 30 tb/d from the previous assessment to stand at 8.75 mb/d, representing growth of 0.15 mb/d in 2011. The revision affected US supply in first half of 2011, due to updated production data. The upward revision came on reports of lower Alaskan output in May. US oil supply is still expected to increase in the second half of 2011, supported by new volume from shale developments. Additionally, the start-up of the first deepwater well from the Gulf of Mexico since the moratorium further supported the upward revision. However, the US oil supply forecast remains coupled with a high risk, due to the hurricane season. Mexico's oil supply is expected to average 2.94 mb/d in 2011, a drop of 20 tb/d from the previous year and an upward revision of 5 tb/d compared with last month. Healthy production data in the first half led to the upward revision as the data shows a slowing decline. Canada and Norway supply experienced upward revisions of 10 tb/d each, due to adjustment to updated production data in the first half of the year. The UK supply experienced a heavy downward revision of 30 tb/d on updated production data in the first half of the year.

Compared with the previous month, the forecast for Latin America's supply in 2011 experienced a downward revision of 30 tb/d, compared with the previous month. Latin America's oil supply is forecast to increase by 0.26 mb/d in 2011 to average 4.92 mb/d. The downward revision affected only the second quarter, due to adjustment to updated

production data. Brazil's oil supply is anticipated to increase by 0.16 mb/d in 2011 to average 2.82 mb/d, a downward revision of 30 tb/d, compared with the previous assessment. The downward revision was due to actual production data for part of the second quarter coming lower than expected. Additionally, the safety concerns at the P-65 platform hindered the restart of output, which further affected the forecast. Argentina's oil supply is forecast to average 0.73 mb/d in 2011, a decline of 20 tb/d and a downward revision of 10 tb/d, compared with the previous month. The downward revision came on the back of lower-than-expected output in the second quarter, which was partially due to the strike that affected production at the southern province of Santa Cruz. Colombia's oil production is foreseen to increase by 0.12 mb/d in 2011 to average 0.92 mb/d, indicating an upward revision of 10 tb/d, compared with the previous month. The upward revision came mainly to adjust for updated production figures in the second quarter that came higher than previously expected.

FSU oil supply is foreseen to average 13.36 mb/d in 2011, representing growth of 0.13 mb/d over the previous year and a downward revision of 10 tb/d, compared with the previous month. The revisions came in the second quarter to adjust for updated production data. Russia's oil supply is anticipated to average 10.19 mb/d in 2011, representing growth of 50 tb/d over the previous year and an upward revision of less than 10 tb/d from the previous month. The adjustment came as preliminary data showed that June supply remained at a healthy level of 10.2 mb/d. Kazakhstan and Azerbaijan oil supply forecasts encountered downward revisions on the back of updated output data. Kazakh output during part of the second quarter was affected by the strike.

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

	2010	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10
North America	14.95	15.31	15.26	15.13	15.25	15.24	0.28
Western Europe	4.39	4.31	4.15	4.08	4.23	4.19	-0.19
OECD Pacific	0.60	0.52	0.59	0.60	0.59	0.57	-0.03
Total OECD	**19.94**	**20.14**	**19.99**	**19.82**	**20.07**	**20.00**	**0.06**
Other Asia	3.69	3.70	3.69	3.70	3.72	3.70	0.01
Latin America	4.67	4.81	4.79	4.98	5.11	4.92	0.26
Middle East	1.77	1.78	1.66	1.75	1.77	1.74	-0.03
Africa	2.60	2.63	2.62	2.69	2.70	2.66	0.06
Total DCs	**12.73**	**12.92**	**12.77**	**13.13**	**13.30**	**13.03**	**0.30**
FSU	13.22	13.34	13.33	13.33	13.42	13.36	0.13
Other Europe	0.13	0.14	0.14	0.14	0.14	0.14	0.00
China	4.14	4.22	4.19	4.23	4.27	4.23	0.09
Total "Other regions"	**17.49**	**17.70**	**17.66**	**17.71**	**17.83**	**17.72**	**0.23**
Total Non-OPEC production	**50.17**	**50.76**	**50.42**	**50.65**	**51.19**	**50.76**	**0.59**
Processing gains	2.10	2.13	2.13	2.13	2.13	2.13	0.03
Total Non-OPEC supply	**52.27**	**52.89**	**52.55**	**52.78**	**53.32**	**52.89**	**0.62**
Previous estimate	52.26	52.81	52.71	52.78	53.37	52.92	0.66
Revision	0.01	0.08	-0.16	0.01	-0.04	-0.03	-0.04

Forecast for 2012

Non-OPEC supply is forecast to grow by 0.68 mb/d in 2012 to average 53.57 mb/d

Non-OPEC oil supply in 2012 is expected to increase by 0.68 mb/d over the current year to average 53.57 mb/d. The overall growth trend for non-OPEC supply is expected to continue in 2012, supported by Latin America, North America and the FSU and partly offset by declines in OECD Europe. The forecast is associated with a very high level of risk. While the expectation of capital expenditure (capex) in 2011 and 2012 indicates a rising trend, other risk factors, such as political and technical developments, continue to cast uncertainties over the supply growth expectation. The forecast growth of biofuels, which is expected to increase by around 0.16 mb/d in 2012, is also connected to a high degree of risk. Other factors contributing to risks in both directions include weather conditions, technical factors, decline rate developments, the political environment and price movements. Hence, the forecast is subject to revisions. On a quarterly basis, non-OPEC supply in 2012 is expected to average 53.60 mb/d, 53.39 mb/d, 53.45 mb/d and 53.84 mb/d, respectively.

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

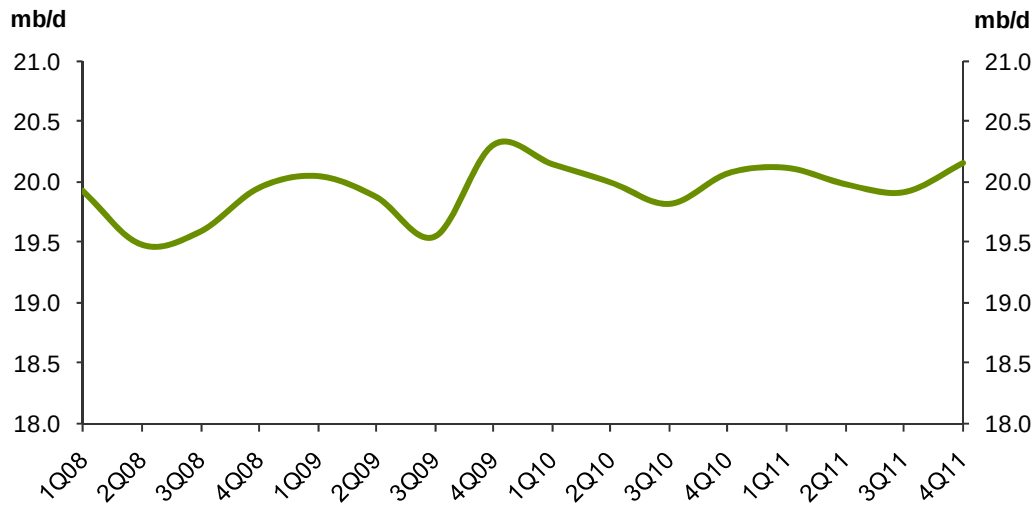
	2011	1Q12	2Q12	3Q12	4Q12	2012	Change 12/11
North America	15.24	15.30	15.32	15.37	15.47	15.37	0.13
Western Europe	4.19	4.20	4.03	3.91	4.08	4.05	-0.14
OECD Pacific	0.57	0.61	0.63	0.63	0.60	0.62	0.04
Total OECD	**20.00**	**20.11**	**19.98**	**19.91**	**20.15**	**20.04**	**0.03**
Other Asia	3.70	3.73	3.73	3.74	3.75	3.74	0.03
Latin America	4.92	5.14	5.15	5.22	5.25	5.19	0.26
Middle East	1.74	1.82	1.82	1.82	1.82	1.82	0.08
Africa	2.66	2.71	2.70	2.70	2.69	2.70	0.04
Total DCs	**13.03**	**13.40**	**13.39**	**13.47**	**13.51**	**13.44**	**0.41**
FSU	13.36	13.47	13.43	13.47	13.54	13.48	0.12
Other Europe	0.14	0.14	0.15	0.15	0.15	0.15	0.01
China	4.23	4.28	4.25	4.26	4.31	4.28	0.05
Total "Other regions"	**17.72**	**17.90**	**17.83**	**17.88**	**17.99**	**17.90**	**0.18**
Total Non-OPEC production	**50.76**	**51.41**	**51.20**	**51.26**	**51.65**	**51.38**	**0.62**
Processing gains	2.13	2.19	2.19	2.19	2.19	2.19	0.06
Total Non-OPEC supply	**52.89**	**53.60**	**53.39**	**53.45**	**53.84**	**53.57**	**0.68**
Previous estimate	52.92						
Revision	-0.03	..	..	..	..	..	..

OECD

OECD supply to average 20.04 mb/d in 2012, an increase of 30 tb/d

Total OECD oil supply is anticipated to average 20.04 mb/d in 2012, representing an increase of 0.03 mb/d from 2011. Expected supply growth from the US, Canada and Australia are seen to offset the decline anticipated from other OECD countries. On a quarterly basis, OECD oil supply in 2012 is expected to average 20.11 mb/d, 19.98 mb/d, 19.91 mb/d and 20.15 mb/d, respectively.

Graph 5.2: OECD's quarterly production



North America

North America's oil production is foreseen to increase by 0.13 mb/d in 2012 to average 15.37 mb/d. The anticipated growth from the US and Canada is expected to offset the projected decline in Mexico. The risk associated with the North America supply forecast remains on the high side, given the effect of weather conditions, decline rates, and technical and economical issues. On a quarterly basis, North America's oil supply in 2012 is seen to stand at 15.30 mb/d, 15.32 mb/d, 15.37 mb/d and 15.47 mb/d, respectively.

US supply to increase by 70 tb/d in 2012 to average 8.82 mb/d

US

US oil supply is forecast to average 8.82 mb/d in 2012, an increase of 70 tb/d, compared with 2011. The expected US supply increase in 2012 marks the third-highest among all non-OPEC countries. The growth is supported by the expected strong increase in capex. The outlook in 2012 is backed by the anticipated healthy onshore shale developments, aided by rising investment. In 2010 and 2011, oil drilling overtook gas drilling in the US, where drilling for gas has exceeded oil drilling since 1995. Furthermore, the number of operating rigs in the US increased by 25% since the beginning of 2011. Supply growth is expected from the Bakken, Barnett, Eagle Ford and Monterey developments. The shale expansion is seen stimulating the renewal of US onshore drilling. Despite the anticipated strong growth from shale developments in 2012, a certain level of risk remains on the horizon, given the current oil price environment and the logistical problems encountered in the spring of 2011 at the Bakken operations, due to weather conditions. Moreover, the weather conditions in the Gulf of Mexico could have a major affect on US supply in 2012 during the hurricane season.

Biofuels production is projected to further support US output in 2012. Despite a possible change to subsidies and import tariffs, biofuels supply is expected to continue to increase in 2012 to meet the renewable fuel requirements of around 80 tb/d growth in 2012, compared with 2011. However, price level and blending economics remain a risk factor for biofuels growth in 2012. US NGL supply is seen to increase in 2012, supported by the Marcellus developments. Additionally, new volume is anticipated from the Gulf of Mexico developments, such as Cascade and Chinook, Isabela and Caesar Tonga. However, the decline rate in the Gulf of Mexico is seen to more than offset the new barrels expected in 2012. Additionally, the current review of the oil and gas royalty value and the expected slow pace of exploration and production permitting are seen adding uncertainties to Gulf of Mexico output in 2012. On a quarterly basis, US oil supply in 2012 is expected to average 8.77 mb/d, 8.79 mb/d, 8.82 mb/d and 8.91 mb/d, respectively.

Canada's supply to increase by 0.14 mb/d in 2012

Canada and Mexico

Oil supply from Canada is anticipated to grow by 0.14 mb/d over 2011 to average 3.68 mb/d in 2012. The expected growth is supported by both oil sand and shale projects. The foreseen increase in capex is supporting the anticipated growth in 2012. Additionally, the record high land sale in Alberta as well as the increase of drilling activities in Western Canada is further supporting the anticipated growth in 2012. Moreover, the output surge at the Bakken region in Canada provided a solid ground for the growth in 2012. The anticipated increase is supported by new technologies such as horizontal drilling and multi stage fracturing. The startup and ramp-up of oil sand projects such as Christina Lake C, Firebag 3, Jack Pine and Scotford is seen to contribute to the expected growth of Canadian oil supply. The risk and uncertainties remains related to price level, environmental and technical issues. On a quarterly basis, Canada's production is predicted to average 3.63 mb/d, 3.67 mb/d, 3.70 mb/d and 3.74 mb/d respectively.

Mexico supply to drop 80 tb/d in 2012

Mexico's oil production is foreseen to average 2.86 mb/d in 2012, a decline of 80 tb/d from 2011. Despite the vow by Mexico's national oil company to maintain and increase oil production in 2012, it is forecast to decline. The limited new volume in 2012 is not seen to offset the decline in mature producing areas. The notion that Ku-Maloob-Zaap (KMZ) production has peaked supports the anticipated decline in 2012, as the growth from the Chicontepec field is projected to be slow and be limited in 2012. Moreover, the Cantarell field's output is expected to remain stable and tending to decline in 2012, despite having the largest portion of the upstream budget in 2011. However, the risk remains associated with the forecast, especially from decline rate developments. On a quarterly basis, Mexico's oil supply in 2012 is anticipated to average 2.90 mb/d, 2.85 mb/d, 2.86 mb/d and 2.83 mb/d, respectively.

Western Europe

Total OECD Western Europe oil production is predicted to decline by 0.14 mb/d over 2011 to average 4.05 mb/d in 2012. Declines are anticipated in all major OECD Europe producers, with quarterly figures expected at 4.20 mb/d, 4.03 mb/d, 3.91 mb/d and 4.08 mb/d, respectively.

Norway's oil output to average 1.95 mb/d in 2012, a drop of 80 tb/d

Norway's oil supply is forecast to decline by 80 tb/d over 2011 to average 1.95 mb/d in 2012. The projected output drop in 2012 is driven mainly by the continuing decline in mature producing fields, while limited new volume is expected. Projects such as Yme, Skarv and Visund South are seen to add new barrels to Norway's oil supply; however, the decline at mature oil fields, as well as the affect of maintenance, are believed to more than offset the new volume. Furthermore, the experienced decline in oil flow in the past period, due to technical hitches, is expected to negatively affect the supply in 2012. The annual decline in 2012 is expected despite the anticipated investment increase. On the other hand, the government is trying to exert pressure on offshore oil producers to improve the recovery rate from mature fields, in an effort to stem the decline. Additionally, the reported development of a new method for oil recovery at the Heidrun field could support output at other mature fields. Accordingly, the 2012 supply forecast could experience changes in the coming period as the risk level is high, especially from issues such as government policies, decline rate and technical developments. On a quarterly basis, Norway's oil supply in 2012 is seen to average 2.03 mb/d, 1.94 mb/d, 1.88 mb/d and 1.97 mb/d, respectively.

UK supply to decline by 30 tb/d in 2012

The UK oil supply is estimated to average 1.24 mb/d in 2012, a drop of 30 tb/d over 2011. There are few projects that are expected to add new barrels in 2012 such as Cheviot, Burghley, Rochelle and Huntington. However, the anticipated decline at mature producing areas is seen to more than offset the new volume. Additionally, the affect of the maintenance and technical difficulties are seen to further support the anticipated decline. Moreover, the recently increase tax on supplementary corporate profit on oil and gas, from 20% to 32%, is foreseen to negatively affect investment level. Some oil and gas companies have sounded their concerns regarding the tax hike and warned that such action could lead them to review their development plans. On the other hand, the UK government indicated recently a possible raise in tax support for offshore oil and gas companies, which is considered to partly offset the recent tax increase. On a quarterly basis, UK oil supply is expected to stand at 1.30 mb/d, 1.22 mb/d, 1.17 mb/d and 1.26 mb/d respectively.

Denmark's oil supply is forecast to decline by 20 tb/d over 2011 to average 0.21 mb/d in 2012. A decline in mature producing areas is seen driving the anticipated drop with limited new developments.

Other Western Europe's oil supply is seen to remain steady in 2012, compared with the previous year, to average 0.65 mb/d. Biofuels growth is expected to offset the decline seen in mature areas.

Asia Pacific

The **OECD Pacific's** oil production is forecast to average 0.62 mb/d in 2012, indicating growth of 40 tb/d, compared with 2011. On a quarterly basis, total oil supply next year is estimated to average 0.65 mb/d, 0.65 mb/d, 0.66 mb/d and 0.66 mb/d, respectively.

Australian oil supply to increase by 50 tb/d in 2012

Australia's oil production is predicted to increase by 50 tb/d in 2012 to average 0.54 mb/d. The growth is supported by the assumption that minor weather-related shutdowns will ensue during the cyclone season in 2012. In 2011, weather-related shutdowns and maintenance drove the forecast to negative territory. In addition to fewer outages, Australia's oil supply is expected to experience growth from new volume coming from the Montara and Kitan projects. The quarterly distribution for Australia next year stands at 0.53 mb/d, 0.55 mb/d, 0.55 mb/d and 0.52 mb/d, respectively.

