OPEC

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

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Feature Article:
Challenges for the spring quarter

Helferstorferstrasse 17, A-1010 Vienna, Austria
Tel +43 1 21112   Fax +43 1 2164320   E-mail: prid@opec.org   Web site: www.opec.org

Oil Market Highlights

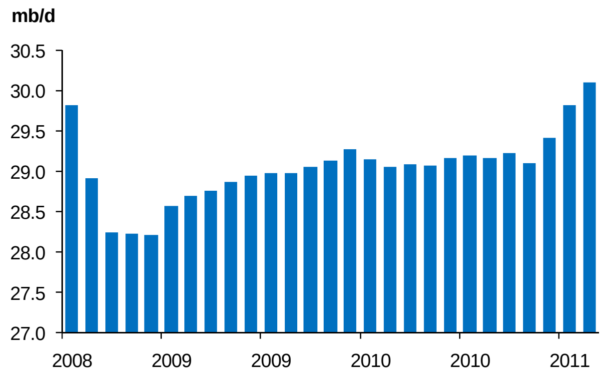
- The **OPEC Reference Basket** increased further in February, moving above $100/b on 21 February for the first time since September 2008. The upward movement in the Basket was supported by the strong performance of the futures market, which surged on supply fears and increased speculative activities. The Basket stood at $110.71/b on 10 March.
- **World economic growth** remains robust and continuing improvements have led to improved growth expectations for 2011, which have been adjusted 0.1% higher to 4.0%. The main reason for the upward revision is healthy growth in the developing countries. China's forecast has been increased from 8.8% to 9.0% and India from 8.0% to 8.1%. The forecast for the OECD remains unchanged at 2.3%, with the US at 2.9% and both the Euro-zone and Japan at 1.5%. Inflation is beginning to pose a challenge for policy makers in both the OECD and the developing countries. In the case of the OECD, this might lead to higher interest rates, which could increase the cost of servicing sovereign debt, while for developing countries the introduction of fiscal and monetary tools targeting overheating could result in a larger-than-expected decline in growth levels.
- **World oil demand** growth is estimated at 1.8 mb/d in 2010 and forecast at 1.4 mb/d in 2011, representing only minor upward adjustments from the previous report. Oil demand in the first quarter of this year was boosted by cold winter weather in the Northern Hemisphere. In the non-OECD, second quarter oil demand is expected to maintain its healthy level, achieving similar growth to that of the first quarter. While the colder-than-normal winter has strengthened oil demand, high oil prices could dampen consumption over the coming months if current price levels persist for an extended period. This effect would be felt both in the OECD and non-OECD countries.
- **Non-OPEC oil supply** is projected to increase by 0.5 mb/d in 2011, following growth of 1.1 mb/d in the previous year. The 2011 figure represents an upward adjustment of 0.1 mb/d from the previous assessment, mainly due to revisions to historical data as well as changes in the supply profile of some countries. OPEC NGLs and non-conventional oils are expected to average 5.3 mb/d in 2011, an increase of 0.5 mb/d over the previous year. In February, total OPEC crude oil production, according to secondary sources, increased by 110 tb/d to average 30.0 mb/d.
- The sustained momentum in the middle distillates market received further support from the industrial sector, contributing to stronger diesel demand across the globe. This offset the bearish sentiment in the top of the barrel and kept **product markets** healthy. Strong middle distillate demand, amid reduced refinery runs due to seasonal maintenance, is likely to continue to support refinery margins over the coming months.
- **Tanker market** sentiment strengthened, with spot freight rates increasing on most routes. The gains were backed by factors such as holidays in the Far East and weather conditions, and occurred despite higher bunker fuel prices and some refinery maintenance. OPEC fixtures decreased by 960 tb/d to average 11.9 mb/d, which corresponds to almost two thirds of global fixtures. OPEC sailings increased by 208 tb/d to 24.0 mb/d, according to preliminary estimates.
- **US commercial inventories** fell by around 23.8 mb in February, reversing the build seen last month. The stock draw was driven by the substantial drop in products, which declined by 27.0 mb, while crude inventories saw a build of 3.2 mb. US commercial oil stocks in February remained above the historical norm at 1051.1 mb. In Japan, the most recent data shows that commercial oil inventories declined by 2.4 mb in January, with crude seeing a draw of 2.6 mb while products experienced a slight build of 0.3 mb. Preliminary indications for February show that Japanese commercial oil stocks fell a further 8.2 mb.
- The **demand for OPEC crude** in 2010 is estimated at 29.3 mb/d, unchanged from the previous report and about 0.3 mb/d higher than the year before. In 2011, the demand for OPEC crude is expected to average 29.8 mb/d, unchanged from the previous assessment and an increase of around 0.5 mb/d over last year.

Challenges for the spring quarter

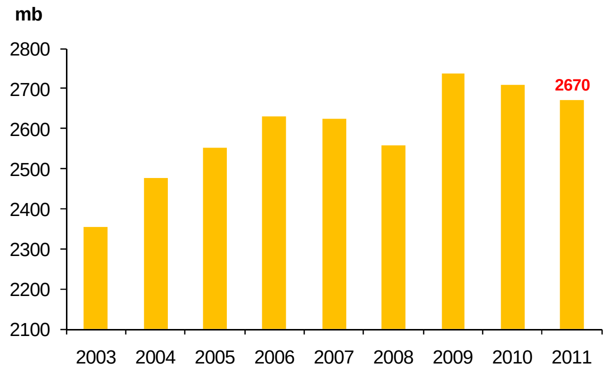
Events in the MENA region and the associated risk premium have pushed crude oil prices to the highest level since September 2008. In the futures markets, ICE Brent has so far moved above $115/b and WTI above $100/b. The surge in prices has impacted the forward structure of both benchmarks, with the ICE forward curve falling into backwardation and the contango structure of WTI narrowing to less than $2/b from almost $4/b the week before. The sharp volatility in oil prices, combined with fears of further disruptions, has led to a substantial inflow of investment funds into the paper oil market. As a result, speculator activity on the Nymex crude oil futures market, as reflected by managed money net long positions, surged to a record high of 268,622 contracts in the week ending 1 March, according to the latest available data.

Despite the recent unrest, the world economy has continued to enjoy a solid recovery. The more optimistic sentiment can be seen in the improvement in global PMI, as reported by JP Morgan, which moved above 57 in February, signalling an expansion for the current quarter. However, many uncertainties remain that could slow the current momentum. These include the recent surge in oil prices, which, if sustained for a long period, could impact growth in oil importing countries. In conjunction, resulting higher prices for industrial goods and technical services would negatively affect oil exporting countries. Additionally, the sovereign debt situation in the Euro-zone provides a challenge, while overheating in the emerging economies remains a potential uncertainty, particularly in China and India, along with the related problem of tackling higher inflation and the risk that policy makers might act too quickly.

Graph 1: OPEC crude oil production



Graph 2: February OECD commercial oil stocks



With the end of the winter season, the oil market is heading toward a period of lower demand. Prior to the recent recession, the seasonal shift from the first to the second quarter typically resulted in a decline in world oil demand of 1.6 mb/d. Despite a counter-seasonal increase last year, world oil demand in 2Q11 is expected to return to its normal trend, although with a lower contraction. For non-OPEC supply, the change from the first to the second quarter is expected to remain more or less in line with the seasonal norm. As a result, demand for OPEC crude in 2Q11 is expected at 28.7 mb/d, representing a decline of around 400 tb/d from the previous quarter. Based on reported OPEC production above 30 mb/d observed recently – the highest since December 2008 ***(Graph 1)* –** the build in global stocks is forecast at around 1 mb/d in the first half of this year.

The market could see a contra-seasonal draw in the second quarter of 2011, if the recent supply disruption were not offset by production increases. Additionally, this draw could be easily accommodated by reportedly high commercial oil inventories across the globe, particularly in the OECD countries. In fact, data for February 2011 shows OECD commercial stocks stood at near 2,700 mb, well above pre-recession levels, indicating sufficient inventories in OECD countries ***(Graph 2).*** In terms of days of forward cover, this level corresponds to about 58 days, significantly higher than the normal level of 53 days.

The impact of the disruption in North African crude oil exports will be mainly felt by European refineries. With utilization rates currently at low levels, refiners able to run available sour crudes could boost runs, while refineries based on North African crudes could look into switching to other grades if their configuration permits. Considering the availability of product stocks, refiners should have enough time over the maintenance season to adapt to any new requirements.

Despite the onset of the low seasonal demand period, recent disruptions may create some anxiety in the market, providing grounds for increased speculative activity. However, OPEC spare capacity, which has risen close to 6 mb/d over the last year, has always served as an effective market stabilizer ready to accommodate any sudden disruption. OPEC continues to closely monitor oil market developments and stands ready to act, as deemed necessary, to support market stability.

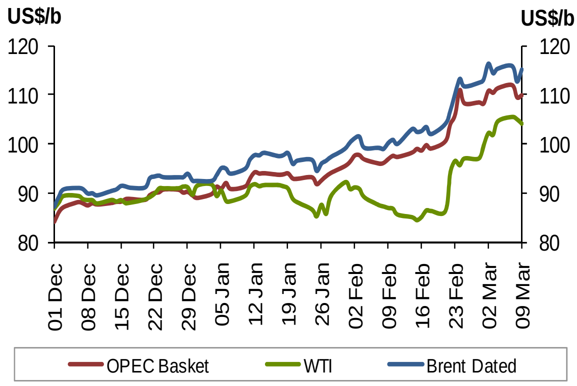
Crude Oil Price Movements

OPEC Basket moved beyond $100/b in February to reach a 2-½ year high

OPEC Reference Basket

The OPEC Reference Basket increased further in February and on 21 February moved above $100/b for the first time since the start of the financial crisis in September 2008. The upward movement in the Basket was supported by the strong performance of the futures market, attributed mainly to fears of a supply shortage due to the turmoil in North Africa.

Graph 1.1: Crude oil price movement



The Basket rose further over the following days as crude futures prices soared because of growing tensions in North Africa. As a result, the OPEC Basket moved above $111/b on 24 February, the highest since end-August 2008, but then eased slightly over the following days.

On a monthly basis, the OPEC Reference Basket increased for the seventh month in a row to average $100.29/b in February, the highest monthly level since the $112.41/b of August 2008. That corresponds to an increase of $7.46/b or 8% over the previous month. The Basket has followed an upward trend since last July, when the average stood at around $72.5/b. For the first two months of 2011, the OPEC Reference Basket averaged $96.47/b compared with $74.50 for the period of January-February 2010.

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

	Jan 11	Feb 11	Change Feb/Jan	Year-to-Date 2010	Year-to-Date 2011
OPEC Reference Basket	**92.83**	**100.29**	**7.46**	**74.50**	**96.47**
Arab Light	93.59	101.21	7.62	74.89	97.31
Basrah Light	92.33	99.52	7.19	74.00	95.83
Bonny Light	98.10	105.66	7.56	76.21	101.79
Es Sider	96.10	103.51	7.41	74.86	99.72
Girassol	96.18	104.42	8.24	75.37	100.20
Iran Heavy	92.22	99.29	7.07	74.13	95.67
Kuwait Export	91.45	98.75	7.30	73.98	95.01
Marine	92.69	100.18	7.49	75.49	96.34
Merey	80.09	87.51	7.42	69.87	83.71
Murban	95.04	102.75	7.71	76.70	98.80
Oriente	84.80	90.14	5.34	71.16	87.41
Saharan Blend	97.50	105.01	7.51	75.66	101.17
Other Crudes					
Minas	99.74	105.29	5.55	77.97	102.45
Dubai	92.33	99.93	7.60	75.05	96.03
Isthmus	90.46	94.56	4.10	75.08	92.46
T.J. Light	88.37	92.85	4.48	73.77	90.56
Brent	96.35	103.76	7.41	74.91	99.97
West Texas Intermediate	89.49	89.40	-0.09	77.32	89.44
Urals	93.56	101.49	7.93	74.46	97.43
Differentials					
WTI/Brent	-6.86	-14.36	-7.50	2.40	-10.52
Brent/Dubai	4.02	3.83	-0.19	-0.13	3.93

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

All Basket components increased, particularly North African and Middle Eastern grades. Brent-related crudes, Saharan Blend and Bonny Light averaged more than $105/b and remained the strongest grades, followed by Angolan Girassol which rose by 8.6% to $104.42/b. Some Middle Eastern crudes also moved above $100/b, such as Murban, Arab Light and Qatar Marine. Ecuador's Oriente showed the lowest increase of $5.34 or 6.3% but displayed a monthly average of more than $90/b, while Venezuelan crude averaged around $87.5/b, the lowest among Basket components.

The strength in Brent-related crudes was attributed to bullish market sentiment following unrest in North Africa and the continuous strength in Brent compared to other benchmarks.

In addition to fears of a supply shortage, Middle Eastern crudes were supported by robust Asian demand as well as very strong fuel oil and gasoil cracks, which encouraged refiners to secure more supply. Middle Eastern grades were also lifted by the strength of Oman on the Dubai Mercantile Exchange.

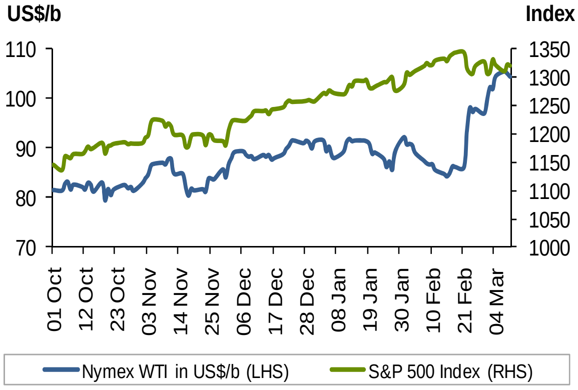
The OPEC Reference Basket remained strong in March, supported by supply fears and increased speculative activity. On 10 March, the Basket reached $110.71/b.

The oil futures market

US crude oil futures moved lower for most of February before spiking at the end of the month

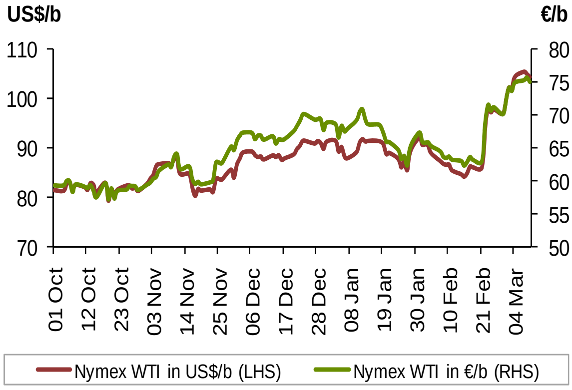
Crude oil futures markets were mixed in February. While ICE Brent prices continued the upward trend which started in July, Nymex WTI prices declined for most of the month, before surging in the last week on supply disruptions in some producing countries. On the Nymex, WTI front-month dropped $1.27/b to average 88.31/b in February whereas ICE Brent gained a further $6.72/b – the seventh increase in a row – to average $103.62/b, the highest since the $115.24/b of August 2008, ahead of the financial crisis. Compared to a year earlier, WTI was up 16% from February 2010 and ICE Brent was almost 39% higher than a year earlier.

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



WTI front-month moved within a range of $84-$90/b in the first three weeks of the month – most of the time staying at the lower end of the range – before surging above $97/b on 24 February. The weaker range of $84-90/b during the first three weeks was more reflective of fundamentals given abundant supply and high level of inventories, particularly at Cushing, Oklahoma, which put pressure on prices. To some extent, China's decision to raise required bank reserves to 19.5% to curb inflation also impacted sentiment and weighed on crude oil prices.

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

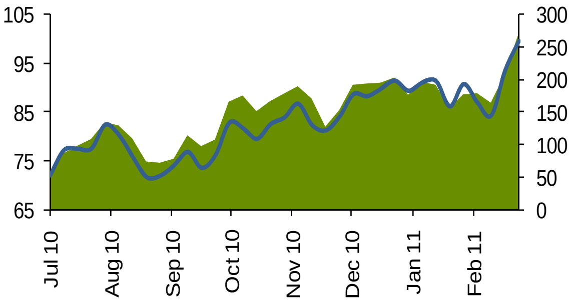


Similarly, ICE Brent traded within a narrow range of $90-100/b in the first three weeks before it jumped to more than $111/b. It is worth noting that the sudden strong increase, which took place during the last week of February, was driven by fears about an eventual shortage of supply, which was reflected in the volume of contracts traded. The strong performance of ICE Brent relative to Nymex WTI was also due to the similarity between Brent and the disrupted North African grades in terms of quality.

Crude oil futures prices kept their momentum in the first week of March when ICE Brent settled above $116/b and Nymex WTI moved above $102/b after disruptions in North African production. On 10 March, ICE Brent stood at $115.43/b and Nymex WTI at $102.70/b.

The turmoil in North Africa triggered a strong bullish sentiment among investors in the paper market. As a result, trading volume of ICE Brent hit a daily record high of more than 805,000 contracts on 23 February, a day when Brent jumped $5.47 or 5.2% to settle above $111/b. A new record high of almost 822,000 contracts was hit on 24 February. For the whole month, nearly 11 million ICE contracts – also a record high – were traded in February, implying a daily average of almost 585,000 contracts, up 37.6% from a month earlier. In contrast, Nymex activity was lower in February. For instance for the front-month, 6.1 million contracts were traded during February compared with 7.8 million contracts the month before. The day of 24 February saw the highest level of traded contracts that month at more than 507,000 contracts, still below the previous month's high of 585,000 contracts, which coincided with the unrest in Egypt.

Graph 1.4: Nymex WTI price vs. Speculative activity



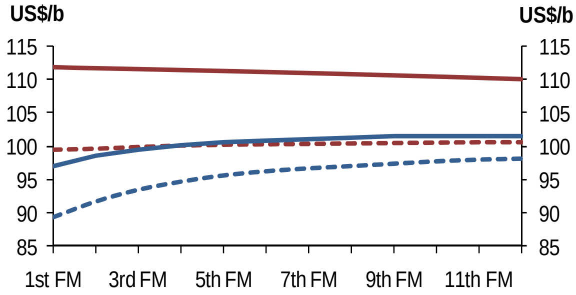
Betting on higher prices because of political tensions, speculators sharply increased their activity on the futures market in February. Money managers pushed net long crude oil futures on the Nymex higher by 26% in the week through 22 February to hit a new record of more than 206,000 contracts. In the same week, the Nymex WTI front-month gained more than $9/b.

The futures market structure

Nymex WTI remained in contango, while ICE Brent shifted to backwardation in the fourth week

Nymex WTI contango widened further in February as ample supply and high level of stocks continued to pressure the front month. The spread between the second and the first month more than doubled to average $2.95/b, the highest since February 2009. It is worth mentioning that the spread between the second and the first month averaged more than $3.2/b during the second and the third week of the month before it narrowed due to bullish sentiment from political tensions. The spread between forward months also widened but at a lower pace. For instance, the spread between the sixth and the first month rose by just 80% as the increase in the prices of WTI becomes stronger farther out on the curve. For example, while the front-month fell by $1.27, the price of the WTI second-month contract rose by 30¢ and the twelve-month contract gained $3.4/b. This situation explains the weakness of the prompt price, because of abundant supply, and the bullish sentiment for future prices, because of political tensions and their eventual impact on supply in the future.

Graph 1.5: Nymex WTI and ICE Brent forward curve



FM = future month

ICE Brent remained in contango for most of February before it shifted into backwardation on 23 February. However, for the whole month, the spread between the second and the first month averaged 21¢ compared with minus 11¢ in January. The inter-month spread was positive for the twelve first months, even though the curve was almost flat between the sixth and the twelfth month – an inter-month spread of just 4¢.

Starting from the 13th month, the spread moved into backwardation, but again very narrow.

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

Nymex WTI	1st FM	2nd FM	3rd FM	6th FM	12th FM
28 Jan 2011	89.34	91.68	93.43	96.19	98.06
28 Feb 2011	96.97	98.64	99.44	100.85	101.41

ICE Brent	1st FM	2nd FM	3rd FM	6th FM	12th FM
28 Jan 2011	99.42	99.57	99.83	100.25	100.56
28 Feb 2011	111.80	111.63	111.52	111.10	110.09

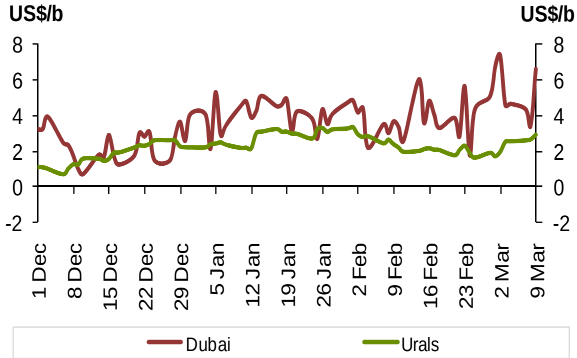
FM = future month

The sour/sweet crude spread

WTI weakened against heavy/sour crudes, while Urals and Dubai strengthened against Dated Brent

WTI continued to lose ground against medium and sour crudes in February as weaker WTI versus Brent tends to strengthen US Gulf Coast grades, which compete with imports priced against Brent.

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



WTI's discount to Mars widened to minus $10.95/b compared to a premium of around $2.90/b a year ago. WTI's discount to Mars reached as high as $14/b on 24 February.

WTI weakened even compared to Mexico's heavy/sour Maya crude. WTI's premium over Maya shrank to an average of $2.46/b, down from $7.63/b a month earlier.

Market concerns over supply gave more support to Russian Urals crude compared to Brent as refiners started looking for alternative crudes to replace North African crude. As a result, Brent's premium to Urals fell to $2.27/b, down 52¢ from January. The premium moved to an average of $1.9 in the week-ending 25 February following news that North African production was affected.

Not only Urals, but Dubai also strengthened relative to Brent amid concerns about supply shortage and continued strong demand from Asia. The Brent-Dubai spread narrowed from $4.02/b in January to $3.83/b in February.

Commodity Markets

Mixed performance in commodity prices in February

Trends in selected commodity markets

The World Bank (WB) energy index increased slightly by 4.2% m-o-m in February as a result of a strong decrease in coal and natural gas, as crude oil jumped driven by geopolitical risks. The non-energy commodity price index rose by 4.8% m-o-m in February compared to 5.8% in the previous month, driven by the slower growth in some agricultural and metal prices

Table 2.1: Commodity price data, 2010-2011

Commodity	*Monthly averages*			*% Change*		
	Dec 10	**Jan 11**	**Feb 11**	**Dec/Nov**	**Jan/Dec**	**Feb/Jan**
World Bank commodity price indices for low and middle income countries (2000 = 100)						
Energy	307.7	319.5	333.1	6.9	3.8	4.2
Coal, Australia	118.3	132.5	125.5	14.6	12.0	-5.3
Crude oil, average	90.0	92.7	97.9	6.5	3.0	5.6
Crude oil, Brent	91.8	96.3	104.0	7.2	4.9	8.0
Crude oil, WTI	89.1	89.4	89.5	5.8	0.3	0.1
Natural gas index	158.8	170.1	162.1	5.1	7.2	-4.7
Natural gas, US	4.2	4.5	4.1	13.7	6.0	-9.3
Non Energy	316.4	334.6	350.8	3.5	5.8	4.8
Agriculture	278.4	294.6	311.1	5.5	5.8	5.6
Beverages	277.4	289.6	312.9	4.8	4.4	8.1
Food	273.1	284.6	293.0	5.3	4.2	2.9
Soybean meal	433.0	451.0	444.0	0.9	4.2	-1.6
Soybean oil	1322.0	1374.0	1368.0	6.0	3.9	-0.4
Soybeans	547.0	572.0	572.0	4.0	4.6	0.0
Grains	271.8	281.0	300.5	6.2	3.4	7.0
Maize	250.4	264.9	292.9	5.1	5.8	10.5
Sorghum	221.6	246.3	253.2	9.0	11.2	2.8
Wheat, Canada	408.9	440.5	474.1	8.7	7.7	7.6
Wheat, US, HRW	306.5	326.6	348.1	11.8	6.5	6.6
Wheat, US, SRW	308.6	320.4	338.8	10.8	3.8	5.7
Sugar US	84.7	84.8	87.4	-1.1	0.1	3.1
Raw Materials	443.7	502.4	567.0	9.0	13.2	12.9
Fertilizers	339.8	347.8	346.8	2.1	2.4	-0.3
Base Metals	350.9	367.2	382.0	6.0	4.6	4.1
Aluminum	2350.7	2439.5	2508.2	0.8	3.8	2.8
Copper	9147.3	9555.7	9867.6	8.0	4.5	3.3
Iron ore	163.1	179.2	187.2	0.0	9.9	4.5
Lead	241.3	260.2	258.7	1.5	7.8	-0.6
Nickel	24111.2	25646.3	28252.3	5.2	6.4	10.2
Steel products index	233.5	240.9	245.5	0.0	3.2	1.9
Tin	2616.3	2746.5	3152.6	2.5	5.0	14.8
Zinc	228.1	237.2	246.5	-0.5	4.0	3.9
Precious Metals						
Gold	1390.6	1356.4	1372.7	1.5	-2.5	1.2
Silver	2937.4	2855.2	3085.8	10.5	-2.8	8.1

Source: World Bank, Commodity price data

Fears regarding global growth related to turmoil in the MENA region, exerted pressure on cyclical commodities. The last week of February saw some restraint in agriculture and industrial metal prices as a result of the current risk aversion environment. Concerns about inflation and the impact of higher oil prices, if sustained, added to the risk aversion sentiment in some commodity markets. Another source of concern was the decline of PMI in China to 52.2 from 52.9 in January.

The previous news contributed to create a general concern about a strong slowdown in Chinese commodity demand. Nevertheless, trade data for January revealed high imports from China across many commodities. In addition, manufacturing across many economies posted stronger growth in February, especially in PMI in the US, Euro-zone and Japan.

The **WB energy commodity price index** (crude oil, natural gas and coal) increased slightly by 4.2% m-o-m in February. Coal dropped by 5.3% m-o-m, while US Henry Hub natural gas sunk by 9.3% m-o-m.

Henry Hub (HH) natural gas prices plummeted by 9.3% m-o-m in February as temperatures turned milder and on weak fundamentals. The market remained in surplus with ample inventories.

The WB non-energy commodity price index rose by 4.8% m-o-m in February, a milder growth pace than in last January (5.8%). Both agricultural and basic metal prices saw slower growth, while precious metals performed the best.

Concerns over global growth weighed on basic metals in February

Industrial metal prices increased by 4.1% m-o-m in February. After having traded mainly sideways through much of January, base metal prices recovered to begin in bullish movement in February, supported by promising global economic indicators and supply disruption news across the complex. Nevertheless, in the second half of the month, a reverse in this trend took place due to political unrest in the MENA region. Aluminum prices outperformed as a result of rising oil prices and supply disruptions while copper and nickel underperformed, pricing in a shrinkage in basic metal demand. Base metal prices declined on 18 February in reaction to China's decision to raise the reverse reserve ratio by 50 base points on 24 February, but recovered later the same day.

As a whole, the outlook for industrial metal prices continues being positive as the market seems to have a newfound confidence in the global macroeconomic landscape of accelerating growth.

The **nickel** market was one of the best performers in February increasing by 10.2% m-o-m on strong fundamentals, and supply-demand deficit risks in the first quarter due to several factors such as supply-side disruptions, shortages in some premium refined products and weather.

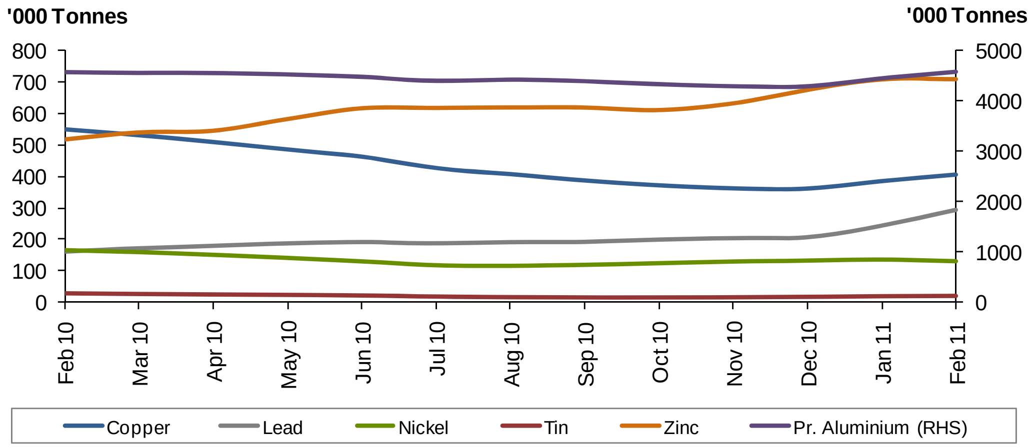
Zinc prices jumped by 14.8% m-o-m in February in a volatile month, as there was a sharp sell-off in the last week of the month. Zinc prices have outperformed aluminum and copper during the current year as a result of increasing Chinese costs, foreign exchange support, supply disruptions and a better outlook for global steel production. Although zinc inventories at the LME continuing to build up, a moderately tighter outlook may emerge from the lower growth in concentrate and scrap availability.

