Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

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Feature Article:
Recent developments in crude and gasoline prices

Obere Donaustrasse 93, A-1020 Vienna, Austria
Tel +43 1 21112 Fax +43 1 2164320 E-mail: prid@opec.org Web site: www.opec.org

Oil Market Highlights

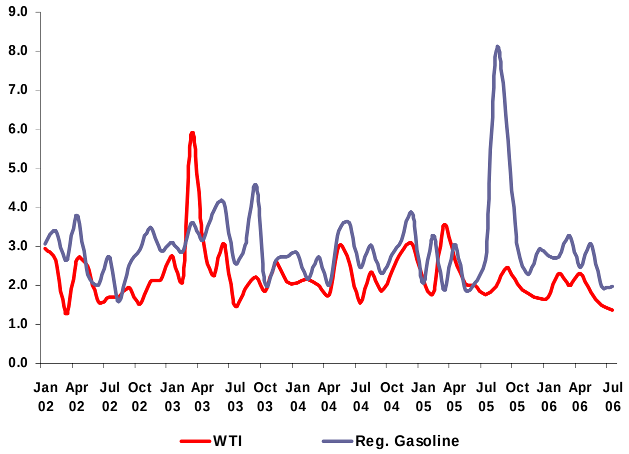
- Second quarter GDP data confirmed a reduction in the growth rate of the world economy despite a significant improvement in the Euro-zone. GDP in the Euro-zone and in Germany grew by 3.6% in the second quarter. Second quarter growth in Japan fell to 0.8% as result of a decline in public investment and stagnation in exports. Following a very strong start to the year the US economic growth moderated to 2.5% in the second quarter. The Federal Reserve did not raise interest rates further in August, noting that slower economic growth is likely to ease inflationary pressures.
- US interest rates may no longer be increasing in 2007 but the previous tightening of policy is expected to depress GDP growth below 3% next year. It is unlikely that Europe and Japan will be able to grow strongly in 2007 if US import growth softens; moreover a weaker dollar will reduce export competitiveness. The Euro-zone is expected to grow by only 1.4% in 2007 as fiscal policy tightens and Japan may only achieve 1.9%. Growth in developing countries is also expected to be lower in 2007, falling to 5.2% and China may also see a modest deceleration to 8.7%. The world economy is forecast to grow by 4.2% next year, compared to 4.8% in 2006.
- The OPEC Reference Basket rose $4.32/b or 7% to average $68.92/b in July as geopolitical developments pushed prices to record highs. Ongoing tensions in the Middle East amid healthy economic growth and strong gasoline demand in the west supported the bullish market sentiment. The Basket broke a new record high of $71.71/b on 14 July with the onset of the recent crisis in the Middle East. Concern over the return of disrupted supply from West Africa added to the bullish sentiment amid a leakage in Russia's Druzhba pipeline and tight North Sea supply. In the first two weeks of August, the Basket again set a new record, reaching $72.67/b on 8 August, on news that BP would shutdown its Prudhoe Bay field in Alaska due to pipeline corrosion. However, the return of half of Prudhoe Bay production and the improving geopolitical situation allowed prices to ease downward to $69.01/b on 15 August.
- Refinery glitches and higher demand for various products due to the driving season and cooling requirements have further strengthened futures and physical product prices in the USA, resulting in higher refinery margins in July. Although European refiners continued to benefit from the gasoline arbitrage to the USA, refining margins still declined from the previous month due to the higher cost of benchmark Brent crude and relatively sluggish regional demand. The product market sentiment also weakened. Apart from the performance of the bottom of the barrel — which was very disappointing across the board — most barrel components may lose their earlier strength as the end of the driving season approaches and market players shift their attention to middle distillate stock levels, which stand at relatively comfortable levels around the globe. As a result, the current crack spreads of light products against the benchmark crudes may narrow. Of course, potential developments during the hurricane season in the US Gulf could dramatically change this outlook.
- OPEC spot fixtures averaged 14.4 mb/d in July, which corresponds to a 90,000 b/d decline from the previous month but a gain of 0.9 mb/d over a year ago. The decline is essentially the result of a drop in OPEC production. Similarly, sailings from OPEC fell 80,000 b/d to 24.5 mb/d but showed y-o-y growth of 0.3 mb/d. The crude oil tanker market remained very bullish with rates continuing to increase, especially for VLCCs moving from the Middle East eastward where rates peaked in July to their highest level so far this year. The robustness in freight rates was triggered by tightness in supply where healthy trade — especially from China — reduced the availability of tankers. The clean market showed some signs of weakness in the East but in the West rates strengthened further.
- World oil demand growth in 2006 is now estimated at 1.3 mb/d to average 84.5 mb/d. This represents a downward revision of 80,000 b/d from last month's figure due to an unexpected decline in OECD consumption in the second quarter of this year. North American oil demand growth for 2006 was revised down by 40,000 b/d from the previous month. Growth in the OECD countries is expected to be somewhat stronger in the second half of this year given the stabilization of gasoline prices, continued economic expansion, and normal weather in the fourth quarter. For the year, OECD oil demand is expected to grow by 0.1 mb/d. In contrast, Chinese oil demand growth was revised up by 40,000 b/d due to the unexpected strong demand in the second quarter. Moreover, strong economic activities in the Middle East are expected to continue until year-end, resulting in a 300,000 b/d increase in regional oil demand for the year. In 2007, world oil demand growth is forecast at 1.3 mb/d or 1.5%, unchanged from the previous month, with China and the Middle East expected to be the leading growth regions.
- Non-OPEC oil supply including processing gains is expected to average 51.1 mb/d in 2006, representing an increase of 1 mb/d over 2005, but a downward revision of 234,000 b/d versus the last assessment. The adjustment primarily reflects lower production from the US (Alaska), Canada and Norway. Preliminary data for June 2006 puts total non-OPEC supply at around 50.3 mb/d, or 300,000 b/d lower than the previous month. The impact of unplanned shutdowns, maintenance and hurricane related losses in the US Gulf of Mexico affected a significant amount of supplies in the month. In 2007, non-OPEC oil supply is expected to average 53 mb/d, representing an increase of 1.8 mb/d versus 2006 and an upward revision versus last month. This upward revision comes despite a downward adjustment to US Alaskan production, as base has been revised down primarily as a result of lower baseline production in Malaysia. In July, OPEC production stood at 29.5 mb/d, a decrease of 0.2 mb/d from the previous month.

- Preliminary data shows that OECD total net oil imports increased 154,000 b/d to average 27.6 mb/d in July, the highest level so far this year. Data showed a growth of more than 700,000 b/d over the same period last year, primarily on the crude oil side. In contrast, US crude imports fell 311,000 b/d as a result of a 260,000 b/d drop in refinery throughput while product imports rose 250,000 b/d to 3.7 mb/d. In July, Japan’s net oil import dropped 100,000 b/d with two-thirds of the losses coming from crude. China’s crude oil imports showed a slight decline of 50,000 b/d in June to average 2.9 mb/d while product imports increased for the fourth consecutive month. China’s crude oil and product imports rose by more than 15% during the first half of 2006 compared to the first half of 2005. India’s crude oil imports fell 128,000 b/d in June to 1.9 mb/d but remained 235,000 b/d higher than a year ago.
- US commercial oil stocks experienced a draw of 16 mb to stand at 1,045 mb in July. However, inventories remained 0.3% and 5% higher that the year ago and five-year average. In terms of forward cover, crude inventories remained stable at 21.2 days in July compared to 21.3 days in the previous month and were 9% above the upper end of the five-year range. Total commercial oil stocks in Eur-16 (EU-15 plus Norway) rose a slight 0.6 mb in July to stand at 1,149 mb, or 1% above a year ago and around 9% higher than the five-year average. In Japan, commercial oil inventories witnessed a decline of 4.8 mb or 0.16 mb/d to stand at 183 mb in June, below the five-year average.
- The estimated demand for OPEC crude in 2006 is expected to average 29.1 mb/d, representing an upward revision of 0.2 mb/d versus the previous month. The estimated demand for OPEC has been revised up 0.2 mb/d in 3Q06 and 0.3 mb/d in 4Q06, driven by lower than expected non-OPEC supply growth. In 2007, the estimated demand for OPEC crude is expected to average 28.3 mb/d, representing a decline of 0.8 mb/d versus 2006. On a quarterly basis, the forecast shows that demand for OPEC crude is expected at 29.3 mb/d in the first, 27.2 mb/d in the second, 28.1 mb/d in the third and 28.7 mb/d in the fourth quarter.

Recent developments in crude and gasoline prices

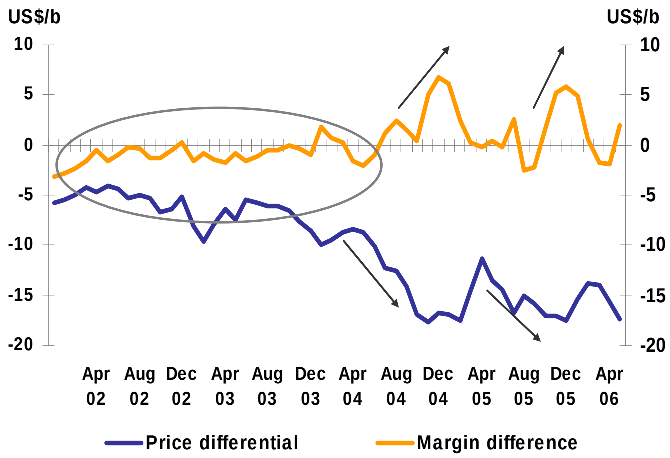
- The relationship between crude prices and product prices appears to have diverged over the last two years as gasoline prices have exhibited greater volatility and a larger increase in price level than crude. From the last quarter of 2001 until the final quarter of 2004, WTI crude oil prices have risen steadily from around $20/b to $48/b, representing a gain of $28/b. Prices surged again in the second quarter of this year, when crude prices hit $74/b before climbing to $77/b on 14 July. As a result, between the end of 2004 and July of this year, crude prices rose $26/b or about 50%. In comparison, US gasoline prices saw roughly the same trend up until 2004, rising by $29/b. However, since then, gasoline prices experienced a much stronger increase of $46/b or 90% — almost double the change seen in crude prices.
- As **Graph 1** shows, crude prices experienced a sharp increase in volatility in the first quarter of 2003 attributable to the start of the war in Iraq. However, since then, volatility has eased, declining since the second quarter of 2005. This indicates that despite rising prices the crude market has become less volatile, reaching a recent low in July of this year at the same time as prices reached a record high. This development demonstrates that high crude prices are not necessarily associated with greater volatility. In case of gasoline prices, volatility spiked to a record high last September due to Hurricane Katrina's impact on the oil industry, especially the refining sector, and while volatility has fallen back, gasoline prices continue to be more volatile than crude. This indicates that crude and products prices, while connected in both the physical and paper markets, respond to different forces of demand and supply.

Graph 1: Volatility of crude and gasoline prices (monthly)*



**standard deviation of daily percentage changes in the price of individual months*

Graph 2: Refinery margins and price differential of Maya vs. WTI



- In the past two years, crude prices have been subject to numerous pressures ranging from fundamental factors, such as robust demand and low excess production capacity, to geopolitical factors, which have played an increasingly influential role in the past year. Nevertheless, crude oil volatility appears to have subsided in last year due to a number of positive developments such as ample supplies, rising OPEC spare capacity, ample strategic reserves and comfortable commercial crude oil inventories, which are now at 20-year highs. Even the sudden disruption of crude oil supplies from Alaska has not overly disturbed the market as the lost crude could be replaced by a combination of higher OPEC production, increased imports and commercial inventories, as well as the availability of strategic stocks.
- The increased volatility in gasoline prices over the last two years can be attributed to a multiplicity of factors, such as the higher demand for gasoline, increasingly stringent product specifications and more recently the issue of the adequacy of ethanol supplies. In particular, the relatively low level of gasoline inventories in terms of days of forward cover, coupled with the lack of spare refinery capacity has left an uncomfortably thin cushion of excess supply. Hence, the growing volatility reflects an increased sensitivity to developments in the product markets such as unexpected outages or even planned refinery shutdowns.
- This trend in gasoline and other light products have led to high refining margins for WTI crude in the US Gulf, which soared to a record high of over $20/b last September, before dropping to a still considerable $12/b in the second quarter of this year due to heavy maintenance schedules. The main beneficiaries of the increase in product prices and refinery margins have been light sweet rather than heavy sour crudes.
- As **Graph 2** shows, prior to mid-2004, a stable correlation existed between the refinery margins for heavy crudes and the price differential between heavy and light grades. Since then, refinery margins for Maya crude (as a proxy for heavy grades) improved while its differential to WTI widened considerably. This can be attributed to the global scarcity of complex refineries which can extract higher yields of light products from heavy grades. The expected increase in supplies of heavy crudes, along with the insufficient investment in secondary units of refineries, could further undermine heavy crude values in the future.
- With easing pressure on physical crude markets due to the increase in OPEC production and growing spare production capacity, crude oil price volatility has been reduced. However, these positive developments in the upstream may not be sufficient to moderate crude price levels given the ongoing bottlenecks in the downstream and continuing geopolitical tensions.

Vienna, Austria **10 August 2006**

OPEC reassures market of adequate supplies

OPEC has noted the loss of crude oil output with the partial closure of British Petroleum's 400,000 b/d Prudhoe Bay oilfield in Alaska and the immediate market reaction arising therefrom.

Unfortunately, the incident has proved to be the latest in a series of events that has pushed oil prices to successive record levels. The OPEC Reference Basket on Wednesday stood at over 72 dollars a barrel after international markets reacted anxiously to the loss of Alaskan production. That price is almost 1.50 dollars higher than at the same time a week ago.

As always in these situations, OPEC stands ready to do all in its power to correct any imbalance in the market. This level of commitment was again endorsed at the 141st (Extraordinary) Meeting of the OPEC Conference held in Caracas, Venezuela in June, where the Organization's Ministers reaffirmed their determination to ensure that crude oil prices remained at acceptable levels. They also pledged their readiness to continue to closely monitor market developments and agreed that its President would consider convening an Extraordinary Meeting ahead of the next regular OPEC Conference in September, should market conditions so warrant.

The fact is that some of OPEC's producers can bring additional supplies to the market very quickly, if such action is deemed necessary, subject of course to adequacy of refining capacity. In fact, the Organization has boosted oil output by some 4.5 mb/d since 2002 to ensure that the market remains well supplied. However, for the time being, the Organization remains confident that the world is still adequately supplied with oil and that no shortage will occur. In addition, commercial stocks, especially of crude oil, are more than comfortable in terms of absolute levels of forward cover.

In saying this, OPEC must again express its concern about the rising level of prices and the effect it could have on global economies, especially the oil-importing developing countries. Unfortunately, the oil market is very sensitive to such happenings, as evidenced by the latest price spike. This reaction again supports OPEC's longstanding view that all parties involved in the oil market must work more closely to instill a higher level of confidence in the marketplace to prevent extreme price volatility when such events occur. In the light of the latest development, OPEC will continue to carefully monitor the situation and take all measures necessary to secure oil market stability and maintain crude prices at reasonable levels through the provision of additional supplies, as necessary.

Highlights of the World Economy

Economic growth rates 2006-2007, %	World	OECD	USA	Japan	Euro-zone
2006	**4.8**	**2.9**	**3.3**	**2.8**	**2.0**
2007	**4.2**	**2.3**	**2.6**	**1.9**	**1.4**

Industrialised countries

United States of America

US economy is slowing with GDP growth expected to be below 3% in 2007

As expected US GDP rose by only 2.5% in the second quarter, a significant deceleration from the rapid 5.6% achieved in the first three months of this year. The deceleration reflected downturns in consumers' expenditure on durable and IT equipment, slower export growth and a more moderate rate of increase in government spending. Business capital expenditure was particularly weak, rising by only 2.7% in the second quarter compared with an increase of 13.7% in the first. Although expenditure on durables was weak overall consumer spending was in line with expectations, growing by 2.5%. The share of gasoline and related expenditures in total consumer spending rose to 3.9% in the second quarter from 3.3% in the same period of 2005. To some extent the moderate pace of US consumer spending in the second quarter reflected a natural adjustment to the very strong result of the first quarter. Favourable weather boosted New Year activity and higher than normal auto sales also made a significant contribution. Some slowing in the second quarter was probably inevitable but the deceleration has steepened as a result of a substantial slowing of real income growth.

Real income growth will likely recover in the second half as energy prices level off but not to previous rates as employment growth is moderating. In July non-farm payrolls rose by only 113,000 which was much less than expected and the rate of unemployment rose to 4.8% from 4.6% in June. The softer trend in the housing market since the second half of 2005 will also affect the wealth of US consumers. Residential investment has yet to adjust to the lower level of demand in 2006 and housing starts will probably continue to fall until the excess stock of houses is absorbed by the market. In the second quarter private residential investment fell by over 6% and housing market indicators continue to show weakness. **Overall GDP growth is expected to be clearly less than 3% in the second half of this year. In 2007 growth is expected to fall further to 2.6% as lower growth of business investment, exports and government spending takes effect.** Consumer spending growth may also be lower than this year but most forecasters anticipate a gradual adjustment as inflation is expected to remain under control.

This profile of a gradual slowdown in economic activity is a major factor determining the outlook for monetary policy in the US. The other factor is the outlook for inflation. **In the second quarter unit labour costs in non-farm businesses rose at an annual rate of 4.2%**, a sharp increase on the 2.5% rise in the first quarter. Most of the explanation lies in a clear slowdown in the rate of growth of productivity in these businesses which rose by only about 1% in the second quarter – much lower than the rates achieved earlier in the recovery. The trend in consumer prices is also worrisome. **The annualized rate of increase in the all-items index in the second quarter was 5.1% and the rate of increase in the core index (excluding food and energy) was 3.6%.** Core inflation was remarkably stable in 2004 and 2005 at 2.2% but has risen to 3.2% in the first half of this year. The weaker performance of the US dollar since March may add further to inflationary pressures.

Considering the recent trend of inflation, the August decision of the Federal Reserve Open Markets Committee to hold the Federal Funds rate at 5.25% might seem surprising. It was significant that the decision was not unanimous as one member voted for a rate increase. The central bank expects that the current moderation in growth in the economy is likely to be sufficient to ease inflation pressures over time. Nevertheless the Federal Reserve also made clear that rates may continue to rise later in the year or in 2007 if inflation does not stabilize as expected, **thus recognizing that there are clear cyclical risks to inflation as distinct from the pass-through impact of higher energy and commodity prices**. Since the first interest rate increase in this cycle in June 2004 US rates have risen by 4.25% and the Federal Reserve is prepared to assess the growth and inflationary performance of the economy over the next few months before committing to a further tightening of policy.

Japanese businesses and households remain confident despite a second quarter slowdown, while private domestic demand has accelerated

Japan

Second quarter data confirmed that the Japanese economy has been unable to maintain the solid growth of 3.1% achieved in the first quarter. GDP growth in the second quarter fell to 0.8% as a result of lower public investment and stagnation of exports. Consumer spending rose by 2% despite downward pressure on household incomes. Nominal income growth has been lower than in 2005 as companies have reduced personnel costs to maintain profitability in the face of rising input costs. At the same time higher oil prices have kept upward pressure on the consumer price index which rose for the eighth successive month in June. Public investment continued the decline of the first quarter although **business investment** maintained a solid expansion with a 16% increase after a 12% gain in the first quarter. Rising capital investment broadened to include nonmanufacturing. **In total private domestic demand (including consumption, housing and business investment) rose by 4% in the quarter.** This growth underlines the solid domestic basis of this expansion and confirms that both consumers and companies have confidence in the economy. The contribution to GDP from net exports was slightly negative and it appears that the slowing in the US economy has begun to affect Japan. The second quarter GDP results for the US confirmed a reduction in spending on IT equipment and this deterioration will reduce the growth of exports from many Asian economies.

Lower exports to the US may put pressure on Japanese companies later in the year but recent indications suggest that production in July and August will continue to increase. If the demand weakness does materialize, inventories will build in the high tech sector and a production adjustment may be necessary before the end of the year. Despite this concern capital spending surveys confirm that companies remain optimistic. According to a recent survey from the Development Bank of Japan, capital spending in the 2006 fiscal year will increase by 22% in manufacturing and by 7% in non-manufacturing. The increase for all firms is expected to be 12.9%, much higher than the 8.5% growth in the previous year. These plans are consistent with other surveys reported by the Bank of Japan and the Ministry of Finance but may be vulnerable if profits growth is affected by slowing sales and higher energy costs. **Certainly the Japanese equity market has grown more cautious in recent months and the overall stock market index has fallen by over 10% since April.** Price data for July underlines the pressure facing Japanese companies as import prices paid by corporations rose by 12.5% over year ago levels as a result of sharp increases in metals, energy and other commodity prices. The healthy state of domestic demand has allowed companies to pass on some of these increases and output prices rose by 3.4% in July over 2005 levels.

The July 14 decision of the Bank of Japan to end its policy of zero interest rates clearly reflected the solid performance of domestic demand and the rising trend in output prices. **The new target for the overnight call rate is 0.25%.** Such a rate increase does not mean that the Bank will begin a process of frequent increases. The expected moderation in world economic activity will have its effect on Japan in the second half of this year - moreover the appreciating yen will also serve to tighten financial conditions in the economy. One consequence of the higher input costs faced by companies seems to be a greater determination to control labour costs and this should dampen inflationary expectations in the household sector. On balance it is unlikely that Japanese interest rates will rise further until 2007 unless unexpected strength in US demand leads to a much higher rate of growth of economic activity in the remainder of the year.

Euro-zone achieved growth of 3.6% in second quarter; Inflation remains a concern

Euro-zone

On 3 August the European Central Bank raised interest rates by a further ¼% taking the euro refinancing rate to 3%. The Bank was responding to signs of rising economic momentum in the Euro zone and the persistently high rate of inflation in the zone. Since the start of the year business and consumer surveys have provided consistent evidence of improving expectations. This message was confirmed in July as the European Commission index of economic sentiment rose to 107.7 from 107.1 in June. Manufacturing confidence also improved, the eighth increase in a row, and this index is now at its highest level since December 2000. The performance of other business sectors was more mixed. Sentiment was unchanged in the service sector, fell in the retail sector and showed a surprising improvement in the construction industry. Consumer confidence was stable – in particular the high level of price expectations was also unchanged.