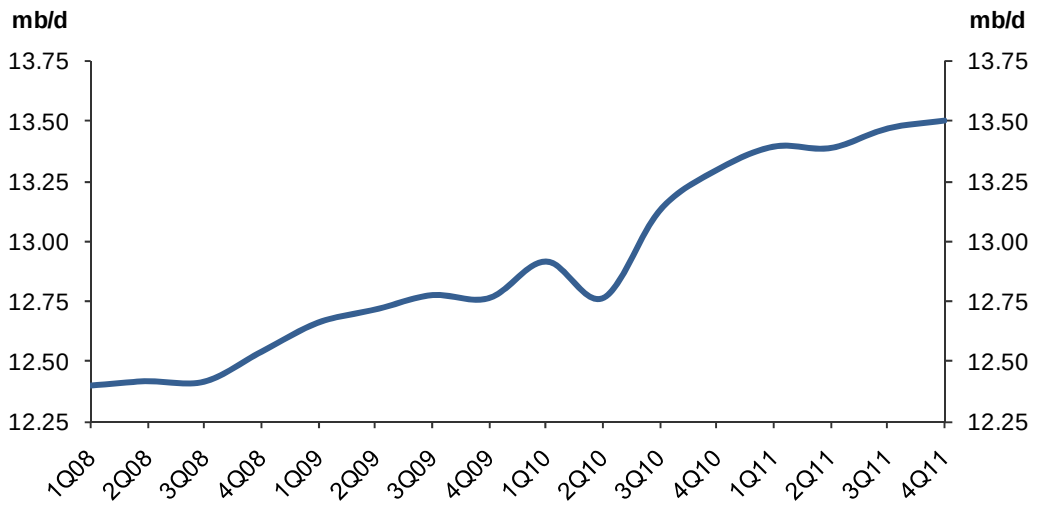
New Zealand's oil production is estimated to decline by 10 tb/d over 2011 to average 80 tb/d in 2012. The expected decline at mature fields is seen to more than offset the limited new output coming from the Taranaki basin.

DC supply to increase by 0.41 mb/d in 2012 to average 13.44 mb/d

Developing Countries

Total Developing Countries' (DCs) oil supply is anticipated to average 13.44 mb/d in 2012, representing an increase of 0.41 mb/d over the current 2011 estimate. The growth is coming mainly from Latin America, supported by anticipated growth in Brazil and Colombia, followed by the Middle East, Africa and Other Asia. A high level of risk and uncertainty surround DCs' 2012 supply forecast, including political, technical, price, decline rate and weather issues. Accordingly, the current 2012 DCs' supply forecast is subject to various revisions in both directions. On a quarterly basis, total oil supply in the DCs in 2012 is forecast to average 13.40 mb/d, 13.39 mb/d, 13.47 mb/d and 13.51 mb/d, respectively.

Graph 5.3: Developing Countries' quarterly production



Other Asia oil supply to increase by 30 tb/d in 2012

Oil supply from Other Asia is projected to increase by 30 tb/d over 2011 to average 3.74 mb/d in 2012. Vietnam is expected to lead the supply growth in Other Asia. Oil supply from Vietnam is expected to average 0.42 mb/d in 2012, an increase of 60 tb/d over 2011, supported by output growth from the Su Tu Trang, Te Giac Trang and Dai Hung developments. Production from a jacket of the Te Giac Trang project is expected to start up in August and double the field's capacity to around 95 tb/d. India's oil supply is expected to remain steady in 2012, with a minor increase of 10 tb/d to average 0.93 mb/d. The minor growth is supported by the ramp-up of the Mangala development.

Indonesia's oil supply is anticipated to decline by 30 tb/d in 2012 to average 0.97 mb/d. The supply drop in 2012 is anticipated, due to limited new volume to offset the foreseen natural decline in its mature producing areas. Despite the projected decline, output from the Cepu project is expected to experience a minor increase in 2012. Malaysia's oil production is forecast to decline by 40 tb/d in 2012 to average 0.63 mb/d. The anticipated heavy decline rate in mature producing areas, although improving at the Sabah field, is seen to drive the supply drop in 2012, especially when coupled with limited new developments. Additionally, the ongoing technical issues at the Kikeh project may continue to affect supply in 2012. Despite the expected decline, new barrels from the Sepat development are expected to partly offset the drop in 2012. Other developments, such as the Cadlao in the Philippines and biofuels projects in different countries within the region, are expected to add new barrels in 2012. On a quarterly basis, Other Asia's oil supply in 2012 is seen to stand at 3.73 mb/d, 3.73 mb/d, 3.74 mb/d and 3.75 mb/d, respectively.

Latin America's oil supply is seen to increase by 0.26 mb/d in 2012, supported by growth from Brazil and Colombia

Latin American oil production is foreseen to increase by 0.26 mb/d over 2011 to average 5.19 mb/d in 2012, the highest regional growth among all non-OPEC regions. The anticipated supply increase is supported by Brazil and Colombia, while other countries' supply within the region is seen to remain relatively flat in 2012. Colombia's oil production is expected to experience healthy growth of 70 tb/d over 2011 to average 0.99 mb/d in 2012. The growth is supported by the continuing ramp-up of the Rubiales heavy oil project, the Castilla expansion and the Quifa project, in addition to minor biofuels volume. However, the risk remains associated with the forecast, mainly from

political and transport issues. Argentina's oil supply is expected to remain relatively flat in 2012, with a minor decline of 10 tb/d, to average 0.72 mb/d. New volume is expected from biofuels production expansion. However, the anticipated decline in mature areas is seen to more than offset the new barrels. Risk remains on the horizon for Argentina, given the ongoing strike action. On a quarterly basis, Latin America's oil supply in 2012 is seen to average 5.14 mb/d, 5.15 mb/d, 5.22 mb/d and 5.25 mb/d, respectively.

Brazil's oil production is estimated to average 3.01 mb/d in 2012, indicating growth of 0.19 mb/d over 2011. The growth is supported by a long list of project start-ups and ramp-ups, such as Baleia Azul, Golfinho, Jubarte, Peregrino, Roncador, and Marlim Sul, where P-56 has started up recently. Additionally, the extended well test (EWT) at Aruana is expected to further support growth in 2012. Moreover, biofuels supplies are anticipated to increase in 2012 and support output. The recent move by the government to phase out public investment in sugar production, in order to ramp-up ethanol supply, is seen as further support for the outlook. On a quarterly basis, Brazil's oil supply in 2012 is expected to average 2.97 mb/d, 2.97 mb/d, 3.03 mb/d, and 3.05 mb/d, respectively.

Political risk could bring a significant downward revision to the Middle East's forecast in 2012

The Middle East's oil supply is forecast to increase by 80 tb/d in 2012 to average 1.82 mb/d. The projected increase is supported by the anticipated growth in Oman and Yemen, while Syria's oil production is seen to decline in 2012. Oman's oil production is expected to increase by 40 tb/d in 2012 to average 0.96 mb/d. The growth is supported by the Mukhaizna, Qarn Alam, and Harweel developments. The new volume is seen to more than offset the foreseen decline at mature producing areas. Yemen's oil production is estimated to increase by 50 tb/d in 2012 to average 0.26 mb/d. The growth is coming from the assumption that output will be restored at the country's shutdown fields, where output was halted on the back of political unrest. However, the risk to Yemen's oil forecast remains high, given the ongoing political situation. The supply forecast could encounter significant downward revisions in case the political situation remains unchanged in 2012. Syria's oil production is estimated to decline by 20 tb/d in 2012 to average 0.38 mb/d. The expected output drop is coming from the decline in mature producing areas, coupled with limited new volume. However, the ongoing political circumstances could lead to a significant downward revision in 2012. On a quarterly basis, The Middle East's oil supply in 2012 is expected to average 1.82 mb/d in each of the four quarters.

Africa's oil supply to grow by 40 tb/d in 2012 to average 2.70 mb/d, mainly supported by Ghana and Uganda

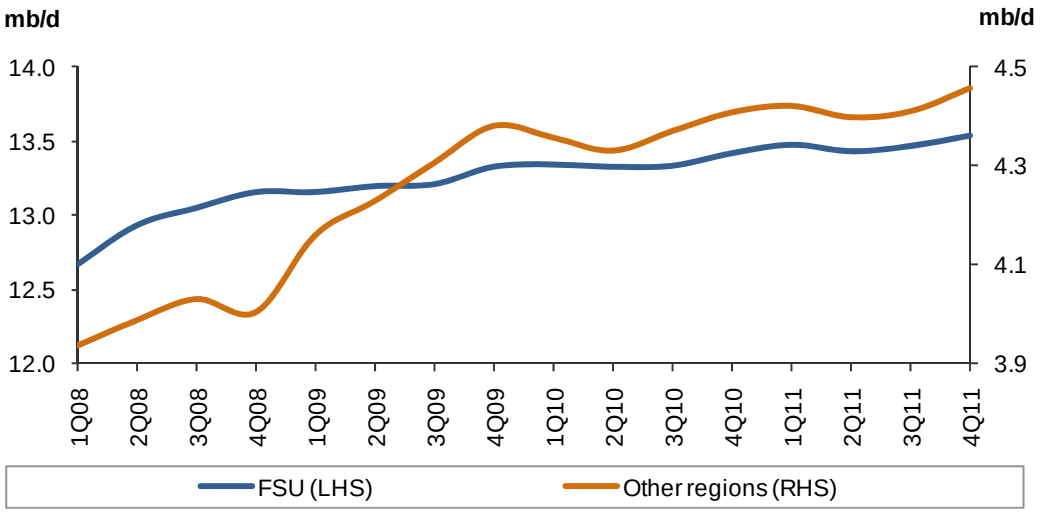
African oil production in 2012 is anticipated to average 2.70 mb/d, an increase of 40 tb/d over 2011. Most of Africa's major producers are expected to experience steady supply in 2012, with a minor decline. However, the expected growth is supported mainly by Ghana and Uganda, in addition to a small volume from Niger. In Ghana, the Jubilee oil project is expected to reach its peak production by the end of 2011 or early 2012, which will support the growth. Uganda's oil production is expected to encounter an increase from the Kasamene and Kingfisher developments, which are anticipated to start up in 2011 and ramp-up in 2012. Political risk factors could bring a significant supply reduction in 2012, especially from Sudan. On a quarterly basis, total oil supply in Africa in 2012 is estimated to average 2.71 mb/d, 2.70 mb/d, 2.70 mb/d and 2.69 mb/d, respectively.

FSU, Other Regions

FSU oil supply to increase by 120 tb/d in 2012

Total FSU oil supply is projected to average 13.48 mb/d in 2012, representing an increase of 0.12 mb/d versus 2011. Growth is seen coming from Russia, Azerbaijan and Kazakhstan. The growth is supported by the increase of capex in 2011, compared with the previous year. On a quarterly basis, total oil supply in the FSU next year is expected to average 13.47 mb/d, 13.43 mb/d, 13.47 mb/d and 13.54 mb/d, respectively. Oil supply in China is seen to increase by 50 tb/d in 2012 to average 4.28 mb/d. Other Europe supply is foreseen to remain relatively steady in 2012, with a minor increase of 10 tb/d, to average 0.15 mb/d.

Graph 5.4: FSU and other region's quarterly production



Russia

Russia's oil supply to increase by 30 tb/d in 2012, yet with a high risk associated with the forecast

Russian oil supply is forecast to remain relatively steady in 2012, with a minor increase of 30 tb/d, to average 10.23 mb/d. The expected growth is supported by the increase in capex in 2011 from 2010. The minor increase estimated in 2012 is supported by anticipated new barrels coming from project start ups and ramp-ups, which are seen exceeding the natural decline from mature areas. The expected new barrels in 2012 are supported by the Vankor, Prirazlom, Pyakyakhimskoye, Uvat, and Verkhnechonskoye projects. Additionally, a further supply increase is foreseen to come from NGL output. The risk of the Russia supply forecast is one of highest among non-OPEC producers. The price environment will be an important factor for Russia's oil supply in 2012, as producers are expected to continue investment in brown fields to maintain the output level. Furthermore, policy decisions, especially related to the export duty level, will be a key factor for the materialization of the forecast in 2012, as they will have an essential effect on the production margins operators will achieve and in devising theinvestment levels. Technology and decline rate will also be significant issues for supply in 2012. Furthermore, the ruble value against the US dollar will be a part of the risk factors in 2012. On a quarterly basis, Russian oil supply in 2012 is seen to average 10.20 mb/d, 10.22 mb/d, 10.24 mb/d and 10.25 mb/d, respectively.

Caspian

Kazakhstan's oil supply to average 1.71 mb/d in 2012, an increase of 50 tb/d

Kazakhstan's oil production is foreseen to average 1.71 mb/d in 2012, indicating an increase of 50 tb/d over 2011. The expected growth is supported mainly by the ramp-up of the Tengiz and Karachaganak projects. The Kashagan project is not expected to start in 2012, as some reports suggest that the field start up could slip to 2014 from the previous plan to start by the end of 2012 or early 2013. Additionally, Kazak's 2012 oil supply forecast assumes the return of output to normal levels at the strike-hit operations, which will be an important risk factor for the forecast. On a quarterly basis, Kazakhstan's oil supply figures for 2012 are expected at 1.72 mb/d, 1.68 mb/d, 1.70 mb/d and 1.73 mb/d, respectively.

Azeri oil supply to increase by 50 tb/d in 2012 to average 1.11 mb/d

Azerbaijan's oil production is forecast to average 1.11 mb/d in 2011, representing an increase of 50 tb/d versus 2011. The expected growth is supported by the continuing ramp-up of the Azeri-Chirag-Guneshli (ACG) projects. With limited new developments, the ACG will be the main driver of the foreseen growth in 2012. Accordingly, technology and safety concerns will be major factors for the Azeri supply forecast in 2012. On a quarterly basis, Azerbaijan's oil supply in 2012 is estimated to average 1.13 mb/d, 1.10 mb/d, 1.10 mb/d, and 1.12 mb/d, respectively.

FSU Others' oil supply is forecast to average 0.43 mb/d in 2012, a minor decline of 10 tb/d over 2011. The drop is projected on the back of natural decline at mature producing areas, coupled with limited new developments. **Other Europe's** supply is seen to increase by 10 tb/d in 2012 to average 0.15 mb/d. The minor growth is supported by the Patos Marinza developments in Albania.

China's oil supply to increase by 50 tb/d in 2012 to average 4.28 mb/d

China

China's oil production is expected to increase by 50 tb/d over 2011 to average 4.28 mb/d in 2012. The forecast growth is supported by the expected start-up and ramp-up of different offshore projects, such as Beibu Gulf WZ 6-12 and WZ-12-8, Nanpu, Penglai 19-3 II, 19-9 and 25-6, and the Tarim expansion. The punctual influx of the new barrels will be a crucial factor for the materialization of China's forecast in 2012, as in the early part of 2011, China's output experienced a gradual decline, given that the recently started projects have reached, or are close to reaching, peak output. On a quarterly basis, total oil supply in China next year is expected to stand at 4.28 mb/d, 4.25 mb/d, 4.26 mb/d and 4.31 mb/d, respectively.

OPEC natural gas liquids and non-conventional oils

Production of OPEC NGLs and non-conventional oils are estimated to grow by 0.39 mb/d over 2010 to average 5.29 mb/d in 2011. In 2012, OPEC NGLs and nonconventional oils output are projected to increase by 0.36 mb/d over 2011 to average 5.65 mb/d. The expected growth in 2012 is foreseen to come mainly from Algeria, Iran, Nigeria, Qatar, Saudi Arabia and the UAE.

Table 5.3: OPEC NGLs + non-conventional oils, 2009-2012

	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 increased by 520 tb/d in June

OPEC crude oil production

Total OPEC crude oil production averaged 29.60 mb/d in June, representing a significant increase of 520 tb/d, compared with the previous month, according to estimates by secondary sources. OPEC crude oil production, excluding Iraq, averaged 26.90 mb/d, a gain of around 500 tb/d over the same period. Saudi Arabia led the crude oil output increase, followed by the UAE, Kuwait, Venezuela and Iraq, while crude oil output from Angola, Nigeria, and Libya experienced the largest declines in June.

