OPEC

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

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Feature Article:

Oil market prospects: Re-focusing on fundamentals

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Oil Market Highlights

- Estimates of Euro-zone GDP growth for 2006 have been revised up following higher industrial production growth in France and Germany. The GDP of the Euro-zone is forecast to grow by 2.3% in 2006. The estimate for the USA is unchanged at 3.4%. The US housing sector remains weak but lower energy costs, if sustained, may support consumer spending. In Japan, business investment is expected to maintain the momentum of the economy as a reduction in excess capacity and solid profits should support corporate cash flows. GDP growth may reach 2.8% despite some weakening in consumer spending. The estimate for Chinese growth in 2006 is unchanged at 10.2% but the estimate for India has been raised to 8.1%. India continues to benefit from strong growth in all sectors: manufacturing, services and financial activities. Overall, the 2006 forecast for world growth remains unchanged at 5%.
- The better outlook for the Euro-zone extends into next year and the forecast for GDP growth in 2007 has been increased to 1.6%. The growth forecasts for Latin America and the countries of the Former Soviet Union have also been raised. There has been no change to the forecasts for the United States or Japan. US economic growth is forecast to fall to 2.6% in 2007 and Japan may only achieve 1.9%. Growth in developing countries is also expected to be lower in 2007, falling to 5.5% and China may also see a modest deceleration to 9%. The world economy is forecast to grow by 4.4% next year.
- The sharp decline in the oil prices over the past months should soon have a noticeable impact on headline rates of inflation. The economic effect of lower oil prices is not expected to be large, even if lower prices are sustained. Monetary policy is set to be restrictive in the major financial centres in order to bring household and business spending into line with productive potential. This will lower demand pressures on scarce resources and, eventually, reduce core rates of inflation. In so far as consumer real incomes benefit from the higher purchasing power created by lower oil prices, this may require the central banks to extend the duration of the tightening process but ongoing rates of economic growth will not be significantly higher.
- Easing tensions in the Mideast amid steady OPEC supply and expectations of slower economic growth caused a sharp drop in prices September. Ample supply amid lower refinery rates in Asia halting demand growth exerted downward pressure on the petroleum complex amid a healthy winter fuel stockpile. The monthly average of the OPEC Reference Basket fell nearly $10/b or 14% to average $59.34/b. In the first weeks of October, the Basket continued to drift down reaching $54.90/b on 13 October.
- With the end of the driving season and steady distillate stock-builds, product market sentiment changed significantly, exerting downward pressure on product prices and refinery margins across the globe. A moderate downward correction in refinery margins during the shoulder season is not outside market expectation, but the combination of a light autumn maintenance schedule with high distillate and natural gas stocks could be a threat to product and crude prices over the next few months. However, weather conditions remain a key wild card as colder-than-normal winter in the Western Hemishphere may turn the product market’s current bearish sentiment.
- Asia OPEC spot fixtures continued to decline for the third consecutive month, averaging 12.3 mb/d in September, a drop of 0.5 mb/d from the previous month, driven by the decline in production and the slow-down in demand. Sailings from OPEC increased almost 1.0 mb/d to nearly 23.9 mb/d but remain 0.5 mb/d below the corresponding month of 2005. The crude tanker market showed a mixed picture with freight rates for VLCCs remaining strong despite a downward trend, while Suezmax and Aframax saw rates deteriorate on most routes. The weakness was more pronounced in the product tanker market, especially for tankers trading in West of Suez. Both crude and product tanker markets witnessed significant declines in early October.
- World oil demand in 2006 is estimated to grow by 1.0 mb/d or 1.2% to average 84.2 mb/d. In light of preliminary data for the first three quarters of 2006, world oil demand growth was revised down by 0.1 mb/d for 2006 from the last *MOMR*. Warm weather, higher oil prices and the relatively-lower natural gas prices affected oil demand mostly in the OECD countries. Robust US oil demand growth in September was not sufficient to offset the decline seen in the first two months of summer. Hence, OECD oil demand growth in the third quarter was revised down by 0.3 mb/d y-o-y, with a recovery in the fourth quarter. Strong economic growth in both the Middle East and China increased y-o-y third quarter oil demand. World oil demand growth forecast for the year 2007 remains unchanged at a moderate rate of 1.3 mb/d or 1.5%. China and the Middle East will lead the world oil demand growth with 0.42 mb/d and 0.30 mb/d respectively.
- Non-OPEC oil supply is expected to average 51.3 mb/d in 2006, representing an increase of 1.1 mb/d over 2005 and a slight upward revision versus the last assessment. A series of adjustments have been made including the addition of historical data for biodiesel in OECD countries as well as revisions to conventional oil project schedules in a number of countries, but primarily in the USA and Australia. Preliminary data for the month of August and September puts total non-OPEC supply at around 51 mb/d and 51.7 mb/d, representing a y-o-y growth of 0.9 mb/d and 2.8 mb/d respectively. Expectations for unplanned shutdowns in non-OPEC have now been reduced to less than 0.1 mb/d from an average of 0.6 mb/d in the first half of the year. In 2007, non-OPEC oil supply is expected to average 53 mb/d, representing an increase of 1.8 mb/d versus 2006. The main contributions are expected to come from FSU, Africa and North America. In September, OPEC production averaged 29.7 mb/d, a drop of 0.1 mb/d from the previous month.

- OECD Preliminary data shows that OECD total net oil imports continued their upward trend to reach 27.9 mb/d in September, an increase of 112,000 mb/d over the previous month and almost 1.0 mb/d higher than the corresponding month of 2005. US net oil imports inched down slightly to 12.9 mb/d, but displayed y-o-y growth of 760,000 b/d, driven by strong stock-builds. Similarly, Japan's net oil imports showed a significant growth of 11% from a year earlier after rebounding to 4.3 mb/d. China's crude oil imports reversed the downward trend and surged by around 280,000 b/d in August to 2.8 mb/d, implying net oil imports of 3.3 mb/d which corresponds to 38% y-o-y growth while India's net oil imports continued to hover around 2.0 mb/d, an increase of 3.5% from a year earlier.

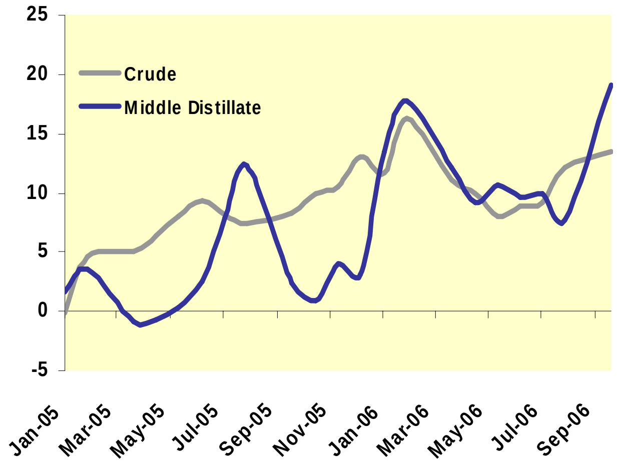
- Total commercial oil inventories in the USA witnessed a build of 22.0 mb to 1,088.7 mb in September, an increase of 7.6% and 10.0% above the year-ago level and the five-year average. The stock-build came entirely from products as crude oil declined on a monthly basis. Despite the draw, crude oil stocks remained at comfortable levels of 7.1% and 14.0% above the same month last year and the five-year average. Moving to Eur-16 (Eu-15 plus Norway), total commercial oil stocks slipped by 6.4 mb but were still 6.4% above the five-year average, which was entirely due to a further reduction in crude oil inventories as well as middle distillate stocks. Japan's total commercial inventories reported an increase of 6.1 % in August compared to the previous month, more than 4% above the year-ago level and the five-year average, mainly as a result of the rise in product stocks.

- The demand for OPEC crude in 2006 is expected to average 28.7 mb/d, representing a downward revision of 0.2 mb/d versus last month. In 2007, the demand for OPEC crude is expected to average 28.1 mb/d, representing a decline of 0.6 mb/d versus 2006. On a quarterly basis, the forecast shows that demand for OPEC crude is expected at 28.7 mb/d in 4Q06, 29.2 mb/d in 1Q07 and 27 mb/d in 2Q07.

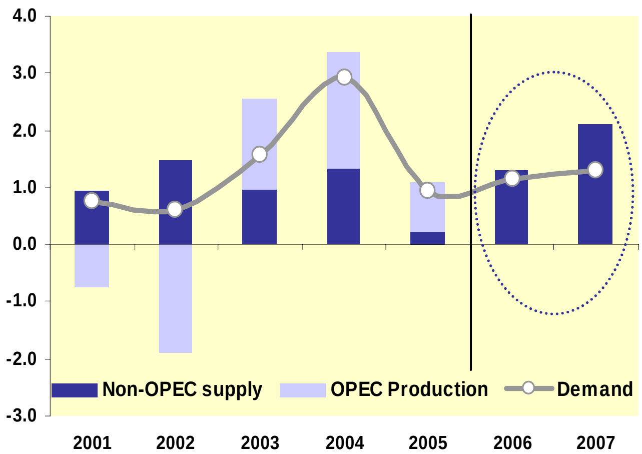
Oil market prospects: Re-focusing on fundamentals

- For some time now, crude oil prices have been pointing to an oversupplied market. Over the last two months, the OPEC Reference Basket has fallen by nearly $19/b from a peak of $72.7/b on 8 August, the sharpest drop in prices since 1991, as a result of changing fundamentals and easing geopolitical tensions. At the same time as spot prices were declining, the Nymex WTI spread between the first and twelfth month stood at $6/b in September, the widest difference since the market moved into contango in May 2005.
- Additionally, as a result of increased OPEC production, commercial crude oil inventories in OECD and the USA have risen to very comfortable levels. With the end of the driving season and the start of autumn refinery maintenance, crude stocks could see even further builds. In the USA, crude oil inventories stood at 331 mb in the week ending 6 October, 14% above the five-year average (*see **Graph 1***). At the same time, with the approach of the winter season, seasonally-important middle distillate stocks in the USA are also at the highest level since 1999 or about 19% above the five-year average. In Japan, kerosene inventories stand close to three-years high, while in Europe gasoil stocks are ample.

Graph 1: US stocks, deviation from five-year average (%)



Graph 2: Growth in world oil demand and supply (mb/d)



- Apart from the immediate seasonal decline, the demand picture for the remainder of 2006 and for 2007 appears far from robust. The strong growth in demand seen in 2004 declined sharply in 2005 and then continued at roughly the same level in 2006. This lower demand growth came despite the strong momentum in the global economy. More recently, the expected slowdown in the US economy following monetary tightening and the weakening US housing sector has added considerable uncertainty to the economic outlook and consequently oil demand. A further factor that may dampen demand are policy responses in consumer nations – both developed and developing – to rising oil prices aimed at conservation and substitution away from oil. As a result of these factors, demand growth in 2006 and is expected to remain moderate at 1 mb/d and reach 1.3 mb/d in 2007.
- Meanwhile, non-OPEC supply growth has been markedly weak over the last few years, particularly in OECD, requiring OPEC to meet the bulk of rising demand, while at the same time having to accelerate plans to expand production capacity. Recently, however, the outlook for non-OPEC supply has changed dramatically. Supply has already picked up in 2006 to 1.1 mb/d and is expected to grow next year at 1.8 mb/d, the highest rate since 1984, pointing to a clear imbalance between supply and demand.
- Given these trends, the demand for OPEC crude in 2007 will be lower than this year. **Graph 2** shows that non-OPEC supply is expected to exceed oil demand by around 0.6 mb/d in 2007 indicating the need for measures to rebalance a market already flush with stocks. As a result, the demand for OPEC oil would be 28.1 mb/d, around 1.6 mb/d lower than total OPEC production in September. If OPEC were to continue to produce at the September level of 29.7 mb/d — the lowest output in four months — this would still lead to a contra-seasonal build in the fourth quarter of 1 mb/d and 0.5 mb/d in the first quarter of 2007. In the second quarter, these production levels would result in a strong seasonal build of 2.6 mb/d, compared with a typical build of 1.1 mb/d. Such a build-up could overwhelm inventory capacity, as OECD commercial stocks are currently approaching the historic high seen in 1998.
- Even prior to the recent price decline, a consensus was evident within OPEC about the need for a proactive response to changing market circumstances. In attempting to bring supply in line with fundamentals, voluntary downward adjustments in output were an option left to the discretion of individual Member Countries. In the meantime, OPEC has called for a consultative meeting to take place in Doha, Qatar on 19 October to review and consider further action needed to balance the market.
- In recent weeks, the speed and magnitude of the decline in crude oil prices has caught the market by surprise. Uncertainties about global economic prospects particularly in the USA, slowing demand growth, rebounding non-OPEC supply and high stock levels have triggered a strong bearish sentiment in the market. This has led to some concern that the downward momentum might persist, causing prices to overshoot and fall below levels justified by fundamentals. Past experience has shown that it is in the long-term interest of both producers and consumers to maintain prices at levels that both support healthy economic growth as well as encourage much-needed investment to ensure sufficient capacity to meet future demand, particularly in an industry with long lead-times, high financial risks and in an environment of rising costs.

Highlights of the World Economy

Economic growth rates 2006-2007, %	World	OECD	USA	Japan	Euro-zone
2006	5.0	3.1	3.4	2.8	2.3
2007	4.4	2.4	2.6	1.9	1.6

Industrialised countries

United States of America

Housing and manufacturing under pressure; lower energy costs may boost consumer spending in the fourth quarter

The sharp reduction in energy costs is likely to boost consumer spending and economic activity in the fourth quarter despite continued weakness in the housing market and in auto production. Latest data suggests that the US economy is experiencing moderately lower growth but generally steady growth in household incomes should keep the rate of growth of GDP in the region of 2.5%. The September employment report was mixed. Although the gain in non-farm payrolls was low, the data for August was revised up and the unemployment rate dropped to 4.6%. Wage pressures eased slightly and the underlying trend in labour demand is probably downward. Surveys of manufacturing and non-manufacturing confidence indicate that growth slowed in the third quarter. The index of service sector activity in September was the lowest since 2003 and the moderating trend in new orders for manufacturing suggests that growth in industrial production will slow in the fourth quarter as producers adjust stock levels. Price pressures are clearly easing. Input costs fell in September and fewer capacity pressures were reported. Inflation expectations benefited from the drop in energy prices and lower gasoline prices may help increase auto sales.

Looking to 2007, the key issue will be the extent to which the correction in the US housing market impacts the rest of the economy where, to date, performance has been steady. If the housing weakness is contained and the reduction in energy costs is sustained, the boost to real incomes and consumer spending could lead to rather stronger growth in GDP in the first quarter of next year. Latest data shows that both housing permits and starts are falling rapidly but previous trends suggest that the number of permits may stabilize in the near future. In this case the decline in permits already seen suggest a significant near-term downshifting in residential investment but housing-related GDP growth should gradually climb back towards trend during the course of 2007.

Recent statements from the US Federal Reserve suggest that the central bank remains concerned regarding the inflationary pressures in the US economy and that higher interest rates cannot be ruled out. The balance of opinion in financial market analysts has moved to anticipate reductions in US interest rates next year but much depends on the continued path of energy costs and the level of spare capacity in the economy. On balance the Federal Reserve will probably be cautious and wait to assess the impact of any bounce in consumer spending on labour and input cost indicators for the economy as a whole. **Certainly the fall in energy prices will have a marked effect on headline consumer prices in the coming months but the trend of core inflation will be the main focus of the US central bank.**

Overall GDP growth is expected to be less than 3% in the second half of this year. The auto industry, in particular, is planning sharp cuts in output in order to reduce inventory levels. **In 2007 GDP growth is expected to fall further to 2.6% as lower growth of business investment, exports and government spending takes effect.** Revised second quarter data showed surprise stagnation in corporate profits and a fall in companies' investment in new equipment and software. Next year may see an end to the strong growth in investment recorded since 2004.

A particular uncertainty is the contribution of the US stockmarket to the growth of the economy. In recent weeks the prospect of steady, non-inflationary growth has pushed share prices to new highs. This has offset much of the negative impact on household wealth of the fall in house prices. It remains to be seen whether the stock market can continue to make progress in 2007 as GDP growth slows and wage incomes continue to accelerate. If the stockmarket were to consolidate and house prices to stabilize or fall, asset markets in 2007 might no longer provide savings for households and consumers will have to begin to save more of their current income. An increase in the savings rate means that the growth of consumer spending will have to fall below the growth of real incomes. If spending were to grow by less than 2.8% in 2007 this would be the weakest performance since the recession year of 2001.

Japan

Japanese corporate sector continues to prosper but households turn cautious

There has been little change in the strong momentum of Japanese companies in recent months. Manufacturing activity remained firm in the third quarter and industrial production probably rose by at least 4% on an annualized basis. The latest Bank of Japan *Tankan* report indicated that business sentiment remained optimistic in September. **The index of current business conditions was stronger than expected and the outlook for December was also healthy.** Exporters have become more optimistic for sales growth with large manufacturers reporting a particularly good outlook for overseas demand. This background continues to support high levels of capital expenditure as firms predict a shortage of production capacity. Earlier in the year capital expenditure had been expected to level off but this now seems unlikely and business investment spending should grow by at least 6% in the final quarter of the year.

Despite this encouraging performance, personal consumption in Japan weakened in the summer. The lower growth of earnings and the rise in energy prices depressed consumer spending in the third quarter. Domestic car sales have been weak while sales of clothes, footwear and consumer durables have softened. Most of this weakness was in July and August while an improvement was noted in September. **Overall consumer spending growth was probably not much above 1% in the third quarter which will have reduced GDP growth to below 3% following the low 1% recorded in the second quarter.**

The underlying trend in inflation has not changed as dramatically as it initially appeared when the rebased data appeared in August. The larger-than-expected revision in core inflation to 0.2% in July was due to a new treatment of mobile phone charges. In August the CPI excluding food and energy fell by 0.4%. It is likely that core CPI inflation will rebound to 0.2-0.3% by the end of the year although this may be moderated if consumer spending continues to be weak. A low positive rate of inflation will probably be maintained through 2007 reflecting the gradual absorption of spare capacity in the economy.

The Bank of Japan appears to attach more weight to the optimistic *Tankan* survey than the consumer spending data. On balance it appears that a rise in interest rates in December is now more likely although lower energy costs and the depressed trend of unit labour costs mean that the Bank will be under little pressure to raise rates. The expected moderation in world economic activity may also have its effect on Japan in the final quarter of this year although there is little evidence of export weakness thus far. One consequence of the higher input costs faced by companies seems to be a greater determination to control labour costs and this should dampen inflationary expectations in the household sector. **The yen has continued to be weak despite the economic recovery and this factor may push the Bank of Japan to act.** If Japanese interest rates remain very low next year and the yen remains depressed in relation to the US dollar this may impact other Asian currencies which may prefer not to appreciate against the yen. Weak Asian currencies in 2007 may inhibit moves to narrow trade imbalances between the US and Asia, aggravating political pressure for action on trade flows.

Euro-zone

Euro-zone growth moderated in the third quarter; expectations for next year are cautious

There is no doubt that the first half of 2006 was a strong period of growth for the Euro-zone. On balance survey evidence suggests that growth remained above trend in the third quarter although below the excellent 3.6% achieved in the second quarter. The EC sentiment indicator, which incorporates expectations and the current assessment of participants, continued to move higher. Retail sales in the Euro-zone rose by 2.4% in August in comparison to 2005 levels. Other indicators, such as the Purchasing Managers Index (PMI), suggest that growth peaked in the second quarter. On average the third quarter PMI was down 1.5 points from its second quarter level. Industrial production trends showed no clear pattern. July industrial production in the Euro-zone was only 0.1% above the second quarter average and car registrations fell but August showed a clear improvement as industrial production rose by 0.8% in France and a strong 1.9% in Germany. Overall it appears that Euro-zone GDP rose by about 2.5% on an annualized basis in the third quarter. The implication of the survey evidence for the fourth quarter is that growth will continue at a fairly solid pace but that a slowdown is clearly on the horizon. Expectations have conclusively turned down and this probably reflects rising concerns about the future development of the US economy. In Germany, an additional concern is the lack of progress regarding political reforms.

Beyond 2006 the outlook is much more uncertain. As expected the European Central Bank raised interest rates to 3¼% in the first week of October. Of greater significance it appeared from the ECB press conference that a further hike is very likely to follow in December and the

Bank has not ruled out further increases in 2007. A particular concern is the impact of the stronger growth this year on wage costs. With monetary policy tightening further, an expected easing in global growth and a significant tightening in fiscal policy, Euro-zone growth is expected to fall to 1.6% in 2007. The policy outlook has been obscured by the recent fall in energy costs. The 'flash' estimate of Euro-zone inflation fell to 1.8% in September, sharply down from the 2.3% recorded in August although the core rate, which excludes food and energy costs, probably rose in the month. The financial futures markets anticipate that the three month rate of interest will be 3.67% by December 2006 and 3.8% by March 2007 which should mark the end of the upward rate adjustment process. By mid-2007 a slower pace of growth should allow the Bank to abstain from much further tightening and the peak of official interest rates should be no higher than 3¾ - 4%.

In 2006, the Euro-zone will benefit again from substantial growth in exports but in 2007 the stronger value of the euro should restrain growth. Tighter monetary conditions and slower world growth will impact the Euro-zone. Fiscal policy will add a further uncertainty next year. This year the Euro-zone fiscal deficit has improved as a result of the improvement in economic growth although the stance of policy has been broadly neutral. In 2007, tighter fiscal policies (notably in Germany and Italy) may reduce Euro-zone growth by as much as 0.5% as VAT rates are increased.

Former Soviet Union

GDP grew strongly in the second quarter with manufacturing and construction as the leading sectors

According to the Ministry of Economic Development and Trade, GDP grew by 7.4% year-on-year in the second quarter. For the first half of 2006, GDP rose by 6.5% driven by construction activity and retail and wholesale trade. The second quarter recovery in economic activity accelerated in August thanks mainly to buoyant exports. As a result of these trends, GDP is forecast to grow by 6.4% in 2006. Industrial production growth accelerated to 5.6% in August and the growth rate for the first eight months of 2006 was 4.3% in comparison to the 3.5% recorded in 2005. Construction output increased by 12% in August and growth in the output of the extractive sector showed a slight improvement, rising by 1.3% in the first eight months of the year. In August inflation rose sharply to 9.7%, despite lower food prices as a result of higher gasoline and service sector prices. In the first eight months of 2006 the rouble has appreciated by 7.7% in real terms as very high earnings from oil and minerals exports boosted the currency. The strong performance of energy export revenues has worsened the inflationary situation in Russia as these revenues have enabled further fiscal loosening. The first reading of the 2007 Budget was given in September. Expenditures are projected at 28% higher than the 2006 budget and revenues are expected to rise by 31% although this increase depends on high estimates of VAT revenues.

