OPEC

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

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Feature Article:

Continued stock overhang as oil demand remains sluggish

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Oil Market Highlights

- The **OPEC Reference Basket** in July moved within a range of $70-75/b to average $72.51/b for the month, down 44¢ from the previous month. The modest decline was mainly attributed to Middle Eastern crudes which fell amid ample supply. Uncertainties kept crude oil futures within a $70-80/b range. Nymex WTI front month rose almost $1 to average $76.38/b while ICE Brent edged down 30¢ to $75.36/b. Oil prices continued to be driven mainly by macroeconomic sentiment reflected in equities and exchange rate fluctuations as well as speculative activity. The Basket surged at the end of July before drifting lower to stand at $73.73/b on 12 August.
- **World GDP** growth in 2010 is estimated at 3.9%, only marginally above last month, reflecting improvement in the numbers for the Euro-zone and Brazil in 1H10. The 2011 forecast remains unchanged at 3.7%. The world economy is facing increasing headwinds that will slow the growth momentum going forward. Challenges within OECD include high unemployment, weak private demand, problems in the US housing sector, and in some countries, unsustainably high sovereign debt burdens. In China, government efforts to reign in excesses in property markets appear to be successful and growth is moderating to more sustainable levels.
- Given the recent strength in US consumption, OECD oil demand in the second quarter managed to move to a growth mode for the first time since 2007. The forecast for **world oil demand** growth in 2010 has been revised up by 0.1 mb/d to 1.0 mb/d or 1.2%. In 2011, world oil demand growth is expected to continue at the current level of 1.0 mb/d, unchanged from the previous report. As in the current year, the growth in oil demand is expected to come from the non-OECD, mainly China, India, the Middle East and Latin America, with demand concentrated in the industrial, transportation and petrochemicals sectors.
- **Non-OPEC supply** in 2010 is expected to increase by 0.8 mb/d, following an upward revision mainly due to higher-than-expected supply from the US, Russia and China as well as some historical adjustments. In 2011, non-OPEC oil supply is forecast to grow by 0.3 mb/d, supported by projected increases in Brazil, Canada, Azerbaijan, Colombia, and Kazakhstan. OPEC NGLs and non-conventional oils are projected to increase by 0.5 mb/d in 2010 to average 4.8 mb/d. In July, total OPEC crude oil output averaged 29.20 mb/d, representing a gain of 0.12 mb/d over the previous month.
- The US driving season encouraged refiners to boost refinery runs, mainly in the US. However, combination of a well-supplied market across the globe, higher gasoline and middle distillate stocks and uncertainties about the pace of economic growth created a bearish perception in the **product markets**. Fuel oil was the exception, providing some support to the product market. The overhang in stocks, the high level of spare refining capacity and the impending end of the peak driving season imply that current sentiment in the product markets is not likely to change.
- The **tanker market** was mixed in July, with VLCC and Suezmax rates decreasing significantly while Aframax spot freights were slightly higher. High tonnage availability due to the reduction in floating storage resulted in lower freight rates. Product spot freights increased 23.2% over the previous month. OPEC liftings rose marginally but still hit a nineteen-month high. Arrivals also increased, reflecting higher activity before the start of the maintenance season.
- **US commercial stocks** continued to rise, climbing by 23.4 mb in July and widening the surplus with the five-year average to around 100 mb. European total oil inventories (EU plus Norway) declined 6.0 mb in July, but remained about 3.0 mb above the seasonal norm. In June, commercial oil stocks in Japan declined slightly, but preliminary indications show total commercial oil stocks in Japan rose by around 4 mb at the end of July, narrowing the deficit with five-year average to nearly 3 mb.
- The **demand for OPEC crude** in 2010 is estimated at 28.7 mb/d or around 52 tb/d higher than in the previous report. This represents a decline of 0.2 mb/d compared to a year ago. In 2011, the demand for OPEC crude is expected to average 28.9 mb/d, about 0.2 mb/d up from 2010 and around 93 tb/d higher than the previous assessment.

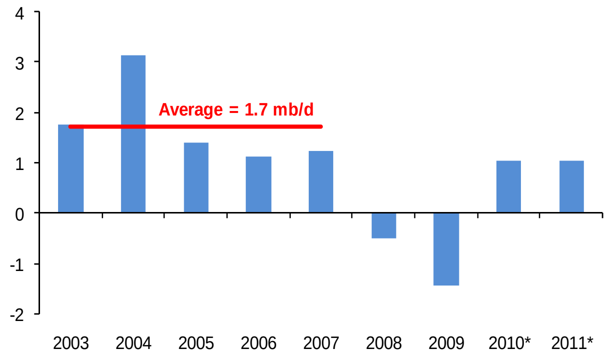
Continued stock overhang as oil demand remains sluggish

During the first half of the year, global economic growth exceeded expectations. The recovery was led by a strong pick up in both manufacturing and international trade. In China, growth was higher than expected, especially in the first quarter, fuelled by the huge fiscal stimulus, with China assuming a greater role as an engine of regional and global growth. The recovery in OECD countries, in contrast, was more modest and relied primarily on continued monetary and fiscal support, creating the appearance of a two-speed world.

Despite the better-than-expected economic performance, the recovery in oil demand in the first half of the year remained relatively modest. Global oil demand rose by 0.7 mb/d and 1.3 mb/d during the first and second quarter, respectively, but from the extremely low base of the previous year. Looking to the second half, the pace of economic growth is projected to slow, not only in OECD but also across most emerging and developing markets indicating that oil demand growth will remain moderate.

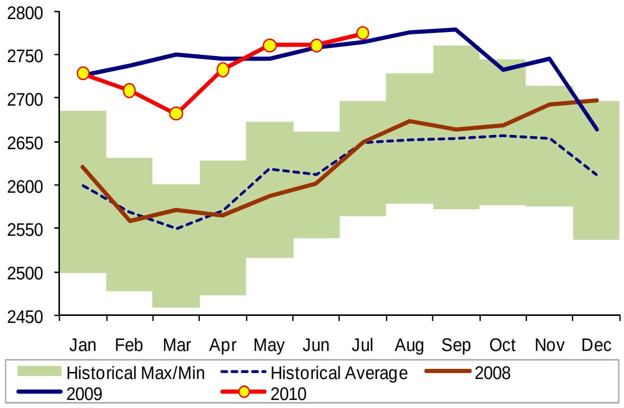
The downshift in economic growth in the second half of 2010 is expected as countries slowly phase out fiscal stimulus. In major OECD countries, growth is still some way from becoming self-sustaining. As a result, monetary policy should remain very accommodative for some time, but a continued expansionary fiscal policy is less of an option given the high and rising debt/GDP ratios. In contrast, clear signs of overheating have become apparent in some major emerging markets, and governments have already begun to tighten monetary policies. The result is that growth in both OECD and emerging markets is set to slow in the second half of the year.

Graph 1: World oil demand growth, mb/d



* Forecast

Graph 2: OECD commercial oil stocks, mb



Oil demand reflects this downshift. Preliminary July figures show only moderate demand growth in two key consumer countries. During the peak of the driving season, US gasoline demand in July reached only 9.4 mb/d — around 200 tb/d less than pre-recession levels. This has been due to lower vehicle miles travelled, which may reflect the still high levels of unemployment in the US. Preliminary data for Chinese oil demand for July also indicates a slowdown in the pace of growth to 0.4 mb/d from 0.6 mb/d in the first months of this year as government policies to avoid overheating in the economy began to take hold.

Given the projected slowdown in the world economy in the second half of this year, there is need to be cautious about forecasting oil demand for the remainder of 2010. Moreover, other factors such as government policies could impact the growth in demand. For example, the Chinese government's recently announced plans aimed at fulfilling energy efficiency targets set in the five-year plan by end-2010 may impact energy and oil demand for the rest of the year. For the whole year, oil demand growth is expected at around 1 mb/d, lower than the pre-recession annual average of around 1.7 mb/d (*see **Graph 1***).

Next year, the situation is not expected to be much different. In fact, world economic growth is projected to be lower next year than in the current year — at 3.7% versus 3.9% — as fiscal and monetary tightening reduce the unprecedented support extended over the previous two years. Thus, continued slow growth in oil demand is expected in 2011 with the forecast averaging around 1.0 mb/d — a level of growth that appears more realistic going forward, given the large uncertainties. Indeed, recent projections assuming oil demand growth will return to pre-recession levels over the medium-term would appear to be exaggerated.

The modest recovery in demand coupled with higher-than-expected oil supply has led to a further build in stocks in recent months. In the first quarter, a contra-seasonal build in OECD commercial oil stocks was observed, while in the second the build was much higher than the normal seasonal average. Additionally, preliminary data for July indicating a further build in stocks supports the present trend. This has led to an overhang in OECD inventories approaching 130 mb in July (*see **Graph 2***). Taking into account floating storage, observable excess supplies amounted to more than 210 mb in July.

Given the current supply/demand outlook, the overhang in inventories is not expected to change significantly in the coming quarters. This highlights the need for increased efforts to strengthen market fundamentals.

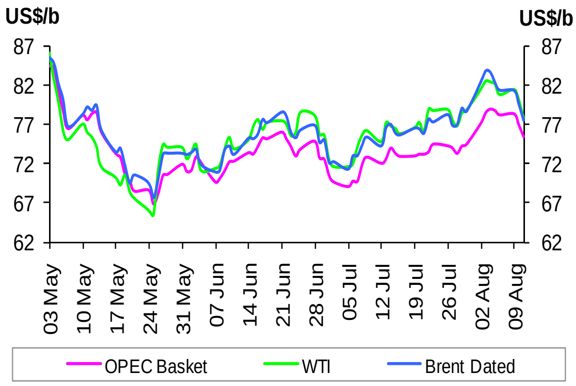
Crude Oil Price Movements

OPEC Basket averaged $72.51/b in July

OPEC Reference Basket

The OPEC Reference Basket moved between $70 and $75/b in July to average $72.51/b This represents a decline of 44¢ or 0.66% from the previous month and an increase of $7.92 or 12.3% over a year ago.

Graph 1: Crude oil price movement



The modest decline in July was driven essentially by Middle Eastern crudes which continued to suffer from ample supply and strong competition from Russian medium-sour grade ESPO Blend. Additional cargoes of ESPO Blend were offered in July, pressuring values of Middle Eastern crudes, while demand remained limited. Middle Eastern crudes were also affected after China's import capacity was reduced following the closure of the Dalian port, which receives more than a tenth of the country's crude oil imports. Kuwait Export, Qatar Marine and Murban led losses, down almost 2%, while Arab Light and Iran Heavy lost 1.6% and 1.1% respectively over the previous month. The exception among Middle East grades was Basrah Light, which edged up 5¢.

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

	Jun 10	Jul 10	Change Jul/Jun	2009	2010
OPEC Reference Basket	**72.95**	**72.51**	**-0.44**	**52.99**	**75.50**
Arab Light	73.84	72.63	-1.21	53.27	75.96
Basrah Light	72.09	72.14	0.05	52.34	74.85
Bonny Light	76.00	77.04	1.04	55.44	78.44
Es Sider	73.65	74.84	1.19	53.31	76.65
Girassol	74.85	74.78	-0.07	53.82	77.13
Iran Heavy	71.83	71.07	-0.76	52.23	74.89
Kuwait Export	72.03	70.69	-1.34	52.48	74.68
Marine	73.97	72.54	-1.43	54.43	76.42
Merey	65.10	65.99	0.89	48.03	68.61
Murban	75.90	74.42	-1.48	55.84	78.12
Oriente	69.19	68.72	-0.47	47.60	70.90
Saharan Blend	75.05	76.49	1.44	54.51	77.63
Other Crudes					
Minas	78.87	75.59	-3.28	56.68	80.68
Dubai	73.99	72.49	-1.50	53.76	76.27
Isthmus	73.41	74.30	0.89	52.82	76.31
T.J. Light	71.65	72.74	1.09	51.65	74.75
Brent	74.85	75.64	0.79	53.71	77.11
W Texas Intermediate	75.29	76.11	0.82	53.39	77.93
Urals	74.37	73.80	-0.57	53.17	75.83
Differentials					
WTI/Brent	0.44	0.47	0.03	-0.32	0.82
Brent/Dubai	0.86	3.15	2.29	-0.05	0.84

Note: Arab Light and other Saudi Arabian crudes as well as Basrah Light preliminarily based on American Crude Market (ACM) and subject to revision

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

In contrast, light Brent-related crudes recovered from previous losses to rise by more than a dollar. Strong demand from the Atlantic Basin following the increase in refinery runs and a cut in supply from North Sea oil fields due to maintenance have helped African crudes, particularly Saharan Blend. US refiners lifted African premiums by securing more quantities ahead of maintenance in Canadian oil fields in September, while European refiners purchased more African crudes to cover the shortfall in North Sea supply. Support also came from Asian buyers, mainly Indian refiners, which increased their purchases of light African sweet crudes to comply with stringent product specifications expected to come into force in India in October.

Latin American crudes saw a mixed pattern with Oriente losing almost 50¢ or 0.7% and Merey gaining nearly 90¢ or 1.4%.

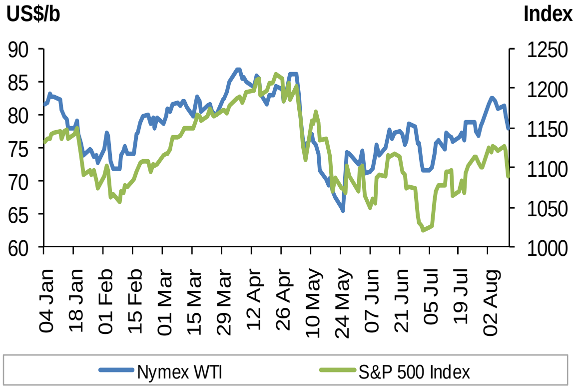
In August, the OPEC Reference Basket was supported by the recent bullish sentiment in the global oil market. The Basket moved above the upper end of the $70-75/b range to hit a three-month high of $78.28/b on 9 August. The recent surge came after futures broke out above $80/b, supported by strong equity markets, a weaker US dollar and positive US macroeconomic data, but retreated below $75/b on the prevailing large uncertainties over economic growth prospects.

The oil futures market

Uncertainties about global macroeconomic and oil demand outlook kept crude oil futures within a range of $70-80/b in July. However, US crude oil futures recovered from their low levels of around $71/b in the first week of July to pursue an upward trend in the following weeks before surpassing the range of $70-80/b in the first week of August.

The front-month WTI contract rose further to average $76.38/b in July

Graph 2: Nymex WTI and S&P 500



The decline in early July from around $78/b to $71/b came after the release of disappointing macroeconomic news, led by June manufacturing data from China. Contraction in Chinese manufacturing was seen as pointing to a slowing economy and potentially lower oil consumption in the country that was the main driver of oil demand growth. The recovery was triggered first on 8 July by an upward revision to the global economic growth forecast for 2010 by the IMF. This upward revision improved sentiment among investors with regard to the economic outlook. In addition, the recovery also came in line with the strengthening in US equity markets, underscoring crude oil prices were continuing to track equities. Positive equity market indices reflect improved anticipation of economic outlook and usually boost oil market sentiment. The correlation between WTI futures and equity markets, strengthened in July *(see **Graph 2**).* Another driver behind oil prices was the US dollar, which has been weakening against the euro since concerns about European sovereign debts have eased. A weaker dollar usually encourages purchases of dollar-dominated commodities such as crude oil.

The WTI front-month averaged $76.38/b in July, which corresponds to an increase of almost $1 over the previous month. This gain, the second in a row, was driven more by macroeconomic sentiment and concerns about supply disruptions in the US Gulf of Mexico from hurricanes rather than by supply/demand fundamentals where supply remained strong and inventories increasing with no significant signs of improving demand in sight.

Contrary to WTI, Brent front month fell 30¢, the second decline in a row, to stand around the middle of the $70-80/b range, at $75.36/b.

The opposite trend followed by WTI and Brent resulted in a strong premium of WTI over Brent of more than $1 during the fourth week of July. It is worth mentioning that WTI has been trading below Brent between mid-April and 23 June and the discount moved above $5/b in mid May when stocks at Cushing hit a record high of around 38 mb. For the whole month, WTI traded 83¢/b above Brent on average, compared with a discount of 25¢/b in June and a discount of $2.92/b in May. The strengthening in WTI relative to Brent was also attributed to higher demand from refiners which resulted in a jump in refinery runs.

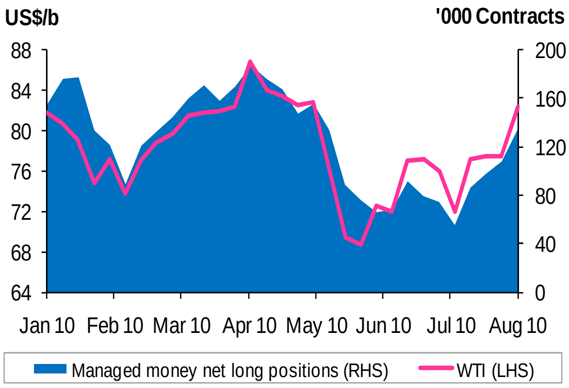
In early August, front-month WTI and Brent contracts traded on Nymex and ICE respectively, moving above $80/b for the first time in three months, continuing their upward trend. September ICE Brent closed at $82.68/b on 3 August and WTI settled at $82.47/b on 4 August. Again the rise was attributed to equity markets, which improved on the back of better-than-expected second-quarter corporate earnings. Futures retreated to around $80/b, driven by a disappointing report showing US July employment experiencing higher-than-expected losses. The weak job data reinforced concerns about economic recovery and oil demand growth.

Uncertainties about oil market development moved some traders to the sidelines in July. For instance, Nymex crude futures trading volumes for the first twelve months dropped for the second month in a row to hit a 10-month low of around 530,000 contracts. Similarly, trading volume for ICE Brent for the first twelve months fell for the second consecutive month to stand around 326,000 contracts in July, the lowest month so far this year.

Total open interest of the Nymex WTI also dropped further in July, moving from nearly 1,264,000 on the first day to around 1,230,000 at the end of the month, compared to around 1,482,000 in mid-May.

Speculators' impact on oil prices remained strong in July as net long positions of money managers moved in tandem with oil prices. Money managers cut net long positions to a very low level of 55,000 lots in the first week of July, the week when front-month WTI fell below $72/b. However, the trend was reversed in the following week. Money managers increased net long positions in line with a recovery in prices. In the week to 3 August, net long positions rose above 133,000 lots as WTI moved above $82/b *(see **Graph 3**)*.

Graph 3: Nymex WTI price vs. Speculative activity



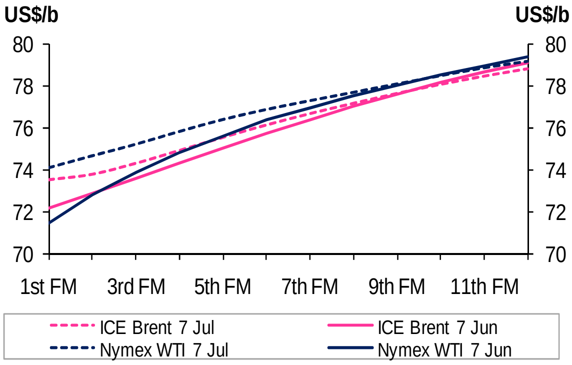
The futures market structure

The contango narrowed for both WTI and Brent

Futures remained in contango but WTI and Brent curves narrowed further as the spread between the first and forward months contracted.

On the Nymex, the spread between the first and the third month of WTI futures contracts more than halved to move from $1.03 in June to just 43¢/b in July. The spread between the first and the sixth month fell by 36% to stand around $2.40/b. A narrowing contango is usually seen as a bullish sign for the market, but this time seems to not be the case, because forward prices are declining. The forward month, starting from the fourth, declined in July. This suggests that premiums traders

Graph 4: Nymex WTI and ICE Brent forward curve, 2010



FM = future month

will pay for later deliveries are falling amid signs that future demand might be weaker and supply will be sufficient, especially as inventories are very comfortable.

Similarly, the curve of the ICE Brent flattened further in July as the spread between the first and the third month fell from $1.15/b to 80¢/b and the spread between the sixth and the first month narrowed to $2.43/b. For Brent, the market has switched even into backwardation on 14 and 15 July when the spread between the second and the first months stood at around minus 10¢/b.

The narrowing of contango curves has contributed to a decline in floating storage as holding or building stocks is not justified economically, when considering the cost of storage. For instance, it is estimated that the storage cost in Cushing, Oklahoma, is roughly 50¢ per month while the spread between the first and the second month for WTI averaged just 43¢ in July.

Table 2: Nymex WTI and ICE Brent forward price, US$/b

	1st FM	2nd FM	3rd FM	6th FM	12th FM
Nymex WTI					
6 Aug 2010	80.70	81.18	81.77	83.40	85.49
6 Jul 2010	71.98	72.51	73.06	74.70	77.00
ICE Brent					
6 Aug 2010	80.16	80.59	81.21	82.93	85.59
6 Jul 2010	71.45	71.74	72.29	74.02	76.71

FM = future month

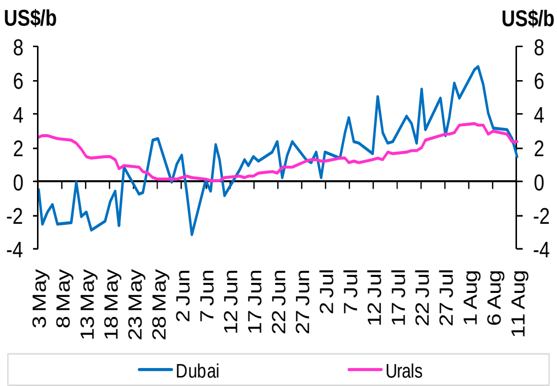
The sour/sweet crude spread

The WTI-Mars sour spread widened in July on higher demand for light grades

Rising demand for light sweet crude in the Atlantic basin has contributed to widening the premium over heavy-sour crudes in July. In addition to rising demand from refiners, North Sea maintenance also helped light sweet crudes to perform better than medium-heavy crudes.

The spread for spot WTI-Mars sour more than doubled to stand at $1.74/b in July. Thanks to higher refinery runs, the premium rose to $2.35/b in the first days of August, while in May, Mars sour traded at a premium of around $1.40/b over WTI.

Graph 5: Brent Dated vs.Sour grades (Urals and Dubai) spread



The maintenance in the North Sea has also supported Brent crude against Urals and Dubai. The premium of Dated Brent over Russian crude Urals rose significantly in July to move to an average of $1.84/b before it hit almost $3/b in early August compared to less than 50¢ in June. Urals was pressured as refiners cut throughput amid poor refining margins. Ample supplies also put downward pressure on Urals.

The Brent-Dubai spread increased sharply in July to average $3.15/b, the highest since October 2008. The surge of $2.29/b resulted from the combination of a strengthening in Brent and a deterioration in Dubai price. The weakness in Dubai reflects ample supplies within the region while demand remained low as some refiners were still in maintenance. The spread widened further in early August to move up to $6.81 before it retreated. The wider Brent-Dubai spread indicates a limitation of arbitrage opportunities to move Atlantic Basin and African crudes to Asia, but the exception came from Indian refiners, who bought some cargoes from Africa despite the wide spread in order to comply with tighter product specifications.

Commodity Markets

Commodity prices experienced a mild recovery in July

Trends in selected commodity markets

The IMF commodity price index went up 1.5% m-o-m in July mainly on the back of non-fuel markets and especially food, due to a severe drought in Eastern Europe that resulted in higher wheat prices. Industrial metal prices also recovered, but at a modest pace. Uncertainties on the health of the global economy continue weighing on commodity and financial markets. However, the picture was mixed with US and Asia data moderating while Western Europe was positive. In this context, some recovery in industrial metals has taken place driven by supportive fundamentals.

The **IMF energy commodity index** (crude oil, natural gas and coal) rose 0.3% m-o-m in July compared to a 0.9% fall in the previous month.

Henry Hub (HH) decreased 3.6% m-o-m in July compared to growth of 15.4% in the previous month on increased supply despite higher temperatures, with inventories rising 9% m-o-m in July.

The **IMF non-fuel commodity index** gained 3.7% m-o-m in July compared to a fall of 3.2 in the previous month, especially on higher agricultural prices with wheat leading the rise owing to the drought.

Table 3: Monthly changes in selected commodity prices, 2009-2010

		% Change		% Change
	May/Apr	Jun/May	Jul/Jun	Jul 10/Jul 09
Commodity	-7.6	-1.8	1.5	16.4
Non-fuel	-5.3	-3.2	3.7	14.9
Energy	-8.9	-0.9	0.3	17.4
Crude oil	-10.0	-1.4	-0.1	15.5
US natural gas	2.6	16.0	-3.6	36.5
Food	-2.7	-2.2	5.6	5.0
Corn	3.8	-6.3	7.2	8.0
Wheat	-5.8	-13.2	24.2	-12.9
Soybean oil	-4.1	-1.4	1.9	-1.3
Soybeans	-0.8	2.8	6.6	-13.2
Sugar	-4.0	1.4	2.5	-6.4
Industrial metals	-10.7	-5.0	2.8	27.2
Aluminium	-11.6	-5.6	3.1	18.8
Copper	-11.5	-5.0	3.8	28.8
Nickel	-15.7	-11.5	0.7	22.0
Zinc	-16.8	-11.3	5.8	16.7
Gold*	4.9	2.3	-3.2	27.7

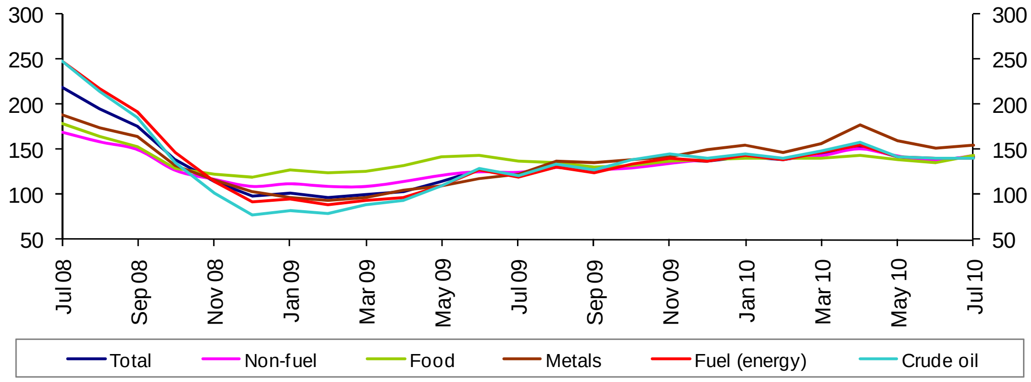
na Not available

Sources: IMF; Estimations based on data provided by the IMF

** World Bank, Commodity price data*

The IMF industrial **metal price index also recovered 2.8% m-o-m in July** which compared favourably with a decline of 5% a month earlier. This was despite the fact that the industrial metal markets continued to carry the burden of slowing Chinese growth, US macroeconomic data was weak and concerns persisted about EU debt. China's official PMI for manufacturing continued to ease, falling to 51.2 in July from 52.1 the previous month – the lowest level in 17 months – due to government policies to cool the economy and the tightening of property markets. It must be highlighted that the Markit manufacturing PMI for China was 49.4 in July, compared to 50.4 a month earlier, falling for the first time below the expansionary threshold of 50 since April 2009. Despite that, it seems that some industrial metals have been reacting to stronger fundamentals.

Graph 6: Major commodity price indexes, 2008-2010

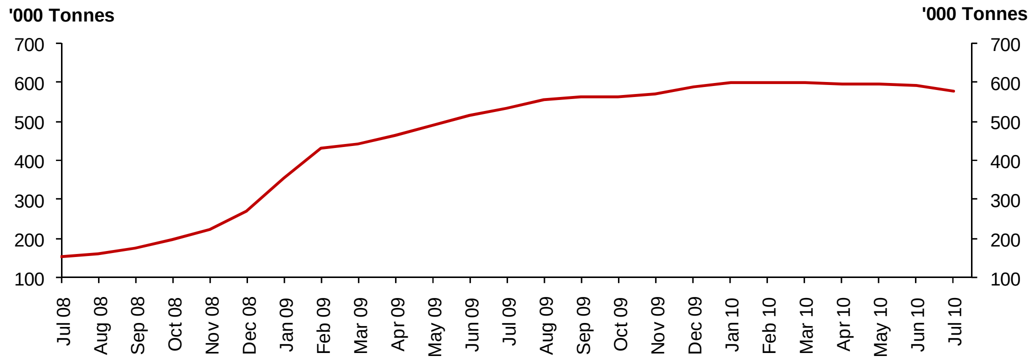


Commodity price index, 2005 = 100

Total:	*Includes both fuel and non-fuel*
Non-fuel:	*Includes food and beverages and industrial inputs*
Food:	*Includes cereal, vegetable oils, meat, seafood, sugar, bananas and oranges*
Metals:	*Includes copper, aluminum, iron ore, tin, nickel, zinc, lead and uranium*
Fuel (energy):	*Includes crude oil (petroleum), natural gas and coal*
Crude oil:	*Is the simple average of three spot prices: Dated Brent, West Texas Intermediate and Dubai Fateh*

Copper prices gained 3.8% m-o-m in July compared to a drop of 5% in June due to falling copper stocks at the LME, which outpaced the moderating growth from China and the drop for the third consecutive month of imports of refined copper from China. Inventories at the LME declined. LME copper stocks declined by 9% for the third month to 411,525 tonnes as of 29 July.