Aluminum prices rose by 4.1% m-o-m in February holding around $2,500/mt, on the back of a slow ramp-up in Chinese production after capacity reduction in 4Q10, supply disruptions fears in the Middle East and rising energy costs supporting futures prices. Nevertheless, aluminum inventories at the LME remain high.

Copper prices increased by 3.3% m-o-m in February, continuing the slower pace reported in the previous month. Copper prices broke through $10,000/mt for the first time in early February, supported by positive macro data and new supply constraints. Nevertheless, copper prices were affected by post Chinese New Year and rising global inventories and later in the month and the first week of March by concerns on the impact of surging oil prices on global growth, which overcame a more positive assessment on the risks to the economy offered by the US Fed Chairman.

Gold prices increased by 1.2% m-o-m in February, reversing the falling trend in the earlier month. Precious metals went up as gold and silver prices recorded important increases in February due to their role as safe haven in the middle of political uncertainty in MENA and the possible impact on global growth. On 21 of February, gold prices reached their highest since January. There is a likely upside risk to gold prices until the middle of the year due to the second round of quantitative easing in the US and the high possibility that the US Federal Reserve keeps its short-term interest rate target near to zero through the current year. Nevertheless, gold prices could peak in June as the current round of quantitative easing will end in June 2011.

Graph 2.1: Inventories at the LME



Agriculture prices rose by 5.6% m-o-in February compared to growth of 5.8% in the previous month, mainly sustained by grains and beverages. Rising food prices represent a major concern for 2011. High growth combined with high inflation are expected, which represents a pitfall toward policy normalization.

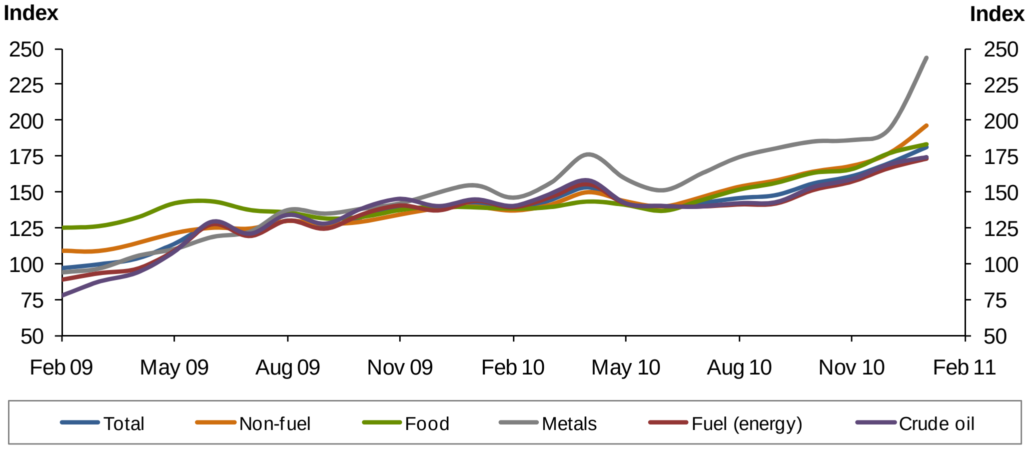
Upside risks in grain prices, including corn, remain, as a result of further tightening in supply balances and China's plan for grains self-sufficiency. Although, reports suggest that large central banks in developed countries must not be overly concerned about the risks related to high commodity prices because of the relatively low share of value added accounted for by commodities. Indeed the major driver of core inflation has been the output gaps and, as these are still large, it is unlikely to see an important inflation trend in 2011. Copper and nickel prices declined sharply on discounting a probability of oil disruptions choking off demand and narrowing projected shortages.

Corn prices continued to rally over February rising by 10.5% m-o-m. Corn prices were fostered by persistent robust demand, especially from ethanol and concerns over Argentina production downgrades, which caused adjustments in the USDA report in February. It must be noted that in 2010, China was a net corn importer for seven consecutive months.

Sugar prices increased by 3% m-o-m in February. Sugar prices remained high and volatile in February as a result of concerns that Cyclone Yase would damage Australia's 2011 crop and high uncertainties on India's crop and its export capacity in the face of high home inflation. Further, China has announced intentions to increase its sugar imports to replenish reserves in the event of likely low Indian exports and delay in sugar Brazilian supplies until April. Nevertheless, there is a downside risk to prices in the medium term, as a large 2011/2012 crop was expected in Brazil and assuming normal weather conditions, a global production response to high current prices.

Wheat prices surged in February driven by increasing supply concerns associated to both stockpiling demand from emerging market wheat importers and risks of poor 2011/12 winter wheat crop conditions in the US and China. Nevertheless, it must be noted that demand remains high in historical terms.

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*

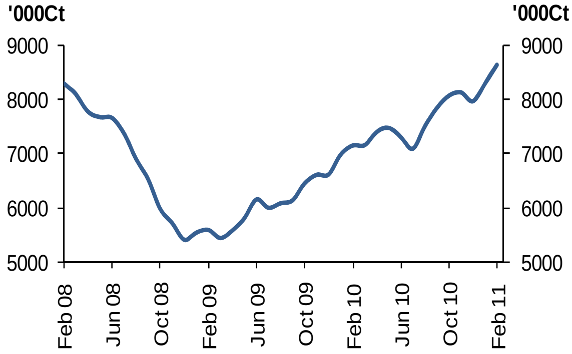
Source: IMF

Investment flow into commodities

Mixed trends in open interest across US commodity markets and speculative positions dropped in February

According to data from the CFTC, open interest volume (OIV) for major commodity markets grew steadily by 4.2% m-o-m to 8,771,392 contracts in February. There was a mixed performance as precious metals and copper OIV declined but all the other commodity groups reported gains although WTI's rise was considerably slower than in the previous month.

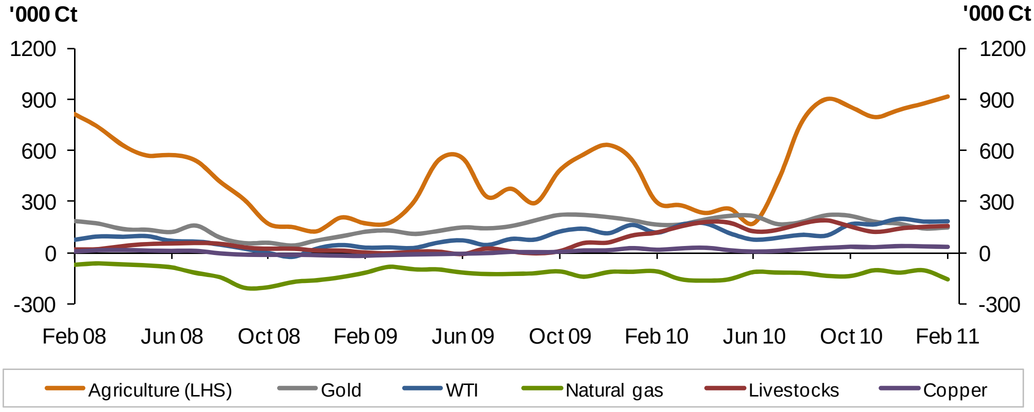
Graph 2.3: Total open interest volume



Source: CFTC

Short positions of money managers increased by 9.8% m-o-m in February compared to the previous month, while longs rose by 3.1%. Consequently, the net length as percentage of OIV decreased from 71.5% in January to 69.6% in February.

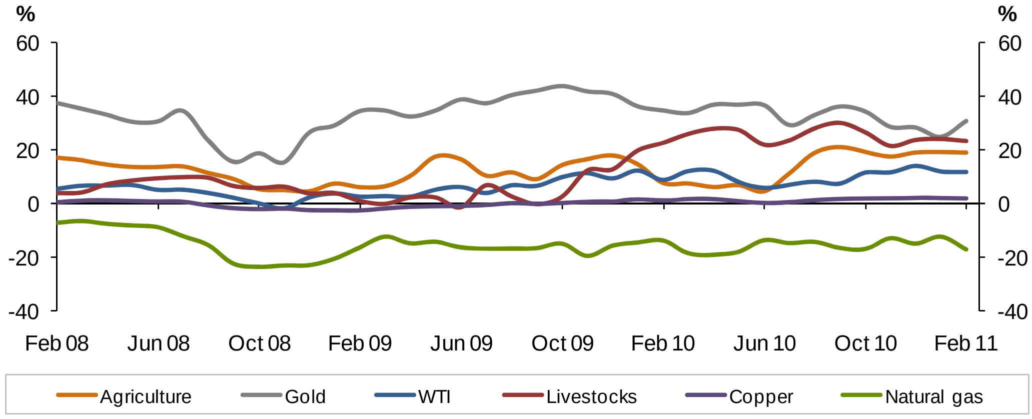
Graph 2.4: Speculative activity in key commodities, net length



Source: CFTC

Agricultural OIV increased further by 5.8% m-o-m to 4,891,085 contracts in February compared to last January. The money manager shorts augmented at a higher rate in Februay (8.2% m-o-m) than the the longs (5.3% m-o-m), but the speculative net length as percentage of OIV only slippled from January from 18.9% in January to 18.7% in February.

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



Source: CFTC

Precious metals OIV plummeted by 12.4% m-o-m to 615,355 contracts in February, following the same downward trend reported in the previous month. A hefty reduction in money manager short positions of 22.1% m-o-m in January amid a 4.2% m-o-m gain in long positions, resulted in the net length as a percentage of open interest volume recovering from 23.3% in January to 28.8% in February. This reflected turmoil in the Middle East as well as inflation concerns which has contributed to precious metals being one of the best price performers in February.

Nymex natural gas OIV increased further by 11% m-o-m to 908,710 contracts in February. A jump of 21.9% m-o-m in money mangager short positions in February together with a 5% drop in longs brougth the net length as percentage of OIV declined from minus 12.5% in January to 17.2% in February.

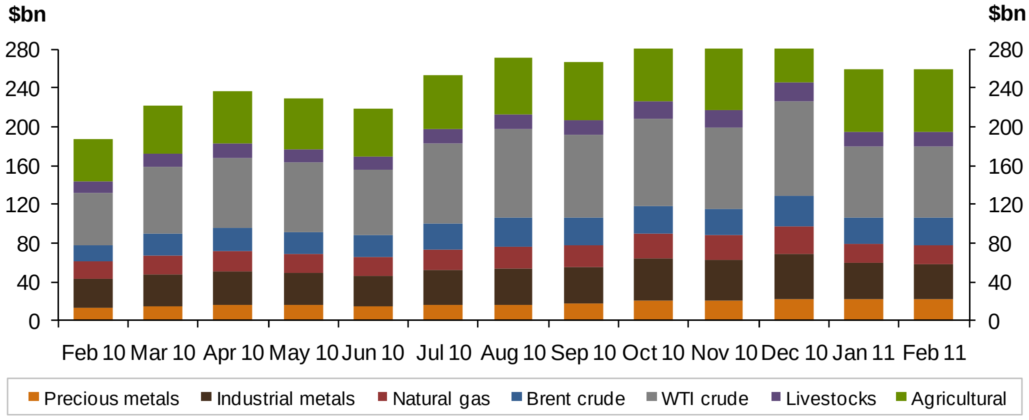
Copper OIV fell by 3% to 158,471 contracts in February, a deeper downward trend than in January (0.2% m-o-m). Money managers' short positions increased by 8% m-o-m in February – a lower increase compared to the strong 26.7% m-o-m increase in January – which, combined with a 2.9% decline in longs, resulted in the net speculative length as percentage of OIV falling from 21% in January to 10% in February.

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

	Open interest		Net length			
	Jan 11	Feb 11	Jan 11	% OIV	Feb 11	% OIV
Crude Oil	1491	1534	180	12	181	12
Natural Gas	818	909	-102	-12	-156	-17
Agriculture	4623	4891	873	19	915	19
Precious Metals	702	615	164	23	177	29
Copper	163	158	35	21	32	20
Livestock	620	664	150	24	156	23
Total	**8,418**	**8,771**	**1,299**	**15**	**1,304**	**15**

The investment inflow into commodities experienced a recovery in February compared to the previous month. All the sectors saw and improvement in the trend growth after a sharp decline in January.

Graph 2.6: Inflow of investment into commodities, 2010-2011



Source: CFTC

World Economy

Table 3.1: Economic growth rates 2010-2011,%

	World	OECD	USA	Japan	Euro-zone	China	India
2010	4.6	2.8	2.8	3.9	1.7	10.3	8.5
2011	4.0	2.3	2.9	1.5	1.5	9.0	8.1

Industrialised countries

USA

Supported by significant household consumption, the US economy expanded 2.8% in the fourth quarter

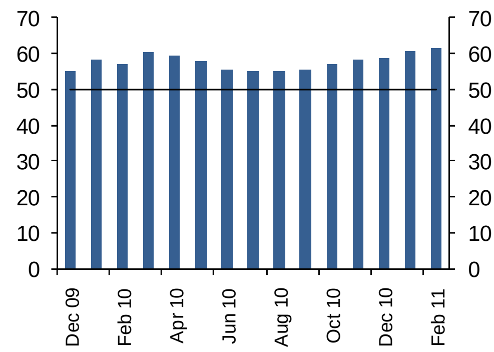
The US economy continues to enjoy the recovery that was kicked off in 2009 by unprecedented governmental-led stimulus. Both the manufacturing sector and the activity in the services sector, which constitutes around 80% and therefore a big majority of the economy, have continued to improve. The most recent – second publication – of 4Q10 GDP growth was lower than the first estimate of 3.2% q-o-q seasonally adjusted annualized growth, but still close to the level of 3% at 2.8%. A positive trend is the considerable recovery in personal consumption, which rose by 4.1% and therefore contributed the majority of the total growth number. Private inventories and government consumption – significantly supportive factors at the beginning of the recovery in 2009 – were even contributing negatively, which demonstrates that currently inventory replenishing and the government support have been reduced and that the recovery might be built on a broader base which is primarily consumer-led. However, the unprecedented fiscal support by government in combination with the push of the Federal Reserve Board (Fed) to get engaged in various facilities to increase the monetary supply and keeping interest rate levels at almost zero percent have been – and still are – the major reason for this positive development. For the time being this certainly can be considered a success, but it remains to be seen how the debt that has been accumulated for this recovery effort and the monetary consequences might be managed and if not some effects and consequences of this policy will not be already felt in the near term.

With the labour market showing improvements, leading indicators point at continued expansion in 2011, now forecast to grow at 2.9%

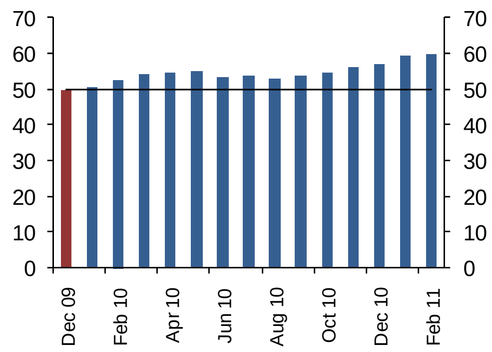
The labour market has responded to the recovery – usually being a lagging indicator by many months – and unemployment for the first time since April 2009 went below the 9.0% level to stand at 8.9% in the most recent release for February. Also, the important job addition in the non-farm sector has experienced a positive development in the most recent release for February, when the payrolls of the non-farm area increased by 192,000 from 63,000 in January. It will be still a long way to go to significantly reduce unemployment to more sustainable levels, when considering that in the great recession around 8.5 mn jobs have been lost, but the current trend is supportive to also encourage consumption spending again as it could have been seen in the GDP numbers already in the 4Q10, despite that, this previous quarter, the labour market was in a worse condition. After a many-month decline, consumer credit levels have again re-established a growth trend, which as long as consumers do not overburden themselves with debt as in the pre-recession time, can be considered as a healthy and supportive factor. Usually it was reasonable debt lifted the economy in the US out of previous recessions. At least the latest number shows that households are becoming more reasonable, when the household debt outstanding as a percentage of seasonally adjusted disposable income has declined now for six quarters to stand at 114.7% in the 3Q10 from a peak of 126.5% in 3Q07. This current ratio is far above historical averages of around 80% over the last 40 years, but at least it can be considered as a move into the right direction towards a sounder level of indebtedness.

The ISM indices for both the manufacturing sector and the non-manufacturing sector are also pointing to a continuation of the current expansion into the 1H11. The ISM for the manufacturing sector has improved to 61.4 in February from 60.8 in January and is – being a leading indicator – signaling further expansion. This is matching the level of May 2004, a time the US has experienced a growth level of more than 3% in the second half of that year. The ISM for the non-manufacturing sector has also improved to 59.7 from 59.4, indicating that the services sector is enjoying a continued healthy momentum.

Graph 3.1: ISM manufacturing index



Graph 3.2: ISM non-manufacturing index



Source: Institute for Supply Management

The most recent numbers of factory orders support this message, expanding by 3.1% m-o-m in January, after a 1.4% m-o-m expansion in December, a number that encouragingly was revised up after its first estimate of only 0.2% m-o-m. Moreover, the utilization rate in industrial production has been seen growing to now 76.5% in January, almost the same level as at the end of last year, still below the historical averages of around 80% of the four previous decades, but a significant improvement over the previous months.

Contrary to the Euro-zone and many other OECD regions, an interest-rate hike seems not likely too soon. In contrast, the Fed continues its second quantitative easing efforts and has said many times that it could think of a continuation of these efforts in the case that it is needed. An important condition was the case for the labour market not improving, which actually it has done to a certain extent in the meantime. Even more so, inflation has again become an issue over recent months, while not at the forefront yet, it has gained momentum to stand at 1.7% y-o-y in January and even core CPI – excluding food and energy – moved up to 1.0%.

Taking the current momentum into consideration and reflecting on some of the challenges that the US economy might face in 2011, the growth rate for this year remains unchanged at 2.9% and at around the same level as in 2010, when the economy was estimated to have grown by 2.8%.

Japan

Japan experienced a decline in 4Q10 GDP growth, after many fiscal stimulus measures ended in the previous quarter, highlighting the domestic market's dependency on governmental support

The Japanese economy continues its expansion in line with most of the OECD. The economy had experienced phenomenal growth in 2010 at 3.9%, while the latest release is showing a slightly lower number than in the first estimate for the fourth quarter at minus 1.3%, compared to the first estimate of minus 1.1%. The numbers highlight that the yearly growth has been much higher than the OECD average of 2.8%. This performance was mainly due to the governmental-led stimulus as it can be seen by the quarterly pattern of 2010. As soon as the tax-incentives stopped by the end of the 3Q10, domestic demand declined dramatically. Growth in 1Q11 is now expected to resume, but as the government incentive programmes for the consumption of cars and household appliances have ended and stimulus so far should be expected at a lower scale for 2011, growth this year is expected to be below the OECD average. Retail sales in the 4Q10 have declined at a monthly average of 0.3% and only recently in January managed to rise by a slight margin of 0.1%.

Exports have again expanded in January, but at a lower level than in December

This decline in domestic consumption is particularly dramatic as the second supportive factor for growth in 2010 – exports – has experienced a deceleration too. Growth of exports in January was reported at only a level of 1.4% y-o-y, compared to 12.3% in December. Although this was mainly due to the Lunar New Year holidays in China – Japans most important export market – and South Korea, the development has to be closely watched, but acceleration in the coming months should be expected. Total machinery orders are up by 8.7% m-o-m in December, which leads to an average monthly growth in the 4Q10 of an impressive 16%. This should translate into a solid expansion of the manufacturing sector in 1Q11. This trend in orders is also reflected in the purchase manufacturing index (PMI) numbers. The Markit manufacturing PMI rose to 52.9 in February, after a reading above the expansion indicating level of 50 in January, when the index stood at 51.4, trending above the 50-line for the first time since August of last year and reaching levels of the first half of last year, a time when the economy of Japan experienced an exceptional recovery.

So, with the expectation that exports continue to be lifted from the current levels in the coming months again, the main focus will remain on the domestic side of the economy, which might see some improvements in the coming months backed by a positive development in the labour market. Unemployment in Japan remained at 4.9% for the second consecutive month. The job offers-to-seekers ratio increased in January to 0.61 from 0.58 in December and 0.57 in November. Inflation has continued to stabilize and was recorded at 0.0% y-o-y in January, the same level as in December, while by excluding the volatile areas of food and energy, prices declined by 0.6% y-o-y, a continuation of an improving trend since April 2010, when inflation excluding both items was recorded at minus 1.6%, but on the other side it marks the 28th consecutive month of decline.

By taking the continuation of the recovery into consideration and reflecting the challenges the economy might face from still sluggish domestic demand, the forecast for 2011 remains unchanged at 1.5%, significantly lower than the growth expectations for 2010 of 3.9%.

Euro-zone

The Euro-zone economy has expanded by 1.7% in 2010.

The Euro-zone growth for the 4Q10 has been slightly better than anticipated at 0.3% q-o-q growth. The yearly growth number was reported at 1.7%. This momentum in 2010 was mainly supported by Germany and, to a certain extent, by France. Germany's 4Q10 quarterly growth was reported at 0.4% and for France at 0.3%. This outcome for 2011 has been impressive considering that some member countries have faced severe budgetary challenges in 2010, the success of the euro was very much questioned by many observers and the Euro-zone member countries together with the ECB and the IMF had to establish a rescue fund for the weaker member countries in order to lift some pressure on the common currency. So far, the Euro-zone managed to avoid any sovereign default, the Euro is enjoying relative strength to most of the currencies and the facilities of the rescue fund were only needed on an exceptional basis.

The expansion is expected to continue, but the main challenge will be how to balance the need for higher interest rates, the debt services for the weaker Euro-zone countries and the danger of an increase in the euro hurting exports in the case of the need for a further interest rate increase.

Most of the indicators point at a continuation of growth in 2011, however the Euro-zone is facing new challenges that are, to a certain extent, the outcome of the measures that have been undertaken to avoid unwanted consequences on the economy. The main challenge for the coming months will be to balance the potential need for the ECB to increase interest rates in order to avoid higher inflation and at the same time not undermining the fragile recovery. Therefore, a slight increase of interest rates should be expected to materialize soon. This expectation has already led to a rise in the euro, which, at least for the time being, works as a shelter from imported inflation, primarily from commodities. On the other hand, the continuation of sovereign debt issues in the so-called peripheral countries – including Spain – could reverse any currency appreciation, which then could make additional rate hikes necessary. Furthermore, if additional rate increases would be considered necessary, this could then create challenges for mainly the weaker Euro-zone countries, which continue to be under pressure to refinance their debt at always higher yields. In addition to this, Germany – while not suffering from excessive debt – might be challenged in a different area, which is the area of exports. A euro that would move considerably above current levels of around $1.40/€ could have an unwanted effect on the exporting abilities of the Euro-zone's main growth engine, Germany, So, the ECB will need to balance many delicate interests together with the leaders of the Euro-zone countries.

Inflation has been acknowledged as a challenge that could further put pressure on the economy, It stood at 2.4% in February at the same level that has been published for January. This is considerably higher than the aim of the ECB to keep the inflation number at around or below 2%. The ECB is aware that, in order to remain credible, it has to act soon if inflation remains at this current level or even moves higher.

The ECB has highlighted many times over the recent months that the headline numbers are being affected by higher prices, in particular the volatile energy area, and by food inflation and that it should not be confused with the moderate underlying trend of inflation. Indeed, inflation excluding the volatile sectors of food and energy, has increased by only

1.2% y-o-y in January, only slightly higher than in December, but it remains to be seen whether through second round effects, this will be kept at these moderate levels.

The unemployment rate has improved to 9.9% in January and for the first time since December 2010 now stands at below 10%. Germany again leads the improvements and has now a recorded unemployment rate of 6.5%, while, in contrast, Spain's rate remained at 20.4%. Youth unemployment moved below 20% to 19.9% in January, with the worst situation in Spain, which moved back to the all-time high of 43.1%, a level that has been already recorded in November. So, with those slight improvements in the labour market it remains to be seen whether this trend can be continued, but being a lagging indicator and still being supported by the significant momentum from the manufacturing sector, it should be expected to come down further.

The PMI for both the manufacturing sector and the services area have improved. Manufacturing PMI has risen from 57.3 to 59.0. The PMI for the services sector has moved up to 56.8 from 56. Both levels are significantly above the expansion indicating level of 50. Corresponding to this, manufacturing orders – at the seasonally adjusted level – have again improved significantly to 18.8% y-o-y in December, the highest level since August of last year and only slightly below the 23% recorded for May 2010.

Taking the positive growth trend of the Euro-zone into consideration, while at the same time acknowledging the many challenges the economy is expected to deal with in the near future, the 2011 growth forecast has been raised slightly to 1.5% from 1.4%, not much lower than the 2010 growth level of 1.7%.

Emerging Markets

Emerging markets showed a healthy performance in 1Q11

Performance of major developing countries in the first quarter of 2011 has been better than expected and currently the global market recovery is driven by continued strong economic growth in emerging markets. There are signs of sustainable increase in output in OECD, as well. The world economic recovery is reflected in the significant expansion of international trade. According to the World Trade Organization (WTO), trade volumes are expected to grow by more than 6.5% in 2011 after strong growth of 12.7% in 2010. The emerging economies have all benefited from the growing global trade but South East Asian countries including Indonesia, Malaysia, the Philippines, Thailand, Singapore and Vietnam might have benefited more than other developing nations, as these economies are traditionally trade-oriented. Southeast Asian countries also benefited from rising Chinese demand. World trade is forecast to grow in the next couple of years, driven by sustained growth in developing countries. As consumers and companies in the developed world monitor costs closely, low cost producers from emerging markets will continue to gain market share.

The Asian economy is expected to remain the fastest growing region in 2011. This is attributed to two factors: Stronger fundamentals and emergence of China as an independent engine of regional growth. Although the US is still the main source of final demand for Asia as a whole, according to a research by the ECB, China is now a greater source of final demand for the Philippines, South Korea and Taiwan. Latin American economies are expected to benefit from economic growth in Asia and emerging markets in 2011, although growth will be higher in South America compared to the rest of Latin American economies. There are a number of obstacles to the longer-term growth outlook in these economies. Tax systems in most countries of the region still remain complicated and inefficient with tax revenue in some countries being low. Shortcomings in the quality of public expenditure, shallow capital and credit markets and inflexible labour markets are other major issues exerting negative impacts on economic developments in this region.

Although historically economic growth in most Asian economies has been export driven, in recent years the economic recovery in many Asian countries has been driven by large fiscal stimulus backed by soft monetary policies. The stimulus in China was the most important in absolute size and its portion to GDP, but many other Asian governments implemented aggressive fiscal measures to support economic recovery. India, South Korea and Taiwan are clear examples. Nevertheless, it is expected that in 2011 stimulus packages in most countries are withdrawn. This is mainly because of inflationary pressures that have accelerated in recent months. In some emerging economies, including India, China and Brazil, inflation has already surged to higher-than-expected levels threatening medium-term economic growth.

Rapid expansion of economic activities together with loose monetary policies on the one hand and rising commodity prices on the other is fueling inflation in major developing countries, including the BRICs. Inflationary pressures have led to industrial action for wage increases in some countries that, in turn, could push production costs higher, causing further inflationary expectations. In addition to these internal factors, extraordinary levels of liquidity in the global economy have contributed to the rise in asset prices in developing countries, most notably in South East Asia, Latin America and, to some extent, in the Middle East. Latin American economies and emerging markets of South East Asia have registered a resurgence of capital inflow in recent months, mainly due to the expansion of quantitative easing in the US since mid 2010. Both portfolio and direct long term foreign investment have been rising. This has contributed to currency appreciation in some countries, such as Brazil. The Brazilian authorities have been particularly vocal about the impact of a surge in capital inflow on the domestic economy. Wide interest rate differentials, combined with strong growth prospects, have made Brazil attractive to speculative investment inflows.

In 2011 most emerging economies, including China, are expected to see their rate of growth moderated compared to the last year. In South Asia, the Indian economy is struggling with inflation and there have been signs that fighting inflation has taken its toll on Indian economic growth. The same applies to Brazil where a strong *real* (Brazil's national currency) amid a widening foreign trade deficit and fiscal excess leaves raising the interest rate as the only effective tool to curb 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 as well. The Russian economy, which is still recovering from its worst recession of recent years in 2009, has to deal with its public sector deficit, particularly when it comes to non-oil budget deficit.

