

# Organization of the Petroleum Exporting Countries

# Monthly Oil Market Report

***February 2012***

*Feature Article:*  
***Recent narrowing of light/heavy spreads***

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# Oil Market Highlights

§ The **OPEC Reference Basket** averaged \$111.76/b in January, representing a gain of \$4.42 or 4.1% over the previous month. Prices were on an upward trend heading into January, supported by bullish and better-than-expected US economic data and revived geopolitical tensions in the Middle East, which helped to boost the risk premium in crude oil prices. A weakening of the dollar against the euro also provided some support; however, gains were limited by weak demand growth concerns stemming from uncertainties about economic growth in the EU and credit downgrades to some key European countries. Crude futures also rose higher in January, with WTI up \$2.15 to \$100.82/b and ICE Brent up \$4.06 to \$111.78/b.

§ **World economic growth** has been revised down slightly to 3.4% in 2012 and remains at 3.6% for 2011. The US continues recovering and is expected to grow by 2.2% in 2012. Japan's 2012 forecast has been revised down to 1.8% from 1.9% previously, amid efforts to combat the after-effects of last year's triple disasters. The Euro-zone's deceleration has continued and 2012 growth expectations were revised to minus 0.2% from plus 0.2% previously. Emerging markets seem to be experiencing slower momentum compared to last year. As a result, the forecasts for China were revised down from 8.5% to 8.2% and for India from 7.4% to 7.2% for 2012. While global output activity has shown some recovery in the past weeks, downside risks prevail and the Euro-zone debt crisis, slowing growth in the developing economies, and the fragile improvement in the US warrant close monitoring.

§ **World oil demand** growth in 2012 has been revised down by 120 tb/d to 0.9 mb/d, while the forecast for 2011 remains unchanged at 1.0 mb/d. Recent economic setbacks have pushed the global demand forecast lower. Worries about the US economy along with EU debt concerns are adding to the uncertainties impacting world oil consumption this year. High retail petroleum prices have led to a further reduction in transport fuel usage. Non-OECD regions, especially China, India, the Middle East, and Latin America, are expected to contribute most of the forecast oil demand growth this year. Waning OECD economies are negatively affecting the oil market and imposing a considerable range of uncertainty over the short term.

§ **Non-OPEC supply** is estimated to have increased by 0.1 mb/d in 2011, following a minor downward revision, mainly due to adjustments to actual fourth quarter production data. In 2012, non-OPEC oil supply is forecast to increase by 0.7 mb/d, following a minor downward revision. Brazil, the US, Canada, Colombia, and Russia are seen as the major contributors to supply growth in 2012. OPEC NGLs are expected to increase by 0.4 mb/d in 2012, following similar growth the previous year. In January, total OPEC crude oil production averaged 30.90 mb/d, according to secondary sources, representing a marginal increase of about 56 tb/d over the previous month.

§ Expectations of tighter supply following the closure of several refineries in the Atlantic Basin helped **product markets** to exhibit a sharp recovery in January, despite weak demand in the region. This situation, along with additional support coming from stronger demand in Asia, allowed refinery margins to increase across the globe.

§ In the **tanker market**, clean and dirty spot freight rates declined in January due to increased new Worldscales flat rates on higher bunker prices, plentiful tonnage supply, improved weather conditions, and lower tonnage demand. In January, VLCC rates decreased 4%, Suezmax dropped 2%, and Aframax declined 20%. OPEC sailings remained steady in January, averaging 23.6 mb/d, while fixtures indicated growth of 16%.

§ **US commercial oil stocks** in January reversed the downward trend of the last four months, growing by 11.5 mb. Despite this build, inventories remain 21.0 mb or 2.0% below a year ago, but 14.4 mb or 1.4% above the five-year average. Crude and products increased by 9.2 mb and 2.3 mb respectively. The most recent monthly data shows commercial oil inventories in Japan fell by 7.4 mb in December, down for the third consecutive month. Stocks moved to a deficit of 1.7% compared to a year ago and stood 6.4% below the five-year average. The bulk of the stock draw came from products, which declined by 7.0 mb, while crude edged down 0.4 mb.

§ **Demand for OPEC crude** in 2012 is projected to average 30.0 mb/d, around 0.1 mb/d lower than in the previous report and about 0.1 mb/d less than in the previous year. The demand for OPEC crude in 2011 remains unchanged from the previous assessment at 30.1 mb/d, some 0.4 mb/d above the 2010 level.

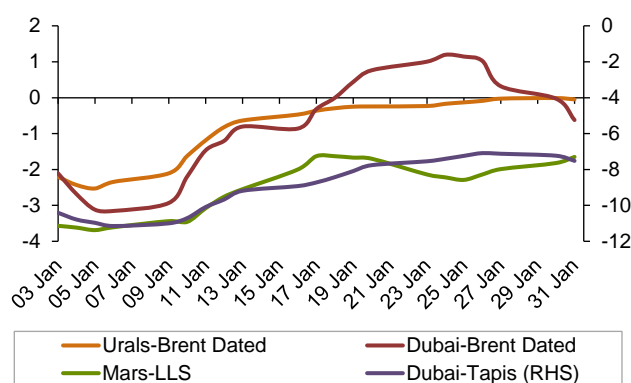


## Recent narrowing of light/heavy spreads

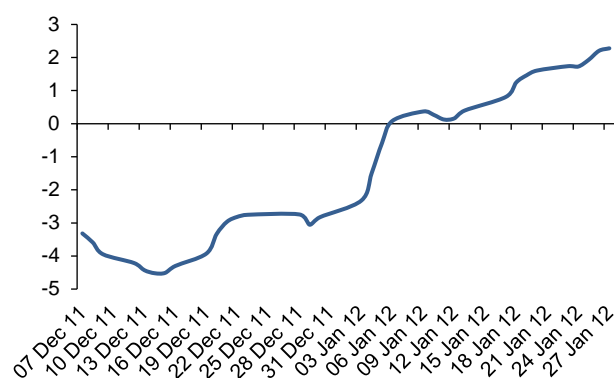
Light/heavy crude oil spreads tightened sharply over the past several weeks in favour of heavy crudes. Brent has been trading just \$1.50/b above Dubai, less than half the premium three months ago, and LLS only \$5/b above heavy Mexican Maya compared with a \$14/b premium in early October (see **Graph 1**). Many factors were influencing this unusual development of heavy sour crudes trading at a very narrow spread to light sweet grades, or even in some cases at a premium. Predominantly, this has been driven by strong fuel oil price gains due to improving demand, as well as increased supply of light sweet crude which has dampened prices for these grades, along with concerns about a possible tightening in heavy sour supplies.

Since December, fuel oil crack spreads in Asia, which usually sell at a discount, have jumped into positive territory amid strong demand from refiners, utilities, and the bunker market. Fuel oil crack spreads to Dubai crude – which show the product's profitability relative to heavy sour Mideast crude – shot up to the highest level on record and have sustained positive values since mid-January (see **Graph 2**). Cracks have surged and even flipped into positive territory several times during this period, a development not seen since 2003. Unusually strong demand has boosted crack spreads higher, particularly in China, where independent “teapot” refineries buy fuel oil in order to upgrade it into higher-quality products.

**Graph 1: Light/heavy spreads, US\$/b**



**Graph 2: Singapore fuel oil crack, US\$/b**



The Asian market is also facing a shortage of ‘on-specification’ bunker fuel. The recent introduction of legislation reducing sulphur content of marine bunker fuel from 4.5% to 3.5% is likely to limit ‘on-spec’ supply and arbitrage barrels will be needed to meet bunker demand, a development that has helped push prices higher. Demand has also been strong in Japan and South Korea. Japan's demand for fuel oil spiked after most of the country's nuclear power plants were shut following the Fukushima nuclear disaster in March 2011. This development has pushed Japanese fuel oil stocks below their five-year average. In Europe, high sulfur fuel oil cracks have also been strong and are currently traded at levels not seen in a decade. This could be attributed to lower refinery runs, as well as a decline in Russian fuel oil exports. Moreover, the closure of Petroplus has also reduced the availability of fuel oil in the region.

The demand for heavy sour grades has also been strong in recent weeks, not just because of healthy refining margins, but also due to increased demand, particularly for Urals from European and Chinese buyers, who see this crude as a suitable alternative to some rival Middle East barrels. European refiners in particular have been intensively searching for alternatives grades. Depending on the degree of refinery complexity, individual refiners in these countries may have a specific need for relatively heavy sour crude.

In the Atlantic Basin, more light sweet barrels have become available due to the faster-than-expected return of Libyan crude production and the closure of some refineries in Europe and the US. The European market for light sweet crude has come under strong pressure, as reflected in the growing contango and downward-shifting contract for difference (CFD) curves. The gap between Dated Brent and 2<sup>nd</sup> and 3<sup>rd</sup> month Brent has widened to over \$1/b for the first time since the disruption in Libyan production last year. This is no coincidence as the return of Libyan crude production has weighed heavily on European sweet grades. The shutdown of over 650 tb/d of refinery capacity on the US Atlantic Coast has also cut demand for light grades and boosted availability of Nigerian crude. The Petroplus outages have been a further factor weighing on these grades. Sales of light sweet North Sea crude to the US have also taken a hit from rising US shale production.

The rapid growth in light sweet production, mainly associated with the recovery in Libyan output, coupled with concerns about a possibly tight sour market due to geopolitical factors, colder weather over the remainder of winter and continued high demand for fuel oil, may put further pressure on the light sweet/heavy sour spread. As result, the spread between light sweet and heavy sour crude is likely to remain narrow for at least some time.



# Crude Oil Price Movements

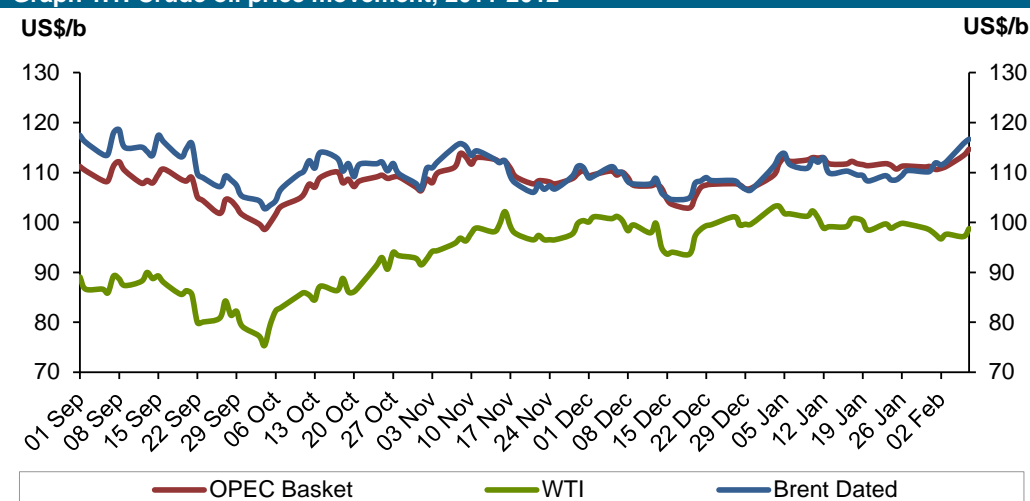
*OPEC Reference Basket ended January at \$111.76/b, highest level since April*

## OPEC Reference Basket

In January, the OPEC Reference Basket increased to \$111.76/b, the highest monthly average since April. The rise in the Basket in January, a trend that had started in the last days of the previous month, was supported by bullish and better-than-expected US economic data and revived geopolitical tensions in the Middle East, which boosted the risk premium on crude oil prices. A weakening of the dollar against the euro provided some support; however, fears over weakening demand growth, stemming from concern about Europe's economy and credit downgrades to some key European countries, limited the gains.

On a monthly basis, the OPEC Reference Basket increased \$4.42, or 4.1%, over December. Compared with the same month a year ago, the Basket was up \$18.96/b, or 20%.

**Graph 1.1: Crude oil price movement, 2011-2012**



All the Basket's components improved in January, with Venezuela's Merey showing the most significant increase amid improving elements of the grade's pricing formula. Merey increased by \$6.33, or 6.22%, over the month. Middle Eastern light, medium and heavy grades showed the next highest gains, with noticeably better global performances of benchmark crudes in these grade ranges. Both Iran Heavy and Kuwait Export improved by \$4.94, while Arab Light and Basrah Light increased by \$4.86 and \$4.15, respectively. Qatar Marine and Murban increased by slightly lower amounts, up \$3.42 or 3.15%. Taken together, Brent-related crudes Saharan Blend, Es Sider and Bonny Light improved by 2.4% to average \$111.93/b, an increase of \$2.62, the lowest improvement over the previous month among all Basket components. Ecuador's Oriente registered a gain of \$3.12, or 3%, for a monthly average of \$104.11/b.

Beside the general upward trend in the global crude oil market in January, the increase in Merey is in line with the sizeable improvement in fuel oil markets — an element in Merey's pricing formula — which rose by over \$8.00 in January. Middle Eastern crudes gained support from a strong performance by benchmark crudes, namely Dubai and Oman, due to record fuel oil cracks in the region. Fuel oil crack spreads in Asia turned positive, reaching the highest level on record for this time of the year, with strong demand from refiners, utilities and bunker markets stretching already limited supply. The relatively lower performance of the extra light Middle Eastern crudes is attributed to low demand at the end of the heating season in the Far East and relatively low margins for middle distillates throughout January.

In early February, the OPEC Reference Basket maintained the upward momentum, continuing to average above the key \$110/b and settling at \$115.18/b on the 8th of the month.

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

	<u>Dec 11</u>	<u>Jan 12</u>	<u>Change</u> <u>Jan/Dec</u>	<u>Year-to-date</u>	
				<u>2011</u>	<u>2012</u>
<b>OPEC Reference Basket</b>	<b>107.34</b>	<b>111.76</b>	<b>4.42</b>	<b>92.83</b>	<b>111.76</b>
Arab Light	107.96	112.82	4.86	93.59	112.82
Basrah Light	106.06	110.21	4.15	92.33	110.21
Bonny Light	110.71	113.08	2.37	98.10	113.08
Es Sider	108.66	111.28	2.62	96.10	111.28
Girassol	109.07	113.01	3.94	96.18	113.01
Iran Heavy	106.83	111.77	4.94	92.22	111.77
Kuwait Export	107.06	112.00	4.94	91.45	112.00
Marine	107.36	110.65	3.29	92.69	110.65
Merey	101.44	107.77	6.33	80.09	107.77
Murban	109.49	113.03	3.54	95.04	113.03
Oriente	100.99	104.11	3.12	84.80	104.11
Saharan Blend	108.56	111.43	2.87	97.50	111.43
<b>Other Crudes</b>					
Minas	114.35	120.41	6.06	99.74	120.41
Dubai	106.43	109.86	3.43	92.33	109.86
Isthmus	110.27	110.02	-0.25	90.46	110.02
T.J. Light	108.28	108.04	-0.24	88.37	108.04
Brent	107.86	110.58	2.72	96.35	110.58
West Texas Intermediate	98.58	100.30	1.72	89.49	100.30
Urals	107.31	109.91	2.60	93.56	109.91
<b>Differentials</b>					
WTI/Brent	-9.28	-10.28	-1.00	-6.87	-10.28
Brent/Dubai	1.43	0.72	-0.71	4.03	0.73

*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

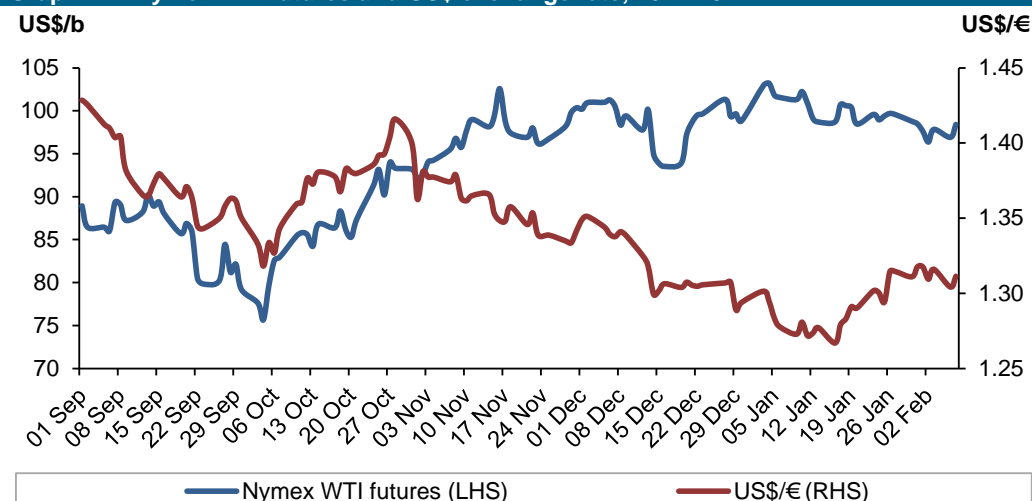
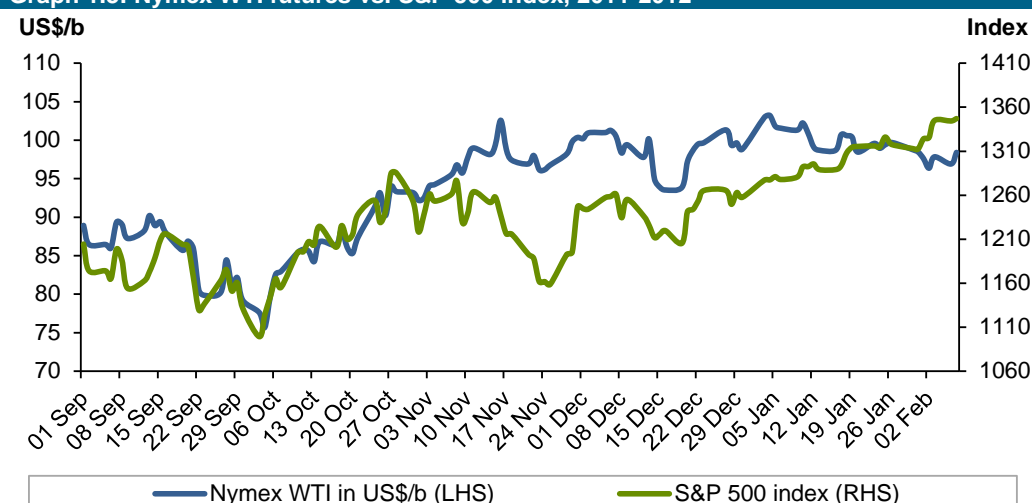
Both crude oil futures markets ended January with gains. Front-month WTI settled above the key \$100/b price for the first time since the disruption in Libyan exports in May. Meanwhile, ICE Brent reversed the losses of the previous month and witnessed the highest positive month-to-month movement in more than eight months. Better-than-expected, bullish US economic data was a major factor behind the rise in prices in January. Moreover, revived geopolitical tensions in the Middle East, boosted the risk premium on crude oil prices. A weakening of the dollar against the euro provided some support. Nevertheless, fears over demand growth, stemming from concern about Europe's economy and credit downgrades to some countries, limited gains. On the Nymex, front-month WTI improved by \$2.15 to average \$100.82/b in January, while ICE Brent also increased by a sizeable \$4.06 to average \$111.78/b, the highest level for six months. Compared with January last year, WTI was up by 12.6% and ICE Brent by 15.4%.

Oddly, front-month WTI was range-bound in January, trading in a very narrow window of \$4.75/b, which represented a noticeable easing of the volatility that has been in the market since the beginning of last year. Indeed, the trading window almost halved compared with the \$7.80/b seen in the previous month. Front-month WTI traded in first ten days of the month at around \$102/b, then dropped to around the \$100/b border in the second ten days and remained there to the end of the month. Similarly, ICE Brent trade was also range-bound, despite a sharp increase in the risk premium.

In the first week of February, crude oil futures prices, particularly ICE Brent, kept their momentum with Nymex WTI settling above \$100/b and ICE Brent moving above \$115/b. On 8 February, ICE Brent stood at \$117.20/b and Nymex WTI at \$98.71/b.

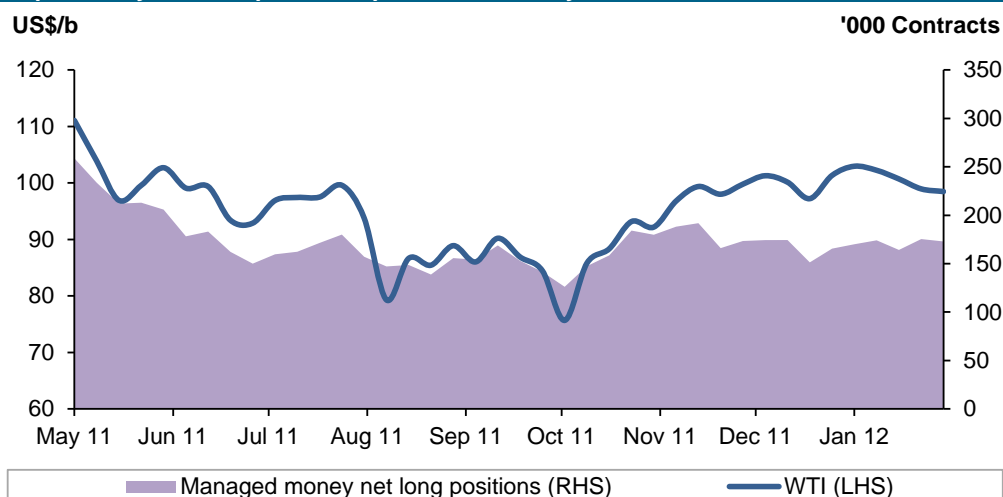
*Crude futures moved higher in January with WTI averaging over \$100/b and ICE Brent at close to \$112/b*



**Graph 1.2: Nymex WTI futures and US\$ exchange rate, 2011-2012****Graph 1.3: Nymex WTI futures vs. S&P 500 index, 2011-2012**

Data from the US Commodity Futures Trading Commission (CFTC) showed a marginal increase in average net long positions held by speculators in US crude oil futures and options in January. Hedge funds and other large investors increased net long positions on the Nymex by 6,484 contracts to 200,251 lots, a gain of about 3.3%. Moreover, speculators also increased net long positions in ICE Brent futures by 7.3% to reach 89,593 contracts. This signified growing speculative interest in the ICE Brent market, despite the reduced money inflow into European commodity markets due to tightness in bank lending.

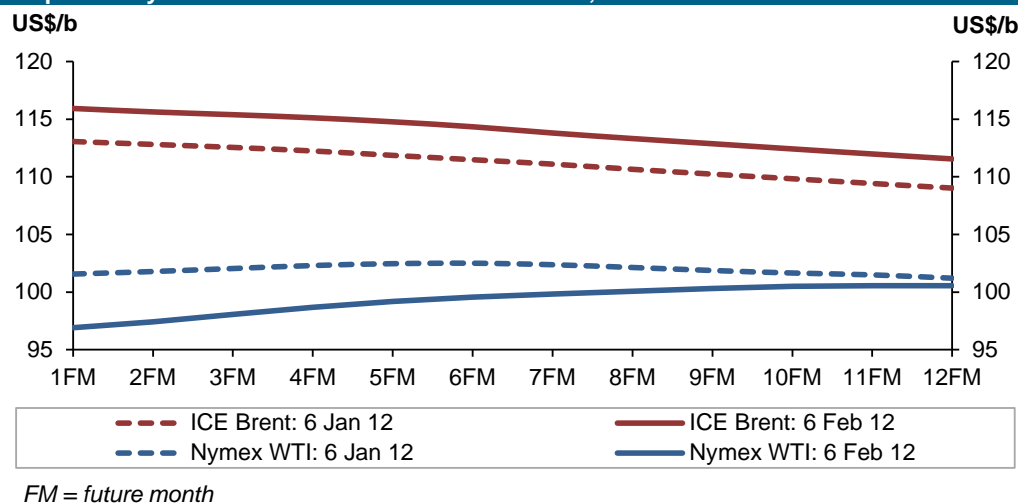
Daily average traded volume during January for WTI Nymex contracts increased sharply compared with the traditionally lower activity in December, up 116,180 lots to average 606,557 contracts or more than 600 mb/d. For ICE Brent, the volume also increased sharply by more than 30% to 518,293 contracts. Average daily open interest increased in both futures markets by 50,775 and 66,883 to reach 1.37 and 0.96 million contracts in WTI Nymex and ICE Brent futures, respectively.

**Graph 1.4: Nymex WTI price vs. speculative activity, 2011-2012**

*Nymex structure in steeper contango and ICE Brent further contracted its backwardation in January*

### The futures market structure

The Nymex WTI market structure steepened its contango in January, particularly at the front end of the curve, amid growing imports, coupled with lower demand that caused consecutive weekly builds in US crude oil stocks, as reported by the US Energy Information Administration (EIA). The first-month versus second-month time-spread averaged around 22¢/b, close to 10¢ wider from December. Meanwhile, ICE Brent's market structure continued to narrow its backwardation, amid growing sweet crude supply, particularly from Libya. The spread between the second and first months of the ICE Brent contract averaged around 20¢/b in January, the lowest in four months, compared with 52¢/b in the previous month. It is worth mentioning that the physical Brent market had already moved into contango.

**Graph 1.5: Nymex WTI and ICE Brent forward curve, 2011-2012**

The transatlantic (Brent vs. WTI) spread widened sharply in January, after three months of a narrowing trend, amid growing pressure in the WTI market. On average, the Brent/WTI differential was at \$11.15/b in favour of Brent, which was \$2 wider than in December.

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

<b>Nymex WTI</b>						
	<u>1st FM</u>	<u>2nd FM</u>	<u>3rd FM</u>	<u>6th FM</u>	<u>12th FM</u>	
06 Jan 12	101.56	101.78	102.04	102.50	101.20	
06 Feb 12	96.91	97.41	98.06	99.55	100.54	
<b>ICE Brent</b>						
	<u>1st FM</u>	<u>2nd FM</u>	<u>3rd FM</u>	<u>6th FM</u>	<u>12th FM</u>	
06 Jan 12	113.06	112.81	112.55	111.48	109.02	
06 Feb 12	115.93	115.63	115.39	114.34	111.55	

FM = future month

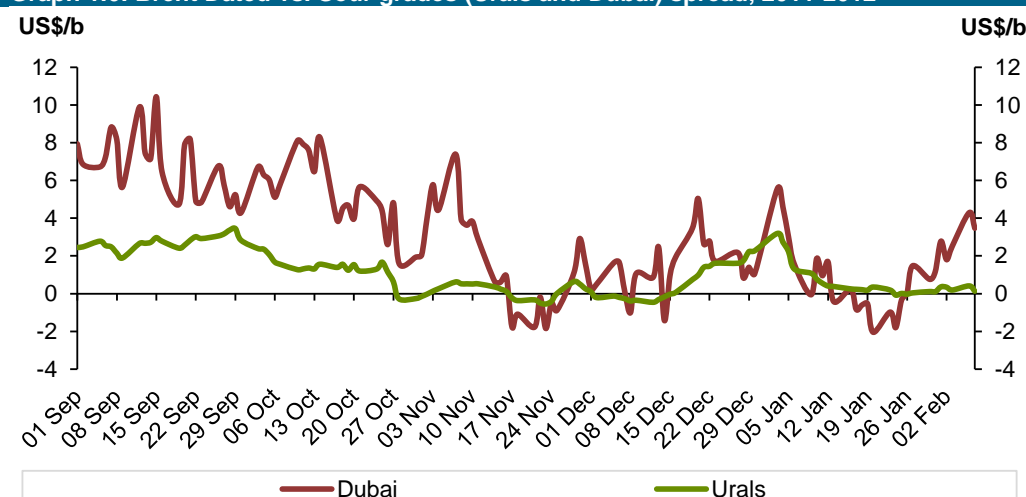
**The sweet/sour crude spread**

The global light sweet/heavy sour differentials narrowed significantly in January, supported by healthy fuel oil cracks across the board as well as supply disruption concerns for heavy grades contrasted by abundant supply of sweet crudes amid lower demand.

In Europe, particularly the Mediterranean, the spread between Urals and Dated Brent narrowed by almost \$2.40/b from the beginning of January to the end of the month. Urals was supported by a strong fuel oil market, lower scheduled loading volumes and some concerns about oil trade to the European region. Meanwhile, the light sweet crude market in the North Sea came under pressure from growing supply and lower demand. Beside returning Libyan crude, the greater availability of West African crude due to refinery closures in the US and Europe weighed on the Brent market. Accordingly, Urals' discount to Dated Brent in January dropped from over \$7.70 on 1 January to only 35¢ by the end of the month.

In Asia, light sweet/heavy sour differentials, represented by the Tapis/Dubai spread, narrowed by more than \$3.80 in January. Similar to Europe, the performance of sour crude was supported by an unusually strong fuel oil crack, which even traded at a premium over Dubai. High demand for fuel oil for bunkers and utilities provided the major support for the fuel oil crack improvement. A supply disruption in Sudanese heavy sweet crude also led to some refiners substituting their needs with straight run fuel oil. As a result, Tapis's premium to Dubai at the end of January narrowed to \$8.40/b, compared with \$12.25/b at the beginning of the month. Similarly, the Dubai discount to Dated Brent dropped by a significant \$1.80 in January.

The US Gulf Coast's sweet and sour grade spread, represented by the Light Louisiana Sweet (LLS)/Mars sour spread, narrowed in January, amid lower demand for light sweet crudes. Nearly 690 mb/d of refining capacity in the US East Coast has been put up for sale or closed. As these refineries processed mainly light sweet West African crude, the greater availability of these barrels was putting pressure on the entire Atlantic Basin light sweet complex. The LLS/Mars spread averaged \$2.40/b in January, down from the previous month's premium of \$3.80/b, representing a sharp drop of \$1.40.

**Graph 1.6: Brent Dated vs. Sour grades (Urals and Dubai) spread, 2011-2012**

*Light sweet/heavy sour spread narrowed in all regions supported by fuel oil in January*

# Commodity Markets

*Recovery across spectrum of commodity prices in January*

## Trends in selected commodity markets

The **World Bank (WB) index** for non-energy commodities increased by 2.9% m-o-m in January, reversing the 2.7% drop in December. This was supported mostly by grains and, especially, base metal prices. The **energy commodity index** also rose by 2.6% m-o-m in January. The modest recovery in commodity prices is related to the somewhat improved outlook for the global economy. Continued growth momentum in the US, as well as an expected soft landing for the Chinese economy, provided support to most commodity markets. Strong fundamentals also played a role, particularly in the case of base metals.

The **WB energy commodity price index** (crude oil, natural gas and coal) rose 2.5% m-o-m in January. Although the Henry Hub (HH) natural gas price index plummeted by 15% m-o-m, the crude oil index and coal prices increased by 2.7% and 5%, respectively.

**Table 2.1: Commodity price data, 2011-2012**

Commodity	Unit	Monthly averages			% Change		
		Nov 11	Dec 11	Jan 12	Nov/Oct	Dec/Nov	Jan/Dec
World Bank commodity price indices for low and middle income countries (2005 = 100)							
Energy		189.8	187.6	192.4	4.4	-1.2	2.6
Coal, Australia	\$/mt	113.8	109.7	115.1	-4.4	-3.6	5.0
Crude oil, average	\$/bbl	105.4	104.2	107.1	5.6	-1.1	2.7
Natural gas, US	\$/mmbtu	3.2	3.2	2.7	-9.1	-2.4	-15.3
Non Energy		188.7	183.7	189.1	-2.7	-2.7	2.9
Agriculture		190.7	184.9	189.0	-3.0	-3.0	2.2
Food		199.1	193.4	197.7	-0.5	-2.9	2.2
Soybean meal	\$/mt	354.0	342.0	367.0	-5.3	-3.4	7.3
Soybean oil	\$/mt	1217.0	1204.0	1218.0	-0.2	-1.1	1.2
Soybeans	\$/mt	486.0	474.0	498.0	-3.4	-2.5	5.1
Grains		233.3	221.7	224.5	0.1	-5.0	1.2
Maize	\$/mt	274.4	258.6	272.8	-0.1	-5.7	5.5
Sorghum	\$/mt	265.4	256.4	265.7	0.7	-3.4	3.6
Wheat, US, HRW	\$/mt	253.2	244.7	253.9	-0.1	-3.3	3.8
Sugar World	¢/kg	53.0	50.8	51.9	-5.6	-4.1	2.3
Base Metal		164.7	163.0	173.5	0.0	-1.0	6.4
Aluminum	\$/mt	2080.0	2022.3	2144.2	-4.6	-2.8	6.0
Copper	\$/mt	7581.0	7565.5	8040.5	2.5	-0.2	6.3
Iron ore, spot, cfr China	¢/dmtu	135.5	136.4	140.3	-9.9	0.6	2.8
Lead	¢/kg	199.4	202.2	209.6	1.7	1.4	3.6
Nickel	\$/mt	17873.0	18266.8	19854.8	-6.1	2.2	8.7
Steel products index	2005=100	142.9	141.7	138.7	-2.6	-0.9	-2.1
Tin	¢/kg	2129.2	1937.5	2143.9	-2.6	-9.0	10.7
Zinc	¢/kg	193.5	190.5	198.2	3.4	-1.6	4.0
Precious Metals							
Gold	\$/toz	1738.1	1641.8	1652.2	4.4	-5.5	0.6
Silver	¢/toz	3326.5	3013.3	3076.9	3.7	-9.4	2.1

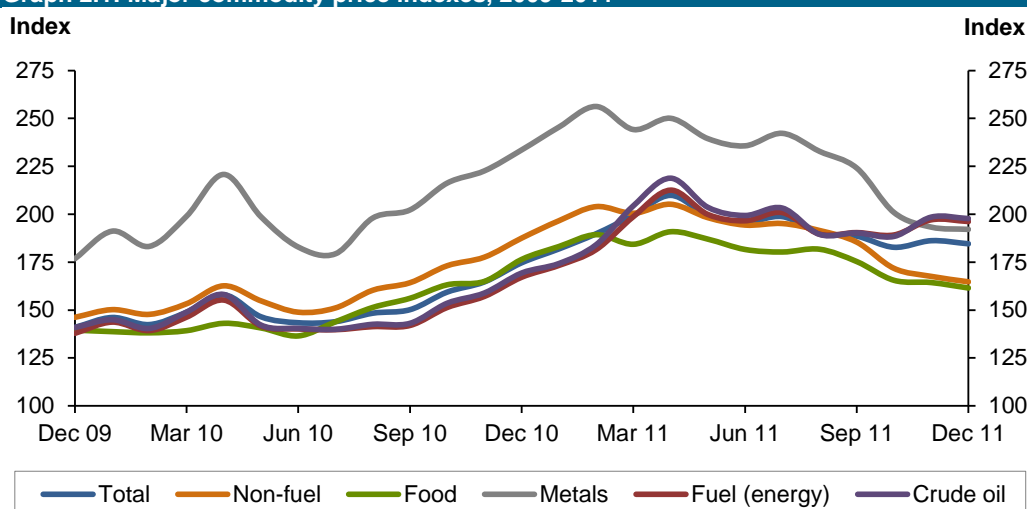
Source: World Bank, Commodity price data

The **Henry Hub (HH) natural gas price** plummeted by 15% m-o-m in January, after a 2% fall in December. The price stayed under pressure from high storage levels and milder winter weather. The dramatic drop in the price led to some producers announcing planned cuts in production and/or drilling in January, but this failed to materialize. Inventories were at record levels and, despite a cold spell, a revival of HH natural gas prices seemed to require a supply response from producers or the power sector.