For the first time in this economic cycle the strong indications from consumer and business surveys have been confirmed by GDP data. **Real GDP rose by 3.6% in the Euro-zone in the second quarter. This performance was much better than expected, probably as a result of an improvement in construction and durables goods spending.** Retail sales data for the Euro-zone for June showed moderate growth following the setback in May. Total retail sales rose by

1.5% over 2005 levels with the fastest rates of growth being achieved in Germany. In the EU as a whole the growth rate was much higher at 2.7% as retail sales expanded rapidly in the UK, Poland and the smaller economies of eastern Europe. The German economy expanded at an annual rate of 3.6% in the second quarter, mainly as a result of strong growth in construction output and spending related to the soccer World Cup. France also performed very well, growing by nearly 5% at an annualized rate.

The preliminary estimate for the Euro-zone inflation rate in July was 2.5%. This was the same inflation rate as recorded in June despite a lower contribution from energy prices and the data suggests that core inflation may be on a gradual uptrend. Companies may be finding it easier to pass on cost increases as higher levels of demand exhaust productive capacity. For 2006 as a whole the Euro-zone rate of inflation will not be much below 2.5% and further interest rate increases seem likely before the end of the year. The financial futures markets anticipate that the 3 month rate of interest will be 3.6% by January 2007. By 2007 a slower pace of growth should allow the Bank to abstain from much further tightening and the peak of official interest rates should be no higher than 3½ - 3¾%.

In 2006 the Euro-zone will benefit again from substantial growth in exports but in 2007 the stronger value of the euro should restrain growth. Tighter monetary conditions and slower world growth will impact the Euro-zone and the overall rate of growth in 2007 may struggle to exceed 1.5%. **Fiscal policy will add a further uncertainty next year.** This year the Euro-zone fiscal deficit has improved as a result of the improvement in economic growth although the stance of policy has been broadly neutral. In 2007 tighter fiscal policies (notably in Germany and Italy) will reduce growth as VAT rates are increased.

The outlook for the Euro-zone in 2007 remains dependent on the domestic sector. Exporters will be held back by the rise in the euro and an expected deceleration in world trade from the second half of this year. Euro-zone GDP began 2006 at a depressed level, following the poor performance of the fourth quarter but there was an impressive recovery in the first half. **If these improvements translate into a lasting improvement in the labour market and consumer confidence for the region as a whole the Euro-zone may achieve growth of 2% in 2006 but deceleration to 1.4% is likely next year.**

Former Soviet Union

Russian economy boosted by retail and construction sectors; Output of mineral sectors increased by only 1.5% in the first half

The recovery from the weather-affected first quarter paused in June as the exceptionally high growth rates of industrial production achieved in May could not be maintained. Industrial production growth fell to 2.9% in June and the growth rate for the first half of 2006 was 3.4% in comparison to the 4.4% recorded in 2005. Construction output responded dramatically to the return of normal weather and output increased by 15% **but growth in the output of the extractive sector remained subdued, rising by only 1.5% in the first half of the year**. In June there was a further fall in the inflation rate which fell to 9.1%, thanks to stabilization in food prices and this improvement may ease pressure on the non-oil sector of the Russian economy. The Central Bank has announced that it will be stepping up intervention in currency markets in coming months to help slow rouble appreciation but this will depend on whether inflation remains under control later in the year. In the first half of 2006 the rouble has appreciated by 6.7% in real terms as very high earnings from oil and minerals exports boosted the currency. In response to the fall in inflation in June the Central Bank of Russia cut its main policy rate to 11.5%. Lower domestic interest rates may encourage Russian enterprises to reduce their reliance on borrowings in foreign currency. The IMF has warned that the primary deficit of the federal budget (excluding oil revenues) has increased in 2006 and that higher government spending will only further aggravate inflationary pressures.

Eastern Europe

Recovery in Euro-Zone boosts first half growth in Eastern Europe

The Polish economy continued to perform well in the second quarter and the rate of growth of GDP was probably close to the 5.2% achieved in the first quarter. Strong wage and employment growth were behind the remarkable surge in private consumption which was also accompanied by robust 7.4% growth in fixed investment spending. Net trade also contributed to GDP. July saw a remarkable recovery in the value of the zloty. Having fallen to below €/PLN 4.1 at the end of June as a result of political uncertainty the solid fundamentals of the Polish economy drove the currency back to €/PLN 3.85 by the first week of August. **In contrast financial markets were not impressed by the proposals of the new Hungarian government to address the large budget deficit.** In June the credit rating agency Standard &

Poor's lowered Hungary's long-term sovereign credit ratings to 'BBB+' from 'A-' with a negative outlook on continued deterioration of Hungary's public finances and warned it may be lowered further if the budget deficit and government debt continues to grow. The value of the Hungarian currency fell to €/FOR 285 by mid-July (its lowest ever level) but rallied to end the month above 275. **The July results for the fiscal balance were much better than expected but continued restraint will be necessary if the 2006 deficit is to reach the target of 7.6% of GDP.** The Czech economy grew by 7.4% in the first quarter of the year as a result of very strong growth in fixed investment and exports. The second quarter was volatile. Industrial production growth faltered in April, rising by only 3.6%, but this pause was followed by sharp acceleration in May as production rose by over 12%. **The fastest growing sector continues to be the motor industry which expanded production by 75% in the half of the year.** The rate of inflation fell to 1.9% in 2005 but has risen to 2.9% in the first half of this year as a result of higher energy and utility prices. The Czech trade balance continues to improve and the public finance deficit was lower than expected at only 2.6% of GDP in 2005. The planned deficit for 2006 is 2.3% of projected GDP – well below the Maastricht limit for accession to the Euro-zone.

Developing Countries

China's economy is overheated again and a number of measures are put in place to cool it down

China's economy is reported to have grown by 11.3% in the second quarter, the fastest pace in more than a decade. In the first half of 2006, the Chinese fixed-asset investment grew at more than double the pace of retail sales. Since China introduced free-market reforms in 1978, the nation's expansion has been marred by bouts of economic overheating as investment in factories and real estate spiraled out of control. The Chinese government raised minimum salaries and welfare payments to encourage consumption and achieve sustainable economic growth. Rising consumer spending may allow them to tighten curbs on investment without affecting the world's fastest-growing major economy. Other measures to cool the economy such as hikes in bank reserve requirements, an increase in interest rate cuts and export tax rebates and more curbs on the property sector should help to reign in economic growth. If unsuccessful, stronger measures such as a further devaluation of the yuan cannot be discounted.

India grows fast and the RBI raise interest rate to curb inflationary pressure

The Reserve Bank of India on 25 July raised its benchmark interest rate by a quarter percent to a four-year high of 6%, to keep record fuel costs and an expanding economy from stoking inflation. India's inflation rate was 4.6% in the week ended 29 July, compared with 4.67% in the previous week, the government said. According to the Country's Central Bank, India's $775bn economy expanded 9.3% in real GDP from a year earlier in the quarter ended 31 March, rounding off the financial year with overall growth of 8.4%, the fastest after China among the world's 20 biggest economies.

Slower growth in the USA and higher energy cost are possible risks to the developing countries

Despite healthy economic growth across most of the regions in the Developing Countries, downside risks have increased. The export-oriented nature of this group makes it highly vulnerable to developments in the USA and other OECD countries. Developing Countries in this group that import oil might have to face adjustments to higher energy cost which might cause inflation and slower growth.

OPEC Member Countries

Growth prospects in OPEC robust and members seek to diversify economies

Growth prospects for OPEC Member Countries remain robust, with overall GDP growth of 5.9%. Expanding oil production and exceptionally strong oil receipts will tempt governments to lift public spending and investment. Middle Eastern governments have more than tripled their investment in domestic infrastructure projects, buoyed by the $70/b price of oil in order to achieve economic diversity. In Kuwait, the real estate sector has continued to move forward. Construction and real estate have become pivotal to the health of the economy. Private sector participation is increasing. The Kuwaiti government has shown its intent to support tourism in Kuwait by working on developing a 20-year strategic plan which aims to attract a portion of outbound Middle Eastern tourists.

Oil prices, the US dollar and inflation

Dollar stability continued in July

The US dollar began to weaken slightly from the middle of the April and the move accelerated in May. In June, however, the markets detected a change in the policy stance of the US authorities and expectations of further increases in US interest rates supported the dollar until the end of July. There has been no change in the outlook for European interest rates. In July the dollar fell by 0.1% against the euro and rose by 0.3% against the British pound, 0.5% against the Swiss franc and by 1.4% versus the yen.

In July the OPEC Reference Basket rose to $68.89/b from $64.60/b in May. In real terms (base July 1990=100), after accounting for inflation and currency fluctuations, the Basket price rose by 6.2% to $47.02/b from $44.28/b. The value of the dollar was unchanged as measured by the import-weighted modified Geneva I +US dollar basket*.

** 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.*

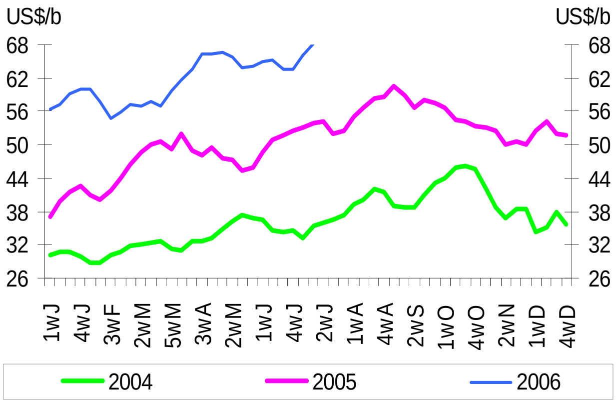
Crude Oil Price Movements

Unexpected geopolitical crisis and uncertain supplies from West Africa and tight North Sea output maintained market bullishness

OPEC Reference Basket

The petroleum market began on a bullish note in July due to the prospect of healthy demand. The Basket continued to rally in the first week of the month ignited by healthy gasoline demand in the USA. The Basket surged 3.5% or $2.3 to average $68.31/b for the week. The sentiment softened early in the second week as the outlook for Chinese demand was less than anticipated amid positive geopolitical developments in the Mideast. Nevertheless, volatility was supported by revived concern over Mideast talks and tight North Sea supply in August.

Graph 1: OPEC Reference Basket - weekly spot crude

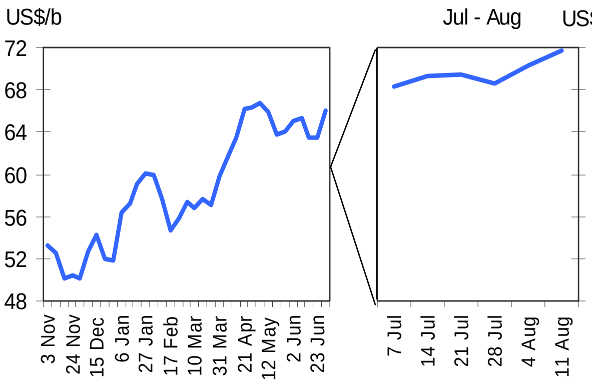


The second weekly average rose $1 or 1.5% to settle at $69.35/b with the Basket peaking at an all-time record of $71.71 on 14 July. The sentiment was furthered with the onset of the crisis in the Middle East, although market concerns were short-lived as it quickly became evident that Mideast supplies would not be disrupted. Furthermore, the wide sweet/sour spread pressured Mideast crude, while continued tight August supply from the North Sea added bullishness to the market. Hence, the Basket was nearly unchanged as the third weekly average gained only 10¢.

In the final week of the month, while most Asian buyers had fulfilled their requirements and the sweet/sour spread continued to widen, downward pressure was exerted on Mideast crudes. Nevertheless, the ongoing crisis in the Middle East and healthy demand for gasoline in the west maintained some market bullishness. The month closed with news of further disruptions to West African supplies, a leakage at Russia's Druzhba pipeline, tight North Sea supply in August and sizzling summer electricity demand that resulted in natural gas prices pushing the petroleum complex upward.

The monthly average of the Basket rose nearly 7% to settle $4.32 higher at $68.92/b. Concern about the ongoing Middle Eastern geopolitical tensions amid healthy gasoline demand in the USA supported market bullishness. This sentiment was furthered to some extent by the turmoil among Mideast nations, although no effect on oil supply was foreseen. In the first two weeks of August, the Basket surged to a new record-high, peaking at $72.64/b to average $71.75/b, amid supply disruptions in the US largest oil field in Alaska, which cut 400,000 b/d of medium crude flow due to a pipeline leakage. However, the return of half of Prudhoe Bay production and the improving geopolitical situation allowed prices to ease downward to $69.01/b on 15 August.

Graph 2: Weekly average Basket price, 2005-2006

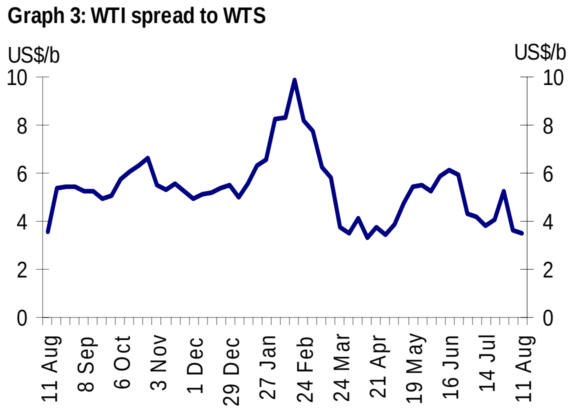


Continued supply disruptions from West Africa increased demand for lighter crudes narrowing the sweet/sour spread

US market

The domestic crude market in the USA emerged on a stronger note due to demand for gasoline amid high prices. The sweet/sour spread narrowed on stronger refinery appetite for light grades to produce gasoline. The WTI/WTS first weekly average spread was 16¢ narrower at $4.16/b. The continued widened contango also inspired buying interest into the second week, as the sweet/sour spread fell to the lowest level in two months to stand at $3.83/b. The steepened contango also inspired the procurement of light grades, hence, the WTI/WTS spread narrowed to a three-month low of $3.25/b in the third week.

Nevertheless, the narrower contango on the emerging new Nymex futures front-month halted buying interest; thus, the WTI/WTS weekly average spread was 23¢ wider at $4.06/b, as the spread peaked at a four-week high of $5.76/b. Concern over gasoline supply amid more stringent specifications pushed the sweet/sour spread to $7/b, the widest since early March. Tightening West African crude supply continued to pressure the marketplace.

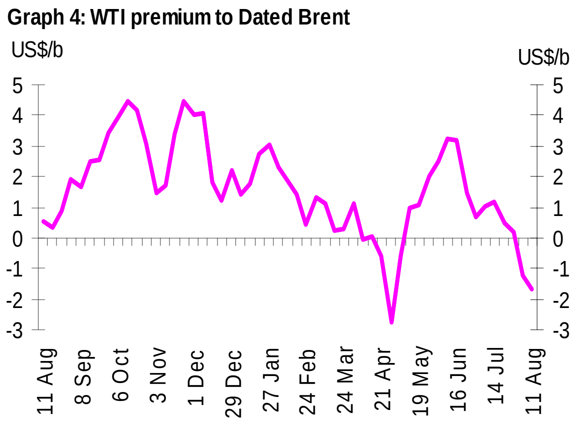


However, the sentiment was short-lived as demand for light crude continued. In the final week, the average WTI/WTS spread widened by a significant $1.20 to $5.26/b as refiners continued to buy. The monthly average for WTI was $74.33/b for a rally of $3.45 or nearly 5%. The WTI premium to WTS was $4.30/b or $1.27 narrower.

North Sea market

While weak refining margins exerted downward pressure on the North Sea crude, differentials firmed on tight August supply

The oil market for the North Sea crude emerged on a weaker note as a major seller offered Brent at a much lower price while buyers waited for prices to fall on poor margins and weakening refinery interest for late July barrels amid a narrowing sweet/sour spread. In the second week, the continuing pressure on unsold July cargoes prompted the market to weaken further, although it gained some strength from a 192,000 b/d drop in August BFO output. The sweet/sour spread narrowed amid demand for alternative and lucrative regional crudes. Nevertheless, the record-low supply of benchmark crude alerted the market for gasoline-rich crude in the third week. North Sea differentials firmed on continued demand for summer fuels amid tight August supply and prompt demand. The bullish market sentiment recovered amid the prospect of poor supply recovery from Nigeria. Brent's monthly average was $73.66/b for a gain of $4.97 or more than 7% over June.



Mediterranean market

Weak fuel oil crack spread amid the flow of Kirkuk crude exerted downward pressure on the sour crude market

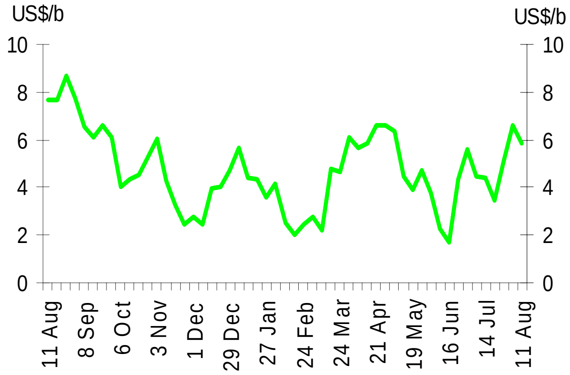
Urals firmed in early July amid a lower amount of Kirkuk crude on offer. However, the sentiment was short-lived as refining margins weakened at a time when Iraq was offering more barrels from its northern outlet. The Brent/Urals average spread widened in the first week to $4.63/b compared to $5.13/b in the previous week amid interrupted Kirkuk supply due to logistical reasons. In the second week of the month, differentials firmed due to emerged demand amid the prospect of tight supply of North Sea crude. The Brent/Urals average weekly spread narrowed by 90¢ to $3.73/b. Nevertheless, the weak fuel crack spread amid summer demand for light-end crude oil weakened differentials by 59¢ to $4.32/b in the third week. The bearish sentiment was furthered in the fourth week on continued demand for lighter grades which widened the Urals spread to Brent by another 64¢ to $4.96/b. The Urals monthly average was nearly $4.70 or over 7% higher to settle at $69.21/b with the discount to Brent expanding by 27¢ to $4.45/b.

Middle Eastern market

The wide Brent/Dubai spread continued to weigh on the weak fuel oil crack spread

Mideast crude emerged on a weaker note amid poor fuel oil margins while the market digested the new retroactive Oman OSP. Furthermore, ample supply of sour crude in the region and the delayed start-up of an Omani refinery were seen as forcing the producer to offer more September barrels. Arbitrage barrels from Russia continued to exert downward pressure on the market as well amid the Brent/Dubai weekly average spread narrowing by $1.14 to $4.45/b. September Oman was assessed between a 1¢ discount and a 1¢/b premium to MOG. In contrast, Abu Dhabi crude was trading at a strong premium of 20¢/b to OSP. In the second week, the average Brent/Dubai spread narrowed to $4.42/b supporting India's move to procure Russia's Urals crude. Abu Dhabi crude was valued at a strong premium amid healthy refining margins with September Murban assessed at a 35¢/b premium to OSP. In the third week, the improved fuel oil crack spread supported Oman to trade at a 5-6¢/b premium to MOG, with Abu Dhabi distillate-rich crude Murban steady at a 38-30¢/b premium to OSP. In the final week, with refiners having fulfilled their procurements and as Taiwan cancelled its September buy-tender of Mideast crude, bearishness prevailed in the marketplace amid a shift to October barrels. September Oman was trading at parity with Abu Dhabi Murban at a 10¢/b premium to the MOG. The prospect of slow Chinese demand and comfortable crude oil stocks in Singapore helped to calm market sentiment for the Mideast crude in Asia. The monthly average Brent/Dubai spread was almost $1 wider at $4.46/b.

Graph 5: Dated Brent spread to Dubai



Asian market

Unsold July barrels amid lingering August cargoes kept heavy sweet crude under pressure; in contrast, the narrower Tapis/Brent spread limited the flow of Western crude

Asia-Pacific's crude market emerged on weaker note with several cargoes of naphtha-rich crude and condensate available for August, while heavy sweet regional grades were pressured by Nile Blend. However, the narrowing Tapis/Brent spread limited the potential arbitrage to flow eastward in the first week. The bearish sentiment was furthered in the second week amid unsold July stems and lingering August barrels. Furthermore, heavy sweet crude Duri on prompt offer pushed the grade to a value of below 50-60¢/b to ICP, the lowest level in a year and a half, amid Japanese utilities remaining on the sideline. The poor fuel oil crack spread added to the downward pressure on heavy crude. In the third week, the market was firmer on the back of strong naphtha prices, with condensates trading at the strongest premiums in more than two years. Moreover, maintenance on the Cossack oilfield lent support to regional crude. The Tapis/Brent weekly average widened to over $6/b, providing support for the inflow of western crude. In the fourth week, a fresh supply disruption from Nigeria added to the market bullishness. September Tapis was assessed to sell at a premium of almost $1.50/b to the APPI, higher than sales in the previous month at a $1/b premium. The narrowing Tapis/Brent spread later in the month added to the bullishness for the regional light sweet crude. In contrast, heavy sweet grades remained under pressure due to weak Japanese demand for direct fuel burning by thermal plants amid ample supply in the region and a weak naphtha market. September Duri was valued lower at 30-40¢/b below ICP. The monthly Tapis/Brent spread was 7¢ wider at $4.50/b, keeping the flow of rival western grades tight.

Table 1: OPEC Reference Basket and selected crudes, US$/b

	Jun 06	Jul 06	Change Jul/Jun	Year-to-date average 2005	2006
OPEC Reference Basket	**64.60**	**68.89**	4.30	**47.57**	**62.22**
Arab Light[1]	65.03	69.06	4.02	46.72	62.12
Basrah Light	62.38	66.49	4.11	45.42	59.12
BCF-17	55.01	58.72	3.71	na	52.76
Bonny Light[1]	70.22	75.49	5.26	51.49	68.37
Es Sider	66.62	71.42	4.80	48.57	64.70
Iran Heavy	62.24	66.59	4.35	44.65	60.54
Kuwait Export	62.37	66.35	3.98	45.99	60.09
Marine	66.16	70.21	4.06	46.55	63.73
Minas[1]	68.49	74.13	5.64	51.34	66.95
Murban	69.66	73.70	4.04	50.18	66.86
Saharan Blend[1]	69.15	74.37	5.21	50.68	67.44
Other Crudes					
Dubai[1]	65.22	69.17	3.95	45.68	62.44
Isthmus[1]	63.88	68.30	4.42	46.29	61.48
T.J. Light[1]	56.98	60.93	3.95	42.61	56.07
Brent	68.69	73.66	4.97	50.64	66.74
W Texas Intermediate	70.88	74.33	3.46	52.42	67.84
Differentials					
WTI/Brent	2.19	0.67	-1.52	1.77	1.10
Brent/Dubai	3.47	4.49	1.03	4.96	6.36

Note: As of the 3W of June 2005, the price is calculated according the current Basket methodology that came into effect on June 16, 2005. BCF-17 data available only as of March 1, 2005.