The table below summarizes our estimates of economic rates of growth the BRIC economies for 2010 and 2011. As inflationary pressures appear to be a common concern in these economies, estimates of consumer price indices on an annual basis also are given. The table also contains consensus estimates of trade balance and public sector borrowing requirements in these economies for 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 deficit, accumulated mainly due to fiscal expansion and stimulus packages introduced by the governments of these countries to rescue the economy 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	
	2010	2011	2010	2011	2012	2011	2012	2011	2012
Brazil	7.2	4.1	5.9	5.5	4.7	-65.1	-76.3	2.5	2.2
China	10.3	9.0	3.3	4.5	3.6	218.4	335.4	-1.8	-1.5
India	8.5	8.1	10.2	7.3	7.6	-51.4	-61.5	-6.7	-6.6
Russia	3.9	4.1	8.8	8.4	7.5	65.8	49.8	-2.5	-1.8

CPI = Consumer price index
PSBR = Public sector borrowing requirement

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

Brazil

Brazil GDP expected to grow at a slower pace of 4.2% in 2011

Strong final demand growth and underperformance of the industry have been two distinguished characteristics of Brazil's economy over the past year. The economy seems to have continued in the same vein in the immediate past months. In the fourth quarter of 2010, the growth rate of GDP, on a y-o-y basis, was 3%. This was less than expected earlier but was more than the third quarter economic growth of 1.6%. Nevertheless, the strong performance of the economy in the first half of 2010 assured full year economic growth of 7.5% in 2010. Industrial production fell in late 2010 on a relatively broad base from capital and consumer goods, as well as electronics and communications equipment. The main factors contributing to this stalled growth in industrial production are believed to be supply bottlenecks as well as external competition, underpinned by the real, Brazil's national currency. From the demand side, the falling exports have been a key factor in industrial output contraction, while growing demand, that accelerated in the fourth quarter of 2010 by 10.4% growth rate, increased imports, widening the net foreign trade deficit. The other main component of aggregate demand, i.e. investment, slowed down in last months of 2010, to some extent because of a bottleneck in the construction sector. This growth profile of less investment and more consumption could reduce output growth prospects in the medium term and might call for more a change in monetary and fiscal policy mix to promote economic investment and output growth in medium term.

Preliminary data and reports suggest a mild recovery of the industrial sector in 2011 compared to late 2010. In fact, January IP data on a monthly basis remained roughly flat, a 0.2% increase over December 2010, and showed a 2.5% increase over January last year. However, some industrial sectors such as vehicle production showed strong growth in February with a 24.1% increase compared to February last year. This data implies slightly better-than-expected performance for the industrial sector of the economy in the first quarter of 2011. However, IP is still 2.6% below the level reached in March last year. This is an indication of negative impact exerted from external competition and supply side constraints on the Brazil's industrial production. The consensus forecast predicts that industrial output will expand by 4.8% this year, lower than last month's projection.

On the demand side, excluding vehicle and building materials, retail sales volumes climbed by 9.9% on a y-o-y basis. Retail sales remain strong amid a tight labour market condition; thanks to the historically low unemployment rate. The country's economic boom is fueling inflationary pressures. The consumer price index ended last year 5.9% higher than the previous year, well above the official annual target of 4.5%. The consumer price index was 6% higher in February 2011 compared to the same month a year ago. This elevated inflation prompted the Central Bank to raise the interest rate for the second time this year on 2 March by another 50 basis points. In January, the Central Bank had increased the so called SELIC rate by 50 basis points to 11.25%. The benchmark SELIC rate is currently 11.75%, following two consecutive increases of interest rates in January and March this year.

In addition to the tightening monetary policy of raising the interest rate to 12.75%, the government has announced a budget cut of R$50 bn (equivalent to $30 bn) last week. While these moves are self-reinforcing policies to curb inflation, a new capitalization of the national development bank (BNDB) seem an additional measure to tighten monetary expansion. Appreciation of national currency remains a major economic concern for Brazil, and indeed for some other Latin American countries. While capital inflow provides sources of financing that help boost domestic economy, negative consequences of capital inflow of adding to inflationary pressures in an economy also must be taken into account in an economy that expands near its potential capacity. In first week of January the Brazilian Central Bank (BCB) announced a new reserve requirement on the banking systems for short exposure in the foreign exchanges spot market.

China

China GDP in 2011 revised up to 9.0%

The Chinese annual National People Congress (NPC) meeting began on Saturday, 5 March, and was scheduled to last for ten days. Chinese Premier Wen Jiabao delivered a government work report during the opening meeting of the 11th National People's Congress (NPC). He is quoted as saying that the government aims to keep inflation within 4% and economic growth around 8%. He has stated that since rising price levels affect people's well being and social stability, curbing inflation should be a top priority of the government's macroeconomic policies. Inflation in China is currently around 4.9% on a y-o-y basis. It could rise still further despite several increases in interest rates since 2010. On 9 February the Chinese central bank raised the one-year working capital cost to 6.06%.

The National People's Congress is supposed to approve China's five-year plan for 2011-2015. The plan, the country's 12th since the Communist Party took power in 1949, aims to create more sustainable growth and narrow the gap between rich and poor. Domestic demand would be stimulated by providing direct help and subsidies to farmers and the urban poor. The Premier has been quoted as saying that "expanding domestic demand is a long-term strategic principle and basic standpoint of China's economic development. We must make improving the people's lives a pivot linking reform, development and stability... and make sure people are content with their lives and jobs, society is tranquil and orderly and the country enjoys long-term peace and stability." Plans to control an excessive increase in housing prices are also announced in his speech. Chinese economic growth has been driven by exports and large infrastructure projects in recent decades, but there are concerns that the economy could falter unless it changes course. Mindful of rising disparity between rural and urban incomes and the need to raise agricultural production, in late January, the government announced a plan to assist households by the allocation of Rmb 98.6bn ($15bn). The bulk of this budget is to help with purchasing farm machinery but the remaining will be transferred to support production of staple crops through irrigation, planting and treatment of plant disease.

It appears that the Chinese government is determined to prevent overheating the economy by moderating GDP growth and curbing inflation. It is expected that monetary and fiscal policies are tightened if necessary to achieve this purpose. Indeed, on 9 February, China announced an interest rate rise of 25 basis that raised the one year lending rate to 6.1%. This is second interest rise in two months. There has been also a rise in reserve requirements. On 24 February, People Bank of China raised reserve requirements by 50 basis points to 19.5%. These announcements have come against a background of rapidly growing banking loans. The outstanding lending was up around 17% in January 2011 compared to last year January last year. The portion of loans for non-business purposes has been rising, that may represent a shift towards consumer financing and away from mortgage lending.

Moderating economic growth to 7% for the next five years suggests that the Chinese government is now more confident about the labour market and overall employment conditions and the impact of wage growth on household income. Labour share in GDP has started to rise since 2009. According to the National Bureau of Statistics (NBS), most components of PMI continued to ease in February. However, PMI components on new export orders, imports and input prices showed some gain. Overall, the latest PMIs suggest that following acceleration of economic growth in the fourth quarter of 2010, the economy is growing at a steadier pace. It is expected that manufacturing PMI will improve moderately in the coming months. Meanwhile, inflation will still dominate near-term macroeconomic policy considerations.

India

India expected to grow by an upwardly revised 8.1% in 2011

India's economy is expected to slow down to some extent following moderation of its economic growth in the last quarter of 2010. Considering the strong performance of the agricultural sector in the winter season, this is mainly attributed to the industrial sector with its diminishing rate of growth. In the recent past, the expansion of the industrial production has been increasingly driven by a narrow base of capital goods and durables, with only 15% of the basket. Services sector growth also moderated in late 2010. The core components of services can be taken as a proxy for government spending. It is worth noting that consolidating public sector spending has been a priority in the government's macro policies, hence the diminishing rate of growth of the services sector. The Central Statistical Office of India (CSO) has envisaged a fall in the growth rate of investment in 2011 compared to last year. Although some moderation in the rate of economic growth seems inevitable, however, it is not expected that the rate of GDP growth in 2011 will fall much below the rate of 2010. There have been some mixed signs of economic performance in the past few months. The latest OECD leading indicators for India point to a further slowdown in economic growth, while in February, PMI rose to 57.9 from 56.8 the previous month, mainly due to new domestic and export orders. The export index tracks new export orders closely with a lag of a couple of months.

Merchandise export revenue increased by 32.5% or to $20.6bn in January. Total exports rose by 29.4% in 2010 while imports rose by 17.6% The highest growth rate was for petroleum products, pearls, precious stones, gold, silver and machinery.

Russia

Russia forecast to see stronger growth in 2011 of 4.1%

The Russian economy grew by a faster-than-expected 4% in 2010. The greatest contribution to GDP growth came from a build in stocks, as these were run down in 2009. Growth in external demand also contributed to GDP growth as exports grew by 11% in 2010. In addition to these two components of aggregate demand, domestic consumption and investment also recovered in 2010. Budget deficit shrank in 2010 to around 4% of GDP from 5.9% in 2009.

In order to increase effectiveness of its monetary policy and to contain inflationary pressure, the Central Bank of Russia (CBR) widened the ruble floating corridor from 4 to 5 rubles against the basket. This is expected to increase flexibility of the exchange rate system and give the monetary authority more power to pursue their internal objectives of fighting inflation. However, still concerns about capital inflow remain in place as the announcement was followed by a sharp currency appreciation. In fact, changes to the account increased from $0.8bn in January to $4.5bn in February this year. Consistent with this policy change, and in order to control the growing inflation, the Central Bank had increased the interest rate by 25 basis points late last year together with an increase of 50 to 100 basis points of reserve requirements. However, to prevent further capital inflow it is unlikely that the monetary authority raises interest rates again in the near future. It seems that containing the exchange rates in a desired band is considered a more effective tool in fighting inflation in the current circumstances. Indeed recent dynamics of CPI confirm that the Russian government has been successful in curbing inflationary pressures.

OPEC Member Countries

Steady economic growth expected in OPEC MCs in 2011

Considering the continuation of global economic recovery and the reasonable oil prices that are believed to persist as long as the global economy expands, OPEC Member Countries (MCs) are expected to see steady economic growth for most of 2011. In fact, economic growth rates for most MCs are slightly higher in our latest review of MC economies compared to late 2010 reading. In fact, the rates of economic growth for eight out of twelve MCs are estimated to be higher in 2011 compared to last year. OPEC Member Countries' economy as a whole is expected to grow around 4% in 2011 compared to 3.5% in 2010, indicating a healthy increase in economic activities of OPEC MCs.

Oil prices, US dollar and inflation

The US dollar weakened against all major currencies in February for a second consecutive month. It traded at an average rate of $1.3647/€ compared to $1.3357/€ in January.

The US Dollar continued weakening against all major currencies in February, compared to the levels of January. It fell by 2.2% against the euro and the pound sterling, by 0.1% versus the yen and by 0.5% compared to the Swiss franc. With regard to the euro the trading range of the previous months of $1.30/€ to $1.40/€ was broken at the upper side for one trading day at the beginning of March, when it closed at $1.4028/€, anticipating an interest rate hike in the near future by the ECB. The average level for February was at $1.3647/€ compared to the January level of $1.3357/€. While the euro is currently carried by this expectation of a rise in interest rates, the debt worries about the peripheral countries in the Euro-zone might act as a counterforce soon and in the case of a serious re-emergence of those challenges could again put the Euro under considerable pressure.

In real terms, the OPEC Reference Basket price rose by 6.6% in February

For the time being, the current level seems to be well appreciated at both sides of the Atlantic as it enables the US to enjoy a comparative advantage for its exports, while the ECB is potentially happy about the stronger Euro as a counterbalance to the threat of imported inflation from mainly commodities. So continued support for the current trading band of $1.30/€ to $1.40/€ should be expected.

In nominal terms, the OPEC Reference Basket increased by 8.0% or $7.46/b from $92.83/b in January to $100.29/b in February. In real terms, after accounting for inflation and currency fluctuations, the Basket price increased by 6.6% or $3.85/b to $62.05/b from $58.20/b (base June 2001=100). Over the same period, the US dollar fell by 1.3% against the import-weighted modified Geneva I + US dollar basket, while inflation remained almost unchanged.*

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

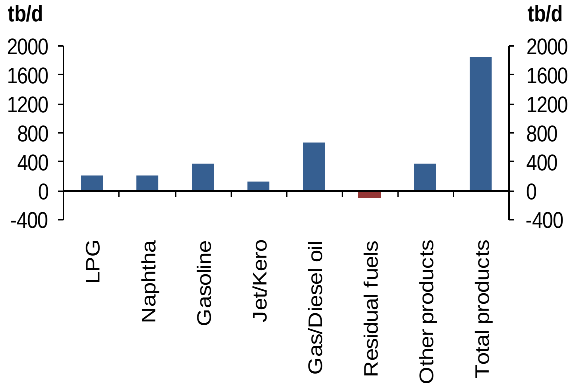
World Oil Demand

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

World oil demand

With the approach of the low energy consumption season as the winter months fall behind us and the summer heat will not be felt until the third quarter, second quarter oil demand is forecast to ease the pressure on the oil supply/demand balance. First quarter oil demand was supported by the cold winter in the Northern Hemisphere. The effect of strong demand was also felt in February. In contrast, the third quarter is anticipated to see more oil usage as a result of enhanced economic activities, higher temperatures and the start of the agricultural season. Supported by high US oil consumption growth, OECD February oil demand surpassed that of the previous month. In the non-OECD countries, oil demand in the second quarter is expected to maintain its robust level, achieving similar growth of that of the first quarter. Another factor that pushed oil demand up is the effect of winter on natural gas prices which reduced the power plants' usage of natural gas. This was experienced not only in the OECD but in some parts of Asia as well. Given the colder-than-expected weather and the recent upward GDP revision, the first and second quarter's oil demand was revised marginally higher.

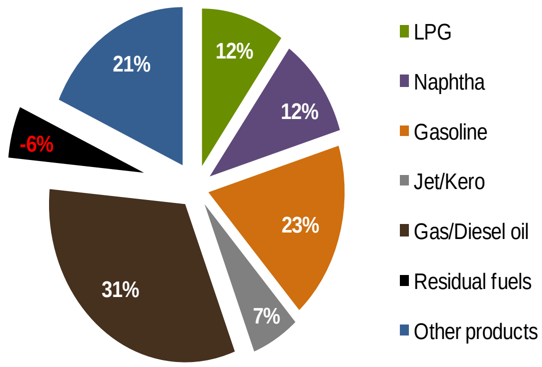
Graph 4.1: Forecasted y-o-y growth in 2010 world oil demand



World oil demand is forecast to grow by 1.8 mb/d in 2010 and 1.4 mb/d in 2011, averaging 87.8 mb/d, broadly in line with the previous report.

Manufacturing activities are showing an upward trend indicating more oil consumption in most of the OECD countries and Russia. The upward risk centers around the magnitude of the winter's effect on oil demand. Early indications are pointing toward higher-than-expected consumption of oil in the Northern Hemisphere. Should these indications be confirmed, oil demand could be revised higher in the coming months.

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



However, the downward risk for the forecast for world oil demand comes from international oil prices. Should strong price levels remain, this would lead to a reduction in the use of transportation fuel, especially in the summer driving season. This effect will spread not only throughout the OECD but also into the non-OECD.

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

	2009	1Q10	2Q10	3Q10	4Q10	2010	Change 2010/09 Growth	%
North America	23.30	23.45	23.74	24.22	24.00	23.86	0.56	2.39
Western Europe	14.52	14.17	14.12	14.79	14.71	14.45	-0.07	-0.48
OECD Pacific	7.66	8.19	7.30	7.60	7.99	7.77	0.11	1.48
Total OECD	**45.47**	**45.81**	**45.15**	**46.61**	**46.70**	**46.07**	**0.60**	**1.32**
Other Asia	9.85	9.95	10.13	9.87	10.10	10.01	0.16	1.65
Latin America	5.93	5.83	6.09	6.28	6.21	6.10	0.17	2.88
Middle East	7.09	7.18	7.16	7.48	7.19	7.25	0.17	2.35
Africa	3.25	3.30	3.29	3.16	3.31	3.27	0.02	0.57
Total DCs	**26.12**	**26.26**	**26.67**	**26.79**	**26.81**	**26.63**	**0.52**	**1.98**
FSU	3.97	3.96	3.78	4.22	4.27	4.06	0.09	2.17
Other Europe	0.73	0.69	0.64	0.66	0.70	0.67	-0.05	-7.31
China	8.25	8.37	9.09	9.23	9.10	8.95	0.70	8.44
Total "Other regions"	**12.95**	**13.02**	**13.52**	**14.11**	**14.07**	**13.68**	**0.73**	**5.64**
Total world	**84.54**	**85.09**	**85.34**	**87.51**	**87.58**	**86.39**	**1.85**	**2.18**
Previous estimate	84.54	85.09	85.33	87.52	87.37	86.34	1.80	2.13
Revision	0.00	0.00	0.00	-0.01	0.21	0.05	0.05	0.06

Totals may not add due to independent rounding

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

	1Q09	1Q10	Change 2010/09 Volume	%	2Q09	2Q10	Change 2010/09 Volume	%
North America	23.43	23.45	0.02	0.09	22.94	23.74	0.80	3.49
Western Europe	14.89	14.17	-0.73	-4.88	14.26	14.12	-0.15	-1.02
OECD Pacific	8.12	8.19	0.07	0.84	7.27	7.30	0.02	0.29
Total OECD	**46.44**	**45.81**	**-0.64**	**-1.37**	**44.48**	**45.15**	**0.68**	**1.52**
Other Asia	9.73	9.95	0.22	2.26	9.92	10.13	0.21	2.13
Latin America	5.68	5.83	0.15	2.68	5.88	6.09	0.21	3.54
Middle East	6.95	7.18	0.23	3.28	7.07	7.16	0.09	1.27
Africa	3.27	3.30	0.03	0.92	3.25	3.29	0.04	1.21
Total DCs	**25.63**	**26.26**	**0.63**	**2.46**	**26.12**	**26.67**	**0.55**	**2.10**
FSU	3.87	3.96	0.09	2.42	3.70	3.78	0.08	2.16
Other Europe	0.74	0.69	-0.05	-6.77	0.69	0.64	-0.05	-7.37
China	7.61	8.37	0.76	10.03	8.38	9.09	0.71	8.46
Total "Other regions"	**12.22**	**13.02**	**0.81**	**6.60**	**12.78**	**13.52**	**0.74**	**5.78**
Total world	**84.29**	**85.09**	**0.80**	**0.95**	**83.37**	**85.34**	**1.96**	**2.35**

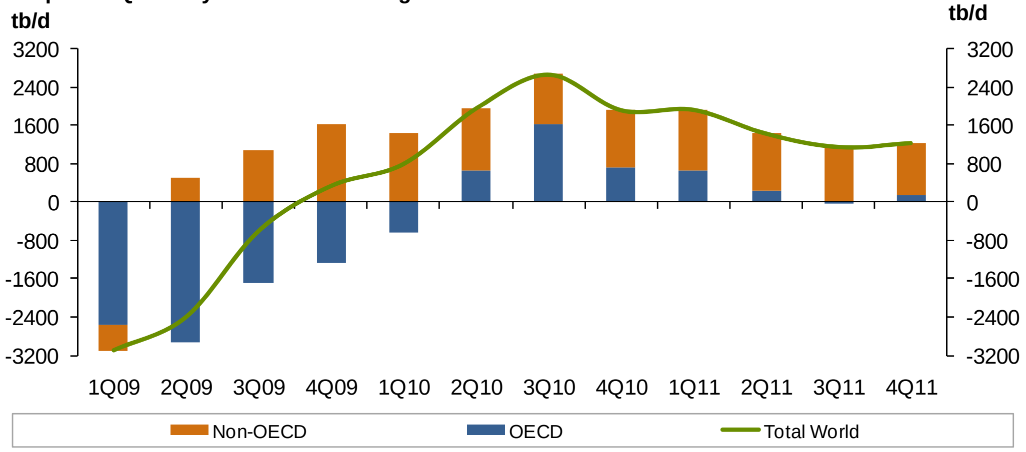
Totals may not add due to independent rounding

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

	3Q09	3Q10	Change 2010/09 Volume	%	4Q09	4Q10	Change 2010/09 Volume	%
North America	23.28	24.22	0.95	4.07	23.55	24.00	0.45	1.89
Western Europe	14.47	14.79	0.32	2.22	14.45	14.71	0.25	1.76
OECD Pacific	7.25	7.60	0.35	4.86	7.99	7.99	0.01	0.12
Total OECD	**44.99**	**46.61**	**1.62**	**3.60**	**45.99**	**46.70**	**0.71**	**1.54**
Other Asia	9.79	9.87	0.08	0.83	9.96	10.10	0.14	1.39
Latin America	6.09	6.28	0.19	3.06	6.07	6.21	0.14	2.26
Middle East	7.30	7.48	0.19	2.55	7.03	7.19	0.16	2.33
Africa	3.16	3.16	0.00	-0.06	3.31	3.31	0.01	0.21
Total DCs	**26.34**	**26.79**	**0.45**	**1.71**	**26.37**	**26.81**	**0.45**	**1.69**
FSU	4.14	4.22	0.08	1.93	4.18	4.27	0.09	2.18
Other Europe	0.71	0.66	-0.05	-7.14	0.76	0.70	-0.06	-7.93
China	8.66	9.23	0.58	6.64	8.36	9.10	0.74	8.89
Total "Other regions"	**13.51**	**14.11**	**0.60**	**4.47**	**13.29**	**14.07**	**0.77**	**5.82**
Total world	**84.84**	**87.51**	**2.68**	**3.15**	**85.65**	**87.58**	**1.93**	**2.25**

Totals may not add due to independent rounding

Graph 4.3: Quarterly world oil demand growth



Alternative Fuels

As always, biofuels rely on government subsidies. Biodiesel has been uneconomical since its birth and now it lies on its deathbed unless OECD governments interfere and jumpstart the industry with new funds. The US government already approved not only a further increase in the blending mandate, but also a new tax credit to make the industry profitable. Massive subsidies were not able to transform biodiesel into a competitive industry since it still costs $2/gallon more than normal diesel.

The high demand for corn, which was caused mostly by the biofuel industry itself, pushed corn prices up, leading to a noticeable loss in the industry margin. This is certainly not the first time the industry suffers high raw material costs as the same phenomenon occurred several years ago.

Oil demand growth in North America for 2011 totaling 0.3 mb/d.

OECD - North America

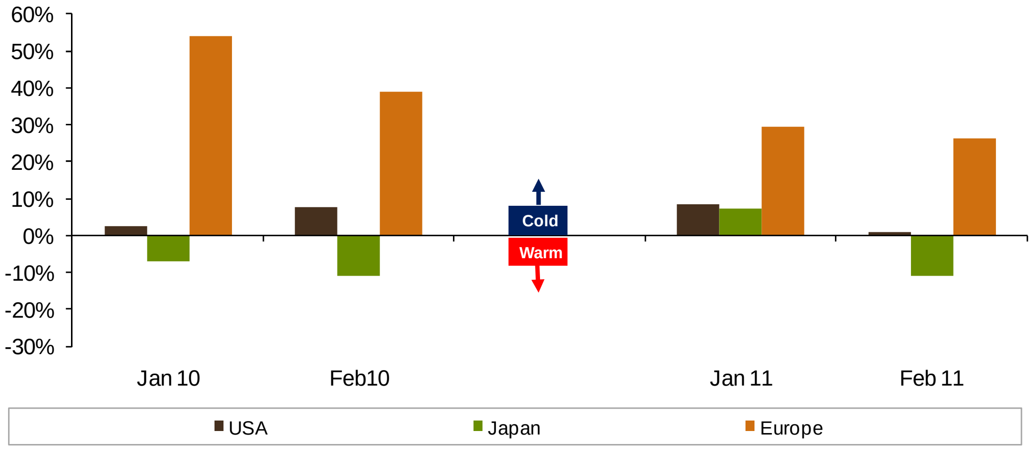
Cold winter managed to push US oil demand up in February by 3.8% y-o-y. Gasoline demand also experienced an upward trend. Mileage driven increased, pushing gasoline demand up by 2.8%, which exceeded normal growth of 1.6%. Motor gasoline growth was the highest since September 2010, as US auto sales rose unexpectedly in February due to large discounts, improved consumer confidence and easier credit. Despite rising fuel prices, US auto sales growth reached 27% compared to last year with January's growth at 17%. However, automakers are concerned that persistently high oil prices could push American consumers to delay car purchases as in 2008. This indicates the highest y-o-y increase reported since August 2009 which was boosted by the cash-for-clunkers incentives.

However, February data placed some caution as most of the growth lies under the category of Other Products, which could be revised in the future as the monthly data follows suit.

As for the past fourth quarter, most recent monthly US data for December 2010 illustrated growth in US oil consumption of around 2.7% y-o-y which is reflected in increasing requirements for industrial products but flat demand for transportation fuels.

Driven by a low baseline and cold weather, the Canadian oil demand continued its high growth rates in December 2010 with sharp increases in distillates and gasoline. Following a decline in 2009, Canadian oil consumption grew by a remarkable 0.2 mb/d or 8.5%, the highest yearly growth ever reported. The main reasons for this were the low baseline, the economic recovery and cold weather during the fourth quarter 2010. In Canada, after 14 consecutive months of growth, car sales fell during February 2011 by 4% compared to the same month last year. The Canadian auto industry is expected to improve in 2011 as a result of an improved economy and growing consumer confidence.

Graph 4.4: Heating degree days, % of normal



Mexican oil consumption started 2011 in a similar way to last year, remaining negative since January 2010. This is basically due to lower demand for industrial products and weaker requirements for transportation fuels. According to the Mexican Automobile Industry Association, Mexico's auto industry continued to grow strongly in January 2011, with production of cars and light trucks rising by 21% y-o-y.

For the whole of 2010, North American oil demand grew by 0.5 mb/d, while fourth quarter growth was lower than that of the previous quarter.

Given anticipated GDP growth of 2.9%, US oil demand is forecast to grow adding another 0.26 mb/d y-o-y in 2011, leading to oil demand growth in North America totaling 0.3 mb/d.

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

							Change 2011/10	
	2010	**1Q11**	**2Q11**	**3Q11**	**4Q11**	**2011**	**Growth**	**%**
North America	23.86	23.96	24.00	24.38	24.27	24.15	0.30	1.24
Western Europe	14.45	14.33	14.11	14.69	14.63	14.44	-0.01	-0.04
OECD Pacific	7.77	8.18	7.29	7.54	7.95	7.74	-0.03	-0.36
Total OECD	**46.07**	**46.47**	**45.41**	**46.60**	**46.85**	**46.34**	**0.26**	**0.57**
Other Asia	10.01	10.15	10.35	10.08	10.31	10.22	0.21	2.11
Latin America	6.10	6.02	6.27	6.46	6.36	6.28	0.17	2.86
Middle East	7.25	7.40	7.33	7.67	7.39	7.45	0.20	2.69
Africa	3.27	3.32	3.31	3.19	3.34	3.29	0.02	0.73
Total DCs	**26.63**	**26.90**	**27.26**	**27.40**	**27.40**	**27.24**	**0.61**	**2.27**
FSU	4.06	4.05	3.85	4.30	4.35	4.14	0.08	1.89
Other Europe	0.67	0.68	0.62	0.65	0.67	0.65	-0.02	-2.76
China	8.95	8.93	9.64	9.72	9.55	9.46	0.51	5.74
Total "Other regions"	**13.68**	**13.66**	**14.11**	**14.67**	**14.57**	**14.26**	**0.57**	**4.18**
Total world	**86.39**	**87.03**	**86.77**	**88.67**	**88.82**	**87.83**	**1.44**	**1.67**
Previous estimate	86.34	86.90	86.55	88.82	88.66	87.74	1.40	1.62
Revision	0.05	0.13	0.22	-0.15	0.16	0.09	0.04	0.05

Totals may not add due to independent rounding

OECD - Europe

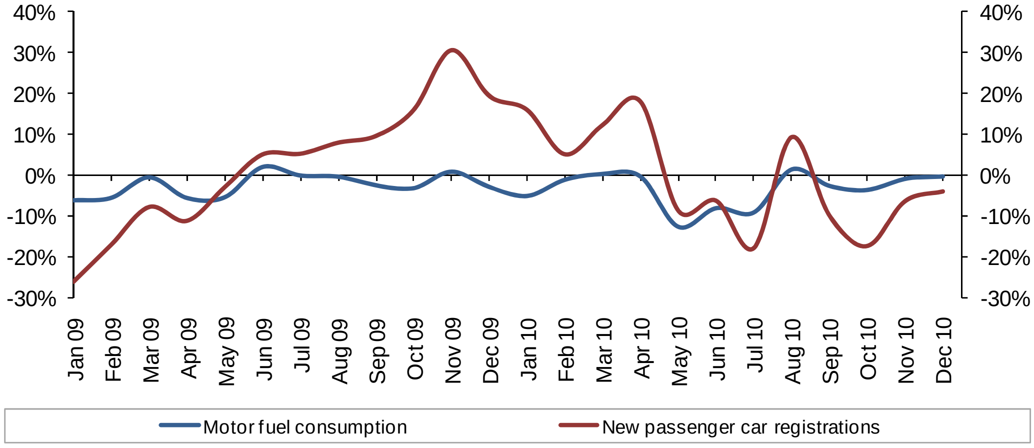
OECD Europe oil demand expected to be flat in 2011

European January oil consumption grew by 0.2 mb/d, with Germany and France being its largest contributors. The increases were mostly caused by unusually cold weather throughout the region and are indicated in significantly higher consumption of all heating oil product categories. However, European oil consumption during the year will most likely remain on the decline, as continuing debt in several European economies is putting strong downward pressure on oil demand. Oil demand in the European Big Four increased 166 tb/d in January y-o-y. However, January growth was less than that of December by almost a third. Stronger distillate consumption in Germany and France were the main drivers of that growth, while during the same period transportation fuels remained on the decline in Italy and the UK, despite the low baseline of last year. In January, German, French and UK oil consumption increased by 3%, 5% and 1%

respectively, while oil consumption in Italy was marginally higher by 0.5%.

