OPEC

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

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Feature Article:
World oil market outlook for 2008

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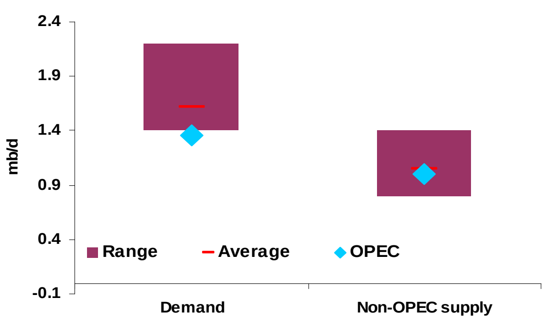
Oil Market Highlights

- The OPEC Reference Basket in June rose $2.41 or almost 4% to close at $66.77/b. Concern over gasoline supply dominated market bullishness, with geopolitical concerns and refinery glitches providing further support to the market. However, healthy crude oil stocks kept the market in balance. In the first two weeks of July, continued concern over gasoline as seasonal demand stepped up amid ongoing refinery outages in the USA, sent global prices to a 10-month high with the Basket surging above the $70/b level in the first week of July. The Basket stood at $72.49/b on 13 July.
- The strong global economic expansion is expected to continue into 2008 at a growth rate of 4.9%, almost at the same pace as the forecasted 5% in 2007. US growth is to improve to 2.6% in 2008 from 2.1% this year as the housing sector ceases to be a drag on GDP growth by the spring of next year and private investment picks up. In the Euro-zone and Japan, growth is expected to remain relatively strong at 2.4% and 2.2%, respectively, slightly lower than in 2007. For Developing Countries, and in particular India and China, another year of robust growth can be expected in 2008, albeit at a moderately lower rate. Growth in China is seen at 9.6% and in India at 7.8% next year. The risks to this benign forecast may come from higher than necessary interest rates as central banks respond to perceived inflationary pressures which may dampen the rate of growth.
- World oil demand growth in 2008 is forecast at 1.3 mb/d, relatively unchanged from the estimate for the current year. Non-OECD — especially China, the Middle East, and India — will account for the largest share, while OECD is expected to see only moderate growth, mostly from North America. Transportation and industry are expected to be the main growth sectors. Risks to the forecast could impact growth by around 150,000 b/d in either direction. Oil demand in OECD may turn out weaker-than-expected due to the impact of higher gasoline prices and the stronger price elasticity. A continuation of the recent pattern of warm winters in the Northern Hemisphere could dampen demand while extremely cold weather would pose an upward risk. In 2007, world oil demand is forecast to grow at 1.3 mb/d or 1.5%, broadly unchanged from the previous *MOMR*. In June, world oil demand followed as expected a low seasonality trend. Due to the strong April figure, the second quarter is expected to grow 1.1 mb/d y-o-y, while the third and fourth quarters should see healthy growth of 1.4 and 1.7 mb/d.
- Non-OPEC oil supply in 2008 is expected to grow 1.0 mb/d to reach 51.4 mb/d, as the impact of accelerated declines in mature fields, along with cost-induced project delays, carry over from the current year. The share of offshore projects is expected to grow to 63.5% and incremental production and is expected to be dominated by light to medium crude types with a share of 68%. In 2007, non-OPEC supply is expected to increase 1.0 mb/d. This represents a significant downward revision of around 190,000 b/d from the last assessment, primarily due to the weak performance of Norway which reached a thirteen-year low in May and June on early and heavier than normal maintenance as well as the shut down of the Ekofisk and Kvitebjorn fields. In June, OPEC crude output averaged 30.0 mb/d, a decline of 97,000 b/d from the previous month.
- Lower than expected gasoline stock-builds in the USA in June provided further support for product and crude prices in recent weeks. However, fast rising crude prices outpaced the performance of the product market, undermining refinery margins across the board in June compared to the previous month. Despite falling refinery margins, product market sentiment remained firm in June providing support for the crude market, as the risk of refinery snags persisted. However, with increasing refinery throughput across the globe — especially in the USA — and higher gasoline imports, product markets may lose part of their current strength in the near term.
- OPEC spot fixtures increased by around 8% in June from the previous month to average 12.83 mb/d, while OPEC sailings remained steady with a minor decrease of 0.2 mb/d to average 23.4 mb/d. Arrivals remained steady around the world with US arrivals increasing only a minor 70,000 b/d in June. The VLCC market softened further as ample tonnage availability coupled with tonnage requirement levels falling short of expectations gave charterers the advantage. On the Middle East/eastbound and westbound routes, rates fell 23% and 7% respectively. Clean tanker freight rates were bearish in June as tonnage demand was shorter than the available tonnage list in most regions.
- US total net crude oil imports rose 87,000 b/d in June as refiners prepare to increase utilization rates. However, product net imports fell 270,000 b/d from previous month to stand at 2.5 mb/d in June on the back of lower gasoline imports. In the same month, Japan's estimated total oil imports rose 193,000 b/d to average 3.9 mb/d on increased crude oil imports while products fell 2.6%. The OECD estimates showed an increase of around 3.5% for the total net oil imports in May settling at around 25.6 mb/d. In China, net oil imports fell by 0.56 mb/d in May from the previous month to stand at 3.5 mb/d, mostly due to the decline in crude oil imports, indicating an annual loss of around 2.7%. India's total net oil imports dropped almost 10% in May from the previous month on the back of lower crude oil imports and higher product exports.
- In June 2007, total commercial oil stocks rose a further 20 mb to stand at 1,027 mb, showing a deficit versus a year ago but an 18 mb surplus compared to the last five-year average. With the 6.4 mb increase in gasoline stocks, the gap to the five-year average narrowed to less than 7 mb. Total oil stocks in Eur-16 (EU-15 plus Norway) reversed the upward trend seen during the previous month falling by almost 16 mb due to a huge decline of 10.4mb in product stocks. However, inventories remained at comfortable levels above the upper range of the last five-year average. At the end of May, commercial oil inventories in Japan witnessed a build of 2.8 mb, but remained 21 mb below last year and at the same level as the five-year average.
- Demand for OPEC crude in 2007 is expected to average 30.8 mb/d, at almost the same level experienced in 2006. On a quarterly basis, the demand for OPEC crude is estimated at 30.2 mb/d in the first quarter and forecast at 30.0 mb/d, 30.9 mb/d and 31.1 mb/d in the subsequent quarters. In 2008, demand for OPEC crude is projected to average 30.7 mb/d, close to the estimate for 2007.

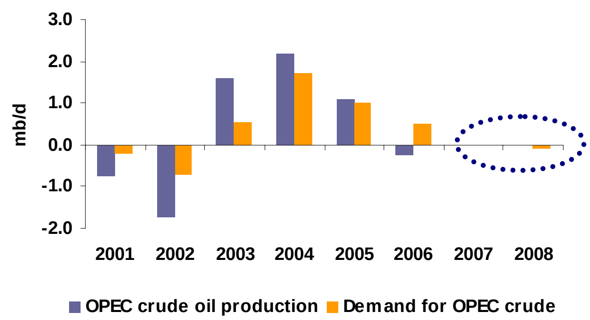
World oil market outlook for 2008

- The world economy, in its sixth year of economic upswing, is still expanding strongly this year and is expected to continue this high performance next year. Growth is forecast to slow down only slightly in 2008 to 4.9%, just below the 5% expected in 2007. The US economy is forecast to achieve a better performance in 2008, growing at 2.6%, 0.5% higher than the modest 2.1% expected this year, as the housing sector recovers from its extended downturn by early next year, removing the drag on US GDP growth. Growth in the Euro-zone and Japan are also expected to remain relatively strong at 2.4% and 2.2%.
- In the emerging countries, the economic expansion will continue to be robust, especially in China and India. However, the rate of growth is expected to ease somewhat in response to tightening monetary policies in both countries. GDP growth in China will fall to 9.6% in 2008 from a soaring level of 10.3% expected this year, while the Indian economy will expand at the rate of 7.8% from 8.2% forecast this year. However, some risks remain, chief among which a possible over-reaction by central banks, worried about lurking inflationary pressures, which could result in higher-than-necessary interest rates and consequently lower economic growth.

Graph 1: Uncertainty in 2008 world oil demand, non-OPEC supply



Graph 2: Incremental demand for OPEC crude vs. OPEC crude oil production



- World oil demand growth in 2008 is forecast at 1.3 mb/d, similar to the level of the current year. Non-OECD countries will account for a major part of the growth at 0.96 mb/d, while OECD growth will be mostly due to North America. Increased energy costs including high taxes as well as energy conservation measures, increased efficiency and alternative fuel use are among the main factors moderating oil demand growth next year. On a sectoral basis, oil use in transport and industry is expected to see the most growth.
- China, the Middle East and India are expected to be the main drivers for oil demand growth. In line with its 11th Five-Year Plan, China is trying to curb energy use, although the booming economy has slightly undermined this goal. In the Middle East, the partial removal of price subsidies and consumption rationing may slightly curb oil demand growth next year. The petrochemical sector is the main driver of growth in the Middle East, while agricultural use and limited fuel switching ability are key factors behind India's incremental growth.
- For next year, risks to the forecast could impact world oil demand growth by around 150,000 b/d in either direction. Oil demand in the OECD countries may turn out to be weaker-than-expected due to the impact of higher gasoline prices and stronger price elasticity. A continuation of the recent pattern of warm winters in the Northern Hemisphere could further dampen demand while an extremely cold weather poses an upward risk.
- Turning to supply, non-OPEC production in 2008 is expected to average 51.4 mb/d, representing an increase of around 1.0 mb/d over 2007 figure. On a regional basis, significant increases are expected to come from the FSU region at 0.4 mb/d followed by North America at 0.2 mb/d. Gains will be partially offset by OECD Europe which is expected to witness a decline of 0.2 mb/d. . Developments in biofuels should also be monitored carefully given the rising output. OPEC NGLs plus non-conventional oils are expected to rise 0.4 mb/d to 4.6 mb/d in 2008, following an increase of 0.3 mb/d in 2007 (Graph 1).
- Taking into account projected world oil demand and non-OPEC supply (including OPEC NGL and non-conventional oils), the demand for OPEC crude is forecast to average 30.7 mb/d, close to the estimate for this year, however with continuing expansion of OPEC production capacity. While this forecast indicates a balanced market (Graph 2), it should be highlighted that the wide range of forecasts across industry sources reflect a high level of uncertainty regarding the demand for OPEC crude. This is further complicated by considerable and persistent revisions over the last three years to both demand and non-OPEC supply forecasts, which have a significant impact on the required level of OPEC crude.
- When considering market stability, developments in the downstream should not be overlooked. In 2008, the growth in world refining capacity is expected to average 1.0 mb/d, falling short of the amount required even at the minimum projected oil demand growth. Moreover, the majority of this incremental refining capacity will only come onstream in the latter part of the year. Overall, the outlook for the oil market in 2008 is shaping up to be quite similar to the current year, with continued tightness in the downstream supporting high product prices and frequent refinery outages exerting further upward pressure, despite the healthy crude oil market.

Vienna, Austria **14 June 2007**

Statement by

HE Abdalla Salem El-Badri
Secretary General

on

Oil Market Fundamentals

OPEC continues to monitor global oil markets closely. We have remained vigilant and we will continue to do so by closely observing market developments.

Global oil inventories are healthy. The most recent preliminary data for May indicates that total OECD commercial oil stocks are around 34 million barrels higher than the five-year average. Within Europe, total oil inventories have reached an historic high and now stand at 66 million barrels above the five-year average. In the US, crude stocks show an excess of 24 million barrels over the five-year average. While US gasoline stocks are still below the five-year average, they have generally shown an increasing trend in recent weeks. In May, gasoline stocks rose 4.9 million barrels.

With OPEC maintaining production at its current level of 30 million barrels a day, this would ensure that commercial oil stocks remain at comfortable levels for the time being, if there is no significant change in market conditions.

On the supply side there is an expectation of increased oil output from non-OPEC in the second half of 2007, as some production returns and delayed projects come on stream.

However, considerable uncertainties continue to surround world oil demand and demand for OPEC oil. But a combination of current high inventory levels and increasing OPEC spare capacity, which is expected to reach around 15% in the second half of this year, means there are adequate supplies available to cope with any upward revisions to oil demand forecasts.

OPEC notes oil markets remain well supplied and market fundamentals do not require any additional supply from the Organization at this time.

OPEC will continue to monitor developments and is prepared to help mitigate any tightness which may emerge at any future stage.

Vienna **21 June 2007**

Joint press release

Further significant developments in the EU-OPEC Energy Dialogue

The fourth ministerial-level meeting of the energy dialogue between the European Union (EU) and the Organization of the Petroleum Exporting Countries (OPEC) was held in Vienna, Austria, today.

The meeting witnessed further significant developments in a process which was established in December 2004 and which has since resulted in enhanced understanding of each group's views on major topical issues affecting energy demand and supply. The energy dialogue has, in addition, helped strengthen key channels of communication across the two groups, and its accompanying joint roundtables, workshops and studies provide the facility to take an in-depth look at specific topics.

The participants from OPEC were: Mr Mohamed Bin Dhaen Al Hamli, President of the OPEC Conference and Minister of Energy of the United Arab Emirates; Dr Chakib Khelil, Alternate President of the OPEC Conference and Minister of Energy and Mines of Algeria; and Mr Abdalla Salem El-Badri, Secretary General of OPEC.

The participants from the EU were: Mr Michael Glos, President of the EU Energy Council and Federal Minister of Economics and Technology of Germany; Mr Andris Piebalgs, European Commissioner for Energy; and Mr Caimoto Duarte, Ambassador of Portugal to Austria, representing the incoming Presidency of the EU.

The EU and OPEC representatives welcomed the progress that had been made since the third meeting of the energy dialogue in Brussels, Belgium, on 7 June 2006. This included: a roundtable on carbon dioxide capture and storage, held in Riyadh, Saudi Arabia, in September 2006; a workshop on the impact of financial markets on oil price and volatility, held in Vienna in December 2006; a roundtable on energy policies, held in Brussels last month; the launch of a joint study on refining; and other meetings and discussions. The representatives expressed their appreciation for the constructive exchanges of views in all these activities.

The first session of today's meeting featured presentations by the EU on its recently adopted energy policy and by OPEC on oil market developments and prospects.

The EU presented the energy policy and action plan adopted in March 2007 by the European Council, focusing on sustainability, security of supply and competitiveness. This policy aims to enhance cooperation with key energy producers, transiting countries and major consumers, and calls for further development of bilateral and multilateral energy negotiations and agreements on energy. In addition, climate change is a key driver of the intimately combined EU energy and environment policy. And finally, energy technology becomes increasingly instrumental in improving efficiency and renewable energy sources for addressing climate change, by promoting clean fossil fuel and carbon capture and storage (CCS) technologies. With regard to oil market situation, the EU expressed its concern about expected seasonal increase in demand coupled with possible supply disruptions over the next few months which could lead to tightening in the oil market.

OPEC reiterated in its presentation that the present oil market remains well supplied, with commercial crude oil stocks above five-year average and an increasing level of upstream spare capacity. However, in addition to geopolitical constraints, tightness in the refining sector, which has been recognised as a matter for concern since the second EU-OPEC meeting in December 2005, continues to increase volatility and exert pressure on crude and product prices, in particular, on gasoline prices. OPEC reaffirmed its longstanding commitment to ensuring sound supply fundamentals at all times, and to offering an adequate level of spare capacity, for the benefit of the world at large.

Both sides emphasized the importance of continuously monitoring oil market developments and taking appropriate actions if necessary.

Participants expressed once again their mutual interest in stable, transparent and predictable oil markets, with reasonable prices that are consistent with the need for healthy world economic growth and steady revenue streams for producing countries, and that are conducive to the expansion of capacity to meet rising oil demand. They recognised the importance of secure future demand for crude and products in spurring timely investment both upstream and downstream, thus contributing to greater security of supply.

The two parties believed that the world is becoming increasingly interdependent, with a complex energy system that is steadily developing into a more global and interconnected one, through physical infrastructures and markets. Dialogue, partnerships and transparency were, therefore, considered essential in addressing the world’s energy needs, in a predictable, stable and harmonious manner.

In this connection, they reaffirmed their recognition of the reciprocal nature of energy security, with security of supply and security of demand being two faces of the same coin. It was, furthermore, emphasised that every effort should be made to minimise uncertainties along the supply chain, in order to reduce investment risks and support long-term market stability.

In noting that oil will remain the world’s leading energy source for the foreseeable future, the meeting agreed that, in the long run, on the basis of present information, there are enough conventional and non-conventional oil resources globally to meet the expected significant growth in demand. At the same time, however, both parties welcomed the growing diversity in the energy mix, including renewables. With regard to biofuels specifically, their sustainability was discussed, especially the many potential impacts of their large-scale trade and use for energy purposes. The EU highlighted the scope to tackle such problems through an appropriate policy framework.

The meeting also addressed the current shortages in skilled labour, equipment and services, both upstream and downstream, and rapidly rising costs, which the industry is currently facing, as well as the issue of human resources. A shortage of skilled labour for drilling, engineering, procurement, construction and other services and a downturn in the number of students in energy fields were seen as hampering the industry’s orderly expansion, and thus constituting a serious reason for concern. The meeting, therefore, decided to address this issue in the energy dialogue. It also reiterated the importance of energy technology and its decision to set-up a task force for examining the establishment of an EU-OPEC energy technology centre.

The two parties noted the big contribution that the EU-OPEC energy dialogue could make to broader-based challenges facing mankind, notably environmental harmony, sustainable development and the eradication of poverty. They agreed that cleaner fossil fuel technologies should be promoted, to help foster economic growth and social progress, while contributing to the protection of the environment. They stressed, in particular, the need for the further development and deployment of CCS technology, since this would have a key role in reducing net emissions of greenhouse gases. Both sides recognised once again the essential nature of the Millennium Development Goals and the fact that access by the poor to modern energy services facilitated the achievement of these goals.

Accordingly, they agreed upon the following specific joint actions:

- A workshop on the oil refining sector, including the implications of biofuels, to take place in Brussels end 2007 or early 2008

- A study on the impact of financial markets on the oil price and volatility, with the terms of reference to be developed jointly in the coming months.

- An enhanced discussion on CCS cooperation, leading up to a roundtable in the first quarter of 2008.

- The development by the task force of the concept and operations of an EU-OPEC Energy Technology Centre, including the cooperative framework on education and training in the energy sector, with a report to be presented to the next annual meeting of the EU-OPEC Energy Dialogue.

The fifth meeting of the EU-OPEC Energy Dialogue will be held in Brussels, Belgium, in June 2008.

Vienna, Austria **26 June 2007**

OPEC releases its 2007 World Oil Outlook

"With energy central to poverty alleviation, social progress, economic expansion and the enhancement of sustainable development for us all, it is helpful we have platforms for discussion and exchanges of views about how the energy system might evolve in this regard", Abdalla Salem El-Badri, OPEC Secretary General, said at the launch of the annual publication at a meeting of OPEC's Economic Commission Board in Vienna, today. "The release of OPEC's 2007 World Oil Outlook is an essential element in this process.

"It is part of OPEC's commitment to support market stability, a pledge that goes back to its inaugural meeting in Baghdad in September 1960", he added. "The publication's outlook for both oil supply and demand helps establish the features, extent and magnitude of the possible challenges and opportunities that may lie ahead of us."

The Outlook is split into two sections, one focusing on oil supply and demand to 2030 and the other on oil downstream. It highlights that fossil fuels will continue to provide the majority of the world's commercial energy needs, with oil the leading source in helping fuel the growth and advancement of today's developing nations and the continued progress of industrialised ones. In this respect, oil resources are sufficient to meet demand.

The publication also underscores the growing global energy and economic interdependence between nations and regions. The reality is that energy security must be viewed as an intertwined mutually supportive supply and demand network. The Outlook acknowledges that no-one can act alone and as an industry we have to be inclusive: to look at the needs and responsibilities of oil producers and consumers, oil exporters and importers, and developed and developing nations, with many of the latter requiring improved access to modern, reliable and affordable energy services.

OPEC does not hold out any of the Outlook's scenarios as forecasts of an energy future, rather indicators as to how the Organization views the possible evolving energy landscape. It is a means of further opening up the channels for extending dialogue and co-operation, something on which OPEC places much credence.

El-Badri concluded: "The World Oil Outlook is a demonstration of the Organization's commitment to a secure, sound and stable oil industry; today, tomorrow and into the future, and is testament to the excellent work the OPEC Secretariat delivers year-on-year. The team responsible for the Outlook should be extremely proud of their efforts."

The 2007 World Oil Outlook is available for download at: www.opec.org.

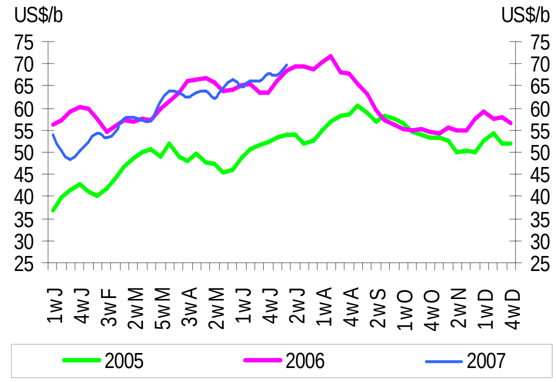
Crude Oil Price Movements

High crude oil stocks kept calmness in June, although inadequate refinery run rates inspired jitteriness

OPEC Reference Basket

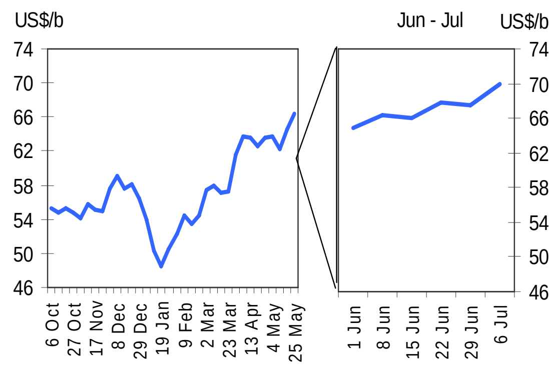
In June, the market emerged on a bullish note amid uncertainty over supply from West Africa and crude oil stock-draws in the USA. Furthermore, gasoline supply was tight amid the emergence of the driving season. Cyclone Gonu was seen as threat to oil facilities in Oman as well as Mideast shipping lanes as it approached the Strait of Hormuz. However, the market sentiment eased in the Mideast as oil facilities were not disrupted. The OPEC Reference Basket averaged $1.38 or over 2% higher in the first week to settle at $66.27/b. The upward trend was capped in the second week by concern over economic growth as interest rates were expected to rise. Higher output from the North Sea in July also added to market easement. Although there were some volatilities on what was seen as bullish US petroleum data, concern over gasoline supply revived amid low refinery utilization rates, which were perceived to be inadequate to meet fuel demand, while geopolitical developments in the Mideast kept alertness in place. The Basket's weekly average fell a marginal 25¢ to close at $66.02/b. The market bullishness carried into the third week by planned strikes in Nigeria and Brazil, although the earlier concern from West Africa was not seen to affect supply, as exports were steady from the Niger delta. Moreover, an unexpected build in US weekly petroleum data kept a cap on the price rise. The average weekly Basket surged $1.72 or 2.6% to settle at $67.74/b, the highest weekly average so far this year after peaking to $68.23/b. In the fourth week, the end of the oil worker strike in Nigeria and crude oil stock-builds in the USA implying a well supplied market kept calmness in place. Nevertheless, the volatility continued on concerns over gasoline supply and winter stockpiling amid refineries returning from maintenance which was foreseen to fulfill the requirements, although it might also reduce crude oil inventories. The Basket eased in the final week, with the average slipping 25¢ to $67.49/b.