As of January 2006, monthly and year-to-date average based on daily quotations.

[1] Previous Basket Components: Arab Light, Bonny Light, Dubai, Isthmus, Minas, Saharan Blend and T.J. Light.

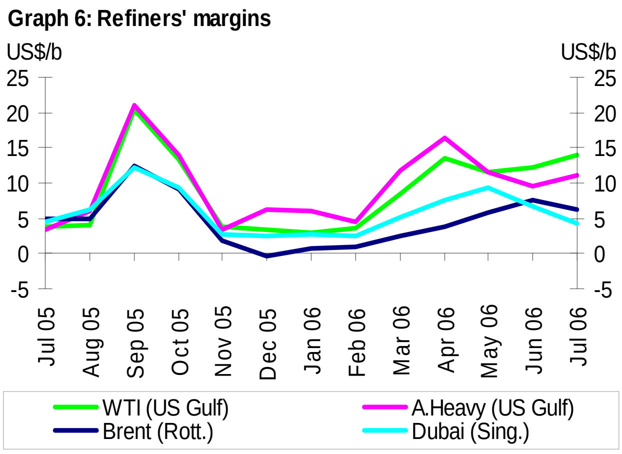
na not available.

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

Product Markets and Refinery Operations

Refinery margins fell in Europe and Asia

Refinery glitches and higher demand for different products due to the driving season and cooling requirements have further strengthened futures and physical product prices in the USA and resulted in higher refinery margins in July. European refiners, although benefiting from the gasoline arbitrage economy to the USA, still saw a decline in their margins compared to the previous month, due to the higher cost of the benchmark Brent crude and relatively sluggish regional demand.

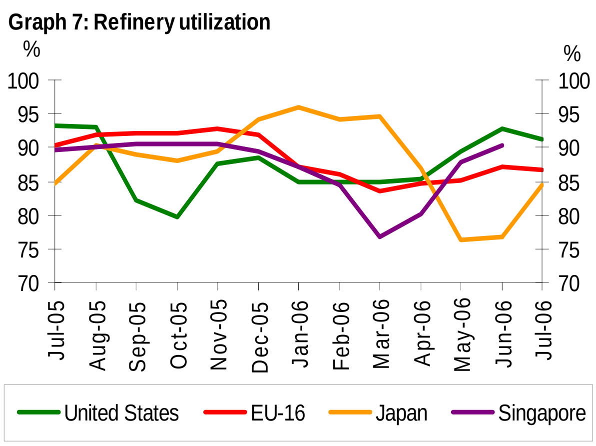


As **Graph 6** shows, refinery margins for WTI crude oil in the US Gulf Coast soared to $13.94/b in July from $12.25/b in the previous month, while margins for Brent in Rotterdam declined by $1.19/b to $6.33/b from $7.52/b in June. In Asia, the product market sentiment weakened in July, as the huge influx of fuel oil from other areas, coupled with higher regional production of gasoline and distillates, put downward pressure on the refinery margins of the benchmark Dubai crude, which dropped to $4.19/b from $6.72/b in the previous month.

Looking ahead, apart from the performance of the bottom of the barrel complex, which was very disappointing across the board, the remaining barrel components may also lose their earlier strength, as the end of the driving season is approaching and the attention of market players will shift to middle distillate stock levels, which look relatively comfortable across the globe and may narrow the current crack spreads of light products against the benchmark crudes. However, there exists uncertainty about the adverse effects of possible hurricanes in the US Gulf Coast, which may trigger another upward trend in crude and product prices.

Upon completion of major refinery maintenance schedules, the refinery utilization rate increased significantly in Asia

In the second quarter, most Asian refineries had a very heavy maintenance schedule, which affected their throughput levels negatively and supported light product prices. In July, most of these refineries were back to normal operation and increased their throughput levels. As **Graph 7** indicates, the Japanese refinery utilization rate surged by 7.5% to 84.3% from 76.8% in June. In the Atlantic Basin, while the maintenance schedule was already completed, unplanned outages have led to lower refinery throughputs in the USA and Europe. In the USA, the refinery utilization rate declined to 91.3% from 92.8% in June. European refineries followed suit, but the pace of the drop in their utilization rate was only a marginal 0.3% compared to the previous month.



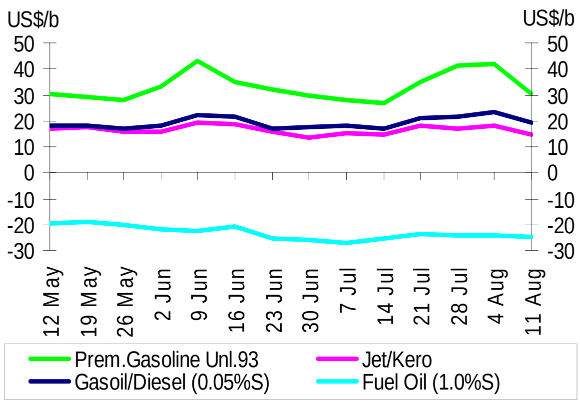
US market

Refinery glitches and rebounding demand for light products consolidated the upward trend in the US refinery margins

Upon completion of the major refinery maintenance, the US product market was expected to lose its earlier strength, but increasing demand and refinery snags have lent further support to the physical and futures product markets in the USA. According to the EIA, despite high gasoline prices, US demand in the last four weeks to 4 August rose to 9.6 mb/d, about 137,000 b/d higher compared to the same period of last year.

Following these developments, the weekly crack spread of premium gasoline against the WTI benchmark crude surged on 4 August to $41.85/b from about $30/b in late June (***see Graph 8***). **As far as middle distillates are concerned, recent demand is still lower than last year, but uncertainty about sufficient availability of ultra-low sulphur diesel has provided some support, lifting its price over the last few weeks. Similarly, a heat wave in the North-East has supported kerosene demand and prices.** Despite their current strength, light products in the USA may lose ground with the end of the summer driving season due to increased imports and high middle distillate stocks relative to last year. However, given the potential risk of hurricanes to the refining industry, the outlook for product prices and refinery margins in the USA could change drastically depending on the weather.

Graph 8: US Gulf crack spread vs. WTI



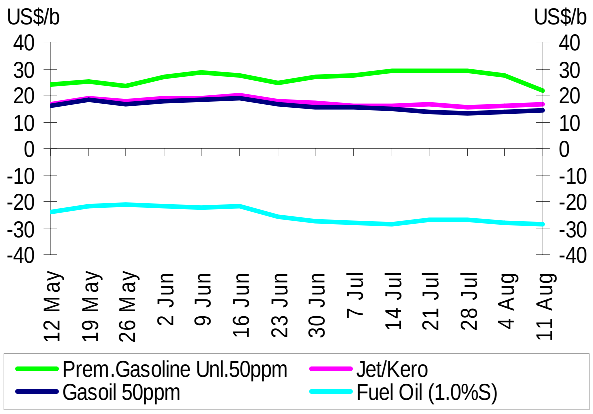
The record-high temperatures in the North-East have also provided support for low-sulphur fuel oil in the USA, and its crack spread versus WTI narrowed to about minus $24/b from minus $26.12/b in late June.

European market

Higher throughput costs eroded part of European refinery margins

Following the partial disruption of Nigerian crude oil and lower output of North Sea crude oil over the last few months, Brent crude oil has become more expensive compared to WTI, which has negatively impacted the refinery margins in Rotterdam. Additionally, the distillate market was relatively muted most of the time in July, which resulted in a narrowing of the gasoil crack spread versus the benchmark Brent crude to $13/b from $14.45/b in late June. However, continued problems at Saral's 285,000 b/d refinery, coupled with a major supply interruption at Lithuania's 263,000 b/d Mareikiaia refinery, lifted middle distillate prices again. If continued for a while, these refinery outages might boost speculative activities in the ICE market for gasoil.

Graph 9: Rotterdam crack spreads vs. Brent



The gasoline market has benefited from arbitrage opportunities to the USA, and its crack spread versus Brent remained strong, close to $29/b. With European gasoline demand continuing to shrink, any bearish developments in the US market could put downward pressure on gasoline prices in Europe, which relies on that market.

The European fuel market also depends on the Asian market, which is the main outlet for high-sulphur fuel oil. Record-high fuel stocks in Singapore have recently narrowed arbitrage opportunities to Asia, and the performance of the European high-sulphur fuel oil market has deteriorated further. However, hot weather in Southern Europe has slightly improved the crack spread of low-sulphur fuel oil versus Brent crude oil (***see Graph 9***).

Asian market

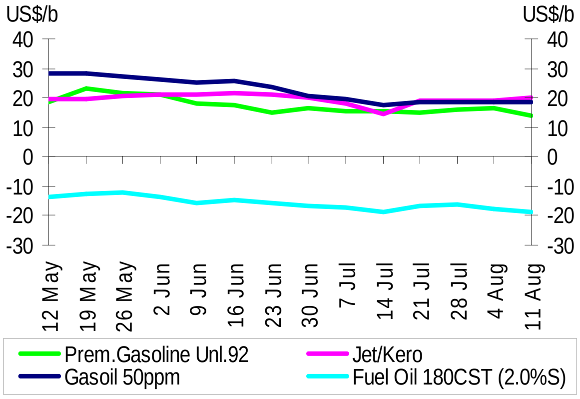
Asian product markets lost further ground in July

Increasing refinery throughput, huge arbitrage fuel oil cargoes, absence of strong regional demand and less favourable arbitrage opportunities for exporting light products to the west were the major developments of the Asian product markets in July. These circumstances consolidated the bearish momentum for the Asian product market and put downward pressure on refinery margins in this area.

In Asia, due to ample supply from South Korea, Taiwan, Japan and India, and the lack of strong regional demand, prices of the middle of the barrel complex plummeted sharply.

As **Graph 10** shows, the gasoil crack spread against the Dubai benchmark crude oil fell by $5.63/b to $18.56/b from $24.19/b in June. Additionally, higher production of gasoline and naphtha and less arbitrage opportunities to the US West Coast have also put downward pressure on its price. As a result, the gasoline crack spread versus the Dubai benchmark crude oil declined to $15.42/b from $17.59/b in the previous month and may lose further ground in the coming months.

Graph 10: Singapore crack spreads vs. Dubai



Apart from the relatively poor performance of the top and the middle of the barrel complex, due to the huge arbitrage cargoes from the west, the bearish momentum of the high sulphur fuel oil market deteriorated further and its crack spread against Dubai crude oil recorded minus $17.61/b on 4 August 2006. Ample regional supply and huge arbitrage fuel oil cargoes may also create some operational problems for Asian refiners in the future.

Table 2: Refined product prices, US$/b

		May 06	Jun 06	Jul 06	Change Jul/Jun
US Gulf (Cargoes):					
Naphtha		74.48	80.56	84.06	3.50
Premium gasoline	*(unleaded 93)*	100.04	106.21	108.10	1.89
Regular gasoline	*(unleaded 87)*	88.16	90.60	96.83	6.23
Jet/Kerosene		87.21	87.59	90.60	3.01
Gasoil	*(0.05% S)*	88.59	90.41	93.87	3.46
Fuel oil	*(1.0% S)*	51.32	48.46	50.29	1.83
Fuel oil	*(3.0% S)*	49.93	46.41	49.55	3.14
Rotterdam (Barges FoB):					
Naphtha		78.73	80.63	84.43	3.80
Premium gasoline	*(unleaded 50 ppm)*	93.84	95.72	102.17	6.45
Premium gasoline	*(unleaded 95)*	83.69	85.38	91.26	5.88
Jet/Kerosene		87.00	87.06	89.69	2.63
Gasoil/Diesel	*(50 ppm)*	86.03	86.13	87.80	1.67
Fuel oil	*(1.0% S)*	47.14	44.65	46.10	1.45
Fuel oil	*(3.5% S)*	48.13	44.60	46.79	2.19
Mediterranean (Cargoes):					
Naphtha		65.85	67.45	70.21	2.76
Premium gasoline	*(50 ppm)*	94.46	95.00	102.69	7.69
Jet/Kerosene		85.48	85.36	87.30	1.94
Gasoil/Diesel	*(50 ppm)*	87.09	85.85	88.92	3.07
Fuel oil	*(1.0% S)*	48.89	46.95	49.59	2.64
Fuel oil	*(3.5% S)*	46.44	44.47	46.80	2.33
Singapore (Cargoes):					
Naphtha		65.59	68.06	70.55	2.49
Premium gasoline	*(unleaded 95)*	86.80	82.76	85.50	2.74
Regular gasoline	*(unleaded 92)*	86.17	82.21	84.47	2.26
Jet/Kerosene		85.55	86.18	87.57	1.39
Gasoil/Diesel	*(50 ppm)*	92.78	89.13	88.17	-0.96
Fuel oil	*(180 cst 2.0% S)*	52.02	49.68	52.28	2.60
Fuel oil	*(380 cst 3.5% S)*	51.32	48.46	50.72	2.26

Table 3: Refinery operations in selected OECD countries

	Refinery throughput *mb/d*				**Refinery utilization** *%*			
	May 06	Jun 06	Jul 06	Jul/Jun	May 06	Jun 06	Jul 06	Jul/Jun
USA	15.32	15.90	15.63	-0.27	89.4	92.8	91.3	-1.50
France	1.60	1.57	1.74	0.17	80.9	79.3	88.1	8.80
Germany	2.33	2.30	2.34	0.04	96.0	94.7	96.5	1.80
Italy	1.77	2.00 R	1.88	-0.12	76.0	85.8 R	81.1	-4.70
UK	1.53	1.53 R	1.51	-0.02	81.6	81.6 R	80.3	-1.30
Eur-16	12.03	12.30 R	12.26	-0.04	85.1	87.1 R	86.8	-0.30
Japan	3.57	3.59	3.94	0.35	76.3	76.8	84.3	7.50

R *Revised since last issue.*

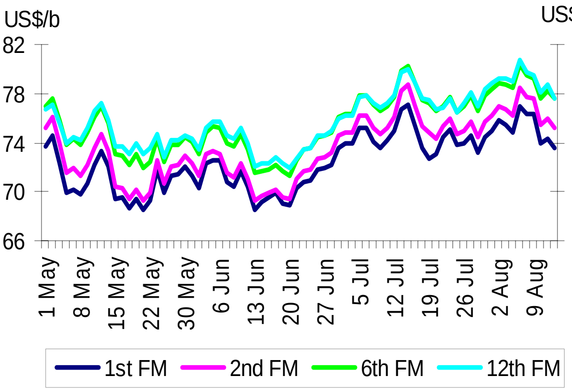
Sources: *OPEC statistics; Argus; Euroilstock Inventory Report; IEA.*

The Oil Futures Market

Escalating geopolitical tensions prompted renewal of fund buying

Futures oil prices surged in July peaking just over $77/b on escalating geopolitical tensions, and rosy economic growth spurred demand for gasoline. In the first weekly period, the CFTC reported that non-commercials increased their longs while decreasing shorts. Hence, the net longs were inflated by 8,400 lots to 45,300. Open interest was higher by 22,000 contracts to surpass the 1 million level. Nymex WTI closed at $73.93/b or nearly 3% higher.

Graph 11: Nymex WTI futures prices, 2006



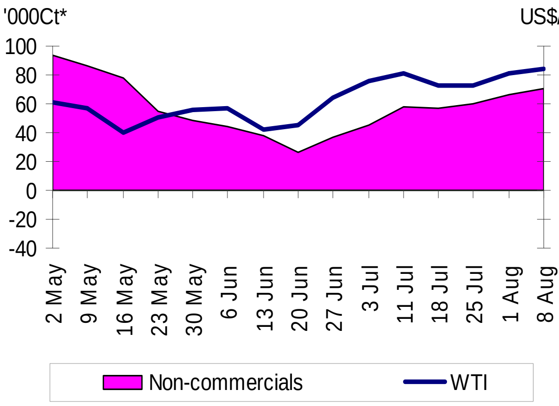
FM = future month

In the second weekly period, futures contracts closed higher on continued fear of a possible supply shortfall amid rising demand for gasoline. Nymex WTI closed a marginal 23¢ higher to settle at $74.16/b, after peaking at over $75, in part on fund sell-offs for profit-taking. Nevertheless, jitteriness inspired a healthy 17,000 increase in the non-commercial longs allowing the net long positions at nearly 57,800 lots. Open interest also saw another hefty build of almost 50,000 contracts.

While the continued draw on gasoline and crude oil inventories amid rising demand in the USA and the escalating crisis in the Middle East pushed prices higher, an attempt by the G-8 to calm tensions inspired fund sell-offs for profit-taking. Hence, Nymex WTI closed the third weekly period 62¢ lower at $73.54/b. Non-commercials reduced net longs by a marginal 1,000 lots to 56,800 lots. Yet, open interest was up another significant 25,300 lots to 1,086,800 contracts.

In the fourth weekly period, renewed Mideast geopolitical tensions maintained alertness in place with a spate of refinery problems in the USA, amid firming demand for gasoline, which rekindled worries in the height of the summer driving season. However, sell-offs for profit-taking after recent rallies prevented the front-month contract from escalating further. The Nymex WTI contract closed the fourth weekly period up a marginal 21¢ at $73.75/b. The CFTC reported that the non-commercial short positions were liquidating at a faster rate than the longs; hence, net longs surged by some 3,500 lots to 60,300 contracts. Moreover, open interest was down for the first time in five weeks, dropping 35,400 lots to 1,051,350 contracts.

Graph 12: Non-commercial net long positions vs WTI, 2006



The bullish sentiment continued in the final days of the month amid uncertainty over supply recovery from West Africa. Rising demand for gasoline and a heat wave increased demand for electricity. The CFTC indicators for the period closed in the final days up to the first day of August revealed that non-commercials had increased their long positions while reduced the shorts.

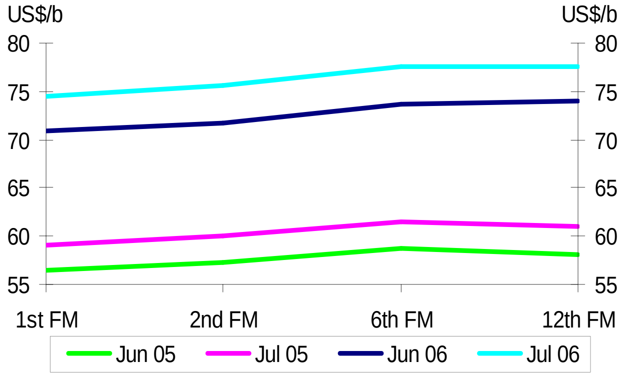
The monthly average for the Nymex WTI front-month was $74.49/b representing a gain of $3.52 or almost 5% over the previous month. Net non-commercial positions averaged 55,000 lots for the month, representing a gain of nearly 19,000 over the previous month and 30,600 over last year. Open interest was at 1,053,300 contracts, 41,000 over last month and over 236,000 over the previous year.

The contango widened on slower buying interest which depleted crude stocks

The Forward Structure

The forward structure continued and widened further in contango in July. The 1st/2nd month spread was \$1.25/b or 53¢ wider than in the previous month. The 1st/6th, 12th and 18th spreads were \$3.14, \$3.28 and \$2.48/b, corresponding to 46¢, 28¢ and 41¢/b wider than the previous month respectively. Nevertheless, US crude oil stocks dropped by 7.3 mb to 333 mb compared to the previous month, due to slower buying interest amid rising prices which widened the contango, although stocks were some 13 mb over the same period last year.

Graph 13: Nymex WTI forward curve



FM = future month

The Tanker Market

OPEC spot fixtures declined slightly in July but were 0.85 mb/d higher than a year ago

After having increased by more than 2.6 mb/d between April and June, preliminary data shows that OPEC spot fixtures declined slightly in July to average 14.4 mb/d, down 90,000 b/d from the previous month but 0.85 mb/d higher than a year ago. The slow-down in OPEC spot fixtures is essentially due to a fall in OPEC crude oil production. Despite this marginal drop, OPEC's share in total spot fixtures increased two percentage points to hit 68%, the highest level since January 2006 and 6 percentage points above the same period last year. The decline in OPEC spot fixtures was attributed to countries outside the Middle East, especially Nigeria which faced some output disruptions. In contrast, fixtures from the Middle East (including non-OPEC countries) rose 0.5 mb/d or 7% to average 7.9 mb/d, their highest level in 2006 apart from January. Eastbound fixtures were the main contributor with 83% of the increase after Asian refiners turned to Middle Eastern grades following the increase in the price premiums of West African crudes. Compared to a year earlier, Middle East/eastbound fixtures were 1.1 mb/d higher while westbound fixtures fell 0.3 mb/d. Non-OPEC spot fixtures declined by almost 10% or 0.75 mb/d to average 6.9 mb/d, representing a five-month low and a 1.2 mb/d drop from last year. Consequently, total spot fixtures (OPEC and non-OPEC) moved down 0.83 mb/d or 3.8% to average 21.3 mb/d, nearly 0.3 mb/d lower than a year earlier.

Similarly, OPEC sailings dropped 80,000 b/d in July to average 24.52 mb/d but remained 0.3 mb/d above the year-earlier level. The drop in sailings came essentially as a result of the slow-down in chartering. Sailings from the Middle East rose 0.9 mb/d or 5% to 18.4 mb/d, implying that most of the drop in OPEC sailing can be attributed to countries outside the Middle East.

According to preliminary data from secondary sources, arrivals at the main importing regions showed mixed patterns. The US Gulf Coast, East Coast and the Caribbean saw arrivals increase 0.35 mb/d or 3% to hit a record-high of 12.0 mb/d in July, which was 1.1 mb/d more than last year, while arrivals at North-West Europe increased 0.08 mb/d to average 8.0 mb/d. In contrast, arrivals at the Euro Mediterranean basin dropped 0.1 mb/d to average nearly 4.4 mb/d, down 0.23 mb/d from last year.

