

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

September 2007

*Feature Article:
Anticipating market needs despite uncertainties*

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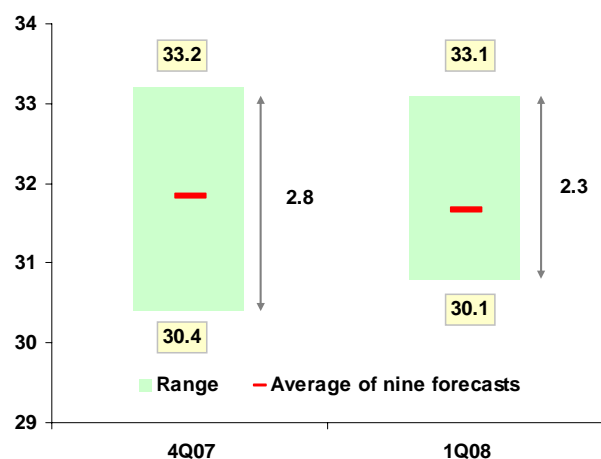
Oil Market Highlights

- The OPEC Reference declined 4.4% or \$3.18 in August to settle at \$68.71/b. Concern that economic risks and equity market turbulence might dent energy demand offset the drop in seasonal fuel inventories amid refinery outages and continued draws on crude oil stocks. In September, the OPEC Conference raised the production ceiling to 27.3 mb/d in an attempt to ease supply concerns amid stock draws in a backwardated market. However, a pipeline attack in Mexico, larger-than-expected falls in US crude oil and gasoline inventories and refinery closures in the US Gulf due to hurricanes pushed prices to a record high of \$74.64/b on 13 September. Additionally, it should be noted that the OPEC Reference Basket has been revised to include Angola's medium-sweet Girassol crude (30.8°API and 0.34% sulphur), effective from 1 January 2007.
- World economic growth remains unchanged for 2007 and 2008 at 5% this month. However, it is expected that the fallout from financial market turmoil will impact US and world economic growth in the second half of 2007 and 2008, although it is still too early to gauge the size of the effect. In credit markets, confidence is far from reestablished. Much will depend on monetary accommodation to ease the strains produced by the higher cost of capital and tighter credit availability. Following restraint by the Bank of Japan and ECB, all eyes are now on the Fed meeting on 18 September, when it is generally expected that interest rates will be lowered by 25 basis points. Furthermore, US consumer confidence dipped in August and sentiment further deteriorated after a negative August US employment report earlier this month. Signs of weakness are also noticeable in Japan and the Euro-zone. Growth in China continues unabated, but inflation has reached 10-year highs in August, mainly due to high food prices, calling for further monetary tightening.
- Given the current world oil demand growth in the third quarter, along with the anticipation of a normal winter in the fourth quarter, world oil demand growth for 2007 is forecast at 1.3 mb/d or 1.5%, broadly unchanged from the last *MOMR*. World oil demand in August followed the typical summer seasonality trend. August oil demand grew the most in the developing countries, especially China. As a result of slow gasoline consumption, US oil demand in August declined by 0.5% or 0.1 mb/d y-o-y to average 21 mb/d. In 2008, world oil demand is forecast to grow by 1.3 mb/d, in line with the previous forecast. As a result of the governmental policy to curb the use of energy, Chinese oil demand growth forecast for 2008 at 0.4 mb/d, a decline of 0.05 mb/d from this year's growth. Transport and industrial fuel are expected to be the main growth sectors in 2008.
- Non-OPEC supply growth in 2007 has been revised down slightly to stand at 0.84 mb/d over the previous year. The adjustments were due in a large part to significant downward revisions to Mexico and Azerbaijan supply in the third quarter. For 2008, non-OPEC supply growth experienced a minor downward revision to stand at 1.04 mb/d as some of the 2007 revisions have been extended into 2008 and more data has become available for project startups and ramp ups. Growth in OPEC NGLs and non-conventional oils has been left unchanged at 0.30 mb/d in 2007 and 0.52 mb/d in 2008. In August, OPEC crude oil production averaged 30.39 mb/d, a decline of around 92,200 b/d from the previous month, as production from Iraq witnessed a significant decline of 147,300 b/d to average 1.99 mb/d.
- With the approaching end of the driving season, product market momentum was expected to slow sharply over the last weeks, exerting downward pressure on the entire petroleum complex. However, due to continued refinery glitches and falling gasoline stocks in the USA, the product market remained relatively strong last month and did not erode US refinery margins. The recent bullish developments in the product markets could provide further support for refinery economics and crude prices in the case of cold weather this winter.
- OPEC spot fixtures increased 1.0 mb/d in August to average 12.7 mb/d, maintaining a steady 67.5% of global spot fixtures. OPEC sailings remained nearly steady with only a minor increase. The crude oil tanker market remained bearish with spot freight rates for VLCCs declining to the lowest level so far in 2007 due to strong tonnage supply. Similarly, Suezmax tankers displayed further weakness on the back of limited activities and increased tonnage. For the clean market, limited arbitrage affected the market with East of Suez spot freight rates remaining steady while West of Suez rates dropped on all reported routes with Caribbean to the USA rates displaying the largest decline.
- Preliminary estimates put OECD crude oil imports for July at 30.3 mb/d, up 230,000 b/d from the previous month, while product imports reached 10.4 mb/d after a decline of 153,000 b/d. Both crude and products experienced annual declines of around 5%. US net crude oil imports fell 44,000 b/d to hit 10.14 mb/d in August, representing an annual decline of 3.5%. Net product imports to the US plunged 340,000 b/d representing a monthly decline of 14%. Japan's crude oil imports remained steady in August with a minor decline of 1%, while product imports surged 21% over the previous month. China's total oil imports remained steady in July with a 2% increase, while falling exports helped net imports to increase 27% on an annual basis. India's net oil imports rose 11% in July supported mainly by crude oil imports.
- US commercial stocks continued to drop for the second consecutive month to stand at around 1,023 mb, but remained 54 mb over the five-year average. Crude oil stocks fell nearly 12 mb to 330 mb, the same level as a year ago, while gasoline dropped 14 mb. Distillate stocks continued their seasonal build, remaining in line with the five-year average. EU-16 (Eur-15 plus Norway) commercial stocks increased a slight 0.8 mb, after falling 35 mb over the previous two months, to stand at 1,144 mb, up 30 mb from the five-year average. In Japan, commercial oil stocks rose 9.5 mb in July to 195 mb, an increase of 7 mb over the five-year average but preliminary data for the first week of September show that crude oil stocks have fallen 14 mb since end-July while distillates rose 8 mb.
- The demand for OPEC crude in 2007 is expected to average 31.0 mb/d, an increase of 0.1 mb/d over the previous year. In 2008, the demand for OPEC crude is expected to average 30.8 mb/d, a decrease of 216,000 b/d.

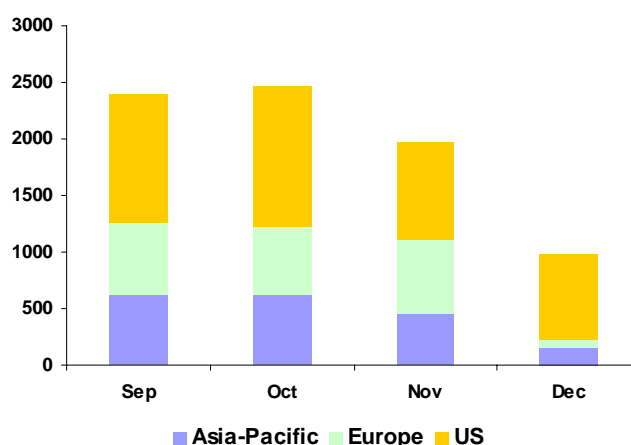
Anticipating market needs despite uncertainties

- Since the end of July, crude oil prices have experienced sharp volatility, with the OPEC Reference Basket falling more than \$7/b through most of August before experiencing an even sharper rebounding to a record-high \$74.64/b on 13 September. The main factors triggering the recent increase in prices were US commercial stock draws, storm fears in the Gulf of Mexico and related shutdowns in US refineries as well as geopolitical concerns, most recently a series of attacks on oil and gas pipelines in Mexico. This is despite the recent decision to increase the OPEC production ceiling to 27.3 mb/d, the end of the US summer driving season and the general downward trend in revisions to world oil demand projections for the fourth quarter of 2007 and in 2008. Similarly, developments in the physical market do not appear to support current price levels, as in both the US and Europe physical barrels are trading at discounted levels to the benchmark, indicating sufficient supplies are available.
- The high volatility reflects the considerable uncertainties about market fundamentals. On the supply side, uncertainties concerning the impact of ongoing projects delays, higher service costs and the trend of heavier field shut-downs had resulted in substantial downward revisions to the initial forecasts for non-OPEC supply, without reducing the range of uncertainty.
- The uncertainty is also large on the demand side. Potential weather-related developments could affect the petroleum complex in either direction. Additionally, downside risks to world economic growth have risen considerably. The main concern is that financial instability could negatively affect the real economy in the US and globally, with a subsequent impact on oil demand. However, it is still too early to gauge the full impact of recent developments, as events are still unfolding. The large uncertainties surrounding both non-OPEC supply and world oil demand result in even larger uncertainties on the demand for OPEC crude (see *Graph 1*).

Graph 1: Uncertainty on demand for OPEC crude (mb/d)



Graph 2: Autumn refinery turnaround schedule (,000 b/d)



- Stock movements also reveal a mixed picture. The most recent data (end July) show total OECD commercial oil stocks are 68 mb above the five-year average. In terms of days of forward cover — which takes into account demand expectations — this corresponds to a healthy level of 54.4 days. However, a look at US inventory data shows a less positive picture, as crude oil stocks have exhibited a clear downward trend, falling 31 mb in recent weeks. This downward trend can be attributed mainly to a decline in US crude imports in August as well as the market's shift into backwardation which removes the incentive to hold inventories. Despite these declines, the latest data (week ending 7 September) shows US crude oil inventories are still more than 25 mb over the five-year average. Moreover, the relatively heavy refinery maintenance schedule in the US and Europe in the coming months could help ease the pressure on crude inventories, although possibly aggravating the ongoing tightness in the US product market (see *Graph 2*).
- Despite this environment of uncertainties, OPEC decided at the recent Meeting of the Conference to increase production by 0.5 mb/d on top of August levels to 27.3 mb/d, effective 1 November. The increase is a clear demonstration of the Organization's concern about the continued health of the world economy as well as its ongoing commitment to ensure adequate supplies, especially ahead of the high-demand winter season. The Conference will meet again in December to reassess the market situation. Until then, it expressed its readiness to respond swiftly to any developments which might undermine oil market stability.

Vienna, Austria**11 September 2007****145th Meeting of the OPEC Conference**

The 145th Meeting of the Conference of the Organization of the Petroleum Exporting Countries (OPEC) convened in Vienna, Austria, on 11 September 2007, under the Chairmanship of its President, HE Mohamed Bin Dhaen Al Hamli, Minister of Energy of the United Arab Emirates and Head of its Delegation, and its Alternate President, HE Dr. Chakib Khelil, Minister of Energy and Mines of Algeria and Head of its Delegation.

The Conference congratulated HE Odein Ajumogobia (SAN) on his appointment as Minister of State for Energy (Petroleum) of Nigeria and Head of its Delegation, and paid tribute to the outstanding contribution made to the Organization by his predecessor in office, HE Dr. Edmund M. Daukoru. The Conference also warmly welcomed HE Gholamhossein Nozari, Acting Minister of Petroleum of the Islamic Republic of Iran and Head of its Delegation, and HE Eng. Mohammed Abdullah Al-Aleem, Acting Minister of Oil of the State of Kuwait and Head of its Delegation, and recorded its appreciation of the efforts made on behalf of the Organization by their predecessors in office, HE Sayed Kazem Vaziri Hamaneh of IR Iran, and HE Sheikh Ali Al Jarrah Al-Sabah of Kuwait, particularly thanking HE Hamaneh for his Chairmanship of the Ministerial Monitoring Sub-Committee (MMSC) in recent years.

The Conference warmly welcomed the Minister of Petroleum of Egypt, as well as high-level representatives from Mexico, the Sultanate of Oman and the Russian Federation, and reiterated the importance it continues to attach to dialogue and consultations with fellow oil-producing nations in achieving order and stability in the oil market.

The Conference considered: the Secretary General's report; the report of the Economic Commission Board; the report of the MMSC, chaired by HE Gholamhossein Nozari, Head of the Delegation of the Islamic Republic of Iran, whose Members the Conference again thanked for their continued efforts on the Organization's behalf; and various administrative matters. The Conference also exchanged views on recent developments in environment-related multilateral discussions, the outcome and implications of the 15th Session of United Nations Commission on Sustainable Development and the outcome of the 4th Ministerial Meeting of the EU-OPEC Energy Dialogue, Member Countries recording their firm commitment to working together with the international community towards achieving energy market stability and security, enhancing socio-economic development, alleviating poverty and protecting the environment.

The Conference reviewed the current oil market conditions and prospects and, once again, observed that action taken by OPEC Member Countries to increase production over the preceding several years has led to a comfortable build-up in inventory levels, especially of crude. It was, on the other hand, noted that ongoing tightness in the US products market continues to affect the level of product stocks and prices.

The Conference further observed the recent shift of the forward market into backwardation and its implications on stocks. It also noted that the high-demand winter season necessitates keeping the market adequately supplied. To this end, the Conference decided to increase the volume of crude supplied to the market by OPEC Member Countries (excluding Angola and Iraq) by 500,000 b/d, effective 1 November 2007.

Further, and recognizing the importance of maintaining oil market stability for the benefit of the world economy, the Conference reaffirmed its longstanding commitment to ensuring sound supply fundamentals at all times and to offering an adequate level of spare capacity for the benefit of the world at large, with reasonable prices to both producers and consumers that are consistent with the need for healthy global economic growth and conducive to the timely expansion of upstream and downstream capacity. Furthermore, the Conference recorded the readiness of Member Countries to swiftly

respond to any developments which might jeopardize oil market stability and their interests. For this purpose, in addition to the Organization vigilantly monitoring supply/demand fundamentals, the Conference agreed to reassess the market situation at its 146th (Extraordinary) Meeting, to be held in Abu Dhabi, UAE, on 5 December 2007.

The Conference elected HE Dr. Chakib Khelil, Minister of Energy and Mines of Algeria and Head of its Delegation, as President of the Conference for one year, with effect from 1 January 2008, and HE Desidério da Graça Veríssimo e Costa, Minister of Petroleum of Angola and Head of its Delegation, as Alternate President, for the same period.

The Conference appointed Dr. Falah J. Alamri, Governor for Iraq, as Chairman of the Board of Governors for the year 2008, and, Ms. Siham A. Razzouqi, Governor for Kuwait, as Alternate Chairman for the same period, with effect from 1 January 2008.

The Conference decided that its next Ordinary Meeting will convene in Vienna, Austria, on Wednesday, 5 March 2008.

The Conference expressed its appreciation to the Government of the Republic of Austria and the authorities of the City of Vienna for their warm hospitality and the excellent arrangements made for the Meeting.

Finally, the Conference passed Resolutions that will be published on 11 October 2007, after ratification by Member Countries.

Crude Oil Price Movements

Angola's medium-sweet Girassoal crude added to the OPEC Reference Basket effective from the start of this year

Concern over economic growth amid turbulence in the financial markets triggered worries about the continuing health of energy demand

OPEC Basket declined \$3.18/b in August

OPEC Reference Basket

The OPEC Reference Basket has been revised to include Angola's medium-sweet Girassoal crude (30.8° API and 0.34% wt sulphur) as of 1 January 2007. As a result, prices are slightly higher compared to the former Basket.

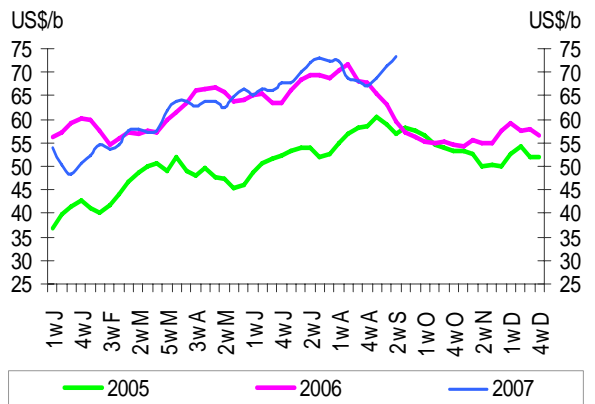
The OPEC Reference Basket emerged in August on a volatile note amid signs of a healthy economy. The return of Brent's premium to WTI supported parcels to move westward. Nevertheless, a flip in the forward structure into backwardation is foreseen to permit stock-draws lessening procurement at a time when prospects

of higher prices might dent demand. In the first week, the average OPEC Reference Basket saw a marginal rise of 7¢ or 0.1% to settle at \$72.50/b. The bearishness dominated in the second week amid further concern over the weak economic outlook as fallout from developments in the US sub-prime mortgage sector was seen as having the potential to trigger an economic slowdown which could impact energy demand. The Basket closed the second week more than 5% lower for a loss of \$3.88 to settle at \$68.62/b. Worries that Hurricane Dean might disrupt Gulf of Mexico oil operations amid depleting US crude and gasoline stocks and a recovery in the equity markets strengthened the market. However, the momentum was short-lived as the equity market tumbled again while concern over Hurricane Dean faded away as the storm headed to Central America. In the third week, the average Basket dipped a marginal 57¢ or 0.8% to settle at \$68.05/b. Easing concern over Hurricane Dean continued into the fourth week shaving most of the supply fear premium amid a stockpile in US crude oil. The Basket closed the week with an average of \$67.21/b, slipping 84¢ or 1.2%. The sentiment flipped in the final week on concern over seasonal supply amid refinery problems and depleting stocks towards year-end. Moreover, recovering European refining margins supported price firmness. In the final week of the month, the Basket averaged \$1.45 or well over 2% higher to settle at \$68.66/b.

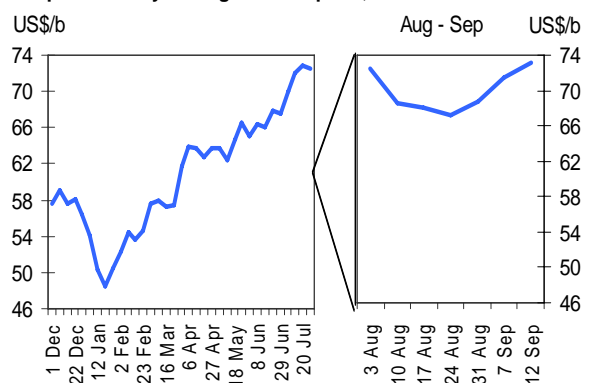
In monthly terms, the OPEC Reference Basket declined 4.4% or \$3.18 to settle at \$68.71/b. Concern that economic risks and tumbling equity markets might dent demand for energy offset the drop in seasonal fuels amid refinery outages and continued draws on crude oil stocks.

The market sentiment shifted in the first week of September amid potential refinery problems, and the continuing Atlantic storm season. Revived Mideast geopolitics and crude oil stock draws kept the bullishness intact. Due to the lack of fresh developments, the market shifted focus to steady OPEC output and the expected outcome of the Ministerial Meeting on 11 September. The Basket was \$2.71 or almost 4% higher to settle at \$71.34/b. The OPEC Meeting of the Conference raised output by 0.5 mb/d in an effort to calm fear over a supply shortfall amid depleting stocks in a backwardated market. Nevertheless, pipeline attacks in Mexico and larger-than-expected draws on US crude and gasoline stocks prompted prices to escalate and reach record-highs. The Basket closed at a new record of \$74.64/b on 13 September to average \$72.35/b.