Eastern Europe

Political conflicts threaten economic progress

Despite tensions which led ultimately to the break-up of the ruling coalition in September the Polish economy continued to perform well in the third quarter. The rate of growth of GDP was probably above 5% as a result of solid internal and external demand. Strong wage and employment growth were behind a surge in private consumption which was also accompanied by robust growth in fixed investment spending. Net trade also contributed to GDP. In August industrial production rose by 12.5% – exactly in line with the gain for the first eight months of the year. Politics also dominated the headlines in Hungary following negative disclosures relating to the Prime Minister. It is unclear whether these controversies will have a lasting effect on policy but in the near term the fiscal reform programme may be weakened. Growth fell to 3.8% in the second quarter as a result of weaker domestic demand and yet further pressure on internal spending may follow the fiscal reforms. Exports continue to grow strongly, reflecting the overall recovery in economic activity in Europe this year. Nevertheless tighter monetary conditions, fiscal adjustments and lower exports to the Euro-zone are expected to lead to much slower growth in 2007. The Czech economy grew by 6.2% in the second quarter of the year, down slightly on the 7.1% achieved in the first quarter. The fastest growing sector continues to be transport equipment which expanded production by 34% in July. The rate of inflation fell to 1.9% in 2005 but has risen to 2.9% in the first eight months of this year as a result of higher energy and utility prices. The Czech trade balance deteriorated slightly in the second quarter as higher exports of road vehicles and parts could not match the extra expenditure on imported fuels. 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 – but the deficit outlook for 2007 is much worse, possibly as high as 4% of GDP, and austerity measures may be needed to prevent the date for accession to the Euro-zone from slipping beyond 2011.

Developing Countries

Growth rate of fixed asset investment in China dropped by 5.9% in August

Intra-regional trade between Asian countries provided an additional impetus to growth as the rapid growth of China fed through its regional trading partners. The ASEAN nations are well placed to tap into soaring Chinese import demand by providing added value products.

Domestic demand of 1.3 billion consumers is the driving force of China's economic growth. The Chinese government has taken a series of measures in order to stimulate domestic spending, including increasing income of residents, promoting social security, and speeding up public service reforms.

The growth rate of fixed asset investment in China, a major indicator of economic growth, dropped 5.9 percentage points from July to 21.5% in August, the National Bureau of Statistics reported. The Chinese Central Bank had forecast that the country's economy is expected to grow by a blistering 10.5% this year but slow down to 9.5% in the first half of next year due to a combination of factors, including the government's macro-economic policies to avoid over-heating.

Possible rise in interest rate in India as economy still grows fast

India's economy expanded 8.9% second quarter, according to the Central Statistical Organization in New Delhi, beating economists' forecasts and adding pressure on the Reserve Bank of India RBI to raise its benchmark interest rate for a fourth time this year. The expansion of Asia's fourth-largest economy in the three months to 30 June from a year earlier reached 9.3%.

A new study by the World Bank revealed that recent massive increase in African trade and investment by Asia's two emerging economies, namely China and India, holds great potential for growth and job creation in Africa. According to the study, based on new evidence from the operations of Chinese and Indian businesses in Africa, Asia now receives 27% of the continent's exports, triple the amount in 1990. Today's level is almost on par with Africa's exports to the USA and EU, Africa's traditional trading partners. Asian exports to Africa are growing 18% per year, faster than to any other region in the world. China's and India's foreign direct investments in Africa are more modest than trade flows, but they are also growing very rapidly. However, the bank's study showed that there is still a major unevenness in the emerging commercial relationships between the two continents. African exports to Asia constitute only 1.6% of what Asians buy from the rest of the world, and China's and India's African purchases total only 13% of Africa's total exports. Africa accounts only for 1.8% of the world's foreign direct investment flows, while 20% of the world's foreign direct investment goes to East Asia.

OPEC Member Countries

Inflation and exchange rates are concerns for Mideast OPEC Members

Inflation in OPEC Mideast countries is expected to rise but at a slower pace due to tighter macro-economic policies. In countries with fixed exchange rates, some pickup in inflation is expected as real exchange rates adjust to higher oil prices. Inflation is expected to be in the low single digits, aided by an open product and factor market, with the exception of Iraq where inflation is expected to remain well in the double digits. Those countries with adjustable exchange rates such as Iran are projected to see double digit inflation.

While inflation remained at 14.1%, Iranian central bank stated in a recent bulletin that the Iranian economy enjoyed a sustained growth in the five year development plan, which ended March 2005. The Iranian government successfully implemented exchange rate unification, integration of the exchange market in the form of inter-bank market, deregulating foreign trade procedure, establishment of the Oil Stabilization Fund and improvements in the composition of external debt.

Oil prices, the US dollar and inflation

Unexpected yen weakness

The euro strengthened slightly in August to $1.27 as it became clear that the European Central Bank was very likely to raise interest rates further in October and this parity was maintained throughout September. Low interest rates continued to put pressure on the yen and the dollar rose to over ¥117. In September the dollar rose by 0.3% against the euro fell by 1% against the British pound, gained 1.1% against the Swiss franc and was up 2.1% versus the yen.

In September the OPEC Reference Basket fell to $59.34/b from $68.81/b in August. In real terms (base July 1990=100), after accounting for inflation and currency fluctuations, the Basket price fell by 13.7% to $40.45/b from $46.86/b. The value of the dollar rose by 0.3% as measured by the import-weighted modified Geneva I +US dollar basket*.

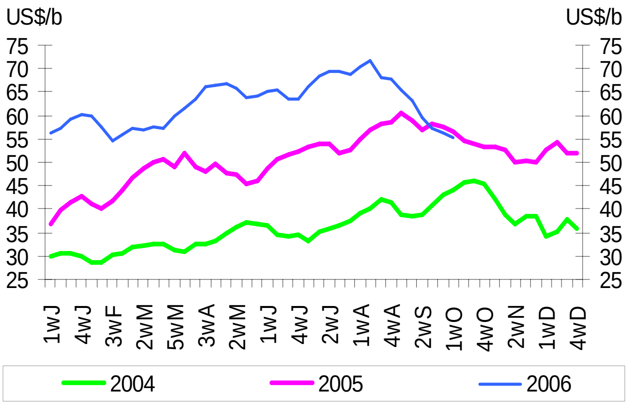
** The 'modified Geneva I+ US$ basket' includes the euro, the Japanese yen, the US dollar, the pound sterling and the Swiss franc, weighted according to the merchandise imports of OPEC Member Countries from the countries in the basket.*

Crude Oil Price Movements

The OPEC Basket plunged nearly $10/b to stand at $59.34/b in September on easing geopolitical tensions in the Mideast and healthy stock-builds

OPEC Reference Basket

Graph 1: OPEC Reference Basket - weekly spot crude



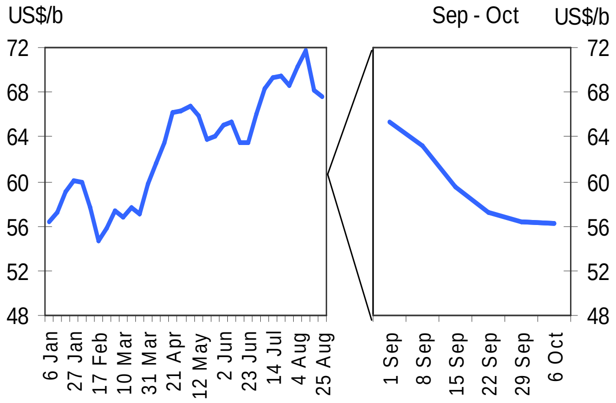
The market remained bearish in September. Easing Mideast geopolitical tensions at a time when many eastern marketers were engaged in the APPEC conference in Singapore limited trade activities. Moreover, the narrowing Brent/Dubai EFS spread also attracted the flow of western crude into Asia while the healthy stockpile of winter fuel in the Northern Hemisphere amid waning demand for gasoline reassured the bearish sentiment. The return of some disrupted output in the Gulf of Mexico as well as from Nigeria supported calmness in the marketplace. In the first week of the month, the Basket dropped $2.25 or 3.4% to average $63.14/b.

In the second week, the market remained calm as weak refining margins prompted slower procurement amid ample supply. OPEC's decision to keep output steady at a time of easing geopolitical concerns enhanced market bearishness. Additional capacity from a Mideast major and the softer demand outlook amid healthy winter fuel supply pushed prices lower. The Basket plunged more than 5% in three days with the weekly average down by $3.60 or nearly 6% to settle at $59.54/b, the first time below the $60/b level since March.

The market was a little firmer in the third week due to concern over heating oil supply amid tight October supply from the North Sea. Nevertheless, the bullish momentum was short-lived amid an unexpected distillate stock-build in the USA at a time when the refinery run rates were reduced in Japan, South Korea and Singapore weakening the demand for crude oil. Hence, the Basket dropped 4.5% in one day on 20 September. Slowing US economic growth was seen easing demand. Thus, the Basket's weekly average was down 4% or $2.38 to settle at $57.16/b. Moreover, receding fear about this year's Atlantic hurricane season in the USA and concern over slowing economic growth amid ample OPEC supply outweighed any concern about a supply shortfall.

Early in the fourth week, the Basket fell well over 2%. However, the perception of rising Asian demand amid concern that falling prices might trigger tighter OPEC output revived bullish momentum pushing the Basket nearly 3% higher. The weekly average of the Basket slipped 81¢ or 1.4% when it settled at $56.35/b.

Graph 2: Weekly average Basket price, 2006



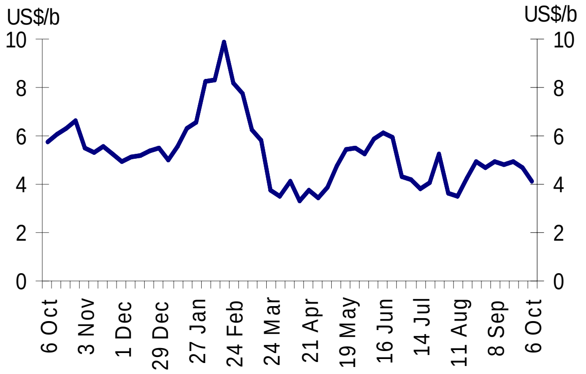
On a monthly basis, the OPEC Basket averaged $59.34/b, representing a substantial drop of $10/b or 14%. Eased tensions in the Mideast geopolitical arena and ample supply were the main factors behind the loss. Steady OPEC output amid lower refinery rates in Asia halting demand growth also exerted downward pressure on the petroleum complex amid healthy winter fuel supply. In the first two weeks of October, the Basket closed lower to average $55.23/b.

Higher refinery maintenance amid demand for winter fuels helped firm the sweet/sour spread

US market

The US domestic market emerged in September on a bullish note with the delayed return of Canada's Terra Nova offshore oilfield from maintenance amid US market closed for the Labor Day holiday. The bullishness was short-lived and US sour crude differentials came under mounting pressure from plentiful supplies. Citgo's Lake Charles refinery outages and flattening demand amid news of growing product levels supported the weak market sentiment. WTI's first weekly average dropped a hefty $2.23 or over 3% to settle at $68.33/b, with the spread over WTS expanding by 25¢ to $4.98, the widest weekly average since closing July. In the second week, thin refinery demand for light/sweet crude amid the perception of a higher-than-planned refinery maintenance rate prompted poor refinery margins with the westward flow of North Sea barrels pushing differentials to the lowest level that month. WTI's weekly average was down $3.81 or nearly 6% to settle at $64.52/b with the WTS discount down by 21¢ to $4.77/b. Hence, the sweet/sour differential widened with the WTS/WTS spread gaining 13¢ to $4.90/b, at a time when WTI decreased a hefty $2.53 or almost 4%. In the final week of the month, speculation about an OPEC cut in production at a time of an unconfirmed report of an output cut by Venezuela and pipeline problems in Alaska firmed sour crude. As a result, the WTI/WTS spread narrowed by 11¢ to $4.79/b in the fourth week, yet WTI was 60¢ or almost 1% lower to settle at $61.39/b. On a monthly basis, WTI averaged $64/b for a drop of some $13 or 12% with the premium to WTS at $4.85/b, an increase of 66¢ over the previous month.

Graph 3: WTI spread to WTS

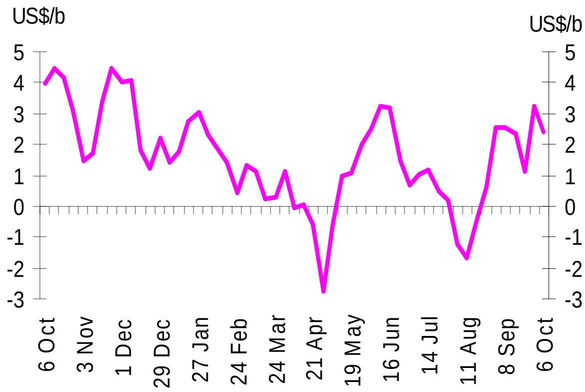


Lower regional supply in October was offset by poor refinery margins amid the flow of Mediterranean and West African barrels into the region

North Sea market

Falling refinery margins weakened the North Sea crude market at the start of the month, although low differentials attracted some buyers. Hence, the North Sea crudes resumed strength on improved refinery margins. This was further supported as the market shifted to October barrels amid unsold September cargoes which were clearing at lower differentials in the first week of the month. In the second week, poor gasoline margins amid ample supplies continued to pressure the grade. Buyers remained on the sidelines as sellers set differentials higher amid lower regional October supplies. Differentials firmed in the second week on emerging demand amid tight supply. In the third week, the market started off firmer, but this was short-lived amid weakening refinery margins amid the perception of ample supply on the flow of Mediterranean and West African crude into the region. Hence, sellers reduced differentials, yet buyers stood to the side with the prospect to pressure prices for a further fall. Moreover, emerged refinery maintenance eased the market in the fourth week. Brent's monthly September average fell $11.40 or more than 15% compared to the previous month to settle at $61.71/b.

Graph 4: WTI premium to Dated Brent



The Brent/Urals spread fell to the lowest average in 10 months on tight Urals supply and improved refinery margins

Mediterranean market

The Mediterranean market emerged on a weaker note amid poor refining margins. Moreover, a rise in price differentials by a Mideast major supported the grade to firm. The weekly average of the Brent/Urals spread narrowed by 59¢ to $2.62/b. In the second week, Urals firmed as refiners stockpiled to meet winter demand. Furthermore, technical problems cutting planned pumping through the Baku-Ceyhan pipeline for the second consecutive month supported market sentiment amid cleared September barrels. The Brent/Urals spread firmed with the weekly average 50¢ narrower at $2.12/b. However, in the third week, a drop in refinery margins for Urals reached a point where other regional grades became more lucrative, pushing the Brent/Urals spread to widen to $2.39/b. The prospect of tighter October Urals supply once again supported refining margins in the fourth week. The perception that OPEC might rein in output also gave a boost to the grade. The Brent/Urals spread narrowed by 47¢ to $1.92/b. The monthly average for Urals was $59.48/b down $9.02 or 13% below the August average. The Brent/Urals spread averaged $2.24/b compared to $4.68 in August, the lowest monthly average in 10 months.

Mideast crude pressured by ample supply and narrowed Brent/Dubai spread attracting the flow of rival western grades

Middle Eastern market

The Middle East market came under pressure from the opening arbitrage opportunity for West African crude eastbound as the Brent/Dubai spread narrowed to $1.36/b. Moreover, high product inventories in Japan amid a weak fuel oil crack spread supported the weak market sentiment in Asia. In the first week of the month, November Oman emerged in September on a weaker note when it was assessed at an 8¢/b discount to MOG amid unsold October barrels which were clearing at a 20¢/b discount. In the second week, poor refinery margins remained weak amid ample supply. Flattening demand supported the bearish market sentiment with November Oman clearing at a 15-22¢/b discount to MOG, which steepened further later in the week to a 30¢/b discount amid China reselling some cargoes as the Brent/Dubai spread remained attractive at $1.43/b inspiring the flow of rival western grades. Oman continued to weaken on plentiful supply at a time when some Asian refiners reduced run rates. November Oman traded at a 35-40¢/b discount to MOG.

Graph 5: Dated Brent spread to Dubai

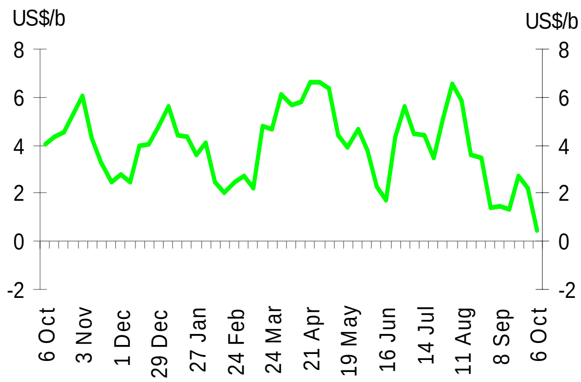


Table 1: OPEC Reference Basket and selected crudes, US$/b

			Change	Year-to-date average	
	Aug 06	Sep 06	Sep/Aug	2005	2006
OPEC Reference Basket	**68.81**	**59.34**	-9.46	**50.06**	**62.75**
Arab Light	68.76	59.72	-9.04	49.42	62.71
Basrah Light	65.42	56.40	-9.02	48.15	59.63
BCF-17	60.29	50.96	-9.32	39.49	53.52
Bonny Light	75.29	63.87	-11.42	54.86	68.77
Es Sider	70.72	61.54	-9.19	51.41	65.13
Iran Heavy	66.42	57.14	-9.27	47.26	60.92
Kuwait Export	66.02	56.75	-9.27	46.73	60.48
Marine	70.05	60.90	-9.15	49.48	64.23
Minas	75.42	63.32	-12.10	53.63	67.63
Murban	73.66	65.01	-8.65	53.20	67.53
Saharan Blend	74.50	63.27	-11.23	53.76	67.89
Other Crudes					
Dubai	68.92	59.82	-9.10	48.28	62.98
Isthmus	67.47	57.18	-10.29	49.64	61.78
T.J. Light	60.99	52.35	-8.64	45.58	56.29
Brent	73.11	61.71	-11.40	53.73	67.01
W Texas Intermediate	73.01	64.00	-9.01	55.45	68.09
Differentials					
WTI/Brent	-0.10	2.29	2.39	1.73	1.08
Brent/Dubai	4.19	1.89	-2.30	5.45	6.31

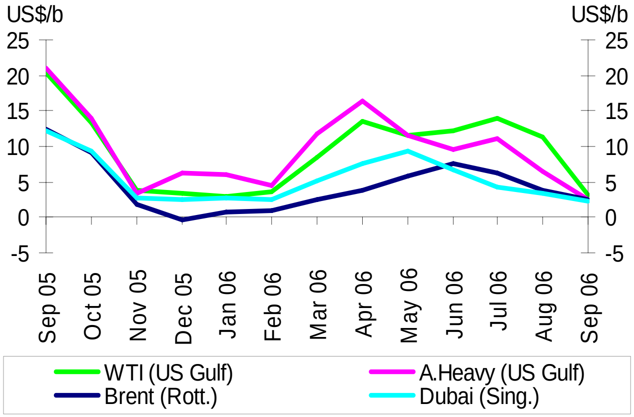
Source: Platt's, Direct Communication and Secretariat's assessments.

Product Markets and Refinery Operations

Refinery margins lost further ground in September

The end of the driving season, combined with steady distillate stock-building, has changed the product market sentiment significantly and exerted downward pressure on product prices and refinery margins across the globe. As **Graph 6** shows, refinery margins for WTI crude oil in the US Gulf Coast plunged to $3.25/b in September from $11.39/b the previous month. The same trend also dominated the European market, causing benchmark Brent crude margins to fall to $2.59/b from $3.80/b in August. In Asia, despite throughput cuts by some refiners, the bullish sentiment of the product market did not revive, and refinery margins followed the downward trend in the Atlantic Basin, dropping to $2.254/b from $3.35/b in the previous month. **A moderate downward correction in refinery margins during the shoulder season is not outside market expectation, but the combination of a light autumn maintenance schedule with high distillate and natural gas stocks would be a threat to product and crude prices for the next few months. However, weather conditions remain a key wild card as colder-than-normal winter in the Western Hemishphere could turn the product market's current bearish sentiment.**

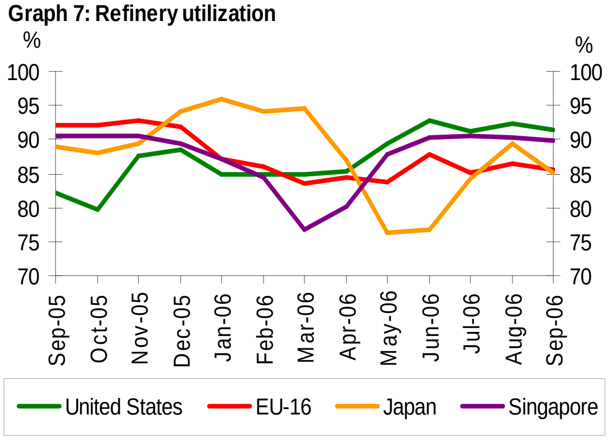
Graph 6: Refiners' margins



The bearish momentum of the product markets slowed refinery operation rates

Part of the throughput cuts was due to the usual maintenance schedule in autumn, but the rest was attributed to refinery margins falling across the globe. Among the different areas, the Japanese refinery utilization rate fell further compared to the others. As **Graph 7** demonstrates, the Japanese refinery utilization rate dropped by 4.3% in September to 85.1% compared to the previous month. With the approaching winter season, Asian refiners, including the Japanese, may raise throughput levels, but this will depend on the circumstances of the product market over the coming months. In the Atlantic Basin, US and European refinery utilization rates also declined in September by 0.8% and 1% respectively to 91.5% and 85.5% from 92.3% and 86.5%.

