OPEC

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

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Feature Article:

Dark clouds over the economy impacting market direction

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Oil Market Highlights

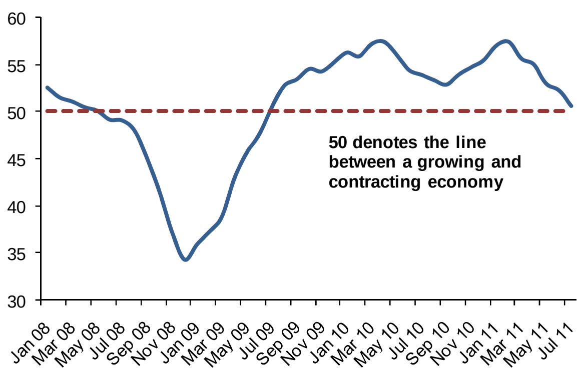
- The **OPEC Reference Basket** moved within a narrower range of $106.5-$113.6/b in July as market volatility diminished. After having lost a total of more than $9 in May and June, the Basket posted a monthly gain of $2.58 or 2.4%, to stand at $111.62/b. Futures prices also recovered early in July, on the back of a weaker US dollar and improving macroeconomic sentiment. However, the gains were short lived as prices plunged in the first week of August with both Nymex WTI and ICE Brent falling to a five-month low on deteriorating macroeconomic sentiment due to Euro-zone debt concerns and the slowdown in the US economy. The Basket stood at $102.37/b on 8 August.
- **World economic growth** has been revised down to 3.7% in 2011 and to 4.0% in 2012. This was mainly due to revisions in the US forecast, which was cut to 1.8% from 2.5% in 2011 and to 2.3% from 2.9% in 2012. The forecast for Japan and the Euro-zone remained unchanged in 2011 at minus 0.8% and 2.0% respectively. Japan's forecast for 2012 remained at 2.5%, while the Euro-zone's forecast was changed to 1.4% from 1.5% previously. Developing Asian countries continue to be the main drivers of growth. The forecasts for China remain unchanged at 9.0% in 2011 and 8.5% in 2012. India's forecast for 2011 was revised down from 8.1% to 7.9%, while the forecast for 2012 was unchanged at 7.7%.
- **World oil demand** is forecast to grow by 1.2 mb/d in 2011, representing a downward revision of 0.15 mb/d. Economic worries have affected OECD oil demand, leading to weaker-than-expected consumption during the summer driving season. Oil demand in the OECD is expected to continue its contraction after a temporary rebound last year. In 2012, world oil demand is forecast to reach 1.3 mb/d, representing a slight downward revision from the previous report.
- **Non-OPEC supply** in 2011 is expected to increase by 0.6 mb/d, following a downward revision, mainly due to lower-than-expected supply from Canada, Norway, UK, Malaysia, Vietnam, and Brazil, as well as historical adjustments. In 2012, non-OPEC oil supply is forecast to grow by 0.7 mb/d, unchanged from the previous report, supported by projected increases in Brazil, Canada, Colombia, and the US. OPEC NGLs and non-conventional oils are projected to increase by 0.4 mb/d in 2011 and 2012, unchanged from the previous assessment. In July, total OPEC crude oil output averaged 30.07 mb/d, according to secondary sources, representing a gain of 0.40 mb/d over the previous month.
- **Product market** sentiment showed a moderate recovery last month, with product cracks moving upwards across the globe supported by stronger Latin American import requirements. The news of the release of strategic stocks also provided support for product margins. However, gasoline demand has been weaker than expected in the Atlantic Basin, pressured by poor end-user demand. As a result, US inventories of motor fuel have started to rise again.
- The **tanker market** was bearish in July, with VLCC and Aframax rates decreasing while Suezmax spot freights were steady. Asian refinery maintenance and high tonnage availability resulted in lower freight rates. Product spot freight rates decreased slightly in July from the previous month, partially on refinery maintenance and closed arbitrage. OPEC sailings remained steady in July while fixtures increased.
- **US commercial inventories** rose 22.1 mb in July. The build was attributed to products which increased by 25.7 mb, as US crude stocks fell 3.6 mb. With this build, US commercial oil inventories stood at 19.5 mb above the historical average. By the end of July, US SPR declined by 6.8 mb to stand at 719.8 mb, due to the IEA-coordinated release of strategic reserves. In Japan, the most recent data for June showed that commercial oil inventories dropped by 4.5 mb, with crude and products showing a decline of 3.4 mb and 1.1 mb respectively. Japanese oil inventories stood some 4.6 mb below the historical trend.
- The **demand for OPEC crude in 2011** is estimated at 30.0 mb/d, unchanged from the previous assessment and about 0.2 mb/d higher than the 2010 level. In 2012, the demand for OPEC crude is expected to average 30.2 mb/d, about 0.2 mb/d higher than the 2011 level and 0.1 mb/d lower than in the previous report.

Dark clouds over the economy impacting market direction

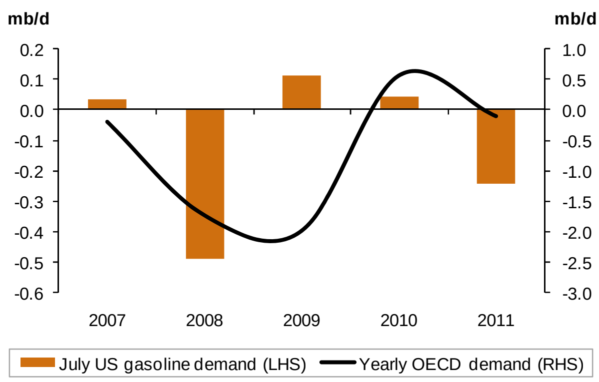
Since 2009, the world economy has been performing above pre-recession trend levels, with average growth of more than 4%. This has been primarily due to the unprecedented government-led stimulus in the developed countries and dynamic growth in the emerging economies. However, most recent economic data and indicators point to a significantly higher risk of a broadening weakness in the OECD, with inevitable implications for the developing countries and the world economy as a whole. Industrial activity is evidently slowing down at the global level (***Graph 1***), and many OECD economies are struggling with rising sovereign debt and high unemployment. Given current escalated debt levels, further government-led stimulus appears to be straining its limits. In light of these challenges, the market has seen a visible shift towards bearish sentiment, with a significant slide in equity and commodity prices which has gather pace over the last few days.

The recent revisions to US GDP data have been rather surprising. They reveal that absolute GDP has not grown since 2007 and that growth in the first half of this year now stands at an annualized rate of barely 1%. The slowdown is worrying, considering the fact that monthly consumption growth in the US has decelerated since February and even turned negative in June. This trend could have a serious impact on global growth, given that US private consumption accounts for around one seventh of global GDP. Elsewhere, despite efforts to avoid the contagion risks from the Greek sovereign debt-crisis, serious concerns have emerged about a worsening situation in Italy and Spain. This has pushed the risk-spreads of these countries higher, which has the potential to further damage growth expectations for the Euro-zone. Meanwhile, Japan is trying to recover, with the most recent leading indicators showing a rebound is likely in the second half of the year.

Graph 1: JP Morgan global manufacturing PMI



Graph 2: OECD & US gasoline demand growth



In the emerging economies, the challenge comes from overheating and rising inflation, given the continued strong growth. As expected, central banks in major developing countries have increased nominal interest rates to dampen the higher inflationary pressure. Nevertheless, real interest rates remain negative in many of these countries, potentially intensifying the overheating process, as this creates an incentive for investment, consumption and speculative activity. However, most leading indicators point to a continued slowdown in industrial output, a scenario that would cool overheating and therefore be supportive for these economies as long as growth does not fall far below target levels. This remains a risk, given the fact that developed economies continue to be the main markets for developing country goods.

The slower expansion of the global economy and trade, particularly in the US and other OECD countries, has resulted in a downward revision in oil demand growth. The increase in world oil demand for this year has been lowered by 0.15 mb/d to stand at 1.2 mb/d. Expected higher demand in the US during the peak driving season has not materialized, and gasoline consumption in July decreased while the decline in total products reached nearly 0.5 mb/d versus a year ago. OECD oil demand is now forecast to continue its contraction after a temporary rebound last year (***Graph 2***). The fall in Chinese apparent oil demand in June, for the first time in eight months, also confirms a weakening of manufacturing activities worldwide.

Much deeper uncertainties and increasing risks to real growth are indications of a more prolonged economic recovery period than earlier anticipated. Crude oil production of the OPEC Member Countries has surpassed 30 mb/d in July, the highest so far this year, and markets at present are benefitting from sufficient oil supply. However, dark clouds over the economy are already impacting the market's direction, and the potential for a consequent deterioration in market stability requires higher vigilance and close monitoring of developments over the coming months.

Crude Oil Price Movements

OPEC Reference Basket recovered in July to move above $111/b

OPEC Reference Basket

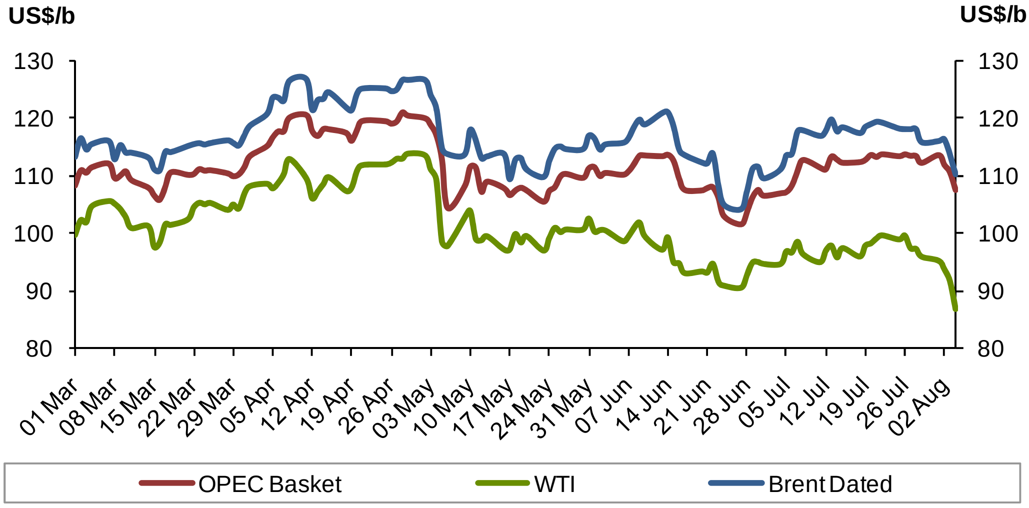
The OPEC Reference Basket moved within a narrower range of $106.5-$113.6/b in July as market volatility diminished, posting the first gain after having lost a total of more than $9 in May and June.

The Basket reversed the downward trend seen over the three last weeks of June to follow an upward trend in July. It ended the first week of the month at $109.14/b, up $4.08 from the previous week to add almost $3 in the second week as an improvement in macroeconomic sentiment and the US dollar weakness lifted futures prices.

However, the recovery in the OPEC Reference Basket slowed down in the second half of July where respective gains of the third and the fourth weeks of the month fell to 96¢ and 10¢.

In monthly terms, the OPEC Reference Basket averaged $111.62/b in July, representing a gain of $2.58 or 2.4% over the previous month.

Graph 1.1: Crude oil price movement, 2011



All Basket components strengthened in July, particularly Latin American crudes Oriente and Merey, which rose by 4.6% and 3.3% respectively as the transatlantic spread widened further in favour of Brent.

Middle Eastern crudes saw gains ranging from 2% for Murban and Arab Light to 3% for Basrah Light. However, despite the recovery in Middle Eastern crudes values, market sentiment remained generally bearish due to growing supplies. The shutdown of a 200,000 b/d crude distillation unit at the Dalia refinery after a fire in the third week added more bearishness to the market.

African grades experienced lower percentage gains than the other components. Saharan Blend rose just $1.55 or 1.3%, the lowest gain among the components and Girassol and Bonny Light increased by around 2.1% versus 2.4% for the Basket. The relatively small gains in African crudes were attributed to pressure from the high level of the Brent benchmark.

The OPEC Reference Basket averaged $107.41/b in the first seven months of 2011, an increase of around 42% from the same period of a year ago. For the same period, African grades gained the most with around 46% each, while Qatar Marine showed the lowest gain of less than 40%. African crudes have been supported by bullish sentiment for Brent as North Sea production continued to decline and Libyan crude has been absent from the market for several months.

Table 1.1: OPEC Reference Basket and selected crudes, US$/b

	Jun 11	Jul 11	Change Jul/Jun	Year-to-Date 2010	Year-to-Date 2011
OPEC Reference Basket	**109.04**	**111.62**	**2.58**	**75.50**	**107.41**
Arab Light	109.37	111.61	2.24	75.96	107.82
Basrah Light	106.65	109.87	3.22	74.85	106.10
Bonny Light	117.27	119.69	2.42	78.44	114.83
Es Sider	114.84	117.69	2.85	76.65	112.46
Girassol	114.07	116.63	2.56	77.13	112.23
Iran Heavy	107.39	110.34	2.95	74.89	106.01
Kuwait Export	106.65	109.33	2.68	74.68	105.33
Marine	107.83	110.34	2.51	76.42	106.52
Merey	99.92	103.26	3.34	68.61	95.75
Murban	112.06	114.33	2.27	78.12	109.96
Oriente	98.87	103.46	4.59	70.90	100.04
Saharan Blend	115.74	117.29	1.55	77.63	113.59
Other Crudes					
Minas	116.28	121.71	5.43	80.68	114.95
Dubai	107.77	109.99	2.22	76.27	106.25
Isthmus	106.30	108.62	2.32	76.31	105.12
T.J. Light	104.28	106.66	2.38	74.75	103.07
Brent	114.04	116.89	2.85	77.11	112.11
West Texas Intermediate	96.21	97.14	0.93	77.93	98.10
Urals	111.68	114.90	3.22	75.83	109.22
Differentials					
WTI/Brent	-17.83	-19.75	-1.92	0.82	-14.01
Brent/Dubai	6.27	6.90	0.63	0.84	5.86

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

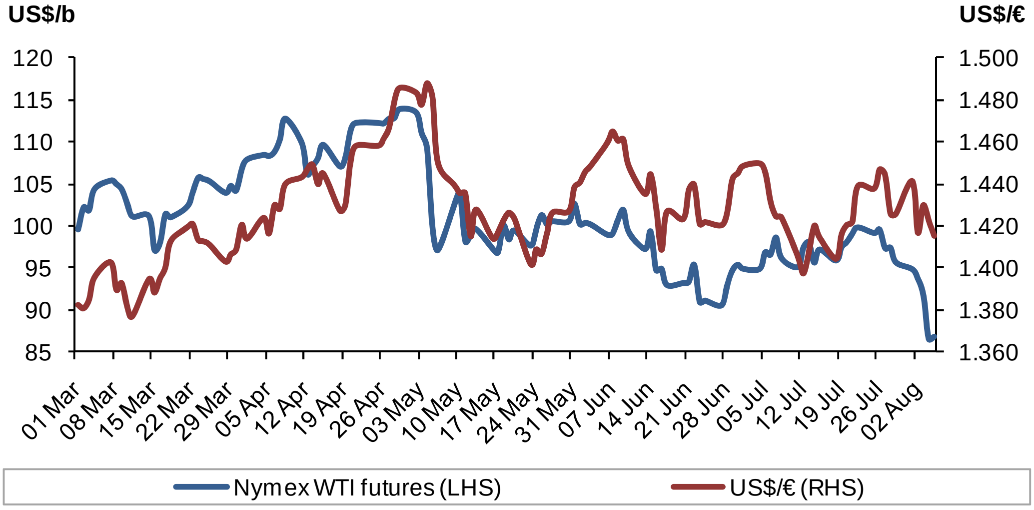
The oil futures market

Nymex WTI and ICE Brent rose on improved macroeconomic sentiment in July

The futures market recovered in July with both Nymex WTI and ICE Brent increasing after two months of declines.

The recovery was attributed to relatively better macroeconomic sentiment in July compared with May and June after worries about Greek sovereign debt eased and the release of positive macro-economic indicators for the US economy at the beginning of the month. Prices were also supported by a weaker US dollar against a basket of currencies.

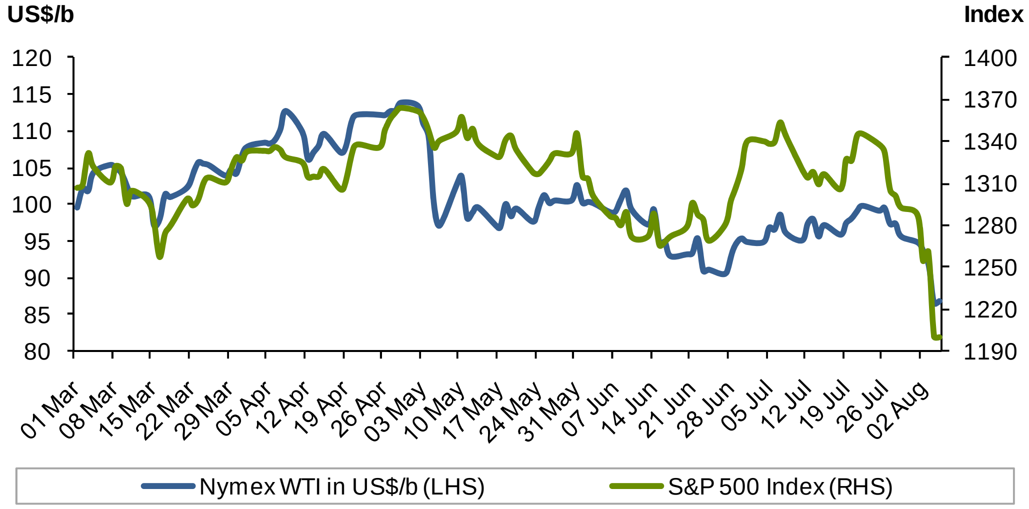
Graph 1.2: Nymex WTI futures and US$ exchange rate, 2011



Despite the recovery, the Nymex WTI front-month remained below $100/b as it moved within a narrow range of $94.94-99.87/b. The WTI front-month settled at $94.94/b – the lower end of the range – on the first day of July, pressured by negative macroeconomic sentiment as data showed China's factory sector grew in June at its slowest pace in 28 months. Prices see-sawed over the next few days amid a combination of varying macroeconomic sentiment, particularly about the US debt ceiling issue and the Euro-zone economic prospects. The WTI front-month hit its highest value of the month of just below $100/b on 22 July, which corresponds to the highest settlement in six weeks, driven by a sharp increase in refined product futures, which pushed heating oil futures to a six-month high. Prices were also supported by the EU agreement for a second rescue package for Greece.

This upward trend turned out to be short-lived as prices weakened in the following week with the front-month falling to $95.70/b, the lowest close in two weeks, after US GDP was estimated to have grown by a disappointing 1.3% in the second quarter and first quarter growth was revised down to an almost stagnant 0.4%. Moreover, the drop in consumer sentiment in July to its lowest in more than two years furthered the bearish sentiment in the market as did the increasing risk of a US default as the government struggled to reach an agreement on raising the debt-ceiling in the days leading up to the deadline.

Graph 1.3: Nymex WTI futures vs. S&P 500 index, 2011



The Brent-WTI spread hit a record high of close to $19.5/b

In London, ICE Brent jumped by $2.85 or 2.5% to average $116.75/b, the highest since the $123.09/b of last April. The stronger gain in Brent compared with WTI continued to be attributed to a lack of light sweet crude, partly because of the absence of Libyan crude and oilfield maintenance in the North Sea. As a result, the transatlantic spread widened to $19.41/b. In addition to a relatively strong Brent, the widening spread is attributed to the weakness of WTI which continued to be pressured by flowing crude from Canada and limited pipeline infrastructure in the Midwest.

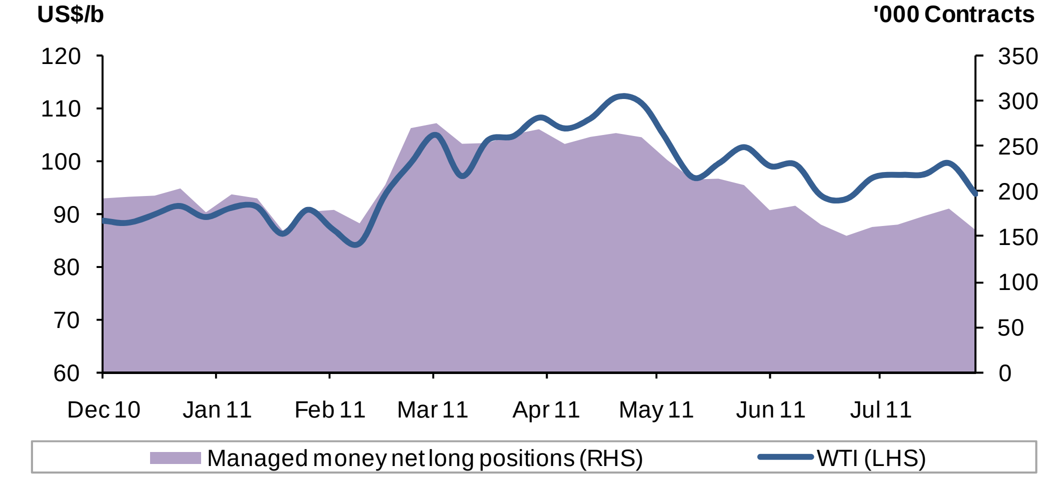
Both Nymex WTI and ICE Brent plunged on 4 August amid strong sell-offs triggered by growing concerns about the debt challenge in Europe and the slowdown in the US. Thus, the Nymex WTI front month fell $5.3 or 6% to settle at $86.63/b, the lowest since 22 February. Similarly, ICE Brent for September delivery lost almost $6 or 5% to close at $107.25/b.

Trading activity on the exchanges weakened in July. Around 285,000 contracts per day of WTI front-month were traded on the Nymex, down 18% from June. That was the lowest level so far this year. The same trend was observed for ICE Brent front-month where trading volume slipped to the lowest level so far this year at around 175,000 contracts per day, which corresponds to a decline of 26% from the previous month.

Open interest for US crude oil on the Nymex remained stable at around 1.50-1.55 million contracts, well below the record of 1.66 million contracts on 12 May. Similarly, open interest for ICE Brent has remained relatively stable since mid June at around 800,000 contracts.

Speculators sharply increased net long crude oil positions in July to hit more than 171,000 contracts in the week through 19 July, in line with the increase in crude oil prices. Money managers reversed the upward trend in the week through 26 July, cutting positions by almost 12,000 contracts as uncertainties increased about the US debt-ceiling agreement.

Graph 1.4: Nymex WTI price vs. speculative activity



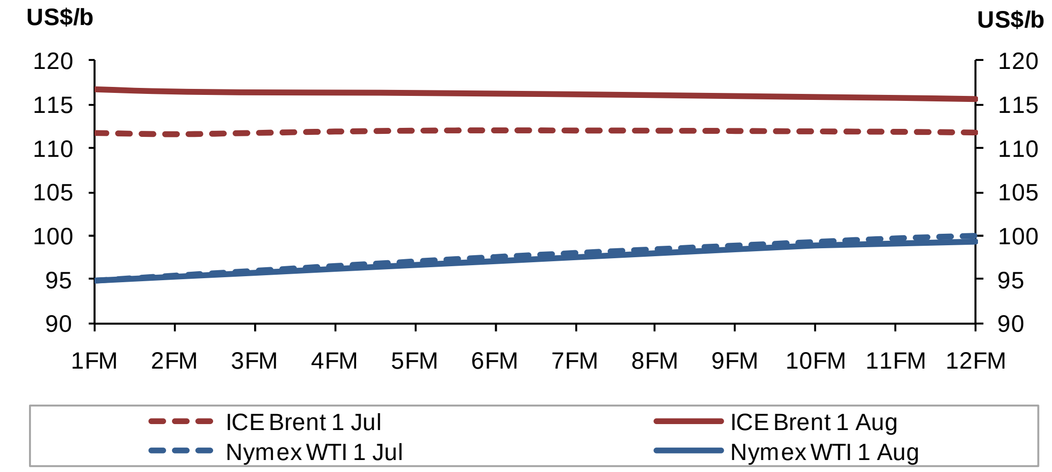
The futures market structure

The Nymex WTI curve remained in contango but weaker and ICE Brent stayed in backwardation

The Nymex WTI curve remained in contango in July as ample commercial stocks and inventories at Cushing continued to weigh on futures prices at the front end of the curve.

The spread between the Nymex WTI second and front month edged down 12¢ to average 42¢, the lowest so far this year

Graph 1.5: Nymex WTI and ICE Brent forward curve, 2011



FM = future month

A similar gap of around 40¢ can be observed in the spread up to the seventh month before it narrowed below 40¢ in the following months.

In Europe, the ICE Brent curve remained in backwardation, but at lower levels, as it continued to get support from the absence of Libyan crude and oilfield maintenance in the North Sea. The spread between the second and the front month narrowed to minus 39¢ from minus 49¢ in June. The exception was for the third, fourth and fifth months which showed a marginal contango.

Table 1.2: Nymex WTI and ICE Brent forward price, US$/b

Nymex WTI

	1st FM	2nd FM	3rd FM	6th FM	12th FM
01 Jul 11	94.94	95.51	96.06	97.64	100.08
01 Aug 11	94.89	95.33	95.80	97.15	99.44

ICE Brent

	1st FM	2nd FM	3rd FM	6th FM	12th FM
01 Jul 11	111.77	111.62	111.78	112.10	111.83
01 Aug 11	116.81	116.53	116.47	116.31	115.67

FM = future month

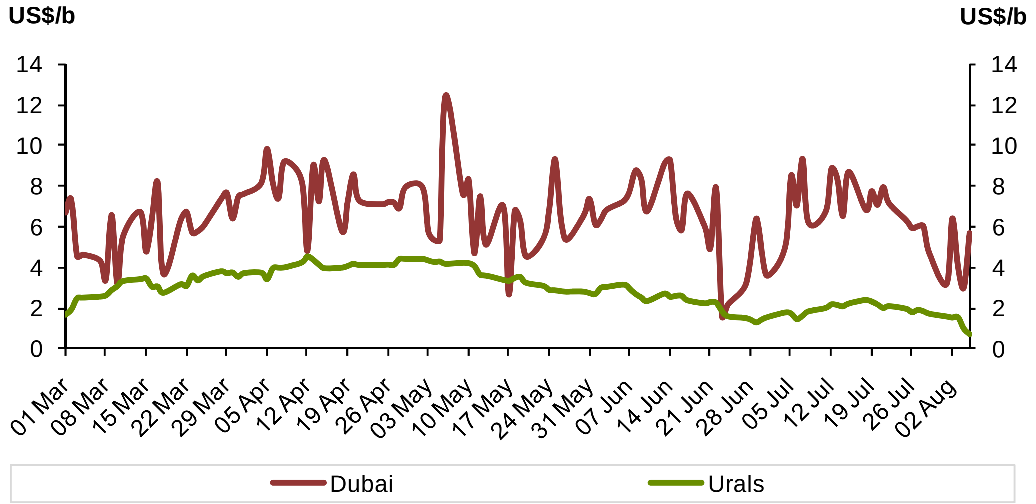
The sweet/sour crude spread

The sweet-sour spread remained strong in July

The Dated Brent-Dubai spread widened in July to average $6.90/b, the highest since the $7.71/b of last April on the back of growing supply from the region and from IEA's petroleum reserves. A year ago, the spread stood at $3.15/b. On a daily basis, the spread widened to as much as $9.30/b on 7 July.

In contrast, the differential between Brent and Urals narrowed for the third month in a row to average almost $2.0/b amid tight supply from lower loading volume from Primorsk in late July.

Graph 1.6: Brent Dated vs. Sour grades (Urals and Dubai) spread, 2011



Commodity Markets

Some rebound and volatility in commodity prices in July amid macro and financial concerns

Trends in selected commodity markets

Both energy and non-energy prices increased by 2% and 1.3% m-o-m in July in the midst of high volatility supported by base metals (5%), precious metals (3.9%) and crude oil (2%). Gold has seen record prices.

Commodity markets felt the negative influence of growing concern about health of the US economy and Chinese demand, the European debt crisis and high debt of the US. Further negative factors were disappointing economic data from several key economies that prompted risk reduction exposure by investors and seeking the safe haven of the Swiss franc and gold.

The **WB energy commodity price index** (crude oil, natural gas and coal) rose by 2% m-o-m supported by crude oil in July.

Table 2.1: Commodity price data, 2011

Commodity	Unit	*Monthly averages*			*% Change*		
		May 11	Jun 11	Jul 11	May/Apr	Jun/May	Jul/Jun
World Bank commodity price indices for low and middle income countries (2000 = 100)							
Energy		363.9	357.9	364.9	-6.4	-1.7	2.0
Coal, Australia	$/mt	118.4	119.3	120.0	-3.2	0.8	0.6
Crude oil, average	$/bbl	108.1	105.8	107.9	-7.0	-2.1	2.0
Natural gas, US	$/mmbtu	4.3	4.5	4.4	1.6	5.6	-3.0
Non Energy		328.0	326.4	330.6	-3.7	-0.5	1.3
Agriculture		288.7	286.5	284.5	-3.8	-0.8	-0.7
Food		275.9	277.6	278.3	-1.4	0.6	0.2
Soybean meal	$/mt	402.0	394.0	400.0	-0.2	-2.0	1.5
Soybean oil	$/mt	1294.0	1324.0	1337.0	-1.6	2.3	1.0
Soybeans	$/mt	556.0	558.0	558.0	0.0	0.4	0.0
Grains		302.5	302.3	296.4	-0.5	-0.1	-2.0
Maize	$/mt	307.9	310.6	300.8	-3.6	0.9	-3.2
Sorghum	$/mt	261.3	260.4	271.2	-9.8	-0.3	4.1
Wheat, US, HRW	$/mt	355.3	326.4	303.9	5.7	-8.1	-6.9
Sugar World	¢/kg	48.4	55.6	62.2	-9.9	14.9	11.9
Base Metals		352.1	351.3	369.9	-5.9	-0.2	5.3
Aluminum	$/mt	2596.5	2557.8	2525.4	-3.0	-1.5	-1.3
Copper	$/mt	8959.9	9066.9	9650.5	-5.6	1.2	6.4
Iron ore, spot, cfr China	¢/dmtu	177.1	170.9	173.0	-1.3	-3.5	1.2
Lead	¢/kg	242.8	252.5	268.1	-10.1	4.0	6.2
Nickel	$/mt	24236.7	22420.9	23848.0	-8.2	-7.5	6.4
Steel products index	2000=100	273.5	272.6	271.4	0.4	-0.3	-0.4
Tin	¢/kg	2867.6	2552.0	2739.8	-11.4	-11.0	7.4
Zinc	¢/kg	216.7	223.4	239.8	-8.2	3.1	7.3
Precious Metals							
Gold	$/toz	1512.6	1528.7	1572.2	2.2	1.1	2.8
Silver	¢/toz	3708.1	3584.1	3811.9	-13.4	-3.3	6.4

Source: World Bank, Commodity price data

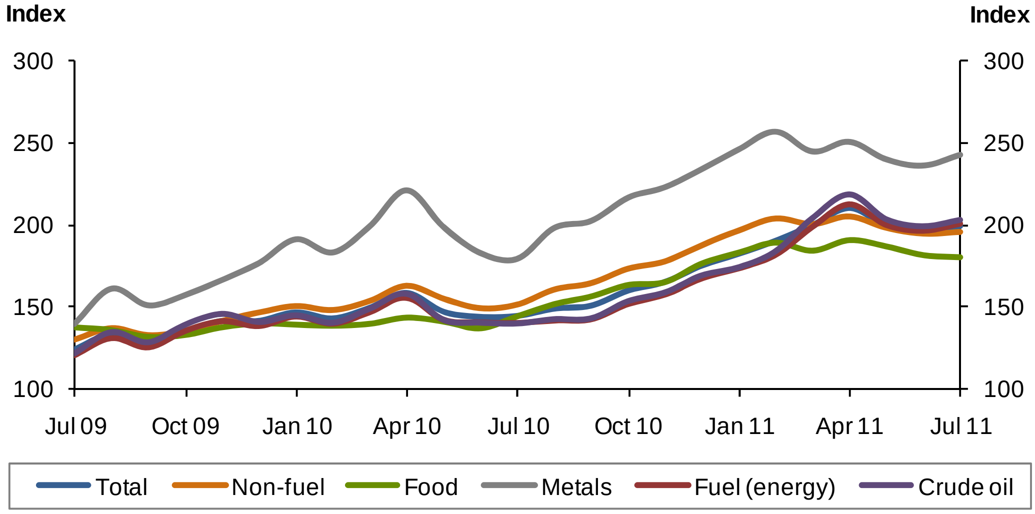
Henry Hub (HH) natural gas prices dropped by 3% m-o-m in July despite high temperatures which gave a short-lived rebound in the cash market. The US gas market reported a nearly two-week downward trend in July. There was a bearish storage report on the US gas market in the last week of July. The WB non-energy commodity price index increased by 1.3% m-o-m in July on the back of base and precious metals.

Agricultural prices fell 0.7% m-o-m in July partly due to price dips in grains (2%) corn and wheat, essentially linked to weather-related factors and macro-economic concerns. Wheat prices were pressured by higher supply in Russia. In the last week of July, a more supportive weather forecast for crops has weighed on the grain markets.

Corn prices declined by 3% m-o-m in a very volatile environment. Although corn prices were supported by hot weather at the beginning of July, they were pulled back by a forecast for cooler weather in the third week of the month. The USDA revised upward its production and supply estimates in July in the US (39% of world production). Estimates were revised up by 3% in July owing to largest and improved yields. There are expected bigger crops in most of the Northern hemisphere producers, with records in the US, China and Ukraine.

Sugar prices kept rising in July (11.9%) as a result of downward revisions to Brazil's production and delays in loading at Brazilian ports.

Graph 2.1: Major commodity price indices, 2009-2011



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*

Source: IMF

Base metal prices increased on supply-side constraints

Base metal prices (LME) rose by 5% m-o-m in July due to some supply constraints, despite uncertainties on the macroeconomic front and Chinese demand. The (PMI) in China dipped to 50.7, from 50.9 the month before, while HSBC's PMI fell below 50 for the first time this year. However, rapid growth in prices was seen in copper and tin as a result of supply-side constraints and strength in metal imports from China in June. Some observers forecast a rebound in industrial metal prices for the second half of the year, assuming a more benign macroeconomic outlook. Total inventories at the LME declined by 2.9% m-o-m to 6,207,805 tonnes in July. The forecast of these markets contains a downside risk.

