OPEC

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

January 2007

Feature Article:

Angola joins OPEC: The new global oil supply picture

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Oil Market Highlights

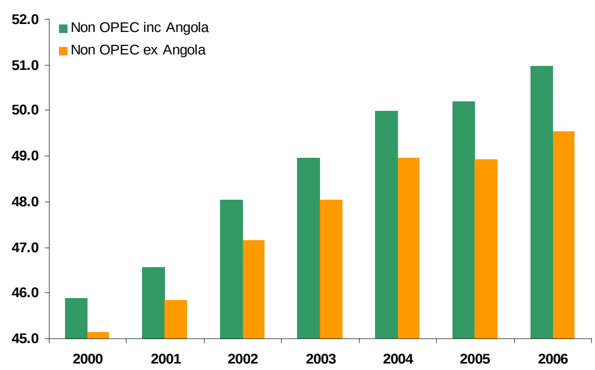
- The global economy in 2006 is estimated to have expanded by 5.2%, as a result of broad-based growth in all major regions. The year ended on a positive note as stock markets hit record highs, optimism about the general health of the US economy increased, and Euro-zone prospects brightened. Asian growth, especially China, continued unabated. For 2007, the global economy is forecast to slow down after three years of strong growth as tighter monetary policies introduced to forestall the threat of rising inflation take effect. Moreover, the prospect of fiscal tightening in the EU may dampen growth somewhat. Inverted yield curves and recently falling commodity prices are seen by some as possible warning signals of a slowing world economy in 2007. The global economy is forecast to grow by 4.5% this year, 0.1% higher than last month's forecast.
- A recent spate of indicators has increased confidence in the overall resilience of the US economy, with improved employment and export data and continued steady expansion in the services sector. Spillover effects from the weaker housing sector on consumption have so far been small. It is now increasingly expected that the US economy may experience a soft-landing rather than a sharp slowdown. However the downside risks from the weakness in the manufacturing sector and from housing as well as the huge current account deficit have not disappeared. Given the improved outlook, the probability of lower interest rates has receded for the moment. Growth in the US economy is seen to slow down to 2.3% in 2007 from 3.3% in the previous year.
- In the Euro-zone, growth is estimated to have reached 2.6% in 2006, the fastest rate in six years. A slowdown is expected this year to around 2.1%, but economic momentum is still strong, particularly in the largest economy, Germany, where manufacturing orders have rebound and unemployment registered a surprise fall. In Japan, the fourth quarter data were more encouraging following a lack-luster third quarter, lending support for possible interest rate hikes. Growth in Japan is forecast at 1.8% in 2007, sustained by the improving performance of the corporate sector. In Developing Countries GDP growth is expected to be lower in 2007, falling to 5.8% from 6.1% in 2006 and China may also see some deceleration to 9.2% from 10.4% last year.
- The OPEC Reference Basket had a strong start to the month as the market geared up for winter. Tight North Sea supply and an OPEC decision to cut output further provided additional support for prices. The bullish sentiment eroded later in the month on persistent mild weather which softened demand and left crude and product stocks at relatively high levels. In monthly terms, the OPEC Reference Basket averaged $57.95/b, representing a gain $2.53 or 4.6%. However, with the start of the New Year, the Basket has experienced sharp losses, dropped more than 14% to stand at $48.23/b on 18 January.
- Unseasonably warm weather in the Northern Hemisphere adversely affected product demand and exerted further downward pressure on product prices and refinery margins in various markets. With the continuation of the unusually warm winter, the crack spread for distillates — which usually leads the market at this time of year — could narrow further over the next months from the current $10/b, exerting additional pressure on refinery margins. A cold spell over the next few weeks may provide some support, but contra-seasonal product stock-builds over the last few weeks have undermined any bullishness in product markets, with heating oil seeming to abdicate its traditional role of market leader in the first quarter of the year.
- OPEC spot fixtures increased by 0.5 mb/d in December from the previous month to average 12.0 mb/d, while OPEC sailings decreased by 0.4 mb/d to average 22.7 mb/d over the same period. Compared with the previous year, OPEC sailings fell by 2.8 mb/d or 11%. The VLCC market softened further as ample tonnage availability coupled with the OPEC cut kept the market on the charterers' side. On the Middle East/eastbound and westbound routes, rates fell by 6% and 13% respectively. Clean tanker freight rates rebounded after constant decline for the passed three months backed by limited tonnage availability, rates for tankers moving on Singapore/East route soared by 73% in December.
- Warm weather continues to dent oil demand during its peak cycle. Although transport fuel consumption is picking up, it will not be enough to offset the decline in heating oil and fuel oil demand, especially in the OECD countries. Furthermore, the warm weather has alleviated pressure on natural gas prices which in the end has encouraging power plants to switch from liquid to gas. As a result, world oil demand growth for 2006 has been revised down by 0.1 mb/d to now stand at 0.8 mb/d or 1.0%. The warm weather has also dampened oil demand in 2007 with lower consumption expected for heating oil and fuel oil. As a result, world oil demand growth for 2007 was revised down by 0.07 mb/d to stand at 1.25 mb/d or 1.5%, slightly lower than the estimate of the last *MOMR*. Developing Countries are expected to maintain oil demand strength, accounting for 90% of world oil demand growth in the first quarter. Led by China and the Middle East, the DCs first-quarter oil demand growth is estimated at 1.0 mb/d y-o-y.
- Non-OPEC oil supply is expected to average 49.6 mb/d in 2006, representing an increase of 0.6 mb/d over 2005 and a downward revision of 79,000 b/d versus the last assessment. Non-OPEC figures have been adjusted retroactively to exclude Angola. The revisions to the full year estimate are concentrated around 4Q06. Downward revisions in Mexico, Norway, UK, and Brazil account for the bulk, partly offset by upward revisions in the USA, Canada, and Russia. Preliminary data for the month of December puts non-OPEC supply at 50.4 mb/d, slightly lower than previously estimated, but still a record high. Non-OPEC oil supply is expected to average 50.9 mb/d in 2007, representing an increase of 1.3 mb/d over 2006, and downward revision of 0.3 mb/d versus the last assessment. The revision to the production outlook is principally due to lower expectations for Mexico and Norway. Including Angola, December total OPEC crude production averaged 30.2 mb/d.

- Preliminary data shows China's crude oil imports in November increased significantly by 0.75 mb/d to 3.3 mb/d, the highest level so far in 2006 and around 31% higher than a year earlier. Product imports decreased by 0.19 mb/d, leading China's net oil imports to average around 3.5 mb/d, about 0.55 mb/d higher than in the previous month. India's total net crude oil and product imports in November averaged 1.8 mb/d, an increase of 0.1 mb/d or 5% compared to a month earlier, the increase came on the back of lower exports as a result of higher domestic demand. US total oil imports declined by more than 0.5 mb/d, driven mainly by crude oil imports in December. Similarly, Japan's oil imports decreased by around 0.2 b/d to average 4.2 mb/d in December, resulting in the 2006 yearly average showing a decline of 0.13 mb/d from the previous year. OECD net crude oil and product imports fell by around 0.1 mb/d to average 26.1 mb/d in November.
- US total commercial oil stocks witnessed a drop of 17.8 mb to 1,027.1 mb in December from the previous month, but still 1.4% and 4.9% above the year-ago level and the five-year average. Despite a 22.2 mb draw, crude oil stocks remained above the five-year average and only slightly below the year-ago level, both in terms of volume and forward cover. Total commercial oil stocks in EU-16 (Eur-15 plus Norway) experienced a draw of 5.7 mb to 1,145 mb in December versus the previous month, but were still above the year-ago level and the five-year average. Japanese total commercial oil stocks also recorded a drop of 5 mb to 195.6 mb in November month-on month, but remained above the year-ago level and the five-year average.
- The estimated demand for OPEC crude in 2006 is expected to average 30.3 mb/d. OPEC figures are adjusted retroactively to include Angola. In 2007, the estimated demand for OPEC crude is expected to average 30.1 mb/d, representing a drop of 0.2 mb/d versus 2006. On a quarterly basis, the demand for OPEC crude is expected at 31.1 mb/d in the first quarter, 29.1 mb/d in the second, 30.1 mb/d in the third and 30.1 mb/d in the fourth.

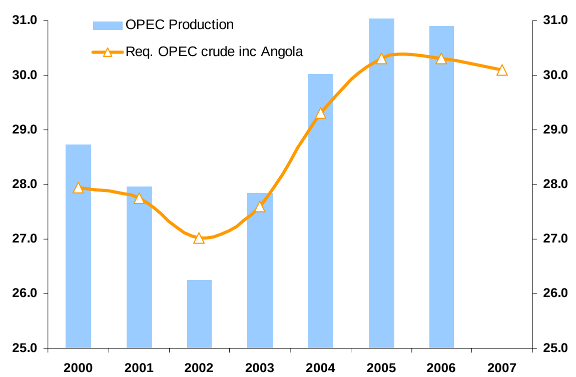
Angola joins OPEC: The new global oil supply picture

- Angola's oil industry has developed progressively since first oil was produced in the late 1950's. Over the decades, the industry has shifted from onshore to offshore operations, and more recently to deep and ultra deepwater with great success. By 2005, over 20 billion barrels of oil have been discovered (proven and probable) of which 6 billion have been produced. Significant discoveries have been made particularly in deepwater and this represents the largest potential for undiscovered oil.
- In terms of industry structure, the Petroleum Ministry regulates the State oil company, Sonangol, as well as the other companies operating in the country. Sonangol is the sole concessionaire, whilst international companies operate under Petroleum Sharing Contracts (PSCs) in which the state company is the license holder and multinationals operate the licenses as contractors. Only one license remains under a concession agreement.
- In 2005 Angola's oil production averaged 1.26 mb/d, most of which came from fields in shallow water and deepwater. There are several producing licenses, but three (i.e. Block 0, Block 15 and Block 17) account for the bulk of the production. International companies with operations in Angola include most major companies, but Chevron, ExxonMobil, and Total have the largest operations. The country's oil output has risen rapidly over the last few years with the start of new deepwater fields. The latest estimate (December 2006) puts total oil production at 1.5 mb/d, double the level of 2000.
- Angola produces mainly crude oil of predominately medium to light API (range 28-38°) and low sulphur (range 0.12-0.71%). In terms of exports, the key destinations are Asia, mainly China, and North America, primarily the USA. The typical cargo size is 1 mb for exports handled from deepwater Blocks 15 and 17, and more than 600,000 barrels for cargoes departing from the Malongo terminal. Generally, the principal exports include Cabinda, Girassol, Hungo, Kuito, Xikomba, Nemba, Palanca and Kissanje blends. All of these tend to trade at a discount to dated Brent. Most of the oil produced is exported as crude; only a small refinery with 39,000 b/d of capacity is needed to meet all of the country's domestic requirements.

Graph 1: Non-OPEC supply, including and excluding Angola (mb/d)



Graph 2: Required OPEC crude and OPEC production (mb/d)



- On 1 January 2007, Angola became the twelfth Member of OPEC. Accordingly, non-OPEC supply, OPEC production, and required OPEC crude categories have been reclassified in the *MOMR* retroactively to ensure consistency in the comparisons. From now on, the output of Angola will be shown in the monthly figures of OPEC producers and will no longer be part of the non-OPEC supply forecast; additionally, future increases resulting from new projects will be reflected in the capacity of OPEC Member Countries when these are published in this report or in other sources such as OPEC Website (*www.opec.org*).
- As would be expected, Angola's move into OPEC has reduced the base level for non-OPEC supply. As a result, non-OPEC supply in 2006 is estimated at 49.6 mb/d, representing a growth of 0.6 mb/d over 2005. For 2007, non-OPEC supply is expected to average 50.9 mb/d representing a growth of 1.3 mb/d over 2006. Concurrently, OPEC crude and other liquids have been expanding, and OPEC now accounts for approximately 42% of world oil supply (2006 estimate). Average OPEC-12 crude production was 31.12 mb/d in 2005 and 30.9 mb/d in 2006.
- The base level for the required OPEC crude has also increased. The new level is now assessed at 30.3 mb/d for both 2005 and 2006. Looking at 2007, the required OPEC crude is estimated at 30.1 mb/d. Similarly, OPEC capacity level is now larger whilst near-term expansions are stronger. It is estimated that total OPEC capacity excluding Iraq averaged 31.1 mb/d in 2005 and 33.8 mb/d in 2006. In the medium term, OPEC crude capacity (excluding Iraq) is expected to increase to 36.9 mb/d by 2010.
- In addition to the historic decision to welcome Angola as a Member, the OPEC Ministerial Conferencers in Abuja also agreed — in anticipation of current market conditions — to cut production by 500,000 b/d from 1 as of February, on top of the reduction already decided at the Doha meeting. Without a doubt, the inclusion of Angola will strengthen the capability of OPEC to fulfilling its objectives and help to further stabilize the market. As these timely actions clearly demonstrate, OPEC is closely monitoring developments and stands ready to take further decisions as necessary in line with their ongoing commitment to stabilize the oil market.

Highlights of the World Economy

Economic growth rates 2006-2007, %	World	OECD	USA	Japan	Euro-zone
2006	5.2	3.1	3.3	2.2	2.6
2007	4.5	2.4	2.3	1.8	2.1

Industrialised countries

United States of America

Retail sales show strong growth in December amid rising earnings and strong job creation, pointing to a soft landing for the US economy in 2007

A recent spate of indicators has increased confidence in the overall resilience of the US economy, with improved employment and export data along with continued steady expansion in the services sector. Spillover effects from the weaker housing sector on consumption have so far been small. It is now more widely expected that the US economy may experience a soft landing rather than a sharp slowdown. However the downside risks have not disappeared: The weakness in the US manufacturing sector is still evident; The housing sector itself has a long way to go before full recovery and the current account deficit is huge. Moreover, inverted yield curves and falling commodity prices are seen by some as possible warning signals of a slowing world economy in 2007. On the positive side, non-farm payrolls rose by a higher-than-expected 167,000 jobs in December on a seasonally adjusted basis, and weekly earnings adjusted for inflation increased by 2.6% in November over the same month last year. The Conference Board's index of consumer confidence rose to 109 in December, contrary to expectations of a drop. All these factors, combined with a rise in consumer credit in November, may have contributed to the unexpectedly strong 0.9% growth in retail sales in December, which was the strongest rate of growth since July. Compared to December 2005, retail sales rose by 5.4% which was almost as high as the 5.7% December-to-December growth in 2005. Holiday sales also benefited from the unusually warm weather and heavy discounts. Excluding autos, sales rose by 1%, the fastest rate since January. The external sector also saw an improvement in November with the goods and services deficit falling by $0.6bn to $58.2bn. Three months of reductions in the US trade deficit reflect both the slowdown in the US economy and growing overseas demand, fuelled by a weaker dollar and stronger growth in Europe and Asia. The 11-month cumulative deficit in 2006 still amounted to a huge US$702bn. The services sector continued to expand at a steady pace in December according to data released by the Institute of Supply Management, whose index of non-manufacturing business activity registered a level of 57.1 from 58.9 in November.

Turning to the housing sector, the National Association of Realtors reported that sales of previously-owned homes unexpectedly increased by 0.6% in November after a smaller rise in October, registering the first back-to-back gains since late 2005. This has fed expectations that that the worst of the US housing slump may be over. However, recent data provides a mixed picture. New home sales stabilized at an annualized rate of 1,047,000 in November from 979,000 in July, while home starts increased in November, but building permits declined, and the overhang of unsold homes still amounts to 6.3 months of sales of new homes. Moreover, the median price of existing homes is still falling by 3.1% in November. The present stabilisation is very dependent on the currently low mortgage rates. If these should rise, the fragile recovery in demand for housing would founder. After being a drag on growth in the third quarter of 2006 (reducing GDP growth by 1.2%), the housing sector is not expected to have contributed to growth in the last quarter of 2006 or to add much to growth in 2007.

Given the improved outlook, the probability of lower interest rates has receded, and the Federal Reserve still appears to be more concerned about inflationary pressures than recession. The Fed is more likely to keep interest rates on hold for the moment until it becomes clear which of the two represent the greater risk to the US economy. The Fed has left its key interest rate unchanged for the last four months after increasing it 17 times. The consumer price index in November rose by 2% over the same month of 2005, and fell by 0.1% from October. Core inflation, excluding volatile energy and food prices, remained unchanged from the previous month but rose by 2.6% on a seasonally adjusted annualized rate in the first 11 months of 2006.

Final revisions to real GDP growth in the third quarter revealed a growth of 2.0% from the preliminary 2.2% and initial 1.6%. The improved recent outlook has led to upward expectations for GDP growth in the fourth quarter which is now seen to have been around

2.5%-3%, up from last month's forecast of at most a 2% expansion. For the whole of 2006, the US economy is estimated to have grown at a rate of 3.3%. For 2007, growth is forecast to moderate to 2.3%.

Japan

Sharp rise in machinery orders and record industrial production contrast with sluggish private consumption

Following a disappointing performance of the Japanese economy in the second and third quarter, recent economic indicators point to mounting business confidence, rising investments but continued weakness in private consumption growth. The Tankan business sentiment survey in December was stronger than expected, but the Economy Watchers index in December, a gauge of consumer spending strength was on the low side at 48.9, as a figure below 50 indicating that pessimists outnumbered optimists. Consumption in the third quarter had fallen at the fastest pace in almost a decade and household spending also fell in November although the rate of decline slowed down. More optimistically, the recent Bank of Japan's quarterly survey of regional economies showed that end-of-year and New Year consumer spending was stronger than a year earlier, pointing to a rise in consumption in the fourth quarter.

Other positive signals included a rise of 1.7% in bank lending in December, the eleventh consecutive monthly increase following ten years of contraction. Credit expansion is expected to lend support to economic growth. In addition, the jobless rate in November fell to an eight-year low. In the same month, industrial production and exports rose to record highs and core machinery orders in the private sector, considered to be the leading indicator for corporate capital investment in the next three to six months, surged to around $9bn or 3.8%, the second consecutive month of growth. Japanese inflation remained modest, with core consumer prices, excluding fresh food — the BoJ's preferred measure of inflation — advancing at 0.2% in November after a 0.1% increase in October, indicating that the year-long deflationary pressures have receded. However, retail sales rose by a meager seasonally-adjusted rate of 0.1% in November from a month earlier level, adding to government concerns that the economic recovery is being held back by weak household spending, which has not been helped by the so far weak translation of record corporate profits into higher wages and salaries. Growth remains overly dependent on investment and exports and is thus vulnerable to a slowdown in the US and world economy.

The recent positive developments have aroused expectations of a rate rise by the Bank of Japan in its rate-setting meeting on 18 January. However, the Bank decided to keep rates on hold citing weak consumption and lack of inflationary pressures. In July 2006, the BoJ raised rates for the first time in six years from 0% to 0.25%. The Bank of Japan which sets monetary policy independently, has indicated that its policies should seek to support economic expansion which has been interpreted to mean abstaining from a tightening of policy until the expansion is on a firmer footing. This is in line with the government's views of not upsetting the nascent recovery. Real GDP is estimated to have increased by 2.2% in 2006 and is forecast to continue growing for the sixth consecutive year, albeit at a more moderate rate of 1.8% in 2007.

Euro-zone

Euro-zone prospects have brightened with increasing strength in the German economy; ECB keeps interest rates on hold

The euro zone ended the year on a strong note. Growth is estimated to have reached 2.6% in 2006, the fastest rate in six years. Growth has been largely cyclical and a slowdown is expected this year to around 2.1%, but economic momentum is still strong, particularly in the largest economy, Germany, where manufacturing orders have rebound and unemployment registered a surprise fall. Pockets of weakness remain, and difficulties for monetary policy arise from the divergent trends growth within the EU, with the EU's second largest country, France, remaining weak. The European Central Bank has raised EU rates for six times since late 2005 but abstained from doing so in its January meeting, leaving its main interest rate unchanged at 3.5% but hinting at a possible further hike in March. The ECB believes in preparing the market for rate changes and tends to signal its moves ahead of time. It is expected that the ECB may raise rates to about 4% in the course of 2007. Inflation has remained within bounds with the latest figure showing a 1.9% annual increase in December in the Euro-zone, with Germany registering a lower-than-average 1.4%, but the ECB is still concerned about the rapid growth in the money supply. Seasonally-adjusted industrial production increased by 0.2% in the euro area in November 2006 compared to October 2006, after falling by 0.1% in October and 1% in September. Also, on the positive side was the region's drop in the unemployment rate to 7.6% in November, the lowest figure since 1993. However, the euro-zone manufacturing index, PMI, dipped to 56.5 in December from 56.6 in November. In particular the export component fell suggesting that the strong euro may have somewhat dampened the demand for European goods and services. The strength of the euro may further dampen demand for exports in 2007, along with the expected slower growth in the US and other regions.

