OPEC

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

September 2012

Feature Article:

World refining outlook

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

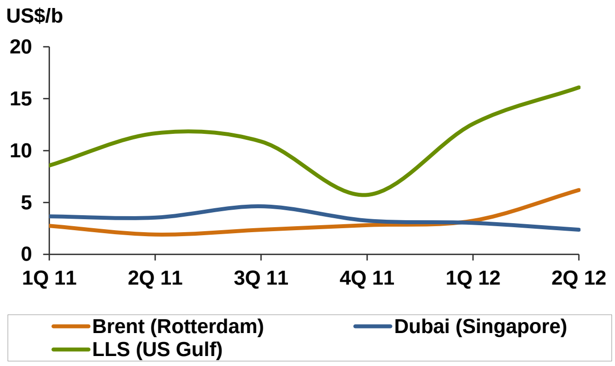
- The **OPEC Reference Basket** continued its upward movement in August to settle at $109.52/b, pushed higher by the market's bullish sentiment. Basket components rose by $8.00-1200. ICE Brent front-month prices also increased in August by 10% to settle at $112.68/b, while Nymex WTI rose by 7% to stand at $94.16/b. The return of significantly higher speculative activity, constraints in North Sea supply, declines in crude oil stockpiles in the US, hopes for further monetary easing from major central banks, and geopolitical factors have all contributed to the increase in crude oil prices. Oil markets were also supported by unexpected positive economic data from the US. Weather-related factors pushed prices higher, as Hurricane Isaac threatened oil operations in the US Gulf. On 10 September, the OPEC Basket stood at $112.32/b.
- Growth expectations for the **world economy** in 2012 and 2013 remain unchanged at 3.3% and 3.2%, respectively. The US is forecast to grow by 2.3% in 2012 and 2.0% in 2013. Japan is expected to decelerate from 2.7% this year to 1.2% in 2013. The Euro-zone is seen returning to growth of 0.1%, following a contraction of 0.4% in 2012. Growth expectations for China stand at 8.1% for 2012 and 8.0% in 2013, while India's expansion is forecast at 6.3% in 2012 and 6.6% in 2013.
- **World oil demand** growth in 2012 is forecast at 0.9 mb/d, unchanged from the previous report. Global economic turbulence has not slowed oil consumption seasonality from its summer trend. World oil demand rose in July, leading to growth of 1.1 mb/d in the third quarter y-o-y. Non-OECD consumed 42.9 mb/d of oil in July, an increase of 1.0 mb/d y-o-y. In 2013, world oil demand is forecast to grow at a slightly lower 0.8 mb/d compared to the previous year. Downside risk exists as the economic slowdown in the developed countries could increasingly spill over into the non-OECD.
- **Non-OPEC supply** is anticipated to increase by 0.7 mb/d in 2012. Growth is supported by expected gains in the US, Canada, Brazil, Russia, China, and Colombia, while output from South Sudan and Sudan, Syria, the UK and Norway is projected to decline. In 2013, non-OPEC oil supply is forecast to grow by 0.9 mb/d. OPEC NGLs and non-conventional oils are expected to average 5.7 mb/d in 2012 and 5.9 mb/d in 2013, representing growth of 0.4 mb/d and 0.2 mb/d, respectively. In August, OPEC crude oil production stood at 31.41 mb/d, representing an increase of 254 tb/d from the previous month, according to secondary sources.
- **Product market** sentiment remained healthy and became stronger worldwide in August, with light distillates exhibiting a positive performance on the back of tightening downstream supply generated by the shutdown of several refineries worldwide and the recovery in gasoline demand in the Atlantic Basin, as well as naphtha consumption in the petrochemical sector in Asia. The positive performance of light distillates allowed margins to continue increasing, despite weaker fuel oil demand.
- In the **tanker market**, a general negative trend was affecting dirty tankers, as lower tonnage demand and ample vessel supply drove spot freight rates to lower levels. The VLCC and Aframax markets saw slow activities, while Suezmax freight rates in August reached the lowest level this year. Clean tanker spot freight rates rose in the west and declined in the east. Sailings from OPEC were almost steady in August to average 24 mb/d. Arrivals in North America, Europe and West Asia increased, while in the Far East arrivals declined. Both global and OPEC spot fixtures decreased in August from the previous month by 3.4 mb/d and 1.0 mb/d, respectively.
- **US commercial oil inventories** fell for the second consecutive month in August, declining by 13.3 mb. This drop was attributed solely to crude stocks, which fell by 16.5 mb, while product inventories rose by 2.9 mb. Despite the drop, US commercial stocks remained 17.2 mb above the five-year average. The most recent monthly data for Japan shows that commercial oil inventories rose by 0.9 mb in July for the fifth consecutive month, driven by an increase in products of 3.0 mb. Crude stocks limited the build, dropping by 2.2 mb. Japan's commercial inventories remain 2.8 mb below the five-year average.
- **Demand for OPEC crude** for 2012 has remained virtually unchanged from the previous assessment to stand at 29.9 mb/d. This represents a decline of 0.2 mb/d from the previous year. Demand for OPEC crude in 2013 is projected to average 29.5 mb/d, also unchanged from the previous report and 0.4 mb/d lower than the 2012 level.

World refining outlook

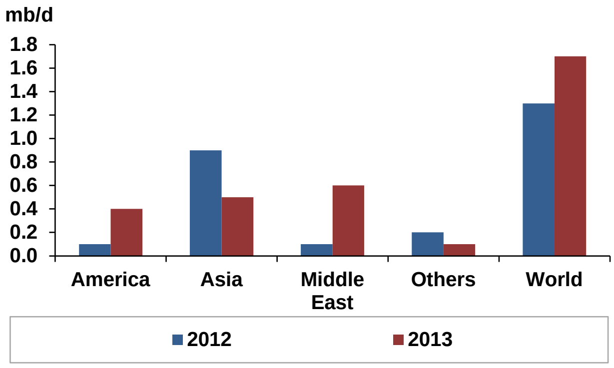
Since the 2008 financial crisis, global refinery throughput has increased by more than 3.0 mb/d, reflecting the improvement in world oil demand. This recovery in global oil consumption has been mainly due to growth in non-OECD countries, as OECD demand has declined by more than 4 mb/d from the peak seen in 2005. Non-OECD countries, particularly those in Asia, have expanded their refinery capacity, leading to a change in the regional supply/demand balance and resulting in some Asian countries, such as India, becoming product exporters.

In line with contracting demand, refinery utilization rates in many OECD countries have dropped in recent years, mainly in Europe where refineries have suffered from poor economic performance due to weak margins in the Atlantic Basin. In 2011, OECD gasoline demand was particularly disappointing, dropping by 3% from the 5-year average to almost 14 mb/d, with US consumption falling to 8.4 mb/d in January, the lowest level in years. In addition to lower gasoline consumption, the supply side has been subjected to pressure from the substitution of non-refined products, mainly natural gas liquids (NGLs) and biofuels. At the same time, the other component of light distillates, naphtha, has been weak due to low demand in the petrochemical sector across the globe. Due to the poor performance of the gasoline market, refiners were encouraged to switch their refining modes in favour of middle distillates. Although demand for middle distillates experienced a temporary recovery in 4Q11, warmer weather and weaker consumption in the transportation sector led to a decline in OECD demand for middle distillates, thus preventing middle distillates from assuming their typical role as a market driver and leaving refining margins low during 4Q11 and 1Q12 (*see* ***Graph 1***).

Graph 1: Refining margins, 2011-12



Graph 2: Distillation capacity additions from existing projects, by region



US refiners have seen better margins than in Europe, due to less expensive domestic crude and export opportunities to Latin America. This comparative economic advantage has allowed US refineries to hit a record-high utilization of 92% in July 2012, despite weak domestic demand. Furthermore, exports of diesel and gasoil have surged to a high of around 1.0 mb/d in 2Q12, reconfirming the country's newfound status as a net exporter of refined products. Since the start of 2H12, margins have experienced a recovery worldwide on the back of relatively higher product demand, amid shutdowns, outages, and closures of some refineries in the Atlantic basin.

Due to the poor economic performance of the refining industry in recent years, the volume of announced capacity closures has accelerated since the end of last year, amounting to 3 mb/d of capacity by end-2012. European refineries have been mainly affected, as well as some refineries on the US East Coast that have not been able to switch to cheaper crudes. Despite the significant volume of closures, these shutdowns are not likely to boost margins, as refining capacity globally is projected to increase by 1.3 mb/d and 1.7 mb/d in 2012 and 2013, respectively (*see* ***Graph 2***). Most of this new capacity will be located in non-OECD countries, particularly Asia and the Middle East. Under-utilized capacity will therefore remain high, estimated at around 3.5 mb/d in 2012 and 4.0 mb/d in 2013, keeping margins under pressure in the coming year.

Moreover, the refining industry will have to cope with this capacity under-utilization in an environment of a weak downstream OECD market, as the overall declining trend in demand in many OECD countries is expected to continue. Due to the expected slowdown in the world economy, the global demand growth forecast for 2013 remains at around 0.9 mb/d, almost at the same level as in the current year. This is likely to keep refining margins under pressure due to the expected worsening imbalance between gasoil/gasoline along with the high levels of idle refining capacity. In addition, volumes of non-refined products will continue to grow, limiting the need for light distillates from refineries and potentially leading to even more refinery sales and closures.

Returning to the current year, OECD crude oil stocks remain at comfortable levels, especially in the US market. As a result, any product shortage could be readily met by higher utilization of idle refinery capacity in a market with abundant crude supplies.

Crude Oil Price Movements

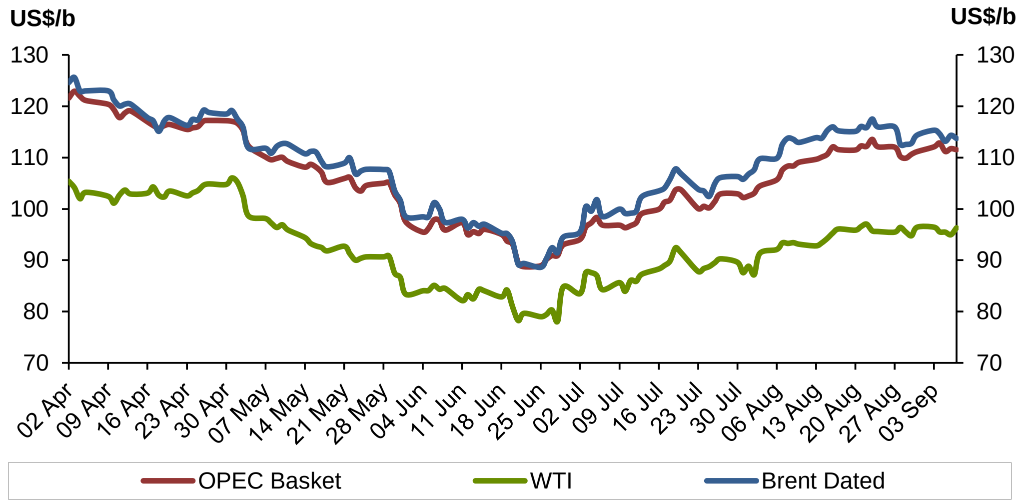
OPEC Reference Basket value improved by almost 10%

OPEC Reference Basket

In August, the OPEC Reference Basket continued its upward movement following the bullish sentiment in global crude oil markets for the second month in a row. The almost 10% gain was the highest month-to-month increase in over 3 years. The two consecutive rises in July and August in the Basket value totaled $15.54/b or 17% from the low reached in June. Aside from the sharp rebound in speculative activity, Basket prices increased on the constraints in North Sea supply expected during September, sharp draws in crude oil stockpiles in the US, and the hope for further monetary easing from major central banks, as well as geopolitical factors. Oil markets were also supported by unexpected positive economic data from the US, as well as improving economic sentiment as global equity benchmarks approach new multi-month highs. Furthermore, crude oil prices rose as Hurricane Isaac threatened US Gulf Coast oil installations, forcing companies in the region to temporarily close oil production platforms.

The OPEC Reference Basket rose to $109.52/b in August, gaining $9.97/b, the highest one-month gain since the May 2009 gain of $11.38/b. Year-to-date the Basket averaged $110.12/b compared to $107.25/b for the same period a year ago, a y-o-y increase of $2.87/b or 2.7%.

Graph 1.1: Crude oil price movement, 2012



Basket components rose by $8-12 in August, with all settling above $100/b, except Venezuela's Merey which ended at $99.89/b. Saharan Blend, Es Sider, Bonny Light and Girassol – the Brent-related crudes – rose by $10.59 to an average of $113.03/b, up by 10% for the month. The multi-destination Basket components, namely Arab Light, Basrah Light, Kuwait Export and Iran Heavy, also increased by 10% in August to end at $109.22/b, a gain of $10.32 over the previous month. Meanwhile, Middle Eastern crudes along with Latin American Basket components all increased by around 9% to $109.73/b and $101.05/b, respectively.

The Basket components that are priced against benchmark Brent, namely light sweet African crudes and imported Middle Eastern sour crudes into Europe, continued to be supported by the tight North Sea supply, amid production disruptions as well as tight medium-sour crudes in the Mediterranean market, which translated into record-high spot premiums. The naphtha-rich Algerian grade – Saharan Blend – performed exceptionally well, supporting the overall value of the Basket, as it gained more than $12.50 over the month, supported by healthy naphtha and gasoline markets. Dubai/Oman-related Basket components in Asia also gained ground in August, amid firm regional refining margins which touched the highest level since October last year, despite the marked increase in crude prices. While widening naphtha and middle distillate cracks have played a role, healthy Asian refinery margins have been led predominantly by soaring gasoline cracks, which recently touched a five-year high buoyed by strong demand, unexpected refinery shutdowns, and potential arbitrage to the US West Coast. Similar to other regions, the positive performance of US refined products amid tight supply due to several refinery problems in the Americas coupled with low petroleum product inventories, led to record-high refinery utilization, drawing down stockpiles and supporting crude differentials for the main US Gulf Coast (USGC) benchmarks. The improvement in USGC light sweet crudes – mostly LLS – has positively affected the overall prices of the Latin American Basket components, which incorporate these crudes into their pricing formulas.

On 10 September, the OPEC Reference Basket improved to $112.32/b, almost $3.00 above the August average.

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

			Change	Year-to-date	
	Jul 12	Aug 12	Aug/Jul	2011	2012
OPEC Reference Basket	**99.55**	**109.52**	**9.97**	**107.27**	**110.12**
Arab Light	99.90	109.94	10.04	107.64	110.68
Basrah Light	98.16	108.68	10.52	105.96	108.62
Bonny Light	104.24	114.63	10.39	114.51	114.30
Es Sider	102.89	112.18	9.29	112.30	112.54
Girassol	103.01	113.08	10.07	112.02	113.06
Iran Heavy	98.81	109.36	10.55	105.86	109.54
Kuwait Export	98.75	108.91	10.16	105.22	109.58
Marine	99.47	108.57	9.10	106.34	109.75
Merey	91.86	99.89	8.03	96.29	102.03
Murban	101.48	110.88	9.40	109.82	112.19
Oriente	94.13	102.21	8.08	99.75	104.47
Saharan Blend	99.64	112.23	12.59	113.27	111.89
Other Crudes					
Brent	102.59	113.48	10.89	111.89	112.06
Dubai	99.15	108.62	9.47	106.08	109.40
Isthmus	99.63	107.22	7.59	104.58	108.46
Mars	98.51	107.11	8.60	107.50	107.98
Minas	106.62	115.46	8.84	115.23	119.63
Urals	102.63	113.18	10.55	109.22	110.90
WTI	87.79	94.08	6.29	96.52	96.29
Differentials					
WTI/Brent	-14.80	-19.40	-4.60	-15.37	-15.77
Brent/Dubai	3.44	4.86	1.42	5.81	2.66

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

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

The oil futures market

Crude futures rebounded to near 1Q12 levels

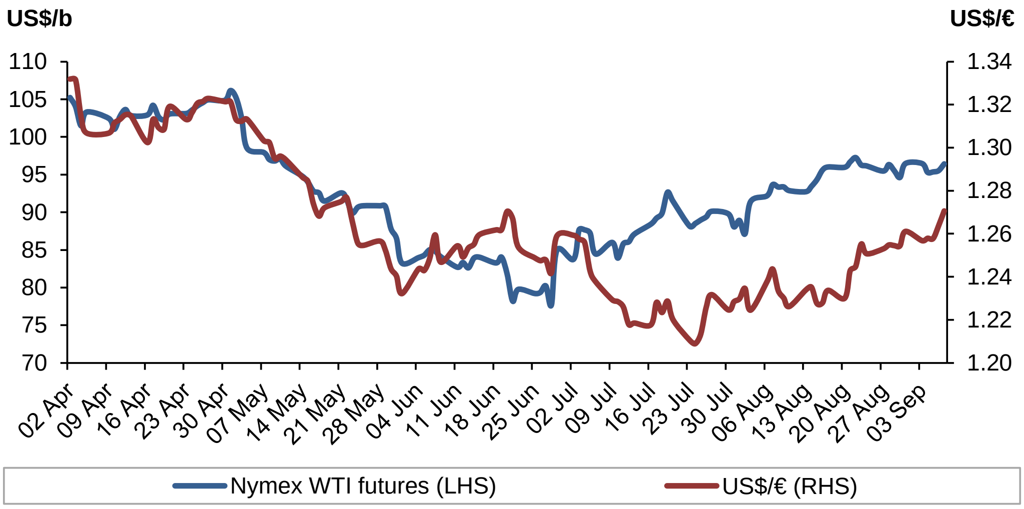
For the second consecutive month, crude oil futures prices have moved up significantly in August for a record m-o-m gain. The Nymex WTI front-month rallied by 9.6% in August and has soared by almost 25% since mid-June. ICE Brent gained 9.2% in August, the biggest monthly percentage rise since prices jumped by 10.5% in February, adding to a 7% rally in July. Various factors have been contributing to the rally in crude oil prices during the past two months. Over the month, speculators increased their bets on rising oil prices and have increased net long positions in both crude oil futures markets, taking them to levels seen earlier this year. Hedge funds and large investors were keeping an eye on hurricane activity in the Gulf of Mexico, the possibility of further monetary easing by central banks, and geopolitical factors. Speculators increased net long positions on the ICE and Nymex by a hefty 78%, taking the total to 294,280 contracts at the end of August from 165,432 lots at the end of June. In August alone, the upsurge in net long positions was 38%, as hedge funds and other money managers have started to ready themselves for another big spike in oil prices over the coming months, as their bullish action suggests. Physical constraints in North Sea crude supply and a contraction of US crude inventories were also among the major causes in the crude oil price escalation. Speculation on the possibility of further monetary easing from major central banks, improving economic sentiment in the US and hurricane activity in the Gulf of Mexico, also contributed to the surge.

Production problems at the Buzzard field, the largest component of the benchmark-setting Forties stream, boosted supply concerns in the European market. Buzzard field production dropped to 50,000 b/d from the typical 200,000 b/d production level. The field will also be shut starting in the first week of September for maintenance, which is scheduled to last until mid-October. This, in addition to lingering geopolitical tensions, were the most significant fundamental factors affecting the price rally, as seen from the substantial surge in the Brent market compared to WTI, despite ongoing economic woes in Europe. In the US, the world's biggest crude oil consumer, the Energy Information Administration (EIA) reported 4 consecutive weeks of contractions in US commercial crude inventories on the back of further declines in US crude oil production, due to struggling output of Alaskan North Slope crude oil. This has notably supported the upward momentum in prices, particularly in the first two decades of the month.

ICE Brent front-month prices increased in August by $9.95 or around 10% to settle at $112.68/b, rebounding to above the $110/b level last seen during the month of May. WTI front-month improved by over 7% or $6.23 to average $94.16/b in August, not far from its level three months ago. Compared to the same period last year, the ICE Brent front-month averaged 0.4% higher at $112.15/b, compared to last year's level of $111.73/b. On the other hand, the WTI front-month year-to-date average was $96.42/b, down by 28¢ or a negligible 0.3% from the previous year.

Crude oil futures prices kept their upward momentum in the first week of September, when Nymex WTI settled above $96.54/b and ICE Brent moved to $114.81/b on 10 September.

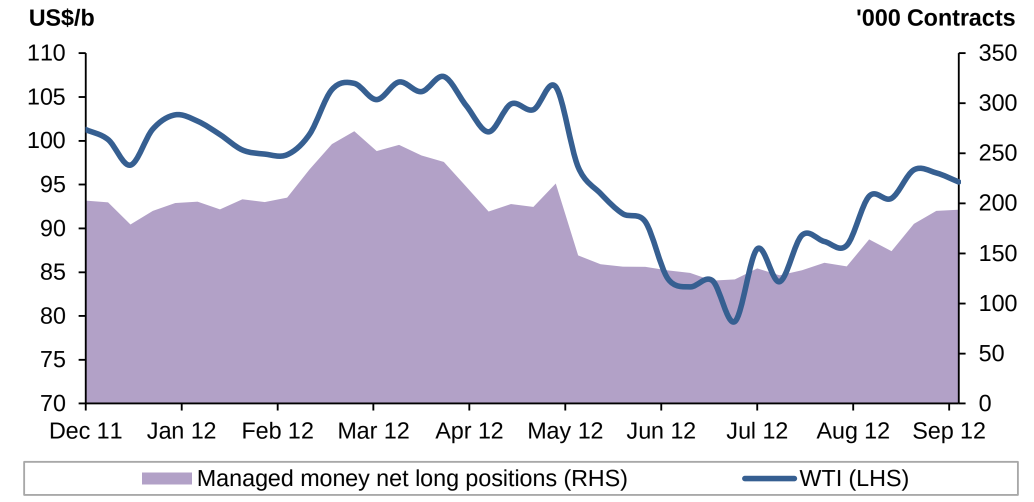
Graph 1.2: Nymex WTI futures and US$ exchange rate, 2012



Data from the US Commodity Futures Trading Commission (CFTC) showed that over the past month, speculators have continued to significantly expand their net long positions, driving them to the levels seen during the first quarter of this year. Hedge funds and other large investors increased net long positions on the Nymex by a hefty 51,835 contracts, indicating bullish trading in August. This represents a record increase of 37%, adding to the 14% increase seen last month. Speculator activities in ICE Brent crude oil futures and options were also seen to be more bullish as net longs increased by almost 40%, in addition to last month's 50% gain. Money managers' net long futures and options positions on the ICE Brent crude increased by 30,375 lots to stand at 107,855 contracts at the end of August. In total, speculators boosted their combined net long positions in the two main crude oil futures markets, ICE and Nymex, by a hefty 78%, taking the total to 294,280 contracts at the end of August from 165,432 lots at the end of June. The expansion in combined net long positions in August alone was 38%, suggesting that hedge funds and other money managers are betting on another big rally in oil prices in the next few months.

Nymex WTI trading volume decreased in August by a further 9,564 lots to average 507,973 contracts. Meanwhile, open interest increased sharply by 62,588 contracts, supporting the previously noted increase in speculative activity in July and August, to stand at 1.5 million lots. ICE Brent front-month volume also decreased for the second month by 43,821 contracts to 553,165 contracts, while open interest fell by 26,362 to reach almost 1.2 million lots. As noted last month, ICE Brent crude oil futures continue to gain market share over WTI Nymex, with the former surpassing 45,000 contracts in August. However, Nymex WTI open interest still lies ahead in terms of volume, while ICE Brent is quickly catching up. The trend supports Brent's status as the benchmark grade for pricing more than half of the world's oil. While North Sea output has fallen almost 50% in the past decade, a glut of landlocked North American crude has reduced WTI's reliability as a gauge of global oil demand.

Graph 1.3: Nymex WTI price vs. speculative activity, 2011-2012

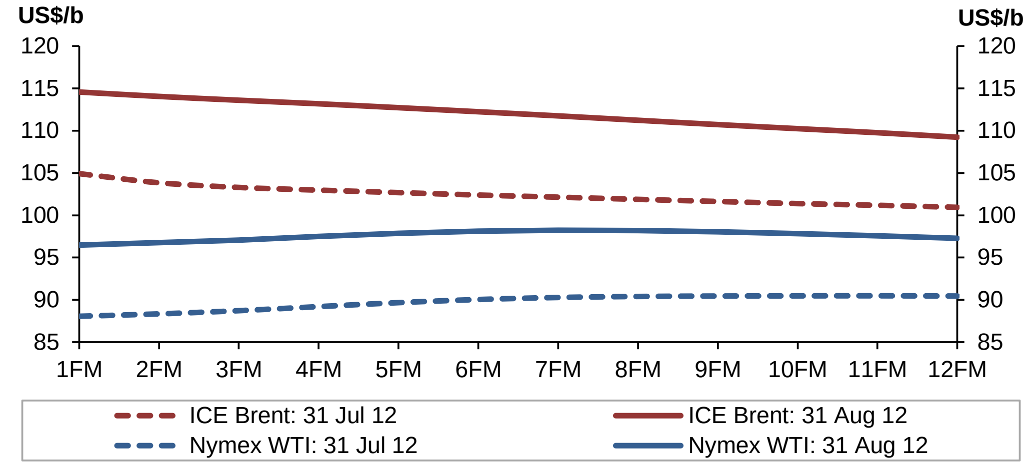


The futures market structure

Nymex narrowed its contango and ICE Brent backwardation steepened sharply

Lower deliveries to Cushing due to Enbridge's Line 14 shutdown – the pipeline was recently reversed to carry crude to the US Gulf Coast – and increasing outbound rail transport may have caused the Nymex WTI market structure to narrow slightly in August. The first versus second month spread was around minus 30¢/b, or 5¢ narrower from the previous month. The closure of Enbridge's Line 14 resulted in lower deliveries to Cushing via the southbound 190,000 b/d Spearhead pipeline. Although the supply glut at Cushing continues to be addressed aggressively, growing shale production from Eagle Ford and Bakken, higher oil sand inflows from Canada, and a lack of adequate outbound pipelines from the Cushing storage hubs are keeping the WTI market in contango. Meanwhile, constraints in North Sea supply due to loading facility maintenance in August and looming work to the Buzzard field in September has pushed the ICE Brent market structure to its steepest backwardation since October 2011. On average, the spread between the second and the first month of the ICE Brent contract averaged around $1.35/b in August compared to about 65¢/b in July.

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



FM = future month

The transatlantic (Brent vs. WTI) spread strengthened sharply in August to its widest since October 2011, on the back of maintenance-related supply issues that boosted the Brent side. The spread reached a peak of almost $22/b before contracting by more than $2 as WTI got support from higher-than-expected rail shipments of Bakken crude to the East as well as the West Coast refineries in September, which should ease the supply overhang in Cushing. On average, the front month ICE Brent/Nymex WTI spread, stood at $18.52/b – wider by a hefty $3.73 from July – in favour of ICE Brent.

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

Nymex WTI	1st FM	2nd FM	3rd FM	6th FM	12th FM
31 Jul 12	88.06	88.34	88.72	90.04	90.45
31 Aug 12	96.47	96.76	97.07	98.12	97.27
ICE Brent	**1st FM**	**2nd FM**	**3rd FM**	**6th FM**	**12th FM**
31 Jul 12	104.92	103.84	103.29	102.39	100.94
31 Aug 12	114.57	114.05	113.60	112.24	109.23

FM = future month.

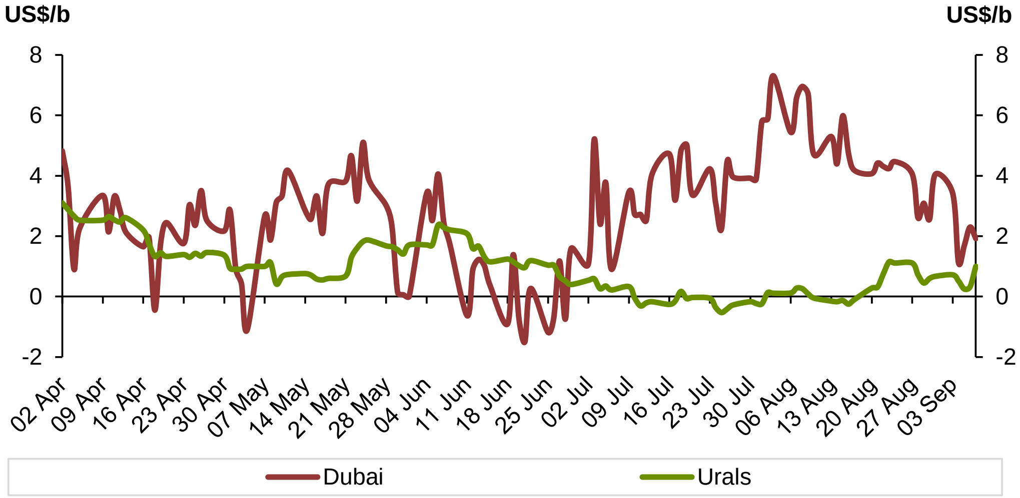
The light sweet/heavy sour crude spread

Light-sweet/heavy-sour crude spreads widened in Asia and Europe, while narrowing in the US

Apart from Mars/LLS, light-sweet/heavy-sour spreads were mostly in line with refined product performance during August as they widened sharply tracking the improvement in light product cracks as fuel oil refining margins weaken. European Dated Brent/Urals and Asian Dubai/Tapis spreads widened while the US LLS/Mars spread narrowed.

In Europe, the Brent/Urals spread was greatly affected by the tightness in the North Sea market, refined product performance and the regional medium-sour tightness. Russian Urals crude had a bullish run over the month with Urals assessed at its highest-ever premium to Dated Brent, before retreating back to its normal level. In contrast, maintenance at the Hound Point facilities in August as well as impending maintenance at the Buzzard field boosted Brent. High light product cracks, particularly gasoline, also supported light crudes amid strong gasoline export opportunities that resulted from multiple issues across the Atlantic. Urals crude stood at minus 30¢/b to Dated Brent in August, compared to plus 5¢/b in the previous month.

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



In Asia, the Tapis/Dubai spread widened significantly for the second month on the back of improving regional light products cracks. While widening naphtha and middle distillate cracks have played a role, healthy Asian refinery margins have been led predominantly by soaring gasoline cracks amid increasing regional demand and export opportunities to the US West Coast. Gasoline cracks temporarily reached $23/b, a level not seen since May 2007. This has contrasted with fuel oil cracks, which tapered off due to ailing Asian demand and ample supplies due to large arbitrage volumes coming from Europe. Over the month, the Tapis/Dubai spread widened $1.70 to $7.35/b, on average.

In the US, the LLS/Mars spread narrowed despite the wider light/heavy refined product spread. The contraction came on the back of increasing domestic production of light crude and surging sour crude differentials. Although cracking margins for light sweet LLS sustained healthy values and medium/heavy sour grades were pressured by the shutdown of Motiva and Amuay refineries, the spread still contracted 36¢ to $4.62/b in August.

Commodity Markets

Commodity prices sustained in August by energy, precious metals and some grains

Trends in selected commodity markets

The World Bank energy and precious metals prices increased by 7.8% and 2.8% month on month (m-o-m), respectively. Non-energy prices declined by 1.5%. Food and grains prices remained almost flat at record levels reached in July, while base metals were down by 1.1%.

Several commodity prices, especially base metals, were affected by the fragile global economic situation. Grain prices continued sustained, essentially by supply tightness emerging from the severe drought in the US.

The performance of commodity markets was closely related to macroeconomic uncertainty, especially apprehension over the Euro-zone's sovereign debt crisis, signs of further deceleration in China, and emerging economies, as well as the weaker US economy.

Table 2.1: Commodity price data, 2012

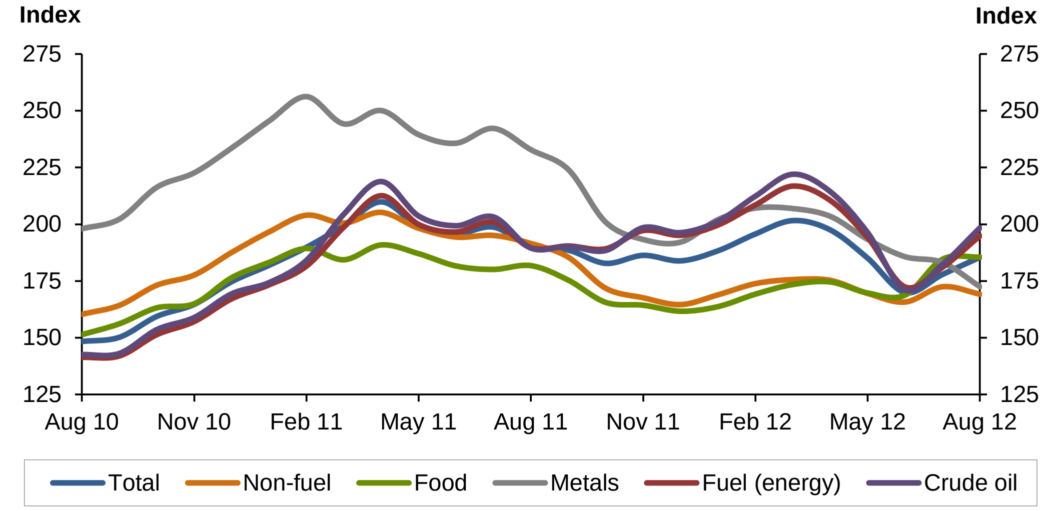
Commodity	Unit	*Monthly averages*			*% Change*		
		Jun 12	Jul 12	Aug 12	Jun/May	Jul/Jun	Aug/Jul
World Bank commodity price indices for low and middle income countries (2005 = 100)							
Energy		163.6	173.3	186.9	-11.9	5.9	7.8
Coal, Australia	$/mt	85.6	84.4	87.2	-9.4	-1.4	3.3
Crude oil, average	$/bbl	90.7	96.8	105.3	-12.8	6.6	8.8
Natural gas, US	$/mmbtu	2.5	2.9	2.8	0.7	20.0	-3.6
Non Energy		183.2	191.9	189.0	-3.6	4.8	-1.5
Agriculture		187.0	201.1	200.2	-2.8	7.6	-0.5
Food		203.8	225.7	226.2	-1.1	10.7	0.2
Soybean meal	$/mt	504.0	601.0	643.0	1.6	19.2	7.0
Soybean oil	$/mt	1180.0	1239.0	1249.0	-3.1	5.0	0.8
Soybeans	$/mt	567.0	662.0	683.0	-1.0	16.8	3.2
Grains		228.7	265.4	265.4	0.4	16.0	0.0
Maize	$/mt	267.3	333.1	332.0	-0.7	24.6	-0.3
Wheat, US, HRW	$/mt	276.2	345.7	349.4	4.5	25.2	1.1
Sugar World	¢/kg	45.1	50.4	46.0	-1.6	11.8	-8.7
Base Metal		157.2	158.5	156.8	-6.1	0.8	-1.1
Aluminum	$/mt	1890.2	1876.3	1845.4	-5.9	-0.7	-1.6
Copper	$/mt	7423.0	7584.3	7515.5	-6.7	2.2	-0.9
Iron ore, spot, cfr China	¢/dmtu	134.7	127.9	107.5	-1.4	-5.0	-16.0
Lead	¢/kg	185.4	188.1	190.1	-7.9	1.5	1.0
Nickel	$/mt	16549.1	16128.4	15735.2	-3.0	-2.5	-2.4
Tin	¢/kg	1927.1	1854.6	1877.3	-5.6	-3.8	1.2
Zinc	¢/kg	185.9	184.8	181.8	-4.0	-0.6	-1.6
Precious Metals							
Gold	$/toz	1598.8	1594.3	1630.3	0.6	-0.3	2.3
Silver	¢/toz	2798.4	2743.2	2877.0	-2.6	-2.0	4.9

Source: World Bank, Commodity price data.

The **Henry Hub (HH) natural gas price** index dropped by 3.6% m-o-m in August compared to a rise of 20% the previous month, driven by the negligible impact of Hurricane Isaac on HH natural gas and high inventories. On 24 August, the storage overhang increased for the first time since the last week of April, maintaining a further downside risk to prices until the end of the injection season. The latent supply emerging from Marcellus and the Eagle Ford represents an upside risk to supply and a bearish factor for HH natural gas prices.

The **agricultural price index** slightly declined by 0.5% m-o-m vs. a rise of 7.6% in July as food remained virtually flat, increasing by a mere 0.2% m-o-m in August compared to 10.7% in July partly due to the record prices already reached. US soybeans and wheat, continued increasing by 3.2% and 1.1% m-o-m respectively in August, compared to 16.8% and 25% m-o-m in the previous month. Corn prices slightly declined by 0.3% m-o-m in August compared to 24.6% m-o-m in the previous month. Prices are at record levels despite the macroeconomic uncertainties, which represented a negative factor amid the announcement of the Russian government that they would not restrict wheat exports. It seems that the severe drought in the US was the prevailing factor in the performance of the grains market.

Graph 2.1: Major commodity price indexes, 2010-2012



Commodity price index, 2005 = 100

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

Source: IMF.

The release of the August USDA World Agricultural Supply and Demand Estimates (WASDE) report, as expected, indicated a supply-side downgrade due to the impact of the US drought. US corn yield estimates have fallen sharply. In the July report, yields were lowered by 20 bushels/acre, while in the August report, yields were lowered a further 22.6 bushels/acre. On the demand side, there was a drop in global consumption by 38.9 million (mn) tonnes, including a decline in US consumption of 30.4 mn tonnes.

Within end-use sectors in the US, large declines from July's report were reported in estimates of exports (-19%), followed by feed (-15%), and finally ethanol (-8%). The result of the extreme cut in US production amid a milder fall in demand expectations has resulted in global stocks for corn being revised down to 123.3 mn tonnes, with US inventories at 16.5 mn tonnes now estimated to fall for a third consecutive year and down 36% y-o-y. China's corn imports rose by 36.5% m-o-m to 721.5 Kt in July compared to 354% m-o-m in the previous month. On a yearly basis, July imports were up by 318%. Exports were also higher, up by 27% m-o-m at 4.3 Kt, but down by 57% y-o-y. Cheap prices in the second quarter of the current year encouraged state stockpilers and commercial traders in the world's second-largest consumer to take advantage of boosting their stocks. However, the recent surge in US corn prices has dampened China's interest in the grain, and imports are expected to decline in the near term. All the shipments that arrived in July were bought in the first half of the year or even last year, before corn prices at the CBOT surged due to the worst US drought in 56 years. The bulk of the shipments were bought by the Chinese government to fill its state reserves.