The **Agricultural Commodity price index** rebounded by 2% m-o-m in January, compared with a decline one month earlier, on a revival in corn, soybean, wheat and other items. Some bullish factors were weather-related supply fears associated with the La Niña phenomenon and the extreme cold weather in Black Sea producer states. Corn and soybean prices were supported by dry weather in South America, while wheat prices also found support on fears about the impact of cold weather and frost on

Black Sea crops, as well as the possible adoption of wheat export duties by Russia.

**Graph 2.1: Major commodity price indexes, 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** rebounded by 6% m-o-m in January, after a 1% drop the previous month. The upward move across the complex was related to better macroeconomic data, especially evidence of a stabilization in the global industrial sector at the beginning of the year, combined with strong fundamental data. Nevertheless, the outlook for base metals will rely on two factors, namely, the persistence of a global growth momentum and the performance of the Chinese economy, with a soft landing likely to sustain prices. There are some positive signs, such as the government's shift to a pro-growth stance, as well as the increase in the Purchasing Managers' Index (PMI) to 50.5 in January from 50.3 in December, according to China's statistics bureau and logistics federation. The stronger-than-expected rise in China's manufacturing on increased new orders suggests the world's second-biggest economy is resilient to both Europe's debt crisis at the global level and a property slowdown at the domestic level. Despite these encouraging factors, it must be kept in mind that there is evidence from the Chinese domestic metal markets suggesting that a temporary surplus in several cases. This is explained by strong imports in 4Q11 and points to some moderation in base metal imports at the beginning of 2012 and a softening of international market conditions. Assuming a soft landing for the Chinese economy, any period of weak demand will be limited by a revival of end-demand.

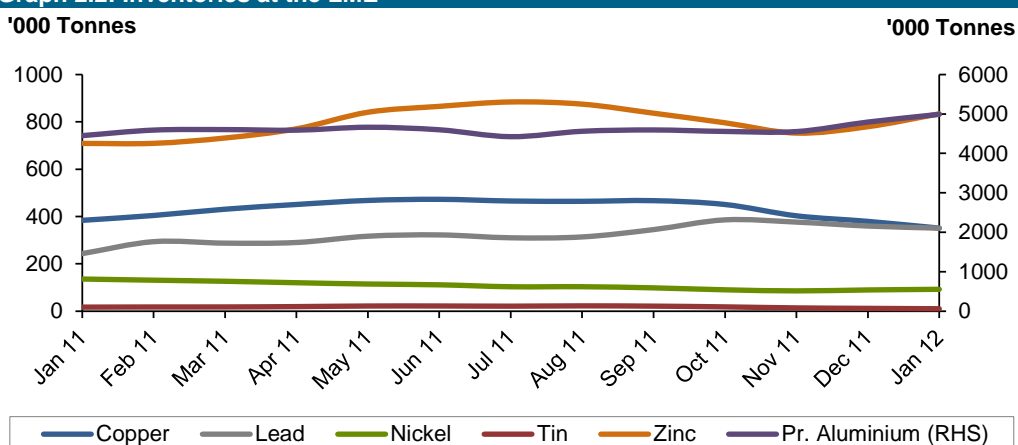
**Copper prices** posted a 6% m-o-m gain in January, after a slight fall the previous month, to reach its highest level since September. The revival in copper prices was linked to a 7% m-o-m drop in inventories at the London Metal Exchange (LME). Total copper metal unit imports achieved another record high of 698 kilo tonnes (Kt) in December, essentially due to record refined copper imports. Although the strength of imports at the end of 2011 reflected consumer demand following the end of end-user destocking, it is likely that some of these imports went into trader and exchange stockbuilding. Inventories on the Shanghai Futures Exchange (SHFE) increased by almost 30Kt in December, and bonded warehouse stocks seem also to have risen by about 75Kt. This stockbuilding has emerged at far higher price levels – at about \$7,700/t – compared with 2009. Thus, the key question is whether this strength is sustainable. The weakening of the SHFE/LME arbitrage and SHFE time-spreads (which are now in a wider contango) and the continued build in SHFE stocks in early 2012 suggest that spot demand has been saturated with the consequences of a fall in imports during 1Q12. However, China's strong apparent consumption of refined copper

in December, along with positive macroeconomic data, should help to alleviate market concern about a hard landing. Finally, the outlook for copper depends much on the performance of the Chinese economy and the materialization of its soft landing.

**Aluminium prices** increased by 6% m-o-m in January compared to a 2.8% drop in the previous month. Aluminium prices were supported by the more favourable macroeconomic outlook and falling inventories at the LME. In the aluminium market, supply responses are emerging at much higher price levels than in 2008 due to the significant cost inflation faced by producers in recent years. Total non-China production capacity cuts announced in the past month amount to 1.3 mn tonnes per year and this has helped to reinforce cost support for aluminium prices. Cuts include 292Kt per year which had not been produced since 2009 and around 342Kt per year of non-price related closures and 85Kt per year of delayed ramp up.

**Gold prices** rose by 0.6% m-o-m in January, compared with a 5% m-o-m fall in December, driven by some slight dollar depreciation and low real interest rates, which are expected to persist, following the US Federal Reserve Board's (Fed) announcement that the federal funds' rate target will remain unchanged up until at least late-2014. The gold price is also expected to reach new highs, due to uncertainties in the financial markets, sovereign debt concerns, and inflationary pressures.

**Graph 2.2: Inventories at the LME**



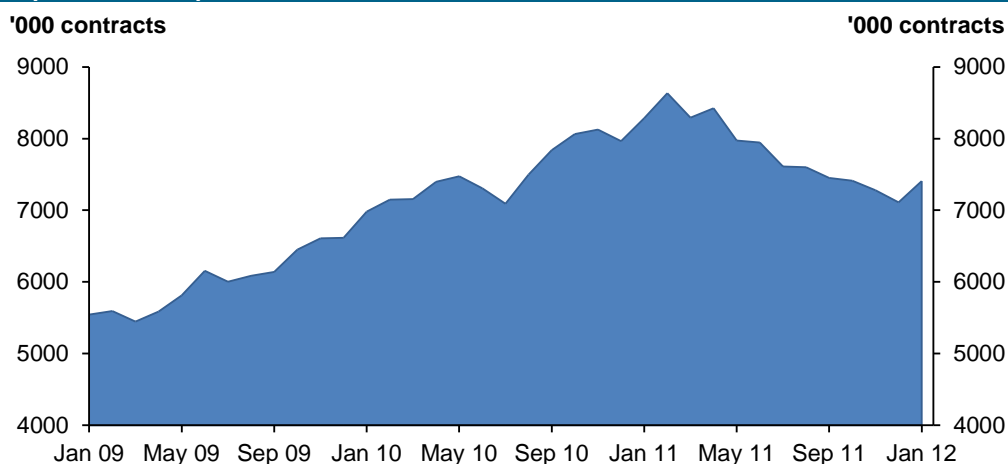
Source: LME

### Investment flows into commodities

Following a significant decline in December, investment into commodities recovered in January on some mixed macroeconomic news and despite ongoing concern about the conditions of the global economic situation.

A recovery took place in **total open interest volume** (OIV) in major commodity markets in the US, increasing by 4% m-o-m to 7,511,353 contracts in January, compared with 2.4% in the previous month. Tactical investors held a positive sentiment, with total length speculative positions rising by 28.9% to 543,602 contracts, as a result of a 6.6% increase in longs combined with a 3.7% drop in shorts. The more positive sentiment could be seen across all commodity markets considered.

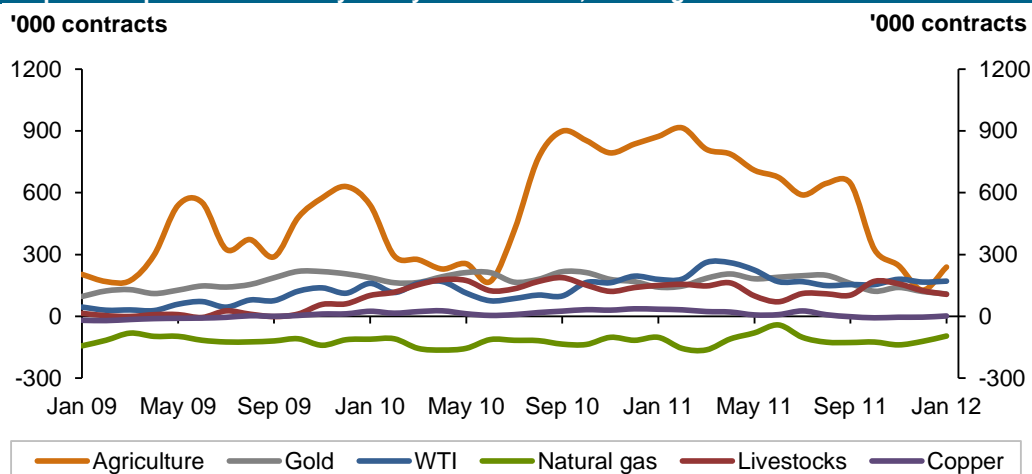
*Tactical investors held a positive view on major commodity markets in January*

**Graph 2.3: Total open interest volume**

Source: CFTC

**Agricultural** open interest volume (OIV) rose by 2.7% m-o-m to 3,760,884 contracts in January, reversing the negative trend in November and December. Strategic investors held an optimistic view on most agricultural commodities, with money managers' net long positions booming by 88% to 239,276 contracts in January, compared with a 48.5% drop in the earlier month. This reflected a 7% rise in longs and a 13% reduction in shorts.

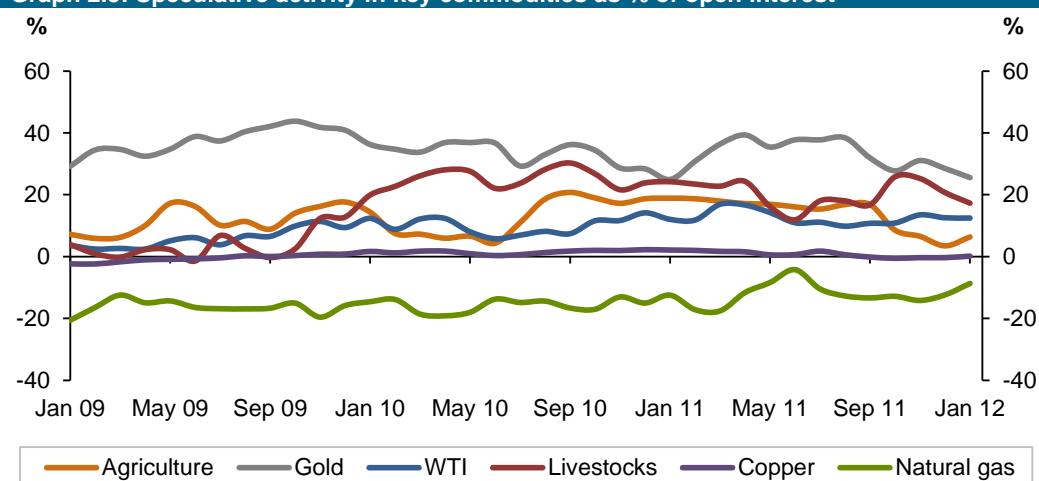
**HH natural gas** OIV rose by 12% m-o-m to 1,099,940 contracts in January, after a 6% decline in the previous month. Tactical net long positions kept the rising trend seen last December increasing by 21%, as longs rose higher than shorts.

**Graph 2.4: Speculative activity in key commodities, net length**

Source: CFTC

**Copper** OIV increased by 13% m-o-m to 130,660 contracts in January, after a 6% fall the previous month. The net-length of money manager positions jumped by 148% to 1,890 contracts in January, compared with a 7% rise the previous month, due to a combination of the establishment of fresh long positions, which rose by 22% to 25,507 contracts, and short covering activity, which dropped by 4% to 23,617 lots.



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

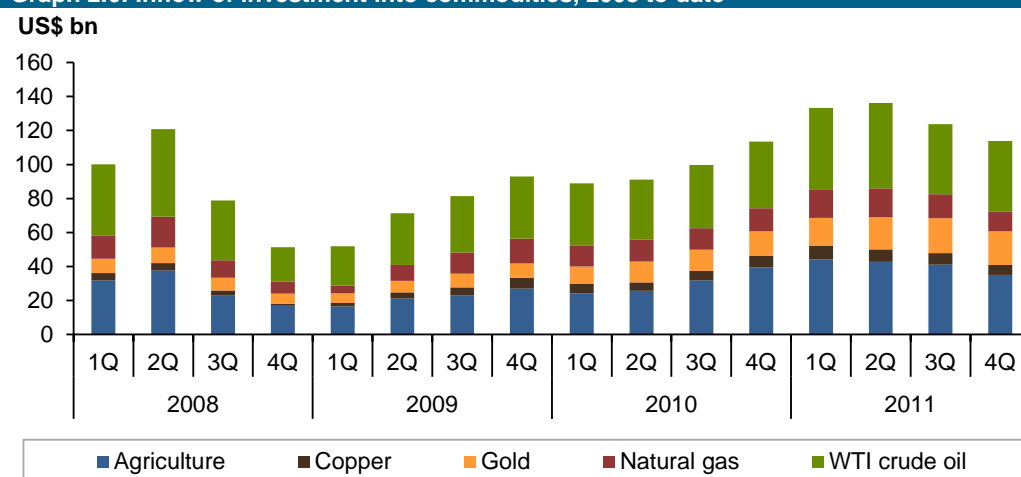
Source: CFTC

**Gold** OIV declined by 6% m-o-m to 423,266 contracts in December, reversing the gains of the previous month. Net long speculative positions declined by 14% m-o-m in December, as a result of an 11.5% fall in longs and a 27.9% gain in shorts. The bearish sentiment came amid falling prices in December.

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

	Open interest		Net length			
	Dec 11	Jan 12	Dec 11	% OIV	Jan 12	% OIV
Crude Oil	1326	1371	166	13	171	12
Natural Gas	982	1100	-121	-12	-95	-9
Agriculture	3662	3761	127	3	239	6
Precious Metals	523	530	129	25	120	23
Copper	116	131	-4	-3	2	1
Livestock	602	619	125	21	107	17
<b>Total</b>	<b>7,210</b>	<b>7,511</b>	<b>422</b>	<b>6</b>	<b>544</b>	<b>7</b>

According to data from the CFTC, dollar investment inflow into commodities declined a further 4% m-o-m to \$110.3 bn in December. Except for agriculture, all the commodities considered posted an outflow of investment in December.

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

Source: CFTC



# World Economy

**Table 3.1: Economic growth rates 2011-2012, %**

	World	OECD	US	Japan	Euro-zone	China	India
2011	3.6	1.7	1.7	-0.8	1.6	9.0	7.2
2012	3.4	1.5	2.2	1.8	-0.2	8.2	7.2

## Industrialised countries

### US

*The US economy continues its recovery. Preliminary 4Q11 GDP of 2.8% marks the highest level of quarterly growth of the previous six quarters.*

The US economy continues its recovery. The recently announced preliminary 4Q11 GDP of 2.8% marks the highest level of quarterly growth of the previous six quarters and comes after three quarters of continuous out-performance. This has been supported by recent labour market and consumer data, which show signs of improvements. However, it has to be highlighted that private inventories were the main driver for this 4Q11 number, contributing 1.9 percentage points (pp) of the 2.8%. This build-up in inventories could be considered to be in anticipation of expected consumer pattern improvements. Government spending contributed negatively to the GDP in the past five quarters. Given the fact that other GDP components — and mainly private consumption — have largely supported growth in 2011, this currently healthier pattern should be taken as some sign of comfort. Taking these preliminary 4Q11 numbers into account, government spending declined by 2.1% on a yearly base in 2011, while private consumption grew by 2.2%. Therefore, taking the trade balance and private investments also into account, total yearly GDP growth stood at 1.7%.

The labour market has shown improvements in the past months, which are sufficient so far to support positive developments in domestic private consumption. With unemployment in January at 8.3%, compared to 8.5% in December, and an average of 9.0% for 2011, consumer confidence stood at 61.1 in January, according to the Conference Board. This was better than the 2011 average of 58.1 but lower than the recent December figure of 64.8. The decline in the Conference Board's index is in contrast to the consumer sentiment index of the University of Michigan, which showed an increase from 69.9 to 75.0 in January, the highest level in 11 months.

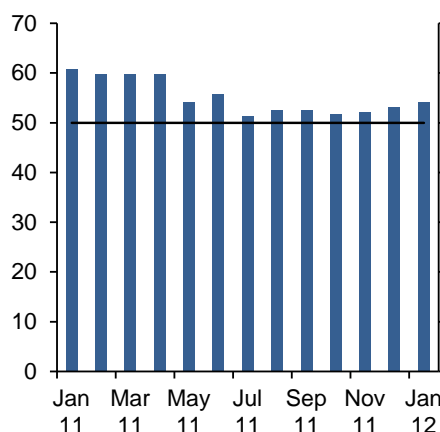
Personal income improved by 0.5% m-o-m in January, significantly more than in December, when it grew by only 0.1%. It remains to be seen how these improvements will continue to influence consumption in the coming months, which stood at only 0.1% in December, the lowest expansion in seven months, according to the monthly census survey. Additionally, the increase in consumer credit in November stood at \$20.4 bn. If continued, this could be a supportive factor, particularly given the fact of improving personal income and a very low debt obligation to disposable income ratio. When applying consumer credits to personal disposable income, the current 3Q11 ratio of 4.9x is not much above the lowest level on record of 4.5x registered in the fourth quarter of 1992.

The US housing sector, which is a major source of wealth creation and economic activity, has recently experienced again a slightly negative development. After solid improvements, particularly during the second half of last year, several factors highlight the sector's continuing fragility. Existing homes sales have grown by double-digits since July 2011, while December growth moved back to only 3.6% y-o-y. House prices are still in decline on a yearly basis at a rate of 1.8% y-o-y in November, according to the Federal Housing Finance Agency (FHFA). Prices have, however, improved in the 2H11 on a monthly basis and, indeed, November saw the highest price rise since April 2005 of 1.0%, marking a somewhat positive underlying trend. However, pending homes sales, a forward looking indicator, declined by 3.5% m-o-m in December, after a rise of 7.3% in November and 10.4% in October, indicating a likely softening of the market at the beginning of this year. As in other important economic areas, the current signals remain mixed and therefore have to be closely monitored over the coming months.

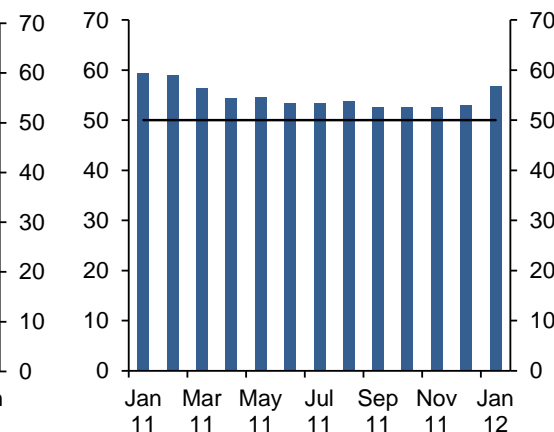
Output related indicators continued their expansion. Industrial production increased in December by 3.0% y-o-y after a rise of 3.8% in November. The Institute for Supply Management (ISM) figure for the manufacturing sector supported this uptick, rising

from 53.1 in December to 54.1 in January, representing a four-month high. The ISM for the services sector increased in December from 52.6 to 53.0 in December.

Graph 3.1: ISM manufacturing index



Graph 3.2: ISM non-manufacturing index



Source: Institute for Supply Management

After its most recent meeting at the end of January, the Federal Reserve Board issued for the first time in its history a statement of its longer run goals and issues. This statement concluded that the Fed will most likely keep rates at very low levels — currently, 0% to 0.25% — and that it will aim for an inflation rate of around 2%, which in the long-run it considers as being the most consistent with the Fed's mandate for price stability and maximum employment. Inflation in December stood at 3.0% y-o-y but is expected to come down further, after standing at 3.9% in September. In its statement, the Fed reflected on recent improvements in the US economy, particularly rising household spending, while at the same time, it highlighted the expansion's ongoing mixed signals and the fragile state the economy. It said that current indicators point to some further improvement in overall labour market conditions, although in general the unemployment rate remains elevated. Furthermore, it noted that household spending has continued to advance but growth in fixed business investment has slowed and the housing sector remains depressed. Taking all this into account, the Fed concluded that it will continue its accommodative monetary policy for some time and that as long as the situation does not improve more significantly, it will leave the door open for further extra-ordinary monetary measures such as quantitative easing.

Taking the continued recovery in output and the labour market into account, while at the same time accommodating the still fragile situation of the US economy and the need to see further improvements, particularly in household spending-related measures, the growth forecast for 2012 has remained unchanged at 2.2%.

### Japan

*Japan's economic performance has been sluggish in the past months but the situation seems to have bottomed out.*

While Japan's economic performance has been sluggish in the past months, the situation seems to have bottomed out. This will be the case as long as the situation in other developed economies continues improving — particularly in the US and the Euro-zone, its most important trading partners beside China — and domestic demand rises again due to ongoing reconstruction efforts after last year's triple disaster. Also, the fiscal stimulus that was enacted in 2011 is providing support for local demand.

Private machinery orders have seen a strong uptick in November when they grew by 11.7%, a strong reversal after a 6.8% y-o-y decline in October. On a monthly base, this was the highest increase since January 2011 at 14.7%, fuelling hopes that output numbers for the months to come will support the recovery trend. While it was mainly domestic orders, which increased 14.1% y-o-y, that supported this number, foreign orders were also much stronger with an 8.2% increase, compared to a decline of 15.6% y-o-y in October and 14.8% in November. This also supports the observation that Japan's main trading partners — China and the US — seem to be reversing the trend of a slow-down, which had been observed during the last months of 2011. The

support from the order side had already impacted December's output numbers. Although industrial production in December was still negative on a yearly base at -2.7% y-o-y, the monthly improvement was significant with an expansion of 4.0% compared to November which saw a decline of 2.7% m-o-m.

Exports declined again in December, causing the first calendar year trade deficit for Japan since 1980. The triple disaster during the first half of the year, as well as a strong yen, a weakening global economy and supply disruptions caused by floods in Thailand all took their toll. It should thus not come as a surprise that Japan saw a need to import more energy-related goods to compensate for their shortfall in nuclear energy production. Since March of 2011, exports have declined every month on a yearly base, with the exception of September. When analysing the monthly trend, however, one can observe that the situation has improved slightly in December at 0.2% m-o-m growth. But this comes after a decline of 2.4% m-o-m in November and 4.0% m-o-m in October. The seasonally adjusted trade deficit, however, has risen to ¥568 bn in December, the highest level since ¥595 bn seen in January 2009. This trend of a rising deficit is of importance, given the fact that Japan has long relied on its trade surpluses to support growth and finance budget deficits (which now run at around 200%). A continuation of this trend could therefore have an important impact. There are signs of improvements, but this development has to be carefully monitored. Foreign orders do show a positive trend and Japan ended 2011 with a trade surplus with the US. US-bound exports have increased by 10.9% m-o-m, a second consecutive monthly rise. Exports to Asia rose in December by 0.8% m-o-m, the first increase since August. The recent improvements in US economic indicators might also have a positive effect on Japanese exports to the US, China and other Asian economies, which are a supply base for many products for developed economies. Furthermore, demand from Thailand for capital goods for the restoration of damaged supply chains might have a positive impact, too. Foreign orders, therefore, have to be monitored closely in the near future to provide further evidence of a potential rebound in foreign trade.

Improvements on the domestic side of the economy are also encouraging. Retail trade has risen in December by 2.5% y-o-y, after a decline of 2.2% in November. This increase translates into a monthly rise of 19.2%. According to household surveys provided by Japan's statistical office, real expenditures in December grew by 0.5% y-o-y, after a decline of 3.2% y-o-y in November. This is also an encouraging sign that domestic demand is recovering. This rising demand also supports the consumer pricing side, which slowly seems to have moved towards positive territory. In December the Consumer Price Index (CPI) declined by 0.2% y-o-y, lower than in November when it fell by 0.5%, a positive momentum towards a healthier level of inflation. At the same time, it should be highlighted that the main drivers for price increases have been food and energy. Taking out these two volatile areas, however, shows that prices have declined by 1.1% y-o-y in December, reaching the same level — i.e., with no improvement — as in November.

The slightly positive trend in exports and domestic demand alike has had a correspondingly positive effect on the Purchasing Managers Index (PMI) as well. The PMI for manufacturing in January moved to 50.7 from 50.2, according to Markit. More importantly, when it comes to GDP contribution, the services sector PMI even increased to 51.0 in January, after reaching 50.4 in December, with both moving the composite PMI up to 51.1 after 50.1 in December.

Furthermore, it should be expected that the fiscal and monetary stimulus measures, which were announced in 2011, should also provide support for growth in 2012. At the end of the previous year, the government announced a stimulus package — the 3<sup>rd</sup> supplementary budget of 2011 — which had been proposed by the government in October 2011 and was enacted by the Japanese legislature, the Diet, at the end of November. This package is considerable: ¥12 trillion (\$150 bn), which brings the total fiscal stimulus, which was announced after 2Q11 to address the negative effects of the triple disaster, to a total amount of ¥16.1 trillion. This is certainly considered to be supportive for the economy and is expected to help GDP growth in 2012 by around 2.5% to 3.0%.

*The Euro-zone's economic downturn seems to have stabilized, but the landscape has not changed significantly.*

So taking the most recent development together, it should be concluded that while some areas are still in decline on a year-by-year basis, particularly exports and industrial activity, there are signs of bottoming out. Manufacturing output seems to be supported by improving domestic demand. Taking the continuing deceleration into consideration, while also acknowledging an improvement in the underlying economy, the GDP forecast for 2011 has been adjusted to  $-0.8\%$  from  $-0.7\%$ , while 2012 has been slightly revised to  $1.8\%$  from  $1.9\%$ .

### **Euro-zone**

While the economic downturn of the Euro-zone seems to have stabilized, the landscape has not changed significantly over the past weeks. Germany is still the core-contributor of any positive developments in the Euro-zone, while Spain, Italy and most of the southern peripherals continue to suffer from their sovereign debt levels and the need for additional austerity measures. The severity of the situation has lessened, but many challenges remain. So far, the announcements to introduce a fiscal union and to potentially increase the emergency funding from around €750 bn to €1 trillion or even up to €1.5 trillion was successful to calm down markets. Germany still opposes this idea, but it seems that their strict opposition against any deeper involvement of the ECB in the sovereign debt crisis has softened somewhat. The likelihood of both a further increase of the emergency facilities and the help of the International Monetary Fund (IMF) has increased.

So far these ideas that have not been officially confirmed; they have only been proposed by some officials from the IMF, Italy and other countries. This, in combination with better than expected debt auctions, has managed to renew some confidence in the Euro-zone and 10-year yields of the ailing economies have come down to some extent. Italy and Spain, which are the biggest of the weaker economies and are, therefore, in the spotlight, were able to successfully auction off government bonds in January. Consequently, yields dropped to more reasonable levels compared to those that were recorded at the end of 2011. Still, yields remain high and are probably too high for a swift improvement of these economies. Austerity measures and some improvements in the banking system are still needed. This, in combination with questions about Greece's ability to reconstruct its public finances, has continued to serve as a drag on the expansion of the Euro-zone. Italy's 10-year yield dropped below  $6\%$  at the end of January, from almost  $7\%$  in December and  $7.4\%$  in November. This should still be considered too high for a sustainable budgetary development. But the decrease has lifted some of the recent pressure. A similar trend was observed for Spain with a 10-year yield of more than  $6.5\%$  at the end of November, which then dropped to  $5.3\%$  at the end of December and is now at  $4.9\%$ .

The picture of the real economy has consequently improved slightly, although it is too early to say if the recent positive developments are sustainable. The most recent published industrial production data for November has shown a decline of  $0.1\%$  y-o-y, compared to  $1.3\%$  increase in October, highlighting the continued negative trend, which is even better visible when reviewing the data on a monthly base. Monthly changes in industrial production were at  $-2.0\%$  in September, at  $-0.3\%$  in October and at  $-0.1\%$  in November. So the negative momentum continued, but is improving. Manufacturing orders as a lead indicator show a mixed picture, as they declined by  $1.1\%$  m-o-m in November, after a rise of  $1.5\%$  m-o-m in October, but had a steep fall in September of  $7.8\%$  m-o-m.

When analysing the Purchasing Managers Index (PMI) published by Markit, the data suggest an improving trend, while still highlighting the negative momentum. The manufacturing PMI stood at 48.8 in January, while the heavier-weighted services sector was recorded at 50.5, pointing at an expansion of the sector, which is considered an encouraging development. The PMI for construction, however, hit the lowest level in almost two years in April 2010 with at 43.4. The higher weight of the services sector has pushed the composite index now to 50.4 in January, after 48.3 in December, a sharp and significant lift. So it seems that the economy has moved into negative territory in 4Q11 and this will probably continue in 1Q12. But the decline is probably not as big as some observers might have expected, given the seriousness of the sovereign debt issues. At the same time, it is important to remember that the

situation remains fragile and that most of the current support for the Euro-zone is coming from Germany and, to some extent, from France and other smaller Euro-zone members, while the weakness of Spain and Italy need to continue to be carefully monitored.

The labour market, in particular, is not performing well. The unemployment rate hit 10.4% in December, a new record since the euro was introduced in 2001. Spain leads again with 22.9%, the highest unemployment rate in Europe. This is the same level as in November. Again, the Euro-zone's youth unemployment remains a critical issue with December's level at 21.3%, only 0.1 pp below November's record high. Spain again also posted the most worrying level of youth unemployment, now at 48.7%. Correspondingly, retail trade in the Euro-zone fell for a second consecutive month in December by 0.4% m-o-m, the same amount as in November.

With now-expected declines in 4Q11 and 1Q12, and the many uncertainties remaining for the near-term future, the GDP growth forecast for 2012 has been lowered to -0.2% from 0.2% in the previous month, while the 2011 forecast remains unchanged at 1.6%.

## Emerging markets

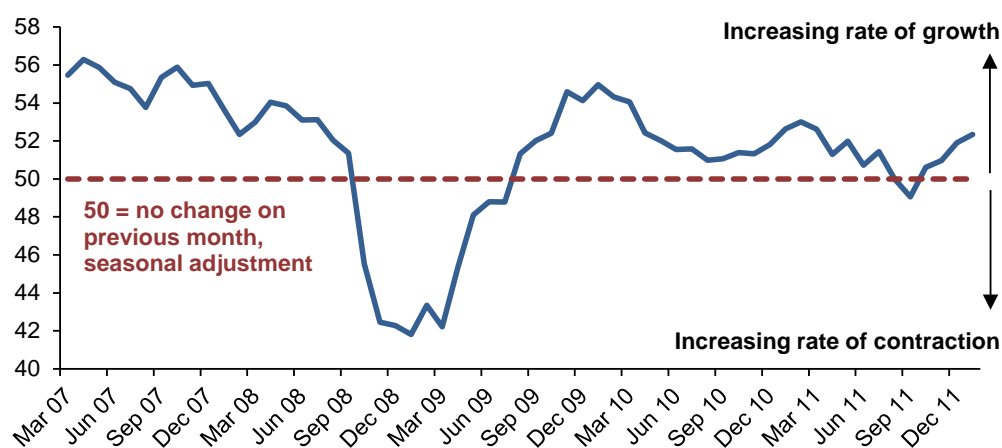
### Brazil

*Consumer confidence in Brazil has picked up amid strong fiscal performance and low unemployment.*

The Brazilian economy contracted in 2H11, prior to a slight recovery in the manufacturing industry in December. However, low unemployment and growing consumer spending together with a significant growth in bank lending have been effective in pushing back the economy towards its long-term upward trend. The recovery has been slow but it is expected to gather momentum approaching the second half of the year. Given the tax breaks, policy stimulus and government policies designed to protect domestic industry, Brazil's industry is expected to pick up in 2012 — although external demand will remain weak both because of the slowing global economy and competitiveness issues arising from an appreciated Real, Brazil's currency.

As depicted in **Graph 3.3** below, Brazil's manufacturing activities have started to expand since December of last year. But as discussed earlier, this recovery might stay slow and even fragile in the near future. Industrial Production (IP) in December increased 0.9% on a monthly basis. Retail sales information to be released later in February could also be used to estimate economic activity growth in 4Q11. According to JP Morgan, manufacturing activity in January continued its gradual recovery.

**Graph 3.3: Brazil purchasing managers' index (PMI)**



Source: HSBC and Haver Analytics

Retail sales information due to be released in late February is needed for a more careful estimation of economic activity growth in 4Q11. However, as confidence surveys in January have indicated, it is expected that manufacturing activities will expand in 2012. A strong rebound in automobile sales in January is a reflection of consumer confidence and growing aggregate demand in the economy.



*The Chinese government has attempted to put its financial sector in order by bringing it in line with the requirements of the real sector.*

Brazil achieved a primary surplus of 3.1% of GDP in 2011, according to JP Morgan (3 February 2012). It is, therefore, possible that while inflation may remain steady or decline — which is expected to be the case in the short-run — government will expand aggregate demand further, either through tax cuts or expenditure increases to support the ongoing economic recovery. Since a more accommodative monetary policy has been in place since 4Q11 (see **Graph 3.3**), the focus for Brazil is now turning to the evolution of the policy mix in 2012, particularly regarding the extent to which fiscal policy will become more stimulatory. According to a Brazil Country Report (February 2012) from the Economist Intelligence Unit (EIU), the government is considering removing federal investment from this year's primary surplus target to make room for an increase in federal expenditure and lift investments back to 2010 level. Although there is clear opposition to this policy, particularly from Brazil's Ministry of Finance, it is believed that eventually a less disciplined and a more expansionary fiscal policy will be followed to stimulate the slowing economic recovery.