Graph 1: OPEC Reference Basket - weekly spot crude



Graph 2: Weekly average Basket price, 2006-2007

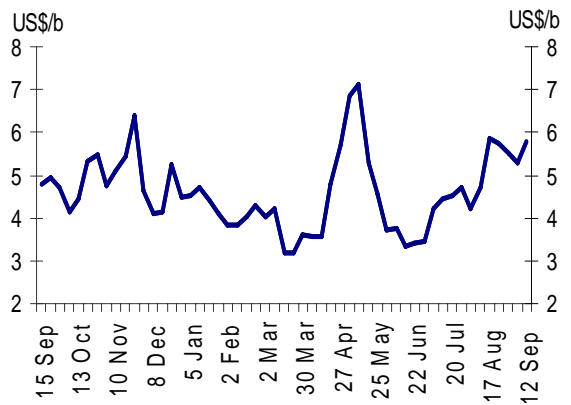


The return of some refineries from maintenance firmed sweet grades, while a flip in the forward structure limited stock-builds

US market

The US crude market firmed on the return to operation of some refineries while the Atlantic Basin spread widened prompting inbound barrels. Sweet crude differentials weakened as the forward curve flattened. However, the WTI/WTS weekly average spread was 47¢ narrower at \$4.23/b amid demand for light-end products. Nevertheless, a healthy build in US product stocks the week before amid the continued narrowing of the forward curve kept light crude under pressure. The widened WTI/Brent spread attracted the flow of transatlantic arbitrage barrels. In the second week, the average WTI/WTS spread was 49¢ wider at \$4.72/b. Sweet crude differentials continued to slip amid the WTI/Brent spread narrowing from recent highs. Worries continued on reports of weak economy denting demand. Refinery problems came up while the tropical storm was projected to head to the US Gulf Coast. In the third week, the average WTI/WTS spread was \$1.15 wider at \$5.87/b. However, Hurricane Dean spared oil operations while trade was quiet amid book-squaring upon futures contract expiry. The weekly average was 11¢ narrower at \$5.76/b after peaking to \$6/b. The final week saw continued firmness in light grade amid demand for light-end products while refinery outages sustained. Concern over a potential hurricane in the US Gulf of Mexico kept alertness in place. In the final week, the WTI/WTS spread averaged \$5.52/b or 24¢ narrower. In August, WTI averaged \$72.34/b representing a decline of \$1.61 or over 2% to narrow the premium to WTS by 4¢ to average \$5.27/b.

Graph 3: WTI spread to WTS, 2006-2007

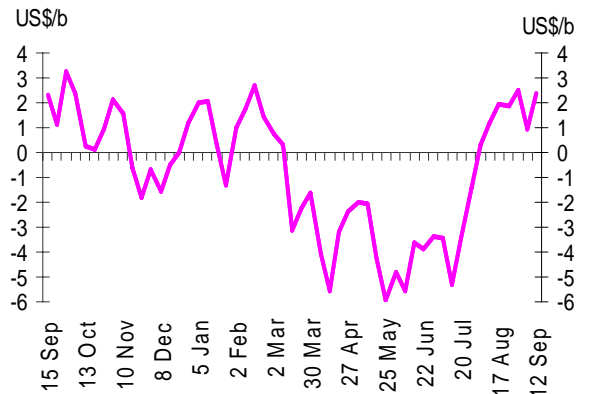


The end of oil field maintenance and UK refinery shut-downs supported the WTI/Brent spread to firm

North Sea market

Differentials for the North Sea crude generally emerged steady in August as the front end of the swap eased as concern over prompt supply was alleviated. Brent premium to WTI eased in the first week prompting outbound barrels across the Atlantic. The weekly average WTI/Brent spread was 31¢/b, for the first time since March. Although ExxonMobil restarted its Fawley, UK, 326,000 b/d oil refinery after an unplanned shutdown following a fire in July, the return of some oil fields from maintenance adding barrels to the September loading programmes kept pressure on the North Sea market. Hence, equity holders were prompted to clear prompt barrels ahead of the emergence of new programmes. Sellers were seen lowering offers amid clearing cargoes ahead of an additional 130,000 b/d North Sea barrels in the September programme. In the second week, the average WTI/Brent spread averaged 89¢ firmer at \$1.20/b. Brent remained under pressure, although improved refining margins and a decent contango structure prevented regional crude from slipping further. In the third week, the Brent discount to WTI widened by another 71¢ to \$1.91/b. Sentiment was firmer into the fourth week amid clearing prompt September stems on solid demand. The WTI/Brent spread was nearly unchanged when it was 2¢ narrower at \$1.89/b. Continued healthy demand amid improved refining margins helped North Sea crude differentials to remain strong. Nevertheless, in the final week the WTI premium to Brent widened by 61¢ to \$2.50/b due to supply shortages in the USA. The monthly average of Brent was \$70.74/b, down \$6.27 or 8%, flipping into a discount of \$1.63/b to WTI for the first time in five months.

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



Tight supply from the south improved refining margins to firm Urals spreads

Mediterranean market

The Urals crude market emerged on a firm note in August amid lower exports from Novorossiysk. However, weaker refining margins prevented further firmness. In the first week, Urals discount to Brent averaged \$2.60/b or 47¢ firmer. However, sharply lower Azeri oil exports from the Baku-Ceyhan pipeline at 433,000 b/d in September from 742,000 b/d in August helped regional grades to rebound in the Mediterranean. Hence, in the second week Urals average discount to Brent was 88¢ firmer at \$1.72/b. Moreover, the increase in price differentials to Europe by a Mideast major helped regional crude to firm further at a time when refining margins rebounded, although the drop in the financial markets alerted economic worries keeping the grade from further firmness. Brent premium to Urals was narrower to average \$1.31/b in the third week, down 41¢. Tight supply in the Mediterranean and healthy refining margins continued to support the grade while refinery maintenance in the North and higher shipments from Primorsk in September moderated demand in North West Europe. The Urals discount to Brent narrowed a further 17¢ to average \$1.14/b. Nonetheless, lower-than-expected exports from the Baltic Sea firmed the grade in the North while firmness continued in the south amid healthy demand on above average refining margins. In the final week, the Brent/Urals average spread was nearly unchanged at \$1.16/b. In monthly terms, Urals averaged \$69.25/b, representing a loss of \$4.65 or 6.3%, while the discount to Brent rose \$1.62 to \$1.49/b, a level last seen in 2003.

Closed arbitrage opportunities amid field maintenance supported firm premiums for the Mideast crude

Middle Eastern market

The market emerged in a quiet note amid the usual “wait and see” stance for the retroactive prices for Mideast benchmarks. Nevertheless, the Brent/Dubai EFS widened to a nearly 15-month high undermining the economics for western crude to flow eastward. Healthy crack spreads supported Mideast crude. Oman was assessed at a \$0.80-1/b premium to Dubai amid an emerging contango spread. In the first week, the average Brent/Dubai spread was \$6.80/b or 38¢ wider, although higher price differentials from a Mideast major did not dampen demand due to limited alternatives. In the second week the easing Brent/Dubai spread was down to nearly half at \$3.68/b supporting the opening of arbitrage opportunities which were seen pressuring October differentials. Nonetheless, strong demand prompted October Murban and Oman to trade at premiums of 40¢ and \$1/b to their respective OSPs. Planned oil field maintenance in Abu Dhabi with a potential to cut output by as high as 810,000 b/d for three weeks in November kept alertness in place. October Abu Dhabi Murban was assessed at a 55-60¢/b premium to OSP. Nevertheless, the easing of the average Brent/Dubai spread by 22¢ to \$3.46/b supported the opening of arbitrage opportunities. The spread narrowed further to \$1.64/b in the fourth week amid lingering prompt barrels calming market sentiment. Yet, unexpected prompt demand from Japan maintained a firm premium while the Brent/Dubai spread widened to \$2.98/b in the final week. The monthly average Brent/Dubai spread was \$3.38/b compared to \$7.52/b in July.

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

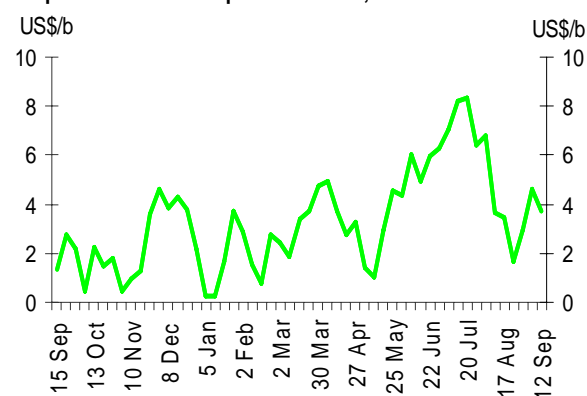


Table 1: OPEC Reference Basket and selected crudes, US\$/b

	Change			Year-to-Date	
	Jul 07	Aug 07	Aug/Jul	2006	2007
OPEC Reference Basket*	71.89	68.71	-3.18	63.16	62.53
Arab Light	71.05	68.76	-2.29	63.07	62.10
Basrah Light	70.53	66.83	-3.70	60.03	59.85
BCF-17	65.79	62.78	-3.01	53.83	55.26
Bonny Light	79.21	73.34	-5.87	69.37	68.51
Es Sider	75.81	69.84	-5.97	65.56	64.65
Girassol	74.42	69.81	-4.61	65.49	64.52
Iran Heavy	69.65	66.60	-3.05	61.38	60.27
Kuwait Export	67.73	65.91	-1.82	60.94	59.76
Marine	70.20	69.43	-0.77	64.63	63.06
Minas	76.88	73.67	-3.21	68.16	66.67
Murban	74.40	71.80	-2.60	67.83	66.80
Saharan Blend	78.21	73.44	-4.77	68.45	68.24
Other Crudes					
Dubai	69.49	67.36	-2.13	63.37	62.27
Isthmus	71.11	66.60	-4.51	62.34	60.52
T.J. Light	68.98	64.62	-4.36	56.77	58.66
Brent	77.01	70.74	-6.27	67.65	66.01
W Texas Intermediate	73.98	72.37	-1.61	68.59	64.51
Differentials					
WTI/Brent	-3.03	1.63	4.66	0.94	-1.51
Brent/Dubai	7.52	3.38	-4.14	4.28	3.74

* Effective 1 January 2007, Angola's Girassol crude has been incorporated in the OPEC Reference Basket.

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

The Oil Futures Market

Equity market concerns triggered fund sell-offs for profit-taking

Futures market volatility continued into August pressuring prices lower after a hike in July. While concern over gasoline and crude oil supplies amid refinery outages supported the bullishness in the marketplace, healthy US distillate stock-builds, easing fear over hurricanes as they missed US oil operations in the Gulf of Mexico, and turbulence in the equity markets triggered fund sell-offs for profit-taking. The first weekly data for the CFTC revealed that non-commercial net positions fell a hefty 21,200 lots to 106,300 contracts, down from the all-time high seen in July as longs dropped at a faster pace than shorts. Open interest was 16,400 narrower at 1,504,800 lots. With options included, open interest volume was 16,200 lower to close at 2,549,800. Nymex WTI front-month closed the first week at \$72.42/b, down from the previous week's record peak of above \$78/b. The weekly average was \$1.94 lower at \$74.67/b, amid concern over economic growth which prompted fund sell-offs for profit-taking.

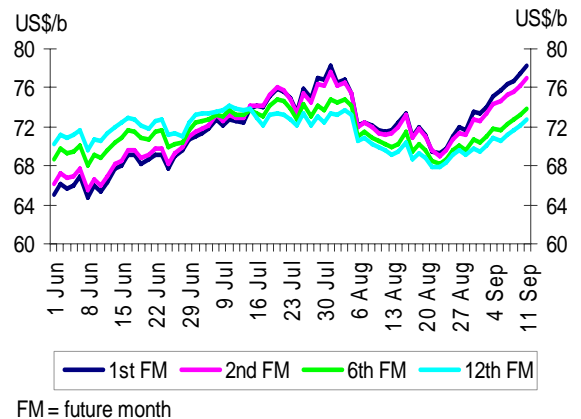
In the second weekly period, continued concern that a poorer economic outlook might dent demand pressured the futures market and outweighed the impact of Hurricane Dean in the Caribbean Sea. The Nymex WTI prompt-month closed the second week at \$72.38/b to average \$2.83 or 3.8% lower at \$71.84/b. The CFTC reported that non-commercials continued to liquidate long positions while buying the shorts. Net longs were down by nearly 25,000 lots at 81,300 contracts. However, open interest inflated by 12,100 to 1,517,000 lots. Including options, open interest rose by 23,600 to a record 2,573,400 lots.

In the third weekly period, the CFTC revealed that speculators have furthered draws from the futures market while bidding down prices. Non-commercial net long positions deflated by a hefty 40,500 lots to a 21-week low. Open interest dropped significantly, falling 95,000 lots to 1,422,200. Moreover, with options included, open interest was down by 180,800 to 2,392,600 lots. The Nymex WTI front-month slipped in a volatile week to average \$71.38/b down 46¢ to close the weekly period at \$69.47/b. A hefty draw on US crude oil stocks along with a continued drop in gasoline inventories prevented prices from sliding further. While Hurricane Dean spared the US petroleum infrastructure, the tumbling equity market inspired fund liquidation exerting downward pressure on the petroleum market.

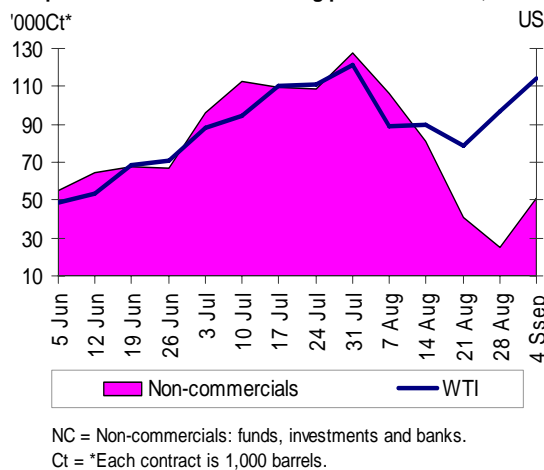
Volatility continued into the fourth weekly period, with a build in crude oil stocks and a hefty draw on gasoline inventories amid refinery outages which revived bullishness in the marketplace. Nonetheless, concern persisted that economic growth might dent demand. The Nymex WTI front-month averaged the weekly period down 60¢ to \$70.78/b, but closed the week at \$71.73/b.

In the fourth weekly period of the month, the CFTC revealed that non-commercials have reduced net long positions by a hefty 15,600 lots to 25,200, the lowest level since February. However, open interest rose a moderate 10,500 contracts to 1,432,700. Including options, open interest was nearly unchanged, rising 250 contracts to some 2,392,900 lots. Nevertheless, in the first week of

Graph 6: Nymex WTI futures prices, 2007



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



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

September, net longs doubled reflecting higher prices amid refinery problems and a hefty draw on crude oil and gasoline stocks while concern over the hurricane season persisted.

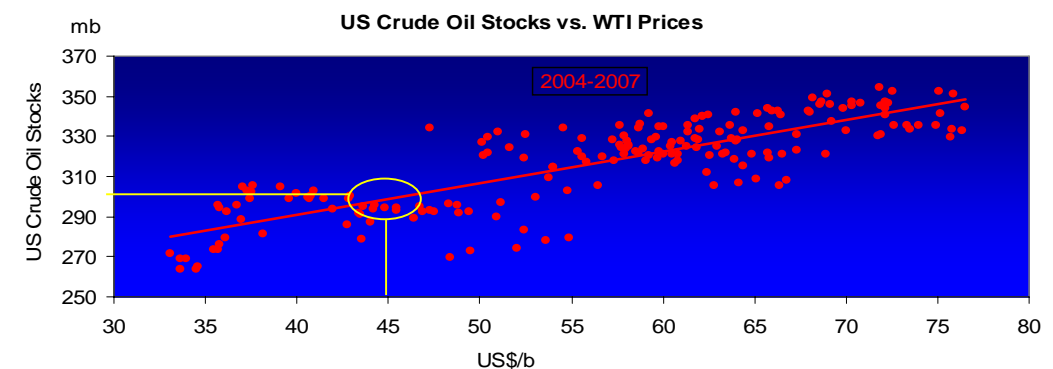
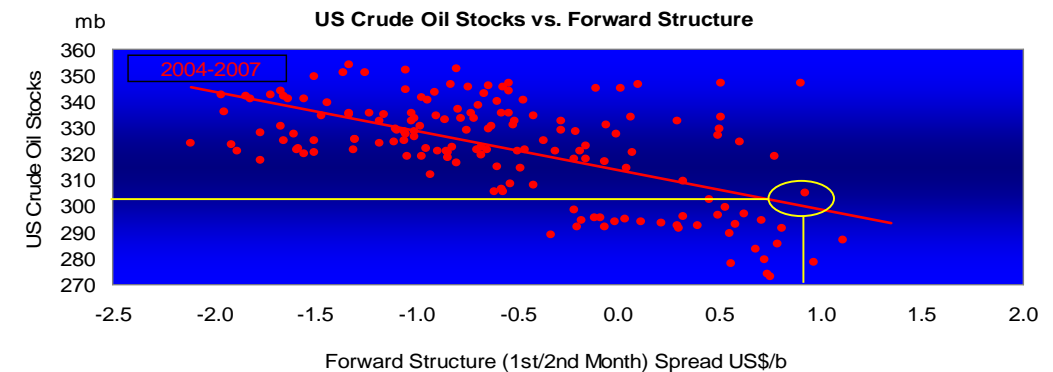
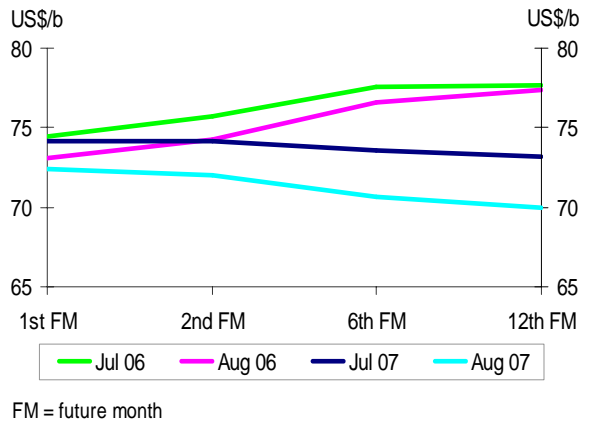
In August, the weekly average of the CFTC non-commercial net volume fell 47,500 lots to 63,400, which was still 55,800 contracts higher than the same month last year and 49,200 higher than the year-to-date average. Open interest declined with the weekly average at 1,469,200 lots, down 51,400 from the previous month, but 467,300 lots higher than last year, with the year-to-date average at 368,500 lots. Including options, open interest fell 9,500 lots to average 2,477,200 contracts.

**Backwardation
firmed with the
return of some
refineries from
outage amid
inventory declines**

The Forward Structure

The forward curve structure fell into backwardation since the second decade of July amid crude oil stock depletion. A further US crude oil stock draw helped widen backwardation. Crude oil inventories in August dropped by a hefty 15 mb representing a draw of 24 mb in the previous nine weeks to 31 August. The 1st/2nd month average spread in August was 31¢/b in backwardation compared to the 5¢/b contango in July. The 1st/6th, 1st/12th and 1st/18th month spreads were wider by \$1.10, \$1.47, and \$1.51/b at \$1.68, \$2.43, and \$2.77/b respectively. The main reason for the stock-draw is the return of some refineries from unexpected outages amid prompt demand depleting stocks in the Midwest with an accumulated draw of 15 mb of which 20% was from Cushing, Oklahoma. The 170,000 b/d Sunray refinery in McKee, Texas, consumes nearly 40% of total WTI production of around 400,000 mb/d. Thus, the forward structure remained firm with the potential for a further draw on crude stocks as backwardation removes the incentive to accumulate inventories. Despite the current return of the backwardation of around \$1/b, US crude inventories are still more than 300 mb above the level seen three years ago.

Graph 8: Nymex WTI forward curve



Highlights of the World Economy

Economic growth rates 2007-2008, %

	World	OECD	USA	Japan	Euro-zone	China	India
2007	5.0	2.6	1.9	2.4	2.7	10.6	8.2
2008	5.0	2.7	2.6	2.2	2.4	9.9	8.0

Industrialised countries

United States of America

Fallout from the subprime housing sector endangers outlook for the US economy

The prospects for the US economy are shadowed by the deepening woes in the subprime credit sector and the possible spillovers on economic activity. Financial markets remain on edge despite the massive injections of liquidity in the early part of August followed by a drop of 0.5% in the US discount rate mid-month. Attention is gradually focusing on the possible spillovers from the credit crisis on growth in the US and globally. However, it is too soon to gauge the effects. On the ground, the recent US indicators paint a picture of a slowing but still moderately expanding economy. There was an upward revision in 2nd quarter GDP growth to a seasonally adjusted annualized rate of 4.0% from 3.4% reflecting upward revisions to exports, nonresidential structures, equipment and software investment, and a downward revision to imports. Residential fixed investment was revised downwards and deducted 0.6 percentage points from growth in Q2.

