OPEC

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

June 2010

Feature Article:

Recent market developments call for caution

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Oil Market Highlights

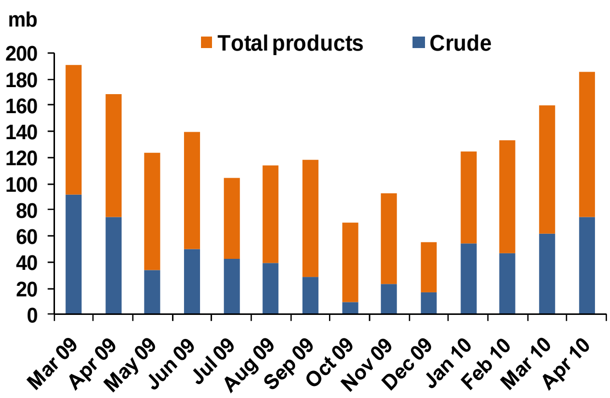
- The **OPEC Reference Basket** fell below $67/b on 25 May, the lowest level since early October 2009, underscoring market volatility as uncertainties about oil demand reemerged amid disappointing macroeconomic data and concerns about the impact of Europe's debt crisis. The OPEC Reference Basket averaged $74.48/b in May, down 9.5% from April while WTI front month dropped 12% as the market turned bearish. Speculative activity on the crude futures market also declined as money managers cut net long positions by almost 60% in May.
- **World economic growth** for this year was revised up to 3.8% from 3.5% last month. The revision was mainly due to Japan, where strong exports to Asia resulted in a better than expected performance in the first quarter. The country is now forecast to grow 2.7% in 2010, compared to a previous 1.5%. Growth for the Euro-zone was increased slightly to 0.7% from 0.6%, while the US remained unchanged. China growth was left unchanged at 9.5%, while India was increased to 7.3% and Russia to 4.0%. While the global economy seems to be enjoying solid momentum in the first half, concerns about growth in the second half remain due to Euro-zone sovereign debt problem, the ability of China to avoid overheating and the still high unemployment in OECD countries.
- **World oil demand** is expected to grow by 0.95 mb/d in 2010, unchanged from the previous month's forecast. Recent data indicates that demand growth has been slightly higher than estimated in the first half of the year. However, an expected moderation in the pace of the economic recovery is likely to impact demand growth forecasts for the second half. Total demand growth is still expected to come from non-OECD as growth in the OECD is expected to remain negative. The estimate for 2009 world oil demand growth shows a marginal change from the previous assessment with a contraction of 1.5 mb/d.
- **Non-OPEC oil supply** is projected to increase in 2010 by 0.64 mb/d over the previous year, following an upward revision of 0.11 mb/d from the last report. The estimate for 2009 non-OPEC supply growth remains unchanged at 0.74 mb/d. **OPEC NGL**s and nonconventional oils are expected to average 4.83 mb/d in 2010, an increase of 0.48 mb/d over the previous year. In May, **OPEC crude oil production** averaged 29.26 mb/d, according to secondary sources, an increase of 0.14 mb/d over the previous month.
- A combination of growing product demand along with lower crude cost in May has lifted refining margins across the globe and encouraged refiners, particularly in the US, to increase throughputs. With the start of the driving season and predictions for a more active hurricane season, gasoline market sentiment may strengthen further. However, due to comfortable stocks and persisting spare refinery capacity across the globe, **product markets** are not expected to lead the market and support crude over the coming months.
- The **tanker market** were mixed in May with VLCC rates decreasing, while Suezmax and Aframax increased. Higher imports by major consumers supported the increase in rates, while tonnage availability affected the VLCC sector. Clean spot freight rates increased by 3.9% over the previous month, mainly due to higher refinery activities. In May, OPEC spot fixtures increased by 29.7% compared to the previous month. Sailings from OPEC were marginally higher and arrivals in the US gained 12.2%.
- **US commercial stocks** continued their upward trend, rising by 7.7 mb in May. The build was driven mainly by products which increased by 5.4 mb, while crude stocks rose 2.3 mb. Inventories now stand at around 86 mb above the five-year average. In April, commercial oil stocks in Japan continued the upward trend for the second consecutive month, increasing by 7.1 mb. The build has narrowed the deficit with the five-year average to stand at 2.3% from 7% a month earlier. Preliminary indications show Japanese total commercial oil stocks built further in May.
- The **demand for OPEC** crude in 2009 is estimated to average 28.94 mb/d, a contraction of 2.4 mb/d from the previous year. In 2010, the demand for OPEC crude is expected to average 28.77 mb/d, representing a downward revision of 70 tb/d from the previous assessment and a decline of 175 tb/d from the previous year. This would leave no room for additional crude oil supplies in the market.

Recent market developments call for caution

Since last October, crude oil prices have moved within a relatively stable range, kept in balance by competing upward and downward forces. However, recent developments have moved oil prices out of this equilibrium. The recent drop in prices to the low $70s appears to reflect a shift in sentiment about the world economic recovery following the emergence of the sovereign debt crisis in the Euro zone and initial signs of moderation in the pace of economic growth in China, as the government seeks to prevent overheating.

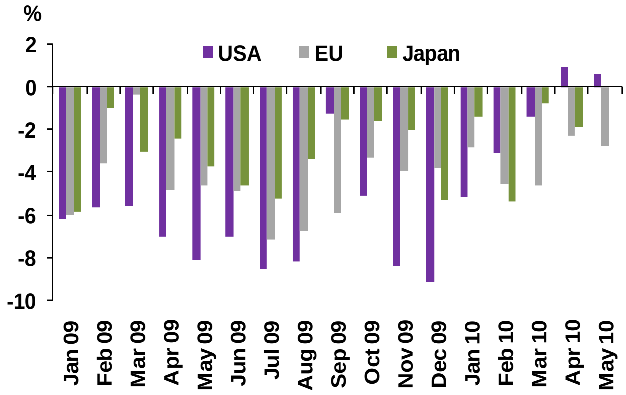
At the same time, oil market fundamentals continue to be impacted by the persistent overhang in supply. Excess inventories have even moved higher following a contra-seasonal build in the first quarter (*see **Graph 1***). Floating storage also remains at high levels, providing a further indication that the market is well supplied. Although demand has seen some improvement recently, this has been more than overwhelmed by the higher growth in supply. Additionally, in light of the ongoing risks, there is considerable uncertainty on the outlook for the second half of the year.

Graph 1: OECD crude and total product inventories*



*deviation from the five-year average

Graph 2: Refinery utilization rates*



*deviation from the five-year average

Typically, during this time of year, products take the driving seat of the market. Distillates have improved from the weak levels seen in the previous years, supported by the recovery in manufacturing. During the economic crisis, middle distillate consumption collapsed and the distillate crack spread – the difference between crude and product prices – plunged from above $20/b in 2008 to just $5/b in 2009. This forced refiners in the US, Europe and Asia to cut utilization rates in the peak demand season to help ease the huge imbalance in the product markets. This year, the cautious operational approach taken by refiners along with the economic recovery has helped improve market sentiment (*see **Graph 2***).

With the start of the driving season, focus has gradually shifted to developments in the US gasoline markets. During the recession, demand for gasoline in the US summer driving season averaged over 9.2 mb/d, an increase of 1.3% from the exceptionally weak levels seen in the previous year, but well below the pre-recession levels of 9.6 mb/d. This year, improving economic growth in the US is expected to provide some support for gasoline demand in the coming months. Bullish sentiment in the gasoline market could be accentuated if combined with an active hurricane season, as the forecasts are predicting for the current year.

However, despite the early improvement, the gasoline market is not expected to be sufficiently strong this summer to lead the market. Gasoline inventories in the OECD are currently at very comfortable levels of 5% above the five-year average. Additionally, spare refinery capacity across the globe has increased from the low levels seen in past years and appears sufficient to cope with any disruption in the US, resulting from natural disaster. This has been reflected in the forward market for distillates and gasoline, which has moved deeper into contango, indicating ample supplies. Moreover, the steady increase in ethanol in the gasoline pool this year provides a further supply cushion for the market.

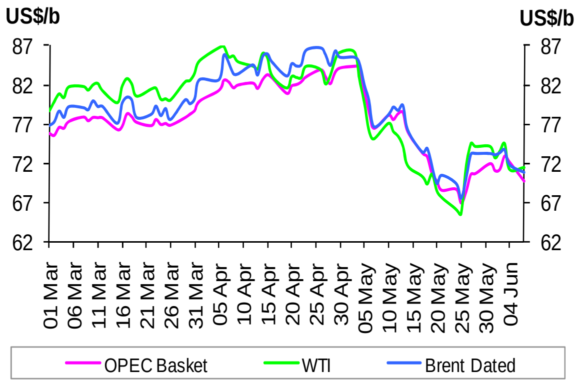
The recent shift in sentiment, along with the growing imbalance in supply/demand fundamentals, highlights the need for an increasingly cautious approach when evaluating the market developments. This will be particularly important going forward, given the considerable uncertainties facing the market for the remainder of this year.

Crude Oil Price Movements

Oil prices fell sharply in May amid macroeconomic concerns and oversupply

OPEC Reference Basket

Graph 1: Crude oil price movement



The OPEC Reference Basket dropped almost $8 or 9.5% in May to average $74.48/b, underscoring the continued market volatility. The loss, the largest since December 2008, was attributed to bearish market sentiment driven by a disappointing macroeconomic environment, in particular, Greece's debt woes and its possible spread to other countries and eventual implications for the global economic recovery and oil demand. The OPEC Basket started the month above $84/b before falling to a nearly eight-month low of less than $67/b on 25 May, implying a loss of $17.52 or 21% in just 16 trading days. However, despite this sharp decline, the OPEC Reference Basket remains some 30% higher than the excessively low levels seen a year ago following the financial crisis.

All the Basket components followed a downward trend in May with Brent-related crudes leading the loss with more than 10% each (*see **Table 1***). Light sweet crudes were the most affected, along with WTI and Brent, because of ample supplies and weak demand, particularly in the Atlantic Basin.

Middle Eastern market sentiment strengthened in early May after Saudi Arabia raised the Arab Light price for June loading cargoes to a five-month high and raised the Arab Medium price after cutting it to its lowest in 15 months in May. Stronger demand for fuel-oil rich grades in Asia-Pacific has given some support to Middle Eastern crudes. Nevertheless, a surplus has weighed on prices as Qatar notified its Asian term buyers it would offer full volumes for June loading and Saudi Arabia kept crude supply at full volumes in June. Middle Eastern crudes were also under pressure from Russia's ESPO Blend, which has been gaining acceptance among Asian buyers since its launch last December.

Latin American crudes Merey and Oriente were also under pressure on the back of lagging demand and increasing availability of crude. They dropped by 9.9% and 9.1% respectively.

The OPEC Reference Basket showed some recovery in early June, in line with the futures market, supported by stronger equity markets, to stand at $72.09/b on 4 June. Nevertheless, renewed concerns about the Euro-zone sovereign debt crisis and its potential implications on global economic growth sent the OPEC Reference Basket below $70/b on 7 June.

Macroeconomic data will remain the main factor for oil price developments over the coming months. Price movements will largely depend on the evolving Euro-zone sovereign debt crisis. A spread to other countries will likely undermine global economic growth and negatively impact world oil demand. Oversupply from increasing production at a time of already high inventories remains another downward risk for the oil market.

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

	Apr 10	May 10	Change May/Apr	2009	2010
OPEC Reference Basket	**82.33**	**74.48**	**-7.85**	**47.22**	**76.66**
Arab Light	82.75	75.50	-7.25	47.42	77.10
Basrah Light	81.35	73.15	-8.20	46.39	76.00
Bonny Light	86.14	76.87	-9.27	50.11	79.25
Es Sider	84.49	74.87	-9.62	47.75	77.66
Girassol	84.38	75.53	-8.85	48.20	78.09
Iran Heavy	82.09	74.09	-8.00	46.14	76.33
Kuwait Export	81.64	74.23	-7.41	46.40	76.07
Marine	83.62	76.58	-7.04	48.80	77.74
Merey	73.12	65.86	-7.26	42.49	69.89
Murban	85.38	78.57	-6.81	50.16	79.35
Oriente	75.45	68.62	-6.83	41.94	71.72
Saharan Blend	84.99	75.67	-9.32	49.11	78.41
Other Crudes					
Minas	90.24	82.47	-7.77	51.02	82.12
Dubai	83.59	76.49	-7.10	48.06	77.54
Isthmus	83.42	73.73	-9.69	47.15	77.34
T.J. Light	81.67	72.04	-9.63	46.00	75.82
Brent	84.79	75.57	-9.22	48.22	77.89
W Texas Intermediate	84.44	73.65	-10.79	47.61	78.87
Urals	82.51	74.10	-8.41	47.42	76.56
Differentials					
WTI/Brent	-0.35	-1.92	-1.57	-0.61	0.98
Brent/Dubai	1.20	-0.92	-2.12	0.15	0.35

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

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

The oil futures market

Nymex WTI moved below $70/b as stocks at Cushing added more downward pressure

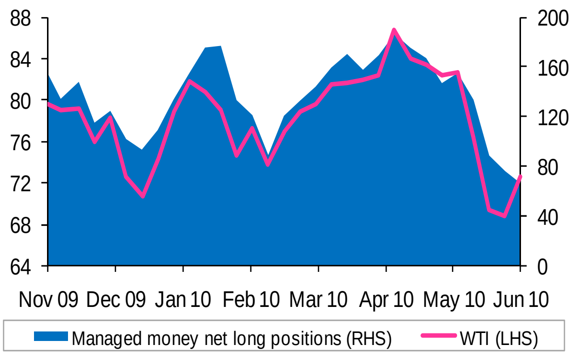
The crude oil futures market turned bearish in May with the Nymex WTI front month falling below $70/b for the first time since mid-December 2009 in the third week after having reached more than $86/b on the first trading day of May. The sharp decline in the price was attributed to the combination of two major factors which reinforced uncertainty over oil market prospects. First, renewing concerns over global economic growth and its implications on global oil demand after fears that Greece's debt crisis might spread to other countries. Second, sluggish demand and increasing non-OPEC supply, which resulted in a contra-seasonal build in US crude oil inventories and pushed inventories at the Nymex delivery point of Cushing, Oklahoma, to a record high of 38 mb. The WTI July contract strengthened during the last week of May on the back of optimism about the pace of the economic recovery in the US and a subsequent drop in crude oil stocks at Cushing, resulting in a monthly average of $74.12/b, which was still $10.46 or 12.4% below the previous month. However, even though the average of $74.12/b is the lowest since September's average of $69.47/b, it remains $14.91 better than a year earlier, when prices were hovering within the range of $50-65/b amid the economic crisis.

The ICE Brent contract was similarly affected, but less than WTI. The ICE Brent front month settled just one day below $70/b and averaged $77.12/b with the loss compared to the previous month amounting to just $8.64 or 10%. While both markets faced the same issues of disappointing macroeconomic data, the US market was, in addition, affected by the huge level of inventories, particularly at Cushing, Oklahoma, which left WTI $5.7 below Brent on 13 May. Furthermore, the lack of demand in the US market added more pressure to WTI. It is worth mentioning that WTI has been trading at a discount to Brent since the second week of April. However, the discount narrowed sharply at the end of the month to stand at 5¢ following a drop in inventories at Cushing, Oklahoma.

Growing uncertainties about the oil market outlook, with signs of a moderation in the pace of the economic recovery and stronger growth in supply, has reduced investor's appetite for oil and dampened prices. The trading volume of WTI on Nymex dropped significantly in May. It fell from more 1,160,368 contracts on 7 May to just 475,715 contracts on 25 May.

Total open interest on Nymex WTI hit a record of more than 1,483,100 contracts in the first week of May following a run-up in prices before dropping after the market turned bearish to stand at around 1,361,000 contracts at the end of the month.

Graph 2: Nymex WTI price vs. Speculative activity



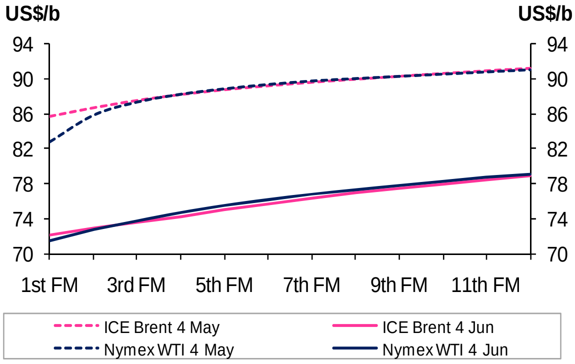
Speculative activity continues to impact oil prices. The price of oil has moved in line with money managers net long crude oil positions on Nymex (*see **Graph 2***). Money managers have been cutting net long positions since the week through 6 April when they hit an all-time high record of almost 187,000 positions, a week when the WTI front-month contract moved above $86/b. Money-managers slashed net long positions on the Nymex by almost 60% in May, moving from nearly 155,000 positions in the week ending 4 May to around 65,800 contracts in the week through 1 June.

The futures market structure

The contango widened as prompt prices fell sharply

The Nymex WTI and ICE Brent month-to-month spread widened in May, particularly for WTI as the prompt month came under strong pressure relative to the forward months. The contango deepened as the spread between the third and the first month of WTI, which stood between 60¢ and 90¢ for most of February and March, jumped to more than $7.0 on 13 May, a 15-month high, before narrowing again. On a monthly basis, the spread between the third and the first month averaged $4.29 in May against $2.49 in April, which corresponds to an increase of $1.80. However, the increase in the spread between the 1st and the 6th month was lower, implying that the pressure was more on the earlier months.

Graph 3: Nymex WTI and ICE Brent forward curve, 2010



FM = future month

The wide contango might have contributed to a rise in floating storage as the premium over the spot market would assure profits as long as the capital cost and the cost of storage remain low.

The spread along the Brent curve deepened in May. In addition to worries about the stability of the euro, oversupply due to healthy North Sea production put pressure on the Brent crude prompt month price. The spread between the 3rd and the 1st month averaged $1.77 compared with $1.38 in April and 86¢ in March.

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

Nymex WTI	1st FM	2nd FM	3rd FM	6th FM	12th FM
4 May 2010	82.74	85.76	87.26	89.26	90.94
4 Jun 2010	71.51	72.80	73.77	76.17	78.99

ICE Brent	1st FM	2nd FM	3rd FM	6th FM	12th FM
4 May 2010	85.67	86.66	87.51	89.20	91.22
4 Jun 2010	72.09	72.84	73.52	75.58	78.82

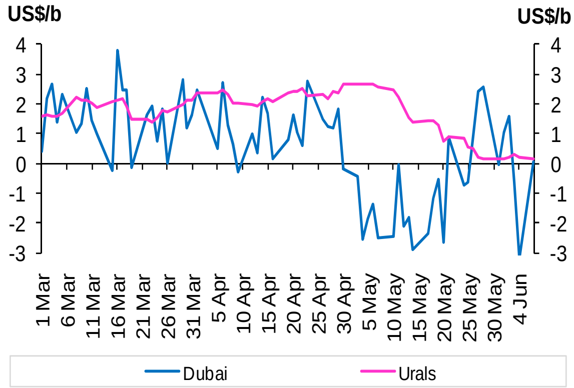
FM = future month

The sour/sweet crude spread

Light sweet crude was most affected

WTI traded below some heavy sour crudes in May. The WTI traded at a discount against Mars for the first time since December because of ample supply. The WTI-Mars spread approached $3 in mid-May.

Graph 4: Brent Dated vs. Sour grades (Urals and Dubai) spread



Similarly, the Brent-Dubai spread moved into negative territory to reach minus $2.87 during the second week of May after Brent prices weakened. The spread moved again to positive at the end of May as a surplus of sour crudes started to emerge and due to increasing pressure from Russian's ESPO Blend.

Following the same trend, Russian Urals crude differential narrowed significantly relative to Brent, which has been weakening. The premium Brent-Urals narrowed to some 14¢ at the end of the month, while it had been hovering between $2 and $3 over the period from early April to mid May (see ***Graph 4***). Urals was supported by attractive refining margins and strong demand following the return of refineries from their seasonal maintenance.

Commodity Markets

Falling commodity prices in May

Trends in selected commodity markets

Commodity prices dropped sharply in May in the middle of the EU public debt crisis and concerns about the impact on demand of China's tightening policy in the property sector. According to the World Bank, the non-energy price index declined by 4.7% m-o-m in May compared to a rise of 8.7% in April while the energy index lost 8.9% compared to 5.1% in the previous month

In the non-energy group, base metals experienced the most severe decrease in May in response to the European debt crisis and the announced end of the stimulus package for the property market in China and the slowdown in private residential construction. Concern also was boosted by the softening of the PMI and slower car sales growth in May.

Table 3: Commodity price data, 2010

		Monthly averages			% Change		
Commodity	**Unit**	**Mar**	**Apr**	**May**	**Mar/ Feb**	**Apr/ Mar**	**May/ Apr**
World Bank commodity price indices for low and middle income countries (2000 = 100)							
Energy		271.6	285.4	260.1	4.8	5.1	-8.9
Coal, Australia	$/mt	94.4	100.2	100.1	0.2	6.1	0.0
Crude oil, average	$/bbl	79.3	84.2	75.6	6.1	6.2	-10.2
Crude oil, Brent	$/bbl	79.3	85.0	76.3	6.7	7.2	-10.3
Crude oil, WTI	$/bbl	81.3	84.5	73.7	6.3	4.0	-12.7
Natural gas index	2000=100	160.9	143.5	146.8	-6.8	-10.8	2.3
Natural gas, US	$/mmbtu	4.3	4.0	4.2	-19.6	-6.7	3.7
Non Energy		243.8	265.1	252.6	1.7	8.7	-4.7
Agriculture		212.1	217.8	214.4	-1.7	2.7	-1.6
Beverages		233.3	243.3	244.2	-3.5	4.3	0.4
Food		205.5	203.4	200.6	-3.5	-1.0	-1.4
Soybean meal	$/mt	329.0	340.0	349.3	-12.3	3.3	2.7
Soybean oil	$/mt	915.0	903.0	864.0	0.1	-1.3	-4.3
Soybeans	$/mt	408.0	411.0	406.0	0.5	0.7	-1.2
Grains		197.6	192.0	190.5	-3.1	-2.9	-0.8
Maize	$/mt	159.0	157.1	163.4	-1.7	-1.2	4.0
Sorghum	$/mt	154.7	149.4	147.3	0.4	-3.4	-1.4
Wheat, Canada	$/mt	270.7	264.7	256.7	-3.0	-2.2	-3.0
Wheat, US, HRW	$/mt	191.1	192.9	181.6	-1.5	0.9	-5.8
Wheat, US, SRW	$/mt	190.0	187.8	190.3	-1.0	-1.2	1.4
Sugar EU	¢/kg	45.5	45.0	42.1	-0.8	-1.1	-6.4
Sugar US	¢/kg	77.4	68.4	68.1	-12.8	-11.7	-0.4
Sugar, world	¢/kg	41.1	36.3	33.5	-26.5	-11.8	-7.6
Raw Materials		217.2	239.9	232.9	3.7	10.4	-2.9
Fertilizers		261.5	261.8	249.5	0.5	0.1	-4.7
Metals and Minerals		306.8	362.4	331.3	7.0	18.1	-8.6
Aluminum	$/mt	2205.6	2316.7	2040.5	7.6	5.0	-11.9
Copper	$/mt	7462.8	7745.1	6837.7	9.0	3.8	-11.7
Gold	$/toz	1113.3	1148.7	1205.4	1.6	3.2	4.9
Iron ore	¢/dmtu	101.0	167.0	167.0	0.0	65.4	0.0
Lead	¢/kg	217.2	226.5	188.3	2.3	4.3	-16.9
Nickel	$/mt	22461.3	26030.8	22008.2	18.4	15.9	-15.5
Silver	¢/toz	1715.5	1816.8	1842.2	8.1	5.9	1.4
Steel products index	2000=100	220.2	234.1	247.3	5.6	6.3	5.6
Tin	¢/kg	1754.9	1868.4	1756.6	7.3	6.5	-6.0
Zinc	¢/kg	227.5	236.7	196.8	5.5	4.0	-16.8

$ = US dollar ¢ = US cent bbl = barrel
cum = cubic meter dmtu = dry metric ton unit
kg = kilogram mmbtu = million British thermal units
mt = metric ton toz = troy oz
n.a. = not available n.q. = no quotation SGP = Singapore

Source: World Bank, Commodity price data.

The energy index declined sharply in May

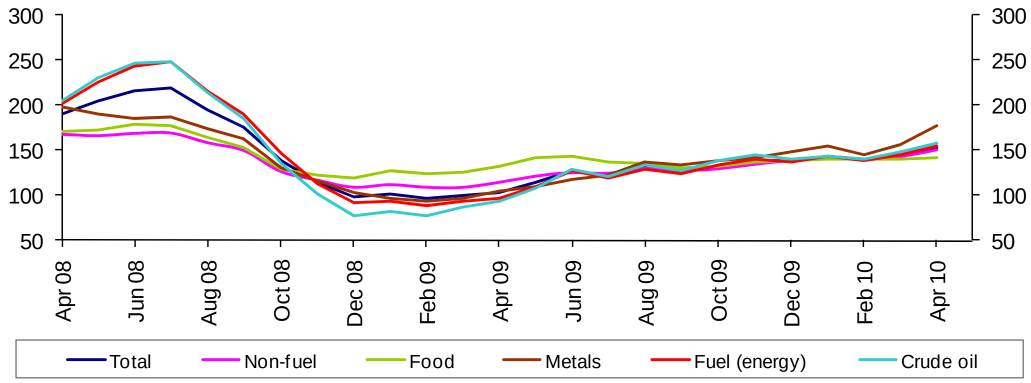
The World Bank energy commodity index (crude oil, natural gas and coal) fell by 8.2% in May m-o-m from 5.1% in April, driven by a hefty 10.2% drop in **crude oil prices** (the average petroleum spot price of WTI, Brent and Dubai) and no growth in coal. Natural gas prices saw some monthly gains.

Henry Hub (HH) gas went up by 3.7% m-o-m in May, up from a 6.7% drop in April. Despite still weak fundamentals, some positive signs contributed to the price recovery, such as higher power generation demand from seasonal maintenance at nuclear and coal power facilities amid a cold outbreak in a part of the US.

The World Bank non-energy commodity index reported a 4.7% m-o-m decline in May with a fall taking place across almost all the commodities considered.

The World Bank **base metal price index recorded the deepest decline in May**, plummeting by 12.3%, down from 5.1% in April. Every metal, base or ferrous suffered from the Chinese announcement of the end of the stimulus package for the property market. There is concern in the markets over the possibility of a Chinese slowdown, especially in private residential construction and the inflow of data which points to a slower pace of growth in China such as the weaker PMI and the slower car sales growth in May. The official China Federation of Logistics and Purchasing, purchasing managers index fell to 53.9 in May from 55.7 in April while HSBC Holdings PLC's PMI fell to 52.7 in May from a revised 55.2 in April. This is according to the tightening policy undertaken by the government in order to cool the economy. According to some analysts of the commodity markets, the concern for a slowdown of the Chinese economy is exaggerated since the data is softening from very high levels but there is still robust economic growth, so this represents a more sustainable rate. Even though Chinese base metal apparent consumption is contracting on an annual basis (April) some analysts bring to the front that it is unlikely that there is a contraction in base metal consumption if the Chinese economy is still growing at high pace and the decline in base metals apparent consumption may be ascribed to the stronger data base – base metal consumption grew by 190% and 182% y-o-y in June and July 2009- and destocking which may be the result of the build in unreported stocks in 2009. It is expected that the destocking process of basis metals in China may finish at the end of Q2 2010 which would be followed by a return to the physical market.

Graph 5: Major commodity price indexes, 2008-2010



Commodity price index, 2005 = 100

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

A hefty price decline across the industrial metal complex in May

Copper prices declined 11.7% m-o-m in May down from 3.8% in April affected by concerns over the possibility of slower growth in China and the European public debt crisis. Chinese demand of unwrought copper and products dipped 4% m-o-m in April and, during the same month, Chinese imports of refined copper were down 8% m-o-m. Concerning supply, the World Bureau of Metal Statistics reported an expansion of 2% in global mine production in 1Q10 while refined copper production was up 5% for the same period. An improvement in refined copper production was also reported in China during April, achieving growth rates of 6% m-o-m and 15% y-o-y. The International Copper Study Group estimates a global surplus of 580 kt in 2010 vs. an initial estimate of 540 kt.

Aluminium plummeted by 11.9% m-o-m in May essentially due to expanding supply. According to the International Aluminium Institute, global daily aluminium output was up from 110.9 kilo tonnes (kt) in March to 112.5 kt in April. According to the National Bureau of Statistics, the national aluminium output jumped 57% y-o-y to 1.4 mt. As reported by the China Non-ferrous Metals Industry Association, China should increase aluminium capacity by 2-3m tones this year, from 20.6mt in 2009, thus the expanding trend is expected to continue. Concerning storage, the LME inventories increased.

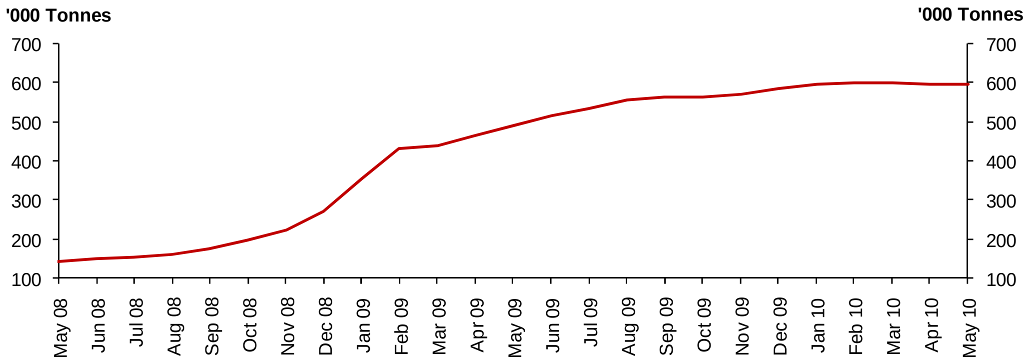
Lead prices plummeted 16.9% m-o-m in May on increasing surplus expanding by 44% to 37.6 kt in 1Q10 according the World Bureau of Metal Statistics (WBMS). On the demand side, China reduced lead imports by 93% to 3kt in 1Q10 while becoming again a net exporter of lead as exports doubled to 8.2 kt due to higher US and EU demand and restocking activities. On the supply side, the WBMS estimated an increase of 24% in mine production in 1Q10 to 964 kt. According to the National Bureau of Statistics in China, there was a 5% y-o-y rise in lead output during the first four months of the year. Notwithstanding, lead production was 3% down in April because of producers' hesitation to increase output given the weak prices.