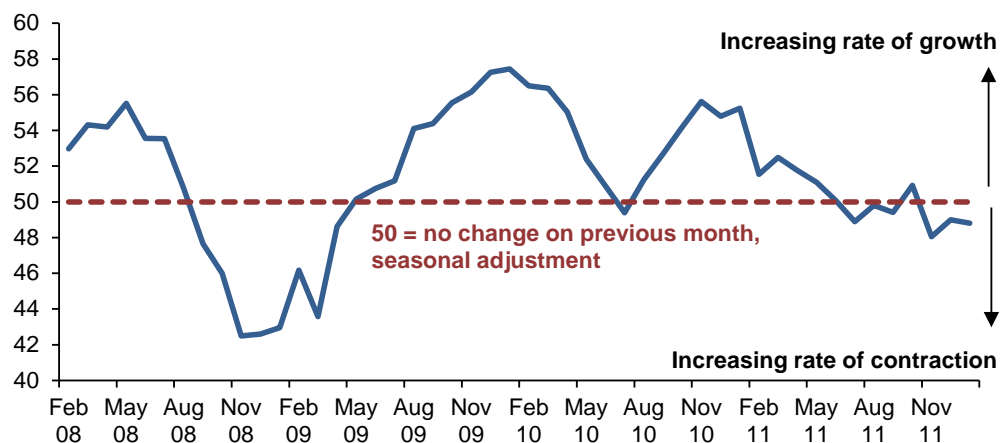
On the fiscal side, the government has achieved its goal in parallel to the adoption of a more expansionary fiscal stance through the reduction — by 50 basis points — of interest rates at the 17 January meeting of Brazil's Central Bank. This has signalled a more accommodative monetary policy for stimulating economic growth in an environment where inflationary pressures appear to be moderating.

### China

Following the early January conference on National Financial Work, a conference held every five years, Chinese Premier Wen Jiabao was quoted as stating that the financial sector should serve the real economy and prevent the emergence of speculative bubbles. Although few specific policies were announced at the conference, this was interpreted as signalling that a slightly looser monetary policy could be expected this year. Apart from a 50 basis point cut in bank reserve requirements in December, the implementation of a new minimum capital adequacy requirement was postponed to July. The Chinese Premier also called for strengthened supervision of the financial industry as concerns mount about the implications of rapid growth in informal lending. Development of the domestic bond market has been identified as one possible way to curb the need for shadow financing (EIU Country Report, February 2012). However, China's officially determined interest rates and complicated mechanism of bond issuance have so far limited development of such bond market.

The Chinese government also has taken measures to support small- and medium-sized enterprises (SMEs), particularly in their foreign business dealings. Allocation of 30% of the government's expenditures on SMEs and their exemption from more than 20 different administrative fees for a period of two years are among such measures. Some tariffs have also been reformed in order to boost imports and help the country contain input prices.

Although the performance of the Chinese economy in late 2011 has now been announced as better than expected, trade figures indicate that exports did not grow as expected. The trade surplus fell significantly from \$305 bn in 2010 to \$229 bn in 2011 subtracting 0.5% from overall GDP growth. The PMI was 48.6 in December and it seems that it has almost stabilized around this figure as advanced estimates of January's PMI are reported to be 48.8 by HSBC (see **Graph 3.4**).

**Graph 3.4: Flash China purchasing managers' index (PMI)**

Source: HSBC and Haver Analytics

In contrast to external demand, Chinese domestic demand increased substantially in 2011. According to the EIU (see **Graph 3.4**), Chinese consumption accounted for 51.6% of GDP growth last year, up from 37.4% in 2010. Retail sales increased by 18.1% on an annual basis, mainly due to significant gains in Chinese disposable income. The latest figures indicate that income per capita grew by 8.4% in real terms in urban areas and by 11.4% in rural regions. While income levels increased significantly, inflation continued to moderate. The CPI was up by 4.1% in December year-on-year, representing a slight improvement on the figure reported for November of 4.2%. The producer price inflation slowed dramatically in December to 1.7% on an annual basis, which is the lowest level for last 25 months. On average, the CPI for 2011 has been 5.4%, above the government target of 4%.

### India

*India's manufacturing sector resurged while core inflation remained relatively high.*

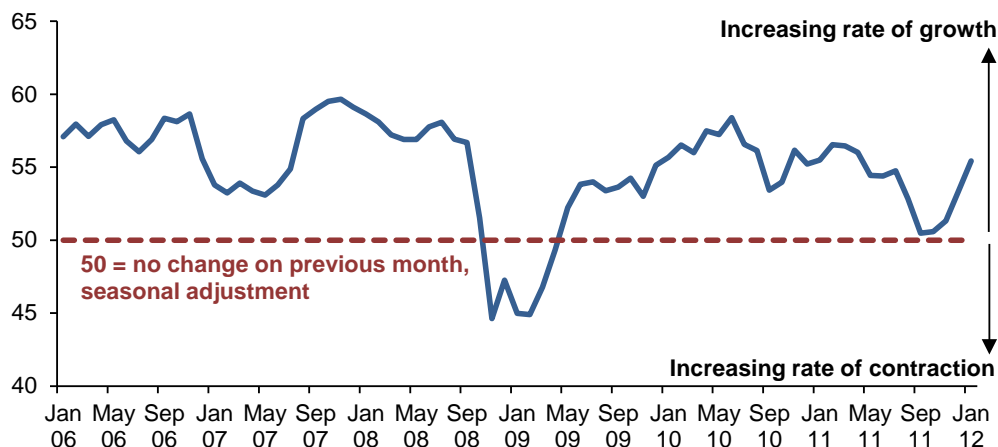
Since 2H11, Indian economic policy-makers have indicated that their policy objective has changed from merely curbing inflation to a more balanced approach of containing accelerating inflation and maintaining high rates of economic growth. Considering the importance of banking credit for financing economic activities in developing countries, an accommodative monetary policy is vital for economic growth. This is particularly the case for an economy with large budget deficits like India, where the government finds it difficult to increase its expenditures or cut taxes to provide fiscal stimuli for economic growths. On the other hand, maintaining a low interest rate effectively fuels inflationary pressures, which is a threat to economic and social stability of the country where a large section of the population is still poor. This clearly shows the delicate balance between high economic growth and low inflation in the present state of the Indian economy.

The country's central bank, the Reserve Bank of India (RBI) kept interest rates on hold at its meeting on 16 December 2011, implying that its concern over decelerating economic growth is beginning to outweigh its concern about high inflation. However, to increase the availability of interbank liquidity and in a change of approach, the RBI last week cut bank reserve ratio requirements by as much as 50 basis points, from 6% to 5.50%. This was an unexpected move as the RBI has maintained that cash reserve ratio cuts would not be used for tactical liquidity management but would instead be used to signal the RBI's monetary stance. In effect, the RBI indicated that while inflation is moderating, core inflation remains high and, therefore, the current environment is not conducive to monetary easing through rate cuts. Another cash reserve ratio cut is likely in March as part of further liquidity management that would postpone an interest rate cut to the second half of the year.

India's PMI surged for a second consecutive month in January, suggesting that the December surge was not a one-off event and that the re-acceleration of economic activities in late 2011 has been carried into 2012. Industrial production is expected to surge in February, as the PMI surge in January has been across the board and new orders have also continued to increase sharply. However, it is worth noting that

inflationary pressures still remain and might cause difficulties in easing monetary policy.

**Graph 3.5: India purchasing managers' index (PMI)**

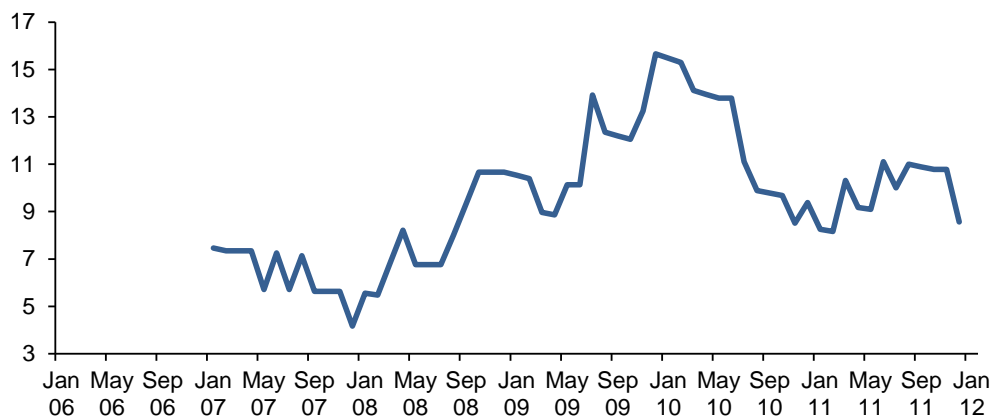


Source: HSBC and Haver Analytics

In a bid to boost FDI and enhance economic growth, India's government announced that single-brand foreign retailers may open fully-owned stores in the country. However, there are conditions attached to this market liberalization that affect its impact: (i) Foreign-owned stores will be required to source 30% of their products from small farmers and producers in India; (ii) investors wishing to own 100% of single-brand stores must own the brands that their stores sell; and (iii) foreign companies in the single-brand retail space are not allowed to re-brand goods made by others.

**Graph 3.6: India consumer price index (CPI)**

Base 2010 = 100



Source: Ministry of Statistics and Programme Implementation, India and Haver Analytics

There are indications that India's policy-makers are becoming more pessimistic about economic growth forecast of the Planning Commission, which had previously projected 8% growth for 2011-2012. Prime Minister Manmohan Singh was quoted as saying in mid-January that he expected the economy to grow by just 7% in 2011-2012. The government cut its forecast for real GDP growth for 2011-2012 to 7.25% to 7.75%, while the RBI cut its growth forecast to 7.6% in October.

## Russia

According to estimates from the Russian Ministry of Economic Development, seasonally adjusted real GDP rose by 0.3% month-on-month in November, corresponding to an annualized growth rate of 5.4%, which exceeded the average growth rate of 4.4% in January-November. However, industrial output increased by only 0.3% in November compared to the previous month, the slowest monthly growth to date in 2011. Industrial output grew by 3.9% year-on-year. Electricity, water and gas production growth was 3.2%

*The Russian central bank cut the short-term refinancing rate, leaving the key liquidity rate unchanged in a bid*

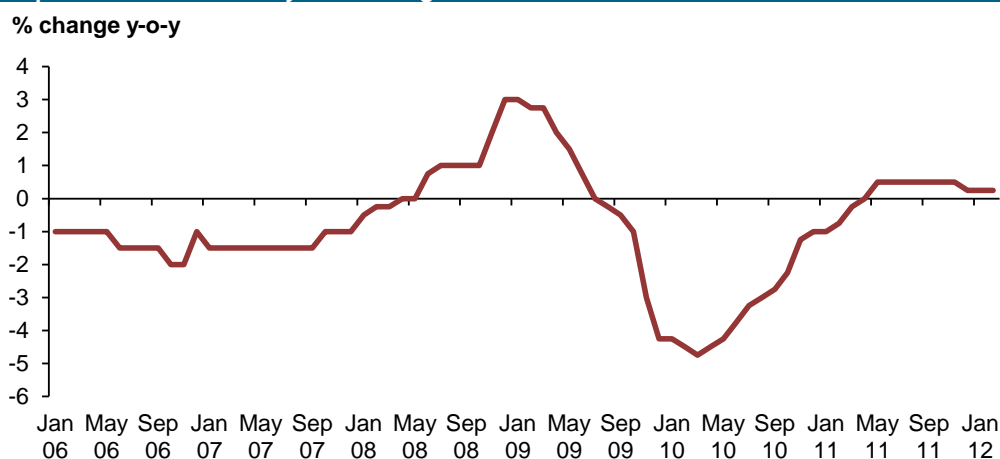


to boost investment.

on an annual basis. Domestic demand, nevertheless, remained strong, boosted by the traditional year-end increase in public spending. The investment outlook also remained positive (EIU Country Report, January 2012).

The traditional year-end surge in public spending brought the Russian budget to a deficit for the first time during the year. The deficit amounted to 1.6% of GDP. Excluding oil and gas revenues, the deficit could be as high as 7.2% of GDP.

**Graph 3.7: Russia monthly refinancing rate**



Source: Central Bank of Russia Federation and Haver Analytics

In late December, the Central Bank of the Russian Federation (CBR) cut the key refinancing rate from 8.25% to 8.0%. At the same time, the repo rate — which is the key rate for providing liquidity to the banking system — remained unchanged at 5.25%, while the short-term deposit rate was raised by 25 basis points (EIU Country Report, January 2012). It seems that following the moderation of inflationary pressures in Russia, concern over economic growth took over concerns about inflation.

In another important development, Russia is set to enter the World Trade Organization (WTO) in 1H12 after two decades of negotiations. This should also open its way to membership in the OECD, which would enhance foreign investment in Russia as the global financial markets will recognize Russia as an economy operating on market principles. However, when it comes to quality of business environment, the gap between Russia and OECD countries remains large. According to the latest OECD report, the business climate in Russia is significantly worse than in most OECD countries.

## Developing countries

The slow recovery of the US economy and continuing uncertainties surrounding the weakened EU economy has dampened demand for developing countries (DCs) exports. This has added to the decelerating impacts of tighter monetary and fiscal policies of 2011 on the economic expansion of emerging markets (EMs). This process began months before the end of 2011. It has now led to a visible moderation in the economic expansion of developing countries in early 2012, reducing economic growth in EMs — in some cases, more than expected. In many EMs of Southeast Asia and Latin America, economic policy became exceedingly tight in mid-2011, following several increases in interest rates. Tighter monetary policy was intended to curb accelerating inflationary pressures that in certain countries, such as India, threatened economic and social stability. In addition, the withdrawal of fiscal stimuli and reduction of public sector expenditures was necessary to restore balance to public sector borrowing requirements, particularly in those DCs that in 2009 and 2010 had extended their budget deficit beyond prudential levels, thereby reducing market confidence to the government fiscal stance. According to JP Morgan (27 January 2012), “the latest data on EM domestic bank credit through November already point to a substantial slowdown in bank lending. The IMF has estimated that a roughly 7% tightening in the balance for US bank lending standards is associated with a 0.25%

*Manufacturing activities have expanded in emerging markets. However, uncertainties remain concerning weaker exports markets in the OECD, particularly in the Euro-zone.*

point drag on GDP. Based on this, the 29% swing in the EM balance toward tightening over the past year would be associated with a 1% drag on EM GDP growth". Now that inflation seems to have peaked, and with the threat of overheating already passed, there are once again signs of a more accommodative monetary policy in EMs. Some EMs have started to pursue accommodative monetary policies such as reducing policy interest rates (in the case of Brazil) or lower bank reserve requirement ratios (in the case of China).

A common feature of economic activities in DCs (except for China) in late 2011 and early 2012 has been a stronger performance of the manufacturing sector compared to other sectors. Apart from the rebound effect from the recovery of Thailand's supply chain from its devastating flood in November — which brought a 38% month-on-month leap in manufacturing production in December — the continued rise in global final goods demand has been behind the higher-than-expected expansion of the manufacturing sector in EMs. Demand for final goods rebounded in 2H11 across the globe. This rebound facilitated inventory adjustments. According to JP Morgan (3 February 2012) business inventories contracted in late 2011, which is a sign of demand growth for manufacturing products. "The finished goods inventory index of our global PMI, which includes virtually all the countries in our sample outside of the US, has pulled back to a relatively low level for economic expansions". At the same time, exports of high-tech products have been rising in recent months. In that same report, JP Morgan estimated a 2% increase in global Industrial Production (IP) in the 1Q due to the present lift to global manufacturing activities. This boom, however, could prove to be short-lived and exhaust itself in the 2Q of 2012 for two reasons: Firstly, China's industrial sector may experience a moderation of growth since late 2011 and, in the best case scenario, its expansion might remain flat. Secondly, inventory adjustments may complete their course by the end of the 1Q and, given the signs that final goods demand is slowing down, global demand for the manufacturing sector might also slow down in the coming months — although car sales are expected to increase in the early months of the year. It is expected that the annualized rate of growth of industrial production will be about 2.5% in 2012, which would mean a pace of 4.5% of annual growth for output.

The recent release of PMIs of the major DCs indicate that large emerging economies may have reached the low point of deceleration in late 2011 and early 2012. This will soften the risk to growth across the EMs by mid-year. Assuming a steady recovery of the US economy and successful containment of the Euro-zone crisis, the picture might be even brighter as China, India and Brazil all have indicated that they are ready to ease their monetary policies to encourage investments and growth. In Southeast Asia, economic data flows from Thailand have indicated a stronger recovery in manufacturing than initially expected. The surge of output in late 2011 implied that the worst of the flood in Thailand was over and the rebuilding that had already started would become the main driver of economic activities in 1H12, particularly as inflation in the country remains low enough to allow the monetary authorities to keep interest rates low. In Indonesia, the CPI was slightly higher in January, pushing headline inflation to 4.2%. Indonesia also witnessed its trade surplus narrow in late 2011 due to weaker exports, which fell 8.8% on a monthly basis, and increasing imports.

Meanwhile, the Central and Eastern European economies that are most exposed to the Euro-zone's debt crisis have seen the largest downgrades. In addition to a weaker export outlook, efforts to avoid financial contagion have prompted governments to reinforce their own fiscal tightening measures. Hungary, for example, because of its long-standing problems, has been the most affected. Its currency has been weakened, its bond yields have risen and the government has had to introduce another round of major fiscal austerity measure. Some other Central and Eastern European countries such as Czech Republic and Romania have found the deterioration of demand for their goods particularly worrying. Their economic recovery since the crisis have been driven mainly by an expansion of their export and industrial sectors, while domestic demand in these countries has remained relatively weak.

**Table 3.2: Summary of macroeconomic performance of the BRIC countries**

	GDP growth rate		Consumer price index, % change y-o-y		Current account balance, US\$ bn		Government fiscal balance, % of GDP	
	2011	2012	2011	2012	2011	2012	2011	2012
Brazil	3.3	3.5	6.5	5.5	-53.5	-68.1	2.5	2.3
China	9.0	8.7	5.4	3.8	300.2	294.2	-1.8	-3.1
India	7.6	7.5	8.3	7.2	-54.1	-57.9	-5.2	-4.7
Russia	4.1	4.0	6.8	6.6	90.1	57.2	-0.3	-1.3

\*Source: Data Services Department, OPEC Secretariat for GDP growth rates; Consensuses Forecast, January 2012, for prices and current account; Economist Intelligence Unit, January and February 2012, for government fiscal balance

Figures for India are from the fiscal year 2011-2012 and 2012-2013

## OPEC Member Countries

The International Monetary Fund (IMF) affirmed in a recent report that while the challenges in Libya were “daunting”, economic activity could recover quickly once the security situation normalized in that country. The IMF said in its report that “restoration of hydrocarbon production is well-advanced at over half of pre-revolution levels and remains critical to economic recovery and reconstruction will boost non-hydrocarbon economic activity.” It stressed that despite the removal of UN sanctions on the Central Bank of Libya, the public sector's financial situation remains “precarious.” The IMF expects economic activity to recover in 2012 as the security situation improves.

Inflation in Saudi Arabia edged down to its lowest rate in four years in 2011 as lower rents and food prices more than offset a rise in other components of the CPI.

In Nigeria, the central bank may raise interest rates to curb inflation if lawmakers boost spending above budgeted targets and lift the benchmark oil price, according to the Bank's Governor. He said Nigeria is facing a “number of inflationary threats” this year, including a reduction in fuel subsidies and higher government spending.

## Oil prices, US dollar and inflation

The US dollar continued to strengthen in January against the euro, the pound sterling and the Swiss franc, while weakening against the Japanese yen. The US dollar appreciated by 2.0% against the euro. The average exchange rate of the US dollar compared to the euro stood at \$1.2913/€ in January, compared to a December rate of \$1.3176/€. Against the Swiss franc, the US dollar rose by 0.6%, while gaining 0.5% against the pound sterling. Compared to the yen, the US dollar fell by 1.1%.

The euro's weakness in January was especially driven by concerns regarding the development of the Euro-zone's sovereign debt crisis at the beginning of January, although many challenges remain. On the other hand, indicators of the state of the US economy have provided evidence that the economy there has improved over the past weeks. However most recently, successful debt auctions, particularly by Spain and Italy, have pushed the exchange rate at the beginning of February again up to above the \$1.30/€ level to almost \$1.32/€. The weakness of the euro versus the yen, too, was visible in January when the euro fell to its lowest level in more than 11 years to reach around ¥98.0/€. It has since recovered to trade now above the ¥100.0/€ level at the beginning of February. Near-term future developments mainly depend on, firstly, the ability of the Euro-zone to convince market participants that the strategies to resolve the Euro-zone's issues are working and, secondly, their successful implementation of the necessary budget restructuring efforts. Furthermore, it remains to be seen how the development of the US economy continues.

*The US dollar continued strengthening against most major currencies in January, while weakening against yen.*

*In nominal terms, the OPEC Reference*

*price gained \$4.42/b, or 4.1%, from \$107.34/b in December to \$111.76/b in January. In real terms, after accounting for*

*Basket gained  
\$4.42/b or 4.1% in  
January*

inflation and currency fluctuations, the Basket price rose by 5.1%, or \$3.38/b, to \$69.63/b from \$66.26/b (base June 2001=100). Over the same period, the US dollar increased by 0.9% against the import-weighted modified Geneva I + US dollar basket while inflation remained flat.\*

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

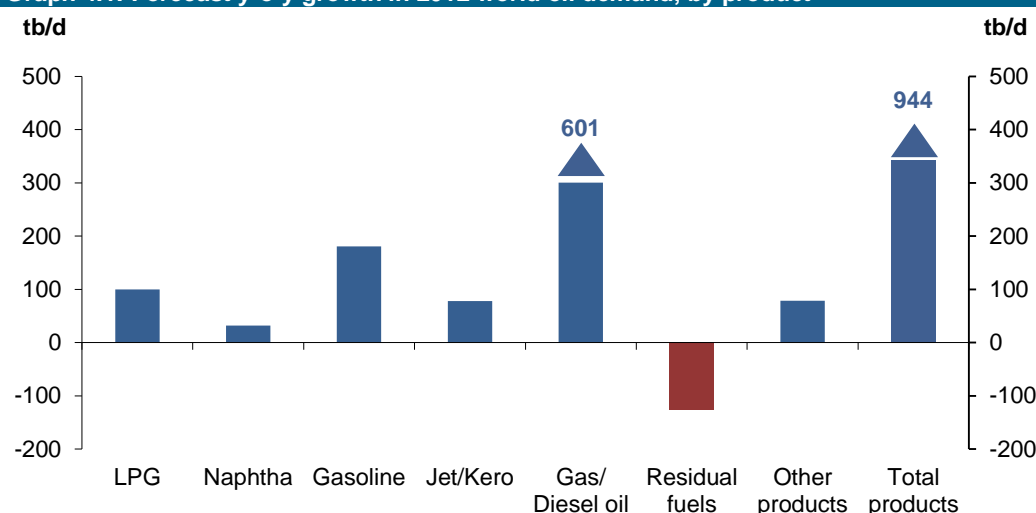
# World Oil Demand

World oil demand growth in 2012 revised down by 120 tb/d to 0.9 mb/d

## World oil demand

Recent economic setbacks have pushed the future forecast of world oil demand further down. Worries about the US economy, along with the EU debt problem, are adding more uncertainty to world oil needs over the next 12 months. As a result, the world oil demand forecast has been revised down by 0.12 mb/d for 2012. Furthermore, retail petroleum prices have led to a further reduction in transport fuel usage. A halt in operations in Japanese nuclear plants is strengthening oil consumption, and the country is expected to use crude and fuel oil to operate some of its other power plants this year. Non-OECD regions, especially China, India, the Middle East and Latin America, are expected to assume most of the forecast growth in oil use worldwide this year.

Graph 4.1: Forecast y-o-y growth in 2012 world oil demand, by product



In summary, waning OECD economies are affecting the oil market negatively and imposing a large amount of uncertainty for the short term.

Firming retail petroleum prices are expected to have a negative impact on oil demand across the globe. The transportation and industrial sectors are the ones most affected. The use of oil in both sectors is slowing noticeably worldwide. World oil demand growth is forecast at 0.9 mb/d in 2012, and there is no change to the estimate for 2011.

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

	2010	1Q11	2Q11	3Q11	4Q11	2011	Change 2011/10	
							Growth	%
North America	23.76	23.81	23.34	23.59	23.53	23.57	-0.19	-0.79
Western Europe	14.58	14.18	14.11	14.78	14.40	14.37	-0.21	-1.47
OECD Pacific	7.82	8.35	7.12	7.73	8.35	7.89	0.07	0.91
<b>Total OECD</b>	<b>46.16</b>	<b>46.34</b>	<b>44.57</b>	<b>46.10</b>	<b>46.28</b>	<b>45.82</b>	<b>-0.33</b>	<b>-0.72</b>
Other Asia	10.18	10.33	10.52	10.37	10.64	10.47	0.28	2.78
Latin America	6.18	6.16	6.33	6.51	6.42	6.36	0.18	2.93
Middle East	7.28	7.32	7.38	7.71	7.41	7.46	0.18	2.43
Africa	3.36	3.42	3.39	3.25	3.42	3.37	0.01	0.40
<b>Total DCs</b>	<b>27.00</b>	<b>27.24</b>	<b>27.62</b>	<b>27.84</b>	<b>27.91</b>	<b>27.65</b>	<b>0.65</b>	<b>2.42</b>
FSU	4.14	4.13	3.97	4.39	4.45	4.24	0.09	2.24
Other Europe	0.69	0.69	0.65	0.69	0.76	0.69	0.00	0.29
China	8.95	9.13	9.54	9.37	9.60	9.41	0.46	5.13
<b>Total "Other regions"</b>	<b>13.79</b>	<b>13.95</b>	<b>14.15</b>	<b>14.44</b>	<b>14.81</b>	<b>14.34</b>	<b>0.55</b>	<b>4.02</b>
<b>Total world</b>	<b>86.94</b>	<b>87.52</b>	<b>86.33</b>	<b>88.38</b>	<b>89.00</b>	<b>87.82</b>	<b>0.88</b>	<b>1.01</b>
Previous estimate	86.94	87.52	86.33	88.38	89.09	87.84	0.90	1.04
Revision	0.00	0.00	0.00	0.00	-0.09	-0.02	-0.03	-0.03

Totals may not add up due to independent rounding

**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	23.41	23.81	0.40	1.72	23.69	23.34	-0.35	-1.46
Western Europe	14.32	14.18	-0.14	-0.96	14.26	14.11	-0.14	-1.01
OECD Pacific	8.23	8.35	0.12	1.46	7.34	7.12	-0.23	-3.10
<b>Total OECD</b>	<b>45.95</b>	<b>46.34</b>	<b>0.39</b>	<b>0.84</b>	<b>45.29</b>	<b>44.57</b>	<b>-0.72</b>	<b>-1.59</b>
Other Asia	10.11	10.33	0.23	2.26	10.23	10.52	0.29	2.81
Latin America	5.94	6.16	0.22	3.78	6.15	6.33	0.18	2.91
Middle East	7.18	7.32	0.14	1.96	7.17	7.38	0.21	2.86
Africa	3.38	3.42	0.04	1.10	3.37	3.39	0.01	0.44
<b>Total DCs</b>	<b>26.61</b>	<b>27.24</b>	<b>0.63</b>	<b>2.37</b>	<b>26.93</b>	<b>27.62</b>	<b>0.69</b>	<b>2.55</b>
FSU	4.02	4.13	0.11	2.67	3.86	3.97	0.11	2.72
Other Europe	0.69	0.69	0.00	0.46	0.64	0.65	0.00	0.76
China	8.37	9.13	0.76	9.06	9.09	9.54	0.44	4.87
<b>Total "Other regions"</b>	<b>13.08</b>	<b>13.95</b>	<b>0.87</b>	<b>6.65</b>	<b>13.60</b>	<b>14.15</b>	<b>0.55</b>	<b>4.06</b>
<b>Total world</b>	<b>85.64</b>	<b>87.52</b>	<b>1.89</b>	<b>2.20</b>	<b>85.81</b>	<b>86.33</b>	<b>0.52</b>	<b>0.61</b>

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	24.07	23.59	-0.48	-1.99	23.85	23.53	-0.32	-1.34
Western Europe	14.92	14.78	-0.15	-0.98	14.83	14.40	-0.43	-2.89
OECD Pacific	7.62	7.73	0.11	1.42	8.07	8.35	0.28	3.50
<b>Total OECD</b>	<b>46.62</b>	<b>46.10</b>	<b>-0.52</b>	<b>-1.11</b>	<b>46.75</b>	<b>46.28</b>	<b>-0.47</b>	<b>-1.00</b>
Other Asia	10.10	10.37	0.27	2.69	10.30	10.64	0.34	3.34
Latin America	6.34	6.51	0.17	2.65	6.27	6.42	0.15	2.42
Middle East	7.50	7.71	0.21	2.82	7.26	7.41	0.15	2.06
Africa	3.24	3.25	0.01	0.24	3.43	3.42	0.00	-0.15
<b>Total DCs</b>	<b>27.18</b>	<b>27.84</b>	<b>0.66</b>	<b>2.43</b>	<b>27.27</b>	<b>27.91</b>	<b>0.64</b>	<b>2.35</b>
FSU	4.30	4.39	0.09	1.98	4.38	4.45	0.07	1.70
Other Europe	0.68	0.69	0.00	0.57	0.76	0.76	0.00	-0.53
China	9.23	9.37	0.14	1.52	9.10	9.60	0.50	5.53
<b>Total "Other regions"</b>	<b>14.21</b>	<b>14.44</b>	<b>0.23</b>	<b>1.61</b>	<b>14.24</b>	<b>14.81</b>	<b>0.57</b>	<b>4.03</b>
<b>Total world</b>	<b>88.01</b>	<b>88.38</b>	<b>0.37</b>	<b>0.42</b>	<b>88.25</b>	<b>89.00</b>	<b>0.75</b>	<b>0.85</b>

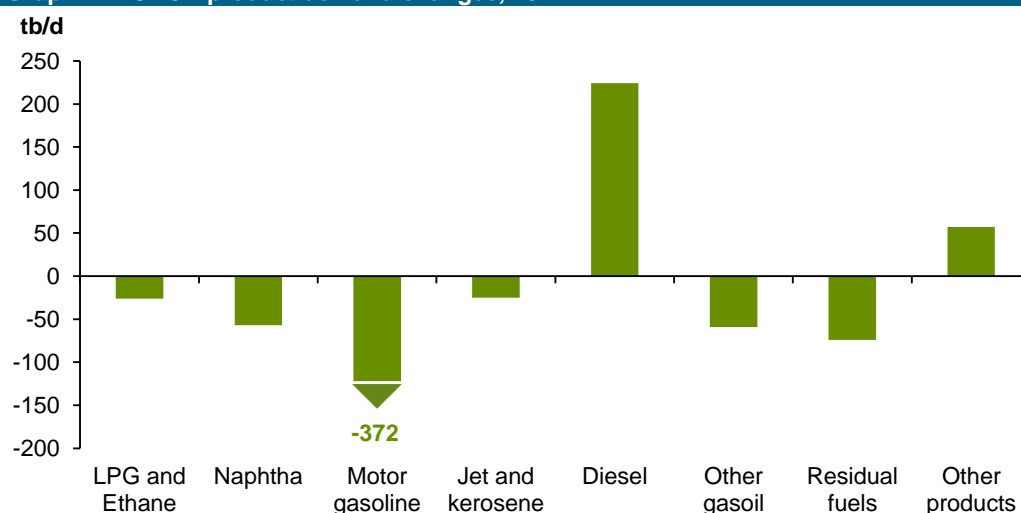
Totals may not add up due to independent rounding

### OECD — North America

The latest monthly oil consumption data for the US shows a 1.0% y-o-y contraction in November, slightly lower than the typical pattern observed during the second and third quarters of the year. The use of transportation fuels and especially gasoline accounted for the bulk of this contraction, while strong growth in distillates had a moderating effect on a portion of this decrease. Moreover, the consumption of residual fuel oil also contracted during November, while jet/kerosene demand was up by 2% y-o-y. Preliminary weekly data for December 2011 and January 2012 shows even stronger contractions in US oil consumption. Transportation fuels constitute the product category most affected, while industrial fuels are also influenced by the still weak pace of growth in the US economy. Furthermore, the whole of 2011 shows y-o-y consumption decreasing for all product categories, with the only exceptions being distillate fuel oil and jet fuel. Motor gasoline and residual fuel oil show the deepest contractions. The signs for US oil consumption for 2012 remain rather pessimistic and are dependent upon developments in the economy. The very short-term forecast indicates a deeper decline in petroleum product use, at least for the first half of the year. The US oil demand growth forecast has been revised down for the year by 75 tb/d.

*Demand in North America to contract by 20 tb/d in 2012 to average 23.5 mb/d*



**Graph 4.2: OECD product demand changes, 2011**

US vehicle sales continued to rise strongly, up 11% in January y-o-y. This is the highest rate since the government's incentives programme 'Cash for Clunkers' was introduced in 2009. Newly introduced vehicle models, low interest rates, better loan availability, aging car replacement and stable motor fuel prices helped buyers overcome lingering worries about the economy. As seen before, the bulk of vehicles sold were trucks and SUVs, as a result of their relatively low prices, compared with smaller cars. Canadian data shows that vehicle sales in Canada grew by a powerful 15.4% in January y-o-y. This was the fourth month in a row resulting from low interest rates. According to the Mexican Automobile Industry Association, Mexico's auto sales, production and exports grew robustly for the whole of 2011, by 10%, 13% and 15% respectively. Mexican auto production during 2012 is expected to grow at a similar pace. Some downside risks, however, are the slowing economies in both Europe and the US, which could influence the main export markets for the country and thus affect overall Mexican auto output.

**Table 4.4: World oil demand forecast for 2012, mb/d**

	2011	1Q12	2Q12	3Q12	4Q12	2012	Change 2012/11	
							Growth	%
North America	23.57	23.43	23.43	23.69	23.62	23.54	-0.02	-0.10
Western Europe	14.37	14.01	13.93	14.62	14.23	14.20	-0.17	-1.18
OECD Pacific	7.89	8.38	7.17	7.74	8.36	7.91	0.03	0.34
<b>Total OECD</b>	<b>45.82</b>	<b>45.82</b>	<b>44.53</b>	<b>46.05</b>	<b>46.21</b>	<b>45.66</b>	<b>-0.17</b>	<b>-0.37</b>
Other Asia	10.47	10.55	10.71	10.59	10.84	10.67	0.20	1.94
Latin America	6.36	6.33	6.50	6.68	6.59	6.53	0.17	2.72
Middle East	7.46	7.49	7.55	7.92	7.59	7.64	0.18	2.44
Africa	3.37	3.45	3.41	3.29	3.45	3.40	0.03	0.86
<b>Total DCs</b>	<b>27.65</b>	<b>27.82</b>	<b>28.18</b>	<b>28.48</b>	<b>28.46</b>	<b>28.24</b>	<b>0.59</b>	<b>2.12</b>
FSU	4.24	4.24	4.08	4.50	4.54	4.34	0.10	2.47
Other Europe	0.69	0.69	0.65	0.69	0.76	0.70	0.00	0.66
China	9.41	9.53	9.98	9.81	9.98	9.83	0.42	4.41
<b>Total "Other regions"</b>	<b>14.34</b>	<b>14.46</b>	<b>14.71</b>	<b>15.00</b>	<b>15.28</b>	<b>14.87</b>	<b>0.52</b>	<b>3.66</b>
<b>Total world</b>	<b>87.82</b>	<b>88.10</b>	<b>87.42</b>	<b>89.54</b>	<b>89.95</b>	<b>88.76</b>	<b>0.94</b>	<b>1.07</b>
Previous estimate	87.84	88.48	87.52	89.54	90.04	88.90	1.06	1.21
Revision	-0.02	-0.38	-0.10	0.00	-0.09	-0.14	-0.12	-0.13

Totals may not add up due to independent rounding

### OECD — Europe

European oil consumption contracted again in December for the fourth month in a row. During 2011, it shrank by 0.2 mb/d, reflecting the weak economy in that region. December oil consumption in the European 'Big Four' – Germany, France, Italy and the UK – fell, as a result of decreasing demand in transportation fuels and weak industrial activity. It plunged by 0.15 mb/d in December, compared with December 2010. Big Four oil consumption of transportation and industrial fuels continued to show the worst decline, as a result of slowing industrial activity. The short- and medium-term development of European oil consumption will be determined most of all by the region's continuing debt problems.