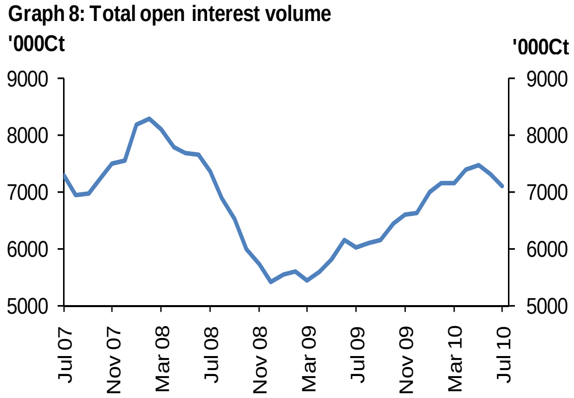
Graph 7: Inventories at the London Metal Exchange (LME)



Investment flow into commodities

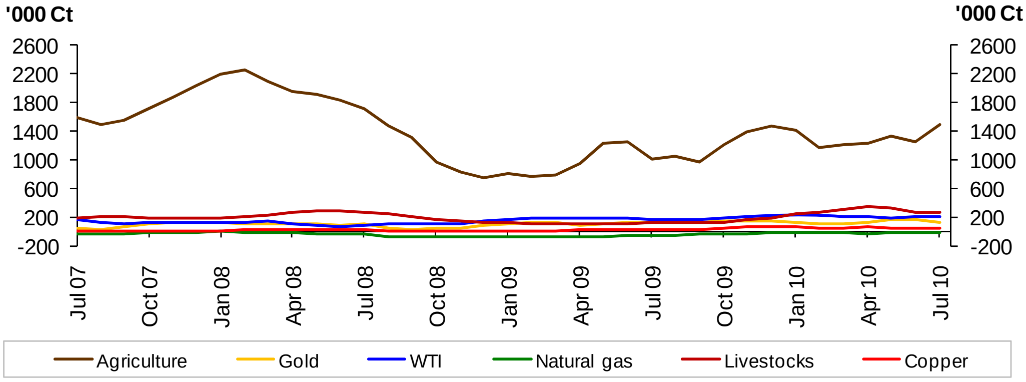
A further declined took place in open interest volume (OIV) for major US commodity markets in July. CFTC data showed a 3% drop m-o-m in July to 7,208,678 contracts compared to a 2.1% decline in the previous month (*see **Graph 8***). The most affected sectors were agriculture and precious metals as WTI and natural gas OIV fell, but at a slower pace than in the previous month.

Graph 8: Total open interest volume



Source: CFTC

Graph 9: CFTC net length by commodity group

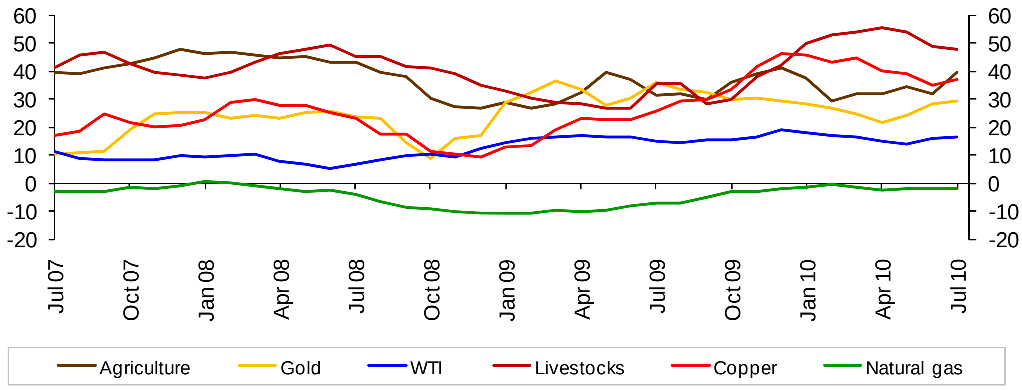


Source: CFTC

A recovery was seen in speculative invesments in July as non-commercial net length in major US commodity markets rose 10% m-o-m to 2,166,614 contracts in July compared to a 2.9% fall in the previous month. Non-commerical short positions declined 172,412 contracts (-9.5% m-o-m) to 1,637,553 contracts in July while longs gained 23,745 contacts (+0.65% m-o-m) to 3,804,167 contracts.

Agricultural OIV saw a fall of 2.83% m-o-m to 3,698,952 contracts in July which compared favourably with 1.1% m-o-m in June. Non-commercial shorts declined 14.9% to 691,260 contracts, which combined with a slight 0.16% m-o-m rise in longs to 2,067,480 contracts in July, leading to an increase of 16.1% m-o-m in net length as a percentage of OIV rose from 32.1% in June to 37.2% in July.

Graph 10: CFTC net length as % of open interest



Source: CFTC

OIV for precious metals lost 3.2% to 684,293 contracts in July compared to a 1.1% m-o-m increase in June. A decline of 10.3% m-o-m in non-commercial long positions to 390,417 contracts in July and a milder drop of 1.3% m-o-m in short positions to 224,672 contracts, resulted in net length as a percentage of open interest volume declining to 24.2% in July from 29.4% the previous month (*see **Graphs 9** and **10***).

Nymex natural gas futures open interest volume dropped further by 7.2% m-o-m to 84,264 contracts in July compared to a 5.1% fall in June. Non-commercial longs declined by 0.9% m-o-m to 272,850 contracts in July while shorts declined 0.5% m-o-m to 288,708 contracts. Thus, the net length as a percentage of OIV dropped from minus 1.8% in June to minus 2% in July.

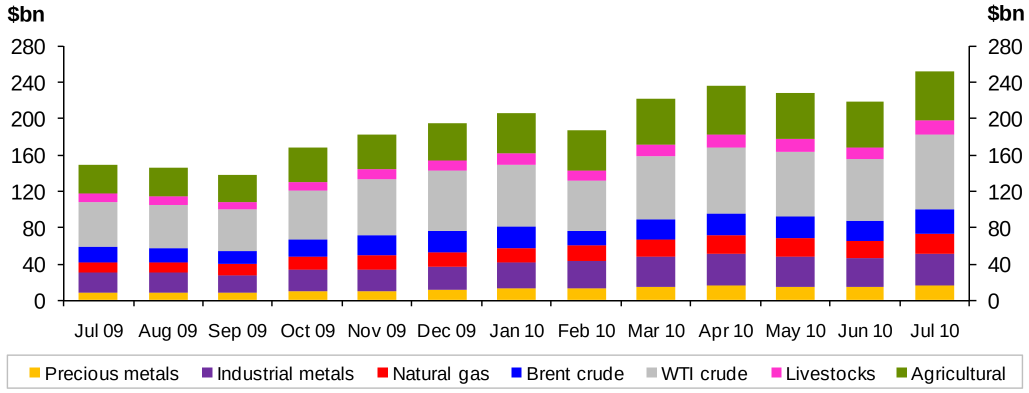
Copper OIV reported a decrease of 1.2% m-o-m to 131,635 contracts in July compared to growth of 0.5% in June. Non-commercial shorts experienced a more pronounced decline in July of 8.1% m-o-m to 33,478 contacts compared to longs which fell by only 1.1% m-o-m to 33,478 contracts. As a result, net length as percentage of OIV increased from 34.% in June to 36.9% in July. This was linked to a recovery in copper prices during the month. It seems that the investors in the copper markets have focused their attention to fundamentals rather than uncertainties in global economic growth.

Table 4: CFTC data on non-commercial positions, '000 contracts

		Net length							
	Open interest	Swap positions		Money positions		Other positions		Non-commercials	
	Jul 10	Jul	%OIV	Jul	%OIV	Jul	%OIV	Jul	%OIV
Crude Oil	1251	170	14	87	7	-51	-4	205	16
Natural Gas	783	137	18	-116	-15	-37	-5	-16	-2
Agriculture	3794	1,015	27	417	11	62	2	1,493	39
Precious Metals	684	-63	-9	190	28	39	6	166	24
Copper	132	43	33	8	6	-3	-2	49	37
Livestock	565	185	33	134	24	-49	-9	270	48
Total	**7,209**	**1,487**	**21**	**719**	**10**	**-39**	**-1**	**2,167**	**30**
		Net length							
	Open interest	Swap positions		Money positions		Other positions		Non-commercials	
	Jun 10	Jun	%OIV	Jun	%OIV	Jun	%OIV	Jun	%OIV
Crude Oil	1309	176	13	76	6	-45	-3	206	16
Natural Gas	818	144	18	-113	-14	-47	-6	-15	-2
Agriculture	3904	978	25	169	4	104	3	1251	32
Precious Metals	707	-64	-9	244	35	27	4	208	29
Copper	133	44	33	4	3	-2	-1	46	35
Livestock	564	182	32	124	22	-33	-6	274	49
Total	**7,435**	**1,461**	**20**	**505**	**7**	**4**	**0**	**1,970**	**27**

The estimated dollar investment inflow into major commodity indices suggests an icnrease of 15.9% m-o-m in July compared to a fall of 4.7% m-o-m in June. It seems that the mixed inflow of macroeconomic data has led to some revival in investment sentiment.

Graph 11: Inflow of investment into commodities



Source: CFTC

World Economy

Economic growth rates 2010-2011,%							
	World	OECD	USA	Japan	Euro-zone	China	India
2010	3.9	2.2	2.8	2.7	0.8	9.5	7.8
2011	3.7	2.0	2.5	1.4	0.9	8.8	7.7

Industrialised countries

USA

US economic growth is decelerating, while unemployment remains at 9.5% and the housing sector is declining once again

The **US economy** continues to grow, but at a decelerating level. The newly released GDP data shows that while the 1Q10 quarterly growth was stronger than initially released at 3.7%, the second quarter growth slowed. While growth in 4Q09 peaked at 5.0%, the growth momentum has declined since. Furthermore, the Bureau of Economic Analysis (BEA), which provides the official data for US GDP numbers, revised all the estimates back to 2007. This shows that the recent recession was deeper than previously thought. All years from 2007 – 2009 were reported to have lower growth than the earlier official numbers. Growth had already begun to stagnate in 2008 at 0%, the decline in 2009 was bigger than thought at minus 2.6%, compared to the previous estimate at minus 2.4%, and more than 50% of the 13 revised quarters since the beginning of 2007 were revised further down, demonstrating the depth of the crisis that had started three years ago. On the positive side, the numbers show positive growth since the 3Q09, although the pace of growth is declining.

This relative uncertainty and continued fragility of the recovery in the US was recently highlighted by the Fed Chairman, who said that although the economy appeared to have stabilized and was expanding again, there was a considerable way to go before achieving a full recovery. While the chairman acknowledged an improvement in consumer spending, business spending and in exports, he considered the sustainability of these trends uncertain due to the fragility in the labour market, the housing market and tighter credit conditions. This cautious view is also reflected in the most recent Beige Book that summarizes the current economic conditions by Federal Reserve Districts and in the latest statement of the Federal Open Market Committee (FOMC), the body within the Fed that decides on the key interest rates. The Fed decided to keep the key lending rate at 0% – 0.25% and announced new measures of quantitative easing of around $130 bn over the next 12 months. The Fed acknowledged worries about the uncertainty of the recovery.

Currently, a further modest broadening of the monetary base should not raise fears of inflation in the short-term, as the consumer price index declined in June by 0.1% and is expected to have risen only by 0.1% in July. However, the Fed needs to support the private consumer, who still seems either reluctant or unable to spend enough to counteract current lower growth levels. Consumer confidence in July fell to 50.4 from 54.3 in June, according to findings of the Conference Board. While the policy of the Fed is still focused on the expansion of the monetary base, the many additional facilities still do not seem to have significantly broadened the monetary base of the system in 2010, as numbers compiled by Shadow Stats show for M3 – the broadest measure of the monetary base — in the United States, which has been in decline since the end of 2009 and picked up only last month.

Most important for a sustainable recovery will be a pickup in consumer spending that usually had constituted around two thirds of the US economy in pre-crisis times. This spending shows growth by 1.9% in the 1Q10 and by 1.6% in the 2Q10, a considerable improvement compared to only 0.9% in 4Q09, but still only contributes around 50% of the 2Q10 growth number.

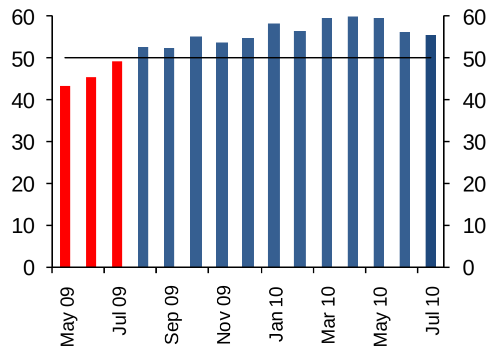
It remains to be seen how the consumer will continue to behave in the US with unemployment rates persisting at the elevated level of 9.5%. According to the Fed, a cumulative 8.5 million jobs were lost in 2008 and 2009, of which around 7 million were lost in the non-farm area, and almost all of them in the private sector. These job-losses compare to only around 600,000 jobs that have been now created since the beginning of

2010. Further evidence will be probably found when retail sales numbers are released in mid-August, which are now expected to be slightly positive, so any negative or stagnant number would be a surprise.

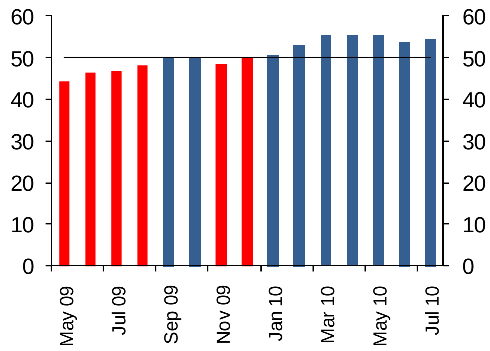
On the manufacturing side, things are improving slightly. Industrial production in June increased by only 0.1% m-o-m, compared with growth of 1.3% in the month before. Capacity utilization remained at 74.1% in June for the second consecutive month.

The services-ISM now stands at 54.3 for July, compared to 53.8 in June, an encouraging signal considering the services business has been responsible to more than 70% of US GDP in previous years. The ISM manufacturing index retreated slightly from its June level of 56.2 to 55.5, but remains above 50.

Graph 12a: ISM manufacturing index



Graph 12b: ISM non-manufacturing index



Source: Institute for Supply Management

The housing sector is still being challenged by the current economic environment. Existing home sales were in decline for a second month in a row in June at minus 5.4% m-o-m after minus 2.2% in May and supply went up from 8.3 months to 8.9 months. The front-running indicator of pending home sales was 2.3% lower in June, after a steep decline in May of 29.9%, which came after tax credits for first-time home buyers expired at the end of April. It is hard to see a sustainable upswing in this sector for the coming months with the current situation in the labour market and the significant overhang in supply. The National Association of Realtors, which compiles the housing situation report, sees inventory even moving up to a level of 10 months in July. This is not far off the peak levels of 2008 at 10.4 months of supply.

Considering the expected end of most of the supportive effects of the fiscal stimulus package and the current limits to the monetary support in an economy characterised by deleveraging by banks and private households, many uncertainties remain and the growth in the second half should be expected to be lower than in the first. These are the main reasons for keeping the 2010 and 2011 forecast unchanged at 2.8% and 2.5% respectively.

Japan

Japan slowing but continues to grow

Japan's momentum is continuing and demonstrating some resilience in domestic demand from private households. It is still benefiting from expansionary development in its exports, which along with domestic demand, constitute the main pillar of the current economic recovery.

Exports declined by 1.8% and unemployment rose to 5.3%

Exports rose 27.7% from a year earlier, data from the Ministry of Trade and Industry (METI) shows. This came as a positive surprise when the median forecast had been a growth number of only 23.5%. On a monthly basis, the number is not so impressive, as it declined by 1.8%, making June growth the lowest level over the last 8 months, while until May exports were growing for 7 consecutive months. Mainly, the demand from Asia and Europe waned. Shipments to China declined from May's level of 25.3% y-o-y to 22.0%. This compares with a much higher level of 41.4% in April. Shipments to Europe rose only by 9.0% y-o-y, compared to 17.4% y-o-y in May. Certainly the rising yen was a challenge for a continued monthly expansion. The yen gained around 8% against the US dollar from May to July and 12% against the Euro. This slowing effect is one of the major reasons why, expectations for 2Q10 growth are coming down and now stand at 1.7%, compared to 5% in 1Q10.

The domestic situation remains supportive. Retail sales expanded by 3.2% y-o-y or 0.4% m-o-m in June, a rebound on a monthly basis from minus 2.0% in May. For the whole 2Q10, retail sales now saw a minor increase of 0.1%, which comes after strong growth momentum in the 1Q10 of 2.7%. A development that was obviously very much supported by the fiscal stimulus, a support that is becoming smaller, but sales are holding up to some extent. A car incentive programme in Japan that runs out at the end of September is expected to again support retail sales in the 3Q10, before probably the stimulus effect will come to an end. Actually, automobile and fuels were the main support factor over the recent months, growing at double digit rates. The recent resilience in retail sales can also be explained by the slightly improving situation in the labour market. This development can be seen in the real spending of households, when they rose at seasonally-adjusted 2.9% m-o-m in June, rebounding from a 6.3% decline in April and only a 0.7% rise in May. This development has to be closely watched as the unemployment rate again edged a little bit higher, from 5.2% in May to 5.3% in June. While the trend in the labour market is weakening slightly, it should not be considered to be deteriorating as the jobs-to-applicant ratio, a widely watched indicator for the health of the employment market, has improved slightly. The new job offers-to-applicant ratio even moved higher in May. Furthermore, the June total cash earnings were up by 1.5% y-o-y, increasing for the fourth consecutive month. This is mainly due to non-scheduled earnings which can be considered to be performance-related.

Deflation seems to have stabilized slightly. The overall consumer price index has declined by 0.7% y-o-y, while the core CPI, excluding food and energy declined by 1.5% y-o-y. Those declines were all lower than in the previous months.

Another data point that added to some uncertainty was that industrial production fell by a steep 1.5% m-o-m in June. The index of the manufacturing production forecast survey for July was also revised down from a gain of 1.0% m-o-m to a 0.2% decline. The inventory build-up was a driving force for the growth in industrial production in May and it has to be closely monitored, whether this support is now waning. This was the first decline in five months. On a positive note, the METI's forecast for August industrial production stands at 2.0% m-o-m again. Support should also come temporarily from the stimulus for the car sector that is however expiring at the end of September. The weakening situation is underpinned by machinery orders, a leading indicator, which grew only by 1.6% m-o-m in June, after a steep decline of 9.1% in May. The core order forecast of the Cabinet Office for the 3Q is only at 0.8% q-o-q growth, after a 0.3% growth in the 2Q10.

Uncertainties in the Japanese economy persist and still it seems that the high growth levels of the 1Q10, which seemed to have been significantly supported by the government-led stimulus, might have marked a peak-level. The forecast for 2010 and 2011 therefore remains unchanged at 2.7% for 2010 and 1.4% for 2011.

Euro-zone

The Euro-zone's economy continues to gain momentum, supported by the German economy. While growth seems to accelerate, unemployment remains at 10.0% for the fourth consecutive month

The **Euro-zone** has demonstrated a surprising resilience in the 2Q10, taking into account the serious issues the economy had to deal with, ranging from the almost bankruptcy of Greece to the challenge of the Euro-zone banking system. After the support package for ailing Greece has been worked out and after having put in place a support mechanism for further sovereign debt issues in the Euro-zone and having stress-tested the European banking system, most of the issues seem to be contained and the Euro-zone is on an expansionary path again.

The main growth support comes from the biggest member of the Euro-zone. **Germany** has seen an unexpectedly strong rebound, supported mainly by its export-oriented industry, but domestic demand has also improved over the last months, obviously benefiting from this development. The VDMA, the German engineering association, reported that manufacturing orders in Germany saw an increase of 62% y-o-y in June, but not only from external demand, but domestic orders also surged by even higher 67% y-o-y in June. Accordingly, the German manufacturing PMI has jumped from 58.4 to 61.2 in June, supporting the corresponding number for the Euro-zone from a level of 55.6 to 56.7. Aside from the solid domestic demand, exports were certainly also supported by the weakening euro that reached levels of below $1.20/€ only at the beginning of June and stayed below $1.30/€ for most of July, to only substantially break this level recently at the beginning of August. This currency development might be one of the factors that could slow down export growth in the coming months if the Euro remains at current levels, but in general, the sector has entered the second half on a strong note.

The current momentum in Germany is being reflected in import data, which might be an additional hint to an improvement in domestic demand and an encouraging sign. Imports grew by 1.9% m-o-m compared to export growth of 3.8% m-o-m in June. These levels came as a surprise, despite both figures being below the May numbers when imports grew by 13.7% m-o-m and exports increased by 7.9% m-o-m.

While Germany still constitutes the main growth engine for the Euro-zone, the development in its second biggest economy seems currently less encouraging. Industrial output in **France** fell by 1.7% m-o-m in June. This comes after encouraging numbers from May, which grew by 1.9%, bringing back the 2Q growth in industrial output to only 0.8%. This compares with 5.4% quarterly growth in Germany. Forecasts for 2Q10 GDP in Germany now stand as high as 2% quarterly growth, which compares to reported 0.4% growth in Italy, while Spain is seen to have grown by a meager 0.2% in the 2Q10, according to the Spanish Central Bank. France's output should have increased by 0.7% in the 2Q10 after minor growth of 0.1% in the 1Q10, according to the Bank of America. These numbers illustrate the different speeds of growth in the Euro-zone and the ongoing dependency on the German economic success.

This is also reflected in the development of the various national labour markets within the Euro-zone. Unemployment has stayed at 10.0% in June for the fourth consecutive month. Again Spain took the lead of the bigger Euro-zone countries at 20.0%, for the first time since the current crisis has started in August 2007 and again 0.2% higher than in May. In contrast, Germany again was successful in containing the unemployment rate at 7.0% for the second consecutive month, while the rate in France reached a level of 10.0% for the first time in three years. Youth unemployment fell back to 19.6%, compared to 19.8% in May, but remains at a significant level. Spain is again the economy that is hit worst at a level of 40.3%. Germany recorded below-average levels of 9.3%, an improvement of 0.1% compared to May and considerably lower than last year's June level of 10.8%.

Inflation is increasing, but the European Central Bank (ECB) kept its key lending rate at 1.0% in its latest meeting. In general, the president of the ECB expressed his conviction that the European economy is in a solid position, when the ECB sees the 3Q data on a solid growth path. The inflation rate rose to 1.7% y-o-y in July – the highest since November 2008 – from 1.4% in June. The rise partly reflected value added tax increases in southern European countries.

The Euro-zone continues to regain strength from very low growth levels. Most of the Euro-zone countries have announced steep cuts in spending and said that austerity packages will start to be implemented by 2011 and that they will bring their public debt levels back to the Maastricht criteria of 3% budget deficit and gross debt-to-GDP ratios of 60% in the coming years. This is expected to have an effect on growth. While in 2010 GDP is now estimated to grow at 0.8% — an increase from last month's growth expectations of 0.7% — 2011 growth levels remain at 0.9%.

Former Soviet Union

Slowing Russian economy impacted by weather-related disruptions

After a very solid recovery in the first half of this year, there are signs that growth in **Russia** is slightly moderating. The Purchasing Managers' Indicator for services fell to 54.2 in July from 55.4 in June, while manufacturing PMI remained almost unchanged in July, reflecting a moderating export demand. Preliminary customs data show that export growth deteriorated for coal, ores and metals in the second quarter of 2010. The decline in metals may reflect weakening Chinese demand.

In addition, while it is still too early to gauge the full impact of the weather-related factors such as the heat wave and fires on the Russian economy, some preliminary estimates see a reduction in agriculture and other sectors of economic activity amounting to 1% of GDP in 2010, implying a cost of around $15 bn. The Agriculture Ministry cut its grain crop forecast to as low as 70 million metric tons compared with 97.1 million tons last year. Domestic demand (75-77 mt) is secured since sufficient stocks from last year's harvest (16-21 mt) are available, but the export potential has been curtailed. Total agricultural output this year is seen to decline by 10-13% (grains by about 20%), reducing GDP by 0.6%, while the disruptions to manufacturing and services would account for the remaining 0.4% estimated drop in GDP.

Others predict that the impact may not be as severe, since agriculture accounts for only about 4% of total GDP and 2% of exports. However, the impact may extend further as drought may also affect next year's grain crops since winter wheat may also be negatively impacted. On the other hand, there is some agreement that the impact will be felt mainly through higher inflation as food prices rise.

To counteract inflationary pressures, the government has decided on an export ban on grain and grain products, to be imposed from August 15 to December 13. The ban may help to contain the rise in domestic prices, but not world prices. Moreover, the government also pledged to extend 35 billion rubles ($1.2 billion) in aid to agricultural producers who suffered from the drought.

Separately, Russia's accession to the World Trade Organization continues to face delays, partly voluntary, since the government may be interested in prolonging its entry process to make use of the greater available policy space while its economy is recovering from last year's severe recession. Our forecast for Russian economic growth in 2010 and 2011 remains unchanged from last month at 4.2% and 3.8%, respectively.

Developing Countries

Increasing signs of a soft-landing in China

Growth in **China** slowed to 10.3% in 2Q10 from 11.9% in the first three months of the year. As government policies to slow down growth take hold, recent indicators point to a soft landing in the second half of the year with growth moderating to more sustainable levels. Government efforts to rein in polluting industries may also lead to lower domestic demand.

Industrial production, retail sales, new lending, producer prices, fixed asset investment and money supply, all increased at slower and lower-than-expected rates in July. Industrial output rose 13.4% y-o-y, the smallest rise in 11 months, from 13.7% in June. Retail sales growth eased to an annual rate of 17.9% compared with 18.3% in June and new loans climbed less than estimated to 532.8 bn yuan, adding to signs of an economic slowdown. The government has set a lending limit for 2010 of 7.5 trillion yuan ($1.1 trillion). Meanwhile, M2, the broadest measure of money supply, rose 17.6%, marking the lowest increase in 20 months. Moreover, growth in urban fixed-asset investment also moderated, rising 24.9% in the first seven months y-o-y compared to an average 25.5% gain in 1H10.

Meanwhile, consumer inflation quickened to 3.3% in July, the fastest in 21 months, boosted by a low year-earlier base as well as by rising food costs. However, the government is expected to meet its full-year target of 3%, even as wages and global grain prices climb, since inflation is expected to ease till the end of the year as base effects fade and the economy slows. Producer price inflation has already slowed to 4.8% in July from 6.4% in June.

In the property sector, prices rose at the slowest pace in six months in July reflecting ongoing measures to reduce speculation. Prices in seventy major cities climbed 10.3% y-o-y in July from an 11.4% increase in June, both lower than the record 12.8% recorded in April. The value of sales fell even faster at 19.3% y-o-y to 306.6 billion yuan ($45.3 billion). The fact that sales appear to be falling faster than prices suggests that real-estate curbs may be maintained further, even as the economy slows. Seen from a monthly perspective, real-estate prices were unchanged from the previous month after a 0.1% decline in June that was the first fall in 16 months. At the same time, central bank data show new property loans dropped 26% y-o-y in the first six months of 2010.

In contrast, China's trade surplus reached an 18-month high of $28.7 bn in July, 170% above a year-earlier level, as exports increased 38.1% y-o-y to a record $145.5 bn and imports advanced at a slower pace of 22.7% to $116.8 bn. However, growth was slower than in June when exports had risen at 43.9% y-o-y. The large trade surplus is seen to add pressure on Chinese officials to allow faster appreciation of the yuan, while slowing import growth figures also signal a diminished contribution of China to global growth.. The yuan has moved very little (less than one percent) since China announced the end of the dollar peg on 19 June. The growth in imports of 23% in July compares with 34.1% y-o-y rise in June and was the smallest gain since November 2009.

Separately, China has announced a campaign to close inefficient factories in an attempt to meet the energy efficiency target of a 20% cut in energy used per unit of GDP set in its current five-year plan (2006-10). By end 2009, a reduction of 15.6% had been achieved, according to UBS, but energy intensity is estimated to have increased by 3.2% in 1Q10, as efficiency improvements were retarded by the stimulus package. If rigorously implemented, energy-saving efforts could impact 2010 industrial output by as much as 1.5 percentage points, according to estimates by Morgan Stanley, while UBS predicts economic growth could fall by two percentage points in 2H10 should the energy saving targets be enforced. So far, government measures have included higher power surcharges for some aluminium companies and removal of export tax rebates on steel and metals. Moreover, it was reported that measures could involve closing down some small thermal power plants.

Overall, our forecasts for GDP growth in China for this year and next stand at 9.5% and 8.8%, unchanged from last month.

Amidst strong economic growth, monetary policy tightening cycle in India may be set to continue

In contrast to regional and global trends, the pace of manufacturing expansion in **India** is still to show signs of a slowing momentum. India’s manufacturing growth accelerated in July, as shown by the monthly survey of purchasing executives. Manufacturing PMI rose 0.3% to 57.6 in July. However, the PMI for the service industries, which includes telecommunication and banking and accounts for about 55% of GDP, while still high at 61.7 in July, was somewhat lower that the two-year high of 64 in June.