The situation in the housing sector is expected to worsen before getting better. Mortgage delinquencies and foreclosures are on the rise, particularly for subprime mortgages but a slight increase is also seen for prime mortgages. The S&P/Case-Shiller national index shows home prices falling in July to 184 from the peak of 190 reached last June 2006 (March 2000=100). The index has fallen every month this year. Pending home sales in July, a leading indicator of existing home sales, dropped 12.2% m/m, the largest decline since the series started in 2001, reversing a gain of 5% in June. In its latest forecast, the National Association of Realtors predicts that US existing home sales will fall 8.6% in 2007, higher than its 6.8% estimate a month ago. New-home sales are seen to decline 24% after an 18% drop in 2006. With the inventory of unsold existing homes rising to 9.6 months in July, home construction activity is expected to remain depressed in the coming months until inventories drop. In July construction activity fell 0.4%.

On the employment front, the August report brought little relief. Payrolls fell by 4000 in August contrary to market expectation of a rise of 100,000 jobs. The unemployment rate, however, remained unchanged at 4.6% but is expected to rise to perhaps 4.8-4.9% by year-end. The employment report increased the probability of an interest rate cut by the Fed on September 18 by at least 25 basis points, particularly since the downward trend in core inflation was maintained in July. The preliminary consumer confidence index to August 22 dropped sharply to 105 from a six-year high of 111.9 in July, with the expectations index declining to 88.2 from 94.4, an early indication that consumers are unsettled. The drop in confidence was attributed to subprime housing woes and volatility in financial markets. It remains to be seen whether this will dent consumer expenditure, which had already moderated in Q2. Retail sales increased 2.9% in August according to the International Council of Shopping Centers based on results from 47 retailers. Sales of big ticket items have been receding in the last months but data for August show a slight improvement in auto sales helped by incentives. Annualized sales of cars and light trucks in August rose above the 16mn mark for the first time since May 2007. While unchanged from August 2006 sales were much improved from the 12% decline in July. On the positive side one also notes the upwardly revised figures for worker productivity in the second quarter and the 0.5% rise in personal income in July. Nominal disposable income rose by 0.6%, while real disposable income rose 0.5%.

Measures of economic activity such as the ISM manufacturing index in August show a drop to 52.9 from 53.8 in July, indicating some slowdown in activity, but not a breakdown. More positively, the ISM services index remained unchanged at 55.8, indicating a continued expansion in the services sectors, which represent the bulk of economic activity and employment. Moreover, the Fed Beige Book which includes anecdotal information about regional developments within the US indicated that the fallout from the subprime sector was so far modest. Turning to the external sector, the slight narrowing of the trade deficit in July, despite a higher oil bill, indicates that the external sector, assisted by strong global demand and a falling dollar, could remain a main support for the economy in the third quarter. Overall, growth is seen at 1.9% in 2007 and 2.6% in 2008, unchanged for the moment from last month's forecast.

The Japanese economic expansion revised down sharply to a contraction of 1.2% in the second quarter

Japan

Revisions to second quarter GDP reveal that the Japanese economy contracted at a 1.2% annual pace (-0.3 q/q) from an original estimate of 0.5% annual growth, on a sharp slowdown in private capital expenditure- which fell 4.8% in annualised terms almost completely reverting initial estimates of growth of 4.9%. The downward revision cast doubt on the durability of the economic recovery. However, data for Japanese GDP tends to be very volatile, in particular those on investment. The government sees the drop in the second quarter as temporary and growth is forecast to pick up in the second half of the year. The negative GDP report and the turbulence in financial markets, with Japanese equity markets badly hit, has led the Bank of Japan to postpone monetary tightening in August.

More recent July indicators reveal a mixed picture of the economy, which appears to be passing through a temporary weak spot making it potentially vulnerable to a slowdown in the US, especially after the strong yen appreciation resulting from the unwinding of the carry trade and the general increase in risk averseness. However, the export sector remains very competitive, and exports to other destinations apart from the US are expected to remain strong.

Despite a drop in the unemployment rate to a nine-year low of 3.6% in July, 0.1% lower than June, consumer demand remains anemic and deflation persists. Average household spending declined by 1.2% m/m. or 0.1% lower in real terms from the corresponding period of 2006, marking the first decline in seven months. Seasonally adjusted retail sales dropped 2.4% in July, affected by cold weather. The consumer price index has fallen for six consecutive months, dropping by 0.1% in July from year earlier level. Wage growth has continued to lag behind improvements in the labour market.

Separately, core machinery orders rose a seasonally adjusted 17% to 1.12 trillion yen (\$9.9 billion) from June, led by demand for electronic machinery, representing the largest increase in almost four years. The forward looking indicator points to strong capital expenditure in the months ahead. Industrial output declined by 0.4% from the previous month in July, reflecting the interruption to production caused by an earthquake in the month. Industrial output growth has slowed in four of the past five consecutive months but is forecast to improve in the third and fourth quarters.

The Japanese current account rose to a fresh record high of \$16.3bn in July, or 4.6% higher than the corresponding month in 2006. The trade surplus in contrast contracted by 21.1% from year earlier level to \$5.9bn. This was the first drop since January. Exports of goods rose by 11.1% while imports expanded by 16.6%. Exports to the US rose by only 1.3%, a fifth of the pace in June, feeding fears about the dampening effect of the US housing sector decline on demand for Japanese cars and other goods. However exports growth to the EU and China also slowed. Overall, we expect the Japanese economy to expand at the rate of 2.4% in 2007 0.2%, lower than last month's forecast, as a result of the decline in the second quarter. The forecast is unchanged for 2008 at 2.2%

Euro-zone

Growth in the Euro-zone in Q2 softened considerably to 0.3% from the robust 0.7% rate achieved in Q1

Growth in the Euro-zone in the second quarter softened considerably to 0.3% q/q from the robust 0.7% q/q rate achieved in the first quarter. A marked slowdown in fixed investment in the second quarter was caused by a slowdown in construction. The pace of expansion may pick up in the second half of the year, but will probably not achieve the peak levels witnessed in the fourth quarter of 2006, when it reached 0.9% q/q, in particular since the financial market turmoil is expected to take its toll on growth. The European Commission has lowered its forecast for Euro-zone growth to 2.5% for 2007, or 0.1% lower than its May forecast. The European Central Bank continued to add liquidity to the credit markets (e.g. €12.2 bn on September 6) to lower the rising overnight deposit rates. The ECB also left interest rates unchanged on September 6 due to fears that the US housing slump may pose a threat to economic growth, even though activity has not been affected as yet. However, confidence has suffered. An index of sentiment among executives and consumers in the Euro-zone issued by the European Commission fell to 110 from 111 in July

On the other hand, the Euro-zone services and manufacturing PMI surveys moved downwards but were still consistent with a moderate pace of growth. The Royal Bank of Scotland Group Plc manufacturing index fell to 54.3 in August from 54.9 in July, the lowest reading since January 2006. However it remained well above 50 and consistent with industrial growth of around 3% q-o-q. Manufacturing orders grew at the slowest pace since November 2005 as demand at home

and abroad declined. The services index dropped to 58.0 in August from 58.3 in July, indicating continued strong expansion in service activity at a higher level than in the first half of the year.

Inflation also remained at 1.8% in August, below the ECB target of 2% for the twelfth month in a row. But inflation may pick up in coming months if consumer spending rises, supported by the high employment levels. The jobless rate was at a record-low of 6.9% in July.

All three major economies in the euro region — namely Germany, France and Italy — suffered a slowdown in the second quarter. In Germany, the largest economy in the Euro-zone growth which has been very strong so far, moderated to 0.3% in the second quarter from 0.5% in the first quarter and 0.8-1.2% q/q throughout 2006. The softer growth in Germany can partly be attributed to the negative effects on consumer expenditure of the 3% VAT tax introduced in January. Moreover, the construction sector witnessed a contraction in the second quarter following the very strong expansion in the first quarter due to unusually mild winter weather. However, Germany continued to benefit in the second quarter from robust net trade and healthy spending on capital equipment. In July, moreover, consumer confidence rose to an eight-year high as unemployment fell to its lowest level in 14 years, amidst strong wage growth. However, the key Ifo survey of 7,000 German businesses fell in August, the third month of declines. Although the current conditions component remains high by historical standards, confident about future prospects has diminished. Manufacturing orders also dropped sharply in July. Orders fell 7.1% from June, representing the biggest drop in sixteen years. It aroused fears that the German economy, which had been a motor of growth for the euro-zone would slow down.

Overall, the forecast for the euro-zone remains unchanged from last month at 2.6% in 2007 and 2.4% in 2008.

Former Soviet Union

Russia's state statistics agency said the country's GDP grew 7.9% in the first half of 2007. It was earlier reported that the growth rate was 7.9% y-o-y in January-March, and 7.8% in April-June, against 5% and 7% respectively in the same periods of 2006. In addition, industrial production grew 7.7% within the first seven months of 2007, with the secondary industry expanding at an even faster rate. Retail trade added 14.4%, imports 37% and investment grew 22.7%. Real personal incomes climbed 11.9%, while real wages increased 17.1%. In January-August, inflation amounted to 6.7%, compared with 7.1% during the same period a year earlier. Investments have been picking up over the year — predominantly in the manufacturing and construction sectors. The public sector is also helping to support growth ahead of parliamentary (2 December 2007) and presidential (9 March 2008) elections.

Russia's state statistics agency said the country's GDP grew 7.9% in the first half of 2007

Economic growth in CIS is exceeding forecasts

Economic growth in all countries of the Commonwealth of Independent States (CIS) is exceeding all recent forecasts of the International Monetary Fund (IMF). The CIS countries' statistics committee reports that over the first six months of the year GDP grew by 35.1% in Azerbaijan, by 10.6% in Kazakhstan, and 7.8% in Russia. IMF reports rapid growth of economic activity reflecting substantial development indicators in countries exporting energy resources and a certain rise in activity in countries importing them. But high GDP growth conceals fundamental problems facing Russia and other "raw material tigers" of the CIS countries. The growth of investment in the engineering sector is remaining at 2-3%, which is not enough for bridging the technological gap with industrialized nations.

Developing Countries

China's inflation hit its highest rate in almost 11 years in August while the nation's trade surplus soared again, official data showed, signaling more interest rate hikes ahead. The Chinese government is expected to act following the August data despite already raising interest rates four times this year as part of a package of measures aimed at slowing the nation's economy. Consumer prices rose 6.5% in August from a year earlier after gaining 5.6% in July, the National Statistics Bureau reported. The trade gap widened 33% to \$24.97 billion, the second-highest monthly total. The August inflation figure was fuelled in part by an 18.2% rise in food prices, including a 49% surge in the cost of meat. Meat prices are a key concern for Chinese families, who on average spend about one third of their income on food.

Chinese consumer prices rose 6.5% in August from a year earlier

India's GDP growth quickened last quarter to 9.3%

India's GDP growth quickened last quarter to 9.3% on the back of double-digit increases in industries like manufacturing and services. Sectors that saw "significant growth" included manufacturing at 11.9%, construction at 10.7%, financial services and real estate at 11% and agriculture at 3.8%, according to India's statistical organization. Agriculture, which is weighed significantly in the index and accounts for two-thirds of the livelihoods of India's population, saw a boost on the back of a good wheat harvest. In its annual outlook report, the Reserve Bank of India said its monetary policy would focus on sustaining the growth momentum while keeping inflation under control. The bank's medium-term inflation ceiling is set at 5%. Government figures showed that inflation had dropped below 4% to 3.94%. An abundance of foreign fund flows had made liquidity management a key concern for the Reserve Bank of India (RBI). But in recent weeks, the subprime crisis has resulted in money flowing out of the Indian markets. On the domestic front, the outlook remains strong. India's 300 million-strong middle class is spending more on goods driving up demand across sectors.

Strong economic performance in Brazil in Q1 2007

In the first quarter of 2007, Brazil's GDP grew 4.3% from the year-earlier period, as falling domestic interest rates and expanding credit led to strong performance in the services sector. The inflation projection remains below the central bank's inflation target of 4.5% for the year. The IPCA inflation rate reached 3.74% for the 12 months through July, according to data from the Brazilian Census Bureau.

Inflation in Algeria rose to 2.6% y-o-y in the first half of 2007

OPEC Member Countries

The consumer price index (CPI) in the capital, Algiers —the typically-used measure of inflation for Algeria — rose by 2.6% y-o-y in the first half of this year, according to Algeria's National Statistics Office (ONS). The yearly increase in CPI can be traced to increases in the cost of foodstuff, which accounts for 44.01% of the basket of goods and services used in calculating the index. Also according to Algeria's National Data Processing and Statistics Centre (CNIS), the country's merchandise-trade surplus stood at \$14.3 billion in the first half of 2007, as opposed to \$17.7 billion a year earlier. Imports, which grew moderately in 2006, have risen rapidly thus far this year. Meanwhile, export growth is expected to ease this year, although the trade surplus will be strong. The surplus as a share of GDP will, however, be smaller than a year earlier. It is worth pointing out that China has become Algeria's second trading partner, ahead of the USA, Germany, and Spain.

Strong rebound in investment in Indonesia in 2007

In Indonesia, investment continued to rebound in August, according to data released by the National Investment Coordinating Board (BKPM) this month. Combined actual domestic and foreign direct investment (FDI) surged by 123% on the year to \$11.70 billion in the first eight months of 2007. Concurrently, domestic investment soared by 171.9% to \$3.57 billion. The sectors attracting the most investment included paper and printing and the chemical and pharmaceutical industries. The Indonesian government has announced an increase in budget spending in 2008, which would support acceleration in growth.

The US currency fell sharply versus the yen as carry trade unraveled, while gaining further ground against the euro amidst the deepening credit crisis

Oil prices, the US dollar and inflation

The US currency continued to rise against the euro and the pound sterling but at a slower pace than in the previous month, while falling sharply versus the yen and slightly versus the Swiss franc, as the carry trade in the latter two currencies began to unfold. The dollar fell by 4% versus the yen and by 0.5% against the Swiss franc. It appreciated by 0.68% against the euro and by 1.19% versus the pound sterling.

However, starting from mid July the dollar started to fall versus the euro, a depreciation which continued into the first two weeks of August, when the US currency fell to record lows versus the euro on September 12 of \$1.3889, compared to a previous low of \$1.3852 on July 24. The dollar's losses against the euro can be attributed to an expectation of lower interest rates in the US. The weakness versus the yen is also a result of the financial turmoil with the reversal of yen carry trade. The yen stood at around 114 Y/\$ on September 11. Against the yen, the US currency has fallen almost 8% from its highest point this year reached January 12.

In August, the OPEC Reference Basket fell by \$3.1/b or 4.3% to \$68.64/b from \$71.75/b in July. In real terms (base June 2001=100), after accounting for inflation and currency fluctuations, the Basket price fell by almost \$2.5/b or 5.1% to \$47.49 from \$50.04. The dollar depreciated by 0.43% as measured against the import-weighted modified Geneva I +US dollar basket*.

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

World Oil Demand

World oil demand growth in 2007 unchanged at 1.3 mb/d

World oil demand in 2007

World oil demand in August followed the typical summer seasonality trend. In that month, oil demand grew the most in the developing countries, especially China. Summer heat, agriculture and transport were the main drivers behind worldwide August oil demand. US oil demand declined unexpectedly in August as a result of weak gasoline demand. Given current world oil demand growth in the third quarter along with the anticipation of a normal winter in the fourth quarter, **world oil demand growth for 2007 is forecast at 1.3 mb/d or 1.5%, broadly unchanged from the last MOMR.** With airlines renewing their fleet and adopting better flying procedures, the consumption of jet fuel is on the decline. Efficiency in the airline energy industry is improving dramatically.

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

	<u>2006</u>	<u>1Q07</u>	<u>2Q07</u>	<u>3Q07</u>	<u>4Q07</u>	<u>2007</u>	<u>Change 2007/06</u>	
							<u>Volume</u>	<u>%</u>
North America	25.26	25.65	25.45	25.63	25.78	25.63	0.36	1.44
Western Europe	15.56	15.15	14.89	15.57	15.74	15.34	-0.22	-1.43
OECD Pacific	8.40	8.83	7.77	7.93	8.83	8.34	-0.07	-0.81
Total OECD	49.23	49.63	48.11	49.12	50.35	49.30	0.07	0.15
Other Asia	8.83	8.90	9.10	8.83	9.12	8.99	0.16	1.81
Latin America	5.26	5.21	5.37	5.47	5.39	5.36	0.10	1.98
Middle East	6.19	6.44	6.43	6.65	6.46	6.50	0.31	4.94
Africa	3.00	3.14	3.08	3.02	3.13	3.09	0.09	2.95
Total DCs	23.28	23.70	23.98	23.97	24.10	23.94	0.66	2.83
FSU	3.89	3.86	3.70	3.95	4.30	3.95	0.07	1.72
Other Europe	0.91	1.01	0.92	0.91	0.92	0.94	0.03	3.41
China	7.14	7.46	7.77	7.71	7.42	7.59	0.45	6.28
Total "Other Regions"	11.93	12.33	12.39	12.56	12.64	12.48	0.55	4.58
Total world	84.45	85.66	84.49	85.66	87.08	85.72	1.28	1.51
Previous estimate	84.44	85.66	84.44	85.68	87.08	85.72	1.28	1.52
Revision	0.01	0.00	0.05	-0.02	0.00	0.01	0.00	-0.01

Totals may not add due to independent rounding.

Table 3: First and second quarter world oil demand comparison for 2007, mb/d

	<u>1Q06</u>	<u>1Q07</u>	<u>Change 2007/06</u>		<u>2Q06</u>	<u>2Q07</u>	<u>Change 2007/06</u>	
			<u>Volume</u>	<u>%</u>			<u>Volume</u>	<u>%</u>
North America	25.17	25.65	0.48	1.92	25.10	25.45	0.36	1.42
Western Europe	15.89	15.15	-0.74	-4.66	15.15	14.89	-0.26	-1.72
OECD Pacific	9.24	8.83	-0.42	-4.51	7.82	7.77	-0.05	-0.65
Total OECD	50.31	49.63	-0.67	-1.34	48.07	48.11	0.05	0.09
Other Asia	8.77	8.90	0.13	1.51	8.97	9.10	0.14	1.53
Latin America	5.07	5.21	0.15	2.88	5.24	5.37	0.13	2.43
Middle East	6.09	6.44	0.35	5.75	6.14	6.43	0.29	4.77
Africa	3.00	3.14	0.14	4.51	2.98	3.08	0.09	3.16
Total DCs	22.94	23.70	0.76	3.33	23.33	23.98	0.65	2.79
FSU	3.76	3.86	0.10	2.63	3.63	3.70	0.07	2.02
Other Europe	0.97	1.01	0.04	4.30	0.90	0.92	0.02	2.12
China	7.09	7.46	0.36	5.12	7.34	7.77	0.43	5.85
Total "Other Regions"	11.82	12.33	0.50	4.26	11.87	12.39	0.52	4.40
Total world	85.06	85.66	0.59	0.70	83.27	84.49	1.22	1.46

Totals may not add due to independent rounding.

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

			Change 2007/06				Change 2007/06	
	<u>3Q06</u>	<u>3Q07</u>	<u>Volume</u>	<u>%</u>	<u>4Q06</u>	<u>4Q07</u>	<u>Volume</u>	<u>%</u>
North America	25.43	25.63	0.20	0.77	25.35	25.78	0.43	1.68
Western Europe	15.57	15.57	0.00	0.00	15.64	15.74	0.10	0.62
OECD Pacific	7.85	7.93	0.07	0.94	8.71	8.83	0.11	1.32
Total OECD	48.86	49.12	0.27	0.55	49.71	50.35	0.64	1.28
Other Asia	8.64	8.83	0.19	2.19	8.94	9.12	0.18	2.02
Latin America	5.38	5.47	0.08	1.55	5.33	5.39	0.06	1.16
Middle East	6.35	6.65	0.30	4.73	6.18	6.46	0.28	4.54
Africa	2.95	3.02	0.06	2.16	3.07	3.13	0.06	2.00
Total DCs	23.33	23.97	0.64	2.73	23.52	24.10	0.58	2.48
FSU	3.91	3.95	0.04	1.01	4.24	4.30	0.06	1.31
Other Europe	0.88	0.91	0.02	2.81	0.88	0.92	0.04	4.37
China	7.21	7.71	0.50	6.94	6.92	7.42	0.50	7.22
Total "Other Regions"	12.00	12.56	0.56	4.70	12.04	12.64	0.59	4.93
Total world	84.19	85.66	1.47	1.75	85.27	87.08	1.81	2.13

Totals may not add due to independent rounding.

OECD-North America

Higher retail gasoline prices in the US did not hurt gasoline demand as badly as anticipated; however the bad weather did. Rainy weather in the Northeast and Midwest resulted in slower gasoline demand in August. Hence, US gasoline demand grew by only a third of what was anticipated earlier reaching 0.05 mb/d y-o-y.

