OPEC

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Monthly Oil Market Report

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Feature Article:
Non-OPEC supply uncertainty

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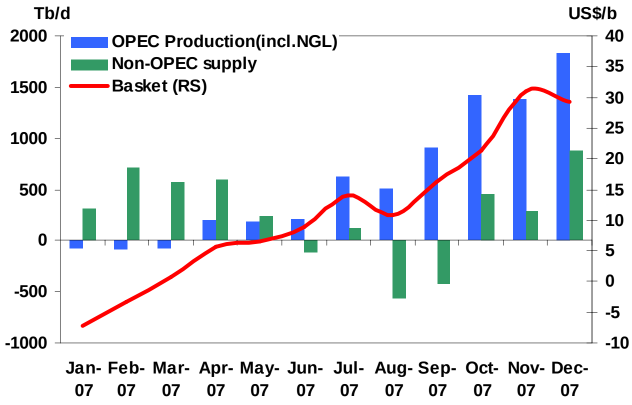
Oil Market Highlights

- In monthly terms, the OPEC Reference Basket averaged $1.80 or 2% lower to stand at $87.19/b in December as weaker economic growth was seen denting demand into the New Year and speculative pressure eased slightly. Volatility increased in the first half of January, with the Basket surging on the back of the weak US dollar, stock draws in the US, geopolitical developments and higher speculative activities, which sent the Basket to a record-high of $93.78/b. Nonetheless, the weak economic outlook amid rising fears of a recession in the US balanced ongoing supply concerns, helping the Basket ease to $85.34/b on 21 January.
- World economic growth in 2008 is down by 0.1 percentage points to 4.7% following downward revisions in all three OECD regions (2.1% growth compared to 2.7% in 2007). Developing countries' growth was left unchanged at 6.1% as downward revisions in the Asia Pacific region balanced small upward revisions in Latin America. The Chinese growth forecast of 9.9% remains unchanged from the previous month, as measures to slow down the economy begin to take hold, after the strong 11.5% performance in 2007. Fears of a US recession increased following a spate of negative reports in December showing drop in manufacturing output, rise in unemployment rate and fall in retail sales. Despite rising prices, the Fed is widely expected to cut US interest rates further by as much as 50 basis points at the end-January policy setting meeting if not before. Euro-zone data also point to further slowdown, accompanied by lower consumer and business confidence and mounting inflation, while Japanese economic prospects have dimmed with consumer demand expected to stagnate amid falling wages and rising prices.
- Cold weather has underpinned oil demand in the Northern Hemisphere. However, weather in the Pacific has been mild, weakening kerosene demand. World oil demand in 4Q07 followed normally high winter seasonality, especially in the OECD, reaching 1.8 mb/d. For the year, world oil demand growth is estimated at 1.2 mb/d or 1.4%. In 2008, world oil demand is forecast to increase by 1.3 mb/d to average 87.1 mb/d. The effect of higher oil prices on consumers might have a moderate impact, especially in the OECD. However, the same effect is diluted elsewhere especially in regions in which price subsidies shield consumers, such as China, India, and OPEC Member Countries. Given the cold weather in the first quarter, North America is forecast to grow by 0.33 mb/d pushing incremental world oil demand to 1.5 mb/d y-o-y in the first quarter.
- Non-OPEC supply growth in 2007 has been revised down to 0.6 mb/d over 2006. The adjustments were due in large part to downward revisions to the supply of Mexico, Brazil, Canada, UK and Australia. For 2008, non-OPEC supply growth is expected to average 1.1 mb/d, down slightly from the previous estimate. Growth in OPEC NGLs and non-conventional oils for 2007 and 2008 was left almost unchanged at 0.3 mb/d and 0.5 mb/d respectively. In December, OPEC crude oil production averaged 32.0 mb/d, an increase of 0.5 mb/d from the previous month, as production in the UAE returned from maintenance.
- A combination of higher global refinery operation rates and product output along with relatively lower seasonal demand, especially for middle distillates, eased the perception of product market tightness and had an adverse effect on the economic performance of refineries across the globe. Higher crude oil prices also contributed to the weak performance of the downstream in December. The continuation of recent product stock-builds, especially in the Atlantic Basin, could trigger the bearish sentiment of both the physical and the futures markets, capping the upward momentum of crude prices. However, with the start of spring refinery maintenance, the current situation in the product market may change, supporting crude and product prices in the coming weeks.
- OPEC spot fixtures decreased 3.26 mb/d in December to average 11.67 mb/d, holding 71.1% of global spot fixtures. OPEC sailings remained steady with only a minor increase of 0.15 mb/d. The crude oil tanker market continued to gain further ground with spot freight rates for VLCCs increasing sharply to reach a three-year high supported by tonnage shortage in the Middle East. VLCC spot freight rates gained 141% on average in December driven by the short list of available tonnage and a crude oil spill in South Korea. Suezmax spot freight rates also increased, partially supported by the VLCC sector.
- US total net crude oil imports declined 255,000 b/d in December leading to a further decline in stocks as refinery throughput increased. Net product imports also fell 78,000 b/d from the previous month to stand at 2.1 mb/d in December supported by higher refinery runs. In the same month, Japan's total oil imports rose an estimated 300,000 b/d to average 5.3 mb/d on higher crude oil and product imports. OECD estimates showed a gain of 0.7% for the total net oil imports in November to reach 25.8 mb/d. In China, net oil imports rose by 0.32 mb/d in November from the previous month to stand at 3.5 mb/d, mostly driven by the rise in crude oil imports, while increased product exports offset the increase in net oil imports. India's total net oil imports rose almost 10% in November from the previous month due to higher imports and lower exports of products.
- US commercial oil stocks followed their year-end trend, falling nearly 32 mb in December to stand at 970 mb. The draw pushed inventories below the five-year average for the first time to a deficit of almost 1%. The drop was driven by crude oil stocks, which fell primarily due to year-end tax considerations by almost 20 mb to some 286 mb, the lowest level since the end of 2004, implying a deficit with the five-year average of 8 mb or 3%. Despite a drop, US product stocks remained above the five-year average, although heating oil stocks remained well below the average of the last five years. In EU-15 plus Norway, total oil inventories reversed their downward trend, rising 5 mb to 1,115 mb, slightly above the five-year average, with crude oil showing a surplus of 19 mb or 4%. In November, Japan's commercial oil stocks fell a minor 1.3 mb to remain below the five-year average for the third consecutive month and preliminary data showed a further decline in December.
- The demand for OPEC crude in 2007 is expected to average 31.8 mb/d, an increase of 0.2 mb/d over the previous year. In 2008, the demand for OPEC crude is expected to average 31.5 mb/d, a decline of 0.3 mb/d.

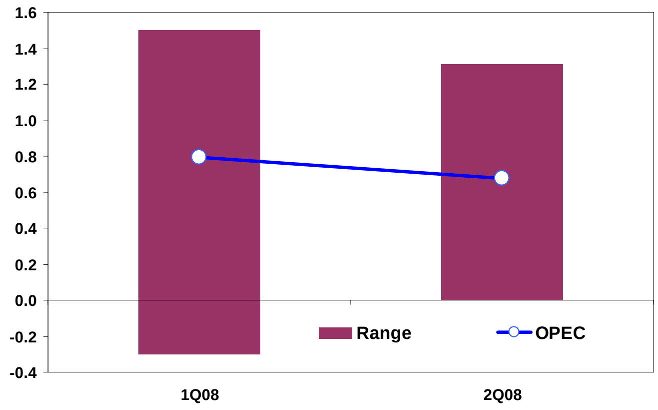
Non-OPEC supply uncertainty

- Many factors are seen to have contributed to higher crude oil prices since the second half of 2007. These include US dollar weakness, increased financial market speculation, ongoing geopolitical developments and perceived market tightness, as well as growing uncertainty due to the weak performance of non-OPEC supply.
- Indeed, non-OPEC supply showed a weak performance in 2007, especially in light of initial expectations projecting a strong rebound for that year. However, despite some gains in the first half of 2007, non-OPEC supply growth remained well below expectations, ending the year with cumulative growth of only 800,000 b/d (*see **Graph 1***). Moreover, non-OPEC supply started to under-perform at the very same time as prices began to rise. For the year, non-OPEC supply growth is estimated to have averaged only 0.6 mb/d, less than half the initial forecast of 1.3 mb/d.

Graph 1: Cumulative growth: oil supply vs. ORB



Graph 2: Range of uncertainty for non-OPEC supply growth (mb/d)



- There are different factors behind the relatively poor performance in non-OPEC supply growth in 2007, namely, project delays, deeper than expected and recurring unplanned maintenance, pipeline disruptions and the continuing decline in mature regions as well as bad weather. Regionally, project delays and lower ramp ups for new projects in North America, Brazil, and Kazakhstan reduced the initial growth forecast in 2007, while Mexico's oil supply came in lower due to a sharper-than-expected decline in the giant Cantrell field along with weather-related supply disruptions. In the North Sea, the performance was weak especially in Norway due to heavier and deeper maintenance in addition to continuing natural declines and project delays. The UK production had a fair performance in historical context, but failed to stabilize as expected due to technical delays in the start-up of the Buzzard field and weather-related shutdowns. Brazil also faced project delays as well as slower ramp-up rates, unplanned maintenance and technical problems.
- Looking forward, in 2008, non-OPEC supply is expected to increase by 1.1 mb/d to reach a level of 50.6 mb/d. Gains in Russia, Azerbaijan, Brazil and USA will be more than offset expected losses in a number of countries such as UK, Norway and Mexico. The FSU will account for almost the half of the increase in non-OPEC supply growth.
- This year, non-OPEC supply is likely to continue to face many of the same challenges as in 2007. Delays in deepwater projects in Brazil, sharper than expected declines in mature fields in the North Sea and Mexico represent downward risks to the current forecast. Moreover, as seen in 2007, recent history has shown that non-OPEC supply growth projections often fall short of expectations. However, as many of the projects seen coming onstream in 2008 are the result of delays from the previous year, there is an increased likelihood that they will materialize this year.
- In contrast, OPEC crude production has risen steadily since the start of 2007 (*see **Graph 1***), achieving a cumulative increase of 1.2 mb/d despite a temporary decline in UAE production in the latter part of the year due to heavy maintenance. By December 2007, OPEC crude oil output reached a two-year high of 32.0 mb/d while OPEC NGLs saw a significant cumulative increase of around 0.6 mb/d to stand at 4.4 mb/d. Taken together, this represents a more than 1.8 mb/d rise in OPEC supplies since January 2007.
- Non-OPEC supply is an important variable in determining the demand for OPEC crude. A look at the range of forecasts from various sources (*see* ***Graph 2***) shows considerable uncertainty in the outlook for non-OPEC supply growth for the first half of 2008, especially for the first quarter. Currently, first-quarter forecasts range from negative growth to positive growth of well over one million barrels per day. Combined with uncertainty impacting demand growth due to rising fears of a recession in the US and economic slowdown in other regions, this has resulted in an even higher level of uncertainty for the estimated demand for OPEC crude. As always, OPEC Member Countries are monitoring market developments closely and will review the situation at the upcoming Meetings of the Conference on 1 February and 5 March. In the meantime, OPEC has reiterated its readiness to increase supplies when justified by market fundamentals.

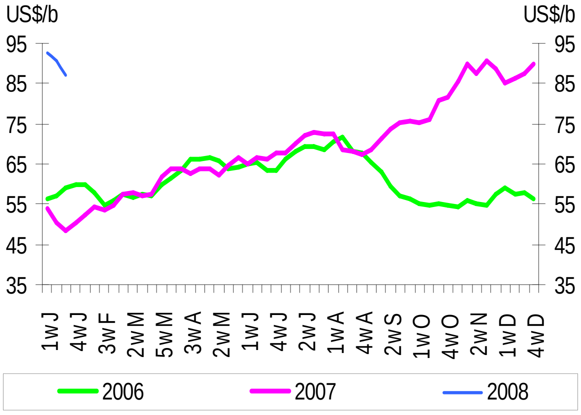
Crude Oil Price Movements

Developments in the Middle East along with the weakening economy outlook calmed sentiment over the health of oil demand growth

OPEC Reference Basket

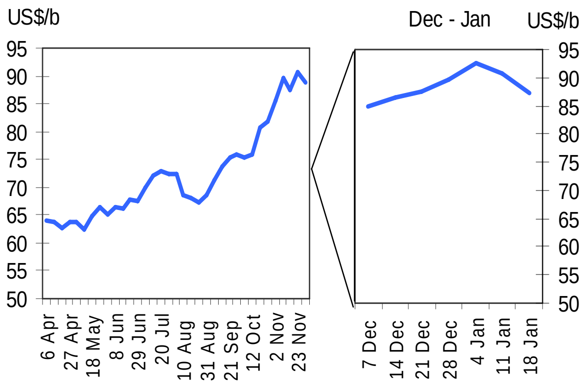
The Basket continued to soften in the early part of December on the outlook of softening incremental demand amid speculations over higher OPEC output. Easing geopolitical developments in the Middle East also lent support to calmness in the marketplace. In the first week, the Basket average was down by a hefty $3.81 or 4.3% to settle at $84.97/b. However, the sentiment reversed in the second week as US Federal Reserve interest rate cuts and injections of liquidity by major central banks supported the prospect of healthier demand growth amid the forecast for a cold snap over the weekend in Europe, which ignited bullish market sentiment. In the second week, the Basket averaged $86.43/b for a gain of $1.46 or 1.7% after peaking to $88.62/b. The market was moderated in the third week amid the persistent weak economy and the strengthening of the US dollar, while continued draws on the US petroleum product stocks amid a cold snap kept balance in the complex ahead of the start of the holiday season. Shipping delays at the Suez Canal momentarily firmed market sentiment. The OPEC Reference Basket averaged the week at $87.45/b for a gain of 1.2% or $1.02 higher. The final week saw revived geopolitical tensions in West Africa and the Middle East and another hefty draw on the US petroleum stocks. A further cold snap in the Northern Hemisphere kept alertness in place as the year drew to a close, thus inspiring speculative investment into the petroleum market strengthening the speculative fear premium. The Basket averaged the final week up by $2.26 or 2.6% to settle at $89.71/b, after peaking above $90/b in the final days of the year.

Graph 1: OPEC Reference Basket - weekly spot crude



In monthly terms, the OPEC Reference Basket averaged $1.80 or 2% lower to stand at $87.19/b in December amid easing geopolitical tensions while concern over economy growth was expected to dent demand into the New Year. The y-o-y average was over 50% higher with the yearly average at $69.10/b for a gain of $8.02 or over 13%. Volatility continued in the first half of January, with the Basket surging on the back of the weak US dollar, geopolitical developments in the North and West Africa, sending the Basket to a record-high of $93.78/b to average the first half of January at $89.94/b. Nonetheless, the weak economic outlook amid fear of potential recession on the horizon reduced some of the fear premium.

Graph 2: Weekly average Basket price, 2007-2008

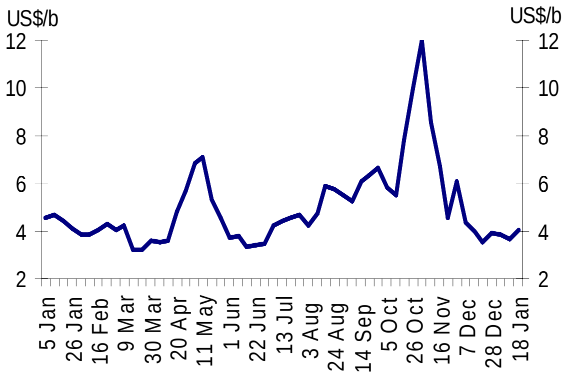


Winter fuel stock draws and the narrowing trans-atlantic arbitrage window kept light crude firm

US market

The market emerged the month on a firmer note amid declining seasonal fuel stocks and a narrowing transatlantic arbitrage window amid higher freight rates. Crude stock builds at Cushing, Oklahoma, also contributed to weaker sweet crude values. The rise in Middle East price differentials lent support to sour grade. The WTI/WTS first weekly average spread narrowed by $1.74 to $4.33/b, a level not seen since mid-August. The sentiment strengthened into the second week on demand for winter fuel, while heating oil stocks fell heavily the week before. A Midwest pipeline disruption after an icy storm and an oil spill in Norway raised fear over lower rival grade imports. The WTI/WTS spread narrowed a further 34¢ to$3.99/b. Demand for winter fuels ahead of the year-end holidays as traders squared books lent further strength to light crude. The WTI/WTS spread was 43¢ narrower at $3.56/b, the lowest level since June. Nevertheless, lower stocks at Cushing, Oklahoma, inspired demand for sweet crude while freight rates softened attracting transatlantic crude movement. The WTI/WTS spread widened by 35¢ to $3.91/b. The WTI monthly average was $91.70/b, a drop of $3.20 or 3.4%, with the spread over WTS at $3.95/b or $2.81 narrower from November. WTI averaged last year $6.25 or 9.5% higher over the previous year, at $72.29/b with the premium to WTS 16¢ narrower at $5.01/b.