Similarly to the overall region, growth in Germany accelerated to the fastest pace in six years to reach an estimated 2.5% in 2006. The German economy has benefited from surging exports and stronger domestic demand. It is now also felt that the 3% rise in VAT will not have a large negative effect on consumption this year. The unemployment rate fell from 11.2% at the beginning of 2006 to 9.8% in December, and the government budget deficit dropped to 2% of GDP in 2006, the first time since 2001 that the deficit was below the 3% upper limit set by EU rules. The German economy is now forecast to grow at the rate of 1.5% in 2007, an upward revision from the 1% forecast last month.

Former Soviet Union

Russian GDP accelerated in the fourth quarter while inflation reached 9% in 2006

Russia maintained its strong growth for 2006, continuing at broadly the same rate as in 2005, according to official forecasts. The very rapid growth expected for the fourth quarter may bring annual GDP increase to over 7% after registering 5.5%, 7.4% and 6.5% in the first, second and third quarters of 2006. The Russian Statistical Services stated last December that CPI figures showed that inflation in Russia rose by 9%. The rise came mainly from food goods reflecting higher demand, but slowed in the regulated services sector. Exports declined as oil prices fell in October by 12.2% whereas imports soared by 36%. Surging aggregate demand combined with strong rouble will continue to boost imports and the monthly trade surplus is expected to be trimmed further.

Developing Countries

China’s economy expected to grow 10.4% in 2006

China’s economy probably grew by 10.4% in 2006. The Chinese economy benefited from macro controls that helped produce a more-efficient industrial structure, according to the National Development and Reform Commission. Preliminary figure shows the economy remained strong but grew at a slower pace towards the end of 2006 than earlier in the year when growth topped 11% on an annual rate. The 10.4% figure is also less than the 10.7% increase in GDP experienced during the first nine months of 2006, but faster than the 9.9% growth rate for the corresponding period in 2005. Government measures were effective in phasing out energy-consuming sectors, bolstering high-tech industries and the service sector, and moderating oversupply.

The consensus for China in 2007 among leading analysts is for a slight slowing in economic growth. China is likely to continue to be the fastest-growing major economy in the world this year. Most forecasts indicate that inflation is expected to remain benign. Investment spending should rise as administrative controls are gradually lifted. Both the yuan and the trade surplus are expected to appreciate.

India’s current account deficit is unlikely to affect growth

The current account deficit (CAD) in India does not seem to threaten its economic growth, the Economic Advisory Council of the Prime Minister concluded in a recent study. The Council had put out a CAD projection of 3% of GDP last year especially considering the inflated oil imports bill. In contrast, the latest estimates expect the CAD for fiscal 2006-07 to be only half of that, a marginal increase from the actual figure of 1.2% in 2005-06. Moreover, capital account flows are rising faster than earlier expected, from 2.9% of GDP last year to 3.9% in 2007.

Brazil’s strong currency encouraged imports and slowed growth

This month, the Institute of Applied Economic Research, an agency of Brazil’s Planning Ministry, lowered its forecast for 2006 economic growth to 2.8% from a previous estimate of 3.3% as a stronger currency depressed exporters profits and slowed industrial output as cheaper imports became more competitive. The growth forecast for 2007 was unchanged at 3.5%. The Brazilian real’s rally against the dollar has helped fuel this year’s 25% surge in imports, discouraging companies from investing to expand domestic output.

OPEC Member Countries

Substantial reduction in Saudi's public debt in 2006

The government of Saudi Arabia is expecting to clear public debt in two years. In 2006 the government transferred 105 billion Saudi Ryales (28 billion US dollar) to pay public debt in order to reduce it to 28% of expected GDP in 2006 compared to 40% at the end of 2005, and 87% in 2003. The capital market has lost more ground in the first two weeks of the current month. New procedures implemented last year are expected to improve the performance of the Saudi capital markets. Those aim to enforce proper standards of disclosure and corporate responsibility on a bourse.

According to leading international bank Kuwait budget surplus is expected to reach more than 35% of GDP. Economies of the Gulf are expected to grow in 2007 though at a slower rate as oil prices fall from last year's record levels.

Oil prices, the US dollar and inflation

Dollar loses further ground against major currencies

The dollar continued its downward trend in December falling across the board against all other major currencies, most pronouncedly against the pound sterling. The US currency continued to suffer from lingering worries about the US economy, as well as from the narrowing interest rate differential with respect to the euro. In addition, the dollar may have been weighed down by the declared intension of several central banks to diversify their reserves holdings, implying lower exposure to the US currency. The yen weakened slightly versus the dollar but more against the euro. Continued low yields are seen to pressure the yen further, and the Japanese currency is expected to remain an attractive funding vehicle for global carry trade, despite expectations of a rate rise. In December, the dollar fell by 2.6% against the euro, 2.8% against the British pound, almost 2.4% against the Swiss franc and 0.2% versus the yen.

In December the OPEC Reference Basket rose 4.56% to $57.95 from $55.42/b in November. In real terms (base July 1990=100), after accounting for inflation and currency fluctuations, the Basket price rose over $1/b or 2.8% to $38.70/b from $37.65/b. The value of the dollar fell 1.65% 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.*

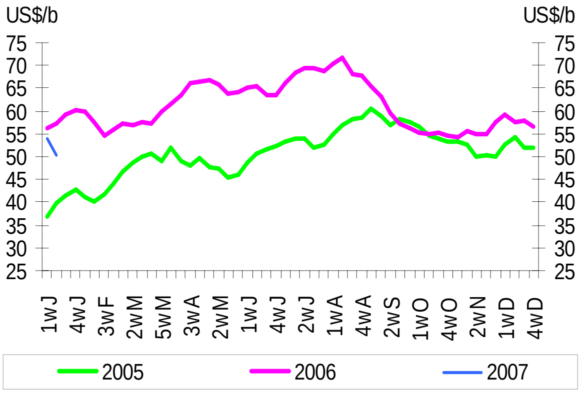
Crude Oil Price Movements

Expectations of a normal winter supported prices in the first part of the month before warm weather turned prices downward

OPEC Reference Basket

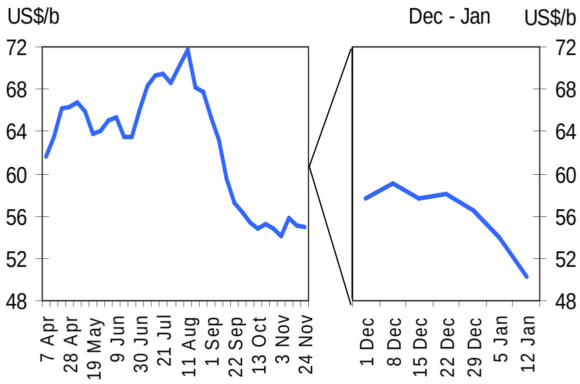
The market began December on a stronger note on the expectation of normal winter demand and the prospect of a second output cut by OPEC. The Basket followed up a price surge of nearly 5% in the last week of November with a further gain of 2.6% in the first week of December to reach $59.06/b, the highest level since mid-September. Although weak European refining margins brought some softness to the marketplace, tight North Sea supply sustained the bullishness. In the second week of the month, the Basket eased by a similar amount on lower demand for winter fuels as forecasters predicted warmer weather in the Northern Hemisphere. Uncertainty over an oil supply cut by OPEC in the Abuja Meeting of the Conference lent support to price easement and the Basket lost $1.47 or 2.6% for the week to close at $57.59/b. Nevertheless, OPEC's announcement of a second cut for February poised the downward movement amid the planned starting of the new Buzzard oilfield in the North Sea and the prolonged outlook for warm weather. In the third week of the month, the Basket's average inched up a marginal 42¢ or less than 1% to close at $58.01/b.

Graph 1: OPEC Reference Basket - weekly spot crude



In the final week of the year, the Basket resumed the downward movement losing $1.51 or 2.6% to settle at $56.50/b. Mild weather in the western hemisphere continued to exert downward pressure on petroleum prices, along with the erosion of the fear premium and the lack of bullish factors amid plentiful petroleum supplies. In the first two weeks of the current year, the Basket plunged further, dropping $8.05 or some 14% to close the third week at $47.92/b, the lowest level since November 2005.

Graph 2: Weekly average Basket price, 2006-2007



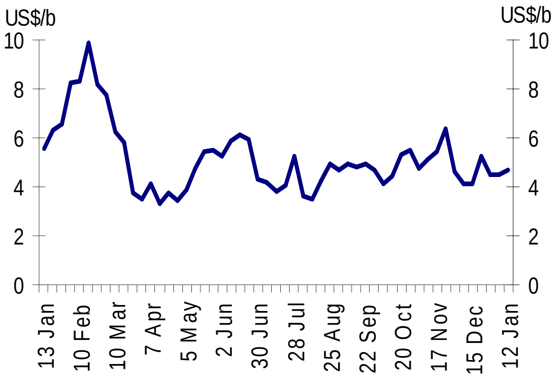
In monthly terms, the OPEC Reference Basket averaged $2.53 or 4.6% higher at $57.95/b, the highest level in three months. The second output cut in OPEC crude amid tight North Sea supply maintained the bullish market sentiment. Yet, the mild winter prevented prices from rallying further and prompted the potential for ample supplies in the marketplace. However, with the start of the New Year, the Basket has experienced sharp losses, dropped more than 14% to stand at $48.23/b on 18 January.

The closure of the US Gulf Channel due to fog tightened supply and helped the sweet/sour spread to narrow amid limited arbitrage barrels of European crude

US market

The US domestic market also began the month on a stronger note as refineries returned from seasonal turnaround and began stockpiling of light-end products for winter demand. Thus, in the first week of the month the average WTI/WTS spread narrowed from the previous month's highs of well above $6/b to drop to $4.11/b. In the second week, tight supply of light sweet crude from the North Sea was poised by tight output from Canada's synthetic crude. Hence, the weekly WTI/WTS average was a marginal 4¢ wider at $4.15/b. In the third week, fog disrupted tanker traffic on the US Gulf Coast inspiring concerns about a supply shortfall. The WTI/WTS spread widened by $1.10 to $5.25/b, the highest level in four weeks. Low activities in the final week of the year amid the holiday season combined with some buyers extracting liquidity from the market pushed the WTI/WTS spread to narrow by 75¢ to $4.50/b. The monthly average for WTI was $3.02 or over 5% higher with the premium to WTS averaging $4.49/b, which was 86¢ narrower than the previous month.

Graph 3: WTI spread to WTS, 2006-2007

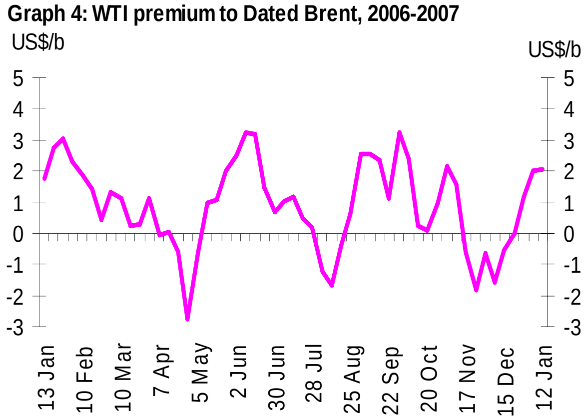


Weak European refining margins offset tight supply from the North Sea

North Sea market

North Sea crude firmed early in the month on bullish sentiment for winter fuels. However, the sentiment was short-lived amid weak refining margins while some December barrels were still available forcing sellers to reduce differential offers. However, later in the first week of the month, a decline in Brent supply to 139,000 b/d from 268,000 b/d contributed to the weak market sentiment. However, persistent poor refining margins in the second week kept a cap on differential strength amid the new Buzzard oilfield boosting Forties supply. While the lower quality of the newer grade was expected to weaken Forties crude values, differentials were softening as refiners reduced runs amid soaring freight rates. The market bearishness continued into the last week of the month amid warm weather, while poor margins kept buying interest to a minimum into the final days of the year. Brent's monthly average was $3.41 or nearly 6% higher to settle at $62.33/b.

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



Sustained poor refining margins amid tight light sweet crude supply from the North Sea kept the Urals discount to Brent wider

Mediterranean market

Urals crude came under pressure in the Mediterranean as well as in northern Europe on weak refining margins in the first week of the month. Thus, refiners reduced run rates. The Urals discount to Brent widened 27¢ to stand at $4.73, pressured by the lower sour Mideast crude; however, improved crack spread lent support to the grade. In the second week, the prospect of higher demand for December barrels amid disruptions to shipping through the Turkish Strait supported the sour crude market. OPEC's decision to cut output also lent support whereas Brent/Urals weekly average spread narrowed 59¢ to 4.14/b. Tight supply from the North Sea pressured the discount for sour grades to deepen further amid weakening refining margins prompting some refiners to run at minimum throughput. Hence, Urals was again valued at an average of $4.77/b under Brent in the third week. In the last week of December, with the market digesting OPEC's second cut and delays due to shipping disruptions, conditions for Urals crude improved. In the last week, the Brent/Urals average was $1.20 firmer at $3.57/b. In monthly terms, Urals outright price averaged $57.95/b for a gain of $2 or 3.5 with the spread under Brent expanding $1.41 to $4.38/b, the widest since August.

Tighter OPEC output balanced weak refining margins in the east

Middle Eastern market

Mideast crude was under pressure as Oman ORC shut its refinery in January for three months amid capacity expansion leaving additional barrels on the market. January Oman was valued at a 10¢ discount to MOG with weak Asian refining margins adding to the bearishness. The forecast for cold weather in Japan lent some support to the market. Abu Dhabi's Murban was valued at a 15-20¢/b premium to ADNOC's OSP, while the Brent/Dubai spread narrowed to $3.83/b. In the second week, the prospect of lower OPEC output amid emerging winter demand revived some bullishness in the Asian market. February Oman was assessed at a 10-13¢/b discount to MOG amid an improving fuel oil crack spread. Abu Dhabi's Murban was firming at a 20-30¢/b premium to ADNOC's OSP. Thus, the Brent/Dubai spread widened to $4.26/b. In the third week, February Oman for the first time since August was assessed at a premium, amid OPEC's output cut with February Murban assessed at the highest level in 14 months at a premium of around 50¢ to OSP. The Bent/Dubai spread narrowed to $3.80/b. The firm sentiment continued in the final days of the year in anticipation on tight OPEC supply in February. The Brent/Dubai spread narrowed further to $2.16/b in the fourth week. Nonetheless, the monthly average of the Brent/Dubai spread widened $1.44 to $3.64/b.

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

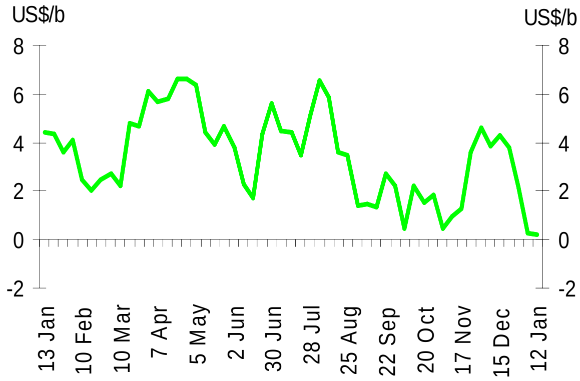


Table 1: OPEC Reference Basket and selected crudes, US$/b

			Change	Year	
	Nov 06	Dec 06	Dec/Nov	2005	2006
OPEC Reference Basket	**55.42**	**57.95**	2.53	**50.64**	**61.08**
Arab Light	55.53	57.70	2.18	50.21	61.10
Basrah Light	52.31	55.23	2.92	48.33	57.97
BCF-17	46.86	48.56	1.70	40.53	52.01
Bonny Light	60.32	64.28	3.96	55.67	66.84
Es Sider	57.32	60.73	3.41	52.62	63.35
Iran Heavy	53.97	55.75	1.78	47.99	59.27
Kuwait Export	53.56	55.69	2.13	48.66	58.88
Marine	57.33	59.25	1.92	50.49	62.64
Minas	56.93	62.55	5.61	54.01	65.23
Murban	60.94	63.12	2.18	54.09	66.07
Saharan Blend	59.77	63.55	3.79	54.64	66.05
Other Crudes					
Dubai	56.72	58.69	1.97	49.36	61.54
Isthmus	53.34	56.82	3.48	50.35	59.87
T.J. Light	51.63	54.89	3.26	46.37	55.07
Brent	58.92	62.33	3.41	54.44	65.16
W Texas Intermediate	58.94	61.96	3.02	56.51	66.04
Differentials					
WTI/Brent	0.02	-0.37	-0.39	2.08	0.88
Brent/Dubai	2.20	3.64	1.44	5.08	6.16

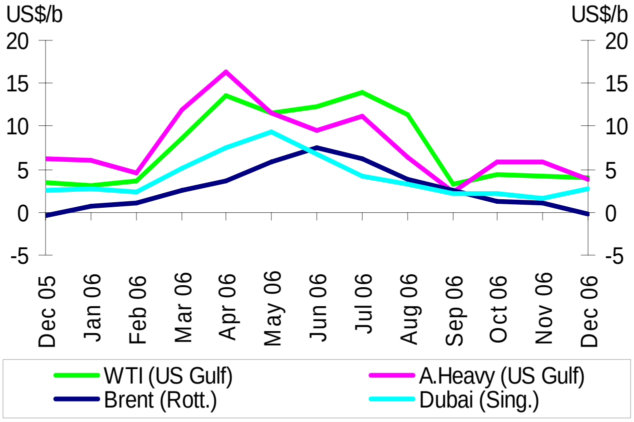
Source: Platt's, Direct Communication and Secretariat's assessments.

Product Markets and Refinery Operations

Contra-seasonal product stock-builds fuelled the bearish market sentiment in December

Unseasonably warm weather across the board adversely affected seasonal product demand and exerted further downward pressure on product prices and refinery margins in various markets. With the continuation of unusually warm weather, the current crack spread for distillates — which usually leads the market in the winter — may narrow further in the next months and continue to exert pressure on the persistently weak refinery margins.