*OECD Europe oil demand for 2012 to shrink by a further 0.17 mb/d*

The OECD Europe oil demand forecast for 2012 shows a further contraction of 0.17 mb/d, averaging 14.2 mb/d.

**Table 4.5: Europe Big 4\* oil demand, mb/d**

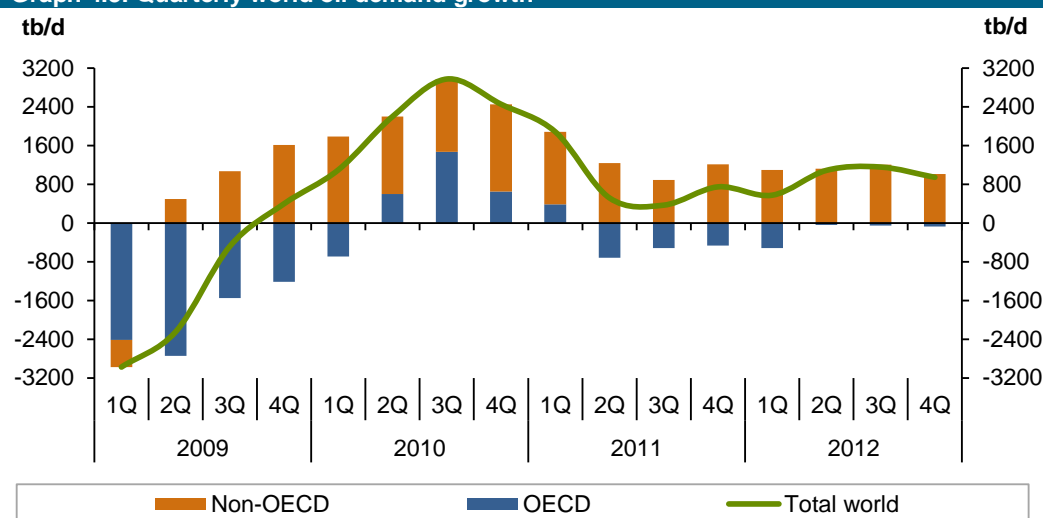
	<u>Dec 11</u>	<u>Dec 10</u>	<u>Change from Dec 10</u>	<u>Change from Dec 10 %</u>
LPG	465	512	-46	-9.0
Gasoline	1,168	1,170	-2	-0.1
Jet/Kerosene	715	720	-5	-0.6
Gas/Diesel oil	3,337	3,330	7	0.2
Fuel oil	464	504	-40	-8.0
Other products	934	1,004	-70	-7.0
<b>Total</b>	<b>7,083</b>	<b>7,239</b>	<b>-156</b>	<b>-2.2</b>

\* Germany, France, Italy and the UK

According to the latest figures from the European Automobile Manufacturer's Association (ACEA), European new passenger car registrations continued to decrease, at -6.4%, in December y-o-y. Germany was the only major European market which grew, at 6.1%, while other markets experienced decreases, ranging from -17.7% in France to -3.6% in Spain. The Italian market also contracted sharply, at -15.3%, while, in the UK, car sales fell at -3.7% y-o-y.

For the whole of 2011, most 'significant' markets experienced major declines. The declines were lower in France, at -2.1%, and the UK, at -4.4%. As a result of economic concern, the Spanish and Italian markets contracted sharply, at -17.7% and -10.9% respectively. Germany was the exception, as demand for new cars grew by approximately 9% during 2011. The German auto market is the largest in the region, with over three million new registrations, followed by France with over two million and the UK with a capacity of almost two million.

**Graph 4.3: Quarterly world oil demand growth**



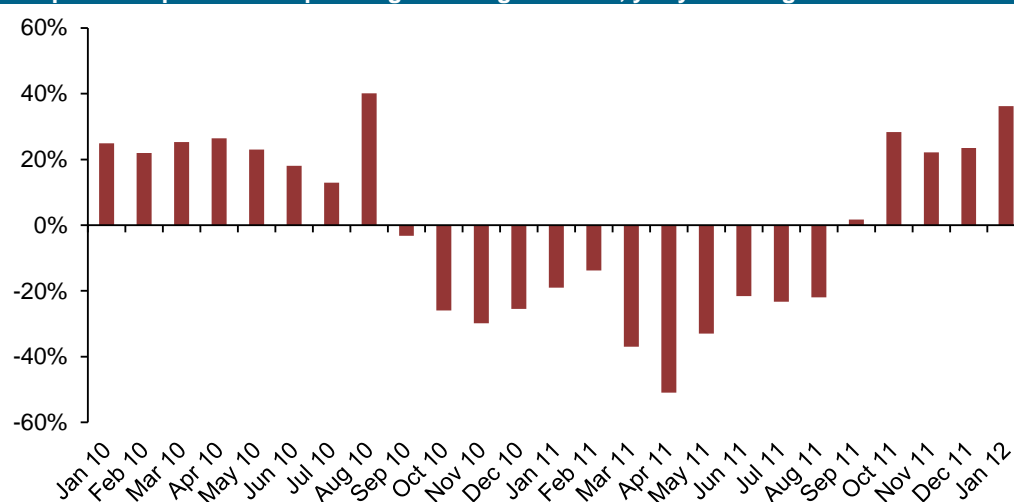
### OECD — Pacific

South Korea's oil demand grew strongly last year, at 0.9% y-o-y. This occurred despite negative oil demand in most OECD regions. This growth was attributed to industrial demand for naphtha, which pushed the country's consumption up by 7.1% y-o-y. According to the latest data, the country's diesel demand inched up by 0.05%.

In Japan, the latest December monthly data is dominated by a strong increase in crude direct-use resulting from nuclear plant shutdowns. Power plants were using crude, fuel oil and LNG for electricity power-generation. Moreover, driven by increased mileage, transportation fuel consumption increased, while all other product categories were on the decline. As a consequence of the shutdown in the majority of Japanese nuclear plants, direct crude burning for electricity production is expected to increase further throughout 2012.

*OECD Pacific oil demand expected to grow only marginally in 2012*



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

OECD Pacific oil consumption grew by 0.1 mb/d during 2011. With the effect of Japanese oil use, the region's oil demand is expected to grow slightly also in 2012, at 0.03 mb/d, although the projections are heavily dependent on whether and when the nuclear plants will resume operations.

Driven by strong tax incentives and subsidies, as well as with a low baseline, Japanese auto sales continued to rise strongly in January, by 36%, following a very strong fourth quarter of 2011. Government incentives favoured special vehicles such as hybrids, pure electric cars and other vehicles that employ advanced clean diesel engines. The high growth in December also reflected the low base during 2010. In contrast, South Korean car sales during December posted double-digit declines. Korean car sales are projected to fall during 2012, due to a slowing economy and high competition resulting from a free trade deal with the US taking effect in early 2012.

**Table 4.6: 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	23.43	-0.38	-1.59	23.34	23.43	0.09	0.38
Western Europe	14.18	14.01	-0.17	-1.21	14.11	13.93	-0.18	-1.28
OECD Pacific	8.35	8.38	0.03	0.37	7.12	7.17	0.05	0.75
<b>Total OECD</b>	<b>46.34</b>	<b>45.82</b>	<b>-0.52</b>	<b>-1.12</b>	<b>44.57</b>	<b>44.53</b>	<b>-0.04</b>	<b>-0.08</b>
Other Asia	10.33	10.55	0.21	2.04	10.52	10.71	0.19	1.80
Latin America	6.16	6.33	0.17	2.83	6.33	6.50	0.18	2.79
Middle East	7.32	7.49	0.17	2.31	7.38	7.55	0.17	2.34
Africa	3.42	3.45	0.03	0.84	3.39	3.41	0.03	0.75
<b>Total DCs</b>	<b>27.24</b>	<b>27.82</b>	<b>0.58</b>	<b>2.14</b>	<b>27.62</b>	<b>28.18</b>	<b>0.56</b>	<b>2.04</b>
FSU	4.13	4.24	0.11	2.67	3.97	4.08	0.11	2.81
Other Europe	0.69	0.69	0.00	-0.19	0.65	0.65	0.01	0.78
China	9.13	9.53	0.40	4.41	9.54	9.98	0.45	4.67
<b>Total "Other regions"</b>	<b>13.95</b>	<b>14.46</b>	<b>0.51</b>	<b>3.67</b>	<b>14.15</b>	<b>14.71</b>	<b>0.56</b>	<b>3.97</b>
<b>Total world</b>	<b>87.52</b>	<b>88.10</b>	<b>0.58</b>	<b>0.66</b>	<b>86.33</b>	<b>87.42</b>	<b>1.09</b>	<b>1.26</b>

*Totals may not add up due to independent rounding*

**Table 4.7: 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	23.59	23.69	0.09	0.40	23.53	23.62	0.09	0.38
Western Europe	14.78	14.62	-0.15	-1.04	14.40	14.23	-0.17	-1.19
OECD Pacific	7.73	7.74	0.01	0.15	8.35	8.36	0.01	0.12
<b>Total OECD</b>	<b>46.10</b>	<b>46.05</b>	<b>-0.05</b>	<b>-0.11</b>	<b>46.28</b>	<b>46.21</b>	<b>-0.07</b>	<b>-0.15</b>
Other Asia	10.37	10.59	0.22	2.15	10.64	10.84	0.19	1.79
Latin America	6.51	6.68	0.18	2.72	6.42	6.59	0.16	2.53
Middle East	7.71	7.92	0.21	2.70	7.41	7.59	0.18	2.37
Africa	3.25	3.29	0.04	1.16	3.42	3.45	0.02	0.69
<b>Total DCs</b>	<b>27.84</b>	<b>28.48</b>	<b>0.65</b>	<b>2.32</b>	<b>27.91</b>	<b>28.46</b>	<b>0.55</b>	<b>1.98</b>
FSU	4.39	4.50	0.11	2.58	4.45	4.54	0.08	1.91
Other Europe	0.69	0.69	0.01	1.15	0.76	0.76	0.01	0.88
China	9.37	9.81	0.44	4.70	9.60	9.98	0.37	3.87
<b>Total "Other regions"</b>	<b>14.44</b>	<b>15.00</b>	<b>0.56</b>	<b>3.88</b>	<b>14.81</b>	<b>15.28</b>	<b>0.46</b>	<b>3.13</b>
<b>Total world</b>	<b>88.38</b>	<b>89.54</b>	<b>1.16</b>	<b>1.31</b>	<b>89.00</b>	<b>89.95</b>	<b>0.95</b>	<b>1.06</b>

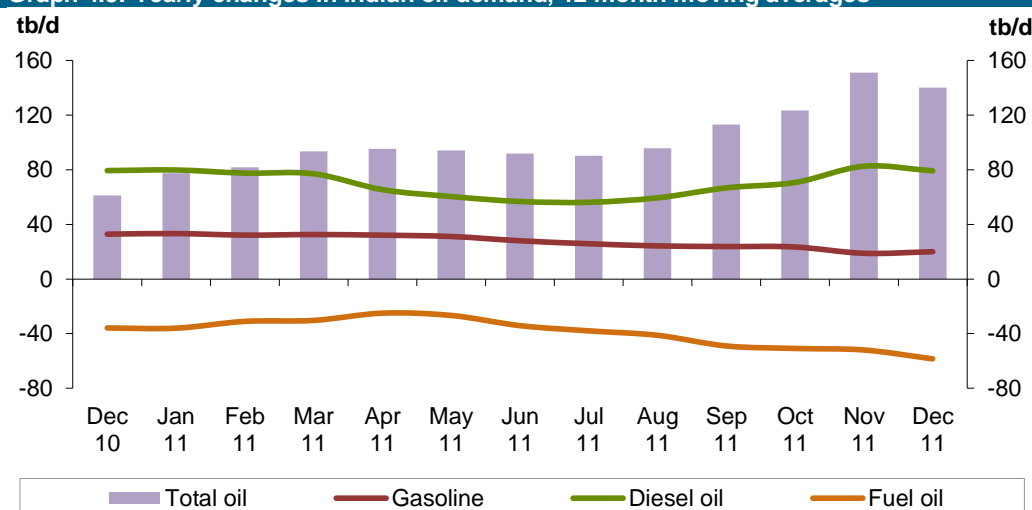
Totals may not add up due to independent rounding

### Developing countries

*Developing countries' oil demand growth forecast at 0.6 mb/d in 2012, with India at 0.12 mb/d*

India's November petroleum product sales were up, as a result of domestic price hike expectations. This caused the highest growth since June 2009. Consequently, December oil product sales were moderate. Diesel demand in December grew by 6% y-o-y, adding another 85 tb/d to the total diesel use pool. Diesel usage is the largest in India, averaging 1.5 mb/d. Gasoline demand also grew, by 44 tb/d, in the same month. Oil demand grew by 2.3%, or 86 tb/d, in December y-o-y. Given the cautious sentiment surrounding the country's future economic activity, India's oil demand is seen growing at a more moderate pace than last year. For 2012, oil demand is expected to increase by 0.12 mb/d.

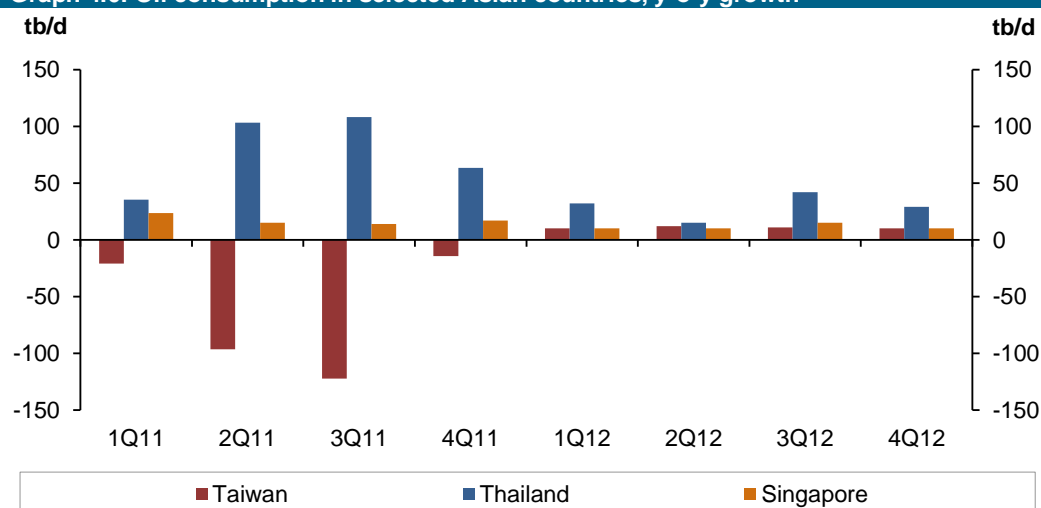
According to the Society of Indian Automobile Manufacturers (SIAM), domestic passenger car sales increased by 8.5% during December y-o-y. Various discount offers helped to partially offset weaker demand for car sales, which slowed in the second half of last year, due largely to high borrowing costs and relatively high motor fuel prices.

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

*Other Asia demand growth to be slightly lower than last year*

Given the effect of not only increasing business travel, but also industrial and home energy, Hong Kong oil demand for kerosene grew sharply in November, adding another 114 tb/d to total oil use. The country's total oil demand grew by 38% in November y-o-y. However, this is not expected to continue in 2012.

Taking into account the slowdown in Indian oil demand, Other Asia oil demand growth is forecast to be slightly lower than last year, reaching 0.2 mb/d, to average 10.7 mb/d.

**Graph 4.6: Oil consumption in selected Asian countries, y-o-y growth****Table 4.8: Consumption of petroleum products in Thailand, tb/d**

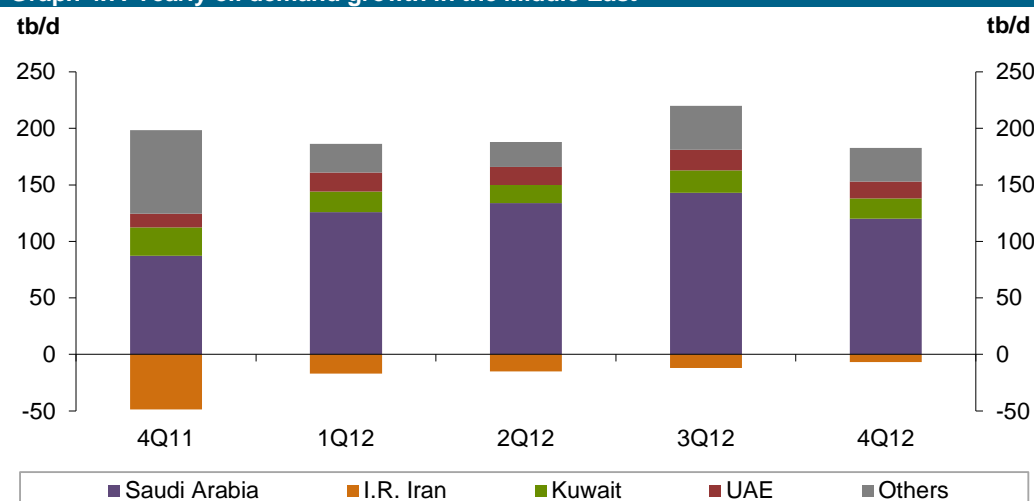
	Nov 11	Nov 10	Change	Change %
LPG	177	199	-23	-11.4
Gasoline	117	133	-16	-12.0
Jet Fuel/Kerosene	86	85	1	1.2
Diesel	330	332	-2	-0.6
Fuel oil	31	42	-10	-25.0
Other products	92	114	-22	-19.1
<b>Total</b>	<b>833</b>	<b>905</b>	<b>-72</b>	<b>-7.9</b>

Source: JODI/EPPO

Middle East oil demand forecast to grow by 2.4% in 2012

Saudi Arabia is the largest oil-consuming country in the region and also has the highest annual growth. Given its energy-intensive projects, Saudi oil demand grew by more than 0.1 mb/d in 2011. The sectors that consume the most oil are transportation and power plants. This trend is expected to continue throughout the year. Despite declining oil usage in Iran, Middle East oil demand is forecast to grow by 2.4% in 2012.

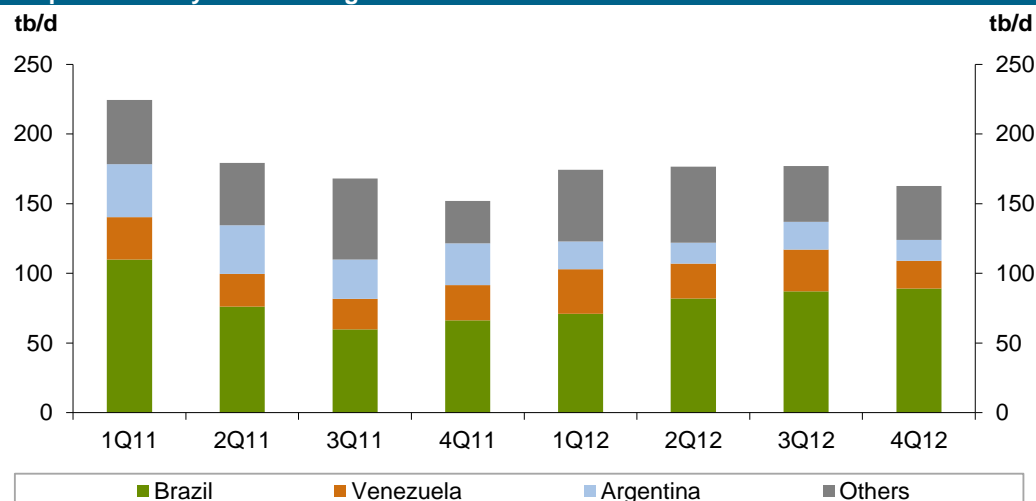
The seasonality that plays a major role in oil consumption in the Middle East occurs during the summer season, pushing third-quarter oil demand higher than in any other quarter of the year.

**Graph 4.7: Yearly oil demand growth in the Middle East**

Brazilian oil demand growth in the first quarter is expected to be at a similar rate as in the last quarter. Healthy demand in Venezuela and Argentina is helping to push Latin America's total demand into a growth mode, at 2.7%, in 2012. Of course, one of the dominant product uses in Brazil is the use of alcohol in transportation fuel. Oil demand

growth in Latin America is expected to be fairly well distributed among all four quarters of the year, with transport and industrial being the two sectors that would use more oil throughout the year.

**Graph 4.8: Yearly oil demand growth in the Latin America**



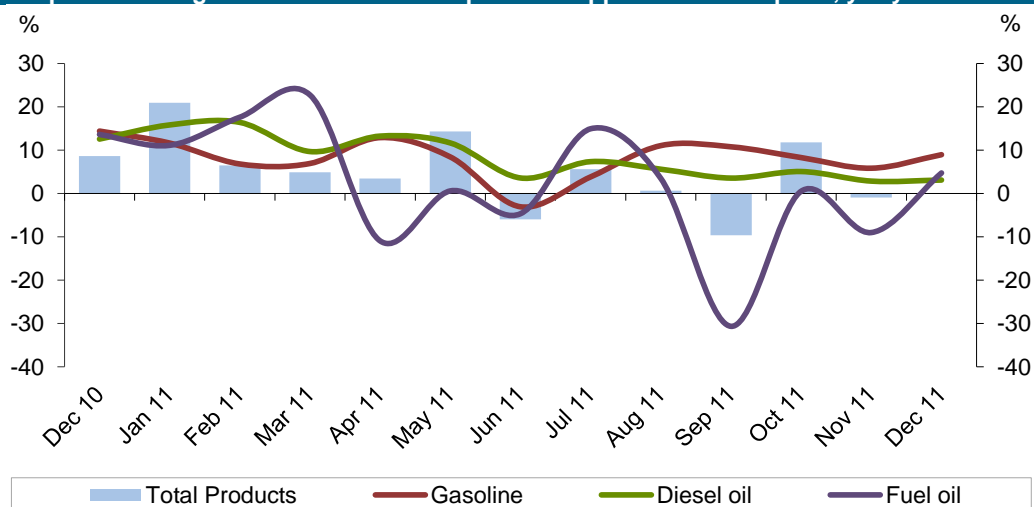
Oil demand growth in the developing countries is forecast at 0.6 mb/d y-o-y, to average 28.2 mb/d in 2012.

### Other regions

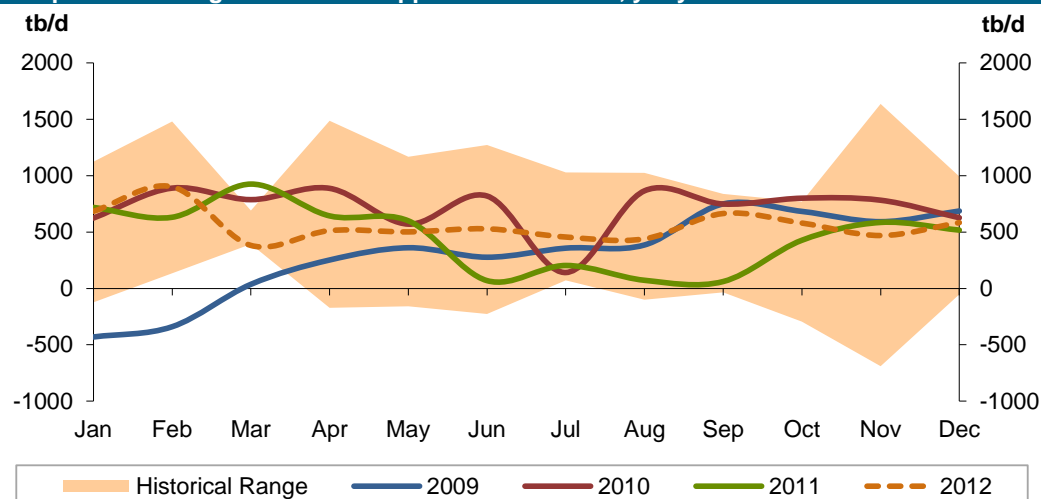
*China's oil demand expected to grow by 0.4 mb/d in 2012*

Chinese oil imports in December were not consumed entirely but were partially stored in the country's newly built oil-storage facility. Around 0.3 mb/d of the country's oil imports were stored for future use. China's oil demand was 9.3 mb/d in December, denoting growth of 0.51 mb/d y-o-y. As a result of transportation demand, both diesel and gasoline consumption grew sharply. Gasoline consumption was 1.9 mb/d in December, indicating growth of 6.4% y-o-y. Use of diesel, the largest consumed product, reached 3.7 mb/d in December. The transport, industrial and petrochemical sectors contributed the most to oil use. China's oil demand for the whole of 2011 grew by 0.46 mb/d, or 5%, y-o-y. This trend is expected to continue this year, with growth forecast at 0.4 mb/d y-o-y.

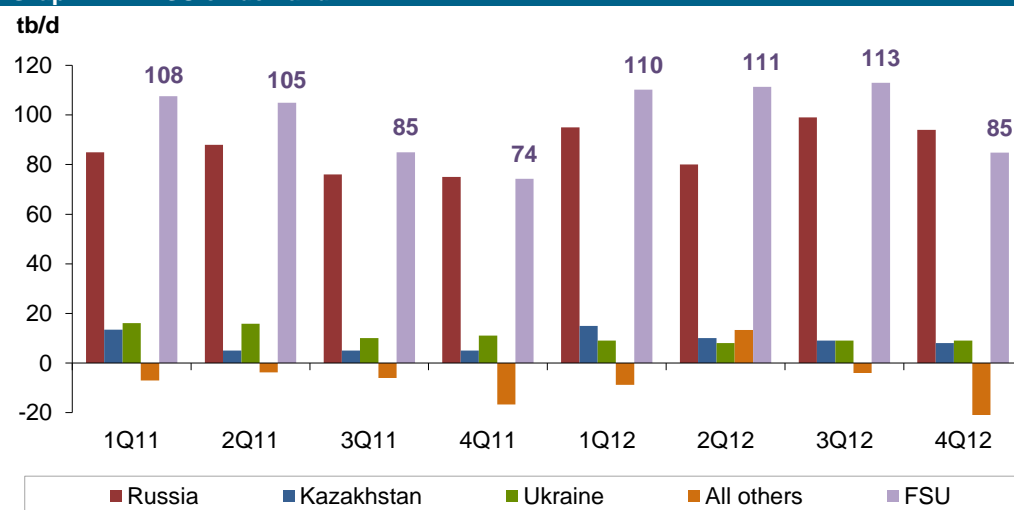
**Graph 4.9: Changes in Chinese main oil products apparent consumption, y-o-y**



Data from the China Association of Automobile Manufacturers (CAAM) showed that the country's automobile sales increased slightly, by 1.4%, in December. Growth in passenger vehicles was around 4% lower than in previous months. During 2011, Chinese auto sales rose by only 2.5%, following more than 32% growth in 2010. This was the lowest growth rate in the last decade.

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

The European debt crisis is not expected to affect Russian economic activity. The FSU's oil demand growth is forecast at 100 tb/d in 2012 y-o-y. Not only is the transport fuel sector expected to see high demand, but also the industrial sector as well. This is expected to put pressure on naphtha, diesel and gasoline demand for the entire year.

**Graph 4.11: FSU oil demand**

# World Oil Supply

Non-OPEC supply estimated at 52.40 mb/d in 2011, an increase of 100 tb/d

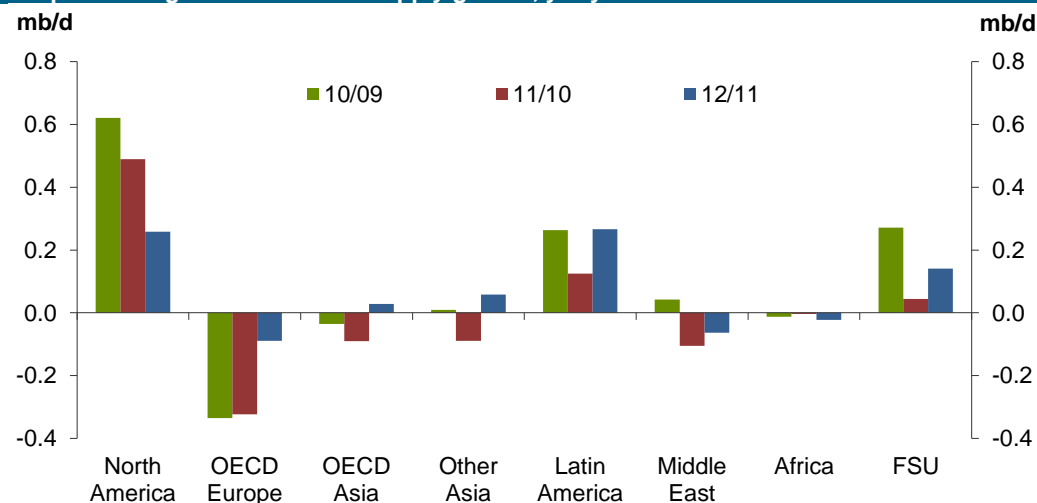
## Non-OPEC

### Estimate for 2011

Non-OPEC oil supply is estimated to have averaged 52.40 mb/d in 2011, an increase of 0.10 mb/d over the previous year, indicating a downward revision of 20 tb/d, compared with the previous *Monthly Oil Market Report (MOMR)*. A minor upward revision was introduced to non-OPEC oil supply in 2010, which affected the growth estimation for last year. Additionally, several revisions were carried out to 2011 non-OPEC supply, due to updated production data. The majority of the revisions were for the fourth quarter. Further downward revisions could be seen in the coming month, as more data becomes available for 2011 supply. The overall situation remains the same for non-OPEC supply in 2010, with healthy increases from North and Latin America, as well as in the FSU, being offset by declines in OECD Western Europe, OECD Pacific, Other Asia and the Middle East.

On a regional basis, North American oil supply experienced the highest increase among all non-OPEC regions in 2011. On a country basis, the US, Canada, Colombia and Russia experienced the largest growth, while the UK, Norway, Azerbaijan and Yemen had the biggest declines. On a quarterly basis, non-OPEC supply is estimated to have averaged 52.77 mb/d, 51.96 mb/d, 52.08 mb/d and 52.77 mb/d, respectively.

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



In 2011, non-OPEC supply levels disappointed most analysts, with the initial supply forecast reaching growth of almost 0.7 mb/d in early 2011. During the first quarter, non-OPEC supply experienced healthy growth of 0.6 mb/d, compared with the same quarter of 2010. The registered growth suggested an optimistic outlook for the rest of the year. However, many factors had a negative impact on growth after that, and a series of downward revisions dominated the forecasts for non-OPEC supply beyond the first half of the year. Technical difficulties negatively influenced production in various locations, such as in the North Sea, China, Azerbaijan and Brazil. The estimated decline in OECD Western Europe in 2011 is the highest in percentage terms for the past six years. Furthermore, political factors affected oil output in 2011, mainly in Yemen, Syria and Sudan. Other issues, such as weather and environment factors, also affected production in 2011.

### Revisions to the 2011 estimate

Non-OPEC supply estimates witnessed only minor downward revisions of less than 20 tb/d compared with the previous *MOMR*. The estimates for the first three quarters of 2011 saw one minor revision, while the fourth-quarter estimates experienced the majority of the revisions, compared with last month's assessment. However, the fourth-quarter revisions offset each other and hence minimized the revision as a whole for the non-OPEC supply estimates in 2011. Supply estimates for the US, Canada, Norway, the UK, Kazakhstan, Azerbaijan and China all witnessed revisions to the annual figures.

There were many minor revisions to the fourth-quarter estimate that did not affect the annual figures for several countries, such as Denmark, Australia, New Zealand, Brunei, India, Colombia, Oman, Ghana and Russia. These revisions affected the fourth-quarter estimate, which indicated a downward revision of 80 tb/d compared with the previous MOMR. This downward revision brought supply for the fourth quarter to the same level as for the first quarter. Updated current production data necessitated these revisions, in addition to minor historical updates.

The US, Canada and China supply estimates saw upward revisions, while the UK, Norway, Azerbaijan and Kazakhstan output figures witnessed downward revisions. The US oil supply figures experienced an upward revision of 20 tb/d, compared with the previous MOMR. US oil production is estimated to have averaged 9.0 mb/d, an increase of 0.36 mb/d over the previous year, the largest growth level among all non-OPEC producers in 2011. The upward revision was introduced to adjust for updated production data, where output was higher than expected. The continued strong growth of tight oil production supported the upward revision. North Dakota's oil supply reached 510 tb/d in November, more than 30% higher than in the previous year, and was supported mainly by tight oil production growth, particularly from the Bakken field. Updated production data for the fourth quarter necessitated the upward revisions to Canada and China oil supply of 20 tb/d and 10 tb/d, respectively, compared with the previous MOMR.

The UK and Norway oil supply estimates in 2011 experienced downward revisions of 15 tb/d each, compared with the previous month. These were due to lower December output, compared with November. In Norway, the drop in production from the Troll project put pressure on supply. Similarly, updated production data indicated lower UK output and required a downward revision. UK drilling activity in 2011 fell to an eight-year low, which affected production.

Azerbaijan's oil supply estimate in 2011 saw a downward revision, as updated production data showed a heavier than expected impact from maintenance on the Azeri-Chirag-Guneshli (ACG) field. This data also required a downward revision to Kazakhstan's oil supply in 2011.