Graph 3: WTI spread to WTS, 2007-2008

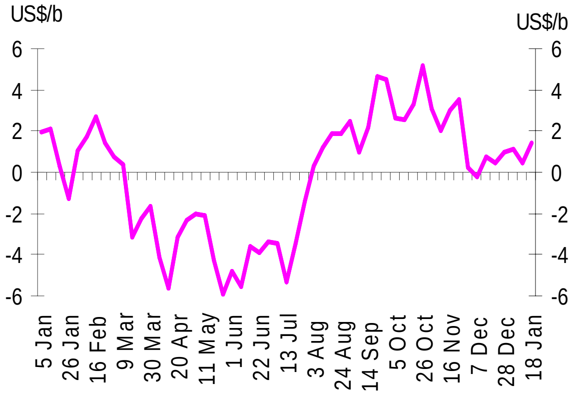


Lower North Sea supply in January balanced high freight rates

North Sea market

The easing front-end swap attracted a buying spree earlier in the month amid narrowing transatlantic arbitrage opportunities availing regional barrels. Brent flipped into a 20¢ premium to WTI in the first week of the month after absence of four months. Overhanging December stems lent support while the lower January volumes kept the sentiment in check. Nonetheless, Brent returned at a discount of 78¢/b to WTI in the second week, although firming differentials on the narrowing front-end month at the forward curve kept the buying spree lower. In the third week, the Brent spread under WTI narrowed 35¢ to 43¢/b as sellers disposed of December barrels at a discount ahead of the holiday. Nevertheless, strong demand supported the North Sea crude amid tight January supply and looming winter demand. The WTI/Brent spread was 51¢ wider at 94¢/b. In December, Brent averaged $91.25/b, a drop of $1.37 or 1.5%, while the discount to WTI was $1.85 narrower at 44¢/b, the lowest level since July when Brent stood at a premium. Brent averaged $72.55/b in 2007 when it was $7.39 or 11.3% higher than in 2006, at an average premium of 26¢ to WTI.

Graph 4: WTI premium to Dated Brent, 2007-2008



Tight supply, improving refining margins amid weather-related delays lent support to Urals crude

Mediterranean market

Urals differentials were under pressure from higher Iraqi exports, yet the sentiment was balanced by the tighter supply in January which kept the spread under Brent narrower. The Brent/Urals spread narrowed 20¢ in the first week to average $2.51/b. The sentiment strengthened into the second week on improved refining margins while weather-related shipping delays at the Black Sea outlet lent support to the Mediterranean market. Hence, emerging demand kept Urals firm. The Urals discount to Brent averaged the second week $1 narrower at $1.51/b, the lowest level since August. Nevertheless, market sentiment came under pressure from Iraq's sell tender with output from its northern outlet steadily rising. Thus, the Brent premium to Urals widened by 73¢ to $2.24/b in the third week. The bearish sentiment continued to weaken in the Mediterranean on fear that supply might outstrip demand while refining margins softened. Urals discount to Brent widened a further 50¢ to average $2.74/b. In December, Urals averaged $89/b or $1.20 lower with the discount to Brent 15¢ narrower at $2.23/b. The yearly average of Urals in 2008 was $8.18 or 13.3% higher at $69.55/b, with the discount to Brent 79¢ narrower at $3/b, the lowest discount in five years.

High freight rates and the wide Brent/Dubai spread pressured Middle East crude

Middle Eastern market

The market emerged bullish into the month amid the perception that OPEC would keep output unchanged at the December meeting in Abu Dhabi in a slow market as participants awaited prices from major Mideast suppliers. However, several unsold January barrels kept balance in the marketplace. The Brent/Dubai spread was little changed with the weekly average inching 4¢ wider to $4.90/b. Quietness continued into the second week as refiners awaited allocation and loading programmes. Nevertheless, steady supply for January loading and the softer fuel oil crack spread kept the Middle East crude under pressure. The Dubai discount to Brent was 52¢ wider at $5.42/b. High freight rates at three-year highs narrowed the arbitrage window for Western crude to flow eastward, supporting the Mideast crude; however, this made rival crude more attractive in the East as regional crude firmed amid tight supply in Asia. The Brent/Dubai spread was 67¢ narrower at $4.75/b. In the final week of the year, healthy refining margins and steadily weak arbitrage opportunities kept the bulls intact. The Brent/Dubai spread widened $2.07 to $6.82/b. In December, Dubai averaged $85.79/b, a decline of $1.17 or 1.3%. For the year, Dubai gained $6.84 or over 11% to reach $68.38/b with the discount to Brent at $4.17 or 55¢ wider than the year before.

Graph 5: Dated Brent spread to Dubai, 2007-2008

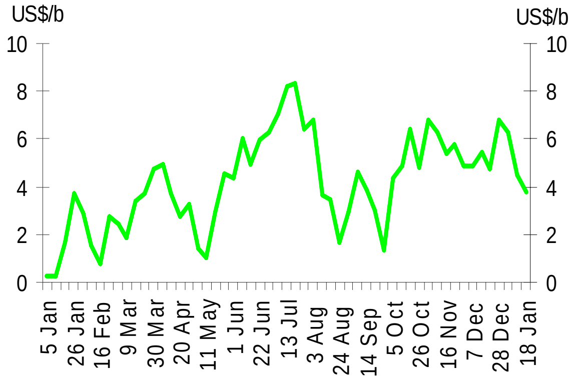


Table 1: OPEC Reference Basket and selected crudes, US$/b

	Nov 07	Dec 07	Change Dec/Nov	Year-to-Date 2006	2007
OPEC Reference Basket*	**88.99**	**87.19**	**-1.80**	**61.08**	**69.10**
Arab Light	89.02	86.29	-2.73	61.10	68.75
Basrah Light	86.26	82.79	-3.47	57.97	66.40
BCF-17	81.87	79.79	-2.08	52.01	61.80
Bonny Light	95.32	93.55	-1.77	66.84	75.14
Es Sider	91.92	90.75	-1.17	63.35	71.41
Girassol	90.21	88.98	-1.23	63.06	70.88
Iran Heavy	87.17	86.31	-0.86	59.27	67.06
Kuwait Export	86.23	84.37	-1.86	58.88	66.35
Marine	87.94	87.54	-0.40	62.64	69.30
Minas	93.64	94.53	0.89	65.23	73.56
Murban	90.95	90.72	-0.23	66.06	72.87
Saharan Blend	94.57	93.15	-1.42	66.05	74.66
Other Crudes					
Dubai	86.96	85.79	-1.17	61.54	68.38
Isthmus	88.59	87.53	-1.06	59.87	67.58
T.J. Light	86.55	84.73	-1.82	55.07	65.65
Brent	92.62	91.25	-1.37	65.16	72.55
W Texas Intermediate	94.91	91.69	-3.22	66.04	72.29
Differentials					
WTI/Brent	2.29	0.44	-1.85	0.88	-0.26
Brent/Dubai	5.66	5.46	-0.20	3.62	4.17

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

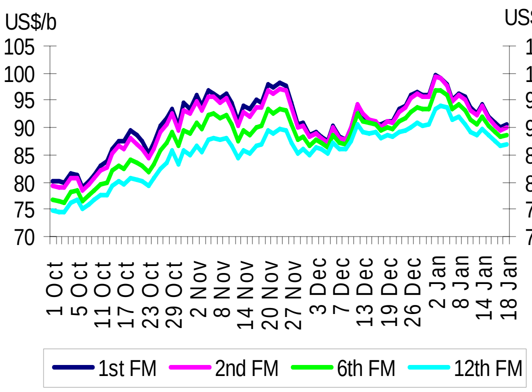
Source: Platt's, Direct Communication and Secretariat's assessments.

The Oil Futures Market

Positive geopolitical developments in the Middle East were balanced by the US Federal Reserve interest rate cuts

The oil futures market emerged in December on a weaker note amid recovery in the US dollar against major currencies and expectations of higher OPEC output during the meeting in Abu Dhabi. Positive geopolitical developments in the Middle East lent support for easing fear of a potential supply shortfall. However, volatility remained as the US government announced a mortgage plan foreseen to ease credit strains that could help energy demand growth. The Nymex WTI front-month weekly average plunged $7.31 or 7.5% to $89.59/b closing the weekly period at $88.32/b, a decline of $6.10. The CFTC report for the first weekly period showed non-commercials reduced net long positions by a hefty 12,000 to nearly 47,100 contracts amid heavy liquidation in the longs which outpaced the decline in short positions. Moreover, open interest dropped by almost 22,000 to 1,382,500 lots, the lowest level since May. In contrast, with options included, open interest rose by 43,000 lots to 2,575,900 contracts.

Graph 6: Nymex WTI futures prices, 2007-2008

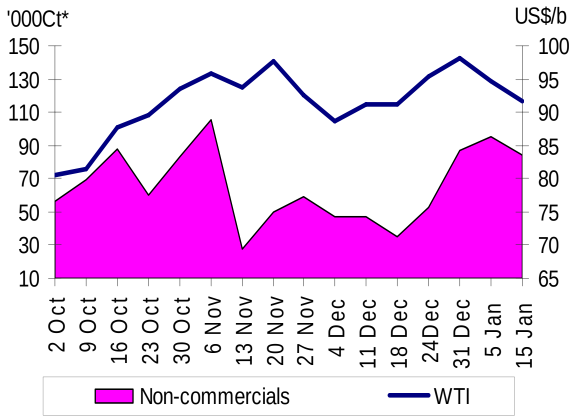


FM = future month

In the second weekly period, volatility continued with non-commercials marginally depleting longs at a faster pace than shorts. Thus, net longs were down a negligible 158 contracts to 46,900. Moreover, open interest fell by 1,600 lots to nearly 1,381,000. In contrast, with options included, open interest increased by a healthy 15,600 contracts to 2,591,500. The Nymex WTI prompt-month contract closed the weekly period up $1.70 to $90.02/b while the weekly average was down by 81¢ to $88.78/b. Higher crude oil stocks at Cushing, Oklahoma, the weak economic outlook and forecast for above-normal temperatures into the week kept the bearish sentiment firm. However, the fluctuation of the US dollar forecasts for lower OECD forward cover kept some balance in the marketplace.

In the third weekly period, speculation that a decision to provide cash to financial institutions would spur economic growth inspired the flow of new funds into the energy market. Nymex WTI futures rose nearly 5% to a two-week high of $94.28/b. However, the sentiment was short-lived amid the perception that the injection of funds by central banks would not stave off a potential recession. A rebound in the US dollar to a six-week high and concern over weakening economic growth kept pressure on the futures petroleum complex. Nymex WTI closed the period 47¢ higher at $90.49/b to average the week at $91.87/b, up $3.09. Nevertheless, the CFTC reported that non-commercial net volume depleted a significant 11,900 lots in the third weekly period to stand below 35,000. Open interest fell a hefty 50,700 lots to 1330,250, the lowest level since April. With options included, open interest depleted a significant 164,550 contracts to 2,426,900, the lowest level since September.

Graph 7: Non-commercial net long positions vs WTI, 2007-2008



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

In the fourth weekly period, the bullish market sentiment dominated. The CFTC report showed that non-commercial net long positions saw a rebound in volume with longs increasing while the shorts depleted their positions. Thus, net longs rose by nearly 17,900 lots to 52,800 while open interest was down by 4,500 to 1,325,750 contracts. Including options, open interest was up a marginal 300 lots to 2,427,250. Concerns about tight supply as stormy weather enforced the closure of two of Mexico's major three ports amid the ongoing northern Mideast geopolitical turmoil kept bullish sentiment intact. A report showed November US consumer spending increased by the largest margin in more than two years eased fear over a potential slump in demand. The Nymex WTI front-month closed the weekly period up $3.64 or 4% to settle at $94.13 resulting in a weekly gain of 57¢ to $92.44/b.

In the final weekly period, further geopolitical developments in the northern Mideast and Pakistan led to increased concerns over supply disruption. Further declines in US petroleum stocks maintained the bullish sentiment. The Nymex WTI prompt-month contract firmed by $1.85 or almost 2% to settle the period at $95.98/b averaging the week at $96.14/b for a gain of $3.70 or 4%. The CFTC's final weekly report for the year revealed that non-commercials had increased longs at a healthy rate while significantly depleting their short positions. Net longs inflated by a healthy 34,200 contracts to over 87,000. Open interest rose by 35,500 lots to nearly 1,331,300.

On a monthly basis, non-commercial net long positions were 6,800 lower in December compared to the previous month, but some 36,200 lots higher y-o-y at 53,770 lots. Open interest averaged 1,356,100 lots, down 84,100 contracts from the previous month but 160,400 lots higher y-o-y. Nymex WTI closed the month at $95.98/b for a gain of $7.27 or 8.2% over the previous month, although the monthly average was $2.87 or 3% lower. Compared to the same month last year, the Nymex WTI was $29.77 or 48% higher in December. With options included, open interest averaged last month at 2,506,100 lots, down 86,800, but 610,500 lots higher than last year. Middle East geopolitics, continued draws on the US petroleum stocks and US dollar weakness supported a rally in the futures market.

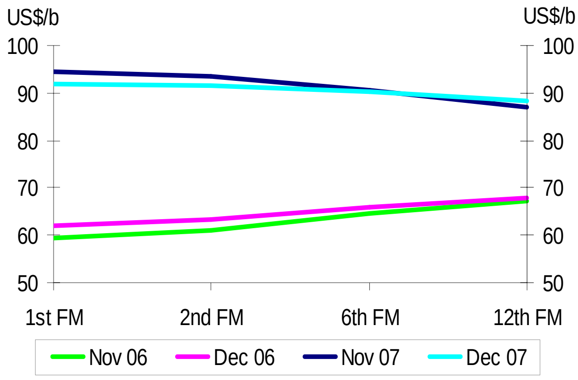
In yearly terms, net longs averaged 52,500 lots in 2007, nearly 25,900 or 97% higher than in the previous year. Open interest averaged nearly 1,393,700 lots higher for a gain of 329,700 or 31%. Including options, open interest was over 38% or 669,225 lots higher at 2,409,800 contracts. Nymex WTI closed the year up by $34.93 or over 57% to average $72.41, a gain of $6.16 or over 9% from the previous year. Volatility dominated the marketplace in 2007 as the market reacted to falling US gasoline stocks amid persistent refinery outages, the weak US dollar and geopolitical developments triggering rallies which drew increased speculation in the energy futures market. However, high crude stocks at Cushing, Oklahoma, earlier last year, increasing OPEC output and the weaker economic outlook kept balance in the petroleum complex.

The Forward Structure

Crude oil stock draws offset by delayed imports to avoid taxation

The backwardation on the forward curve narrowed significantly in December with the 1st/2nd month spread average down 80¢/b to 16¢/b. The 1st/6th, 1st/12th and 1st/18th month spreads narrowed by $2.55, $4.34 and $5.44/b to $1.58, $3.36 and $4.75/b respectively. The US weekly average crude oil stocks dropped by 15.5 mb in December to 296.2 mb to stand nearly 33 mb lower than last year. Most of the draws were due to weather-related delays in imports, mainly from Mexico, and the shut-in of Enbridge's Canadian-US pipeline. Refiners' reluctance to import more than the minimal requirements because of year-end tax considerations also contributed. The y-o-y 1st/2nd month spread narrowed by $1.51/b from a contango of $1.35/b with the 1st/6th, 1st/12th, and 1st/18th month spreads at $6.05, $9.87 and $11.87/b compared to a contango of $4.47, $6.51 and $7.12/b respectively last month. The yearly average of the 1st/2nd month spread remained in contango of 32¢/b, but 90¢ narrower. The 1st/6th, 1st/12th, and 1st/18th contango spreads were 60¢, 54¢ and 19¢/b for a drop of $3.02, $4.15 and $4.41/b respectively. In 2007, the weekly average for US crude oil inventories fell 6.8 mb compared to the previous year to stand at 327.8 mb.

Graph 8: Nymex WTI forward curve



FM = future month

Commodity Markets

Trends in selected commodity markets

Outlook for gold considered favourable in 2008

Spot gold prices increased from $808.25 per ounce in November 2007 to $811.45 in December and $826.65 for 8 January 2008. This is greatly associated to both tight fundamentals and encouraging external factors as the weakening dollar and declines in major stock indices around the world. Another factor that dates back to recent years is the continued inflow in Exchange-Traded Funds (ETFs). Likewise, with macro-economic uncertainties and expected interested rate cuts by the Fed, gold appears as a safe investment against inflation and the falling dollar. As shown in **Graph 9**, speculative length in gold stands very high with a potential for price corrections, but observers agree that the outlook is very favourable for gold in 2008.