China's wheat imports also increased by 16% m-o-m to 251.5 Kt in July after having declined by 61% m/m in June. **Wheat prices** were favoured by the continued lowering of Russia's wheat crop estimates, fuelling concerns of possible export curbs. However, on 31 August following a meeting of the Russian government's food security commission, it was announced that there were no plans to limit grain exports, despite the government downgrading its own estimate of grain production.

In **soybeans**, China's imports were 4% m-o-m up to 5.9 mn tonnes in July.

It must be highlighted that a bearish factor for **corn** in the future may be represented by better-than-expected corn yields in 2012-13 in China due to good weather. The USDA lifted hopes for output in the major South American producing countries of Argentina and Brazil, for which harvest estimates were raised by 3.0 m tonnes each. Analysts expect corn and wheat imports to soften in the next few months. The Chinese government plans to release its old corn stocks to free up room for the new harvest, but the volume has not been finalised. The release, coupled with expectations of weak demand from industry processors, has kept domestic corn price about 13% lower than US prices.

The **World Bank's base metal price index** declined by 1% m-o-m in August. The base metals complex saw a mixed performance. Tin and lead exhibited some modest gains but the rest of the complex saw price falls. Lead was less affected, due to relatively positive end-demand indicators, as was zinc, which has seen a supply response to lower prices which has led to a narrow surplus. As in July, the price performance continued to rely upon broadly negative macroeconomic conditions and particularly lower global demand in key regions. Although tight supply in some markets such as tin and lead contributed to counterbalancing the severe global economic situation, increasing concerns over global metal demand, especially from China whose GDP growth was downgraded, intensified fears in these markets. The fall in most base metal prices took place despite higher Chinese imports in most of the base complex. Tight supply in answer to lower prices limited the drop in prices.

The key issue in the base metal markets is the disappointing macro-economic data and the deceleration in economic growth for China, India and Brazil. Manufacturing in China declined in August, with China's official factory purchasing managers' index (PMI) falling to 49.2 in August from 50.1 in July. This marked the lowest reading since November 2011, signalling that growth in the world's second-biggest economy is struggling against declines in exports, factory output, and fixed asset investment. This may lead to a more active policy response.

However, Chinese trade data for July showed that Chinese imports remain strong, with production of copper-containing products rising by 7% y-o-y in July while aluminium containing products were up by 23%. Nevertheless, relatively healthy consumption of base metals in the slowing Chinese economy may have been the result of the use of commodities to raise financing or fill strategic stocks rather than their immediate consumption which would have artificially boosted trade flows.

Copper prices declined by 0.9% m-o-m in August as a result of very low spot physical activity in all key demand regions, which raised concerns as to whether the seasonal higher activity in September will materialise this year. On the supply side, a strike by workers at Antofagasta port (Chile) could result in a significant supply disruption. Although European copper demand is currently soft, low London Metal Exchange (LME) stocks in the region, lost tonnage from supply disruptions just as demand should be picking up seasonally, could result in regional stock drop. A weakening in global demand also caused a narrowing of the copper market deficit according to the latest International Copper Study Group (ICSG) numbers.

Concerning the latest Chinese trade data, refined copper imports rose by 31% y-o-y in July, but remained largely flat from June, while a 230% drop of refined exports to 12.5 Kt left net imports at -242 Kt, up by 13% m-o-m. Since refined copper imports from the US continued to rise strongly – though the absolute volumes are small – it seems that a further relocation of the metal between the two regions is taken place. Exports of refined copper, although down m-o-m, are still up strongly on a yearly basis with a continuous stream from of the metal to LME warehouse locations such as Singapore, South Korea and Malaysia.

A negative factor for the copper price was the publication of data for May by the ICSG in late August, that indicated strong mine production and weak in consumption. Global copper mine production rose 4% y-o-y in May to 1.4 Mt, while usage in Japan, Russia and Europe fell at a double-digit pace in the same month. Overall, the May ICSG data point to a likely narrowing of the refined copper market deficit for this year.

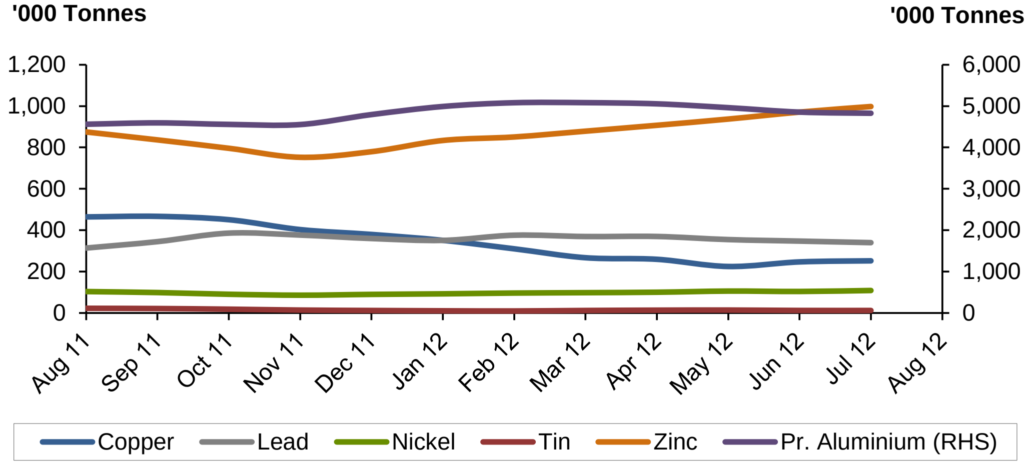
The **Aluminium** price was down 1.6% in August following a drop 0.7% in the previous month. Primary aluminium imports from China rose by 5% to 41 Kt in August and 439% y-o-y. Nevertheless, it seems that higher imports were the result of favourable arbitrage since April, supported by financing demand rather than strong downstream consumption. Concerning production, domestic smelter production was encouraged by government power subsidies in the face of lower Shanghai Futures Exchange (SHFE) prices, but a modest sequential fall in production levels was reported by the latest China Nonferrous Metals Industry Association (CNIA) data. For July, there was a 4% monthly decline in output to 53.9 Kt. Although this development may be related to some cost constraints due to lower SHFE prices in July compared to June, it seems that lower demand was also a factor as CNIA data indicated a monthly 8% drop in July, which combined with rising inventories in China during July-August, point to weaker demand that has offset the moderation in output.

Nickel prices declined by 2.4% in August on weak fundamentals, but given the recent supply downgrades there may be a stabilisation in price levels. However, a sustained rebound will require an improvement in the Chinese stainless steel sector. Nickel was severely hit by sustained weakness in stainless steel demand, especially in China, leading to a further rise in the surplus balance. Chinese refined nickel imports declined by 28% on a yearly basis despite a 40% m-o-m increase to 14 Kt in July 2012. Apparent refined consumption declined both on a yearly and monthly basis.

Tin prices increased by 1% m-o-m in August compared to a 3.8% fall in July. Tin has been the outstanding performer for most of August due to supportive fundamental developments – a supply-side response to lower prices in Indonesia, strong Chinese import demand, and considerably high levels of cancelled warrants on LME inventories. Tin prices only declined in the last week of August due to the announcement by Indonesian producer, PT Timah, that it has resumed spot sales after a three-week stoppage. Other Indonesian smelters have yet to react to this decision. Concerning Chinese trade data, refined tin imports remained the same on a monthly basis in July but increased by 272% y-o-y to 3 kt.

Lead prices increased by 1% m-o-m in August compared to 1.5% in the previous month. This base metal has displayed the most positive price trend. On the fundamental side, LME stocks have fallen close to 20% from their 2012 peak in the first quarter, and cancelled warrants now represent 25% of total stocks. The Chinese lead market also remains in deficit, with robust battery and e-bike production. Chinese refined lead imports remained flat on a monthly basis, but increased by 76% y-o-y. Concentrate imports were up 86% to 168 kt.

Graph 2.2: Inventories at the LME



Source: London metal exchange.

The **gold** price gained 2.8% m-o-m in August compared to a drop of 0.3% in the previous month, benefiting from increasing concern over global economic growth and the possibility of further monetary stimulus by the Fed by the end of August.

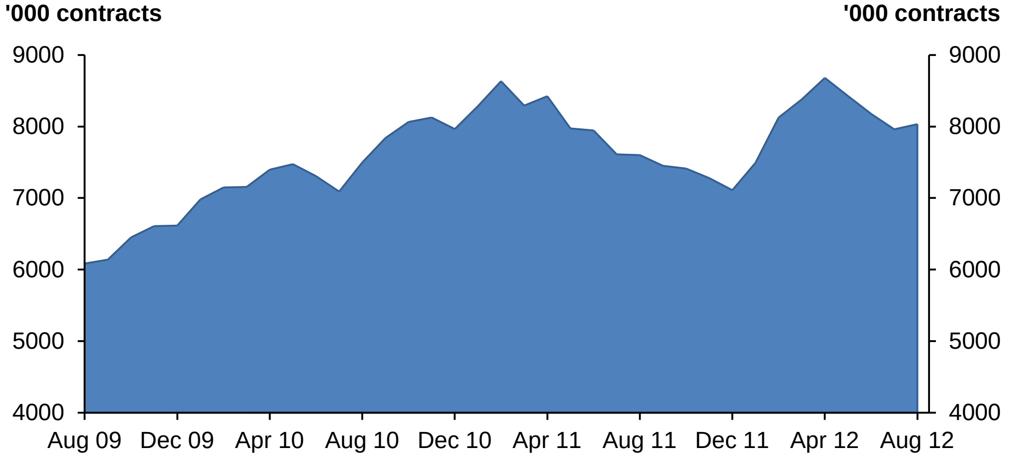
A bearish mood prevailed in most of commodity markets

Investment flows into commodities

Total open interest volume (OIV) in major commodity markets in the US was up 0.6% m-o-m to 8,558,176 contracts in August compared to a 2.6% drop in the previous month. Crude oil, precious metals, copper, and grains benefited the most. On the whole, investors remained cautious, given the release of negative macroeconomic data even for China and the BRICs (with the exception of Russia).

Total **net long speculative** positions in commodities rose by 13% m-o-m to 1,146,546 contracts in August (vs. a 84% rise in July). While long positions increased by 6.6% m-o-m, shorts declined by 2%. Following high prices, WTI and agriculture benefited the most from strategic investors.

Graph 2.3: Total open interest volume

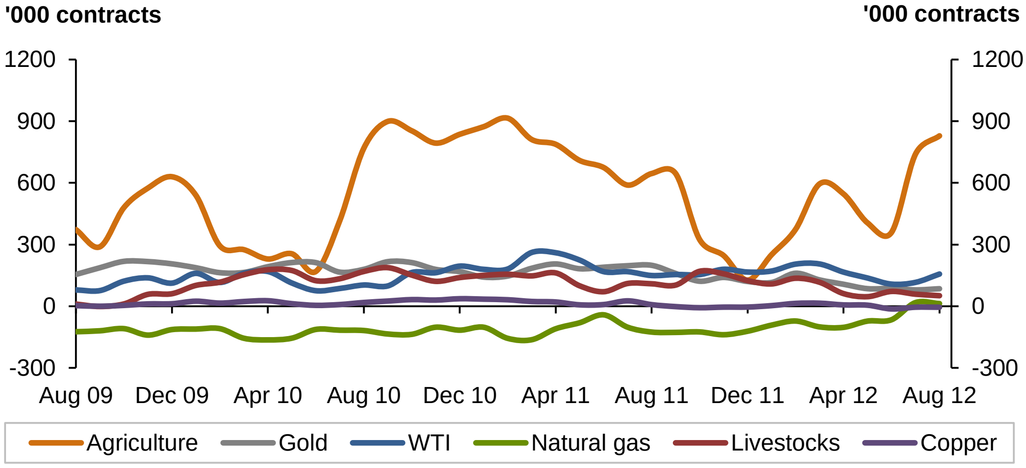


Source: US commodity futures trading commission.

The **agricultural** OIV rebounded by 1.5% m-o-m to 4,358,710 contracts in August compared to a 1.6% drop in the previous month. Money managers' net long positions in agricultural markets increased by 12% m-o-m to 828,633 contracts in August compared to an over 100% gain in the previous month, mainly due to record price levels in soybeans and soybean oil, wheat and corn. Long positions increased by 9% m-o-m, while shorts remained almost flat.

The **HH natural gas** OIV dropped by 2.8% m-o-m to 1,088,848 contracts in August compared to a 4.9% fall in the previous month. Strategic investment rose by 27% m-o-m in August compared to a 127% gain a month earlier, following a 2.8% m-o-m rise in shorts as longs remained flat.

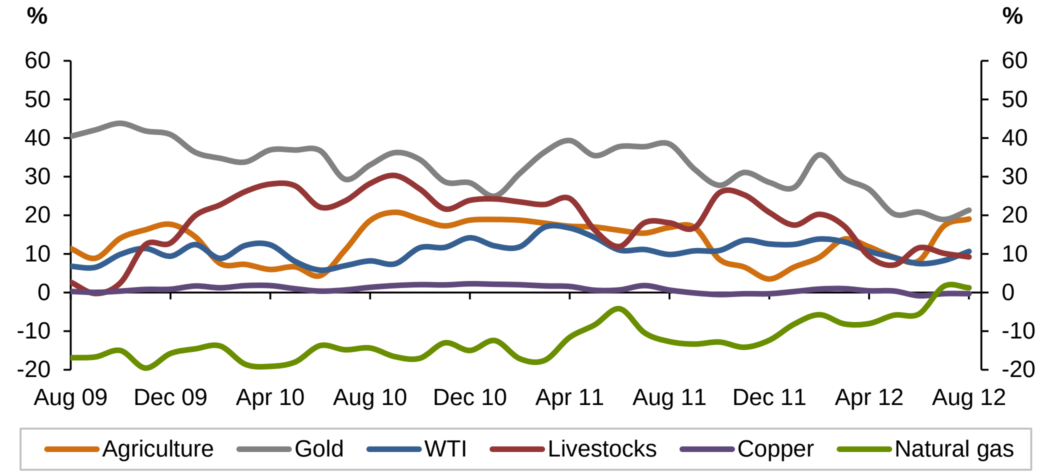
Graph 2.4: Speculative activity in key commodities, net length



Source: US commodity futures trading commission.

Copper OIV rose by 7.5% m-o-m to 148,994 contracts in August reversing the 7.5% drop in July. Money managers' net long positions were down by 4.6% m-o-m compared to a 65% gain in the previous month.

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



Source: US commodity futures trading commission.

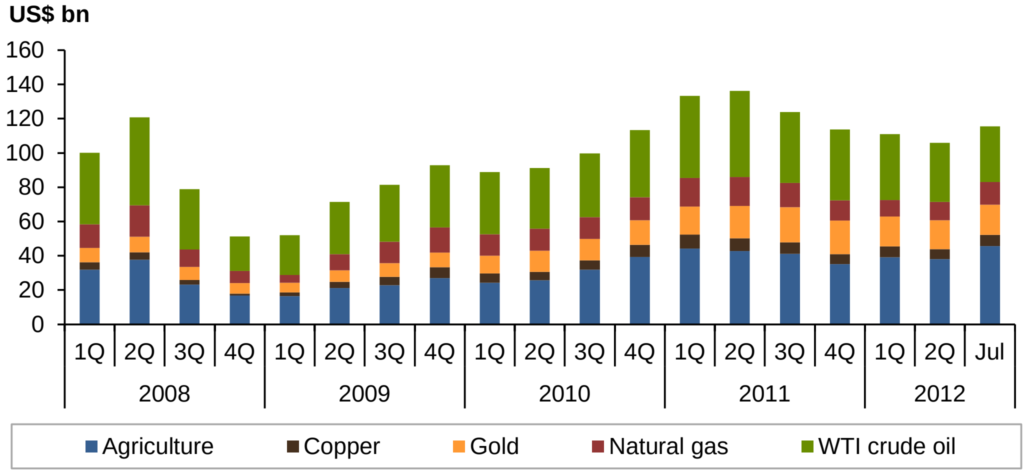
Gold OIV was 5% m-o-m down to 400,437 contracts in August compared to a 1% gain in the previous month. Strategic investment in gold almost reversed the downward trend in the previous month, increasing by 7% m-o-m in August compared to an 8% loss in July. This was related to a strong 24.9% m-o-m fall in shorts compared to a 1.7% decline in longs.

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

	Open interest		*Net length*			
	Jul 12	Aug 12	Jul 12	% OIV	Aug 12	% OIV
Crude Oil	1,407	1,475	116	8	157	11
Natural Gas	1,120	1,089	18	2	13	1
Agriculture	4,293	4,359	740	17	829	19
Precious Metals	545	526	85	16	100	19
Copper	139	149	-5	-3	-5	-3
Livestock	580	560	59	10	51	9
Total	**8,083**	**8,158**	**1,013**	**13**	**1,146**	**14**

The impact of investors on higher commodity prices in the last two months has been modest as inflows to commodity assets were modestly positive in July, but fell back sharply on June's level, reversing the trend according to which in the past considerable price gains have resulted in strong investor interest. Investors remain cautious with regard to all risky assets with concerns about commodities fostered by recent disappointing data from China. The high correlation with other assets, undermining the case for diversification, has been an additional factor in recently discouraging investor interest in commodity assets.

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



Source: US commodity futures trading commission.

World Economy

Table 3.1: Economic growth rates 2012-2013, %

	World	OECD	US	Japan	Euro-zone	China	India
2012	3.3	1.5	2.3	2.7	-0.4	8.1	6.3
2013	3.2	1.4	2.0	1.2	0.1	8.0	6.6

Industrialised countries

US

US showing a mixed recovery with the 2012 growth forecast revised up from 2.2% to 2.3%, while 2013 remains unchanged at 2.0%

The US economy is still holding up relatively well compared to other developed economies, but the improvements are slow and remain below potential. The most recent indicators continue to point to a somewhat mixed recovery with GDP growth at around current levels. The positive, although slightly decelerating, momentum, in output seems to continue, given that the labour market is only slightly improving and international trade is also slowing. Leading indicators point to balanced growth in the nearer future of around 2% annually, but this will also be influenced by the handling of the sovereign financial situation in the near future, particularly after the presidential elections.

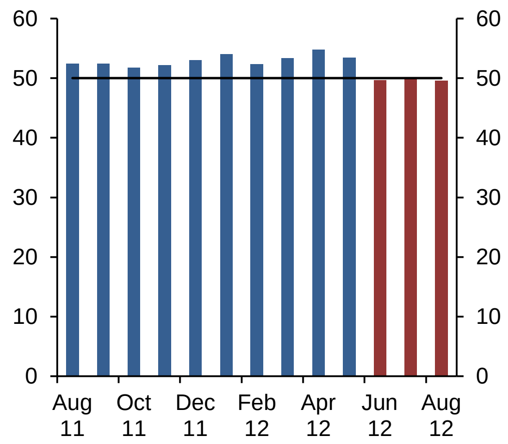
The second GDP release for 2Q12 growth has highlighted the low, but so far well supported, growth trend. The second quarter grew at a 1.7% seasonally adjusted, annualized growth rate. This is lower than the 1Q12 output, which stood at 2.0%. Personal consumption contributed 1.2 percentage points (pp) to the growth in 2Q12, which is a continuation of the trend for the last quarters and should be taken as a positive element. With this currently somewhat slowing momentum, the focus on the Federal Reserve Board (Fed) and its near-term decision on monetary measures is increasing with the main question as to whether it will engage in another round of quantitative easing or other measures to stimulate the economy. Fiscally, the room for maneuvering seems to be almost exhausted, but given the circumstances of an election year, it remains to be seen whether additional steps will be taken.

The labour market report for August was weak, albeit improving. Job additions in the non-farm payroll area continued at 96,000, lower than last month’s number of 141,000, which was also revised down from 163,000. The private sector had added 103,000 after 162,000 in July. This development reduced the unemployment rate to 8.1% from 8.3% a month earlier. Furthermore, the share of long-term unemployed retracted slightly, moving from 41.9% in June and 40.7% in July to now stand at 40.0% in August, clearly a positive trend. This compares to 42.8% in May and to last year’s peak levels of more the 45%. Unemployment is still high and a major improvement is not expected anytime soon, but a decline of around 1 pp per month should provide some support to the economy. The participation rate remains at 63.5%, almost flat from the previous month.

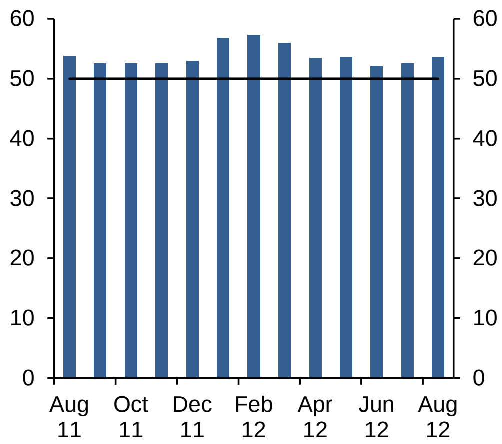
Surveys on consumer confidence provide mixed messages on the back of a still relatively weak labour market. The consumer confidence index of the Conference Board fell considerably in August to 60.6 from 65.4 in July. This compares to this year’s peak level in February of 71.6. However, the other consumer sentiment index of importance, the index of the University of Michigan, increased slightly. It stood at 74.3 in August, after 72.3 a month earlier. This compares to the May level of 79.3, which was the highest since October 2007. Monthly retail sales numbers improved in July, after three consecutive months of decline. They rose by 0.8% m-o-m, after a decline of 0.7% the previous month.

Industrial production continues expanding on a yearly basis. It grew by 4.4% in July, after 4.7% y-o-y a month earlier and has constantly decelerated since April. Manufacturing orders continue to expand, but also at lower levels. They grew by 1.9% y-o-y after 2.5% in June and 2.7% in May. This decelerating output growth is highlighted by the latest ISM numbers for the manufacturing sector, which, in August, stood at 49.6, the third consecutive month below the growth-indicating level of 50. This was lower than the 49.8 in July and 49.7 in June. The ISM for the services sector improved slightly to 53.7 from 52.6.

Graph 3.1: ISM manufacturing index



Graph 3.2: ISM non-manufacturing index



Source: Institute for Supply Management.

The very important housing sector continues improving, but remains weak. Pending home sales grew by 2.4% in July, after having fallen by 1.4% a month earlier, according to the National Association of Realtors. Pending home sales are considered a leading indicator of progress in real estate, because they track contract signings. Positively, the yearly change of the house pricing index of the Federal Housing Finance Agency (FHFA) has continued its rising trend, up by 3.7% in June, after already healthy 3.6% growth in May and 3.0% in April. However, it still seems a long way for this market to heal, which has been one of the main challenges the global economy is currently dealing with.

Thus, the growth forecast for 2012 was revised up from 2.2% to 2.3%. Considering the challenges for the economy ahead, the 2013 forecast remains unchanged at 2.0%.

Japan

Japan's economy decelerating with growth seen at 2.7% in 2012 and 1.2% in 2013

Japan's economy has continued its softening trend in the past weeks and it is expected that this will also be visible in the forthcoming GDP numbers. Exports have seen a sharp decline in June and domestic demand also softened significantly. This deceleration is expected to continue into the next year. The second half of 2012 is expected to grow at around 2% on a yearly comparison, after the first half's expansion of more than 3%. 2013 is expected to slow to only slightly above 1% expansion in both the first and the second half. Amid the fiscal challenges of the government and the political gridlock this does not incorporate the assumption of any further major fiscal stimulus. The current political tensions have even led to a stand-off over ¥38 trillion of bond issuance, which threatens further fundraising and comes after the government warned that it would run out of money in early November if current spending was maintained.

It is hard to see, how the Japanese economy could perform any better, considering the slow-down in international trade and the relatively low willingness to spend by domestic households, particularly with deflation re-emerging. Almost on any occasion in the past year, when a major consumer stimulus ended, private households have not been willing to continue spending. As the global economy is affecting the export-bound related economy significantly, any major rebound of the Japanese economy will also depend on a global recovery. While global growth has held up relatively well so far given the current challenging circumstances, a strong rebound should not be expected anytime soon. Moreover, the fiscal situation of the economy becomes worse and the recent decision on increasing the sales tax has highlighted that the government will need to find new and so far untouched domestic resources to not only bring down the current record deficit, but to be able to continue the spending pattern of the previous years. Such high burdens on the domestic economy, however, could turn out a miscalculation, as spending and therefore governmental revenues might also decline. Hence, decisions will have to be carefully weighed. Certainly the situation has been largely aggravated by the triple-disaster of last year and while the expected recovery did materialize, it is doubtful that it will continue at current levels. The shut-down of almost all nuclear facilities as a main provider of energy puts the economy under pressure. With the current need to import fossil fuels to compensate for the missing nuclear energy, the trade deficit should be expected to continue as long as energy prices remain at current levels. The pattern of a monthly trade deficit started in March last year, when the country was hit by the tragic events. The April 2011 gap was the highest at ¥694.5 billion and after the most recent May number of ¥618.8 billion, the level eased to slightly more than ¥300 billion.

This sudden rise in Japan's import bill has been the immediate cause of the shift toward deficits, but exports have also been weakening, declining at a very high rate of 8.1% in June, compared to last year. Exports recorded only 7 positive months out of the last 19 months, highlighting the decelerating effect on the economy. Export-dependent Japanese manufacturers have struggled to contend with the effects of the yen's sharp rise. The yen continued to strengthen, particularly against the US-dollar, and traded clearly below the ¥80.0/$ level in the past weeks. If Japanese enterprises cannot cut costs in other ways, a strong yen forces companies producing goods in Japan to raise prices overseas or accept lower profit margins, which would negatively impact revenues.

The currently softening momentum is visible in various economic indicators as well. Retail trade fell by 0.8% y-o-y in July, the first decline since November last year. Industrial production slid in July by 1.2% m-o-m and by even 2.5% compared to last year, although this is – like many yearly comparisons – inflated by the higher expansion after the triple disaster of last year. Indications for future production are even more worrying with machinery orders – as a lead indicator for industrial output in the coming months – having declined by 8.8% on a yearly basis in June, the second consecutive monthly decline. The August composite purchase managers index (PMI) remained below the growth-indicating level of 50 for the third consecutive month at 48.6, but moved up from 47.4 from a month earlier. This positive momentum was mainly due to a momentum in the services sector, whose PMI stood at 49.3 in August, but the PMI for the manufacturing sector reached a new low with an index level of 47.7, after 47.9 in July.

Amid the current political inability to continue with further fiscal stimulus some focus remains on the Bank of Japan (BoJ), which is not expected to ease its monetary policy in the near-term. However, most recently announced actions of the European Central Bank (ECB) and the need for additional support by the Federal Reserve Board might trigger some action in order to avoid a continued strengthening of the yen.

Backed by largely the momentum of the first half of this year, growth is expected at 2.7% in 2012, up by 0.2 percentage points from the previous month's forecast. However, the slow-down in the global economy, the need to tackle the fiscal situation combined with current political challenges, the additional deceleration in domestic demand is expected to reduce growth in the next year to 1.2%, unchanged from the previous month's assessment and at around a historical average.

Euro-zone

The ECB offers a window of opportunity for ailing economies

The ongoing saga of the Euro-zone's sovereign debt crisis continues with a new chapter, opened by the European Central Bank. In an expected aggressive move it announced that is has decided to expand its bond-buying programme and to buy unlimited amounts of sovereign debt in its "Outright Monetary Transaction" (OMT) at a maturity of between one and three years, without any formal cap on yields to address short-term distortions in financial markets. In these operations, the ECB will not be treated as a preferred creditor. It was highlighted that any bond purchases by the ECB were conditional on governments signing up to the European Financial Stability Facility (EFSF) or the European Stability Mechanism (ESM) programme, or having already received an EU/IMF bailout. The liquidity created by the bond purchases would be removed from markets in order to avoid any inflationary impact, i.e. it will sell securities to offset new purchases. The German Bundesbank opposed this new programme and it remains to be seen what this opposition from its largest share-holder will mean for the future. Within this process, the IMF will play an active role to design country-specific and conditional programmes and in monitoring governments' commitments to these programmes. Bond buying would stop if governments did not comply with the conditions. The ECB president highlighted that the current economic risk is skewed to the downside in the Euro-zone. In the same meeting it was decided to leave its key policy rate at a record low of 0.75% and deposit rates at zero. The ECB seems to currently refrain from lowering interest rates any further, due to its increased inflation outlook on the back of an increased likelihood of further tax increases in its economy. The OMT is a bold move by the ECB and only time will tell if it will be the right measure as the risks are high. The economies involved are relatively weak and by waiving seniority, the ECB will act as an investor in these assets and with considerable risk to its balance sheet. The ECB cannot print money endlessly to refinance a defaulting bond that sits on its balance sheet, but needs to be refinanced by its member countries, if necessary, with Germany bearing the biggest burden, and hence having the greatest influence.

The idea of only conditional support is adding some credibility to the plan, but it remains to be seen whether these conditions will hold, considering the softening of rules in many bail-outs over the last years. Furthermore, despite the sterilization of the additional direct liquidity created in the OMT, there is a risk of rising inflation. In the end, the programme might provide some relief for the short-term financing of some ailing economies, but it can only be a support for building the base for structural reforms to promote growth. Growth will be needed to reduce the increasing debt levels as otherwise the downward spiral can hardly be broken as austerity and tax increases only make sense in an expanding economy, at least in the medium term, as otherwise the revenue base would potentially be eroded and the debt can hardly be reduced. Outright market transactions of the ECB seem to have already been successful over the recent weeks to bring down the short-end of the yield-curve of Italy and Spain, while the more important 10-year debt is still yielding at high levels above 5% for both economies, but the trend so far has been broken and they have been reduced from around 6% to 7% from past months. If the window of opportunity for improving the structural deficits will not be used in the coming months by the affected economies, the cost might be high for all the Euro-zone with more severe consequences on the global economy as have been witnessed already. Therefore, the developments in the Euro-zone will need careful monitoring in the future. Many events will come up in the near-term of relatively great importance with Dutch elections and Germany's constitutional court ruling on the ESM on 12 September (the same day the Federal Open Market Committee meeting will take place deciding on interest rates and other monetary measures in the US) and the Troika reports on Greece at the end of September. At about the same time, audit results of the Spanish banks and hence recapitalization needs will be also available.

While the debt issues seem to be contained somehow, the economic situation has continued worsening. The real economy continues to decline and the negative spin that has been observed in the first half of 2012 is expected to prevail in the second half. This dire situation is forecast to have an impact on growth in the next year. Industrial production has declined for eight consecutive months to June, while April has posted the sharpest drop of 2.6% y-o-y and the most recent June number of minus 2.1% is still significantly negative. The same negative spin is provided by the latest purchasing managers' index (PMI) numbers, published by Markit. The August composite PMI remains at almost the previous month's level of 46.3, compared to 46.5 a month earlier. It is currently mainly the manufacturing sector that seems to operate at very low levels with the PMI for the manufacturing sector at 45.1, slightly improving from the July level of 44.0. This low industrial activity leads to a record-high unemployment rate at 11.3% in July, the same level as the previous month. The worst level has been recorded in Spain at 25.1%. This compares to Germany's lowest level in the recent years of 5.5%, reflecting the difference of the strength of the economies within the Euro-zone. Youth unemployment for the Euro-zone was again high at a depressing 22.6%, almost matching the record level from June of 22.5% and again the highest level has been in Spain at a stunning 52.9%. Consequently, retail trade has been negative for more than a year, with the latest number for July declining by 1.7% y-o-y, higher than the June level of minus 1.1%.

While it is forecast that the second half of the year will be impacted significantly by this negative momentum, it is expected that it will improve by the end of the year. This will depend largely on the success of the open market transaction (OMT) programme of the ECB in combination with measures undertaken by policy makers to revive growth. This assumption leads to an expected expansion of the economy of 0.1% in 2013 – unchanged from the previous month – while the negative consequences of the current situation will be largely felt this year, with GDP forecast to decline by 0.4%.

Emerging markets

Emerging markets continue to be impacted by the Euro-zone debt crisis

The Euro-zone debt crisis remains at the heart of the global slowdown which is also impacting emerging markets. Most economies in the single-currency zone are contracting, reducing demand for exports from Asia, the US and elsewhere. Central banks globally are deploying a new round of stimulus to keep weak economies from falling further—and more support is on the way. Since the start of July, central banks in the Euro-zone, China, Brazil, South Korea, South Africa, Israel, Colombia and the Philippines have reduced borrowing costs. The US Federal Reserve is signaling that it, too, may be ready to act. All of this should provide some support to the global economy and consequently to the emerging economies, but central bank injections will do little more than provide a floor for growth.

China's economy continues to slowdown, with the industrial sector growing by just over 9% in July. China has already embarked on a stimulus programme to support growth and will take further steps, if needed, to keep the economy from slowing any further. We have reduced our 2012 growth forecast for India to 6.3% from 6.4% last month but have left the 2013 forecast unchanged at 6.6%. India's monsoon rains, which are critical to agricultural output, are nearly 20% below long-term levels, and consumer spending is suffering. High inflation and steep deficits leave little room for stimulus.

The escalation of the crisis in the Euro-zone, **eastern Europe**'s key export market, has dented immediate growth prospects and added to uncertainties about the medium-term outlook. Business and consumer sentiment in the region is fragile. In addition to faltering external demand and the weak outlook for credit, domestic demand remains generally anemic, given high unemployment, excess capacity in some cases and the inability of governments with large budget deficits to undertake stimulus programmes. On the contrary, fiscal consolidation is under way in much of the region and might have to be accelerated as market sentiment towards the region sours.

It is expected that economic activity in the transition economies will weaken due to the constraints on economic activity. Downside risks dominate because of the Euro-zone crisis and its adverse impact on both demand and investor sentiment. There is some variation in prospects across the region, between the countries of eastern Europe that are members of the EU and the Commonwealth of Independent (CIS) countries, which are less dependent on the Euro-zone and in some cases have until recently been benefiting from robust commodity prices. Russia, the largest country in the region, is forecast to grow by 3.7% in 2012 down from 4.3% in 2011. Our outlook for growth in the Russian economy for 2013 is 3.4%.

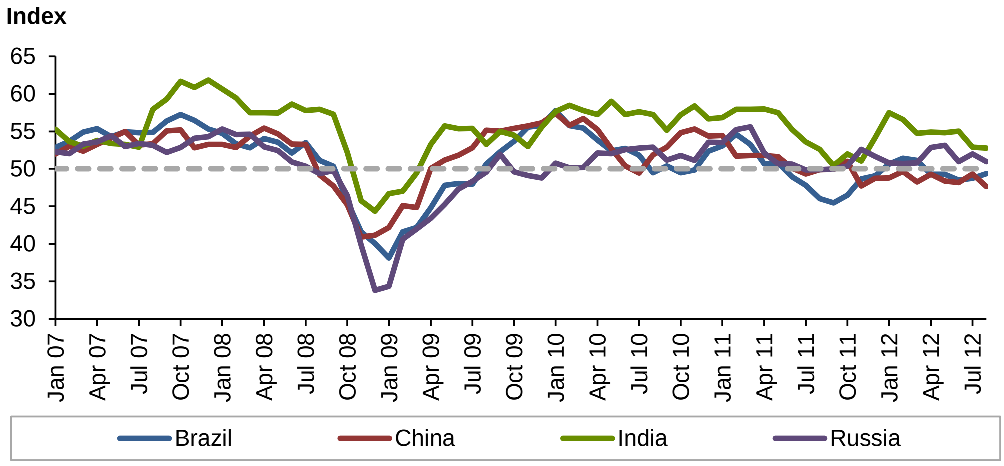
Growth in **Asia and Australia** (excluding Japan) is forecast to ease partly because of sluggish demand in the West. Even so, Asia will retain its status as the world's fastest-growing region. Asia's economic fundamentals are sound. Levels of debt (both government and private) are generally low compared with those in the West, and Asian banking sectors are mostly in good shape, having come through the global financial crisis without large losses. The region will continue to benefit from China's emergence as an engine of regional growth, particularly as China's middle class expands and the government adopts policies to encourage growth in private consumption. Meanwhile, rising costs in China are prompting companies to seek alternative bases for cheap manufacturing, to the benefit of Asia's other low-wage countries.

Most economies in **Latin America** slowed in 2012 compared to the previous year. We estimate 2.9% growth for the region's GDP this year, rising to 3.3% in 2013.

Contracting economic activity in Europe and below-par growth in the US are among the main factors affecting economic growth in the region. Brazil, the largest economy, which we expect to grow by only 2%, will weigh on regional growth this year. We expect growth to accelerate in coming years, sustained by continuing sound macroeconomic policies in most countries in the region, together with resilient domestic demand and a recovery of economic activity in the OECD area. South American economies will continue to be supported by China's demand for soft and hard commodity exports, even if the period of sustained increases in both prices and volumes has come to an end. Historically low OECD interest rates, coupled with an improving investor perception of the region's potential, will continue to benefit those Latin American economies that are well integrated into global financial markets. Strong domestic demand has resulted in current account deficit in most Latin American economies. The region had a surplus of US $16bn in 2007 compared to almost US $50bn deficit in 2011. This has increased Latin America's vulnerability to shifts in market sentiment, exerting pressure on the region's currencies as investors have fled from risky assets amid the escalation of the Euro-zone crisis.

Economic growth in the **Middle East and North Africa** will remain constrained in 2012, as the bounce-back in some of the economies most affected by civil unrest in 2011 is offset by contractions in Syria and weak growth in Egypt. In North Africa, recovery will be constrained by weaker EU demand, which will lead to lower workers' remittances from Europe and tourism inflows.