Graph 7: Refinery utilization



US market

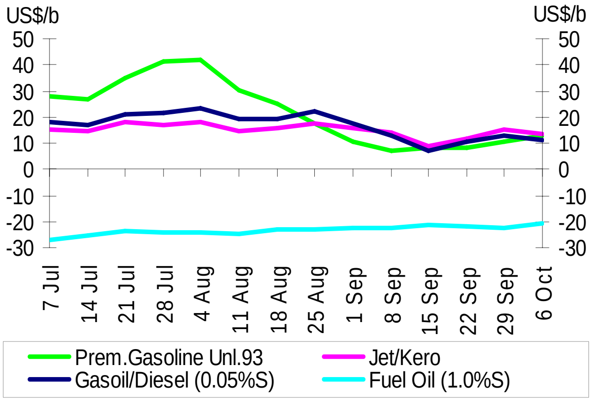
With the end of the driving and hurricane season product markets lost ground sharply in both the US physical and futures markets

The situation of decreasing product prices has led to a sharp fall in the gasoline crack spread against the benchmark WTI crude in September. As **Graph 8** shows, the monthly crack spread of premium gasoline versus WTI crude oil at the US Gulf Coast plummeted from $24.92/b in August to $8.52/b in September. This bearish movement also caused US refinery margins to fall significantly. Looking ahead, due to seasonal factors and high gasoline stocks, the current low margin for gasoline is expected to continue over the next few months.

Meanwhile, the bearish developments of the gasoline markets encouraged US refiners to change their operation mode in favour of distillates, which resulted in huge distillate stock-builds across the US market over the last few weeks and put downward pressure on distillate prices in the physical and the futures markets. **The higher-than-usual distillate stock-builds, together with uncertainty about the weather forecast for winter in the USA, encouraged non-commercial players to liquidate their long positions significantly and to raise short position contracts for**

heating oil on the Nymex from 14,769 contracts in early September to 28,019 contracts in early October. Due to the autumn maintenance schedule, the recent pace of distillate stock-builds may slow in the next weeks, but the current muted situation of the US distillate market is not likely to change significantly, unless there is an early winter.

Graph 8: US Gulf crack spread vs. WTI



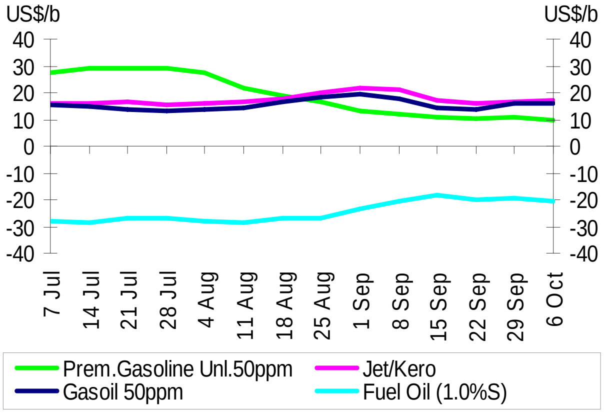
With regard to the bottom of the barrel complex, the US market situation also looks very bearish, as fuel oil demand declined in September by about 350,000 b/d from a year ago. Similarly, the weakness in natural gas prices might continue to limit utility demand for low-sulphur fuel oil over the coming months.

European market

European product markets have been severely affected by the recent bearish momentum in the US market

European refiners benefited from the arbitrage opportunity to the US market in recent months, which lent support to product prices and refinery margins since the start of this year. However, this opportunity disappeared recently, exerting downward pressure on product crack spreads in September. As **Graph 9** shows, the monthly average gasoline crack spread against the benchmark Brent crude dropped sharply to $11.42/b from $21.05/b in August. The weaker-than-usual arbitrage opportunity to the US market may further threaten the European gasoline market in the next months. Together with the bearish developments in the gasoline market, the naphtha market was also dampened by the heavy cracker maintenance schedule, and prices have fallen over the last few weeks.

Graph 9: Rotterdam crack spreads vs. Brent



Despite the huge losses in the top portion of the barrel complex last month, the middle cut of the barrel component has not been seriously affected by the bearish momentum in the US product market and kept its relatively earlier strength. The heavy refinery maintenance schedule in Europe during October may support the European distillate market, which is generally short. Furthermore the European winter is projected to be colder than normal, which could lift the distillate crack spread in the future.

Regarding fuel oil, the crack spread of the high-sulphur grade improved due to falling crude prices, but generally the market remained bearish as arbitrage opportunities to the USA and Asia are effectively closed.

Asian market

With the exception of fuel oil, Asian product crack spreads fell in September

The fall of most Asian product crack spreads has forced Asian refiners to trim their throughput levels over the last few weeks. As Graph 10 indicates, among the barrel components, the gasoline spread in the Singapore market has followed the recent global pattern plunging by 50% to $3.89/b on 6 October from $7.08/b in early September. Due to seasonal factors and lack of arbitrage opportunity to the US market, the currently low margin of the gasoline component is expected to remain for the next few months. Along with gasoline, the naphtha market has also lost further ground due to the havy crack maintenance schedule and ample supply from India. The currently weak naphtha market may persist up to November, when the cracker unit maintenance will be completed and petrochemical plants will return to normal operations.

Similarly, the middle distillate market weakened recently, and its spread versus the benchmark Dubai crude narrowed relatively compared to previous months. However, with the monsoon season in South-East Asia coming to an end, demand from the electricity generation and transportation sector should recover to lend support to the gasoil market. Additionally, the end of the fishing ban in the South China Sea, along with other seasonal factors, may contribute to a further consumption of middle distillates to support their prices and margins in the next few months.

As far as the fuel oil market is concerned, the closed arbitratge opportunity between Europe and Asia, combined with lower refinery throughput and higher Chinese demand, provided support and narrowed its spread versus the benchmark Dubai crude to minus $15.20/b on 6 October from minus $19.52/b in early September (*see Graph 10*). But sluggish demand from utility plants weighed on the low-sulphur fuel oil market pushing low-sulphur fuel oil prices lower than those of high-sulphur fuel oil.

Graph 10: Singapore crack spreads vs. Dubai

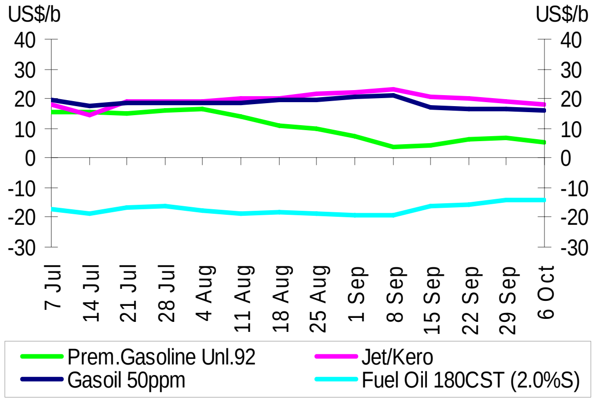


Table 2: Refined product prices, US$/b

		Jul 06	Aug 06	Sep 06	Change Sep/Aug
US Gulf (Cargoes):					
Naphtha		84.06	72.99	63.62	-9.37
Premium gasoline	*(unleaded 93)*	108.10	97.94	72.4	-25.54
Regular gasoline	*(unleaded 87)*	96.83	85.62	65.63	-19.99
Jet/Kerosene		90.60	89.57	76.29	-13.28
Gasoil	*(0.05% S)*	93.87	93.34	74.81	-18.53
Fuel oil	*(1.0% S)*	50.29	52.58	42.71	-9.87
Fuel oil	*(3.0% S)*	49.55	49.59	41.79	-7.80
Rotterdam (Barges FoB):					
Naphtha		84.43	81.35	68.51	-12.84
Premium gasoline	*(unleaded 50 ppm)*	102.17	93.21	72.69	-20.52
Premium gasoline	*(unleaded 95)*	91.26	83.09	64.8	-18.29
Jet/Kerosene		89.69	91.68	79.71	-11.97
Gasoil/Diesel	*(50 ppm)*	87.80	89.75	77.31	-12.44
Fuel oil	*(1.0% S)*	46.10	46.38	42.04	-4.34
Fuel oil	*(3.5% S)*	46.79	46.41	40.67	-5.74
Mediterranean (Cargoes):					
Naphtha		70.21	67.81	56.94	-10.87
Premium gasoline	*(50 ppm)*	102.69	93.24	71.74	-21.50
Jet/Kerosene		87.30	89.91	77.73	-12.18
Gasoil/Diesel	*(50 ppm)*	88.92	89.83	77.33	-12.50
Fuel oil	*(1.0% S)*	49.59	49.86	40.94	-8.92
Fuel oil	*(3.5% S)*	46.80	44.99	39.72	-5.27
Singapore (Cargoes):					
Naphtha		70.55	66.59	57.32	-9.27
Premium gasoline	*(unleaded 95)*	85.50	81.22	65.86	-15.36
Regular gasoline	*(unleaded 92)*	84.47	80.36	65.18	-15.18
Jet/Kerosene		87.57	89.47	80.55	-8.92
Gasoil/Diesel	*(50 ppm)*	88.17	88.19	77.75	-10.44
Fuel oil	*(180 cst 2.0% S)*	52.28	50.16	43.25	-6.91
Fuel oil	*(380 cst 3.5% S)*	50.72	47.61	42.24	-5.37

Table 3: Refinery operations in selected OECD countries

	Refinery throughput *mb/d*				Refinery utilization *%*			
	Jul 06	Aug 06	Sep 06	Sep/Aug	Jul 06	Aug 06	Sep 06	Sep/Aug
USA	15.63	15.80	15.67	-0.13	91.3	92.3	91.5	-0.80
France	1.70 R	1.55 R	1.58	0.03	85.6 R	78.5 R	79.9	1.40
Germany	2.31 R	2.38 R	2.14	-0.24	95.1 R	97.9 R	88.2	-9.70
Italy	1.84	1.91 R	1.92	0.01	79.0	82.0 R	82.7	0.70
UK	1.51	1.53	1.56	0.03	80.3	81.6	83.0	1.40
Eur-16	12.02 R	12.23 R	12.08	-0.15	85.1 R	86.5 R	85.5	-1.00
Japan	3.93 R	4.18	3.97	-0.21	84.1 R	89.4 R	85.1	-4.30

R *Revised since last issue.*

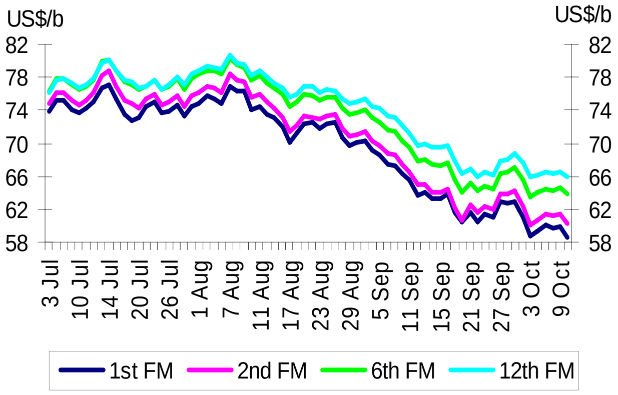
Sources: *OPEC statistics; Argus; Euroilstock Inventory Report; IEA.*

The Oil Futures Market

Speculators reduced net longs on ample supply and healthy winter fuel stocks amid easing concern over the hurricane season

The downtrend for the Nymex WTI crude oil futures contracts continued into September from the previous month. With the Labor Day signaling the end of the driving season and no further developments in the Mideast geopolitical arena, bearish US petroleum stock data triggered speculators to liquidate long positions, while the perception of a further downward trend enhanced the build in shorts. The front month closed the first weekly period down 1.5% lower at $68.60/b. Thus, the CFTC report for the first weekly period exhibited a further drop of 13,500 contracts in non-commercial net long positions amid a healthy build of nearly 13,000 lots in short positions. Moreover, open interest saw a build of 20,600 lots to stand at 1,170,300.

Graph 11: Nymex WTI futures prices, 2006



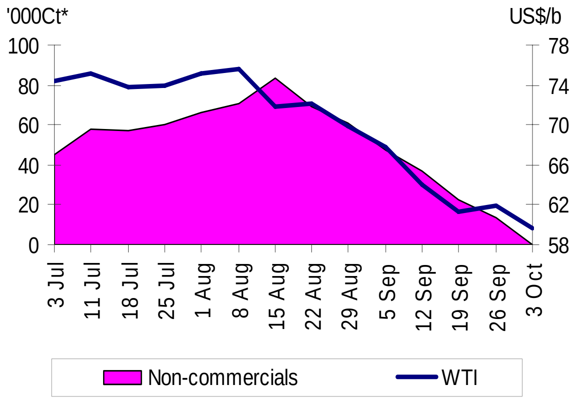
FM = future month

In the second weekly period, the bearish sentiment was furthered by the possible resumption of full output from BP's Prudhoe field by the end of October. News that Royal Dutch Shell's Mars platform in the Gulf of Mexico was producing more oil than it had before Hurricane Katrina hit last year as well as the partial return of Nigeria crude helped accelerate the downward trend. Furthermore, distillate stocks were healthy amid the prospect of weakening demand as estimated by the IEA amid steady OPEC output. The Nymex WTI prompt month closed the second weekly period down $4.84/b or over 7% at $63.76/b. The CFTC reported that non-commercials further increased their short positions by a healthy 8,300 lots while moderately reducing their longs. Hence, net longs were down by a considerable 10,300 lots to some 37,000 contracts. Open interest saw another significant build, rising by nearly 44,000 lots to peak at a new record of 1,214,000 contracts.

In the third weekly period, market condition enhanced the retreat on funds sell-offs for profit-taking, with the Nymex WTI front month futures contract losing $2.10/b or 3.3% to close the period at $61.66/b. The CFTC reported a significant liquidation in long positions which dropped 15,500 lots to the lowest level since the third week of June, with the net longs down 14,500 contracts to 22,500 lots. Moreover, open interest dropped by a healthy 36,500 contracts to 1,177,400 lots.

The downward trend continued into the final weekly period of the month with the new Nymex WTI front month slipping 65¢ or 1% to settle at $61.01/b. A healthy distillate stock-build amid concern over slower demand growth and receding fear about this year's Atlantic hurricane season contributed to the sustained downward trend of crude oil prices which thus far have dropped 20% since mid-July. However, the perception of a possible OPEC supply cut prevented prices from tumbling further. The CFTC reported in the fourth weekly period that speculators increased short positions by nearly 14,000 to 153,000 lots, the highest level since last December. Hence, non-commercial net long positions continued to fell closing nearly 9,000 lots narrower at 13,700 lots, the lowest level

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



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

since March. Nonetheless, open interest continued to deflate, falling a significant 28,600 lots to 1,149,000 contracts.

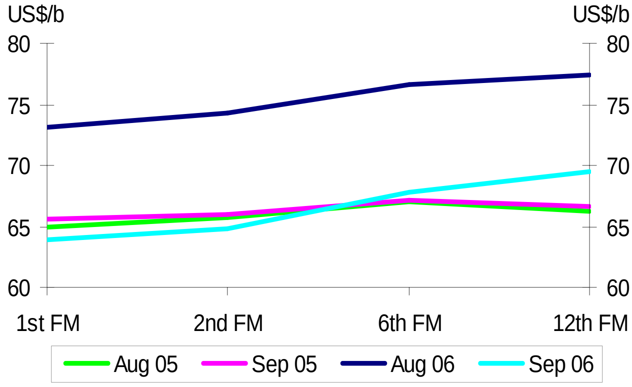
The daily average for the Nymex WTI front month in September was \$63.90/b, a drop of \$9.18/b or 12.5% from August. Non-commercial average net long positions were some 30,000 or nearly 40,000 lots less than in the previous month, yet 36,000 higher than last year. Non-commercial weekly average longs dropped by 18,000 lots while shorts rose 22,000 lots. Open interest's weekly average was 1,177,600 contracts, 26,000 lots higher than last month and some 310,600 contracts over the year-ago level.

The Forward Structure

Ample supply and high outright prices supported stock depletion amid a contango forward structure sustained for nearly two years

The near month spread narrowed in September with the 1st/2nd month forward structure 25¢ narrower in contango at 94¢/b. However, the further forward month spreads continued to widen, with the 1st/6th, 12th, and 18th month average spread at \$3.86/b, \$5.65/b and \$5.92/b or 32¢, \$1.32/b and \$2.13/b wider. Yet, average weekly crude oil stocks in the USA in September stood at 327 mb, some 5 mb lower than in August in part due to the continued impact of higher prices inspiring inventory depletion. Yet, stocks were 18 mb higher than the same period last year.

Graph 13: Nymex WTI forward curve

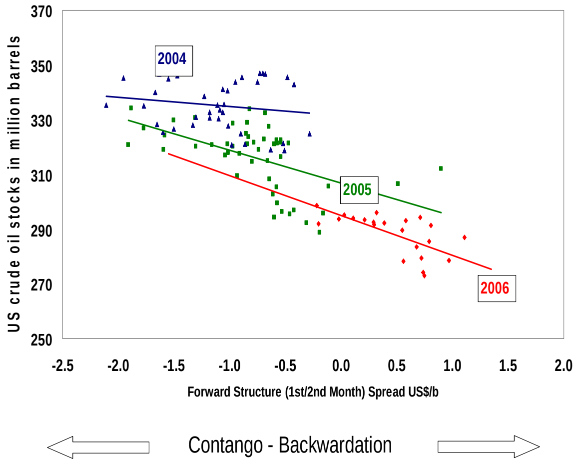


FM = future month

Forward market structure and implications for crude oil stocks

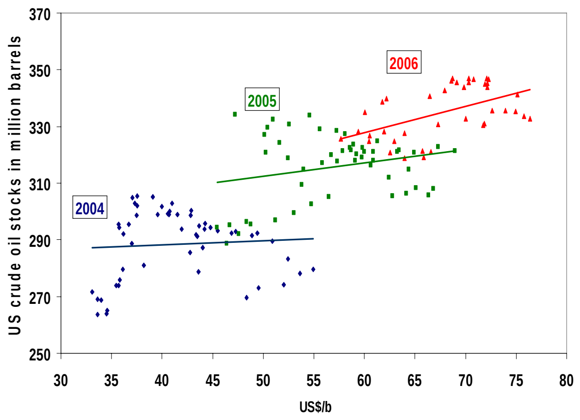
Graph A represents the relation between the contango in the forward structure (1st/2nd month spread) and the crude oil stock level in the USA. The rises in crude oil stocks are in part due to the structure of the forward market which has been in contango for nearly 2 years. This correlation was evident in 2005 and was continued over the first nine months of 2006. Generally speaking, a steeper contango should result in higher stocks levels. The US monthly average for crude oil stocks in 2004 was 289 mb, up 7.4 mb from 2003. In 2005, the average was 317.7 mb, up 28.3 mb, while in 2006 the average was almost 20 mb higher at 337.6 mb. A similar correlation can be seen when applied to the OECD on a monthly basis with the average of Brent, Dubai and WTI 1st/2nd month spread.

Graph A: US crude oil stocks vs. forward structure



Graph B indicates that the traditional relationship between stocks and prices decoupled in 2005 and continued into 2006. As a result the relation can be established, the higher the procurement, the higher oil price tends to move in the USA. As indicated above, the monthly average of US crude oil inventories jumped in 2004 by 2.6%, while WTI prices increased on average by nearly 33% to $41.39/b. In 2005, stocks were up nearly 10%, while WTI was up over 36% to $56.47/b. In the first nine months of 2006, WTI crude prices surged over 20% to $67.94/b and inventories built by over 6% on average. A similar analysis was carried out between prices and crude oil stocks in the OECD with the average price for Brent, WTI and Dubai revealing a similar correlation that the higher the stocks, the higher the average global prices.

Graph B: US crude oil stocks vs. WTI prices



The Tanker Market

OPEC spot fixtures declined for the third consecutive month in September

In September, estimated OPEC spot fixtures showed a decline of nearly 0.5 mb/d or 3.7% to average 12.3 mb/d. OPEC fixtures have fallen for the third consecutive month, although the loss was lower than the 0.9 mb/d displayed during the previous two months. However, compared to a year earlier, OPEC spot fixtures were around 2 mb/d lower. The drop in spot fixtures came as a result of the combination of a decline in OPEC production and a slowdown in demand. Despite this decline, OPEC's share in total fixtures rebounded by 3 percentage points to 67%, similar to the July level, indicating that non-OPEC spot fixtures experienced a stronger decline relative to OPEC. Middle East eastbound fixtures (including non-OPEC members) rose 0.7 mb/d or 15% to 5.6 mb/d, while westbound fixtures fell 0.3 mb/d or 17% to stand at 1.5 mb/d, the lowest level so far this year. The increase in eastbound fixtures was due to particularly strong bookings from China and Japan.

Non-OPEC spot fixtures fell 1.0 mb/d or 14% to average 6.1 mb/d, which was 1.5 mb/d below a year earlier. As a result, total global spot fixtures dropped 1.5 mb/d to average 18.4 mb/d, the lowest level so far this year. OPEC sailings rose nearly 1.0 mb/d to 23.9 mb/d, but remained 0.5 b/d below the September 2005 figures. Sailings from the Middle East showed some recovery and increased 0.1 mb/d compared to a decline of 1.2 mb/d in the previous month to stand at 17.6 mb/d. Preliminary data shows that arrivals at the US Gulf and East Coast and the Caribbean declined for the first time since May 2006 to average 10.2 mb/d in September, which corresponded to 0.5 mb/d less than the previous month while arrivals in North-West Europe fell by less than 0.1 mb/d to 7.6 mb/d. In contrast, arrivals at the Euro-Mediterranean basin witnessed an increase of more than 0.2 mb/d to average nearly 4.6 mb/d, the highest level in the last four months.

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

	Jul 06	Aug 06	Sep 06	Change Sep/Aug
Spot Chartering				
All areas	20.26	19.88	18.41	-1.47
OPEC	13.64	12.77	12.29	-0.48
Middle East/east	5.87	4.81	5.55	0.74
Middle East/west	1.75	1.80	1.49	-0.31
Sailings				
OPEC	24.50	22.92	23.89	0.97
Middle East	18.61	17.42	17.56	0.14
Arrivals				
US Gulf Coast, US East Coast, Caribbean	9.66	10.74	10.23	-0.51
North West Europe	7.65	7.68	7.60	-0.08
Euromed	4.32	4.34	4.57	0.23

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

VLCC market remained strong while Suezmax and Aframax came under pressure in September

The crude oil tanker market showed a mixed pattern in September with the VLCC sector remaining strong and Suezmax and Aframax softening on most routes. Spot freight rates for VLCCs trading on the Middle East/eastbound long-haul route fell a marginal 8 points to average WS124 while Middle East/westbound rates stayed stable at WS97, the second highest level in 2006 after February, displaying a 17% y-o-y growth. Despite the decline, rates on the Middle East/eastbound route showed y-o-y growth of 40% and they were even better than in the corresponding month of 2004 where rates hit their historical yearly high level. The performance of the VLCC sector in the Middle East was attributed to tight tonnage as tankers getting fixed to Asia and USA remained firm. The healthy activity to Asia, for instance, was reflected in the number of fixtures which averaged 78 in September against 72 in the previous month.