Table 4: Tanker chartering, sailings and arrivals, mb/d

	May 06	Jun 06	Jul 06	Change Jul/Jun
Spot Chartering				
All areas	21.80	22.13	21.29	-0.83
OPEC	14.21	14.51	14.42	-0.09
Middle East/east	5.72	5.77	6.20	0.43
Middle East/west	1.94	1.60	1.69	0.09
Sailings				
OPEC	23.83	24.59	24.52	-0.08
Middle East	17.35	17.51	18.40	0.89
Arrivals				
US Gulf Coast, US East Coast, Caribbean	9.19	11.61	11.96	0.35
North West Europe	7.80	7.91	7.99	0.08
Euromed	3.79	4.47	4.37	-0.10

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

The crude oil tanker market remained bullish and rates approached the record-highs of 2004

The crude oil tanker market got very bullish in July on the return of refineries from their seasonal maintenance programmes with spot freight rates continuing to increase significantly on almost all routes reaching record-highs by the end of the month. **VLCC owners doing business on the long-haul Middle East/eastbound route made substantial gains with rates increasing 25 points or 23% to hit a monthly average of WS133, their highest level so far this year** on reduced tonnage availability throughout the month. The number of available VLCCs for the following 30 days moved from an average of 53 VLCCs in the Middle East during the first week of the month to less than 40 vessels during the third week. Availability tightened as 120 tankers were booked in July, up from 100 VLCCs in the previous month, with Shell leading the charterers shipping crude oil out of the Middle East. In contrast to the eastbound routes, Middle East/westbound routes saw rates remain stable at WS94. Nevertheless, when compared to a year earlier, spot rates on this latter route were 30% higher. In the Suezmax sector, West Africa/US Gulf Coast and the trans-Atlantic routes saw rates rise 24 points each to average WS156 and WS152 respectively, which was around 46 points higher than a year ago. Following almost the same trend, freight rates in the Aframax sector gained 60 points or 40% on the **Mediterranean/North West Europe route to hit a historical high of WS207 for the month of July.** Freight rates within the Mediterranean basin rose 32 points to WS182, while on the Indonesia/US West Coast route rates gained 53 points to average WS202, the second-highest level this year after January. The exception in the Aframax sector was in the Caribbean where rates lost 12 points to stand at WS211, the lowest level in 2006. The weakness in freight rates in the Caribbean was attributed to thin trade in the region where the number of fixtures from the Caribbean to the USA averaged 36 in July compared to 53 the month before. In the Aframax sector, **rates on the Indonesia/US West Coast, the Caribbean/US East Coast and the Mediterranean/North West Europe routes were even higher than in July 2004, the year where rates hit their historical annual levels.**

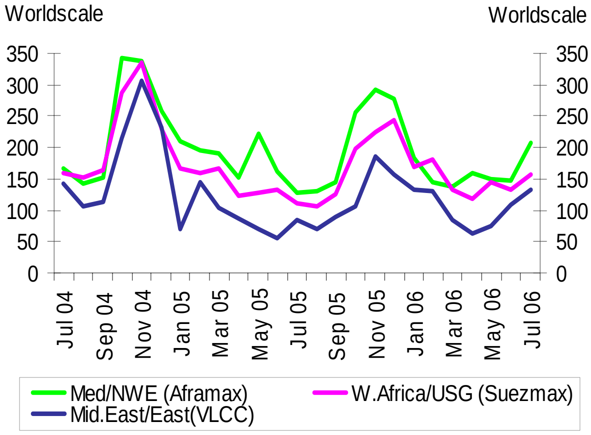
Table 5: Spot tanker freight rates, Worldscale

	Size 1,000 DWT	May 06	Jun 06	Jul 06	Change Jul/Jun
Crude					
Middle East/east	230-280	75	108	133	25
Middle East/west	270-285	78	95	94	-1
West Africa/US Gulf Coast	130-135	144	132	156	24
NW Europe/USEC - USGC	130-135	137	128	152	24
Indonesia/US West Coast	80-85	119	149	202	53
Caribbean/US East Coast	50-55	225	223	211	-12
Mediterranean/Mediterranean	80-85	167	150	182	32
Mediterranean/North-West Europe	80-85	149	147	207	60
Products					
Middle East/east	30-35	316	276	202	-74
Singapore/east	30-35	327	274	244	-30
Caribbean/US Gulf Coast	38-40	240	235	335	100
NW Europe/USEC - USGC	33-37	263	253	313	60
Mediterranean/Mediterranean	30-35	245	232	296	64
Mediterranean/North-West Europe	30-35	250	237	306	69

Source: Galbraith's Tanker Market Report and others.

The clean tanker market showed a mixed pattern with rates recovering in the West and falling further in the East

Graph 14: Monthly averages of crude oil spot freight rates



The clean tanker market remained bullish on most routes, except in the Middle East and Singapore where rates declined from their high levels of May and June. Freight rates on the Middle East/Asia route lost 74 points or 27% to average WS202, while rates on the Singapore/Asia route dropped 30 points or 11% to stand at a monthly average of WS244. The softness in the freight rates on these routes came as a correction of the extremely high levels displayed in the previous months. However, despite the softness, rates on both routes remained profitable for ship-owners. In contrast to tankers trading in the East, those doing business in the West saw rates recovering significantly, especially on the Caribbean/US Gulf Coast route where rates spiked 100 points or 42% to hit WS335, the second-highest level in 2006 after January, while within the Mediterranean and from there to North-West Europe and on the trans-Atlantic routes, rates gained between 60 and 70 points to average WS296, WS306 and WS313 respectively. **Compared to a year earlier, all routes in the clean market performed better in July, except for the East where rates were 20% lower.**

World Oil Demand

Global oil demand in 2005 estimated unchanged at 82.2 mb/d

Estimate for 2005

Global oil demand in 2005 is estimated to grow by 1 mb/d or 1.2% to average 83.2 mb/d, unchanged from the previous growth assessment in the last *MOMR*. OECD oil demand growth for 2005 contributed only 19% of total world oil demand growth.

Developing Countries dominated demand growth in 2005, accounting for 85% of incremental world oil demand. China’s apparent demand appears to have risen by a disappointing 0.2% in sharp contrast to a GDP growth rate of nearly 10%.

World oil demand growth in 2006 revised down by 0.08 mb/d to 1.3 mb/d

World oil demand in 2006

World oil demand in 2006 is estimated to average 84.5 mb/d, representing growth of 1.3 mb/d or 1.6%. Stronger than anticipated world economic growth has led to an upward revision to GDP of 0.1% this month. As a result of the unexpected decline in oil demand in the OECD countries in the second quarter of the year, world oil demand growth was revised down by 0.08 mb/d. The planned attack on airliners in London is expected to dent jet fuel demand, at least in the short run.

Strong economic growth from China has boosted oil demand, particularly for light products such as naphtha, jet fuel and diesel as well as fuel oil. The economic boom in the Middle East makes the region the second-largest contributor to this year's oil demand growth after China. High oil prices have somewhat dampened oil demand growth, especially in some Asian countries. China and India are taking renewable energy serious, with pollution and energy costs as the main factors driving the renewable energy efforts in Asia.

Table 6: World oil demand forecast for 2006, mb/d

							Change 2006/05	
	2005	1Q06	2Q06	3Q06	4Q06	2006	Volume	%
North America	25.46	25.11	25.30	25.85	25.93	25.55	0.09	0.36
Western Europe	15.48	15.74	14.93	15.57	15.75	15.50	0.02	0.12
OECD Pacific	8.59	9.31	7.91	8.12	9.02	8.59	0.00	-0.02
Total OECD	**49.53**	**50.16**	**48.14**	**49.53**	**50.71**	**49.64**	**0.11**	**0.22**
Other Asia	8.68	8.77	8.96	8.66	8.84	8.81	0.13	1.50
Latin America	5.07	4.99	5.19	5.30	5.23	5.18	0.11	2.20
Middle East	5.82	6.04	6.12	6.32	6.14	6.15	0.34	5.79
Africa	2.89	2.96	2.95	2.93	3.00	2.96	0.07	2.37
Total DCs	**22.45**	**22.76**	**23.22**	**23.21**	**23.21**	**23.10**	**0.65**	**2.88**
FSU	3.82	3.69	3.64	3.84	4.05	3.81	-0.01	-0.31
Other Europe	0.88	0.97	0.90	0.88	0.88	0.91	0.02	2.36
China	6.54	7.09	7.27	6.84	7.10	7.08	0.54	8.20
Total "Other Regions"	**11.25**	**11.75**	**11.82**	**11.57**	**12.03**	**11.79**	**0.55**	**4.85**
Total world	**83.23**	**84.67**	**83.18**	**84.30**	**85.95**	**84.53**	**1.30**	**1.56**
Previous estimate	83.23	84.69	83.50	84.30	85.94	84.61	1.38	1.66
Revision	0.00	-0.02	-0.32	0.00	0.00	-0.08	-0.08	-0.10

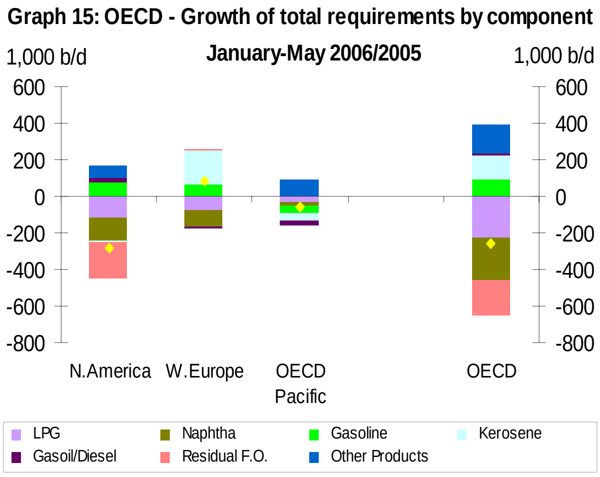
Totals may not add due to independent rounding.

Escalating commodity prices, including oil, forced the Indian central bank to raise interest rates to curb inflation and maintain economy growth rate at 7.5%. In an effort to reduce the losses that the refiners are incurring because of the high world oil prices, the Indian government is considering using the hard solution, which would be to reduce taxes on oil products instead of increasing retail petroleum products prices, according to IOD. In fact, the Indian government slightly increased oil prices last quarter due to pressure from refiners. July preliminary data points to strong demand for oil in India exceeding the average seen in the first half of the year.

Estimate for first half of 2006

North America demand in the second quarter revised down by 0.14 mb/d

World oil demand in the second quarter of the year was weaker than expected. Recent data regarding OECD oil demand indicated a huge decline in the second quarter. However, China's oil demand data showed higher consumption, which partially offset the decline in OECD countries.



The latest data stated that the US summer gasoline demand is strong despite high gasoline prices; however, demand growth for transport fuel did not offset the decrease in fuel oil. Therefore, second-quarter oil demand for North America was revised down by 0.14 mb/d. One of the main factors behind sluggish US oil demand in the first half of 2006 is the fact that high oil prices encouraged power generation plants to substitute oil with gas.

OECD demand the second quarter adjusted 0.4 mb/d downward

With the OECD economies slowing down, the decline in oil demand was a result of alternative fuel strategy and improved energy efficiencies. In total, oil demand in the OECD countries was revised down by 0.4 mb/d for the second quarter.

Due to the high US demand for gasoline in the summer, gasoline stocks are low despite strong import gasoline imports, and a record-high of gasoline output. According to the EIA, US y-o-y gasoline demand and imports in the first seven months were 0.6% and 14.5% higher respectively. So far, gasoline demand is less than the average of 1.6% seen in a typical year in the USA. US y-o-y distillate demand in the first seven months increased by 1.7%. North America's y-o-y oil demand in the second quarter declined by 0.03 mb/d.

OECD Europe

Western Europe demand for the second quarter revised down by 0.1 mb/d

Even though the past cold winter boosted oil demand for Europe, growth for the whole year is not going to reach 0.2%. Early data reflected the expected summer oil demand increase in July in Europe, but it is not likely to offset sluggish demand for the year. Germany's oil imports were flat in the first half of the year; however, the 5% increase in air travel within Western Europe in July supported jet fuel demand. Western Europe's recent data showed weaker second-quarter oil demand growth leading to a downward revision of 0.1 mb/d. OECD Europe's oil demand is expected to decline by 0.2 mb/d in the second quarter to average 14.9 mb/d.

OECD Pacific

OECD Pacific second-quarter oil demand showed a decline of 0.15 mb/d to average 7.9 mb/d

Although the South Korean crude imports showed a y-o-y increase of 3% in June, product demand declined by 0.8%. South Korea's diesel consumption was up in June by 13% in response to the new 10% tax hike effective 1 July. Also, slower oil demand in the industrial sector in South Korea caused OECD Pacific consumption to decline. As was mentioned in the June *MOMR*, Japan's summer gasoline season was weak due to bad weather. Because of these reasons, second-quarter oil demand for the region was revised down by 0.18 mb/d. In the Pacific region, the oil demand indicators are positive; however, oil demand is not picking up as expected. The six-month y-o-y oil import was up by 3%, product stocks fell by 0.7%, and refinery utilization rose to 86%. The OECD Pacific second-quarter oil demand showed a decline of 0.15 mb/d to average 7.9 mb/d.

Developing Countries

Other Asian demand growth in the second quarter estimated at 0.1 mb/d

Strong economic growth in the Middle Eastern countries continued to strengthen demand, with oil consumption for the second quarter estimated at 0.33 mb/d. Continuing efforts by the Thai government to reduce oil demand by 10% within two years has resulted in decreased oil demand which can be seen mainly in gasoline and diesel consumption. According to the Ministry of Energy, over the past six months, diesel and gasoline demand fell 9.3% and 3% respectively compared with the same period last year.

Oil demand in the Other Asia region is picking up more than expected. The increase in domestic prices in some Asian countries has affected oil demand growth negatively, although the continuing economic boom has pushed oil demand further up. India's oil demand growth bounced back in the second quarter to 5.3% after a disappointing flat growth in the first quarter. Hence, second-quarter oil demand growth in Other Asia was revised up by only a moderate 0.06 mb/d. Other Asia y-o-y second-quarter oil demand growth is estimated at 0.12 mb/d to average 8.96 mb/d.

Other Regions

Growth in China revised up for the second quarter reflecting higher than expected consumption

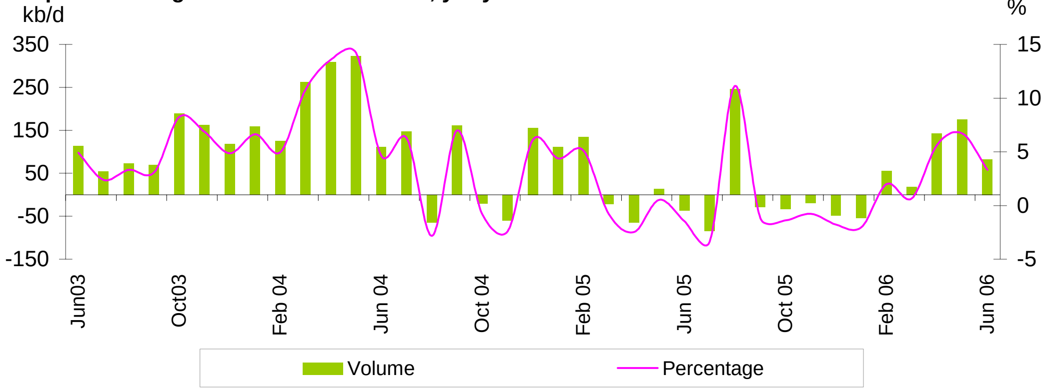
China's economy grew by a stunning 11% in June, which should result in higher oil consumption. Cheap administered oil product prices in China caused the first half y-o-y car sales to climb by more than a third. China's June data showed double digit oil demand growth of 15%. The hot summer put pressure on electricity demand which affected fuel oil demand positively. Also the June y-o-y refinery throughput was 10% higher. The increase in refinery margins pushed for more imports of fuel oil. China's June fuel oil import jumped to almost 30% in comparison to the same month a year ago. Hence second-quarter oil demand growth was revised up by 0.18 mb/d to reflect the higher than expected oil demand in China.

China's CTL is not advancing as predicted. The project faces large risks and it depends on governmental subsidies. With the existing technology, the CTL should not pose any threat to oil demand. If oil prices stay as they are, the CTL may replace slightly more than 1% of China's gasoline demand by 2011. The improvement of the electricity system's reliability, which decreased the electricity shortage in the peak of this summer, has also reduced the demand for diesel.

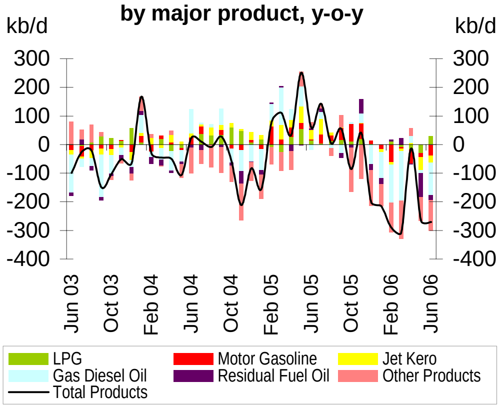
Second quarter oil demand in FSU and Other Europe revised downward by 0.04 mb/d and 0.07 mb/d respectively

FSU cargo transportation grew by 1.5% in the first six months of this year. Although the jet fuel consumption in the FSU is on the decline, the usage of fuel oil increased in the first half of 2006**.** Oil demand in the FSU and Other Europe was worse than expected; the latest data showed a slight decline in the second quarter, which resulted in a downward revision for both by 0.04 mb/d and 0.07 mb/d respectively. As was seen in the first quarter for the FSU, the high oil prices encouraged companies to boost exports in the second quarter, which in return affected the apparent demand negatively.

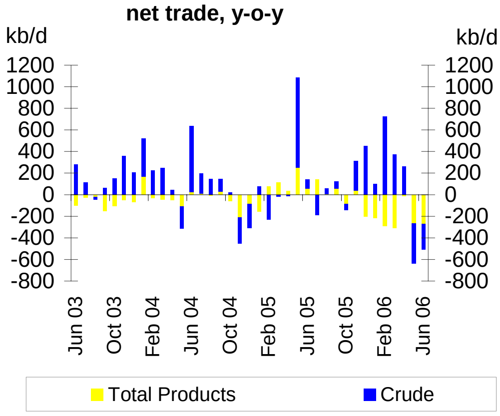
Graph 16: Changes in Indian oil demand, y-o-y



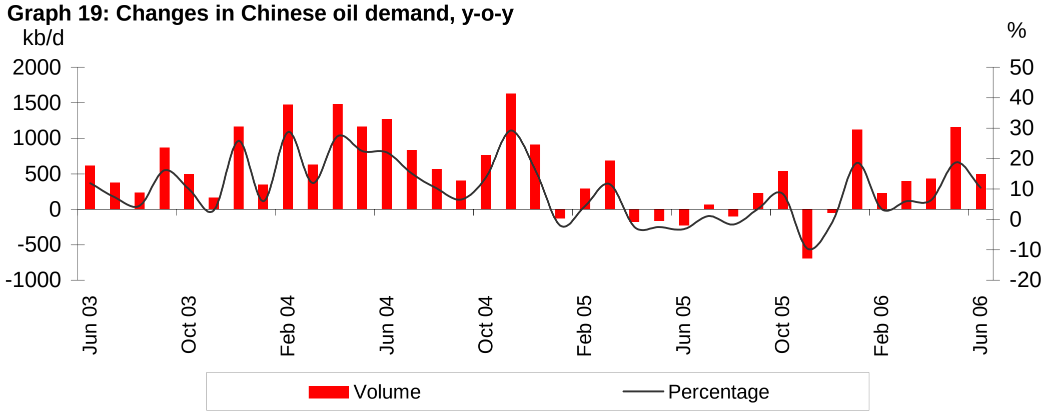
Graph 17: Changes in Indian oil net imports by major product, y-o-y



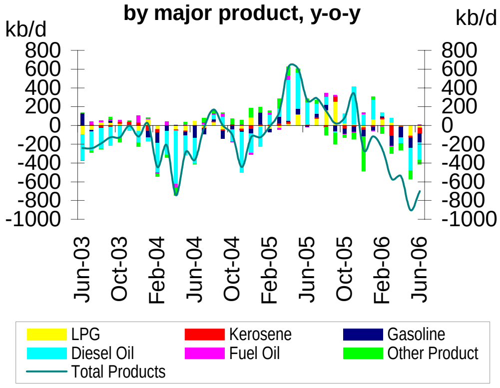
Graph 18: Changes in Indian oil and product net trade, y-o-y



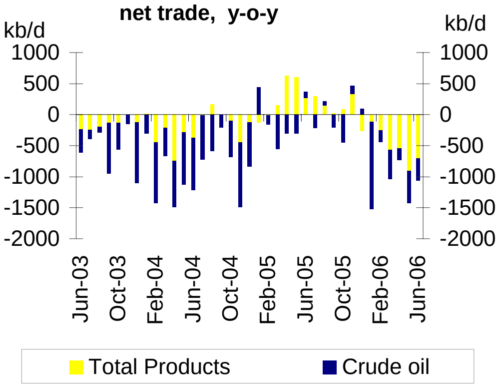
Graph 19: Changes in Chinese oil demand, y-o-y



Graph 20: Changes in Chinese oil net imports by major product, y-o-y



Graph 21: Changes in Chinese oil and product net trade, y-o-y



Forecast for 2006 demand

OECD

North America oil demand growth in 2006 estimated at 0.1 mb/d to average 25.6 mb/d

The heat wave in the USA is putting pressure on the electricity demand. In some states, the grid was below the 7% emergency minimum requirement. For several reasons, the month of August is a critical month for oil demand in the USA, as it is the peak of the summer and the hurricane season. Due to the declining oil demand in the first half of the year, North American oil demand growth was revised down by 0.04 mb/d for 2006. Growth in the second half of this year is expected to be somewhat stronger given the stabilization of gasoline prices, continued economic expansion, and normal weather in the fourth quarter. 2006 oil demand growth in North America is estimated at 0.09 mb/d to average 25.6 mb/d. Economic indicators in the EU are improving, thus reflecting industrial production growth. The unemployment rate is at a record-low for the second month. However, oil demand growth in the third quarter will remain weak and is not likely to offset the decline observed in the first half of the year.

OECD countries oil demand expected to grow by 0.1 mb/d in 2006

Oil demand in OECD Western Europe is projected to increase by a moderate 0.02 mb/d to average 15.5 mb/d in 2006. Elsewhere, OECD Pacific oil demand is expected to increase in the fourth quarter. This increase will mainly be due to the pickup in economic growth in South Korea and sustained economic growth in Japan. However, regional oil demand will go into decline in 2006. Hence, the OECD Pacific's oil demand was revised down by 0.04 mb/d for 2006. In total, oil demand from OECD is expected to grow by 0.1 mb/d in 2006.

