OPEC

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

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Feature Article:

Global oil demand prospects for the second half of the year

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Oil Market Highlights

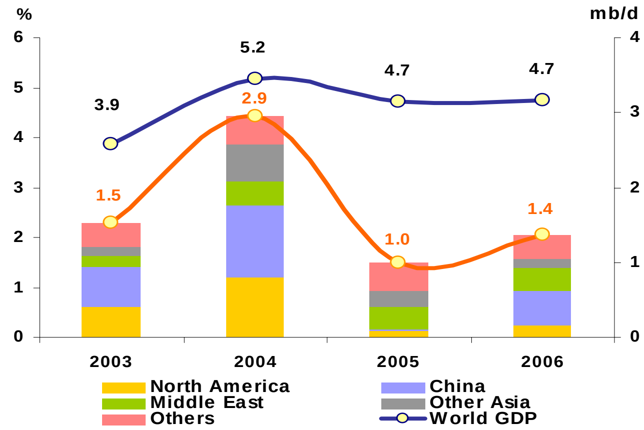
- Recent weeks have seen a significant change in the central banks' perception of inflation risks. Following three years of generally expansionary policies, the emphasis has shifted from sustaining growth to restraining inflation. Interest rates have been raised in the USA, Europe and Asia in response to the danger of rising inflation expectations. Thus far, price increases remain under control but monetary authorities have acted to forestall any acceleration in case rises in energy and commodity costs should feed through into wage settlements and lead to increases in core rates of inflation. Markets are particularly concerned that US interest rates may continue to increase to higher levels than previously anticipated through the remainder of 2006 and prices of gold, commodities and equities have fallen sharply as a result.
- The impact of the tighter policies may not be felt until next year and the 2006 GDP forecasts for most regions have been raised, reflecting the strong ongoing momentum from the first quarter. The Euro-zone is expected to see a continued improvement in the second quarter and the growth forecast for 2006 has been increased to 2.0%. The 2006 forecast for Japan has also been revised up to 3.0% and the forecast for China has been raised to 9.5%. In the case of the US economy, however, higher interest rates and high energy costs are expected to affect consumer spending this year and the growth forecast for 2006 has been cut to 3.3% from 3.4%. Projections for economies exposed to commodity prices have also been reduced in some cases. Overall, these various adjustments cancel out and the forecast for world GDP growth in 2006 is unchanged at 4.7%.
- The OPEC Reference Basket early in May peaked at an all-time high of $68.37/b as geopolitical tensions continued to dominate market sentiment amid fears of a possible supply shortfall. However, as the month progressed, healthy crude oil stock levels amid ample supplies eased market concern, sending the Basket as low as $62.51/b before picking up again at the end of the month. As a result, the Basket average $65.11/b in May, a marginal increase of 67¢ or over 1% from the previous month. In June, the Basket continued to experience volatile movement rising to $66.48/b early in the month before trending downward to stand at $ 63.02/b on 16 June.
- US gasoline stock-builds over the last couple of weeks as a result of higher domestic production and imports have softened the bullish sentiment in the US product market and put pressure on refining margins, especially heavy crude oil. European spot and futures product markets have also been affected recently by the bearish movement in US gasoline stocks, but generally product prices in May have overtaken their corresponding benchmark Brent crude allowing refinery margins to surge by $2.08 to record $5.80/b. Looking ahead, with the return of refineries from maintenance in the USA and Europe, refinery margins in these areas may soften further if the current low pace of demand growth continues. In Asia, the ongoing heavy maintenance schedule could support product prices and refinery margins in June, but they may lose part of their strength as refineries come back onstream from July onward.
- OPEC spot fixtures surged sharply in May to average 14.4 mb/d, up 2.4 mb/d or 20% from the previous month and 1.7 mb/d higher than a year earlier. The uptrend was a result of high bookings as refineries began to return from seasonal maintenance. Non-OPEC spot fixtures also increased, rising 0.4 mb/d to stand at 7.8 mb/d. However, sailings from OPEC moved down 1.4 mb/d to 22.9 mb/d due partly to the decline in OPEC fixtures during the previous month. The increase in bookings translated into a tight tanker market where almost all routes saw significant growth in freight rates and reversed the continuous downward trend displayed since February 2006. In the VLCC sector, freight rates for shipping crude oil from the Middle East to the east increased on average by 20% and increased by one-third for tankers moving to the west. Following a similar trend, the product tanker market strengthened further, especially in the east where spot freight rates increased by more than 100 points or around 50% on average.
- World oil demand in 2006 is forecast to grow 1.4 mb/d or 1.6% to average 84.6 mb/d, broadly unchanged from last month's estimate. Even though the largest share of the increase in world oil demand growth is mainly in the Developing Countries, signs indicate an easing in oil demand, partly due to the high oil prices. In contrast to the previous quarter, US oil demand in the second quarter is keeping up with the high 3.4% economic growth, displaying a y-o-y increase of 0.2 mb/d in that quarter. In the Middle East, oil demand has been revised up a slight 30,000 b/d to stand at 6.1 mb/d, representing a y-o-y increase of 0.3 mb/d. China's strong economic boom has increased oil demand in the first half, resulting in an upward revision of 20,000 b/d for the entire year. Chinese oil demand is now expected to grow by almost 0.5 mb/d to average 7 mb/d in 2006.
- In 2006, non-OPEC oil supply is expected to average 51.4 mb/d, representing an increase of 1.2 mb/d over 2005, but a downward revision of 84,000 b/d versus the previous assessment. The adjustment reflects lower-than-expected production growth from Canada, Australia, Angola, and Mauritania due to unexpected technical issues affecting the start-up or production of some key projects. However, these adjustments have been partly offset by upward revisions in other countries, particularly Argentina, Russia, and Kazakhstan. Growth is expected to accelerate rapidly from June onwards, consistent with previous estimates. Preliminary data for April 2006 puts total non-OPEC supply at 50.5 mb/d. Looking at May, preliminary estimates indicate that non-OPEC supply exceeded 51 mb/d, which is a record for the group. Total OPEC crude oil production averaged 29.5 mb/d in May, a drop of 100,000 b/d from last month.

- Preliminary data puts OECD crude oil imports for May at 31.7 mb/d, up 51,000 b/d, and product imports at 11.0 mb/d, a gain of 37,000 b/d over the previous month. US crude oil imports showed a significant growth of 243,000 b/d to hit 10.0 mb/d, their highest level so far this year. Similarly, product imports surged by around 610,000 b/d or 20%, driven by blending components. Compared to a year earlier, net crude oil imports (minus exports) declined by 150,000 b/d, while net product imports increased nearly 690,000 b/d. In contrast, Japan’s net crude oil and product imports fell 235,000 b/d and 128,000 b/d respectively, due to lower demand. In China, net crude oil imports in April increased by 80,000 b/d to 2.8 mb/d, but remained 3% higher than a year earlier. Net product imports also increased by 51,000 b/d to average 0.5 mb/d. India’s total net crude oil and product imports in April averaged 1.9 mb/d, an increase of 53,000 b/d or 3% compared to a year earlier.
- US commercial oil stocks experienced a substantial build of 22 mb to stand at 1,028.8 mb in May. The overall level was 2% and 5% higher than the year-ago level and the five-year average. Crude oil stocks declined by 0.3 mb in May from the previous month while gasoline inventories experienced a build, rising by 10.8 mb leaving the level at 210.2 mb, which is still below the one-year and the five-year average. Commercial oil stocks in Eur-16 (EU-15 plus Norway) fell by 13,000 b/d to 1,148.2 mb which stemmed from stock-draws on both crude oil and middle distillates, while gasoline inventories experienced a modest rise. Nevertheless, the overall inventory level remained at 3.7% above the upper end of the average range for this time of year and 8.4% above the five-year average. Total commercial oil inventories in Japan rose at a more moderate rate to reach 171.6 mb, but remains at comfortable levels of 12.2% and 1.4% above last year and the five-year average, respectively. The build relied entirely on crude oil stocks as total product inventories inched down to 58.1 mb.
- The estimated demand for OPEC crude in 2006 is expected to average 28.7 mb/d, representing an upward revision of 0.1 mb/d versus last month. On a quarterly basis, the new forecast shows that demand for OPEC crude is expected at 29.8 mb/d in the first quarter, 28.2 mb/d in the second, 28.3 mb/d in the third and 28.6 mb/d in the fourth.

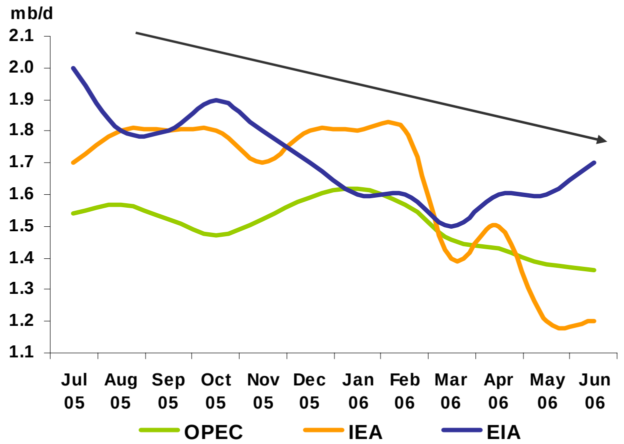
Global oil demand prospects for the second half of the year

- The strong performance of the world economy in the first quarter of this year has provided further evidence that higher oil prices have had a limited impact on the strength of the economic rebound since 2003. The overall level of world output rose by at least 15% between early 2003 and the first quarter of 2006. However, this robust economic performance, with some exceptions, has not been reflected by commensurate growth in oil demand. The question remains whether these trends will persevere for the rest of the year given the different factors affecting the economy, demand and prices.
- To begin with, the first quarter witnessed a robust GDP expansion of 5.3% in the USA and an unabated 10.2% in China. Short-term setbacks to growth witnessed in some regions in the final quarter of last year appeared to have been overcome as sizeable gains in personal incomes and company profits allowed households and companies to absorb the higher energy costs. However, looking to the remainder of year, inflationary expectations and continued monetary tightening may lead to softening of economic activity in 2006 and 2007 with clouds in the horizon appearing as higher interest rates impact the US housing market and the performance of major stock markets. Nonetheless, the forecast for world GDP growth for the year remains unchanged at 4.7% for the present (*see* ***Graph 1***).

Graph 1: World GDP and oil demand growth



Graph 2: Downward revision to 2006 world oil demand growth



- Turning to the oil demand picture, the weakness exhibited in the first months of the year led to repeated downward revisions in forecasts of yearly oil demand by major forecasters (*see* ***Graph 2***). OPEC revised its initial forecast for 2006 from 1.6 mb/d in July last year to 1.4 mb/d in June, while downward revisions by others were even more pronounced. The actual data for first quarter 2006 confirms that global demand grew by a modest 0.7 mb/d, or 0.9%, which compares to 1.9 mb/d last year and to an average of about 2.1 mb/d over the last three years. However, the picture in different regions is mixed.
- In the USA, demand fell by 1.3% in the first quarter, as unusually warm winter weather diminished the positive impact of healthy economic growth. While higher prices may have played a dampening role on demand, the size of the price response is difficult to gauge. Preliminary US data shows that demand recovered in April and May despite the higher prices, showing an increase of 0.5% over the five-month period and 2.2% in May alone, but remained below the average growth of the last three years. Looking towards the driving season, the tight situation that contributed to the upward pressure on prices in the first quarter appears to be easing. Product specification changes and the phasing-out of MTBE from the US gasoline pool were initially perceived as problematic due to expected bottlenecks in ethanol supply, which will replace MTBE. However, in recent weeks the return of refineries from maintenance has led to rising gasoline output, which together with higher imports have helped US gasoline stock levels to surge by 10 mb since late April, easing supply fears. On the whole, given the stabilization of gasoline prices and the continued economic expansion, the recent recovery in demand is expected to extend over the coming months.
- In Asia, the removal of subsides on oil products in some countries has had a noticeable effect on demand in the short term in countries including Indonesia, Malaysia and the Philippines. It remains to be seen if the shock will diminish once prices have stabilised and consumers and firms adjust to the higher price levels. In contrast, oil demand was strong in the Middle East and China during the first quarter. In China, apparent oil demand exhibited stronger growth than in 2005, with an increase of around 500,000 b/d, albeit at a more modest pace than in the 2003-2004 periods. In April and May, there were signs that Chinese apparent demand picked up at an even faster rate, stimulated in part by the rise in the officially-set domestic fuel prices which encouraged increased refinery runs. This was reflected in higher imports of crude, which rose 19% in May and 18% over the first five months of 2006 from the same period last year. The demand picture in China in the coming months appears to be promising, although a repeat of the high demand for diesel and fuel oil for power generation is not expected.
- Despite oversupplied crude markets, comfortable stock levels and mixed demand prospects, OPEC's concern about the impact of continued high oil prices is reflected in the decision taken during the recent Ministerial Conference in Caracas to retain the status quo. By refraining from a production cut that would have been indicated by purely fundamental considerations, OPEC Members continue to make available to the market an extra supply buffer to help counteract high oil prices and price volatility, and to reassure markets that supplies would be sufficient to deal with any eventuality in the coming months, be it a rise in demand or a supply disruption caused by natural disasters during the hurricane season. However, OPEC Ministers will continue to monitor the situation and stand ready to take the necessary decisions to maintain oil market stability.

Oslo, Norway, **19 May 2006**

Fourth Joint OPEC/IEA Workshop

A joint workshop was organised today in Oslo by the IEA and OPEC on *Global Oil Demand: Outlook and Uncertainties*. This event, hosted by the Norwegian Ministry of Petroleum and Energy, was the fourth in a series of workshops that demonstrates a further strengthening in the dialogue and cooperation between these two Organizations. The previous workshop, which was held in Kuwait City in May 2005, focused on the economic prospects for the MENA region, as well as its energy supply and demand prospects, while the first two workshops concentrated on oil investment prospects, particularly in relation to the oil outlook, investment challenges, drivers and uncertainties.

This fourth workshop considered the key issues and uncertainties for world oil demand over the coming years. Whilst it is accepted that global demand for oil will continue to rise, the exact rate of growth is subject to some uncertainty. The reasons for this include the changing relationship between prices, economic growth and demand; the influence of key demand regions; the pace of technological development; and the likelihood that governments will introduce more stringent energy and environmental policies. This uncertainty is a hindrance to producer and consumer countries alike as it complicates efforts to ensure that the appropriate investments are in place to expand crude production and refining capacity to meet additional demand. The proceedings of the workshop will be published by OPEC and will also provide valuable input to the IEA's *World Energy Outlook 2006* which will be released on 7 November.

The workshop was attended by high-level delegates representing the OPEC and IEA Secretariats, as well as senior government officials from OPEC and IEA Member Countries, international experts focused on economic and energy analysis, and senior representatives from international institutions. The workshop included sessions on challenges in assessing global oil demand prospects, the evolving oil consumption patterns and structures in key oil demand growth regions, and the impact of energy and environmental policies on oil demand. Presentations were made by international experts, as well as by representatives from OPEC and IEA member countries. The workshop concluded with a fruitful panel discussion addressing uncertainties and their implications on the global demand outlook.

In his opening address, OPEC's Acting Secretary General, Mr. Mohammad Barkindo, said "Given the considerable uncertainties that surround today's global markets, it is of paramount importance that we develop an outlook in the near- to long-term. For this reason, a good understanding of policy developments and their potential impact on the major demand growth regions is essential for providing a realistic outlook for demand. Security of supply is — and will remain — one of OPEC's top priorities, along with supporting oil market stability. At the same time, security of demand is essential and can only be achieved by enhanced cooperation from the consuming countries.

In his opening comments, Claude Mandil, Executive Director of the IEA, said "the IEA understands the importance to everyone of accurately forecasting demand. For this reason, since the 1970s we have been publishing scenarios on demand and the implications of new policies adopted in response to environmental, energy security or economic concerns. In today's rapidly evolving markets we must strive to continue to make the best possible projections using the best available data as this will improve investment confidence. Achieving this requires constructive dialogue between oil producers and the major consumers. Today's meeting constitutes an important step in this ongoing process."

Continued strengthening of cooperation and active dialogue between OPEC and the IEA is recognised as an important element in improving the understanding of the concerns of all parties and is in line with the clear mutual interests of supporting oil market stability and predictability.

During the course of the meeting OPEC and the IEA agreed that a fifth workshop in the series will be held in 2007 and will focus on the rising importance of China and India in global energy markets.

Vienna, Austria **22 May 2006**

OPEC and IMF hold first high-level joint meeting in Vienna

OPEC and the International Monetary Fund (IMF) held their first high-level joint meeting in Vienna, Austria, today (22 May).

The purpose was to explore how the two intergovernmental bodies could work together more closely in the future at the most senior level to enhance order and stability in the international oil market, in support of sound world economic growth.

Mr. Mohammed Barkindo, Acting for the Secretary General of the Organization of the Petroleum Exporting Countries (OPEC), met the IMF delegation headed by its Managing Director, Mr. Rodrigo de Rato.

The hosts made presentations on OPEC and the world oil market and on the long-term oil outlook up to 2025, as well as on the promotion of cooperation and transparency of oil data. The Organization emphasised its longstanding commitment to market order and stability, with secure supply, reasonable prices and fair returns to investors. It said it had been acting on two fronts, in the light of the market volatility and rising prices of the past two years, by increasing supply as and when necessary and by accelerating plans to introduce more production capacity. Spare capacity would be around ten per cent by the end of the year, and past experience had shown this to be a comfortable level for the market; the market would thus remain well-supplied for years to come. OPEC had shouldered the burden of maintaining spare capacity, which itself is a very expensive process.

Turning to the longer term, OPEC said that the world had sufficient oil resources to meet the forecast continued rises in demand, especially from the emerging economies, and that most of the world’s proven crude oil reserves were located in OPEC Member Countries. However, sound investment strategies required clear indications of future demand, and thus every effort should be made by consuming countries to minimise the impact of policy-induced demand uncertainties.

The two sides agreed on the critical role that energy plays in support of world economic growth, and Mr. de Rato expressed his appreciation to OPEC for its contribution in this respect. He added that the two intergovernmental bodies had a shared interest in ensuring that the market remained well-supplied with oil, so as to meet the continued rises in demand and support healthy world economic growth. He said that globalisation had come to stay and that it would be in the best interests of the world economy for OPEC and the IMF to collaborate. He noted that the IMF had a new mandate to focus on cooperation as a means of solving global imbalances, while recognising at the same time that macroeconomic imbalances could not be solved overnight. Mr. de Rato welcomed OPEC’s longstanding commitment to dialogue and commended it, in particular, for its role in the Joint Oil Data Initiative, which aims at ensuring transparency in oil data, under the auspices of the specialist producer-consumer dialogue body, the International Energy Forum. He expressed the view that investments were globalised in a global economy and that oil should benefit from the global investment pool.

With regard to future collaboration, Mr. de Rato has accepted an invitation to participate in the Third OPEC International Seminar, entitled “OPEC in a new energy era: challenges and opportunities”, to be held in Vienna on 12–13 September 2006, and similar joint actions are expected at other appropriate gatherings.

Caracas, Venezuela **1 June 2006**

141st (Extraordinary) Meeting of the OPEC Conference

The 141st (Extraordinary) Meeting of the Conference of the Organization of the Petroleum Exporting Countries (OPEC) convened in Caracas, Bolivarian Republic of Venezuela, on 1 June 2006, under the Chairmanship of its President, HE Dr. Edmund M. Daukoru, Nigerian Minister of State for Petroleum Resources and Head of its Delegation, and its Alternate President, HE Mohamed Bin Dhaen Al Hamli, Minister of Energy of the United Arab Emirates and Head of its Delegation.

The Conference extended its deepest sympathy and condolences to the Government and people of Indonesia for the terrible loss they have suffered as a consequence of the disastrous earthquake that struck the country last week.

The Conference extended its congratulations to the Republic of Iraq on the recent inauguration of its Government; congratulated both HE Hussain Al-Shahristani, on his appointment as Minister of Oil of Iraq, and HE Dr. Shokri M. Ghanem, on his recent appointment as Chairman of the People's Committee of the National Oil Corporation of S.P. Libyan A.J., and paid tribute to the contributions made to the Organization by their predecessors in office, HE Dr. Ibrahim Bahr Alolom and HE Hashim A. Ali Al Hashimi of Iraq and HE Dr. Fathi Hamed Ben Shatwan of S.P. Libyan A.J.

The Conference welcomed the Minister of Petroleum of Angola and the Minister of Petroleum and Mineral Resources of the Syrian Arab Republic, and a high-ranking representative from the Ministry of Petroleum of Egypt, whose presence at the Meeting is seen as reaffirmation of these oil-producing nations' continued support for the Organization's efforts to stabilize the oil market.

The Conference considered the report of the Ministerial Monitoring Sub-Committee, and again thanked the Members for their untiring efforts on OPEC's behalf, as well as presentations on various subjects.

Having reviewed the oil market situation and its immediate prospects, the Conference observed that fundamentals have stayed unchanged since its last review, with the market continuing to be over supplied and commercial crude and product stocks remaining at comfortable levels in terms of days of forward cover. The Conference also noted that, similarly, world crude oil prices continued to remain high and volatile as a consequence of abiding concern over the lack of effective global oil refining capacity, in the short and medium term, coupled with anxiety about the ability of oil producers to meet anticipated, future oil demand. This price volatility is being exacerbated by geopolitical developments and speculation in the oil futures markets.

In the light of the foregoing, the Conference decided to retain the status quo. In so doing, however, the Conference reaffirmed its determination to ensure that crude oil prices remain at acceptable levels, reiterating also its readiness to act swiftly to take whatever steps might be necessary to safeguard the interest of Member Countries, in the short and longer term. For this purpose, the Conference agreed to continue closely monitoring market developments. The Conference further agreed that its President would consider convening an Extraordinary Meeting of the Conference prior to its September Meeting, should market condition so warrant.

The Conference reconfirmed that its next Ordinary Meeting is to take place in Vienna, Austria, on 11 September 2006, immediately preceding the OPEC International Seminar on 12 and 13 September 2006.

The Conference expressed its sincerest appreciation to His Excellency Hugo Chavez Frías, President of the Bolivarian Republic of Venezuela, the Government and people of the Bolivarian Republic of Venezuela, as well as the authorities of the City of Caracas for having hosted the Meeting and for the warm hospitality extended to the Conference and all Delegates. In addition, the Conference recorded its special thanks to HE Rafael Ramirez, Minister of Energy and Petroleum, and his able Staff for the excellent arrangements made for the Meeting.

Brussels, Belgium **7 June 2006**

Further steps forward in the EU-OPEC Energy Dialogue

The third meeting of the EU-OPEC Energy Dialogue took place in Brussels, Belgium, today.

The participants from the EU were: Mr Andris Piebalgs, European Commissioner for Energy; Dr Martin Bartenstein, President of the EU Energy Council, Minister of Economy and Labour of Austria; Mr Mauri Pekkarinen, Minister of Trade and Industry of Finland.