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

	<b>2010</b>	<b>1Q11</b>	<b>2Q11</b>	<b>3Q11</b>	<b>4Q11</b>	<b>2011</b>	<b>Change 11/10</b>
North America	14.99	15.31	15.20	15.50	15.90	15.48	0.49
Western Europe	4.39	4.31	4.06	3.85	4.07	4.07	-0.32
OECD Pacific	0.60	0.51	0.50	0.51	0.53	0.51	-0.09
<b>Total OECD</b>	<b>19.99</b>	<b>20.13</b>	<b>19.75</b>	<b>19.85</b>	<b>20.50</b>	<b>20.06</b>	<b>0.07</b>
Other Asia	3.70	3.69	3.54	3.58	3.62	3.61	-0.09
Latin America	4.67	4.75	4.73	4.78	4.91	4.79	0.13
Middle East	1.78	1.78	1.65	1.70	1.55	1.67	-0.10
Africa	2.59	2.61	2.57	2.59	2.56	2.58	0.00
<b>Total DCs</b>	<b>12.73</b>	<b>12.84</b>	<b>12.49</b>	<b>12.65</b>	<b>12.64</b>	<b>12.66</b>	<b>-0.07</b>
FSU	13.22	13.32	13.25	13.23	13.28	13.27	0.04
Other Europe	0.14	0.14	0.14	0.14	0.14	0.14	0.00
China	4.12	4.22	4.19	4.08	4.08	4.14	0.02
<b>Total "Other regions"</b>	<b>17.48</b>	<b>17.68</b>	<b>17.58</b>	<b>17.44</b>	<b>17.50</b>	<b>17.55</b>	<b>0.07</b>
<b>Total Non-OPEC production</b>	<b>50.20</b>	<b>50.64</b>	<b>49.83</b>	<b>49.95</b>	<b>50.64</b>	<b>50.27</b>	<b>0.07</b>
Processing gains	2.10	2.13	2.13	2.13	2.13	2.13	0.03
<b>Total Non-OPEC supply</b>	<b>52.30</b>	<b>52.77</b>	<b>51.96</b>	<b>52.08</b>	<b>52.77</b>	<b>52.40</b>	<b>0.10</b>
Previous estimate	52.28	52.77	51.96	52.08	52.85	52.41	0.13
Revision	0.01	0.00	0.00	0.01	-0.08	-0.02	-0.03



*Non-OPEC supply to increase by 0.68 mb/d in 2012, to average 53.07 mb/d*

### Forecast for 2012

**Non-OPEC supply is expected to increase by 0.68 mb/d over the previous year to average 53.07 mb/d**, indicating a minor downward revision of 30 tb/d, compared with the previous month. The downward revision came on the back of changes to the base supply figure, as well as to adjustments to individual countries' supply profiles. Non-OPEC oil supply in 2012 is seen as being driven by growth in Latin and North America, as well as in the FSU. Furthermore, supply difficulties that hindered output in 2011 are expected to ease in 2012 and slow the decline in OECD Western Europe. A combination of recovery from 2011 outages and continuing growth by key producers is expected to set the tone for 2012 non-OPEC output. Political volatility will also be a major factor shaping the outcome of non-OPEC supply in 2012, in addition to the usual risk factors, such as weather and policies.

On a regional basis, Latin America is forecast to enjoy the highest supply growth in 2012 among all the non-OPEC regions, followed by North America. In terms of decline, OECD Western Europe and the Middle East are expected to suffer the biggest drops in 2012. Oil prices will play a major role in the materialization of non-OPEC supply in 2012, as price levels in 2011 supported many operators in increasing capital expenditure (capex) and in their production. On a quarterly basis, non-OPEC supply is expected to average 53.05 mb/d, 52.92 mb/d, 52.98 mb/d and 53.34 mb/d respectively.

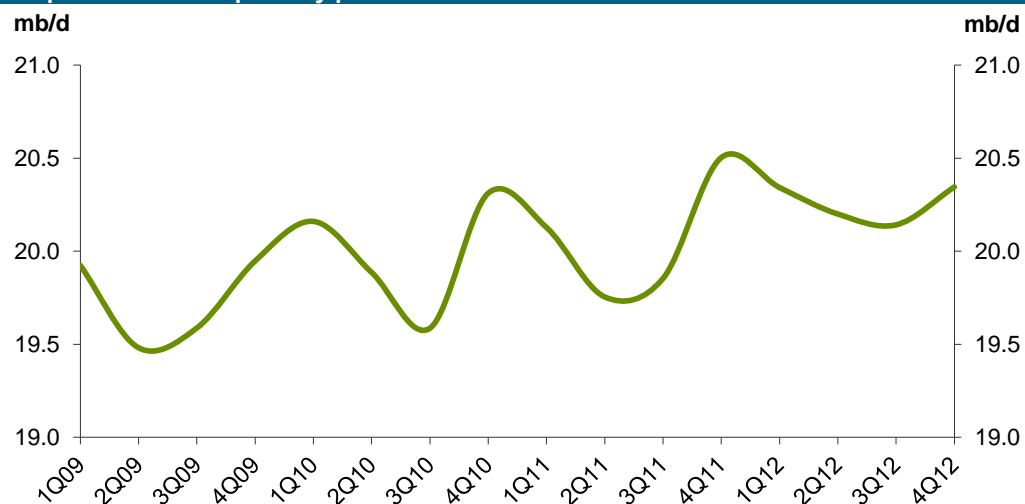
**Table 5.2: Non-OPEC oil supply in 2012, mb/d**

	<u>2011</u>	<u>1Q12</u>	<u>2Q12</u>	<u>3Q12</u>	<u>4Q12</u>	<u>2012</u>	Change <u>12/11</u>
North America	15.48	15.69	15.70	15.73	15.83	15.74	0.26
Western Europe	4.07	4.13	3.95	3.85	3.99	3.98	-0.09
OECD Pacific	0.51	0.51	0.56	0.56	0.53	0.54	0.03
<b>Total OECD</b>	<b>20.06</b>	<b>20.34</b>	<b>20.20</b>	<b>20.14</b>	<b>20.35</b>	<b>20.26</b>	<b>0.20</b>
Other Asia	3.61	3.66	3.66	3.67	3.68	3.67	0.06
Latin America	4.79	5.00	5.03	5.09	5.12	5.06	0.27
Middle East	1.67	1.61	1.61	1.61	1.61	1.61	-0.06
Africa	2.58	2.53	2.57	2.57	2.56	2.56	-0.02
<b>Total DCs</b>	<b>12.66</b>	<b>12.80</b>	<b>12.87</b>	<b>12.94</b>	<b>12.97</b>	<b>12.89</b>	<b>0.24</b>
FSU	13.27	13.41	13.36	13.40	13.47	13.41	0.14
Other Europe	0.14	0.14	0.15	0.15	0.15	0.15	0.01
China	4.14	4.17	4.16	4.17	4.21	4.17	0.03
<b>Total "Other regions"</b>	<b>17.55</b>	<b>17.72</b>	<b>17.66</b>	<b>17.71</b>	<b>17.83</b>	<b>17.73</b>	<b>0.18</b>
<b>Total Non-OPEC production</b>	<b>50.27</b>	<b>50.86</b>	<b>50.73</b>	<b>50.79</b>	<b>51.15</b>	<b>50.88</b>	<b>0.62</b>
Processing gains	2.13	2.19	2.19	2.19	2.19	2.19	0.06
<b>Total Non-OPEC supply</b>	<b>52.40</b>	<b>53.05</b>	<b>52.92</b>	<b>52.98</b>	<b>53.34</b>	<b>53.07</b>	<b>0.68</b>
Previous estimate	52.41	53.14	52.93	52.98	53.34	53.10	0.69
Revision	-0.02	-0.09	-0.02	-0.01	0.00	-0.03	-0.01

### OECD

**Total OECD oil supply is forecast to increase by 200 tb/d in 2012, vis-à-vis the previous year, to average 20.26 mb/d, indicating a minor upward revision of 15 tb/d, compared with the previous MOMR.** The upward revision was driven by adjustments carried over from historical data, as well as some changes to supply elements that affected the production forecasts of the US, Canada, Norway, UK and Australia. The OECD supply profile remains unchanged, with strong growth expected from North America, while the decline is seen to continue in Western Europe and OECD Pacific is anticipated to remain relatively steady in 2012. On a quarterly basis, OECD oil supply is expected to stand at 20.34 mb/d, 20.20 mb/d, 20.14 mb/d and 20.35 mb/d, respectively. According to preliminary data, this averaged 20.18 mb/d in the second half of 2011, an increase of 0.23 mb/d over the same period of 2010.

*OECD output to average 20.26 mb/d in 2012, growth of 200 tb/d*

**Graph 5.2: OECD's quarterly production****North America**

**North American** oil production is projected to increase by 0.26 mb/d over 2011 to average 15.74 mb/d in 2012, indicating an upward revision of 60 tb/d, compared with the previous month. The oil production outlook remains relatively unchanged from the previous month, with the US and Canada expected to add volume, while Mexico is seen to experience a decline in 2012. On a quarterly basis, North American oil supply in 2012 is expected to stand at 15.69 mb/d, 15.70 mb/d, 15.73 mb/d and 15.83 mb/d respectively.

**US**

Oil production from the **US** is projected to increase by 0.17 mb/d in 2012, the second highest among non-OPEC countries, to average 9.17 mb/d, following an upward revision of 30 tb/d from the previous *MOMR*. This upward revision was driven mainly by updates to 2011 supply estimates, in addition to other factors in 2012. Tight oil production from shale areas is expected to be the main driver of the anticipated growth in 2012, as the Gulf of Mexico's output is seen as remaining relatively steady with minor growth and Alaska output is expected to decline. The Bakken and Eagle Ford formations are anticipated to be the major supporters of growth in 2012. The forecast increase in fracking by 19% in 2012 over the previous year supports the projected growth. Furthermore, the Gulf of Mexico's oil supply is expected to improve in 2012 and halt the decline since the Macondo incident, as new developments are expected to come on-stream. The recent report about the increase in active rigs in the Gulf of Mexico towards the pre-Macondo high further supports the expected improvement. Moreover, the anticipated surge in capex for operations in the Gulf of Mexico backs this expectation.

However, there are remaining risks associated with the growth forecast, on the back of weather, technical, environmental and price factors. Shortage of skilled labour is starting to cause drilling delays in shale formation and could hinder the materialization of the forecast. Furthermore, price levels could have an impact on operators' budgets and limit capex as the year progresses. Moreover, severe weather conditions could dampen the output from projects in the Gulf of Mexico and other areas. Technical factors could delay start-ups of different projects that are essential to growth in 2012. On a quarterly basis, US oil production is seen to stand at 9.13 mb/d, 9.14 mb/d, 9.16 mb/d and 9.24 mb/d respectively.

**Canada and Mexico**

**Canadian** oil supply is anticipated to increase by 0.15 mb/d over the previous year to average 3.69 mb/d in 2012, indicating an upward revision of 40 tb/d, compared with the previous *MOMR*. The supply forecast in 2012 has remained steady, despite an upward revision to supply in the fourth quarter of 2011, on the back of higher-than-expected output figures carried over to 2012. The expected growth is supported by both tight oil and oil sand developments. Furthermore, the experienced supply difficulties in 2011 are

*Shale developments to drive US oil production growth of 0.17 mb/d in 2012*

*Canadian supply to increase by 0.15 mb/d in 2012, to average 3.69 mb/d*

*Chicontepec  
output reaches a  
new high in  
January*

assumed not to recur in 2012 and the recovery is expected to support growth in 2012. Remaining risks are associated with forecasts on technical and environmental factors, among others. On a quarterly basis, Canada's oil supply is expected to average 3.66 mb/d, 3.68 mb/d, 3.70 mb/d and 3.72 mb/d, respectively.

Oil supply from **Mexico** is forecast to decline by 60 tb/d from the previous year to average 2.88 mb/d in 2012, unchanged from last month. In 2011, Mexican crude oil production posted a 1% decline, making it the seventh consecutive year of decline. Furthermore, technical problems started at the country's largest producing field, the Ku-Maloob-Zaap, with a fire at the Ku-S platform in January. However, improved output at the technically challenging Chicontepec field, where production reached a record high of 65 tb/d on one day in January, has offset the negative impact of the fire for the time being. The complex field's output is stirring political tensions, with the country's Senate's Energy Commission expressing concern about the operator's output projections. On a quarterly basis, Mexico oil supply is seen to stand at 2.91 mb/d, 2.87 mb/d, 2.88 mb/d and 2.86 mb/d, respectively.

### **Western Europe**

**OECD Western Europe's** oil production is anticipated to decline by 0.09 mb/d, the largest decline among all non-OPEC regions, to average 3.98 mb/d in 2012, indicating a downward revision of 20 tb/d, compared with the previous *MOMR*. The expected decline is slower than the drop experienced in 2011, as the supply difficulties encountered then are seen to lessen in 2012 and support output. The downward revision was introduced to adjust for historical revisions, mainly for the UK and Norway. OECD Western Europe is seen to have quarterly supply of 4.36 mb/d, 4.14 mb/d, 4.03 mb/d and 4.20 mb/d respectively.

*Norway's oil  
production to drop  
80 tb/d in 2012 to  
average 1.96 mb/d*

Oil production from **Norway** is expected to drop by 0.08 mb/d to average 1.96 mb/d in 2012, indicating a minor downward revision of 10 tb/d, compared with the previous month. This revision has come on the back of a historical revision to the supply estimate for the fourth quarter of 2011. Despite the revision, the anticipated decline in 2012 remains flat, compared with the previous *MOMR*. The forecast decline in 2012 is coming about, despite a healthy level of capex in 2012; yet the fast track development of several projects is not seen to add any volume in 2012, since most of these projects are expected to start up at the end of 2012 or in early 2013. The start-up of the small Gause field is seen to marginally support output in 2012. Furthermore, the forecast of Norway's National Petroleum Directorate, which indicates a decline in crude oil production in 2012, compared with the previous year, further supports the outlook of a decline for the year, despite the expectation of fewer technical difficulties. Moreover, reports have suggested further delays with the Yme field start-up, which adds to the negative factors impacting upon the production outlook for 2012. The recent technical difficulties at the Troll project might bring about a further downward revision in the near future to Norway's supply projections. On a quarterly basis, Norwegian oil production is anticipated to average 2.05 mb/d, 1.92 mb/d, 1.89 mb/d and 1.98 mb/d, respectively. As per preliminary data, Norway's oil supply averaged 2.03 mb/d in the fourth quarter of 2011.

*UK oil supply to  
decline 20 tb/d in  
2012 to average  
1.10 mb/d*

The **UK's** oil supply is estimated to decline by 20 tb/d to average 1.10 mb/d in 2012, indicating a downward revision of 15 tb/d, compared with the previous month. This revision was carried over from adjustments to the fourth quarter of 2011 and did not impact the annual decline level, compared with the last assessment. The anticipated production in 2012 suggests a much slower decline than in the previous year, since the present year is seen to experience less technical difficulties than the last one. As per preliminary data, the UK's oil supply dropped 0.24 mb/d, or 17.5%, in 2011. Such a decline is higher than the natural decline at mature producing areas and has arisen partially from the various shutdowns on technical grounds. Yet the forecast for 2012 is seen to experience recovery from such a low level. However, reports have indicated that the UK's drilling activity in 2011 fell to its lowest level since 2003, and this will have a negative impact on output in 2012. On a quarterly basis, UK oil supply is seen to average 1.16 mb/d, 1.10 mb/d, 1.05 mb/d and 1.10 mb/d, respectively.

### Asia Pacific

**OECD Pacific** oil production is seen to increase by 30 tb/c in 2012 to average 0.54 mb/d, indicating a downward revision of 30 tb/d, compared with the previous *MOMR*. This downward revision is due to changes to Australia's supply outlook. On a quarterly basis, OECD Pacific total oil supply is estimated to average 0.51 mb/d, 0.56 mb/d, 0.56 mb/d and 0.53 mb/d respectively.

*Australian supply revised down, as Cyclone Iggy shuts down production*

**Australia's** oil supply is expected to increase by 30 tb/d in 2012 to average 0.45 mb/d, indicating a downward revision of 30 tb/d from the previous month. This revision has come about with the historical adjustment to the fourth quarter of 2011 being carried over, as well as with a further downward revision to the first quarter's oil supply outlook. The first quarter's downward revision was incorporated when tropical cyclone 'Iggy' had forced the shutdown of 165 tb/d by the end of January. The severe weather conditions are having an impact on output, as was the case in 2011. The effect of the weather conditions will be better evaluated in the near future, as more data becomes available. Furthermore, reports have suggested that the Montara project start-up will encounter further delays. On the other hand, the operator of the Kipper condensate field has reported that the project is close to completion. On a quarterly basis, Australian oil production is seen to stand at 0.42 mb/d, 0.47 mb/d, 0.47 mb/d and 0.44 mb/d respectively.

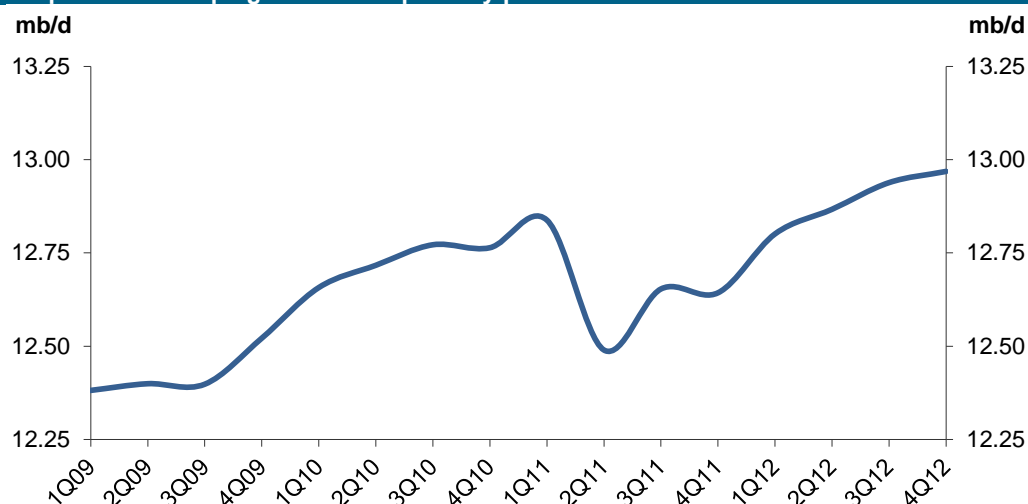
### Developing Countries

*DC supply growth expected to drive one-third of non-OPEC supply growth in 2012*

Total **Developing Country (DCs)** oil production is projected to grow by 0.24 mb/d to average 12.89 mb/d in 2012, indicating a downward revision of 35 tb/d from last month. Most of the historical revisions basically offset each other, while changes to the forecast for 2012 led to the downward revision. The Middle East supply outlook saw a marginal downward revision, while the majority of the revision came from Africa's supply outlook. The DC supply forecast indicates strong growth from Other Asia and Latin America, while Africa and the Middle East are expected to decline. Latin America remains the region with the highest expected growth in 2012 among all the non-OPEC regions. DCs' share of non-OPEC supply is seen to remain steady for the year, as per the forecast, at 24%, yet this group's contribution to non-OPEC supply growth is seen higher than that of the OECD or the FSU.

The risk associated with the DC supply forecast remains on the high side, given the various political issues connected with some of the producers in the group, in addition to other technical, environmental and weather-related factors. DC supply growth in 2012 is expected to be gradual throughout the year. On a quarterly basis, total oil supply in DCs is expected to average 12.80 mb/d, 12.87 mb/d, 12.94 mb/d and 12.97 mb/d respectively. During the fourth quarter of 2011, DC supply declined by 50 tb/d, compared with the same period of 2010, as per the preliminary data.

**Graph 5.3: Developing Countries' quarterly production**



*Other Asia supply to increase by 60 tb/d in 2012 and average 3.67 mb/d*

**Other Asia's** oil supply is estimated to increase by 60 tb/d and average 3.67 mb/d in 2012, unchanged from the previous *MOMR*. Despite the steady state, there were a few revisions that offset each other. Growth in 2012 is expected to be supported by India and Vietnam, while Indonesia and Malaysia's oil supply is expected to encounter minor declines. Vietnam's oil supply is projected to increase by 40 tb/d in 2012 to average 0.39 mb/d, flat from the previous month. The expected increase is supported by projects, such as Rang Dong, Te Giac Trang, Su Tu Trang and Lan Do. India's oil production is anticipated to increase by 20 tb/d to average 0.91 mb/d. This growth is supported by the Bhagyam project, part of the Mangala development in Rajasthan. The Bhagyam field started up in January, after delays in receiving the green light from the authorities; it is expected to reach peak capacity of 40 tb/d by the end of the year. Thailand's oil supply is anticipated to remain steady and average 0.33 mb/d, unchanged from the previous evaluation. On a quarterly basis, Other Asia's supply is seen to average 3.66 mb/d, 3.66 mb/d, 3.67 mb/d and 3.68 mb/d respectively.

**Malaysia's** oil supply is forecast to experience a minor decline of 10 tb/d in 2012 to average 0.63 mb/d, flat from the previous *MOMR*. The anticipated drop is projected on the back of declines at mature producing areas and limited new developments. The start-up of the Sepat offshore oil field, with a capacity of 20 tb/d, will provide support to the country's output, in addition to the completion of maintenance at the Sabah project.

**Indonesia's** oil supply is expected to average 0.91 mb/d in 2012, a minor decline of 10 tb/d, representing a minor upward revision of 10 tb/d from the previous *MOMR*. The upward revision occurred on the back of reports that Indonesia's major producer will drill 380 new wells and rework 211 existing wells, which will add around 15 tb/d in 2012. Furthermore, the decree by the Indonesian President to authorities to take steps to boost output to 1.01 mb/d by 2014 further supported the revision.

*Latin American supply to grow by 0.27 mb/d in 2012, supported by increases in Brazil and Colombia*

**Latin America's** oil production is predicted to increase by 0.27 mb/d to average 5.06 mb/d in 2012, flat from the previous *MOMR*. The supply growth outline for Latin America continues with the outlook for strong increases from Brazil and Colombia, while the rest of the region's producers remain steady during the year. Argentina's oil supply is expected to drop by 10 tb/d to average 0.72 mb/d. This drop is anticipated for declines in mature producing areas, with limited new developments. As many operators in the country gear up for shale oil developments, growth from such expansion is not expected in 2012. However, while the start-up of some unconventional oil drilling is seen to support the country's supply profile, ongoing protests and strikes are seen to continue to affect output during the year. Colombia's oil supply is forecast to increase by 0.10 mb/d to average 1.02 mb/d. This is supported by continued ramp-ups of the Quifa and Rubiales developments. The start-up of the marginal Sabanero field further supports growth. Moreover, additional ethanol output is expected to add to the new barrels during the year. However, the risk remains associated with the forecast on security issues. The recent bombing of the Cano Limon pipeline marks the second violent act on the pipeline so far this year. Additionally, protests and unrest might hinder the expected supply growth in 2012. On a quarterly basis, Latin American supply is estimated at 5.00 mb/d, 5.03 mb/d, 5.09 mb/d and 5.12 mb/d respectively.

Brazil's oil supply is seen to grow by 0.17 mb/d in 2012, the highest level among all non-OPEC countries, to average 2.86 mb/d, unchanged from the previous *MOMR*. This strong growth is expected to come on the back of new volumes from several projects, as well as from improvements in biofuel output in 2012, compared with the previous year. Furthermore, the start-up of the Waimea project, which is expected to reach a high output level in the long term, supports growth in 2012. Moreover, the expected start-up of the fourth well in March at the Lula subsalt field, which is expected to bring output to 95 tb/d (from 68 tb/d), strongly supports the outlook. On the other hand, a high level of risk surrounds the outlook, since more technical issues could arise. The recent shutdown of a well in the Santos basin, when a rupture in a production column caused a spill, could reduce growth. Additionally, weather conditions could change the fate of the sugar cane harvest and hence affect biofuel production. On a quarterly basis, Brazil's oil supply is expected to stand at 2.82 mb/d, 2.83 mb/d, 2.88 mb/d and 2.90 mb/d respectively.



*Syria's oil supply outlook is associated with high risk*

**Middle East** oil production is forecast to average 1.61 mb/d in 2012, a decline of 60 tb/d from 2011 and a minor downward revision of 10 tb/d, compared with the previous month. This revision affected Oman's oil supply outlook and came as a carried-over adjustment to historical data. Oman remains the only country in the region where output is expected to increase in 2012. Syria's oil supply is anticipated to decline by 130 tb/d to average 0.25 mb/d. Its supply projection is associated with the highest risk, with the ongoing political situation. Reports have suggested that Block 26 supply stands at 4 tb/d; the field produced 20 tb/d in the first half of 2011. Limited production data from Syria is creating difficulty in assessing the production level and adjusting the forecast, and this could bring large revisions once the data becomes available. Yemen's oil supply is seen to average 0.21 mb/d in 2012, relatively steady from the previous year. On a quarterly basis, Middle East supply is expected to average 1.61 mb/d for all quarters.

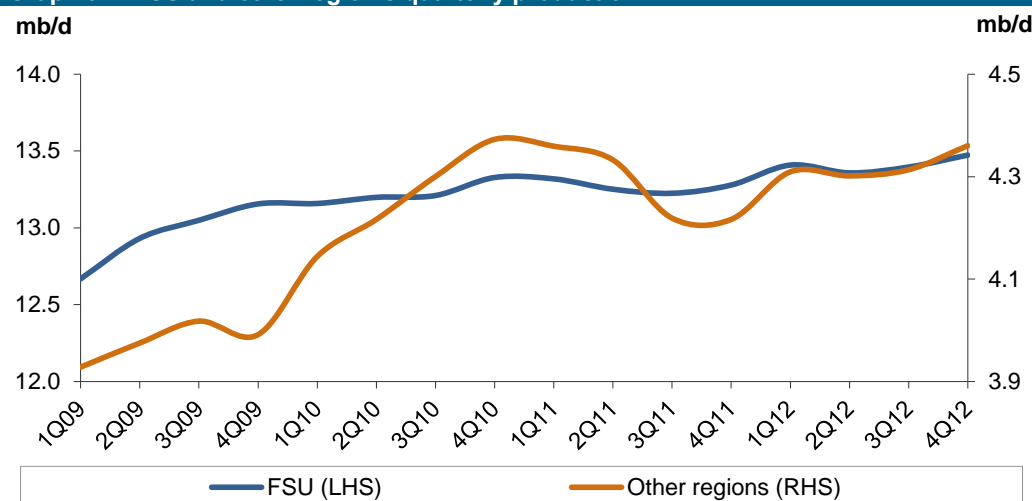
*Sudan's supply forecast risk is increasing*

**Africa's** oil supply is forecast to average 2.56 mb/d in 2012, representing a drop of 20 tb/d from the previous year and a downward revision of 25 tb/d, compared with the previous month. Sudan's oil supply saw a downward revision of 30 tb/d, with the reported shutdown of South Sudan's production of around 350 tb/d. This came on the back of a dispute over transit with Sudan and it is not clear when output will resume. Data remains very limited regarding both Sudan's and South Sudan's production and could cause major revisions to the forecast, once available. Furthermore, the forecast for Sudan's oil supply (which includes both countries) is connected with a very high level of risk, mainly on political issues, as well as a lack of data. The security situation is reported to be deteriorating, with oil-workers being kidnapped. Ghana's oil supply encountered a downward revision, due to technical difficulties that are delaying peak production at the Jubilee oil project to 2013, and production from the field is put at 70 tb/d — and 90 tb/d in 2012. On the other hand, Cameroon's oil supply is expected to increase by around 30 tb/d, supported by developments, such as the Dissoni project. On a quarterly basis, Africa's supply is seen to average 2.53 mb/d, 2.57 mb/d, 2.57 mb/d and 2.56 mb/d respectively.

*FSU supply to increase by 0.14 mb/d in 2012 to average 13.41 mb/d*

### **FSU and Other Regions**

Total **FSU** oil production is forecast to average 13.41 mb/d in 2012, an increase of 0.14 mb/d over 2011, indicating a minor downward revision of 10 tb/d, compared with the previous *MOMR*. There have been upward and downward revisions that came partially from historical data, in addition to minor changes to individual country supply estimates in 2012. Growth is expected from all major producers in the region. Expected growth for the year is 55% lower than the average supply growth seen in the last five years. Limited new developments, coupled with declines in mature areas, as well as transportation and fiscal issues, have reduced the anticipated growth in the FSU in 2012. However, the FSU remains the leading region, in terms of production among all non-OPEC regions. FSU production is expected to maintain a 25% share of global output for the year. On a quarterly basis, total oil supply from the FSU is seen to average 13.41 mb/d, 13.36 mb/d, 13.40 mb/d and 13.47 mb/d respectively. China's oil supply is seen to grow by 30 tb/d to average 4.17 mb/d in 2012. Other Europe's supply is expected to experience a minor increase of 10 tb/d to average 0.15 mb/d.

**Graph 5.4: FSU and other region's quarterly production**

*Russian oil production reached a new record in January*

### **Russia**

**Russian** oil production is projected to increase by 70 tb/d to average 10.34 mb/d in 2012, representing a minor upward revision of 10 tb/d from last month. This revision has come on the back of healthy production levels in January that reached a new record high. The anticipated growth is supported by the start-up of the Pirazlom field, which is expected to begin exports in May or June. Furthermore, the ramp-up of many developments, such as the Kolvinskoye, is seen to support growth in 2012. The outlook for an increase of 15% in drilling activity in 2012 over the previous year is seen to support the anticipated growth. Moreover, recently government officials estimated that Russia's oil supply will increase by around 100 tb/d during the year. On the other hand, the supply forecast remains associated with a high level of risk, due to technical, political, geological and price factors. On a quarterly basis, Russian oil supply is expected to average 10.33 mb/d, 10.32 mb/d, 10.35 mb/d and 10.36 mb/d respectively. Preliminary figures indicate that Russian oil production stood at 10.36 mb/d in January, slightly higher than in the previous month.

*Kazakh supply to average 1.64 mb/d in 2012*

### **Caspian**

**Kazakhstan's** oil production is seen to increase by 40 tb/d to average 1.64 mb/d in 2012, indicating a downward revision of 10 tb/d from the previous evaluation. This revision has come on the back of a historical adjustment that was carried over to the 2012 forecast. The expected increase is supported by the ramp-up of developments, such as the Tengiz and Chinarevskoye. On a quarterly basis, Kazakh oil supply is seen to average 1.65 mb/d, 1.62 mb/d, 1.63 mb/d and 1.66 mb/d respectively.

*Azeri supply to average 0.97 mb/d in 2012*

**Azerbaijan's** oil supply is predicted to increase by 20 tb/d in 2012 to average 0.99 mb/d, representing a downward revision of 15 t/d from the previous *MOMR*. This revision has come on the back of a historical adjustment to the fourth-quarter of 2011 estimate and has affected the 2012 forecast. With limited new developments, Azerbaijan's output is expected to be supported by less technical difficulties and maintenance during the year, while the declines at mature producing areas continue. On a quarterly basis, Azerbaijan's oil supply is seen to stand at 1.00 mb/d, 0.97 mb/d, 0.98 mb/d and 1.00 mb/d respectively.

*China's supply expected to increase by 30 tb/d in 2012*

### **China**

Oil supply from **China** is anticipated to increase by 30 tb/d over 2011 to average 4.17 mb/d in 2012, unchanged from the previous month. The start-up of Lufeng 13-2, which is expected to peak at 30 tb/d, supports the expected growth. According to preliminary data, China's oil supply showed an increase in November, the first since the decline that started in July 2011, led by the Peng Lai field shutdown. The risk associated with China's oil supply forecast is high, on the back of technical issues, as it is not clear yet when the Peng Lai field will resume operations. On a quarterly basis, China's oil supply is seen to average 4.17 mb/d, 4.16 mb/d, 4.17 mb/d and 4.21 mb/d respectively.



## OPEC natural gas liquids and non-conventional oils

OPEC NGLs and non-conventional oils are forecast to average 5.65 mb/d in 2012, growing by 0.36 mb/d over the previous year. In 2011, OPEC NGLs are estimated to have averaged 5.29 mb/d, an increase of 0.39 mb/d over 2010.

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

	Change								Change		Change
	2009	2010	10/09	1Q11	2Q11	3Q11	4Q11	2011	11/10	2012	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

Total OPEC crude oil production averaged 30.90 mb/d in January, the highest since October 2008, which indicates a marginal increase of 56 tb/d from the previous month, according to secondary sources. OPEC crude oil production experienced an increase from Libya, Kuwait, and Iraq, while crude output from Saudi Arabia, Iran, and the UAE experienced a decline. OPEC crude oil production, not including Iraq, averaged 28.15 mb/d, up by 26 tb/d from December.