With agriculture accounting for about a fifth of the economy, and the June-September monsoon being the main source of irrigation in the country, rainfall during this period is an important economic factor. The current monsoon season promises to be good as rainfall was more abundant than forecast in July. This may lead to a rise in grain output of 6% to 230 mn metric tons in the year to March 2011. The government is hoping that a good monsoon would help lower inflation by easing food prices. India’s food inflation slowed to a 13-month low of 9.5% in July. While still high, it compares favourably with the 21% rise last November.

India’s passenger car sales rose to a record high in July as strong economic growth fueled confidence and demand. Sales rose 38% to 158,764 vehicles y-o-y. The Society of Indian Automobile Manufacturers forecasts sales to grow by around 12% to 1.71 mn vehicles for the fiscal year ending in March 31, 2011. The strong performance of the economy has led the government to raise its GDP forecast for the current fiscal year starting April 2010 to 8.5% from 8.0% and its end-year inflation target to 6.0% from 5.5%.

The Reserve Bank of India has been tightening monetary policy for some time to combat inflation, which has remained stubbornly high, with wholesale inflation above 10% for a fifth month in July. As expected, the central bank on 27 July increased interest rates for the fourth time this year. The reverse repurchase rate (the rate at which the central bank drains liquidity from the system) was raised 50 basis points to 4.5% and the repurchase rate (the rate at which it injects liquidity into the banking system) was lifted to 5.75% from 5.5%. Given that consumer price inflation for industrial and farm workers in India is still running close to 14%, further tightening can be expected in September.

Our forecast for GDP growth this year and next stands at 7.8% and 7.7% respectively, unchanged from last month.

Brazilian expansion begins to decelerate but economy remains robust

Industrial production declined in June, and inflation decelerated signaling the strong expansion in **Brazil** may be losing momentum and growth may be moderating towards its long-term trend. This was confirmed by second quarter growth which is estimated to have fallen to 1.32% q-o-q from 2.45% (9% y-o-y). During the first three months of the year, the economy had expanded at the fastest rate since 1995, led by domestic demand and a record rate of investment. The Finance Minster predicts Brazil's economy may be regaining speed in the third quarter after the slowdown in the second, possibly achieving 5-6% y-o-y growth. A central bank survey of Brazilian economists published 2 August expects GDP to grow by 7.2% this year. The forecast for year-end inflation was lowered to 5.27% from 5.55% four weeks earlier.

However, retail sales slowed less than analysts forecast in June, rising 1% m-o-m (11.3% y-o-y) from 1.5% in May. Industrial output fell 1% in June m-o-m as policy makers withdrew stimulus measures following the very strong GDP in 1Q10. This was the third monthly drop. The decline in the second quarter may also be partly due to reduced economic activity during the World Cup in June.

Inflation also decelerated following some monetary tightening. Inflation eased to the lowest two-month rate since 2006 in June and July 2010 as measured by the benchmark IPCA index, which rose 0.01% in July after remaining unchanged in June. The annual inflation rate slid to a six-month low of 4.6%, coming close to the central bank's target of 4.5%. However, the Finance Ministry predicts inflation for the whole year may be around 5.2% in 2010. Policy makers believe that slowing growth in the US and China, Brazil's biggest trading partners, may be contributing to disinflation.

In its July 20-21 meeting, the central bank raised the overnight Selic interest rates by a less-than-forecast 50 basis points to 10.75% percent, possibly signaling that its monetary tightening cycle is coming to an end for this year. The central bank has boosted the rate 200 basis points so far this year.

Our forecast for GDP growth in Brazil this year stands at 5.9%, 0.1% above last month while the forecast for 2010 remains unchanged at 4%.

OPEC Member Countries

Nigeria to construct $3.5 bn electricity grid

Nigeria's President approved the construction of a $3.5 bn electricity grid aimed at addressing power-transmission issues in the country. The 700-kilovolt "super grid" is planned to be completed within four years. Electricity-generation capacity is expected to rise to over 14,000 megawatts by December 2013 from 3,000 MW currently. The national electricity grid is to be jointly financed with the private sector and development agencies.

2010-2014 Saudi development plan aims at halving unemployment

Saudi Arabia's 2010-2014 development plan, approved by the cabinet on 9 August, aims at nearly halving the unemployment rate to 5.5% by 2014, from 9.6% at the end of 2009. The 1.44 trillion riyal ($385 bn) plan is 67% larger than the Kingdom's previous development plan according to the Economy and Planning Ministry. To achieve a higher degree of economic diversification, the plan recognises the need to invest heavily in education. About half the spending is to be dedicated to manpower, education and training, while 19% is penciled for the health care sector and 7% for housing. One million housing units are planned to be constructed.

Oil prices, US dollar and inflation

The US dollar weakened against all major currencies

In July the strength of the US dollar came to a halt and it declined against all major currencies. On an average monthly base, the dollar lost 4.5% against the euro, 3.5% versus the yen, 3.4% against the pound sterling and 6.5% compared to the Swiss franc. Versus the euro, the US dollar stabilised above $1.30/€ since the beginning of August, and reached almost $1.33/€, the highest level since May.

The support of the Euro came from the relative solid and unexpected growth in the Euro-zone. Furthermore, the containment of the sovereign debt crisis and the banking system's stress test that was released on 23 July have reestablished confidence in the currency. At this stress test it turned out that of the 91 banks that had been analysed, which represent 65% of the European banking system, only seven banks — five from Spain and one each from Greece and Germany — have failed the test. On the other hand, weak US macroeconomic indicators were responsible for an accelerated decline of the US dollar. The uncertainties of the US labor market and the housing sector were particularly worrying investors in US dollar denominated assets.

The OPEC Reference Basket price fell by 0.6% in July

In July, the **OPEC Reference Basket** declined by 44¢/b or 0.6% to average $72.51/b. In real terms (base June 2001=100), after accounting for inflation and currency fluctuations, the Basket price declined by $1.76/b or 3.6% to $47.49/b. The dollar fell by 3.0% as measured against the import-weighted modified Geneva I+US dollar basket, while inflation remained unchanged.†

† *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 revised up by 0.1 mb/d to 1.05 mb/d, following the stabilisation of US consumption

World oil demand in 2010

The world economic condition in most OECD countries is showing signs of a slowdown. Economic stimulus plans are becoming difficult to maintain and growth is still some way from becoming self-sustaining. Although the OECD region is not expected to achieve any growth this year in oil demand due to a deep decline in European oil consumption, some reduction in the decline is noticeable. Recent June data indicated a cautiously improving picture for most OECD oil consumption compared to the first quarter of the year. North American oil demand seems to have not only stabilized for the year, but also achieved some growth. This growth is mainly due to an extremely low base in last year's oil demand in addition to the minor economic recovery.

Graph 13: Forecasted y-o-y growth in 2010 world oil demand

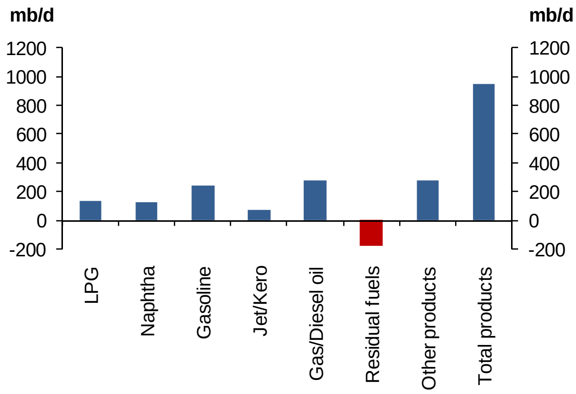


Table 5: World oil demand forecast for 2010, mb/d

	2009	1Q10	2Q10	3Q10	4Q10	2010	Change 2010/09 Volume	%
North America	23.29	23.59	23.47	23.64	23.79	23.62	0.33	1.41
Western Europe	14.52	14.09	13.84	14.17	14.31	14.11	-0.41	-2.83
OECD Pacific	7.66	8.23	7.35	7.18	7.94	7.67	0.02	0.24
Total OECD	**45.47**	**45.92**	**44.66**	**45.00**	**46.04**	**45.40**	**-0.06**	**-0.14**
Other Asia	9.83	9.95	10.14	9.98	10.15	10.05	0.23	2.30
Latin America	5.88	5.78	6.01	6.17	6.15	6.03	0.15	2.59
Middle East	7.09	7.18	7.25	7.52	7.26	7.30	0.22	3.07
Africa	3.25	3.30	3.30	3.20	3.33	3.28	0.04	1.17
Total DCs	**26.04**	**26.21**	**26.71**	**26.87**	**26.89**	**26.67**	**0.63**	**2.43**
FSU	3.97	3.95	3.74	4.17	4.22	4.02	0.05	1.17
Other Europe	0.73	0.70	0.67	0.69	0.75	0.70	-0.02	-2.92
China	8.25	8.23	8.77	9.08	8.73	8.70	0.45	5.46
Total "Other Regions"	**12.95**	**12.88**	**13.19**	**13.94**	**13.69**	**13.43**	**0.48**	**3.68**
Total world	**84.46**	**85.01**	**84.56**	**85.81**	**86.62**	**85.50**	**1.05**	**1.24**
Previous estimate	84.41	84.76	84.40	85.73	86.52	85.36	0.95	1.12
Revision	0.04	0.24	0.16	0.08	0.10	0.14	0.10	0.12

Totals may not add due to independent rounding

Moreover, oil consumption in OECD Europe showed some improvement during the second quarter; although June was down from the previous month. Given the recent strength in US oil demand, OECD oil demand in the second quarter managed to move to growth mode for the first time since 2007.

As expected, all the growth this year in oil demand is coming from the non-OECD region, exceeding 1.0 mb/d y-o-y.

World oil demand in the second quarter grew by 1.3 mb/d, leading to stronger growth exceeding 1.0 mb/d in each of the following two quarters of the year.

Given the stabilized oil demand in the US, world oil demand growth forecast is revised up by 0.1 mb/d to show growth of 1.05 mb/d or 1.2%.

Table 6: First and second quarter world oil demand comparison for 2010, mb/d

			Change 2010/09				Change 2010/09	
	1Q09	1Q10	Volume	%	2Q09	2Q10	Volume	%
North America	23.52	23.59	0.07	0.29	22.92	23.47	0.55	2.40
Western Europe	14.89	14.09	-0.79	-5.33	14.26	13.84	-0.42	-2.96
OECD Pacific	8.12	8.23	0.11	1.35	7.27	7.35	0.08	1.11
Total OECD	**46.53**	**45.92**	**-0.61**	**-1.32**	**44.46**	**44.66**	**0.21**	**0.47**
Other Asia	9.73	9.95	0.22	2.26	9.89	10.14	0.25	2.55
Latin America	5.63	5.78	0.15	2.72	5.83	6.01	0.18	3.14
Middle East	6.95	7.18	0.23	3.27	7.07	7.25	0.18	2.56
Africa	3.27	3.30	0.03	0.95	3.25	3.30	0.06	1.82
Total DCs	**25.58**	**26.21**	**0.63**	**2.47**	**26.03**	**26.71**	**0.67**	**2.59**
FSU	3.87	3.95	0.08	2.03	3.70	3.74	0.04	1.05
Other Europe	0.74	0.70	-0.03	-4.73	0.69	0.67	-0.02	-2.89
China	7.61	8.23	0.62	8.19	8.38	8.77	0.39	4.63
Total "Other Regions"	**12.22**	**12.88**	**0.67**	**5.46**	**12.78**	**13.19**	**0.41**	**3.19**
Total world	**84.32**	**85.01**	**0.68**	**0.81**	**83.27**	**84.56**	**1.29**	**1.55**

Totals may not add due to independent rounding

Table 7: Third and fourth quarter world oil demand comparison for 2010, mb/d

			Change 2010/09				Change 2010/09	
	3Q09	3Q10	Volume	%	4Q09	4Q10	Volume	%
North America	23.25	23.64	0.39	1.69	23.49	23.79	0.30	1.28
Western Europe	14.46	14.17	-0.29	-2.00	14.46	14.31	-0.15	-1.00
OECD Pacific	7.25	7.18	-0.07	-0.97	7.99	7.94	-0.04	-0.55
Total OECD	**44.96**	**45.00**	**0.03**	**0.08**	**45.93**	**46.04**	**0.11**	**0.24**
Other Asia	9.76	9.98	0.22	2.21	9.93	10.15	0.22	2.20
Latin America	6.03	6.17	0.14	2.32	6.02	6.15	0.13	2.19
Middle East	7.29	7.52	0.23	3.12	7.03	7.26	0.23	3.33
Africa	3.16	3.20	0.04	1.14	3.31	3.33	0.03	0.79
Total DCs	**26.25**	**26.87**	**0.62**	**2.36**	**26.28**	**26.89**	**0.61**	**2.32**
FSU	4.14	4.17	0.03	0.75	4.18	4.22	0.04	0.91
Other Europe	0.71	0.69	-0.02	-2.80	0.76	0.75	-0.01	-1.32
China	8.66	9.08	0.42	4.89	8.36	8.73	0.37	4.46
Total "Other Regions"	**13.51**	**13.94**	**0.43**	**3.21**	**13.29**	**13.69**	**0.40**	**3.01**
Total world	**84.72**	**85.81**	**1.09**	**1.28**	**85.50**	**86.62**	**1.12**	**1.31**

Totals may not add due to independent rounding

Alternative Fuel:

Recently published studies by the UK Greenpeace group demonstrate that the Asian palm oil industry is really leading to an extensive destruction of the rainforest within Indonesia. Biofuel production is the main reason behind the massive world-wide deforestation. The two main regions that attributed to the strong consumption of biofuel are the US and the EU. Other international environmental organizations have accused the biofuel industry of damaging the environment and contributing to global warming.

The US Environmental Protection Agency (EPA) announced last month that biodiesel made from canola oil would release 50% less greenhouse gases than petroleum diesel fuel; however, it intentionally ignored the fact that producing biodiesel creates enormous environmental damage via massive deforestation and extensive consumption of water.

OECD - North America

North American oil demand to grow slightly by 0.3 mb/d

Recent, July US weekly data showed slight increase in the consumption of some industrial fuels, mainly distillates, and decreases in others, especially propane/propylene. This raised doubts about the recovery mode of the US economy and thus the country's oil consumption. Furthermore, the consumption of transportation fuels in July is still at very low levels, despite the summer season, due to lower driving mileage. These developments in industrial and transportation fuel consumption are not attributed purely to the economic recovery but also to a very low base in last year's consumption. This indicates challenges in the recovery of US oil consumption during the remainder of this year and the next, leading to additional caution in short-term projections. Given the above facts, US third and fourth quarter oil demand growth is estimated at 0.5 mb/d and 0.2 mb/d respectively.

Mexican and Canadian oil consumption stands at higher levels during the first six months of the year compared to 2009, resulting from improving economies. Most of the growth in oil demand is attributed to transportation and industrial fuels. Oil demand in both countries is forecast to show some minor growth as opposed to last year's decline.

For the whole of 2010, North American oil demand is expected to grow slightly by 0.3 mb/d y-o-y to average 23.6 mb/d, with most increases taking place during the second half of the year.

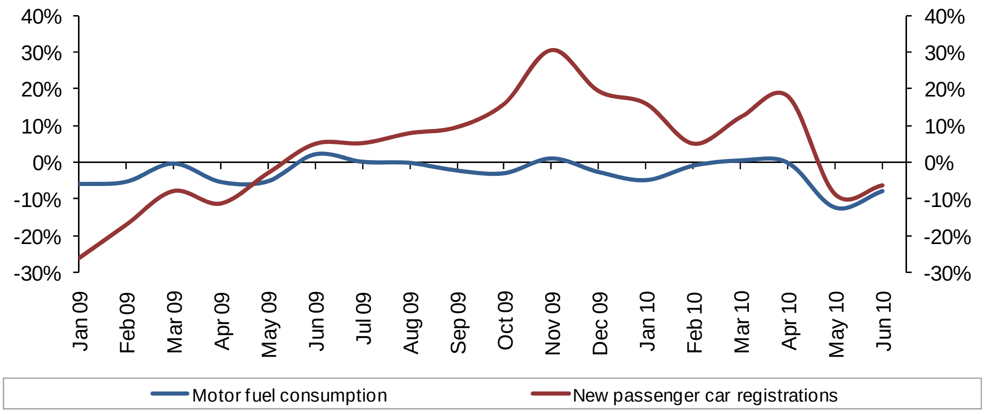
OECD - Europe

Given the rebound in German oil demand, OECD Europe has been revised up higher but still showing a contraction of 0.4 mb/d in 2010

Industrial and service sectors in Germany showed a strong performance in July which in turn led to stabilized oil demand in the country. Early June data suggested that the country's oil demand grew by 6% y-o-y. Apart from heating oil, almost all the increase was attributed to industrial fuel demand. Nevertheless, oil demand year-to-date is still in the negative as a result of a massive decline in the country's oil consumption early in the year.

Healthy service sector performance in France in the same month was seen as a sign of a recovering economy as well. However, this was not strong enough to settle the country's decline in oil demand. France June data showed a 3.6% contraction in the country's total inland delivery of petroleum products. Similarly, Italian oil demand turned negative in June, dropping 2.6% y-o-y. The slowing economy not only affected the country's industrial fuel demand, but also the transportation fuel consumption.

Graph 14: European new passenger car registrations & motor fuel consumption, y-o-y % changes



The risk still exists that the EU economic stimulus plans are running out and that might lead to slower economic activity, which of course would affects the continent's oil demand in the third and fourth quarter.

Given the rebound in German oil consumption, OECD Europe oil demand is revised up by 70 tb/d but still shows a contraction of 0.4 mb/d in 2010.

Table 8: French oil demand, tb/d

	Jan-Jun 10	Jan-Jun 09	Change, tb/d	Change, %
Gasoline	187	202	-14	-7.0
Distillate	926	956	-30	-3.1
Diesel	*670*	*654*	*16*	*2.4*
Heating oil	*255*	*301*	*-46*	*-15.2*
Residual	37	54	-17	-30.8
Other products	501	555	-54	-9.6
Total products	**1,651**	**1,765**	**-114**	**-6.5**

Source: Argus Fundamentals

OECD - Pacific

OECD Pacific to experience minor growth in 2010

Shrinking Japanese oil demand led to more reduction in the country's oil refinery capacity. The country is dismantling another 0.4 mb/d of refining capacity, which will be followed by another 0.2 mb/d in the following two years.

Japan's June oil demand data indicated a massive y-o-y decline resulting from slowing economic activity. It is the lowest consumption since June 1988. Japan has been experiencing a decline in oil demand over the past years caused by the economic slowdown, alternative fuel usage, and efficiency improvements. The contraction in oil consumption reached 4.7% or 0.2 mb/d in June which left one third of the country's refining capacity idle. Slowing industrial production caused Japan's fuel oil usage to decline by more than one fifth.

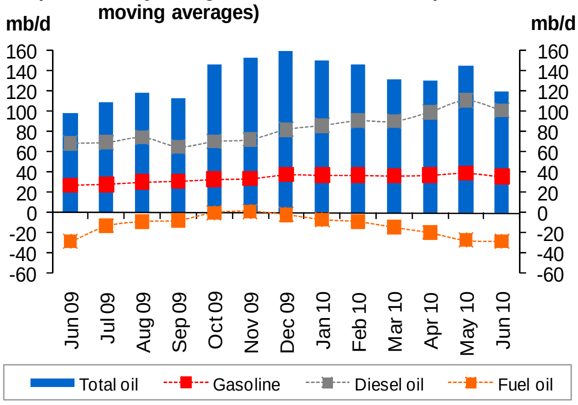
Following two months of positive performance, South Korea's oil demand dipped into the red by 2.6% in May, losing 55 tb/d from the country's total oil demand to average 2.06 mb/d. South Korea's oil demand has been showing a healthy performance since last year; however it has been going through some turbulence throughout the year. The country's total oil consumption is forecast to show some minor growth totaling 20 tb/d y-o-y.

OECD Pacific oil demand is forecast to show minor growth in 2010, averaging 7.7 mb/d.

Developing Countries

DC demand to grow by 0.63 mb/d in 2010

Graph 15: Yearly changes in Indian oil demand (12 month moving averages)

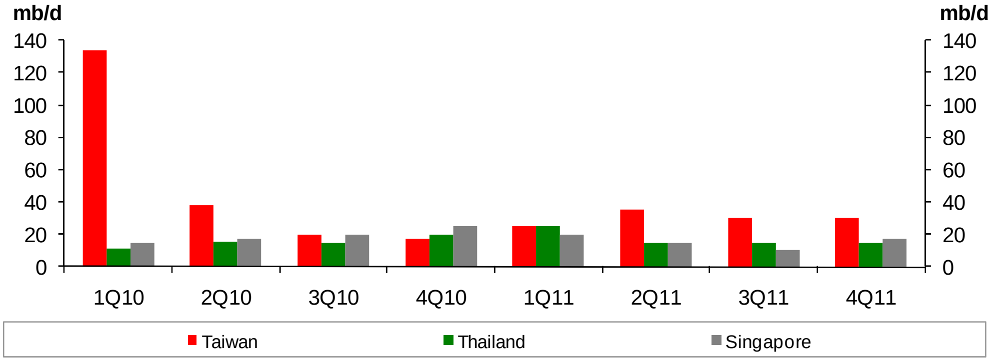


Indian June data indicated weaker overall y-o-y demand growth than April and May, of around 90 tb/d or 2.8%. Strong growth in the consumption of transport and industrial fuels during June — 13% and 7% respectively — have been partly offset by declines in fuel oil (2%) and naphtha (6%) consumption. June gasoline sales continued their 2010 monthly upward trend supported by country's growth in new car registration, which increased by 12.7% y-o-y. As a result of strong industrial production during June, diesel fuel consumption rose around 7% compared to the same month last year. Lower naphtha consumption is largely attributed to fuel switching in favour of LPG and natural gas. India's oil demand in the first quarter was much lower than normal; however, in April and May it was extremely strong. In anticipation of the announced transportation fuel subsidy removals, it remains a challenge to see whether the 2010 and 2011 forecasts of 3% growth will materialize. India's oil demand for the whole year is forecast to exceed last year's consumption by around 4%.

Oil demand growth in Other Asia forecast at 0.23 mb/d

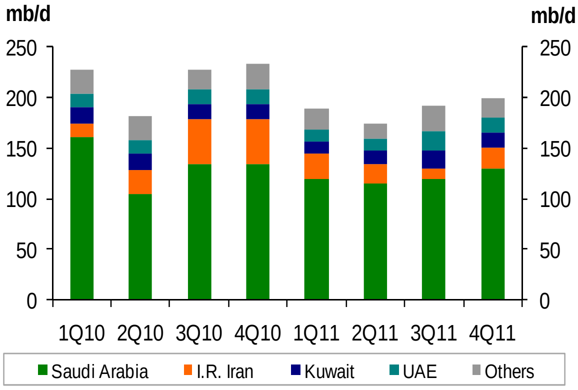
The latest data for May shows the first monthly y-o-y decline in Taiwan's oil demand during 2010, an indicator that the economic growth pace could probably slow down in the next six months. Most of the decline in consumption for that month was attributed to gasoline (12%) and diesel oil (14%). May's oil demand data was also rather weak for Thailand with a y-o-y growth of 1% almost solely attributed to LPG and with considerable reductions in transportation and industrial fuels. However, the picture looks more promising in Indonesia and Malaysia, where strong industrial May production pushed oil consumption to grow by 4% and 8% respectively. Oil demand growth in Other Asia for the total year is forecast at 0.23 mb/d or 2.3% y-o-y, averaging 10 mb/d.

Graph 16: Oil consumption in selected Asian countries, y-o-y growth



Saudi Arabian oil demand continued the downward trend started in the previous month, falling by 1% in June, in which diesel accounted for the bulk of this decrease. However, cumulative growth for the first six months reached 8% y-o-y, or 0.1 mb/d. Gasoline and fuel oil have been growing to a level of 8% and 6% respectively y-o-y. Iran's recent June data indicated a decrease of 1% after minor growth in the country's oil consumption in May. Most of June's decrease in oil consumption is attributed to fuel oil, LPG and jet/kerosene. The region is forecast to grow at 0.22 mb/d or 3.1% in 2010.

Graph 17: Yearly oil demand growth in the Middle East



In June, Brazilian oil demand grew sharply by 9%, adding another 160 tb/d to the country's oil demand. Gasoline and diesel oil demand inched up by 14% and 11% y-o-y respectively. Due to healthy growth in both Brazilian and Venezuelan oil consumption, Latin America's oil demand is expected to grow by 2.6%, averaging 6.0 mb/d.

Oil demand in the Developing Countries is forecast at 0.63 mb/d in 2010 to average 26.7 mb/d.

Graph 18: Yearly oil demand growth in Latin America

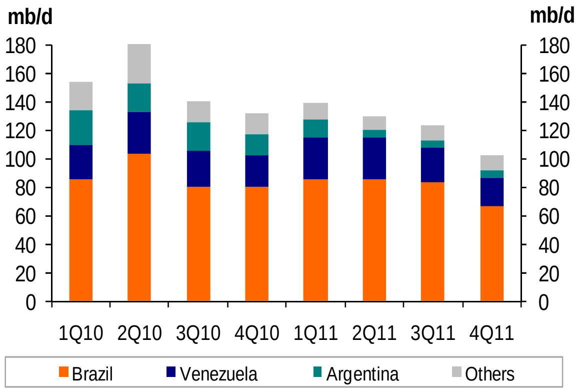


Table 10: Taiwan oil demand, tb/d

	Apr 10	Apr 09	Change from Apr 09	Change from Apr 09, %
LPG	82	61	21	33.8
Gasoline	170	151	18	12.2
Jet/Kerosene	48	45	3	5.7
Gas/Diesel oil	96	92	3	3.5
Fuel oil	161	149	12	8.1
Other products	504	497	6	1.3
Total	**1,059**	**996**	**63**	**6.4**

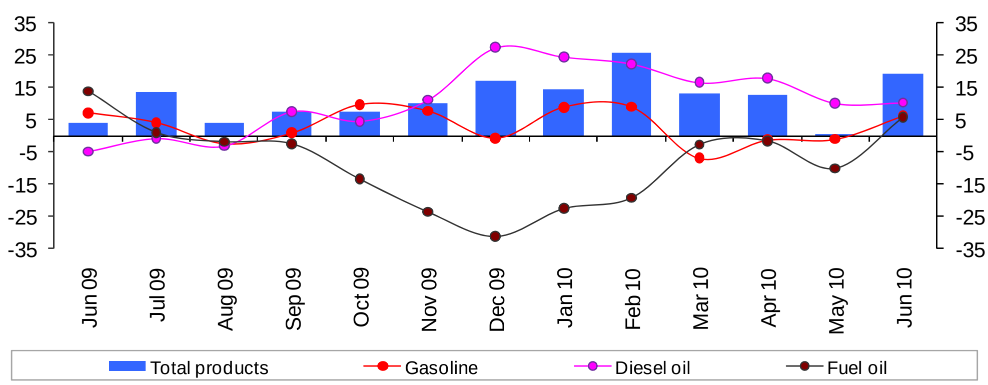
Source: JODI

Other regions

Given strong economic activity, China's oil demand growth forecast at 0.45 mb/d

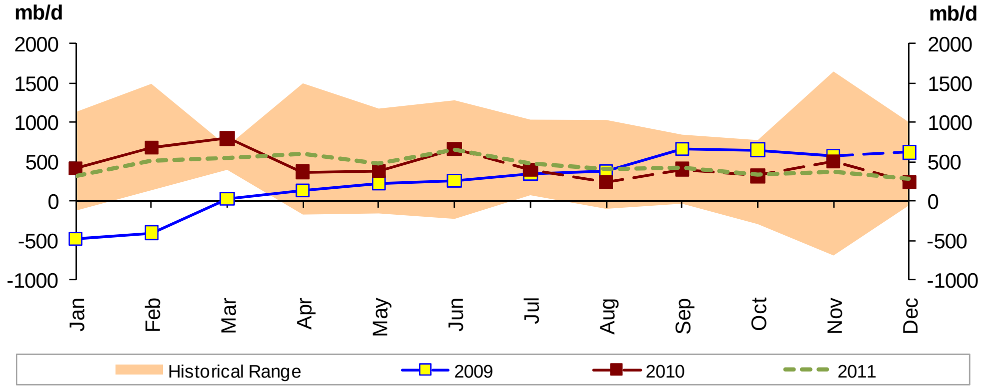
Among other economic factors that might affect China's oil demand is the appreciation of the country's currency. The yuan has appreciated by around 0.7% against the dollar since Beijing announced it had eased currency controls on 19 June. Nevertheless, the IMF still sees the currency needing more flexibility as it is undervalued in the market. The healthy growth in industrial production of 13.7% in June is strongly affect the country's total oil demand. Although 2% below May's growth, vehicle sales are still likely to grow around 20% to top 1.41 million units.

Graph 19: Changes in Chinese main oil products apparent consumption, y-o-y



China's over-heating economy has kept the country's oil demand on a sharp decline. China's oil demand growth has reached 7.8% and averaged more than 4% year-to-date. The countries oil demand is expected to maintain the same trend for the rest of the year. There are some concerns that might affect the country's oil consumption such as adjustments in the value of the currency and government efforts to cool down the economy.

Graph 20: Changes in Chinese apparent oil demand, y-o-y



Given the strong economic activity, China's oil demand growth is forecast at 0.45 mb/d in 2010 to average 8.7 mb/d.