The participants from OPEC were: Dr Edmund Daukoru, President of the OPEC Conference, Minister of State for Petroleum Resources of Nigeria; Mr Mohamed Bin Dhaen Al Hamli, Alternate President of the OPEC Conference, Minister of Energy of the United Arab Emirates; Mr Mohammed S. Barkindo, Acting for the Secretary General of OPEC.

The EU and OPEC representatives welcomed the progress that had been made since the second meeting of the Energy Dialogue in Vienna on 2 December 2005. This included a Ministerial-level meeting between Dr Daukoru and Dr Bartenstein in Vienna on 1 February, shortly after Austria assumed the Presidency of the EU, and informal discussions between senior officials from the two groups at the World Economic Forum in Davos in January and the Tenth International Energy Forum (IEF) in Doha in April. The representatives expressed their appreciation for the constructive exchange of views on the important issue of energy demand and supply security at the Forum, and reiterated their support for the IEF as the main global platform for producer-consumer dialogue.

The partners agreed on a number of initiatives aimed at boosting cooperation through various joint actions. They welcomed the meeting as a further step in constructive dialogue between petroleum producer and consumer countries and recalled that oil price volatility, which leads to uncertainty over future demand and lower investor confidence, affects economic and social development in both regions. They reaffirmed their mutual interest in stable, transparent and predictable oil markets, served by adequate infrastructure. They noted that, while world oil markets are adequately supplied with crude oil and stocks are at comfortable levels, concerns over spare production capacity, the ongoing tightness in the refining sector, geopolitical developments, and other factors continue to exert pressure on crude and product prices. In addition, having noted the sharp increase of activity in the oil futures markets and its strong apparent correlation with crude oil and product prices, both parties agreed to monitor these developments and expedite their analysis. They welcomed actions that could lead to a moderation of product prices, particularly gasoline prices, in the short term. They also recognised the need for timely and adequate investment across the whole supply chain in the longer term, taking into account the capital-intensive nature of the petroleum industry, with long lead times and payback periods, as well as the current shortages of skilled labour, equipment and services.

The representatives exchanged information about their respective future energy strategies, recognising that security of supply and security of demand were two faces of the same coin. They emphasised that all energy sources should contribute to a diverse energy mix in a non-discriminatory manner, and that sustainable energy should take into account the three mutually-supportive pillars of economic development, social progress and environmental protection. The Commission made presentations of the Green Paper on a European Strategy for Sustainable, Competitive and Secure Energy and on EU recent energy policies. OPEC made presentations on its recently launched long-term strategy and on market developments. These presentations were followed by a frank exchange of views about potential implications for oil demand and supply. Both parties emphasized the importance of having secure demand for oil and adequate capacity across the whole supply chain. They also agreed that further investment in the global refinery system would contribute to reducing the current tightness of the market. They reiterated the importance of gaining a better understanding of the interaction between financial and oil markets, as well as the need for an experts' joint workshop on this subject. In addition, they noted the benefits of more in-depth exchanges on their respective supply and demand forecasting methodologies. In the same vein, they supported the objective of improved data quality, comprehensiveness and timeliness, and expressed again their support for the Joint Oil Data Initiative (JODI).

The parties recognised the important contribution the Energy Dialogue could make to broader challenges facing mankind, in particular sustainable development and the eradication of poverty. They acknowledged the important steps taken over many years in this regard by the European Development Fund and more recently with the EU Energy Initiative and the accompanying instrument, the EU Energy Facility, and through the OPEC Fund for International Development and other multilateral and bilateral aid institutions of OPEC Member Countries. They also stressed the importance of the 15th Session of the UN Commission on Sustainable Development, dealing with four thematic clusters — energy for sustainable development; industrial development; air pollution/atmosphere; and climate change — as well as cross-cutting issues.

They reiterated the importance of energy technology issues and explored the potential for closer collaboration in this area. It was agreed that particular priority should be given to collaboration on cleaner oil technologies, especially carbon capture and storage. These technologies offer the potential to provide an adequate response to climate change concerns.

The partners agreed upon the following specific actions:

- Further development of the proposal to establish **an EU-OPEC energy technology centre**, to serve as a focal point for launching joint cooperation and research on such issues as market stability, investment, workforce management and the environment. A meeting of experts is to take place in early 2007 to consider this, for a report to be presented to the next annual Ministerial meeting.

- A joint **conference on carbon capture and *s*torage** to take place in Riyadh on 21 September 2006.

- A **round table on energy policies to take place** in Brussels on 24 November 2006, focusing on the policies adopted or envisaged by the two groups relating to energy and the environment and energy transportation matters, and on how these may affect primarily the oil market.

- A **joint EU-OPEC study on investment needs in the refining sector** and the role of the oil refining industry in oil markets, to be launched in the coming months.

- A joint event to take place in the first week of December 2006 on the **impact of financial speculative markets on oil prices,** involving representatives of the stock market and financial institutions, as well as the oil industry.

The meeting marked the first anniversary of the EU-OPEC Energy Dialogue, which was established in Brussels on 9 June 2005. Developments have since underlined the value of dialogue and the mutual interest of both parties in improving communications and understanding between each other. It has provided an important addition to the process of dialogue and cooperation within the global energy arena. Both the EU and OPEC face similar and growing challenges stemming from the need for security of supply and demand, large investments both upstream and downstream, and stable and predictable markets with reasonable oil price levels that are not damaging to either exporting or importing countries.

The next meeting of the Energy Dialogue will be held in June 2007 in Vienna**.**

Highlights of the World Economy

Economic growth rates 2005-2006, %	World	OECD	USA	Japan	Euro-zone
2005	**4.7**	**2.8**	**3.5**	**2.7**	**1.4**
2006	**4.7**	**2.9**	**3.3**	**3.0**	**2.0**

Industrialised countries

United States of America

Markets expect higher path for US interest rates; slower growth expected in remainder of year

The upward revision to the estimate of GDP growth for the first quarter to 5.3% was less than had been anticipated and much lower growth is expected for the remainder of this year. Healthy net exports and inventory building were responsible for the improvement but estimates of business and consumer spending were reduced. Although personal consumption grew at an impressive 5.2% rate in the first quarter, much of this growth reflected a combination of a rebound from unusually depressed spending in the final quarter of 2005 and favourable weather trends. Higher energy costs in the second quarter have reduced real income growth and households derived less support from gains in housing wealth. Most of the strength in consumer spending in the first quarter came early in the year. By April the three-month growth of real consumer spending had slowed to an annual rate of growth of about 2% and retail sales growth was only 0.1% in May. **Second quarter consumer spending growth should be about 2%.**

Latest data suggests that the US housing market is slowing rapidly. Surveys of consumer attitudes to housing purchases confirm that buyers are cautious. According to the University of Michigan survey, the percentage of households agreeing that “now is a good time to buy” is the lowest since 1990. The prices of housebuilding stocks tell the same story with the sector index trading at about half the level of July 2005. The poorer condition of the housing market affects consumers directly through reduced refinancing opportunities and also affects consumer confidence. Reduced levels of consumers’ wealth (both housing and stock market) tend to impact higher income households; less well-off households have been affected to a greater extent by higher energy costs. **Retail gasoline prices rose by at least 60¢/gal during March and April** and the additional expenditure on fuel will affect spending on other goods and services in the second quarter. A further constraint on spending is the need to rebuild the savings of American households. The savings rate is likely to rise – leading to significant changes in household spending and saving decisions relative to the experience since 2003. **Much depends on the strength of the labour market.** Solid gains in employment will be needed to provide households with income gains of at least 4% if the economy is to sustain the 3% growth which the consensus expects. Certainly the employment data thus far in 2006 has not been encouraging and the report for May was disappointing. Total non-farm payrolls rose by only 75,000 in the month and the data for prior months was revised downwards.

In May the monthly rate of increase in producer prices (excluding foods and energy) rose to 0.3% following a 0.1% rise in April. This increase was higher than expected and reinforced fears that **US interest rates will be raised by a further ¼% to 5¼%** at the end of June. Although the rise in producer prices was not especially sharp and the current level of US inflation is not worrisome, the new Chairman of the Federal Reserve has rather stressed the importance of **inflation expectations**. The Chairman has underlined that there should be no deterioration in long-term inflation forecasts as a result of changes in energy or other input costs. The policy emphasis has apparently shifted and financial markets have taken this into account – indeed some banks have suggested that US interest rates may need to rise to 6% during the course of the next twelve months. The firmer tone to recent statements from US policymakers contains an important message to financial markets: **that the Federal Reserve will not tolerate the prospect of any significant overshoot in inflation.**

The swift reaction of inflation-sensitive asset prices (particularly gold), combined with the sharp downward adjustment of equity prices in some emerging markets reflects the difficult judgments ahead. Markets fear that the ongoing rise in interest rates may have a severe impact on a global economy which may already be moving to a lower growth path. In the case of the US economy it seems most likely that growth will struggle to hit 3% during the remainder of 2006 and the forecast for the year as a whole has been revised down to 3.3%. **The US dollar has strengthened by about 3% since mid-May as currency markets also revised their expectations of changes in US interest rates.**

Japan

First-quarter growth exceeded expectations in Japan; domestic demand drives the economy

The revisions to the first quarter GDP data confirmed that the Japanese economy is growing at a steady rate and that the driver of growth has increasingly shifted to domestic demand. **GDP growth in this period was revised up from 1.9% to 3.1%.** The upward revision was mainly due to stronger capital expenditure and personal consumption. Capital spending benefited from demand brought forward prior to the fiscal year end in April and rose by over 12% at an annual rate. Although this rate cannot be maintained, the outlook is encouraging and fixed investment should rise by at least 7% in 2006 as a whole. Personal consumption growth was revised up slightly to 2% and the trend of spending remains solid. Higher import growth meant that net trade had a slightly negative effect on GDP growth in the quarter but export growth remained impressive, rising by over 11%.

This start to the year exceeded expectations since a reaction had been expected to the very strong growth of the final quarter of 2005. **As a result the forecast for Japanese GDP growth in 2006 has been raised to 3% from 2.7%.** Private consumption should be supported by solid gains in labour incomes and private investment has been boosted by higher spending on housing. Labour market reports for the first quarter showed further tightening and winter bonuses for 2005 were 1% above year-ago levels. The April employment index of regular workers rose by 0.9%, marking stronger growth for the third consecutive month. Following the good result of the first quarter, capital expenditure is expected to remain high. Corporate cash flow is very healthy and orders data for April was also encouraging although business sentiment may have been affected by the May/June slump in the Tokyo equity market.

The rate of core inflation in Japan is expected to be slightly positive in 2006. Consumer prices in April rose by 0.4% year-on-year despite a reduction in retail fuel costs. As a result of sharp rises in metal and petroleum prices, the corporate goods price index rose by 3.3% in May and input costs may continue to rise at a similar rate for the remainder of the year. The price outlook is uncertain as the economy approaches full utilization of capacity and expectations of higher inflation may affect wage increases. Domestic producer prices are rising, reflecting higher commodity prices but the stronger yen will help keep import costs under control. Deflation continues to affect some sectors – such as machinery and domestic services but the declines in prices are moderating as demand conditions continue to improve. **The Japanese authorities have been cautious in signalling the end of deflation.** The GDP report for the first quarter confirmed that prices for domestic demand rose in that period but the improvement was due to rises in housing and public investment prices driven by higher costs for construction materials. The overall GDP deflator fell slightly, indicating a slow pass-through of rising input prices to consumers.

The shift towards tighter monetary policies in the USA and Europe had an impact on the Japanese equity market which fell by nearly 20% by mid-June from the high levels of early May. Investors were concerned by the impact of a slower US economy on the export sales of Japanese companies. It is not clear whether this weakness in equity markets will affect monetary policy. Unless the decline in equity markets becomes much sharper, most commentators expect the Bank of Japan to announce the end of the zero interest rate policy at the Bank's July meeting. The Governor of the Bank has confirmed that the Bank will watch stock market developments in preparation for a possible move in July. Nevertheless the change in policy will be mainly of symbolic importance and Japanese interest rates will remain very low for the foreseeable future. The Japanese bond market strengthened as concern about higher rates receded and the yield on ten-year Japanese government bonds fell to below 1.75% in mid-June, down from 2% in mid-April.

Euro-zone

Euro-zone set to accelerate in the second quarter but higher interest rates and strong euro may constrain growth

Since the start of the year business and consumer surveys have provided consistent evidence of improving expectations in the Euro-zone. The services index from the Purchasing Managers' Institute recorded a further increase in May and rose to its highest level since September 2000. Strong improvements in Italy and France were counterbalanced by falls in Germany and Spain. The rise in the services index pushed the composite index to its highest level in five years. Based on past experience, this level is consistent with GDP growth of over 3% pa suggesting that second quarter GDP will show some acceleration over the first quarter growth. It was significant that details of the composite index showed an improvement in the employment component since the lack of confidence in the labour market has been a major factor in holding back Euro-zone consumer demand.

Data of sales and production lent some support to the survey evidence in April. Retail sales in the Euro-zone grew by a stronger-than-expected 1.4% in April and industrial production in Germany rose by 1.6%. Part of the rebound was due to better weather which boosted construction output but manufacturing output also showed a rise, growing by 0.9%. Within the manufacturing, total consumer goods production saw the sharpest rise and spending in Germany is likely to receive a further boost in June as a result of the World Cup. German consumer demand seems to be improving but the picture for the Euro-zone as a whole is mixed. Italian consumers remain cautious although the better first quarter GDP results give hope for optimism. In France, the good performance of consumer spending since 2003 may be moderated by a slowing housing market and rising interest rates. Spain may also see slower growth in spending following three years of strong growth and rapid house price increases.

Overall consumer spending in the Euro-zone is likely to grow by at least 2% in 2006 but two major uncertainties cloud the overall growth outlook. On June 8 the ECB raised Euro-zone interest rates by ¼ % to 2¾ % and further increases are likely. Although inflation in the zone remains subdued there are some signs that companies are finding it easier to pass higher input costs through to final consumers as the gradual increase in the level of output is eroding spare capacity. **The ECB has promised to remain 'vigilant' against any threat of rising inflation and financial markets are discounting Euro-zone interest rates of 3½% by mid-2007**. The second uncertainty is the international climate. External demand remains very important to Europe and exporters will be hoping that the euro can remain below $1.30. The first quarter of 2006 was a period of buoyant growth in world trade yet **the export performance of France and Italy was disappointing in contrast to the gains achieved by Germany, Spain and the UK**. World trade growth is expected to slow later this year as global monetary conditions tighten and the competitive climate for exporters will become more difficult.

The outlook for the Euro-zone in 2006 remains dependent on the domestic sector. Exporters will be held back by the rise in the euro and an expected deceleration in world trade in the second half of the year. Euro-zone GDP began 2006 at a depressed level, following the poor performance of the fourth quarter but the evidence suggests sporadic signs of strength in the second quarter. **If these improvements translate into a lasting improvement in consumer confidence for the region as a whole the Euro-zone may achieve growth of 2% in 2006 despite the unpromising international environment.**

Former Soviet Union

Very strong inflows create upward pressure on the Russian rouble

The recovery from the weather-affected winter period continued in April as growth rates for all the major indicators revealed stronger growth than the first quarter average. Industrial production growth increased to 4.8% in April and capital spending rose by 10.8%. Construction output responded dramatically to the return of normal weather and output increased by 12% **but growth in the output of the extractive sector remained subdued, rising by only 1.9% in the first four months of the year**. In April there was a welcome drop in the inflation rate which fell to 9.8%, thanks to stabilization in food prices and this improvement may ease pressure on the non-oil sector of the Russian economy. The Central Bank has announced that it will be stepping up intervention in currency markets in the coming months to help slow rouble appreciation. In the first four months of 2006 the rouble has appreciated by 6.5% in real terms as very high earnings from oil and minerals exports boosted the currency. **In the first quarter of 2006 the foreign trade surplus rose to $36 billion, up 43% on the surplus earned in the first quarter of 2005 and total international reserves of foreign exchange and gold reached a record $226 billion by the end of April.**

Eastern Europe

Recovery in Euro-zone boosts first-quarter growth in Eastern Europe

The Polish economy performed better than expected in the early months of 2006 and the rate of GDP growth reached 5.2% in the first quarter. Strong wage and employment growth was behind the remarkable surge in private consumption which was also accompanied by robust 7.4% growth in fixed investment spending. Net trade also contributed to GDP despite the high level of the zloty. Growth in the second quarter should maintain this momentum since economic activity in the EU should generate further growth in Polish exports. In 2006 the Hungarian economy is expected to lag behind Poland, mainly as a result of weakening domestic expenditure. The rise in global interest rates is putting pressure on Hungary which has wide budget and current account deficits. The main problem facing the new government is the very high budget deficit which reached 6.1% of GDP in 2005. **The outlook for 2006 is for little improvement – indeed the cumulative budget gap in the first quarter of the year reached**

51% of the target for 2006 as a whole. The performance of the Czech economy continues to impress. GDP rose by 7.4% in the first quarter of the year and the currency remains strong. Industrial production rose by 18% in March – the fastest growing sector continues to be the motor industry which expanded production by 37% in the first quarter. The rate of inflation fell to 1.9% in 2005 but has risen to 2.9% in the first four months of this year as a result of higher energy and utility prices. The Czech trade balance continues to improve and the public finance deficit was lower than expected at only 2.6% of GDP in 2005. The planned deficit for 2006 is also 2.6% of projected GDP – well below the Maastricht limit for accession to the Euro-zone.

Developing Countries

Financial markets in Developing Countries impacted by the turbulence in the global markets

The convulsion in the world financial system in the second half of May highlighted the relationship between financial markets and economic growth in the Developing Countries. The constant rise of the interest rate in the USA and elsewhere to tackle inflationary pressure may drain emerging markets of foreign investment inflows. In the search for safe haven, global investors might put more pressure on emerging financial markets in the so-called "flight to quality" in the weeks ahead.

Shares in emerging markets such as Russia, Turkey, India and Mexico, fell by 10-25%. Many commodities and shares in mining companies, which had recently soared, fell by 10% or more, although some recovered later. India's benchmark index closed below the 10,000 level on 6 June as share prices suffered heavy losses. One day later China's shares dropped by a level not seen in four years. The global concerns about the outlook for inflation, growth and fears about the value of the dollar have been increasing volatility for stocks, bonds, currencies and commodities worldwide, but especially in emerging markets. While some observers look at May's turmoil as a necessary correction of over-priced risky investment assets, others see a need for deeper analysis of the systemic risk in the financial structure of the emerging markets.

IMF invites China and Saudi Arabia, in addition to the USA, the Euro-zone and Japan for discussions on ways to address the global imbalances issue

The main threat as was suggested by some observers is the unprecedented imbalance between 'heavily indebted' deficit economies like the USA and 'cash-rich' surplus economies like China and energy exporters. The IMF is stepping up attempts to tackle this problem. It named a group of nations to start consultations which include USA, Euro-zone, Japan, China and Saudi Arabia on how to address global imbalances while maintaining robust global growth.

The Chinese yuan has risen slightly against the US dollar breaking the psychological barrier of 8:1. On 15 May the US dollar was valued at 7.9990 yuans and financial analysts forecast gradual appreciation of the Chinese currency towards the end of the year. The shift to a fully market-oriented exchange rate regime is not expected soon, but the Chinese currency should be more responsive to market conditions as China's economy modernises.

On another development China raised the price of petrol and diesel by up to 12% last May for the second time. The rise has two main objectives: to stem the losses of local refiners and increase energy efficiency. It is hard to predict whether there will be another price rise before the annual policy summit of the communist party in October. In order to avoid direct subsidies for refiners, another 10% rise might be possible.

China announced a further revision to the official GDP growth for the first quarter of the year. The economy is now said to have grown by 10.3% instead of 10.2% as previously estimated. Inflation in China fell significantly to 1.2% in April compared to 5.3% in August 2004.

OPEC Member Countries

Middle Eastern capital markets have stabilised in recent weeks

Some OPEC Members were heavily impacted by the turmoil in the global financial markets. After a decline of market capitalisation from US$800bn in February to about US$400bn in the end of May, the Saudi government appointed a new chairman of the Capital Market Authority (CMA) in an effort to improve sentiment. The new chairman promised to upgrade trading platforms, move to license non-bank mutual funds to increase institutional investors, and set up an independent authority to license financial analysts.

Middle Eastern markets have stabilised in recent weeks, but many are experiencing deficits this year. In the environment of the high oil price which has provided the underlying economic growth and strong liquidity, the capital markets in the Middle East are expected to stabilise. Libya announced the establishment of its own capital market. The market which is expected to start activities soon in Tripoli would facilitate a governmental plan to privatise 375 public-owned enterprises.

Oil prices, the US dollar and inflation

Dollar weakness accelerated in May

The US dollar began to weaken slightly from the middle of the April and the move accelerated in May. Markets noted the firm stance of the ECB and anticipated that euro interest rates would continue to increase. In May the dollar fell by 4% against the euro, 5.5% against the British pound, 5.1% against the Swiss franc and by 4.7% versus the yen.

In May the OPEC Reference Basket rose to $65.11/b from $64.44/b in April. In real terms (base July 1990=100), after accounting for inflation and currency fluctuations, the Basket price fell by 2.43% to $44.62/b from $45.73/b. The dollar fell by 3.2% as measured by the import-weighted modified Geneva I +US dollar basket*.

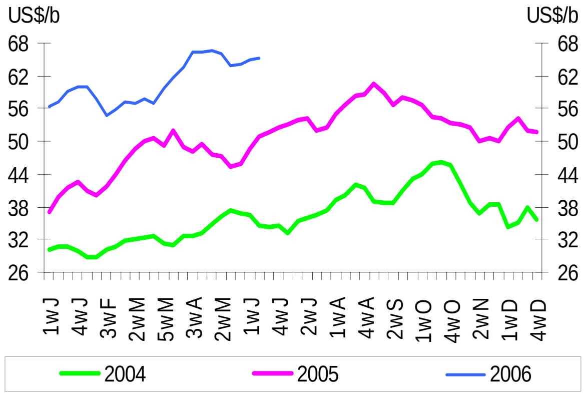
** The 'modified Geneva I+ US$ basket' includes the euro, the Japanese yen, the US dollar, the pound sterling and the Swiss franc, weighted according to the merchandise imports of OPEC Member Countries from the countries in the basket.*

Crude Oil Price Movements

Volatility continued in May due to ongoing Mideast tensions and higher prices pressuring demand

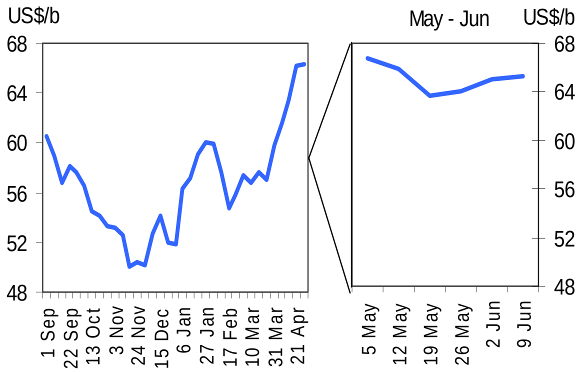
OPEC Reference Basket

Graph 1: OPEC Reference Basket - weekly spot crude



The petroleum market began in May with a continuation of the bullish tune from the previous two months. Market jitteriness was inspired by tensions in the Middle East signaling concern over a possible supply shortfall. However, healthy supply in the USA kept a cap on the petroleum complex. The Basket closed the first week up a marginal 39¢ or less than 1% to settle at its highest weekly average of $66.73/b. Nevertheless, in the second week, a narrowing fuel crack spread in the east amid refinery shut-downs in the west and lingering cargoes in the North Sea revived the bearish market sentiment. Market volatility was further enhanced by refinery glitches which triggered gasoline supply concerns ahead of the driving season. The Basket settled at $65.94/b, a loss of 79¢ or 1.2% for the week.

