

# Organization of the Petroleum Exporting Countries

# Monthly Oil Market Report

*February 2007*

*Feature Article:  
Oil demand outlook for 2007: Revisions and uncertainties*

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## Oil Market Highlights

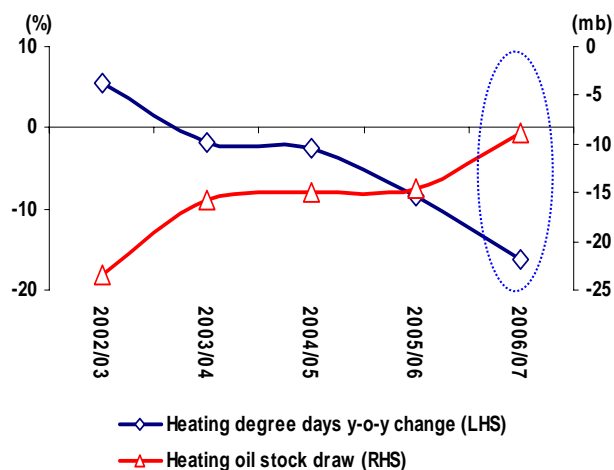
- Global economic prospects for 2007 remain generally bright with an expected soft-landing in the US, continued moderate expansion in the EU and Japan, and further strong growth in Developing Countries, foremost China and India. Inflation remains relatively tame in most regions despite the cyclical global recovery. The US economy registered higher-than-expected GDP growth of 3.5% in the fourth quarter, pointing to consumer resilience and rising exports; however, this advance estimate may be subject to downward revisions. Despite government attempts to moderate growth, the Chinese economy is estimated to have expanded at the breakneck pace of 10.7% in 2006 followed closely by India, where an early estimate puts growth at 9.2% for the fiscal year ending 31 March. World economic growth has been revised up slightly to 5.3% in 2006 and 4.6% in 2007, an upward revision of 0.1% for both years from last month's forecast. Developing Countries, excluding China, are forecast to grow at 5.7% in 2007 from 6.3% in 2006, more than double the OECD rate of 2.4% in 2007 and 3.1% in 2006.
- The OPEC Reference Basket plunged over 12% or \$7.22 to average \$50.73/b in January, the lowest level since May 2005. The impact of warm winter on demand, ample OPEC supply and rising US stocks were the main factors behind the sharp decline over the first half of the month, with the Basket reaching a twenty-month low on 17 January. However, a late cold winter spell in the Western Hemisphere amid a call by the USA to refill its SPR helped prices to rebound. In the first weeks of February, the Basket remained within a \$53-55/b range as upward factors such as continued cold weather in the USA and revived geopolitical tensions were balanced by comments by OPEC Members that the market situation looked healthy. The Basket stood at \$53.70/b on 14 February.
- Continued warm weather across the Northern Hemisphere for most of January, coupled with gasoline stock-builds over the last few weeks, capped the crack spread level of the top and middle of the barrel complex from the previous month. Despite bearish developments, refinery margins for various benchmarks improved across the globe, attributed mainly to lower crude oil prices. A cold snap in the US Northeast in the latter part of January and early February changed crude and product market sentiment, lifting both physical and futures market prices. But any strengthening of the market will mainly depend on the continuation of a cold spell in the US Northeast.
- OPEC spot fixtures increased by 23% in January to average 14.2 mb/d, supported by increased activities after the holiday season, while non-OPEC spot fixtures increased by 32% to average 7.9 mb/d. OPEC sailings were steady in January, dropping 130,000 b/d from the previous month to stand at 22.6 mb/d. Spot rates for shipping crude oil were between steady to moving downward in January due to plentiful supply and sluggish tanker demand on the back of OPEC cut and high stock levels. The VLCC sector was mostly steady with rates of WS73 and WS54 from the Middle East to east and west respectively.
- Warm weather in December negatively affected the global oil demand. OECD countries showing the largest y-o-y decline in December, although this was off-set by stronger-than-expected demand from India and the Middle East. The total y-o-y world oil demand growth for 2006 is estimated at 0.8 mb/d or 1.0% broadly unchanged from the last *MOMR*. Most of the decline in OECD oil demand was as a result of fuel switching from fuel oil to gas. However, in mid-January, the weather finally began to turn wintry, especially in the US Northeast where temperature dropped below normal, boosting heating oil demand. The world oil demand growth for 2007 is forecast to show a growth of 1.2 mb/d or 1.5%, broadly unchanged from our last *MOMR* estimate.
- Non-OPEC oil supply is expected to average 49.5 mb/d in 2006, representing an increase of 0.5 mb/d over 2005 and a downward revision of 78,000 b/d compared with the last assessment. The revisions to the full year estimate mainly affected the final two quarters. Preliminary data for the month of December puts non-OPEC supply at 50.21 mb/d. In 2007, non-OPEC supply is expected to average 50.7 mb/d, an increase of 1.2 mb/d over the previous year and a downward revision of 173,000 b/d from the last assessment. The revisions are principally due to lower expectations for Mexico, Canada, USA and Kazakhstan. In January, total OPEC crude oil production averaged 29.97 mb/d.
- Preliminary data shows that US total net oil imports increased by 0.95 mb/d to average 12.2 mb/d in January, displaying y-o-y decline of 0.3 mb/d or 2.5%. Japan's crude oil imports averaged 3.7 mb/d in January, decreasing 2.2% on the back of the OPEC cut and high stock levels, while product imports remained steady pushing net oil imports to 4.1 mb/d in January. OECD total net crude oil imports fell 1.05 mb/d to averaged 22.7 mb/d in December, displaying a y-o-y decline of 1.35 mb/d.. China's net crude oil imports reached 2.5 mb/d in December representing a y-o-y growth of 7%. India's crude oil imports rose 68,000 b/d in December to 2.4 mb/d whereas net exports increased by 32,000 b/d to 0.46 mb/d.
- US commercial oil stocks experienced a counter-seasonal build-up of 6.1 mb to stand at 1,033 mb the same level as a year ago but almost 62 mb or 6% above the five-year average. The build was driven mainly by a 15 mb surge in gasoline stocks. Total commercial oil stocks in EU-16 (Eur-15 plus Norway) dropped by 4.4 mb to 1,152 mb at end-January driven by a strong decline in crude oil stocks. Total commercial on-land oil stocks in Japan experienced a draw of 9.4 mb to 198 mb at the end of December. Despite the draw, Japan's oil stocks remained almost 16 mb above end-2005 levels.
- Demand for OPEC crude in 2006 is estimated to average 30.40 mb/d. In 2007, the demand for OPEC crude is expected to average 30.25 mb/d, representing a drop of 0.15 mb/d compared with the 2006 estimate. On a quarterly basis, the demand for OPEC crude is expected at 31.14 mb/d, 29.19 mb/d, 30.31 mb/d and 30.36 mb/d respectively.



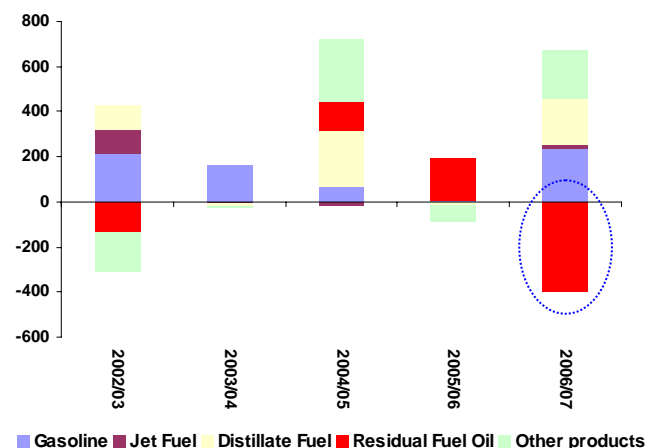
## Oil demand outlook for 2007: Revisions and uncertainties

- For the second consecutive year, warm weather in the key regions has dented world oil consumption during its usual upward winter cycle. This has had two effects. The first is a sharp decline in demand for fuel oil as warm weather has also alleviated the pressure on natural gas prices, encouraging power plants to switch from liquid to gas. As a result, US fuel oil consumption was more than 30% lower in January compared to the same month last year. And while warm weather has strengthened transport fuel consumption, thereby supporting oil demand, this has not been enough to offset the overall decline. The Pacific Asian region has also not been immune to weather-related declines in oil demand. In addition to the fuel switching in that region, the increased utilization of Japanese nuclear power plants has further reduced fuel oil consumption.

Graph 1: Degree heating days vs heating oil stock-draw



Graph 2: Impact of mild weather on US oil demand growth (tb/d)



- The second effect of the warm weather has been a decline in the heating oil demand, resulting in less of a draw on heating oil stocks so far this winter (*see Graph 1*). Indeed, for the first time on record, heating oil stocks displayed a contra-seasonal build in the first half of January. This sudden decline in fuel and heating oil demand has mainly occurred in the OECD countries. An assessment of US oil demand shows that from September to January, US residual fuel oil demand fell by almost 400,000 b/d (*see Graph 2*), mainly due to fuel switching.
- Given the warm weather and increased use of alternatives, total OECD oil demand growth for the first quarter has also been revised down. The new demand growth is estimated at 0.1 mb/d, down from the previous estimate of 0.5 mb/d at the start of the winter. The decline in the OECD has so far reduced total world oil demand growth by 100,000 b/d. More recently, the weather in the USA has taken a different turn. Temperatures have fallen and this might help to halt the decline in growth seen so far. However the risk still exists that if warm weather returns over the coming weeks, growth in oil demand will be affected by at least 200,000 b/d for the whole year, and consequently the revised figure for total world oil demand growth may only reach 1 mb/d. This is expected to be the case despite healthy growth in China and some upward revisions in other regions such as the Middle East.
- Fuel-switching by power and petrochemical plants has not been limited to OECD countries, but also extends to developing countries such as India. This is expected to have some downward effect on oil demand growth as will energy conservation measures which the government is planning to implement.
- Other trends are likely to dampen fuel oil consumption growth in China this year. Most of the new power plants that have come online are coal-fired instead of liquid-fuel or gas burning. Additionally, government policies imposing import tax tariffs on all energy-intensive equipment, planned price increases for most energy products to bring them in line with international prices, and subsidies for biofuel projects are also seen to affect oil demand in China.
- Nevertheless, the weather remains the wild card for oil demand this year. It is unclear how long the current cold spell in the USA will last. If warmer temperatures return for the remainder of the first quarter and the fourth quarter sees a repeat of the current season's mild winter, oil demand growth in 2007 could see a further downward revision. However, the weaker-than-expected performance in non-OPEC supply, due to project delays and unexpected output declines, may be sufficient to offset the decline in the forecast demand.
- Consequently, the demand for OPEC crude may not be significantly different from the forecast at the time of the last OPEC Ministerial Conference in December. To date, the cuts decided at Doha and Abuja have been effective in reducing some of the overhang and moving the market closer to balance, as can be seen in the downward trend in observed OECD stocks in recent months. Even with these cuts, there is a broadly-shared view that the market continues to be well-supplied with crude stocks above year-ago and five-year averages, and US gasoline supplies at a seven-year high. When the OPEC Ministers reconvene in March, the full effects of the Doha and Abuja decisions will be more evident, providing a timely opportunity to review market conditions.



## Highlights of the World Economy

Economic growth rates 2006-2007, %					
	World	OECD	USA	Japan	Euro-zone
2006	5.3	3.1	3.4	2.1	2.6
2007	4.6	2.4	2.4	1.8	2.1

### Strong fourth quarter GDP, rising incomes and confidence bode well for US economic outlook in 2007

#### *Industrialised countries*

##### *United States of America*

The advance estimate of real GDP growth in the fourth quarter of 2006 shows the US economy expanding at a higher-than-expected annualised rate of 3.5%, up from a revised 2% in the third quarter. The acceleration in growth was due in part to a strong rise in exports of 10% which contributed about 1.1 percentage points to growth. A fall in imports of 3.2% also contributed 0.6 points to growth. The largest positive contribution was due to a rise in consumer spending to a 4.4% annualized rate from 2.8% in the previous quarter, surpassing the economy's overall growth rate. On the negative side, residential construction declined at a 19.2% annual rate, even higher than the decline in the third quarter of 18.7%, subtracting 1.2 percentage points from overall growth. Non-residential structures growth also slowed down to 2.8% and real spending on business equipment and software declined to a 1.8% annual rate. Meanwhile, the core private consumption expenditure price index, the inflation measure closely watched by the Fed, rose at an annual rate of 2.1% in the Q4 compared to 2.2% in Q3 and 2.7% in Q2. Although above the Fed's targeted 1–2% zone, the index has remained on a downward trend. The Federal Open Market Committee unanimously agreed in January to leave rates on hold for the fifth consecutive month and was more optimistic about economic prospects and inflationary trends. The Fed still showed concern about the tentative stabilization in the housing sector. This indicates that the Fed is adopting a wait-and-see approach to gauge the real state of the economy. In December, this ailing sector exhibited some signs of recovery with sales of new homes rising 4.8% from the previous month to a seasonally-adjusted annual rate of 1.12 million units, but there is insufficient evidence that prices have stabilised.

In December, US manufacturing — the other ailing sector — also exhibited unexpected strength. Wholesale inventories fell unexpectedly by 0.5%, while new orders for durable goods rose 3.1% from a month earlier, mainly due to a surge in aircraft orders. Core orders, excluding aircraft and defence, also rose a respectable 2.4%. However, seen over the whole fourth quarter 2006, core orders fell at an annualised rate of 6.1%, the largest drop in nearly three years, indicating the manufacturing sector may still be in trouble. This view received further support from the Institute of Supply Management's (ISM) purchasing managers' index (PMI) for manufacturing in January which slipped from 51.4 to 49.3, falling below the 50 dividing line between expansion and contraction for the second time in three months indicating continued stagnation in the manufacturing sector. However, service industries are still growing and are expected to contribute to growth in 2007. The ISM services activity index moved up by 2.3 percentage points to 59.0. The bellwether new orders index was about flat, while employment, inventories, and new export orders declined. The services report points to strong activity, but not strong enough to exert much upward pressure on resources and consequently prices.

On the other hand, relatively robust labour markets and rising wages have added to confidence and may sustain consumer spending in the coming months. Confidence among US consumers reached the highest level in almost five years in January, according to the Conference Board survey. Consumer spending grew at a high 0.7% in December in nominal terms, and 0.3% in real terms. Personal income and disposable personal income each rose 0.5% in December. Wages and salaries, which account for over half of personal income, increased a solid 0.6% in December. In January, average hourly wages rose at a 4% annual pace, close to a six-year record. Separately, non-farm payrolls rose by 111,000 in January, lower than the average monthly growth in 2006 of 187,000 and 212,000 in 2005. The unemployment rate in January edged up to 4.6% from 4.5% in December but remained close to six-year lows. Initial unemployment claims in the week ending 3 February rose by 3,000 to 311,000 but remained close to the 2006 average of 314,000, which is low by historical standards. Overall, growth in the first quarter of 2007 is not expected to be at the same pace as the fourth quarter, as the external sector is unlikely to make such a strong contribution and domestic demand growth

**Activity in Japan likely to weaken in first half of 2007; data on wages and household consumption remained soft.**

remains moderate. For the whole of 2007, the US economy is forecast to grow at 2.4%, representing an upward revision of 0.1% from last month's forecast, following the revised 3.4% seen in 2006.

#### *Japan*

Lower household spending, falling consumer confidence and signs of a slowing manufacturing sector indicate weaker activity in the early part of 2007. The Economy Watchers index, a gauge of consumer spending strength, fell in January to 47.2 from 48.9 in December, indicating that Japanese workers continued to be pessimistic about current and future economic conditions for a third straight month. A figure below 50 indicates that pessimists outnumber optimists. Overall wages fell 0.6% percent, the most in sixteen months, reflecting declines in the services sector, while wages in manufacturing continued to rise. The unemployment rate edged up to 4.1% in December from 4.0% in November but remained within the 4.0-4.2% range seen since February 2006. However, the job offers ratio improved to 1.08 from 1.06 in the previous month. Average household spending fell by a higher than expected 1.9% from year ago in December for the twelfth consecutive. Retail sales dropped by 0.3% year-on year (y-o-y) in December on a weather-related drop in spending.

Consumer prices rose by 0.1%, the seventh straight monthly increase, but the rise was slower than the 0.2% registered in November, indicating that price increases remain weak. Moreover, bank lending rose by 1.8% in January from a year earlier, at the same pace as in December. While positive, bank lending growth failed to accelerate. Along with slowing inflation and wages, this is seen as further evidence that the economic recovery is still weak. This may undermine the Bank of Japan's argument that the economy is ready for interest rates above the present 0.25%.

The external sector continued to exhibit strength in December. The trade surplus rose by 22.8% y-o-y to around \$66 bn, with exports growing by 14.6% on the year to \$621 bn, while imports increased by 17.9% to \$555 bn. The export figures show strong demand for fuel-efficient cars and other electronic goods. Private core machinery orders, excluding shipping and utilities, fell in December by a seasonally-adjusted 0.7% from November, the first drop in three months, signaling a possible slowdown in economic growth as a result of lower spending on factories and equipment. On the positive side, industrial production jumped 0.7% in December according to the Japanese Ministry of Economy, Trade and Industry (METI), the third consecutive monthly improvement. The main sectors that showed improvement were general machinery, transport equipment, and chemicals (excluding pharmaceuticals) industries. However, a closer look shows that shipments fell 0.8% while inventories rose 1.3%. METI thus expects that industrial production will drop in the first quarter of 2007, mainly due to an inventory correction in the transportation equipment sector as well as in electronic parts and devices. The Nomura/JMMA Purchasing Managers' Index, an indicator of the health of the manufacturing sector, stood at 53.4 in January, above the 21-month low of 53.1 recorded in December. However, the implied rate of expansion remained well below the annual average for 2006. This indicates that the pace of growth may slow from the very high levels recorded in 2006. For the overall economy, real GDP is estimated to have increased by 2.1% in 2006 and is forecast to continue to grow for the sixth consecutive year, albeit at a more moderate rate of 1.8% in 2007, unchanged from last month.

#### *Euro-zone*

**Euro-zone economies continued to exhibit strength in the services sector but manufacturing activity and consumer demand were slowing down; ECB signaled rate rise in March**

In the first month of the year, the Euro-zone continued to exhibit signs of a continued upswing in the services sector, but overall the slowdown in manufacturing expansion and consumer spending growth indicated a moderation in growth from the levels achieved in 2006. Consumer spending appears still to be unevenly spread across the Euro-zone countries. Retail sales volumes in December rose by 0.3% month-on-month and 2.1% y-o-y following a 0.5% rise in November. In contrast, German sales alone in December surged 2.4% ahead of January's three-percentage-point rise in sales tax. Overall in the Euro-zone, a rise of 0.3% in fourth quarter 2006 compares with double that rate (0.6%) in the third quarter.

In contrast, the services sector in the Euro-zone grew at the fastest pace in six months in January, according to the survey of purchasing managers by NTC Research. However, private companies appear to be attempting to pass through higher prices to consumers thus feeding European Central Bank (ECB) concerns about inflationary pressures. However, despite these attempts and the rise in German taxes, Euro-zone Consumer Price Inflation stayed

unexpectedly stable for a fifth successive month at 1.9% in January, a figure in line with the ECB's aim of 2.0% inflation. Moreover, Euro-zone producer prices were unchanged for a third successive month in December. However, money supply surged by 9.7% (M3) in December to its highest level since the switch to the euro, fuelling expectations of further ECB tightening in 2007.

Separately, Euro-zone manufacturing activity, although still expanding, appears to be on a slower growth path since three months. The Royal Bank of Scotland (RBS)/NTC Research purchasing managers' index (PMI) fell to 55.5 in January from 56.5 in December, compared to an almost six-year peak of 57.7 in June. In addition, overall Euro-zone economic sentiment eased further in January from its October peak level, as consumer and business confidence both retreated falling to 109.2 in January, from 109.8 in December, 109.9 in November and 110.0 in October. Nevertheless, sentiment remains high by long-term norms. The German Ifo business climate index saw a modest downward correction from December's 16-year peak in January, but expectations for the next six months improved further. Overall, the Euro-zone is expected to moderate to 2.1% in 2007 following a revised 2.6% in 2006.

#### *Former Soviet Union*

**Russia grew by 6.7% in 2006**

The upward pace of the Russian economy in 2006 surprised almost all economists. Russia's oil-driven economy grew 6.7% in 2006, according to preliminary estimates by the State statistics agency "Rosstat". That is higher than the GDP growth of 6.4% achieved in 2005, but below the Economic Ministry's latest forecast of 6.9%. In 2006, the construction, hospitality and financial services sectors all posted double-digit growth, while trade, transport and communications were not far behind. Today the growth of the Russian economy to a great extent depends on external factors. The reason for this is that raw materials are Russia's main export. Consequently, the prices of those goods on the international market are of crucial importance. Opinions about growth in 2007 differ even in the government, which is still considering two versions of the 2007 forecast. The first option (momentum-based) suggests that the volume of hydrocarbons exports will remain stable, while prices of products from Russia will continue to lose their competitive advantage. According to this scenario, GDP growth will decline from 6.7% in 2006 to 4.8-5.0% in 2008-2009. The second option, conversely, envisages that Russian products and services will become more competitive, and Russia will succeed with its structural reforms. In this case GDP growth will reach 5.8-6.0% in 2007-2009. Our forecast sees Russian growth in the vicinity of 5.8%

**Russian government attempted to diversify the economy**

The need for a more diversified economy with a stronger manufacturing sector was a topic of a recent meeting conveyed in the Kremlin. Economists warned that the government must act faster to diversify the economy away from raw material exports as long as the country benefits from the luxury of high world prices for oil and gas. Raw materials accounted for a rising share of exports, increasing from 80% in 2000 to 85% in 2005. The Industry and Energy Minister said Russia would build more oil refineries along the routes of new pipelines (including one that is to bring Siberian oil to East Asian customers) and at terminals on the Baltic Sea (a route for deliveries to Europe). He also said Russian companies aim to acquire or build refineries in countries they supply with oil.