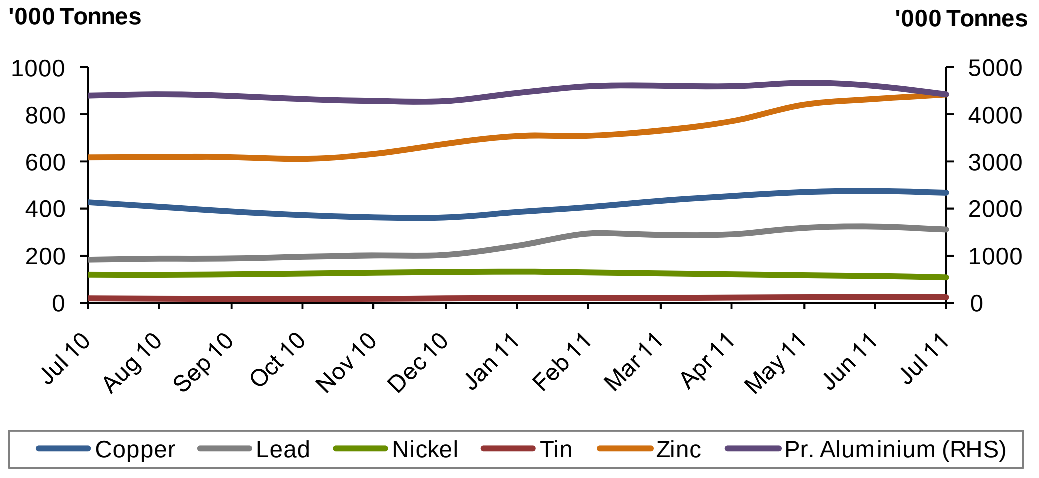
Copper prices rose by 6.4% m-o-m in July mainly on constraining supply factors in the copper markets as mine supply may contract, due to several factors, such as lower ore head grades, technical problems, weather-related troubles and labor disputes. Copper inventories at the LME decreased 1.5% to 465,477 tonnes in July. Chinese copper imports rose by 20% m-o-m in June. In the long term, the copper industry may be affected by mining at greater depth, declining grades and new production coming from higher-risk environments.

Aluminium prices decreased by 1.3% m-o-m in July but prices have been moving aside and monthly averages mask the fact that aluminium prices increased during the first and third week of July. Prices have been supported by considerable declines in inventories at Shanghai and the phasing out of 620kt of aluminium smelting capacity in 2011 and because of rising energy costs.

Nickel prices rose by 6% m-o-m in July on supply disruptions due to bad weather conditions and labour unrest while LME inventories dropped by 7.3% m-o-m to 103,351 tonnes. Nevertheless, according to the International Nickel Study Group, the nickel market is expected to be in surplus for 2011 as a whole.

Gold prices increased by 2.8% m-o-m to a record average of $1572.2 per ounce in July, reflecting its preference as safe haven. Silver also saw record prices.

Graph 2.2: Inventories at the LME



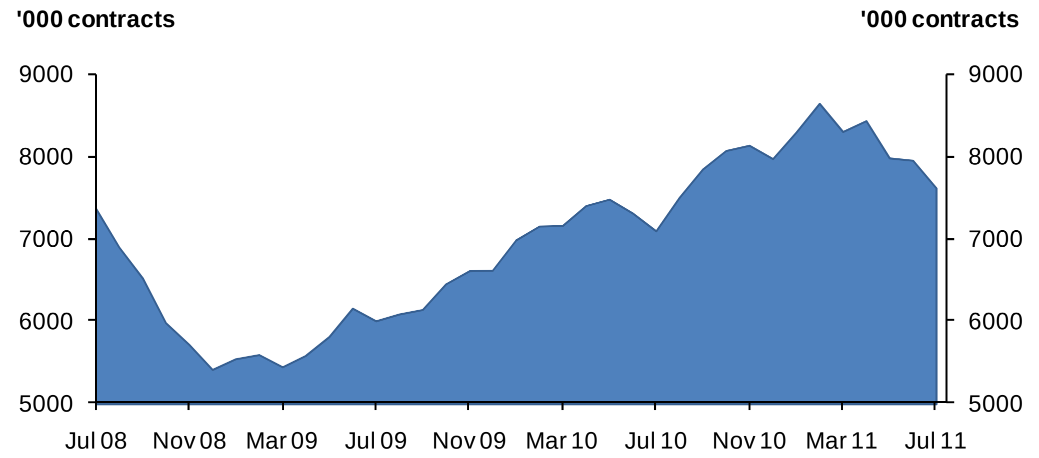
Source: LME

Investment flows into commodities

OIV dropped further in major US commodity markets

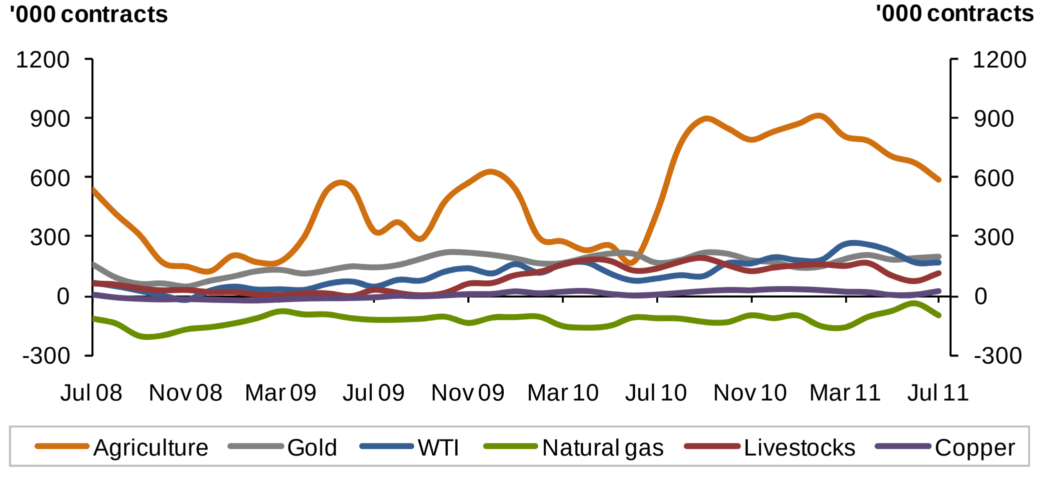
A further decline in open interest volume (OIV) for major commodity markets in the US was reported in July, driven by strong macroeconomic concerns. OIV fell by 4% m-o-m to 7,725,544 contracts in July compared to 0.7% in June. As expected, gold was the best performer both for this month and so far this year.

Graph 2.3: Total open interest volume



Source: CFTC

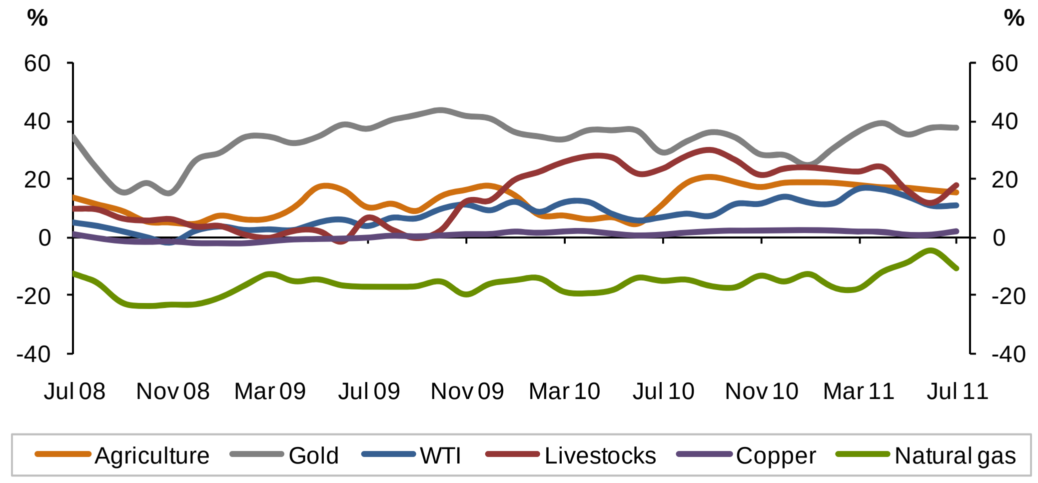
Graph 2.4: Speculative activity in key commodities, net length



Source: CFTC

The total number of contracts decreased notably in agriculture, followed by crude oil and natural gas.

Graph 2.5: Speculative activity in key commodities as % of open interest



Source: CFTC

Agricultural OIV saw an 8.6% m-o-m drop to 3,836,735 contracts in July. Managed money net length plummeted by 12.5% m-o-m to 589,154 contracts in July compared to a 5% drop a month earlier. A stronger drop of 7.9% in longs combined with a 5% rise in shorts caused a further decline in net length as a percentage of OIV which stood at 15.4% compared to 16% in June. A massive liquidation took place in corn, where the improvement in weather and crop outlooks resulted in a hefty drop of 25% in managed money net length. Similarly, wheat exhibited a 22% m-o-m retreat in net speculative positions.

HH natural gas OIV declined by 1% m-o-m to 973,714 contracts in July. Speculative long positions dropped by 14.6% while shorts increased by 21.5%. Thus, managed money net length fell to minus 10.5% in July from minus 4.2% in the previous month.

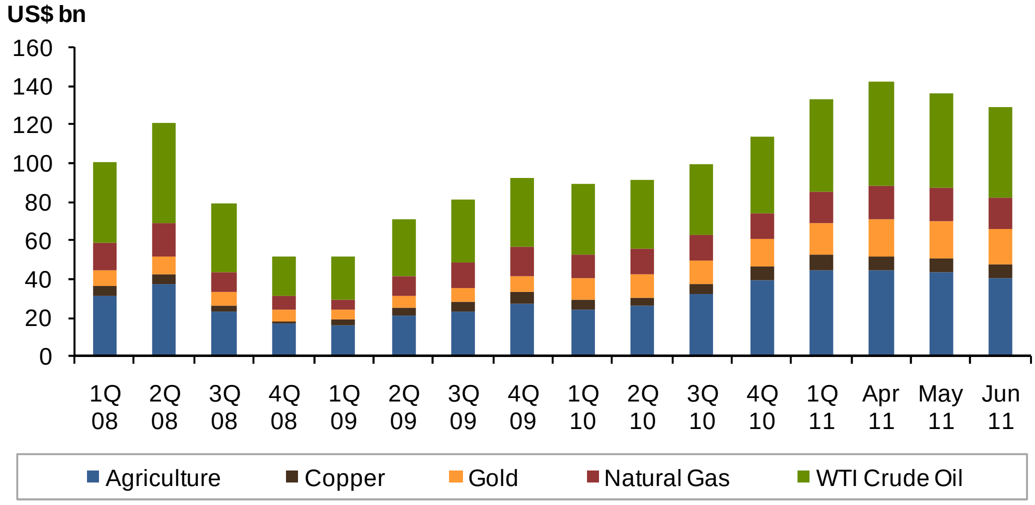
Table 2.2: CFTC data on non-commercial positions, '000 contracts

	Open interest		Net length			
	Jun 11	Jul 11	Jun 11	% OIV	Jul 11	% OIV
Crude Oil	1539	1515	168	11	168	11
Natural Gas	983	974	-42	-4	-102	-10
Agriculture	4197	3837	675	16	589	15
Precious Metals	621	637	205	33	218	34
Copper	128	149	8	6	26	18
Livestock	595	614	71	12	111	18
Total	**8,063**	**7,726**	**1,086**	**13**	**1,010**	**13**

Copper OIV jumped by 15.7% m-o-m to 148,627 contracts in July. The long positions of money managers escalated by 82% m-o-m in July. Combined with a 3% increase in shorts, this led to a massive jump in net speculative length as percentage of OIV, which went to 17.7% in July from 6.5% the month before. The bullish sentiment in the copper futures markets came on the back of rising prices.

Precious metals OIV rose by 2.5% m-o-m to 637,097 contracts in July .Net speculative positions rose a further 6% m-o-m in July compared to 3.3% in June.

Graph 2.6: Inflow of investment into commodities, 2008 to date



World Economy

Table 3.1: Economic growth rates 2011-2012,%							
	World	OECD	US	Japan	Euro-zone	China	India
2011	3.7	1.8	1.8	-0.8	2.0	9.0	7.9
2012	4.0	2.2	2.3	2.5	1.4	8.5	7.7

Industrialised countries

US

The most recent developments in the US have highlighted the challenges the economy continues to deal with. Demand is still sluggish and consumption has decelerated since February with June now even having turned negative. Unemployment remains high at 9.1%

The US economy has certainly been the main focus of attention in the past four weeks. Expected continued weak economic data was followed by an unexpected stand-still in the debt-ceiling talks in congress. Only at the last minute a default was avoided with an agreement that forces the current administration to significantly cut costs in the near future, which makes it almost impossible to counteract the current malaise with another fiscal stimulus package. The drama in the debt-ceiling negotiations coincided with one of the most significant negative GDP revisions the Bureau of Economic Analysis (BEA) has issued over the last years. This development found its final climax in the AAA credit rating downgrade from Standard and Poor's to AA+, the first downgrade of United States debt since 1917. Based on this most recent development, the current challenges for the economy can be summarized by the following observations. Growth in the US is currently at a lower level than in other post-world war II recessions with an economy that did not grow at all over the last four years as the latest data shows. Due to the severe issues, the US is therefore expected to grow below historical average growth levels of around 2.5% for some time. Secondly, the near failure in the debt-ceiling negotiations has highlighted the need for more cooperation among the various political and economic interest groups as the last minute drama scared off investors and seems to have facilitated the most recent sell-off in equity markets. Thirdly, the downgrade of Standard and Poor's should have been widely anticipated by the markets and at least in the short-term the impact should be low. While some observers currently mention that probably refinancing costs for the US might increase, there is hardly an alternative that provides the same liquidity and market-depth as US-treasuries. The more important question might be second-round effects for the debt market, when considering the crucial role the US administration played when bailing out the financial sector. The current weakness of government finances might therefore impact the risk-profiles of the US financial industry. The downgrade can be seen as one further piece of evidence that the central role the US have played in the financial system is coming to an end and financial markets might become more fragmented. Fourth, the US-dollar dominance is more and more under scrutiny and while alternatives are currently limited – as well due to the weakness of the Euro – we might see a shift away from the US-dollar in the future. Along with the relative weakening of the US-dollar, the dominance of the US-sovereign debt as the ultimate risk-free asset-class is coming to an end and – while currently there is no comparable market available – investors will try to look out for alternatives. It seems more likely that other AAA-countries will be downgraded soon and that a double-A status might become the new prime-rating status.

The most recent release of revised GDP data back to 2005 was a major surprise given its magnitude. Despite the data, the revision was announced and it is a usual process, timing and magnitude could not have been more dramatic, just at the time when the administration tried to negotiate a package that allows the necessary rise of the federal debt ceiling as otherwise the US would have run into a very much unexpected default, which – given the very tough negotiations – could not have been ruled out any more. Almost 50% of all quarters from 2005 on have been revised down. This now gives evidence that the recession for the economy has been much more severe and dramatic than so far believed. Absolute GDP levels have not grown at all since 2007, while in the same period the US population has grown by 4%. Furthermore, the 1Q11 has been revised down to only 0.4%, after last month's final release of 1.9% and the 2Q11 has been reported at only 1.3%, much lower than previous expectations of around 2%. This now indicates that 1H11 growth stands at only 1%, barely higher than population growth. A rebound in the 2H11 therefore depends on the labour market and the motivation of consumers to spend their money.

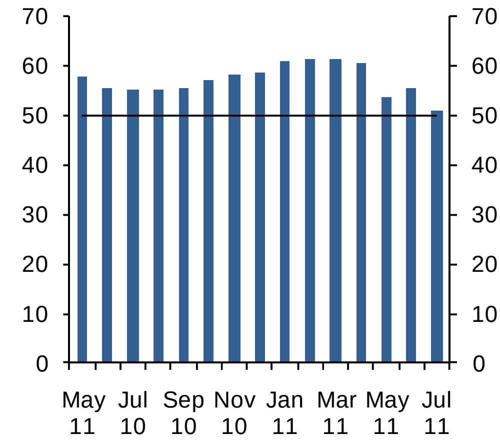
After these most recent events, stock markets sold off sharply by around 10% in two weeks. After the debt-downgrade from Standard and Poor's it remains to be seen if this continues. Earnings expectations of S&P 500 companies were coming down most recently and so valuation might look now more in line with this decline in earnings. Therefore, a further slide in the market triggered by a worsening sentiment might be contained for the time being, but the earnings situation has to be carefully monitored as companies have already reduced costs significantly since 2007. Improvements in earnings are mainly to be supported by revenue increases, which currently might be a challenge for most of the corporations as consumption decelerated relatively quickly and exports – while having improved – are only able to compensate the shortfall to some extent.

This is the main difference to the crisis in 2007 and 2008, which was mainly a funding and liquidity crisis. The current crisis is a growth crisis, fuelled by sluggish demand. While today plenty of funds are available, mainly due to the unprecedented supply of money from the Federal Reserve Board (FED), growth is still sluggish and still seems to have depended very much on government-led stimulus over the last two years. This is becoming more obvious as now the big stimulus package from 2009, the recovery act, has almost entirely been paid out and the most recent stimulus that has been announced in 4Q10 has almost entirely been eaten up by an inflation that now stands at 3.4%. Furthermore, the extraordinary supply of money from the FED – dubbed quantitative easing II (QE II) – has ended in June. With both extraordinary elements having ended, consumption has already started decelerating in February this year and growth was negative in June and therefore almost flat for the whole 2Q11 at 0.1% quarterly growth. This compares with an average quarterly growth of 2.8% over the five quarters since 2010. The steep shortfall might have been impacted by the supply disruption of parts from Japan, but it seems very likely that it is the result of a still very weak labour market.

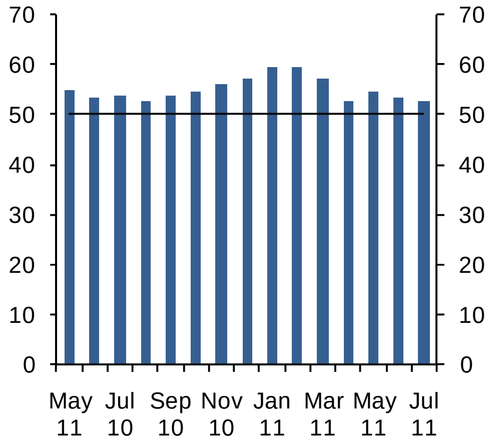
The most recent release of labour market data – while having been slightly better – did not signal a significant rebound. Unemployment remains at a level of 9.1% in July, only 0.1% better than last month and while this might be taken as a sign of improvement, it is hardly one, when compared to pre-crisis unemployment levels of around 5%. While non-farm payrolls were added at the magnitude of 114.000 jobs these are still very low numbers when compared to the more than 8 million jobs that have been lost in the crisis. It remains to be seen how gradually the labour market is improving, but consumption as a key-determinant of the employment situation is needed to rise again and this constitutes the main uncertainty for the 2H11.

Consequently, the ISM numbers have decelerated and manufacturing is now only slightly above 50, the level that indicates a declining sector, standing now at 50.9 in July, after 55.3 in June. The ISM for services moved back, too, but on a smaller scale from 53.3 in June to 52.7 in July, still pointing at an expansion of the sector that is responsible for more than two thirds of production.

Graph 3.1: ISM manufacturing index



Graph 3.2: ISM non-manufacturing index



Source: Institute for Supply Management

Given the very weak 1H11 and the many uncertainties of which some have started to weigh on the economy, the growth forecast for 2011 has been revised from 2.5% in the previous month to now 1.8%. This forecast incorporates a growth level above 2% for the 2H11 and it remains to be seen if this will be achievable, given the current sluggish demand trend. When looking at the 1H11 growth pattern and the deceleration with the most recent decline in private household consumption this seems rather to be a challenge. This month's leading indicators have to be closely watched to gain insight if a further revision will be necessary in the near future. For 2012 growth has been reduced from 2.9% to 2.3%. Therefore the numbers for both years are now below the 20-years average US growth rate of 2.5%.

Japan

Japan continues to recover and industrial production has reached almost last year's level at minus 1.7% y-o-y growth. Mainly the current weakening situation of the global economy and the rising yen remain to be challenges for the 2H11

While the Japanese economy is recovering, it is still suffering from the tragic events in March this year. Production numbers have improved and domestic demand should be expected to continue its pickup. Furthermore, the government has finalized its reconstruction plan. However, two main areas of concern should be closely watched in the coming weeks. Exports, as one of the main economic pillars, are currently strongly challenged by the rising yen, which now stands at a record level compared to the US-dollar at significantly below the important ¥80/$ and with the weakening US economy, there is no indication that it might weaken soon. Furthermore, the general weakening of the global economy triggered by the Euro-zone problems and the US, Japan's second most important trading partner after China, which imports more than 6% of all its goods from Japan, might further prolong the recovery and the magnitude of the 2H11 rebound seems therefore a little bit more uncertain.

The final reconstruction plan of the Japanese government now calls for spending 19 trillion yen (ca. 240 bn US-dollar). While the plan only explains in general terms how the support should be financed, it lays out that most of the money should come from tax increases – without giving details – and cost cuts should be a minor part of the financing efforts. These 19 trillion yen will be spent over five years. With a gross debt-to-GDP ratio of around 200% the funding should certainly include substantial tax increases. The plan, which is equal to around 5% of Japanese GDP, matches around the estimates of stock that has been destroyed.

While exports in June continued to decline the factor narrowed and stood at only minus 1.6% y-o-y, compared to minus 10.3% in May and 12.5% in April. Obviously supply disruptions have started to end, but currently the slow-down in the global economy and in main exports markets of Japan in combination with the rising Yen might hurt a swift recovery in this important segment of the economy, but the quarterly decline of 8.0% in the 2Q11 should have marked the bottom.

The improvements in retail trade were continued with a 2.0% m-o-m growth number in June, after a pick-up already in May of 0.6%. In combination with this encouraging trend, real household spending increased by 0.8% m-o-m in June. This modest increase comes despite an increase in the unemployment rate from 4.5% in May to 4.6% in June. The recovery of the labour market has so far been slow and should improve going into the 2H11, given the expected improvement in production and local demand due to the reconstruction efforts. One of the main reasons for the relative swift recovery is the fast growing demand in the affected areas. Large-scale retail store sales in the Tohoku region were up 3.4% m-o-m in June versus +0.3% in the rest of Japan.

Consequently, industrial production saw a strong rebound over the last two months and while it increased by 6.2% m-o-m in May, it rose by 3.9% in June at a slightly smaller rate, but still pointing at an expansion and at a yearly rate of minus 1.7% in June it again reached almost last year's level. Summer manufacturing plans continue to be raised, suggesting therefore no major impact from power supply disruptions any more. Particularly investment goods experienced the strongest increase of 6.3% y-o-y in June and 6.0% in May, pointing at a significant need for goods that supports the ongoing reconstruction of the country. This positive manufacturing recovery is supported by the most recent purchase manufacturing index (PMI) numbers. The PMI for manufacturing increased to 52.1 in July from 50.8 in June, while the non-manufacturing PMI remained almost flat at 45.3, compared to 45.4 in June. This has to be closely watched as the services sector remains to be relatively sluggish.

The current improvements match the expected expansion. Therefore, the growth rates for 2011 and 2012 remain unchanged at minus 0.8% and 2.5% respectively. However, the most recent developments in the global economy and the currency market have to be closely monitored with regard to the ability of the economy to export goods. A further deterioration in main export markets and a further strengthening of the yen could hurt the current recovery path.

Euro-zone

The Euro-zone's growth is decelerating, but manufacturing orders of still almost 14% in May should be supportive for the economy. The biggest challenge to this expansion is certainly the deepening worry about a contagion of the sovereign debt crisis to bigger economies, mainly Italy and Spain

While the US has been the center of attention in the previous weeks, the Euro-zone has been second in place. With its support mechanism, the European Financial Stability Fund (EFSF) arranged – despite it still needs approval from all Euro-zone governments – the sovereign debt crisis seems to have been contained, but just in the two recent weeks new worries emerged, i.e. briefly after finalizing this mechanism. The problem seems to have shifted from the peripheral countries to the bigger economies, namely Italy and Spain. Yields for these two countries rose significantly above 6% at the beginning of August, a level that, given the magnitude of both countries' refinancing needs over the next 18 months, would put a significant strain on their financial abilities and the Euro-zone.

The new deal that the Euro-zone countries agreed upon at the end of July seems to be relatively comprehensive and – despite further opposition – now includes an element of burden-sharing with private investors. On the other side and despite its magnitude, it might be probably not be enough to restore Greece's long-term solvency and more important it seems to lack the capacity to prevent a contagion to the bigger Euro-zone countries. The fund is supported by a 440 billion euro facility and, due to the support of the major Euro-zone economies, will most probably receive a AAA rating to refinance the financial support to member countries. In light of the most recent downgrade of the United States, this assumption of a AAA rating might at least be challenged as France is the main Euro-zone country from the AAA-countries that might lose this rating status. This should be digestible for the refinancing as other sovereigns are also supporting the fund, but it could increase refinancing costs for the EFSF a little bit.

Furthermore, the size of the EFSF today seems rather small, when considering that over the next five years Greece, Portugal Ireland, Spain and Italy will have to refinance around 5 trillion euros and only Spain and Italy over the next 18 months more than 800 billion euros.

For Greece the new deal of the Euro-zone countries was successful. Greece's future loans from the EFSF will be extended in maturity from 7.5 years to 15-30 years with a ten-year grace period. The loan rate will be initially 3.5% and thereafter it will match the EFSF funding costs. The existing loans will also have a substantial maturity extension. The official sector support for Greece including the IMF will total 109 billion euros. There is now the involvement of the private sector required, which already challenged the balance sheets of many of the mainly European banks via writing down their sovereign debt positions. The average net present value loss now for bond-holders of Greek bond is 21%. This has already impacted valuations of European banks significantly and a further contagion to other and primarily bigger economies might have a substantial and unwanted impact given that some of the biggest banks in Europe have a significant exposure to sovereign debt, particularly, when it comes to Spain and Italy.

The most recent announcement of the ECB to buy government bonds from Italy and Spain was a successful exercise to limit the rise of the yields and therefore probably prevent a further deterioration of the Euro-zone's financial stability. Still, the biggest danger for the Euro-zone is certainly currently the possibility of a debt default, leading into a serious banking crisis. This danger has been already reflected by the performance of the European banking index, which lost already almost 35% since February of this year, compared with the US banking sector that declined by 25%

since then. Mainly Italy could cause some serious trouble, when considering that it has almost 2 trillion Euros debt outstanding (2.8 trillion US-dollars) and around 10% of that is held by banks. While the 700 billion sovereign debt outstanding of Spain looks much smaller, the size of the bank holdings are more worrisome as around 20% is sitting on – mainly two big Spanish bank's – balance sheets. The main issue with particularly countries like Greece, Portugal and Ireland is that their growth outlook is still relatively uncertain and that will remain to be the biggest unknown to the debt restructuring of these countries going forward.

With these details on the financial system in Europe, a look at the real economy does not – contrary to the previous months, but expected – give so much reasoning that the real economy will be growing independently of these problems. Industrial production has grown by 4.2% y-o-y in May, which compares to 5.2% in April and 5.8% in March. Out of this, total manufacturing still grew at almost 6% at 5.7% y-o-y, which should be considered a solid momentum, but it is decelerating. The Markit purchase manufacturing index (PMI) is highlighting the deceleration that is going on. The manufacturing PMI moved to 50.4 only in July and is therefore – like in the US at 50.9 – only slightly above the expansion indicating 50-level. The services sector declined to 51.6 from 53.7 and the construction sector is already indicating a decline, with a reading of 46.6 in June, after a number of May that has already been below 50. On the other side, the number of May's manufacturing orders at growth of 13.8% y-o-y is holding up very well indeed, compared to the previous month's number already at a high 11.7%. Very encouragingly, most of these orders came from domestic demand, which increased by 17.8% y-o-y, after 8.8% in April. It should therefore be expected that the manufacturing sector – while decelerating – still enjoys a solid trend.

Given the strong growth of the Euro-zone from the 1H11 and the ongoing – while certainly decelerating – momentum, the forecast for 2011 is unchanged at 2.0%, while the 2012 GDP growth forecast has been reduced to 1.4%. Mainly the uncertainties of the sovereign debt sphere are able to put the biggest strain on the economy and it seems that this threat has not gone away yet, but indeed the challenge has grown.

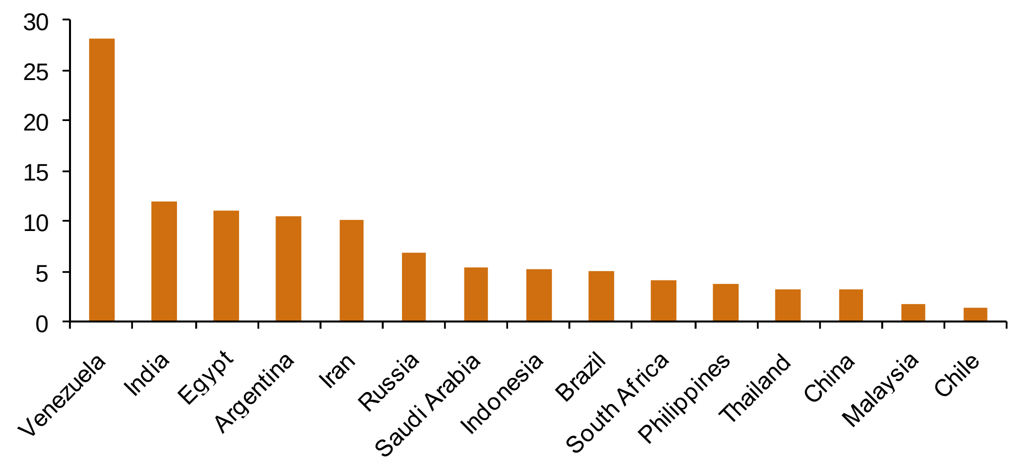
Emerging markets

Major emerging economies have been adopting a tightening monetary policy to prevent overheating of their economies and to prepare for a soft-landing. A more cautious approach towards economic expansion in emerging markets is consistent with the current situation considering uncertainties surrounding the global economy and a possible deterioration in international trade.

Thirty years ago emerging markets accounted for one-third of global GDP (measured at purchasing-power parity). Now they make up more than half. These economies generated more than four-fifths of global real GDP growth over the past five years, (Economist, July 2nd 2011). According to the IMF World Economic Outlook (2011) China with 13.6% of the world's GDP is the largest emerging market by far, followed by India, Russia and Brazil with 5.4%, 3% and 2.9% of world GDP respectively. The IMF predicts that in 2016 China will become the world's largest economy on a purchasing –parity basis. On the basis of market exchange rates it would take longer, up to 2020, for China to attain that position. Rapid expansion of emerging economies is particularly interesting for commodity and energy exporting countries as the main portion of incremental increase in demand for commodity and oil stems from developing economies growth.

Currently, in many emerging economies, GDP grows above pre-crisis levels and accelerating inflation affects disposable income. Considering excess credit expansion, widening foreign trade deficit, tight labour market conditions, operating the economy close or above its potential level and a flood of capital inflows in major emerging economies would suggest that emerging markets are overheating. This makes soft landing an important goal of their short-term economic policy, hence monetary tightening in many emerging economies. For a clearer understanding of the problem, following the Economist's (2 July 2011) approach, we have combined six macroeconomic indicators to measure the risk of overheating in selected emerging countries, including the BRIC. Inflation rate, a measure of potential GDP, labour market tightness, credit expansion rate, real interest rate and foreign trade deficit are combined to arrive at an overall indicator of overheating risk for a sample of emerging countries.

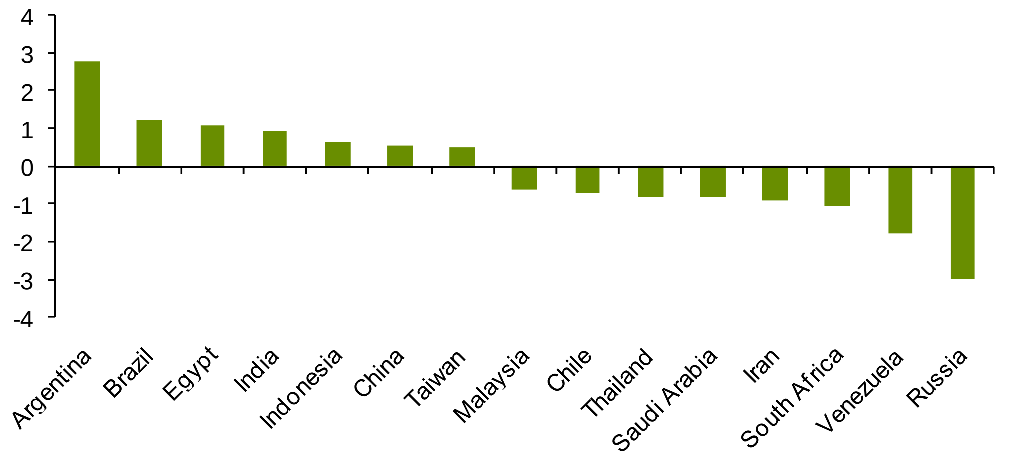
Graph 3.3: Consumer price index, latest, % increase on year ago



Inflation has become a major concern in many emerging countries. **Graph 3.3** shows average annual consumer price inflation in 2010 for fifteen emerging markets. In some countries, inflation is running very high but some of the BRIC countries, India and Russia, are not far behind. In India, inflationary pressures continued to accelerate in May as the whole price index stood 9.1% higher compared to last year, up from 8.7% in April. Annual inflation as measured by the WPI reached 9.4% in June. According to a study referred to in the EIU (July, country report) inflation had cost Indian households an additional US$130 billion between the fiscal year 2008/09 and 2010/11. Food prices saw the most trenchant increase during the period, accelerating to 11.6% in the two-year period. The non-food category fell, including durables such as television sets and washing machines etc. which was probably a result of softening demand as households responded to pressures on their food budgets and higher interest rates. To curb inflation, the RBI (Central Bank of India) surprised the market by raising its policy rate by 50 basis points on 26 July increasing its policy rate to 8%. This was 11th interest rate rise since January 2010 to prevent a looming threat of double-digit inflation. For similar reasons, China raised the reserve requirement ratio in June by 50 basis points and the interest rate on 6 July by 25 basis points. This has been the fifth increase in borrowing cost since late 2010, taking the benchmark interest rate in China to 6.56%. Accelerating inflation in Russia and Brazil, too, has left the governments with no choice but tightening monetary expansion. Brazil raised its SELIC rate by 25 basis points to 12.50 on 20 July and Russia has lifted reserve requirement ratios several times this year. In the latter, two countries' appreciation of their national currencies are tolerated to help easing inflationary pressures.