Graph 6: Refiners' margins

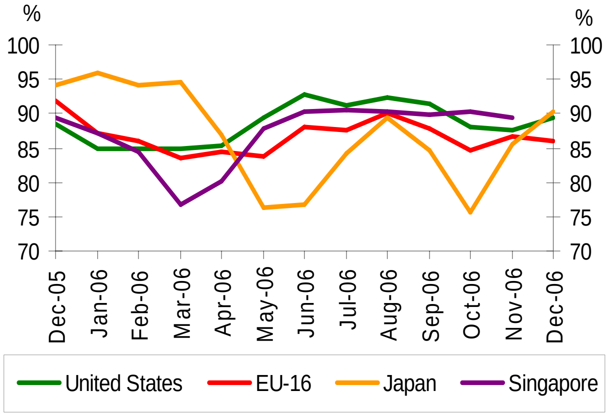


As **Graph 6** shows, the refinery margin for benchmark WTI crude fell by 25¢ to $3.95/b in December from $4.20/b in November. Refinery margins in Europe also dropped sharply to minus 21¢ from $1.14/b in the previous month. In Asia, refinery margins improved slightly and rose to $2.67/b from $1.57/b in November. **A cold spell over the next few weeks may provide some support for product prices and refinery margins, but contra-seasonal product stock-builds over the last few weeks have undermined any bullishness in product markets, with heating oil almost losing its traditional role of market leader during the first quarter of the year. The present situation of the product market is not likely to be able to lift crude oil prices in the near future.**

Refinery utilization increased in the USA and Asia

Typically the refinery utilization rate surges to the maximum level in December and January, but this year mild weather and low margins have negatively affected refinery throughputs across the globe, and most refineries have curbed their throughput levels compared to the traditional level in December of each year. In December, the US refinery utilization rate rose to 89.4% from 87.6% in the previous month, whereas under normal circumstances the US refinery throughput level used to exceed 95% of its nominal capacity in the latter part of the year. **In Europe, low refinery margins have led to the trimming of refinery operation levels and the refinery utilization rate fell to 86% from 86.7% in the previous month. In Asia, Japanese refineries, which usually increase their throughput level to nearly 93% in the latter part of the year, in December hardly recorded 90% (*see Graph 7*). Looking ahead, amid the warm winter and low refinery margins, the utilization rate is not expected to rise over the next two months.**

Graph 7: Refinery utilization



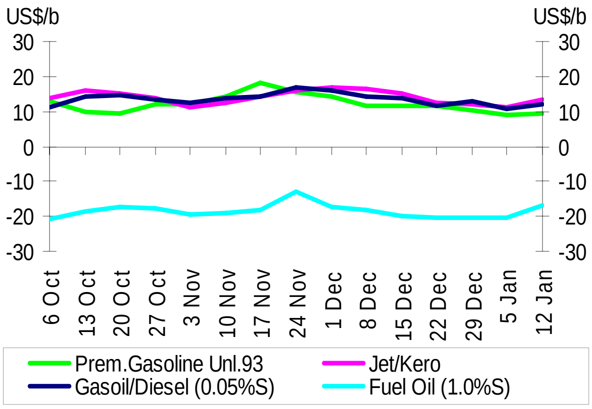
US market

Exceptionally mild weather has dampened seasonal heating oil demand, triggering a new downward trend in the market

When a product stock-draw occurred at the beginning of December, many analysts expected the product market sentiment to improve and heating oil to take the leadership of the market and provide support for crude prices. Instead, the unusually warm weather led to contra-seasonal product stock-builds and further deteriorated the crack spreads of different product components versus the benchmark WTI crude oil in the US market.

In line with these developments, the premium gasoline spread against WTI fell to $10.16/b in the last week of December from $15.69/b in the same period of November. Due to falling gasoline demand in January and higher European imports, the US gasoline market may lose further ground over the next few weeks (*see Graph 8*). **The recent distillate stock-build in the USA has also weakened the bearish sentiment of the futures and physical markets further and resulted in technical sell-offs across the board, especially in the Nymex market. Such a technical sell-off in the product market has eroded the crack spreads of different cuts of distillate components, especially of gasoil against benchmark WTI crude, which slipped to $12.85/b at the end of December from $16.95/b in the latter part of the previous month. A potential cold snap over the next few weeks may provide support for the distillate prices and the spread.**

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



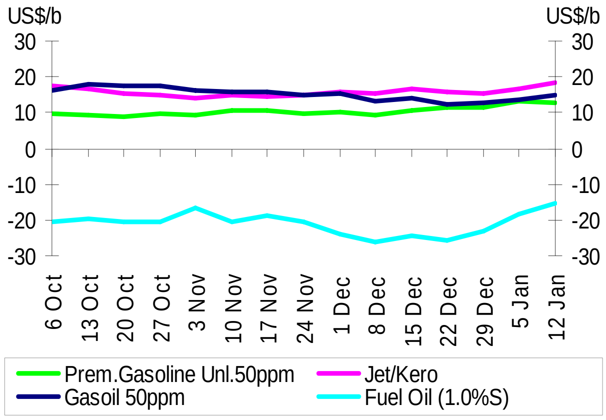
The bottom of the barrel complex was also negatively affected by the mild weather and slack utility demand. Additionally, high stocks and low prices of natural gas have also weighed on low-sulphur fuel oil demand and prices, and given these circumstances the currently weak US fuel oil market is not expected to change positively over the next few weeks.

European market

Mild weather continued to undermine the European market

Unseasonably warm weather has adversely affected European futures and physical product markets and resulted in negative refinery margins for benchmark Brent crude oil in the Rotterdam market. Such developments in refinery economics have surprisingly forced European refiners to reduce their throughput level in December, and there is a risk that it might be trimmed further in January.

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



Among the light components of the barrel, the diesel portion continued to be undermined relative to other light products. As Graph 9 indicates, the gasoil crack spread plummeted from above $15/b in November to around $12.50/b in December. The continuation of the current mild weather may exert more downward pressure.

The gasoline market in Europe was relatively stable in December, and even its crack spread versus the corresponding benchmark crude in the Rotterdam market improved by about $1.5/b to reach around $11.30/b from nearly $9.80/b in late November. Due to narrowing arbitrage opportunities to the USA, the European gasoline market may lose ground over the next weeks.

The persisting mild weather has also negatively affected the fuel oil market and led to high stocks in December. Many traders are looking for proper outlets to dispose of both low-sulphur and high-sulphur fuel oil, but due to the absence of the arbitrage opportunity, the European fuel market is expected to remain under pressure.

Asian market

The Asian market performed slightly better than the European market in December

Lower Chinese and Singaporean gasoline exports, along with Australia's higher seasonal demand, have given support to the Asian gasoline market and boosted its crack spread against benchmark Dubai crude oil to above $8.30/b from $4.80/b in November. With new refinery capacity in India and China, the current strength of the Asian gasoline market may ease in the next few weeks. Apart from gasoline, the Asian naphtha market was also strong in December, as the switch to naphtha fuel by Indian utility plants due to a domestic gas shortage has given support to naphtha prices.

With regard to distillates, the mild weather has kept the gasoil crack spread relatively weak, dropping to $15.30/b in late December from above $16/b earlier in the month. However, a cold spell along with the booming Chinese aviation sector could lift distillate prices, although due to high kerosene stocks in Japan, it is not expected that distillates will take its traditional leading role over the next months.

As far as the fuel oil market is concerned, sluggish regional demand and higher Russian exports of fuel oil to China have put more pressure on fuel oil prices in the earlier part of last month, as the crack spread against benchmark Dubai crude oil slid to minus $18.28/b on 8 December (*see Graph 10*). However, over the last two weeks, lower exports from South Korea due to a potential natural gas shortage and relatively higher Chinese demand have changed the Asian fuel oil market sentiment and lifted prices in the physical and the swap markets. In the second week of January, the high-sulphur fuel oil crack spread in Singapore versus Dubai crude narrowed to around minus $8.30/b from above $18.b in early December. With the arrival of arbitrage cargoes from the west, Asian fuel oil may lose its recent strength in the next weeks.

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

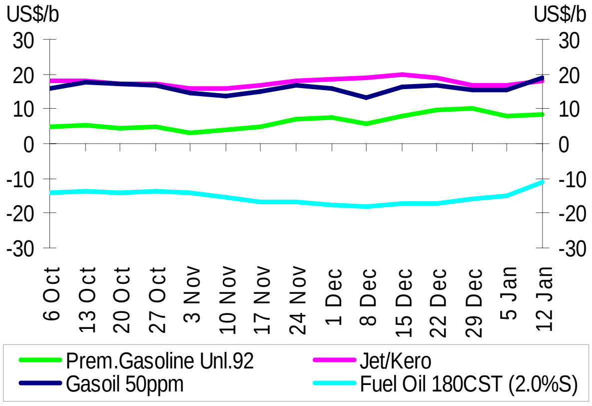


Table 2: Refined product prices, US$/b

		Oct 06	Nov 06	Dec 06	Change Dec/Nov
US Gulf (Cargoes):					
Naphtha		62.99	64.12	65.65	1.53
Premium gasoline	*(unleaded 93)*	69.94	74.03	73.50	-0.53
Regular gasoline	*(unleaded 87)*	63.59	65.84	67.33	1.49
Jet/Kerosene		73.18	73.23	76.27	3.04
Gasoil	*(0.05% S)*	72.16	73.74	75.16	1.42
Fuel oil	*(1.0% S)*	40.76	44.56	42.33	-2.23
Fuel oil	*(3.0% S)*	40.26	39.60	39.43	-0.17
Rotterdam (Barges FoB):					
Naphtha		66.51	67.4	71.49	4.09
Premium gasoline	*(unleaded 50 ppm)*	67.12	69.11	72.94	3.83
Premium gasoline	*(unleaded 95)*	59.92	61.52	64.93	3.41
Jet/Kerosene		73.68	73.81	78.27	4.46
Gasoil/Diesel	*(50 ppm)*	74.92	74.53	75.6	1.07
Fuel oil	*(1.0% S)*	37.91	38.69	37.32	-1.37
Fuel oil	*(3.5% S)*	39.25	38.7	37.82	-0.88
Mediterranean (Cargoes):					
Naphtha		55.46	56.16	59.44	3.28
Premium gasoline	*(50 ppm)*	67.91	70.33	73.54	3.21
Jet/Kerosene		72.53	72.33	76.44	4.11
Gasoil/Diesel	*(50 ppm)*	73.68	74.31	75.64	1.33
Fuel oil	*(1.0% S)*	38.41	38.29	38.42	0.13
Fuel oil	*(3.5% S)*	37.96	37.49	37.37	-0.12
Singapore (Cargoes):					
Naphtha		56.03	57.66	60.54	2.88
Premium gasoline	*(unleaded 95)*	61.83	62.89	68.16	5.27
Regular gasoline	*(unleaded 92)*	61.21	62.14	67.03	4.89
Jet/Kerosene		74.02	73.63	77.42	3.79
Gasoil/Diesel	*(50 ppm)*	73.12	72.04	74.14	2.10
Fuel oil	*(180 cst 2.0% S)*	42.46	40.53	41.47	0.94
Fuel oil	*(380 cst 3.5% S)*	42.40	39.84	40.34	0.50

Table 3: Refinery operations in selected OECD countries

	Refinery throughput *mb/d*				Refinery utilization *%*			
	Oct 06	Nov 06	Dec 06	Dec/Nov	Oct 06	Nov 06	Dec 06	Dec/Nov
USA	15.09	15.00	15.31	0.31	88.1	87.6	89.4	1.80
France	1.67	1.76	1.73	-0.03	84.5	89.1	87.4	-1.70
Germany	2.14	2.36	2.23	-0.13	88.3	97.2	91.6	-5.60
Italy	1.84	1.90	1.86	-0.04	79.0	81.7	80.0	-1.70
UK	1.53	1.62 R	1.59	-0.03	81.6 R	86.2 R	84.7	-1.50
Eur-16	11.97 R	12.25 R	12.15	-0.10	84.7 R	86.7 R	86.0	-0.70
Japan	3.54	4.00	4.22	0.22	75.7	85.6	90.3	4.70

R *Revised since last issue.*

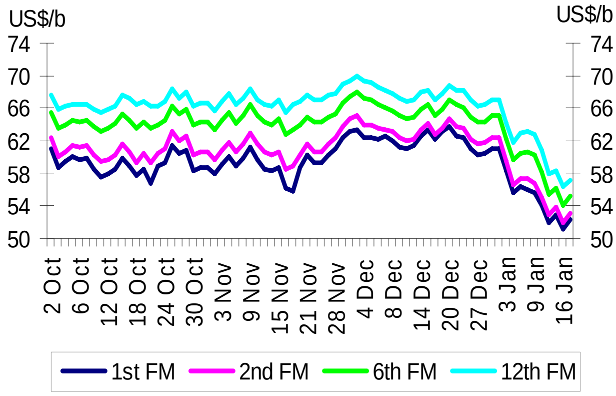
Sources: *OPEC statistics; Argus; Euroilstock Inventory Report; IEA.*

The Oil Futures Market

Technical buying and lower OPEC output offset the outlook for warm weather

The oil futures market saw bullish momentum early in the month; however, this was short-lived. According to the CFTC report, non-commercials increased net long positions by 7,200 contracts to 19,000 as short positions fell sharply and at a faster pace than longs. Nonetheless, open interest rose a considerable 46,200 to stand at 1,219,000 lots with most of the increase coming from the shorts on the commercials side. Including options, open interest contracts rose by a hefty 50,300 lots nearing towards the 2 million mark at 1,938,000 lots. Over the same weekly period, concern over the expected onset of winter weather and a possible additional OPEC output cut amid falling gasoline and heating oil stocks in the USA boosted prices. In the first weekly period, the Nymex WTI closed at $62.43/b to average $62.78/b representing a rise of $2.6 or well over 4% from the previous week.

Graph 11: Nymex WTI futures prices, 2006-2007

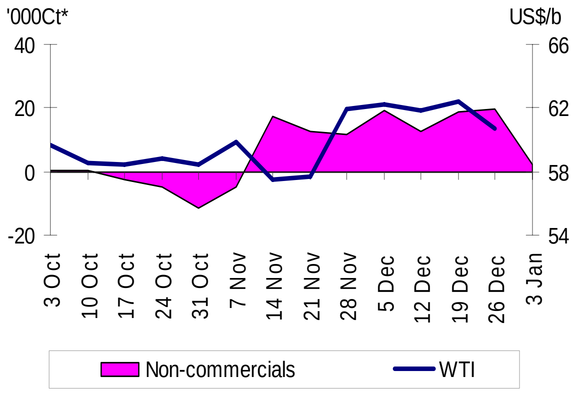


FM = future month

In the second weekly period, Nymex WTI closed at $61.02/b to average $61.79/b moving lower on expectations over OPEC output as well as persistent mild weather and profit-taking. Non-commercials reduced long exposure while increasing short positions significantly. Hence, the net long positions fell nearly 6,500 contracts to 12,500 while open interest inched up a marginal 3,800 lots to 1,223,000. With options included, open interest was up by 14,400 to 1,952,000 lots, the highest level in five-weeks.

In the third weekly period, a series of bullish factors including the closure of the US Gulf Coast ship channel due to fog, as well as the announcement of a second output cut by OPEC, resulted in Nymex WTI registering a gain closing at $63.46/b to average $62.60/b for the week. Over the same week, non-commercials sharply reduced short positions at a higher rate than longs resulting in a net change of 6,400, boosting net long to 18,900 lots. Moreover, open interest was deflated a considerable 60,600 lots to 1,162,000 mostly due to reduced commercial positions. With options included, open interest saw a further fall dropping 126,000 lots to close at 1,826,000.

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.

In the final weekly period, the CFTC report revealed that non-commercials increased long positions at a slightly faster rate than shorts. Hence, net longs saw a marginal gain of 1,000 to stand at 19,900 contracts. Furthermore, open interest was inflated by a significant 18,000 lots to 1,180,000. With options included, open interest rose by 41,000 to 1,887,000 contracts with commercials contributing most of the increase. Nonetheless, the Nymex WTI closed lower at $61.10/b with the weekly average falling to $62.47/b.

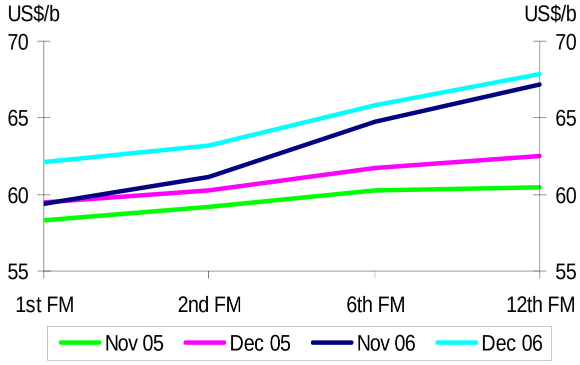
In monthly terms, front-month Nymex WTI averaged $61.99/b in December or 4.4% higher than the previous month. The CFTC revealed that the weekly average for net positions was 17,500 or 8,300 lots wider. Open interest averaged at the highest level ever at 1,196,000 lots representing a rise of 355,000 y-o-y. Open interest averaged 1,064,000 lots in 2006, representing a gain of 247,000 lots over the average of the previous year. Net positions averaged nearly 27,000 lots long, while Nymex WTI closed the year with an average of $66.25/b or almost 17% higher. With options included, open interest in 2006 averaged 1,740,000 or 396,000 lots over the previous year while net long positions stood at 64,900 or 8,800 lots wider.

The Forward Structure

The contango spread narrowed on falling US crude oil stocks, yet remained wider than the average of the previous year

The forward structure improved as US crude oil inventories declined in December. The contango spread was 43¢ firmer at $1.35/b for the 1st/2nd month. The structure improved in the farther forward months with the 1st/6th, 12th and 18th month spreads at $4.47, $6.51 and $7.12/b, a narrowing of 89¢, $1.24 and $1.55 respectively. The average for US weekly crude oil stocks stood at almost 329 mb or 9.2 mb lower than in November, yet was 7.4 mb above the same period last year. For the year, US crude oil stocks in 2006 averaged nearly 19 mb over 2005, at 335 mb. Hence, the contango was broader when compared to 2005 with the 1st/2nd month spread 50¢ wider at $1.22/b. The 1st/6th, 12th and 18th spreads were at $3.62, $4.69 and $4.60 amid an increased contango of $2.08, $3.91 and $4.82 respectively.

Graph 13: Nymex WTI forward curve



FM = future month

The Tanker Market

OPEC spot fixtures increased by 0.45 mb/d in December while OPEC sailings continued to decrease reaching a three-year low

After showing declines for the previous two months, OPEC spot fixture increased in December by 0.45 mb/d to average 12.0 mb/d, around 3.9% higher than the previous month. Spot fixtures from the Middle East experienced a total increase of 1.2 mb/d in December, with the eastbound share at around 0.7 mb/d and the westbound increase at 0.5 mb/d. Despite the increase in OPEC December spot fixtures, the 2006 average settled at around 13.0 mb/d, down 0.2 mb/d from 2005 and 1.0 mb/d lower than 2004. Compared to a year earlier, both Middle East/eastbound and westbound fixtures were higher by 1.2 mb/d and 0.4 mb/d, respectively. The share of Middle East spot fixtures in total spot fixtures remained stable at around 35% with eastbound at 26% and westbound at 9%.

OPEC sailings continued to move downward dropping a further 0.4 mb/d to reach 22.74 mb/d, the lowest level since December 2003 indicating a y-o-y decline of around 11%. Similarly, Middle East sailings fell by 1.12 mb/d to average 16.37 mb/d, another three-year low. High inventory levels coupled with weak demand triggered by relatively warm weather along with the OPEC cut were the main reasons for such low sailing figures. Preliminary data shows that arrivals at the US Gulf and East Coast and the Caribbean dropped to 9.1 mb/d in December — the lowest level since September 2005, right after hurricane Katrina — bringing the 2006 average to 9.57 mb/d, around 0.41 mb/d lower than the average of the previous year.

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

	Oct 06	Nov 06	Dec 06	Change Dec/Nov
Spot Chartering				
All areas	19.75	18.10	18.23	0.13
OPEC	12.52	11.56	12.01	0.45
Middle East/east	4.63	4.42	5.12	0.70
Middle East/west	1.61	1.20	1.70	0.50
Sailings				
OPEC	23.74	23.14	22.74	-0.40
Middle East	17.74	17.49	16.37	-1.12
Arrivals				
US Gulf Coast, US East Coast, Caribbean	9.17	9.40	9.10	-0.30
North West Europe	7.47	7.11	7.41	0.30
Euromed	4.74	4.86	4.50	-0.36

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

Crude spot freight rates rose on all routes except the Middle East and Indonesia

In December, spot freight rates showed a mixed pattern as most shipping routes rates picked up at various magnitudes except for the major shipping destinations from the Middle East. The VLCC market continued the steady decline while both the Suezmax and the Aframax markets gained with the later strengthening sharply. VLCCs trading on the Middle East/eastbound long-haul route fell 4 points to average WS68, the lowest rate since April 2006, bringing the yearly average to WS101, almost the same average as in 2005. Similarly, VLCC rates trading Middle East/westbound fell 9 points to average WS59, the lowest rate in 2006. The declines in VLCC spot freight rates in December for the Middle East/eastbound and westbound long-haul routes followed an unusual pattern in the fourth quarter with vessel earnings averaging WS72. This is basically contrary to the norm of the fourth quarter, which is usually one of the best months in terms of earnings for owners. When compared to a year earlier, the yearly average freight rate for VLCCs sailing from the Middle East in 2006 fell by around 47%. Ample VLCC availability coupled with weak demand for tonnage can be pointed out as the major contributors to the rates reached in December as well as the fourth quarter. December VLCC availability for loading in the next 30 days averaged around 80 vessels, almost 75% higher than in July. The reduction of oil in transit together with OPEC’s cut and the VLCC fleet growth are the main factors influencing VLCC availability.