Zinc prices also tumbled by 16.8% m-o-m in May due to a surplus which is estimated at 27% to 293kt, up in the 1Q10 from the previous year. As for demand, Chinese imports in April are 70% down y-o-y.

Nickel prices collapsed 15.5% m-o-m in May regardless of the deficit. As with other industrial metals, nickel prices were depressed by the bearish inflow of macroeconomic data in Europe and the announcement by China related to the end of the stimulus package in the property sector. These facts offset the bullish news from the supply side due to disruptions that led to a 50% y-o-y fall in output during the 1Q10.

Gold prices increased 4.9% m-o-m in May compared to 3% in April, essentially on safe-haven buying by investors. This has been the only metal that has benefited from the uncertain prospects for the world economy in the wake of the European debt crisis.

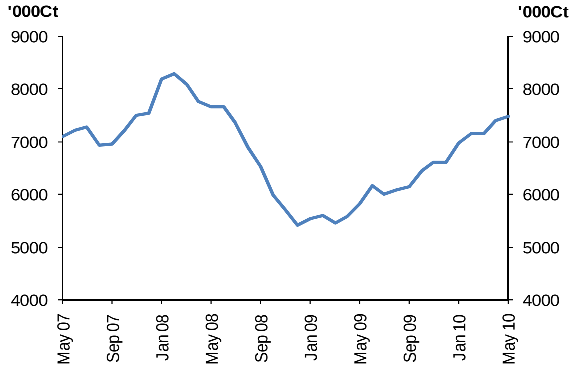
Graph 6: Inventories at the LME



Investment flow into commodities

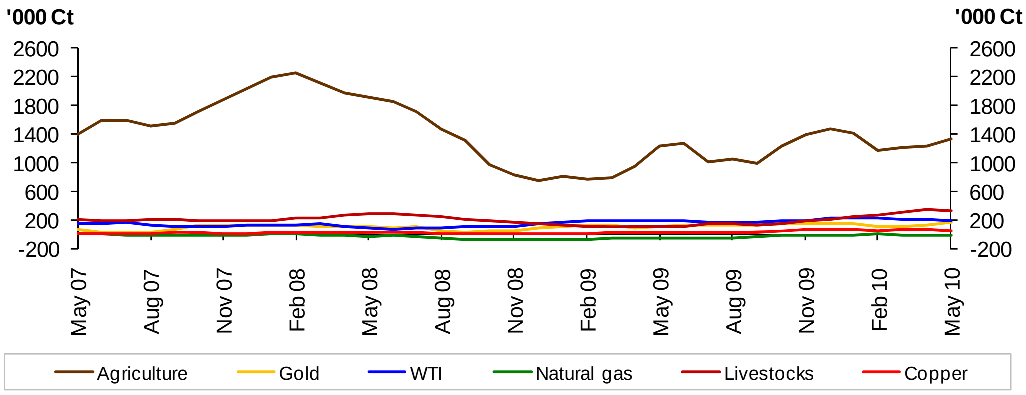
A moderation in the pace of increase in the open interest volume (OIV) for **major commodity markets in the US** took place in May. Data for the CFTC evidenced a rise of 1% to 7,596,709 contracts in May, compared to 2.6% in the earlier month. Investor sentiment became bearish owing to European debt fears. Copper, livestock and agriculture saw a decline in the total number of contracts.

Graph 7: Total open interest volume



Source: CFTC

Graph 8: CFTC net length by commodity group

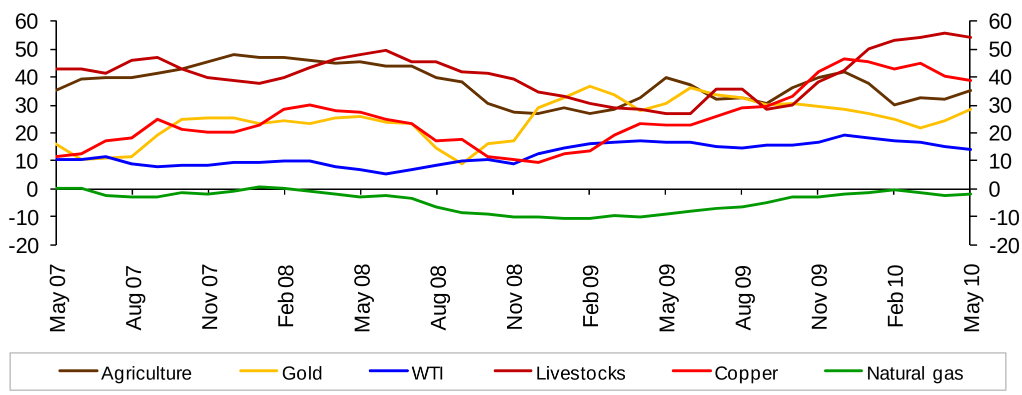


Source: CFTC

Non-commercial longs in major US commodity markets went up by 2.2% m-o-m in May compared to 4.3% in the previous month. This combined with a reduction in shorts of 1.6% to cause net non-commercials as a percentage of open interest volume to rise from 27% in April to 28% in May.

Agricultural OIV declined slightly by 0.1% m-o-m to 3,860,224 contracts in May which compared unfavourably with a rise of 1.8% in April. While non-commercial shorts were cut by 6.5% m-o-m to 778,475 contracts in May, longs increased by 2.3% to 2,113,842 contracts. Therefore, the net length as a percentage of OIV moved up from 31.9% in April to 34.6% in May.

Graph 9: CFTC net length as % of open interest



Source: CFTC

OIV for precious metals increased by 8.5% to 699,426 contracts. A stronger rise of 10.7% to 431,194 contracts in non-commercial long positions compared to a milder 2% increase in shorts to 229,752 contracts translating into a 12.5% increase in the net length as a percentage of open interest volume to 28.8% (*see* ***Graphs 8*** *and* ***9***).

Nymex natural gas futures open interest volume showed an increase of 0.9% to 861,338 contracts compared to 2.2% growth in April. Non-commercial longs were reduced by 1.3% m-o-m to settle at 286,218 contracts in the month to 25 May while short positions declined by 2.4% to 304,070 contracts, bringing net length up by 3,627 contracts.

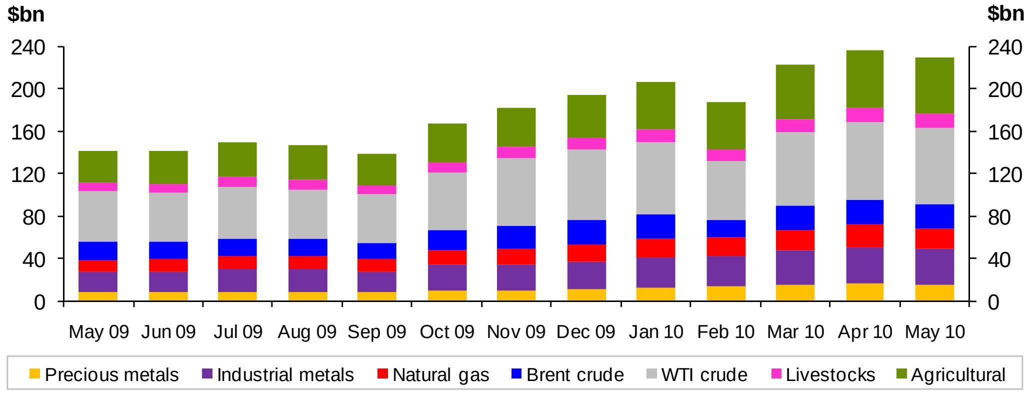
Copper open interest volume experienced a hefty drop of 12.7% to 132,648 contracts in May compared to a rise of 15.5% in April following a decline in prices. Non-commercial longs lost 14.3% to 85,919 contracts compared to a gain of 10.6% in April while shorts also declined by 12.1% to 34,426 contracts compared to a 23.8% rise in April. Thus, net non-commercial length tumbled from 61,101 to 51,493 contracts (down 15.7% m-o-m). Non commercial net length in money positions plummeted by 53.1% to 12,604 contracts in May. It seems that the paper market was also negatively impacted by uncertainties related to the European debt crisis.

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

	Open interest	Net length: Swap positions		Money positions		Other positions		Non-commercials	
	May 10	May	% OIV	May	% OIV	May	% OIV	May	% OIV
Crude Oil	1412	121	9	113	8	-36	-3	199	14
Natural Gas	861	172	20	-155	-18	-35	-4	-18	-2
Agriculture	3860	1,012	26	255	7	68	2	1,335	35
Precious Metals	699	-68	-10	245	35	24	4	201	29
Copper	133	43	32	13	10	-4	-3	51	39
Livestock	631	184	29	174	28	-19	-3	340	54
Total	**7,597**	**1,464**	**19**	**645**	**8**	**0**	**0**	**2,109**	**28**
	Open interest	**Net length: Swap positions**		**Money positions**		**Other positions**		**Non-commercials**	
	Apr 10	Apr	% OIV	Apr	% OIV	Apr	% OIV	Apr	% OIV
Crude Oil	1372	87	6	169	12	-51	-4	205	15
Natural Gas	854	171	20	-164	-19	-29	-3	-21	-3
Agriculture	3864	958	25	230	6	45	1	1233	32
Precious Metals	645	-89	-14	224	35	30	5	165	26
Copper	152	39	26	27	18	-5	-3	61	40
Livestock	633	180	28	178	28	-7	-1	351	55
Total	**7,520**	**1,346**	**18**	**664**	**9**	**-16**	**0**	**1,993**	**27**

There was a decline in the dollar investment into the two principal commodity instruments. The total amount declined by 3.1% m-o-m in May, the first contraction since September 2009. All sectors were affected, but WTI and Brent experienced the milder drop.

Graph 10: Inflow of investment into commodities



Source: CFTC

Highlights of the World Economy

Economic growth rates 2009-2010,%	World	OECD	USA	Japan	Euro-zone	China	India
2009	-0.8	-3.4	-2.4	-5.2	-4.1	8.7	5.9
2010	3.8	2.1	2.8	2.7	0.7	9.5	7.3

Industrialised countries

USA

US GDP growth in 1Q10 reported at 3.0% primarily driven by private consumption; unemployment fell to 9.7%

The US recovery is continuing supported by monetary and fiscal stimulus. The latest GDP numbers for the first quarter of this year – although revised down slightly in the second estimate – were a reflection of the momentum that had started in the second half of last year. The second estimate of the GDP number for the first quarter was at a 3.0% q-o-q annualized rate, slightly lower than the first estimate of 3.2%, but still representing a solid level. The first half of this year is expected to keep this momentum as recent indicators have supported this trend. Industrial production was up 0.8% m-o-m in April, higher than at 0.2% in March. Capacity utilization was also increasing to 73.6% in April from 73.2% in March, which marks the highest level since November 2008, but is still far from average levels of around 80%. The relatively high level in building material spending also lifted retail sales higher in April. Retail sales were up by 0.4%. Even more impressive was the upward adjustment to retail sales in March, which was revised up from an already high 1.9% m-o-m increase to 2.1%. There might be a caveat attached to the strong momentum in building material spending, which was up 6.9% m-o-m in April, as the US administration's tax credit for first-time buyer credits ended on 30 April. This has been a significant factor in supporting the housing sector and its removal is likely to have some impact.

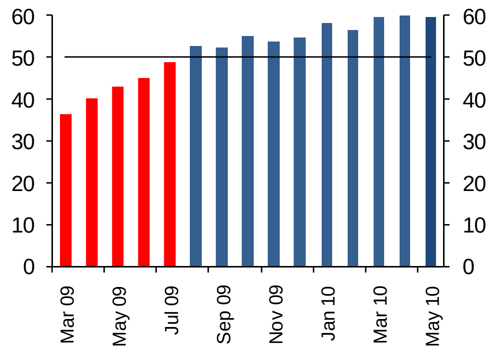
Pending home sales were up again in April. They increased by 6.0% m-o-m, after 7.1% in March, a number that was revised up significantly from only 5.3% in its first estimate. This figure is most likely artificially inflated as potential home buyers scramble to take advantage of the tax incentive before it is phased-out. Construction spending was up by 2.7% m-o-m in April, compared to only 0.4% in March, and this number was also substantially revised up from 0.2%. This high April number came as some surprise as it actually was expected to be flat. Again, as in the previous month, house prices underline the weakness in the property market. The S&P Case-Shiller 20-city composite index fell 0.1% m-o-m in February on a seasonally adjusted base and now again in March by 0.05%.

On the positive side, the weight of personal consumption expenditure in the first quarter was seen to have returned to normal levels, representing 80% of the GDP growth and therefore constituting the main source of growth for the US economy. This is an encouraging sign as personal consumption was negative in 3Q09 and constituted only 30% of GDP growth in 4Q09, compared to an average of 70% before the recession. The high volatility in those numbers reflects the fragility of the US economy and might demonstrate that more positive indications might be needed before this is seen to be a substantial turnaround.

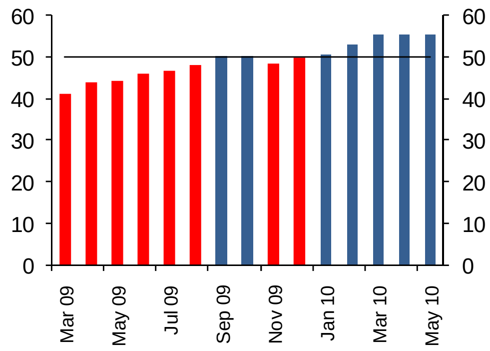
The services-ISM now stands at 55.4 for May at the same level as in the previous two months. Although having retreated a little, the ISM for manufacturing remains at an elevated level of 59.7, down from 60.4 in April. While encouraging, the likelihood of a further increase is slim as these levels could more likely constitute a peak-level.

The still high unemployment rate is certainly not supportive to the economy. Joblessness declined slightly to 9.7% in May from 9.9% in April, but the rise in non-farm payrolls by 431,000 jobs was much smaller than expected and is probably insufficient to represent a consumer-led recovery that would get the economy back on track. Particularly the rise in private payrolls of only 41.000 was disappointing. A major contribution in the improvement of the unemployment rate came from census-related job creations by the government.

Graph 11a: ISM manufacturing index



Graph 11b: ISM non-manufacturing index



Source: Institute for Supply Management

In the meantime, concerns that growth potential will be limited due to the high unemployment levels and the still relatively tight credit supply by banks is being shared by the capital markets. The S&P 500 has lost around 10% since the peak levels of April and the yield of ten-year treasuries was declining from 4% at the beginning of April to now 3.4%, with both markets being characterized by very high and increasing volatility. The VIX-index which represents the volatility of the S&P 500 now stands at 30, after having peaked in May at a level of more than 45, the same level of volatility that was recorded at the equity market's trough in March 2009.

Thus, while the economic development in the US is continuing its positive trend, it might be still inflated by various government-led support measures. By acknowledging the positive momentum, but also taking into account the challenges for the coming months, the forecast for 2010 has been left unchanged at 2.8%.

Japan

Fuelled by strong exports, the Japanese economy produced very strong growth in the 1Q10 at 4.9%

The Japanese economy surprised very much to the upside in the 1Q10 GDP release and while this number should be taken with some caution as Japan revised down some GDP numbers of the recent quarters, they are usually subject to volatility. The 4.9% q-o-q annualized rate of growth was much higher than expected by most observers, while expectations were lifted recently after many solid economic indicators have been released. The main contribution came again from exports, which were responsible for 3.9 percentage points or almost 80% of this 1Q10 GDP growth number. This underlines the current dependence of the Japanese economy on exports and as China constitutes the main export market for Japan, it further underlines the dependence on the health of this particular market.

While the monthly growth of exports was negative in February at a seasonally adjusted minus 1.2% m-o-m for the first time in 12 months, the 1Q10 number was still strong on a quarterly basis at 13.6% q-o-q. Quarterly GDP was mainly driven by January exports which were recorded at a level of 9.2% m-o-m, while March stood at 1.0% m-o-m. Exports remain solid in April at 2.3% m-o-m and could lead the way to continued firm growth in the second quarter. Exports to China, which were the main growth engine in the 1Q10 and the 4Q09 at 12.8% q-o-q and 11.2% q-o-q respectively, recorded a 2.5% m-o-m increase in April, after 1.9% m-o-m in March.

Japanese domestic demand still solid, despite waning policy measures

Domestically, the economy is also supportive. April retail sales data surprised to the upside again, while household spending in April declined by 0.7% m-o-m, after a 4.4% m-o-m gain in March, but as well February recorded negative household spending at minus 0.5% m-o-m, which underlines the volatility of the household spending survey. On a monthly basis, retail sales increased by 0.5%, which is the fourth consecutive month of growth. On a yearly basis, this was up 4.9%, which comes after 4.7% y-o-y in March and 4.2% y-o-y in February, i.e. a strong trend of expansion. The strong export-led growth of Japan is having an effect on the domestic economy, certainly in combination with the government-led stimulus. While policy stimulus still plays an important part in the recovery in domestic demand, it seems that underlying demand is recovering even without those policy measures. Motor vehicle sales for example increased by 7.9% m-o-m in April, despite the fact that tax-incentives for this category are tapering off. This suggests that other factors, such as an improvement in labour conditions could be a supportive factor as well.

The unemployment rate has risen slightly to 5.14% in April from 5.01% in March. The job offers-to-applicants ratio fell for the first time in eight months in April, but it declined by only 0.01 points. However, the number of new job offers, a leading indicator, increased by 0.9% m-o-m, continuing the growth in March at 5.6% m-o-m. The positive momentum in the job market, despite some small downtrend in April, seems to be still intact. This gives hope that the trend in the declining consumer price index (CPI) might soon come to an end. The CPI declined by 1.5% y-o-y in April, widening the magnitude of the March level of minus 1.2% y-o-y. The more recent Tokyo Metropolitan area CPI of May declined by 1.6% y-o-y, compared to minus 1.9% y-o-y in April, and so is improving already.

Industrial production in April grew by 1.3% m-o-m, after a 1.2% increase in March. The manufacturer survey compiled by the Ministry of Economy, Trade and Industry (METI) is indicating an increase in May of 0.4% m-o-m and 0.3% m-o-m in June. Simply based on these projections industrial production would grow by 2.2% q-o-q in the 2Q10, compared to 7.0% q-o-q in the 1Q10. This indication points to a lower quarterly activity in the economy's industry, which should find its effect in the GDP number as well. The support from inventory rebuilding and the global policy effects are expected to wane gradually as well over the coming months and it should therefore be no surprise that industrial production growth will likely lose some steam in the 2H10. In addition to this, fixed asset investments and industrial production are expected to moderate in China somewhat and this should have a proportionate impact on Japanese exports to China and therefore on Japanese production, according to Citigroup.

The economy in Japan has recovered significantly in the 1Q10. This, combined with some caution about growth prospects in the 2H10, has led to an increase in the GDP forecast from 1.5% to 2.7%.

Euro-zone

The Euro-zone is still being challenged by the sovereign debt crisis, while the lower euro offers some opportunity to compensate those effects through increased exports. Unemployment stands at 10.1% now and is keeping domestic demand low

The challenges of the Euro-zone appear to be far from being solved and continue to derail the Euro-zone's recovery to some extent. However, a distinction should be made between those Euro-zone economies that are facing serious debt issues with regards to their public financial situation and those economies that are in a relatively sound situation. Furthermore, when analyzing the economic situation in the Euro-zone, the sovereign debt challenges should be analyzed separately from the recovery in the real economy, while certainly one area is impacting the other.

Mostly countries with a strong export base are currently leading this Euro-zone recovery as domestic demand still seems sluggish. Industrial new orders for the total Euro-zone were up 5.2% in March on a monthly basis. On a yearly basis, the comparison was even more impressive at a rate of 19.8%. Euro-zone's exports grew by 16% y-o-y in the 1Q10 and by 22% y-o-y in March. Exports to China grew by 46% for the first two months of the year, which is by far the highest growth rate, the latest available data from Eurostat shows.

The most recent data for Germany underpins this supportive trend. Industrial orders are continuing their momentum, growing by 2.8% m-o-m in April, after a revised number for March of 5.1%. Comparing with the low activity of last year, industrial orders grew by almost 30%. It was mainly the trade activity outside the Euro-zone that was boosting exports, indicating that the low Euro possibly was having a positive effect already. This is also a positive signal, at a time when Euro-zone business and consumer confidence is waning. Exports could offset lower domestic activity and Germany should be expected to be the prime beneficiary of this situation. This is being reflected in the widely followed German Ifo-business sentiment index, which remained flat in May at almost the mid-term peak level of April, still reflecting solid business activity. The Ifo stood at 101.5 in May compared to 101.6 in April. This comes as good news at a time when the German government has announced plans to cut spending in the next four years by a further €80bn, which is expected to have a dampening effect on consumer demand.

The low domestic demand base was reflected as well in the recently released retail sales numbers. Retail sales volumes in April declined by 1.2% compared to March, when they rose by 0.5% m-o-m. This again corresponds with the latest unemployment rate of 10.1% in April, which compares with 10% in March for the Euro-zone. Again Germany was taking the lead of the four big economies in the Euro-zone. German unemployment fell to 7.1% in April from 7.3% in March. France's level remained at the Euro-zone average of 10.1%, while Spain again was the highest of the big economies at 19.7%, following an increase of 0.2% from March. The closely followed youth unemployment rose once again to the 20.0% peak level seen in February, after it had improved already to 19.9% in March. Spain posted an increase again to 40.3%, followed by Italy at a level of 29.5%, a relatively high increase compared to March, when it stood at 28.1%.

In light of the current challenges, the European Central Bank (ECB) kept its key interest rate unchanged and is not expected to alter it soon, as inflation is still under control at 1.6% in May, only slightly higher than April's level of 1.5%.

The preliminary release of the Euro-zone's GDP is confirming the low growth trend. GDP growth in the first quarter was recorded at a seasonally adjusted quarterly growth of 0.2%, with Germany and France – constituting the majority of the Euro-zone – growing at 0.2% and 0.1% respectively. Spain grew at this level and Italy enjoying most of the growth at 0.5%.

Regarding the Euro-zone debt crisis, the nearer-term impacts to the real economy can be summarized briefly as twofold. Firstly, the concern of the capital markets is raising the risk-premiums for debt and therefore is challenging the public financial situation by asking for more money when refinancing debt. Secondly, the public debt situation of many of the Euro-zone economies need relative disciplined cost cutting efforts, which has again put pressure on growth. Mostly, the Southern European countries have implemented cost cutting efforts or plan to do so. These two effects then might be accompanied by further tax increases to repay the debt, which puts additional pressure on the affected economies. The negative net-effect on Euro-zone GDP from fiscal measures is estimated to be around 0.4% for 2010, according to Morgan Stanley Research, while a 10% depreciation of the trade-weighted euro basket is having a positive effect of 0.7% of annual GDP growth. The euro has declined by about 12% on a trade weighted basis since the peak in October and by around 9.5% year-to-date. Therefore, the positive effect in exports that is offsetting some negative effects should be felt already. The Euro-zone's debt situation should be watched very closely. The recent rumour that Hungary might follow Greece has put the Euro under considerable pressure again. Belgium is being currently traded as the latest candidate to be challenged by its public debt-level, the highest after Greece and Italy. In the recent 10-year auction, the Belgian government was forced to pay investors almost a percentage point more in yields than German bonds. This is half a percentage point more than at the beginning of June. The bid-to-cover ratio was only 1.4 times, much lower than usual.

Taking this slight improvement in exports and in the industrial orders into account, while considering as well the continued pressure by the sovereign debt situation to the Euro-zone, the growth forecast for 2010 was slightly increased from 0.6% to 0.7%.

Former Soviet Union

Faster than expected economic recovery in Russia so far this year supported by rise in oil prices

The Russian economy is witnessing a brisk recovery in the second quarter following the deep recession in 2009 when output fell by almost 8% marking the sharpest contraction since 1999. Factors supporting growth include the government fiscal stimulus and higher oil prices, while growth may be constrained by the banking sector's burden from nonperforming loans as well as the still-high rate of unemployment. Despite positive developments so far this year, the near-term outlook may be impacted by the fallout from the Euro-zone debt crisis on commodity prices and through worsening access to international credit markets.

Second quarter growth is expected to exceed the soft expansion in the first quarter on the back of stronger retail sales and improved business confidence. Russian GDP rose by an annual 2% in May following 1.2% growth in April, marking the fastest pace since November 2008. This GDP is based on survey indices for the manufacturing and services sectors compiled by VTB Capital since June 1998. The faster-than-expected pace of recovery has been assisted by the rise in oil prices, reflecting the economy's continued strong dependence on commodity price developments. The oil price assumption in the 2010 budget calculation is for an average of $58/b and the government's most recent forecast targets 4.5% GDP expansion this year, somewhat higher than our prediction of 4% growth. Meanwhile, other monthly macroeconomic indicators support the positive monthly PMI surveys. A solid performance was recorded by industrial production in April when it rose by 10.4% y-o-y from 5.7% in March, mainly due to stronger manufacturing growth (15.7% y-o-y, up from 5.1% y-o-y). Moreover, capital expenditure and construction also began to recover in March and April after deep declines at the start of the year.

Developing Countries

Chinese economic growth set to moderate to more sustainable levels

Chinese economic growth is set to moderate from the very strong 11.9% expansion registered in 1Q10. China may be affected by the fallout from the Euro-zone debt crisis and slower growth in the Euro-zone region as Europe is the most important market for Chinese goods, absorbing around 20% of total Chinese exports.

Early signs that growth is moderating can be seen from the latest figures for manufacturing. According to the Federation of Logistics and Purchasing, the purchasing managers' index fell to 53.9 from 55.7 in April while remaining above the threshold 50 level that separates expansion from contraction. A separate purchasing managers' index from HSBC Holdings Plc and Markit Economics also fell to 52.7 in May from 55.2 in April

Another sign is the sharp drop in property sales registered in May. After property prices in 70 major cities surged 11.7% y-o-y in March, the Chinese government took measures in mid-April to deflate the property bubble. The measures included raising mortgage rates for second homes - not lower than 110% of benchmark rates loans, and raising down payment ratios for second homes from 40% to 50%. The government also urged Chinese banks to stop lending for third-home purchases in cities with excessive property price gains and to suspend lending to non-residents. Tighter controls over developers' financing were also put in place. These policies have shown rapid success as witnessed by the sharp drop in May property sales in key cities like Beijing, Shanghai and Shenzhen.

The attempts to crackdown property speculation as well as monetary tightening measures (three increases in bank reserve requirements so far this year), combined with the European debt crisis have eroded Chinese stock market gains. The Shanghai Composite Index (SCI) lost 9.7% in May while the Hang Sang Index retreated 5.6%. The SCI has dropped 22% since the peak reached in early January 2010.

Rumours, later refuted, that Chinese authorities were considering a reduction of their investments in euro-assets impacted the euro/yuan rate. The Chinese officials were quick to react, assuring markets that China's $300 bn sovereign wealth fund will maintain its investments in the euro area for the time being. Analysts believe that the emerging signs of a slowdown in the Chinese economy and the European crisis may mean that further tightening of policy as well as the much-discussed revaluation of the yuan may be further postponed.

China's GDP is forecast to expand at 9.5% in 2010, unchanged from last month.

Economic growth in India accelerated in 1Q10 but inflation remains a problem

India's economic growth is proceeding apace as manufacturing growth accelerates and exports boom. GDP rose 8.6% in the 1Q10 from a year earlier following a revised 6.5% gain in 4Q09, despite consumer spending having slowed. The Purchasing Managers' Index for manufacturing compiled by HSBC Holdings Plc and Markit Economics, rose to 59 in May from 57.2 in April, marking the highest level since February 2008. Meanwhile, exports posted a 36.2% increase in April according to the commerce ministry. While the fast pace of growth is exerting pressure on the central bank to raise interest rates, the Reserve Bank of India (RBI) indicated that due to the dampening effect of the current crisis in Europe on global growth, the monetary tightening in India would proceed cautiously, even though inflation is rising. Wholesale price inflation was at 9.6% in April while the consumer-price inflation rate for industrial workers touched about 13.4% in April. Prices paid by farm workers are even higher approaching 15%, affecting more than half of the population. RBI's benchmark reverse repurchase rate is only at 3.75% after two 25 basis-point increases since mid-March 2010. It is expected that this rate will be raised further in the coming months at a gradual pace.

Brazil set to tighten monetary policy as strong growth fuels inflation

Brazil is set to tighten monetary policy further as inflationary pressures rise. The Central Bank is determined to fight inflation as stronger growth has fuelled inflationary expectations. GDP growth is expected to reach 5% this year, following an estimated contraction of 0.2% in 2009. Brazil's inflation target is set by the National Monetary Council composed of the Central Bank president, the Finance Minister and the Budget Minister. A target of 4.5% (±2% tolerance margin) has been set for this year and next. The government's inflation measure, the Extended National Consumer Price Index (IPCA-15) which measures urban consumer price inflation from the 15th day of the previous month to the 15th of the month of reference, reached 5.25% in the 12-months through mid-May. Price increases have exceeded the target each month this year. The central bank has already raised its benchmark Selic rate to 9.5% from 8.75% on 25 April.