Graph 2: Weekly average Basket price, 2005-2006



In the third week, market bearishness continued as high energy costs were seen to be denting demand growth for petroleum products. However, the bearish momentum was somewhat capped by improved refining margins amid seasonal demand for light-end products. The Basket slipped a hefty $2.22 or 3.4% to close at $63.72/b, which was the lowest level for the previous six weeks. Continued signs of lower global demand growth amid world supply at comfortable levels helped to ease market sentiment somewhat, although revived geopolitical tensions, stringent gasoline specifications in the USA, and worries over the emerging hurricane season in the Gulf of Mexico kept the bulls dominating in the fourth week. Moreover, healthy GDP growth in the USA implying strong demand helped to support the market. The Basket closed the fourth week 37¢ higher at $64.09/b. In the final days of the month, the fear premium pushed the Basket up by $1.06/b with the last three days' average reaching $65.15/b.

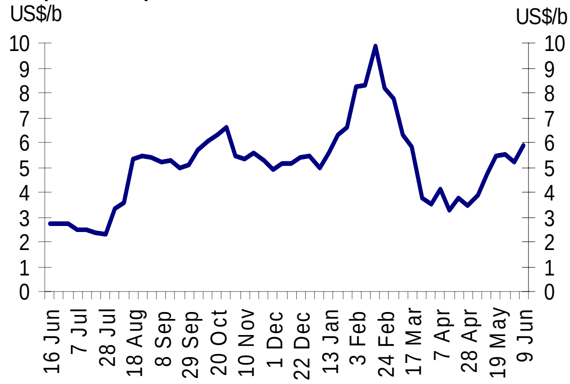
For May, the OPEC Reference Basket saw a record-high monthly average of $65.11/b, representing a gain of 67¢ or over 1%. Volatility continued due to geopolitical concerns and refinery glitches, and despite ample supply. So far in June, the Basket seems to have switched to a lower trend on positive geopolitical developments and strong OPEC supply. On 16 June, the Basket stood at $63.02/b.

Concern over summer demand for gasoline amid more stringent fuel specifications widened the sweet/sour spread

US market

The US market was under pressure from narrowing contango structure limiting buying interest while the arrival of foreign crude added to the weak sentiment. WTI's average for the first week was up $2.05 or almost 3% to settle at $72.15/b with the spread over WTS narrowed by 45¢ to $3.88/b. The weaker trend gathered pace in the second week as US sour crude differentials fell further in the domestic cash markets, led by Mars, on growing domestic supplies of sour crudes and refiners' preference for sweet barrels for the peak gasoline processing season in June and July. As a result, WTI averaged 70¢ or nearly 1% lower in the second week to stand at $71.45/b, while the WTI/WTS spread expanded 85¢ to $4.73/b, the widest spread in the last two months. Sour crude differentials fell further as the forward structure contango narrowed limiting incentive for stockpiling. WTI's weekly average was down a hefty 3.4%, falling $2.43 to close at $69.02/b, with the spread over WTS widening to $5.44/b. Moreover, sweet crude swung higher on refinery demand amid stringent fuel specifications. This was furthered by the partial return of the Mars platform which pushed sour crude lower. WTI's weekly average was firmer at $70.45/b with the premium to WTS inching up to $5.51/b. Nevertheless, in the final days of the month the spread narrowed as the driving season kicked in with demand for light-end products emerged amid the prospect of a return of most of Nigeria's shut-in output. The monthly average for WTI was $1.41 or 2% higher with the spread over WTS widening to $4.88 from $3.67 in April. Moreover, the Brent spread to WTI returned to a discount of 95¢/b compared to a premium of 88¢/b the month before.

Graph 3: WTI spread to WTS

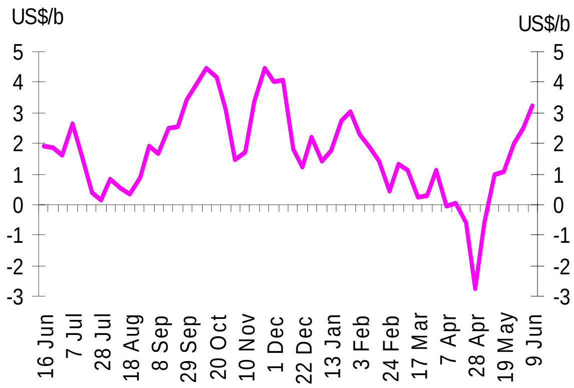


North Sea market

Prompt May barrels put downward pressure on North Sea crude market

The North Sea market emerged in May on a quiet note amid volatile futures markets. Furthermore, the availability of prompt May barrels kept differentials under pressure ahead of the June loading programme. However, the prospect of tight June supply kept differentials from slipping further in the second week. In the third week, sellers deferred some of May stems into the forward month amid the clearing of some cargoes, which helped the market to firm. Differentials held steady as lingering cargoes found homes out of the regional market cutting prompt availability. However, prices fell at month-end on ample supplies of grades such as Oseberg crude. Brent's monthly average fell 52¢ to stand at $69.83/b.

Graph 4: WTI premium to Dated Brent



Mediterranean Market

Improving margins amid the return of some refineries from spring turnaround supported the Mediterranean market

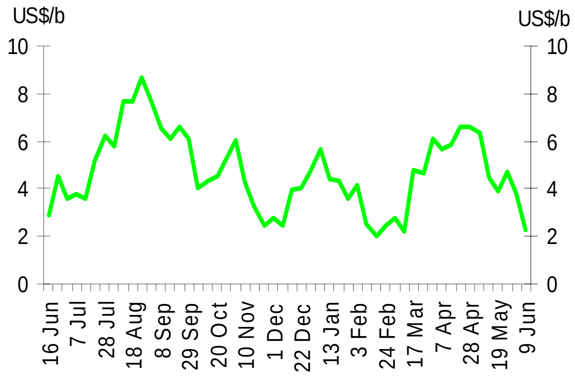
At the start of May, Urals fell to below $6/b to BFO on weak refining margins amid higher supply compared to the previous month. Furthermore, the shut-down of an Italian refinery due to fire added to the bearish tone of the market. However, sentiment improved later in the second week on the return of some refineries from spring turnaround ignited by buying interest amid the perception that regional supply will tighten in June. In the third week, a slide in refining margins retraced gains from the week before. Furthermore, competitive prices for heavy crude from the Mideast kept sentiment bearish on the Urals market. Market volatility flipped in the fourth week on improving margins and the shift to summer fuels amid strong buying interest from Europe, which pushed Urals differentials higher. The monthly average for the Brent/Urals spread narrowed by 60¢ to $4.80/b. Urals May average was 17¢ higher at $65.12/b.

Middle Eastern Market

The delayed start-up of Oman's Sohar refinery was offset by improving Asian refinery margins

Mideast crude emerged in May under pressure from high retroactive April prices in relation to Dubai. July Oman was assessed between parity and a 4¢/b premium to MOG. Moreover, observance of the Golden Week in Japan and holidays in China added to market weakness pushing Oman to trade at a discount of 2-5¢/b in the first week, yet the wide Brent/Dubai spread kept some balance in the marketplace to average the first week at $6.35/b. The weak fuel oil crack helped the lower trend to steepen into the second week. July Oman traded at a 3-8¢/b discount to MOG with the Brent/Dubai spread narrowing to $4.45/b. Abu Dhabi Murban was assessed from parity to a 15¢/b premium to ADNOC's OSP. In the third week, market sentiment improved on end-user demand, yet it was short-lived as China offered rival western grades into the region amid the trial start up of the 160,000 b/d Hainan refinery and the delayed start of Oman's Sohar 116,000 b/d refinery. July Oman continued to trade at a 7-8¢/b discount to MOG amid the Brent/Dubai spread narrowing to \$3.92/b, the narrowest in 10 weeks. In contrast, the strong gasoil crack spread inspired refinery demand which pushed July Abu Dhabi Murban to trade at a 15-25¢/b premium to ADNOC's OSP. In the final week, the continued weak fuel oil crack spread offset by the wider Brent/Dubai spread kept July Oman to trade at a marginal discount of 3¢/b to MOG. The market gained some ground on the prospect that the Sohar refinery was on the verge of returning to operation and the closure of the arbitrage opportunity. The monthly average spread Brent/Dubai narrowed from \$6.20 to \$4.86/b.

Graph 5: Dated Brent spread to Dubai



Asian market

The wide Tapis/Brent spread attracted the eastward flow of Western African crude

The Asian market transpired on a quiet tune amid regional holidays with June trading at levels similar to May. The return of some refineries from spring turnaround supported market sentiment yet the new Australian heavy sweet "Enfield" crude kept some balance. In the second week, the widened Tapis/Brent spread of \$4.23/b pressured regional crude amid high outright prices, attracting the flow of West African crude. The softer sentiment was furthered by the ample supply of naphtha from India exerting further pressure on the marketplace amid China's re-offering of West African crude for June delivery. Nevertheless, India's unusual move to buy regional light sweet crude helped the market to firm in the third week. The Tapis/Brent spread widened to \$5.63/b in the fourth week, the widest in the previous ten weeks, attracting the flow of West African crude amid the delayed start-up of "Enfield." Moreover, with China raising its retail gasoline and diesel prices, healthy refining margins attracted buying interest from Chinese refiners. The monthly average Tapis/Brent spread widened 48¢ to \$4.35/b.

Table 1: OPEC Reference Basket and selected crudes, US$/b					
			Change	Year-to-date average	
	Apr 06	May 06	May/Apr	2005	2006
OPEC Reference Basket	**64.44**	**65.11**	0.67	**45.74**	**60.50**
Arab Light[1]	63.85	64.83	0.98	44.45	60.24
Basrah Light	61.18	62.32	1.15	43.24	57.09
BCF-17	56.01	56.62	0.61	na	51.22
Bonny Light[1]	71.80	71.75	-0.06	49.43	66.69
Es Sider	67.03	67.25	0.22	46.43	63.06
Iran Heavy	63.09	63.27	0.18	42.59	59.08
Kuwait Export	62.20	62.80	0.60	44.09	58.46
Marine	65.62	66.29	0.67	44.23	62.03
Minas[1]	69.17	70.47	1.30	49.79	65.33
Murban	68.46	69.84	1.37	48.02	65.03
Saharan Blend[1]	70.21	70.31	0.11	48.80	65.82
Other Crudes					
Dubai[1]	64.14	65.07	0.93	43.36	60.63
Isthmus[1]	64.51	64.82	0.31	43.96	59.73
T.J. Light[1]	58.77	58.66	-0.11	40.41	54.98
Brent	70.35	69.83	-0.52	48.66	65.06
W Texas Intermediate	69.46	70.89	1.43	50.52	66.02
Differentials					
WTI/Brent	-0.88	1.06	1.95	1.86	0.96
Brent/Dubai	6.20	4.76	-1.45	5.30	4.43

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

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

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

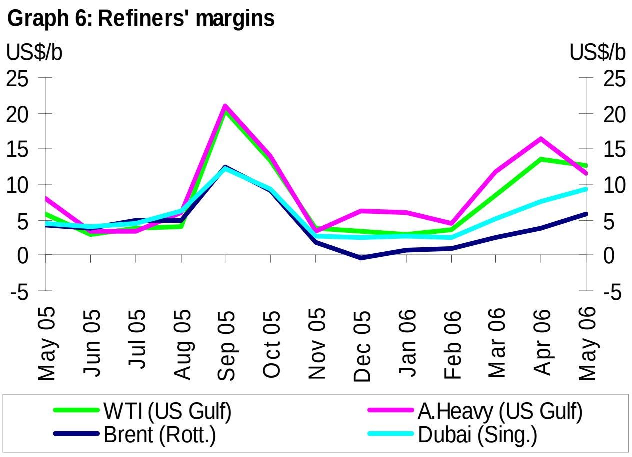
na not available.

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

Product Markets and Refinery Operations

With the exception of the US market, refinery margins gained across the board in May

US gasoline stock-builds over the last couple of weeks as a result of higher domestic production and imports have softened the bullish sentiment of the US product market and put pressure on refining margins, especially for heavy crude oil. As **Graph 6** shows, refinery margins for Arab Heavy in the US Gulf Coast plummeted by $4.76 or 29% to $11.56/b from $16.32/b in April, while margins for the benchmark crude WTI in the same area dropped by 97¢ to $12.5/b from $13.53/b in the previous month.



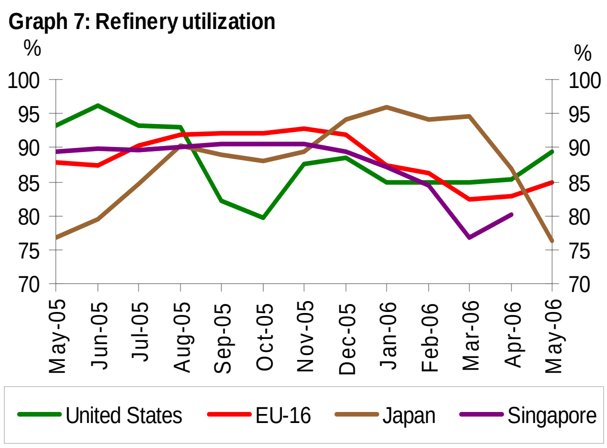
European spot and futures product markets have also recently been affected by the bearish movement in the US gasoline stocks, but generally product prices overtook their corresponding benchmark crude Brent in May and refinery margins surged by $2.08 to record $5.80/b.

In Asia, due to heavy refinery maintenance and higher regional demand, the supply of light products remained tight, and refinery margins for benchmark crude Dubai in Singapore reached the highest level rising by $9.33/b since last October.

Looking ahead, upon the return of refineries from maintenance to normal operation in the USA and Europe, refinery margins in these areas may soften further if the current low pace of demand growth continues. In Asia, the ongoing heavy maintenance schedule could support product prices and refinery margins in June, but they may lose part of their strength as refineries come back on stream from July onward.

Refinery throughput surged in the Atlantic Basin

Upon completion of the refinery maintenance schedule, amid the record-high crack spread for light products, refiners in the USA and Europe increased their throughput levels. As **Graph 7** indicates, the refinery utilization rate in the USA soared by 4.1% to 89.4% from 85.3% in April. In Europe, refiners extended their upward utilization trend, and it rose to 85% from 82.8% in the previous month. As mentioned earlier, due to the heavy maintenance schedule, the refinery utilization rate in Japan tumbled sharply in May and reached 76.2% from 87% in April.



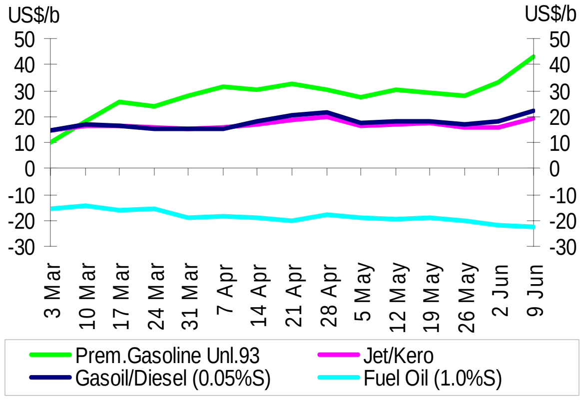
US market

Gasoline stock-builds over the last few weeks have eased earlier concerns about a possible supply shortage in the driving season

Heavy maintenance schedules and gasoline stock-draws dominated the US market in April and lent support to crude and product prices. However, this situation eased at the end of the month allowing gasoline stocks to rise by 10 mb in May due to higher production and imports. However, as Graph 8 shows, the crack spread for gasoline remained above $30/b, which should encourage refiners to maximize the gasoline mode as much as technically possible. Given the slowing pace of demand, if the current bearish developments in the US gasoline stocks continue, this may put pressure on crude and product prices. According to the EIA figure on 2 June, gasoline demand over the last four weeks declined by 77,000 b/d compared to the same period last year.

Similarly, implied demand for distillates has slowed by 50,000 b/d over the last four weeks compared to the same period last year, moderating the middle distillate crack spread against benchmark crude WTI from around $20/b in late April to about $16/b in May. With the shift to ultra-low sulphur diesel specifications across most of the USA, the diesel crack spread was up by $7/b over the last two weeks, but with refineries returning to operation and strongly shifting production from regular to ultra-low sulphur diesel, the distillate market may lose its recent strength.

Graph 8: US Gulf crack spread vs. WTI



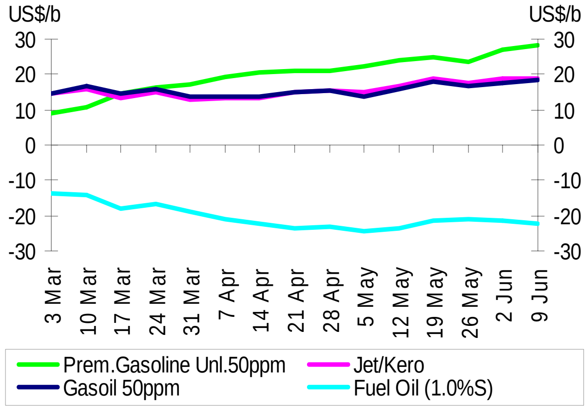
As far as the fuel oil market is concerned, the high inventories of natural gas adversely affected natural gas and fuel oil prices, and utility plants switched to natural gas from low-sulphur fuel oil. This situation has widened the low-sulphur fuel oil crack spread against WTI to minus $22.18/b from $19/b (*see Graph 8*).

European market

European product markets lost part of their strength in May, but still look lucrative

The transport of huge cargoes of gasoline to the USA and the Middle East, the completion of the planned refinery maintenance schedule and the return to operation of some of the refineries, including the Erg refinery, from unplanned outages were the major developments of the European product market which lent support to product prices in May. According to **Graph 9,** the crack spread of gasoline in the Rotterdam market versus corresponding benchmark crude Brent soared to above $26/b in late May from $21/b the previous month. Recently, with the narrowing of arbitrage to the USA, the gasoline market sentiment in North-West Europe has softened somewhat, but Mediterranean refiners continue to benefit from their eastern market and Middle Eastern requirements.

Graph 9: Rotterdam crack spreads vs. Brent



Looking ahead, the strength of the European gasoline market will depend on the seasonal revival of US gasoline demand. Additionally, along with positive movements in the futures market, the European gasoil market showed some improvement, and its crack spread rose to above $17/b from around $14/b last month. Among the middle of the barrel complex products, the jet/kero price surged further due to higher demand and lower imports from the Middle East. Due to the approaching holiday season and increasing flights into and out of the region, the jet/kero market sentiment may strengthen further in the near future.

In Europe, surging refinery throughputs led to a glut of heavy fuel oil supply. The fuel oil market situation has been exacerbated by strong exports from Baltic ports and lack of regional demand.

Asian market

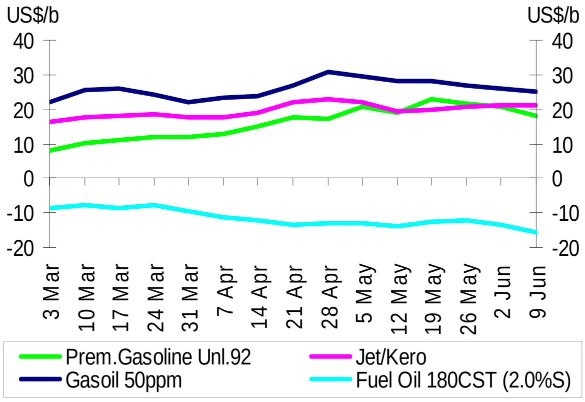
Transport fuel prices remained strong across Asia/Pacific

Heavy refinery maintenance schedules, surging gasoline and diesel prices, lower Chinese gasoline exports, sales of arbitrage cargoes to the USA and lower Middle Eastern eastbound gasoil exports were the major developments of the Asian market since the beginning of May 2006. As mentioned earlier, these developments supported refinery margins and light product prices. As **Graph 10** indicates, the crack spread of gasoline against the benchmark crude Dubai remained at around $20/b and was attributed to lower Chinese exports, higher demand from

Indonesia and Vietnam as well as more arbitrage export cargoes from South Korea to the US West Coast. Higher demand from ethylene plants also recently boosted naphtha prices, which have been suffering for a long time. However, the recent bullish movements in the naphtha market may be a temporary phenomenon, as the market is expected to face ample supplies when refineries come back to operation after the maintenance schedule.

Apart from gasoline and naphtha, the middle distillate grades, especially gasoil, performed very well, and their crack spread versus Dubai crude stayed above $25/b. They were underpinned by higher economic growth rates and the agricultural sector. It is worth noting that robust Chinese demand for jet/kero along with some exports to the US West Coast also kept that market very strong.

Graph 10: Singapore crack spreads vs. Dubai



With regard to the high-sulphur fuel oil market, the performance of the Asian market was really disappointing as the huge influx of cargoes from the west put more pressure on the bottom of the barrel complex, and its discount against the Dubai crude reached minus $15.58/b (*see **Graph 10***).