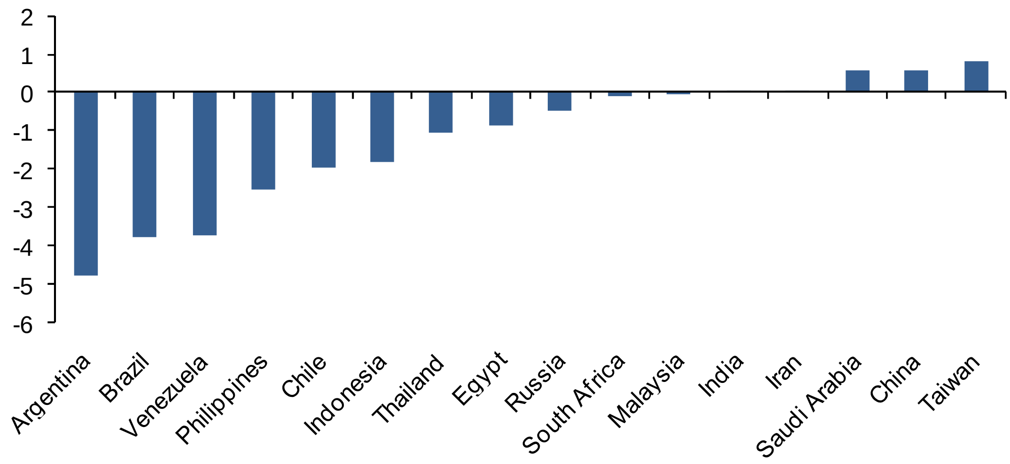
Some emerging countries have been growing close to or above their potential levels. If we consider the average economic growth in GDP in last ten years as a proxy for the potential growth rate of the economy, **Graph 3.4** implies that Brazil, India and China are among those emerging economies expanding above their long-term economic growth rates. In these circumstances, a cost-pushed inflation would top the demand-pooled price increase feeding through rising wages to a spiral inflationary process.

Graph 3.4: GDP growth rate, 2008-2011 annual average less average in previous 10 years



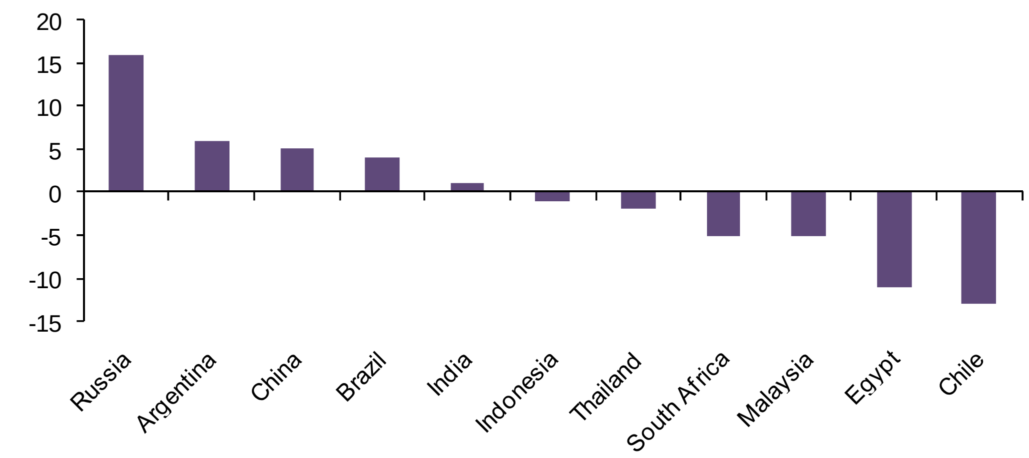
When an economy grows close to its potential level or above its long-term trend there is a good chance that unemployment is low. Assuming some degrees of inflexibility in the labour market, which is a salient characteristic of developing economies, a tight labour market would sustain inflationary impact on wages that might feedback to prices. **Graph 3.5** exhibits the unemployment situation in 2010 compared to the last ten years for the sample group of countries. It appears that in Brazil, Russia and India, unemployment rate is lower than the last ten-year average, while in China it is less than 1% above the ten-year average. Tight labour market conditions might cause nominal wages to grow faster than labour productivity, reducing overall competitiveness of the economy.

Graph 3.5: Unemployment rate, relative to ten years average



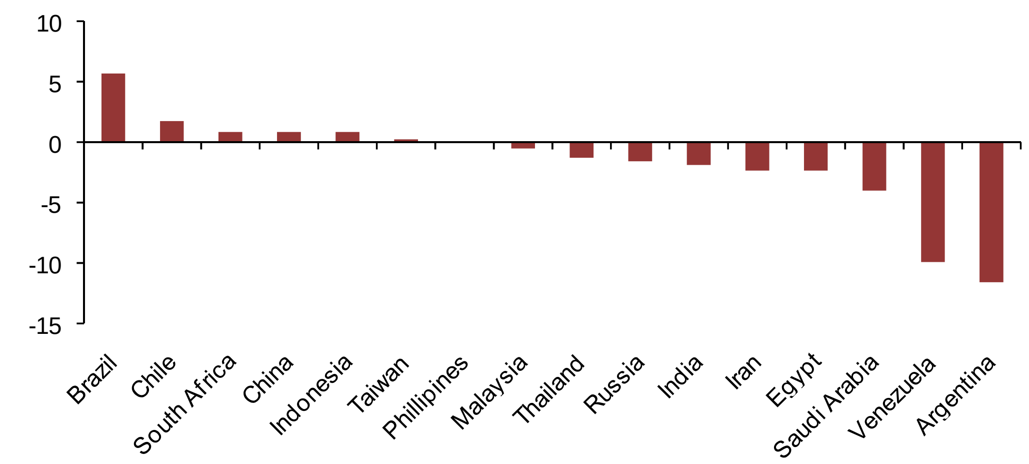
One critical factor causing overheating in emerging economies is excessive credit growth that is measured by the difference between growth rates of banking credit and nominal GDP. As **Graph 3.6** shows, all four members of BRIC: Brazil, Russia, India and China have had excessive credit expansion in recent years. Fighting inflation cannot succeed without bringing credit expansion and money supply under control. In 2010, banking credit in China grew more than the target set by the monetary authority but in 1H11 there has been evidence that the monetary authority has been able to confine banking credit expansion to the official targets. Since banks in China are still mostly state-owned enterprises, it is believed that direct control of the credit expansion in China's banking system would have exerted a binding impact on the money supply.

Graph 3.6: Excess credit growth, growth in bank lending - the growth in nominal GDP



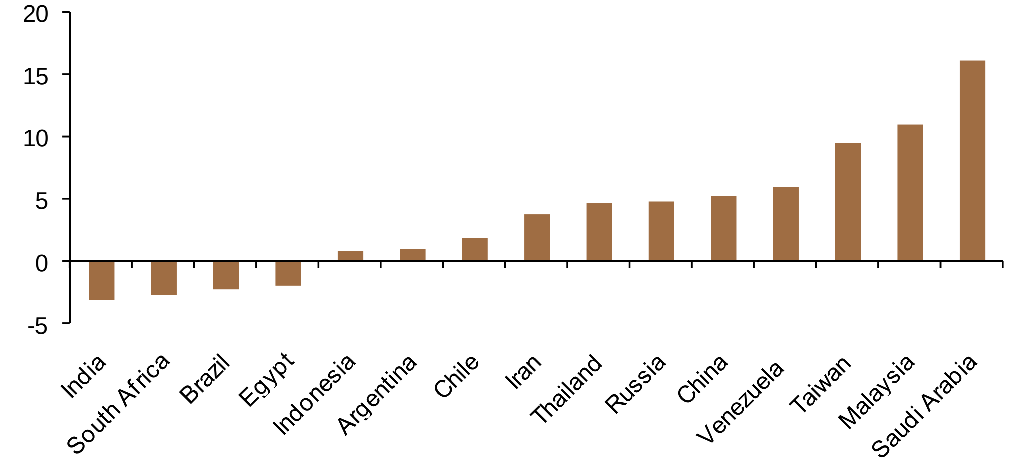
Demand for money is a function of the real interest rate and one effective policy to control credit expansion is to increase real cost of borrowing. However, in developing countries, more often than not the real rate of interest is negative and the monetary authority usually neglects this fact to encourage investment and economic growth. When there is risk of overheating, however, as discussed above, an interest rate rise become inevitable to control inflation. Since 2010, interest rates have been raised in the BRIC several times, but as **Graph 3.7** shows, real interest rates in many emerging markets, including Russia and India, remain negative to promote liquidity and economic growth. In Brazil and China, on the other hand, real benchmark interest rates are positive. That, to some extent, may explain lower inflation rates in these countries compared to Russia and India.

Graph 3.7: Real interest rate



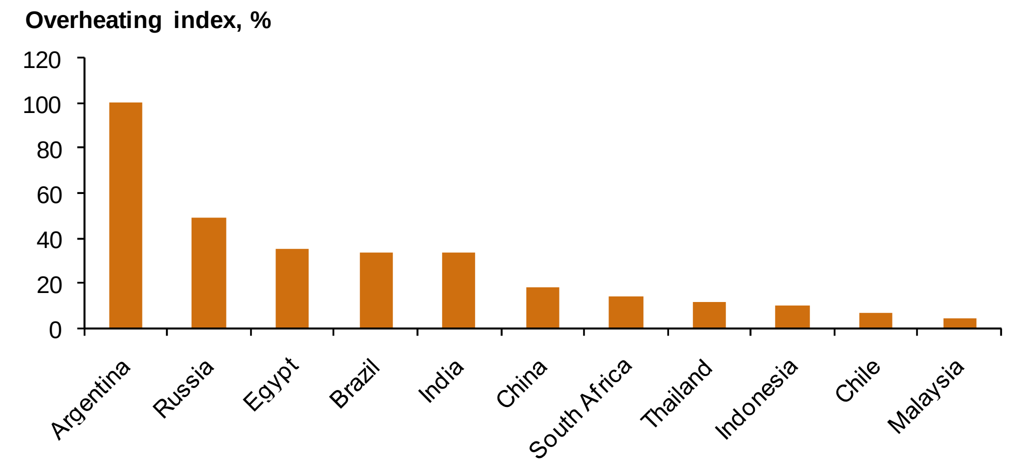
Another important macroeconomic variable measuring overheating is the trade balance as a widening current account deficit can be a clear sign of overheating, as domestic demand outpaces supply. However, it is well known that South East Asian developing countries, including China, are mostly export-oriented economies with strong competitive manufacturing sectors. On the other hand, energy and commodity exporting countries Such as Russia, particularly when energy prices are high, have a favourable trade balance. **Graph 3.8** shows that while China and Russia have had a surplus in their foreign trade, Brazil and India imported more than their exports and have developed a deficit in their current account.

Graph 3.8: Current account balance, as % of GDP



Combining these six indicators gives a composite index of overheating as depicted in **Graph 3.9** for selected emerging markets. While Argentina appears to be highly overheated, there are real risk of overheating for major emerging countries such as Brazil, India and China as well.

Graph 3.9: Selected developing countries overheating index, 2010



This finding illustrates the point that since 2011 authorities in many emerging countries, including BRIC, have been trying to discipline their monetary and fiscal policies to prevent overheating and manage a soft landing to avoid an unwanted recession following the current boom. **Table 3.2** summarizes our forecast of economic conditions of the BRICs in 2011 and 2012.

Table 3.2: Consumer price index weights for food in 2010, MENA

	GDP growth rate		CPI,* % y-o-y change			Current account balance, US$ bn		PSBR,* % of GDP	
	2011	2012	2010	2011	2012	2011	2012	2011	2012
Brazil	4.1	4.2	5.9	6.3	5.1	-59.7	-72.6	2.7	2.6
China	9.0	8.5	3.3	5.0	3.9	280.5	280.1	-1.7	-1.8
India	7.9	7.7	10.2	7.7	7.0	-53.3	-58.8	-4.7	-4.6
Russia	4.1	4.5	8.8	8.2	7.2	84.2	60.8	-1.0	-0.8

CPI = Consumer price index
PSBR = Public sector borrowing requirement

**Source: Consensuses Forecast, July 2011, figures for India are from the fiscal year 2010-2011 and 2011-2012*

Developing Countries

While the outlook for the rest of the developing countries is generally positive, downside risks are rapidly accelerating. First, the inflationary pressure coming from the rise in food and energy prices over the past year have presented a particular headache for policymakers. Policy measures are becoming increasingly complicated in Southeast Asia as governments seek to balance between growing their economies and containing further domestic price increases. The steady rise of headline inflation in countries such as Malaysia has fueled speculations that the central bank would resume its rate normalization process, lowering growth prospects in the second half of the year. Central banks in the region have not responded to higher headline inflation by raising interest rates. They are still resisting such a move to avoid further damage on domestic demand, especially at a time of uncertainty in their exports to their Western importers or China alike. If inflationary pressures do rise to unmanageable levels, the policy response would need to be aggressive and growth would naturally slow more sharply. Malaysia is expected to slow down this year from its outperformed level of 2010 of 6.9% to 4.9% in 2011.

In Latin America, strong domestic demand is increasingly adding to the inflationary pressures due to capacity constraints. Central banks have responded by gradual monetary tightening. This trend will add to pressures on currencies to appreciate impacting exporting capabilities. In Argentina, inflation at 9.7% in May remains among the highest rates in the emerging markets. This reflects a combination of growing demand—driven by loose macroeconomic policy—and continued supply constraints. The government is using an expansionary fiscal policy to boost economic activity ahead of the October elections. Growth is expected to slow to 5.2% in 2011 compared to 8.5% in 2010, remaining in strong territory as a result of expansionary policy.

The sub-Sahara African economy is expected to continue to recover in 2011-12, helped by higher external inflows in terms of capital and investment, strong commodity prices, rising fiscal spending and higher Asian interest (in terms of trade and investment), particularly from India and China. Growth in South Africa, which we estimate at 2.7% in 2010, is expected to accelerate to 3.4% in 2011 owing to higher consumer spending, more business investment and stronger external demand.

OPEC Member Countries

OPEC Member Countries, are expected to benefit from current favourable oil market conditions as a growing public sector investment in MCs' infrastructure and industrial sectors have helped reduce unemployment and lift output and per capita income.

Saudi Arabia's economy is expected to grow by 4.5% in 2011. Growth is accelerated by two massive fiscal spending packages announced by the government. Both packages are worth a combined US$129bn (30% of 2010 GDP). Real GDP growth is expected to remain strong in 2012, at an annual average of 5%, when a number of large projects come on stream, which include refineries and petrochemical plants, as well as two new offshore gas fields.

Oil prices, US dollar and inflation

The US dollar gained versus the euro and the pound sterling in July, while it lost versus the yen and the Swiss franc. The weakening trend of the US dollar particularly versus the two currencies has continued in August. The average level of US dollar in Euro-terms for July stood at $1.4251/€

The US dollar performed relatively well in July. It gained 0.9% versus the euro and 0.6% compared to the pound sterling. While versus the Swiss franc it lost 2% and versus the Yen 1.4%. The fall particularly versus the Swiss franc was an extension of the losses in June, when it fell 4%. This momentum started to continue at the beginning of August, when it moved to an all-time low of the Swiss franc of 0.76/$. While the Bank of Japan (BOJ) started to intervene at the beginning of August, the yen remained to trade considerably below the ¥80/$ level. The Swiss National Bank (SNB) has also started to intervene in the market, but the size of the US-dollar and the Euro will make this a daunting task and it remains to be seen, how this relatively small economy will handle this impact. The average level of US-dollar in euro-terms for July stood at $1.4251/€.

The currency moves, particularly the continued relative weak position of the US-dollar will be a dominant topic for the coming weeks. The range of $1.40/€ to $1.50/€ seems still to be relatively well established for both of the currencies A further increase of the Euro is currently not likely, given the weakness of the economy on the fiscal side and the anticipation of further rate hikes in the market. The pressure from the weakening US-dollar pushing up the oil-price has largely abated. Although a continued sell-off in global asset markets and a flight into US-assets (bonds) and rewinding of carry trades could change this development very quickly

In nominal terms, the OPEC Reference Basket price rose by 2.4% or $2.6/b in July from $109.04/b in June to $111.62/b in July. In real terms, after accounting for inflation and currency fluctuations, the Basket price rose by 3.2% or $2.08/b to $66.51/b from $64.43/b (base June 2001=100). Over the same period, the US dollar increased by 0.3% against the import-weighted modified Geneva I + US dollar basket while inflation declined by 0.5%.*

* *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.*

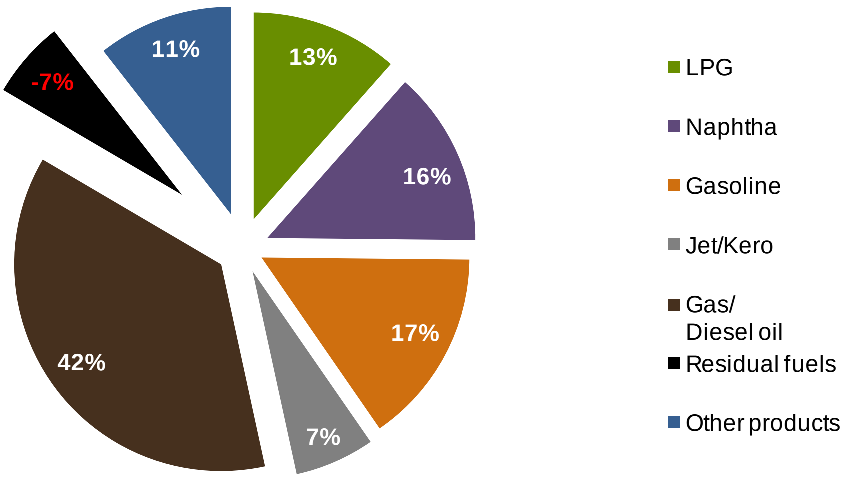
World Oil Demand

World oil demand estimated to grow by 1.2 mb/d in 2011, representing a downward revision of 0.15 mb/d from the previous report

World oil demand in 2011

Economic worries have affected oil demand in the OECD, leading to a decline in the summer driving season. Should the situation see further deterioration in the US, then aggregate oil demand will see a further decline this year. Chinese oil demand has been keeping the situation in a semi-balanced trend; however, recent weakening led to a decline in total oil demand. Chinese oil demand has been in the growing mode in the first half of the year despite the government's efforts to curb it. Along with China, other non-OECD countries are increasing the use of oil, offsetting the decline in the OECD region.

Graph 4.1: Forecasted y-o-y growth in 2011 world oil demand, by product



In summary, weakening OECD economies are negatively affecting the oil market and imposing a high range of uncertainty for the short term.

Table 4.1: World oil demand forecast for 2011, mb/d

							Change 2011/10	
	2010	**1Q11**	**2Q11**	**3Q11**	**4Q11**	**2011**	**Growth**	**%**
North America	23.81	23.81	23.24	24.15	24.04	23.81	0.00	0.01
Western Europe	14.58	14.24	14.17	14.88	14.75	14.51	-0.07	-0.48
OECD Pacific	7.81	8.35	7.18	7.60	8.05	7.79	-0.02	-0.28
Total OECD	**46.20**	**46.40**	**44.59**	**46.63**	**46.83**	**46.12**	**-0.09**	**-0.19**
Other Asia	10.12	10.27	10.55	10.29	10.48	10.40	0.28	2.72
Latin America	6.18	6.12	6.25	6.50	6.42	6.33	0.15	2.43
Middle East	7.28	7.32	7.33	7.73	7.46	7.46	0.18	2.48
Africa	3.35	3.41	3.44	3.29	3.46	3.40	0.05	1.34
Total DCs	**26.93**	**27.12**	**27.57**	**27.81**	**27.83**	**27.58**	**0.65**	**2.42**
FSU	4.14	4.11	3.95	4.38	4.46	4.23	0.08	2.03
Other Europe	0.69	0.67	0.63	0.67	0.73	0.67	-0.02	-2.67
China	8.95	9.13	9.55	9.80	9.64	9.53	0.58	6.51
Total "Other regions"	**13.79**	**13.91**	**14.13**	**14.85**	**14.83**	**14.43**	**0.65**	**4.70**
Total world	**86.93**	**87.43**	**86.30**	**89.28**	**89.50**	**88.14**	**1.21**	**1.39**
Previous estimate	86.82	87.48	86.64	89.15	89.43	88.18	1.36	1.57
Revision	0.11	-0.06	-0.33	0.14	0.06	-0.05	-0.15	-0.18

Totals may not add up due to independent rounding

Although there are some signs indicating a weakening oil demand world-wide, it is too early to adjust the existing forecast for world oil demand as risks are nearly balanced with regard to upward and downward movements. The current situation in the weakening US summer driving season is affecting total world oil demand toward a downward revision by 0.15 mb/d. Hence, world oil demand is forecast to grow by 1.2 mb/d in 2011, averaging 88.1 mb/d.

Table 4.2: First and second quarter world oil demand comparison for 2011, mb/d

			Change 2011/10				Change 2011/10	
	1Q10	1Q11	Volume	%	2Q10	2Q11	Volume	%
North America	23.47	23.81	0.34	1.46	23.66	23.24	-0.41	-1.75
Western Europe	14.31	14.24	-0.07	-0.51	14.25	14.17	-0.08	-0.58
OECD Pacific	8.23	8.35	0.12	1.51	7.34	7.18	-0.16	-2.20
Total OECD	**46.01**	**46.40**	**0.39**	**0.86**	**45.25**	**44.59**	**-0.66**	**-1.45**
Other Asia	10.05	10.27	0.23	2.28	10.23	10.55	0.32	3.13
Latin America	5.94	6.12	0.18	3.03	6.15	6.25	0.11	1.71
Middle East	7.18	7.32	0.14	1.88	7.17	7.33	0.15	2.15
Africa	3.38	3.41	0.03	0.89	3.37	3.44	0.07	2.20
Total DCs	**26.54**	**27.12**	**0.57**	**2.16**	**26.92**	**27.57**	**0.65**	**2.43**
FSU	4.02	4.11	0.09	2.11	3.86	3.95	0.09	2.33
Other Europe	0.69	0.67	-0.02	-2.18	0.64	0.63	-0.02	-2.34
China	8.37	9.13	0.76	9.07	9.09	9.55	0.46	5.07
Total "Other regions"	**13.08**	**13.91**	**0.83**	**6.34**	**13.60**	**14.13**	**0.54**	**3.94**
Total world	**85.63**	**87.43**	**1.80**	**2.10**	**85.77**	**86.30**	**0.53**	**0.62**

Totals may not add up due to independent rounding

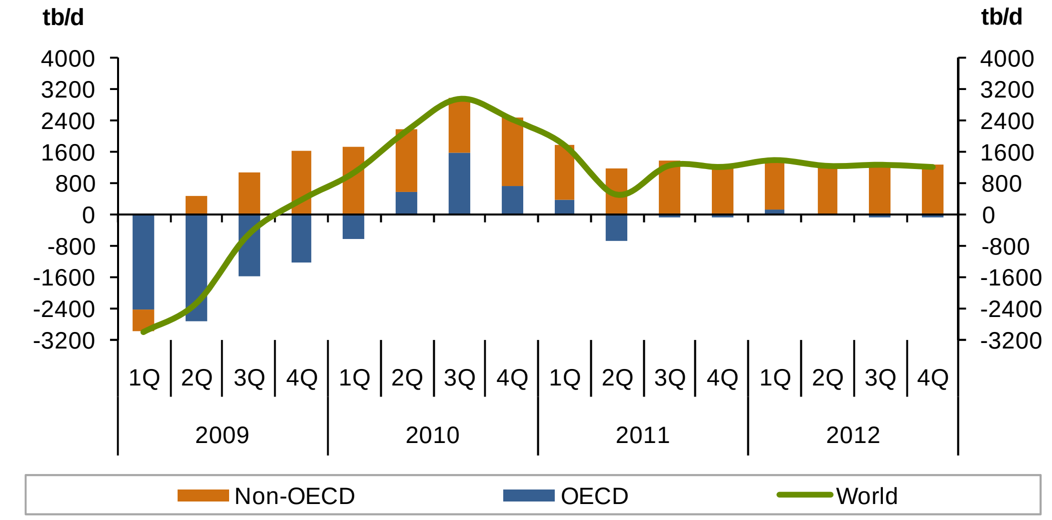
Table 4.3: Third and fourth quarter world oil demand comparison for 2011, mb/d

			Change 2011/10				Change 2011/10	
	3Q10	3Q11	Volume	%	4Q10	4Q11	Volume	%
North America	24.17	24.15	-0.02	-0.06	23.94	24.04	0.10	0.42
Western Europe	14.92	14.88	-0.04	-0.29	14.83	14.75	-0.08	-0.53
OECD Pacific	7.62	7.60	-0.03	-0.34	8.07	8.05	-0.02	-0.28
Total OECD	**46.72**	**46.63**	**-0.09**	**-0.18**	**46.83**	**46.83**	**0.00**	**0.00**
Other Asia	10.00	10.29	0.29	2.87	10.22	10.48	0.26	2.58
Latin America	6.34	6.50	0.16	2.57	6.27	6.42	0.15	2.42
Middle East	7.50	7.73	0.23	3.09	7.26	7.46	0.20	2.75
Africa	3.24	3.29	0.05	1.42	3.43	3.46	0.03	0.87
Total DCs	**27.08**	**27.81**	**0.73**	**2.69**	**27.19**	**27.83**	**0.65**	**2.38**
FSU	4.30	4.38	0.08	1.86	4.38	4.46	0.08	1.86
Other Europe	0.68	0.67	-0.02	-2.20	0.76	0.73	-0.03	-3.82
China	9.23	9.80	0.57	6.18	9.10	9.64	0.54	5.96
Total "Other regions"	**14.21**	**14.85**	**0.63**	**4.47**	**14.24**	**14.83**	**0.59**	**4.17**
Total world	**88.01**	**89.28**	**1.28**	**1.45**	**88.26**	**89.50**	**1.24**	**1.40**

Totals may not add up due to independent rounding

However, as mentioned before, should higher international oil prices persist, or should further setbacks in the OECD economies occur, then it might impose a stronger reverse elasticity on oil demand, putting more weight on the downward risk. This risk might be translated into reduction of the current growth by another 200 tb/d.

Graph 4.2: Quarterly world oil demand growth

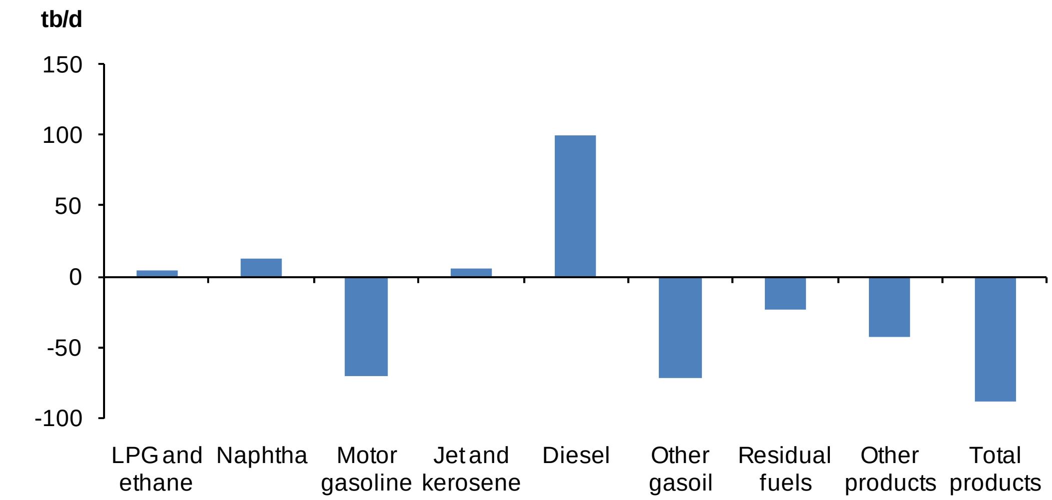


OECD – North America

North American oil demand revised down by 0.14 mb/d in 2011

The slowing economy in the US, the high rate of unemployment along with high oil prices has pushed gasoline demand to the lower edge this summer. The current $4+ price for a gallon of gasoline reversely affects consumer demand for such product. Demand for diesel by the industrial sector along with a hike in jet fuel demand reflects a mild enhancement in the economy.

Graph 4.3: OECD product demand changes, 2011



The latest monthly US oil consumption data for May showed a substantial yearly contraction of 2.6%. It is the largest decline in volume and percent observed since January 2010. The main reason for this decrease was the lower consumption of motor gasoline, which was attributed to higher fuel prices as well as continuing pessimistic expectations about the economy. Moreover, the growth in distillate consumption is still very weak, while jet/kerosene and residual fuel oil contracted for the first month in 2011. Propane/propylene consumption was the only product category which continued being on the plus during May. Preliminary weekly data for June and July 2011 display even larger contractions and thus a more pessimistic picture, with the consumption of transportation and industrial fuels being in the minus. This is quite alarming to occur at the beginning of the driving season. Furthermore, the first seven months of 2011 imply decreasing y-o-y consumption for all product categories with the only exception being distillate fuel oil and other products. Motor gasoline and propane/propylene show the deepest plunge. As mentioned during last month's MOMR, the outcome of the driving season is certainly a challenge for the development of US oil consumption during the second half of this year – unfortunately up-to-date indications call for a rather downward risk. The June Mexican oil consumption was up by 1.0%, as compared to last year. Decreasing consumption in transportation products was more than offset by increasing demand for industrial fuels, especially fuel oil. The latest available May Canadian oil demand data indicated a contraction by 3.0%; the largest negative contribution to oil consumption was made from transportation fuels.

For the whole of 2011, North American oil demand was revised down by 0.14 mb/d leading to flat y-o-y oil demand changes. In 2012, North America is projected to grow by only 0.1 mb/d.

US car sales rose at a weak pace by only 2.8% in June, as consumers were faced with higher prices for many vehicles due to trimming of US vehicle deals, a strategy which analysts and investors said backfired in May and June. Automakers raised prices of their cars and trucks after the 11 March Japan earthquake that constrained inventories. Furthermore, concerns about the development of the US economy halted consumers from buying. The segments of small and midsized cars marked big increases, while sales of large and luxury cars contracted. Furthermore, despite the higher fuel prices, the sales of SUVs recorded remarkable increases of almost 24% y-o-y. During the first six months of 2011, the US auto market grew by 13%, with SUVs being the segment with the highest increase. Latest available Canadian data show auto sales in Canada climbing by 6.6% in June, with light trucks marking the segment with the largest increases. According to the Mexican Automobile Industry Association, Mexico's auto sales, exports and production grew robustly in May, by 14.1%, 6.0% and 11.4% respectively.

OECD – Europe

OECD Europe oil demand broadly flat in 2011

Although the May European oil consumption decline was not as bad as what was seen in the previous two months, it is in the negative as opposed to the earlier expected growth forecast. This weakening in European oil demand in the second quarter is mainly attributed to the Netherlands, France and Spain. High transport fuel prices pushed consumption steeply down, leading to further adjustment in total demand assessment.

As for the month of June, European oil consumption grew for the first time since February, slightly up by 0.03 mb/d. June oil consumption in Italy and Germany grew slightly, while France continued to be in the negative. Sharp increases in industrial fuels and jet/kerosene pushed the UK to its strongest monthly oil consumption increase since March 2006. The short-term development of European oil consumption will be mostly determined by the continuing debt problems in several European economies, in particular Greece, Ireland and Portugal, as deterioration of these countries' economies will substantially influence the whole region. The European Big Four oil demand increased by 0.08 mb/d in June as compared to June 2010. The Big Four oil consumption of transportation fuels continued to be in the minus during June, while industry fuels are on the plus side. Transport fuel usage is weak during its peak summer season.

The region's total contraction in oil demand stands at 0.07 mb/d in 2011. For 2012, oil consumption is expected to shrink again, as a result of the rather pessimistic economic development at a slightly lower magnitude of 0.06 mb/d.

Table 4.4: Europe Big 4* oil demand, mb/d

	Jun 11	Jun 10	Change from Jun 10	Change from Jun 10, %
LPG	410	422	-12	-2.9
Gasoline	1,244	1,307	-63	-4.9
Jet/Kerosene	874	781	94	12.0
Gas/Diesel oil	3,250	3,200	50	1.6
Fuel oil	440	427	13	3.0
Other products	1,222	1,220	2	0.1
Total	**7,439**	**7,357**	**82**	**1.1**

** Germany, France, Italy and the UK*

According to the latest information by ACEA, European demand for new passenger cars in June contracted by 8.1% as compared to the same month in 2010, while the first six months of 2011 fell by 2.1% over the same period last year. In June, all important markets faced a downturn, leading to contractions ranging from -0.3% in Germany to -1.7% in Italy, -6.2% in the UK, -12.6% in France and -31.4% in Spain. During the first half of 2011, the situation in most markets varied. While Germany grew 10.5%, performing better than in the same period a year ago, new passenger car registrations shrank in the UK by -7.1%, Italy by -13.1% and Spain by -26.8%. Registration growth in France of +1.0% was almost the same level compared to last year.

OECD – Pacific

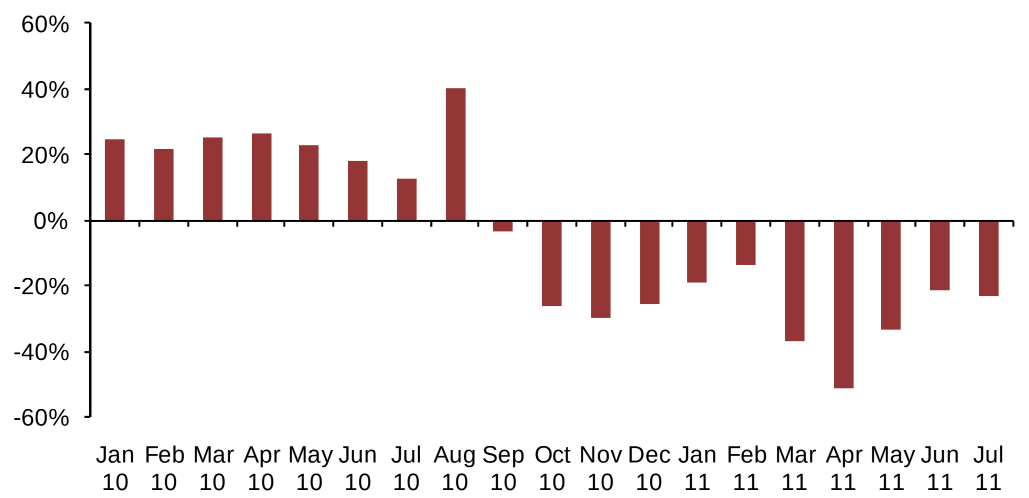
OECD Pacific oil consumption expected to fall by 0.02 mb/d in 2011

Following the mandatory 15% power saving in the northeast of Japan due to the power shortage instigated by the nuclear power plan shutdown, the government is urging users in the western side of the country to cut their electricity demand by 10%. The power saving plan starts on 15 July and goes on until 22 September of this year. Like China, some Japanese businesses are producing their own electricity in-house. This of course will affect diesel demand within the country.