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



Source: HSBC, Markit and Haver analytics.

Despite the short-term difficulties in emerging markets (EMs) due to slowing global demand and the damage to sentiment stemming from the Euro-zone debt crisis, the medium-term picture seems to be positive. This is because of sound fundamentals of the Asia's economies in general. In Latin America, and particularly its largest economy, Brazil, the policy initiatives adopted to boost economic activities are expected to begin affecting economic growth toward the second half of 2013. This implies that GDP growth will most likely remain subdued in the second half of 2012 and early 2013. Commodity prices have been slipping since late March, reflecting a number of trends discussed above: financial instability, weaker-than-expected economic growth in the US and distinct signs of slowdown in a number of the large emerging markets. As concerns are rising about physical demand for commodities, investors are becoming more risk averse to investing in commodities futures.

Policy mixes adopted in the EMs to support economic growth differ significantly according to their economic circumstances. While in many emerging central and eastern European countries tight monetary policy is still on the agenda to curb elevated inflation, in Asia and Latin America, a more accommodative monetary policy is being adopted on concerns over sluggish economic growth. Inflation in Latin America has been moving lower, allowing policy makers to turn to economic growth policies and the Central Bank of Brazil cut 50 basis points of its policy interest rate on 29 August on top of its cut of 11 July, bringing its policy rate to 7.50%, the lowest level since 2009. The government in Brazil has adopted a series of initiatives totaling 1.5% of GDP, envisaged to shield the domestic industry from external competition. Meanwhile China's central bank has not changed its policy rate since its July cut. The policy rate in China now is at 6%. Considering recent deceleration in manufacturing production in China, another cut in the benchmark interest rate cannot be ruled out in coming months. The policy rate in India remains at its April level of 8%, when the Central Bank (RBI) cut its policy rate by a surprise 50 basis points. However, due to accelerating inflation, another interest rate cut in the current year is unlikely in India and even the central bank might move to increase interest rates in early 2013 to curb inflation. India's rupee is expected to remain under pressure due to the current account as well as the government deficit. In Russia, private consumption and investment demand still remain firm and manufacturing PMI is expanding, although by a lower rate compared to last month. Although the labour market is tight in Russia and unemployment remains low, the accelerating inflation and the recent flood might exert a negative impact on consumption growth. ***Table 3.2*** below summarizes our estimate of the BRIC economic performance on the macro level.

Table 3.2: Summary of macroeconomic performance of BRIC countries

	GDP growth rate		Consumer price index, % change y-o-y		Current account balance, US$ bn		Government fiscal balance, % of GDP	
	2012	2013	2012	2013	2012	2013	2012	2013
Brazil	2.0	3.3	5.1	5.5	-56.5	-66.9	-2.8	-2.6
China	8.1	8.0	2.8	3.4	205.4	198.0	-2.4	-2.3
India	6.3	6.6	8.7	7.6	-62.9	-60.6	-5.6	-4.9
Russia	3.7	3.4	6.5	6.0	90.5	56.1	-0.8	-1.0

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

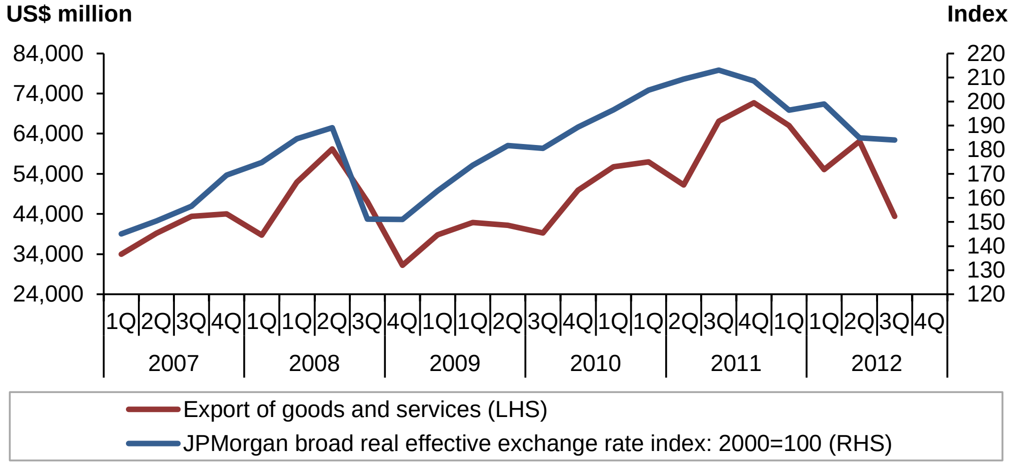
Figures for India are from the fiscal year 2012-2013 and 2013-2014.

Brazil

Despite signs of a modest recovery in Brazil, figures released for the second quarter have revised down forecasts for economic growth in 2012

Consensus on Brazil's GDP growth has shifted down, following second quarter GDP growth of 1.64%, on an annual basis. Considering the continuous slump in Brazil's manufacturing sector, where output languishes below the 2010 level; it is difficult to envisage a possible sharp rebound in economic activities in fourth quarter of the year, capable of increasing GDP growth to more than 2% on an annual basis. External factors such as weaker-than-expected growth of the OECD and Chinese economies and the hard landing in neighboring Argentina, which is an important market for Brazil's manufacturing and particularly car industry, also have been affecting Brazil's economy in an unfavourable way. All these negative changes have caused a reduction in demand for Brazil's exports. Although a 15% depreciation of the *real*, the country's currency, since March, has improved export conditions and may eventually relieve, to some extent, the industry from external competition; however, according to JP Morgan (31 August 2012) the Brazilian real is still stronger than its fair value, the value that is believed to be close to its long-term equilibrium level.

Graph 3.4: Real effective exchange rate and exports in Brazil



Source: Haver analytics and Reuters.

According to the latest data release it appears that government stimulus measures since last year are now feeding through into the real economy. Bank credits as well as demand- and supply-side data all have posted improvements compared to the first quarter of the year. The industrial sector has been a major target for the government stimulus package. After three months of contraction, industrial output finally shows signs of a modest recovery increasing 0.2% in June on a monthly basis. However, compared to a year ago, industry still continues to contract with a measure of -5.5% to June last year. The car industry is leading the recovery with retail sales of vehicles and building materials soaring by 6.1% m-o-m in June. The jump in retail trade suggests consumers are responding to government stimulus measures. In a further move to help stimulate growth, the government recently launched a Rs133 bn (US$66 bn) stimulus and investment package with the aim of overhauling the country's out of date infrastructure. The authorities are planning to award concession contracts to private companies to construct private investment for Brazil's ports, airports and waterways.

This week, as broadly expected, the central bank of Brazil announced a 50 basis point (bp) cut in the policy interest rate, reducing the Selic rate to 7.5%. The post-meeting communiqué of the monetary policy committee indicated that the cumulative and lagged effects of the policy action to date are already supporting the ongoing economic recovery. Fiscal policy is also now less restrictive, compared to 2011, and public expenditure and lending buy public banks has increased. Therefore, a stimulus-driven rebound is expected for the later months of the year but this should be qualified considering the performance of the economy in the first half of the year and current global economic conditions.

Inflation eased to 4.9% in June and there is no sign of a possible acceleration considering several interest rate cuts since last year. This would encourage the government to adopt a more aggressive monetary easing policy needed for stimulating the recovery. However, it is worth noting that the current rate of inflation is still higher than the central inflation target of 4.4% for 2014-16. Sticky wages, high indexation and infrastructure bottlenecks are believed to be responsible for the relatively high inflation in Brazil as inflation remains vulnerable to food supply in the short run. Since February the *real* has depreciated from R 1.7: US$1 to R2: US$. The Euro-zone crisis and a tax on financial transactions and loans have eased this downward trend for the real. In spite of the recent depreciation of the real, the current-account deficit is expected to rise as import growth outpaces that of exports.

Mixed evidence prevents a firm judgment, but a sharp rebound in China's economic growth is unlikely

China

Recent deceleration in the growth of China's electricity output points to a slowing industry trend in July. China's electricity use in secondary industries, which is considered a proxy for activity in the manufacturing sector, rose only 3.1% on annual basis in July, down from a 3.3% y-o-y rise in June, suggesting a further slowdown in industrial output. China's m-o-m freight volume index also showed a fall to 44.1 in July from 46.1 in June period. The pattern for electricity use in 2012 seems to have reversed from 2011 when heavy industry power consumption grew more quickly than light industry usage. This underlines a weakness seen in heavy industry related to China's slowing fixed investment (FAI) this year.

Having reviewed the recent deceleration in power output growth, one cannot rule out a soft rebound in China's economic growth in the remaining months of the year. China's home prices rose m-o-m in August, although they were still down y-o-y. China's Premier has said that control over the real estate market was still in a "critical period". This could mean that the government would keep home purchase restrictions in place for a while. Home prices climbed an average 0.2% in August in 100 Chinese cities. The data suggests that the pace of the price increase slowed in August as only 10 cities have reported an increase of 1% m-o-m compared to 22 cities in the previous month. Softer home sales in August compared to a month earlier might be the reason behind the slowing trend of home price rises in August.

On the other hand, according to China's National Bureau of Statistics (CNBS), in August, the non-manufacturing purchasing managers' index was at 56.3, 0.7 higher than that in the previous month, still staying above the threshold (*see **Table 3.3** below*). The purchasing manager index of service stood at 55.1, up by 0.7 m-o-m, of which, air transport, leasing and business services, accommodations, television and satellite transmission services industry maintained growth, while railway transport, residents service and repair industry, as well as road transport decreased. The new orders index declined slightly. The new orders index was 52.7, a decrease of 0.5 compared with the previous month, indicating that the non-manufacturing market demands continued to maintain growth, albeit decelerating. The new orders index of construction industry was 55.3, dropped 1.7 points over the previous month, which indicated that the growth rate of market demands of construction industry decelerated. The new orders index of service industry was 52.1, 0.1 points lower than that in the previous month. Of which, the new orders of air transport, internet and software information technology services, leasing and business services showed demand growth, while road transport, water transport, railway transport and real estate indicated a decrease in market demand.

Table 3.3: China's non-manufacturing PMI (seasonally adjusted), %

2012	Non-manufacturing PMI	New orders index	Intermediate input price index	Subscription price index	Business activities expectation index
January	55.7	52.2	58.2	51.1	65.3
February	57.3	52.7	59.0	51.2	63.8
March	58.0	53.5	60.2	52.0	66.6
April	56.1	52.7	57.9	50.3	66.1
May	55.2	52.5	53.6	48.5	65.4
June	56.7	53.7	52.1	48.6	65.5
July	55.6	53.2	49.7	48.7	63.9
August	56.3	52.7	57.6	51.2	63.2

Source: China's national bureau of statistics.

According to the Financial Times, labour indicators point to stronger overtime activity in the construction sector, consistent with data shown in ***Table 3.3*** above. It is believed that this apparent rebound in construction activity is coming mainly in residential housing projects, following several weeks of robust property sales. This does not mean an immediate relief for China's steel or coal industries; however, this trend signifies a rebound in the real estate sector with strong links to other industries. Apart from the above-mentioned areas with relatively sound activity expansion, authorities have a few policy options to boost growth. For example, since inflation is in a downturn, there is still room for further cutting of the policy interest rate. Also, the Ministry of Commerce, Ministry of Industry and Information Technology, and Ministry of Land and Resources are all considering new measures that, if adopted, may include tax rebates, subsidies and discounts on consumer credit rates. However, this is not to say that China's government is determined to revive growth at the same level as in the past several years. China has seen a sharp drop in demand for its tradable goods as export sales have fallen and residential investments faltered. However, although in China – unlike in the US and Japan – interest rates have plenty of room to fall and China has an enviable amount of fiscal leeway, it seems that the government is hesitant to revive growth.

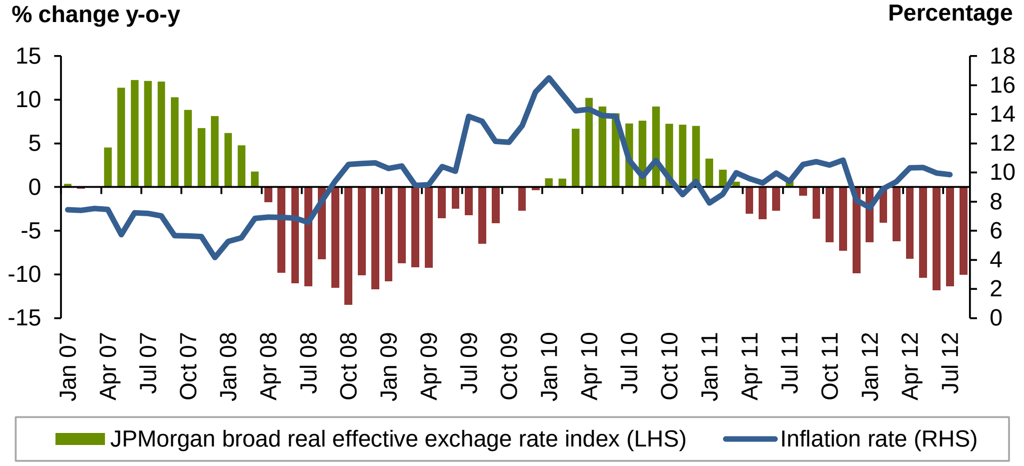
There is some doubt whether the central bank could revive growth, even if it decided to do so. The point is that despite a reduction in the policy rate, banking credit would not rebound due to lack of demand. On the other hand, policy makers themselves appear to be distracted and divided, preoccupied with this year's handover of power. The fact is that policy makers do not want a very strongly growing economy at any cost. They prefer more inclusive and moderate growth to double-digit growth that would cause accelerating trouble on housing, urbanization and environmental fronts. Some policy makers are worried about undesirable reliance on investment and property speculation rather than household demand growth. It is still possible to expand capacity of state owned firms to revive high economic growth, but this would delay long-awaited economic reforms and the rebalancing of the economy.

India

The rebound seen in GDP growth in second quarter, mainly due to agricultural output and an increase in government consumption, is unlikely to be sustained considering the underlying weakness of the economy.

Despite pressure for a further cut in interest rates following its April action that after nearly three years lowered the benchmark interest rate by 50 basis points, reducing borrowing cost to 8.0%, the Reserve Bank of India (RBI) decided to keep the benchmark interest rate on hold for the time being, primarily due to elevated inflation. While business leaders might argue that lackluster growth warrants a further easing in monetary conditions, inflationary pressures are still uncomfortably high. This, along with the fact that the government has shown little progress in reining in its huge fiscal deficit, appears to have encouraged the central bank to keep policy interest rates unchanged The latest inflation report shows that wholesale price rises, though still high, unexpectedly fell to 7.3% y-o-y in June on the back of a sharp drop in global commodity prices. The consumer price index (CPI) on the other hand stood at 10% in June compared to 10.4% in the previous month. CPI inflation is estimated to moderate to 8.7% on average for 2012, and to 7.6% for 2013. There is a possibility of a rebound in the inflation rate to double digits, considering the disappointing start to this year's monsoon, which is likely to lead to a resurgence in food prices in the months ahead. While the progress of the monsoon has improved in recent weeks, it is still expected to remain deficient, exerting an adverse effect on agricultural output and rural demand in coming quarters.

Graph 3.5: Real effective exchange rate and inflation in India



Source: Haver analytics.

Real GDP growth expectations for this year have continued to slide this month, with the central bank reducing its GDP growth projection from 7.3% to 6.5%. We have reduced our forecast of India's GDP growth in 2012 to 6.3% considering the economy's performance in first half of the year. Although annualized GDP growth picked up in the second quarter compared to the first quarter, sequential movement continues to fall. According to JP Morgan the sequential momentum of GDP growth has continued to moderate for a third successive quarter.

While the momentum of industrial production growth continues to weaken, different sub-sectors of the Indian economy are pulling in different directions. The sequential momentum of manufacturing fell for a third quarter, with y-o-y growth at a slight 0.2%. Mining activity also lapsed in the second quarter, contracting on a sequential basis. However, some sectors such as electricity, gas and water showed better-than-expected performance. Sub-sectors in services also grew in different directions. Services growth has been holding up GDP growth over the last year even as industrial momentum slowed markedly. Y-o-y, growth of services activities moderated to 6.9% from 7.9% in the second quarter of the year, while q-o-q, the momentum of the services sector fell off sharply to 6.4% in 2Q12 from 8.6% in the previous quarter.

India's widening trade gap together with its fiscal deficit has put downward pressure on the rupee. The rupee is forecast to remain weak in the short-to-medium term considering the lack of any sign of improving external demand for the economy's exports. The current account deficit is expected to widen from the equivalent of 3.2% of GDP in 2011 to 4.4% in 2012. In the first seven months of 2012 merchandise exports shrank by 4.1% on an annual basis, while imports grew by 1.9%. Inward capital flow is also expected to decrease, lowering the demand for the rupee. In the medium-to-longer term however, one can expect a stronger rupee, taking into account the relatively bright prospect for the economy. Services exports will retain their vital role in the country's external trade as information technology and business process outsourcing continue to lure Western firms to India.

In the budget for the year 2012-13 which was revised in March, the government outlined a modest programme of fiscal consolidation, with the budget deficit targeted to narrow to the equivalent of 5.1% of GDP in 2012-13, from an estimated 5.9% in 2011-12. The budget includes an increase in service and excise taxes as well as import duties, as part of a bid to raise additional tax revenue. On the expenditure side, the budget targets a reduction in subsidy spending to the equivalent of 1.9% of GDP in 2012-13 from an estimated 2.4% in 2011-12. However, the original target for subsidy spending in 2011-12 was 1.6% of GDP. An expected increase in subsidy expenditure due to this year's poor monsoon means that the government's target looks optimistic and unlikely to be met. Therefore, the budget deficit is expected to stay high and narrow only slightly to the equivalent of 5.6% of GDP.

Russia

A rise in food prices together with the one-off delayed utility price increase contributed to higher inflation in July and August.

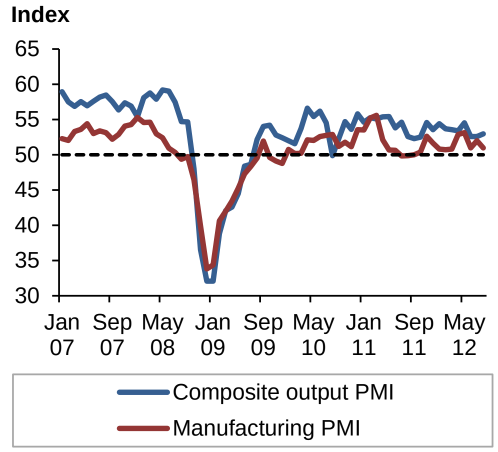
Crop losses in the US, Russia and other parts of the world have led to a sizable increase in grain prices. Global wheat prices have risen by around 45% from mid-June lows. Russian wheat prices in Black Sea ports have risen by 15-20% from the June level. Higher grain prices are expected to push up prices for bread and other food items. Considering a relatively large weight – 37.3 % – of food and beverages in Russian CPI, this will inevitably lead to higher inflation in Russia in coming months, although Russia's entry to the WTO and stable global meat prices should dampen the shock somewhat. The inflation rate estimate for Russia in 2012 has been adjusted upward to 6.5% in line with the average of the consensus inflation rate expected for the economy. Delayed utility price increases have also been responsible for higher inflation in recent months. The one-off increase in regulated household utility prices that was delayed from January led to a 2.7% m-o-m rise in services costs in July. The inflation rate is expected to exceed the Russian Central Bank (RCB) target in 2012.

In the early months of the year, high oil prices underpinned resumption of the underlying trend of real appreciation of the ruble. According to the Economist Intelligence Unit, the real effective exchange rate appreciates by around 4% in the first quarter. However, in the second quarter, Russia experienced a weakening of its currency in the market's reaction to global uncertainty and capital flight from risk as well as a decline in oil prices. According to preliminary data, Russia continued to run a large current account and trade surplus in the first half of 2012. High oil prices are the main reason behind the sustained Russian current account surplus, although exports of other raw materials and basic manufacturing also contributed to its current account surplus.

The Russian economy expanded by 4.9% in the first quarter y-o-y above its long term trend, but a continuation of the economy's expansion will remain dependent on international commodity prices. Economic growth is decelerating as global growth has slowed. The Russian economy is forecast to grow by 3.7% in 2012 and by 3.4% in 2013 (see ***Table 3.2***). Domestic demand remains the main driver of growth with firm fixed investment expansion and a 7.2% rise in household consumption. Seasonally adjusted retail sales increased by 0.5% m-o-m in June. Consumer and business confidence also have remained relatively high. Weak data on imports of machinery, however, suggest that there would not be a strong recovery in investment spending in the second half of 2012.

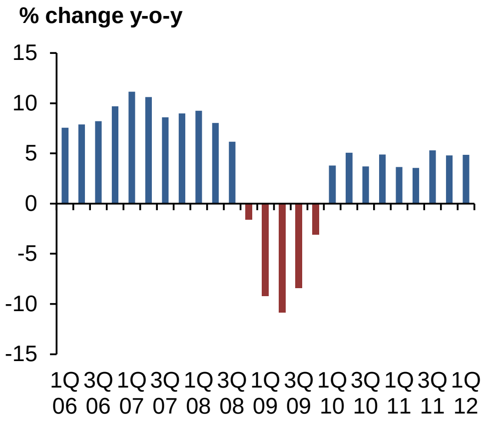
Increased oil revenues have caused a surplus in first half of 2012. Fiscal policy for 2013-15 will be based on a new fiscal rule which limits budgetary spending in line with movements in oil prices. The new rule allows planned spending to rise by 5% in 2013. This rule would not decrease the dependence of the government budget on the country's oil revenue in the short run as it is expected that the non-oil deficit would shrink to only 10% in 2014 from 11.3% in 2011. Monetary policy, on the other hand, has been more prudent as the central bank has left the key refinancing interest rate unchanged at 8% in its latest meeting in July. Rising inflationary expectations have been the main reason for keeping interest rates on hold over the last six months. After higher-than-expected inflation in June and the increase in utility tariffs in early July, the central bank is expected to wait for a clear indication of inflation before possible changes to monetary policy. There is an official commitment to move towards a floating exchange rate with RCB intervention confined to preventing excessive currency volatility.

Graph 3.6: Composite and manufacturing purchasing managers' index



Source: HSBC, Markit and Haver analytics.

Graph 3.7: Russia's GDP growth (SAAR)



Source: Federal state statistics service and Haver analytics.

South Asia

Inflation up-tick in South Asia, but still under control

Annual inflation in the Philippines picked up more than expected in August on higher commodity costs. The consumer price index in August rose 3.8% from a year earlier according to the statistics office. Annual growth in the first six months of the year held up well at 6.1 %, above the government's 5% to 6% growth target, but economists predict that the economy will likely face more pressure in the second half, given the weak outlook for exports. Elsewhere in Asia, Indonesia's annual inflation unexpectedly picked up in August, though it is expected to remain within the central bank's target, while Thailand's annual inflation rate was steady, allowing policymakers to focus on supporting growth. The Central Bank cut interest rates to a new low of 3.75% last month, its third rate cut this year, and authorities have expressed their readiness to take action to strengthen the economy's buffers against the global downturn.

MENA

Growth in the MENA region under pressure in 2012

GDP growth in the MENA region in 2012 will continue to be under a lot of pressure as the contractions in some major countries in the region will offset the bounce-back in some of the economies most affected by civil unrest in 2011. Oil revenues together with higher output to some extent will sustain strong rates of growth in the oil-producing countries. Recovery of North African countries is constrained by weaker EU demand, which will lead to lower workers' remittances from Europe and tourism inflows. Regional growth will pick up slightly in 2013, boosted by massive ongoing infrastructure development programmes of the Gulf Co-operation Council (GCC) member states.

Subsaharan Africa

The depressed global economic outlook is considered to be the main threat to growth prospects in Sub-Saharan Africa. Underlying risks might include a lack of credit for trade, lower commodity prices and sluggish demand for the region's exports, falling remittances, aid, foreign direct investment (FDI) as well as tourism receipts for some countries. China, a substantial trade partner for the region, could affect growth quite negatively if its own growth stumbled in the second half of the year. Growth faces a challenging, but not distressful, year for prospects in Sub-Saharan Africa.

OPEC Member Countries

Libya realizing surplus of oil revenue in the first half of 2012

Libya said it is budgeting on the country's crude and products' output averaging 1.35 mb/d in the 2012 financial year with an average crude price of $100/b, and NOC exports, taxes and royalty earnings income of $54.9 bn. In the period from 1 January to 31 July, production was almost at 1.42 mb/d, 5% higher than forecast, with an average price of $110.50/b, yielding $30.4 bn.

Inflation eases in Saudi Arabia in July

Saudi Arabia's inflation rate fell to its lowest in almost three years as increases in the cost of food eased. Inflation slowed to 4% in July, compared with 4.9% in the previous month, the Central Department of Statistics said on its website in mid-August. Food prices increased 4%, down from 4.7% in June. The Saudi Arabian Monetary Agency said in a report on its website that inflationary pressures in the kingdom are expected to stabilize in the third quarter as global increases in food costs slow and inflation in other countries eases.

Inflation in Algeria has increased, despite the drop in monetary expansion during the first half of 2012 to 17.88% against 19.91% in December 2011, the Bank of Algeria's governor said. In Algeria, money supply expansion was the main determining factor of inflation during 2000 and 2001. The acceleration of inflation in the first half of 2012 is mainly due to internal factors, particularly to market malfunctioning, dominant positions and speculation, and not to the expansion of money supply, as before.

Oil prices, US dollar and inflation

US-dollar started to weaken in August against the major currencies on a monthly average

After more than two months of relative strength, the US-dollar started to weaken in August against the major currencies. On a monthly average it fell by 1.0% versus the euro and the Swiss franc and lost 0.8% compared to the pound sterling and 0.5% versus the yen. This slight weakness should not be exaggerated as it seems to be a technical correction after several weeks of steady rise. Over the last six months, i.e. since February, the dollar gained 6.2% versus the euro and the Swiss franc, 0.6% compared to the pound sterling, and 0.4% versus the yen.

The euro has held up very well, particularly since the beginning of September, and even more so after the most recent announcement by the ECB to buy unlimited peripheral sovereign bonds to stabilize financial markets and bring down the debt burden for ailing economies. Thus, it remains to be seen whether these relatively bold actions will be successful or if the decelerating trend versus the US dollar will start again. It averaged $1.2399/€ in August and moved up in September to even $1.28/€, but depending on the further development of the Euro-zone sovereign debt crisis, it is still likely that it will touch down back to the $1.20/€ level, which is the support line at the lower end of the current trading band. In the recent development of the yen, the Japanese currency remained strong versus the US dollar, trading below the critical ¥80/$ level, with the yen strengthening again in August. The Bank of Japan (BoJ) seems not to have significantly intervened in the currency markets lately, although the yen has been trading at this relatively high – and for exports hurtful – level since the beginning of May.

The Basket price rose by 9.4% or $5.90/b in August to $68.82/b from $62.91/b in July

In nominal terms, the OPEC Reference Basket rose by $9.97/b or 10.0% from $99.55/b in July to $109.52/b in August. In real terms, after accounting for inflation and currency fluctuations, the Basket price rose by 9.4% or $5.90/b to $68.82/b from $62.91/b (base June 2001=100). Over the same period, the US dollar fell by 0.7% against the import-weighted modified Geneva I + US dollar basket while inflation fell by 0.1%.*

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

World Oil Demand

World oil demand growth forecast at 0.9 mb/d y-o-y in 2012

World oil demand in 2012

World economic turbulence did not slow oil consumption seasonality from its summer trend. World oil demand swelled in July, leading to growth of 1.1 mb/d in the third quarter y-o-y. Strong growth in non-OECD oil consumption in the third quarter, has led to a strengthening of summer oil consumption seasonality. Not only did US oil consumption grow slightly, but Indian oil demand grew drastically, pushing total world oil use to 88.7 mb/d for 2012. Non-OECD consumed 42.9 mb/d of oil in July, denoting an increase of 1.0 mb/d y-o-y. Due to the above reasons, third quarter oil demand is increasing and is expected to surpass fourth quarter oil demand within two years. This change in oil demand seasonality will alter the shipping and transport of oil world-wide.

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

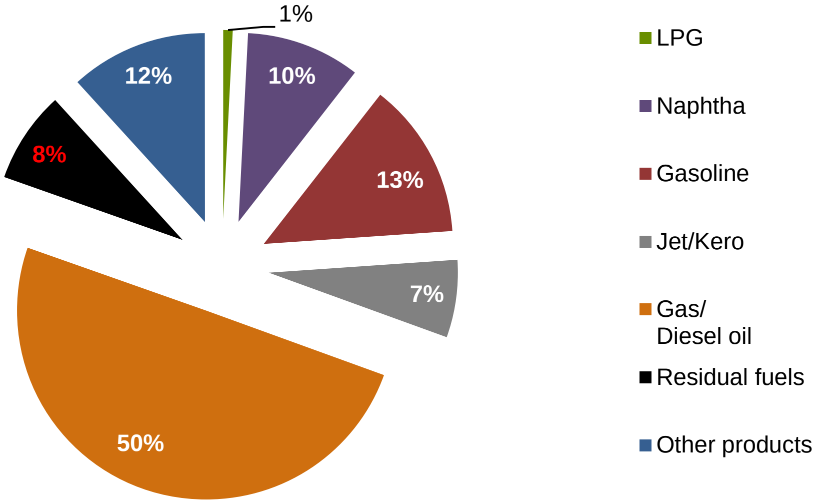


Table 4.1: World oil demand forecast for 2012, mb/d

	2011	1Q12	2Q12	3Q12	4Q12	2012	*Change 2012/11* Growth	%
North America	23.59	23.15	23.33	23.76	23.57	23.45	-0.13	-0.55
Western Europe	14.28	13.69	13.67	14.33	13.87	13.89	-0.39	-2.75
OECD Pacific	7.87	8.83	7.73	7.89	8.39	8.21	0.34	4.33
Total OECD	**45.74**	**45.67**	**44.73**	**45.97**	**45.83**	**45.55**	**-0.18**	**-0.40**
Other Asia	10.46	10.50	10.74	10.70	10.81	10.69	0.22	2.15
Latin America	6.37	6.28	6.47	6.68	6.66	6.52	0.15	2.38
Middle East	7.57	7.64	7.65	8.07	7.70	7.77	0.20	2.65
Africa	3.36	3.36	3.37	3.28	3.43	3.36	0.00	0.01
Total DCs	**27.76**	**27.78**	**28.23**	**28.73**	**28.60**	**28.34**	**0.58**	**2.08**
FSU	4.29	4.24	4.09	4.51	4.74	4.40	0.11	2.50
Other Europe	0.70	0.69	0.65	0.69	0.77	0.70	0.00	0.66
China	9.41	9.47	9.86	9.71	9.97	9.75	0.34	3.66
Total "Other regions"	**14.40**	**14.40**	**14.60**	**14.92**	**15.49**	**14.85**	**0.46**	**3.17**
Total world	**87.89**	**87.85**	**87.56**	**89.61**	**89.92**	**88.74**	**0.85**	**0.97**
Previous estimate	87.82	87.83	87.51	89.66	89.83	88.72	0.90	1.02
Revision	0.07	0.01	0.05	-0.04	0.09	0.03	-0.05	-0.05

Totals may not add up due to independent rounding.

World oil demand growth is forecast at 0.9 mb/d y-o-y. There has been a minor change from the previous estimates for the past few months.

Indian diesel demand soared, resulting from the electricity shut-down and the summer weather flooding. The use of independent power generators has led to massive diesel usage country-wide. Furthermore, the shut-down of most of Japan's nuclear power plants has led to excess use of crude and fuel oil burning during the summer.

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

	1Q11	1Q12	Change 2012/11 Volume	%	2Q11	2Q12	Change 2012/11 Volume	%
North America	23.86	23.15	-0.71	-2.98	23.39	23.33	-0.06	-0.25
Western Europe	14.22	13.69	-0.53	-3.72	14.13	13.67	-0.45	-3.21
OECD Pacific	8.35	8.83	0.48	5.76	7.12	7.73	0.61	8.60
Total OECD	**46.43**	**45.67**	**-0.76**	**-1.63**	**44.63**	**44.73**	**0.10**	**0.23**
Other Asia	10.27	10.50	0.23	2.21	10.54	10.74	0.20	1.92
Latin America	6.11	6.28	0.17	2.85	6.34	6.47	0.13	2.08
Middle East	7.49	7.64	0.15	2.06	7.42	7.65	0.23	3.14
Africa	3.40	3.36	-0.04	-1.07	3.38	3.37	-0.01	-0.28
Total DCs	**27.26**	**27.78**	**0.52**	**1.90**	**27.67**	**28.23**	**0.56**	**2.01**
FSU	4.14	4.24	0.10	2.42	3.98	4.09	0.11	2.80
Other Europe	0.69	0.69	0.00	-0.19	0.65	0.65	0.01	0.78
China	9.13	9.47	0.34	3.71	9.54	9.86	0.32	3.38
Total "Other regions"	**13.96**	**14.40**	**0.44**	**3.13**	**14.16**	**14.60**	**0.44**	**3.10**
Total world	**87.65**	**87.85**	**0.20**	**0.23**	**86.46**	**87.56**	**1.10**	**1.27**

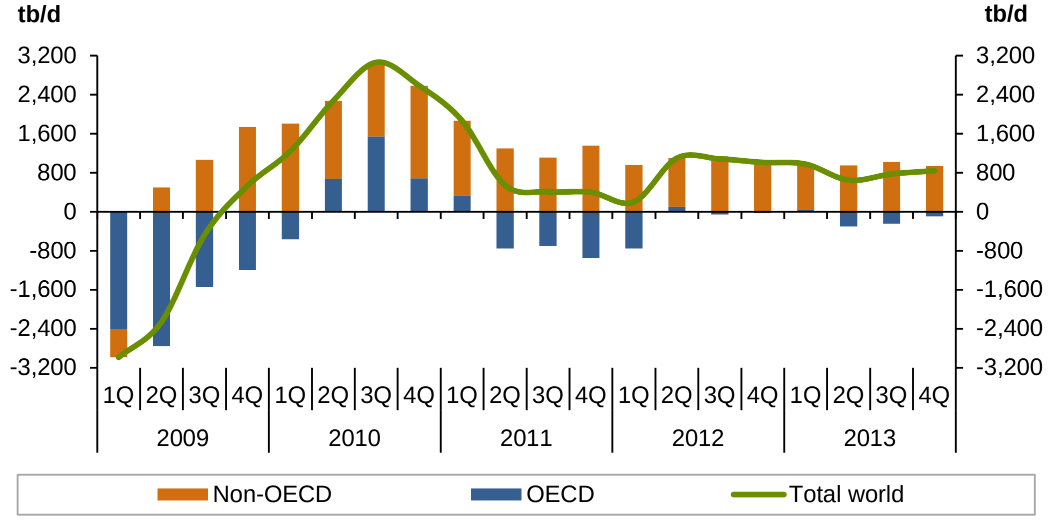
Totals may not add up due to independent rounding.

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

	3Q11	3Q12	Change 2012/11 Volume	%	4Q11	4Q12	Change 2012/11 Volume	%
North America	23.63	23.76	0.12	0.52	23.46	23.57	0.11	0.47
Western Europe	14.70	14.33	-0.37	-2.53	14.09	13.87	-0.22	-1.57
OECD Pacific	7.69	7.89	0.19	2.52	8.31	8.39	0.08	0.97
Total OECD	**46.03**	**45.97**	**-0.05**	**-0.12**	**45.86**	**45.83**	**-0.03**	**-0.07**
Other Asia	10.44	10.70	0.27	2.57	10.61	10.81	0.20	1.89
Latin America	6.54	6.68	0.14	2.13	6.50	6.66	0.16	2.50
Middle East	7.83	8.07	0.24	3.04	7.52	7.70	0.18	2.34
Africa	3.25	3.28	0.03	0.85	3.42	3.43	0.02	0.55
Total DCs	**28.05**	**28.73**	**0.67**	**2.40**	**28.04**	**28.60**	**0.56**	**1.99**
FSU	4.40	4.51	0.11	2.57	4.64	4.74	0.10	2.26
Other Europe	0.69	0.69	0.01	1.15	0.76	0.77	0.01	0.87
China	9.37	9.71	0.34	3.66	9.60	9.97	0.37	3.88
Total "Other regions"	**14.45**	**14.92**	**0.46**	**3.21**	**15.00**	**15.49**	**0.48**	**3.22**
Total world	**88.53**	**89.61**	**1.08**	**1.22**	**88.91**	**89.92**	**1.01**	**1.14**

Totals may not add up due to independent rounding.

Graph 4.2: Quarterly world oil demand growth



Alternative fuels

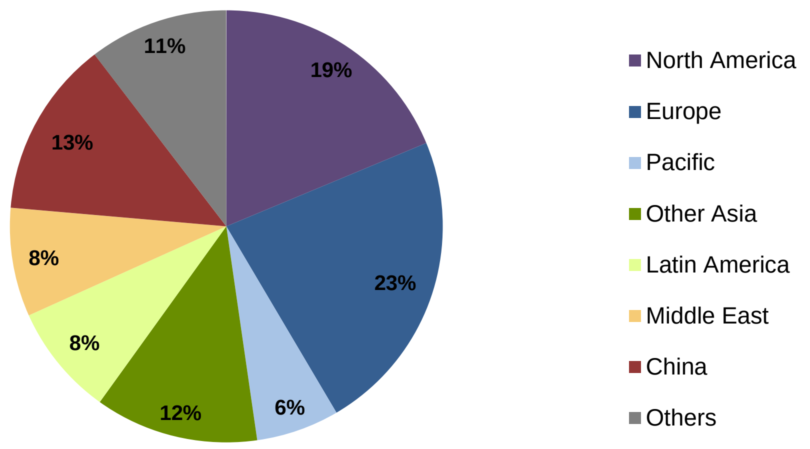
The high blending rate mandate of biofuel hiked up corn prices by more than a quarter in the international market during the current drought. There is strong pressure from the UN to halt the mandating blend of biofuel into transport fuel in order to ease the pressure on food prices. A few US states have petitioned the federal government to ease the mandate, especially during 2012 and 2013, in order to reduce the pressure on food prices world-wide. Biofuel has long been accused of not only causing food price increases but also of not being as green as it was initially portrayed.