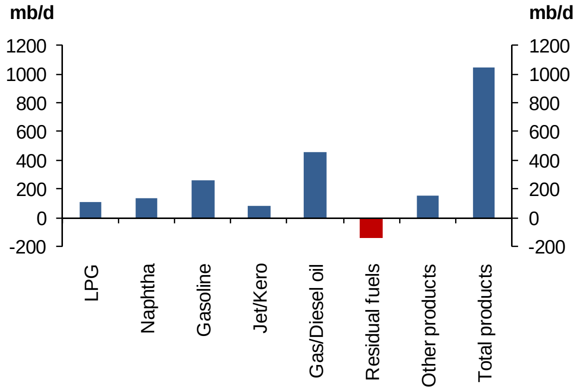
The improved economic situation in Russia is positively affecting the region's oil demand adding another 50 tb/d to consumption. However, the recent natural disaster might have a negative impact on Russia's overall oil usage.

World oil demand in 2011

World oil demand to grow 1.05 mb/d in 2011

Global economic recovery is projected to continue through the whole of 2011 with an even distribution between the first and second half of the year. The bulk of the recovery in oil demand will occur at approximately the same pace throughout the entire year. As in 2010, next year's oil demand growth is expected to take place in the non-OECD, mainly China, India, the Middle East and Latin America. With regard to oil products, the demand for industrial fuel will be strong due to the continuing economic recovery. In addition, healthy demand for transportation fuels and petrochemicals is also expected. US transport fuel demand is expected to return to its normal growth mode but will remain a wild card in 2011, since it could also be negatively influenced by factors such as the country's economic turbulence, state policies and retail petroleum product prices. It is anticipated that any further delay in the country's economic recovery will of course lead to a downward revision in total world oil demand. Other variables that might play an important role in next year's oil demand are retail product prices, taxes, and removal of retail price subsidies worldwide, which will lead to a moderate oil demand recovery. World oil demand is projected to continue to rise during the second half of 2010 and incur growth of 1.05 mb/d y-o-y, averaging 86.6 mb/d in 2011.

Graph 21: Forecasted y-o-y growth in 2011 world oil demand



Graph 22: World oil demand growth

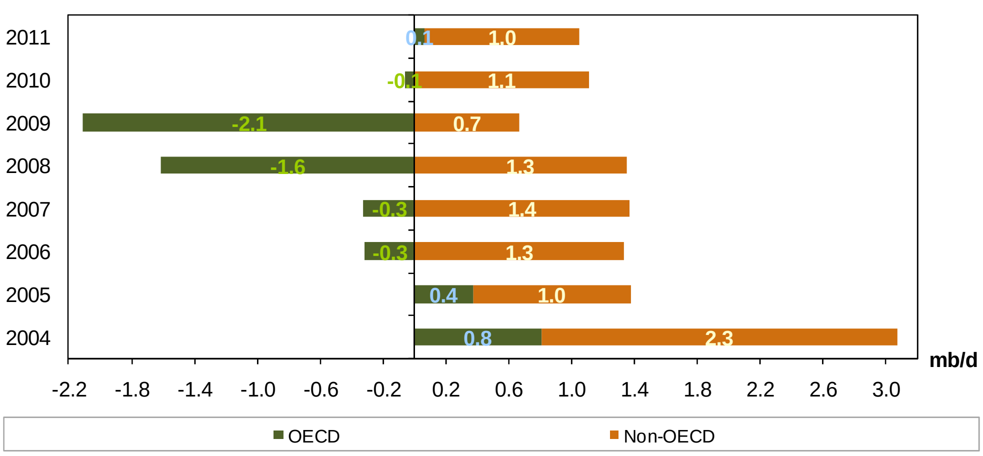


Table 10: World oil demand forecast for 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011	Change 2011/10 Volume	%
North America	23.62	23.89	23.64	23.82	24.01	23.84	0.21	0.91
Western Europe	14.11	14.00	13.72	14.05	14.23	14.00	-0.11	-0.75
OECD Pacific	7.67	8.14	7.31	7.16	7.92	7.63	-0.04	-0.57
Total OECD	**45.40**	**46.03**	**44.67**	**45.02**	**46.15**	**45.47**	**0.07**	**0.14**
Other Asia	10.05	10.13	10.34	10.16	10.34	10.25	0.19	1.91
Latin America	6.03	5.92	6.14	6.30	6.25	6.15	0.12	2.05
Middle East	7.30	7.40	7.42	7.71	7.46	7.50	0.20	2.67
Africa	3.28	3.34	3.34	3.23	3.37	3.32	0.04	1.11
Total DCs	**26.67**	**26.79**	**27.24**	**27.41**	**27.42**	**27.22**	**0.55**	**2.05**
FSU	4.02	4.02	3.77	4.20	4.26	4.06	0.04	1.06
Other Europe	0.70	0.69	0.64	0.67	0.71	0.68	-0.03	-4.06
China	8.70	8.65	9.17	9.52	9.17	9.13	0.43	4.90
Total "Other Regions"	**13.43**	**13.36**	**13.58**	**14.39**	**14.14**	**13.87**	**0.44**	**3.28**
Total world	**85.50**	**86.18**	**85.49**	**86.82**	**87.71**	**86.56**	**1.05**	**1.23**
Previous estimate	85.36	85.94	85.34	86.74	87.61	86.41	1.05	
Revision	0.14	0.24	0.16	0.08	0.10	0.14	0.00	

Totals may not add due to independent rounding

Table 11: First and second quarter world oil demand comparison for 2011, mb/d

	1Q10	1Q11	Change 2011/10 Volume	%	2Q10	2Q11	Change 2011/10 Volume	%
North America	23.59	23.89	0.30	1.27	23.47	23.64	0.17	0.71
Western Europe	14.09	14.00	-0.09	-0.65	13.84	13.72	-0.12	-0.88
OECD Pacific	8.23	8.14	-0.09	-1.12	7.35	7.31	-0.04	-0.57
Total OECD	**45.92**	**46.03**	**0.12**	**0.25**	**44.66**	**44.67**	**0.00**	**0.01**
Other Asia	9.95	10.13	0.19	1.90	10.14	10.34	0.20	1.94
Latin America	5.78	5.92	0.14	2.40	6.01	6.14	0.13	2.16
Middle East	7.18	7.40	0.22	2.99	7.25	7.42	0.17	2.40
Africa	3.30	3.34	0.04	1.22	3.30	3.34	0.03	1.03
Total DCs	**26.21**	**26.79**	**0.58**	**2.22**	**26.71**	**27.24**	**0.53**	**2.00**
FSU	3.95	4.02	0.08	1.90	3.74	3.77	0.03	0.80
Other Europe	0.70	0.69	-0.02	-2.13	0.67	0.64	-0.04	-5.21
China	8.23	8.65	0.42	5.09	8.77	9.17	0.40	4.57
Total "Other Regions"	**12.88**	**13.36**	**0.48**	**3.72**	**13.19**	**13.58**	**0.40**	**3.00**
Total world	**85.01**	**86.18**	**1.18**	**1.39**	**84.56**	**85.49**	**0.94**	**1.11**

Totals may not add due to independent rounding

Table 12: Third and fourth quarter world oil demand comparison for 2011, mb/d

			Change 2011/10				Change 2011/10	
	3Q10	3Q11	Volume	%	4Q10	4Q11	Volume	%
North America	23.64	23.82	0.17	0.74	23.79	24.01	0.22	0.92
Western Europe	14.17	14.05	-0.13	-0.90	14.31	14.23	-0.08	-0.58
OECD Pacific	7.18	7.16	-0.02	-0.29	7.94	7.92	-0.02	-0.28
Total OECD	**45.00**	**45.02**	**0.03**	**0.06**	**46.04**	**46.15**	**0.12**	**0.25**
Other Asia	9.98	10.16	0.19	1.87	10.15	10.34	0.19	1.91
Latin America	6.17	6.30	0.12	1.99	6.15	6.25	0.10	1.66
Middle East	7.52	7.71	0.19	2.55	7.26	7.46	0.20	2.75
Africa	3.20	3.23	0.04	1.13	3.33	3.37	0.04	1.05
Total DCs	**26.87**	**27.41**	**0.54**	**2.00**	**26.89**	**27.42**	**0.53**	**1.97**
FSU	4.17	4.20	0.03	0.60	4.22	4.26	0.04	0.98
Other Europe	0.69	0.67	-0.03	-3.60	0.75	0.71	-0.04	-5.22
China	9.08	9.52	0.44	4.88	8.73	9.17	0.44	5.06
Total "Other Regions"	**13.94**	**14.39**	**0.44**	**3.18**	**13.69**	**14.14**	**0.44**	**3.24**
Total world	**85.81**	**86.82**	**1.01**	**1.17**	**86.62**	**87.71**	**1.09**	**1.26**

Totals may not add due to independent rounding

World Oil Supply

Non-OPEC

Forecast for 2010

Non-OPEC supply expected to increase by 0.79 mb/d in 2010

Non-OPEC oil supply in 2010 is forecast to grow by 0.79 mb/d over the previous year to average 51.92 mb/d. The projected increase represents an upward revision of 60 tb/d compared to the previous month. There were a few upward and downward revisions introduced this month to supply estimates, more in the second half of 2010 than in the first, mainly on updated production data and changes in project startups and ramp-ups, in addition to a few historical revisions. On a quarterly basis, non-OPEC supply is expected to stand at 52.18 mb/d, 52.06 mb/d, 51.56 mb/d and 51.91 mb/d respectively.

Graph 23: Regional non-OPEC supply growth, y-o-y

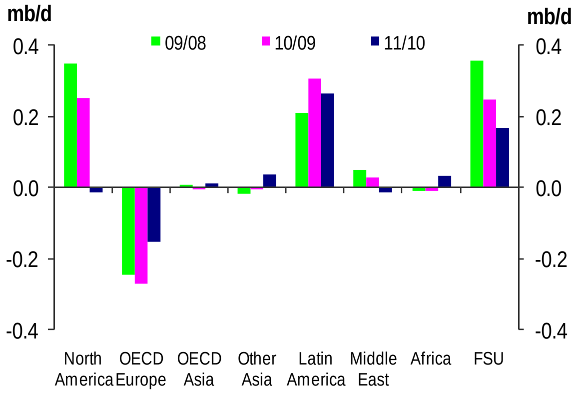


Table 13: Non-OPEC oil supply in 2010, mb/d

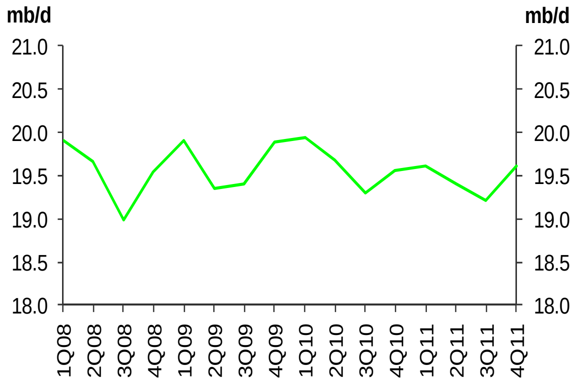
	2009	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09
North America	14.29	14.64	14.70	14.40	14.42	14.54	0.25
Western Europe	4.71	4.68	4.37	4.25	4.47	4.44	-0.27
OECD Pacific	0.64	0.61	0.61	0.64	0.67	0.63	0.00
Total OECD	**19.64**	**19.94**	**19.68**	**19.29**	**19.56**	**19.61**	**-0.02**
Other Asia	3.70	3.73	3.70	3.68	3.68	3.70	-0.01
Latin America	4.40	4.64	4.71	4.71	4.77	4.71	0.30
Middle East	1.73	1.77	1.78	1.74	1.73	1.75	0.03
Africa	2.72	2.74	2.72	2.69	2.69	2.71	-0.01
Total DCs	**12.55**	**12.88**	**12.91**	**12.83**	**12.87**	**12.87**	**0.32**
FSU	12.96	13.12	13.16	13.22	13.32	13.20	0.25
Other Europe	0.14	0.14	0.14	0.13	0.13	0.14	0.00
China	3.85	4.02	4.09	4.00	3.96	4.02	0.17
Total "Other regions"	**16.94**	**17.28**	**17.40**	**17.35**	**17.41**	**17.36**	**0.42**
Total Non-OPEC production	**49.13**	**50.10**	**49.99**	**49.48**	**49.83**	**49.85**	**0.71**
Processing gains	2.00	2.08	2.08	2.08	2.08	2.08	0.08
Total Non-OPEC supply	**51.13**	**52.18**	**52.06**	**51.56**	**51.91**	**51.92**	**0.79**
Previous estimate	51.12	52.17	52.03	51.46	51.80	51.86	0.74
Revision	0.01	0.00	0.04	0.10	0.11	0.06	0.05

OECD

OECD supply to average 19.61 mb/d in 2010 for a minor decline of 20 tb/d

Total oil supply from OECD is expected to remain relatively steady with a minor decline of 20 tb/d from the previous year to average 19.61 mb/d in 2010, broadly unchanged from the previous month. The forecast for US and Norway supply encountered upward revisions while supply projections for the UK, Mexico, and Australia were adjusted downwards. On a quarterly basis, OECD oil supply is expected to average 19.94 mb/d, 19.68 mb/d, 19.29 mb/d and 19.56 mb/d respectively.

Graph 24: OECD's quarterly production



North America

Oil production from **North America** is expected to average 14.54 mb/d in 2010, an increase of 0.25 mb/d over the previous year. The supply forecast indicates an upward revision of around 60 tb/d compared to the previous month. The upward revision came from the US, while the Mexico supply estimate encountered a downward revision. North America supply forecast remains broadly unchanged with the US leading growth, in addition to a minor increase from Canada, while Mexico is seen to decline. On a quarterly basis, North America oil supply in 2010 is estimated to stand at 14.64 mb/d, 14.70 mb/d, 14.40 mb/d, and 14.42 mb/d respectively.

US

Droshky project started up in July

While the effect of the deepwater moratorium remains a major uncertainty factor for US oil supply in both the short- and medium-term, the healthy level of production, based on preliminary data in the second quarter and July, necessitated an upward revision to the forecast. US oil production is foreseen to average 8.37 mb/d in 2010, representing growth of 0.30 mb/d over the previous year and an upward revision of 80 tb/d from a month earlier. The upward revision was introduced despite the production disruption caused by Tropical Storm Bonnie, as preliminary data showed higher than expected production. Furthermore, the US government has reduced the severity of the current Atlantic hurricane season, although it is still seen to be active, which further supports the forecast. Additionally, the startup of the Droshky project, which came online in mid-July, where wells were drilled before the moratorium, further supported the production profile. The startup of one of the world's largest ethanol plants in Cedar Rapids added support to the upward revision. However, the risk remains on the high side given the forecast for an active hurricane season as well as the impact of the deepwater moratorium. On a quarterly basis, US oil supply is expected to average 8.44 mb/d, 8.46 mb/d, 8.27 mb/d and 8.30 mb/d respectively. According to the preliminary data, US oil supply stood at 8.46 mb/d in July.

Canada and Mexico

Canada supply to average 3.26 mb/d in 2010

Canada oil supply forecast encountered a few revisions on a quarterly basis that canceled each other out on the annual level. Oil production from Canada is seen to average 3.26 mb/d in 2010, representing limited growth of 20 tb/d over the previous year. The supply forecast expects a minor decline in the second quarter and relatively steady production in the third, followed by an increase in the fourth. Growth is supported mainly by oil sand developments while conventional oil production is expected to decline. The unscheduled maintenance at the Lloydminster upgrader is seen to cut production and limit growth. Additionally, the shutdown of one of the four pads at the Jackfish after the blowout is seen to slightly affect the supply forecast. Finally, the leak that was discovered at the Horizon project moved forward summer maintenance and added to the factors limiting anticipated growth in 2010. On a quarterly basis, Canada's supply is predicted to average 3.21 mb/d, 3.27 mb/d, 3.24 mb/d and 3.30 mb/d respectively.

Mexico supply to average 2.92 mb/d in 2010 for a decline of 60 tb/d

Mexico oil supply is expected to average 2.92 mb/d in 2010, a decline of 60 tb/d over the previous year and a downward revision of 20 tb/d compared to a month earlier. The downward revision came as data showed that June supply fell by around 2% compared to the previous month, this decline came after supply maintained a steady level since the beginning of the year. Additionally, the announcement that Ku-Maloob-Zaap (KMZ) production peaked at 0.85 mb/d further supported the minor downward revision, especially with reports suggesting diminishing returns from the enhanced oil recovery at Cantarell. On a quarterly basis, Mexico's oil supply is expected to average 2.99 mb/d, 2.97 mb/d, 2.88 mb/d and 2.82 mb/d respectively.

Western Europe

Total **OECD Western Europe** oil supply is forecast to drop 0.27 mb/d from 2009 to average 4.44 mb/d in 2010, flat from the previous month's assessment. Despite the steady state, there were a few upward and downward revisions among OECD Western Europe countries that offset each other. On a quarterly basis, supply is expected to stand at 4.68 mb/d, 4.37 mb/d, 4.25 mb/d and 4.47 mb/d respectively

Gullfaks C resumes production

The return of production of the Gullfaks C field after a shutdown of around two months due to high pressure, required an upward revision to the supply forecast. **Norway** oil production is foreseen to decline by 0.15 mb/d over 2009 to average 2.20 mb/d in 2010, representing a minor upward revision of 10 tb/d compared to the previous month. The upward revision came despite reports showing that June supplies marked the lowest production level in 20 years. The heavy maintenance at the Ekofisk area, in addition to the shutdown of the Gullfaks C strongly affected production. Hence, a downward revision was introduced to the second quarter supply to adjust for actual production data. However, the earlier-than-expected startup of the Morvin field required an upward revision in the second half of the year, which more than offset the downward revision in the second quarter. On a quarterly basis, Norway's supply is expected to average 2.31 mb/d, 2.10 mb/d, 2.11 mb/d and 2.27 mb/d respectively.

UK supply to drop 0.10 mb/d in 2010

The **UK** oil supply is seen to decrease by 0.10 mb/d over 2009 to average 1.38 mb/d in 2010, representing a minor downward revision of less than 10 tb/d compared to the previous month. The downward revision came in the second quarter to adjust for updated production data. The return of Buzzard field to normal production levels after a short production restriction did not have a major affect on the supply forecast. On a quarterly basis, UK oil supply is seen to stand at 1.51 mb/d, 1.38 mb/d, 1.28 mb/d and 1.34 mb/d respectively.

Asia Pacific

OECD Pacific oil supply is foreseen to average 0.63 mb/d in 2010, flat compared to 2009 and indicating a downward revision of 20 tb/d compared to last month. On a quarterly basis, total oil supply is estimated to average 0.61 mb/d, 0.61 mb/d, 0.64 mb/d, and 0.67 mb/d respectively.

Australia oil supply to remain flat in 2010

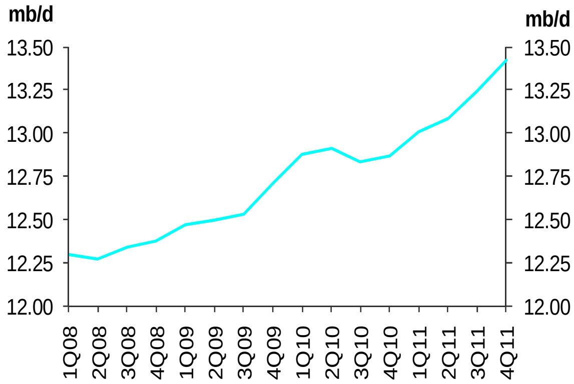
Various operational upsets have affected overall Australian production in the second quarter, where preliminary production data indicated lower-than-expected supply. **Australian** oil production is projected to remain relatively flat in 2010 compared to 2009 with a minor decline of 10 tb/d to average 0.53 mb/d. On a quarterly basis, Australia oil supply is expected to stand at 0.51 mb/d, 0.51 mb/d, 0.54 mb/d and 0.57 mb/d respectively.

Developing Countries

DC supply to average 12.87 mb/d in 2010 for growth of 0.32 mb/d

Developing Countries (DCs) oil production is expected to average 12.87 mb/d in 2010, representing growth of 0.32 mb/d over 2009, indicating a minor upward revision of 10 tb/d compared to the previous month. Latin America and Middle East remain the only two regions with forecast growth, while Other Asia and Africa are now projected to experience minor declines. The minor upward revision introduced to DCs supply forecast came from Africa and the Middle East, while Other Asia experience a downward revision compared to previous month. Latin America remains the region with the highest anticipated growth in supply among all non-OPEC regions supported by both Brazil and Colombia. On a quarterly basis, total oil supply in DCs is seen to average 12.88 mb/d, 12.91 mb/d, 12.83 mb/d and 12.87 mb/d respectively.

Graph 25: Developing Countries' quarterly production



Other Asia supply to decline by 40 tb/d in 2010

The pipeline leak at the offshore East Belumut field in Malaysia restricted production for a certain period; hence, necessitating a revision to the country's supply forecast. Malaysia oil supply is forecast to average 0.69 mb/d in 2010, a decline of 40 tb/d from 2009 and a downward revision of less than 10 tb/d from last month. The downward adjustment was also supported by the unplanned outages at the Kikeh field. Oil supply from **Other Asia** is estimated to remain relatively flat in 2010 compared to a year earlier, with a minor decline of 10 tb/d, indicating a downward revision of 40 tb/d compared to the previous month. Historical revisions dating back to 2008 further added to the downward revision. According to preliminary data, Indonesia oil production encountered a decline in July with technical problems at several wells being cited as the main reason for the decline. However, it has been reported that the problems were mitigated and production should return to normal levels. On a quarterly basis, Other Asia oil supply is expected to stand at 3.73 mb/d, 3.70 mb/d, 3.68 mb/d and 3.68 mb/d respectively.

Latin America supply to grow by 0.30 mb/d in 2010, supported by growth in Brazil and Colombia

Latin American oil production is expected to increase by 0.30 mb/d over 2009 to average 4.71 mb/d in 2010, steady from a month earlier. Latin America remains the region with highest growth in 2010 among all non-OPEC regions, fueled by significant growth from Brazil and Colombia. Brazil oil supply is anticipated to increase by 0.21 mb/d over 2009 to average 2.72 mb/d in 2010. The Baleia Franca field commenced production in mid July as the first commercial subsalt supplier. The startup of the field is supporting the forecast growth. Additionally, it was reported that the Tupi field will receive the platform in October, which is in line with our expectation as the unit has sailed from the yard in Singapore. Moreover, production has started up from the Urugua development, further supporting expected growth. On the other hand, preliminary data indicates lower production in June from Brazil, mainly on the back of planned maintenance. Colombia oil supply is expected to average 0.79 mb/d in 2010, growth of 0.10 mb/d over 2009, flat from the previous month. On a quarterly basis, Latin America oil supply is expected to stand at 4.64 mb/d, 4.71 mb/d, 4.71 mb/d and 4.77 mb/d respectively.

Middle East supply to increase by 30 tb/d in 2010, supported by growth from Oman

Yemen oil production in the first half of 2010 indicated better performance, hence requiring an upward revision. Oil supply from Yemen is now forecast to average 0.28 mb/d in 2010, a decline of 20 tb/d over 2009 and a minor upward revision of 10 tb/d compared to last month. **Middle East** oil supply is projected to increase by 30 tb/d over 2009 to average 1.75 mb/d in 2010, representing a minor upward revision of 10 tb/d compared to the previous month. Despite the revision, the supply profile in the Middle East remains relatively unchanged with Oman the only country forecast to grow, while Yemen and Syria are seen to decline. The anticipated decline in Syria is projected despite the increase witnessed in the Khurbet East and

Yousefieh development. On a quarterly basis, Middle East supply is seen to average 1.77 mb/d, 1.78 mb/d, 1.74 mb/d and 1.73 mb/d respectively.

Africa supply to average 2.71 mb/d in 2010

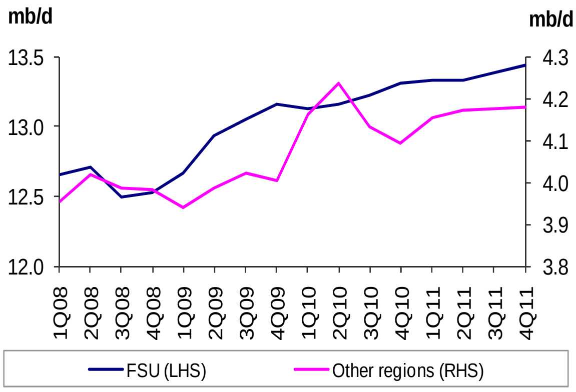
Egypt oil production experienced the highest upward revision in Africa mainly on the back of historical data updates. Additionally, further supply support is seen coming from the Gemsa developments with the Al-Amir well starting up production recently. However, despite the development in the western desert, Egypt oil supply is expected to remain flat in 2010 from 2009 and average 0.71 mb/d. **African** oil production is foreseen to remain relatively flat over 2009 to average 2.71 mb/d in 2010, a minor decline of 10 tb/d, which indicates an upward revision of 40 tb/d from the previous month, coming mainly from the historical revision to the Egypt supply forecast. On a quarterly basis, total oil supply from Africa is estimated to average 2.74 mb/d, 2.72 mb/d, 2.69 mb/d and 2.69 mb/d respectively.

FSU, Other Regions

FSU supply to increase by 0.25 mb/d in 2010

Total FSU oil supply is projected to increase by 0.25 mb/d over 2009 to average 13.20 mb/d in 2010, unchanged from the previous month. Despite the steady state, there were a few upward and downward revisions among the countries in the FSU which offset each other. Russia's supply forecast experienced an upward revision, while Azerbaijan and Other FSU supply projections were lowered. Preliminary estimated data puts the FSU oil supply at 13.16 mb/d in the second quarter, which indicates growth of 0.23 mb/d compared to the same quarter a year earlier. On a quarterly basis, total oil supply in the FSU is foreseen to average 13.12 mb/d, 13.16 mb/d, 13.22 mb/d and 13.32 mb/d respectively. Oil supply in China is estimated to increase by 0.17 mb/d to average 4.02 mb/d in 2010. Other Europe supply is expected to remain unchanged from 2009 to average 0.14 mb/d in 2010.

Graph 26: FSU and other region's quarterly production



Russia

Russia supply reached a new record high in July

Preliminary data indicated that **Russian** oil supply reached a new record high in July, supported by increased production not only from new fields but from existing ones. The continued strong performance required an upward revision to the supply forecast. Russian oil production is projected to increase by 0.14 mb/d to average 10.07 mb/d in 2010, indicating an upward revision of 20 tb/d compared to the previous month. The upward revision was introduced to the second half to adjust for anticipated better performance. Additionally, the expected startup of the Odoptu field in the Sakhalin 1 development by end of September further supports the anticipated growth. Compared to the previous year, Russian oil supply experienced an increase of 0.28 mb/d in the first half of 2010. On a quarterly basis, Russian oil supply is seen to average 10.09 mb/d, 10.12 mb/d, 10.05 mb/d and 10.01 mb/d respectively.

Caspian

Kazakhstan supply to increase by 70 tb/d in 2010 to average 1.60 mb/d

The government has reintroduced the export duty on crude oil in Kazakhstan after it was shelved in early 2009 when prices fell. It is difficult to assess the effect of the duty on oil production as there are many producers who are exempt from it. **Kazak** oil production is forecast to increase by 70 tb/d over 2009 to average 1.60 mb/d in 2010, unchanged from the previous month. The CPC pipeline exports are seen to increase in August from a month earlier on the back of the Tengiz field returning to production after maintenance. Quarterly supply figures are estimated at 1.61 mb/d, 1.56 mb/d, 1.59 mb/d and 1.65 mb/d respectively.

Azeri oil production to average 1.10 mb/d in 2010

Azeri oil production is anticipated to increase by 40 tb/d over a year ago to average 1.10 mb/d in 2010, representing a minor downward revision of less than 10 tb/d compared to the previous month. The downward revision was introduced to adjust for updated production data. The quarterly forecast level stands at 1.01 mb/d, 1.06 mb/d, 1.13 mb/d, and 1.19 mb/d respectively.

FSU Others oil supply is forecast to remain steady in 2010 over a year earlier and average 0.44 mb/d, representing a downward revision of 10 tb/d compared to the previous month. The revision came to adjust for updated production data. The downward revision came despite the higher output of Turkmenistan in the first half of the year. The improved output supported the shipment of Cheleken, Okarem and Diyarbekir grades through the BTC pipe line.

China

China supply to grow by 0.17 mb/d in 2010

Oil supply from **China** is anticipated to average 4.02 mb/d in 2010, growth of 0.17 mb/d over the previous year, indicating an upward revision 20 tb/d compared to evaluation month earlier. The upward revision came on the back of better-than-expected output in the second quarter. China oil production continues to be strong compared to a year earlier, supported by new and existing fields. During the first half of the year, supply from Changqing and Henan fields indicated healthy growth. Additionally, the startup of the small Bozhong 29-4 field further supports the anticipated growth. China oil production in the first half of year increased significantly by 0.23 mb/d. On a quarterly basis, China oil supply is estimated to stand at 4.02 mb/d, 4.09 mb/d, 4.00 mb/d and 3.96 mb/d respectively.

Forecast for 2011

Non-OPEC supply to increase by 0.35 mb/d in 2011

Non-OPEC oil supply in 2011 is projected to grow by 0.35 mb/d to average 52.27 mb/d. Although the growth remains broadly unchanged, total level saw an upward revision of almost 0.1 mb/d over the previous forecast. The revision was applied to average non-OPEC supply as the anticipated growth remained relatively unchanged. The upward revision came due to the revisions undertaken in the forecast for 2010 that were carried over to the 2011 supply estimation. On a quarterly basis, non-OPEC supply is expected to average 52.18 mb/d, 52.06 mb/d, 52.09 mb/d and 52.74 mb/d respectively.