US oil demand declined by 0.5% or 0.1 mb/d y-o-y in August to average 21.2 mb/d. US January-August oil demand grew by 0.25 mb/d with gasoline rising the most by 0.1 mb/d.

Mexico's summer travel has pushed gasoline demand up strongly. In July Mexican gasoline demand growth reached 0.05 mb/d y-o-y to average 0.75 mb/d. As a result of strong growth in the transportation fuel sector, Mexican oil demand grew by 5.7% or 0.1 mb/d y-o-y to average 1.8 mb/d.

Similar to Mexico, Canadian gasoline and diesel consumption grew by 30,000 b/d and 45,000 b/d pushing up total sales growth by around 4.3% in July y-o-y.

Graph 9: OECD - Growth of total requirements by component

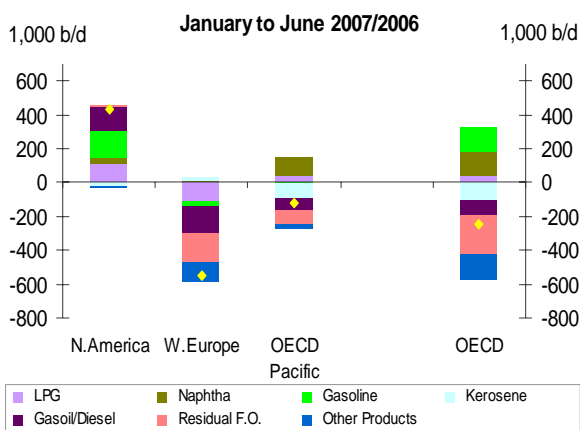


Table 5: Canadian sales of refined petroleum products, kb/d

	<u>Jul 07</u>	<u>Jul 06</u>	<u>Change from July 06</u>	<u>Change from July 06 (%)</u>
Motor Gasoline	797	769	29	3.7
Aviation Fuels	126	124	1	1.1
Diesel Fuel Oil	500	455	45	9.9
Residual Fuel Oil	142	158	-15	-9.6
Other Products	312	294	18	6.1
Total Products	1878	1800	78	4.3

The third quarter is normally a low season for oil demand; therefore **North America's third-quarter y-o-y oil demand growth is estimated at 0.2 mb/d to average 25.63 mb/d.** Total

OECD countries' y-o-y oil demand growth in 2007 is estimated to increase by 0.1 mb/d to average 49.30 mb/d.

**OECD Europe
demand growth flat in
3Q07**

OECD Europe

European summer demand for transport fuel did not pick up as was seen in previous years. Diesel transport fuel is expected to increase by 3.5% this year as more than half of the newly sold cars will be powered by diesel engines. However, rising diesel demand is affecting gasoline consumption which is estimated to decline by 1.8%.

As a result of declining transport and domestic fuel, oil demand in France declined by 0.5% y-o-y in July. Hence, oil consumption in France during January-July showed a y-o-y decline of 3%.

Germany's diesel consumption plunged by 14% causing the country's total inland deliveries to shrink by 8.7% in June y-o-y. Germany's transport fuel was on the decline this summer. Growth in transport fuel in the UK prevented total consumption from declining although it remained flat y-o-y in June. Italy's diesel demand grew by 5% in July putting total consumption flat y-o-y to average 1.7 mb/d in July.

Due to weak oil demand in Europe, **OECD Europe third-quarter oil demand is forecast to be flat y-o-y to average 15.57 mb/d.**

OECD Pacific

**Minor 3Q07 growth in
OECD Pacific**

Normal summer demand plus industrial oil consumption pushed South Korean oil demand up by almost 8% y-o-y in July. This higher demand led to an increase of 0.7% y-o-y in the country's crude oil imports in the same month.

The effect of the shutdown of Japan's nuclear power plant was seen during the summer peak. Fuel oil consumption increased by around 70% as temperatures reached 35° Celsius in August. As a result, Japan's oil imports increased by 7% y-o-y in July.

Due to the sudden increase in demand in Japan, **OECD Pacific third- and fourth-quarter oil demand growth is forecast at 0.07 mb/d and 0.1 mb/d y-o-y.**

Alternative Fuels

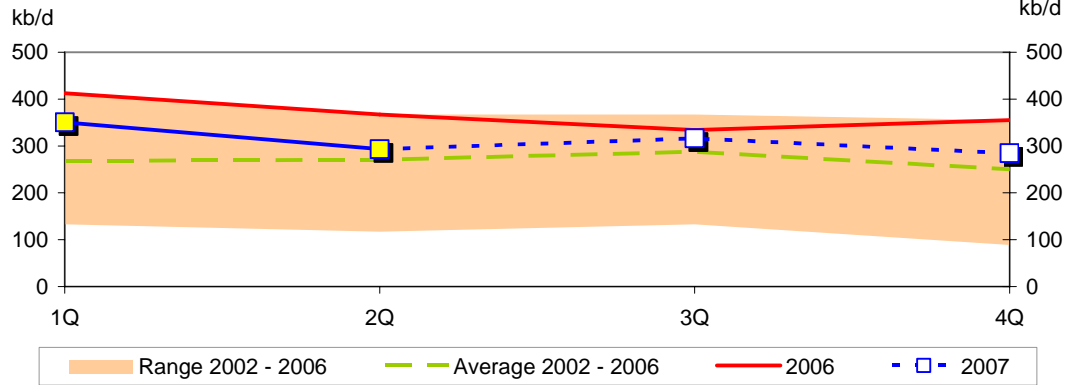
A recent OECD study concluded that promoting biofuel via heavy subsidies is not beneficial after all. The study reported that biofuel production is actually increasing the price of food and disrupting natural habitats. The study suggests that countries should halt subsidizing biofuels and work on improving technology instead.

The low efficiency of ethanol blended gasoline in comparison to regular gasoline is preventing it from growing as was expected in Thailand. The government's new strategy to boost the E20 ethanol gasoline consumption is to reduce the tax on vehicles which are capable of consuming such a blend. There has been skepticism on whether such a move will help the economy as a whole. While favourable to farmers, an ethanol demand boost would result not only in higher costs for the government but also prove to be harmful for the environment and increase food commodity prices. According to a new study carried out by the International Water Management Institute (IWMI), the biofuel programmes of China and India would place a threat to water supply in the long run as would the development of Coal-to-Liquid (CTL), which consumes a lot of water and makes it a non-green fuel. A recent increase in the sales tax of biodiesel in **Germany** has dented sales volume, forcing plants to reduce the utilization level to 60%.

One of **China's** plans to reduce its dependence on oil is to increase the use of biofuel. The country's target is to achieve 15% of transport fuel from biofuel within the next thirteen years. It is a tough target because of the economic unfeasibility; therefore China must heavily subsidize this industry. The biofuel industry caused a strong hike in food prices not only in China but worldwide. China has announced that it would stop the use of corn as a feedstock for biofuel.

The USA is again promoting the biofuel industry via mandatory laws and financial support. The first renewable fuels standard (RFS) programme came into effect in September 2007 to force the energy industry to use a minimum percentage of biofuel as a mix in transport fuel within the next five years. The energy industry is reluctant to expand such commodity because of the excess cost attached to it.

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

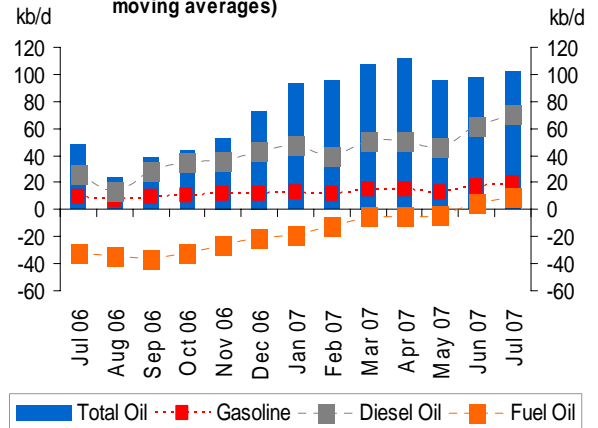


India showed strong growth of just under 0.1 mb/d in July

Developing Countries

India's oil demand grew by a strong 3.96% or 98,000 b/d in July y-o-y. The healthy growth was boosted by both industrial and agricultural diesel consumption. Diesel demand represents 36% of India's total oil demand and is forecast to grow by 9% to average 986,000 b/d. As a result of strong transport fuel demand, India's oil demand is forecast to grow by 4.58% to average 2.74 mb/d in 2007 y-o-y. **Other Asia third-quarter y-o-y oil demand is forecast to follow a high seasonality and grow by 0.19% to average 8.83 mb/d.**

Graph 11: Yearly changes in Indian oil demand (12 month moving averages)



Gasoline rationing procedures in Iran

have had a considerably negative impact on demand growth; however, this was partially offset by an increase in summer demand in other countries in the region. Transport fuel in the Middle East along with power plant demand for fuel oil boosted growth in the region; therefore fuel oil demand is forecast to be strong. Hence, **Middle East third-quarter y-o-y oil demand growth is forecast at 0.3 mb/d to average 6.65 mb/d.**

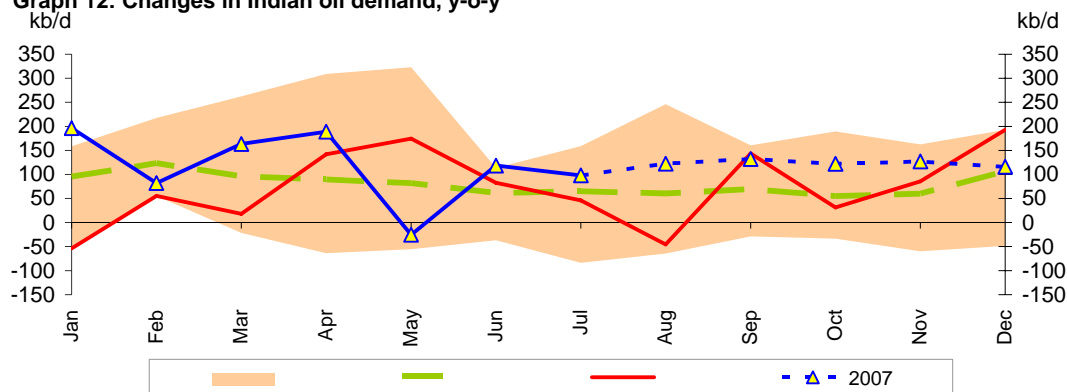
Developing Countries oil demand is estimated to contribute the most to total world oil demand growth in 2007, increasing 0.66 mb/d to average 23.94 mb/d.

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

	<u>Jul 07</u>	<u>Jun 07</u>	<u>Jan 07 - Jul 07</u>	<u>Difference to Jan 06 - Jul 06</u>	<u>%</u>
LPG	348	335	353	29	8.9
Motor Gasoline	235	241	235	24	11.2
Jet Kero	277	281	288	10	3.4
Gas Diesel Oil	974	983	997	79	8.7
Residual Fuel Oil	339	372	335	15	4.6
Other Products	397	488	572	-39	-6.4
Total Oil Demand	2,570	2,701	2,779	117	4.4

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

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

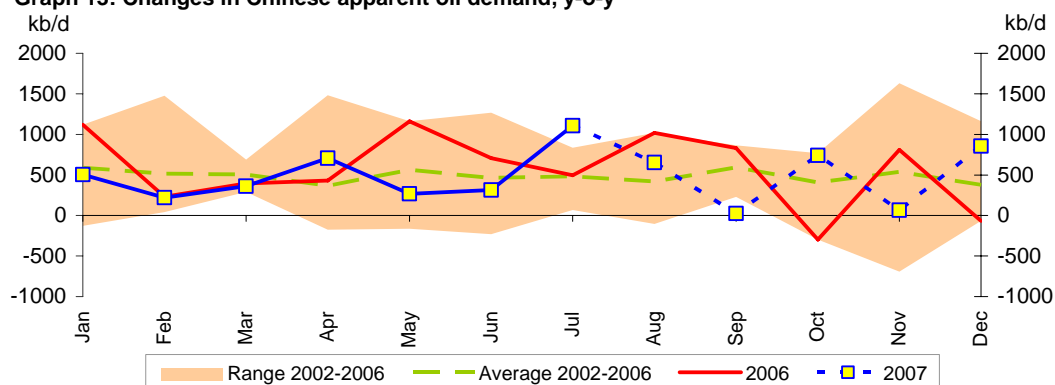


Other Regions

Apparent oil demand in China to grow 0.5 mb/d in 3Q07

China's crude imports grew by 30.7% y-o-y in the summer high seasonality of July to average 4.2 mb/d. As a result of the commissioning of a new oil storage site, some of these imports are used for SPR filling. China's recent effort to curb air traffic is not expected to result in a large reduction in jet fuel demand. China's aviation sector has been growing rapidly in the past few years which has led to a strong hike in fuel demand. China's apparent demand in July grew by a strong 16% or 1.1 mb/d y-o-y to average 8.0 mb/d. This was the first time that Chinese apparent oil demand exceeded 8 mb/d. July's high growth boosted third-quarter growth significantly; hence **China's third-quarter apparent oil demand is forecast to grow by 0.5 mb/d y-o-y to average 7.7 mb/d.**

Graph 13: Changes in Chinese apparent oil demand, y-o-y



Russia is planning to increase its export tax again. The newly proposed increase of 11.7% will affect FSU apparent demand upward. FSU third-quarter oil demand growth is expected to grow a marginal 0.04 mb/d y-o-y.

World oil demand growth in 2008 unchanged at 1.3 mb/d

World oil demand in 2008

World oil demand is forecast to grow by 1.3 mb/d in 2008 to average 87.06 mb/d, in line with our last *MOMR* estimate. As a result of the governmental policy to curb the use of energy, China's oil demand growth for 2008 is forecast at 0.4 mb/d, 0.05 mb/d below the 2007 growth figure. Transport and industrial fuel are the main growth sectors for world oil demand in 2008. Non-OECD countries will account for 1.1 mb/d or 79% of total world oil demand growth in 2008. OECD countries oil demand growth next year will mostly come from North America. North America's oil demand is forecast to grow by 0.3 mb/d y-o-y in 2008 to average 25.91 mb/d.

Middle East and Other Asia are expected to contribute 0.43 mb/d or 32% to next year's world oil demand growth.

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

	<u>2007</u>	<u>1Q08</u>	<u>2Q08</u>	<u>3Q08</u>	<u>4Q08</u>	<u>2008</u>	Change 2008/07	
							<u>Volume</u>	<u>%</u>
North America	25.63	26.00	25.64	25.83	26.16	25.91	0.28	1.09
Western Europe	15.34	15.35	14.84	15.49	15.89	15.40	0.05	0.36
OECD Pacific	8.34	8.89	7.65	7.77	8.86	8.29	-0.05	-0.56
Total OECD	49.30	50.25	48.13	49.09	50.91	49.59	0.29	0.58
Other Asia	8.99	9.03	9.24	9.00	9.27	9.14	0.15	1.62
Latin America	5.36	5.31	5.44	5.55	5.49	5.45	0.09	1.67
Middle East	6.50	6.70	6.73	6.95	6.75	6.79	0.29	4.44
Africa	3.09	3.18	3.12	3.09	3.19	3.14	0.05	1.67
Total DCs	23.94	24.22	24.53	24.59	24.70	24.51	0.58	2.40
FSU	3.95	3.91	3.76	4.01	4.35	4.01	0.05	1.39
Other Europe	0.94	1.04	0.96	0.92	0.94	0.96	0.03	2.90
China	7.59	7.80	8.13	8.19	7.84	7.99	0.40	5.27
Total "Other Regions"	12.48	12.75	12.85	13.12	13.13	12.96	0.48	3.87
Total world	85.72	87.22	85.52	86.80	88.74	87.07	1.35	1.57
Previous estimate	85.72	87.24	85.45	86.81	88.75	87.06	1.35	1.57
Revision	0.01	-0.02	0.06	-0.01	-0.01	0.01	0.00	0.00

Totals may not add due to independent rounding.

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

	<u>1Q07</u>	<u>1Q08</u>	Change 2008/07		<u>2Q07</u>	<u>2Q08</u>	Change 2008/07	
			<u>Volume</u>	<u>%</u>			<u>Volume</u>	<u>%</u>
North America	25.65	26.00	0.35	1.36	25.45	25.64	0.19	0.75
Western Europe	15.15	15.35	0.20	1.32	14.89	14.84	-0.05	-0.34
OECD Pacific	8.83	8.89	0.07	0.77	7.77	7.65	-0.12	-1.57
Total OECD	49.63	50.25	0.62	1.25	48.11	48.13	0.02	0.04
Other Asia	8.90	9.03	0.13	1.40	9.10	9.24	0.14	1.48
Latin America	5.21	5.31	0.10	1.92	5.37	5.44	0.08	1.44
Middle East	6.44	6.70	0.26	4.03	6.43	6.73	0.30	4.66
Africa	3.14	3.18	0.04	1.27	3.08	3.12	0.04	1.30
Total DCs	23.70	24.22	0.52	2.22	23.98	24.53	0.55	2.30
FSU	3.86	3.91	0.05	1.31	3.70	3.76	0.06	1.62
Other Europe	1.01	1.04	0.03	2.98	0.92	0.96	0.04	4.35
China	7.46	7.80	0.34	4.56	7.77	8.13	0.36	4.63
Total "Other Regions"	12.33	12.75	0.42	3.41	12.39	12.85	0.46	3.71
Total world	85.66	87.22	1.56	1.83	84.49	85.52	1.03	1.22

Totals may not add due to independent rounding.

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

	<u>3Q07</u>	<u>3Q08</u>	<u>Change 2008/07</u>		<u>4Q07</u>	<u>4Q08</u>	<u>Change 2008/07</u>	
			<u>Volume</u>	<u>%</u>			<u>Volume</u>	<u>%</u>
North America	25.63	25.83	0.20	0.78	25.78	26.16	0.38	1.47
Western Europe	15.57	15.49	-0.08	-0.50	15.74	15.89	0.15	0.95
OECD Pacific	7.93	7.77	-0.16	-2.02	8.83	8.86	0.03	0.34
Total OECD	49.12	49.09	-0.04	-0.08	50.35	50.91	0.56	1.11
Other Asia	8.83	9.00	0.17	1.93	9.12	9.27	0.15	1.68
Latin America	5.47	5.55	0.08	1.46	5.39	5.49	0.10	1.85
Middle East	6.65	6.95	0.30	4.51	6.46	6.75	0.29	4.55
Africa	3.02	3.09	0.07	2.32	3.13	3.19	0.06	1.79
Total DCs	23.97	24.59	0.62	2.59	24.10	24.70	0.60	2.50
FSU	3.95	4.01	0.06	1.48	4.30	4.35	0.05	1.16
Other Europe	0.91	0.92	0.02	2.07	0.92	0.94	0.02	2.18
China	7.71	8.19	0.48	6.22	7.42	7.84	0.42	5.66
Total "Other Regions"	12.56	13.12	0.56	4.44	12.64	13.13	0.49	3.88
Total world	85.66	86.80	1.14	1.33	87.08	88.74	1.65	1.90

Totals may not add due to independent rounding.

World Oil Supply

Non-OPEC supply growth in 2007 revised down slightly to 0.84 mb/d

Non-OPEC

Forecast for 2007

Non-OPEC supply in 2007 is expected to increase by around 0.84 mb/d over the previous year to reach a level of around 50.31 mb/d, representing a minor downward revision of 20,000 b/d compared with last month's assessment. Downward revisions to Mexico, UK, Philippines and Azerbaijan were partially offset by some upward revisions to USA, Australia, Brazil and Turkmenistan. The third quarter witnessed significant downward revisions of around 162,000 b/d, mainly from Mexico and Azerbaijan. On a quarterly basis, non-OPEC supply now stands at 50.27 mb/d, 49.85 mb/d, 49.98 mb/d and 51.15 mb/d respectively with upward revisions of 39,000 b/d and 57,000 b/d to the first and second quarter and downward revisions of 162,000 b/d and 12,000 b/d to the third and fourth. Historical figures for Canada have also been revised up slightly by around 15,000 b/d for 2006.