In contrast to the VLCC sector, fewer enquiries resulting in plentiful supply exerted downward pressure on the Suezmax market where rates lost between 15% and 20% depending on the route. The West Africa/US Gulf Coast route saw rates average WS140, representing a drop of 35 points below the previous month due to the decline in fixtures, which went from 60 in August to 44 in September, essentially due to disruptions to Nigeria's exports. Nevertheless, freight rates strengthened during the fourth week due to limited tonnage following robust strong demand for

West African crude, resulting in an increase in rates of more than 20% on this route. Behaving similarly, freight rates on the transatlantic route dropped 25 points to WS143 amid limited trade. For instance, in September almost 75% of North Sea Brent crude remained in North-West Europe while 25% was exported to the USA. This contrasted the 42% that was exported to the USA in August. Nevertheless, in y-o-y terms freight rates on both routes were around 20 points higher. The Aframax tanker market showed mixed movement with rates on the Indonesia/US West Coast route continuing their upward trend, gaining 11 points to settle at a monthly average of WS234. Rates for the rest of the routes weakened on the back of lower activity, especially on the cross-Mediterranean and the Caribbean/US East Coast routes. However, average rates continued to decline for the fourth consecutive month on the Caribbean/US West Coast route, dropping 33 points to average WS172. The decline was due to a lack of demand from charterers which was reflected in the number of fixtures which fell by 15 compared to the previous month.

In the Mediterranean Basin and from there to North-West Europe, rates lost around 40 points or 22% to stand at WS142-144 due to a lack of tanker chartering interest. It is worth noting that intra-Mediterranean rates in September reached their lowest level so far this year while on the Mediterranean/North-West Europe route, rates hit the second-lowest level after March. With the exception of the Indonesia/US West Coast route, all the routes in the Aframax sector were weaker than a year earlier.

Table 5: Spot tanker freight rates, Worldscale

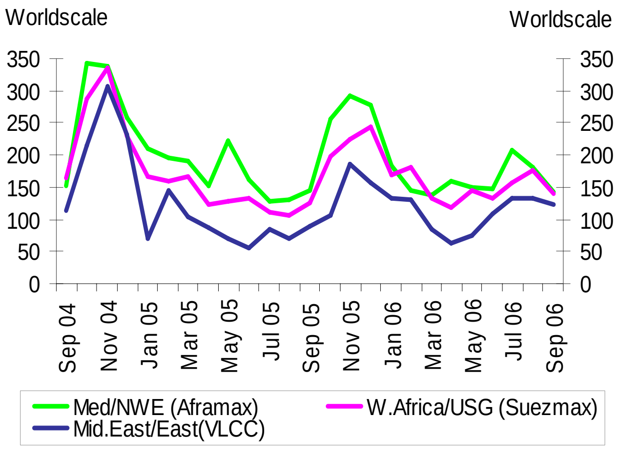
	Size *1,000 DWT*	Jul 06	Aug 06	Sep 06	Change Sep/Aug
Crude					
Middle East/east	230-280	133	132	124	-8
Middle East/west	270-285	94	96	97	1
West Africa/US Gulf Coast	130-135	156	176	140	-35
NW Europe/USEC - USGC	130-135	152	169	143	-25
Indonesia/US West Coast	80-85	202	223	234	11
Caribbean/US East Coast	50-55	211	205	172	-33
Mediterranean/Mediterranean	80-85	182	182	144	-38
Mediterranean/North-West Europe	80-85	207	182	142	-40
Products					
Middle East/east	30-35	202	273	259	-14
Singapore/east	30-35	244	337	327	-10
Caribbean/US Gulf Coast	38-40	335	350	266	-84
NW Europe/USEC - USGC	33-37	313	304	225	-79
Mediterranean/Mediterranean	30-35	296	263	231	-32
Mediterranean/North-West Europe	30-35	306	273	241	-32

Source: Galbraith's Tanker Market Report and others.

Clean markets softened amid lower activity during September

In the product tanker market, freight rates retreated from their extremely high levels but still remained very attractive to ship-owners. In the East of Suez, freight rates for tankers of 30,000-35,000 dwt moving between the Middle East or Singapore to Asia fell a slight 5% to average WS259 and WS327 respectively due t stocks. When compared to a year earlier, rates on both routes were 50 and 110 points lower, respectively. However, it should be noted that in September last year rates were driven by hurricanes Rita and Katrina and hit their historical highs. The weakness was more pronounced in the West where excess tonnage put more pressure on ship-owners to accept lower rates, especially those doing business on the Caribbean and the US Gulf Coast and the

Graph 14: Monthly averages of crude oil spot freight rates



routes where rates plunged by around 80 points to WS266 and WS225 respectively. The sharp decline in freight rates for vessels moving to the USA can be attributed to thin trade as the gasoline season came to an end. In addition, the switch from fuel oil to natural gas in the power generation sector following the decline in natural gas prices also contributed to the slowing of trade and as consequence the decrease of freight rates. In the Mediterranean Basin and from there to North-West Europe, freight rates have been declining throughout the month and lost 32 points or 12% on average to stand at WS231 and WS241 as tonnage availability has been gradually increasing. In addition, the expected heavy petrochemical autumn maintenance season in Western Europe, which could involve up to 15%, contributed to the weakness in the clean market in Europe.

World Oil Demand

World oil demand growth for 2006 was revised down by 0.1 mb/d to average 1.0 mb/d

World oil demand in 2006

World oil demand in 2006 is now estimated to average 84.2 mb/d, with a growth of 1.0 mb/d or 1.2%. This represents a downward revision of 0.1 mb/d to world oil demand growth from the last *MOMR* due to the slowing global economy.

Warm weather, higher oil prices and the relatively lower natural gas prices affected oil demand mostly in the OECD. The removal of price subsidies in some Asian countries further dampened oil demand growth in the first half of this year.

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

	2005	1Q06	2Q06	3Q06	4Q06	2006	Change 2006/05 Volume	%
North America	25.46	25.11	25.09	25.58	25.80	25.40	-0.06	-0.24
Western Europe	15.48	15.72	15.04	15.47	15.73	15.49	0.01	0.06
OECD Pacific	8.59	9.30	7.87	8.05	8.86	8.52	-0.07	-0.83
Total OECD	**49.53**	**50.14**	**48.00**	**49.10**	**50.39**	**49.41**	**-0.12**	**-0.25**
Other Asia	8.67	8.73	8.95	8.63	8.80	8.77	0.11	1.22
Latin America	5.06	4.99	5.15	5.30	5.22	5.16	0.10	1.97
Middle East	5.82	6.04	6.12	6.32	6.14	6.16	0.34	5.83
Africa	2.89	2.96	2.95	2.91	2.99	2.95	0.06	2.20
Total DCs	**22.44**	**22.72**	**23.16**	**23.15**	**23.15**	**23.05**	**0.61**	**2.71**
FSU	3.82	3.69	3.56	3.85	4.03	3.78	-0.04	-0.93
Other Europe	0.88	0.97	0.90	0.90	0.88	0.91	0.03	2.94
China	6.54	7.09	7.34	6.86	7.02	7.08	0.54	8.23
Total "Other Regions"	**11.24**	**11.75**	**11.80**	**11.61**	**11.93**	**11.77**	**0.53**	**4.70**
Total world	**83.21**	**84.60**	**82.96**	**83.86**	**85.47**	**84.23**	**1.01**	**1.22**
Previous estimate	83.23	84.66	83.02	84.21	85.63	84.38	1.15	1.38
Revision	-0.02	-0.06	-0.06	-0.34	-0.16	-0.16	-0.14	-0.17

Totals may not add due to independent rounding.

However, in Other Asian countries booming world trade is expected to boost transport fuel consumption despite the decrease in power plant demand for fuel oil. To meet the increasing demand in Asia, the region was forced to import fuel oil from the Middle East in order to offset the shortfall in the supply chain.

China's economic activities are supporting the strong oil demand growth expected for this year and will last until year-end. According to official news reports by business leaders, the Zhenhai oil storage with a capacity of 5.2 million cubic metres is reported to have started being filled.

North America third-quarter oil demand was revised down by 0.17 mb/d to achieve a meagre growth of 0.07 mb/d

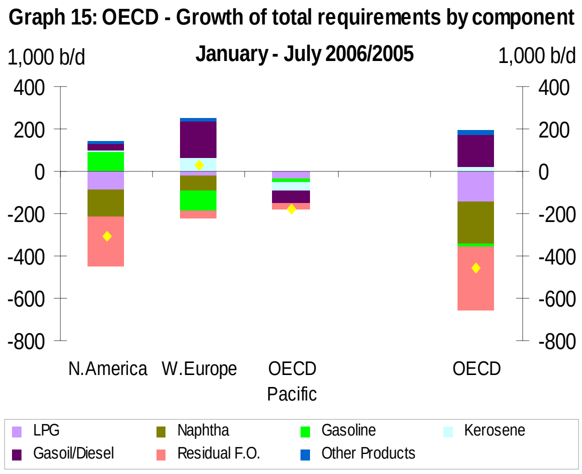
Estimate for third quarter 2006

Robust US September oil demand growth did not offset the summer decline. According to the weekly EIA report, September gasoline demand in the USA was up by 3.9% y-o-y and total product demand rose 2.8% for the same month. The refinery input increased by a stunning 13% y-o-y in September in anticipation of winter demand. Of course, the high demand in September was partially due to the low 2005 base which was affected by the hurricane. As a result of fuel switching, fuel oil demand was down by 39% in September y-o-y. January-September average gasoline and fuel oil consumption grew by a meagre 1% each y-o-y. Thus, the low oil demand in July and August caused oil consumption to decline further in the third quarter. Hence, the North American third-quarter y-o-y oil demand was revised down by 0.17 mb/d to show minor growth of 0.07 mb/d.

OECD oil demand growth in the third-quarter revised down by 0.3 mb/d

Due to higher oil prices, diesel and jet fuel demand in Canada was down by 5% and 12% in July compared to the previous month. The increase in fuel oil demand did not offset the decline in total oil demand of more than 2% in July.

In total, OECD third-quarter oil demand growth y-o-y was revised down by 0.3 mb/d.



OECD Europe

Third quarter oil demand growth in OECD Europe revised down by 0.1 mb/d to show a decline of 0.08 mb/d

As seen in the first half of 2006, low heating oil demand in Europe negatively affected total oil demand. Low consumption of heating oil caused oil demand in France to drop by 5.8% in August y-o-y. Low demand for transport fuel caused a further decline in third-quarter oil demand. As a result, third-quarter oil demand growth in OECD Europe was revised down by 0.1 mb/d to end the third quarter with a decline of 0.08 mb/d y-o-y.

OECD Pacific

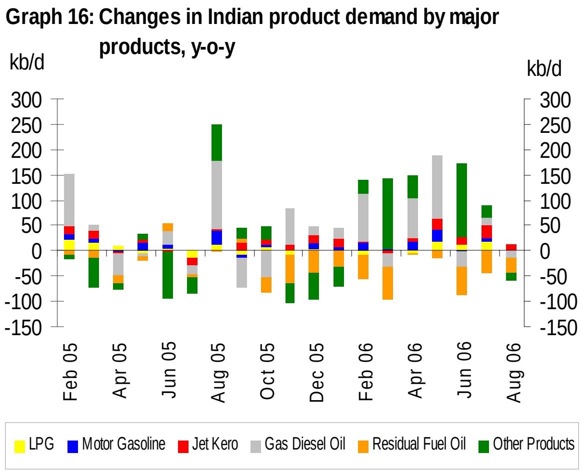
OECD Pacific oil demand estimated to show a decline of 0.02 mb/d in the third quarter

Japan's peak gasoline season (June-August) was hit by bad weather early in the summer. Also, recent gasoline data shows that August gasoline sales were down by 5%, which was attributed to record-high prices. Due to the continuation of the trend which had started early in the summer, Japan's August oil imports declined by 4% y-o-y. Hence, OECD Pacific third-quarter oil demand is estimated to show a decline of 0.02 mb/d**.**

Developing Countries

Third-quarter oil demand growth for the Middle East is estimated at 0.3 mb/d to average 6.14 mb/d

Strong economic growth in the Middle East drove y-o-y third-quarter oil demand up further. Third-quarter oil demand growth for the Middle East is estimated at 0.3 mb/d y-o-y to average 6.14 mb/d.



Thailand's transport fuel demand was down on average for the first eight months in 2006. To some degree, the slide in demand for this fuel was a result of higher oil prices and an increased use of alternative fuel. Thailand's January-August demand for gasoil declined by more than 8% y-o-y. Hence, oil imports over the first eight months of the year were down by 1.5% y-o-y. Gasohol consumption in Thailand increased this year but the negative effect on conventional gasoline consumption will be modest due to the minor differential in prices, which is less than 5%.

India's strong economic growth of 8.1% has pushed new car sales up by one third so far this year; however, oil demand growth is not matching the economic growth. The January-August y-o-y oil demand growth is lagging behind with a moderate growth of 2%.

Table 7: Indian growth of total requirements by component, kb/d

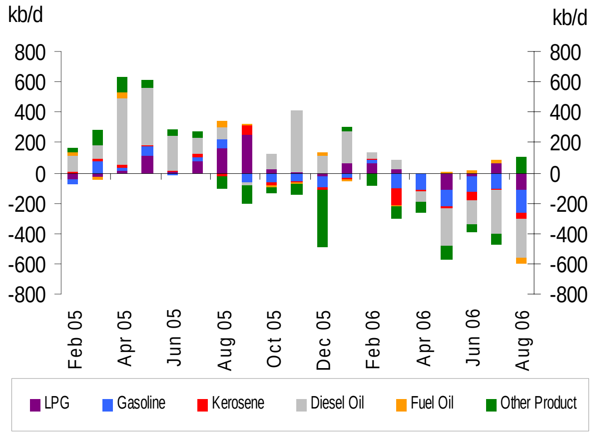
	Aug 06	Jul 06	Jan - Aug 06	Difference to Jan - Aug 05	%
LPG	324	318	324	5	2
Motor Gasoline	199	200	210	9	5
Jet Kero	276	272	278	12	4
Gas Diesel Oil	765	852	907	33	4
Residual Fuel Oil	332	322	321	-36	-10
Other Products	515	507	600	40	7
Total Oil Demand	**2,411**	**2,472**	**2,630**	**52**	**2**

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

Other Regions

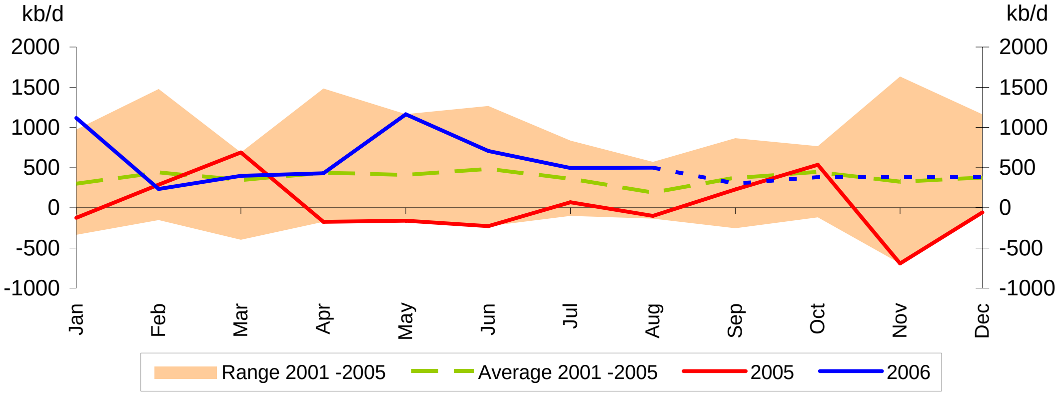
Gasoline and fuel oil were the main products supporting oil demand growth in China in August. Gasoline consumption is expected to grow by 15% driven by the 30% increase in new car sales in China in August. The new car sales increased by a similar amount over the first eight months of 2006. Strong demand forced refiners to reduce gasoline exports for August by more than 60%. The fuel oil margin is attracting refiners; therefore, August y-o-y imports were up by half. Growing demand for petroleum products in China caused a domestic shortage which was offset by imports. January-August oil imports surged 15% y-o-y.

Graph 17: Changes in Chinese oil products net trade, y-o-y



FSU oil exports decreased in the third quarter, causing apparent demand to stop the declining trend and show a third-quarter growth of 0.07 mb/d. However, vigilance is necessary here as the preliminary data showed a further decline in the FSU oil exports that might be reflected in the next *MOMR*.

Graph 18: Changes in Chinese Apparent Oil Demand, y-o-y



Forecast for 2006 demand

OECD

North America oil demand growth in 2006 forecast to decline by 0.06 mb/d to average 25.40 mb/d

North America's oil demand growth in the fourth quarter of this year is expected to follow the cyclical pattern to be somewhat stronger than in the first three quarters. However, slowing economic activities in the USA are curbing the oil usage in the fourth quarter, hence the expected growth in that quarter will be minor. North America's y-o-y oil demand growth is forecast to decline by 0.06 mb/d to average 25.40 mb/d for 2006.

The improved European economic outlook for the rest of this year is not expected to help the oil demand forecast. The y-o-y oil demand in OECD Western Europe is projected to show flat growth for 2006. On the other side of the world, slowing Pacific economic activities along with the high oil prices are curbing oil demand growth for the fourth quarter. The OECD Pacific oil demand is forecast to shrink by 0.07 mb/d y-o-y to average 8.52 mb/d in 2006.

As a result of the latest revisions, total OECD oil demand for the whole year was revised down by 0.1 mb/d to end the year at minus 0.1 mb/d for 2006.

Table 8: First and second quarter world oil demand comparison for 2006, mb/d

			Change 2006/05				Change 2006/05	
	1Q05	1Q06	Volume	%	2Q05	2Q06	Volume	%
North America	25.57	25.11	-0.46	-1.78	25.34	25.09	-0.25	-0.97
Western Europe	15.59	15.72	0.14	0.88	15.15	15.04	-0.11	-0.71
OECD Pacific	9.45	9.30	-0.15	-1.55	8.06	7.87	-0.19	-2.41
Total OECD	**50.60**	**50.14**	**-0.46**	**-0.92**	**48.55**	**48.00**	**-0.55**	**-1.13**
Other Asia	8.71	8.73	0.02	0.28	8.83	8.95	0.12	1.32
Latin America	4.89	4.99	0.10	2.04	5.07	5.15	0.08	1.52
Middle East	5.66	6.04	0.38	6.71	5.78	6.12	0.33	5.74
Africa	2.89	2.96	0.06	2.25	2.88	2.95	0.07	2.34
Total DCs	**22.15**	**22.72**	**0.57**	**2.57**	**22.57**	**23.16**	**0.59**	**2.63**
FSU	3.87	3.69	-0.18	-4.68	3.70	3.56	-0.14	-3.70
Other Europe	0.94	0.97	0.03	2.91	0.88	0.90	0.02	2.12
China	6.51	7.09	0.58	8.91	6.58	7.34	0.77	11.64
Total "Other Regions"	**11.32**	**11.75**	**0.43**	**3.77**	**11.15**	**11.80**	**0.65**	**5.81**
Total world	**84.07**	**84.60**	**0.53**	**0.63**	**82.27**	**82.96**	**0.69**	**0.84**

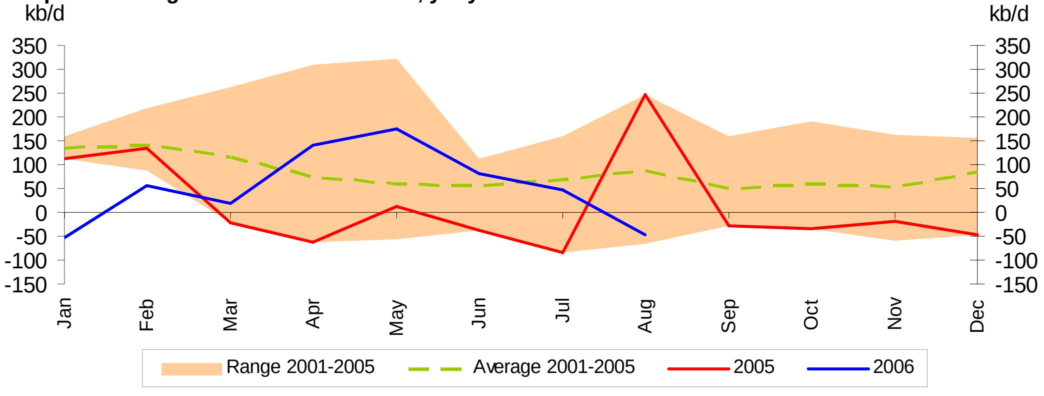
Totals may not add due to independent rounding.

Developing Countries

The oil demand growth in DCs is expected to reach 0.61 mb/d in 2006 to average 23.1 mb/d

In the wake of recent oil price declines, the Indian government warned its domestic market that there will be no price cut of petroleum products at least not until the oil price drops below the $50/b level. The Indian economy enjoys a healthy growth of 8.1 %; however, Indian oil demand growth is not expected to exceed 2.5% in 2006. Unlike in other countries in the region, Thailand's refineries are keeping the same crude run rates despite the fall in gasoil cracks. The end of the rainy season in Thailand along with a high agricultural season is expected to boost gasoil demand in the fourth quarter. Oil demand growth in DCs is expected to reach 0.6 mb/d to average 23.1 mb/d in 2006.