OPEC Member Countries

Growth in Algeria and Saudi Arabia expected to pick up this year

In Algeria, economic growth is expected to pick up this year supported by strong government spending. The recently adopted Algerian five-year economic development programme over the period 2010-2014 foresees spending on projects of US$286 bn, involving large increases in investment and in social spending. This will also help to reduce the unemployment rate further- it has already fallen from over 29% in 2000 to around 10% in 2009.

Similarly, GDP growth in Saudi Arabia is set to accelerate this year to a forecast 3.7% growth following near stagnation in 2009, on the back of the ongoing government fiscal stimulus. In its 2010 budget, the Saudi government plans to increase investment spending by 16% to bolster the economic recovery and help support job creation. Meanwhile, consumer prices in Saudi Arabia rose by 0.3% m-o-m in April following a rise of 0.5% in both February and March. The price rise has mainly been driven by higher food prices, which account for 26% of the CPI basket in weight. Y-o-y, inflation stood at 4.9% in April, compared with 4.7% in March.

Oil prices, the US dollar and inflation

The US dollar continued its strength against all major currencies with the exception of the yen, appreciating by as much as 6.2% against the euro

The US dollar continued to strengthen in May against all major currencies with the exception of the yen. On an average monthly base, the dollar fell by 1.7% against the yen, and appreciated by 6.2% against the euro, 5.4% versus the Swiss-franc, and 4.8% against the pound sterling. It continued its dramatic move against the euro at the beginning of June and was recorded below the psychologically important level of $1.20/€ on 7 June when it hit a low at $1.1897/€ to close at $1.1959/€.

The concern about the public financial situation in the Euro-zone can be considered as the driving force that is weighing on the euro. The latest fears that Hungary – despite not even being a Euro-zone member – might face debt problems has put significant downward pressure on the euro and rumours that Belgium might establish itself as a Greece of the north is adding to those concerns. On the other hand, the US economy is doing relatively better than the Euro-zone and investors seem to move out of the euro either for direct currency reasons or because of concerns regarding Euro-zone growth.

In April, the OPEC Reference Basket declined by $7.85/b or 9.5% to $74.48/b from $82.33/b in March. In real terms (base June 2001=100), after accounting for inflation and currency fluctuations, the Basket price fell by $3.41/b or 6.4% to $50.21/b from $53.62/b. The dollar rose by 3.6%, as measured against the import-weighted modified Geneva I+US dollar basket, while inflation remained flat.*

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

World Oil Demand

World oil demand estimated to grow by 1.47 mb/d in 2009

World oil demand in 2009

World oil demand growth in 2009 was revised marginally lower by 10 tb/d, due to a downward revision from the 4Q09, while other quarters remain unchanged.

As a result, world oil demand in 2009 is estimated to grow by 1.47 mb/d or 1.71% to stand at 84.43 mb/d.

Graph 12: World oil consumption by products, 2009

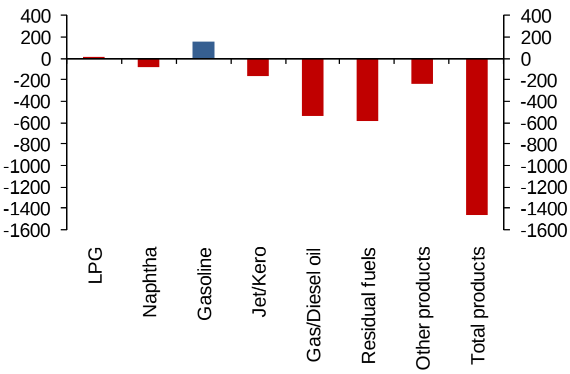


Table 5: World oil demand forecast for 2009, mb/d

	2008	1Q09	2Q09	3Q09	4Q09	2009	Change 2009/08 Volume	%
North America	24.17	23.52	22.91	23.25	23.48	23.29	-0.88	-3.65
Western Europe	15.33	14.90	14.24	14.46	14.49	14.52	-0.81	-5.28
OECD Pacific	8.07	8.14	7.30	7.27	8.01	7.68	-0.39	-4.78
Total OECD	**47.57**	**46.56**	**44.45**	**44.98**	**45.98**	**45.49**	**-2.08**	**-4.37**
Other Asia	9.61	9.73	9.89	9.76	9.93	9.83	0.22	2.25
Latin America	5.80	5.63	5.83	6.03	6.02	5.88	0.07	1.29
Middle East	6.90	6.97	7.08	7.31	7.04	7.10	0.20	2.89
Africa	3.19	3.27	3.25	3.16	3.31	3.25	0.06	1.93
Total DCs	**25.50**	**25.59**	**26.04**	**26.27**	**26.29**	**26.05**	**0.55**	**2.17**
FSU	4.11	3.81	3.70	4.14	4.18	3.96	-0.15	-3.57
Other Europe	0.76	0.74	0.69	0.71	0.76	0.73	-0.03	-3.99
China	7.97	7.61	8.38	8.56	8.26	8.20	0.23	2.91
Total "Other Regions"	**12.83**	**12.16**	**12.78**	**13.41**	**13.19**	**12.89**	**0.06**	**0.43**
Total world	**85.90**	**84.31**	**83.27**	**84.66**	**85.46**	**84.43**	**-1.47**	**-1.71**
Previous estimate	85.90	84.31	83.27	84.66	85.49	84.44	-1.46	-1.70
Revision	0.00	0.00	0.00	0.00	-0.03	-0.01	-0.01	-0.01

Totals may not add due to independent rounding.

Table 6: First and second quarter world oil demand comparison for 2009, mb/d

	1Q08	1Q09	Change 2009/08 Volume	%	2Q08	2Q09	Change 2009/08 Volume	%
North America	24.77	23.52	-1.25	-5.05	24.42	22.91	-1.51	-6.18
Western Europe	15.29	14.90	-0.39	-2.52	15.07	14.24	-0.83	-5.54
OECD Pacific	8.91	8.14	-0.77	-8.60	7.86	7.30	-0.56	-7.15
Total OECD	**48.96**	**46.56**	**-2.40**	**-4.91**	**47.35**	**44.45**	**-2.91**	**-6.14**
Other Asia	9.80	9.73	-0.07	-0.76	9.75	9.89	0.14	1.46
Latin America	5.60	5.63	0.03	0.45	5.84	5.83	-0.01	-0.20
Middle East	6.77	6.97	0.20	2.88	6.87	7.08	0.21	3.00
Africa	3.22	3.27	0.05	1.53	3.19	3.25	0.06	1.80
Total DCs	**25.40**	**25.59**	**0.20**	**0.77**	**25.65**	**26.04**	**0.39**	**1.54**
FSU	4.17	3.81	-0.36	-8.71	3.79	3.70	-0.09	-2.27
Other Europe	0.79	0.74	-0.05	-6.85	0.72	0.69	-0.03	-3.62
China	7.97	7.61	-0.37	-4.58	8.17	8.38	0.22	2.67
Total "Other Regions"	**12.94**	**12.16**	**-0.78**	**-6.05**	**12.67**	**12.78**	**0.11**	**0.83**
Total world	**87.30**	**84.31**	**-2.99**	**-3.42**	**85.68**	**83.27**	**-2.41**	**-2.81**

Totals may not add due to independent rounding.

Table 7: Third and fourth quarter world oil demand comparison for 2009, mb/d

			Change 2009/08				Change 2009/08	
	3Q08	3Q09	Volume	%	4Q08	4Q09	Volume	%
North America	23.57	23.25	-0.33	-1.39	23.93	23.48	-0.46	-1.91
Western Europe	15.53	14.46	-1.06	-6.83	15.44	14.49	-0.95	-6.14
OECD Pacific	7.54	7.27	-0.26	-3.50	7.97	8.01	0.04	0.49
Total OECD	**46.63**	**44.98**	**-1.65**	**-3.54**	**47.34**	**45.98**	**-1.36**	**-2.88**
Other Asia	9.47	9.76	0.29	3.08	9.43	9.93	0.50	5.29
Latin America	5.97	6.03	0.07	1.16	5.80	6.02	0.21	3.70
Middle East	7.09	7.31	0.22	3.09	6.86	7.04	0.18	2.59
Africa	3.12	3.16	0.05	1.46	3.21	3.31	0.09	2.91
Total DCs	**25.64**	**26.27**	**0.63**	**2.44**	**25.31**	**26.29**	**0.99**	**3.89**
FSU	4.22	4.14	-0.08	-1.94	4.24	4.18	-0.06	-1.41
Other Europe	0.73	0.71	-0.02	-2.81	0.78	0.76	-0.02	-2.62
China	8.10	8.56	0.45	5.58	7.65	8.26	0.61	7.99
Total "Other Regions"	**13.06**	**13.41**	**0.35**	**2.68**	**12.66**	**13.19**	**0.53**	**4.19**
Total world	**85.33**	**84.66**	**-0.68**	**-0.79**	**85.31**	**85.46**	**0.15**	**0.18**

Totals may not add due to independent rounding.

Alternative fuel

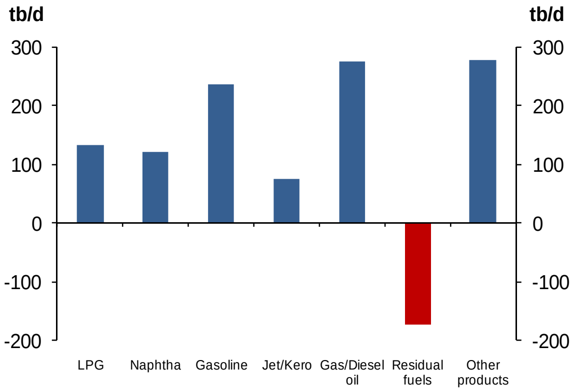
Last year, the US ethanol lobby petitioned the US government to increase the ethanol blend in gasoline to 15%; however this move was challenged by both environmental organizations and by the auto industry. This last May, the same lobbyists pushed their petition again asking for a 15% blend in gasoline. The environmentalists argued that ethanol is not as green as it claims to be. It not only has a feasibility problem, but also leads to deforestation and water shortages world-wide. The auto industry argued that the 15% blend is not suitable for engines and no test has been performed yet on such a blend.

World oil demand in 2010

World oil demand growth forecast at 0.9 mb/d or 1.1 %, unchanged from the last MOMR.

The year started with weak economic recovery which led to stabilized oil demand in most of the world. However, as the year progressed, many regions showed negative performance in oil consumption resulting from the economic turbulence. World oil demand in the first quarter grew by a marginal 0.4 mb/d. Non-OECD region consumed 1.2 mb/d more oil in the first quarter y-o-y; however this strong growth was partially offset by a strong contraction in OECD. Despite the oil demand growth in both North America and the Pacific, the massive 1.0 mb/d decline in European oil consumption led to a 0.8 mb/d decline in the OECD first quarter y-o-y.

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



Although the first five months of 2010 indicated a slight recovery in oil consumption, OECD is not expected to show oil demand growth this year, given the current economic circumstances, especially in the Euro-zone.

With half of the year already passed, economic signs are not that rosy; nevertheless hope remains. Despite the weak economic recovery, future economic prospects are pushing world GDP to a positive side, which will support world oil demand growing mainly in transport and petrochemical sectors.

US oil demand will play a major role in total oil consumption this year. China's oil demand has been acting as a back up and offsetting to a certain degree the loss in OECD oil demand.

The non-OECD region is fueling oil demand growth this year by an amount of 1.1 mb/d.

Given the slow world economic recovery, world oil demand growth is forecast at 0.9 mb/d or 1.1 %, unchanged from the last assessment.

Graph 14: World oil demand growth

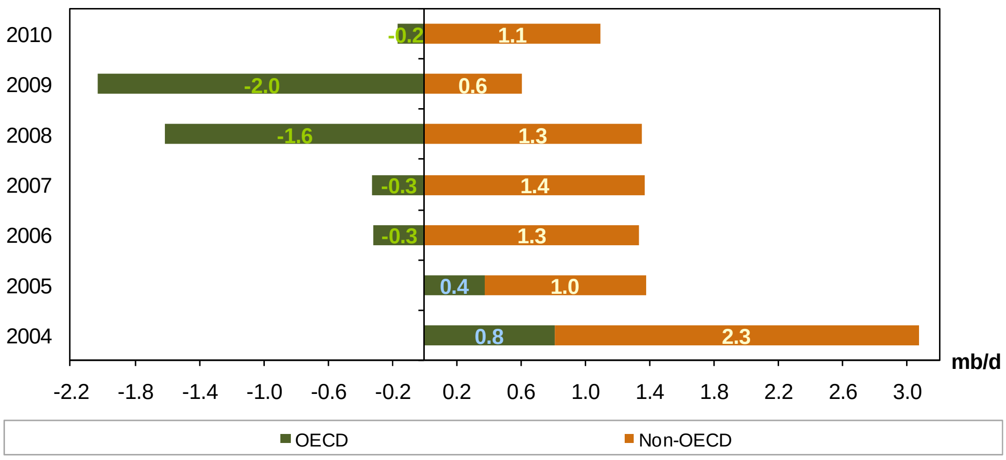


Table 8: World oil demand forecast for 2010, mb/d

	2009	1Q10	2Q10	3Q10	4Q10	2010	Change 2010/09 Volume	%
North America	23.29	23.58	23.36	23.62	23.78	23.59	0.30	1.28
Western Europe	14.52	13.90	13.76	14.17	14.29	14.04	-0.49	-3.34
OECD Pacific	7.68	8.24	7.38	7.20	7.97	7.70	0.02	0.20
Total OECD	**45.49**	**45.73**	**44.51**	**44.99**	**46.04**	**45.32**	**-0.17**	**-0.38**
Other Asia	9.83	9.95	10.14	9.98	10.15	10.05	0.23	2.30
Latin America	5.88	5.74	5.96	6.17	6.15	6.01	0.13	2.21
Middle East	7.10	7.19	7.31	7.54	7.27	7.33	0.23	3.24
Africa	3.25	3.31	3.31	3.22	3.35	3.30	0.05	1.53
Total DCs	**26.05**	**26.18**	**26.72**	**26.91**	**26.92**	**26.69**	**0.64**	**2.44**
FSU	3.96	3.85	3.74	4.17	4.22	4.00	0.04	0.92
Other Europe	0.73	0.72	0.69	0.71	0.77	0.72	0.00	-0.67
China	8.20	8.23	8.77	8.98	8.63	8.65	0.45	5.50
Total "Other Regions"	**12.89**	**12.80**	**13.20**	**13.86**	**13.61**	**13.37**	**0.48**	**3.74**
Total world	**84.43**	**84.71**	**84.43**	**85.76**	**86.57**	**85.37**	**0.95**	**1.12**
Previous estimate	84.44	84.76	84.19	85.86	86.69	85.38	0.95	1.12
Revision	-0.01	-0.05	0.24	-0.10	-0.11	-0.01	0.00	0.00

Totals may not add due to independent rounding.

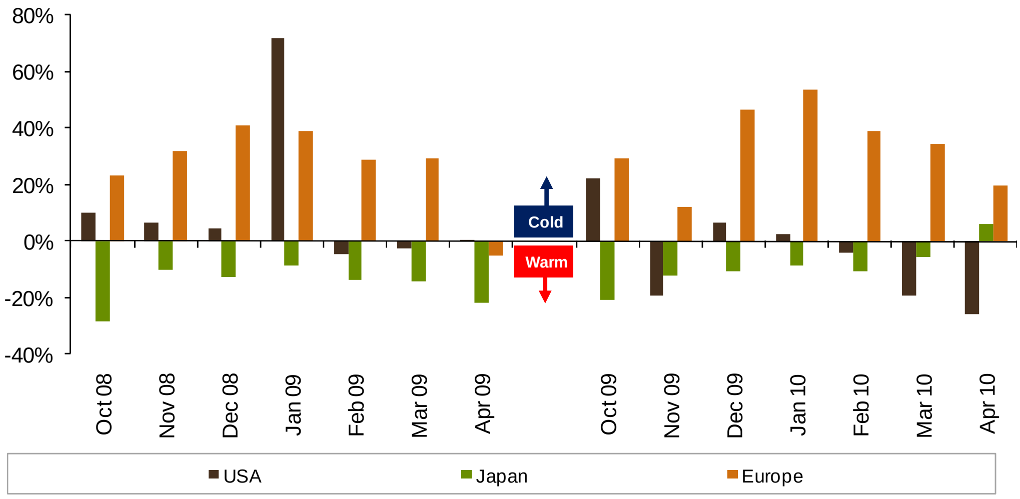
North American oil demand expected to grow slightly by 0.3 mb/d, with most increases taking place during the second half of 2010

OECD - North America

Recent data published in April indicated a rather pessimistic picture of most of the OECD countries' oil consumption. While the North American and Pacific oil demand seemed to have finally stabilized for the year, basically due to an extremely low base in 2009 in combination with some economic recovery, oil consumption in OECD Europe is still deep in the red. This results from the massive Euro-zone debt crisis, which put the region into the worst recession since World War II.

Recent May US weekly data showed some recovery in the consumption of industrial fuels (distillates, as well as propane/propylene) resulting not only from a very low 2009 base but also from an increase in industrial activity. On the other hand, the consumption of transportation fuels in May is still at very low levels due to lower driving mileage in combination with higher fuel prices. Although the developments in industrial fuels are promising, the continuing low consumption in transportation fuels and the nature of weekly data impose some caution as to whether these preliminary indications would actually materialize. May weekly data indicated growth of 1.5 mb/d y-o-y led by 17% growth in distillate fuel oil. Industrial fuel demand is highly dependent upon industrial production. Recent improvement in economic activities has led to growth in the US manufacturing output by 6% last April y-o-y.

Graph 15: Heating degree days, % of normal



US second quarter oil demand growth is estimated at 420 tb/d; however if June consumption turns out as strong as May, then this estimate would be revised up.

Mexican and Canadian oil consumption stand at higher levels during the first four months of the year as compared to 2009, with all products showing increases; the biggest is seen in industrial and transportation fuels. Oil demand in Mexico is forecast to show growth of 34 tb/d in the second quarter, almost double the growth seen in the first. All this extra oil consumption is related to enhanced economic activity. Furthermore, the improved economy is affecting Canadian oil usage as well. It is forecast that transport fuel along with industrial fuel will show some growth this year leading to an overall growth in Canadian oil demand of 30 tb/d y-o-y.

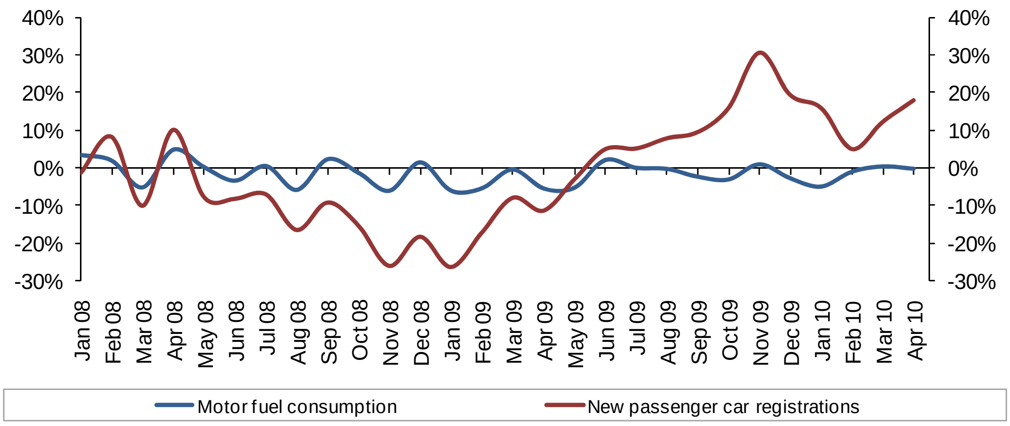
North American oil demand is expected to grow slightly by 0.3 mb/d y-o-y to average at 23.6 mb/d, with most increases taking place during the second half of 2010.

Negative data caused a downward revision in Europe OECD oil demand of 50 tb/d for a total contraction of 0.5 mb/d forecast in 2010

OECD - Europe

Debt in several European economies and continued application of rigorous state tax policies on oil are causing an additional sharp decline in European oil consumption. The European Big Four oil demand contracted strongly led by Germany and the UK. Oil demand in these key economies declined by 0.6 mb/d or 8% y-o-y. Most of the decline is attributed to transportation fuel. Gasoline, jet fuel/kerosene and diesel usage plunged by 160 tb/d, 150 tb/d and 130 tb/d respectively. April data indicated that Germany's oil demand declined by 250 tb/d, exceeding the first quarter decline by 50 tb/d. In Germany, distillates and heating fuel declined by 16% and 14% in April y-o-y. Slow economic activity negatively affected transport fuel, reducing both gasoline and diesel by 4.6% and 0.8%. This massive decline pushed Germany's total oil consumption down by approximately 0.3 mb/d compared to the same month in 2009. German oil consumption is not expected to show a recovery anytime soon.

Graph 16: European new passenger car registrations & motor fuel consumption, y-o-y % changes



Furthermore, official UK April data reported a reduction in oil consumption of about 0.3 mb/d with the transport sector being mostly affected. French and Italian oil consumption in April also decreased compared to last year. In France, heating fuel substitution along with less driving mileage accounted for most of the decline, while in Italy less industrial production and hence reduced use of residual fuel in the industrial sector accounted for most of the drop. This negative data caused a downward revision in Europe OECD oil demand of 50 tb/d.

The region's total contraction in oil demand is forecast at 0.5 mb/d in 2010. However, the decline in oil demand is expected to ease in the second half of the year.

Table 9: French oil demand, tb/d

	Jan-Apr 10	Jan-Apr 09	Change, tb/d	Change, %
Gasoline	172	187	-15	-8.2
Distillate	969	1,031	-62	-6.0
Diesel	*645*	*636*	*9*	*1.4*
Heating oil	*323*	*395*	*-72*	*-18.1*
Residual	47	78	-31	-40.2
Other products	497	573	-76	-13.2
Total products	**1,684**	**1,869**	**-185**	**-9.9**

Source: Argus Fundamentals

OECD - Pacific

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

In South Korea, the second largest oil consuming country in the OECD Pacific region, an increase was observed in the consumption of transportation and industrial fuels last April offsetting the decrease in residual fuel oil consumption as a result of fuel switching. This left overall oil consumption during the first 4 months almost flat compared to last year. Japanese oil consumption seems to have stabilized since January reaching 2.7% growth in the first four months of the year. However, this was up from the exceptionally low levels seen last year. This growth occurred despite the reduction of crude use by power plants. Furthermore, the Pacific experienced colder weather conditions causing higher consumption of heating fuel. Despite this positive performance, Japan is not expected to see overall growth in its oil use this year. The economic slowdown has had a strong dampening affect on the country's energy use this year.

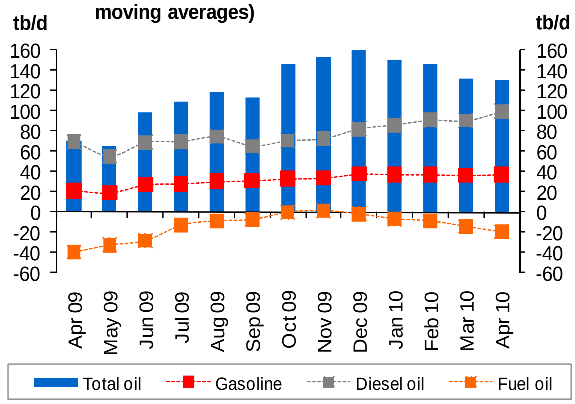
As a result of stabilized Japanese oil demand, OECD Pacific oil demand was revised up by 27 tb/d the year. OECD Pacific oil demand is forecast to show minor growth in 2010, averaging 7.7 mb/d.

Developing Countries

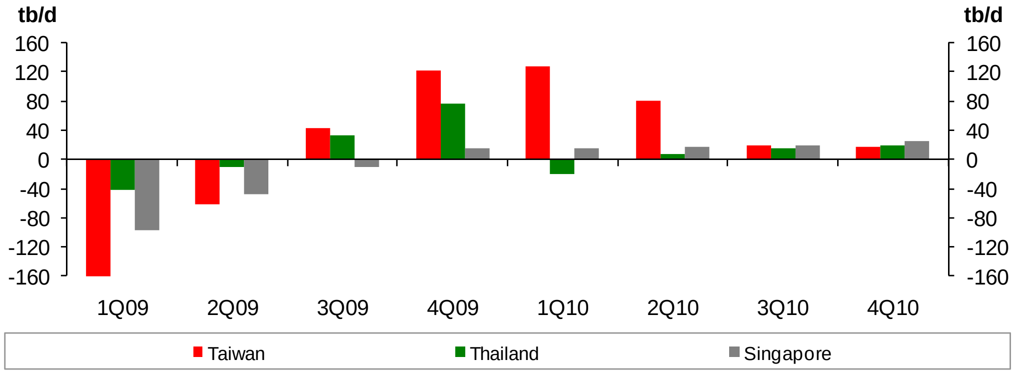
Oil demand growth in Developing Countries forecast at 0.64 mb/d in 2010

For the first time this year, Indian oil demand showed normal growth in April reaching 3.8% y-o-y. As the summer heat coincides with the farming season, the irrigation pumps increased the demand for diesel by 13.5% in April y-o-y. This is expected during agricultural season. Summer heat boosts the demand for electricity as well, leading to further needs for diesel. Furthermore, new car registration jumped 39% in April pushing gasoline demand up by 9.8%. Diesel, which is used not only by transportation but also by agricultural and industrial sectors, grew the most, adding another 159 tb/d to the total Indian oil demand pool. Gasoline as well as LPG grew sharply exceeding 9% growth each. Despite the slow in India's oil demand in the first quarter, the country's demand will offset the slowdown in the second half of the year. As a result of a booming economy, India's oil demand is forecast to grow by 0.13 mb/d in 2010.

Graph 17: Yearly changes in Indian oil demand (12 month moving averages)



Graph 18: Oil consumption in selected Asian countries, y-o-y growth



Other Asia demand growth forecast at 0.23 tb/d in 2010

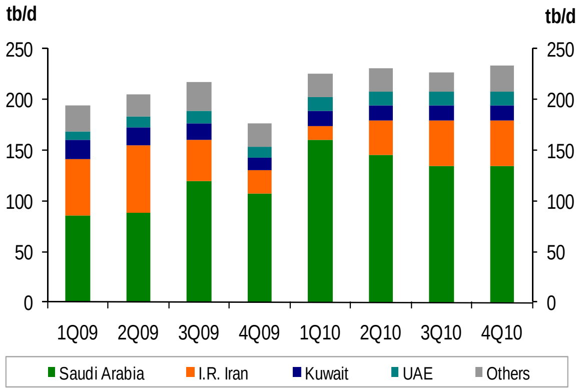
Taiwan's strong consumption of oil by the industrial sector pushed the country's total oil use up by 13% in March. This was achieved despite the contraction in transport fuel. Taiwan oil consumption exceeded 1.0 mb/d with the transport sector's consumption being the strongest. Like Taiwan, enhanced economic activities pushed Thailand's industrial use of oil up, elevating the country's total demand by 8% in March y-o-y.

Given the recent improvement in India's oil demand, Other Asia oil demand growth for the total year is forecast at 0.22 tb/d y-o-y averaging 10 mb/d.

Middle East growth forecast at 0.23 mb/d in 2010

The Middle East oil demand is affected positively by the region's healthy economy. The region is maintaining its forecast growth of 0.23 mb/d despite the minor slowdown in Iran's gasoline usage. Iran's April gasoline demand declined by 50 tb/d y-o-y, suppressing the country's total oil consumption by 1.7%. The country's January to April consumption slid down by 36 tb/d averaging 1.5 mb/d. Saudi Arabia's gasoline and diesel consumption increased by 8.3% and 3.5% respectively in April, putting the country's total oil demand growth at 163 tb/d. Growing summer demand for electricity has not affect fuel oil consumption so far. Fuel switching to LNG pushed the usage of fuel oil into the red by 6.7% in April y-o-y.

Graph 19: Yearly oil demand growth in the Middle East



The Middle East oil demand in April was, as predicted, leading to growth of 0.23 mb/d in 2010, averaging 6.0 mb/d. Middle East oil demand will exceed the hurdle of 6 mb/d in the third quarter this year.

Developing Countries' oil demand growth is forecast at 0.63 mb/d in 2010 to average 26.7 mb/d.