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

	<u>2006</u>	<u>1Q07</u>	<u>2Q07</u>	<u>3Q07</u>	<u>4Q07</u>	<u>2007</u>	<u>Change</u> <u>07/06</u>
North America	14.26	14.38	14.34	14.27	14.59	14.40	0.13
Western Europe	5.38	5.47	5.11	5.07	5.32	5.24	-0.14
OECD Pacific	0.56	0.57	0.59	0.67	0.72	0.64	0.08
Total OECD	20.20	20.42	20.03	20.01	20.63	20.27	0.07
Other Asia	2.71	2.72	2.69	2.73	2.74	2.72	0.01
Latin America	4.44	4.44	4.43	4.50	4.64	4.50	0.07
Middle East	1.77	1.70	1.69	1.67	1.65	1.68	-0.09
Africa	2.61	2.68	2.68	2.71	2.75	2.71	0.10
Total DCs	11.52	11.54	11.48	11.62	11.79	11.61	0.08
FSU	12.02	12.50	12.48	12.47	12.81	12.57	0.55
Other Europe	0.15	0.15	0.15	0.15	0.15	0.15	0.00
China	3.67	3.75	3.79	3.82	3.85	3.80	0.13
Total "Other regions"	15.84	16.40	16.41	16.44	16.80	16.51	0.67
Total Non-OPEC production	47.57	48.35	47.93	48.06	49.22	48.39	0.82
Processing gains	1.90	1.92	1.92	1.92	1.93	1.92	0.02
Total Non-OPEC supply	49.47	50.27	49.85	49.98	51.15	50.31	0.84
Previous estimate	49.45	50.23	49.79	50.14	51.16	50.33	0.88
Revision	0.01	0.04	0.06	-0.16	-0.01	-0.02	-0.04

OECD

Total OECD growth now expected at 69,000 b/d

Total OECD oil supply is expected to reach 20.27 mb/d, an increase of around 69,000 b/d over the previous year. On a quarterly basis, OECD oil supply is expected to average 20.42 mb/d, 20.03 mb/d, 20.01 mb/d and 20.63 mb/d respectively.

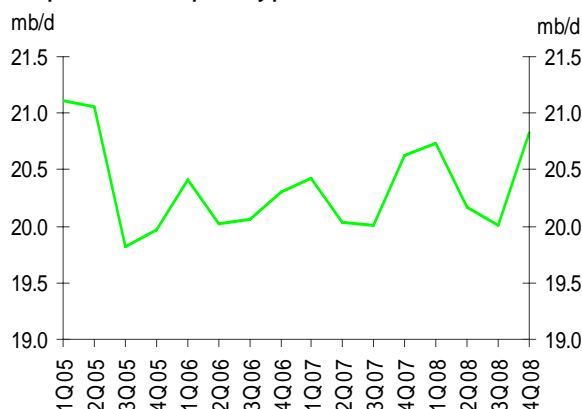
USA

Oil supply in the USA is expected to reach close to around 7.51 mb/d in 2007, representing growth of around 126,000 b/d over the previous year and an upward revision of around 37,000 b/d from the last assessment. The second quarter witnessed an upward revision of around 66,000 b/d due to data released recently while the third and fourth quarters have been revised upward slightly due to the performance in some satellite fields and information regarding the start-ups of some new fields later this year. On a quarterly basis, supply figures stand at 7.46 mb/d, 7.58 mb/d, 7.44 mb/d and 7.56 mb/d respectively. Preliminary average figures for July and August show around 100,000 b/d over our forecast figure which opens the door for upward revisions to US oil supply in the coming months.

Mexico and Canada

Canada's oil supply for 2007 is expected to average 3.29 mb/d, an increase of around 108,000 b/d over the 2006 figure and a minor upward revision of 3,000 b/d. Last year's figures have also been revised upward slightly by around 15,000 b/d for the year. Recently received statistical data were behind the first- and second-quarter revisions in addition to the expected return of the Hibernia offshore field and some delays in the third and fourth quarters. On a quarterly basis, oil supply stands at 3.34 mb/d, 3.17 mb/d, 3.26 mb/d and 3.40 mb/d respectively. Average July and preliminary August figures show that the third quarter is forecast at around 60,000 b/d over the two months' average.

Graph 14: OECD's quarterly production



Hurricane Dean affects temporarily some 2.6 mb/d of Mexico's production

Mexico's oil supply witnessed a significant third-quarter downward revision as Hurricane Dean struck Campeche Sound causing around 2.6 mb/d production to be shut in for just under a week. The downward revision was around 101,000 b/d; however, according to Pemex the ramping up to normal was completed by 29 August. On a quarterly basis, Mexican oil supply stands at 3.58 mb/d, 3.59 mb/d, 3.57 mb/d and 3.63 mb/d respectively. The annual figure stands at 3.59 mb/d representing a decline of around 101,000 b/d compared to the previous year and a downward revision of around 28,000 b/d from last month.

Western Europe

Oil supply in Western Europe is expected to reach a level of around 5.24 mb/d representing a decline of around 140,000 b/d from the 2006 figure and around 13,000 b/d less compared with last month's assessment. The downward revision was completely attributed to the UK.

Norway's production rebounded in July and August from the deep and early maintenance in addition to the return of the two fields shut down earlier. The quarterly distribution now stands at 2.72 mb/d, 2.46 mb/d, 2.56 mb/d and 2.69 mb/d respectively with an annual figure of around 2.61 mb/d which represents a decline of around 171,000 b/d from last year's figure.

UK's production level is now expected to decline by around 17,000 b/d from last year as some of the production was affected by the accident to the Central Area Transport System (CATS) and repairs took longer than expected. The gas system deals also with around 50,000 b/d of oil and also affects oil output for the Forties area. Quarterly figures now stand at 1.79 mb/d, 1.69 mb/d, 1.59 mb/d and 1.69 mb/d respectively, with an annual figure of around 1.69 mb/d, representing a downward revision of 13,000 b/d compared with last month's assessment. Preliminary figures for July and August show an average of around 1.49 mb/d, some 101,000 b/d lower than the current forecast, although we may see further downward revisions in the coming months based on actual data.

Asia Pacific

Oil supply in this group is expected to average around 0.64 mb/d which represents around 76,000 b/d over last year and an upward revision of around 2000 b/d compared with last month's assessment. On a quarterly basis, it is expected to average 0.57 mb/d, 0.59 mb/d, 0.67 mb/d and 0.72 mb/d respectively.

Australia's oil supply is expected to average around 0.65 mb/d in 2007 which represents growth of around 56,000 b/d over last year's figure. The performance in the Carnarvon Basin is doing well and ramp ups are on schedule as no more cyclones have been witnessed after three cyclones hit the area in late March-early April in the current year.

Total DC supply to grow by 0.08 mb/d in 2007

New Zealand's performance is expected to add 25,000 b/d over last year to reach a level of around 78,000 b/d as the Tui field already started in late July and peaked at 47,000 b/d and is expected to extend the peak to around 100,000 b/d in the coming years.

Developing Countries

Oil supply in the Developing Countries is expected to reach a production level of around 11.61 mb/d which represents growth of about 82,000 b/d compared to last years' figure. On a quarterly basis, DCs are expected to average 11.54 mb/d, 11.48 mb/d, 11.62 mb/d and 11.79 mb/d respectively.

The Other Asia group is expected to stay flat compared to last year to reach a level of around 2.72 mb/d in 2007. On a quarterly basis, it is expected to average 2.72 mb/d, 2.69 mb/d, 2.73 mb/d and 2.74 mb/d respectively. Only the Philippines witnessed a minor downward revision in the fourth quarter of 2007 due to the rescheduling of the project start-up. Other countries in the group performed more or less at the same level as previously reported.

The Latin American countries which represent the major players in the developing country oil supply are expected to average around 4.50 mb/d in 2007, representing growth of around 65,000 b/d over last year with a quarterly distribution of 4.44 mb/d, 4.43 mb/d, 4.50 mb/d and 4.64 mb/d respectively. Brazil is the only growth contributor with around 126,000 b/d while other countries in the group partially offset this growth.

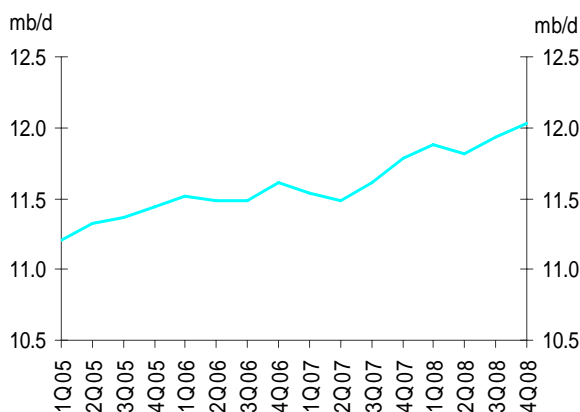
The Africa group is expected to average around 2.71 mb/d in 2007 for growth of around 97,000 b/d over the 2006 figure coming mainly from Sudan (+105,000 b/d), Equatorial Guinea (+14,000 b/d) and other African countries (+35,000 b/d) and performed more or less as reported last month. On a quarterly basis, oil supply from this group is expected to average 2.68 mb/d, 2.68 mb/d, 2.71 mb/d and 2.75 mb/d respectively.

The Middle East group is the only group which is expected to see a decline this year of around 93,000 b/d attributed to Oman, Syria and Yemen. It is expected to average around 1.68 mb/d with quarterly distribution of 1.70 mb/d, 1.69 mb/d, 1.67 mb/d and 1.65 mb/d respectively.

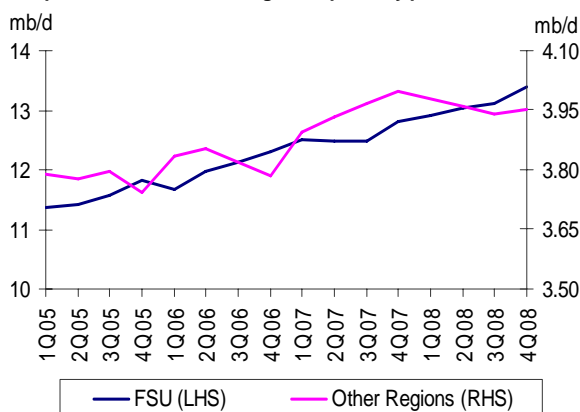
FSU, Other Regions

Oil supply in the FSU is expected to average 12.57 mb/d which represents growth of around 0.55 mb/d over the 2006 figure and a downward revision of 20,000 b/d compared with last month's assessment. On a quarterly basis, FSU output expected to average 12.50 mb/d, 12.48 mb/d, 12.47 mb/d and 12.81 mb/d respectively. Other Europe is expected to stay flat over 2006 at around 0.15 mb/d while China is expected to perform with a growth of around 125,000 b/d over 2006 to reach a level of around 3.80 mb/d in 2007.

Graph 15: Developing Countries' quarterly production



Graph 16: FSU and other region's quarterly production



Russia

Russian oil supply is expected to reach 9.89 mb/d with a quarterly distribution of 9.87 mb/d, 9.83 mb/d, 9.89 mb/d and 9.96 mb/d respectively. Performance remained unchanged from last month's report.

Caspian

Oil supply in **Kazakhstan** is expected to grow by around 47,000 b/d over 2006 to reach a level of 1.35 mb/d with a quarterly distribution of 1.35 mb/d, 1.34 mb/d, 1.32 mb/d and 1.39 mb/d respectively.

Oil supply in **Azerbaijan** has been revised down significantly in third quarter by around 90,000 b/d as the installation of new equipment and maintenance in the ACG complex will shave production by more than 270,000 b/d in September. Growth is now expected to average around 244,000 b/d over 2006 to reach close to 0.89 mb/d.

China

Oil supply in China is expected to average 3.80 mb/d representing growth of around 125,000 b/d over 2006. No change in performance has been noted from last month's report. On a quarterly basis, China is expected to average 3.75 mb/d, 3.79 mb/d, 3.82 mb/d and 3.85 mb/d respectively. However, recent data for July show a significant decline in production, mainly from fields belonging to CNOOC and other fields, in addition to the damage caused by the land slide to the pipeline in the Changqing area in late August.

Forecast for 2008

Non-OPEC supply is expected to average 51.36 mb/d in 2008, an increase of 1.04 mb/d over the 2007 figure and a downward revision of around 42,000 b/d from last month's assessment. On a quarterly basis, non-OPEC supply is expected to average 51.46 mb/d, 50.91 mb/d, 50.91 mb/d and 52.14 mb/d respectively. Some of the revisions made to the 2007 forecast have been extended into the 2008 figure in addition to more data becoming available for project start-ups and ramp ups.

**Non-OPEC supply
expected to grow by
1.04 mb/d**

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

	<u>2007</u>	<u>1Q08</u>	<u>2Q08</u>	<u>3Q08</u>	<u>4Q08</u>	<u>2008</u>	<u>Change 08/07</u>
North America	14.40	14.71	14.36	14.43	14.88	14.60	0.20
Western Europe	5.24	5.31	5.05	4.74	5.03	5.03	-0.20
OECD Pacific	0.64	0.71	0.76	0.83	0.91	0.80	0.16
Total OECD	20.27	20.73	20.17	20.00	20.83	20.43	0.16
Other Asia	2.72	2.73	2.70	2.80	2.87	2.78	0.06
Latin America	4.50	4.76	4.73	4.75	4.77	4.75	0.25
Middle East	1.68	1.65	1.63	1.61	1.59	1.62	-0.06
Africa	2.71	2.74	2.76	2.76	2.79	2.76	0.06
Total DCs	11.61	11.88	11.82	11.93	12.03	11.91	0.31
FSU	12.57	12.92	13.03	13.10	13.38	13.11	0.54
Other Europe	0.15	0.15	0.15	0.15	0.15	0.15	0.00
China	3.80	3.83	3.81	3.79	3.80	3.81	0.01
Total "Other regions"	16.51	16.90	16.99	17.04	17.33	17.07	0.55
Total Non-OPEC production	48.39	49.51	48.97	48.97	50.19	49.41	1.02
Processing gains	1.92	1.95	1.94	1.94	1.95	1.95	0.02
Total Non-OPEC supply	50.31	51.46	50.91	50.91	52.14	51.36	1.04
Previous estimate	50.33	51.54	50.97	50.96	52.13	51.40	1.07
Revision	-0.02	-0.07	-0.06	-0.04	0.00	-0.04	-0.02

Revisions to the 2008 forecast

In USA, the extension of the 2007 revisions and the delay of the ramping up of the Genghis Khan field to 1Q08 resulted in an upward revision of around 68,000 b/d from last month's assessment. The annual figure is now forecast at around 7.74 mb/d representing growth of around 228,000 b/d over the 2007 forecast. **Canada's** oil supply level has been revised down by around 93,000 b/d compared with last month's assessment due to a significant review of the costs of the synthetic crude projects. The annual average is now forecast at 3.31 mb/d representing growth of around

14,000 b/d over the 2007 forecast. **Australia** also witnessed some upward revisions as the Puffin south west field is expected to add some barrels to the 2008 forecast. While in **Malaysia** the slowdown in the ramping up of the Kikeh field has resulted in a downward revision of around 17,000 b/d to the 2008 annual figure which is now forecast to average 0.75 mb/d representing growth of around 12,000 b/d over the 2007 forecast.

Graph 17: Regional Non-OPEC supply growth, y-o-y



OPEC natural gas liquids and non-conventional oils

OPEC NGLs and non-conventional oils are expected to average 4.39 mb/d in 2007, an increase of around 0.30 mb/d over the 2006 level. The 2008 annual figure is forecast to reach 4.91 mb/d, an increase of around 0.52 mb/d over 2007.

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

	2005		Change				2007		Change		
	2005	2006	06/05	1Q07	2Q07	3Q07	4Q07	2007	07/06	2008	08/07
Total OPEC	4.08	4.09	0.01	4.21	4.34	4.39	4.61	4.39	0.30	4.91	0.52

OPEC crude oil production

Total crude oil production averaged 30.39 mb/d in August, a decline of around 92,200 b/d from the previous month according to secondary sources. OPEC production (excluding Iraq and Angola) averaged around 26.73 mb/d up by 44,500 b/d over the July figure. Iraq's production figure for August witnessed a significant decline of around 147,300 b/d from July to average 1.99 mb/d.

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

	2006	3Q06	4Q06	1Q07	2Q07	Jun07	Jul07	Aug07	Aug/ Jul
Algeria	1,365	1,359	1,359	1,335	1,354	1,373	1,369	1,354	-14.9
Angola	1,387	1,410	1,409	1,556	1,629	1,635	1,657	1,667	10.5
Indonesia	895	882	862	855	844	839	837	839	1.6
Iran, I.R.	3,842	3,898	3,821	3,789	3,836	3,856	3,851	3,869	17.9
Iraq	1,932	2,061	1,952	1,891	2,021	1,971	2,142	1,994	-147.3
Kuwait	2,520	2,531	2,504	2,447	2,432	2,434	2,467	2,446	-20.5
Libya, S.P.A.J.	1,702	1,719	1,709	1,686	1,695	1,698	1,706	1,710	3.7
Nigeria	2,233	2,220	2,244	2,166	2,053	2,059	2,153	2,145	-8.6
Qatar	821	834	816	793	796	802	819	821	2.4
Saudi Arabia	9,112	9,135	8,792	8,571	8,537	8,538	8,551	8,616	65.3
UAE	2,540	2,573	2,524	2,487	2,527	2,542	2,550	2,573	22.5
Venezuela	2,539	2,504	2,485	2,407	2,388	2,383	2,382	2,358	-24.8
OPEC excl. Iraq	28,958	29,064	28,525	28,093	28,092	28,159	28,341	28,397	55.0
OPEC excl. Angola & Iraq	27,571	27,654	27,116	26,537	26,464	26,524	26,685	26,730	44.5
Total OPEC	30,890	31,125	30,477	29,984	30,114	30,130	30,483	30,391	-92.2

Totals may not add due to independent rounding.

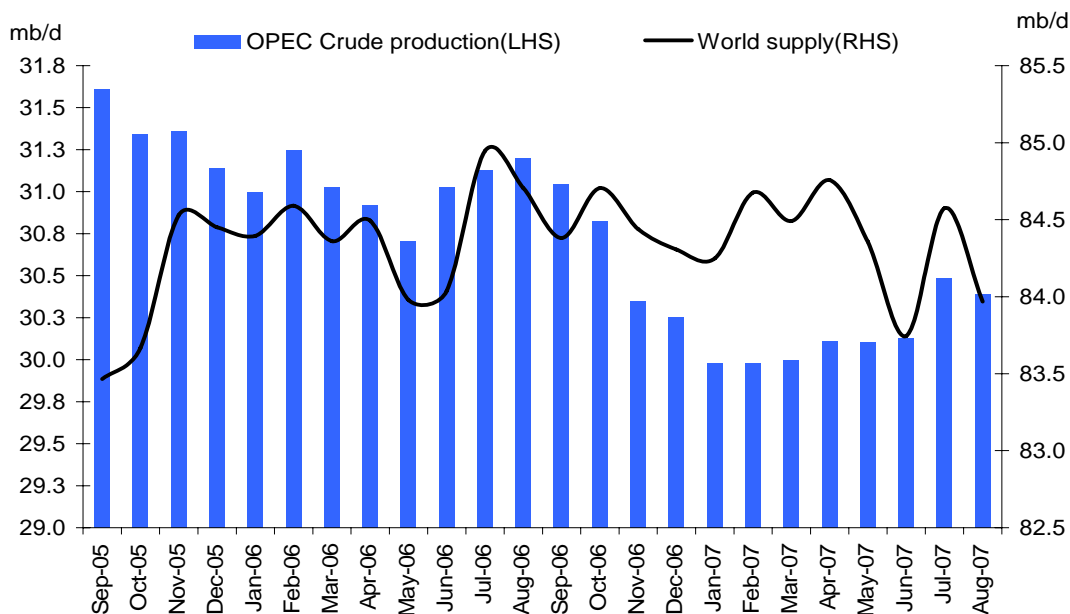
OPEC crude output averaged 30.39 mb/d in August

In August, world oil supply is estimated at 83.97 mb/d, 0.61 mb/d below the July figure

World Oil Supply

Preliminary figures for the month of August indicate that world oil supply averaged 83.97 mb/d, a decline of around 0.61 mb/d from the July figure, with OPEC's share at around 36.2%. The estimate is based on preliminary data for non-OPEC supply, estimates for OPEC NGLs and OPEC crude production from secondary sources.

Graph 18: OPEC and World oil supply



FSU net exports of crude and products

Total FSU net oil exports are expected to average 8.61 mb/d in 2007, an increase of 0.48 mb/d over last year. In 2008, FSU net oil exports are forecast to reach a level of around 9.10 mb/d, an increase of 0.49 mb/d over 2007.