Developing Countries

Oil demand growth in DCs expected at 0.6 mb/d in 2006; Middle East demand expected to increase by 0.3 mb/d to average 6.2 mb/d

Developing Countries account for 92% of world oil demand growth in 2006. The 2006 oil demand growth in DCs is expected at 0.65 mb/d in 2006 to average 23.10 mb/d. Strong economic activities in the Middle East are expected to last until year-end. In general, the Middle East is shielded from the negative effect of high oil prices on consumption. Oil demand for the Middle East for the whole year is expected to increase by 0.34 mb/d to average 6.2 mb/d.

In Other Asia, domestic price subsidies have been reduced or removed in several countries, which led to a dampening of oil demand growth early in the year; however, this negative effect eased in the second quarter. The slowing economy of Thailand is not only expected to affect oil demand for this year but also encourage users to switch to alternative fuels whenever possible. Oil demand growth in Other Asia is expected to increase by a moderate 0.13 mb/d to total 8.8 mb/d for this year. Indian oil demand is advancing after a disappointing first quarter. With the strong pace of the Indian economy, oil demand is expected to be healthy until year-end. Vigilance has to be mentioned here; in an effort to slow down the roaring economy, the Indian government raised the interest rate to 6%, the highest rate in four years.

Other Regions

Demand in China expected to stay strong in 2006, growing by 0.5 mb/d to average 7.1 mb/d

China's recent price increase for petroleum products helped refiners to provide more petroleum products for the summer peak, and the expected negative impact on oil demand might not be seen in the short term. Due to the surprisingly strong demand in the second quarter, Chinese oil demand growth for 2006 was revised up by 0.04 mb/d. China's oil demand growth is expected to stay strong and increase by 0.54 mb/d to average 7.1 mb/d in 2006. A booming manufacturing sector along with a warmer summer is a major factor in oil demand growth this year. Again, rising domestic car sales and the expected filling of the new Chinese strategic storage will also increase oil demand during 2006. Increased air transportation pushed the demand for jet fuel for the third quarter and is expected to last until year-end.

Table 7: First and second quarter world oil demand comparison for 2006, mb/d

			Change 2006/05				Change 2006/05	
	1Q05	1Q06	Volume	%	2Q05	2Q06	Volume	%
North America	25.57	25.11	-0.46	-1.78	25.34	25.30	-0.03	-0.13
Western Europe	15.58	15.74	0.16	1.03	15.15	14.93	-0.22	-1.43
OECD Pacific	9.45	9.31	-0.14	-1.48	8.06	7.91	-0.15	-1.86
Total OECD	**50.59**	**50.16**	**-0.44**	**-0.86**	**48.54**	**48.14**	**-0.40**	**-0.83**
Other Asia	8.71	8.77	0.06	0.66	8.84	8.96	0.12	1.41
Latin America	4.89	4.99	0.10	1.99	5.07	5.19	0.11	2.25
Middle East	5.65	6.04	0.38	6.76	5.79	6.12	0.33	5.72
Africa	2.90	2.96	0.07	2.31	2.89	2.95	0.07	2.26
Total DCs	**22.16**	**22.76**	**0.60**	**2.73**	**22.58**	**23.22**	**0.63**	**2.81**
FSU	3.87	3.69	-0.18	-4.68	3.70	3.64	-0.05	-1.41
Other Europe	0.93	0.97	0.03	3.53	0.88	0.90	0.02	2.28
China	6.51	7.09	0.58	8.91	6.58	7.27	0.70	10.56
Total "Other Regions"	**11.32**	**11.75**	**0.43**	**3.82**	**11.15**	**11.82**	**0.66**	**5.94**
Total world	**84.07**	**84.67**	**0.60**	**0.72**	**82.28**	**83.18**	**0.90**	**1.09**

Totals may not add due to independent rounding.

Table 8: Third and fourth quarter world oil demand comparison for 2006, mb/d

			Change 2006/05				Change 2006/05	
	3Q05	3Q06	Volume	%	4Q05	4Q06	Volume	%
North America	25.51	25.85	0.34	1.34	25.43	25.93	0.50	1.97
Western Europe	15.55	15.57	0.02	0.10	15.64	15.75	0.12	0.74
OECD Pacific	8.08	8.12	0.04	0.53	8.79	9.02	0.24	2.69
Total OECD	**49.13**	**49.53**	**0.40**	**0.82**	**49.86**	**50.71**	**0.85**	**1.71**
Other Asia	8.53	8.66	0.13	1.49	8.63	8.84	0.21	2.43
Latin America	5.19	5.30	0.11	2.09	5.11	5.23	0.13	2.47
Middle East	6.01	6.32	0.31	5.09	5.81	6.14	0.33	5.66
Africa	2.84	2.93	0.08	2.88	2.94	3.00	0.06	2.04
Total DCs	**22.58**	**23.21**	**0.62**	**2.76**	**22.49**	**23.21**	**0.72**	**3.22**
FSU	3.78	3.84	0.07	1.74	3.93	4.05	0.12	2.96
Other Europe	0.87	0.88	0.01	1.04	0.86	0.88	0.02	2.55
China	6.43	6.84	0.42	6.46	6.64	7.10	0.46	6.88
Total "Other Regions"	**11.08**	**11.57**	**0.49**	**4.42**	**11.43**	**12.03**	**0.60**	**5.21**
Total world	**82.79**	**84.30**	**1.52**	**1.83**	**83.77**	**85.95**	**2.17**	**2.59**

Totals may not add due to independent rounding.

Forecast for 2007 demand

World oil demand growth for 2007 forecast at 1.3 mb/d or 1.5%

The world oil demand forecast for 2007 remains unchanged from last month. World oil demand growth for the coming year is expected at 1.3 mb/d or 1.5%. China will lead demand growth with 0.42 mb/d, followed by the Middle East with 0.30 mb/d and the OECD with 0.24 mb/d. The booming economies of China and the Middle East are expected to play the major role in next year's oil demand growth. The relationship between energy consumption and economic growth is weaker, mainly due to the impact of high oil prices, which is eroding oil demand growth. Finally, downstream bottlenecks are expected to continue in the coming year, as refining expansions are not keeping up with world demand growth for petroleum products. Vigilance has to be noted here with regard to China's oil demand for the year 2007. Starting in 2007, according to China's WTO agreement, the domestic retail petroleum market has to be completely opened to foreign competition, which will end the long lasting monopoly of the two national companies of China.

Table 9: World oil demand forecast for 2007, mb/d

							Change 2007/06	
	2006	1Q07	2Q07	3Q07	4Q07	2007	Volume	%
North America	25.55	25.61	25.42	25.96	26.06	25.76	0.21	0.83
Western Europe	15.50	15.59	15.03	15.63	15.81	15.52	0.02	0.13
OECD Pacific	8.59	9.41	7.82	8.13	9.03	8.59	0.01	0.09
Total OECD	**49.64**	**50.61**	**48.27**	**49.73**	**50.89**	**49.87**	**0.24**	**0.48**
Other Asia	8.81	8.85	9.08	8.87	9.04	8.96	0.15	1.76
Latin America	5.18	5.12	5.28	5.38	5.29	5.27	0.09	1.74
Middle East	6.15	6.33	6.35	6.67	6.47	6.46	0.30	4.88
Africa	2.96	3.02	3.00	2.97	3.06	3.01	0.05	1.74
Total DCs	**23.10**	**23.31**	**23.71**	**23.90**	**23.86**	**23.70**	**0.60**	**2.58**
FSU	3.81	3.78	3.58	3.77	4.14	3.82	0.01	0.27
Other Europe	0.91	1.01	0.88	0.91	0.95	0.93	0.03	3.17
China	7.08	7.42	7.75	7.33	7.49	7.50	0.42	5.92
Total "Other Regions"	**11.79**	**12.20**	**12.21**	**12.00**	**12.58**	**12.25**	**0.46**	**3.88**
Total world	**84.53**	**86.12**	**84.19**	**85.63**	**87.34**	**85.82**	**1.29**	**1.53**
Previous estimate	84.61	86.14	84.51	85.62	87.33	85.90	1.29	1.53
Revision	-0.08	-0.02	-0.32	0.00	0.00	-0.08	0.00	0.00

Totals may not add due to independent rounding.

Table 10: First and second quarter world oil demand comparison for 2007, mb/d

			Change 2007/06				Change 2007/06	
	1Q06	1Q07	Volume	%	2Q06	2Q07	Volume	%
North America	25.11	25.61	0.50	1.97	25.30	25.42	0.12	0.46
Western Europe	15.74	15.59	-0.15	-0.94	14.93	15.03	0.10	0.68
OECD Pacific	9.31	9.41	0.10	1.12	7.91	7.82	-0.09	-1.16
Total OECD	**50.16**	**50.61**	**0.45**	**0.90**	**48.14**	**48.27**	**0.13**	**0.26**
Other Asia	8.77	8.85	0.08	0.86	8.96	9.08	0.12	1.35
Latin America	4.99	5.12	0.13	2.58	5.19	5.28	0.09	1.70
Middle East	6.04	6.33	0.29	4.81	6.12	6.35	0.24	3.86
Africa	2.96	3.02	0.05	1.79	2.95	3.00	0.05	1.62
Total DCs	**22.76**	**23.31**	**0.55**	**2.40**	**23.22**	**23.71**	**0.49**	**2.13**
FSU	3.69	3.78	0.09	2.32	3.64	3.58	-0.06	-1.76
Other Europe	0.97	1.01	0.04	4.52	0.90	0.88	-0.02	-2.37
China	7.09	7.42	0.32	4.53	7.27	7.75	0.48	6.57
Total "Other Regions"	**11.75**	**12.20**	**0.45**	**3.83**	**11.82**	**12.21**	**0.39**	**3.32**
Total world	**84.67**	**86.12**	**1.45**	**1.71**	**83.18**	**84.19**	**1.01**	**1.22**

Totals may not add due to independent rounding.

Table 11: Third and fourth quarter world oil demand comparison for 2007, mb/d

			Change 2007/06				Change 2007/06	
	3Q06	3Q07	Volume	%	4Q06	4Q07	Volume	%
North America	25.85	25.96	0.12	0.45	25.93	26.06	0.12	0.47
Western Europe	15.57	15.63	0.07	0.43	15.75	15.81	0.06	0.36
OECD Pacific	8.12	8.13	0.01	0.17	9.02	9.03	0.00	0.05
Total OECD	**49.53**	**49.73**	**0.20**	**0.40**	**50.71**	**50.89**	**0.18**	**0.36**
Other Asia	8.66	8.87	0.21	2.46	8.84	9.04	0.21	2.34
Latin America	5.30	5.38	0.08	1.57	5.23	5.29	0.06	1.17
Middle East	6.32	6.67	0.35	5.54	6.14	6.47	0.33	5.29
Africa	2.93	2.97	0.04	1.50	3.00	3.06	0.06	2.05
Total DCs	**23.21**	**23.90**	**0.69**	**2.97**	**23.21**	**23.86**	**0.65**	**2.82**
FSU	3.84	3.77	-0.07	-1.84	4.05	4.14	0.09	2.25
Other Europe	0.88	0.91	0.02	2.76	0.88	0.95	0.07	7.73
China	6.84	7.33	0.48	7.06	7.10	7.49	0.39	5.52
Total "Other Regions"	**11.57**	**12.00**	**0.44**	**3.78**	**12.03**	**12.58**	**0.55**	**4.58**
Total world	**84.30**	**85.63**	**1.32**	**1.57**	**85.95**	**87.34**	**1.39**	**1.62**

Totals may not add due to independent rounding.

World Oil Supply

Non-OPEC growth revised down 0.2 mb/d to 1.1 mb/d

Non-OPEC

Forecast for 2006

In 2006, non-OPEC oil supply is expected to average 51.1 mb/d, representing an increase of 1.1 mb/d over 2005, but a downward revision of 234,000 b/d versus the last assessment. The adjustment primarily reflects lower production from the USA (Alaska), Canada and Norway. On a quarterly basis, non-OPEC supply is expected to average 50.6 mb/d, 50.4 mb/d, 51.2 mb/d, and 52.4 mb/d in the first, second, third and fourth quarters, respectively.

Table 12: Non-OPEC oil supply in 2006, mb/d

	2005	1Q06	2Q06	3Q06	4Q06	2006	Change 06/05
North America	14.07	14.18	14.18	14.24	14.50	14.28	0.21
Western Europe	5.71	5.59	5.25	5.18	5.54	5.39	-0.32
OECD Pacific	0.58	0.48	0.50	0.56	0.63	0.54	-0.04
Total OECD	**20.35**	**20.25**	**19.94**	**19.97**	**20.66**	**20.21**	**-0.15**
Other Asia	2.63	2.67	2.66	2.71	2.71	2.69	0.06
Latin America	4.29	4.39	4.43	4.56	4.68	4.52	0.22
Middle East	1.87	1.83	1.82	1.81	1.81	1.82	-0.05
Africa	3.74	3.97	3.84	4.14	4.42	4.09	0.35
Total DCs	**12.53**	**12.86**	**12.76**	**13.23**	**13.61**	**13.12**	**0.59**
FSU	11.55	11.67	11.99	12.20	12.34	12.05	0.50
Other Europe	0.16	0.15	0.15	0.15	0.15	0.15	-0.01
China	3.62	3.68	3.70	3.73	3.71	3.71	0.09
Total "Other regions"	**15.32**	**15.50**	**15.84**	**16.07**	**16.20**	**15.91**	**0.58**
Total Non-OPEC production	**48.21**	**48.62**	**48.53**	**49.27**	**50.48**	**49.23**	**1.02**
Processing gains	1.86	1.92	1.89	1.89	1.93	1.91	0.04
Total Non-OPEC supply	**50.07**	**50.54**	**50.42**	**51.16**	**52.41**	**51.14**	**1.07**
Previous estimate	50.12	50.61	50.74	51.40	52.71	51.37	1.25
Revision	**-0.05**	**-0.07**	**-0.32**	**-0.24**	**-0.30**	**-0.23**	**-0.19**

Preliminary data for June 2006 puts total non-OPEC supply at around 50.3 mb/d, or 300,000 b/d lower than the previous month. The impact of unplanned shutdowns, maintenance and hurricane-related losses in the US Gulf of Mexico (GoM) affected a significant amount of supplies in the month. Total unplanned losses amounted to around 0.6 mb/d during the month, whilst Brazil, Norway, UK, and Canada had fields undergoing maintenance, the bulk of which should bounce back in July. Y-o-y, non-OPEC supply is estimated to have remained broadly flat versus June 2005.

OECD

OECD oil supply is expected to average 20.2 mb/d, representing a drop of 0.15 mb/d versus the previous year and 172,000 b/d lower compared to last month's report. The outlook for the USA, Canada, and Norway has been revised down. Unexpected losses at the giant Prudhoe Bay field in Alaska account for the bulk of the revision.

USA

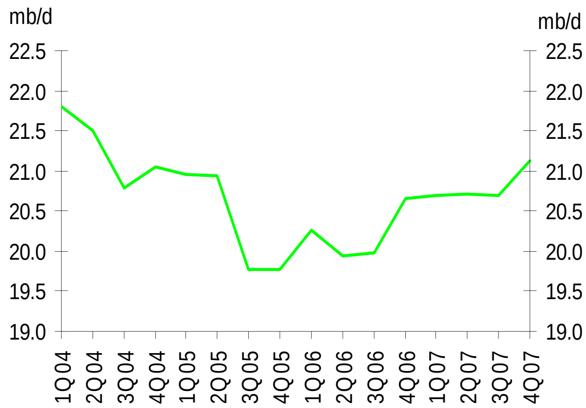
US oil supply is expected to average 7.3 mb/d in 2006, with a quarterly breakdown of 7.2 mb/d, 7.3 mb/d, 7.3 mb/d, and 7.4 mb/d in the first, second, third and fourth quarters, respectively.

Prudhoe Bay to produce at half capacity until end of 2006

In June and July, US oil supply averaged 7.4 mb/d; as better than expected performance in the lower 48, new field start-ups in the GoM and recovery of hurricane-damaged facilities continue to drive US up oil supply. However, recent events in Alaska have run counter to these positive trends as the giant Prudhoe Bay field, accounting for 0.4 mb/d of US oil supply, is now likely to produce at a reduced rate from August until end of 2006. The field was undergoing maintenance when the operator decided to curtail production for precautionary reasons after discovering severe corrosion in a small section of a transit line linking the eastern part of the field with the main flow station. It appears that some 26 km of pipeline links need to be replaced but we understand that works will have to wait until winter arrives to harden the ground before the necessary equipment can be brought in. The new links have been ordered at a cost of $200 million and the operator is dedicating all the technical staff it can to resolve the problem as fast as possible. Based on the information available and market conditions, this report assumes that approximately half of the field's output (0.2 mb/d) will be out for the rest of the year and then will recover quickly from January 2007 onwards. The operator will maintain production from the western part of the field but is also looking at bypass lines and other options such as repairs to the most corroded pipeline links (some have now been completed), and finding excess capacity in nearby pipelines (Edingcott) which may result in higher production levels than assumed in this report. In fact, we would be surprised if output does not recover more quickly than assumed — it seems unrealistic that the operators are willing to lose over $4 bn of revenues just to wait until winter arrives without finding some partial solutions.

Separately, we would highlight that there has been a notable absence of tropical storms in the US GoM this year so far. This fact is attributed to lower temperatures in the sea and favourable wind and atmospheric pressure patterns in the area. As a result, the most recent forecasts now see reduced storm activity in the US GoM in 2006 compared to last year.

Graph 22: OECD's quarterly production



Mexico and Canada

No collapse in Mexican output should be expected

Mexican oil supply is expected to average 3.7-3.8 mb/d in 2006, broadly flat from last year and unchanged from last month. The last data available indicates that oil supply averaged 3.7 mb/d in June, in line with expectations. Looking forward, Mexican oil supply should remain within 3.7 mb/d in the second half of 2006, with a low in 3Q06 before bouncing slightly back in 4Q06. News related to an imminent decline at the giant Cantarell field, which produces 1.9-1.8 mb/d of crude, have increased recently following presidential elections. However, as indicated in a number of *MOMR* reports (January 2006), oil production from the Cantarell field is expected to decline at around 100,000 b/d per year in the next few years before stabilizing, but no sudden collapse in production for this field or the country as a whole is a realistic scenario. Reduced supplies or exports in some months, particularly for a larger producer such as Mexico, can be attributed to many factors such as lower demand for its crude, maintenance, export delays, and not only to a sudden drop in production. As background, oil production from Cantarell began in 1979, rapidly reached around 1 mb/d and maintained this level for 16 years until 1996 before increasing to 1.3 mb/d in 1998. After 2000, Pemex began injecting nitrogen and drilling more wells, and this took production to 2.2 mb/d in 2004. However, during 2005 Pemex was unable to maintain Cantarell's output growth due to technical challenges among other factors, prompting some Pemex officials to announce that Cantarell may have peaked one year earlier than the original plan of 2006 (May 2005 *MOMR*).

Canadian oil supply is expected to average 3.2 mb/d in 2006, representing an increase of 200,000 b/d versus 2005, and a downward revision of 27,000 b/d. The forecast was revised downward primarily based on longer than expected maintenance in one of the mining projects. Canadian oil supply averaged 3 mb/d in June a drop of nearly 0.2 mb/d from April as result of maintenance at the giant AOSP project. In addition, there is a slight delay in the start up of the new Syncrude Upgrader from early August to late August. Canadian oil supply is expected to rebound to 3.3-3.4 mb/d in 4Q06 assuming all these projects are back, and the Terra Nova field is return on stream by the end of the year.

Problems persist in several fields, including the new Kristin and Gulltopp

Western Europe

Oil supply in the West African region is expected to average 5.4 mb/d in 2006, broadly unchanged from last month. Norwegian oil supply is expected to average around 2.8 mb/d in 2006, a drop of 160,000 b/d versus last year and broadly unchanged from last month. Deep maintenance reduced Norwegian supply in June below expected levels, but production should bounce back in July. However, problems continue to persist in several fields, including the new Kristin and Gulltopp fields, and this may reduce total supply slightly. UK oil supply is expected to average 1.7 mb/d, which represents a drop of 150,000 b/d versus 2005. Preliminary June data indicates that oil supply averaged 1.67 mb/d during the month driven by ongoing maintenance, but it is expected to bounce back in the 4Q06 to around 1.8 mb/d. Importantly, the large Buzzard field (180,000 b/d) remains on track for a 4Q06 start, but will ramp up in 2007. Danish oil production is expected to average 0.36 mb/d, broadly unchanged from last month and around 20,000 b/d lower than in 2005. Danish output continues to drop slightly y-o-y, and the absence of new field start-ups (both small and big) suggests that this drop will accelerate in the years ahead. Elsewhere in Western Europe, the historical data and outlook of Germany have been revised slightly up following recent data for non-conventional oils.

Australian production improving

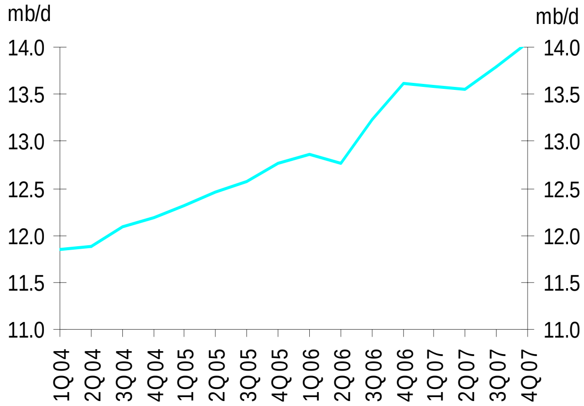
Asia Pacific

Oil supply in the Asia Pacific region is expected to average 540,000 b/d in 2006, unchanged from last month. Australian oil supply is expected to average 480,000 b/d in 2006, a drop of 50,000 b/d versus 2005. Preliminary June data shows a slight improvement in Australian oil supply to 440,000 b/d versus the previous month, but output is expected to recover more in the months ahead.

Developing Countries

Oil supply in the Developing Countries (DCs) is expected to average 13.1 mb/d, an increase of 0.6 mb/d over 2005, but 57,000 b/d lower versus last month's report. The revision reflects slight negative adjustments in the historical NGL data of Malaysia and the forecast for Brazil. On a quarterly basis, total oil supply is expected to average 12.9 mb/d, 12.8 mb/d, 13.2 mb/d, and 13.6 mb/d in the first, second, third and fourth quarters, respectively.

Graph 23: Developing Countries' quarterly production



The latest data for Malaysia suggests that the production of NGLs was lower than previously thought. The absolute level for Malaysian oil supply has been revised down below 0.8 mb/d, and is now expected to average 0.75 mb/d in 2006 or 65,000 b/d lower than last month's assessment. Crude oil production accounts for 0.72 mb/d of total supply. No growth is expected this year.