Graph 20: Yearly oil demand growth in Latin America

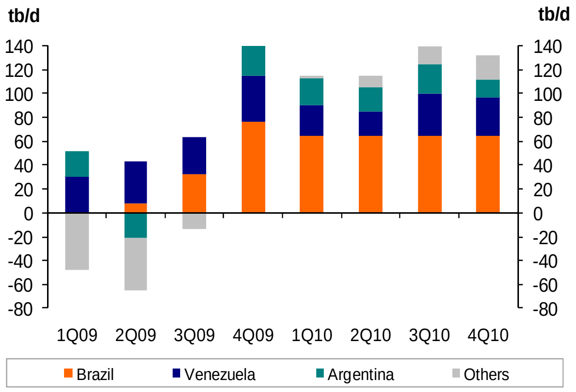


Table 10: Taiwan oil demand, tb/d

	Mar 10	Mar 09	Change from Mar 09	Change from Mar 09, %
LPG	59	53	6	10.0
Gasoline	154	172	-18	-11.4
Jet/Kerosene	46	41	4	9.8
Gas/Diesel oil	89	106	-17	-18.6
Fuel oil	163	146	18	10.8
Other products	556	407	150	26.9
Total	**1,068**	**924**	**144**	**13.4**

Source: JODI

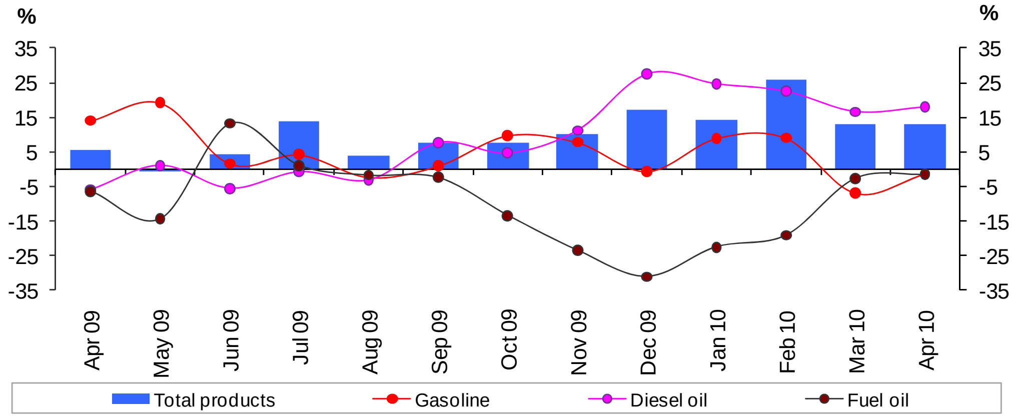
Given strong economic activities, China's oil demand growth is forecast at 0.45 mb/d in 2010

Other regions

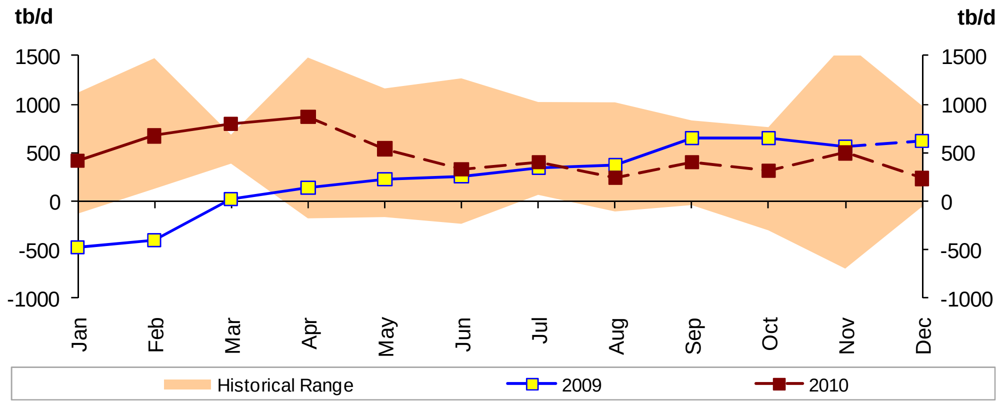
China's booming economy has been keeping the country's appetite for energy in the growth mode. China's oil demand has beaten all expectations so far this year, putting the first quarter at growth of 0.62 mb/d y-o-y. However, this has been supported by the low base of oil demand first quarter last year. The strong trend in consumption continued in April as well. April oil demand grew by 8.6% adding another 0.68 mb/d to the country's oil demand pool. This high demand is purely consumption without domestic oil stock filling. New car registration hit high growth in April, squeezing gasoline demand up. Net oil imports jumped more than 14% in the same month. In April, China consumed an average of 8.75 mb/d of oil. Should China's oil demand maintain this unexpected strength, then the year's total consumption will be revised up. The preparation for the summer heat along with the start of the agricultural season is expected to push China's oil demand growth higher in the third quarter, reaching 0.42 mb/d.

Given the strong economic activity, China's oil demand growth is forecast at 0.45 mb/d in 2010 to average 8.6 mb/d.

Graph 21: Changes in Chinese main oil products apparent consumption, y-o-y



Graph 22: Changes in Chinese apparent oil demand, y-o-y



Following a devastating oil demand performance in FSU last year, the region is recovering and switching to moderate growth. The FSU oil demand is following the region's economic recovery and is forecast to grow by 1% y-o-y. On the other hand, the Other Europe region is dogged by the slowing European economy and is not expected to consume more oil than last year.

Table 11: First and second quarter world oil demand comparison for 2010, mb/d

			Change 2010/09				Change 2010/09	
	1Q09	1Q10	Volume	%	2Q09	2Q10	Volume	%
North America	23.52	23.58	0.06	0.27	22.91	23.36	0.45	1.96
Western Europe	14.90	13.90	-1.00	-6.69	14.24	13.76	-0.47	-3.32
OECD Pacific	8.14	8.24	0.10	1.22	7.30	7.38	0.08	1.10
Total OECD	**46.56**	**45.73**	**-0.84**	**-1.79**	**44.45**	**44.51**	**0.06**	**0.13**
Other Asia	9.73	9.95	0.22	2.26	9.89	10.14	0.25	2.55
Latin America	5.63	5.74	0.11	2.01	5.83	5.96	0.13	2.28
Middle East	6.97	7.19	0.23	3.26	7.08	7.31	0.23	3.26
Africa	3.27	3.31	0.03	0.98	3.25	3.31	0.06	1.82
Total DCs	**25.59**	**26.18**	**0.59**	**2.31**	**26.04**	**26.72**	**0.67**	**2.59**
FSU	3.81	3.85	0.04	1.01	3.70	3.74	0.04	1.05
Other Europe	0.74	0.72	-0.02	-2.70	0.69	0.69	-0.01	-0.72
China	7.61	8.23	0.62	8.19	8.38	8.77	0.39	4.63
Total "Other Regions"	**12.16**	**12.80**	**0.64**	**5.28**	**12.78**	**13.20**	**0.42**	**3.30**
Total world	**84.31**	**84.71**	**0.40**	**0.47**	**83.27**	**84.43**	**1.16**	**1.39**

Totals may not add due to independent rounding.

Table 12: Third and fourth quarter world oil demand comparison for 2010, mb/d

			Change 2010/09				Change 2010/09	
	3Q09	3Q10	Volume	%	4Q09	4Q10	Volume	%
North America	23.25	23.62	0.37	1.60	23.48	23.78	0.30	1.28
Western Europe	14.46	14.17	-0.29	-2.00	14.49	14.29	-0.20	-1.35
OECD Pacific	7.27	7.20	-0.07	-0.96	8.01	7.97	-0.04	-0.55
Total OECD	**44.98**	**44.99**	**0.01**	**0.03**	**45.98**	**46.04**	**0.06**	**0.13**
Other Asia	9.76	9.98	0.22	2.21	9.93	10.15	0.22	2.20
Latin America	6.03	6.17	0.14	2.32	6.02	6.15	0.13	2.19
Middle East	7.31	7.54	0.23	3.11	7.04	7.27	0.23	3.32
Africa	3.16	3.22	0.06	1.93	3.31	3.35	0.05	1.39
Total DCs	**26.27**	**26.91**	**0.64**	**2.45**	**26.29**	**26.92**	**0.63**	**2.40**
FSU	4.14	4.17	0.03	0.75	4.18	4.22	0.04	0.91
Other Europe	0.71	0.71	-0.01	-0.70	0.76	0.77	0.01	1.32
China	8.56	8.98	0.42	4.94	8.26	8.63	0.37	4.51
Total "Other Regions"	**13.41**	**13.86**	**0.45**	**3.35**	**13.19**	**13.61**	**0.42**	**3.19**
Total world	**84.66**	**85.76**	**1.11**	**1.31**	**85.46**	**86.57**	**1.11**	**1.30**

Totals may not add due to independent rounding.

World Oil Supply

Non-OPEC

Estimate for 2009

Non-OPEC supply averaged 51.14 mb/d in 2009, an increase of 0.74 mb/d over the previous year

Non-OPEC oil supply is estimated to have averaged 51.14 mb/d in 2009, an increase of 0.74 mb/d over the previous year. Compared to the last month's estimate, non-OPEC supply remained relatively unchanged. Among non-OPEC suppliers, OECD displayed growth of 0.13 mb/d in 2009 over the previous year. The supply increase came after six years of constant decline. The reverse of the trend was supported only by growth in US oil supply, which is estimated at 0.57 mb/d in 2009, the highest so far in the decade. The rest of OECD varied between decline and stagnant, with more weight on the decline. On a quarterly basis, non-OPEC supply is estimated to have averaged 51.00 mb/d, 50.76 mb/d, 51.02 mb/d and 51.74 mb/d, respectively.

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

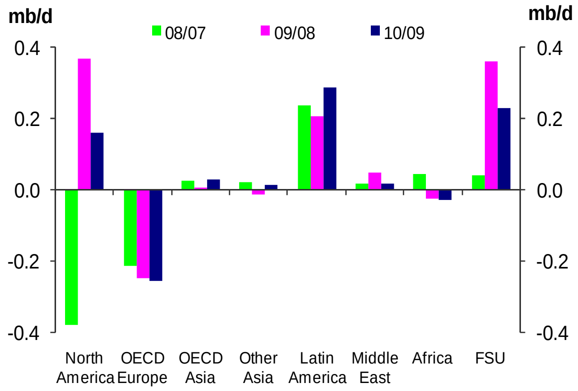


Table 13: Non-OPEC oil supply in 2009, mb/d

	2008	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08
North America	13.92	14.22	14.08	14.30	14.56	14.29	0.37
Western Europe	4.96	5.05	4.65	4.45	4.70	4.71	-0.25
OECD Pacific	0.63	0.64	0.62	0.65	0.64	0.64	0.01
Total OECD	**19.51**	**19.91**	**19.35**	**19.41**	**19.89**	**19.64**	**0.13**
Other Asia	3.73	3.71	3.69	3.70	3.78	3.72	-0.01
Latin America	4.20	4.35	4.38	4.39	4.51	4.41	0.21
Middle East	1.68	1.70	1.72	1.75	1.74	1.73	0.05
Africa	2.75	2.74	2.73	2.72	2.69	2.72	-0.03
Total DCs	**12.36**	**12.50**	**12.51**	**12.57**	**12.71**	**12.57**	**0.21**
FSU	12.56	12.64	12.90	13.01	13.12	12.92	0.36
Other Europe	0.15	0.14	0.13	0.14	0.14	0.14	-0.01
China	3.84	3.80	3.85	3.88	3.87	3.85	0.01
Total "Other regions"	**16.55**	**16.58**	**16.89**	**17.03**	**17.13**	**16.91**	**0.36**
Total Non-OPEC production	**48.42**	**48.99**	**48.75**	**49.01**	**49.73**	**49.12**	**0.70**
Processing gains	1.98	2.01	2.01	2.01	2.01	2.01	0.03
Total Non-OPEC supply	**50.40**	**51.00**	**50.76**	**51.02**	**51.74**	**51.14**	**0.74**
Previous estimate	50.40	51.01	50.76	51.01	51.74	51.13	0.73
Revision	0.00	-0.01	0.01	0.01	0.00	0.00	0.00

Revisions to the 2009 estimate

The original forecast for non-OPEC supply expected growth of 0.94 mb/d, which is relatively close to the current growth estimate of 0.74 mb/d. The forecast experienced various revisions since its inception to accommodate the several changes experienced globally. Among the main factors affecting supply were the decline in oil prices and the financial crisis that led to capital expenditure cuts. On a regional basis, North America experienced the largest growth among all non-OPEC regions supported by the supply increase in the US. FSU supply growth came next, with slightly lower growth than in North America, supported by the healthy growth in all major producers in the region. Russian oil supply experienced significant growth in 2009 which came as a surprise for most forecasters. Latin America held third place on the back of growth experienced in Brazil and Colombia. The Middle East, Other Asia, OECD Pacific, Africa, and China supply remained relatively flat in 2009 with only minor changes. OECD Western Europe maintained the declining trend with supply losing 5% on an annual average. Developing countries indicated lower growth than in the previous year with support coming only from Latin America.

Forecast for 2010

Non-OPEC supply to increase by 0.64 mb/d to average 51.70 mb/d in 2010

Non-OPEC supply is expected to average 51.78 mb/d in 2010, representing growth of 0.64 mb/d and an upward revision of 0.11 mb/d compared to the last report. Updates on actual production data in the first quarter, as well as healthy supply figures for the early part of the second quarter, by many non-OPEC suppliers required the upward revision. Similar to previous month's revisions, the upward revisions were concentrated in the first half of 2010, with more weight in the second quarter. The first quarter encountered an upward revision of 0.17 mb/d over the previous month, with North America experiencing the bulk of the revision. The second quarter encountered the largest revision of 0.33 mb/d with the OECD driving the greater part of the revision. Non-OPEC supply forecast in the second half of 2010 remained relatively steady compared to the previous month with minor downward revision. It is worth highlighting that the associated risk and uncertainties in the forecast are on the high side given the current global market situation as well as the factors influencing supply. On a quarterly basis, non-OPEC supply is expected to average 52.21 mb/d, 51.91 mb/d, 51.29 mb/d and 51.70, respectively.

Table 14: Non-OPEC oil supply in 2010, mb/d

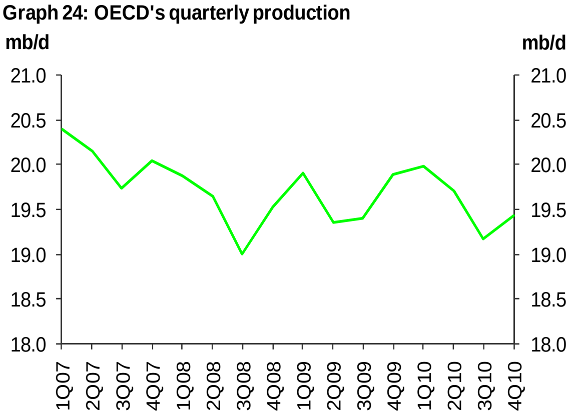
	2009	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09
North America	14.29	14.69	14.55	14.25	14.31	14.45	0.16
Western Europe	4.71	4.66	4.50	4.24	4.42	4.45	-0.26
OECD Pacific	0.64	0.62	0.66	0.67	0.70	0.66	0.03
Total OECD	**19.64**	**19.97**	**19.71**	**19.16**	**19.44**	**19.57**	**-0.07**
Other Asia	3.72	3.76	3.72	3.73	3.72	3.73	0.01
Latin America	4.41	4.63	4.67	4.71	4.77	4.70	0.29
Middle East	1.73	1.75	1.75	1.74	1.73	1.74	0.02
Africa	2.72	2.72	2.68	2.68	2.68	2.69	-0.03
Total DCs	**12.57**	**12.87**	**12.82**	**12.86**	**12.90**	**12.86**	**0.29**
FSU	12.92	13.12	13.14	13.10	13.24	13.15	0.23
Other Europe	0.14	0.13	0.14	0.13	0.13	0.13	0.00
China	3.85	4.02	4.01	3.94	3.90	3.97	0.12
Total "Other regions"	**16.91**	**17.28**	**17.29**	**17.18**	**17.27**	**17.26**	**0.35**
Total Non-OPEC production	**49.12**	**50.12**	**49.82**	**49.20**	**49.61**	**49.69**	**0.56**
Processing gains	2.01	2.09	2.09	2.09	2.09	2.09	0.08
Total Non-OPEC supply	**51.14**	**52.21**	**51.91**	**51.29**	**51.70**	**51.78**	**0.64**
Previous estimate	51.13	52.04	51.58	51.32	51.74	51.67	0.53
Revision	0.00	0.17	0.33	-0.02	-0.04	0.11	0.11

OECD

OECD supply to average 19.57 mb/d in 2010, representing a decline of 70 tb/d

Total OECD supply is forecast to average 19.57 mb/d in 2010, representing a decline of 70 tb/d and an upward revision of 80 tb/d from the previous month. The upward revision came on the back of updated strong production figures in the early part of the second quarter, as well as in the first quarter. The upward revisions were concentrated in North America, mainly the US. OECD Western Europe and OECD Pacific forecast also experienced upward

Graph 24: OECD's quarterly production



revisions, although to a lesser extent. Despite the upward revision, the OECD supply forecast remains in the negative in 2010 compared to the previous year, as anticipated growth in North America and OECD Pacific is not projected to offset the decline forecast in OECD Western Europe supply. Yet the risk and uncertainties remain high, especially in North America, which requires careful monitoring over the coming period. On a quarterly basis, OECD oil supply is forecast to average 19.90 mb/d, 19.35 mb/d, 19.41 mb/d and 19.89 mb/d, respectively. Total OECD supply stood at 19.49 mb/d in May, according to preliminary estimated data, indicating an increase of around 0.25 mb/d compared to the same period in 2009.

North America

Oil supply from North America is projected to increase by 0.16 mb/d to average 14.45 mb/d in 2010, representing an upward revision of 50 tb/d from last month. The US and Mexico oil supply forecasts experienced an upward revision while Canada's forecast remained steady on an annual basis. The anticipated growth in North America is seen to be supported mainly by the US and to lesser extent Canada, while Mexico is expected to decline and offset some of the growth in other countries. On a quarterly basis, North America oil supply in 2010 is foreseen to stand at 14.69 mb/d, 14.55 mb/d, 14.25 mb/d, and 14.31 mb/d, respectively.

US

US supply to average 8.26 mb/d in 2010, with a high risk due to the drilling moratorium and expected active storm season

US oil production is expected to average 8.26 mb/d in 2010, representing growth of 0.19 mb/d over 2009 and an upward revision of 40 tb/d from the previous report. The upward revision affected the first half with both the first and second quarters encountering upward revisions of around 0.13 mb/d each. Healthy production figures in the first quarter as well as estimates for the early part of the second quarter supported the upward revision. The strong figures came from different supply elements with solid production numbers for NGLs that registered an all-time high in February. Additionally, strong biofuel figures supported the upward revision with the spread between ethanol and RBOB shrinking, giving ethanol production a favourable position which supported the high ethanol export numbers in March. Additionally, expectations for a bigger corn harvest is providing biofuel supply with a positive outlook. On the other hand, the forecast for US supply in the second half experienced a downward revision in both the third and fourth quarters with more weight on the fourth quarter.

A number of developments have taken place since the last update. Among the important factors was the extension of the deep water moratorium to include all wells of more than 500 ft of depth. This action, which was driven by the accident at the Macondo well, is now seen to have had a negative impact on US oil supply by delaying the startup and ramp-up of many projects. While last month, the effect of the accident on US supply was seen to be minor, since then, the drilling ban has completely changed the perception about the repercussions of the accident. During the early part of May, the US Mineral Management Service (MMS) reported that only five oil and gas platforms were shut down due to the oil slick representing a production cut of only 2,300 b/d. However, the announced drilling ban of 27 May, 2010 has changed the picture of the forecast, with expectations of stronger effect on 2011 supply than 2010. According to various reports, the extension of the moratorium is affecting wells that are being drilled with orders to halt operations at the "first safe stopping point". This direction is affecting, as per the current report, around 35 wells, 25 of which are development wells which will have a heavy influence on production in 2010 and 2011 and will delay new volumes coming onstream. Additionally, recent reports suggest that this year's Atlantic hurricane season is expected to be one of the most active on record with a projection of 8 – 14 hurricanes negatively affects supply expectations for the second half of the year. It is worth highlighting that none of the downward revisions introduced to the second half forecast came in response to the weather forecast, as it is very difficult to quantify the effect of any hurricane on US supply since many of the available statistical methods to assume an effect on the supply in the past were not very accurate. Hence, it should be highlighted that the future holds a very high risk to the forecast of US oil supply due to the above mentioned factors including weather disruptions. On a quarterly basis, US oil supply is seen to average at 8.41 mb/d 8.33 mb/d, 8.15 mb/d, and 8.17 mb/d, respectively. According to preliminary estimated data, US oil supply is seen to have averaged 8.24 mb/d in May, down from the previous month.

Canada and Mexico

Canada supply to increase by 50 tb/d in 2010

Canadian oil supply is foreseen to increase by 50 tb/d over 2009 to average 3.29 mb/d in 2010, flat from last month. Despite the steady state of the forecast, there were minor upward and downward revisions to the first and second quarter supply that offset each other. Oil supply growth from Canada is expected to be driven mainly by the oil sand development. With the Horizon project production remaining at the 0.10 mb/d level, despite the expected output decline of the project in May due to scheduled maintenance. Additionally, the healthy profit level posted by Canadian operators has supported expected growth. Furthermore, the commissioning of the Algar development with a bitumen capacity of 0.01 mb/d is supporting the supply increase. On a quarterly basis, Canada's production is seen to average 3.29 mb/d, 3.28 mb/d, 3.27 mb/d and 3.33 mb/d, respectively.

Mexico April production indicates a slowing decline

Oil supply from **Mexico** is predicted to decline by 80 tb/d over 2009 to average 2.90 mb/d in 2010, indicating an upward revision of 10 tb/d compared to the previous month. The upward revision was supported mainly by healthy production data that indicated higher-than-expected supply. The improved production is indicating that the carried-out operational activities are starting to support overall supply and slowing the decline. It was reported that Chicontepec supply averaged 42,000 b/d in April 2010, which is higher than the 30,000 b/d at the end of 2009. The growth seems supported by the report that Pemex completed 226 development wells in the region in the first quarter. According to preliminary data, Mexico oil supply stood at 2.98 mb/d, relatively unchanged from the previous month with a slight decline. On a quarterly basis, Mexico's oil supply is expected to average 2.99 mb/d, 2.94 mb/d, 2.84 mb/d, and 2.81 mb/d, respectively.

Western Europe

Total **OECD Western Europe** oil supply is seen to average 4.45 mb/d in 2010, representing a decline of 0.26 mb/d over 2009 and a minor upward revision of 20 tb/d from last month. The upward revisions were concentrated in the first half of 2010, with the second quarter encountering the only upward revision that more than offset the downward revision in the first quarter. The revisions were necessary to adjust for actual production data as well as estimated data. OECD Western Europe remains the region with the highest expected decline among all non-OPEC regions. On a quarterly basis, OECD Western Europe supply in 2010 is seen to average 4.66 mb/d, 4.50 mb/d, 4.24 mb/d, and 4.42 mb/d, respectively.

Norway supply to decline by 0.14 mb/d in 2010, the largest among all non-OPEC countries

Oil production from **Norway** is predicted to drop by 0.14 mb/d to average 2.20 mb/d in 2010, relatively flat from the previous month. There was a minor upward revision to the second quarter forecast that was introduced to adjust for preliminary data for the early part of the quarter. In terms of volume, Norway oil supply is expected to experience the largest decline among all non-OPEC countries in 2010. The second quarter oil supply forecast is seen lower than the first quarter due to the summer maintenance season. The decline is expected to continue in the third quarter before increasing in the fourth as the maintenance season comes to an end. The Ormen Lange field, which produces condensate, was shutdown in May for maintenance. Additionally, the Gullfaks C platform, which has a capacity of 70 tb/d, was shut down due to unstable well pressure. The supply decline during the maintenance season is seen to be partially offset by the restart of the Yme development. In April, preliminary data indicated a further decline in production compared to the previous month with supply standing at 2.24 mb/d. On an annual basis, April supply indicated a decline of 0.14 mb/d. On a quarterly basis, Norway's supply is anticipated to average 2.31 mb/d, 2.19 mb/d, 2.08 mb/d and 2.23 mb/d respectively.

UK supply forecast to drop 80 tb/d in 2010

The **UK** is believed to average 1.40 mb/d in 2010, representing a drop of 80 tb/d over 2009 and an upward revision of 10 tb/d compared to last month. The upward revision was introduced to adjust for the preliminary estimated production figure for the second quarter. The increased supply from the Don stream is seen supporting production. UK oil supply is expected to decline in the second half of 2010 on the back of maintenance as well as the natural decline in mature producing areas. On a quarterly basis, UK oil supply is expected to stand at 1.49 mb/d, 1.45 mb/d, 1.32 mb/d and 1.36 mb/d, respectively.

Denmark oil supply is foreseen to average 0.25 mb/d in 2010, representing a minor decline of 10 tb/d over 2009 and a minor upward revision of less than 10 tb/d compared to the previous month. The upward revisions were introduced to the first and second quarter to adjust for actual and preliminary estimates of supply figures that were slightly higher than previously expected.

Asia Pacific

OECD Asia Pacific oil production is foreseen to average 0.66 mb/d in 2010, a minor increase of 30 tb/d over 2009 and minor upward revision of less than 10 tb/d from a month ago. The upward revision was due to updated production data. On a quarterly basis, OECD Pacific oil supply is seen to average 0.62 mb/d, 0.66 mb/d, 0.67 mb/d and 0.70 mb/d, respectively.

Australia oil supply to increase by 20 tb/d in 2010

Oil supply from **Australia** is expected to average 0.56 mb/d in 2010, a minor increase of 20 tb/d over 2009 and broadly unchanged from the previous month. There were minor downward and upward revisions to the first and fourth quarter supply forecast, respectively. Yet the revisions offset each other on the annual level. The revisions were introduced to adjust for updated production data as well as project rescheduling. On a quarterly basis, Australian supply is seen to average 0.52 mb/d, 0.54 mb/d, 0.57 mb/d, and 0.60 mb/d, respectively.

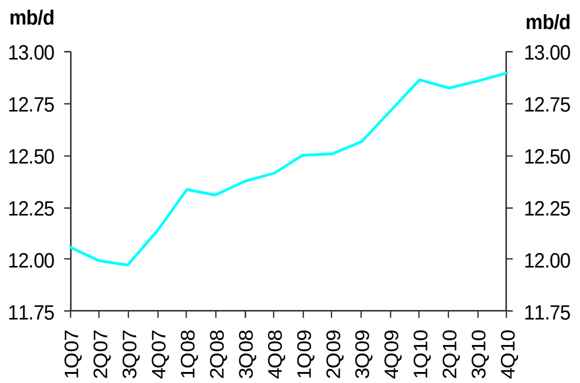
New Zealand oil supply forecast encountered a minor upward revision to adjust for estimated data. It is now projected that New Zealand oil supply will increase by 10 tb/d over 2009 to average 0.11 mb/d in 2010.

Developing Countries

DC supply to increase by 0.29 mb/d in 2010 to average 12.86 mb/d

Total **Developing Countries** oil supply is projected to increase by 0.29 mb/d over 2009 to average 12.86 mb/d in 2010, indicating a minor upward revision of 20 tb/d compared to the previous month. The revisions were concentrated in the first half of 2010 mainly to adjust for actual and estimated production data. There were upward and downward revisions among DC regions which mostly offset one other. The anticipated growth is supported mainly by Latin America while other regions' supply within DCs is expected to either increase or decrease slightly. Latin America, Africa and Middle East supply forecasts encountered upward revisions compared to the previous month while Other Asia experienced the only downward revision. The size of the revisions was minor with Latin America experiencing the largest in terms of volume at less than 2 tb/d. On a quarterly basis, DC's total oil production is seen to stand at 12.87 mb/d, 12.82 mb/d, 12.86 mb/d and 12.90 mb/d respectively.

Graph 25: Developing Countries' quarterly production



Other Asia supply to remain flat in 2010

Other Asia oil supply is estimated to remain relatively flat from the previous year, with a minor increase of 10 tb/d, to average 3.73 mb/d in 2010, indicating a downward revision of less than 20 tb/d compared to a month earlier. The downward revision came mainly from Malaysia and Thailand. Malaysia oil supply is expected to decline by 30 tb/d over 2009 to average 0.70 mb/d in 2010. The downward revision came to adjust for preliminary production data that came lower than previously expected. The downward revision was experienced despite the commissioning of the Kuantan biodiesel plant in May with a capacity of 5,000 b/d. Similarly, Thailand oil supply forecast encountered a downward revision on the back of adjustment to preliminary production data. In India, oil supply is predicted to grow by 0.06 mb/d in 2010 supported by the Mangala projected, which has reported that supply has reached the 60,000 b/d level in May from around 18,000 b/d in the first quarter. Vietnam oil production is expected to remain flat in 2010 compared to the previous year and average 0.34 mb/d. The Su Tu Den field has added around 22,000 b/d of new production in May. The Tindalo project started up in the Philippines with initial capacity of 7,000 to 15,000 b/d. On a quarterly basis, Other Asia supply is seen to stand at 3.76 mb/d, 3.72 mb/d, 3.73 mb/d and 3.72 mb/d, respectively. Preliminary data indicates that Other Asia supply in the first quarter indicated a y-o-y growth of 0.05 mb/d.

Latin America supply to increase by 0.29 mb/d in 2010 supported by growth in Brazil and Colombia

Oil production from **Latin America** is anticipated to increase by 0.29 mb/d over 2009 to average 4.70 mb/d in 2010, indicating an upward revision of 20 tb/d from the previous month. The upward revision came from Argentina and Trinidad and Tobago supply forecasts. Argentina oil supply is expected to remain flat in 2010 with a minor decline of 10 tb/d over 2009 to average 0.75 mb/d. The upward revision came to adjust for updated production data in the second quarter which was partially carried over through the second half of 2010. Similarly, in Trinidad and Tobago supply forecasts experienced a minor upward revision of 0.01 mb/d to adjust for updated production data in the first half of 2010, with supply anticipated to average 0.15 mb/d. Brazil oil supply is expected to increase by 0.20 mb/d over 2009 to average 2.70 mb/d in 2010, the highest anticipated growth among all non-OPEC countries. The growth is supported by various projects as well as biofuel production. It was reported that 2010 is expected to post the highest record of sugar cane yield, hence supporting the biofuel supply growth. Additionally, Petrobras reported a record-high domestic production in April supported by the ramp-up several platforms that were installed a year ago. Additionally, the Urugun-Tambau and Cachalote-Baleia-Franca fields are expected to start up in the coming months, which are expected to support the growth. Colombia oil supply is anticipated to increase by 0.10 mb/d over 2009 to average 0.78 mb/d in 2010. In April, Colombia oil production average 0.77 mb/d, indicating a y-o-y growth of around 20%. On a quarterly basis, Latin American supply is seen to stand at 4.63 mb/d, 4.67 mb/d, 4.71 mb/d and 4.77 mb/d, respectively.

Middle East supply to increase slightly by 20 tb/d in 2010

Middle East oil production is estimated to average 1.74 mb/d in 2010, a minor increase of 20 tb/d over 2009, indicating a minor upward revision of 10 tb/d compared to last month. The upward revision came from Syria as the updated production data indicated slightly higher supply than previously expected. Syrian oil supply is expected to remain flat in 2010 over 2009 supported by developments at the Khurbet oil field. Oman oil supply remains the only country in the region to post supply increase in 2010 supported by the EOR developments. On a quarterly basis, Middle East supply is foreseen to average 1.75 mb/d, 1.75 mb/d, 1.74 mb/d, and 1.73 mb/d respectively.