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

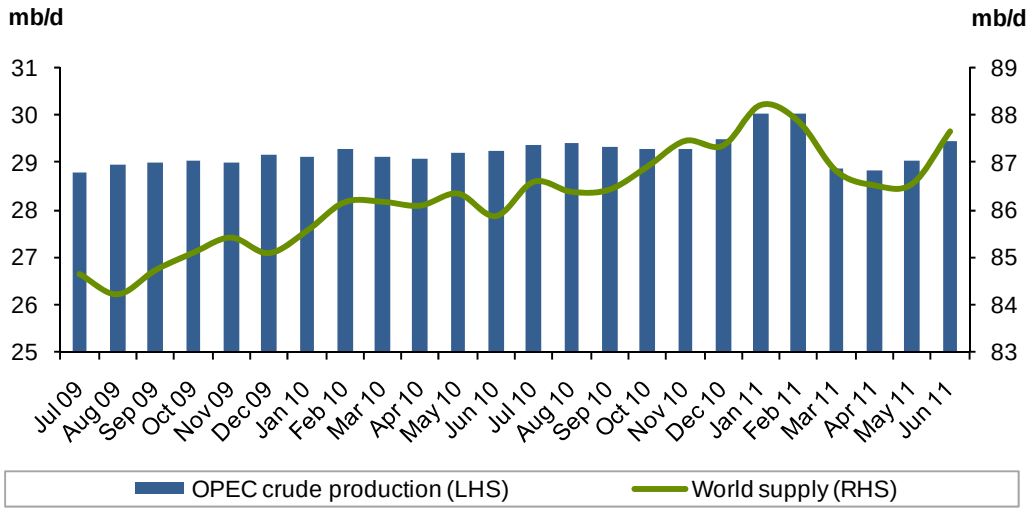
	2009	2010	4Q10	1Q11	2Q11	Apr 11	May 11	Jun 11	*Jun/May*
Algeria	1,268	1,258	1,257	1,259	1,254	1,257	1,252	1,253	*1.7*
Angola	1,780	1,783	1,654	1,665	1,582	1,584	1,606	1,555	*-51.1*
Ecuador	477	475	481	489	487	488	488	486	*-1.7*
Iran, I.R.	3,725	3,706	3,673	3,656	3,650	3,654	3,643	3,654	*11.7*
Iraq	2,422	2,401	2,423	2,649	2,671	2,631	2,679	2,702	*23.4*
Kuwait	2,263	2,297	2,308	2,374	2,471	2,446	2,463	2,504	*41.5*
Libya, S.P.A.J.	1,557	1,559	1,569	1,096	153	206	143	111	*-31.0*
Nigeria	1,812	2,060	2,175	2,087	2,155	2,118	2,189	2,157	*-31.9*
Qatar	781	801	805	807	810	803	813	814	*1.7*
Saudi Arabia	8,051	8,284	8,387	8,732	9,051	8,780	8,958	9,419	*461.1*
UAE	2,256	2,304	2,322	2,443	2,513	2,518	2,481	2,541	*60.2*
Venezuela	2,394	2,335	2,302	2,371	2,367	2,331	2,369	2,403	*34.5*
Total OPEC	**28,785**	**29,263**	**29,357**	**29,628**	**29,165**	**28,816**	**29,081**	**29,601**	***520.0***
OPEC excl. Iraq	**26,362**	**26,862**	**26,934**	**26,980**	**26,494**	**26,185**	**26,402**	**26,899**	***496.6***

Totals may not add up due to independent rounding

World Oil Supply

Preliminary figures indicate that global oil supply averaged 87.82 mb/d in June, around 1.25 mb/d higher than in the previous month. The estimated increase was supported by both non-OPEC and OPEC crude oil output. OPEC crude is estimated to have a 33.7% share in global supply, relatively steady from the previous month. The estimate is based on preliminary data from non-OPEC supply. Estimates for OPEC NGLs and OPEC production are derived from secondary sources.

Graph 5.5: OPEC and world oil supply



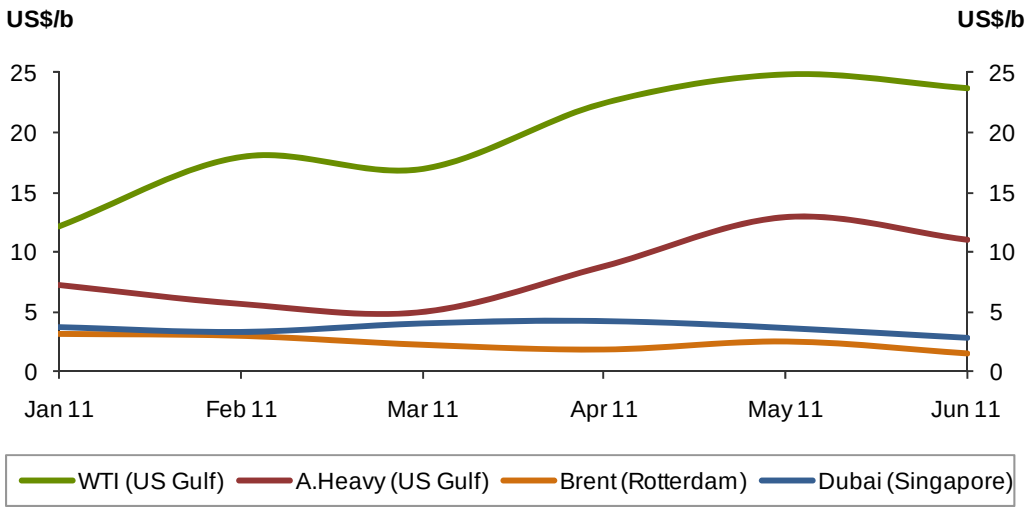
Product Markets and Refinery Operations

Refinery margins remain under pressure

Product markets continued being impacted by weaker-than-expected demand growth at the onset of the driving season and, additionally, the bearish sentiment in the light distillates market was further fuelled by the sharp drop in naphtha demand across the board. The disappointing situation at the top of the barrel was partially offset by tightness at the bottom of the barrel.

The expected higher summer power requirement could be offset by increased refinery runs and keep the product market under pressure.

Graph 6.1: Refining margins, 2011



US refining margins continued on the healthy side on the back of support coming from the bottom of the barrel and better developments in the middle distillate cracks, which managed to maintain healthy levels, despite inventories standing above the seasonal average and the drop in gasoil demand, which has again generated concern about the risk of a slowdown in US economic growth. On the other hand, the top of the barrel has been negatively impacted by the decrease in naphtha demand worldwide amid lower-than-expected seasonal increases in demand for gasoline, evidenced by the stock build seen during the Memorial Day weekend, the start-off point for the US driving season.

The margin for WTI crude on the US Gulf Coast showed a slight drop of $1 to stand at $24/b. However, this high margin has been artificially inflated by the relatively low benchmark WTI price. The margin for Arab Heavy crude on the US Gulf Coast was around $11/b.

In Europe, product market performance was mixed, with the top of the barrel reversing the previous month's strength — affected by weak naphtha demand and closed arbitrage to the Asia-Pacific — while fuel oil recovered. Additionally, the European market has been under pressure due to higher refinery runs in the US, making the most of relatively cheap feedstock. Refinery margins in Europe showed a loss of $1 to stand at $1.5/b

Asian refining margins continued losing ground as gains in fuel oil were surpassed by a sharp decline suffered by light distillates, which were hit by the drop in demand in the petrochemical sector. The refinery margins for Dubai crude oil in Singapore showed a loss of 80¢ to stand at $2.8/b.

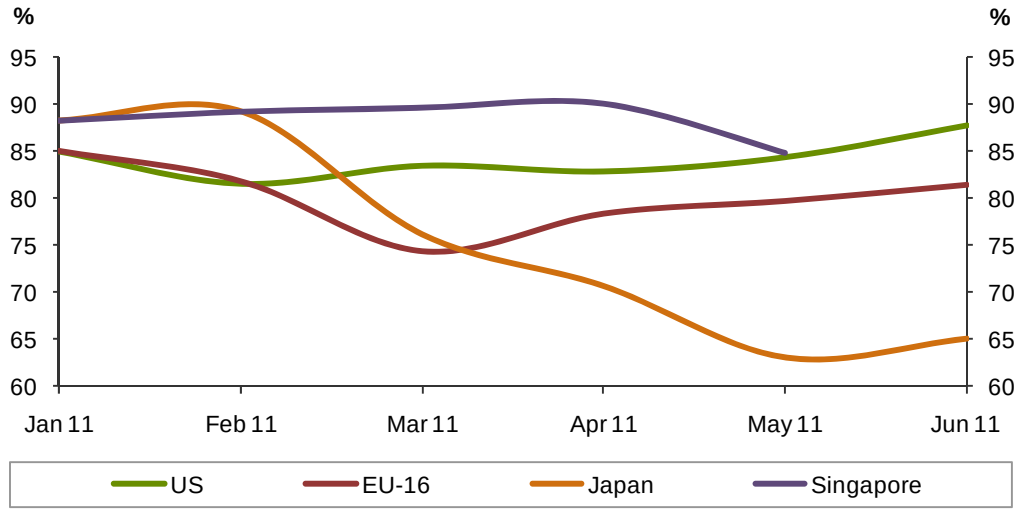
Refinery operations

US refinery runs on the rise

American refiners continued increasing their run rates after the end of the maintenance season, encouraged by healthy margins. Refinery runs increased, from 84.3% a month earlier to an average of 87.7 % in June, the highest level seen this year.

Gasoline demand has remained unchanged from last year, with disappointing growth expectations. However, the market was balanced by rising exports and lower imports, which kept inventories from building further in the US. On the other hand, gasoil managed to remain strong, despite the weak demand, which, along with gains at the bottom of the barrel, helped refining margins to remain on the healthy side in the US.

Graph 6.2: Refinery utilization rates, 2010-2011



European refiners continued at low throughputs — around 81% — on the back of low refinery margins and weaker light distillate demand. Asian refiners started to moderate the high run levels seen in the previous month after replenishing distillate inventories. Chinese and Indian refineries are running at below 90%, while Japan has been able to keep refinery throughputs at around 65%.

Looking ahead, demand is expected to improve during the driving season, also due to utility requirements, which will encourage an increase in refinery runs.

US market

Driving season looking flat

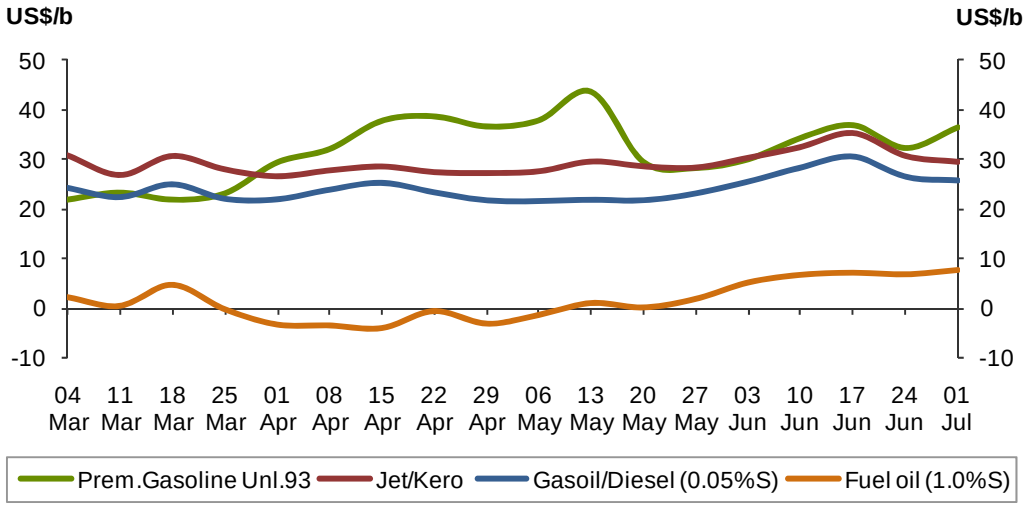
US gasoline demand increased to 9.28 mb/d in June, according to the EIA, 195 tb/d higher than in the previous month, although almost flat from the same month last year.

The gasoline market managed to partially reverse the downward trend seen since the middle of May when gasoline stock builds caused gasoline prices to decline. However, since mid-June, US gasoline stocks have stopped their build. Although they remain above the historical average, some operational problems in midcontinent refineries and strong export opportunities to Latin America, mainly to Mexico, Uruguay and Argentina, have caused bullish sentiment in the market, despite higher refinery runs and lower-than-expected growth in US gasoline demand.

These bullish factors, which have been prevalent since the middle of the month, have improved the crack spread from $28/b by the end of May to $36/b, representing a very sharp rise.

Middle distillate demand stood at around 3.6 mb/d in June, a sharp drop of 210 tb/d from the previous month and 165 tb/d lower than in the same month last year.

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



Middle distillates showed a mixed performance during the month, starting off with sharp gains due to the draw in distillate inventories reported since the end of May, which reversed in mid-June when reports on temporary lower demand indicated that economic growth could slow down. However, this negative news was offset by reports on increasing cargo movements in some ports, as well as strong export opportunities to Latin America (spot cargoes to Colombia, Chile, Peru and Argentina).

The US gasoil crack on the Gulf Coast continued to increase and reached an average of $27/b in June from $22/b the previous month.

Stronger regional fuel oil demand, mainly for bunkers, offset the lack of arbitrage opportunities to Asia and allowed the fuel oil market to remain on the rise. The fuel oil crack increased sharply from a premium of 40¢/b over WTI in May to $6/b in June, the highest value seen in months, due to the WTI price distortion.

Fuel oil market bullish in Europe

European market

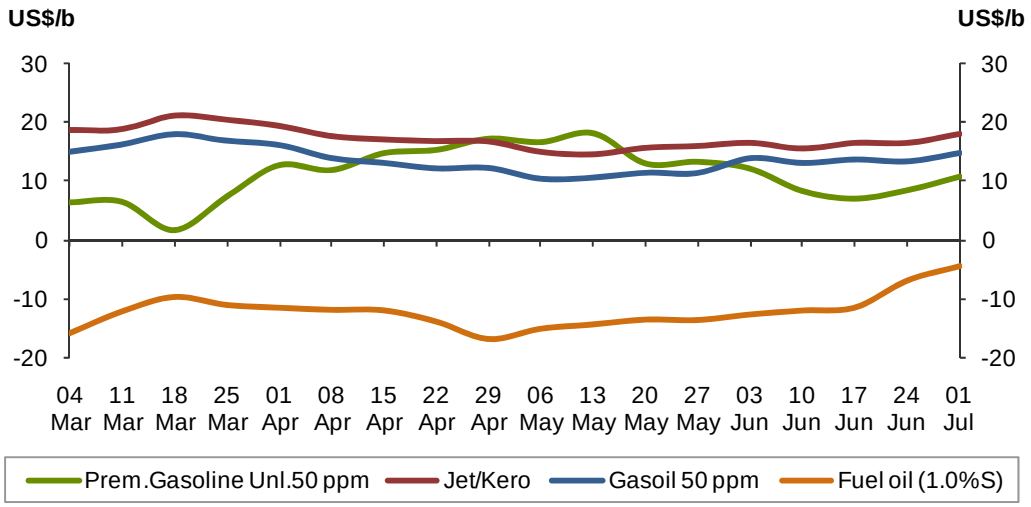
Product market sentiment in Europe continued to be mixed and light distillates (naphtha and gasoline) turned weak, despite the driving season, while middle distillates and fuel oil showed a strong recovery.

The European gasoline market continued its downward trend which began mid-May and has been losing ground further this month until a brief respite last week. Since mid-May, when positive market sentiment led to a record-high crack spread, the gasoline market turned bearish due to a lack of export opportunities to the US East Coast, despite the onset of the summer driving season and less workable arbitrage opportunities to West Africa. Additional pressure came from higher ARA gasoline stock levels.

At the end of the month, the market showed signs of recovery on the back of increasing requirements from the Middle East, mainly from Saudi Arabia for the summer stock build-up.

The gasoline crack spread against Brent crude showed a sharp loss of $6/b from an average of $15.2/b in May to drop to an average of $9.2/b this month.

Graph 6.4: Rotterdam crack spreads vs. Brent, 2011



European naphtha market sentiment remained bearish, being pressured from the supply side, due to higher ARA stock levels at the beginning of June and higher refinery runs in the region amid weak naphtha demand for the petrochemical sector, as a result of to lower ethylene requirements in Europe and lower export opportunities to Asia.

Middle distillates recovered on the back of stronger regional demand (Turkish requirements) and export opportunities. Additional support came from the relatively lower inflows from outside the region and from the expectation of incremental demand from the agricultural and transportation sectors.
At the end of the month, the start of the holiday season attracted some gasoil cargoes from Asia (Singapore, South Korea and India). However, the market remained strong on news of the Bilbao refinery strike.

The gasoil crack spread against Brent crude at Rotterdam showed a sharp rise of $2.9/b from an average of $10.8/b in May to $13.7/b in June.

The European fuel oil market recovered ground lost during last month on the back of stronger regional demand, higher bunker demand in Singapore and arbitrage opportunities to the Asia-Pacific amid tight sentiment, despite increasing Russian exports from refineries returning from maintenance.

The fuel oil crack spread against Brent showed a sharp gain of $4.6/b this month to stand at minus $9.5/b, the highest value seen during this year. The upcoming summer electricity demand in the region, amid expectations of increasing Japanese requirements for power generation, will keep sentiment bullish in the fuel oil market.

Asian market

Asian naphtha market plummeted

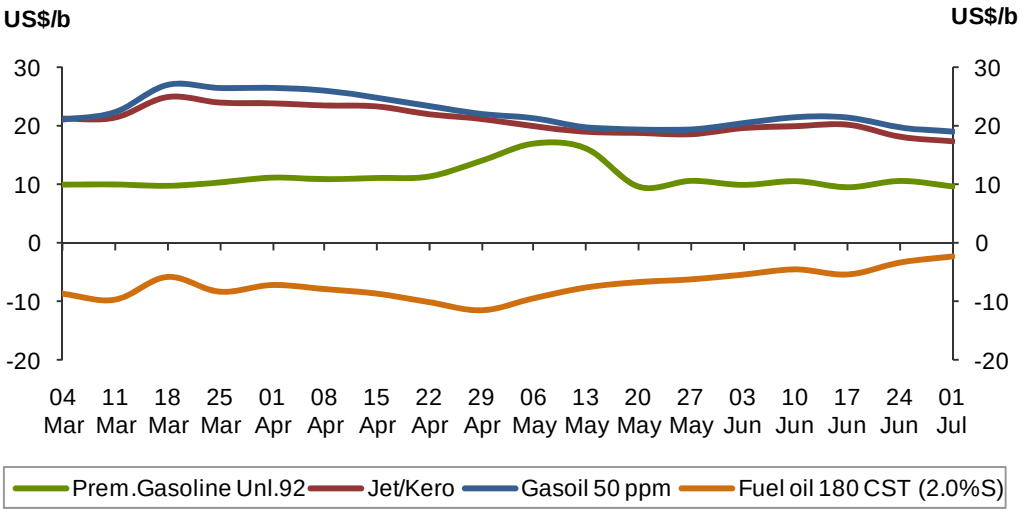
The Asian naphtha market plummeted in June due to the drop in demand in the petrochemical sector. The crack went deeper into negative terrain to mark the lowest level seen so far this year. This was following a sharp drop of $6/b due to the bearish sentiment generated in May after the shutdown of the Formosa naphtha cracker was reinforced by news about the unexpected shutdown of Japan's naphtha cracker at the Chiba petrochemical complex.