Table 2: Monthly changes in selected commodity prices, 2007

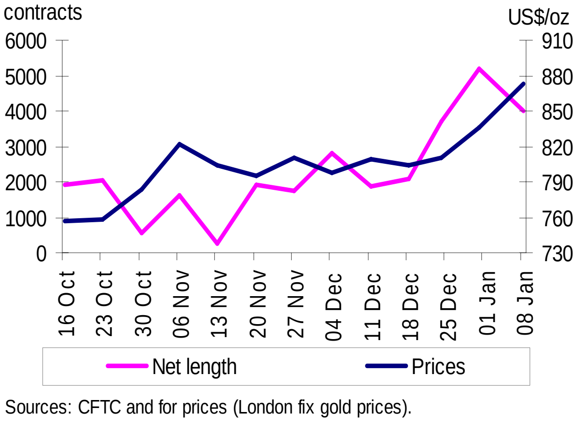
	per cent change				
	Sep/Aug	Oct/Sep	Nov/Oct	Dec/Nov	07/06
Commodity	7.9	7.0	9.9	-1.7	35.1
Non-Fuel	3.1	1.7	0.1	-0.6	10.1
Food	6.4	2.2	2.1	5.8	30.3
Metal	-5.1	5.0	-7.1	-10.2	-14.5
Energy	10.7	10.1	15.6	-2.4	49.8
Crude	12.7	9.8	17.1	-3.5	53.3
Aluminium	-6.2	2.6	3.3	-6.5	-23.2
Copper	4.7	9.5	-28.9	-8.9	-1.4
Corn	11.3	5.1	8.7	11.5	24.6
Natural Gas	-1.0	4.6	2.6	0.1	2.7
Nickel	12.8	10.9	-4.4	-30.1	-56.5
Soybeans	18.0	5.7	7.2	17.5	70.7
Soybean Oil	11.2	5.5	21.8	7.9	80.4
Sugar	0.4	1.5	1.5	-2.6	3.3
Wheat	43.8	5.6	-8.7	30.7	107.8
Zinc	-25.8	6.7	-30.8	-12.7	-145.1

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

Industrial metal prices continue to decline in December

As illustrated in Table 2, industrial metal prices (copper, aluminum, lead, nickel, zinc, tin) continued to decline in December, falling 10% on a monthly basis. Declines were associated with rising returns and worries about falling world demand. Zinc and nickel were among the metals most affected in the second half of the year and a general decline across the metal sector took place in December relative to the previous month. **Aluminum** prices plunged 6.5% due to increasing Chinese production growth and net exports of metals, alloy and semi-manufactured products, as well as rising stocks.

Graph 9: Gold prices vs. net length, 2007-2008



Sources: CFTC and for prices (London fix gold prices).

Copper prices dropped 8.9% on rising stocks and uncertainties about further slow growth of global demand, especially outside China. **Lead prices fell 22%** owing to rising inventories and better expectations on the supply side. **Industrial metal prices opened the New Year in a positive way** supported by the weaker dollar. However, the outlook for the industrial metal markets over the coming months is mixed depending on the view assumed relative to the role of US demand growth and the impact of an US recession in 2008 and the ability of Chinese demand to balance this situation.

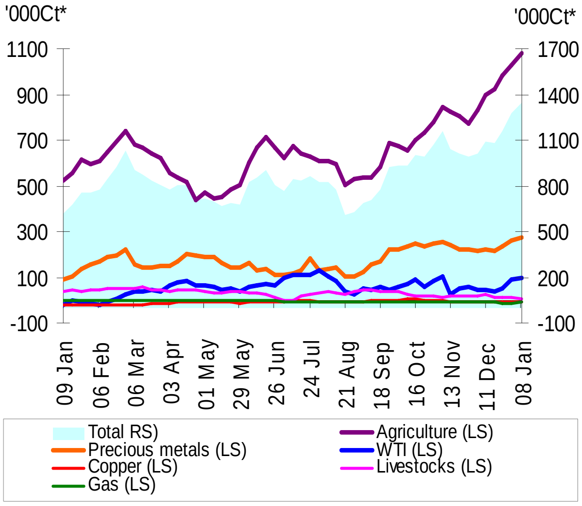
Record rise in net long positions for total commodities in week ending 31 December

Investment flow into commodities

There is an upward trend in commodity investments and it is estimated that its value increased by $40bn in 2007 to stand at $175bn. A look at **Graph 10** shows that the investment flow in terms of volume into commodities continued to grow in December over the previous month. A rise of 112,000 lots in futures net long positions in the major US commodity futures markets covered by the CFTC during the week-ending 31 December set an all-time value for total commodities at 1,275,000 lots. Except for the week-ending 18 December, the net inflows reported weekly increases during this month and continued rising until the first week of January 2008.

Gold net length as a percentage of open interest volume increased from 10.1% in the last week of November to 22% in December and to 31.4% in the final trading day of 2007. **Speculative investment in gold increased substantially in December** compared to November 2007 with net length going up by 1,758 contracts month on month. Despite a decline in the first week of January, net length is still high and positive as a result of the scaling up of gold prices, which traded at $914.40 an ounce on the London spot market on 14 January.

Graph 10: CFTC net inflow by commodity group, 2007-2008



Ct = *Each contract is 1,000 barrels.

In the case of industrial metals, the CFTC only publishes data on copper, and this commodity continues to be characterized by a bearish sentiment in the financial market (see *Graph 10*).

Finally, the expected interest rate cut by the US Federal Reserve is likely to encourage the inflow of investment into commodities given their higher relative returns compared to other assets.

Highlights of the World Economy

Economic growth rates 2007-2008, %							
	World	OECD	USA	Japan	Euro-zone	China	India
2007	5.3	2.7	2.3	2.0	2.6	11.5	8.5
2008	4.7	2.1	1.8	1.5	1.9	9.9	8.0

Industrialised countries

United States of America

With mounting evidence of a slowdown in US economic expansion at year-end, fears of a downright recession have multiplied

A spate of negative economic data for December has increased fears that the US economy will slide into recession in 2008. In particular, the unexpectedly sharp monthly increase of 0.3 percentage points in the unemployment rate, as well as the drop in manufacturing output, as seen from the drop in the PMI index for manufacturing below the 50 mark, have, in combination with deepening slump in housing, been interpreted by many observers as signs of an impending recession. The unemployment rate has risen from a historically low 4.4% in March 2006 to 5.0% in December 2007 and such a surge of more than 0.5 percentage points rise has been seen in the past as presaging recession, technically defined as two consecutive quarters of negative growth. In December, employers added only 18,000 workers, the lowest gain since 2004. However, seen over the whole year, the labour market has been relatively tight and caution is needed not to over interpret one month's extremely negative data. Nevertheless, the decline in manufacturing is an alarming signal in addition to the message from the Conference Board's index of leading economic indicators which continued to drop in December (by 0.2%) for the third consecutive month.

Moreover, the 0.4% drop in retail sales in December after a downwardly revised rise of 1% in November added fuel to the view that the risk to growth are intensifying, although the early Thanksgiving may have inflated the November figures at the cost of December sales. Retail sales account for around 50% of consumer expenditure, which in turn is responsible for more that 70% of GDP. The drop in the December sales was led by a large 2.9% decline in building-material stores, the biggest since February 2003, mirroring the housing sector recession. Sales of gasoline also fell reflecting a drop in prices — $3.01/gallon for regular gasoline versus 3.07/gallon in November. For all of 2007, retailers posted a 4.2% increase in sales which was the smallest rise in five years. In 2006, retail sales rose by 5.9%. On the other hand, the preliminary Reuters/University of Michigan index of consumer sentiment in January surprisingly climbed to 80.5 from December's 75.5 reading which was the lowest since 2005. The improved sentiment is attributed in part to lower gasoline prices.

However, many forecasters continue to see the US economy avoiding recession and growing in the first half of the year at very low rates to gradually recover in the second half of the year. The optimistic camp see the economy receiving further support from continued strong growth in exports, helped by the falling dollar, as well as further monetary easing. Moreover, the US administration proposed on 19 January a temporary fiscal stimulus package of up to $150 bn (around 1% of GDP) which would include corporate investment incentives and personal tax rebates expected to create about half a million new jobs. Such an initiative had been widely discussed and the principal has received Fed support. This would be over and above steps already envisaged to help homeowners avert foreclosure.

Headline consumer price index was 4.1% in December slightly lower than the 4.3% in November but core CPI, excluding food and energy rose to 2.4% from 2.3%. However, the Fed is worried enough about growth to temporarily ignore these inflationary signals. It has indicated readiness to respond aggressively to the deteriorating economic climate and it is now widely expected that the fed will cut the target federal funds rate by 0.5% end-January and may be follow with further easing in the coming months. The Fed's regional business survey "Beige Book" released mid-January confirmed that the economy had slowed down in late November and December, with districts reporting disappointing holiday sales.

The housing sector recession deepened. Housing starts fell 14% in December to an annual rate of 1.006 mn, the lowest level since 1991. For all of 2007, housing starts were down 25% over the previous year to 1.354 mn, registering the biggest decline since 1980. The beginning of construction on residential units is an important predictor of consumer purchasing on furniture and appliances. Moreover, building permits declined by 8.1%, bringing 2007's decline to 25%, the biggest since 1974 and indicating that future construction growth will be low. Moreover, the demand for housing may be depressed by the increasing difficulties faced in obtaining mortgages. The Fed has drawn attention to the mounting evidence of more restrictive lending practices by banks to households as well as firms.

The overall forecast for the US economic growth in 2008 has been revised down by 0.2 percentage points to 1.8%, with an expectation of little to no growth in the first quarter.

Japan

Japanese economic growth for 2008 revised down further on mounting evidence of consumer and business pessimism

The Japanese economy is set to slow down in 2008 as business sentiment, particularly that of small firms — which employ the bulk of the labour force (around 70%) — has deteriorated and consumer spending continues to be hampered by rising prices and stagnant wages. The prospects for exports have also been scaled down, on large part due to the economic slowdown in the US. The Economy Watchers survey diffusion index fell to 36.6 in December, the lowest level encountered since May 2003. All three components of the index — households, businesses and employment — deteriorated. The Nikkei 225 Stock Average tumbled 9.5% in the first 10 trading days of 2008. It increasingly appears that not only the US but also the Japanese economy is seen to be threatened by recession in 2008.

Both consumers and businesses are concerned about price increases from commodities including energy prices. A survey conducted by the Bank of Japan survey revealed that consumers in the last quarter of 2007 had became the most pessimistic about the economy since March 2003. Some 86% of respondents predicted prices would rise in 2008, the highest proportion since the central bank initiated surveys on inflation expectations in 1997. Moreover, the consumer confidence index, which measures sentiment of households of two people or more, fell to 38 in December from 39.8 in November, its lowest level in more than four years. A reading below 50 signals that pessimists outnumber optimists. This is seen as a signal that households may scale down spending as higher prices and falling wages erode spending power. Prices of more than half of the 523 goods in the consumer price index rose in November while wages stagnated. Revised Labor Ministry data show that wages gained 0.1% percent in November from a year earlier, after falling in the previous two months.

However, consumers’ perception of inflation is mush higher than reality. Consumers believe prices will rise by 7.3% in 2008. In contrast, most forecasters see that Japanese economy, which has long suffered from deflation, may experience only around 0.3-0.6% consumer price inflation in 2008. In November, the latest month for which figures are available, overall consumer prices fell by 0.2% from October but rose 0.6% from previous year. Fuel, light and water charges rose 0.9% on the month and 2.2% on the year. The December increase was only the second monthly rise in 2007. Consumer pessimism and lackluster demand may affect consumer behavior and hinder companies from passing on higher costs to consumers, a factor which is weighing on small firms and also affecting the ability to raise wages. Wholesale price inflation figures which accelerated in December and were higher than consumer price inflation confirm this view. Profits at small and midsized companies fell in the third quarter for the second time in five years. Moreover, bankruptcies rose to a four-year high in 2007 in part due to the housing slump and higher energy and raw materials costs. Small and midsized enterprises accounted for more than 99% of the national bankruptcy figures.

Meanwhile, machinery orders fell 1.7% in November m-o-m as companies cut spending in expectation that the US slowdown may spillover into Asia and hurt exports. Investment outlays were a main contributor to economic expansion in the previous fiscal year. Private sector orders, excluding volatile elements (ships and power), fell by 2.8% from 12.7% in the previous month. Although it is expected that prospects for exports will worsen, particularly due to the economic slowdown in the US, the current account surplus widened 2.1% in November with exports to China and other emerging markets compensating for slowing U.S. demand. China is now Japan's largest trading partner. Overall, Japanese economic growth was revised down 0.2 pp for 2008 to 1.5%.

Euro-zone

Euro-zone economy weakens further in but labour markets remain strong; ECB opts once more to keep interest rates on hold in December

Third quarter euro-zone economic growth was revised up to 0.8% from previous quarter or 2.7% from year ago, from an initial estimate of 0.7% quarterly growth or 2.5% y-o-y. However, recent indictors point to a slowdown in the fourth quarter and prospects for 2008 have declined. In particular, exports growth is threatened by an ever stronger euro. The single currency has risen 13% against the dollar in the last 12 months, reducing euro-zone competitiveness. However, on the positive side one notes the continued improvement in labour markets. The unemployment rate fell to 7.2% in November, the lowest since data were first collated in 1993.

Both the PMI manufacturing and non-manufacturing indices declined further in December but remained above the threshold 50 mark, indicating continued albeit slower economic expansion. The Royal Bank of Scotland Group Plc's manufacturing index fell slightly to 52.6 from 52.8 in November. The euro-zone service industries grew at the slowest pace in two and a half years in December, when the purchasing managers' index for services fell to 53.1, the lowest since June 2005, from 54.1 in November. Services growth moderated in France and fell sharply in Germany, to 51.2 from 53.1 in November, while in Italy sales were reported to have declined. The European Commission's economic sentiment index for the Euro-zone retreated to 104.7 in December, from 104.8 in November and from a peak of 112.1 in May. While both business and consumer sentiment have declined the overall index is still well above its long term average of 100.

Moreover, industrial production in the eurozone fell by 0.5% but rose 2.7% from previous year level. In Germany and France, year on year industrial production slowed sharply in November--to 3.5% and 2.5% from 6.4% and 4.2%, respectively. Other signs of weakness included the euro-zone retail sales in November, which contracted by 1.1% y-o-y, the largest decline for ten years. In Germany, sales fell even more- by 3.1% y-o-y, partly reflecting the previous year's VAT hike. Despite a further rise of 12.3% in the M3 money supply in November (y-o-y), used by the ECB as a gauge for inflation, and continued higher consumer prices—the CPI rose by 3.1% y-o-y in November and December, the highest rates in more than six years, and well above the target of 2%, the ECB left euro-zone interest rates unchanged at 4% at its meeting on December 10. Core inflation, excluding energy, food, alcohol and tobacco, was up 1.9% y-o-y in December. The central bank has postponed plans to raise interest rates since September after the collapse of the US subprime mortgage markets also had repercussions on European banks and credit markets. The ECB continued to inject large sums into the banking system in December in an attempt to ease liquidity. However, the ECB hinted that it would move on interest rates if an inflationary spiral where to materialise. The central bank is worried about the round of wage bargaining in France and Germany. For 2008, the ECB h raised its inflation forecast to about 2.5% from 2%. It is expected that euro-zone inflation will remain above 3% in the first quarter of 2008. Overall, our forecast 2008 for the Euro-zone growth has been revised down slightly to 1.9% in 2008.

Former Soviet Union

Russian inflation reported at 11.9% in 2007

The Federal State Statistics Service (Rosstat) in Russia reported early this month that inflation stood at 11.9% in 2007. Inflation reached 1.1% in December against 0.8% in the same month of 2006. Russia's core inflation amounted to 11% in 2007 and 0.9% in December 2007. Compared with the central bank's 7-8% target for 2007, inflation has risen to the mentioned levels mainly reflecting soaring food prices. Even excluding food prices, inflation exceeded the target while real wages continue to grow by about 20% at a time when productivity growth is slowing. Growth of money supply is fuelled by the Russian central bank's reluctance to allow the rouble to appreciate. Public spending according to the three-year budget for 2008-2010 is expected to increase over the next two years by 2½ percentage points of gross domestic product. On that basis, the International Monetary Fund estimates that Russia's budget, which was in surplus by more than 7% of GDP in 2006, will be approximately in balance by 2009.

Ukrainian economy grew by 7.3% y-o-y in first ten months of 2007

Over the first ten months of last year, the Ukrainian economy was expected to grow by 7.3% y-o-y; strong performance in domestic trade, manufacturing and transport compensated the shortfall in agriculture. Ukrainian economy's resilience to an energy price rise in 2006 and 2007 is a sign of a positive GDP growth in 2008. The benign external environment helped to achieve such growth (high world prices of steel and chemical products, robust growth in trading partner countries), buoyant consumption supported by loose income policy and a continuing credit boom, and a pass-through of rising energy prices to producers and consumers. The positive outlook is shaded by the surge of consumer inflation. CPI rose 14.8% y-o-y in October 2007.