Jubilee field to start up in 4Q

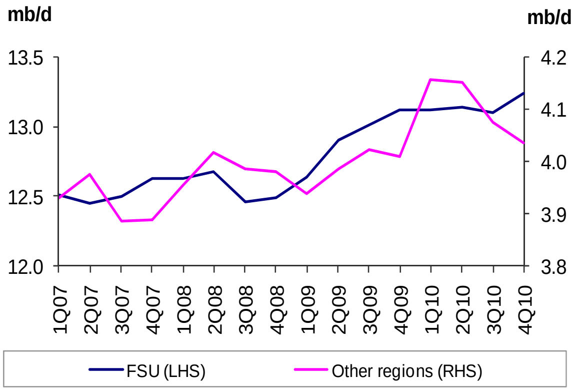
Africa oil supply is foreseen to average 2.69 mb/d in 2010, a minor drop of 0.03 mb/d over 2009, indicating a minor upward revision of 10 tb/d from last month. There were various small upward and downward revisions within the region that mostly offset each other. Supply forecasts of Chad, Congo, and South Africa encountered minor upward revisions while forecasts of Equatorial Guinea and Gabon experienced downward revisions compared to the previous month. Most of the revisions were introduced to adjust for updated production data. In Congo, the upward revision was supported by the startup of new development well at the Azurite field in May. From Ghana, it was reported that 16 out of the 17 planned wells were drilled at the Jubilee development and the field is expected to start up on schedule and on budget in the fourth quarter. On a quarterly basis, Africa oil supply is expected to average, 2.72 mb/d, 2.68 mb/d, 2.68 mb/d, and 2.68 mb/d respectively.

FSU, Other Regions

FSU supply to increase 0.23 mb/d in 2010

FSU oil supply is projected to average 13.15 mb/d in 2010, representing growth of 0.23 mb/d over 2009 and unchanged from last month. Despite the steady state of the forecast, there were few upward and downward revisions that offset each other. The introduced revisions came to adjust for production data and were partially carried over throughout 2010. In terms of volume, the FSU region remains the second region with the highest supply after North America. The expected growth in 2010 FSU supply also shows the second highest growth after Latin America. The growth remains supported by all the major producers in the region. On a quarterly basis, total oil supply from the FSU is expected to stand at 13.12 mb/d, 13.14 mb/d, 13.10 mb/d, and 13.24 mb/d, respectively. Other Europe supply is expected to remain steady over 2009 to average 0.13 mb/d in 2010. China's oil supply is forecast to increase by 0.12 mb/d over the previous year to average 3.97 mb/d in 2010. Preliminary data indicates that average FSU supply stood at 13.13 mb/d in April 2010, indicating a y-o-y growth of 0.24 mb/d and a monthly decrease of 0.08 mb/d.

Graph 26: FSU and other region's quarterly production



Russia

Russia supply to increase by 0.10 mb/d in 2010

Oil supply from **Russia** is forecast to average 10.02 mb/d in 2010, an increase of 0.10 mb/d over 2009, indicating a minor upward revision of less than 0.01 mb/d compared to last month. The upward revision was introduced to second quarter supply forecasts and carried over throughout the rest of the year. The slightly higher-than-expected supply in the first two months of the second quarter required the minor upward revision. However, Russian oil supply is expected to decline from the peak in March in the coming period on the back of decline in mature production areas. Additionally, the annual growth is seen to remain limited as the new volume is seen to be lower than what have been experiencing in previous months. The Vankor field was reported to reach 0.26 mb/d in April, which is close to the peak of the first phase supply of 0.32 mb/d. Additionally, further supply growth is expected from the Uvat field with the startup of the small Tyamkinskoye. Moreover, the startup of the Yuri field is further supporting the anticipated Russian supply growth. However, the recent strength of the ruble against the dollar has limited the affect on the capex. On a quarterly basis, Russian oil supply is estimated to average 10.09 mb/d, 10.04 mb/d, 10.00 mb/d and 9.96 mb/d respectively. According to preliminary data, Russian oil supply averaged 10.05 mb/d in May, slightly lower than the previous month.

Caspian

Kazakhstan supply up 70 tb/d in 2010

Kazakh oil supply is expected to increase by 70 tb/d over 2009 to average 1.61 mb/d in 2010, unchanged from the previous month. The startup of loading through the Kulevi terminal is supporting growth with more excess exports. Additionally, Kazakhstan exports are seen to increase in the second half of May after the completion of maintenance at the Tengiz field. Furthermore, the startup of the small Ada field is further supporting growth. Actual production data in April, which averaged 1.57 mb/d, indicated a monthly decline of 30 mb/d while on a y-o-y basis, April supply indicated growth of 0.06 mb/d. On a quarterly basis, Kazakhstan supply is seen to stand at 1.61 mb/d, 1.61 mb/d, 1.56 mb/d, and 1.65 mb/d respectively.

Azeri oil production to average 1.08 mb/d in 2010

Oil supply from **Azerbaijan** is anticipated to increase by 60 tb/d over 2009 to average 1.08 mb/d in 2010, representing a minor upward revision of less than 10 tb/d compared to the previous month. The upward revision was supported by stronger-than-expected supply figures in the first and early parts of the second quarter. The projected growth of Azerbaijan supply is driven mainly by the Azeri-Chirag-Guneshli (ACG) field, with the operator expecting the field's production to average 0.85 mb/d in 2010. The ACG supply averaged around 0.80 mb/d in the first quarter. On a quarterly basis, Azerbaijan oil supply is estimated to average 1.00 mb/d, 1.06 mb/d, 1.10 mb/d, and 1.16 mb/d, respectively.

China

China supply to average 3.97 mb/d in 2010

China oil production is foreseen to average 3.97 mb/d in 2010, an increase of 0.12 mb/d over 2009, unchanged from the previous month. Despite the steady state, there were minor upward and downward revisions in the first half that offset each other. The revisions came mainly to adjust for updated production data. The strong growth experienced in China oil supply is expected to shrink in the coming month as the decline of mature producing areas is expected to increase. This view comes despite the fact that a considerable portion of the recently anticipated growth came from old fields, however, the production increase that outpaced the decline in the old fields is not expected to continue. Preliminary production data indicates that China oil supply averaged 4.02 mb/d in April, slightly lower than the previous month yet indicating a y-o-y growth of 0.16 mb/d. On a quarterly basis, China's oil supply is projected to average 4.02 mb/d, 4.01 mb/d, 3.94 mb/d, and 3.90 mb/d, respectively.

OPEC natural gas liquids and non-conventional oils

OPEC NGLs and non-conventional oils are estimated to have averaged 4.35 mb/d in 2009, an increase of 0.21 mb/d over the previous year. In 2010, OPEC NGLs and nonconventional oils are forecast to grow by 0.48 mb/d over the previous year to average 4.83 mb/d.

Table 15: OPEC NGLs + non-conventional oils, 2007-2010

			Change						Change		Change
	2007	**2008**	08/07	1Q09	2Q09	3Q09	4Q09	**2009**	09/08	**2010**	10/09
Total OPEC	**3.95**	**4.14**	0.20	4.10	4.30	4.52	4.47	**4.35**	0.21	**4.83**	0.48

OPEC crude oil production

OPEC crude oil production increased in May

OPEC total crude oil production averaged 29.26 mb/d in May, according to secondary sources, representing growth of 141 tb/d over the previous month. The increase came mainly from Iraq, while crude production from other OPEC Member Countries experienced only minor changes from the previous month. OPEC crude oil production, not including Iraq, stood at 26.83 mb/d in May, up 20 tb/d from the previous month.

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

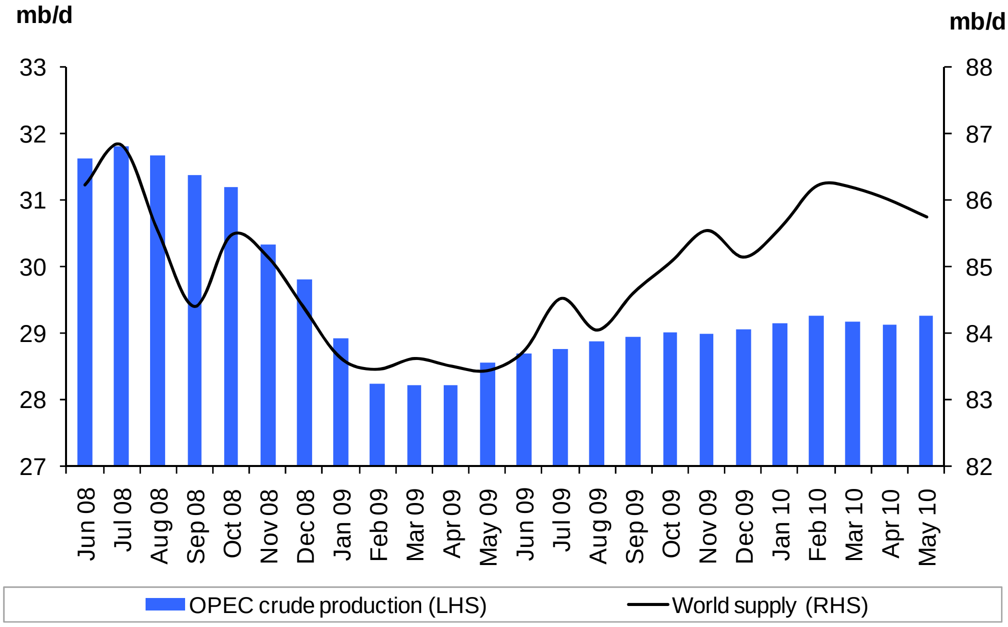
	2008	**2009**	**3Q09**	**4Q09**	**1Q10**	**Mar 10**	**Apr 10**	**May 10**	***May/Apr***
Algeria	1,381	1,270	1,275	1,270	1,271	1,269	1,275	1,274	*-1.3*
Angola	1,871	1,786	1,828	1,873	1,917	1,916	1,899	1,880	*-18.4*
Ecuador	503	477	472	474	473	475	475	473	*-1.5*
Iran, I.R.	3,892	3,725	3,749	3,728	3,742	3,750	3,763	3,747	*-15.3*
Iraq	2,341	2,422	2,499	2,459	2,461	2,380	2,310	2,431	*121.3*
Kuwait	2,554	2,263	2,254	2,275	2,288	2,289	2,299	2,300	*1.2*
Libya, S.P.A.J.	1,718	1,557	1,557	1,540	1,543	1,544	1,558	1,553	*-5.0*
Nigeria	1,947	1,812	1,739	1,942	1,990	2,020	1,985	1,996	*11.0*
Qatar	840	776	780	792	805	814	815	821	*6.4*
Saudi Arabia	9,113	8,055	8,123	8,122	8,127	8,126	8,151	8,158	*7.4*
UAE	2,557	2,256	2,253	2,258	2,280	2,283	2,291	2,301	*10.0*
Venezuela	2,487	2,311	2,323	2,290	2,291	2,295	2,302	2,327	*24.9*
Total OPEC	**31,205**	**28,709**	**28,852**	**29,021**	**29,189**	**29,160**	**29,121**	**29,262**	***140.9***
OPEC excl. Iraq	**28,864**	**26,287**	**26,353**	**26,562**	**26,728**	**26,780**	**26,811**	**26,830**	***19.6***

Totals may not add due to independent rounding.

World Oil Supply

Preliminary figures indicate that global oil supply averaged 85.75 mb/d in May, around 0.25 mb/d lower than the previous month. OPEC crude is estimated to have a 34.1% share in global supply, slightly higher than the previous month due to the increase in OPEC crude production and lower non-OPEC supply. The estimate is based on preliminary data from non-OPEC supply. Estimates for OPEC NGLs and OPEC production are derived from secondary sources.

Graph 27: OPEC and world oil supply

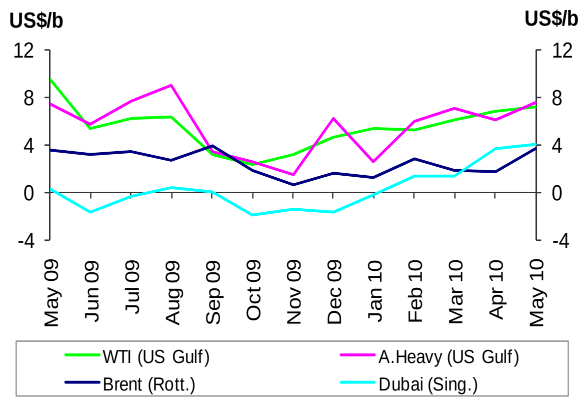


Product Markets and Refinery Operations

Refinery economics improved across the board in May

A combination of growing demand for top and middle component of the barrel complex with lower cost of crude has lifted refining margins across the globe in May and encouraged refiners, particularly in the US, to increase throughput levels. With the start of driving season and predictions for a more active hurricane season, gasoline market sentiment may gain further in the future. However, due to comfortable stocks and persisting spare refinery capacity in various parts of the world, product markets are not expected to lead the market and to provide significant support for the crude market in the coming months.

Graph 28: Refining margins



As mentioned in the previous report, there is still an inter-product imbalance in the market which potentially may limit any significant improvement in refinery throughputs. This situation could not be able to provide sufficient support for crude market fundamentals in the future.

As ***Graph 28*** shows, refining margins for WTI crude oil on the US Gulf Coast rose by 38¢ to reach $7.18/b in May from $6.80/b in the previous month. In Europe, refining economics followed suit, and margins for Brent crude in Rotterdam surged to $3.58/b in May from $1.74/b last month.

In Asia, middle distillates performance was relatively good and has supported refining margins. Lower cost of Dubai crude oil has also contributed to positive developments on refinery economics. Refining margins for Dubai crude oil in Singapore increased by 35¢ to reach $4.04 in May from $3.69/b in April.

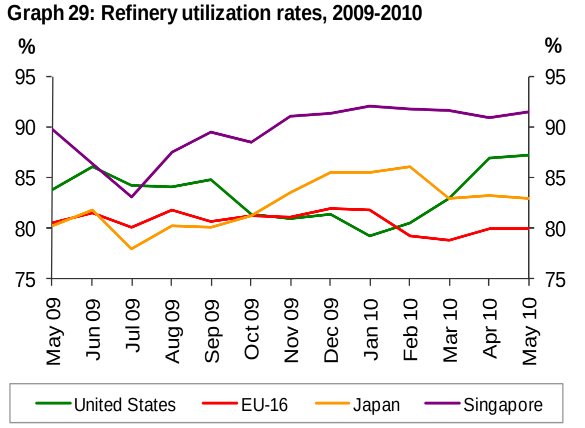
Looking ahead, given the uncertainty in the financial market and its negative impact on market players' perception, it appears that product market sentiment may not be able to gain significantly in the coming months.

Refinery operations

Refinery utilization rates remained low in major consuming markets, with the exception of the US

Historically, refiners used to try to end their spring maintenance schedule as quickly as possible and to build gasoline stocks prior to the peak driving season. But, due to increasing efficiency, slowing demand resulting from the economic crisis in 2009, refiners have changed their typical operation trend over the last few quarters. Increasing manufacturing sector activities have led to higher demand for transportation fuel and encouraged refiners, particularly in the US, to increase operation levels over the last two months. However, refinery throughputs to the rest of the world are still lower than their seasonal level.

Graph 29: Refinery utilization rates, 2009-2010



As *Graph 29* shows, refinery utilization rates in the US rose by 1.1% and reached 87.9% in May from 86.9% in April. The recent bearish developments in Europe have adversely affected European refiners' activities, and they have not yet increased their operation levels. Despite the completion of the maintenance schedule, European refinery utilization remained steady versus the last month at around 80% of nominal capacity.

In Asia, the maintenance schedule is ongoing and it would finish by the end of June. According to preliminary reports, Japanese refinery utilization fell marginally in May compared to the previous month to around 82%.

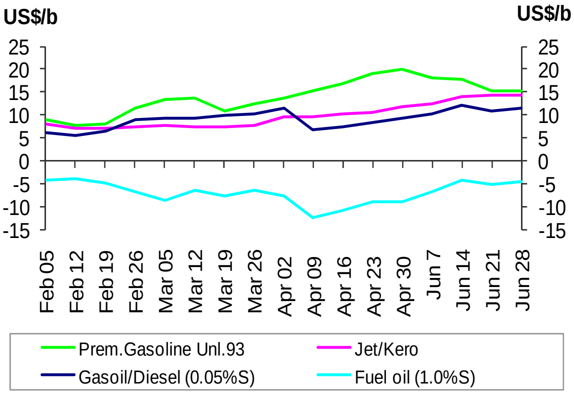
Looking ahead, with the start of driving season and completion of maintenance schedules, refinery utilization rates are expected to increase over the coming months.

US market

Economic growth in the US lifted middle distillate demand in May

Middle distillate demand in the US started to rise from the beginning of March and was reinforced in May. According to the EIA, distillate demand in the US surged by 578 tb/d to reach amost 4 mb/d in May from 3.421 mb/d in the same month last year. Increasing demand for distillates lifted the gasoil crack spread versus WTI crude oil at the US Gulf Coast to about $12/b in the latter part of May from around $9/b in the previous month (*see **Graph 30***).

Graph 30: US Gulf crack spread vs. WTI, 2009-2010



Despite these bullish developments in the physical market, the futures market was negatively affected by bearish developments in the financial market. On the Nymex, managed money traders reduced their net heating oil positions sharply in the last two weeks of May, falling to 10,707 lots late in May from around 30,000 lots in April.

The US gasoline market is also doing well and with the start of driving season it is expected to strengthen further in the coming months. According to EIA, the pace of growth in US gasoline demand slowed in May from the previous month but it extended its year-on-year growth in May. This consolidated the gasoline crack spread at around $16/b and provided support for refining margins in the US.

Bearish developments in the financial markets also adversely affected gasoline futures on the Nymex. On the Nymex, speculators sharply reduced net long position for gasoline contracts in May, which fell from more than 60,000 lots in late April to around 14,000 lots late May.

Expectations for an active hurricane season this year highlights the risk of an operational disruption for US refineries operating along the Gulf Coast sometime over the peak hurricane season which stretches from August until the end of October. However, the risk of very severe product shortage is relatively low amid ample stocks and available spare refinery capacity across the world.

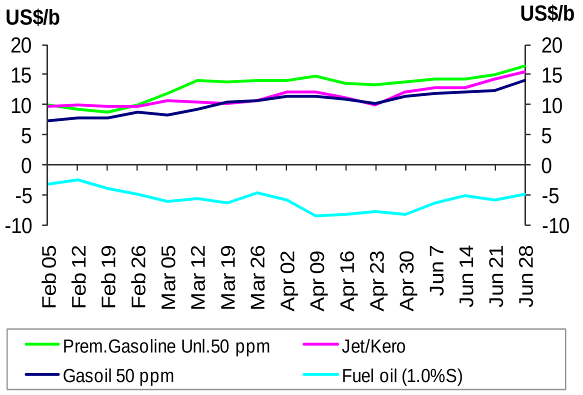
US fuel oil demand remained sluggish and with higher regional supply, fuel oil market sentiment is expected to deteriorate further in the coming months. Rising regional output and stocks may also lead to a lower discount of fuel oil versus crude oil in the next month.

European middle distillates improved because of less favourable arbitrage from the US and Asia

European market

European product market sentiment gained further in May, as refinery runs were capped at around 80%. Among different components of the barrel complex, both gasoline and distillate market momentum gained compared to the previous months.

Graph 31: Rotterdam crack spreads vs. Brent, 2009-2010



The gasoline market benefited from positive developments in the US market and expected arbitrage flows to the US during the driving season. Higher spot requirements from South Africa have also given support to the European gasoline market. The gasoline crack spread against Brent crude oil at Rotterdam surged by about $2/b to reach over $16/b in late May from around $14/b in April (*see **Graph 31***). With the start of the driving season, the European gasoline market may remain relatively strong in the coming months.

The European naphtha market remained weak, but export opportunities to Asia extended support to the European naphtha market in the last few weeks. Increasing demand from petrochemical units in the Mediterranean area also gave support to the European naphtha market in May and its crack spread edged closer to break-even levels from negative area in the last months.

Overall, the European distillates market is still suffering from high stock levels. But sentiment has been boosted over the last few weeks amid reduced export opportunities to the US and Asia. Following these developments, the gasoil crack spread against Brent crude in Rotterdam rose to over $14/b in the latter part of May from around $11/b over the same period of the last month (*see Graph 31*).

With increasing refinery throughputs and surging exports especially from the US, the European distillates market may lose part of its current ground. American refiners recently fixed 2 mb of gasoil exports to Europe. In line with these developments, the contango level in the gasoil market on ICE rose over the last few weeks.

The European jet/fuel market which was adversely affected by volcanic ash cloud in April has also recovered over the last weeks. Less arbitrage cargoes from the Middle East have also contributed to the rapid recovery in the jet fuel market.

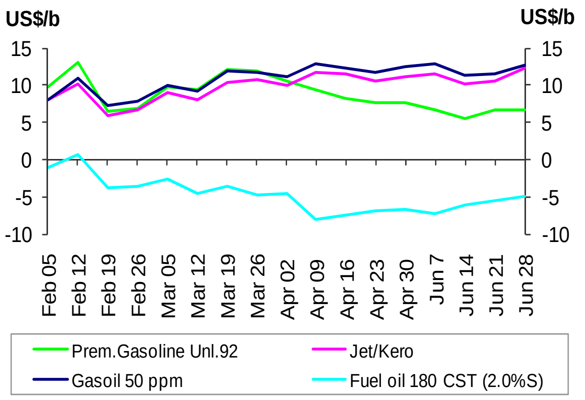
The European fuel oil market situation remained weak due to ample regional supply and sluggish demand, especially for bunker fuel. However, arbitrage opportunities to Asia lent some support to the European fuel oil market. As ***Graph 31*** shows, the low sulfur fuel oil crack spread against Brent crude oil narrowed to minus $5/b in the last week of May from about minus $8/b over the same period of the previous month. With increasing regional output, the European fuel oil discount is expected to be wider over the next months.

Asian market

Ample European exports exerted pressure on the Asian naphtha market

Despite strength in the petrochemical market, the Asian naphtha market lost ground due to huge arbitrage cargoes from Europe and less interest on the spot market. Chinese buyers have also deferred their shipments, which has contributed to bearish developments in the naphtha market.

Graph 32: Singapore crack spreads vs. Dubai, 2009-2010



The Asian gasoline market remained relatively weak amid higher exports from China and less demand from Indonesia. In line with these developments, the gasoline spread hit bottom in the second half of May. The strength in Europe and the US also failed to provide enough support for the Asian gasoline market as market players were not hopeful of East-West arbitrage trade flows. The gasoline crack spread against Dubai crude oil in Singapore fell by $1/b to reach $6.67/b in the last week of May from about $7.63/b over the same period last month (*see Graph 32*).

Gasoil market fundamentals remained relatively firm amid tight regional supplies because of the maintenance season and steady demand from India. The gasoil crack spread in Singapore against Dubai crude stayed around $12.40/b in May (*see* ***Graph 32***). The Asian gasoil market may lose part of its current strength with the completion of regional refinery maintenance and the return to normal operations by the end of June. Fear of weaker demand from the Euro-zone and less export opportunities to Europe may also contribute to bearish developments for the Asian gasoil market in the future. The Asian jet fuel market remained soft throughout most of May, but in the latter part of the month came under pressure due to ample availability and lack of export opportunity to Northwest Europe.

The Asian fuel oil market performed better than in the previous month amid increasing demand for bunkering and continuation of purchasing by BP. The high sulfur fuel oil crack spread in Singapore market against Dubai crude narrowed to minus $4.88/b in the last week of May from minus $6.65/b in the same week of the last month.

Looking ahead, ample arbitrage cargoes from the west and increasing fuel stocks in Singapore may undermine Asian fuel oil market sentiment in the next month and exert pressure on the fuel oil crack spread.

Table 17: Refined product prices, US$/b

		Mar 10	Apr 10	May 10	Change May/Apr
US Gulf (Cargoes):					
Naphtha		86.26	89.32	81.84	-7.48
Premium gasoline	*(unleaded 93)*	95.88	102.24	90.98	-11.26
Regular gasoline	*(unleaded 87)*	90.95	94.96	86.01	-8.95
Jet/Kerosene		88.89	94.95	87.00	-7.94
Gasoil	*(0.05% S)*	86.69	92.35	84.85	-7.50
Fuel oil	*(1.0% S)*	70.85	74.00	68.92	-5.08
Fuel oil	*(3.0% S)*	69.78	72.91	66.71	-6.20
Rotterdam (Barges FoB):					
Naphtha		80.82	81.30	71.49	-9.81
Premium gasoline	*(unleaded 10 ppm)*	92.38	98.61	85.58	-13.04
Premium gasoline	*(unleaded 95)*	85.52	91.29	89.89	-1.40
Jet/Kerosene		89.50	96.07	84.25	-11.83
Gasoil/Diesel	*(10 ppm)*	88.75	95.73	83.40	-12.34
Fuel oil	*(1.0% S)*	73.25	76.62	66.65	-9.97
Fuel oil	*(3.5% S)*	70.47	73.18	64.07	-9.11
Mediterranean (Cargoes):					
Naphtha		78.64	79.16	70.14	-9.02
Premium gasoline	*(50 ppm)*	69.38	69.57	67.01	-2.56
Jet/Kerosene		87.39	94.22	82.52	-11.70
Gasoil/Diesel	*(50 ppm)*	86.54	87.03	85.53	-1.49
Fuel oil	*(1.0% S)*	72.39	76.86	75.29	-1.56
Fuel oil	*(3.5% S)*	68.79	72.82	63.25	-9.56
Singapore (Cargoes):					
Naphtha		80.84	83.13	77.25	-5.88
Premium gasoline	*(unleaded 95)*	90.86	94.06	84.96	-9.10
Regular gasoline	*(unleaded 92)*	88.48	91.91	82.88	-9.03
Jet/Kerosene		87.49	94.82	87.97	-6.84
Gasoil/Diesel	*(50 ppm)*	88.63	95.91	89.08	-6.83
Fuel oil	*(180 cst 2.0% S)*	73.04	76.33	71.28	-5.05
Fuel oil	*(380 cst 3.5% S)*	71.89	75.57	71.03	-4.54

Table 18: Refinery operations in selected OECD countries

	Refinery throughput mb/d				Refinery utilization %			
	Mar 10	Apr 10	May 10	May/Apr	Mar 10	Apr 10	May 10	May/Apr
USA	14.04	14.84	15.10	0.26	83.1	86.9	87.9	1.01
France	1.37	1.41	1.48	0.07	81.0	82.2	84.2	2.02
German	1.72	1.84	1.86	0.02	85.1	83.8	84.8	1.05
Italy	1.55	1.56	1.59	0.03	76.6	77.6	79.3	1.65
UK	1.32	1.31	1.38	0.07	76.8	78.4	80.4	2.02
Euro16	10.50	10.49	10.50	0.01	80.1	80.1	80.0	-0.09
Japan	4.21	4.19	4.12	-0.07	82.8	83.0	82.9	-0.14

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

The Tanker Market

Global spot fixtures increased towards the end of maintenance season

Estimated OPEC spot fixtures increased by 29.7% in May, while global spot fixtures increased by 20.2%, both compared to the previous month. The increase in OPEC fixtures came after a significant decline in April and a large increase in March, continuing with the sharp volatility seen so far this year. Middle East fixtures also increased by 39.4% to 7.33 mb/d. The rise is attributed to higher refining operation rates in the major consuming countries.

Preliminary estimates show OPEC sailings increased marginally by 0.4% in May from the previous month, especially for eastern destinations from the Middle East and West Africa. On an annual basis, OPEC sailings showed an increase of 5% in May. Similarly, Middle East sailings rose, with an increase of 7% y-o-y.

Initial estimates indicate that North America arrivals increased 12.2% m-o-m in May, as refineries continue with preparations for the summer driving season. Total arrivals rose by 5% compared to the same month a year ago. On a monthly basis, Europe, Far East and West Asia arrivals decreased by 2.8%, 1.2% and 1.4% respectively due to the maintenance season in those regions.

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

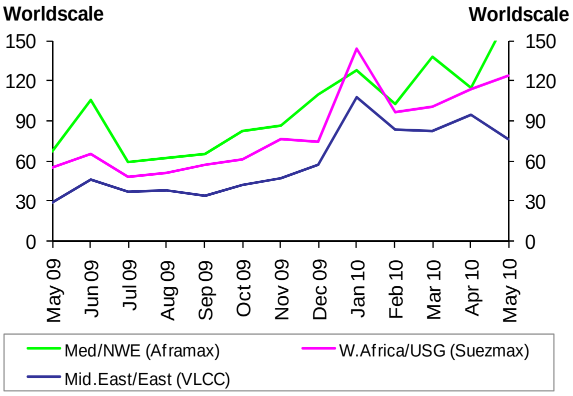
	Feb 10	Mar 10	Apr 10	Change Apr/Mar
Spot Chartering				
All areas	20.03	18.04	21.67	3.64
OPEC	12.63	10.52	13.63	3.12
Middle East/East	5.81	4.22	6.03	1.81
Middle East/West	1.71	1.04	1.30	0.26
Outside Middle East	5.11	5.26	6.30	1.05
Sailings				
OPEC	23.07	23.33	23.41	0.09
Middle East	17.07	17.30	17.33	0.03
Arrivals				
North America	8.48	8.73	9.79	1.07
Europe	12.52	12.40	12.05	-0.35
Far East	8.23	8.21	8.11	-0.10
West Asia	4.81	4.71	4.64	-0.07

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

Spot freight rates for VLCCs declined, while Suezmax and Aframax grew

The crude oil tanker market displayed a mixed pattern in May. VLCC spot freights decreased by 10.8%, while Suezmax and Aframax rates increased by 12.5% and 41.9% respectively over the previous month. May was the busiest month since April 2008 for the number of liftings reported. However, there remained an overhang of May vessels pushing into June dates.