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

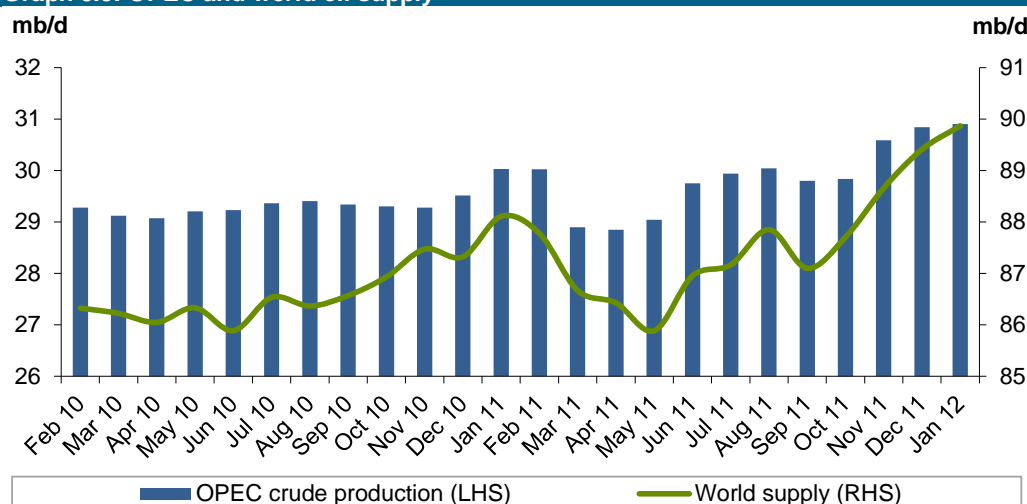
	2010	2011	2Q11	3Q11	4Q11	Nov 11	Dec 11	Jan 12	Jan/Dec
Algeria	1,258	1,257	1,255	1,260	1,254	1,253	1,250	1,235	-14.6
Angola	1,783	1,662	1,548	1,674	1,760	1,811	1,757	1,740	-17.3
Ecuador	475	490	490	486	494	498	494	491	-2.5
Iran, I.R.	3,706	3,615	3,658	3,603	3,544	3,553	3,521	3,478	-42.4
Iraq	2,401	2,671	2,671	2,685	2,677	2,680	2,715	2,745	30.5
Kuwait	2,297	2,528	2,483	2,570	2,683	2,701	2,697	2,752	54.7
Libya	1,559	463	153	47	567	563	798	990	191.6
Nigeria	2,061	2,116	2,147	2,180	2,053	2,071	2,095	2,080	-15.1
Qatar	801	808	807	810	809	810	810	820	9.9
Saudi Arabia	8,284	9,283	9,106	9,655	9,624	9,740	9,720	9,613	-106.2
UAE	2,304	2,521	2,519	2,561	2,561	2,520	2,595	2,570	-24.7
Venezuela	2,338	2,387	2,375	2,396	2,392	2,387	2,390	2,382	-7.7
<b>Total OPEC</b>	<b>29,267</b>	<b>29,800</b>	<b>29,211</b>	<b>29,926</b>	<b>30,419</b>	<b>30,586</b>	<b>30,842</b>	<b>30,898</b>	<b>56.2</b>
<b>OPEC excl. Iraq</b>	<b>26,866</b>	<b>27,129</b>	<b>26,540</b>	<b>27,241</b>	<b>27,742</b>	<b>27,906</b>	<b>28,127</b>	<b>28,153</b>	<b>25.7</b>

Totals may not add up due to independent rounding

## World Oil Supply

Preliminary figures for the month of January indicate that world oil supply averaged 89.87 mb/d, an increase of 0.46 m/d over the December figure, with OPEC's crude share at around 34%. 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**

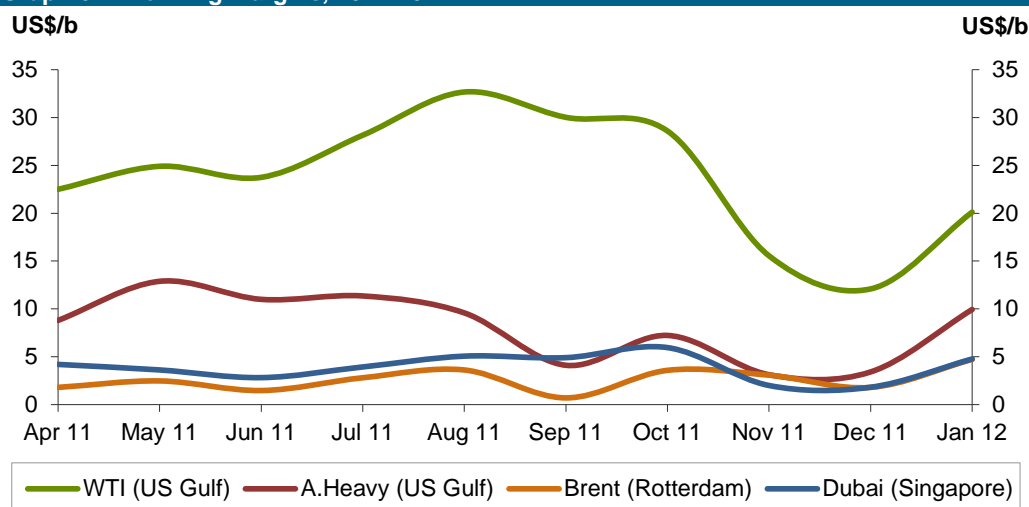


# Product Markets and Refinery Operations

*Refinery closures tightened the market in January, allowing margins to recover*

Tighter supply, following the closure of several refineries in the Atlantic Basin, caused product markets to exhibit a sharp recovery in January, despite weak demand in the region. This situation, along with additional support from stronger demand in Asian countries, allowed refinery margins to increase across the globe.

**Graph 6.1: Refining margins, 2011-2012**



The margin for WTI crude on the US Gulf Coast recovered last month, showing a sharp rise of \$8 to stand at around \$20/b in January, on the back of gains across all parts of the barrel. The most interesting development was seen at the top of the barrel, with the gasoline crack climbing by more than \$10/b.

Market sentiment was supported by fears of a tightening of supply, in light of the recent and expected refinery shutdowns, which amounted to more than 1 mb/d of capacity, affecting mainly supply to the East Coast. Meanwhile, the margin for Arab Heavy on the US Gulf Coast also increased by \$8 to stand at around \$13.5/b.

Despite weak domestic demand, the closing of three Petroplus refineries fuelled positive sentiment in European product markets on the expectation of tighter supplies, and sentiment was boosted further by news of additional closures in the Atlantic Basin.

European refining margins showed a slight improvement on the back of notable gains across the barrel, mainly in light distillates, boosted by refinery closures, as well as the shutdown of the FCC unit at Bilbao refinery during the month. The refinery margin for Brent crude in Rotterdam showed a sharp recovery of almost \$3 in January to stand at around \$5/b.

Asian cracking margins reversed the falling trend and showed a sharp recovery across the product slate in January, with light distillates gaining more than \$6. This reflected increasing buying interest in naphtha from the petrochemical industry, with supply-side support emerging from the upcoming scheduled maintenance at refineries and ports in India. Demand was also stronger in the utilities sector, which, along with higher bunker fuel sales, allowed Singapore refinery margins to increase sharply by \$3 and stand at around \$5/b in January.

## Refinery operations

*Refining industry hit by over-capacity in Atlantic Basin in January*

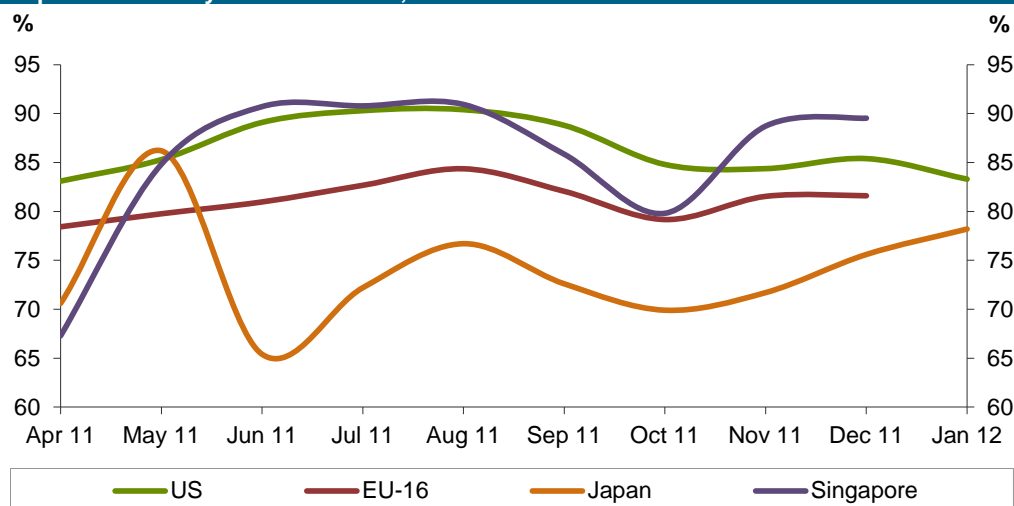
US refinery margins resumed the upward trend in January, which, along with the weakening in crude prices, encouraged refiners to keep run levels high, despite weak domestic demand, as export opportunities continued lending support.

US refinery runs averaged 83.3% of capacity in January, which was 2% lower than in the previous month, due to the closure of, and reductions in, some refineries affected by

unfavourable economic performance.

Weak demand during the last years and the surplus of refining capacity in the Atlantic Basin have caused many refineries to lose money. The economic perspective for some of them appears worse, due to the lack of competitive advantages amid growing costs and stricter specifications, as well as increasing competition and weak product demand. This situation has provoked the start of closures of around 1.5 mb/d of refinery capacity in the first quarter of 2012, temporarily affecting the product market despite ample spare capacity.

**Graph 6.2: Refinery utilization rates, 2011-2012**



European refiners have continued to moderate throughput in response to deteriorating refining margins, the weak economy and excess capacity in the global refining system. Refinery runs remained at around 82% recently and margins have recovered, as a consequence of the tight situation in the market after the closure of several refineries in the region.

In this environment of healthier margins, mainly for light distillates, European refiners might be encouraged to increase throughput. However, the scope to do so is limited, due to the structurally unbalanced market at the top of the barrel and the reduction in gasoline demand from the US.

Asian refinery runs have remained at high levels to face the rising demand for power generation, mainly in China, India and Japan. However, as refineries have been maximizing kerosene production for heating purposes, this increased supply has started to exert pressure on middle distillate margins.

Japan has increased throughput to around 78%, after finishing some maintenance.

#### **US market**

**US gasoline demand continued the downward trend to stand at 8.1 mb/d in January, falling more than 600 tb/d over the previous month and registering a decline of 350 tb/d from the same month a year earlier.**

Weak US gasoline demand continued at a lower seasonal level, standing at 4% below the year-ago level; however, despite the poor domestic demand, the gasoline crack spread managed to show a sharp rise on the back of stronger export opportunities in a tight supply environment.

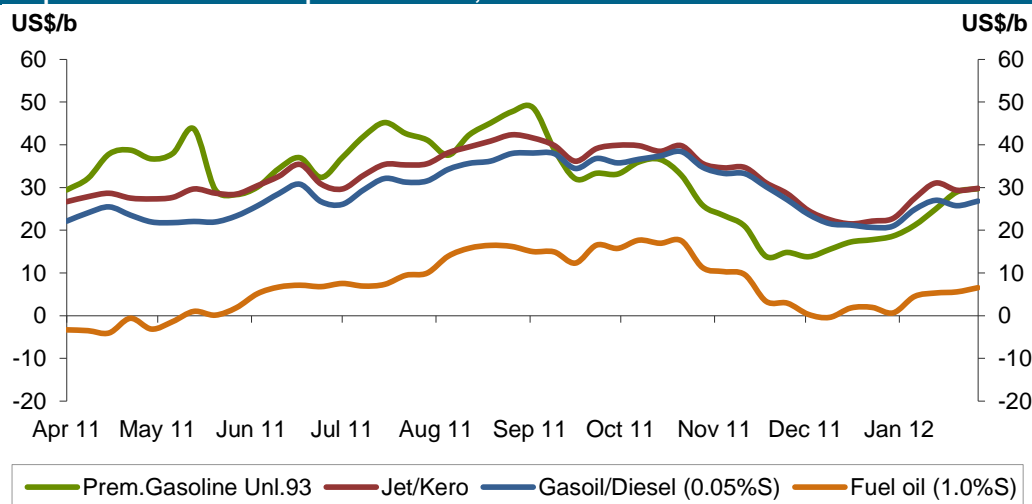
The gasoline crack averaged \$27.5/b in January, jumping more than \$10/b over the previous month. The bullish sentiment was fuelled by fears of a tightening in supply, due to news about the recent and expected refinery shutdowns, which will be affecting the market. In addition to the drop in refinery runs last month and closure of three plants on the US East Coast with a total refining capacity of around 700 tb/d, the PDV-Hess

*US product cracks rose sharply in January, supported by stronger export opportunities*

joint venture, Hovensa, recently announced that its St Croix refinery (with a capacity of about 350 tbd) was currently in the process of being shut down for economic reasons.

Additional support came from export opportunities, as South American gasoline imports remained healthy, with mainly Venezuela importing from the US Gulf Coast.

**Graph 6.3: US Gulf crack spreads vs. WTI, 2011-2012**



**Middle distillate demand decreased to 3.6 mb/d in January, falling almost 290 tb/d over the previous month and showing a decline of 330 tb/d from the same month a year earlier.**

Weaker domestic demand was counterbalanced by strong import requirements from Latin America, while recently re-emerging arbitrage opportunities to Europe also supported the market and the gasoil crack on the US Gulf Coast showed a rise of almost \$5 to average \$26.5/b in January.

The market remained supported by healthy diesel exports to South America, specifically to Chile, due to higher diesel requirements for power-generation as a severe drought has limited hydroelectric output, as well as increasing diesel requirements from other countries, such as Argentina, Colombia and Ecuador.

This support was reinforced by a continuing reduction in middle distillate inventories during the month and reports of lower temperatures in some areas of the US.

The US fuel oil market recovered, supported by healthy domestic demand, at a time of rising low sulphur fuel oil (LSFO) demand for utility requirements in the US Northeast market, despite maximization of the use of cheaper natural gas.

Additional support came from the supply side, as refineries ran at lower levels than in the last months and fewer imports caused inventories to decline, thus fuelling positive sentiment in the market.

The fuel oil crack showed a sharp increase of almost \$5 in January to stand at \$6/b.

#### **European market**

**Product market sentiment became bullish in Europe on the expectation of tighter supplies, following the closure of several refineries in the region, and was further boosted by the news of additional closures in the Atlantic Basin.**

Naphtha cracks showed a sharp recovery on the back of the strength of the gasoline market as well as stronger demand – not only from the local petrochemical sector, where naphtha had become more attractive than the alternative feedstock propane, contributing to the tightness in the market and causing ARA stocks to fall, but also from the emerging arbitrage opportunities to the US, particularly for heavy naphtha, following the Hovensa shutdown. Healthy demand from Asian petrochemical companies also

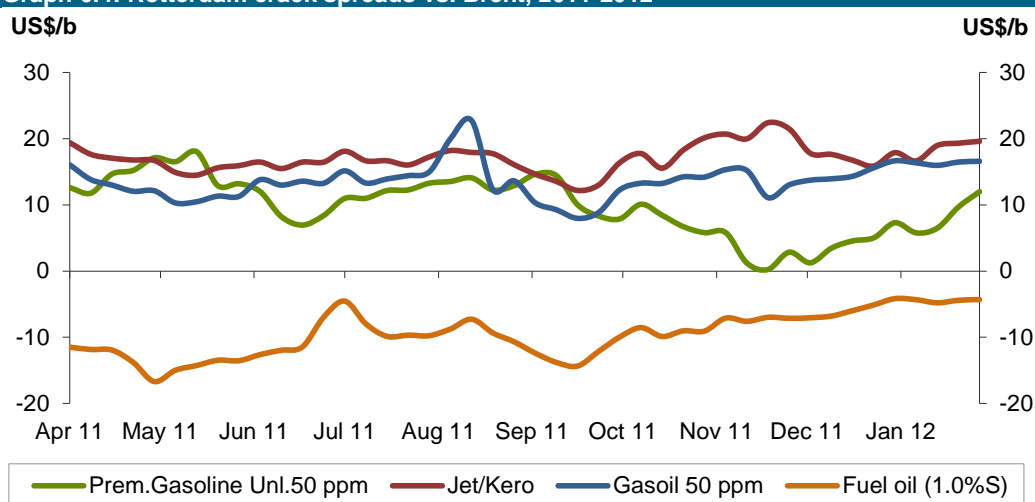
*Upward move in product cracks in Europe in January, following refinery closures*

helped support naphtha cracks.

The European gasoline market reversed the falling trend to show a recovery, as news of additional refinery shutdowns across the Atlantic helped boost bullish sentiment. In addition to the closing of the Hovensa refinery in the US Virgin Islands, co-owner Hess announced that it might need to shut its 70,000-b/d refinery in Port Reading, New Jersey, for three weeks, due to problems with its fluid catalytic cracker. Conoco Phillips also announced an FCC shutdown in its New Jersey refinery. In line with these developments, supply tightened across the Atlantic Basin. The temporary shortage, along with the increasing demand in Africa and the Middle East – mainly from Algeria, Saudi Arabia, Libya and Egypt – supported sentiment in the market and allowed European gasoline cracks to recover.

The gasoline crack spread against Brent crude showed a sharp recovery of \$5/b from an average of \$4.3/b in December to stand at \$9.3/b in January.

**Graph 6.4: Rotterdam crack spreads vs. Brent, 2011-2012**



Despite weak domestic demand, the European gasoil market was balanced on the supply side, due to the closure of several refineries in the region.

On the demand side, some support came from higher requirements from Greece, Egypt and Libya, which, along with fewer inflows from Asia and the closure of the Petroplus refineries, caused ARA stocks to drop and kept the market tight, thus offsetting the limited buying interest in heating oil due to the mild winter weather in the region.

The gasoil crack spread against Brent crude at Rotterdam showed a gain of \$1.5, to stand around \$16.3/b.

Looking ahead, the colder weather in the middle of the winter season and the tight supply situation amid maintenance in Asia could lend support to the middle distillates market in the region in the coming months.

At the bottom of the barrel, fuel oil cracks held the ground gained last month in a relatively tight market, as lower domestic demand, due to reduced fuel oil consumption in Petroplus refineries, was counterbalanced by arbitrage opportunities to Asia, on the back of stronger bunker demand in Singapore and increasing utility requirements in the Asia-Pacific region.

The Northwest European fuel oil crack spread against Brent showed a gain of \$1.3 this month, to stand at minus \$4.5/b.

*Regional demand pushed margins up in Asia in January*

### Asian market

**Asian cracking margins reversed the falling trend and showed a sharp recovery across the product slate in January, on the back of strong regional demand with bullish market sentiment.**

The weaker seasonal gasoline market showed a sharp recovery in the Singapore gasoline cracking margin, reacting to stronger regional demand in a tight market.

Gasoline market sentiment was fuelled by stronger demand from Indonesia, Vietnam, Malaysia and Sri Lanka, with the latter due to operational problems in the Kelaniya refinery. In contrast, expected tighter supplies boosted the positive sentiment, due to upcoming refinery maintenance, in conjunction with healthy gasoline demand in the Asia-Pacific, planned Indian refinery maintenance in February, and announced refinery shutdowns in the Middle East due to turnarounds at the Riyadh and Ras Tanura refineries.

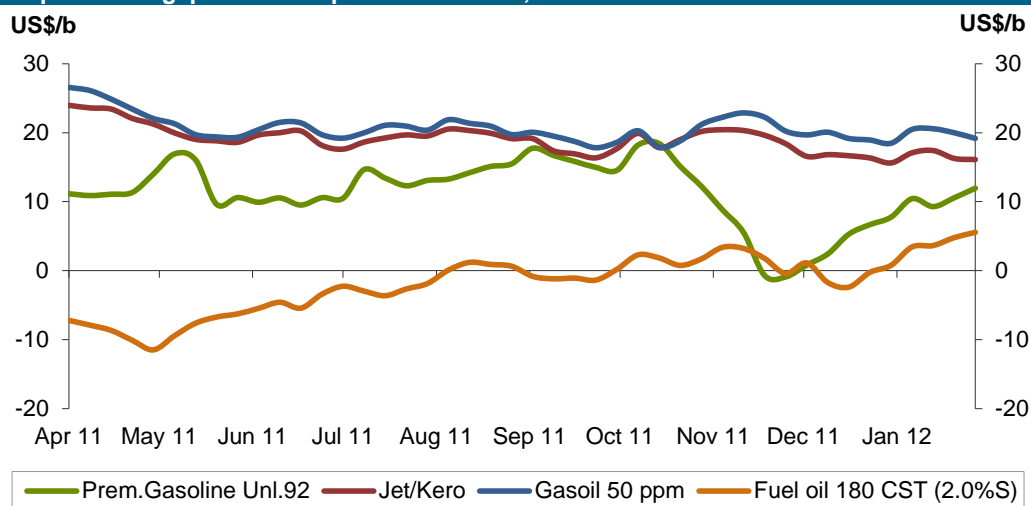
The naphtha crack also posted a sharp recovery, as worries of a tightening in supply outweighing the currently lacklustre performance of global demand.

Refinery shutdowns in Europe limited arbitrage movement to the East, with some support also stemming from rising propane prices in Northwest Europe, making naphtha the preferred petrochemical feedstock. The demand side was supported by increasing buying interest from the petrochemical sector, mainly from Japan, South Korea and Taiwan, while demand from China remained subdued, due to the Lunar New Year holiday.

Additional support will be expected over the coming weeks on news of a reduction in Indian naphtha exports, due to scheduled maintenance at Reliance's Jamnagar II refinery; however, the petrochemical maintenance season could offset this.

The gasoline crack spread against Dubai crude in Singapore recovered by a sharp \$6.6 to average around \$11.2/b in January.

**Graph 6.5: Singapore crack spreads vs. Dubai, 2011-2012**



The middle distillates market remained relatively well balanced, as the supply-side supported the market, with heavy maintenance scheduled in February fuelling tightening sentiment. Furthermore, some refineries continued maximizing the production of kerosene for heating purposes, keeping gasoil supplies comparatively tight amid strong regional demand, mainly from Sri Lanka and China, as well as India where higher requirements of diesel were needed to replenish low inventories in the east of the country, caused by the increased use of diesel-powered back-up generators in the face of growing power shortages. However, higher production of kerosene and the marginal arbitrage opportunities to the West exerted some pressure on regional supplies and capped gains in gasoil margins.

The gasoil crack spread in Singapore against Dubai showed an increase of 90¢/b from the previous month to average around \$20/b in January.

**Table 6.1: Refinery operations in selected OECD countries**

	Refinery throughput, mb/d			Refinery utilization, %		
	Dec 11	Jan12	Jan/Dec	Dec 11	Jan 12	Jan/Dec
<b>US</b>	14.77	14.51	-0.26	85.40	83.30	-2.10
<b>France</b>	1.39	<i>n.a.</i>	-	74.70	<i>n.a.</i>	-
<b>Germany</b>	1.88	<i>n.a.</i>	-	77.93	<i>n.a.</i>	-
<b>Italy</b>	1.50	<i>n.a.</i>	-	76.25	<i>n.a.</i>	-
<b>UK</b>	1.41	<i>n.a.</i>	-	80.00	<i>n.a.</i>	-
<b>Euro-16</b>	10.69	<i>n.a.</i>	-	81.60	<i>n.a.</i>	-
<b>Japan</b>	3.59	3.70	0.11	75.60	78.20	2.60

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

At the bottom of the barrel, fuel oil cracks showed a sharp recovery of \$5 to display a premium of \$4.5/b over Dubai, the highest level seen in two years.

Market sentiment was bearish on the supply side in December, due to higher inflows; however, the sentiment became bullish at a time of stronger bunker fuel demand in Singapore, increasing feedstock requirements from Chinese independent refiners, and healthy regional utility demand.

**Table 6.2: Refined product prices, US\$/b**

		<u>Nov 11</u>	<u>Dec 11</u>	<u>Jan 12</u>	<u>Change Jan/Dec</u>
<b>US Gulf (Cargoes):</b>					
Naphtha		105.11	107.57	115.69	8.12
Premium gasoline	(unleaded 93)	114.75	115.62	127.28	11.66
Regular gasoline	(unleaded 87)	108.27	107.83	117.31	9.48
Jet/Kerosene		128.62	120.86	130.01	9.15
Gasoil	(0.05% S)	127.43	119.79	126.72	6.93
Fuel oil	(1.0% S)	103.07	99.40	106.01	6.61
Fuel oil	(3.0% S)	100.07	95.25	102.88	7.63
<b>Rotterdam (Barges FoB):</b>					
Naphtha		95.62	96.97	105.18	8.21
Premium gasoline	(unleaded 10 ppm)	112.81	112.46	119.56	7.10
Premium gasoline	(unleaded 95)	110.45	110.10	117.05	6.95
Jet/Kerosene		131.30	124.89	129.31	4.42
Gasoil/Diesel	(10 ppm)	131.36	128.16	136.45	8.29
Fuel oil	(1.0% S)	103.47	102.11	106.12	4.01
Fuel oil	(3.5% S)	100.69	97.12	105.87	8.75
<b>Mediterranean</b>					
Naphtha		93.51	94.06	102.08	8.02
Premium gasoline	(50 ppm)	112.98	112.63	119.74	7.11
Jet/Kerosene		125.16	119.05	123.26	4.21
Gasoil/Diesel	(50 ppm)	110.06	107.39	114.33	6.95
Fuel oil	(1.0% S)	103.15	102.06	107.13	5.07
Fuel oil	(3.5% S)	99.67	95.22	102.77	7.55
<b>Singapore (Cargoes):</b>					
Naphtha		95.25	98.61	104.82	6.21
Premium gasoline	(unleaded 95)	112.86	113.86	123.99	10.13
Regular gasoline	(unleaded 92)	111.17	111.50	120.69	9.19
Jet/Kerosene		127.99	122.87	126.70	3.83
Gasoil/Diesel	(50 ppm)	130.36	125.71	130.08	4.37
Fuel oil	(180 cst 2.0% S)	110.76	105.72	114.36	8.64
Fuel oil	(380 cst 3.5% S)	105.89	102.52	110.79	8.27



# Tanker Market

*OPEC spot fixtures increased, while sailings remained steady in January*

Global fixtures increased by 15.6% in January, compared with the previous month. OPEC spot fixtures were up by 1.7 mb/d, or 16%, and averaged 12.4 mb/d, according to preliminary data. The gain in OPEC fixtures received support outside the Middle East. Fixtures from the Middle East averaged 12.4 mb/d in January, while, from outside that region, they averaged 4.2 mb/d, an increase of 1.3 mb/d. Compared with the same period a year earlier, global fixtures indicated growth of 16% in January. Preliminary data showed that OPEC sailings remained flat in January, averaging 23.3 mb/d. However, compared with the same month last year, they gained 0.4 mb/d, or 2%. January arrivals in all areas, except the Far East, gained ground over last month. North America and West Asia increased by 20 tb/d and 11 tb/d respectively, to average 8.8 mb/d and 4.6 mb/d. Europe remained flat, while the Far East declined by 13 tb/d.

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

	<b>Nov 11</b>	<b>Dec 11</b>	<b>Jan 12</b>	<b>Change Jan/Dec</b>
<b>Spot Chartering</b>				
All areas	18.10	18.22	21.06	2.85
OPEC	11.74	10.70	12.40	1.70
Middle East/East	6.81	6.63	6.48	-0.15
Middle East/West	1.35	1.18	1.72	0.54
Outside Middle East	3.58	2.90	4.21	1.31
<b>Sailings</b>				
OPEC	23.12	23.38	23.31	-0.07
Middle East	17.67	17.70	17.50	-0.20
<b>Arrivals</b>				
North America	8.52	8.59	8.79	0.20
Europe	12.31	12.37	12.32	-0.04
Far East	8.18	8.49	8.35	-0.13
West Asia	4.67	4.51	4.62	0.11

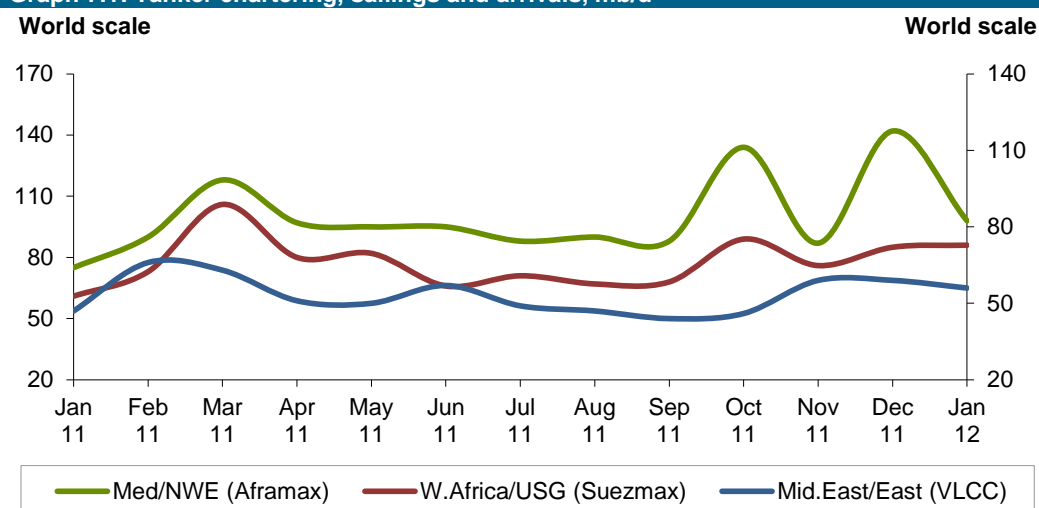
Source: "Oil Movements" and Lloyd's Marine Intelligence Unit

*Spot freight rates weakened for both dirty and clean tankers in January*

Both dirty and clean tanker spot freight rates were bearish in January, compared with the previous month. The decline in dirty rates was experienced on all reported routes, except for VLCCs from West Africa to the US. In the clean market, rates on all reported routes declined both East and West of Suez. In the dirty tanker segment, VLCC spot freight rates declined by 4.4%, Suezmax rates retreated by 1.2% and Aframax rates decreased by 20.2%. In the clean tanker segment, East of Suez rates dropped by 19% and West of Suez declined by 12%. The decline in spot freight rates in January came mainly from the increase in Worldscale evaluations, which, at a rough average, rose by 18% on reported routes. However, compared with last year, average spot freight rates in nominal terms for both dirty and clean tankers showed improvements in January this year.

*Dirty spot freight rates declined on most reported routes in January*

Spot freight rates for VLCCs operating from the Middle East to eastern destinations and from the Middle East to western ports declined by 5% in January, compared with the previous month. The drop in rates on both routes was driven mainly by the increase in the Worldscale flat rate on the back of higher bunker prices. Additionally, moderate Chinese tonnage demand, as many charterers went on holiday during the Chinese New Year, put further pressure on the decline in rates. Tonnage demand improvements from other Asian countries did not support rates closing higher from Middle East loading ports in January. Following a similar trend, rates for VLCCs operating on the long-haul route from West Africa to eastern destinations declined by 3% in January. Changing trade routes, where vessels load from the Middle East to the US and return laden from West Africa to the East, increased availability and put pressure on rates. Compared with the same month a year earlier, rates from the Middle East to the East, the Middle East to the West, and West Africa to the East showed increases of 19%, 16% and 16% respectively in January.

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

**Suezmax** spot freight rate developments in January followed the same pattern as VLCC rates, as average rates dropped by 1.2%, compared with the previous month. However, the rate for Suezmax operating on the West Africa-to-the-US route increased by 3%, the only spot rate that achieved an increase in January on all the reported routes. The rate for tanker sailings from NW Europe to the US decreased by 5%. The gain in West Africa-to-the-West was supported by ample tonnage demand and owner sentiment towards increasing February requirements from the US, while the loss in NW Europe-to-the-US came from pressure from limited transatlantic activity and plentiful tonnage in the Mediterranean.

**Aframax** spot freight rates experienced the biggest declines in January, compared with the previous month. The average rate fell by 20% on the reported routes. East of Suez, the rate on the Indonesia-to-the-East route declined by 14%. West of Suez, the Caribbean-to-the-US rate remained flat, while the Mediterranean-to-Mediterranean and Mediterranean-to-NW Europe rates declined by 32% and 31% respectively; these declines were driven by a build-up in tonnage supply and a reduction in delays in the Turkish Straits, as weather conditions improved. The increase in the Worldscale flat rate was the main reason for the steady state of rates for Aframax operating in the Caribbean in January, with support from increased activity and weather conditions. The decline in Indonesia-to-the-East rate came on the back of flat rate changes, as well as lower requirements from Japan.

**Table 7.2: Spot tanker crude freight rates, Worldscale**

	Size 1,000 DWT	Nov 11	Dec 11	Jan 12	Change Jan/Dec
<b>Crude</b>					
Middle East/East	230-280	59	59	56	-3
Middle East/West	270-285	41	39	37	-2
West Africa/East	260	58	61	59	-2
West Africa/US Gulf Coast	130-135	76	85	86	1
NW Europe/USEC-USGC	130-135	72	77	73	-4
Indonesia/US West Coast	80-85	102	105	91	-14
Caribbean/US East Coast	80-85	108	116	116	0
Mediterranean/Mediterranean	80-85	86	141	96	-45
Mediterranean/North-West Europe	80-85	87	142	98	-44

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

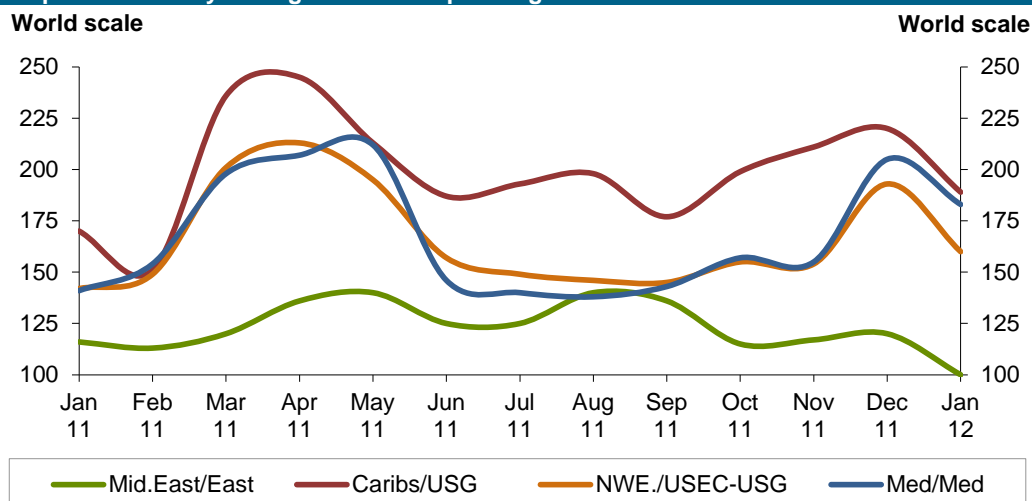
*Clean spot freight rates declined East and West of Suez*

In the clean tanker market, spot freight rates weakened on all reported routes in January, after the rebound on many routes in the previous month, due partially to the flat rate increase.

The average rates decreased by 19% East of Suez and by 13% West of Suez. The biggest decline was on the Singapore-to-the-East route, where the rate dropped by 20%. The rate for the Middle East-to-the-East route declined by 17%. The decline in the

Singapore-to-the-East rates was driven by lower product trade. The decline on the Middle East-to-the-East route came on the back of lower naphtha trade, as Asian petrochemical plants reduced their requirements.

**Graph 7.2: Monthly averages of clean spot freight rates**



West of Suez clean tanker spot freight rates followed the same pattern as East of Suez. Rates on all reported routes declined in January, compared with last month. The NW Europe-to-the-US rate witnessed the heaviest decline of 17%. The rate for tankers operating on the Caribbean-to-the-US route declined by 14%, while those for the Mediterranean-to-Mediterranean and the Mediterranean-to-NW Europe dropped by 11% and 10% respectively. Adequate tonnage supply and the flat rate increase put pressure on the rate in NW Europe-to-the-US, while improved weather conditions, as well as lower requirements from Latin America, had a negative impact on the Caribbean-to-the-US clean rates. The small open transatlantic arbitrage of gasoline and diesel provided some support for spot freight rates and limited the declines in January. The new Worldscales flat rate exerted downward pressure on spot freight rates both East and West of Suez and left clean tanker rates weak. Compared with the same month last year, East of Suez rates declined in January, while those of West of Suez increased.