Table 2: Refined product prices, US$/b

		Mar 06	Apr 06	May 06	Change May/Apr
US Gulf (Cargoes):					
Naphtha		72.76	81.21	74.48	-6.73
Premium gasoline	*(unleaded 93)*	86.24	100.57	100.04	-0.53
Regular gasoline	*(unleaded 87)*	77.58	93.27	88.16	-5.11
Jet/Kerosene		78.91	87.43	87.21	-0.22
Gasoil	*(0.05% S)*	78.94	88.46	88.59	0.13
Fuel oil	*(1.0% S)*	46.77	50.87	51.32	0.45
Fuel oil	*(3.0% S)*	46.69	50.74	49.93	-0.81
Rotterdam (Barges FoB):					
Naphtha		69.12	77.49	78.73	1.24
Premium gasoline	*(unleaded 50 ppm)*	76.53	90.97	93.84	2.87
Premium gasoline	*(unleaded 95)*	68.23	81.15	83.69	2.54
Jet/Kerosene		76.52	84.70	87	2.30
Gasoil/Diesel	*(50 ppm)*	77.42	84.69	86.03	1.34
Fuel oil	*(1.0% S)*	45.37	47.77	47.14	-0.63
Fuel oil	*(3.5% S)*	44.02	47.67	48.13	0.46
Mediterranean (Cargoes):					
Naphtha		57.70	64.78	65.85	1.07
Premium gasoline	*(50 ppm)*	77.70	90.10	94.46	4.36
Jet/Kerosene		75.71	83.31	85.48	2.17
Gasoil/Diesel	*(50 ppm)*	77.59	84.93	87.09	2.16
Fuel oil	*(1.0% S)*	47.73	47.66	48.89	1.23
Fuel oil	*(3.5% S)*	43.29	46.28	46.44	0.16
Singapore (Cargoes):					
Naphtha		59.82	64.45	65.59	1.14
Premium gasoline	*(unleaded 95)*	69.64	81.13	86.80	5.67
Regular gasoline	*(unleaded 92)*	69.05	80.15	86.17	6.02
Jet/Kerosene		75.66	84.77	85.55	0.78
Gasoil/Diesel	*(50 ppm)*	82.11	90.68	92.78	2.10
Fuel oil	*(180 cst 2.0% S)*	49.43	51.81	52.02	0.21
Fuel oil	*(380 cst 3.5% S)*	48.89	51.32	51.32	0.00

Table 3: Refinery operations in selected OECD countries

	Refinery throughput *mb/d*				Refinery utilization *%*			
	Mar 06	Apr 06	May 06	May/Apr	Mar 06	Apr 06	May 06	May/Apr
USA	14.53	14.60	15.32	0.72	84.9	85.3	89.4	4.10
France	1.54	1.47	1.60	0.13	77.9	74.4	80.9	6.50
Germany	2.04	2.26 R	2.33	0.07	83.9	93.2 R	96.0	2.80
Italy	1.81 R	1.83 R	1.74	-0.09	78.0 R	78.5 R	75.0	-3.50
UK	1.39 R	1.41	1.53	0.12	74.0 R	75.2	81.6	6.40
Eur-16	11.64 R	11.70 R	12.01	0.31	82.4 R	82.8 R	85.0	2.20
Japan	4.42	4.06 R	3.56	-0.50	94.5	87.0 R	76.2	-10.80

R *Revised since last issue.*

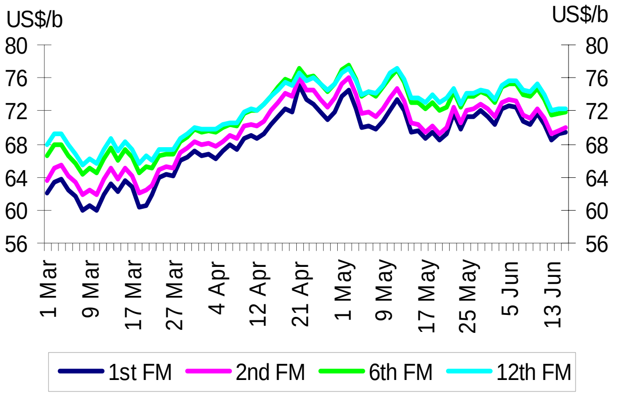
Sources: *OPEC statistics; Argus; Euroilstock Inventory Report; IEA.*

The Oil Futures Market

Bullish sentiment was supported by continued geopolitical concerns; however, healthy stock-builds helped to calm the market later in the month

The crude oil futures market continued to be volatile in May due to tensions in the geopolitical arena and concern over gasoline supplies this summer. Worries over possible supply shortfalls from the Middle East amid the persistent outage of Nigerian crude supported market jitteriness. The Nymex first month contract closed the first weekly period at $74.61/b for a gain of $1.73 over the previous period. Non-commercial long positions rose some 18,000 lots while short positions dropped by 2,000. As a result, non-commercial net long positions stood at 94,000 contracts, the highest level since April 2005. Open interest also gained some 74,000 lots to stand at a record high of 1,092,000 contracts.

Graph 11: Nymex WTI futures prices, 2006

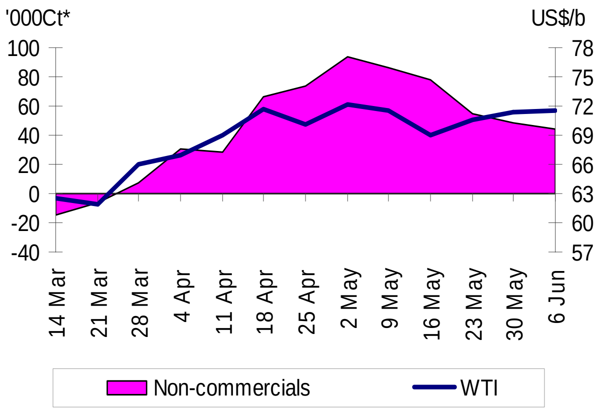


FM = future month

In the second weekly period, the healthy build in gasoline stocks amid fund profit-taking and easing geopolitical tensions pushed the Nymex WTI prompt month to close at $70.69/b, for a drop of over 5% on the week. Thus, the net non-commercial long positions decreased by 7,700 lots to 86,300 contracts. Nevertheless, open interest was down a marginal 1,000 lots. In the third weekly period, the bearish sentiment prevailed on the continued build in gasoline stocks and reports that high prices were eating into demand. The net non-commercial long positions continued to drop for the second week to stand 8,100 contracts lower at 78,200 lots. Moreover, open interest was down a healthy 22,000 lots to 1,068,800 contracts. Nymex WTI closed the weekly period at $69.53/b.

The market eased further in the third week, as US gasoline stocks saw further builds, amounting to 5.7 mb so far that month. However, concern over the emerging hurricane season in the US Gulf Coast revived fear of supply shortfalls. Hence, Nymex WTI closed the fourth weekly period at $71.76/b, for a gain of $2.23 or over 3%, amid the emergence of a new front-month in a contango market. Nevertheless, non-commercial long positions deflated heavily, dropping by nearly 24,000 contracts amid a hefty 23,000 decline in long positions with open interest down by a significant 73,500 contracts.

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

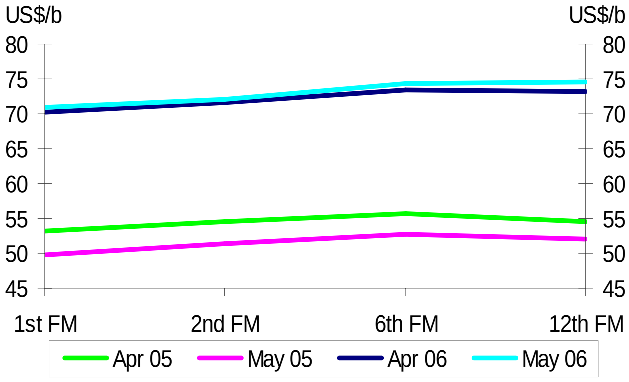


The bearish sentiment persisted into the fourth week on continued gasoline stockpiles amid the prospect of OPEC keeping output unchanged, although encouraging US economic data kept some bulls intact. Thus, Nymex WTI closed the final weekly period at $72.03/b. Non-commercial net long positions dropped 6,100 lots, while open interest rose 23,000 contracts to 1018,300 lots. The monthly average for non-commercial net long positions was some 22,600 lots higher than April while open interest stood some 59,000 lots higher. On a y-o-y basis, net long positions stood some 77,400 lots higher while open interest was up 257,000 lots. The Nymex WTI front-month average was $70.96/b for a gain of 80¢ or over 1%.

The contango narrowed in the prompt months on lower gasoline stocks but widened for the far months on healthy crude supply

The forward structure continued in contango although at a narrower pace. The 1st/2nd month average spread firmed by 33¢/b to \$1.12/b. In contrast, the 1st/6th, 12th, and 18th month average spread widened deeper in contango by 17¢/b, 57¢/b, and 49¢/b respectively to stand at \$3.31/b, \$3.69/b and \$2.90/b. Crude oil stocks weekly average was slightly up to 345.8 mb in May which made it some 13.3 mb over last year, while gasoline stocks were nearly 4 mb higher than April at 207.3 mb, still 7.8 mb below last year.

Graph 13: Nymex WTI forward curve



FM = future month

The Tanker Market

OPEC spot fixtures spiked in May on the back of high production and strong bookings

OPEC spot fixtures increased sharply in May to average almost 14.4 mb/d, an increase of 2.4 mb/d or 20% over the previous month. The level of fixtures was even higher than the 1.7 mb/d seen a year earlier. The strong growth of 2.4 mb/d, the highest since January 2006, was attributed to the combination of sustained high OPEC production and strong bookings as refineries began to return from maintenance. The surge resulted in OPEC's share in total spot fixtures moving up to 65% after having leveled off around 62% during the previous two months and a year earlier. OPEC and non-OPEC Middle East/eastbound spot fixtures increased by 1.4 mb/d or 32% to average 5.8 mb/d, reversing the drop of 1.1 mb/d in the previous month, while westbound fixtures continued to increase steadily to reach nearly 2 mb/d, 0.1 mb/d higher than the previous month. However, compared to a year earlier, Middle East/eastbound spot fixtures were 1.1 mb/d higher, while westbound ones were unchanged. Non-OPEC spot fixtures increased 0.4 mb/d to stand at 7.8 mb/d, the same level as total Middle East spot fixtures. The combination of the growth in OPEC and non-OPEC spot fixtures pushed global spot fixtures 2.8 mb/d up to their six-month high of 22.2 mb/d, which corresponds also to an 1.8 mb/d increase compared to the same month last year.

Preliminary data puts OPEC sailings during May at 22.9 mb/d, a drop of 1.4 mb/d from the previous month and 1.7 mb/d lower than a year earlier. The drop in OPEC's sailings came largely as a result of the decline in OPEC fixtures compared to the previous month. Middle East sailings including non-OPEC countries continued to decline to hit 15.8 mb/d, 1.5 mb/d from the previous month. Estimates showed a mixed pattern with arrivals at the US Gulf and East Coast and the Caribbean as well as those to North-West Europe increasing by 2% each to average 12.1 mb/d and 8.1 mb/d respectively, their highest levels so far this year. In contrast, arrivals at the Euro Mediterranean basin and Japan fell 0.2 mb/d and 0.5 mb/d respectively to average around 3.8 mb/d each. Compared to a year earlier, arrivals at the US Gulf and East Coasts and the Caribbean as well as North-West Europe increased 1.9 mb/d and 0.3 mb/d whereas arrivals at the Euro Mediterranean basin and Japan were 0.7 mb/d and 0.2 mb/d lower.

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

	Mar 06	Apr 06	May 06	Change May/Apr
Spot Chartering				
All areas	20.46	19.34	22.15	2.81
OPEC	12.97	12.00	14.39	2.39
Middle East/east	5.57	4.44	5.84	1.40
Middle East/west	1.66	1.82	1.94	0.12
Sailings				
OPEC	24.11	24.30	22.90	-1.40
Middle East	18.05	17.34	15.84	-1.50
Arrivals				
US Gulf Coast, US East Coast, Caribbean	8.97	11.85	12.07	0.22
North West Europe	8.01	7.92	8.05	0.13
Euromed	4.21	4.05	3.82	-0.23
Japan	4.90	4.26	3.79	-0.47

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

Tanker market strengthened significantly amid healthy activity

Following the strong recovery at the end of April, spot freight rates for shipping crude oil continued to strengthen on most routes throughout May, reversing the significant downward trend displayed since February. The steady increase in rates was driven by strong tonnage demand as refineries started to recover from seasonal maintenance in different regions. Typically refiners increase their bookings by end May-June after the completion of seasonal maintenance programmes. In addition, expected robust demand for gasoline and jet fuel for the transportation sector contributed to the tightness in the tanker market by pushing refiners to increase throughput and consequently translated into high imports. Furthermore, some vessels used as storage in producing countries also contributed to the reduction in the availability of tonnage. However, the significant increase in spot fixtures largely reflects the bullish sentiment in the tanker market. In the VLCC sector, freight rates for Middle East/East long-haul voyages averaged WS75 in May, 12 points or 20% higher than the previous month, while rates for cargoes moving to the west jumped by almost one third or 19 points to average WS78. The number of fixtures from the Middle East averaged more than 120 in May with a strong increase in the eastbound compared to 110 fixtures in April as refiners increased their bookings in anticipation of higher throughput once refining maintenance ends. Similarly, the Suezmax market was very bullish in May and ship-owners enjoyed an increase of around 25 points or 22% in rates for tankers trading between West Africa and the US Gulf Coast as well as for the trans-Atlantic route to the USA to secure monthly averages of WS144 and WS137 respectively, supported by high imports from the USA.

However, contrary to VLCCs, Suezmax tankers on the West Africa/US Gulf Coast route fell sharply during the first week of May before recovering and hovering around WS150 as tonnage availability tightened. Healthy activity between West Africa and the US Gulf Coast made freight rates on this route 31% better than in the previous May, in contrast to the trans-Atlantic route, which showed a marginal decline of 10 points or 6%. Aframax tankers displayed a mixed pattern with rates on the Caribbean/US East Coast and across the Mediterranean increasing by 10 and 19 points to stand at monthly averages of WS225 and WS167 respectively, while rates on the Indonesia/US West Coast as well as on the Mediterranean/North West Europe routes lost around 10 points to average WS119 and WS149 respectively. The drop on these latter routes is a result of both thin trade and a correction from the high level of the previous month when contrary to the other routes rates were very high.

Despite the overall recovery in rates observed during May, freight rates were lower than a year earlier, except for the VLCC sector and the West Africa/US Gulf route in the Suezmax sector. The drop was more pronounced in the Aframax sector especially on the Mediterranean/North-West Europe route, where the loss averaged as much as 30%.

Table 5: Spot tanker freight rates, Worldscale

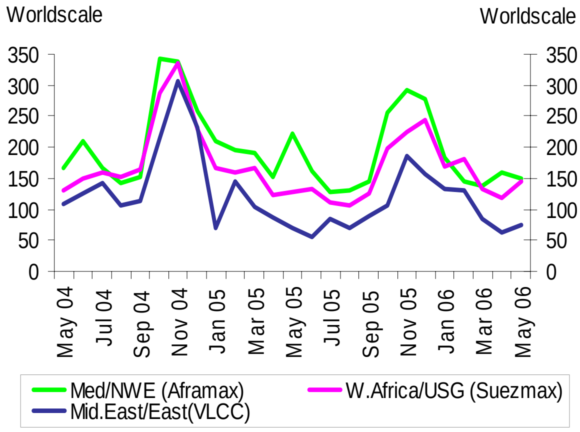
	Size *1,000 DWT*	**Mar 06**	**Apr 06**	**May 06**	**Change May/Apr**
Crude					
Middle East/east	230-280	84	63	75	12
Middle East/west	270-285	74	59	78	19
West Africa/US Gulf Coast	130-135	132	118	144	26
NW Europe/USEC - USGC	130-135	121	112	137	25
Indonesia/US West Coast	80-85	130	129	119	-10
Caribbean/US East Coast	50-55	223	215	225	10
Mediterranean/Mediterranean	80-85	155	148	167	19
Mediterranean/North-West Europe	80-85	138	160	149	-11
Products					
Middle East/east	30-35	217	204	316	112
Singapore/east	30-35	198	225	327	102
Caribbean/US Gulf Coast	38-40	233	209	240	31
NW Europe/USEC - USGC	33-37	263	271	263	-8
Mediterranean/Mediterranean	30-35	211	232	245	13
Mediterranean/North-West Europe	30-35	210	210	250	40

Source: Galbraith's Tanker Market Report and others.

Product spot freight rates increased sharply in the east and remained high in the West

Concerning the clean market, spot freight rates for tankers trading in the east jumped by more than 100 points on the back of limited tonnage availability. This was essentially a result of high Chinese product imports, particularly jet fuel, following growing demand from airline companies. This significant increase made rates even better than a year earlier. In addition, open arbitrage from South Korea to the US East Coast ahead of the driving season put more pressure on the tonnage availability by tying up more vessels. However, rates for 30,000-35,000 dwt tankers moving from the Middle East to the east surged by 112 points or 55% to average WS316, the highest level so far this year apart from January. Rates on this route were also 80 points higher than a year earlier.

Graph 14: Monthly averages of crude oil spot freight rates



Following the same trend, rates between Singapore and Japan rose 45% to hit an average of WS327, which corresponds to y-o-y growth of 41 points. Ship-owners trading cross the Mediterranean continued to enjoy increases for the second consecutive month after seeing rates gaining 13 points to average WS245 due to limited tonnage. On the Mediterranean/North-West Europe route, freight rates recovered from the lull of the previous two months and soared 40 points or 20% to stand at WS250 amid increasing activity, especially with the partial shut-down of the Royal Dutch Shell's Pernis refinery. The Caribbean/US Gulf Coast route gained 31 points or 15% from the previous month to average WS240, reversing the downward trend of the last three months. In contrast and compared to the rest of the routes, rates for 33,000-37,000 dwt tankers doing trans-Atlantic trade edged down by 8 points or 3% to stand at a monthly average of WS263, offsetting the gain of the previous month. These losses were due to thin activity on the back of limited arbitrage of gasoline to the USA. However, except for those to the east, all routes showed losses ranging from 10 to 40 points versus the previous year.

World Oil Demand

Global oil demand in 2005 expected to grow 1 mb/d or 1.2% to average 83.3 mb/d

Estimate for 2005

For the year 2005, global oil demand growth is estimated at 1 mb/d or 1.2% to average 83.3 mb/d, unchanged from the last *MOMR*. Developing Countries dominated the 2005 demand growth, accounting for 75% of incremental world oil demand. In sharp contrast to a GDP growth rate of nearly 10%, China's apparent demand appears to have risen by a disappointing 20,000 b/d. This was followed by the OECD with a meagre 170,000 b/d which made up less than one-sixth of total global oil demand growth.

Table 6: World oil demand forecast for 2005, mb/d

							Change 2005/04	
	2004	1Q05	2Q05	3Q05	4Q05	2005	Volume	%
North America	25.33	25.53	25.30	25.47	25.40	25.42	0.09	0.35
Western Europe	15.62	15.66	15.29	15.68	15.79	15.60	-0.02	-0.11
OECD Pacific	8.53	9.49	8.10	8.12	8.83	8.63	0.10	1.20
Total OECD	**49.48**	**50.68**	**48.69**	**49.27**	**50.01**	**49.66**	**0.17**	**0.35**
Other Asia	8.44	8.67	8.81	8.47	8.63	8.64	0.20	2.41
Latin America	4.91	4.86	5.03	5.14	5.10	5.03	0.13	2.56
Middle East	5.50	5.66	5.75	5.99	5.83	5.81	0.31	5.56
Africa	2.74	2.80	2.84	2.81	2.91	2.84	0.10	3.80
Total DCs	**21.59**	**21.99**	**22.44**	**22.41**	**22.46**	**22.33**	**0.74**	**3.42**
FSU	3.83	3.90	3.74	3.82	3.97	3.86	0.03	0.66
Other Europe	0.86	0.93	0.88	0.87	0.86	0.88	0.03	3.46
China	6.52	6.51	6.58	6.43	6.64	6.54	0.02	0.33
Total "Other Regions"	**11.21**	**11.35**	**11.19**	**11.12**	**11.47**	**11.28**	**0.08**	**0.68**
Total world	**82.28**	**84.02**	**82.32**	**82.79**	**83.95**	**83.27**	**0.99**	**1.20**
Previous estimate	82.26	83.89	82.31	82.82	83.88	83.22	0.96	1.17
Revision	0.01	0.13	0.00	-0.02	0.07	0.04	0.03	0.04

Totals may not add due to independent rounding.

Table 7: First and second quarter world oil demand comparison for 2005, mb/d

			Change 2005/04				Change 2005/04	
	1Q04	1Q05	Volume	%	2Q04	2Q05	Volume	%
North America	25.23	25.53	0.31	1.21	25.03	25.30	0.27	1.09
Western Europe	15.66	15.66	-0.01	-0.04	15.20	15.29	0.09	0.57
OECD Pacific	9.28	9.49	0.20	2.19	7.90	8.10	0.20	2.51
Total OECD	**50.17**	**50.68**	**0.50**	**1.00**	**48.13**	**48.69**	**0.56**	**1.16**
Other Asia	8.28	8.67	0.39	4.70	8.50	8.81	0.31	3.59
Latin America	4.72	4.86	0.14	2.95	4.91	5.03	0.12	2.48
Middle East	5.38	5.66	0.28	5.25	5.47	5.75	0.28	5.18
Africa	2.70	2.80	0.10	3.64	2.72	2.84	0.12	4.37
Total DCs	**21.08**	**21.99**	**0.91**	**4.31**	**21.61**	**22.44**	**0.83**	**3.84**
FSU	3.61	3.90	0.29	8.06	3.75	3.74	-0.01	-0.28
Other Europe	0.91	0.93	0.03	3.14	0.86	0.88	0.02	2.58
China	6.23	6.51	0.28	4.57	6.77	6.58	-0.19	-2.79
Total "Other Regions"	**10.75**	**11.35**	**0.60**	**5.63**	**11.37**	**11.19**	**-0.18**	**-1.56**
Total world	**82.00**	**84.02**	**2.02**	**2.46**	**81.11**	**82.32**	**1.21**	**1.49**

Totals may not add due to independent rounding.

Table 8: Third and fourth quarter world oil demand comparison for 2005, mb/d

			Change 2005/04				Change 2005/04	
	3Q04	3Q05	Volume	%	4Q04	4Q05	Volume	%
North America	25.41	25.47	0.06	0.23	25.67	25.40	-0.28	-1.09
Western Europe	15.60	15.68	0.08	0.53	16.02	15.79	-0.23	-1.42
OECD Pacific	8.16	8.12	-0.04	-0.54	8.77	8.83	0.06	0.64
Total OECD	**49.17**	**49.27**	**0.10**	**0.20**	**50.46**	**50.01**	**-0.45**	**-0.89**
Other Asia	8.32	8.47	0.15	1.75	8.65	8.63	-0.02	-0.25
Latin America	5.03	5.14	0.11	2.21	4.97	5.10	0.13	2.63
Middle East	5.64	5.99	0.35	6.16	5.52	5.83	0.31	5.60
Africa	2.72	2.81	0.09	3.28	2.80	2.91	0.11	3.93
Total DCs	**21.72**	**22.41**	**0.69**	**3.20**	**21.93**	**22.46**	**0.53**	**2.41**
FSU	3.90	3.82	-0.08	-2.10	4.07	3.97	-0.09	-2.29
Other Europe	0.82	0.87	0.06	6.74	0.84	0.86	0.01	1.50
China	6.36	6.43	0.07	1.02	6.71	6.64	-0.07	-1.05
Total "Other Regions"	**11.08**	**11.12**	**0.04**	**0.35**	**11.62**	**11.47**	**-0.15**	**-1.30**
Total world	**81.96**	**82.79**	**0.83**	**1.01**	**84.02**	**83.95**	**-0.07**	**-0.09**

Totals may not add due to independent rounding.

World oil demand in 2006

World oil demand in 2006 forecast to grow by 1.4 mb/d or 1.6% to average 84.6 mb/d

The world economy looks healthy with strong growth across the globe. In terms of oil demand, with the exception of OPEC Member Countries and China, the dampening effect of higher oil prices has been moderately influencing world oil demand growth more than the healthy economy which is supposed to strengthen inventory demand. China and the Middle East are dominating the world oil demand growth in 2006. World oil demand growth in 2006 is forecast at 1.4 mb/d or 1.6% to average 84.6 mb/d, broadly unchanged from the last *MOMR*. The minor downward revisions to global oil demand growth total only 20,000 b/d.