OECD — North America

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

The new possible monetary stimulus plan in the US, if enacted, could have a slight effect on the country's oil demand in the next two quarters. This might be seen in the consumption of industrial products as well as in gasoline. During 2010, the stimulus package pushed up the country's oil demand steeply, as road construction spread across the country. This year's effect is not expected to be as strong as the past one. Fuel switching to gas in some industrial and power plants this summer has pushed the use of oil to the negative and this might last until year end.

Graph 4.3: Regional shares in diesel consumption 2012



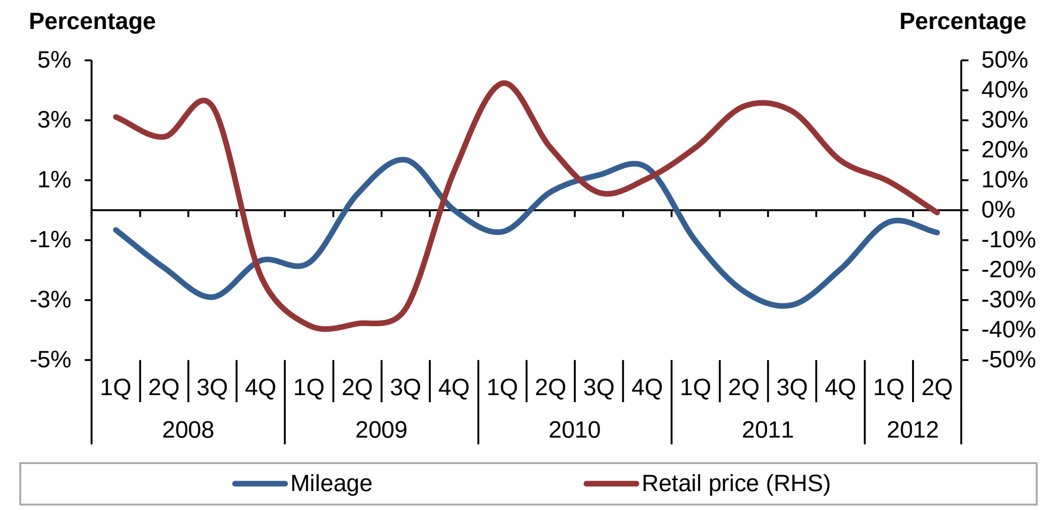
US oil use grew in May, following a major decline lasting for six months in a row. The latest monthly US oil consumption data for June showed a further decrease of 1.7% y-o-y. All main product categories, with the exception of propane/propylene and jet fuel exhibited a decline. Weakening industrial production and driven mileage contributed to the bulk of the distillate consumption decline. Considering weekly data for July and August, the first eight months of 2012 look generally quite disappointing for US consumption, showing contractions in all product categories. The main factors influencing US oil consumption over that period were weak industrial production, ongoing economic concerns, and relatively high fuel prices, as well as fuel switching. Preliminary weekly data shows US oil consumption for July to be almost flat at 0.5% and slightly decreasing in August at 0.5%. Gasoline consumption did not react to the normal summer trend due to economic turbulence and above-average retail prices. Nevertheless, the signs for US oil consumption for 2012 remain rather pessimistic depending on the development of the economy and the price levels of transportation fuel.

Latest reported July oil consumption in Mexico showed an increase of around 1.5% compared to the same month last year. All product categories were in the plus, except fuel oil, with increases in industrial fuels dominating. As for Canadian oil demand, the country consumed less oil in July by 8% compared to a year ago. Oil usage in transportation as well as industrial products dominated this decrease.

Oil demand in North America is completely dependent upon US economic development. Although the fourth quarter growth is forecast to be better than the first half of the year – which was negative – and almost at the same growth rate as the third quarter, oil demand for the total year will yield negative growth. In 2012, North America is projected to decrease by 0.13 mb/d, while oil consumption during 2013 will remain at almost the same level as 2012.

The US auto industry has recently been required by the federal government to increase its fleet mileage to 54.5 mp/g by 2025. This new standard, if achieved, would reduce the country's oil demand by 2 mb/d. This new mandate would be particularly difficult to attain for trucks. Sales in the US auto market increased strongly in August 2012, given the improving overall US economic outlook and slowly improving unemployment rates. August sales rose by approximately 20% from a year earlier, following the strong decreases in previous months. Additional reasons for this increase were higher demand resulting from people replacing their older vehicles motivated by low interest rates, good incentives from sellers, higher consumer confidence, and the release of some new car models. Sales for the entire year are expected to show an increase of around 12% y-o-y.

Graph 4.4: US mileage vs. prices



Similarly, vehicle sales in Canada grew at a solid 5% in July y-o-y for the tenth consecutive month in a row. This came about as a result of numerous incentive programmes, such as financing loans and employee discount programmes. Moreover, increasing numbers of consumers replacing their vehicles with revamped or fuel-efficient cars and trucks, along with the low 2011 baseline, have contributed to such higher sales. According to the Mexican Automobile Industry Association, Mexico's auto production, sales and exports grew strongly by 16.0%, 10.5% and 17.3%, respectively, y-o-y in June. Exports to Brazil continued to play a major role in the development of the already robust status of the Mexican auto industry.

OECD — Europe

OECD Europe oil consumption expected to shrink by 0.39 mb/d

Germany's retail gasoline prices climbed in August to €1.69/litre due to the massive taxation that the government levies on petroleum products. This has certainly led to a decrease in total transport fuel consumption country-wide. This decrease in consumption has been seen across Europe and is not confined to Germany alone.

European oil consumption contracted again in July, the eleventh month in a row. July oil consumption in Germany, France, Italy and the UK fell, as a result of decreasing demand in industrial and transportation fuels. Undoubtedly, the short and medium-term development of European oil consumption will be mostly determined by the continuing debt problems in several European economies. Nevertheless, fourth quarter oil demand will be in the negative, but at a slower pace than the third quarter. The European Big Four oil demand decreased by 0.07 mb/d in July compared to the same month a year ago. The Big Four oil consumption of industrial fuels and transportation fuels accounted for the bulk of these decreases.

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

	Jul 12	Jul 11	Change from Jul 11	Change from Jul 11 %
LPG	353	393	-39	-10.0
Gasoline	1,194	1,201	-7	-0.6
Jet/Kerosene	792	780	12	1.5
Gas/Diesel oil	3,156	3,144	12	0.4
Fuel oil	413	460	-47	-10.3
Other products	1,170	1,172	-2	-0.2
Total	**7,077**	**7,150**	**-72**	**-1.0**

** Germany, France, Italy and the UK.*

For 2012, OECD Europe oil consumption is expected to shrink by 0.39 mb/d, as a result of the economic turbulence in several regions' economies, while oil consumption in 2013 is projected to decrease again by 0.24 mb/d, showing hardly any improvement.

According to the latest figures European new passenger car registrations continued to decrease in July, for the tenth consecutive month by 7.7% y-o-y. During the first six months of 2012, sales were down by 6.5% compared to a year earlier. Almost all major markets showed strong declines with the exception of the UK, which posted solid growth of 9.2%. Italy (-21.9%) and Spain (-17.0%) continued to record a double-digit downturn, while Germany and France posted declines of 4.8% and 7.0%, respectively.

Austerity measures in several European countries, especially the Southern part of the region, forced the downward trend in the auto market. Sales expectations for the whole of 2012 will not show any improvement and will decrease by 7% y-o-y across the region. A number of incentives introduced by automakers, such as price discounts, have not reversed the trend in car sales.

OECD — Pacific

OECD Pacific oil consumption expected to grow in 2012 by 0.34 mb/d

Record rainfalls in July delivered flooding and landslides into southern Japan, affecting transportation fuel consumption slightly.

The latest monthly data for July showed a decline in transport fuel; however it indicates strong increases in the direct use of crude and residual fuel oil, as a result of nuclear plants being shut down. Since the lower baseline effect is no longer eminent, it led to a much lower monthly growth than in the previous months of 2012. Ever since the shutdown of almost all Japanese nuclear plants, the direct crude and residual fuel burning for electricity production has increased and is expected to further continue throughout the year. July oil consumption grew by only 2.1% y-o-y, averaging 3.9 mb/d.

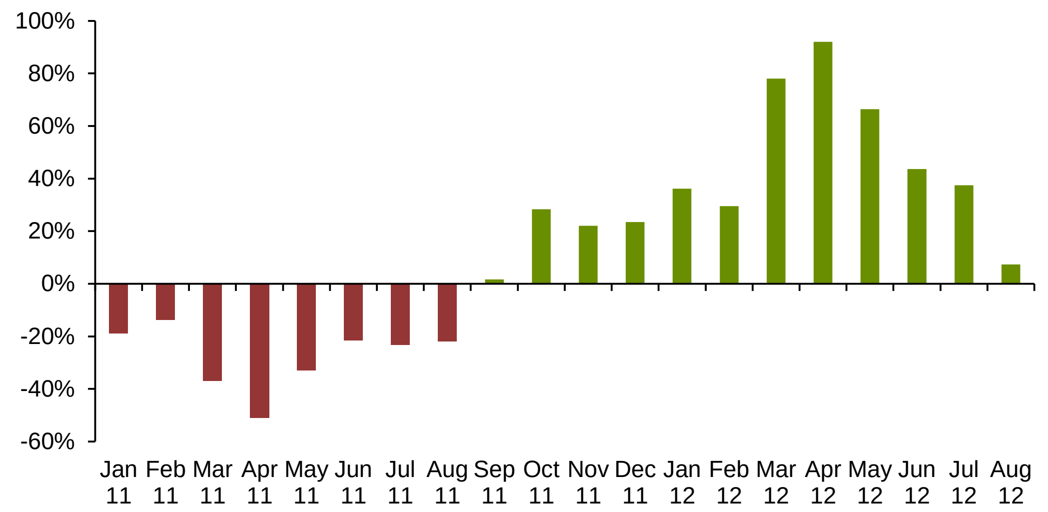
Furthermore, voices calling for the country to completely abandon nuclear energy are dominating the country's political scene. Japan's new energy strategy seems to envisage complete abandonment of nuclear power plants with alternative options:

- Reducing the share of the nuclear power plants in the country's energy mix to zero by 2030.
- Domestic hearings indicate that 70% of the people favour a complete shutdown of nuclear facilities and the government is about to give in to public requests. The ban on new nuclear plants will be in place and a limited life of 40 years will be applied to existing plants.

In South Korea, June oil use was strong, denoting an increase of 11.6% y-o-y, with the strongest additions having been observed in naphtha, gas/diesel oil and gasoline. The country's oil demand increased by 0.1 mb/d, averaging 2.3 mb/d. As a measure to decrease the use of oil, South Korea introduced a plan to curb the use of vehicles and encourage alternative fuels. This new measure might save 26 mb of oil in the next three years, as the government has claimed. The petrochemical industry in South Korea consumed 1.0 mb/d of naphtha in June alone, as a result of heating manufacturing activities.

As a result of strong Japanese oil demand, OECD Pacific oil consumption is expected to grow in 2012 by 0.34 mb/d. During 2013 OECD Pacific oil consumption is projected to grow again, but at a lower level of 0.07 mb/d.

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



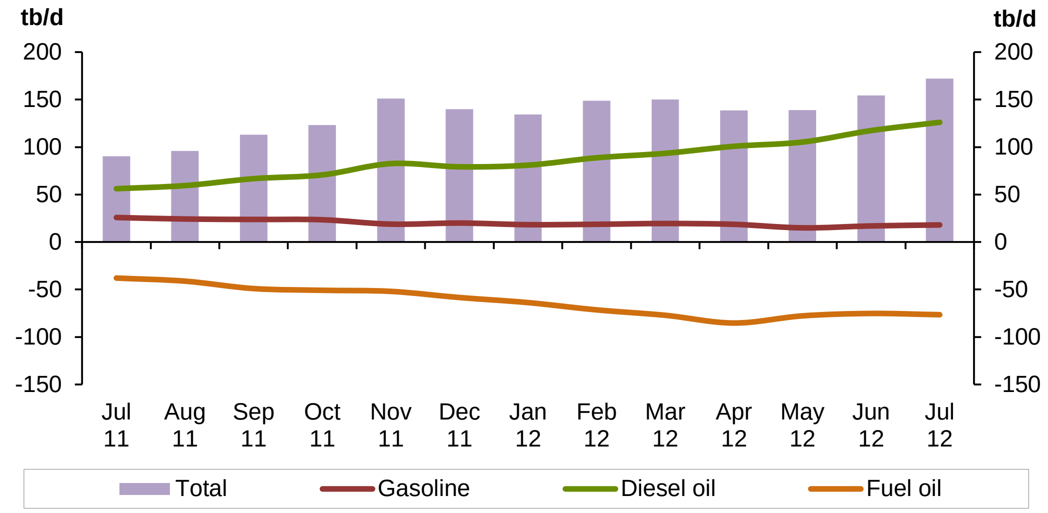
Despite the industry's expectations for a buying-rush ahead of the expiration of government incentives, Japanese auto sales lost momentum and rose only by 7.3% in August. It is the slowest pace in eleven months. Japanese auto demand is expected to remain strong in 2012, partly due to government stimulus plans and sales in tsunami-hit areas, where thousands of cars were destroyed. However the very high growth rates, seen in the first half of 2012 will ease in the upcoming months as last year's baseline will be higher for these months and government subsidy programmes end in September. Due to the economic slowdown, South Korean domestic car sales contracted strongly by 7.1% in August y-o-y. For the same month exports fell by 2.8% y-o-y.

Developing countries

Developing Countries' oil demand growth forecast at 0.6 mb/d y-o-y, averaging 28.3 mb/d in 2012

The effect of India's total massive power shut-down has been seen in the country's diesel demand. The country's effort to keep up with summer heat, along with excessive uploads to the electricity line, has crippled the entire system on several occasions. The fall of the grid left 600 million people without electricity. This has led to the use of independent diesel-operated power generation. As a result, diesel usage increased massively by 13% in July, adding another 0.17 mb/d to the country's total diesel use. Diesel consumption in India is attributed to transportation, industry and agricultural sectors. In general, like the rest of Asia, the summer is high season for oil consumption in India. Despite fuel switching to gas in some of the country's industrial and power plants, India's oil demand grew by a strong 9.4% or 0.3 mb/d y-o-y in July.

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



India's oil demand grew by a strong 9.4% in July,

According to the Society of Indian Automobile Manufacturers (SIAM), domestic passenger car sales increased robustly for another month by 11% during July. Sales were boosted mainly by growth in utility vehicle sales (57.4%), denoting the highest *amounting to 0.3 mb/d y-o-y*

monthly growth in two-and-half years. Since utility vehicles are diesel driven, it is one of the significant indicators that the number of diesel vehicles on the road is on the rise.

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

	Jun 12	Jun 11	Change	Change, %
LPG	176	148	28	18.8
Gasoline	502	456	47	10.2
Jet/Kerosene	91	95	-4	-4.3
Gas/Diesel Oil	494	517	-23	-4.4
Fuel Oil	43	57	-14	-25.2
Other Products	40	33	7	21.4
Total	**1,346**	**1,306**	**40**	**3.1**

Source: JODI.

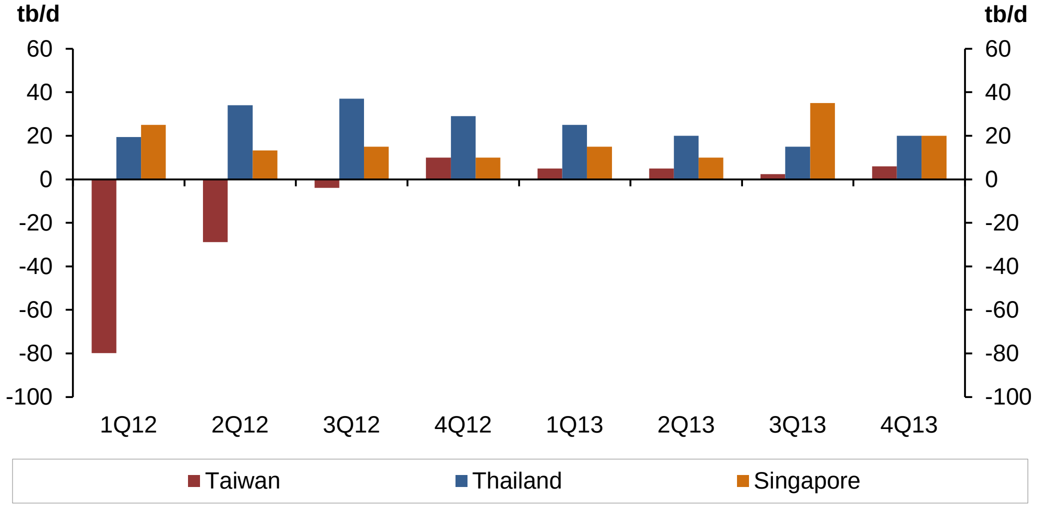
Given the strong oil demand by India, Other Asia's oil demand growth estimated at 0.22 mb/d in 2012

Indonesian oil demand grew by 3.1% in June y-o-y adding another 40 tb/d to the country's total oil demand. This came about despite the decline in both diesel and fuel oil use. Gasoline demand inched up by 10.2 % in June, leading to a total consumption of half a million barrels. As for the entire year, Indonesia will consume 1.4 mb/d, denoting growth of 22 tb/d.

Taiwan oil demand has been on the decline since the fourth quarter of 2010. There were only a few months where consumption showed an increase; other than that, economic activities are suppressing the use of oil in the industrial sector. In the first six months of the year, Taiwan oil demand slid by 12.4% y-o-y. Most of the decline was related to less use of fuel oil.

Given the strong oil demand by India, Other Asia's oil demand growth is estimated at 0.22 mb/d y-o-y in 2012.

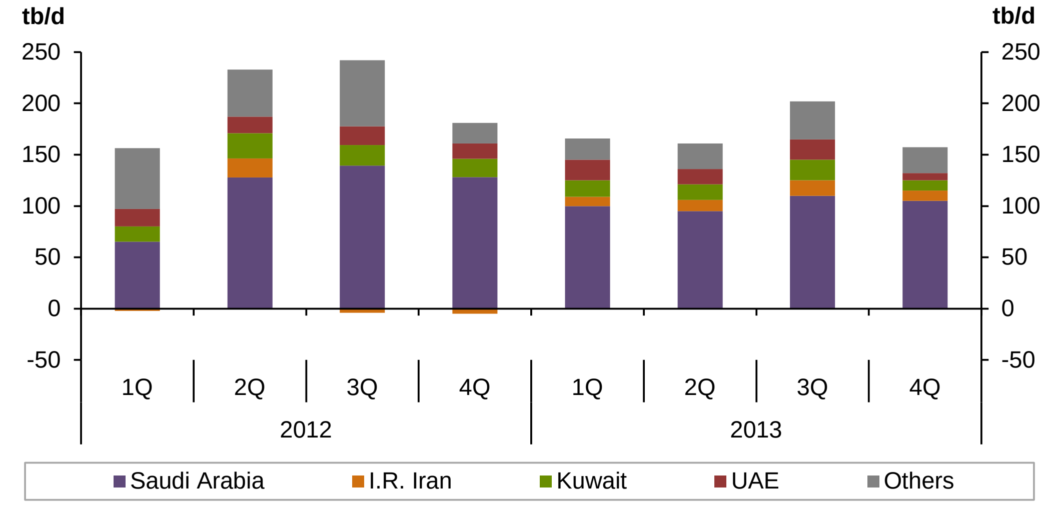
Graph 4.7: Oil consumption in selected Asian countries, y-o-y growth



The Middle East consumption to grow by 0.2 mb/d in 2012

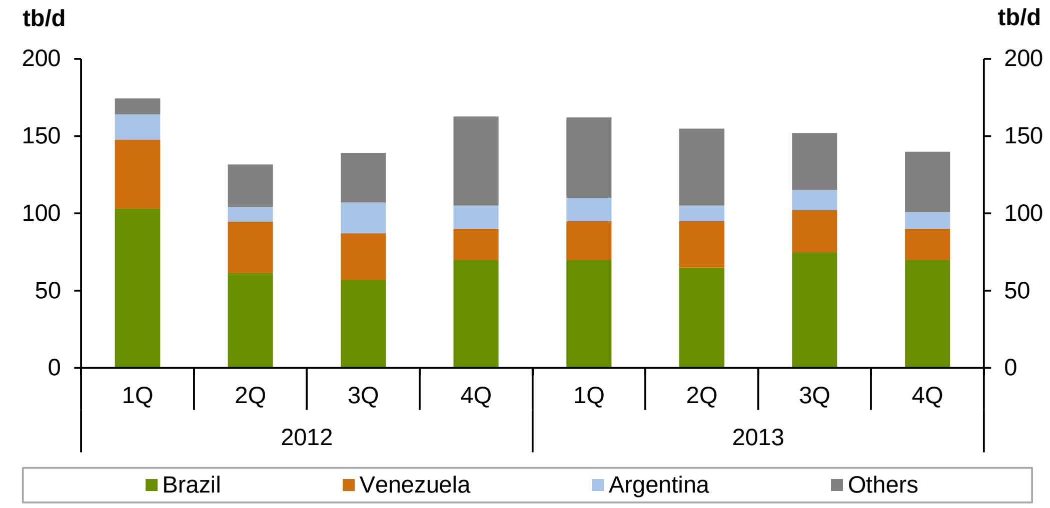
Iran partially removed gasoline subsidies on domestic consumption leading to a decrease in gasoline demand by 50 tb/d. Oil consumption within the Middle East has been growing by around 2.7% annually. Most of the growth is attributed to both transport and industrial sectors. Gasoline, diesel, and fuel oil are the most consumed products within the region. The top consuming countries are Saudi Arabia (2.8 mb/d) and Iran (1.8 mb/d). Saudi oil demand increased by 0.09 mb/d in July y-o-y. Diesel grew the most, which is related to industrial use since some power plants within the kingdom operate on diesel. It is forecast that the Middle East will consume 7.8 mb/d in 2012, representing growth of 0.2 mb/d y-o-y.

Graph 4.8: Yearly oil demand growth in the Middle East



Brazil oil demand growth in June was higher by 2.5% y-o-y. Gasoline consumption inched up by 15% and diesel usage increased by 3.5% y-o-y. Brazil's 2.0% GDP is calling for extra oil this year, estimated at 80 tb/d. Unlike previous months, energy-related alcohol usage declined by 30% y-o-y. Bad weather has forced the government to reduce the ethanol blending mandate from 25% to 19% and this caused the negative year-on-year demand. Venezuelan oil demand skyrocketed in the first half of the year. The country's oil demand grew by 22.6% in the first six months. Apart from diesel demand, gasoline and jet fuel consumption increased dramatically. Venezuela's strong economic growth of 4.5% was the engine behind robust energy demand.

Graph 4.9: Yearly oil demand growth in the Latin America



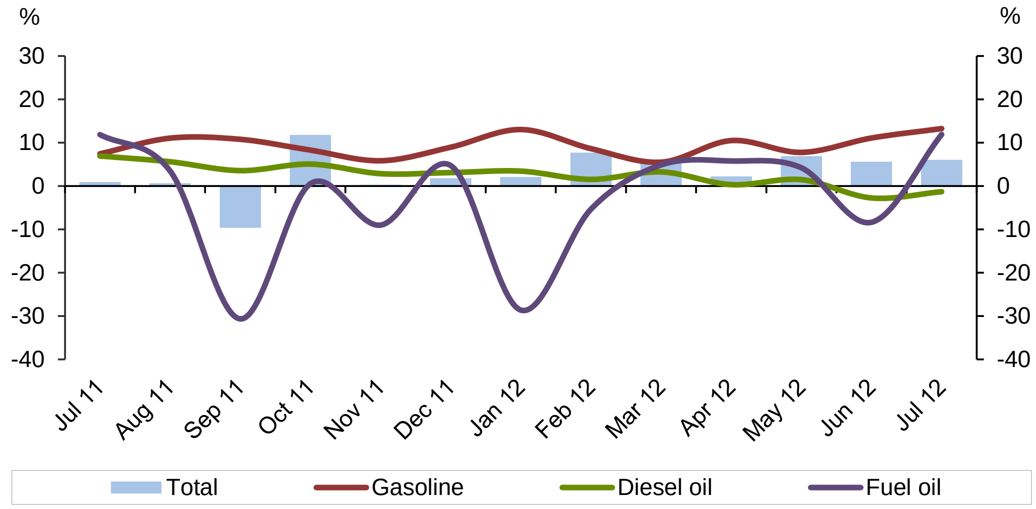
Developing Countries' oil demand growth is forecast at 0.6 mb/d y-o-y, averaging 28.3 mb/d in 2012.

Other regions

China's oil demand in the third quarter expected to grow by 0.3 mb/d y-o-y

In China, July imports were very weak; hence, the country's oil demand for the month was not as strong as expected. The third quarter is China's high season for oil consumption – summer is the season for agriculture as well as the driving season – and under normal circumstances, this results in a stiff oil demand hike during these months. This year's weak oil demand came about despite the government's decision to cut retail gasoline and diesel prices by more than 4% in July. Despite the curb in new car registrations in major cities, the country's gasoline consumption rose by 12% in July y-o-y. It is expected that the trend will not only last until year-end but also throughout 2013. China's gasoline use will hit the 2.0 mb/d level soon. Year-to-date gasoline growth is estimated at 10% y-o-y versus growth of only 1% of diesel demand. The strong gasoline growth was supported by the summer season and relatively moderate retail prices. Almost 35% of China's oil consumption is in a form of diesel. Diesel is used by almost all economic sectors within the economy and the amount used has been in the growing mode for a few years. Surprisingly enough, the country's use of diesel has been on the decline since the start of this year; however, this is not expected to be the trend in the near future. China's oil demand grew by only 0.2 mb/d in July y-o-y. China's oil demand in the third quarter is expected to grow by 0.3 mb/d y-o-y.

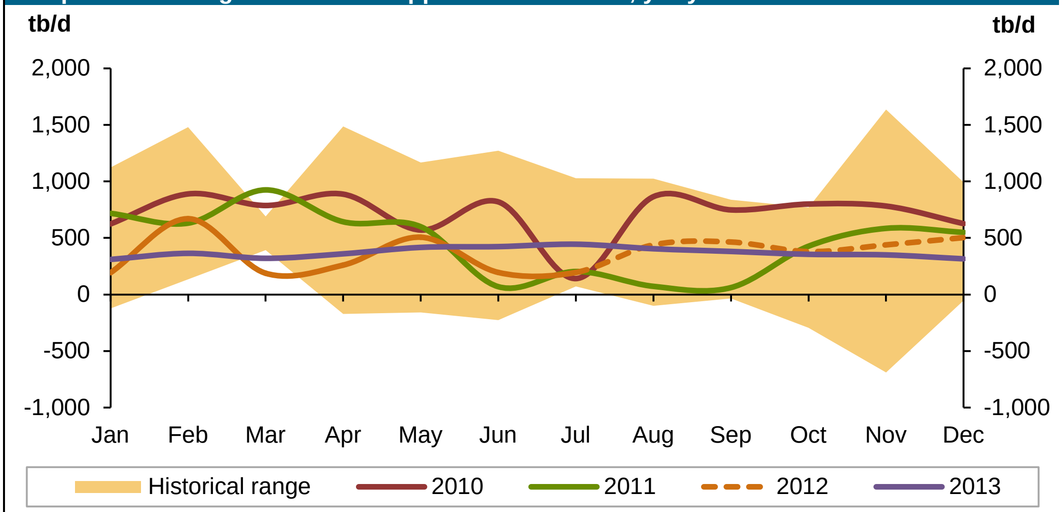
Graph 4.10: Changes in Chinese main oil products apparent consumption, y-o-y



China is embarking on a new energy front in order to strengthen its grip on energy consumption levels via its newly introduced energy transformation plan. The country's aim is to be efficient in energy and to equally distribute energy to all regions of the nation.

Data from China Association of Automobile Manufacturers (CAAM) shows that China's automobile sales grew by 8.2% in July, y-o-y, while overall sales for the first seven months in 2012 grew by a mere 3.6%. A number of factors still impose a strong downside risk to the development of the Chinese auto market during 2012 and 2013, such as the end of tax incentives for small cars, the new government rules to curb sales of cars within city limits and a slowdown in the economy. Due to the fact that Beijing, Shanghai and the southern cities of Guangzhou and Guiyang have imposed restrictions on car ownership to curb traffic, some drivers in other cities have rushed to buy before they face limitations in their cities.

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



World oil demand to grow by 0.8 mb/d in 2013

World oil demand in 2013

World oil demand growth for the coming year is forecast to be slightly less than this year despite the similarity in world GDP for both years. The economic picture is vague and there are plenty of potential uncertainties going forward. Downside risks exist as the spillover from the slowing global economy could reach some regions of the non-OECD. Several factors could impact next year's forecast oil demand growth, such as GDP, retail petroleum prices, and weather. These variables could reduce the world oil demand growth forecast by 20% for 2013.

Moreover, developments in the US and China — the main players in next year's world oil demand growth — could impact the pattern of global oil demand. World oil demand is forecast to grow by 0.8 mb/d in 2013, averaging 89.6 mb/d.

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

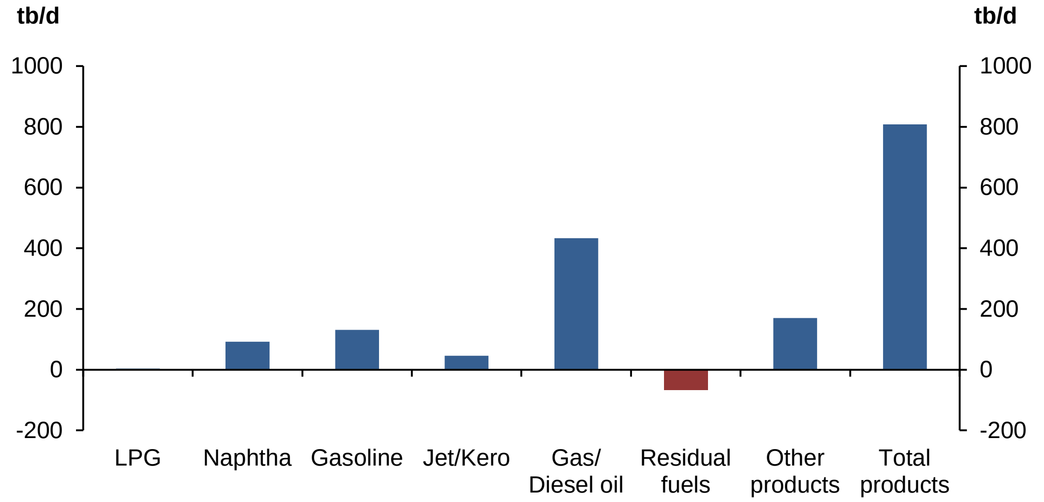


Table 4.6: World oil demand forecast for 2013, mb/d

							Change 2013/12	
	2012	1Q13	2Q13	3Q13	4Q13	2013	Growth	%
North America	23.45	23.31	23.23	23.70	23.64	23.47	0.02	0.07
Western Europe	13.89	13.50	13.40	14.07	13.64	13.65	-0.24	-1.71
OECD Pacific	8.21	8.90	7.79	7.96	8.45	8.27	0.07	0.81
Total OECD	**45.55**	**45.70**	**44.43**	**45.72**	**45.73**	**45.40**	**-0.15**	**-0.34**
Other Asia	10.69	10.68	10.92	10.90	11.00	10.88	0.19	1.76
Latin America	6.52	6.45	6.62	6.83	6.80	6.67	0.15	2.33
Middle East	7.77	7.81	7.82	8.27	7.86	7.94	0.17	2.21
Africa	3.36	3.36	3.37	3.28	3.43	3.36	0.00	0.06
Total DCs	**28.34**	**28.30**	**28.73**	**29.27**	**29.09**	**28.85**	**0.51**	**1.81**
FSU	4.40	4.34	4.17	4.58	4.85	4.49	0.09	2.05
Other Europe	0.70	0.70	0.65	0.70	0.78	0.71	0.00	0.68
China	9.75	9.79	10.22	10.10	10.31	10.11	0.35	3.63
Total "Other regions"	**14.85**	**14.83**	**15.04**	**15.39**	**15.94**	**15.30**	**0.45**	**3.02**
Total world	**88.74**	**88.82**	**88.21**	**90.38**	**90.76**	**89.55**	**0.81**	**0.91**
Previous estimate	88.72	88.83	88.21	90.40	90.61	89.52	0.81	0.91
Revision	0.03	-0.01	0.00	-0.02	0.14	0.03	0.00	0.00

Totals may not add up due to independent rounding.

Auto Industry:

For the year 2013, US auto sales are expected to slow down to approximately 3%, reflecting lower expectations in the US and European economies. This is a drop of by almost 9% from 2012. Canadian vehicle sales are projected to increase slightly by 1% in 2013, as a result of gloomy market sentiment. As a result of somewhat pessimistic expectations about the development of the economy, 2013 is forecast to be another stagnant or slightly declining year for the European car industry. Japanese demand for new vehicles is expected to grow again strongly; however, at a slower pace than in 2012, at 8% y-o-y. The outlook for the South Korean market in 2013 is largely dependent upon the development in the US and Euro-zone economies.

The Chinese auto market is negatively affected by traffic jams, high cost of parking and additional development of subway systems. Hence, China's auto industry is not expected to develop as fast as it has in the past few years, leading to overall expected sales growth of 11% in 2013. As a result of increasing activities in almost all sectors of the economy, Indian auto sales are forecast to grow strongly during 2013 by 15% y-o-y.

Graph 4.13: World oil demand by regions for 2013

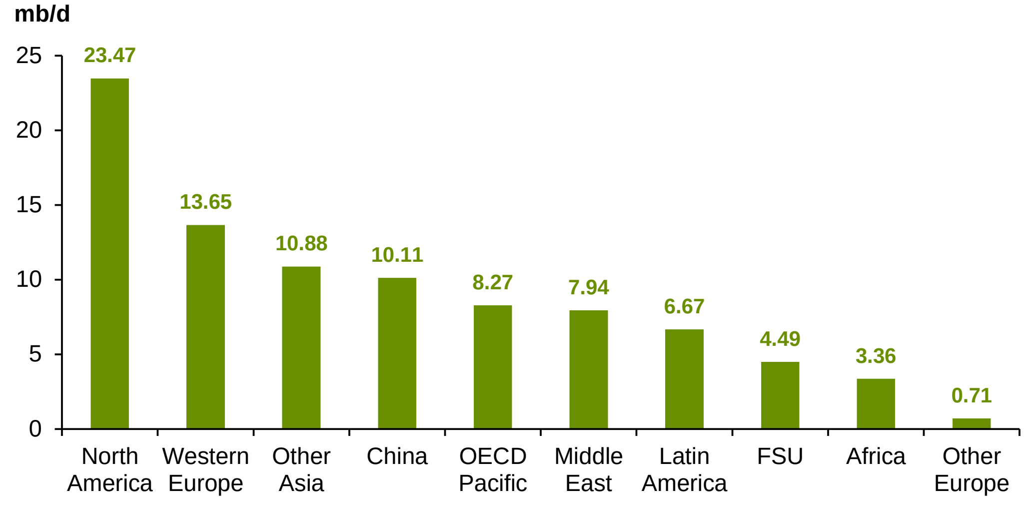


Table 4.7: First and second quarter world oil demand comparison for 2013, mb/d

			Change 2013/12				Change 2013/12	
	1Q12	1Q13	Volume	%	2Q10	2Q13	Volume	%
North America	23.15	23.31	0.15	0.65	23.72	23.23	-0.49	-2.07
Western Europe	13.69	13.50	-0.19	-1.38	14.30	13.40	-0.90	-6.26
OECD Pacific	8.83	8.90	0.07	0.79	7.37	7.79	0.42	5.75
Total OECD	**45.67**	**45.70**	**0.03**	**0.07**	**45.39**	**44.43**	**-0.96**	**-2.12**
Other Asia	10.50	10.68	0.18	1.75	10.20	10.92	0.72	7.07
Latin America	6.28	6.45	0.16	2.58	6.08	6.62	0.54	8.92
Middle East	7.64	7.81	0.17	2.17	7.28	7.82	0.53	7.30
Africa	3.36	3.36	0.00	0.12	3.37	3.37	0.00	0.12
Total DCs	**27.78**	**28.30**	**0.52**	**1.86**	**26.93**	**28.73**	**1.80**	**6.68**
FSU	4.24	4.34	0.10	2.38	3.86	4.17	0.31	7.90
Other Europe	0.69	0.70	0.01	0.87	0.64	0.65	0.01	2.02
China	9.47	9.79	0.32	3.38	9.09	10.22	1.13	12.43
Total "Other regions"	**14.40**	**14.83**	**0.43**	**2.96**	**13.60**	**15.04**	**1.45**	**10.65**
Total world	**87.85**	**88.82**	**0.97**	**1.11**	**85.92**	**88.21**	**2.29**	**2.66**

Totals may not add up due to independent rounding.