Current trends

Actual figures for June indicate that total crude exports from the FSU averaged 6.22 mb/d. Preliminary figures for July show an average of 6.18 mb/d, a decline of 38,000 b/d from the previous month. Russian pipeline exports in July declined by around 24,000 b/d and CPC pipeline exports fell by around 14,000 b/d from the previous month.

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

	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>Year</u>	<u>Growth (y-o-y)</u>
2004	7.17	7.30	7.38	7.37	7.31	0.82
2005	7.45	7.69	7.76	7.85	7.69	0.38
2006	7.91	8.34	8.22	8.06	8.13	0.44
2007 (forecast)	8.64	8.78	8.52	8.51	8.61	0.48
2008 (forecast)	9.01	9.27	9.10	9.03	9.10	0.49

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

	<u>2005</u>	<u>2006</u>	<u>4Q06</u>	<u>1Q07</u>	<u>2Q07</u>	<u>Jun 07</u>	<u>Jul 07*</u>
Crude							
Russian pipeline							
Black Sea	1,335	1,288	1,224	1,420	1,398	1317	1253
Baltic	1,462	1,553	1,495	1,601	1,647	1559	1652
Druzhba	1,315	1,288	1,186	1,138	1,134	1059	1006
Total	4,112	4,129	3,905	4,158	4,180	3935	3,911
Other routes							
Russian rail	416	313	316	336	255	256	250
Russian - Far East	65	84	128	245	231	249	243
Kazak rail	17	31	17	18	13	6	7
CPC pipeline	648	661	677	709	712	660	676
Caspian	295	396	332	332	250	234	206
<i>of which</i>							
Supsa (AIOC) - Georgia	137	114	30	2	0	0	0
Batumi - Georgia	140	177	177	187	140	130	105
Total**	1,441	1,702	1,967	2,233	2,298	2,281	2,267
Total crude exports	5,553	5,831	5,872	6,392	6,478	6,216	6,178
Products							
All routes							
Fuel oil	836	861	854	877	786	803	778
Gasoil	759	841	812	696	601	636	597
Others	575	662	593	602	671	753	660
Total	2,170	2,386	2,258	2,175	2,058	2193	2,035
Total oil exports	7,723	8,217	8,130	8,567	8,536	8,409	8,213

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

* Preliminary.

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

Product Markets and Refinery Operations

Product market sentiment remained strong in August supporting crude prices

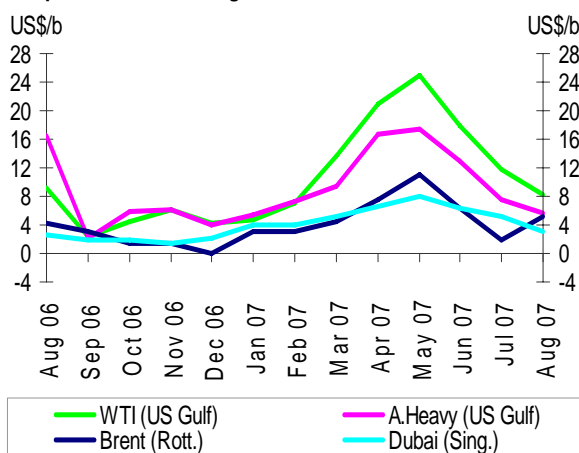
With the approaching end of the driving season, product markets were expected to sharply lose momentum over the last weeks and exert downward pressure on the entire petroleum complex. But due to continued refinery glitches and falling gasoline stocks in the USA, the product markets have remained relatively strong and did not significantly erode the US refinery margins last month.

As **Graph 19** displays, refinery margins for benchmark WTI crude in the US Gulf Coast declined by \$3.45/b to \$8.20/b in August from \$11.65/b in July. In Europe, refinery margins improved in August due to the relatively lower price of benchmark Brent crude, soaring to \$5.55/b from \$1.81/b last month. This situation has led to the resumption of normal operations by some European refiners which had cut their throughput levels earlier.

In Asia, the market was adversely affected by sluggish regional demand and lack of export opportunities for light products. These circumstances have resulted in lower refinery margins for benchmark Dubai crude in the Singapore market in August by \$2.15/b versus last month.

The recent bullish developments of the product markets could provide further support for refinery economics and crude prices, especially if the winter is cold triggering higher demand for products. However, due to uncertainty about refinery operation levels and the economic outlook, the product market may not be able to significantly lift refinery margins and crude prices in the next months.

Graph 19: Refiners' margins



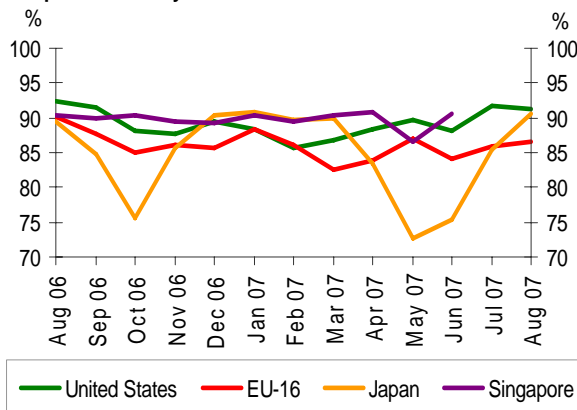
Refinery throughputs rose sharply in Japan

Refinery Operations

Refinery utilization rates usually surge significantly in August, following the completion of the refinery maintenance schedule across the globe and higher demand for motor fuel in the driving season. However, ongoing refinery outages in the USA and falling refinery margins in Europe during July limited the typical refinery operation level in the Atlantic Basin in August.

These developments have reduced the US refinery utilization rate by a slight 0.4% to 91.3% from 91.7% in July. In Europe, the refinery utilization rate rose a slight 0.6% to 86.6% in August from 86% in the previous month. In Asia, the situation was relatively different: While refinery operation levels decreased in China, it soared significantly in Japan and the Japanese refinery utilization rate surged to 90.5% from 85.5% in July (see **Graph 20**).

Graph 20: Refinery utilization



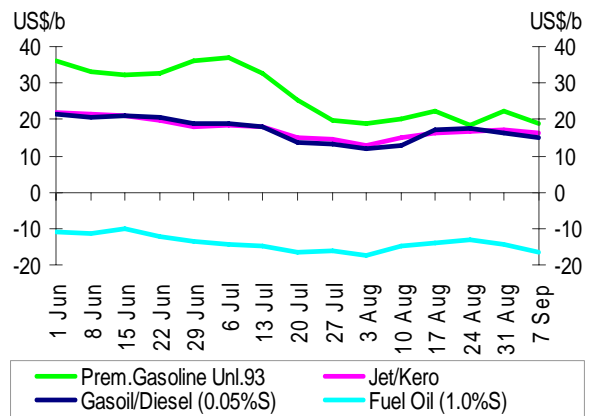
Due to the start of the autumn refinery maintenance schedules in September, refinery utilization rates are expected to decline across the globe in the next three months, particularly in the Atlantic Basin.

Storm-related concerns and unplanned refinery outages have provided support for the US product market

US market

The US product market usually displays a typical downward correction in the latter part of August due to technical sell-offs in the futures market which arise prior to the end of the driving season. The combination of prolonged refinery outages with storm-related concerns and huge gasoline stock-draws reversed the earlier bearish perception of the US market and narrowed the downward movement of US product prices.

Graph 21: US Gulf crack spread vs. WTI, 2007



Following these developments, gasoline prices in both the physical and the paper market fell slightly and the crack spread of premium gasoline against benchmark WTI crude slid to around \$19/b on 7 September from about \$19.62/b in late July (see *Graph 21*). However, with the end of the driving season and market players switching attention to the middle of the barrel components, the gasoline market may lose further ground in the near future if winter grade production together with higher imports improves gasoline stock levels.

Ongoing refinery glitches have also provided support for the middle distillate market, lifting the gasoil crack spread versus benchmark WTI crude at the US Gulf Coast. As *Graph 21* shows, the low-sulphur gasoil crack spread surged from \$11.92/b in early August to \$14.97/b in the first week of September. Distillate stock levels have improved over the last few weeks, but are not yet at a comfortable level in terms of forward supply cover. Current trends may extend their support to the physical and the futures distillate markets in the future.

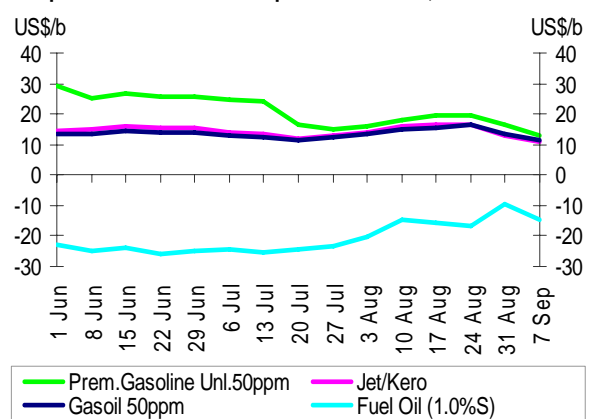
With respect to the fuel oil market, a combination of higher demand from both utility plants and the shipping industry along with more arbitrage cargoes to Asia and Latin America improved the US market sentiment and reduced the fuel oil crack spread versus WTI crude at the US Gulf Coast. In this respect, the low-sulphur fuel oil spread fell to minus \$14.69/b in August from about minus \$15.55/b in July (see *Graph 21*).

European market

The European product market gained momentum in August

European refinery economics were adversely affected in July due to the higher cost of base load crude and falling light product crack spreads. This situation has changed in early August, following bearish developments in the financial markets which resulted in lower crude prices widening the product premium against crude. In this respect, the gasoline crack spread against benchmark Brent crude in Rotterdam surged to around \$19/b in the latter part of August from about \$15/b in the same period last month (see *Graph 22*). The recent bullish developments in the gasoline market may not last in the near term, as export opportunities to the other side of the Atlantic Basin and the Middle East might be narrowed in the future.

Graph 22: Rotterdam crack spreads vs. Brent, 2007



European market sentiment for the middle of the barrel components appeared mixed. On the one hand, distillate stock levels were apparently high both in absolute and relative terms, while on the other hand, the situation of the European diesel market looked tight. These circumstances have encouraged traders to export more low-sulphur gasoil to Europe especially from Asia. The

projected autumn refinery maintenance schedule in Europe may enhance diesel market tightness in the coming months and support middle distillate margins. These circumstances have recently increased market player activities in the European product futures market and switched the ICE gasoil market into backwardation.

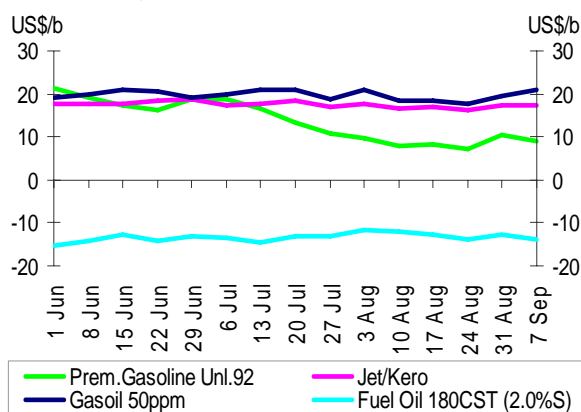
The European fuel oil market, particularly for straight-run grades, has improved significantly, boosted largely by high crude prices. Admittedly, strong Asian demand along with higher regional utility plant demand has provided support for the fuel oil market as well. The low-sulphur fuel oil crack spread against Brent crude in Rotterdam recorded minus \$9.41/b in the last week of August from minus \$23.34/b in the same period of the previous month (see *Graph 22*).

Gasoline market lost ground in Asia

Asian market

Despite lower exports from China, the gasoline market in Asia was not able to reverse its downward trend which began in July due to lower regional demand and lack of arbitrage opportunities to the USA. The gasoline crack spread versus benchmark Dubai crude in Singapore slipped to \$8.67/b in August from around \$15/b in July. The continuation of limited exports from China may slightly improve the current bearish momentum of the Asian gasoline market over the next weeks.

Graph 23: Singapore crack spreads vs. Dubai, 2007



The Asian market sentiment for naphtha has not changed significantly from the previous month due to higher exports from India and lower regional demand, which were the result of the continued maintenance schedule in petrochemical plants. As demand for naphtha is around the corner, the current situation of the naphtha market may improve in the latter part of this year.

As for middle distillates, the Asian market situation for jet/kero did not improve that much from the previous month and higher demand from China was unable to lift its crack spread level against the Dubai crude. But the gasoil market in Asia remained strong because of higher regional and international demand. The gasoil spread against Dubai crude in Singapore has recently surged to around \$21/b (see *Graph 23*). The current situation of gasoil in the wet market has also underpinned the bullish perception of the swap market in Asia, flipping into backwardation for the last weeks.

The Asian fuel oil market looks fundamentally strong, largely due to higher demand from Japan; however, a recent influx of arbitrage cargoes has exerted some pressure on spot cargo differentials. High fuel oil prices in absolute terms have also somehow trimmed Chinese demand and widened the discounted value of fuel oil against benchmark Dubai crude. The present situation of the Asian fuel oil market may be undermined further in the absence of Chinese buyers and higher regional outputs.

Table 16: Refined product prices, US\$/b

		<u>Jun 07</u>	<u>Jul 07</u>	<u>Aug 07</u>	<u>Change Aug/Jul</u>
US Gulf (Cargoes):					
Naphtha		79.81	79.55	76.63	-2.92
Premium gasoline	(unleaded 93)	101.43	101.40	92.83	-8.57
Regular gasoline	(unleaded 87)	92.02	90.77	84.28	-6.49
Jet/Kerosene		87.65	89.94	88.00	-1.94
Gasoil	(0.05% S)	87.76	89.53	87.40	-2.13
Fuel oil	(1.0% S)	55.56	58.16	57.85	-0.31
Fuel oil	(3.0% S)	52.21	55.66	53.99	-1.67
Rotterdam (Barges FoB):					
Naphtha		87.58	89.84	84.70	-5.14
Premium gasoline	(unleaded 50 ppm)	97.59	96.78	90.16	-6.62
Premium gasoline	(unleaded 95)	87.33	86.08	80.22	-5.86
Jet/Kerosene		87.00	90.01	87.03	-2.98
Gasoil/Diesel	(50 ppm)	85.50	89.12	86.40	-2.72
Fuel oil	(1.0% S)	46.72	52.66	54.39	1.73
Fuel oil	(3.5% S)	48.83	54.01	52.23	-1.78
Mediterranean (Cargoes):					
Naphtha		72.68	75.51	71.54	-3.97
Premium gasoline	(50 ppm)	97.63	96.51	89.06	-7.45
Jet/Kerosene		84.32	88.02	85.44	-2.58
Gasoil/Diesel	(50 ppm)	85.44	89.63	87.56	-2.07
Fuel oil	(1.0% S)	52.59	58.29	55.92	-2.37
Fuel oil	(3.5% S)	48.68	53.68	52.70	-0.98
Singapore (Cargoes):					
Naphtha		73.12	75.10	71.34	-3.76
Premium gasoline	(unleaded 95)	84.79	85.35	77.15	-8.20
Regular gasoline	(unleaded 92)	83.82	84.36	76.05	-8.31
Jet/Kerosene		83.75	87.16	84.28	-2.88
Gasoil/Diesel	(50 ppm)	85.67	89.57	86.33	-3.24
Fuel oil	(180 cst 2.0% S)	53.37	57.53	56.34	-1.19
Fuel oil	(380 cst 3.5% S)	53.03	57.39	55.71	-1.68

Table 17: Refinery operations in selected OECD countries

	Refinery throughput				Refinery utilization			
	mb/d				%			
	<u>Jun 07</u>	<u>Jul 07</u>	<u>Aug 07</u>	<u>Aug/Jul</u>	<u>Jun 07</u>	<u>Jul 07</u>	<u>Aug 07</u>	<u>Aug/Jul</u>
USA	15.22	15.84	15.78	-0.06	88.1	91.7	91.3	-0.40
France	1.51	1.77	1.67	-0.10	77.0	90.2	85.4	-4.80
Germany	2.24	2.23	2.21	-0.02	92.6	92.0	91.6	-0.40
Italy	1.80	1.81	1.84	0.03	77.1	77.6	78.6	1.00
UK	1.53 R	1.46	1.48	0.02	81.2 R	77.4	78.6	1.20
Eur-16	11.81 R	12.08 R	12.16	0.08	84.1 R	86.0 R	86.6	0.60
Japan	3.52	4.00	4.23	0.23	75.4	85.5	90.5	5.00

R Revised since last issue.

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

The Tanker Market

OPEC spot fixtures rose in August on the back of increased activities

According to preliminary data, OPEC spot fixtures rose in August after the decrease encountered in the previous month. The rise in August offset the previous decline with a monthly increase of more than 8% on the back of increased activities especially for booking for the second half of September. Similarly, global crude oil spot fixtures increased in August by more than 8%. Middle East fixtures to the west gained the biggest percentage with an increase of around 17%, while Middle East to the east fixtures gained 9%. Non-OPEC spot fixtures rose around 9% to average 6.12 mb/d and OPEC's share of total spot chartering remained steady at around 67%.

According to preliminary data, OPEC sailings remained steady in August along with a minor increase averaging 23.2 mb/d. Initial estimates indicate that US and Caribbean arrivals increased 4% in August, and arrivals at North West Europe rose by similar levels. However, on an annual basis, US arrivals displayed a y-o-y decline of 10%.

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

	<u>Jun 07</u>	<u>Jul 07</u>	<u>Aug 07</u>	<u>Change Aug/Jul</u>
Spot Chartering				
All areas	19.42	17.24	18.84	1.61
OPEC	12.43	11.69	12.73	1.04
Middle East/east	4.55	4.81	5.33	0.52
Middle East/west	1.76	1.44	1.74	0.30
Sailings				
OPEC	23.04	23.16	23.22	0.06
Middle East	16.44	17.50	17.46	-0.04
Arrivals				
US Gulf Coast, US East Coast, Caribbean	9.34	8.64	8.99	0.35
North West Europe	7.27	7.84	8.21	0.37
Euromed	4.31	4.56	5.10	0.54

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

Crude oil tanker spot freight rates declined on all reported routes due to increased availabilities

The spot tanker market came under pressure in almost all of its routes. August marked the worst month so far for owners in the spot market with rates reaching the lowest level in 2007 on almost all reported routes, against owners' hope that July was the market bottom. On some routes, weekly rates reached levels not seen in four years. The increased availability on the back of flurry new deliveries took the driver's seat and charterers were in a position to squeeze the market further. Steady tonnage demand held the market with charterers capitalizing on the factor of tonnage oversupply, dismissing the impact of the relatively healthy demand level. The Aframax market lost the most ground and the Suezmax and VLCC markets continued to decline in August.

Declining for the third consecutive month, the VLCC sector lost further ground in August to settle 8% lower than in July. Vessel availability remained the main factor affecting the market, with limited activities. At the beginning of August, the VLCC market continued the trend of the previous month with a solid tonnage list dictating the sentiments. At the same time charterers delayed their booking aiming for even lower rates. Therefore, rates continued to decline reaching WS54 on the Middle East/east route, a low level not seen in four years. Thereafter, charterers returned with inquiries lifting up the market toward the end of the month, yet the increase did not offset the initial decline and the monthly average for the reported VLCC routes declined 8% from the previous month.

East of Suez VLCC long-haul rates from the Middle East to eastern destinations declined 8% in August from the previous month to reach the lowest level since June 2005. On an annual basis, VLCC rates on the Middle East/east route declined 55%. Tonnage surplus coupled with refinery maintenance were among the reasons for the continuing decline. Rates of VLCCs trading on the Middle East/west route declined as well to average 3% lower in August compared to the previous month. High ship supply and US imports below expectation coupled with the relatively

high stock situation and price backwardation all led to the experienced decline in the Middle East/west VLCC spot freight rates. However, market participants perceive that once the level of US imports increases in preparation for the winter season, the build of tonnage will be cleared and rates could observe some upward momentum.

West of Suez VLCCs moving volumes from West Africa to the East followed the same trend as the other routes and declined on the back of limited activities and tonnage surplus. VLCC spot freight rates on the West Africa/east route declined 14% in August from the previous month, one of the lowest rates reported in recent years. On an annual basis, VLCC rates on this route declined a hefty 46%.

The Suezmax sector followed the same trend as the VLCC sector and declined 15% in August compared to the previous month. The continuing build of tonnage and limited activities in addition to the spill over effect from the VLCC sector all contributed to the mounted pressure on the Suezmax sector and rates declined in response. Suezmax spot freight rates on the West Africa/US Gulf Coast route fell 17% in August from the previous month on the expectation of weaker interest from the US as the end of the driving season unfolds. Additionally, the pressure coming from the VLCC sector added to the bearish sentiment for the Suezmax sector in West Africa, and rates indicated an annual decline of 54% in August. From North West Europe, Suezmax spot freight rates followed the lead of the other market, declining 13% in August from the previous month.