Developing Countries

China's trade surplus narrowed for the second month as export growth slowed

China is targeting 8% economic growth in 2008, compared with an estimated 11.5% last year, and expects its tightening measures will finally start having an effect by the second half of the year. Inflation remains a major challenge, and Beijing will work to strictly control it this year. Last year the People's Bank of China raised interest rates six times and ordered banks to raise their reserves ten times, but inflation, investment, gross domestic product growth and the money supply all have kept rising rapidly. Furthermore, China's central bank said it will take more steps this year to cool inflation and prevent the world's fastest growing major economy from overheating. China's trade surplus narrowed for the second month as export growth slowed. The surplus for December shrank to $22.7 bn from $26.2 bn in November, the Chinese customs bureau reported. Exports grew at the slowest pace in two years, indicating that recent yuan gains, the cooling global expansion and cuts to export-tax rebates on polluting industries are affecting exports.

Indian imports were higher with non-oil imports outpacing oil imports

Industrial production in India slowed in November making it more likely that the central bank may soon end more than three years of interest rate increases. The Reserve Bank of India has raised interest rates nine times since 2004 and ordered commercial lenders to set aside more funds as reserves five times in the past year to contain inflation below its target of 5%. Continued rapid growth in India pushed domestic demand higher and is fuelling the rapid expansion in imports. Spending on non-oil imports has risen faster than spending on oil imports, which suggests that record-high oil prices are not the sole factor behind the burgeoning import bill. The stronger rupee has hit the competitiveness of Indian exporters, the local currency has risen by more than 15% against the US dollar since October 2006, and labour-intensive export-oriented industries such as textiles and handicrafts have been hit hardest. China has become India's biggest trade partner surpassing US; India-China bilateral trade reached $38.6 bn in the calendar year 2007. During this period, India-US bilateral trade was just $34.6 bn.

In 2007, inflation rose by 4.3% in Brazil and by 8.5% in Argentina

Latin America is expected to see another good year in terms of macro-economic stability. The GDP is set to grow at relatively high rate, while inflation remains at overall manageable levels. Latin America's inflation rate this year will be higher than the world average of 3.6%, the rates for the United States and the European Union and regions like developing Asia and Eastern Europe, but lower than in Africa and the Middle East. In its quarterly inflation report the Central Bank of Brazil expected the economy to expand by 5.2% in 2007. Brazilian GDP expanded by 5.7% in the third quarter from the same period of 2006. For 2008, the bank forecast GDP expansion of 4.5%. The report said faster economic expansion and a surge in consumer demand have increased inflation pressures and monetary policy needs to be particularly cautious to keep short-term price pressures from spreading. As a result, this could prompt the Brazilian central bank to maintain its benchmark "Selic" interest rate of 11.25% instead of lowering it in order to prevent the economy from overheating and causing more severe price hikes. The Selic was raised to 19.75% in mid-2005 to tame inflation, and the Central Bank then began lowering rates as the price increases eased. Successive rate reductions stopped in October, when the bank again started expressing concern about inflation. Argentina's official statistics agency INDEC reported that inflation in Argentina rose 8.5% in 2007. The economy is heading into its fifth straight year of growth, helped by a currency devaluation in 2002 that strengthened industries, making local goods cheaper in international markets. A drop in unemployment levels to a 15-year low has helped boost consumers' purchasing power, increasing demand for goods.

OPEC Member Countries

Strong growth for OPEC Member Countries but high inflation poses increased economic risks

All OPEC members grew at healthy rates in 2007. Inflation posed the major economic problem for most of them. The six Gulf Arab states are expected to sustain an economic boom on the back of robust oil prices, but the weak US dollar could pose inflationary and exchange rate pressures on the region, the Institute of International Finance (IIF) forecast in a recent report. Statistics released recently show that Saudi Arabia's inflation hit a new high in December, rising half a point on the previous month to 6.5%, driven by rising rent and food prices. The figures will add to pressure on the government to tackle rising prices and will keep alive the debate on whether the authorities will consider revaluing the riyal. Despite the fact that Angola's rate of inflation in 2007 totaled 11.78%, the lowest over the last 16 years, as Angola's National Statistics Institute (INE) announced, the accumulated inflation was still 1.78% points above the 10% projected in the Angolan State Budget for 2007, for the second consecutive year.

Oil prices, the US dollar and inflation

The US dollar staged a brief recovery in December before resuming its downward trend early 2008

The US dollar staged a temporary partial recovery against all major currencies in December. It appreciated most versus the pound sterling rising 2.5%, while gaining 1.3% versus the Swiss franc, 1.0% against the Japanese yen and 0.8% vis-à-vis the euro.

The dollar's breathing spell in December was based on the assumption that the Fed would not rush to lower interest rates again as inflation accelerated in the US. However, the recovery as short-lived. With increasing fears of a recession in the US, the prospects of a rate cut returned, and the dollar tumbled in the second week of January to near record lows versus the euro, while reaching 2 ½ year lows versus the yen and all time lows against the Swiss franc. By 15 January, the dollar had touched intra-day levels of ¥105.97/$, $1.4922/€ (slightly below the record low of $1.4967/€ in November) and an all-time low of Swiss Fr1.0838/$.

In December, the OPEC Reference Basket fell by $2.0/b or about 1.8% to $87.19/b from $88.99/b in November. In real terms (base June 2001=100), after accounting for inflation and currency fluctuations, the Basket price dropped $1.5/b or nearly 0.9% to $58.25/b from $59.14/b. The dollar appreciated by 0.7% as measured against the import-weighted modified Geneva I+US dollar basket, while inflation eroded the value of the barrel by 0.2%.*

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

World Oil Demand

World oil demand growth forecast at 1.2 mb/d or 1.4% in 2007 to average 85.77 mb/d

World oil demand in 2007

Cold weather is increasing oil demand in the Northern Hemisphere. Data show that temperatures in North America and Europe were colder than normal last December. Cold winter not only increased heating oil consumption but also boosted natural gas prices which, in turn, discouraged power plants from using gas as a fuel. However, the weather in the Pacific remained mild, causing low kerosene demand.

As for the whole year, non-OECD countries represent most of world oil demand growth; however, North America's oil demand inched up by around 1%. Transport fuel was hit by higher oil prices, especially in the OECD. Gasoline and diesel did not grow as was expected in 2007. World oil demand in the fourth quarter followed normally high winter seasonality, especially in the OECD; hence, winter product growth followed normal patterns.

Table 3: World oil demand forecast for 2007, mb/d

							Change 2007/06	
	2006	**1Q07**	**2Q07**	**3Q07**	**4Q07**	**2007**	**Volume**	**%**
North America	25.30	25.67	25.43	25.51	25.66	25.57	0.27	1.07
Western Europe	15.63	15.21	14.96	15.42	15.78	15.35	-0.28	-1.79
OECD Pacific	8.40	8.83	7.80	7.81	8.83	8.32	-0.09	-1.04
Total OECD	**49.33**	**49.71**	**48.19**	**48.75**	**50.27**	**49.23**	**-0.10**	**-0.20**
Other Asia	8.83	8.94	9.11	8.89	9.15	9.02	0.19	2.20
Latin America	5.26	5.22	5.38	5.56	5.48	5.41	0.16	2.98
Middle East	6.19	6.45	6.44	6.60	6.44	6.48	0.29	4.66
Africa	3.00	3.14	3.08	3.09	3.17	3.12	0.12	3.94
Total DCs	**23.28**	**23.75**	**24.01**	**24.15**	**24.24**	**24.04**	**0.76**	**3.25**
FSU	3.89	3.86	3.70	4.00	4.32	3.97	0.08	2.16
Other Europe	0.91	1.01	0.92	0.91	0.91	0.94	0.03	2.92
China	7.16	7.48	7.77	7.72	7.42	7.60	0.43	6.02
Total "Other Regions"	**11.96**	**12.35**	**12.39**	**12.62**	**12.65**	**12.50**	**0.54**	**4.53**
Total world	**84.57**	**85.80**	**84.59**	**85.52**	**87.16**	**85.77**	**1.20**	**1.42**
Previous estimate	84.53	85.81	84.59	85.47	87.07	85.74	1.20	1.42
Revision	0.04	-0.01	0.01	0.05	0.09	0.03	0.00	0.00

Totals may not add due to independent rounding.

Table 4: First and second quarter world oil demand comparison for 2007, mb/d

			Change 2007/06				Change 2007/06	
	1Q06	**1Q07**	**Volume**	**%**	**2Q06**	**2Q07**	**Volume**	**%**
North America	25.22	25.67	0.44	1.76	25.06	25.43	0.37	1.48
Western Europe	15.96	15.21	-0.74	-4.66	15.23	14.96	-0.27	-1.75
OECD Pacific	9.24	8.83	-0.42	-4.51	7.82	7.80	-0.02	-0.20
Total OECD	**50.43**	**49.71**	**-0.72**	**-1.42**	**48.11**	**48.19**	**0.09**	**0.18**
Other Asia	8.77	8.94	0.17	1.94	8.97	9.11	0.14	1.57
Latin America	5.07	5.22	0.16	3.07	5.24	5.38	0.14	2.71
Middle East	6.09	6.45	0.35	5.78	6.14	6.44	0.30	4.80
Africa	3.00	3.14	0.13	4.47	2.98	3.08	0.10	3.40
Total DCs	**22.94**	**23.75**	**0.81**	**3.54**	**23.33**	**24.01**	**0.68**	**2.91**
FSU	3.76	3.86	0.10	2.63	3.63	3.70	0.07	2.01
Other Europe	0.97	1.01	0.04	3.68	0.90	0.92	0.02	1.96
China	7.12	7.48	0.36	5.10	7.37	7.77	0.40	5.44
Total "Other Regions"	11.85	12.35	**0.50**	**4.20**	11.90	12.39	**0.49**	**4.13**
Total world	**85.21**	**85.80**	**0.59**	**0.70**	**83.33**	**84.59**	**1.26**	**1.51**

Totals may not add due to independent rounding.

Total world oil demand growth in the fourth quarter matched our previous forecast of 1.8 mb/d. **For the year**, **world oil demand growth is forecast at 1.2 mb/d or 1.4%.**

Table 5: Third and fourth quarter world oil demand comparison for 2007, mb/d

	3Q06	3Q07	Change 2007/06 Volume	Change 2007/06 %	4Q06	4Q07	Change 2007/06 Volume	Change 2007/06 %
North America	25.53	25.51	-0.02	-0.07	25.37	25.66	0.29	1.15
Western Europe	15.60	15.42	-0.18	-1.14	15.72	15.78	0.06	0.38
OECD Pacific	7.85	7.81	-0.04	-0.50	8.71	8.83	0.11	1.32
Total OECD	**48.99**	**48.75**	**-0.24**	**-0.48**	**49.80**	**50.27**	**0.47**	**0.94**
Other Asia	8.64	8.89	0.25	2.92	8.94	9.15	0.21	2.35
Latin America	5.38	5.56	0.18	3.32	5.33	5.48	0.15	2.84
Middle East	6.35	6.60	0.25	3.89	6.18	6.44	0.26	4.22
Africa	2.95	3.09	0.14	4.61	3.07	3.17	0.10	3.30
Total DCs	**23.33**	**24.15**	**0.81**	**3.49**	**23.52**	**24.24**	**0.72**	**3.08**
FSU	3.91	4.00	0.09	2.25	4.24	4.32	0.08	1.78
Other Europe	0.88	0.91	0.02	2.56	0.88	0.91	0.03	3.44
China	7.23	7.72	0.49	6.71	6.94	7.42	0.47	6.84
Total "Other Regions"	12.02	12.62	**0.60**	**4.95**	12.07	12.65	**0.58**	**4.81**
Total world	**84.34**	**85.52**	**1.17**	**1.39**	**85.39**	**87.16**	**1.77**	**2.07**

Totals may not add due to independent rounding.

OECD North America

Strong growth in North America pushed OECD fourth-quarter demand to 0.5 mb/d

Along with slow economic activities, high retail prices dented to some degree the y-o-y gasoline consumption growth in the US. However, some factors such as higher income, better fuel efficiency, and the dependence on private transportation for travel, eased the negative effect on total demand. Estimated gasoline growth for the year 2007 was 0.5%, far less than the average annual growth of 1.6%.

December was cold in the US, and heating oil and fuel oil boosted oil demand to show growth of 0.48 mb/d y-o-y. December gasoline demand came in flat as a result of not only low seasonality but also high retail prices. US fourth-quarter oil demand grew by a moderate 0.14 mb/d y-o-y. A strong decline in October neutralized US oil demand growth in the fourth quarter. Slow economic activities along with moderate transport fuel demand contributed to the weak oil demand growth in the US for 2007 which grew by only 0.18% y-o-y. Distillate fuel oil grew the most adding 79 tb/d to total US oil demand growth last year.

Mexican diesel and gasoline imports increased dramatically in November y-o-y. Rising domestic demand almost doubled gasoline imports in November y-o-y. November gasoline demand grew by 5.3% adding 39 tb/d y-o-y to average 0.78 mb/d. Strong transport demand boosted Mexican oil consumption by 67 tb/d y-o-y to average 1.8 mb/d.

North America's strong growth this winter pushed OECD fourth-quarter oil demand higher to show growth of 0.5 mb/d y-o-y to average 50.27 mb/d.

Table 6: Domestic Sales of Refined Petroleum Products in Mexico (tb/d)

	Nov 07	Oct 07	Nov 06	Change to Nov 06	Change to Nov 06 %
LPG	320	301	318	2	0.7
Gasoline	778	779	739	39	5.3
Jet Fuel	66	62	61	5	7.7
Diesel Oil	380	379	362	18	4.9
Fuel Oil	221	244	222	-1	-0.6
Other Products	76	80	71	5	6.9
Total Products	**1,841**	**1,844**	**1,774**	**67**	**3.8**

OECD Europe

Fourth-quarter demand growth in Europe to grow a slight 60 tb/d

Recent data regarding new car registration indicate that there was 1.1% y-o-y growth in new car sales during the first eleven months in Europe. The majority of these vehicles are diesel-powered. Diesel consumption is estimated to grow by 3% within the Continent in 2007.

Declining transport fuel usage caused Italian total oil demand to be in the red by 1.2% y-o-y in November. Gasoline has been on the decline not only in Italy but across Europe. For example, last October gasoline demand in Germany and UK declined by 0.41% and 9.92% respectively.

Given slow transport fuel demand, **OECD Europe fourth-quarter oil demand is forecast to grow by a minor 60 tb/d y-o-y.**

OECD Pacific

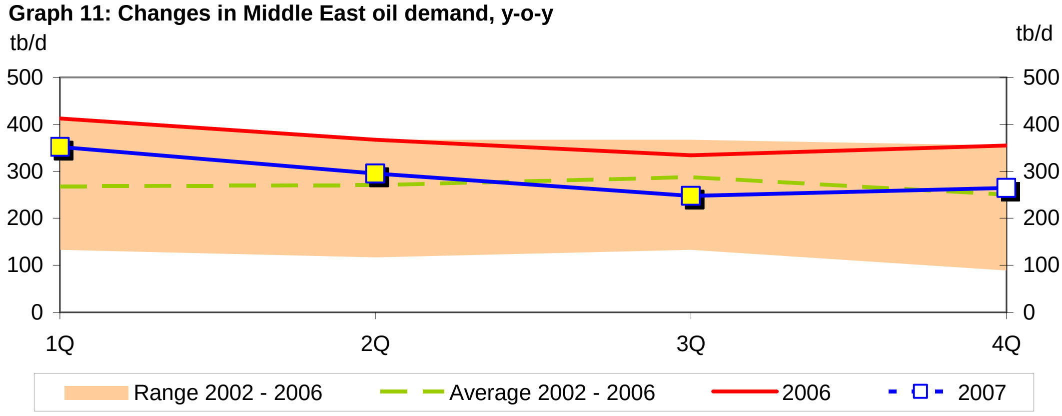
OECD Pacific increased 0.1 mb/d in 4Q07

The mild winter in Japan eased the demand for kerosene, which is normally used for heating. However, the strong 7% y-o-y hike in crude imports in November did end up supplying power plants with fuel oil to replace damaged nuclear facilities. Given the mild growth in both Japan and South Korea, **OECD Pacific fourth-quarter oil demand growth is forecast at 0.1 mb/d y-o-y**.

Alternative Fuels

High oil prices are helping the alternative fuel industry to become economically feasible and, in turn, reduced governmental subsidies. It has also solved the industry over-supply problem as demand increased in the fourth quarter. The rise in power generation fuel costs also helped renewable energy such as wind and solar to become more feasible to use. However, the biofuel industry is being struck by setbacks. Increasing biofuel production has caused food prices to accelerate and led to massive deforestation worldwide. It has also become questionable as to whether ethanol can be considered “green” since it may not cut carbon dioxide emissions as was believed. With the massive use of food crops for biofuel, along with water shortages, food price inflation has become a world-wide problem. During 2007, US producer prices for food increased more than 7%.