Japanese power suppliers are switching to crude burning as a fuel to satisfy the shortage of different fuels in power plants. Crude burning has been an alternative to Japanese power suppliers for years. Since the nuclear power plants were damaged last March, the other fuel which has been used is NG. Extra crude burning is expected to exceed 100 tb/d in the summer months.

In Japan, latest June monthly data marked the first month with growing oil consumption since February and the catastrophic earthquake. However, the only reason behind increasing oil requirements was direct crude burning as one of the alternatives to the nuclear outfall for the production of electricity. All other product categories - with the exception of diesel oil, which was flat – continued being in the negative, implying slow speed of recovery and thus no improvement for the country’s oil consumption during 2011.

Graph 4.4: Japanese new passenger car registrations, y-o-y % changes



In South Korea, May came up with sharp decreases in the consumption of all products, largely fuel oil, LPG - as a result of fuel switching - and distillates. The South Korean economy is affected by Japan’s slow growth; energy use is on the decline accordingly. OECD Pacific oil consumption is expected to fall by 0.02 mb/d during 2011 and 0.05 mb/d in 2012, while projections are heavily dependent upon the speed of recovery in Japan.

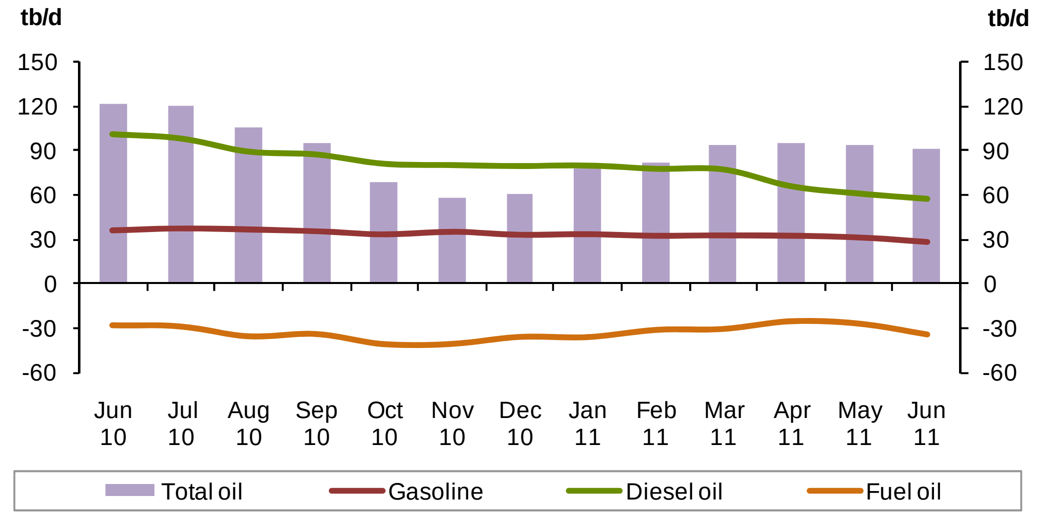
As a result of the very slow recovery from the catastrophic earthquake, Japan's industry-wide auto sales fell again by 23.3% in July compared to data from a year earlier.

DC oil demand growth forecast at 0.65 mb/d

Developing countries

The booming economy along with seasonal agricultural activity has hiked Indian oil demand in the second quarter. Indian second quarter oil demand growth reached 160 tb/d y-o-y. Summer demand is forecast to keep the country's second half of the year's oil demand on the rise as well. Nevertheless, June data indicated a mild oil demand growth country-wide. It is the weakest demand growth this year. Two factors that dipped India's oil demand in June are weak transport fuel demand and fuel switching from fuel oil. As a result of the above two factors, Indian oil demand in June inched up by only 1.8% y-o-y. Gasoline and jet fuel did not grow at all and diesel grew by half its usual growth. Despite the weakness in June demand, it is expected to bounce back in the third quarter to meet the annual expected growth for the year. India's oil demand forecast growth is expected to maintain our earlier assessment exceeding an annual growth of 4% y-o-y averaging 3.4 mb/d for 2011.

Graph 4.5: Yearly changes in Indian oil demand, 12 month moving averages



India's demand growth expected to exceed annual growth of 4%, averaging 3.4 mb/d for 2011

According to the Society of Indian Automobile Manufacturers (SIAM), car sales grew at just 1.6% in June — the slowest since the slowdown of 2008 — compared with nearly 31% in the corresponding month a year before. Passenger and utility vehicles recorded substantially lower growth, with 1.6% and 4.4%, respectively. Interest rates, higher fuel prices and an increase in vehicle prices are the reasons for the lower growth, according to the auto industry organization.

Table 4.5: Consumption of petroleum products in Thailand, tb/d

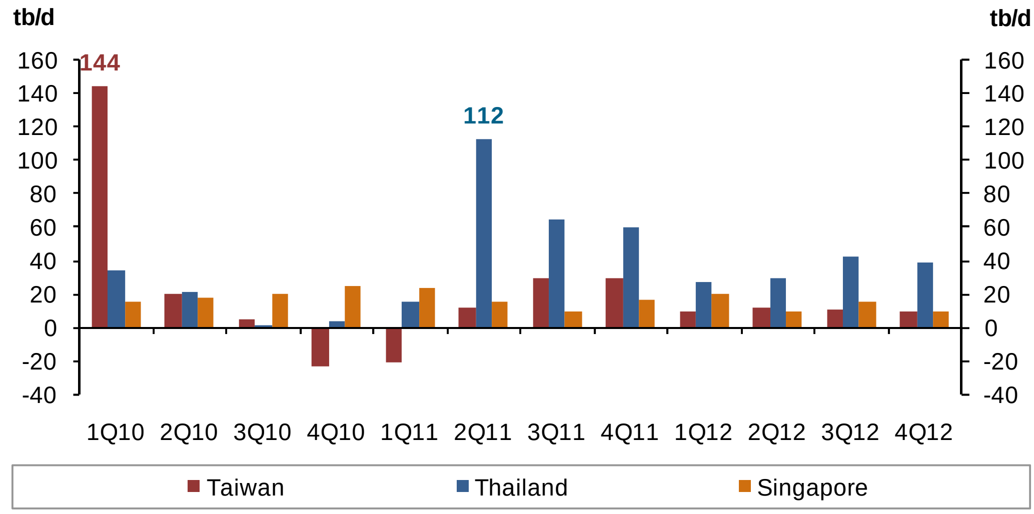
	May 11	May 10	Change, tb/d	Change, %
LPG	220	177	43	24.2
Gasoline	124	123	1	0.9
Jet Fuel/Kerosene	79	70	9	12.5
Diesel	342	329	13	3.8
Fuel oil	36	48	-12	-24.6
Other products	133	-35	168	-474.7
Total	**933**	**711**	**222**	**31.2**

Source: JODI/EPPO

Other Asia oil demand growth forecast at 0.28 mb/d in 2011

Thailand's oil demand is expected to grow the most within Other Asia's region after India. The country's 4.2% GDP growth is calling for more energy this year. It is forecast that industrial use of oil will push Thailand's total oil demand up by 63 tb/d in 2011 y-o-y. The third largest oil demand contributor in Other Asia is Singapore. The country's first quarter oil demand grew by 23 tb/d y-o-y; however it is anticipated that oil demand growth for the whole year will be 16 tb/d.

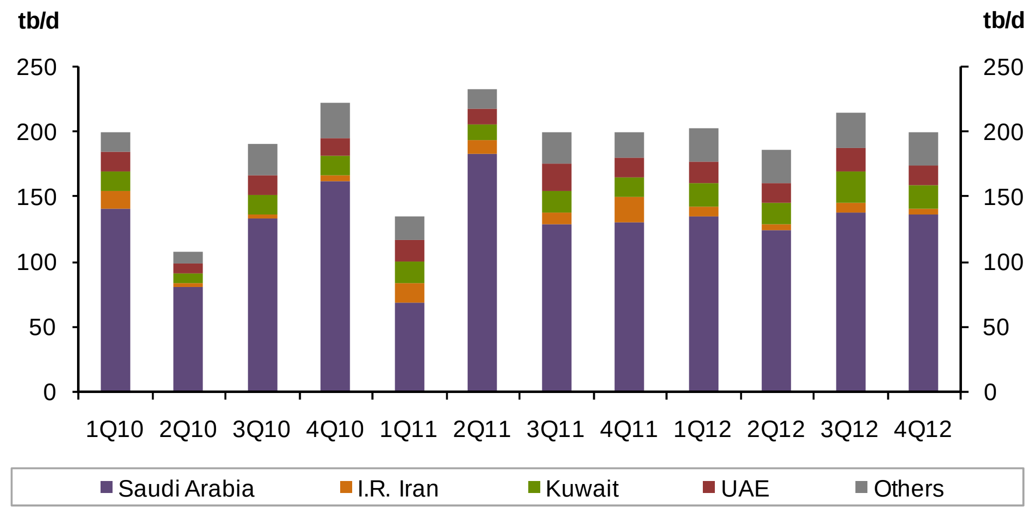
Graph 4.6: Oil consumption in selected Asian countries, y-o-y growth



Indonesian oil demand has been in the growing mode this year, affected by the country's economic growth of 6%. It is forecast that the country's oil demand will inch up more in response to the country's latest move to put more subsidies for petroleum products. The government assigned more funds to subsidize certain petroleum products for domestic consumption.

Other Asia oil demand growth is forecast at 0.28 mb/d in 2011, averaging 10.4 mb/d.

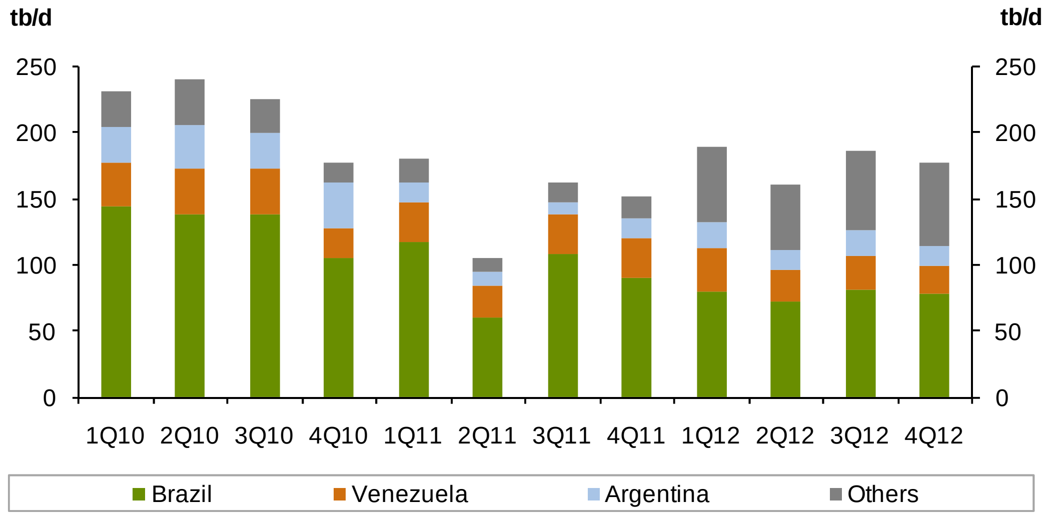
Graph 4.7: Yearly oil demand growth in the Middle East



Middle East demand forecast to grow by 0.2 mb/d in 2011

The summer season is the peak time for Middle East oil use. As forecast, summer heat is not only pushing Saudi oil demand up by 6% in June y-o-y but also boosting the whole Middle East region oil demand up by 0.2 mb/d in June y-o-y. Middle East oil demand growth is forecast at 0.2 mb/d in 2011, averaging 7.5 mb/d.

Graph 4.8: Yearly oil demand growth in the Latin America



Brazilian oil demand in June kept May's upward growth trend. This growth trend is expected to last throughout the third quarter. Brazil gasoline consumption already passed the half a million barrel per day level last month and is expected to keep its growing mode.

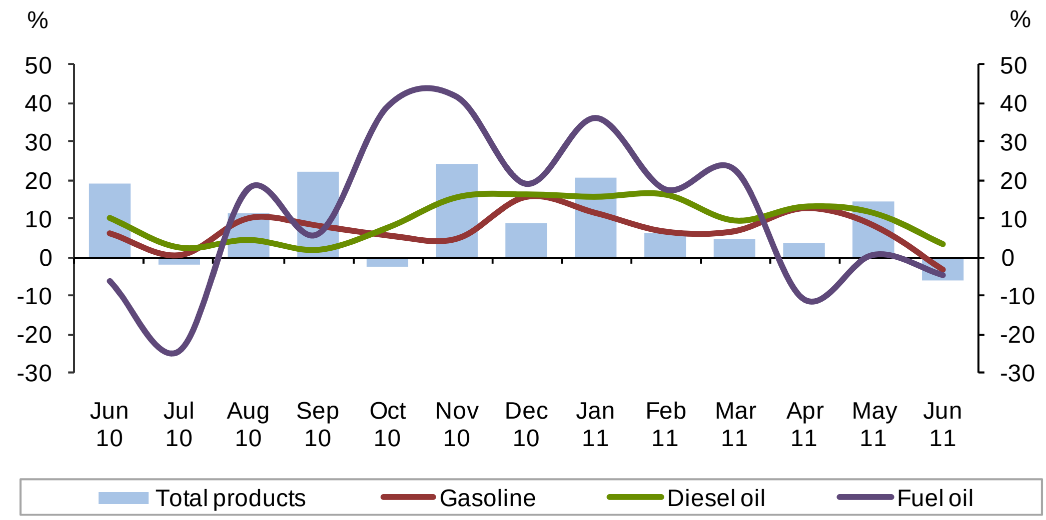
Other regions

China's oil demand forecast to achieve 6.5% growth in 2011

China's oil demand softened in the first month of the summer. The slowing economy, along with energy prices, led to both lower oil demand and weaker growth for new car registrations. This weakening came about despite the peak in the agricultural season and the preparation for the electricity demand peak. It is not anticipated that China's oil demand will keep this moderate trend for the rest of the year. China has the habit of using the country's oil stocks for consumption in some months and replenishing it later on. Anticipated electricity shortage this summer would lead to a hike in diesel demand, but not in a drastic way. China's annual oil demand growth will not be affected for the year. Its oil demand for June grew by 0.75% y-o-y, the lowest since March 2009. The country's net oil imports plunged by 10.75% in the same month.

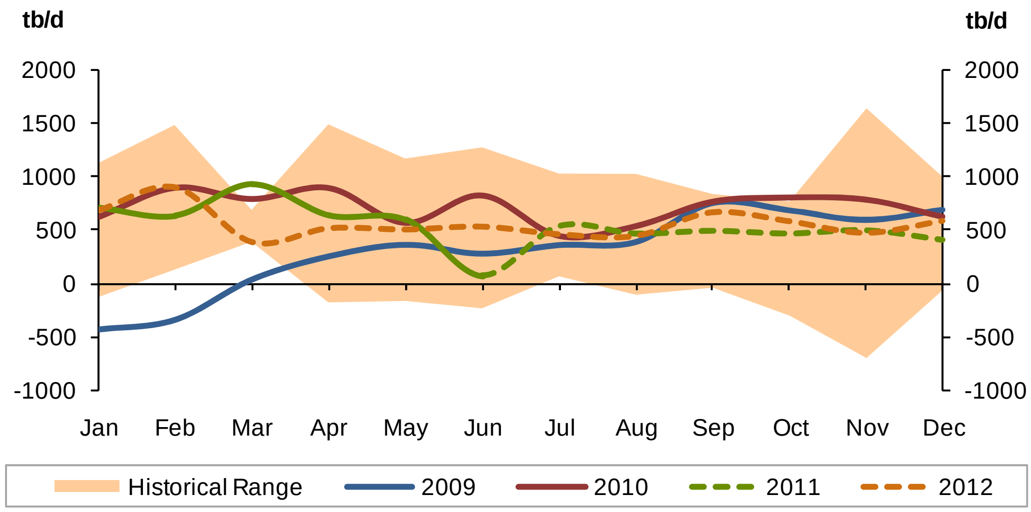
The country's oil demand is forecast to achieve 6.5% y-o-y growth in 2011.

Graph 4.9: Changes in Chinese main oil products apparent consumption, y-o-y



Data from China Association of Automobile Manufacturers (CAAM) shows that China's automobile sales slowed to a 13.6% increase during July 2011 compared to a year earlier. This trend is continuing for the fourth month in a row. This is caused by the fact that the Chinese government introduced limits on new car purchases, stopped offering incentives and imposed a new 10% tax on new car sales.

Graph 4.10: Changes in Chinese apparent oil demand, y-o-y



World oil demand forecast to grow by 1.3 mb/d in 2012

World oil demand in 2012

Although the world economic picture is facing increasing uncertainties in 2011, world GDP for next year is forecast at a slightly higher base than this year. Despite the enhanced economic outlook in the OECD, it is forecast that next year's oil demand growth will take place in the non-OECD, mainly China, India, the Middle East and Latin America. By sector, industrial and transport sectors will contribute the most to expected oil demand growth. Petrochemical activities are expected to push oil demand up next year in the non-OECD region. The US oil demand, which is the main player in this year's world oil demand, is expected to be back in its normal growing mode; however it will remain the wild card for 2012 as it could also be negatively influenced by the country's economic turbulence, state policies and retail petroleum product prices. World oil demand is forecast to continue its growth during 2012 to reach 1.3 mb/d y-o-y, to average 89.4 mb/d, only a minor downward revision of 19 tb/d from the previous report.

Table 4.6: World oil demand forecast for 2012, mb/d

	2011	1Q12	2Q12	3Q12	4Q12	2012	Change 2012/11 Growth	%
North America	23.81	23.95	23.36	24.29	24.20	23.95	0.14	0.59
Western Europe	14.51	14.28	14.08	14.80	14.64	14.45	-0.06	-0.41
OECD Pacific	7.79	8.28	7.20	7.51	7.97	7.74	-0.05	-0.70
Total OECD	**46.12**	**46.51**	**44.64**	**46.61**	**46.80**	**46.14**	**0.03**	**0.06**
Other Asia	10.40	10.50	10.76	10.51	10.71	10.62	0.22	2.09
Latin America	6.33	6.31	6.41	6.69	6.60	6.50	0.18	2.83
Middle East	7.46	7.52	7.52	7.95	7.66	7.66	0.20	2.69
Africa	3.40	3.46	3.50	3.35	3.52	3.46	0.06	1.70
Total DCs	**27.58**	**27.78**	**28.19**	**28.49**	**28.49**	**28.24**	**0.65**	**2.37**
FSU	4.23	4.21	4.04	4.48	4.56	4.33	0.10	2.34
Other Europe	0.67	0.67	0.63	0.68	0.74	0.68	0.00	0.68
China	9.53	9.67	10.06	10.33	10.15	10.05	0.52	5.44
Total "Other regions"	**14.43**	**14.56**	**14.73**	**15.48**	**15.44**	**15.06**	**0.62**	**4.31**
Total world	**88.14**	**88.84**	**87.57**	**90.58**	**90.73**	**89.44**	**1.30**	**1.48**
Previous estimate	88.18	88.93	87.90	90.49	90.67	89.50	1.32	1.50
Revision	-0.05	-0.09	-0.33	0.09	0.06	-0.07	-0.02	-0.02

Totals may not add up due to independent rounding

Chinese oil demand is expected to grow the most world-wide, despite the government's efforts to curb energy use within the country. Chinese oil demand is expected to inch up by 5.4% y-o-y. Along with China, the Middle East, India, Brazil, and the rest of the non-OECD countries will boost world oil demand up by 1.3 mb/d in 2012.

Next year's oil demand forecast is based on assumptions such as higher GDP, higher oil prices, strong Chinese economy, and uncertainty in total world economy in 2011. Next year's oil demand forecast implies two scenarios; however the probability varies between the upper and lower range. A better-than-expected outcome of the US economy might boost world oil demand growth up by 0.2 mb/d y-o-y. On the other hand, the gloomy picture which would be supported by higher oil prices and further turbulence in oil markets might shave 15% off the forecast growth.

Graph 4.11: Forecast y-o-y growth in 2012 world oil demand

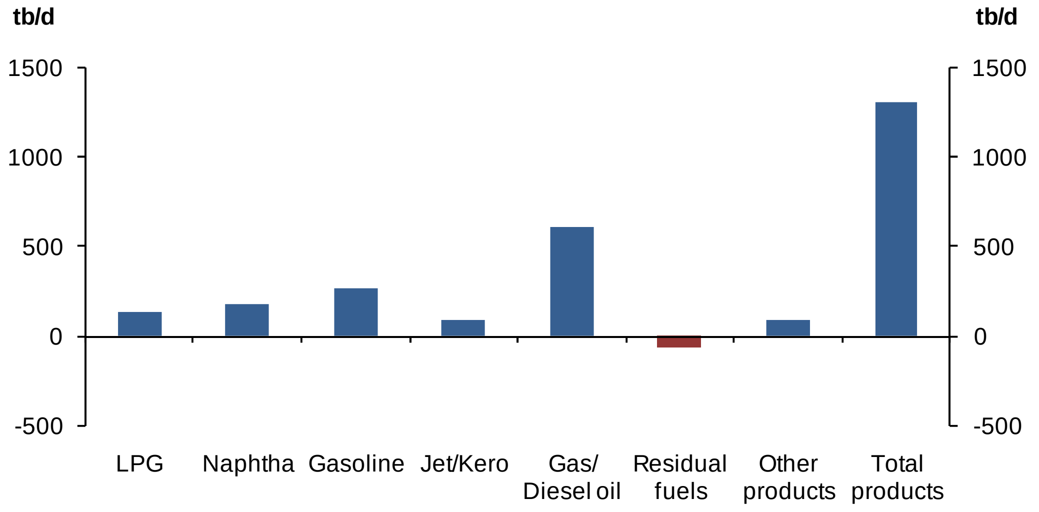


Table 4.7: First and second quarter world oil demand comparison for 2012, mb/d

			Change 2012/11				Change 2012/11	
	1Q11	1Q12	Volume	%	2Q11	2Q12	Volume	%
North America	23.81	23.95	0.14	0.60	23.24	23.36	0.12	0.51
Western Europe	14.24	14.28	0.04	0.27	14.17	14.08	-0.09	-0.64
OECD Pacific	8.35	8.28	-0.07	-0.89	7.18	7.20	0.02	0.33
Total OECD	**46.40**	**46.51**	**0.11**	**0.23**	**44.59**	**44.64**	**0.05**	**0.11**
Other Asia	10.27	10.50	0.22	2.15	10.55	10.76	0.20	1.93
Latin America	6.12	6.31	0.19	3.10	6.25	6.41	0.16	2.58
Middle East	7.32	7.52	0.20	2.77	7.33	7.52	0.19	2.54
Africa	3.41	3.46	0.05	1.43	3.44	3.50	0.06	1.76
Total DCs	**27.12**	**27.78**	**0.66**	**2.44**	**27.57**	**28.19**	**0.61**	**2.22**
FSU	4.11	4.21	0.11	2.56	3.95	4.04	0.09	2.31
Other Europe	0.67	0.67	0.00	-0.19	0.63	0.63	0.01	0.81
China	9.13	9.67	0.54	5.94	9.55	10.06	0.51	5.29
Total "Other regions"	**13.91**	**14.56**	**0.65**	**4.65**	**14.13**	**14.73**	**0.60**	**4.26**
Total world	**87.43**	**88.84**	**1.41**	**1.62**	**86.30**	**87.57**	**1.27**	**1.47**

Totals may not add up due to independent rounding

Table 4.8: Third and fourth quarter world oil demand comparison for 2012, mb/d

			Change 2012/11				Change 2012/11	
	3Q11	3Q12	Volume	%	4Q11	4Q12	Volume	%
North America	24.15	24.29	0.14	0.58	24.04	24.20	0.16	0.66
Western Europe	14.88	14.80	-0.08	-0.53	14.75	14.64	-0.11	-0.72
OECD Pacific	7.60	7.51	-0.09	-1.12	8.05	7.97	-0.08	-1.00
Total OECD	**46.63**	**46.61**	**-0.02**	**-0.05**	**46.83**	**46.80**	**-0.03**	**-0.06**
Other Asia	10.29	10.51	0.22	2.17	10.48	10.71	0.22	2.11
Latin America	6.50	6.69	0.19	2.88	6.42	6.60	0.18	2.76
Middle East	7.73	7.95	0.21	2.77	7.46	7.66	0.20	2.66
Africa	3.29	3.35	0.06	1.91	3.46	3.52	0.06	1.70
Total DCs	**27.81**	**28.49**	**0.69**	**2.47**	**27.83**	**28.49**	**0.66**	**2.36**
FSU	4.38	4.48	0.10	2.25	4.46	4.56	0.10	2.24
Other Europe	0.67	0.68	0.01	1.19	0.73	0.74	0.01	0.91
China	9.80	10.33	0.53	5.36	9.64	10.15	0.50	5.22
Total "Other regions"	**14.85**	**15.48**	**0.63**	**4.26**	**14.83**	**15.44**	**0.61**	**4.11**
Total world	**89.28**	**90.58**	**1.29**	**1.45**	**89.50**	**90.73**	**1.24**	**1.38**

Totals may not add up due to independent rounding

World Oil Supply

Non-OPEC

Forecast for 2011

Non-OPEC supply estimated to increase by 0.58 mb/d in 2011

Non-OPEC oil supply in 2011 is forecast to grow by 0.58 mb/d over the previous year to average 52.83 mb/d. The projected increase represents a downward revision of 50 tb/d compared to the previous Monthly Oil Market Report (MOMR). There were a few upward and downward revisions introduced this month to supply estimates, mainly on updated production data and changes in project startups and ramp-ups, in addition to a few historical revisions. The second quarter oil supply estimates encountered the heaviest revision (downward) among all the quarters, followed by the third quarter (upward). On a regional basis, North America experienced the largest revision compared to previous month, followed by Other Asia, and Africa. The On a quarterly basis, non-OPEC supply is expected to stand at 52.87 mb/d, 52.23 mb/d, 52.90 mb/d and 53.33 mb/d respectively.

Graph 5.1: Regional non-OPEC supply growth, y-o-y

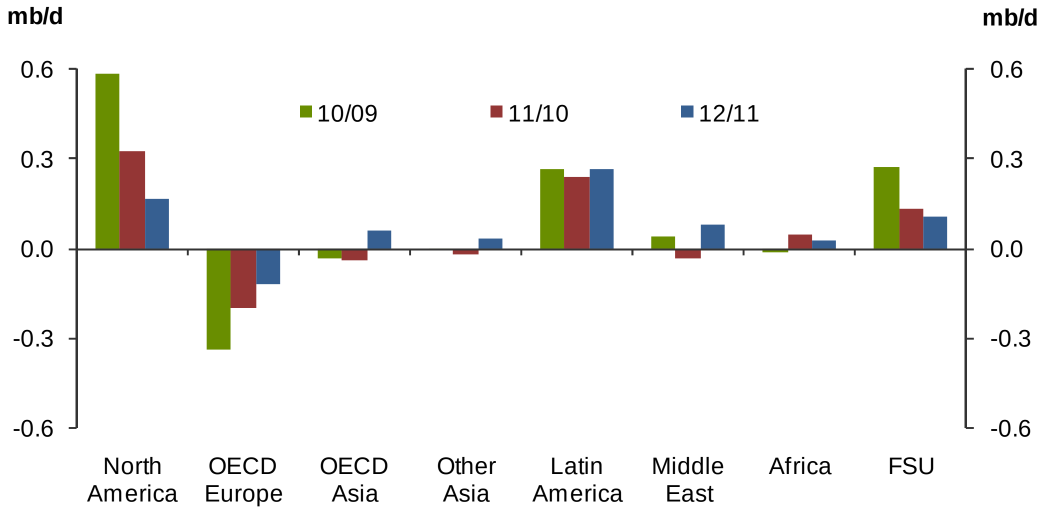


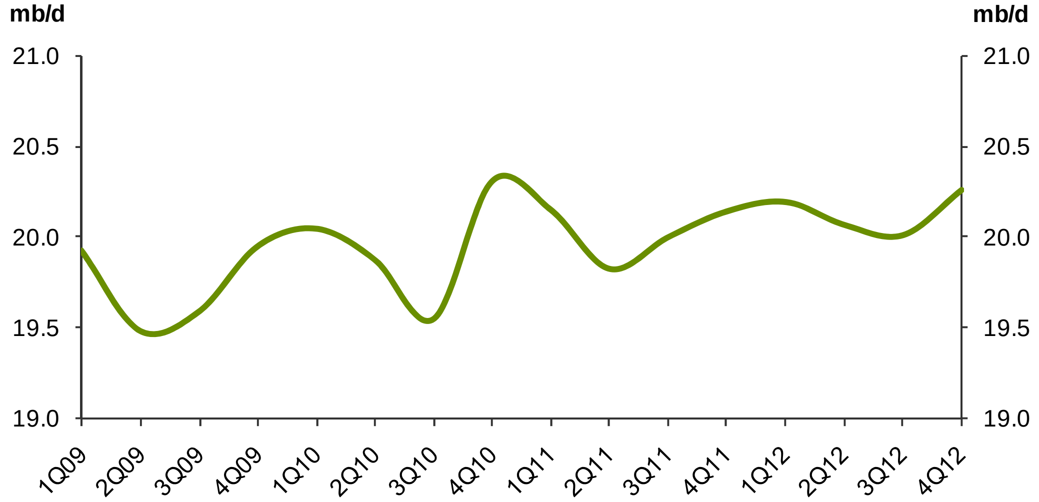
Table 5.1: Non-OPEC oil supply in 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10
North America	14.96	15.32	15.24	15.25	15.30	15.28	0.32
Western Europe	4.39	4.32	4.06	4.14	4.25	4.19	-0.20
OECD Pacific	0.60	0.52	0.53	0.60	0.59	0.56	-0.04
Total OECD	**19.94**	**20.15**	**19.82**	**20.00**	**20.14**	**20.03**	**0.08**
Other Asia	3.68	3.69	3.62	3.67	3.68	3.66	-0.02
Latin America	4.67	4.81	4.77	4.96	5.09	4.91	0.24
Middle East	1.77	1.78	1.66	1.75	1.78	1.74	-0.03
Africa	2.59	2.62	2.59	2.66	2.67	2.63	0.05
Total DCs	**12.71**	**12.89**	**12.64**	**13.03**	**13.22**	**12.95**	**0.24**
FSU	13.22	13.34	13.30	13.36	13.43	13.36	0.13
Other Europe	0.14	0.14	0.14	0.14	0.14	0.14	0.00
China	4.14	4.22	4.19	4.23	4.27	4.23	0.09
Total "Other regions"	**17.50**	**17.70**	**17.63**	**17.74**	**17.84**	**17.73**	**0.23**
Total Non-OPEC production	**50.15**	**50.74**	**50.10**	**50.77**	**51.20**	**50.70**	**0.55**
Processing gains	2.10	2.13	2.13	2.13	2.13	2.13	0.03
Total Non-OPEC supply	**52.25**	**52.87**	**52.23**	**52.90**	**53.33**	**52.83**	**0.58**
Previous estimate	52.27	52.89	52.55	52.78	53.32	52.89	0.62
Revision	-0.01	-0.02	-0.32	0.12	0.01	-0.05	-0.04

OECD

Total oil supply from OECD is projected to increase by 80 tb/d in 2011 to average 20.03 mb/d, representing an upward revision of 25 tb/d compared to the previous month. Production outlook for the US, Mexico, and Denmark encountered upward revisions while supply projections for the UK, Canada, Norway, and Australia were adjusted downward. North America remains the only region within the OECD with anticipated supply growth in 2011, while supply from OECD Western Europe and Pacific are expected to decline. On a quarterly basis, OECD oil supply is seen to average 20.15 mb/d, 19.82 mb/d, 20.00 mb/d and 20.14 mb/d respectively.

Graph 5.2: OECD's quarterly production



North America

North America oil supply is anticipated to average 15.28 mb/d in 2011, an increase of 0.32 mb/d over the previous year. The supply forecast indicates an upward revision of 40 tb/d compared to the previous month. The upward revision came from the US and Mexico, while Canada supply estimate encountered a downward revision. North America supply is forecast to have the highest regional growth among all non-OPEC regions in 2011, supported by the expected strong growth from the US and Canada as well as the foreseen limited decline from Mexico. According to preliminary data, North America oil supply averaged 15.28 mb/d during the first half of 2011, indicating significant growth of 0.49 mb/d compared to the same period in 2010. On a quarterly basis, North America oil supply in 2011 is estimated to stand at 15.32 mb/d, 15.24 mb/d, 15.25 mb/d, and 15.30 mb/d respectively.

US

US supply to increase by 70 tb/d in 2012

US oil supply is forecast to average 8.80 mb/d in 2011, growth of 0.20 mb/d over the previous year and representing an upward revision of 50 tb/d compared to the previous MOMR. The expected US supply growth in 2011 is marking the highest among all non-OPEC countries. The upward revision came mainly from the second quarter to adjust for updated production data, which was partially carried over to the second half of the year. Additionally, the startup of the Appaloosa field in the Gulf of Mexico late June, with relatively small output, supported the upward revision. The continued onshore growth from shale oil is strongly supporting the forecast. Furthermore, the anticipated ramp-up of the Perdido output will further enhance US output. However, the risk remains high, especially during the hurricane season.

During the third quarter, US production is expected to decline compared to the second quarter, mainly due to maintenance in Alaska and other areas as well as anticipated lower NGL output. The drop is expected despite the pipeline rupture in Alaska in mid July, since it did not impact output. Furthermore, the shutdown of some Gulf of Mexico output in preparation for tropical storm Dom reduced the output in late July. However, output is assumed to have returned to normal levels in early August as the storm did not cause serious damage. Reports suggested that around 95 tb/d was shut down for few days in preparation for the storm with total lost volume coming to less than 1 mb.

According to preliminary data, US oil supply averaged 8.81 mb/d during the first half of 2011, indicating strong growth of 0.33 mb/d compared to the same period a year ago. On a quarterly basis, US oil supply is expected to average 8.77 mb/d, 8.86 mb/d, 8.80 mb/d and 8.79 mb/d respectively.