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

			Change 2013/12				*Change 2013/12*	
	3Q12	3Q13	Volume	%	4Q12	4Q13	Volume	%
North America	23.76	23.70	-0.06	-0.24	23.57	23.64	0.07	0.28
Western Europe	14.33	14.07	-0.26	-1.81	13.87	13.64	-0.23	-1.66
OECD Pacific	7.89	7.96	0.07	0.89	8.39	8.45	0.07	0.79
Total OECD	**45.97**	**45.72**	**-0.25**	**-0.54**	**45.83**	**45.73**	**-0.10**	**-0.21**
Other Asia	10.70	10.90	0.19	1.78	10.81	11.00	0.19	1.78
Latin America	6.68	6.83	0.15	2.28	6.66	6.80	0.14	2.10
Middle East	8.07	8.27	0.20	2.50	7.70	7.86	0.16	2.04
Africa	3.28	3.28	0.00	0.13	3.43	3.43	0.00	-0.13
Total DCs	**28.73**	**29.27**	**0.55**	**1.91**	**28.60**	**29.09**	**0.49**	**1.70**
FSU	4.51	4.58	0.08	1.67	4.74	4.85	0.11	2.23
Other Europe	0.69	0.70	0.01	0.72	0.77	0.78	0.01	0.65
China	9.71	10.10	0.39	4.02	9.97	10.31	0.34	3.41
Total "Other regions"	**14.92**	**15.39**	**0.47**	**3.15**	**15.49**	**15.94**	**0.45**	**2.91**
Total world	**89.61**	**90.38**	**0.77**	**0.86**	**89.92**	**90.76**	**0.84**	**0.93**

Totals may not add up due to independent rounding.

World Oil Supply

Non-OPEC

Forecast for 2012

Non-OPEC supply is forecast to increase by 0.70 mb/d in 2012

Non-OPEC oil production is expected to increase by 0.70 mb/d over the previous year to average 53.15 mb/d in 2012. The forecast represents a downward revision of 30 tb/d to the average of the previous *Monthly Oil Market Report* (*MOMR*), while growth experienced a minor upward revision of 20 tb/d. Historical revisions to 2011 non-OPEC supply partially influenced the forecast for 2012. The majority of the downward revisions in the 2012 non-OPEC outlook affected Africa supply, while minor upward revisions came from OECD Western Europe and the FSU.

On a regional basis, North America is expected to experience the largest growth in 2012, followed by the FSU and Latin America, while Africa, OECD Western Europe and the Middle East are foreseen to show the largest decline. On a quarterly basis, non-OPEC supply is expected to stand at 53.30 mb/d, 52.81 mb/d, 52.94 mb/d, and 53.55 mb/d, respectively.

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

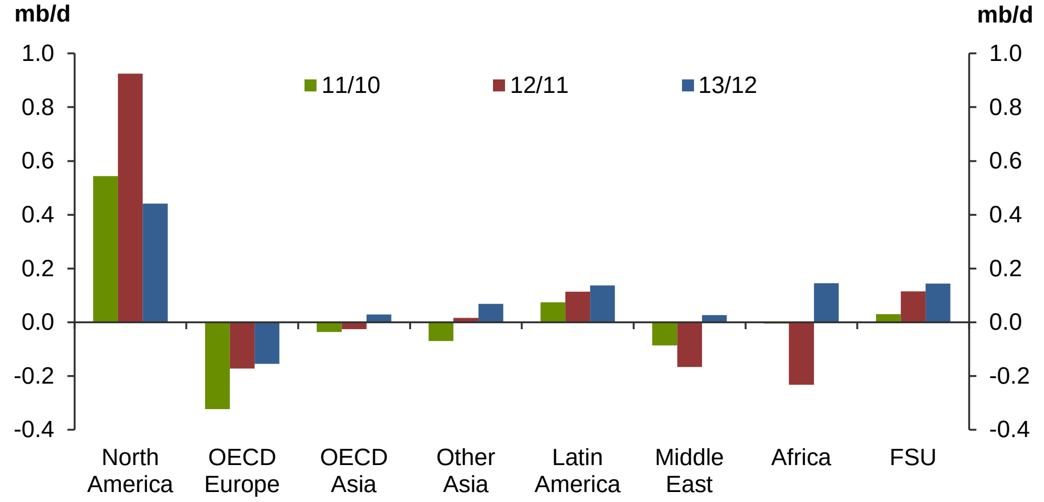


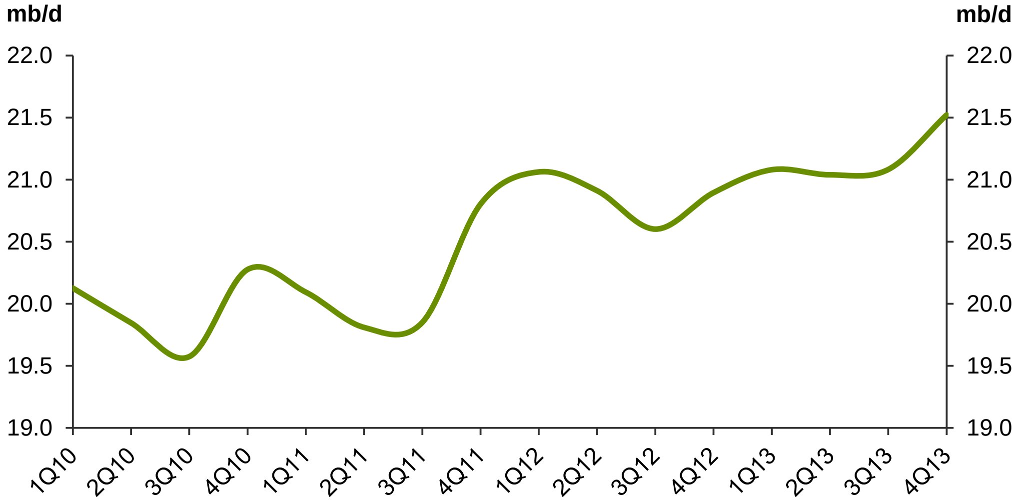
Table 5.1: Non-OPEC oil supply in 2012, mb/d

	2011	1Q12	2Q12	3Q12	4Q12	2012	Change 12/11
North America	15.50	16.48	16.45	16.33	16.46	16.43	0.93
Western Europe	4.07	4.07	3.91	3.71	3.90	3.90	-0.17
OECD Pacific	0.57	0.51	0.55	0.57	0.54	0.54	-0.03
Total OECD	**20.14**	**21.06**	**20.91**	**20.60**	**20.90**	**20.87**	**0.73**
Other Asia	3.63	3.65	3.57	3.68	3.70	3.65	0.02
Latin America	4.75	4.90	4.76	4.88	4.94	4.87	0.11
Middle East	1.69	1.46	1.54	1.54	1.57	1.53	-0.17
Africa	2.59	2.41	2.31	2.34	2.38	2.36	-0.23
Total DCs	**12.67**	**12.41**	**12.18**	**12.44**	**12.58**	**12.40**	**-0.27**
FSU	13.24	13.36	13.25	13.37	13.45	13.35	0.12
Other Europe	0.14	0.14	0.14	0.15	0.15	0.14	0.00
China	4.13	4.16	4.16	4.22	4.30	4.21	0.08
Total "Other regions"	**17.51**	**17.66**	**17.54**	**17.73**	**17.90**	**17.71**	**0.20**
Total Non-OPEC production	**50.32**	**51.13**	**50.64**	**50.77**	**51.38**	**50.98**	**0.66**
Processing gains	2.12	2.17	2.17	2.17	2.17	2.17	0.05
Total Non-OPEC supply	**52.44**	**53.30**	**52.81**	**52.94**	**53.55**	**53.15**	**0.70**
Previous estimate	52.49	53.31	52.75	53.01	53.65	53.18	0.69
Revision	-0.05	-0.01	0.06	-0.07	-0.10	-0.03	0.02

OECD

Total OECD oil supply in 2012 is forecast to increase by 0.73 mb/d to average 20.87 mb/d, indicating a minor upward revision of 10 tb/d compared to the previous *MOMR*. The minor upward revision came partially from historical changes to the 2011 supply estimates in addition to modifications to the 2012 forecast. The supply forecast for North America remained relatively steady with expected growth of 0.93 mb/d in 2012 over the previous year. OECD Western Europe oil supply in 2012 is expected to drop 0.17 mb/d in 2012, mainly due to natural decline and maintenance. OECD Pacific oil supply is seen to decrease by 30 tb/d in 2012 on limited new developments and supply distributions. On a quarterly basis, OECD oil supply is seen to average 21.06 mb/d, 20.91 mb/d, 20.60 mb/d, and 20.90 mb/d, respectively.

Graph 5.2: OECD's quarterly production



North America

North America oil production is projected to average 16.43 mb/d in 2012, indicating strong growth of 0.93 mb/d. The total expected output remained unchanged from the last *MOMR*, while anticipated growth experienced an upward revision of 40 tb/d compared to the previous month, due to historical adjustments to the 2011 estimate. North America is expected to have the highest growth among all non-OPEC regions in 2012; the supply growth marks the highest level in terms of volume since 1970. The forecast calls for healthy growth from the US and Canada, as well as relatively steady supply from Mexico. According to preliminary data, North America oil supply increased by 1.27 mb/d in the first half of 2012 compared to the same period in 2011. On a quarterly basis, North America oil production is expected to average 16.48 mb/d, 16.45 mb/d, 16.33 mb/d, and 16.46 mb/d, respectively.

US

Shale oil growth offset lower Gulf of Mexico and Ethanol output

US oil supply is expected to increase by 0.74 mb/d in 2012 to average 9.74 mb/d, unchanged from the previous *MOMR*. Despite the steady state for total US output, the anticipated growth saw an upward revision of 40 tb/d compared to the previous month. The growth revision came mainly on the back of a historical revision to 2011 production data that changed the growth in 2012. The US anticipated oil supply growth in 2012 is the highest among all non-OPEC countries and the 0.74 mb/d level is the largest growth in terms of volume since 1970.

Despite the shutdown of around 1.3 mb/d from the Gulf of Mexico as Hurricane Isaac passed the region, the US oil supply forecast remained relatively steady compared to the previous *MOMR*, as damage caused by the hurricane is seen to be minimal and production started to comeback. Reports provided that 8% of the Gulf of Mexico oil production remained shut down by the 10th of September 2012.

The strong expected growth is supported by an increase in tight oil from shale developments, mainly in Texas and North Dakota. Texas oil supply stood at 1.9 mb/d in June 2012, the highest level since April 1991. During the first half of 2012, Texas oil supply increased by 480 tb/d compared to the same period a year ago, supported mainly by shale oil developments. Similarly, North Dakota oil supply reached a record high of 660 tb/d in June 2012, becoming the second largest state in terms of production. During the first half of 2012, North Dakota oil supply increase by 240 tb/d compared to the same period a year earlier.

In contrast, due to the severe drought in the US Midwest, reports suggest that ethanol production in July 2012 reached a 17-month low due to plant shutdowns on the back of weak margins owing to high corn prices. Additionally, more states are requested to relax the ethanol mandate as the drought is reducing the corn supply. Moreover, maintenance in Alaska is lowering output this summer. Accordingly, US oil supply remained steady compared to the previous *MOMR*, which expected third quarter output to be lower than in the second quarter. On a quarterly basis, US oil production is seen to average 9.76 mb/d, 9.77 mb/d, 9.68 mb/d, and 9.75 mb/d, respectively.

Canada and Mexico

Canada supply seen to increase by 0.22 mb/d in 2012

Canada oil supply is forecast to average 3.78 mb/d in 2012, representing growth of 0.22 mb/d over 2011 and a minor downward revision of less than 10 tb/d from the previous *MOMR*. The revision was mainly related to the second quarter to adjust for updated production data. The anticipated growth in Canadian oil supply in 2012 is the highest annual supply growth since 1979. Preliminary production data for the first half of 2012 supports the forecast trend for Canadian oil supply, with growth backed by both conventional and non-conventional oil. However, the various operational setbacks during the second quarter reduced output. During the first half of 2012, Canada oil supply averaged 3.78 mb/d, an increase of 0.35 mb/d compared to the same period a year earlier. During the second half, Canada oil supply is expected to remain steady compared to the first half on balanced growth and outages. On a quarterly basis, Canada's supply is expected to average 3.81 mb/d, 3.75 mb/d, 3.74 mb/d, and 3.82 mb/d, respectively.

Cantarell output averaged 400 tb/d in first seven months of 2012

Mexico oil production is predicted to decline by 30 tb/d in 2012 to average 2.91 mb/d, flat from the previous month. According to actual production data, Mexico oil supply indicated a minor decline in July compared to the previous month. The decline came mainly from lower output from the Ku-Maloob-Zaap (KMZ) fields, where production averaged 842 tb/d. However, Mexico output during most of August recovered to reach the highest level so far in 2012. During the first seven months, Mexico oil production averaged 2.92 mb/d, a decline of 50 tb/d compared to the same period in 2011. Updated data showed that Cantarell field supply averaged 400 tb/d during the first seven months of 2012, lower by 45 tb/d from the average of the field's output in 2011. Production stabilization, natural decline and limited new developments remain the main characteristics of Mexico's oil supply forecast in 2012. On a quarterly basis, Mexico's oil supply is seen to stand at 2.92 mb/d, 2.93 mb/d, 2.90 mb/d, and 2.88 mb/d, respectively.

Western Europe

OECD Western Europe total oil production is estimated to decline by 0.17 mb/d and average 3.90 mb/d in 2012, relatively steady compared to the previous month, with a minor upward revision of 10 tb/d. The upward revision was due mainly to updated production data for the second quarter. The anticipated output in 2012 of 3.90 mb/d is the lowest since 1983. The supply situation remains relatively unchanged, with declines expected from major producers in the region. On a quarterly basis, supply is seen to average 4.07 mb/d, 3.91 mb/d, 3.71 mb/d, and 3.90 mb/d, respectively. Preliminary data indicates that OECD Western Europe supply stood at 3.99 mb/d in the first half of 2012, a decline of 0.19 mb/d compared to the same period in 2011.

The Ekofisk September loading programme indicates an increase

Norway oil production is forecast to decline by 80 tb/d in 2012 to average 1.96 mb/d, in line with the previous month's forecast. Norway's expected annual supply average in 2012 is at the lowest level since 1989. Second quarter oil supply from Norway was impacted by maintenance and various outages. The situation is seen to continue in the third quarter with production dropping further on the influence of the July strike as well as maintenance. The startup of the Goliat field is delayed to 2014, which is seen to further impact production. However, the September loading programme indicated higher output from Ekofisk which partially offset the drop. According to preliminary data, Norway oil supply averaged 1.86 mb/d in July, steady from the previous month. During the first seven months, Norway oil supply averaged 2.01 mb/d, a decline of 50 tb/d compared to the same period last year. On a quarterly basis, Norway's production is seen to average 2.08 mb/d, 1.98 mb/d, 1.83 mb/d and 1.95 mb/d, respectively.

UK oil supply to average 1.03 mb/d in 2012, a decline of 90 tb/d

Oil production from the UK is expected to average 1.03 mb/d in 2012, a decline of 90 tb/d from the previous year. This represents an upward revision of 10 tb/d compared to the previous MOMR. The revision came in the second quarter on updated production data. UK crude oil production is predicted to be less than 1.0 mb/d in the third quarter as the Buzzard field shutdown in September is seen impacting output. The startup of the Causeway field is expected soon, which should support UK supply. Furthermore, the restart of the Wilton ethanol plant, due to improved economics, is seen to partially offset the decline. During the first half of 2012, UK oil supply averaged 1.05 mb/d, a decline of 170 tb/d compared to the same period a year earlier. On a quarterly basis, UK oil supply is seen to average 1.08 mb/d, 1.01 mb/d, 0.98 mb/d, and 1.05 mb/d, respectively.

Asia Pacific

Total OECD Pacific oil supply is expected to decline by 30 tb/d in 2012 compared to the previous year, to average 0.54 mb/d. This represents an upward revision of 10 tb/d compared to the previous MOMR. The upward revision was due to updated production figures in the first half of 2012. OECD Pacific supply is expected to increase in the second half of 2012, supported by Australia. During the first half of 2012, OECD Pacific oil supply averaged 0.53 mb/d, a decline of 40 tb/d from the same period last year. On a quarterly basis, total OECD Pacific supply is seen to average 0.51 mb/d, 0.55 mb/d, 0.57 mb/d, and 0.54 mb/d, respectively.

Australian output to decrease 30 tb/d in 2012

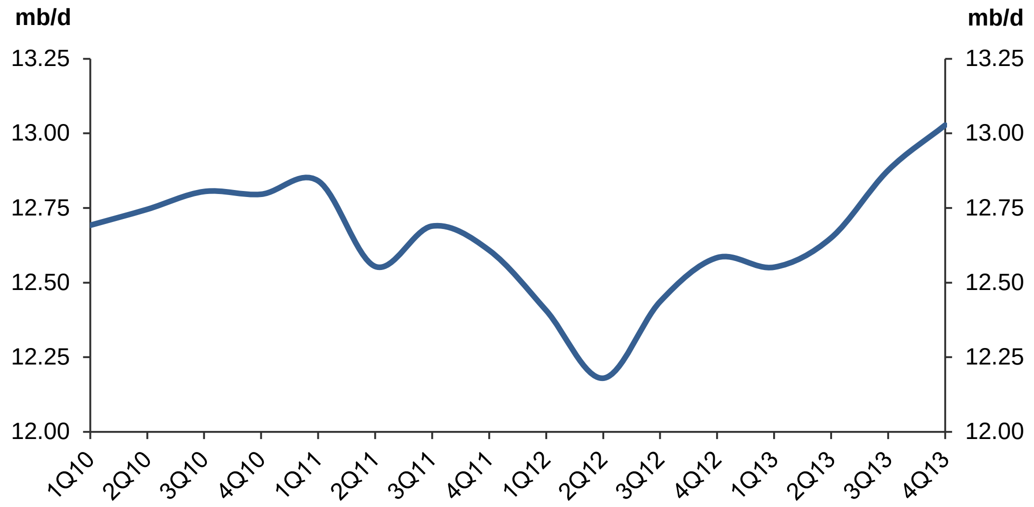
Oil production from Australia is anticipated to decline by 30 tb/d in 2012 to average 0.45 mb/d, unchanged from the previous month. Australia's expected annual production average for 2012 is the lowest since 1982. Production is expected to increase during the third quarter as shutdown volume is expected to return. During the first half of 2012, Australia's oil supply averaged 0.45 mb/d, a decline of 30 tb/d compared to the same period in 2011. According to preliminary data, Australia's oil supply increased in the second quarter, yet remained relatively lower than the same period of 2011. New barrels are expected to improve Australian oil output in the third quarter in addition to a further return of shutdown production. On a quarterly basis, Australian oil production is seen to average 0.43 mb/d, 0.46 mb/d, 0.48 mb/d, and 0.45 mb/d, respectively.

Developing countries

Lower output by the Sudans, Syria and Yemen behind the decline in DC supply

Total Developing Countries (DCs) oil supply is forecast to decline by 0.27 mb/d in 2012 to average 12.40 mb/d, representing a downward revision of 50 tb/d from the previous month. The downward revision came from Africa, while the forecast for Latin America oil supply encountered a minor upward revision and Other Asia and the Middle East outlook remained steady from the previous *MOMR*. Overall, supply conditions within DCs remain unchanged with growth in 2012 coming from Latin America and Other Asia, while Africa and Middle East supply are expected to decline. Brazil, Colombia, Vietnam, Ghana and Oman are the main contributors to the anticipated DC supply growth in 2012, while South Sudan and Sudan, Syria, Yemen, and Indonesia are expected to have the largest decline. On a quarterly basis, DC supply is expected to average 12.41 mb/d, 12.18 mb/d, 12.44 mb/d, and 12.58 mb/d, respectively. According to preliminary data, DCs' first half oil supply showed a drop of 0.41 mb/d compared to the same period last year.

Graph 5.3: Developing Countries' quarterly production



Other Asia supply to average 3.65 mb/d in 2012, an increase of 20 tb/d

Oil supply from Other Asia is expected to slightly increase by 20 tb/d in 2012 to average 3.65 mb/d, relatively unchanged from the previous *MOMR*. However, there were some offsetting revisions, which did not impact the annual figure compared to the previous month. The forecast for Brunei oil supply encountered a minor downward revision in the second quarter to adjust for updated production data. India oil supply is expected to increase by 10 tb/d in 2012 to average 0.90 mb/d, flat from the previous *MOMR* and this is despite the minor downward revision to second quarter supply on updated production data. The anticipated annual supply level in 2012 marks a new record-high output for India. Preliminary data indicates that output from Other Asia averaged 3.61 mb/d during the first half of 2012, indicating a decline of 20 tb/d compared to the same period of 2011. The decline was mainly due to Indonesia and India, while Vietnam and Malaysia output in the first half of 2012 increased. On a quarterly basis, Other Asia oil supply is seen to stand at 3.65 mb/d, 3.57 mb/d, 3.68 mb/d, and 3.70 mb/d, respectively.

Oil supply from Indonesia is expected to average 0.98 mb/d in 2012, representing a decline of 40 tb/d over 2011 and consistent with the previous *MOMR*. Expected annual supply in Indonesia in 2012 is the lowest since 1971. Limited new developments and natural decline are the main factors behind the continued decrease in Indonesian oil supply. Malaysia oil supply is forecast to remain steady in 2012 compared to the previous year to average 0.64 mb/d, unchanged from the August report. Preliminary data indicates that Malaysia's oil supply averaged 0.66 mb/d in the first half of 2012, an increase of 20 tb/d compared to the same period in 2011. Vietnam production is expected to average 0.38 mb/d in 2012, an increase of 30 tb/d over 2011, the highest growth among this group of countries. The expected growth is supported by different developments including the Te Giac Trang.

Latin America supply to grow by 0.11 mb/d in 2012 to average 4.87 mb/d

Latin American oil production is believed to increase by 0.11 mb/d in 2012 to average 4.87 mb/d, indicating an upward revision of 15 tb/d over the previous month. The upward revision was due to the supply forecasts for Argentina and Brazil. Argentina oil supply is expected to average 0.73 mb/d in 2012, a decline of 10 tb/d over 2011, indicating an upward revision of 10 tb/d compared to the previous *MOMR*. The upward revision came on updated production data in the second quarter. During the first half of 2012, Argentina's oil supply increased by 20 tb/d compared to the same period a year earlier, according to preliminary data. Colombia oil production is forecast to average 0.99 mb/d in 2012, representing growth of 60 tb/d over 2011, flat compared to the previous report. During the first half, Colombia oil supply increased 40 tb/d compared to the same period in 2011. Growth is supported by the continued ramp-up of the Rubiales fields, while the repeated sabotage to some infrastructure reduced the growth. Colombia oil supply is expected to continue to grow in the second half of 2012. On a quarterly basis, Latin America oil supply is seen to stand at 4.90 mb/d, 4.76 mb/d, 4.88 mb/d, and 4.94 mb/d, respectively.

Maintenance impacting Brazil supply in June and July

Brazil oil supply is projected to increase by 80 tb/d in 2012 to average 2.72 mb/d, representing an upward revision of 10 tb/d compared to the last *MOMR*. The upward revision was made partially to adjust for updated production data for the second quarter, as well as changes to the supply profile in the fourth quarter. Brazil oil supply indicates declines in July and June, mainly on maintenance activities. Maintenance affected the P-8 Marimba field in July, while the shutdown of the Frade project continues to impact production. Brazil oil supply is expected to recovery in the fourth quarter as startups of new platforms are seen to support the output. On a quarterly basis, Brazil oil supply is seen to average 2.76 mb/d, 2.62 mb/d, 2.72 mb/d, and 2.77 mb/d, respectively.

Middle East supply to decline by 0.17 mb/d in 2012 to average 1.53 mb/d

Oil production from the Middle East is seen to average 1.53 mb/d in 2012, a decline of 0.17 mb/d. Middle East oil supply remained relatively unchanged compared to the previous *MOMR*, with offsetting minor changes to the second quarter following updated production data. The anticipated decline is coming from Syria and Yemen, while Oman oil production is forecast to increase by 20 tb/d in 2012 to average 0.91 mb/d. This is unchanged from the previous assessment, despite a minor upward revision in the second quarter that did not impact the annual figure. Syria oil supply is expected to decline by 0.16 mb/d to average 0.21 mb/d in 2012. However, lack of production data from Syria due to the ongoing political situation might bring a large revision once the numbers become available. Yemen oil supply is expected to drop 40 tb/d in 2012 to average 0.18 mb/d. The risk and uncertainties of the forecast remain on the high side giving the continued security issues, as well as data availability. On a quarterly basis, Middle East oil production is expected to average 1.46 mb/d, 1.54 mb/d, 1.54 mb/d, and 1.57 mb/d, respectively.

Disrupted South Sudan supply to restart in 2013

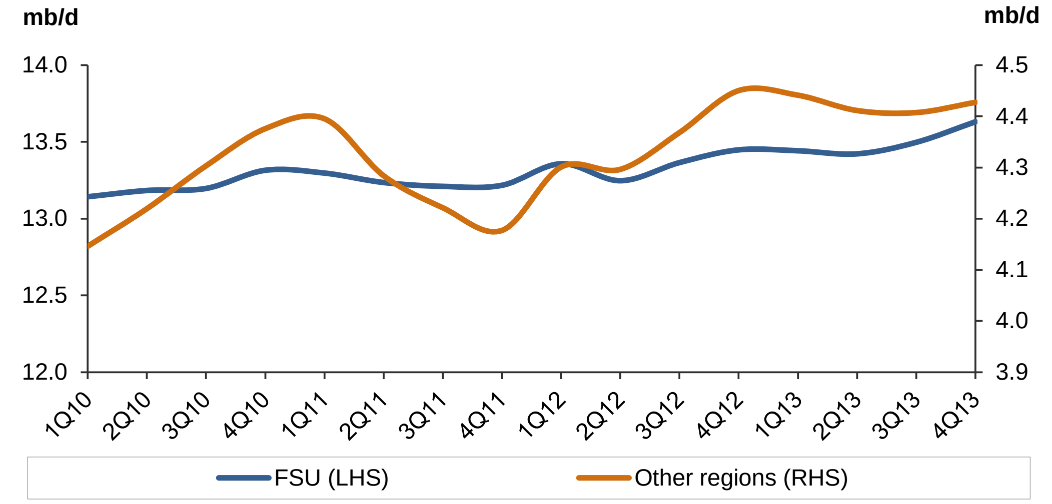
African oil supply is expected to average 2.36 mb/d in 2012, representing a decline of 0.23 mb/d over last year, indicating a downward revision of 60 tb/d compared to the previous *MOMR*. The downward revision came from South Sudan and Sudan, while a minor upward revision was seen in Ghana's supply forecast that partially offset the downward revision. Most African producers' supply forecasts are either seen to be steady or declining in 2012, except for Gabon and Ghana. Gabon oil production is expected to increase by 20 tb/d in 2012 to average 0.32 mb/d. Ghana Jubilee field oil production increased to 80 tb/d from around 60 tb/d on enhanced oil recovery (EOR) by acid simulation on some wells. The field's output remains below the target of 120 tb/d, yet new barrels are expected toward the end of the year. South Sudan and Sudan oil production is forecast to average 0.14 mb/d in 2012, a decline of 0.29 mb/d compared to the previous year, indicating a downward revision of 70 tb/d compared to the previous month. The downward revision was introduced as an announcement came that South Sudan will restart some shutdown production in December and the rest will come onstream in 2013. Some reports suggested that minor quantities will be restarted soon. On a quarterly basis, African oil supply is seen to average 2.41 mb/d, 2.31 mb/d, 2.34 mb/d, and 2.38 mb/d, respectively.

FSU, Other regions

FSU supply to grow by 120 tb/d in 2012 to average 13.35 mb/d

Total FSU oil production is projected to grow by 0.12 mb/d in 2012 to average 13.35 mb/d, indicating an upward revision of 10 tb/d compared to the previous month. The upward revision was made to Russia supply forecast, while other producers' output projections remained steady. The revision was attributable to updated production figures in the third quarter which was carried over to the rest of the year. In terms of regional growth, total FSU supply in 2012 is only behind that of North America. During the first half of 2012, FSU oil production increased by 30 tb/d over the same period in 2011. Total FSU oil supply is expected to continue to experience modest growth during the second half of 2012, compared to the first half and the previous year supported by Russia Kazakhstan and Azerbaijan. On a quarterly basis, total oil production in the FSU is seen to average 13.36 mb/d, 13.25 mb/d, 13.37 mb/d, and 13.45 mb/d, respectively. Other Europe supply is expected to remain flat to average 0.14 mb/d in 2012. China oil production is anticipated to average 4.21 mb/d in 2012, representing growth of 80 tb/d over the previous year.

Graph 5.4: FSU and other region's quarterly production



Russia

Russia supply reached a new record high in August of 10.36 mb/d

Russia oil supply is forecast to increase by 80 tb/d in 2012 to average 10.35 mb/d, relatively steady compared to the previous month, representing a minor upward revision of 10 tb/d. The minor adjustment came on the back of updated production data that showed slightly higher output than previously expected. Additionally, the startup of test production at the Novoportorskoye supported the upward revision. Moreover, improved multi-stage hydraulic fracturing technology is being applied at some mature fields in order to improve the extraction rate, which is seen to reduce the decline rate. According to preliminary data, Russia oil supply averaged 10.36 mb/d in August, a new record high. During the first eight months of 2012, Russia oil supply averaged 10.33 mb/d, representing growth of 0.1 mb/d compared to the same period a year earlier. On a quarterly basis, Russian oil supply is expected to average 10.34 mb/d, 10.32 mb/d, 10.36 mb/d, and 10.38 mb/d, respectively.

Caspian

Tengiz production to increase in September

Kazakhstan oil supply is estimated to increase by 10 tb/d in 2012 to average 1.61 mb/d, unchanged from the last MOMR. The Tengiz oil field's output was curtailed due to maintenance in August and output is expected to increase in September as work has come to an end. However, some production is expected to be shut down at Karachaganak in September as it goes into maintenance. Kazakh oil supply is expected to increase in the fourth quarter on lower impact from outages. During the first seven months, Kazakhstan oil production averaged 1.60 mb/d, relatively flat compared to the same period in 2011. On a quarterly basis, Kazakhstan oil supply is estimated to average 1.62 mb/d, 1.57 mb/d, 1.61 mb/d, and 1.65 mb/d, respectively.

Azeri oil supply to remain steady in 2012 to average 0.96 mb/d

Azerbaijan oil production is predicted to remain steady in 2012 and average 0.96 mb/d, flat compared to the previous month. So far in 2012, Azeri oil supply remained subdued on limited new developments and technical issues. During the first half of 2012, Azerbaijan oil supply averaged 0.94 mb/d, a decline of 60 tb/d compared to the same period a year earlier. Production in the second half of 2012 is seen increasing compared to the first half. On a quarterly basis, Azerbaijan oil supply is seen to average 0.96 mb/d, 0.92 mb/d, 0.96 mb/d, and 0.99 mb/d, respectively.

Other FSU oil supply is expected to average 0.44 mb/d in 2012, an increase of 20 tb/d compared to the previous year, unchanged from the last MOMR. The growth is supported by the increased output from Turkmenistan.

China supply declined in July

China

Oil supply from China is seen to grow by 80 tb/d in 2012 to average 4.21 mb/d, unchanged from the previous month. The steady state came despite lower output in June and July; however, the expectation of higher output in the coming months offset the experienced decline. Output at the Tarim oil field was down during the first half of 2012 compared to the same period a year earlier. On the other hand, Lufeng 13-2 oil field output has doubled to 27 tb/d since the beginning of the year. During the first seven months of 2012, China oil supply averaged 4.15 mb/d, a decline of 40 tb/d compared to the same period a year earlier. According to the preliminary data, China oil supply declined slightly in July compared to the previous month and by 40 tb/d compared to the same month a year ago. On a quarterly basis, China oil supply is seen to average 4.16 mb/d, 4.16 mb/d, 4.22 mb/d, and 4.30 mb/d, respectively.

Non-OPEC supply to grow by 0.94 mb/d in 2013 to average 54.09 mb/d

Forecast for 2013

Non-OPEC oil supply in 2013 is forecast to increase by 0.94 mb/d to average 54.09 mb/d. Average non-OPEC supply production experienced a minor downward revision of 10 tb/d, while the expected growth experienced an upward revision of 20 tb/d. The majority of this revision was related to historical adjustments to 2011 data, as well as to changes to the 2012 supply forecast. The US, Canada, South Sudan, Sudan, Brazil, Colombia, Russia, and Kazakhstan are expected to be the major contributors to supply growth in 2013, while supply from Norway, Mexico, and the UK is seen to continue to decline. Risks to the forecast remain high, due to natural decline, technical, political, and environmental factors. On a quarterly basis, non-OPEC supply is expected to average 53.73 mb/d, 53.73 mb/d, 54.07 mb/d, and 54.82 mb/d, respectively.

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

	2012	1Q13	2Q13	3Q13	4Q13	2013	Change 13/12
North America	16.43	16.64	16.75	16.88	17.21	16.87	0.44
Western Europe	3.90	3.90	3.71	3.62	3.74	3.74	-0.16
OECD Pacific	0.54	0.55	0.58	0.59	0.57	0.57	0.03
Total OECD	**20.87**	**21.08**	**21.04**	**21.08**	**21.52**	**21.18**	**0.31**
Other Asia	3.65	3.69	3.71	3.72	3.75	3.72	0.07
Latin America	4.87	4.92	4.94	5.05	5.11	5.00	0.14
Middle East	1.53	1.53	1.52	1.56	1.60	1.55	0.03
Africa	2.36	2.41	2.48	2.55	2.57	2.50	0.14
Total DCs	**12.40**	**12.55**	**12.65**	**12.88**	**13.03**	**12.78**	**0.38**
FSU	13.35	13.44	13.42	13.50	13.63	13.50	0.14
Other Europe	0.14	0.15	0.15	0.15	0.15	0.15	0.00
China	4.21	4.29	4.26	4.26	4.28	4.27	0.06
Total "Other regions"	**17.71**	**17.88**	**17.83**	**17.90**	**18.06**	**17.92**	**0.21**
Total Non-OPEC production	**50.98**	**51.52**	**51.52**	**51.86**	**52.61**	**51.88**	**0.90**
Processing gains	2.17	2.21	2.21	2.21	2.21	2.21	0.04
Total Non-OPEC supply	**53.15**	**53.73**	**53.73**	**54.07**	**54.82**	**54.09**	**0.94**
Previous estimate	53.18	53.83	53.75	54.04	54.77	54.10	0.92
Revision	-0.03	-0.10	-0.02	0.03	0.04	-0.01	0.02

Revisions to the 2013 forecast

The total non-OPEC supply forecast in 2013 experienced a relatively minor downward revision, while projected growth was revised up by 20 tb/d compared to the previous *MOMR*. The supply estimates for many countries in 2013 remained steady from the previous month, as growth for only a few countries has changed. The forecast for Brazil, Ghana and Russia supply encountered a minor upward revision, while the supply forecast for Syria, South Sudan and Sudan experienced minor downward revisions. Ghana and Russia oil supply forecasts were revised up slightly on historical changes. Forecast for Brazil supply was revised up on the back of project ramp-up changes. The outlook for South Sudan and Sudan oil supply encountered downward revisions following a re-evaluation of the restart of the halted output.

OPEC natural gas liquids and non-conventional oils

OPEC NGLs and non-conventional oils are forecast to grow by 0.35 mb/d in 2012 to average 5.67 mb/d, unchanged from the previous *MOMR*. In 2013, OPEC NGLs and nonconventional oils are expected to increase by 0.24 mb/d over the previous year to average 5.91 mb/d.

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

	2010	2011	Change 11/10	1Q12	2Q12	3Q12	4Q12	2012	Change 12/11	2013	Change 13/12
Total OPEC	**4.98**	**5.32**	0.34	5.49	5.60	5.73	5.86	**5.67**	0.35	**5.91**	0.24

OPEC crude oil production

OPEC crude output averaged 31.41 mb/d in August

Total OPEC crude oil production averaged 31.41 mb/d in August, according to secondary sources, up by 254 tb/d from the previous month. OPEC production, not including Iraq, stood at 28.30 mb/d, an increase of 235 tb/d over the previous month. Crude oil production from Angola, Nigeria, and Libya supported the increase in August.

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

	2010	2011	4Q11	1Q12	2Q12	Jun 12	Jul 12	Aug 12	Aug/Jul
Algeria	1,250	1,240	1,228	1,233	1,214	1,212	1,209	1,202	*-7.7*
Angola	1,786	1,667	1,766	1,763	1,739	1,693	1,655	1,848	*193.6*
Ecuador	475	490	493	492	492	490	491	497	*6.4*
Iran, I.R.	3,706	3,628	3,572	3,391	3,086	2,957	2,780	2,767	*-13.1*
Iraq	2,401	2,665	2,666	2,705	2,956	2,953	3,094	3,113	*18.7*
Kuwait	2,297	2,538	2,695	2,768	2,794	2,800	2,800	2,799	*-1.0*
Libya	1,559	462	562	1,213	1,424	1,429	1,417	1,440	*23.3*
Nigeria	2,061	2,111	2,027	2,075	2,140	2,134	2,130	2,179	*49.1*
Qatar	791	794	796	786	748	746	743	743	*-0.2*
Saudi Arabia	8,263	9,293	9,666	9,819	9,908	9,926	9,845	9,855	*9.8*
UAE	2,304	2,517	2,557	2,564	2,574	2,599	2,626	2,610	*-16.0*
Venezuela	2,338	2,380	2,371	2,379	2,366	2,367	2,366	2,357	*-9.0*
Total OPEC	**29,231**	**29,786**	**30,400**	**31,189**	**31,442**	**31,305**	**31,156**	**31,410**	***253.9***
OPEC excl. Iraq	**26,831**	**27,120**	**27,733**	**28,484**	**28,486**	**28,353**	**28,062**	**28,297**	***235.2***

Totals may not add up due to independent rounding.