Graph 33: Monthly averages of crude oil spot freight rates



The VLCC market was quiet in May, mainly due to reduced movements in the Middle East, with a steady supply of vessels competing. As a result, Middle East spot freight decreased by 19.1% eastbound and 15.2% westbound on a monthly basis. The West African eastbound spot freight route rose only 1.1%, mainly supported by the strong opening of the month, but followed by a downward behaviour on the volatile performance of Suezmax. Low freight in the VLCC market resulted in a scattering of VCCL tankers in the Atlantic basin for early June dates.

The unstable behaviour of spot freight on the Suezmax routes was the result of fundamental variations, however this did not prevent a monthly increase. Compared to April, Suezmax West Africa/US Gulf Coast spot rates increased by 8.8% and spot rates on the Northwest Europe/US route increased by 16.7%.

May started with a healthy opening, attracting Suezmaxes to the US Gulf from Western African and Northwest Europe. During the first week of the month, the West African Suezmax market saw US Gulf rates move down sharply from W150 to about W105. The fall was attributed to tonnage oversupply and charterers withholding end of May requirements. Similar actions occasioned the fall of spot rates on the Black Sea market, with rates falling from W150 to W120.

By the third week of May, Suezmax rates in West Africa rebounded from W105 to W147.5 for discharge to the US Gulf as result of an upsurge in cargo enquiries and a tonnage list that rapidly tightened as cargoes were covered. At the same time, rates in Northwest Europe firmed from W110 to W130 also motivated by limited tonnage availability. By the end of the month, a sharp decline in spot freights was expanded by fundamentals shifts.

The oil spill in the Gulf of Mexico has not had much of an impact on the Suezmax market, and the potential delays in the US Gulf region have not materialized so far. However, some owners have been cautious about sending their ships to that region, particularly for discharge at Mississippi terminals.

The Aframax spot freights experienced a steady increase during the first three weeks, with a final variation to the downward site during the last week of the month. In May, the Indonesia eastbound route reached January spot freight levels, increasing 24% on a monthly basis. The increase was due to limited tonnage combined with a significant growth in tonnage demand.

In the Caribbean tanker market, Aframax spot freight rates along the US Gulf Coast increased by 43%. The increase was triggered by steady demand and high tonnage requirements.

The Mediterranean/Mediterranean and the Mediterranean/Northwest Europe spot freight rates also rose by 52.6% and 46.1% respectively from the previous month. The increase in sailings in Europe was due to an open fuel oil arbitrage to the East, and the chartering of Aframaxes to replace Suezmaxes.

Table 20: Spot tanker crude freight rates, Worldscale

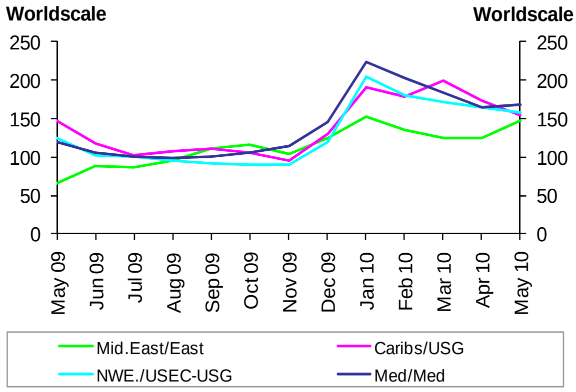
	Size *1,000 DWT*	Mar 10	Apr 10	May 10	Change May/Apr
Crude					
Middle East/East	230-280	82	94	76	-18
Middle East/West	270-285	58	66	56	-10
West Africa/East	260	81	89	90	1
West Africa/US Gulf Coast	130-135	101	114	124	10
NW Europe/USEC-USGC	130-135	95	102	119	17
Indonesia/US West Coast	80-85	127	104	129	25
Caribbean/US East Coast	80-85	129	121	173	52
Mediterranean/Mediterranean	80-85	137	114	174	60
Mediterranean/North-West Europe	80-85	138	115	168	53

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

East of Suez spot clean freight rates increased significantly, while West of Suez experienced a slight decrease

As a whole, the product tanker market developed differently in the West than in the East, with a strong increase by 21.1% m-o-m on the East to Suez routes and a slight decrease of 2.4% m-o-m on the West to Suez rates.

Graph 34: Monthly averages of clean spot freight rates



Middle East eastbound spot freight rates experienced growth of 18.5% as well as Singapore eastbound which grew by 23.6%. The increase was attributed to the maintenance season in Asian countries combined with the beginning of the summer period. Japan cut back on refinery runs and increased product imports, thus being one of the main countries behind the increase in spot freight rates. Jet fuel movements also returned to normal levels, after the decline due to the Icelandic volcano eruption.

The Mediterranean market rates increased slightly, with inter-Mediterranean spot freight rates increasing by 3% while the MED/Northwest Europe rose by 2.9%. The growth was supported by the strong opening of the month, but with a decreasing tendency. Rates on two routes slowed down by 34WS points each during the month. Tonnage oversupply and the refinery maintenance season were the core reasons for the downward behaviour, but were not sufficient to push the monthly average rate lower than April levels.

Spot freights on the Caribbean and Northwest Europe routes to the US Gulf Coast markets were the only markets experiencing a decrease, down 10.9% and 4.2% respectively. This second monthly decrease in the rates was due to a growing list of available tonnage and limited transatlantic arbitrage. European refineries running at reduced rates combined with increasing US refinery runs closed any possible arbitrage windows. The oversupply in the Caribbean market has pushed rates down, provoking several ships to ballast out of the region and accept lower rates just to get out.

Table 21: Spot tanker product freight rates, Worldscale

	Size *1,000 DWT*	Mar 10	Apr 10	May 10	Change May/Apr
Products					
Middle East/East	30-35	125	124	147	23
Singapore/East	30-35	126	123	152	29
Caribbean/US Gulf Coast	38-40	200	174	155	-19
NW Europe/USEC-USGC	33-37	172	165	158	-7
Mediterranean/Mediterranean	30-35	184	164	169	5
Mediterranean/North-West Europe	30-35	194	174	179	5

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

Oil Trade

USA

USA crude oil imports during May gained 2% from April

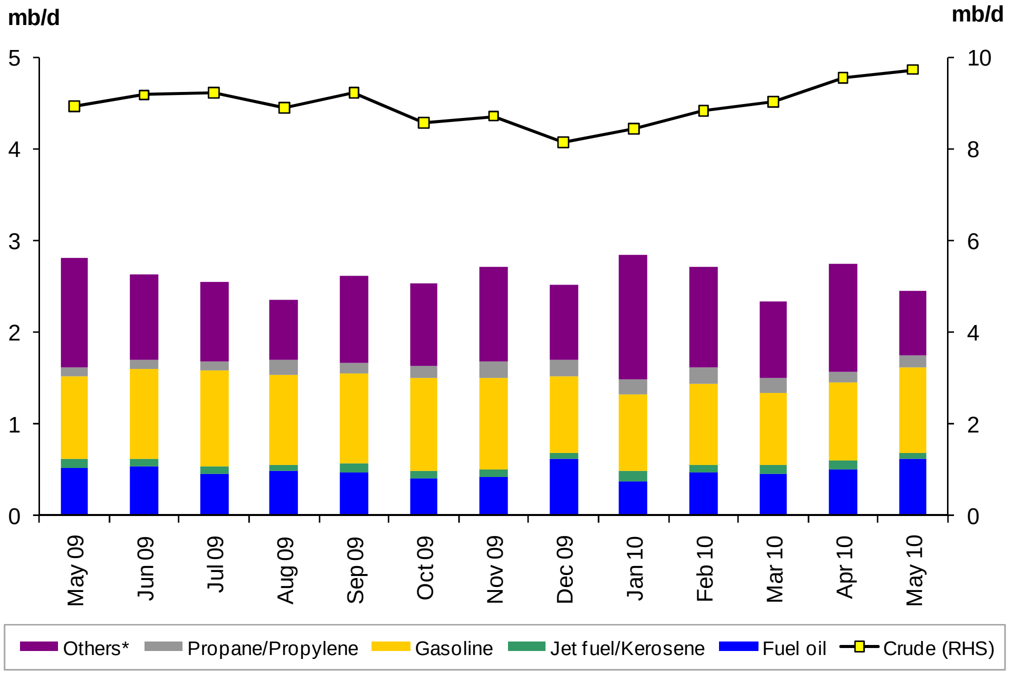
According to preliminary data, US crude oil imports averaged 9.73 mb/d in May, a small gain of 2% compared to the previous month. On a y-o-y basis, May crude oil imports increased 794,000 b/d or 8.9% over the same period last year. Most of the increase in imports was due to higher refinery runs due to the upcoming summer driving season as well as high stock levels, which were above the seasonal average. Lower retail price of products also contributed to higher domestic consumption.

Over the first five months of the year, US crude oil imports declined by 2.8% or 261 tb/d compared to the same period last year to average 9.11 mb/d. May and April increases were not enough to offset the January to March decrease during the year.

In May, US product imports decreased by 10% over the previous month to stand at 2.46 mb/d for a decrease of 7.9% or 211 tb/d over the same month last year. During the first five months of the year, product imports reached 2.63 mb/d, down 9.9% from a year ago.

Gasoline and propane/propylene were the only products with increasing imports, while jet fuel, fuel oil and others declined. Gasoline imports increased due to the retail price decrease nationwide in May.

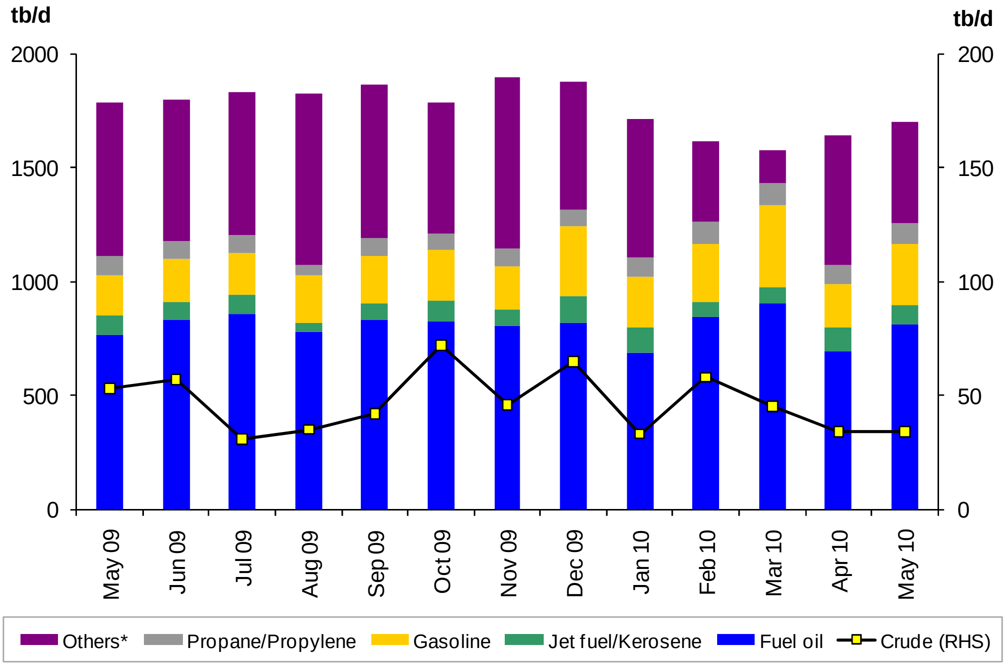
Graph 35: USA's imports of crude and petroleum products



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

On the export side, US product exports in May increased by 3.7% or 63,000 b/d from the previous month to average 1.74 mb/d. The monthly increase was supported by higher refining runs. On a yearly basis, US product exports fell sharply by 13.7% or 277 tb/d compared to the same month last year.

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



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

With the 188 tb/d increase in net crude oil imports and the decrease of 334 tb/d in net product imports, US net oil imports in May fell by 1.4% or around 146 tb/d over the previous month to reach 10.41 mb/d. May net oil imports were 9.2% or 879,000 b/d higher than the same month a year ago.

According to the latest data, Canada remained the top supplier of crude to the US in March with 2.02 mb/d, representing an increase of 123 tb/d over the previous month. Saudi Arabia moved up to the second position on the top of the US oil suppliers list, with 1.15 mb/d, up 30.4% from February. US crude oil imports from Mexico also increased by 9.04% m-o-m to 1.09 mb/d, being the third top supplier. Venezuela, Nigeria, Angola and Iraq are next on the rank with 984 tb/d, 939 tb/d, 490 tb/d and 475 tb/d respectively. OPEC countries supplied the US with 4.74 mb/d during March, up 12.48% from the month before.

Canada also remained the lead supplier of products to the US in March with 497 tb/d, despite a 96 tb/d decline from the previous month. Russia was second with 239 tb/d or 13.81% higher than February. Virgin Islands was next with 228 tb/d, followed by Algeria with 179 tb/d. OPEC Members supplied a total of 326 tb/d of products to the US, a decrease of 12.13% over a month ago. In addition to Algeria, Venezuela supplied 77 tb/d, falling 20.62% over the previous month, while Nigeria supplied 24 tb/d.

For US product exports, Mexico continued as the top importer in March with 449 tb/d, representing an increase of 17.80% from the previous month. Canada was second with an average of 175 tb/d, followed by Singapore with 145 tb/d and Panama with 117 tb/d. Altogether, OPEC Member Countries imported 125 tb/d of US products, representing an increase of 45.60% from last month. Most of the increase among OPEC Countries was attributed to Ecuador where product imports jumped from 36 tb/d in February to 71 tb/d in March.

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

	Mar 10	Apr 10	May 10	Change May/Apr
Crude oil	8,984	9,503	9,691	188
Total products	782	1,050	716	-334
Total crude and products	**9,766**	**10,553**	**10,407**	**-146**

Japan

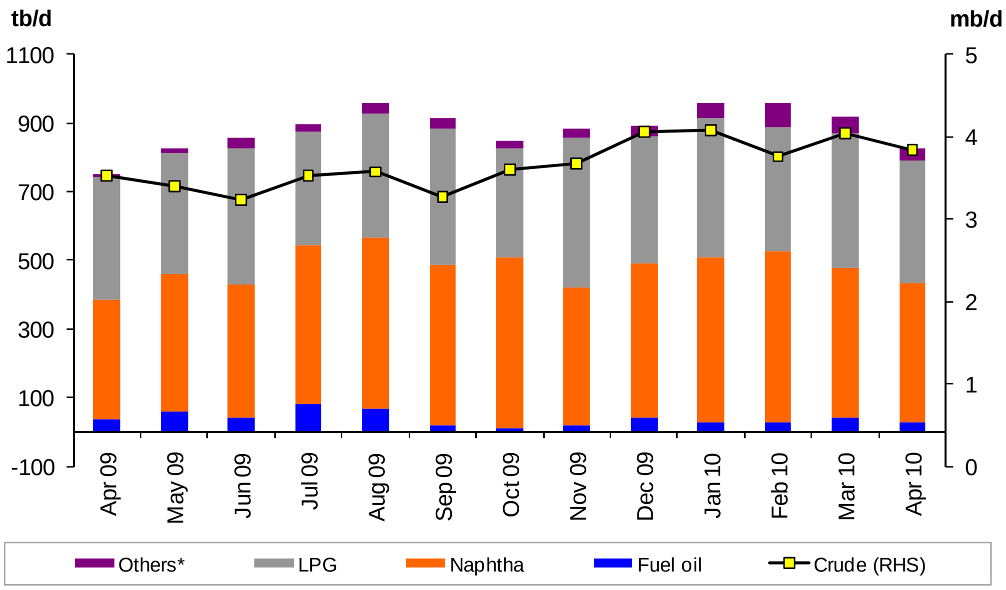
Japan crude oil imports decreased in April

Japan's crude oil imports rose 8.7% in April from the same month last year, reaching 3.83 mb/d, according to preliminary official data. Compared to March, crude oil imports decreased by 5% or 202 tb/d. The year-on-year increase was supported by growth in arrivals from Russia, Indonesia and OPEC Member Countries. Among OPEC deliveries, Iran and Iraq were the only countries with smaller deliveries compared to a year ago. On monthly basis, Japan's crude imports from OPEC Member Countries fell by 3.98%.

The decrease on crude oil imports can be attributed to the suspension of refining operations at the Idemtsu Kosan Co. and Showa Shell KK refineries in April. Weak domestic demand for oil products was another reason for the monthly decrease.

During the first four months of the year, Japan's crude oil imports remained almost stable with a small increase of 66 tb/d or 1.7% compared with the same period last year. The decline in February has slowed the increase during the first four months of the year.

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



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

Japan's product imports declined in April by 9.9% from the previous month to 828 tb/d. On y-o-y basis, product imports jumped by 3.6%. From January to April, average oil product imports in Japan rose by 14.6% compared to the same period last year to average 916 b/d. The decline is the result of weak product demand, which also affected refining operations rates.

Gasoline imports increased by 9.7 tb/d m-o-m, while exports decreased by 41.3 tb/d from a month earlier, as result of the increasing domestic demand in the summer driving season, as well as the lower refining operation rates. Gasoil, naphtha and LPG imports also declined by 15.7 tb/d, 30.2 tb/d and 31.7 tb/d respectively, reflecting weak product consumption in Japan.

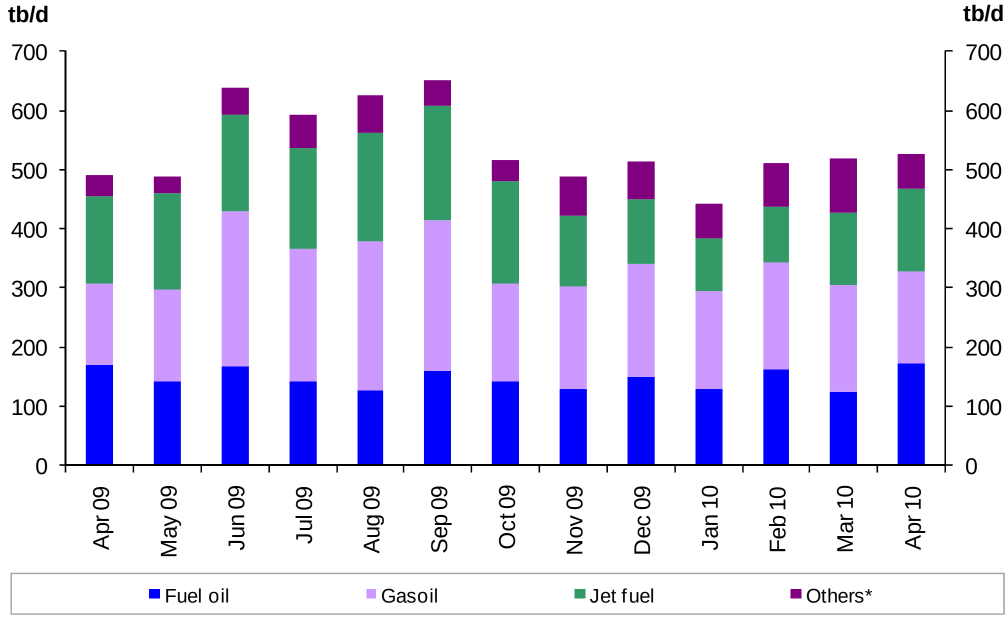
Despite the small increase in fuel oil consumption due to the incremental thermal power production to offset the halted operations at the Chugoku Electric Nuclear Power Plant, fuel oil imports decreased by 31.3 tb/d.

On the export side, Japanese oil product exports increased by 1.4% or 7 tb/d to 526 tb/d. The increase is the result of firm Asian product demand, especially for fuel oil which experienced an impressive increase of 97.6 tb/d compared to a month before. Gasoil exports decreased by 14.3%, mainly due the reduction in refining operation rates.

During the first four months of the year, product imports averaged 916 b/d or 14.6% higher than last year. Product exports fell 499 tb/d or 3.5% compared to the same period a year ago.

As a result, Japan's net oil imports in April stood at around 4.14 mb/d, representing a decrease of 300 tb/d or 6.8% lower than March and 351 tb/d or 7.4% higher than the same month a year ago. During the first four months of the year, Japanese net oil imports averaged 4.35 mb/d or 4.8% higher than the same period last year.

Graph 38: Japan's exports of petroleum products



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

In April, Saudi Arabia remained the top crude supplier with 1.2 mb/d or 17.8% more deliveries than the same month a year ago. The UAE was the second largest supplier with 800 tb/d, representing a y-o-y increase of 7.9%. Imports from Qatar rose by 5% to 507 tb/d to maintain third place, while imports from Kuwait jumped to fourth position reaching 409 tb/d. OPEC Member Countries accounted for 86.1% of the total Japanese imports in April.

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

	Feb 10	Mar 10	Apr 10	Change Apr/Mar
Crude oil	3,757	4,036	3,834	-202
Total products	450	400	302	-98
Total crude and products	**4,207**	**4,436**	**4,136**	**-300**

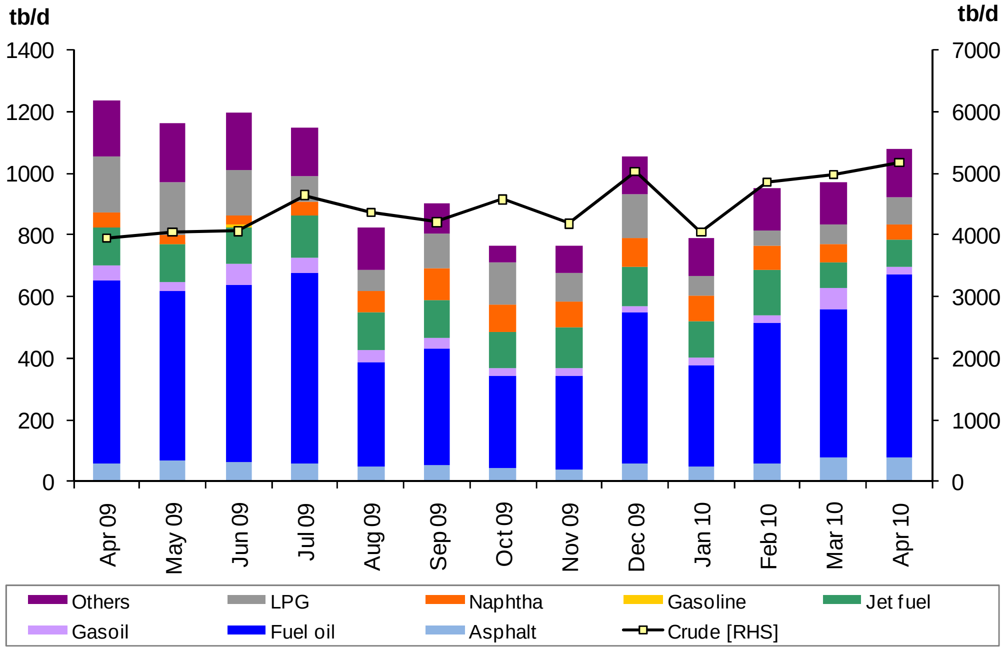
China

China crude oil imports marked a new record in April

China imported 5.17 mb/d of crude oil during April, the highest on record and up 30.9% from a year earlier. The previous record-high was 5.03 mb/d in December 2009. In April, oil crude imports increased 3.9% from March. During the first four months of the year, the country's overall crude oil imports grew by 36.4% y-o-y to 4.76 mb/d average, from 3.49 mb/d during the same period last year.

Despite the aggressive increase in upstream investment, China crude imports continued the upward tendency. Newly installed refining capacity and higher operation rates (close to 87%), motivated by improved refinery margins after the rise on gasoline and gasoil retail prices were the core reasons for the increase in crude oil imports in China. The maintenance season is almost done, and only little refinery capacity was out of order during April.

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



China exported 47 tb/d of crude in April, down 40% from a year earlier and 28.6% lower than March. Crude oil exports averaged 50 tb/d between January and April this year, down 56.5% from a year ago.

China oil product exports in April rose 20.2% from a year ago to 699 tb/d and 0.2% down from March. In the first four months of this year, China reported a 33.8% surge in oil product exports compared to a year earlier reaching an average of 658 tb/d.

China oil product imports during April rose 10.9% from March to 1.08 mb/d, but fell 12.8% compared to April 2009. The Asian giant imports of oil products averaged 0.95 mb/d during the first four months of this year, down 8.8% from a year earlier.

China imported 591.6 tb/d of fuel oil during April, around 23.3% higher than March but still 0.26% down compared with the same month last year. The monthly increase was supported by higher demand of straight-run fuel oil to Shandong-based independent refineries, which have raised their outlook for domestic distillates. On the export side, China delivered 205.6 tb/d of fuel oil in April.

Gasoil imports during April declined by 60.9% on monthly basis, or 47% on y-o-y basis, reaching 25.6 tb/d, while gasoline imports were almost zero. On the other hand, important increases in gasoil and gasoline exports were given by both PetroChina and Sinopec, mostly due to oversupply in the domestic market combined with positive export margins. China gasoil exports reached 139.8 tb/d, and gasoline averaged 198.2 tb/d. Gasoline exports are expected to decrease in May due increasing domestic demand forecast for the summer season.

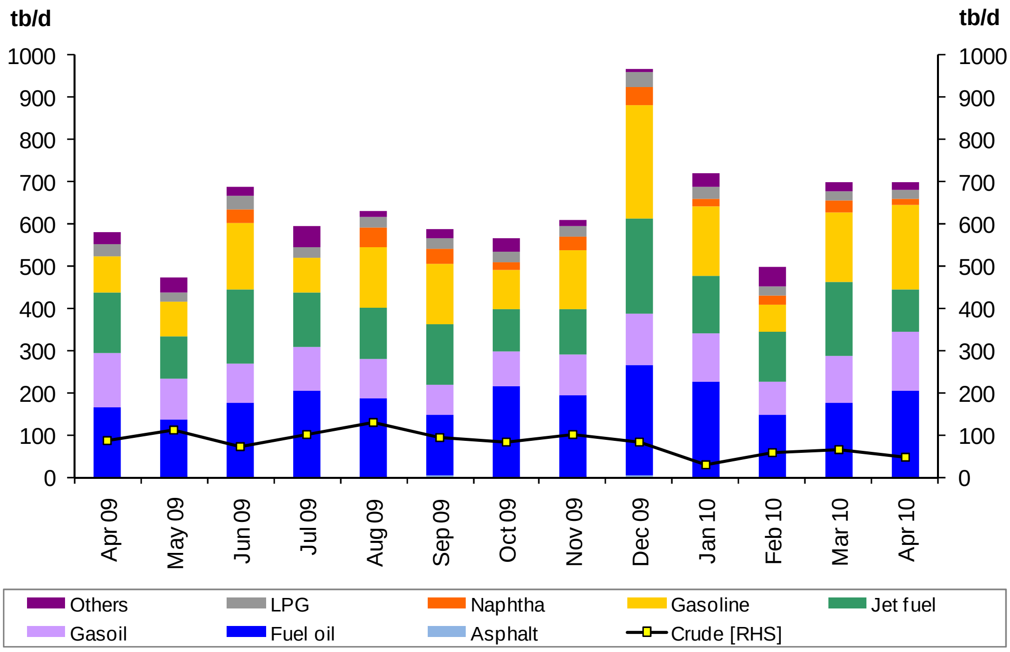
Jet fuel imports increased 1.39% compared to March, averaging 86.9 tb/d, while exports fell by 41.97% m-o-m to 100.7 tb/d. The country's jet fuel exports returned to an average level for this year after the surge in March.

Naphtha imports dropped 16.55% m-o-m to 50.8 tb/d, mainly due to Chinese chemical plants being inclined to consume LPG instead of naphtha during April, as LPG prices were more competitive than the latter. LPG imports increased by 41.31% to 85.6 tb/d.

During April, imports from Angola were down 6.2% compared to March, but increased on a y-o-y basis by 181% to average nearly 1.05 mb/d. For the first four months of 2010, Chinese crude oil imports from Angola averaged 903,000 b/d, more than double volumes during the same period last year. Angola has overtaken Saudi Arabia as China's top supplier for three out of the first four months of this year.

The reason behind China's interest in Angolan crude oil is attributed to weakening Brent values, as Angolan crude trades at a differential to Dated Brent, resulting in attractive margins for Chinese refiners that process Angolan grades.

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



China's crude oil from Saudi Arabia fell 17% in April from a year ago. During the first four months, China's crude appetite for Saudi oil showed a modest increase of more than 2% y-o-y basis to average 784,000 b/d. Imports from Iran continue to slide, with a drop of 21% in April y-o-y to average 424,000 b/d. So far this year, Iranian imports have declined more than 20%. Imports from Brazil, Iraq and Kazakhstan more than doubled year-on-year.

China's net oil imports in April stood at around 5.50 mb/d, representing an increase of 211 tb/d or 4.3% over the previous month and 1.26 mb/d or 32.7% higher than the same month last year. During the first four months of the year, Chinese net oil imports averaged 4.99 mb/d for a gain of 27.5% over the same period last year.