Graph 11: Changes in Middle East oil demand, y-o-y



Developing Countries

Demand in the developing countries to grow 0.8 mb/d in 2007

Strong economic activities have helped **India’s November oil demand to grow by 0.14 mb/d or 4.9% y-o-y to average 2.67 mb/d.** Transport fuel grew the most boosted by business travel, cargo and leisure. Furthermore, industrial and agricultural fuel usage were important factors for oil demand. Diesel and gasoline consumption growth added 72 tb/d and 23 tb/d to November demand respectively. Due to stronger-than-expected economic activities, oil demand was higher in the fourth quarter; hence, Other Asia fourth-quarter oil demand was revised up by 30 tb/d.

Given strong Indian oil demand, oil demand in Other Asia is forecast to reach 0.2 mb/d y-o-y in 2007.

Following an export tax increase last November, Argentina froze gasoline and diesel exports. This move came as a result of elevated domestic consumption caused by vacation travelers and by seasonal agricultural demand. Domestic petroleum product prices had been below international prices since the 2002 economic crisis, but they have increased in the past year. The government's recent move is aimed to restrain petroleum product price increases. Although the demand for electricity rose 5.5% last year, Argentina's recent policy was to reduce the electricity tariff in the first quarter.

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

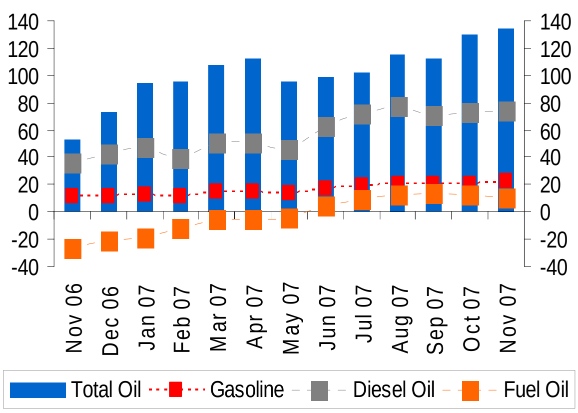


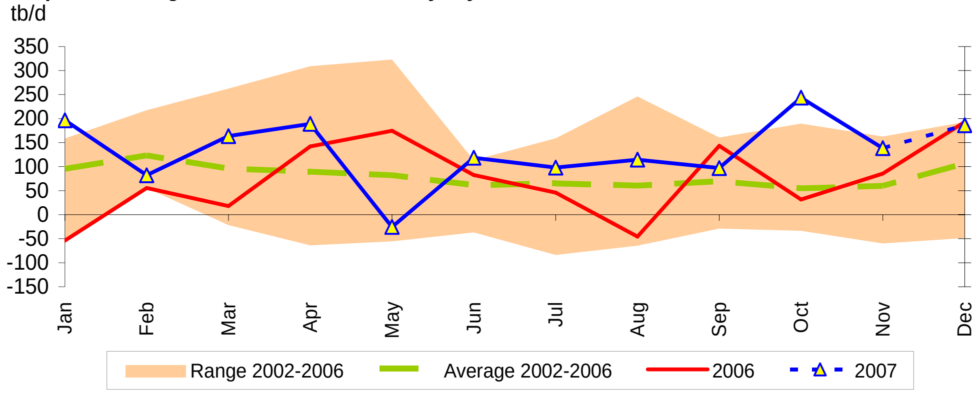
Table 7: Indian oil demand by main products, tb/d

	Nov 07	Oct 07	Jan 07 - Nov 07	Difference to Jan 06 - Nov 06	%
LPG	392	388	362	32	9.7
Motor Gasoline	229	234	232	23	11.2
Jet Kero	312	300	292	10	3.6
Gas Diesel Oil	1,039	898	966	72	8.0
Residual Fuel Oil	299	388	337	9	2.8
Other Products	398	493	540	-18	-3.2
Total Oil Demand	**2,670**	**2,700**	**2,729**	**129**	**4.9**

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

With the strong oil demand in the Middle East and India, Developing Countries' oil demand is estimated to contribute the most to total world oil demand growth in 2007, reaching growth of 0.76 mb/d to average 24.04 mb/d.

Graph 13: Changes in Indian oil demand, y-o-y

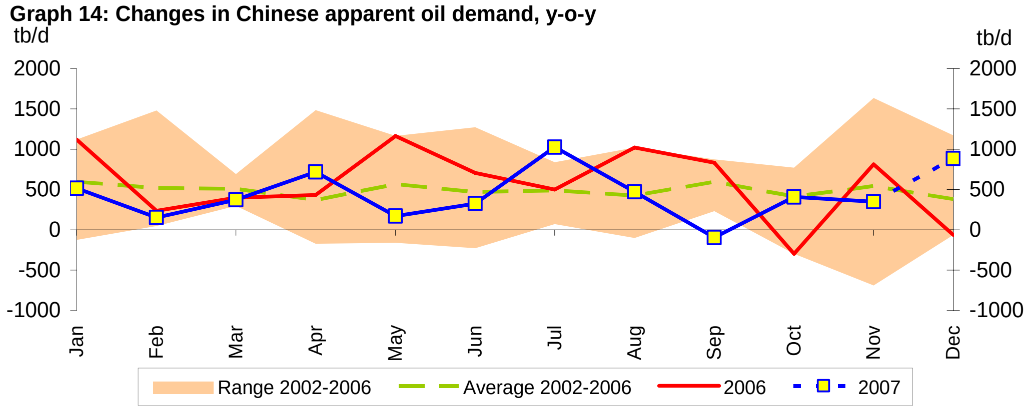


Other Regions

China demand up 0.5 mb/d in 4Q07

Transport fuel, which represents 30% of total China's oil demand, grew the most. Increased diesel demand in China caused shortages in some parts of the country, which led the government to suspend its diesel imports tax. This recent governmental move was aimed to cure the shortage of diesel by boosting imports. **China's apparent oil demand for the fourth quarter is expected to grow by 0.5 mb/d y-o-y to average 7.42 mb/d**. In November, oil demand grew by a moderate 0.35 mb/d or 4.7% to average 7.7 mb/d. In the first eleven months, oil demand rose 5.6%.

Russian economic activities are keeping oil demand healthy in the FSU. Fourth-quarter oil demand followed a high seasonal trend; hence the FSU's apparent oil demand is expected to grow by 0.07 mb/d y-o-y to average 4.32 mb/d.



World oil demand in 2008

World oil demand to grow 1.3 mb/d in 2008 to average 87.1 mb/d

World oil demand is forecast to grow by 1.3 mb/d in 2008 to average 87.07 mb/d, unchanged from our last *MOMR* estimate.

The effect of high oil prices on consumers might have a moderate impact in the short run, especially in the OECD. Hence, transport fuel consumption if not on the decline, will be flat. However, the same effect is diluted elsewhere especially in regions that represent a large share of world oil demand this year because of price subsidies that shield consumers, such as in China, India, and OPEC Member Countries. Furthermore, with the cold weather in the US pushing gas prices over $8.353/MMBtu, this will translate into more oil consumption for heating in the first quarter. Given the cold weather in the first quarter, **oil demand in North America is forecast to grow by 0.33 mb/d y-o-y in the first quarter of 2008 to average 26 mb/d.**

Having regulated petroleum product prices throughout 2007, **India** is on the verge of allowing retailers to hike retail prices to reduce the difference between domestic and international prices. However, the government is considering absorbing some of the cost via reducing sales duties.

Contrary to India, **China** is intending to curb its inflation via freezing energy prices at least in the short term. This move will maintain expected fuel consumption growth for the first half of 2008, which is estimated at 350 tb/d. In an effort to deflate the pressure on retailers, the government announced a reduction of import tax to 1% for 2008 and will halt diesel import taxes for the first quarter of 2008. In order to boost renewables, China inaugurated three hydroelectric power plants. However, due to the shortage of natural gas, the Chinese government is discouraging any new gas-operated plants.

Japan is increasing its nuclear power utilization after restoring units that were damaged by last July's earthquake. The Asian nation is also increasing the usage of thermal power plants. However, Japan is importing more oil-related fuel instead of the expensive LNG for its power plant operations.

Russia's recent announcement to increase the duties on its crude exports might lead to a mild increase in the FSU's apparent demand in the first quarter.

Strong winter oil demand in the OECD is expected to contribute to **world oil demand growth reaching 1.5 mb/d y-o-y in the first quarter of 2008**.

Table 8: World oil demand forecast for 2008, mb/d

	2007	1Q08	2Q08	3Q08	4Q08	2008	Change 2008/07 Volume	%
North America	25.57	26.00	25.60	25.63	26.04	25.82	0.25	0.98
Western Europe	15.35	15.36	14.91	15.35	15.92	15.39	0.04	0.26
OECD Pacific	8.32	8.89	7.68	7.65	8.86	8.27	-0.05	-0.56
Total OECD	**49.23**	**50.26**	**48.19**	**48.63**	**50.82**	**49.47**	**0.24**	**0.49**
Other Asia	9.02	9.07	9.24	9.06	9.30	9.17	0.15	1.62
Latin America	5.41	5.34	5.47	5.65	5.58	5.51	0.10	1.85
Middle East	6.48	6.71	6.72	6.88	6.71	6.76	0.27	4.24
Africa	3.12	3.19	3.13	3.16	3.23	3.18	0.06	1.81
Total DCs	**24.04**	**24.30**	**24.57**	**24.76**	**24.83**	**24.62**	**0.58**	**2.40**
FSU	3.97	3.91	3.76	4.05	4.37	4.02	0.05	1.38
Other Europe	0.94	1.04	0.96	0.93	0.93	0.96	0.03	2.90
China	7.60	7.82	8.13	8.20	7.84	8.00	0.40	5.27
Total "Other Regions"	**12.50**	**12.77**	**12.85**	**13.18**	**13.14**	**12.98**	**0.48**	**3.86**
Total world	**85.77**	**87.32**	**85.61**	**86.57**	**88.79**	**87.07**	**1.30**	**1.52**
Previous estimate	**85.74**	**87.36**	**85.62**	**86.54**	**88.70**	**87.06**	**1.32**	**1.54**
Revision	**0.03**	**-0.03**	**-0.01**	**0.03**	**0.09**	**0.02**	**-0.02**	**-0.02**

Totals may not add due to independent rounding.

Table 9: First and second quarter world oil demand comparison for 2008, mb/d

	1Q07	1Q08	Change 2008/07 Volume	%	2Q07	2Q08	Change 2008/07 Volume	%
North America	25.67	26.00	0.33	1.29	25.43	25.60	0.17	0.67
Western Europe	15.21	15.36	0.15	0.99	14.96	14.91	-0.05	-0.34
OECD Pacific	8.83	8.89	0.07	0.77	7.80	7.68	-0.12	-1.56
Total OECD	**49.71**	**50.26**	**0.55**	**1.10**	**48.19**	**48.19**	**0.00**	**-0.01**
Other Asia	8.94	9.07	0.13	1.40	9.11	9.24	0.14	1.48
Latin America	5.22	5.34	0.12	2.30	5.38	5.47	0.09	1.71
Middle East	6.45	6.71	0.26	4.03	6.44	6.72	0.28	4.35
Africa	3.14	3.19	0.05	1.59	3.08	3.13	0.05	1.62
Total DCs	**23.75**	**24.30**	**0.56**	**2.34**	**24.01**	**24.57**	**0.56**	**2.32**
FSU	3.86	3.91	0.05	1.31	3.70	3.76	0.06	1.62
Other Europe	1.01	1.04	0.03	2.98	0.92	0.96	0.04	4.35
China	7.48	7.82	0.34	4.55	7.77	8.13	0.36	4.64
Total "Other Regions"	**12.35**	**12.77**	**0.42**	**3.41**	**12.39**	**12.85**	**0.46**	**3.71**
Total world	**85.80**	**87.32**	**1.52**	**1.78**	**84.59**	**85.61**	**1.01**	**1.20**

Totals may not add due to independent rounding.

Table 10: Third and fourth quarter world oil demand comparison for 2008, mb/d

	3Q07	3Q08	Change 2008/07 Volume	%	4Q07	4Q08	Change 2008/07 Volume	%
North America	25.51	25.63	0.12	0.47	25.66	26.04	0.38	1.48
Western Europe	15.42	15.35	-0.08	-0.50	15.78	15.92	0.14	0.89
OECD Pacific	7.81	7.65	-0.16	-2.05	8.83	8.86	0.03	0.34
Total OECD	**48.75**	**48.63**	**-0.12**	**-0.24**	**50.27**	**50.82**	**0.55**	**1.09**
Other Asia	8.89	9.06	0.17	1.91	9.15	9.30	0.15	1.67
Latin America	5.56	5.65	0.09	1.62	5.48	5.58	0.10	1.82
Middle East	6.60	6.88	0.28	4.24	6.44	6.71	0.28	4.33
Africa	3.09	3.16	0.07	2.27	3.17	3.23	0.06	1.77
Total DCs	**24.15**	**24.76**	**0.61**	**2.53**	**24.24**	**24.83**	**0.59**	**2.43**
FSU	4.00	4.05	0.06	1.47	4.32	4.37	0.05	1.16
Other Europe	0.91	0.93	0.02	2.07	0.91	0.93	0.02	2.19
China	7.72	8.20	0.48	6.22	7.42	7.84	0.42	5.66
Total "Other Regions"	**12.62**	**13.18**	**0.56**	**4.42**	**12.65**	**13.14**	**0.49**	**3.87**
Total world	**85.52**	**86.57**	**1.05**	**1.23**	**87.16**	**88.79**	**1.63**	**1.87**

Totals may not add due to independent rounding.

World Oil Supply

In 2007, non-OPEC supply growth revised down slightly to 0.64 mb/d to average 49.6 mb/d

Non-OPEC

Forecast for 2007

Non-OPEC supply is estimated to increase by around 0.64 mb/d over the upwardly revised figure of 2006 to reach a level of 49.55 mb/d which represents a downward revision of 71 tb/d compared with last month's assessment. Downward revisions to Canada, Mexico, UK, Australia and Brazil were partially offset by minor upward revisions to other countries. The third and fourth quarters witnessed significant downward revisions of around 75 tb/d and 247 tb/d respectively, while the first and second quarters have been revised upward by 22 tb/d and 20 tb/d respectively. On a quarterly basis, non-OPEC supply now stands at 49.82 mb/d, 49.54 mb/d, 49.01 mb/d and 49.84 mb/d respectively. 2006 figures have been revised upward slightly by around 9 tb/d.

Graph 15: Regional Non-OPEC supply growth, y-o-y

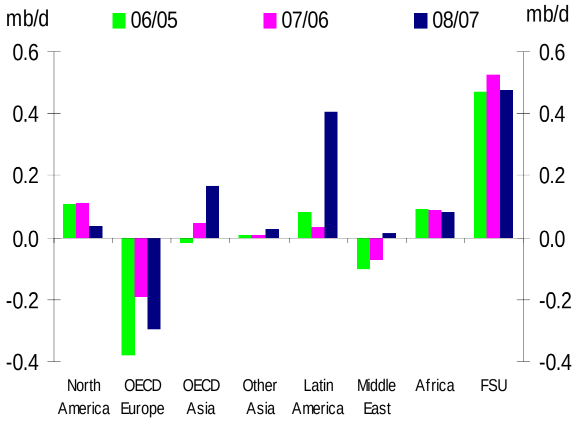


Table 11: Non-OPEC oil supply in 2007, mb/d

	2006	1Q07	2Q07	3Q07	4Q07	2007	Change 07/06
North America	14.24	14.38	14.45	14.23	14.36	14.36	0.11
Western Europe	5.38	5.52	5.19	4.91	5.15	5.19	-0.19
OECD Pacific	0.56	0.57	0.61	0.63	0.63	0.61	0.05
Total OECD	**20.19**	**20.47**	**20.25**	**19.76**	**20.15**	**20.16**	**-0.03**
Other Asia	2.72	2.72	2.70	2.72	2.75	2.73	0.00
Latin America	3.86	3.89	3.89	3.90	3.89	3.89	0.03
Middle East	1.76	1.70	1.69	1.68	1.69	1.69	-0.07
Africa	2.61	2.69	2.68	2.66	2.75	2.69	0.09
Total DCs	**10.95**	**10.99**	**10.96**	**10.96**	**11.08**	**11.00**	**0.05**
FSU	12.02	12.50	12.44	12.48	12.75	12.55	0.53
Other Europe	0.15	0.15	0.15	0.15	0.15	0.15	0.00
China	3.69	3.78	3.82	3.73	3.78	3.78	0.08
Total "Other regions"	**15.87**	**16.43**	**16.41**	**16.37**	**16.68**	**16.47**	**0.60**
Total Non-OPEC production	**47.01**	**47.90**	**47.62**	**47.09**	**47.91**	**47.63**	**0.62**
Processing gains	1.90	1.92	1.92	1.92	1.93	1.92	0.02
Total Non-OPEC supply	**48.91**	**49.82**	**49.54**	**49.01**	**49.84**	**49.55**	**0.64**
Previous estimate	48.90	49.79	49.52	49.08	50.08	49.62	0.72
Revision	0.01	0.02	0.02	-0.08	-0.25	-0.07	-0.08

North Sea dropped by another 0.2 mb/d

In 2007, the FSU region performed well especially Russia and Azerbaijan, followed by North America, Africa, China, Asia Pacific and Latin America. The FSU showed growth of 0.53 mb/d; Azerbaijan witnessed another year of strong performance with growth of around 0.24 mb/d, whilst Kazakhstan performed as in 2006 with modest growth of 60 tb/d. Russia's growth is estimated at 230 tb/d. Oil supply in the Latin American region was almost flat over 2006 as only Brazil witnessed a minor growth of around 50 tb/d while others remained flat or showed a drop compared with the previous year. North America's production increased by 110 tb/d driven by Canada and the USA, while Mexico's production dropped a significant 190 tb/d due to a steeper decline of Cantarell and bad weather. The African region increased by around 90 tb/d. Most of the increase came from Sudan. China showed a modest gain from expansions and new projects. In OECD Pacific, both Australia and New Zealand showed a modest rise over the 2006 level. Other Asia and the Middle East remained broadly flat. OECD Europe dropped 0.19 mb/d. The UK saw a decrease of 80 tb/d due to accidents, bad weather, field declines and maintenance despite the commissioning of the Buzzard field in the second half of 2007. Norway showed a loss of 220 tb/d due to field declines, heavy maintenance and unplanned shut-downs.