Graph 1: OPEC Reference Basket - weekly spot crude



In monthly terms, the OPEC Reference Basket rose $2.41 or nearly 4% to close at $66.77/b. Concern over gasoline supply dominated market bullishness, while geopolitics and refinery glitches played significant roles in keeping alertness in place. Economic growth and healthy crude oil stocks kept the market in balance preventing any further escalation. In the first two weeks of July, continued concern over gasoline as seasonal demand stepped up amid some refinery outages in the USA sent global prices to a 10-month high with the Basket rallying above the $70/b level to average $70.86/b during the first two weeks of July.

Graph 2: Weekly average Basket price, 2006-2007

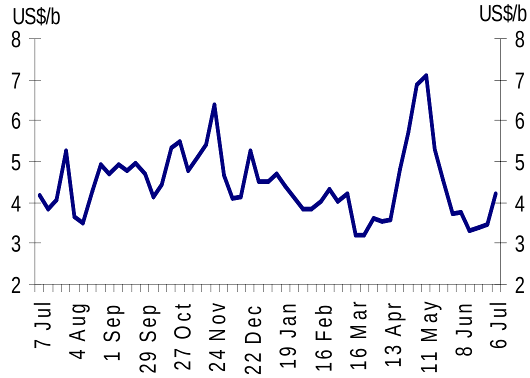


Concern over supply from West Africa and demand for gasoline supported light crude

US market

Light crude oil differentials strengthened in the US domestic market on the back of higher demand for clean products. During the fist week the WTI/WTS spread was a notch wider by 4¢ at $3.76/b, yet it retreated from the peak in May. Concern over Colonial pipeline snags and ongoing refinery glitches supported the market; however, the momentum was short-lived as gasoline production resumed. It is worth noting that the unexpected rise in gasoline stocks the previous week and the narrowing Brent premium to WTI prompted light crude to be under pressure on the potential of further imports of transatlantic crude. Nevertheless, concerns over supply disruptions from West Africa remained amid bullish US petroleum inventory data; thus, the weekly average for the WTI/WTS spread narrowed by a hefty 44¢ to $3.32/b, after touching $3/b most of the week. The volatility resumed in the third week on lingering concern over potential tighter supply from Nigeria amid the prospect of higher refinery runs. However, a surprise rise in the US petroleum inventories pressured light-end crude. In the third week, the average WTI/WTS spread was 8¢ wider at $3.40/b. Further refinery demand in the final week supported sweet crude amid a drop in crude stocks at Cushing, Oklahoma, which indicated a further stock-build amid availability of storage space. The WTI/WTS spread was 7¢ firmer at $3.47/b. In June, WTI averaged firmer at $3.98 or 6.3% higher to settle at $67.44/b, after closing the month at over $70/b. The monthly average spread over WTI was $3.52 or $1.98/b narrower from the May average.

Graph 3: WTI spread to WTS, 2006-2007

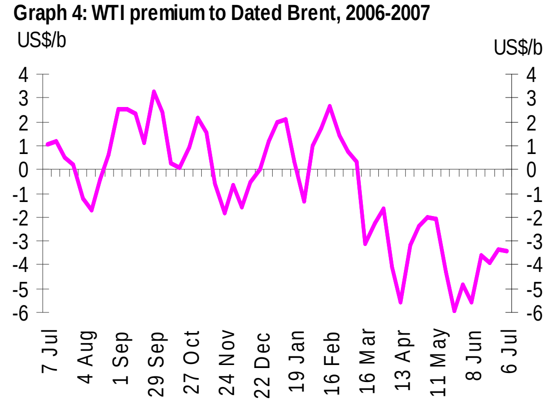


North Sea market

Tight supply amid strong demand widened the Brent premium to WTI

Tight June supply amid clearing prompt barrels supported North Sea crude. Upstream maintenance reduced production from the nine main North Sea crude streams to an estimated 2.165 mb/d in June, down 422,000 b/d from May, strengthening the regional grade in the first week. Nevertheless, differentials were pressured by higher output in the July programme of 300,000 b/d to 1.44 mb/d for the four Brent grades. Hence, price differentials continued to slip on healthy supply. Although, as field maintenance ended availing more barrels, the pressure was balanced in the second week due to improved refining margins which supported the North Sea crude. In the third week, uncertainty over the future of Forties as a benchmark grade, reflecting the confusion surrounding the new Forties pricing methodology by Platts, kept the regional crude under mounting pressure amid diverging outright prices with Argus. Nevertheless, continued strong demand for July barrels supported the regional crude. Brent's monthly average was $71.55/b, a gain of $4.17 or over 6%, with the premium to WTI 19¢ firmer at $4.11, compared to a discount of $2.19/b last year.

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



Mediterranean market

Lower supply from Russia balanced weak refining margins in the Mediterranean

The Mediterranean market emerged on a weaker note amid poor sour crude refining margins. Nevertheless, the sentiment was short-lived amid a rebound in crack spreads while a Mideast major's price differentials were set higher at a time when supply disruptions were on the horizon due to the cyclone-disrupted shipments. Weather-related-delays amid solid refiner demand kept the grade firm into the first week with Urals discount to Brent at $3.58/b or 23¢ narrower. Healthy refining margins into the second week continued to support the grade while Russia announced lower output in the third quarter by 170,000 b/d on higher export duties, which kept Urals firm with the discount to Brent down by another 60¢ to $2.98/b. However, in the third week narrowing margins and limited buying interest prompting additional barrels pressured Urals crude. Iraq's sell-tender from its northern outlet added calmness to the regional market. Urals discount to Brent widened by 97¢ to $3.95/b. The weak sentiment continued into the fourth week amid Kirkuk and Azari Light crude on offer adding to market bearishness at a time when refining margins were weakening. Urals discount to Brent was 30¢ wider at $4.25/b. In monthly terms, Urals averaged $67.83 in June, $3.42 higher than in the previous month, with the discount to Brent 63¢ wider at $3.72/b.

Uncertainty over the value of Oman's DME was balanced by improved margins amid closed arbitrage

Middle Eastern market

The Middle East market began June with the inauguration of the Dubai Mercantile Exchange (DME) which will be used to calculate Oman's official selling price (OSP). The market calmly digested the retroactive May price while the focus shifted to DME amid uncertainty over the value of the grade in the new system and weaker end-user demand, which kept August Oman to trade at parity. Cyclone Gonu also hindered trading on concern over supply disruption, however, the momentum was short-lived as damage to the oil infrastructure was minimal. August Murban traded at a thinner premium of 6¢/b to ADNOC's OSP in the first week. Steady supply from the Middle East pressured the market early in the second week; however, the improved fuel oil crack spread and the closed arbitrage window supported the premium to remain firm in the second week. In the second week, Abu Dhabi Murban was assessed at a 25¢/b premium to ADNOC's OSP on the back of Japanese seasonal stockpiling. The sentiment firmed into the third amid lower inflow of rival European crude and improved refining margins. Oman was assessed at a 15¢/b premium to DME while Abu Dhabi Murban remained at a 20-25¢/b premium to OSP. Ramping up of refineries in Japan also supported market bullishness. Nonetheless, the weak naphtha market pressured Mideast crude later in the week. In the final week, refineries meeting most procurements was balanced by rising demand. Activities for Oman were mostly quiet amid the emergence of the new retroactive price based on DME while Abu Dhabi weakened with the premium assessed at 10-15¢/b to OSP. The average spread for Brent/Dubai widened by $2.97 to $5.76/b.

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

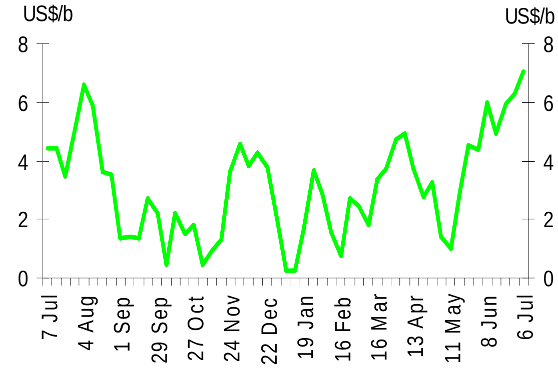


Table 1: OPEC Reference Basket and selected crudes, US$/b

			Change	Year-to-Date	
	May 07	Jun 07	Jun/May	2006	2007
OPEC Reference Basket	**64.36**	**66.77**	2.41	**61.21**	**59.70**
Arab Light	64.15	65.92	1.77	61.07	59.36
Basrah Light	61.79	64.09	2.30	58.00	56.76
BCF-17	56.06	60.69	4.63	51.87	52.10
Bonny Light	70.03	74.45	4.42	67.30	65.80
Es Sider	66.03	70.25	4.22	63.68	61.80
Iran Heavy	62.72	64.77	2.05	59.62	57.52
Kuwait Export	62.06	63.61	1.55	59.13	57.29
Marine	65.34	66.15	0.81	62.74	60.69
Minas	68.12	68.41	0.29	65.88	63.65
Murban	69.21	70.74	1.53	65.82	64.59
Saharan Blend	70.13	74.05	3.92	66.39	65.59
Other Crudes					
Cabinda	65.35	68.47	3.12	63.43	60.83
Dubai	64.59	65.79	1.20	61.42	60.11
Isthmus	60.60	65.40	4.80	60.44	57.61
T.J. Light	58.54	63.31	4.77	55.33	55.82
Brent	67.38	71.55	4.17	65.69	63.27
W Texas Intermediate	63.46	67.44	3.98	66.85	61.46
Differentials					
WTI/Brent	-3.92	-4.11	-0.19	1.17	-1.81
Brent/Dubai	2.79	5.76	2.97	4.27	3.16

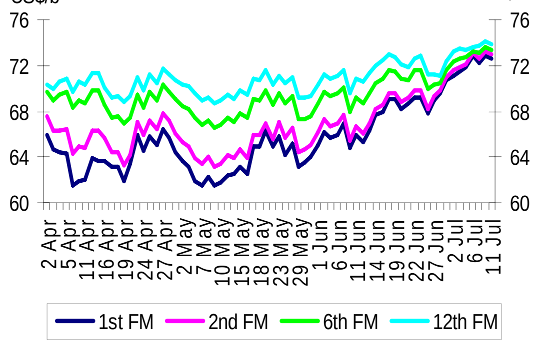
Source: Platt's, Direct Communication and Secretariat's assessments.

The Oil Futures Market

Geopolitical concerns amid tight gasoline supply inspired net non-commercial long positions to inflate

Oil futures were dominated by a bullish market during most of June with geopolitics and gasoline in the lead. The Nymex WTI front-month contract closed the first weekly period at $65.61/b for a gain of $2.47 or almost 4% while the weekly average rose 30¢ to $65.79/b. Concern over gasoline supply amid snags at the Colonial pipeline and ongoing refinery glitches supported market bullishness. The bullishness was furthered by Cyclone Gonu which disrupted oil operations in the Arabian Sea and oil shipments from the Strait of Hormuz. The CFTC reported that non-commercial crude oil contracts volume dropped short positions while longs were somewhat steadily higher. Thus, the net long positions were nearly 20,000 lots wider at almost 55,000 contracts. Open interest was inflated by a healthy 35,200 to 1,423800 lots. With options included, open interest was almost 2,290,000 lots for a gain of 48,100 contracts. In the second weekly period, the CFTC reported that net non-commercials for crude oil futures continued to inflate amid depleting short positions while longs expanded. The net effect was to gain another 9,600 lots to stand at 64,500 contracts net long. Open interest was a marginal 9,000 lots higher at 1,432,600 lots. With options included, open interest stood another 11,000 lots higher to reach a record-high of 2.3 million contracts. Although Nymex WTI front-month crude oil futures closed the weekly period 26¢ lower, the weekly average was 91¢ higher.

Graph 6: Nymex WTI futures prices, 2007

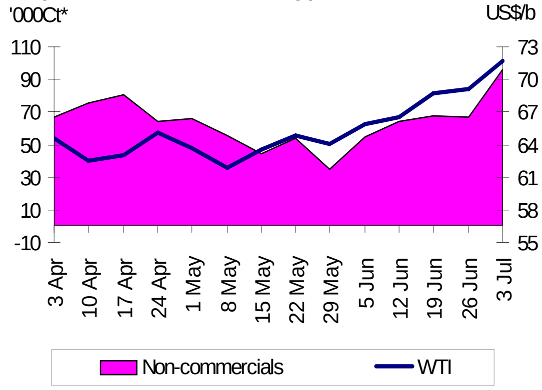


FM = future month

During the second weekly period, the market was extremely volatile, while concern over Cyclone Gonu faded, rising interest rates triggered concern about a weakening economic outlook that might eat into demand. Healthy petroleum stockpiles in the USA calmed the market while the perception of tight supply maintained concern as refineries were expected to return from seasonal maintenance.

In the third weekly period, gasoline and geopolitical concerns added to the fear premium. Nymex WTI crude oil futures moved higher to close the period at $69.10/b for a gain of $3.75 or nearly 6% with the weekly average at $68.02/b for a rise of $2.23. The CFTC reported for the closing period that the non-commercials continued to inflate net long positions by nearly 3,000 lots to 67,400 lots, the widest since mid-April. In contrast, open interest narrowed nearly 10,000 lots to 1,422,800 contracts. With options included, open interest fell a hefty 33,000 lots to 2,268,400.

Graph 7: Non-commercial net long positions vs WTI, 2007



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

In the fourth weekly period, volatility resumed with Nymex WTI new front-month contracts closing at $67.77/b, $1.33 down from the previous week; however, the weekly average gained 57¢ to $68.59/b. Unexpectedly healthy petroleum data in the USA along with the EIA's upward revision of April gasoline inventories outweighed concerns about the Mideast and West Africa geopolitics. The CFTC reported that non-commercials reversed the previous three-week trend with net long positions deflating by a marginal 260 lots to nearly 67,200. Yet, open interest rose 13,300 lots to a record-high of 1,436,000 contracts. With options included, open interest inflated by a hefty 48,200 lots to 2,316,600.

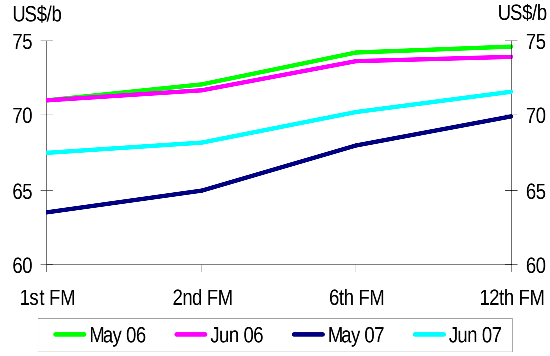
On a monthly basis, non-commercial net long positions averaged 12,400 lots wider at 63,500 contracts or some 27,200 contracts higher than last year. Moreover, open interest averaged 1,429,000 lots for a gain of 46,000 lots over the May average and 416,700 lots higher y-o-y. With options included, non-commercial net long positions were almost 22,000 lots wider at 99,500 contracts, representing a 40,100 gain over the previous year. Open interest averaged 2,294,000 lots for a drop of 29,400 lots from the previous month, yet 663,500 contracts higher than the previous year.

The Forward Structure

Prompt demand for crude oil as refineries return from maintenance continued to narrow the contango spread

The forward structure remained in contango, although narrowing to the lowest monthly average since January 2006. The 1st/2nd month spread averaged 65¢ in June with the 1st/6th, /12th and /18th spread at $2.67, $4.03 and $4.46/b for a drop from May averages of 78¢, $1.80, $2.36 and $2.53/b respectively. Although crude oil stocks in June averaged 347.8 mb or 5.4 mb over May and nearly 3 mb over last year, the contango spread narrowed on concern that refineries returning from maintenance might reduce crude stocks. Increasing demand for gasoline supported the prospect of higher refinery run rates. Although gasoline stocks were 6.8 mb over the previous month, they were nearly 10 mb below last year's level amid rising demand on the horizon.

Graph 8: Nymex WTI forward curve



FM = future month

Highlights of the World Economy

Economic growth rates 2007-2008, %							
	World	OECD	USA	Japan	Euro-zone	China	India
2007	5.0	2.6	2.1	2.3	2.6	10.3	8.2
2008	4.9	2.7	2.6	2.2	2.4	9.6	7.8

Industrialised countries

United States of America

US economy seen to have rebounded in second quarter but worries persist about the fallout from the housing sector

Further evidence was provided in June that the US economy probably rebounded in the second quarter of 2007 from the very weak performance during the first quarter. According to Blue Chip Economic Indicators, the consensus among 70 American business economists was for a real growth rate of 2.8% during the second quarter, up from 0.7% during the first quarter. The consensus is for the US economy to continue growing at around that level for the rest of 2007 achieving a 2.1% average growth rate for the full year and moving up to 2.9% in 2008. Official figures for the advance estimate of second quarter GDP will be released on 27 July. The benign outlook assumes a continuing but diminishing drag from the housing market, expected to recover only by the Spring of 2008, a pick up in business investment from present levels and moderating but still respectable growth in consumer expenditure of around of 2.5-3%. However, this benign picture is not uncontested. There is still some concern that the sub-prime mortgage market meltdown will threaten consumer spending and that business investment will fail to pick up due to stricter financing conditions. Consumers are also being affected by the falling real estate values and rising energy costs. In fact, retail sales, which account for about half of private consumption, fell by a larger-than-expected 0.9% in June, raising concern about a slowdown in private consumption, which is responsible for almost two thirds of GDP. On the other hand, wages and salaries, which account for 55% of personal income, continued to increase, rising by 0.4% in May. This was a little less than expected, given the positive labour market report in the same month which showed private average hourly earnings and hours worked rising by 0.3% each. Our forecast for 2007 is for a growth of 2.1%, unchanged from last month and a pick up to 2.6% in 2008, slightly below the consensus

On the positive side, one notes the strength of the surveys on US business. The ISM manufacturing index increased for the third month in a row in June to 56.0, well-above the 50 level that indicates a stable output, and the best reading since April 2006. Similarly for the services sector, the ISM activity index for June confirms the view that economic growth accelerated in the second quarter but could moderate in July. Retail sales in May were stronger-than-expected with a year-on-year impressive increase of 5%, the highest rate so far this year. However, it is expected that the overall figure for household spending during the second quarter will be lower than the 4.4% achieved in the first quarter.

Labour markets continued to exhibit residence to the housing sector decline, with the rise in jobs, at 132,000 in June, sufficient to absorb the natural increase in the labour force and keeping the rate of unemployment steady at a low 4.5%. Moreover, readings on core inflation, excluding volatile food and fuel prices, have moderated in recent months. The closely watched personal consumption expenditures (PCE) price deflator edged down to 1.9% y-o-y in May, falling below the 2% benchmark and thus just within the Fed comfort zone of 1-2%. This was welcome news to the Federal Reserve, as the rate has fallen for three consecutive months from the high 2.4% in February. At the end of June, the Fed kept interest rate on hold once again at 5.25%, but remains watchful for any signs of re-emerging inflationary pressures.

However, other data were less positive. The trade deficit widened in May to $60bn from $58.7bn in April. Durable goods orders were soft (down 2.8%) and new home sales weakened in May (down 1.6%). Consumer confidence, as measured by the Reuters/University of Michigan Surveys of Consumers improved slightly during the month of June, but finished the month at the lowest level since August 2006. Consumer confidence is seen as an indicator of future consumer spending. The ongoing fallout from the subprime mortgage market, particularly in financial markets, has also led to some cautiousness about the prospects for the real economy. Delinquencies on subprime home loans surged to a 10-year high and home buyers are now facing higher borrowing costs, as the rise in long term interest rates in June fed into higher mortgage rates. The 30-year fixed-rate mortgage stood at 6.63% at the start of July, up from 6.15% at the beginning of May, according to Freddie Mac.

Japan

Steady expansion in Japanese economy raises expectation of monetary tightening in August

The overall economy in Japan appears to be expanding steadily, with exports supported by the weak yen and strong growth within the Asian region. The current account surplus surged by 31% in May from year-earlier level to $17.5 billion, as exports rose by 14.6% given strong demand for cars, steels and semiconductors, as growing markets in Europe and intraregional trade offset the slowdown in US demand. The June quarterly Bank of Japan 'Tankan survey' of business confidence revealed continued robustness in the manufacturing and non-manufacturing sectors of the economy during the second quarter. As revealed by the report, capital expenditure is expected to continue to be the mainstay of the economy. Moreover, the expected pick-up in the US economy during the latter part of 2007 could also support Japanese exports and investments going forward. Core private machinery orders, considered to be a proxy for capital expenditure, registered a stronger-than-expected 5.09% m-o-m growth in May (excluding large-scale ship and machinery goods), following the 2.2% growth registered in April.

The Bank of Japan is increasingly expected to resume its gradual monetary tightening and to raise interest rates as early as August by another 25 basis points to 0.75%, in particular if the economic recovery is confirmed by the GDP report to be issued one weak before the start of the two-day BoJ meeting in August. However, Japanese inflation was negative in May with the consumer price index dropping 0.1%, the fourth consecutive monthly decline. On the other hand, wholesale inflation accelerated in June to 2.3% from year earlier, which points to a possible end to consumer deflation as of June. Despite the presence of some deflationary pressures, the BoJ holds the view that deflation is only temporary phenomenon and that the economic recovery is entrenched justifying monetary tightening.

Recent data has lent support to the picture of sustained economic recovery. Apart from the Tankan report and core machinery orders mentioned already, confidence of major manufacturers was near a two-year high, the jobless rate held at a nine-year low of 3.8% in May with the job-to-applicant ratio rising to 1.06 from 1.05 in the previous month, and household spending in May rose for the fifth month in a row by 0.4% on the year.

However, other reports were less bullish. Industrial production fell for a third month in May, the cabinet office's index of leading indicators pointed to a slowdown in growth in the coming months as industrial output weakens, and consumer confidence dipped to a 30-month low in June, as wages continued to fall this year and rising costs of food and energy undermined the purchasing power of consumers. The consumer confidence survey showed that plans to buy big-ticket items such as cars had been reduced. In fact, domestic automobile sales fell for a 24^{th} month in June. Pockets of weakness in consumer spending thus remain. Overall, the Japanese economy is forecast to grow at 2.2% next year only slightly lower than the 2.3% predicted for 2007.

Euro-zone

The euro-zone economies exhibited strong growth in both the manufacturing and services sectors in June

Economic growth in the euro-zone during the first quarter of 2007 was revised up by 0.1% to 0.7% q-o-q compared to 0.9% during the fourth quarter of 2006. The European Commission now forecasts a growth of 0.7% in the second and third quarters, and 0.6% in fourth quarter of this year. The euro-zone economies continued to exhibit strong growth in both the manufacturing and services sectors in June, according to the latest PMI reports compiled by the Royal Bank of Scotland (RBS)/NTC Research. Specifically, the euro-zone manufacturing PMI improved to 55.6 in June from 55.0 in May ,substantially above the break-even 50.0 level The PMI jumped to an 11-month high in the Netherlands and to a five-month high of 57.3 in Germany. The service-sector PMI business activity index climbed to 58.3 in June from 57.3 in May. The index was particularly strong in Germany, France and Italy. The survey also showed that employment in the manufacturing sector grew for the 16th successive month and in the services sector for the 35th month running in June. The external sector saw a seasonally-adjusted Euro-zone current account moving from a surplus of €6.7bn in March to a deficit of €4.0bn in April. However, it was still in surplus by about €2.5bn cumulatively over the first four months of 2007.