**China has grown by 10.7% in 2006 according to preliminary estimation**

#### *Developing Countries*

According to preliminary estimates by the National Bureau of Statistics of China, the gross domestic product (GDP) for 2006 was 20,940.7 billion yuan, up by 10.7% in real prices, which is 0.3% point higher than that in the previous year. Of this total, the value added from the primary industry was 2,470.0 billion yuan, an increase of 5.0%; 10,200.4 billion yuan from secondary industry, an increase of 12.5%; and 8,270.3 billion yuan from tertiary industry, an increase of 10.3%. In terms of the four different quarters, the GDP growth was 10.4%, 11.5%, 10.6% and 10.4% respectively. The economy is forecast to slow only modestly to 9.4% in 2007. China has almost doubled its national output in five years, riding on an unprecedented wave of industrialisation, urbanisation and inward investment, the latter galvanised by China's accession to the WTO in 2001. The cooling measurement imposed by the Central government might be eliminated by political desire to maintain rapid growth momentum in the run up to the 17<sup>th</sup> Communist party Congress next October and the Olympics in 2008. The tone of recent comments by Chinese government, anxious to create jobs, suggests they believe that breakneck growth can be sustained and that the risks it entails are manageable.



**Inflation, current account deficit and full capacity utilization indicated an overheating economy in India**

India is expected to experience its fastest growth in almost two decades in 2006, underlining the country's growing clout in the world economy as manufacturing and service firms power ahead. In its first official estimate for the current fiscal year ending in March, the government announced that the economy was expected to grow 9.2%. However, the Indian economy is increasingly showing signs of overheating. First, the inflation rate has jumped to a two-year high of 6.58%, official data showed, stoking expectations of further interest rate hikes as the economy booms. Second, factories are operating at full capacity and loans are piling up. Unlike China, India has a widening current account deficit — a classic sign of overheating — as domestic output fails to capture surging demand. The Bank of India (BOI) raised its key lending rate early February to 7.5%, a four-year high, following four increases in 2006 in an attempt to cool inflation and rapid credit growth.

**Steady growth in Asia expected in 2007**

Other regions in Asia are expected to sustain economic growth albeit at slower rate with the exception of Indonesia. Taiwan, Malaysia, Philippines and Thailand which are expected to maintain steady or slightly easing GDP growth. Reduction of energy costs and new policies to attract further foreign investment would support these economies in 2007. Exports, especially to China, will contribute to growth in this region.

**Central Bank of Indonesia decreased interest rate and the government temporarily allowed rice imports**

***OPEC Member Countries***

Bank Indonesia lowered the rate used as a reference for bill sales by a quarter percentage point to 9.25%, the ninth reduction since May 2005. The Indonesian economy is expected to accelerate in 2007 on lower interest rates and inflation along with increased private consumption. Strong growth in China is seen to offset declining commodity prices. However, Indonesia's Central Bank said it has less scope for further interest rate cuts this year, after reducing borrowing costs to a 17-month low, on concern inflation may accelerate. Consumer prices may increase this month as floods in Jakarta and other parts of Java affect the movement of goods. The effects of the flood on the Indonesian economy are difficult to predict but to ensure that prices of rice, the nation's staple food, do not increase, the government has temporarily eased a ban on rice imports. The government will buy the grain from overseas until March. Indonesia banned rice imports in January 2005 to protect local farmers against falling prices.

**SAMA raised interest rate in Saudi Arabia to contain inflationary pressure**

Official Saudi figures show that the economy performed strongly last year despite the fall in the stock market by more than half. Real GDP growth was officially announced at 4.2%. The decline of oil production by almost 3% brought the figure down compared to 2005. Latest data put annual consumer price inflation at 2.7% in October 2005, up from 1.2% in December 2005 and 0.6% in December 2004. This results in an average CPI rise of 1.8% in 2006. The Saudi Arabian Monetary Agency (SAMA) on Thursday unexpectedly tightened monetary policy, narrowing the gap with US interest rates for the first time in seven months to address inflation. The Central Bank raised the benchmark repo rate and the reverse repo rate by 30 basis points to 5.50% and 5.0% respectively.

**Dollar regained ground versus most major currencies; yen weakens further**

***Oil prices, the US dollar and inflation***

The dollar recovered ground against the Swiss franc, the euro and the Japanese yen in January and fell only marginally against the pound sterling. The US currency rose by 1.65% against the euro, 2.86% against the Japanese yen, almost 2.88% against the Swiss franc but declined 0.23% against the pound sterling. Improving sentiment about the state of the US economy have helped the dollar to firm, while the decision by the BoJ to abstain from raising interest rates has weakened the yen further and encouraged global carry trade funded by the yen to continue. The Japanese currency slipped to four year lows against the dollar, an all time low against the euro and a 14-year low versus the pound sterling.

In January the OPEC Reference Basket fell by 12.45% to \$50.73/b from \$57.95/b in December. In real terms (base July 1990=100), after accounting for inflation and currency fluctuations, the Basket price fell by \$4.4/b or 11.2% to \$34.47/b from \$38.85/b. The value of the dollar rose by 1.27% as measured against 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

**Warm weather across the globe slowed demand for winter fuels maintaining the bearishness in the marketplace**

## OPEC Reference Basket

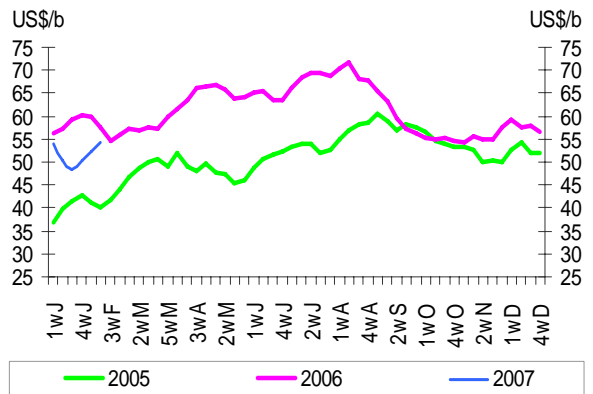
The OPEC Reference Basket began the New Year in a declining note on persistent warmer weather. The Basket lost nearly 8% in two days and ended the first week of January averaging 5.3% or \$2.51 lower to settle at \$53.99/b. However, tighter OPEC supply amid a halt in Russian exports via the Belarus pipeline revived some market bullishness which was short-lived on unsold prompt North Sea barrels. Ample supply amid prolonged warm weather in North America helped the bearish market sentiment to revive.

Unseasonably low demand for winter fuels triggered fund sells-offs which exerted downward pressure on the petroleum complex. Opening arbitrage opportunity for western grades to move eastward also contributed to downward pressure on the Asian market. Nevertheless, the resumption of Russian exports supported calmness in the marketplace. In the second week, the Basket averaged \$3.72 or more than 8% lower to settle at \$50.27/b, plunging in daily terms below the \$50/b level for the first time in three weeks. Market volatility returned in the third week on declining prices amid the emergence of colder weather. However, weaker European refining margins amid the flow of West African crude to Asia kept market sentiment balanced. In the third week, the Basket plunged well over 4% or \$1.82 to settle at \$48.45/b, the lowest weekly average since May 2005. Nevertheless, a blast of winter in North America amid prompt Asian demand for naphtha revived market strength. A call by the US administration to divert approximately 100,000 b/d into the SPR added to the bullish market sentiment, as did tight supply at the Russian Black Sea outlet. In the fourth week, the Basket surged nearly 5% on average for a gain of \$1.97 to settle at \$50.42/b.

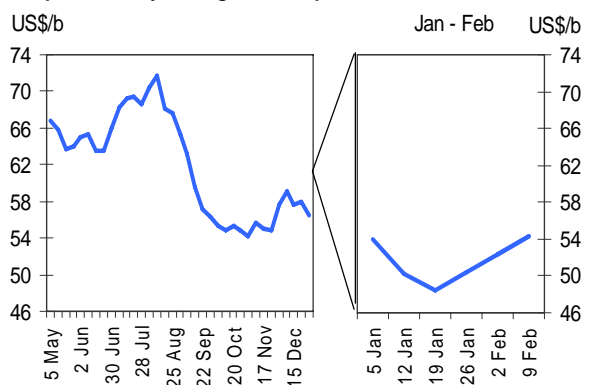
In the final days of the month, the bullish momentum was sustained and the Basket closed the month at \$52.52/b to average January at \$52.58/b. However, the prolonged cold spell in the USA amid supply interruptions from Russia's Black Sea outlet kept some bullish sentiment intact. Moreover, the perception of revived geopolitical tensions added to market strength.

In monthly terms, the Basket plunged over 12% or \$7.22 to settle at \$50.73/b, the lowest level since May 2005. The petroleum market began the month on a weaker note with the petroleum complex continuing the steep downward movement amid warm weather denting demand for winter fuels. Ample OPEC supply amid rising fuels stocks in the USA lent support to the market bearishness. In mid-January, the Basket plunged to the lowest level in some twenty months. However, a late cold winter spell in the Western Hemisphere amid a call by the USA to refill its SPR ignited some bullishness in the marketplace. In the early part of February, continued arctic weather in the USA and revived geopolitical tensions in the Mideast and West African helped the Basket to revive, soaring towards the \$55/b level to close the first two weeks at \$53.98/b.

Graph 1: OPEC Reference Basket - weekly spot crude



Graph 2: Weekly average Basket price, 2006-2007

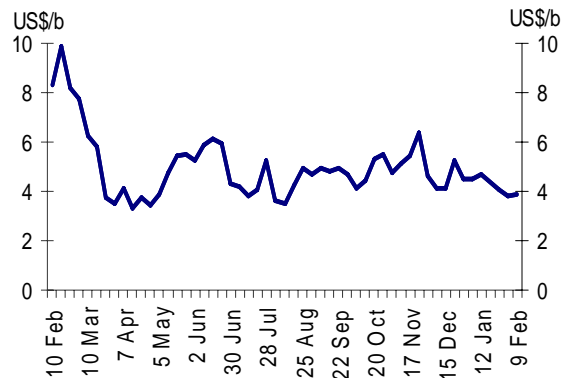


**Warm weather kept demand for winter fuels mild; however, the late arrival of winter helped the light/heavy spread to firm**

**US market**

Activity in the US domestic market emerged on weaker note amid the holiday season and sustained weak seasonal demand for winter fuels. The WTI/WTS spread was a notch wider at \$4.52/b in the first week amid the prospect for a launch in demand for light-end products. However, healthy builds in gasoline and distillate stocks maintained a wide spread. Nevertheless, with the futures market prices declining to the lowest level since June 2005, the US domestic market was directionless in the second week, which triggered sellers to dispose of prompt barrels at lower levels. The WTI/WTS spread was 18¢ wider at \$4.70/b. Bearish US petroleum data revealing healthy builds in crude oil, gasoline and distillate stocks exerted pressure on sweet crude in the third week. A wider contango spread level not seen since early December also supported market sentiment amid improved refining margins. Thus, the WTI/WTS spread was 31¢ narrower at \$4.39/b. in the fourth week when rising demand for light-end products amid a cold snap in the US northeast revived market strength. Although lower March supply from Canada's offshore Hibernia field lent support to the light grade, the WTI/WTS spread was 30¢ narrower at \$4.09/b. The spread contracted further in the final days of the month to below the \$4/b mark amid demand for winter fuels as distillate stocks dropped with heating oil stocks below last year's level. The monthly average for WTI was \$54.40/b, down over 12% or \$7.56 while the spread over WTS was \$4.34 or 15¢ firmer.

**Graph 3: WTI spread to WTS, 2006-2007**

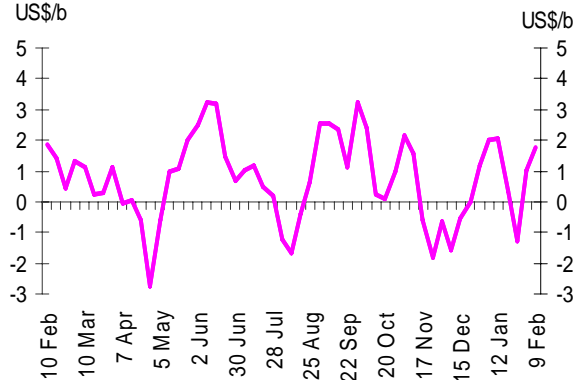


**The late arrival of winter contributed to the improvement of refining margins later in the month**

**North Sea market**

The crude oil market in the North Sea transpired on a weak tune amid softening regional freight rates and poor refining margins. Warm weather also lent support to market calmness. However, clearing of some prompt barrels amid improved margins balanced market sentiment. In the second week, while the markets awaited the February loading programme, unsold Norway offshore barrels maintained pressure. Yet, improving refining margins lent support to North Sea crude amid clearing front-end barrels. The swap curve flipped into backwardation supporting the regional grade. Moreover, in the third week, prompt buying amid healthy Russian demand which cleared most of February's programme kept the bulls intact. The strong sentiment continued into the fourth week amid demand for winter fuels as refining margins improved. A limited number of available February barrels was seen as supportive. The month closed on a stronger note as the cold snap continued in North America. Dated Brent closed the month with an average of \$53.68/b, representing a drop of \$8.65 or nearly 14%.

**Graph 4: WTI premium to Dated Brent, 2006-2007**



**Shipping and weather-related delays amid improved refining margins lent support to Urals differential to Brent**

**Mediterranean market**

The sour crude oil market in the Mediterranean emerged on a bullish note on supply disruptions at the Bosphorus Strait. The closure of the Novorossiysk port at the Black Sea lent support to the grade's refining margins. Urals average spread under Dated Brent improved in the first week of the year by 62¢ to \$2.95/b. The sentiment firmed further into the second week as Russia halted exports by pipeline via Belarus on a dispute over tariffs. Urals discount to Dated Brent was 48¢ narrower at \$2.47/b in the second week. In the third week the swap curve flipped into backwardation lending support to the bullish market on supply disruptions and improved margins. However, shipping delays were seen as an obstacle for procurement halting recent

strength in differentials as many buyers were looking for alternative crude. Hence, buying interest slowed down leaving some unsold January barrels. The Brent/Urals spread widened \$1.25 to \$3.72/b as the market focused on the February-loading programme. Sustained delays pressured the grade and deteriorating refining margins amid earlier strength in differentials shifted the buying spree to alternative grades elsewhere. The Urals discount to Brent widened a further 80¢ to \$4.52/b. In the final days of the month, revived refining margins amid continued shipping delays and tight February loading programme lent support to Urals differentials. Brent premium to Urals narrowed to \$4.16/b at the end of January. The Urals monthly average was \$50.12/b, representing a drop of almost 14% or \$7.83/b, yet the discount to Dated Brent narrowed 82¢ to stand at \$3.56/b.

**Improved fuel oil crack spreads amid tight OPEC barrel allocations for February lent some support after a forecast for warm weather in top consuming countries**

#### ***Middle Eastern market***

Sour Mideast crude market emerged on a weaker note as many participants were on holidays, Taiwan did not submit a buy-tender and traders awaited the retroactive December benchmark OSPs. Poor refining margins also lent support to market bearishness. Clearing February Oman was on offer at a 6¢/b discount to MOG while emerging March barrels were assessed at +/-5¢/b to MOG. In the second week, Mideast crude remained under pressure from relatively high retroactive OSPs while traders waited for February allocations.

Flows of rival Russian crude with Azeri grade on offer furthered the bearish market sentiment. March Oman was on bid/offer at a 13¢/6¢/b discount to MOG. However, improved fuel oil prices lent support to sour crude in the third week. Lower Mideast allocations for February barrels in line with the second OPEC cut placed firmness in Asia. However, soft demand for winter fuel in Japan due to the warm weather kept prices in balance. March Oman firmed, assessed at a 1-3¢/b discount to MOG on improved fuel oil crack spread. Persistent warm weather in the North-Eastern Hemisphere limited demand for winter fuel and continued to pressure kerosene-rich grades, while the narrowing crack spread for fuel oil pushed March Oman crude into a steeper discount of 10¢/b to MOG. The market sentiment weakened further in the final days of the month. Refiners fulfilled procurements as Japan enters the heavy maintenance season with some 14% or 0.7 mb/d of capacity offline.

**Graph 5: Dated Brent spread to Dubai, 2006-2007**

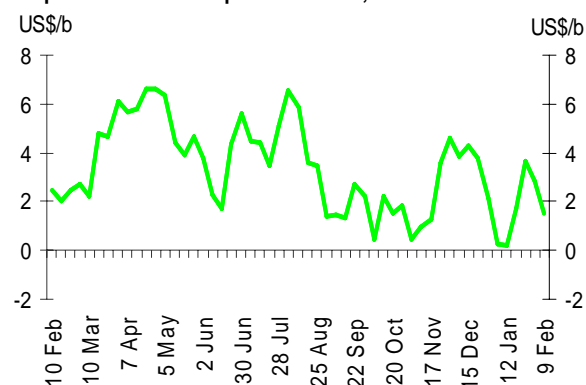


Table 1: OPEC Reference Basket and selected crudes, US\$/b

			Change	Year-to-Date	
	<u>Dec 06</u>	<u>Jan 07</u>	<u>Jan/Dec</u>	<u>2006</u>	<u>2007</u>
<b>OPEC Reference Basket</b>	<b>57.95</b>	<b>50.73</b>	-7.21	<b>58.48</b>	<b>50.73</b>
Arab Light	57.70	50.85	-6.85	58.43	50.85
Basrah Light	55.23	47.63	-7.59	55.59	47.63
BCF-17	48.56	42.68	-5.88	47.90	42.68
Bonny Light	64.28	56.18	-8.10	64.04	56.18
Es Sider	60.73	52.08	-8.65	61.76	52.08
Iran Heavy	55.75	47.90	-7.85	57.10	47.90
Kuwait Export	55.69	48.42	-7.26	56.52	48.42
Marine	59.25	52.58	-6.67	59.85	52.58
Minas	62.55	55.39	-7.15	63.35	55.39
Murban	63.12	56.42	-6.70	62.71	56.42
Saharan Blend	63.55	55.78	-7.77	64.06	55.78
<b>Other Crudes</b>					
Cabinda	58.28	50.65	-7.63	60.13	50.65
Dubai	58.69	51.92	-6.77	58.56	51.92
Isthmus	56.82	48.90	-7.92	58.54	48.90
T.J. Light	54.89	47.83	-7.06	54.27	47.83
Brent	62.33	53.68	-8.65	63.05	53.68
W Texas Intermediate	61.96	54.40	-7.56	65.39	54.40
<b>Differentials</b>					
WTI/Brent	-0.37	0.72	1.09	2.35	0.72
Brent/Dubai	3.64	1.76	-1.88	4.49	1.76

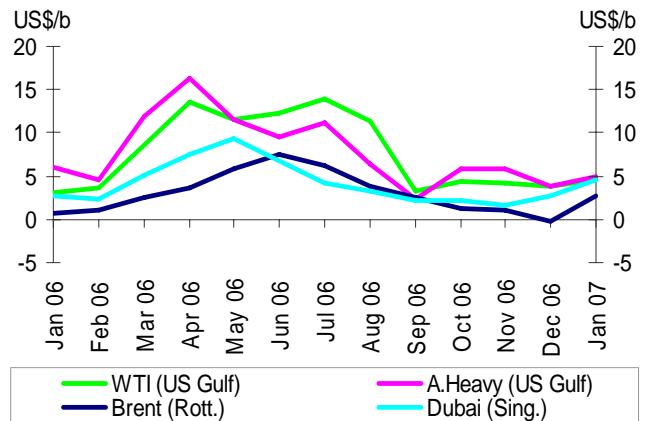
Source: Platt's, Direct Communication and Secretariat's assessments.

# Product Markets and Refinery Operations

**Higher refinery margins attributed mainly to low crude oil prices**

Continued warm weather across the board during a large part of January, coupled with gasoline stock-builds over the last few weeks, capped the crack spread level of the top and middle of the barrel complex from the previous month. Despite these bearish developments, refinery margins for different benchmark crudes improved across the globe, attributed mainly to lower crude oil prices.

**Graph 6: Refiners' margins**



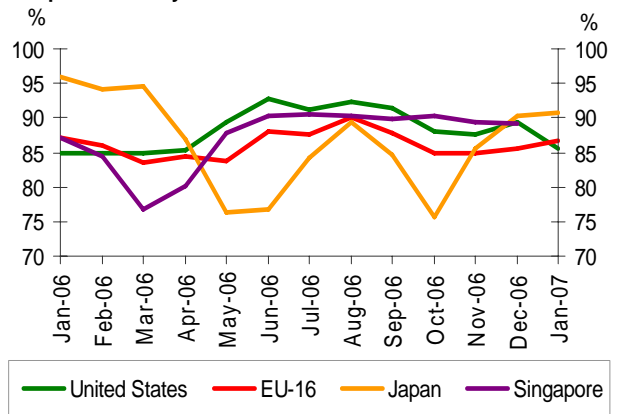
As **Graph 6** shows, refinery margins for benchmark WTI in the US Gulf Coast rose to \$4.52/b in January from \$3.91/b in the previous month. In Europe, refinery margins were lifted sharply to record \$2.80/b from minus 21¢/b in December. Lower Dubai crude oil prices from December, along with the improved performance of the middle and bottom of the barrel cut, also contributed to the surge in the benchmark Dubai margin in the Singapore market to reach \$4.47/b from \$2.67/b in the last month of 2006.

**A cold snap in the US Northeast in the latter part of January and early February changed crude and product market sentiment, lifting both physical and futures market prices. The start of refinery maintenance along with higher demand for gasoline in February may further improve product market sentiment over the next weeks compared to the early part of January. But any strengthening of the market will mainly depend on the continuation of a cold spell in the US Northeast.**

**Low margins have discouraged refineries from increasing throughput levels**

Refiners usually maximize their throughput levels during January every year, but this time due to factors such as the warm weather, lower seasonal demand for heating oil and comfortable stock levels of different products, they have not followed the traditional policy and kept their throughput levels lower than last year. In some areas, refiners even reduced their utilization rate compared to December 2006.

**Graph 7: Refinery utilization**



As **Graph 7** indicates, Japanese refiners cut throughput levels slightly compared to December, with utilization rates dropping to 90.1% from 90.3% in the previous month. European refiners also reduced utilization rates very marginally compared to December, recording 85.5% from 86% in the previous month. US refiners cut throughput levels more than in the other areas as utilization rates fell to 85.6% in January from 89.4% in December.

With the start of seasonal maintenance, the utilization rate in the USA may be trimmed further in the coming months.