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

	2010	2011	4Q11	1Q12	2Q12	Jun 12	Jul 12	Aug 12	Aug/Jul
Algeria	1,184	1,173	1,180	1,215	1,213	1,212	1,204	..	..
Angola	1,691	1,618	1,685	1,734	1,716	1,614	1,576	..	..
Ecuador	475	500	503	502	500	502	508	512	*4.1*
Iran, I.R.	3,544	3,576	3,609	3,742	3,758	3,756	3,751	3,747	*-4.0*
Iraq	2,358	2,653	2,638	2,628	2,936	2,951	3,051	3,166	*115.0*
Kuwait	2,312	2,660	2,909	2,995	2,990	2,981	2,945	2,980	*34.6*
Libya	1,487	462	697	1,296	1,503	1,453	1,423	1,552	*128.7*
Nigeria	1,968	1,896	1,836	1,880	1,971	1,972	1,983	..	..
Qatar	733	734	733	745	737	746	719	723	*4.3*
Saudi Arabia	8,166	9,311	9,736	9,883	10,002	10,103	9,801	9,753	*-47.7*
UAE	2,324	2,565	2,549	2,602	2,615	2,753	2,776	2,713	*-62.5*
Venezuela	2,779	2,795	2,809	2,792	2,818	2,811	2,832	2,842	*9.2*
Total OPEC	**29,020**	**29,942**	**30,883**	**32,015**	**32,758**	**32,854**	**32,569**	**..**	**..**
OPEC excl. Iraq	**26,662**	**27,290**	**28,245**	**29,387**	**29,823**	**29,903**	**29,518**	**..**	**..**

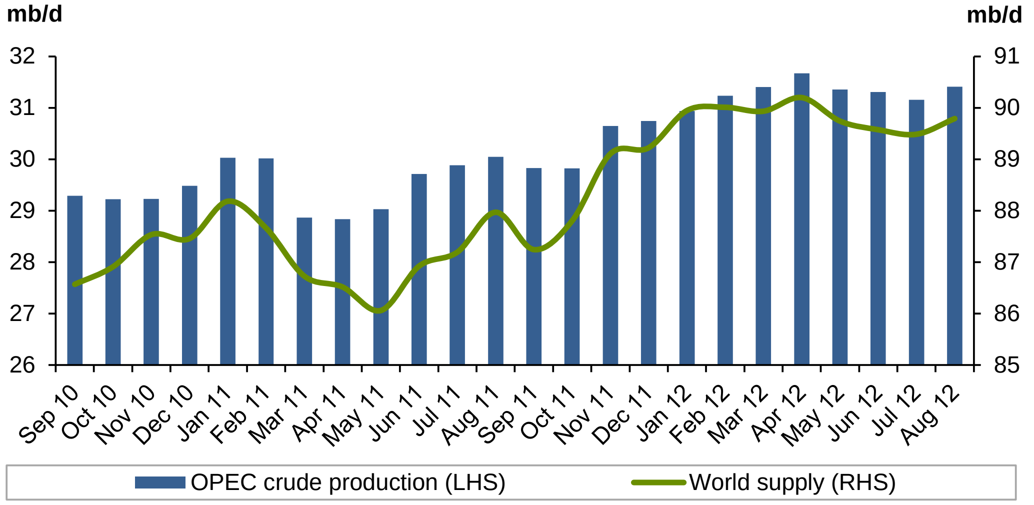
Totals may not add up due to independent rounding.
.. Not available

World Oil Supply

Global supply in August estimated at 89.80 mb/d

Preliminary figures show that world oil supply averaged 89.80 mb/d in August, an increase of 0.30 mb/d from the previous month. OPEC crude is estimated to have a 35% share in global supply, a minor increase from the previous month. The estimate is based on preliminary data for non-OPEC supply, estimates for OPEC NGLs and OPEC crude production, according to secondary sources.

Graph 5.5: OPEC and world oil supply

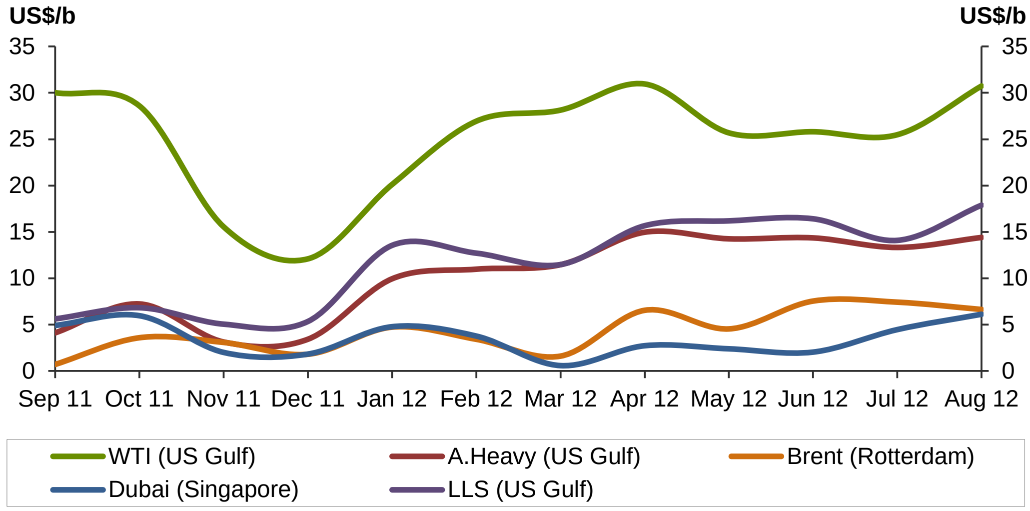


Product Markets and Refinery Operations

Refinery margins continued strengthening worldwide on the back of a tight environment

Product market sentiment remained healthy worldwide and even strengthened in August. Light distillates exhibited a positive performance on the back of tightening supply generated by the shutdown of several refineries worldwide and the recovery in gasoline consumption in the Atlantic Basin, as well as the naphtha demand from the petrochemical sector in Asia. The positive performance of light distillates allowed margins to continue increasing, despite weaker fuel oil demand and the increase in crude prices.

Graph 6.1: Refining margins, 2011-2012



US Gulf Coast refining margins shot up over the month with the rise witnessed across the product slate due to expectations of market tightness emerging after Hurricane Isaac forced the shutdown of at least five refineries in Louisiana, leaving other Gulf Coast refineries to compensate for lost production. Meanwhile, an explosion at Venezuela´s 645,000-b/d Amuay refinery spurred buying in Latin American markets.

The margins for West Texas Intermediate (WTI) and Light Louisiana Sweet (LLS) crudes on the US Gulf Coast showed a sharp increase of more than $4 to stand at around $31/b and $18/b, respectively, in August.

The gasoline crack strengthened considerably over the month as domestic demand showed a recovery in August amid a tighter situation as refiners began shifting to winter-grade production.

Light distillate cracks in Europe received support from the tight US gasoline market and from the recovery of the naphtha market, as demand from the petrochemical sector was boosted by higher prices for propane used as feedstock.

Despite the improvement at the top of the barrel, refining margins for Brent in Northwest Europe fell back 80¢ in August to stand at $6.6/b. This was due to a loss of ground by middle distillates and fuel oil, which outweighed the gain seen in the light products.

Singapore refining margins continued exhibiting a positive performance to hit the highest level seen this year, mainly on the back of positive developments across the light and middle-distillate spectrum. At the top of the barrel, the gasoline crack witnessed the highest gain, as sentiment was lifted by healthy demand, amid tightening supply due to some refinery disruptions.

These developments caused refinery margins to continue increasing, despite the rise in crude oil prices and weaker fuel oil performance, allowing Singapore refinery margins to show a gain of $1.6 to average $6.1/b in August.

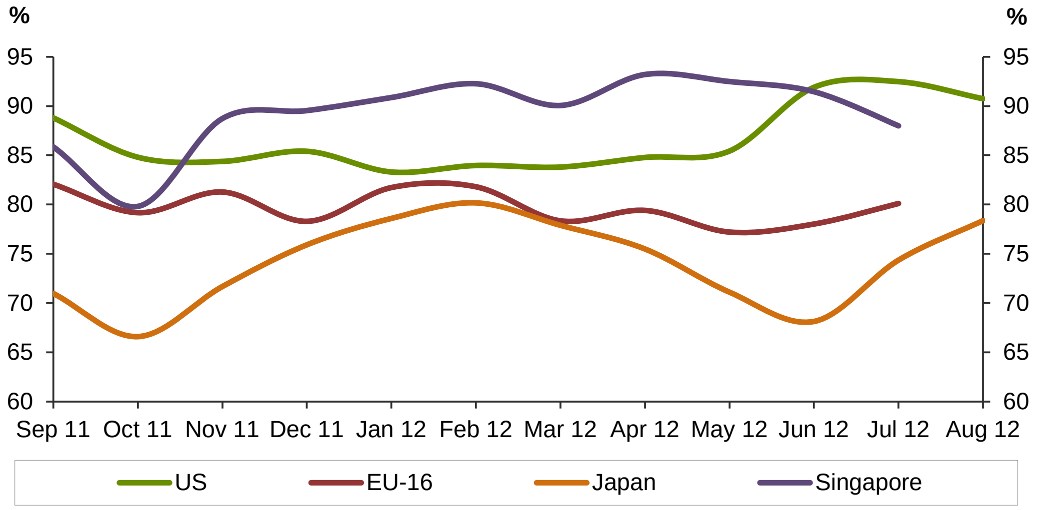
Refinery operations

Hurricane Isaac caused US refinery runs to drop

US refinery utilization fell in August, after several refineries were preventively shut down when Hurricane Isaac threatened the region, affecting more than 1 mb/d of capacity. Other refineries suffered unscheduled shutdowns due to operational problems and fires on the US West Coast (the Richmond refinery), in Mexico (Madero) and in Venezuela (Amuay), impacting product availability and fuelling tight sentiment in the Atlantic Basin market.

US refinery runs fell from the record level of 92.5% of utilization in July, to an average of 90.7% in August, 1.8 percentage points (pp) lower than in the previous month. This situation, along with the high export levels from the US to markets in Latin America, Europe, and elsewhere have kept distillate and gasoline inventories below the five-year average.

Graph 6.2: Refinery utilization rates, 2011-2012



Since June, a relative tightening of the Atlantic Basin balances has allowed margins to become healthier in Europe, despite the increases in crude prices. However, considering that the demand-side fundamentals are still weak, refiners have been cautious, keeping run-levels moderate. In July, refinery utilization increased by around 2 pp to average 80%, the highest level seen this year.

The refinery maintenance season in Asia continued and there was an unplanned shutdown of units in the region. This situation made the market tighter, in addition to increasing light distillate demand supporting the market, which allowed margins to continue rising. The improvement in the margins and the electricity shortage in some countries could encourage refiners to increase runs over the coming months.

Japanese throughputs recovered 5% to average around 78% of capacity in August, after the sector suffered unscheduled shutdowns in two refineries in July.

US market

US gasoline demand recovered in August

US gasoline demand increased by around 370 tb/d from the previous month to stand at around 9.1 mb/d in August. This level represented a rise of 240 tb/d from the same month a year earlier.

US gasoline demand picked up in August, with the summer driving season recovering to over 9 mb/d; however, domestic demand on a y-o-y basis remained down by more than 2%.

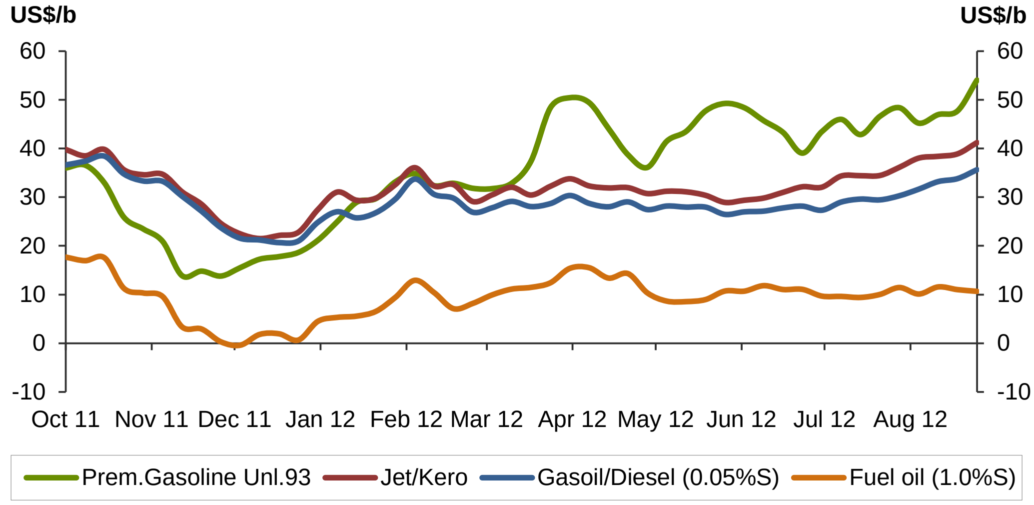
Higher domestic demand along with tight product supply generated by the earlier closure of some East Coast refineries amid falling inventories and stronger export opportunities allowed gasoline cracks to show a sharp increase during the month.

Solid demand from Latin America kept sentiment firm, with Mexico leading motor fuel requirement due to a shutdown after a fire in the Madero refinery at mid-August, while Venezuelan and Brazilian demand was offering further support.

The supply side was also lending support, as the refineries shifted to winter grade specifications and the tight situation was boosted by the required shutdown of some refineries in Louisiana due to Hurricane Isaac and the disruption of Venezuela's refinery located in Amuay bay.

The gasoline crack averaged $49/b in August, a sharp gain of $4 from the previous month's average.

Graph 6.3: US Gulf crack spreads vs. WTI, 2011-2012



Middle distillate demand stood at around 3.5 mb/d in August, similar from the previous month, but decreasing by 400 tb/d from the same month a year ago.

Middle distillates posted an improvement from the month before, mostly due to favourable arbitrage opportunities to Europe and Latin America and the tight environment after the shutdown of some refineries in the region.

This supply-side support, as well as falling inventories could offset the weak domestic demand, and along with the higher requirements from South America, specifically Chile and Ecuador, could allow the gasoil cracks to keep rising.

The gasoil crack on the US Gulf Coast gained almost $4 to stand at around $33/b in August.

At the bottom of the barrel, fuel oil cracks showed a slight improvement, on the back of buying interest on 1% sulphur volumes. Moreover, the market was quiet until the end of the month when expectations of additional US volumes heading to Singapore in the coming period to make up for potential shortfalls from South America revived the market.

The fuel oil crack averaged $11/b in August, a gain of $1 from the previous month.

European market

Middle distillates relatively balanced in Europe

Product market sentiment showed a rise in Europe in the top of the barrel with gasoline continuing to take advantage of tightness in the Atlantic, while the bottom of the barrel remained weak on lack of demand.

The European gasoline cracks increased marginally over the month with product availability currently tight, as supply was limited by maintenance in the region ahead of the switch to winter-grade specifications.

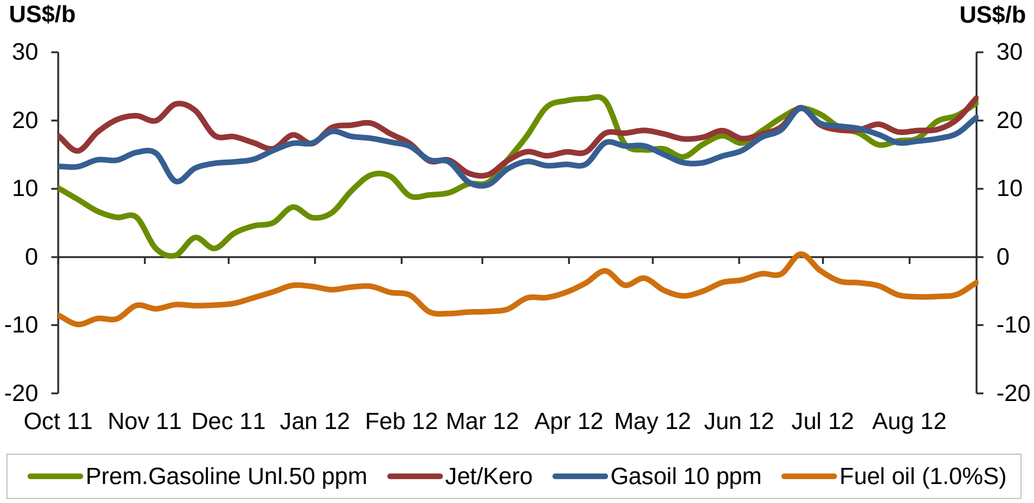
Demand from the UK market continued to show strength following the closure of the 220,000-b/d Coryton refinery early in the year. In addition, exports to West Africa remained high despite fuel subsidy issues having started to delay some cargoes in Lagos.

Further support came from the US gasoline market, with inventories in the US falling against expectations. Refinery shutdowns in Chicago helped to firm US gasoline prices as Chicago buyers competed with the Atlantic Coast for Gulf Coast supplies.

The gasoline crack spread against Brent crude showed a gain of almost $1, to average around $19.6/b in August.

The naphtha crack in Europe showed an upward trend as the market was mainly driven by the increased demand from the petrochemical industry due to the widening premium of propane over naphtha. Propane prices have risen due to maintenance at the key export hub, the Braefoot Bay terminal in the UK.

Graph 6.4: Rotterdam crack spreads vs. Brent, 2011-2012



At the middle of the barrel, the gasoil crack showed only marginal changes. The crack in Europe was pressured over the month by steady supplies from the US and Russia. However the market showed a slight improvement at the end of the month with expectation of tighter supplies due to the beginning of the maintenance season in Europe and Russia, although the market continued to suffer from a lack of seasonal demand in the region.

The gasoil crack spread against Brent crude at Rotterdam lost $1 to remain around an average of $18/b in August.

Looking forward, cracks are expected to gain strength in the upcoming maintenance season in Europe, amid a tight environment in the Atlantic Basin.

At the bottom of the barrel, fuel oil cracks continued their downward trend this month. In the HSFO market, subdued arbitrage activities and steady supplies arriving in Northwest Europe helped to push the crack downwards. Meanwhile, LSFO supplies in Europe continued to be ample as European refiners chose to run more economically viable low-sulphur grades.

The Northwest European fuel oil crack spread against Brent showed a loss of $2 in August, to stand at minus $5.4/b.

Asian market

Light distillates continued the uptick on the back of a tight market

Asian refineries continued limiting product supplies due to maintenance and additional unscheduled shutdowns. This tightened the market amid strong demand for light and middle distillates, allowing cracking margins to maintain their momentum.

At the top the barrel, gasoline and naphtha posted an impressive performance on the back of prospects of tightening supplies in the region.

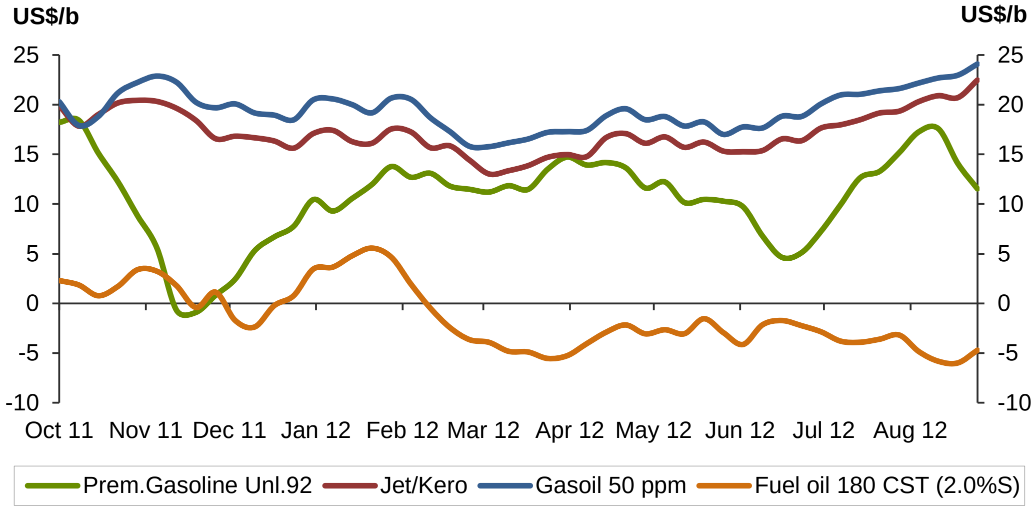
The gasoline crack showed a substantial increase, to hit the highest level seen this year, as market sentiment remained lifted by healthy regional demand, mainly due to buying interest from India and Pakistan, as well as Vietnam, seeking higher volumes after the Dung Quat refinery shut down.

The gasoline crack spread against Dubai crude in Singapore showed a sharp gain of $4 to average $15/b in August.

While supplies are seen to tighten in the region, with Singapore onshore light distillate stocks declining, additional support is expected to come from gasoline volumes being shipped to the American market due to the shutdown of several refineries in the US, which were affected by Hurricane Isaac and the shutdown of the Amuay refinery in Venezuela.

Naphtha cracks developed similarly, strengthening since the beginning of the month mainly on the back of improving petrochemical margins, with firmer buying interest from South Korea and Malaysia. Meanwhile, further support came from the supply side due to lower Indian naphtha exports.

Graph 6.5: Singapore crack spreads vs. Dubai, 2011-2012



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

Market sentiment has been particularly strong as supplies remained tight in the region amid refinery maintenance and shutdowns, while demand continues positively. Indonesia diesel imports are seen on the rise most likely on the back of the construction industry resuming operations with the passing of the month of Ramadan.

The gasoil crack spread in Singapore against Dubai averaged around $23/b in August, gaining $2 from the previous month.

The power failures in India have also provided a boost to diesel demand and this may continue if the monsoon rains in the country do not reach their typical levels.

At the bottom of the barrel, the fuel oil crack continued to lose ground, most likely due to higher inflows into the region. Limited demand from the bunker sector weighed on the fuel oil market, offsetting the buying interest from Sri Lanka and utilities in South Korea, as hotter-than-usual temperatures had the country seeking increased volumes of fuel oil.

The fuel oil crack spread in Singapore against Dubai dropped by $1.5, to average minus $5/b in August

Independent Chinese refineries have been increasing their run rates to reduce power shortages, amid a temporary reduction in South American fuel oil inflows to the region. This could support the fuel oil market over the coming weeks.

Table 6.1: Refinery operations in selected OECD countries

	Refinery throughput, mb/d			*Refinery utilization, %*		
	Jul 12	**Aug 12**	**Aug/Jul**	**Jul 12**	**Aug 12**	**Aug/Jul**
US	15.67	15.35	-0.32	92.48	90.74	-1.74
France	1.10	-	-	63.71	-	-
Germany	1.90	-	-	78.44	-	-
Italy	1.57	-	-	67.00	-	-
UK	1.47	-	-	83.30	-	-
Euro-16	10.71	-	-	80.10	-	-
Japan	3.33	3.51	0.18	73.70	78.38	4.68

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

Table 6.2: Refined product prices, US$/b

		Jun 12	**Jul 12**	**Aug 12**	***Change* Aug/Jul**
US Gulf (Cargoes):					
Naphtha		99.86	102.69	120.32	17.63
Premium gasoline	*(unleaded 93)*	126.73	133.03	142.54	9.51
Regular gasoline	*(unleaded 87)*	111.45	115.99	129.93	13.94
Jet/Kerosene		112.86	121.94	132.88	10.94
Gasoil	*(0.05% S)*	109.83	116.92	127.25	10.33
Fuel oil	*(1.0% S)*	90.83	96.04	107.28	11.24
Fuel oil	*(3.0% S)*	86.92	91.51	99.52	8.01
Rotterdam (Barges FoB):					
Naphtha		80.61	91.27	103.46	12.19
Premium gasoline	*(unleaded 10 ppm)*	97.77	103.28	117.07	13.80
Premium gasoline	*(unleaded 95)*	114.57	121.02	133.11	12.09
Jet/Kerosene		114.30	121.58	133.19	11.61
Gasoil/Diesel	*(10 ppm)*	113.43	121.32	131.33	10.01
Fuel oil	*(1.0% S)*	93.24	99.09	108.06	8.97
Fuel oil	*(3.5% S)*	88.76	93.14	100.94	7.80
Mediterranean					
Naphtha		78.22	89.07	101.31	12.24
Premium gasoline	*(50 ppm)*	113.27	115.56	129.64	14.08
Jet/Kerosene		108.98	112.56	123.92	11.36
Gasoil/Diesel	*(50 ppm)*	100.70	102.12	110.67	8.54
Fuel oil	*(1.0% S)*	92.17	95.12	102.13	7.01
Fuel oil	*(3.5% S)*	88.38	89.77	97.26	7.50
Singapore (Cargoes):					
Naphtha		80.72	91.13	102.89	11.76
Premium gasoline	*(unleaded 95)*	104.46	113.37	127.20	13.83
Regular gasoline	*(unleaded 92)*	101.16	110.19	123.78	13.59
Jet/Kerosene		110.29	117.52	129.51	11.99
Gasoil/Diesel	*(50 ppm)*	112.65	120.06	131.42	11.36
Fuel oil	*(180 cst 2.0% S)*	93.07	96.70	104.59	7.89
Fuel oil	*(380 cst 3.5% S)*	91.40	95.30	103.09	7.79

Tanker Market

Global and OPEC spot fixtures declined in August by 3.42 mb/d and 1.04 mb/d

Global spot fixtures declined in August by 3.42 mb/d or 20.1% to average 17.01 mb/d. OPEC fixtures also saw a drop by 1.04 mb/d to stand at 10.54 mb/d. Sailings from OPEC were almost steady to average 24.01 mb/d, reflecting a minor increase of 0.1% from the previous month and 6.2% from levels seen last year. Middle East sailings saw a similar increase of 0.1% to average 17.66 mb/d, while y-o-y the increase amounts to 2%. According to preliminary data, arrivals at North America, Europe and West Asia increased by 5.7%, 0.7% and 9.5% from July, while the Far East was the only route, which saw a decrease of 3% from the previous month's arrivals.

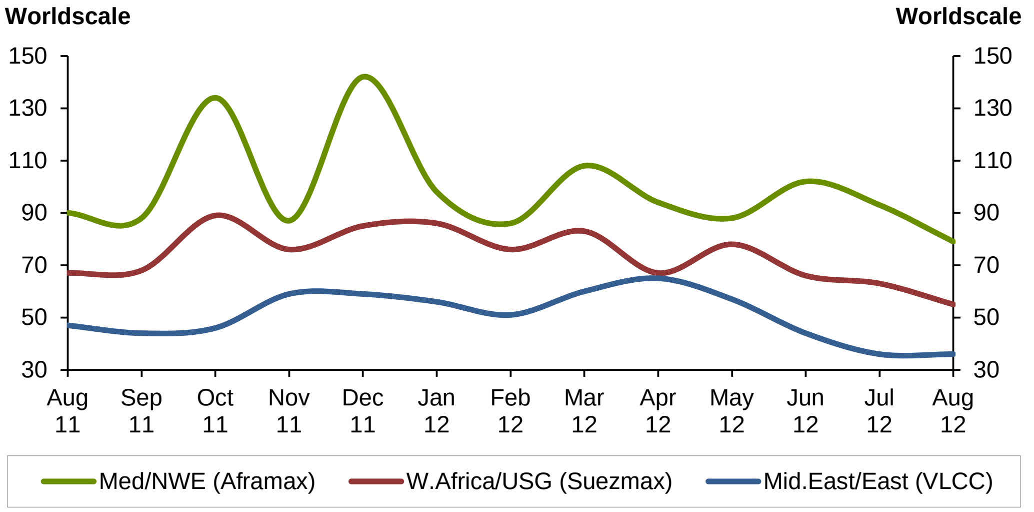
Table 7.1: Tanker chartering, sailings and arrivals, mb/d

	Jun 12	Jul 12	Aug 12	*Change* Aug/Jul
Spot Chartering				
All areas	18.34	20.43	17.01	-3.42
OPEC	11.64	11.58	10.54	-1.04
Middle East/East	5.90	5.06	5.37	0.31
Middle East/West	1.88	2.35	1.86	-0.50
Outside Middle East	3.86	4.17	3.32	-0.86
Sailings				
OPEC	23.96	23.98	24.01	0.03
Middle East	17.67	17.64	17.66	0.02
Arrivals				
North America	9.56	9.33	9.87	0.54
Europe	11.42	11.30	11.38	0.07
Far East	8.67	8.51	8.26	-0.25
West Asia	4.23	4.31	4.72	0.41

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

The spot tanker market was under pressure in August and spot freight rates continued declining from levels seen in the previous month. The same factors that had been negatively affecting the tanker market continued to pressure rates. The market continued to be oversupplied with insufficient demand to secure employment for the available vessels. The bearish sentiment was overwhelming on all classes. Current levels are considered unacceptable in many cases for owners, whose earnings have reached rock-bottom levels, amid a recent rise in bunker prices which negatively influenced daily returns and voyage profitability. Some owners showed resistance to the current rate, while others went to the tactic of hiding their available vessels in a trial to reduce the positions list length and thus enhance persisting rates. Overall the tanker market was very quiet in August, with several holidays in the month, and rates were often assessed based on last done deals due to the lack of fresh activity.

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



In the dirty tanker market, VLCC, Suezmax and Aframax spot freight rates all dropped in August

In August, **VLCC** spot freights rate dropped further from a month earlier, when rates were assumed to have bottomed out and no further drop could be accepted. Tonnage oversupply, which created a lengthy positions list, combined with a decreasing level of activity, remains the main factor behind VLCC freight rate decline. Rates dropped despite typhoons Saola, Damry, Tembin and Bolven, which had only a minor effect of a few days of delays and could not offset the long positions list, considering the considerable number of vessels available. VLCC spot freight rates declined on all reported routes, further losing world scale points from levels seen last month. The Middle East to East route ended the month flat, while the Middle East to West route dropped by 3.8% from July to stand at WS36 and WS25 points, respectively. In comparison to the same period a year earlier, both routes declined by 23% and 34%, respectively. Freight rates for the West Africa to East route declined by 12.7% to stand WS55 points from July, dropping by 18% from a year earlier. Furthermore, the lump sum rate on the Northwest Europe to Asia route was assessed below US$3 mn in August, the lowest lump sum rate seen on this route since October 2011.

Suezmax reached the lowest levels seen this year in August. The Suezmax average monthly spot freight rate dropped by 7.6% to stand at WS55 points as the West Africa to US Gulf Coast (USCG) route decreased by 12.7% to stand at WS55 points, while Northwest Europe to US East Coast (USEC)-USGC decreased by 1.8% from July. The depressed Suezmax rates have been continuing for a while as a result of lower crude liftings from West Africa. The eastern Suezmax market saw improved sentiment in August as the availability of ships for some dates was tighter, which helped to push rates up, taking into consideration that the age restriction for vessels loading in the Middle East region made the list tighter. However, that did not give any real boost to the freight rate. The Suezmax market in the Mediterranean was quiet in general, due to the scarcity of cargoes in that area, which adversely affected tonnage demand. In East of Suez, Suezmax is currently facing competition from VLCCs which have been suffering from long unemployment that has resulted in VLCCs moving into the Suezmax market on a part-cargo basis, where draft restrictions allowed it.

As with all dirty tanker classes, the **Aframax** sector declined on all reported routes in August with one exception, the Indonesia to East route, which saw a gain of 4.7% to average WS90 points. However, this still shows a drop of 8% from the same month last year. The Caribbean to US East Coast route saw a marginal drop of 1.1% from July to average WS93, while Mediterranean to Mediterranean and Mediterranean to Northwest Europe routes both saw a larger drop of 13% and 15%, respectively. Bearish sentiment dominated the Aframax market, combined with low activity level in general. The Baltics witnesses less Aframax movement, generally, due to facility maintenance in the region, while the effect of Hurricane Isaac in the Caribbean was limited to vessel delays and replacements, which eventually led to a modest increase in rates. Towards the end of the month, rates remained stable, despite an increased level of activity and a more balanced position's list. Current Aframax returns were found not to be covering owner's operational costs.

Table 7.2: Spot tanker crude freight rates, Worldscale

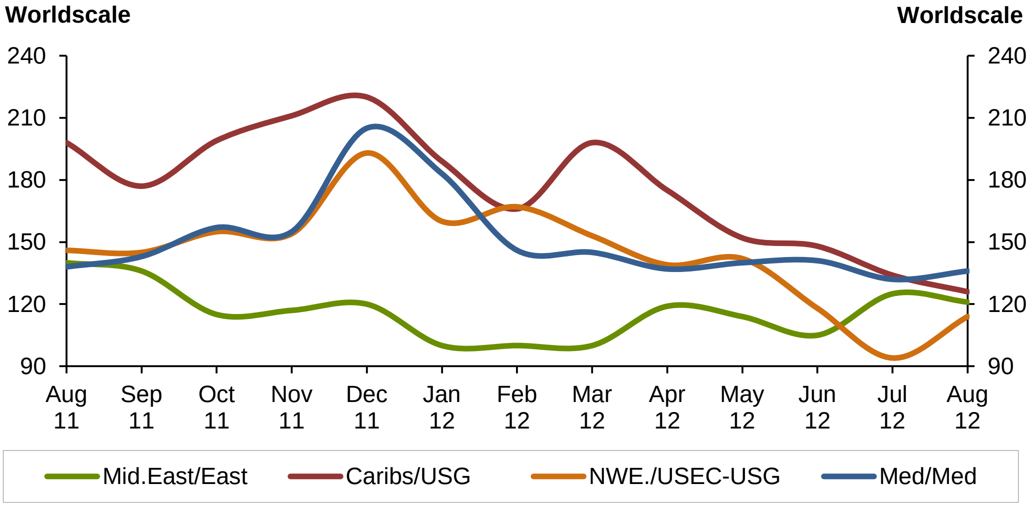
	Size *1,000 DWT*	Jun 12	Jul 12	Aug 12	**Change** Aug/Jul
Crude					
Middle East/East	230-280	44	36	36	0
Middle East/West	270-285	33	26	25	-1
West Africa/East	260	45	38	37	-1
West Africa/US Gulf Coast	130-135	66	63	55	-8
NW Europe/USEC-USGC	130-135	61	55	54	-1
Indonesia/US West Coast	80-85	86	86	90	4
Caribbean/US East Coast	80-85	108	94	93	-1
Mediterranean/Mediterranean	80-85	101	92	80	-12
Mediterranean/North-West Europe	80-85	102	93	79	-14

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

Clean tanker spot freight rates were mixed in August; West of Suez spot freight rates increased while East of Suez spot freight rates fell

In August, the clean tanker market saw a mixed pattern, as the average spot freight rates for Middle East to East and Singapore to East dropped by 3.2% and 2.4% respectively, to average WS 121 points each, while the Caribbean to USGC saw a greater drop of 6%. However, the decline amounts to 36% in comparison to last year's level. In contrast, both Northwest Europe to US and Mediterranean to Mediterranean routes gained 21.3% and 3%. Overall, the clean tanker market was stable with a fair amount of activity in the West of Suez, yet the abundant tonnage supply prevented rates from moving significantly higher. Towards the end of the month, clean spot freight rates saw an upward trend and a rush of activity on the US Gulf Coast to Northwest Europe, as well as the US Gulf Coast to Caribbean route, following the Amuay refinery explosion, which, despite initial uncertainty, did not have a strong impact on the freight rates.

Graph 7.2: Monthly averages of clean spot freight rates



It is worth highlighting that in August average spot freight rates on all reported routes saw a decline in all sectors ranging from 1% to 36% compared to a year earlier.

Table 7.3: Spot tanker product freight rates, Worldscale

	Size *1,000 DWT*	Jun 12	Jul 12	Aug 12	Change Aug/Jul
Products					
Middle East/East	30-35	105	125	121	-4
Singapore/East	30-35	120	124	121	-3
Caribbean/US Gulf Coast	38-40	148	134	126	-8
NW Europe/USEC-USGC	33-37	118	94	114	20
Mediterranean/Mediterranean	30-35	141	132	136	4
Mediterranean/North-West Europe	30-35	150	142	141	-1

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

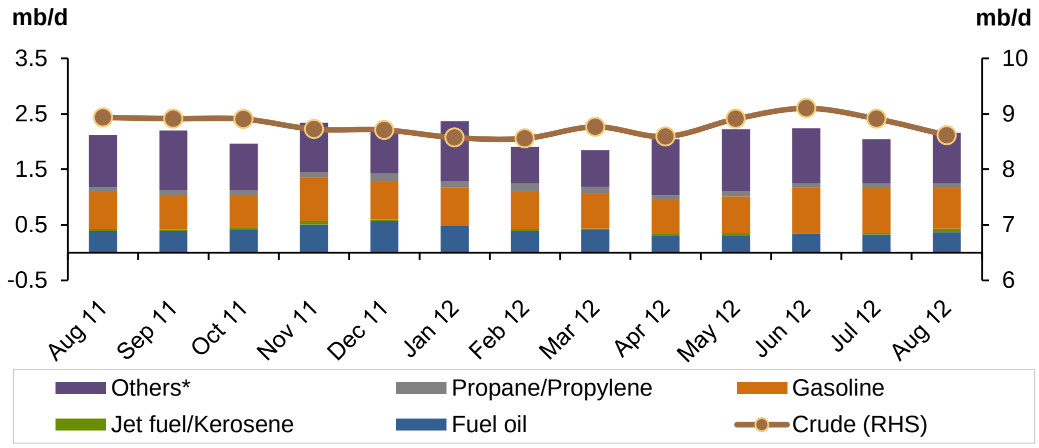
Oil Trade

US crude oil imports declined in August by 296 tb/d or 3.3% to average 8.6 mb/d

US

Preliminary data shows that US crude oil imports dropped in August for the second consecutive month by 296 tb/d or 3.3% from the previous month to average 8.6 mb/d. Year-on-year, this reflects a loss of 321 tb/d or 3.6% from a year earlier. US crude imports in August were found to be the lowest since April 2012. It is worth highlighting that, following Hurricane Isaac, US crude imports reached their lowest weekly level since December 2011.