The region's total contraction in oil demand stood at 0.1 mb/d in 2010. OECD Europe oil demand is expected to be flat in 2011.

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



According to the latest information by ACEA in January, European demand for new passenger cars fell by 1%, compared to the same month last year. Movement in major markets during January differed, with demand for new cars in Germany and France posting growth of 8% and 17% respectively. The markets in the UK, Italy and Spain declined by -12%, -21% and -24%. The largest decrease was observed in Greece at -63%, affected by the troubled economy. In France and Germany, the increase was largely attributed to the final effect of car scrappage incentives, which will be phased out in the spring of 2011. Latest data from the French automobile manufacturers association (CCFA) reported a surge in new car registrations in February, gaining 14% y-o-y. Spain has adopted some measures starting 7 March in order to reduce oil consumption. These measures include a reduction in the highway speed limit and an increase in biodiesel blend to exceed 7%, up from 5.8%. Also, the measures include a reduction in some routes in public transportation fares by 5%.

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

	Jan 11	Jan 10	Change from Jan 10	Change from Jan 10, %
LPG	479	485	-6	-1.3
Gasoline	1,103	1,096	8	0.7
Jet/Kerosene	704	737	-33	-4.5
Gas/Diesel oil	2,971	2,901	70	2.4
Fuel oil	488	499	-10	-2.1
Other products	1,127	990	138	13.9
Total	**6,873**	**6,707**	**166**	**2.5**

** Germany, France, Italy and the UK*

OECD - Pacific

OECD Pacific oil consumption expected to fall marginally

Japanese January data showed slight declining oil consumption, mainly due to fuel switching, and thus lower naphtha and residual fuel oil usage. Moreover, the Japanese consumption of transportation fuels showed no increase as compared to last year, while crude for direct burning marked the highest increase as a product category during January, as a result of cold weather. Further development of Japanese oil consumption during 2011 is heavily dependent upon the implementation of a stimulus plan and the level of fuel substitution in addition to the operation of nuclear power plants. In South Korea, last December marked sharp increases in the consumption of all products, especially in industrial and transportation fuels. South Korean oil consumption grew moderately by 0.03 mb/d or 1.5% during the whole of 2010.

OECD Pacific oil demand showed minor growth of 0.1 mb/d in 2010, averaging 7.8 mb/d. However, during 2011, OECD Pacific oil consumption is expected to fall slightly by 0.03 mb/d resulting from the declining Japanese oil demand.

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

			Change 2011/10				Change 2011/10	
	1Q10	1Q11	Volume	%	2Q10	2Q11	Volume	%
North America	23.45	23.96	0.51	2.18	23.74	24.00	0.26	1.08
Western Europe	14.17	14.33	0.16	1.15	14.12	14.11	0.00	-0.02
OECD Pacific	8.19	8.18	-0.01	-0.09	7.30	7.29	0.00	-0.02
Total OECD	**45.81**	**46.47**	**0.67**	**1.45**	**45.15**	**45.41**	**0.25**	**0.56**
Other Asia	9.95	10.15	0.21	2.10	10.13	10.35	0.22	2.14
Latin America	5.83	6.02	0.19	3.24	6.09	6.27	0.18	2.87
Middle East	7.18	7.40	0.22	2.99	7.16	7.33	0.17	2.43
Africa	3.30	3.32	0.02	0.61	3.29	3.31	0.02	0.73
Total DCs	**26.26**	**26.90**	**0.63**	**2.41**	**26.67**	**27.26**	**0.59**	**2.21**
FSU	3.96	4.05	0.09	2.15	3.78	3.85	0.07	1.85
Other Europe	0.69	0.68	-0.01	-0.73	0.64	0.62	-0.03	-3.90
China	8.37	8.93	0.56	6.68	9.09	9.64	0.55	6.06
Total "Other regions"	**13.02**	**13.66**	**0.64**	**4.91**	**13.52**	**14.11**	**0.60**	**4.41**
Total world	**85.09**	**87.03**	**1.94**	**2.28**	**85.34**	**86.77**	**1.44**	**1.69**

Totals may not add due to independent rounding

Table 4.7: 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	24.22	24.38	0.15	0.64	24.00	24.27	0.27	1.12
Western Europe	14.79	14.69	-0.10	-0.67	14.71	14.63	-0.08	-0.53
OECD Pacific	7.60	7.54	-0.06	-0.80	7.99	7.95	-0.04	-0.53
Total OECD	**46.61**	**46.60**	**-0.01**	**-0.01**	**46.70**	**46.85**	**0.15**	**0.32**
Other Asia	9.87	10.08	0.21	2.10	10.10	10.31	0.21	2.12
Latin America	6.28	6.46	0.18	2.92	6.21	6.36	0.15	2.45
Middle East	7.48	7.67	0.19	2.57	7.19	7.39	0.20	2.78
Africa	3.16	3.19	0.03	0.82	3.31	3.34	0.02	0.75
Total DCs	**26.79**	**27.40**	**0.61**	**2.27**	**26.81**	**27.40**	**0.59**	**2.20**
FSU	4.22	4.30	0.08	1.78	4.27	4.35	0.08	1.79
Other Europe	0.66	0.65	-0.02	-2.26	0.70	0.67	-0.03	-4.16
China	9.23	9.72	0.49	5.34	9.10	9.55	0.45	4.97
Total "Other regions"	**14.11**	**14.67**	**0.55**	**3.92**	**14.07**	**14.57**	**0.50**	**3.55**
Total world	**87.51**	**88.67**	**1.16**	**1.32**	**87.58**	**88.82**	**1.24**	**1.42**

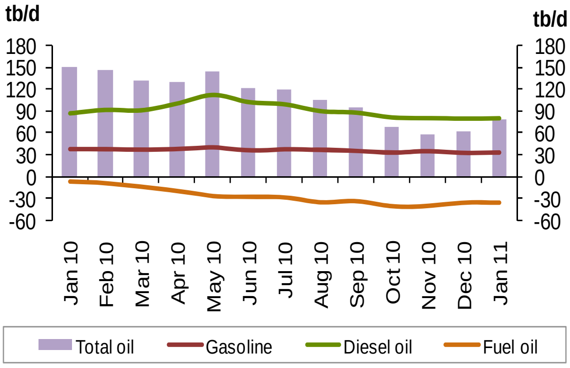
Totals may not add due to independent rounding

Developing Countries

DC oil demand growth in first half of 2011 forecast at 0.61 mb/d

Indian power plants have been practicing fuel switching to natural gas in the past year which led to a marginal cut in the use of oil. Nevertheless, increasing natural gas prices during this past winter discouraged the country from using of natural gas; hence, oil demand showed some increase in the first quarter of this year. Furthermore, holidays during the month are expected to affect the country's use of oil. The agricultural season is about to begin. This sector will influence diesel demand country-wide. The use of diesel by this sector was badly affected last year by the storm season.

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



India oil demand forecast to increase by 3.5% this year

India's weather was cold in January putting pressure on power plants. Latest news indicated 4.4% y-o-y growth in the country's January oil demand adding another 149 tb/d to the country's total oil demand. Gasoline and diesel grew sharply by 8.9% and 6.3% in January. It is forecast that India oil demand will increase by 3.5% this year compared to last year. Two downward risks that may drag the country's oil demand growth lower are bad weather and fuel switching.

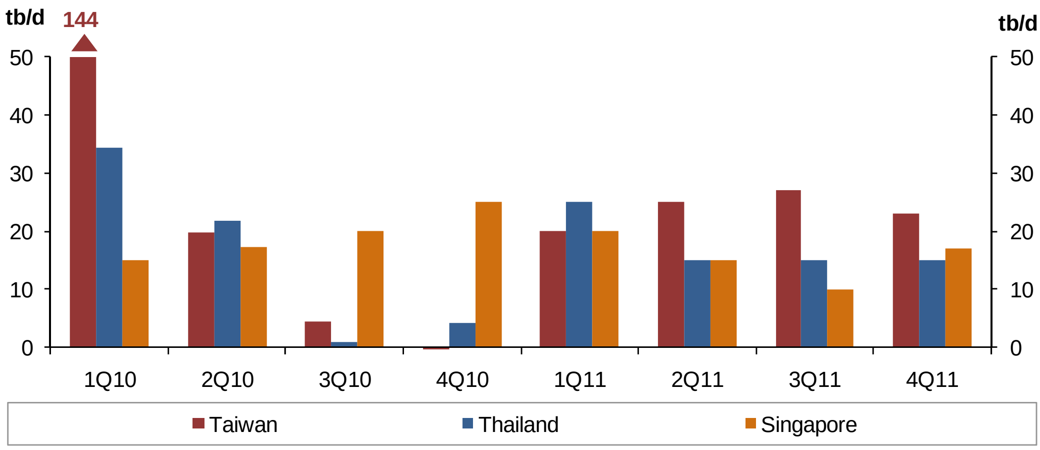
In India, auto sales were up by 26% in January from a year ago. Vehicle sales in India – one of the fastest growing auto markets in the world – grew 31% in 2010. However, growth is expected to moderate during 2011 as a result of rising interest rates, fuel prices and vehicle costs.

Given the recent strength in India's oil demand, Other Asia oil demand growth is forecast at 0.2 mb/d in 2011

Taiwan oil demand grew by 3.7% or 36 tb/d, averaging 1.0 mb/d in 2010. Economic growth of 8.8% triggered this strong oil demand despite the development of public transportation country-wide. As for this year, Taiwan's GDP is forecast to be half of that of last year; hence, the country's oil demand growth is forecast at 25 tb/d y-o-y.

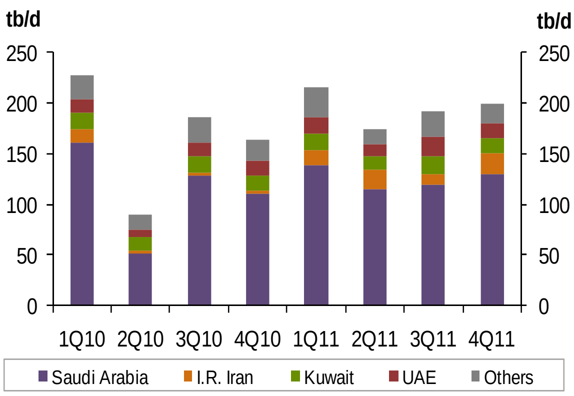
Given the recent strength in India's oil demand, Other Asia oil demand is forecast to grow by 0.2 mb/d in 2011.

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



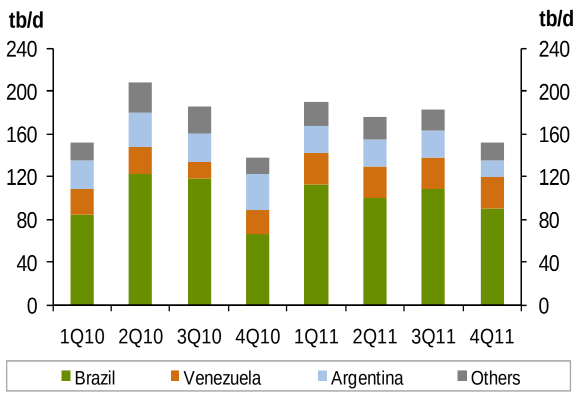
The Middle East oil demand increased by 0.17 mb/d in January reflecting a minor decline in the Iranian consumption. It is forecast that the region's first quarter oil demand will grow as predicted to reach 0.22 mb/d. Most of the forecast growth in oil demand is attributed to both petrochemical and transport sectors. The region's oil demand last year fell below expectation achieving y-o-y growth of 2.4%. This was as a result of declining Iranian oil usage during the year.

Graph 4.8: Yearly oil demand growth in the Middle East



Venezuelan oil demand was flat last year, but is expected to see some improvement this year. This is expected despite the country's initiative to reduce gasoline sales which were inflated by low retail prices. The country's oil demand is forecast to grow by 30 tb/d to average 0.77 mb/d in 2011.

Graph 4.9: Yearly oil demand growth in Latin America



Argentinean transport fuel demand, especially gasoline, has been on the rise with the help of regulated retail prices. In order to satisfy increasing domestic demand, the country will be forced to yield to importing. Argentina's oil demand increased by 7.3% last year, adding another 40 tb/d to total demand. Gasoline alone increased by 7.4% and diesel inched up by 5% y-o-y in 2010. Due to the anticipation of marginal de-regulation of the country's domestic retail prices, Argentina's oil demand growth is forecast to be half of what it was last year.

Brazil oil demand has been on the upward trend since 2004 and is expected to continue to increase for this year with the alcohol-based energy sector showing the highest growth. Furthermore, the transport sector is expected to push Brazil oil demand up again by 0.1 mb/d in 2011. Across Latin America, March Carnival celebration is anticipated to hike consumption during the month.

Developing Countries' first half 2011 oil demand growth is forecast at 0.61 mb/d y-o-y to average 26.5 mb/d.

Table 4.8: Consumption of petroleum products in Saudi Arabia, kb/d

	Jan 11	Jan 10	Change, tb/d	Change, %
LPG	49	43	6	0.1
Gasoline	428	465	-38	-0.1
Jet/Kerosene	55	78	-23	-0.3
Gas/Diesel oil	568	529	39	0.1
Fuel oil	284	195	89	0.5
Other products	62	47	15	0.3
Direct crude burning	338	292	46	0.2
Total	**1,783**	**1,649**	**134**	**0.1**

Source: Direct communication

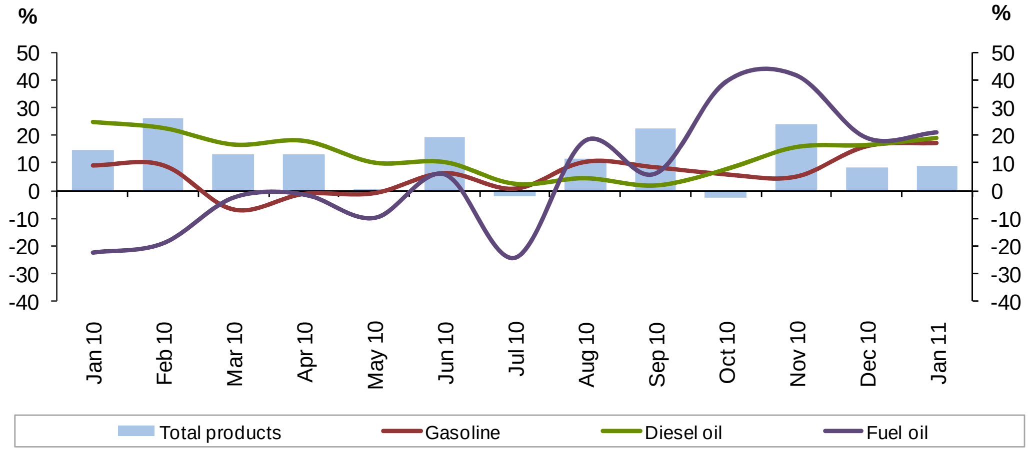
Other regions

China's oil demand expected to grow by 0.51 mb/d in 2011

China's National Development and Reform Commission (NDRC) raised domestic petroleum product retail prices to go hand in hand with higher international prices. China has been adopting a pricing system which follows international prices if they swing by more than 4% and sustain more than 22 days. Gasoline's latest price increased by 4.5% and diesel increased by 5%. It is not predicted that this latest increase will dent the country's oil demand this year.

China's oil imports exceeded 35% growth, reaching 1.45 mb/d in January y-o-y. However, almost half of this imported oil ended up in the country's stocks in form of crude and products. A final monthly assessment indicates growth of 700 tb/d in January y-o-y. According to China's latest OGP publication, the country's commercial stocks increased by 0.7 mb/d in January. Crude stocks increased by 0.25 mb/d and diesel stocks by 0.48 mb/d. This excludes any stock movement in the country's SPR. This massive increase in diesel is in anticipation of high usage during the spring holidays. The use of road transportation is common during this spring festival, since railroad services are limited. Diesel usage increased in January by 19% or 560 tb/d and gasoline demand rose 17% y-o-y.

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

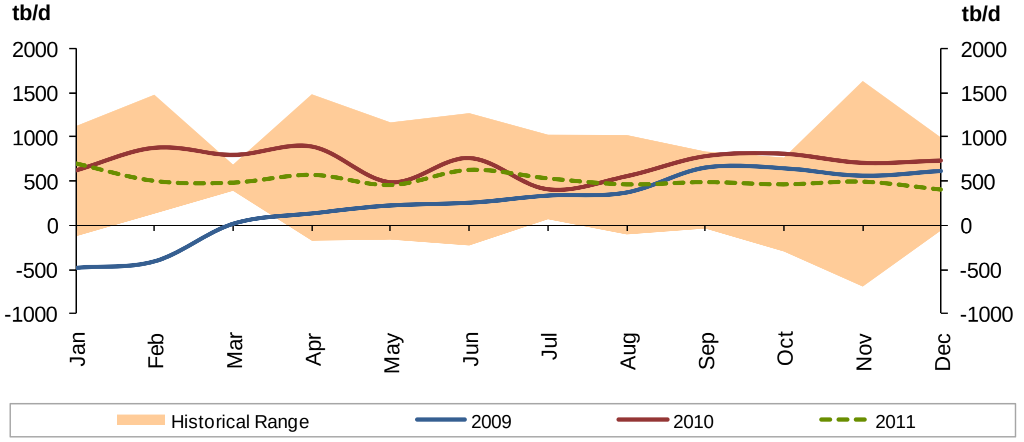


Despite the government efforts to cool down the country's energy demand, China's oil demand is expected to grow by 0.51 mb/d in 2011, averaging 9.5 mb/d.

The year 2010 closed with oil demand growth of 9% which added 0.7 mb/d to China's total oil demand. The product that increased the most was diesel, reaching 0.34 mb/d or 12%. Diesel is an important product in China. Not only do industrial and transport sectors use such products, but independent electricity generators do so as well in order to offset the shortage of power during the year. Gasoline usage grew, reflecting the strong increase in new auto registration adding another 80 tb/d to total oil demand.

Sales of China's passenger vehicles, including cars, multi-purpose vehicles (MPVs), sport utility vehicles (SUVs) and minivans, rose 17% in January 2011 compared to 2010, the China Passenger Car Association reported. The slowdown in sales growth was attributed to the removal of government incentives, the ending of a car scrappage scheme and the increase of car sales taxes.

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



World Oil Supply

Non-OPEC

Estimate for 2010

Non-OPEC supply growth stood at 1.14 mb/d in 2010

Non-OPEC oil supply is estimated to have averaged 52.26 mb/d in 2010, indicating growth of 1.14 mb/d over the previous year, the highest annual supply increase since 2002. This estimate is broadly unchanged from the previous month in terms of total volume and annual growth. However, there were minor upward and downward revisions to a few countries' supply estimates in 2010 that offset each other. The revisions were introduced mostly to fourth quarter supply, while there were a few historical adjustments that affected all quarters of 2010. During 2010, non-OPEC supply experienced significant annual growth on a quarterly basis, with all quarters encountering supply increases ranging between 0.86 mb/d to 1.30 mb/d. The highest quarterly growth was experienced in the second quarter at 1.30 mb/d compared to the same quarter a year earlier. The revisions were due to updated actual production data for some countries. On a quarterly basis, non-OPEC supply is estimated at 52.14 mb/d, 52.11 mb/d, 51.94 mb/d and 52.86 mb/d respectively.

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

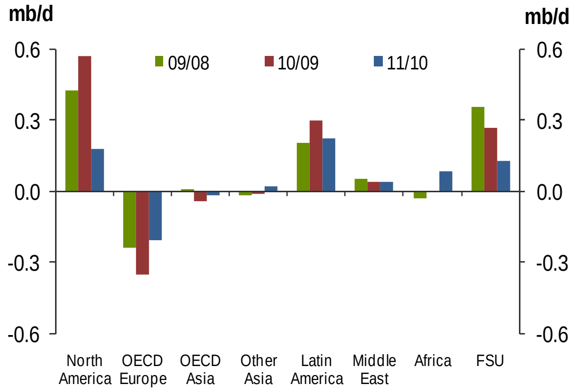


Table 5.1: Non-OPEC oil supply in 2010, mb/d

	2009	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09
North America	14.36	14.71	14.86	14.92	15.26	14.94	0.57
Western Europe	4.73	4.70	4.40	4.01	4.40	4.38	-0.35
OECD Pacific	0.64	0.61	0.60	0.60	0.57	0.60	-0.04
Total OECD	**19.73**	**20.03**	**19.86**	**19.53**	**20.23**	**19.91**	**0.18**
Other Asia	3.70	3.68	3.67	3.71	3.72	3.69	-0.01
Latin America	4.41	4.65	4.72	4.72	4.73	4.71	0.30
Middle East	1.73	1.77	1.77	1.77	1.78	1.77	0.04
Africa	2.61	2.62	2.59	2.61	2.62	2.61	-0.01
Total DCs	**12.46**	**12.72**	**12.75**	**12.81**	**12.84**	**12.78**	**0.33**
FSU	12.96	13.16	13.20	13.21	13.33	13.22	0.27
Other Europe	0.14	0.14	0.14	0.14	0.13	0.14	0.00
China	3.85	4.03	4.10	4.18	4.25	4.14	0.29
Total "Other regions"	**16.95**	**17.32**	**17.43**	**17.52**	**17.71**	**17.50**	**0.55**
Total Non-OPEC production	**49.13**	**50.07**	**50.04**	**49.86**	**50.78**	**50.19**	**1.06**
Processing gains	2.00	2.08	2.08	2.08	2.08	2.08	0.08
Total Non-OPEC supply	**51.13**	**52.14**	**52.11**	**51.94**	**52.86**	**52.26**	**1.14**
Previous estimate	51.13	52.13	52.12	51.97	52.83	52.26	1.14
Revision	0.00	0.01	-0.01	-0.03	0.03	0.00	0.00

Revisions to the 2010 estimate

Azerbaijan and Brazil oil supply estimates for 2010 encountered revisions across all quarters. Updated production data for Azerbaijan as well as new biofuel production figures required the revisions. The rest of the revisions for 2010 supply estimates were carried out in the fourth quarter, as more actual production data became available. Fourth quarter oil production estimates were revised for Canada, UK, Brunei, Indonesia, Malaysia, Argentina and Colombia. The largest revision affected Canada oil supply in the fourth quarter by 80 tb/d. This was mainly due to strong production levels in December, which reached a record high, according to preliminary data. The healthy output was mainly driven by the growth of Canada NGLs and non-conventional oil supply. The revisions that affected the supply estimates of other countries were also driven by adjustments to updated production data.

Forecast for 2011

Non-OPEC supply seen increasing by 0.52 mb/d in 2011

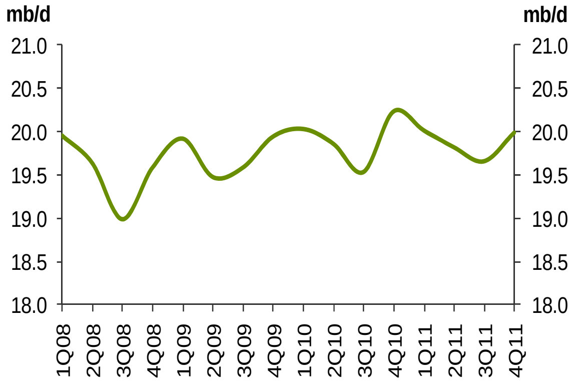
Non-OPEC supply is forecast to increase 0.52 mb/d in 2011 to average 52.79 mb/d, representing an upward revision of 0.10 mb/d from the previous month. The bulk of the upward revision came from OECD supply with North America experiencing the largest upward revision compared to the previous month's evaluation. Some of the revisions introduced to the 2010 supply estimates were carried over to 2011. Developing countries' oil supply forecast continued to be expected to have the largest growth in 2011, followed by North America and the FSU, while OECD Western Europe supply remains the region with the largest expected decline in 2011. On a quarterly basis, non-OPEC supply is expected to average 52.80 mb/d, 52.67 mb/d, 52.53 mb/d and 53.14 respectively.

OECD

OECD supply to decline by 40 tb/d in 2011

Total OECD countries' oil supply is expected to decline by 40 tb/d in 2011 to average 19.86 mb/d, representing an upward revision of 80 tb/d from last month. The upward revision was a result of changes to the supply forecast of the US, Canada, Mexico, and Norway due to different factors in addition to adjustment to actual production data for the early part of 2011. The US, Canada, and Mexico supply forecasts were revised higher and the upward revisions were more than enough to offset the downward revision to the Norway supply forecast. Western Europe experienced a minor downward revision compared to the previous month, while North America experienced the largest upward revision among all non-OPEC regions. North America remains the only region within the OECD expected to display a supply increase in 2011, with the increase in the US and Canada outpacing the decline in Mexico supply. A degree of risk and uncertainty remains due to weather conditions as well as the rate of decline, among other factors. On a quarterly basis, OECD oil supply is seen to average 20.01 mb/d, 19.82 mb/d, 19.65 mb/d and 19.98 mb/d respectively.

Graph 5.2: OECD's quarterly production



North America

North America oil supply is projected to increase by 0.18 mb/d over 2010 to average 15.11 mb/d in 2011, representing an upward revision of 0.10 mb/d from last month. Oil production forecasts for the US, Canada and Mexico were revised up, with Canada supply forecast experiencing the largest revision. On a quarterly basis, North America oil supply in 2011 is expected to stand at 15.11 mb/d, 15.10 mb/d, 15.04 mb/d and 15.21 mb/d respectively.

US

First deepwater permit issued since summer of 2010

US oil supply is foreseen to increase by 90 tb/d over the previous year to average 8.68 mb/d in 2011, indicating an upward revision of 40 tb/d from last month. The revision was experienced in all quarters, with the largest share coming to the second half of 2011. The fact that more deepwater projects could resume drilling without having to go once more through environmental reviews supported the upward revision in the second half of 2011. Additionally, the issuing of the first deepwater permit since the moratorium further supported the upward revision. Moreover, the startup of the Nikaitchuq project in Alaska, as well as the rebound of Alaskan output in February compared to the previous month added to the positive factors influencing US oil supply in 2011. Non-conventional oil production is expected to strongly support supply growth in the US in 2011, especially with the high price environment, where operators are encouraged to capitalize on and increase their output. Furthermore, NGL production is seen to increase in 2011 as some natural gas operators focus on liquid output to counter the weak gas market. On a quarterly basis, US oil supply is expected to stand at 8.71 mb/d 8.68 mb/d, 8.63 mb/d and 8.71 mb/d respectively. According to preliminary data, US oil supply is estimated to have averaged 8.67 mb/d in January and February, which is lower than the average of the fourth quarter.

At the same time, the scheduled maintenance of some oil fields in the Gulf of Mexico is expected to reduce supply for a short period and partially offset the upward revision. In addition, the increasing cost, while partially compensated by the higher price of oil, is negatively influencing supply growth in 2011. Reports are suggesting that costs are moving close to the peak reached in third quarter 2008. Moreover, the operational obstacles facing the implementation of the E15 mandate which would increase the ethanol blend in gasoline to 15%, could limit the effect on biofuel production.

Canada and Mexico

Horizon to return to full production in the third quarter

Canadian oil production is foreseen to average 3.52 mb/d in 2011, growth of 0.14 mb/d from the 2010 estimate, representing an upward revision of 55 tb/d from the previous month. The strong production figure in the last two months of 2010 supported the upward revision as part of the 2010 revision was carried over to the 2011 forecast. The Canada supply profile remains unchanged with growth expected in NGLs and non-conventional oils while conventional oil production is seen to decline in 2011. On the negative side, reports suggested that the Husky facilities repairs, after the fire in early February, are expected to be completed at the end of March, which will affect the annual production level. Additionally, the Horizon facilities are expected to partially resume production in the second quarter while full volume is anticipated to return in the third quarter. The operator has reduced the annual production average in 2011 to around 50 tb/d, down from the average of 90 tb/d in 2010. On a quarterly basis, Canada's production is foreseen to average 3.46 mb/d, 3.50 mb/d, 3.52 mb/d and 3.60 mb/d respectively.