## US market

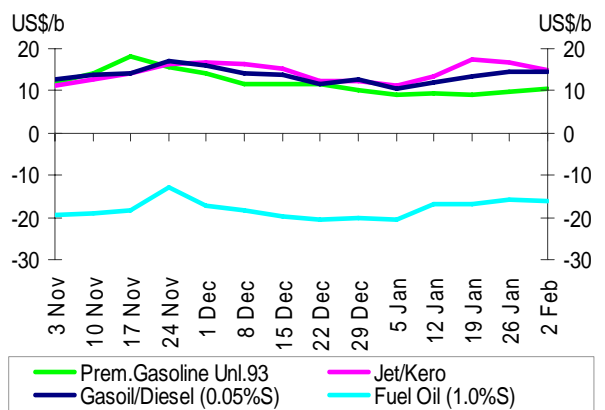
**Gasoline stock-builds jeopardize future refinery margins**

Bearish market sentiment prevailed in the US market during the greatest part of January, and it was exacerbated by gasoline stock-builds in the last six weeks. Traditionally, demand for gasoline drops to the lowest level in January resulting in stock-builds, but this year this trend was compounded by higher imports and earlier than usual ramping up in production by regional refiners, which led to higher gasoline stocks compared to the last few years. With emerging

gasoline demand in February and trimming of refinery throughputs due to seasonal turnaround, gasoline supply may tighten over the next weeks but not significantly given higher imports.

**As Graph 8 demonstrates, apart from gasoline, distillate crack spreads also failed to peak in January due to the unusually warm winter. In the latter part of that month, a cold spell in the Northeast lent support to the middle part of the barrel components and lifted the gasoil crack spread to \$14.53/b from around \$10.50/b in early January. Many private weather forecasters believe that such a cold weather may persist over the next few weeks, which could lend more support to product and crude prices.**

**Graph 8: US Gulf crack spread vs. WTI, 2006-2007**



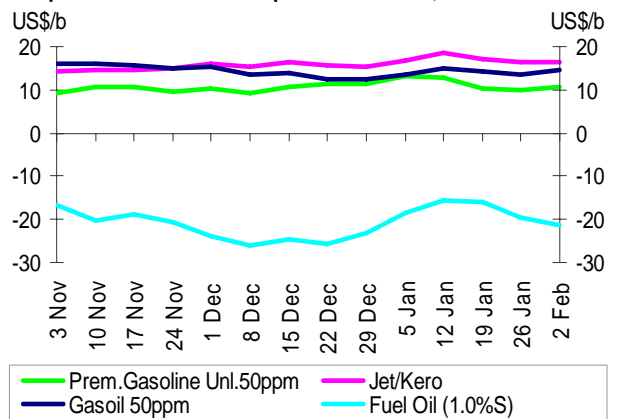
Colder weather in the US Northeast also provided support for the bottom of the barrel complex, and the fuel oil crack spread improved to minus \$15.68/b in the last week of January from minus \$20.47/b earlier. Despite the recent positive movements in the US product market, many analysts believe that currently soft margins in the USA are not likely to strengthen further in the coming months.

**European market**

**Lack of arbitrage opportunities to the USA exerted further pressure on the European gasoline market**

**Gasoline stock-builds in the USA had a negative effect on the gasoline market situation in Europe and eroded trans-Atlantic arbitrage opportunities. This bearish development exerted downward pressure on gasoline prices and narrowed the gasoline crack spread versus benchmark Brent in the Rotterdam market (see Graph 9).**

**Graph 9: Rotterdam crack spreads vs. Brent, 2006-2007**



Despite persistently bearish developments in the gasoline market, European naphtha market sentiment improved versus the previous month, due to arbitrage opportunities to Asia, which provided support for naphtha prices. The naphtha market is expected to remain strong in the coming weeks.

**The continuation of unseasonably warm weather maintained the bearish momentum of the European middle distillate market, but a cold spell in the US Northeast recently lifted both physical and futures product markets in Europe. As Graph 9 indicates, the gasoil crack spread in Rotterdam against benchmark Brent rose from nearly \$12/b in the latter part of December to about \$14/b in the last week of January. Due to the continuation of mild winter in Europe, there is uncertainty about the sustainability of recent positive developments in the distillate market.**

As far as the fuel oil market is concerned, arbitrage opportunities to Asia supported the European fuel oil market, and its discount versus Brent narrowed to about \$17/b on average from around \$24/b last month. However, persisting mild weather dampened seasonal European utility plant demand, and current weak circumstances are not expected to change significantly in the coming months.

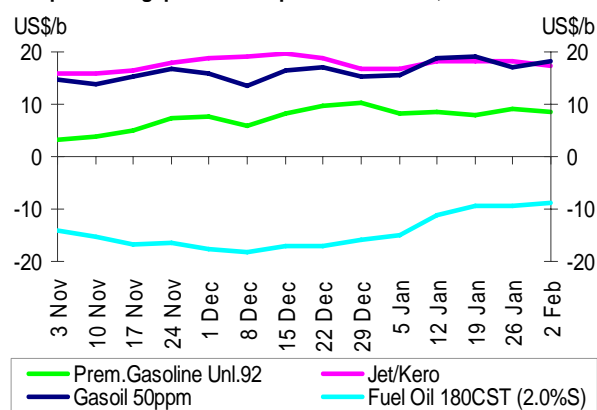


## Fuel oil market sentiment improved in Asia

### Asian market

Due to mild weather in North-East Asia, middle of the barrel components did not take their traditional driver's seat of the market in January. High jet/kerosene stocks in Japan also contributed to the bearish trend. Despite muted demand for kerosene, the gasoil market was more lucrative and its crack spread strengthened due to tight supply, as some refiners cut back on exports to meet petrochemical demand amid soaring naphtha prices. As Graph 10 demonstrates, the gasoil crack spread against benchmark Dubai soared to over \$17/b in January from about \$15.60/b in the previous month.

Graph 10: Singapore crack spreads vs. Dubai, 2006-2007



As mentioned above, the naphtha market was strong due to higher demand and tightening supply, as arbitrage cargoes initially booked for end-January arrival were delayed to February due to the bad weather. The naphtha market also found some support in the firm butane prices for winter heating, which discouraged petrochemical producers from using butane in place of naphtha.

In terms of gasoline, the Asian market lost ground compared to the previous month, as seasonal demand from Australia and New Zealand has abated, and its crack spread versus benchmark Dubai in the Singapore market fell to about \$8.5/b from nearly \$10.35/b in late December.

The Asian fuel market displayed a much improved performance relative to the other parts of the barrel components during January, and its discount versus Dubai narrowed from above \$16/b in December to around \$10/b. Higher Chinese demand and lower arbitrage cargoes from the west contributed to the strengthening of the Asian fuel oil market. Many market players believe that upon the arrival of arbitrage cargoes the Asian fuel oil market may lose its current strength.



<b>Table 2: Refined product prices, US\$/b</b>					
		<b>Nov 06</b>	<b>Dec 06</b>	<b>Jan 07</b>	<b>Change Jan/Dec</b>
<b>US Gulf (Cargoes):</b>					
Naphtha		64.12	65.65	58.86	-6.79
Premium gasoline	(unleaded 93)	74.03	73.50	64.00	-9.50
Regular gasoline	(unleaded 87)	65.84	67.33	59.14	-8.19
Jet/Kerosene		73.23	76.27	69.47	-6.80
Gasoil	(0.05% S)	73.74	75.16	67.48	-7.68
Fuel oil	(1.0% S)	44.56	42.33	37.35	-4.98
Fuel oil	(3.0% S)	39.60	39.43	36.41	-3.02
<b>Rotterdam (Barges FoB):</b>					
Naphtha		67.4	71.49	66.59	-4.90
Premium gasoline	(unleaded 50 ppm)	69.11	72.94	65.11	-7.83
Premium gasoline	(unleaded 95)	61.52	64.93	57.91	-7.02
Jet/Kerosene		73.81	78.27	70.78	-7.49
Gasoil/Diesel	(50 ppm)	74.53	75.6	67.79	-7.81
Fuel oil	(1.0% S)	38.69	37.32	36.04	-1.28
Fuel oil	(3.5% S)	38.7	37.82	33.81	-4.01
<b>Mediterranean (Cargoes):</b>					
Naphtha		56.16	59.44	<b>54.77</b>	-4.67
Premium gasoline	(50 ppm)	70.33	73.54	<b>64.62</b>	-8.92
Jet/Kerosene		72.33	76.44	<b>68.4</b>	-8.04
Gasoil/Diesel	(50 ppm)	74.31	75.64	<b>66.93</b>	-8.71
Fuel oil	(1.0% S)	38.29	38.42	<b>34.63</b>	-3.79
Fuel oil	(3.5% S)	37.49	37.37	<b>34.49</b>	-2.88
<b>Singapore (Cargoes):</b>					
Naphtha		57.66	60.54	56.79	-3.75
Premium gasoline	(unleaded 95)	62.89	68.16	61.59	-6.57
Regular gasoline	(unleaded 92)	62.14	67.03	60.31	-6.72
Jet/Kerosene		73.63	77.42	69.66	-7.76
Gasoil/Diesel	(50 ppm)	72.04	74.14	69.71	-4.43
Fuel oil	(180 cst 2.0% S)	40.53	41.47	41.23	-0.24
Fuel oil	(380 cst 3.5% S)	39.84	40.34	40.24	-0.10

<b>Table 3: Refinery operations in selected OECD countries</b>								
	<b>Refinery throughput</b>				<b>Refinery utilization</b>			
	<b>Nov 06</b>	<b>Dec 06</b>	<b>Jan 07</b>	<b>Jan/Dec</b>	<b>Nov 06</b>	<b>Dec 06</b>	<b>Jan 07</b>	<b>Jan/Dec</b>
	<i>mb/d</i>				<i>%</i>			
<b>USA</b>	15.00	15.31	14.79	-0.52	87.6	89.4	85.6	-3.80
<b>France</b>	1.76	1.73	1.75	0.02	89.1	87.4	89.5	2.10
<b>Germany</b>	2.36	2.27 R	2.21	-0.06	97.2	93.6	91.6	-2.00
<b>Italy</b>	1.90	1.86	1.84	-0.02	81.7	80.0	78.6	-1.40
<b>UK</b>	1.46 R	1.48 R	1.48	0.00	77.8 R	79.1 R	78.6	-0.50
<b>Eur-16</b>	12.00 R	12.09 R	12.16	0.07	84.9 R	85.6 R	86.6	1.00
<b>Japan</b>	4.00	4.22	4.25	0.03	85.6	90.3	90.8	0.50
R	Revised since last issue.							
Sources:	OPEC statistics; Argus; Euroilstock Inventory Report; IEA.							

## The Oil Futures Market

**Warm weather pushed the futures contract lower with non-commercial positions falling into net shorts**

The futures oil market had a weak start to the month amid warm weather in the USA as a mild winter dominated the Northeast and Nymex WTI dipped below the \$60/b level. Although Nymex WTI averaged the first weekly period at \$60.06/b, which was nearly 4% lower than the previous period, and closed at \$58.32/b or 4.5% lower than the previous week, the non-commercial net volume fell by a hefty 17,700 lots as the increase in short positions outpaced the rise in longs, according to the CFTC report. Hence, volumes stood net long at 2,200 contracts. Yet, open interest rose a hefty 47,000 lots to 1,226,600 and with options included was 127,000 higher at 1,993,700 contracts, mainly on commercials' gains.

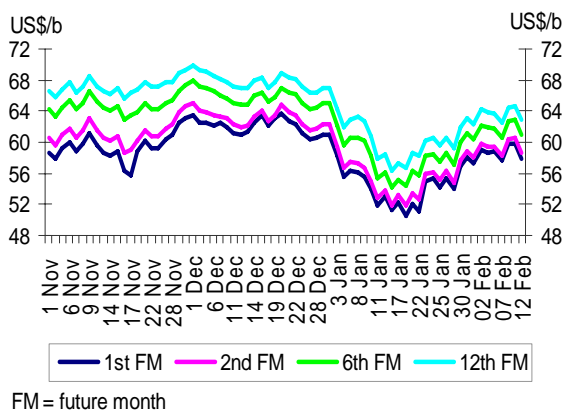
In the second weekly period, further bearish inventory data added to the weakening factors on untapped winter fuel stocks. Nymex WTI closed the weekly period at \$55.64/b or 4.6% lower with the weekly average down to \$55.91/b, representing a loss of almost 7%. Hence, the CFTC reported that the shorts sharply increased while the longs fell, flipping net non-commercial positions into net shorts with a drop of 24,500 lots to 22,350. Open interest rose by another hefty 53,700 lots to 1,280,300, and with options stood 166,900 contracts higher at 2,160,600.

In the third weekly period, oil futures continued the downward trend, losing \$3.38 or 6% to average \$52.53/b, closing at \$51.21/b. A healthy build in the US gasoline and distillate stocks amid a prolonged warm winter supported the bearish market sentiment. A resolution of the dispute between Russia and Belarus over oil flows eased concern over a possible supply shortfall. Speculations that OPEC might further cut output were balanced by comments of a Mideast major denying any plans for a supply cut. The CFTC reported that non-commercials reduced short positions while increasing longs resulting in net short positions falling by 20,300 contracts to 2,000. Open interest was up by some 37,100 to set a new record of 1,317,400 lots. With options included, open interest gained 236,500 to nearly 2.4 million contracts.

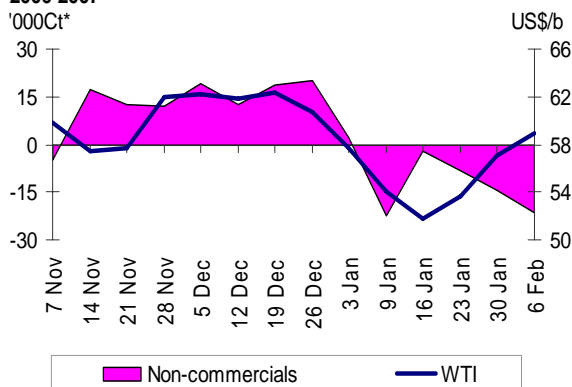
In the fourth weekly period, warm weather continued to dominate the market amid ample OPEC supply. However, a late cold snap in the USA revived market concerns over winter fuel stocks, pushing Nymex WTI up to close the week at \$55.04/b for a gain of 7.5%, while the weekly average slipped to \$52.18/b amid the shift to a new front-month. The CFTC revealed that non-commercials reduced longs while increasing short positions, boosting net shorts by 6,500 lots to 8,500. Open interest decreased by 47,800 to 1,269,600 lots; including options, it was deflated even further, down 123,400 lots to 2,273,700.

In the final week of the month, the slide in long positions continued while shorts built, hence the net short positions rose 5,800 lots to 14,000. Although concern over a possible further OPEC cut was revived, a call by the USA to refill the Strategic Petroleum Reserve and frigid weather in the US Northeast maintained the bullish sentiment. Nymex WTI closed 3.5% higher at \$56.97/b, while the weekly average was nearly unchanged at \$55.20/b.

Graph 11: Nymex WTI futures prices, 2006-2007



Graph 12: Non-commercial net long positions vs WTI, 2006-2007



NC = Non-commercials: funds, investments and banks.  
Ct = \*Each contract is 1,000 barrels.

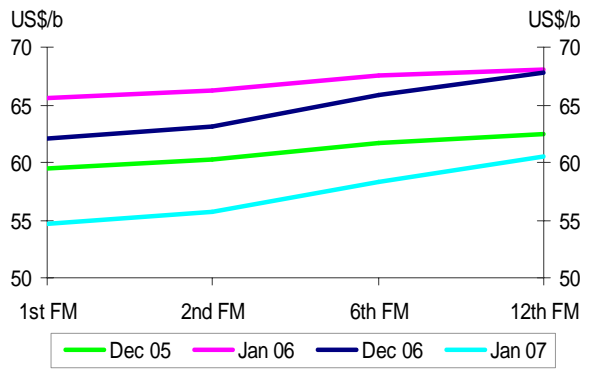
On a monthly basis, the CFTC revealed that the weekly average for non-commercials in January was net short of 9,000 lots compared to 17,500 lots net long in December and 1,700 lots net long last year respectively. Short positions set a record-high of 178,000 lots while longs fell from July's high to 169,200 lots. Open interest's weekly average was up to 1,280,000 lots, representing a gain of 84,400 over the previous month and 377,800 above the same time last year. With options included, open interest's weekly average was 2,234,000 lots or 338,500 higher than December and 743,000 higher than the previous year. Nymex WTI front-month's average was \$54.35/b for a drop of \$7.64 or over 12% from December and 17% lower than last year.

**The contango spread narrowed for the second month as US crude oil stocks declined**

**The Forward Structure**

The contango in the forward curve narrowed to its lowest level in three months amid depleting crude oil stocks in the USA. The 1<sup>st</sup>/2<sup>nd</sup> month spread averaged 99¢/b in January compared to \$1.35 in December and 65¢ last year. The 1<sup>st</sup>/6<sup>th</sup>, /12<sup>th</sup> and /18<sup>th</sup> month spreads were \$3.64, \$5.87 and \$6.67/b respectively, which was 83¢, 64¢, and 44¢/b lower. Compared to last year, the respective spreads were \$1.97, \$2.50 and \$2.32. On a weekly basis, crude oil stocks averaged 320.8 mb in January, some 750,000 barrels above last year, yet 8.1 mb lower than December.

**Graph 13: Nymex WTI forward curve**



FM = future month

## The Tanker Market

**OPEC spot fixtures increased by 19% while sailings remained steady in January**

OPEC spot fixtures rebounded with an increase of 2.7 mb/d or 19% from the previous month to average 14.23 mb/d. The increase in fixtures fell within the typical rebound trend following the holiday seasons; nevertheless, OPEC spot fixtures showed a decline of 1.0 mb/d compared to the same month a year ago. Non-OPEC spot fixtures increased 24% while spot fixtures around the world increased in January by 21% averaging around 22 mb/d. Middle East eastbound fixtures — including OPEC and non-OPEC — rebounded by 1.3 mb/d to average 6.2 mb/d whereas westbound fixtures remained steady at the previous month's levels. Compared to a year earlier, Middle East fixtures (eastbound and westbound) were 0.7 mb/d lower. The share of Middle East spot fixtures in total spot fixtures remained stable at around 35% with eastbound at 28% and westbound dropping to 9%.

Preliminary data shows that January OPEC sailings were steady, dropping 130,000 b/d or 1% to average 22.58 mb/d. OPEC sailings in January represented a decline of 5% when compared to the same month last year. The OPEC cut coupled with demand issues and high stock levels are the main factors for the y-o-y decline. Arrivals around the world remained steady the US Gulf and East Coasts and the Caribbean arrivals unchanged at around 9.1 mb/d in January, indicating y-o-y growth of 2%. North-West Europe arrivals maintained their level of 7.2 mb/d while displaying a y-o-y decline of around 9%.

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

	<u>Nov 06</u>	<u>Dec 06</u>	<u>Jan 07</u>	<u>Change Jan/Dec</u>
<b>Spot Chartering</b>				
All areas	18.10	17.46	22.08	4.62
OPEC	11.56	11.53	14.23	2.70
Middle East/east	4.42	4.90	6.18	1.28
Middle East/west	1.20	1.65	1.59	-0.06
<b>Sailings</b>				
OPEC	23.98	22.71	22.58	-0.13
Middle East	17.91	16.25	16.70	0.45
<b>Arrivals</b>				
US Gulf Coast, US East Coast, Caribbean	8.74	9.35	9.14	-0.20
North West Europe	6.93	7.17	7.22	0.05
Euromed	4.67	4.43	4.38	-0.05

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

**The crude oil tanker market remained bearish with a steady VLCC market**

The crude oil tanker spot market showed a mixed pattern over its various routes with a tendency towards slowing down in January. Specific routes in each sector came under pressure. Aframax experienced further weakening, while few routes managed to close the month with minor improvements. The VLCC sector was mostly steady with rates for vessels trading on the Middle East/eastbound long-haul route averaging WS73.5 points or 7% higher than the previous month, the first gain since August 2006. Despite this slight improvement, January rates indicated a y-o-y drop of 45% which can be attributed generally to tanker oversupply, the OPEC output cut and stock levels. The same factors influenced the Middle East/westbound route, where VLCC rates fell 5 points to average WS54. Rates dropped as far as WS48 around the second week of the month, which is estimated to be a record-low for the last three years, while the monthly average was the lowest since July 2005. Tanker oversupply was one of the main factors weighing on spot freight rates. Oil in Transit experienced an increase during the first weeks of January before leveling off slightly higher than the end of 2006 level. This combined with VLCC fleet growth produced a charterer-market environment, where vessel unemployment encouraged owners to accept lower rates. Similarly, VLCCs for West Africa/eastbound routes lost 7 points to average WS72. Rates were better on this route than elsewhere, gaining some support from fuel oil arbitrage opportunities from the North Sea to the east. Also it should be noted that this sector is usually affected by market forces normally associated with the Suezmax sector.

The Suezmax market softened on the routes from West Africa and strengthened from North-West Europe. Spot freight rates for Suezmax moving volumes on the West Africa/US Gulf Coast route fell 11 points to average WS 124, the lowest level since last April, with a y-o-y decline of 27%. The decline was supported by the imbalance of cargoes against tonnage availabilities with

the latter outweighing volume. On the other hand, constant delays due to congestion in the Turkish Strait, estimated by industry experts to be around 10-17 days, exerted pressure on tonnage availability and created a relative tightness in the market which contributed to the increase of the Suezmax spot freight rates for the North-West Europe/US East Coast-US Gulf Coast route, which gained 24 points from the previous month to average WS149 in January. Additionally, fuel oil arbitrage opportunities which opened from North-West Europe to the Far East lent support to the market tightness in this sector.

**Table 5: Spot tanker freight rates, Worldscale**

	Size 1,000 DWT	Nov 06	Dec 06	Jan 07	Change Jan/Dec
<b>Crude</b>					
Middle East/east	230-280	72	68	73	5
Middle East/west	270-285	68	59	54	-5
West Africa/east	260	77	79	72	-7
West Africa/US Gulf Coast	130-135	122	135	124	-11
NW Europe/USEC - USGC	130-135	111	125	149	24
Indonesia/US West Coast	80-85	163	148	152	4
Caribbean/US East Coast	50-55	215	247	178	-69
Mediterranean/Mediterranean	80-85	112	222	206	-16
Mediterranean/North-West Europe	80-85	110	224	199	-25
<b>Products</b>					
Middle East/east	30-35	156	213	189	-24
Singapore/east	30-35	168	291	262	-29
Caribbean/US Gulf Coast	38-40	229	286	263	-23
NW Europe/USEC - USGC	33-37	208	313	240	-73
Mediterranean/Mediterranean	30-35	221	242	245	3
Mediterranean/North-West Europe	30-35	231	252	255	3

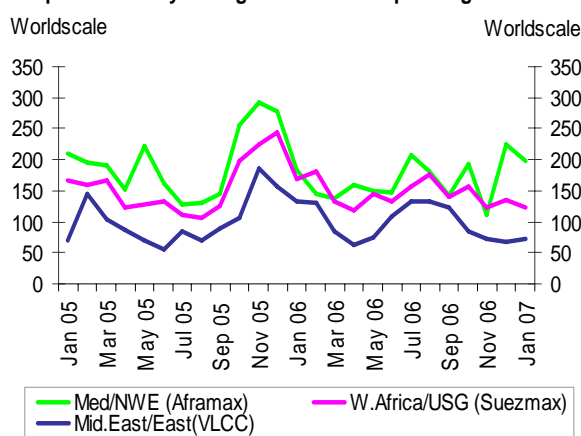
Source: Galbraith's Tanker Market Report and others.