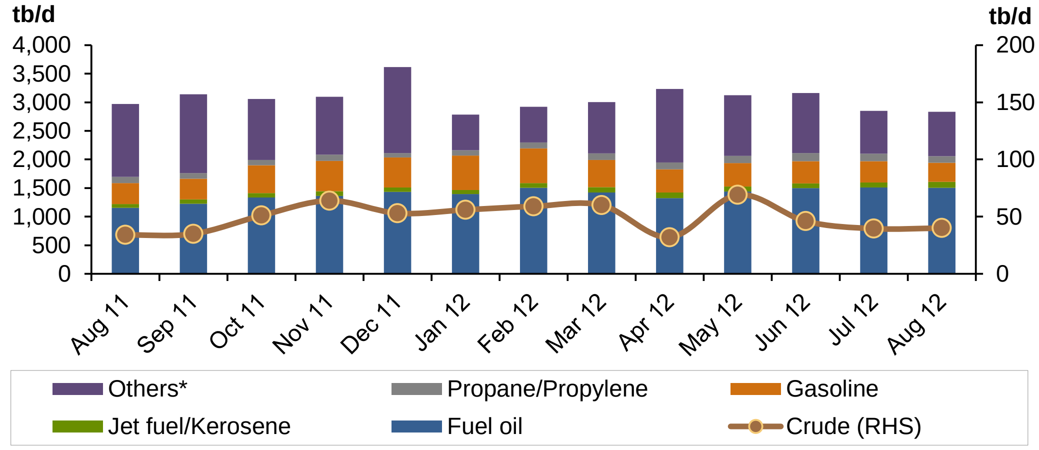
Graph 8.1: US imports of crude and petroleum products



**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.*

US product imports increased by 117 tb/d or 5.7% to average 2.2 mb/d m-o-m, while dropping 132 tb/d or 5.8% y-o-y. Year-to-date, both crude and product imports declined by 2.7% and 21.4% respectively. In August, US product exports registered a slight drop of 16 tb/d or 0.6% from the previous month to average 2.8 mb/d. Y-o-y, the decrease amounts to 136 tb/d or 5%. As a result, **total US net imports slightly declined in August to average 7.9 mb/d, down 2% from the previous month and 3.9% less than last year's level.**

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.*

In June, the top suppliers to the US were ranked in the same order as last month. Canada was the premier crude supplier to the US, accounting for 27% of total US crude imports, unchanged from the previous month. Canada has held the top US supplier position since March 2006. Saudi Arabia was the second largest supplier to the US, accounting for 16% of total crude imports. In June, while US imports from Canada increased by 3.5%, imports from Saudi Arabia saw a small decline of 0.6%. Mexico and

Venezuela maintained their positions as third and fourth-ranked suppliers to the US, yet both saw their volumes decreased by around 10% and 9%, respectively, from the previous month.

Crude imports from OPEC Member Countries remained almost steady in June, accounting for 48% of total US crude imports. In contrast, US product imports from OPEC Member Countries decreased by 15% from the previous month. As to the product supplier share, Canada and Russia maintained their position as first and second supplier to the US. However, share-wise both saw a modest decline of 2% from a month earlier. Volume-wise, product imports from Canada were 8% lower and imports from Russia were 9% lower than in the previous month. The Netherlands and the UK, third and fourth top product suppliers to the US respectively, saw a gain in monthly imports of 25% and 23%, respectively, while Algeria, the fifth top supplier in June, declined by 32% from May when it was ranked third.

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

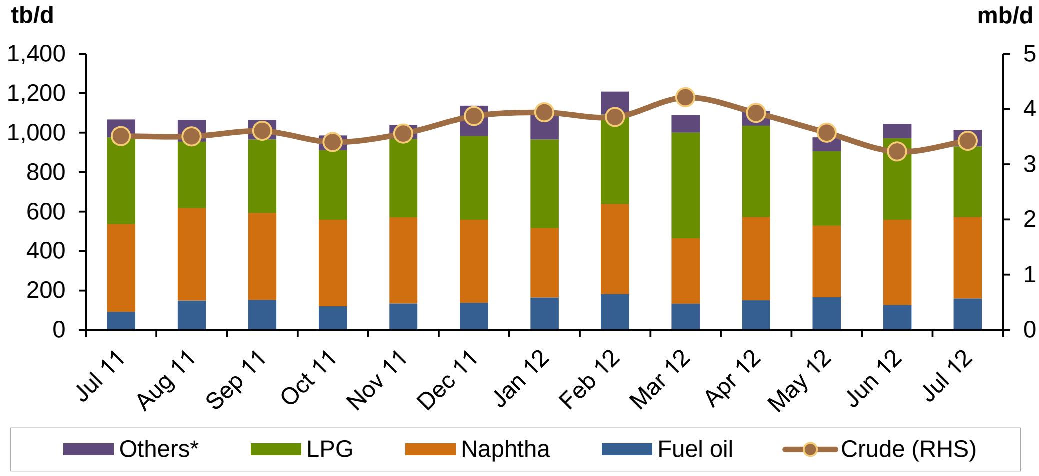
	Jun 12	Jul 12	Aug 12	*Change* Aug/Jul
Crude oil	9,055	8,871	8,575	-296
Total products	-871	-807	-674	133
Total crude and products	**8,416**	**8,064**	**7,900**	**-163**

Japan

Japan crude oil imports increased in July by 196 tb/d or 6% to average 3.4 mb/d

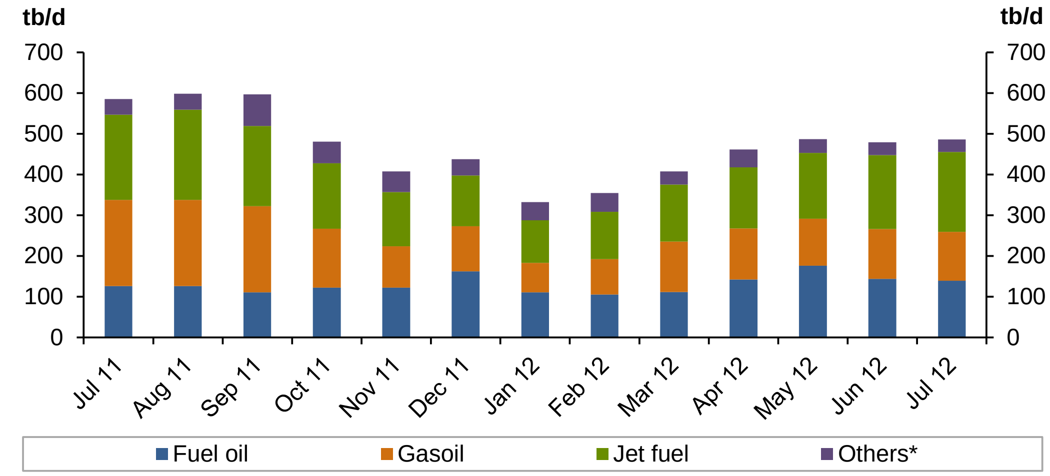
Japan crude oil imports increased in July by 196 tb/d or 6% to average 3.4 mb/d. Y-o-y, crude imports decreased in July by 2.4% after four consecutive months of gains. As in the previous month, Saudi Arabia was the top crude supplier to Japan, representing 33% of total crude imports. The UAE was the second largest supplier with a share of 24% of total crude imports. Both Saudi Arabia and the UAE saw an increase in volume exported to Japan from the previous month of 14.5% and 25.5%, respectively.

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



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

Graph 8.4: Japan's exports of petroleum products



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

Product imports increased in July by 26 tb/d to average 659 tb/d, reflecting a gain of 4.1% m-o-m and 5.1% y-o-y. Fuel oil imports saw a significant increase as a result of rising power generation consumption, which compensated for the shortfall in nuclear power usage following the 2011 triple disaster. Japan's product exports in July saw a modest gain of 5 tb/d to average 480tb/d, a monthly gain of 1.1%, yet a decrease of 17.5% y-o-y. Accordingly, **Japan's net imports increased in July by 216 tb/d to average 3.6 mb/d, reflecting a monthly and annual gain of 6.4% and 1.3% respectively.**

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

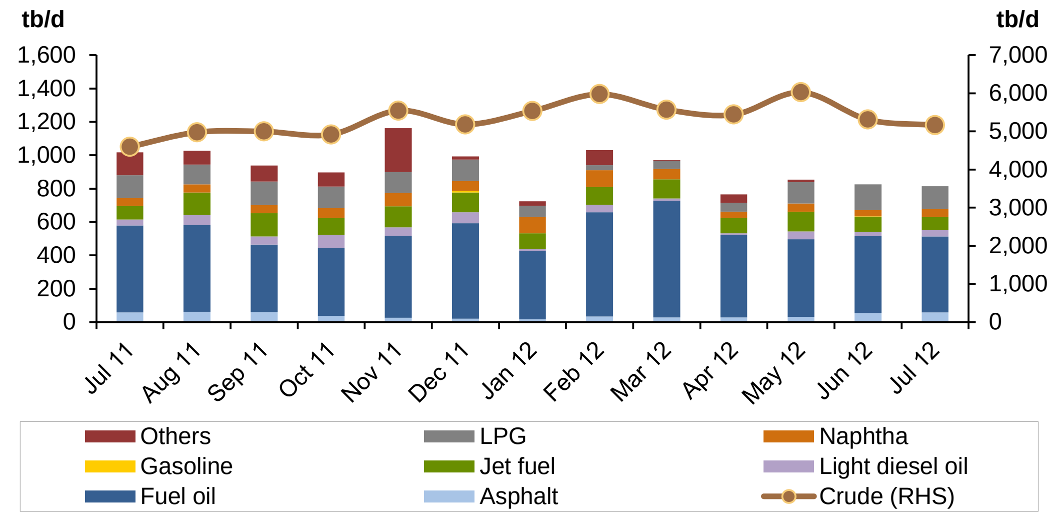
	May 12	Jun 12	Jul 12	*Change* Jul/Jun
Crude oil	3,572	3,228	3,424	196
Total products	120	159	179	21
Total crude and products	**3,692**	**3,387**	**3,603**	**216**

China

China's crude oil imports declined in July by 145 tb/d or 2.7% to average 5.2 mb/d.

China's crude oil imports declined by 145 tb/d or 2.7% in July from the previous month to average 5.2 mb/d. The decrease in imported crude volumes came on the back of reduced imports from the top suppliers. Y-o-y, China's crude imports increased by 567 tb/d, up by 12.3%. Year-to-date, the figures reflect an increase of 536 tb/d or 10.6%. In terms of supplier share, Saudi Arabia, Angola, Iran and Russia all maintained their positions in July as the top crude suppliers to China as in the previous month. However, all suppliers saw a decline in their exports to China by a percentage ranging from 3%-29% m-o-m. Y-o-y, Angola managed to achieve a remarkable increase in its exports to China by 82%, while Russia doubled its exported volumes to China from a year ago.

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



China's crude exports rose in July by 24 tb/d to average 50 tb/d. This increase in exported crude volumes came as a rebound after the decline seen last month. The increase amounts to 91.7% m-o-m and 7% y-o-y and is the highest since March 2012. China product exports saw a decrease of 93 tb/d or 17.6% m-o-m and 35.6% y-o-y. As a result, China's net oil imports showed a small drop of 62 tb/d or 1.1% from the previous month, to stand at 5.4 mb/d, the lowest since November 2011. Y-o-y, net oil imports are up by 11.2%.

Graph 8.6: China's exports of crude and products

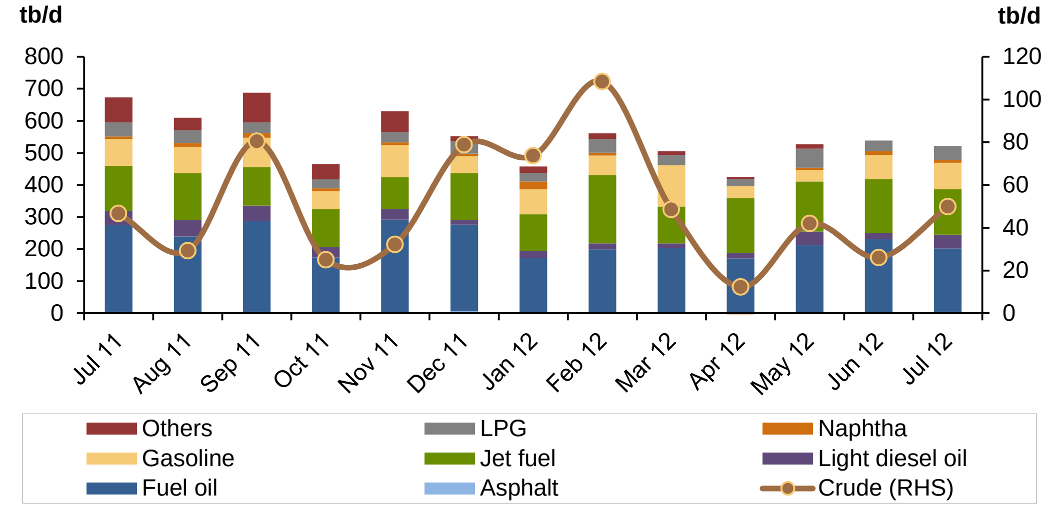


Table 8.3: China's crude and product net imports, tb/d

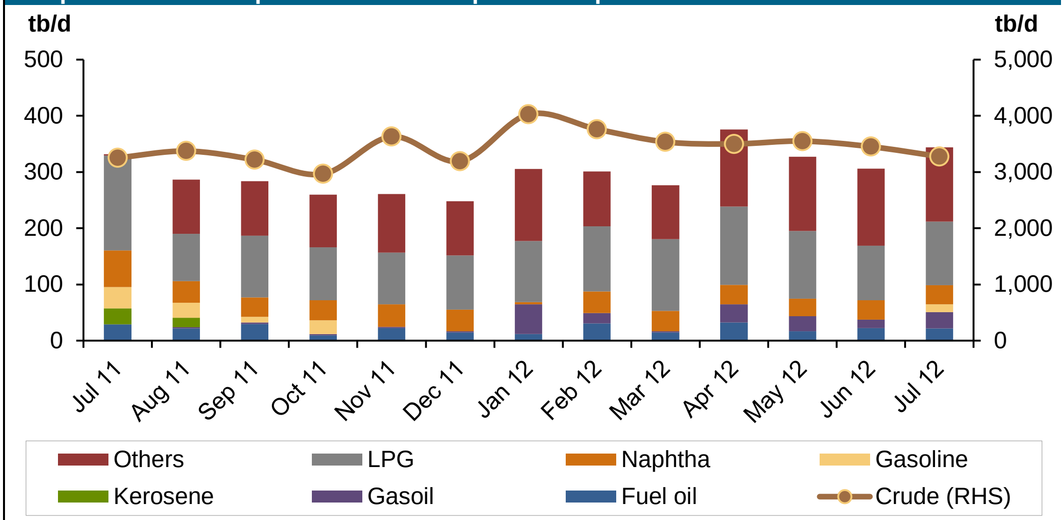
	May 12	Jun 12	Jul 12	*Change* Jul/Jun
Crude oil	5,983	5,281	5,112	-169
Total products	326	219	325	107
Total crude and products	**6,309**	**5,500**	**5,437**	**-62**

India

India crude imports dropped by 175 tb/d or 5.1% to average 3.3 mb/d in July

In July, India's crude imports averaged 3.3 mb/d, 175 tb/d or 5.1% lower than the previous month, marking the lowest crude import level seen so far this year. At the same time, it reflects a minor gain of 0.7% from the same month a year earlier. In contrast, product imports saw an increase in both m-o-m and y-o-y terms of 12.5% and 3.7%, respectively. The increase in product imports came mainly as a result of a rise in diesel imports in July, which registered a significant hike of 93% m-o-m and 100% from a year ago. The increase in diesel imports came on the back of farmers boosting diesel consumption to operate water pumps to compensate for the insufficient monsoon rains this season. India sells diesel at set state prices, cheaper than both gasoline and fuel oil.

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



In terms of exports, Indian product exports increased in July by 98 tb/d or 8.6% to average 1.2 mb/d. This build came as exports of jet fuel, naphtha and fuel oil rose by 27%, 17% and 14%, respectively, while exports of diesel and petrol dropped by 3% and 5% from previous month. Consequently, **India's net imports declined by 235 tb/d to average 2.4 mb/d, 9% lower than a month earlier, yet 3.6% higher than the previous year.**

Graph 8.8: India's exports of petroleum products

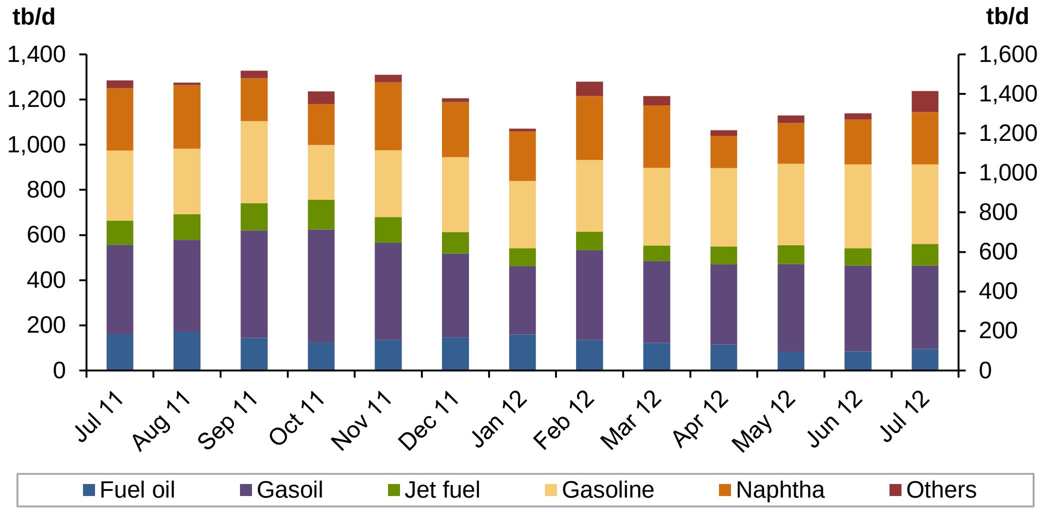


Table 8.4: India's crude and product net imports, tb/d

	May 12	Jun 12	Jul 12	*Change* Jul/Jun
Crude oil	3,549	3,450	3,275	-175
Total products	-803	-834	-894	-60
Total crude and products	**2,746**	**2,616**	**2,381**	**-235**

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

FSU

In July, total crude oil exports from the FSU declined by 206 tb/d or 3.25% to average 6.1 mb/d.

In July, total crude oil exports from the FSU declined by 206 tb/d or 3.25% to average 6.1 mb/d. The drop in the monthly crude exports came on the back of increased domestic demand. Crude exports through the Russian pipeline fell by 125 tb/d or 3% to average 4.0 mb/d. This decline was mainly due to refineries coming back from maintenance, which led to crude exports reaching the lowest level since August 2011.

Shipments from the Druzhba pipeline to Central and Eastern Europe dropped by 133 tb/d or 12.4% to average 939 tb/d. Black Sea exports saw a decline by 9.4% to average 867 tb/d, while exports from the Baltics increased by 96 tb/d or 6.3% to average 1610 tb/d in July.

Loadings of CPC blend dropped 48 tb/d or 7% from the previous month, to average 648tb/d. This decline resulted from maintenance at the Kazakhstan Tengiz field.

Total FSU products exports rose by 13 tb/d or 0.5% from a month earlier to average 2.6 mb/d in July. This increase in product exports was mainly supported by increased volumes of gasoil and fuel oil as the exports of both products rose by 16 tb/d and 20 tb/d respectively. On the other hand, exports of VGO fell by 16 tb/d or 6% from the previous month.

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

	2010	2011	4Q11	1Q12	2Q12	Jun 12	Jul 12*
Crude							
Russian pipeline							
Black Sea	994	935	930	876	900	957	867
Baltic	1,564	1,461	1,526	1,444	1,725	1,514	1,610
Druzhba	1,126	1,170	1,241	1,243	1,109	1,072	939
Kozmino	309	306	295	307	317	322	312
Total	**4,005**	**4,178**	**4,310**	**4,161**	**4,356**	**4,167**	**4,042**
Other routes							
Russian rail	330	173	213	176	137	114	85
Russian-Far East	276	279	272	269	265	260	255
Kazakh rail	123	157	198	167	128	105	74
Vadandey	152	82	81	46	41	53	49
Kaliningrad	24	23	26	24	18	20	19
CPC	743	679	640	622	685	696	648
BTC	775	695	643	727	681	663	672
Kenkiyak-Alashankou	204	222	180	207	186	198	203
Caspian	239	170	146	169	168	163	156
Total crude exports	**6,750**	**6,500**	**6,511**	**6,401**	**6,538**	**6,335**	**6,129**
Products							
Gasoline	141	149	124	155	113	108	99
Naphtha	253	243	204	277	295	262	264
Jet	18	10	2	3	5	11	13
Gasoil	809	716	688	848	744	689	705
Fuel oil	1,129	1,201	1,239	1,260	1,277	1,232	1,252
VGO	228	198	168	180	264	271	255
Total	**2,578**	**2,518**	**2,426**	**2,723**	**2,697**	**2,574**	**2,587**
Total oil exports	**9,328**	**9,018**	**8,937**	**9,124**	**9,235**	**8,909**	**8,716**

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

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

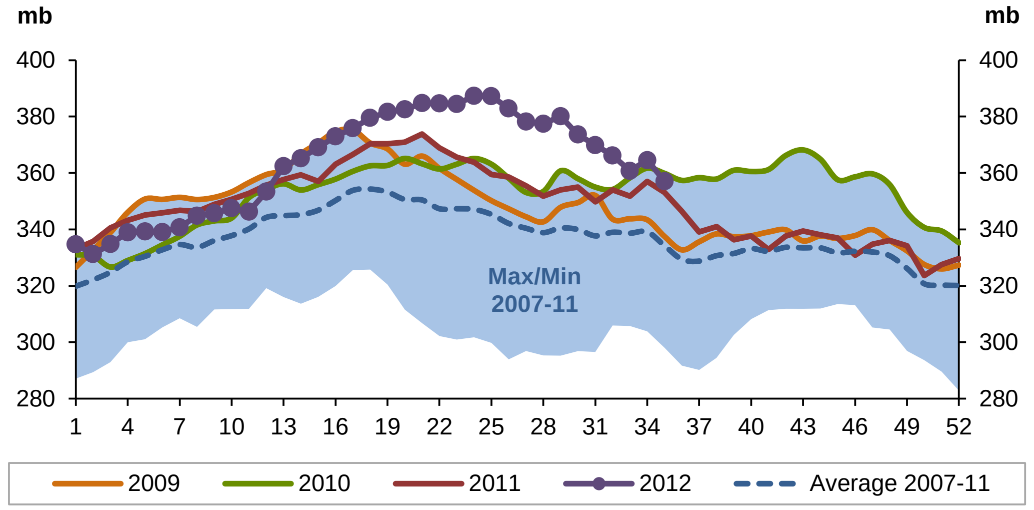
Stock Movements

US total commercial oil stocks fell for the second consecutive month in August, declining by 13.6 mb

US

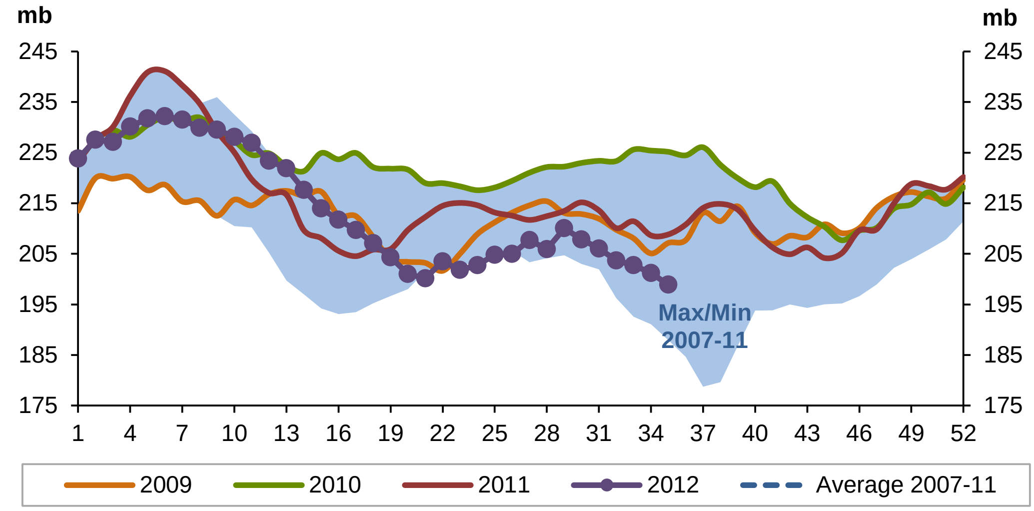
US total commercial oil stocks fell for the second consecutive month in August, declining by 13.6 mb to end the month at 1,091.8 mb. As a result, inventories stood at 12.4 mb or 1.1% below the level of a year ago, while the surplus on the five-year average was 17.2 mb or 1.6%. The drop was attributed mainly to crude, which decreased by 16.5 mb, while products rose 2.9 mb.

Graph 9.1: US weekly commercial crude oil inventories



In August, **US commercial crude stocks** fell for the second consecutive month to end the month down 16.5 mb at 357.1 mb. Despite this stock-draw, inventories remained 7.8 mb or 2.2% above the same time last year, representing a surplus of 24.4 mb or 7.3% on the five-year average. This draw came mainly from lower crude oil imports, which decreased by around 300,000 b/d from the previous month to an average of 8.6 mb/d. This level was also lower, by about 320,000 b/d, from the same time last year. Lower crude oil refinery inputs, which declined by nearly 350,000 b/d to average 15.2 mb/d, have limited the fall in US crude oil stocks. The level of US crude runs was also lower than the same period a year ago, by more than 200,000 b/d. In August, US refineries operated at 90.3%, which was 2.2 percentage points (pp) lower than in the previous month, but 0.9 pp above the same month last year. It should be highlighted that, on a weekly basis, the bulk of the draw on US crude oil stocks came during the week ending 31 August when inventories plunged by 7.7 mb. This drop reflected the strong fall in US crude oil imports, which declined by 1.5 mb/d, averaging just 8.0 mb/d, the lowest level since the end of 2011. This was caused by delays to loading cargos on the Gulf of Coast. Crude oil stocks were further impacted by precautionary shut-ins of Gulf of Mexico oil production in reaction to Hurricane Isaac. The effects of having shut-in 95% of offshore oil production in the region will be felt for the next few weeks, resulting in further declines in crude inventories, as companies continue re-staffing platforms and ramping up operations. In contrast to the huge decline of crude stocks at the national level, inventories in Cushing showed a different picture. Stocks at Cushing rose at the end August by nearly 0.7 mb to stand a 44.9 mb and remained significantly above last year's level.

Graph 9.2: US weekly gasoline stocks



In contrast to the fall in crude stocks, product inventories increased for the fourth consecutive month in August, accumulating more than 30 mb and ending the month at 734.7 mb. Despite this increase, product stocks remained at 20.2 mb or 2.7% below last year's level and 7.3 mb or 1.0% less than the five-year average. Within products, the picture was mixed; gasoline stocks saw a substantial decline followed by residual fuel oil, while all other products experienced a build. Gasoline stocks reversed the build of the last two months and decreased by 9.0 mb to end the month of August below 200.0 mb for the first time since October 2008. At this level, inventories stood at 13.4 mb or 6.6% below a year ago and 7.2 mb or 3.5% below the historical average. The significant drop in gasoline stocks came mainly from higher demand averaging 9.2 mb/d, up by 400,000 b/d compared to the previous month and around 150,000 b/d more than a year ago at the same time. The increase in US gasoline demand came despite the driving season coming to an end, but the gasoline market is set to remained balanced in coming weeks as inventories in terms of days of forward cover are approaching the five-year average. Distillate stocks continued their upward trend in August for the second month in row, increasing by 2.8 mb and ending the month at 127.1 mb, the highest level since March 2012. Despite this build, they remained at 29.8 mb or 19.0% below the year-ago level and 25.6 mb or 16.8% lower than the seasonal norm. Lower apparent demand was the main driver behind the build in distillate stocks. In fact, distillate demand fell by almost 120,000 b/d in August from the previous month to average 3.5 mb/d, which was also nearly 360,000 b/d lower than the same time last year. The continued strength in distillate exports, surpassing 1.0 mb/d, limited the build in distillate stocks. Distillate inventories are expected to continue this upward trend in the weeks ahead, as heating oil production picks up and inventories continue their seasonal build.

Jet fuel stocks rose for the second month by 2.4 mb from a month ago. At 43.0 mb, jet fuel stocks stood at the highest level since November 2011 and were 0.3 mb or 0.7% lower than a year ago and 0.7 mb or 1.5% below the seasonal norm. Residual oil stocks fell by 0.9 mb, ending August at 33.1 mb/d. At this level, they were 5.7 mb or 14.7% lower than the same month a year ago and 4.1 mb or 11.0% below the latest five-year average.

Table 9.1: US onland commercial petroleum stocks, mb

	Jun 12	Jul 12	Aug 12	Change Aug 12/Jul 12	Aug 11
Crude oil	386.0	373.6	357.1	-16.5	346.8
Gasoline	207.7	207.9	198.9	-9.0	210.4
Distillate fuel	120.0	124.3	127.1	2.8	155.1
Residual fuel oil	36.9	34.1	33.1	-0.9	39.0
Jet fuel	38.5	40.6	43.0	2.4	43.1
Total	**1112.4**	**1105.4**	**1091.8**	**-13.6**	**1099.2**
SPR	696.0	696.0	696.0	0.0	696.5

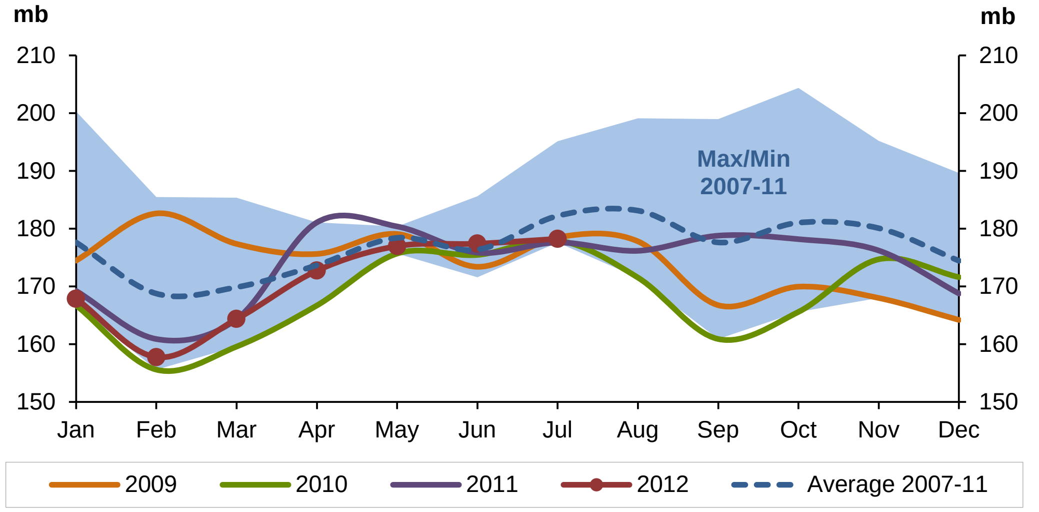
Source: US Department of Energy's Energy Information Administration.

Japan

Commercial oil stocks in Japan rose for the fifth consecutive month in July, up 0.9 mb

In July, **commercial oil stocks** in Japan rose for the fifth consecutive month, up 0.9 mb, to stand at 178.3 mb, the highest level since May 2011. With this build, inventories are at 0.6 mb or 0.4% above a year ago, but remain at a deficit of 4.0 mb or 2.2% with the five-year average. The total stock-build came from products, which increased by 3.0 mb, while crude stocks countered this build, declining by 2.2 mb.

Graph 9.3: Japan's commercial oil stocks



Japanese commercial crude oil stocks fell by 2.2 mb for the second consecutive month to end July at 104.4 mb. With this drop, inventories are at 2.8 mb or 2.6% below the seasonal average, but in line with the level of a year ago.

The drop in crude oil stocks was due mainly from higher crude throughput which increased by around 280,000 b/d or 9.1% over the previous month to average 3.3 mb/d, but remained 0.3% below a year ago. In July, Japan's refineries were running at 74.3%, which was 6.3 pp higher than in the previous month, and 2.1 pp higher than in the same period last year. It should be highlighted that direct crude burning in power plants in July continued its downward trend, declining by 28.2% from the previous month to stand at 168,300 b/d, but 11.6% above the level of June 2011. The crude stock-draw in July came despite higher imports, which averaged 3.4 mb/d, around 200,000 b/d or 6% higher than the previous month, 0.3% below the same period last year.

Japan's total product inventories rose for the fourth consecutive month, by 3.0 mb, to end July at 73.8 mb, the highest level since November 2011. With this build, inventories reversed the deficit with a year ago to show a surplus of 0.7 mb or 0.9%. However, product stocks remained at 1.2 mb or 1.5% below the seasonal average. This stock-build for total products came on higher product output, reflecting improved refinery utilization rates. Increased product imports also contributed to the build in product inventories. Indeed, product imports in July rose nearly 30,000 tb/d from the previous month to average 656,000 tb/d. Healthy oil product sales in July limited the build of refiner's product stocks. In fact, Japan's oil product sales rose by 200,000 tb/d or 6.7% from the previous month to average 3.2 mb/d and stood at 1.7% above the same level a year earlier. This represents the eighth straight month of gains, driven by increased burning of fuel oil as most nuclear power plants remain closed.

With the exception of naphtha, which remained unchanged, all other product stocks increased. Gasoline stocks rose by 0.5 mb, ending July at 14.1 mb. At this level, gasoline stocks were 1.4 mb or 10.7% higher than a year ago, representing a surplus of 1.7 mb or 13.5% with the seasonal average. The build in gasoline stocks could be attributed to higher production, which increased by 16.3%. An increase of gasoline imports of nearly 7.0% also contributed to the build in gasoline stocks. However, healthy domestic sales limited the build in gasoline inventories. Residual fuel oil stocks also increased in July by 1.2 mb to stand at 17.3 mb, the highest level since September 2011. At this level, they were 1.0 mb or 6.2% above the same period a year ago and in line with the five-year average. Within the components of fuel oil, fuel oil A saw a build of 1.2%, while fuel oil B.C stocks rose by 10.3%. Higher output, combined with increased imports, were behind the build in both components of fuel oil stocks. However, healthy domestic sales of B.C fuel oil, which increased by 13.6% in July from a month earlier, has limited this build. Distillate stocks rose for the fourth month running, up 1.4 mb, to end July at 31.3 mb, the highest level since the beginning of this year. Despite this build, they still showed a deficit of 2.2 mb or 5.7%, compared with a year ago, and were 2.1 mb or 6.4% below the five-year average. Within distillate components, kerosene and gasoil saw builds, while jet fuel stocks experienced a drop. Jet fuel inventories fell by 11.0%, driven by higher domestic sales which increased by 9.7%, combined with lower production, which fell by 4.3%. Kerosene stocks rose by 13.9%, supported by a huge jump in output, which increased by 28.5%. Gasoil stocks also rose by 2.3% in July, driven by a 7% increase in production. Higher domestic sales, which rose by 6.6%, have limited the build in gasoil stocks. Naphtha inventories remained unchanged in July compared to the previous month, ending the month at 11.1 mb, the highest level since October 2011. At this level, naphtha stocks remained at 0.2 mb or 1.6% above a year ago, but were in line with the five-year average.

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

	May 12	Jun 12	Jul 12	Change Jul 12/Jun 12	Jul 11
Crude oil	107.5	106.6	104.4	-2.2	104.4
Gasoline	14.1	13.6	14.1	0.5	12.7
Naphtha	8.8	11.1	11.1	0.0	10.9
Middle distillates	29.7	30.0	31.3	1.3	33.2
Residual fuel oil	16.8	16.2	17.3	1.1	16.3
Total products	69.5	70.8	73.8	3.0	73.2
Total**	**177.0**	**177.4**	**178.3**	**0.9**	**177.6**

* *At end of month.*

** *Includes crude oil and main products only.*

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

Singapore and Amsterdam-Rotterdam-Antwerp (ARA)

Singapore stocks dropped by 2.2 mb in July, reversing the build of last month

At the end of July, **product stocks in Singapore** reversed the build of the previous month, falling by 2.2 mb to end the month at 39.0 mb. With this drop, product stocks remained at 4.6 mb or 10.5% below a year ago.

Within products, the picture was mixed, with light distillates and fuel oil stocks seeing a drop, while middle distillate stocks increased. Light distillate stocks ended July 0.8 mb lower than in the previous month to stand at 10.3 mb, the lowest level since the beginning of this year. At this level, they were 0.3 mb or 3.3% above a year ago. The bulk of the drop occurred in the first half of the month on the back of higher demand from Australia and Vietnam. However, by the end of July, Singapore light distillate stocks had risen, following a decline in Asian demand, along with higher imports. Fuel oil stocks also fell by 2.2 mb in July after two consecutive months of builds, ending the month at 19.8 mb, representing a slight surplus of 0.1 mb or 0.3% over the same period a year ago. Similar to developments in light distillate inventories, the fall in fuel oil stocks was observed during the first two weeks of the month, driven by higher demand mainly from Australia, but at the end of July, fuel oil stocks jumped following higher imports from the US and lack of domestic demand from some Asian countries. Middle distillate stocks rose by 0.8 mb to stand at 8.9 mb, however, despite this build, they remained at 5.0 mb or 36% below the same time last year. The build in middle distillate stocks in July came from higher exports from Malaysia and Japan.

Product stocks in ARA at the end of July remained unchanged from the previous month

Product stocks in **ARA** at the end of July remained unchanged from the previous month to stand at 31.6 mb. At this level, they were 1.5 mb or 4.6% below last year's level over the same period.