In contrast to the VLCC market, the Suezmax market rebounded in December with an average increase of WS14 points on major routes in December. The increased activities in NW Europe and the Mediterranean created a tight market with vessel availability shrinking, boosting rates. The West Africa/US Gulf Coast route experienced an increase of WS13 points to average WS135 to close the year with freight rates averaging WS147, around WS10 points less than the previous year. The NW Europe/US East Coast and US Gulf Coast routes increased WS14 points to average WS125, indicating a y-o-y loss of more than WS100 points or 46%. The fourth-quarter average of spot freight rates on major routes for the Suezmax sector came to WS133, or around WS83 points lower than last year, which only added to the peculiarity of 2006, in terms of vessel earnings.

Table 5: Spot tanker freight rates, Worldscale

	Size *1,000 DWT*	Oct 06	Nov 06	Dec 06	Change Dec/Nov
Crude					
Middle East/east	230-280	85	72	68	-4
Middle East/west	270-285	77	68	59	-9
West Africa/US Gulf Coast	130-135	156	122	135	13
NW Europe/USEC - USGC	130-135	147	111	125	14
Indonesia/US West Coast	80-85	180	163	148	-15
Caribbean/US East Coast	50-55	240	215	247	32
Mediterranean/Mediterranean	80-85	199	112	222	110
Mediterranean/North-West Europe	80-85	194	110	224	114
Products					
Middle East/east	30-35	191	156	213	57
Singapore/east	30-35	221	168	291	123
Caribbean/US Gulf Coast	38-40	260	229	286	57
NW Europe/USEC - USGC	33-37	223	208	313	105
Mediterranean/Mediterranean	30-35	215	221	242	21
Mediterranean/North-West Europe	30-35	224	231	252	21

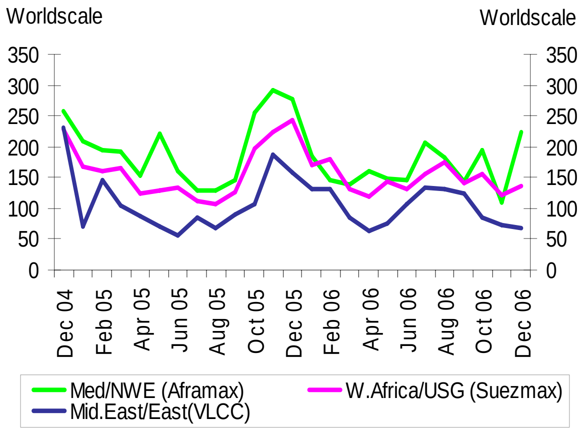
Source: Galbraith's Tanker Market Report and others.

The Aframax sector showed a mixed pattern with freight rates on the Indonesia/US West Coast route continuing their downward trend and decreasing for the third consecutive month to average WS148, the lowest level since May. On the other hand, market tightness helped freight rates for tonnage sailing from the Mediterranean to rebound sharply, reaching the top of the gainers' list in Decembers. Rates for intra-Mediterranean shipping routes rose by WS110 points to average WS222, an increase of around 100% from the previous month and around 63% less than in the previous year. Correspondingly, on the Mediterranean/North-West Europe route, freight rates soared by WS114 points to average WS224 indicating a y-o-y drop of 19%. The various delays in different parts of the world, mainly in the Bosporus Strait in Turkey, and the closure of some ports as a result of bad weather, prolonged voyages creating tightness in tonnage availability.

Clean market rates increased on all routes supported by increased activities and various delays

In the clean market, December was a long-awaited month for ship-owners with rebounds in freight rates after three consecutive months of declines. East of Suez routes led the rally with an increase of around 55% from the previous month. Freight rates for 30,000-35,000 dwt tankers moving from the Middle East and Singapore to the East gained 57 and 123 points reaching an average of WS213 and WS291 respectively, mainly due to lack of tonnage and charterers rushing to cover their positions prior to the holiday season. Additionally, the strong naphtha demand for both gasoline and petrochemical use lent further support to the activities. Similarly, West of Suez rates for moving clean products experienced increases with rates from NW Europe to transatlantic destinations receiving support from increased gasoline demand in the USA and Mexico. December rates for tankers moving clean products of 33,000-37,000 dwt size on the NW Europe/UE East Coast and US Gulf Coast routes averaged WS313, around WS105 points higher than the previous month. The delays in various locations also provided support to the clean market, the inter-Mediterranean routes experienced an increase of WS21 points to average WS242 and WS252 for Mediterranean and NW Europe destinations respectively.

Graph 14: Monthly averages of crude oil spot freight rates



World Oil Demand

World oil demand in 2006

The warm winter weather is once again denting demand for oil in its usual upward winter cycle. Although demand for transport fuel picked up, it was not enough to offset the decline in heating oil demand especially in the OECD countries. Furthermore, warm winter weather has alleviated the pressure on natural gas prices which in the end encouraged power plants to switch from fuel to gas. As a result, **world oil demand growth for 2006 was revised down by 0.1 mb/d to 0.8 mb/d or 1.0%.**

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	25.53	25.31	-0.20	-0.78
Western Europe	15.51	15.77	15.03	15.43	15.71	15.49	-0.02	-0.15
OECD Pacific	8.59	9.30	7.87	7.90	8.76	8.45	-0.14	-1.58
Total OECD	**49.61**	**50.19**	**47.99**	**48.82**	**50.00**	**49.25**	**-0.36**	**-0.72**
Other Asia	8.67	8.73	8.95	8.60	8.78	8.76	0.09	1.08
Latin America	5.06	4.99	5.15	5.31	5.22	5.17	0.10	2.06
Middle East	5.82	6.04	6.12	6.32	6.14	6.16	0.34	5.85
Africa	2.89	2.96	2.95	2.91	2.98	2.95	0.06	2.13
Total DCs	**22.44**	**22.72**	**23.17**	**23.14**	**23.12**	**23.04**	**0.60**	**2.67**
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	2.34
China	6.54	7.09	7.34	7.21	6.99	7.16	0.62	9.44
Total "Other Regions"	**11.24**	**11.75**	**11.80**	**11.92**	**11.90**	**11.84**	**0.60**	**5.33**
Total world	**83.29**	**84.66**	**82.96**	**83.87**	**85.03**	**84.13**	**0.84**	**1.01**
Previous estimate	83.28	84.66	82.96	83.86	85.60	84.27	0.99	1.18
Revision	0.01	0.00	0.01	0.01	-0.57	-0.14	-0.15	-0.18

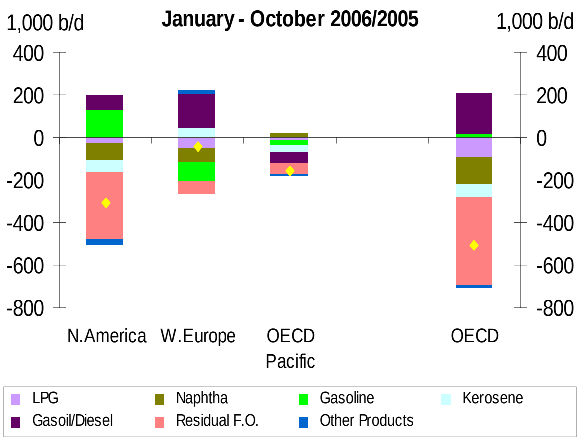
Totals may not add due to independent rounding.

Estimated regional oil demand, year-to-date

OECD

The warm December hurt oil demand in North America and was unable to maintain its usual upward winter cycle. According to the EIA weekly, US oil demand declined by 0.6 mb/d or 2.7% in December y-o-y. The main decline of 43% occurred in fuel oil consumption. As a result of the late winter, **fourth-quarter oil demand growth in North America was revised down by 0.5 mb/d y-o-y to register only 50,000 b/d.** Oil demand changes in the USA in 2006 were in the red showing y-o-y decline of 0.2 mb/d or 0.8%. Motor gasoline, which in a normal year grows by 1.6%. However, in 2006 growth was only 0.9% or 81,000 b/d.

Graph 15: OECD - Growth of total requirements by component



OECD Europe

Europe experienced the same warm winter effect. The mild weather and to some extent the high oil prices pushed down Germany's oil imports in 2006 by 1.4% in comparison to the previous year. Furthermore, the high utilization of nuclear power plants along with fuel switching affected oil demand negatively in Europe. As a result, OECD Europe's oil demand in the fourth quarter is not following normal upward cycle growth, but rather is estimated to show a minor increase of 20,000 b/d y-o-y to average 15.7 mb/d.

OECD Pacific

As was the case in North America, OECD Pacific is not immune against the decline in oil demand caused by the warm winter. Again, fuel switching among power plants and low transport fuel demand are the main reason behind the sluggish demand in this region. Furthermore, high utilization of Japanese nuclear power plants has further reduced the consumption of fuel oil. Japan recent data showed that November y-o-y total product sale is down by 1.5%. Motor gasoline and kerosene showed major decline in November by 2.5% and 4.1% from November 2005. **The OECD Pacific fourth quarter y-o-y oil demand is estimated to be down by 0.03 mb/d.** In total, **the OECD countries' y-o-y fourth-quarter oil demand growth was revised down by 0.6 mb/d to show a minor growth of 0.04 mb/d**.

Table 7: Japanese Domestic Sales, kb/d

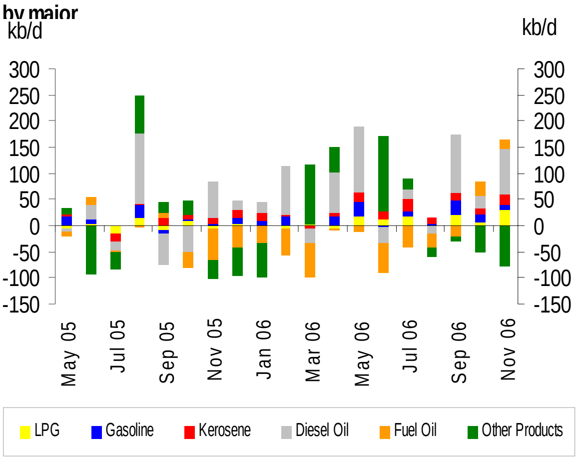
	Nov 06	Change from Nov 05	Change from Nov 05, %
Gasoline	1,019	-26	-2.5
Naphtha	923	50	5.7
Jet Fuel	108	40	58.1
Kerosene	506	-22	-4.1
Gas Oil	671	17	2.6
Other Products	799	-120	-13.1
Total Products	**4,025**	**-61**	**-1.5**

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

Developing Countries

The low natural gas price, caused by warm weather world-wide, made gas a more economical fuel than fuel oil for power plants in Taiwan as well. As a result of low demand for fuel oil and weak transport fuel consumption, Taiwan's November oil product consumption was down by almost 7% y-o-y. In contrast, high demand for diesel and kerosene supported oil demand growth in India, which increased 3.5% y-o-y to average 2.5 mb/d, twice as much as October demand. India's 2006 oil demand growth reached 2.4% y-o-y to average 2.6 mb/d.

Graph 16: Changes in Indian product demand by major



Strong oil demand growth in the Middle Eastern countries came in as expected. **Oil demand growth in the fourth quarter in the Middle East is estimated at 0.3 mb/d y-o-y to average 6.1 mb/d.** For total Developing Countries, the fourth quarter turned out as expected, growing by 0.7 mb/d y-o-y to average 23.0 mb/d.

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

	Nov 06	Oct 06	Jan-Nov 06	Difference to Jan - Nov 05	%
LPG	358	338	330	9	2.8
Motor Gasoline	197	209	209	11	5.7
Jet Kero	299	282	282	13	4.9
Gas Diesel Oil	943	843	900	44	5.1
Residual Fuel Oil	321	367	328	-25	-7.0
Other Products	414	418	552	9	1.7
Total Oil Demand	**2,532**	**2,457**	**2,600**	**62**	**2.4**

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

Other Regions

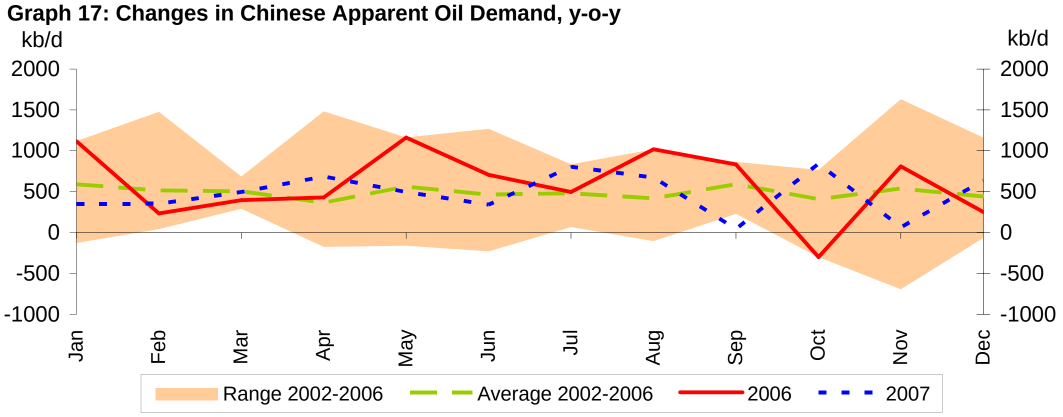
In an effort to take advantage of a recent tax cut, Chinese refiners imported 146,000 tonnes of diesel in November. Diesel imports grew by 16% y-o-y in the first eleven months of last year, while crude oil imports jumped by 40% y-o-y to reach 3.2 mb/d. After the end of the summer season, the demand for electricity eased; hence Chinese fuel oil demand showed a decline. New auto sales exceeded 6.45 million units in 2006 a y-o-y increase of 25%. According to recent data, China's apparent demand for petroleum products for November grew by the same strong rate as in the first ten months of last year. The main growth came from gasoil and gasoline. **China's y-o-y fourth-quarter oil demand growth is not expected to be as extreme as the third quarter, growing by 0.35 mb/d to average 7.0 mb/d.** Major improvements in the power generation sector played an important role in reducing the demand for diesel as the country saw a 14% increase in electricity generation capacity. It should be noted that preliminary data suggests that apparent demand in December was lower than expected, which may be reflected next month.

Table 9: Chinese apparent oil demand, kb/d

		Nov 06	Oct 06	Jan - Nov 06	Difference to Jan - Nov 05	%
Net Imports	Crude	3,220	2,363	2,809	419	17.5
	Products	451	555	676	187	38.3
Production		3,672	3,650	3,681	104	2.9
Apparent Demand		**7,343**	**6,568**	**7,167**	**710**	**11.0**

Sources: China Oil, Gas and Petrochemical, Argus Fundamentals, China Petroleum Data Monthly, OPEC Secretariat's estimates.

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



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

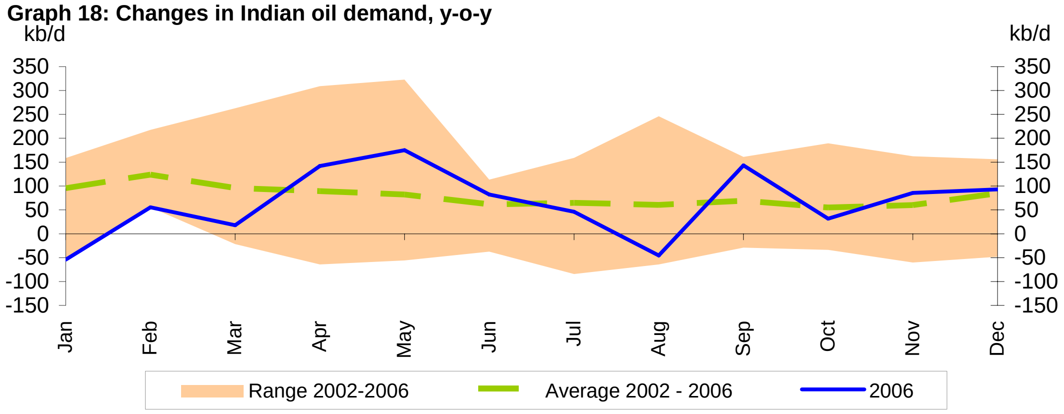


Table 10: First and second quarter world oil demand comparison for 2006, mb/d

	1Q05	1Q06	Change 2006/05 Volume	Change 2006/05 %	2Q05	2Q06	Change 2006/05 Volume	Change 2006/05 %
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
Total OECD	**50.68**	**50.19**	**-0.49**	**-0.96**	**48.56**	**47.99**	**-0.56**	**-1.16**
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
Total DCs	**22.15**	**22.72**	**0.57**	**2.57**	**22.57**	**23.17**	**0.60**	**2.66**
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
Total "Other Regions"	**11.32**	**11.75**	**0.43**	**3.77**	**11.15**	**11.80**	**0.65**	**5.81**
Total world	**84.15**	**84.66**	**0.51**	**0.60**	**82.28**	**82.96**	**0.69**	**0.84**

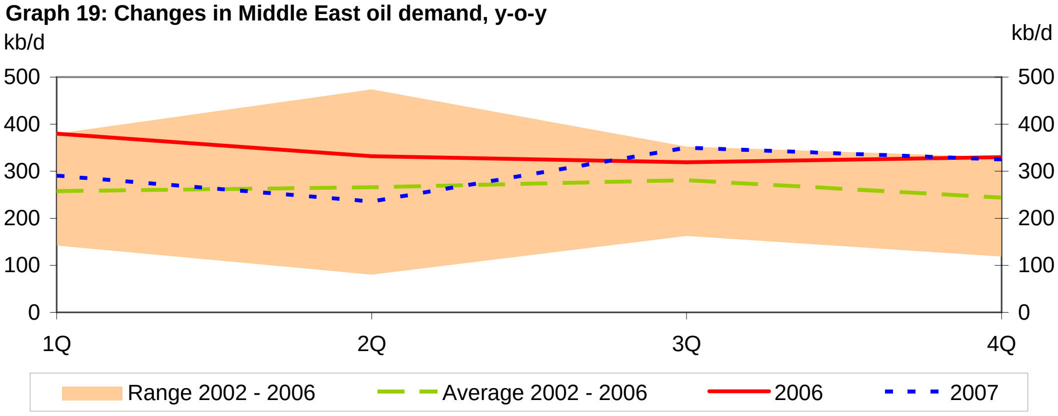
Totals may not add due to independent rounding.

Table 11: Third and fourth quarter world oil demand comparison for 2006, mb/d

	3Q05	3Q06	Change 2006/05 Volume	Change 2006/05 %	4Q05	4Q06	Change 2006/05 Volume	Change 2006/05 %
North America	25.61	25.48	-0.13	-0.51	25.48	25.53	0.05	0.20
Western Europe	15.56	15.43	-0.13	-0.82	15.69	15.71	0.02	0.13
OECD Pacific	8.08	7.90	-0.18	-2.18	8.79	8.76	-0.03	-0.32
Total OECD	**49.25**	**48.82**	**-0.43**	**-0.88**	**49.96**	**50.00**	**0.04**	**0.09**
Other Asia	8.53	8.60	0.07	0.84	8.62	8.78	0.16	1.86
Latin America	5.19	5.31	0.12	2.35	5.11	5.22	0.11	2.15
Middle East	6.00	6.32	0.32	5.31	5.81	6.14	0.33	5.68
Africa	2.84	2.91	0.06	2.28	2.93	2.98	0.05	1.69
Total DCs	**22.56**	**23.14**	**0.58**	**2.56**	**22.47**	**23.12**	**0.65**	**2.89**
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	3.46
China	6.43	7.21	0.78	12.10	6.64	6.99	0.35	5.24
Total "Other Regions"	**11.07**	**11.92**	**0.84**	**7.61**	**11.43**	**11.90**	**0.48**	**4.18**
Total world	**82.88**	**83.87**	**0.99**	**1.19**	**83.86**	**85.03**	**1.17**	**1.39**

Totals may not add due to independent rounding.