Canada and Mexico

Canada supply to average 3.53 mb/d in 2011

Canada oil supply projection experienced a downward revision of 20 tb/d compared to the previous month's assessment. Oil production from Canada is expected to average 3.53 mb/d in 2011, growth of 0.13 mb/d from the previous year. The downward revision was introduced mainly in the second quarter to adjust for updated production data. The second quarter experienced a downward revision of 90 tb/d as production data indicated a sharp decline in May output that was recovered in June. Canadian production in May marked the lowest level since January 2010. Various shutdowns and maintenance, including Syncrude, supported the downward revision. However, output is expected to increase in the third quarter compared to the second, mainly on return from maintenance as well as startup of the repaired Horizon project, where commissioning started in early August. On a quarterly basis, Canada's supply is seen to average 3.58 mb/d, 3.42 mb/d, 3.52 mb/d and 3.60 mb/d respectively. According to preliminary data, Canadian oil supply increased by 0.14 mb/d during the first half of 2011 compared to the same period of 2010.

Mexico supply forecast to average 2.95 mb/d in 2011, steady from 2010

Mexico oil supply is foreseen to average 2.95 mb/d in 2011, steady from the previous year with a minor decline of 10 tb/d, representing an upward revision of 10 tb/d compared to the previous MOMR. According to recent production data, Mexico oil supply averaged 2.96 mb/d during the first half of 2011, indicating a minor decline of 10 tb/d compared to the same period of 2010. Mexico actual production data in the first half of 2011 indicated a slowdown of the long-term decline in production that started in 2005. However, the risk of the forecast remains higher on the decline rate development in mature producing areas as well as on weather and technical factors. On a quarterly basis, Mexico's oil supply is expected to average 2.97 mb/d, 2.96 mb/d, 2.94 mb/d and 2.92 mb/d respectively.

Western Europe

Total **OECD Western Europe** oil supply is anticipated to drop 0.20 mb/d from 2010 to average 4.19 mb/d in 2011, 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. Reports suggested that North Sea production fell below 2.8 mb/d in June, a low level that has not been reached since 1980s. On a quarterly basis, supply is expected to stand at 4.32 mb/d, 4.06 mb/d, 4.14 mb/d and 4.25 mb/d respectively. According to preliminary data, OECD Western Europe production declined 0.37 mb/d in the first half of 2011 compared to the same period of 2010.

Fire at Norway's Valhall halts production of around 60 tb/d

Despite the improvement of June production compared to the previous month, second quarter oil supply required a downward revision to adjust for actual production data. The sharp drop of Norway output in May, where supply averaged 1.84 mb/d, drew second quarter production to encounter a downward revision of 60 tb/d. The output improvement in June came despite the shutdown of Visund and Vega South projects and a sharp drop of output from Alvheim, Vilje, and Volund. Norway oil production is expected to decline by 0.11 mb/d over 2010 to average 2.03 mb/d in 2011, representing a minor downward revision of 10 tb/d compared to the previous MOMR. An upward revision was encountered in the third quarter that partially offset the downward revision in the second quarter. The upward revision in the third quarter came despite the halt of production after the fire at the Valhall project in mid July that shutdown around 60 tb/d from both Valhall and Hod developments. Additionally, the fire is forcing a shutdown of the Ekofisk field for few days. Norway production is expected to increase in the third quarter compared to the second despite the anticipated maintenance in August. On a quarterly basis, Norway's supply is expected to average 2.15 mb/d, 1.94 mb/d, 1.98 mb/d and 2.05 mb/d respectively. According to preliminary data, Norway oil supply dropped 0.18 mb/d during the first half of 2011 compared to the same period of 2010.

UK supply to decline 0.10 mb/d in 2011

UK oil supply is forecast to decrease by 0.10 mb/d over 2010 to average 1.26 mb/d in 2011, representing a downward revision of 10 tb/d compared to the previous month. The downward revision came in the second quarter to adjust for updated production data. Regular summer maintenance on fields in June, which are assumed back in July, affected the second quarter output. Additionally, the problem with the Forties system's fields, including Buzzard, negatively impacted output in second quarter. Buzzard production is expected to return to full capacity, i.e. 200 tb/d, in August. Reports suggested that Buzzard produced 100 tb/d during parts of second quarter owing partially to the repairs of the gas compressor cooling system. In addition, the expected maintenance in August for some fields, where total North Sea output is anticipated to lose around 4 mb, further supported the downward revision. During the first quarter of 2011, reports suggested that drilling activities dropped 43% compared to the previous year, reaching the lowest level since 2002. During the second quarter, reports indicated that drilling activities declined by 52%. On the other hand, the startup of the Falcon field in mid July, which added relatively small volumes, offset part of the downward revision. According to preliminary data, UK oil supply declined by around 0.24 mb/d during the first half of 2011 compared to the same period in 2010. On a quarterly basis, UK oil supply is seen to stand at 1.27 mb/d, 1.19 mb/d, 1.28 mb/d and 1.31 mb/d respectively.

Denmark oil supply is estimated to average 0.24 mb/d in 2011, flat from the previous year and representing an upward revision of 15 tb/d compared to the previous MOMR. The upward revision came to adjust for updated production data in the second quarter, which came higher than previously expected. The upward revision in the second quarter was partially carried over to the rest of the year.

Asia Pacific

OECD Pacific oil supply is foreseen to average 0.56 mb/d in 2011, a drop of 40 tb/d compared to 2010 and indicating a downward revision of 14 tb/d compared to last month. On a quarterly basis, total oil supply is estimated to average 0.52 mb/d, 0.53 mb/d, 0.60 mb/d, and 0.59 mb/d respectively.

Australian oil supply to drop 30 tb/d in 2011

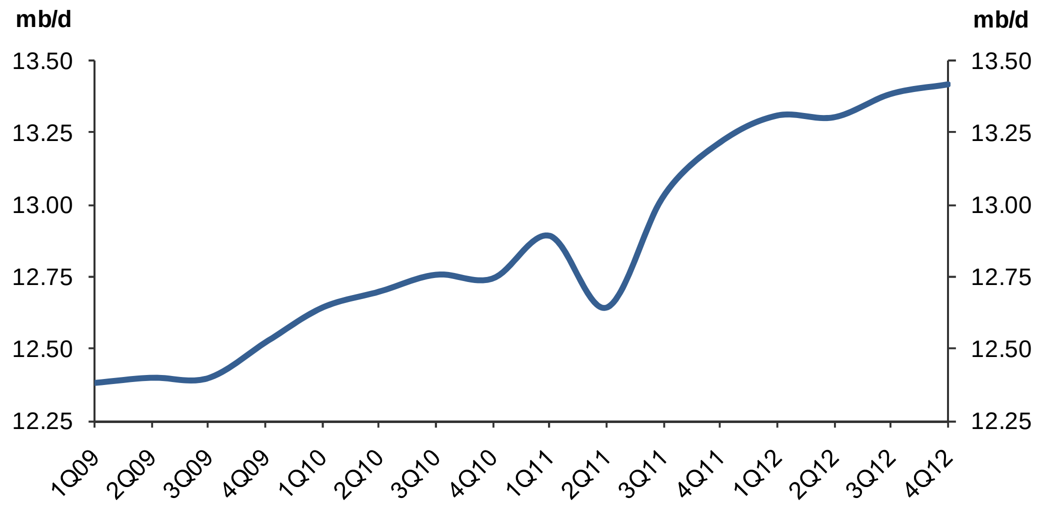
Australian oil production is projected to decline by 30 tb/d in 2011 to average 0.47 mb/d, indicating a downward revision of 10 tb/d compared to the previous MOMR. The downward revision came mainly from the second quarter to adjust for updated production data than came lower than previously expected. Production data for May came disappointing as output was anticipated to rebound after the weather impacted production in April, which led to the downward revision for the second quarter. Australia oil supply is foreseen to increase in the third quarter compared to the second on return of shutdown production. According to the preliminary data, Australia supply averaged 0.44 mb/d during the first half of 2011, lower by 70 tb/d from the same period of 2010. On a quarterly basis, Australia oil supply is expected to stand at 0.42 mb/d, 0.45 mb/d, 0.51 mb/d and 0.50 mb/d respectively.

Developing Countries

DC supply to average 12.95 mb/d in 2011, growth of 0.24 mb/d

Total Developing Countries (DCs) oil production is expected to average 12.95 mb/d in 2011, representing growth of 0.24 mb/d over 2010, indicating a downward revision of 80 tb/d compared to the previous month. Latin America and Africa are the only two regions with forecast growth, while the Middle East and Other Asia are projected to experience declines. The downward revision introduced to DCs supply forecast came from Other Asia, Africa and Latin America, while the Middle East remained steady compared to the previous month. Latin America is now forecast to have the second largest increase among all non-OPEC regions supported by both Brazil and Colombia. On a quarterly basis, total oil supply in DCs is seen to average 12.89 mb/d, 12.64 mb/d, 13.03 mb/d and 13.22 mb/d respectively.

Graph 5.3: Developing Countries' quarterly production



Other Asia supply to decline by 20 tb/d in 2011

Oil supply from **Other Asia** is anticipated to remain relatively steady in 2011 compared to a year earlier, with a minor decline of 20 tb/d, indicating a downward revision of 40 tb/d compared to the previous month. A historical revision impacted the supply outlook for Brunei, where the production forecast encountered a downward revision of 10 tb/d. Brunei oil supply is estimated to remain steady in 2011 compared to the previous year and average 0.17 mb/d. India oil supply is forecast to average 0.91 mb/d in 2011, growth of 60 tb/d from the previous year, indicating a downward revision of around 10 tb/d compared to the previous MOMR. The downward revision came from the first half of 2011, where updated production data showed lower output than previously expected which required the undertaken downward revision. However, India oil supply is expected to increase in the second half on the ramp-up of the Mangala project. Recent reports imply of delay possibilities for the startup of the Bhagyam field, which is planned to start in October, due to unresolved royalty concerns with the government. On a quarterly basis, Other Asia oil supply is expected to stand at 3.69 mb/d, 3.62 mb/d, 3.67 mb/d and 3.68 mb/d respectively.

Vietnam oil supply is seen to remain relatively steady in 2011, with a minor decline of 10 tb/d, and average 0.35 mb/d, indicating a downward revision of 15 tb/d compared to the previous month. The downward revision was introduced to adjust for actual production and came despite the anticipated startup of Te Giac Trang, Dai Hung II, and Chim Sao developments in the second half of 2011. Malaysia oil supply forecast experienced a downward revision of 10 tb/d mainly from updated production data for the second quarter that came lower than previously expected. The downward revision was partially carried over to the rest of the year. Oil production from Malaysia is not seen to drop 50 tb/d in 2011 to average 0.65 mb/d. Indonesia oil supply forecast encountered the only upward revision within Other Asia region of 5 tb/d compared to the previous MOMR. The upward revision was introduced to adjust for updated production data. Indonesia oil supply is foreseen to average 1.00 mb/d in 2011, a decline of 30 tb/d from the previous year. During the first half of 2011, Indonesia oil production declined by 30 tb/d compared to the same period of 2010, according to preliminary data.

Latin America supply to increase by 0.24 mb/d in 2011, supported by growth in Brazil and Colombia

Latin American oil production is expected to increase by 0.24 mb/d over 2010 to average 4.91 mb/d in 2011, indicating a downward revision of 20 tb/d from a month earlier. The downward revision moved Latin America growth to be second on the list among all non-OPEC regions. Both Brazil and Colombia are now equally supporting growth while Argentina is seen to remain steady. Argentina oil supply is foreseen to remain relatively flat in 2011, with a minor drop of 20 tb/d from the previous year, unchanged from the previous evaluation. Production from the Argentinian strike-impacted southern region is reported to have reached 80% of capacity and is seen to return to full capacity within months. Colombia oil supply is forecast to increase by 0.13 mb/d in 2011 to average 0.93 mb/d, representing an upward revision of 10 tb/d compared to the previous MOMR. The upward revision was introduced despite the short production halt at the Rubiales project on the back of the protest and blockade that was soon resolved. The upward revision was experienced in the second half of 2011 as environmental permits were granted to clear the path for further development at the Quifa project. According to preliminary data, Latin America oil supply increased by 0.14 mb/d during the first half of 2011 compared to the same period of 2010. On a quarterly basis, Latin America oil supply is expected to stand at 4.81 mb/d, 4.77 mb/d, 4.96 mb/d and 5.09 mb/d respectively.

Poor sugar cane harvest this year is impacting Brazil ethanol output

Brazil oil supply is anticipated to increase by 0.13 mb/d over 2010 to average 2.79 mb/d in 2011, indicating a downward revision of 25 tb/d compared to the previous MOMR. The downward revision was introduced to partially adjust for updated production data in the second quarter that came lower than expected, which was carried over to the rest of the year. The second quarter revision came despite an improvement of output in June compared to the previous month, according to preliminary data. June output improvement was supported by the return of production from several platforms from maintenance in the Campos basin. Additionally, the new well as the Jubarte field P-57 and Aruana long term well test further supported the output in June. The government consideration of lowering the petrol ethanol content from 25% to 18% due to the poor sugar cane harvest this year partially drove the experienced downward revision. Despite the downward revision, Brazil output is expected to increase in the second half of 2011 compared to the first half on production startup and ramp-up of several projects. The completion of drilling of the third Guara pre-salt well is supporting the forecast. The Lula field, which is expected to reach 100 tb/d in 2012, is supporting the outlook in 2011, with one of it wells reaching the record output for a well in Brazil. According to the preliminary data, Brazil oil supply increased by 70 tb/d during the first half of 2011 compared to the same period of 2010. On a quarterly basis, Brazil oil supply is seen to stand at 2.72 mb/d, 2.71 mb/d, 2.83 mb/d and 2.91 mb/d respectively.

Yemen pipeline was repaired in July and output is expected to return to normal levels

Repairs of the damaged pipeline in Yemen were completed in mid-July and output started to resume at the shutdown fields since mid-March. Yemeni officials reported that production will gradually increase to reach the level of pre-pipeline attacks. Oil supply from Yemen in the first half of 2011 indicated a sharp decline of 100 tb/d (33%) compared to the same period of 2010. However, with the completion of the repairs, production is expected to increase in the second half of 2011. **Middle East** oil supply is projected to decrease by 30 tb/d over 2010 to average 1.74 mb/d in 2011, relatively unchanged from the previous month. Within the Middle East, oil supply from Oman and Bahrain is expected to indicate growth in 2011 while output of Yemen and Syria is seen to decline. Oman oil production is expected to average 0.91 mb/d in 2011, growth of 50 tb/d from the previous year, flat from the previous MOMR. Despite the steady state, a downward revision was experienced in the first quarter supply estimate to adjust for updated production data, yet the downward revision did not impact the annual figure. Oman oil production is expected to increase in the second half of 2011, from the first half, supported by the ramp-up of various developments. On a quarterly basis, Middle East supply is seen to average 1.78 mb/d, 1.66 mb/d, 1.75 mb/d and 1.78 mb/d respectively.

Africa supply to average 2.63 mb/d in 2011

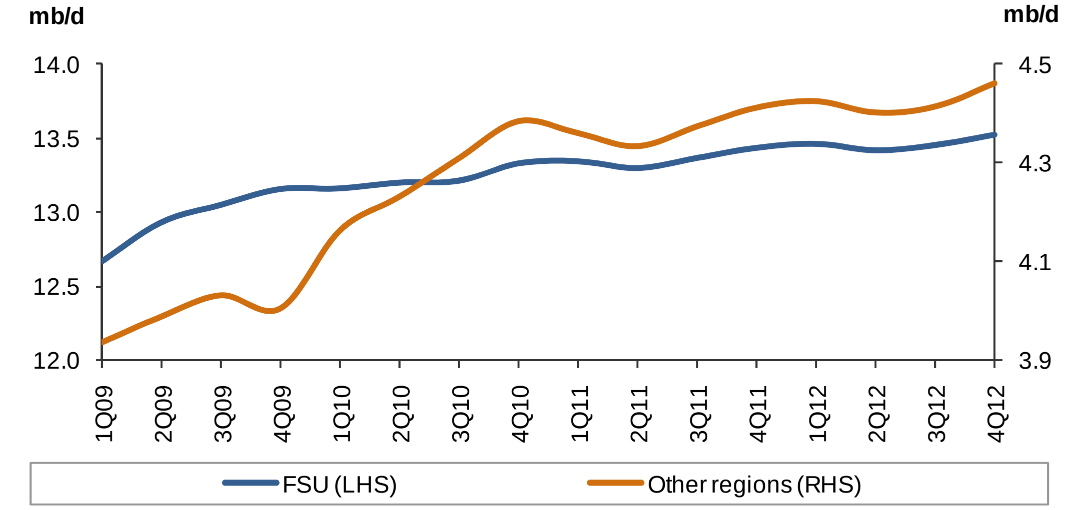
African oil production is foreseen to grow by 50 tb/d in 2011 to average 2.63 mb/d, indicating a downward revision of 30 tb/d compared to the previous MOMR. The downward revision was introduced to Egypt and Gabon oil supply forecasts. Egypt oil supply projection experienced a downward revision of 20 tb/d compared to the previous assessment. The downward revision came from historical adjustment to production data in 2008. Egypt oil supply is expected to remain relatively flat in 2011, with a minor decline of 10 tb/d, and average 0.70 mb/d. Gabon oil supply experienced a minor downward revision of less than 10 tb/d from the last MOMR. The downward revision was introduced due to a reported loss of 10 tb/d due to pipeline damage that links the Obangue field with the Rabi terminal. The operator of the Jubilee oil developments reported that due to delays in water pump commissioning and blowout preventer maintenance, the field will reach its 120 tb/d capacity in August, a month later than previously expected. On a quarterly basis, oil supply from Africa is expected to average 2.62 mb/d, 2.59 mb/d, 2.66 mb/d and 2.67 mb/d respectively.

FSU supply to increase by 130 tb/d in 2011

FSU, Other Regions

Total FSU oil supply is projected to increase by 0.13 mb/d over 2010 to average 13.36 mb/d in 2011, 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 Kazakhstan supply projection was lowered. According to preliminary data, FSU oil supply averaged 13.32 mb/d in the first half of 2011, which indicates growth of 0.14 mb/d compared to the same period a year earlier. On a quarterly basis, total oil supply in the FSU is foreseen to average 13.34 mb/d, 13.30 mb/d, 13.36 mb/d and 13.43 mb/d respectively. Oil supply in China is estimated to increase by 90 tb/d to average 4.23 mb/d in 2011. Other Europe supply is expected to remain unchanged from 2010 and average 0.14 mb/d in 2011.

Graph 5.4: FSU and other region's quarterly production



Russia output in July was slightly lower than the record high

Russia

Preliminary data indicated that Russian oil supply was slightly shy of the record high in July, averaging 10.27 mb/d in July, the highest in 2011 and slightly lower than the record-high production of October 2010. The strong output figure in July prompted an upward revision of 15 tb/d compared to the previous MOMR impacting the second half of 2011. Russian oil production is projected to increase by 70 tb/d to average 10.21 mb/d in 2011. The expected increase of the Vankor field output, currently producing 315 tb/d, by the end of the year as the central pumping station starts, is supporting the upward revision. Additionally, the improved output from some mature areas owing to geology and efficient well intervention and management as well as increased drilling speed is further supporting the undertaken upward revision. Moreover, the startup of the relatively small Visovoye field is adding to the positive factor for supply growth in 2011. However, the risk of the forecast remains on a high level especially on price, decline rate, technical, and taxation developments. The parliament of Khanty-Mansiysk (West Siberia) is planning to pass a bill to cancel the profit tax allowance starting from 2012. Operators are warning that such action will negatively affect production and employment. On the other hand, the new tax amendment was signed into law by the Russia president which will be affective in January 2012. According to preliminary data, Russia oil supply averaged 10.23 mb/d during the first seven months of the year, indicating an increase of 0.12 mb/d compared to the same period of 2010. On a quarterly basis, Russian oil supply is seen to average 10.21 mb/d, 10.23 mb/d, 10.20 mb/d and 10.19 mb/d respectively.

Kazakhstan supply to increase by 50 tb/d in 2011 to average 1.65 mb/d

Caspian

Kazakhstan oil production is forecast to increase by 50 tb/d over 2010 to average 1.65 mb/d in 2011, indicating a downward revision of 10 tb/d compared to previous month. The downward revision was introduced to adjust for updated production figures for the second quarter that were partially carried over to the rest of the year. In addition, some production remains impacted by the strike and expected to return to pre-strike levels in September. Despite the downward revision, Kazakhstan oil production is foreseen to increase in the second half of 2011 from the first half. According to preliminary data, Kazakh oil production averaged 1.63 mb/d in the first half of 2011, an increase of 50 tb/d compared to the same period of 2010. Quarterly supply figures are estimated at 1.66 mb/d, 1.60 mb/d, 1.64 mb/d and 1.69 mb/d respectively.

Azeri oil production to average 1.07 mb/d in 2011

Azerbaijan oil production is anticipated to remain steady in 2011 compared to 2010 and average 1.07 mb/d, unchanged from the previous month's assessment. Despite the steady state, there was a minor downward revision in the first quarter that was introduced to adjust for updated production figures, yet it did not impact the annual figure. Azeri output is expected to increase in the third quarter compared to the second as maintenance that shutdown the 80 tb/d Chirag platform came to an end by the end of July. The July maintenance affected the export at the port of Supsa. According to the preliminary data, Azerbaijan oil production decline by 50 tb/d during the first half of 2011 compared to the same period of 2010. However, output is foreseen to increase in the second half of 2011. The quarterly forecast level stands at 1.03 mb/d, 1.02 mb/d, 1.10 mb/d, and 1.12 mb/d respectively.

China

China supply to grow by 90 tb/d in 2011

Oil supply from **China** is forecast to average 4.23 mb/d in 2011, growth of 0.09 mb/d over the previous year, unchanged from the previous MOMR. The steady state came despite a few shutdowns due to technical issues. The Suizhong development in the Bohai Bay was shut down for a short period due to equipment malfunction that caused a leak. Additionally, in mid July, operation was halted at the Penglai 19-3 platform B and C due to observed sheen near platform B. The field was producing around 47 tb/d prior to the shutdown. On the other hand, the Bozhong 28-2 South field resumed production; the field was shutdown in April after the FPSO was damaged on bad weather conditions. According to preliminary data, China oil supply averaged 4.21 mb/d during the first half of 2011, an increase of 0.15 mb/d over the same period of 2010. On a quarterly basis, China oil supply is seen to stand at 4.22 mb/d, 4.19 mb/d, 4.23 mb/d and 4.27 mb/d respectively.

Table 5.2: Non-OPEC oil supply in 2012, mb/d

	2011	1Q12	2Q12	3Q12	4Q12	2012	Change 12/11
North America	15.28	15.37	15.39	15.45	15.56	15.44	0.16
Western Europe	4.19	4.22	4.05	3.93	4.10	4.07	-0.12
OECD Pacific	0.56	0.61	0.63	0.63	0.60	0.62	0.06
Total OECD	**20.03**	**20.19**	**20.07**	**20.01**	**20.26**	**20.13**	**0.10**
Other Asia	3.66	3.69	3.69	3.70	3.72	3.70	0.04
Latin America	4.91	5.13	5.13	5.20	5.23	5.17	0.27
Middle East	1.74	1.82	1.82	1.82	1.82	1.82	0.08
Africa	2.63	2.67	2.66	2.66	2.65	2.66	0.03
Total DCs	**12.95**	**13.31**	**13.31**	**13.39**	**13.42**	**13.36**	**0.41**
FSU	13.36	13.46	13.41	13.45	13.52	13.46	0.10
Other Europe	0.14	0.15	0.15	0.15	0.15	0.15	0.01
China	4.23	4.28	4.25	4.26	4.31	4.28	0.05
Total "Other regions"	**17.73**	**17.88**	**17.82**	**17.86**	**17.98**	**17.89**	**0.16**
Total Non-OPEC production	**50.70**	**51.39**	**51.19**	**51.26**	**51.66**	**51.38**	**0.67**
Processing gains	2.13	2.19	2.19	2.19	2.19	2.19	0.06
Total Non-OPEC supply	**52.83**	**53.58**	**53.38**	**53.45**	**53.85**	**53.57**	**0.73**
Previous estimate	52.89	53.60	53.39	53.45	53.84	53.57	0.68
Revision	-0.05	-0.02	-0.01	0.00	0.01	0.00	0.05

Forecast for 2012

Non-OPEC supply to increase by 0.73 mb/d in 2012

Non-OPEC oil supply in 2012 is expected to grow by 0.73 mb/d to average 53.57 mb/d, unchanged from the previous MOMR. Although total non-OPEC supply forecast remains broadly unchanged, the growth experienced an upward revision of around 40 tb/d over the previous forecast. The revision was applied to the anticipated growth while average non-OPEC supply remained relatively unchanged. The upward revision came due to the revisions undertaken in the forecast for 2011 that were carried over to the 2012 supply estimation. On a quarterly basis, non-OPEC supply is expected to average 53.58 mb/d, 53.38 mb/d, 53.45 mb/d and 53.85 mb/d respectively.

Revisions to the 2012 forecast

Oil supply forecast for Canada, Mexico, Australia, and the UK experienced some upward revisions in 2012, while downward revisions were encountered in the supply projection of Vietnam, Russia, and Kazakhstan. The majority of the revisions were due to changes to the 2011 forecast, which were carried over to the following year. Canada oil supply is forecast to grow by 0.16 mb/d in 2012 to average 3.68 mb/d, an upward revision of 20 tb/d compared to the previous MOMR. The upward revision to growth was introduced as further supply is expected from shale oil developments in Canada. Mexico oil supply is anticipated to decline by 70 tb/d in 2012 to average 2.88 mb/d, representing an upward revision to growth of 10 tb/d compared to the previous month. The revision came as Mexico production is demonstrating output stabilization. Russia oil supply forecast is expected to average 10.23 mb/d in 2012, a minor increase of 20 tb/d over 2011, a downward revision to growth of 10 tb/d compared to the previous assessment.

OPEC natural gas liquids and non-conventional oils

OPEC NGLs and non-conventional oils in 2011 are expected to increase by 0.39 mb/d over the previous year to average 5.29 mb/d. In 2012, OPEC NGLs and nonconventional oils are forecast to grow by 0.36 mb/d to average 5.65 mb/d.

Table 5.3: OPEC NGLs + non-conventional oils, 2008-2011

	2009	2010	Change 10/09	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10	2012	Change 12/11
Total OPEC	**4.35**	**4.90**	0.55	5.12	5.26	5.37	5.42	**5.29**	0.39	**5.65**	0.36

OPEC crude oil production

OPEC crude oil production increased 0.40 mb/d in July

Total OPEC crude oil production averaged 30.07 mb/d in July, according to secondary sources, up 0.40 mb/d from the previous month. Crude oil output experienced a considerable increase from Saudi Arabia, Angola, and Kuwait while production fell in Libya, Iran, Nigeria, and Iraq. According to secondary sources, OPEC crude production, not including Iraq, stood at 27.39 mb/d in July, an increase of 0.43 mb/d over the previous month.

Table 5.4: OPEC crude oil production based on *secondary sources*, tb/d

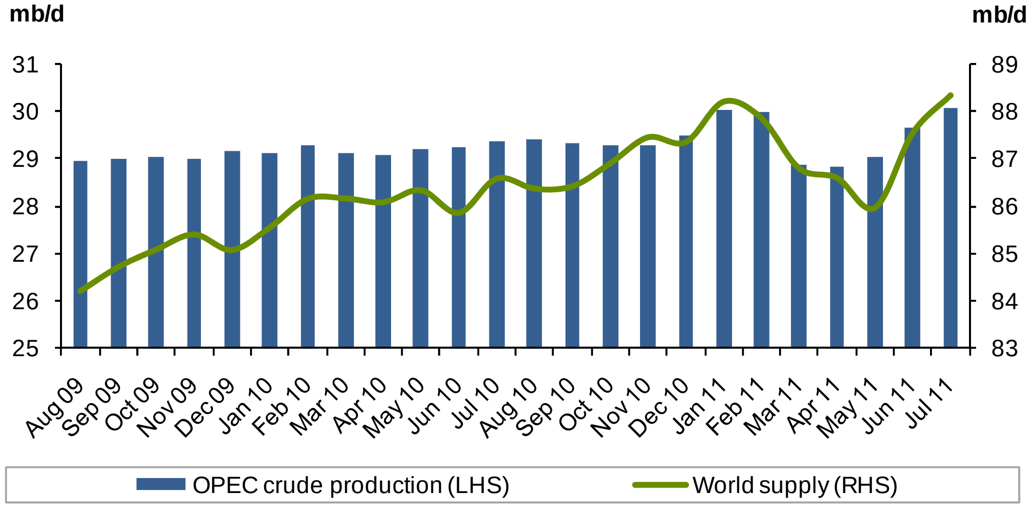
	2009	2010	4Q10	1Q11	2Q11	May 11	Jun 11	Jul 11	Jul/Jun
Algeria	1,268	1,258	1,257	1,259	1,250	1,245	1,249	1,252	*2.4*
Angola	1,780	1,783	1,654	1,665	1,556	1,566	1,525	1,764	*239.9*
Ecuador	477	475	481	490	489	488	487	487	*-0.2*
Iran, I.R.	3,725	3,706	3,673	3,656	3,656	3,659	3,655	3,624	*-31.4*
Iraq	2,422	2,401	2,423	2,649	2,671	2,679	2,702	2,676	*-26.2*
Kuwait	2,263	2,297	2,308	2,374	2,479	2,471	2,508	2,550	*42.0*
Libya	1,557	1,559	1,569	1,096	158	148	123	53	*-70.0*
Nigeria	1,812	2,060	2,175	2,087	2,153	2,180	2,160	2,130	*-29.9*
Qatar	781	801	805	807	811	814	815	815	*0.5*
Saudi Arabia	8,051	8,284	8,387	8,732	9,078	8,958	9,497	9,752	*254.9*
UAE	2,256	2,304	2,322	2,443	2,505	2,464	2,534	2,539	*5.0*
Venezuela	2,394	2,335	2,302	2,372	2,374	2,374	2,409	2,427	*17.4*
Total OPEC	**28,785**	**29,263**	**29,357**	**29,630**	**29,180**	**29,046**	**29,664**	**30,069**	***404.5***
OPEC excl. Iraq	**26,362**	**26,862**	**26,934**	**26,981**	**26,509**	**26,367**	**26,962**	**27,393**	***430.7***

Totals may not add up due to independent rounding

World Oil Supply

Preliminary figures indicate that global oil supply increased 0.80 mb/d in July to average 88.33 mb/d. Non-OPEC supply experienced growth of 0.39 mb/d while OPEC crude production increased by 0.40 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 5.5: OPEC and world oil supply

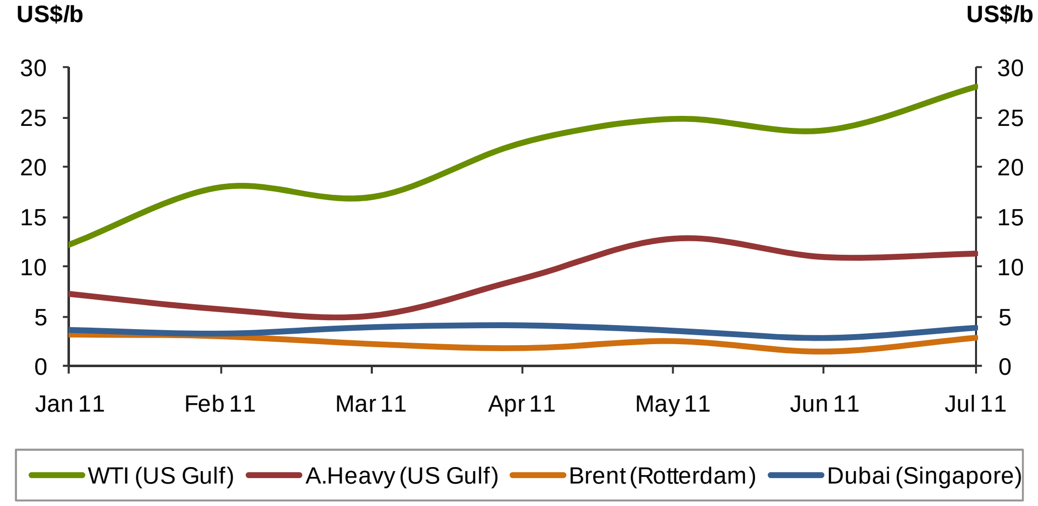


Product Markets and Refinery Operations

Refinery margins rose across the globe

Product market cracks moved upwards across the world last month, although the expected increase in gasoline demand did not materialize in the Atlantic Basin and gasoline market sentiment is being pressured by poor end-user demand in the US. However, the middle distillates have remained stable and strong across the board. Additionally, the SPR crude release has supported refinery margins.

Graph 6.1: Refining margins, 2011



US refining margins continued on the healthy side on the back of support coming from the better developments in the product cracks, which have been favoured by the relative WTI weaker crude not only by the situation in Cushing, Oklahoma, but also because of the economic worries in the US during the month. Despite inventories standing above the seasonal average and the drop in gasoline demand at the peak of the driving season, export opportunities to Latin America have lent support to the margins.

The margin for WTI crude on the US Gulf Coast showed a sharp uptick of $4 to stand at $28/b. However, this high margin has been artificially inflated by the relatively low benchmark WTI price. The margin for Arab Heavy crude on the US Gulf Coast remained around $11/b.

In Europe, product market performance showed a moderate recovery with product cracks moving upwards on the back of higher export opportunities amid stronger regional demand, with the top of the barrel reversing the previous month's weakness and the middle distillates managed to recover from the temporary bearish sentiment generated by the news about the IEA – SPR stock release, which in Europe mainly refers to products. The recovery in the product cracks allowed refinery margins in Europe to show an increase of $1.3 to stand at $2.8/b.

Asian refining margins continued gaining ground as Singapore product cracks rose without exception during the month, mainly fuel oil, as utility sector and bunker demand remained upbeat amid lower western inflows, while light distillates, which were hit by the drop in demand in the regional petrochemical sector, were supported by export opportunities. The refinery margins for Dubai crude oil in Singapore showed a gain of $1 to stand at $3.9/b.