The summer US gasoline season has started, which typically leads to higher demand. However, US oil demand has not picked up as it should be due mainly to high gasoline prices. US oil demand is expected to halt its decline with the relief of stronger gasoline and middle distillate demand and show an increase in the second quarter of 2006. US economic indicators are keeping up the healthy start with a GDP of 3.3%.

High economic growth in the Middle East of 5.1% is influencing oil demand growth in the region positively. In addition, retail price subsidies have shielded end-users from higher oil prices. Oil demand is expected to be strong until year-end.

High economic growth in the Middle East at 5.1% boosting oil demand growth in the region

In Europe, even though economic indicators are strengthening and the weather was colder in the first quarter of this year, oil demand figures are not picking up in the second quarter to reflect the economic growth and that can be attributed to a certain degree to the high oil prices.

China, on the other hand, is showing strong economic growth which has translated into medium-strong demand for energy. All supporting energy drivers such as industrial production, inland cargoes, agriculture, construction and passenger transportation are showing healthy growth. Another important factor that may affect the demand for oil in China for the rest of the year is summer temperatures which could boost demand for electricity. As in the past, any electricity shortage will hike oil demand.

Pressure on the Indian government has resulted in smaller increases in gasoline and diesel prices than what oil companies had wished for. There was no change in the widely-used kerosene. Domestic oil companies have been incurring losses from the regulated energy prices. This new price hike will have a limited effect on oil demand. There are new efforts by the government to save energy, such as supporting the bio-fuel programme via using more ethanol in the transport sector.

Even though the biggest share in world oil demand growth is mainly in the Developing Countries, signs show an easing in oil demand. There is a new wave in Asia to save energy and seek an alternative to costly oil. Any possible slow-down of the OECD economies may affect the economic expansion in China and the Middle East. Finally, according to a recent report by Credit Suisse, global industrial production possibly peaked in May which, if true, may slow world oil demand in the second half of 2006.

Estimate for first half 2006

North America's oil demand growth in the first quarter of 2006 revised down by a minor 40,000 b/d

Latest data from the USA indicates that middle distillate demand in the first quarter of 2006 was 2.6% higher than the previous estimate; however, North America's oil demand growth in the first quarter of 2006 was revised down by a minor 40,000 b/d. In contrast, second-quarter oil demand is keeping up with the 3.3% economic growth showing a y-o-y oil demand growth of 0.2 mb/d in the second quarter. Furthermore, the EIA’s weekly data showed a y-o-y growth of 35% in gasoline imports and 0.5% in gasoline demand in May. Both high prices and the warmer weather smoothed the demand growth early this year. Warm weather negatively affected the demand for natural gas which reduced the pressure on natural gas prices, which encouraged lots of power generation plants to switch to gas from fuel oil. As an indication of the USA reducing energy usage, more cargo tonnage has moved from diesel-burning trucking to railway in the past two months. In Mexico, the fuel switching to natural gas is somehow affecting oil demand in the power generation sector. Unlike the fall in Canadian oil demand in April and May, Mexican oil demand is expected to halt the steep April decline and flatten before the end of the second quarter.

Along with North America, the main contributors to the first-quarter demand growth revision included OECD Europe, Middle East, and China.

OECD Europe

Growth in OECD oil demand will turn positive, reaching 0.23 mb/b in the second quarter of 2006

Cold May weather boosted demand for oil in most of Europe; however, it did not offset the demand decline in other OECD countries. Western Europe’s y-o-y oil demand growth in the first quarter was revised up to show a growth of 0.2 mb/d. Even though the delivery of jet fuel rose by 5% in Germany and the UK, and diesel demand is still strong in most of Europe, this trend is not expected to last until year-end. Second-quarter demand growth was revised down by 20,000 b/d to reflect weak demand in the region.

OECD Pacific

Along with the warm weather which affected oil demand in Asia in the first quarter, heavy maintenance across the petrochemical industry also reduced oil demand. Data released in April regarding Japan shows an increase of almost 15% in oil imports along with a draw on product stocks. However, gasoline demand in Japan was hit by both the unusually rainy weather during the May driving season and expensive gasoline prices. Considering the low domestic demand and taking advantage of higher gasoline prices in the USA, South Korea's gasoline exports surged 40% in comparison to the same time last year. However, South Korea is still showing no sign of oil demand growth so far. OECD Pacific oil demand growth in the second quarter will be flat. Overall, with the influence of North America, growth in OECD oil demand will shift from a negative to a positive y-o-y growth of 0.2 mb/d in the second quarter of 2006.

Developing Countries

Oil demand growth in Developing Countries expected to be lower in 2Q06 compared to 1Q06

Due to high economic growth in the Middle East, oil consumption for the first quarter was revised up by 70,000 b/d or 1.3%. Middle Eastern y-o-y oil demand in the first quarter rose an estimated 0.4 mb/d to average 6 mb/d.

Oil demand in some parts of Asia is still showing the effects of the removal of subsidies. In the first four months, demand for gasoline, diesel and mostly kerosene contracted by 3% in Indonesia in comparison to same time last year. Other Asia’s second-quarter oil demand grew by a meagre 60,000 b/d y-o-y. With the exception of jet fuel in Thailand, the high oil price has caused demand for oil to decline, dropping more than 5% in April compared to the same month last year. In Taiwan, the April price increase did not affect fuel demand. Demand for middle distillates increased by a remarkable 10% in April in comparison to the same month last year; the need for petrochemical feedstock was the main reason for the demand hike.

The high economic boom in India has positively affected oil demand so far. In the last four months, oil demand grew by 1.4% y-o-y.

China's first-quarter apparent demand higher than expected

Other Regions

China's first-quarter apparent demand was higher than expected, with first-quarter growth revised up by 80,000 b/d. As a result, oil demand rose 0.6 mb/d in the first quarter to stand at 7.1 mb/d y-o-y. China's oil imports jumped in May by 19% from the same month last year. China's apparent y-o-y demand for the first four months of 2006 increased by 7.2%. With higher manufacturing utilization, April data showed a major y-o-y increase in oil demand by more than 10%. Moreover, car sales in the same month rose by 40% over the last quarter. January-April petroleum product imports reached a record-high growing by more than 15% y-o-y. The east China region was dominant in terms of oil imports in April. Under the pressure of high domestic demand and the government mandate, China's gasoline exports were reduced by more than 35% so far this year and are expected to decline further in the upcoming months. Fuel oil, however, continued to flow out of the country. Due to higher prices, some power stations are replacing fuel oil with coal or gas.

The 17% increase in diesel demand in the first quarter in FSU does not represent an actual increase in consumption, it was rather the result of traders and refiners piling up in anticipation of a seasonal price increase. The high crude prices encouraged oil producers to export more oil, which in return has negatively affected the FSU's oil demand despite the export tax hike announced last May. Second-quarter demand growth is expected to improve but remain at minus 50,000 b/d y-o-y.

Table 9: World oil demand forecast for 2006, mb/d

							Change 2006/05	
	2005	1Q06	2Q06	3Q06	4Q06	2006	Volume	%
North America	25.42	25.11	25.50	25.81	25.89	25.58	0.16	0.62
Western Europe	15.60	15.89	15.29	15.70	15.87	15.69	0.08	0.52
OECD Pacific	8.63	9.34	8.13	8.16	9.07	8.67	0.04	0.48
Total OECD	**49.66**	**50.33**	**48.92**	**49.67**	**50.83**	**49.94**	**0.28**	**0.56**
Other Asia	8.64	8.73	8.87	8.62	8.84	8.76	0.12	1.38
Latin America	5.03	4.94	5.17	5.26	5.19	5.14	0.11	2.12
Middle East	5.81	6.04	6.02	6.28	6.09	6.11	0.30	5.16
Africa	2.84	2.86	2.91	2.89	2.96	2.90	0.06	2.24
Total DCs	**22.33**	**22.57**	**22.97**	**23.04**	**23.07**	**22.92**	**0.59**	**2.64**
FSU	3.86	3.77	3.68	3.88	4.09	3.86	0.00	0.00
Other Europe	0.88	0.97	0.93	0.87	0.87	0.91	0.02	2.79
China	6.54	7.09	7.00	6.84	7.10	7.01	0.47	7.15
Total "Other Regions"	**11.28**	**11.84**	**11.61**	**11.60**	**12.06**	**11.78**	**0.49**	**4.36**
Total world	**83.27**	**84.74**	**83.50**	**84.31**	**85.96**	**84.63**	**1.36**	**1.63**
Previous estimate	83.22	84.61	83.55	84.32	85.90	84.60	1.38	1.65
Revision	0.04	0.13	-0.06	-0.01	0.06	0.03	-0.02	-0.02

Totals may not add due to independent rounding.

Forecast for 2006 demand

OECD

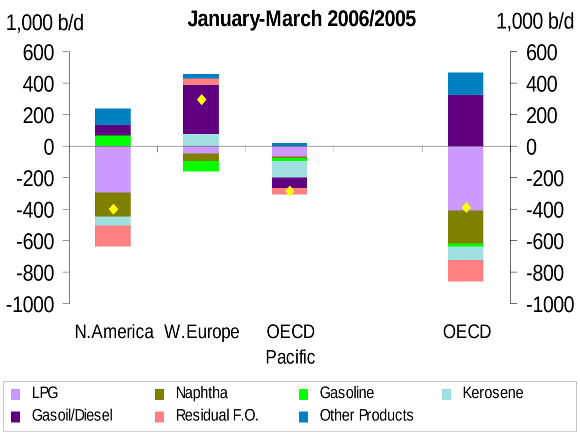
North American oil demand expected to grow 0.16 mb/d or 0.6% to average 25.6 mb/d

Two opposite factors are affecting oil demand in the USA: high oil prices and high economic growth. Although higher prices are dampening demand for oil products, strong growth in the economy is pushing for extra oil. As a result, demand growth for oil in the rest of this year will be moderately strong. Furthermore, the US transition to ultra low sulphur diesel should affect the diesel supply and production costs. Demand for distillates is expected to dominate oil demand growth in the USA this year. Oil demand in North America will be healthier in the second half of this year. With the effect of the price elasticity, North American oil demand is expected to grow 160,000 b/d or 0.6% to average 25.6 mb/d.

OECD oil demand growth for 2006 revised down slightly to average 0.3 mb/d

As was reported in the last *MOMR*, oil demand for the OECD countries is slowing. In total, OECD oil demand growth for the year 2006 was revised down a slight 30,000 b/d to average 0.3 mb/d, leading to a total oil consumption of 49.9 mb/d. There is no major change in Western Europe's oil demand. Demand for diesel is growing because of the common switch among European drivers to diesel engine vehicles; however, the demand for gasoline and naphtha is weakening.

Graph 15: OECD - Growth of total requirements by component



OECD Pacific

Fear of a shortage of oil supply is affecting Japan's energy planners. Japan is planning to increase its strategic stocks in the second half of 2006 or early 2007. Japan's active young population, which is the major user of transport fuel, is shrinking and therefore affecting demand. Oil demand growth in Japan will be flat for the rest of 2006.

Developing Countries

Oil demand growth in the Middle East for the third quarter was revised up a slight 40,000 b/d

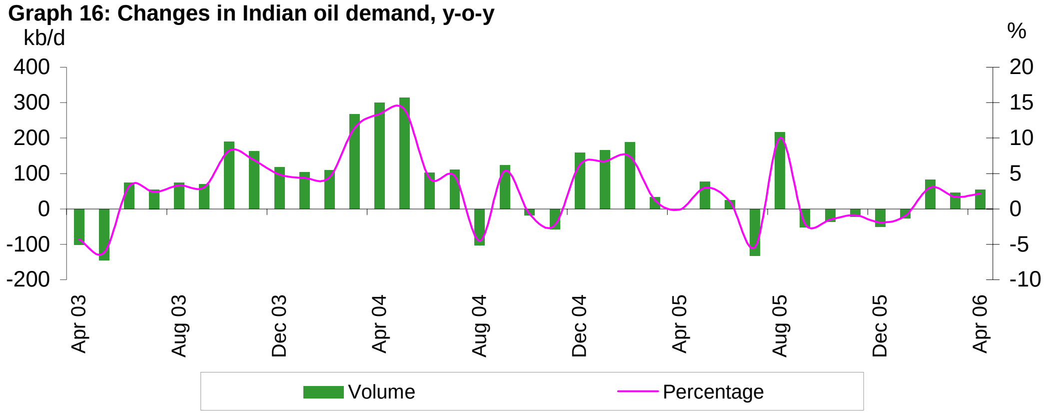
Developing Countries account for 43% of the world oil demand growth in 2006. Strong economic activities in the Middle East pushed demand up further; therefore, oil demand growth in the Middle East for the third quarter was revised up by 40,000 b/d. Oil demand strength in the first half of the year is expected to continue until year-end. Oil demand growth expected for the Middle East in 2006 was revised up by 30,000 b/d to 0.3 mb/d to total 6.1 mb/d. Indian oil demand is expected to grow at a modest rate in the second half of 2006 with a minor influence of the newly imposed gasoline price hike.

Other Regions

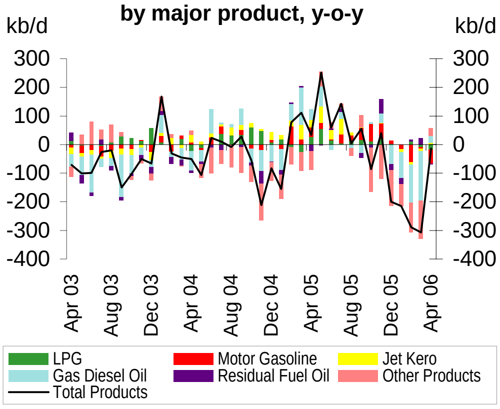
Chinese oil demand expected to increase by 0.5 mb/d to average just over 7 mb/d in 2006

China for the second time raised its gasoline, gasoil, and jet fuel prices. Unlike the first price hike of 3-5%, this time the increase exceeded 10%. This price increase came as a result of high world oil prices. This recent increase will help refiners to provide more petroleum products for the summer peak; however, the expected negative impact on oil demand will not be seen in the short-term. Strong economic growth hiked incremental oil demand in the first half. As a result, Chinese oil demand is expected to increase by 0.5 mb/d to average just over 7 mb/d in 2006. An unusually hot summer and potential power shortages will positively affect oil demand. A boom in the manufacturing industry along with low inflation will increase oil demand this year. Vigilance is needed, as any further price hike or newly imposed taxes in China will dent demand growth. The sharp rise in car sales and the expected filling of the new Chinese strategic petroleum reserves would boost oil demand in 2006. Warmer weather and the upcoming agricultural season are likely to place pressure on oil demand this summer.

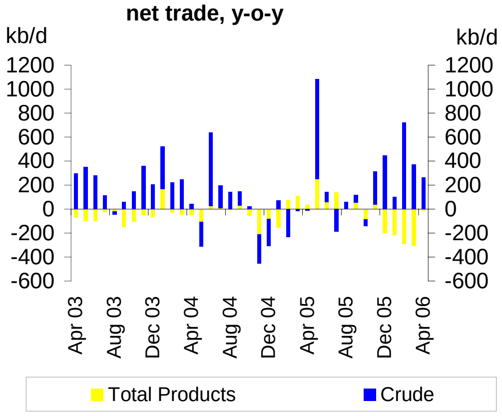
Graph 16: Changes in Indian oil demand, y-o-y



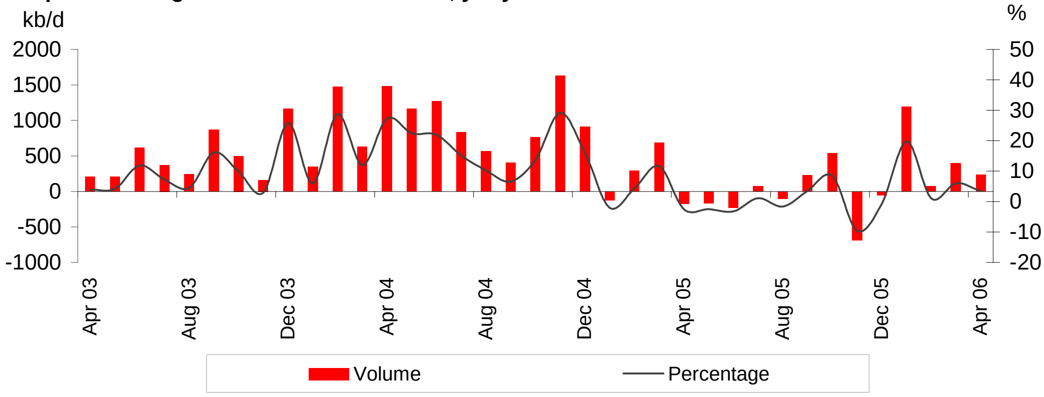
Graph 17: Changes in Indian oil net imports by major product, y-o-y



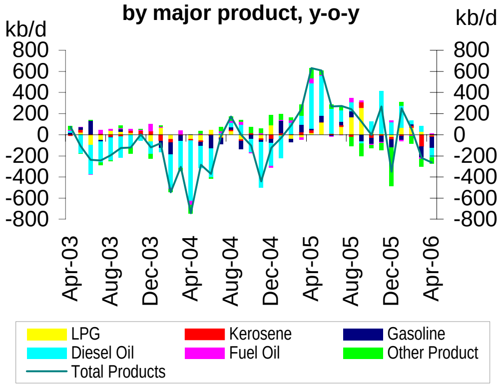
Graph 18: Changes in Indian oil and product net trade, y-o-y



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



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



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

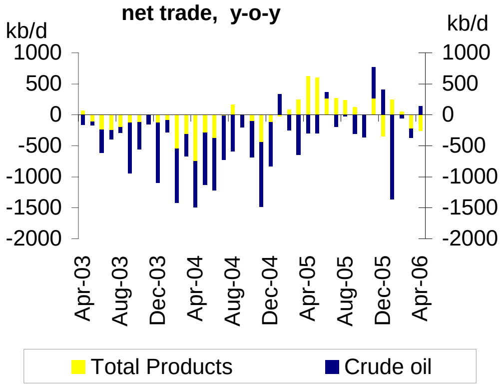


Table 10: First and second quarter world oil demand comparison for 2006, mb/d

			Change 2006/05				Change 2006/05	
	1Q05	**1Q06**	Volume	**%**	**2Q05**	**2Q06**	Volume	**%**
North America	25.53	25.11	-0.43	-1.66	25.30	25.50	0.20	0.78
Western Europe	15.66	15.89	0.23	1.48	15.29	15.29	0.00	0.01
OECD Pacific	9.49	9.34	-0.15	-1.59	8.10	8.13	0.03	0.37
Total OECD	**50.68**	**50.33**	**-0.34**	**-0.68**	**48.69**	**48.92**	**0.23**	**0.47**
Other Asia	8.67	8.73	0.06	0.65	8.81	8.87	0.06	0.66
Latin America	4.86	4.94	0.08	1.58	5.03	5.17	0.14	2.75
Middle East	5.66	6.04	0.39	6.81	5.75	6.02	0.27	4.67
Africa	2.80	2.86	0.06	2.23	2.84	2.91	0.07	2.41
Total DCs	**21.99**	**22.57**	**0.58**	**2.64**	**22.44**	**22.97**	**0.53**	**2.38**
FSU	3.90	3.77	-0.13	-3.36	3.74	3.68	-0.05	-1.40
Other Europe	0.93	0.97	0.04	3.96	0.88	0.93	0.05	5.63
China	6.51	7.09	0.58	8.91	6.58	7.00	0.42	6.37
Total "Other Regions"	**11.35**	**11.84**	**0.49**	**4.28**	**11.19**	**11.61**	**0.42**	**3.72**
Total world	**84.02**	**84.74**	**0.72**	**0.86**	**82.32**	**83.50**	**1.18**	**1.43**

Totals may not add due to independent rounding.

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

			Change 2006/05				Change 2006/05	
	3Q05	**3Q06**	Volume	**%**	**4Q05**	**4Q06**	Volume	**%**
North America	25.47	25.81	0.34	1.35	25.40	25.89	0.50	1.97
Western Europe	15.68	15.70	0.02	0.11	15.79	15.87	0.08	0.49
OECD Pacific	8.12	8.16	0.04	0.55	8.83	9.07	0.24	2.71
Total OECD	**49.27**	**49.67**	**0.41**	**0.82**	**50.01**	**50.83**	**0.82**	**1.63**
Other Asia	8.47	8.62	0.15	1.82	8.63	8.84	0.21	2.40
Latin America	5.14	5.26	0.12	2.26	5.10	5.19	0.09	1.84
Middle East	5.99	6.28	0.29	4.78	5.83	6.09	0.26	4.45
Africa	2.81	2.89	0.07	2.58	2.91	2.96	0.05	1.74
Total DCs	**22.41**	**23.04**	**0.63**	**2.81**	**22.46**	**23.07**	**0.61**	**2.72**
FSU	3.82	3.88	0.06	1.70	3.97	4.09	0.12	2.91
Other Europe	0.87	0.87	0.00	0.00	0.86	0.87	0.01	1.50
China	6.43	6.84	0.42	6.46	6.64	7.10	0.46	6.89
Total "Other Regions"	**11.12**	**11.60**	**0.48**	**4.32**	**11.47**	**12.06**	**0.59**	**5.11**
Total world	**82.79**	**84.31**	**1.52**	**1.83**	**83.95**	**85.96**	**2.01**	**2.40**

Totals may not add due to independent rounding.

World Oil Supply

Non-OPEC supply estimated to have grown by 0.2 mb/d to 50.1 mb/d in 2005

Non-OPEC

Estimate for 2005

The estimate for 2005 remains unchanged. Non-OPEC supply averaged 50.1 mb/d, representing an increase of 0.2 mb/d over 2004. On a quarterly basis, the average was 50.4 mb/d, 50.6 mb/d, 49.7 mb/d, and 50 mb/d, respectively. The estimate is based on actual data, but includes marginal revisions to the historical estimate of Canada, UK and Ecuador. Importantly, in Ecuador, the most recent official data indicates that production was, on average, 25,000 b/d lower than previously estimated.