Unemployment fell to new record lows in May of 7% from 7.1% in April. According to Eurostat data, the jobless rate in individual euro-zone countries during May ranged from 3.2% in the Netherlands to 8.7% in France, while Germany registered an unemployment rate of 6.6%. The higher employment is expected to support consumer spending. However, despite the marked improvement in employment, retail sales volumes fell by 0.5% m-o-m in May, the latest month for which data is available, following a decline of 0.1% in April. This was mainly due to a fall of

1.8% m-o-m in Germany in May, attributed to the dampening effect of the 3% rise in sales taxes implemented at the start of 2007. In general, consumer spending in the euro-zone has disappointed so far despite the substantial improvements in labour markets, partly due to relatively modest improvements in wages so far.

The European Central Bank (ECB) kept rates on hold at 4.0% at its meeting early in July, but given the continued strong performance of Euro-zone economies and the concern that tighter labour markets may eventually lead to higher wages, it is widely expected that interest rates will rise again this year, since the ECB considers current levels as still accommodative. The continued strong increase in the money supply will also add to the arguments for tightening monetary policy further. M3 money-supply growth accelerated to 10.7% in May, from 10.4% in April or more than six percentage points above the ECB's targeted rate of 4.5%.

Germany, which accounts for a third of the Euro-zone economy, is playing a key role in the euro-zone economic recovery. The Ifo survey of 7,000 German businesses fell to 107.0 in June from 108.6 in May, but still remained at a high level seen to be consistent with strong economic growth. The unemployment count dropped by around 0.7 million during the last twelve months, and real manufacturing orders rebounded in May at a rate of 3.2%, reversing the decline of 1.6% in April, as both foreign and domestic orders picked up despite the strong euro. Other countries in the Euro-zone adjacent to Germany, such as Austria, Italy and the Benelux countries are also witnessing strong growth.

Overall, the euro-zone economy is forecast to expand at the rate of 2.4% in 2008, slightly lower that the 2.6% predicted for this year.

Former Soviet Union

Russian economy is growing fast

The Russian economy witnessed accelerated growth in the first four months of 2007. GDP in Russia grew by 7.9 % in May and this strong growth was due to high growth in investments in the construction and manufacturing sector. Investments were accompanied by a 25.2% growth in the construction sector in the first half of 2007, compared with 6.4% in 2006. Almost all sectors of the Russian economy accounted for the significant economic growth as industrial production grew by 6.7% in May, agriculture grew by 2.7%, up 2.3 % in the first 5 months of 2007, and construction climbed to 29.1%, rising 25.2 % in the first five months of this year. Retail sales were up 14.6% in May and manufacturing increased by 11.9 %. According to the Central Bank of Russia, inflation registered 5.7% in the first half of 2007 due to a rise in food prices

Strong growth in Kazakhstan driven by domestic demand and exports

According to the government of Kazakhstan, the GDP will increase in 2007 to $100 billion y-o-y, compared with 80.5 billion in 2006, driven by strong domestic demand and positive net exports. The government is expecting continued strong growth, with domestic demand and net exports seen to display an expected 8.9% growth from 2007 to 2008. According to the Ministry of Economic Development, the GDP in Azerbaijan was up 31% in 2006, while it is officially expected to slow down to 25% in 2007, driven by oil production and expected gas output and exports. Oil product revenues for the next 20 years are expected to exceed $140 billion.

Developing Countries

Inflation up in China but not at alarming levels

The inflation in China has risen in May to 3.4%, higher than People Bank of China's (PBoC) target of 3%. This could bring the annual figure to 3.2% this year the highest since 2004. Such an increase is attributed mainly to the rise in food prices. The central bank has increased borrowing costs twice this year, pushing the one-year benchmark lending rate to 6.57%. Such levels are not expected to bring a swift response from the Chinese policy makers as the focus is still on creating jobs through enhancing exports. Inflation levels below 5% appear to be acceptable given the high growth rates of the Chinese economy. Historically, policy makers have not really reacted before inflation reached 8%. Retail sales in China rose by 15.9% in May y-o-y. Increased consumer spending is enhanced by a rapid growth in real wages. Private consumption is expected to grow by 6.5% in 2007 from 6.2% in 2006.

Stronger rupee and high interest rate bring inflation down in India

Higher interest rate and stronger domestic currency in India have curbed demand causing inflation to stay near a 13-month-low last month. Wholesale prices rose 4.13% in the week ending 23 June from a year earlier, the Ministry of Commerce & Industry announced. To combat inflation, the Reserve Bank has also allowed the rupee to gain to nearly nine-year high, making imports cheaper. It has slowed dollar purchases on concern that rupee funds injected from the exercise will stoke inflation. A pause in the Reserve Bank of India's policy of raising interest rates will help strengthen economic growth. India's industrial production grew 13.6% in April according to the official figures. India's economy has averaged 8.6% growth since 2003, the second fastest among the major economies after China, causing demand for manufactured and farm goods to outstrip supply and stoking prices.

Brazilian economy to grow 4.3% in 2007

Brazil's economy is expected to grow by 4.3% in 2007. Economic output also expanded by 4.3% y-o-y during the first quarter and consumer spending was strong as well. The Central Bank of Brazil reduced interest rate (Selic benchmark) by half a percentage point to 12%, a record low in Brazil. The resulting decline in borrowing costs has fuelled consumer demand and boosted capital investment.

OPEC Member Countries

Algeria to see robust trade surplus; Kuwait to fund growth in non-oil sector

In Algeria, the merchandise-trade surplus stood at $10.56 billion in the first five months of 2007, compared with $15.04 billion a year earlier. Despite the rapid increase in imports, the trade surplus is expected to remain robust for this year and the next. In Kuwait, fiscal spending rose by a record 60% in the 2006-07 fiscal year. The steady increase in Kuwait's fiscal spending will contribute to the growth momentum of the non-oil sector and the strength of Kuwait's oil revenues will lead to additional fiscal expansion in the next two years.

UAE's inflation surged to 9.3% in 2006, driven largely by soaring housing costs and the impact of the falling value of the dollar, the Ministry of Economy in UAE announced. The surge in inflation from 6.3% in 2005 was because of a steep increase of 15.3% in housing costs, which represented 36.1% of household expenses in 2006. The government is trying to bring down inflation through measures including forcing companies to reduce prices.

Oil prices, the US dollar and inflation

Dollar regains some lost ground against euro and yen in June, remaining weak versus the pound sterling.

The US currency's regained some strength in June rising against the euro, the yen and the Swiss franc while remaining weak against the pound sterling. Over the month of June, the dollar rose by 0.69% versus the euro averaging €1.3418 from €1.3511 in May, gained 1.56% versus the yen to reach 122.6 ¥ versus 120.7 ¥, while appreciating 0.95% against the Swiss franc. It remained almost unchanged versus the pound at 1.986 $/£ from $/£1.984 in May.

The dollar recovered somewhat in June on better US economic data rendering an easing of monetary policy in the US less likely. However, more recently, the dollar took a plunge in early July falling to record lows versus the euro, which rose to 1.37 on nervousness in bond and stock markets related to the fallout from the US subprime housing loan problems.

In June, the OPEC Reference Basket rose by around $2.4/b or 3.74% to $66.74/b from $64.36/b in May. In real terms (base July 1990=100), after accounting for inflation and currency fluctuations, the Basket price rose by almost $1.62/b or 3.86% to $43.60 from $41.98/b. The value of the dollar rose by 0.56% 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.*

World Oil Demand

World oil demand is forecast to grow 1.3 mb/d in 2007 to stand at 85.6 mb/d

World oil demand in 2007

World oil demand in June followed the expected low seasonality trend. June world oil demand growth was attributed mainly to the developing countries. With the strong demand in April, the world oil demand in the second quarter is forecast to grow by 1.0 mb/d y-o-y to average 84.3 mb/d. China and the Middle East are the largest contributors to world oil demand in the second quarter with growth estimated at 0.43 mb/d and 0.25 mb/d respectively.

World oil demand growth for 2007 is forecast at 1.3 mb/d or 1.5%, broadly unchanged from the last report. As for the second half of the year, the third and fourth quarters should see healthy growth of 1.4 mb/d and 1.7 mb/d.

Table 2: World oil demand forecast for 2007, mb/d

							Change 2007/06	
	2006	1Q07	2Q07	3Q07	4Q07	2007	Volume	%
North America	25.28	25.71	25.41	25.62	25.82	25.64	0.36	1.42
Western Europe	15.48	15.15	14.98	15.54	15.65	15.33	-0.15	-0.98
OECD Pacific	8.46	8.88	7.81	7.92	8.79	8.35	-0.11	-1.28
Total OECD	**49.22**	**49.73**	**48.21**	**49.07**	**50.26**	**49.32**	**0.10**	**0.20**
Other Asia	8.80	8.88	9.06	8.80	9.09	8.96	0.16	1.83
Latin America	5.19	5.14	5.25	5.40	5.33	5.28	0.09	1.78
Middle East	6.20	6.45	6.39	6.67	6.49	6.50	0.30	4.82
Africa	3.00	3.13	3.04	2.99	3.13	3.07	0.07	2.42
Total DCs	**23.18**	**23.60**	**23.75**	**23.85**	**24.02**	**23.81**	**0.62**	**2.69**
FSU	3.89	3.86	3.67	3.93	4.30	3.94	0.05	1.41
Other Europe	0.91	1.01	0.92	0.90	0.92	0.93	0.03	3.12
China	7.14	7.46	7.77	7.71	7.42	7.59	0.45	6.28
Total "Other Regions"	**11.93**	**12.33**	**12.36**	**12.53**	**12.64**	**12.47**	**0.53**	**4.45**
Total world	**84.33**	**85.65**	**84.32**	**85.46**	**86.92**	**85.59**	**1.25**	**1.49**
Previous estimate	84.32	85.65	84.19	85.58	87.00	85.61	1.29	1.53
Revision	0.02	0.01	0.13	-0.13	-0.08	-0.02	-0.03	-0.04

Totals may not add due to independent rounding.

Table 3: 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	25.15	25.71	0.55	2.19	25.10	25.41	0.32	1.27
Western Europe	15.81	15.15	-0.66	-4.20	15.07	14.98	-0.09	-0.59
OECD Pacific	9.30	8.88	-0.42	-4.49	7.87	7.81	-0.06	-0.77
Total OECD	**50.26**	**49.73**	**-0.53**	**-1.05**	**48.04**	**48.21**	**0.17**	**0.35**
Other Asia	8.74	8.88	0.14	1.65	8.94	9.06	0.13	1.43
Latin America	5.00	5.14	0.14	2.83	5.17	5.25	0.08	1.62
Middle East	6.09	6.45	0.35	5.77	6.14	6.39	0.24	3.98
Africa	3.00	3.13	0.13	4.41	2.99	3.04	0.05	1.78
Total DCs	**22.83**	**23.60**	**0.77**	**3.37**	**23.24**	**23.75**	**0.51**	**2.19**
FSU	3.76	3.86	0.10	2.63	3.63	3.67	0.05	1.25
Other Europe	0.97	1.01	0.04	4.30	0.90	0.92	0.02	2.04
China	7.09	7.46	0.36	5.12	7.34	7.77	0.43	5.83
Total "Other	**11.82**	**12.33**	**0.50**	**4.26**	**11.87**	**12.36**	**0.49**	**4.14**
Total world	**84.91**	**85.65**	**0.74**	**0.88**	**83.15**	**84.32**	**1.17**	**1.41**

Totals may not add due to independent rounding.

Table 4: Third and fourth quarter world oil demand comparison for 2007, mb/d

	3Q06	3Q07	Change 2007/06 Volume	%	4Q06	4Q07	Change 2007/06 Volume	%
North America	25.47	25.62	0.15	0.57	25.39	25.82	0.43	1.67
Western Europe	15.49	15.54	0.05	0.31	15.57	15.65	0.09	0.56
OECD Pacific	7.90	7.92	0.01	0.18	8.76	8.79	0.02	0.28
Total OECD	**48.87**	**49.07**	**0.21**	**0.42**	**49.72**	**50.26**	**0.54**	**1.08**
Other Asia	8.61	8.80	0.19	2.20	8.91	9.09	0.18	2.02
Latin America	5.31	5.40	0.08	1.58	5.26	5.33	0.06	1.18
Middle East	6.37	6.67	0.30	4.71	6.19	6.49	0.30	4.86
Africa	2.95	2.99	0.04	1.49	3.06	3.13	0.06	2.01
Total DCs	**23.23**	**23.85**	**0.62**	**2.66**	**23.42**	**24.02**	**0.60**	**2.58**
FSU	3.91	3.93	0.02	0.50	4.24	4.30	0.06	1.31
Other Europe	0.88	0.90	0.02	1.70	0.88	0.92	0.04	4.38
China	7.21	7.71	0.50	6.94	6.92	7.42	0.50	7.22
Total "Other Regions"	**12.00**	**12.53**	**0.54**	**4.46**	**12.04**	**12.64**	**0.59**	**4.93**
Total world	**84.10**	**85.46**	**1.36**	**1.62**	**85.18**	**86.92**	**1.74**	**2.04**

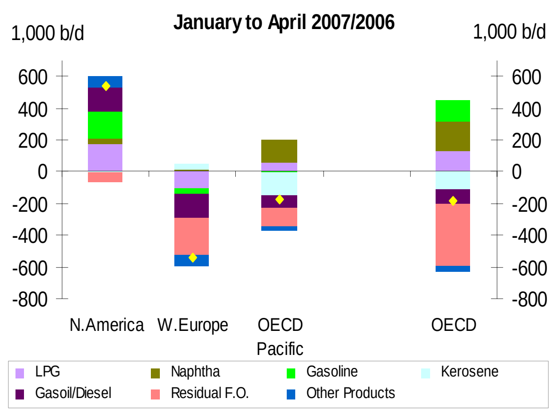
Totals may not add due to independent rounding.

OECD-North America

Second-quarter oil demand growth in North America is estimated at 0.3 mb/d

The US June oil demand followed normal low seasonality consumption to show a marginal decline of 0.2% or 39,000 b/d y-o-y. Gasoline demand grew by 12,000 b/d or 1.3%, 0.3% less than expected. High gasoline prices caused by the tight US market appear to be affecting the gasoline demand so far this summer. On the other hand, fuel oil grew strongly by 5.1% or 0.2 mb/d in June y-o-y. In the USA, oil demand grew by 0.34 mb/d or 1.7% in the first half of the year to average 20.78 mb/d. The latest US energy bill emphasizes the energy efficiency in vehicles. The bill is debating the increase of vehicle efficiency from 25 to 35 miles per gallon by the end of 2020. This new strategy would make a difference in gasoline consumption in the USA in the coming years.

Graph 9: OECD - Growth of total requirements by component



Canadian petroleum product sales rose in May by 9% y-o-y to average 1.8 mb/d. Fuel oil and gasoline are the fastest growing products with increases of 12.5% and 6.4% respectively. Gasoline grew by 45,000 b/d y-o-y to average 753,000 b/d in May. In addition to strong growth in transportation fuel, agricultural and industrial sectors pushed diesel demand up by 6.1% in May y-o-y. As in the USA, Canada's oil demand in the fourth quarter is expected to show seasonal growth as the normal winter kicks off.

The summer driving season pushed Mexico's oil consumption higher in May. As was seen in April, gasoline consumption in Mexico increased by 44,000 b/d y-o-y in May to average 0.77 mb/d. Utility plants in Mexico pushed fuel oil demand up by 14.7% or 38,000 b/d in May. Due to strong gasoline and fuel oil consumption, Mexico oil's demand showed a healthy increase of 5.2% or 92,000 b/d y-o-y to average 1.86 mb/d in May.

Table 5: Domestic Sales of Refined Petroleum Products in Mexico (kb/d)

	May-07	Apr-07	May-06	Change to May 06	Change to May 06 %
LPG	282	282	289	-7	-2.3
Gasoline	771	727	728	44	6.0
Jet Fuel	68	71	60	8	13.5
Diesel Oil	373	337	364	9	2.5
Fuel Oil	298	275	260	38	14.7
Other Products	70	72	71	-1	-0.7
Total Products	**1,863**	**1,764**	**1,771**	**92**	**5.2**

The second quarter is normally a low season in the Northern hemisphere. **North America's second-quarter oil demand growth is estimated at 0.3 mb/d y-o-y to average 25.41 mb/d**. Total OECD oil demand growth in 2007 is estimated to grow by 0.1 mb/d to average 49.31 mb/d y-o-y.

OECD Europe

OECD Europe demand growth in the second quarter revised down by 0.2 mb/d

Germany's inland deliveries continued their March trend to show a decline of 8% or 0.17 mb/d y-o-y to average 2 mb/d in April. The product declining most was gasoil which fell by almost 15%, affected by the agricultural and industrial sectors. As a result of continuing dieselization in Europe, the diesel demand has increased by around 3% annually.

The UK petroleum product consumption reversed its direction to show an increase of 3.7% or 54,000 b/d in April to average 1.5 mb/d y-o-y. Transport fuel was the fastest growing sector in April with diesel up by 11.6%, gasoline up by 9.8% and jet fuel up by 15%. **As a result of the normal low seasonality, OECD Europe's oil demand growth for the second quarter was revised down by 0.2 mb/d to show a minor decline of 0.09 mb/d y-o-y in 2007**.

OECD Pacific

OECD Pacific second-quarter oil demand to decline 0.06 mb/d y-o-y

Japan' oil imports declined by 11% y-o-y in May to average 3.45 mb/d. Also, domestic petroleum product sales fell by 2.7% to average 3.3 mb/d in May. Of course, the drop in May sales was less than half the decline in April because of the summer seasonality. However, Japan's oil product sales have been on the decline so far in 2007. Furthermore, Japan's oil demand is expected to show a slow decline in the second half of this year which will affect total OECD Pacific oil demand not only this year but next year as well. However, due to the drought and the hotter-than-expected summer, power plants might consume more fuel oil and crude in order to keep up with electricity demand in the third quarter. Japan's May gasoline consumption declined by 0.2% to average 0.99 mb/d, which is less than April's decline of 1.2%. Japanese gasoline consumption is slowing down this year as a result of a price hike in petroleum products, where the gasoline retail price reached an eight-month high.

Unlike Japan, South Korea's May crude imports increased by 1% y-o-y to total 2.52 mb/d y-o-y. **The OECD Pacific second-quarter oil demand is expected to show a decline of 0.06-mb/d y-o-y.**

Alternative Fuels

A recent UN biofuel study indicated that the biofuel industry will have a negative impact on both food prices and the environment. The study revealed that deforestation would be a result of allocating massive land for plantation to provide raw material for the biofuel industry. The UN study also emphasized that this trend will hurt the small farmers world-wide and create a concentration in the agricultural industry. In South-East Asia, the biofuel industry is already harming the environment via massive deforestation. Palm oil is the main raw material for biofuel in this region. A report just issued by the Friends of the Earth Group emphasized the danger to the environment as a result of the European Union's initiative to increase the biofuel consumption within the Union.

Large subsidized incentives for biofuel in the USA caused the corn and soy prices to sharply increase. This is causing a considerable drop in utilization in biofuel plants. Although the biofuel industry is surviving because of the subsidies, it is requesting more governmental support in an extension to its latest existing energy legislation, which will subsidize the biofuel industry until the year 2012. The US latest energy bill, which is still under debate, is planning to inject around 2.3 mb/d of biofuel into its energy system within the next fifteen years.

Like the USA, China is pushing the biofuel industry via immense subsidies. The latest project is to build two more biodiesel plants; however, the concern is whether there will be sufficient feedstock.

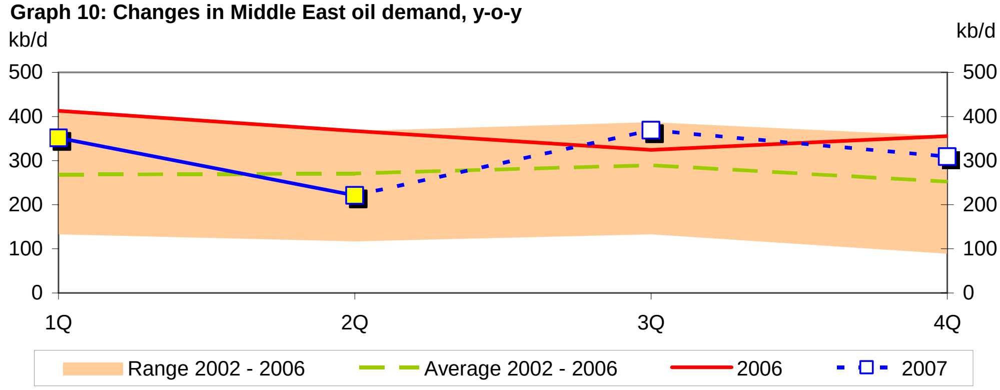
Brazil, the world's largest ethanol exporter, increased its June y-o-y exports by almost 30% to average 45,000 b/d. However, this is down from May's strong export growth of 170%. With the world interested in maintaining a balance among various sources of energy, world-wide power plants are expected to sustain their intake level of other energy sources such as coal, natural gas and hydro in the mid-term future.

Developing Countries

Middle East second-quarter oil demand growth forecast at 0.24 mb/d

Booming Middle East economic activities are maintaining strong oil demand. Saudi Arabia and Iran are the largest oil consumers in the region with average consumption of 2.0 mb/d and 1.7 mb/d for the second quarter. **Middle East second-quarter oil demand growth is forecast at 0.24 mb/d to average 6.4 mb/d.**

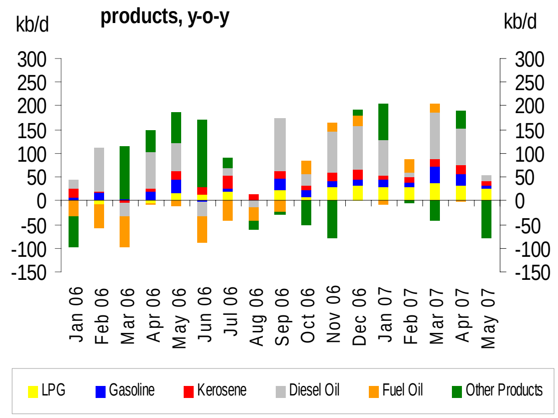
Graph 10: Changes in Middle East oil demand, y-o-y



Other Asia second-quarter oil demand to grow by 0.13 mb/d

India's oil demand showed a decline in May by 0.9% or 25,000 b/d y-o-y. It is the first decline since last August. The decline is mainly attributed to the inflated base in May 2006 when the country announced a price increase in June 2006. Oil product distributors increased their inventories to take advantage of the price increase, which in turn affected May oil demand. India's oil demand Jan-May 2007 grew by 0.12 mb/d or 4.5% to average 2.84 mb/d. Hence**, Other Asia second-quarter oil demand is estimated to grow by 0.13 mb/d to average 9.06 mb/d y-o-y.**

Graph 11: Changes in Indian product demand by major products, y-o-y



To avoid additional petroleum product shortages, Argentina temporarily waved the import tax on transport fuel. Of course, like other developing countries, price control for energy dilutes the incentive for refiners to supply the market.