In January, the Aframax sector came under pressure with the Caribbean/US East Coast route spot freight rates continuing to decline by 69 points to average WS178. The delays created by the closure of the Black Sea port and those associated with congestion in the Bosphorus and Dardanelles Straits exerted some pressure on the North-West Europe and Mediterranean markets, nevertheless, available cargoes were limited, hence overshadowing the delay effects and eroding the spot freight rates by 16 and 25 points on the intra-Mediterranean and Mediterranean/North-West Europe routes to average WS206 and WS199 respectively. Spot freight rates from the Mediterranean were the only rates showing an annual gain, averaging 17% higher.

**Clean market rates decreased on most routes except the Mediterranean**

In the product markets, spot freight rates weakened on most routes in January after a rebound in the previous month. Freight rates from the Mediterranean were steady, while rates on the rest of the trade routes declined with the biggest drop in the North-West Europe to transatlantic destinations. Spot freight rates fell 73 points to average WS240 on the North-West Europe/US East Coast-US Gulf Coast route, indicating a y-o-y decline of around 29%. Freight rates from the Caribbean dropped 23 points to average WS263 with an annual decline of around 30%. In the Mediterranean, rates were steady averaging around WS250 to North-West Europe and other Mediterranean destination. Weather-related delays coupled with Far East arbitrage opportunities supported the market, although on an annual basis rates showed a decrease of around 40%. East of Suez rates fell on the routes from the Middle East and Singapore on the back of weak tonnage demand triggered by high Japanese product stocks as well as increased naphtha volumes arriving from the Mediterranean and North-West Europe.

**Graph 14: Monthly averages of crude oil spot freight rates**



# World Oil Demand

**World oil demand growth in 2006 is estimated at 0.8 mb/d to stand at 84.13 mb/d**

## World oil demand in 2006

Warm weather in December negatively affected global oil demand, although December oil demand was stronger than in the previous month. OECD countries showed the largest decline in oil demand in December, due to the warm weather. The impact on oil demand for non-OECD countries was not as strong as that of the OECD countries. In fact, India and the Middle East oil demand were stronger than expected, which offset the decline in OECD oil demand. **Total y-o-y world oil demand growth for 2006 is estimated at 0.8 mb/d or 1.0%**, representing only minor changes from the last *MOMR*. Most of the decline in OECD oil demand was a result of fuel switching from fuel oil to natural gas.

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

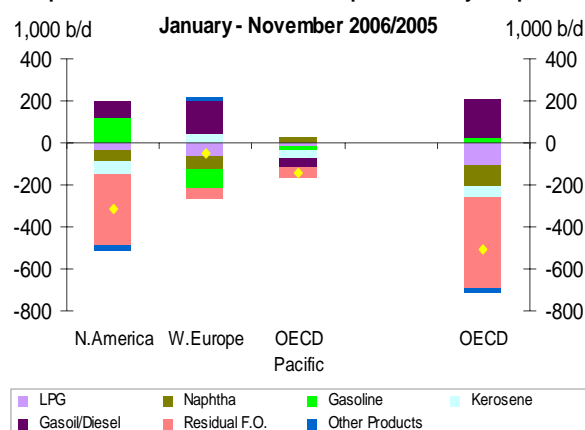
	2005	1Q06	2Q06	3Q06	4Q06	2006	Change 2006/05	
							Volume	%
North America	25.51	25.12	25.10	25.48	25.44	25.29	-0.22	-0.87
Western Europe	15.51	15.77	15.03	15.43	15.66	15.47	-0.04	-0.24
OECD Pacific	8.59	9.30	7.87	7.90	8.77	8.46	-0.13	-1.56
<b>Total OECD</b>	<b>49.61</b>	<b>50.19</b>	<b>47.99</b>	<b>48.82</b>	<b>49.87</b>	<b>49.22</b>	<b>-0.39</b>	<b>-0.79</b>
Other Asia	8.67	8.73	8.95	8.61	8.88	8.79	0.12	1.41
Latin America	5.06	4.99	5.15	5.31	5.23	5.17	0.11	2.12
Middle East	5.82	6.04	6.12	6.35	6.17	6.17	0.35	6.09
Africa	2.89	2.96	2.95	2.91	3.02	2.96	0.07	2.42
<b>Total DCs</b>	<b>22.44</b>	<b>22.72</b>	<b>23.17</b>	<b>23.18</b>	<b>23.30</b>	<b>23.09</b>	<b>0.65</b>	<b>2.91</b>
FSU	3.82	3.69	3.56	3.83	4.03	3.78	-0.04	-1.02
Other Europe	0.88	0.97	0.90	0.88	0.88	0.91	0.02	2.41
China	6.54	7.09	7.34	7.21	6.92	7.14	0.60	9.18
<b>Total "Other Regions"</b>	<b>11.24</b>	<b>11.75</b>	<b>11.80</b>	<b>11.92</b>	<b>11.84</b>	<b>11.83</b>	<b>0.58</b>	<b>5.18</b>
<b>Total world</b>	<b>83.29</b>	<b>84.66</b>	<b>82.96</b>	<b>83.91</b>	<b>85.01</b>	<b>84.13</b>	<b>0.84</b>	<b>1.01</b>
Previous estimate	83.29	84.66	82.96	83.87	85.03	84.13	0.84	1.01
Revision	0.00	0.00	0.00	0.04	-0.02	0.00	0.00	0.01

Totals may not add due to independent rounding.

## Estimated regional oil demand, year-to-date OECD

North America is the key demand factor, especially when the weather is concerned. According to the EIA weekly, US oil demand declined by 0.76 mb/d or 3.6% in December compared to the same period in the previous year. This decline was mostly in fuel and heating oil, which are the main two products consumed during winter. As far as the total year is concerned, US oil demand declined by 0.2 mb/d in 2006. As a result of fuel switching, the main decline came from fuel oil, which dropped 0.25 mb/d in 2006. Also kerosene-jet fuel demand declined by 0.06 mb/d in 2006. There was a mild increase of 0.8% in motor gasoline but this did not offset the overall decline. As a result, **North America's y-o-y fourth-quarter oil demand was revised down by 0.09 mb/d, showing a minor decline of 0.04 mb/d to average 25.44 mb/d.**

**Graph 15: OECD - Growth of total requirements by component**



**North America was revised down by 40,000 b/d in the fourth quarter of 2006**

**OECD Europe**

European auto owners benefited from heavily-subsidized biofuel. The Swedish government has a plan to have more than half of driven vehicles equipped with a biofuel-operated engine. According to Statoil, sales of E85 biofuel increased by 270% in 2006. Along with low transport fuel demand, the warm winter reduced the demand for heating oil; hence, the **OECD Europe y-o-y fourth quarter is not following a normal up cycle growth, but rather is estimated to show a minor decline of 0.03 mb/d to average 15.66 mb/d.**

**OECD Pacific**

Although crude runs were low, South Korea took advantage of low oil prices, as the country's oil imports rose by 3.7% in December with yearly average growth at 5.5%. According to governmental data, Japan's y-o-y oil imports grew by 18% in December; however, total oil imports for 2006 were flat. Slow economic activities, the warm winter, fuel switching, low transport fuel demand and high utilization of Japanese nuclear power plants were the main factors behind sluggish oil demand in Japan last year. Japan's oil demand for December dropped by 17.3%, while for the full year demand declined by 2.5% from 2005. The products which declined the most in 2006 were kerosene and gasoil while fell by 6.4% and 5.4% respectively. Both high oil prices and bad weather in the peak of the driving season in July and August dampened gasoline demand by 1.1% in 2006. **OECD Pacific demand in the fourth quarter is estimated to have fallen 0.02 mb/d y-o-y.** In total, **OECD fourth-quarter oil demand growth was revised down by 0.1 mb/d to show a y-o-y decline of 0.09 mb/d.**

**Table 7: Japanese Domestic Sales, kb/d**

	<u>Dec 06</u>	<u>Change from Dec 05</u>	<u>Change from Dec 05 %</u>
Gasoline	1,129	-13	-1.1
Naphtha	960	80	9.1
Jet Fuel	106	21	25.3
Kerosene	807	-232	-22.3
Gas Oil	675	-23	-3.3
Other Products	897	-189	-17.4
<b>Total Products</b>	<b>4,575</b>	<b>-355</b>	<b>-7.2</b>

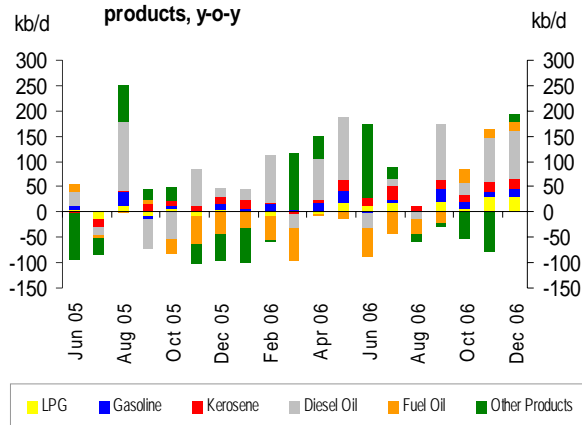
Source: Ministry of Economy and Trade in Japan (METI)

**Developing Countries**

**Developing Countries oil demand was revised up to by 0.18 mb/d in the fourth quarter of 2006**

India's oil demand reached 2.85 mb/d, in December, representing a gain of 0.32 mb/d over the previous month. Oil demand growth in December of 7.26% was the highest in twelve months. Hence, **India's oil demand surged by 2.9% to average 2.6 mb/d in 2006.** The boom in new car sales put gasoline demand at a high of 5.69% y-o-y. In contrast, fuel oil was negatively affected by the fuel switching in power plants and showed a decline of almost 6% y-o-y. Diesel demand grew by 5.13% for the year as a result of strong agricultural and trucking activities in India.

**Graph 16: Changes in Indian product demand by major products, y-o-y**



The healthy oil demand growth in the Middle East came as expected. **Fourth-quarter y-o-y oil demand growth is estimated at 0.35 mb/d to average 6.2 mb/d for the region.** As a result of higher-than-expected oil demand in India, the DCs oil demand in the fourth quarter was revised up by 0.18 mb/d to average 23.30 mb/d, representing growth of 0.82 mb/d y-o-y.



Table 8: Indian oil demand by main products, kb/d

	<u>Dec 06</u>	<u>Nov 06</u>	<u>Jan-Dec 06</u>	<u>Difference to Jan - Dec 05</u>	<u>%</u>
LPG	378	358	334	11	3.3
Motor Gasoline	257	197	213	11	5.7
Jet Kero	299	299	283	14	5.1
Gas Diesel Oil	1,026	943	911	48	5.6
Residual Fuel Oil	359	321	330	-21	-6.0
Other Products	533	414	550	10	1.8
<b>Total Oil Demand</b>	<b>2,853</b>	<b>2,532</b>	<b>2,621</b>	<b>73</b>	<b>2.9</b>

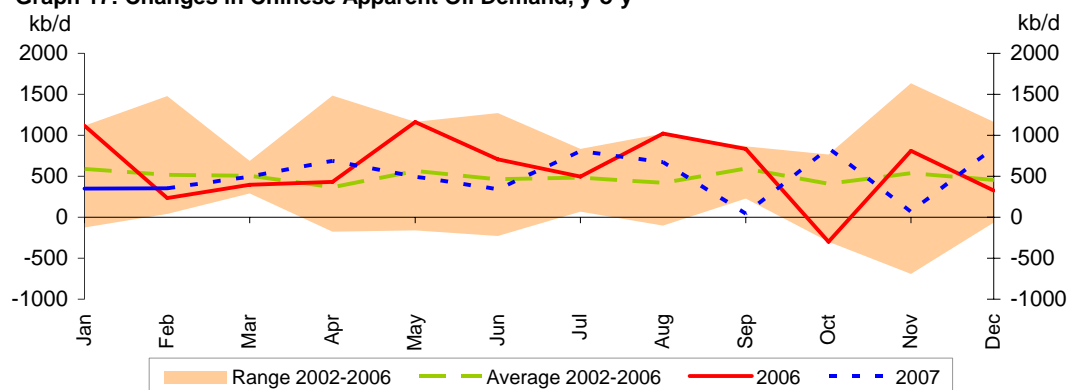
Sources: Direct Communication, Indian Ministry of Petroleum, Indianpetro, JODI plus  
OPEC Secretariat's estimates.

### Other Regions

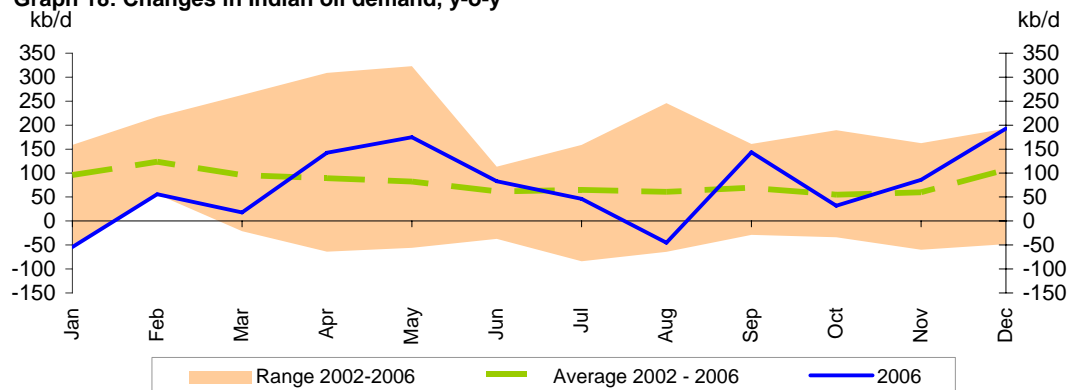
**China's oil demand growth is estimated at 0.28 mb/d in the fourth quarter of 2006**

China's y-o-y crude imports in 2006 rose slightly above 17% or 0.51 mb/d compared to a 3.6% decline in 2005. Some of China's 2006 oil imports which averaged 2.68 mb/d were used to fill the new strategic storage in Zhenhai which was commissioned in late 2006 and has a capacity of 32.7 mb. China's **oil demand growth in the fourth quarter is expected to reach 0.28 mb/d y-o-y to average 6.83 mb/d**. Strong Chinese economic activities along with the ambitious governmental plan to develop the rural areas were the main factors behind China's stronger-than-expected oil demand growth for 2006, which yielded healthy oil demand growth reaching 0.6 mb/d to average 7.12 mb/d in 2006. December Chinese gasoline demand grew by 6% to meet the large increase in new car sales, totaling 7.2 million units in 2006. The rural area development has affected diesel demand, which grew by 5% in December. The warm winter has helped oil demand in China via the increase in agricultural and construction activities. One product that experienced a strong decline of 27% as a result of the use of alternative energy is fuel oil.

Graph 17: Changes in Chinese Apparent Oil Demand, y-o-y



Graph 18: Changes in Indian oil demand, y-o-y





**Table 9: First and second quarter world oil demand comparison for 2006, mb/d**

	<u>1Q05</u>	<u>1Q06</u>	<u>Change 2006/05</u>		<u>2Q05</u>	<u>2Q06</u>	<u>Change 2006/05</u>	
			<u>Volume</u>	<u>%</u>			<u>Volume</u>	<u>%</u>
North America	25.62	25.12	-0.49	-1.93	25.33	25.10	-0.23	-0.91
Western Europe	15.62	15.77	0.15	0.99	15.17	15.03	-0.14	-0.90
OECD Pacific	9.45	9.30	-0.15	-1.55	8.06	7.87	-0.19	-2.41
<b>Total OECD</b>	<b>50.68</b>	<b>50.19</b>	<b>-0.49</b>	<b>-0.96</b>	<b>48.56</b>	<b>47.99</b>	<b>-0.56</b>	<b>-1.16</b>
Other Asia	8.71	8.73	0.02	0.28	8.83	8.95	0.12	1.32
Latin America	4.89	4.99	0.10	2.04	5.07	5.15	0.08	1.67
Middle East	5.66	6.04	0.38	6.71	5.78	6.12	0.33	5.74
Africa	2.89	2.96	0.06	2.25	2.88	2.95	0.07	2.34
<b>Total DCs</b>	<b>22.15</b>	<b>22.72</b>	<b>0.57</b>	<b>2.57</b>	<b>22.57</b>	<b>23.17</b>	<b>0.60</b>	<b>2.66</b>
FSU	3.87	3.69	-0.18	-4.68	3.70	3.56	-0.14	-3.70
Other Europe	0.94	0.97	0.03	2.91	0.88	0.90	0.02	2.12
China	6.51	7.09	0.58	8.91	6.58	7.34	0.77	11.64
<b>Total "Other Regions"</b>	<b>11.32</b>	<b>11.75</b>	<b>0.43</b>	<b>3.77</b>	<b>11.15</b>	<b>11.80</b>	<b>0.65</b>	<b>5.81</b>
<b>Total world</b>	<b>84.15</b>	<b>84.66</b>	<b>0.51</b>	<b>0.60</b>	<b>82.28</b>	<b>82.96</b>	<b>0.69</b>	<b>0.84</b>

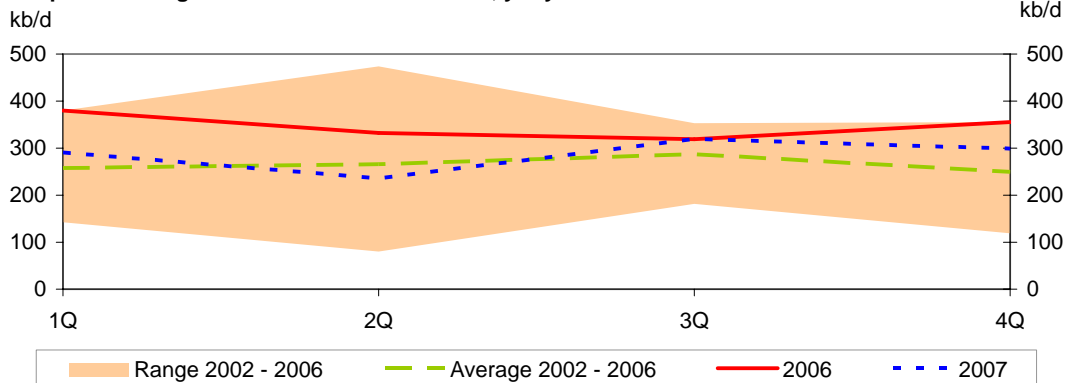
Totals may not add due to independent rounding.

**Table 10: Third and fourth quarter world oil demand comparison for 2006, mb/d**

	<u>3Q05</u>	<u>3Q06</u>	<u>Change 2006/05</u>		<u>4Q05</u>	<u>4Q06</u>	<u>Change 2006/05</u>	
			<u>Volume</u>	<u>%</u>			<u>Volume</u>	<u>%</u>
North America	25.61	25.48	-0.13	-0.51	25.48	25.44	-0.04	-0.14
Western Europe	15.56	15.43	-0.13	-0.82	15.69	15.66	-0.03	-0.21
OECD Pacific	8.08	7.90	-0.18	-2.18	8.79	8.77	-0.02	-0.22
<b>Total OECD</b>	<b>49.25</b>	<b>48.82</b>	<b>-0.43</b>	<b>-0.88</b>	<b>49.96</b>	<b>49.87</b>	<b>-0.09</b>	<b>-0.18</b>
Other Asia	8.53	8.61	0.08	0.96	8.62	8.88	0.26	3.06
Latin America	5.19	5.31	0.12	2.35	5.11	5.23	0.12	2.39
Middle East	6.00	6.35	0.35	5.81	5.81	6.17	0.36	6.12
Africa	2.84	2.91	0.06	2.28	2.93	3.02	0.08	2.81
<b>Total DCs</b>	<b>22.56</b>	<b>23.18</b>	<b>0.62</b>	<b>2.73</b>	<b>22.47</b>	<b>23.30</b>	<b>0.82</b>	<b>3.67</b>
FSU	3.78	3.83	0.06	1.54	3.93	4.03	0.10	2.54
Other Europe	0.87	0.88	0.01	0.84	0.85	0.88	0.03	3.76
China	6.43	7.21	0.78	12.10	6.64	6.92	0.28	4.21
<b>Total "Other Regions"</b>	<b>11.07</b>	<b>11.92</b>	<b>0.84</b>	<b>7.61</b>	<b>11.43</b>	<b>11.84</b>	<b>0.41</b>	<b>3.60</b>
<b>Total world</b>	<b>82.88</b>	<b>83.91</b>	<b>1.03</b>	<b>1.24</b>	<b>83.86</b>	<b>85.01</b>	<b>1.15</b>	<b>1.37</b>

Totals may not add due to independent rounding.

**Graph 19: Changes in Middle East oil demand, y-o-y**



**World oil demand growth in 2007 is projected to increase by 1.2 mb/d to stand at 85.37 mb/d**

### ***Forecast for 2007 demand***

Cold winter weather finally returned, especially in North America. Temperatures dropped in the third week of January to below normal in the US Northeast, the main heating oil consuming region. As a result of the weaker-than-expected oil demand in the OECD Pacific and China, oil demand growth in the first quarter of 2007 was revised down by 0.07 mb/d to 1.06 mb/d. **World oil demand growth for 2007 is forecast to show an increase of 1.2 mb/d or 1.5%, broadly unchanged from the last MOMR estimate.**

In the third week of January, EIA inventory data showed a drop in heating oil stocks. It is expected that heating oil inventories will decline, pending the continuation of the cold weather, but not to a level that sustains normal product demand in the USA.

The Clean Energy Act on was passed in the USA in January. The new bill will establish a "clean energy fund" which will create incentives for and investments in technologies related to both renewable sources, such as wind and solar energy power generation facilities, and energy efficiency in buildings, appliances and vehicles.