Refinery operations

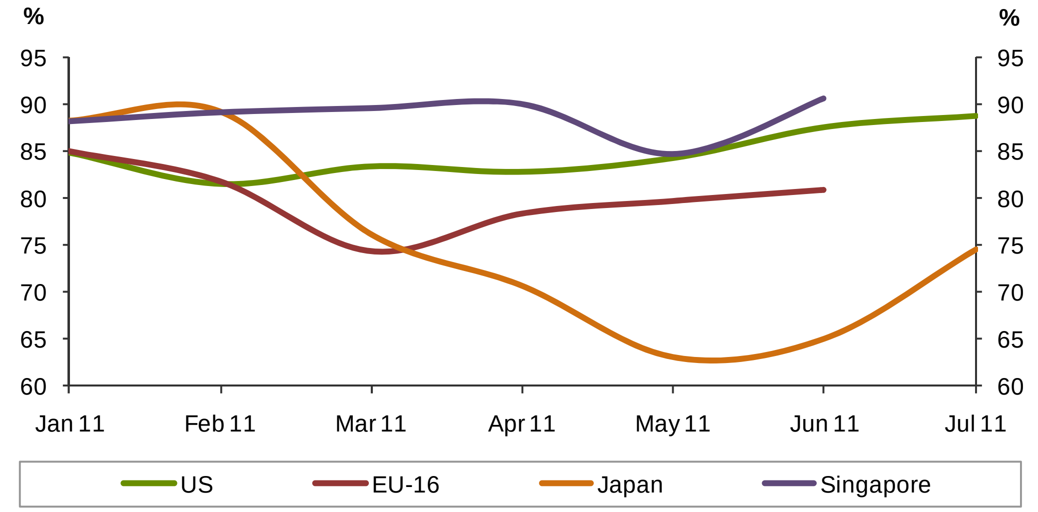
US refinery runs at record highs

The release of crude from SPR following the IEA´s announcement benefitted the refiners, who profited from the availability of cheaper crude. This has contributed to US refinery utilization recently hitting an almost one-year high of 90.3% of capacity at the end of July, although the stock build in products has called for caution.

Refinery runs increased, from 87.7% a month earlier to an average of 88.9% in July, the highest level seen this year.

Diesel demand has remained unchanged from last year, while gasoline demand growth is disappointing expectations, however the market was balanced by rising exports. On the other hand, gasoil managed to remain strong despite weak regional demand, which, along with gains at the bottom of the barrel, helped refining margins to remain on the healthy side in the US.

Graph 6.2: Refinery utilization rates, 2011



European refiners continued to increase their throughputs as spring maintenance came to an end, however, as refinery margins remained weak, the refinery runs have maintained moderated levels (around 81%). Asian refiners continued to moderate the high run levels seen in the previous months due to maintenance. Chinese and Indian refineries are running at below 88%, while Japan has been able to increase refinery throughputs to around 75%.

Looking ahead, demand is expected to improve during the summer season, due to higher utility requirements, which will encourage an increase in refinery runs.

US market

Gasoline demand declining

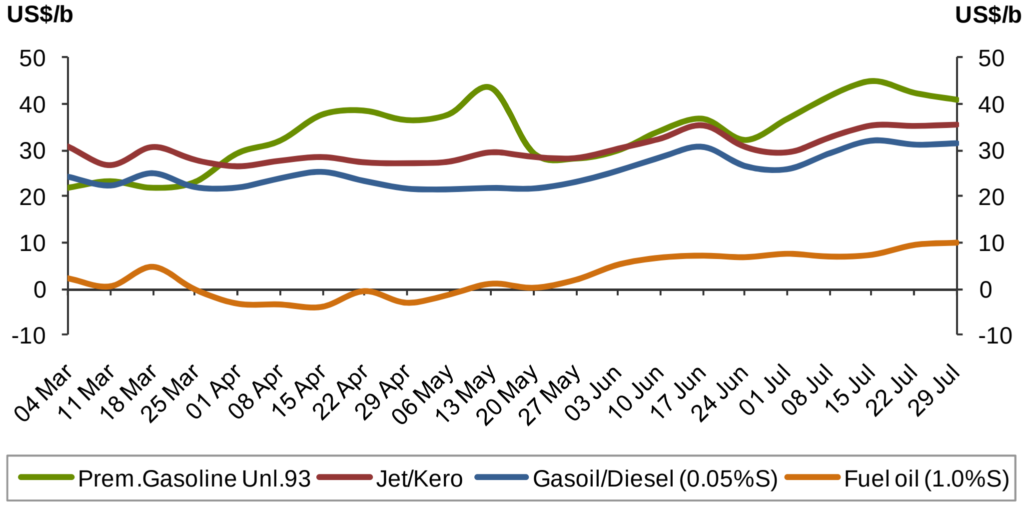
US gasoline demand decreased to 9.06 mb/d in July, according to the EIA, 219 tb/d lower than in the previous month, and 237 tb/d lower than the same month last year.

Since mid July, US gasoline stocks have started to rise again, mainly on the back of increased production due to higher refinery runs, while market sentiment remains pressured by poor end-user demand. At the end of the month, EIA data showed that gasoline requirements were down by 3.5% y-o-y (4-week average), reflecting the largest contraction on this basis since October 2008.

Despite the domestic demand continuing to paint a dull picture, the gasoline crack managed to keep increasing on the back of a weaker WTI and support came from the stronger Latin American import requirements which remained vibrant with Brazil and Peru most recently emerging as buyers.

The gasoline crack increased by $7/b to reach $41/b. This two-year record high came most likely on the back of the weaker WTI price.

Graph 6.3: US Gulf crack spreads vs. WTI, 2011



Middle distillate demand stood at around 3.5 mb/d in July, a drop of 78 tb/d from the previous month and at a similar level as the same month last year.

The middle distillate market continued steady over the month despite the inventory level standing above the seasonal average – additional stock builds have been reported since mid July, when refinery runs hit 90% – and the regional poor demand prospects generated by worrying news came from the nations´ busiest ports of Los Angeles and Long Beach as cargo traffic fell 4.4% y-o-y in June, the first y-o-y fall in 19 months. However, this negative news was offset by healthy export opportunities to Latin America, mainly the ULSD to Argentina and additional gasoil requirements from Colombia.

The gasoil crack on the US Gulf Coast continued to increase and reached an average of $30/b in July from $28/b in the previous month.

Weak domestic fuel oil demand was partly and temporarily offset by buying interest from Argentina, while arbitrage opportunities to Asia were almost unworkable. The fuel oil crack increased from a premium $6/b over WTI in June to $8/b in July, the highest value seen in months, due to the WTI price distortion, while, in comparison with Arab heavy crude, this crack did not exhibit any increase.

European market

European market bullish

Product market sentiment in Europe showed a moderate recovery with product cracks moving upwards on the back of higher export opportunities amid stronger regional demand.

The European gasoline market showed a partial recovery from its downward trend exhibited last month on the back of healthy export opportunities to Africa, the Middle East and, to some extent, to the US East Coast.

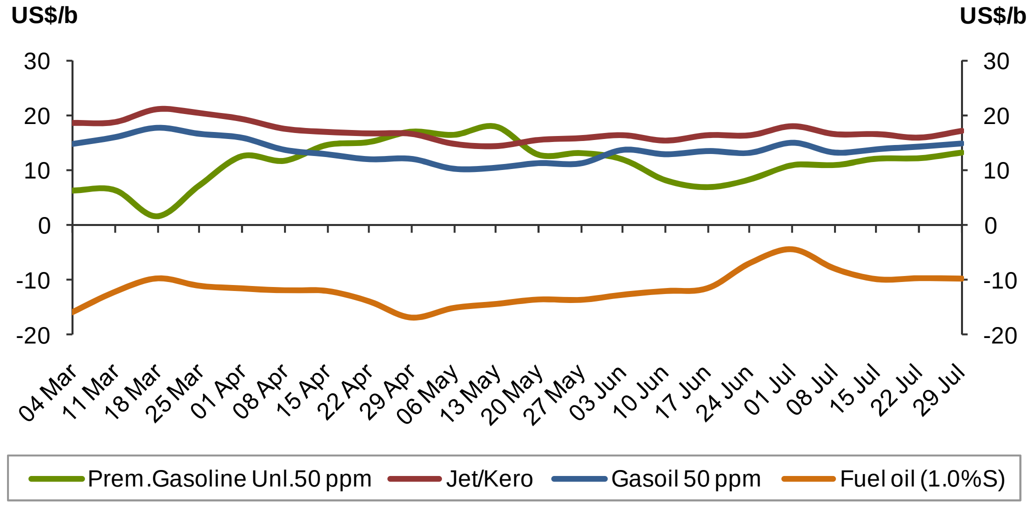
The Northwest European gasoline crack market remained supported by spot arbitrage opportunities to the US and Mexico and increasing exports to South and West Africa since the beginning of the month, boosted by the maintenance at Sonathach´s Arzew refinery in Algeria.

The arbitrage to the US was limited as US gasoline imports remained at depressed levels in response to an increase in US gasoline stocks. However, this was offset by the increasing Saudi Arabian requirements due to the delayed return of a gasoline-producing unit at the 400 tb/d Rabigh refinery.

The gasoline crack spread against Brent crude showed a gain of $2.6/b from an average of $9.3/b in June to an average of $11.9/b this month. Additionally gasoline market sentiment has been lifted by expectations of Greek and Israeli demand and spot arbitrage opportunities to Mexico and Brazil.

Demand for gasoline blending remained the main supportive factor for European naphtha, while Asian demand continues to disappoint.

Graph 6.4: Rotterdam crack spreads vs. Brent, 2011



Middle distillates showed a mix performance during the month and the crack spread dropped $2/b since the end of June on the back of the more expensive crude and the temporary bearish sentiment generated by news about the release of SPR which, in Europe is mainly products, half of which is diesel (approx 7.7 mb).

Since mid July, the gasoil crack exhibited a sharp recovery as market sentiment was supported by healthy regional demand (mainly from Italy, Greece and Turkey), while product availability became tight due to moderated refinery runs and Russian gasoil being absorbed by South America and the Red Sea instead of Europe.

The gasoil crack spread against Brent crude at Rotterdam showed a sharp drop of $2/b during the beginning of the month (falling from $15/b at the end of June to $13/b by mid-July) and showed a recovery since mid July to rise up to stand at around $15/b at the end of this month.

European gasoil cracks are expected to remain strong due to summer demand and considering that the German market is low on heating oil stocks.

The European fuel oil market continued to recover ground during last month on the back of stronger regional demand due to higher summer electricity demand and the robust bunker demand in the Mediterranean. Additional support came from arbitrage opportunities to Singapore, which outweighed the increasing Russian fuel oil exports.

The fuel oil crack spread against Brent showed a sharp gain of $1/b this month to stand at minus $8.4/b, the highest value seen during this year.

Summer electricity demand in the region could retain the bullish sentiment in the fuel oil market.

Asian market

Asian naphtha hard to recover

The Asian naphtha market has been exhibiting a recovery from the slump suffered last month; however the crack remained in the negative (minus $3/b at the end of July vs. minus $6/b starting the month) as bearish sentiment prevails in the market.

The Asian weak naphtha market sentiment was temporarily lifted by the rare arbitrage opportunity to move Middle Eastern cargoes to the West, easing supply pressures in a currently ample market. Additionally support come from the demand from South Korea buying naphtha as a blending gasoline component.

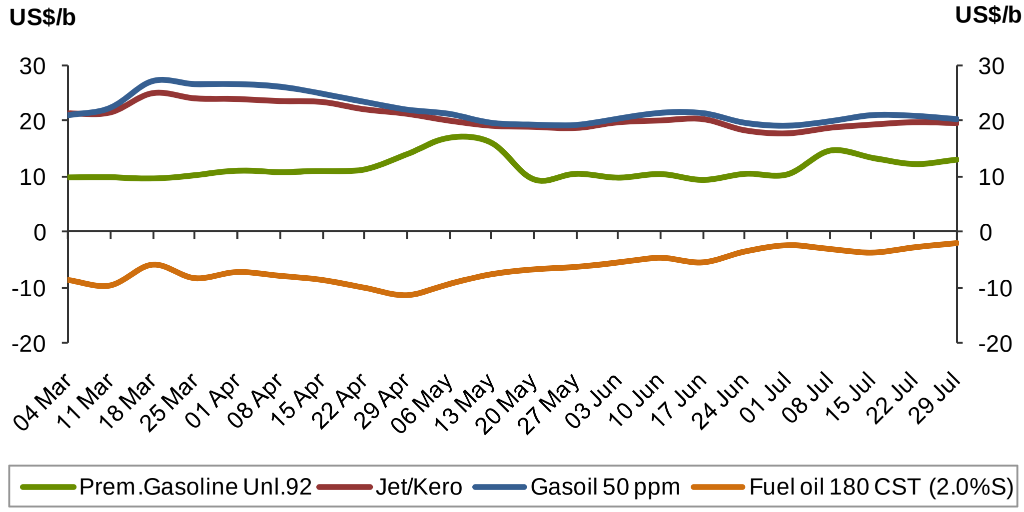
The market will be under pressure from rising supplies from the Middle East, where Qatar´s Tasweeq brought its new Pearl GTL plant online and is beginning to offer naphtha cargoes as well as the upcoming maintenance at the Formosa naphtha cracker complex.

In the gasoline market, strong regional demand and viable opportunities to move volumes west have been supporting the market and will likely continue to do so over the summer season.

Vietnam showed buying interest despite the Dung Quat refinery already undergoing its two-month long maintenance, while Indonesia was increasing import requirements and additional buying interest emerged from India and Bangladesh.

The gasoline crack spread against Dubai crude oil in Singapore increased approx. $3/b to stand at around $13/b in July from $10/b reached during the previous month.

Graph 6.5: Singapore crack spreads vs. Dubai, 2011



The middle distillate crack spread in Singapore against Dubai continued to maintain the healthy level of around $20/b in previous months, supported by the strong regional demand, mainly from Indonesia, as the country stocks up before the seasonally strong demand period before Ramadan.

Additionally, the market has remained balanced as the arbitrage opportunities to send diesel cargoes to the West offset increasing Japanese exports.

The Asian fuel oil market continued the upward trend on the back of reduced inflows from the West, which have continued on the low side (around 3 million tonnes) over the last months, along with less volume coming from the Middle East, where the requirements for the power sector are offsetting the production increase.

Additional support came from the demand side as lower Chinese demand was offset by stronger bunker sales in Singapore, leading to stock draws, and the rising import requirements from Pakistan, Bangladesh and, lately, Thailand seeking LSFO after a leak in a natural gas pipeline .

Following these developments, the high sulphur fuel oil crack spread in Singapore against Dubai rose from minus $4/b, on average in June to minus $3/b in July. Lower arbitrage arrivals from the West and summer power demand could result in a tightening market over the coming month.

Table 6.1: Refinery operations in selected OECD countries

	Refinery throughput, mb/d			*Refinery utilization, %*		
	Jun 11	**Jul 11**	**Jul/Jun**	**Jun 11**	**Jul11**	**Jul/Jun**
US	15.13	15.40	0.27	87.65	88.86	1.21
France	1.23	-	-	66.87	-	-
Germany	1.67	-	-	69.07	-	-
Italy	1.56	-	-	67.96	-	-
UK	1.41	-	-	79.83	-	-
Euro-16	10.60	-	-	80.93	-	-
Japan	3.03	3.44	0.09	65.50	74.49	8.99

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

Table 6.2: Refined product prices, US$/b

		May 11	**Jun 11**	**Jul 11**	**Change Jul/Jun**
US Gulf (Cargoes):					
Naphtha		121.13	112.84	118.79	5.95
Premium gasoline	*(unleaded 93)*	136.38	130.54	139.74	9.20
Regular gasoline	*(unleaded 87)*	129.96	121.74	128.52	6.78
Jet/Kerosene		129.78	128.25	131.80	3.55
Gasoil	*(0.05% S)*	123.60	124.13	126.59	2.46
Fuel oil	*(1.0% S)*	101.47	103.12	105.59	2.47
Fuel oil	*(3.0% S)*	95.18	98.65	100.45	1.80
Rotterdam (Barges FoB):					
Naphtha		109.21	103.26	108.42	5.16
Premium gasoline	*(unleaded 10 ppm)*	129.85	123.33	127.50	4.17
Premium gasoline	*(unleaded 95)*	127.73	120.74	124.83	4.09
Jet/Kerosene		129.99	130.51	133.61	3.10
Gasoil/Diesel	*(10 ppm)*	126.08	127.71	129.86	2.15
Fuel oil	*(1.0% S)*	100.90	104.58	107.81	3.23
Fuel oil	*(3.5% S)*	97.12	98.87	101.48	2.61
Mediterranean					
Naphtha		106.06	101.18	106.45	5.27
Premium gasoline	*(50 ppm)*	125.89	119.00	123.03	4.03
Jet/Kerosene		128.16	128.83	131.54	2.71
Gasoil/Diesel	*(50 ppm)*	107.57	108.96	110.80	1.83
Fuel oil	*(1.0% S)*	100.93	105.06	108.30	3.24
Fuel oil	*(3.5% S)*	96.87	97.87	100.45	2.58
Singapore (Cargoes):					
Naphtha		108.73	101.90	105.92	4.02
Premium gasoline	*(unleaded 95)*	125.24	120.47	124.45	3.98
Regular gasoline	*(unleaded 92)*	122.05	117.76	123.38	5.62
Jet/Kerosene		128.20	126.89	129.23	2.34
Gasoil/Diesel	*(50 ppm)*	128.70	128.07	129.29	1.23
Fuel oil	*(180 cst 2.0% S)*	101.20	103.62	107.27	3.65
Fuel oil	*(380 cst 3.5% S)*	99.49	101.27	102.96	1.69

Tanker Market

OPEC spot fixtures increased by 11% in July

Global spot fixtures increased by 9% in July compared to the previous month. OPEC spot fixtures continued the upward movement in July, rising by 11% compared to the previous month. The increase was mainly driven by Middle East to East fixtures as many Asian refineries start to enquire tonnage for their August requirements. Middle East to West fixtures declined by 6% in July compared to last month partially on end of summer season long haul tonnage demand.

OPEC sailings were steady in July with a minor decrease of less than 1% compared to the previous month. OPEC sailings in July indicated a drop of 4%, when compared to the same period a year ago. Middle East sailings remained steady in July from the previous month with a minor decline, according to preliminary data. Initial estimates indicate Far East and West Asia arrivals decreased by 4% and 5% respectively and Europe arrivals gained 2% in July compared to previous month. US arrivals remained flat in July compared to last month.

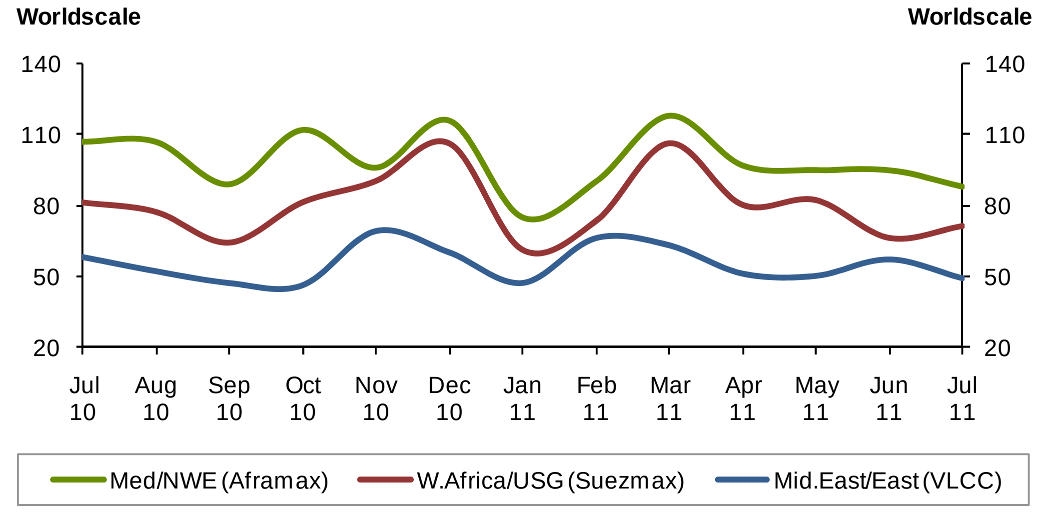
Table 7.1: Tanker chartering, sailings and arrivals, mb/d

	May 11	Jun 11	Jul 11	Change Jul/Jun
Spot Chartering				
All areas	19.56	17.92	19.57	1.65
OPEC	13.31	13.69	14.14	0.46
Middle East/East	5.84	5.60	6.16	0.57
Middle East/West	2.12	1.79	1.68	-0.11
Outside Middle East	5.35	6.31	6.30	0.00
Sailings				
OPEC	22.70	22.85	22.82	-0.03
Middle East	17.42	17.60	17.55	-0.05
Arrivals				
North America	9.89	9.18	9.20	0.02
Europe	7.99	8.35	8.49	0.14
Far East	7.99	8.35	8.00	-0.35
West Asia	4.71	4.42	4.20	-0.22

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

Dirty tanker sentiment remained bearish in July compared to the previous month as result of tonnage over-supply, refinery and field maintenance, and lower trade activities. In the clean freight market, rates declined in July relative to last month. Refinery maintenance in Asia lowered product exports that depressed clean rates in East of Suez while closed arbitrage dragged down West of Suez. In July, dirty spot freight rates edged down by 2% and clean rates decreased by 4% compared to the previous month.

Graph 7.1: Tanker chartering, sailings and arrivals, mb/d



VLCC and Aframax spot freight rates declined in July and Suezmax remained flat

VLCC spot freight rates declined 11% on average on all reported routes in July compared to the previous month. From the Middle East, VLCC long-haul spot freight rates to eastbound and westbound destinations fell 14% and 4% respectively. Rates from West Africa to the East also declined by 13% in July compared to previous month. The decline of VLCC spot freight rates from both Middle East to East and West Africa to East was driven by the heavy maintenance across Asia during June-July. The decline of VLCC spot freight rates from Middle East to West was partially due to the IEA crude oil stock release and spillover of excess tonnage left by lower demand from Asia. Compared to a year ago, spot freight rates for VLCC from Middle East to East and from West Africa to East as well as Middle East to West are down by 16%, 22% and 13% respectively, reflecting the weakness of VLCC tankers this year.

Suezmax spot freight rates remained flat on average on all reported routes in July compared to the previous month. On the West Africa to US Gulf Coast (USGC) route, Suezmax spot freight rates gained 8% in July from the previous month, while on Northwest Europe to USGC route, spot freight rates decreased by the same rate. Higher lifting of West African crude to Europe due to various fields' maintenance and shutdowns in the North Sea as well as West African crude oil premiums to Dated Brent affected tonnage availability from West Africa to the US and supported spot freight rates. The release of IEA crude oil stocks, mostly in the US, as well as the premium of Brent to WTI, limited trade between the US and Western Europe in July and negatively affected spot freight rates on the Northwest Europe to US route. Closed arbitrage of fuel oil added more pressure on Northwest Europe to USGC spot freight rates. Compared to last year, West Africa to USGC and Northwest Europe to US East Coast – USGC spot freight rates dropped 12% and 25% respectively, underscoring the weakness of the Suezmax sector.

Aframax spot freight rates declined in July by 3% on average, with both West of Suez and East of Suez spot freight rates decreasing from the previous month. East of Suez, refinery maintenance across Asia as well as the continuing shutdown of some of capacity in Japan on the effect of the earthquake reduced spot freight rates on the Indonesia to East route. West of Suez, spot freight on Caribbean to US East Coast gained 3% on the back of higher trade activity between Latin America and the US. In the Mediterranean, both Mediterranean to Mediterranean and Mediterranean to Northwest Europe Aframax spot freight rates declined by 6.5% and 7.4% respectively, compared to the previous month. Tonnage oversupply due lower trade activities from Baltic Sea and North Africa were partially behind the decline of spot freight rates. Compared to last year, Aframax spot freight rates on average were down by 20% in July.

Table 7.2: Spot tanker crude freight rates, Worldscale

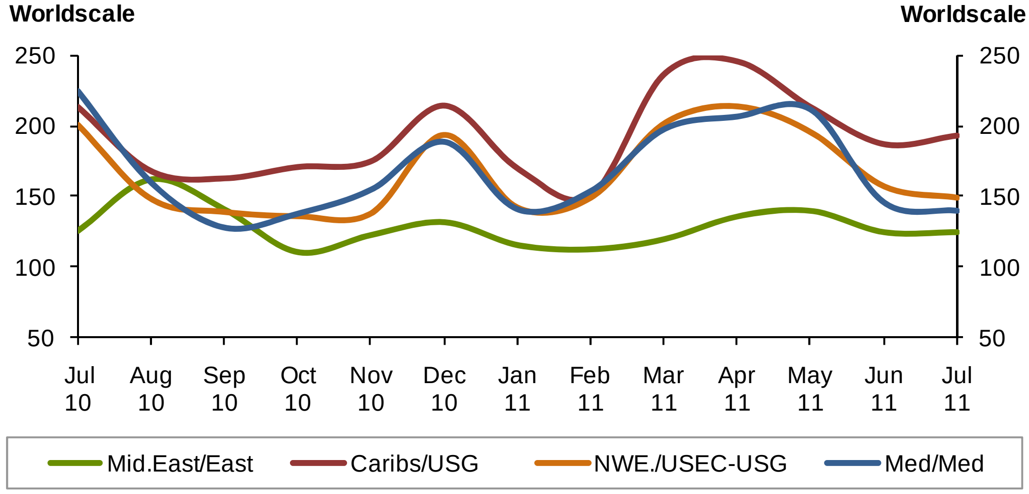
	Size *1,000 DWT*	May 11	Jun 11	Jul 11	Change Jul/Jun
Crude					
Middle East/East	230-280	50	57	49	-8
Middle East/West	270-285	39	41	39	-2
West Africa/East	260	52	54	47	-7
West Africa/US Gulf Coast	130-135	82	66	71	5
NW Europe/USEC-USGC	130-135	79	66	61	-5
Indonesia/US West Coast	80-85	101	99	98	-1
Caribbean/US East Coast	80-85	103	99	102	3
Mediterranean/Mediterranean	80-85	99	93	87	-6
Mediterranean/North-West Europe	80-85	95	95	88	-7

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

Clean spot freight rates edged down in both East and West

Clean tanker market sentiments weakened further in July, with East of Suez spot freight rates experiencing a decline of 1.4% and West of Suez dropping 2.2%. Lower product output in Asia on the back of refinery maintenance and closed transatlantic arbitrage were the main factors behind the weakness in the clean tanker market.

Graph 7.2: Monthly averages of clean spot freight rates



In the East, Middle East to East spot freight rates in July remained flat and Singapore to East rates declined by 3%. Balanced trade activities on naphtha from Middle East to East are behind the unchanged rates from Middle East to East. Singapore to East clean spot freight rates continued to be under pressure from the Japan earthquake and closed down by 3%. Northwest Europe spot freight rates were depressed by the lower transatlantic activities due to closed arbitrage and lower gasoline imports from the US. Clean spot freight rates from Northwest Europe to the US declined by 5% in July compared to the previous month. In the Mediterranean, clean spot freight rates for tankers operating the Mediterranean to Mediterranean and Mediterranean to Northwest Europe routes declined by 4% and 3.8% respectively. Lower naphtha trades as well as lack of arbitrage opportunity to move diesel and naphtha were behind the drop. In West of Suez, only Caribbean to US Gulf Coast spot freight registered gain of 3% in July compared to the previous month. The gain in clean spot freight rates was supported by higher diesel and gasoline demand in Latin America from the US. Jet fuel demand in Europe from the Caribbean further supported clean spot freight rates from the Caribbean to the US.

Table 7.3: Spot tanker product freight rates, Worldscale

	Size *1,000 DWT*	May 11	Jun 11	Jul 11	Change Jul/Jun
Products					
Middle East/East	30-35	140	125	125	0
Singapore/East	30-35	150	151	147	-4
Caribbean/US Gulf Coast	38-40	213	187	193	6
NW Europe/USEC-USGC	33-37	195	157	149	-8
Mediterranean/Mediterranean	30-35	212	146	140	-6
Mediterranean/North-West Europe	30-35	222	156	150	-6

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

Oil Trade

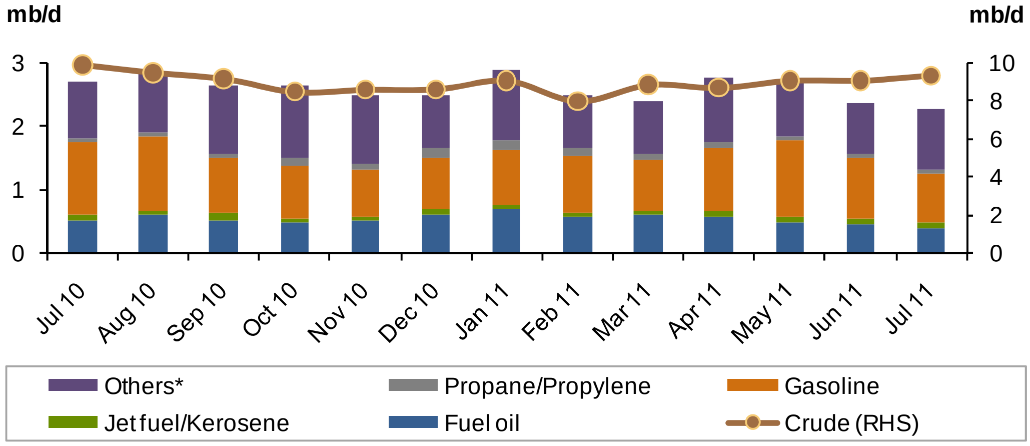
US net oil imports recovered in July to average 9.2 mb/d, the highest so far this year but 8.5% below last year

US

According to preliminary data, US crude oil imports jumped by more than 200 tb/d or 3% to average of more than 9.3 mb/d in July, the highest since the 9.5 mb/d of August 2010. Crude oil imports touched almost 9.9 mb/d in the third week of the month.

Despite this jump, US crude oil imports in July remained 500 tb/d below last year, when imports stood at more than 9.9 mb/d. The same picture can be seen over the first seven months of the year. US crude oil imports averaged 8.9 mb/d between January and July, compared with 9.4 mb/d for the same period a year ago, implying a decline of 0.5 mb/d or 5.4%. The decline in crude oil imports from a year earlier reflected increasing growing local production and the slowing demand from refiners.

Graph 8.1: US 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*

In contrast, product imports dropped for the third month in a row to average around 2.3 mb/d, which corresponds to a decline of 83 tb/d from June's level. The decline was much higher when compared to a year ago. Product imports showed a y-o-y decline of 440 tb/d or 18% in July 2011. Gasoline and distillates were the main contributors to the decline of products in July. Gasoline imports fell by almost 190 tb/d or 20% and distillates by 62 tb/d or 13% from the previous month. The strong decline in gasoline imports reflects the weakness of demand.

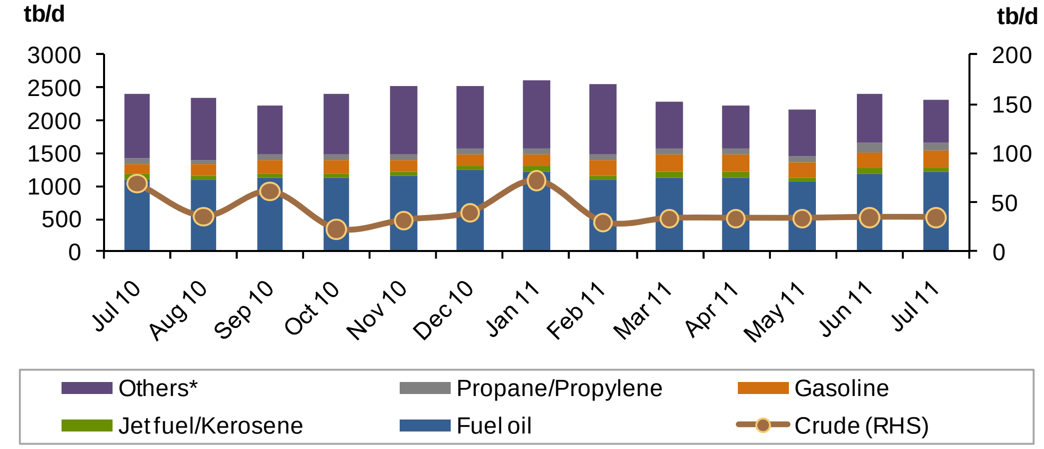
Product exports also declined in July to 2.3 mb/d, some 80 tb/d less than in the previous month and 130 tb/d below a year ago. Kerosene was the main contributor to the drop.

As a result, **US net oil imports recovered in July to average more than 9.2 mb/d, up 265 tb/d or nearly 3% from the previous month**. Nevertheless, net oil imports remained almost 8.5% below the year ago level.

The US imported around 4.2 mb/d of crude oil from OPEC Member Countries in May, some 190 tb/d or 4.7% more than in April. With this level, OPEC's share in US crude oil imports stood at 47.4%.

Canada remained the main supplier of US imported crude with 2.0 mb/d or 22.3% followed by Saudi Arabia with 1.1 mb/d or 13.3% and Mexico with 0.97 mb/d or 12.8%.

Graph 8.2: US 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*

On the product side, US imports from OPEC Member Countries fell by 127 tb/d or 29% to average just 312 tb/d in May. That was the lowest since the 300 tb/d of June 2010 and corresponds to a share of 11.6% in total US product imports. Again Canada and Russia remained the main suppliers accounting for 17.7% and 12.6%, respectively, followed by the United Kingdom and Virgin Islands this time with 7.2% each. Algeria followed with 5%.

Table 8.1: US crude and product net imports, tb/d

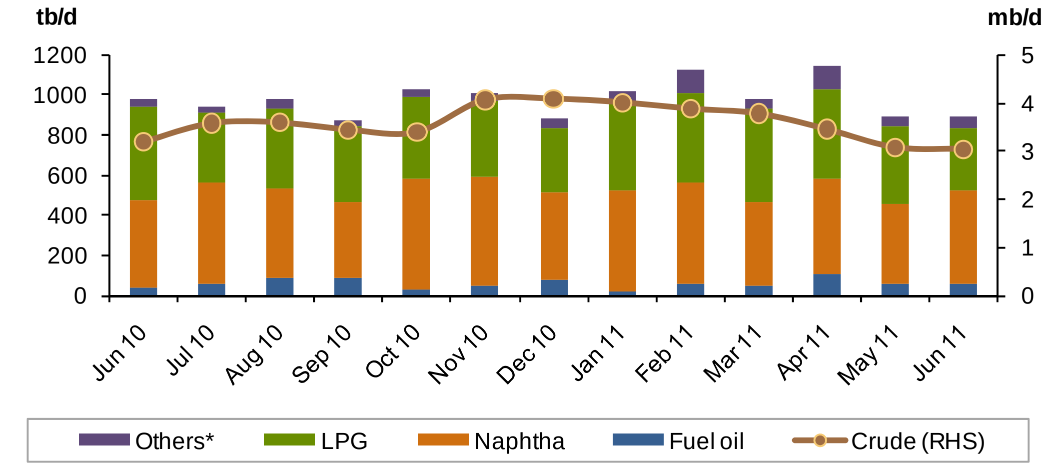
	May 11	Jun 11	Jul 11	Change Jul/Jun
Crude oil	8,951	9,044	9,312	269
Total products	112	-42	-46	-4
Total crude and products	**9,063**	**9,001**	**9,266**	**265**

Japan

Japan's net oil imports fell to the sixth-month in a row in June, down more than 1 mb/d since December

Japan's crude oil imports continued their downward trend and fell for the sixth consecutive month to average just 3.0 mb/d in June. The recent drop of 32 tb/d pushed total crude oil imports to decline more than 1 mb/d since last December when imports stood above 4 mb/d. Imports fell significantly after the earthquake and tsunami of March. However, April and May alone account for a total decline of 700 b/d. The loss in crude oil imports is attributed to a sluggish demand from refiners as infrastructure remained affected.