Table 14: Non-OPEC oil supply in 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10
North America	14.54	14.47	14.48	14.50	14.66	14.53	-0.01
Western Europe	4.44	4.50	4.27	4.07	4.32	4.29	-0.15
OECD Pacific	0.63	0.64	0.65	0.65	0.64	0.64	0.01
Total OECD	**19.61**	**19.60**	**19.40**	**19.21**	**19.62**	**19.46**	**-0.15**
Other Asia	3.70	3.72	3.71	3.74	3.76	3.73	0.04
Latin America	4.71	4.86	4.91	5.01	5.11	4.97	0.26
Middle East	1.75	1.73	1.73	1.74	1.76	1.74	-0.01
Africa	2.71	2.70	2.73	2.75	2.80	2.74	0.03
Total DCs	**12.87**	**13.01**	**13.09**	**13.24**	**13.43**	**13.19**	**0.32**
FSU	13.20	13.33	13.33	13.38	13.44	13.37	0.17
Other Europe	0.14	0.14	0.14	0.14	0.14	0.14	0.00
China	4.02	4.02	4.04	4.04	4.04	4.03	0.01
Total "Other regions"	**17.36**	**17.48**	**17.50**	**17.56**	**17.62**	**17.54**	**0.18**
Total Non-OPEC production	**49.85**	**50.10**	**49.99**	**50.01**	**50.67**	**50.19**	**0.35**
Processing gains	2.08	2.08	2.08	2.08	2.08	2.08	0.00
Total Non-OPEC supply	**51.92**	**52.18**	**52.06**	**52.09**	**52.74**	**52.27**	**0.35**
Previous estimate	51.86	52.11	51.99	52.03	52.69	52.21	0.34
Revision	0.06	0.06	0.07	0.06	0.06	0.06	0.00

Revisions to the 2011 forecast

Oil supply forecast for the US, Norway, UK, Russia and China experienced some upward revisions in 2011, while downward revisions were encountered in the supply forecast of Canada, Australia, Malaysia, Trinidad & Tobago, Kazakhstan, and Azerbaijan. The majority of the revisions were due to changes to 2010 forecast, which carried over to the following year. The US oil supply forecast continues to show a decline of 20 tb/d in 2011 from the previous year, yet the introduced upward revision in 2010 was carried over and the level of anticipated production increased while the annual decline remained relatively unchanged.

OPEC natural gas liquids and non-conventional oils

OPEC NGLs and non-conventional oils in 2010 are expected to increase by 0.49 mb/d over the previous year to average 4.84 mb/d. In 2011, OPEC NGLs and nonconventional oils are forecast to grow by 0.53 mb/d to average 5.36 mb/d.

Table 15: OPEC NGLs + non-conventional oils, 2008-2011

			Change						Change		Change
	2008	**2009**	09/08	1Q10	2Q10	3Q10	4Q10	**2010**	10/09	**2011**	11/10
Total OPEC	**4.14**	**4.35**	0.21	4.60	4.79	4.87	5.08	**4.84**	0.49	**5.36**	0.53

OPEC crude oil production

OPEC crude oil production increased 0.12 mb/d in July

Total OPEC crude oil production averaged 29.20 mb/d in July, according to secondary sources, up 0.12 mb/d from the previous month. Crude oil output experienced a considerable increase from Nigeria and Saudi Arabia, while production fell in Angola. According to secondary sources, OPEC crude production, not including Iraq, stood at 26.86 mb/d in July, an increase of 0.14 mb/d over the previous month.

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

	2009	**3Q09**	**4Q09**	**1Q10**	**2Q10**	**May 10**	**Jun 10**	**Jul 10**	***Jul/Jun***
Algeria	1,270	1,275	1,270	1,271	1,273	1,274	1,269	1,264	*-5.2*
Angola	1,786	1,828	1,873	1,912	1,852	1,858	1,809	1,767	*-41.8*
Ecuador	477	472	474	474	470	470	463	461	*-2.2*
Iran, I.R.	3,725	3,749	3,728	3,742	3,724	3,723	3,710	3,691	*-19.0*
Iraq	2,422	2,499	2,459	2,463	2,357	2,404	2,356	2,336	*-20.7*
Kuwait	2,263	2,254	2,275	2,288	2,307	2,311	2,318	2,327	*8.6*
Libya, S.P.A.J.	1,557	1,557	1,540	1,543	1,564	1,563	1,571	1,581	*10.2*
Nigeria	1,812	1,739	1,942	1,987	1,980	1,951	2,009	2,076	*67.6*
Qatar	776	780	792	805	805	808	801	809	*8.2*
Saudi Arabia	8,055	8,123	8,122	8,127	8,157	8,171	8,184	8,238	*53.8*
UAE	2,256	2,253	2,258	2,280	2,317	2,331	2,302	2,343	*41.3*
Venezuela	2,309	2,320	2,284	2,291	2,294	2,311	2,284	2,305	*21.1*
Total OPEC	**28,707**	**28,849**	**29,015**	**29,182**	**29,100**	**29,176**	**29,075**	**29,197**	***121.8***
OPEC excl. Iraq	**26,285**	**26,350**	**26,557**	**26,720**	**26,742**	**26,772**	**26,719**	**26,861**	***142.6***

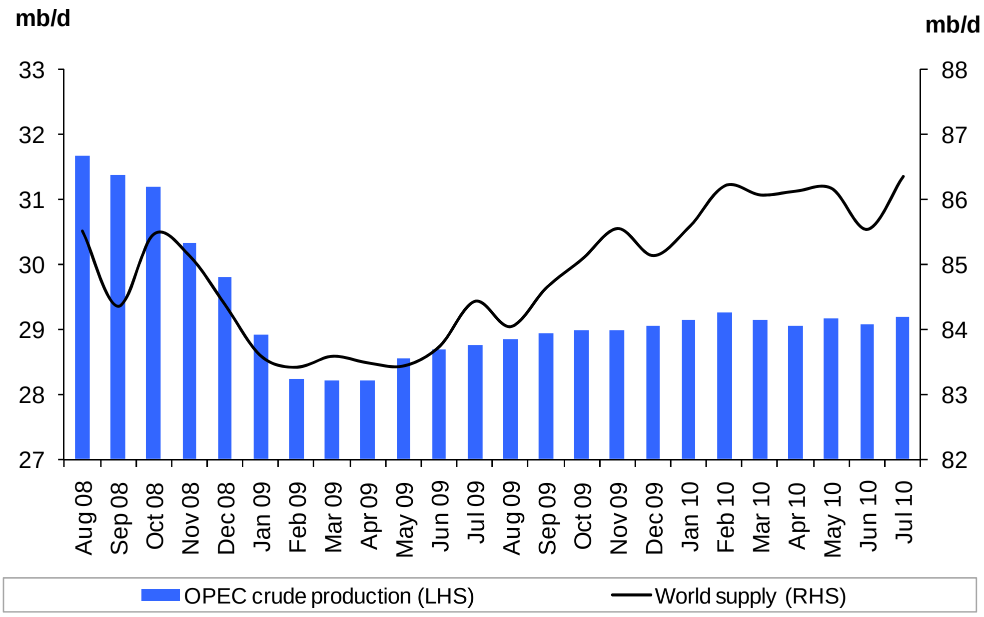
Totals may not add due to independent rounding

World Oil Supply

World supply rose 0.8 mb/d in July

Preliminary figures indicate that global oil supply increased 0.81 mb/d in July to average 86.36 mb/d. Non-OPEC supply experienced growth of 0.69 mb/d while OPEC crude production increased by 0.12 mb/d. The share of OPEC crude oil in global production remained steady at 34% in July. The estimate is based on preliminary data for non-OPEC supply, estimates for OPEC NGLs and OPEC crude production from secondary sources.

Graph 27: OPEC and world oil supply

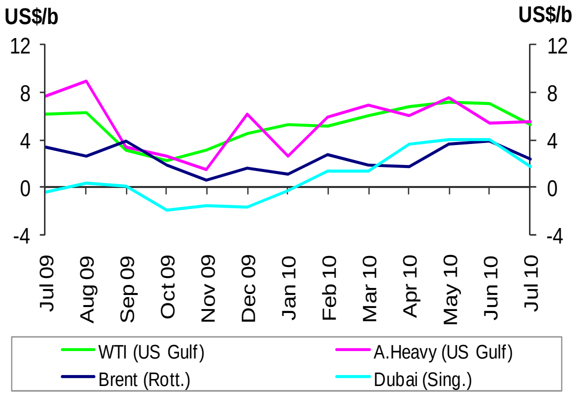


Product Markets and Refinery Operations

Refinery performance affected by higher runs in the US

The driving season in the US produced the highest gasoline demand in July since the summer of 2007. This encouraged refiners to increase utilization rates to 90.7%, the highest level in the last two years. However, a saturated global market and limited arbitrage opportunities resulted in an increase in gasoline and middle distillate stocks.

Graph 28: Refining margins



Uncertainties in the pace of economic growth, product stock builds and high global spare refinery capacity combined to create a bearish perception in the product markets. Fuel oil was the only exception, providing some support to margins due to driving demand in Asia as well as bunkering and power generation, and thus avoiding a deeper drop in margins.

The persisting situation in the product markets could change with an improvement in economic indicators and potential for hurricane disruptions. Run cuts by refiners seeking to balance the market could provide a further supportive factor.

As **Graph 28** shows, refining margins for WTI crude oil at the US Gulf Coast lost ground gained earlier this year, dropping to $5.25/b in July from $7.10/b in the previous month. In Europe, the refining industry reduced crude runs in an effort to protect margins; however, the margins for Brent crude in Rotterdam fell to $2.37/b from $3.83/b in the previous month.

In Asia, naphtha sentiment was bearish due to an oversupplied market and weak demand This exerted pressure on refining margins which could not be compensated by the healthy fuel oil market. Refining margins for Dubai crude oil in Singapore fell by $2.24/b to reach $1.73/b in July from $3.97/b in June.

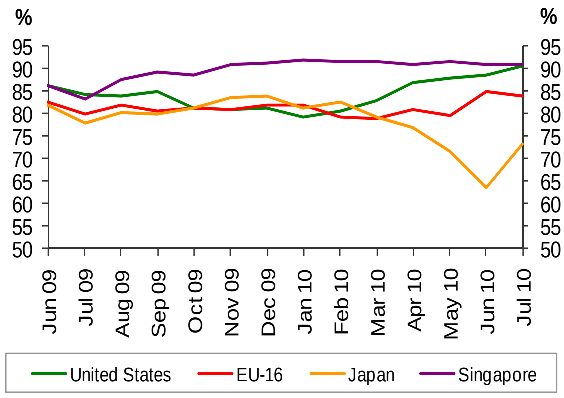
Looking ahead, the market is expected to remain bearish on continued ample distillate and gasoline stocks across the globe, the end of the refinery maintenance season in China and projected low risk of supply disruptions by hurricanes in the US.

Refinery operations

US utilization rates near record-high for the year in July

As Graph 29 shows, refinery utilization rates in the US continued the increase that began in January, adding 2% to reach 90.7% in July, the highest refining level in the last two years.

Graph 29: Refinery utilization rates, 2009-2010



European refiners have been cautious about increasing their utilization rates in an effort to protect the margins, however the objective was partially achieved due to the pressure of a higher Brent price and higher distillate exports from Russia. According to preliminary data, **the European refinery utilization rates fell by 1 % in July to 83.8% from 84.8% the previous month.**

In Asia, with the completion of seasonal maintenance, the refinery throughputs increased. Japanese refinery utilization rates rose to 73% in July, while China lifted rates to 88% in July from 82% in the previous month.

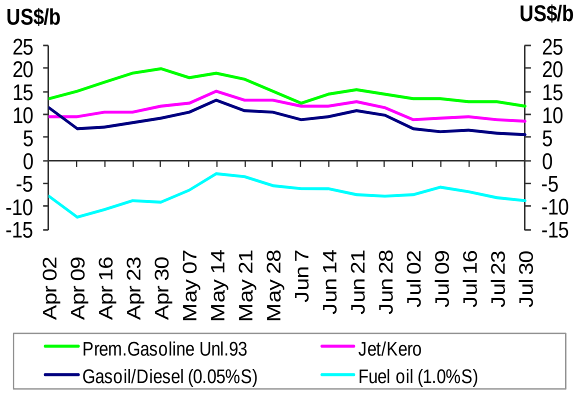
Looking ahead, with the end of the maintenance season and despite being in the peak driving season, refining operations are not expected to increase significantly.

US market

Higher domestic production has outpaced gasoline demand growth

Higher demand in the peak of the driving season was balanced out by output as the earlier healthy margins encouraged refiners to boost their throughputs. According to the EIA, US gasoline demand rose to over 9.4 mb/d in July – the highest level since summer 1997. However, refinery runs were also at the highest level of over 90%. Following these developments, the gasoline crack spread in the US Gulf Coast fell from $14/b in June to $12.8/b in July.

Graph 30: US Gulf crack spread vs. WTI, 2010



Middle distillate demand in the US slowed to 3.58 mb/d in July from 3.77 mb/d a month earlier and higher refinery runs – amid mild tropical storm Bonnie and limited arbitrage to Europe due to higher freight cost – increased distillates stocks, exerting pressure on market sentiment. The US gasoil crack at the Gulf Coast fell to below $6/b in the latter part of July from about $10/b in June (*see* ***Graph 30***).

Following these developments, on Nymex managed money traders reduced net long positions for heating oil to 26,706 lots by the end of July from 29.978 contracts at the end of the previous month.

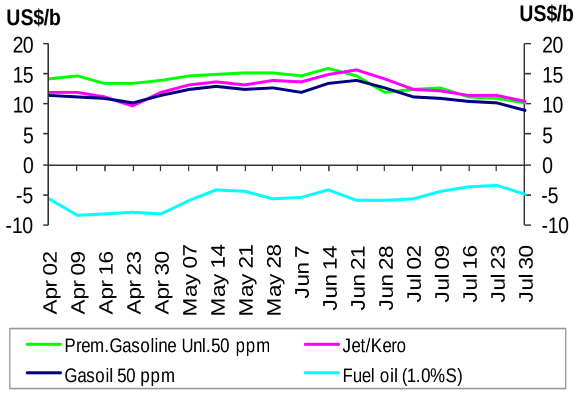
Fuel oil cracks got some support from regional demand and trading opportunities to Singapore , however they were influenced by the outright price of crudes in the US Gulf Coast and dropped to about minus $7.5/b in July from minus $7.0/b the month before.

European market

Limited arbitrage outlets in a saturated environment depressed European product markets

In July, the anemic recovery in the gasoline market collapsed amid weak local demand and limited arbitrage opportunities as gasoline stocks in the US were at the highest seasonal level since 2001. The gasoline crack spread against Brent crude oil in Rotterdam dropped to $11.5/b on average in July from $14.3/b on average in the previous month (*see* ***Graph 31***). Given the current market situation and the high stocks in the Atlantic basin, gasoline market sentiment may be further undermined over the coming months.

Graph 31: Rotterdam crack spreads vs. Brent, 2010



The European naphtha market remained under pressure since June due to oversupply in Asia-Pacific and Europe. With the persisting sluggish economic recovery, it appears the European naphtha market will remain weak in the next months.

Supply restraints by European refiners were not able to provide support for distillate markets given the sharp uptick in Russian exports. The gasoil crack

spread against Brent crude at Rotterdam dropped to $10/b in July from $13/b the month before (*see Graph 31*).

High stock levels and increasing exports, mainly from Russia, could continue to exert pressure on the European distillate market next month.

Jet fuel demand increased at a seasonal peak; however, imports from Asia and the Middle East continued to weigh on sentiment, causing differentials to drop.

European high sulfur fuel oil market conditions improved compared to the previous month, supported by open arbitrage to Asia-Pacific which is helping to clear some fuel oil stocks at Rotterdam. Low sulfur fuel oil market performance was also better in July, supported by regional demand in line with higher power consumption for air-conditioning amid peak summer temperatures in some areas. In addition, sulfur standards for bunker fuel were reduced from 1.5% to 1.0% for ships in the routes of English Channel, Baltic and North Sea as of 1 July. The low sulfur fuel oil crack spread against Brent gained $1/b in July to stand at minus $4.5/b.

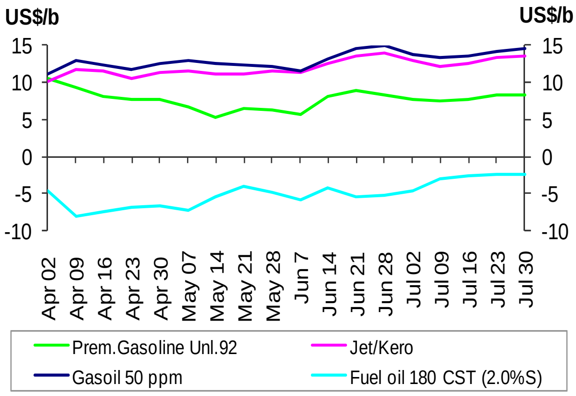
Climate conditions and higher arbitrage flows may lend more support to the European fuel oil market next month.

Asian market

Asian naphtha market collapsed in July

Asian naphtha market sentiment has been further undermined this month. A supply overhang and limited demand for naphtha crackers exerted pressure on naphtha prices. Asian naphtha prices fell to the lowest levels in the last nine months, causing traders to look for other markets, with an unusual arbitrage to the US becoming an option.

Graph 32: Singapore crack spreads vs. Dubai, 2010



Asian gasoline market sentiment was slightly bullish, supported by higher demand from India, Indonesia and Vietnam; however, some pressure came from naphtha oversupply due to Formosa´s petrochemical emergency shutdown and limitations of exporting from the Dalian port to the US West Coast. The gasoline crack spread against Dubai crude oil in Singapore remained around $8/b in the last weeks of July, a similar value to the same period a month earlier (*see Graph 32*). With the refineries' return to normal operation following the completion of maintenance and the oversupply of naphtha, Asian gasoline output is expected to outpace regional demand and to exert pressure on gasoline prices.

The gasoil market was relatively strong amid higher regional demand from India and Vietnam, and tight supplies because of strong demand for power generation. The gasoil crack spread in Singapore against Dubai remained unchanged from the previous month at around $14/b in the latter part of July (*see **Graph 32***).

The Asian fuel oil market has been strengthening amid robust bunker sales and higher demand from Pakistan and Japan.

Following these developments, the high sulfur fuel oil crack spread in Singapore against Dubai crude jumped from minus $5/b in the last week of June to minus $3/b in the last weeks of July.

Looking ahead, due to possibility of substitution of natural gas for fuel oil at power plants and more arbitrage flows from the west, due to high refineries runs, the Asian fuel oil market is expected to come under pressure and be slightly bullish.

Table 17: Refined product prices, US$/b

		May 10	Jun 10	Jul 10	Change Jul/Jun
US Gulf (Cargoes):					
Naphtha		81.84	82.43	80.21	-2.22
Premium gasoline	*(unleaded 93)*	90.98	89.20	88.83	-0.36
Regular gasoline	*(unleaded 87)*	86.01	85.35	85.23	-0.12
Jet/Kerosene		87.00	86.70	85.12	-1.59
Gasoil	*(0.05% S)*	84.85	84.55	82.29	-2.26
Fuel oil	*(1.0% S)*	68.92	68.13	68.84	0.71
Fuel oil	*(3.0% S)*	66.71	66.04	65.91	-0.13
Rotterdam (Barges FoB):					
Naphtha		71.49	72.81	69.33	-3.48
Premium gasoline	*(unleaded 10 ppm)*	85.58	88.78	86.93	-1.85
Premium gasoline	*(unleaded 95)*	89.89	93.25	91.93	-1.32
Jet/Kerosene		84.25	89.11	87.11	-2.00
Gasoil/Diesel	*(10 ppm)*	83.40	87.50	85.74	-1.76
Fuel oil	*(1.0% S)*	66.65	69.20	71.28	2.08
Fuel oil	*(3.5% S)*	64.07	66.24	66.33	0.09
Mediterranean (Cargoes):					
Naphtha		70.14	71.16	66.46	-4.70
Premium gasoline	*(50 ppm)*	67.01	73.12	70.42	-2.70
Jet/Kerosene		82.52	87.30	84.43	-2.86
Gasoil/Diesel	*(50 ppm)*	85.53	88.51	84.19	-4.32
Fuel oil	*(1.0% S)*	66.29	68.04	67.62	-0.42
Fuel oil	*(3.5% S)*	63.25	65.99	65.61	-0.38
Singapore (Cargoes):					
Naphtha		77.25	72.42	68.57	-3.85
Premium gasoline	*(unleaded 95)*	84.96	83.25	82.42	-0.83
Regular gasoline	*(unleaded 92)*	82.88	81.54	80.37	-1.16
Jet/Kerosene		87.97	86.64	85.32	-1.32
Gasoil/Diesel	*(50 ppm)*	89.08	87.36	86.32	-1.04
Fuel oil	*(180 cst 2.0% S)*	71.28	68.67	69.68	1.01
Fuel oil	*(380 cst 3.5% S)*	71.03	68.31	68.46	0.15

Table 18: Refinery operations in selected OECD countries

	Refinery throughput mb/d				Refinery utilization %			
	May 10	Jun 10	Jul 10	Jul/Jun	May 10	Jun 10	Jul 10	Jul/Jun
USA	15.10	15.15	15.45	0.30	88.0	88.7	90.7	2.02
France	1.32	1.31	1.32	0.00	84.2	83.2	83.3	0.16
German	1.88	2.00	1.94	-0.06	84.8	84.3	82.0	-2.35
Italy	1.48	1.73	1.61	-0.12	79.3	78.5	76.9	-1.54
UK	1.37	1.41	1.39	-0.02	80.4	79.4	78.1	-1.27
Euro16	10.42	11.11	10.98	-0.13	79.6	84.8	83.8	-0.98
Japan	3.48	3.09	3.57	0.48	71.5	63.5	73.3	9.77

Sources: OPEC statistics; Argus; Euroilstock Inventory Report; IEA; EIA/DoE; METI; PAJ

Tanker Market

OPEC spot fixtures grew in July after reaching a seasonal peak

OPEC spot fixtures in July experienced two contrasting trends. OPEC spot bookings grew sharply through to the middle of the month, then in the second half OPEC spot fixtures began a declining trend that is expected persist in the current month. The mixed behaviour reflects the end of the season which normally lasts until August, but it seems to have finished in July this year.

As result, OPEC spot fixtures grew 3.9% m-o-m in July and Middle East eastbound spot fixtures increased 5.3% m-o-m. The growth in those two regions reflected increasing demand for crude oil in Asia-Pacific refineries. On the other hand, Middle East westbound spot fixtures decreased 5% m-o-m. Global outside Middle East spot fixtures grew by 4.4%, partly driven by the recovery of strong suppliers such as Russia. As a result, global spot fixtures were comparable to June levels, averaging 17.99 mb/d or only 0.1% lower than the month before.

According to preliminary data, both **OPEC** and **Middle East sailings** increased 0.6% in July. Growth in OPEC sailings resulted in a 19-month high of 23.7 mb/d, while Middle East deliveries reached a 21-month high of 17.57 mb/d. The increase of deliveries in both regions reflects rising demand at the end of the season. OPEC and Middle East sailings are expected to decrease in August.

On the arrivals side, Europe and Far East arrivals rose 9.5% and 2.9% respectively, partly due to the strong deliveries at the end of June and beginning of July. On the other hand, North America arrivals fell 5.8%, contrasting with the increase in crude oil imports in US, which were boosted by pipeline imports in July. West Asia arrivals remained almost unchanged with only a 0.2% gain.

Table 19: Tanker chartering, sailings and arrivals, mb/d

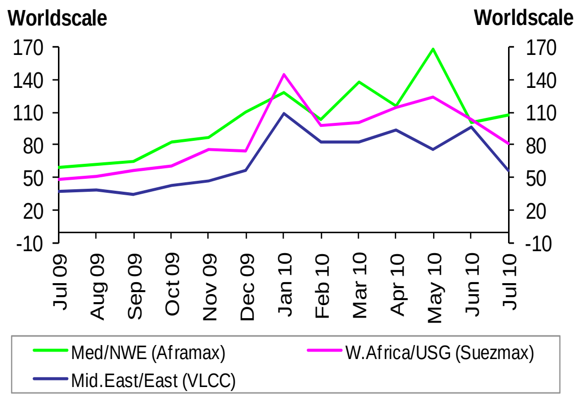
	May 10	Jun 10	Jul 10	Change Jul/Jun
Spot Chartering				
All areas	21.20	18.00	17.99	-0.01
OPEC	13.36	12.43	12.92	0.49
Middle East/East	5.92	5.89	6.20	0.31
Middle East/West	1.30	1.19	1.13	-0.06
Outside Middle East	6.14	5.35	5.59	0.24
Sailings				
OPEC	23.41	23.57	23.70	0.13
Middle East	17.33	17.47	17.57	0.10
Arrivals				
North America	9.79	9.52	8.97	-0.55
Europe	12.05	11.43	12.52	1.09
Far East	8.11	8.06	8.29	0.23
West Asia	4.64	4.65	4.66	0.01

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

Spot Freight rates for VLCCs and Suezmax sharply declined, while Aframax increased marginally

The crude oil tanker market displayed mixed patterns in July. VLCC and Suezmax spot freight rates experienced significant declines, VLCC freight rates dropped by 33.2% m-o-m in July, while Suezmax rates fell by 21%. In contrast, Aframax spot freight rates increased 1.3% m-o-m. The tanker market was impacted by a significant rise in tonnage due to the release of vessels that were previously tied for floating storage.

Graph 33: Monthly averages of crude oil spot freight rates



The **VLCC market** was very active in the first half of July, contrasting with the lack of movement in the last two weeks of the month. In July, the high cost of floating storage freed a large number of vessels that were available in the market, pushing freight rates down. Consequently, year–to-date, July has seen the lowest level for freight rates.

Middle East eastbound rates decreased 39.6% m-o-m to an average of WS58, while westbound rates fell 28.6% in the month to WS45. The downward trend remained for the whole month with owners accepting rates at or below operating cost at the end of the month. VLCCs freight rates also decreased in the West Africa eastbound liftings as a result of high tonnage availability.

Suezmax rates were moderately low, partly due to the lack of inquiry for Suezmaxes in the last half of the month, as well as a consequence of increasing US crude oil stocks and due to the spillover effect in the VLCC market. West Africa to US Gulf Coast freight rates decreased 21.4% m-o-m and West Africa to US East Coast and US Gulf Coast rates also fell by 20.6%.

Aframax freight rates were slightly higher by 1.3%, increasing only 1 point to WS117. Aframaxes from Indonesia to east experienced a decline of 5.1% on their freight rates and Mediterranean/Mediterranean routes rates dropped by 1.8%, partly led by high tonnage availability. Caribbean to US East Coast freight rates increased 6% m-o-m and Mediterranean to Northwest Europe grew 5.9%, led by active market movement, especially at the beginning of the month when eastern markets started to increase their crude oil inventories, preparing for the end of the season.

Table 20: Spot tanker crude freight rates, Worldscale

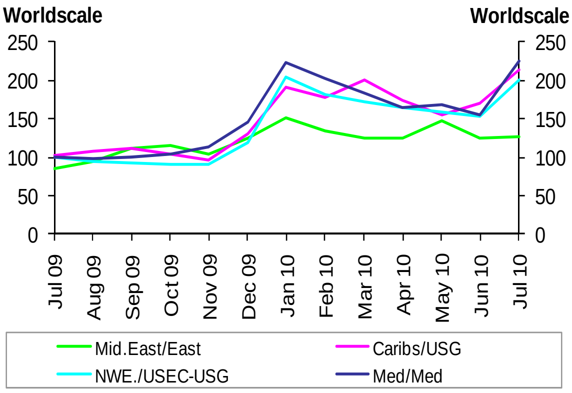
	Size *1,000 DWT*	**May 10**	**Jun 10**	**Jul 10**	**Change Jul/Jun**
Crude					
Middle East/East	230-280	76	96	58	-38
Middle East/West	270-285	56	63	45	-18
West Africa/East	260	90	85	60	-25
West Africa/US Gulf Coast	130-135	124	103	81	-22
NW Europe/USEC-USGC	130-135	119	102	81	-21
Indonesia/US West Coast	80-85	129	117	111	-6
Caribbean/US East Coast	80-85	173	133	141	8
Mediterranean/Mediterranean	80-85	174	112	110	-2
Mediterranean/North-West Europe	80-85	168	101	107	6

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

Clean spot freight rates decreased in East of Suez and increased in West of Suez

The **clean tanker market spot freights** increased 23.2% m-o-m, showing a mixed pattern, East of Suez spot rates decreased by 6%, while West of Suez grew by 35.1%. Spot rates on almost all routes increased significantly with only two exceptions. Singapore eastbound rates decreased by 12.1% and Middle East eastbound rates remained almost unchanged from the previous month. Rates on these two routes started low, but then increased through the month; however, rates remained modest, reflecting higher runs by Asia refineries.

Graph 34: Monthly averages of clean spot freight rates



The Caribbean/US Gulf Coast and North West Europe/US East Coast and US Gulf Coast freight rates increased until the third week of the month when the trend changed downward reflecting the end of the driving season in North America. Caribbean spot rates to the US Gulf Coast increased by 24.6%, while Northwest Europe rates to US East Coast and Gulf Coast grew 30.7% m-o-m.