Mexico supply to drop 50 tb/d in 2011

Mexico oil supply is foreseen to average 2.91 mb/d in 2011, a decline of 50 tb/d from a year earlier and an upward revision of 10 tb/d from the previous month. The upward revision came on the back of healthier-than-expected January production that indicated a minor increase compared to December 2010. January output was the highest since March 2010. However, preliminary data for the first three weeks of February indicates a slight decline from the January level. Additionally, the expected decline in drilling in 2011 of around 40%, which is seen to affect the Chicontepec and Burgos fields, is not likely to have a considerable impact on output. On a quarterly basis, Mexico's oil supply is seen to average 2.94 mb/d, 2.92 mb/d, 2.88mb/d and 2.90 mb/d, respectively.

Western Europe

Oil supply from OECD Western Europe is forecast to decline by 0.21 mb/d in 2011 over the previous year to average 4.17 mb/d, indicating a downward revision of 15 tb/d from the previous month, driven by a revision to Norway and Other Western Europe supply. OECD Western Europe remains the region with the biggest decline among non-OPEC regions in 2011. On a quarterly basis, OECD Western Europe supply in 2011 is anticipated to stand at 4.34 mb/d, 4.12 mb/d, 4.02 mb/d, and 4.19 mb/d respectively.

Norway supply to decline by 0.12 mb/d in 2011

Norway's oil production is expected to average 2.01 mb/d in 2011, a drop of around 0.12 mb/d from a year earlier and a downward revision of 15 tb/d from the previous report. The downward revision came across all the quarters of 2011, but with a heavier effect on the first half. The weaker-than-expected production level in January triggered the downward revision. Additionally, adverse weather conditions that forced a short shutdown, combined with various unexpected outages, negatively affected the forecast. Moreover, lower-than-expected investment slightly changed the outlook, although investment is still anticipated to be higher in 2011 than in the previous year. On the other hand, the resumed output at the Ormen field as well as the startup of the small Trym project partially offset some of the downward revision. On a quarterly basis, Norway's supply is expected to average 2.14 mb/d, 1.96 mb/d, 1.92 mb/d and 2.02 mb/d, respectively.

UK oil supply expected to decline by 70 tb/d in 2011

Oil production from the UK is anticipated to decrease by 70 tb/d over a year earlier to average 1.30 mb/d in 2011, unchanged from the previous month's assessment. The steady state of the forecast came despite a minor downward revision that affected the fourth quarter 2010. However, the expected increase in investment supported the forecast. Additionally, the anticipated minor increase of output in March, derived from the loading programme, supported the forecast, despite the decline from a year earlier. On a quarterly basis, UK oil supply is seen to stand at 1.33 mb/d, 1.29 mb/d, 1.26 mb/d and 1.31 mb/d respectively.

Asia Pacific

OECD Asia Pacific oil supply is forecast to average 0.58 mb/d in 2011, relatively steady from the previous year with a minor decline of 10 tb/d, indicating a minor downward revision of 10 tb/d from the previous month. On a quarterly basis, OECD Pacific supply is anticipated to average 0.56 mb/d, 0.59 mb/d, 0.60 mb/d and 0.58 mb/d respectively.

Australia supply forecast to remain flat in 2011

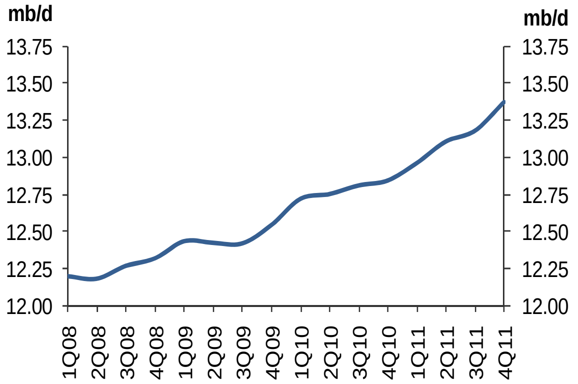
Australia oil supply is foreseen to remain steady in 2011 compared to the previous year to average 0.50 mb/d, indicating a downward revision of 10 tb/d from a month earlier. The downward revision came in the first quarter to cover the effect of adverse weather that forced various shutdowns. A further downward revision might be introduced in the coming months as production data becomes available. On the other hand, the Montara project is now expected to startup by the end of 2011. On a quarterly basis, Australian supply is expected to average 0.47 mb/d, 0.51 mb/d, 0.52 mb/d and 0.51 mb/d respectively.

Developing Countries

DC's supply to increase by 0.37 mb/d in 2011

Developing Countries (DCs) supply is predicted to average 13.15 mb/d in 2011, an increase of 0.37 mb/d over the previous year, unchanged from last month. Despite the steady state, there were a few upward and downward revisions, in addition to some historical revisions, that offset each other. Latin America remained the region with the highest annual growth among all non-OPEC regions of 0.23 mb/d, despite a minor downward revision of 20 tb/d over the previous month. Supply from Other Asia is estimated to grow by 20 tb/d over the previous year to average 3.71 mb/d in 2011. Supply from the Middle East is foreseen to average 1.82 mb/d in 2011, an increase of 40 tb/d over the previous year and an upward revision of 20 tb/d since last month. Oil production from the Africa region is anticipated to increase by 90 tb/d over a year earlier to average 2.69 mb/d in 2011, unchanged from the previous month. On a quarterly basis, DC's total oil supply is projected to stand at 12.96 mb/d, 13.11 mb/d, 13.18 mb/d and 13.37 mb/d respectively.

Graph 5.3: Developing Countries' quarterly production



Indonesia oil output to decline by 40 tb/d in 2011

Oil supply from Other Asia is foreseen to average 3.71 mb/d in 2011, a minor increase of 20 tb/d over the previous year, flat from a month earlier. Despite the steady state, minor revisions were carried out, but these offset eachother. Brunei, Indonesia, and Malaysia oil supply forecasts encountered revisions. Brunei oil supply forecast experienced a minor upward revision due to a historical update that was carried over to the 2011 outlook. Indonesia oil supply is expected to average 0.99 mb/d in 2011, a drop of 40 tb/d from the previous year, representing a downward revision of 10 tb/d compared to the previous month. The downward revision was introduced due to the anticipated lower output in the first quarter on the back of adverse weather conditions. Additionally, the possible cut in drilling due to land claims supported the downward revision. On a quarterly basis, Other Asia supply is foreseen to stand at 3.70 mb/d, 3.70 mb/d, 3.71 mb/d and 3.73 mb/d respectively.

Malaysia oil supply is expected to average 0.68 mb/d in 2011, a drop of 30 tb/d from the previous year, indicating an upward revision of 10 tb/d compared to last month. The upward revision in the fourth quarter of 2010 supported the outlook in 2011. Additionally, reports of more spending on enhanced oil recovery (EOR) projects are further supporting the upward revision. India oil supply is expected to increase by 50 tb/d in 2011, the highest among the Other Asia region, supported by the Rajasthan oil developments. The Mangala field is reported to have achieved its target of 125 tb/d by the end of 2010.

Brazil January supply fell slightly due to maintenance shutdowns

Oil Supply from **Latin America** is projected to average 4.93 mb/d in 2011, an increase of 0.23 mb/d from a year earlier, indicating a minor downward revision of 20 tb/d from last month. The Argentina and Brazil oil supply forecasts experienced downward revisions, mainly due to historical updates that affected fourth quarter 2010 supply. Colombia oil output is forecast to increase by 80 tb/d in 2011 to average 0.88 mb/d, unchanged from the previous assessment. The negative effect of the recent attacks on pipelines, with one shortly halting production, was offset by the upward revision in 4Q10. Additionally, the expected growth from the Llanos developments, including the Castilla fields, further support the expected growth in 2011. On a quarterly basis, Latin American supply stands at 4.81 mb/d, 4.92 mb/d, 4.94 mb/d and 5.06 mb/d respectively.

Brazil oil production is forecast to increase by 0.16 mb/d in 2011, the highest among all non-OPEC countries, to average 2.86 mb/d, indicating a downward revision of 15 tb/d compared to the previous report. The downward revision was the result of historical adjustments to the 2010 supply estimate. The return of the Cherne field to normal operations, after the halt of output due to fire, slightly affected the forecast. Additionally, the reported lower supply in January, due to various maintenance works, negatively influenced the forecast in 2011. However, the start of the long-term test of the Marlim Leste subsalt as well as reports of the P-56 startup in July and the Waimea extended well test startup in August, offset the negative supply momentum.

Middle East supply to grow by 40 tb/d in 2011

Middle East oil supply is anticipated to increase by 40 tb/d in 2011 to average 1.82 mb/d, indicating an upward revision of 20 tb/d from last month. The upward revisions were made to Bahrain and Oman supply forecasts. Bahrain oil supply is expected to increase by 10 tb/d in 2011 to average 0.22 mb/d, indicating a minor upward revision of 10 tb/d from the previous month. The upward revision was introduced on the back of expected output support by the EOR at the Awali field. Omani oil supply is expected to increase by 60 tb/d over the previous year to average 0.92 mb/d in 2011, indicating an upward revision of 10 tb/d from the previous month. The upward revision came to reflect the startup of the Aqeeq development in 2011 as well as the ramp-up of the Al Ghubar project. On a quarterly basis, Middle East supply stands at 1.80 mb/d, 1.81 mb/d, 1.82 mb/d and 1.83 mb/d respectively.

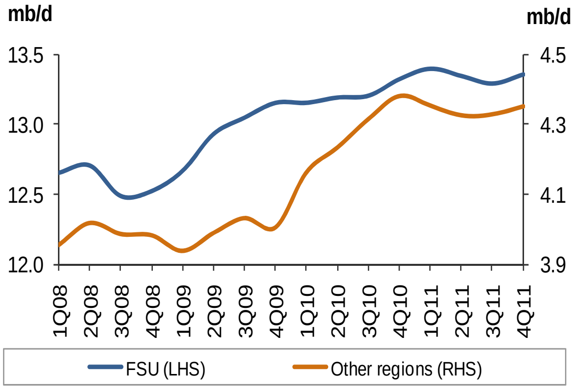
Africa supply to increase by 90 tb/d in 2011, supported by the growth in Ghana

Africa oil supply is expected to increase by 90 tb/d from the previous year to average 2.69 mb/d in 2011, unchanged from the previous month. Ghana is expected to be the main driver of growth in Africa in 2011, supported by the Jubilee developments. Egypt oil supply is expected to remain flat in 2011 compared to the previous year as the expected supply growth in the Western Desert is foreseen to be offset by the decline at the mature producing area of Suez. On a quarterly basis, Africa supply is expected to stand at 2.64 mb/d, 2.68 mb/d, 2.70 mb/d and 2.75 mb/d respectively.

FSU, Other Regions

FSU supply is expected to increase by 130 tb/d in 2011

Graph 5.4: FSU and other region's quarterly production



Total FSU oil supply is foreseen to grow by 0.13 mb/d over the previous year to average 13.35 mb/d in 2011, indicating an upward revision of 15 tb/d from the previous report. The minor upward revision came only from Russia, while Kazakhstan and Azerbaijan oil supply forecasts experienced minor downward revisions. The FSU supply forecast in 2011 is supported by expected growth in Russia, Azerbaijan, and Kazakhstan, with some degree of uncertainty associated with the projection. On a quarterly basis, total oil supply in the FSU is estimated to stand at 13.40 mb/d, 13.35 mb/d, 13.29 mb/d and 13.36 mb/d, respectively. Other Europe is expected to remain unchanged compared to the previous year at 0.14 mb/d. China's oil supply is seen to increase by 60 tb/d to average 4.20 mb/d in 2011.

Russia

Russia actual output in January and February remains strong, above 10.2 mb/d

Oil supply from **Russia** is expected to increase by 50 tb/d over the previous year to average 10.19 mb/d in 2011, indicating an upward revision of 35 tb/d from last month. The upward revision was mainly to the first quarter due to actual production figures in the first two months of the year coming in slightly above expectation and this is carried over to the rest of the quarters. During the first two months, Russia oil supply indicated an increase of 0.15 mb/d compared to the same period of 2010. Additionally, the anticipated growth at the Talakan and Alinskoye developments in East Siberia is further supporting the forecast. The uncertainty with the Russia supply forecast remains high as various reports suggested a possibility of changes to the export duties and tax regulations. Therefore, careful monitoring of the developments in Russian supply is essential. On a quarterly basis, Russian oil supply is seen to average 10.22 mb/d, 10.21 mb/d, 10.17 mb/d and 10.18 mb/d respectively. February preliminary data suggests that Russia's production stood at 10.23 mb/d, higher than in the previous month.

Caspian

Kazakh supply to increase by 50 tb/d in 2011

Kazakhstan oil production is foreseen to average 1.65 mb/d in 2011, an increase of 50 tb/d over a year earlier, representing a downward revision of 10 tb/d from the last report. The downward revision was introduced to reflect the expected impact of maintenance on February and March production. Despite the downward revision, Kazakhstan output is seen to increase in 2011 supported by the Tengiz development, which achieved 15% growth in 2010. On a quarterly basis, Kazakhstan supply is expected to stand at 1.66 mb/d, 1.63 mb/d, 1.62 mb/d and 1.67 mb/d respectively.

Azerbaijan output expected to increase by 30 tb/d in 2011

Oil supply from Azerbaijan is anticipated to average 1.10 mb/d in 2011, an increase of 30 tb/d over the previous year, representing a downward revision of 15 tb/d from the previous month. The downward revision came on the back of reported production problems in January and shutdowns due to safety concerns. However, output is expected to improve in February and March of 2011. On a quarterly basis, Azerbaijan oil supply is estimated to average 1.11 mb/d, 1.09 mb/d, 1.09 mb/d and 1.10 mb/d respectively.

China supply to average 4.2 mb/d in 2011

China

China's oil supply is predicted to increase by 60 tb/d over the previous year to average 4.20 mb/d in 2011, indicating a minor upward revision of around 10 tb/d from the previous month. The upward revision was introduced on the back of healthy output during the fourth quarter 2010. On a quarterly basis, China's oil supply is expected to average 4.22 mb/d, 4.19 mb/d, 4.19 mb/d and 4.21 mb/d respectively.

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

	2010	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10
North America	14.94	15.11	15.10	15.04	15.21	15.11	0.18
Western Europe	4.38	4.34	4.12	4.02	4.19	4.17	-0.21
OECD Pacific	0.60	0.56	0.59	0.60	0.58	0.58	-0.01
Total OECD	**19.91**	**20.01**	**19.82**	**19.65**	**19.98**	**19.86**	**-0.04**
Other Asia	3.69	3.70	3.70	3.71	3.73	3.71	0.02
Latin America	4.71	4.81	4.92	4.94	5.06	4.93	0.23
Middle East	1.77	1.80	1.81	1.82	1.83	1.82	0.04
Africa	2.61	2.64	2.68	2.70	2.75	2.69	0.09
Total DCs	**12.78**	**12.96**	**13.11**	**13.18**	**13.37**	**13.15**	**0.37**
FSU	13.22	13.40	13.35	13.29	13.36	13.35	0.13
Other Europe	0.14	0.14	0.14	0.14	0.14	0.14	0.00
China	4.14	4.22	4.19	4.19	4.21	4.20	0.06
Total "Other regions"	**17.50**	**17.75**	**17.67**	**17.62**	**17.71**	**17.69**	**0.19**
Total Non-OPEC production	**50.19**	**50.73**	**50.60**	**50.45**	**51.06**	**50.71**	**0.52**
Processing gains	2.08	2.08	2.08	2.08	2.08	2.08	0.00
Total Non-OPEC supply	**52.26**	**52.80**	**52.67**	**52.53**	**53.14**	**52.79**	**0.52**
Previous estimate	52.26	52.74	52.61	52.38	53.00	52.68	0.42
Revision	0.00	0.06	0.07	0.15	0.14	0.10	0.10

OPEC natural gas liquids and non-conventional oils

OPEC NGLs and non-conventional oils are estimated to have averaged 4.79 mb/d in 2010, representing growth of 0.44 mb/d over the previous year. In 2011, OPEC NGLs and nonconventional oils are foreseen to increase by 0.46 mb/d over the previous year to average 5.25 mb/d.

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

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

OPEC crude oil production

OPEC crude production averaged 30.02 mb/d in February 2011

Total OPEC crude oil production averaged 30.02 mb/d in February, indicating an increase of 110 tb/d, according to secondary sources.

OPEC production, not including Iraq, averaged 27.38 mb/d, up by 131 tb/d from January. Crude oil production experienced a sizeable increase from Saudi Arabia, Venezuela, Angola, Kuwait and the UAE, while crude output from Libya, Nigeria and Iraq declined.

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

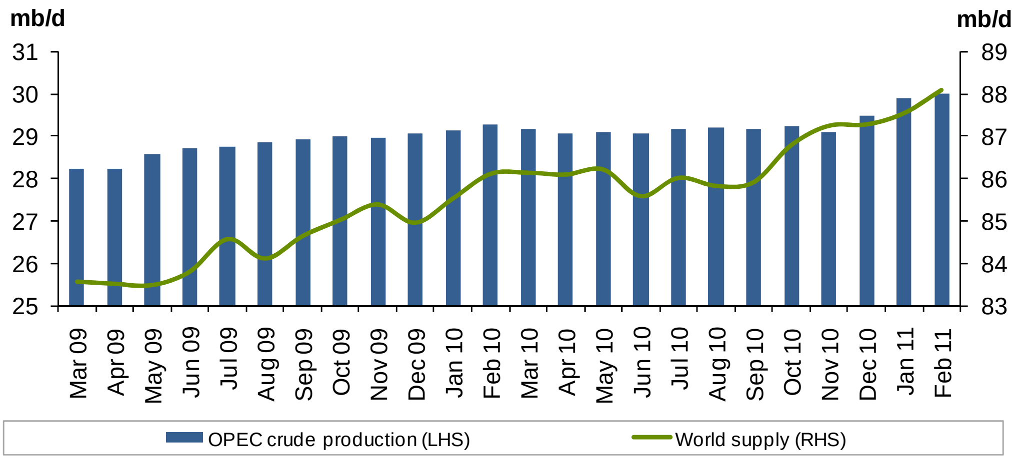
	2009	2010	2Q10	3Q10	4Q10	Dec 10	Jan 11	Feb 11	Feb/Jan
Algeria	1,270	1,269	1,270	1,268	1,267	1,259	1,263	1,261	*-2.1*
Angola	1,786	1,792	1,850	1,749	1,661	1,633	1,651	1,704	*53.3*
Ecuador	477	475	471	475	479	478	478	475	*-2.5*
Iran, I.R.	3,725	3,707	3,730	3,682	3,673	3,674	3,653	3,663	*10.0*
Iraq	2,422	2,399	2,356	2,355	2,423	2,466	2,658	2,638	*-20.7*
Kuwait	2,263	2,304	2,305	2,313	2,311	2,318	2,340	2,368	*27.5*
Libya, S.P.A.J.	1,557	1,560	1,561	1,567	1,569	1,572	1,579	1,347	*-232.7*
Nigeria	1,812	2,063	1,971	2,115	2,175	2,192	2,181	2,098	*-83.0*
Qatar	781	803	801	805	805	808	810	811	*1.3*
Saudi Arabia	8,051	8,219	8,154	8,248	8,338	8,461	8,589	8,869	*279.6*
UAE	2,256	2,305	2,309	2,318	2,312	2,340	2,371	2,394	*22.9*
Venezuela	2,309	2,284	2,294	2,285	2,264	2,273	2,334	2,391	*56.8*
Total OPEC	**28,708**	**29,179**	**29,073**	**29,180**	**29,275**	**29,474**	**29,906**	**30,016**	***110.5***
OPEC excl. Iraq	**26,286**	**26,780**	**26,717**	**26,825**	**26,853**	**27,008**	**27,247**	**27,379**	***131.2***

Totals may not add due to independent rounding

World Oil Supply

Preliminary figures for the month of February indicate that world oil supply averaged 88.08 mb/d, an increase of 0.55 m/d over the December figure, with OPEC's crude share at around 34%. The estimate is based on preliminary data for non-OPEC supply, estimates for OPEC NGLs and OPEC crude production from secondary sources.

Graph 5.5: OPEC and world oil supply

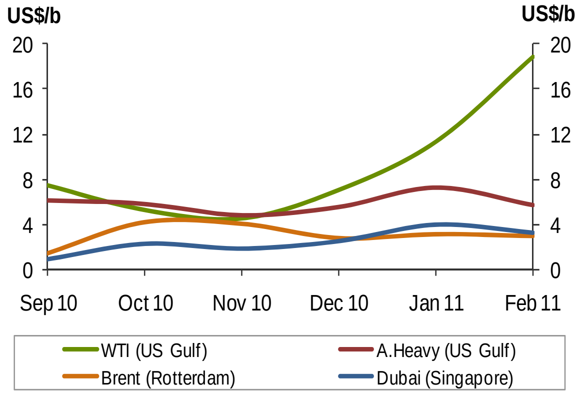


Product Markets and Refinery Operations

Strong diesel demand from the industrial sector kept product markets healthy

The sustained momentum in the middle distillates market has received further support from improved diesel demand due to the rise in industrial activity across the globe and continued strong Chinese diesel demand on the back of increased trucking activity in response of the current drought affecting the north of the country.

Graph 6.1: Refining margins, 2010-2011



Product markets were also supported by the temporary market tightness generated by the unrest in North Africa and the Middle East, amid the peak of the refinery turnaround season, which, additionally, has allowed fuel oil to recover part of the ground lost over recent months.

Refiners in Europe, threatened by a North African crude supply shortfall, have started seeking alternative supplies to cover their operational needs and it has not been necessary to touch on strategic stocks.

Healthy middle distillate demand amid moderated refinery runs will keep supporting refinery margins in the coming months and could offset the lower cracks in the top of the barrel.

US refining industry performance remained healthy in February on the back of light and middle distillate cracks. The margin for WTI crude on the US Gulf Coast reached $18.8/b, the highest level seen in years. However, the main contributor to the margins was the relatively lower WTI price, which has been disconnected from other benchmark crudes, due to the build in inventories in Cushing, Oklahoma. This situation has worsened in the last month due to accumulation of Canadian crudes at Cushing. The margin for A-Heavy crude on the US Gulf Coast was around $6/b, dropping $1/b from the previous month.

In Europe, the improvement in middle distillate cracks due to stronger demand and a recovery in the fuel oil market were able to offset the weakness in the top of the barrel and the margin for Brent crude in Rotterdam remained around the level reached last month.

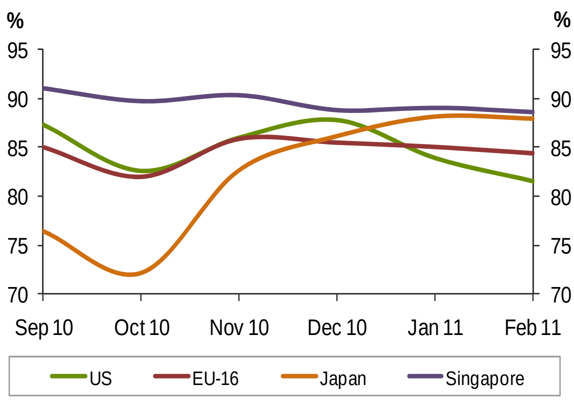
Refining margins for Dubai crude oil in Singapore lost support from light distillates, which were partially offset by the gains in fuel oil and gasoil cracks, however the more expensive crude at the end of the month caused the refinery margins to slightly drop by $0.4/b.

Refinery operations

Refining runs remained moderate

American refiners continued to reduce refinery runs in February, allowing the build in gasoline and middle distillate stocks which had started last month, to stop. Refinery runs dropped to an average of 82% in February from 84% a month earlier. This, along with tightening light components and the relatively smaller increase in the price of WTI, has contributed to keeping refining margins healthy.

Graph 6.2: Refinery utilization rates, 2010-2011



European refiners have maintained moderated throughputs over the last months at around 85%, while Japan has maintained high throughputs from the previous month of around 88%, the highest run rate since 2008.

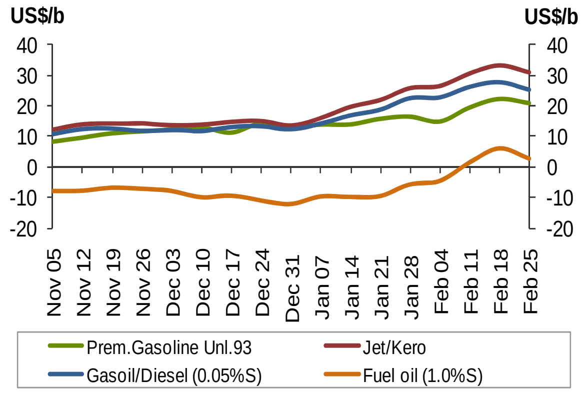
Looking ahead, positive global signals and further improving demand from the industrial sector is likely to maintain the bullish sentiment, mainly for the middle of the barrel; however, refinery utilization rates are not expected to increase sharply, taking into account the maintenance season and comfortable inventory levels.

US market

Light distillates tightened in the US

According to the EIA, US gasoline demand rose to 8.9 mb/d in February, 200 tb/d higher than a month earlier and 248 tb/d above same month last year.

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



Reduced refinery runs along with fewer imports and the transition to summer-grades caused a drop in US gasoline inventories. In addition, fewer gasoline components were available due to the turnaround of more than five catalytic cracking units. Higher export opportunities to Latin America, mainly Mexico, further supported the US gasoline market.

The bullish factors in the gasoline market and the relative weakness in WTI due to high stocks in Cushing, Oklahoma, allowed the gasoline crack spread on the US Gulf Coast to increase, surpassing $20/b at the end of February, from an average of $15.10/b in January.

Middle distillate demand remained strong in the US at 3.7 mb/d in February, similar to the previous month, although 113 tb/d lower than the y-o-y average.

The cold weather and the demand in the industrial sector retained the positive sentiment in the US distillates market, which was reinforced by additional export opportunities of diesel to South America – mainly to Argentina and Chile – where demand has been growing due to droughts ahead of the upcoming winter in the Southern Hemisphere.

The US gasoil crack on the Gulf Coast jumped to over $25/b, boosted by WTI weakness, the highest level in the last two years, gaining more than $7 over last month's average of $18/b.

Following these developments, on the Nymex, heating oil managed money traders kept net long positions at the high level of 62,607 lots in February.

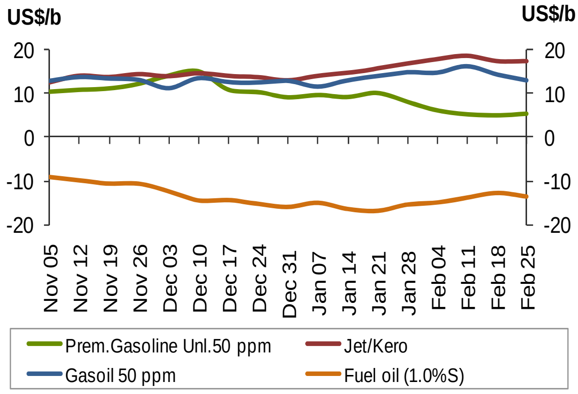
Strong demand lifted the fuel oil market in the US and provided some arbitrage opportunities to Singapore amid limited compound availability which lent some support to the market. The fuel oil crack increased $9/b to reach a premium of $1/b over WTI, driven by the distortion in the WTI price.

The European market received support from the perceived tightness due to the North Africa unrest

European market

Product market sentiment in Europe continued to be mixed as light distillates remained weaker, while momentum in middle distillates and fuel oil recovered.

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



The European gasoline market has continued to lose ground since the start of the year because of low demand within the region, limited arbitrage to the US and West Africa and suspension of imports to some North African countries which kept gasoline spreads under pressure. The gasoline crack spread against Brent crude showed a sharp drop of almost $4/b from around $9.4/b in January, to an average of $5.6/b in February.

The European naphtha market continued losing ground due to oversupply amid lackluster demand from the petrochemical sector, where naphtha has become less attractive than LPG as feedstock. In addition, bearish sentiment was fueled by limited arbitrage to Northeast Asia.

Stronger regional diesel demand, including the new Turkish specification requirements of 10 ppm sulphur, as well as limited supply due to refinery maintenance and the political unrest in North Africa supported the middle distillate market. The gasoil crack spread against Brent crude in Rotterdam gained $1.2/b to rise to an average of $14.6/b in February from $13.4/b a month earlier.

The European fuel oil market recovered the ground lost last month on the back of higher bunker demand in the region amid additional requirements, due to the concern about the unrest in North Africa.