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



Forecast for 2007 demand

Warm winter weather has continued into the new year, affecting not only oil demand but also the natural gas prices. As a result, declines are expected in both the heating oil and fuel oil consumption. **World oil demand growth for 2007 has been revised down by 70,000 b/d to show a growth of 1.3 mb/d or 1.5%,** slightly lower than the estimate in the last *MOMR*.

OECD

In North America, oil demand is not maintaining its customary winter upward cycle. As seen in December, the decline in US oil demand is expected to continue into January as well. The main decline of 40% was in fuel oil consumption. As a result of the late winter, **North America's first-quarter 2007 oil demand has been revised down by 0.2 mb/d to show y-o-y growth of only 0.2 mb/d to average 25.3 mb/d.**

Lower oil prices are expected to moderately help oil demand in North America; however, the warm weather in the first part of January and slowing economic activities have curbed oil demand growth.

The mild winter in North American brought down natural gas prices. Reduced gas prices have encouraged power plants to switch from liquid fuel to gas, which can already be seen to negatively impact oil demand in the USA. It is worth mentioning here that some meteorologists are forecasting that the weather could get colder in the second part of this winter.
Similar weather-related trend has affected the OECD Europe and Pacific regions. Oil demand growth in the OECD region in the first quarter was moderately revised down by 50,000 b/d. **In total, OECD oil demand growth in the fist quarter is forecast at 0.1 mb/d y-o-y to average 50.3 mb/d.**

Developing Countries

In contrast, Developing countries (DCs) are expected to maintain their oil demand strength. DCs will account for 90% of world oil demand growth in the first quarter. Led by China and the Middle East, the Non-OECD first-quarter oil demand growth is estimated to grow by 1.0 mb/d y-o-y.

Thailand's new natural gas fields are expected to be ready for peak summer electricity demand in June. The peak demand period forces Thailand to import around 1.0 million tonnes of fuel oil per year for its power generation, and with the new source of gas allowing for fuel substitution, the country is expected to reduce imports to only 0.1 million tonnes, a drop of 90%. The construction of India's new strategic oil storage, with a capacity of 37 million barrels, will start mid-2007.

The Indian economy is expected to continue its robust growth from last year, growing by 7.8% in 2007. As a result of fuel switching and fuel efficiency, India's oil demand this year will grow at a moderate rate similar to last year. Oil demand growth in the Middle East is expected to be strong, however, it will be a little lower than last year. Despite Saudi Arabia's new gasoline price reduction of more than 45%, total oil demand growth in the Middle East is forecast to be 40,000 b/d or 11.5% lower than the growth estimated in 2006. **For 2007, oil demand growth in the Middle East is expected to reach 0.3 mb/d y-o-y for an average of 6.5 mb/d.**

Table 12: World oil demand forecast for 2007, mb/d

							Change 2007/06	
	2006	1Q07	2Q07	3Q07	4Q07	2007	Volume	%
North America	25.31	25.32	25.21	25.60	25.75	25.47	0.16	0.64
Western Europe	15.49	15.62	15.10	15.50	15.77	15.50	0.01	0.08
OECD Pacific	8.45	9.35	7.77	7.91	8.76	8.45	0.00	-0.06
Total OECD	**49.25**	**50.29**	**48.09**	**49.01**	**50.29**	**49.42**	**0.17**	**0.35**
Other Asia	8.76	8.81	9.07	8.81	8.98	8.92	0.15	1.77
Latin America	5.17	5.09	5.23	5.39	5.28	5.25	0.08	1.55
Middle East	6.16	6.33	6.35	6.67	6.47	6.46	0.30	4.88
Africa	2.95	3.01	3.00	2.95	3.05	3.00	0.05	1.75
Total DCs	**23.04**	**23.23**	**23.65**	**23.83**	**23.78**	**23.62**	**0.59**	**2.55**
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	7.16	7.49	7.85	7.72	7.41	7.62	0.46	6.43
Total "Other Regions"	**11.84**	**12.27**	**12.23**	**12.38**	**12.49**	**12.34**	**0.50**	**4.21**
Total world	**84.13**	**85.80**	**83.97**	**85.22**	**86.55**	**85.39**	**1.26**	**1.49**
Previous estimate	84.27	86.04	84.00	85.21	87.12	85.59	1.33	1.57
Revision	-0.14	-0.24	-0.03	0.01	-0.57	-0.21	-0.07	-0.08

Totals may not add due to independent rounding.

Table 13: First and second quarter world oil demand comparison for 2007, mb/d

			Change 2007/06				Change 2007/06	
	1Q06	1Q07	Volume	%	2Q06	2Q07	Volume	%
North America	25.12	25.32	0.20	0.78	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	9.35	0.05	0.58	7.87	7.77	-0.09	-1.16
Total OECD	**50.19**	**50.29**	**0.10**	**0.20**	**47.99**	**48.09**	**0.10**	**0.20**
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
Total DCs	**22.72**	**23.23**	**0.52**	**2.28**	**23.17**	**23.65**	**0.48**	**2.09**
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	7.49	0.40	5.65	7.34	7.85	0.51	6.91
Total "Other Regions"	**11.75**	**12.27**	**0.52**	**4.44**	**11.80**	**12.23**	**0.42**	**3.59**
Total world	**84.66**	**85.80**	**1.14**	**1.35**	**82.96**	**83.97**	**1.00**	**1.21**

Totals may not add due to independent rounding.

Table 14: Third and fourth quarter world oil demand comparison for 2007, mb/d

			Change 2007/06				Change 2007/06	
	3Q06	3Q07	Volume	%	4Q06	4Q07	Volume	%
North America	25.48	25.60	0.12	0.45	25.53	25.75	0.22	0.87
Western Europe	15.43	15.50	0.07	0.44	15.71	15.77	0.06	0.37
OECD Pacific	7.90	7.91	0.01	0.18	8.76	8.76	0.00	0.05
Total OECD	**48.82**	**49.01**	**0.20**	**0.40**	**50.00**	**50.29**	**0.28**	**0.57**
Other Asia	8.60	8.81	0.21	2.48	8.78	8.98	0.21	2.36
Latin America	5.31	5.39	0.08	1.56	5.22	5.28	0.06	1.17
Middle East	6.32	6.67	0.35	5.54	6.14	6.47	0.33	5.29
Africa	2.91	2.95	0.04	1.51	2.98	3.05	0.06	2.06
Total DCs	**23.14**	**23.83**	**0.69**	**2.98**	**23.12**	**23.78**	**0.65**	**2.83**
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	7.72
China	7.21	7.72	0.51	7.11	6.99	7.41	0.42	6.03
Total "Other Regions"	**11.92**	**12.38**	**0.47**	**3.93**	**11.90**	**12.49**	**0.58**	**4.89**
Total world	**83.87**	**85.22**	**1.36**	**1.62**	**85.03**	**86.55**	**1.52**	**1.79**

Totals may not add due to independent rounding.

Other regions

Expected strong economic activities in China will have a considerable impact on oil demand this year. Oil demand is forecast to grow by 6.4% in 2007. Gasoil, gasoline and fuel oil are the main drivers behind this strong growth. Future agricultural, industrial, and trucking activities are pushing diesel demand up by 12%. Furthermore, the large increase in new vehicles, which is expected to be more than 5 million units, is adding another 9% to the gasoline demand. In anticipation of higher demand for oil products in 2007, especially fuel oil, China has increased the refined product import quota for non-state entities this year by 15% from 2006. With regard to ethanol, China delayed approval of the new corn-based ethanol projects and ordered local government to further conduct further analysis before issuing new licenses. As a result of higher demand by utilities and petrochemical plants in China, fuel oil imports in January are estimated to increase by 12.5% from the previous month. **As a result of the robust economic activities and the filling of the new strategic storage in China, the first-quarter oil demand growth was revised up by 0.05 mb/d y-o-y to show a growth of 0.4 mb/d.**

In an effort to reduce energy consumption, the Chinese government applied an additional import tax tariff on all energy-intensive equipment. Although China reduced the gasoline and jet fuel prices in January, China is considering increasing the prices of most energy products; however, this decision is depending on the international oil prices. This is considered one of the main targets in China's new five-year plan which aims at conserving energy. Finally, the new price increase of 0.15 yuan for household gas per cubic metre may increase the demand for liquid energy such as kerosene.

World Oil Supply

Expected growth of 0.6 mb/d; non-OPEC figures have been adjusted to exclude Angola

Non-OPEC

Estimate for 2006

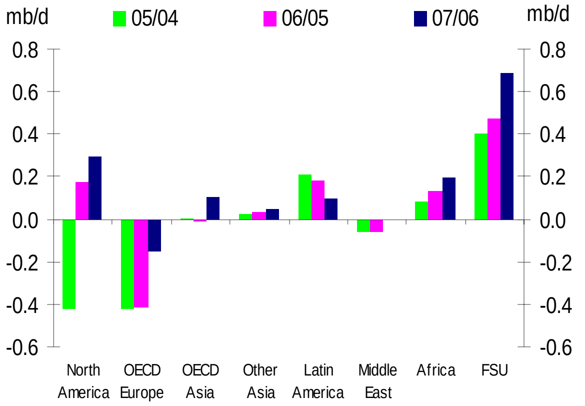
Non-OPEC oil supply is expected to average 49.6 mb/d in 2006, representing an increase of 0.6 mb/d over 2005, and a downward revision of 79,000 b/d versus the last assessment. Non-OPEC figures are adjusted retroactively to exclude Angola. The revisions to the full year estimate are concentrated around 4Q06. Downward revisions in Mexico, Norway, UK, and Brazil account for the bulk, partly offset by upward revisions in the USA, Canada, and Russia. November total non-OPEC supply averaged 50.2 mb/d, up 0.3 mb/d from October. **Preliminary data for the month of December puts non-OPEC supply at 50.5 mb/d, slightly lower than previously estimated, but still a record-high.**

Table 15: Non-OPEC oil supply in 2006, mb/d

	2005	1Q06	2Q06	3Q06	4Q06	2006	Change 06/05
North America	14.14	14.16	14.17	14.40	14.53	14.31	0.18
Western Europe	5.77	5.70	5.31	5.07	5.34	5.35	-0.41
OECD Pacific	0.58	0.48	0.49	0.64	0.66	0.57	-0.01
Total OECD	**20.48**	**20.34**	**19.97**	**20.11**	**20.52**	**20.24**	**-0.24**
Other Asia	2.64	2.68	2.65	2.65	2.71	2.67	0.03
Latin America	4.26	4.35	4.44	4.47	4.51	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	2.60	2.65	2.78	2.65	0.13
Total DCs	**11.27**	**11.43**	**11.49**	**11.54**	**11.78**	**11.56**	**0.29**
FSU	11.55	11.67	11.97	12.15	12.30	12.02	0.48
Other Europe	0.16	0.15	0.15	0.15	0.15	0.15	-0.01
China	3.62	3.68	3.70	3.67	3.66	3.68	0.06
Total "Other regions"	**15.32**	**15.50**	**15.82**	**15.96**	**16.11**	**15.85**	**0.53**
Total Non-OPEC production	**47.08**	**47.28**	**47.28**	**47.62**	**48.41**	**47.65**	**0.57**
Processing gains	1.86	1.92	1.89	1.88	1.92	1.90	0.04
Total Non-OPEC supply	**48.94**	**49.20**	**49.17**	**49.50**	**50.33**	**49.55**	**0.61**
Previous estimate	48.95	49.21	49.18	49.47	50.64	49.63	0.68
Revision	-0.01	-0.01	-0.01	0.03	-0.32	-0.08	-0.07

The North Sea dropped by 0.4 mb/d

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



In 2006, the strongest performance came from the FSU region, followed by Latin America, North America, Africa, and China. All other regions remained flat or saw a drop. The FSU showed a growth of 0.48 mb/d; Azerbaijan posted a strong performance which exceeded original expectations, whilst Kazakhstan performed as expected. Russia's growth was soft in the first part of 2006 followed by a recovery in the second. Oil supply in the Latin American region increased by 0.18 mb/d driven by Brazil. Brazil's performance was slightly worse than expected, however, all Latin American countries posted modest positive gains in production versus 2005. North America's production increased by 0.18 mb/d driven by Canada and the recovery in the US Gulf of Mexico (GoM), whilst Mexico saw its production drop for the second consecutive year. The African region (excluding Angola) posted an increase of 0.13 mb/d. Most of the increase came from Sudan and Tunisia. Angola posted a strong increase, but its production is now recorded under OPEC statistics. China showed a modest increase, driven by a strong performance in the first part of 2006. OECD Pacific, Other Asia, and Middle East remained broadly flat. OECD Europe dropped 0.4 mb/d; the UK saw a drop of 0.2 mb/d due to field declines and deep maintenance. Norway showed a loss of 0.2 mb/d due to a combination of field decline at the largest crude oil fields, deep maintenance, and unplanned shut-downs.

Revisions to the 2006 estimate, other historical

Historical revisions going as far back as 2004 to the production data of countries including Peru, Thailand, Syria, and Yemen have been implemented. Additional adjustments have been made to the 4Q06 estimate to reflect the most recent data, which have resulted in an overall downward adjustment. The estimate for 4Q06 for the USA has been adjusted upwards by 23,000 b/d and Canada by 29,000 b/d. In Mexico, November and December production data came in lower than expected, as a result the estimate for 4Q06 has been revised down by 140,000 b/d. The sharp drop from 3.79 mb/d in 1Q06 to 3.57 mb/d in 4Q06 is partly due to the decline of the Cantarell field but also due to a reduction in supplies to the US market due to soft demand. In the North Sea, 4Q06 oil production in Norway averaged 49,000 b/d lower than expected and in the UK 70,000 b/d lower than expected. Unplanned shut-downs, bad weather, field delays, and field declines are responsible for the larger-than-expected drop. In Asia, slight positive adjustments have been made to the data of Thailand and Malaysia. In Brazil, a large downward adjustment of 116,000 b/d has been incorporated to the 4Q06 estimate as the original forecast proved to be too high. Delays in the ramp up of new fields, and underperformance in mature fields explain the large difference. The 4Q06 estimate for Yemen and Egypt was revised marginally down. Last but not least, the 4Q06 estimate for Russian production was revised up 50,000 b/d, as production edged slightly higher than previously anticipated towards the end of the year.

Forecast for 2007

Expected growth of 1.3 mb/d; non-OPEC figures adjusted to exclude Angola

Non-OPEC oil supply is expected to average 50.9 mb/d in 2007, representing an increase of 1.3 mb/d over 2006 and a downward revision of 0.3 mb/d versus the last assessment. Non-OPEC figures have been adjusted retroactively to exclude Angola. On a quarterly basis, non-OPEC supply is expected to average 50.4 mb/d, 50.5 mb/d, 50.7 mb/d, and 51.8 mb/d in the first, second, third and fourth quarter, respectively. The revision to the outlook is principally due to lower supply expectation for Mexico and Norway. Additionally, the temporary reduction of production at the Hibernia field offshore Canada and from the Tar sands has also been implemented. The outlook for Brazil has also been revised slightly downward. Upward revisions are concentrated in the USA, Russia, Azerbaijan, and Kazakhstan.

Table 16: Non-OPEC oil supply in 2007, mb/d

	2006	1Q07	2Q07	3Q07	4Q07	2007	Change 07/06
North America	14.31	14.48	14.59	14.54	14.83	14.61	0.30
Western Europe	5.35	5.32	5.22	4.99	5.28	5.20	-0.15
OECD Pacific	0.57	0.64	0.64	0.71	0.70	0.68	0.11
Total OECD	**20.24**	**20.45**	**20.45**	**20.24**	**20.81**	**20.49**	**0.25**
Other Asia	2.67	2.68	2.62	2.74	2.83	2.72	0.04
Latin America	4.44	4.49	4.46	4.51	4.68	4.54	0.10
Middle East	1.80	1.80	1.80	1.78	1.79	1.79	-0.01
Africa	2.65	2.77	2.81	2.88	2.93	2.85	0.20
Total DCs	**11.56**	**11.74**	**11.69**	**11.92**	**12.23**	**11.90**	**0.33**
FSU	12.02	12.46	12.63	12.77	12.98	12.71	0.69
Other Europe	0.15	0.15	0.15	0.15	0.15	0.15	0.00
China	3.68	3.69	3.67	3.71	3.74	3.70	0.02
Total "Other regions"	**15.85**	**16.30**	**16.45**	**16.62**	**16.86**	**16.56**	**0.71**
Total Non-OPEC production	**47.65**	**48.48**	**48.60**	**48.78**	**49.90**	**48.94**	**1.29**
Processing gains	1.90	1.92	1.92	1.92	1.92	1.92	0.02
Total Non-OPEC supply	**49.55**	**50.40**	**50.51**	**50.69**	**51.82**	**50.86**	**1.31**
Previous estimate	49.63	50.67	50.81	51.01	52.04	51.14	1.51
Revision	-0.08	-0.27	-0.30	-0.32	-0.22	-0.28	-0.20

OECD

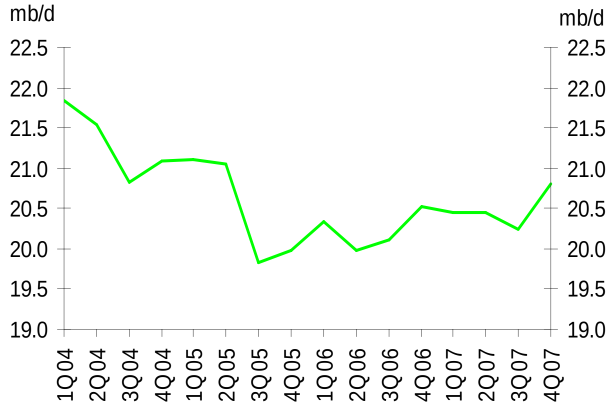
Total OECD oil supply is expected to average 20.5 mb/d, 0.2 mb/d lower than the last assessment, but an increase of 0.25 mb/d versus 2006. On a quarterly basis, total oil supply is expected to average 20.5 mb/d, 20.5 mb/d, 20.2 mb/d, and 20.8 mb/d in the first, second, third and fourth quarters. Preliminary data for the month of December puts total oil supply in OECD countries at 20.7 mb/d.

USA

Soft prices likely to impact mature onshore production

Oil supply in the USA is expected to average 7.63 mb/d in 2007 representing and increase of 0.22 mb/d versus last year and an upward revision of 80,000 b/d versus last month. Recent trends point to a slightly stronger US supply base than previously expected. Additionally, a string of new projects (+20 including small satellites and Atlantis, Neptune) totaling 300,000 b/d of new gross oil are set to start in the US GoM in 2007, whilst USA onshore crude production appears to be performing fairly well and posting positive gains for the first time in many years. Alaska continues to drop, but the declines appear to be contained and in some cases partly offset by the continued development of satellites and heavy oil accumulations. In 2007, Alaska's oil production is expected to drop again, but much of this will depend of the performance of Prudhoe Bay. For the USA as whole, it is worth pointing out that soft oil prices could have an adverse impact on mature onshore production sourced from stripper wells, EOR, and high cost marginal wells. In 1998, US onshore crude production dropped by 450,000 b/d just in response to lower investment. Early atmospheric indicators suggest that 2007 may not be a strong year for hurricane activity in the Atlantic Basin. Preliminary data for the month of December puts USA oil supply at 7.68 mb/d, the highest since 2Q05.