The Mediterranean/Mediterranean and Mediterranean/Northwest Europe also experienced significant increases of 44.7% and 41.6% respectively, reflecting the increasing demand to build product stocks before the maintenance season ends.

Table 21: Spot tanker product freight rates, Worldscale

	Size *1,000 DWT*	May 10	Jun 10	Jul 10	Change Jul/Jun
Products					
Middle East/East	30-35	147	125	126	1
Singapore/East	30-35	152	140	123	-17
Caribbean/US Gulf Coast	38-40	155	171	213	42
NW Europe/USEC-USGC	33-37	158	153	200	47
Mediterranean/Mediterranean	30-35	169	156	225	69
Mediterranean/North-West Europe	30-35	179	166	235	69

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

Oil Trade

US crude oil imports rose during July

USA

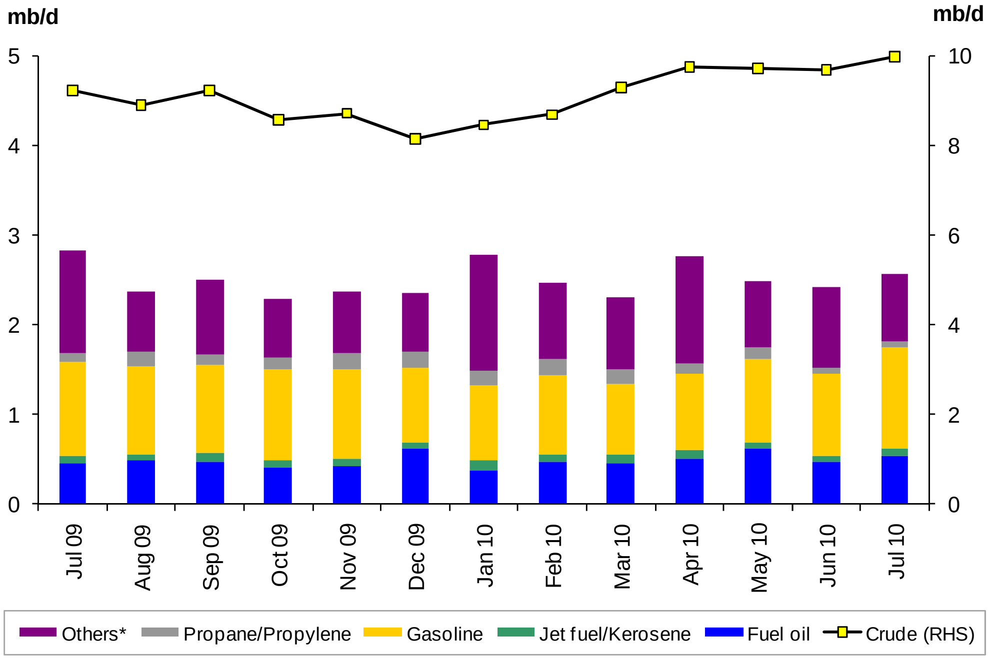
According to preliminary data, US crude oil imports averaged 9.97 mb/d in July, up 3.1% from the month before and 9.6% higher than the same month a year earlier. Most of the increase came in the week ending 23 July when US crude oil imports hit a six-year high of 11.15 mb/d, contributing to an unexpected build in stocks. The high level of crude oil imports was supported by increased refining runs resulting in higher motor gasoline inventories despite the peak-demand summer driving season.

During the first seven months of the year, US crude oil imports averaged 9.35 mb/d, an increase of 1.3% over the same period last year. During the year, US crude oil imports experienced mixed patterns as drops in May, April and June kept the annual increase moderate.

US product imports rose 139 tb/d m-o-m to 2.56 mb/d in July. The increase in product imports was led by gasoline, but offset by other non-traditional products that experienced a fall in their imports. From January to July, US product imports averaged 2.54 mb/d, down 14.5% from the same period last year.

Gasoline imports experienced significant growth of 207.8 tb/d in July m-o-m, to stand at 1.13 mb/d, reflecting increased domestic demand during the summer season. Jet fuel imports rose 27.8% to 81.2 tb/d due to strong aviation demand in July. US fuel oil imports also grew to 529.4 tb/d as a result of higher refining activities. The rest of the product imports experienced a decline on a monthly basis.

Graph 35: USA's imports of crude and petroleum products



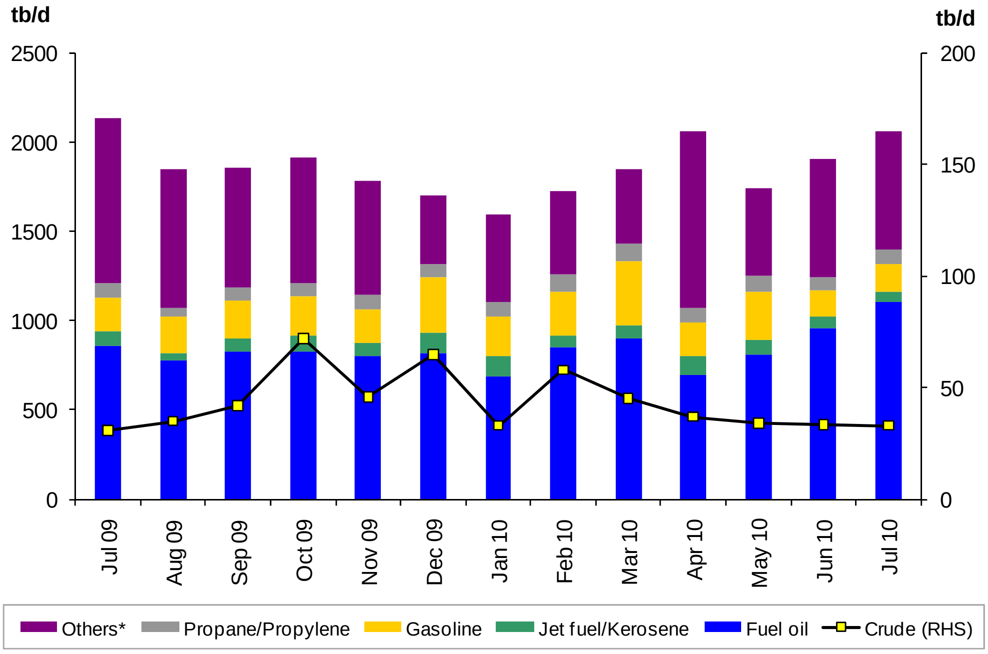
**Others: Contains natural gas liquids, liquefied refinery gases (LRG's), other liquids and all finished petroleum products except gasoline, jet fuel/kerosene, fuel oil and propane/propylene*

On the exports side, US oil product exports rose 8.14% to 2.06 mb/d reflecting higher refining activities as well as stronger external demand. Most of the increase can be attributed to fuel oil exports to Asian refineries. Fuel oil exports increased 142.3 tb/d to 1.1 mb/d while product exports also experienced growth over the previous month.

In the first seven months of the year, US product exports averaged 2.08 mb/d, up 7.2% from the same period last year.

As a result, US crude oil and total product net imports averaged 10.44 mb/d, up 2.75% from June and 10% higher than the same month last year. Net crude oil imports were 296 tb/d higher than in June, reaching 9.94 mb/d. Net product imports averaged 497 tb/d, a drop of 3.11% from the previous month.

Graph 36: USA's exports of crude and petroleum products



**Others: Contains natural gas liquids, liquefied refinery gases (LRG's), other liquids and all finished petroleum products except gasoline, jet fuel/kerosene, fuel oil and propane/propylene*

According to the latest data, US crude oil imports from OPEC Members averaged 4.7 mb/d in May, 6.4% down from April but 19% higher than May 2009. Canada remained the top supplier of crude to the US in May with an increase of 2.0 mb/d or 6.1% m-o-m. Mexico rose to second place among top US crude suppliers, surpassing Saudi Arabia. Mexico crude deliveries to the US reached 1.29 mb/d, an increase of 13.8% over April, while Saudi Arabia exports to the US decreased 12.2% to 1.09 mb/d. Venezuela, Nigeria, Angola and Iraq were next on the list with 1.01 mb/d, 1.0 mb/d, 423tb/d and 394 tb/d respectively.

Canada remained the top oil product supplier to the US in May, averaging 530 tb/d, down 12.1% m-o-m. Russian product exports to the US increased 62 tb/d to 361 tb/d, while product supplies for the Virgin Islands decreased 38.9% to 193 tb/d. Algeria continued as the top product supplier to the US among OPEC Members keeping the fourth place on the general list with 166 tb/d, a decline of 3.5% m-o-m. OPEC product exports to the US in May stood at 335 tb/d, down 71 tb/d from April.

Despite the 38% decline m-o-m in product imports from the US, Mexico remained the top importer of products with 348 tb/d in May. Canada imported 157 tb/d from the US in May, a decline of 16%, becoming the second top importer of products from the US, while Japan jumped to third place with an increase of 42 tb/d in product imports from the US, averaging 140 tb/d. Netherlands and Singapore imported 122 tb/d and 111 tb/d of US products respectively to stand fourth and fifth place on the list. OPEC imported 96 tb/d of products from the US in May, down 47.8% from the previous month. Ecuador was the top importer of products from the US among OPEC Members. Ecuador imported 75 tb/d in May, an increase of 23% over a month earlier, while Venezuela imported 17 tb/d and Qatar 3 tb/d.

Table 22: USA crude and product net imports, tb/d

	May 10	Jun 10	Jul 10	Change Jul/Jun
Crude oil	9,586	9,642	9,937	296
Total products	146	513	497	-16
Total crude and products	**9,732**	**10,155**	**10,435**	**280**

Japan's crude oil imports fell to a ten-year low

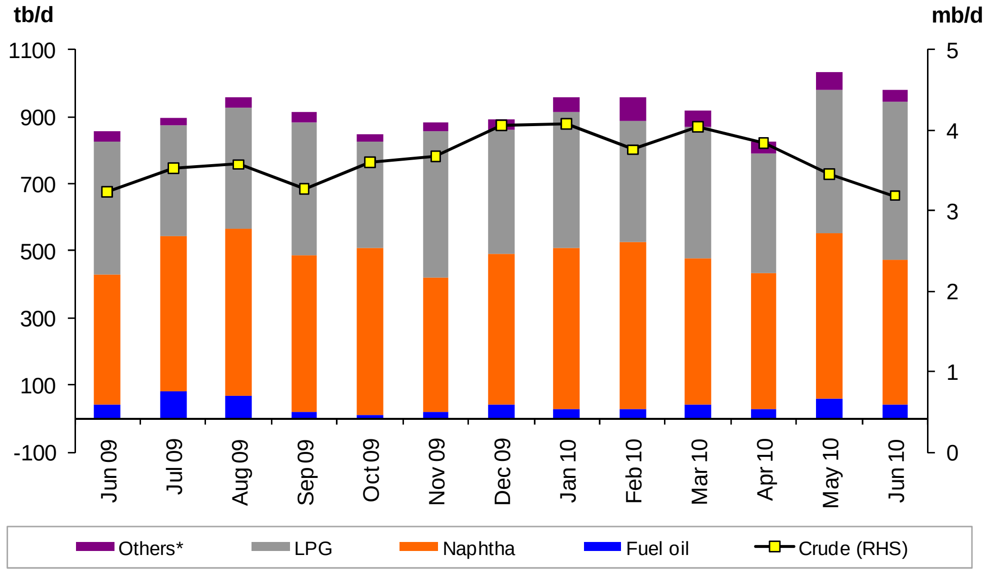
Japan

Japan's crude oil imports dropped in June to the lowest level since 2000, reaching 3.19 mb/d and representing a 7.9% drop from May and 1.5% less than a year ago, according to preliminary official data. The drop underscores the continued decrease in domestic demand as well as the strong refinery maintenance season. An important increase in Japan crude oil imports is expected during July and August after the heavy maintenance season ends.

During the first half of the year, Japanese crude oil imports averaged 3.73 mb/d or only 1.2% up from the same period last year. The decrease in February and June mostly offset the increases in the other months.

OPEC crude oil deliveries to Japan dropped 9.4% m-o-m in June to 2.63 mb/d. Most of the decrease came from the UAE with 153.7 tb/d less deliveries than a month earlier. Despite the 4.23% monthly decrease in imports from Saudi Arabia, the Kingdom remained the top Japan crude oil supplier with 982 tb/d. The UAE continues in second place with 616 tb/d followed by Qatar (437 tb/d) and Iran (307 tb/d). Qatar deliveries were the only ones showing growth over the previous month, supplying 18.1% more oil to Japan than a month earlier.

Graph 37: Japan's imports of crude and petroleum products

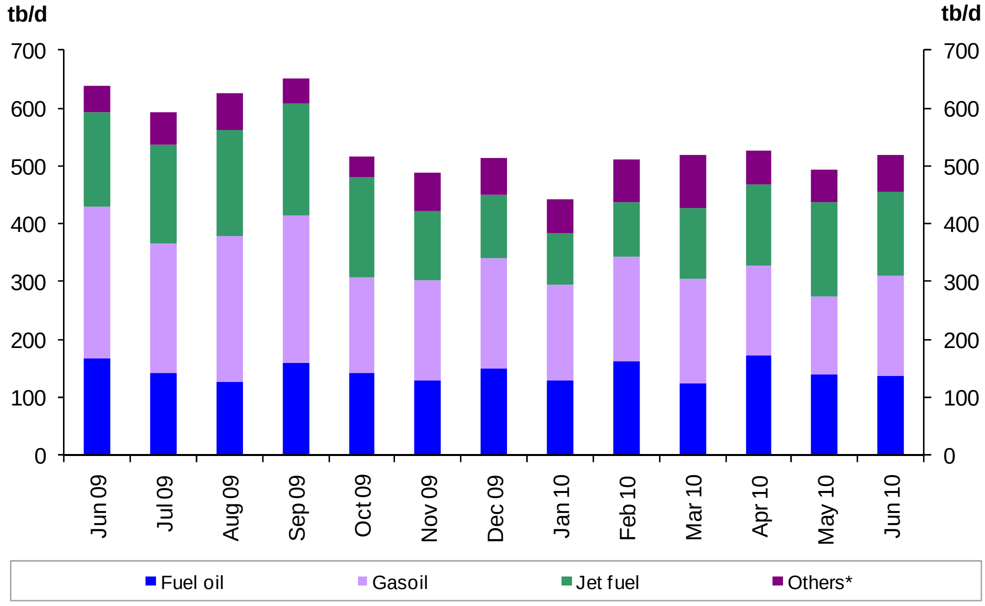


**Others: Contains gasoline, jet fuel, kerosene, gasoil, asphalt and paraffin wax*

Russia, the only non-OPEC country among the five top suppliers of oil for Japan, showed a decrease of 8.25% in its deliveries to Japan in June to total 221 tb/d. Omani and Australian exports to Japan also increased notably in June. Omani deliveries to Japan rose 28.57% while Australian exports to Japan jumped from to 83 tb/d for only 15 tb/d the month before.

During the first half of the year, five OPEC countries were the top suppliers for Japan. Saudi Arabia reached 1.09 mb/d, down 0.7% from the same period last year. The UAE and Qatar with 771.8 tb/d and 457.8 tb/d were next, with both experiencing a small increase in their deliveries to Japan. Average crude imports from Iran and Kuwait decreased significantly by 17% and 21.4% respectively. Russia, the sixth top supplier during the first six months of the year, exported 44.9% more oil to Japan than the same period last year, reaching 211.6 tb/d. Rising demand for ESPO grade in the country was the main reason for the increase. Omani deliveries also showed significant growth during the first half, jumping from 72.6 tb/d to 136.7 tb/d y-o-y.

Graph 38: Japan's exports of petroleum products



**Others: Contains LPG, gasoline, naphtha, kerosene, lubricating oil, asphalt and paraffin wax*

Japan's product imports fell 4.9% on the month to 981 tb/d, but were up 14.5% from the same month last year. The decreasing trend is partly the consequence of weak domestic demand, which is also reflected in higher product exports. In the period January to June, Japanese product imports averaged 946.7 tb/d, up 16.3% from the same period last year.

Gasoline imports decreased on the month by 39.3% to 22 tb/d as exports increased 8.5% to 29 tb/d, reflecting fragile domestic demand which was impacted by the increase in gasoline retail prices during June. Diesel imports rose by 3.3 tb/d to 11 tb/d and exports also grew by 28.4% to 173 tb/d as a result of increasing demand in Asia and high international price.

In June, naphtha imports dropped to 430 tb/d from the previous 495 tb/d in May, partly due to lower refining runs. Fuel oil imports and exports also were impacted by poor refining activities, fuel oil imports declined by 28.7% to 42 tb/d, while exports fell 1.7% to 138 tb/d.

Fuel oil imports were also impacted by increasing nuclear activities which replaced thermal power plants in the country. Despite the increasing demand for electricity in Japan, the crude oil and fuel oil required for this sector was lower in June.

LPG imports grew 10.2% on the month to 472 tb/d as result of poor refining activities and higher domestic demand.

Table 23: Japan's crude and product net imports, tb/d

	Apr 10	May 10	Jun 10	Change Jun/May
Crude oil	3,834	3,458	3,186	-272
Total products	302	538	462	-75
Total crude and products	**4,136**	**3,995**	**3,648**	**-347**

Despite the decline in refinery runs, Japan's product exports increased 5% in June to 518 tb/d. The gain is the consequence of fragile domestic demand as well as an increase in international gasoline and diesel prices, which contributed considerably to the increase in total product exports.

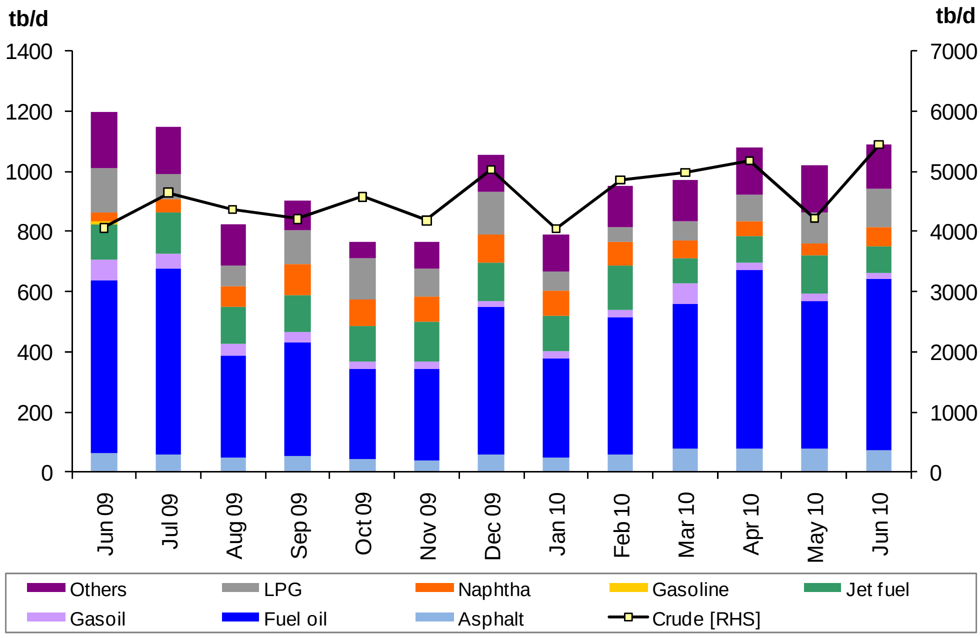
As a result, Japan's net oil imports in June stood at 3.65 mb/d, representing a decrease of 347 tb/d or 8.7% over the previous month and 196 tb/d or 5.7% higher than the same month last year. During the first half of the year, Japanese net oil imports averaged 4.17 mb/d or 5.3 higher than the same period last year.

China

China's crude oil imports reached a new record-high in June

China imported a record 5.44 mb/d of crude oil in June, breaking the previous 5.17 mb/d record set in April. This represented an increase of 29% over the previous month and 34.1% over a year ago. The growing appetite for crude in the country reflects the increased refining capacity as well as bigger strategic stockpiles. For the first half of the year, China's crude oil imports averaged 4.78 mb/d, up 30% from the same period last year.

Graph 39: China's imports of crude and petroleum products



China imported 1.09 mb/d of oil products in June, down 8.9% from the same month last year, but 6.7% over the previous month, while product exports reached 626 tb/d, representing a 9.2% drop from a year ago. Year-to-date, China's product imports decreased by 9.4% to average 982 tb/d as a result of higher refinery runs.

Fuel oil imports in China increased 16% on the month in June to 566.6 tb/d, supporting total China product imports. The growth in fuel oil demand was mostly due to expanding bunker markets in combination with increased demand from independent refineries. Strong demand for bitumen also collaborated to the increase. Venezuela became the top supplier of fuel oil for China with a 22% share of total imports. It is estimated that during July, fuel oil imports plunged due to higher import costs.

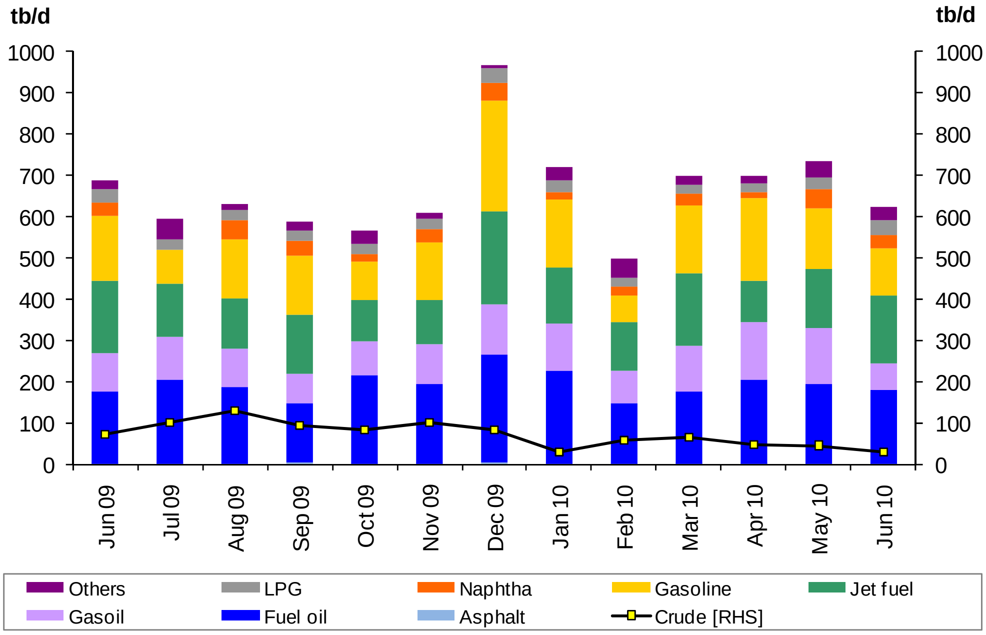
Gasoline exports have more than doubled during the first six months from 59.08 tb/d to 124.35 tb/d, as domestic production rose. Singapore is ranked the top importer of Chinese gasoline in the first half of the year. However, these flows are expected to drop due to rising pump prices in Singapore.

Diesel exports also increased by 33% to 96.79 tb/d in the same period, while imports decreased by 12% to 28.03 tb/d. South Korea was the top supplier of gasoil in the first six months, and Russia the top supplier in June.

China naphtha imports and exports sharply rose during the first half of the year, with imports increasing by 33.5% y-o-y to 51.26 tb/d and exports increasing by 361.9% to 22.82 tb/d. Nevertheless, June naphtha exports declined 29.9% and imports increased by 49.5% from May. The increase of naphtha imports is attributable to demand from the

new chemical plant that came on stream in the second half of 2009 in Dalian.
China's jet fuel imports during the period January to June in 2010 dropped by 9% from a year earlier to 89.5 tb/d. The decline is attributable to a rise in kerosene output over the same period.

Graph 40: China's exports of crude and petroleum products



China's crude oil imports from OPEC increased by 45.19% in June on a monthly basis representing the most important contribution to total crude oil imports. Angola replaced Saudi Arabia as the biggest crude supplier to China following an increase of 21.59% in crude exports to China to 912.77 tb/d. Saudi Arabia's crude exports to China increased by 1.18% m-o-m in June to 896.51 tb/d. China also experienced a significant increase in crude imports from Venezuela, Iran, Kuwait and Nigeria move than doubled over the previous month. Libya was the only OPEC country with negative growth, as exports declined 36.82% in June from the previous month.

Table 24: China's crude and product net imports, tb/d

	Apr 10	May 10	Jun 10	Change Jun/May
Crude oil	5,125	4,172	5,411	1239
Total products	378	288	464	176
Total crude and products	**5,503**	**4,460**	**5,875**	**1414**

Non-OPEC countries contributed only 39% of total China crude oil imports in June. Russia exports to China decreased by 15.36% from the previous month. Oman and Brazil also experienced declines of 30.36% and 17.44% respectively.

During the first six months of the year, OPEC exports to China averaged 3.20 mb/d, an increase of 45.15% over the same period last year. OPEC supplied 56% of total Chinese crude oil imports, and Angola surpassed Saudi Arabia as the top supplier of oil. Angola, Saudi Arabia and Iran were the three top suppliers of oil to China.

China's net oil imports in June stood at 5.88 mb/d, indicating an impressive increase of 1.41 mb/d or 31.7% over the previous month. On a yearly basis, China's net oil imports increased 1.38 mb/d or 30.8%. From January to June, net oil imports in China averaged 5.04 mb/d for a gain of 22.2% over a year ago.

India

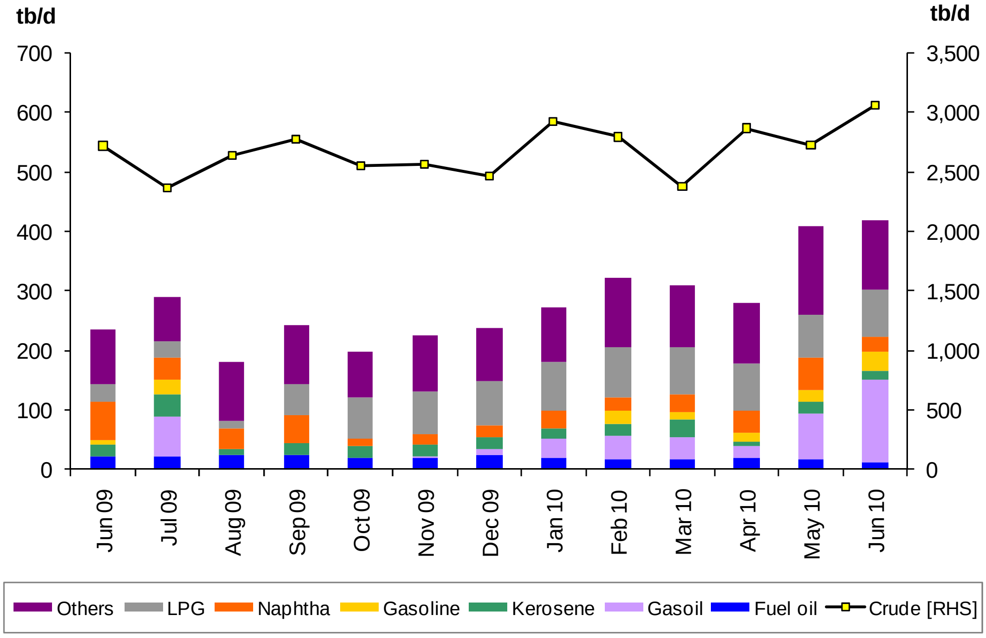
India's product exports increased to over 1 mb/d

India's crude oil imports increased to 3.06 mb/d in June, exceeding 3 mb/d for the second time since May 2009 when crude oil imports stood at 3.18 mb/d. Indian crude oil imports grew by 12.2% over the previous month and 12.7% over a year ago.

The monthly increase in imports is partly attributed to increased domestic demand as well as the growth in refining runs, which offset strong domestic crude oil output during the year. The rise in imports also reflected an impressive increase in product exports.

During the first six months of the year, India's crude oil imports averaged 2.79 mb/d, just 1.4% higher than the same period last year. This moderate increase is partly attributed to the rise in domestic production as well as moderate product exports over the first six months of the year.

Graph 41: India's imports of crude and petroleum products



India's oil product exports surpassed 1 mb/d to stand at 1.04 mb/d in June to mark a new record high. The significant increase of 143% over the previous month was attributed partly to the increasing run in private refineries. On a yearly basis, product exports rose 132%.

Compared to the previous month, almost all product exports increased, with growth led by gasoil exports which rose from 64.96 tb/d to 382.84 tb/d, followed by gasoline which increased by 139.5% to 287,84 tb/d. Naphtha exports also increased, recovering to April levels, to stand at 201.02 tb/d after declining in May. Only fuel oil exports declined in June.

Despite the important increase in product exports, Indian oil product imports also increased in June by just 2.1% to 417.7 tb/d compared to the previous month. Diesel imports rose by 62.2 tb/d m-o-m, while gasoline imports rose by 67.9% m-o-m to 32.32 tb/d. LPG imports increased to 79.55 tb/d.

The growth in oil product imports despite strong refinery output was due mostly to private refineries exporting their products without much impact on the domestic market.
Naphtha, kerosene and fuel oil imports decreased to 24.86 tb/d, 14.92 tb/d and 12.43 tb/d respectively. The imports of these products decreased partly due to the rise in domestic production.