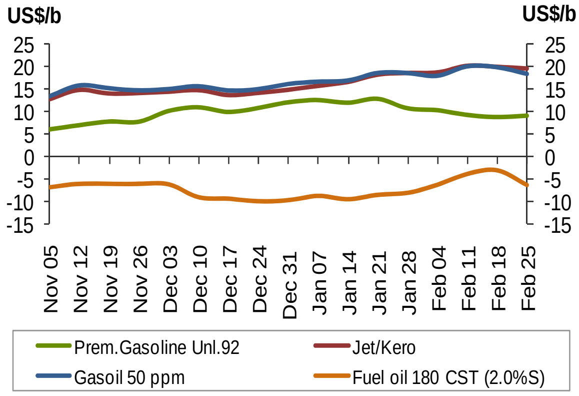
The fuel oil crack spread against Brent rose $2/b during this month to reach minus $14/b.

Light distillates market weakened in Asia

Asian market

Asian naphtha market sentiment has turned bearish since the end of January due to higher Western naphtha inflows, encouraged by the lower freight rates into mid-February and the cracker maintenance season in the region, which put offline more than 100 kt of ethylene capacity and depressed northeast Asian demand.

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



Another bearish factor from the supply side was the fall in LPG prices, displacing naphtha as feedstock for petrochemical producers.

The Asian gasoline market lost the ground gained over the last month as the stronger regional demand ahead of the Lunar New Year holiday dissipated.

Gasoline prices fell as demand was weak in the region in February due to the reduced requirements of Vietnam and Indonesia and the end of the Chinese peak driving season, while in Singapore light distillate stocks rose to their highest level since October.

The gasoline crack spread against Dubai crude oil in Singapore showed a sharp drop from an average of $12/b in January to $9.4/b in February.

Gasoline started to temper the loss towards the end of the month, due to refinery turnarounds in the region; however, the expectation of higher inflows in the coming months and moderated demand will keep pressure on the Asian gasoline market.

The Middle distillate market remained supported by strong regional demand, lead by Chinese diesel consumption, given the current drought affecting the north of the country, and higher requirements from Vietnam, India and Sri Lanka. Additional support was lent by the tightened supply due to less gasoil inflows from the Mideast Gulf.

The gasoil crack spread in Singapore against Dubai gained additional support and surpassed $19/b in February – the highest level seen in two years.

Support is expected to continue from stronger Asian demand boosted by the coming spring planting season commencing in early March in southern China and increasing trucking activity.

The Asian fuel oil market showed a sharp recovery during February on the back of stronger bunker sales amid a temporarily tight supply of high-sulphur fuel oil in Singapore, which made stocks fall at the middle of the month, raising prices and pulling bunker fuel premiums to higher levels. The shortage attracted prompt cargoes from the Mideast and Indian refiners. Additionally, support came from firm utility demand for Pakistan, Northeast Asia and Japan.

Following these developments, the fuel oil crack spread in Singapore against Dubai jumped from minus $8.6/b on average in January to minus $4.8/b in February.

Regional demand for power generation and refinery turnarounds are likely to continue to support the market.

Table 6.1: Refined product prices, US$/b

		Dec 10	Jan 11	Feb 11	Change Feb/Jan
US Gulf (Cargoes):					
Naphtha		96.23	99.02	105.80	6.78
Premium gasoline	*(unleaded 93)*	102.07	104.41	109.47	5.06
Regular gasoline	*(unleaded 87)*	97.76	101.07	105.87	4.80
Jet/Kerosene		103.09	110.16	119.59	9.43
Gasoil	*(0.05% S)*	101.68	107.68	114.98	7.30
Fuel oil	*(1.0% S)*	78.59	80.60	91.38	10.78
Fuel oil	*(3.0% S)*	75.74	79.07	87.94	8.87
Rotterdam (Barges FoB):					
Naphtha		93.15	94.52	97.52	3.00
Premium gasoline	*(unleaded 10 ppm)*	103.44	105.73	109.22	3.49
Premium gasoline	*(unleaded 95)*	100.57	102.79	106.19	3.40
Jet/Kerosene		105.26	112.02	121.69	9.67
Gasoil/Diesel	*(10 ppm)*	104.15	109.99	118.32	8.33
Fuel oil	*(1.0% S)*	76.54	80.36	89.92	9.56
Fuel oil	*(3.5% S)*	76.19	79.99	88.25	8.26
Mediterranean					
Naphtha		90.81	92.56	95.33	2.77
Premium gasoline	*(50 ppm)*	106.73	109.09	112.69	3.61
Jet/Kerosene		102.77	110.24	125.95	15.71
Gasoil/Diesel	*(50 ppm)*	104.16	107.00	115.10	8.10
Fuel oil	*(1.0% S)*	75.98	80.05	99.37	19.32
Fuel oil	*(3.5% S)*	73.77	79.01	97.23	18.22
Singapore (Cargoes):					
Naphtha		93.83	95.16	97.87	2.71
Premium gasoline	*(unleaded 95)*	102.09	106.38	111.84	5.46
Regular gasoline	*(unleaded 92)*	100.02	104.34	109.63	5.29
Jet/Kerosene		103.53	109.89	120.18	10.29
Gasoil/Diesel	*(50 ppm)*	104.40	110.18	119.62	9.44
Fuel oil	*(180 cst 2.0% S)*	80.20	83.71	95.15	11.44
Fuel oil	*(380 cst 3.5% S)*	78.57	82.81	93.27	10.46

Table 6.2: Refinery operations in selected OECD countries

	Refinery throughput, mb/d			Refinery utilization, %		
	Jan 11	Feb 11	Feb/Jan	Jan 11	Feb 11	Feb/Jan
US	14.37	13.91	-0.46	83.93	81.55	-2.37
France	1.41	-	-	76.64	-	-
Germany	1.93	-	-	79.87	-	-
Italy	1.74	-	-	74.58	-	-
UK	1.39	-	-	78.64	-	-
Euro-16	11.14	11.05	-0.08	85.01	84.37	-0.64
Japan	4.00	3.99	-0.01	88.20	88.00	-0.20

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

Tanker Market

Preliminary data shows an increase in OPEC spot fixtures in February

OPEC spot fixtures declined by 0.96 mb/d or 8% in February from the previous month. Middle East to West fixtures registered the only gain of 12% in February compared to the previous month. Preliminary data showed that February OPEC sailings increased by 1.2% supported by higher Middle East loadings. On an annual basis, OPEC sailings in February indicated an increase of 3%. Estimated data indicates that arrivals at major destinations in the world increased slightly in February from the previous month. Europe and Far East arrivals registered gains of 8% and 7% respectively, in February, compared to the previous month. North America arrivals declined by 6% in the same period. On an annual basis, Far East arrivals indicated the highest increase of 9% in February, while North America arrivals declined by 1%.

In February, spot freight rates on all segments of the tanker market registered gains. In the dirty tanker market, VLCC spot freight rates increased 29%, Suezmax 16% and Aframax edged up 5% respectively compared to previous month. In the clean tanker market, East of Suez spot freight rates declined 4%, while West of Suez increased 2% from the previous month. Bunker prices, weather conditions and long haul demand backed the gain in dirty spot freight rates while lower activities on products trade in the east, long haul demand as well as uncertainty in Mediterranean were behind the mix results in clean spot freight rates.

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

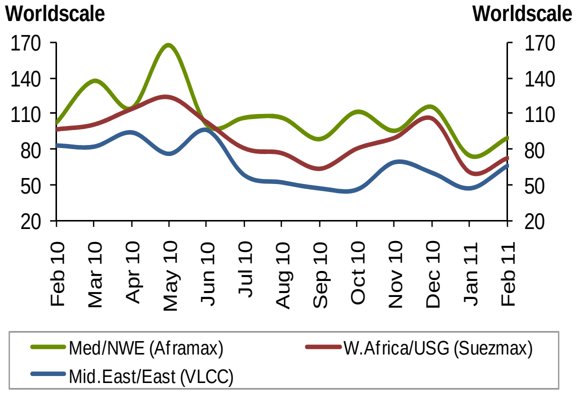
	Dec 10	Jan 11	Feb 11	Change Feb/Jan
Spot Chartering				
All areas	20.03	18.15	18.00	-0.15
OPEC	14.68	12.84	11.88	-0.96
Middle East/East	6.82	6.08	5.00	-1.08
Middle East/West	1.10	1.09	1.23	0.14
Outside Middle East	6.76	5.67	5.65	-0.02
Sailings				
OPEC	23.60	23.73	24.01	0.28
Middle East	17.50	17.67	17.90	0.23
Arrivals				
North America	8.69	8.96	8.42	-0.54
Europe	11.62	11.42	12.30	0.88
Far East	8.07	8.46	9.02	0.56
West Asia	4.70	4.50	4.40	-0.10

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

Dirty tanker market spot rates increased in all selected routes, except the Caribbean route to US East Coast

VLCC spot freight rates experienced high gains in all reported routes. Spot freight rates for VLCC operating the Middle East/East route increased by 40% in February, compared to the previous month. During the same period, VLCC spot freight rates for tanker operating the Middle East/West and West Africa/East increased by 31% and 16% respectively.

Graph 7.1: Monthly averages of crude oil spot freight rates



The experienced healthy increase of spot freight rates in the Middle East/East route was mainly due to higher bunker prices combined with increased tonnage demand from East Asia as charterers rush back to the market after the Lunar New Year holiday. The strong gain in the Middle East/West spot freight rates was supported by long haul tonnage demand as well as insurance costs due to piracy in the Gulf of Aden. Additionally, the increase of floating storage further supported rates and reduced availability. VLCC spot freight rates for tankers operating the West Africa/East route were supported by the higher fuel oil price and tonnage demand from Asia. The lower gains for West Africa/East spot freight rates compared to VLCC rates from the Middle East can be partially attributed to the lower purchases of West African grades by Asian buyers in February compared to the previous month.

Suezmax spot freight rates went through similar developments in VLCC rates. On average, Suezmax spot freight rates increased by 16% in February from the previous month on all reported routes. From West Africa to the US, spot freight rates increased by 20% in February. Rates were supported by higher fixtures and split cargos by charters as result of tight VLCC tonnage availability. Northwest Europe to US East Coast/US Gulf Coast spot freight rates gained 13% in February, supported by an ice premium due to adverse weather conditions in the Baltic and tonnage demand. The higher export of crude oil from Brazil to East also lent support to Suezmax spot freight rates in February.

On average, Aframax spot freight rates edged up by 5% in February compared to the previous month. Spot freight rates for tankers operating the Indonesia/East route edged by 2% in February compared to the previous month. In the same period, spot freight rates in inter-Mediterranean and on Mediterranean/Northwest Europe routes increased by 32% and 20% respectively. The modest gain in spot freight rates on the Indonesia to East route was due to refinery shutdowns while the strong gain on the Mediterranean to Mediterranean and Northwest Europe routes was supported by the weather conditions in the Bosporus as well as the increase insurance of risk aversion in Mediterranean basin due to the political situation. Compared to the previous month, Aframax spot freight rates for tankers operating the Caribbean/US East Coast route decreased by 21% as result of refinery maintenance in the US. The only route exhibiting declines in spot freight rates in February was Aframax Caribbean/US East Coast.

Table 7.2: Spot tanker crude freight rates, Worldscale

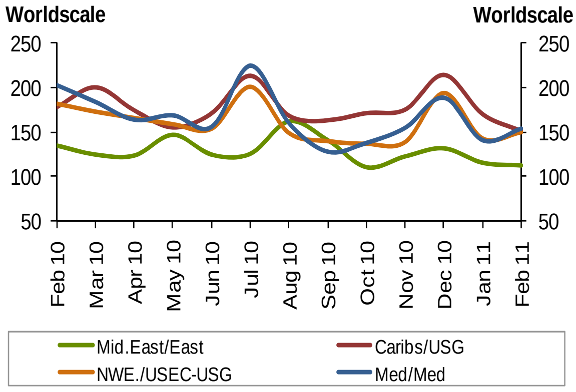
	Size *1,000 DWT*	Dec 10	Jan 11	Feb 11	Change Feb/Jan
Crude					
Middle East/East	230-280	60	47	66	19
Middle East/West	270-285	40	32	42	10
West Africa/East	260	64	51	59	8
West Africa/US Gulf Coast	130-135	106	61	73	12
NW Europe/USEC-USGC	130-135	99	61	69	8
Indonesia/US West Coast	80-85	112	87	90	3
Caribbean/US East Coast	80-85	157	118	93	-25
Mediterranean/Mediterranean	80-85	133	74	98	24
Mediterranean/North-West Europe	80-85	116	75	90	15

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

Clean market rates were mixed in February as East losses offset West gains

The clean tanker market sentiment was mixed in February. East of Suez spot freight rates decreased by 4%, while West of Suez rates edged up by 2%. In East of Suez, clean tanker spot freight rates on the Middle East/East route lost 3% and on Singapore/East route declined by 6%. Lower naphtha trade due to the shutdown of petrochemical plants was partially behind the retreat in rates.

Graph 7.2: Monthly averages of clean spot freight rates



In West of Suez, Caribbean/US Gulf Coast route spot freight rates fell by 11% in February compared to the previous month, while Northwest Europe to US East Coast/US Gulf Coast, inter-Mediterranean, and Mediterranean to Northwest Europe route spot freight rates increased 4.9%, 9.2% and 8.6% respectively.

The weather conditions and political situation in the Mediterranean supported gains while higher gasoline demand in the US during the period of maintenance supported spot freight rates.

Table 7.3: Spot tanker product freight rates, Worldscale

	Size *1,000 DWT*	**Dec 10**	**Jan 11**	**Feb 11**	**Change Feb/Jan**
Products					
Middle East/East	30-35	132	116	113	-3
Singapore/East	30-35	163	142	134	-8
Caribbean/US Gulf Coast	38-40	214	170	151	-19
NW Europe/USEC-USGC	33-37	193	142	149	7
Mediterranean/Mediterranean	30-35	189	141	154	13
Mediterranean/North-West Europe	30-35	199	151	164	13

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

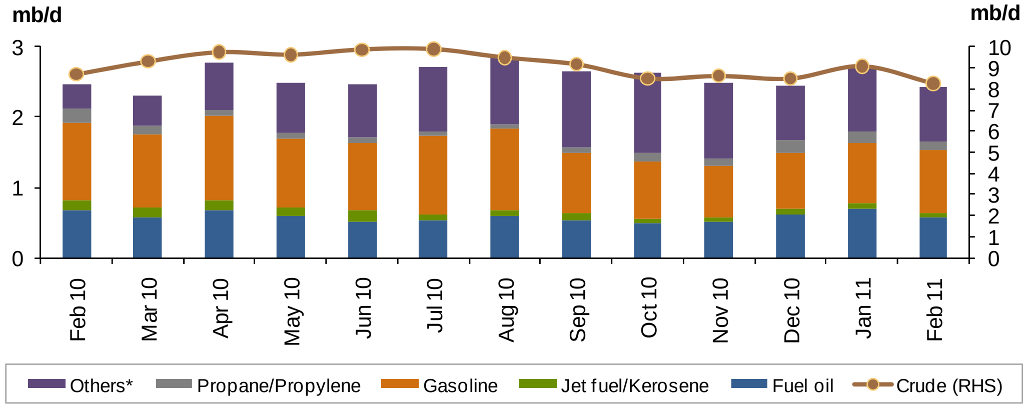
Oil Trade

US crude oil imports declined in February to 8.2 mb/d, the lowest since December 2009

USA

US crude oil imports declined in February to average almost 8.2 m/d, according to preliminary data. That was 0.82 mb/d or 9% lower than January's level and 0.43 mb/d or 4.9% lower than a year ago. The decline in crude oil imports came in line with a combination of recession-driven demand destruction and rising domestic production of crude, NGLs and biofuels. Following the same trend, product imports declined 0.29 mb/d or 10.6% to 2.43 mb/d. However, compared to a year earlier, product imports in February 2011 were some 42 tb/d or 1.7% lower than a year ago.

Graph 8.1: US imports of crude and petroleum products



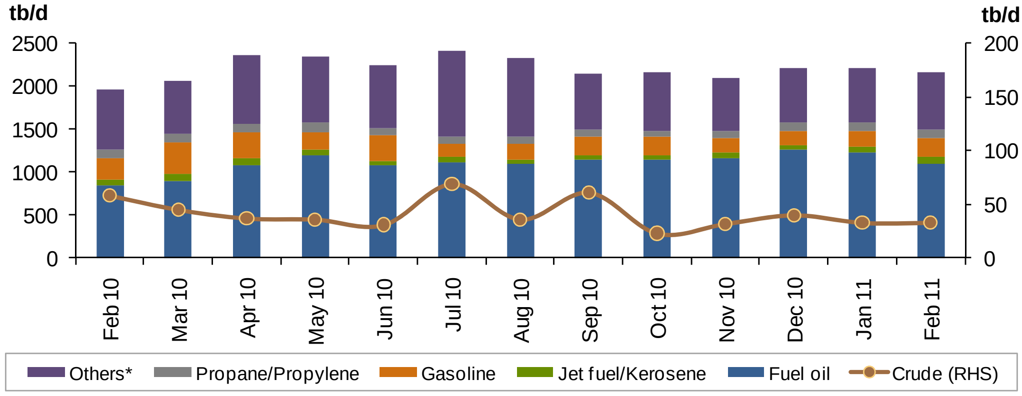
**Others: Contains natural gas liquids, liquefied refinery gases (LRG's), other liquids and all finished petroleum products except gasoline, jet fuel/kerosene, fuel oil and propane/propylene*

Together, crude oil and product imports declined 1.11 mb/d or 9.4% to nearly 10.7 mb/d in February, the lowest level since December 2009.

Crude oil and product exports slightly fell in February by 58 tb/d and stood at 2.2 mb/d, which represents a 2.6% decline compared to January 2011 and an increase of 174 tb/d or 8.7% on a y-o-y basis.

As a result, **US total net oil imports averaged around 8.5 mb/d, down 1.05 mb/d or 11.0% from January and a decline of 0.64 mb/d or 7% from a year ago.** At 8.5 mb/d, US net oil imports were at their lowest level since the 8.7 mb/d of December 2009.

Graph 8.2: US exports of crude and petroleum products



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

The US imported more than 4.2 mb/d of its crude oil from OPEC Member Countries in December 2010, corresponding to a share of 48.6% of total crude oil imports, down 0.2 percentage points from the month before. Canada was the biggest single supplier of US crude oil imports in December with almost 2.1 mb/d or 24%, followed by Mexico with 1.2 mb/d or 14% and Saudi Arabia with 1.1 mb/d or 12.5%.

On the product side, imports from OPEC Member Countries accounted for 0.43 mb/d or 18% of US product imports. Imports from Algeria accounted for 0.22 mb/d or 8.9% of total US product imports, while Canada remained the main supplier with more than 0.65 mb/d or 26.2%, followed by Russia with 0.36 mb/d or 14.4%.

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

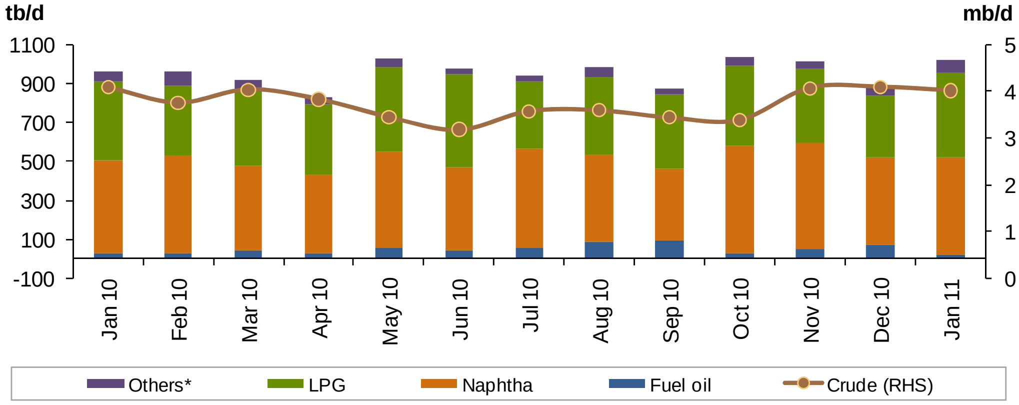
	Dec 10	Jan 11	Feb 11	Change Feb/Jan
Crude oil	8,598	9,040	8,219	-821
Total products	272	502	273	-229
Total crude and products	**8,870**	**9,542**	**8,493**	**-1050**

Japan

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

Japan's crude oil imports slightly decreased by 76 tb/d or 1.9% in January to remain around 4.02 mb/d. Compared to a year earlier, January imports were 69 tb/d or almost 1.7% lower than a year earlier.

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



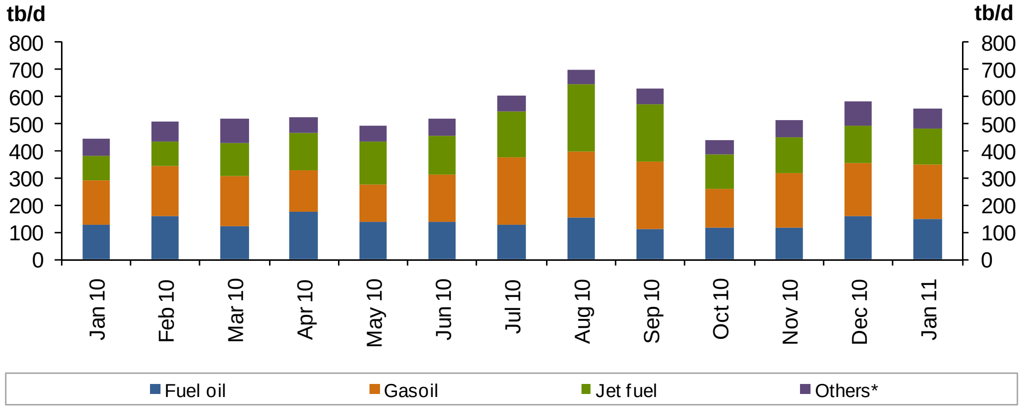
**Others: Contains gasoline, jet fuel, kerosene, gasoil, asphalt and paraffin wax*

In contrast to crude oil, product imports, including naphtha and LPG, rose in January to 1.02 mb/d, up 140 tb/d or 16% from the 0.88 mb/d of December. Almost all products saw their imports reduced in December, except naphtha, kerosene and LPG. Naphtha imports – the main imported product with LPG – rose by almost 59 tb/d or 132% to 501.5 tb/d. LPG imports followed the same trend and rose 116 tb/d or more than 37% to average 0.43 mb/d.

In January, Japan's total product exports, including LPG, decreased to 0.55 mb/d, down 25 tb/d from a month earlier, because of weaker demand and increasing production from refineries. Gasoline exports also decline sharply by 35% to stand at more than 41 tb/d.

As a result, **Japan's net oil imports rose 91 tb/d or 2.1% in January to average 4.5 mb/d.** Compared to a year earlier, the decline was lower by 121 tb/d, or 2.6%. Nevertheless, for the whole year of 2010, net oil imports were at 4.1 mb/d, a gain of 163 tb/d or 4.1% from a year earlier.

Graph 8.4: Japan's exports of petroleum products



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

Saudi Arabia remained the main supplier of Japan's crude oil in January 2011 with 1.1 mb/d or 28% of total imports, followed by the UAE with 23%, Qatar (12%), Iran (10.9%) and Russia (6.4%). However, while Saudi Arabia, the UAE and Qatar kept their rankings, Russia saw its share rise sharply from 3.7% a year ago. That was mainly at the expense of Qatar, which saw its share drop from nearly 12.2% to 11.7% in January 2011 compared with 2010. Imports from Iran rose from 0.85 mb/d in January to 0.44 mb/d compared with the month before.

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

	Nov 10	Dec 10	Jan 11	Change Jan/Dec
Crude oil	4,069	4,091	4,015	-76
Total products	498	298	465	167
Total crude and products	**4,567**	**4,389**	**4,480**	**91**

China

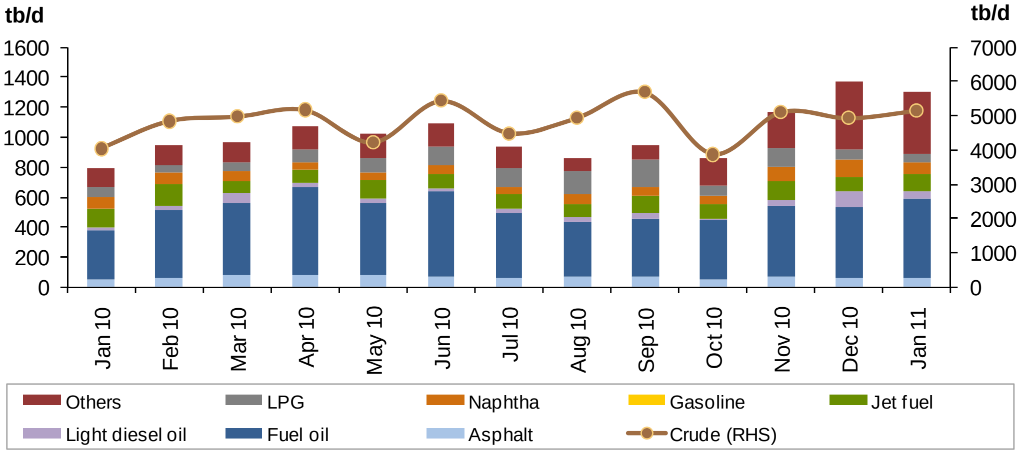
China's oil imports increased further to hit a four-month high of 5.1 mb/d in January, reflecting sustained strong demand

China's crude oil imports rose 222 tb/d or 4.5% in January to average 5.15 mb/d compared with 5.93 mb/d in December and were up 1.1 mb/d or 27.4% compared to a year earlier. This increase can be attributed to robust demand from domestic oil refineries, which were under pressure to increase demand for the Spring Festival. Crude oil exports rose by 9 tb/d to average 66 tb/d.

Contrary to crude oil, China's product imports dropped in January slightly to 1.31 mb/d, but remained high compared to historical levels. This reflects the strong demand and rising inventories. Prior to the Spring Festival holiday, which began on 2 February 2011, limited railway transportation capacity was expected to lead to a boom in road and aviation traffic, resulting in an abrupt surge of demand for traffic fuels. To prepare for the expected jump in demand Sinopec and PetroChina, the top two oil refiners, in January boosted the production of gasoline, jet fuel and diesel.

Consequently, total Chinese oil imports (crude oil and products) increased for the third month in a row to average 6.4 mb/d, up 158 tb/d or 2.5% from December and 1.63 mb/d or 33.6% from a year ago. Again, this helps to explain China's robust demand for oil.

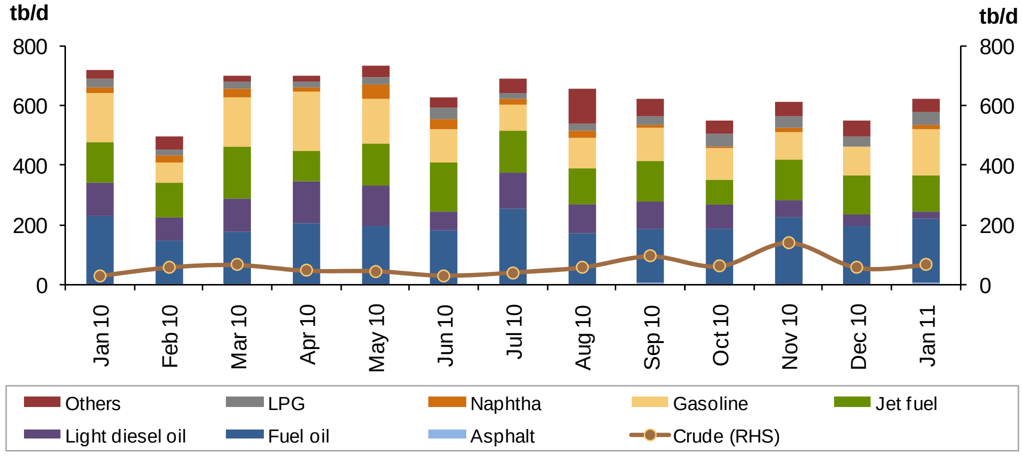
Graph 8.5: China's imports of crude and petroleum products



On the export side, China's crude oil exports saw a slight increase compared to last month from 57 tb/d to just 66 tb/d in 2010. On a y-o-y basis, the increase was 36 tb/d from the level of 30 tb/d in January 2010. The increase in crude oil exports in 2011 came despite growth in domestic demand. In line with crude oil, Chinese product exports in January increased further to 621 tb/d or 12.5% from the month before but on a y-o-y basis, they showed a decline of 8.6%.

China's net oil imports hit a record high of almost 5.8 mb/d for January compared to 5.1 mb/d in 2010. Crude oil net imports stood at 5.09 mb/d, up 4.4% from the month before and 1.07 mb/d or 26.7% higher on a y-o-y comparison, while product net imports declined by 0.13 mb/d or 16.3% compared to the month before, but increased 0.62 mb/d from the year before. The sustained strong growth in China's net oil imports reflects robust demand and building stocks.

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



Saudi Arabia remained the mains supplier of crude oil in January with almost 0.99 mb/d, followed by Angola (0.63 mb/d), Iran (0.41mb/d), Russia (0.33 mb/d), Oman (0.31 mb/d), Iraq (0.28 mb/d) and Sudan (0.23 mb/d).