The market will be under pressure from rising supplies from India and the Middle East, where refineries are returning from maintenance, until the naphtha crackers are back online.

The gasoline market continued receiving support from demand in the region, mainly from Pakistan, India, Vietnam and Sri Lanka. However, this support was offset by increased supply as a consequence of the surplus of naphtha due to the lack of demand amid the closing of westbound arbitrage.

The gasoline crack spread against Dubai crude oil in Singapore remained at a similar level of around $10/b from the end of May and throughout the month of June.

Graph 6.5: Singapore crack spreads vs. Dubai, 2011



The gasoil crack spread in Singapore against Dubai remained flat from the previous month to stand at around $20/b, supported by the strong regional demand amid increasing exports from South Korea, which have been exerting pressure on stocks in Singapore. Additionally, lower seasonal Indian demand has been outweighed by stronger Indonesian and Malaysian demand.

The Asian fuel oil market continued the upward trend on the back of reduced inflows from the West, which have been on the low side (around 3 million tonnes) over the last months, which, along with less volume coming from the Middle East, have kept the supply side tight. Following these developments, the high sulphur fuel oil crack spread in Singapore against Dubai rose from minus $7.5/b, on average in May, to minus $4.2/b, on average in June.

Summer power demand could offset the expected incremental arbitrage from the West and keep the market supported.

Table 6.1: Refinery operations in selected OECD countries

	Refinery throughput, mb/d			*Refinery utilization, %*		
	May 11	Jun 11	Jun/May	May 11	Jun 11	Jun/May
US	14.54	15.13	0.59	84.30	87.65	3.35
France	1.23	1.23	0.00	66.87	66.87	0.00
Germany	1.79	1.67	-0.12	74.20	69.07	-5.13
Italy	1.54	1.56	0.02	67.17	67.96	0.78
UK	1.44	1.41	-0.03	81.30	79.83	-1.47
Euro-16	10.45	10.67	0.22	79.76	81.45	1.69
Japan	2.91	3.00	0.09	63.00	65.00	2.00

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

Table 6.2: Refined product prices, US$/b

		Apr 11	May 11	Jun 11	Change Jun/May
US Gulf (Cargoes):					
Naphtha		127.39	121.13	112.84	-8.29
Premium gasoline	*(unleaded 93)*	145.88	136.38	130.54	-5.84
Regular gasoline	*(unleaded 87)*	135.52	129.96	121.74	-8.22
Jet/Kerosene		137.70	129.78	128.25	-1.53
Gasoil	*(0.05% S)*	133.60	123.60	124.13	0.54
Fuel oil	*(1.0% S)*	106.89	101.47	103.12	1.65
Fuel oil	*(3.0% S)*	101.46	95.18	98.65	3.47
Rotterdam (Barges FoB):					
Naphtha		116.52	109.21	103.26	-5.95
Premium gasoline	*(unleaded 10 ppm)*	137.85	129.85	123.33	-6.53
Premium gasoline	*(unleaded 95)*	134.02	127.73	120.74	-6.99
Jet/Kerosene		140.71	129.99	130.51	0.52
Gasoil/Diesel	*(10 ppm)*	136.52	126.08	127.71	1.64
Fuel oil	*(1.0% S)*	110.48	100.90	104.58	3.68
Fuel oil	*(3.5% S)*	101.85	97.12	98.87	1.75
Mediterranean					
Naphtha		113.49	106.06	101.18	-4.88
Premium gasoline	*(50 ppm)*	132.09	125.89	119.00	-6.89
Jet/Kerosene		138.73	128.16	128.83	0.67
Gasoil/Diesel	*(50 ppm)*	125.86	107.57	108.96	1.40
Fuel oil	*(1.0% S)*	110.39	100.93	105.06	4.13
Fuel oil	*(3.5% S)*	100.30	96.87	97.87	1.00
Singapore (Cargoes):					
Naphtha		115.38	108.73	101.90	-6.83
Premium gasoline	*(unleaded 95)*	129.97	125.24	120.47	-4.77
Regular gasoline	*(unleaded 92)*	127.86	122.05	117.76	-4.29
Jet/Kerosene		138.69	128.20	126.89	-1.31
Gasoil/Diesel	*(50 ppm)*	140.29	128.70	128.07	-0.63
Fuel oil	*(180 cst 2.0% S)*	106.62	101.20	103.62	2.42
Fuel oil	*(380 cst 3.5% S)*	104.86	99.49	101.27	1.78

Tanker Market

OPEC fixtures and sailing increased in June

In June, estimated OPEC spot fixtures increased by 13.5% compared with last month, to average 13.7 mb/d. Global spot fixtures increased by 5% in June, compared with the previous month, to average 18.4 mb/d. The gain of global fixtures was mainly driven by OPEC fixtures, while non-OPEC spot fixtures declined. Increased tonnage demand for deliveries to both East and West destinations was behind the OPEC fixtures gain. OPEC sailing followed the same trend and increased 0.13 mb/b in June, compared with last month, to stand at 22.88 mb/d. The OPEC sailing increase came mainly from Middle Eastern shippers. However, arrivals showed a mixed pattern in June as North America, Europe and the Far East registered gains, compared with last month, while West Asia exhibited a decline. Compared with last month, arrivals in North America, Europe and the Far East increased by 3.6%, 2.3% and 4.9% to stand at 9.91 mb/b, 11.61 mb/d and 8.37 mb/d, respectively.

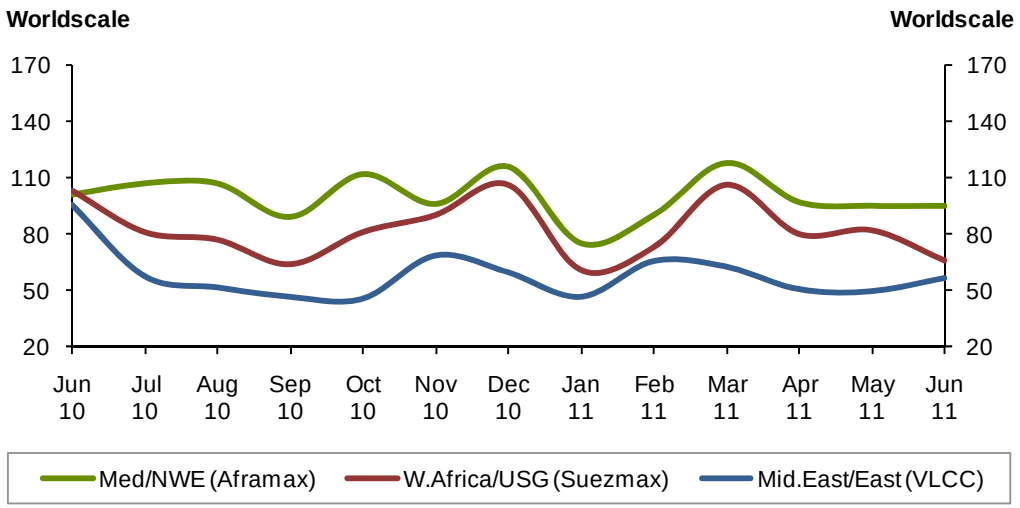
Table 7.1: Tanker chartering, sailings and arrivals, mb/d

	Apr 11	May 11	Jun 11	Change Jun/May
Spot Chartering				
All areas	20.63	18.26	18.40	0.14
OPEC	14.71	12.08	13.71	1.63
Middle East/East	5.84	5.60	5.90	0.30
Middle East/West	3.13	3.23	3.70	0.47
Outside Middle East	5.74	3.25	4.11	0.86
Sailings				
OPEC	22.59	22.75	22.88	0.13
Middle East	17.34	17.49	17.63	0.14
Arrivals				
North America	8.87	9.57	9.91	0.34
Europe	11.37	11.35	11.61	0.26
Far East	8.34	7.98	8.37	0.39
West Asia	4.39	4.70	4.30	-0.40

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

The dirty tanker market showed mixed trends in June with VLCC spot freight rates reporting a healthy gain of 8% while both Suezmax and Aframax rates experienced losses of 18% and 3%, respectively, compared with last month. Clean spot freight rates were very weak in June, compared with last month, with West of Suez rates declining 23%, the highest among the different groups, and East of Suez rates closing down by 5%.

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



In June, VLCC rates increased, while Suezmax and Aframax declined

For VLCC, spot freight rates for Middle East to East bound destinations indicated the highest increase among all other reported routes in June, supported mainly by higher lifting to China as the refinery maintenance comes to an end. Additionally, India's crude oil requirements from West Africa further supported VLCC rates from West Africa to East in June. In the West, VLCC spot freight rates from the Middle East to Western destinations gained some ground in June on European demand, supported by the Brent/Dubai differentials, as well as the TransCanada pipeline maintenance. Additionally, lower North Sea output during the seasonal maintenance period further supported spot freight rates from the Middle East to the West. Compared with the previous month, Middle East to East spot freight rates increased by 14% to stand at WS57 points, West Africa to East edged up by 4% to stand at WS41 points and Middle East to West gained 5% to stand at WS54 points. However, compared with a year ago, all selected route spot freight rates exhibited declines. On average, VLCC spot freight rates decreased by 25%, compared with a year ago.

Table 7.2: Spot tanker crude freight rates, Worldscale

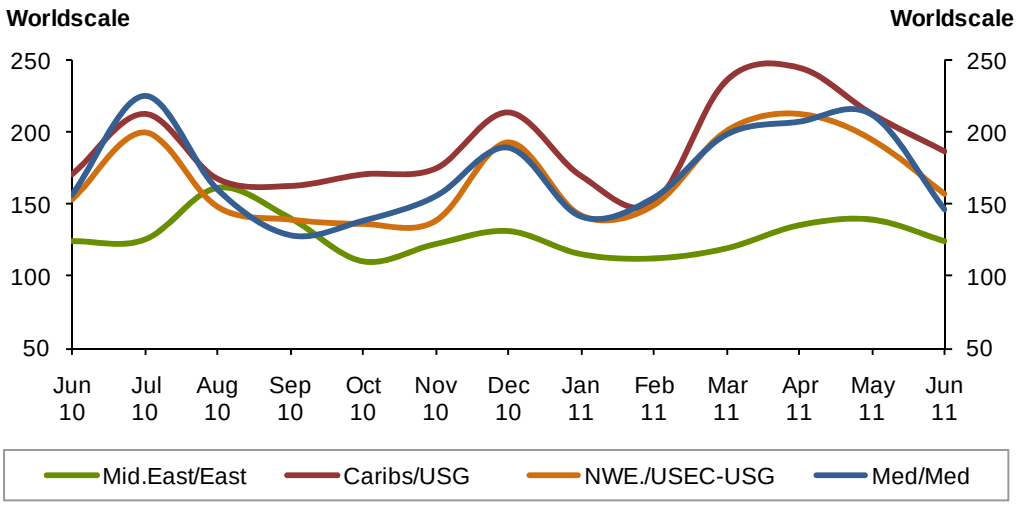
	Size *1,000 DWT*	Apr 11	May 11	Jun 11	Change Jun/May
Crude					
Middle East/East	230-280	51	50	57	7
Middle East/West	270-285	39	39	41	2
West Africa/East	260	53	52	54	2
West Africa/US Gulf Coast	130-135	80	82	66	-16
NW Europe/USEC-USGC	130-135	78	79	66	-13
Indonesia/US West Coast	80-85	118	101	99	-2
Caribbean/US East Coast	80-85	120	103	99	-4
Mediterranean/Mediterranean	80-85	96	99	93	-6
Mediterranean/North-West Europe	80-85	97	95	95	0

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

Suezmax transatlantic spot freight rates declined in June from the previous month. Closed arbitrage of crude oil from the North Sea to the US and the decline of Forties crude oil supply pressured rates in June. Additionally, increased tonnage availability further negatively affected rates in June. Suezmax spot freight rates from NW Europe to the US lost 15% in June, compared with the previous month, and rates from West Africa to the US closed down by 19%. On an annual basis, Suezmax spot freight rates declined 23% in June, compared with the same period a year ago.

Aframax spot freight rates on all selected routes closed down, except Mediterranean to Northwest Europe rates, which remained steady in June, compared with the previous month. Mediterranean to Mediterranean Aframax spot freight rates declined by 6% in June on the back of lower lifting from Primorsk, as well as pipeline maintenance. Caribbean to the US rates declined 3% in June from the previous month due to ample tonnage supply and limited demand. Indonesia to East rates continued their downward trend in June and lost 2% on lower Japanese refinery requirements.

Graph 7.2: Monthly averages of clean spot freight rates



The clean tanker market remained bearish in June

Clean tanker market sentiments were bearish in June on most reported routes. In West of Suez, closed arbitrage and higher stocks in the US affected spot freight rates from the Caribbean to the US, as well as from NW Europe to the US. Compared with a month ago, Caribbean to the US clean spot freight rates declined 13% to stand at WS187 points and NW Europe to the US rates dropped 20% to stand at WS157. Mediterranean to Mediterranean clean spot freight rates decreased 31%, mainly due to lower gasoil and naphtha trades and higher stock in North West Europe. The lower naphtha trade was partially driven by higher Russia export duties.

In East of Suez, the clean market has suffered from different factors and spot freight rates closed down by 5%. Clean spot freight rates from Middle East to Eastern destination declined by 10% on the back of lower naphtha trade, resulting partially from prolonged petrochemical plant shutdowns. China's lower naphtha imports added more pressure on East bound spot freight rates. However, the 1% increase of Singapore to East spot freight rates, the only increase among all reported clean routes, was supported by Japanese product imports.

Table 7.3: Spot tanker product freight rates, Worldscale

	Size *1,000 DWT*	Apr 11	May 11	Jun 11	Change Jun/May
Products					
Middle East/East	30-35	136	140	125	-15
Singapore/East	30-35	153	150	151	1
Caribbean/US Gulf Coast	38-40	245	213	187	-26
NW Europe/USEC-USGC	33-37	213	195	157	-38
Mediterranean/Mediterranean	30-35	207	212	146	-66
Mediterranean/North-West Europe	30-35	217	222	156	-66

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

Oil Trade

US net oil imports fell by almost 0.6 mb/d in June to around 9.0 mb/d, the lowest so far this year.

US

According to preliminary data, US crude oil imports remained almost unchanged in June at 9.1 mb/d. At this level, US crude oil imports remained at their highest level since last September. Nevertheless, when compared with a year earlier, crude oil imports where 0.8 mb/d or 8% lower in June 2011.

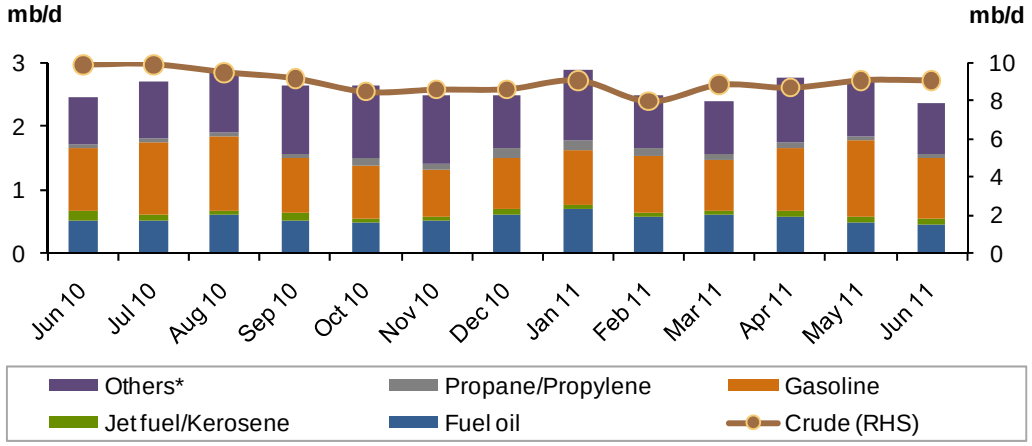
It is worth mentioning that US crude oil imports jumped to almost 9.9 mb/d during the last week of June, more than 1 mb/d higher than in the weeks-ending June 3 and 10, as refinery throughput increased.

US crude oil imports averaged 8.8 mb/d in the first half of 2011, down 0.44 mb/d or 4.7% from a year earlier, reflecting slowing demand from refiners, as confirmed by utilization rates, which remained below historical levels.

In contrast to crude oil, product imports fell sharply in June to average 2.35 mb/d, down 0.36 mb/d or 13.5% from April's level. At 2.35 mb/d, US product imports were at their lowest level since March 2010. The decline in imports was driven by gasoline, which lost more than 0.23 mb/d in June, compared with May.

When comparing imports over the first half period, the US imported around 0.1 mb/d of products more in the first half of 2011 than a year earlier.