Revisions to the 2007 estimate

Significant downward revisions of 75 tb/d and 247 tb/d respectively have been made to the 3Q07 and 4Q07 estimates to reflect the most recent data. This has resulted in an overall downward revision of 71 tb/d from the annual 2007 average. The estimate for 4Q07 for the USA has been revised up by 43 tb/d while 3Q07 was revised down by 40 tb/d. In Canada the 4Q07 was revised down by 40 tb/d due to a fire in a syncrude upgrader. Mexico's production in October and November was lower than expected. For December some gains are expected. As a result the estimate for 4Q07 has been revised downward significantly by 110 tb/d. In the North Sea, UK oil production in the in the 3Q07 and 4Q07 was revised downward by 52 tb/d and 32 tb/d respectively. In Australia, technical issues and the early start of cyclone activity were behind the 4Q07 downward revision of around 65 tb/d. In Asia, a slight positive adjustment of 20 tb/d was made to the data of India for 4Q07. In Brazil, a significant downward revision of 109 tb/d was made to the 4Q07 estimate due to an adjustment to actual production figures and the maintenance of Albacora, Garoupa & Corvina in October and November. The 4Q07 estimate for Congo was revised up marginally.

Forecast for 2008

Non-OPEC supply growth in 2008 expected at 1.08 mb/d to average 50.63 mb/d

Non-OPEC supply is expected to average around 50.63 mb/d in 2008, an increase of 1.08 mb/d over the 2007 figure and a downward revision of 117 tb/d from last month's assessment. On a quarterly basis, non-OPEC supply is expected to average 50.61 mb/d, 50.21 mb/d, 50.22 mb/d and 51.45 mb/d respectively.

Table 12: Non-OPEC oil supply in 2008, mb/d

	2007	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07
North America	14.36	14.52	14.16	14.21	14.67	14.39	0.04
Western Europe	5.19	5.19	4.93	4.60	4.87	4.90	-0.29
OECD Pacific	0.61	0.67	0.73	0.81	0.89	0.78	0.17
Total OECD	**20.16**	**20.39**	**19.82**	**19.61**	**20.43**	**20.06**	**-0.09**
Other Asia	2.73	2.77	2.77	2.85	2.92	2.83	0.10
Latin America	3.89	4.19	4.26	4.35	4.39	4.30	0.41
Middle East	1.69	1.70	1.70	1.70	1.71	1.70	0.01
Africa	2.69	2.77	2.78	2.77	2.78	2.78	0.08
Total DCs	**11.00**	**11.43**	**11.51**	**11.67**	**11.81**	**11.61**	**0.61**
FSU	12.55	12.87	12.96	13.01	13.26	13.02	0.48
Other Europe	0.15	0.15	0.15	0.15	0.15	0.15	0.00
China	3.78	3.83	3.84	3.85	3.85	3.84	0.07
Total "Other regions"	**16.47**	**16.84**	**16.94**	**17.00**	**17.26**	**17.01**	**0.54**
Total Non-OPEC production	**47.63**	**48.66**	**48.27**	**48.28**	**49.50**	**48.68**	**1.06**
Processing gains	1.92	1.95	1.94	1.94	1.95	1.95	0.02
Total Non-OPEC supply	**49.55**	**50.61**	**50.21**	**50.22**	**51.45**	**50.63**	**1.08**
Previous estimate	49.62	50.69	50.30	50.35	51.62	50.74	1.12
Revision	-0.07	-0.08	-0.09	-0.13	-0.17	-0.12	-0.05

OECD

Total OECD forecast to decline by 92 tb/d

Total OECD oil supply is expected to reach 20.06 mb/d in 2008, a drop of around 90 tb/d below 2007. On a quarterly basis, OECD oil supply is expected to average 20.39 mb/d, 19.82 mb/d, 19.61 mb/d and 20.43 mb/d respectively. Preliminary data for December put total OECD at around 20.31 mb/d.

USA

North America is estimated to stay almost flat in 2008

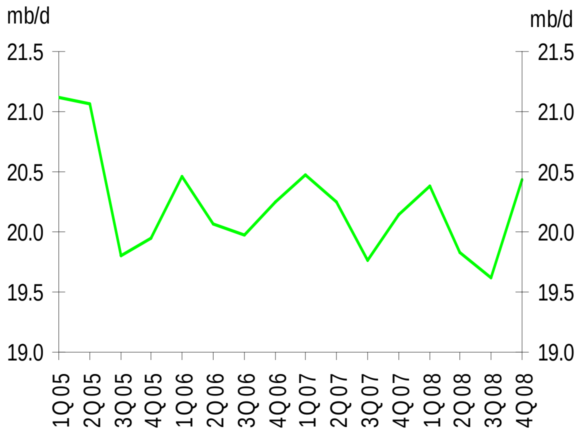
In 2008, oil supply in the USA is expected to reach a level of around 7.65 mb/d representing growth of 159 tb/d over 2007 and a downward revision of 44 tb/d from the last assessment. On a quarterly basis, it is expected at 7.62 mb/d, 7.58 mb/d, 7.59 mb/d and 7.81 mb/d respectively. Atlantis South, which has experienced many delays earlier, is now expected to be put onstream in 1Q08 and continue to ramp up during the year. The field is expected to peak at 200 tb/d during the first half of 2009. Neptune and Genghis Khan are expected to come onstream in 1Q08 and ramp up during the current year to hit 50 tb/d and reach their peak of 55 tb/d by the end of 2008. Blind Faith is also expected to start production in 2Q08 and ramp up during the year. Thunder Horse will start up by the end of 2008 and ramping up throughout 2009 to reach a peak of around 250 tb/d. Growth attributed to biofuels is expected at around 65 tb/d. The preliminary figure for US production stands at 7.55 mb/d.

Mexico and Canada

Syncrude Unit out in December due to a fire

Canada's oil supply for 2008 is expected to average 3.30 mb/d, an increase of around 28 tb/d over the 2007 figure and a minor upward revision of 3 tb/d. On a quarterly basis, Canada's supply is forecast at around 3.48 mb/d, 3.31 mb/d, 3.32 mb/d and 3.45 mb/d respectively. Fourth-quarter production was revised down by around 40 tb/d due to the outage of the Syncrude upgrader due to a fire. Projects which are expected to come on stream or continue to ramp up during the current year are Tucker, Long Lake Phase 1, Christina Lake 1A, Surmount Ph 1, Horizon Ph 1, Syncrude Ph IV, Conacher and the N. White Rose. December preliminary figure for Canada's oil supply estimated at 3.45 mb/d.

Graph 16: OECD's quarterly production



Weak performance in 4Q07 for Mexico due to bad weather

Oil supply from Mexico in 4Q07 has been revised down significantly by around 110 tb/d due to bad weather and weak performance. Part of this downward revision has been extended through 2008 and now stands at around 3.35 mb/d, representing a significant decline of around 150 tb/d compared with the 2007 annual figure. On a quarterly basis, output is forecast at 3.42 mb/d, 3.28 mb/d, 3.30 mb/d and 3.41 mb/d respectively. Most of the new streams are expected to start up in 4Q08 such as Poza Rica, Bellota Chinchorra, Jujo Tecomicoacan and parts of KMZ complex, while the giant Cantarell field is still witnessing a sharpening decline. Mexico's December oil supply is estimated at 3.53 mb/d and could be less if performance does not fully recover.

Western Europe

Western Europe estimated to decline a significant 295 tb/d

Oil supply in this group is expected to reach a level of around 4.90 mb/d in 2008 representing a decline of 295 tb/d from the 2007 figure and 13 tb/d below last month's assessment. The downward revision was totally contributed by the UK figure extended from the 4Q07 and partially offset by minor upward revisions in Norway and others in the group. On a quarterly basis, Western Europe is expected at 5.19 mb/d, 4.93 mb/d, 460 mb/d and 4.87 mb/d respectively.

Norway

Non-conventional oils softens Norway's crude production decline

Norway's production level remained unchanged from last month's assessment. Output is estimated to average 2.48 mb/d in 2008 which represents a decline of around 74 tb/d below the 2007 figure. On a quarterly basis, Norway's production is forecast at 2.61 mb/d, 2.46 mb/d, 2.33 mb/d and 2.53 mb/d respectively. The preliminary figure for December is 2.61 mb/d. Few projects are expected to come onstream (start-ups and ramping up) like Snøhvit, Alveheim, Ormen Lange and Yme. The new streams are expected to be totally offset by declines and maintenance. However, non-conventional oils may help to reduce the total decline.

UK supply is expected at 1.42 mb/d in 2008, a decline of around 212 tb/d from the previous year and 13 tb/d extended from 4Q07 compared with last month's assessment. Quarterly figures now stand at 1.57 mb/d, 1.45 mb/d, 1.29 mb/d and 1.35 mb/d respectively. The preliminary figure for UK's production in December is 1.51 mb/d. Two projects, Ettrick and Tweedsmuir, are expected to start up in 1Q08, while Jura and Cheviot are expected to come on stream in 2Q08 and 3Q08 respectively.

Asia Pacific

OECD Pacific estimated to grow by 166 tb/d

Oil supply in this group is expected to average 780 tb/d in 2008 which represents 166 tb/d over the 2007 figure and 18 tb/d less compared with last month's assessment. On a quarterly basis, output is expected to average 670 tb/d, 730 tb/d, 810 tb/d and 890 tb/d respectively.

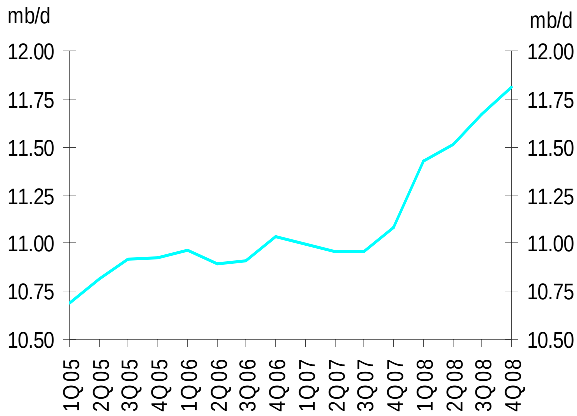
Australia is expected to produce 630 tb/d in 2008 which represents growth of around 101 tb/d over last year's figure and a downward revision of 28 tb/d from last month's assessment. Downward revisions of around 65 tb/d that were made to the fourth quarter partially extended throughout 2008. Early cyclone activity and technical problems were behind the revisions. The preliminary December figure for Australia's oil supply is 550 tb/d. Puffin Southwest and Puffin Northeast are expected to continue ramping up during 2008, while Enfield is expected to start ramping up in 1Q08. Montara and Vincent are expected to startup late in 4Q08. Stybarrow surprisingly reached its peak plateau of 80 tb/d by mid-January with a better-than-expected performance in late 4Q07.

New Zealand is expected to add 65 tb/d in 2008 to reach a level of around 150 tb/d. The Tui field reached its peak of 50 tb/d early this month which accounted for a minor ramp up in 1Q08. Maari and Kupe are expected to come on stream in 2Q08 and 4Q08.

Developing Countries

Oil supply in this group is expected to reach 11.61 mb/d in 2008 which represents growth of 607 tb/d over last years' figure and an upward revision of around 97 tb/d compared with last month's assessment. On a quarterly basis, DCs are expected to average 11.43 mb/d, 11.51 mb/d, 11.67 mb/d and 11.81 mb/d respectively.

Graph 17: Developing Countries' quarterly production



Other Asia group is expected to reach a level of 2.83 mb/d in 2008, representing growth of 102 tb/d over 2007 and an upward revision of around 44 tb/d from last month's assessment. On a quarterly basis, production is expected to average 2.77 mb/d, 2.77 mb/d, 2.85 mb/d and 2.92 mb/d respectively. India, Malaysia, Vietnam, Philippines and Thailand are expected to add some 22 tb/d, 28 tb/d, 27 tb/d and 26 tb/d respectively.

Latin American oil supply is expected to average 4.30 mb/d in 2008, a significant growth of around 406 tb/d over 2007 and an upward revision of around 28 tb/d compared with last month's assessment with a quarterly distribution of 4.19 mb/d, 4.26 mb/d, 4.35 mb/d and 4.39 mb/d respectively. Brazil is the major contributor with around 409 tb/d. Golfinho Mod 1 (Capixaba), Polvo, Roncador P52, Espadarte Module II, Jubarte Phase 1 P34, Golfinho Mod 2 (Cidade de Vitoria) and Roncador P54 will continue ramping up throughout 2008, while the new streams are expected to come from the Marlim Sul P51 Mod 2 and Frade fields in 2Q08 and 4Q08 respectively, in addition to some 46 tb/d from biofuels.

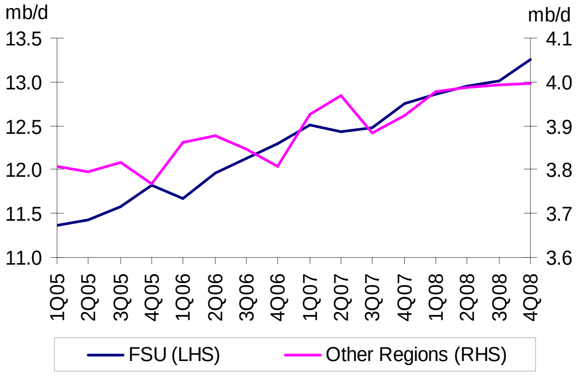
Africa is expected to average 2.78 mb/d in 2008 or growth of around 84 tb/d over the 2007 figure and an upward revision of around 12 tb/d from last month's assessment. On a quarterly basis, oil supply from this group is expected to average 2.77 mb/d, 2.78 mb/d, 2.77 mb/d and 2.78 mb/d respectively. Major contributors to the growth are Congo, Egypt, Equatorial Guinea and Gabon, while Sudan and South Africa may see some minor declines.

The **Middle East** is the only group which is expected to stay almost flat in 2008 compared with 2007. Production is expected to average 1.70 mb/d with a quarterly distribution of 1.70 mb/d, 1.70 mb/d, 1.71 mb/d and 1.70 mb/d respectively.

FSU, Other Regions

Oil supply in the FSU is expected to average 13.02 mb/d in 2008 which represents growth of around 0.48 mb/d over the 2007 figure and a downward revision of around 40 tb/d compared with last month's assessment. On a quarterly basis, oil supply in the FSU is expected to average 12.87 mb/d, 12.96 mb/d, 13.02 mb/d and 13.26 mb/d respectively. Other Europe is expected to stay flat in 2008 over 2007 at around 0.15 mb/d while China is expected to average 3.84 mb/d, representing growth of around 65 tb/d over 2007 and 9 tb/d over last month's assessment.

Graph 18: FSU and other region's quarterly production



Russia

Russian oil supply is expected to reach 10.06 mb/d in 2008 which represents growth of around 180 tb/d with a quarterly distribution of 9.98 mb/d, 10.01 mb/d, 10.07 mb/d and 10.16 mb/d respectively. Projects seen contributing to the y-o-y growth are Sakhalin II expansion, Uvat, Prirazlom, Yuzhno-Khylchuyskoye, Dicey, Khvalynskoye, Vankorskoye fields and Kharyaga Phase III. Some of these projects started last year and will be ramping up during 2008.

Caspian

Oil supply in **Kazakhstan** is expected to grow by around 90 tb/d in 2008 to reach around 1.45 mb/d, unchanged from last month's assessment, with a quarterly distribution of 1.42 mb/d, 1.44 mb/d, 1.41 mb/d and 1.53 mb/d respectively. Tengiz expansion SGP will continue its ramp up while the new stream is expected to come from Karazhanbasmunai late in 2008.