Table 12: Non-OPEC oil supply in 2005, mb/d

	2004	1Q05	2Q05	3Q05	4Q05	2005	Change 05/04
North America	14.56	14.42	14.55	13.68	13.63	14.07	-0.49
Western Europe	6.15	6.00	5.76	5.49	5.57	5.70	-0.45
OECD Pacific	0.57	0.54	0.62	0.59	0.56	0.58	0.01
Total OECD	**21.28**	**20.96**	**20.93**	**19.77**	**19.76**	**20.35**	**-0.93**
Other Asia	2.61	2.72	2.70	2.66	2.69	2.69	0.08
Latin America	4.06	4.15	4.35	4.33	4.32	4.29	0.23
Middle East	1.91	1.86	1.85	1.84	1.82	1.84	-0.07
Africa	3.42	3.60	3.65	3.78	3.94	3.74	0.32
Total DCs	**11.99**	**12.33**	**12.55**	**12.60**	**12.77**	**12.56**	**0.57**
FSU	11.15	11.39	11.47	11.62	11.86	11.59	0.43
Other Europe	0.16	0.16	0.16	0.16	0.16	0.16	0.00
China	3.49	3.63	3.61	3.64	3.59	3.62	0.13
Total "Other regions"	**14.79**	**15.18**	**15.24**	**15.42**	**15.61**	**15.36**	**0.57**
Total Non-OPEC production	**48.06**	**48.47**	**48.72**	**47.78**	**48.14**	**48.27**	**0.21**
Processing gains	1.83	1.88	1.85	1.84	1.88	1.86	0.03
Total Non-OPEC supply	**49.89**	**50.35**	**50.57**	**49.62**	**50.02**	**50.14**	**0.24**
Previous estimate	49.91	50.36	50.58	49.68	49.95	50.14	0.24
Revision	**-0.01**	**-0.01**	**-0.01**	**-0.06**	**0.06**	**-0.01**	**0.01**

Non-OPEC supply to grow 1.2 mb/d in 2006 to average 51.4 mb/d

Forecast for 2006

In 2006, non-OPEC oil supply is expected to average 51.4 mb/d, representing an increase of 1.2 mb/d over 2005, but a downward revision of 84,000 b/d versus the last assessment. The adjustment reflects lower than expected production growth from Canada, Australia, Angola, and Mauritania due to unexpected technical issues affecting the start-up or production of some key projects. However, these adjustments have been partly offset by upward revisions in other countries, particularly Argentina, Russia, and Kazakhstan. On a quarterly basis, non-OPEC supply is expected to average 50.6 mb/d, 50.8 mb/d, 51.4 mb/d, and 52.7 mb/d in the first, second, third and fourth quarters, representing downward revisions of 10,000 b/d, 38,000 b/d, 101,000 b/d, and 186,000 b/d, respectively. Growth is expected to accelerate rapidly from June onwards, consistent with previous estimates.

Preliminary data for April 2006 puts total non-OPEC supply at 50.5 mb/d, or 200,000 b/d lower than in March. As anticipated, April non-OPEC supply was affected primarily by maintenance in USA, Norway and Angola, mechanical problems in Australia and Canada, and technical faults in some fields in West Africa. As a result some 0.7 mb/d were affected during the month – a much higher level than expected – but most will return by June. Looking at May, preliminary estimates indicate that non-OPEC supply exceeded 51 mb/d, which is a record for the group.

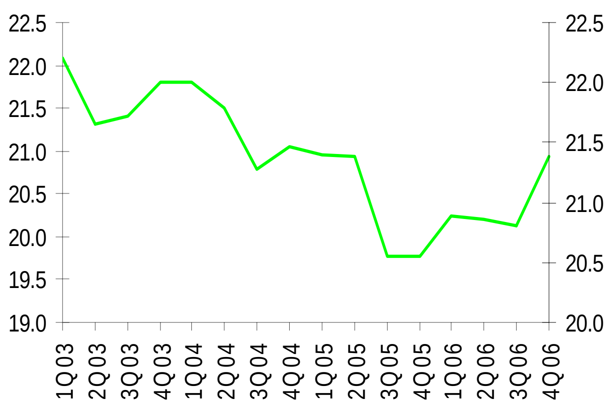
Table 13: Non-OPEC oil supply in 2006, mb/d

	2005	1Q06	2Q06	3Q06	4Q06	2006	Change 06/05
North America	14.07	14.14	14.35	14.38	14.79	14.42	0.35
Western Europe	5.70	5.62	5.36	5.20	5.53	5.42	-0.28
OECD Pacific	0.58	0.48	0.50	0.55	0.62	0.54	-0.04
Total OECD	**20.35**	**20.24**	**20.21**	**20.13**	**20.94**	**20.38**	**0.03**
Other Asia	2.69	2.71	2.72	2.79	2.78	2.75	0.06
Latin America	4.29	4.35	4.50	4.63	4.66	4.54	0.25
Middle East	1.84	1.79	1.80	1.79	1.79	1.79	-0.05
Africa	3.74	3.97	3.85	4.15	4.48	4.11	0.37
Total DCs	**12.56**	**12.82**	**12.87**	**13.37**	**13.71**	**13.19**	**0.63**
FSU	11.59	11.75	12.03	12.18	12.27	12.06	0.47
Other Europe	0.16	0.16	0.17	0.17	0.17	0.17	0.01
China	3.62	3.68	3.66	3.69	3.67	3.67	0.06
Total "Other regions"	**15.36**	**15.59**	**15.85**	**16.04**	**16.11**	**15.90**	**0.54**
Total Non-OPEC production	**48.27**	**48.65**	**48.94**	**49.54**	**50.76**	**49.48**	**1.20**
Processing gains	1.86	1.92	1.91	1.91	1.95	1.92	0.06
Total Non-OPEC supply	**50.14**	**50.57**	**50.84**	**51.44**	**52.71**	**51.40**	**1.26**
Previous estimate	50.14	50.58	50.88	51.54	52.89	51.48	1.34
Revision	**-0.01**	**-0.01**	**-0.04**	**-0.10**	**-0.19**	**-0.08**	**-0.08**

OECD

OECD oil supply is expected to average 20.4 mb/d, representing an increase of 30,000 b/d versus the previous year but 72,000 b/d lower compared to last month's report. The outlook for Canada, Australia, and Norway has been revised down. Project delays, namely Thunder Horse and Atlantis, in the US Gulf of Mexico (GoM) have not affected the country outlook as their contribution was expected to be small, and the performance of mature and new fields has exceeded expectations.

Graph 22: OECD's quarterly production



USA

US oil supply is expected to average 7.4 mb/d in 2006, an increase of 130,000 b/d versus 2005. On a quarterly basis, US oil supply is expected to average 7.2 mb/d, 7.4 mb/d, 7.5 mb/d, and 7.6 mb/d in the first, second, third and fourth quarters, respectively. The estimates for the first and fourth quarters have been revised slightly down, whilst the second and third quarters have been revised marginally up.

Project delays unlikely to affect US performance in the second half

US production averaged 7.5 mb/d in May, just below pre-Katrina/Rita levels in 2005. Better than expected performance in the lower 48, new field start-ups in the GoM and recovery of hurricane-damaged facilities continue to increase US oil supply. The latest estimate puts total US GoM crude losses at around 200,000 b/d, but this is expected to improve further in the weeks ahead. Last month saw the start-up of Mars (140,000 b/d) and other fields. However, despite these positives, recent news indicate that the Thunder Horse field is now likely to start later than 3Q06, and at a reduced rate. Technical faults with sub-sea equipment and its subsequent repair under tight market conditions will delay its start up to 4Q06 and full ramp up into 2007. Additionally, the start-up date of the Atlantis field is now subject to considerable uncertainty due to the late arrival of vessels needed to undertake and complete essential work, delaying a possible start-up in 2Q07. However, their contribution was always assumed to be small in the total US full-year average for 2006.

Mexico and Canada

Mexican oil supply is expected to average 3.8 mb/d in 2006, broadly flat from last year and unchanged from last month. The last data available indicates that total oil supply averaged 3.79 mb/d in March, up from 3.76 mb/d in February, in line with expectations. Mexican exports were relatively high in the first quarter, reaching 2 mb/d, versus a normal level of around 1.8 mb/d.

Canadian oil supply is expected to average 3.2 mb/d in 2006, representing an increase of 220,000 b/d versus 2005, and a downward revision of 22,000 b/d. Last month the forecast was also revised down based on near-term production trends and lower than expected performance of the Terra Nova field. This month, delays in the return of the Athabasca oil sands project from maintenance and the longer than expected shutdown of the new Syncrude upgrader have resulted in a slight downward adjustment to the outlook. Canadian oil supply averaged 3.17 mb/d in April, but it is expected to rebound to 3.4 mb/d in 4Q06.

Western Europe

Deep maintenance in the North Sea expected again in June/August

The outlook for Norway remains broadly unchanged. Norwegian oil supply is expected to average around 2.8 mb/d in 2006, a drop of 130,000 b/d versus last year. April maintenance reduced Norwegian supply by 300,000 b/d to 2.6 mb/d, but this has recovered to 2.8 mb/d in May. More maintenance is expected in June (250,000 b/d) and a similar amount in August. UK oil supply is expected to average 1.8 mb/d, which represents a drop of 130,000 b/d versus 2005. Preliminary April data indicates that oil supply averaged 1.78 mb/d. Light maintenance is expected during May, followed by deeper maintenance in June and August.

Elsewhere in Western Europe, the base and outlook of other producers such as Italy and Germany has been revised up following recent data. Other Western Europe is expected to produce 0.48 mb/d, slightly higher than the last estimate of 0.45 mb/d. Italy is currently producing 130,000 b/d and Germany around 110,000 b/d.

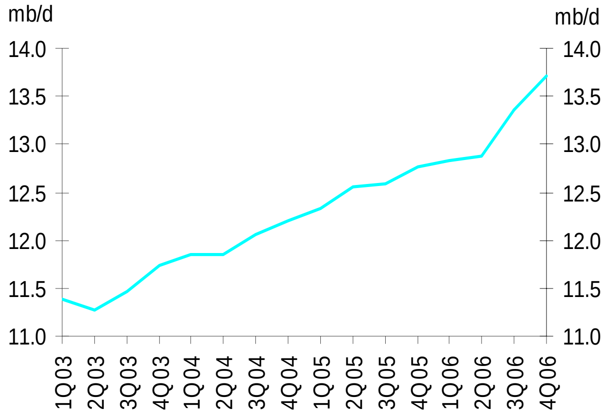
Asia Pacific

Oil supply in the Asia Pacific region is expected to average 540,000 b/d in 2006, representing a downward revision of 38,000 b/d versus last month. Australian oil supply is expected to average 480,000 b/d in 2006, a drop of 50,000 b/d versus 2005. A series of accidents and mechanical problems in several fields in the Carnavon basin will continue to impact Australian oil supply in the near term; the latest data available suggests that this basin is producing around 50,000 b/d below its potential. Additionally, the Enfield project (100,000 b/d), which was expected to make an early start in 3Q06 has been delayed to 4Q06 due to a technical fault. On a quarterly basis, Australian oil supply is expected to average 0.43 mb/d, 0.45 mb/d, 0.48 mb/d, and 0.55 mb/d, in the first, second, third and fourth quarters, respectively. Australian April production averaged 0.44 mb/d.

Developing Countries

Oil supply in the Developing Countries (DCs) is expected to average 13.2 mb/d, an increase of 0.6 mb/d over 2005, but 46,000 b/d lower versus last month's report. The revision reflects negative adjustments in Ecuador, Angola, and Mauritania, partially offset by a positive adjustment in the outlook for Argentina. On a quarterly basis, total oil supply for the DCs is expected to average 12.8 mb/d, 12.9 mb/d, 13.4 mb/d, and 13.7 mb/d in the first, second, third and fourth quarters, respectively.

Graph 23: Developing Countries' quarterly production



Recent official data for Ecuador indicates that historical production was slightly lower than previously estimated for the years prior to 2005. After incorporating the latest data and recent developments, the outlook for 2006 has been revised down slightly. Ongoing issues with one of the major producing fields, as well as pipeline sabotage, are likely to affect total oil supply in 2006 more than previously estimated. In 2006, Ecuador's oil production is expected to average 0.5 mb/d, unchanged from last year but 27,000 b/d lower versus last month's estimate. However, this revision has been offset by a positive adjustment to the outlook of Argentina, whose production has been performing better than expected for the last few months, as small producers continue to maximize oil production in the current price environment. Argentinean oil production is expected to average 0.76 mb/d, or 30,000 b/d higher versus last month's assessment.

The Dalia project in Angola to be delayed until end of October/early November

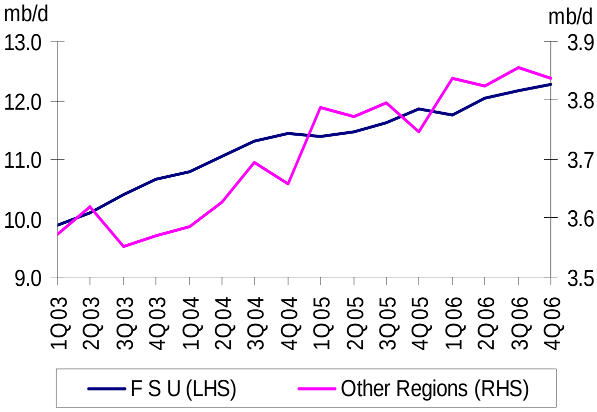
Angolan oil supply is expected to average 1.4 mb/d, representing an increase of 190,000 b/d versus 2005, but a downward revision of 45,000 b/d versus last month. The outlook has been revised down for the third consecutive month because of a delay in the start up of the Dalia field from early September to late October following some technical difficulties in the final stages before commissioning. The field is likely to ramp up during the course of 4Q06 reaching its maximum level by year-end. After a weaker than expected 1Q06 and 2Q06, overall production should edge upwards in 3Q06 and 4Q06 to reach 1.63 mb/d in 4Q06.

Mauritania's outlook has also been revised down following recent information that its only field (Chinguetti) has suffered technical set backs. Chinguetti started producing in 1Q06 and was expected to reach 70,000 b/d sometime in 2Q06. However, some of the wells have not performed as expected, resulting in much lower production. May output averaged around 41,000 b/d, and this is likely to remain until 2007 when new wells will be drilled. As a result, the full year forecast for Mauritania has been reduced significantly, but given the nature of the technical problem, it is possible that further downgrades will come in the months ahead.

FSU, Other Regions

FSU oil supply is expected to average 12 mb/d, an increase of 0.4 mb/d versus 2005, broadly unchanged from last month. The forecast for Other Regions (China and Other Europe) also remains unchanged with total oil supply expected at 3.8 mb/d in 2005 representing an increase of 70,000 b/d from 2005. The outlook for Russia and Kazhakastan has been revised slightly up, based purely on actual data. On a quarterly basis, total FSU oil supply is expected to average 11.8 mb/d, 12 mb/d, 12.2 mb/d, and 12.3 mb/d in the first, second, third and fourth quarters, respectively.

Graph 24: FSU and other region's quarterly production

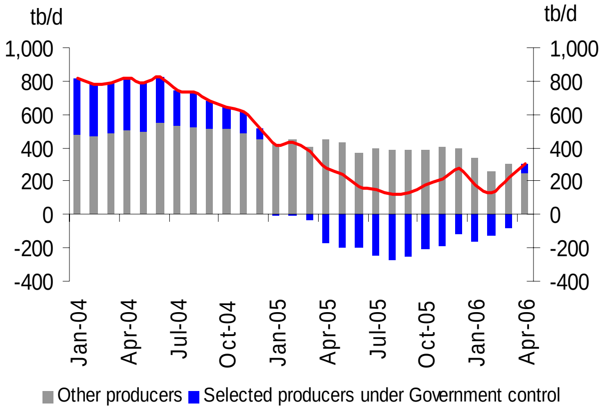


Russia

Russian production from state-owned producers rises for the fist time in 13 months

Russian oil supply is expected to average 9.6 mb/d in 2006, an increase of 200,000 b/d versus 2005, or 10,000 b/d higher than last month. On a quarterly basis, oil production is expected to average 9.5 mb/d, 9.6 mb/d, 9.7 mb/d, and 9.7 mb/d, respectively. Russian oil production has risen in the last three months to reach 9.6 mb/d in May. Arguably, production is performing better than anticipated six months ago, and as such the forecast has been progressively adjusted.

Graph 25: Russian year-on-year oil production growth



Caspian, China

The outlook for Azeri oil production remains unchanged. Oil production is expected to average 0.6 mb/d in 2006, an increase of 200,000 b/d versus 2005. The latest estimate indicates that oil supply in April and May averaged just above 0.6 mb/d, but this is expected to ramp up by another 90,000 b/d by year-end now that the BTC pipeline is delivering oil to Ceyhan and the entire infrastructure is ready.

Kazak oil production is expected to average 1.3 mb/d in 2006, an increase of 70,000 b/d over last year, or 20,000 b/d higher from last month's assessment. For the last three months, Kazak oil production has exceeded expectations, and as a result, the outlook has been revised slightly upwards. April production averaged 1.33 mb/d, but this may drop slightly in May due to technical failure in one the large fields, before rebounding again.

The estimate for China remains unchanged. Total oil supply is expected to average 3.7 mb/d, representing an increase of 60,000 b/d over last year. April data shows average production of 3.7 mb/d, however, the next few months should be softer due to a lack of new field start ups and temporary losses resulting from damaged infrastructure of offshore fields, but will pick up later on in the year. It has been reported that the Liuhua field, with a production of 22,000 b/d, was severely damaged, but other fields also remain temporarily shut.

OPEC natural gas liquids and non-conventional oils

The estimate for 2005 remains unchanged at 4.2 mb/d, representing an increase of 170,000 b/d versus 2004. The outlook for 2006 puts total OPEC NGLs and non-conventional oils at 4.5 mb/d, representing an increase of 320,000 b/d over the previous year.

Table 14: OPEC NGL + non-conventional oils - 2002-2006

2002	2003	2004	Change 04/03	1Q05	2Q05	3Q05	4Q05	2005	Change 05/04	2006	Change 06/05
3.60	**3.71**	**4.02**	**0.31**	4.11	4.15	4.21	4.26	**4.18**	0.17	**4.50**	0.32

OPEC crude oil production

OPEC crude output averaged 29.5 mb/d

Total crude oil production averaged 29.5 mb/d in May, representing a drop of 105,000 b/d from the previous month, according to secondary sources. Iraq's oil production was 1.9 mb/d.

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

	2004	2005	2Q05	4Q05	1Q06	Mar 06	Apr 06	May 06	*May/Apr*
Algeria	1,228	1,349	1,344	1,374	1,376	1,378	1,378	1,378	*-0.3*
Indonesia	968	942	945	935	921	920	921	916	*-4.8*
IR Iran	3,920	3,924	3,946	3,911	3,849	3,863	3,812	3,798	*-13.7*
Iraq	2,015	1,830	1,841	1,675	1,711	1,806	1,960	1,924	*-35.1*
Kuwait	2,344	2,504	2,505	2,548	2,534	2,526	2,523	2,496	*-27.4*
SP Libyan AJ	1,537	1,642	1,634	1,665	1,678	1,685	1,695	1,694	*-1.0*
Nigeria	2,352	2,413	2,423	2,470	2,256	2,089	2,172	2,229	*56.8*
Qatar	777	795	794	806	812	817	823	823	*0.0*
Saudi Arabia	8,957	9,390	9,435	9,426	9,426	9,423	9,194	9,161	*-33.3*
UAE	2,360	2,447	2,398	2,518	2,530	2,553	2,516	2,479	*-36.8*
Venezuela	2,582	2,636	2,640	2,592	2,591	2,572	2,591	2,582	*-9.5*
OPEC-10	**27,024**	**28,042**	**28,063**	**28,244**	**27,972**	**27,825**	**27,625**	**27,555**	***-70.0***
Total OPEC	**29,040**	**29,871**	**29,904**	**29,920**	**29,683**	**29,631**	**29,584**	**29,479**	***-105.1***

Totals may not add due to independent rounding.

Product exports increased sharply in April, ahead of rising product export tariffs

FSU net oil exports (crude and products)

In 2005, FSU net oil exports averaged 7.7 mb/d, or 0.4 mb/d higher than the previous year. The forecast for 2006 shows FSU net oil exports averaging 8.2 mb/d, which represents an increase of 0.48 mb/d over 2005. April crude exports were 5.5 mb/d, driven by an increase in exports from the Baltic region, CPC pipeline and Mediterranean port of Batumi in Georgia. Rail exports continued to perform poorly. Total product exports increased sharply month-on-month to reach 2.8 mb/d versus 2.4 mb/d in March. Combined crude and product FSU net exports totaled 8.3 mb/d in April. Looking to the months of May/June, it is likely that net oil exports will rise ahead of an increase in crude and product export duties as producers maximize margins. Rail exports, however, may also increase but this rebound is not likely to be sustainable in the second half of the year.

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

	1Q	2Q	3Q	4Q	Year	Growth (y-o-y)
2002	5.14	5.84	5.85	5.49	**5.58**	**0.99**
2003	5.87	6.75	6.72	6.61	**6.49**	**0.91**
2004	7.17	7.30	7.38	7.37	**7.31**	**0.82**
2005	**7.49**	**7.73**	**7.81**	**7.89**	**7.73**	**0.42**
2006 (forecast)	**7.98**	**8.35**	**8.30**	**8.18**	**8.20**	**0.47**

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

	2004	2005	3Q05	4Q05	1Q06	Mar 06	Apr 06
Crude							
Russian pipeline							
Black Sea	1,283	1,335	1,335	1,284	1,326	1,349	1,192
Baltic	1,396	1,462	1,456	1,486	1,470	1,529	1,620
Druzhba	1,256	1,315	1,320	1,397	1,365	1,361	1,309
Total	**3,935**	**4,112**	**4,111**	**4,167**	**4,161**	**4,239**	**4,121**
Other routes							
Russian rail	706	416	333	268	310	290	292
Russian - Far East	32	65	103	71	29	45	30
Kazak rail	24	17	13	19	46	49	30
CPC pipeline	490	648	629	669	595	597	675
Caspian	252	295	305	363	353	360	378
of which							
Supsa (AIOC) - Georgia	130	137	140	143	137	121	170
Batumi - Georgia	99	140	147	203	198	221	190
Total	**1,504**	**1,441**	**1,382**	**1,390**	**1,334**	**1,341**	**1,406**
Total crude exports	**5,439**	**5,553**	**5,493**	**5,557**	**5,495**	**5,580**	**5,527**
Products							
All routes							
Fuel oil	753	836	913	931	896	961	1,130
Gasoil	702	759	762	765	893	822	868
Others	413	575	638	633	693	613	836
Total	**1,868**	**2,170**	**2,312**	**2,330**	**2,483**	**2,396**	**2,834**
Total oil exports	**7,307**	**7,723**	**7,805**	**7,887**	**7,978**	**7,976**	**8,361**

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

Rig Count

Non-OPEC

Non OPEC rig count stood at 2,538 rigs in May

Non-OPEC rig count stood at 2,538 rigs in May, which represents an increase of 100 rigs compared to the previous month. Of the total, 310 rigs were operating offshore and 2,228 onshore. In terms of oil and gas split, 805 rigs were drilling for oil, while the remainder were drilling for gas. Regionally, there were increases in North America, Western Europe, Other Asia, Latin America and Africa.