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

	Feb 10	Mar 10	Apr 10	Change Apr/Mar
Crude oil	4,788	4,914	5,125	211
Total products	450	271	378	107
Total crude and products	**5,238**	**5,185**	**5,503**	**318**

India

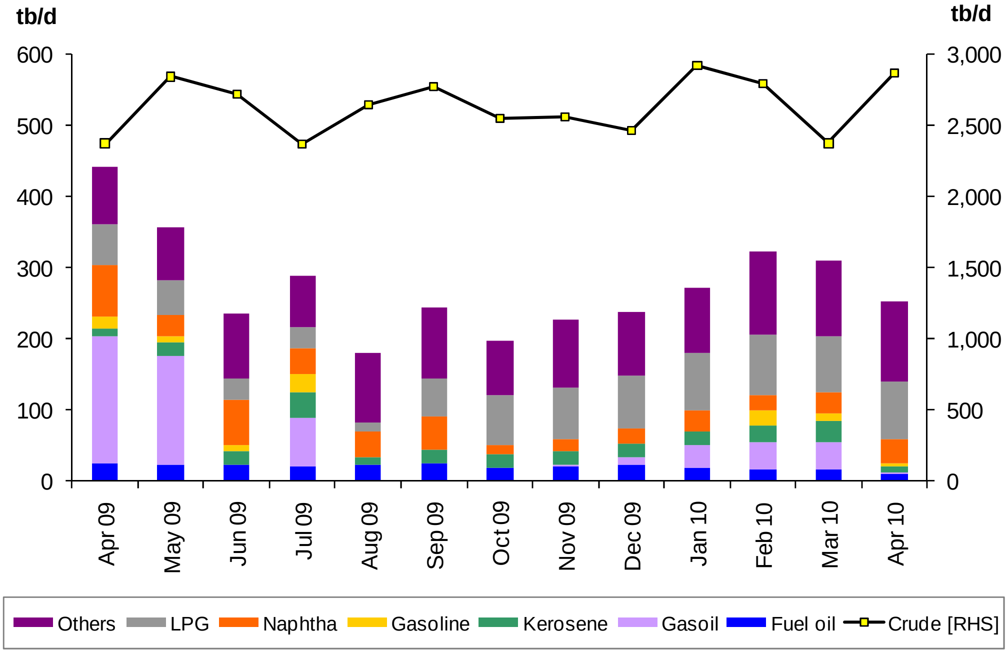
India crude oil imports increased, while oil product imports decreased in April

According to preliminary data, during April India's crude oil imports increased by 492 tb/d or 20.7% compared to March to average 2.87 mb/d. On a yearly basis, crude imports in April were 20.8% higher than the same month last year. Higher refining operating rates and strong domestic fossil fuel consumption contributed to the increase.

During the first four months of the year, India's crude oil imports averaged 2.74 mb/d or 8.4% higher compared to the same period last year. During the year, only March experienced negative growth.

Indian's product imports fell by 18.3% from a month ago, and 42.7% compared with April in 2009, reaching 254 tb/d. Gasoil imports experienced the most important decline among the product imports, despite domestic consumption having increased. The decline of 36 tb/d or 93.5% m-o-m in gasoil imports reflects the improved refinery activity in the country. Gasoil exports declined by 35.4% on monthly basis to 37.29 tb/d.

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



Gasoline imports also declined by 58.7% m-o-m as result of higher refinery activity, and on the export side fell 12.7% from March to 107.24 tb/d due to higher domestic demand. Naphtha imports increased by 5.9 tb/d or 20.6% and exports declined by 87.6 tb/d or 51.8% as the largest state-run refinery, Indian Oil Corp., commissioned its naphtha cracker in end-March. The increased production was not enough to keep the domestic consumption of the product. LPG imports reached 79.55 tb/d keeping almost the same level of the last month with only 0.2% up.

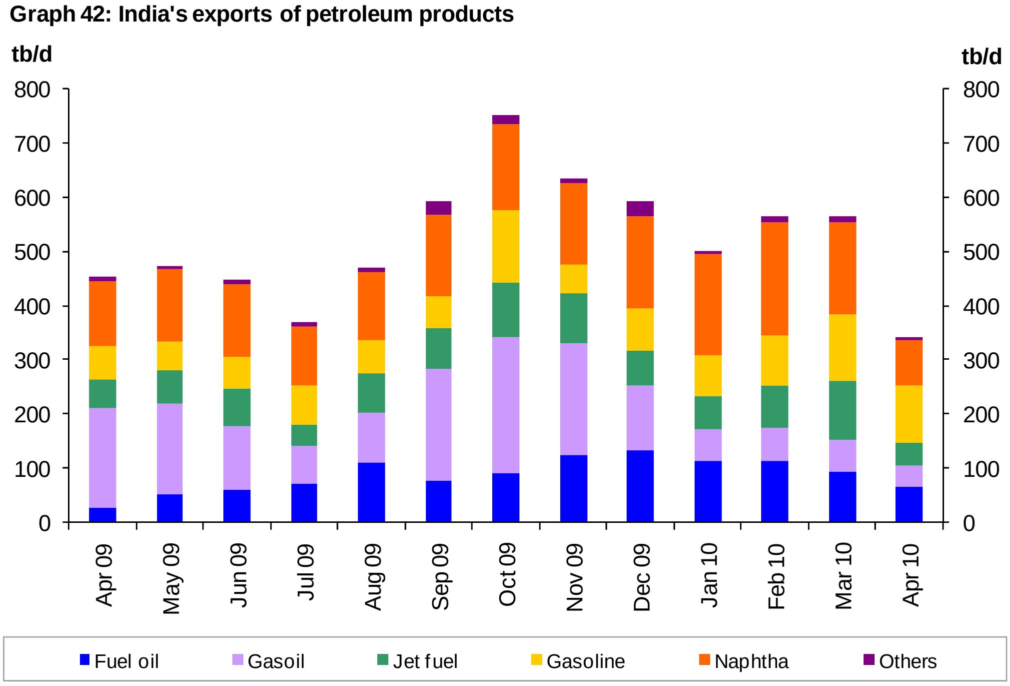
On the export side, all products fell to an average of 342.68 tb/d or 39.3% lower than March. The strong decline on product exports was occasioned by increased domestic demand which reflect the economical recovery of the country.

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

	Feb 10	Mar 10	Apr 10	Change Apr/Mar
Crude oil	2,793	2,374	2,866	492
Total products	-243	-255	-89	166
Total crude and products	**2,550**	**2,119**	**2,777**	**658**

During the first four months of the year, Indian's product imports averaged 289 tb/d, which is a decrease of 16.4% compared to the same period last year. The country's product exports decreased by 23.7% from January to April compared to the same period last year to reaching 493 tb/d.

India's net product imports increased 166 tb/d from the previous month, but the balance is still negative, reflecting an increase on the export side over the import side. The crude oil and total products net balance was 2.78 mb/d, with an increase of 31% over the last month.



FSU

In April, FSU crude exports remained at similar levels to March, keeping the second historical record high

FSU crude exports to non-CIS countries in April remained at 6.82 mb/d, without any change from the previous month and just 23 tb/d below December's record high of 6.85 mb/d. The reduced volume exported through the Russian Pipeline (Transneft) system due to a drop in Urals loadings at Novorossiysk Port on the Black Sea and lower Kazakh loadings at the Ukrainian Port of Odessa were offset by an increase in shipments along the CPC and BTC pipelines.

During the first four months of this year, FSU crude oil exports rose by 2% to 6.74 mb/d from the same period a year earlier, as a result of the launch of medium sour ESPO blend exports from Russia's Pacific port of Kozmino in late December, as well as the rise in Kazakh exports to China through the Kenkiyak–Alashankou pipeline.

The drop in Urals sour crude demand is attributed to the maintenance of some refineries that normally take Urals, including plants owned by Austria's OMV, Spain's Cepsa and Eni-KPC's Milazzo refinery in Sicily. Less expensive alternative grades have also contributed to this decline in the Mediterranean region, with similar reactions in Japan and India.

CPC and BTC exports increased, reflecting the growth in production at the Kazakhstan's Tengiz field and from Azerbaijan's Azeri-Chirag-Guneshli (ACG) fields. Exports along the Druzhba pipeline to Germany fell as TNK-BP and Tatnef cut shipments.

Russian crude exports to CIS countries increased by 22.6% or 111 tb/d compared to the previous month, during April the Russian crude exports averaged 602 tb/d. Exports to Ukraine rose after Lukoil's Odessa Refinery restarted in April following maintenance, and also due higher crude runs at the Lisichansk refinery. Russian exports to Belarus also increased during April; achieving 275,000 b/d. Crude exports to Belarusian plants have been intermittent this year.

FSU products exports in April increased 2.9% compared to last month. Higher refinery runs in Ukraine and Belarus contributed to the increase, but on the other hand, Russian product exports decreased. Gasoline exports came down 8.4% and gasoil remained at March levels, mostly due to Russian refinery maintenance and steady domestic demand due to increasing agricultural activities. Naphtha and fuel oil jumped up 18.6% and 19.4% compared to March, reflecting the increasing demand for refinery feedstock material in Asia-Pacific countries. Despite the disruption in flight demand because of the Iceland volcanic eruption, jet fuel demand increased 40%, as a mirror of economical revival in Europe. VGO exports also showed healthy increases.

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

	2008	2009	3Q09	4Q09	1Q10	Feb 10	Mar 10*
Crude							
Russian pipeline							
Black Sea	1,248	1,201	1,120	1,152	1,027	994	1,058
Baltic	1,559	1,577	1,567	1,613	1,526	1,425	1,592
Druzhba	1,077	1,112	1,110	1,130	1,123	1,101	1,090
Total**	**3,905**	**3,922**	**3,816**	**3,904**	**3,932**	**3,785**	**4,035**
Other routes							
Russian rail	283	280	291	284	364	404	403
Russian-Far East	220	283	279	305	293	297	274
Kazak rail	17	18	17	17	18	19	17
Vadandey	20	155	148	148	163	149	186
Ventspils	n.a.	n.a.	13	5	0	0	0
CPC	675	736	737	741	736	709	710
BTC	648	805	870	874	679	668	681
Atasu-Alashankou	121	157	185	178	205	219	206
Caspian	185	281	297	303	296	304	280
Total crude exports***	**6,089**	**6,653**	**6,654**	**6,752**	**6,711**	**6,575**	**6,823**
Products							
Gasoline	210	229	181	147	215	233	155
Naphtha	217	273	270	261	273	292	242
Jet	37	52	47	41	27	27	25
Gasoil	810	949	960	896	976	1,023	906
Fuel oil	1,069	1,114	1,200	1,135	1,060	951	1,106
VGO	196	233	225	228	238	232	216
Total	**2,539**	**2,850**	**2,883**	**2,708**	**2,790**	**2,758**	**2,651**
Total oil exports	**8,628**	**9,503**	**9,537**	**9,460**	**9,493**	**9,333**	**9,474**

Source: Nefte Transport, Global Markets, Argus Fundamentals, Argus FSU and OPEC.
* *Preliminary.*
** *Total incl. exports of minor volumes to China and Pacific.*
*** *Total crude exports incl. minor volumes of Kaliningrad.*
Because of rounding, some totals may not agree exactly with the sum of their component parts.

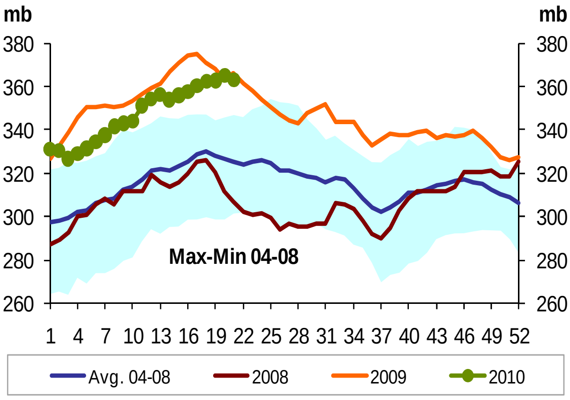
Stock Movements

US commercial stocks rose in May representing an overhang of 86 mb

USA

US commercial inventories at the end of May rose by 7.7 mb for the third consecutive month to reach 1090.9 mb, the highest level since November 2009. This represents an overhang of 86.0 mb or 8.6% above the five-year average but 16.4 mb below year-ago levels. Product stocks contributed the bulk of this build increasing by 5.4 mb, while crude inventories rose by 2.3 mb.

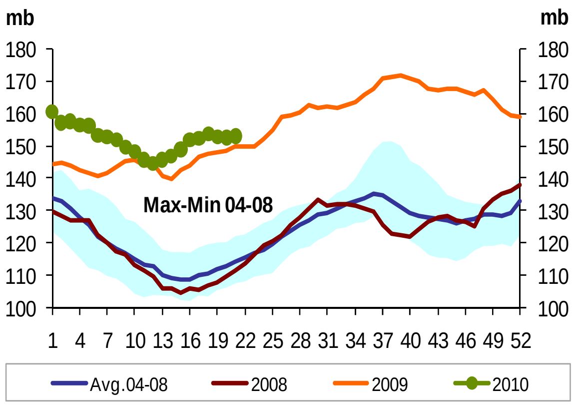
Graph 43: US weekly commercial crude oil inventories



At 363.2 mb, US crude oil commercial stocks continued to climb since the beginning of this year accumulating more than 38.0 mb, and reaching the highest level in a year. It is worth noting that on a weekly basis, US crude oil stocks stood at an even higher level of 365.1 mb in the week ending 21 May before ending the month at 363.2 mb. The continued build in US commercial crude is mainly driven by strong crude imports which rose to 9.7 mb/d, about 200,000 b/d more than last month and 800,000 b/d above a year ago at the same period. This build came despite a further increase in crude inputs to refiners by around 200,000 b/d to average 15.1 mb/d. Refiners were running at 87.9% of their operable capacity, 4 percentage points higher than the previous year at the same period. Although overall inventories rose, the strong build pattern in Cushing stocks showed some signs of abatement, with a 0.3 mb decline during the week ending 21 May. However by the end of the month, crude oil stocks in Cushing reversed direction to again reach a record high of 37.9 mb. The stock build in Cushing implies that the WTI contango structure may widen further, putting pressure on prompt prices. At the end of May, US crude oil inventories stood at a comfortable level of 35.6 mb or 11% above the seasonal norm, but this represents a slight increase of 1.2 mb above a year ago at the same period. Looking ahead, with refinery runs expected to increase further reflecting some improvement in demand, this will lead to an increase in the demand for crude. As a result, the rise in US crude inventories could slow, moderating the build that has occurred since the beginning of this year.

On the product side, US products continued their build for the second consecutive month to stand at 727.7 mb by the end of May. Within products, the picture was mixed. Gasoline stocks fell by 6.0 mb to 219.0 mb at the end of May prior to the Memorial day holiday which kicks off the driving season. This decline is mainly driven by lower production which declined by 150,000 b/d to 9.1 mb/d. During May, gasoline demand averaged 9.1 mb/d, up 0.5 % from the same period last year, but below the April level. Looking ahead to the coming months, and with expectations for additional demand during the driving season, inventories should see some decline, but the current gasoline surplus of 9.2 mb or 4.4% compared to the seasonal norm and additional supply coming from refiners should limit the upside pressure on the gasoline market.

Graph 44: US weekly distillate stocks



In contrast to gasoline, distillate stocks rose slightly by 0.4 mb to 153.0 mb for the second consecutive month to stand at a very comfortable level of 36 mb or 31% above the five-year average. This build could be attributed to a higher refinery utilization rate with distillate production averaging 4.26 mb/d, almost 200,000 b/d more than the previous month, responding to strength in the distillate markets. In fact, distillate demand in May rose by 370 tb/d versus the previous month to average about 4.0 mb/d and almost 600 tb/d above a year ago at the same time. Residual fuel and jet fuel stocks decreased slightly by 0.2 mb to 45.9 mb and by 0.1 mb to 44.4 mb leaving them still at very healthy levels above a year ago and higher than the seasonal norm.

Table 27: US onland commercial petroleum stocks, mb

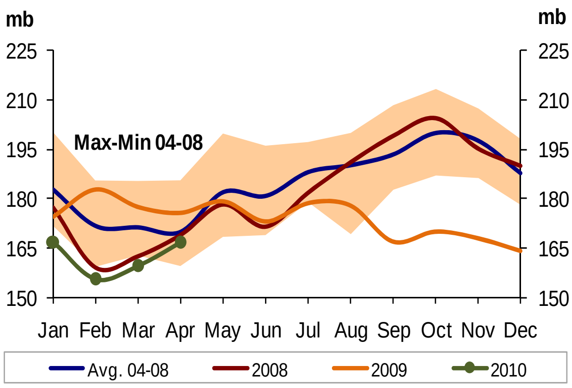
	Mar 10	Apr 10	May 10	Change May 10/Apr 10	May 09
Crude oil	355.4	360.9	363.2	2.3	362.0
Gasoline	224.0	224.9	219.0	-6.0	206.1
Distillate fuel	146.0	152.6	153.0	0.4	155.2
Residual fuel oil	40.6	46.1	45.9	-0.2	38.8
Jet fuel	41.9	44.5	44.4	-0.1	43.2
Total	**1,052.8**	**1,083.2**	**1,090.9**	**7.7**	**1,107.3**
SPR	726.6	726.6	726.6	0.0	721.7

Japan

Japan's commercial oil stocks rose in April – preliminary data shows further increases in May

In April, commercial oil stocks in Japan continued the upward trend for the second consecutive month, increasing by 7.1 mb to 166.7 mb. This build has narrowed the deficit with the five-year average to stand at 2.3% from 7% a month earlier. The gap with last year also reduced to 5% from 10% in March. Almost all the build in total commercial inventories came from crude which increased by 6.9 mb, while products saw a slight rise of 0.2 mb.

Graph 45: Japan's commercial oil stocks



At 100.0 mb, Japanese crude oil stocks stood at their highest level since August 2009, adding more than 13 mb to inventories over the last two months. This build came on the back of lower crude runs as refiners were operating at 76.2%, a decline of 3% from the previous month, but still 3.6% above a year ago. This build came despite a drop of 5% in crude imports, which averaged 3.83 mb/d. Crude oil inventories could post further builds as refiners should remain under pressure due to depressed domestic demand. At the end of April, crude oil stocks stood at 3.1% below a year earlier and 5.1% lower than the seasonal norm.

On the product side, Japanese inventories saw a slight increase to 66.7 mb after two consecutive months of a decline, remaining at 7.9% below a year ago, but the surplus with the five-year average improved to 2.3%. The build in total products could be attributed to the decline of 6.8% in total refined oil product sales; however demand in Japan for the month of April was 4.2% above a year earlier, driven by a surge in kerosene and higher sales of motor fuels. However, the overall rise this year in April came against a 21-year low for the same month in the previous year. Despite this rise, Japanese oil consumption is not expected to return to levels seen before the start of the global recession as structural changes and policies introduced are expected to keep demand low.

Table 28: Japan's commercial oil stocks*, mb

	Feb 10	Mar 10	Apr 10	Change Apr 10/Mar 10	Apr 09
Crude oil	86.8	93.1	100.0	6.9	103.3
Gasoline	14.5	13.2	14.7	1.5	15.5
Naphtha	9.7	11.3	10.9	-0.4	10.6
Middle distillates	28.9	26.0	24.6	-1.4	29.1
Residual fuel oil	15.6	16.0	16.5	0.5	17.1
Total products	68.8	66.5	66.7	0.2	72.4
Total**	**155.6**	**159.6**	**166.7**	**7.1**	**175.6**

* *At end of month.*

** *Includes crude oil and main products only.*

Source: METI, Japan.

Within products, the picture was mixed. Gasoline and residual fuel oil saw a build of 1.5 mb and 0.5 mb respectively, while distillates and naphtha stocks fell by 1.4 mb and 0.4 mb respectively. The build in gasoline stocks to 14.7 mb put them at the highest level since May 2009. This build came as the result of lower gasoline demand by 3.3% as bad weather kept some drivers off the road. Higher gasoline imports, especially from China, have also contributed to this build. At the end of April, gasoline inventories showed a deficit of 5.6% from the previous year at the same time, while remaining 7.1% above the seasonal norm. Fuel oil stocks also increased to 16.5 mb, driven by a 2.9% and 3.1% increase in Fuel Oil A and Fuel Oil B,C respectively. In contrast to the build in gasoline and fuel oil, distillate and naphtha stocks experienced a draw at the end of April. Total distillate inventories declined for five consecutive months to 24.6 mb, driven mainly by a decline of 19% in kerosene stocks. Lower kerosene imports combined with reduced output were behind the kerosene stock draw. Total distillate stocks ended the month of April at 15.4% below a year ago and by 2.8% below the seasonal norm. Naphtha stocks fell to 10.9 mb, but remained 2.4% above a year earlier. The fall could be attributed to lower output which declined by 13% combined with a reduction of almost 10% in naphtha imports.

Preliminary indications based on weekly data published by PAJ for the end of May shows Japanese total commercial oil stocks built further for the third consecutive month, reaching 174.5 mb. The build of 7.8 mb in total inventories came from products which increased by 10.8 mb while crude inventories partially offset this build declining by 3.0 mb. As a result of the build, the deficit with five-year average narrowed to 3.3%, while inventories are still 2.6% below a year ago. At 97.0 mb, crude oil stocks at the end of May stood at 4.6% and 12.8% below the previous year and the seasonal norm respectively. On weekly basis, crude oil stocks rose at the end of May from the previous week, driven by lower refinery utilization rates as refiners were operating at 63.8%, 2.4 percentage points down from a year earlier as several units were shut for turnaround. On the product side, all products inventories increased to total 77.5 mb, the highest level since December 2009 leaving them in line with a year ago at the same time and 12.1% above the seasonal norm. Gasoline stocks rose 1.3 mb approaching 16.0 mb, a level not seen in 11 years reflecting a massive deterioration in refined product demand. This build put gasoline stocks at healthy levels of 8.5% and 11.3% above a year ago and the five-year average respectively. Distillates also rose by 4.3 mb to 29.0 mb at the end of May, however they remained 12.5% below a year ago, but they improved the surplus with five-year average to 3.1% from 0.9% in April. Fuel oil and naphtha rose 3.2 mb and 1.9 mb to 19.7 mb and 12.8 mb respectively, leaving them well above the same period of the previous year.

Singapore and Amsterdam-Rotterdam-Antwerp (ARA)

Singapore products rose in April, however preliminary data indicates a drop in May

At the end of April, product stocks in Singapore rose 0.65 mb for the third consecutive month to reach a record level of 49.34 mb. With this build, the surplus over a year earlier widened to 21.3% from 16% a month earlier. Middle distillates and fuel oil inventories indicated a build of 0.88 mb and 0.57 mb respectively, while light distillates showed a draw of 0.8 mb. Fuel oil stocks in April soared to a new high of 24.38 mb, to stand at 3.6 mb or 17.2% above the previous year at the same time. This build came as western inflows to Asia kept supply ample, outpacing relatively stable regional demand. It was reported that total western inflows for April rose to a six-month high of about 3.7 million tonnes, up from 3.3 million tonnes a month ago. Middle distillate inventories increased in April to 13.49 mb, reversing the decline observed last month. Middle distillate stocks remained at a healthy level of 2.8 mb or 26% above a year ago. Light distillate stocks fell to 11.47 mb, but remained at 2.3 mb or 24.9% above the previous year. On a weekly basis, light distillate stocks were at the highest level in two weeks, driven by ample fuel supplies coming from South Korea and China combined with lower demand from the main two importing countries Indonesia and Vietnam.

Preliminary data for the end of May based on weekly information shows product inventories in Singapore dropped by around 6.8 mb to 42.5 mb. Despite this drop, inventories are still representing a surplus with a year ago of 2.3 mb or 5.6%. All the products indicated a fall at the end of May, with fuel oil inventories declining by 3.7 mb followed by middle distillates by 2.6 mb and to lesser extent, by light distillates with a slight decrease of 0.5 mb. The fall in fuel oil stocks to 20.64 mb is mainly due to lower arbitrage inflows from the West combined with steady demand for bunkers in Singapore. Middle distillates fell to 10.9 mb on the back of higher exports to China meeting strong demand in the country. Light distillates went down to 11.0 mb, the lowest level since three months, resulting from stronger demand in China which cut exports to Singapore, supporting local consumption.

Product stocks in ARA at the end of April rose for the second consecutive month, increasing by 1.74 mb to 39.12 mb, the highest level in three months. With this build, product stocks remained 4.75 mb or 13.8 mb above a year ago. With the exception of fuel oil, all other products saw a build. Gasoline stocks rose 0.57 mb to 8.72 mb as a result of higher imports outpacing outflows. The contango structure in the gasoline futures market also encouraged gasoline stockpiling. By the end of April, gasoline stocks stood at 1.9 mb or 28% above a year ago at the same time. Gasoil inventories rose 1.0 mb in April after falling for the last three months. This build could be attributed to higher imports, mainly from Taiwan, combined with lower exports going to France and the UK. At 17.37 mb, gasoil stocks remained almost flat from a year ago. Fuel oil stocks went down 0.3 mb to 6.1 mb, but remained much higher versus a year ago. This drop is a result of increased exports to Singapore and some volume moving into floating storage. At the end of April, jet fuel inventories rose 0.35 mb to 6.17 mb, after falling in the beginning of the month due to the disruption of air traffic due to the volcano in Iceland which cut consumption by around 1 mb. Jet fuel inventories were at 1.2 mb or 23% above a year earlier at the end of April. Naphtha stocks rose slightly 0.1 mb to 0.76 mb, remaining almost in line with a year ago.

Preliminary data for the end of May, based on weekly information, shows product inventories in ARA reversed the upward trend observed in the last two months, declining by 2.1 mb to 37.0 mb, but remained at 11% above a year ago at the same period. All products saw a drop with the exception of jet fuel stocks which remained almost at the same level as in the previous month. Fuel oil stocks fell 1.26 mb to 4.84 mb as exports going to Singapore outpaced imports which were mainly from Europe. Gasoline fell by 0.5 mb to 8.25 mb after two consecutive months of a build leaving them still at very comfortable levels, more than 50% above the previous year at the same time. Gasoil inventories fell slightly by 0.1 mb to 17.17 mb as exports to Argentina and Poland were much higher than the imports from Norway and Russia. Gasoil inventories remained 7% below last year's level at this time.

Balance of Supply and Demand

Estimate for 2009

Required OPEC crude for 2009 estimated at 28.9 mb/d, down 2.4 mb/d from 2008

Demand for OPEC crude for 2009 has been revised down slightly to currently stand at 28.9 mb/d, representing a considerable decline of 2.4 mb/d from the previous year. The first half of the year experienced negative growth of around 3.0 mb/d compared to the same period last year. The decline in the second half was seen narrowing with losses of 2.1 mb/d in the third quarter and 1.1 mb/d in the fourth.

Table 29: Summarized supply/demand balance for 2009, mb/d

	2008	1Q09	2Q09	3Q09	4Q09	2009
(a) World oil demand	**85.90**	**84.31**	**83.27**	**84.66**	**85.46**	**84.43**
Non-OPEC supply	50.40	51.00	50.76	51.02	51.74	51.14
OPEC NGLs and non-conventionals	4.14	4.10	4.30	4.52	4.47	4.35
(b) Total supply excluding OPEC crude	**54.54**	**55.10**	**55.06**	**55.54**	**56.22**	**55.48**
Difference (a-b)	**31.36**	**29.21**	**28.21**	**29.12**	**29.24**	**28.94**
OPEC crude oil production	31.20	28.46	28.49	28.85	29.02	28.71
Balance	-0.15	-0.74	0.28	-0.27	-0.22	-0.24

Totals may not add due to independent rounding.

Forecast for 2010

Demand for OPEC crude in 2010 forecast at 28.8 mb/d, a drop of 0.2 mb/d from the previous year

Demand for OPEC crude in 2010 is projected to average 28.8 mb/d, following a downward revision of 70,000 b/d from the previous assessment. Required OPEC crude is forecast to decline by 175,000 b/d from a year earlier, following two consecutive annual declines. The first quarter of the year is still showing a drop of 1.3 mb/d followed by a decline of 0.5 mb/d in the second quarter, while both the third and the fourth quarters are estimated to see positive growth of around 0.4 mb/d and 0.6 mb/d respectively. This would leave no room for additional crude oil supplies in the market.

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

	2009	1Q10	2Q10	3Q10	4Q10	2010
(a) World oil demand	**84.43**	**84.71**	**84.43**	**85.76**	**86.57**	**85.37**
Non-OPEC supply	51.14	52.21	51.91	51.29	51.70	51.78
OPEC NGLs and non-conventionals	4.35	4.59	4.78	4.87	5.08	4.83
(b) Total supply excluding OPEC crude	**55.48**	**56.80**	**56.70**	**56.16**	**56.78**	**56.61**
Difference (a-b)	**28.94**	**27.91**	**27.73**	**29.60**	**29.80**	**28.77**
OPEC crude oil production	28.71	29.19				
Balance	-0.24	1.28				

Totals may not add due to independent rounding.