Maintenance offsetting production gains in Brazil

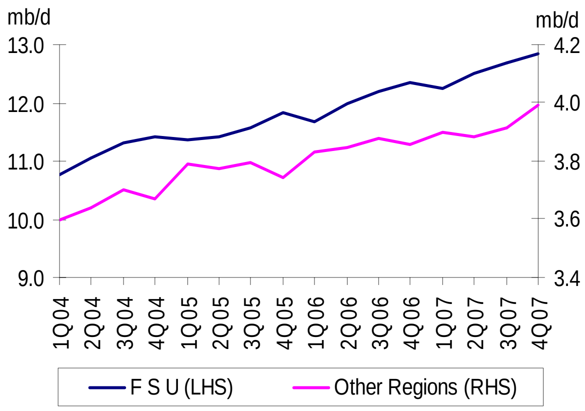
In Brazil, oil supply is expected to average 2.2 mb/d in 2006, or around 0.2 mb/d higher compared to last year but 13,000 b/d lower versus last month's estimate. May and June production was affected by deeper than expected maintenance levels of several offshore units, many of which were not known to us. Additionally, the new P-50 unit (180,000 b/d) was shutdown for some modifications that were detected in the first few months of operations and this is likely to impact full year volumes slightly. Two more fields are expected to start in 2006: P 34 (60,000 b/d; 4Q06), and Piranema (20,000 b/d; 3Q06).

In Sudan, the long-delayed Adar Yale project (200,000 b/d) in the Melut basin is now reported to be operational and ramping up. Sudan's oil production is expected to average around 0.4 mb/d, and will reach 0.5 mb/d by year-end. The ramp up of the Adar Yale project has been affected by ongoing delays in the completion of Petrodar's export infrastructure but these issues now appear to be fixed. We currently estimate that Sudan oil production could average 0.4 mb/d in 3Q06 and 0.5 mb/d in 4Q06. Current production is estimated at less than 400,000 b/d.

FSU, Other Regions

FSU oil supply is expected to average 12 mb/d, an increase of 0.5 mb/d versus 2005, broadly unchanged from last month. The forecast for Other Regions (China and Other Europe) remains unchanged with total oil supply expected at 3.8 mb/d in 2005 representing an increase of 70,000 b/d from 2005. On a quarterly basis, total FSU oil supply is expected to average 11.7 mb/d, 12 mb/d, 12.2 mb/d, and 12.3 mb/d in the first, second, third and fourth quarters, respectively. The outlook for Kazhakastan has been revised slightly up.

Graph 24: FSU and other region's quarterly production



Russia

Slower growth expected for the rest of the year in Russia

Russian oil supply is expected to average 9.6-9.7 mb/d in 2006, an increase of 220,000 b/d versus 2005. Arguably, production has performed better than original expectations, but it has not rebounded in any material form despite the increase in prices. Oil production may have reached a new record of 9.68 mb/d in June and July, up 0.3 mb/d from January, driven by a broad base recovery among state-owned or -controlled producers, but upside from here looks limited to around 0.1 mb/d in the rest of 2006. June and July production was affected by lower production from Sakhalin 1 and flat production among some companies. The only major development with short term implications is the recent declaration of bankruptcy by Yukos. A transition to a new owner may not be swift according to some analysts, and this could continue to negatively impact Yukos and Russia's production.

Caspian, China

The outlook for Azeri oil production remains unchanged. It is expected to average 0.6 mb/d in 2006, an increase of 210,000 b/d versus 2005. The latest estimate indicates that oil supply in June/July averaged 0.64 mb/d, as the ACG projects continues to rise. A new daily record was established on 24 July when the ACG project reached 500,000 b/d and it is expected that total Azeri production will reach 0.69 mb/d by the end of this year driven by further increases in ACG. Kazak oil production is expected to average 1.3 mb/d in 2006, an increase of 80,000 b/d over last year and slightly more than last month's estimate. Oil production has exceeded expectations through the year, and the full year growth may even be higher than what is currently expected. June output was 1.28 mb/d, but was affected by maintenance at Tengiz. The estimate for China remains unchanged. Total oil supply is expected to average 3.7 mb/d, representing an increase of 70,000 b/d over last year. June data shows average production of 3.72 mb/d, but recent tropical storms have forced operators to shut some production in July.

Non-OPEC supply growth revised up to 1.8 mb/d

Forecast for 2007

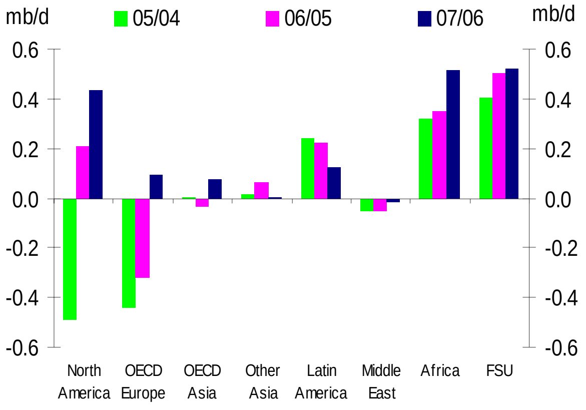
Non-OPEC oil supply is expected to average 53 mb/d, representing an increase of 1.8 mb/d versus 2006 and a slight upward revision versus last month. On a regional basis, a substantial increase is expected to come from the FSU region (mainly Caspian), followed by Africa, North America, and Latin America. OECD Europe and Pacific are expected to show a modest increase, whilst Other Asia and the Middle East are expected to remain broadly flat. China's oil production is again expected to increase slightly.

Table 13: Non-OPEC oil supply in 2007, mb/d

	2006	1Q07	2Q07	3Q07	4Q07	2007	Change 07/06
North America	14.28	14.56	14.63	14.71	14.93	14.71	0.43
Western Europe	5.39	5.52	5.49	5.34	5.58	5.48	0.09
OECD Pacific	0.54	0.61	0.59	0.63	0.62	0.62	0.07
Total OECD	**20.21**	**20.69**	**20.71**	**20.69**	**21.13**	**20.81**	**0.60**
Other Asia	2.69	2.67	2.59	2.71	2.80	2.69	0.00
Latin America	4.52	4.62	4.61	4.64	4.68	4.64	0.12
Middle East	1.82	1.82	1.81	1.79	1.80	1.80	-0.01
Africa	4.09	4.48	4.54	4.64	4.76	4.61	0.51
Total DCs	**13.12**	**13.59**	**13.55**	**13.79**	**14.04**	**13.74**	**0.63**
FSU	12.05	12.26	12.50	12.68	12.85	12.58	0.52
Other Europe	0.15	0.15	0.15	0.15	0.15	0.15	0.00
China	3.71	3.75	3.73	3.76	3.84	3.77	0.07
Total "Other regions"	**15.91**	**16.16**	**16.38**	**16.59**	**16.85**	**16.50**	**0.59**
Total Non-OPEC production	**49.23**	**50.44**	**50.65**	**51.07**	**52.02**	**51.05**	**1.82**
Processing gains	1.91	1.93	1.93	1.93	1.93	1.93	0.02
Total Non-OPEC supply	**51.14**	**52.37**	**52.58**	**53.00**	**53.95**	**52.98**	**1.84**
Previous estimate	51.37	52.53	52.74	53.06	54.01	53.09	1.72
Revision	**-0.23**	**-0.16**	**-0.16**	**-0.06**	**-0.06**	**-0.11**	**0.12**

The FSU region is expected to grow 0.5 mb/d to 12.6 mb/d, with Caspian countries expected to deliver more growth than Russia. Oil supply in the African region is forecast to grow 0.5 mb/d to 4.6 mb/d and most of the increase is expected to come from deepwater Angola, Equatorial Guinea and onshore Sudan. Oil supply in the North American region is expected to grow 0.4 mb/d to 14.8 mb/d. The increase is driven by the unwinding of losses in Alaska and additions in US GoM deepwater and expansion of Canadian oil sands. Oil production in the Latin American region is expected to grow by 0.1 mb/d to 4.6 mb/d, with regional growth is driven by a modest increase in Brazil.

Graph 25: Regional Non-OPEC supply growth, y-on-y



Elsewhere, OECD Europe is expected to show an increase of 50,000 b/d to 5.5 mb/d; a normal maintenance schedule is assumed. OECD Asia in expected to show an increase of 70,000 b/d to 0.6 mb/d, while oil production in Australia is expected to rebound 40,000 b/d to average 0.5 mb/d. This assumes the partial return of some of the production that has been affected this year by cyclone activity, and increased drilling in new fields that have been underperforming. Oil supply in Other Asia and Middle East is expected to remain broadly flat at 2.8 mb/d and 1.8 mb/d respectively. China' oil production is forecast to increase to 3.7-3.8 mb/d or around 60,000 b/d compared to 2006. Additional growth in China may come from condensates. China's oil production has been rising rapidly as domestic and international oil companies increasingly look at marginal opportunities with a different focus, particularly in offshore areas.

Revisions

On a quarterly basis, total non-OPEC oil supply is expected to average 52.4 mb/d, 52.6 mb/d, 53 mb/d, and 53.9 mb/d in the first, second, third and fourth quarters, respectively. The 2007 growth forecast has been revised up slightly to 1.8 mb/d following the adjustment to US Alaskan production; however, the base has been revised down primarily as a result of lower baseline production in Malaysia. US oil supply is now expected to grow 0.3 mb/d in 2007 to 7.6 mb/d versus an earlier estimate of 0.26 mb/d due to the unwinding effect of production losses in the giant Prudhoe Bay field from 1Q07 onwards. In Malaysia, the absolute level for oil supply has been revised down by 65,000 b/d, but the growth next year remains unchanged.

OPEC natural gas liquids and non-conventional oils

OPEC NGLs to grow 0.2 mb/d in 2007

The outlook for 2006 remains unchanged. Total OPEC NGLs and non-conventional oils are expected to average 4.3 mb/d, representing an increase of 200,000 b/d over the previous year. A similar growth is expected in 2007, of around 0.25 mb/d, driven by contributions from Saudi Arabia, Qatar, and Nigeria. However, most of the increments come in the second part of the year.

Table 14: OPEC NGL + non-conventional oils - 2003-2007

2003	**2004**	**2005**	**Change** 05/04	1Q06	2Q06	3Q06	4Q06	**2006**	**Change** 06/05	**2007**	**Change** 07/06
3.71	**4.02**	**4.09**	**0.07**	4.20	4.24	4.33	4.36	**4.28**	0.19	**4.54**	0.25

OPEC crude oil production

OPEC crude output averaged 29.5 mb/d in July

Total crude oil production averaged 29.5 mb/d in July, representing a decrease of 0.2 mb/d from last month's revised figure, according to secondary sources. Iraq's oil production stood at 2 mb/d.

Table 15: OPEC crude oil production based on secondary sources, 1,000 b/d

	2004	2005	4Q05	1Q06	2Q06	May 06	Jun 06	Jul 06	*Jul/ Jun*
Algeria	1,228	1,349	1,374	1,376	1,366	1,365	1,355	1,361	*6.0*
Indonesia	968	942	935	922	915	917	908	894	*-13.9*
IR Iran	3,920	3,924	3,911	3,849	3,795	3,775	3,818	3,844	*25.7*
Iraq	2,015	1,830	1,675	1,711	1,997	1,925	2,109	2,025	*-84.2*
Kuwait	2,344	2,504	2,548	2,532	2,511	2,504	2,511	2,508	*-2.8*
SP Libyan AJ	1,537	1,642	1,665	1,680	1,699	1,698	1,702	1,706	*4.3*
Nigeria	2,322	2,413	2,470	2,257	2,217	2,205	2,291	2,172	*-119.2*
Qatar	771	795	806	814	820	817	823	828	*5.2*
Saudi Arabia	8,957	9,390	9,426	9,416	9,145	9,115	9,160	9,160	*0.0*
UAE	2,360	2,447	2,518	2,528	2,532	2,526	2,533	2,561	*28.5*
Venezuela	2,582	2,630	2,581	2,587	2,567	2,577	2,533	2,453	*-80.0*
OPEC-10	**26,988**	**28,036**	**28,234**	**27,962**	**27,568**	**27,499**	**27,633**	**27,487**	***-146.2***
Total OPEC	**29,004**	**29,865**	**29,909**	**29,673**	**29,565**	**29,425**	**29,742**	**29,512**	***-230.4***

Totals may not add due to independent rounding.

FSU net exports

In 2006, FSU net oil exports are expected to average 8.2 mb/d, an increase of 0.5 mb/d over the previous year. July crude exports were 5.7 mb/d, representing a slight drop from June. Crude oil exports from the Black Sea, Baltic and Druzhba were down, which drove overall exports lower. Including products, net crude and product exports totaled 8.3 mb/d in July. Next year, FSU net oil exports are expected to rise to 8.8 mb/d, or 0.6 mb/d versus 2006 driven by new sources of crude from the Caspian and Russian product exports. As detailed in previous reports, a host of new pipelines, expansions and regional links will allow for increased exports.

Table 16: FSU estimated net oil exports (historical and forecast), mb/d

	1Q	2Q	3Q	4Q	Year	Growth (y-o-y)
2003	5.87	6.75	6.72	6.61	**6.49**	**0.91**
2004	7.17	7.30	7.38	7.37	**7.31**	**0.82**
2005	7.45	7.69	7.76	7.85	**7.69**	**0.38**
2006 (forecast)	**7.98**	**8.35**	**8.35**	**8.29**	**8.24**	**0.55**
2007 (forecast)	**8.48**	**8.92**	**8.91**	**8.71**	**8.76**	**0.51**

Recent exports of crude and products by source, mb/d

	2004	2005	4Q05	1Q06	2Q06	Jun 06	Jul 06
Crude							
Russian pipeline							
Black Sea	1,283	1,335	1,284	1,326	1,282	1,270	1,219
Baltic	1,396	1,462	1,486	1,470	1,671	1,698	1,647
Druzhba	1,256	1,315	1,397	1,365	1,355	1,399	1,348
Total	**3,935**	**4,112**	**4,167**	**4,161**	**4,308**	**4,367**	**4,214**
Other routes							
Russian rail	706	416	268	310	319	326	334
Russian - Far East	32	65	71	29	43	42	44
Kazak rail	24	17	19	46	30	30	33
CPC pipeline	490	648	669	595	672	613	637
Caspian	252	295	363	353	446	452	482
of which							
Supsa (AIOC) - Georgia	130	137	143	137	151	145	151
Batumi - Georgia	99	140	203	198	186	144	156
Total	**1,504**	**1,441**	**1,390**	**1,334**	**1,510**	**1,463**	**1,531**
Total crude exports	**5,439**	**5,553**	**5,557**	**5,495**	**5,818**	**5,830**	**5,744**
Products							
All routes							
Fuel oil	753	836	931	896	938	902	967
Gasoil	702	759	765	893	809	764	786
Others	413	575	633	693	835	860	798
Total	**1,868**	**2,170**	**2,330**	**2,483**	**2,582**	**2,526**	**2,551**
Total oil exports	**7,307**	**7,723**	**7,887**	**7,978**	**8,399**	**8,356**	**8,295**

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

Rig Count

Non-OPEC rig count stood at 2876 rigs in July

Non-OPEC

Non-OPEC rig count stood at 2,876 rigs in July, which represents an increase of 160 rigs compared to the previous month. Of the total, 2,590 were operating onshore and the rest offshore. In terms of oil and gas split, 897 rigs were drilling for oil, while the remainder was drilling for gas.

Table 17: Non-OPEC rig count in 2004-2005

	2004	2005	05/04	Jun 06	Jul 06	Change Jul/Jun
North America	1,669	1,975	306	2,153	2,306	153
Western Europe	65	65	0	75	68	-7
OECD Pacific	22	25	3	30	25	-5
OECD	**1,755**	**2,065**	**310**	**2,258**	**2,399**	**141**
Other Asia	126	142	16	147	157	10
Latin America	126	141	15	164	163	-1
Middle East	70	72	2	79	82	3
Africa	54	58	4	66	73	7
DCs	**376**	**412**	**36**	**456**	**475**	**19**
FSU	na	na	na	na	na	na
Other Europe	2	3	1	2	2	0
China	na	na	na	na	na	na
Other regions	na	na	na	na	na	na
Total non-OPEC	**2,132**	**2,479**	**347**	**2,716**	**2,876**	**160**

Totals may not add due to independent rounding.
na: not available.
Source: Baker Hughes International.

OPEC rig count stood at 327 rigs

OPEC

OPEC rig count stood at 327 rigs in July, representing an increase of 15 rigs over the previous month. Gains took place in Algeria, Saudi Arabia and Venezuela. Of the total, 261 rigs were operating onshore and the rest offshore. In terms of oil and gas split, there were 271 oil rigs operating and the rest was gas rigs.

Table 18: OPEC rig count in 2004-2005

	2004	2005	05/04	Jun-06	Jul-06	Change Jul/Jun
Algeria	19	21	2	20	27	7
Indonesia	49	54	5	43	45	2
IR Iran	41	40	-1	47	46	-1
Iraq	na	na	na	na	na	na
Kuwait	10	12	2	14	13	-1
SP Libyan AJ	10	9	-1	9	10	1
Nigeria	8	9	1	9	9	0
Qatar	9	12	3	11	10	-1
Saudi Arabia	32	36	4	59	63	4
UAE	16	16	0	16	16	0
Venezuela	55	67	12	84	88	4
Total OPEC	**249**	**276**	**27**	**312**	**327**	**15**

Totals may not add due to independent rounding.
na: not available.
Source: Baker Hughes International.

Oil Trade

OECD total net oil imports averaged 27.6 mb/d in July, up 154,000 b/d over the previous month and 700,000 b/d higher than a year earlier

OECD

OECD crude oil imports continued their upward trend increasing a further 113,000 b/d to average 31.9 mb/d in July, the highest level so far in 2006. When compared to a year earlier, crude oil imports showed an increase of 76,000 b/d. Product imports edged up a marginal 29,000 b/d to average 11.0 mb/d but experienced a significant y-o-y growth of 370,000 b/d or 3.5%.

Regarding exports, crude oil and product exports remained almost stable in July at nearly 7.3 mb/d and 8.1 mb/d respectively. Compared to the same month last year, crude oil exports displayed a strong drop of 620,000 b/d or 8% while product exports were 360,000 b/d or 5% higher in July.

Table 19: OECD Crude and Product Net Imports/(Exports), tb/d

	May 06	Jun 06	Jul 06	Change Jul/Jun
Crude oil	24,510	24,534	24,654	120
Total products	2,952	2,962	2,995	34
Total crude and products	27,462	27,495	27,649	154

Consequently, total OECD net oil imports averaged 24.6 mb/d, an increase of 120,000 b/d over the previous month and 700,000 b/d above the same month last year. Net product imports stood at 3.0 mb/d, representing a meagre growth of 34,000 b/d compared to the previous month and 10,000 b/d over a year earlier.

Saudi Arabia and the FSU remained the main suppliers of OECD crude oil with 16.2% and 15.6% respectively, followed by Norway and Mexico with around 8% each. Saudi Arabia's share in OECD crude oil imports increased 3.5 percentage points compared to the same month last year, while Canada's share gained 2.8 percentage points to reach 6.5%.

For products, Venezuela, the FSU and the Netherlands remained the main OECD suppliers with around 5% each.

US crude oil imports dropped to 10.31 mb/d in July but showed a 114,000 b/d y-o-y growth

Product imports surged 250,000 b/d to reach 3.7 mb/d, an increase of 3650,000 b/d over the July 2005 level

USA

Preliminary data shows that US crude oil imports in July fell 311,000 b/d or 3% to average 10.3 mb/d, offsetting June's growth of 280,000 b/d. The decline in crude imports came as a result of the 260,000 b/d the drop in refinery throughput. Despite this decline, US crude oil imports showed an increase of 114,000 b/d compared to a year earlier. In the first seven months of 2006, US crude oil imports averaged nearly 10.1 mb/d, a drop of 150,000 b/d from the corresponding period of the previous year.

In contrast, product imports increased 250,000 b/d or 7% over the previous month and 265,000 b/d over a year ago to average 3.7 mb/d. Distillate fuel oil imports rose 100,000 b/d while motor gasoline imports increased 40,000 b/d. With the strong increase in July and particularly in May (830,000 b/d), product imports averaged 400,000 b/d higher than in the first seven months of the year 2006 compared to the corresponding period last year. This significant jump of more than 12% was driven by the heavier maintenance this year, which implied high imports to cover seasonal driving demand.

Table 20: USA Crude and Product Net Imports/(Exports), tb/d

	May 06	Jun 06	Jul 06	Change Jul/Jun
Crude oil	10,327	10,608	10,296	-312
Total products	2,846	2,339	2,529	190
Total crude and products	13,173	12,947	12,825	-122

With crude oil exports unchanged and product exports increasing 59,000 b/d, total US net oil imports averaged 12.83 mb/d in July, a decline of 122,000 b/d from the previous month, but a gain of 467,000 b/d over a year earlier. When comparing the average of the first seven months, US total net oil imports were 12.4 mb/d in 2006, an increase of 275,000 b/d over the corresponding period of the previous year.

Canada with 18% and Saudi Arabia and Mexico with 16.5% each remained the main suppliers of US crude oil. Saudi Arabia's share increased 2 percentage points over last year. On the product side, the situation remained unchanged, with Canada (16%) and the Virgin Islands (11%) continuing to be the main sources of US imports.

Japan

Japan's net oil imports fell 100,000 b/d in July mainly due to crude oil, which averaged 4.2 mb/d, their lowest level so far this year

Japan's crude oil imports fell for the third consecutive month, although the pace was lower than previously. The continuous decrease in imports reflects weakening demand. After falling 900,000 b/d over the previous two months, crude oil imports dropped 67,000 b/d in July to average 3.4 mb/d, down 10% or 365,000 b/d on the year. With product imports losing 23,000 b/d to stand at 1.0 mb/d, Japan's total oil imports hit 4.4 mb/d.

With product exports stable at 0.19 mb/d, Japan's total net oil imports averaged 4.2 mb/d, a loss of 100,000 b/d from the previous month and 470,000 b/d lower than a year earlier with both crude oil and products showing a y-o-y decline of 10%.

Table 21: Japan's Crude and Product Net Imports/(Exports), tb/d

	May 06	Jun 06	Jul 06	Change Jul/Jun
Crude oil	3,979	3,479	3,412	-67
Total products	784	847	815	-32
Total crude and products	4,763	4,326	4,228	-98

For the sources of imports, Saudi Arabia with 32% and UAE with 25% were the largest suppliers accounting for 57% of Japan's total crude oil imports. Both Saudi Arabia and UAE saw their shares increase from a year earlier while Iran's share moved down from 12.4% to 11%. Japanese imports from Iran declined from nearly 400,000 b/d in June 2005 to 160,000 b/d a year later.