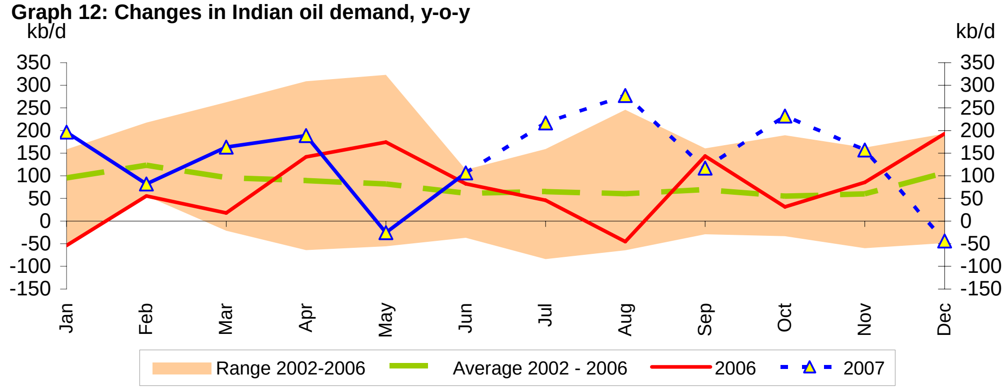
DC oil demand is contributing the most to total world oil demand growth in 2007, reaching a growth of 0.6 mb/d to average 23.81 mb/d.

Table 6: Indian oil demand by main products, kb/d

	May 07	Apr 07	Jan 07 - May 07	Difference to Jan 06 - May 06	%
LPG	346	339	357	31	9.4
Motor Gasoline	252	233	234	18	8.4
Jet Kero	293	287	291	12	4.4
Gas Diesel Oil	964	1,001	1,004	54	5.7
Residual Fuel Oil	343	333	326	8	2.4
Other Products	562	659	623	-2	-0.3
Total Oil Demand	**2,761**	**2,850**	**2,836**	**121**	**4.5**

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

Graph 12: Changes in Indian oil demand, y-o-y

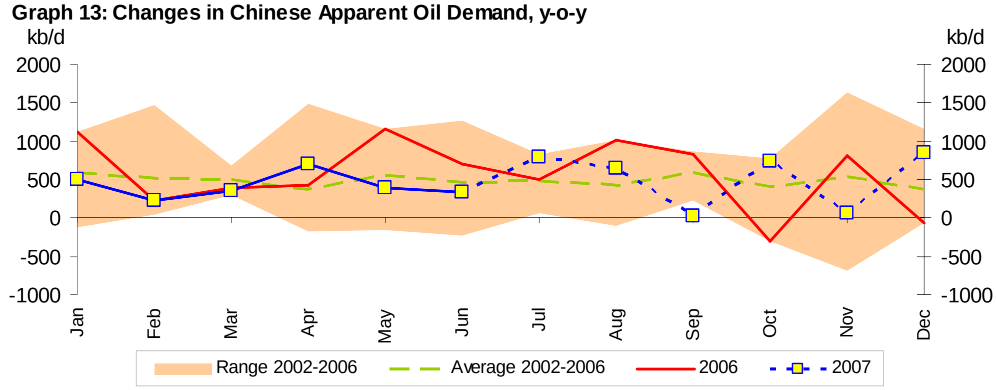


Other Regions

Apparent demand in China grew by 0.4 mb/d in the second quarter

Due to the anticipated demand hike in the summer, China's refinery runs were up by more than 9% or 6.6 mb/ y-o-y in May leading to a double digit petroleum product output growth. Motor gasoline demand grew by 12% to average 1.4 mb/d in May y-o-y. However, China's crude imports inched up only 2.7% or 147,000 b/d in May y-o-y. According to recent news from China, the country's second SPR site is ready and the filling has started. However, the Chinese filling process is based on the oil market price. The filling rate so far this year is as we estimated earlier this year at around 100,000 b/d. Holidays in May, along with the farming season, boosted the transport fuel demand in China. Gasoline demand grew by 7%. Other industries such as agriculture, construction, and tourism contributed moderately to China's oil demand in May. **China's apparent demand grew by a minor 5.4% or 0.4 mb/d in May to average 7.7 mb/d y-o-y.** In addition to the summer heat, the agricultural season will boost China's oil demand for the second and third quarters of this year.

Graph 13: Changes in Chinese Apparent Oil Demand, y-o-y



Due to the economic activities within the FSU region, apparent oil demand is showing a marginal increase in the second quarter. FSU second-quarter oil demand was revised up by 0.06 mb/d to show growth of 0.05 mb/d to average 3.7 mb/d y-o-y.

World oil demand in 2008

World oil demand in 2008 forecast to grow at a similar level of 1.3 mb/d as 2007

World oil demand is forecast to grow by 1.34 mb/d in 2008, no major differences from our 2007 growth estimate. Transport and industrial fuel are the major growth sectors of world oil demand next year. Non-OECD countries will account for the largest share of world oil demand growth at 1.05 mb/d.

North America oil demand in 2008 forecast to grow by 0.3 mb/d; total OECD oil demand to rise 0.3 mb/d

OECD countries will show growth mostly due to North America. The election year in the USA will certainly have an impact on oil demand in the USA next year. Oil demand in OECD Europe is not expected to show strong growth; furthermore, OECD Pacific will show a slight decline due to slower oil demand in Japan. Higher energy taxes, energy conservation, efficiency, alternative fuel, and other factors are the main reasons for next year's moderate world oil demand growth especially in the OECD. **North America's oil demand is forecast to grow by 0.3 mb/d in 2008 to average 25.9 mb/d y-o-y. Total OECD oil demand is forecast to grow by 0.3 mb/d y-o-y in 2008.**

Other Asia and the Middle East to show demand growth of 0.15 mb/d and 0.3 mb/d

Other Asia and the Middle East are estimated to show oil demand growth of 0.15 mb/d and 0.3 mb/d for 2008 y-o-y. Governmental measures to curb oil demand, such as the partial removal of price subsidies or consumption rationing, might play a role in slightly softening the oil demand growth in the Middle East in 2008. However, transport, construction and petrochemical sectors are the main drivers behind the Middle East oil demand next year. In addition to these drivers, agriculture and the limitation of fuel switching capability are the main reasons behind the expected oil demand growth in India in 2008.

China's apparent oil demand forecast to increase 0.4 mb/d

China, which is expected to contribute the most to world oil demand growth, is trying to achieve its pre-set goal to reduce the energy intensity by 20% by 2010 from 2005 level through the implementation of various efficiency agendas. However, the booming Chinese economy ahead of the Olympics is slightly undermining this goal. Furthermore, China is planning to increase the use of nuclear and hydro power plants which will have more effect on the consumption of coal than oil. Also, it is planning to curb automotive fuel consumption via new fuel price increase, usage of biofuel, and building more electric powered inter- and intra-city railroads. These efforts might have a slightly negative impact on China's oil demand for 2008.

Other sectors in China which serve as major energy drivers such as industrial production, inland cargo, agriculture, construction, transportation, and fishing will show healthy growth. **China's apparent oil demand is forecast to grow by 0.4 mb/d y-o-y in 2008,** which is almost 60,000 b/d lower than our estimate for 2007. New vehicle sales are estimated to show a strong annual growth of around 27% in 2008.

Table 7: World oil demand forecast for 2008, mb/d

							Change 2008/07	
	2007	1Q08	2Q08	3Q08	4Q08	2008	Volume	%
North America	25.64	26.06	25.60	25.82	26.27	25.94	0.30	0.06
Western Europe	15.33	15.35	14.93	15.46	15.80	15.39	0.05	0.36
OECD Pacific	8.35	8.91	7.65	7.76	8.82	8.28	-0.07	-0.78
Total OECD	**49.32**	**50.31**	**48.19**	**49.04**	**50.89**	**49.60**	**0.29**	**0.58**
Other Asia	8.96	9.02	9.18	8.96	9.25	9.10	0.15	1.63
Latin America	5.28	5.24	5.33	5.48	5.43	5.37	0.09	1.69
Middle East	6.50	6.71	6.75	6.97	6.78	6.80	0.30	4.60
Africa	3.07	3.12	3.11	3.08	3.18	3.12	0.05	1.67
Total DCs	**23.81**	**24.09**	**24.37**	**24.48**	**24.64**	**24.40**	**0.59**	**2.46**
FSU	3.94	3.91	3.73	3.99	4.35	4.00	0.05	1.39
Other Europe	0.93	1.02	0.99	0.92	0.92	0.96	0.03	2.72
China	7.59	7.84	8.07	8.00	7.99	7.98	0.39	5.09
Total "Other Regions"	**12.47**	**12.78**	**12.79**	**12.91**	**13.26**	**12.94**	**0.47**	**3.74**
Total world	**85.59**	**87.18**	**85.35**	**86.43**	**88.78**	**86.94**	**1.34**	**1.56**

Totals may not add due to independent rounding.

Table 8: First and second quarter world oil demand comparison for 2008, mb/d

			Change 2008/07				Change 2008/07	
	1Q07	1Q08	Volume	%	2Q07	2Q08	Volume	%
North America	25.71	26.06	0.35	1.36	25.41	25.60	0.19	0.75
Western Europe	15.15	15.35	0.20	1.32	14.98	14.93	-0.05	-0.34
OECD Pacific	8.88	8.91	0.03	0.34	7.81	7.65	-0.16	-2.05
Total OECD	**49.73**	**50.31**	**0.58**	**1.17**	**48.21**	**48.19**	**-0.02**	**-0.04**
Other Asia	8.88	9.02	0.14	1.58	9.06	9.18	0.12	1.32
Latin America	5.14	5.24	0.10	1.95	5.25	5.33	0.08	1.47
Middle East	6.45	6.71	0.26	4.03	6.39	6.75	0.36	5.68
Africa	3.13	3.12	-0.01	-0.23	3.04	3.11	0.07	2.19
Total DCs	**23.60**	**24.09**	**0.49**	**2.09**	**23.75**	**24.37**	**0.63**	**2.64**
FSU	3.86	3.91	0.05	1.31	3.67	3.73	0.06	1.63
Other Europe	1.01	1.02	0.01	1.27	0.92	0.99	0.07	7.41
China	7.46	7.84	0.39	5.20	7.77	8.07	0.29	3.79
Total "Other Regions"	**12.33**	**12.78**	**0.45**	**3.66**	**12.36**	**12.79**	**0.42**	**3.42**
Total world	**85.65**	**87.18**	**1.52**	**1.78**	**84.32**	**85.35**	**1.03**	**1.22**

Totals may not add due to independent rounding.

Table 9: Third and fourth quarter world oil demand comparison for 2008, mb/d

			Change 2008/07				Change 2008/07	
	3Q07	3Q08	Volume	%	4Q07	4Q08	Volume	%
North America	25.62	25.82	0.20	0.78	25.82	26.27	0.45	1.74
Western Europe	15.54	15.46	-0.08	-0.50	15.65	15.80	0.15	0.96
OECD Pacific	7.92	7.76	-0.16	-2.02	8.79	8.82	0.03	0.34
Total OECD	**49.07**	**49.04**	**-0.04**	**-0.08**	**50.26**	**50.89**	**0.63**	**1.25**
Other Asia	8.80	8.96	0.16	1.82	9.09	9.25	0.16	1.80
Latin America	5.40	5.48	0.08	1.48	5.33	5.43	0.10	1.88
Middle East	6.67	6.97	0.30	4.50	6.49	6.78	0.29	4.53
Africa	2.99	3.08	0.09	2.95	3.13	3.18	0.06	1.79
Total DCs	**23.85**	**24.48**	**0.63**	**2.64**	**24.02**	**24.64**	**0.61**	**2.55**
FSU	3.93	3.99	0.06	1.49	4.30	4.35	0.05	1.16
Other Europe	0.90	0.92	0.03	3.19	0.92	0.92	0.00	0.26
China	7.71	8.00	0.29	3.79	7.42	7.99	0.57	7.68
Total "Other Regions"	**12.53**	**12.91**	**0.38**	**3.03**	**12.64**	**13.26**	**0.62**	**4.93**
Total world	**85.46**	**86.43**	**0.97**	**1.14**	**86.92**	**88.78**	**1.87**	**2.15**

Totals may not add due to independent rounding.

World oil demand forecast for the year 2008 is based on the following assumptions:

- World GDP will grow at almost the same pace as in 2007.
- Normal weather is expected worldwide.
- The Chinese economy is forecast to grow by 9.6% in 2008 down slightly from 2007 and further domestic product price and tax hikes are expected.
- Chinese government will place emphasis on energy conservation and increase the use of alternative fuel.
- China’s strategic oil storage filling is not accounted for in our 2008 oil demand growth forecast.
- The Middle East economy will show healthy growth, boosting oil demand growth to the second place behind China.
- Governmental measures might take effect in the Middle East, which will slightly slow oil consumption via either tax hikes or partial removal of petroleum product price subsidies.
- Various factors will slightly soften oil demand growth in Other Asia such as price subsidy removal, fuel switching, and energy conservation programmes.
- The relationship between economic growth and energy consumption will continue to weaken.
- Energy-price elasticity of demand is strengthening, mainly affecting developed countries.

Oil Demand Forecast Scenarios

Given the uncertainties in forecasting oil demand in 2008 two more scenarios have been developed to highlight the upward and downward risks.

The upper range for world oil demand growth is forecast at 1.45 mb/d, which will reflect strong oil demand growth in the OECD Pacific and India. It is suggested that economic activities and the upcoming cold winter might overcome the energy conservation trend that is taking place in the OECD countries. Furthermore, the Japanese efficiency programme is reaching its bottom and the room to expand is becoming limited. Also, the Indian economic boom might call for more energy than usual in 2008. One important factor that might affect world oil demand is natural gas prices. Should natural gas prices in 2008 move up, then fuel oil consumption would increase worldwide.

Strong economic and petrochemical activities in the Middle East might push for more oil. Also, should the fuel subsidies be maintained during 2008, it would lead to strong energy consumption especially in the transportation fuel sector.

The lower range for world oil demand growth is forecast at 1.2 mb/d reflecting weaker oil demand mainly in OECD countries (abstracting from the additional possibility of a very warm winter). High gasoline price elasticity of demand might become stronger if the gasoline prices move higher due to the tight gasoline market in the USA in 2008. This alone may trim at least 60,000 b/d from expected oil demand growth in the USA next year.

As was seen in the past two years, a slight decline in the OECD Pacific oil demand was attributed to slow Japanese oil demand. Japan is increasing its utilization of alternative fuel especially nuclear and biofuel. Also, Japan’s population is aging and is moving to smaller vehicles which will lead to slower automotive fuel consumption. China might implement a new price increase for transportation fuel in the range of 3% at the end of 2007. If this materializes, then it would be expected to slightly reduce the gasoline and diesel demand in China next year. Finally, should world weather turn warm in the winter of 2008, then a further decline in world oil demand growth can be expected.

World Oil Supply

Non-OPEC supply growth revised down to 0.95 mb/d to average 50.4 mb/d.

Non-OPEC

Forecast for 2007

Non-OPEC oil supply is expected to average 50.42 mb/d in 2007, an increase of 0.95 mb/d over 2006 and a net downward revision of 191,000 b/d versus the last assessment. The significant downward revisions were made mainly due to record-low Norwegian production in May and June caused by early and heavier than normal maintenance in addition to the shut-down of the Ekofisk and Kvitebjorn fields. The revision was further supported by seasonal production losses in Canada, a faster decline in the Cantarell oil field in Mexico, along with lower-than expected UK production in the second quarter despite the Buzzard field coming onstream which started up with technical problems that delayed its ramping up. Malaysia's Kikeh field production was also delayed until later in the year. FSU growth was less than expected due to export duties which shaved part of Russian production and export growth in addition to downward adjustments to Kazakhstan. On a quarterly basis, current year non-OPEC supply is expected to average 50.26 mb/d, 49.95 mb/d, 50.24 mb/d and 51.22 mb/d with downward revisions of 0.01 mb/d, 0.35 mb/d, 0.18 mb/d and 0.19 mb/d, respectively.

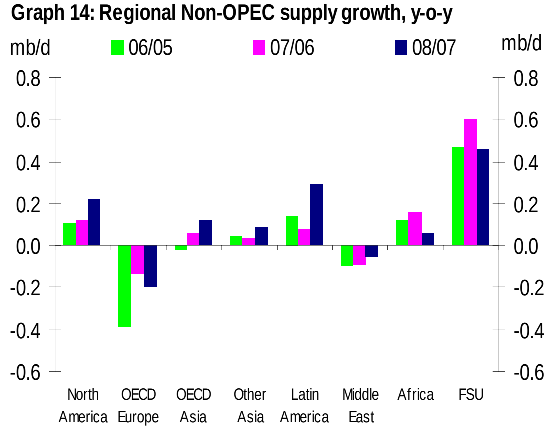
Table 10: Non-OPEC oil supply in 2007, mb/d

	2006	1Q07	2Q07	3Q07	4Q07	2007	Change 07/06
North America	14.24	14.34	14.31	14.29	14.53	14.37	0.12
Western Europe	5.38	5.43	5.14	5.09	5.34	5.25	-0.13
OECD Pacific	0.56	0.57	0.58	0.66	0.67	0.62	0.06
Total OECD	**20.18**	**20.33**	**20.03**	**20.03**	**20.54**	**20.23**	**0.05**
Other Asia	2.69	2.71	2.66	2.73	2.78	2.72	0.03
Latin America	4.44	4.45	4.45	4.54	4.67	4.53	0.08
Middle East	1.77	1.70	1.70	1.68	1.66	1.68	-0.09
Africa	2.64	2.76	2.77	2.81	2.85	2.80	0.16
Total DCs	**11.54**	**11.61**	**11.58**	**11.75**	**11.96**	**11.73**	**0.18**
FSU	12.02	12.50	12.53	12.60	12.83	12.62	0.60
Other Europe	0.15	0.15	0.15	0.15	0.15	0.15	0.00
China	3.67	3.75	3.76	3.79	3.82	3.78	0.10
Total "Other regions"	**15.84**	**16.40**	**16.44**	**16.54**	**16.80**	**16.55**	**0.70**
Total Non-OPEC production	**47.57**	**48.34**	**48.04**	**48.33**	**49.30**	**48.50**	**0.94**
Processing gains	1.90	1.92	1.91	1.91	1.92	1.91	0.01
Total Non-OPEC supply	**49.47**	**50.26**	**49.95**	**50.24**	**51.22**	**50.42**	**0.95**
Previous estimate	49.47	50.27	50.30	50.46	51.39	50.61	1.14
Revision	0.00	-0.01	-0.35	-0.23	-0.18	-0.19	-0.19

Revisions to the 2007 estimate

Preliminary May data put non-OPEC supply at 49.67 mb/d, a decline of 346,000 b/d from the previous month, and is expected to fall further in June. The main contributors to this decline were Canada with 69,000 b/d, Mexico with 79,000 b/d, Norway with 283,000 b/d, Brazil with 18,000 b/d, Australia with 57,000 b/d and Kazakhstan with 25,000 b/d, partially offset by a minor increase in other non-OPEC countries. In general, non-OPEC supply has performed weaker than expected in 2007 due to projects startup and ramp-up delays, technical problems, early and heavier maintenance, shut down at some fields, rising field service costs, policy changes and other factors playing a major role in cutting the optimistic initial growth forecast for the year.

Graph 14: Regional Non-OPEC supply growth, y-o-y



Forecast for 2008

Non-OPEC supply expected to grow 1.01 mb/d in 2008 to average 51.4 mb/d

Non-OPEC oil supply is expected to average 51.42 mb/d in 2008, an increase of 1.01 mb/d over 2007. On a quarterly basis, non-OPEC supply is expected to average 51.58 mb/d, 50.99 mb/d, 50.99 mb/d and 52.13 mb/d, respectively. The year 2008 year seems to carry the burden of the current year which, due to higher service cost, led to a major review of planned project capital expenditures and resulted in a delay of some projects or even shifting them indefinitely. However, the expected figure may be subject to revisions as more data become available. Most of the growth expected in 2008 may be contributed by offshore projects (both shallow and deep waters), as the share of offshore is expected to reach around 63.5% followed by onshore fields with around 28.8% and the remainder from mining and non-conventional projects. By crude type, light crudes and condensates are expected to reach around 40% share followed by medium with around 28% and heavy with around 22%. Due to the rising importance of biofuel developments, there is a need for careful monitoring.

Table 11: Non-OPEC oil supply in 2008, mb/d

	2007	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07
North America	14.37	14.70	14.34	14.45	14.87	14.59	0.22
Western Europe	5.25	5.33	5.07	4.76	5.05	5.05	-0.20
OECD Pacific	0.62	0.65	0.69	0.77	0.85	0.74	0.12
Total OECD	**20.23**	**20.68**	**20.10**	**19.97**	**20.77**	**20.38**	**0.15**
Other Asia	2.72	2.79	2.75	2.82	2.87	2.81	0.09
Latin America	4.53	4.82	4.79	4.82	4.84	4.82	0.29
Middle East	1.68	1.65	1.63	1.62	1.60	1.62	-0.06
Africa	2.80	2.83	2.85	2.85	2.89	2.86	0.06
Total DCs	**11.73**	**12.09**	**12.02**	**12.11**	**12.19**	**12.10**	**0.38**
FSU	12.62	12.92	13.00	13.07	13.31	13.08	0.46
Other Europe	0.15	0.15	0.15	0.15	0.15	0.15	0.00
China	3.78	3.80	3.78	3.76	3.77	3.78	0.00
Total "Other regions"	**16.55**	**16.87**	**16.93**	**16.98**	**17.23**	**17.01**	**0.46**
Total Non-OPEC production	**48.50**	**49.64**	**49.06**	**49.06**	**50.19**	**49.49**	**0.99**
Processing gains	1.91	1.94	1.93	1.93	1.94	1.94	0.02
Total Non-OPEC supply	**50.42**	**51.58**	**50.99**	**50.99**	**52.13**	**51.42**	**1.01**
Previous estimate	50.61						
Revision	-0.19	..	..	..	..	..	..

OECD

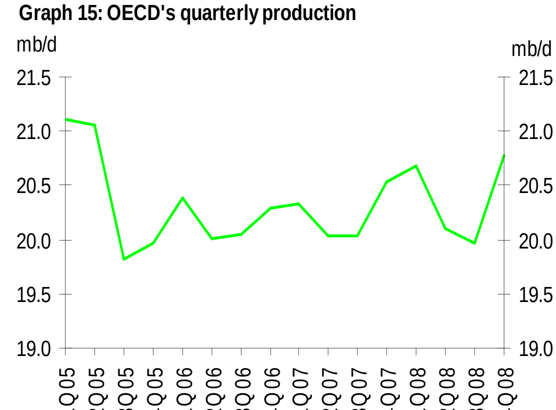
Total OECD oil supply is expected to average 20.38 mb/d, an increase of around 0.15 mb/d over the 2007 figure. On a quarterly basis, OECD oil supply is expected to average 20.68 mb/d, 20.10 mb/d, 19.97 mb/d, and 20.77 mb/d respectively. The growth — solely from North America and OECD Pacific — is partially offset by Western Europe.

USA

USA growth expected at 0.21 mb/d, mostly from Gulf of Mexico projects

Oil supply in the USA is expected to average 7.67 mb/d in 2008 representing an increase of 0.21 mb/d over the 2007 figure. Atlantis South field which is expected to start in second half 2007 will continue its ramp up in 2008 to reach its plateau of 200,000 b/d. Neptune field which is expected to startup end of 2007 will reach 50,000 b/d by the first quarter of 2008. Tahiti is expected to startup in the second half of 2008 and continue ramping up in 2009 to reach 125,000 b/d, while Thunder Horse should start up in the second half of 2008 and ramp up in 2009 to a peak of 250,000 b/d by 2010. Expansions from other fields may add further barrels to the growth

Graph 15: OECD's quarterly production



expected in the USA. The quarterly distribution is expected to average 7.61 mb/d, 7.58 mb/d, 7.64 mb/d and 7.83 mb/d respectively.