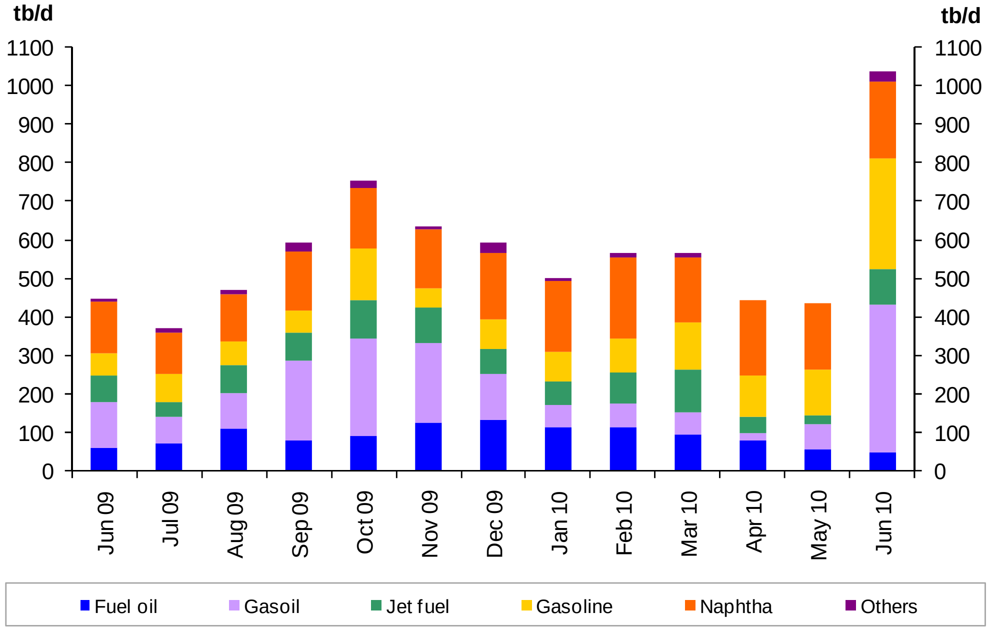
Table 25: India's crude and product net imports, tb/d

	Apr 10	May 10	Jun 10	Change Jun/May
Crude oil	2,866	2,729	3,061	333
Total products	-151	-18	-621	-602
Total crude and products	**2,715**	**2,710**	**2,441**	**-269**

In the first half of the year product imports averaged 335 tb/d, a drop of 7.4% from the same period last year, while product exports decreased 11.3% y-o-y to stand at 587 tb/d.

India's net crude imports dropped to 2.44 mb/d in June, down 9.9% from May and 2.6% lower than a year ago. Net products imports plunged, reflecting the significant increase in product exports.

Graph 42: India's exports of petroleum products



FSU

FSU crude oil exports fell in June due to export duties

FSU crude oil exports fell by 4.0% in June from the previous month to around 6.73 mb/d. The decline reflects a significant drop in Black Sea Urals loadings and lower exports along the Baku-Tbilisi-Ceyhan (BTC) and Caspian Pipeline Consortium (CPC) routes.

Urals shipments fell after export duties hit $40.23/b in June, the highest level so far this year. Novorossiysk loadings plunged to a five-year low, while exports through Ukraine's Pivdenne halted completely. Reductions in exports through the Baltic ports of Primorsk and Gdansk were less dramatic. Both destinations were more profitable than Black Sea ports as transport costs were lower. Some cargoes were cancelled, as companies decided to store the oil and export it in July, on expectations of lower duties.

CPC Blend exports decreased in June due to maintenance at the Tengiz field, the source of the main component in the CPC Blend. Exports are expected to increase by more than 5% in August following the end of maintenance.

Field maintenance at Azerbaijan's offshore Azeri-Chirag-Guneshli (ACG) block also resulted in reduced exports in BTC Blend loadings at the Turkish port of Ceyhan. BTC Blend exports for August are expected to decrease by more than 8%.

Druzhba exports rose as a result of higher demand in Poland and the end of maintenance in Slovakia's 120,000-b/d Bratislava refinery in early June. ESPO exports through the Pacific terminal of Kozmino also rose.

During the first half of the year, FSU crude exports came to 6.79 m/d, up by 2.3% from the same period last year. The increase partly reflects the start of ESPO Blend exports from the Pacific port of Kozmino, which offset the marginal declines in shipments through the BTC and CPC pipelines.

Pipeline exports of Russian crude oil to CIS destinations were up by 61,000 b/d to 523,000 b/d in June. The rise reflects mainly the completion of maintenance at Ukraine's 320,000 b/d Lisichansk refinery.

Overall product exports from FSU declined by 9.4% m-o-m in June to 2.81 mb/d. Exports of all products were down, despite increased activity along the FSU's river system due to higher water levels than in previous years. The expectation of a reduction in the Russian export duty in July is the main reason for the decline, as exporters stored the product and decided to wait until July, which they hope would boost the profitability of shipments outside the country.

Gasoline exports declined 29.1% in June, becoming the strongest contributor to the decline in total product exports, while fuel oil and gasoil decreased by 6.1% and 6.7% respectively.

During the first half of the year, overall product exports from the FSU hit 6.80 mb/d, an increase of 1.2% compared to the same period last year. The increase partly reflects improved navigation conditions as a consequence of higher water levels in rivers. Fuel oil shipments rose substantially in the Baltic, particularly through Estonia's Tallinn. Nevertheless, fuel oil exports through the Baltic are expected to decrease sharply once shipments through Russia's new Ust-Luga terminal on the Gulf of Finland get under way.

During the first half of the year, gasoil exports rose by 4.2% y-o-y to 934 tb/d. Baltic shipments fell while deliveries from the Russian port of Primorsk increased, reflecting higher demand for 10ppm Russian diesel. Gasoline exports experienced the most significant decline, plummeting by almost a third to just 185tb/d. Deliveries at Baltic and Black Sea ports were reduced and jet fuel exports also declined.

Table 26: Recent FSU exports of crude and products by source, kb/d

	2008	2009	3Q09	1Q10	2Q10	May 10	Jun 10*
Crude							
Russian pipeline							
Black Sea	1,248	1,201	1,120	1,027	976	1,111	788
Baltic	1,559	1,577	1,567	1,526	1,629	1,687	1,650
Druzhba	1,077	1,112	1,110	1,123	1,091	1,070	1,121
Kozmino	n.a.	n.a.	n.a.	n.a.	323	286	370
Total	**3,905**	**3,922**	**3,816**	**3,932**	**4,019**	**4,154**	**3,929**
Other routes							
Russian rail	283	280	291	364	324	298	288
Russian-Far East	220	283	279	293	296	264	350
Kazak rail to China	17	18	17	18	18	17	18
Vadandey	20	155	148	163	167	169	175
Kaliningrad	0	0	0	0	22	23	16
CPC	675	736	737	736	732	749	689
BTC	648	805	870	679	809	844	813
Kankiyak-Alashankou	121	157	185	205	200	196	203
Caspian	185	281	297	296	271	300	251
Total crude exports	**6,089**	**6,653**	**6,654**	**6,711**	**6,858**	**7,014**	**6,731**
Products							
Gasoline	210	229	181	215	155	189	134
Naphtha	217	273	270	273	270	279	244
Jet	37	52	47	27	31	31	27
Gasoil	810	949	960	976	892	915	854
Fuel oil	1,069	1,114	1,200	1,060	1,312	1,348	1,266
VGO	196	233	225	238	287	341	286
Total	**2,539**	**2,850**	**2,883**	**2,790**	**2,947**	**3,103**	**2,810**
Total oil exports	**8,628**	**9,503**	**9,537**	**9,493**	**9,805**	**10,117**	**9,541**

* *Preliminary*
Totals may not add due to independent rounding
Source: Nefte Transport, Global Markets, Argus Fundamentals, Argus FSU and OPEC

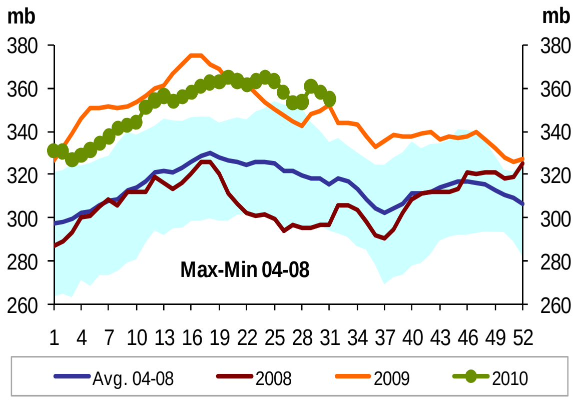
Stock Movements

US commercial oil stocks continued to rise, increasing by 23.4 mb in July

USA

US commercial oil inventories at the end of July continued their upward trend for the fourth consecutive month, increasing strongly by 23.4 mb and accumulating nearly 60 mb over this period. At 1124.9 mb, US commercial stocks are at their highest level since August 2009. With this build, the surplus with the five-year average widened to 102 mb from 87 mb last month. All the build came from products which increased by 23.6 mb, while crude oil inventories experienced a small draw of 0.2 mb.

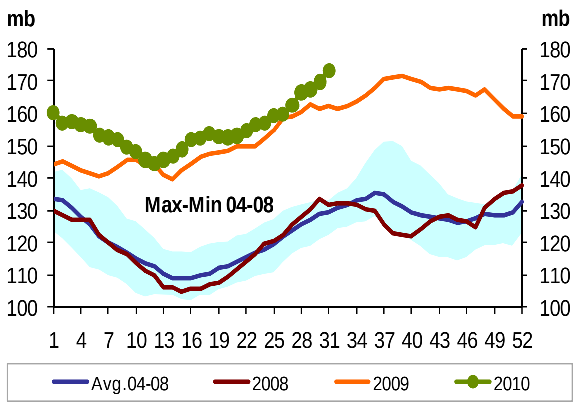
Graph 43: US weekly commercial crude oil inventories



At 358.0 mb, **crude oil stocks** remained at very comfortable levels, representing an overhang of 43 mb or 14% above the five-year average and 13 mb or 3.6% above a year ago. It is worth noting than during the week ending 23 July, crude oil stocks were above 360 mb, increasing more than 7 mb above the previous week, driven by strong imports which averaged 11.5 mb/d. During the month of July, US crude imports averaged nearly 10.0 mb/d, almost 300 tb/d higher than the previous month. At the same time, crude oil inputs to refiners have increased by almost the same amount to 15.58 mb/d, leaving crude stocks broadly unchanged. At the end of July, crude oil stocks in Cushing reached 37.7 mb, bringing stocks close to the record levels seen two months ago.

On the product side, **US product stocks** rose significantly in July for the fourth consecutive month ending the month at 766.9 mb, the highest level since November 2009. With the exception of fuel oil, all other products saw a build. Gasoline stocks rose 3.5 mb to 223.0 mb. The rise in gasoline stocks came mainly from higher imports and increased output as gasoline demand saw a minor increase, averaging 9.4 mb/d. Gasoline stocks stood at 7.3% above the seasonal norm and 3.5% more than a year ago. Distillate stocks saw a considerable build of 10.0 mb to 169.7 mb, leaving them at very comfortable levels, around 30% more than the average for the last five years. Higher utilization rates combined with depressed demand have helped to boost the overhang in distillate stocks. Distillate demand declined nearly 300 tb/d in July to average only 3.48 mb/d. Overall, total stocks have reduced the deficit with a year ago to only 1.7%, but widened the surplus with the five-year average to almost 60 mb or 8.4%.

Graph 44: US weekly distillate stocks



The latest data for US commercial oil stocks during the week ending 6 August showed a small increase of 0.14 mb to stand at 1125.0 mb. This build was mainly driven by products as crude declined. In fact, US crude oil fell by 3.0 mb to 355.0 mb, a drop that was larger than the market expected. This draw could be attributed to a huge decline in imports of 1.7 mb/d to 9.4 mb/d from the peak two weeks ago. The draw occurred despite a contraction in throughputs of just 500 tb/d, which kept crude runs over 15 mb/d. Crude oil stocks now stand at 11.7% above the five-year average. Gasoline stocks posted a moderate build of 0.4 mb/d to 223.4 mb with a decline in demand outpacing lower domestic output. Gasoline stocks are 7.5% above the seasonal norm. The rise of 3.5 mb in distillate stocks was the second highest in over a year. At 173.1 mb/d, distillate stocks remained at very comfortable levels showing a surplus of 34.4% with the historical average. This is matter of concern when the driving season is over and attention is shifted toward the distillate market.

Table 27: US onland commercial petroleum stocks, mb

	May 10	Jun 10	Jul 10	Change Jul 10/Jun 10	Jul 09	06 Aug 10 *
Crude oil	358.4	358.2	358.0	-0.2	345.4	355.0
Gasoline	215.8	219.4	223.0	3.5	212.5	223.4
Distillate fuel	150.3	159.7	169.7	10.0	165.9	173.1
Residual fuel oil	45.6	42.6	40.2	-2.5	35.2	40.9
Jet fuel	44.6	48.2	48.7	0.5	46.7	47.6
Total	**1096.9**	**1101.5**	**1124.9**	**23.4**	**1125.9**	**1125.1**
SPR	726.6	726.6	726.6	0.0	724.1	726.6

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

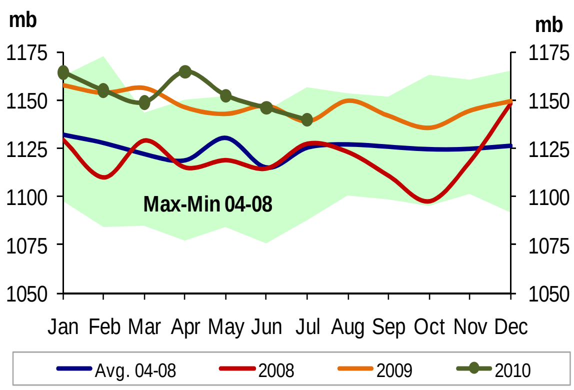
Source: US Department of Energy's Energy Information Administration

Europe

European total oil inventories fell 6.0 mb in July but remained above the seasonal norm

European total oil inventories (EU plus Norway) declined 6.0 mb to 1139.7 mb for the third consecutive month. Both crude and products indicated a draw of 1.3 mb and 4.7 mb respectively. This draw has narrowed the surplus with the seasonal norm from 14% to only 1.3%, although European stocks are almost at the same level as a year ago.

Graph 45: EU-15 plus Norway's total oil stocks



Crude stocks ended the month at 483.3 mb, the lowest since March. This draw could be attributed to lower supply in Europe reflecting North Sea maintenance, which reduced Norwegian production. This draw occurred despite lower crude runs, which fell by 170 tb/d to average 11.1 mb/d. At the end of July, crude oil stocks were almost in line with a year ago and the seasonal norm.

On the product side, lower refinery runs have impacted all major products, indicating a stock-draw for six consecutive months. Despite this draw, **total product stocks** remained at 2.1% above the five-year average and were in line with the year-ago level. Gasoline stocks saw the bulk of this draw, declining by 3.0 mb to 108.6 mb, representing a deficit of 14.5% with the seasonal average and 2.7% with the previous year. This draw could be attributed to lower refinery output combined with stronger US demand which boosted transatlantic trade. Weaker demand in Europe and expected higher throughputs will help gasoline stocks to move higher in the coming months. Middle distillates also fell 1.4 mb to 403.5 mb, almost 10 mb or 2.3% below than the same month a year ago, but remained at 10 mb or 7.3% above the five-year average. This draw could be attributed to stronger demand, especially in Germany, France and UK. Residual fuel stocks fell less than 1 mb in July to 110.1 mb, despite the fall in demand, and remained higher than a year ago.

Table 28: Western Europe's oil stocks, mb					
				Change	
	May 10	Jun 10	Jul 10	Jul 10/Jun 10	Jul 09
Crude oil	489.8	484.6	483.3	-1.3	482.4
Mogas	111.7	111.5	108.6	-3.0	111.5
Naphtha	35.2	34.3	34.3	0.0	27.7
Middle distillates	407.8	404.9	403.5	-1.4	413.1
Fuel oils	107.8	110.4	110.1	-0.4	104.4
Total products	662.5	661.1	656.4	-4.7	656.7
Total	**1,152.4**	**1,145.7**	**1,139.7**	**-6.0**	**1,139.0**

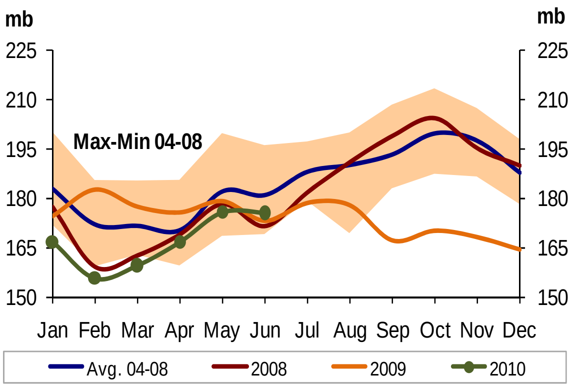
Source: Argus, Euroilstock

Japan

Slight decline in commercial oil stocks in Japan, but preliminary data shows a increase of around 4 mb at the end of July

Commercial oil inventories in Japan reversed the increase observed over the last three months and declined slightly by 0.2 mb in June to end the month at 175.5 mb. Commercial oil stocks stood at 2.4 mb or 1.4% above a year ago and remained 5.2 mb or 2.9% below the five-year average. Crude and total product inventories moved in opposite directions, as crude stocks saw a build of 3.5 mb, while total product inventories fell 3.8 mb.

Graph 46: Japan's commercial oil stocks



At 104.6 mb, Japanese **crude oil inventories** stood at their highest level since February 2009 to show a build for the fourth consecutive month, accumulating around 18 mb over this period. The build came as a result of a strong decline in crude throughput of about 300 tb/d to average 3.03 mb/d. This corresponds to a refinery operations rate of 63.8%, 5.8% less than the previous month and 1.3% below a year ago. The build in commercial crude stocks came despite lower crude imports, which decreased by 7.9% compared to a month earlier and 1.5% below a year ago. With this build, Japanese crude oil inventories showed a surplus of 1.6% for the first time since June 2009. However, this build has helped to narrow the deficit with the previous year to 6.8% from 7.6% in May.

On the product side, Japanese **product inventories** in June reversed the upward trend observed over the last two months and declined by 3.8 mb to 70.8 mb. This draw is mainly attributed to higher domestic demand which increased by 4.2%. However, demand remained depressed compared to the previous year, decreasing by 4.7%. A 5% drop in refinery output, to average 2.89 mb/d, has also contributed to the draw in product inventories. Total products ended June at 0.8 mb or 1.2% above a year ago and 2.4 mb or 3.5% above the five-year average. Within products, all products saw a decline with the bulk of the drop coming from gasoline and distillate stocks which fell by 1.3 mb and 1.1 mb respectively. Gasoline stocks ended the month at 14.4 mb, reversing the build over the last two months, driven by higher gasoline sales, which rose 2%. However, gasoline remained 2% below the same period a year ago. Despite the draw, gasoline stocks remained at comfortable levels, indicating a surplus of 2.3% with a year ago and 11.1% with the seasonal norm. Total distillate stocks also declined to 27.5 mb, remaining 12.4% below a year ago and 5% less than the five-year average. Within distillate components, gasoil stocks saw a drop of 1.6%, while kerosene and jet fuel inventories rose 1.5% and 3.9% respectively. The draw in gasoil stocks came as domestic sales rose 10%, combined with the 40% increase in imports. Lower domestic sales by 6% were behind the build in kerosene inventories. Fuel oil stocks fell 1.0 mb to 16.8 b after building for three consecutive months. Both components fuel oil A and fuel oil B.C declined by 3.1% and 6.4% respectively. The drop in fuel oil A stocks could be attributed the 9.4% increase in domestic sales, while, in contrast, a 2.7% drop in demand was behind the build in stocks of fuel oil B.C. Naphtha stocks fell slightly by

0.4 mb to 12.1 mb, driven by lower output and imports as they declined by 12.8% and 5.8% respectively.

Table 29: Japan's commercial oil stocks*, mb

	Apr 10	May 10	Jun 10	Change Jun 10/May 10	Jun 09
Crude oil	100.0	101.1	104.6	3.5	103.4
Gasoline	14.7	15.7	14.4	-1.3	14.0
Naphtha	10.9	12.6	12.1	-0.5	9.0
Middle distillates	24.6	28.5	27.5	-1.0	31.6
Residual fuel oil	16.5	17.8	16.8	-1.0	15.4
Total products	66.7	74.6	70.8	-3.8	70.0
Total**	**166.7**	**175.7**	**175.5**	**-0.2**	**173.4**

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

Preliminary weekly data from PAJ showed Japanese total commercial oil stocks rose by 4.0 mb to 179.4 mb at the end of July, the highest since March 2009. The build was driven mainly by products, which increased by 3.4 mb, and to a lesser extent by a 0.6 mb build in crude. Despite this build, Japanese oil stocks remained 3.5% below the seasonal norm, but were 0.5% above a year ago. The build in crude oil stocks to 105.2 mb came despite a rise in refinery runs as seasonal maintenance came to a close. In the coming months, Japanese crude oil stocks could see a further build as some refiners are expected to process less crude amid projections of weak domestic demand. At the end of July, crude oil inventories stood at 0.8% above year ago, but remained 7.7% below the seasonal norm. Within products, the 1.1 mb drop in gasoline was the exception, as all other products showed a build. The bulk of the increase came from distillates which rose 2.5 mb, followed by fuel oil which increased 1.2 mb. Total product stocks in July remained in line with the previous year, but showed a surplus of 3.1% with the five-year average.

Singapore and Amsterdam-Rotterdam-Antwerp (ARA)

Product stocks in Singapore rebounded by 6.3 mb in June but preliminary data shows them falling back in July

At the end of June, **product stocks** held in Singapore reversed the draw observed last month and rose 6.3 mb to stand at 49.01 mb. The build widened the surplus with a year ago to 11.2% from 4.9% a month earlier. All products saw a build with middle distillates seeing the bulk, increasing by 4.6 mb, while light distillates and fuel oil both indicated a slight build of 0.9 mb. At nearly 16 mb, middle distillates rose to record levels, driven by a sharp increase in supply, as refiners came back from maintenance. The build in middle distillates pushed the surplus with a year ago to 17.1%. Light distillates rose 0.9 mb to 11.42 mb, remaining at 3.3% above a year ago in the same period. This build came on the back of higher imports to Singapore which offset some exports to Indonesia. Fuel oil stocks also rose by the same amount to end the month at 21.97 mb, as western arbitrage arrivals for June remained heavy. Fuel oil stocks stood at 11.2% above a year earlier.

Preliminary data for the end of July based on weekly information showed that product inventories in Singapore reversed the upward trend observed in the previous month and declined by nearly 2 mb, leaving them still 15% above a year ago. Light distillate and fuel oil stocks saw a drop of 0.6 mb and 1.3 mb respectively, while middle distillates remained almost unchanged. At 10.78 mb, light distillates fell mainly due to lower Chinese exports on the back of stronger domestic demand. Fuel oil stocks also fell to 20.63 mb to reach a seven-week low. This drop could be attributed to lower exports from the Middle East due to the tighter domestic market.

Slight stock build in ARA in June, but preliminary data for July shows a drop

Product stocks in ARA at the end of June reversed the trend observed last month and rose by 0.34 mb to 37.84 mb. With this build, product stocks in ARA remained at 4.5 mb or 13.4% above a year ago. Within products, the picture was mixed; fuel oil and jet oil saw a build, while gasoline indicated a draw. Gasoil and naphtha stocks were almost unchanged. Gasoline inventories declined 0.6 mb to 7.7 mb, mainly due to higher gasoline imports to the US amid driving season. Despite this draw, gasoline inventories remained with a comfortable surplus of 17% over a year ago. Fuel oil stocks rose 0.5 mb to 3.89 mb due to low Asian demand for European cargos. Fuel oil stocks stood at almost double when compared to the previous year at the same period. Jet fuel oil stocks also rose by 0.3 mb to 5.85 mb due to an open arbitrage from the Middle East pushing the surplus with a year ago to 29%. Gasoil stocks were barely changed at 17.6 mb indicating still a deficit of 5.6% with a year ago.

Preliminary data for the end of July, based on weekly information, shows products in ARA fell 2.5 mb to 35.4 mb to stand almost in line with the previous year. All products saw a draw with the bulk of the drop coming from fuel oil stocks. In fact, fuel oil stocks fell 1.5 mb to 3.9 mb, mainly on higher exports. It was reported that at least two cargos of fuel oil were shipped to Singapore. Fuel oil stocks remained well above a year ago, indicating a surplus of 15%. Gasoline stocks saw a slight drop to end the month at 7.7 mb, or 26% above a year earlier, Gasoil stocks also went down by 0.2 mb to 17.6 mb as exports to Germany and UK outpaced imports coming from Russia and US.

Balance of Supply and Demand

Estimate for 2010

Required OPEC crude for 2010 estimated at 28.7 mb/d, down 0.2 mb/d from last year

Demand for OPEC crude for 2010 has been revised slightly up by 52 tb/d to currently stand at 28.7 mb/d. This upward revision comes as the higher demand figure demand outpaced the upward adjustment in non-OPEC supply. Demand for OPEC crude represents a decline of 0.2 mb/d from the previous year. The first quarter of the year still shows a drop of 1.0 mb/d followed by a decline of 0.5 mb/d in the second quarter, while both the third and the fourth quarters are estimated to see positive growth of around 0.2 mb/d and 0.4 mb/d respectively

Table 30: Summarized supply/demand balance for 2010, mb/d

	2009	1Q10	2Q10	3Q10	4Q10	2010
(a) World oil demand	**84.46**	**85.01**	**84.56**	**85.81**	**86.62**	**85.50**
Non-OPEC supply	51.13	52.18	52.06	51.56	51.91	51.92
OPEC NGLs and non-conventionals	4.35	4.60	4.79	4.87	5.08	4.84
(b) Total supply excluding OPEC crude	**55.48**	**56.77**	**56.85**	**56.43**	**56.99**	**56.76**
Difference (a-b)	**28.97**	**28.23**	**27.70**	**29.38**	**29.63**	**28.74**
OPEC crude oil production	28.71	29.18	29.10			
Balance	-0.27	0.95	1.40			

Totals may not add due to independent rounding

Forecast for 2011

Demand for OPEC crude in 2011 forecast at 28.9 mb/d, 0.2 mb/d higher than the current year

The demand for OPEC crude for next year is projected to average 28.9 mb/d, representing an upward revision of 93 tb/d from the previous month. Required OPEC crude is forecast to increase by about 0.2 mb/d following three consecutive annual declines. The bulk of the growth is expected to be seen in the first half of the year, while the second half is forecast with a small decline from the previous year.