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

	Nov 10	Dec 10	Jan 11	Change Jan/Dec
Crude oil	4,967	4,875	5,088	214
Total products	558	819	685	-134
Total crude and products	**5,525**	**5,693**	**5,773**	**80**

India

India's product imports increased for the third consecutive month to average 0.38 mb/d

India's crude oil imports, excluding figures from Reliance Industries concerning its 580 tb/d refinery at Jamnager in western India, rose slightly almost 68.6 tb/d or 2.6% in January to average 2.7 mb/d.

Product imports increased for the third consecutive month to average 0.38 mb/d, up 55 tb/d or 17.2% from December. The increase was attributed to LPG, which increased 44.1% to 117.9 tb/d, gasoline which rose to 43.3 tb/d, almost 29% compared to December, and diesel/gasoil which rose from 41 tb/d in December to 26.5 tb/d in January. Kerosene declined sharply 33% to a level of 24.6 tb/d compared to 36.1 tb/d in December.

On the export side, India's product exports, excluding exports from Reliance Industries at Jamnager, rose to 0.65 mb/d, which represents 33% compared to December. This increase can be attributed to a sharp rise in diesel/gasoil exports to a level of 120.3 tb/d from 21.7 tb/d in December and an increase in naphtha to a level of 180.44 tb/d compared 124.1 tb/d in December.

India's crude oil net trade, excluding Reliance Industries figures, amounted to 2.7 mb/d in January 2010, representing a moderate increase compared to the level of December 2010 by 2.6% compared with an 8.6% decrease on a y-o-y basis. The product net trade, excluding Reliance Industries figures, amounted to minus 0.27 mb/d in January. As a result, **India's net oil imports declined 38 tb/d in January to 2.39 mb/d.**

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

	Nov 10	Dec 10	Jan 11	Change Jan/Dec
Crude oil	2,304	2,601	2,670	69
Total products	-162	-169	-276	-107
Total crude and products	**2,142**	**2,432**	**2,394**	**-38**

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

FSU

Total FSU oil exports fell by more than 400 tb/d in January, up 6% from a month earlier, reflecting higher export duties and production problems in Azerbaijan

Crude oil exports from FSU fell sharply in January 2011 to reach almost 6.56 mb/d, up 416 tb/d or 6.0% from December. However, crude oil exports were 157 tb/d lower than in the same month a year ago.

Shipments through the Russian pipeline system in January amounted to 4.14 mb/d, up from 4.10 mb/d in December. Exports through the Baltic Sea were the main contributor to the decrease in shipments through the Transneft system, declining 234 tb/d or 14.5% from the previous month to average more than 1.38 mb/d, remained considerably below the 1.62 mb/d of December. The exports of Russian crude through the Transneft system were hit by a sharp rise in export duty, which rose to $317.50/t ($43.73/b) in January 2011 from $303.80/t ($41.84/b) in December 2010.

Crude exports from Primorsk fell 1.3 mb/d from around 1.5 mb/d in December. This was partly offset by a 55 tb/d increase in exports from Novorossiysk.

Exports through the Caspian Pipeline Consortium (CPC) dipped to 738 tb/d from 805 tb/d in December. The deliveries of Kazakh Tengiz crude by Tengizchevroil through Ukrainian ports dipped to 148.16 tb/d from 160.01 tb/d at Odessa and at a lesser extend at Feodosiya from 39.08 tb/d to 38.28 tb/d.

In Azerbaijan, production disruptions reduced BTC exports in January to 629 tb/d from 807 tb/d in December.

Concerning Russia's exports to the far east, Vityaz and Sokol crudes both fell as export duties rose. The combined exports of the two crudes fell by around 65 tb/d month on month.

Crude oil exports through the railway network to non-CIS destinations were down by 45% on the month at 211 tb/d in January, their lowest level since 2004. The dramatic fall reflects the halt in the rail deliveries to China and Finland. Rosneft ended rail supplies to China at the start of this year, when it began full scale exports along a spur from the East Siberia-Pacific Ocean (ESPO) pipeline. Some 170 tb/d of crude was exported by rail to China in December. Pipeline exports to China reached 310 tb/d in January, up from 70 tb/d in December.

Similarly TNK-BP has stopped rail supplies from its Krasnoleninsky refinery in west Siberia to Finland. It previously paid a reduced rail tariff and had been the only firm shipping to Finland by rail since August. According to market sources, Russia's federal tariff service has not been asked by TNK-BP to renew the special tariff that applies from west Siberia's Nyagan station to Finland. The company supplied around 6.2 tb/d to Finland in December.

Rail deliveries to Belarus by Russian companies have resumed after Moscow agreed to drop the export duty.

Product exports from the FSU were up slightly on the month at 2.68 mb/d compared with 2.62 mb/d, largely due to the increase of gasoil and gasoline. The growth in gasoil shipments was mostly accounted for by loadings at Black sea ports. Gasoil deliveries through Baltic outlets were little changed on the month. Fuel oil exports fell sharply at Baltic ports, reflecting problems with unloading retailers during the cold weather and the suspension of shipments through Latvia's Ventbunkers terminal.

Gasoline exports from Russia increased after the government banned domestic sales of gasoline that did not comply with at least EURO 3 engine emissions standards.

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

	2009	2010	2Q10	3Q10	4Q10	Dec 10	Jan 11*
Crude							
Russian pipeline							
Black Sea	1,201	994	976	1,038	933	961	1,015
Baltic	1,577	1,564	1,629	1,530	1,569	1,616	1,382
Druzhba	1,112	1,126	1,091	1,155	1,136	1,129	1,149
Kozmino	*0*	*309*	*323*	320	336	325	285
Total	**3,922**	**4,005**	**4,019**	**4,043**	**4,018**	**4,101**	**4,138**
Other routes							
Russian rail	280	330	324	331	280	384	211
Russian-Far East	283	276	296	204	313	338	275
Kazakh rail	18	1	18	6	0	0	0
Vadandey	155	152	167	150	127	102	119
Kaliningrad	0	24	22	24	24	22	27
CPC	736	743	732	755	749	805	738
BTC	805	775	809	812	796	807	629
Kenkiyak-Alashankou	157	204	200	205	204	203	203
Caspian	281	239	271	195	197	213	220
Total crude exports	**6,653**	**6,750**	**6,858**	**6,726**	**6,759**	**6,975**	**6,559**
Products							
Gasoline	221	152	155	127	124	129	184
Naphtha	269	275	270	289	245	249	270
Jet	47	20	31	23	15	18	1
Gasoil	948	878	892	822	824	813	900
Fuel oil	1,116	1,235	1,312	1,331	1,225	1,246	1,175
VGO	235	242	287	232	218	164	147
Total	**2,837**	**2,801**	**2,947**	**2,824**	**2,651**	**2,619**	**2,677**
Total oil exports	**9,490**	**9,551**	**9,805**	**9,550**	**9,410**	**9,594**	**9,236**

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

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

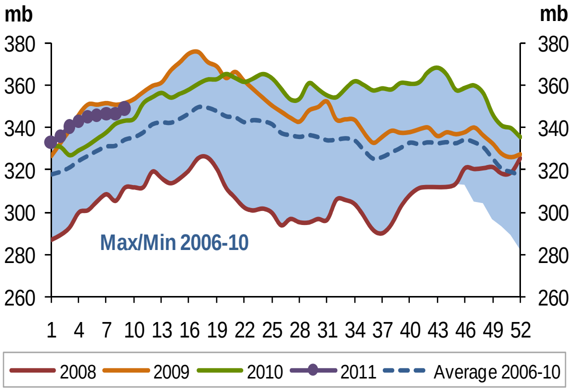
Stock Movements

US commercial stocks fell in February, driven by products draws

USA

At the end of February, **US commercial oil inventories** reversed the build seen last month and dropped by 23.8 mb to stand at 1051.1 mb. This stock draw was driven by the substantial drop in products which declined by 27.0 mb, while crude stocks saw a build of 3.2 mb. The fall in total US commercial oil inventories has shifted the surplus with a year ago, incurred last month, to a slight deficit of 1.0 mb or 0.1% in February. The surplus with the five-year average has also shrunk to 31 mb from 43 mb reported last month.

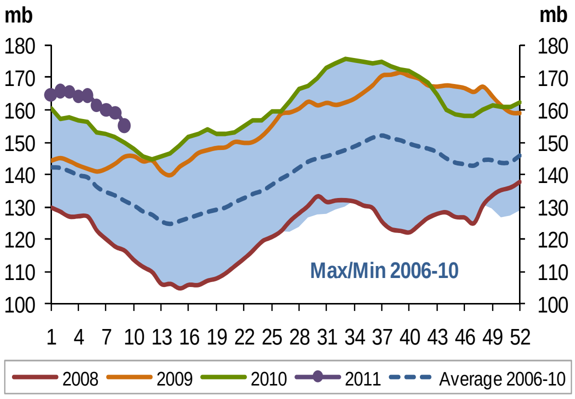
Graph 9.1: US weekly commercial crude oil inventories



The build in **US commercial crude oil stocks** to 346.4 mb, the highest in two months puts them at 6.3 mb or 1.8% above a year earlier in the same month and 14.4 mb or 4.3% above the seasonal norm. This build came on the back of lower refinery runs. Indeed, US crude oil refinery inputs averaged nearly 13.8 mb/d in February, around 500,000 b/d lower than a month earlier. This corresponds to a utilization rate of 80.9%, almost 5 percentage points less than the previous month. This build came despite a decline of around 700,000 b/d in crude oil imports. At 8.3 mb/d, US crude oil imports were also lower by about 480,000 b/d compared to the same period last year. Looking ahead, a sustained level of lower crude imports over the past few weeks should lead to stock draws in the coming weeks. At the same time, higher refinery margins, which attract refiners to postponed planned maintenance, choosing to use lower cost crude in storage than purchasing crude at current higher cost, should also help to lower stocks from current levels. Meanwhile, Cushing stocks climbed to a new record of 38.6 mb despite robust demand from Midwest refiners. Given the lack of pipeline capacity to the Gulf Coast, the Nymex delivery point for WTI will remain under continued pressure for many months to come.

On the product side, **product stocks** fell significantly at the end of February to stand at 704.7 mb, the lowest since March 2010, and stood at 7.3 mb or 1.0% below the same period a year ago, but still remained at 16.7 mb or 2.4% above the seasonal norm. Products on the whole experienced a stock draw with the bulk coming from distillate stocks, which declined by 4.9 mb. Healthy demand in February has contributed to the drop in total product inventories. In fact, estimated February US consumption based on weekly data shows that demand has increased by almost 600,000 b/d to average 19.6 mb/d from a month earlier. Gasoline stocks fell by 1.5 mb after a substantial build the previous month to stand at 234.7 mb, but remained at 2.1 mb or 0.9 % above a year earlier and 10.3 mb or 4.6% above the five-year average. The fall in gasoline stocks came on the back of higher gasoline demand as they increased in February by nearly 300,000 b/d to average 8.9 mb/d. The downward trend in gasoline stocks gained momentum during the week ending 25 February with a 3.6 mb draw, pushing them back into the five-year average. This sizeable drop came as imports continued to fall and were expected to remain low in the coming weeks due to

Graph 9.2: US weekly distillate stocks



the potential drop in European refinery output cause by disruptions in North African supply. Distillate stocks continued to fall in line with the seasonal pattern ending the month at 159.2 mb, the lowest level since June 2010; however, they remained at 4.3 mb or 2.8% above the same period a year ago and 23.2 mb or 17.1% higher than the five-year average. Healthy distillate demand, especially for heating oil, contributed to the fall in distillate stocks. Distillate demand in February stood at 3.8 mb/d, an increase of 100 tb/d over the previous month. With springtime approaching and heating demand declining, the distillate market is likely to be bearish over the coming months, leading to stock builds. Residual fuel oil and jet fuel oil also declined by 2.9 mb and 3.1 mb respectively. At 37.1 mb, residual stocks stood at 3.1% below a year ago, indicating a deficit of 5.6% with the seasonal norm. Jet fuel stocks ended February at 40.8 mb, representing a shortage of 7.2% from a year ago and 1.9% with the five-year average.

Table 9.1: US onland commercial petroleum stocks, mb

	Dec 10	Jan 11	Feb 11	Change Feb 11/Jan 11	Feb 10	04 Mar 11 *
Crude oil	332.0	343.2	346.4	3.2	340.1	348.9
Gasoline	219.5	236.2	234.7	-1.5	232.6	229.2
Distillate fuel	164.5	164.1	159.2	-4.9	154.8	155.2
Residual fuel oil	41.3	40.1	37.1	-3.1	41.3	37.0
Jet fuel	43.2	43.8	40.8	-2.9	44.0	41.2
Total	**1067.0**	**1074.9**	**1051.1**	**-23.8**	**1052.1**	**1044.8**
SPR	726.5	726.5	726.5	0.0	726.6	726.5

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

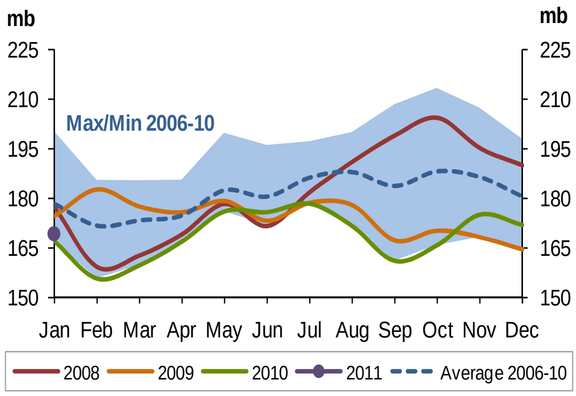
Source: US Department of Energy's Energy Information Administration

Japan

Japanese stocks fell in January and preliminary data for February indicates a further drop

In January, **commercial oil stocks** in Japan continued their downward trend for the second month, declining by 2.4 mb to stand at 169.2 mb. At this level, commercial oil inventories in Japan narrowed the surplus with a year ago to 2.5 mb from 7.4 mb a month earlier, while the deficit with the last five-year average remained at 8.9 mb or 5%. Within crude and product inventories, the picture was mixed. Crude oil stocks reversed the build observed over the last two consecutive months and dropped in January by 2.6 mb, while total product inventories reversed the significant drop in December to show a slight build of 0.3 mb at the of January.

Graph 9.3: Japan's commercial oil stocks



Despite the drop at the end of January to 98.5 mb, **crude oil stocks** still showed a surplus of 3.9 mb or 4.1% above a year ago, but remained 1.6 mb lower than the seasonal norm. The fall in crude oil stocks could be attributed to robust crude runs as refineries were running at 88.2% in January, 1.9 percentage points (pp) above a month earlier and almost 7 pp more than a year ago. The fall in crude oil imports also supported the drop in crude oil stocks. Indeed, crude oil imports in January fell by 80,000 b/d or 1.9% versus December 2010, to stand at 4.02 mb/d. This level represents a decline of 1.7% compared to a year ago.

Total products rose slightly to end January at 70.8 mb, but still showed a deficit of 1.4 mb or 2.0 % with the same time last year, and 7.4 mb or 9.4% lower than the five-year average. One of the reasons behind the stock build in total product inventories could be attributed to the decline in Japanese total oil product sales in January, which fell by 5.3% from last month and by 1.7% from a year ago over the same period. Several factors contributed to the decline in consumption in Japan, including the shrinking population which requires less fuel, increased energy conservation, the growing role of renewable energy, as well as the movement of Japan's manufacturing abroad. Japanese oil product sales in January were at the lowest level for that month in 23 years, averaging 3.66 mb/d.

Within products, the picture was mixed, as gasoline and naphtha stocks rose by 1.9 mb and 1.1 mb respectively, while both distillate and residual fuel inventories fell by 1.4 mb. The build in gasoline to 14.4 mb – the highest level since June 2010 – came on the back of lower domestic sales in January, which declined by 14.5% from a month earlier. However, this build came despite gasoline imports having been reduced by almost half. Gasoline stocks stood at 1.3% above a year ago and 3.8% higher than the seasonal norm. Naphtha stocks also rose by end January to 12.3 mb, representing a surplus of 30.7% above a year ago. The build in naphtha stocks could be attributed to higher imports which increased by 13.2%, combined with a 10.4% increase in production. In contrast to the build in gasoline and naphtha, distillate inventories dropped to 29.6 mb in January, the lowest since July 2010. With this draw, distillate stocks remained at 8.1% below a year ago and 16.6% less than the seasonal norm. Within the components of middle distillates, kerosene and jet fuel declined by 14.5% and 6.9% respectively, while gasoil inventories rose by 9.7%. The drop in kerosene stocks came on the back of healthy demand as colder weather boosted January demand for heating by 10.4% above a month earlier and by 4.7% y-o-y. The fall in jet fuel oil inventories could be attributed to a decline of 8.7% in Japanese jet fuel production. However, the build in gasoil stocks came as domestic sales fell by 5.2% combined with a substantial increase in imports. Fuel oil inventories dropped in January to 14.3 mb, down 11.7% from a year earlier and around 20% below the five-year average. Within fuel components, fuel oil A saw a drop of 1.8%, while fuel oil B.C fell more sharply by 12.6%. Lower imports, which fell by more than half, were behind the decline in both fuel oil A stocks and fuel oil B.C inventories as domestic sales were almost unchanged in January.

Preliminary indications for February based on weekly data published by PAJ show that commercial oil stocks dropped further by 8.2 mb for the third consecutive month to stand at 161.0 mb. Both crude and total product inventories fell by 6.1 mb and 2.2 mb respectively. The fall in crude oil for the second consecutive month to 92.4 mb, widened the gap with the five-year average to 7.1%, while still leaving them at 6.4% above a year ago. The drop in crude oil stocks came mainly from a robust refinery utilization rate which rose 1.2 points to a near three-year high of 89.8% in the week to 26 February. Refiners raise their runs ahead of the refinery turnaround season starting in mid-March. The run rate was the highest since the 90.0% hit in the week to 8 March 2008. The higher runs also reflect a decline in Japanese refining capacity of 280,000 b/d over the past year amid slowing domestic demand. A fall in refining capacity usually forces refiners to work their plants harder. The decline in total inventories to 68.6 mb was driven by distillates and naphtha, which both fell by 1.1 mb and, to a lesser extent, by gasoline, which declined by 0.4 mb. In contrast, residual fuel was the only product which experienced a build of 0.5 mb. The fall in total product inventories could be attributed to higher domestic sales. Indeed, during the week ending 26 February, domestic sales grew by almost 7.1% over the previous week or 0.7% versus a year ago. At the end of February, total product stocks stood a slight 0.2% below a year ago at the same time and 7.1% less than the five-year average.

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

	Nov 10	Dec 10	Jan 11	Change Jan 11/Dec 10	Jan 10
Crude oil	97.1	101.1	98.5	-2.6	94.6
Gasoline	13.7	12.5	14.4	1.9	14.3
Naphtha	12.8	11.2	12.3	1.1	9.4
Middle distillates	35.0	31.0	29.6	-1.4	32.3
Residual fuel oil	16.2	15.7	14.3	-1.4	16.2
Total products	77.6	70.5	70.8	0.3	72.2
Total**	**174.7**	**171.6**	**169.2**	**-2.4**	**166.8**

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

Singapore and Amsterdam-Rotterdam-Antwerp (ARA)

Singapore product stocks fell further in January

At the end of January, product stocks held in **Singapore** fell by 3.28 mb for the fifth consecutive month to stand at 40.28 mb, the lowest since March 2009. With this draw, the gap with a year ago has widened to 10.3% from 3.2% a month earlier. Fuel oil and middle distillate stocks experienced a drop of 2.04 mb and 1.38 mb respectively, while light distillates went up slightly by 0.14 mb. The drop in fuel oil stocks to 19.1 mb was mainly driven by thin imports as January western barrels arriving in Singapore were few. Healthy bunker demand also supported the drop in fuel oil stocks. Middle distillates fell to 11.8 mb, widening the deficit with a year ago to 19% from 11% a month ago. Higher exports to the West had helped reduce stocks. At least 340,000 tonnes of low-sulphur diesel have been booked for shipments to Northwest Europe. Light distillate inventories rose slightly to 9.41 mb at the end of January leaving them at 5.4% below a year ago. Light distillate stocks are expected to show a draw in the coming month as gasoline demand is expected to remain steady, especially from Indonesia, which imports most of its gasoline barrels from Singapore.

Product stocks in ARA continued to rise in January

Product stocks in **ARA** at the end of January rose for the third consecutive month by 0.48 mb to reach 38.51 mb, the highest level since August 2010. However, despite this build, they remained at 1.5 mb or 3.8% below a year ago at the same time. The main build came from gasoline, fuel oil and jet fuel stocks which increased by 0.9 mb, 0.6 mb and 0.4 respectively, while gasoil saw a drop of 1.3 mb and naphtha inventories showed a minor decline. Gasoline stocks rose for the second consecutive month to stand at 7.11 mb at the end of January, but remained 1.4 mb or 16.5% below a year ago. Higher imports – mainly from Russia – outpacing exports have helped to build gasoline stocks; however, by the end of the month, gasoline stocks dropped compared to the previous week as an ongoing disruption on the river Rhine negatively impacted weekly gasoline stocks. The rise in jet fuel oil inventories to 6.3 mb came on the back of higher imports from the UAE. At the end of January, jet fuel oil stocks remained 3.5% below last year. Gasoil stocks fell to 19.25 mb, the lowest level since October 2010 as gasoil imports were forced to re-route due to logistical issues. Gasoil inventories stood slightly below the level seen last year.

Balance of Supply and Demand

Estimate for 2010

Required OPEC crude for 2010 estimated at 29.3 mb/d, an increase of 0.3 mb/d over the previous year

Demand for OPEC crude for 2010 remained almost unchanged from the previous assessment to currently stand at 29.3 mb/d. This reflects minor adjustments to world oil demand and non-OPEC supply. However, in quarterly terms, the fourth quarter saw an upward revision of 0.2 mb/d, while the first three quarters remained unchanged. Demand for OPEC crude stood at 0.3 mb/d above a year ago. The first quarter of the year is still showing a drop of 0.9 mb/d, while the second quarter is estimated to see slight growth of 0.2 mb/d. The third quarter is estimated to see positive growth of 1.5 mb/d while the fourth quarter shows growth of 0.2 mb/d compared to the same period last year.

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

	2009	1Q10	2Q10	3Q10	4Q10	2010
(a) World oil demand	**84.54**	**85.09**	**85.34**	**87.51**	**87.58**	**86.39**
Non-OPEC supply	51.13	52.14	52.11	51.94	52.86	52.26
OPEC NGLs and non-conventionals	4.35	4.60	4.77	4.81	4.96	4.79
(b) Total supply excluding OPEC crude	**55.48**	**56.74**	**56.88**	**56.75**	**57.82**	**57.05**
Difference (a-b)	**29.07**	**28.35**	**28.45**	**30.76**	**29.76**	**29.34**
OPEC crude oil production	28.71	29.19	29.07	29.18	29.28	29.18
Balance	-0.36	0.83	0.62	-1.58	-0.49	-0.16

Totals may not add due to independent rounding

Forecast for 2011

Demand for OPEC crude in 2011 forecast at 29.8 mb/d, an increase of 0.5 mb/d over the previous year

The demand for OPEC crude in 2011 is forecast at 29.8 mb/d, representing a gain of 0.5 mb/d over the previous year and unchanged from the last report. In quarterly terms, the third quarter saw a downward revision of 0.3 mb/d, while the first and the second quarters were revised up by 0.1 mb/d and 0.2 mb/d respectively. The fourth quarter remained unchanged. Required OPEC crude is forecast to increase by 0.5 mb/d this year versus last year. The first quarter is expected to see growth of around 0.8 mb/d, while the second quarter is forecast to see lower growth of 0.4 mb/d. The third quarter is projected to remain flat; however, the fourth quarter is expected to see higher growth of 0.5 mb/d compared to the same period last year.

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

	2010	1Q11	2Q11	3Q11	4Q11	2011
(a) World oil demand	**86.39**	**87.03**	**86.77**	**88.67**	**88.82**	**87.83**
Non-OPEC supply	52.26	52.80	52.67	52.53	53.14	52.79
OPEC NGLs and non-conventionals	4.79	5.08	5.22	5.33	5.38	5.25
(b) Total supply excluding OPEC crude	**57.05**	**57.88**	**57.89**	**57.86**	**58.52**	**58.04**
Difference (a-b)	**29.34**	**29.15**	**28.88**	**30.81**	**30.30**	**29.79**
OPEC crude oil production	29.18					
Balance	-0.16					

Totals may not add due to independent rounding

Graph 10.1: Balance of supply and demand

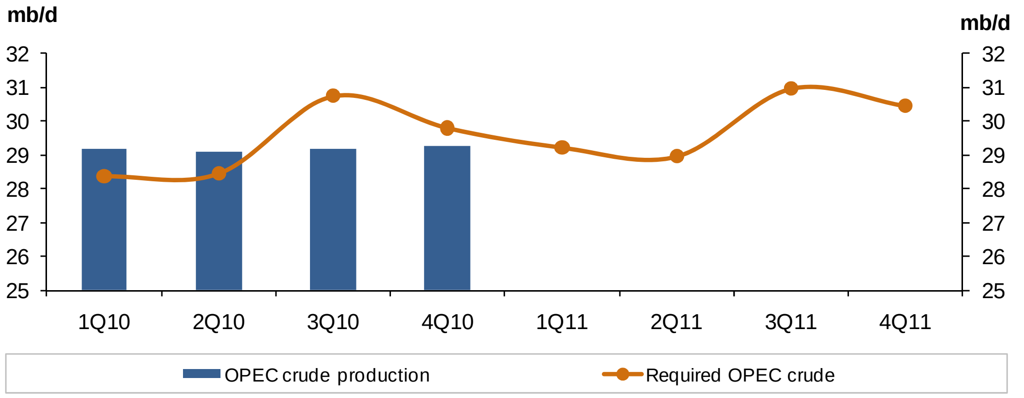


Table 10.3: World oil demand/supply balance, mb/d

	2005	2006	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11	4Q11	2011
World demand															
OECD	49.9	49.6	49.3	47.6	45.5	45.8	45.2	46.6	46.7	46.1	46.5	45.4	46.6	46.9	46.3
North America	25.6	25.4	25.5	24.2	23.3	23.5	23.7	24.2	24.0	23.9	24.0	24.0	24.4	24.3	24.2
Western Europe	15.7	15.7	15.5	15.4	14.5	14.2	14.1	14.8	14.7	14.4	14.3	14.1	14.7	14.6	14.4
Pacific	8.6	8.5	8.4	8.0	7.7	8.2	7.3	7.6	8.0	7.8	8.2	7.3	7.5	8.0	7.7
DCs	22.8	23.6	24.7	25.5	26.1	26.3	26.7	26.8	26.8	26.6	26.9	27.3	27.4	27.4	27.2
FSU	3.9	4.0	4.0	4.1	4.0	4.0	3.8	4.2	4.3	4.1	4.0	3.9	4.3	4.3	4.1
Other Europe	0.8	0.9	0.8	0.8	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.6	0.6	0.7	0.7
China	6.7	7.2	7.6	8.0	8.3	8.4	9.1	9.2	9.1	9.0	8.9	9.6	9.7	9.6	9.5
(a) Total world demand	84.1	85.2	86.5	86.0	84.5	85.1	85.3	87.5	87.6	86.4	87.0	86.8	88.7	88.8	87.8
Non-OPEC supply															
OECD	20.4	20.1	20.0	19.5	19.7	20.0	19.9	19.5	20.2	19.9	20.0	19.8	19.7	20.0	19.9
North America	14.1	14.2	14.3	13.9	14.4	14.7	14.9	14.9	15.3	14.9	15.1	15.1	15.0	15.2	15.1
Western Europe	5.7	5.3	5.2	5.0	4.7	4.7	4.4	4.0	4.4	4.4	4.3	4.1	4.0	4.2	4.2
Pacific	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
DCs	11.9	12.0	12.0	12.2	12.5	12.7	12.8	12.8	12.8	12.8	13.0	13.1	13.2	13.4	13.2
FSU	11.5	12.0	12.5	12.6	13.0	13.2	13.2	13.2	13.3	13.2	13.4	13.3	13.3	13.4	13.4
Other Europe	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.6	3.7	3.8	3.8	3.9	4.0	4.1	4.2	4.2	4.1	4.2	4.2	4.2	4.2	4.2
Processing gains	1.9	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Total non-OPEC supply	49.6	49.9	50.4	50.3	51.1	52.1	52.1	51.9	52.9	52.3	52.8	52.7	52.5	53.1	52.8
OPEC NGLs + non-conventional oils	3.9	3.9	3.9	4.1	4.3	4.6	4.8	4.8	5.0	4.8	5.1	5.2	5.3	5.4	5.3
(b) Total non-OPEC supply and OPEC NGLs	53.5	53.8	54.4	54.5	55.5	56.7	56.9	56.8	57.8	57.1	57.9	57.9	57.9	58.5	58.0
OPEC crude oil production (secondary sources)	30.7	30.5	30.2	31.2	28.7	29.2	29.1	29.2	29.3	29.2					
Total supply	84.2	84.4	84.6	85.7	84.2	85.9	86.0	85.9	87.1	86.2					
Balance (stock change and miscellaneous)	0.1	-0.9	-1.9	-0.3	-0.4	0.8	0.6	-1.6	-0.5	-0.2					
OECD closing stock levels (mb)															
Commercial	2587	2668	2572	2697	2664	2680	2771	2741	2668	2668					
SPR	1487	1499	1524	1527	1564	1567	1563	1549	1556	1556					
Total	4073	4167	4096	4224	4228	4247	4334	4291	4224	4224					
Oil-on-water	954	919	948	969	919	894	897	926	871	871					
Days of forward consumption in OECD															
Commercial onland stocks	52	54	54	59	58	59	59	59	57	58					
SPR	30	30	32	34	34	35	34	33	33	34					
Total	82	84	86	93	92	94	93	92	91	91					
Memo items															
FSU net exports	7.7	8.0	8.5	8.5	9.0	9.2	9.4	9.0	9.1	9.2	9.4	9.5	9.0	9.0	9.2
(a) - (b)	30.6	31.4	32.1	31.5	29.1	28.4	28.5	30.8	29.8	29.3	29.1	28.9	30.8	30.3	29.8