Mexico and Canada

Total Mexican oil supply is expected to average 3.56 mb/d in 2008 a decline of around 66,000 b/d compared with the 2007 figure. The quarterly distribution stands at 3.60 mb/d, 3.48 mb/d, 3.52 mb/d and 3.65 mb/d respectively. In addition to the development in the KMZ complex, Poza Rica will gain slightly by the end of 2008. Despite current production at the KMZ, Mexican oil supply fell and is expected to decline further in 2008 as the main producing field Cantarell is declining faster than expected. Also KMZ crude is heavier than that produced from the Cantarell field. The KMZ complex when fully developed is expected to produce at a peak of around 800,000 b/d.

Canadian oil supply is expected to average 3.36 mb/d in 2008, representing an increase of 0.08 mb/d over 2007. The quarterly distribution stands at 3.48 mb/d, 3.28 mb/d, 3.28 mb/d and 3.38 mb/d respectively. The phase 1 of Horizon mine will add around 110,000 b/d of synthetic crude by second half of 2008, Long Lake Phase 1 expected to startup in fourth quarter 2007 ramping up to 70,000 b/d in the first quarter of 2008.

Western Europe

Oil supply in OECD Europe is expected to average 5.05 mb/d in 2008, representing a drop of 0.20 mb/d from 2007 figure. The quarterly figures are expected at 5.33 mb/d, 5.07 mb/d, 4.76 mb/d and 5.05 mb/d respectively. Most of the decline is expected to come from the UK.

Norway’s production level for 2008 is expected to average 2.61 mb/d, down 10,000 b/d from 2007 although Alveheim field will continue ramping up in the first half of 2008 to peak at 90,000 b/d.

The UK production level for 2008 is expected to average 1.54 mb/d, a significant decline of around 0.16 mb/d compared with the expected 2007 average. No significant project additions are detected for 2008 in the UK sector and the decline and maintenance will continue to reduce some of the additions brought by the Buzzard field in 2007.

Asia Pacific

Oil supply in the OECD Asia Pacific region is expected to average 0.74 mb/d in 2008, representing growth of 123,000 b/d compared with 2007. On a quarterly basis, total oil supply is expected to average 0.65 mb/d, 0.69 mb/d, 0.77 mb/d and 0.85 mb/d, respectively.

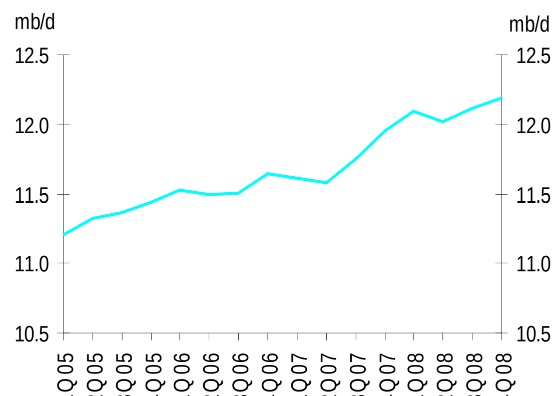
Australia is expected to show growth of around 65,000 b/d over the 2007 figure, with additions to be contributed by Enfield heavy crude, by Montara late in the year, Stybarrow starting up in the second quarter and Vincent by the end of 2008.

New Zealand’s Tui field is expected to startup in the third quarter of 2007 rising to 50,000 b/d by the first quarter of 2008. On an annual basis, production is expected to grow by 58,000 b/d over 2007.

Developing Countries

Oil supply in the Developing Countries (DCs) is expected to average 12.10 mb/d in 2008, representing an increase of 0.38 mb/d over 2007. On a quarterly basis, total oil supply in DCs is expected to average 12.09 mb/d, 12.02 mb/d, 12.11 mb/d and 12.19 mb/d respectively.

Graph 16: Developing Countries' quarterly production



The Other Asia group is expected to have oil supply growth of around 88,000 b/d over 2007 to reach a level of around 2.81 mb/d in 2008 with quarterly distribution averages at 2.79 mb/d, 2.75 mb/d, 2.82 mb/d and 2.87 mb/d, respectively. In this group, Malaysia is expected to add 17,000 b/d from Kamunsu East North (SB-G) in late 2008. Vietnam may add around 29,000 b/d on an annual average mainly contributed by Su Tu Trang field which is expected to start up in late 2008 and from Block 9-2 early next year. Philippines oil supply is expected to have growth of around 28,000 b/d from Calauit and Galoc fields both starting late in 2007, peaking at 25,000 b/d and 17,000b/d in the first quarter of 2008.

The African Group is also expected to increase 59,000 b/d over 2007 to reach a level of around 2.86 mb/d with a quarterly distribution of 2.83 mb/d, 2.85 mb/d, 2.85 mb/d and 2.89 mb/d, respectively.

The Latin American group may increase significantly by around 289,000 b/d over 2007 to reach a level of 4.82 mb/d with a quarterly distribution of 4.82 mb/d, 4.79 mb/d, 4.82 mb/d and 4.84 mb/d, respectively. The growth can entirely be attributed to the 332,000 b/d increase in Brazil which will be partially offset by other countries in the group. Albacora Leste P50, Espadarte Module II and Golfinho Mod 1 (Capixaba) are expected to continue ramping up in 2008, while Frade is expected to start up in late 2008.

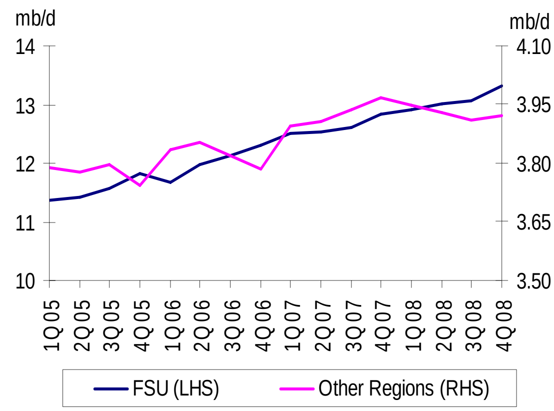
The Middle East group is expected to show some decline in 2008 by 58,000 b/d mainly attributed to Syria and Yemen. The 2008 figure is forecast to average 1.62 mb/d with a quarterly distribution of 1.65 mb/d, 1.63 mb/d, 1.62 mb/d and 1.60 mb/d, respectively.

FSU, Other Regions

Oil supply in the FSU is expected to average 13.08 mb/d, representing an increase of 0.46 b/d versus 2007.

On a quarterly basis, total oil supply in the FSU is expected to average 12.92 mb/d, 13.00 mb/d, 13.07 mb/d and 13.31 mb/d respectively. China is expected to stay flat in 2008, averaging 3.78 mb/d. Other Europe group is also expected to stay flat over 2007 at 0.15 mb/d.

Graph 17: FSU and other region's quarterly production



Russia

Russian oil supply is expected to average 10.07 mb/d in 2008, an increase of 0.18 mb/d versus 2007. On a quarterly basis, Russian oil supply is forecast to average 9.99 mb/d, 10.02 mb/d, 10.08 mb/d and 10.17 mb/d respectively. The expected growth is due to some of the fields which started in 2007 ramping up in 2008 as well as new projects. The Vankorskoye field is expected to startup by second quarter 2008 and Sakhalin II is expected to continue ramping up in 2008.

Caspian

Azeri oil supply is expected to average 1.09 mb/d in 2008, representing an increase of 0.18 mb/d versus 2007. The quarterly forecast distribution is now 1.04 mb/d, 1.08 mb/d, 1.11 mb/d and 1.15 mb/d respectively. Guneshli (ACG Phase III) is expected to startup in the second quarter, while East Azeri (ACG Phase II) will continue ramping up during 2008.

Kazak oil production is expected to average 1.48 mb/d in 2008, representing an increase of 0.10 mb/d versus 2007. The quarterly supply figures are currently expected at 1.45 mb/d, 1.47 mb/d, 1.44 mb/d and 1.56 mb/d respectively. Kazakhanbasmunai is expected to startup late in 2008 while the Tengiz expansion is expected to continue ramping up during the year.

China

Total oil supply is expected to average 3.78 mb/d in 2008, almost unchanged from the previous year. The quarterly figures are expected at 3.80 mb/d, 3.78 mb/d, 3.76 mb/d and 3.77 mb/d, respectively. Available data show that only Peng Lai 19/3 Phase II is expected to startup in the second half of 2008.

OPEC natural gas liquids and non-conventional oils

In 2007, OPEC NGLs and non-conventional oils are expected to average 4.39 mb/d, a significant increase over the previous year of around 0.3 mb/d. In 2008, the level for OPEC NGLs is expected to average 4.80 mb/d, around 0.41 mb/d over the 2007 figure.

Table 12: OPEC NGL + non-conventional oils - 2005-2008

	2005	**2006**	**Change** 06/05	1Q07	2Q07	3Q07	4Q07	**2007**	**Change** 07/06	**2008**	**Change** 08/07
Total OPEC	**4.08**	**4.09**	0.01	4.21	4.35	4.43	4.57	**4.39**	0.30	**4.80**	0.41

OPEC crude oil production

OPEC crude output in June averaged 29.98 mb/d

Total OPEC crude oil production averaged 29.98 mb/d in June, a decline of 96,600 b/d from the previous month figure, according to secondary sources. OPEC production (excluding Angola and Iraq) averaged 26.38 mb/d, a decline of 22,000 b/d from May. Iraq's oil production averaged 1.96 mb/d, around 78,300 b/d less than the May figure, while Nigeria's oil production stood at 2.06 mb/d, an increase of 77,000 b/d over May. OPEC second-quarter production averaged 30.06 mb/d.

Table 13: OPEC crude oil production based on secondary sources, 1,000 b/d

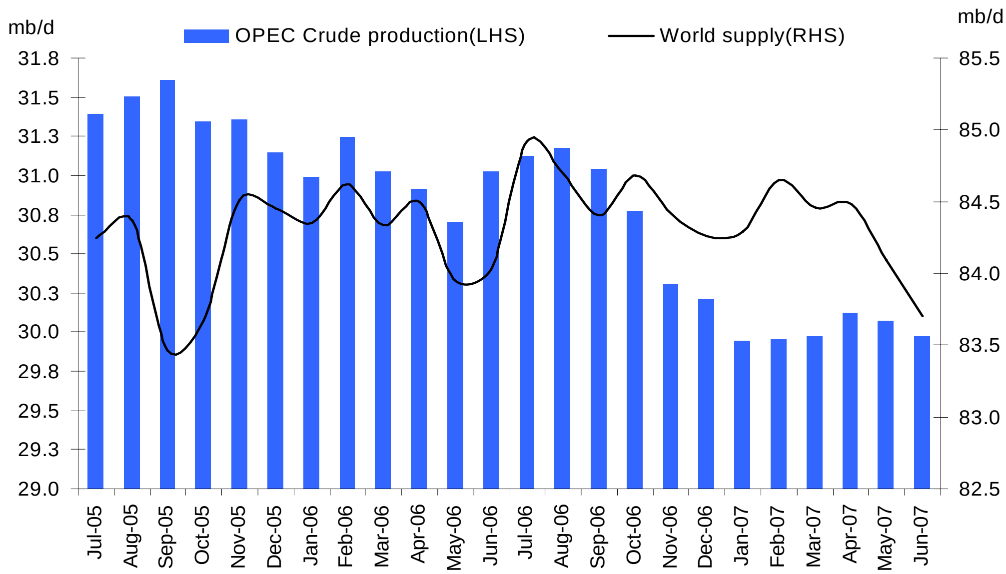
	2006	3Q06	4Q06	1Q07	Apr07	May07	Jun07	2Q07	*Jun/ May*
Algeria	1,366	1,361	1,359	1,335	1,338	1,352	1,364	1,351	*12.1*
Angola	1,387	1,410	1,409	1,556	1,616	1,631	1,635	1,627	*3.7*
Indonesia	895	882	862	855	846	847	839	844	*-7.9*
Iran, I.R.	3,845	3,910	3,821	3,789	3,818	3,835	3,845	3,833	*10.0*
Iraq	1,932	2,061	1,952	1,891	2,048	2,041	1,963	2,018	*-78.3*
Kuwait	2,504	2,506	2,465	2,425	2,418	2,421	2,383	2,407	*-38.3*
Libya, S.P.A.J.	1,702	1,719	1,709	1,686	1,691	1,698	1,685	1,691	*-13.3*
Nigeria	2,233	2,220	2,244	2,166	2,144	1,979	2,056	2,059	*77.0*
Qatar	822	834	816	793	790	796	803	796	*6.7*
Saudi Arabia	9,111	9,135	8,787	8,566	8,523	8,543	8,510	8,525	*-33.3*
UAE	2,540	2,573	2,524	2,491	2,509	2,533	2,533	2,525	*-0.8*
Venezuela	2,539	2,504	2,485	2,407	2,381	2,399	2,365	2,382	*-34.0*
OPEC excl. Iraq	**28,944**	**29,054**	**28,481**	**28,068**	**28,074**	**28,034**	**28,016**	**28,041**	***-18.3***
OPEC excl. Angola & Iraq	**27,557**	**27,644**	**27,071**	**26,512**	**26,458**	**26,403**	**26,381**	**26,414**	***-22.0***
Total OPEC	**30,877**	**31,115**	**30,432**	**29,959**	**30,122**	**30,075**	**29,978**	**30,059**	***-96.6***

Totals may not add due to independent rounding.

World Oil Supply

Preliminary figures for the month of June indicate that world oil supply averaged 83.70 mb/d, a decline of 0.39 mb/d from the May figure with OPEC crude share estimated at 35.8%. The estimate is based on preliminary data for non-OPEC supply, estimates for OPEC NGLs and OPEC crude production from secondary sources.

Graph 18: OPEC and World oil supply



FSU net exports of crude and products

Total FSU net oil exports are expected to average 8.68 mb/d in 2007, an increase of 0.55 mb/d over the previous year. In 2008, total net oil exports are expected to average 9.08 mb/d or 0.40 mb/d over 2007.

Current trends

Actual figures for the month of April indicate that total crude exports from the FSU averaged 6.64 mb/d Preliminary figures for May show an average of 6.58 mb/d, a decline of 59,800 b/d from the previous month. Russian pipeline exports were down by around 114,000 b/d. Most of the declines witnessed were seen in Baltic exports which fell 72,000 b/d compared to the previous month. The CPC pipeline exports also declined by 31,000 b/d in May compared with the April figure.

Table 14: FSU estimated net oil exports (historical and forecast), mb/d

	1Q	2Q	3Q	4Q	Year	Growth (y-o-y)
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	7.91	8.34	8.22	8.06	**8.13**	**0.44**
2007 (forecast)	**8.64**	**8.86**	**8.68**	**8.54**	**8.68**	**0.55**
2008 (forecast)	**9.01**	**9.27**	**9.08**	**8.96**	**9.08**	**0.40**

Table 15: Recent FSU exports of crude and products by source, mb/d

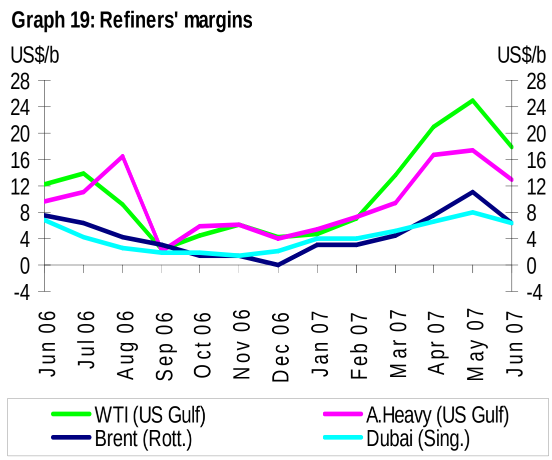
	2005	2006	3Q06	4Q06	1Q07	Apr 07	May 07*
Crude							
Russian pipeline							
Black Sea	1,335	1,288	1,318	1,224	1,420	1451	1427
Baltic	1,462	1,553	1,575	1,495	1,601	1727	1655
Druzhba	1,315	1,288	1,251	1,186	1,138	1181	1163
Total	**4,112**	**4,129**	**4,144**	**3,905**	**4,158**	**4359**	**4,245**
Other routes							
Russian rail	416	313	307	316	336	265	244
Russian - Far East	65	84	106	128	245	214	231
Kazak rail	17	31	23	17	18	21	12
CPC pipeline	648	661	670	677	709	754	723
Caspian	**295**	**396**	**408**	**332**	**332**	**262**	**254**
of which							
Supsa (AIOC) - Georgia	137	114	140	30	2	0	0
Batumi - Georgia	140	177	152	177	187	147	142
Total**	**1,441**	**1,702**	**1,838**	**1,967**	**2,233**	**2,280**	**2,334**
Total crude exports	**5,553**	**5,831**	**5,982**	**5,872**	**6,392**	**6,639**	**6,579**
Products							
All routes							
Fuel oil	836	861	819	854	877	776	778
Gasoil	759	841	854	812	696	597	571
Others	575	662	654	593	602	599	660
Total	**2,170**	**2,386**	**2,327**	**2,258**	**2,175**	**1972**	**2,009**
Total oil exports	**7,723**	**8,217**	**8,309**	**8,130**	**8,567**	**8,611**	**8,588**

Source: Nefte Transport, Global Markets, Argus Fundamentals, Argus FSU, OPEC.
* *Preliminary.*
** *Total incl. BTC, Atasu-Alashankou and tanker shipments from Kaliningrad to Ventspils.*

Product Markets and Refinery Operations

Product markets extended their support to crude prices in June

Lower than expected gasoline stock-builds in the USA in June have provided further support for product and crude prices over the last couple of weeks. However, skyrocketing crude prices have overwhelmed the performance of the product market, undermining refinery margins across the board in June compared to the previous month.



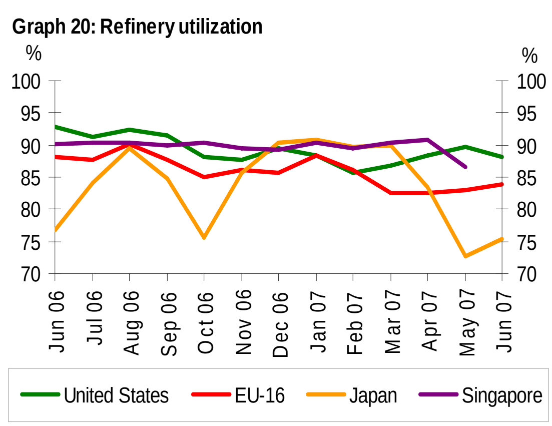
As **Graph 19** shows, refinery margins for WTI crude oil in the US Gulf Coast plummeted $6.89/b to $17.97/b from the unprecedented level of $24.86/b in May. The same trend occurred in the European market, and margins for benchmark Brent crude in Rotterdam plunged by $4.77/b, or 43%, to $6.25/b from $11.02/b in the previous month.

In Asia, margins also moderately declined over the same month, sliding to $6.41/b from $8.11/b in May. With the return of refineries from maintenance, margins may be negatively affected in the coming months.

Despite falling refinery margins in June compared to the previous month, product market sentiment remained firm providing support for the crude market, as the risk of refinery snags has persisted. However, with increasing refinery throughput across the globe — especially in the USA —and higher gasoline imports, product markets may lose part of their current strength in the near term.

Lower-than-normal refinery utilization rates in the USA remained the major source of concern in the market

With extremely attractive refinery margins in the USA, market players expected refinery throughput to increase sharply in June, but unplanned refinery glitches adversely affected refinery operations in the USA and throughput failed to exceed 90%. However, due to the favourable economics of gasoline, US refiners boosted the gasoline mode of the barrel complex up to above 62% at the expense of other products. Such a trend may continue during the driving season.



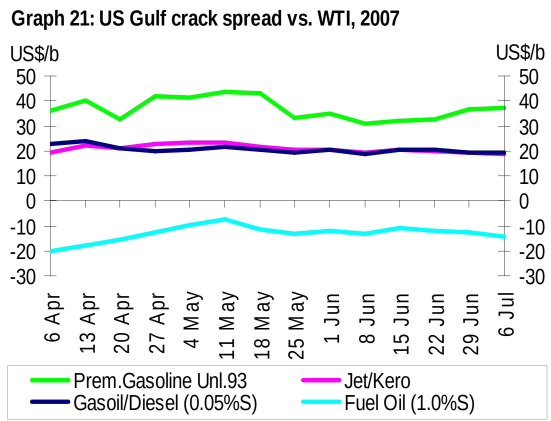
On average, the refinery utilization rate in the USA fell 1.5% in June, reaching 88.1% from 89.6% in the previous month. Despite the completion of the maintenance schedule in Europe, refiners have not yet boosted throughputs, and their utilization rate rose a slight 0.8% versus last month to record 83.8%. The Japanese refinery utilization rate improved by 2.7% in June, surging to 75.4% from 72.7% in the previous month.

US market

Concern about US gasoline supply is still driving the market

The US gasoline market, which had lost part of its strength in the latter part of May, was supported by continued refinery snags in June. On average, the unplanned refinery outage in the USA during June 2007 was around 600,000 b/d, which is quite unusual. Such circumstances supported both the physical and the futures gasoline market and lifted the premium gasoline crack spread versus benchmark WTI crude at the US Gulf Coast to about $37/b in the last week of June. The lucrative situation of the gasoline market encouraged many traders to continue exporting gasoline from Europe to the USA. According to some sources, between 45 and 50 gasoline cargoes were booked for the USA from Europe in June.

The recent fall of freight cost has only encouraged this movement. If this trend continues, it may provide some relief to US motorists. As mentioned earlier, the attractive gasoline margins encouraged US refiners to maximize the gasoline mode at the expense of other products, raising early concern about the heating oil supply during the winter.



This concern has been heightened recently, as distillate stocks have not built enough over the last few weeks. Additionally, tighter specifications for off-road diesel have led to the separation of this product from high-sulphur heating oil and caused the sharp slide of heating oil stocks in the USA.

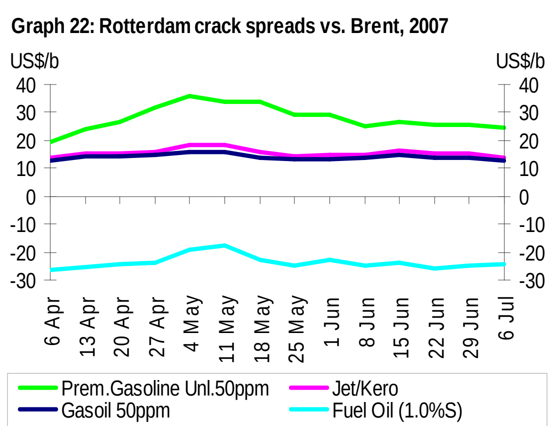
This situation may spur speculative buying of heating oil earlier than in the previous year and might support product and crude prices. According to the DOE, US heating oil stocks are currently below the minimum five-year range. The US East Coast, which accounts for the bulk of the US heating oil market, is of particular concern, as monthly US statistics suggest that demand for heating oil is currently running ahead of supply.