Table 31: Summarized supply/demand balance for 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011
(a) World oil demand	**85.50**	**86.18**	**85.49**	**86.81**	**87.71**	**86.55**
Non-OPEC supply	51.92	52.18	52.06	52.09	52.74	52.27
OPEC NGLs and non-conventionals	4.84	5.22	5.33	5.42	5.47	5.36
(b) Total supply excluding OPEC crude	**56.76**	**57.40**	**57.40**	**57.51**	**58.22**	**57.63**
Difference (a-b)	**28.74**	**28.78**	**28.09**	**29.30**	**29.49**	**28.92**

Totals may not add due to independent rounding

Graph 47: Balance of supply and demand

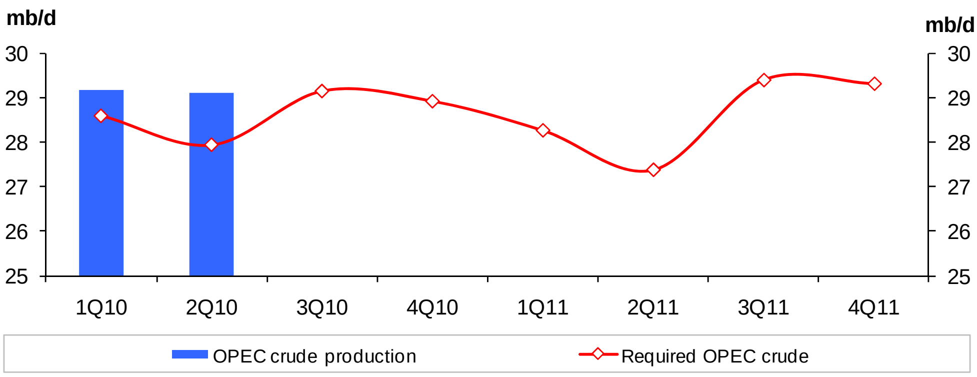


Table 32: World oil demand/supply balance,

	2005	2006	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11	4Q11	2011
World demand															
OECD	49.9	49.6	49.3	47.6	45.5	45.9	44.7	45.0	46.0	45.4	46.0	44.7	45.0	46.1	45.5
North America	25.6	25.4	25.5	24.2	23.3	23.6	23.5	23.6	23.8	23.6	23.9	23.6	23.8	24.0	23.8
Western Europe	15.7	15.7	15.5	15.4	14.5	14.1	13.8	14.2	14.3	14.1	14.0	13.7	14.0	14.2	14.0
Pacific	8.6	8.5	8.4	8.0	7.7	8.2	7.4	7.2	7.9	7.7	8.1	7.3	7.2	7.9	7.6
DCs	22.7	23.5	24.6	25.5	26.0	26.2	26.7	26.9	26.9	26.7	26.8	27.2	27.4	27.4	27.2
FSU	3.9	4.0	4.0	4.1	4.0	3.9	3.7	4.2	4.2	4.0	4.0	3.8	4.2	4.3	4.1
Other Europe	0.8	0.9	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.7	0.7	0.7
China	6.7	7.2	7.6	8.0	8.3	8.2	8.8	9.1	8.7	8.7	8.7	9.2	9.5	9.2	9.1
(a) Total world demand	84.1	85.2	86.4	85.9	84.5	85.0	84.6	85.8	86.6	85.5	86.2	85.5	86.8	87.7	86.6
Non-OPEC supply															
OECD	20.4	20.1	20.1	19.5	19.6	19.9	19.7	19.3	19.6	19.6	19.6	19.4	19.2	19.6	19.5
North America	14.1	14.2	14.3	13.9	14.3	14.6	14.7	14.4	14.4	14.5	14.5	14.5	14.5	14.7	14.5
Western Europe	5.7	5.3	5.2	5.0	4.7	4.7	4.4	4.2	4.5	4.4	4.5	4.3	4.1	4.3	4.3
Pacific	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6
DCs	11.9	12.0	12.0	12.3	12.6	12.9	12.9	12.8	12.9	12.9	13.0	13.1	13.2	13.4	13.2
FSU	11.5	12.0	12.5	12.6	13.0	13.1	13.2	13.2	13.3	13.2	13.3	13.3	13.4	13.4	13.4
Other Europe	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.6	3.7	3.8	3.8	3.9	4.0	4.1	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Processing gains	1.9	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Total non-OPEC supply	49.6	50.0	50.5	50.4	51.1	52.2	52.1	51.6	51.9	51.9	52.2	52.1	52.1	52.7	52.3
OPEC NGLs + non-conventional oils	3.9	3.9	3.9	4.1	4.3	4.6	4.8	4.9	5.1	4.8	5.2	5.3	5.4	5.5	5.4
(b) Total non-OPEC supply and OPEC NGLs	53.5	53.9	54.5	54.5	55.5	56.8	56.9	56.4	57.0	56.8	57.4	57.4	57.5	58.2	57.6
OPEC crude oil production (secondary sources)	30.7	30.5	30.2	31.2	28.7	29.2	29.1								
Total supply	84.2	84.4	84.6	85.7	84.2	86.0	86.0								
Balance (stock change and miscellaneous)	0.1	-0.8	-1.8	-0.2	-0.3	0.9	1.4								
OECD closing stock levels (mb)															
Commercial	2587	2668	2572	2697	2665	2682	2761								
SPR	1487	1499	1524	1527	1564	1567	1563								
Total	4073	4167	4096	4223	4229	4249	4324								
Oil-on-water	954	919	948	969	906	873	945								
Days of forward consumption in OECD															
Commercial onland stocks	52	54	54	59	59	60	61								
SPR	30	30	32	34	34	35	35								
Total	82	84	86	93	93	95	96								
Memo items															
FSU net exports	7.7	8.0	8.5	8.5	9.0	9.2	9.4	9.0	9.1	9.2	9.3	9.6	9.2	9.2	9.3
(a) - (b)	30.5	31.3	31.9	31.4	29.0	28.2	27.7	29.4	29.6	28.7	28.8	28.1	29.3	29.5	28.9

Note: Totals may not add up due to independent rounding

Table 33: World oil demand/supply balance: changes from last month's table † , mb/d

	2005	2006	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11	4Q11	2011
World demand															
OECD	0.1	-	0.2	-	-	0.1	0.2	-	-	0.1	-	-	-	-	-
North America	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-
Western Europe	-	-	0.1	-	-	0.2	0.1	-	-	0.1	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FSU	-	-	-	-	-	0.1	-	-	-	-	0.1	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	0.1	0.1	-	-	-	0.1	0.1	-
(a) Total world demand	0.1	-	0.2	-	-	0.2	0.2	0.1	0.1	0.1	0.3	0.1	0.1	0.1	0.1
World demand growth	*0.01*	*-0.01*	*0.11*	*-0.16*	*0.05*	*0.21*	*0.15*	*-*	*0.05*	*0.10*	*0.02*	*-0.01*	*-0.01*	*-0.01*	*-*
Non-OPEC supply															
OECD	-	-	-	-	-	-	-	0.1	0.1	-	0.1	0.1	0.1	0.1	0.1
North America	-	-	-	-	-	-	0.1	0.1	0.1	0.1	-	-	-	-	-
Western Europe	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	-	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total non-OPEC supply growth	*-*	*-0.01*	*-0.01*	*0.02*	*0.02*	*-*	*0.02*	*0.10*	*0.08*	*0.05*	*0.06*	*0.03*	*-0.03*	*-0.05*	*-*
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	-	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
OPEC crude oil production (secondary sources)	-	-	-	-	-	-									
Total supply	-	-	-	-	-	-									
Balance (stock change and miscellaneous)	-0.1	-0.1	-0.2	-	-	-									
OECD closing stock levels (*mb*)															
Commercial	-	-	-	-	-	4									
SPR	-	-	-	-	-	-									
Total	-	-	-	-	-	4									
Oil-on-water	-	-	-	-	-	-									
Days of forward consumption in OECD					-	-									
Commercial onland stocks	-	-	-	-	-	-									
SPR	-	-	-	-	-	-									
Total	-	-	-	-	-	-									
Memo items															
FSU net exports	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-	-	-	-
(a) - (b)	0.1	0.1	0.2	-	-	0.2	0.1	-	-	0.1	0.2	0.1	-	-	0.1

† This compares Table 32 in this issue of the MOMR with Table 32 in the July 2010 issue

This table shows only where changes have occurred

Table 34: OECD oil stocks and oil on water at the end of period

	2003	2004	2005	2006	2007	2008	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10
Closing stock levels *mb*																											
OECD onland commercial	2,511	2,538	2,587	2,668	2,572	2,697	2,612	2,627	2,587	2,586	2,649	2,761	2,668	2,601	2,661	2,646	2,572	2,572	2,602	2,664	2,697	2,751	2,759	2,778	2,665	2,682	2,761
North America	1,161	1,193	1,257	1,277	1,229	1,301	1,275	1,254	1,257	1,240	1,277	1,351	1,277	1,238	1,294	1,285	1,229	1,216	1,240	1,282	1,301	1,355	1,388	1,390	1,309	1,323	1,378
Western Europe	915	915	935	963	937	989	915	942	935	938	936	949	963	943	940	929	937	961	953	951	989	988	969	969	972	973	977
OECD Pacific	435	430	394	429	407	406	422	432	394	408	436	461	429	420	428	432	407	394	409	431	406	408	401	419	383	386	407
OECD SPR	1,411	1,450	1,487	1,499	1,524	1,527	1,494	1,494	1,487	1,487	1,493	1,495	1,499	1,507	1,506	1,520	1,524	1,529	1,526	1,522	1,527	1,547	1,561	1,564	1,564	1,567	1,563
North America	640	678	687	691	699	704	698	696	687	688	690	690	691	691	692	695	699	702	708	704	704	715	726	727	729	729	729
Western Europe	374	377	407	412	421	416	401	405	407	407	411	412	412	415	413	423	421	423	414	414	416	424	427	429	426	429	424
OECD Pacific	396	396	393	396	404	406	395	393	393	392	393	393	396	401	401	403	404	404	404	403	406	408	408	408	409	409	411
OECD total	3,922	3,988	4,073	4,167	4,096	4,223	4,106	4,121	4,073	4,074	4,142	4,256	4,167	4,108	4,168	4,166	4,096	4,101	4,128	4,186	4,223	4,298	4,320	4,342	4,229	4,249	4,324
Oil-on-water	882	905	954	919	948	969	932	925	954	962	975	974	919	916	891	917	948	935	925	885	969	899	899	869	906	873	945
Days of forward consumption in OECD																											
OECD onland commercial	51	51	52	54	54	59	53	52	51	53	54	55	54	54	54	53	52	54	56	56	58	62	61	60	58	60	61
North America	46	47	49	50	51	56	50	49	50	49	50	53	50	49	51	50	50	50	53	54	55	59	60	59	55	56	58
Western Europe	59	58	60	62	61	68	58	60	58	61	60	60	63	62	60	59	61	64	61	62	66	69	67	67	69	70	69
OECD Pacific	51	50	47	51	51	53	52	49	42	52	55	53	48	53	54	49	46	50	54	54	50	56	55	52	47	52	57
OECD SPR	28	29	30	30	32	34	30	30	29	31	30	30	30	31	31	30	31	32	33	32	33	35	35	34	34	35	35
North America	25	26	27	27	29	30	27	27	27	27	27	27	27	27	27	27	28	29	30	29	30	31	31	31	31	31	31
Western Europe	24	24	26	27	27	29	26	26	25	27	26	26	27	27	26	27	27	28	27	27	28	30	29	30	30	31	30
OECD Pacific	46	46	46	47	50	53	49	45	42	50	50	45	44	51	51	46	45	52	54	51	50	56	56	51	50	56	57
OECD total	79	80	82	84	86	93	83	82	80	84	84	85	84	85	85	83	84	87	88	89	91	97	96	95	92	95	96

n.a. not available

Table 35: Non-OPEC supply and OPEC natural gas liquids, mb/d

	2005	2006	2007	2008	Change 08/07	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10
USA	7.34	7.36	7.50	7.50	0.00	7.85	7.97	8.13	8.32	8.07	0.57	8.44	8.46	8.27	8.30	8.37	0.30	8.32	8.32	8.34	8.40	8.35	-0.02
Canada	3.03	3.20	3.31	3.27	-0.04	3.32	3.13	3.23	3.27	3.24	-0.03	3.21	3.27	3.24	3.30	3.26	0.02	3.33	3.35	3.36	3.44	3.37	0.11
Mexico	3.77	3.69	3.49	3.17	-0.31	3.04	2.97	2.94	2.96	2.98	-0.19	2.99	2.97	2.88	2.82	2.92	-0.06	2.82	2.82	2.80	2.82	2.81	-0.10
North America	14.14	14.24	14.29	13.94	-0.35	14.21	14.08	14.30	14.56	14.29	0.35	14.64	14.70	14.40	14.42	14.54	0.25	14.47	14.48	14.50	14.66	14.53	-0.01
Norway	2.97	2.78	2.56	2.45	-0.10	2.52	2.20	2.28	2.37	2.34	-0.11	2.31	2.10	2.11	2.27	2.20	-0.15	2.27	2.10	1.98	2.18	2.13	-0.07
UK	1.89	1.71	1.69	1.58	-0.11	1.63	1.57	1.27	1.46	1.48	-0.10	1.51	1.38	1.28	1.34	1.38	-0.10	1.36	1.31	1.26	1.30	1.31	-0.07
Denmark	0.38	0.34	0.31	0.28	-0.03	0.28	0.27	0.27	0.24	0.26	-0.02	0.25	0.27	0.24	0.24	0.25	-0.01	0.24	0.23	0.20	0.21	0.22	-0.03
Other Western Europe	0.49	0.51	0.62	0.64	0.03	0.62	0.62	0.64	0.63	0.63	-0.02	0.60	0.63	0.62	0.62	0.62	-0.01	0.63	0.63	0.63	0.63	0.63	0.01
Western Europe	5.72	5.34	5.17	4.96	-0.21	5.05	4.65	4.45	4.70	4.71	-0.24	4.68	4.37	4.25	4.47	4.44	-0.27	4.50	4.27	4.07	4.32	4.29	-0.15
Australia	0.53	0.51	0.53	0.53	0.01	0.55	0.53	0.55	0.53	0.54	0.01	0.51	0.51	0.54	0.57	0.53	-0.01	0.54	0.56	0.57	0.56	0.56	0.03
Other Pacific	0.05	0.05	0.08	0.10	0.02	0.09	0.09	0.10	0.10	0.10	0.00	0.10	0.10	0.10	0.10	0.10	0.00	0.10	0.09	0.08	0.08	0.09	-0.01
OECD Pacific	0.58	0.56	0.60	0.63	0.03	0.64	0.62	0.65	0.63	0.64	0.01	0.61	0.61	0.64	0.67	0.63	0.00	0.64	0.65	0.65	0.64	0.64	0.01
Total OECD	20.44	20.14	20.07	19.53	-0.54	19.90	19.35	19.41	19.89	19.64	0.11	19.94	19.68	19.29	19.56	19.61	-0.02	19.60	19.40	19.21	19.62	19.46	-0.15
Brunei	0.21	0.22	0.19	0.17	-0.01	0.17	0.15	0.16	0.19	0.17	0.00	0.18	0.16	0.17	0.17	0.17	0.00	0.17	0.17	0.17	0.17	0.17	0.00
India	0.76	0.78	0.80	0.80	0.00	0.77	0.78	0.79	0.80	0.79	-0.01	0.82	0.83	0.85	0.88	0.84	0.06	0.89	0.87	0.89	0.90	0.89	0.04
Indonesia	1.12	1.07	1.02	1.04	0.02	1.03	1.02	1.02	1.03	1.03	-0.01	1.03	1.04	1.02	1.01	1.03	0.00	1.02	1.01	1.00	0.99	1.01	-0.02
Malaysia	0.77	0.76	0.76	0.76	0.00	0.74	0.72	0.73	0.71	0.73	-0.03	0.73	0.71	0.66	0.65	0.69	-0.04	0.65	0.64	0.63	0.63	0.64	-0.05
Thailand	0.29	0.32	0.33	0.36	0.02	0.37	0.37	0.36	0.37	0.37	0.01	0.35	0.34	0.35	0.35	0.35	-0.02	0.36	0.35	0.35	0.35	0.35	0.01
Vietnam	0.39	0.37	0.35	0.33	-0.01	0.34	0.36	0.38	0.41	0.37	0.04	0.40	0.39	0.37	0.36	0.38	0.01	0.39	0.40	0.43	0.45	0.42	0.04
Asia others	0.26	0.26	0.26	0.26	0.00	0.25	0.26	0.25	0.25	0.25	-0.01	0.22	0.23	0.25	0.25	0.24	-0.01	0.25	0.26	0.27	0.27	0.26	0.02
Other Asia	3.79	3.78	3.70	3.72	0.02	3.68	3.68	3.69	3.76	3.70	-0.02	3.73	3.70	3.68	3.68	3.70	-0.01	3.72	3.71	3.74	3.76	3.73	0.04
Argentina	0.78	0.77	0.77	0.78	0.01	0.78	0.77	0.74	0.76	0.76	-0.02	0.77	0.76	0.74	0.73	0.75	-0.01	0.73	0.73	0.73	0.73	0.73	-0.02
Brazil	1.98	2.11	2.22	2.38	0.16	2.47	2.49	2.51	2.55	2.51	0.12	2.64	2.70	2.74	2.79	2.72	0.21	2.86	2.88	2.95	3.02	2.93	0.21
Colombia	0.53	0.54	0.54	0.60	0.06	0.65	0.67	0.68	0.73	0.68	0.09	0.77	0.79	0.78	0.80	0.79	0.10	0.82	0.84	0.87	0.89	0.86	0.07
Trinidad & Tobago	0.18	0.18	0.16	0.16	0.00	0.16	0.16	0.15	0.16	0.16	0.00	0.16	0.16	0.15	0.15	0.15	0.00	0.14	0.14	0.14	0.14	0.14	-0.01
L. America others	0.30	0.26	0.27	0.28	0.01	0.30	0.29	0.30	0.30	0.30	0.02	0.30	0.30	0.30	0.30	0.30	0.01	0.31	0.32	0.33	0.33	0.32	0.02
Latin America	3.77	3.87	3.96	4.20	0.23	4.35	4.37	4.39	4.51	4.40	0.21	4.64	4.71	4.71	4.77	4.71	0.30	4.86	4.91	5.01	5.11	4.97	0.26
Bahrain	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00
Oman	0.78	0.75	0.71	0.76	0.05	0.79	0.80	0.83	0.83	0.81	0.06	0.86	0.87	0.86	0.87	0.86	0.05	0.88	0.90	0.91	0.93	0.90	0.04
Syria	0.45	0.44	0.42	0.41	0.00	0.41	0.41	0.41	0.41	0.41	0.00	0.42	0.41	0.40	0.39	0.41	-0.01	0.38	0.38	0.37	0.37	0.37	-0.03
Yemen	0.41	0.37	0.33	0.30	-0.03	0.30	0.30	0.30	0.29	0.30	-0.01	0.29	0.29	0.27	0.27	0.28	-0.02	0.26	0.26	0.25	0.26	0.26	-0.02
Middle East	1.85	1.76	1.66	1.68	0.02	1.71	1.72	1.75	1.74	1.73	0.05	1.77	1.78	1.74	1.73	1.75	0.03	1.73	1.73	1.74	1.76	1.74	-0.01
Chad	0.18	0.15	0.15	0.15	0.00	0.14	0.14	0.14	0.14	0.14	-0.01	0.14	0.14	0.13	0.12	0.13	-0.01	0.12	0.12	0.12	0.12	0.12	-0.01
Congo	0.24	0.25	0.24	0.26	0.02	0.27	0.27	0.27	0.29	0.27	0.02	0.30	0.30	0.29	0.29	0.29	0.02	0.29	0.30	0.30	0.31	0.30	0.01
Egypt	0.70	0.66	0.66	0.69	0.04	0.72	0.72	0.69	0.71	0.71	0.01	0.71	0.72	0.71	0.71	0.71	0.00	0.71	0.71	0.70	0.69	0.70	-0.01
Equatorial Guinea	0.36	0.37	0.37	0.38	0.01	0.37	0.36	0.35	0.34	0.36	-0.02	0.33	0.33	0.33	0.32	0.33	-0.03	0.31	0.31	0.30	0.30	0.30	-0.02
Gabon	0.25	0.25	0.25	0.24	-0.01	0.26	0.26	0.27	0.28	0.26	0.02	0.28	0.26	0.26	0.26	0.26	0.00	0.25	0.26	0.26	0.26	0.26	0.00
South Africa	0.19	0.19	0.18	0.18	0.00	0.18	0.18	0.17	0.16	0.17	-0.01	0.18	0.18	0.17	0.17	0.17	0.00	0.17	0.17	0.17	0.17	0.17	0.00
Sudan	0.34	0.40	0.50	0.48	-0.02	0.46	0.48	0.47	0.47	0.47	-0.01	0.47	0.47	0.47	0.46	0.47	0.00	0.46	0.47	0.47	0.47	0.47	0.00
Africa other	0.25	0.32	0.34	0.35	0.01	0.35	0.34	0.34	0.33	0.34	-0.01	0.34	0.34	0.34	0.37	0.35	0.01	0.39	0.40	0.43	0.49	0.43	0.08
Africa	2.52	2.58	2.68	2.73	0.05	2.73	2.73	2.71	2.71	2.72	-0.01	2.74	2.72	2.69	2.69	2.71	-0.01	2.70	2.73	2.75	2.80	2.74	0.03
Total DCs	11.93	11.99	12.01	12.32	0.31	12.47	12.50	12.53	12.72	12.55	0.23	12.88	12.91	12.83	12.87	12.87	0.32	13.01	13.09	13.24	13.43	13.19	0.32
FSU	11.55	12.02	12.53	12.60	0.06	12.67	12.93	13.05	13.16	12.96	0.36	13.12	13.16	13.22	13.32	13.20	0.25	13.33	13.33	13.38	13.44	13.37	0.17
Russia	9.44	9.65	9.87	9.78	-0.08	9.78	9.87	9.97	10.07	9.92	0.14	10.09	10.12	10.05	10.01	10.07	0.14	10.05	10.04	10.05	10.10	10.06	0.00
Kazakhstan	1.23	1.30	1.35	1.41	0.06	1.48	1.51	1.54	1.61	1.54	0.12	1.61	1.56	1.59	1.65	1.60	0.07	1.63	1.64	1.67	1.68	1.66	0.05
Azerbaijan	0.44	0.65	0.87	0.94	0.07	0.97	1.11	1.09	1.06	1.06	0.12	1.01	1.06	1.13	1.19	1.10	0.04	1.19	1.19	1.20	1.20	1.20	0.10
FSU others	0.44	0.42	0.44	0.46	0.01	0.45	0.44	0.44	0.42	0.44	-0.02	0.42	0.42	0.45	0.46	0.44	0.00	0.46	0.46	0.46	0.46	0.46	0.02
Other Europe	0.16	0.15	0.15	0.15	-0.01	0.14	0.13	0.14	0.14	0.14	-0.01	0.14	0.14	0.13	0.13	0.14	0.00	0.14	0.14	0.14	0.14	0.14	0.00
China	3.64	3.69	3.77	3.84	0.07	3.80	3.86	3.88	3.87	3.85	0.01	4.02	4.09	4.00	3.96	4.02	0.17	4.02	4.04	4.04	4.04	4.03	0.01
Non-OPEC production	47.71	48.00	48.53	48.43	-0.10	48.98	48.77	49.01	49.77	49.13	0.71	50.10	49.99	49.48	49.83	49.85	0.71	50.10	49.99	50.01	50.67	50.19	0.35
Processing gains	1.91	1.96	1.99	1.97	-0.02	2.00	2.00	2.00	2.00	2.00	0.03	2.08	2.08	2.08	2.08	2.08	0.08	2.08	2.08	2.08	2.08	2.08	0.00
Non-OPEC supply	49.62	49.96	50.52	50.40	-0.12	50.98	50.77	51.01	51.77	51.13	0.74	52.18	52.06	51.56	51.91	51.92	0.79	52.18	52.06	52.09	52.74	52.27	0.35
OPEC NGL	3.74	3.76	3.86	4.04	0.18	3.99	4.19	4.41	4.37	4.24	0.21	4.49	4.69	4.76	4.97	4.73	0.49	5.04	5.15	5.24	5.29	5.18	0.45
OPEC Non-conventional	0.16	0.14	0.09	0.11	0.02	0.11	0.11	0.11	0.11	0.11	0.00	0.10	0.10	0.11	0.11	0.11	0.00	0.18	0.18	0.18	0.18	0.18	0.07
OPEC (NGL+NCF)	3.89	3.89	3.95	4.14	0.19	4.10	4.30	4.52	4.48	4.35	0.21	4.60	4.79	4.87	5.08	4.84	0.49	5.22	5.33	5.42	5.47	5.36	0.53
Non-OPEC & OPEC (NGL+NCF)	53.51	53.85	54.47	54.54	0.07	55.08	55.07	55.53	56.24	55.48	0.95	56.77	56.85	56.43	56.99	56.76	1.28	57.40	57.40	57.51	58.22	57.63	0.87

Note: Totals may not add up due to independent rounding. Indonesia has been included in non-OPEC supply for purpose of comparison

Table 36: World Rig Count

	2005	2006	Change 06/05	1Q07	2Q07	3Q07	4Q07	2007	Change 07/06	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08	1Q10	2Q10	Jun 10	Jul 10	Jul/Jun
USA	1,381	1,647	267	1,733	1,756	1,788	1,790	1,767	119	1,770	1,864	1,978	1,898	1,877	111	1,326	936	956	1,108	1,081	-796	1,345	1,508	1531	1573	42
Canada	458	470	12	532	139	348	356	344	-126	507	169	432	408	379	35	328	91	177	277	218	-161	470	166	229	349	120
Mexico	107	83	-24	90	88	96	93	92	9	96	106	103	106	103	11	128	128	135	123	128	26	118	106	102	86	-16
North America	1,945	2,200	255	2,355	1,983	2,231	2,240	2,202	2	2,373	2,139	2,513	2,411	2,359	157	1,782	1,154	1,267	1,508	1,428	-931	1,933	1,780	1862	2008	146
Norway	17	17	0	16	19	18	17	18	1	17	21	21	21	20	2	25	18	18	20	20	0	21	18	17	15	-2
UK	21	27	5	25	29	27	22	26	-1	19	21	24	24	22	-4	22	19	16	15	18	-4	15	20	22	23	1
Western Europe	70	77	7	75	80	79	77	78	0	91	97	101	103	98	20	90	82	76	85	83	-15	87	96	97	98	1
OECD Pacific	25	26	2	24	30	32	30	29	2	32	39	39	34	36	7	27	25	26	23	25	-11	22	18	18	22	4
Total OECD	2,078	2,347	269	2,494	2,141	2,387	2,385	2,352	4	2,532	2,317	2,698	2,593	2,535	183	1,945	1,299	1,368	1,616	1,557	-978	2,042	1,893	1977	2128	151
Other Asia	200	202	2	206	213	212	216	212	10	213	220	218	212	216	4	212	212	213	233	217	1	235	249	253	250	-3
Latin America	129	149	19	175	177	171	179	175	27	187	184	195	197	191	16	164	147	149	169	157	-34	183	203	209	220	11
Middle East	131	132	1	144	146	154	154	149	18	158	165	175	171	167	18	162	151	139	147	150	-18	152	150	157	162	5
Africa	8	10	2	16	12	14	14	14	4	10	13	14	11	12	-2	8	11	9	12	10	-2	20	19	19	19	0
Total DCs	468	493	25	540	549	550	563	551	58	569	583	602	591	586	36	546	520	510	561	534	-52	589	621	638	651	13
Non-OPEC Rig Count	2,546	2,840	294	3,035	2,690	2,937	2,948	2,903	62	3,101	2,900	3,300	3,183	3,121	219	2,491	1,819	1,878	2,177	2,091	-1,030	2,632	2,514	2615	2779	164
Algeria	21	24	4	25	26	28	28	27	2	26	27	24	26	26	-1	24	30	27	27	27	1	23	28	25	23	-2
Angola	3	4	1	5	4	3	5	4	1	5	6	5	5	5	1	5	3	3	4	4	-1	10	8	8	6	-2
Ecuador	12	11	0	12	10	11	10	11	-1	7	9	12	13	10	-1	10	10	10	10	10	0	11	11	12	11	-1
Iran	40	44	4	51	51	51	50	50	6	50	50	50	51	50	0	51	52	52	52	52	2	52	52	52	52	0
Iraq	0	0	0	0	0	0	0	0	0	29	29	29	29	29	29	29	29	29	29	29	0	29	29	29	29	0
Kuwait	12	14	1	14	13	13	11	12	-1	12	11	12	12	12	0	12	11	14	13	13	0	19	18	14	22	8
Libya	9	10	1	13	12	14	14	13	3	14	15	15	15	15	2	15	13	14	15	14	-1	17	17	16	14	-2
Nigeria	9	10	1	8	7	8	10	8	-1	9	8	6	6	7	-1	7	6	6	7	6	-1	11	13	16	17	1
Qatar	12	11	-1	11	12	13	14	13	2	11	12	11	11	11	-1	9	9	9	9	9	-2	8	8	9	11	2
Saudi Arabia	37	65	28	76	76	78	77	77	11	78	77	76	76	77	0	72	67	67	66	68	-9	68	67	67	65	-2
UAE	16	16	0	14	15	15	14	15	-2	12	12	13	12	12	-2	13	12	13	12	12	0	13	13	12	13	1
Venezuela	68	81	13	76	80	77	71	76	-5	82	81	77	81	80	4	69	64	54	54	60	-20	66	64	65	70	5
OPEC Rig Count	238	290	51	303	305	311	302	305	16	336	337	330	336	335	29	315	307	295	298	304	-31	327	328	325	333	8
Worldwide Rig Count*	2,785	3,130	345	3,338	2,995	3,249	3,250	3,208	78	3,438	3,237	3,630	3,519	3,456	248	2,806	2,126	2,173	2,476	2,395	-1,061	2,958	2,842	2940	3112	172
of which:																										
Oil	980	1,124	144	1,264	1,167	1,254	1,285	1,242	119	1,408	1,351	1,479	1,490	1432	190	1,276	1062	1175	1349	1215	-217	1,583	1,527	1622	1732	110
Gas	1,746	1,947	201	2,013	1,764	1,931	1,904	1,903	-44	1,969	1,814	2,070	1,948	1950	47	1,450	993	965	1092	1125	-825	1,333	1,276	1281	1340	59
Others	21	17	-4	20	17	20	25	20	4	26	32	36	37	33	12	35	35	34	37	35	3	43	40	37	40	3

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

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Data Summary August 2010

OPEC Basket average price

US$ per barrel

↓ *down 44¢ in July*	***July 2010***	***72.51***
	June 2010	*72.95*
	Year-to-date	*75.50*

July OPEC production

in million barrels per day, according to secondary sources

↑ *up 0.12 in July*	***July 2010***	***29.20***
	June 2010	*29.08*

World economy

While the forecast for global economic growth in 2011 remains unchanged at 3.7%, the forecast for the current year has been slightly adjusted from 3.8% to 3.9%, reflecting better-than-expected data from the Euro-zone and Brazil. OECD growth in 2010 was revised up by 0.1% to 2.2%, while the forecast of China and India remains at 9.5% and 7.8% respectively.

Supply and demand

in million barrels per day

2010		***2011***	
World demand	*85.5*	*World demand*	*86.6*
Non-OPEC supply	*51.9*	*Non-OPEC supply*	*52.3*
OPEC NGLs	*4.8*	*OPEC NGLs*	*5.4*
Difference	***28.7***	***Difference***	***28.9***

Totals may not add due to independent rounding

Stocks

US commercial stocks continued to rise by 23.4 mb in July, widening the surplus with the five-year average to around 100 mb. European total oil inventories (EU plus Norway) declined 6.0 mb in July, but remained above the seasonal norm. In June, commercial oil stocks in Japan declined slightly, but preliminary indications show Japanese total commercial oil stocks rose by around 4 mb at the end of July.

Issued 13 August 2010

Next report to be issued on 9 September 2010

Data covered up to the end of July 2010 unless otherwise stated