Oil supply in **Azerbaijan** is expected to grow by around 203 tb/d in 2008 to reach 1.09 mb/d in 2008, almost unchanged from last month's assessment. ACG phase II (East Azeri) will continue its ramp-up during 2008 while the ACG phase III (Gunseshli) is expected to start up in 2Q08 and continue ramping up in 2008.

China

Oil supply in China is expected to average 3.84 mb/d in 2008, representing growth of around 65 tb/d over the 2007 figure and an upward revision of 9 tb/d compared with last month's assessment. On a quarterly basis, China's oil supply is expected to average 3.83 mb/d, 3.84 mb/d, 3.85 mb/d and 3.85 mb/d respectively. Zhao Dong and PENGLAI 19/3 Phase 2 are ramping up throughout 2008 while the new stream will be from Bo Zhong 34-1 in 1Q08.

OPEC natural gas liquids and non-conventional oils

OPEC NGLs to average 4.93 mb/d in 2007

OPEC NGLs and non-conventional oils are expected to average 4.40 mb/d in 2007, an increase of around 0.34 mb/d over the previous year. The annual figure for 2008 is forecast to reach 4.93 mb/d, an increase of around 0.53 mb/d over 2007.

Table 13: OPEC NGL + non-conventional oils - 2005-2008

			Change						Change		Change
	2005	**2006**	06/05	1Q07	2Q07	3Q07	4Q07	**2007**	07/06	**2008**	08/07
Total OPEC	**4.08**	**4.06**	-0.02	4.22	4.35	4.40	4.62	**4.40**	0.34	**4.93**	0.53

OPEC crude oil production rose around 456 tb/d in December to 31.99 mb/d

OPEC crude oil production

Total crude oil production averaged 31.99 mb/d in December, an increase of around 456 tb/d from November according to secondary sources. OPEC production excluding Iraq averaged 29.66 mb/d, up by 453 tb/d from the November figure. There was a significant increase of 395 tb/d from the UAE due to the return of fields from maintenance. Production for 4Q07 averaged 31.70 mb/d and the annual figure for 2007 stands at 30.96 mb/d.

Table 14: OPEC crude oil production based on secondary sources, 1,000 b/d

	2006	2007	2Q07	3Q07	4Q07	Oct 07	Nov 07	Dec 07	*Dec/Nov*
Algeria	1,365	1,361	1,352	1,365	1,390	1,380	1,393	1,398	*4.7*
Angola	1,385	1,660	1,628	1,678	1,778	1,732	1,791	1,812	*21.2*
Ecuador	536	507	509	508	510	507	513	510	*-2.5*
Indonesia	895	844	844	836	841	837	840	847	*7.0*
Iran, I.R.	3,842	3,843	3,836	3,855	3,890	3,884	3,889	3,898	*8.8*
Iraq	1,932	2,083	2,021	2,107	2,309	2,279	2,323	2,325	*2.7*
Kuwait	2,520	2,467	2,432	2,467	2,521	2,486	2,530	2,547	*16.1*
Libya, S.P.A.J.	1,702	1,710	1,695	1,718	1,739	1,733	1,744	1,740	*-4.2*
Nigeria	2,235	2,127	2,040	2,154	2,164	2,135	2,183	2,175	*-8.3*
Qatar	821	808	794	814	831	819	834	839	*5.3*
Saudi Arabia	9,112	8,652	8,537	8,584	8,911	8,795	8,958	8,982	*23.6*
UAE	2,540	2,502	2,524	2,575	2,421	2,598	2,130	2,525	*395.0*
Venezuela	2,539	2,391	2,388	2,377	2,393	2,388	2,402	2,389	***-13.3***
Total OPEC	**31,425**	**30,955**	**30,601**	**31,039**	**31,698**	**31,573**	**31,530**	**31,986**	***456.1***
OPEC excl. Iraq	**29,493**	**28,871**	**28,580**	**28,932**	**29,390**	**29,294**	**29,208**	**29,661**	***453.4***

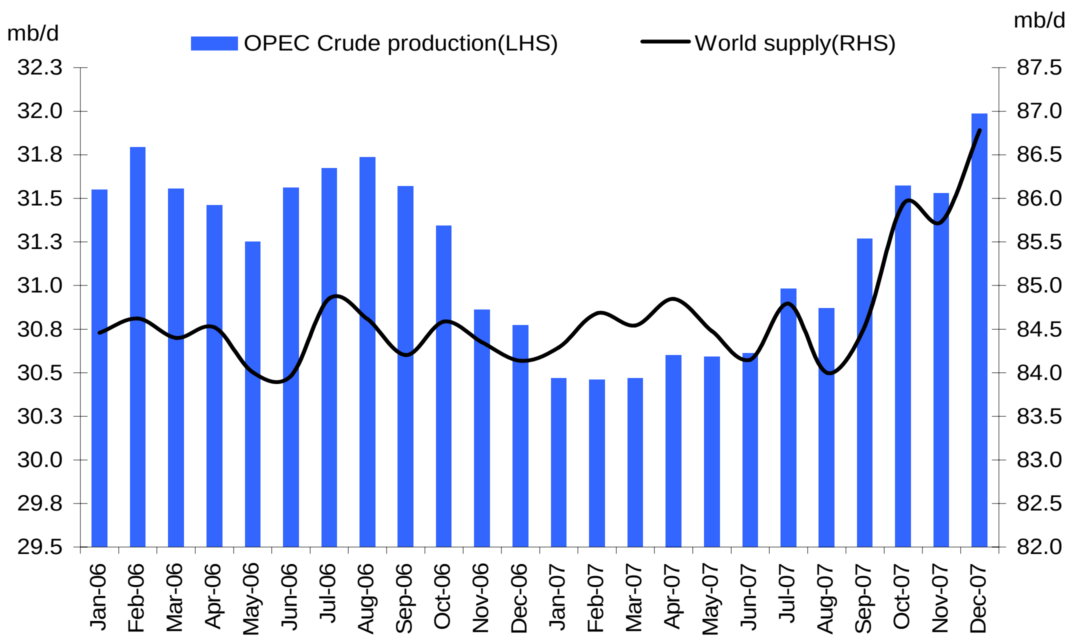
Totals may not add due to independent rounding.

World oil supply estimated at 86.72 mb/d in December for a gain of around 1 mb/d

World Oil Supply

Preliminary figures indicate that world oil supply averaged 86.78 mb/d in December, which represents an increase of around 1 mb/d over the previous month, with OPEC's crude share at around 36.9%. The estimate is based on preliminary data for non-OPEC supply, estimates for OPEC NGLs and OPEC crude production from secondary sources.

Graph 19: OPEC and World oil supply



FSU net oil exports in 2008 estimated to rise 420 tb/d to 8.99 mb/d

FSU net exports of crude and products

Total FSU net oil exports are estimated to average 8.57 mb/d in 2007, an increase of around 440 tb/d over the 2006 level. In 2008, total FSU exports are forecast to reach 8.99 mb/d, an increase of 420 tb/d over 2007.

Current trends

Actual figures for October indicate that total FSU crude exports averaged 6.15 mb/d. Preliminary figures for November put FSU crude exports at around 6.29 mb/d, a significant increase of 141 tb/d from the previous month. Russian pipeline exports in November declined by 237 tb/d, mainly from declines in the Baltic and Black Sea pipelines. Total Caspian routes also witnessed a significant increase of 378 tb/d in exported volumes.

Table 15: FSU estimated net oil exports (historical and forecast), mb/d

	1Q	2Q	3Q	4Q	Year	Growth (y-o-y)
2004	7.17	7.30	7.38	7.37	**7.31**	**0.82**
2005	7.45	7.69	7.76	7.85	**7.69**	**0.38**
2006	7.91	8.34	8.22	8.06	**8.13**	**0.44**
2007 (estimate)	**8.64**	**8.74**	**8.49**	**8.43**	**8.58**	**0.45**
2008 (forecast)	**8.95**	**9.19**	**8.95**	**8.89**	**9.00**	**0.42**

Table 16: Recent FSU exports of crude and products by source, mb/d

	2005	2006	1Q07	2Q07	3Q07	Oct 07	Nov 07*
Crude							
Russian pipeline							
Black Sea	1,335	1,288	1,420	1,398	1,332	1,395	1,298
Baltic	1,462	1,553	1,601	1,647	1,647	1,689	1,560
Druzhba	1,315	1,288	1,138	1,134	1,091	1,168	1,158
Total	**4,112**	**4,129**	**4,158**	**4,180**	**4,071**	**4,252**	**4,015**
Other routes							
Russian rail	416	313	336	255	266	297	300
Russian - Far East	65	84	245	231	246	255	301
Kazak rail	17	31	18	13	12	18	18
CPC pipeline	648	661	709	712	673	640	637
Caspian	**295**	**396**	**332**	**250**	**196**	**189**	**193**
of which							
Supsa (AIOC) - Georgia	137	114	2	0	0	0	0
Batumi - Georgia	140	177	187	140	105	106	101
Total**	**1,441**	**1,702**	**2,233**	**2,298**	**2,143**	**1,899**	**2,277**
Total crude exports	**5,553**	**5,831**	**6,392**	**6,478**	**6,214**	**6,151**	**6,292**
Products							
All routes							
Fuel oil	836	861	877	786	789	798	907
Gasoil	759	841	696	601	597	577	865
Others	575	662	602	671	676	661	808
Total	**2,170**	**2,386**	**2,175**	**2,058**	**2,062**	**2,036**	**2,579**
Total oil exports	**7,723**	**8,217**	**8,567**	**8,536**	**8,275**	**8,187**	**8,871**

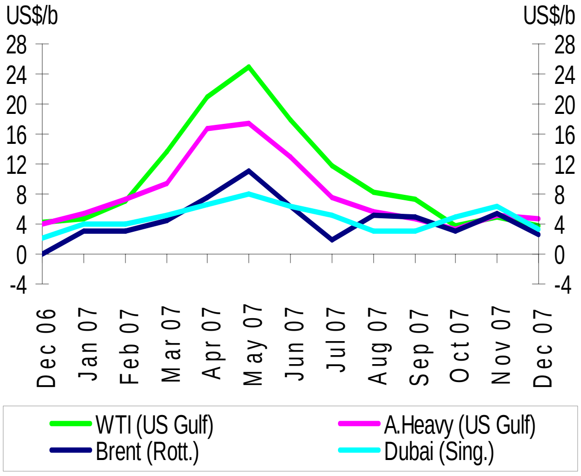
Source: Nefte Transport, Global Markets, Argus Fundamentals, Argus FSU, OPEC.
* *Preliminary.*
** *Total incl. BTC, Atasu-Alashankou and tanker shipments from Kaliningrad to Ventspils.*

Product Markets and Refinery Operations

Refinery margins declined across the board in December

A combination of higher global refinery operation rates and product output along with relatively lower seasonal demand, especially for middle distillates, eased the perception of product market tightness and had an adverse effect on the economic performance of refineries across the globe. Higher crude oil prices also contributed to the weak performance of the downstream in December. The continuation of the recent product stock-builds, especially in the Atlantic Basin, could trigger the bearish sentiment of both the physical and the futures markets, capping the upward momentum of crude prices. However, with the start of spring refinery maintenance, the current situation of the product market may change, supporting crude and product prices in the coming weeks.

Graph 20: Refiners' margins



As **Graph 20** shows, refinery margins for the WTI crude on the US Gulf Coast declined by $1.12/b to $3.73/b from $4.85/b in November. In Europe, the market followed suit and refinery margins for Brent crude oil at Rotterdam slid by $2.82/b, reaching $2.60/b from $5.42/b in the previous month.

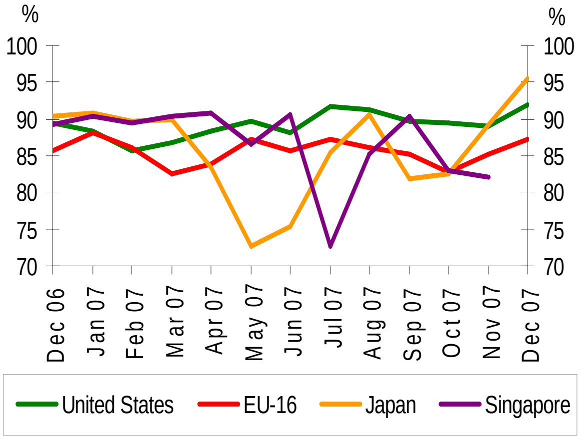
In Asia, mild weather in the north and higher imports of the bottom of the barrel components undermined the bullish market sentiment exerting significant pressure on refinery margins. As **Graph 20** shows, refinery margins for Dubai crude oil in the Singapore market plummeted by $3.11/b to $3.25/b in December from $6.36/b in the previous month.

Refinery operations

Refinery throughput surged in December

Historically, the fourth quarter used to be the most profitable quarter of the year for refiners, and refiners usually tried to maximize operations in this period. Due to the shifting demand pattern in the market and diminishing fuel oil consumption in the power generation sector, refinery economics and consequently operation rates were adversely affected in the fourth quarter. In 2007, due to planned and unplanned outages, refinery operations declined further, especially in the early part of the fourth quarter. Following the completion of the autumn maintenance schedule, unplanned outages were curtailed significantly leading to higher refinery operation rates across the board in the last month of 2007.

Graph 21: Refinery utilization



As Graph 21 shows, the refinery utilization rate in the US surged 2.8% compared to the previous month to reach 91.8% in December from 89% in November. In Europe, the refinery utilization rate rose by 1.9% to 87.2% from 85.3% in the previous month. In Asia, refiners followed the same trend, and the refinery operation level improved in most countries. In Japan, refinery utilization rates recorded 95.6% from 89.3% in November.

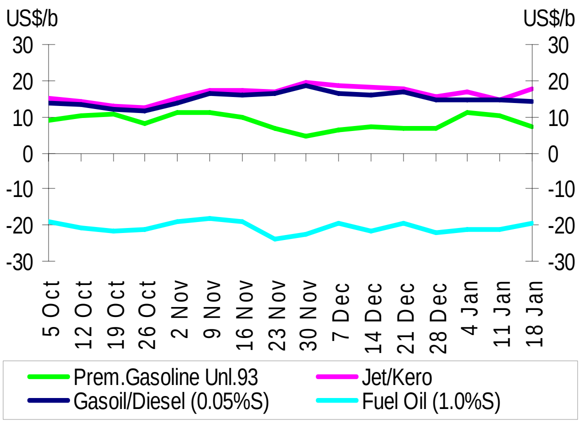
Falling refinery margins and higher product stock-builds, along with the scheduled spring refinery maintenance, may lead to lower refinery operation rates again in the near future.

US market

Gasoline stock-builds eased long-standing concerns about the gasoline supplies

A combination of imports, lower seasonal demand and higher domestic output boosted gasoline stock-builds in the US and exerted pressure on both the physical and the futures markets. Following these bearish developments, the gasoline crack spread versus WTI crude narrowed sharply (*see* Graph 22). Although this situation changed slightly in the first week of January, amid a huge inflow of funds into petroleum commodities lifting the gasoline crack spread to above $11/b in the week ending 4 January, the continuation of gasoline stock-builds may lead to another technical sell-off in the futures market, placing pressure on both the gasoline and the crude market.

Graph 22: US Gulf crack spread vs. WTI, 2007-2008



The middle distillate market in the US was mixed: While weather-related demand for heating oil was strong, demand for diesel — which represents the major part of the distillate component — was relatively weak due to slower economic growth, which put more pressure on the physical gasoil prices versus the futures prices. These circumstances led to a counter-seasonal stock-build for middle distillates. The return of milder weather to the US North-East may undermine heating oil prices as well, causing the gasoil crack spread against WTI crude oil to deteriorate further (***see* Graph 22**). However, the major part of the winter season is not yet over, and the risk of cold weather still persists and is likely to remain a supportive factor for the market.

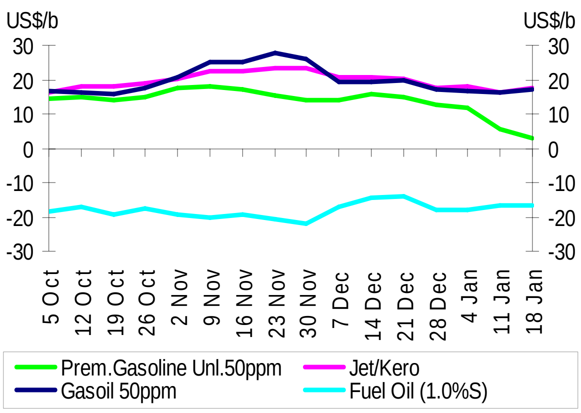
US fuel oil market circumstances improved early in December amid a cold snap, higher utility demand and stock-draws, but this situation switched recently due to higher domestic output and increasing imports. Looking forward, fuel oil fundamentals appear to loosen slightly in the future due to current warmer weather in the North-East and huge availability of relatively cheaper natural gas.