Asia's strong oil consumption has shifted the oil demand growth pattern. Asia's economic boom is demanding higher oil growth than the USA. OECD countries are no longer the driving factors behind oil demand growth, as this role has shifted to Developing Countries. China, India and the Middle East are the main areas driving oil demand growth this year. This important switch is putting more weight on the second and third quarters as far as consumption seasonality is concerned.

### ***Alternative Fuels***

Natural gas (NG) has been the largest alternative energy to oil so far. The recent warm weather, which lessened the NG prices, made it feasible to power plants to fuel switch away from fuel oil. Recent trends in the USA showed a 30% decline in fuel oil because of the NG substitution. US politicians are gearing up to further support the heavily subsidized biofuel in order to minimize oil use. The country already has an ambitious plan to reduce gasoline consumption by 20% over 10 years via the use of alternative fuels such as *cellulosic ethanol* that is not made from food but non-food products such as grasses. The US will pursue this venture via the collaboration with other countries that are advanced in the bio-fuel business, such as Brazil. The US is already pushing for new alliances with various countries in the Americas to promote the use of biofuels. This new American venture is not limited to biofuels only, but is also extends to other types of alternative fuel such as solar, wind and nuclear.

China's demand for coal is increasing; according to officials; the 2007 coal demand is estimated at 2.5 billion tonnes. The Chinese coal consumption is estimated to grow by more than 13% in comparison to the 2005 consumption. Expansion of China's new coal-fueled power plants in the next three years will increase by 11% and will maintain the lion's share of 70% in the total power sector; however, due to the high pollution in China, the country will close up smaller coal-fueled power plants, which supply 10% of total electricity. Another part of China's strategy to reduce the use of oil is to boost the production of biofuel. According to local media, China's plan is to develop the use of biofuel in the rural areas in order to replace 10 mb of oil products by 2020.

In Europe, biofuel usage is on the rise. Swedish auto owners have received various benefits for using biofuel-operated vehicles. This special offer is expected to triple the consumption of biofuel in Sweden in 2007.

### ***OECD***

In North America, oil demand started the year with a decline due to the above-normal weather conditions. However, to some degree the picture changed in the last week of January when the US Northeast experienced below-normal temperatures. Should the cold weather stay for the rest of the winter, then oil demand should come in as expected with high demand for both heating and fuel oil. **North America's oil demand in the first quarter of 2007 is forecast to grow by 0.2 mb/d y-o-y to average 25.32 mb/d.** In Europe, not only has the warm winter had a negative impact on oil demand, but also transport fuel has failed to pick up. **OECD Europe oil demand is expected to decline by 0.15 mb/d y-o-y in the first quarter of 2007.** In total, the OECD countries oil demand growth in the first quarter of 2007 is forecast at 0.1 mb/d y-o-y to average 50.27 mb/d.

**Developing Countries**

Developing Countries (DCs) are expected to maintain strong oil demand. DCs will account for 92% of the world oil demand growth in the first quarter. Economic growth of 7.8% in India is expected to yield moderate growth of 2.6% for oil demand. Expected strong new car sales along with booming industrial and agricultural activities are expected to be the main drivers for oil demand growth.

Strong economic activities, including massive growth of petrochemical plants in the Middle East, are expected to increase demand for oil in 2007. **The oil demand for the Middle East is expected to average 6.47 mb/d, representing y-o-y growth of 0.3 mb/d.**

**Table 11: World oil demand forecast for 2007, mb/d**

	<b>2006</b>	<b>1Q07</b>	<b>2Q07</b>	<b>3Q07</b>	<b>4Q07</b>	<b>2007</b>	<b>Change 2007/06</b>	
							<b>Volume</b>	<b>%</b>
North America	25.29	25.32	25.21	25.60	25.66	25.45	0.16	0.65
Western Europe	15.47	15.62	15.10	15.50	15.72	15.49	0.01	0.08
OECD Pacific	8.46	9.33	7.77	7.91	8.77	8.44	-0.01	-0.13
<b>Total OECD</b>	<b>49.22</b>	<b>50.27</b>	<b>48.09</b>	<b>49.01</b>	<b>50.15</b>	<b>49.38</b>	<b>0.17</b>	<b>0.34</b>
Other Asia	8.79	8.81	9.07	8.82	9.09	8.95	0.15	1.76
Latin America	5.17	5.09	5.23	5.39	5.29	5.25	0.08	1.55
Middle East	6.17	6.33	6.35	6.70	6.49	6.47	0.30	4.87
Africa	2.96	3.01	3.00	2.95	3.08	3.01	0.05	1.74
<b>Total DCs</b>	<b>23.09</b>	<b>23.23</b>	<b>23.65</b>	<b>23.87</b>	<b>23.95</b>	<b>23.68</b>	<b>0.59</b>	<b>2.54</b>
FSU	3.78	3.78	3.50	3.76	4.13	3.79	0.01	0.32
Other Europe	0.91	1.00	0.88	0.90	0.95	0.93	0.03	2.92
China	7.14	7.44	7.85	7.72	7.34	7.59	0.45	6.25
<b>Total "Other Regions"</b>	<b>11.83</b>	<b>12.22</b>	<b>12.23</b>	<b>12.38</b>	<b>12.42</b>	<b>12.31</b>	<b>0.48</b>	<b>4.10</b>
<b>Total world</b>	<b>84.13</b>	<b>85.72</b>	<b>83.97</b>	<b>85.26</b>	<b>86.53</b>	<b>85.37</b>	<b>1.24</b>	<b>1.47</b>
Previous estimate	84.13	85.80	83.97	85.22	86.55	85.39	1.26	1.49
Revision	0.00	-0.08	0.00	0.04	-0.02	-0.01	-0.02	-0.02

*Totals may not add due to independent rounding.*

**Table 12: First and second quarter world oil demand comparison for 2007, mb/d**

	<b>1Q06</b>	<b>1Q07</b>	<b>Change 2007/06</b>		<b>2Q06</b>	<b>2Q07</b>	<b>Change 2007/06</b>	
			<b>Volume</b>	<b>%</b>			<b>Volume</b>	<b>%</b>
North America	25.12	25.32	0.20	0.80	25.10	25.21	0.12	0.46
Western Europe	15.77	15.62	-0.15	-0.94	15.03	15.10	0.07	0.48
OECD Pacific	9.30	9.33	0.03	0.31	7.87	7.77	-0.09	-1.16
<b>Total OECD</b>	<b>50.19</b>	<b>50.27</b>	<b>0.08</b>	<b>0.16</b>	<b>47.99</b>	<b>48.09</b>	<b>0.10</b>	<b>0.20</b>
Other Asia	8.73	8.81	0.08	0.86	8.95	9.07	0.12	1.35
Latin America	4.99	5.09	0.10	1.98	5.15	5.23	0.08	1.52
Middle East	6.04	6.33	0.29	4.81	6.12	6.35	0.24	3.86
Africa	2.96	3.01	0.05	1.80	2.95	3.00	0.05	1.62
<b>Total DCs</b>	<b>22.72</b>	<b>23.23</b>	<b>0.52</b>	<b>2.28</b>	<b>23.17</b>	<b>23.65</b>	<b>0.48</b>	<b>2.09</b>
FSU	3.69	3.78	0.09	2.36	3.56	3.50	-0.06	-1.76
Other Europe	0.97	1.00	0.03	3.51	0.90	0.88	-0.02	-2.35
China	7.09	7.44	0.34	4.84	7.34	7.85	0.51	6.91
<b>Total "Other Regions"</b>	<b>11.75</b>	<b>12.22</b>	<b>0.46</b>	<b>3.96</b>	<b>11.80</b>	<b>12.23</b>	<b>0.42</b>	<b>3.59</b>
<b>Total world</b>	<b>84.66</b>	<b>85.72</b>	<b>1.06</b>	<b>1.26</b>	<b>82.96</b>	<b>83.97</b>	<b>1.00</b>	<b>1.21</b>

*Totals may not add due to independent rounding.*

Table 13: Third and fourth quarter world oil demand comparison for 2007, mb/d

			Change 2007/06				Change 2007/06	
	<u>3Q06</u>	<u>3Q07</u>	<u>Volume</u>	<u>%</u>	<u>4Q06</u>	<u>4Q07</u>	<u>Volume</u>	<u>%</u>
North America	25.48	25.60	0.12	0.45	25.44	25.66	0.22	0.87
Western Europe	15.43	15.50	0.07	0.44	15.66	15.72	0.06	0.37
OECD Pacific	7.90	7.91	0.01	0.18	8.77	8.77	0.00	0.05
<b>Total OECD</b>	<b>48.82</b>	<b>49.01</b>	<b>0.20</b>	<b>0.40</b>	<b>49.87</b>	<b>50.15</b>	<b>0.28</b>	<b>0.57</b>
Other Asia	8.61	8.82	0.21	2.48	8.88	9.09	0.21	2.33
Latin America	5.31	5.39	0.08	1.56	5.23	5.29	0.06	1.17
Middle East	6.35	6.70	0.35	5.51	6.17	6.49	0.33	5.27
Africa	2.91	2.95	0.04	1.51	3.02	3.08	0.06	2.04
<b>Total DCs</b>	<b>23.18</b>	<b>23.87</b>	<b>0.69</b>	<b>2.98</b>	<b>23.30</b>	<b>23.95</b>	<b>0.65</b>	<b>2.81</b>
FSU	3.83	3.76	-0.07	-1.80	4.03	4.13	0.09	2.31
Other Europe	0.88	0.90	0.02	2.79	0.88	0.95	0.07	7.70
China	7.21	7.72	0.51	7.11	6.92	7.34	0.42	6.09
<b>Total "Other Regions"</b>	<b>11.92</b>	<b>12.38</b>	<b>0.47</b>	<b>3.93</b>	<b>11.84</b>	<b>12.42</b>	<b>0.58</b>	<b>4.92</b>
<b>Total world</b>	<b>83.91</b>	<b>85.26</b>	<b>1.36</b>	<b>1.61</b>	<b>85.01</b>	<b>86.53</b>	<b>1.52</b>	<b>1.79</b>

Totals may not add due to independent rounding.

### *Other regions*

Along with other concerns such as reducing pollution and increasing imported oil, China is trying to achieve the goal set in its five-year plan of reducing the use of energy by 20% by the end of this decade. China missed this goal in 2006 as oil demand grew by 9%. In 2007, China is expected to see strong oil demand growth at 6.25%. Expected strong economic activities are the impulse behind the strong demand for energy. However, low oil imports in January caused the apparent demand to be lower than expected; hence, **China's first-quarter y-o-y oil demand growth was revised down by 0.06 mb/d to 0.3 mb/d.** On a different note, the long-awaited Chinese oil strategic storage is finally in operation. The Zhenhai strategic storage currently has 25 million barrels of oil or almost 75% of total designed capacity. The other 25% is estimated to be filled by May 2007. According to Chinese officials, there are three more strategic oil storages with a capacity of 69.2 mb that are under construction and the commissioning will take place in 2007 and 2008. Encouraged by both the cut in import tariffs and the cold weather, China's diesel imports surged in January. As for gasoline, the newly discounted price should have a positive effect on gasoline demand in the short term.

**China's demand is expected to see healthy growth of 0.45 mb/d to average 7.6 mb/d**

# World Oil Supply

Non-OPEC supply growth estimate revised down by 0.07 mb/d to 0.54 mb/d

## Non-OPEC

### Estimate for 2006

Non-OPEC oil supply is estimated to average 49.47 mb/d in 2006, an increase of 0.54 mb/d over 2005 and a downward revision of 78,000 b/d versus the last assessment. December total non-OPEC supply averaged 50.21 mb/d, up 0.09 mb/d from November. In the 2005 estimate, only Canada's 4Q05 supply has been revised down slightly with almost no effect on the final figure for 2005. The revisions to the full year 2006 estimate are mainly attributed to the 3Q06 and 4Q06. Downward revisions in USA, Canada, Mexico, New Zealand, Russia and Brazil were partly offset by upward revisions in Norway and UK.

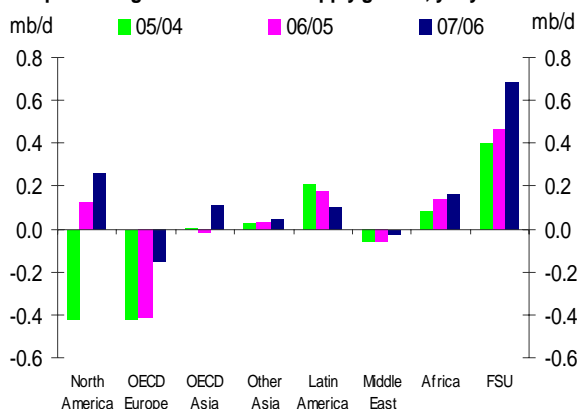
Table 14: Non-OPEC oil supply in 2006, mb/d

	<u>2005</u>	<u>1Q06</u>	<u>2Q06</u>	<u>3Q06</u>	<u>4Q06</u>	<u>2006</u>	<u>Change 06/05</u>
North America	14.13	14.13	14.15	14.34	14.40	14.26	0.12
Western Europe	5.77	5.70	5.32	5.06	5.33	5.35	-0.41
OECD Pacific	0.58	0.48	0.49	0.64	0.62	0.56	-0.02
<b>Total OECD</b>	<b>20.48</b>	<b>20.32</b>	<b>19.97</b>	<b>20.04</b>	<b>20.35</b>	<b>20.17</b>	<b>-0.31</b>
Other Asia	2.64	2.68	2.65	2.64	2.71	2.67	0.03
Latin America	4.26	4.35	4.44	4.47	4.48	4.44	0.18
Middle East	1.86	1.82	1.80	1.78	1.79	1.80	-0.06
Africa	2.52	2.58	2.62	2.67	2.75	2.65	0.14
<b>Total DCs</b>	<b>11.27</b>	<b>11.44</b>	<b>11.51</b>	<b>11.56</b>	<b>11.72</b>	<b>11.56</b>	<b>0.29</b>
FSU	11.55	11.67	11.97	12.15	12.28	12.02	0.47
Other Europe	0.16	0.15	0.15	0.15	0.14	0.15	-0.01
China	3.62	3.68	3.70	3.67	3.66	3.68	0.06
<b>Total "Other regions"</b>	<b>15.32</b>	<b>15.50</b>	<b>15.82</b>	<b>15.96</b>	<b>16.07</b>	<b>15.84</b>	<b>0.52</b>
<b>Total Non-OPEC production</b>	<b>47.07</b>	<b>47.27</b>	<b>47.30</b>	<b>47.56</b>	<b>48.15</b>	<b>47.57</b>	<b>0.50</b>
Processing gains	1.86	1.92	1.89	1.88	1.92	1.90	0.04
<b>Total Non-OPEC supply</b>	<b>48.94</b>	<b>49.19</b>	<b>49.19</b>	<b>49.44</b>	<b>50.07</b>	<b>49.47</b>	<b>0.54</b>
Previous estimate	48.94	49.20	49.17	49.50	50.33	49.55	0.61
Revision	0.00	-0.01	0.02	-0.06	-0.25	-0.08	-0.07

Strong performance by FSU followed by Latin America and Africa

In 2006, the FSU region continued its strong performance, followed by Latin America, North America, Africa, and China. All other regions remained flat or experienced a drop. The FSU showed growth of 0.47 mb/d; Azerbaijan posted a strong performance with 0.19 mb/d, whilst Kazakhstan performed as expected. Russia's growth was soft in 1Q06 followed by a recovery in the three quarters. Oil supply in the Latin American region increased by 0.18 mb/d driven by Brazil. All Latin American countries posted modest positive gains in production compared to 2005. North America's production increased by 0.12 mb/d driven by Canada (0.14 mb/d) and a 60,000 b/d recovery in the US Gulf of Mexico (GoM). Mexico's production dropped for the second consecutive year, down 0.08 mb/d compared to 2005. The African region posted an increase of 0.14 mb/d. Most of the increase came from Sudan and Tunisia. China showed a modest increase of around 0.06 mb/d over 2005. OECD Pacific, Other Asia, and Middle East remained broadly flat. OECD Europe dropped 0.41 mb/d; with UK showing a drop of 0.20 mb/d due to field declines and deep maintenance. Norway experienced a loss of 0.19 mb/d due to a combination of field decline at the largest crude oil fields, deep maintenance and unplanned shut-downs. Denmark also witnessed a minor decline of around 0.04 mb/d compared with the 2005 figure.

Graph 20: Regional Non-OPEC supply growth, y-o-y



**Revisions to the 2006 estimate, other historical**

Minor historical revisions to 2005 production figures for Canada and UK have been implemented. Additional adjustments have been made to the 2006 estimate mostly to the 4Q06, which have resulted in an overall downward adjustment. The estimate for 4Q06 for the USA has been adjusted downwards by 31,000 b/d and for Canada by 43,000 b/d. In Mexico, November and December production data came in even lower than expected; as a result the estimate for 4Q06 has been revised down by another 53,000 b/d. The sharp drop from 3.79 mb/d in 1Q06 to 3.51 mb/d in 4Q06 is partly due to the decline of the Cantarell field but also a reduction in supplies to the US market because of soft demand. In the North Sea, minor upward revisions were made to 4Q06 oil production in Norway by 10,000 b/d and in the UK by 22,000 b/d. Other Western Europe was revised down in the 4Q06 by 30,000 b/d from last month, mainly from the Netherlands. The Pohokura (25,000 b/d) project in New Zealand was delayed from 4Q06 to early 2007. In Brazil, another 11,000 b/d has been incorporated to the 4Q06 estimate from last month's figure. The 4Q06 estimate for Russian production was revised down by around 13,000 b/d, with Kazakhstan witnessing a downward revision of around 12,000 b/d for the 4Q06 from last month's figure.

**Forecast for 2007**

**Non-OPEC oil supply is expected to average 50.7 mb/d in 2007, an increase of 1.2 mb/d over 2006 and a downward revision of 0.17 mb/d versus the last assessment.** On a quarterly basis, non-OPEC supply is expected to average 50.3 mb/d, 50.4 mb/d, 50.5 mb/d, and 51.6 mb/d respectively. The revision to the outlook is principally due to lower supply expectations for Mexico, USA (delays in the Atlantis project until the end of 2007) and Canada. The Kazakhstan figure has been revised down due to new projects planned for 3Q07 and 4Q07 which are now expected to be onstream in early 2008. The Oman forecast was also revised down due to field maturity and slow investment. The outlook for Brazil has also been revised slightly upward. Upward adjustments are concentrated in Russia and Norway.

**Non-OPEC supply  
expected to grow  
1.2 mb/d in 2007**

**Table 15: Non-OPEC oil supply in 2007, mb/d**

	<u>2006</u>	<u>1Q07</u>	<u>2Q07</u>	<u>3Q07</u>	<u>4Q07</u>	<u>2007</u>	<u>Change 07/06</u>
North America	14.26	14.39	14.52	14.43	14.72	14.52	0.26
Western Europe	5.35	5.32	5.22	5.00	5.28	5.20	-0.15
OECD Pacific	0.56	0.64	0.64	0.71	0.70	0.67	0.11
<b>Total OECD</b>	<b>20.17</b>	<b>20.35</b>	<b>20.38</b>	<b>20.14</b>	<b>20.70</b>	<b>20.39</b>	<b>0.22</b>
Other Asia	2.67	2.67	2.62	2.74	2.83	2.72	0.05
Latin America	4.44	4.49	4.48	4.52	4.66	4.54	0.10
Middle East	1.80	1.78	1.78	1.77	1.76	1.77	-0.02
Africa	2.65	2.74	2.77	2.84	2.89	2.81	0.16
<b>Total DCs</b>	<b>11.56</b>	<b>11.68</b>	<b>11.66</b>	<b>11.87</b>	<b>12.14</b>	<b>11.84</b>	<b>0.28</b>
FSU	12.02	12.48	12.66	12.74	12.91	12.70	0.68
Other Europe	0.15	0.15	0.15	0.15	0.15	0.15	0.00
China	3.68	3.69	3.67	3.70	3.73	3.70	0.02
<b>Total "Other regions"</b>	<b>15.84</b>	<b>16.32</b>	<b>16.47</b>	<b>16.59</b>	<b>16.78</b>	<b>16.54</b>	<b>0.70</b>
<b>Total Non-OPEC production</b>	<b>47.57</b>	<b>48.35</b>	<b>48.52</b>	<b>48.59</b>	<b>49.63</b>	<b>48.77</b>	<b>1.20</b>
Processing gains	1.90	1.92	1.90	1.90	1.93	1.91	0.01
<b>Total Non-OPEC supply</b>	<b>49.47</b>	<b>50.27</b>	<b>50.42</b>	<b>50.49</b>	<b>51.56</b>	<b>50.69</b>	<b>1.21</b>
Previous estimate	49.55	50.40	50.51	50.69	51.82	50.86	1.31
Revision	-0.08	-0.13	-0.09	-0.20	-0.26	-0.17	-0.10

**OECD**

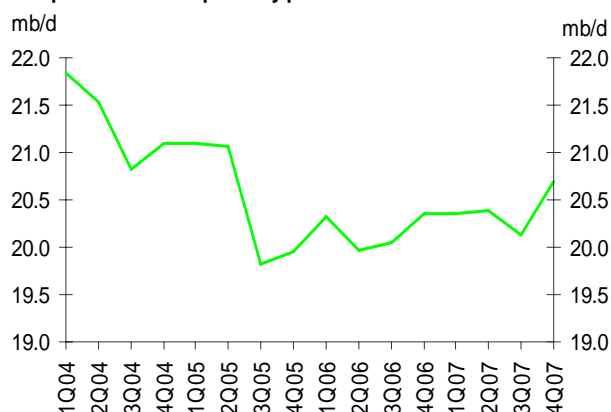
**Total OECD oil supply is expected to average 20.4 mb/d, a downward revision of 96,000 b/d from the last assessment, but an increase of 0.22 mb/d over the 2006 figure.** On a quarterly basis, total oil supply is expected to average 20.4 mb/d, 20.4 mb/d, 20.1 mb/d, and 20.7 mb/d respectively. December data put total oil supply in OECD countries at 20.44 mb/d, an increase of 59,000 b/d over the November figure, most of which was due to the return from maintenance of Norway's refineries.