The US market for residual fuel remained bearish as low natural gas prices dampened power plant demand for fuel oil, exerting further pressure on discounted prices of low-sulphur fuel oil. The crack spread of low sulphur fuel oil against WTI crude oil slipped to minus $14/b in late June from around minus $12/b in the previous month.

European market

Upon completion of refinery maintenance, European product markets may lose part of their momentum if arbitrage opportunities remain limited

The petroleum product complex of the European market is heavily dependent on arbitrage opportunities to the USA, the Middle East and to some extent to other Asian countries. Currently, with the exception of gasoline, European product stock levels are very high, and upon completion of refinery maintenance and increasing throughputs, they may exceed the required range exerting pressure on product prices.



In June, 1.6-1.9 mt of gasoline were exported from Europe to the USA, resulting in a strong gasoline crack spread. As **Graph 22** indicates, the gasoline crack spread versus benchmark Brent crude in the Rotterdam market still remained around $25/b. Due to the tight US gasoline market, European refiners would be able to benefit from this situation and maximize their margins.

Turning to middle distillates, the range has performed well so far, and at the start of the summer travelling season, it is expected to remain strong over the next months. However, upon the arrival of some low-sulphur gasoil cargoes from Asia, the distillate crack spread may face some pressure in the future.

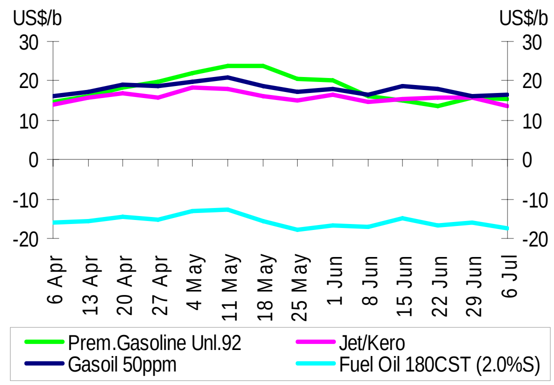
With regard to fuel oil, fundamentally Europe is suffering from a hefty supply/demand surplus, but arbitrage opportunities to Asia provided some support for high-sulphur grades. Low-sulphur regional demand has not yet rebounded, which has exerted downward pressure on its crack versus benchmark Brent crude (*see* ***Graph 22***).

Specification changes in Indonesia and Vietnam put pressure on high-sulphur gasoil

Asian market

The performance of the Asian product market in June was good. However, naphtha lost part of its previous bullish sentiment. Asia's naphtha market did very well in the first five months of this year, but in June its price dropped and the naphtha crack spread against benchmark Dubai crude in Singapore narrowed to about \$6/b from above \$12/b in the previous month. Upon completion of regional petrochemical unit maintenance, naphtha prices may rise again, as regional demand looks strong.

Graph 23: Singapore crack spreads vs. Dubai, 2007



Along with naphtha, the gasoline market sentiment also eased due to sluggish regional demand and higher Chinese exports. As **Graph 23** shows, the gasoline crack spread fell to about \$15.5/b in June from above \$20/b in the previous month.

With regard to the distillate component, the low-sulphur gasoil market was supported by higher regional demand and arbitrage opportunities to Europe and Chile, while the low-sulphur grade faced sluggish regional demand and the spread between low- and high-sulphur grades widened. In the beginning of June, jet fuel came under pressure from the closure of arbitrage to the US West Coast, but later on market circumstances changed as China boosted its August tender volume to 310,000 tonnes from 260,000 tonnes in July. Upon the return of refineries from maintenance, rising regional production along with current high distillate stocks in Singapore and Japan may exert downward pressure on distillate prices.

The Asian fuel oil market sentiment in June was relatively strong due to fewer arbitrage cargoes, lower regional output as a result of refinery maintenance and higher utility plant demand, especially in Japan. The current situation of the Asian fuel oil market may worsen in the near term with the arrival of arbitrage cargoes and sluggish Chinese demand.

Table 16: Refined product prices, US$/b

		Apr 07	May 07	Jun 07	Change Jun/May
US Gulf (Cargoes):					
Naphtha		89.90	83.25	79.81	-3.44
Premium gasoline	*(unleaded 93)*	101.91	103.83	101.43	-2.40
Regular gasoline	*(unleaded 87)*	91.98	98.49	92.02	-6.47
Jet/Kerosene		85.43	86.10	87.65	1.55
Gasoil	*(0.05% S)*	85.76	84.72	87.76	3.04
Fuel oil	*(1.0% S)*	47.88	53.66	52.21	-1.45
Fuel oil	*(3.0% S)*	46.53	50.33	55.56	5.23
Rotterdam (Barges FoB):					
Naphtha		86.19	90.03	87.58	-2.45
Premium gasoline	*(unleaded 50 ppm)*	93.90	100.00	97.59	-2.41
Premium gasoline	*(unleaded 95)*	84.06	89.74	87.33	-2.41
Jet/Kerosene		82.71	83.79	87.00	3.21
Gasoil/Diesel	*(50 ppm)*	81.65	81.72	85.50	3.78
Fuel oil	*(1.0% S)*	42.91	45.66	46.72	1.06
Fuel oil	*(3.5% S)*	46.46	47.33	48.83	1.50
Mediterranean (Cargoes):					
Naphtha		71.19	74.42	72.68	-1.74
Premium gasoline	*(50 ppm)*	93.67	101.00	97.63	-3.37
Jet/Kerosene		79.33	80.95	84.32	3.37
Gasoil/Diesel	*(50 ppm)*	81.44	82.85	85.44	2.59
Fuel oil	*(1.0% S)*	47.01	49.97	52.59	2.62
Fuel oil	*(3.5% S)*	46.53	46.49	48.68	2.19
Singapore (Cargoes):					
Naphtha		74.22	76.73	73.12	-3.61
Premium gasoline	*(unleaded 95)*	83.49	88.77	84.79	-3.98
Regular gasoline	*(unleaded 92)*	82.69	87.96	83.82	-4.14
Jet/Kerosene		80.91	82.14	83.75	1.61
Gasoil/Diesel	*(50 ppm)*	83.18	84.47	85.67	1.20
Fuel oil	*(180 cst 2.0% S)*	51.24	51.34	53.37	2.03
Fuel oil	*(380 cst 3.5% S)*	50.87	50.82	53.03	2.21

Table 17: Refinery operations in selected OECD countries

	Refinery throughput *mb/d*				Refinery utilization *%*			
	Apr 07	May 07	Jun 07	Jun/May	Apr 07	May 07	Jun 07	Jun/May
USA	15.27	15.48	15.22	-0.26	88.4	89.6	88.1	-1.50
France	1.61	1.70 R	1.51	-0.19	82.0	86.5 R	77.0	-9.50
Germany	2.14	2.10 R	2.24	0.14	88.6	86.7 R	92.6	5.90
Italy	1.85	1.77	1.78	0.01	79.1	75.6	76.0	0.40
UK	1.51	1.51	1.51	0.00	80.0	79.9	80.0	0.10
Eur-16	11.59 R	11.67 R	11.77	0.10	82.6 R	83.1 R	83.8	0.70
Japan	3.90	3.40	3.50	0.10	83.4 R	72.8 R	75.5	2.70

R *Revised since last issue.*

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

The Tanker Market

OPEC and global spot fixtures increased in June due to stronger booking to the West but were still below last year's level

In June, estimated OPEC spot fixtures showed an increase of nearly 8.3% to reach the highest level since February 2007, while global fixtures increased around 5%. This second consecutive gain in OPEC fixtures came after three months of consecutive declines starting in February 2007. In the first half of 2007, average OPEC spot fixtures registered a decline of around 7% compared to the same period in 2006. Increased tonnage demand on the back of US refineries returning from maintenance was the main driver behind the rise in fixtures. However, on an annual basis, OPEC spot fixtures indicated a decline of around 12%; demand and the OPEC cut as well as buyers' preference of time-chartered vessels were among the reasons for the annual decline which was in line with a global drop of around 10%. Spot fixtures from the Middle East to the West increased on the back of refiners sourcing out tonnage for the post-maintenance season.

Preliminary estimates show that OPEC sailings declined more than 1% in June from the previous month. In the first half of 2007, OPEC sailings averaged more than 5% lower than the same period last year. OPEC sailings were steady in June declining less than 1% from the previous month and compared to the same month last year decreased by around 5%. The decline in Middle East sailings in June was offset by the gain of non-Middle East OPEC members. Arrivals at major destinations like US Gulf, US East Coasts and the Caribbean remained steady in June.

Table 18: Tanker chartering, sailings and arrivals, mb/d

	Apr 07	May 07	Jun 07	Change Jun/May
Spot Chartering				
All areas	18.63	19.06	19.96	0.91
OPEC	11.80	11.84	12.83	0.99
Middle East/east	4.74	4.83	4.78	-0.05
Middle East/west	2.00	1.42	1.83	0.41
Sailings				
OPEC	24.08	23.60	23.40	-0.20
Middle East	17.09	17.12	16.63	-0.49
Arrivals				
US Gulf Coast, US East Coast, Caribbean	9.34	10.13	10.20	2.11
North West Europe	7.19	7.67	7.66	0.38
Euromed	4.36	4.56	5.18	0.56

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

VLCC spot freight rates declined in June, Suezmax rates remained steady and Aframax rates were mixed to bearish

Despite increased activities worldwide and the relatively strong price environment in the petroleum market, the tanker market remained bearish throughout June. While owners were eager for the ongoing developments in the oil market to spur freight rates, the tanker market's own dynamic shattered their expectations and impacted earnings in June. The VLCC market lost some ground in June with various bullish and bearish factors coexisting, yet the fact that charterers entered the market to cover their tonnage requirements at the right time ensured that the bullish sentiment was overtaken by the bearish one. The Suezmax market remained steady as owners maintained a slow pace while observing the other segments of the market and managed to close the month with an even position. Despite many bullish factors, the Aframax sector spent most of June under pressure.

In the VLCC sector, spot freight rates for long-haul Middle East eastbound/westbound destinations fell 19% and 6% respectively in June compared with the previous month. Despite being relatively healthy, Asian bookings were not up to owners' expectations for the post-maintenance season, due to the fact that there was still some maintenance going on. Additionally, the overwhelming list of tonnage availability relative to enquiries gave charterers the ability to space out their deals in a way to ensure that the pressure remained on owners. Furthermore, the decline in Angolan booking to China on the back of availability of closer relatively competitive grades supported the tonnage list despite the increase of booking of fuel oil and heavy grades from Europe and Venezuela to the east. Compared to a year earlier, spot freight rates from the Middle East to the east dropped 28% in June. To the west, VLCC spot freight rates from the Middle East declined 6% in June from the previous month despite a seemingly increasing crude oil import trend in the USA. However, high crude oil stocks in addition to the growing tonnage list halted any gains on this route and negatively affected rates. On an annual basis, spot freight rates from the Middle East to the west indicated a decline of 33%. In West Africa, the Suezmax connection with VLCCs could not support the rate in June which fell 12% from the previous month, while rates showed a decrease of 32% annually.

VLCC availability was the focal point in June for owners and charterers. The easing contango price structure prompted traders to get rid of the crude oil kept on floating storage in the US Gulf Coast, which added to the tonnage list. Additionally, the volume of oil in transit gradually declined from mid-June to July, adding further tonnage to the list. Hence charterers were not in a hurry to cover their shipping positions as the supply of good tonnage remained ample in June.

The Suezmax sector, which started the month with steady rates, was the only one closing June with a marginal gain. Owners were expecting activity levels to increase towards the second half of the month and rates would be supported. However, various developments influenced the market and negatively affected the rates; still, the market remained steady and managed a positive note. Spot freight rates for Suezmax trading on the West Africa/US Gulf Coast route remained nearly steady in June compared with the previous month experiencing a minor gain of more than 1%. While vessel availability was thin until the end of June, renewed US interest in the sweet grades from West Africa helped to push rates up. The unrest and the strike in Nigeria helped undermine the bullishness in the sector. Additionally, the low rates of VLCCs in the region had a downward effect on rates. As a result, rates hovered around WS100 before getting a boost at the end of the month as the strike ended. On an annual basis, West Africa to the US Gulf rates showed a decrease of 17% y-o-y.

In North-West Europe, activities were described as limited with maintenance continuing in both refineries and oil fields. However, activities in the Mediterranean helped reduce the available tonnage list as did the easing of maintenance at both oil production fields and refineries. However, the availability of less expensive Aframaxes undercut activities. Spot freight rates for Suezmax on the NW Europe/USA route closed the month with an increase of around 2% while declining 16% annually. On an average basis, Suezmax spot freight rates for the first half of 2007 on both reported routes reached WS122, about 15% lower than the average of the same period in 2006.

Table 19: Spot tanker freight rates, Worldscale

	Size *1,000 DWT*	Apr 07	May 07	Jun 07	Change Jun/May
Crude					
Middle East/east	230-280	75	96	78	-18
Middle East/west	270-285	60	68	64	-4
West Africa/east	260	75	74	65	-9
West Africa/US Gulf Coast	130-135	134	107	109	2
NW Europe/USEC - USGC	130-135	125	106	107	2
Indonesia/US West Coast	80-85	162	148	156	9
Caribbean/US East Coast	50-55	154	168	141	-27
Mediterranean/Mediterranean	80-85	158	182	109	-73
Mediterranean/North-West Europe	80-85	154	176	105	-71
Products					
Middle East/east	30-35	175	191	172	-19
Singapore/east	30-35	177	239	208	-31
Caribbean/US Gulf Coast	38-40	311	290	318	29
NW Europe/USEC - USGC	33-37	322	303	296	-7
Mediterranean/Mediterranean	30-35	284	299	266	-33
Mediterranean/North-West Europe	30-35	294	309	276	-33

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

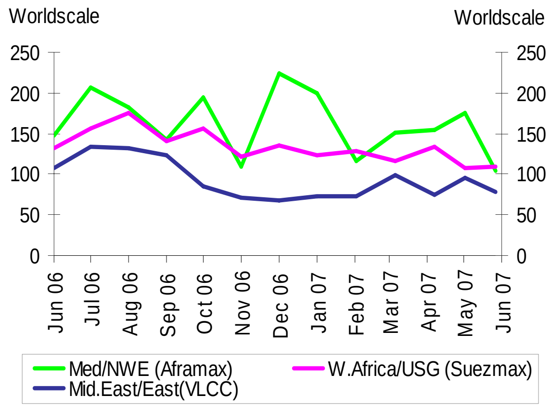
West of Suez spot freight rates for Aframax declined in June compared to the previous month while voyages from East of Suez registered a minor rise. Fundamentals played a major role in shaping the Aframax sector in June with availability dominating the market and charterers enjoying the upper hand for spot freight rates. In the Mediterranean, Aframax spot freight rates took a dive at the beginning of June as activity levels were low and availability high. Despite the increase in activity levels, as the month progressed, the list of available vessels remained healthy dashing owners' hope of a rate surge. Aframax spot freight rates declined 40% on both the intra-Mediterranean and the Mediterranean to NW Europe routes. While increased seaborne Russian exports in July raised owners' expectations, the limited trans-Atlantic movement, on the back of price circumstances — coupled with the maintenance at the beginning of the month — offset the activity level. Aframax June spot freight rates indicated a drop of around 27% y-o-y.

In the Caribbean, Aframax spot freight rates went through a gradual decline towards the middle of June before picking up slightly at the end of the month. The lack of cargoes in the Caribbean to employ the available tonnage depressed rates to average the month with a decline of 16% from the previous month. The decline in June resulted in the lowest rates since 2003 with a drop of 37% y-o-y, the highest annual decline for dirty tankers in June. East of Suez Aframax enjoyed a minor increase of 6% on the reported route. A fundamentally balanced market with the activity level matching the available tonnage list created a relatively steady market for the Aframax sector. Tankers drawn to the lightering market in the US Gulf Coast helped ease the tonnage list while spot freight rates indicated an annual increase of 5% for the Indonesia/US West Coast route.

In June, the clean tanker market was bearish with Mediterranean rates declining and NW Europe to the USA rates steady

In line with the dirty market, clean tanker market sentiments were bearish on most routes. Despite various opening arbitrage opportunities, vessel availability remained the arch factor that kept rates from rising. East of Suez clean tanker spot freight rates declined 10% and 13% on the routes to Japan from the Middle East and Singapore respectively. The clean tanker market in the Middle East encountered the refinery maintenance in Saudi Arabia and Kuwait which, in turn, took cargoes off the market. Coupled with the healthy tonnage list, freight rates fell to their lowest level since November 2006 registering an annual decline of 38%. While the situation in Singapore appeared to be better with strong gasoline demand from Indonesia in July as well as healthy diesel requirements from Australia, refinery maintenance in Japan and Singapore coupled with healthy naphtha inventories in Japan and bad weather conditions in Australia halted any rate increase in June. Clean tanker spot freight rates declined 24% annually in June from Singapore to Japan. Additionally, a long tonnage list which included some new deliveries as well as West arbitrage cargoes from Europe helped bring rates down. Nonetheless, gasoline arbitrage to the US West Coast managed to create a floor for the clean spot rates from Singapore.

Graph 24: Monthly averages of crude oil spot freight rates



West of Suez went through similar circumstances except for rates from the Caribbean which was the only reported route where clean spot freight rates achieved some gains in June over the previous month, supported by bookings from South America as the winter season hit the southern hemisphere. Both Chile and Argentina required many gasoil cargoes due to the prevailing limited supply of natural gas. Additionally, the relocation of various vessels to the NW Europe region to take advantage of gasoline arbitrage to the USA helped reduce the tonnage list, creating a fundamentally balanced market. Clean tanker spot freight rates increased 10% in June on the Caribbean/US Gulf route, which reached the highest level since August 2006 and showed an annual increase of 35%.

In NW Europe, clean tanker spot freight rates were strong in the first half of June before facing the closed gasoline trans-Atlantic arbitrage to the USA, which was due to lower prices in the USA on the back of increased refinery runs, and higher prices in Europe on the back refinery maintenance and limited exports from Germany. Accordingly, clean tanker spot freight rates declined a marginal 3% in June with annual growth of 17%. The Mediterranean market came under pressure by limited cargoes and a growing tonnage list. Few dirty tanker clean-ups added to the available tonnage list; hence rates declined gradually throughout June to stand at 11% lower than the previous month. Average clean tanker spot freight rates in the first half of 2007 remained steady when compared to the same period last year.

Oil Trade

OECD

Net OECD crude oil imports grew by 2.3% in May with an annual decline of 3.4%

Preliminary data show that OECD crude oil imports in May increased by around 1% from the previous month, but remained 3.6% below last year. The gain came as refiners in most OECD regions prepared for the post-maintenance season as well as rising crude oil stocks in Europe and USA. In the same period, product imports saw growth of more than 3% on the back of higher US and Japanese imports as refineries were on maintenance. Despite the fact that a lot of US gasoline imports came from other OECD countries, a considerable volume came from non-OECD countries which supported the increase in May from the previous month. Total OECD oil imports rebounded after the decline experienced in April with an increase of 1.6%.

Exports edged down by more than 1%, driven mainly by a decline in crude oil exports of more than 3.5% in May compared to the previous month. The estimated decline in OECD crude oil production was one of the main reasons for the drop in May. OECD product exports remained steady as further inter-OECD trade was evident in May. Despite the slightly increased naphtha and fuel oil activities from Europe to Asia, OECD product exports increased by less than 0.5% in May compared to the previous month. Hence, OECD net oil imports registered an increase of around 3.5% in May supported by increases in both crude oil and product imports and a decrease in crude oil exports. However, when compared to the same period last year, both net crude oil and product imports indicated a decline of 3.4% and 17% respectively.

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

	Mar 07	Apr 07	May 07	Change May/Apr
Crude oil	24,038	23,242	23,774	532
Total products	1,617	1,490	1,832	342
Total crude and products	**25,654**	**24,731**	**25,605**	**874**

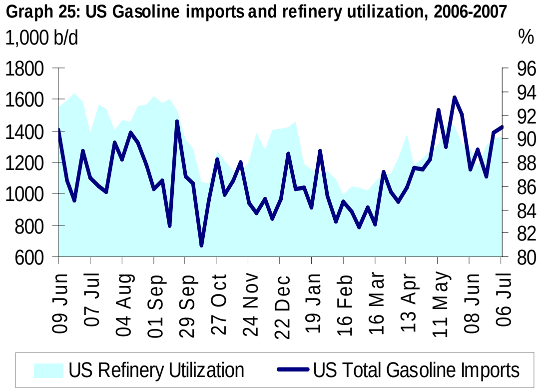
In terms of crude oil suppliers**,** Saudi Arabia and Russia came on top in May with more than 28% for both. Canada, Norway and Venezuela came next with around 6% each. On the product side, the Netherlands and Russia were first with around 16% for both.

USA

US net oil imports declined in June by 1.4% from May despite a 1% increase in crude oil imports

US crude oil imports increased slightly by less than 1% in June from the previous month to mark the highest level since last September. Despite the high stock situation in the USA and the slightly lower refinery utilization rate, refiners continued to import more quantities to ensure sufficient supply for the coming period in anticipation of higher refinery runs. On an annual basis, June crude oil imports indicated a decline of 1.5%. When looking at total US crude oil imports in the first half of 2007, an increase of 1% can be noticed when compared to the same period last year. On the other hand, product imports decreased in June by around 6% from the previous month but indicated an annual increase of more than 6% due mainly to lower refinery utilization rates compared to the same period last year. Gasoline imports declined in June on the back of higher prices in Europe and the Mediterranean, caused by the tight market as well as soaring freight rates that affected the arbitrage opportunity, hence reducing volumes arriving at the USA. It is estimated that US gasoline imports — including various blending components — decreased by more than 13% in June compared to the previous month while US gasoline demand increased by more than 1%.

Graph 25: US Gasoline imports and refinery utilization, 2006-2007



Distillate and jet fuel imports in June increased moderately in the USA while residual fuel imports increased more than 10% compared to the previous month. On average, US product imports in the first half of 2007 remained almost unchanged compared to the same period last year.

With US oil exports remaining fairly steady in June compared to the previous month, except for a minor increase in product exports, US net oil imports fell on the back of lower product imports. While crude oil imports rose in June, this rise was not sufficient to offset the product decline, hence US net oil imports fell in June. However, on an annual basis, net oil imports registered an increase of slightly more than 1% and the average of the first six months in 2007 increased less than 1% from the same period of 2006.

Graph 26: US Residual fuel oil imports and lower 48 natural gas working underground storage, 2006-2007

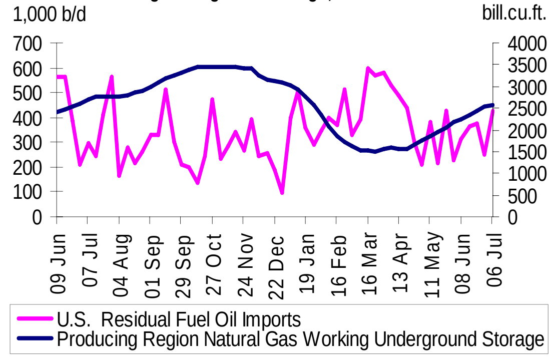


Table 21: USA Crude and Product Net Imports/(Exports), tb/d

	Apr 07	May 07	Jun 07	Change Jun/May
Crude oil	10,128	10,408	10,495	87
Total products	2,353	2,731	2,461	-270
Total crude and products	**12,481**	**13,139**	**12,956**	**-183**

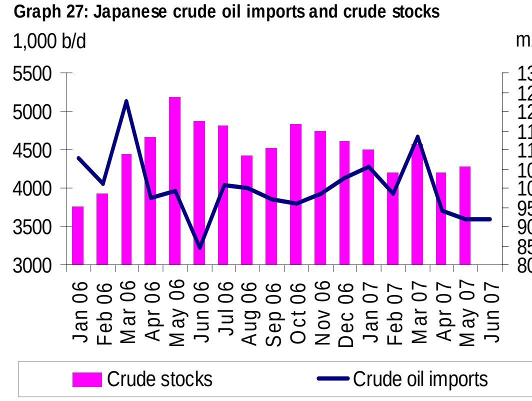
Preliminary estimate show that Canada remained the main supplier of US crude oil imports in May with more than 20%, followed by Mexico and Saudi Arabia with 16% and 14% respectively. Venezuela, Nigeria and Iraq came next with 8-13% each. On the product side, Canada maintained the first position with around 25% in May, followed by the Virgin Islands, Russia, Algeria, and Venezuela.