**Table 7.3: Spot tanker product freight rates, Worldscales**

	Size				
	1,000 DWT	Nov 11	Dec 11	Jan 12	Change Jan/Dec
<b>Products</b>					
Middle East/East	30-35	117	120	100	-20
Singapore/East	30-35	154	152	121	-31
Caribbean/US Gulf Coast	38-40	211	220	189	-31
NW Europe/USEC-USGC	33-37	154	193	160	-33
Mediterranean/Mediterranean	30-35	155	205	183	-22
Mediterranean/North-West Europe	30-35	162	213	191	-22

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

# Oil Trade

*US crude oil imports rose in January to 8.94 mb/d*

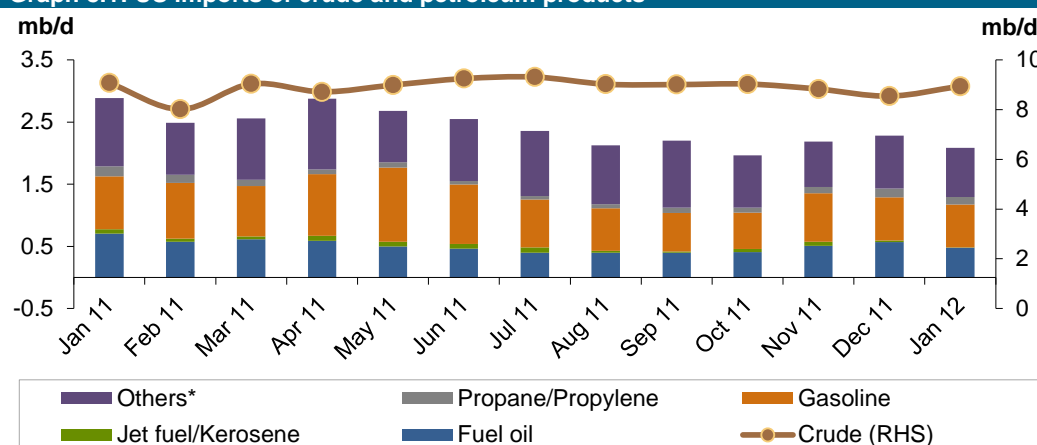
## US

Preliminary data indicates that US crude oil imports increased by more than 400 tb/d, or 4.67%, to average around 8.94 mb/d in January. This was 127 tb/d, or 1.4%, lower than last year's level, which was 9.1 mb/d.

Product imports decreased for the second consecutive month since November and now stand at 2.09 mb/d, which is 193 tb/d, or 8.5%, lower than the month before. For the y-o-y comparison, a drop of around 800 tb/d, or 27.7%, was registered in January 2012. In contrast, product exports increased slightly in January to 2.88 mb/d, a rise of 30 tb/d, or 1.1%, m-o-m and 9.9%, or 260 tb/d, y-o-y.

**As a result, US net oil imports rose in January to 8.1 mb/d, up by around 175 tb/d, or 2.20%, m-o-m. However, they remained almost 12.4% below the year-ago level.**

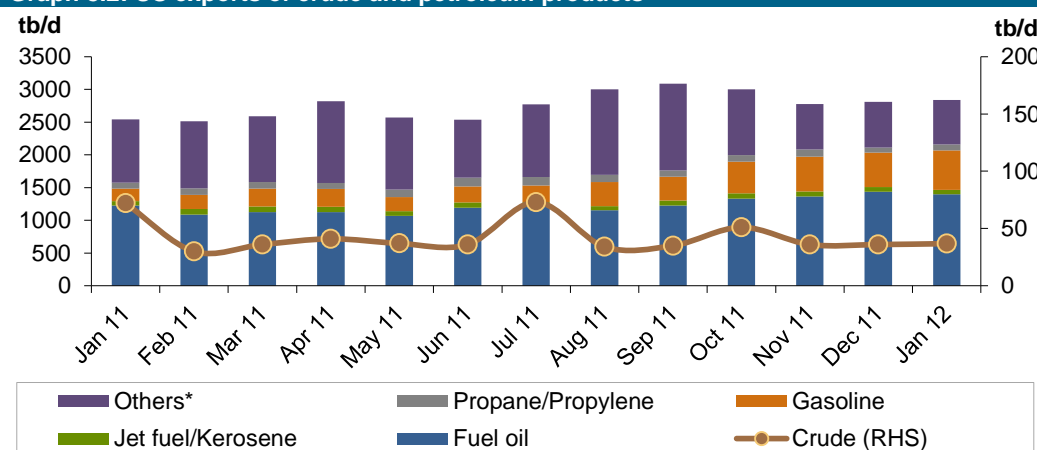
**Graph 8.1: US imports of crude and petroleum products**



\*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

The US imported around 3.88 mb/d of crude oil from OPEC Member Countries in November, constituting a share of 43.9% of total imports to the US. On an m-o-m basis, there was a slight decrease of 166 tb/d, or 4.10%. Canada remained the main supplier with 2.36 mb/d, or 26.8%, followed by Saudi Arabia with 1.20 mb/d, or 13.6%, Mexico with 1.16 mb/d, or 13.1%, Venezuela with around 0.71 mb/d, or 8.0%, and Nigeria with 0.66 mb/d, or 7.4%.

**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 increased by 118 tb/d, or 52.9%, to average around 341 tb/d in November. OPEC had a share of 14.6% in total US product imports. Canada and Russia remained the main suppliers, accounting for 454 tb/d, or 19.4%, and 426 tb/d, or 18.2%, respectively, followed by Algeria with 179 tb/d, or 7.6%, the Virgin Islands with 177 tb/d, or 7.5%, and the UK with 107 tb/d, or 4.6%.

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

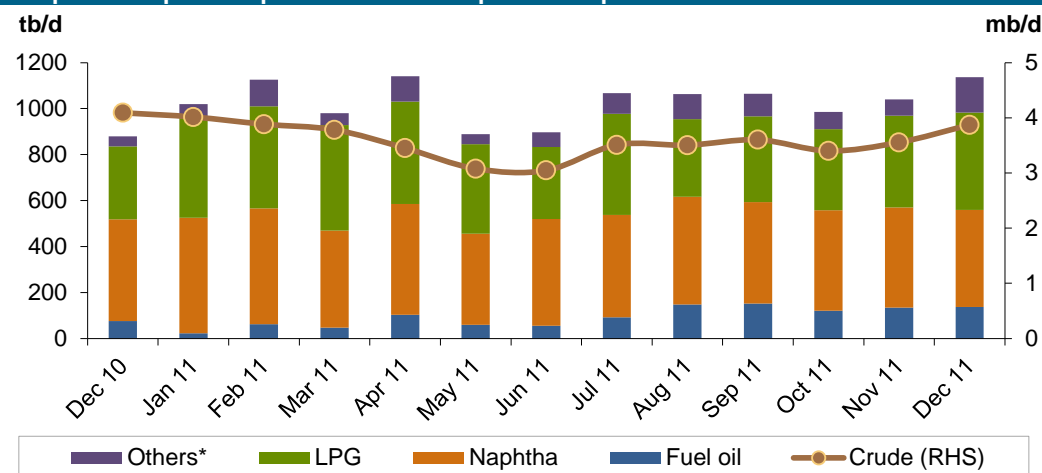
	<u>Nov 11</u>	<u>Dec 11</u>	<u>Jan 12</u>	<u>Change Jan/Dec</u>
Crude oil	8,762	8,507	8,905	398
Total products	-778	-566	-789	-223
<b>Total crude and products</b>	<b>7,984</b>	<b>7,941</b>	<b>8,116</b>	<b>175</b>

### Japan

December's crude imports increased m-o-m by 317 tb/d, or 8.9%, to 3.9 mb/d. Y-o-y, this represented a decline of 219 tb/d, or 5.4%. For the year, crude imports stood at 3.55 mb/d in 2011, a decline of 4.4%, or 163 tb/d, versus the previous year which stood at 3.71 mb/d.

*Japan's crude oil imports increased in December by 12.6% to 3.9 mb/d*

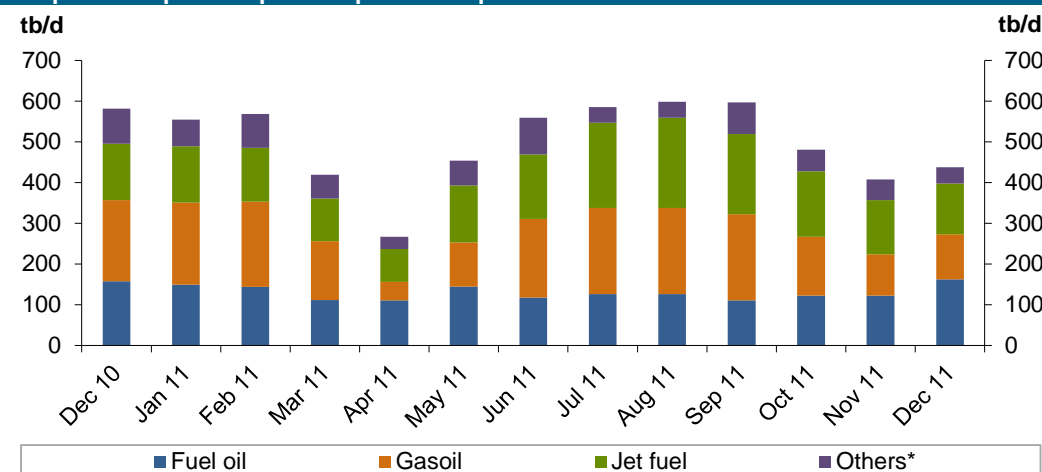
**Graph 8.3: Japan's imports of crude and petroleum products**



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

Product imports, including LPG, rose to 1.14 mb/d, which was an increase of 9.3%, or 96 tb/d, m-o-m and of 29.3%, or 258 tb/d, y-o-y. For 2011, a level of 1.03 mb/d was reached, 8.7% or 83 tb/d higher than the previous year, which stood at 951 tb/d.

**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 by 30 tb/d or 7.5% to average 0.44 mb/d. On a y-o-y basis, a decrease of 24.7%, or 144 tb/d, was observed. For the the year, product imports stood at a level of 494 tb/d for a decline of 8.5% or 46 tb/d compared to the previous year's 540 tb/d.

As a result, **Japan's net oil imports in December increased by 498 tb/d, or 12.2%, from the month before, to 4.6 mb/d.** On a y-o-y basis, an increase of 182 tb/d, or 4.2%, is shown. This increase can be attributed mainly to the net trade in crude oil, which was up 12.6%, or 432 tb/d, on an m-o-m basis.

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

	<u>Oct 11</u>	<u>Nov 11</u>	<u>Dec 11</u>	<u>Change Dec/Nov</u>
Crude oil	3,401	3,440	3,872	432
Total products	505	633	700	66
<b>Total crude and products</b>	<b>3,906</b>	<b>4,073</b>	<b>4,571</b>	<b>498</b>

## China

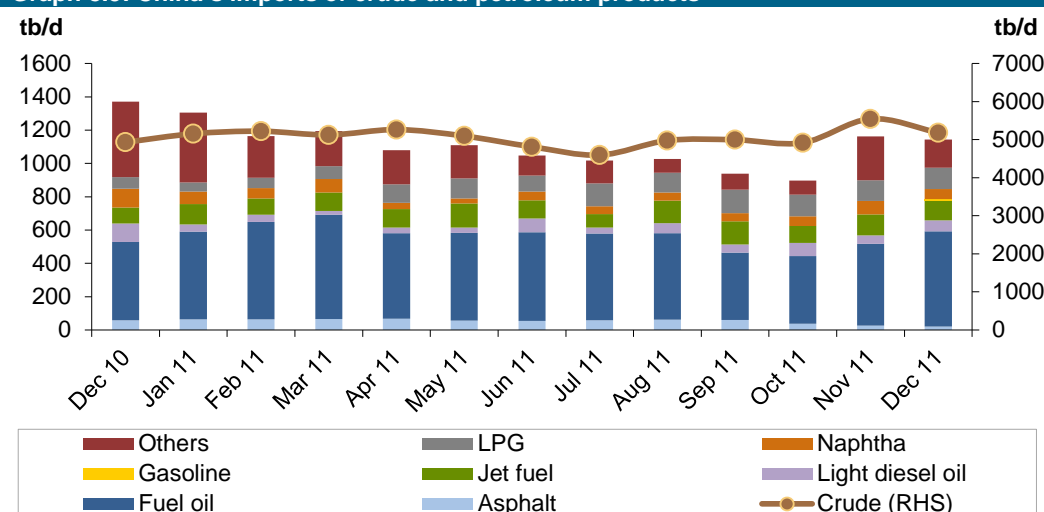
*China's crude oil imports declined to 5.2 mb/d in December*

China's crude oil imports fell to 5.18 mb/d, or 21.9 million tonnes, in December, a decrease of 3.4% on a tonnage basis and 6.5% on a b/d basis, or 362 tb/d. Comparing 2011 with the same period of the previous year, crude imports at 5.07 mb/d showed a 5.5%, or 266 tb/d, increase.

Oil product supply, by imports registered in December, recorded a decline of 15%, or 170 tb/d, m-o-m. Y-o-y, a decrease of 27.6%, or 378 tb/d, was seen in December.

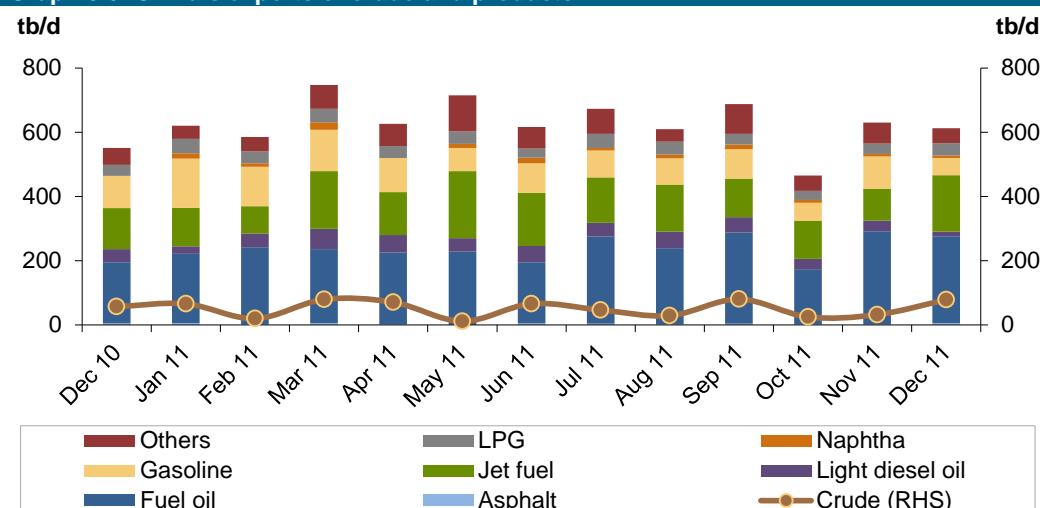
In annual terms, China's product imports averaged 1.08 mb/d in 2011, an increase of 71 tb/d or 7.1% over the previous year.

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



China's crude oil exports in December showed an increase of around 144% m-o-m, or 47 tb/d, to 79 tb/d, from 32 tb/d the month before. For 2011, a decline of around 17.1% or 10 tb/d y-o-y was seen.

Oil product exports in December also showed a decrease of around 12%, or 77 tb/d, m-o-m. On a y-o-y basis, the increase was 0.2%, or 1.0 tb/d. On a year-to-date basis, a level of 621 tb/d indicates a decline of 2.8%, or 18 tb/d, from the previous year's level of 639 tb/d.

**Graph 8.6: China's exports of crude and products**

As a result, **China's total net oil imports decreased by 501 tb/d, or 8.3%, m-o-m in December to stand at 5.54 mb/d.** This decrease can be attributed to crude oil net imports, which fell by 409 tb/d to 5.10 mb/d.

Looking at China's net oil imports in 2011, the total rose by 366 tb/d, or 7.2%, to 5.48 mb/d.

The top-five suppliers to the Chinese market were ranked as Saudi Arabia with 1.12 mb/d, followed by Angola with 0.67 mb/d, IR Iran with 0.58 mb/d, Russia with 0.48 mb/d, and Oman with 0.42 mb/d.

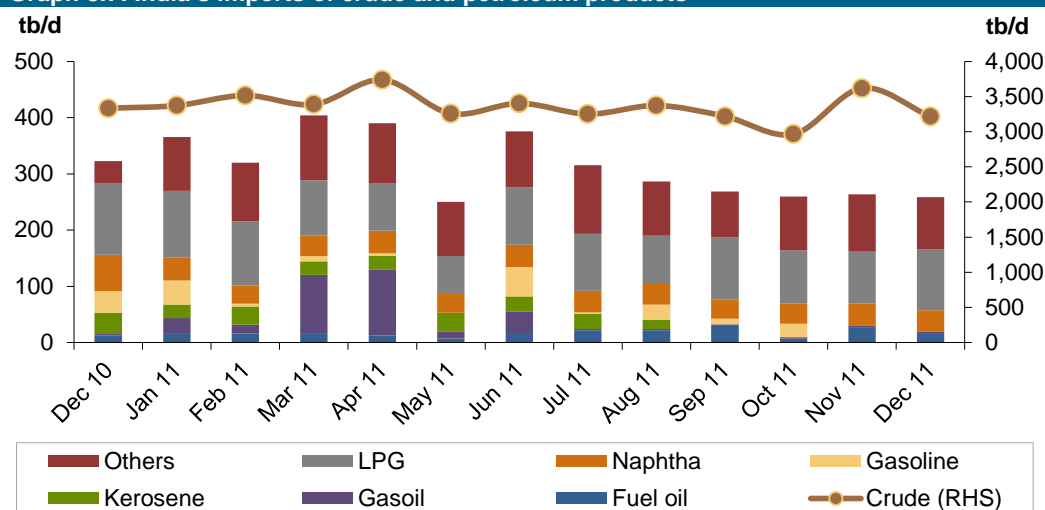
**Table 8.3: China's crude and product net imports, tb/d**

	<u>Oct 11</u>	<u>Nov 11</u>	<u>Dec 11</u>	<u>Change Dec/Nov</u>
Crude oil	4,894	5,513	5,104	-409
Total products	431	532	440	-92
<b>Total crude and products</b>	<b>5,325</b>	<b>6,045</b>	<b>5,544</b>	<b>-501</b>

## India

*India's crude oil imports fell 11.1% in December*

India's crude oil imports fell m-o-m by 403 tb/d, or 11.1%, in December to 3.22 mb/d. on a y-o-y basis, crude oil imports stood at 3.36 mb/d in 2011, which was 198 tb/d, or 6.3%, higher than in 2010.

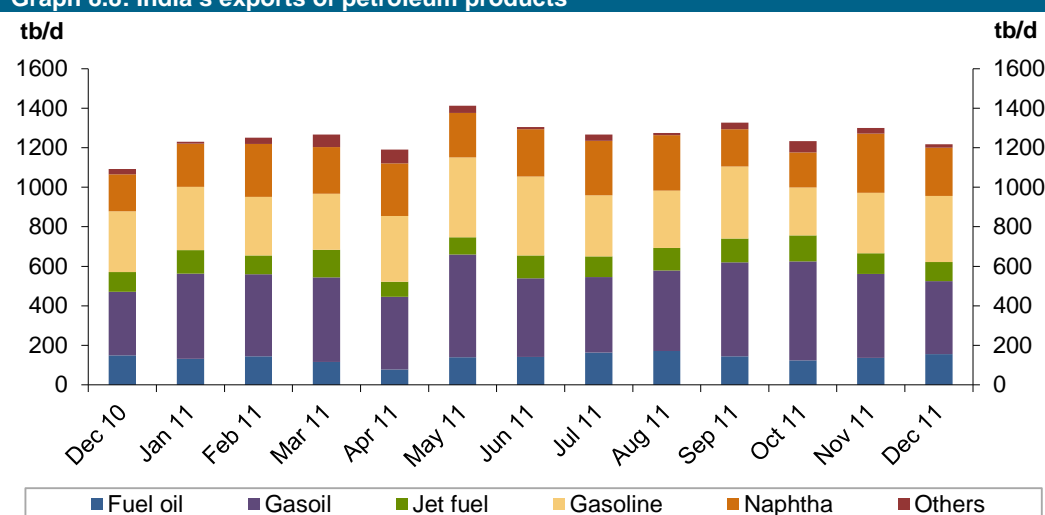
**Graph 8.7: India's imports of crude and petroleum products**



Product imports decreased slightly, compared with November, by 0.5%, or 1.3 tb/d, to an average of around 262 tb/d. Despite the increase in LPG imports in December, the overall fall in product imports continued at a slower pace during that month. However, India's product imports remained above the 250 tb/d level in December, the lowest since May. Compared with a year ago, December's product imports were 20.3% lower. Diesel oil, naphtha and fuel oil were also contributors to the decrease in product imports, aside from the fact that there were no deliveries for gasoline and kerosene. LPG increased by around 17.7.0%, or 16.3 tb/d, m-o-m to 108.3 tb/d.

India's product imports in 2011 stood at 312 tb/d, which represents a decline of around 6.0%, or 20 tb/d, compared with 2010, when it was 332 tb/d. On the export side, products decreased by 81 tb/d, or 6.3%, in December m-o-m to stand at 1.22 mb/d. This reduction offset the moderate increase of the previous month. On a y-o-y basis, product exports increased by 11.5% in December. Over 2011, product exports showed an increase of 20.1%, or 213 tb/d, to stand at 1.27 mb/d, compared with 1.06 mb/d in 2010.

**Graph 8.8: India's exports of petroleum products**



As a result, **India's net oil imports decreased by 323 tb/d, or 12.5%, to average 2.26 mb/d.** Y-o-y, there was an increase of 11.8%. Compared to the previous year, net oil imports of 2.40 mb/d represent a moderate decrease of 1.5%, or 35.0 tb/d.

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

	Oct 11	Nov 11	Dec 11	Change Dec/Nov
Crude oil	2,965	3,619	3,216	-403
Total products	-973	-1,036	-956	80
<b>Total crude and products</b>	<b>1,992</b>	<b>2,582</b>	<b>2,260</b>	<b>-323</b>

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

## FSU

*FSU exports dropped to 6.40 mb/d in December. Products fell by 1.1% to 2.40 mb/d*

**Total FSU crude exports fell by 273 tb/d, or 4.1%, m-o-m to 6.40 mb/d in December.** The fall might be attributed to the reduction in Transneft shipments through Baltic ports, a drop of 17.5%, or 178 tb/d, m-o-m, and Black Sea ports, a reduction of 11.5%, or 188 tb/d, m-o-m. Meanwhile, supplies from the far-eastern Kozmino terminal rose sharply by 23.4%, or 63 tb/d; the Druzhba system saw a moderate increase in exports of 2.7%, or 34 tb/d; and direct pipeline exports to China climbed by 5.4%, or 17 tb/d.

This underpinned expectations that Russian producers would cut seaborne crude exports in February, in favour of more profitable domestic sales and deliveries along the Druzhba pipeline to Eastern Europe. Moreover, the planned launch later this year of the second leg of the 600 tb/d Baltic Pipeline System (BPS), which feeds Ust-Luga, is expected to put an end to Urals exports through the Polish port of Gdansk.

Crude exports using the Baku-Tbilisi-Ceyhan (BTC) pipeline increased to 639 tb/d, or by 4.2%, in December after a planned production shutdown, which was caused by field maintenance in November. Shipments through Russia's Transneft pipeline system declined by 5.6% to 4.23 mb/d. Exports of Kazakh crude to China through the Kenkiyak-Alashankou pipeline rose m-o-m in December by 4.9%, or 9 tb/d.

Exports of CPC Blend through the Caspian Pipeline Consortium (CPC) terminal at Novorossiysk were down by 62 tb/d, or 9.2%, m-o-m in December to stand at 615 tb/d. Exports of Sakhalin fell in December, bringing the overall figure from Russia's far east to 247 tb/d, a decline of 9.9%, or 27 tb/d. Crude exports from Varandey terminal in northern Russia dropped to 51 tb/d from 53 tb/d.

FSU total product exports were down in December by a marginal 1.1% to 2.39 mb/d, compared with the previous month. However, due to reduced domestic demand during the New Year holiday period, in particular, supplies of gasoline rose by 151 tb/d, or 84.1%. This was countered by decreases in jet fuel of 75.0%, or 3 tb/d; naphtha of 2.6%, or 5 tb/d; gasoil of 3.2%, or 22 tb/d; fuel oil of 2.8%, or 36 tb/d; and VGO of 16.0%, or 29 tb/d.

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

	<u>2010</u>	<u>2011</u>	<u>2Q11</u>	<u>3Q11</u>	<u>4Q11</u>	<u>Nov 11</u>	<u>Dec 11*</u>
<b>Crude</b>							
<b>Russian pipeline</b>							
Black Sea	994	935	886	951	930	1,016	838
Baltic	1,564	1,461	1,534	1,342	1,526	1,641	1,453
Druzhba	1,126	1,170	1,118	1,178	1,241	1,243	1,277
Kozmino	309	306	315	319	295	269	332
<b>Total</b>	<b>4,005</b>	<b>4,178</b>	<b>4,157</b>	<b>4,087</b>	<b>4,310</b>	<b>4,483</b>	<b>4,230</b>
<b>Other routes</b>							
Russian rail	330	173	145	137	213	195	242
Russian-Far East	276	279	286	260	272	274	247
Kazakh rail	123	157	128	126	198	178	232
Vadandey	152	82	92	67	81	53	51
Kaliningrad	24	23	21	22	26	28	19
CPC	743	679	671	668	640	677	615
BTC	775	695	761	691	643	613	639
Kenkiyak-Alashankou	204	222	239	240	180	182	191
Caspian	239	170	175	123	146	172	167
<b>Total crude exports</b>	<b>6,750</b>	<b>6,500</b>	<b>6,546</b>	<b>6,295</b>	<b>6,511</b>	<b>6,676</b>	<b>6,403</b>
<b>Products</b>							
Gasoline	141	149	220	101	124	82	151
Naphtha	253	243	302	246	204	196	191
Jet	18	10	17	16	2	4	1
Gasoil	809	716	793	711	688	694	672
Fuel oil	1,129	1,201	1,448	1,330	1,239	1,265	1,229
VGO	228	198	294	189	168	181	152
<b>Total</b>	<b>2,578</b>	<b>2,518</b>	<b>3,074</b>	<b>2,594</b>	<b>2,426</b>	<b>2,422</b>	<b>2,396</b>
<b>Total oil exports</b>	<b>9,328</b>	<b>9,018</b>	<b>9,621</b>	<b>8,889</b>	<b>8,937</b>	<b>9,098</b>	<b>8,799</b>

\* Preliminary

Totals may not add due to independent rounding

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

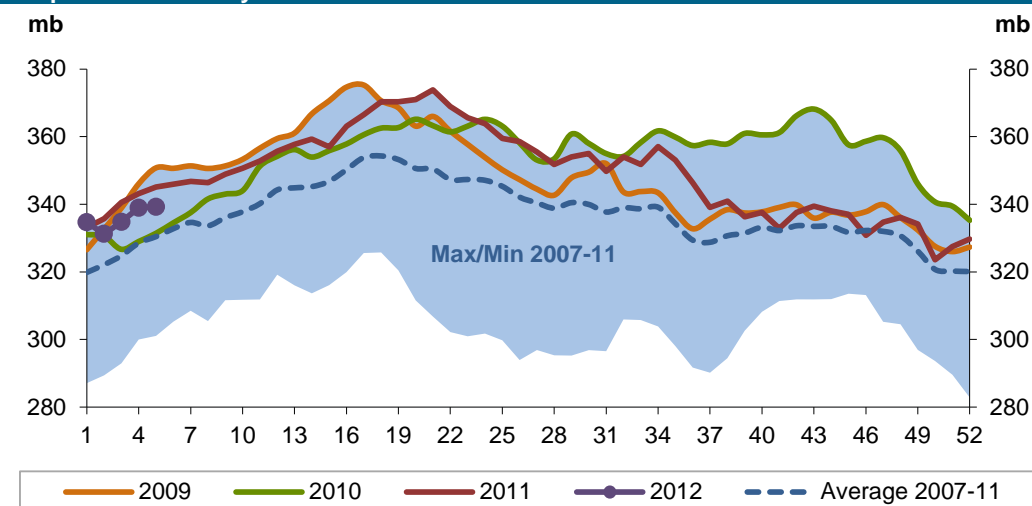
# Stock Movements

*US commercial oil stocks reversed four-month falls in January, to rise by 11.5 mb*

## US

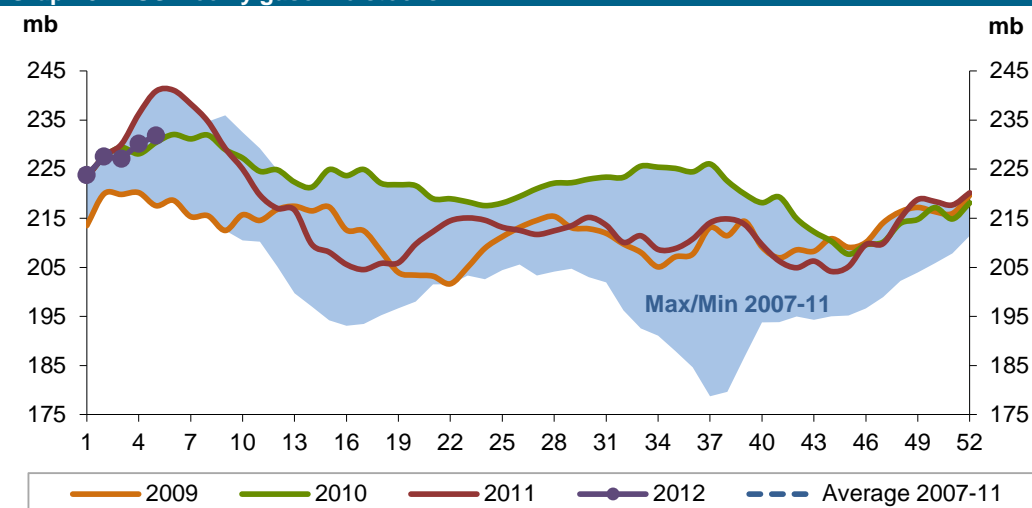
**US commercial oil stocks** reversed the falls of the last four months and rose by 11.5 mb to end January at 1,055.8 mb. Despite this build, they remained 21.0 mb, or 2.0%, below the same time last year. However, they were 14.4 mb, or 1.4%, above the five-year average. This build was attributed to both crude and products, which increased by 9.2 mb and 2.3 mb respectively.

**Graph 9.1: US weekly commercial crude oil inventories**



**US commercial crude stocks** reversed the downward trend of the last two months and increased considerably, by 9.2 mb, to finish January at 338.9 mb, the highest level since August. Despite this build, they still showed a deficit of 8.5 mb, or 2.5%, from a year ago; however, they were 8.2 mb, or 2.5%, above the latest five-year average. The build came mainly from higher crude oil imports, which increased by almost 500,000 b/d to average 8.94 mb/d, but this level was still around 100,000 b/d less than the previous year. The fall in US crude oil refinery input also contributed to the build in crude oil stocks. In fact, crude runs averaged 14.5 mb/d, about 150,000 b/d below the previous month, but almost 140,000 b/d more than a year ago over the same period. In January, US refineries operated at 83.3%, which was 1.5 percentage points (pp) lower than the previous month and 0.8 pp lower than the same month last year. Crude commercial stocks are expected to build further, as moderate temperatures in the US Northeast should reduce the call for heating oil. At the same time, higher global oil supply should lead to further increases in crude imports and consequently contribute to a further build in crude oil stocks. Adding to the bearish crude sentiment, Cushing inventories rose in the week ending 27 January by 1.5 mb over the previous week to reach 30.1 mb.

**US product stocks** reversed the declines of the last four consecutive months to rise in January by 2.3 mb to 716.9 mb. At this level, they were 12.5 mb, or 1.7%, below that of the same time last year, while showing a surplus of 6.1 mb, or 0.9%, over the five-year average.

**Graph 9.2: US weekly gasoline stocks**

With the exception of residual fuel oil, all other products saw a build, with the bulk of this coming from gasoline stocks, which increased by 9.9 mb, followed by 1.8 mb for distillates and 0.8 mb for jet fuel oil. Gasoline stocks' considerable build followed a slight drop in December. At 230.0 mb, they were at the highest level for a year, with a surplus of 0.7 mb over the seasonal norm. However, despite this build, they were still 4.9 mb, or 2.1%, below the previous year's level. Gasoline demand, hitting a new record-low since January 2000 was behind this strong build in gasoline stocks. In fact, gasoline demand averaged around 8.1 mb/d, almost 600,000 b/d below a month earlier. A surge in gasoline imports to over 1 mb/d also contributed to the build in inventories. However, lower gasoline output at 8.6 mb/d, from more than 9.0 mb in the previous month, limited inventory gains. A continuation of weak gasoline fundamentals should lead to a higher build in gasoline stocks in the coming weeks. Distillate stocks showed a contra-seasonal build in January to end the month at 145.4 mb, the highest level since September. Despite this build, they were 16.8 mb, or 10.4%, below the previous year's level for the same period and 2.5 mb, or 1.7%, below the seasonal norm. The build in distillate stocks came on the back of lower demand, which declined by around 300,000 b/d in January from the previous month to average 3.6 mb/d. Weak natural gas prices and warm weather continued to impact distillate markets. Higher distillate exports, estimated at around 1 mb/d, as well as a reduction in refinery output, limited a further build in distillate stocks. Jet fuel oil stocks also rose in January, to end the month at 42.2 mb, which was 1.8% higher than the same month the year before and 2.1% above the last five-year average. In contrast, residual fuel oil stocks fell for the second consecutive month, reflecting the strength of fuel oil markets. At 33.6 mb, they were 5.4 mb, or 13.8%, below last year's level and 5.3 mb, or 13.6%, below the seasonal norm.

**Table 9.1: US onland commercial petroleum stocks, mb**

	<u>Nov 11</u>	<u>Dec 11</u>	<u>Jan 12</u>	<u>Change</u> <u>Jan 12/Dec 11</u>	<u>Jan 11</u>
<b>Crude oil</b>	337.6	329.7	338.9	9.2	347.4
Gasoline	221.0	220.2	230.1	9.9	235.0
Distillate fuel	144.0	143.6	145.4	1.8	162.2
Residual fuel oil	39.3	36.4	33.6	-2.8	39.0
Jet fuel	42.1	41.4	42.2	0.8	41.5
<b>Total</b>	<b>1075.8</b>	<b>1044.3</b>	<b>1055.8</b>	<b>11.5</b>	<b>1076.8</b>
SPR	696.0	696.0	696.0	0.0	726.5

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

Source: US Department of Energy's Energy Information Administration

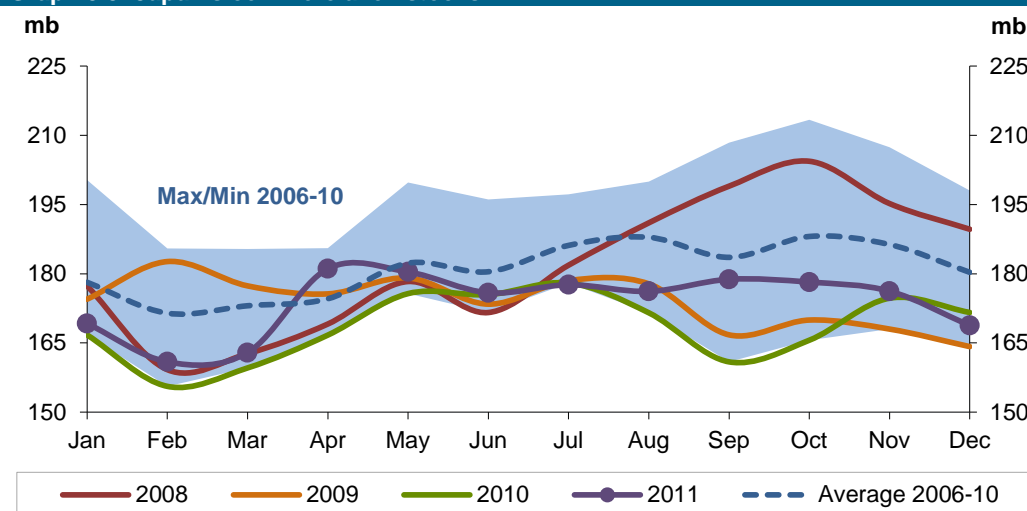
*In Japan, commercial oil stocks fell for the third month running in December, by 7.4 mb*

## Japan

In December, **commercial oil stocks** in Japan fell for the third consecutive month, by 7.4 mb to 168.8 mb, the lowest level since April. With this draw, they switched the surplus from a year ago that was incurred the previous month to a deficit of 2.8 mb, or 1.7%, while the deficit with the five-year average widened to 6.4%, from 5.4% a month earlier. The bulk of the stock-draw came from products, which declined by 7.0 mb, while crude saw a small draw of 0.4 mb.