Graph 8.3: Japan's imports of crude and petroleum products

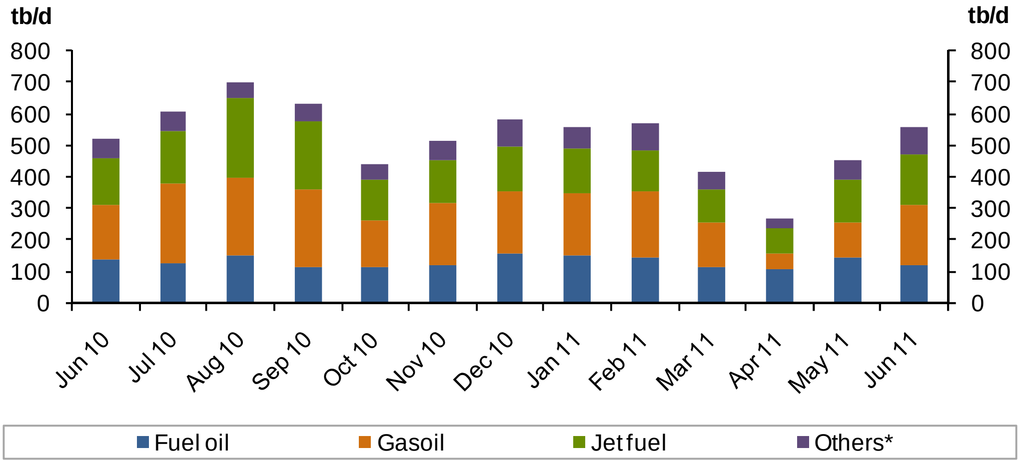


**Others: Contains gasoline, jet fuel, kerosene, gasoil, asphalt and paraffin wax*

Product imports, including LPG, edged up 8 tb/d to remain below 0.9 mb/d. When compared to a year ago, product imports in June 2011 were 84 tb/d or 8.5% lower this year, reflecting the weakness in demand.

Japan's crude oil imports ran at an average of 3.5 mb/d in the first half of 2011 compared with 3.7 mb/d while products imports average 1.0 mb/d in the first half 2011, up 60 tb/d from a year earlier.

Graph 8.4: Japan's exports of petroleum products



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

Product exports including LPG increased a further 100 tb/d to average 0.56 mb/d, the highest since February, few days before the natural disaster.

As a result, **Japan's net oil imports fell further to average 3.38 mb/d, down 130 tb/d or 3.7% from May.** The decline was double -264 tb/d- when imports are compared to June's 2010 level.

Table 8.2: Japan's crude and product net imports, tb/d

	Apr 11	May 11	Jun 11	Change Jun/May
Crude oil	3,452	3,078	3,046	-32
Total products	874	436	338	-98
Total crude and products	**4,326**	**3,514**	**3,384**	**-130**

China

China's net oil imports fell a further 270 tb/d to average 5.2 mb/d, the lowest since last October

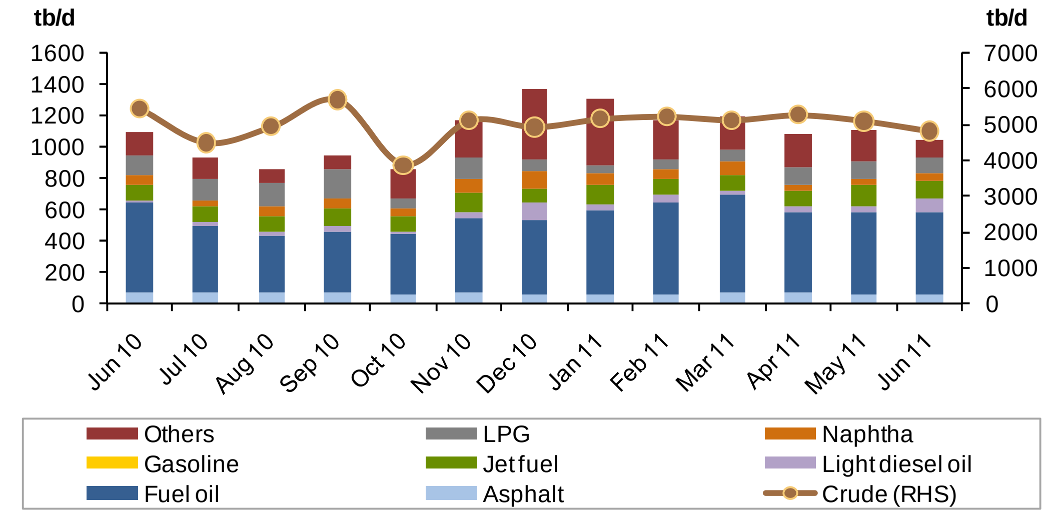
China's crude oil imports plunged by 283 tb/d or 5.6% in June to move below 5 mb/d for the first time so far this year, standing at 4.8 mb/d the lowest since the 3.9 mb/d of last October. Compared with a year ago, Chinese crude imports were 629 tb/d or 11.6% lower. The significant decline in crude oil imports was attributed to lower demand from refiners due to refining maintenance.

Similarly, products imports fell to their lowest level since last October. They fell for the third in a row to average around 1.0 mb/d.

Taken together, China's crude oil and product imports showed a total drop of more than 300 tb/d compared with May 2011 and 670 tb/d compared with a year earlier.

However, despite the strong decline of June, China's crude oil imports over the first half 2011 showed an average of 5.1 mb/d, some 330 tb/d or 7% more than in the same period a year ago. Products averaged more than 1.1 mb/d in the first half of 2011, some 160 tb/d more than a year ago, implying combined growth in total oil of 500 mb/d from the first half of the previous year.

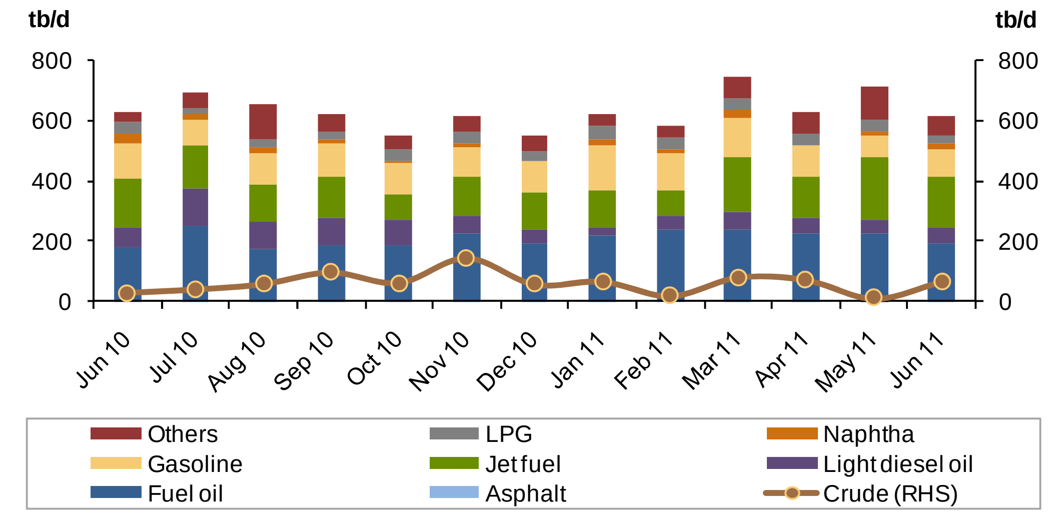
Graph 8.5: China's imports of crude and petroleum products



Chinese crude oil exports rose by 55 tb/d to 66 tb/d, while product exports fell by almost 100 tb/d or 13.7% to 0.62 mb/d. Crude oil exports over the first six months of the year were around 50 tb/d and products at 0.65 mb/d, slightly below last year level.

As a result, **China's total net oil imports fell a further 270 tb/d or 4.9% from the previous month to stand at 5.2 mb/d.** That was the lowest since 4.2 mb/d last October. The drop was attributed to crude oil net imports which fell by 338 tb/d to 4.7 mb/d, whereas product net imports rose 69 tb/d to average 0.43 mb/d. However, the picture is different when considering imports over the first half. China's net oil imports in the first half 2011 rose by more than half-million b/d to average 5.5 mb/d, compared with 5 mb/d a year earlier.

Graph 8.6: China's exports of crude and products



Saudi Arabia remained the main supplier of China's crude oil imports in June with 0.95 mb/d or 19.8%. Iran overtook Angola and moved to second position with 0.65 mb/d or 13.5%. Angola moved to the third position with 0.48 mb/d or 10% of total Chinese crude oil imports.

Table 8.3: China's crude and product net imports, tb/d

	Apr 11	May 11	Jun 11	Change Jun/May
Crude oil	5,193	5,084	4,747	-338
Total products	454	363	431	69
Total crude and products	**5,647**	**5,447**	**5,178**	**-269**

India's net oil imports recovered in June to average around 2.6 mb/d

India

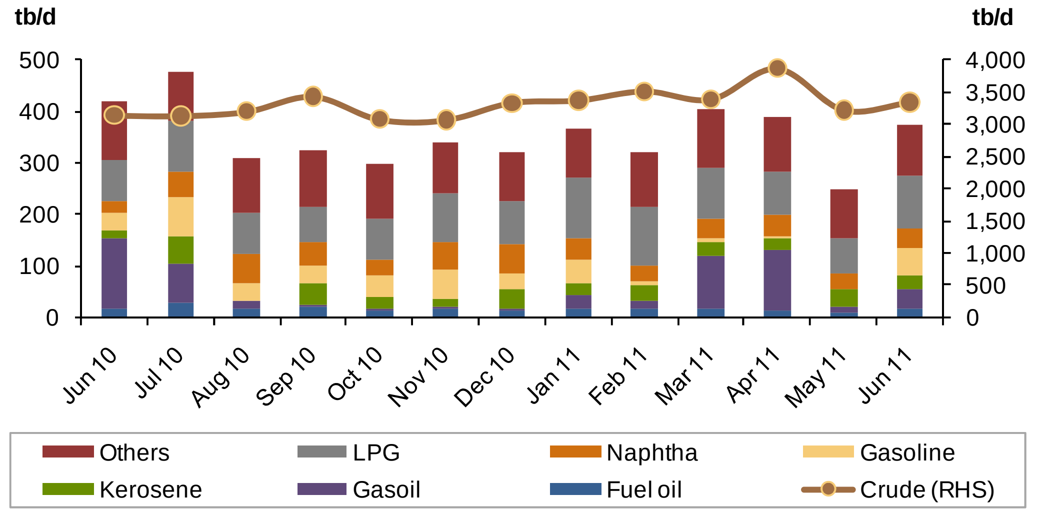
India's crude oil imports rose 117 tb/d or 3.6% in June offsetting the loss of the previous month, to stand at 3.34 mb/d. Crude oil imports showed also a y-o-y growth of more than 9%. The rise in crude oil imports was supported by growing demand from refiners.

India's crude oil imports in the first half of 2011 were at 3.43 mb/d, some 320 tb/d or 10.3% higher than in the same period of the previous year.

Product imports followed a similar pattern but jumped by 125 tb/d or 50% to average 375 tb/d. Despite this surge, India's product imports remained below April's level of 390 tb/d. Compared with a year ago, June's product imports were 32% higher this year. LPG and gasoline – were the main contributors to the increase, rising by 51% and 100%, respectively. Imports of diesel oil, naphtha and fuel oil rose by 27.7 tb/d, 6.1 tb/d and 7.7 tb/d, respectively.

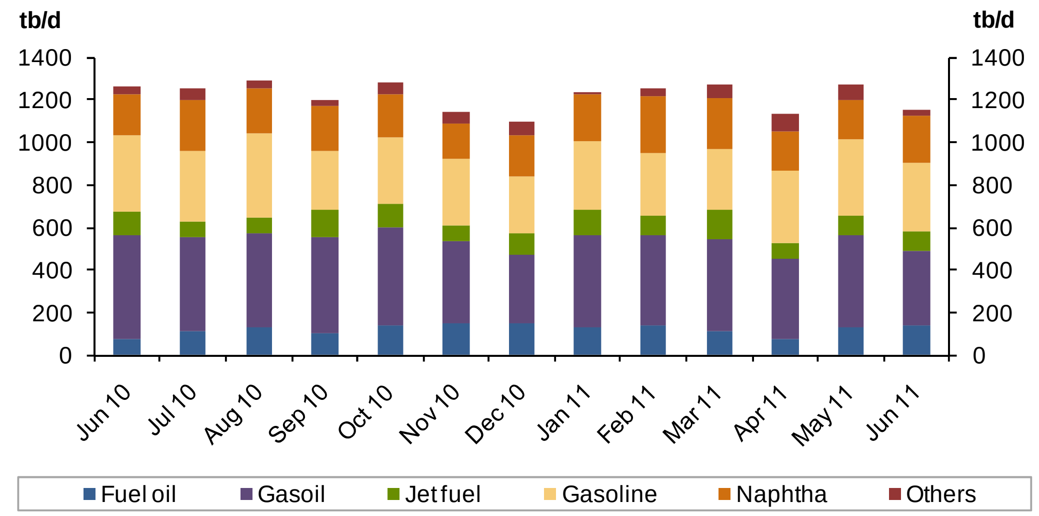
Similarly, India's product imports showed a growth 50 tb/d or 17% in the first half of 2011 compared with a year ago.

Graph 8.7: India's imports of crude and petroleum products



On the export side, products declined 118 tb/d or 9.3% to stand at 1.15 mb/d, the lowest so far this year as growing local demand cut shipment for abroad. On a y-o-y basis product exports increased by almost 11% in June 2011.

Graph 8.8: India's exports of petroleum products



As a result, **India's net oil imports increased 360 tb/d or 16.3% to average 2.57 mb/d but remained below April's level of almost 3.0 mb/d.**

Table 8.4: India's crude and product net imports, tb/d

	Apr 11	May 11	Jun 11	Change Jun/May
Crude oil	3,738	3,223	3,340	117
Total products	-754	-1,017	-774	243
Total crude and products	**2,984**	**2,206**	**2,566**	**360**

India data table does not include information for crude import and product export by Reliance Industries

FSU

FSU exports fell amid surging domestic demand

Total FSU crude oil exports dropped further in June to average almost 6.3 mb/d, down 81 tb/d or 1.3% from the previous month and 356 tb/d or 5.3% from a year earlier. The drop was attributed mainly to lower loading from the Black Sea and the Baltic. The Black Sea ports were most affected by the drop in exports as shipments fell by almost 140 tb/d or 15% from the previous month. Exports from the Baltic Sea have been deterred by the deteriorating quality of Urals at Novorossiysk.

The drop in June's exports from Russia reflects the increasing demand from local refiners. Russian producers increased pipeline deliveries to refineries to meet rising motor fuel demand. This rise in domestic deliveries also reflects the end of the maintenance at the Achinsk and Krasnodar refineries.

However, lower exports from Russia in June were partly offset by higher supplies of Kazakh and Azeri crude. CPC Blend exports which rose by 8.1% amid increasing output at Kazakhstan's Tengiz field, after maintenance ended. The operator Tengizchevroil increased rail deliveries to the Ukrainian ports of Odessa and Fedossiya.

Product exports from the FSU also declined but at a slower pace of 82 tb/d or 2.7% from the previous month to average 3.0 mb/d, but when compared with a year ago, product exports show a strong y-o-y growth of 280 tb/d or 10%. Fuel oil shipments were up by 8.7%, while gasoil exports were slightly down by 5.8%.Gasoline shipment fell by 33%. Fuel oil exports in June rose by 8.7% to 1.52 mb/d, indicating big rises at Baltic and Black Sea ports, which handled significantly more products than in the same period a year earlier. The only major outlet with a big fall loadings was Latvia's Ventspils, which has been hit by a dispute between Lukoil trading arm Ltasco and the Ventbunkes terminal.

As a result, **total FSU oil exports fell to 9.3 mb/d in June, down 163 tb/d or 1.7% from May and 77 tb/d or 0.8% lower than the level of June 2010.**

Table 8.5: Recent FSU exports of crude and products by sources, tb/d

	2009	2010	4Q10	1Q11	2Q11	May 11*	Jun 11*
Crude							
Russian pipeline							
Black Sea	1,201	994	933	970	886	953	815
Baltic	1,577	1,564	1,569	1,445	1,534	1,504	1,401
Druzhba	1,112	1,126	1,136	1,140	1,118	1,110	1,103
Kozmino	0	309	336	294	315	308	318
Total	**3,922**	**4,005**	**4,018**	**4,155**	**4,157**	**4,168**	**3,940**
Other routes							
Russian rail	280	330	280	197	145	100	148
Russian-Far East	283	276	313	299	286	297	258
Kazakh rail	18	1	0	0	128	84	132
Vadandey	155	152	127	111	92	85	86
Kaliningrad	0	24	24	23	21	23	16
CPC	736	743	749	737	671	629	680
BTC	805	775	796	710	761	697	795
Kenkiyak-Alashankou	157	204	204	230	239	236	247
Caspian	281	239	197	183	141	141	87
Total crude exports	**6,653**	**6,750**	**6,759**	**6,646**	**6,525**	**6,375**	**6,294**
Products							
Gasoline	221	152	124	205	220	252	168
Naphtha	269	275	245	285	302	321	270
Jet	47	20	15	7	17	17	19
Gasoil	948	878	824	896	793	788	742
Fuel oil	1,116	1,235	1,225	1,178	1,448	1,395	1,516
VGO	235	242	218	179	294	316	291
Total	**2,837**	**2,801**	**2,651**	**2,750**	**3,074**	**3,089**	**3,007**
Total oil exports	**9,490**	**9,551**	**9,410**	**9,396**	**9,600**	**9,464**	**9,301**

** Preliminary*
Totals may not add due to independent rounding

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

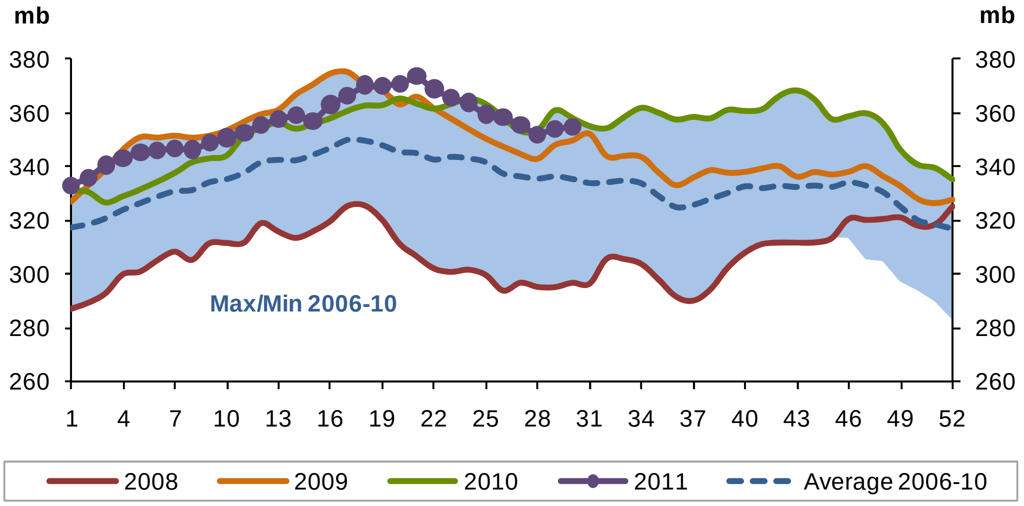
Stock Movements

US commercial stocks jumped 22.1 mb in July, driven by a build in products

US

At end of July, **US commercial oil inventories** reversed the stock draw incurred in the previous month, increasing by a considerable 22.1 mb to reach 1087.7 mb. The build was attributed to products which increased by 25.7 mb. The draw in US commercial crude abated the build, with a drop of 3.6 mb. Despite the build, total US commercial oil inventories remained at 38.1 mb or 3.4% below a year ago. The surplus with the five-year average widened from the previous month to stand at to 19.5 mb or 1.8%.

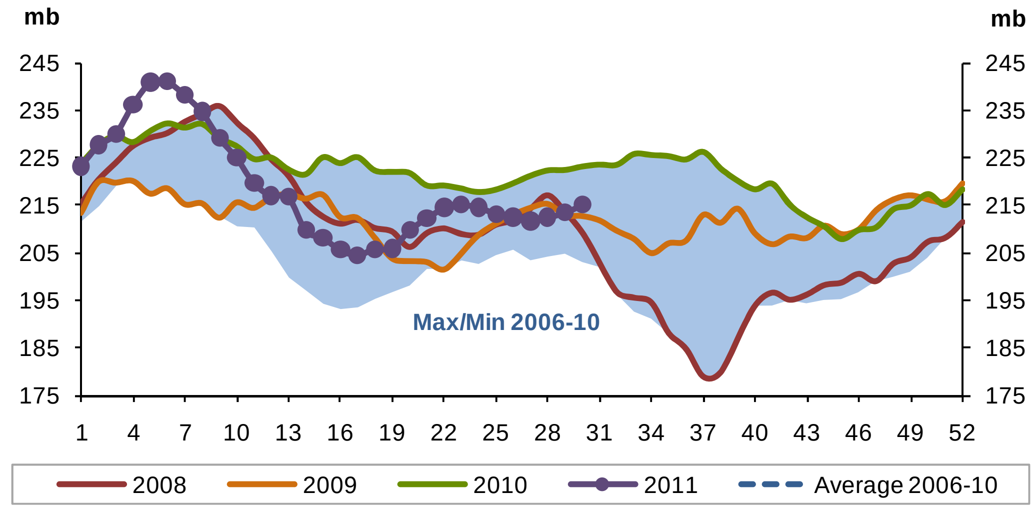
Graph 9.1: US weekly commercial crude oil inventories



US crude commercial stocks fell in June for the second consecutive month to end the month at 355.0 mb. Despite this draw, US commercial crude oil stocks still indicated a surplus of 22.2 mb or 6.7% with the five-year average, but in line with year-ago stock levels. The draw came solely from the increase in crude runs which rose by around 245,000 b/d in July, compared with the previous month. At 15.4 mb/d, refineries operated at 89.0% of their operable capacity, around 1.0 percentage points higher than in the previous month. The increase in US crude oil imports has limited the recent fall in US commercial crude oil stocks. Indeed, US crude oil imports rose by about 200,000 b/d from last month to average 9.3 mb/d.

It should be noted that during the week ending 29 July, US crude oil stocks rose, driven by the release of the second tranche of 4.5 mb of SPR moving through the market. With another 23 mb of SPR crude expected to be released and weak product demand, US crude inventories are likely to show a build over the coming weeks. By the end of July, US SPR declined by 6.8 mb to stand at 719.8 mb due to the IEA-coordinated release of strategic reserves. Although the decline of 1.1 mb at the end of July in Cushing stocks created some bullishness in crude markets, the overall outlook is bearish with strong commercial inventory builds expected in coming weeks.

Graph 9.2: US weekly gasoline stocks



On the product side, **product stocks** reversed the slight draw occurred last month and increased considerably in July by 25.7 mb to end the month at 732.7 mb, the highest level since December 2010. Despite this build, US product inventories remained at 38.1 mb or 4.9% below a year ago at the same period and 2.7 mb or 0.4% less than the five-year average. With the exception of residual fuel, all products experienced a stock build, with the bulk coming from distillates and propylene. Gasoline stocks rose by 2.6 mb to end the month at 215.2 mb. Despite this build, the US gasoline inventory deficit with last year remained at 5.0 mb or 2.3% and gasoline stocks are 4.5 mb or 2.1% above the five-year average. The increase in US gasoline stocks came on the back of lower gasoline demand, despite the mid-summer season. In fact, during the month of July, gasoline demand declined by around 220,000 barrels to average 9.1 mb/d, much lower than the same period a year ago. The decrease in gasoline production to 9.1 mb/d has limited the build in gasoline stocks.

Distillate stocks saw a substantial increase of 10.2 mb to end the month of July at 152.3 mb, the highest level in five months. At this level, distillate stocks stood at 13.9 mb or 8.4% below a year ago, while they remained at 6.1 mb or 4.2% above the seasonal trend. This build in distillate stocks could be attributed to the rise of distillate output by around 200,000 b/d from a month earlier to an average of 4.6 mb/d and an increase of 150,000 b/d from a year ago. The decline in distillate demand also contributed to the build in distillate inventories. Indeed, during the month of July, distillate demand averaged 3.5 mb/d, almost 100,000 b/d less than a month earlier. In the coming weeks, export demand will continue to support the market, while distillate demand, especially for heating oil, is expected to emerge only after the end of summer season. Jet fuel oil saw an increase of 1.7 mb at the end of June to 45.0 mb, still indicating a deficit of 4.9% with last year, but stood at 1.6% above the five-year average. Residual fuel stocks went down by 1.6 mb to end the month at 36.2 mb. Residual fuel stocks stood at 12.5% below a year ago, indicating a deficit of 7.7% with the seasonal norm.

Table 9.1: US onland commercial petroleum stocks, mb

	May 11	Jun 11	Jul 11	Change Jul 11/Jun 11	Jul 10
Crude oil	369.7	358.6	355.0	-3.6	357.6
Gasoline	213.9	212.5	215.2	2.6	220.0
Distillate fuel	144.7	142.1	152.3	10.2	166.6
Residual fuel oil	36.9	37.8	36.2	-1.6	41.3
Jet fuel	41.3	43.3	45.0	1.7	47.3
Total	**1078.2**	**1065.6**	**1087.7**	**22.1**	**1128.7**
SPR	726.5	726.5	719.8	-6.8	726.6

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

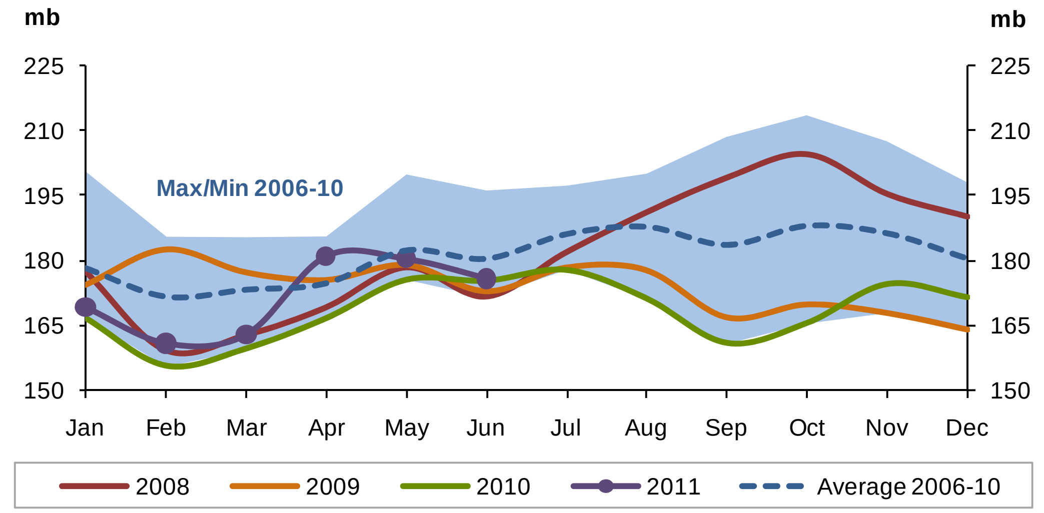
Source: US Department of Energy's Energy Information Administration

Commercial stocks in Japan declined for the second month in the row

Japan

In June, **commercial oil stocks** in Japan dropped for the second consecutive month, declining by 4.5 mb to stand at 175.9 mb. With this draw, Japanese oil inventories have narrowed the surplus with a year ago to 0.2% from 2.7% a month earlier. At the same time, the deficit with the five-year average also narrowed from 1.0% to stand at 2.5% at the end of June. This stock-draw was divided between crude and products, which declined by 3.4 mb and 1.1 mb respectively.

Graph 9.3: Japan's commercial oil stocks



Japanese **commercial crude oil stocks** reversed the build observed during the last three months, declining by 3.4 mb to end the month at 103.3 mb. At this level, the surplus with year-ago levels seen in recent months has reversed to a deficit of 1.3%, while Japanese commercial crude oil stocks remaining at 4.0 mb or 3.7% below the five-year average. The drop in crude commercial oil stocks in June came from higher refinery utilization rates, which reached 65.1% or 2.6 percentage points above the previous month's level and 1.6 percentage points higher than a year ago. This corresponds to a crude throughput of 3.03 mb/d, around 122 tb/d or 4.2% higher than in the previous month. The fall in crude oil imports has also contributed to the drop in commercial crude oil stocks. Indeed, crude oil imports in June fell by around 40 tb/d or 1% to average 3.05 mb/d. At this level, Japanese crude oil imports stood 4.4% below last year's level.

Total **product inventories** also saw a drop in June for two consecutive months to stand at 72.5 mb. This stock draw left total products in June at a deficit of 0.8% with the last five-year average, however, the deficit with a year ago incurred last month has switched to a surplus of 2.1%.The fall in product inventories could be attributed mainly to the increase of 5.2% in total product sales averaging 2.93 mb/d, however, total product sales in June still remained at 2.7% below a year ago at the same time. It is worth noting that the pace of the decline has narrowed considerably, reflecting a pick-up in industrial output. With the exception of naphtha, all products saw a drop. Gasoline stocks fell 0.8 mb to end the month of June at 12.6 mb, and showing a deficit of 12.0% with a year ago and 6.5% with the five-year average. The stock draw in gasoline is attributed mainly to the decline of 1.8% in gasoline output as domestic sales went down slightly 1.0%.

Total distillate stocks fell 0.7 mb after two consecutive months of a stock build, leaving them at comfortable levels, 17% above a year ago and 6.8% above the seasonal norm. Within the components of distillates, kerosene and gasoil stocks fell 0.7% and 6% respectively, while jet fuel oil stocks rose 2.9%. The build in jet fuel stocks could be attributed mainly to the rise of 19.9% in output as domestic sales saw an increase. The drop in kerosene is due solely to the decline by almost 30% in kerosene production, while the fall in gasoil stocks is attributed to the increase of 12% in domestic sales combined with the decline of imports by almost half. Residual fuel oil stocks also fell by 0.3 mb, declining for the second consecutive month. At 16.9 mb, residual fuel oil stocks stood at 0.1% above a year ago and 1.2% lower than the seasonal trend. Within the components of fuel oil, fuel oil A inventories saw a build of 9.2%, while fuel oil B.C experienced a drop of 5.7%. The drop in fuel oil B.C came on the back of higher demand, which increased by 9.1% versus the previous month and 14.1% above last year, the highest increase since February. Naphtha is the only product showing a build of 0.6 mb to stand at 10.9 mb. Despite this build, naphtha stocks remained at a deficit of 1.2% with a year ago over the same period.

Table 9.2: Japan's commercial oil stocks*, mb

	Apr 11	May 11	Jun 11	Change Jun 11/May 11	Jun 10
Crude oil	105.0	106.7	103.3	-3.4	104.6
Gasoline	14.9	13.4	12.6	-0.8	14.4
Naphtha	13.4	10.3	10.9	0.6	12.1
Middle distillates	29.6	32.8	32.1	-0.7	27.5
Residual fuel oil	18.1	17.1	16.9	-0.2	16.8
Total products	76.0	73.7	72.5	-1.2	70.8
Total**	**181.1**	**180.4**	**175.9**	**-4.5**	**175.5**

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

Singapore and Amsterdam-Rotterdam-Antwerp (ARA)

Product stocks in Singapore rebounded by 1.5 mb in June

At the end of June, **product stocks in Singapore** reversed the downward trend seen last month and rose by 1.5 mb to 44.7 mb. Despite this build, product stocks stood at 3.5 mb or 7.3% below a year ago at the same time. Within products, the picture was mixed; fuel oil and light distillates saw a drop of 1.0 mb and 0.7 mb respectively, while middle distillates stocks rose by 3.1 mb. At 15.7 mb, middle distillates stood at 0.8 mb or 5.4% above a year ago at the same time. Higher diesel exports, which almost doubled, have contributed to the build in distillate stocks, however, strong regional demand during the peak summer season for diesel usage has limited this build.

Fuel oil stocks saw a decline in June, falling below 20.0 mb for the second time since March. At 19.4 mb, This represents a deficit of 2.5 mb or 11.4% with last year at the same period. Inventories continued to be pressured by strong bunker demand which has climbed 30,000 b/d from 2010. The decline in fuel oil stocks is expected to continue on the back of low western arbitrage inflow for the second straight month of July.

Light distillate inventories also declined for the third consecutive month to end the month at 9.57 mb, remaining at 16.2% below a year ago at the same period. This trend is expected to continue as South Korean refiners have sold 150,000 tonnes of gasoline to Japan which would limit its sales to traders in Singapore.

ARA product stocks edged up 0.3 mb, reversing the four-month stock draw

Product stocks in ARA in June rose slightly by 0.3 mb, reversing four months of stock draws. At 36.3 mb, ARA stocks stood 1.5 mb or 4.0% below last year at the same period. Within products, the picture was mixed; gasoline and naphtha stocks saw a build of 1.0 mb and 0.1 mb respectively, while gasoil and jet fuel inventories declined by 0.3 mb and 0.5 mb respectively.

Fuel oil stocks in June remained almost at the same level as the previous month. The build in gasoline could be attributed to higher imports from Denmark, France and UK, outpacing the exports to the US and Mexico. It should be highlighted that despite the peak of the driving season, the gasoline trade to the US was not as active as a couple of years ago. At 9.57 mb, gasoline stocks stood at 1.7 mb or 22.3% below a year ago. Naphtha stocks went up in June to stand at 0.93 mb, but remained below a year ago. This build was mainly driven by weak demand in the region.

Gasoil fell to 20.8 mb, but remained at healthy levels, showing a surplus of 3.0 mb or 17% with a year ago. This build was mainly driven from higher imports from Argentina, Russia and the UK, outpacing the exports to the US. Jet fuel stocks also declined to end the month at 3.37 mb and remained at 47% below a year ago.