Japan

Japan's crude oil imports rose 240,000 b/d in June as refiners prepared for the post-maintenance season

Japan's crude oil imports rebounded in June with an increase of more than 6% after two months of decline, according to the preliminary estimates. With increased refinery throughput in June and expectations of further refinery capacity returning onstream with the coming end to the maintenance season, refiners are slowly sourcing out more volumes to run their units. Additionally, direct crude oil burning for power generation added to crude oil requirements in June. On the other hand, product imports remained steady with a marginal decline of more than 2% in June compared to the previous month. While it is estimated that naphtha imports increased in Japan as petrochemical units returned from maintenance in June, imports of gasoline declined on the back of higher refinery output.

Graph 27: Japanese crude oil imports and crude stocks



Product exports from Japan increased in June by around 7% to reach the highest level since last September. The US gasoline demand drove prices up to a level at which refiners in Japan were prompted to take advantage of arbitrage opportunities to the US West Coast region. Exports of jet fuel oil to the USA increased while exports of gasoil declined despite stronger Asian demand. As well, Japan's fuel oil exports declined as the product is required inland for power generation with some nuclear plants out on maintenance. Despite the monthly increase, Japan's annual product exports declined 15%; however, the exports in the first half of 2007 registered an increase of around 15% compared to the same period last year.

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

	Apr 07	May 07	Jun 07	Change Jun/May
Crude oil	3,704	3,600	3,842	242
Total products	-38	127	78	-49
Total crude and products	**3,666**	**3,727**	**3,920**	**193**

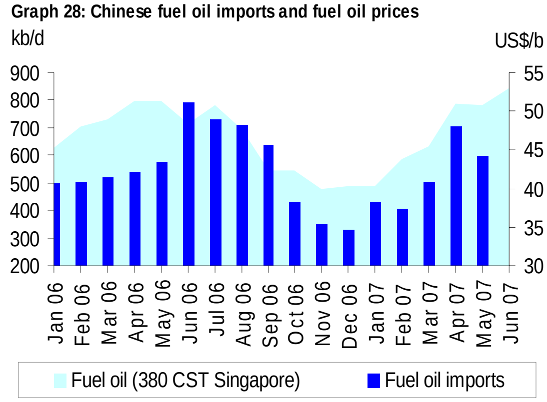
Consequently, Japan's net oil imports increased for the second consecutive month by more than 5% in June when compared to the previous month, driven mainly by the increase in crude oil imports. On average, Japan's net oil imports showed a decline of 7% for the first half of 2007 when compared to the same period last year. For deliveries, Saudi Arabia and UAE remained the main suppliers of Japan's crude oil with more than 50% for both in May. Qatar, Iran, and Kuwait came next with around 8 – 12% each. For products, UAE and Saudi Arabia maintained their position as the top product suppliers to Japan with around 25% for both.

China

China's crude oil imports declined on a monthly basis in May but remained 5% higher y-o-y

According to preliminary data, China's crude oil imports declined 15% in May or more than 500,000 b/d compared to the previous month. Although China's crude oil imports normally fluctuate, crude oil imports displayed the lowest level seen in 2007 so far. Despite the increase in the refinery utilization rate in China in May, the fact that some refineries were on turnaround resulted in lower crude imports. However, China's annual crude oil imports still registered growth of around 5%. Similarly, product imports declined in May by around 10% marking the lowest level since January 2007. The decline in product imports came on the back of increased refinery throughput and lower demand for specific products. Gasoil imports declined in May — of which Japan was the largest supplier — due mainly to increased local production. Similarly, gasoline imports fell with demand remaining steady, although higher domestic production helped balance the position in May, leading to a y-o-y decline of more than 9% for China's product imports.

Graph 28: Chinese fuel oil imports and fuel oil prices



China's fuel oil imports declined in May which contributed to the drop in product imports. It is estimated that fuel oil imports fell 15% compared to the previous month. While domestic fuel oil production increased, demand from chemical fibre plants declined as many of them were in maintenance. Additionally, relatively high fuel oil prices created a negative import margin thus supporting the decline in May. Furthermore, the decrease in fuel oil import tariffs, which was slashed from 6% to 3% by the government starting from the beginning of June, prompted many traders to postpone their imports to next month. Venezuela was China's main fuel oil supplier in May followed by Russia and South Korea.

On the other hand, oil exports from China declined by a total of around 18% from the previous month. Product exports led the way with a loss of more than 20% from to the previous month marking the lowest level since January 2007. China's gasoline exports declined on the back of healthy domestic demand while gasoil exports increased mainly to Vietnam and Hong Kong. Product exports registered an annual growth of around 10% despite the monthly decline. Crude oil exports declined more than 8% to average 120,000 b/d.

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

	Mar 07	Apr 07	May 07	Change May/Apr
Crude oil	3,221	3,480	2,938	-542
Total products	453	641	618	-23
Total crude and products	**3,674**	**4,121**	**3,556**	**-565**

As a result, China's net oil imports declined more than 13% in May from the previous month, the lowest level since February 2007, driven mostly by net crude oil imports which fell more than 15%. On an annual basis, China's net oil imports showed a y-o-y drop of around 3%. OPEC Member Countries supplied more than 50% of China's crude oil imports in May. Angola was on the top of the list with 14% followed by Iran with 13% and then Saudi Arabia with 12%.

India

India's crude oil imports declined to 2.4 mb/d in May but increased on an annual basis; product imports rose 34%

India's crude oil imports declined in May after reaching a record level in April according to preliminary data. Despite the decrease of around 6% in May, crude oil imports reached the second highest level so far in 2007, representing annual growth of 9%. In addition to increased local oil product sales, India's product exports rose on the back of improved refining margins as well as global product demand. India's imports of naphtha and kerosene increased in May on the back of stronger demand. Product imports rose around 34% in May from the previous month to mark the highest increase in product imports since 2005 which goes against the recent established trend of India's lower product imports and higher exports. Private refiners in India prefer to export their products at international prices rather than receiving compensation from the government and sell them to the local market at domestic prices.

On the export side, preliminary data show that India's product exports increased 22% to reach the highest level since October 2006. India's exports of diesel and gasoline surged to take advantage of attractive international prices. Jet fuel and fuel oil exports were steady in May while naphtha exports declined marginally. On an annual basis, India's product exports showed y-o-y growth of more than 14%.

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

	Mar 07	Apr 07	May 07	Change May/Apr
Crude oil	2,206	2,599	2,447	-151
Total products	-292	-404	-462	-57
Total crude and products	**1,913**	**2,194**	**1,985**	**-209**

Accordingly, India's net oil imports declined around 10% in May, driven mainly by the decrease in crude imports and the increase in product exports. The decline in May marked the lowest net oil imports for India since last October. However, India's net oil imports registered annual growth of around 6.3% in May.

Stock Movements

US crude oil stocks hit a nine-year high while gasoline inventories remained below the five-year average in June

USA

US total commercial oil stocks increased a further 20 mb in June to stand at 1,027 mb, the highest level since January. US commercial stocks rose 50 mb since end-February, due to the increase in both crude oil and products. However, at 1,027 mb, total commercial inventories showed a deficit of 15 mb from a year ago but displayed a surplus of 18 mb compared to the five-year average.

Crude oil stocks continued their upward trend, rising 11.3 mb to hit 354 mb, their highest level since mid-1998 and could have approached maximum storage capacity, according to some sources. The continuous build in crude oil stocks remained driven by low refining utilization rates due to extended maintenance and outages. In addition, increasing imports, which rose beyond 10.5 mb/d, the highest level since last September, also contributed to the stock-builds.

On the gasoline side, stronger than normal imports let stocks increase for the second consecutive month to stand at 204.4 mb, up 6.4 mb from the previous month, while the gap with the five-year average narrowed to less than 7 mb, compared with around 15 mb at end-April. The recovery in gasoline stocks was due particularly to high imports and higher production from refineries, even though their utilization rate remained below 90% compared with the more than 94% showed in 2004 and 2005 before hurricanes Katrina and Rita. In terms of forward cover, gasoline stocks represented an equivalent of almost 22 days, 1 day below a year earlier and the five-year average.

In contrast, distillate stocks dropped 0.5 mb to 121.8 mb but remained above the five-year average. However, by product the picture was mixed with heating oil showing a deficit of 15 mb from the five-year average and diesel showing a surplus of more than 17 mb. Along with gasoline, heating oil could be another concern as heating oil stocks typically start to build in April-May while this year the draw continued until nearly the end of June. Maximized gasoline production by refineries could prevent heating oil inventories from building ahead of the winter season. Residual fuel oil and jet fuel stocks followed the same trend, declining 0.9 mb and 0.3 mb to 35 mb and 40.8 mb respectively.

Table 25: US onland commercial petroleum stocks, mb

	Apr 07	May 07	Jun 07	Change Jun 07 /May 07	Jun 06	06-Jul-07 *
Crude oil	337.5	342.3	353.6	11.3	336.2	352.6
Gasoline	196.8	198.0	204.4	6.4	214.5	205.6
Distillate fuel	120.9	122.3	121.8	-0.5	129.9	122.4
Residual fuel oil	38.4	35.9	35.0	-0.9	43.2	35.5
Jet fuel	40.1	41.1	40.8	-0.3	39.3	41.2
Total	**998.9**	**1,007.2**	**1,027.3**	**20.1**	**1,041.8**	**1,029.1**
SPR	689.4	690.3	690.3	0.0	687.8	690.3

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

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

Latest data show that US crude oil stocks fell for the first time since the beginning of June to stand at 353 mb in the week ending 6 July. Despite the decline of 1.5 mb from the previous week, crude oil stocks remained at very comfortable levels, showing a surplus of 17 mb above last year's level and 42 mb above the five-year average. This decline came essentially as result of a 750,000 b/d drop in imports rather than refining utilization, as throughputs remained at a seasonally low 90.2% having inched up by just 0.2 percentage points. In contrast to crude oil, higher imports helped product inventories to increase with gasoline jumping by 1.1 mb to 206 mb, narrowing the gap to the five-year average to just 5 mb, compared with 16 mb two months ago. Following the same trend, distillate inventories rose 0.8 mb to 122 mb, almost the same level as the five-year average. By product, heating oil increased 1.1 mb but remained 15 mb below the five-year average, while diesel stocks, despite a decline, were 15 mb above the five-year average.

As a result, total commercial oil stocks rose 3.5 mb to 1,029 mb, which corresponds to 14 mb below the same week last year but were 32 mb above the five-year average.

Western Europe

In EU-16, both crude oil and product stocks dropped but remained above the five-year average

In June, total commercial oil stocks in EU-16 (Eur-15 plus Norway) fell 16.3 mb, the biggest decrease since March 2006, to stand at 1,153 mb but remained above the upper range of the five-year average. Both crude oil and product inventories declined but product stocks stayed above the upper range of the five-year average while crude oil stocks remained within the range but above the five-year average.

Table 26: Western Europe's oil stocks, mb

	Apr 07	May 07	Jun 07	Change Jun 07/May 07	Jun 06
Crude oil	488.3	489.3	483.4	-5.9	493.0
Mogas	131.3	129.6	126.9	-2.7	127.0
Naphtha	27.3	28.2	26.4	-1.8	27.4
Middle distillates	402.2	406.9	401.6	-5.3	383.8
Fuel oils	112.2	115.4	114.8	-0.6	113.1
Total products	672.9	680.1	669.7	-10.4	651.2
Total	**1,161.2**	**1,169.4**	**1,153.1**	**-16.3**	**1,144.2**

Source: Argus, Euroilstock.

With refineries continuing to recover from seasonal maintenance, crude oil stocks dropped almost 6 mb to 483.4 mb, showing a deficit of 9.6 mb from a year ago and a surplus of 16 mb over the five-year average. Product inventories followed the same trend and showed a substantial drop of 10.4 mb with almost 50% coming from distillates alone. Distillate stocks dropped for the first time since November, with the exception of February where they inched down a marginal 1 mb. However, despite this drop, distillate stocks remained at very comfortable levels of 18 mb above last year's level and 45 mb above the five-year average. The drop in distillate stocks was driven essentially by exports to Latin America. Gasoline inventories fell for the third consecutive month to settle below 127 mb, the lowest level since June 2006 and 9 mb below the five-year average. Similarly, the draw on gasoline stocks was driven by exports, particularly to the USA. Residual fuel oil stocks dropped 0.6 mb to 114.8 mb but remained above the year-ago level. Naphtha stocks fell for the first time this year below the level of the corresponding month of the previous year after declining 1.8 mb to 26.4 mb, also as a result of higher exports.

Japan

Japan's total commercial oil stocks rose 2.8 mb to stand at 179 mb at the end of May on the back of weak demand

Japan's commercial oil stocks recovered from the decline in the previous three months, increasing 2.8 mb to close May at nearly 179 mb. Compared to the corresponding month last year, oil stocks showed a deficit of around 21 mb, almost unchanged from the five-year average. The build in stocks came as a result of a combination of increases in crude oil and distillate inventories.

Crude oil stocks rose 1.6 mb to 105.5 mb but remained 18 mb below the year-ago level and close to the lower range of the five-year average, while at 73 mb product inventories stood 3 mb below the year-ago level but displayed a surplus of 6 mb above the five-year average. The main reasons behind the simultaneous build in crude oil and product stocks despite very low refinery runs were lower imports and sluggish demand. Distillate inventories increased 1.3 mb or 5% to around 29 mb. It was the first time so far this year that distillate stocks went slightly below last year's level and the five-year average. In contrast, gasoline stocks remained stable at 13.5 mb, almost the same level as a year ago and the five-year average. Naphtha stocks inched up 0.4 mb to 11.7 mb, the same level as a year ago, while residual fuel inventories fell by the same amount to 19 mb.

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

	Mar 07	Apr 07	May 07	Change May 07/Apr 07	May 06
Crude oil	111.5	103.9	105.5	1.6	123.6
Gasoline	14.2	13.6	13.5	-0.1	14.4
Naphtha	11.8	11.3	11.7	0.4	11.8
Middle distillates	28.3	27.6	28.9	1.3	29.4
Residual fuel oil	19.3	19.5	19.0	-0.4	20.6
Total products	73.7	71.9	73.1	1.2	76.2
Total**	**185.2**	**175.9**	**178.6**	**2.8**	**199.8**

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

According to preliminary data, crude oil stocks in June increased a further 5.5 mb to stand at 111 mb at the end of the month but remained below last year's level and the five- year average, while gasoline stocks dropped around 1 mb due to low refinery runs. Distillates stocks rose nearly 3 mb to around 32 mb due to sluggish demand.

Balance of Supply and Demand

Demand for OPEC crude is forecast at 30.8 mb/d in 2007 unchanged from 2007

Estimate for 2007

The demand for OPEC crude in 2007 is forecast to average 30.78 mb/d. On a quarterly basis, the forecast shows that demand for OPEC crude was 31.18 mb/d, 30.02 mb/d, 30.79 mb/d and 31.13 mb/d respectively.

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

	2006	1Q07	2Q07	3Q07	4Q07	2007
(a) World Oil Demand	**84.33**	**85.65**	**84.32**	**85.46**	**86.92**	**85.59**
Non-OPEC Supply	49.47	50.26	49.95	50.24	51.22	50.42
OPEC NGLs and non-conventionals	4.09	4.21	4.35	4.43	4.57	4.39
(b) Total Supply excluding OPEC Crude	**53.55**	**54.47**	**54.30**	**54.67**	**55.79**	**54.81**
Difference (a-b)	**30.78**	**31.18**	**30.02**	**30.79**	**31.13**	**30.78**
OPEC crude oil production (1)	30.88	29.96	30.06			
Balance	0.10	-1.22	0.04			

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

In 2008, demand for OPEC crude is expected at 30.7 mb/d, a decline of around 79,000 b/d from 2007

Forecast for 2008

The demand for OPEC crude in 2008 is expected to average 30.70 mb/d, around 79,000 b/d less than the 2007 figure. On a quarterly basis, the forecast shows that demand for OPEC crude is expected at 30.99 mb/d, 29.65 mb/d, 30.55 mb/d and 31.65 mb/d respectively.

Table 29: Summarized supply/demand balance for 2008, mb/d

	2007	1Q08	2Q08	3Q08	4Q08	2008
(a) World Oil Demand	**85.59**	**87.18**	**85.35**	**86.43**	**88.78**	**86.94**
Non-OPEC Supply	50.42	51.58	50.99	50.99	52.13	51.42
OPEC NGLs and non-conventionals	4.39	4.61	4.71	4.89	5.00	4.80
(b) Total Supply excluding OPEC Crude	**54.81**	**56.19**	**55.70**	**55.88**	**57.13**	**56.23**
Difference (a-b)	**30.78**	**30.99**	**29.65**	**30.55**	**31.65**	**30.71**

Graph 29: Balance of supply and demand

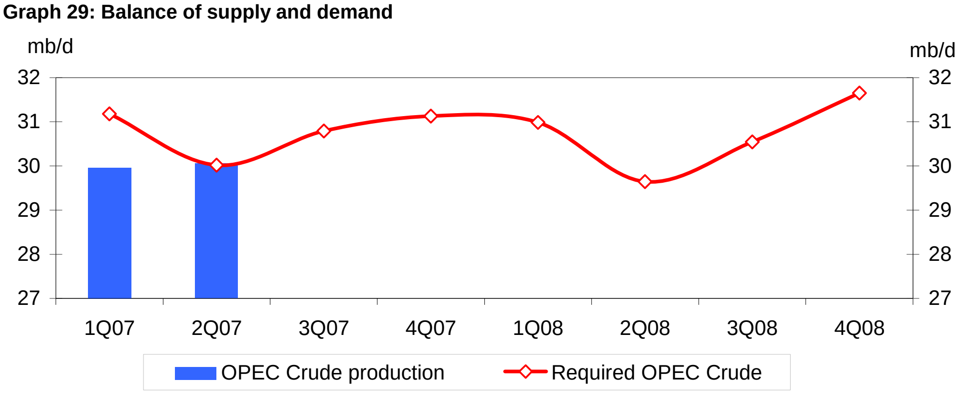


Table 30: World oil demand/supply balance, mb/d

	2003	2004	2005	2006	1Q07	2Q07	3Q07	4Q07	2007	1Q08	2Q08	3Q08	4Q08	2008
World demand														
OECD	48.6	49.4	49.6	49.2	49.7	48.2	49.1	50.3	49.3	50.3	48.1	49.0	50.9	49.6
North America	24.5	25.4	25.5	25.3	25.7	25.4	25.6	25.8	25.6	26.1	25.5	25.8	26.3	25.9
Western Europe	15.4	15.5	15.5	15.5	15.1	15.0	15.5	15.7	15.3	15.3	14.9	15.5	15.8	15.4
Pacific	8.6	8.5	8.6	8.5	8.9	7.8	7.9	8.8	8.3	8.9	7.6	7.8	8.8	8.3
DCs	20.6	21.7	22.4	23.2	23.6	23.7	23.8	24.0	23.8	24.1	24.4	24.5	24.6	24.4
FSU	3.7	3.8	3.9	3.9	3.9	3.7	3.9	4.3	3.9	3.9	3.7	4.0	4.3	4.0
Other Europe	0.8	0.9	0.9	0.9	1.0	0.9	0.9	0.9	0.9	1.0	1.0	0.9	0.9	1.0
China	5.6	6.5	6.5	7.1	7.5	7.8	7.7	7.4	7.6	7.8	8.1	8.0	8.0	8.0
(a) Total world demand	79.3	82.3	83.4	84.3	85.7	84.3	85.5	86.9	85.6	87.2	85.3	86.4	88.8	86.9
Non-OPEC supply														
OECD	21.7	21.3	20.5	20.2	20.3	20.0	20.0	20.5	20.2	20.7	20.1	20.0	20.8	20.4
North America	14.6	14.6	14.1	14.2	14.3	14.3	14.3	14.5	14.4	14.7	14.3	14.4	14.9	14.6
Western Europe	6.4	6.2	5.8	5.4	5.4	5.1	5.1	5.3	5.2	5.3	5.1	4.8	5.0	5.1
Pacific	0.7	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.6	0.7	0.7	0.8	0.9	0.7
DCs	10.8	11.0	11.3	11.5	11.6	11.6	11.8	12.0	11.7	12.1	12.0	12.1	12.2	12.1
FSU	10.3	11.1	11.5	12.0	12.5	12.5	12.6	12.8	12.6	12.9	13.0	13.1	13.3	13.1
Other Europe	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
China	3.4	3.5	3.6	3.7	3.7	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Processing gains	1.8	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Total non-OPEC supply	48.1	49.0	49.0	49.5	50.3	50.0	50.2	51.2	50.4	51.6	51.0	51.0	52.1	51.4
OPEC NGLs + non-conventional oils	3.7	4.0	4.1	4.1	4.2	4.3	4.4	4.6	4.4	4.6	4.7	4.9	5.0	4.8
(b) Total non-OPEC supply and OPEC NGLs	51.8	53.0	53.1	53.6	54.5	54.3	54.7	55.8	54.8	56.2	55.7	55.9	57.1	56.2
OPEC crude oil production (secondary sources)	27.8	30.0	31.1	30.9	30.0	30.1								
Total supply	79.6	83.0	84.2	84.4	84.4	84.4								
Balance (stock change and miscellaneous)	0.3	0.7	0.8	0.1	-1.2	0.0								
OECD closing stock levels (*mb*)														
Commercial	2517	2547	2597	2685	2604									
SPR	1411	1450	1487	1499	1503									
Total	3928	3997	4083	4184	4107									
Oil-on-water	882	905	958	908	912									
Days of forward consumption in OECD														
Commercial onland stocks	51	51	53	54	54									
SPR	29	29	30	30	31									
Total	80	81	83	85	85									
Memo items														
FSU net exports	6.5	7.3	7.7	8.1	8.6	8.9	8.7	8.5	8.7	9.0	9.3	9.1	9.0	9.1
(a) - (b)	27.5	29.3	30.3	30.8	31.2	30.0	30.8	31.1	30.8	31.0	29.6	30.5	31.6	30.7