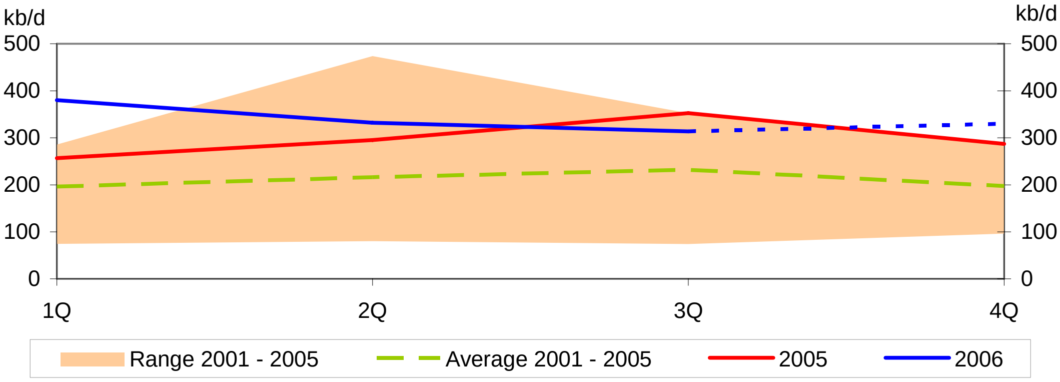
Graph 19: Changes in Indian oil demand, y-o-y



Oil demand for the Middle East expected to increase by 0.34 mb/d to average 6.2 mb/d in 2006

As predicted early in the year, strong economic activities in the Middle East are expected to continue until year-end. Oil demand for the Middle East for the whole year is expected to increase by 0.34 mb/d to average 6.2 mb/d**.** With the strong growth in the Asian economies, the negative effect of high oil prices on oil demand is easing. The Other Asia y-o-y oil demand growth is forecast at 0.1 mb/d to average 8.8 mb/d in 2006.

Graph 20: Changes in Middle East oil demand, y-o-y



Other Regions

China's oil demand growth in 2006 expected to remain strong at 0.54 mb/d to average 7.1 mb/d in 2006

China's accelerating economy is still exceeding expectations with GDP estimated at 10.2% for 2006. The filling of the newly-constructed strategic oil storage reportedly has begun. Barring any future government interference in curbing future demand, oil demand growth will reach 8.2% by year-end. China's oil demand growth is expected to remain strong at 0.54 mb/d to average 7.1 b/d in 2006.

Increasing attention should be paid to China's new plan is to boost ethanol output via extensive subsidies. The plan is aimed at boosting the ethanol production by 300% in four years. As seen elsewhere, especially in the USA, there is a major push towards biofuel consumption; however, even with the current high oil prices, this fuel still needs subsidies to survive.

Table 9: Third and fourth quarter world oil demand comparison for 2006, mb/d

			Change 2006/05				Change 2006/05	
	3Q05	3Q06	Volume	%	4Q05	4Q06	Volume	%
North America	25.51	25.58	0.07	0.27	25.43	25.80	0.37	1.45
Western Europe	15.55	15.47	-0.08	-0.51	15.64	15.73	0.09	0.58
OECD Pacific	8.08	8.05	-0.02	-0.29	8.79	8.86	0.08	0.88
Total OECD	**49.13**	**49.10**	**-0.03**	**-0.07**	**49.86**	**50.39**	**0.54**	**1.08**
Other Asia	8.53	8.63	0.10	1.17	8.62	8.80	0.18	2.09
Latin America	5.19	5.30	0.11	2.17	5.11	5.22	0.11	2.15
Middle East	6.00	6.32	0.31	5.23	5.81	6.14	0.33	5.68
Africa	2.84	2.91	0.07	2.36	2.93	2.99	0.05	1.85
Total DCs	**22.56**	**23.15**	**0.59**	**2.63**	**22.47**	**23.15**	**0.67**	**3.00**
FSU	3.78	3.85	0.07	1.91	3.93	4.03	0.10	2.54
Other Europe	0.87	0.90	0.03	3.79	0.85	0.88	0.03	2.94
China	6.43	6.86	0.43	6.69	6.64	7.02	0.38	5.72
Total "Other Regions"	**11.07**	**11.61**	**0.53**	**4.83**	**11.43**	**11.93**	**0.51**	**4.42**
Total world	**82.77**	**83.86**	**1.10**	**1.32**	**83.76**	**85.47**	**1.72**	**2.05**

Totals may not add due to independent rounding.

Forecast for 2007 demand

World oil demand growth for next year to grow at a moderate rate of 1.3 mb/d or 1.5%

World oil demand forecast for the year 2007 remains unchanged. World oil demand growth for next year is forecast to grow at a moderate rate of 1.3 mb/d or 1.5%. There is no major economic growth forecast revision that could affect next year's oil demand forecast. China and the Middle East will lead world oil demand growth with 0.42 mb/d and 0.30 mb/d respectively.

Table 10: World oil demand forecast for 2007, mb/d

	2006	1Q07	2Q07	3Q07	4Q07	2007	Change 2007/06 Volume	%
North America	25.40	25.51	25.21	25.69	26.03	25.61	0.21	0.83
Western Europe	15.49	15.57	15.14	15.54	15.78	15.51	0.02	0.13
OECD Pacific	8.52	9.40	7.77	8.07	8.87	8.53	0.01	0.09
Total OECD	**49.41**	**50.49**	**48.13**	**49.30**	**50.68**	**49.65**	**0.24**	**0.49**
Other Asia	8.77	8.81	9.07	8.84	9.00	8.93	0.15	1.76
Latin America	5.16	5.12	5.23	5.38	5.28	5.25	0.09	1.75
Middle East	6.16	6.33	6.35	6.67	6.47	6.46	0.30	4.88
Africa	2.95	3.01	3.00	2.95	3.05	3.00	0.05	1.75
Total DCs	**23.05**	**23.26**	**23.65**	**23.84**	**23.80**	**23.64**	**0.60**	**2.59**
FSU	3.78	3.78	3.50	3.78	4.13	3.80	0.01	0.31
Other Europe	0.91	1.01	0.88	0.93	0.95	0.94	0.03	3.16
China	7.08	7.42	7.82	7.34	7.41	7.50	0.42	5.92
Total "Other Regions"	**11.77**	**12.20**	**12.20**	**12.05**	**12.49**	**12.23**	**0.46**	**3.90**
Total world	**84.23**	**85.96**	**83.97**	**85.19**	**86.96**	**85.52**	**1.30**	**1.54**
Previous estimate	84.38	86.01	84.03	85.53	87.12	85.68	1.29	1.53
Revision	-0.16	-0.06	-0.05	-0.34	-0.16	-0.15	0.00	0.01

Totals may not add due to independent rounding.

Table 11: First and second quarter world oil demand comparison for 2007, mb/d

	1Q06	1Q07	Change 2007/06 Volume	%	2Q06	2Q07	Change 2007/06 Volume	%
North America	25.11	25.51	0.40	1.58	25.09	25.21	0.12	0.46
Western Europe	15.72	15.57	-0.15	-0.94	15.04	15.14	0.10	0.68
OECD Pacific	9.30	9.40	0.10	1.12	7.87	7.77	-0.09	-1.16
Total OECD	**50.14**	**50.49**	**0.35**	**0.70**	**48.00**	**48.13**	**0.13**	**0.26**
Other Asia	8.73	8.81	0.08	0.86	8.95	9.07	0.12	1.35
Latin America	4.99	5.12	0.13	2.58	5.15	5.23	0.09	1.72
Middle East	6.04	6.33	0.29	4.81	6.12	6.35	0.24	3.86
Africa	2.96	3.01	0.05	1.80	2.95	3.00	0.05	1.62
Total DCs	**22.72**	**23.26**	**0.55**	**2.41**	**23.16**	**23.65**	**0.49**	**2.13**
FSU	3.69	3.78	0.09	2.36	3.56	3.50	-0.06	-1.76
Other Europe	0.97	1.01	0.04	4.54	0.90	0.88	-0.02	-2.36
China	7.09	7.42	0.32	4.53	7.34	7.82	0.48	6.51
Total "Other Regions"	**11.75**	**12.20**	**0.45**	**3.85**	**11.80**	**12.20**	**0.39**	**3.34**
Total world	**84.60**	**85.96**	**1.35**	**1.60**	**82.96**	**83.97**	**1.01**	**1.22**

Totals may not add due to independent rounding.

Table 12: Third and fourth quarter world oil demand comparison for 2007, mb/d

			Change 2007/06				Change 2007/06	
	3Q06	3Q07	Volume	%	4Q06	4Q07	Volume	%
North America	25.58	25.69	0.12	0.45	25.80	26.03	0.22	0.86
Western Europe	15.47	15.54	0.07	0.44	15.73	15.78	0.06	0.37
OECD Pacific	8.05	8.07	0.01	0.17	8.86	8.87	0.00	0.05
Total OECD	**49.10**	**49.30**	**0.20**	**0.40**	**50.39**	**50.68**	**0.28**	**0.56**
Other Asia	8.63	8.84	0.21	2.47	8.80	9.00	0.21	2.35
Latin America	5.30	5.38	0.08	1.57	5.22	5.28	0.06	1.17
Middle East	6.32	6.67	0.35	5.54	6.14	6.47	0.33	5.29
Africa	2.91	2.95	0.04	1.50	2.99	3.05	0.06	2.05
Total DCs	**23.15**	**23.84**	**0.69**	**2.98**	**23.15**	**23.80**	**0.65**	**2.83**
FSU	3.85	3.78	-0.07	-1.80	4.03	4.13	0.09	2.30
Other Europe	0.90	0.93	0.02	2.70	0.88	0.95	0.07	7.75
China	6.86	7.34	0.48	7.04	7.02	7.41	0.39	5.58
Total "Other Regions"	**11.61**	**12.05**	**0.44**	**3.78**	**11.93**	**12.49**	**0.55**	**4.63**
Total world	**83.86**	**85.19**	**1.33**	**1.58**	**85.47**	**86.96**	**1.49**	**1.74**

Totals may not add due to independent rounding.

World Oil Supply

Expected growth in 2006 of 1.1 mb/d

Non-OPEC

Forecast for 2006

Non-OPEC oil supply is expected to average 51.3 mb/d in 2006, representing an increase of 1.1 mb/d over 2005 and a slight upward revision versus the last assessment. A series of adjustments have been made including the addition of historical data for biodiesel in OECD countries as well as revisions to oil project schedules in a number of countries, but primarily in the USA and Australia. The 4Q06 forecast for the USA has been revised up – Alaska's Prudhoe Bay is back earlier than previously assumed. Additionally, preliminary September data shows a stronger-than-anticipated rebound in total US supply and a portion of this has been carried through to 2007. In Australia, most production losses associated with earlier hurricane activity in the Carnavon Basin have been resolved and this has resulted in a significant upward revision to the 3Q06 estimate and the full year forecast. **Preliminary data for the month of August and September puts total non-OPEC supply at around 50.9 mb/d and 51.7 mb/d, representing a y-o-y growth of 0.9 mb/d and 2.8 mb/d respectively. Unplanned shutdowns in non-OPEC are now estimated to have been reduced to less than 0.1 mb/d from an average of 0.6 mb/d in the first half of the year.**

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

	2005	1Q06	2Q06	3Q06	4Q06	2006	Change 06/05
North America	14.07	14.22	14.23	14.36	14.73	14.38	0.31
Western Europe	5.77	5.67	5.28	5.33	5.58	5.46	-0.30
OECD Pacific	0.58	0.48	0.50	0.65	0.66	0.57	-0.01
Total OECD	**20.42**	**20.36**	**20.01**	**20.34**	**20.96**	**20.42**	**0.00**
Other Asia	2.63	2.67	2.66	2.68	2.68	2.67	0.04
Latin America	4.29	4.39	4.45	4.48	4.63	4.49	0.19
Middle East	1.87	1.83	1.82	1.81	1.81	1.82	-0.05
Africa	3.74	3.94	3.80	4.11	4.29	4.04	0.30
Total DCs	**12.53**	**12.83**	**12.73**	**13.09**	**13.41**	**13.02**	**0.48**
FSU	11.55	11.67	11.97	12.22	12.29	12.04	0.49
Other Europe	0.16	0.15	0.15	0.15	0.15	0.15	-0.01
China	3.62	3.68	3.70	3.68	3.72	3.70	0.08
Total "Other regions"	**15.32**	**15.50**	**15.82**	**16.05**	**16.16**	**15.89**	**0.56**
Total Non-OPEC production	**48.27**	**48.70**	**48.56**	**49.48**	**50.53**	**49.32**	**1.05**
Processing gains	1.86	1.92	1.89	1.89	1.93	1.91	0.04
Total Non-OPEC supply	**50.14**	**50.62**	**50.45**	**51.37**	**52.46**	**51.23**	**1.09**
Previous estimate	50.07	50.57	50.45	51.19	52.42	51.16	1.09
Revision	**0.07**	**0.05**	**0.00**	**0.18**	**0.04**	**0.07**	**0.00**

New estimate includes biodiesel production in OECD Europe

OECD

OECD oil supply is expected to average 20.4 mb/d, unchanged from last year and an upward revision of 0.2 mb/d versus the last assessment. The estimate now includes new data for biodiesel covering the USA and EU countries that were previously excluded. Unlike data for ethanol, which is widely available and is already part of the assessment, biodiesel production statistics for OECD countries have only just recently become reliable and can be included with a higher degree of confidence in the supply statistics. Other positive revisions in the OECD include upward adjustments to 3Q06 data of several countries and outlook for projects in the USA and Australia. Total oil supply for OECD countries in August and September is estimated at 20 mb/d and 20.7 mb/d, respectively.

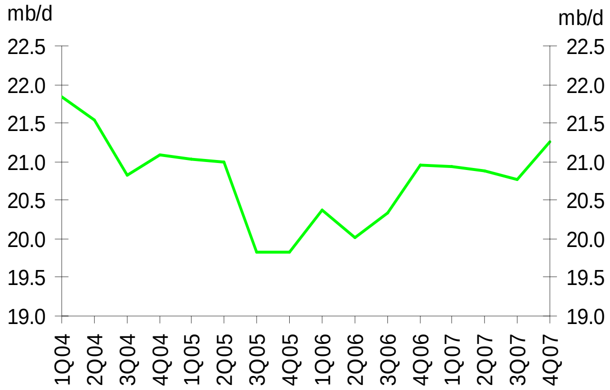
Prudhoe Bay back earlier than expected

USA

Total oil supply is expected to average 7.4 mb/d in 2006 representing an increase of 0.1 mb/d versus last year and an upward revision of 95,000 b/d versus last month's assessment. On a quarterly basis, total US supply is expected to average 7.5 mb/d and 7.6 mb/d in the third and fourth quarters.

The revision is due to three reasons. First, the giant Prudhoe Bay field is now back on-stream, and only around 50,000 b/d of production is likely to remain shut until the end of the year versus an earlier assumption of 200,000 b/d. The upward revision assumes that the recent power failure that shut down the field's production on 11 October will be short-lived. Second, total output from the Lower onshore 48 continues to perform better than expected (see previous MOMR) and thirdly, most of the oil production that was shut in in 2005 due to hurricane activity has recovered. Finally yet importantly, the US Gulf of Mexico (GoM) has not been exposed to a single hurricane this year therefore assumed losses for the third and fourth quarters are no longer justifiable or realistic and as such have now been added back. The season is officially over in a few weeks, but climatic and weather conditions are not conducive for the development of intense hurricanes. Preliminary data indicates that US oil supply averaged 7.3 b/d in August and 7.6-7.7 mb/d in September.

Graph 21: OECD's quarterly production



Mexico and Canada

Mexican oil supply is expected to average 3.7-3.8 mb/d in 2006, unchanged from last month's assessment. In contrast to conventional wisdom, total oil supply remained just above 3.7 mb/d in September and as previously indicated is not expected to oscillate much outside this range. No material maintenance is expected during the rest of the year, one of the key reasons for significant month-on-month fluctuations recently. It should be mentioned that, given the type of Mexican crude, recent demand trends and inventory levels in the USA, that future production from the country could show a slight decrease in the months ahead.

Growth in tar sands in line with expectations for 170,000 b/d increase

Canadian oil supply is expected to average 3.2 mb/d in 2006, representing an increase of 0.18 mb/d versus 2005 and unchanged from last month's assessment. The country produced 3.2 mb/d in September, a level that will rise further once the production that has been shut in or in maintenance (Terra Nova, Syncrude Upgrader, Suncor Coker, etc) comes back and new fields in the tar sands ramp up from October onwards. Year-to-date, total production from the tar sands has averaged 1.1 mb/d, which is 0.17 mb/d higher than in the same period in 2005. The tar sands account for 33% of total Canadian supply and represent the only source of growth in Canada. The recent decline in world oil prices in no way jeopardizes current or future projects as even the most expensive ones have good economics at $30/b WTI.

Western Europe

New estimate includes biodiesel production

Oil supply in OECD Europe is expected to average 5.5 mb/d in 2006, representing a decline of 0.3 mb/d versus 2005. However, the base line has been revised up following the inclusion of historical data for biodiesel production in a number of EU countries. Total biodiesel production in OECD countries is assessed at 14,000 b/d in 2000, 17,000 b/d in 2001, 21,000 b/d in 2002, 30,000 b/d in 2003, 39,000 b/d in 2004, 71,000 b/d in 2005 and 83,000 b/d in 2006 of which EU countries account for 90% of the total. Importantly, this data has only just recently become reliable and may be included with a higher degree of confidence in the statistics from now on.

The recent shutdowns in Norway may result in slight downward revision to the full year estimate

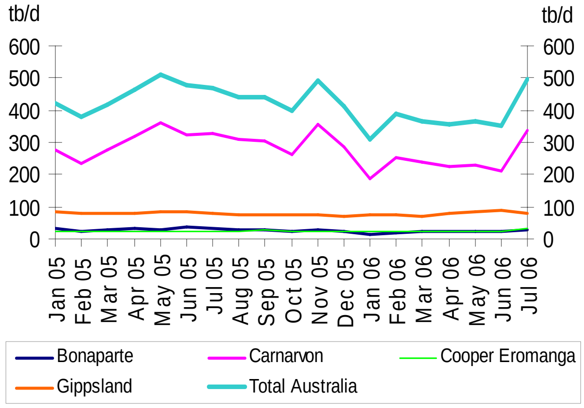
Looking at conventional oil, Norwegian oil supply is expected to average around 2.8 mb/d in 2006, broadly unchanged from last month's assessment. Preliminary data for August and September shows that production was around 2.75 mb/d, respectively. Statoil, the largest operator in Norway, reduced its forecast for the year and the next one based on a number of factors, including technical issues at the new Kristin field. More recently, the Snorre Field and Draugen fields have been shut for safety review and are unlikely to be back before the end of the month – as a result the forecast may be subject to revisions. UK oil supply is expected to average 1.7 mb/d, unchanged from last month's estimate. Preliminary data for August and September indicates that UK oil supply averaged 1.6 mb/d in both months. Year-to-date, UK oil supply has averaged 1.7 mb/d. The large Buzzard field (200,000 b/d) is on track to start before year-end (November) and this will make a sizeable contribution in 2007.

Asia Pacific

Australia's Carnavon basin shows recovery

Oil supply in the OECD Asia Pacific region is expected to average 0.57 mb/d in 2006, which represents an upward revision of 36,000 b/d compared to last month's assessment. Australian oil supply is now seen averaging 510,000 b/d in 2006. As reported in previous *MOMR*, oil production in the Carnavon basin, Australia's largest producing area, was hit in January due to a combination of hurricane-related damages and technical problems in some fields. Given the severity of the reported damages and the lack of information, it was assumed that this production would come back gradually in 2007. However, the most recent official statistics show a significant recovery in oil production in the Carnavon basin that has led us to believe that most problems have been resolved. Additionally the new Enfield project (100,000 b/d capacity), also located in the Carnavon basin, is producing above 70,000 b/d and this combined with the recovery at other fields pushed total Australian oil supply in July to much higher levels than previously anticipated. As a result, the forecast for the 3Q06 has been revised up 0.1 mb/d to 0.57 mb/d and the 4Q06 by 38,000 b/d to 0.58 mb/d.

Graph 22: Australian oil supply

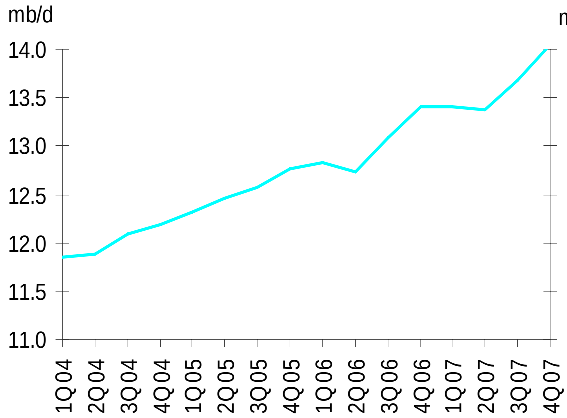


Developing Countries

Project delays undermine expectations for growth in some countries

Oil supply in the Developing Countries (DCs) is expected to average 13.1 mb/d in 2006, an increase of 0.5 mb/d over 2005, and slightly lower compared to last month's report. Downward revisions have been made to the outlook of Vietnam, Brazil, Angola, and Ivory Coast. On a quarterly basis, total oil supply in DCs is expected to average 13.1 mb/d and 13.4 mb/d in the third and fourth quarters respectively which represents a downward revision of 0.1 mb/d in the third and 0.2 mb/d in the fourth quarter. Total oil production for the Developing Countries in August and September is estimated at 13.0 mb/d and 13.1 mb/d respectively.

Graph 23: Developing Countries' quarterly production



Vietnam's oil supply is expected to average 0.38 mb/d in 2006, unchanged from last year and 20,000 b/d lower versus last month. The most recent estimate shows that production has been averaging around 0.38 mb/d, which is below our forecast of 0.4 mb/d for 3Q06 and 4Q06. Much of the data remains preliminary, but given the trends, lack of projects this year, and the end of maintenance, it is unlikely that oil production will rebound to match expectations. January was the last month in which we saw production of 0.39 mb/d, but this has been followed by weaker production in subsequent months.

Brazil output to increase rapidly in the months ahead

Brazil's oil supply is expected to average 2.18 mb/d in 2006, representing an increase of 0.15 mb/d versus 2005 and 38,000 b/d lower versus last month's estimate. As noted in the last *MOMR* as well as previous reports, the weak performance seen in the first half of this year was due to extended maintenance and slow ramp up of new projects, but since July Brazil's oil supply has been on the rise. August data and preliminary September estimates show total oil supply levels of 2.1 mb/d and 2.13 mb/d respectively compared to an average of 2 mb/d for the first part of the year. The P 50 field (180,000 b/d) which started in 2Q06 was producing at half its rate not long ago. The delay in the ramp up of this field has affected Brazilian oil production, but all indications are that it will reach capacity by year-end. A similar situation applies to the new

Goldfinho 1 (100,000 b/d) field. A month ago it was still producing at half its capacity but all indications are that production is on the rise again. As a result, the estimate for Brazil for 3Q06 has been revised down 80,000 b/d. For 4Q06, the impact of 3Q06 revisions as well as a delay in the start up of the small Piranema B (20,000 b/d) to next year has impacted the estimate slightly.