In the dirty market, the Aframax sector lost the most ground in August with an average decline of 23% from the previous month. East of Suez Aframax declined at the beginning of August on the back of lower Chinese fuel oil imports which negatively affected activities coupled with a healthy position list. Additionally, the expectation of higher US imports to meet winter demand halted the decline as market participants expect many Aframax to be drawn for lightering operations in the USA. In the Mediterranean, Aframax spot freight rates declined 22% on average in August compared to the previous month. August started with a relatively balanced market in the Mediterranean, although tonnage builds continued as the month progressed while activities were moderate, dragging down the rates to 50% less than in the same period of last year.

Table 19: Spot tanker freight rates, Worldscale

	Size 1,000 DWT	<u>Jun 07</u>	<u>Jul 07</u>	<u>Aug 07</u>	Change <u>Aug/Jul</u>
Crude					
Middle East/east	230-280	78	64	59	-5
Middle East/west	270-285	64	49	48	-1
West Africa/east	260	65	65	56	-9
West Africa/US Gulf Coast	130-135	109	97	80	-17
NW Europe/USEC - USGC	130-135	107	98	85	-13
Indonesia/US West Coast	80-85	156	142	122	-20
Caribbean/US East Coast	50-55	141	163	108	-55
Mediterranean/Mediterranean	80-85	109	118	91	-27
Mediterranean/North-West Europe	80-85	105	115	89	-26
Products					
Middle East/east	30-35	172	186	191	5
Singapore/east	30-35	208	226	225	-2
Caribbean/US Gulf Coast	38-40	318	268	210	-58
NW Europe/USEC - USGC	33-37	296	226	179	-47
Mediterranean/Mediterranean	30-35	266	201	166	-35
Mediterranean/North-West Europe	30-35	276	211	173	-38

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

Clean spot freight rates declined on the back of limited arbitrage with East rates performing better than West

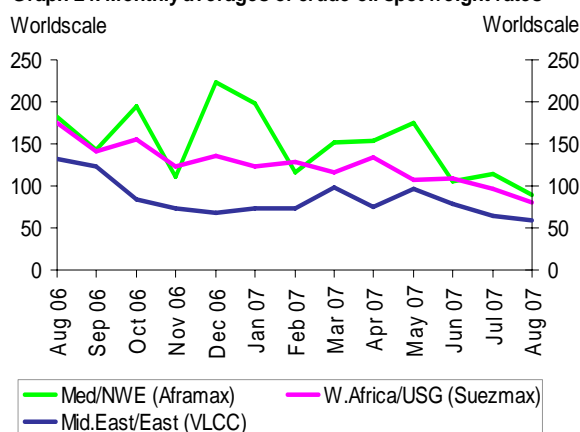
In the Caribbean, Aframax spot freight rates started the month on a healthy note in a relatively balanced market. However, as the market was attractive, tonnage started to build as the month progressed and charterers took over the steering wheel. At the same time, the anticipated effect of Hurricane Dean provided some support with owners expecting an influx of employments as a result. However, as the outcome of the hurricane did not cause major disruptions to oil production, the market only had another bearish factor to add to its pain. Aframax spot freight rates on the Caribbean/US Gulf Coast route declined 34% in August from the previous month.

Clean tanker market sentiments were bearish in August with spot freight rates declining 13% on average from the previous month. However, the East of Suez market performed better in August than the West of Suez market which is contrary to the trend of the recent months. East of Suez spot freight rates remained steady in August while West of Suez dropped a heavy 19% from the previous month. In the East, closed arbitrage to the US West Coast for gasoline on the back of lower US prices, in addition to the refinery maintenance in Asia, exerted downward pressure on rates in August.

However, the increased naphtha activities on the back of new cracking capacity coming onstream, despite some being shut down, supported rates. Additionally, the opening of a small jet arbitrage window to the US helped remove few vessels from the position list. Accordingly, spot freight rates for clean tanker operating to the East from the Middle East and Singapore ended August with an increase of 3% and a decline of 1%, respectively.

West of Suez clean spot freight rates declined in August with Mediterranean rates declining for the third consecutive month. The closure of arbitrage opportunities and market perception of increasing US refinery runs in the coming period pressured the market and rates declined in the Mediterranean 37% on an annual basis. Additionally, the growing supply of tonnage and the easing of the concerns about the Hurricane Dean added to the bearish sentiment in August. The same factors affected the North West European market although the closure of arbitrage to the US had more weight in terms of clean spot freight rates which fell 21% in August from the previous month. In the Caribbean, clean tanker spot freight rates declined 22% compared to the previous month. The same factor halted activities to the US affecting the Caribbean clean tanker market along with tonnage oversupply so that owners were not encouraged to relocate their ships with interregional sentiments on the bearish side. Caribbean clean spot freight rates declined 40% in August compared to the same period last year.

Graph 24: Monthly averages of crude oil spot freight rates



Oil Trade

OECD July crude oil imports increased by 0.23 mb/d while product imports fell 0.15 mb/d

OECD

According to preliminary estimated data, OECD crude oil imports increased by around 1% in July compared to the previous month, after declining for three consecutive months. Despite the relatively healthy increase in Japan's crude oil imports, the minor rise in Europe's crude oil inflows and the steady level of South Korean imports in July compared to the previous month, the decline in US crude oil imports offset all other increases. The rises in Japan and Europe came on the back of increased refinery runs. On the product side, OECD product imports declined more than 1% on the back of lower Japanese imports while US product imports remained steady during the same period. On an annual basis, both crude oil and product imports indicated a decline of around 5%.

OECD crude oil exports remained relatively steady with a minor increase of 1% in July from the previous month. Similarly, product exports increased moderately to push total OECD oil exports 1.4% higher in July compared to the previous month. Following the annual trend of OECD imports, total OECD exports declined by 7% in July y-o-y. As a result, OECD net oil imports dropped a marginal 0.5% in July driven by a 17% fall in net product imports in July. OECD net crude oil imports offset the decline with an increase of 0.7%, however, this was not enough to bring total OECD net oil imports over to the positive side. On an annual basis, OECD net oil imports indicated a decline of around 4%.

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

	<u>May 07</u>	<u>Jun 07</u>	<u>Jul 07</u>	<u>Change Jul/Jun</u>
Crude oil	23,234	23,694	23,847	153
Total products	2,195	1,591	1,307	-283
Total crude and products	25,429	25,284	25,154	-131

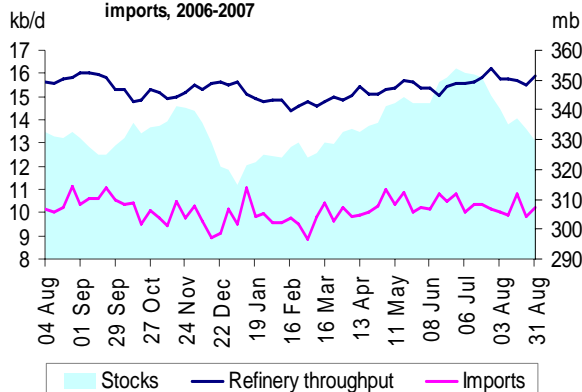
For the sources of imports, Saudi Arabia and Russia maintained their positions as OECD's top suppliers in July with around 14% each. Canada, Norway and Venezuela followed with around 6% each. On the product side, Russia and the Netherlands maintained their positions as top suppliers of OECD products with around 9% each.

USA

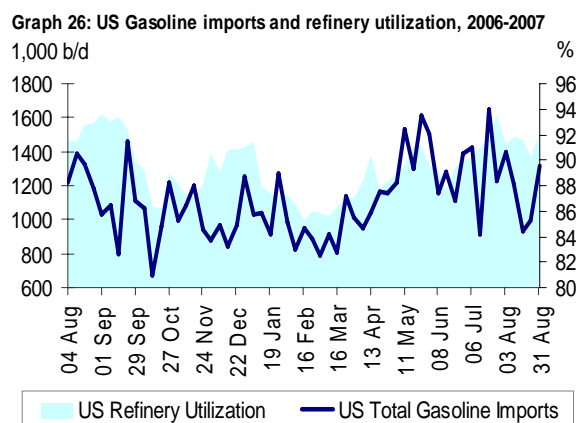
US net oil imports declined in August as product imports fell

In August, data showed that US oil imports declined to reach the lowest level since March 2007. US crude oil imports remained relatively steady with a minor decline of 0.4% from the previous month. Despite the consistent refinery utilization rates in August, crude oil imports declined, dragging crude oil stocks down from the end of July level. Additionally, the backwardation market discouraged further crude oil imports.

Graph 25: US weekly crude oil stocks, refinery throughput and imports, 2006-2007



As for products, US imports declined in August by around 9% to reach the lowest level since February. US product imports in August indicated a heavy annual decline of more than 17%. Imports of gasoline were the main driver of the decline in August as the arbitrage closed on the back of easing US prices. Gasoline production in the US remained at a steady level in August compared to the previous month with only a minor decline. As a result, gasoline stocks fell. Additionally, imports of fuel oil declined in August compared to the previous month, however, the increase in distillate imports in the same period offset the decline.



With total US exports remaining steady with a minor increase in product exports, US net oil imports declined 3% in August from the previous month. US net crude oil imports averaged less than 1% lower than the previous month while net product imports declined 13% in August. Compared to the same period last year, US net oil imports indicated a y-o-y decline of 8%.

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

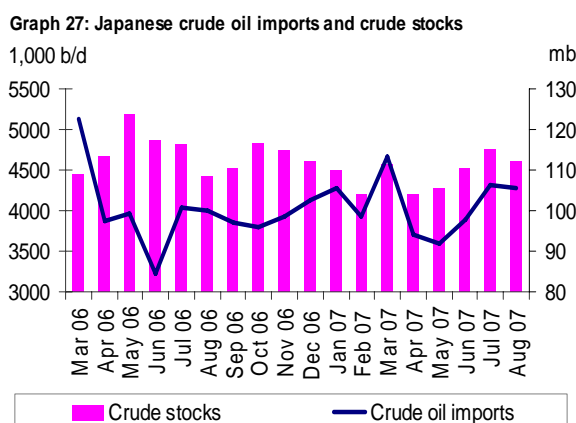
	<u>Jun 07</u>	<u>Jul 07</u>	<u>Aug 07</u>	<u>Change Aug/Jul</u>
Crude oil	10,495	10,188	10,144	-44
Total products	2,461	2,497	2,160	-337
Total crude and products	12,956	12,685	12,305	-380

With 19% and 15% respectively, Canada and Saudi Arabia remained the main suppliers of US crude oil in June followed by Mexico and Venezuela with 14% and 11%. OPEC Member Countries supplied 55% of US crude oil. On the product side, Canada maintained the US top product supplier with 14%, followed by Russia and Venezuela with 7% each. OPEC Member Countries supplied the US with 17% of its total product imports.

Japan

Japan's net oil imports rose 1.9% in August, supported by more product imports and less exports

According to preliminary estimated data, Japan's crude oil imports remained steady in August with a minor decline of around 1% compared to the previous month. With an increase in refinery utilization in August, steady crude oil imports led to a decline in stocks from last month's level. However, despite the minor decline, annual crude oil imports indicated a y-o-y growth of around 7% attributable to the increase in demand for power generation due to the recent earthquake which affected nuclear power generation capacity. On the product side, Japan's imports increased more than 20% in August from the previous month supported by higher fuel oil imports. Despite this increase, product imports indicated an annual decline of 13%.



Japan's product exports remained relatively steady with a minor decline of 4% in August compared to the previous month. As a result, Japan's net oil imports increased 2% in August from a month ago supported by net product imports which broke the previous month's decline. Net crude oil imports declined in August on the back of lower imports.

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

	<u>Jun 07</u>	<u>Jul 07</u>	<u>Aug 07</u>	Change Aug/Jul
Crude oil	3,894	4,321	4,272	-49
Total products	160	-109	21	130
Total crude and products	4,054	4,212	4,293	81

As for the sources of imports, Saudi Arabia with 26% and the UAE with 24% were the largest crude oil suppliers accounting for around 50% of Japan's total crude oil imports in July. Qatar followed with around 12%, Iran and Kuwait came next with around 10% each. OPEC Member Countries supplied around 84% of Japan's total crude oil imports. On the product side, Saudi Arabia and the UAE remained the top suppliers providing together around 30% of Japan's product imports.

China

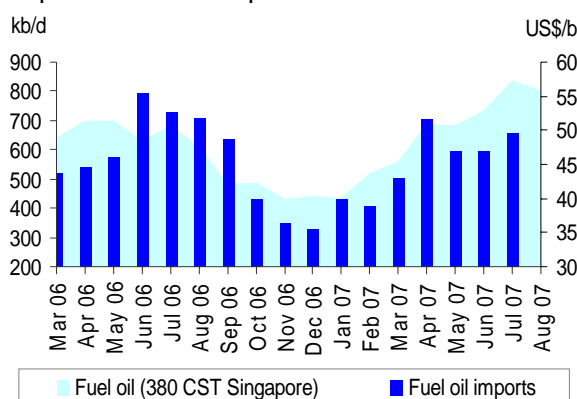
China's crude oil and product imports crept upward in July rising 82,000 b/d to average 4.37 mb/d. Crude oil imports increased by 62,000 b/d or 1.8% compared to the previous month to average 3.5 mb/d, which corresponds to a gain of almost 1.0 mb/d or 39.5% from a year earlier. However, product imports gained a marginal 20,000 b/d or 2.3% over the previous month, although compared to a year earlier product imports were 223,000 b/d or 20.5% lower.

Despite the anticipated shutdown of refinery capacity in China for maintenance in August and September, the increased volumes of crude oil imports in July reflect the continuing healthy demand for gasoil, gasoline and fuel oil that China had witnessed over the previous months.

China's net oil imports increased by 5.7% in July on the back of higher crude oil and product imports and lower exports

In spite of high fuel oil prices, China's fuel oil imports increased by more than 1% in July, reflecting continued healthy demand for power generation as well as feedstock for private refiners which supported imports. Additionally, stronger imports of jet fuel in July supported product imports which occurred due to the peak travel season.

Graph 28: Chinese fuel oil imports and fuel oil



China's product exports declined in July on the back of domestic demand as well as the government's decrease in export rebate in order to control trade. With a 138,000 b/d drop in total crude oil and product exports, China's net oil imports showed an increase of 220,000 b/d or 5.7% in July over the previous month. Compared to the same month last year, net oil imports displayed a y-o-y growth of 875,000 b/d or 27%.

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

	<u>May 07</u>	<u>Jun 07</u>	<u>Jul 07</u>	Change Jul/Jun
Crude oil	2,935	3,391	3,490	99
Total products	618	472	592	121
Total crude and products	3,553	3,863	4,082	220

Saudi Arabia was China's top crude oil supplier in July with 16%, followed by Angola with 15% and Oman with 11%. Russia's share of Chinese imports was 9%, while Iran, which had been China's top crude oil supplier in the previous month, dropped to fifth place with 8%.

India's net oil imports increased by 11% in July due to higher crude and product imports

India

India's crude oil imports rebounded in July with an increase of around 9% from the previous month to reach 2.55 mb/d. This increase followed two consecutive declines of 5.8% in May and 5.5% in June each compared to the previous month. Annually, India's crude oil imports showed an 8.4% increase in July over the same month in 2006. The rise in crude oil imports came on the back of some refiners preparing to increase throughput in the coming months. Similarly, India's product imports increased in July in comparison to the previous month to reach the highest level so far in 2007. India's product imports increased by more than 10% compared to the previous month to reach 0.41 mb/d. Annually, India's product imports increased by 35% in July compared to the same month in 2006.

Imports of diesel, which comprised 27% of India's product imports in July, declined slightly from the previous month while imports of gasoline increased on the back of healthy local demand. Similarly, imports of naphtha and jet fuel rose in July, while increased requirements from power generation supported higher fuel oil imports in July. On the export side, India's product exports increased in July on the back of private refiners adding to their exports to take advantage of the high international prices.

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

	<u>May 07</u>	<u>Jun 07</u>	<u>Jul 07</u>	<u>Change Jul/Jun</u>
Crude oil	2,487	2,350	2,555	204
Total products	-462	-442	-437	5
Total crude and products	2,026	1,908	2,118	209

As a result, India's net oil imports rebounded in July after two consecutive months of decline to increase by 11%. This increase came as a result of increases in both India's crude oil and product imports in July, together with the 4% increase in India's product exports in the same month. On an annual basis, India's net oil imports indicated an increase of 9% in July compared to the same month last year.

Stock Movements

US crude oil stocks continued to fall but remained higher in August

USA

US total commercial oil stocks continued to decline for the second consecutive month to stand at around 1,023 mb at the end of August, which corresponds to 54 mb below the level of the corresponding period of the previous year. Despite this decline of nearly 12 mb, stocks remained within the upper half of the five-year range for a surplus of 14 mb over the five-year average. The drop was driven by crude oil and gasoline. However, it is worth mentioning that commercial stocks fell by more than 16 mb over the previous two months while a year earlier they rose 34 mb.

After a drop of more than 13 mb in July, crude oil stocks fell a further 12 mb in August, the second highest decline after July's level so far this year. The cumulative drop of 25 mb in two months brought US commercial stocks within the range of the previous five years after having been above the upper end of the range and even above the levels of 2006 since mid-June 2007. At 330 mb, US crude oil commercial stocks were almost unchanged from a year ago, but remained 30 mb above the five-year average. The strong decline in crude oil inventories is attributed to increasing refining utilization rates and lower imports, due to Hurricane Dean.

On the product side the picture is mixed, with gasoline declining for the second consecutive month and distillates increasing for the same period. Gasoline stocks fell 13.6 mb to stand at 191 mb, the lowest level in the last two months, and showed a deficit of 9 mb with the five-year average. Improving refining activity could not prevent gasoline stocks from dropping significantly as seasonal demand has picked up and imports went below 1 mb/d. With this decline, days of forward cover dropped to an abnormally low level of less than 20 days, although this would not have too large an impact on the market as the driving season is almost at its end.

Looking ahead, the market will be focusing more on distillates as we approach the winter season. However, distillate inventories continued their normal trend, helped by the maximization of yield by refiners, rising 5 mb to remain close to the five-year average at 132 mb at the end of August. Nevertheless, compared with the extremely high level of the previous year, distillate stocks showed a deficit of almost 13 mb, which corresponds to a deficit of around 2.5 days of forward cover from the average. By product, heating oil stocks remained 14 mb below the five-year average and diesel 15 mb above the average. Nevertheless, the comparison with the previous data may be misleading due to the change in sulphur content introduced last June. Both residual fuel oil and jet fuel dropped by 1.8 mb and 0.1 mb respectively but remained above the five-year average.

Table 25: US onland commercial petroleum stocks, mb

	Jun 07	Jul 07	Aug 07	Change Aug 07/Jul 07	Aug 06	7 Sep 07*
Crude oil	354.8	341.6	329.7	-11.9	331.2	322.6
Gasoline	204.9	204.7	191.1	-13.6	209.5	190.4
Distillate fuel	123.4	127.2	132.2	5.0	144.9	134.0
Residual fuel oil	36.1	38.2	36.4	-1.8	42.2	36.8
Jet fuel	41.2	41.3	41.2	-0.1	41.7	41.5
Total	1038.7	1034.1	1022.5	-11.6	1076.5	1019.1
SPR	690.3	690.3	690.3	0.0	687.8	690.4

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

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

According to recent EIA data, US commercial oil stocks dropped 3.4 mb to stand at 1,019 mb in the week ending 7 September, which corresponds to 52 mb or 5% below last year's level, but represents a surplus of 17 mb or 2% over the five-year average. The drop was driven essentially by crude oil which fell a significant 7 mb, the highest draw since last December. The decline was attributed mainly to lower imports, which fell almost 700,000 b/d in anticipation of refinery maintenance. In addition, the structure of backwardation in the futures market continued to encourage a draw on stocks. US crude oil stocks dropped around 30 mb since the end of June to stand at 323 mb, down 5 mb from a year earlier and the lowest level

since mid-January. Consequently, the overhang over the five-year average narrowed to 25 mb or 8% compared with 40 mb at the end of June. Gasoline stocks fell 0.7 mb to 190 mb due to lower production and imports. Compared to the previous year and the five-year average, gasoline stocks remained low but their impact on the market has diminished with the end to the driving season. In contrast to crude oil and gasoline, distillate stocks continued their seasonal trend rising 1.8 mb to 134 mb, the same level as the five-year average but a deficit of 10 mb from the high level of last year. The build in distillate stocks came mainly from heating oil.