Graph 8.1: US imports of crude and petroleum products



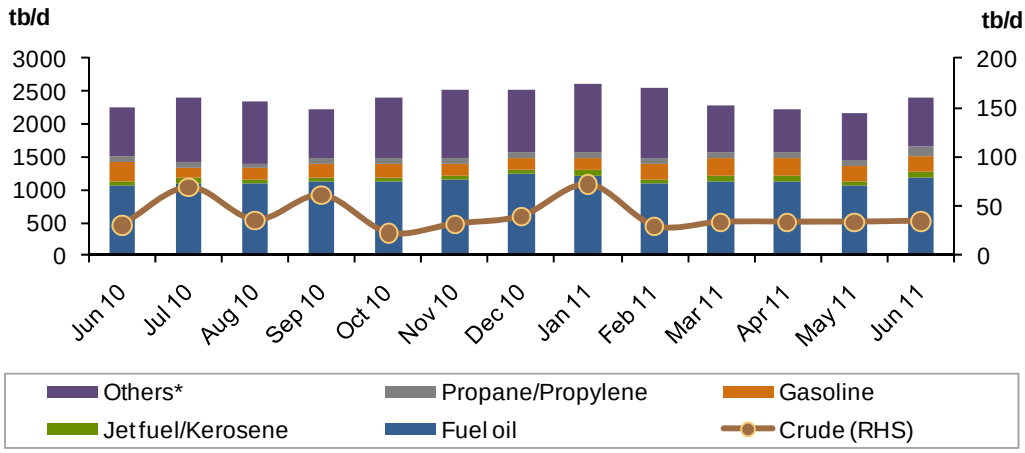
**Others: Contains natural gas liquids, liquefied refinery gases (LRG's), other liquids and all finished petroleum products except gasoline, jet fuel/kerosene, fuel oil and propane/propylene*

On the export side, the US exported nearly 2.4 mb/d on average in June, some 0.23 mb/d or 10.6% more than in April and the highest level since the 2.5 mb/d of last February. The rise in exports was attributed, essentially, to distillates.

Therefore, US net oil imports fell by almost 0.6 mb/d or 6.2% to average 9.0 mb/d, the lowest level so far this year. When compared with a year ago, the decline was much higher - at more than 1.0 mb/d.

US oil trade shows an average of 9.0 mb/d of net oil imports in the first half of 2011, some 0.56 mb/d less than a year ago.

Graph 8.2: US exports of crude and petroleum products



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

The US imported around 4.0 mb/d of crude oil from OPEC Member Countries in April, which corresponds to a share of 46.7%, compared with 45.9% in March. In April 2010, US crude oil imports from OPEC Member Countries accounted for more than 51%.

Canada was the main supplier of US imported crude with 2.08 mb/d or 23.9% in April, followed by Saudi Arabia with 1.09 mb/d or 12.5% and Mexico with 0.97 mb/d or 11.2%.

On the products side, US imports from OPEC Member Countries remained stable at 0.44 mb/d in April, which corresponds to a share of 15.3%. Canada and Russia were the main suppliers, accounting for 19% and 14.5%, respectively, followed by Algeria with 9%.

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

	Apr 11	May 11	Jun 11	Change Jun/May
Crude oil	8,681	9,041	9,044	3
Total products	660	553	-42	-595
Total crude and products	**9,341**	**9,594**	**9,001**	**-593**

Japan

Japan's net oil imports fell to a 20-year low in May

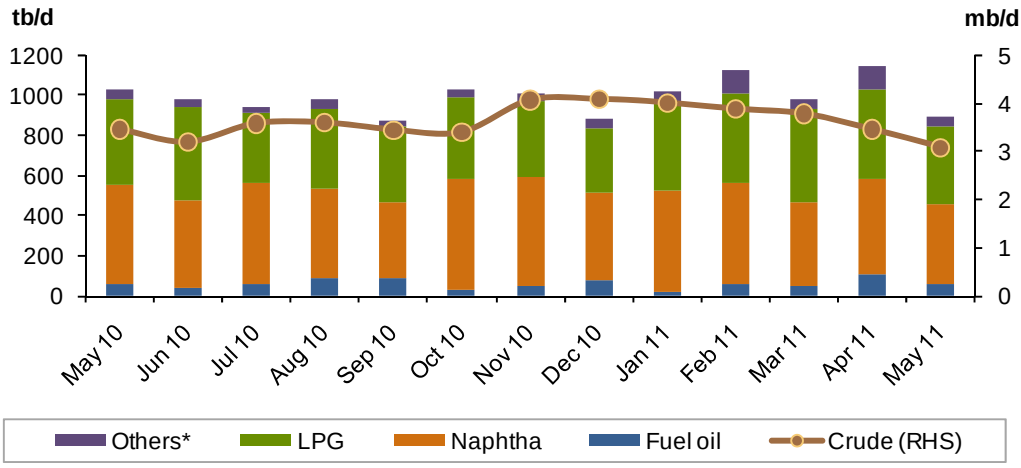
Japan's crude oil imports declined for the fifth month in a row to average around 3.0 mb/d in May, the lowest level since the 3.0 mb/d of April 1991. However, the drop in Japan's crude oil imports is becoming much higher since the earthquake-tsunami of March. Japan reduced its crude oil imports by 374 tb/d or 11%, compared with 330 tb/d in April and around 100 tb/d in March. The country's crude oil imports were also lower than the level of May 2010 by 380 tb/d. The low level in crude oil imports is attributed to a sharp decline in refineries' throughput as installations remained affected by the natural disaster.

The downward trend of this year left Japan's crude oil imports within the period January-May running at an average of 3.7 mb/d, down 200 tb/d or 5.1% from the same period last year.

Following the same trend, product imports, including LPG, dropped by 250 tb/d or 22% in May to move below 0.9 mb/d for the first time so far this year. At this level, product imports were also lower than a year ago by 142 tb/d or 13.8%. All main products saw imports drop in May with kerosene leading the loss with 94%. Imports of LPG, the main imported product, fell by nearly 13%.

However, in contrast to crude oil, product imports over the first five months of this year remained higher than a year ago. Japan imported on average 1.0 mb/d of products in the period January – May 2011, compared with 0.94 mb/d in the same period of 2010, implying an increase of 88 tb/d or 9.4%.

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



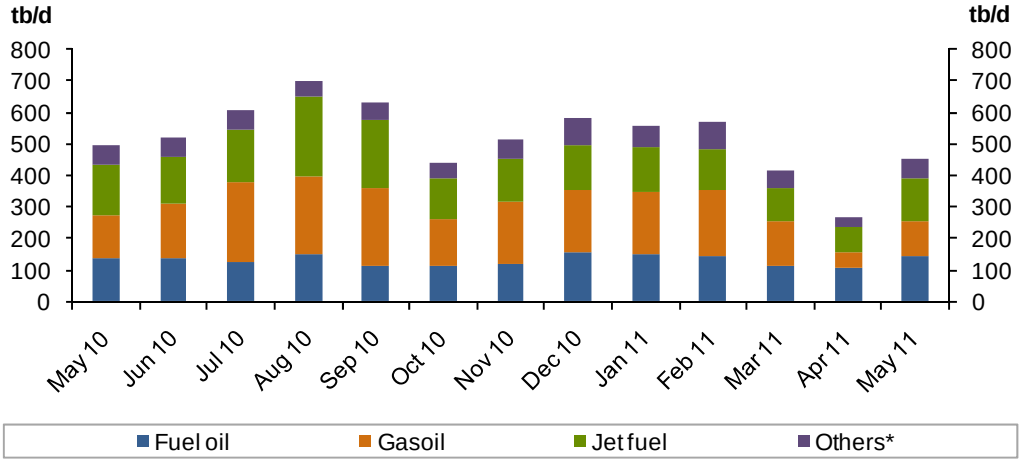
**Others: Contains gasoline, jet fuel, kerosene, gasoil, asphalt and paraffin wax*

The difference in the trend between crude oil and products was attributed to the fact that Japan required less crude oil as refiners were severely affected by the earthquake-tsunami and, at the same time, fewer products were available because of the damage to refineries, implying more products needed to be imported from abroad.

Product exports, including LPG, jumped by 187 tb/d or 70% in May to average 0.45 mb/d, which is not far from levels seen before the natural disaster. The surge in product imports was driven by gas oil and jet, which more than doubled to average 110 tb/d and 140 tb/d, respectively. Exports of gasoline also recovered to move from 10 tb/d in April to more than 36 tb/d in May.

As a result, Japan's net oil imports fell by more than 810 tb/d in May to more than offset the decline of the previous month. At 3.5 mb/d, Japan's net oil imports were at their lowest level in almost two years.

Graph 8.4: Japan's exports of petroleum products



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

No major changes took place in May regarding the ranking of the main suppliers of crude oil to Japan. Saudi Arabia remained the largest supplier with more than 1.0 mb/d or 33.3% followed by the United Arab Emirates with nearly 0.8 mb/d or 25.8% and Qatar with 0.31 mb/d or 10%. Total imports from OPEC remained almost stable at around 2.7 mb/d, which corresponds to a share of 87.6% of Japan's total crude oil imports, while imports from non-OPEC countries fell by 42% in volume, resulting in a drop in their share to 12.4% from 19.2% in April.

On the products side, non-OPEC countries were the main suppliers to Japan with 62%, as against 38% for OPEC Member Countries. By country, the US was on the top of the list with 117 tb/d or 13.1%, followed by Korea with 12.1%, Qatar with 11.4% and

Saudi Arabia with 10%.

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

	Mar 11	Apr 11	May 11	Change May/Apr
Crude oil	3,782	3,452	3,078	-374
Total products	561	874	436	-438
Total crude and products	**4,343**	**4,326**	**3,514**	**-812**

China

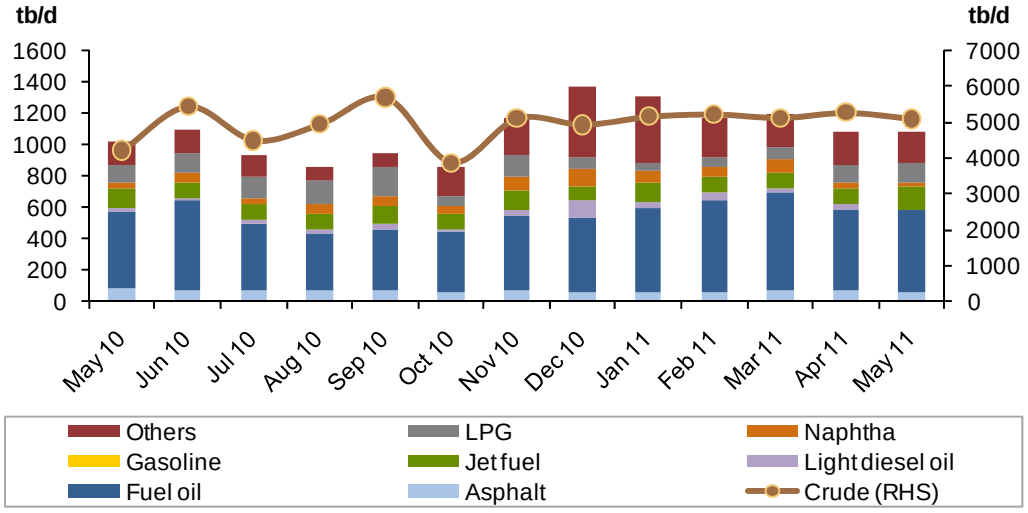
China's net oil imports fell 0.2 mb/d in May, a seven-month low

China's crude oil imports fell by almost 170 tb/d or 3.2% in May, offsetting the gain of the previous month, to average 5.1 mb/d, the second-lowest level since the 4.9 mb/d of last December. However, despite the decline, China's crude oil imports remained almost 21% higher than a year earlier.

In the first five months of this year, China imported on average 5.17 mb/d of crude oil, more than 0.5 mb/d or 11% higher than a year ago, reflecting the sustained growing demand in the Asian country.
Product imports remained almost stable at 1.1 mb/d in May, but showed a y-o-y growth of 56 tb/d or 5.5%. LPG imports increased for the fourth month in a row to approach 120 tb/d in May, a six-month high.

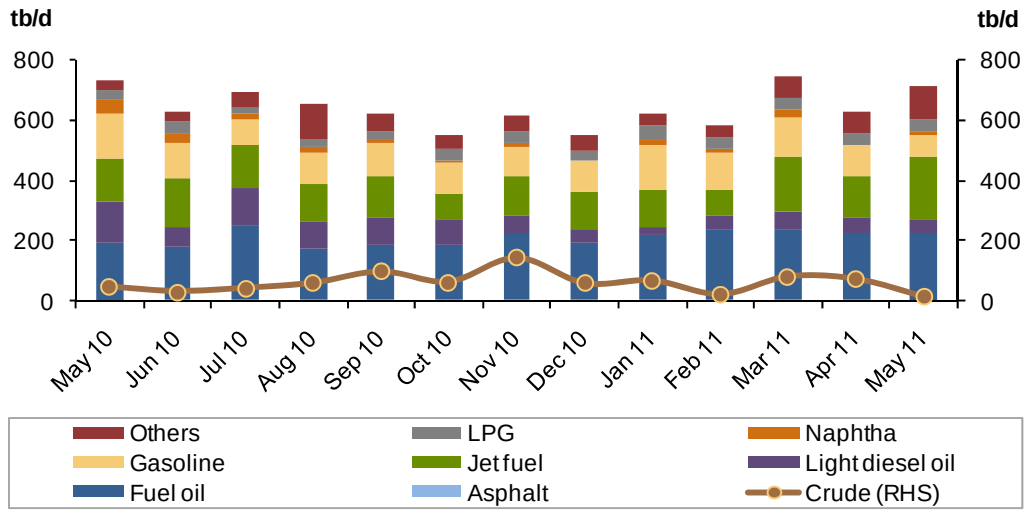
Product imports where even higher in percentage terms in 2011, when compared with a year ago. China's product imports averaged almost 1.2 mb/d in the period January-May, up 21% from the same period of 2010.

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



Exports saw a mixed pattern. Crude oil and products fell by almost 60 tb/d to just 12 tb/d, whereas product exports rose 89 tb/d or 14%, but remained below the level of March. The rise in product exports was attributed essentially to jet fuel and fuel oil. Chinese product exports over the period January-May remained almost stable in 2011, compared with the same period of 2010, at around 0.67 mb/d.

Graph 8.6: China's exports of crude and products



Therefore, China's total oil imports fell by 200 tb/d or 3.5% in May to average 5.45 mb/d. That was the lowest level since the 4.1 mb/d of last October. Nevertheless, when compared with a year ago, net oil imports were almost 1 mb/d or 22% higher in May 2011. Again when considering the first five months of the year, Chinese net oil imports stood at 0.74 mb/d, 15% higher than a year earlier.

Saudi Arabia remained the main supplier of China's crude oil imports in May with18.1%, although in terms of volume, imports from Saudi Arabia dropped slightly. Angola remained the second main supplier with 13%, followed by Iran with 10.5% and Russia with 8.3%.

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

	Mar 11	Apr 11	May 11	Change May/Apr
Crude oil	5,045	5,193	5,084	-109
Total products	447	454	363	-91
Total crude and products	**5,492**	**5,647**	**5,447**	**-200**

India

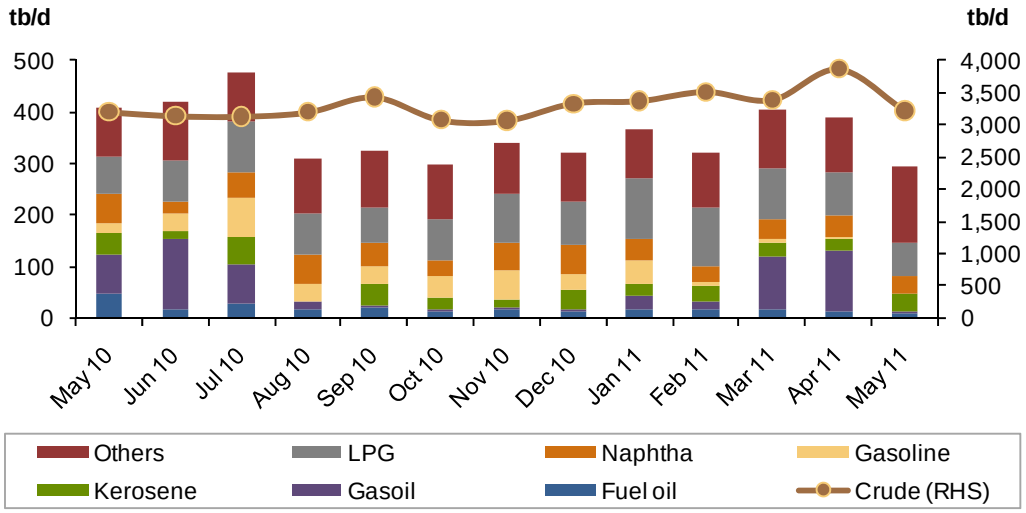
India's net oil imports fell by 0.9 mb/d in May

India's crude oil imports declined by 647 tb/d or 16.7% in May to average almost 3.2 mb/d, the lowest level since December 2010. When compared with a year earlier, India's crude oil imports still showed a y-o-y growth of 55 tb/d or1.7% in May 2011.

Product imports followed a similar trend and declined by 150 tb/d or 38.4% from the previous month to average 0.24 mb/d, the lowest level since January 2010. Almost all products saw import declines, particularly diesel oil and gasoline, which were the main contributors to the drop after having halved. Imports of naphtha, LPG and fuel oil declined 15.3%, 20.3% and 22.6%, respectively. The exception was kerosene, which rose 3.5% to an average of 33.7 tb/d. When compared with a year earlier, product imports displayed a decline of around 40.3%.