Dalia field still expected before year-end

Angola's oil production is expected to average 1.4 mb/d in 2006, representing an increase of 0.17 mb/d versus 2006 and 25,000 b/d lower than last month's estimate. The forecast for 3Q06 and 4Q06 has been revised down 20,000 b/d and 80,000 b/d, respectively. It was previously assumed that the Marimba tie back (80,000 b/d) would start at the end of this year but that looks more likely end 2007. More importantly, the late start up of the Dalia field (240,000 b/d) during 4Q06 (Nov-Dec latest estimate) results in a lower contribution to the 2006 estimate than previously thought.

The historical data and outlook for the Ivory Coast has been revised down following reports that its only deepwater field, Baobab, is underperforming due to technical problems with sand control. The field started in 3Q 2005, has a capacity of 60,000 b/d, but recent reports suggest that it has been producing at less than half of this level for some time. Ivory Coast's total oil production increased from 45,000 b/d in August 2005 to 100,000 b/d by year-end. However, given the technical troubles at Baobab, total supply from the country has inevitably come down to around 70,000 b/d since early this year. A new satellite field, West Spoir, started in 3Q2006 making a small contribution but not enough to replace the drop at Baobab. It is expected that a number of well interventions will be needed, and that may only be possible next year, perhaps end of 2007.

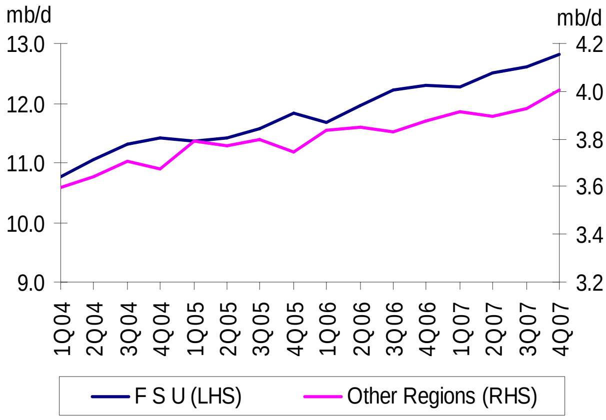
New Sudan blends struggling to find customers

Sudan's oil production forecast has been revised slightly up based on preliminary production estimates for the new fields that have come on-stream this year. In 2006, Sudan is expected to produce on average 0.42 mb/d, representing an increase of 80,000 b/d versus 2005 and an upward revision of 13,000 b/d. All new fields are now producing (Neem Block 4; Block 3 and 7; Thar Jath in Block 5Ba) and will more than offset mature production in the country for years to come. Sudan's oil production, which averaged 0.36 mb/d in the first part of 2006, may have reached the 0.5 mb/d mark in September as it is expected to continue to increase close to 0.6 mb/d next year. The new crude resulting from these new fields is termed Dar Blend, a medium-heavy sweet grade crude with a high TAN content. Several cargoes were offered to Asian customers in September, but given the poor quality and adequate supply availability, Dar Blend was offered at very large discounts and is still struggling to find customers.

FSU, Other Regions

FSU oil supply is expected to average 12 mb/d, an increase of 0.5 mb/d versus 2005, unchanged from last month. The forecast for Other Regions (i.e. 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 versus 2005. Total oil production for the FSU in August and September is estimated at 12.2 mb/d.

Graph 24: FSU and other region's quarterly production



Russia

Full year performance to be in line with expectations

Russian oil supply is expected to average 9.7 mb/d in 2006, an increase of 0.2 mb/d versus 2005 broadly unchanged from last month's estimate. The latest data shows that production averaged 9.78 mb/d in September, which is a new record-high. Year-to-date, Russian output has increased 0.24 b/d. Oil production growth should moderate in the months ahead but will continue to grow driven by the Sakhalin 1 project. In the previous *MOMR* it was highlighted the fact that the net y-o-y contribution of state controlled or oil companies in which the state has strong influence, became positive in April 2006 after 13 months of no growth. For much of this period all other producers saw average y-o-y growth of 0.3-0.4 mb/d each month, but in June and July their contribution decrease to just 0.1 mb/d. Although the main technical reason for this slowdown is unknown at this stage, it is still a worrying sign. Non-technical factors that affect the Russian oil industry are well known and have already been incorporated to a large degree in next year's forecast.

Caspian

Azeri output growth to accelerate faster than previously estimated

Azeri oil production is expected to average 0.64 mb/d in 2006, representing an increase of 0.2 mb/d versus last year. The outlook for Azeri oil production growth has been revised down slightly following a recent announcement by the operator to shut the 0.13 mb/d Chirag field in October for 10 days for maintenance. Year-to-date, Azeri oil production has risen 0.2 mb/d compared to the same period last year. Preliminary data for September puts total Azeri oil production at around 0.69 mb/d. Recent reports indicate that the new East Azeri field will start end of 2006, which is earlier than previously estimated. This phase will provide another 0.2 mb/d boost to the giant ACG field, which is producing well over 0.55 mb/d. The impact of an early start is a positive one for Azerbaijan; but this report continues to assume that the main contribution will come from early 2007 onwards.

Elsewhere, Kazak oil production is expected to average 1.3 mb/d in 2006, an increase of 80,000 b/d over last year. Data for the month of September puts oil production at 1.36 mb/d. Year-to-date, Kazak oil production has risen 70,000 b/d compared to the same period last year. The next expansion phase of the Tengiz field is now undergoing testing for 4 months before it starts in the middle of next year. Maintenance levels and short-term production failures at the two biggest fields, Tengiz and Karachaganak, continue to occur. Unfortunately, this news is only made available after the fact.

China

The estimate for China remains unchanged. Total oil supply is expected to average 3.7 mb/d, representing an increase of 70,000 b/d over last year; September data shows average oil production of 3.71 mb/d. Year-to-date, output has risen by just 60,000 b/d compared to the same period last year. The impact of typhoons has affected some of China's offshore oil fields and may have caused more shut-downs than expected thus reducing slightly supply growth.

It is worth mentioning that in the case of China, the historical or current production data shown in the *MOMR* does not include biofuels, which is estimated at around 50,000 b/d (2005) mainly ethanol from wheat. It is known that China may reduce the production of ethanol and shift to biodiesel, where the constraints are less, so in effect we me see a reduction of biofuels in the short term. Additionally, coal to liquids is excluded from current oil production estimates. In both cases, this data will need to be included at some stage once reliable statistics become available and as projects start.

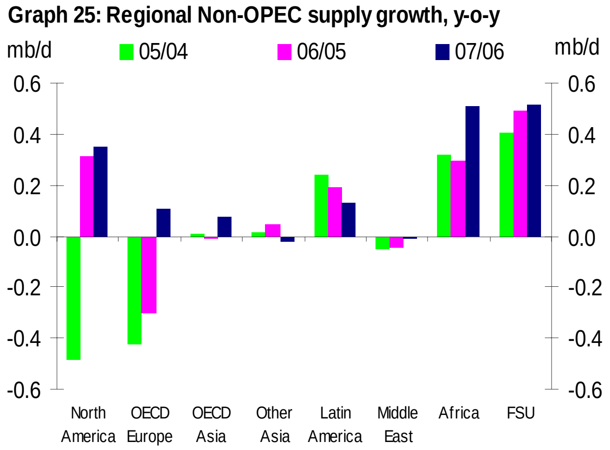
Forecast for 2007

Non-OPEC supply growth in 2007 forecast at 1.8 mb/d

Non-OPEC oil supply is expected to average 53 mb/d in 2007, representing an increase of 1.8 mb/d versus 2006 and broadly unchanged from last month. On a quarterly basis, non-OPEC supply is expected to average 52.5 mb/d, 52.6 mb/d, 53 mb/d, and 54.1 mb/d in the first, second, third and fourth quarters, respectively.

Table 14: Non-OPEC oil supply in 2007, mb/d

	2006	1Q07	2Q07	3Q07	4Q07	2007	Change 07/06
North America	14.38	14.69	14.75	14.67	14.83	14.74	0.35
Western Europe	5.46	5.59	5.50	5.43	5.77	5.57	0.11
OECD Pacific	0.57	0.65	0.62	0.66	0.65	0.65	0.07
Total OECD	**20.42**	**20.93**	**20.87**	**20.76**	**21.26**	**20.96**	**0.54**
Other Asia	2.67	2.63	2.55	2.67	2.76	2.65	-0.02
Latin America	4.49	4.62	4.59	4.59	4.68	4.62	0.13
Middle East	1.82	1.82	1.82	1.80	1.80	1.81	-0.01
Africa	4.04	4.33	4.42	4.62	4.80	4.54	0.51
Total DCs	**13.02**	**13.41**	**13.38**	**13.68**	**14.04**	**13.63**	**0.61**
FSU	12.04	12.27	12.50	12.62	12.81	12.55	0.51
Other Europe	0.15	0.15	0.15	0.15	0.15	0.15	0.00
China	3.70	3.77	3.75	3.78	3.86	3.79	0.09
Total "Other regions"	**15.89**	**16.19**	**16.39**	**16.55**	**16.81**	**16.49**	**0.60**
Total Non-OPEC production	**49.32**	**50.53**	**50.65**	**50.99**	**52.11**	**51.07**	**1.75**
Processing gains	1.91	1.93	1.93	1.93	1.93	1.93	0.02
Total Non-OPEC supply	**51.23**	**52.46**	**52.58**	**52.92**	**54.04**	**53.00**	**1.77**
Previous estimate	51.16	52.39	52.60	53.02	53.98	53.00	1.84
Revision	**0.07**	**0.06**	**-0.02**	**-0.10**	**0.06**	**0.00**	**-0.07**



The FSU region is expected to grow 0.5 mb/d to 12.6 mb/d with Caspian countries together expected to deliver more growth than Russia. Oil supply in the African region is forecast to grow by 0.5 mb/d to 4.6 mb/d; most of the increase is expected to come from deepwater Angola, Equatorial Guinea and onshore Sudan. Oil supply in the North American region is expected to grow by 0.4 mb/d to 14.7 mb/d. The increase is driven by unwinding of losses and additions in the US GoM deepwater and expansion of Canadian oil sands. Oil production in the Latin American region is expected to grow by 0.1 mb/d to 4.6 mb/d; regional growth is driven by a modest increase in Brazil.

Elsewhere, OECD Europe is expected to show a modest increase of 0.1 mb/d to 5.6 mb/d driven by the unwinding of production shut-ins in Norway, and the start of the Buzzard field in the UK; a normal maintenance schedule is assumed. OECD Asia in expected to increase 0.1 mb/d to 0.7 mb/d; the forecast now reflects the return of some of the production that was lost in the Carnavon basin due to cyclone activity in Australia. Oil supply in Other Asia and the Middle East is expected to remain broadly flat at 2.8 mb/d and 1.8 mb/d, respectively. China' oil production is forecast to increase to 3.8 mb/d or around 60,000 b/d versus 2006.

Revisions

Revisions to date to 2007 forecast still point to a strong year

The forecast for 2007 has been subject to a number of revisions including the addition of new biodiesel production statistics to the baseline of several OECD European countries, changes to project schedules in the USA, Brazil, Angola, and Azerbaijan among others, and the impact of historical revisions to the data of several countries and estimates for 2006. On a quarterly basis, total non-OPEC supply has been revised up in the 1Q07 by 94,000 b/d, down 67,000 b/d in the third and up 96,000 b/d in the fourth.

The inclusion of biodiesel statistics increases the baseline for OECD Europe next year by around 90,000 b/d but the impact on overall growth is negligible. In the USA, the growth forecast for 2007 has been revised up by 40,000 b/d to 7.68 mb/d. The old assumption that the Prudhoe Bay will return quickly from 1Q07 onwards is no longer valid as the field is already on-stream. This month's report assumes that the 50,000 b/d that remain shut in the greater Prudhoe Bay area will gradually return next year. Also the Thunder Horse field which back in July 2006 was expected to start at the end of 2006 and then was last month moved to 2Q2007, has now been pushed back to end 2008 possibly early 2009, according to some reports. Last month's 2007 US forecast only included around 80,000 b/d from this field on average, as it was always the case that it would take more than one year to reach fully capacity. The Atlantis field is still expected to start in 2Q07 and no changes have been made to the ramp up period. Finally yet importantly, the large upward revision to total US oil supply in 4Q06 has increased the baseline for next year.

The outlook for Brazil has been revised down by 29,000 b/d to 2.34 mb/d. The new expected start for the P 54 (180,000 b/d) is 4Q07 versus a previous assumption of early second part of 2007. The forecast also assumes a slightly lower ramp up in the remaining fields including Golfinho Module 2, Espadarte Module II and Roncador P 52, but potential delays into 2008 should not be ruled out. Angola's oil supply outlook has been revised down by 30,000 b/d to 1.73 mb/d. The Kizomba Phase I module is now expected to start in 1Q08 instead of 4Q07. The contribution of the Marimba tie back as also slipped from end 2006 to end 2007, and this has had a negative impact on the growth forecast. Other countries that have seen their outlook revised include Canada, Mexico, Norway, Australia, Vietnam, Chad, Egypt, Gabon, Kazakhstan, Azerbaijan, and China. In most cases, the revisions are in the range of 10,000 b/d. For a detailed breakdown, see table 33.

Orimulsion will no longer be produced from 2007

OPEC natural gas liquids and non-conventional oils

In 2006, OPEC NGLs and non-conventional oils are expected to average 4.3 mb/d, representing an increase of 0.2 mb/d over the previous year. All of the growth is coming from NGLs. In 2007, the expected growth for OPEC NGLs remains unchanged at 0.2 mb/d, but following a recent announcement by the Venezuelan Ministry of Petroleum that Orimulsion will no longer be produced from 1 January 2007, the monthly report will exclude Orimulsion (~100,000 b/d) from the non conventional memo item from 2007 onwards. What is left in this item is the volume associated with Saudi Arabia's MTBE production.

Table 15: OPEC NGL + non-conventional oils - 2003-2007

	2003	**2004**	**2005**	**Change** 05/04	1Q06	2Q06	3Q06	4Q06	**2006**	**Change** 06/05	**2007**	**Change** 07/06
Total OPEC	**3.71**	**4.02**	**4.09**	0.07	4.20	4.24	4.32	4.33	**4.27**	0.18	**4.44**	0.16

OPEC crude output averaged 29.7 mb/d in September

OPEC crude oil production

Total crude oil production averaged 29.7 mb/d in September, representing a drop of 0.1 mb/d from last month, according to secondary sources. Iraq's oil production was 2.1 mb/d.

Table 16: OPEC crude oil production based on secondary sources, 1,000 b/d

	2004	**2005**	**4Q05**	**1Q06**	**2Q06**	**Jul 06**	**Aug 06**	**Sep 06**	***Sep/ Aug***
Algeria	1,228	1,349	1,374	1,376	1,368	1,351	1,361	1,375	*14.2*
Indonesia	968	942	935	922	914	894	877	883	*5.5*
IR Iran	3,920	3,924	3,911	3,849	3,800	3,918	3,898	3,875	*-22.5*
Iraq	2,015	1,830	1,675	1,711	2,001	2,045	2,073	2,069	*-3.9*
Kuwait	2,344	2,504	2,548	2,532	2,513	2,508	2,516	2,510	*-5.6*
SP Libyan AJ	1,537	1,642	1,665	1,680	1,699	1,711	1,718	1,723	*5.0*
Nigeria	2,322	2,412	2,469	2,257	2,212	2,222	2,221	2,205	*-16.2*
Qatar	771	796	808	817	820	833	840	833	*-7.5*
Saudi Arabia	8,957	9,390	9,426	9,416	9,133	9,183	9,191	9,087	*-103.5*
UAE	2,360	2,447	2,518	2,528	2,535	2,571	2,571	2,568	*-3.7*
Venezuela	2,582	2,633	2,584	2,595	2,574	2,459	2,517	2,546	*29.6*
OPEC-10	**26,988**	**28,038**	**28,237**	**27,973**	**27,570**	**27,648**	**27,708**	**27,604**	***-104.7***
Total OPEC	**29,004**	**29,868**	**29,912**	**29,684**	**29,571**	**29,693**	**29,781**	**29,672**	***-108.6***

Totals may not add due to independent rounding.

FSU net exports

In 2006, FSU net oil exports are expected to average 8.3 mb/d, an increase of 0.6 mb/d over the previous year, slightly higher than previously estimated. September crude exports reached 6 mb/d, unchanged from the previous month (revised data). Including products, total net oil exports were 8 mb/d in the month. Looking at October, it is likely that total oil exports via rail will fall slightly whilst loading from the Black Sea and Baltic Sea will increase substantially. Increasing export tariffs and lower oil prices are not a good incentive for high cost exports, but demand weakness may be a reason for several producers increasing exports regardless. Next year, total FSU net oil exports are expected to rise to 8.8 mb/d or 0.5 mb/d versus 2006 driven by new sources of crude from the Caspian and Russian product exports.

Table 17: FSU estimated net oil exports (historical and forecast), mb/d

	1Q	2Q	3Q	4Q	Year	Growth (y-o-y)
2003	5.87	6.75	6.72	6.61	**6.49**	**0.91**
2004	7.17	7.30	7.38	7.37	**7.31**	**0.82**
2005	7.45	7.69	7.76	7.85	**7.69**	**0.38**
2006 (forecast)	**7.98**	**8.41**	**8.37**	**8.25**	**8.25**	**0.56**
2007 (forecast)	**8.49**	**9.00**	**8.84**	**8.68**	**8.76**	**0.50**

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

	2004	2005	1Q06	2Q06	3Q06	Aug 06	Sep 06
Crude							
Russian pipeline							
Black Sea	1,283	1,335	1,326	1,291	1,344	1,376	1,398
Baltic	1,396	1,462	1,470	1,671	1,586	1,538	1,553
Druzhba	1,256	1,315	1,365	1,355	1,276	1,170	1,183
Total	**3,935**	**4,112**	**4,161**	**4,317**	**4,206**	**4,084**	**4,134**
Other routes							
Russian rail	706	416	310	319	306	308	310
Russian - Far East	32	65	29	43	109	120	123
Kazak rail	24	17	46	30	24	18	20
CPC pipeline	490	648	595	672	702	704	710
Caspian	252	295	353	446	415	404	412
of which							
Supsa (AIOC) - Georgia	130	137	137	151	140	130	132
Batumi - Georgia	99	140	198	186	169	169	173
Total	**1,504**	**1,441**	**1,334**	**1,510**	**1,556**	**1,890**	**1,911**
Total crude exports	**5,439**	**5,553**	**5,495**	**5,826**	**5,762**	**5,974**	**6,045**
Products							
All routes							
Fuel oil	753	836	896	938	818	877	729
Gasoil	702	759	893	809	854	828	897
Others	413	575	693	835	627	722	400
Total	**1,868**	**2,170**	**2,483**	**2,582**	**2,300**	**2,427**	**2,026**
Total oil exports	**7,307**	**7,723**	**7,978**	**8,408**	**8,062**	**8,401**	**8,071**

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

Rig Count

Non OPEC rig count stood at 2,840 rigs

Non-OPEC

Non-OPEC rig count stood at 2,840 rigs in September, which represents a decline of 38 rigs compared to the previous month. Of the total, 2,566 were operating onshore and the rest offshore. In terms of oil and gas split, 882 rigs were drilling for oil, while the remainder was drilling for gas. The number of oil rigs fell by 17 versus the previous month.

Table 18: Non-OPEC rig count in 2004-2005

	2004	2005	05/04	Aug 06	Sep 06	Change Sep/Aug
North America	1,669	1,975	306	2,298	2,267	-31
Western Europe	65	65	0	78	73	-5
OECD Pacific	22	25	3	28	23	-5
Total OECD	**1,755**	**2,065**	**310**	**2,404**	**2,363**	**-41**
Other Asia	126	142	16	156	154	-2
Latin America	126	141	15	161	169	8
Middle East	70	72	2	83	82	-1
Africa	54	58	4	72	70	-2
Total DCs	**376**	**412**	**36**	**472**	**475**	**3**
Non-OPEC Rig count	**2,132**	**2,479**	**347**	**2,878**	**2,840**	**-38**

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

OPEC rig count stood at 341 rigs

OPEC

OPEC rig count stood at 341 rigs in September, representing a decline of 4 rigs over the previous month. Gains took place in all countries except Algeria, Indonesia, Nigeria, Saudi Arabia, and UAE. Of the total, 264 rigs were operating onshore and the rest offshore. In terms of oil and gas split, there were 276 oil rigs operating and the rest was gas rigs. The number of oil rigs fell by 5 compared to the previous month.

Table 19: OPEC rig count in 2004-2005

	2004	2005	Change 05/04	Aug-06	Sep-06	Change Sep/Aug
Algeria	19	21	2	27	29	2
Indonesia	49	54	5	46	48	2
Iran	41	40	-1	48	46	-2
Iraq	na	na	na	na	na	na
Kuwait	10	12	2	16	14	-2
Libya	10	9	-1	11	10	-1
Nigeria	8	9	1	10	12	2
Qatar	9	12	3	12	11	-1
Saudi Arabia	32	36	4	73	74	1
UAE	16	16	0	15	16	1
Venezuela	55	67	12	87	81	-6
OPEC	**249**	**276**	**27**	**345**	**341**	**-4**

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

Oil Trade

In September, OECD net oil imports averaged 27.9 mb/d, an increase of 3% over a year ago

OECD

According to preliminary data, OECD crude oil imports continued their upward trend to hit their highest level so far this year, averaging 32.1 mb/d in September, which corresponds to around 100,000 b/d above the previous month and some 70,000 b/d higher than a year earlier. USA and Japan remained the main contributors to the growth. In contrast, product imports stayed almost stable at 11.1 mb/d, implying total OECD oil imports of nearly 43.3 mb/d, up 130,000 b/d from the previous month. For the period January-September, OECD crude oil imports averaged 31.7 mb/d compared to 31.5 mb/d for the same period of 2005 which represented growth of 200,000 b/d, while product imports increased 420,000 b/d to stand at 11.0 mb/d.

OECD oil exports remained almost unchanged at around 15.4 mb/d in September with 7.3 mb/d of crude oil and 8.1 mb/d of products. When compared to a year earlier, crude oil exports were 660,000 b/d down while products were 260,000 b/d higher in September 2006. As a result, OECD net oil imports stood at 27.9 mb/d, up 112,000 b/d from the previous month but almost 1.0 mb/d or 3% higher than a year earlier.