**Production outlook affected by the delay in some projects**

**USA**

Oil supply in the USA is expected to average 7.59 mb/d in 2007 representing an increase of 0.19 mb/d versus last year and a downward revision of 36,000 b/d versus the previous month. The Atlantis project in the US Gulf of Mexico (GoM) was delayed to the end of 2007. US land crude production is expected to perform well and may post some gains. In 2007, Alaska's oil production is expected to drop again, but much of this will depend on the performance of Prudhoe Bay. The oil market seemed to witness the impact of healthy oil prices for the current year. Early atmospheric indicators suggest that 2007 may not be a strong year for hurricane activity in the Atlantic Basin. This should allow stripper wells and high-cost wells to continue to contribute to total US production.

**Graph 21: OECD's quarterly production**



**Mexico's output may recover by 4Q07**

**Mexico and Canada**

The outlook for Mexico has been revised down following the lower-than-expected output in 4Q06 and stronger expectations that production will remain near current levels over the next few months. Total Mexican oil supply is expected to average 3.6 mb/d in 2007, producing around 3.5 to 3.6 mb/d in the first half of 2007 before rising slightly to 3.7 mb/d in the second half when a new FPSO (20,000 b/d) at the extra heavy KMZ oil field is brought onstream and assuming US oil demand recovers towards 4Q07. Mexico exports nearly 1.8 mb/d of its production or 50% of total liquids to the USA and its exports face strong competition, especially from Canada. The outlook for 2007 will largely depend on these factors as well as underlying decline rates.

Canadian oil supply is expected to average 3.3 mb/d in 2007, representing an increase of 0.1 mb/d over 2006 but 43,000 b/d less than last month's assessment. Downward revisions have been made to reflect adjustments to the baseline in 4Q06.

**Western Europe**

Oil supply in OECD Europe is expected to average 5.2 mb/d in 2007, representing a drop of 0.15 mb/d from the 2006 figure but almost unchanged compared with last month's assessment. On a quarterly basis, total oil supply is expected to average 5.3 mb/d, 5.2 mb/d, 5.0 mb/d, and 5.3 mb/d respectively.

Norwegian oil supply is expected to average 2.7 mb/d in 2007, a decline of 10,000 b/d from last year and an upward revision of 40,000 b/d versus the previous month. A number of projects are expected to start through 2007 totaling some 300,000 b/d of crude and condensate, which was expected to offset a decline of around 140,000 b/d as well as the impact of maintenance (another 130,000 b/d), but phasing of new field ramp-ups, slightly higher field declines and reduced output at some fields are all contributing to a larger drop in production in 2007. Having said that, Norway's production is characterized by high volatility and variable maintenance levels could change this forecast.

UK oil supply is expected to average 1.6 mb/d, a drop of 40,000 b/d versus last year but almost unchanged from last month's assessment.

Elsewhere, Danish oil supply is expected to average 0.31 mb/d, around 30,000 b/d less than in 2006 and 9,000 b/d less than last month's assessment. One new project is expected in 2007, the 190,000 b/d Bo/Valdemar field. Other Western Europe was revised down by 30,000 b/d due to 4Q06 baseline adjustment.

**Asia Pacific**

Oil supply in the OECD Asia Pacific region is expected to average 0.67 mb/d in 2007, representing growth of 0.11 mb/d compared to last year. On a quarterly basis, total oil supply is expected to average 0.64 mb/d, 0.64 mb/d, 0.71 mb/d and 0.70 mb/d respectively. Oil production in New Zealand should also edge higher with the start of the Tui field, expected to double the country's oil production.

**Developing Countries**

**Oil supply in the Developing Countries (DCs) is expected to average 11.84 mb/d in 2007, representing an increase of 0.28 mb/d over 2006 and 57,000 b/d less than last month's figure.** On a quarterly basis, total oil supply in DCs is expected to average 11.68 mb/d, 11.66 mb/d, 11.87 mb/d and 12.14 mb/d respectively. Historical revisions to the base and slight adjustments to new projects account for the bulk of the revision.

Downward revisions of 36,000 b/d and 20,000 b/d have been made to the outlook for Sudan and Oman respectively. The adjustment for Sudan reflects a 4Q06 change to the baseline, while Oman's production declined faster than expected. Sudan's production may reach 0.58 mb/d in 2007, although risks remain.

Brazil's oil supply is expected to average 2.25 mb/d in 2007, slightly up from last month's assessment. Still over 500,000 b/d of new crude oil is expected to start in 2007, but the impact of this will be more evident in 2008 than in 2007 due to timing. Ecuador's oil supply is expected to average 0.53 mb/d in 2007 and may witness a further drop compared with 2006 figure, down 5,000 b/d versus last month's estimate. Recent events suggest that Ecuador's production may drop even more, driven by losses in PetroEcuador operated fields.

**FSU, Other Regions**

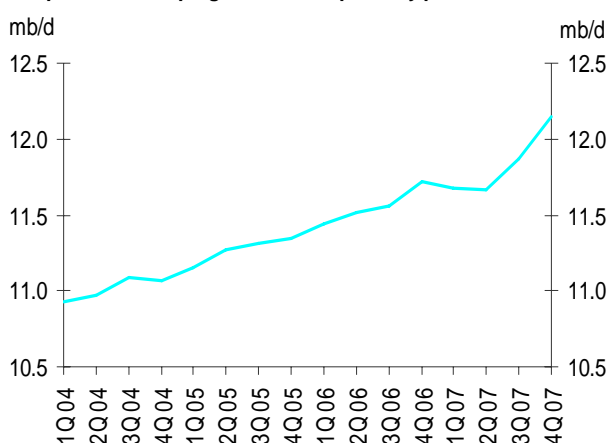
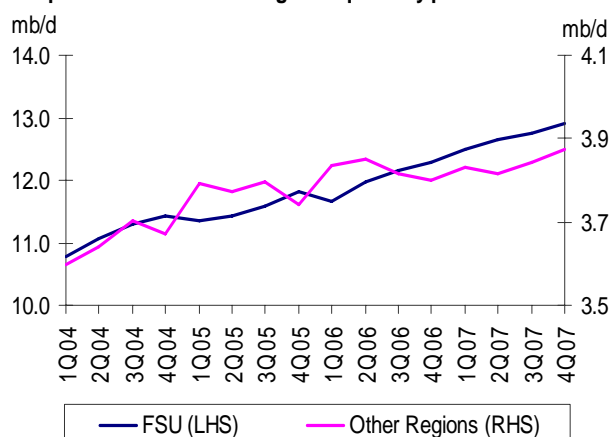
**Oil supply in the FSU is expected to average 12.7 mb/d, representing an increase of 0.68 b/d versus 2006, following a downward revision of 12,000 b/d from last month. Minor downward revisions have been made to China, which now stands at 3.7 mb/d in 2007 or 20,000 b/d higher versus 2006.** On a quarterly basis, total oil supply in the FSU is expected to average 12.48 mb/d, 12.66 mb/d, 12.74 mb/d and 12.91 mb/d respectively. Other Europe remains unchanged at 0.15 mb/d compared with the 2006 figure.

**Russia**

Russian oil supply is expected to average 9.97 mb/d in 2007, an increase of 0.32 mb/d versus 2006 and 37,000 b/d higher versus last month's estimate. Russian oil supply performed better than expected in 4Q06 due to the mild winter which allowed producers that depend on river barging to continue to produce as well as due to increases from ExxonMobil-led Sakhalin I. Looking ahead, growth will be driven by a handful of important projects, including Sakhalin, Salym and Priazlomnoye. Crude export tariffs dropped in February to \$24.62/b because of the recent decline in Urals prices. Lower taxes encouraged producers to increase exports to countries outside the commonwealth of independent states.

**Caspian**

Azeri oil supply is expected to average 0.91 mb/d in 2007, representing an increase of 0.28 mb/d versus last year. The latest production estimate puts total oil supply average 0.71 mb/d in 4Q06. This *MOMR* expects a strong performance in 2007 from the ACG field, although start-up may be delayed to 2Q07.

**Graph 22: Developing Countries' quarterly production****Graph 23: FSU and other region's quarterly production**

**Azeri oil production to increase strongly in 2007**



Kazak oil production is expected to average 1.40 mb/d in 2007, representing an increase of 0.1 mb/d versus last year and 50,000 b/d from last month. Data for the 4Q06 puts Kazak oil supply at 1.37 mb/d. Increases expected to come in the 4Q07 from the expansion of the Tengiz field delayed to early 2008.

### *China*

China's total oil supply is expected to average 3.7 mb/d in 2007, representing an increase of 20,000 b/d over last year and a downward revision of 6,000 b/d versus last month's report. Figures for the 4Q06 indicate that supply averaged 3.66 mb/d. In 2007, the Peng Lai FPSO is expected to increase China's offshore production by 100,000–150,000 b/d to 0.8 mb/d, as one of the largest offshore fields discovered in China is brought onstream, offsetting declines in other mature fields.

### *OPEC natural gas liquids and non-conventional oils*

In 2006, OPEC NGLs and non-conventional oils averaged 4.27 mb/d, representing an increase of 0.22 mb/d over the previous year. In 2007, expected growth for OPEC NGLs is 0.17 mb/d to average 4.44 mb/d.

**Table 16: OPEC NGL + non-conventional oils - 2004-2007**

			Change				Change		Change		
	2004	2005	05/04	1Q06	2Q06	3Q06	4Q06	2006	06/05	2007	07/06
<b>Total OPEC</b>	<b>4.02</b>	<b>4.04</b>	0.02	4.18	4.22	4.33	4.33	<b>4.27</b>	0.22	<b>4.44</b>	0.17

### *OPEC crude oil production*

Total crude oil production averaged 29.97 mb/d in January, down 0.27 mb/d from the previous month, according to secondary sources. OPEC-10 production averaged 26.76 mb/d or 0.11 mb/d lower than in the previous month. Iraq's oil production averaged 1.70 mb/d while Angola produced 1.51 mb/d. The 4Q06 figure for total OPEC averaged 30.48 mb/d.

**Table 17: OPEC crude oil production based on secondary sources, 1,000 b/d**

	<u>2005</u>	<u>2006</u>	<u>2Q06</u>	<u>3Q06</u>	<u>4Q06</u>	<u>Nov06</u>	<u>Dec06</u>	<u>Jan07</u>	<u>Jan/ Dec</u>
Algeria	1,349	1,367	1,368	1,361	1,363	1,354	1,353	1,350	-3.3
Angola	1,256	1,422	1,355	1,459	1,448	1,471	1,474	1,508	33.7
Indonesia	942	896	914	882	867	868	864	869	4.6
Iran, I.R.	3,924	3,845	3,800	3,910	3,821	3,822	3,800	3,788	-12.3
Iraq	1,830	1,932	2,001	2,061	1,949	1,921	1,899	1,704	-195.3
Kuwait	2,504	2,505	2,513	2,506	2,467	2,455	2,445	2,455	10.0
Libya, S.P.A.J.	1,642	1,702	1,699	1,719	1,709	1,702	1,697	1,683	-14.2
Nigeria	2,412	2,232	2,212	2,211	2,248	2,236	2,257	2,209	-47.6
Qatar	792	822	820	834	817	809	810	808	-2.5
Saudi Arabia	9,390	9,117	9,133	9,135	8,788	8,751	8,688	8,675	-13.3
UAE	2,447	2,538	2,535	2,573	2,517	2,488	2,483	2,486	3.8
Venezuela	2,633	2,539	2,574	2,504	2,485	2,458	2,474	2,438	-36.7
<b>OPEC excl. Iraq</b>	<b>29,291</b>	<b>28,985</b>	<b>28,925</b>	<b>29,095</b>	<b>28,530</b>	<b>28,414</b>	<b>28,345</b>	<b>28,267</b>	<b>-77.9</b>
<b>OPEC excl. Angola &amp; Iraq</b>	<b>28,035</b>	<b>27,563</b>	<b>27,569</b>	<b>27,637</b>	<b>27,082</b>	<b>26,943</b>	<b>26,871</b>	<b>26,759</b>	<b>-111.6</b>
<b>Total OPEC</b>	<b>31,121</b>	<b>30,917</b>	<b>30,926</b>	<b>31,156</b>	<b>30,479</b>	<b>30,334</b>	<b>30,244</b>	<b>29,971</b>	<b>-273.2</b>

*Totals may not add due to independent rounding.*

**OPEC crude output  
in January averaged  
29.97 mb/d**

**FSU net exports of crude and products**

Total FSU net oil exports averaged 8.24 mb/d in 2006, an increase of 0.55 mb/d over the previous year. In 2007, total net oil exports are expected to average 8.91 mb/d or 0.67 mb/d over 2006 driven by new sources of crude from the Caspian along with Russian product exports. The forecast has been revised down slightly from the last assessment.

**Current trends**

Actual figures for the month of November indicate that total crude exports from the FSU were 5.87 mb/d. Preliminary figures for December show that total crude exports were 6.02 mb/d. Crude exports increased primarily via the Baltic and Druzhba pipelines. Exports via the Georgian port of Supsa have been shut since late October and are likely to remain so until March 2007 according to some reports.

**Table 18: FSU estimated net oil exports (historical and forecast), mb/d**

	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>Year</u>	<u>Growth (v-o-v)</u>
<b>2003</b>	5.87	6.75	6.72	6.61	<b>6.49</b>	<b>0.91</b>
<b>2004</b>	7.17	7.30	7.38	7.37	<b>7.31</b>	<b>0.82</b>
<b>2005</b>	7.45	7.69	7.76	7.85	<b>7.69</b>	<b>0.38</b>
<b>2006 (forecast)</b>	<b>7.98</b>	<b>8.41</b>	<b>8.31</b>	<b>8.24</b>	<b>8.24</b>	<b>0.55</b>
<b>2007 (forecast)</b>	<b>8.70</b>	<b>9.16</b>	<b>8.98</b>	<b>8.78</b>	<b>8.91</b>	<b>0.67</b>

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

	<u>2004</u>	<u>2005</u>	<u>2Q06</u>	<u>3Q06</u>	<u>4Q06</u>	<u>Nov 06</u>	<u>Dec 06*</u>
<b>Crude</b>							
<b>Russian pipeline</b>							
Black Sea	1,283	1,335	1,291	1,318	1,224	1,198	1,189
Baltic	1,396	1,462	1,671	1,575	1,495	1,403	1,643
Druzhba	1,256	1,315	1,355	1,251	1,186	1,195	1,243
<b>Total</b>	<b>3,935</b>	<b>4,112</b>	<b>4,317</b>	<b>4,144</b>	<b>3,905</b>	<b>3796</b>	<b>4,075</b>
<b>Other routes</b>							
Russian rail	706	416	319	307	316	324	318
Russian - Far East	32	65	43	106	128	126	113
Kazak rail	24	17	30	23	17	18	17
CPC pipeline	490	648	672	670	677	734	660
<b>Caspian</b>	<b>252</b>	<b>295</b>	<b>446</b>	<b>408</b>	<b>332</b>	<b>307</b>	<b>282</b>
<i>of which</i>							
Supsa (AIOC) - Georgia	130	137	151	140	30	0	0
Batumi - Georgia	99	140	186	152	177	186	166
<b>Total**</b>	<b>1,504</b>	<b>1,441</b>	<b>1,510</b>	<b>1,839</b>	<b>1,967</b>	<b>2,071</b>	<b>1,949</b>
<b>Total crude exports</b>	<b>5,439</b>	<b>5,553</b>	<b>5,826</b>	<b>5,983</b>	<b>5,872</b>	<b>5,867</b>	<b>6,024</b>
<b>Products</b>							
<b>All routes</b>							
Fuel oil	753	836	938	819	854	884	873
Gasoil	702	759	809	854	812	796	923
Others	413	575	835	654	593	571	592
<b>Total</b>	<b>1,868</b>	<b>2,170</b>	<b>2,582</b>	<b>2,327</b>	<b>2,258</b>	<b>2,251</b>	<b>2,388</b>
<b>Total oil exports</b>	<b>7,307</b>	<b>7,723</b>	<b>8,408</b>	<b>8,310</b>	<b>8,130</b>	<b>8,118</b>	<b>8,412</b>

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

\* Preliminary.

\*\* Total incl. BTC, Atasu-Alashankou and tanker shipments from Kaliningrad to Ventspils.

## Oil Trade

**OECD December crude oil imports dropped by 1.0 mb/d on the back of a weather-related decline in demand**

### OECD

OECD crude oil imports, according to preliminary estimated data, fell in December by around 1.0 mb/d to average 29.5 mb/d, while product imports rose by 121,000 b/d to average 12.6 mb/d. The decline was spread across most OECD regions with the USA, Japan, and Europe representing the largest portion. A weather-related decline in demand was among the factors causing such low imports in December.

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

	<u>Oct 06</u>	<u>Nov 06</u>	<u>Dec 06</u>	<u>Change Dec/Nov</u>
Crude oil	23,515	23,763	22,708	-1,055
Total products	2,688	2,328	2,352	24
<b>Total crude and products</b>	<b>26,204</b>	<b>26,091</b>	<b>25,060</b>	<b>-1,031</b>

Exports on the other hand were steady with crude oil flows increasing by 1% to average 6.8 mb/d. Similarly, product exports reached 10.2 mb/d, inching up by around 0.1 mb/d in December. Consequently, OECD total net crude and product imports decreased by 1.0 mb/d to 25.0 mb/d, mostly due to a drop in crude oil imports. Compared to a year earlier, OECD net crude oil imports were 6% higher and net product imports around 23% higher.

Saudi Arabia remained the largest supplier of OECD crude oil imports with around 21% followed by the FSU with 18% in December. On the product side, imports were much diversified with FSU and Saudi Arabia remaining the top product suppliers.

### USA

**US net oil imports rebounded with an increase of 0.95 mb/d in January after continuous declines over the past four months**

US crude oil imports rose in January by around 0.6 mb/d or 6% to average 10.0 mb/d, offsetting the December drop of 540,000 b/d. While prices provided some support for the increase in imports, January crude oil imports were slightly lower than the 2006 average. According to the available data, US crude oil imports showed an annual increase of 323,000 b/d or 3%. Similarly, product imports increased by 320,000 b/d to average 3.4 mb/d, again within the 2006 product imports average, yet indicating a y-o-y decline of around 12% or 450,000 b/d. The increase came mainly from gasoline, kerosene, and fuel oil, while distillate imports weakened as the month ended. Lower refinery utilization rate levels coupled with various price-related arbitrage opportunities sustained the import figures in January. Total US oil imports reached 13.4 mb/d with an increase of 0.9 mb/d compared to the previous month, marking the highest level since September.

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

	<u>Nov 06</u>	<u>Dec 06</u>	<u>Jan 07</u>	<u>Change Jan/Dec</u>
Crude oil	9,964	9,424	10,014	590
Total products	1,684	1,829	2,185	356
<b>Total crude and products</b>	<b>11,648</b>	<b>11,253</b>	<b>12,199</b>	<b>946</b>

On the export side, product flows remained steady with a minor decline of 36,000 b/d averaging 1.2 mb/d. Despite the 3% drop from the previous month, January US product exports showed annual growth of about 17%. In contrast, US net oil imports averaged 12.2 mb/d indicating an increase of 0.95 mb/d or 8.4% in January. This represents a rebound for US net oil imports which have maintained a constant decline for the passed 4 months. Even with the January increase, US total oil imports indicate a y-o-y decline of 2.5%.

Canada remained the top US crude oil supplier with around 21%. Saudi Arabia and Mexico followed with around 15% each, while Venezuela came next with 11% and Nigeria, Iraq, and Angola followed with 9%, 6%, and 5% respectively. On the product side, the ranking remained unchanged with Canada (17%) and the Virgin Islands (12%) continuing to be the main sources of US product imports.

**Japan's net oil imports fell to 3.8 mb/d, driven by continuously weakening crude oil imports**

**Japan**

According to the preliminary estimated data, Japan's crude oil imports dropped 82,000 b/d or 2.2% to average 3.7 mb/d in January. Compared to a year earlier, Japanese crude oil imports experienced a significant decline of around 14%. The mild winter coupled with the OPEC cut and high petroleum stock-levels are among the reasons for the decline. In contrast, product imports remained steady, averaging 0.65 mb/d in January showing an annual decline of 3%. Hence, total crude and product imports reached 4.4 mb/d indicating a y-o-y decline of around 12%.

On the other hand, Japan's product exports remained steady at around 0.3 mb/d, influenced by the weakening US West Coast market for arbitrage cargoes, but still representing an annual growth of about 6%. Accordingly, total net oil imports dropped 71,000 b/d to average 4.1 mb/d.

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

	<u>Nov 06</u>	<u>Dec 06</u>	<u>Jan 07</u>	<u>Change Jan/Dec</u>
Crude oil	3,736	3,822	3,740	-82
Total products	386	347	358	11
<b>Total crude and products</b>	<b>4,123</b>	<b>4,169</b>	<b>4,098</b>	<b>-71</b>

Saudi Arabia's share of Japan's crude oil imports decreased to 29% in January from 33% in the previous month. The UAE with 26% remained the second supplier followed by Iran with 12%. Kuwait saw its share increase from less than 7% in December to around 10%. On the product side, UAE and Saudi Arabia remained the main suppliers with a share of around 25% for both, followed by Korea, the USA, and Indonesia with around 6% each.

**China**

**China's net oil imports dropped significantly in December while the 2006 average showed estimated annual growth of 18%**

According to preliminary data, China's crude oil imports decreased by 572,000 b/d or 17% to average nearly 2.7 mb/d in December, after an all-time record in November. The decrease, which marked the second-largest drop in crude oil imports in 2006 after October, counterbalanced the record in the previous month, yet it indicated an annual growth of around 3%. China's product imports also declined in December, averaging 0.77 mb/d or 60,000 b/d less than in November. Fuel oil and jet imports dropped in December while gasoil and naphtha imports increased by around 30% from the previous month. Consequently, total oil imports dropped by 633,000 b/d to average 3.5 mb/d in December representing a y-o-y drop of 3.4%.

In contrast, China's crude oil exports rebounded with a gain of 130,000 b/d to average 214,000 b/d, where increased crude production supported exports. Product flows remained steady in December with the increase in fuel oil and gasoil exports offsetting the decline in naphtha, jet and gasoline exports, China's product exports averaged 74,000 b/d.

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

	<u>Oct 06</u>	<u>Nov 06</u>	<u>Dec 06</u>	<u>Change Dec/Nov</u>
Crude oil	2,363	3,220	2,517	-703
Total products	555	451	401	-51
<b>Total crude and products</b>	<b>2,918</b>	<b>3,671</b>	<b>2,917</b>	<b>-754</b>

As a result, China's net crude oil imports averaged 2.5 mb/d, with a 0.7 mb/d decline from the previous month while net product imports averaged 0.4 mb/d, down 50,000 b/d from November. Thus, total net oil imports stood at 2.9 mb/d, the lowest level in 2006. Despite the drop in China's net oil imports in December, the 2006 average stood at 3.4 mb/d, around 0.5 mb/d or 18% higher than in 2005. On an annual basis, net crude oil imports increased in 2006 while products fell compared to the previous year.