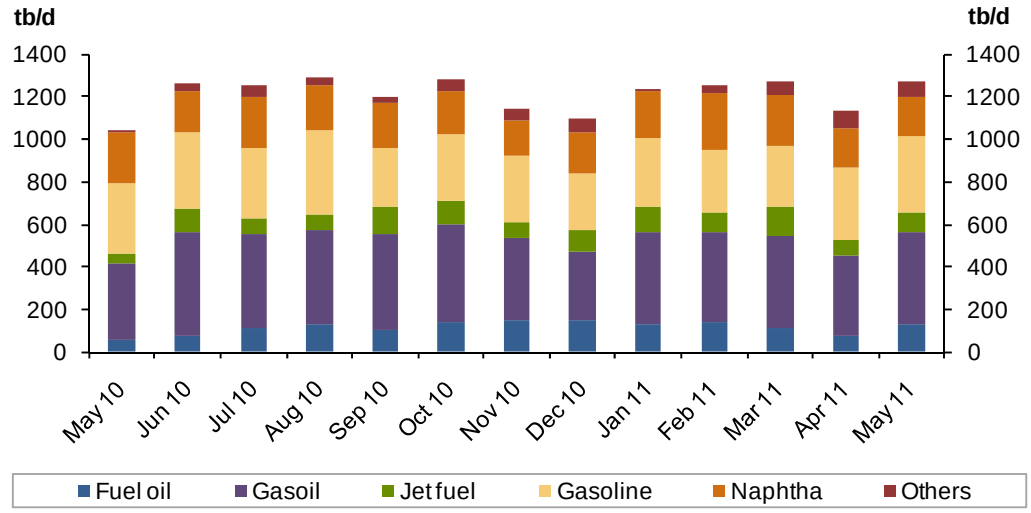
India has imported 11.4% more crude oil and 13.5% more products in the past five months of 2011, compared with the same period the previous year, reflecting the country's continued robust demand.

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



On the export side, India exported 1.27 mb/d of products in May, up 110 tb/d or 9.5% from the previous month. At 1.27 mb/d Indian product imports were in line with the levels of the first quarter of 2011. On a y-o-y basis, exports increased 31% in May 2011. The y-o-y growth is much higher if we consider the first five months of the year. Yet, India exported 1.24 mb/d on average in the first five months of the current year, up 370 tb/d or 43% from the same period a year ago.

Graph 8.8: India's exports of petroleum products



As a result, India's net oil imports averaged 2.2 mb/d in May, a decline 907 tb/d or 29% from the previous month and 15.6% down from a year earlier. Despite this strong decline in May, India's net oil imports so far this year (January-May) remained slightly higher than a year earlier by 1%.

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

	Mar 11	Apr 11	May 11	Change May/Apr
Crude oil	3,388	3,870	3,223	-647
Total products	-887	-767	-1,027	-260
Total crude and products	**2,501**	**3,103**	**2,196**	**-907**

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

FSU total oil exports fell by almost 6% in May to 9.5 mb/d

FSU

Total crude oil exports from the FSU to non-CIS destinations dropped by 7.7% in May to average 6.38 mb/d, compared with 6.91 mb/d in April. The decline was attributed to lower supplies from the region.

Pipeline exports from Russia fell by 4.4% to 4.17mb/d after demand from local refineries increased, following the completion of maintenance. Exports through the Transneft rail system showed a strong decline of around 46%, leaving exports through this route at just 100,000 b/d. This reflects reduced supplies of Russian crude to the Caspian Pipeline Consortium (CPC) system as well, but is mainly due to the result of the Tengizchevroil consortium cutting their supplies of Kazakh-Tengiz crude to Ukrainian ports. Sakhalin Energy exports of light sweet Vityaz grade from the Prigorodnoye terminal in the south of Sakhalin island were down by 30 tb/d. and Lukoil exports from its Varandey terminal in Timan-Pechora fell by 20 tb/d as production seems to continue to decline.

Exports of CPC Blend fell again to average 629 tb/d, because of field maintenance at Tengiz and a reduction in Russian supplies after Transneft blocked Rosneft shipments from the Tikhoretsk rail rack, citing quality problems in its system concerning the API grade.

BTC Blend loadings at Turkey's Ceyhan were also down. Exports through Black Sea terminals are increasing.

FSU product exports fell by 1.2% to 3.09 mb/d during May. The trend was mixed among products. Vacuum gasoil (VGO) exports jumped by more than 15% to 316 tb/d because of higher river supplies, but the increase through the river came at the expense of rail supplies to ports, which were down from the previous month. Gasoline exports rose by 4.6% as product stockpiled over the last few months was loaded. .Exports of jet fuel steadily increased over the past four months to 17 tb/d, mainly as a result of increased shipments from Tallinn. Naphtha increased as well to a level of 321 tb/d from the previous months, driven by rising exports from the terminals at Kaliningrad, Arkhangelsk and Murmansk. In contrast, gasoil exports fell 7.1%, due to higher domestic demand in Russia. In addition, maintenance at refineries in Ryazan, Yaroslavl, Achinsk, Samara and Ufa in April and early May undermined production. Fuel oil exports fell slightly by 2.7%.

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

	2009	2010	3Q10	4Q10	1Q11	Apr 11	May 11*
Crude							
Russian pipeline							
Black Sea	1,201	994	1,038	933	970	890	953
Baltic	1,577	1,564	1,530	1,569	1,445	1,698	1,504
Druzhba	1,112	1,126	1,155	1,136	1,140	1,142	1,110
Kozmino	0	309	320	336	294	319	308
Total	**3,922**	**4,005**	**4,043**	**4,018**	**4,155**	**4,362**	**4,168**
Other routes							
Russian rail	280	330	331	280	197	187	100
Russian-Far East	283	276	204	313	299	303	297
Kazakh rail	18	1	6	0	0	167	84
Vadandey	155	152	150	127	111	105	85
Kaliningrad	0	24	24	24	23	24	23
CPC	736	743	755	749	737	705	629
BTC	805	775	812	796	710	791	697
Kenkiyak-Alashankou	157	204	205	204	230	234	236
Caspian	281	239	195	197	183	196	141
Total crude exports	**6,653**	**6,750**	**6,726**	**6,759**	**6,646**	**6,907**	**6,375**
Products							
Gasoline	221	152	127	124	205	241	252
Naphtha	269	275	289	245	285	316	321
Jet	47	20	23	15	7	16	17
Gasoil	948	878	822	824	896	848	788
Fuel oil	1,116	1,235	1,331	1,225	1,178	1,433	1,395
VGO	235	242	232	218	179	274	316
Total	**2,837**	**2,801**	**2,824**	**2,651**	**2,750**	**3,127**	**3,089**
Total oil exports	**9,490**	**9,551**	**9,550**	**9,410**	**9,396**	**10,034**	**9,464**

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

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

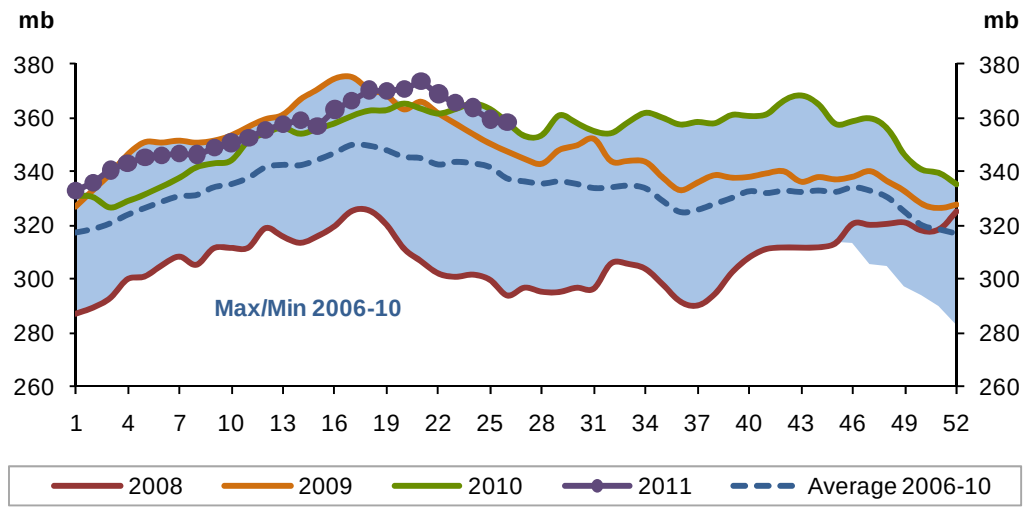
Stock Movements

US commercial oil stocks continued their build in June

US

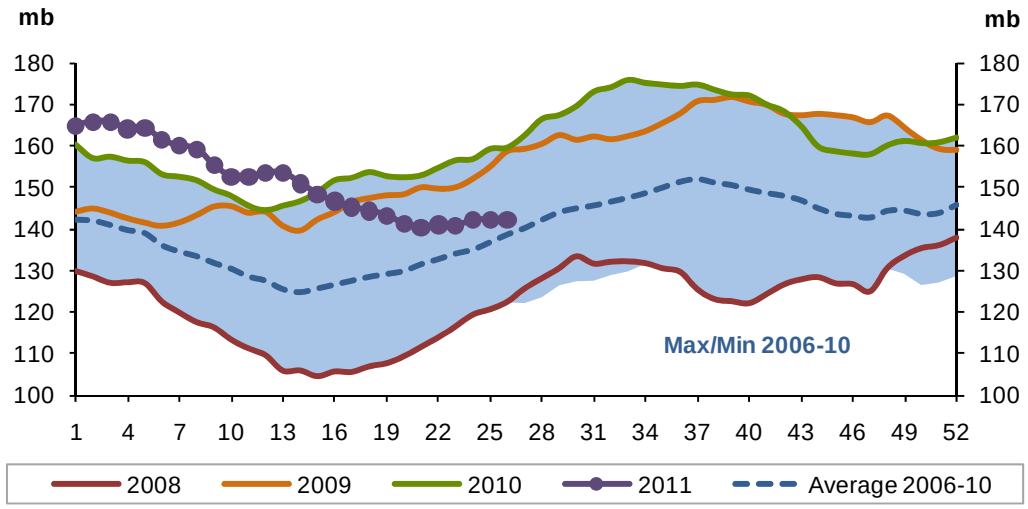
At end of June, US commercial oil inventories continued the seasonal build observed during the last two months and increased by 4.1 mb to end the month at 1,065.6 mb. The build was attributed to products as they increased by 19.4 mb, while the draw in US commercial crude abated the build as they declined by 15.2 mb. Despite this build, total US commercial oil inventories remained at 46.5 mb or 54.2% below last year at the same period, while the surplus with the five-year average stood at 7.1 mb or 0.7%.

Graph 9.1: US weekly commercial crude oil inventories



After reaching the highest level ever in May since 1990, US crude commercial stocks fell in June for the first time since the end of last year to 358.6 mb. Despite this draw, US commercial crude oil stocks still indicated a surplus of 19.3 mb or 5.7% with the five-year average. However, this draw has resulted in a deficit with last year of 4.1 mb from a surplus observed a month ago. This draw came back solely from the increase in crude runs as they went up by around 640,000 b/d in June when compared with the previous month. However, they are slightly higher than a year ago at the same period. At 15.2 mb/d, refineries operated at 88.0% from their operable capacity, 3.7 percentage points higher than the previous month. The increase in US crude oil imports, which averaged 9.1 mb/d in June, has limited the recent fall in US commercial crude oil stocks, especially in the last week of the month when crude oil imports reached 9.8 mb/d, nearly a 1.0m b/d jump from last week, touching their highest level since last August. Cushing stocks fell a further 500,000 barrels at the end of the month; however they are expected to recover with rising Canadian imports and a recovery in North Dakota production. Looking forward, the picture should look less bullish as rising imports and the release of light sweet crude from SPR in coming weeks are likely to contribute to keeping crude fundamentals neutral.

Graph 9.2: US weekly gasoline stocks



On the product side, product stocks continued their build for the second consecutive month, increasing by 19.5 mb to end the month at 707.0 mb, the highest level since January 2011. Despite this build, US product inventories remained at 42.4 mb or 5.7% below a year ago at the same period and 12.3 mb or 1.7% less than the five-year average. With the exception of residual fuel, all products experienced a stock build, with the bulk coming from propylene and other unfinished products. Gasoline stocks rose slightly by 0.2 mb to end the month at 212.5 mb. With this build, the US gasoline deficit with last year narrowed to 1.1% from 1.6% a month earlier, while it remained almost in line with the seasonal trend. The slight increase in US gasoline stocks came despite heading into the peak of the driving season, indicating a bearish trend for the rest of the summer. Gasoline production averaged 9.4 mb/d in June, around 234,000 b/d higher than a month ago, offsetting the growth in demand which stands at 9.3 mb/d. During the week ending 1 July, US gasoline stocks dropped slightly by 0.6 mb. However, the drop would be more pronounced at the peak of the summer driving season. Distillate stocks increased by 2.0 mb, reversing the drop that has occurred since the beginning of this year. At 142.1 mb, distillate stocks stood at 15.8 mb or 10% below the five-year average, while they remained at 2.9 mb or 2.1% above the seasonal trend. This build could be attributed to the rise by 234,000 b/d in distillate output to an average of 4.4 mb/d. The depressed distillate demand also contributed to the build in distillate inventories. Indeed, during the month of June, distillate demand averaged 3.6 mb/d, almost 200,000 b/d less than a month earlier. In the coming weeks, distillates will remain relatively stable as refineries continue to produce for export, while demand is not expected to emerge in the summer period. Jet fuel oil saw an increase of 3.2 mb at the end of June to 43.3 mb, still indicating a deficit of 3.5% with last year, while they stood at 3.1% above the five-year average. Residual fuel stocks went down slightly by 0.2 mb to end the month at 37.8 mb. Residual fuel stocks stood at 10.7% below last year at the same period, and indicate a deficit of 5.2% with the seasonal norm.

Table 9.1: US onland commercial petroleum stocks, mb

	Apr 11	May 11	Jun 11	Change Jun 11/May 11	Jun 10
Crude oil	369.3	373.8	358.6	-15.2	362.7
Gasoline	204.7	212.3	212.5	0.2	214.8
Distillate fuel	142.9	140.1	142.1	2.0	157.9
Residual fuel oil	39.2	38.0	37.8	-0.2	42.3
Jet fuel	38.5	40.1	43.3	3.2	44.9
Total	**1049.5**	**1061.5**	**1065.6**	**4.1**	**1112.1**
SPR	726.5	726.5	726.5	0.0	726.6

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

Source: US Department of Energy's Energy Information Administration

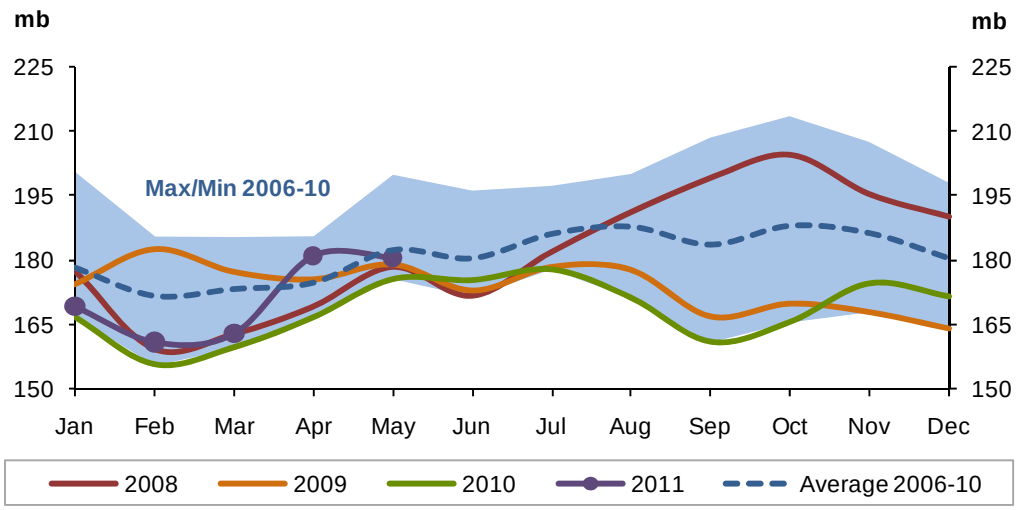
Japanese stocks declined by 0.7 mb in May, driven by products as crude saw a build

Japan

In May, commercial oil stocks in Japan reversed the large build that occurred last month and declined slightly by 0.7 mb to stand at 180.4 mb. With this draw, Japanese oil inventories have narrowed the surplus with a year ago to 2.7% from 8.6% a month earlier. At the same time, the surplus with the five-year average that occurred during the previous month has now switched to a deficit of 1.9 mb or 1.0%. Crude and products show a mixed picture as crude oil stocks rose by 1.7 mb, while total product inventories dropped by 2.3 mb.

Japanese crude oil stocks rose in May for the third consecutive month to stand at 106.7 mb, the highest level since December 2008. At this level, Japanese crude oil stocks remained at 5.6% above a year ago. However, they showed a deficit with the five-year average at 0.8 mb or 0.7%. The build in crude oil stocks in May came from very low refinery utilization rates, which reached 62.8% or 7.8 percentage points lower than the previous month and 6.8% down from a year ago. This corresponds to a crude throughput of 2.9 mb/d, around 350 tb/d or 11% lower than the previous month and 13% below last year at the same period. The fall in crude oil imports has limited the build in crude oil stocks. Indeed, crude oil imports in May fell by almost 0.5 mb/d to average 2.9 mb/d. At this level, Japanese crude oil imports stood 11% below last year's level. The ongoing refinery shutdowns after the quake led to a substantial reduction in crude oil imports.