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

	2004	2005	05/04	Apr 06	May 06	Change May/Apr
North America	1,669	1,975	306	1,880	1,964	84
Western Europe	65	65	0	76	82	6
OECD Pacific	22	25	3	27	27	0
OECD	**1,755**	**2,065**	**310**	**1,983**	**2,073**	**90**
Other Asia	126	142	16	150	153	3
Latin America	126	141	15	160	162	2
Middle East	70	72	2	80	78	-2
Africa	54	58	4	63	70	7
DCs	**376**	**412**	**36**	**453**	**463**	**10**
FSU	na	na	na	na	na	na
Other Europe	2	3	1	2	2	0
China	na	na	na	na	na	na
Other regions	na	na	na	na	na	na
Total non-OPEC	**2,132**	**2,479**	**347**	**2,438**	**2,538**	**100**

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

OPEC

OPEC rig count stood at 310 rigs in May

OPEC rig count stood at 310 rigs in May, representing an increase of 2 rigs over the previous month. Gains took place in Iran (7), Nigeria (1), and Saudi Arabia (2). Of the total, 61 rigs were operating offshore and 249 onshore. In terms of oil and gas split, there were 250 oil rigs operating and the rest was gas rigs.

Table 18: OPEC rig count in 2004-2005

	2004	2005	05/04	Apr 06	May 06	Change May/Apr
Algeria	19	21	2	24	20	-4
Indonesia	49	54	5	45	42	-3
IR Iran	41	40	-1	41	48	7
Iraq	na	na	na	na	na	na
Kuwait	10	12	2	13	12	-1
SP Libyan AJ	10	9	-1	9	9	0
Nigeria	8	9	1	8	9	1
Qatar	9	12	3	10	10	0
Saudi Arabia	32	36	4	60	62	2
UAE	16	16	0	16	16	0
Venezuela	55	67	12	82	82	0
Total OPEC	**249**	**276**	**27**	**308**	**310**	**2**

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

Oil Trade

In May, OECD total net crude oil and product imports were 700,000 b/d higher than a year earlier

OECD

OECD crude oil imports increased a marginal 51,000 b/d in May to average around 31.7 mb/d and product imports stood at 11.0 mb/d, up 37,000 b/d from the previous month. Similarly, crude oil and product exports edged up by around 30,000 b/d each to average 7.2 mb/d and 8.1 mb/d. Consequently, OECD net crude oil and product imports remained almost stable at 24.5 mb/d and 3.0 mb/d, respectively.

However, it is worth noting that OECD trade saw considerable changes compared to the same month last year with crude oil imports increasing by 113,000 b/d and product imports showing substantial growth of 380,000 b/d. At the same time, crude oil exports retreated by 640,000 b/d while product exports increased by 425,000 b/d. As a result, OECD net crude oil imports displayed a significant y-o-y growth of 750,000 b/d to average 24.5 mb/d whereas net product imports fell 46,000 b/d to 3.0 mb/d.

Saudi Arabia is still OECD’s top crude supplier with 16% while FSU came a close second with 15.3% followed by Norway with 8% and Mexico with 7%.

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

	Mar 06	Apr 06	May 06	Change May/Apr
Crude oil	24,468	24,484	24,510	25
Total products	2,947	2,948	2,952	4
Total crude and products	27,415	27,432	27,462	30

In May, US crude oil imports hit their highest level so far in 2006

Blending components surged by 300,000 b/d to 1.0 mb/d

USA

Preliminary data shows that US oil imports rose significantly to hit their highest level so far this year with crude oil inflows increasing by 243,000 b/d to average 10.0 mb/d and products jumping by more than 600,000 b/d to 3.7 mb/d. Crude oil imports accelerated at the end of the month during the last decade reaching a high level of 10.8 mb/d during the fourth week of May, keeping stocks above the historical average. Regarding products, it is worth mentioning that imports of blending components surged considerably, in anticipation of strong demand for gasoline, to reach a record-high of more than 1.0 mb/d in May, up 300,000 b/d from the previous month. Up until to March 2006, the average of US imports of blending components barely hit the maximum of 0.6 mb/d per month. The sharp increase in both crude oil and product imports was spurred by the end of the refinery maintenance, high refining margins and the start of the driving season, where demand for gasoline usually peaks.

With exports remaining almost unchanged at 1.0 mb/d, consisting almost entirely of products, US total net crude oil and product imports averaged 12.6 mb/d, their highest level since November 2005. Nevertheless, when compared to a year earlier, it appears that net crude oil imports have declined 150,000 b/d while net product imports have increased by nearly 690,000 b/d. The main reason behind the decline in crude oil imports was the heavier refinery maintenance compared to a year earlier.

Canada and Mexico remained the largest crude suppliers to the USA with 17% each, followed by Saudi Arabia with 13%, Venezuela with 12% and Nigeria with 11%. On the products side, Canada and the Virgin Islands continued to supply around 27% of US product imports.

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

	Mar 06	Apr 06	May 06	Change May/Apr
Crude oil	9,807	9,732	9,973	242
Total products	1,904	2,057	2,653	597
Total crude and products	11,711	11,788	12,627	838

Japan

Crude oil and product imports to Japan went declined amid falling demand in May

The increasing growth in Japan's crude oil imports displayed since March came to an end in May with imports falling to 4.1 mb/d, a drop of 235,000 b/d from the previous month due to heavy maintenance which led to a 10% reduction in throughput. At the same time, due to high stock levels, product imports declined by 95,000 b/d in May, compared to an increase of 245,000 b/d in April, to average 0.98 mb/d. When compared to last year's levels, crude oil imports were 200,000 b/d or 5% higher whereas product imports were 130,000 b/d lower in May. With product exports edging up 32,000 b/d to nearly 0.2 mb/d, Japan's total net crude oil and product imports dropped 363,000 b/d to average 4.9 mb/d, the same level as in May last year.

Crude oil deliveries from Saudi Arabia came first, accounting for almost 30%, followed by UAE with 24% and Iran with 12%. Similarly, for products, Saudi Arabia and UAE continued to supply 25% of Japan's imports before South Korea, which saw its share drop to 7% in May compared to 17% in that month last year.

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

	Mar 06	Apr 06	May 06	Change May/Apr
Crude oil	4,216	4,384	4,149	-235
Total products	641	912	784	-128
Total crude and products	4,857	5,296	4,933	-363

China

China's total net crude oil and product imports showed a 3.5% y-o-y growth in April

Preliminary data shows that China's crude oil imports declined by 68,000 b/d in April to average 2.9 mb/d, while product imports edged up 31,000 b/d or 4.5% to stand at 0.7 mb/d. However, China's exports almost halved to average 161,000 and product imports declined by 20,000 b/d or 7.5% — essentially gasoline — to average 245,000 b/d. The sharp decline in exports was driven mainly by the decision of the Chinese government to increase domestic prices of gasoline and gasoil in combination with strong demand and lower domestic production. Both crude oil and product exports showed y-o-y declines of more than 40% each. Consequently, China's net crude oil imports averaged 2.7 mb/d, an increase of 80,000 b/d or nearly 3% from the previous month and April 2005 levels. Similarly, net product imports displayed a growth of 50,000 b/d or 12% over the previous month to stand at almost 0.5 mb/d and 38,000 b/d over the level of the previous year.

In term of deliveries, Saudi Arabia overtook Angola as China's largest supplier with 18% against 14%. Iran came third with 13% followed by Russia with 11%. Angola's share in Chinese imports increased 4 percentage points in one year.

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

	Feb 06	Mar 06	Apr 06	Change Apr/Mar
Crude oil	2,799	2,697	2,777	80
Total products	397	438	489	51
Total crude and products	3,196	3,135	3,266	131

India

In April, India's total net crude and product imports were 3% higher than a year earlier

India's crude oil imports dropped 260,000 b/d or 12% to 2.0 mb/d, their lowest level since November 2005. However, compared to a year earlier, crude imports showed an increase of 3% or 60,000 b/d. On the product side, imports increased by 38,000 b/d or 22% while exports dropped sharply to 324,000 b/d, one-third lower than the previous month, leading to a total net product export of 115,000 b/d, compared to 321,000 b/d in the previous month. With crude oil export zero, total net crude and product imports averaged 1.9 mb/d, an increase of 53,000 b/d or 3% from a year earlier.

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

	Feb 06	Mar 06	Apr 06	Change Apr/Mar
Crude oil	2,237	2,249	1,989	-259
Total products	-331	-321	-115	206
Total crude and products	1,906	1,927	1,874	-53

Stock Movements

USA

US commercial oil stocks increased a substantial 22 mb in May

After registering a draw in the previous month, US commercial oil stocks experienced a build of 22 mb in May to stand at 1,028.8 mb. This level was 2% higher than the year-ago level and 5% higher than the five-year average. The stock-build stemmed entirely from a considerable rise of 10.9 mb in product inventories as crude oil inventories declined slightly.

A stock-draw occurred in crude oil which ended the month with a draw of 0.3 mb in May on a monthly basis with the level being at 346.5 mb. Nevertheless, inventories remained at comfortable levels of 4% and 10% above the upper end of the one-year and five-year average, respectively. Days of forward cover remained almost the same at 22.5 days, a cushion of 6% and 12% against one year earlier and the five-year average. Refinery runs increased by 526,000 b/d in May boosting the utilization rate to 90.3% from 87.2% in April, along with a rise in crude oil imports.

Table 24: US onland commercial petroleum stocks*, mb

	Mar 06	Apr 06	May 06	Change May 06/Apr 06	May 05	9 Jun 06**
Crude oil	343.2	346.8	346.5	-0.3	332.6	345.7
Gasoline	211.9	199.3	210.2	10.9	215.5	213.2
Distillate fuel	121.0	114.6	120.4	5.8	111.0	122.8
Residual fuel oil	39.7	40.4	40.4	0.0	37.9	41.4
Jet fuel	41.8	41.3	41.0	-0.3	39.5	40.4
Total	**1007.6**	**1006.8**	**1028.8**	**22.0**	**1030.5**	**1036.4**
SPR	686.3	687.8	688.6	0.8	693.9	688.6

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

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

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

On the product side, gasoline inventories experienced sustainable growth during May, rising by 10.9 mb from April leaving the level at 210.2 mb, which was 5.5 mb and 1.94 mb below the one-year and the five-year average. This is partly explained by a 42% boom in imports, especially of blended components. In addition, gasoline production recovered during May to stand at 8.9 mb, which is higher than a year ago following a rebound in the refinery runs. In terms of forward cover, gasoline stocks stood at 22.4 days, a drop of 0.8 and 1 day below last year and the five-year average. Although supply concerns owing to the phasing out of MTBE have diminished, some worries persist in the gasoline market related to the fact that production figures published by the EIA appear to look inflated due to the inclusion of imports of blending components that are used in finished gasoline. Blending component imports surged by 57.3% in May from April (four-week-average). The increase in imports was partly due to the use of ethanol to produce reformulated gasoline as well as the need to meet demand. Finally, gasoline inventories are expected to continue rising as a preventive measure against the impact of hurricanes. As stated in the previous *MOMR*, the final outcome in the gasoline market will heavily depend on a number of factors such as forecast demand and availability of imports, the response of refiners to higher margins, together with the impact of the switch to ultra-light sulphur diesel (ULSD) and the severity of the hurricane season. Following last month's draw, distillate stocks rose 5.8 mb to 120.4 mb or 8.51% higher than the five-year average. This unexpected upward movement was fostered by higher diesel output which rose by 232,000 b/d in May relative to the previous month. By contrast, heating oil production and total distillate imports declined. This phenomenon seems to be explained by the switch to ULSD, given the difficulties to find supply of ULSD elsewhere, which led to increased production.

In the week ended 9 June, total commercial inventories in the USA increased by 6.7 mb from the previous week to 1,036.40 mb or 3% and 6% against the year-ago level and the five-year average. This resulted from a build in gasoline and distillate stocks while crude oil saw a draw of 0.98 mb although recording a build of 5% and 11% over last year and the five-year average to remain at comfortable levels. The drop in crude oil stocks was linked to a recovery in refinery runs and the normalisation of activities at the Corpus Christi refinery after the cut which occurred in the previous week. The lower imports of 330,000 b/d or 8% below the five-year average also contributed to the picture Exceeding the forecast of the EIA, gasoline inventories saw a built of 2.8 mb, which left the level at parity with the five-year average for the first time in 8 weeks. Forward consumption of gasoline increased by 0.22 days to 22.8 days or at parity relative to the same time in the previous year. The usual pattern of gasoline stocks implies an upward movement until the second half of June and a drop thereon owing to booming summer demand. Some analysts suggest that gasoline stocks will be in the middle of the average range for the driving season, while others maintain the view that some tightness in the US gasoline market will occur due to an earlier decline in gasoline production this year compared to last year and the difficulties to maintain the high import levels of gasoline. If this is the case, a fall in stocks is expected which would exert pressure on domestic refiners and blenders to increase gasoline volumes in order to meet the expected greater domestic demand in July and August, which in turn would result in higher wholesale margins. Concerning distillate inventories, a surplus of 2.11 mb took place during this week being above the upper end of the average range for this time last year. Diesel stocks increased by 300,000 b to 75.6 mb or 7% higher than the five-year average which is attributable to the 67,000 b/d gain in imports from the previous week and to rising production. The surplus in diesel inventories may be associated with precautionary sentiments about the introduction of new diesel specifications.

Western Europe

European commercial oil stocks rose by 0.4 mb in May compared to 3.6 mb in the previous month

In May, total commercial oil stocks in the Eur-16 (EU-15 plus Norway) fell by 13,000 b/d to stand at 1,148.2 mb, which was 3.7% above the upper end of the average range for this time of the year and 8.4% above the five-year average. This came from stock-draws on both crude oil and middle distillates, while gasoline inventories experienced a modest build.

Crude oil inventories declined by 1.5 mb to 487.4 mb. This corresponds to 1.6% below one year earlier but still 6% above the five-year average. The end of the spring maintenance helped crude runs to rise by 300,000 b/d, with the capacity utilization rate increasing above 90% for the first time since January. Refiners responded to wide crack spreads of gasoline and middle distillates, but some outages took place in major refineries in Rotterdam and Italy.

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

	Mar 06	Apr 06	May 06	Change May 06/Apr 06	May 05
Crude oil	488.4	488.9	487.4	-1.5	495.3
Mogas	143.5	139.7	140.5	0.8	140.5
Naphtha	26.8	25.5	27.3	1.8	26.6
Middle distillates	375.1	381.6	381.0	-0.6	368.2
Fuel oils	106.8	112.1	112.0	-0.1	114.0
Total products	625.3	633.4	633.5	0.1	622.6
Overall total	**1,140.5**	**1,147.8**	**1,148.2**	**0.4**	**1,144.5**

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

Gasoline inventories in Europe remained almost unchanged with only a slight improvement of 0.8 mb in May to stand at 140.5 mb as a result of higher refinery output and were almost at parity with last year’s level, but below the five-year average. According to Euroilstock, this trend is explained by the greater domestic demand and continuous exports to the USA. It must be noted that there was a drop in independent stocks in the Rotterdam area which had fallen by 20% during the last three months. Middle distillate stocks declined by 0.6 mb or 20,000 b/d in May despite a considerable increase in output, to stand at 381 mb or 3.5% and 10.8% above the one-year level and the five-year average. Heating oil sales were up as a consequence of an unusually cold spell in Scandinavia. Likewise, Russian gas exports were lower. Residual fuel oil inventories remained almost unchanged at 112 mb, a slight fall of 0.1 mb to stand 2 mb lower than the one-year and the five-year average. Lower exports from Russia and a movement of cargoes to Asia-Pacific seem to account for this outcome. The fuel oil discount to BFO narrowed from $20/b to 16/b over last month, but the slowdown of utility demand for low-sulphur fuel oil exerted downward pressure on prices this month too.

Japan

Commercial oil stocks in Japan experienced a build of 3 mb in April

Commercial oil inventories in Japan rose by 3.1 mb or 0.1 mb/d to reach 171.6 mb in April, following a 5.9 mb build in the previous month. Stocks looked comfortable at 12.2% and 1.4% above last year and the five-year average, respectively. The stock-build came entirely on the back of crude oil as total product inventories inched down to 58.1 mb.

Commercial crude oil stocks rose by 4.6 mb, which was considerably lower than the previous month's surplus of 10.3 mb, to stand at 113.5 mb, but in contrast to last month, this level was 9.5% higher than the y-o-y average and 5.8% above the five-year average. This occurred despite a considerable fall in the refinery utilization rate as a result of the fact that imports fell by 14.2% relative to March.

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

	Feb 06	Mar 06	Apr 06	Change Apr 06/Mar 06	Apr 05
Crude oil	98.6	108.9	113.5	4.6	103.6
Gasoline	13.7	14.4	14.1	-0.3	14.0
Middle distillates	31.6	27.8	25.2	-2.5	23.2
Residual fuel oil	18.7	17.6	18.9	1.3	18.7
Total products	64.0	59.7	58.1	-1.5	55.8
Overall total**	**162.6**	**168.5**	**171.6**	**3.1**	**159.5**

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

Product stocks saw less of a draw compared to the previous month falling 1.5 mb or 0.05 mb/d in April to stand at 58.1 mb, which was entirely related to a weaker domestic demand which dropped by 11.9% relative to the previous month amid a 6.6% boost in imports since the strong spring refinery maintenance led to a drop in the utilization rate of 7.6% to 86.9%. Nevertheless, the surplus against the year-ago level fell to 4.1% from 13.2% in March. The more moderate draw on Japanese middle distillate inventories is explained by a milder draw on kerosene which was accompanied by a worsening in jet fuel and gasoil stocks which counterbalanced the recovery in Fuel Oil A and BC and lubricating oil stocks. Jet fuel production increased by only 2.9% compared to 72% last month, which occurred together with a hefty 33.6% drop in domestic demand. While kerosene production remained almost unchanged, sluggish demand implied an improvement from the previous month. Gasoline stocks fell by 2.0% or 0.3 mb to stand at 14.1 mb, which meant a reduction in the cushion against the year-ago level which fell to 0.7% from 3.5% in March. This was the outcome of a sharp reduction in imports of reformulates and ultra-low sulphur gasoline by refiners, which only grew by 23%, that followed the huge increase of 482% recorded in the previous month in preparation for heavy refinery maintenance amid some refinery outages at the beginning of April. This outpaced the drop in domestic demand**.** The difficulties to ship product cargoes from Singapore and the shortage of cargoes that fulfill the sulphur specifications required by the Japanese market also added to this phenomenon.

Balance of Supply and Demand

The estimate for demand for OPEC crude in 2005 unchanged at 28.9 mb/d

Estimate for 2005

The estimated demand for OPEC crude in 2005 (a-b) remains unchanged at 28.9 m/d, representing an increase of 0.7 mb/d from the previous year when OPEC production averaged 29.9 mb/d.

Table 27: Summarized supply/demand balance for 2005, mb/d

	2004	1Q05	2Q05	3Q05	4Q05	2005
(a) World Oil Demand	82.28	84.02	82.32	82.79	83.95	83.27
(b) Non-OPEC Supply	53.91	54.46	54.72	53.83	54.28	54.32
Difference (a-b)	28.37	29.56	27.59	28.97	29.67	28.95
OPEC crude oil production	29.04	29.46	29.90	30.19	29.92	29.87
Balance	0.67	-0.10	2.31	1.22	0.25	0.92

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

Estimated demand for OPEC crude in 2006 revised up by 0.1 mb/d

Forecast for 2006

The estimated demand for OPEC crude in 2006 is expected to average 28.7 mb/d, representing an upward revision of 0.1 mb/d from the previous month. On a quarterly basis, the new forecast shows that demand for OPEC crude is expected at 29.8 mb/d in the first quarter, 28.2 mb/d in the second, 28.3 mb/d in the third and 28.6 mb/d in the fourth. OPEC May crude production averaged 29.5 mb/d.

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

	2005	1Q06	2Q06	3Q06	4Q06	2006
(a) World Oil Demand	83.27	84.74	83.50	84.31	85.96	84.63
(b) Non-OPEC Supply	54.32	54.92	55.28	55.98	57.36	55.89
Difference (a-b)	28.95	29.82	28.21	28.32	28.60	28.73
OPEC crude oil production	29.87	29.68				
Balance	0.92	-0.14				

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

Graph 26: Balance of supply and demand

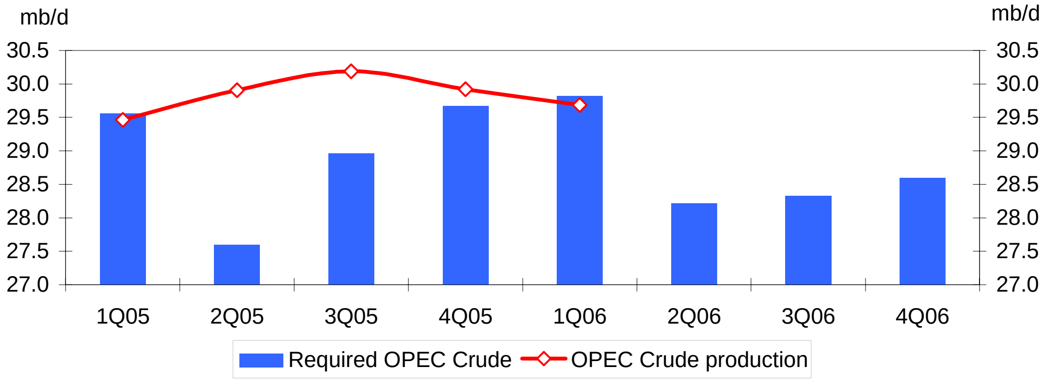


Table 29: World oil demand/supply balance, mb/d

	2001	2002	2003	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
World demand														
OECD	48.0	48.0	48.6	49.5	50.7	48.7	49.3	50.0	49.7	50.3	48.9	49.7	50.8	49.9
North America	24.0	24.1	24.5	25.3	25.5	25.3	25.5	25.4	25.4	25.1	25.5	25.8	25.9	25.6
Western Europe	15.3	15.3	15.4	15.6	15.7	15.3	15.7	15.8	15.6	15.9	15.3	15.7	15.9	15.7
Pacific	8.6	8.6	8.7	8.5	9.5	8.1	8.1	8.8	8.6	9.3	8.1	8.2	9.1	8.7
DCs	19.8	20.3	20.5	21.6	22.0	22.4	22.4	22.5	22.3	22.6	23.0	23.0	23.1	22.9
FSU	3.9	3.7	3.8	3.8	3.9	3.7	3.8	4.0	3.9	3.8	3.7	3.9	4.1	3.9
Other Europe	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	1.0	0.9	0.9	0.9	0.9
China	4.7	5.0	5.6	6.5	6.5	6.6	6.4	6.6	6.5	7.1	7.0	6.8	7.1	7.0
(a) Total world demand	77.2	77.8	79.3	82.3	84.0	82.3	82.8	83.9	83.3	84.7	83.5	84.3	86.0	84.6
Non-OPEC supply														
OECD	21.8	21.9	21.7	21.3	21.0	20.9	19.8	19.8	20.3	20.2	20.2	20.1	20.9	20.4
North America	14.3	14.5	14.6	14.6	14.4	14.6	13.7	13.6	14.1	14.1	14.4	14.4	14.8	14.4
Western Europe	6.7	6.6	6.4	6.2	6.0	5.8	5.5	5.6	5.7	5.6	5.4	5.2	5.5	5.4
Pacific	0.8	0.8	0.7	0.6	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.6	0.5
DCs	11.0	11.4	11.5	12.0	12.3	12.5	12.6	12.8	12.6	12.8	12.9	13.4	13.7	13.2
FSU	8.5	9.3	10.3	11.2	11.4	11.5	11.6	11.9	11.6	11.8	12.0	12.2	12.3	12.1
Other Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
China	3.3	3.4	3.4	3.5	3.6	3.6	3.6	3.6	3.6	3.7	3.7	3.7	3.7	3.7
Processing gains	1.7	1.7	1.8	1.8	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.9	2.0	1.9
Total non-OPEC supply	46.5	47.9	48.8	49.9	50.3	50.6	49.6	50.0	50.1	50.6	50.8	51.4	52.7	51.4
OPEC NGLs + non-conventional oils	3.6	3.6	3.7	4.0	4.1	4.2	4.2	4.3	4.2	4.4	4.4	4.5	4.7	4.5
(b) Total non-OPEC supply and OPEC NGLs	50.1	51.5	52.5	53.9	54.5	54.7	53.8	54.3	54.3	54.9	55.3	56.0	57.4	55.9
OPEC crude oil production (secondary sources)	27.2	25.4	27.0	29.0	29.5	29.9	30.2	29.9	29.9	29.7				
Total supply	77.3	76.9	79.4	83.0	83.9	84.6	84.0	84.2	84.2	84.6				
Balance (stock change and miscellaneous)	0.1	-0.9	0.1	0.7	-0.1	2.3	1.2	0.2	0.9	-0.1				
OECD closing stock levels (*mb*)														
Commercial	2630	2476	2517	2550	2546	2625	2646	2593	2593	2614				
SPR	1288	1347	1411	1450	1462	1494	1494	1487	1487	1487				
Total	3918	3823	3928	4000	4008	4119	4140	4079	4079	4101				
Oil-on-water	830	816	883	906	927	929	925	959	959	965				
Days of forward consumption in OECD														
Commercial onland stocks	55	51	51	51	52	53	53	52	52	53				
SPR	27	28	29	29	30	30	30	30	30	30				
Total	82	79	79	81	82	84	83	81	82	84				
Memo items														
FSU net exports	4.6	5.6	6.5	7.3	7.5	7.7	7.8	7.9	7.7	8.0	8.3	8.3	8.2	8.2
(a) - (b)	27.1	26.3	26.9	28.4	29.6	27.6	29.0	29.7	28.9	29.8	28.2	28.3	28.6	28.7