Graph 21: OECD's quarterly production



Mexico and Canada

Mexico's output may recover by 4Q07

The outlook for Mexico has been revised down following 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; particularly soft at around 3.5 to 3.6 mb/d in the first half of 2007 rising slightly thereafter when a new FPSO (20, 0000 b/d) at the extra heavy KMZ oil field is brought on stream 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; its exports are also facing strong competition. As indicated in the previous *MOMR*, the outlook for 2007 will largely depend on these factors as well as underlying decline rates. This report maintains the view that Mexico's production will not collapse. December output is estimated at 3.58 mb/d.

Canadian oil supply is expected to average 3.3 mb/d in 2007, representing an increase of 0.1 mb/d versus 2006 broadly unchanged from last month's assessment. Modest revisions have been made to reflect lower volumes from the Syncrude upgrader and production from the Hibernia field in 1Q07. However, these negative adjustments have been offset by positive revisions in the underlying production of conventional crude. December output is estimated at 3.4 mb/d.

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 versus 2005 and a downward revision of 240,000 b/d versus last month. On a quarterly basis, total oil supply is expected to average 5.3 mb/d, 5.2 mb/d, 5, mb/d, and 5.3 mb/d in the first, second, third and fourth quarters. Total oil supply in November and December is assessed at 5.4 mb/d.

Norwegian oil supply to continue to show strong volatility

Norwegian oil supply is expected to average 2.6 mb/d in 2007, 0.1 mb/d less than last year and a downward revision of 180,000 b/d versus last month. Bad performance in 4Q06, when production was suppose to hit its highest, have led to a sharp downward revision to the base as well as a re-assessment of the expected output of large fields in 2007. Additionally, a temporary reduction in production at Kvitebjorn has also been factored in. The *MOMR* had originally projected in previous publications that Norway's production level would average around 2.8 mb/d in 2007 showing a recovery towards 3 mb/d by year-end. There are a number of projects 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 well change this forecast. Data for the month of December shows that production was 2.81 mb/d.

UK oil supply is expected to average 1.6 mb/d, a drop of 30,000 b/d versus last year and a slight downward revision of 46,000 b/d. The Buzzard field (200,000 b/d) came on stream early January versus an expected year-end 2006, whilst some modifications will have to be made to the platform to handle sulphur content, thus slightly reducing the ramp up. Some 300,000 b/d of new liquids from various projects are coming on stream in 2007, whilst total UK decline and field maintenance is expected to reduce output by 250,000 b/d. Preliminary data for the month of November and December indicates that UK oil supply averaged 1.69 mb/d and 1.67 mb/d, respectively. Elsewhere, Danish oil supply is expected to average 0.32 mb/d around 30,000 b/d less than in 2006. One new project is expected in 2007 (Bo/Valdemar – 19,000 b/d).

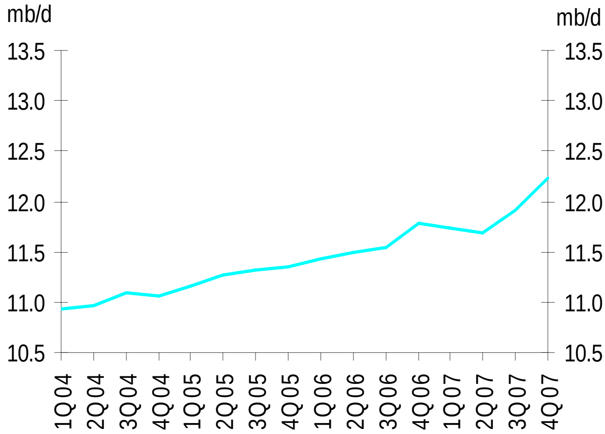
Asia Pacific

Oil supply in the OECD Asia Pacific region is expected to average 0.68 mb/d in 2007, representing growth of 0.1 mb/d compared to last year and unchanged versus last month's assessment. On a quarterly basis, total oil supply is expected to average 0.64 mb/d, 0.64 mb/d, 0.7 mb/d, 0.7 mb/d in the first, second, third and fourth quarters. Australia, the region's largest producer, is expected to have a production of 0.58 mb/d, or 70,000 /d higher versus last year. Preliminary data for the month of December puts total Australian oil supply at 0.6 mb/d. Oil production in New Zealand should also edge higher with the start of the Tui field, doubling the country's oil production.

Developing Countries

Oil supply in the Developing Countries (DCs) is expected to average 11.9 mb/d in 2007, representing an increase of 0.3 mb/d over 2006, and 82,000 b/d lower versus month's report. Angola is no longer part of Developing Countries. On a quarterly basis, total oil supply in DCs is expected to average 11.7 b/d, 11.7 mb/d, 11.9 mb/d and 12.2 mb/d in the first, second, third and fourth quarter. Historical revisions to the base and slight adjustments to new projects account for the bulk of the revision. Total oil supply in December is estimated at 11.7 mb/d.

Graph 22: Developing Countries' quarterly production



Upward revisions have been made to the outlook of Malaysia (+50,000 b/d) and Sudan (+25,000 b/d). The adjustments in Malaysia reflect higher than expected output from mature fields and in Sudan from ongoing new developments. The large deepwater Kikeh field in Malaysia is still expected to start in 4Q07. Malaysia's oil supply is likely to average 0.79 mb/d. Sudan's oil production is above 0.5 mb/d, and heading upwards from the existing projects, despite reported technical difficulties. This report assumes that Sudan's production will edge closer to 0.6 mb/d in 2007, although risks remain.

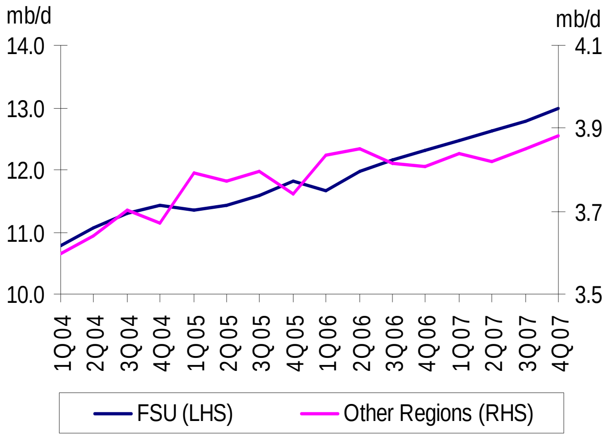
The outlook for Brazil has been reduced following poor performance in 2006

On the other hand, the outlook for Brazil and Egypt has been reduced. Brazil's oil supply is expected to average 2.24 mb/d in 2007, which is 130,000 b/d less than previously thought. Revisions to the base, worse than expected performance at mature deepwater fields, and new project phasing have led to a downward revision. 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. Egypt's oil supply is expected to average 0.64 mb/d in 2007, down 23,000 b/d versus last month's estimate. The base at year-end 2006 appears to be lower, and this has led to a readjustment of the decline rate assumption for some of its fields. Elsewhere, it should be pointed out that the outlook for Ecuador remains unchanged with an expected drop of 10,000 b/d to 530,000 b/d in 2007, but 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 0.7 b/d versus 2006, slightly higher versus last month. The estimate for Other Regions (China and Other Europe) remains broadly unchanged at 3.8 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 12.5 mb/d, 12.6 mb/d, 12.7 mb/d and 13 mb/d in the first, second, third and fourth quarter. December FSU oil supply is assessed at 12.3 mb/d.

Graph 23: FSU and other region's quarterly production



Russia

Russian production reached record highs in December

Russian oil supply is expected to average 9.9 mb/d in 2007, an increase of 0.25 mb/d versus 2006 and slightly higher versus last month's estimate. The first quarter has been revised up significantly (150,000 b/d) based on recent trends and the expectation that a cold winter will not affect (as last year) oil production, resulting in a higher estimate. The latest data shows that supply averaged 9.84 mb/d in December, which would be a new post-FSU record. Russian oil supply performed better than expected in November and December due to warmer-than-expected temperatures which allowed producers that depend on river barging to continue to produce as well as due to increases from ExxonMobil's led Sakhalin I. Looking ahead, growth will be driven by a handful of important projects, including Sakhalin, Salym and Priazlomnoye. Crude export tariffs are expected to drop in February to $24.66/b for two months, because of the recent decline in Urals prices.

Pressure on private domestic and foreign oil companies and uncertain regulatory climate continues to affect near to medium supply expectations. Important reforms, according to some government agencies, such as taking a more flexible approach to extending licenses is still pending. This year will be the third consecutive year in which Russian oil supply is expected to increase at around 0.2 mb/d, despite having a large industry. However, as in the case of the USA, there is a portion of production that is considered relative high cost and may show some volatility with soft oil prices. Tax reforms (for depleted fields) and investment allowances have been expected to make a difference on mature production in the country affecting positively over 1 mb/d of supply. But all of this remains unclear. This report maintains a conservative outlook for Russia over the medium-term and short-term fluctuations, including flat to a slight y-o-y decrease are all within the possibilities.

Caspian

Azeri oil production to increase strongly in 2007

Azeri oil supply is expected to average 0.9 mb/d in 2007, representing an increase of 0.27 mb/d versus last year. The outlook of the 3Q07 and 4Q07 has been revised up slightly. The latest production estimate suggests that total oil supply averaged 0.7 mb/d in December. The partial shut-down of the giant ACG field proved to be short-lived. This *MOMR* expects a strong performance in 2007 from the ACG field.

Kazak oil production is expected to average 1.45 mb/d in 2007, representing an increase of 0.1 mb/d versus last year, and unchanged from last month. Data for the month of December puts Kazak oil supply at 1.38 mb/d — a record-high for the country. Increases are expected to come primarily from the expansion of the Tengiz field. However, it is unclear if this field will be delayed or if its contribution will be material before 3Q07. A lack of agreement over the expansion of the CPC pipeline is unlikely to affect production growth in 2007.

China

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 80,000 b/d versus last month's report. Preliminary figures for the month of December indicate that supply averaged 3.65 mb/d. Domestic production has come off from the June 2006 record-high of 3.73 mb/d, and has been hovering below 3.7 mb/d since then. A number of non upstream factors may be responsible for this such as higher imports of crude and products, lower refinery runs, and a desire to manage production at some of the largest fields. However, field maturity is also reining, whilst increases in the offshore have been more limited in 2006 than in previous years. In 2007, the Peng Lai FPSO is expected to increase China's offshore production by 100,000–150,000 b/d to 0.8 b/d, as one of the largest offshore fields discovered in China is brought onstream.

Risks

The new forecast reflects more risks than the previous reports for those countries where these have increased. However, much remains unquantifiable such as the impact of extreme hurricane activity in the USA and Asia, unplanned shut-downs, material project changes, demand trends, and political instability. Tightness in the oil service sector poses some risks, particularly when specialized service is suddenly required. Rising underlying costs also pose a risk for small marginal projects, EOR, and striper wells. However, it should be noted that current oil prices are several times higher than average costs of most producing regions. Finally, but of equal importance, sharp downward fluctuations in energy prices could affect investment plans and as a direct consequence mature oil production, thereby reducing the growth. Preliminary reports suggest that global E&P capex is expected to rise to $300 bn in 2007, up 9% from 2006, but the surveys also show that many companies are keeping investment flat or even decreasing it.

OPEC natural gas liquids and non-conventional oils

In 2006, OPEC NGLs and non-conventional oils averaged 4.3 mb/d, representing an increase of 0.2 mb/d over the previous year. In 2007, the expected growth for OPEC NGLs remains unchanged at 0.2 mb/d to average 4.4 mb/d.

Table 17: OPEC NGL + non-conventional oils - 2004-2007

	2004	**2005**	**Change** 05/04	1Q06	2Q06	3Q06	4Q06	**2006**	**Change** 06/05
Total OPEC	**4.02**	**4.04**	0.02	4.18	4.22	4.33	4.33	**4.27**	0.22

OPEC crude oil production

OPEC crude output averaged 30.16 mb/d

Total crude oil production averaged 30.16 mb/d in December, unchanged from November, according to secondary sources. OPEC-10 production averaged 26.8 mb/d, or 0.1 mb/d lower than in November. Iraq’s oil production averaged 1.92 mb/d and Angola’s oil production 1.47 mb/d.

Table 18: OPEC crude oil production based on secondary sources, 1,000 b/d

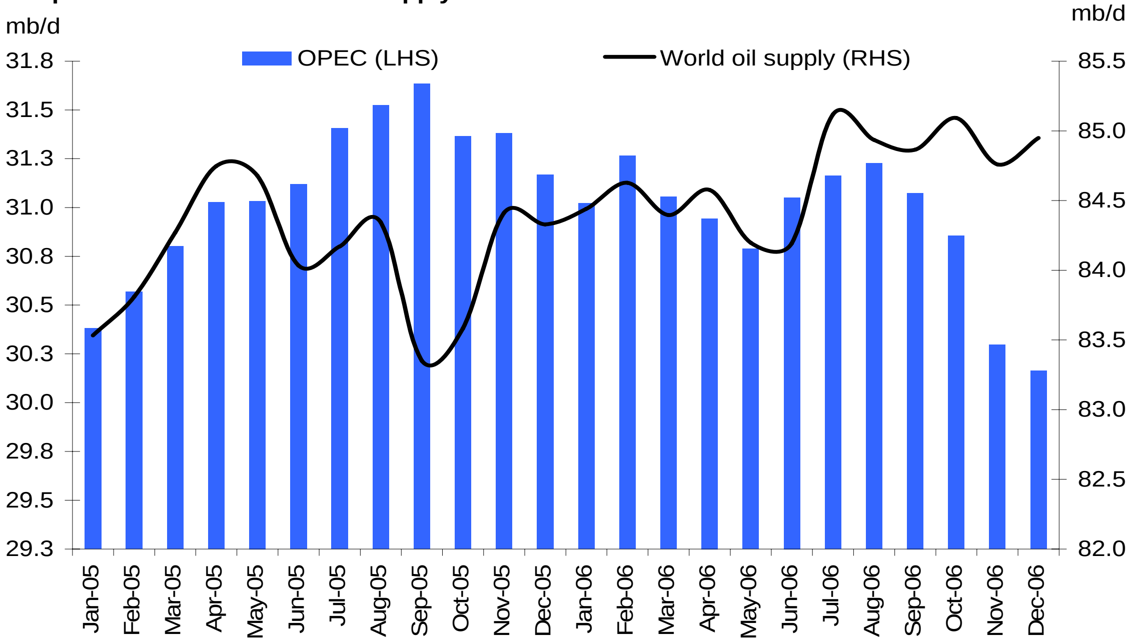
	2004	2005	4Q05	1Q06	2Q06	Oct 06	Nov 06	Dec 06	*Dec/ Nov*
Algeria	1,228	1,349	1,374	1,376	1,368	1,380	1,354	1,354	*-0.2*
Angola	1,019	1,256	1,392	1,426	1,355	1,408	1,477	1,474	*-3.3*
Indonesia	968	942	935	922	914	870	868	868	*0.5*
Iran, I.R.	3,920	3,924	3,911	3,849	3,800	3,842	3,797	3,766	*-30.7*
Iraq	2,015	1,830	1,675	1,711	2,001	2,026	1,923	1,905	*-18.2*
Kuwait	2,344	2,504	2,548	2,532	2,513	2,498	2,440	2,383	*-56.6*
Libya, S.P.A.J.	1,537	1,642	1,665	1,680	1,699	1,728	1,700	1,689	*-11.0*
Nigeria	2,322	2,412	2,469	2,257	2,212	2,249	2,227	2,252	*25.0*
Qatar	771	792	808	816	820	831	809	808	*-1.2*
Saudi Arabia	8,957	9,390	9,426	9,416	9,133	8,922	8,750	8,710	*-39.6*
UAE	2,360	2,447	2,518	2,528	2,535	2,578	2,496	2,483	*-12.8*
Venezuela	2,582	2,633	2,584	2,595	2,574	2,523	2,456	2,471	*15.2*
OPEC excl. Iraq	**28,008**	**29,291**	**29,629**	**29,398**	**28,925**	**28,830**	**28,373**	**28,259**	***-114.6***
OPEC excl. Angola & Iraq	**26,988**	**28,035**	**28,237**	**27,972**	**27,569**	**27,422**	**26,896**	**26,785**	***-111.3***
Total OPEC	**30,023**	**31,121**	**31,304**	**31,109**	**30,926**	**30,856**	**30,296**	**30,164**	***-132.8***

Totals may not add due to independent rounding.

World oil supply

Preliminary figures for the month of December indicate that world oil supply averaged 84.9 mb/d. The main factors affecting supply have been discussed in previous sections. The estimate is based on preliminary data for non-OPEC supply, estimates for OPEC NGLs and OPEC crude production from secondary sources.

Graph 24: OPEC and World oil supply



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 8.9 mb/d, or 0.7 mb/d higher versus 2006 driven by new sources of crude from the Caspian and Russian product exports. The forecast has been revised up from the last assessment due to higher supplies.

Current trends

Actual figures for the month of October indicate that total crude exports from the FSU were 5.7 mb/d. Preliminary figures for the month of November show that total crude exports were 5.9 mb/d. Crude exports increased primarily via rail, CPC, and Batumi. Exports via the Georgian port of Supsa have been shut since end October and are likely to remain so until end January 2007 according to some reports. This port has a capacity of around 150,000 b/d, with the rest of the exports going through the BTC pipeline (currently 400,000 b/d but a capacity of 1 mb/d) to Ceyhan, rail to Batumi terminal (150,000 b/d), and pipeline to Novorossiysk (50,000 b/d). Exports will be diverted to other routes.

Table 19: FSU estimated net oil exports (historical and forecast), mb/d

	1Q	2Q	3Q	4Q	Year	Growth (y-o-y)
2003	5.87	6.75	6.72	6.61	**6.49**	**0.91**
2004	7.17	7.30	7.38	7.37	**7.31**	**0.82**
2005	7.45	7.69	7.76	7.85	**7.69**	**0.38**
2006 (forecast)	**7.98**	**8.41**	**8.31**	**8.27**	**8.24**	**0.55**
2007 (forecast)	**8.68**	**9.14**	**9.00**	**8.86**	**8.92**	**0.68**

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

	2004	2005	1Q06	2Q06	3Q06	Oct 06	Nov 06*
Crude							
Russian pipeline							
Black Sea	1,283	1,335	1,326	1,291	1,318	1,285	1,198
Baltic	1,396	1,462	1,470	1,671	1,576	1,438	1,403
Druzhba	1,256	1,315	1,365	1,355	1,250	1,121	1,195
Total	**3,935**	**4,112**	**4,161**	**4,317**	**4,144**	**3,844**	**3,796**
Other routes							
Russian rail	706	416	310	319	307	305	324
Russian - Far East	32	65	29	43	106	145	126
Kazak rail	24	17	46	30	23	17	18
CPC pipeline	490	648	595	672	669	638	734
Caspian	**252**	**295**	**353**	**446**	**408**	**406**	**307**
of which							
Supsa (AIOC) - Georgia	130	137	137	151	140	90	0
Batumi - Georgia	99	140	198	186	151	180	186
Total**	**1,504**	**1,441**	**1,334**	**1,510**	**1,513**	**1,881**	**2,071**
Total crude exports	**5,439**	**5,553**	**5,495**	**5,826**	**5,657**	**5,725**	**5,867**
Products							
All routes							
Fuel oil	753	836	896	938	958	804	884
Gasoil	702	759	893	809	828	716	796
Others	413	575	693	835	753	616	571
Total	**1,868**	**2,170**	**2,483**	**2,582**	**2,538**	**2,136**	**2,251**
Total oil exports	**7,307**	**7,723**	**7,978**	**8,408**	**8,195**	**7,861**	**8,118**

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 crude oil imports grew by 0.2 mb/d while net total imports fell by 0.1 mb/d to average 26.1 mb/d in November

OECD

Preliminary estimated data shows that OECD crude oil imports increased by around 0.2 mb/d or 0.6% to average 30.5 mb/d in November, driven mostly by non-US and Japanese crude oil imports. Compared to the same month last year, imports fell 4% y-o-y. Product imports continued the downward movement for the third consecutive month dropping 164,000 b/d or 1.3% to average 12.5 mb/d, the lowest level so far in 2006. Compared to previous year, product imports were around 0.5 mb/d or 4% lower.