Graph 9.3: Japan's commercial oil stocks



In contrast to the build in crude oil, total product inventories dropped in May after a significant build last month to stand at 73.7 mb. This stock draw left total products in May at a deficit of 1% versus a year ago, after showing a surplus last month. The surplus with the last five-year average incurred last month has also switched to a deficit of 1.1%.The fall in product inventories could be attributed mainly to the decline in refinery output outpacing the fall in total product sales. Indeed, refinery output dropped by 6% in May from the previous month, averaging 2.7 mb/d, 10.5% less than a year ago at the same time.

The massive earthquake and tsunami on March 11 disrupted refinery operations and battered economic activity in the world's third-biggest oil consuming country. As a result, Japanese oil product sales continued to fall and declined in May by 6.0% from a month earlier to stand at 2.8% below last year at the same time. All products saw a drop, with the exception of distillates. Within the components of distillates, jet fuel and kerosene stocks rose by 10.3% and 14.3%, respectively, while gasoil stocks increased by 7.6%. The build in jet fuel stocks could be attributed to the rise of 22% in output combined with the fall of domestic sales by almost 27%. The build in kerosene is due solely to the decline by almost half in domestic sales. The rise in gasoil stocks also came as domestic sales went down by 6.0%, combined with the increase in gasoil production by 6.2%. At 32.8 mb, distillate stocks stood at comfortable levels, 15% above a year ago at the same time and 10.8% more than the seasonal average. Gasoline stocks fell 1.5 mb to end the month at 13.4 mb, reversing the build that occurred last month and showing

a deficit of 14.4% with a year ago and 8.1% with the five-year average. The stock draw in gasoline is attributed mainly to the increase in domestic sales, which dropped by 9.0%. Higher imports limited the fall in gasoline stocks. Residual fuel oil stocks also went down by 1.0 mb, after two consecutive months of increase. At 17.1 mb, residual fuel oil stocks stood at 3.6% below a year ago and 9.9% less than the seasonal trend. Within the components of fuel oil, fuel oil A inventories saw a build of 10%, while fuel oil B.C experienced a drop of 5.4%. Naphtha saw the highest stock draw, declining by 3.1 mb and ending the month at 10.3 mb. With this draw, naphtha stocks switched the surplus incurred last month to a deficit of 18% with a year ago over the same period.

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

	Mar 11	Apr 11	May 11	Change May 11/Apr 11	May 10
Crude oil	97.9	105.0	106.7	1.7	101.1
Gasoline	12.7	14.9	13.4	-1.5	15.7
Naphtha	11.9	13.4	10.3	-3.1	12.6
Middle distillates	25.1	29.6	32.8	3.2	28.5
Residual fuel oil	15.4	18.1	17.1	-1.0	17.8
Total products	65.0	76.0	73.7	-2.3	74.6
Total**	**162.9**	**181.1**	**180.4**	**-0.7**	**175.7**

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

Singapore and Amsterdam-Rotterdam-Antwerp (ARA)

Product stocks in Singapore declined in May after three consecutive builds

At the end of May, product stocks in Singapore reversed the upward trend incurred over the last three months and declined by 1.2 mb to stand at 43.2 mb. Despite this draw, product stocks remained at 0.5 mb or 1.2% above a year ago at the same time. Within products, the picture was mixed. Fuel oil and light distillates saw a drop of 2.2 mb and 0.8 mb, respectively, while middle distillate stocks rose by 1.9 mb. At 12.6 mb, middle distillate stocks stood at 1.5 mb or 13.6% above a year ago at the same time. Higher gasoil imports from India and Singapore were behind the build in stocks, However, distillate stocks in Singapore could decline in the coming weeks on the back of tighter supply from China, due to power shortages and the peak summer season, which likely requires more use of gasoil. Fuel oil stocks saw a decline in May, putting them at 20.4 mb, and representing a deficit of 3.3% with last year over the same period. This stock draw could be attributed to reduced imports. However, the level above 20 mb could be considered a comfortable level, as a result of a higher western influx during the last months. Light distillate inventories also declined for the second consecutive month to end the month at 10.3 mb, remaining at 2.7% below a year ago over the same period. This trend is expected to continue as more gasoline exports from Singapore are required to meet the shutdown of the 130,000 b/d Dung Quat refinery.

Product stocks in ARA fell further in May for the second consecutive month

Product stocks in ARA in May dropped for the second consecutive month as they declined by 3.2 mb to stand at 36.1 mb. With this draw, they switched their surplus with a year ago last month to a deficit of 3.8%. Within products, with the exception of naphtha, all products saw a drop, with the bulk coming from gasoline. Indeed, gasoline stocks fell by 1.4 mb to stand at 5.0 mb, almost 40% less than a year ago at the same time. This stock draw could be attributed to higher gasoline imports to the US amid the driving season. Gasoil inventories also declined by 0.9 mb to end the month at 21.1 mb. But despite this drop, they remained at comfortable levels, indicating a surplus of 19% with a year ago. The fall in gasoil stocks could be attributed to a reduction in demand, mainly from heating oil. Fuel oil stocks fell slightly by 0.1 mb to finish the month at 5.3 mb, but they remained almost 19% higher than a year ago at the same time. However, the latest indication for the month of June shows a build in fuel oil stocks surpassing 6.0 mb, driven by higher deliveries, especially from Russia. Naphtha stocks went up by 0.4 mb to stand at 0.8 mb, driven by incoming cargoes from Russia. With this build, naphtha stocks remained well above a year ago at the same time.

Balance of Supply and Demand

Required OPEC crude for 2011 estimated at 30.0 mb/d, up 0.4 mb/d from last year

Estimate for 2011

Demand for OPEC crude for 2011 has been revised up by 0.1 mb/d to currently stand at 30.0 mb/d. This reflects an upward revision in world oil demand as well as a slight downward revision in non-OPEC supply. On a quarterly basis, with the exception of the first quarter which remained unchanged, all other quarters saw an upward revision of around 0.1 mb/d. The demand for OPEC crude represents an increase of 0.4 mb/d from the previous year. The first quarter shows growth of 0.7 mb/d, followed by an increase of 0.2 mb/d in the second and third quarters, while the fourth quarter is expected to see positive growth of around 0.3 mb/d.

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

	2010	1Q11	2Q11	3Q11	4Q11	2011
(a) World oil demand	**86.82**	**87.48**	**86.64**	**89.15**	**89.43**	**88.18**
Non-OPEC supply	52.27	52.89	52.55	52.78	53.32	52.89
OPEC NGLs and non-conventionals	4.90	5.12	5.26	5.37	5.42	5.29
(b) Total supply excluding OPEC crude	**57.17**	**58.01**	**57.80**	**58.15**	**58.74**	**58.18**
Difference (a-b)	**29.65**	**29.47**	**28.83**	**31.00**	**30.69**	**30.00**
OPEC crude oil production	29.26	29.63	29.16			
Balance	-0.39	0.15	0.33			

Totals may not add up due to independent rounding

Demand for OPEC crude in 2012 forecast at 30.3 mb/d, 0.3 mb/d higher than in the current year

Forecast for 2012

Based on the initial forecast for demand and non-OPEC supply (including OPEC NGLs and non-conventional oil) for the year 2012, the demand for OPEC crude for next year is projected to increase for two consecutive years by 0.3 mb/d to average 30.3 mb/d, All quarters are expected to see an increase, with the bulk of the growth expected in the first and the fourth quarters on gains of 0.4 mb/d each.

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

	2011	1Q12	2Q12	3Q12	4Q12	2012
(a) World oil demand	**88.18**	**88.93**	**87.90**	**90.49**	**90.67**	**89.50**
Non-OPEC supply	52.89	53.60	53.39	53.45	53.84	53.57
OPEC NGLs and non-conventionals	5.29	5.50	5.61	5.71	5.79	5.65
(b) Total supply excluding OPEC crude	**58.18**	**59.09**	**59.00**	**59.16**	**59.63**	**59.22**
Difference (a-b)	**30.00**	**29.83**	**28.90**	**31.33**	**31.04**	**30.28**

Totals may not add up due to independent rounding

Graph 10.1: Balance of supply and demand

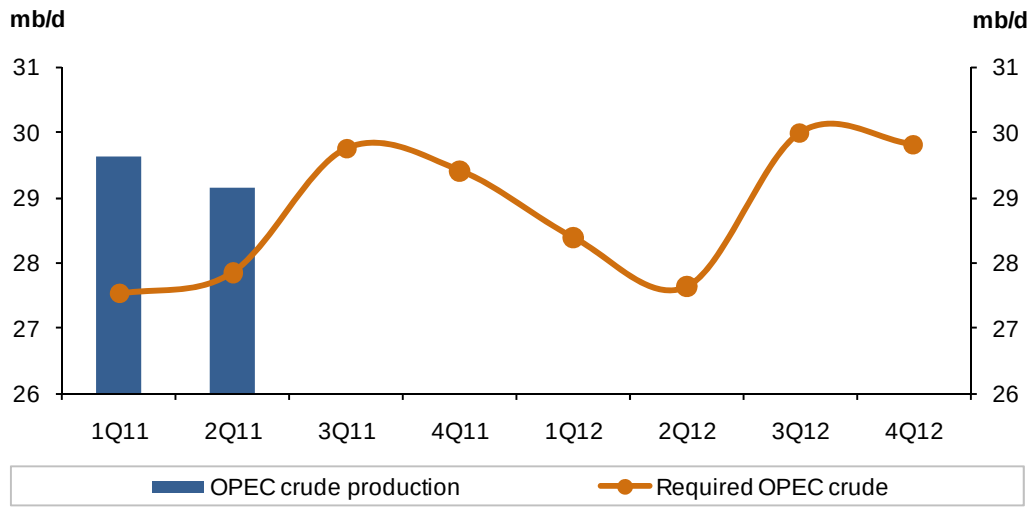


Table 10.3: World oil demand/supply balance, mb/d

	2006	2007	2008	2009	2010	1Q11	2Q11	3Q11	4Q11	2011	1Q12	2Q12	3Q12	4Q12	2012
World demand															
OECD	49.6	49.3	47.6	45.6	46.1	46.5	44.9	46.6	46.8	46.2	46.6	45.0	46.6	46.8	46.2
North America	25.4	25.5	24.2	23.3	23.9	24.0	23.7	24.3	24.2	24.1	24.2	23.8	24.5	24.3	24.2
Western Europe	15.7	15.4	15.3	14.7	14.5	14.2	14.0	14.7	14.6	14.4	14.2	13.9	14.6	14.5	14.3
Pacific	8.5	8.4	8.0	7.7	7.8	8.3	7.2	7.6	8.0	7.8	8.2	7.2	7.5	7.9	7.7
DCs	23.6	24.7	25.6	26.1	26.9	27.1	27.4	27.7	27.8	27.5	27.8	28.0	28.4	28.4	28.2
FSU	4.0	4.0	4.1	4.0	4.1	4.1	3.9	4.4	4.5	4.2	4.2	4.0	4.5	4.6	4.3
Other Europe	0.9	0.8	0.8	0.7	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.6	0.7	0.7	0.7
China	7.2	7.6	8.0	8.3	9.0	9.1	9.7	9.8	9.6	9.6	9.7	10.2	10.3	10.1	10.1
(a) Total world demand	85.2	86.5	85.9	84.7	86.8	87.5	86.6	89.1	89.4	88.2	88.9	87.9	90.5	90.7	89.5
Non-OPEC supply															
OECD	20.1	20.0	19.5	19.7	19.9	20.1	20.0	19.8	20.1	20.0	20.1	20.0	19.9	20.2	20.0
North America	14.2	14.3	13.9	14.4	15.0	15.3	15.3	15.1	15.2	15.2	15.3	15.3	15.4	15.5	15.4
Western Europe	5.3	5.2	4.9	4.7	4.4	4.3	4.1	4.1	4.2	4.2	4.2	4.0	3.9	4.1	4.1
Pacific	0.6	0.6	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
DCs	11.9	11.9	12.2	12.4	12.7	12.9	12.8	13.1	13.3	13.0	13.4	13.4	13.5	13.5	13.4
FSU	12.0	12.5	12.6	13.0	13.2	13.3	13.3	13.3	13.4	13.4	13.5	13.4	13.5	13.5	13.5
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	0.2	0.1
China	3.7	3.8	3.8	3.9	4.1	4.2	4.2	4.2	4.3	4.2	4.3	4.3	4.3	4.3	4.3
Processing gains	2.0	2.0	2.0	2.0	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	52.9	52.5	52.8	53.3	52.9	53.6	53.4	53.5	53.8	53.6
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	55.5	57.2	58.0	57.8	58.1	58.7	58.2	59.1	59.0	59.2	59.6	59.2
OPEC crude oil production (secondary sources)	30.6	30.2	31.3	28.8	29.3	29.6	29.2								
Total supply	84.3	84.6	85.7	84.3	86.4	87.6	87.0								
Balance (stock change and miscellaneous)	-0.9	-1.9	-0.3	-0.4	-0.4	0.2	0.3								
OECD closing stock levels (mb)															
Commercial	2656	2555	2679	2641	2664	2633									
SPR	1499	1524	1527	1564	1561	1558									
Total	4154	4079	4206	4205	4225	4191									
Oil-on-water	919	948	969	919	871	891									
Days of forward consumption in OECD															
Commercial onland stocks	54	54	59	57	58	59									
SPR	30	32	33	34	34	35									
Total	84	86	92	91	91	93									
Memo items															
FSU net exports	8.0	8.5	8.5	9.0	9.1	9.2	9.4	9.0	9.0	9.1	9.3	9.4	9.0	9.0	9.2
(a) - (b)	31.5	32.1	31.5	29.2	29.6	29.5	28.8	31.0	30.7	30.0	29.8	28.9	31.3	31.0	30.3

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	-0.1	-0.1	-	-	-	-	-	-
North America	-	-	-	-	-	-	-0.1	-0.1	-0.1	-0.1	-	-	-	-	-
Western Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	0.1	0.1	0.1	-	-	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-
(a) Total world demand	-	-	-	-	-	0.1	-0.2	0.1	0.1	-	-	-	-	-	-
World demand growth	*0.03*	*0.02*	*-0.03*	*-0.02*	*0.05*	*0.07*	*-0.21*	*0.02*	*0.07*	*-0.01*	-	-	-	-	-
Non-OPEC supply															
OECD	-	-	-	-	-	0.1	0.1	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	0.1	0.1	-	-	-	-	-	-	-	-
Western Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-0.2	-	-	-0.1	-	-	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	0.1	-0.2	-	-	-	-	-	-	-	-
Total non-OPEC supply growth	-	-	-	*-0.01*	*0.02*	*0.07*	*-0.17*	-	*-0.05*	*-0.04*	-	-	-	-	-
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	0.1	-0.2	-	-0.1	-	-	-	-	-	-
OPEC crude oil production (secondary sources)	-	0.1	0.1	0.1	-	-									
Total supply	-	-	0.1	0.1	-	0.1									
Balance (stock change and miscellaneous)	-	-	-	0.1	-	-									
OECD closing stock levels (*mb*)															
Commercial	-	-	-	-	10	-									
SPR	-	-	-	-	-	-									
Total	-	-	-	-	10	-									
Oil-on-water	-	-	-	-	-	-									
Days of forward consumption in OECD															
Commercial onland stocks	-	-	-	-	-	-									
SPR	-	-	-	-	-	-									
Total	-	-	-	-	-	-									
Memo items															
FSU net exports	-	-	-	-	-	-	-0.1	-	-	-	9.3	9.4	9.0	9.0	9.2
(a) - (b)	-	-	-	-	-	-	-	0.1	0.2	0.1	29.8	28.9	31.3	31.0	30.3

* *This compares Table 10.3 in this issue of the MOMR with Table 10.3 in the June 2011 issue*
This table shows only where changes have occurred