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

	Jul 06	Aug 06	Sep 06	Change Sep/Aug
Crude oil	24,654	24,763	24,855	92
Total products	2,995	3,029	3,048	20
Total crude and products	27,649	27,791	27,903	112

For deliveries, Saudi Arabia and FSU remained the main suppliers of OECD crude oil imports in September with around 16% each. Both sources saw their shares increase 3 percentage points from the September 2005 figures. Norway and Mexico were ranked third and fourth with 8% and 7.5% respectively.

Regarding products, no significant changes have been seen; nevertheless, it appears that Venezuela’s share in supplying OECD products has dropped from around 7% in September to about 4% this year, to be overtaken by the Netherlands and FSU as the largest suppliers of OECD product imports with 5% each.

USA

US net oil imports inched down slightly to 12.9 mb/d in September, but remained 760,000 b/d higher than a year earlier

Preliminary data show that US crude oil imports rose 200,000 b/d or around 2% to stand at 10.6 mb/d in September, a fifteen-month high as refineries continued to run above 90% of their capacity. In addition to high throughput from refineries, large stock-builds, which make stocks running above seasonal averages, contributed to the growth in US crude oil imports displayed in August and September. In contrast, product imports dropped by 220,000 b/d, essentially from gasoline following the end of the seasonal driving season as well as kerosene-jet fuel. Furthermore, high output from refineries and comfortable levels of product stocks, especially distillates, discouraged imports.

USA imported on average 10.2 mb/d of crude oil between January and September 2006, 77,000 b/d or less than 1% more than in 2005 and product imports averaged 3.5 mb/d, 250,000 b/d or 7.6% higher than the same period of the previous year.

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

	Jul 06	Aug 06	Sep 06	Change Sep/Aug
Crude oil	10,297	10,387	10,588	201
Total products	2,529	2,625	2,356	-269
Total crude and products	12,826	13,012	12,944	-68

Regarding exports, crude oil remained unchanged at 21,000 b/d and products increased 50,000 b/d to 1.2 mb/d. Consequently, US oil net imports edged down 68,000 b/d on a combination of a 200,000 b/d increase in crude oil net imports and a 269,000 b/d drop in products to settle below 13.0 mb/d. Despite this decline, total net oil imports remained 760,000 b/d or 6.2% higher than a year earlier.

Canada and Mexico with around 16% each remained the largest suppliers of US crude oil imports ahead of Saudi Arabia and Venezuela with 12% each. However, Saudi Arabia and Canada saw their share in US imports lose 4 percentage points from the previous month. When compared to a year earlier, Saudi Arabia's share dropped 4 percentage points and Canada's and Mexico's shares lost 2 percentage points.

On the product side, Canada, the Virgin Islands and Algeria remained the largest suppliers with 15%. Algeria and the Virgin Islands saw their share increase by around 4 percentage points in September at the expense of Canada, Netherlands and Mexico.

Japan

Japan's net oil imports rebounded to 4.3 mb/d but remained 11% down from a year earlier

Japan's crude oil imports continued to recover from their significant total drop of 900,000 b/d experienced during May and June and they increased 122,000 b/d or 3% to average nearly 4.2 mb/d, the same level as in September 2005. In contrast, product imports remained stable at nearly 0.6 mb/d but they displayed a 300,000 b/d or 35% y-o-y growth.

For the first nine months of 2005, Japan's total oil imports averaged 5.2 mb/d, 214,000 b/d below the same period last year. The decline was mainly attributable to the products which retreated by more than 150,000 b/d or 15%.

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

	Jul 06	Aug 06	Sep 06	Change Sep/Aug
Crude oil	4,034	4,059	4,181	122
Total products	289	133	133	0
Total crude and products	4,323	4,192	4,314	122

As product exports remained almost unchanged at 0.4 mb/d, Japan's total net oil imports rose 122,000 b/d to average 4.3 mb/d with crude oil at 4.2 mb/d and products at 1.3 mb/d. When compared to a year earlier, Japans' net oil imports were 550,000 b/d or 11% lower than a year ago. Crude oil imports from Saudi Arabia and UAE accounted for almost 60% of total Japanese crude oil imports in September.

China

In August, China's net oil imports averaged 3.3 mb/d, displaying a y-o-y growth of 38%

China's crude oil imports increased 278,000 b/d or 11% to average nearly 2.8 mb/d in August, reversing the downward trend displayed during the previous four months. When compared to a year earlier, China's crude oil imports showed a significant growth of around 35% but it should be noted that China's imports in August 2005 averaged less than 2.1 mb/d, the lowest monthly average in 2005. The surge in China's crude oil imports was attributed to the combination of a steady demand and the beginning of filling up the strategic reserves, where according to secondary sources, at least 1.0 mb of crude oil were stored in August.

In contrast, product imports edged down 28,000 b/d to 1.1 mb/d, but remained 60,000 b/d higher from a year ago. Most of the decline in product imports concerned fuel oil which represents the largest imported product. Despite the decline of 2.5% from the previous month, fuel oil imports were 56% higher than a year earlier. However, jet kerosene imports saw a significant increase in August due to strong demand from the aviation sector.

China imported on average 2.9 mb/d of crude oil during the first eight months of 2006, which represents a growth of 15% compared to same period last year.

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

	Jun 06	Jul 06	Aug 06	Change Aug/Jul
Crude oil	2,578	2,220	2,460	240
Total products	1,206	988	886	-102
Total crude and products	3,784	3,209	3,346	138

On the export side, China' oil exports rose 113,000 b/d to average 0.5 mb/d with two-thirds crude oil and one-third products. As a result, China's net oil imports averaged 3.3 mb/d in August, which corresponds to 138,000 b/d above the previous month, with crude oil net imports increasing 240,000 b/d, while product net imports lost 102,000 b/d. However, at 3.3 mb/d, China's net oil imports were 930,000 b/d or 38% higher than a year earlier.

For the first time in the year, Saudi Arabia regained its position of main supplier of China's crude oil imports with 19%, which corresponds to 0.53 mb/d compared to 0.35 mb/d in the previous month. Angola, which has been China's largest supplier since February 2006, moved back to the second position with 13.5% followed by Iran (13.3%), Oman (11%) and Russia (10%). Compared to a year earlier, Saudi Arabia and Iran saw their shares in China's crude oil imports surge 53% and 60%, respectively. China's imports from Kazakhstan increased by 68% from a year earlier following the start-up of the Atasu-Alashankou pipeline linking Kazakhstan to China in July, making Kazakhstan the tenth largest supplier of China with 60,000 b/d in August.

India

India's net oil imports remained stable at 2.0 mb/d in August

India imported 2.1 mb/d in August, down 32,000 b/d from the previous month but 53,000 b/d more than a year earlier while product imports inched down a slight 7,000 b/d to 0.24 mb/d. For the January-August period, India's crude oil imports averaged nearly 2.2 mb/d against 2.1 mb/d a year ago, whereas product imports moved down by 40,000 b/d to 0.26 mb/d. All together, crude oil and product imports showed a growth of less than 3% which was in line with the growth of demand for the period January-August this year.

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

	Jun 06	Jul 06	Aug 06	Change Aug/Jul
Crude oil	2,117	2,181	2,149	-32
Total products	-176	-206	-191	15
Total crude and products	1,942	1,975	1,958	-17

With product exports averaging 0.43 mb/d, 22,000 b/d below the previous month and 77,000 b/d below August 2005 figures, India's total net oil imports continued to hover around 2.0 mb/d since May 2006, 70,000 b/d higher than August 2005.

Stock Movements

US total commercial oil stocks rose a further 22.0 mb in September

USA

Total commercial oil inventories in the USA rose by 22.0 mb or 0.7 mb/d to 1,088.7 mb in September, which was 7.6% and 10.0% higher than the year-ago level and the five-year average. The stock-build came entirely from products as crude oil stocks declined on a monthly basis.

Crude oil stocks declined by 1.8 mb to 328.8 mb in September from the previous month, but stayed at comfortable levels of 7.1% above the same month last year and 14.0% above the five-year average. The drop in crude oil stocks on a monthly basis was lower than in August due to a recovery in production to 5.1 mb/d along with lower demand and a slight decline in refinery inputs from 15.8 mb/d to 15.7 mb/d. It must be noted that contrary to expectations crude oil inventories were boosted by over 3.4 mb in the week ended 29 September compared to the previous week. Likewise, crude production recorded a recovery to 5,000 b/d while crude runs fell by 1 mb/d in the week ended 29 September following reports of a recovery in BP's Alaskan Prudhoe Bay field. The drop in demand for crude is explained by refinery maintenance in the USA and was also reflected in the 2.5% decline in refinery runs during this week. In terms of forward cover, at 20.6 days crude inventories were still 6% above the five-year average.

In line with seasonal patterns, gasoline stocks inched up by 8.2 mb to 215.1 mb in September, 9.5% and 7.0% over a year ago and the five-year average respectively. The upward trend in gasoline inventories was linked to a 3.7 % decline in domestic demand despite a drop in production and imports of both conventional gasoline and blending components on a monthly basis, based on EIA's four-week average. Forward cover stood at 23.3 days, a gain of 5% and 2% against the year-ago level and the five-year average. Moving to middle distillates, inventories scaled up a further 11.1 mb to 151.0 mb in September and 17.9% and 19% above the year-ago level and the five year average. Forward cover also increased by 2.5 days to stand at 36.6 days, widening the gains against the year-ago level and the five-year average to 12% and 8%, respectively. In the week ending 29 September, diesel contributed the most with 7.8 b, which left the level at 88.5 mb or 25.6% higher than a year earlier and 24% above the five-year average. The 2.0 mb drop in regular diesel fuel (15 ppm to 500 ppm sulphur) was outpaced by a 9.8 mb build in ultra-low sulphur diesel (ULSD). Increased production of ULSD was behind the build in diesel stocks. Heating oil inventories rose by 3.7 mb to 63 mb, an increase of 9.4% and 14% over the year-ago level and the five-year average.

Table 25: US onland commercial petroleum stocks*, mb

	Jul 06	Aug 06	Sep 06	Change Sep 06/Aug 06	Sep 05	10 Oct 06**
Crude oil	333.1	330.6	328.8	-1.8	307.1	330.5
Gasoline	209.9	206.9	215.1	8.2	196.4	215.4
Distillate fuel	132.5	139.9	151.0	11.1	128.1	149.9
Residual fuel oil	42.4	42.0	42.8	0.8	34.2	42.9
Jet fuel	40.4	41.0	42.6	1.6	37.5	42.2
Total	**1,056.4**	**1,066.7**	**1,088.7**	**22.0**	**1,011.7**	**1,089.1**
SPR	688.5	687.8	687.9	0.1	693.7	687.9

* *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.

In the week ending 6 October, crude oil stocks saw a larger-than expected build of 2.4 mb week-on-week, reaching 330.5 mb or 8% and 14% against the year-ago level and the five-year average. As crude imports declined, the build in crude stocks was related to higher production, which increased by around 100,000 b/d on a weekly basis to 5.3 mb/d and a decline in refinery runs which decreased by 0.7% to 89.2% from the previous week. In terms of forward cover, crude oil stocks were 5% above the five-year average, but 9% below one year earlier. Gasoline stocks ended the week with a slight surplus of 0.3 mb to 215.4 mb standing 21.1 days in terms of forward cover. Middle distillate inventories unexpectedly declined by 1.5 mb weekly to 150.0 mb, but were still at very comfortable levels of 20% and 19% higher than one year ago and the five-year average. The drop in middle distillate inventories was entirely due to a draw on heating oil stocks of 1.8 mb to 61.2 mb as diesel rose by 0.2 mb. The trend in heating oil inventories was attributed to an 110,000 b/d fall in weekly production which may be linked to seasonal refinery maintenance in the USA and healthy inventory levels, which exerted downward pressures on margins. Despite the draw heating oil stocks were 8% and 11% above the year-ago level and the five-year average and, at 72.5 days, the forward cover was high compared to the previous year. Diesel inventories edged up a slight 0.3 mb to 88.7 mb owing to falling production but were still at very high levels compared to a year ago and the five-year average.

Western Europe

Total commercial oil inventories witnessed a slightly smaller decline of 6.4 mb in September compared to August

In Eur-16 (Eu-15 plus Norway) total commercial stocks declined by 6.4 mb to 1,141.1 mb in September, a drop of 0.6% compared to the same month last year but still 6.4% above the five-year average. The draw was mainly due to a further reduction in crude oil inventories as well as a draw on middle distillate stocks.

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

	Jul 06	Aug 06	Sep 06	Change Sep 06/Aug 06	Sep 05
Crude oil	502.7	494.7	487.2	-7.5	483.6
Mogas	128.7	130.0	132.5	2.6	136.1
Naphtha	26.0	25.1	26.4	1.3	24.5
Middle distillates	383.5	386.9	384.0	-2.9	388.9
Fuel oils	115.0	110.9	111.0	0.1	115.3
Total products	627.3	627.7	627.5	-0.2	640.4
Overall total	**1,155.9**	**1,147.5**	**1,141.1**	**-6.4**	**1,148.4**

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

Crude oil stocks slipped a further by 7.5 mb to stand at 487.2 mb in September, narrowing the y-o-y surplus to 3.6 mb, 29.5 mb over the five-year average. This trend took place despite an important cut in refinery runs as offshore maintenance limited output in the North Sea and lower BFO prices encouraged eastbound crude shipments. Refinery runs decreased by 150,000 b/d in September from August, which meant a cut of 2% to 92% in the operable utilization rate. Lower gasoline and fuel oil prices resulted in negative margins, leading to an early start to the turnaround season. On the product side, gasoline stocks continued building up in September, growing by 2.6 mb to 132.5 mb on a monthly basis as a result of the closed arbitrage window to the USA where gasoline inventories increased. Nevertheless, gasoline stocks were 2.7% and 2.4% lower than a year ago and the five- year average.

The surplus in middle distillate stocks in August turned into a deficit in September, decreasing by 2.9 mb to reach 384 mb month-on-month, 3% lower than the same month last year, but still around 8% above the five-year average. The draw on middle distillate stocks was prompted by strong demand for both diesel and heating oil which has been partially matched by imports from the USA and Asia-Pacific. It must be noted that data on middle distillate stocks for Eur-16 was revised up in August after a downward revision in July, which resulted in a further stock-build in August. In the case of residual fuel oil, inventories remained unchanged at 111 b in September compared to August which saw a considerable draw based on revised data. Problems related to pressure on European storage have been overcome by exports to Asia-Pacific, but independent stocks in Rotterdam are still reported to be 35% near to tank top and turnarounds have cut local output.

Japan

Japan's total commercial inventories witnessed an increase of 6.1 % in August compared to the previous month

Total commercial oil inventories in Japan rose by 11.9 mb in August compared to the previous month to reach 195.8 mb or more than 4% higher than the year-ago level and the five-year average respectively. Both crude and products contributed to the build.

Crude oil inventories in Japan reversed the downward trend of the previous month increasing by 1.1 mb in August which left inventories on par with the year-ago level and 2.9% above the five-year average. This trend took place despite a 6.3% increase in refinery runs and a slight 0.7% expansion of imports compared to the previous month. On a yearly basis, crude throughput was 1.6% lower triggering a 4.0% drop in August crude imports. The moderate growth in crude imports was due to lower imports by Iran compared to the huge rise in July. In July, crude imports rose by 19.8% month-on-month due to a huge 164% rise in the flow coming from Iran.

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

	Jun 06	Jul 06	Aug 06	Change Aug 06/Jul 06	Aug 05
Crude oil	117.3	116.4	117.5	1.1	117.5
Gasoline	13.7	12.1	12.7	0.6	12.3
Middle distillates	31.6	35.6	44.4	8.8	40.3
Residual fuel oil	20.3	19.9	21.2	1.4	21.0
Total products	65.6	67.5	78.3	10.8	73.5
Overall total**	**182.9**	**183.9**	**195.8**	**11.9**	**191.0**

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

Product inventories continued to recover, increasing a further 10.8 mb to stand at 78.3 mb which represented a cushion of more than 6% against the year-ago level and the five-year average, respectively. A 12.6% drop in imports of total products was offset by an expansion in production and a fall in domestic oil product sales, which dipped 4.7% to 3.6 mb/d in August from the previous month when domestic sales for products, although low relative to the year-ago standards, still rose on a monthly basis. Product oil sales were 8.3% lower in August than in the same month last year. The unusually weak demand for gasoline in July owing to high prices continued during August when it was 4.0% below the year-ago level. The slowdown in domestic product sales was also linked to falling demand for kerosene and jet fuel which declined by 31.2% and 12.4% respectively. The lower gain in stocks corresponded to gasoline which reported a 0.6 mb rise to 12.7 mb in August from July which left the level 3.1% higher than a year ago but 1.1% lower than the five-year average. Higher production and a slow-down in domestic gasoline sales, which grew by 2.4% in August compared to 10.1% in July, partially counterbalanced by the considerable 34% drop in imports and increased exports from July.

Middle distillate inventories edged up 8.8 mb which left the level at 44.4 mb, an increase of 10.3% and 9.1% over a year earlier and the five-year average. Apart from naphtha, all middle distillates contributed to the stock-build in products headed by kerosene, jet fuel, gasoil and fuel oil. In the case of kerosene, higher imports and production together with weaker demand combined to pull stocks 35.5% higher in August than in July, despite greater exports. It should be noted that the considerable drop in product demand boosted inventories encouraging refiners to reduce crude processing rates for September and October.

Balance of Supply and Demand

Estimated demand for OPEC crude revised down 0.2 mb/d to 28.7 mb/d

Estimate for 2006

The estimated demand for OPEC crude in 2006 is expected to average 28.7 mb/d. The demand for OPEC has been revised down 0.2 mb/d following lower expectations for demand growth. On a quarterly basis, actual data shows demand for OPEC crude at 29.8 mb/d in the first and 28.3 mb/d in the second quarter, and estimated at 28.2 mb/d in the third and 28.7 mb/d in the fourth quarter.

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

	2005	1Q06	2Q06	3Q06	4Q06	2006
(a) World Oil Demand	**83.21**	**84.60**	**82.96**	**83.86**	**85.47**	**84.23**
Non-OPEC Supply	50.14	50.62	50.45	51.37	52.46	51.23
OPEC NGLs and non-conventionals	4.09	4.20	4.24	4.32	4.33	4.27
(b) Total Supply excluding OPEC Crude	**54.23**	**54.82**	**54.69**	**55.69**	**56.79**	**55.50**
Difference (a-b)	**28.98**	**29.79**	**28.27**	**28.17**	**28.69**	**28.72**
OPEC crude oil production (1)	29.87	29.68	29.57	29.72		
Balance	0.88	-0.10	1.30	1.55		

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

Estimated demand for OPEC crude unchanged at 28.1 mb/d

Forecast for 2007

The estimated demand for OPEC crude in 2007 is expected to average 28.1 mb/d, unchanged from the previous *MOMR*. On a quarterly basis, the forecast shows that demand for OPEC crude is expected at 29.2 mb/d in the first, 27 mb/d in the second, 27.8 mb/d in the third and 28.3 mb/d in the fourth quarter.

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

	2006	1Q07	2Q07	3Q07	4Q07	2007
(a) World Oil Demand	**84.23**	**85.96**	**83.97**	**85.19**	**86.96**	**85.52**
Non-OPEC Supply	51.23	52.46	52.58	52.92	54.04	53.00
OPEC NGLs and non-conventionals	4.27	4.31	4.36	4.46	4.61	4.44
(b) Total Supply excluding OPEC Crude	**55.50**	**56.76**	**56.94**	**57.38**	**58.65**	**57.44**
Difference (a-b)	**28.72**	**29.19**	**27.04**	**27.81**	**28.31**	**28.08**
OPEC crude oil production (1)						

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

Graph 26: Balance of supply and demand

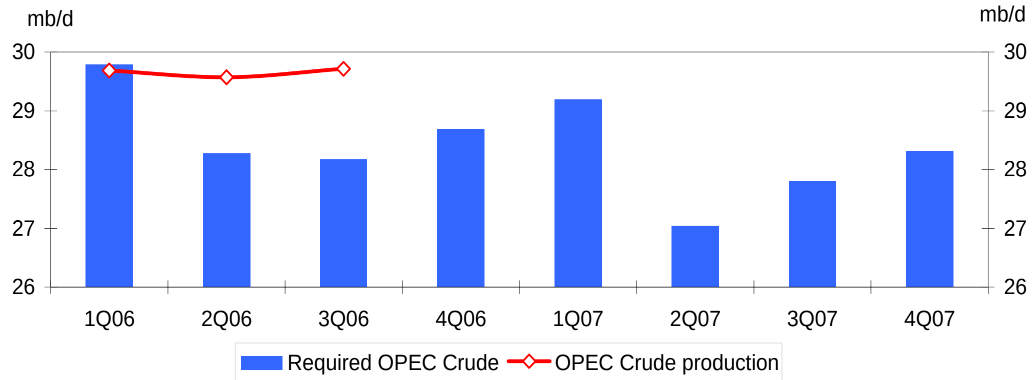


Table 30: World oil demand/supply balance, mb/d

	2002	2003	2004	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
World demand														
OECD	47.9	48.6	49.3	49.5	50.1	48.0	49.1	50.4	49.4	50.5	48.1	49.3	50.7	49.6
North America	24.1	24.5	25.4	25.5	25.1	25.1	25.6	25.8	25.4	25.5	25.2	25.7	26.0	25.6
Western Europe	15.3	15.4	15.5	15.5	15.7	15.0	15.5	15.7	15.5	15.6	15.1	15.5	15.8	15.5
Pacific	8.5	8.6	8.5	8.6	9.3	7.9	8.1	8.9	8.5	9.4	7.8	8.1	8.9	8.5
DCs	20.3	20.6	21.7	22.4	22.7	23.2	23.2	23.1	23.0	23.3	23.7	23.8	23.8	23.6
FSU	3.7	3.8	3.8	3.8	3.7	3.6	3.8	4.0	3.8	3.8	3.5	3.8	4.1	3.8
Other Europe	0.8	0.8	0.9	0.9	1.0	0.9	0.9	0.9	0.9	1.0	0.9	0.9	0.9	0.9
China	5.0	5.6	6.5	6.5	7.1	7.3	6.9	7.0	7.1	7.4	7.8	7.3	7.4	7.5
(a) Total world demand	77.8	79.4	82.3	83.2	84.6	83.0	83.9	85.5	84.2	86.0	84.0	85.2	87.0	85.5
Non-OPEC supply														
OECD	21.9	21.7	21.3	20.4	20.4	20.0	20.3	21.0	20.4	20.9	20.9	20.8	21.3	21.0
North America	14.5	14.6	14.6	14.1	14.2	14.2	14.4	14.7	14.4	14.7	14.7	14.7	14.8	14.7
Western Europe	6.7	6.4	6.2	5.8	5.7	5.3	5.3	5.6	5.5	5.6	5.5	5.4	5.8	5.6
Pacific	0.8	0.7	0.6	0.6	0.5	0.5	0.7	0.7	0.6	0.6	0.6	0.7	0.7	0.6
DCs	11.5	11.6	12.0	12.5	12.8	12.7	13.1	13.4	13.0	13.4	13.4	13.7	14.0	13.6
FSU	9.3	10.3	11.1	11.5	11.7	12.0	12.2	12.3	12.0	12.3	12.5	12.6	12.8	12.6
Other Europe	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.4	3.4	3.5	3.6	3.7	3.7	3.7	3.7	3.7	3.8	3.7	3.8	3.9	3.8
Processing gains	1.7	1.8	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Total non-OPEC supply	48.1	48.9	49.9	50.1	50.6	50.4	51.4	52.5	51.2	52.5	52.6	52.9	54.0	53.0
OPEC NGLs + non-conventional oils	3.6	3.7	4.0	4.1	4.2	4.2	4.3	4.3	4.3	4.3	4.4	4.5	4.6	4.4
(b) Total non-OPEC supply and OPEC NGLs	51.7	52.6	54.0	54.2	54.8	54.7	55.7	56.8	55.5	56.8	56.9	57.4	58.7	57.4
OPEC crude oil production (secondary sources)	25.4	26.9	29.0	29.9	29.7	29.6	29.7							
Total supply	77.0	79.6	83.0	84.1	84.5	84.3	85.4							
Balance (stock change and miscellaneous)	-0.8	0.2	0.7	0.9	-0.1	1.3	1.5							
OECD closing stock levels (*mb*)														
Commercial	2478	2517	2551	2594	2596	2652								
SPR	1347	1411	1450	1487	1487	1493								
Total	3825	3928	4001	4081	4083	4145								
Oil-on-water	816	883	906	960	962	962								
Days of forward consumption in OECD														
Commercial onland stocks	51	51	51	53	54	54								
SPR	28	29	29	30	31	30								
Total	79	80	81	83	85	84								
Memo items														
FSU net exports	5.6	6.5	7.3	7.7	8.0	8.4	8.4	8.3	8.3	8.5	9.0	8.8	8.7	8.8
(a) - (b)	26.1	26.7	28.3	29.0	29.8	28.3	28.2	28.7	28.7	29.2	27.0	27.8	28.3	28.1