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

	Sep 06	Oct 06	Nov 06	Change Nov/Oct
Crude oil	24,609	23,515	23,763	248
Total products	2,947	2,688	2,328	-361
Total crude and products	**27,555**	**26,204**	**26,091**	**-113**

On the export side, crude oil exports remained steady in November, averaging 6.7 mb/d, a decrease of 50,000 b/d or 0.7% over the previous month; however, when compared to the same month last year, crude exports increased by around 0.27 mb/d. Product exports saw gains, after two months of decline, averaging 10.1 mb/d, around 0.2 mb/d or 2% more than in the previous month. Trading pattern and arbitrage opportunities such as the naphtha movement to Asian market were among the reasons for the increase in exports, which represented 7% growth or 0.6 mb/d y-o-y. The combination of imports and exports put November OECD net crude oil imports at 26.01 mb/d, the lowest level so far in 2006, around 113,000 b/d less than in the previous month.

In terms of suppliers, Saudi Arabia and the FSU remained the main source for both crude oil and products.

US net crude oil imports fell 0.55 mb/d in December to 9.4 mb/d , a low for the year

USA

US crude oil imports continued to decline for the third consecutive month falling a further 0.54 mb/d to average around 9.4 mb/d in December, according to preliminary data the lowest level since September 2005. The decline corresponded to a 550,000 b/d or 5.5% y-o-y drop. This significant decrease brought the yearly average to around 10.0 mb/d, or close to 2005. The drop in US crude oil imports coupled with healthier refinery runs in December pushed US crude oil stocks some 20 mb lower compared to the previous month, yet overall stock levels were relatively high, close to the same month in the previous year. Additionally, weather-related weak demand and the OPEC cut negatively influenced US crude oil imports. On the other hand, product imports were steady during December experiencing a minor increase of around 30,000 b/d or 1% to average 3.0 mb/d, with a slight raise in product imports after three months of decline. Product imports averaged 3.5 mb/d in 2006, around 122,000 b/d less than the 2005 average. Both distillates and jet fuel led the increase in product imports, with the inflow of jet fuel triggered by technical supply issues in the West Coast.

Table 21: USA Crude and Product Net Imports/(Exports), tb/d

	Oct 06	Nov 06	Dec 06	Change Dec/Nov
Crude oil	10,095	9,964	9,418	-546
Total products	1,709	1,684	1,777	93
Total crude and products	**11,803**	**11,648**	**11,195**	**-454**

Crude oil and product exports remained steady with only a minor 63,000 b/d or 5% decline in products, to average around 1.3 mb/d. Accordingly, US net oil imports averaged around 11.2 mb/d in December, a low for the year and a decline of 0.45 mb/d from the previous month. Net crude oil imports fell 5.5% in both monthly and annual terms to average 9.4 mb/d.

With around 16-17% each, Mexico and Canada remained the largest suppliers of US crude oil imports ahead of Saudi Arabia and Venezuela with 12% each. With 11%, Nigeria was the top US crude supplier from Africa, ahead of Algeria and Angola with 4% each, while Iraq continued to supply around 5%. On the product side, Canada, the Virgin Islands and Algeria remained the largest suppliers.

Japan

Japan's crude oil imports fell to 3.6 mb/d, and net product imports dropped 39,000 b/d to 347,000 b/d in December

Preliminary data shows that Japan's crude oil imports continued the downward movement in December, falling a further 171,000 b/d or 5% from the previous month to average 3.6 mb/d, a low for the year. The December drop in crude oil imports dragged down the fourth-quarter average to 3.7 mb/d, representing a y-o-y drop of 14% from the same quarter of the previous year and the lowest quarter in 2006. High inventory levels and weak demand driven mainly by weather-related factors coupled with the OPEC cut were among the reasons for such a decline in imports. Similarly, total product imports experienced a decline of 17,000 b/d or 3% from the previous month to average around 652,000 b/d. December product import figures indicate a y-o-y growth of around 13% closing the yearly average at 618,000 b/d, almost similar to the previous year.

On the other hand, Japan's product exports experienced an increase of 22,000 b/d or 8% in December from the previous month to average 305,000 b/d causing the yearly average to reach 365,000 b/d, almost identical to the 2005 average... Consequently, Japan's net oil imports reached 3.9 mb/d, around 0.2 mb/d less than the previous month, causing the yearly average to reach around 4.4 mb/d, 3% lower than in 2005.

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

	Oct 06	Nov 06	Dec 06	Change Dec/Nov
Crude oil	3,836	3,736	3,565	-171
Total products	260	386	347	-39
Total crude and products	**4,096**	**4,123**	**3,912**	**-211**

Middle Eastern countries remained the main suppliers of Japan's crude oil in 2006, with Saudi Arabia accounting for 31%, UAE for 25%, Iran for 10%, Qatar for 10%, Kuwait for 8% and Oman for 2%. In December, Saudi Arabia's share reached 31% while Nigerian crude supply to Japan was around 50,000 b/d. Similarly to crude oil, UAE and Saudi Arabia remained Japan's main product suppliers in December with 14% and 10% respectively followed by Korea and the USA with 6% each.

China

China's crude oil imports increased by 0.75 mb/d while product imports decreased by 0.19 mb/d in November

China's crude oil imports increased by almost 750,000 b/d or 30% in November to average 3.3 mb/d, offsetting a drop of nearly the same size displayed in October, according to preliminary data. The leap in crude oil imports resulted in a y-o-y growth of 31% or around 0.8 mb/d. In contrast, lower fuel oil imports coupled with increased refinery runs, reaching an all-time high of around 6.39 mb/d according to the latest estimates, depressed product imports to stand at 0.6 mb/d, marking their lowest level so far in 2006. While fuel oil remained the bulk of China's product imports, gasoil imports increased to around 36,000 b/d, yet the gain did not offset the decline in fuel oil imports.

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

	Sep 06	Oct 06	Nov 06	Change Nov/Oct
Crude oil	3,253	2,363	3,220	857
Total products	773	555	255	-300
Total crude and products	**4,026**	**2,918**	**3,475**	**557**

China's total oil exports were steady, averaging 0.46 mb/d with crude oil exports dropping by 0.1 mb/d from the previous month to average 84,000 b/d while product exports increased by 0.11 mb/d or 42% to average 377,000 b/d. The increase in product exports came mainly from gasoline and kerosene, driven by the strong market for gasoline in Asia. As a result, total net imports of crude oil and products together grew by 557,000 b/d to average 3.5 mb/d. Beijing's decision to increase export tariffs and reduce import tariffs on energy sources influenced net crude oil imports, with some being used to increase China's SPR, as well as reduce product exports.

Angola was the main supplier of China's crude oil in November with 16% followed by Saudi Arabia with 15%, Iran with 10% and Russia and Sudan with 8% each.

India's net oil imports increased by 6% as a result of lower product exports due to higher local demand in November

India

India's total oil imports were around 2.5 mb/d in November, according to preliminary data, around 22,000 b/d less than the total imports in October. Crude oil imports averaged 2.2 mb/d, almost the same as in October while products imports decreased by 26,000 b/d or 7.4% to average 327,000 b/d. India's total oil imports in November showed a y-o-y growth of around 18% or 0.4 mb/d.

Table 24: India's Crude and Product Net Imports/(Exports), tb/d

	Sep 06	Oct 06	Nov 06	Change Nov/Oct
Crude oil	2,165	2,157	2,161	4
Total products	-373	-500	-405	94
Total crude and products	**1,792**	**1,657**	**1,755**	**98**

According to preliminary data, India's total product exports fell significantly in November to average 733,000 b/d, down some 120,000 b/d from October. The lower exports were a result of healthier domestic demand driven by increased consumption of naphtha from power generation plants due to limited LNG imports, in addition to higher motor and jet fuel demand. Consequently, India's net oil imports increased by 98,000 b/d or 6% to average 1.8 mb/d while net crude oil imports remained similar to the previous month's levels.

Stock Movements

US commercial oil stocks experienced a draw of 17.8 mb in December

USA

Total commercial oil stocks in the USA witnessed a decline of 17.8 mb in December from the previous month to stand at 1,027.10 mb, which was 1.4% and 4.9% above the year-ago level and the five-year average. Contrary to November, the fall in crude oil stocks was responsible for the draw as product inventories saw gains.

Reversing the trend of the previous two months, crude oil stocks experienced a considerable drop of 22.2 mb or 0.72 mb/d to 317.5 mb on a monthly basis. Nevertheless, crude inventories still remained 8.2% above the five-year average and only 1.9% below the year-ago level. The trend in forward cover was similar and at 20.6 days was 4% below the same month last year, but 6% above the five-year average. A decline in crude oil imports of 0.54 mb/d in December month-on-month, together with a slight increase in refinery throughput which went up from 15.1 mb/d in November to 15.5 mb/d in December, offset a 0.11 mb/d increase in production. The significant monthly stock-draw may be also greatly explained by year-end tax considerations.

Table 25: US onland commercial petroleum stocks*, mb

	Oct 06	Nov 06	Dec 06	Change Dec 06/Nov 06	Dec 05	12 Jan 07**
Crude oil	334.6	339.7	317.5	-22.2	323.7	321.5
Gasoline	204.3	200.0	209.5	9.5	207.0	216.8
Distillate fuel	139.3	132.4	137.9	5.5	135.8	141.9
Residual fuel oil	42.1	42.6	43.1	0.5	37.4	46.1
Jet fuel	42.2	38.2	40.1	1.9	41.7	40.2
Total	**1,063.7**	**1,044.9**	**1,027.1**	**-17.8**	**1,013.1**	**1,040.3**
SPR	688.5	688.6	688.6	0.0	684.5	688.6

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

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

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

Concerning gasoline, the previous month's draw on inventories turned into a substantial build of 9.5 mb to reach 209.5 mb, some 1.2% higher than the same month last year, but 0.3% below the five-year average. At 22.4 days forward cover was 2% above the year-ago level but 3% below the five-year average. The build in gasoline inventories can be attributed to higher production which inched up 163,000 b/d to 9.3 mb/d, which was consistent with the recovery in refinery runs. These variables offset the downward impact of lower imports which declined a slight 20,000 b/d in December from the previous month. Although forward cover was low, it is expected that, given the low demand for heating oil, US refiners will change to higher gasoline yields early this year, erasing any worries about gasoline stocks.

Middle distillate stocks ended the month at 137.9 mb as a result of a 5.5 mb rise in December from the previous month, which represented a cushion of 1.5% and 1.8% against the year-ago level and the five-year average. Forward cover for middle distillates was estimated at 31.7 days, or 7% higher than the year-ago level and 1% above the five-year average. The build in middle distillate inventories was due to an increase in imports of 177,000 b/d (EIA four-week average) together with higher production with rose by 130,000 b/d (EIA four-week average) in December from the previous month as well as sluggish demand due to warm winter weather. Diesel inventories inched up by 3.0 mb to 77.8 mb in December compared to the previous month representing a cushion of 4% against the year-ago level and the five-year average. The stock-build took place despite greater demand and is attributed to higher imports and production.

A slight increase of 0.2 mb left heating oil stocks at 57.8 mb or 7% above the year-ago level and the five-year average. Warmer-than-normal weather in the major consuming regions of the USA led to declining demand for heating oil, which together with a mild increase in imports and production explained the month-on-month build in stocks in December.

In the week ending 12 January 2007, US total commercial oil stocks increased by 9.1 mb to 1,040.3 mb versus the previous week. Crude oil stocks rose a hefty 6.8 mb week-on-week to stand at very healthy levels both in terms of volume and forward cover. This development was due to lower refinery runs which declined by 3.5% and significantly greater imports which were 1.6 mb above the previous week despite OPEC's recent output cut. This may also imply that part of the draw on crude oil stocks which occurred last December can be attributed to end-of-year tax-related considerations. On the product side, gasoline stocks continued moving up by 3.5 mb to stand at 216.8 mb week-on-week, with the forward cover of 23.6 days standing 2% above last year's level but still 3% below the five-year average. Middle distillate inventories displayed a more moderate 0.9 mb build compared to the previous week, which was due to the smaller growth in heating oil and diesel stocks. Heating oil increased by 0.4 mb week-on-week compared to a build of 2.3 mb in the week ending 5 January 2007. Nevertheless, inventories remained 7% and 11% above the preceding year and the five-year average. This was attributed to the persistent warmer-than-normal weather in the US Northeast, the major product consuming region. Forward cover for heating oil increased from 52.7 to 55.4 days.

Western Europe

Total commercial oil inventories in Eur-16 plunged by 5.7 mb

Total commercial oil stocks in EU-16 (Eur-15 plus Norway) were 5.7 mb lower at the end of December versus the previous month. This left inventories almost 1% above the year-ago level but represented a 7% cushion against the five-year average. The stock-draw was entirely due to a significant 11 mb decline in crude stocks as total product inventories rose by 6.5 mb compared to the previous month.

Table 26: Western Europe's oil stocks*, mb

	Oct 06	Nov 06	Dec 06	Change Dec 06/Nov 06	Dec 05
Crude oil	490.8	495.5	484.2	-11.3	466.9
Mogas	129.7	129.9	131.3	1.5	143.6
Naphtha	28.2	29.0	28.2	-0.9	25.1
Middle distillates	383.1	381.8	385.4	3.7	385.7
Fuel oils	116.6	114.5	115.8	1.4	113.4
Total products	629.4	626.1	632.6	6.5	642.7
Total	**1,148.3**	**1,150.7**	**1,145.0**	**-5.7**	**1,134.8**

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

Despite a cut in European refinery throughputs, crude oil stocks declined a further 11 mb in December from the previous month, but at 484.2 mb inventories were more than healthy standing 3.7% and 7.3% above the same month last year and the five-year average. The 6.5 mb build in product stocks left the level at 632.6 mb, 3.9% higher than the five-year average but 1.6% lower than the previous year. Middle distillates contributed the most to the build in product inventories in December edging up by 3.7 mb to 385.4 mb from the previous month, stocks were at par with a year ago and around 10% above the five-year average. The major reason for the increase in middle distillate stocks was the reduced heating demand owing to the unusually warm weather. Gasoline stocks increased by 1.5 mb to 131.3 mb in December over the previous month but this level was well below the year-ago level and the five-year average. This outcome was related to the lower EU exports to the USA encouraged by the narrower transatlantic arbitrage window caused by higher US throughputs and rising freight rates.

Japan

Reversing the October trend, Japan's total commercial oil stocks witnessed a 5 mb drop to 195.6 mb in November

Total commercial oil stocks in Japan inched down by 5 mb to 195.6 mb in November but remained 1.5% and 3.8% above the year-ago level and the five-year average. The draw was due to a decline in both crude oil and product stocks.

A decline of 1.8 mb from the previous month left crude oil inventories at 114.9 mb in November or 3.5% and 4.1% above the year-ago level and the five-year average. A 9.8% increase in crude oil throughput at Japanese refineries explains this draw which was partly ameliorated by a 3.3% expansion in imports.

Table 27: Japan's commercial oil stocks*, mb

	Sep 06	Oct 06	Nov 06	Change Nov 06/Oct 06	Nov 05
Crude oil	110.3	116.7	114.9	-1.8	111.0
Gasoline	13.6	13.7	13.6	-0.1	14.3
Middle distillates	48.9	50.0	47.2	-2.8	47.6
Residual fuel oil	21.6	20.3	19.9	-0.3	19.9
Total products	84.1	84.0	80.8	-3.2	81.8
Total**	**194.4**	**200.6**	**195.6**	**-5.0**	**192.8**

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

Total product inventories declined a further 3.2 mb to 80.8 mb hovering 1.3% below the year-ago level but still 3.3% higher than the five-year average. A decline in imports of 7.8% and a 6.4% rise in domestic sales from the previous month account for the draw, as production rose by 7.1% month-on-month due to recovery in refinery runs. The decline in product stocks was driven by naphtha, kerosene, gasoil, Fuel Oil A and Fuel Oil BC. Domestic sales of kerosene which grew by 90% compared to the previous month partly explain the stock-draw of over 6% in this product. Gasoline inventories experienced only a slight decline.

Balance of Supply and Demand

Demand for OPEC crude is expected at 30.3 mb/d in 2006, whilst production averaged 31.2 mb/d

Estimate for 2006

The demand for OPEC crude in 2006 is expected to average 30.1 mb/d. On a quarterly basis, the new forecast shows that demand for OPEC crude was 31.3 mb/d in the first, 29.6 mb/d in the second, 30 mb/d in the third and 30.4 mb/d in the fourth quarter. According to secondary sources, average total OPEC crude capacity averaged 33.8 mb/d in 2006, up from 33.2 mb/d in 2005.

Table 28: Summarized supply/demand balance for 2006, mb/d

	2005	1Q06	2Q06	3Q06	4Q06	2006
(a) World Oil Demand	**83.29**	**84.66**	**82.96**	**83.87**	**85.03**	**84.13**
Non-OPEC Supply	48.94	49.20	49.17	49.50	50.33	49.55
OPEC NGLs and non-conventionals	4.04	4.18	4.22	4.33	4.33	4.27
(b) Total Supply excluding OPEC Crude	**52.99**	**53.37**	**53.39**	**53.83**	**54.66**	**53.82**
Difference (a-b)	**30.30**	**31.28**	**29.57**	**30.04**	**30.37**	**30.31**
OPEC crude oil production (1)	31.12	31.11	30.93	31.16	30.42	30.90
Balance	0.82	-0.17	1.36	1.11	0.05	0.59

(1) Selected secondary sources.
Totals may not add due to independent rounding.

Demand for OPEC crude is expected at 30.1 mb/d in 2007; 31.1 mb/d in 1Q07, and 29.1 mb/d in 2Q07

Forecast for 2007

The demand for OPEC crude in 2007 is expected to average 30.1 mb/d, representing a drop of 0.2 mb/d versus 2006. On a quarterly basis, the forecast shows that demand for OPEC crude is expected at 31.1 mb/d in the first, 29.1 mb/d in the second, 30.1 mb/d in the third and 30.1 mb/d in the fourth quarter.

Table 29: Summarized supply/demand balance for 2007, mb/d

	2006	1Q07	2Q07	3Q07	4Q07	2007
(a) World Oil Demand	**84.13**	**85.80**	**83.97**	**85.22**	**86.55**	**85.39**
Non-OPEC Supply	49.55	50.40	50.51	50.69	51.82	50.86
OPEC NGLs and non-conventionals	4.27	4.31	4.36	4.46	4.61	4.44
(b) Total Supply excluding OPEC Crude	**53.82**	**54.71**	**54.87**	**55.16**	**56.43**	**55.30**
Difference (a-b)	**30.31**	**31.09**	**29.09**	**30.07**	**30.12**	**30.09**
OPEC crude oil production (1)	30.90					

(1) Selected secondary sources.
Totals may not add due to independent rounding.