Angola and Saudi Arabia were China's top crude oil suppliers in December with a 16% share for each, followed by Iran with 12%. Russia came next with 11% and followed by Oman with 9%.

**India's net oil imports increased 2% in December and closed the year with annual growth of 1.25%**

**India**

After declining in November, preliminary data shows that India's crude oil imports rebounded slightly in December to reach 2.4 mb/d for a gain of 70,000 b/d, marking the second-highest month in 2006 after October. Similarly, product imports increased by 11,000 b/d to average 0.34 mb/d bringing the total oil imports to around 2.74 mb/d in December. In contrast, India's total product exports increased by around 40,000 b/d in December compared to the previous month to reach 810,000 b/d, despite the minor decrease in naphtha exports. According to preliminary data, December product exports were the second highest in volume terms in 2006 after October, indicating annual growth of around 50%. Thus, India's net oil imports averaged 1.9 mb/d representing y-o-y growth of 6%.

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

	<u>Oct 06</u>	<u>Nov 06</u>	<u>Dec 06</u>	<u>Change Dec/Nov</u>
Crude oil	2,461	2,325	2,393	68
Total products	-500	-436	-468	-32
<b>Total crude and products</b>	<b>1,962</b>	<b>1,889</b>	<b>1,925</b>	<b>37</b>

For the whole of 2006, India's crude oil imports increased by 0.22 mb/d or 11% to average 2.3 mb/d. In contrast, product exports increased 60% or 0.24 mb/d to average 0.64 mb/d. As a result, total net oil imports maintained almost the same level as in 2005 with a minor increase of 1% to average 1.92 mb/d. A comparison of average figures of 2005 and 2006 underlines India's emerging position in the market as a refinery hub supported by increased naphtha exports backed by stronger NGL imports and the commission of new refining facilities such as the Essar refinery at Vadinar.

## Stock Movements

**US commercial oil stocks experienced a counter-seasonal build-up of 6.1 mb to stand 62 mb above the five-year average**

### USA

US total commercial onland oil stocks ended January at 1,033 mb, which corresponds to growth of more than 6 mb compared with the previous month. This counter-seasonal build represented an average of 197,000 b/d which reversed the draw displayed since September, leaving stocks at the same level as a year ago but almost 62 mb or 6% above the five-year average. The build was driven mainly by a 15 mb surge in gasoline stocks.

Crude oil stocks rose 7 mb or 226,000 b/d to settle at 324.5 mb by the end of the month, staying 0.7 mb and 30 mb above the year-earlier level and the five-year average respectively. The build in crude oil inventories came as a result of a significant 591,000 b/d increase in crude oil imports coupled with a drop in the refinery utilization rate. Crude oil imports averaged 11.8 mb/d in the week ending 12 January, the highest level since end August, while an early start to refinery maintenance reduced throughput by 800,000 b/d during the first three weeks of the month.

Gasoline was the main contributor to the build in total commercial stocks after a surge of 15 mb or 484,000 b/d to 224.6 mb, the highest level since last February, helped by strong imports and high yields from refineries. At nearly 225 mb, gasoline stocks were 2.5 mb above the figure of the corresponding period of the previous year and 7% higher than the five-year average.

In contrast to crude oil and gasoline, a decline in imports combined with the recovery in heating oil demand as the weather turned colder in the Northeast, the main heating-oil consuming region, left middle distillate stocks at 137 mb, which corresponds to 1 mb below the previous month and almost 2 mb lower than a year earlier, but 10 mb above the five-year average. Residual fuel oil stocks continued to hover at around 43 mb, the same level as last year and the five-year average. Similarly, jet fuel stocks remained stable at around 40 mb, but were 4.4 mb lower y-o-y.

**Table 24: US onland commercial petroleum stocks\*, mb**

	<u>Nov 06</u>	<u>Dec 06</u>	<u>Jan 07</u>	<u>Change</u>		
				<u>Jan 07/Dec 06</u>	<u>Jan 06</u>	<u>9 Feb 07**</u>
Crude oil	332.2	317.5	324.5	7.0	323.8	323.9
Gasoline	206.8	209.5	224.6	15.1	222.1	225.2
Distillate fuel	140.6	137.9	136.9	-1.0	138.8	133.3
Residual fuel oil	43.5	43.1	42.6	-0.5	42.6	41.3
Jet fuel	37.5	40.1	40.3	0.2	44.7	39.3
<b>Total</b>	<b>1,057.1</b>	<b>1,027.1</b>	<b>1,033.2</b>	<b>6.1</b>	<b>1,033.5</b>	<b>1,020.4</b>
SPR	688.6	688.6	688.6	0.0	683.5	688.6

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

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

In the week ending 9 February, total US commercial crude oil stocks fell 11.4 mb from the previous week to average 1,020.40 mb, but remained 57 mb or 8% above the five-year average. The bulk of this draw came from the 10.7 mb decrease in product inventories, while crude oil stocks experienced a slight draw of 0.6 mb. The fall in crude oil stocks for the second consecutive week surprised the market which had expected a build of around 1 mb. At 324 mb, crude oil inventories were 1% below the year-ago level, but still 9% above the five-year average. On the product side, gasoline stocks dropped 2.1 mb to 225.2 mb, the first decline in nine weeks. This drop could mainly be attributed to the decline in imports and production. As expected, distillate stocks fell by 3 mb to 133.3 mb, with the bulk of this draw resulting from the 2.7 mb decrease in heating oil stocks, reflecting increased demand. However, distillate stocks remained 11% above the five-year average.

**Total commercial oil stocks in Eur-16 fell to 10 mb below the year-ago level due to the strong draw on crude oil stocks**

### **Western Europe**

Total commercial oil stocks in EU-16 (Eur-15 plus Norway) dropped for the second consecutive month to settle around 1,152 mb at end-January driven by a strong decline in crude oil stocks. This drop of 4.4 mb or around 142,000 b/d from the revised figure of 1,156 mb left total oil stocks 10 mb lower than a year earlier and 70 mb above the five-year average.

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

	<u>Nov 06</u>	<u>Dec 06</u>	<u>Jan 07</u>	<u>Change Jan 07/Dec 06</u>	<u>Jan 06</u>
<b>Crude oil</b>	495.9	487.9	473.8	-14.0	480.8
Mogas	133.7	134.3	136.9	2.6	150.6
Naphtha	31.7	29.0	29.9	0.9	26.2
Middle distillates	381.4	389.2	393.4	4.2	392.2
Fuel oils	115.1	115.8	117.7	1.9	112.3
<b>Total products</b>	630.2	639.3	648.0	8.7	655.0
<b>Total</b>	<b>1,157.8</b>	<b>1,156.2</b>	<b>1,151.8</b>	<b>-4.4</b>	<b>1,162.1</b>

Source: Argus, Euroilstock.

Crude oil stocks ended the month below 474 mb after the second consecutive decline. The substantial draw of 14 mb or 450,000 b/d displayed in January left stocks at their lowest level since end 2005 and displayed a drop of 7 mb from a year ago. The decline in crude oil stocks was due to a modest increase in refinery throughput and a decline in imports following delays of tankers in the Turkish Strait and the temporary stoppage of crude flows from Russian Druzhba pipeline.

Contrary to crude oil, product stocks increased by almost 10 mb, with middle distillates contributing to 50% of the build. Middle distillate stocks rose 4.2 mb or 135,000 b/d to stand at 393.4 mb at the end of the month, which was 1.2 mb higher than a year earlier. The contra-seasonal build came as a result of an increase in heating oil stocks due to weak demand because of the mild weather and increasing imports of diesel from Russia.

Gasoline stocks have risen since September, reaching nearly 137 mb by the end of January. This represented a gain of almost 2.7 mb over the previous month, but a decline of around 14 mb or 9% from last year. The continuous build in gasoline inventories is attributed to slowing demand and lack of arbitrage opportunities to the US market. Fuel oil stocks rose 1.9 mb to hit a high level of almost 118 mb, which corresponds to an increase of 5.4 mb or 5% above a year ago. Similarly, naphtha inventories edged up 0.9 mb to approach 30 mb, leading to a y-o-y surplus of 3 mb or 14%.

### **Japan**

Total commercial on-land oil stocks in Japan experienced a draw for the second consecutive month to stand at 198 mb at the end of December. Despite the draw of 9.4 mb or 4.5% compared with the previous month, Japan's oil stocks remained almost 16 mb above end-2005 levels. Most of the decline came from products which accounted for 70% of the total draw and the remaining 30% from crude oil.

Crude oil inventories dropped 2.8 mb or 2.4% to stand around 112 mb as a result of the increased refining utilization rate which averaged more than 90% in December, the highest level in the last nine months. However, compared with the same period last year, end-December crude oil stocks showed a y-o-y increase of 7.3 mb and were 3 mb above the five-year-average.

On the product side, middle distillates accounted for the bulk of the decline, falling 5.6 mb to stand below 42 mb. This significant drop of nearly 12% from the previous month due essentially to kerosene, which declined for the third consecutive month supported by a substantial 65% increase % in domestic sales due to the cold weather. Kerosene stocks dropped 14% to around 27 mb.

**Increasing refinery runs and strong domestic sales of products drained Japanese oil stocks at the end of 2006**

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

	<u>Oct 06</u>	<u>Nov 06</u>	<u>Dec 06</u>	<u>Change</u> <u>Dec 06/Nov 06</u>	<u>Dec 05</u>
<b>Crude oil</b>	116.7	114.9	112.1	-2.8	104.8
Gasoline	13.7	13.6	12.6	-0.9	12.2
Naphtha	12.7	11.8	10.9	-0.9	12.5
Middle distillates	50.0	47.2	41.7	-5.6	35.1
Residual fuel oil	20.3	19.9	20.8	0.8	17.9
<b>Total products</b>	96.7	92.5	86.0	-6.6	77.8
<b>Total**</b>	<b>213.4</b>	<b>207.4</b>	<b>198.0</b>	<b>-9.4</b>	<b>182.6</b>

\* At end of month.

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

Source: METI, Japan.

After remaining stable at around 13.6 mb over the previous three months (September-November), gasoline stocks fell back to the August figure of 12.6 mb as a consequence of healthy domestic sales. After July, Japan's gasoline stock levels were the lowest for the year. Similarly, naphtha stocks fell a further 0.9 mb to settle below 11 mb, the lowest end-month level in 2006, due to strong demand driven by the return of petrochemical plants from seasonal maintenance. In contrast, ample supply contributed to the build in residual fuel oil stocks which increased 0.8 mb to 20.8 mb. Fuel Oil B C was the contributor to the build with 1.0 mb while Fuel Oil A dropped 0.1 mb. At end 2006, all stocks were higher than a year ago, except for naphtha, which stood 1.6 mb or 13% lower.

Preliminary data for January 2007 showed that crude oil stocks declined by around 4 mb between end 2006 and the week ending 27 January while middle distillates and gasoline saw a build of 3.0 and 0.6 mb, respectively, leaving total on-land stocks almost unchanged from the previous month.



# Balance of Supply and Demand

**Demand for OPEC crude estimated at 30.4 mb/d in 2006, while OPEC production averaged 30.9 mb/d**

### Estimate for 2006

The demand for OPEC crude in 2006 is estimated to average 30.4 mb/d. On a quarterly basis, the estimate shows that demand for OPEC crude was 31.3 mb/d, 29.6 mb/d, 30.1 mb/d and 30.6 mb/d respectively. According to secondary sources, total OPEC crude production capacity was 34.8 mb/d at end of 2006, up from 33.8 mb/d at the end of 2005.

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

	2005	1Q06	2Q06	3Q06	4Q06	2006
<b>(a) World Oil Demand</b>	<b>83.29</b>	<b>84.66</b>	<b>82.96</b>	<b>83.91</b>	<b>85.01</b>	<b>84.13</b>
Non-OPEC Supply	48.94	49.19	49.19	49.44	50.07	49.47
OPEC NGLs and non-conventionals	4.04	4.18	4.22	4.33	4.33	4.27
<b>(b) Total Supply excluding OPEC Crude</b>	<b>52.98</b>	<b>53.36</b>	<b>53.41</b>	<b>53.77</b>	<b>54.40</b>	<b>53.74</b>
<b>Difference (a-b)</b>	<b>30.31</b>	<b>31.29</b>	<b>29.55</b>	<b>30.14</b>	<b>30.60</b>	<b>30.40</b>
OPEC crude oil production <sup>(1)</sup>	31.12	31.11	30.93	31.16	30.48	30.92
Balance	0.81	-0.19	1.37	1.01	-0.12	0.52

(1) Selected secondary sources.

Totals may not add due to independent rounding.

### Forecast for 2007

The demand for OPEC crude in 2007 is expected to average 30.25 mb/d, a drop of 0.15 mb/d from the 2006 figure. On a quarterly basis, the forecast shows that demand for OPEC crude is expected at 31.14 mb/d, 29.19 mb/d, 30.31 mb/d and 30.36 mb/d respectively.

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

	2006	1Q07	2Q07	3Q07	4Q07	2007
<b>(a) World Oil Demand</b>	<b>84.13</b>	<b>85.72</b>	<b>83.97</b>	<b>85.26</b>	<b>86.53</b>	<b>85.37</b>
Non-OPEC Supply	49.47	50.27	50.42	50.49	51.56	50.69
OPEC NGLs and non-conventionals	4.27	4.31	4.36	4.46	4.61	4.44
<b>(b) Total Supply excluding OPEC Crude</b>	<b>53.74</b>	<b>54.58</b>	<b>54.78</b>	<b>54.96</b>	<b>56.17</b>	<b>55.13</b>
<b>Difference (a-b)</b>	<b>30.40</b>	<b>31.14</b>	<b>29.19</b>	<b>30.31</b>	<b>30.36</b>	<b>30.25</b>
OPEC crude oil production <sup>(1)</sup>	30.92					

(1) Selected secondary sources.

Totals may not add due to independent rounding.

**Graph 24: Balance of supply and demand**

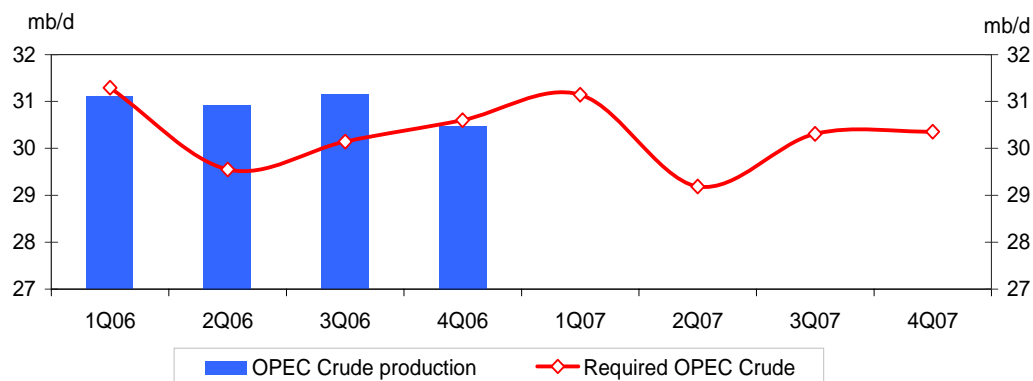


Table 29: World oil demand/supply balance, mb/d

	2002	2003	2004	2005	2006	1006	2006	3006	4006	2006	1007	2007	3007	4007	2007
<b>World demand</b>															
OECD	47.9	48.6	49.3	49.6	50.2	48.0	48.8	49.9	49.2	49.0	50.3	48.1	49.0	50.2	49.4
North America	24.1	24.5	25.4	25.5	25.1	25.1	25.5	25.4	25.3	25.6	25.3	25.2	25.6	25.7	25.4
Western Europe	15.3	15.4	15.5	15.5	15.8	15.0	15.4	15.7	15.5	15.5	15.6	15.1	15.5	15.7	15.5
Pacific	8.5	8.6	8.5	8.6	9.3	7.9	7.9	8.8	8.5	7.9	9.3	7.8	7.9	8.8	8.4
DCs	20.3	20.6	21.7	22.4	22.7	23.2	23.2	23.3	23.1	23.9	23.2	23.7	23.9	24.0	23.7
FSU	3.7	3.8	3.8	3.8	3.7	3.6	3.8	4.0	3.8	3.5	3.8	3.5	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	0.9	1.0	0.9	0.9	1.0	0.9
China	5.0	5.6	6.5	6.5	7.1	7.3	7.2	6.9	7.1	7.7	7.4	7.9	7.7	7.3	7.6
(a) Total world demand	77.8	79.3	82.3	83.3	84.7	83.0	83.9	85.0	84.1	85.3	85.7	84.0	85.3	86.5	85.4
<b>Non-OPEC supply</b>															
OECD	21.9	21.7	21.3	20.5	20.3	20.0	20.0	20.4	20.2	20.1	20.3	20.4	20.1	20.7	20.4
North America	14.5	14.6	14.6	14.1	14.1	14.1	14.3	14.4	14.3	14.4	14.4	14.5	14.4	14.7	14.5
Western Europe	6.7	6.4	6.2	5.8	5.7	5.3	5.1	5.3	5.4	5.2	5.3	5.2	5.0	5.3	5.2
Pacific	0.8	0.7	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7
DCs	10.6	10.7	11.0	11.3	11.4	11.5	11.6	11.7	11.6	11.7	11.7	11.7	11.9	12.1	11.8
FSU	9.3	10.3	11.1	11.5	11.7	12.0	12.1	12.3	12.0	12.7	12.5	12.7	12.7	12.9	12.7
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	0.1
China	3.4	3.4	3.5	3.6	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
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	1.9
Total non-OPEC supply	47.2	48.1	49.0	48.9	49.2	49.2	49.4	50.1	49.5	50.4	50.3	50.4	50.5	51.6	50.7
OPEC NGLs + non-conventional oils	3.6	3.7	4.0	4.0	4.2	4.2	4.3	4.3	4.3	4.4	4.3	4.4	4.5	4.6	4.4
(b) Total non-OPEC supply and OPEC NGLs	50.8	51.8	53.0	53.0	53.4	53.4	53.8	54.4	53.7	54.8	54.6	54.8	55.0	56.2	55.1
OPEC crude oil production (secondary sources)	26.2	27.8	30.0	31.1	31.1	30.9	31.2	30.5	30.9	31.2	30.9	31.2	30.9	31.2	30.9
Total supply	77.0	79.6	83.0	84.1	84.5	84.3	84.9	84.9	84.9	84.7	84.9	84.9	84.7	84.9	84.7
Balance (stock change and miscellaneous)	-0.8	0.3	0.7	0.8	-0.2	1.4	1.0	-0.1	0.5						
<b>OECD closing stock levels (mb)</b>															
Commercial	2478	2517	2547	2595	2596	2654	2767	2674							
SPR	1347	1411	1450	1487	1487	1493	1495	1496							
Total	3825	3928	3998	4082	4083	4148	4262	4170							
Oil-on-water	815	882	905	961	964	975	969	na							
<b>Days of forward consumption in OECD</b>															
Commercial onhand stocks	51	51	51	53	54	54	55	53							
SPR	28	29	29	30	31	31	30	30							
Total	79	80	81	83	85	85	85	83							
<b>Memo items</b>															
FSU net exports	5.6	6.5	7.3	7.7	8.0	8.4	8.3	8.2	8.2	8.2	8.7	9.2	9.0	8.8	8.9
(a) - (b)	27.0	27.6	29.3	30.3	31.3	29.6	30.1	30.6	30.4	29.2	31.1	29.2	30.3	30.4	30.2

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

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

	2002	2003	2004	2005	1006	2006	3006	4006	2006	1007	2007	3007	4007	2007
<b>World demand</b>														
OECD	-	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-
North America	-	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-
Western Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	0.2	-	-	-	-	0.2	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-0.1	-	-0.1	-	-	-0.1	-
(a) Total world demand	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-0.1
<b>Non-OPEC supply</b>														
OECD	-	-	-	-	-	-	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
North America	-	-	-	-	-	-	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Western Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	-0.1	-	-0.1	-	-	-0.1	-0.1
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	-	-0.1	-0.3	-0.1	-0.1	-0.1	-0.2	-0.3	-0.2
OEPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	-	-0.1	-0.3	-0.1	-0.1	-0.1	-0.2	-0.3	-0.2
<b>OPEC crude oil production (secondary sources)</b>														
Total supply	-	-	-	-	-	-	-0.1	-0.2	-0.1	-	-	-	-	-
Balance (stock change and miscellaneous)	-	-	-	-	-	-	-0.1	-0.2	-0.1	-	-	-	-	-
<b>OECD closing stock levels (mb)</b>														
Commercial	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SPR	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-2	-	-	-	-	-	-
Oil-on-water	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Days of forward consumption in OECD</b>														
Commercial onland stocks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SPR	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Memo items</b>														
FSU net exports	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1
(a) - (b)	-	-	-	-	-	-	0.1	0.2	0.1	0.1	0.1	0.2	0.2	0.2

† This compares Table 29 in this issue of the MOMR with Table 30 in the January 2007 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	1004	2004	3004	4004	1005	2005	3005	4005	1006	2006	3006	4006	
<b>Closing stock levels mb</b>																		
OECD onland commercial	2,630	2,478	2,517	2,547	2,595	2,465	2,545	2,581	2,547	2,542	2,623	2,638	2,595	2,596	2,654	2,767	2,674	
North America	1,262	1,175	1,161	1,193	1,257	1,145	1,193	1,206	1,193	1,201	1,275	1,254	1,257	1,239	1,276	1,347	1,277	
Western Europe	925	895	922	924	944	919	933	945	924	951	925	952	944	949	943	962	964	
OECD Pacific	443	408	435	430	394	400	420	430	430	389	422	432	394	408	436	459	432	
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	1,493	1,495	1,496	
North America	552	601	640	678	687	654	664	672	678	690	698	696	687	688	690	690	691	
Western Europe	356	357	374	377	407	371	366	367	377	376	401	405	407	407	411	411	409	
OECD Pacific	380	389	396	396	393	398	398	396	396	396	395	393	393	392	393	393	396	
<b>OECD total</b>	<b>3,918</b>	<b>3,825</b>	<b>3,928</b>	<b>3,998</b>	<b>4,082</b>	<b>3,888</b>	<b>3,974</b>	<b>4,016</b>	<b>3,998</b>	<b>4,005</b>	<b>4,116</b>	<b>4,132</b>	<b>4,082</b>	<b>4,083</b>	<b>4,148</b>	<b>4,262</b>	<b>4,170</b>	
Oil-on-water	830	815	882	905	961	906	891	894	905	931	935	926	961	964	975	969	na	
<b>Days of forward consumption in OECD</b>																		
OECD onland commercial	55	51	51	51	53	51	52	51	50	52	53	53	52	54	54	55	53	
North America	52	48	46	47	50	46	47	47	47	47	50	49	50	49	50	53	50	
Western Europe	60	58	60	60	61	61	60	60	59	63	59	61	60	63	61	61	62	
OECD Pacific	52	47	51	50	47	51	52	49	46	48	52	49	42	52	55	52	46	
OECD SPR	27	28	29	29	30	30	29	29	29	30	30	30	30	31	31	30	30	
North America	23	25	25	27	27	26	26	26	26	27	27	27	27	27	27	27	27	
Western Europe	23	23	24	24	26	25	24	23	24	25	26	26	26	27	27	26	26	
OECD Pacific	45	45	47	46	46	50	49	45	42	49	49	45	42	50	50	45	42	
<b>OECD total</b>	<b>82</b>	<b>79</b>	<b>80</b>	<b>81</b>	<b>83</b>	<b>81</b>	<b>81</b>	<b>80</b>	<b>79</b>	<b>82</b>	<b>84</b>	<b>83</b>	<b>81</b>	<b>85</b>	<b>85</b>	<b>85</b>	<b>83</b>	

na Not available.