Western Europe

Following a cumulative draw of around 34 mb over June and July, EU-16 (Eur-15 plus Norway) commercial stocks rose a minor 0.8 mb to stand at nearly 1,144 mb at the end of August. Despite this recovery, inventories remained below the year-ago level, but showed a surplus of 30 mb over the previous five-year average. This marginal recovery was driven by crude oil, which increased 0.6 mb. At 483 mb, crude oil inventories were almost at the same level as in the corresponding month of the previous two years but displayed a surplus of 18 mb or 4% over the five-year average. The build in crude oil stocks was due to growing North Sea supplies.

In August, EU-16 commercial oil stocks showed a build of 0.8 mb after declining over the previous two months

Table 26: Western Europe's oil stocks, mb

	<u>Jun 07</u>	<u>Jul 07</u>	<u>Aug 07</u>	<u>Change</u> <u>Aug 07/Jul 07</u>	<u>Aug 06</u>
Crude oil	487.5	482.7	483.3	0.6	484.2
Mogas	124.2	124.2	124.3	0.1	127.7
Naphtha	26.4	27.3	26.4	-0.9	26.5
Middle distillates	398.0	396.4	396.0	-0.4	399.1
Fuel oils	111.6	112.2	113.5	1.3	115.8
Total products	660.2	660.0	660.2	0.1	669.1
Total	1,147.6	1,142.7	1,143.5	0.8	1,153.3

Source: Argus, Euroilstock.

Product stocks remained almost flat, although particularly residual fuel increased 1.3 mb and naphtha fell 0.9 mb. Gasoline stocks have remained stable since June at 124 mb, but were still below the lower end of the five-year average, 3 mb below last year and 11 mb below the five-year average. The increase in refining runs, which boosted the utilization rates to their highest level since last January, could help gasoline stocks to recover in August as was almost the case and because of strong exports to the US. In contrast to gasoline, middle distillate stocks edged down 0.4 mb due to strong diesel demand and high exports of heating oil to South America, to go below the level of the corresponding month of 2006 for the first time this year. However, at 396 mb, distillate stocks remained comfortable with a surplus of 20 mb over the five-year average, down from 40 mb two months ago. Residual fuel surged 1.3 mb to 115 mb, the highest level since last May, while naphtha stocks fell 0.9 mb, offsetting the build of the previous month to stand at 26.4 mb, the same level as in August last year.

Japan

Japanese commercial oil stocks followed their normal seasonal trend, increasing for the third consecutive month to stand at 195 mb at the end of July, up 9.5 mb from the previous month. With this build, stocks moved in line with the five-year average in July to approach the level of the previous year and a surplus of 7 mb or 4% over the five-year average in July.

Crude oil stocks accounted for 54% of the build to stand at 115 mb, the highest level since October 2006 and the same level as a year ago. The deficit with the five-year average has narrowed to just 2% compared with 8% during May and June. The build in crude oil stocks was driven by higher imports.

Similarly, product stocks followed their normal trend, but in contrast to crude oil they continued to hover around the upper end of the five-year range. Product inventories rose 4.4 mb or 6% — the highest build so far this year — to stand at 81 mb, which corresponds to a surplus of 10 mb or 15% over the five-year average. The continuous build in product stocks is attributed to distillates, which continued to increase, whereas gasoline stocks extended their downward trend to remain below the lower end of the range. Distillate inventories rose 5 mb to 36 mb, the same level as a year ago and 2 mb higher than the five-year average. In contrast, gasoline stocks continued to decline for the sixth consecutive month to stand at 11 mb, 1 mb below the previous month and a year earlier and 2 mb or 12% below the five-year average.

In July, Japanese commercial oil stocks surged to 195 mb, a gain of 7 mb over the five-year average

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

	<u>May 07</u>	<u>Jun 07</u>	<u>Jul 07</u>	<u>Change</u> <u>Jul 07/Jun 07</u>	<u>Jul 06</u>
Crude oil	105.5	110.2	115.3	5.1	116.4
Gasoline	13.5	12.3	11.4	-0.9	12.1
Naphtha	11.7	12.8	12.3	-0.5	13.3
Middle distillates	28.9	31.4	36.0	4.7	35.6
Residual fuel oil	19.0	19.0	20.2	1.2	19.9
Total products	73.1	75.5	79.9	4.4	80.8
Total**	178.6	185.7	195.2	9.5	197.2

* At end of month.

** Includes crude oil and main products only.

Source: METI, Japan.

Naphtha stocks dropped 0.5 mb to 12.3 mb but remained comfortable, while residual fuel rose 1.2 mb to 20.2 mb, the highest level since last January.

Preliminary data show that Japan's commercial stocks dropped to 192 mb in the week ending 8 September. Crude oil stocks stood close to 101 mb, a decline of 14 mb from end-July, the lowest level since mid-May. The draw was attributed to lower imports and increased refinery runs. Distillate stocks rose more than 8 mb since the end of July while gasoline inventories increased slightly to 11.8 mb.

Balance of Supply and Demand

Demand for OPEC crude in 2007 nearly unchanged at 31.02 mb/d

Estimate for 2007

The demand for OPEC crude in 2007 is expected to average 31.02 mb/d, an increase of 0.1 mb/d over the 2006 figure. On a quarterly basis, demand for OPEC crude is expected to average 31.17 mb/d, 30.29 mb/d, 31.29 mb/d and 31.33 mb/d respectively.

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

	2006	1Q07	2Q07	3Q07	4Q07	2007
(a) World Oil Demand	84.45	85.66	84.49	85.66	87.08	85.72
Non-OPEC Supply	49.47	50.27	49.85	49.98	51.15	50.31
OPEC NGLs and non-conventionals	4.09	4.21	4.34	4.39	4.61	4.39
(b) Total Supply excluding OPEC Crude	53.55	54.48	54.19	54.37	55.76	54.70
Difference (a-b)	30.89	31.17	30.29	31.29	31.33	31.02
OPEC crude oil production ⁽¹⁾	30.89	29.98	30.11			
Balance	0.00	-1.19	-0.18			

(1) Selected secondary sources.

Totals may not add due to independent rounding.

Forecast for 2008

The demand for OPEC crude in 2008 is expected to average 30.81 mb/d, a decrease of 216,000 b/d from the 2007 figure. On a quarterly basis, demand for OPEC crude is expected to average 31.05 mb/d, 29.78 mb/d, 30.94 mb/d and 31.45 mb/d respectively.

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

	2007	1Q08	2Q08	3Q08	4Q08	2008
(a) World Oil Demand	85.72	87.22	85.52	86.80	88.74	87.07
Non-OPEC Supply	50.31	51.46	50.91	50.91	52.14	51.36
OPEC NGLs and non-conventionals	4.39	4.71	4.83	4.95	5.15	4.91
(b) Total Supply excluding OPEC Crude	54.70	56.17	55.74	55.86	57.28	56.27
Difference (a-b)	31.02	31.05	29.78	30.94	31.45	30.81

Graph 29: Balance of supply and demand

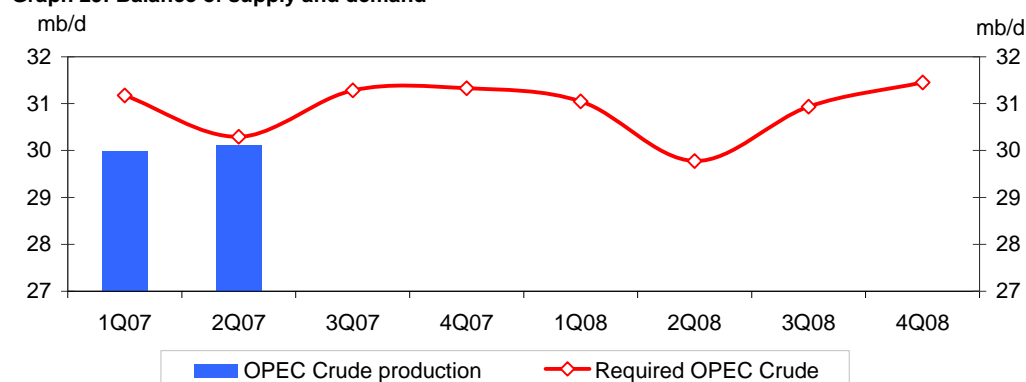


Table 30: World oil demand/supply balance, mb/d

	2003	2004	2005	2006	1Q07	2Q07	3Q07	4Q07	2007	1Q08	2Q08	3Q08	4Q08	2008
World demand														
OECD														
North America	24.5	25.4	25.5	25.3	25.7	25.5	25.6	25.8	25.6	26.0	25.6	25.8	26.2	25.9
Western Europe	15.4	15.5	15.6	15.6	15.2	14.9	15.6	15.7	15.3	15.4	14.8	15.5	15.9	15.4
Pacific	8.6	8.5	8.6	8.4	8.8	7.8	7.9	8.8	8.3	8.9	7.6	7.8	8.9	8.3
DCs	20.6	21.8	22.5	23.3	23.7	24.0	24.0	24.1	23.9	24.2	24.5	24.6	24.7	24.5
FSU	3.7	3.8	3.9	3.9	3.9	3.7	3.9	4.3	4.0	3.9	3.8	4.0	4.3	4.0
Other Europe	0.8	0.9	0.9	0.9	1.0	0.9	0.9	0.9	0.9	1.0	1.0	0.9	0.9	1.0
China	5.6	6.5	6.5	7.1	7.5	7.8	7.7	7.4	7.6	7.8	8.1	8.2	7.8	8.0
(a) Total world demand	79.3	82.3	83.5	84.4	85.7	84.5	85.7	87.1	85.7	87.2	85.5	86.8	88.7	87.1
Non-OPEC supply														
OECD														
North America	14.6	14.6	14.1	14.3	14.4	14.3	14.3	14.6	14.4	14.7	14.4	14.4	14.9	14.6
Western Europe	6.4	6.2	5.8	5.4	5.5	5.1	5.1	5.3	5.2	5.3	5.1	4.7	5.0	5.0
Pacific	0.7	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.6	0.7	0.8	0.8	0.9	0.8
DCs	10.8	11.0	11.3	11.5	11.5	11.5	11.6	11.8	11.6	11.9	11.8	11.9	12.0	11.9
FSU	10.3	11.1	11.5	12.0	12.5	12.5	12.5	12.8	12.6	12.9	13.0	13.1	13.4	13.1
Other Europe	0.2	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.4	3.5	3.6	3.7	3.7	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Processing gains	1.8	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	2.0	1.9	1.9	2.0	1.9
Total non-OPEC supply	48.1	49.0	49.0	49.5	50.3	49.8	50.0	51.1	50.3	51.5	50.9	50.9	52.1	51.4
OPEC NGLs + non-conventional oils	3.7	4.0	4.1	4.1	4.2	4.3	4.4	4.6	4.4	4.7	4.8	4.9	5.1	4.9
(b) Total non-OPEC supply and OPEC NGLs	51.8	53.0	53.1	53.6	54.5	54.2	54.4	55.8	54.7	56.2	55.7	55.9	57.3	56.3
OPEC crude oil production (secondary sources)	27.8	30.0	31.1	30.9	30.0	30.1								
Total supply	79.6	83.0	84.2	84.4	84.5	84.3								
Balance (stock change and miscellaneous)	0.3	0.7	0.7	0.0	-1.2	-0.2								
OECD closing stock levels (mb)														
Commercial	2517	2547	2597	2683	2600	2669								
SPR	1411	1450	1487	1499	1503	1504								
Total	3928	3997	4083	4181	4103	4173								
Oil-on-water	882	905	958	908	911	908								
Days of forward consumption in OECD														
Commercial onland stocks	51	51	53	54	54	54								
SPR	29	29	30	30	31	31								
Total	80	80	83	85	85	85								
Memo items														
FSU net exports	6.5	7.3	7.7	8.1	8.6	8.8	8.5	8.5	8.6	9.0	9.3	9.1	9.0	9.1
(a) - (b)	27.5	29.3	30.4	30.9	31.2	30.3	31.3	31.3	31.0	31.0	29.8	30.9	31.5	30.8

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

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

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

† This compares Table 30 in this issue of the MOMR with Table 30 in the August 2007 issue.
This table shows only where changes have occurred.

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

	2001	2002	2003	2004	2005	2006	1004	2004	2004	3004	4004	1005	2005	3005	4005	1006	2006	3006	4006	1007	2007	
Closing stock levels mnb																						
OECD onland commercial	2,630	2,478	2,517	2,547	2,597	2,683	2,465	2,545	2,581	2,547	2,543	2,623	2,638	2,597	2,598	2,598	2,657	2,764	2,683	2,600	2,669	
North America	1,262	1,175	1,161	1,193	1,257	1,277	1,145	1,193	1,206	1,193	1,201	1,275	1,254	1,257	1,241	1,241	1,276	1,347	1,277	1,233	1,291	
Western Europe	925	895	922	924	944	978	919	933	945	924	952	925	952	944	949	949	945	959	978	950	952	
OECD Pacific	443	408	435	430	395	428	400	420	430	430	389	422	432	395	409	436	459	428	417	427	427	
OECD SPR	1,288	1,347	1,411	1,450	1,487	1,499	1,423	1,429	1,435	1,450	1,462	1,494	1,494	1,487	1,487	1,493	1,493	1,495	1,499	1,503	1,504	
North America	552	601	640	678	687	691	654	664	672	678	690	698	696	687	688	690	690	690	691	691	691	
Western Europe	356	357	374	377	407	412	371	366	367	377	376	401	405	407	407	411	412	412	412	415	415	
OECD Pacific	380	389	396	396	393	396	398	398	396	396	396	396	393	393	392	393	393	393	396	397	397	
OECD total	3,918	3,825	3,928	3,997	4,083	4,181	3,888	3,974	4,016	3,997	4,005	4,116	4,132	4,083	4,085	4,150	4,259	4,181	4,103	4,173	4,173	
Oil-on-water	830	815	882	905	958	908	906	891	894	905	934	931	926	958	960	968	964	964	908	911	908	
Days of forward consumption in OECD																						
OECD onland commercial	55	51	51	51	53	54	51	52	51	50	52	53	53	52	54	54	56	56	54	54	54	
North America	52	48	46	47	50	50	46	47	47	47	48	50	49	50	49	50	53	50	50	48	50	
Western Europe	60	58	60	59	61	64	61	60	59	59	62	59	60	59	63	61	61	61	65	64	61	
OECD Pacific	52	47	51	50	47	51	51	52	49	45	48	53	49	43	52	55	53	49	54	54	54	
OECD SPR	27	28	29	29	30	30	30	29	28	29	30	30	30	30	31	31	30	30	30	31	31	
North America	23	25	25	27	27	27	26	26	26	26	27	27	27	27	27	27	27	27	27	27	27	
Western Europe	23	23	24	24	26	27	25	24	23	24	25	26	26	26	27	26	26	26	27	28	27	
OECD Pacific	45	45	47	46	47	48	51	49	45	42	49	49	45	43	50	50	45	45	45	51	50	
OECD total	82	79	80	80	83	85	81	81	80	79	82	84	83	81	85	86	86	84	85	85	85	

Table 34: World Rig Count

	Change												Change Aug/Jul07							
	2003	2004	04/03	1Q 05	2Q 05	3Q 05	4Q 05	2005	05/04	1Q 06	2Q 06	3Q 06		4Q 06	2006	06/05	10 07	20 07	Jul07	Aug07
USA	1,032	1,190	158	1,279	1,336	1,419	1,478	1,378	188	1,519	1,632	1,719	1,719	1,648	270	1,733	1,757	1,777	1,804	27
Canada	372	369	-3	620	241	527	572	490	121	665	282	494	440	470	-20	532	139	349	343	-6
Mexico	92	110	18	114	116	104	93	107	-3	85	85	77	84	83	-24	90	88	97	87	-10
North America	1,496	1,669	173	2,013	1,693	2,050	2,143	1,975	306	2,269	1,999	2,290	2,243	2,200	225	2,355	1,984	2,223	2,234	11
Norway	19	17	-2	15	18	19	17	17	0	19	20	16	9	16	-1	16	19	18	20	2
UK	20	16	-4	16	22	23	24	21	5	29	27	26	15	24	3	25	29	27	29	2
Western Europe	78	65	-13	56	67	68	68	65	0	77	78	73	65	73	8	72	78	77	3	-2
OECD Pacific	18	22	4	24	25	27	24	25	3	25	28	25	28	27	2	24	30	31	27	0
Total OECD	1,592	1,755	163	2,093	1,785	2,146	2,234	2,065	310	2,371	2,105	2,389	2,336	2,300	235	2,450	2,091	2,331	2,331	2
Other Asia	117	126	9	133	140	146	148	142	16	153	150	156	152	153	11	158	157	155	148	-7
Latin America	116	126	10	133	138	141	151	141	15	149	162	164	165	160	19	195	188	182	183	1
Middle East	70	70	0	69	71	73	75	72	2	72	79	82	85	80	8	82	85	89	86	-3
Africa	43	51	8	56	56	51	57	54	3	59	62	68	77	67	13	75	80	84	86	2
Total D/Cs	346	376	30	390	405	411	431	409	33	433	453	470	479	459	50	510	510	510	503	-7
Non-OPEC Rig Count	1,938	2,131	193	2,483	2,192	2,560	2,667	2,477	346	2,806	2,560	2,861	2,818	2,761	284	2,963	2,603	2,843	2,852	9
Algeria	20	19	-1	20	21	22	21	21	2	21	21	28	27	24	3	25	26	24	29	5
Angola	4	3	-1	3	3	3	2	3	0	4	4	4	4	4	1	5	4	3	4	1
Indonesia	45	49	4	53	53	55	59	54	5	55	43	46	52	49	-5	49	56	59	60	1
Iran	35	41	6	42	41	39	38	40	-1	40	45	47	45	44	4	51	51	50	51	1
Iraq	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Kuwait	5	10	5	12	13	11	14	12	2	12	13	14	15	14	2	14	13	14	13	-1
Libya	10	10	0	10	9	8	8	9	-1	9	9	10	12	10	1	13	12	14	13	-1
Nigeria	10	8	-2	9	9	9	8	9	1	10	9	10	10	10	1	8	7	5	9	4
Qatar	8	9	1	10	13	12	12	12	3	13	10	11	9	11	-1	11	12	14	12	-2
Saudi Arabia	32	32	0	33	34	37	43	36	4	54	60	70	76	65	29	76	76	78	78	0
UAE	16	16	0	16	16	16	16	16	0	17	16	16	16	16	0	14	15	15	15	0
Venezuela	37	55	18	66	72	66	70	67	12	78	83	85	77	81	14	76	80	81	78	-3
OPEC Rig Count	222	252	30	274	284	278	291	279	27	313	313	341	341	327	48	342	352	357	362	5
Worldwid Rig Count*	2,160	2,383	223	2,757	2,476	2,838	2,958	2,756	373	3,119	2,873	3,202	3,159	3,088	332	3,305	2,955	3,200	3,214	14
of which:																				
Oil	816	877	61	961	870	990	1,015	959	82	1,069	1,060	1,169	1,156	1,114	155	1,266	1,155	1,244	1,256	12
Gas	1,326	1,486	157	1,774	1,583	1,823	1,928	1,777	291	2,035	1,802	2,016	1,983	1,959	182	2,017	1,782	1,936	1,938	2
Others	18	20	2	22	22	25	17	22	2	14	13	18	21	16	-6	20	19	20	20	0

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

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OPEC Basket average price

US\$ per barrel

↓ down 3.18 in August	August 2007	68.71
	July 2007	71.89
	Year-to-date	62.53

August OPEC production

in million barrels per day, according to secondary sources

Algeria	1.35	Iraq	1.99	Qatar	0.82
Angola	1.67	Kuwait	2.45	Saudi Arabia	8.62
Indonesia	0.84	SP Libyan AJ	1.71	UAE	2.57
IR Iran	3.87	Nigeria	2.14	Venezuela	2.36
				TOTAL	30.39

Supply and demand

in million barrels per day

2007		2008	
World demand	85.7	World demand	87.1
Non-OPEC supply	54.7	Non-OPEC supply	56.3
Difference	31.0	Difference	30.8

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

Stocks

OECD commercial stocks rose around 30 mb in July to stand 68 mb above the five-year average. In August, US commercial stocks fell but remained 30 mb above the five-year average.

World economy

World GDP for 2007 and 2008 unchanged at 5.0%.