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

	2003	2004	2005	2006	2007	2008	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
Closing stock levels *mb*																							
OECD onland commercial	2,507	2,532	2,576	2,656	2,555	2,679	2,582	2,643	2,629	2,555	2,553	2,585	2,642	2,679	2,732	2,745	2,763	2,641	2,658	2,753	2,747	2,664	2,633
North America	1,157	1,187	1,247	1,264	1,211	1,282	1,219	1,275	1,268	1,211	1,198	1,222	1,259	1,282	1,333	1,368	1,373	1,286	1,298	1,367	1,399	1,326	1,296
Western Europe	915	915	935	963	937	991	944	940	929	937	961	954	952	991	991	976	971	972	974	981	946	947	954
OECD Pacific	435	430	394	429	407	407	420	428	432	407	394	409	431	407	408	401	419	383	386	405	402	390	383
OECD SPR	1,411	1,450	1,487	1,499	1,524	1,527	1,507	1,506	1,520	1,524	1,529	1,526	1,522	1,527	1,547	1,561	1,564	1,564	1,567	1,562	1,549	1,561	1,558
North America	640	678	687	691	699	704	691	692	695	699	702	708	704	704	715	726	727	729	729	729	728	729	727
Western Europe	374	377	407	412	421	416	415	413	423	421	423	414	414	416	424	427	429	426	429	422	419	423	420
OECD Pacific	396	396	393	396	404	406	401	401	403	404	404	404	403	406	408	408	408	409	409	411	402	410	411
OECD total	3,918	3,982	4,063	4,154	4,079	4,206	4,090	4,150	4,149	4,079	4,083	4,111	4,164	4,206	4,279	4,306	4,327	4,205	4,225	4,315	4,296	4,225	4,191
Oil-on-water	882	905	954	919	948	969	916	891	917	948	935	925	885	969	899	899	869	919	919	897	926	871	891
Days of forward consumption in OECD																							
OECD onland commercial	51	51	52	54	54	59	53	54	53	52	54	55	56	57	61	61	60	57	59	59	59	57	59
North America	45	46	49	50	50	55	48	50	50	49	49	52	53	55	58	59	58	55	55	56	58	55	55
Western Europe	59	58	60	62	61	68	63	60	59	61	64	61	62	66	69	67	66	69	69	66	64	67	68
OECD Pacific	51	50	47	51	51	53	53	54	49	46	50	54	54	50	56	55	52	47	53	53	50	47	53
OECD SPR	28	29	30	30	32	33	31	31	30	31	32	33	32	33	35	35	34	34	35	33	33	34	35
North America	25	26	27	27	29	30	27	27	27	28	29	30	29	30	31	31	31	31	31	30	30	30	31
Western Europe	24	24	26	27	27	28	28	27	27	27	28	27	27	28	29	29	29	30	30	29	29	30	30
OECD Pacific	46	46	46	47	50	53	51	51	46	45	52	54	51	50	56	56	51	50	56	54	50	49	57
OECD total	79	80	82	84	86	92	85	85	83	83	86	88	88	90	96	95	94	92	93	92	92	91	93

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	8.44	8.52	8.60	8.84	8.60	0.46	8.77	8.79	8.72	8.73	8.75	0.15	8.77	8.79	8.82	8.91	8.82	0.07
Canada	3.20	3.31	3.27	3.25	-0.02	3.28	3.37	3.38	3.54	3.39	0.14	3.57	3.51	3.51	3.60	3.55	0.15	3.63	3.67	3.70	3.74	3.68	0.14
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	2.90	2.92	2.94	-0.02	2.90	2.85	2.86	2.83	2.86	-0.08
North America	14.24	14.26	13.94	14.37	0.43	14.71	14.86	14.92	15.31	14.95	0.58	15.31	15.26	15.13	15.25	15.24	0.28	15.30	15.32	15.37	15.47	15.37	0.13
Norway	2.78	2.56	2.47	2.36	-0.11	2.32	2.12	1.93	2.17	2.14	-0.22	2.14	2.00	1.95	2.05	2.04	-0.10	2.03	1.94	1.88	1.97	1.95	-0.08
UK	1.71	1.69	1.57	1.48	-0.09	1.52	1.40	1.20	1.35	1.37	-0.11	1.27	1.23	1.28	1.31	1.27	-0.09	1.30	1.22	1.17	1.26	1.24	-0.03
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	0.21	0.22	0.23	-0.02	0.22	0.21	0.20	0.20	0.21	-0.02
Other Western Europe	0.51	0.62	0.62	0.63	0.01	0.62	0.64	0.65	0.63	0.64	0.01	0.67	0.66	0.65	0.65	0.66	0.02	0.65	0.65	0.66	0.66	0.65	0.00
Western Europe	5.34	5.17	4.94	4.73	-0.21	4.71	4.41	4.02	4.42	4.39	-0.34	4.31	4.15	4.08	4.23	4.19	-0.19	4.20	4.03	3.91	4.08	4.05	-0.14
Australia	0.51	0.53	0.53	0.54	0.01	0.52	0.51	0.51	0.48	0.50	-0.04	0.42	0.49	0.51	0.50	0.48	-0.02	0.53	0.55	0.55	0.52	0.54	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	0.10	0.09	0.08	0.09	-0.01	0.08	0.08	0.08	0.08	0.08	-0.01
OECD Pacific	0.56	0.60	0.63	0.64	0.01	0.62	0.60	0.60	0.58	0.60	-0.04	0.52	0.59	0.60	0.59	0.57	-0.03	0.61	0.63	0.63	0.60	0.62	0.04
Total OECD	20.14	20.04	19.51	19.73	0.23	20.04	19.87	19.55	20.30	19.94	0.21	20.14	19.99	19.82	20.07	20.00	0.06	20.11	19.98	19.91	20.15	20.04	0.03
Brunei	0.22	0.19	0.17	0.17	0.00	0.18	0.16	0.17	0.18	0.17	0.00	0.18	0.18	0.17	0.17	0.18	0.00	0.17	0.17	0.17	0.17	0.17	0.00
India	0.78	0.80	0.80	0.78	-0.02	0.82	0.83	0.88	0.90	0.86	0.08	0.91	0.92	0.92	0.93	0.92	0.06	0.93	0.93	0.94	0.94	0.93	0.01
Indonesia	1.07	1.02	1.05	1.03	-0.02	1.03	1.05	1.03	1.01	1.03	0.00	1.01	1.02	0.98	0.97	1.00	-0.03	0.97	0.97	0.97	0.96	0.97	-0.03
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	0.66	0.66	0.65	0.66	-0.04	0.64	0.63	0.62	0.61	0.63	-0.04
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	0.36	0.34	0.34	0.35	0.00	0.34	0.34	0.34	0.34	0.34	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	0.38	0.40	0.36	0.01	0.41	0.42	0.43	0.44	0.42	0.06
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	0.25	0.25	0.24	0.01	0.26	0.26	0.28	0.29	0.27	0.03
Other Asia	3.78	3.70	3.73	3.69	-0.03	3.67	3.67	3.71	3.71	3.69	0.00	3.70	3.69	3.70	3.72	3.70	0.01	3.73	3.73	3.74	3.75	3.74	0.03
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	0.69	0.73	0.73	0.73	-0.02	0.73	0.72	0.71	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	2.72	2.73	2.87	2.95	2.82	0.16	2.97	2.97	3.03	3.05	3.01	0.19
Colombia	0.54	0.54	0.60	0.68	0.09	0.77	0.79	0.80	0.83	0.80	0.11	0.88	0.93	0.92	0.95	0.92	0.12	0.96	0.98	0.99	1.01	0.99	0.07
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	0.14	0.14	-0.01	0.14	0.14	0.15	0.15	0.14	0.01
L. America others	0.26	0.28	0.28	0.30	0.02	0.31	0.31	0.32	0.32	0.31	0.01	0.31	0.31	0.33	0.34	0.32	0.01	0.34	0.34	0.34	0.34	0.34	0.01
Latin America	3.87	3.97	4.20	4.40	0.20	4.61	4.69	4.68	4.70	4.67	0.26	4.81	4.79	4.98	5.11	4.92	0.26	5.14	5.15	5.22	5.25	5.19	0.26
Bahrain	0.21	0.21	0.21	0.21	0.00	0.21	0.20	0.20	0.20	0.20	0.00	0.21	0.21	0.21	0.21	0.21	0.01	0.22	0.22	0.22	0.22	0.22	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	0.90	0.93	0.94	0.92	0.05	0.95	0.95	0.96	0.97	0.96	0.04
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	0.39	0.39	0.40	-0.02	0.39	0.39	0.38	0.37	0.38	-0.02
Yemen	0.37	0.33	0.30	0.30	0.00	0.30	0.29	0.28	0.27	0.29	-0.02	0.26	0.13	0.22	0.22	0.21	-0.08	0.26	0.26	0.26	0.25	0.26	0.05
Middle East	1.76	1.66	1.68	1.73	0.05	1.78	1.77	1.77	1.77	1.77	0.04	1.78	1.66	1.75	1.77	1.74	-0.03	1.82	1.82	1.82	1.82	1.82	0.08
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	0.31	0.31	0.30	0.00	0.31	0.30	0.30	0.29	0.30	0.00
Egypt	0.66	0.66	0.69	0.71	0.01	0.71	0.72	0.73	0.73	0.72	0.01	0.72	0.72	0.72	0.71	0.72	-0.01	0.71	0.70	0.70	0.70	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	0.26	0.26	0.26	0.01	0.26	0.26	0.26	0.26	0.26	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	0.44	0.45	0.44	0.45	-0.02	0.44	0.43	0.43	0.42	0.43	-0.02
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	0.32	0.33	0.36	0.32	0.09	0.38	0.38	0.39	0.39	0.39	0.07
Africa	2.51	2.60	2.62	2.61	-0.01	2.60	2.59	2.62	2.59	2.60	-0.01	2.63	2.62	2.69	2.70	2.66	0.06	2.71	2.70	2.70	2.69	2.70	0.04
Total DCs	11.92	11.94	12.23	12.45	0.22	12.66	12.72	12.78	12.77	12.73	0.29	12.92	12.77	13.13	13.30	13.03	0.30	13.40	13.39	13.47	13.51	13.44	0.41
FSU	12.02	12.53	12.60	12.96	0.36	13.16	13.20	13.21	13.33	13.22	0.27	13.34	13.33	13.33	13.42	13.36	0.13	13.47	13.43	13.47	13.54	13.48	0.12
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	10.16	10.17	10.19	0.05	10.20	10.22	10.24	10.25	10.23	0.03
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	1.61	1.65	1.71	1.66	0.06	1.72	1.68	1.70	1.73	1.71	0.05
Azerbaijan	0.65	0.87	0.94	1.06	0.12	1.05	1.10	1.10	1.03	1.07	0.01	1.03	1.04	1.10	1.11	1.07	0.00	1.13	1.10	1.10	1.12	1.11	0.05
FSU others	0.42	0.44	0.46	0.44	-0.02	0.42	0.42	0.41	0.42	0.42	-0.02	0.44	0.45	0.43	0.43	0.44	0.02	0.43	0.43	0.43	0.43	0.43	-0.01
Other Europe	0.15	0.15	0.15	0.14	-0.01	0.14	0.14	0.13	0.13	0.13	0.00	0.14	0.14	0.14	0.14	0.14	0.00	0.14	0.15	0.15	0.15	0.15	0.01
China	3.69	3.77	3.84	3.85	0.01	4.02	4.09	4.17	4.25	4.14	0.28	4.22	4.19	4.23	4.27	4.23	0.09	4.28	4.25	4.26	4.31	4.28	0.05
Non-OPEC production	47.93	48.43	48.31	49.12	0.81	50.03	50.02	49.84	50.78	50.17	1.04	50.76	50.42	50.65	51.19	50.76	0.59	51.41	51.20	51.26	51.65	51.38	0.62
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	49.89	50.42	50.28	51.12	0.84	52.13	52.12	51.94	52.88	52.27	1.14	52.89	52.55	52.78	53.32	52.89	0.62	53.60	53.39	53.45	53.84	53.57	0.68
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)	53.78	54.37	54.42	55.47	1.05	56.78	56.92	57.09	57.87	57.17	1.70	58.01	57.80	58.15	58.74	58.18	1.01	59.09	59.00	59.16	59.63	59.22	1.04

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

Table 10.7: World Rig Count

	2006	Change 06/05	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	May	Jun	Jun/May
US	1,647	267	1,767	119	1,770	1,864	1,978	1,898	1,877	111	1,326	936	956	1,108	1,081	-796	1,345	1508	1622	1687	1541	459	1717	1829	1836	1863	27
Canada	470	12	344	-126	507	169	432	408	379	35	328	91	177	277	218	-161	470	166	364	389	347	129	587	188	144	236	92
Mexico	83	-24	92	9	96	106	103	106	103	11	128	128	135	123	128	26	118	106	84	80	97	-31	83	87	85	95	10
North America	2,200	255	2,202	2	2,373	2,139	2,513	2,411	2,359	157	1,782	1,154	1,267	1,508	1,428	-931	1,933	1780	2070	2156	1985	557	2386	2104	2065	2194	129
Norway	17	0	18	1	17	21	21	21	20	2	25	18	18	20	20	0	21	18	13	20	18	-2	21	17	17	16	-1
UK	27	5	26	-1	19	21	24	24	22	-4	22	19	16	15	18	-4	15	20	21	21	19	1	18	17	20	12	-8
Western Europe	77	7	78	0	91	97	101	103	98	20	90	82	76	85	83	-15	87	96	92	100	94	11	118	112	110	113	3
OECD Pacific	26	2	29	2	32	39	39	34	36	7	27	25	26	23	25	-11	22	18	23	22	21	-4	17	17	15	18	3
Total OECD	2,347	269	2,352	4	2,532	2,317	2,698	2,593	2,535	183	1,945	1,299	1,368	1,616	1,557	-978	2,042	1893	2185	2278	2100	543	2521	2232	2190	2325	135
Other Asia	202	2	212	10	213	220	218	212	216	4	212	212	213	233	217	1	235	249	253	255	248	31	257	234	240	226	-14
Latin America	149	19	175	27	187	184	195	197	191	16	164	147	149	169	157	-34	183	203	220	213	205	48	222	231	230	244	14
Middle East	132	1	149	18	158	165	175	171	167	18	162	151	139	147	150	-18	152	150	163	159	156	6	163	160	163	160	-3
Africa	10	2	14	4	10	13	14	11	12	-2	8	11	9	12	10	-2	20	19	19	18	19	9	22	25	28	23	-5
Total DCs	493	25	551	58	569	583	602	591	586	36	546	520	510	561	534	-52	589	621	655	645	628	93	663	650	661	653	-8
Non-OPEC Rig Count	2,840	294	2,903	62	3,101	2,900	3,300	3,183	3,121	219	2,491	1,819	1,878	2,177	2,091	-1,030	2,632	2514	2840	2924	2727	636	3184	2882	2851	2978	127
Algeria	24	4	27	2	26	27	24	26	26	-1	24	30	27	27	27	1	23	28	24	24	25	-2	29	33	35	31	-4
Angola	4	1	4	1	5	6	5	5	5	1	5	3	3	4	4	-1	10	8	9	9	9	5	7	6	6	7	1
Ecuador	11	0	11	-1	7	9	12	13	10	-1	10	10	10	10	10	0	11	11	11	11	11	1	11	13	14	14	0
Iran	44	4	50	6	50	50	50	51	50	0	51	52	52	52	52	2	52	52	52	52	52	0	52	35	52	0	-52
Iraq	0	0	0	0	29	29	29	29	29	29	36	36	36	36	36	7	36	36	36	36	36	0	36	24	36	0	-36
Kuwait	14	1	12	-1	12	11	12	12	12	0	12	11	14	13	13	0	19	18	21	23	20	8	30	33	31	33	2
Libya	10	1	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
Nigeria	10	1	8	-1	9	8	6	6	7	-1	7	6	6	7	6	-1	11	13	18	17	15	8	14	13	13	12	-1
Qatar	11	-1	13	2	11	12	11	11	11	-1	9	9	9	9	9	-2	8	8	9	9	9	0	10	8	9	7	-2
Saudi Arabia	65	28	77	11	78	77	76	76	77	0	72	67	67	66	68	-9	68	67	67	65	67	-1	62	67	67	67	0
UAE	16	0	15	-2	12	12	13	12	12	-2	13	12	13	12	12	0	13	13	13	13	13	1	17	21	22	22	0
Venezuela	81	13	76	-5	82	81	77	81	80	4	69	64	54	54	60	-20	66	64	70	80	70	10	94	86	81	85	4
OPEC Rig Count	290	51	305	16	336	337	330	336	335	29	322	314	302	305	311	-24	334	335	344	355	342	31	372	338	366	278	-88
Worldwide Rig Count*	3,130	345	3,208	78	3,438	3,237	3,630	3,519	3,456	248	2,813	2,133	2,180	2,483	2,402	-1,054	2,965	2849	3184	3278	3069	667	3556	3220	3217	3256	39
of which:																											
Oil	1,124	144	1,242	119	1,408	1,351	1,479	1490	1432	190	1283	1069	1182	1356	1,222	-210	1,590	1534	1783	1896	1701	479	2191	1986	1985	2026	41
Gas	1,947	201	1,903	-44	1,969	1,814	2,070	1948	1950	47	1450	993	965	1092	1,125	-825	1,333	1276	1356	1337	1325	200	1319	1187	1184	1181	-3
Others	17	-4	20	4	26	32	36	37	33	12	35	35	34	37	35	3	43	40	42	46	43	8	48	49	50	50	0

*/ *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

July 2011

OPEC Basket average price

US$ per barrel

⬇ down 90¢ in June	**June 2011**	**109.04**
	May 2011	109.94
	Year-to-date	106.72

May OPEC production

in million barrels per day, according to secondary sources

⬆ up 0.52 in June	**June 2011**	**29.60**
	May 2011	29.08

World economy

The forecast for global economic growth remains unchanged at 3.9%. For 2012, the world economy is expected to grow by 4.1%. The OECD is forecast to grow by 2.5%, compared with 2.1% this year. The developing countries are expected to moderate their current strong expansion, with China growing at 8.5% and India at 7.7%.

Supply and demand

in million barrels per day

2011		10/11
World demand	88.2	**1.4**
Non-OPEC supply	52.9	**0.6**
OPEC NGLs	5.3	**0.4**
Difference	**30.0**	**0.4**

2012		11/12
World demand	89.5	**1.3**
Non-OPEC supply	53.6	**0.7**
OPEC NGLs	5.7	**0.4**
Difference	**30.3**	**0.3**

Totals may not add due to independent rounding

Stocks

US commercial inventories rose a further 4.1 mb in June, with products increasing 19.4 mb, while crude declined 15.2 mb. US commercial stocks now stand at 7.1 mb over the five-year average. In Japan, the most recent data for May shows that commercial oil inventories in Japan declined slightly by 0.7 mb

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