Graph 46: Balance of supply and demand

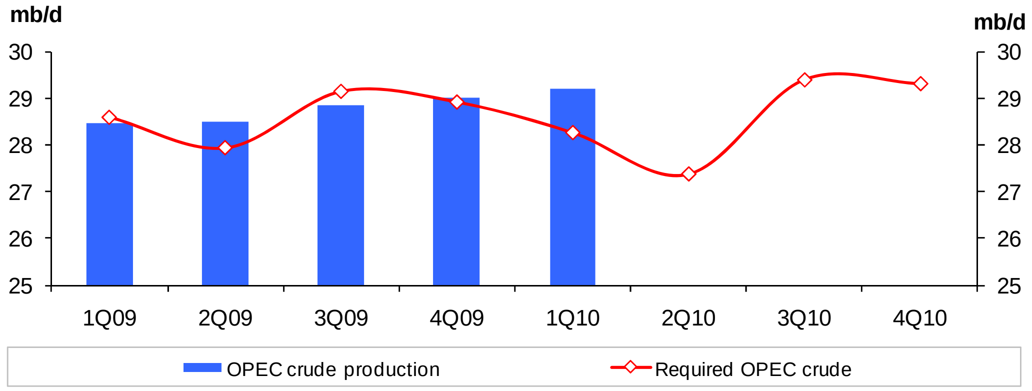


Table 31: World oil demand/supply balance, mb/d

	2004	2005	2006	2007	2008	1Q09	2Q09	3Q09	4Q09	2009	1Q10	2Q10	3Q10	4Q10	2010
World demand															
OECD	49.5	49.8	49.5	49.2	47.6	46.6	44.4	45.0	46.0	45.5	45.7	44.5	45.0	46.0	45.3
North America	25.4	25.6	25.4	25.5	24.2	23.5	22.9	23.2	23.5	23.3	23.6	23.4	23.6	23.8	23.6
Western Europe	15.5	15.7	15.7	15.3	15.3	14.9	14.2	14.5	14.5	14.5	13.9	13.8	14.2	14.3	14.0
Pacific	8.5	8.6	8.5	8.4	8.1	8.1	7.3	7.3	8.0	7.7	8.2	7.4	7.2	8.0	7.7
DCs	21.9	22.7	23.5	24.6	25.5	25.6	26.0	26.3	26.3	26.1	26.2	26.7	26.9	26.9	26.7
FSU	3.8	3.9	4.0	4.0	4.1	3.8	3.7	4.1	4.2	4.0	3.8	3.7	4.2	4.2	4.0
Other Europe	0.8	0.8	0.9	0.8	0.8	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7
China	6.5	6.7	7.2	7.6	8.0	7.6	8.4	8.6	8.3	8.2	8.2	8.8	9.0	8.6	8.7
(a) Total world demand	82.6	84.0	85.1	86.2	85.9	84.3	83.3	84.7	85.5	84.4	84.7	84.4	85.8	86.6	85.4
Non-OPEC supply															
OECD	21.3	20.4	20.1	20.1	19.5	19.9	19.4	19.4	19.9	19.6	20.0	19.7	19.2	19.4	19.6
North America	14.6	14.1	14.2	14.3	13.9	14.2	14.1	14.3	14.6	14.3	14.7	14.5	14.3	14.3	14.5
Western Europe	6.2	5.7	5.3	5.2	5.0	5.1	4.7	4.4	4.7	4.7	4.7	4.5	4.2	4.4	4.5
Pacific	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.7	0.7	0.7	0.7
DCs	11.6	11.9	12.0	12.0	12.4	12.5	12.5	12.6	12.7	12.6	12.9	12.8	12.9	12.9	12.9
FSU	11.1	11.5	12.0	12.5	12.6	12.6	12.9	13.0	13.1	12.9	13.1	13.1	13.1	13.2	13.2
Other Europe	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.5	3.6	3.7	3.8	3.8	3.8	3.9	3.9	3.9	3.8	4.0	4.0	3.9	3.9	4.0
Processing gains	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.1
Total non-OPEC supply	49.6	49.6	50.0	50.5	50.4	51.0	50.8	51.0	51.7	51.1	52.2	51.9	51.3	51.7	51.8
OPEC NGLs + non-conventional oils	3.7	3.9	3.9	3.9	4.1	4.1	4.3	4.5	4.5	4.4	4.6	4.8	4.9	5.1	4.8
(b) Total non-OPEC supply and OPEC NGLs	53.3	53.5	53.9	54.5	54.5	55.1	55.1	55.5	56.2	55.5	56.8	56.7	56.2	56.8	56.6
OPEC crude oil production (secondary sources)	29.6	30.7	30.5	30.2	31.2	28.5	28.5	28.9	29.0	28.7	29.2				
Total supply	82.9	84.2	84.4	84.7	85.7	83.6	83.6	84.4	85.2	84.2	86.0				
Balance (stock change and miscellaneous)	0.3	0.2	-0.7	-1.6	-0.2	-0.7	0.3	-0.3	-0.2	-0.2	1.3				
OECD closing stock levels (mb)															
Commercial	2538	2587	2669	2567	2696	2740	2752	2773	2666	2666	2709				
SPR	1450	1487	1499	1524	1527	1547	1561	1564	1564	1564	1565				
Total	3988	4073	4167	4091	4223	4287	4313	4337	4230	4230	4274				
Oil-on-water	905	954	919	951	967	901	902	871	912	912	879				
Days of forward consumption in OECD															
Commercial onland stocks	51	52	54	54	59	62	61	60	58	59	61				
SPR	29	30	30	32	34	35	35	34	34	35	35				
Total	80	82	85	86	93	96	96	94	93	93	96				
Memo items															
FSU net exports	7.3	7.7	8.0	8.5	8.5	8.8	9.2	8.9	8.9	9.0	9.3	9.4	8.9	9.0	9.2
(a) - (b)	29.3	30.5	31.3	31.7	31.4	29.2	28.2	29.1	29.2	28.9	27.9	27.7	29.6	29.8	28.8

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

Table 32: World oil demand/supply balance: changes from last month's table † , mb/d

	2004	2005	2006	2007	2008	1Q09	2Q09	3Q09	4Q09	2009	1Q10	2Q10	3Q10	4Q10	2010
World demand															
OECD	-	-	-	-	-	-	-	-	-	-	-	0.2	-0.1	-0.1	-
North America	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-
Western Europe	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-
DCs	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(a) Total world demand	-	-	-	-	-	-	-	-	-	-	-	0.2	-0.1	-0.1	-
World demand growth	*-0.02*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-0.03*	*-0.01*	*-0.05*	*0.24*	*-0.10*	*-0.08*	*-*
Non-OPEC supply															
OECD	-	-	-	-	-	-	-	-	-	-	0.1	0.3	-	-	0.1
North America	-	-	-	-	-	-	-	-	-	-	0.2	0.1	-	-0.1	-
Western Europe	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	-	-	-	-	-	0.2	0.3	-	-	0.1
Total non-OPEC supply growth	*-*	*-*	*-*	*-*	*-*	*-0.01*	*0.01*	*0.01*	*-*	*-*	*0.18*	*0.32*	*-0.03*	*-0.04*	*0.11*
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	-	-	-	-	-	0.2	0.3	-0.1	-0.1	0.1
OPEC crude oil production (secondary sources)	-	-	-	-	-	-	-	-	-	-	-				
Total supply	-	-	-	-	-	-	-	-	-	-	-				
Balance (stock change and miscellaneous)	-	-	-	-	-	-	-	-	-	-	-				
OECD closing stock levels (*mb*)															
Commercial	-	-	-	-	-	-	-	-	3	3	-				
SPR	-	-	-	-	-	-	-	-	-	-	-				
Total	-	-	-	-	-	-	-	-	3	3	-				
Oil-on-water	-	-	-	-	-	-	-	-	-	-	-				
Days of forward consumption in OECD							-	-	-	-	-				
Commercial onland stocks	-	-	-	-	-	-	-	-	-	-	-				
SPR	-	-	-	-	-	-	-	-	-	-	-				
Total	-	-	-	-	-	-	-	-	-	-	-				
Memo items															
FSU net exports	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(a) - (b)	-	-	-	-	-	-	-	-	-	-	-0.2	-0.1	-	-	-0.1

† This compares Table 31 in this issue of the MOMR with Table 31 in the May 2010 issue.
This table shows only where changes have occurred.

Table 33: OECD oil stocks and oil on water at the end of period

	2002	2003	2004	2005	2006	2007	2008	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10
Closing stock levels *mb*																												
OECD onland commercial	2,473	2,511	2,538	2,587	2,669	2,567	2,696	2,533	2,612	2,627	2,587	2,586	2,649	2,761	2,669	2,599	2,659	2,651	2,567	2,571	2,602	2,662	2,696	2,740	2,752	2,773	2,666	2,709
North America	1,175	1,161	1,193	1,257	1,277	1,229	1,301	1,202	1,275	1,254	1,257	1,240	1,277	1,351	1,277	1,238	1,294	1,285	1,229	1,216	1,240	1,282	1,301	1,348	1,383	1,386	1,309	1,320
Western Europe	890	915	915	935	963	931	988	942	915	942	935	938	936	949	963	942	937	934	931	961	954	949	988	985	968	967	974	992
OECD Pacific	408	435	430	394	429	407	406	389	422	432	394	408	436	461	429	420	428	432	407	394	409	431	406	408	401	419	383	398
OECD SPR	1,347	1,411	1,450	1,487	1,499	1,524	1,527	1,462	1,494	1,494	1,487	1,487	1,493	1,495	1,499	1,507	1,506	1,520	1,524	1,529	1,526	1,522	1,527	1,547	1,561	1,564	1,564	1,565
North America	601	640	678	687	691	699	704	690	698	696	687	688	690	690	691	691	692	695	699	702	708	704	704	715	726	727	729	729
Western Europe	357	374	377	407	412	421	416	376	401	405	407	407	411	412	412	415	413	423	421	423	414	414	416	424	427	429	426	427
OECD Pacific	389	396	396	393	396	404	406	396	395	393	393	392	393	393	396	401	401	403	404	404	404	403	406	408	408	408	409	409
OECD total	3,820	3,922	3,988	4,073	4,167	4,091	4,223	3,995	4,106	4,121	4,073	4,074	4,142	4,256	4,167	4,107	4,165	4,171	4,091	4,101	4,128	4,184	4,223	4,287	4,313	4,337	4,230	4,274
Oil-on-water	815	882	905	954	919	951	967	934	932	925	954	962	975	974	919	919	895	920	951	935	919	886	967	901	902	871	912	879
Days of forward consumption in OECD																												
OECD onland commercial	51	51	51	52	54	54	59	52	53	52	51	54	54	55	54	54	54	53	52	54	56	56	58	62	61	60	59	59
North America	48	46	47	50	50	51	56	47	50	49	50	49	50	53	50	49	51	51	50	50	53	54	55	59	59	59	56	56
Western Europe	58	59	58	60	63	61	68	61	58	60	58	61	60	60	63	63	61	60	61	64	61	61	66	69	67	67	67	71
OECD Pacific	47	51	50	47	51	50	53	48	52	49	43	52	55	53	48	53	54	49	46	50	54	54	50	56	55	52	50	48
OECD SPR	28	29	29	30	30	32	34	30	30	30	29	31	30	30	30	31	31	30	31	32	33	32	33	35	35	34	34	34
North America	24	25	26	27	27	29	30	27	27	27	27	27	27	27	27	27	27	27	28	29	30	29	30	31	31	31	31	31
Western Europe	23	24	24	26	27	27	29	25	26	26	25	27	26	26	27	28	27	27	28	28	27	27	28	30	29	30	29	31
OECD Pacific	45	46	46	46	47	50	53	49	49	45	42	50	50	45	44	51	51	46	45	51	54	51	50	56	56	51	53	50
OECD total	79	79	80	82	85	86	93	82	83	82	81	84	84	85	84	85	85	84	84	87	89	88	91	96	96	94	93	93

Table 34: Non-OPEC supply and OPEC natural gas liquids, mb/d

	2004	2005	2006	2007	Change 07/06	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09
USA	7.65	7.34	7.36	7.50	0.14	7.64	7.75	7.20	7.42	7.50	0.00	7.85	7.97	8.13	8.32	8.07	0.57	8.41	8.33	8.15	8.17	8.26	0.19
Canada	3.07	3.03	3.20	3.32	0.12	3.30	3.12	3.30	3.28	3.25	-0.07	3.33	3.14	3.23	3.28	3.24	-0.01	3.29	3.28	3.27	3.33	3.29	0.05
Mexico	3.83	3.77	3.69	3.49	-0.21	3.29	3.18	3.13	3.09	3.17	-0.31	3.04	2.97	2.94	2.96	2.98	-0.19	2.99	2.94	2.84	2.81	2.90	-0.08
North America	14.56	14.14	14.24	14.30	0.06	14.22	14.05	13.63	13.80	13.92	-0.38	14.22	14.08	14.30	14.56	14.29	0.37	14.69	14.55	14.25	14.31	14.45	0.16
Norway	3.19	2.97	2.78	2.56	-0.22	2.51	2.39	2.38	2.54	2.45	-0.10	2.52	2.20	2.28	2.38	2.34	-0.11	2.31	2.19	2.08	2.23	2.20	-0.14
UK	2.10	1.89	1.71	1.69	-0.02	1.66	1.65	1.41	1.58	1.58	-0.11	1.63	1.56	1.27	1.46	1.48	-0.10	1.49	1.45	1.32	1.36	1.40	-0.08
Denmark	0.39	0.38	0.34	0.31	-0.04	0.28	0.28	0.27	0.28	0.28	-0.03	0.28	0.27	0.27	0.24	0.26	-0.02	0.26	0.26	0.24	0.24	0.25	-0.01
Other Western Europe	0.48	0.49	0.51	0.62	0.11	0.62	0.65	0.67	0.66	0.65	0.03	0.62	0.62	0.63	0.62	0.63	-0.02	0.60	0.61	0.60	0.60	0.60	-0.02
Western Europe	6.16	5.72	5.34	5.17	-0.17	5.08	4.96	4.73	5.06	4.96	-0.21	5.05	4.65	4.45	4.70	4.71	-0.25	4.66	4.50	4.24	4.42	4.45	-0.26
Australia	0.52	0.53	0.51	0.53	0.02	0.47	0.53	0.55	0.58	0.53	0.01	0.55	0.53	0.55	0.54	0.54	0.01	0.52	0.54	0.57	0.60	0.56	0.02
Other Pacific	0.05	0.05	0.05	0.08	0.03	0.11	0.11	0.10	0.09	0.10	0.02	0.09	0.09	0.10	0.10	0.10	0.00	0.10	0.13	0.11	0.10	0.11	0.01
OECD Pacific	0.57	0.58	0.56	0.60	0.04	0.58	0.63	0.64	0.67	0.63	0.03	0.64	0.62	0.65	0.64	0.64	0.01	0.62	0.66	0.67	0.70	0.66	0.03
Total OECD	21.29	20.44	20.15	20.08	-0.07	19.88	19.65	19.00	19.52	19.51	-0.57	19.91	19.35	19.41	19.89	19.64	0.13	19.97	19.71	19.16	19.44	19.57	-0.07
Brunei	0.21	0.21	0.22	0.19	-0.03	0.19	0.16	0.17	0.18	0.17	-0.01	0.17	0.15	0.16	0.18	0.17	0.00	0.18	0.17	0.17	0.17	0.17	0.01
India	0.79	0.76	0.78	0.80	0.02	0.80	0.79	0.79	0.81	0.80	0.00	0.78	0.78	0.79	0.81	0.79	-0.01	0.82	0.83	0.85	0.88	0.85	0.06
Indonesia	1.15	1.12	1.07	1.02	-0.04	1.05	1.04	1.04	1.03	1.04	0.02	1.03	1.02	1.02	1.03	1.03	-0.01	1.03	1.03	1.02	1.01	1.02	0.00
Malaysia	0.79	0.77	0.76	0.76	0.00	0.78	0.75	0.77	0.74	0.76	0.00	0.75	0.73	0.73	0.71	0.73	-0.03	0.73	0.69	0.69	0.68	0.70	-0.03
Thailand	0.25	0.29	0.32	0.33	0.02	0.34	0.36	0.36	0.36	0.36	0.02	0.37	0.37	0.36	0.37	0.37	0.01	0.33	0.34	0.35	0.35	0.34	-0.02
Vietnam	0.42	0.39	0.37	0.35	-0.02	0.36	0.33	0.31	0.34	0.33	-0.01	0.35	0.37	0.37	0.41	0.38	0.04	0.40	0.39	0.36	0.35	0.38	0.00
Asia others	0.18	0.26	0.26	0.27	0.00	0.27	0.27	0.27	0.28	0.27	0.01	0.27	0.27	0.27	0.27	0.27	0.00	0.27	0.26	0.28	0.28	0.27	0.00
Other Asia	3.81	3.79	3.78	3.71	-0.06	3.79	3.70	3.71	3.74	3.73	0.02	3.71	3.69	3.70	3.78	3.72	-0.01	3.76	3.72	3.73	3.72	3.73	0.01
Argentina	0.80	0.78	0.77	0.77	0.00	0.79	0.79	0.78	0.77	0.78	0.01	0.78	0.77	0.73	0.76	0.76	-0.02	0.77	0.77	0.74	0.73	0.75	-0.01
Brazil	1.80	1.98	2.11	2.22	0.12	2.33	2.38	2.42	2.40	2.38	0.16	2.47	2.49	2.51	2.55	2.50	0.12	2.63	2.66	2.73	2.79	2.70	0.20
Colombia	0.54	0.53	0.54	0.54	0.00	0.57	0.59	0.61	0.62	0.60	0.06	0.65	0.66	0.68	0.73	0.68	0.08	0.77	0.78	0.78	0.80	0.78	0.10
Trinidad & Tobago	0.16	0.18	0.18	0.16	-0.02	0.16	0.15	0.16	0.16	0.16	0.00	0.16	0.16	0.15	0.16	0.16	0.00	0.16	0.16	0.15	0.15	0.15	0.00
L. America others	0.26	0.30	0.26	0.27	0.00	0.27	0.27	0.28	0.31	0.28	0.01	0.30	0.30	0.31	0.31	0.31	0.02	0.31	0.31	0.31	0.31	0.31	0.01
Latin America	3.55	3.77	3.87	3.96	0.10	4.12	4.18	4.24	4.26	4.20	0.24	4.35	4.38	4.39	4.51	4.41	0.21	4.63	4.67	4.71	4.77	4.70	0.29
Bahrain	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00
Oman	0.79	0.78	0.75	0.71	-0.04	0.74	0.74	0.76	0.78	0.76	0.05	0.78	0.79	0.83	0.83	0.81	0.05	0.86	0.86	0.86	0.86	0.86	0.05
Syria	0.49	0.45	0.44	0.42	-0.02	0.41	0.41	0.41	0.41	0.41	0.00	0.41	0.41	0.41	0.41	0.41	0.00	0.42	0.41	0.40	0.40	0.41	0.00
Yemen	0.41	0.41	0.37	0.33	-0.04	0.32	0.31	0.30	0.29	0.30	-0.03	0.30	0.30	0.30	0.29	0.30	-0.01	0.27	0.27	0.27	0.27	0.27	-0.03
Middle East	1.90	1.85	1.76	1.66	-0.10	1.68	1.67	1.68	1.68	1.68	0.02	1.70	1.72	1.75	1.74	1.73	0.05	1.75	1.75	1.74	1.73	1.74	0.02
Chad	0.16	0.18	0.15	0.15	0.00	0.15	0.15	0.15	0.15	0.15	0.00	0.14	0.14	0.14	0.14	0.14	-0.01	0.14	0.14	0.12	0.11	0.12	-0.01
Congo	0.24	0.24	0.25	0.24	0.00	0.26	0.26	0.26	0.26	0.26	0.02	0.27	0.27	0.27	0.29	0.28	0.02	0.30	0.30	0.29	0.29	0.29	0.02
Egypt	0.71	0.70	0.67	0.67	0.00	0.68	0.68	0.69	0.70	0.69	0.02	0.70	0.69	0.68	0.66	0.68	-0.01	0.67	0.66	0.67	0.67	0.67	-0.02
Equatorial Guinea	0.30	0.36	0.37	0.37	0.00	0.38	0.38	0.38	0.38	0.38	0.01	0.37	0.36	0.35	0.34	0.36	-0.02	0.33	0.33	0.33	0.32	0.33	-0.03
Gabon	0.25	0.25	0.25	0.25	0.00	0.24	0.24	0.25	0.25	0.24	-0.01	0.26	0.26	0.27	0.27	0.26	0.02	0.28	0.25	0.27	0.26	0.26	0.00
South Africa	0.19	0.19	0.19	0.18	-0.01	0.18	0.18	0.18	0.18	0.18	0.00	0.18	0.18	0.18	0.16	0.17	0.00	0.18	0.18	0.17	0.17	0.17	0.00
Sudan	0.30	0.34	0.40	0.50	0.10	0.50	0.49	0.47	0.44	0.48	-0.02	0.46	0.48	0.47	0.47	0.47	-0.01	0.47	0.47	0.48	0.47	0.47	0.00
Africa other	0.21	0.25	0.32	0.35	0.03	0.38	0.38	0.38	0.38	0.38	0.03	0.38	0.37	0.36	0.35	0.36	-0.01	0.36	0.36	0.36	0.39	0.37	0.00
Africa	2.36	2.52	2.59	2.70	0.11	2.75	2.76	2.74	2.73	2.75	0.04	2.74	2.73	2.72	2.69	2.72	-0.03	2.72	2.68	2.68	2.68	2.69	-0.03
Total DCs	11.63	11.93	12.00	12.04	0.04	12.34	12.31	12.38	12.42	12.36	0.32	12.50	12.51	12.57	12.71	12.57	0.21	12.87	12.82	12.86	12.90	12.86	0.29
FSU	11.14	11.55	12.02	12.52	0.50	12.62	12.67	12.46	12.49	12.56	0.04	12.64	12.90	13.01	13.12	12.92	0.36	13.12	13.14	13.10	13.24	13.15	0.23
Russia	9.19	9.44	9.65	9.87	0.22	9.78	9.74	9.81	9.80	9.78	-0.08	9.78	9.88	9.97	10.07	9.92	0.14	10.09	10.04	10.00	9.96	10.02	0.10
Kazakhstan	1.18	1.23	1.30	1.35	0.05	1.42	1.44	1.33	1.47	1.41	0.06	1.48	1.51	1.55	1.61	1.54	0.12	1.61	1.61	1.56	1.65	1.61	0.07
Azerbaijan	0.31	0.44	0.65	0.86	0.21	0.96	1.03	0.85	0.78	0.91	0.04	0.94	1.08	1.05	1.01	1.02	0.11	1.00	1.06	1.10	1.16	1.08	0.06
FSU others	0.47	0.44	0.42	0.44	0.02	0.46	0.46	0.46	0.45	0.46	0.02	0.44	0.44	0.44	0.43	0.44	-0.02	0.43	0.43	0.45	0.46	0.44	0.00
Other Europe	0.17	0.16	0.15	0.15	0.00	0.15	0.15	0.14	0.14	0.15	-0.01	0.14	0.13	0.14	0.14	0.14	-0.01	0.13	0.14	0.13	0.13	0.13	0.00
China	3.50	3.64	3.69	3.77	0.07	3.81	3.87	3.84	3.84	3.84	0.07	3.80	3.85	3.88	3.87	3.85	0.01	4.02	4.01	3.94	3.90	3.97	0.12
Non-OPEC production	47.74	47.71	48.02	48.56	0.54	48.79	48.65	47.82	48.41	48.42	-0.14	48.99	48.75	49.01	49.73	49.12	0.70	50.12	49.82	49.20	49.61	49.69	0.56
Processing gains	1.83	1.91	1.96	1.99	0.03	1.98	1.98	1.98	1.98	1.98	-0.01	2.01	2.01	2.01	2.01	2.01	0.03	2.09	2.09	2.09	2.09	2.09	0.08
Non-OPEC supply	49.56	49.62	49.98	50.55	0.57	50.77	50.63	49.80	50.39	50.40	-0.15	51.00	50.76	51.02	51.74	51.14	0.74	52.21	51.91	51.29	51.70	51.78	0.64
OPEC NGL	3.54	3.74	3.76	3.86	0.11	3.97	4.05	4.07	4.04	4.04	0.18	4.00	4.20	4.41	4.37	4.25	0.21	4.49	4.68	4.76	4.97	4.73	0.48
OPEC Non-conventional	0.17	0.16	0.14	0.08	-0.05	0.11	0.11	0.11	0.11	0.11	0.02	0.10	0.10	0.10	0.10	0.10	0.00	0.10	0.11	0.11	0.11	0.10	0.00
OPEC (NGL+NCF)	3.71	3.89	3.89	3.95	0.05	4.08	4.16	4.18	4.15	4.14	0.20	4.10	4.30	4.52	4.47	4.35	0.21	4.59	4.78	4.87	5.08	4.83	0.48
Non-OPEC & OPEC (NGL+NCF)	53.27	53.51	53.87	54.49	0.62	54.85	54.79	53.98	54.54	54.54	0.05	55.10	55.06	55.54	56.22	55.48	0.94	56.80	56.70	56.16	56.78	56.61	1.12

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

Table 35: World Rig Count

	2005	2006	Change 06/05	1Q07	2Q07	3Q07	4Q07	2007	Change 07/06	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08	1Q09	Apr10	May10	May/Apr
USA	1,381	1,647	267	1,733	1,756	1,788	1,790	1,767	119	1,770	1,864	1,978	1,898	1,877	111	1,326	936	956	1,108	1,081	-796	1,345	1,479	1513	34
Canada	458	470	12	532	139	348	356	344	-126	507	169	432	408	379	35	328	91	177	277	218	-161	470	123	147	24
Mexico	107	83	-24	90	88	96	93	92	9	96	106	103	106	103	11	128	128	135	123	128	26	118	105	110	5
North America	1,945	2,200	255	2,355	1,983	2,231	2,240	2,202	2	2,373	2,139	2,513	2,411	2,359	157	1,782	1,154	1,267	1,508	1,428	-931	1,933	1,707	1770	63
Norway	17	17	0	16	19	18	17	18	1	17	21	21	21	20	2	25	18	18	20	20	0	21	27	11	-16
UK	21	27	5	25	29	27	22	26	-1	19	21	24	24	22	-4	22	19	16	15	18	-4	15	17	20	3
Western Europe	70	77	7	75	80	79	77	78	0	91	97	101	103	98	20	90	82	76	85	83	-15	87	103	88	-15
OECD Pacific	25	26	2	24	30	32	30	29	2	32	39	39	34	36	7	27	25	26	23	25	-11	22	17	18	1
Total OECD	2,078	2,347	269	2,494	2,141	2,387	2,385	2,352	4	2,532	2,317	2,698	2,593	2,535	183	1,945	1,299	1,368	1,616	1,557	-978	2,042	1,827	1876	49
Other Asia	200	202	2	206	213	212	216	212	10	213	220	218	212	216	4	212	212	213	233	217	1	235	245	250	5
Latin America	129	149	19	175	177	171	179	175	27	187	184	195	197	191	16	164	147	149	169	157	-34	183	190	209	19
Middle East	131	132	1	144	146	154	154	149	18	158	165	175	171	167	18	162	151	139	147	150	-18	152	147	146	-1
Africa	8	10	2	16	12	14	14	14	4	10	13	14	11	12	-2	8	11	9	12	10	-2	20	19	19	0
Total DCs	468	493	25	540	549	550	563	551	58	569	583	602	591	586	36	546	520	510	561	534	-52	589	601	624	23
Non-OPEC Rig Count	2,546	2,840	294	3,035	2,690	2,937	2,948	2,903	62	3,101	2,900	3,300	3,183	3,121	219	2,491	1,819	1,878	2,177	2,091	-1,030	2,632	2,428	2500	72
Algeria	21	24	4	25	26	28	28	27	2	26	27	24	26	26	-1	24	30	27	27	27	1	23	29	29	0
Angola	3	4	1	5	4	3	5	4	1	5	6	5	5	5	1	5	3	3	4	4	-1	10	8	8	0
Ecuador	12	11	0	12	10	11	10	11	-1	7	9	12	13	10	-1	10	10	10	10	10	0	11	11	11	0
Iran	40	44	4	51	51	51	50	50	6	50	50	50	51	50	0	51	52	52	52	52	2	52	52	52	0
Iraq	0	0	0	0	0	0	0	0	0	29	29	29	29	29	29	29	29	29	29	29	0	29	29	29	0
Kuwait	12	14	1	14	13	13	11	12	-1	12	11	12	12	12	0	12	11	14	13	13	0	19	20	20	0
Libya	9	10	1	13	12	14	14	13	3	14	15	15	15	15	2	15	13	14	15	14	-1	17	17	17	0
Nigeria	9	10	1	8	7	8	10	8	-1	9	8	6	6	7	-1	7	6	6	7	6	-1	11	12	12	0
Qatar	12	11	-1	11	12	13	14	13	2	11	12	11	11	11	-1	9	9	9	9	9	-2	8	7	8	1
Saudi Arabia	37	65	28	76	76	78	77	77	11	78	77	76	76	77	0	72	67	67	66	68	-9	68	67	67	0
UAE	16	16	0	14	15	15	14	15	-2	12	12	13	12	12	-2	13	12	13	12	12	0	13	13	13	0
Venezuela	68	81	13	76	80	77	71	76	-5	82	81	77	81	80	4	69	64	54	54	60	-20	66	63	65	2
OPEC Rig Count	238	290	51	303	305	311	302	305	16	336	337	330	336	335	29	315	307	295	298	304	-31	327	328	331	3
Worldwide Rig Count*	2,785	3,130	345	3,338	2,995	3,249	3,250	3,208	78	3,438	3,237	3,630	3,519	3,456	248	2,806	2,126	2,173	2,476	2,395	-1,061	2,958	2,756	2831	75
of which:																									
Oil	980	1,124	144	1,264	1,167	1,254	1,285	1,242	119	1,408	1,351	1,479	1,490	1432	190	1,276	1062	1175	1349	1215	-217	1,583	1,437	1522	85
Gas	1,746	1,947	201	2,013	1,764	1,931	1,904	1,903	-44	1,969	1,814	2,070	1,948	1950	47	1,450	993	965	1092	1125	-825	1,333	1,279	1268	-11
Others	21	17	-4	20	17	20	25	20	4	26	32	36	37	33	12	35	35	34	37	35	3	43	42	41	-1

/Excludes China and FSU.

na - Not available.

Source: Baker Hughes International & Secretariat's Estimates.

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

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Data Summary

June 2010

OPEC Basket average price

US$ per barrel

⬇ *down $7.85 in May*

May 2010	**74.48**
April 2010	82.33
Year-to-date	76.66

May OPEC production

in million barrels per day, according to secondary sources

⬆ *up 0.14 in May*

May 2010	**29.26**
April 2010	29.12

World economy

The global economic growth forecast for 2010 was revised higher to 3.8%. The major revision was to Japan, which is now expected to grow by 2.7% compared to a previous 1.5%, and for the Euro-zone which was revised up slightly to 0.7% from 0.6%. The growth forecast for China was kept unchanged at 9.5%, while India was increased to 7.3% and Russia to 4.0%.

Supply and demand

in million barrels per day

2009		**2010**	
World demand	84.4	World demand	85.4
Non-OPEC supply	51.1	Non-OPEC supply	51.8
OPEC NGLs	4.4	OPEC NGLs	4.8
Difference	**28.9**	**Difference**	**28.8**

Totals may not add due to independent rounding.

Stocks

US commercial stocks continued to rise by 7.7 mb in May. The build was driven mainly by products, which increased by 5.4 mb, while crude stocks rose 2.3 mb. Inventories now stand at around 86 mb above the five-year average. In Japan, commercial oil stocks continued the upward trend in May, narrowing the deficit with the five-year average.

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Next report to be issued on 15 July 2010

Data covered up to the end of May 2010 unless otherwise stated..