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

	2002	2003	2004	2005	Change 05/04	1006	2006	3006	4006	2006	Change 06/05	1007	2007	3007	4007	2007	Change 07/06
USA	8.04	7.82	7.65	7.34	-0.31	7.20	7.37	7.47	7.56	7.40	0.06	7.65	7.58	7.47	7.68	7.59	0.19
Canada	2.84	2.98	3.07	3.02	-0.05	3.14	3.00	3.18	3.33	3.16	0.14	3.22	3.31	3.26	3.37	3.29	0.13
Mexico	3.59	3.80	3.83	3.77	-0.07	3.79	3.78	3.70	3.51	3.63	-0.08	3.51	3.63	3.67	3.67	3.63	-0.06
<b>North America</b>	<b>14.48</b>	<b>14.60</b>	<b>14.56</b>	<b>14.13</b>	<b>-0.42</b>	<b>14.13</b>	<b>14.15</b>	<b>14.34</b>	<b>14.40</b>	<b>14.26</b>	<b>0.12</b>	<b>14.39</b>	<b>14.52</b>	<b>14.43</b>	<b>14.72</b>	<b>14.52</b>	<b>0.26</b>
Norway	3.33	3.26	3.19	2.97	-0.22	2.93	2.70	2.73	2.76	2.78	-0.19	2.76	2.71	2.62	2.73	2.70	-0.07
UK	2.52	2.33	2.10	1.88	-0.22	1.88	1.72	1.47	1.68	1.69	-0.20	1.68	1.65	1.55	1.70	1.64	-0.04
Denmark	0.37	0.37	0.39	0.38	-0.01	0.36	0.35	0.32	0.34	0.34	-0.04	0.33	0.32	0.28	0.31	0.31	-0.03
Other Western Europe	0.44	0.47	0.51	0.54	0.03	0.53	0.56	0.54	0.54	0.55	0.01	0.55	0.55	0.55	0.55	0.55	0.00
<b>Western Europe</b>	<b>6.67</b>	<b>6.43</b>	<b>6.19</b>	<b>5.77</b>	<b>-0.42</b>	<b>5.70</b>	<b>5.32</b>	<b>5.06</b>	<b>5.33</b>	<b>5.35</b>	<b>-0.41</b>	<b>5.32</b>	<b>5.22</b>	<b>5.00</b>	<b>5.28</b>	<b>5.20</b>	<b>-0.15</b>
Australia	0.70	0.60	0.52	0.53	0.01	0.43	0.44	0.59	0.58	0.51	-0.02	0.57	0.55	0.60	0.59	0.58	0.07
Other Pacific	0.06	0.05	0.05	0.05	0.00	0.06	0.05	0.05	0.05	0.05	0.00	0.07	0.09	0.11	0.11	0.09	0.04
<b>OECD Pacific</b>	<b>0.77</b>	<b>0.66</b>	<b>0.57</b>	<b>0.58</b>	<b>0.01</b>	<b>0.48</b>	<b>0.49</b>	<b>0.64</b>	<b>0.62</b>	<b>0.56</b>	<b>-0.02</b>	<b>0.64</b>	<b>0.64</b>	<b>0.71</b>	<b>0.70</b>	<b>0.67</b>	<b>0.11</b>
<b>Total OECD</b>	<b>21.92</b>	<b>21.68</b>	<b>21.32</b>	<b>20.48</b>	<b>-0.84</b>	<b>20.32</b>	<b>19.97</b>	<b>20.04</b>	<b>20.35</b>	<b>20.17</b>	<b>-0.31</b>	<b>20.35</b>	<b>20.38</b>	<b>20.14</b>	<b>20.70</b>	<b>20.39</b>	<b>0.22</b>
Brunel	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	0.79	0.76	0.81	0.78	0.02	0.80	0.79	0.79	0.79	0.79	0.00
Malaysia	0.76	0.78	0.79	0.77	-0.03	0.77	0.73	0.75	0.76	0.75	-0.01	0.76	0.76	0.81	0.88	0.80	0.05
Vietnam	0.34	0.35	0.40	0.38	-0.02	0.38	0.37	0.37	0.38	0.38	-0.01	0.35	0.33	0.38	0.39	0.36	-0.01
Asia others	0.37	0.40	0.42	0.52	0.10	0.53	0.54	0.54	0.54	0.54	0.02	0.54	0.54	0.54	0.55	0.54	0.01
<b>Other Asia</b>	<b>2.45</b>	<b>2.52</b>	<b>2.61</b>	<b>2.64</b>	<b>0.03</b>	<b>2.68</b>	<b>2.65</b>	<b>2.64</b>	<b>2.71</b>	<b>2.67</b>	<b>0.03</b>	<b>2.67</b>	<b>2.62</b>	<b>2.74</b>	<b>2.83</b>	<b>2.72</b>	<b>0.05</b>
Argentina	0.84	0.84	0.79	0.76	-0.03	0.76	0.78	0.78	0.77	0.77	0.01	0.77	0.75	0.74	0.75	0.75	-0.02
Brazil	1.72	1.80	1.79	1.99	0.20	2.07	2.08	2.10	2.15	2.10	0.11	2.18	2.19	2.24	2.40	2.25	0.15
Colombia	0.58	0.55	0.53	0.53	0.00	0.53	0.54	0.54	0.53	0.54	0.01	0.54	0.54	0.54	0.54	0.54	0.00
Ecuador	0.38	0.41	0.51	0.51	0.00	0.52	0.55	0.55	0.55	0.54	0.03	0.53	0.53	0.52	0.52	0.53	-0.02
Trinidad & Tobago	0.15	0.17	0.16	0.18	0.02	0.19	0.18	0.19	0.19	0.19	0.01	0.18	0.18	0.18	0.18	0.18	-0.01
L. America others	0.25	0.26	0.27	0.29	0.02	0.28	0.31	0.31	0.30	0.30	0.01	0.30	0.30	0.30	0.30	0.30	0.00
<b>Latin America</b>	<b>3.92</b>	<b>4.02</b>	<b>4.05</b>	<b>4.26</b>	<b>0.21</b>	<b>4.35</b>	<b>4.44</b>	<b>4.47</b>	<b>4.48</b>	<b>4.44</b>	<b>0.18</b>	<b>4.49</b>	<b>4.48</b>	<b>4.52</b>	<b>4.66</b>	<b>4.54</b>	<b>0.10</b>
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	0.76	0.75	0.75	0.76	-0.03	0.73	0.73	0.73	0.73	0.73	-0.02
Syria	0.55	0.53	0.50	0.46	-0.04	0.44	0.44	0.44	0.44	0.44	-0.02	0.43	0.43	0.42	0.42	0.43	-0.01
Yemen	0.46	0.44	0.42	0.41	-0.01	0.40	0.39	0.38	0.39	0.39	-0.01	0.41	0.41	0.40	0.39	0.40	0.01
<b>Middle East</b>	<b>2.12</b>	<b>2.01</b>	<b>1.92</b>	<b>1.86</b>	<b>-0.06</b>	<b>1.82</b>	<b>1.80</b>	<b>1.78</b>	<b>1.79</b>	<b>1.80</b>	<b>-0.06</b>	<b>1.78</b>	<b>1.78</b>	<b>1.77</b>	<b>1.76</b>	<b>1.77</b>	<b>-0.02</b>
Chad	0.00	0.02	0.16	0.18	0.02	0.18	0.18	0.18	0.18	0.18	0.00	0.19	0.19	0.19	0.19	0.19	0.01
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	0.66	0.67	0.67	-0.02	0.64	0.64	0.64	0.64	0.64	-0.03
Equatorial Guinea	0.20	0.24	0.34	0.36	0.02	0.37	0.37	0.37	0.37	0.37	0.01	0.38	0.38	0.39	0.40	0.39	0.02
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	0.44	0.52	0.42	0.08	0.54	0.57	0.61	0.61	0.58	0.16
Africa other	0.20	0.20	0.21	0.25	0.04	0.30	0.33	0.32	0.32	0.32	0.07	0.32	0.32	0.32	0.36	0.33	0.01
<b>Africa</b>	<b>2.12</b>	<b>2.17</b>	<b>2.11</b>	<b>2.52</b>	<b>0.08</b>	<b>2.58</b>	<b>2.62</b>	<b>2.67</b>	<b>2.75</b>	<b>2.65</b>	<b>0.14</b>	<b>2.74</b>	<b>2.77</b>	<b>2.84</b>	<b>2.89</b>	<b>2.81</b>	<b>0.16</b>
<b>Total DCS</b>	<b>10.61</b>	<b>10.72</b>	<b>11.01</b>	<b>11.27</b>	<b>0.26</b>	<b>11.44</b>	<b>11.51</b>	<b>11.56</b>	<b>11.72</b>	<b>11.56</b>	<b>0.29</b>	<b>11.68</b>	<b>11.66</b>	<b>11.87</b>	<b>12.14</b>	<b>11.84</b>	<b>0.28</b>
FSU	9.33	10.27	11.14	11.55	0.41	11.67	11.97	12.15	12.28	12.02	0.47	12.48	12.66	12.74	12.91	12.70	0.68
Russia	7.62	8.46	9.19	9.44	0.25	9.48	9.63	9.72	9.76	9.65	0.21	9.86	9.96	10.01	10.04	9.97	0.32
Kazakhstan	0.94	1.03	1.18	1.23	0.05	1.22	1.31	1.31	1.37	1.30	0.07	1.37	1.40	1.36	1.47	1.40	0.10
Azerbaijan	0.31	0.31	0.31	0.44	0.13	0.56	0.61	0.68	0.71	0.64	0.19	0.83	0.88	0.95	0.98	0.91	0.28
FSU others	0.45	0.47	0.46	0.46	-0.03	0.41	0.42	0.44	0.44	0.43	-0.01	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	0.14	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	3.67	3.66	3.68	0.06	3.69	3.67	3.70	3.73	3.70	0.02
<b>Non-OPEC production</b>	<b>45.42</b>	<b>46.26</b>	<b>47.13</b>	<b>47.07</b>	<b>-0.05</b>	<b>47.27</b>	<b>47.30</b>	<b>47.56</b>	<b>48.15</b>	<b>47.57</b>	<b>0.50</b>	<b>48.35</b>	<b>48.52</b>	<b>48.59</b>	<b>49.63</b>	<b>48.77</b>	<b>1.20</b>
Processing gains	1.73	1.80	1.83	1.86	0.03	1.92	1.89	1.88	1.92	1.90	0.04	1.92	1.90	1.90	1.93	1.91	0.01
<b>Non-OPEC supply</b>	<b>47.15</b>	<b>48.05</b>	<b>48.96</b>	<b>48.94</b>	<b>-0.02</b>	<b>49.19</b>	<b>49.19</b>	<b>49.44</b>	<b>50.07</b>	<b>49.47</b>	<b>0.54</b>	<b>50.27</b>	<b>50.42</b>	<b>50.49</b>	<b>51.56</b>	<b>50.69</b>	<b>1.21</b>
OPEC NGL	3.42	3.57	3.85	3.89	0.04	4.05	4.10	4.17	4.18	4.13	0.24	4.23	4.28	4.38	4.53	4.36	0.23
OPEC Non-conventional	0.18	0.14	0.17	0.16	-0.01	0.13	0.12	0.15	0.15	0.14	-0.02	0.08	0.08	0.08	0.08	0.08	-0.05
<b>OPEC (NGL+NCF)</b>	<b>3.60</b>	<b>3.71</b>	<b>4.02</b>	<b>4.04</b>	<b>0.02</b>	<b>4.18</b>	<b>4.22</b>	<b>4.33</b>	<b>4.33</b>	<b>4.27</b>	<b>0.22</b>	<b>4.31</b>	<b>4.36</b>	<b>4.46</b>	<b>4.61</b>	<b>4.44</b>	<b>0.17</b>
<b>Non-OPEC &amp; OPEC (NGL+NCF)</b>	<b>50.75</b>	<b>51.76</b>	<b>52.98</b>	<b>52.98</b>	<b>0.00</b>	<b>53.36</b>	<b>53.41</b>	<b>53.77</b>	<b>54.40</b>	<b>53.74</b>	<b>0.76</b>	<b>54.58</b>	<b>54.78</b>	<b>54.96</b>	<b>56.17</b>	<b>55.13</b>	<b>1.39</b>

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

Table 33: World Rig Count

	2002	2003	03/02	10/04	20/04	30/04	4Q/04	2004	04/03	Change	10/05	20/05	3Q/05	4Q/05	2005	05/04	Change	10/06	20/06	3Q/06	Dec06	4Q/06	2006	06/05	Change	Jan07	Change	Jan07/Dec06	
USA	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	1,888	1,519	1,632	1,719	1,632	1,719	1,718	1,719	1,648	270	1,714	1,714	-4		
Canada	266	372	106	528	202	326	420	369	-3	620	241	527	572	490	1,211	665	282	494	282	494	456	440	470	-20	568	568	112		
Mexico	65	92	27	107	113	111	108	110	18	114	116	104	93	107	-3	85	85	77	84	85	77	84	83	-24	84	84	0		
North America	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	3,066	2,269	1,999	2,290	1,999	2,290	2,258	2,243	2,200	225	2,366	2,366	108		
Norway	19	19	0	19	18	14	16	17	-2	15	18	19	17	17	0	19	20	16	15	20	16	15	16	-1	16	16	1		
UK	26	20	-6	15	19	14	15	16	-4	16	22	23	24	21	5	29	27	26	22	27	26	22	24	3	24	24	2		
Western Europe	85	78	-7	69	70	57	62	65	-13	56	67	68	68	65	0	77	78	73	62	78	73	62	73	8	71	71	9		
OECD Pacific	17	18	1	19	22	26	20	22	4	24	25	27	24	25	3	25	28	25	29	28	25	28	27	2	26	26	-3		
Total OECD	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	3,106	2,371	2,105	2,389	2,105	2,389	2,349	2,336	2,300	235	2,463	2,463	114		
Other Asia	111	117	6	119	128	127	130	126	9	133	140	146	148	142	16	153	150	156	153	150	153	152	153	11	158	158	5		
Latin America	106	116	10	114	127	129	134	126	10	133	138	141	151	141	15	149	162	164	169	162	164	169	160	19	202	202	33		
Middle East	62	70	8	69	68	69	73	70	0	69	71	73	75	72	2	72	79	82	84	79	82	84	85	80	81	81	-3		
Africa	39	43	4	46	50	54	54	51	8	56	56	51	57	54	3	59	62	68	76	62	68	76	67	13	62	62	-14		
Total DCs	317	346	29	346	376	381	394	376	30	390	405	411	431	409	33	433	453	470	482	453	470	482	479	50	503	503	21		
Non-OPEC Rig Count	1,581	1,938	357	2,188	1,946	2,130	2,253	2,131	193	2,483	2,192	2,560	2,667	2,477	346	2,806	2,560	2,861	2,560	2,861	2,833	2,818	2,761	284	2,968	2,968	135		
Algeria	20	20	0	18	20	20	20	19	-1	20	21	22	21	21	2	21	21	28	25	21	28	25	27	24	3	24	24	-1	
Angola	5	4	-1	4	3	3	3	3	-1	3	3	3	2	3	0	4	4	4	4	4	4	4	4	4	1	5	5	1	
Indonesia	46	45	-1	46	48	54	49	49	4	53	53	55	59	54	5	55	43	46	53	43	46	53	52	49	-5	49	49	-4	
Iran	34	35	1	38	42	42	41	41	6	42	41	39	38	40	-1	40	45	47	45	45	47	45	44	4	48	48	3		
Iraq	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	
Kuwait	6	5	-1	8	8	11	14	10	5	12	13	11	14	12	2	12	13	14	16	13	14	16	15	14	2	16	16	0	
Libya	10	10	0	10	10	9	10	10	0	10	9	8	8	9	1	9	9	10	9	9	10	13	10	10	1	13	13	0	
Nigeria	12	10	-2	7	7	9	9	8	-2	9	9	9	8	9	1	10	9	10	11	9	10	11	10	10	1	9	9	-2	
Qatar	13	8	-5	8	7	10	10	9	1	10	13	12	12	12	3	13	10	11	9	10	11	9	9	11	-1	9	9	0	
Saudi Arabia	32	32	0	33	31	31	31	32	0	33	34	37	43	36	4	54	60	70	75	60	70	75	76	65	29	78	78	3	
UAE	16	16	0	17	17	16	14	16	0	16	16	16	16	16	0	17	16	16	15	16	16	16	16	0	15	15	0		
Venezuela	42	37	-5	52	50	52	65	55	18	66	72	66	70	67	12	78	83	85	76	83	85	76	81	14	73	73	-3		
OPEC Rig Count	236	222	-14	241	243	257	266	252	30	274	284	278	291	279	27	313	313	341	342	313	341	342	341	327	48	339	339	-3	
Worldwide Rig Count*	1,817	2,160	343	2,429	2,189	2,387	2,519	2,383	223	2,757	2,476	2,838	2,958	2,756	373	3,119	2,873	3,202	3,175	2,873	3,202	3,175	3,159	3,088	332	3,307	3,307	132	
of which:																													
Oil	758	816	58	872	821	886	925	877	61	961	870	990	1,015	959	82	1,069	1,060	1,169	1,177	1,060	1,169	1,177	1,156	1,114	155	1,240	1,240	63	
Gas	1,042	1,326	284	1,537	1,351	1,477	1,574	1,486	157	1,774	1,583	1,823	1,928	1,777	291	2,035	1,802	2,016	1,978	1,802	2,016	1,978	1,983	1,959	182	2,050	2,050	72	
Others	17	18	1	20	17	22	20	20	2	22	22	25	17	22	2	14	13	18	20	13	18	20	21	16	6	17	17	-3	

\*Excludes China and FSU.  
na Not available.  
Source: Baker Hughes International & Secretariat's Estimates.  
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](mailto:MElShahati@opec.org):

Ms. C. Clemenz  
e-mail: [cclemenz@opec.org](mailto:cclemenz@opec.org)

### ***CRUDE OIL PRICES***

Mr. F. Al-Nassar  
e-mail: [fal-nassar@opec.org](mailto:fal-nassar@opec.org)

### ***PRODUCTS AND REFINERY OPERATIONS***

Mr. S. Keramati  
e-mail: [skeramati@opec.org](mailto:skeramati@opec.org)

### ***THE TANKER MARKET***

Mr. H. E. Khadadeh  
e-mail: [hkhadadeh@opec.org](mailto:hkhadadeh@opec.org)

### ***OIL TRADE***

Mr. H. E. Khadadeh  
e-mail: [hkhadadeh@opec.org](mailto:hkhadadeh@opec.org)

### ***WORLD OIL DEMAND***

Mr. E.S. Al-Khalifa  
e-mail: [ekhalifa@opec.org](mailto:ekhalifa@opec.org)

### ***WORLD OIL SUPPLY***

Mr. I. Sandra/Mr. Z. Mohammad  
e-mail: [isandra@opec.org](mailto:isandra@opec.org)  
e-mail: [zmohammad@opec.org](mailto:zmohammad@opec.org)

### ***STOCK MOVEMENTS***

B. Aklil  
e-mail: [baklil@opec.org](mailto:baklil@opec.org)

### ***COORDINATORS***

Mr. M. Alipour-Jeddi  
Head, Petroleum Market Analysis Dept.  
e-mail: [majeddi@opec.org](mailto:majeddi@opec.org)

Ms. C. Clemenz  
e-mail: [cclemenz@opec.org](mailto:cclemenz@opec.org)

Dr. A. Yahyai  
e-mail: [ayahyai@opec.org](mailto:ayahyai@opec.org)

Mr. D. Linton  
e-mail : [dlinton@opec.org](mailto:dlinton@opec.org)

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## OPEC Basket average price

US\$ per barrel

↓ down 7.22 in January	<b>January 2007</b>	<b>50.73</b>
	December 2006	57.95
	Year-to-date	50.73

## January OPEC production

in million barrels per day, according to secondary sources

Algeria	1.35	Iraq	1.70	Qatar	0.81
Angola	1.51	Kuwait	2.46	Saudi Arabia	8.68
Indonesia	0.87	SP Libyan AJ	1.68	UAE	2.49
IR Iran	3.79	Nigeria	2.21	Venezuela	2.44
				<b>TOTAL</b>	<b>29.97</b>

## Supply and demand

in million barrels per day

<b>2006</b>		<b>2007</b>	
World demand	84.1	World demand	85.4
Non-OPEC supply	53.7	Non-OPEC supply	55.1
<b>Difference</b>	<b>30.4</b>	<b>Difference</b>	<b>30.2</b>

Non-OPEC supply includes OPEC NGLs and non-conventional oils.

Totals may not add due to independent rounding.

## Stocks

**US commercial oil stocks experienced a counter-seasonal build of 6.1 mb in January.**

## World economy

**World GDP growth revised up to 5.3% for 2006 and to 4.6% for 2007.**