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

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

	2001	2002	2003	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
World demand														
OECD	-	-	-	-	0.1	-	-	0.1	-	-	-0.1	-	0.1	-
North America	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Western Europe	-	-	-	-	0.1	-	-	0.1	-	0.1	-	-0.1	0.1	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-
(a) Total world demand	-	-	-	-	0.1	-	-	0.1	-	0.1	-0.1	-	0.1	-
Non-OPEC supply														
OECD	-	-	-	-	-	-	-	0.1	-	-	-0.1	-0.1	-0.1	-0.1
North America	-	-	-	-	-	-	-0.1	0.1	-	-	-	-	-	-
Western Europe	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-
DCs	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	-	-0.1	0.1	-	-	-	-0.1	-0.2	-0.1
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	-	-0.1	0.1	-	-	-	-0.1	-0.2	-0.1
OPEC crude oil production (secondary sources)	-	-	-	-	-	-	-	-	-	-				
Total supply	-	-	-	-	-	-	-0.1	-	-	-				
Balance (stock change and miscellaneous)	-	-	-	-	-0.2	-	-	-	-0.1	-0.1				
OECD closing stock levels (*mb*)														
Commercial	-	-	-	-	-	-	-	-1	-1	-6				
SPR	-	-	-	-	-	-	-	-	-	-				
Total	-	-	-	-	-	-	-	-1	-1	-5				
Oil-on-water	-	-	-	-	-	-	-	1	1	-				
Days of forward consumption in OECD														
Commercial onland stocks	-	-	-	-	-	-	-	-	-	-				
SPR	-	-	-	-	-	-	-	-	-	-				
Total	-	-	-	-	-	-	-	-	-	-				
Memo items														
FSU net exports	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(a) - (b)	-	-	-	-	0.1	-	-	-	-	0.1	-	0.1	0.2	0.1

† *This compares Table 29 in this issue of the MOMR with Table 29 in the May 2006 issue.*
This table shows only where changes have occurred.

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

	2001	2002	2003	2004	2005	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06
Closing stock levels *mb*														
OECD onland commercial	2,630	2,476	2,517	2,550	2,593	2,465	2,545	2,581	2,550	2,546	2,625	2,646	2,593	2,614
North America	1,262	1,174	1,161	1,193	1255	1,145	1,193	1,206	1,193	1,200	1,275	1,257	1,255	1,252
Western Europe	925	895	922	927	943	919	933	945	927	957	928	957	943	952
OECD Pacific	443	408	435	430	394	400	420	430	430	389	422	432	394	410
OECD SPR	1,288	1,347	1,411	1,450	1,487	1,423	1,429	1,435	1,450	1,462	1,494	1,494	1,487	1,487
North America	552	601	640	678	687	654	664	672	678	690	698	696	687	688
Western Europe	356	357	374	377	407	371	366	367	377	377	401	405	407	407
OECD Pacific	380	389	396	396	393	398	398	396	396	396	395	393	393	392
OECD total	3,918	3,823	3,928	4,000	4,079	3,888	3,974	4,016	4,000	4,008	4,119	4,140	4,079	4,101
Oil-on-water	830	816	883	906	959	906	892	894	906	927	929	925	959	965
Days of forward consumption in OECD														
OECD onland commercial	55	51	51	51	52	51	52	51	50	52	53	53	52	53
North America	52	48	46	47	49	46	47	47	47	47	50	50	50	49
Western Europe	61	58	59	59	60	60	60	59	59	63	59	61	59	62
OECD Pacific	52	47	51	50	45	51	51	49	45	48	52	49	42	50
OECD SPR	27	28	29	29	30	30	29	28	29	30	30	30	30	30
North America	23	25	25	27	27	26	26	26	27	27	27	27	27	27
Western Europe	23	23	24	24	26	24	23	23	24	25	26	26	26	27
OECD Pacific	44	45	46	46	45	50	49	45	42	49	49	45	42	48
OECD total	82	79	79	81	82	81	81	80	79	82	84	83	81	84

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

	2001	2002	2003	2004	Change 04/03	1Q05	2Q05	3Q05	4Q05	2005	Change 05/04	1Q06	2Q06	3Q06	4Q06	2006	Change 06/05
USA	8.05	8.04	7.82	7.65	-0.17	7.71	7.74	7.02	6.64	7.27	-0.38	7.17	7.38	7.46	7.60	7.40	0.13
Canada	2.73	2.84	2.98	3.07	0.09	2.95	2.94	2.95	3.26	3.02	-0.04	3.18	3.18	3.22	3.40	3.24	0.22
Mexico	3.57	3.59	3.80	3.83	0.04	3.75	3.88	3.71	3.73	3.77	-0.07	3.79	3.79	3.71	3.80	3.77	0.00
North America	14.34	14.48	14.60	14.56	-0.04	14.42	14.55	13.68	13.63	14.07	-0.49	14.14	14.35	14.38	14.79	14.42	0.35
Norway	3.42	3.33	3.26	3.19	-0.07	3.08	2.94	2.93	2.92	2.97	-0.22	2.93	2.80	2.77	2.86	2.84	-0.13
UK	2.54	2.52	2.33	2.10	-0.23	2.05	1.95	1.71	1.83	1.88	-0.22	1.85	1.73	1.60	1.83	1.75	-0.13
Denmark	0.35	0.37	0.37	0.39	0.02	0.39	0.38	0.37	0.36	0.38	-0.01	0.36	0.36	0.36	0.37	0.36	-0.01
Other Western Europe	0.38	0.42	0.44	0.47	0.04	0.48	0.49	0.47	0.45	0.47	0.00	0.48	0.47	0.47	0.47	0.47	0.00
Western Europe	6.68	6.65	6.40	6.15	-0.25	6.00	5.76	5.49	5.57	5.70	-0.45	5.62	5.36	5.20	5.53	5.42	-0.28
Australia	0.71	0.70	0.60	0.52	-0.08	0.48	0.57	0.54	0.51	0.53	0.01	0.43	0.45	0.48	0.55	0.48	-0.05
Other Pacific	0.07	0.06	0.06	0.05	0.00	0.05	0.05	0.05	0.05	0.05	0.00	0.05	0.05	0.07	0.07	0.06	0.01
OECD Pacific	0.78	0.77	0.66	0.57	-0.08	0.54	0.62	0.59	0.56	0.58	0.01	0.48	0.50	0.55	0.62	0.54	-0.04
Total OECD	21.81	21.89	21.65	21.28	-0.37	20.96	20.93	19.77	19.76	20.35	-0.93	20.24	20.21	20.13	20.94	20.38	0.03
Brunei	0.20	0.20	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.22	0.22	0.22	0.22	0.22	0.01
India	0.73	0.78	0.79	0.80	0.01	0.80	0.80	0.73	0.75	0.77	-0.03	0.79	0.80	0.83	0.83	0.81	0.04
Malaysia	0.68	0.71	0.75	0.83	0.08	0.86	0.84	0.86	0.85	0.85	0.02	0.83	0.84	0.85	0.84	0.84	-0.01
Vietnam	0.34	0.34	0.35	0.40	0.04	0.38	0.38	0.37	0.40	0.38	-0.02	0.38	0.36	0.40	0.40	0.39	0.00
Asia others	0.31	0.31	0.30	0.37	0.07	0.47	0.47	0.48	0.49	0.48	0.10	0.49	0.50	0.50	0.50	0.50	0.02
Other Asia	2.26	2.35	2.40	2.61	0.21	2.72	2.70	2.66	2.69	2.69	0.08	2.71	2.72	2.79	2.78	2.75	0.06
Argentina	0.86	0.84	0.84	0.79	-0.05	0.77	0.77	0.76	0.74	0.76	-0.03	0.76	0.77	0.76	0.75	0.76	0.00
Brazil	1.53	1.72	1.80	1.79	-0.01	1.85	2.03	2.02	2.03	1.98	0.19	2.05	2.15	2.31	2.35	2.22	0.23
Colombia	0.61	0.58	0.55	0.53	-0.01	0.52	0.53	0.53	0.53	0.53	0.00	0.53	0.53	0.53	0.53	0.53	0.00
Ecuador	0.40	0.38	0.41	0.51	0.11	0.51	0.51	0.51	0.52	0.51	0.00	0.50	0.51	0.50	0.50	0.50	-0.01
Trinidad & Tobago	0.13	0.15	0.16	0.16	-0.01	0.20	0.21	0.22	0.22	0.21	0.05	0.22	0.24	0.24	0.24	0.23	0.02
L. America others	0.24	0.25	0.26	0.27	0.01	0.29	0.30	0.29	0.29	0.29	0.02	0.29	0.30	0.29	0.29	0.29	0.00
Latin America	3.77	3.93	4.02	4.06	0.04	4.15	4.35	4.33	4.32	4.29	0.23	4.35	4.50	4.63	4.66	4.54	0.25
Bahrain	0.19	0.20	0.20	0.20	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	0.96	0.90	0.82	0.79	-0.03	0.77	0.78	0.78	0.76	0.77	-0.02	0.74	0.75	0.75	0.75	0.75	-0.02
Syria	0.54	0.55	0.53	0.50	-0.03	0.49	0.48	0.46	0.45	0.47	-0.03	0.44	0.44	0.43	0.43	0.43	-0.04
Yemen	0.47	0.46	0.44	0.42	-0.03	0.40	0.40	0.40	0.41	0.40	-0.02	0.41	0.41	0.41	0.41	0.41	0.01
Middle East	2.15	2.10	2.00	1.91	-0.09	1.86	1.85	1.84	1.82	1.84	-0.07	1.79	1.80	1.79	1.79	1.79	-0.05
Angola	0.74	0.89	0.87	0.99	0.11	1.13	1.17	1.23	1.39	1.23	0.24	1.38	1.21	1.47	1.63	1.42	0.19
Chad	0.00	0.00	0.02	0.16	0.13	0.18	0.18	0.18	0.18	0.18	0.02	0.18	0.18	0.18	0.18	0.18	0.00
Congo	0.27	0.25	0.24	0.24	0.00	0.24	0.24	0.24	0.24	0.24	0.00	0.25	0.25	0.25	0.25	0.25	0.01
Egypt	0.76	0.75	0.75	0.71	-0.04	0.70	0.69	0.69	0.70	0.70	-0.01	0.69	0.68	0.67	0.71	0.69	-0.01
Equatorial Guinea	0.14	0.20	0.24	0.34	0.10	0.35	0.36	0.36	0.36	0.36	0.02	0.36	0.35	0.35	0.35	0.36	0.00
Gabon	0.30	0.29	0.25	0.25	0.00	0.25	0.25	0.26	0.25	0.25	0.00	0.25	0.26	0.26	0.27	0.26	0.01
South Africa	0.18	0.19	0.20	0.22	0.02	0.21	0.20	0.20	0.20	0.20	-0.02	0.20	0.20	0.20	0.20	0.20	0.00
Sudan	0.21	0.24	0.27	0.30	0.04	0.31	0.33	0.36	0.35	0.34	0.04	0.35	0.37	0.41	0.52	0.41	0.08
Africa other	0.20	0.20	0.20	0.21	0.01	0.23	0.22	0.25	0.27	0.24	0.04	0.32	0.35	0.35	0.37	0.35	0.10
Africa	2.79	3.01	3.05	3.42	0.37	3.60	3.65	3.78	3.94	3.74	0.32	3.97	3.85	4.15	4.48	4.11	0.37
Total DCs	10.97	11.40	11.47	11.99	0.52	12.33	12.55	12.60	12.77	12.56	0.57	12.82	12.87	13.37	13.71	13.19	0.63
FSU	8.53	9.32	10.27	11.15	0.89	11.39	11.47	11.62	11.86	11.59	0.43	11.75	12.03	12.18	12.27	12.06	0.47
Russia	6.99	7.62	8.46	9.19	0.73	9.30	9.34	9.50	9.60	9.44	0.25	9.48	9.62	9.71	9.74	9.64	0.20
Kazakhstan	0.80	0.94	1.03	1.18	0.15	1.26	1.22	1.17	1.27	1.23	0.05	1.22	1.31	1.33	1.35	1.30	0.07
Azerbaijan	0.30	0.31	0.31	0.31	0.00	0.35	0.42	0.47	0.53	0.44	0.13	0.58	0.62	0.66	0.70	0.64	0.20
FSU others	0.45	0.45	0.47	0.47	0.01	0.47	0.48	0.49	0.46	0.48	0.00	0.47	0.47	0.47	0.47	0.47	0.00
Other Europe	0.18	0.18	0.17	0.16	-0.01	0.16	0.16	0.16	0.16	0.16	0.00	0.16	0.17	0.17	0.17	0.17	0.01
China	3.30	3.39	3.41	3.49	0.08	3.63	3.61	3.64	3.59	3.62	0.13	3.68	3.66	3.69	3.67	3.67	0.06
Non-OPEC production	44.79	46.18	46.96	48.06	1.10	48.47	48.72	47.78	48.14	48.27	0.21	48.65	48.94	49.54	50.76	49.48	1.20
Processing gains	1.69	1.73	1.80	1.83	0.03	1.88	1.85	1.84	1.88	1.86	0.03	1.92	1.91	1.91	1.95	1.92	0.06
Non-OPEC supply	46.48	47.91	48.76	49.89	1.14	50.35	50.57	49.62	50.02	50.14	0.24	50.57	50.84	51.44	52.71	51.40	1.26
OPEC NGL	3.40	3.42	3.57	3.85	0.28	3.94	3.98	4.04	4.09	4.01	0.17	4.20	4.30	4.39	4.47	4.34	0.33
OPEC Non-conventional	0.18	0.18	0.14	0.17	0.03	0.17	0.17	0.17	0.17	0.17	0.00	0.15	0.14	0.15	0.18	0.16	-0.01
OPEC (NGL+NCF)	3.58	3.60	3.71	4.02	0.31	4.11	4.15	4.21	4.26	4.18	0.17	4.35	4.44	4.54	4.65	4.50	0.32
Non-OPEC & OPEC (NGL+NCF)	50.06	51.51	52.47	53.91	1.44	54.46	54.72	53.83	54.28	54.32	0.41	54.92	55.28	55.98	57.36	55.89	1.57

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

Table 33: Non-OPEC Rig Count

	2001	2002	2003	Change 03/02	1Q 04	2Q 04	3Q 04	4Q 04	2004	Change 04/03	1Q 05	2Q 05	3Q 05	4Q 05	2005	Change 05/04	1Q 06	Apr 06	May 06	Change May 06 - Apr 06
USA	1,156	831	1,032	201	1,119	1,164	1,229	1,249	1,190	158	1,279	1,336	1,419	1,478	1,378	188	1,519	1,597	1,635	38
Canada	342	266	372	106	528	202	326	420	369	-3	620	241	527	572	490	121	665	198	240	42
Mexico	54	65	92	27	107	113	111	108	110	18	114	116	104	93	107	-3	85	85	89	4
North America	1,552	1,162	1,496	334	1,754	1,479	1,665	1,777	1,669	173	2,013	1,693	2,050	2,143	1,975	306	2,269	1,880	1,964	84
Norway	23	19	19	0	19	18	14	16	17	-2	15	18	19	17	17	0	19	21	20	-1
UK	24	26	20	-6	15	19	14	15	16	-4	16	22	23	24	21	5	29	25	29	4
Denmark	4	4	4	0	4	4	3	4	4	0	2	3	2	2	2	-2	3	4	5	1
Other Western Europe	44	36	36	0	31	30	27	27	29	-7	23	24	25	24	24	-5	26	26	28	2
Western Europe	95	85	78	-7	69	70	57	62	65	-13	56	67	68	68	65	0	77	76	82	6
Australia	10	9	11	2	12	13	18	14	14	3	17	15	17	15	16	2	16	19	20	1
Other Pacific	9	8	7	-1	7	8	9	6	8	1	7	10	10	9	9	1	9	8	7	-1
OECD Pacific	20	17	18	1	19	22	26	20	22	4	24	25	27	24	25	3	25	27	27	0
Total OECD	1,667	1,264	1,592	328	1,842	1,570	1,749	1,859	1,755	163	2,093	1,785	2,146	2,234	2,065	310	2,371	1,983	2,073	90
Brunei	3	3	3	0	2	3	3	2	3	0	1	2	3	2	2	-1	3	4	3	-1
India	50	55	60	5	64	68	71	76	70	10	76	76	81	84	79	9	82	79	80	1
Malaysia	11	14	14	0	15	15	13	13	14	0	12	14	14	13	13	-1	15	15	14	-1
Papua New Guinea	1	1	2	1	3	2	0	1	2	0	1	2	2	2	2	0	3	3	3	0
Vietnam	8	9	9	0	8	9	8	7	8	-1	8	10	10	10	9	1	10	8	11	3
Asia others	22	30	29	-1	27	31	31	31	30	1	35	36	36	37	36	6	40	41	42	1
Other Asia	95	111	117	6	119	128	127	130	126	9	133	140	146	148	142	16	153	150	153	3
Argentina	71	49	60	11	64	73	73	74	71	11	74	76	78	79	77	6	75	79	82	3
Brazil	28	27	26	-1	24	26	26	26	26	0	26	27	28	27	27	1	31	32	32	0
Colombia	15	11	11	0	8	9	9	11	9	-2	13	12	16	19	15	6	20	24	22	-2
Ecuador	10	9	9	0	7	9	12	12	10	1	10	12	11	13	12	2	12	12	11	-1
Peru	4	2	3	1	2	2	3	3	2	-1	3	4	3	3	4	2	3	4	7	3
Trinidad & Tobago	5	4	3	-1	3	4	4	4	4	1	3	2	2	4	3	-1	3	4	4	0
L. America others	7	5	4	-1	6	6	3	4	5	1	3	4	3	5	4	-1	5	5	4	-1
Latin America	141	106	116	10	114	127	129	134	126	10	133	138	141	151	141	15	149	160	162	2
Bahrain	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Oman	25	29	35	6	36	35	34	36	35	0	34	35	34	35	34	-1	34	38	37	-1
Syria	19	22	24	2	24	24	23	23	24	0	21	20	22	23	22	-2	22	22	22	0
Yemen	6	9	9	0	7	8	9	11	9	0	10	11	13	14	12	3	13	17	16	-1
Middle East	50	62	70	8	69	68	69	73	70	0	69	71	73	75	72	2	72	80	78	-2
Angola	5	5	4	-1	4	3	3	3	3	-1	3	3	3	2	3	0	4	5	3	-2
Cameroon	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Congo	1	1	1	0	2	2	3	2	2	1	3	2	2	2	2	0	1	3	1	-2
Egypt	22	23	26	3	27	28	29	28	28	2	28	30	28	30	29	1	32	31	35	4
Gabon	2	2	3	1	2	2	2	2	2	-1	2	3	2	2	2	0	2	2	3	1
South Africa	1	1	0	-1	0	0	0	0	0	0	0	0	0	0	0	0	1	1	1	0
Africa other	4	12	13	1	15	18	20	22	19	6	23	21	19	23	21	2	23	21	27	6
Africa	36	43	48	5	48	53	56	57	54	6	58	58	54	60	58	4	62	63	70	7
Total DCs	322	322	350	28	350	376	381	394	376	26	393	407	414	433	412	36	436	453	463	10
FSU	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Europe	3	2	2	0	2	2	2	2	2	0	3	2	3	2	3	1	2	2	2	0
China	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-OPEC Rig count	1,992	1,588	1,944	356	2,194	1,949	2,132	2,255	2,132	188	2,489	2,194	2,562	2,670	2,479	347	2,809	2,438	2,538	100

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

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Data is provided by Data Services Department.

Data Summary

June 2006

OPEC Basket average price

US$ per barrel

⬆ *up 0.67 in May*

May 2006	***65.11***
April 2006	*64.44*
Year-to-date	*60.50*

May OPEC production

in million barrels per day, according to secondary sources

Algeria	*1.38*	*Kuwait*	*2.50*	*Saudi Arabia*	*9.16*
Indonesia	*0.92*	*SP Libyan AJ*	*1.69*	*UAE*	*2.48*
IR Iran	*3.80*	*Nigeria*	*2.23*	*Venezuela*	*2.58*
Iraq	*1.92*	*Qatar*	*0.82*	***TOTAL***	***29.48***

Supply and demand

in million barrels per day

2005		***2006***	
World demand	*83.3*	*World demand*	*84.6*
Non-OPEC supply	*54.3*	*Non-OPEC supply*	*55.9*
Difference	***28.9***	***Difference***	***28.7***

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

Stocks

US commercial oil stocks saw a substantial increase of 22 mb in May.

World economy

World GDP growth unchanged at 4.7% for 2005 and 2006.

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Data covers period up to end of May 2006 unless otherwise stated