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

	2003	2004	2005	2006	1Q07	2Q07	3Q07	4Q07	2007	1Q08	2Q08	3Q08	4Q08	2008
World demand														
OECD	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	0.2	-	-	-	-	-	-	-	-
Western Europe	-	-	-	-	-	-0.2	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-0.2	-0.1	-0.1	-	-	-	-	-
FSU	-	-	-	0.1	-	0.1	0.1	-	0.1	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-0.1	-	-	-	-	-	-	-	-
(a) Total world demand	-	-	-	-	-	0.1	-0.1	-0.1	-	-	-	-	-	-
Non-OPEC supply														
OECD	-	-	-	-	-	-0.3	-0.2	-0.2	-0.2	-	-	-	-	-
North America	-	-	-	-	-	-0.1	-0.1	-0.1	-0.1	-	-	-	-	-
Western Europe	-	-	-	-	-	-0.2	-0.1	-0.1	-0.1	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-0.1	-	-0.1	-	-	-	-	-	-
FSU	-	-	-	-	-	-0.1	-0.1	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	0.1	0.1	0.1	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	-0.3	-0.2	-0.2	-0.2	-	-	-	-	-
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-0.1	-0.4	-0.3	-0.2	-0.2	-	-	-	-	-
OPEC crude oil production (secondary sources)	-	-	-	-	-	-								
Total supply	-	-	-	-	-0.1	-								
Balance (stock change and miscellaneous)	-	-	-	-	-0.1	-								
OECD closing stock levels (*mb*)														
Commercial	-	-	-	1	7	-	-	-	-					
SPR	-	-	-	-	-	-	-	-	-					
Total	-	-	-	1	7	-	-	-	-					
Oil-on-water	-	-	-	-	-6	-	-	-	-					
Days of forward consumption in OECD														
Commercial onland stocks	-	-	-	-	-	-	-	-	-					
SPR	-	-	-	-	-	-	-	-	-					
Total	-	-	-	-	-	-	-	-	-					
Memo items														
FSU net exports	-	-	-	-0.1	-	-0.2	-0.2	-	-0.1	-	-	-	-	-
(a) - (b)	-	-	-	-	0.1	0.5	0.1	0.1	0.2	-	-	-	-	-

† *This compares Table 30 in this issue of the MOMR with Table 30 in the June 2007 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	2006	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07
Closing stock levels *mb*																			
OECD onland commercial	2,630	2,478	2,517	2,547	2,597	2,685	2,465	2,545	2,581	2,547	2,543	2,623	2,638	2,597	2,597	2,657	2,766	2,685	2,604
North America	1,262	1,175	1,161	1,193	1,257	1,277	1,145	1,193	1,206	1,193	1,201	1,275	1,254	1,257	1,239	1,276	1,347	1,277	1,233
Western Europe	925	895	922	924	944	980	919	933	945	924	952	925	952	944	949	945	961	980	955
OECD Pacific	443	408	435	430	395	428	400	420	430	430	389	422	432	395	409	436	459	428	416
OECD SPR	1,288	1,347	1,411	1,450	1,487	1,499	1,423	1,429	1,435	1,450	1,462	1,494	1,494	1,487	1,487	1,493	1,495	1,499	1,503
North America	552	601	640	678	687	691	654	664	672	678	690	698	696	687	688	690	690	691	691
Western Europe	356	357	374	377	407	412	371	366	367	377	376	401	405	407	407	411	412	412	415
OECD Pacific	380	389	396	396	393	396	398	398	396	396	396	395	393	393	392	393	393	396	397
OECD total	3,918	3,825	3,928	3,997	4,083	4,184	3,888	3,974	4,016	3,997	4,005	4,116	4,132	4,083	4,084	4,150	4,261	4,184	4,107
Oil-on-water	830	815	882	905	958	908	906	891	894	905	934	931	926	958	960	968	964	908	912
Days of forward consumption in OECD																			
OECD onland commercial	55	51	51	51	53	54	51	52	51	50	52	53	53	52	54	54	56	54	54
North America	52	48	46	47	50	50	46	47	47	47	48	50	49	50	49	50	53	50	49
Western Europe	60	58	60	60	61	64	61	60	59	59	62	59	60	60	63	61	62	65	64
OECD Pacific	52	47	51	50	47	51	51	52	49	45	48	53	49	43	52	55	52	48	53
OECD SPR	27	28	29	29	30	30	30	29	28	29	30	30	30	30	31	31	30	30	31
North America	23	25	25	27	27	27	26	26	26	26	27	27	27	27	27	27	27	27	27
Western Europe	23	23	24	24	26	27	25	24	23	24	25	26	26	26	27	27	26	27	28
OECD Pacific	45	45	47	46	46	47	51	49	45	42	49	49	45	42	50	50	45	45	51
OECD total	82	79	80	81	83	85	81	81	80	79	82	84	83	81	85	85	86	84	85

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

	2003	2004	2005	Change 05/04	1Q06	2Q06	3Q06	4Q06	2006	Change 06/05	1Q07	2Q07	3Q07	4Q07	2007	Change 07/06	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07
USA	7.82	7.65	7.34	-0.31	7.20	7.37	7.47	7.49	7.38	0.04	7.46	7.50	7.38	7.49	7.46	0.08	7.61	7.58	7.64	7.83	7.67	0.21
Canada	2.98	3.07	3.03	-0.04	3.19	3.03	3.16	3.30	3.17	0.14	3.30	3.18	3.24	3.40	3.28	0.11	3.48	3.28	3.28	3.38	3.36	0.08
Mexico	3.80	3.83	3.77	-0.07	3.79	3.78	3.70	3.51	3.69	-0.08	3.58	3.62	3.67	3.64	3.63	-0.06	3.60	3.48	3.52	3.65	3.56	-0.07
North America	**14.60**	**14.56**	**14.14**	**-0.42**	**14.18**	**14.18**	**14.32**	**14.30**	**14.24**	**0.10**	**14.34**	**14.31**	**14.29**	**14.53**	**14.37**	**0.12**	**14.70**	**14.34**	**14.45**	**14.87**	**14.59**	**0.22**
Norway	3.26	3.19	2.97	-0.22	2.93	2.70	2.73	2.76	2.78	-0.19	2.72	2.50	2.57	2.70	2.62	-0.16	2.71	2.58	2.46	2.67	2.61	-0.01
UK	2.33	2.10	1.88	-0.22	1.89	1.73	1.49	1.71	1.70	-0.18	1.75	1.70	1.61	1.72	1.70	-0.01	1.69	1.58	1.42	1.48	1.54	-0.16
Denmark	0.37	0.39	0.38	-0.01	0.36	0.35	0.32	0.34	0.34	-0.04	0.32	0.31	0.27	0.29	0.30	-0.04	0.29	0.29	0.25	0.27	0.27	-0.02
Other Western Europe	0.47	0.51	0.54	0.03	0.55	0.56	0.54	0.57	0.55	0.02	0.64	0.63	0.63	0.63	0.63	0.08	0.63	0.63	0.63	0.63	0.63	0.00
Western Europe	**6.43**	**6.19**	**5.77**	**-0.42**	**5.73**	**5.33**	**5.08**	**5.39**	**5.38**	**-0.39**	**5.43**	**5.14**	**5.09**	**5.34**	**5.25**	**-0.13**	**5.33**	**5.07**	**4.76**	**5.05**	**5.05**	**-0.20**
Australia	0.60	0.52	0.53	0.01	0.428	0.44	0.59	0.56	0.51	-0.02	0.51	0.53	0.58	0.57	0.55	0.04	0.55	0.56	0.63	0.71	0.61	0.06
Other Pacific	0.06	0.05	0.05	0.00	0.06	0.05	0.05	0.05	0.05	0.00	0.06	0.06	0.07	0.09	0.07	0.02	0.10	0.14	0.14	0.14	0.13	0.06
OECD Pacific	**0.66**	**0.57**	**0.58**	**0.01**	**0.49**	**0.50**	**0.65**	**0.61**	**0.56**	**-0.02**	**0.57**	**0.58**	**0.66**	**0.67**	**0.62**	**0.06**	**0.65**	**0.69**	**0.77**	**0.85**	**0.74**	**0.12**
Total OECD	**21.68**	**21.32**	**20.48**	**-0.83**	**20.39**	**20.01**	**20.05**	**20.29**	**20.18**	**-0.30**	**20.33**	**20.03**	**20.03**	**20.54**	**20.23**	**0.05**	**20.68**	**20.10**	**19.97**	**20.77**	**20.38**	**0.15**
Brunei	0.21	0.21	0.21	0.00	0.23	0.21	0.22	0.22	0.22	0.01	0.20	0.21	0.21	0.21	0.21	-0.01	0.21	0.21	0.21	0.21	0.21	0.00
India	0.79	0.79	0.76	-0.04	0.78	0.79	0.76	0.81	0.78	0.02	0.81	0.77	0.79	0.79	0.79	0.01	0.78	0.80	0.81	0.81	0.80	0.01
Malaysia	0.78	0.79	0.77	-0.03	0.77	0.71	0.75	0.78	0.75	-0.01	0.75	0.74	0.74	0.77	0.75	-0.01	0.77	0.75	0.77	0.78	0.76	0.02
Vietnam	0.35	0.40	0.38	-0.02	0.38	0.37	0.37	0.36	0.37	-0.01	0.37	0.36	0.41	0.42	0.39	0.02	0.41	0.39	0.42	0.46	0.42	0.03
Asia others	0.41	0.43	0.53	0.10	0.56	0.56	0.56	0.56	0.56	0.03	0.58	0.58	0.58	0.60	0.59	0.03	0.61	0.61	0.61	0.61	0.61	0.03
Other Asia	**2.53**	**2.63**	**2.65**	**0.02**	**2.72**	**2.64**	**2.67**	**2.72**	**2.69**	**0.04**	**2.71**	**2.66**	**2.73**	**2.78**	**2.72**	**0.03**	**2.79**	**2.75**	**2.82**	**2.87**	**2.81**	**0.09**
Argentina	0.84	0.80	0.77	-0.02	0.76	0.78	0.79	0.77	0.77	0.00	0.77	0.77	0.76	0.75	0.76	-0.01	0.74	0.73	0.72	0.72	0.73	-0.03
Brazil	1.80	1.79	1.99	0.20	2.07	2.08	2.10	2.15	2.10	0.11	2.15	2.14	2.23	2.38	2.23	0.13	2.54	2.53	2.57	2.60	2.56	0.33
Colombia	0.55	0.53	0.53	0.00	0.55	0.56	0.54	0.53	0.54	0.02	0.54	0.55	0.55	0.55	0.55	0.00	0.55	0.55	0.55	0.55	0.55	0.00
Ecuador	0.41	0.51	0.54	0.02	0.55	0.55	0.55	0.52	0.54	0.00	0.51	0.51	0.52	0.51	0.51	-0.03	0.51	0.50	0.50	0.49	0.50	-0.01
Trinidad & Tobago	0.17	0.16	0.18	0.02	0.19	0.18	0.19	0.184	0.19	0.01	0.18	0.18	0.18	0.18	0.18	-0.01	0.18	0.18	0.18	0.18	0.18	0.00
L. America others	0.26	0.26	0.29	0.02	0.28	0.30	0.31	0.30	0.30	0.01	0.30	0.30	0.30	0.30	0.30	0.00	0.30	0.30	0.30	0.30	0.30	0.00
Latin America	**4.02**	**4.06**	**4.30**	**0.24**	**4.40**	**4.45**	**4.46**	**4.46**	**4.44**	**0.15**	**4.45**	**4.45**	**4.54**	**4.67**	**4.53**	**0.08**	**4.82**	**4.79**	**4.82**	**4.84**	**4.82**	**0.29**
Bahrain	0.21	0.21	0.21	0.00	0.21	0.21	0.20	0.21	0.21	0.00	0.20	0.20	0.20	0.20	0.20	0.00	0.20	0.20	0.20	0.20	0.20	0.00
Oman	0.82	0.79	0.78	0.00	0.769	0.76	0.75	0.75	0.76	-0.03	0.73	0.72	0.72	0.72	0.72	-0.03	0.73	0.72	0.72	0.72	0.72	0.00
Syria	0.53	0.50	0.46	-0.04	0.44	0.42	0.41	0.40	0.42	-0.04	0.39	0.38	0.38	0.37	0.38	-0.04	0.36	0.35	0.34	0.34	0.35	-0.03
Yemen	0.44	0.42	0.42	0.00	0.40	0.39	0.38	0.38	0.39	-0.03	0.38	0.39	0.38	0.37	0.38	-0.01	0.36	0.35	0.35	0.34	0.35	-0.03
Middle East	**2.01**	**1.92**	**1.87**	**-0.05**	**1.82**	**1.78**	**1.75**	**1.74**	**1.77**	**-0.10**	**1.70**	**1.70**	**1.68**	**1.66**	**1.68**	**-0.09**	**1.65**	**1.63**	**1.62**	**1.60**	**1.62**	**-0.06**
Chad	0.02	0.16	0.18	0.02	0.18	0.18	0.18	0.18	0.18	0.00	0.18	0.18	0.18	0.18	0.18	0.00	0.18	0.18	0.18	0.18	0.18	0.00
Congo	0.26	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	0.27	0.28	0.29	0.30	0.29	0.03
Egypt	0.75	0.71	0.70	-0.01	0.69	0.68	0.66	0.66	0.67	-0.02	0.66	0.66	0.66	0.66	0.66	-0.01	0.65	0.66	0.68	0.69	0.67	0.01
Equatorial Guinea	0.24	0.34	0.36	0.02	0.37	0.37	0.37	0.37	0.37	0.01	0.39	0.38	0.39	0.40	0.39	0.02	0.41	0.41	0.40	0.40	0.40	0.01
Gabon	0.25	0.25	0.25	0.00	0.25	0.25	0.25	0.25	0.25	0.00	0.25	0.24	0.24	0.24	0.24	-0.01	0.23	0.23	0.23	0.24	0.23	-0.01
South Africa	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	0.18	0.18	0.18	0.18	0.18	-0.01
Sudan	0.27	0.30	0.34	0.04	0.35	0.36	0.40	0.50	0.40	0.07	0.50	0.52	0.54	0.53	0.52	0.12	0.52	0.51	0.50	0.50	0.50	-0.02
Africa other	0.20	0.21	0.25	0.04	0.30	0.33	0.32	0.32	0.32	0.07	0.35	0.35	0.35	0.40	0.36	0.04	0.41	0.41	0.41	0.41	0.41	0.04
Africa	**2.19**	**2.43**	**2.52**	**0.08**	**2.59**	**2.62**	**2.63**	**2.73**	**2.64**	**0.12**	**2.76**	**2.77**	**2.81**	**2.85**	**2.80**	**0.16**	**2.83**	**2.85**	**2.85**	**2.89**	**2.86**	**0.06**
Total DCs	**10.75**	**11.03**	**11.33**	**0.30**	**11.52**	**11.49**	**11.50**	**11.65**	**11.54**	**0.21**	**11.61**	**11.58**	**11.75**	**11.96**	**11.73**	**0.18**	**12.09**	**12.02**	**12.11**	**12.19**	**12.10**	**0.38**
FSU	**10.28**	**11.14**	**11.55**	**0.40**	**11.67**	**11.97**	**12.13**	**12.30**	**12.02**	**0.47**	**12.50**	**12.53**	**12.60**	**12.83**	**12.62**	**0.60**	**12.92**	**13.00**	**13.07**	**13.31**	**13.08**	**0.46**
Russia	8.46	9.19	9.44	0.25	9.48	9.63	9.72	9.76	9.65	0.21	9.87	9.83	9.90	9.95	9.89	0.24	10.00	10.02	10.08	10.17	10.07	0.18
Kazakhstan	1.03	1.18	1.23	0.05	1.22	1.31	1.31	1.37	1.30	0.07	1.35	1.38	1.36	1.43	1.38	0.08	1.45	1.47	1.44	1.56	1.48	0.10
Azerbaijan	0.31	0.31	0.44	0.13	0.56	0.61	0.68	0.75	0.65	0.21	0.85	0.88	0.91	1.02	0.92	0.27	1.04	1.08	1.11	1.15	1.09	0.18
FSU others	0.47	0.47	0.44	-0.03	0.41	0.42	0.41	0.42	0.42	-0.02	0.43	0.43	0.43	0.43	0.43	0.01	0.43	0.43	0.43	0.43	0.43	0.00
Other Europe	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	0.15	0.15	0.15	0.15	0.15	0.00
China	3.41	3.49	3.62	0.13	3.68	3.70	3.67	3.64	3.67	0.06	3.75	3.76	3.79	3.82	3.78	0.10	3.80	3.78	3.76	3.77	3.78	0.00
Non-OPEC production	**46.29**	**47.15**	**47.14**	**-0.01**	**47.42**	**47.32**	**47.50**	**48.03**	**47.57**	**0.42**	**48.34**	**48.04**	**48.33**	**49.30**	**48.50**	**0.94**	**49.64**	**49.06**	**49.06**	**50.19**	**49.49**	**0.99**
Processing gains	1.80	1.83	1.86	0.03	1.92	1.89	1.88	1.92	1.90	0.04	1.92	1.91	1.91	1.92	1.91	0.01	1.94	1.93	1.93	1.94	1.94	0.02
Non-OPEC supply	**48.09**	**48.98**	**49.01**	**0.03**	**49.34**	**49.21**	**49.38**	**49.95**	**49.47**	**0.46**	**50.26**	**49.95**	**50.24**	**51.22**	**50.42**	**0.95**	**51.58**	**50.99**	**50.99**	**52.13**	**51.42**	**1.01**
OPEC NGL	3.57	3.85	3.92	0.07	3.88	3.95	4.03	3.92	3.95	0.02	4.13	4.26	4.35	4.49	4.31	0.36	4.53	4.63	4.81	4.92	4.72	0.41
OPEC Non-conventional	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	-0.06	0.08	0.08	0.08	0.08	0.08	0.00
OPEC (NGL+NCF)	**3.71**	**4.02**	**4.08**	**0.06**	**4.01**	**4.07**	**4.19**	**4.07**	**4.09**	**0.01**	**4.21**	**4.35**	**4.43**	**4.57**	**4.39**	**0.30**	**4.61**	**4.71**	**4.89**	**5.00**	**4.80**	**0.41**
Non-OPEC & OPEC (NGL+NCF)	**51.80**	**53.00**	**53.08**	**0.08**	**53.35**	**53.28**	**53.56**	**54.02**	**53.55**	**0.47**	**54.47**	**54.30**	**54.67**	**55.79**	**54.81**	**1.26**	**56.19**	**55.70**	**55.88**	**57.13**	**56.23**	**1.42**

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

Table 34: World Rig Count

	2003	2004	Change 04/03	1Q 05	2Q 05	3Q 05	4Q 05	2005	Change 05/04	1Q 06	2Q 06	3Q 06	4Q 06	2006	Change 06/05	1Q 07	May07	Jun07	2Q 07	Change Jun/May07
USA	1,032	1,190	158	1,279	1,336	1,419	1,478	1,378	188	1,519	1,632	1,719	1,719	1,648	270	1,733	1,748	1,771	1,757	23
Canada	372	369	-3	620	241	527	572	490	121	665	282	494	440	470	-20	532	107	210	139	103
Mexico	92	110	18	114	116	104	93	107	-3	85	85	77	84	83	-24	90	88	90	88	2
North America	1,496	1,669	173	2,013	1,693	2,050	2,143	1,975	306	2,269	1,999	2,290	2,243	2,200	225	2,355	1,943	2,071	1,984	128
Norway	19	17	-2	15	18	19	17	17	0	19	20	16	9	16	-1	16	22	13	19	-9
UK	20	16	-4	16	22	23	24	21	5	29	27	26	15	24	3	25	31	23	29	-8
Western Europe	78	65	-13	56	67	68	68	65	0	77	78	73	65	73	8	72	85	64	78	-21
OECD Pacific	18	22	4	24	25	27	24	25	3	25	28	25	28	27	2	24	29	29	30	0
Total OECD	1,592	1,755	163	2,093	1,785	2,146	2,234	2,065	310	2,371	2,105	2,389	2,336	2,300	235	2,450	2,057	2,164	2,091	107
Other Asia	117	126	9	133	140	146	148	142	16	153	150	156	152	153	11	158	155	158	157	3
Latin America	116	126	10	133	138	141	151	141	15	149	162	164	165	160	19	195	184	194	188	10
Middle East	70	70	0	69	71	73	75	72	2	72	79	82	85	80	8	82	86	85	85	-1
Africa	43	51	8	56	56	51	57	54	3	59	62	68	77	67	13	75	82	83	80	1
Total DCs	346	376	30	390	405	411	431	409	33	433	453	470	479	459	50	510	507	520	510	13
Non-OPEC Rig Count	1,938	2,131	193	2,483	2,192	2,560	2,667	2,477	346	2,806	2,560	2,861	2,818	2,761	284	2,963	2,566	2,686	2,603	120
Algeria	20	19	-1	20	21	22	21	21	2	21	21	28	27	24	3	25	25	28	26	3
Angola	4	3	-1	3	3	3	2	3	0	4	4	4	4	4	1	5	4	4	4	0
Indonesia	45	49	4	53	53	55	59	54	5	55	43	46	52	49	-5	49	58	60	56	2
Iran	35	41	6	42	41	39	38	40	-1	40	45	47	45	44	4	51	51	50	51	-1
Iraq	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Kuwait	5	10	5	12	13	11	14	12	2	12	13	14	15	14	2	14	12	15	13	3
Libya	10	10	0	10	9	8	8	9	-1	9	9	10	12	10	1	13	12	13	12	1
Nigeria	10	8	-2	9	9	9	8	9	1	10	9	10	10	10	1	8	7	7	7	0
Qatar	8	9	1	10	13	12	12	12	3	13	10	11	9	11	-1	11	13	14	12	1
Saudi Arabia	32	32	0	33	34	37	43	36	4	54	60	70	76	65	29	76	78	76	76	-2
UAE	16	16	0	16	16	16	16	16	0	17	16	16	16	16	0	14	15	16	15	1
Venezuela	37	55	18	66	72	66	70	67	12	78	83	85	77	81	14	76	78	82	80	4
OPEC Rig Count	222	252	30	274	284	278	291	279	27	313	313	341	341	327	48	342	353	365	352	12
Worldwid Rig Count*	2,160	2,383	223	2,757	2,476	2,838	2,958	2,756	373	3,119	2,873	3,202	3,159	3,088	332	3,305	2,919	3,051	2,955	132
of which:																				
Oil	816	877	61	961	870	990	1,015	959	82	1,069	1,060	1,169	1,156	1,114	155	1,266	1,158	1,179	1,155	21
Gas	1,326	1,486	157	1,774	1,583	1,823	1,928	1,777	291	2,035	1,802	2,016	1,983	1,959	182	2,017	1,741	1,854	1,782	113
Others	18	20	2	22	22	25	17	22	2	14	13	18	21	16	-6	20	18	18	18	0

**/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 Summary July 2007

OPEC Basket average price

US$ per barrel

up 2.41 in June

June 2007	***66.77***
May 2007	*64.36*
Year-to-date	*59.70*

June OPEC production

in million barrels per day, according to secondary sources

Algeria	1.36	Iraq	1.96	Qatar	0.80
Angola	1.64	Kuwait	2.38	Saudi Arabia	8.51
Indonesia	0.84	SP Libyan AJ	1.69	UAE	2.53
IR Iran	3.85	Nigeria	2.06	Venezuela	2.37
				TOTAL	**29.98**

Supply and demand

in million barrels per day

2007		**2008**	
World demand	85.6	World demand	86.9
Non-OPEC supply	54.8	Non-OPEC supply	56.2
Difference	**30.8**	**Difference**	**30.7**

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

Stocks

Total OECD stocks rose 20.9 mb in May to stand 46.2 mb above the five-year average. In the USA, commercial crude oil stocks hit a nine-year high of 354 mb in June.

World economy

World GDP revised up to 5.0% in 2007, forecast at 4.9% in 2008.

Issued 16 July 2007.
Next report to be issued on 14 August 2007.

Data cover period up to the end of June 2007 unless otherwise stated.