Within products, the picture was mixed, as gasoline, naphtha and jet fuel saw declines, while gasoil and fuel oil witnessed builds. Gasoline stocks reversed the drop seen in the previous month, increasing by 1.2 mb to 6.2 mb, leaving inventories 0.4 mb or 7.7% above a year ago. The build in gasoline came from higher exports; however, gasoline stocks in ARA are expected to decline in anticipation of more gasoline being moved to the US following refinery outages in the country. Gasoil stocks fell by 1.7 mb to end the month at 15.8 mb, representing a deficit of 2.0 mb or 11.3%. Higher exports to Gibraltar, which outpaced imports from Canada and Norway, were the main reason behind the drop in gasoil stocks. Naphtha inventories increased sharply in July, up 0.6 mb to finish the month at 1.6 mb — more than three times the level seen a year ago. Lower demand from the petrochemical sector combined with increasing cargoes coming in from Russia was behind the build in naphtha stocks. Jet fuel inventories rose 0.6 mb, ending the month of July at 3.2 mb, representing a decline of 0.5 mb or 13.5% below the same period last year. Fuel oil stocks fell by 0.7 mb to stand at 4.9 mb, representing a deficit of 0.7 mb or 12.2% with a year ago. This drop is mainly due to VLCCs heading to Singapore.

Balance of Supply and Demand

Forecast for 2012

Required OPEC crude for 2012 estimated at 29.9 mb/d, down 0.2 mb/d from 2011

Demand for OPEC crude for 2012 remains almost unchanged from the previous report as demand and non-OPEC supply saw only a minor adjustment. In quarterly terms, the first three quarters remains unchanged, while the fourth quarter has been revised up by 0.2 mb/d from the previous assessment. Demand for OPEC crude stands at 29.9 mb/d in 2012, representing a decline of 0.2 mb/d from a year ago. The first quarter is estimated to decline by 0.7 mb/d, the second and third are estimated to remain unchanged, while the fourth is forecast to see negative growth of 0.1 mb/d, all compared to the same period last year.

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

	2011	1Q12	2Q12	3Q12	4Q12	2012
(a) World oil demand	**87.89**	**87.85**	**87.56**	**89.61**	**89.92**	**88.74**
Non-OPEC supply	52.44	53.30	52.81	52.94	53.55	53.15
OPEC NGLs and non-conventionals	5.32	5.49	5.60	5.73	5.86	5.67
(b) Total supply excluding OPEC crude	**57.76**	**58.79**	**58.41**	**58.67**	**59.41**	**58.82**
Difference (a-b)	**30.13**	**29.06**	**29.15**	**30.94**	**30.51**	**29.92**
OPEC crude oil production	29.79	31.19	31.44			
Balance	-0.34	2.13	2.29			

Forecast for 2013

Demand for OPEC crude in 2013 forecast at 29.5 mb/d, a decline of 0.4 mb/d from the current year

Demand for OPEC crude in 2013 remains unchanged from the previous report to stand at 29.5 mb/d. This represents negative growth of 0.4 mb/d compared to 2012. Within the quarters, the first and fourth quarters saw an upward adjustment of 0.1 mb/d, while the second and third remain unchanged from the previous assessment. The first quarter is estimated to increase by 0.2 mb/d versus the same quarter last year; while all other quarters are expected to see negative growth, with the bulk of the decrease coming from 2Q13, with a decline of 0.6 mb/d. The third and fourth quarter are forecast to drop by 0.5 mb/d.

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

	2012	1Q13	2Q13	3Q13	4Q13	2013
(a) World oil demand	**88.74**	**88.82**	**88.21**	**90.38**	**90.76**	**89.55**
Non-OPEC supply	53.15	53.73	53.73	54.07	54.82	54.09
OPEC NGLs and non-conventionals	5.67	5.87	5.89	5.92	5.96	5.91
(b) Total supply excluding OPEC crude	**58.82**	**59.60**	**59.63**	**60.00**	**60.78**	**60.00**
Difference (a-b)	**29.92**	**29.22**	**28.58**	**30.39**	**29.98**	**29.55**

Totals may not add up due to independent rounding.

Graph 10.1: Balance of supply and demand

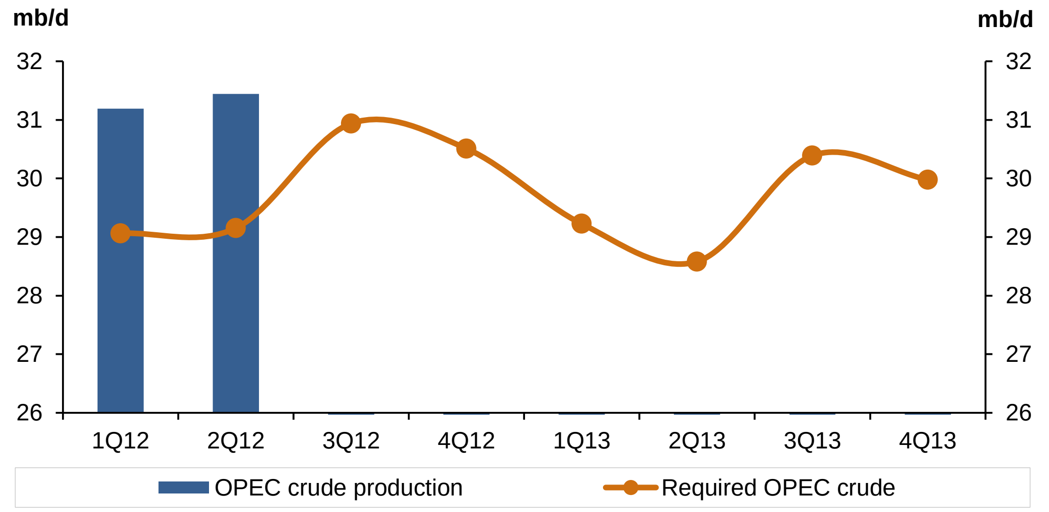


Table 10.3: World oil demand/supply balance, mb/d

	2007	2008	2009	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013
World demand															
OECD	49.4	47.6	45.7	46.3	45.7	45.7	44.7	46.0	45.8	45.6	45.7	44.4	45.7	45.7	45.4
North America	25.5	24.2	23.3	23.8	23.6	23.2	23.3	23.8	23.6	23.5	23.3	23.2	23.7	23.6	23.5
Western Europe	15.5	15.4	14.7	14.6	14.3	13.7	13.7	14.3	13.9	13.9	13.5	13.4	14.1	13.6	13.7
Pacific	8.4	8.1	7.7	7.8	7.9	8.8	7.7	7.9	8.4	8.2	8.9	7.8	8.0	8.5	8.3
DCs	24.8	25.6	26.1	27.0	27.8	27.8	28.2	28.7	28.6	28.3	28.3	28.7	29.3	29.1	28.9
FSU	4.0	4.1	4.0	4.2	4.3	4.2	4.1	4.5	4.7	4.4	4.3	4.2	4.6	4.9	4.5
Other Europe	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7
China	7.6	8.0	8.3	9.0	9.4	9.5	9.9	9.7	10.0	9.8	9.8	10.2	10.1	10.3	10.1
(a) Total world demand	86.6	86.1	84.8	87.1	87.9	87.8	87.6	89.6	89.9	88.7	88.8	88.2	90.4	90.8	89.6
Non-OPEC supply															
OECD	20.0	19.5	19.7	20.0	20.1	21.1	20.9	20.6	20.9	20.9	21.1	21.0	21.1	21.5	21.2
North America	14.3	13.9	14.4	15.0	15.5	16.5	16.5	16.3	16.5	16.4	16.6	16.8	16.9	17.2	16.9
Western Europe	5.2	4.9	4.7	4.4	4.1	4.1	3.9	3.7	3.9	3.9	3.9	3.7	3.6	3.7	3.7
Pacific	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.5	0.5	0.5	0.6	0.6	0.6	0.6
DCs	11.9	12.2	12.4	12.8	12.7	12.4	12.2	12.4	12.6	12.4	12.6	12.7	12.9	13.0	12.8
FSU	12.5	12.6	13.0	13.2	13.2	13.4	13.2	13.4	13.4	13.4	13.4	13.4	13.5	13.6	13.5
Other Europe	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.8	3.8	3.8	4.1	4.1	4.2	4.2	4.2	4.3	4.2	4.3	4.3	4.3	4.3	4.3
Processing gains	2.0	2.0	2.0	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Total non-OPEC supply	50.4	50.3	51.1	52.3	52.4	53.3	52.8	52.9	53.5	53.1	53.7	53.7	54.1	54.8	54.1
OPEC NGLs + non-conventional oils	3.9	4.1	4.3	5.0	5.3	5.5	5.6	5.7	5.9	5.7	5.9	5.9	5.9	6.0	5.9
(b) Total non-OPEC supply and OPEC NGLs	54.4	54.4	55.4	57.3	57.8	58.8	58.4	58.7	59.4	58.8	59.6	59.6	60.0	60.8	60.0
OPEC crude oil production (secondary sources)	30.2	31.3	28.8	29.2	29.8	31.2	31.4								
Total supply	84.6	85.7	84.2	86.5	87.6	90.0	89.8								
Balance (stock change and miscellaneous)	-2.0	-0.4	-0.6	-0.6	-0.3	2.1	2.3								
OECD closing stock levels (mb)															
Commercial	2,554	2,679	2,641	2,670	2,601	2,647	2,684								
SPR	1,524	1,527	1,564	1,561	1,532	1,532	1,531								
Total	4,079	4,206	4,205	4,230	4,133	4,179	4,215								
Oil-on-water	948	969	919	871	825	787	830								
Days of forward consumption in OECD															
Commercial onland stocks	54	59	57	58	57	59	58								
SPR	32	33	34	34	34	34	33								
Total	86	92	91	92	91	93	92								
Memo items															
FSU net exports	8.5	8.5	9.0	9.0	8.9	9.1	9.2	8.9	8.7	9.0	9.1	9.3	8.9	8.8	9.0
(a) - (b)	32.2	31.7	29.4	29.8	30.1	29.1	29.2	30.9	30.5	29.9	29.2	28.6	30.4	30.0	29.5

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

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

	2007	2008	2009	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013
World demand															
OECD	-	-	-	0.1	0.1	-	0.1	-	0.1	-	-	-	-	0.1	-
North America	-	-	-	-	0.1	0.1	0.1	0.1	0.1	0.1	-	0.1	0.1	0.1	0.1
Western Europe	-	-	-	-	-	-	-	-0.1	-	-	-	-0.1	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-	-
(a) Total world demand	-	-	-	0.1	0.1	-	-	-	0.1	-	-	-	-	0.1	-
World demand growth	-	-	-	***0.08***	-	-	-	***-0.13***	-	-	-	-	-	-	-
Non-OPEC supply	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OECD	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Western Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	-0.1	-0.1	-	-0.1	-	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	-	0.1	-0.1	-0.1	-	-0.1	-	-	-	-
Total non-OPEC supply growth	-	-	-	-	-	-	***0.14***	-	***-0.06***	-	***-0.09***	***-0.08***	***0.09***	***0.14***	-
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	-	0.1	-0.1	-0.1	-	-0.1	-	-	-	-
OPEC crude oil production (secondary sources)	-	-	-	-	-	-	-								
Total supply	-	-	-	-	-	-	-								
Balance (stock change and miscellaneous)	-	-	-	-0.1	-0.1	-	-								
OECD closing stock levels (*mb*)															
Commercial	-	-	-	-	-	11	24								
SPR	-	-	-	-	-	-	-								
Total	-	-	-	-	-	11	24								
Oil-on-water	-	-	-	-	-	-	-								
Days of forward consumption in OECD	-	-	-	-	-	-	-								
Commercial onland stocks	-	-	-	-	-	-	-								
SPR	-	-	-	-	-	-	-								
Total	-	-	-	-	-	-	-								
Memo items															
FSU net exports	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(a) - (b)	-	-	-	0.1	0.1	-	-	-	0.2	0.1	0.1	-	-	0.1	-

* *This compares Table 10.3 in this issue of the MOMR with Table 10.3 in the August 2012 issue.*
This table shows only where changes have occurred.

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

	2007	2008	2009	2010	2011	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12
Closing stock levels, *mb*																							
OECD onland commercial	2,554	2,679	2,641	2,670	2,601	2,553	2,584	2,641	2,679	2,731	2,745	2,763	2,641	2,675	2,757	2,747	2,670	2,626	2,673	2,660	2,601	2,647	2,684
North America	1,211	1,282	1,286	1,330	1,312	1,197	1,221	1,259	1,282	1,332	1,367	1,373	1,286	1,314	1,370	1,398	1,330	1,294	1,339	1,342	1,312	1,320	1,350
Western Europe	937	991	972	948	898	961	954	952	991	991	976	971	972	975	982	947	948	951	928	906	898	949	918
OECD Pacific	407	407	383	391	390	394	409	431	407	408	401	419	383	386	405	402	391	381	405	412	390	377	416
OECD SPR	1,524	1,527	1,564	1,561	1,532	1,529	1,526	1,522	1,527	1,547	1,561	1,564	1,564	1,567	1,562	1,549	1,561	1,558	1,561	1,526	1,532	1,532	1,531
North America	699	704	729	729	697	702	708	704	704	715	726	727	729	729	729	728	729	727	727	696	697	697	697
Western Europe	421	416	426	423	422	423	414	414	416	424	427	429	426	429	422	419	423	420	423	420	422	421	421
OECD Pacific	404	406	409	410	414	404	404	403	406	408	408	408	409	409	411	402	410	411	411	409	414	414	413
OECD total	**4,079**	**4,206**	**4,205**	**4,230**	**4,133**	**4,082**	**4,110**	**4,164**	**4,206**	**4,278**	**4,306**	**4,327**	**4,205**	**4,241**	**4,319**	**4,296**	**4,230**	**4,184**	**4,234**	**4,185**	**4,133**	**4,179**	**4,215**
Oil-on-water	948	969	919	871	825	935	925	885	969	899	899	869	919	919	897	926	871	891	853	835	825	787	830
Days of forward consumption in OECD																							
OECD onland commercial	54	59	57	58	57	54	55	56	57	61	61	60	57	59	59	59	58	59	58	58	57	59	58
North America	50	55	54	56	57	49	52	53	55	58	59	58	55	55	57	59	56	55	57	57	57	57	57
Western Europe	61	68	66	66	66	63	61	62	66	69	67	67	68	68	66	64	67	67	63	64	66	69	64
OECD Pacific	50	53	49	50	44	50	54	54	50	55	55	52	46	52	53	50	47	54	53	50	44	49	53
OECD SPR	30	30	31	31	30	30	30	30	30	30	31	31	31	31	31	30	31	31	31	30	30	30	30
North America	29	30	31	31	30	29	30	29	30	31	31	31	31	31	30	31	31	31	31	30	30	30	29
Western Europe	27	28	29	30	31	28	27	27	28	29	29	30	30	30	28	28	30	30	29	30	31	31	29
OECD Pacific	50	53	52	52	47	51	54	51	50	56	56	51	49	55	54	50	49	58	53	49	47	53	52
OECD total	**86**	**92**	**91**	**92**	**91**	**86**	**88**	**88**	**90**	**96**	**95**	**94**	**91**	**93**	**92**	**92**	**91**	**94**	**92**	**91**	**91**	**93**	**92**

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

	2007	2008	2009	2010	Change 10/09	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10	1Q12	2Q12	3Q12	4Q12	2012	Change 12/11	1Q13	2Q13	3Q13	4Q13	2013	Change 13/12
US	7.47	7.50	8.14	8.64	0.50	8.71	8.91	8.89	9.51	9.00	0.36	9.76	9.77	9.68	9.75	9.74	0.74	9.93	10.04	10.07	10.30	10.08	0.34
Canada	3.31	3.25	3.23	3.36	0.13	3.54	3.32	3.62	3.75	3.56	0.20	3.81	3.75	3.74	3.82	3.78	0.22	3.84	3.89	3.98	4.09	3.95	0.17
Mexico	3.49	3.17	2.98	2.96	-0.02	2.97	2.96	2.91	2.92	2.94	-0.02	2.92	2.93	2.90	2.88	2.91	-0.03	2.87	2.82	2.83	2.81	2.83	-0.08
North America	**14.26**	**13.92**	**14.35**	**14.96**	**0.61**	**15.22**	**15.19**	**15.42**	**16.18**	**15.50**	**0.54**	**16.48**	**16.45**	**16.33**	**16.46**	**16.43**	**0.93**	**16.64**	**16.75**	**16.88**	**17.21**	**16.87**	**0.44**
Norway	2.55	2.47	2.36	2.14	-0.22	2.14	1.98	1.99	2.05	2.04	-0.10	2.08	1.98	1.83	1.95	1.96	-0.08	1.98	1.87	1.81	1.89	1.88	-0.08
UK	1.69	1.57	1.48	1.37	-0.12	1.27	1.16	0.94	1.11	1.12	-0.24	1.08	1.01	0.98	1.05	1.03	-0.09	1.01	0.94	0.91	0.96	0.96	-0.07
Denmark	0.31	0.28	0.26	0.25	-0.02	0.23	0.25	0.23	0.21	0.23	-0.02	0.22	0.22	0.21	0.20	0.21	-0.02	0.20	0.20	0.19	0.18	0.19	-0.02
Other Western Europe	0.62	0.62	0.63	0.64	0.01	0.67	0.66	0.70	0.68	0.68	0.04	0.69	0.70	0.69	0.69	0.69	0.02	0.70	0.70	0.71	0.71	0.70	0.01
Western Europe	**5.17**	**4.94**	**4.74**	**4.39**	**-0.35**	**4.32**	**4.05**	**3.86**	**4.05**	**4.07**	**-0.32**	**4.07**	**3.91**	**3.71**	**3.90**	**3.90**	**-0.17**	**3.90**	**3.71**	**3.62**	**3.74**	**3.74**	**-0.16**
Australia	0.53	0.53	0.54	0.51	-0.03	0.47	0.49	0.48	0.49	0.48	-0.03	0.43	0.46	0.48	0.45	0.45	-0.03	0.47	0.50	0.51	0.50	0.49	0.04
Other Pacific	0.08	0.10	0.10	0.10	0.00	0.09	0.08	0.09	0.09	0.09	-0.01	0.09	0.09	0.09	0.09	0.09	0.00	0.08	0.08	0.08	0.07	0.08	-0.01
OECD Pacific	**0.60**	**0.63**	**0.64**	**0.60**	**-0.03**	**0.56**	**0.57**	**0.57**	**0.58**	**0.57**	**-0.04**	**0.51**	**0.55**	**0.57**	**0.54**	**0.54**	**-0.03**	**0.55**	**0.58**	**0.59**	**0.57**	**0.57**	**0.03**
Total OECD	**20.03**	**19.49**	**19.72**	**19.96**	**0.23**	**20.09**	**19.81**	**19.85**	**20.80**	**20.14**	**0.18**	**21.06**	**20.91**	**20.60**	**20.90**	**20.87**	**0.73**	**21.08**	**21.04**	**21.08**	**21.52**	**21.18**	**0.31**
Brunei	0.19	0.17	0.16	0.17	0.00	0.17	0.16	0.17	0.17	0.17	0.00	0.16	0.14	0.18	0.18	0.17	0.00	0.18	0.18	0.18	0.18	0.18	0.01
India	0.80	0.80	0.78	0.86	0.08	0.90	0.89	0.88	0.87	0.89	0.03	0.87	0.88	0.91	0.92	0.90	0.01	0.93	0.93	0.93	0.93	0.93	0.04
Indonesia	1.02	1.05	1.03	1.04	0.02	1.03	1.02	1.03	1.01	1.02	-0.02	0.99	0.97	0.99	0.98	0.98	-0.04	0.96	0.95	0.95	0.94	0.95	-0.03
Malaysia	0.76	0.76	0.73	0.70	-0.03	0.69	0.60	0.63	0.65	0.64	-0.06	0.68	0.64	0.64	0.63	0.64	0.00	0.64	0.66	0.69	0.72	0.68	0.03
Thailand	0.33	0.36	0.37	0.35	-0.02	0.34	0.34	0.33	0.33	0.33	-0.01	0.35	0.35	0.33	0.33	0.34	0.01	0.33	0.33	0.33	0.32	0.33	-0.01
Vietnam	0.35	0.33	0.37	0.35	-0.02	0.35	0.33	0.34	0.38	0.35	0.00	0.38	0.38	0.38	0.39	0.38	0.03	0.40	0.40	0.40	0.40	0.40	0.02
Asia others	0.26	0.26	0.25	0.23	-0.02	0.23	0.23	0.23	0.23	0.23	0.00	0.22	0.22	0.25	0.26	0.24	0.01	0.25	0.25	0.25	0.25	0.25	0.01
Other Asia	**3.70**	**3.73**	**3.69**	**3.70**	**0.01**	**3.70**	**3.56**	**3.62**	**3.65**	**3.63**	**-0.07**	**3.65**	**3.57**	**3.68**	**3.70**	**3.65**	**0.02**	**3.69**	**3.71**	**3.72**	**3.75**	**3.72**	**0.07**
Argentina	0.77	0.78	0.76	0.76	-0.01	0.76	0.69	0.75	0.76	0.74	-0.02	0.75	0.74	0.71	0.70	0.73	-0.01	0.71	0.70	0.69	0.68	0.69	-0.03
Brazil	2.22	2.38	2.51	2.66	0.16	2.61	2.62	2.61	2.70	2.64	-0.03	2.76	2.62	2.72	2.77	2.72	0.08	2.75	2.77	2.86	2.91	2.82	0.10
Colombia	0.54	0.60	0.68	0.80	0.11	0.88	0.94	0.94	0.96	0.93	0.13	0.95	0.96	1.01	1.03	0.99	0.06	1.03	1.04	1.06	1.07	1.05	0.06
Trinidad & Tobago	0.16	0.16	0.15	0.15	-0.01	0.14	0.14	0.13	0.13	0.14	-0.01	0.12	0.13	0.12	0.12	0.12	-0.01	0.12	0.12	0.12	0.11	0.12	-0.01
Latin America others	0.28	0.29	0.31	0.32	0.01	0.32	0.31	0.31	0.31	0.31	-0.01	0.31	0.31	0.31	0.31	0.31	0.00	0.31	0.31	0.32	0.33	0.32	0.01
Latin America	**3.97**	**4.21**	**4.41**	**4.68**	**0.27**	**4.72**	**4.70**	**4.74**	**4.86**	**4.75**	**0.07**	**4.90**	**4.76**	**4.88**	**4.94**	**4.87**	**0.11**	**4.92**	**4.94**	**5.05**	**5.11**	**5.00**	**0.14**
Bahrain	0.21	0.21	0.21	0.20	0.00	0.21	0.21	0.21	0.22	0.21	0.01	0.22	0.22	0.22	0.22	0.22	0.01	0.23	0.23	0.23	0.23	0.23	0.01
Oman	0.71	0.76	0.81	0.86	0.05	0.89	0.87	0.89	0.89	0.89	0.02	0.89	0.92	0.92	0.92	0.91	0.02	0.92	0.93	0.93	0.93	0.93	0.02
Syria	0.42	0.41	0.41	0.42	0.01	0.42	0.42	0.37	0.26	0.37	-0.05	0.21	0.22	0.21	0.21	0.21	-0.16	0.17	0.16	0.19	0.21	0.18	-0.03
Yemen	0.33	0.30	0.30	0.29	-0.01	0.29	0.19	0.24	0.18	0.23	-0.06	0.14	0.18	0.19	0.22	0.18	-0.04	0.21	0.21	0.21	0.23	0.21	0.03
Middle East	**1.66**	**1.68**	**1.73**	**1.78**	**0.05**	**1.81**	**1.69**	**1.72**	**1.55**	**1.69**	**-0.09**	**1.46**	**1.54**	**1.54**	**1.57**	**1.53**	**-0.17**	**1.53**	**1.52**	**1.56**	**1.60**	**1.55**	**0.03**
Chad	0.15	0.15	0.14	0.15	0.01	0.14	0.14	0.14	0.14	0.14	0.00	0.14	0.13	0.13	0.13	0.13	-0.01	0.12	0.12	0.13	0.13	0.13	-0.01
Congo	0.24	0.26	0.27	0.30	0.02	0.29	0.29	0.30	0.30	0.30	0.00	0.30	0.30	0.30	0.30	0.30	0.00	0.30	0.29	0.30	0.30	0.30	0.00
Egypt	0.66	0.69	0.69	0.71	0.01	0.70	0.70	0.71	0.70	0.70	-0.01	0.71	0.71	0.70	0.69	0.70	0.00	0.70	0.69	0.69	0.68	0.69	-0.02
Equatorial Guinea	0.37	0.38	0.36	0.32	-0.03	0.31	0.30	0.29	0.30	0.30	-0.02	0.32	0.31	0.33	0.34	0.32	0.02	0.34	0.33	0.33	0.33	0.33	0.01
Gabon	0.25	0.24	0.24	0.25	0.01	0.26	0.24	0.25	0.25	0.25	0.00	0.26	0.26	0.26	0.25	0.25	0.00	0.25	0.25	0.25	0.25	0.25	-0.01
South Africa	0.18	0.18	0.17	0.18	0.01	0.18	0.18	0.18	0.19	0.18	0.00	0.19	0.19	0.18	0.18	0.18	0.00	0.18	0.17	0.17	0.17	0.17	-0.01
Sudans	0.48	0.46	0.48	0.46	-0.01	0.45	0.45	0.43	0.38	0.43	-0.03	0.19	0.09	0.13	0.16	0.14	-0.29	0.21	0.28	0.33	0.35	0.29	0.15
Africa other	0.28	0.27	0.25	0.23	-0.02	0.27	0.30	0.31	0.30	0.29	0.06	0.31	0.31	0.33	0.34	0.32	0.02	0.33	0.34	0.36	0.37	0.35	0.03
Africa	**2.60**	**2.62**	**2.60**	**2.60**	**0.00**	**2.61**	**2.60**	**2.61**	**2.55**	**2.59**	**0.00**	**2.41**	**2.31**	**2.34**	**2.38**	**2.36**	**-0.23**	**2.41**	**2.48**	**2.55**	**2.57**	**2.50**	**0.14**
Total DCs	**11.94**	**12.23**	**12.43**	**12.76**	**0.33**	**12.84**	**12.55**	**12.69**	**12.61**	**12.67**	**-0.09**	**12.41**	**12.18**	**12.44**	**12.58**	**12.40**	**-0.27**	**12.55**	**12.65**	**12.88**	**13.03**	**12.78**	**0.38**
FSU	**12.54**	**12.60**	**12.95**	**13.21**	**0.26**	**13.30**	**13.24**	**13.21**	**13.22**	**13.24**	**0.03**	**13.36**	**13.25**	**13.37**	**13.45**	**13.35**	**0.12**	**13.44**	**13.42**	**13.50**	**13.63**	**13.50**	**0.14**
Russia	9.87	9.78	9.92	10.14	0.22	10.21	10.23	10.28	10.34	10.27	0.12	10.34	10.32	10.36	10.38	10.35	0.08	10.38	10.39	10.41	10.43	10.40	0.06
Kazakhstan	1.35	1.41	1.54	1.60	0.06	1.66	1.60	1.54	1.61	1.60	0.01	1.62	1.57	1.61	1.65	1.61	0.01	1.64	1.64	1.68	1.76	1.68	0.06
Azerbaijan	0.87	0.94	1.06	1.07	0.01	1.02	0.99	0.96	0.84	0.95	-0.12	0.96	0.92	0.96	0.99	0.96	0.00	0.98	0.94	0.94	0.96	0.96	0.00
FSU others	0.45	0.46	0.44	0.40	-0.03	0.41	0.41	0.42	0.42	0.42	0.02	0.44	0.44	0.43	0.44	0.44	0.02	0.45	0.45	0.47	0.48	0.46	0.02
Other Europe	0.15	0.15	0.14	0.14	0.00	0.14	0.14	0.14	0.14	0.14	0.00	0.14	0.14	0.15	0.15	0.14	0.00	0.15	0.15	0.15	0.15	0.15	0.00
China	3.77	3.84	3.84	4.12	0.28	4.25	4.14	4.08	4.04	4.13	0.01	4.16	4.16	4.22	4.30	4.21	0.08	4.29	4.26	4.26	4.28	4.27	0.06
Non-OPEC production	**48.43**	**48.31**	**49.09**	**50.19**	**1.10**	**50.63**	**49.88**	**49.97**	**50.81**	**50.32**	**0.13**	**51.13**	**50.64**	**50.77**	**51.38**	**50.98**	**0.66**	**51.52**	**51.52**	**51.86**	**52.61**	**51.88**	**0.90**
Processing gains	1.99	1.97	2.00	2.11	0.11	2.12	2.12	2.12	2.12	2.12	0.01	2.17	2.17	2.17	2.17	2.17	0.05	2.21	2.21	2.21	2.21	2.21	0.04
Non-OPEC supply	**50.42**	**50.28**	**51.09**	**52.30**	**1.21**	**52.75**	**52.01**	**52.09**	**52.93**	**52.44**	**0.14**	**53.30**	**52.81**	**52.94**	**53.55**	**53.15**	**0.70**	**53.73**	**53.73**	**54.07**	**54.82**	**54.09**	**0.94**
OPEC NGL	3.86	4.04	4.24	4.87	0.63	5.02	5.14	5.28	5.20	5.16	0.29	5.27	5.36	5.44	5.52	5.40	0.24	5.53	5.55	5.57	5.59	5.56	0.16
OPEC Non-conventional	0.08	0.11	0.11	0.11	0.00	0.13	0.16	0.18	0.18	0.16	0.05	0.21	0.24	0.29	0.34	0.27	0.11	0.34	0.34	0.35	0.37	0.35	0.08
OPEC (NGL+NCF)	**3.95**	**4.14**	**4.35**	**4.98**	**0.63**	**5.14**	**5.30**	**5.46**	**5.38**	**5.32**	**0.34**	**5.49**	**5.60**	**5.73**	**5.86**	**5.67**	**0.35**	**5.87**	**5.89**	**5.92**	**5.96**	**5.91**	**0.24**
Non-OPEC & OPEC (NGL+NCF)	**54.37**	**54.42**	**55.44**	**57.28**	**1.84**	**57.90**	**57.30**	**57.55**	**58.31**	**57.76**	**0.49**	**58.79**	**58.41**	**58.67**	**59.41**	**58.82**	**1.06**	**59.60**	**59.63**	**60.00**	**60.78**	**60.00**	**1.18**

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

Table 10.7: World Rig Count

	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10	1Q12	2Q12	Jul	Aug	Change Aug/Jul
US	1,326	936	956	1,108	1,081	-796	1,345	1,508	1,622	1,687	1,541	459	1,717	1,829	1,945	2,031	1,881	340	1,990	1,971	1,945	1,914	-31
Canada	328	91	177	277	218	-161	470	166	364	389	347	129	587	188	443	474	423	76	599	172	307	315	8
Mexico	128	128	135	123	128	26	118	106	84	80	97	-31	83	87	103	104	94	-3	98	110	110	112	2
North America	1,782	1,154	1,267	1,508	1,428	-931	1,933	1,780	2,070	2,156	1,985	557	2,386	2,104	2,492	2,609	2,398	413	2,688	2,253	2,362	2,341	-21
Norway	25	18	18	20	20	0	21	18	13	20	18	-2	21	17	16	16	17	-1	17	18	15	14	-1
UK	22	19	16	15	18	-4	15	20	21	21	19	1	18	17	15	15	16	-3	14	19	15	20	5
Western Europe	90	82	76	85	83	-15	87	96	92	100	94	11	118	112	123	119	118	24	112	117	110	118	8
OECD Pacific	27	25	26	23	25	-11	22	18	23	22	21	-4	17	17	17	18	17	-4	19	25	28	25	-3
Total OECD	1,945	1,299	1,368	1,616	1,557	-978	2,042	1,893	2,185	2,278	2,100	543	2,521	2,232	2,632	2,745	2,532	433	2,819	2,395	2,500	2,484	-16
Other Asia	212	212	213	233	217	1	235	249	253	255	248	31	257	234	232	233	239	-9	231	216	205	202	-3
Latin America	164	147	149	169	157	-34	183	203	220	213	205	48	191	192	196	201	195	-10	191	190	171	171	0
Middle East	162	151	139	147	150	-18	152	150	163	159	156	6	101	107	102	107	104	-52	116	112	112	113	1
Africa	8	11	9	12	10	-2	20	19	19	18	19	9	1	2	0	5	2	-17	3	3	9	8	-1
Total DCs	546	520	510	561	534	-52	589	621	655	645	628	93	549	535	530	546	540	-88	542	522	497	494	-3
Non-OPEC rig count	2,491	1,819	1,878	2,177	2,091	-1,030	2,632	2,514	2,840	2,924	2,727	636	3,070	2,768	3,161	3,291	3,072	345	3,361	2,916	2,997	2,978	-19
Algeria	24	30	27	27	27	1	23	28	24	24	25	-2	29	33	30	33	31	6	31	31	45	46	1
Angola	5	3	3	4	4	-1	10	8	9	9	9	5	11	11	11	8	10	1	10	12	6	9	3
Ecuador	10	10	10	10	10	0	11	11	11	11	11	1	11	11	11	15	12	1	17	17	20	23	3
Iran**	51	52	52	52	52	2	52	52	52	52	52	0	54	54	54	54	54	2	54	54	54	54	0
Iraq**	36	36	36	36	36	7	36	36	36	36	36	0	36	36	36	36	36	0	36	50	81	77	-4
Kuwait**	12	11	14	13	13	0	19	18	21	23	20	8	56	56	57	60	57	37	56	56	62	55	-7
Libya**	15	13	14	15	14	-1	17	17	14	15	16	1	10	3	8	9	8	-8	12	11	9	11	2
Nigeria	7	6	6	7	6	-1	11	13	18	17	15	8	35	35	36	36	36	21	37	35	36	37	1
Qatar	9	9	9	9	9	-2	8	8	9	9	9	0	10	8	7	7	8	-1	8	7	10	9	-1
Saudi Arabia	72	67	67	66	68	-9	68	67	67	65	67	-1	98	98	98	105	100	33	106	114	113	108	-5
UAE	13	12	13	12	12	0	13	13	13	13	13	1	17	21	24	22	21	8	22	24	20	23	3
Venezuela	69	64	54	54	60	-20	66	64	70	80	70	10	125	125	125	113	122	52	126	122	114	111	-3
OPEC rig count	322	314	302	305	311	-24	334	335	344	355	342	31	493	490	495	498	494	152	515	534	570	563	-7
Worldwide rig count*	2,813	2,133	2,180	2,483	2,402	-1,054	2,965	2,849	3,184	3,278	3,069	667	3,563	3,258	3,656	3,789	3,566	497	3,876	3,451	3,567	3,541	-26
of which:																							
Oil	1,283	1,069	1,182	1,356	1,222	-210	1,590	1,534	1,783	1,896	1,701	479	2,197	2,023	2,354	2,453	2,257	556	2,709	2,528	2,699	2,692	-7
Gas	1,450	993	965	1,092	1,125	-825	1,333	1,276	1,356	1,337	1,325	200	1,319	1,187	1,257	1,286	1,262	-63	1,116	879	823	803	-20
Others	35	35	34	37	35	3	43	40	42	46	43	8	48	49	47	52	49	6	54	46	48	49	1

Note: Totals may not add up due to independent rounding.
na: Not available.
Source: Baker Hughes Incorporated & Secretariat's estimates.

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

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	Eissa Alzerma email: ealzerma@opec.org
Commodity Markets	Odalis López-Gonzalez email: olopez@opec.org
World Economy	Mehdi Asali email: masali@opec.org Mohammed El-Shahati email: melshahati@opec.org Joerg Spitzy email: jspitzy@opec.org
World Oil Demand	Esam Al-Khalifa email: ekhalifa@opec.org
World Oil Supply	Haidar Khadadeh email: hkhadadeh@opec.org
Product Markets and Refinery Operations	Elio Rodriguez email: erodriguez@opec.org
Tanker Market *and* Oil Trade	Anisah Almadhayyan email: aalmadhayyan@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
Puguh Irawan, Officer-in-Charge, Data Services Department (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)

Editing, production, design and circulation
Keith Aylward-Marchant, Alvino-Mario Fantini, Viveca Hameder, Hataichanok Leimlehner,
Evelyn Oduro-Kwateng, Andrea Birnbach

Disclaimer

Data Summary September 2012

OPEC Basket average price

US$ per barrel

⬆ *up $9.97 in August*

August 2012	***109.52***
July 2012	*99.55*
Year-to-date	*110.12*

August OPEC crude production

in million barrels per day, according to secondary sources

⬆ *up 0.25 in August*

August 2012	***31.41***
July 2012	*31.16*

World economy

Global growth expectations for 2012 and 2013 remain unchanged at 3.3% and 3.2% respectively. The US is forecast to grow by 2.3% in 2012 and 2.0% in 2013, Japan is expected to decelerate from 2.7% this year to 1.2% in 2013 and the Euro-zone is seen returning to growth in the coming year, after a decline of 0.4% in 2012. Growth expectations this year for China stand at 8.1% and 8.0% in 2013, while India's expansion is forecast at 6.3% in 2012 and 6.6% in 2013.

Supply and demand

in million barrels per day

2012		*11/12*
World demand	*88.7*	***0.9***
Non-OPEC supply	*53.1*	***0.7***
OPEC NGLs	*5.7*	***0.4***
Difference	***29.9***	***–0.2***

2013		*12/13*
World demand	*89.6*	***0.8***
Non-OPEC supply	*54.1*	***0.9***
OPEC NGLs	*5.9*	***0.2***
Difference	***29.5***	***–0.4***

Totals July not add due to independent rounding

Stocks

US commercial oil inventories fell by 13.3 mb in August. This drop was attributed solely to crude stocks, which fell by 16.5 mb, while product inventories rose by 2.9 mb. Despite the drop, US commercial stocks remained 17.2 mb above the five-year average. In Japan, the most recent monthly data shows that commercial oil inventories rose by 0.9 mb in July. Products increased by 3.0 mb, while crude stocks dropped by 2.2 mb.

Issued 11 September 2012
Next report to be issued on 10 October 2012
Data covered up to the end of August 2012 unless otherwise stated.