Similarly, UAE and Saudi Arabia remained the main product suppliers with 14% and 11%, respectively.

China

China's net oil imports rose 145,000 b/d in June, driven by product imports.

In the first half of the year, crude oil and product imports increased 15.4% from a year earlier.

Preliminary data shows that China's crude imports dropped 50,000 b/d in June to average 2.88 mb/d while product imports continued to increase for the fourth consecutive month. Product imports rose a further 258,000 b/d, the highest growth in 2006, to average 1.34 mb/d. The significant increase in China's product imports — which were mainly heavy fuel oil — was driven by the need to cope with peak summer demand from the farming and transport sectors while the refining system is expected to see its heaviest third-quarter maintenance programme since 2002, with more than 200,000 b/d supposed to be closed in August-September. Jet fuel was the main contributor to the increase in product imports after rising 29% in June, the highest rate in more than 2 years.

Table 22: China's Crude and Product Net Imports/(Exports), tb/d

	Apr 06	May 06	Jun 06	Change Jun/May
Crude oil	2,614	2,599	2,576	-23
Total products	872	1,056	1,223	167
Total crude and products	3,486	3,655	3,800	145

For the January-June period, China's crude oil and product imports were more than 15% higher than in 2005. Crude oil imports averaged almost 3.0 mb/d compared to 2.6 mb/d, and product imports reached 4.1 mb/d against 3.6 mb/d, reflecting strong demand from China this year.

As crude oil exports edged down 27,000 b/d and product export increased 90,000 b/d, China's total net oil imports averaged 3.8 mb/d. This represented an increase of 145,000 b/d from the previous year and 20% or 637,000 b/d over a year ago with crude oil net imports growing 56,000 b/d and products jumping 580,000 b/d or 90%. In addition to high demand, it seems that Chinese authorities are replenishing inventories after stock-draws in 2005.

Imports from Angola dropped from 26% in May to 18% in June, reflecting competition from other consumers for sweet crudes and high price premiums for West African grades. Saudi Arabian and Russian shares increased 2 and 5 percentage points to stand at 16% each above the Iranian share of 13%. Despite the decline in Angola's share in June, crude oil imports from Angola during the first half of 2006 surged 54% compared to a year earlier making Angola the main supplier of China's crude oil followed by Saudi Arabia which saw exports increase 10.5%. Russia took the third position after its exports rose 42%. Overall, China's dependence on the Middle East fell from 48% during the first half of 2005 to 44% this year with just Saudi Arabia among the third main suppliers in 2006 while last year Iran was among the top three Chinese crude suppliers. It is worth mentioning that China has increased its imports from Venezuela which joined the top 10 suppliers of China in 2006.

India

India's total net oil imports averaged 1.9 mb/d in June, down 253,000 b/d from a year earlier

In June, India's crude oil imports averaged 2.1 mb/d, down 128,000 b/d from the previous month but remained 235,000 b/d or 12% higher than a year earlier. Product imports declined 27,000 b/d or 10% to average 0.23 mb/d, a gain of 27,000 b/d from a year earlier.

Table 23: India's Crude and Product Net Imports/(Exports), tb/d

	Apr 06	May 06	Jun 06	Change Jun/May
Crude oil	1,989	2,245	2,117	-128
Total products	-115	-236	-176	60
Total crude and products	1,874	2,009	1,942	-68

Product exports dropped 87,000 b/d or 17% to stand at 0.41 mb/d, an increase of 2% higher over a year ago.

As a result, India's total net oil imports averaged 1.9 mb/d, a drop of 253,000 b/d y-o-y with net crude oil imports at 2.1 mb/d and product exports at 0.18 mb/d.

Stock Movements

Total commercial oil inventories in the USA witnessed a build of 11.6 mb in July

USA

US commercial oil stocks experienced a build of 11.6 mb or 0.4 mb/d to reach 1,056.4 mb in July, representing a respective gain of 1.1% and 4.9% over a year ago and the five-year average. Increases in all product stocks except gasoline explained the build as crude oil inventories continued to decline in July.

Crude oil stocks experienced a draw of 7.3 mb or 0.2 mb/d to stand at 333.1 mb in July. Nevertheless, inventories looked comfortable at 4% and 10% against the year-ago level and the five-year average. In terms of forward cover, crude inventories remained stable at 21.2 days in July compared to 21.3 days in the previous month and were 9% above the upper end of the five-year range. As refinery runs declined, the draw on crude oil stocks in July was due to a decrease in imports which fell by 0.31 mb/d relative to June. It should be noted that stock levels could decline further, depending developments at the US largest oil field at Prudhoe Bay in Alaska. However, BP has already partially restored output, and the remaining losses can be made up by increasing input as well as withdrawals from inventories, which are at comfortable levels.

Table 24: US onland commercial petroleum stocks*, mb

	May 06	Jun 06	Jul 06	Change Jul 06/Jun 06	Jul 05	4 Aug 06**
Crude oil	346.5	340.4	333.1	-7.3	319.7	332.6
Gasoline	210.2	213.0	209.9	-3.1	216.2	207.7
Distillate fuel	120.4	127.7	132.5	4.8	132.0	132.4
Residual fuel oil	40.4	42.3	42.4	0.1	36.7	42.0
Jet fuel	41.1	39.4	40.7	1.3	40.5	41.0
Total	**1028.8**	**1044.8**	**1056.4**	**11.6**	**1044.9**	**1055.5**
SPR	688.6	688.5	687.8	-0.7	698.8	687.8

* *At end of month, unless otherwise stated.*

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

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

Gasoline inventories declined by 3.1 mb or 1.5% to stand at 209.9 mb in July in line with the seasonal pattern. The draw left gasoline stocks at worryingly low levels of 6.3 mb below a year ago and only 1 mb above the five-year average. Meanwhile, forward cover fell 4% below the five-year average and only 1% higher than the same time last year. This stock-draw is partly explained by reduced refinery runs which declined by 1.4 percentage points in July as a result of heavy maintenance and several outages such as the one at the ConocoPhillip Wood River refinery caused by power losses in the middle of July and the ongoing FCC outages at Valero's St. Charles and BP's Texas City refineries. Production of finished gasoline declined by 1.5% in July from the previous month. Gasoline demand in July remained high compared with the previous year despite high prices. The draw on gasoline stocks was partially counterbalanced by higher imports of finished gasoline, which saw a recovery of 9.2% (EIA four-week average) in July compared to a decline in June, but a 5% drop occurred in total imports due to weaker imports of blending components. For middle distillates, stocks increased by 4.8 mb to 132.5 mb in July from the last month or 5% above the five-year average but almost on par with the year-ago level. The build came almost entirely from heating oil inventories which climbed by 4.8 mb to 56.4 mb in July compared to the previous month, in line with seasonal patterns, to stand 15 % above the five-year average. By contrast, a 8.3 mb draw on regular diesel (15 ppm to 500 ppm) took place, but a 8.7 mb increase in ultra-low sulphur diesel (ULSD) led to a slight rise in total diesel of 0.4 mb to 76.1 mb representing a cushion of 1% against the five-year average but still at a low level of 2% below a year ago. Growing demand for diesel and declining production rates exerted downward pressure on inventories, while stronger imports which grew by 37.6% over the previous month counterbalanced this effect on the back of an amazing boom in ULSD imports as imports of regular diesel plunged from 0.18 mb/d to 0.01 mb/d due to the switch to ULSD at the beginning of the year. The situation of diesel inventories is a point of concern as there are only a few options to import diesel.

In the week ended 4 August, total commercial oil stocks in the USA witnessed a drop of 2 mb to stand at 1,055.5 mb, which contrasted with the 5.14 mb build observed in the previous week. Despite this trend, stocks still stood at 3% and 6% above the year-ago and the five-year average respectively. Crude oil inventories experienced a 1.1 mb drop but remained at comfortable levels with a cushion of 4% and 10% against the year-ago level and the five-year average. The major point of concern remained the focus on gasoline stocks as they inched down by a larger-than-expected 3.2 mb that left the level of 207.7 mb on par with the five-year average and 2.2% above a year ago. The draw on gasoline inventories last week was due to lower imports of total motor gasoline — including both finished gasoline and gasoline blending components — and expanding demand as production increased. Imports fell by 110,000 b/d compared to the previous week, but they were still at a healthy level of 3% above the year-ago level. For its part, demand for gasoline kept growing regardless of prices averaging 9.7 mb/d or 1.2% higher than the same period last year. This suggests a lack of responsiveness of the demand to price movements in gasoline. Production of motor gasoline expanded by 130,000 b/d to around 9.2 mb/d or 5% higher than a year ago over the last week of the month, as a result of refinery inputs which stood 92,000 b/d above the previous week's average. It shall be noted that, in terms of forward demand cover, a deficit of nearly one day below the five-year average occurred, a pattern repeated from the first half of June despite higher imports and production. Over the week, the picture for middle distillate inventories was rather similar to the previous one, with heating oil inventories increasing by 1.1 mb weekly to 57.5 mb representing a cushion of 6% and 14% against the one-year and the five-year average figures, in line with seasonal patterns. On the other side, diesel declined a further 1.2 mb compared to the previous week to below a year ago and the five-year average, for the first time since the beginning of the year. The build in ULSD was more than counterbalanced by a drop in regular diesel fuel (15 pm to 500 ppm), while high-sulphur distillate (heating oil) inventories rose 1.1 mb. A hefty decline of around 88% in ULSD imports and the moderate recovery of regular diesel imports, together with weak production, seem to explain this development.

Western Europe

EU commercial oil stocks increased by 0.6 mb to reach 1,149 mb in July

Total commercial oil stocks in Eur-16 (EU-15 plus Norway) increased a slight 0.6 mb or 20,000 b/d, which is the highest level in July since 2004. At 1,149 mb, inventories were 1% above a year ago and around 9% higher than the five-year average. The increase came entirely from crude oil as product inventories declined.

Table 25: Western Europe's oil stocks*, mb

	May 06	Jun 06	Jul 06	Change Jul 06/Jun 06	Jul 05
Crude oil	493.92	489.32	491.58	2.26	482.25
Mogas	135.89	134.56	133.96	-0.60	137.76
Naphtha	27.28	26.84	25.08	-1.76	21.44
Middle distillates	381.32	384.00	385.88	1.88	383.54
Fuel oils	112.13	113.82	112.65	-1.17	110.12
Total products	629.34	632.38	632.49	0.11	631.42
Overall total	**1,150.54**	**1,148.54**	**1,149.15**	**0.61**	**1,135.11**

** At end of month, with region consisting of the Eur–16.*
Source: Argus, Euroilstock.

Contrary to the trend in June, a build of 2.2 mb or 80,000 b/d in crude oil stocks was reported in July, rising to 491.6 mb or almost 2% above the upper end of the average range for this time of year and 8% higher than the five-year average. This was associated with a decline in refinery runs which were 39,000 b/d down in July compared to the previous month. Despite the build in crude oil stocks, near-term BFO prices were in backwardation due to the tightening of flight sweet crude supplies as a consequence of the maintenance at North Sea fields and the growing unrest in Nigeria. Meanwhile, gasoline inventories in the EU fell for the fourth successive month inching down 0.6 mb or 20,000 b/d to 134 mb in July representing a 3.8 mb decline y-o-y and 3 mb below the five-year average. Greater domestic demand and higher exports to the USA are responsible for gasoline inventories in EU being at their lowest level since December 2004. Compared to last month, middle distillate stocks rose 1.9 mb in July to 385.9 mb or 2.3 mb and 35.7 mb above a year ago and the five-year average. The build relied entirely upon heating oil as diesel supply remained tight. Finally, residual fuel oil dropped by 1.2 mb to 112.7 mb in July, but remained almost 2% above a year ago and the five-year average as the open arbitrage window to the Asia-Pacific region absorbed cargoes from Russia. Similarly, electricity utility demand for low-sulphur fuel oil increased due to the unusually hot weather in the Mediterranean.

Japan

Commercial oil inventories in Japan reversed course in June, falling to 4.8 mb

Japan's total commercial oil inventories witnessed a decline of 4.8 mb or 0.16 mb/d to stand at 183.1 mb in June, 1.8 mb below the five-year average. The draw came from a 6.3 mb drop in crude oil stocks as total product saw a build of 1.4 mb over the previous month.

Following a build of 10.1 mb in the previous month, commercial crude oil stocks declined by 6.3 or 0.2 mb/d to 117.3 mb in June to stand 4.5% lower than a year ago and 3.3% below the five-year average. The draw on crude oil inventories came as imports declined by 15.3% to 3.5 mb/d on a monthly basis or 10.7% below the year-ago figure and despite the recovery in refinery maintenance, which recorded a moderate drop of 3.2% to 3.57 mb/d in June compared to 9.3% in May. The plunge in imports was also related to reduced output from Saudi Arabia, the top major supplier of Japan. Imports from Saudi Arabia fell by 3.7% from the previous month and 11.4% below last April.

Table 26: Japan's commercial oil stocks*, mb

	Apr 06	May 06	Jun 06	Change Jun 06/May 06	Jun 05
Crude oil	113.5	123.6	117.3	-6.3	121.8
Gasoline	14.1	14.4	13.7	-0.8	12.8
Middle distillates	25.2	29.4	31.6	2.2	27.1
Residual fuel oil	18.9	20.6	20.6	0.0	20.1
Total products	58.1	64.4	65.8	1.4	60.0
Overall total**	**171.6**	**188.0**	**183.1**	**-4.8**	**181.8**

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

Product stocks saw a lower increase of 1.4 mb in June from a rise of 6.3 mb in the previous month reaching 65.8 mb to stand 9.7% and 3.5% above a year ago and the five-year average. Considering the strong 24% recovery in imports, the increase in total product inventories in June is attributed to recovery of domestic demand for products compared to the 11% decline in the previous month. Nevertheless, it must be noted that compared to last year, demand for total products in Japan was unusually weak, declining 7.1% as a result of wet weather combined with high prices. The recovery in domestic demand for products came mainly from jet fuel, gasoil, fuel oil A, asphalt, paraffin wax and LPG. In addition, a 19% increase in exports mainly from gasoil and fuel oil BC, lubricating oil and asphalt also added to the trend in total product inventories. Compared to the previous month, gasoline stocks fell by 0.8 mb to 13.7 mb in June or around 6.4% higher than a year ago and 1% above the five-year average. A sharp 17.7% cut in gasoline imports from May, together with a 2.8% drop in production, accounted for this outcome with the mild recovery in demand also adding. Domestic sales grew by 0.9% compared to May and slipped 2.9% from the same month last year. The 6% decline of gasoline exports from May contributed to offset the impact of the other factors. Middle distillate stocks saw a build of 2.2 mb to 31. 6 mb which was around 17% higher than the same time last year. Kerosene inventories rose by 13% on a monthly basis due to a hefty 74% decline in exports as imports and production declined and domestic demand remained stable.

Balance of Supply and Demand

Estimated demand for OPEC crude revised up 0.2 mb/d to 29.1 mb/d in 2006

Estimate for 2006

The estimated demand for OPEC crude in 2006 is expected to average 29.1 mb/d, representing an upward revision of 0.2 mb/d versus last month. On a quarterly basis, the estimate shows that demand for OPEC crude is expected at 29.9 mb/d in the first quarter, 28.5 mb/d in the second, while the new forecast shows 28.8 mb/d in the third and 29.2 mb/d in the fourth. The estimated demand for OPEC has been revised up 0.2 mb/d in 3Q06 and 0.3 mb/d in 4Q06, driven by lower than expected non-OPEC supply.

Table 27: Summarized supply/demand balance for 2006, mb/d

	2005	1Q06	2Q06	3Q06	4Q06	2006
(a) World Oil Demand	83.23	84.67	83.18	84.30	85.95	84.53
(b) Non-OPEC Supply (1)	54.16	54.74	54.67	55.49	56.77	55.42
Difference (a-b)	29.06	29.93	28.51	28.81	29.18	29.11
OPEC crude oil production	29.87	29.67	29.57			
Balance	0.80	-0.26	1.05			

(1) Including OPEC NGLs + non-conventional oils.
(2) Selected secondary sources.
Totals may not add due to independent rounding.

Forecast demand for OPEC crude is expected to be 28.3 mb/d in 2007

Forecast for 2007

The projected demand for OPEC crude in 2007 is expected to average 28.3 mb/d, representing a decline of 0.8 mb/d versus 2006. On a quarterly basis, the forecast shows that demand for OPEC crude is expected at 29.3 mb/d in the first quarter, 27.2 mb/d in the second, 28.1 mb/d in the third and 28.7 mb/d in the fourth.

Table 28: Summarized supply/demand balance for 2007, mb/d

	2006	1Q07	2Q07	3Q07	4Q07	2007
(a) World Oil Demand	84.53	86.12	84.19	85.63	87.34	85.82
(b) Non-OPEC Supply (1)	55.42	56.78	57.04	57.56	58.66	57.51
Difference (a-b)	29.11	29.34	27.15	28.07	28.68	28.31
OPEC crude oil production						
Balance						

(1) Including OPEC NGLs + non-conventional oils.
(2) Selected secondary sources.
Totals may not add due to independent rounding.

Graph 26: Balance of supply and demand

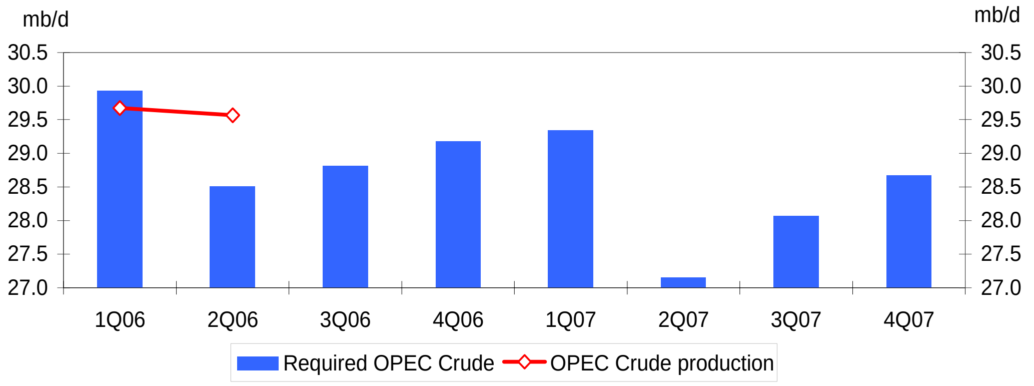


Table 29: World oil demand/supply balance, mb/d

	2002	2003	2004	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
World demand														
OECD	47.9	48.6	49.3	49.5	50.2	48.1	49.5	50.7	49.6	50.6	48.3	49.7	50.9	49.9
North America	24.1	24.5	25.4	25.5	25.1	25.3	25.8	25.9	25.6	25.6	25.4	26.0	26.1	25.8
Western Europe	15.3	15.4	15.5	15.5	15.7	14.9	15.6	15.8	15.5	15.6	15.0	15.6	15.8	15.5
Pacific	8.5	8.6	8.5	8.6	9.3	7.9	8.1	9.0	8.6	9.4	7.8	8.1	9.0	8.6
DCs	20.3	20.6	21.7	22.5	22.8	23.2	23.2	23.2	23.1	23.3	23.7	23.9	23.9	23.7
FSU	3.7	3.8	3.8	3.8	3.7	3.6	3.8	4.1	3.8	3.8	3.6	3.8	4.1	3.8
Other Europe	0.8	0.8	0.9	0.9	1.0	0.9	0.9	0.9	0.9	1.0	0.9	0.9	0.9	0.9
China	5.0	5.6	6.5	6.5	7.1	7.3	6.8	7.1	7.1	7.4	7.8	7.3	7.5	7.5
(a) Total world demand	77.8	79.3	82.3	83.2	84.7	83.2	84.3	85.9	84.5	86.1	84.2	85.6	87.3	85.8
Non-OPEC supply														
OECD	21.9	21.7	21.3	20.4	20.3	19.9	20.0	20.7	20.2	20.7	20.7	20.7	21.1	20.8
North America	14.5	14.6	14.6	14.1	14.2	14.2	14.2	14.5	14.3	14.6	14.6	14.7	14.9	14.7
Western Europe	6.6	6.4	6.2	5.7	5.6	5.3	5.2	5.5	5.4	5.5	5.5	5.3	5.6	5.5
Pacific	0.8	0.7	0.6	0.6	0.5	0.5	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6
DCs	11.5	11.6	12.0	12.5	12.9	12.8	13.2	13.6	13.1	13.6	13.5	13.8	14.0	13.7
FSU	9.3	10.3	11.1	11.5	11.7	12.0	12.2	12.3	12.1	12.3	12.5	12.7	12.9	12.6
Other Europe	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.4	3.4	3.5	3.6	3.7	3.7	3.7	3.7	3.7	3.8	3.7	3.8	3.8	3.8
Processing gains	1.7	1.8	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Total non-OPEC supply	48.0	48.9	49.9	50.1	50.5	50.4	51.2	52.4	51.1	52.4	52.6	53.0	54.0	53.0
OPEC NGLs + non-conventional oils	3.6	3.7	4.0	4.1	4.2	4.2	4.3	4.4	4.3	4.4	4.5	4.6	4.7	4.5
(b) Total non-OPEC supply and OPEC NGLs	51.6	52.6	53.9	54.2	54.7	54.7	55.5	56.8	55.4	56.8	57.0	57.6	58.7	57.5
OPEC crude oil production (secondary sources)	25.4	27.0	29.0	29.9	29.7	29.6								
Total supply	77.0	79.6	82.9	84.0	84.4	84.2								
Balance (stock change and miscellaneous)	-0.8	0.2	0.7	0.8	-0.3	1.1								
OECD closing stock levels (*mb*)														
Commercial	2478	2517	2550	2593	2596	2664								
SPR	1347	1411	1450	1487	1487	1489								
Total	3825	3928	4000	4079	4083	4152								
Oil-on-water	816	883	906	959	963	n.a.								
Days of forward consumption in OECD														
Commercial onland stocks	51	51	51	52	54	54								
SPR	28	29	29	30	31	30								
Total	79	80	81	82	85	84								
Memo items														
FSU net exports	5.6	6.5	7.3	7.7	8.0	8.3	8.4	8.3	8.2	8.5	8.9	8.9	8.7	8.8
(a) - (b)	26.1	26.7	28.3	29.1	29.9	28.5	28.8	29.2	29.1	29.3	27.2	28.1	28.7	28.3

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

n.a. = Not available.