Graph 25: Balance of supply and demand

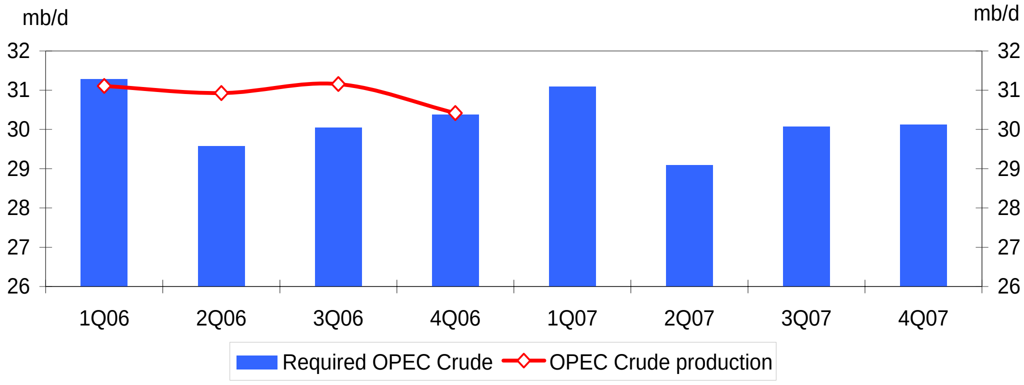


Table 30: World oil demand/supply balance, mb/d

	2002	2003	2004	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
World demand														
OECD	47.9	48.6	49.3	49.6	50.2	48.0	48.8	50.0	49.2	50.3	48.1	49.0	50.3	49.4
North America	24.1	24.5	25.4	25.5	25.1	25.1	25.5	25.5	25.3	25.3	25.2	25.6	25.8	25.5
Western Europe	15.3	15.4	15.5	15.5	15.8	15.0	15.4	15.7	15.5	15.6	15.1	15.5	15.8	15.5
Pacific	8.5	8.6	8.5	8.6	9.3	7.9	7.9	8.8	8.5	9.4	7.8	7.9	8.8	8.4
DCs	20.3	20.6	21.7	22.4	22.7	23.2	23.1	23.1	23.0	23.2	23.7	23.8	23.8	23.6
FSU	3.7	3.8	3.8	3.8	3.7	3.6	3.8	4.0	3.8	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	1.0	0.9	0.9	0.9	0.9
China	5.0	5.6	6.5	6.5	7.1	7.3	7.2	7.0	7.2	7.5	7.9	7.7	7.4	7.6
(a) Total world demand	77.8	79.4	82.3	83.3	84.7	83.0	83.9	85.0	84.1	85.8	84.0	85.2	86.5	85.4
Non-OPEC supply														
OECD	21.9	21.7	21.3	20.5	20.3	20.0	20.1	20.5	20.2	20.4	20.5	20.2	20.8	20.5
North America	14.5	14.6	14.6	14.1	14.2	14.2	14.4	14.5	14.3	14.5	14.6	14.5	14.8	14.6
Western Europe	6.7	6.4	6.2	5.8	5.7	5.3	5.1	5.3	5.4	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	0.7	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	11.5	11.8	11.6	11.7	11.7	11.9	12.2	11.9
FSU	9.3	10.3	11.1	11.5	11.7	12.0	12.1	12.3	12.0	12.5	12.6	12.8	13.0	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
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
Processing gains	1.7	1.8	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Total non-OPEC supply	47.2	48.1	49.0	48.9	49.2	49.2	49.5	50.3	49.6	50.4	50.5	50.7	51.8	50.9
OPEC NGLs + non-conventional oils	3.6	3.7	4.0	4.0	4.2	4.2	4.3	4.3	4.3	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	54.7	53.8	54.7	54.9	55.2	56.4	55.3
OPEC crude oil production (secondary sources)	26.2	27.8	30.0	31.1	31.1	30.9	31.2	30.4	30.9					
Total supply	77.0	79.6	83.0	84.1	84.5	84.3	85.0	85.1	84.7					
Balance (stock change and miscellaneous)	-0.8	0.3	0.7	0.8	-0.2	1.4	1.1	0.1	0.6					
OECD closing stock levels (*mb*)														
Commercial	2478	2517	2547	2595	2596	2654	2768							
SPR	1347	1411	1450	1487	1487	1493	1495							
Total	3825	3928	3998	4082	4083	4148	4263							
Oil-on-water	816	883	906	961	964	975	968							
Days of forward consumption in OECD														
Commercial onland stocks	51	51	51	53	54	54	55							
SPR	28	29	29	30	31	31	30							
Total	79	80	81	83	85	85	85							
Memo items														
FSU net exports	5.6	6.5	7.3	7.7	8.0	8.4	8.3	8.3	8.2	8.7	9.1	9.0	8.9	8.9
(a) - (b)	27.0	27.6	29.3	30.3	31.3	29.6	30.0	30.4	30.3	31.1	29.1	30.1	30.1	30.1

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

Table 31: World oil demand/supply balance: changes from last month's table † , mb/d

	2002	2003	2004	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
World demand														
OECD	-	-	-	-	-	-	-	-0.6	-0.2	-0.2	-	-	-0.6	-0.2
North America	-	-	-	-	-	-	-0.1	-0.5	-0.1	-0.2	-	-0.1	-0.5	-0.2
Western Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(a) Total world demand	-	-	-	-	-	-	-	-0.6	-0.1	-0.2	-	-	-0.6	-0.2
Non-OPEC supply														
OECD	-	-	-	-	-	-	-	-0.2	-	-0.2	-0.2	-0.3	-0.2	-0.2
North America	-	-	-	-	-	-	0.1	-0.1	-	-0.1	-	-	0.1	-
Western Europe	-	-	-	-	-	-	-	-0.1	-	-0.1	-0.2	-0.3	-0.4	-0.2
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	-0.1	-	-0.2	-0.2	-0.1	-	-0.1
FSU	-	-	-	-	-	-	-	-	-	0.2	0.1	0.1	0.1	0.1
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.1	-0.1	-0.1
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	-	-	-0.3	-0.1	-0.3	-0.3	-0.3	-0.2	-0.3
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	-	-	-0.3	-0.1	-0.3	-0.3	-0.3	-0.2	-0.3
OPEC crude oil production (secondary sources)	-	-	-	-	-	-	-	-	-					
Total supply	-	-	-	-	-	-	-	-	-					
Balance (stock change and miscellaneous)	-	-	-	-0.1	-	-	-	-	-					
OECD closing stock levels (*mb*)														
Commercial	-	-	-	-	-	-	7							
SPR	-	-	-	-	-	-	-							
Total	-	-	-	-	-	-	7							
Oil-on-water	-	-	-	-	-	-	-							
Days of forward consumption in OECD														
Commercial onland stocks	-	-	-	-	-	-	1							
SPR	-	-	-	-	-	-	-							
Total	-	-	-	-	-	-	1							
Memo items														
FSU net exports	-	-	-	-	-	-	-	-	-	0.2	0.1	0.1	0.1	0.1
(a) - (b)	-	-	-	-	-	-	-	-0.3	-0.1	-	0.3	0.3	-0.3	0.1

† This compares Table 30 in this issue of the MOMR with adjusted Table 28 in the December 2006 issue.

This table shows only where changes have occurred.

Table 32: OECD oil stocks and oil on water at the end of period

	2001	2002	2003	2004	2005	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06
Closing stock levels *mb*																
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	2,768
North America	1,262	1,175	1,161	1,193	1257	1,145	1,193	1,206	1,193	1,201	1,275	1,254	1,257	1,239	1,276	1,348
Western Europe	925	895	922	924	944	919	933	945	924	951	925	952	944	949	943	962
OECD Pacific	443	408	435	430	394	400	420	430	430	389	422	432	394	408	436	459
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
North America	552	601	640	678	687	654	664	672	678	690	698	696	687	688	690	690
Western Europe	356	357	374	377	407	371	366	367	377	376	401	405	407	407	411	411
OECD Pacific	380	389	396	396	393	398	398	396	396	396	395	393	393	392	393	393
OECD total	3,918	3,825	3,928	3,998	4,082	3,888	3,974	4,016	3,998	4,005	4,116	4,132	4,082	4,083	4,148	4,263
Oil-on-water	830	816	883	906	961	906	892	894	906	931	935	926	961	964	975	968
Days of forward consumption in OECD																
OECD onland commercial	55	51	51	51	53	51	52	51	50	52	53	53	52	54	54	55
North America	52	48	46	47	50	46	47	47	47	47	50	49	50	49	50	53
Western Europe	60	58	60	60	61	61	60	59	59	63	59	61	60	63	61	61
OECD Pacific	52	47	51	50	47	51	52	49	46	48	52	49	42	52	55	52
OECD SPR	27	28	29	29	30	30	29	29	29	30	30	30	30	31	31	30
North America	23	25	25	27	27	26	26	26	26	27	27	27	27	27	27	27
Western Europe	23	23	24	24	26	25	24	23	24	25	26	26	26	27	27	26
OECD Pacific	45	45	47	46	47	50	49	45	42	49	49	45	42	50	50	45
OECD total	82	79	80	81	83	81	81	80	79	82	84	83	81	85	85	85

Table 33: Non-OPEC supply and OPEC natural gas liquids, mb/d

	2002	2003	2004	2005	05/04	1Q06	2Q06	3Q06	4Q06	2006	06/05	1Q07	2Q07	3Q07	4Q07	2007	07/06
USA	8.04	7.82	7.65	7.34	-0.31	7.20	7.37	7.47	7.59	7.41	0.06	7.65	7.60	7.53	7.74	7.63	0.22
Canada	2.84	2.98	3.07	3.03	-0.04	3.16	3.02	3.24	3.38	3.20	0.18	3.26	3.36	3.31	3.42	3.34	0.13
Mexico	3.59	3.80	3.83	3.77	-0.07	3.79	3.78	3.70	3.57	3.71	-0.06	3.57	3.63	3.71	3.68	3.65	-0.06
North America	14.48	14.60	14.56	14.14	-0.42	14.16	14.17	14.40	14.53	14.31	0.18	14.48	14.59	14.54	14.83	14.61	0.30
Norway	3.33	3.26	3.19	2.97	-0.22	2.93	2.70	2.73	2.75	2.78	-0.19	2.72	2.67	2.58	2.69	2.66	-0.11
UK	2.52	2.33	2.10	1.88	-0.22	1.88	1.70	1.48	1.66	1.68	-0.21	1.68	1.65	1.55	1.70	1.64	-0.03
Denmark	0.37	0.37	0.39	0.38	-0.01	0.36	0.35	0.32	0.35	0.34	-0.03	0.33	0.33	0.29	0.31	0.32	-0.03
Other Western Europe	0.44	0.47	0.51	0.54	0.03	0.53	0.56	0.55	0.58	0.56	0.02	0.58	0.58	0.58	0.58	0.58	0.02
Western Europe	6.67	6.43	6.19	5.77	-0.42	5.70	5.31	5.07	5.34	5.35	-0.41	5.32	5.22	4.99	5.28	5.20	-0.15
Australia	0.70	0.60	0.52	0.53	0.01	0.43	0.44	0.59	0.58	0.51	-0.01	0.57	0.55	0.60	0.59	0.58	0.07
Other Pacific	0.06	0.06	0.05	0.05	0.00	0.06	0.05	0.05	0.07	0.06	0.01	0.07	0.09	0.11	0.11	0.10	0.04
OECD Pacific	0.77	0.66	0.57	0.58	0.01	0.48	0.49	0.64	0.66	0.57	-0.01	0.64	0.64	0.71	0.70	0.68	0.11
Total OECD	21.92	21.68	21.32	20.48	-0.84	20.34	19.97	20.11	20.52	20.24	-0.24	20.45	20.45	20.24	20.81	20.49	0.25
Brunei	0.20	0.21	0.21	0.21	0.00	0.22	0.22	0.22	0.22	0.22	0.01	0.22	0.22	0.22	0.22	0.22	0.00
India	0.78	0.79	0.79	0.76	-0.04	0.78	0.79	0.76	0.80	0.78	0.02	0.80	0.77	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	0.00	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	0.55	0.01
Other Asia	2.45	2.52	2.61	2.64	0.03	2.68	2.65	2.65	2.71	2.67	0.03	2.68	2.62	2.74	2.83	2.72	0.04
Argentina	0.84	0.84	0.79	0.76	-0.03	0.76	0.78	0.78	0.77	0.77	0.01	0.76	0.75	0.74	0.74	0.75	-0.02
Brazil	1.72	1.80	1.79	1.99	0.20	2.07	2.08	2.10	2.16	2.10	0.11	2.19	2.17	2.22	2.40	2.24	0.14
Colombia	0.58	0.55	0.53	0.53	0.00	0.53	0.54	0.54	0.54	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	0.54	0.54	0.03	0.53	0.52	0.54	0.53	0.53	-0.01
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	0.31	0.30	0.01	0.30	0.30	0.30	0.30	0.30	0.00
Latin America	3.92	4.02	4.05	4.26	0.21	4.35	4.44	4.47	4.51	4.44	0.18	4.49	4.46	4.51	4.68	4.54	0.10
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	-0.02	0.75	0.75	0.75	0.77	0.75	0.00
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
Middle East	2.12	2.01	1.92	1.86	-0.06	1.82	1.80	1.78	1.79	1.80	-0.06	1.80	1.80	1.78	1.79	1.79	-0.01
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	0.66	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	0.55	0.43	0.09	0.57	0.60	0.64	0.64	0.62	0.19
Africa other	0.20	0.20	0.21	0.25	0.04	0.29	0.31	0.30	0.32	0.30	0.06	0.32	0.32	0.32	0.36	0.33	0.03
Africa	2.12	2.17	2.43	2.52	0.08	2.58	2.60	2.65	2.78	2.65	0.13	2.77	2.81	2.88	2.93	2.85	0.20
Total DCs	10.61	10.72	11.01	11.27	0.26	11.43	11.49	11.54	11.78	11.56	0.29	11.74	11.69	11.92	12.23	11.90	0.33
FSU	9.33	10.27	11.14	11.55	0.41	11.67	11.97	12.15	12.30	12.02	0.48	12.46	12.63	12.77	12.98	12.71	0.69
Russia	7.62	8.46	9.19	9.44	0.25	9.48	9.63	9.72	9.77	9.65	0.22	9.82	9.92	9.97	10.00	9.93	0.28
Kazakhstan	0.94	1.03	1.18	1.23	0.05	1.22	1.31	1.31	1.38	1.31	0.08	1.38	1.41	1.42	1.58	1.45	0.15
Azerbaijan	0.31	0.31	0.31	0.44	0.13	0.56	0.61	0.68	0.71	0.64	0.19	0.84	0.88	0.96	0.98	0.91	0.27
FSU others	0.45	0.47	0.46	0.44	-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	0.15	0.15	-0.01	0.15	0.15	0.15	0.15	0.15	0.00
China	3.39	3.41	3.49	3.62	0.13	3.68	3.70	3.67	3.66	3.68	0.06	3.69	3.67	3.71	3.74	3.70	0.02
Non-OPEC production	45.42	46.26	47.13	47.08	-0.05	47.28	47.28	47.62	48.41	47.65	0.57	48.48	48.60	48.78	49.90	48.94	1.29
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	1.92	1.92	1.92	1.92	0.02
Non-OPEC supply	47.15	48.05	48.96	48.94	-0.02	49.20	49.17	49.50	50.33	49.55	0.61	50.40	50.51	50.69	51.82	50.86	1.31
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
OPEC (NGL+NCF)	3.60	3.71	4.02	4.04	0.02	4.18	4.22	4.33	4.33	4.27	0.22	4.31	4.36	4.46	4.61	4.44	0.17
Non-OPEC & OPEC (NGL+NCF)	50.75	51.76	52.98	52.99	0.01	53.37	53.39	53.83	54.66	53.82	0.83	54.71	54.87	55.16	56.43	55.30	1.48

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

Table 34: World Rig Count

	2002	2003	Change 03/02	1Q 04	2Q 04	3Q 04	4Q 04	2004	Change 04/03	1Q 05	2Q 05	3Q 05	4Q 05	2005	Change 05/04	2Q 06	3Q 06	Nov 06	Dec06	4Q 06	2006	Change Dec06/Nov06	Change 06/05
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	188	1,632	1,719	1,706	1,718	1,719	1,648	12	270
Canada	266	372	106	528	202	326	420	369	-3	620	241	527	572	490	121	282	494	432	456	440	470	24	-20
Mexico	65	92	27	107	113	111	108	110	18	114	116	104	93	107	-3	85	77	86	84	84	83	-2	-24
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	306	1,999	2,290	2,224	2,258	2,243	2,200	34	225
Norway	19	19	0	19	18	14	16	17	-2	15	18	19	17	17	0	20	16	10	15	9	16	5	-1
UK	26	20	-6	15	19	14	15	16	-4	16	22	23	24	21	5	27	26	23	22	15	24	-1	3
Western Europe	85	78	-7	69	70	57	62	65	-13	56	67	68	68	65	0	78	73	62	62	65	73	0	8
OECD Pacific	17	18	1	19	22	26	20	22	4	24	25	27	24	25	3	28	25	25	29	28	27	4	2
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	310	2,105	2,389	2,311	2,349	2,336	2,300	38	235
Other Asia	111	117	6	119	128	127	130	126	9	133	140	146	148	142	16	150	156	151	153	152	153	2	11
Latin America	106	116	10	114	127	129	134	126	10	133	138	141	151	141	15	162	164	157	169	165	160	12	19
Middle East	62	70	8	69	68	69	73	70	0	69	71	73	75	72	2	79	82	87	84	85	80	-3	8
Africa	43	48	5	48	53	56	57	54	6	58	58	54	60	58	4	66	72	82	80	81	71	2	17
Total DCs	322	350	28	350	376	381	394	376	26	393	407	414	433	412	36	457	474	477	486	483	463	13	54
Non-OPEC Rig Count	1,588	1,944	356	2,194	1,949	2,132	2,255	2,132	188	2,489	2,194	2,562	2,670	2,479	347	2,564	2,865	2,790	2,837	2,822	2,765	51	288
Algeria	20	20	0	18	20	20	20	19	-1	20	21	22	21	21	2	21	28	27	25	27	24	-2	3
Indonesia	46	45	-1	46	48	54	49	49	4	53	53	55	59	54	5	43	46	52	53	52	49	1	-5
Iran	34	35	1	38	42	42	41	41	6	42	41	39	38	40	-1	45	47	46	45	45	44	-1	4
Iraq	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	13	14	14	16	15	14	2	2
Libya	10	10	0	10	10	9	10	10	0	10	9	8	8	9	-1	9	10	12	13	12	10	1	1
Nigeria	12	10	-2	7	7	9	9	8	-2	9	9	9	8	9	1	9	10	8	11	10	10	3	1
Qatar	13	8	-5	8	7	10	10	9	1	10	13	12	12	12	3	10	11	10	9	9	11	-1	-1
Saudi Arabia	32	32	0	33	31	31	31	32	0	33	34	37	43	36	4	60	70	77	75	76	65	-2	29
UAE	16	16	0	17	17	16	14	16	0	16	16	16	16	16	0	16	16	16	15	16	16	-1	0
Venezuela	42	37	-5	52	50	52	65	55	18	66	72	66	70	67	12	83	85	75	76	77	81	1	14
OPEC Rig Count	231	218	-13	236	240	254	263	249	31	271	281	275	289	276	27	309	337	337	338	337	323	-3	44
Worldwide Rig Count*	1,819	2,162	343	2,430	2,189	2,386	2,518	2,381	219	2,760	2,475	2,837	2,959	2,755	374	2,873	3,202	3,127	3,175	3,159	3,088	48	332
of which:																							
Oil	758	816	58	872	821	886	925	877	61	961	870	990	1,015	959	82	1,060	1,169	1,134	1,177	1,156	1,114	43	155
Gas	1,044	1,328	284	1,538	1,351	1,478	1,573	1,485	157	1,777	1,583	1,823	1,928	1,778	293	1,802	2,016	1971	1978	1983	1959	7	181
Others	17	18	1	20	17	22	20	20	2	22	22	25	17	22	2	13	18	22	20	21	16	-2	-6

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

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Data is provided by Data Services Department.

Data Summary January 2007

OPEC Basket average price

US$ per barrel

⬆ *up 2.53 in December*

December 2006	***57.95***
November 2006	*55.42*
Year-to-date	*61.08*

December OPEC production

in million barrels per day, according to secondary sources

Algeria	*1.35*	*Iraq*	*1.90*	*Qatar*	*0.81*
Angola	*1.47*	*Kuwait*	*2.38*	*Saudi Arabia*	*8.71*
Indonesia	*0.87*	*SP Libyan AJ*	*1.69*	*UAE*	*2.48*
IR Iran	*3.77*	*Nigeria*	*2.25*	*Venezuela*	*2.47*
				TOTAL	***30.16***

Supply and demand

in million barrels per day

2006		***2007***	
World demand	*84.1*	*World demand*	*85.4*
Non-OPEC supply	*53.8*	*Non-OPEC supply*	*55.3*
Difference	***30.3***	***Difference***	***30.1***

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 draw of 17.8 mb in December.

World economy

World GDP growth revised up to 5.2% for 2006 and 4.5% for 2007.

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Next report to be issued on 15 February 2007.

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