Balance of Supply and Demand

Required OPEC crude for 2011 estimated at 30.0 mb/d, a gain of 0.2 mb/d compared to the previous year

Forecast for 2011

Demand for OPEC crude in 2011 remained unchanged from the previous assessment as both global demand and non-OPEC supply were revised down by roughly the same amount. With the exception of 4Q11, which saw an upward revision of 50 tb/d, all other quarters remained unchanged. At 30.0 mb/d, the demand for OPEC crude stood at 0.2 mb/d above 2010. The first quarter showed growth of 0.6 mb/d, compared to the same period a year ago, while the second remained unchanged. The third and fourth quarters are estimated to see positive growth of 0.1 mb/d and 0.3 mb/d.

Table 10.1: Summarized supply/demand balance for 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011
(a) World oil demand	**86.93**	**87.43**	**86.30**	**89.28**	**89.50**	**88.14**
Non-OPEC supply	52.25	52.87	52.23	52.90	53.33	52.83
OPEC NGLs and non-conventionals	4.90	5.12	5.26	5.37	5.42	5.29
(b) Total supply excluding OPEC crude	**57.16**	**57.99**	**57.48**	**58.27**	**58.75**	**58.13**
Difference (a-b)	**29.77**	**29.44**	**28.82**	**31.02**	**30.74**	**30.01**
OPEC crude oil production	29.26	29.63	29.18			
Balance	-0.51	0.19	0.36			

Totals may not add up due to independent rounding

Demand for OPEC crude in 2012 forecast at 30.2 mb/d, an increase of 0.2 mb/d over the previous year

Forecast for 2012

The demand for OPEC for 2012 is projected to average 30.2 mb/d, down 0.1 mb/d from the previous report. Within the quarters, the first and second quarter were revised down by 0.1 mb/d and 0.3 mb/d respectively. The third and the fourth quarters were revised up by 0.1 mb/d from the previous assessment. Required OPEC crude in 2012 is forecast to increase by 0.2 mb/d, compared to the current year. The first quarter is estimated to see growth of 0.3 mb/d, followed by negative growth of 0.2 mb/d in the second, while both the third and the fourth quarter are forecast to see an increase of 0.4 mb/d, compared to the same period in the previous year.

Table 10.2: Summarized supply/demand balance for 2012, mb/d

	2011	1Q12	2Q12	3Q12	4Q12	2012
(a) World oil demand	**88.14**	**88.84**	**87.57**	**90.58**	**90.73**	**89.44**
Non-OPEC supply	52.83	53.58	53.38	53.45	53.85	53.57
OPEC NGLs and non-conventionals	5.29	5.50	5.61	5.71	5.79	5.65
(b) Total supply excluding OPEC crude	**58.13**	**59.08**	**58.99**	**59.16**	**59.64**	**59.22**
Difference (a-b)	**30.01**	**29.76**	**28.58**	**31.42**	**31.10**	**30.22**

Totals may not add up due to independent rounding

Graph 10.1: Balance of supply and demand

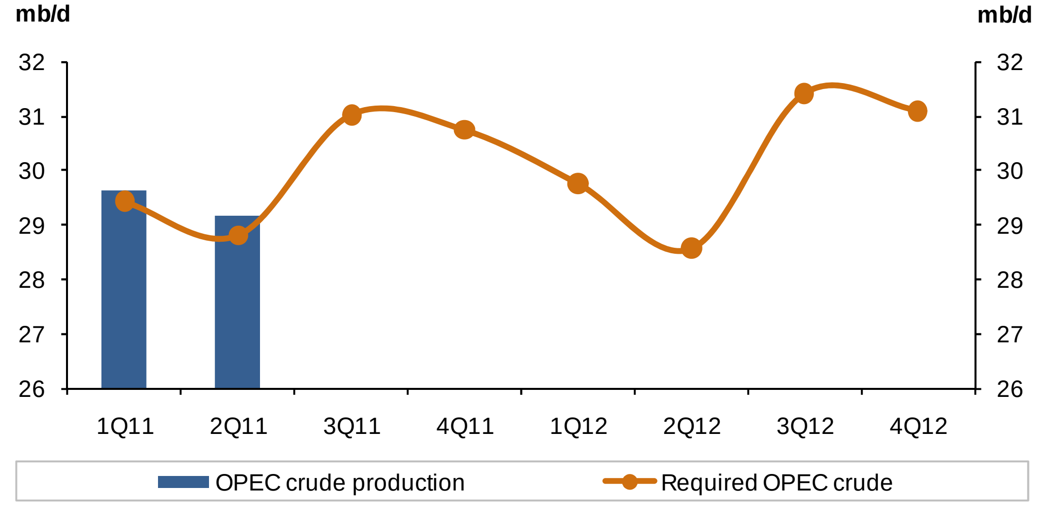


Table 10.3: World oil demand/supply balance, mb/d

	2006	2007	2008	2009	2010	1Q11	2Q11	3Q11	4Q11	2011	1Q12	2Q12	3Q12	4Q12	2012
World demand															
OECD	49.5	49.3	47.6	45.6	46.2	46.4	44.6	46.6	46.8	46.1	46.5	44.6	46.6	46.8	46.1
North America	25.4	25.5	24.2	23.3	23.8	23.8	23.2	24.2	24.0	23.8	24.0	23.4	24.3	24.2	24.0
Western Europe	15.7	15.5	15.4	14.7	14.6	14.2	14.2	14.9	14.7	14.5	14.3	14.1	14.8	14.6	14.5
Pacific	8.5	8.4	8.0	7.7	7.8	8.4	7.2	7.6	8.0	7.8	8.3	7.2	7.5	8.0	7.7
DCs	23.6	24.8	25.6	26.2	26.9	27.1	27.6	27.8	27.8	27.6	27.8	28.2	28.5	28.5	28.2
FSU	4.0	4.0	4.1	4.0	4.1	4.1	4.0	4.4	4.5	4.2	4.2	4.0	4.5	4.6	4.3
Other Europe	0.9	0.8	0.8	0.7	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.6	0.7	0.7	0.7
China	7.2	7.6	8.0	8.3	9.0	9.1	9.6	9.8	9.6	9.5	9.7	10.1	10.3	10.1	10.1
(a) Total world demand	85.2	86.5	86.1	84.7	86.9	87.4	86.3	89.3	89.5	88.1	88.8	87.6	90.6	90.7	89.4
Non-OPEC supply															
OECD	20.1	20.0	19.5	19.7	19.9	20.2	19.8	20.0	20.1	20.0	20.2	20.1	20.0	20.3	20.1
North America	14.2	14.3	13.9	14.4	15.0	15.3	15.2	15.3	15.3	15.3	15.4	15.4	15.4	15.6	15.4
Western Europe	5.3	5.2	4.9	4.7	4.4	4.3	4.1	4.1	4.3	4.2	4.2	4.0	3.9	4.1	4.1
Pacific	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
DCs	11.9	11.9	12.2	12.4	12.7	12.9	12.6	13.0	13.2	12.9	13.3	13.3	13.4	13.4	13.4
FSU	12.0	12.5	12.6	13.0	13.2	13.3	13.3	13.4	13.4	13.4	13.5	13.4	13.4	13.5	13.5
Other Europe	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1
China	3.7	3.8	3.8	3.9	4.1	4.2	4.2	4.2	4.3	4.2	4.3	4.3	4.3	4.3	4.3
Processing gains	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.2	2.2	2.2	2.2	2.2
Total non-OPEC supply	49.9	50.4	50.3	51.1	52.3	52.9	52.2	52.9	53.3	52.8	53.6	53.4	53.5	53.9	53.6
OPEC NGLs + non-conventional oils	3.9	3.9	4.1	4.3	4.9	5.1	5.3	5.4	5.4	5.3	5.5	5.6	5.7	5.8	5.7
(b) Total non-OPEC supply and OPEC NGLs	53.8	54.4	54.4	55.5	57.2	58.0	57.5	58.3	58.8	58.1	59.1	59.0	59.2	59.6	59.2
OPEC crude oil production (secondary sources)	30.6	30.2	31.3	28.8	29.3	29.6	29.2								
Total supply	84.4	84.6	85.7	84.2	86.4	87.6	86.7								
Balance (stock change and miscellaneous)	-0.9	-2.0	-0.4	-0.5	-0.5	0.2	0.4								
OECD closing stock levels (mb)															
Commercial	2655	2554	2679	2641	2656	2633									
SPR	1499	1524	1527	1564	1561	1558									
Total	4154	4079	4206	4205	4217	4191									
Oil-on-water	919	948	969	919	871	891									
Days of forward consumption in OECD															
Commercial onland stocks	54	54	59	57	58	59									
SPR	30	32	33	34	34	35									
Total	84	86	92	91	91	94									
Memo items															
FSU net exports	8.1	8.5	8.5	9.0	9.1	9.2	9.3	9.0	9.0	9.1	9.2	9.4	9.0	9.0	9.1
(a) - (b)	31.4	32.2	31.6	29.3	29.8	29.4	28.8	31.0	30.7	30.0	29.8	28.6	31.4	31.1	30.2

Note: Totals may not add up due to independent rounding

Table 10.4: World oil demand/supply balance: changes from last month's table* , mb/d

	2006	2007	2008	2009	2010	1Q11	2Q11	3Q11	4Q11	2011	1Q12	2Q12	3Q12	4Q12	2012
World demand															
OECD	-	-	0.1	-	0.1	-0.1	-0.3	-	-	-0.1	-0.1	-0.3	-	-	-0.1
North America	-	-	-	-	-0.1	-	-0.5	-0.2	-0.1	-0.2	-0.2	-0.5	-0.2	-0.1	-0.3
Western Europe	-	0.1	-	-	0.1	-	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.1	0.1
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	0.1	0.1	-	0.1	-	0.1	0.1	-	0.1
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-0.2	-	-	-	-	-0.2	-	-	-
(a) Total world demand	-	0.1	0.1	0.1	0.1	-0.1	-0.3	0.1	0.1	-	-0.1	-0.3	0.1	0.1	-0.1
World demand growth	*-*	*0.09*	*0.03*	*-0.05*	*0.04*	*-0.15*	*-0.45*	*0.02*	*-0.04*	*-0.15*	*-0.03*	*-*	*-0.05*	*-*	*-0.02*
Non-OPEC supply															
OECD	-	-	-	-	-	-	-0.2	0.2	0.1	-	0.1	0.1	0.1	0.1	0.1
North America	-	-	-	-	-	-	-	0.1	-	-	0.1	0.1	0.1	0.1	0.1
Western Europe	-	-	-	-	-	-	-0.1	0.1	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	-	-0.3	0.1	-	-	-	-	-	-	-
Total non-OPEC supply growth	*0.01*	*-0.01*	*0.01*	*-0.02*	*-*	*-*	*-0.30*	*0.13*	*0.02*	*-0.04*	*-*	*0.31*	*-0.12*	*-*	*0.05*
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	-	-0.3	0.1	-	-	-	-	-	-	-
OPEC crude oil production (secondary sources)	-	-	-	-	-	-									
Total supply	-	-	-	-	-	-									
Balance (stock change and miscellaneous)	-	-0.1	-0.1	-0.1	-0.1	-									
OECD closing stock levels (*mb*)															
Commercial	-	-	-	-	-8	-									
SPR	-	-	-	-	-	-									
Total	-	-	-	-	-8	-									
Oil-on-water	-	-	-	-	-	-									
Days of forward consumption in OECD															
Commercial onland stocks	-	-	-	-	-	-									
SPR	-	-	-	-	-	-									
Total	-	-	-	-	-	-									
Memo items															
FSU net exports	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(a) - (b)	-	0.1	0.1	0.1	0.1	-	-	-	-	-	-0.1	-0.3	0.1	-	-0.1

* *This compares Table 10.3 in this issue of the MOMR with Table 10.3 in the July 2011 issue*
This table shows only where changes have occurred

Table 10.5: OECD oil stocks and oil on water at the end of perioc

	2003	2004	2005	2006	2007	2008	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
Closing stock levels *mb*																							
OECD onland commercial	2,507	2,531	2,576	2,655	2,554	2,679	2,582	2,643	2,629	2,554	2,553	2,584	2,641	2,679	2,731	2,745	2,763	2,641	2,658	2,753	2,746	2,656	2,633
North America	1,157	1,186	1,247	1,264	1,211	1,282	1,219	1,275	1,267	1,211	1,197	1,221	1,259	1,282	1,332	1,367	1,373	1,286	1,298	1,367	1,399	1,319	1,296
Western Europe	915	915	935	963	937	991	944	940	929	937	961	954	952	991	991	976	971	972	974	981	946	947	954
OECD Pacific	435	430	394	429	407	407	420	428	432	407	394	409	431	407	408	401	419	383	386	405	402	390	383
OECD SPR	1,411	1,450	1,487	1,499	1,524	1,527	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	1,562	1,549	1,561	1,558
North America	640	678	687	691	699	704	691	692	695	699	702	708	704	704	715	726	727	729	729	729	728	729	727
Western Europe	374	377	407	412	421	416	415	413	423	421	423	414	414	416	424	427	429	426	429	422	419	423	420
OECD Pacific	396	396	393	396	404	406	401	401	403	404	404	404	403	406	408	408	408	409	409	411	402	410	411
OECD total	3,917	3,982	4,063	4,154	4,079	4,206	4,089	4,149	4,149	4,079	4,082	4,110	4,164	4,206	4,278	4,306	4,327	4,205	4,225	4,315	4,296	4,217	4,191
Oil-on-water	882	905	954	919	948	969	916	891	917	948	935	925	885	969	899	899	869	919	919	897	926	871	891
Days of forward consumption in OECD																							
OECD onland commercial	51	51	52	54	54	59	53	54	53	52	54	55	56	57	61	61	60	57	59	59	59	57	59
North America	45	46	49	50	50	55	48	50	50	49	49	52	53	55	58	59	58	55	55	57	58	55	56
Western Europe	59	58	60	62	61	68	62	60	59	61	63	61	62	66	69	67	67	68	68	66	64	67	67
OECD Pacific	51	50	47	51	51	53	53	54	49	46	50	54	54	50	56	55	52	47	53	53	50	47	53
OECD SPR	28	29	30	30	32	33	31	31	30	31	32	33	32	33	35	35	34	34	35	33	33	34	35
North America	25	26	27	27	29	30	27	27	27	28	29	30	29	30	31	31	31	31	31	30	30	31	31
Western Europe	24	24	26	27	27	28	27	26	27	27	28	27	27	28	29	29	30	30	30	28	28	30	30
OECD Pacific	46	46	46	47	50	53	51	51	46	45	51	54	51	50	56	56	51	50	56	54	50	49	57
OECD total	79	80	82	84	86	92	84	85	83	83	86	88	88	90	96	95	94	91	93	92	92	91	94

n.a. not available

Table 10.6: Non-OPEC supply and OPEC natural gas liquids, mb/d

	2006	2007	2008	2009	Change 09/08	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10	1Q12	2Q12	3Q12	4Q12	2012	Change 12/11
US	7.36	7.47	7.50	8.14	0.64	8.44	8.52	8.60	8.84	8.60	0.46	8.77	8.86	8.80	8.79	8.80	0.20	8.83	8.85	8.87	8.96	8.88	0.07
Canada	3.20	3.31	3.27	3.25	-0.02	3.28	3.37	3.38	3.54	3.39	0.15	3.58	3.42	3.52	3.60	3.53	0.13	3.63	3.67	3.70	3.74	3.68	0.16
Mexico	3.69	3.49	3.17	2.98	-0.19	2.99	2.97	2.95	2.93	2.96	-0.02	2.97	2.96	2.94	2.92	2.95	-0.01	2.91	2.87	2.88	2.86	2.88	-0.07
North America	14.24	14.26	13.94	14.37	0.43	14.71	14.86	14.92	15.32	14.96	0.59	15.32	15.24	15.25	15.30	15.28	0.32	15.37	15.39	15.45	15.56	15.44	0.16
Norway	2.78	2.55	2.47	2.36	-0.11	2.33	2.12	1.94	2.18	2.14	-0.22	2.15	1.94	1.98	2.05	2.03	-0.11	2.03	1.94	1.88	1.97	1.96	-0.07
UK	1.71	1.69	1.57	1.48	-0.09	1.52	1.40	1.20	1.35	1.37	-0.11	1.27	1.19	1.28	1.31	1.26	-0.10	1.30	1.22	1.17	1.26	1.24	-0.02
Denmark	0.34	0.31	0.28	0.26	-0.02	0.25	0.25	0.23	0.26	0.25	-0.02	0.23	0.26	0.24	0.24	0.24	0.00	0.23	0.23	0.22	0.21	0.22	-0.02
Other Western Europe	0.51	0.62	0.62	0.63	0.01	0.62	0.64	0.65	0.63	0.64	0.01	0.67	0.66	0.65	0.65	0.66	0.02	0.65	0.65	0.66	0.66	0.65	0.00
Western Europe	5.34	5.17	4.94	4.73	-0.21	4.71	4.41	4.02	4.42	4.39	-0.34	4.32	4.06	4.14	4.25	4.19	-0.20	4.22	4.05	3.93	4.10	4.07	-0.12
Australia	0.51	0.53	0.53	0.54	0.01	0.52	0.51	0.51	0.48	0.50	-0.04	0.42	0.45	0.51	0.50	0.47	-0.03	0.53	0.55	0.55	0.52	0.54	0.06
Other Pacific	0.05	0.08	0.10	0.10	0.00	0.10	0.10	0.10	0.09	0.10	0.00	0.09	0.08	0.09	0.08	0.09	-0.01	0.08	0.08	0.08	0.08	0.08	-0.01
OECD Pacific	0.56	0.60	0.63	0.64	0.01	0.62	0.60	0.60	0.58	0.60	-0.04	0.52	0.53	0.60	0.59	0.56	-0.04	0.61	0.63	0.63	0.60	0.62	0.06
Total OECD	20.14	20.03	19.51	19.74	0.23	20.05	19.87	19.55	20.31	19.94	0.21	20.15	19.82	20.00	20.14	20.03	0.08	20.19	20.07	20.01	20.26	20.13	0.10
Brunei	0.22	0.19	0.17	0.16	-0.01	0.17	0.15	0.17	0.17	0.17	0.00	0.17	0.16	0.17	0.17	0.17	0.00	0.17	0.17	0.17	0.17	0.17	0.00
India	0.78	0.80	0.80	0.78	-0.02	0.82	0.83	0.88	0.90	0.86	0.08	0.90	0.90	0.92	0.93	0.91	0.06	0.93	0.93	0.94	0.94	0.93	0.02
Indonesia	1.07	1.02	1.05	1.03	-0.02	1.03	1.05	1.03	1.01	1.03	0.00	1.01	1.02	0.99	0.98	1.00	-0.03	0.98	0.98	0.98	0.97	0.98	-0.02
Malaysia	0.76	0.76	0.76	0.73	-0.03	0.72	0.70	0.68	0.69	0.70	-0.03	0.68	0.63	0.65	0.64	0.65	-0.05	0.63	0.62	0.61	0.60	0.62	-0.03
Thailand	0.32	0.33	0.36	0.37	0.01	0.34	0.35	0.36	0.33	0.35	-0.02	0.34	0.36	0.34	0.34	0.35	0.00	0.34	0.34	0.34	0.34	0.34	0.00
Vietnam	0.37	0.35	0.33	0.37	0.04	0.35	0.35	0.36	0.37	0.35	-0.02	0.34	0.33	0.35	0.37	0.35	-0.01	0.38	0.39	0.40	0.41	0.39	0.05
Asia others	0.26	0.26	0.26	0.25	-0.01	0.22	0.24	0.24	0.23	0.23	-0.02	0.23	0.23	0.25	0.25	0.24	0.01	0.26	0.26	0.28	0.29	0.27	0.03
Other Asia	3.78	3.70	3.73	3.69	-0.04	3.66	3.67	3.70	3.70	3.68	0.00	3.69	3.62	3.67	3.68	3.66	-0.02	3.69	3.69	3.70	3.72	3.70	0.04
Argentina	0.77	0.77	0.78	0.76	-0.02	0.76	0.76	0.76	0.71	0.75	-0.01	0.76	0.69	0.73	0.73	0.73	-0.02	0.73	0.72	0.71	0.71	0.72	-0.01
Brazil	2.11	2.22	2.38	2.51	0.12	2.61	2.67	2.66	2.70	2.66	0.16	2.72	2.71	2.83	2.91	2.79	0.13	2.94	2.94	3.00	3.02	2.98	0.18
Colombia	0.54	0.54	0.60	0.68	0.09	0.77	0.79	0.80	0.83	0.80	0.11	0.88	0.93	0.93	0.96	0.93	0.13	0.98	0.99	1.01	1.02	1.00	0.07
Trinidad & Tobago	0.18	0.16	0.16	0.15	0.00	0.15	0.15	0.15	0.13	0.15	-0.01	0.14	0.14	0.14	0.14	0.14	-0.01	0.14	0.14	0.15	0.15	0.14	0.01
L. America others	0.26	0.28	0.28	0.30	0.02	0.31	0.31	0.32	0.32	0.31	0.01	0.31	0.31	0.33	0.34	0.32	0.01	0.34	0.34	0.34	0.34	0.34	0.01
Latin America	3.87	3.97	4.20	4.40	0.20	4.61	4.69	4.68	4.70	4.67	0.26	4.81	4.77	4.96	5.09	4.91	0.24	5.13	5.13	5.20	5.23	5.17	0.27
Bahrain	0.21	0.21	0.21	0.21	0.00	0.21	0.20	0.20	0.20	0.20	0.00	0.21	0.21	0.21	0.21	0.21	0.01	0.22	0.22	0.22	0.22	0.22	0.01
Oman	0.75	0.71	0.76	0.81	0.06	0.86	0.86	0.87	0.88	0.86	0.05	0.89	0.88	0.93	0.94	0.91	0.05	0.95	0.95	0.96	0.97	0.96	0.05
Syria	0.44	0.42	0.41	0.41	0.00	0.42	0.43	0.42	0.42	0.42	0.01	0.42	0.42	0.39	0.39	0.40	-0.02	0.39	0.39	0.38	0.37	0.38	-0.02
Yemen	0.37	0.33	0.30	0.30	0.00	0.30	0.29	0.28	0.27	0.29	-0.02	0.26	0.15	0.22	0.24	0.22	-0.07	0.26	0.26	0.26	0.25	0.26	0.04
Middle East	1.76	1.66	1.68	1.73	0.05	1.78	1.77	1.77	1.77	1.77	0.04	1.78	1.66	1.75	1.78	1.74	-0.03	1.82	1.82	1.82	1.82	1.82	0.08
Chad	0.15	0.15	0.15	0.14	-0.01	0.15	0.15	0.15	0.15	0.15	0.01	0.14	0.14	0.14	0.14	0.14	0.00	0.14	0.13	0.13	0.13	0.13	-0.01
Congo	0.25	0.24	0.26	0.27	0.02	0.30	0.30	0.29	0.29	0.30	0.02	0.29	0.29	0.31	0.31	0.30	0.00	0.31	0.30	0.30	0.29	0.30	0.00
Egypt	0.66	0.66	0.69	0.69	0.00	0.69	0.71	0.72	0.71	0.71	0.01	0.71	0.70	0.70	0.69	0.70	-0.01	0.68	0.68	0.68	0.67	0.68	-0.02
Equatorial Guinea	0.37	0.37	0.38	0.36	-0.02	0.33	0.33	0.32	0.31	0.32	-0.03	0.31	0.31	0.30	0.30	0.30	-0.02	0.31	0.31	0.32	0.33	0.32	0.01
Gabon	0.25	0.25	0.24	0.24	0.00	0.25	0.23	0.25	0.25	0.25	0.01	0.26	0.24	0.25	0.25	0.25	0.00	0.25	0.25	0.25	0.25	0.25	0.00
South Africa	0.19	0.18	0.18	0.17	-0.01	0.18	0.18	0.18	0.18	0.18	0.01	0.18	0.18	0.18	0.18	0.18	0.00	0.17	0.17	0.17	0.17	0.17	-0.01
Sudan	0.36	0.48	0.46	0.48	0.02	0.46	0.46	0.47	0.47	0.46	-0.01	0.46	0.43	0.45	0.44	0.44	-0.02	0.44	0.43	0.43	0.42	0.43	-0.02
Africa other	0.29	0.28	0.27	0.25	-0.01	0.24	0.23	0.23	0.22	0.23	-0.02	0.27	0.31	0.33	0.36	0.32	0.09	0.38	0.38	0.39	0.39	0.39	0.07
Africa	2.51	2.60	2.62	2.60	-0.02	2.59	2.57	2.60	2.58	2.59	-0.01	2.62	2.59	2.66	2.67	2.63	0.05	2.67	2.66	2.66	2.65	2.66	0.03
Total DCs	11.92	11.94	12.23	12.43	0.20	12.64	12.70	12.76	12.74	12.71	0.29	12.89	12.64	13.03	13.22	12.95	0.24	13.31	13.31	13.39	13.42	13.36	0.41
FSU	12.03	12.54	12.60	12.95	0.35	13.16	13.20	13.21	13.33	13.22	0.27	13.34	13.30	13.36	13.43	13.36	0.13	13.46	13.41	13.45	13.52	13.46	0.10
Russia	9.65	9.87	9.78	9.92	0.14	10.09	10.12	10.13	10.22	10.14	0.22	10.21	10.23	10.20	10.19	10.21	0.07	10.20	10.23	10.25	10.26	10.23	0.02
Kazakhstan	1.30	1.35	1.41	1.54	0.12	1.60	1.56	1.57	1.65	1.60	0.06	1.66	1.60	1.64	1.69	1.65	0.05	1.70	1.66	1.68	1.71	1.69	0.04
Azerbaijan	0.65	0.87	0.94	1.06	0.12	1.05	1.10	1.10	1.03	1.07	0.01	1.03	1.02	1.10	1.12	1.07	0.00	1.13	1.10	1.10	1.12	1.11	0.05
FSU others	0.43	0.45	0.46	0.44	-0.02	0.42	0.42	0.41	0.42	0.42	-0.02	0.44	0.44	0.43	0.43	0.43	0.02	0.43	0.43	0.43	0.43	0.43	-0.01
Other Europe	0.15	0.15	0.15	0.14	-0.01	0.14	0.14	0.14	0.14	0.14	0.00	0.14	0.14	0.14	0.14	0.14	0.00	0.15	0.15	0.15	0.15	0.15	0.01
China	3.69	3.77	3.84	3.85	0.01	4.02	4.09	4.17	4.25	4.14	0.28	4.22	4.19	4.23	4.27	4.23	0.09	4.28	4.25	4.26	4.31	4.28	0.05
Non-OPEC production	47.94	48.43	48.32	49.10	0.79	50.01	50.00	49.82	50.76	50.15	1.05	50.74	50.10	50.77	51.20	50.70	0.55	51.39	51.19	51.26	51.66	51.38	0.67
Processing gains	1.96	1.99	1.97	2.00	0.03	2.10	2.10	2.10	2.10	2.10	0.10	2.13	2.13	2.13	2.13	2.13	0.03	2.19	2.19	2.19	2.19	2.19	0.06
Non-OPEC supply	49.90	50.42	50.29	51.10	0.82	52.11	52.10	51.92	52.86	52.25	1.15	52.87	52.23	52.90	53.33	52.83	0.58	53.58	53.38	53.45	53.85	53.57	0.73
OPEC NGL	3.76	3.86	4.04	4.24	0.21	4.55	4.70	5.04	4.89	4.79	0.55	4.99	5.10	5.19	5.24	5.13	0.34	5.28	5.36	5.41	5.44	5.38	0.25
OPEC Non-conventional	0.14	0.08	0.11	0.11	0.00	0.11	0.11	0.11	0.11	0.11	0.00	0.13	0.16	0.18	0.18	0.16	0.05	0.21	0.24	0.29	0.34	0.27	0.11
OPEC (NGL+NCF)	3.89	3.95	4.14	4.35	0.21	4.66	4.81	5.15	5.00	4.90	0.55	5.12	5.26	5.37	5.42	5.29	0.39	5.50	5.61	5.71	5.79	5.65	0.36
Non-OPEC & OPEC (NGL+NCF)	53.79	54.36	54.43	55.45	1.03	56.77	56.91	57.07	57.86	57.16	1.70	57.99	57.48	58.27	58.75	58.13	0.97	59.08	58.99	59.16	59.64	59.22	1.09

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

Table 10.7: World Rig Count

	2006	Change 06/05	2007	Change 07/06	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09	1Q11	2Q11	Jun	Jul	Jul/Jun
US	1,647	267	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	1508	1622	1687	1541	459	1717	1829	1863	1900	37
Canada	470	12	344	-126	507	169	432	408	379	35	328	91	177	277	218	-161	470	166	364	389	347	129	587	188	236	348	112
Mexico	83	-24	92	9	96	106	103	106	103	11	128	128	135	123	128	26	118	106	84	80	97	-31	83	87	95	100	5
North America	2,200	255	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	1780	2070	2156	1985	557	2386	2104	2194	2348	154
Norway	17	0	18	1	17	21	21	21	20	2	25	18	18	20	20	0	21	18	13	20	18	-2	21	17	16	16	0
UK	27	5	26	-1	19	21	24	24	22	-4	22	19	16	15	18	-4	15	20	21	21	19	1	18	17	12	15	3
Western Europe	77	7	78	0	91	97	101	103	98	20	90	82	76	85	83	-15	87	96	92	100	94	11	118	112	113	120	7
OECD Pacific	26	2	29	2	32	39	39	34	36	7	27	25	26	23	25	-11	22	18	23	22	21	-4	17	17	18	17	-1
Total OECD	2,347	269	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	1893	2185	2278	2100	543	2521	2232	2325	2485	160
Other Asia	202	2	212	10	213	220	218	212	216	4	212	212	213	233	217	1	235	249	253	255	248	31	257	234	226	227	1
Latin America	149	19	175	27	187	184	195	197	191	16	164	147	149	169	157	-34	183	203	220	213	205	48	222	231	244	247	3
Middle East	132	1	149	18	158	165	175	171	167	18	162	151	139	147	150	-18	152	150	163	159	156	6	163	160	160	155	-5
Africa	10	2	14	4	10	13	14	11	12	-2	8	11	9	12	10	-2	20	19	19	18	19	9	22	25	23	19	-4
Total DCs	493	25	551	58	569	583	602	591	586	36	546	520	510	561	534	-52	589	621	655	645	628	93	663	650	653	648	-5
Non-OPEC Rig Count	2,840	294	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	2514	2840	2924	2727	636	3184	2882	2978	3133	155
Algeria	24	4	27	2	26	27	24	26	26	-1	24	30	27	27	27	1	23	28	24	24	25	-2	29	33	31	26	-5
Angola	4	1	4	1	5	6	5	5	5	1	5	3	3	4	4	-1	10	8	9	9	9	5	7	6	7	4	-3
Ecuador	11	0	11	-1	7	9	12	13	10	-1	10	10	10	10	10	0	11	11	11	11	11	1	11	13	14	11	-3
Iran	44	4	50	6	50	50	50	51	50	0	51	52	52	52	52	2	52	52	52	52	52	0	52	52	52	52	0
Iraq	0	0	0	0	29	29	29	29	29	29	36	36	36	36	36	7	36	36	36	36	36	0	36	36	36	36	0
Kuwait	14	1	12	-1	12	11	12	12	12	0	12	11	14	13	13	0	19	18	21	23	20	8	30	33	33	32	-1
Libya	10	1	13	3	14	15	15	15	15	2	15	13	14	15	14	-1	17	17	14	15	16	1	10	0	0	0	0
Nigeria	10	1	8	-1	9	8	6	6	7	-1	7	6	6	7	6	-1	11	13	18	17	15	8	14	13	12	12	0
Qatar	11	-1	13	2	11	12	11	11	11	-1	9	9	9	9	9	-2	8	8	9	9	9	0	10	8	7	8	1
Saudi Arabia	65	28	77	11	78	77	76	76	77	0	72	67	67	66	68	-9	68	67	67	65	67	-1	62	67	67	68	1
UAE	16	0	15	-2	12	12	13	12	12	-2	13	12	13	12	12	0	13	13	13	13	13	1	17	21	22	23	1
Venezuela	81	13	76	-5	82	81	77	81	80	4	69	64	54	54	60	-20	66	64	70	80	70	10	94	86	85	80	-5
OPEC Rig Count	290	51	305	16	336	337	330	336	335	29	322	314	302	305	311	-24	334	335	344	355	342	31	372	368	366	352	-14
Worldwide Rig Count*	3,130	345	3,208	78	3,438	3,237	3,630	3,519	3,456	248	2,813	2,133	2,180	2,483	2,402	-1,054	2,965	2849	3184	3278	3069	667	3556	3250	3344	3485	141
of which:																											
Oil	1,124	144	1,242	119	1,408	1,351	1,479	1490	1432	190	1283	1069	1182	1356	1,222	-210	1,590	1534	1783	1896	1701	479	2191	2015	2114	2252	138
Gas	1,947	201	1,903	-44	1,969	1,814	2,070	1948	1950	47	1450	993	965	1092	1,125	-825	1,333	1276	1356	1337	1325	200	1319	1187	1181	1196	15
Others	17	-4	20	4	26	32	36	37	33	12	35	35	34	37	35	3	43	40	42	46	43	8	48	49	50	38	-12

*/ *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 2011

OPEC Basket average price

US$ per barrel

up $2.58 in July	**July 2011**	**111.62**
	June 2011	109.04
	Year-to-date	107.41

July OPEC production

in million barrels per day, according to secondary sources

up 0.40 in July	**July 2011**	**30.07**
	June 2011	29.66

World economy

Global growth expectations for 2011 and 2012 have been revised down to 3.7% and 4.0% respectively, from 3.9% and 4.1% in the last report. OECD growth is now forecast at 1.8% in 2011 and 2.2% in 2012, compared to the previous levels of 2.1% and 2.5% respectively. Growth for China remains unchanged at 9.0% in 2011 and 8.5% in 2012. India is forecast to grow at a revised 7.9% in 2011, compared to 8.1% previously, and at 7.7% in 2012.

Supply and demand

in million barrels per day

2011		10/11
World demand	88.1	**1.2**
Non-OPEC supply	52.8	**0.6**
OPEC NGLs	5.3	**0.4**
Difference	**30.0**	**0.2**

2012		11/12
World demand	89.4	**1.3**
Non-OPEC supply	53.6	**0.7**
OPEC NGLs	5.7	**0.4**
Difference	**30.2**	**0.2**

Totals may not add due to independent rounding

Stocks

US commercial inventories rose 22.1 mb in July. The build was attributed to products which increased by 25.7 mb, while US commercial crude stocks declined by 3.6 mb, leaving US commercial oil inventories at 19.5 mb above the historical average. In Japan, the most recent data shows that commercial oil inventories dropped by 4.5 mb in June.

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Data covered up to the end of July 2011 unless otherwise stated.