Note: Totals may not add up due to independent rounding

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

	2005	2006	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11	4Q11	2011
World demand															
OECD	-	-	-	-	-	-	-	-	0.2	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-
Western Europe	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(a) Total world demand	-	-	-	-	-	-	-	-	0.2	-	0.1	0.2	-0.1	0.2	0.1
World demand growth	*-0.10*	*-*	*-*	*-*	*-*	*-*	*-*	*-0.01*	*0.21*	*0.05*	*0.14*	*0.22*	*-0.14*	*-0.05*	*0.04*
Non-OPEC supply															
OECD	-	-	-	-	-	-	-	-	0.1	-	-	-	0.1	0.1	0.1
North America	-	-	-	-	-	-	-	-	0.1	-	0.1	0.1	0.1	0.1	0.1
Western Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	-	-	-	-	-	0.1	0.1	0.1	0.1	0.1
Total non-OPEC supply growth	*0.01*	*-*	*-*	*-*	*-*	*0.01*	*-0.01*	*-0.03*	*0.03*	*-*	*0.05*	*0.07*	*0.17*	*0.11*	*0.10*
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	-	-	-	-	-	0.1	0.1	0.1	0.1	0.1
OPEC crude oil production (secondary sources)	-	-	-	-	-	-	-	-	0.1	-					
Total supply	-	-	-	-	-	- -		-	0.1	-					
Balance (stock change and miscellaneous)	-	-	-	-	-	- -		-	-0.1	-					
OECD closing stock levels (*mb*)															
Commercial	-	-	-	-	-	-	-	-	-	-					
SPR	-	-	-	-	-	-	-	-	-	-					
Total	-	-	-	-	-	-	-	-	-	-					
Oil-on-water	-	-	-	-	-	-	-	-	-	-					
Days of forward consumption in OECD															
Commercial onland stocks	-	-	-	-	-	-	-	-	-	-					
SPR	-	-	-	-	-	-	-	-	-	-					
Total	-	-	-	-	-	-	-	-	-	-					
Memo items															
FSU net exports	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(a) - (b)	-	-	-	-	-	-	-	-	0.2	-	0.1	0.2	-0.3	-	-

* *This compares Table 10.3 in this issue of the MOMR with Table 10.3 in the February 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	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
Closing stock levels *mb*																								
OECD onland commercial	2,511	2,538	2,587	2,668	2,572	2,697	2,761	2,668	2,601	2,661	2,646	2,572	2,572	2,602	2,664	2,697	2,752	2,761	2,777	2,664	2,680	2,771	2,741	2,668
North America	1,161	1,193	1,257	1,277	1,229	1,301	1,351	1,277	1,238	1,294	1,285	1,229	1,216	1,240	1,282	1,301	1,355	1,388	1,390	1,309	1,322	1,386	1,396	1,324
Western Europe	915	915	935	963	937	989	949	963	943	940	929	937	961	953	951	989	990	971	968	972	973	980	942	945
OECD Pacific	435	430	394	429	407	407	461	429	420	428	432	407	394	409	431	407	408	401	419	383	386	405	403	399
OECD SPR	1,411	1,450	1,487	1,499	1,524	1,527	1,495	1,499	1,507	1,506	1,520	1,524	1,529	1,526	1,522	1,527	1,547	1,561	1,564	1,564	1,567	1,563	1,549	1,556
North America	640	678	687	691	699	704	690	691	691	692	695	699	702	708	704	704	715	726	727	729	729	729	728	729
Western Europe	374	377	407	412	421	416	412	412	415	413	423	421	423	414	414	416	424	427	429	426	429	424	419	419
OECD Pacific	396	396	393	396	404	406	393	396	401	401	403	404	404	404	403	406	408	408	408	409	409	411	402	409
OECD total	3,922	3,988	4,073	4,167	4,096	4,224	4,256	4,167	4,108	4,168	4,166	4,096	4,101	4,128	4,186	4,224	4,299	4,322	4,341	4,228	4,247	4,334	4,291	4,224
Oil-on-water	882	905	954	919	948	969	974	919	916	891	917	948	935	925	885	969	899	899	869	919	894	897	926	871
Days of forward consumption in OECD																								
OECD onland commercial	51	51	52	54	54	59	55	54	54	54	53	52	54	56	56	58	62	61	60	58	59	59	59	58
North America	46	47	49	50	51	56	53	50	49	51	50	50	50	53	54	56	59	60	59	56	56	57	58	55
Western Europe	59	58	60	62	61	68	60	63	62	60	59	61	64	61	62	66	69	67	67	69	69	66	64	65
OECD Pacific	51	50	47	51	51	53	53	48	53	54	49	46	50	54	54	50	56	55	52	47	53	53	50	51
OECD SPR	28	29	30	30	32	34	30	30	31	31	30	31	32	33	32	33	35	35	34	34	35	34	33	34
North America	25	26	27	27	29	30	27	27	27	27	27	28	29	30	29	30	31	31	31	31	31	30	30	31
Western Europe	24	24	26	27	27	29	26	27	27	26	27	27	28	27	27	28	30	29	30	30	30	29	28	29
OECD Pacific	46	46	46	47	50	53	45	44	51	51	46	45	52	54	51	50	56	56	51	50	56	54	50	53
OECD total	79	80	82	84	86	93	85	84	85	85	83	84	87	88	89	91	97	96	94	92	94	93	92	92

n.a. not available

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

	2005	2006	2007	2008	Change 08/07	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10
USA	7.34	7.36	7.47	7.50	0.03	7.84	8.08	8.29	8.36	8.14	0.64	8.44	8.52	8.60	8.80	8.59	0.45	8.71	8.68	8.63	8.71	8.68	0.09
Canada	3.03	3.20	3.31	3.27	-0.04	3.32	3.13	3.23	3.27	3.24	-0.03	3.27	3.37	3.37	3.52	3.38	0.14	3.46	3.50	3.52	3.60	3.52	0.14
Mexico	3.77	3.69	3.49	3.17	-0.31	3.04	2.97	2.94	2.96	2.98	-0.19	2.99	2.97	2.95	2.93	2.96	-0.02	2.94	2.92	2.88	2.90	2.91	-0.05
North America	14.14	14.24	14.26	13.94	-0.33	14.21	14.18	14.46	14.59	14.36	0.42	14.71	14.86	14.92	15.26	14.94	0.57	15.11	15.10	15.04	15.21	15.11	0.18
Norway	2.97	2.78	2.56	2.47	-0.09	2.53	2.21	2.29	2.39	2.36	-0.11	2.33	2.12	1.93	2.17	2.13	-0.22	2.14	1.96	1.92	2.02	2.01	-0.12
UK	1.89	1.71	1.69	1.58	-0.11	1.63	1.57	1.27	1.46	1.48	-0.10	1.51	1.40	1.21	1.35	1.37	-0.11	1.33	1.29	1.26	1.31	1.30	-0.07
Denmark	0.38	0.34	0.31	0.28	-0.03	0.28	0.27	0.27	0.24	0.26	-0.02	0.25	0.25	0.23	0.26	0.25	-0.02	0.24	0.23	0.21	0.22	0.23	-0.02
Other Western Europe	0.49	0.51	0.62	0.64	0.03	0.62	0.62	0.64	0.63	0.63	-0.02	0.61	0.63	0.64	0.62	0.63	0.00	0.63	0.63	0.63	0.63	0.63	0.01
Western Europe	5.72	5.34	5.17	4.97	-0.20	5.07	4.67	4.47	4.71	4.73	-0.24	4.70	4.40	4.01	4.40	4.38	-0.35	4.34	4.12	4.02	4.19	4.17	-0.21
Australia	0.53	0.51	0.53	0.53	0.01	0.55	0.53	0.55	0.53	0.54	0.01	0.51	0.50	0.50	0.48	0.50	-0.04	0.47	0.51	0.52	0.51	0.50	0.00
Other Pacific	0.05	0.05	0.08	0.10	0.02	0.09	0.09	0.10	0.10	0.10	0.00	0.10	0.10	0.10	0.09	0.10	0.00	0.09	0.09	0.08	0.07	0.08	-0.01
OECD Pacific	0.58	0.56	0.60	0.63	0.03	0.64	0.62	0.65	0.63	0.64	0.01	0.61	0.60	0.60	0.57	0.60	-0.04	0.56	0.59	0.60	0.58	0.58	-0.01
Total OECD	20.44	20.14	20.04	19.54	-0.50	19.91	19.47	19.58	19.94	19.73	0.19	20.03	19.86	19.53	20.23	19.91	0.18	20.01	19.82	19.65	19.98	19.86	-0.04
Brunei	0.21	0.22	0.19	0.17	-0.01	0.17	0.15	0.16	0.19	0.17	0.00	0.18	0.16	0.17	0.18	0.17	0.01	0.18	0.18	0.17	0.17	0.18	0.00
India	0.76	0.78	0.80	0.80	0.00	0.77	0.78	0.79	0.80	0.79	-0.01	0.82	0.83	0.87	0.90	0.85	0.07	0.90	0.88	0.91	0.92	0.90	0.05
Indonesia	1.12	1.07	1.02	1.04	0.02	1.03	1.02	1.02	1.03	1.03	-0.01	1.03	1.04	1.03	1.00	1.02	0.00	1.00	0.99	0.98	0.97	0.99	-0.04
Malaysia	0.77	0.76	0.76	0.76	0.00	0.74	0.72	0.73	0.71	0.73	-0.03	0.73	0.70	0.69	0.70	0.70	-0.02	0.68	0.68	0.67	0.67	0.68	-0.03
Thailand	0.29	0.32	0.33	0.36	0.02	0.37	0.37	0.36	0.37	0.37	0.01	0.35	0.35	0.36	0.34	0.35	-0.02	0.35	0.35	0.34	0.34	0.34	0.00
Vietnam	0.39	0.37	0.35	0.33	-0.01	0.40	0.39	0.37	0.33	0.37	0.04	0.35	0.35	0.36	0.37	0.36	-0.02	0.35	0.37	0.38	0.40	0.38	0.02
Asia others	0.26	0.26	0.26	0.26	0.00	0.25	0.26	0.25	0.25	0.25	-0.01	0.22	0.24	0.24	0.24	0.23	-0.02	0.24	0.25	0.25	0.26	0.25	0.01
Other Asia	3.79	3.78	3.70	3.72	0.02	3.74	3.70	3.68	3.69	3.70	-0.02	3.68	3.67	3.71	3.72	3.69	-0.01	3.70	3.70	3.71	3.73	3.71	0.02
Argentina	0.78	0.77	0.77	0.78	0.01	0.78	0.77	0.74	0.76	0.76	-0.02	0.77	0.76	0.76	0.72	0.75	-0.01	0.73	0.73	0.73	0.73	0.73	-0.02
Brazil	1.98	2.11	2.22	2.38	0.16	2.47	2.49	2.51	2.55	2.51	0.12	2.65	2.71	2.69	2.73	2.69	0.19	2.79	2.86	2.85	2.93	2.86	0.16
Colombia	0.53	0.54	0.54	0.60	0.06	0.65	0.67	0.68	0.73	0.68	0.09	0.77	0.79	0.80	0.83	0.80	0.11	0.85	0.87	0.89	0.92	0.88	0.08
Trinidad & Tobago	0.18	0.18	0.16	0.16	-0.01	0.15	0.15	0.15	0.15	0.15	0.00	0.15	0.15	0.15	0.14	0.15	0.00	0.13	0.13	0.13	0.14	0.13	-0.02
L. America others	0.30	0.26	0.28	0.28	0.01	0.31	0.30	0.31	0.30	0.30	0.02	0.31	0.31	0.32	0.32	0.32	0.01	0.32	0.33	0.34	0.35	0.33	0.02
Latin America	3.77	3.87	3.97	4.20	0.23	4.36	4.38	4.39	4.50	4.41	0.21	4.65	4.72	4.72	4.73	4.71	0.30	4.81	4.92	4.94	5.06	4.93	0.23
Bahrain	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.22	0.22	0.22	0.22	0.22	0.01
Oman	0.78	0.75	0.71	0.76	0.05	0.79	0.80	0.83	0.83	0.81	0.06	0.86	0.86	0.87	0.88	0.87	0.05	0.90	0.91	0.93	0.95	0.92	0.06
Syria	0.45	0.44	0.42	0.41	0.00	0.41	0.41	0.41	0.41	0.41	0.00	0.42	0.43	0.42	0.42	0.42	0.01	0.42	0.41	0.41	0.40	0.41	-0.01
Yemen	0.41	0.37	0.33	0.30	-0.03	0.30	0.30	0.30	0.30	0.30	0.00	0.29	0.28	0.28	0.27	0.28	-0.02	0.27	0.26	0.26	0.26	0.26	-0.02
Middle East	1.85	1.76	1.66	1.68	0.02	1.71	1.72	1.75	1.75	1.73	0.05	1.77	1.77	1.77	1.78	1.77	0.04	1.80	1.81	1.82	1.83	1.82	0.04
Chad	0.18	0.15	0.15	0.15	0.00	0.14	0.14	0.14	0.14	0.14	-0.01	0.15	0.15	0.15	0.15	0.15	0.01	0.14	0.14	0.14	0.14	0.14	-0.01
Congo	0.24	0.25	0.24	0.26	0.02	0.27	0.27	0.27	0.29	0.27	0.02	0.30	0.30	0.30	0.30	0.30	0.02	0.30	0.31	0.31	0.32	0.31	0.01
Egypt	0.70	0.66	0.66	0.69	0.04	0.72	0.72	0.69	0.71	0.71	0.01	0.71	0.72	0.73	0.73	0.72	0.01	0.73	0.73	0.72	0.71	0.72	0.00
Equatorial Guinea	0.36	0.37	0.37	0.38	0.01	0.37	0.36	0.35	0.34	0.36	-0.02	0.33	0.33	0.32	0.31	0.32	-0.03	0.31	0.31	0.30	0.30	0.30	-0.02
Gabon	0.25	0.25	0.25	0.24	-0.01	0.23	0.23	0.24	0.25	0.24	0.00	0.25	0.23	0.25	0.25	0.25	0.01	0.25	0.26	0.26	0.26	0.26	0.01
South Africa	0.19	0.19	0.18	0.18	0.00	0.18	0.18	0.17	0.16	0.17	-0.01	0.18	0.18	0.18	0.18	0.18	0.01	0.18	0.18	0.18	0.18	0.18	0.00
Sudan	0.34	0.40	0.50	0.48	-0.02	0.47	0.48	0.48	0.48	0.48	0.00	0.47	0.46	0.46	0.47	0.46	-0.01	0.47	0.47	0.48	0.47	0.47	0.01
Africa other	0.23	0.29	0.28	0.27	-0.01	0.27	0.26	0.25	0.25	0.26	-0.01	0.24	0.23	0.23	0.23	0.24	-0.02	0.27	0.30	0.32	0.38	0.32	0.08
Africa	2.49	2.55	2.62	2.64	0.02	2.63	2.62	2.60	2.60	2.61	-0.03	2.62	2.59	2.61	2.62	2.61	-0.01	2.64	2.68	2.70	2.75	2.69	0.09
Total DCs	11.90	11.96	11.96	12.24	0.29	12.44	12.42	12.42	12.54	12.46	0.21	12.72	12.75	12.81	12.84	12.78	0.33	12.96	13.11	13.18	13.37	13.15	0.37
FSU	11.55	12.02	12.53	12.60	0.06	12.67	12.93	13.05	13.16	12.96	0.36	13.16	13.20	13.21	13.33	13.22	0.27	13.40	13.35	13.29	13.36	13.35	0.13
Russia	9.44	9.65	9.87	9.78	-0.08	9.78	9.87	9.97	10.07	9.92	0.14	10.09	10.12	10.13	10.22	10.14	0.22	10.22	10.21	10.17	10.18	10.19	0.05
Kazakhstan	1.23	1.30	1.35	1.41	0.06	1.48	1.51	1.54	1.61	1.54	0.12	1.61	1.56	1.57	1.65	1.60	0.06	1.66	1.63	1.62	1.67	1.65	0.05
Azerbaijan	0.44	0.65	0.87	0.94	0.07	0.97	1.11	1.09	1.06	1.06	0.12	1.05	1.10	1.10	1.03	1.07	0.01	1.11	1.09	1.09	1.10	1.10	0.03
FSU others	0.44	0.42	0.44	0.46	0.01	0.45	0.44	0.44	0.42	0.44	-0.02	0.42	0.42	0.41	0.42	0.42	-0.02	0.42	0.42	0.41	0.41	0.41	0.00
Other Europe	0.16	0.15	0.15	0.15	-0.01	0.14	0.13	0.14	0.14	0.14	-0.01	0.14	0.14	0.14	0.13	0.14	0.00	0.14	0.14	0.14	0.14	0.14	0.00
China	3.64	3.69	3.77	3.84	0.07	3.79	3.86	3.89	3.87	3.85	0.01	4.03	4.10	4.18	4.25	4.14	0.29	4.22	4.19	4.19	4.21	4.20	0.06
Non-OPEC production	47.69	47.97	48.45	48.36	-0.09	48.96	48.82	49.08	49.64	49.13	0.77	50.07	50.04	49.86	50.78	50.19	1.06	50.73	50.60	50.45	51.06	50.71	0.52
Processing gains	1.91	1.96	1.99	1.97	-0.02	2.00	2.00	2.00	2.00	2.00	0.03	2.08	2.08	2.08	2.08	2.08	0.08	2.08	2.08	2.08	2.08	2.08	0.00
Non-OPEC supply	49.60	49.93	50.43	50.33	-0.11	50.96	50.82	51.08	51.64	51.13	0.80	52.14	52.11	51.94	52.86	52.26	1.14	52.80	52.67	52.53	53.14	52.79	0.52
OPEC NGL	3.74	3.76	3.86	4.04	0.18	3.99	4.19	4.41	4.37	4.24	0.21	4.49	4.67	4.71	4.86	4.68	0.44	4.95	5.06	5.15	5.20	5.09	0.41
OPEC Non-conventional	0.16	0.14	0.09	0.11	0.02	0.11	0.11	0.11	0.11	0.11	0.00	0.10	0.10	0.10	0.10	0.10	0.00	0.13	0.16	0.18	0.18	0.16	0.06
OPEC (NGL+NCF)	3.89	3.89	3.95	4.14	0.19	4.10	4.30	4.52	4.48	4.35	0.21	4.60	4.77	4.81	4.96	4.79	0.44	5.08	5.22	5.33	5.38	5.25	0.46
Non-OPEC & OPEC (NGL+NCF)	53.49	53.82	54.38	54.47	0.09	55.06	55.12	55.60	56.12	55.48	1.01	56.74	56.88	56.75	57.82	57.05	1.57	57.88	57.89	57.86	58.52	58.04	0.99

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

Table 10.7: World Rig Count

	2005	2006	Change 06/05	3Q07	4Q07	2007	Change 07/06	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09	**Feb 11**	Feb/Jan
USA	1,381	1,647	267	1,788	1,790	1,767	119	1,770	1,864	1,978	1,898	1,877	111	1,326	936	956	1,108	1,081	-796	1,345	1,508	1,622	1687	1541	459	1718	7
Canada	458	470	12	348	356	344	-126	507	169	432	408	379	35	328	91	177	277	218	-161	470	166	364	389	347	129	608	44
Mexico	107	83	-24	96	93	92	9	96	106	103	106	103	11	128	128	135	123	128	26	118	106	84	80	97	-31	84	5
North America	1,945	2,200	255	2,231	2,240	2,202	2	2,373	2,139	2,513	2,411	2,359	157	1,782	1,154	1,267	1,508	1,428	-931	1,933	1,780	2,070	2156	1985	557	2410	56
Norway	17	17	0	18	17	18	1	17	21	21	21	20	2	25	18	18	20	20	0	21	18	13	20	18	-2	21	-2
UK	21	27	5	27	22	26	-1	19	21	24	24	22	-4	22	19	16	15	18	-4	15	20	21	21	19	1	16	-7
Western Europe	70	77	7	79	77	78	0	91	97	101	103	98	20	90	82	76	85	83	-15	87	96	92	100	94	11	118	1
OECD Pacific	25	26	2	32	30	29	2	32	39	39	34	36	7	27	25	26	23	25	-11	22	18	23	22	21	-4	14	-6
Total OECD	2,078	2,347	269	2,387	2,385	2,352	4	2,532	2,317	2,698	2,593	2,535	183	1,945	1,299	1,368	1,616	1,557	-978	2,042	1,893	2,185	2278	2100	543	2542	51
Other Asia	200	202	2	212	216	212	10	213	220	218	212	216	4	212	212	213	233	217	1	235	249	253	255	248	31	259	-7
Latin America	129	149	19	171	179	175	27	187	184	195	197	191	16	164	147	149	169	157	-34	183	203	220	213	205	48	222	3
Middle East	131	132	1	154	154	149	18	158	165	175	171	167	18	162	151	139	147	150	-18	152	150	163	159	156	6	168	7
Africa	8	10	2	14	14	14	4	10	13	14	11	12	-2	8	11	9	12	10	-2	20	19	19	18	19	9	26	9
Total DCs	468	493	25	550	563	551	58	569	583	602	591	586	36	546	520	510	561	534	-52	589	621	655	645	628	93	675	12
Non-OPEC Rig Count	2,546	2,840	294	2,937	2,948	2,903	62	3,101	2,900	3,300	3,183	3,121	219	2,491	1,819	1,878	2,177	2,091	-1,030	2,632	2,514	2,840	2924	2727	636	3217	63
Algeria	21	24	4	28	28	27	2	26	27	24	26	26	-1	24	30	27	27	27	1	23	28	24	24	25	-2	30	-2
Angola	3	4	1	3	5	4	1	5	6	5	5	5	1	5	3	3	4	4	-1	10	8	9	9	9	5	9	1
Ecuador	12	11	0	11	10	11	-1	7	9	12	13	10	-1	10	10	10	10	10	0	11	11	11	11	11	1	11	0
Iran	40	44	4	51	50	50	6	50	50	50	51	50	0	51	52	52	52	52	2	52	52	52	52	52	0	52	0
Iraq	0	0	0	0	0	0	0	29	29	29	29	29	29	36	36	36	36	36	7	36	36	36	36	36	0	36	0
Kuwait	12	14	1	13	11	12	-1	12	11	12	12	12	0	12	11	14	13	13	0	19	18	21	23	20	8	31	6
Libya	9	10	1	14	14	13	3	14	15	15	15	15	2	15	13	14	15	14	-1	17	17	14	15	16	1	15	0
Nigeria	9	10	1	8	10	8	-1	9	8	6	6	7	-1	7	6	6	7	6	-1	11	13	18	17	15	8	14	0
Qatar	12	11	-1	13	14	13	2	11	12	11	11	11	-1	9	9	9	9	9	-2	8	8	9	9	9	0	10	-1
Saudi Arabia	37	65	28	78	77	77	11	78	77	76	76	77	0	72	67	67	66	68	-9	68	67	67	65	67	-1	63	4
UAE	16	16	0	15	14	15	-2	12	12	13	12	12	-2	13	12	13	12	12	0	13	13	13	13	13	1	19	7
Venezuela	68	81	13	77	71	76	-5	82	81	77	81	80	4	69	64	54	54	60	-20	66	64	70	80	70	10	95	1
OPEC Rig Count	238	290	51	311	302	305	16	336	337	330	336	335	29	322	314	302	305	311	-24	334	335	344	355	342	31	385	16
Worldwide Rig Count*	2,785	3,130	345	3,249	3,250	3,208	78	3,438	3,237	3,630	3,519	3,456	248	2,813	2,133	2,180	2,483	2,402	-1,054	2,965	2,849	3,184	3278	3069	667	3602	79
of which:																											
Oil	980	1,124	144	1,254	1,285	1,242	119	1,408	1,351	1,479	1,490	1,432	190	1283	1,069	1182	1356	1222	-210	1,590	1,534	1,783	1896	1701	479	2208	74
Gas	1,746	1,947	201	1,931	1,904	1,903	-44	1,969	1,814	2,070	1,948	1,950	47	1450	993	965	1092	1125	-825	1,333	1,276	1,356	1337	1325	200	1345	3
Others	21	17	-4	20	25	20	4	26	32	36	37	33	12	35	35	34	37	35	3	43	40	42	46	43	8	50	2

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

Contributors to the *OPEC Monthly Oil Market Report*

Editor-in-Chief
Hasan M. Qabazard, Director, Research Division
email: hqabazard@opec.org

Editor
Hojatollah Ghanimi Fard, Head, Petroleum Studies Department
email: h.ghanimifard@opec.org

Analysts

Crude Oil Price Movements *and* Oil Trade	Brahim Aklil email: baklil@opec.org
Commodity Markets	Odalis López-Gonzalez e-mail:olopez@opec.org
World Economy	Mehdi Asali email: masali@opec.org Joerg Spitzy email: jspitzy@opec.org
World Oil Demand	Esam Al-Khalifa email: ekhalifa@opec.org
World Oil Supply *and* Tanker Market	Haidar Khadadeh email: hkhadadeh@opec.org
Product Markets and Refinery Operations	Elio Rodriguez email: erodriguez@opec.org
Stock Movements	Aziz Yahyai email: ayahyai@opec.org
Technical and editorial team	Aziz Yahyai email: ayahyai@opec.org Douglas Linton email: dlinton@opec.org

Data services
Fuad Al-Zayer, Head Data Services Department (fzayer@opec.org)
Puguh Irawan (pirawan@opec.org), Ramadan Janan (rjanan@opec.org)
Pantelis Christodoulides (World Oil Demand, Stock Movements), Hannes Windholz (Oil Trade, Product & Refinery), Mouhamad Moudassir (Tanker Market), Klaus Stoeger (World Oil Supply), Harvir Kalirai (Economics), Sheela Kriz (Crude Oil Prices)

Production, design and circulation
Viveca Hameder, Hataichanok Leimlehner, Evelyn Oduro-Kwateng, Andrea Birnbach

Data Summary

March 2011

OPEC Basket average price

US$ per barrel

⬆ up $7.46 in February	**February 2011**	**100.29**
	January 2011	92.83
	Year-to-date	98.47

February OPEC production

in million barrels per day, according to secondary sources

⬆ up 0.11 in February	**February 2011**	**30.02**
	January 2011	29.91

World economy

Global growth expectations for 2011 have been adjusted 0.1% higher to 4.0% due to better-than-expected growth in the developing countries. China's forecast has been increased from 8.8% to 9.0% and India from 8.0% to 8.1%. The forecast for the OECD remains unchanged at 2.3%, with the US at 2.9% and both the Euro-zone and Japan at 1.5%.

Supply and demand

in million barrels per day

2010		09/10
World demand	86.4	**1.8**
Non-OPEC supply	52.3	**1.1**
OPEC NGLs	4.8	**0.4**
Difference	**29.2**	**0.3**

2011		10/11
World demand	87.8	**1.4**
Non-OPEC supply	52.8	**0.5**
OPEC NGLs	5.3	**0.5**
Difference	**29.8**	**0.5**

Totals may not add due to independent rounding

Stocks

US commercial inventories fell by around 23.8 mb in February, driven by a substantial decline in products which offset the build in crude stocks. US commercial oil stocks in February remained above the historical norm at 1051.1 mb. In Japan, the most recent data shows that commercial oil inventories declined by 2.4 mb in January. Preliminary indications for February show that Japanese commercial oil stocks fell a further 8.2 mb.

Issued 11 March 2011

Next report to be issued on 12 April 2011

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