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

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

	2002	2003	2004	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
World demand														
OECD	-	-	-	-	-	-	-0.3	-0.1	-0.1	-	-	-0.3	-0.1	-0.1
North America	-	-	-	-	-	-	-0.2	-	-0.1	-	-	-0.2	-	-0.1
Western Europe	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-	-
Pacific	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-	-
DCs	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(a) Total world demand	-	-	-	-	-0.1	-0.1	-0.3	-0.2	-0.2	-0.1	-	-0.3	-0.2	-0.2
Non-OPEC supply														
OECD	-	-	-	0.1	0.1	0.1	0.4	0.3	0.2	0.2	0.2	0.1	0.1	0.1
North America	-	-	-	-	-	-	0.1	0.2	0.1	0.1	0.1	-0.1	-0.1	-
Western Europe	-	-	-	0.1	0.1	-	0.2	0.1	0.1	0.1	-	0.1	0.2	0.1
Pacific	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-0.1	-0.2	-0.1	-0.2	-0.2	-0.1	-	-0.1
FSU	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	0.1	-	-	0.2	-	0.1	0.1	-	-0.1	0.1	-
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.1	-0.1	-0.1
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	0.1	-	-	0.2	-	0.1	-	-0.1	-0.2	-	-0.1
OPEC crude oil production (secondary sources)	-	-	-	-	-	-								
Total supply	-	-	-	0.1	-	-								
Balance (stock change and miscellaneous)	-	-	0.1	0.1	0.1	-								
OECD closing stock levels (*mb*)														
Commercial	-	-	-	-	-	6								
SPR	-	-	-	-	-	-								
Total	-	-	-	-	-	6								
Oil-on-water	-	-	-	-	-1	-								
Days of forward consumption in OECD														
Commercial onland stocks	-	-	-	-	-	-								
SPR	-	-	-	-	-	-								
Total	-	-	-	-	-	0.7								
Memo items														
FSU net exports	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-
(a) - (b)	-	-	-0.1	-0.1	-0.1	-	-0.5	-0.2	-0.2	-	0.1	-0.1	-0.1	-

† *This compares Table 30 in this issue of the MOMR with Table 29 in the September 2006 issue.*
This table shows only where changes have occurred.

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

	2001	2002	2003	2004	2005	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06
Closing stock levels *mb*															
OECD onland commercial	2,630	2,478	2,517	2,551	2,594	2,465	2,545	2,581	2,551	2,543	2,625	2,645	2,594	2,596	2,652
North America	1,262	1,175	1,161	1,193	1255	1,145	1,193	1,206	1,193	1,198	1,275	1,257	1,255	1,239	1,274
Western Europe	925	895	922	928	945	919	933	945	928	956	929	956	945	949	943
OECD Pacific	443	408	435	430	394	400	420	430	430	389	422	432	394	408	436
OECD SPR	1,288	1,347	1,411	1,450	1,487	1,423	1,429	1,435	1,450	1,462	1,494	1,494	1,487	1,487	1,493
North America	552	601	640	678	687	654	664	672	678	690	698	696	687	688	690
Western Europe	356	357	374	377	407	371	366	367	377	376	401	405	407	407	411
OECD Pacific	380	389	396	396	393	398	398	396	396	396	395	393	393	392	393
OECD total	3,918	3,825	3,928	4,001	4,081	3,888	3,974	4,016	4,001	4,005	4,119	4,139	4,081	4,083	4,145
Oil-on-water	830	816	883	906	960	906	892	894	906	933	931	927	960	962	962
Days of forward consumption in OECD															
OECD onland commercial	55	51	51	51	53	51	52	51	50	52	53	53	52	54	54
North America	52	48	46	47	49	46	47	47	47	47	50	49	50	49	50
Western Europe	60	58	60	60	61	61	60	59	60	63	60	61	60	63	61
OECD Pacific	52	47	51	50	46	51	52	49	46	48	52	49	42	52	54
OECD SPR	27	28	29	29	30	30	29	29	29	30	30	30	30	31	30
North America	23	25	25	27	27	26	26	26	27	27	27	27	27	27	27
Western Europe	23	23	24	24	26	25	24	23	24	25	26	26	26	27	27
OECD Pacific	45	45	47	46	46	50	49	45	42	49	49	45	42	50	49
OECD total	82	79	80	81	83	81	81	80	79	83	84	83	81	85	84

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

	2002	2003	2004	2005	Change 05/04	1Q06	2Q06	3Q06	4Q06	2006	Change 06/05	1Q07	2Q07	3Q07	4Q07	2007	Change 07/06
USA	8.04	7.82	7.65	7.28	-0.37	7.20	7.36	7.46	7.64	7.42	0.14	7.69	7.70	7.62	7.70	7.68	0.26
Canada	2.84	2.98	3.07	3.02	-0.04	3.22	3.10	3.18	3.30	3.20	0.18	3.24	3.33	3.28	3.39	3.31	0.11
Mexico	3.59	3.80	3.83	3.77	-0.07	3.79	3.78	3.71	3.79	3.77	0.00	3.77	3.72	3.77	3.74	3.75	-0.01
North America	14.48	14.60	14.56	14.07	-0.49	14.22	14.23	14.36	14.73	14.38	0.31	14.69	14.75	14.67	14.83	14.74	0.35
Norway	3.33	3.26	3.19	2.97	-0.22	2.93	2.70	2.82	2.86	2.83	-0.14	2.84	2.81	2.90	3.07	2.91	0.08
UK	2.52	2.33	2.10	1.88	-0.22	1.84	1.67	1.61	1.77	1.72	-0.16	1.82	1.77	1.61	1.79	1.75	0.03
Denmark	0.37	0.37	0.39	0.38	-0.01	0.36	0.35	0.35	0.36	0.35	-0.02	0.34	0.34	0.33	0.32	0.33	-0.02
Other Western Europe	0.44	0.47	0.51	0.54	0.03	0.54	0.57	0.56	0.59	0.56	0.02	0.59	0.59	0.58	0.58	0.58	0.02
Western Europe	6.67	6.43	6.19	5.77	-0.42	5.67	5.28	5.33	5.58	5.46	-0.30	5.59	5.50	5.43	5.77	5.57	0.11
Australia	0.70	0.60	0.52	0.53	0.01	0.43	0.44	0.57	0.58	0.51	-0.02	0.57	0.53	0.55	0.54	0.55	0.04
Other Pacific	0.06	0.06	0.05	0.05	0.00	0.05	0.05	0.08	0.08	0.07	0.01	0.08	0.10	0.12	0.11	0.10	0.03
OECD Pacific	0.77	0.66	0.57	0.58	0.01	0.48	0.50	0.65	0.66	0.57	-0.01	0.65	0.62	0.66	0.65	0.65	0.07
Total OECD	21.92	21.68	21.32	20.42	-0.90	20.36	20.01	20.34	20.96	20.42	0.00	20.93	20.87	20.76	21.26	20.96	0.54
Brunei	0.20	0.21	0.21	0.21	0.00	0.22	0.22	0.22	0.22	0.22	0.01	0.22	0.22	0.22	0.22	0.22	0.00
India	0.78	0.79	0.79	0.76	-0.04	0.78	0.80	0.80	0.80	0.79	0.03	0.80	0.77	0.79	0.78	0.79	-0.01
Malaysia	0.76	0.78	0.79	0.77	-0.03	0.77	0.74	0.75	0.74	0.75	-0.02	0.73	0.70	0.75	0.82	0.75	0.00
Vietnam	0.34	0.35	0.40	0.38	-0.02	0.38	0.38	0.38	0.39	0.38	0.00	0.36	0.33	0.38	0.39	0.37	-0.01
Asia others	0.37	0.40	0.42	0.51	0.09	0.52	0.53	0.53	0.53	0.53	0.02	0.53	0.53	0.53	0.54	0.53	0.00
Other Asia	2.45	2.52	2.61	2.63	0.02	2.67	2.66	2.68	2.68	2.67	0.04	2.63	2.55	2.67	2.76	2.65	-0.02
Argentina	0.84	0.84	0.79	0.76	-0.03	0.76	0.78	0.78	0.77	0.77	0.01	0.76	0.75	0.74	0.73	0.75	-0.02
Brazil	1.72	1.80	1.79	1.99	0.20	2.07	2.08	2.13	2.28	2.14	0.15	2.32	2.30	2.32	2.42	2.34	0.20
Colombia	0.58	0.55	0.53	0.53	0.00	0.53	0.53	0.53	0.53	0.53	0.00	0.53	0.53	0.53	0.53	0.53	0.00
Ecuador	0.38	0.41	0.51	0.51	0.00	0.52	0.54	0.54	0.53	0.53	0.02	0.52	0.51	0.51	0.50	0.51	-0.02
Trinidad & Tobago	0.15	0.16	0.16	0.21	0.05	0.22	0.22	0.22	0.22	0.22	0.01	0.21	0.21	0.21	0.21	0.21	-0.01
L. America others	0.25	0.26	0.27	0.29	0.02	0.29	0.30	0.29	0.29	0.29	0.00	0.28	0.28	0.28	0.28	0.28	-0.01
Latin America	3.93	4.02	4.06	4.29	0.24	4.39	4.45	4.48	4.63	4.49	0.19	4.62	4.59	4.59	4.68	4.62	0.13
Bahrain	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00
Oman	0.90	0.82	0.79	0.78	0.00	0.77	0.75	0.75	0.75	0.76	-0.02	0.75	0.75	0.75	0.77	0.76	0.00
Syria	0.55	0.53	0.50	0.47	-0.03	0.44	0.44	0.43	0.43	0.43	-0.04	0.42	0.41	0.41	0.40	0.41	-0.02
Yemen	0.46	0.44	0.42	0.40	-0.02	0.41	0.41	0.41	0.42	0.41	0.01	0.43	0.43	0.42	0.41	0.43	0.01
Middle East	2.12	2.01	1.92	1.87	-0.05	1.83	1.82	1.81	1.81	1.82	-0.05	1.82	1.82	1.80	1.80	1.81	-0.01
Angola	0.89	0.87	0.99	1.23	0.24	1.38	1.22	1.46	1.54	1.40	0.17	1.58	1.62	1.78	1.93	1.73	0.33
Chad	0.00	0.02	0.16	0.18	0.02	0.18	0.18	0.18	0.18	0.18	0.00	0.19	0.19	0.19	0.19	0.19	0.01
Congo	0.25	0.24	0.24	0.24	0.00	0.25	0.25	0.25	0.25	0.25	0.01	0.25	0.25	0.27	0.27	0.26	0.01
Egypt	0.75	0.75	0.71	0.70	-0.01	0.69	0.68	0.68	0.68	0.68	-0.01	0.66	0.66	0.66	0.66	0.66	-0.02
Equatorial Guinea	0.20	0.24	0.34	0.36	0.02	0.36	0.36	0.36	0.36	0.36	0.00	0.37	0.39	0.41	0.41	0.40	0.04
Gabon	0.29	0.25	0.25	0.25	0.00	0.25	0.25	0.24	0.24	0.24	-0.01	0.23	0.23	0.23	0.23	0.23	-0.01
South Africa	0.19	0.20	0.22	0.20	-0.02	0.20	0.20	0.20	0.20	0.20	-0.01	0.19	0.19	0.19	0.19	0.19	-0.01
Sudan	0.24	0.27	0.30	0.34	0.04	0.35	0.36	0.44	0.52	0.42	0.08	0.54	0.57	0.56	0.56	0.56	0.14
Africa other	0.20	0.20	0.21	0.24	0.04	0.29	0.31	0.31	0.33	0.31	0.06	0.33	0.33	0.33	0.37	0.34	0.03
Africa	3.01	3.05	3.42	3.74	0.32	3.94	3.80	4.11	4.29	4.04	0.30	4.33	4.42	4.62	4.80	4.54	0.51
Total DCs	11.51	11.60	12.00	12.53	0.53	12.83	12.73	13.09	13.41	13.02	0.48	13.41	13.38	13.68	14.04	13.63	0.61
FSU	9.33	10.27	11.14	11.55	0.41	11.67	11.97	12.22	12.29	12.04	0.49	12.27	12.50	12.62	12.81	12.55	0.51
Russia	7.62	8.46	9.19	9.44	0.25	9.48	9.63	9.76	9.80	9.67	0.23	9.70	9.86	9.96	9.99	9.88	0.21
Kazakhstan	0.94	1.03	1.18	1.23	0.05	1.22	1.31	1.36	1.35	1.31	0.08	1.35	1.38	1.37	1.53	1.41	0.10
Azerbaijan	0.31	0.31	0.31	0.44	0.13	0.56	0.61	0.68	0.71	0.64	0.20	0.82	0.86	0.89	0.89	0.86	0.22
FSU others	0.45	0.47	0.46	0.44	-0.03	0.41	0.42	0.42	0.42	0.42	-0.02	0.40	0.40	0.40	0.40	0.40	-0.02
Other Europe	0.18	0.17	0.17	0.16	-0.01	0.15	0.15	0.15	0.15	0.15	-0.01	0.15	0.15	0.15	0.15	0.15	0.00
China	3.39	3.41	3.49	3.62	0.13	3.68	3.70	3.68	3.72	3.70	0.08	3.77	3.75	3.78	3.86	3.79	0.09
Non-OPEC production	46.33	47.13	48.12	48.27	0.16	48.70	48.56	49.48	50.53	49.32	1.05	50.53	50.65	50.99	52.11	51.07	1.75
Processing gains	1.73	1.80	1.83	1.86	0.03	1.92	1.89	1.89	1.93	1.91	0.04	1.93	1.93	1.93	1.93	1.93	0.02
Non-OPEC supply	48.06	48.93	49.95	50.14	0.19	50.62	50.45	51.37	52.46	51.23	1.09	52.46	52.58	52.92	54.04	53.00	1.77
OPEC NGL	3.42	3.57	3.85	3.92	0.07	4.05	4.10	4.17	4.18	4.13	0.20	4.23	4.28	4.38	4.53	4.36	0.23
OPEC Non-conventional	0.18	0.14	0.17	0.17	0.00	0.15	0.14	0.15	0.15	0.15	-0.02	0.08	0.08	0.08	0.08	0.08	-0.07
OPEC (NGL+NCF)	3.60	3.71	4.02	4.09	0.07	4.20	4.24	4.32	4.33	4.27	0.18	4.31	4.36	4.46	4.61	4.44	0.16
Non-OPEC & OPEC (NGL+NCF)	51.65	52.64	53.97	54.23	0.26	54.82	54.69	55.69	56.79	55.50	1.27	56.76	56.94	57.38	58.65	57.44	1.94

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

Table 34: World Rig Count

	2002	2003	Change 03/02	1Q 04	2Q 04	3Q 04	4Q 04	2004	Change 04/03	1Q 05	2Q 05	3Q 05	4Q 05	2005	Change 05/04	2Q 06	Aug 06	Sep 06	3Q 06	Change Sep 06 - Aug 06
USA	831	1,032	201	1,119	1,164	1,229	1,249	1,190	158	1,279	1,336	1,419	1,478	1,378	188	1,632	1,738	1,739	1,719	1
Canada	266	372	106	528	202	326	420	369	-3	620	241	527	572	490	121	282	482	446	494	-36
Mexico	65	92	27	107	113	111	108	110	18	114	116	104	93	107	-3	85	78	82	77	4
North America	1,162	1,496	334	1,754	1,479	1,665	1,777	1,669	173	2,013	1,693	2,050	2,143	1,975	306	1,999	2,298	2,267	2,290	-31
Norway	19	19	0	19	18	14	16	17	-2	15	18	19	17	17	0	20	20	12	16	-8
UK	26	20	-6	15	19	14	15	16	-4	16	22	23	24	21	5	27	26	26	26	0
Western Europe	85	78	-7	69	70	57	62	65	-13	56	67	68	68	65	0	78	78	73	73	-5
OECD Pacific	17	18	1	19	22	26	20	22	4	24	25	27	24	25	3	28	28	23	25	-5
Total OECD	1,264	1,592	328	1,842	1,570	1,749	1,859	1,755	163	2,093	1,785	2,146	2,234	2,065	310	2,105	2,404	2,363	2,389	-41
Other Asia	111	117	6	119	128	127	130	126	9	133	140	146	148	142	16	150	156	154	156	-2
Latin America	106	116	10	114	127	129	134	126	10	133	138	141	151	141	15	162	161	169	164	8
Middle East	62	70	8	69	68	69	73	70	0	69	71	73	75	72	2	79	83	82	82	-1
Africa	43	48	5	48	53	56	57	54	6	58	58	54	60	58	4	66	72	70	72	-2
Total DCs	322	350	28	350	376	381	394	376	26	393	407	414	433	412	36	457	472	475	474	3
Non-OPEC Rig Count	1,588	1,944	356	2,194	1,949	2,132	2,255	2,132	188	2,489	2,194	2,562	2,670	2,479	347	2,564	2,878	2,840	2,865	-38
Algeria	20	20	0	18	20	20	20	19	-1	20	21	22	21	21	2	21	27	29	28	2
Indonesia	46	45	-1	46	48	54	49	49	4	53	53	55	59	54	5	43	46	48	46	2
Iran	34	35	1	38	42	42	41	41	6	42	41	39	38	40	-1	45	48	46	47	-2
Iraq	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Kuwait	6	5	-1	8	8	11	14	10	5	12	13	11	14	12	2	13	16	14	14	-2
Libya	10	10	0	10	10	9	10	10	0	10	9	8	8	9	-1	9	11	10	10	-1
Nigeria	12	10	-2	7	7	9	9	8	-2	9	9	9	8	9	1	9	10	12	10	2
Qatar	13	8	-5	8	7	10	10	9	1	10	13	12	12	12	3	10	12	11	11	-1
Saudi Arabia	32	32	0	33	31	31	31	32	0	33	34	37	43	36	4	60	73	74	70	1
UAE	16	16	0	17	17	16	14	16	0	16	16	16	16	16	0	16	15	16	16	1
Venezuela	42	37	-5	52	50	52	65	55	18	66	72	66	70	67	12	83	87	81	85	-6
OPEC Rig Count	231	218	-13	236	240	254	263	249	31	271	281	275	289	276	27	309	345	341	337	-4
Worldwide Rig Count*	1,819	2,162	343	2,430	2,189	2,386	2,518	2,381	219	2,760	2,475	2,837	2,959	2,755	374	2,873	3,223	3,181	3,202	-42
of which:																				
Oil	758	816	58	872	821	886	925	877	61	961	870	990	1,015	959	82	1,060	1,180	1,158	1,169	-22
Gas	1,044	1,328	284	1,538	1,351	1,478	1,573	1,485	157	1,777	1,583	1,823	1,928	1,778	293	1,802	2,024	2,005	2,016	-19
Others	17	18	1	20	17	22	20	20	2	22	22	25	17	22	2	13	19	18	18	-1

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

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Data is provided by Data Services Department.

Data Summary October 2006

OPEC Basket average price

US$ per barrel

⬇ *down 9.47 in September*	***September 2006***	***59.34***
	August 2006	*68.81*
	Year-to-date	*62.75*

September OPEC production

in million barrels per day, according to secondary sources

Algeria	*1.38*	*Kuwait*	*2.51*	*Saudi Arabia*	*9.09*
Indonesia	*0.88*	*SP Libyan AJ*	*1.72*	*UAE*	*2.57*
IR Iran	*3.88*	*Nigeria*	*2.21*	*Venezuela*	*2.55*
Iraq	*2.07*	*Qatar*	*0.83*	***TOTAL***	***29.67***

Supply and demand

in million barrels per day

2006		***2007***	
World demand	*84.2*	*World demand*	*85.5*
Non-OPEC supply	*55.5*	*Non-OPEC supply*	*57.4*
Difference	***28.7***	***Difference***	***28.1***

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

Stocks

US commercial oil stocks experienced a further build of 22.0 mb in September.

World economy

World GDP growth unchanged at 5.0% for 2006 and revised up to 4.4% for 2007.

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Next report to be issued on 15 November 2006.

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