Japanese **commercial crude oil stocks** declined for the second consecutive month to end December at 98.0 mb. With this draw, they were 3.1% below the five-year average and 3.7% lower than the seasonal norm. December's drop came from higher crude throughput, which increased by around 200,000 b/d, or 5.9%, from the previous month, to average 3.59 mb/d. However, this level was still 8% below that of the same period the year before and corresponded to a refinery utilization rate of 79.7%, which was 4.4 pp higher than the previous month, but still 6.6 pp less than the same period the year before. Direct crude burning continued to increase in December, reaching more than 332,000 b/d, which was 37% above the previous month's level. The increase in Japanese crude oil imports for the second consecutive month limited the fall in crude oil stocks. In fact, crude oil imports rose by around 320,000 b/d, or 8.9%, from the month before to average 3.6 mb/d, although they were down by 5.4% from the previous year. For the whole of 2011, they averaged 3.57 mb/d, which was 4% lower than the previous year. The drop in Japan's crude oil imports can be attributed to lower refinery throughput, as some of the country's refineries were forced to shut-in following the March earthquake and tsunami.

**Graph 9.3: Japan's commercial oil stocks**



Japanese **total product inventories** fell in December, reversing the build of the previous month to stand at 70.8 mb. With this drop, the deficit with the last five-year average widened to 9.8% from 7.7% a month earlier, while the surplus with the same period the year before remained at 0.4%. The fall came from higher oil product sales, which reached almost 4.0 mb/d in December, nearly 17% more than the previous month and 2.7% higher than the same period a year earlier. However, this rise could turn out to be an exception, as the Japanese economy is slowing down and the strong yen is further curbing oil demand, which is already on a downward trend following the shift in energy policy to more efficient cars and alternative fuels.

With the exception of naphtha, which increased by 0.3 mb, all products saw a drop, with the bulk of the loss coming from distillate stocks, which declined by 5.3 mb. This was followed by a drop of 1.3 mb in gasoline stocks, while fuel oil inventories decreased by 0.7 mb. Distillate stocks reversed the build of the previous month and fell substantially to end December at 32.9 mb. Despite this fall, they showed a surplus of 1.9 mb, or 6.1%, over the same period the year before, while widening the deficit with the five-year average to 9.1%, from 5.2% a month earlier. Regarding the components of distillates, the picture was mixed. Kerosene stocks saw the largest drop, declining by 13.0%,

following stronger demand as cold weather caused kerosene sales to double from a year ago over the same period. Jet fuel stocks also fell, by 6.9%, reflecting lower production, while gasoil saw a build of 1.1%, which could be attributed to higher production and imports. Gasoline stocks fell, to end December at 11.6 mb, which was 7.5% below a year earlier and 7.2% lower than the seasonal norm. This fall came mainly on the back of higher gasoline sales, which increased by 14.5% from the previous month. The increase in gasoline output limited the stock-draw in gasoline inventories. Residual fuel stocks saw a decline of 0.7 mb, ending December at 15.5 mb and showing a slight deficit of 0.2 mb, or 1.2%, from the same month a year earlier. However, the deficit with the last five-year average widened to 15.0% from 10.8% a month earlier. Regarding the components of fuel oil, fuel oil A inventories saw a drop of 5.4%, while fuel oil B.C stocks went up by 1.4%. The stock-draw in fuel oil A came on the back of higher domestic sales, which increased by 28%, while higher output was behind the build in fuel oil B.C stocks. Robust sales of fuel oil B.C limited the build in this product, which is mainly used in power-generation utilities to meet power demand. Naphtha stocks saw a build of 0.3 mb to end the month at 10.8 mb, indicating a deficit of 3.9% with the same period a year ago and 6.6% below the seasonal average.

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

	<u>Oct 11</u>	<u>Nov 11</u>	<u>Dec 11</u>	<u>Change</u> <u>Dec 11/Nov 11</u>	<u>Dec 10</u>
<b>Crude oil</b>	101.0	98.4	98.0	-0.4	101.1
Gasoline	12.6	12.9	11.6	-1.3	12.5
Naphtha	11.4	10.5	10.8	0.3	11.2
Middle distillates	37.1	38.2	32.9	-5.3	31.0
Residual fuel oil	16.2	16.2	15.5	-0.7	15.7
<b>Total products</b>	77.2	77.8	70.8	-7.0	70.5
<b>Total**</b>	<b>178.2</b>	<b>176.2</b>	<b>168.8</b>	<b>-7.4</b>	<b>171.6</b>

\* At end of month

\*\* Includes crude oil and main products only

Source: METI, Japan

### Singapore and Amsterdam-Rotterdam-Antwerp (ARA)

*Product stocks fell for the sixth month running in Singapore in December*

In December, **product stocks in Singapore** continued their downward trend for the sixth consecutive month, falling by 2.6 mb to end the month at 36.7 mb, the lowest level since January 2009. With this draw, they widened the deficit with the same time a year earlier to 6.9 mb, from 5.7 mb the previous month.

Within products, the picture was mixed. Light distillates and fuel oil declined by 1.8 mb and 0.9 mb respectively, while middle distillates rose by 0.2 mb. Singapore light distillate stocks reversed the build of the last three months to end the year at 10.4 mb, but were still 1.1 mb, or 17.4%, below the same period a year earlier. Limited gasoline imports from North Asia and China to Singapore were behind this draw. Lower gasoline imports could be attributed to refinery maintenance. Fuel oil stocks also saw a drop to end December at 16.7 mb, almost a two-and-a-half-year low and down 4.4 mb, or 13.5%, from a year earlier. Healthy demand from the bunker market was keeping inventories tight. Lower fuel oil imports, especially from Europe, also contributed to the draw. In contrast, middle distillates rose to 9.6 mb, but were 3.6 mb, or 33%, below last year's level for the same period. Lack of demand from the West contributed to the build in middle distillate stocks in Singapore.

*In December, product stocks in ARA reversed the build of the previous month to a draw*

**Product stocks in ARA** reversed the build of the previous month and declined by 1.4 mb to end December at 29.4 mb, the lowest level for three years. With this draw, the deficit with the previous year stood at 8.7 mb, or 22.8%. Within products, the picture was mixed. Gasoline and jet fuel oil saw gains, while naphtha, gasoline and fuel oil stocks experienced draws.

Gasoline continued the build and increased by 0.6 mb to stand at 6.0 mb at the end of December, indicating a slight decline of 0.2 mb from a year earlier. Jet fuel stocks reversed the previous month's draw and rose by 0.9 mb to end 2011 at 4.3 mb. They were 1.5 mb, or 26%, below the same month the year before. Gasoil reversed the previous month's build and fell by 1.1 mb to stand at 14.3 mb, which was 6.2 mb, or

30.2 mb, below the same period of the previous year. Improvements in diesel demand, combined with a higher water level in the River Rhine, leading to more outflow from the ARA region, were behind the draw on middle distillate stocks. Fuel oil inventories also went down, by 1.1 mb, at the end of December to finish the month at 3.8 mb. That was 1.0 mb, or around 20%, below the previous year's level. The drop in fuel oil supply was in line with the recent favourable arbitrage opportunities to Asia. Naphtha stocks dropped by 0.2 mb to stand at 0.9 mb, but were still 0.3 mb, or almost 50%, above the level of a year earlier in the same period.



# Balance of Supply and Demand

*Required OPEC crude for 2011 estimated at 30.1 mb/d, 0.4 mb/d higher than in the previous year*

## Estimate for 2011

Demand for OPEC crude for 2011 remained unchanged from the previous assessment, as both non-OPEC supply and world oil demand saw a similar downward adjustment of around 20,000 b/d each, leaving the demand for OPEC crude unchanged. At 30.1 mb/d, the demand for OPEC crude stood at 0.4 mb/d above 2010. The first and second quarters show growth of 0.9 mb/d and 0.2 mb/d respectively, while the third quarter is estimated to have remained unchanged. The fourth quarter is seen to show growth of 0.4 mb/d compared with the same period the previous year.

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

	<b>2010</b>	<b>1Q11</b>	<b>2Q11</b>	<b>3Q11</b>	<b>4Q11</b>	<b>2011</b>
<b>(a) World oil demand</b>	<b>86.94</b>	<b>87.52</b>	<b>86.33</b>	<b>88.38</b>	<b>89.00</b>	<b>87.82</b>
Non-OPEC supply	52.30	52.77	51.96	52.08	52.77	52.40
OPEC NGLs and non-conventionals	4.90	5.12	5.26	5.37	5.42	5.29
<b>(b) Total supply excluding OPEC crude</b>	<b>57.20</b>	<b>57.89</b>	<b>57.22</b>	<b>57.45</b>	<b>58.19</b>	<b>57.69</b>
<b>Difference (a-b)</b>	<b>29.74</b>	<b>29.63</b>	<b>29.12</b>	<b>30.93</b>	<b>30.81</b>	<b>30.13</b>
OPEC crude oil production	29.27	29.63	29.21	29.93	30.42	29.80
Balance	-0.47	0.00	0.09	-1.00	-0.39	-0.33

*Totals may not add up due to independent rounding*

## Forecast for 2012

The demand for OPEC crude for 2012 is projected to average 30.0 mb/d, about 0.1 mb/d lower than in the previous report, driven mainly by a downward revision to demand, outweighing a marginal lower revision in non-OPEC supply. In quarterly terms, the first quarter saw the bulk of the adjustment, being revised down by 0.3 mb/d, followed by 0.1 mb/d downward revisions to the second and fourth quarters, while the third remained unchanged from the previous assessment. The required OPEC crude is forecast to show a decline of 0.1 mb/d from the previous year. The first and third quarters are estimated to see negative growth of 0.1 mb/d, while the second is expected to see negative growth of 0.2 mb/d and the fourth quarter is expected to remain unchanged.

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

	<b>2011</b>	<b>1Q12</b>	<b>2Q12</b>	<b>3Q12</b>	<b>4Q12</b>	<b>2012</b>
<b>(a) World oil demand</b>	<b>87.82</b>	<b>88.10</b>	<b>87.42</b>	<b>89.54</b>	<b>89.95</b>	<b>88.76</b>
Non-OPEC supply	52.40	53.05	52.92	52.98	53.34	53.07
OPEC NGLs and non-conventionals	5.29	5.50	5.61	5.71	5.79	5.65
<b>(b) Total supply excluding OPEC crude</b>	<b>57.69</b>	<b>58.55</b>	<b>58.52</b>	<b>58.69</b>	<b>59.13</b>	<b>58.72</b>
<b>Difference (a-b)</b>	<b>30.13</b>	<b>29.55</b>	<b>28.90</b>	<b>30.85</b>	<b>30.82</b>	<b>30.04</b>

*Totals may not add up due to independent rounding*

**Graph 10.1: Balance of supply and demand**

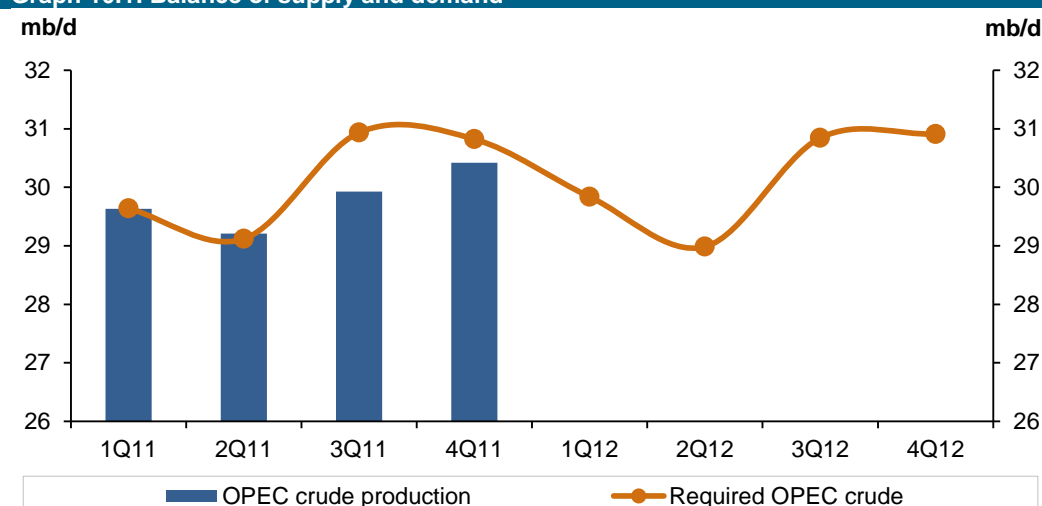


Table 10.3: World oil demand/supply balance, mb/d

	2006	2007	2008	2009	2010	1Q11	2011	3Q11	4Q11	2011	1Q12	2012	3Q12	4Q12	2012
<b>World demand</b>															
OECD	49.5	49.3	47.6	45.6	46.2	46.3	44.6	46.1	46.3	45.8	45.8	44.5	46.1	46.2	45.7
North America	25.4	25.5	24.2	23.3	23.8	23.8	23.3	23.6	23.5	23.6	23.4	23.4	23.7	23.6	23.5
Western Europe	15.7	15.5	15.4	14.7	14.6	14.2	14.1	14.8	14.4	14.4	14.0	13.9	14.6	14.2	14.2
Pacific	8.5	8.4	8.0	7.7	7.8	8.3	7.1	7.7	8.4	7.9	8.4	7.2	7.7	8.4	7.9
DCs	23.6	24.8	25.6	26.2	27.0	27.2	27.6	27.8	27.9	27.7	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	4.1	4.5	4.5	4.3
Other Europe	0.9	0.8	0.8	0.7	0.7	0.7	0.6	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7
China	7.2	7.6	8.0	8.3	9.0	9.1	9.5	9.4	9.6	9.4	9.5	10.0	9.8	10.0	9.8
(a) Total world demand	85.2	86.5	86.1	84.7	86.9	87.5	86.3	88.4	89.0	87.8	88.1	87.4	89.5	89.9	88.8
<b>Non-OPEC supply</b>															
OECD	20.1	20.0	19.5	19.7	20.0	20.1	19.8	19.9	20.5	20.1	20.3	20.2	20.1	20.3	20.3
North America	14.2	14.3	13.9	14.4	15.0	15.3	15.2	15.5	15.9	15.5	15.7	15.7	15.7	15.8	15.7
Western Europe	5.3	5.2	4.9	4.7	4.4	4.3	4.1	3.8	4.1	4.1	4.1	3.9	3.9	4.0	4.0
Pacific	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.5	0.5
DCs	11.9	11.9	12.2	12.4	12.7	12.8	12.5	12.7	12.6	12.7	12.8	12.9	12.9	13.0	12.9
FSU	12.0	12.5	12.6	13.0	13.2	13.3	13.3	13.2	13.3	13.3	13.4	13.4	13.4	13.5	13.4
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	0.1	0.1	0.1
China	3.7	3.8	3.8	3.8	4.1	4.2	4.2	4.1	4.1	4.1	4.2	4.2	4.2	4.2	4.2
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	52.8	52.0	52.1	52.8	52.4	53.1	52.9	53.0	53.3	53.1
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	55.4	57.2	57.9	57.2	57.4	58.2	57.7	58.5	58.5	58.7	59.1	58.7
OPEC crude oil production (secondary sources)	30.6	30.2	31.3	28.8	29.3	29.6	29.2	29.9	30.4	29.8					
Total supply	84.4	84.6	85.7	84.2	86.5	87.5	86.4	87.4	88.6	87.5					
Balance (stock change and miscellaneous)	-0.9	-2.0	-0.4	-0.5	-0.5	0.0	0.1	-1.0	-0.4	-0.3					
<b>OECD closing stock levels (mb)</b>															
Commercial	2655	2554	2679	2641	2670	2631	2676	2664							
SPR	1499	1524	1527	1564	1561	1558	1561	1526							
Total	4154	4079	4206	4205	4230	4188	4237	4189							
Oil-on-water	919	948	969	919	871	891	853	835							
<b>Days of forward consumption in OECD</b>															
Commercial onland stocks	54	54	59	57	58	59	58	58							
SPR	30	32	33	34	34	35	34	33							
Total	84	86	92	91	92	94	92	91							
<b>Memo items</b>															
FSU net exports	8.1	8.5	8.5	9.0	9.1	9.2	9.3	8.8	8.8	9.0	9.2	9.3	8.9	8.9	9.1
(a) - (b)	31.4	32.2	31.6	29.3	29.7	29.6	29.1	30.9	30.8	30.1	29.6	28.9	30.9	30.8	30.0

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
<b>World demand</b>															
OECD	-	-	-	-	-	-	-	-	-0.2	-	-0.4	-	-	-0.2	-0.1
North America	-	-	-	-	-	-	-	-	-0.1	-	-0.3	-	-	-0.1	-0.1
Western Europe	-	-	-	-	-	-	-	-	-0.2	-	-	-	-	-0.2	-0.1
Pacific	-	-	-	-	-	-	-	-	0.1	-	-0.1	-	-	0.1	-
DCs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(a) Total world demand	-	-	-	-	-	-	-	-	-0.1	-	-0.4	-0.1	-	-0.1	-0.1
<b>World demand growth</b>	-	-	-	-	-	-	-	-	-0.09	-	-0.38	-0.10	-	-	-0.12
<b>Non-OPEC supply</b>															
OECD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-	0.2	-	0.1	0.1	0.1	0.1	0.1
Western Europe	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-	-	-	-
FSU	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-	-	-	-
<b>Total non-OPEC supply growth</b>	-	-	-	-	-	-	-	-	-0.09	-	-0.09	-	-	0.08	-
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-	-	-	-
<b>OPEC crude oil production (secondary sources)</b>															
Total supply	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance (stock change and miscellaneous)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>OECD closing stock levels (mb)</b>															
Commercial	-	-	-	-	-	-	-	-3	-	-	-	-	-	-	-
SPR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-3	-	-	-	-	-	-	-
Oil-on-water	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Days of forward consumption in OECD</b>															
Commercial onland stocks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SPR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Memo items</b>															
FSU net exports	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-
(a) - (b)	-	-	-	-	-	-	-	-	-	-	-0.3	-0.1	-	-0.1	-0.1

\* This compares Table 10.3 in this issue of the MOMR with Table 10.3 in the January 2012 issue

This table shows only where changes have occurred

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

	2004	2005	2006	2007	2008	2007	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Closing stock levels mb</b>																							
OECD onland commercial	2,531	2,576	2,655	2,554	2,679	2,643	2,629	2,554	2,553	2,584	2,641	2,679	2,731	2,745	2,763	2,641	2,675	2,757	2,750	2,670	2,631	2,676	2,664
North America	1,186	1,247	1,264	1,211	1,282	1,275	1,267	1,211	1,197	1,221	1,259	1,282	1,332	1,367	1,373	1,286	1,314	1,370	1,401	1,331	1,295	1,339	1,341
Western Europe	915	935	963	937	991	940	929	937	961	954	952	991	991	976	971	972	975	982	947	949	954	932	911
OECD Pacific	430	394	429	407	407	428	432	407	394	409	431	407	408	401	419	383	386	405	402	390	382	405	412
OECD SPR	1,450	1,487	1,499	1,524	1,527	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	1,561	1,526
North America	678	687	691	699	704	692	695	699	702	708	704	704	715	726	727	729	729	729	728	729	727	727	696
Western Europe	377	407	412	421	416	413	423	421	423	414	414	416	424	427	429	426	429	422	419	423	420	423	420
OECD Pacific	396	393	396	404	406	401	403	404	404	404	403	406	408	408	408	409	409	411	402	410	411	411	409
<b>OECD total</b>	<b>3,982</b>	<b>4,063</b>	<b>4,154</b>	<b>4,079</b>	<b>4,206</b>	<b>4,149</b>	<b>4,149</b>	<b>4,079</b>	<b>4,082</b>	<b>4,110</b>	<b>4,164</b>	<b>4,206</b>	<b>4,278</b>	<b>4,306</b>	<b>4,327</b>	<b>4,205</b>	<b>4,241</b>	<b>4,319</b>	<b>4,299</b>	<b>4,230</b>	<b>4,188</b>	<b>4,237</b>	<b>4,189</b>
<b>Oil-on-water</b>	<b>905</b>	<b>954</b>	<b>919</b>	<b>948</b>	<b>969</b>	<b>891</b>	<b>917</b>	<b>948</b>	<b>935</b>	<b>925</b>	<b>885</b>	<b>969</b>	<b>899</b>	<b>899</b>	<b>869</b>	<b>919</b>	<b>919</b>	<b>897</b>	<b>926</b>	<b>871</b>	<b>891</b>	<b>853</b>	<b>835</b>
<b>Days of forward consumption in OECD</b>																							
OECD onland commercial	51	52	54	54	59	54	53	52	54	55	56	57	61	61	60	57	59	59	59	58	59	58	58
North America	46	49	50	50	55	50	50	49	49	52	53	55	58	59	58	55	55	57	59	56	55	57	57
Western Europe	58	60	62	61	68	60	59	61	63	61	62	66	69	67	67	68	68	66	64	67	68	63	63
OECD Pacific	50	47	51	51	53	54	49	46	50	54	54	50	56	55	52	47	53	53	50	47	54	52	49
OECD SPR	29	30	30	32	33	31	30	31	32	33	32	33	35	35	34	34	35	34	33	34	35	34	33
North America	26	27	27	29	30	27	27	28	29	30	29	30	31	31	31	31	31	30	31	31	31	31	30
Western Europe	24	26	27	27	28	26	27	27	28	27	27	28	29	29	30	30	30	28	28	30	30	29	29
OECD Pacific	46	46	47	50	53	51	46	45	51	54	51	50	56	56	51	50	56	54	50	49	58	53	49
<b>OECD total</b>	<b>80</b>	<b>82</b>	<b>84</b>	<b>86</b>	<b>92</b>	<b>85</b>	<b>83</b>	<b>83</b>	<b>86</b>	<b>88</b>	<b>88</b>	<b>90</b>	<b>96</b>	<b>95</b>	<b>94</b>	<b>92</b>	<b>94</b>	<b>93</b>	<b>92</b>	<b>91</b>	<b>94</b>	<b>92</b>	<b>91</b>

n.a. not available

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

	2006	2007	2008	2009	09/08	Change	2010	3Q10	4Q10	2010	10/09	Change	1Q11	2011	3Q11	4Q11	2011	Change	11/10	1Q12	2012	3Q12	4Q12	2012	Change	12/11
US	7.36	7.47	7.50	8.14	0.64	8.55	8.52	8.63	8.84	8.64	0.49	8.76	8.94	9.00	9.28	9.00	9.28	9.00	0.36	9.13	9.14	9.16	9.24	9.17	0.17	
Canada	3.20	3.31	3.27	3.25	-0.02	3.28	3.37	3.38	3.54	3.39	0.15	3.57	3.30	3.58	3.69	3.54	3.69	3.54	0.14	3.66	3.68	3.70	3.72	3.69	0.15	
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	2.92	2.93	2.94	2.92	2.94	-0.02	2.91	2.87	2.88	2.86	2.88	-0.06	
North America	14.24	14.26	13.94	14.37	0.43	14.82	14.86	14.96	15.31	14.99	0.62	15.31	15.20	15.50	15.90	15.48	15.90	15.48	0.49	15.69	15.70	15.73	15.83	15.74	0.26	
Norway	2.78	2.55	2.47	2.36	-0.11	2.32	2.12	1.93	2.17	2.14	-0.22	2.14	1.98	1.99	2.03	2.03	2.03	2.03	-0.10	2.05	1.92	1.89	1.98	1.96	-0.08	
UK	1.71	1.69	1.57	1.48	-0.10	1.52	1.40	1.20	1.35	1.37	-0.11	1.27	1.17	0.93	1.14	1.13	1.14	1.13	-0.24	1.16	1.10	1.05	1.10	1.10	-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	0.25	0.26	0.23	0.23	0.23	0.23	-0.01	0.23	0.22	0.22	0.21	0.22	-0.01	
Other Western Europe	0.51	0.62	0.62	0.63	0.01	0.63	0.65	0.66	0.64	0.64	0.01	0.67	0.66	0.70	0.68	0.68	0.68	0.68	0.03	0.69	0.70	0.70	0.70	0.70	0.02	
Western Europe	5.34	5.17	4.94	4.73	-0.21	4.72	4.42	4.03	4.42	4.39	-0.33	4.31	4.06	3.85	4.07	4.07	4.07	4.07	-0.32	4.13	3.95	3.85	3.99	3.98	-0.09	
Australia	0.51	0.53	0.53	0.54	0.01	0.52	0.50	0.50	0.48	0.50	-0.04	0.42	0.41	0.42	0.44	0.42	0.44	0.42	-0.03	0.42	0.47	0.47	0.44	0.45	0.03	
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	0.09	0.09	0.09	0.09	0.09	0.09	-0.01	0.09	0.09	0.09	0.09	0.09	0.00	
OECD Pacific	0.56	0.60	0.63	0.64	0.01	0.62	0.61	0.60	0.58	0.60	-0.04	0.51	0.50	0.51	0.53	0.51	0.53	0.51	-0.09	0.51	0.56	0.56	0.53	0.54	0.03	
Total OECD	20.14	19.51	19.73	19.73	0.23	20.16	19.89	19.59	20.31	19.99	0.25	20.13	19.75	19.85	20.50	20.06	20.50	20.06	0.07	20.34	20.20	20.14	20.35	20.26	0.20	
Brunai	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	0.17	0.17	0.00	0.18	0.18	0.18	0.18	0.18	0.01	
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	0.89	0.88	0.89	0.89	0.89	0.89	0.04	0.91	0.91	0.91	0.92	0.91	0.02	
Indonesia	1.07	1.02	1.05	1.03	-0.02	1.05	1.06	1.04	1.02	1.04	0.02	1.01	1.00	1.00	0.97	0.99	0.99	0.99	-0.05	0.99	0.98	0.98	0.98	0.98	-0.01	
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	0.60	0.63	0.65	0.64	0.65	0.64	-0.06	0.64	0.63	0.62	0.61	0.63	-0.01	
Vietnam	0.32	0.33	0.36	0.37	0.01	0.34	0.35	0.36	0.33	0.35	-0.02	0.34	0.33	0.33	0.34	0.34	0.34	0.34	-0.01	0.33	0.33	0.33	0.34	0.33	0.00	
Thailand	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	0.34	0.38	0.35	0.38	0.35	-0.01	0.37	0.38	0.39	0.40	0.39	0.04	
Other Asia	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	0.23	0.23	0.23	0.23	0.23	0.00	0.24	0.25	0.26	0.26	0.25	0.02	
Other Asia	3.78	3.70	3.73	3.69	-0.04	3.68	3.68	3.72	3.72	3.70	0.01	3.69	3.54	3.58	3.62	3.61	3.62	3.61	-0.09	3.66	3.66	3.67	3.68	3.67	0.06	
Argentina	0.77	0.77	0.78	0.78	-0.02	0.76	0.76	0.76	0.71	0.75	-0.01	0.76	0.68	0.74	0.75	0.73	0.75	0.73	-0.02	0.73	0.72	0.72	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	2.66	2.67	2.66	2.75	2.68	2.75	2.68	0.02	2.82	2.83	2.88	2.90	2.86	0.17	
Colombia	0.54	0.54	0.60	0.68	0.09	0.77	0.79	0.80	0.83	0.80	0.12	0.88	0.94	0.94	0.96	0.93	0.96	0.93	0.13	1.00	1.02	1.03	1.05	1.02	0.10	
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	0.13	0.14	0.13	0.14	-0.01	0.14	0.14	0.14	0.14	0.14	0.00	
L. America others	0.26	0.28	0.28	0.30	0.02	0.31	0.31	0.32	0.32	0.32	0.01	0.31	0.31	0.31	0.31	0.31	0.31	0.31	-0.01	0.31	0.31	0.31	0.31	0.31	0.00	
Latin America	3.87	3.97	4.20	4.40	0.20	4.61	4.69	4.68	4.74	4.67	0.26	4.75	4.73	4.78	4.91	4.79	4.91	4.79	0.13	5.00	5.03	5.09	5.12	5.06	0.27	
Bahrain	0.21	0.21	0.21	0.21	0.00	0.21	0.20	0.20	0.21	0.20	0.00	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.22	0.22	0.21	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	0.87	0.89	0.89	0.89	0.89	0.89	0.02	0.92	0.93	0.93	0.94	0.93	0.05	
Syria	0.44	0.42	0.41	0.41	0.00	0.42	0.42	0.42	0.42	0.42	0.00	0.42	0.40	0.42	0.40	0.38	0.40	0.38	-0.04	0.26	0.26	0.25	0.25	0.25	-0.13	
Yemen	0.37	0.33	0.30	0.30	0.00	0.30	0.29	0.28	0.27	0.29	-0.02	0.27	0.16	0.20	0.17	0.20	0.17	0.20	-0.09	0.21	0.21	0.21	0.20	0.21	0.01	
Middle East	1.76	1.66	1.68	1.73	0.05	1.78	1.77	1.78	1.78	1.78	0.04	1.78	1.65	1.70	1.55	1.67	1.61	1.67	-0.10	1.61	1.61	1.61	1.61	1.61	-0.06	
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	0.14	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	0.30	0.31	0.31	0.30	0.29	0.00	0.30	0.30	0.30	0.29	0.30	0.01	
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	0.71	0.71	0.71	0.71	0.71	0.71	0.00	0.70	0.70	0.70	0.69	0.70	-0.01	
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	0.30	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	0.24	0.25	0.25	0.25	0.25	0.00	0.25	0.25	0.25	0.24	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	0.18	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	0.42	0.42	0.42	0.39	0.42	0.42	-0.04	0.33	0.36	0.36	0.35	0.35	-0.07	
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	0.29	0.30	0.30	0.29	0.30	0.29	0.06	0.35	0.34	0.35	0.36	0.35	0.06	
Africa	2.51	2.60	2.62	2.60	-0.02	2.59	2.57	2.60	2.58	2.59	-0.01	2.61	2.57	2.59	2.56	2.58	2.56	2.58	0.00	2.53	2.57	2.57	2.56	2.56	-0.02	
Total DCs	11.92	11.94	12.23	12.43	0.20	12.66	12.72	12.77	12.76	12.73	0.30	12.84	12.49	12.65	12.64	12.66	12.64	12.66	-0.07	12.80	12.87	12.94	12.97	12.89	0.24	
FSU	12.03	12.54	12.60	12.95	0.35	13.16	13.20	13.21	13.33	13.22	0.27	13.32	13.25	13.23	13.28	13.27	13.28	13.27	0.04	13.41	13.36	13.40	13.47	13.41	0.14	
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	10.28	10.34	10.27	10.34	10.27	0.12	10.33	10.32	10.35	10.36	10.34	0.07	
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	1.54	1.61	1.60	1.61	1.60	0.01	1.65	1.62	1.63	1.66	1.64	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	1.02	0.99	0.96	0.89	0.97	0.96	0.89	-0.10	1.00	0.97	0.98	1.00	0.99	0.02	
FSU others	0.43	0.45	0.46	0.44	-0.02	0.42	0.42	0.41	0.42	0.42	-0.02	0.43	0.43	0.44	0.44	0.44	0.44	0.44	0.02	0.44	0.44	0.44	0.45	0.44	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	0.14	0.14	0.00	0.14	0.15	0.15	0.15	0.15	0.01	
China	3.69	3.77	3.84	3.84	0.00	4.01	4.08	4.16	4.24	4.12	0.28	4.22	4.19	4.08	4.08	4.14	4.08	4.14	0.02	4.17	4.16	4.17	4.21	4.17	0.03	
Non-OPEC production	47.94	48.43	48.32	49.09	0.77	50.12	50.02	49.87	50.78	50.20	1.11	50.64	49.83	49.95	50.64	50.27	50.64	50.27	0.07	50.86	50.73	50.79	51.15	50.88	0.62	
Processing gains	1.96																									

Totals may not add up due to independent rounding  
 Note: Not available  
 \* Excludes China and FSU  
 \*\* Estimated figure when Baker Hughes Incorporated did not reported the data

Source: Baker Hughes Incorporated & Secretariat's estimates

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## OPEC Basket average price

US\$ per barrel

↑ up \$4.42 in January

January 2012	111.76
December 2011	107.34

## January OPEC production

in million barrels per day, according to secondary sources

↑ up 0.06 in January

January 2012	30.90
December 2011	30.84

## World economy

*Global growth expectations for 2012 have been revised down slightly by 0.1 percentage points to 3.4%, while 2011 remains unchanged at 3.6%. OECD growth for 2012 was revised down to 1.5% from 1.6%. Growth expectations for China and India in 2012 were lowered marginally to 8.2% from 8.5% and to 7.2% from 7.4% respectively.*

## Supply and demand

in million barrels per day

2011			10/11	2012			11/12
World demand	87.8		0.9	World demand	88.8		0.9
Non-OPEC supply	52.4		0.1	Non-OPEC supply	53.1		0.7
OPEC NGLs	5.3		0.4	OPEC NGLs	5.7		0.4
Difference	30.1		0.4	Difference	30.0		-0.1

Totals may not add due to independent rounding

## Stocks

*US commercial oil stocks in January reversed the downward trend of the last four months, growing by 11.5 mb. Despite this build, inventories remain 21.0 mb below a year ago, but 14.4 mb above the five-year average. Crude and products increased by 9.2 mb and 2.3 mb respectively. The most recent monthly data shows that commercial oil inventories in Japan fell by 7.4 mb in December, with most of the decline coming from products, which fell 7.0 mb.*