Table 30: World oil demand/supply balance: changes from last month's table † , mb/d

	2002	2003	2004	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
World demand														
OECD	-	-	-	-	-	-0.4	-	-	-0.1	-	-0.4	-	-	-0.1
North America	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-	-	-
Western Europe	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-	-	-
Pacific	-	-	-	-	-	-0.2	-	-	-	-	-0.2	-	-	-
DCs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-	-	-
China	-	-	-	-	-	0.2	-	-	-	-	0.2	-	-	-
(a) Total world demand	-	-	-	-	-	-0.3	-	-	-0.1	-	-0.3	-	-	-0.1
Non-OPEC supply														
OECD	-	-	-	-	-	-0.2	-0.2	-0.3	-0.2	-0.1	-0.1	-	-	-0.1
North America	-	-	-	-	-	-0.1	-0.2	-0.3	-0.1	-0.2	-0.2	-	-	-0.1
Western Europe	-	-	-	-	-	-0.1	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-0.1	-	-	-0.1	-0.1	-	-0.1	-	-	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-0.1	-0.3	-0.2	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-0.1	-0.3	-0.2	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
OPEC crude oil production (secondary sources)	-	-	-	-	-	-								
Total supply	-	-	-0.1	-	-0.1	-0.3								
Balance (stock change and miscellaneous)	-	-	-0.1	-	-	-								
OECD closing stock levels (*mb*)														
Commercial	-	-	-	-	-9	-								
SPR	-	-	-	-	-	-								
Total	-	-	-	-	-9	-								
Oil-on-water	-	-	-	-	-	-								
Days of forward consumption in OECD														
Commercial onland stocks	-	-	-	-	-	-								
SPR	-	-	-	-	-	-								
Total	-	-	-	-	0.6	-								
Memo items														
FSU net exports	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(a) - (b)	-	-	-	-	-	-	0.2	0.3	0.2	0.1	-0.2	0.1	0.1	-

† This compares Table 29 in this issue of the MOMR with Table 29 in the July 2006 issue.

This table shows only where changes have occurred.

Table 31: OECD oil stocks and oil on water at the end of period

	2001	2002	2003	2004	2005	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06
Closing stock levels *mb*															
OECD onland commercial	2,630	2,478	2,517	2,550	2,593	2,465	2,545	2,581	2,550	2,544	2,625	2,646	2,593	2,596	2,664
North America	1,262	1,175	1,161	1,193	1255	1,145	1,193	1,206	1,193	1,198	1,275	1,257	1,255	1,239	1,284
Western Europe	925	895	922	927	943	919	933	945	927	957	928	957	943	949	944
OECD Pacific	443	408	435	430	394	400	420	430	430	389	422	432	394	408	435
OECD SPR	1,288	1,347	1,411	1,450	1,487	1,423	1,429	1,435	1,450	1,462	1,494	1,494	1,487	1,487	1,489
North America	552	601	640	678	687	654	664	672	678	690	698	696	687	688	691
Western Europe	356	357	374	377	407	371	366	367	377	377	401	405	407	407	406
OECD Pacific	380	389	396	396	393	398	398	396	396	396	395	393	393	392	392
OECD total	3,918	3,825	3,928	4,000	4,079	3,888	3,974	4,016	4,000	4,006	4,119	4,140	4,079	4,083	4,152
Oil-on-water	830	816	883	906	959	906	892	894	906	933	931	927	959	963	n.a.
Days of forward consumption in OECD															
OECD onland commercial	55	51	51	51	52	51	52	51	50	52	53	53	52	54	54
North America	52	48	46	47	49	46	47	47	47	47	50	49	50	49	50
Western Europe	60	58	60	60	61	61	60	59	60	63	60	61	60	64	61
OECD Pacific	52	47	51	50	46	51	52	49	46	48	52	49	42	52	54
OECD SPR	27	28	29	29	30	30	29	29	29	30	30	30	30	31	30
North America	23	25	25	27	27	26	26	26	27	27	27	27	27	27	27
Western Europe	23	23	24	24	26	25	24	23	24	25	26	26	26	27	26
OECD Pacific	45	45	47	46	46	50	49	45	42	49	49	45	42	50	48
OECD total	82	79	80	81	82	81	81	80	79	83	84	83	81	85	84

n.a. Not available.

Table 32: Non-OPEC supply and OPEC natural gas liquids, mb/d

	2002	2003	2004	2005	Change 05/04	1Q06	2Q06	3Q06	4Q06	2006	Change 06/05	1Q07	2Q07	3Q07	4Q07	2007	Change 07/06
USA	8.04	7.82	7.65	7.27	-0.38	7.19	7.30	7.31	7.35	7.29	0.02	7.49	7.53	7.61	7.74	7.59	0.30
Canada	2.84	2.98	3.07	3.02	-0.04	3.20	3.10	3.22	3.35	3.22	0.19	3.27	3.35	3.30	3.41	3.33	0.12
Mexico	3.59	3.80	3.83	3.77	-0.07	3.79	3.78	3.71	3.81	3.77	0.00	3.80	3.75	3.80	3.78	3.78	0.01
North America	14.48	14.60	14.56	14.07	-0.49	14.18	14.18	14.24	14.50	14.28	0.21	14.56	14.63	14.71	14.93	14.71	0.43
Norway	3.33	3.26	3.19	2.97	-0.21	2.93	2.70	2.75	2.86	2.81	-0.16	2.84	2.84	2.86	2.99	2.88	0.07
UK	2.52	2.33	2.10	1.88	-0.22	1.84	1.71	1.58	1.81	1.73	-0.15	1.83	1.81	1.65	1.77	1.76	0.03
Denmark	0.37	0.37	0.39	0.38	-0.01	0.36	0.36	0.36	0.37	0.36	-0.02	0.35	0.34	0.34	0.33	0.34	-0.02
Other Western Europe	0.42	0.44	0.47	0.47	0.00	0.46	0.49	0.50	0.50	0.49	0.02	0.50	0.49	0.49	0.49	0.49	0.00
Western Europe	6.65	6.40	6.15	5.71	-0.44	5.59	5.25	5.18	5.54	5.39	-0.32	5.52	5.49	5.34	5.58	5.48	0.09
Australia	0.70	0.60	0.52	0.53	0.01	0.43	0.45	0.48	0.55	0.48	-0.05	0.54	0.50	0.52	0.51	0.52	0.04
Other Pacific	0.06	0.06	0.05	0.05	0.00	0.05	0.05	0.08	0.08	0.07	0.01	0.08	0.10	0.12	0.11	0.10	0.03
OECD Pacific	0.77	0.66	0.57	0.58	0.01	0.48	0.50	0.56	0.63	0.54	-0.04	0.61	0.59	0.63	0.62	0.62	0.07
Total OECD	21.89	21.65	21.28	20.35	-0.92	20.25	19.94	19.97	20.66	20.21	-0.15	20.69	20.71	20.69	21.13	20.81	0.60
Brunei	0.20	0.21	0.21	0.21	0.00	0.22	0.22	0.22	0.22	0.22	0.01	0.22	0.22	0.22	0.22	0.22	0.00
India	0.78	0.79	0.79	0.76	-0.04	0.78	0.80	0.80	0.80	0.79	0.03	0.80	0.77	0.79	0.78	0.79	-0.01
Malaysia	0.76	0.78	0.79	0.77	-0.03	0.77	0.74	0.75	0.74	0.75	-0.02	0.73	0.70	0.75	0.82	0.75	0.00
Vietnam	0.34	0.35	0.40	0.38	-0.02	0.38	0.38	0.41	0.42	0.40	0.02	0.40	0.37	0.42	0.43	0.40	0.00
Asia others	0.37	0.40	0.42	0.51	0.09	0.52	0.53	0.53	0.53	0.53	0.02	0.53	0.53	0.53	0.55	0.54	0.01
Other Asia	2.45	2.52	2.61	2.63	0.02	2.67	2.66	2.71	2.71	2.69	0.06	2.67	2.59	2.71	2.80	2.69	0.00
Argentina	0.84	0.84	0.79	0.76	-0.03	0.76	0.76	0.76	0.75	0.76	0.00	0.74	0.73	0.72	0.72	0.73	-0.03
Brazil	1.72	1.80	1.79	1.99	0.20	2.06	2.08	2.22	2.35	2.18	0.19	2.34	2.34	2.39	2.44	2.37	0.20
Colombia	0.58	0.55	0.53	0.53	0.00	0.53	0.53	0.53	0.53	0.53	0.00	0.53	0.53	0.53	0.53	0.53	0.00
Ecuador	0.38	0.41	0.51	0.51	0.00	0.52	0.54	0.54	0.53	0.53	0.02	0.52	0.51	0.51	0.50	0.51	-0.02
Trinidad & Tobago	0.15	0.16	0.16	0.21	0.05	0.22	0.22	0.22	0.22	0.22	0.01	0.21	0.21	0.21	0.21	0.21	-0.01
L. America others	0.25	0.26	0.27	0.29	0.02	0.29	0.30	0.29	0.29	0.29	0.00	0.28	0.28	0.28	0.28	0.28	-0.01
Latin America	3.93	4.02	4.06	4.29	0.24	4.39	4.43	4.56	4.68	4.52	0.22	4.62	4.61	4.64	4.68	4.64	0.12
Bahrain	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00
Oman	0.90	0.82	0.79	0.78	0.00	0.77	0.75	0.75	0.75	0.76	-0.02	0.75	0.75	0.75	0.77	0.76	0.00
Syria	0.55	0.53	0.50	0.47	-0.03	0.44	0.44	0.43	0.43	0.43	-0.04	0.42	0.41	0.41	0.40	0.41	-0.02
Yemen	0.46	0.44	0.42	0.40	-0.02	0.41	0.41	0.41	0.41	0.41	0.01	0.43	0.43	0.42	0.41	0.42	0.01
Middle East	2.12	2.01	1.92	1.87	-0.05	1.83	1.82	1.81	1.81	1.82	-0.05	1.82	1.81	1.79	1.80	1.80	-0.01
Angola	0.89	0.87	0.99	1.23	0.24	1.38	1.22	1.48	1.62	1.42	0.20	1.66	1.70	1.78	1.89	1.76	0.33
Chad	0.00	0.02	0.16	0.18	0.02	0.18	0.18	0.18	0.18	0.18	0.00	0.18	0.18	0.18	0.18	0.18	0.00
Congo	0.25	0.24	0.24	0.24	0.00	0.25	0.25	0.25	0.25	0.25	0.01	0.25	0.25	0.27	0.27	0.26	0.01
Egypt	0.75	0.75	0.71	0.70	-0.01	0.69	0.68	0.67	0.69	0.68	-0.01	0.68	0.67	0.66	0.65	0.66	-0.02
Equatorial Guinea	0.20	0.24	0.34	0.36	0.02	0.36	0.36	0.36	0.36	0.36	0.00	0.37	0.39	0.41	0.41	0.40	0.04
Gabon	0.29	0.25	0.25	0.25	0.00	0.25	0.25	0.25	0.25	0.25	0.00	0.24	0.24	0.24	0.24	0.24	-0.01
South Africa	0.19	0.20	0.22	0.20	-0.02	0.20	0.20	0.20	0.20	0.20	-0.01	0.19	0.19	0.19	0.19	0.19	-0.01
Sudan	0.24	0.27	0.30	0.34	0.04	0.35	0.36	0.40	0.51	0.41	0.07	0.55	0.56	0.55	0.55	0.56	0.15
Africa other	0.20	0.20	0.21	0.24	0.04	0.32	0.35	0.35	0.36	0.35	0.10	0.36	0.36	0.36	0.39	0.37	0.03
Africa	3.01	3.05	3.42	3.74	0.32	3.97	3.84	4.14	4.42	4.09	0.35	4.48	4.54	4.64	4.76	4.61	0.51
Total DCs	11.51	11.60	12.00	12.53	0.53	12.86	12.76	13.23	13.61	13.12	0.59	13.59	13.55	13.79	14.04	13.74	0.63
FSU	9.33	10.27	11.14	11.55	0.41	11.67	11.99	12.20	12.34	12.05	0.50	12.26	12.50	12.68	12.85	12.58	0.52
Russia	7.62	8.46	9.19	9.44	0.25	9.48	9.63	9.71	9.79	9.65	0.22	9.69	9.87	9.97	10.00	9.88	0.23
Kazakhstan	0.94	1.03	1.18	1.23	0.05	1.22	1.31	1.36	1.35	1.31	0.08	1.35	1.38	1.42	1.53	1.42	0.11
Azerbaijan	0.31	0.31	0.31	0.44	0.13	0.56	0.62	0.69	0.76	0.66	0.21	0.80	0.83	0.87	0.90	0.85	0.20
FSU others	0.45	0.47	0.46	0.44	-0.03	0.41	0.44	0.44	0.44	0.43	0.00	0.42	0.42	0.42	0.42	0.42	-0.01
Other Europe	0.18	0.17	0.17	0.16	-0.01	0.15	0.15	0.15	0.15	0.15	-0.01	0.15	0.15	0.15	0.15	0.15	0.00
China	3.39	3.41	3.49	3.62	0.13	3.68	3.70	3.73	3.71	3.71	0.09	3.75	3.73	3.76	3.84	3.77	0.07
Non-OPEC production	46.30	47.10	48.08	48.21	0.13	48.62	48.53	49.27	50.48	49.23	1.02	50.44	50.65	51.07	52.02	51.05	1.82
Processing gains	1.73	1.80	1.83	1.86	0.03	1.92	1.89	1.89	1.93	1.91	0.04	1.93	1.93	1.93	1.93	1.93	0.02
Non-OPEC supply	48.03	48.90	49.91	50.07	0.16	50.54	50.42	51.16	52.41	51.14	1.07	52.37	52.58	53.00	53.95	52.98	1.84
OPEC NGL	3.42	3.57	3.85	3.92	0.07	4.05	4.10	4.17	4.18	4.13	0.20	4.23	4.28	4.38	4.53	4.36	0.23
OPEC Non-conventional	0.18	0.14	0.17	0.17	0.00	0.15	0.14	0.15	0.18	0.16	-0.01	0.18	0.18	0.18	0.18	0.18	0.02
OPEC (NGL+NCF)	3.60	3.71	4.02	4.09	0.07	4.20	4.24	4.33	4.36	4.28	0.19	4.41	4.46	4.56	4.71	4.54	0.25
Non-OPEC & OPEC (NGL+NCF)	51.63	52.61	53.93	54.16	0.23	54.74	54.67	55.49	56.77	55.42	1.26	56.78	57.04	57.56	58.66	57.51	2.09

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

Table 33: Non-OPEC Rig Count

	2001	2002	2003	Change 03/02	1Q 04	2Q 04	3Q 04	4Q 04	2004	Change 04/03	1Q 05	2Q 05	3Q 05	4Q 05	2005	Change 05/04	1Q 06	Jun 06	2Q 06	Jul 06	Change Jul 06 - Jun 06
USA	1,156	831	1,032	201	1,119	1,164	1,229	1,249	1,190	158	1,279	1,336	1,419	1,478	1,378	188	1,519	1,665	1,632	1,681	16
Canada	342	266	372	106	528	202	326	420	369	-3	620	241	527	572	490	121	665	408	282	553	145
Mexico	54	65	92	27	107	113	111	108	110	18	114	116	104	93	107	-3	85	80	85	72	-8
North America	1,552	1,162	1,496	334	1,754	1,479	1,665	1,777	1,669	173	2,013	1,693	2,050	2,143	1,975	306	2,269	2,153	1,999	2,306	153
Norway	23	19	19	0	19	18	14	16	17	-2	15	18	19	17	17	0	19	19	20	15	-4
UK	24	26	20	-6	15	19	14	15	16	-4	16	22	23	24	21	5	29	27	27	25	-2
Denmark	4	4	4	0	4	4	3	4	4	0	2	3	2	2	2	-2	3	4	4	2	-2
Other Western Europe	44	36	36	0	31	30	27	27	29	-7	23	24	25	24	24	-5	26	25	26	26	1
Western Europe	95	85	78	-7	69	70	57	62	65	-13	56	67	68	68	65	0	77	75	78	68	-7
Australia	10	9	11	2	12	13	18	14	14	3	17	15	17	15	16	2	16	25	21	20	-5
Other Pacific	9	8	7	-1	7	8	9	6	8	1	7	10	10	9	9	1	9	5	7	5	0
OECD Pacific	20	17	18	1	19	22	26	20	22	4	24	25	27	24	25	3	25	30	28	25	-5
Total OECD	1,667	1,264	1,592	328	1,842	1,570	1,749	1,859	1,755	163	2,093	1,785	2,146	2,234	2,065	310	2,371	2,258	2,105	2,399	141
Brunei	3	3	3	0	2	3	3	2	3	0	1	2	3	2	2	-1	3	4	4	2	-2
India	50	55	60	5	64	68	71	76	70	10	76	76	81	84	79	9	82	80	80	83	3
Malaysia	11	14	14	0	15	15	13	13	14	0	12	14	14	13	13	-1	15	10	13	15	5
Papua New Guinea	1	1	2	1	3	2	0	1	2	0	1	2	2	2	2	0	3	2	3	4	2
Vietnam	8	9	9	0	8	9	8	7	8	-1	8	10	10	10	9	1	10	10	10	10	0
Asia others	22	30	29	-1	27	31	31	31	30	1	35	36	36	37	36	6	40	41	41	43	2
Other Asia	95	111	117	6	119	128	127	130	126	9	133	140	146	148	142	16	153	147	150	157	10
Argentina	71	49	60	11	64	73	73	74	71	11	74	76	78	79	77	6	75	81	81	84	3
Brazil	28	27	26	-1	24	26	26	26	26	0	26	27	28	27	27	1	31	29	31	28	-1
Colombia	15	11	11	0	8	9	9	11	9	-2	13	12	16	19	15	6	20	22	23	21	-1
Ecuador	10	9	9	0	7	9	12	12	10	1	10	12	11	13	12	2	12	10	11	11	1
Peru	4	2	3	1	2	2	3	3	2	-1	3	4	3	3	4	2	3	6	6	5	-1
Trinidad & Tobago	5	4	3	-1	3	4	4	4	4	1	3	2	2	4	3	-1	3	9	6	9	0
L. America others	7	5	4	-1	6	6	3	4	5	1	3	4	3	5	4	-1	5	7	5	5	-2
Latin America	141	106	116	10	114	127	129	134	126	10	133	138	141	151	141	15	149	164	162	163	-1
Bahrain	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Oman	25	29	35	6	36	35	34	36	35	0	34	35	34	35	34	-1	34	39	38	40	1
Syria	19	22	24	2	24	24	23	23	24	0	21	20	22	23	22	-2	22	22	22	22	0
Yemen	6	9	9	0	7	8	9	11	9	0	10	11	13	14	12	3	13	15	16	17	2
Middle East	50	62	70	8	69	68	69	73	70	0	69	71	73	75	72	2	72	79	79	82	3
Angola	5	5	4	-1	4	3	3	3	3	-1	3	3	3	2	3	0	4	4	4	4	0
Cameroon	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Congo	1	1	1	0	2	2	3	2	2	1	3	2	2	2	2	0	1	2	2	2	0
Egypt	22	23	26	3	27	28	29	28	28	2	28	30	28	30	29	1	32	37	34	40	3
Gabon	2	2	3	1	2	2	2	2	2	-1	2	3	2	2	2	0	2	2	2	3	1
South Africa	1	1	0	-1	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	0	0
Africa other	4	12	13	1	15	18	20	22	19	6	23	21	19	23	21	2	23	21	23	24	3
Africa	36	43	48	5	48	53	56	57	54	6	58	58	54	60	58	4	62	66	66	73	7
Total DCs	322	322	350	28	350	376	381	394	376	26	393	407	414	433	412	36	436	456	457	475	19
FSU	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Europe	3	2	2	0	2	2	2	2	2	0	3	2	3	2	3	1	2	2	2	2	0
China	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-OPEC Rig count	1,992	1,588	1,944	356	2,194	1,949	2,132	2,255	2,132	188	2,489	2,194	2,562	2,670	2,479	347	2,809	2,716	2,564	2,876	160

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

Main Contributors to Monthly Oil Market Report

WORLD ECONOMY	Dr. M. El-Shahati e-mail: MElShahati@opec.org: Mr. G. Skipper e-mail: gskipper@opec.org
CRUDE OIL PRICES	Mr. F. Al-Nassar e-mail: fal-nassar@opec.org
PRODUCTS AND REFINERY OPERATIONS	Mr. S. Keramati e-mail: skeramati@opec.org
THE TANKER MARKET OIL TRADE	Mr. B. Aklil e-mail: baklil@opec.org
WORLD OIL DEMAND	Mr. E.S. Al-Khalifa e-mail: ekhalifa@opec.org
WORLD OIL SUPPLY	Mr. I. Sandrea e-mail: isandrea@opec.org
STOCK MOVEMENTS	Dr. O. López-Gonzalez e-mail: olopez@opec.org
COORDINATORS	Mr. M. Alipour-Jeddi Head, Petroleum Market Analysis Dept. e-mail: majeddi@opec.org Ms. C. Clemenz e-mail: cclemenz@opec.org Dr. A. Yahyai e-mail: ayahyai@opec.org Mr. D. Linton e-mail : dlinton@opec.org

Data is provided by Data Services Department.

Data Summary August 2006

OPEC Basket average price

US$ per barrel

▲ *up 4.30 in July*	***July 2006***	***68.89***
	June 2006	*64.60*
	Year-to-date	*62.22*

July OPEC production

in million barrels per day, according to secondary sources

Algeria	*1.36*	*Kuwait*	*2.51*	*Saudi Arabia*	*9.16*
Indonesia	*0.89*	*SP Libyan AJ*	*1.71*	*UAE*	*2.56*
IR Iran	*3.84*	*Nigeria*	*2.17*	*Venezuela*	*2.45*
Iraq	*2.03*	*Qatar*	*0.83*	***TOTAL***	***29.51***

Supply and demand

in million barrels per day

2006		***2007***	
World demand	*84.5*	*World demand*	*85.8*
Non-OPEC supply	*55.4*	*Non-OPEC supply*	*57.5*
Difference	***29.1***	***Difference***	***28.3***

Non-OPEC supply includes OPEC NGLs and non-conventional oils.
Totals may not add due to independent rounding.

Stocks

US commercial oil stocks saw a build of 11.6 mb in July.

World economy

World GDP growth revised to 4.8% for 2006 and forecast for 2007 unchanged at 4.2%.

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Next report to be issued on 15 September 2006.

Data covers period up to end of July 2006 unless otherwise stated.