European market

European product market lost further ground in December

Following the sharp jump in crude oil prices, product prices also surged in Europe over the last couple of weeks. But due to mild weather, lower seasonal demand for distillates and higher regional output, they could not compensate for the rise in the crude costs, which eroded part of the refinery economics in the region.

Graph 23: Rotterdam crack spreads vs. Brent, 2007-2008



These bearish developments resulted in higher stocks of light products and narrowed the low sulphur gasoil crack spread against Brent to around $17/b from about $24/b in the previous month. The jet/kero market sentiment also loosened compared to the previous month. However, despite improving primary and secondary stock levels, tertiary stock levels in Europe are still low and cold weather could potentially provide some support for the middle barrel complex in the future.

Higher regional outputs also fundamentally altered the gasoline market sentiment, and gasoline stocks surged. Export opportunity to the US mitigated the negative impact of the higher regional output, but the continuation of stock-building may further cut the gasoline crack spread against Brent crude oil at Rotterdam which fell below $12/b on 4 January from above $14/b in the November. Despite the bearish momentum in the gasoline market, the European naphtha market remained relatively strong because of higher demand from the regional petrochemical units and arbitrage opportunities to Asia.

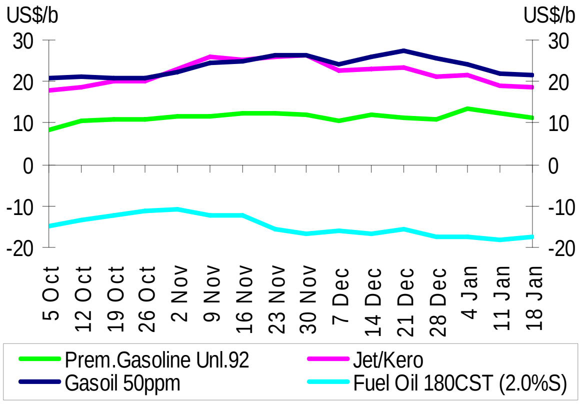
With regard to the bottom of the barrel complex, European fuel oil prices surged in December due to higher inland demand for low sulphur grades which narrowed the fuel oil spread versus Brent crude oil over the same month. However, higher local refinery throughputs and healthy Russian exports will continue to boost supply, switching the current sentiment of the fuel oil market and widen its discounted level against crude prices again in the coming months *(see* **Graph 23**).

Asian market

Asian refinery economics plummeted in December

Mild weather in North Asia, along with declining arbitrage opportunities for middle distillates, overshadowed the higher demand from China and Vietnam weakening the bullish developments of the middle of the barrel components which drove the Asian market over the last few months. These circumstances led to lower crack spreads especially for jet/kero which reached around $21/b at the end of December from above $26/b over the same period of the previous month (***see* Graph 24**). The gasoil market also lost its previous momentum and its spread is expected to narrow further in the coming weeks**.**

Graph 24: Singapore crack spreads vs. Dubai, 2007-2008



The light distillate market in Asia, particularly for naphtha, remains strong due to lower exports from India, and current circumstances may prevail in the near future. The performance of the gasoline market was also good due to higher demand from China and Vietnam and its crack spread rose to over $13.50/b in early January from about $10.60/b in early December.

The fuel oil market in Asia continued its previous poor achievement amid weak regional demand and the arrival of huge arbitrage cargoes from the West. These conditions widened the large sulphur fuel oil discount versus Dubai crude to minus $17.50/b from about minus $16/b in November.

Table 17: Refined product prices, US$/b

		Oct 07	Nov 07	Dec 07	Change Dec/Nov
US Gulf (Cargoes):					
Naphtha		87.60	97.14	92.43	-4.71
Premium gasoline	*(unleaded 93)*	95.62	103.31	98.93	-4.38
Regular gasoline	*(unleaded 87)*	89.41	99.30	95.37	-3.93
Jet/Kerosene		99.72	112.30	109.42	-2.88
Gasoil	*(0.05% S)*	98.72	111.40	107.54	-3.86
Fuel oil	*(1.0% S)*	65.35	74.10	70.83	-3.27
Fuel oil	*(3.0% S)*	63.68	72.17	68.13	-4.04
Rotterdam (Barges FoB):					
Naphtha		97.94	108.46	110.06	1.60
Premium gasoline	*(unleaded 50 ppm)*	97.25	109.03	105.68	-3.35
Premium gasoline	*(unleaded 95)*	86.50	97.05	94.05	-3.00
Jet/Kerosene		100.40	115.45	111.11	-4.34
Gasoil/Diesel	*(50 ppm)*	99.44	118.34	109.94	-8.40
Fuel oil	*(1.0% S)*	64.34	72.16	75.17	3.01
Fuel oil	*(3.5% S)*	62.26	70.61	66.06	-4.55
Mediterranean (Cargoes):					
Naphtha		82.97	90.71	92.01	1.30
Premium gasoline	*(50 ppm)*	96.73	109.76	106.35	-3.41
Jet/Kerosene		99.00	112.90	108.18	-4.72
Gasoil/Diesel	*(50 ppm)*	99.29	117.22	111.52	-5.70
Fuel oil	*(1.0% S)*	64.04	74.37	73.12	-1.25
Fuel oil	*(3.5% S)*	62.37	70.01	65.28	-4.73
Singapore (Cargoes):					
Naphtha		81.18	91.38	92.24	0.86
Premium gasoline	*(unleaded 95)*	88.71	100.29	98.38	-1.91
Regular gasoline	*(unleaded 92)*	87.46	98.94	97.09	-1.85
Jet/Kerosene		96.62	112.77	108.31	-4.46
Gasoil/Diesel	*(50 ppm)*	98.11	112.26	111.33	-0.93
Fuel oil	*(180 cst 2.0% S)*	65.70	74.21	70.37	-3.84
Fuel oil	*(380 cst 3.5% S)*	65.67	73.95	70.89	-3.06

Table 18: Refinery operations in selected OECD countries

	Refinery throughput *mb/d*				Refinery utilization *%*			
	Oct 07	Nov 07	Dec 07	Dec/Nov	Oct 07	Nov 07	Dec 07	Dec/Nov
USA	15.45	15.37	15.86	0.49	89.4	89.0	91.8	2.80
France	1.45	1.75	1.72	-0.03	73.9	89.4	87.8	-1.60
Germany	2.19 R	2.17	2.28	0.11	90.6 R	89.6	94.5	4.90
Italy	1.81	1.92 R	1.84	-0.08	77.6	82.2 R	78.6	-3.60
UK	1.51 R	1.56	1.48	-0.08	79.9 R	82.5	78.6	-3.90
Eur-16	11.51 R	11.98 R	12.24	0.26	82.0	85.3 R	87.2	1.90
Japan	3.79	4.17	4.47	0.30	81.1	89.3	95.6	6.30

R — *Revised since last issue.*

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

The Tanker Market

OPEC spot fixtures were influenced by the holidays and declined on the back of high freight rates

OPEC spot fixtures declined in December after two consecutive months of increases. The decline of 22% — marking the lowest volume in 2007 — came as a result of fewer working days during the month in addition to high freight rates. Charterers were trying to postpone their booking as freight rates were on the rise. Global spot fixtures followed a similar pattern but with a decline of 23% from the previous month. Both Middle East spot fixtures to the East and West declined by 33% and 35% respectively from the previous month with Middle East to East fixtures marking the lowest level since December 2005. Limited availability played an important role in boosting spot freight rates where a considerable number of charterers adopted a “wait-and-see” approach. Additionally, the crude oil spill in South Korea had many active traders questioning the impact on single-hull positions in that region.

OPEC’s sailings increased in December by around 1% or 150,000 b/d from the previous month as the full extent of OPEC’s production increase of 500,000 b/d in November reached the market. Middle East sailings rose by a similar amount in December from the previous month, indicating a 7% increase on an annual basis bringing the annual average to 17.28 mb/d. Initial estimates indicate that US and Caribbean arrivals increased by 1% in December from the previous month despite a minor decline in US imports. The decrease, displaying a y-o-y decline of 9%, resulted in a stock decline at the end of 2007. Arrivals in North-West Europe indicated a decline of 2% while the Euromed region experienced a minor increase of 1% in December compared to the previous month.

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

	Oct 07	Nov 07	Dec 07	Change Dec/Nov
Spot Chartering				
All areas	19.48	21.39	16.42	-4.97
OPEC	12.61	14.93	11.67	-3.26
Middle East/east	5.92	6.42	4.28	-2.14
Middle East/west	0.93	2.10	1.37	-0.73
Sailings				
OPEC	23.14	23.30	23.45	0.15
Middle East	17.48	17.38	17.50	0.12
Arrivals				
US Gulf Coast, US East Coast, Caribbean	8.56	8.47	8.57	0.10
North West Europe	7.00	8.26	8.12	-0.13
Euromed	4.12	4.75	4.88	0.13

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

Crude oil spot freight rates surged in December on lack of tonnage

“Saving the Best for Last” perfectly describes the tanker freight market’s remarkable ending to 2007. Whether it was a way to improve the ailing annual average or just to close the books on good numbers, owners not only took the driver’s seat but also hit the acceleration in December. Spot freight rates for dirty tankers reached a three-year high, fueled by lack of VLCCs in the Middle East, which took market participants back to the good old days of 2004. Other factors helped facilitate the perfect environment for up-going rates.

The VLCC sector started December in the footsteps of the previous month with spot freight rates increasing, yet activities weakened. However, remaining December cargoes and the rush to close positions and start with January cargoes in a month with a smaller number of working days prevented the market from declining. Additionally, the peak of winter demand and the expectation that the activity level would pick up further supported the market at the start of December. By the second week of the month, owners took advantage of the tonnage shortage in the Middle East and took spot freight rates to new levels. The collision incident in South Korea supporting the double-hull VLCCs added further support. The market remained on a gradual increase through the end of the month, only slipping during the holiday period. On average, VLCC spot freight rates increased 114% in December from the previous month.

East of Suez VLCC long-haul freight rates from the Middle East to eastern destinations closed the month with an increase of 167% in December from the previous month. The lack of availability was spurred by the increase of fixtures to the West in the previous month, which kept tonnage out of the market for a longer period, supporting freight rates. Additionally, reduced speeds due to high bunker prices further limited availability. The rush to fix only double-hull VLCCs after the 60,000 barrels spill in South Korea also supported the market. December spot freight rates indicated an annual gain of 277% and helped the 2007 average to close the year at WS91, around 20% higher than the average at the end of November. From the Middle East to western destinations, spot freight rates increased 135% in December from the previous month, despite the low activity level. The full extent of OPEC's 500,000 b/d production increase in November also supported the tanker market. Additionally, the perception of strong winter demand as well as the tonnage shortage was among the main reasons for the rise. On an annual basis, Middle East spot freight rates to the West experienced an increase of 190%.

West of Suez VLCC followed the same track with similar sentiments. Spot freight rates on the West Africa to the East route increased 119% in December from the previous month. As available tonnage was higher than what was available in the Middle East, West African spot freight rates did not increase as much as in the Middle East. When compared to the same period last year, December spot freight rates from West Africa to the East indicated an increase of 116%.

Table 20: Spot tanker freight rates, Worldscale

	Size *1,000 DWT*	Oct 07	Nov 07	Dec 07	Change Dec/Nov
Crude					
Middle East/east	230-280	61	96	256	161
Middle East/west	270-285	47	73	171	98
West Africa/east	260	61	78	171	93
West Africa/US Gulf Coast	130-135	95	121	231	110
NW Europe/USEC - USGC	130-135	98	119	212	94
Indonesia/US West Coast	80-85	117	148	240	92
Caribbean/US East Coast	50-55	141	154	303	149
Mediterranean/Mediterranean	80-85	149	151	210	59
Mediterranean/North-West Europe	80-85	145	147	207	59
Products					
Middle East/east	30-35	158	171	244	74
Singapore/east	30-35	195	190	296	106
Caribbean/US Gulf Coast	38-40	186	223	264	41
NW Europe/USEC - USGC	33-37	194	236	226	-9
Mediterranean/Mediterranean	30-35	166	269	277	8
Mediterranean/North-West Europe	30-35	177	279	287	8

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

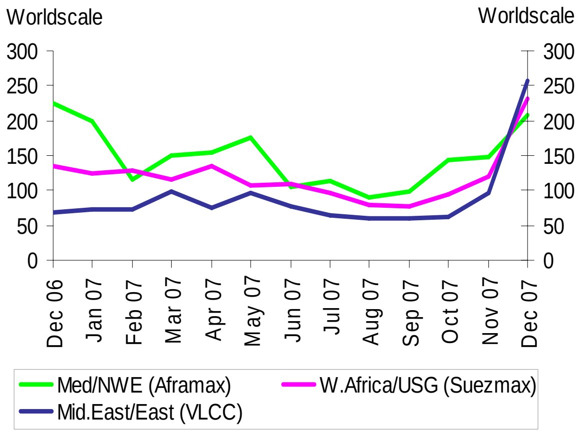
The same developments were evident in the Suezmax sector with spot freight rates increasing on average by 85% in December from a month earlier. For voyages from West Africa to the US Gulf, spot freight rates started the month on a high note. After that, limited availability pushed rates up further supported by an increase in the VLCC sector. The activity level also increased in the region prompting higher rates until the end of the month with the holidays affecting rates downward. However, spot freight rates from West Africa to the US closed the month with an increase of 91% from the previous month. Suezmax vessels trading on the North-West Europe/USA route saw a 79% increase in spot freight rates in December from the previous month earlier. The spillover effect from the VLCC sector as well as the good level of activities and limited availability supported freight rates. On an annual basis, Suezmax spot freight rates from North-West Europe increased by 70%, for an annual average of WS119.

The Aframax sector also benefited from the tonnage availability, rising by 60% on average in December supported by various delays. In the East of Suez, the only reported route experienced an increase of 62% in spot freight rates to mark the highest level since January 2006. The increase was partially due to limited availability and the VLCC effect, in addition to the fact that higher freight rates limited arbitrage opportunities to the region, increasing domestic activities which provided support for rates. On an annual basis, Aframax spot freight rates for the reported East of Suez route increased by 62%. In the West of Suez, Aframax spot freight rates increased by 97% in December for voyages upcoast from the Caribbean. The increase was due to delays caused by fog in the Houston ship channel, which helped limit availability, in addition to increased activity. In the Mediterranean, spot freight rates increased by 40% on average supported by the delays at the Turkish Strait which was estimated at 8-12 days for the round trip. On an annual basis, Aframax spot freight rates experienced the only decline in the dirty sector, dropping 7% on average.

Clean spot freight rates were supported by tonnage tightness in the East due to increased naphtha activities and bookings to China

The clean tanker market gained further ground in December on almost all reported routes except for the North-West Europe/USA route. On average, clean tanker spot freight rates increased by 20% in December. In the East, spot freight rates averaged 49% higher in December from the previous month. Tanker market developments had a major role in raising clean spot freight rates in December. Strong regional tonnage demand supported by diesel and other product demand in China, on the back of import tax cuts, was one of the factors sustaining market bullishness in December. Furthermore, healthy naphtha activity due to robust demand from petrochemical plants added to the bullish sentiment. Solid naphtha exports from India also supported the clean tanker market. Compared to the same period last year, East of Suez clean spot freight rates experienced an increase of 8% on average in December. Moreover, the holiday period towards the end of the month allowed clean spot freight rates to slip, as owners were rushing to employ their units over the holiday.

Graph 25: Monthly averages of crude oil spot freight rates



The clean tanker market in the West averaged only 5% higher in December compared to the previous month. On the North-West Europe/US route, clean spot freight rates registered the only decline, falling 4% in December compared to a month earlier. The closure of gasoline arbitrage to the US and the increase in US refinery utilization rates both had a bearish effect on spot freight rates. In the Caribbean, clean spot freight rates managed to close the month with a 19% increase despite weak tonnage demand. However, delays and charterers opting to close their positions before the holidays prevented rates from falling. On an annual basis, upcoast voyages from the Caribbean experienced an 8% decline in clean spot freight rates in December. From the Mediterranean — the only clean spot freight route with an annual gain in the West — rates increased 3% in December. Support came from arbitrage to the East as well as delays which kept the market in a tight position.

Oil Trade

OECD November crude oil imports increased by 0.94 mb/d while product imports fell 0.43 mb/d

OECD

According to estimated data, OECD crude oil imports increased 3% in November from the previous month. The increase came from Europe, US, Japan and South Korea on the back of increased or planned increases in refinery throughput. On an annual basis, OECD crude oil imports indicated a rise of 2%. Product imports, however, displayed a decline of 4% in November compared to the previous month. With higher product output supported by increased refinery runs, OECD product imports declined in the US and Europe, while Japan's product imports remained steady.

On the export side, OECD crude oil exports declined by 3% in November from the previous month, due to higher domestic consumption on the back of increased refinery utilization. However, OECD product exports rose by 6% in November supported by the increase in product output. On an annual basis, OECD product exports displayed a decline of 1.4% while total OECD exports indicated a 4% drop compared to the same period last year.

As a result of both imports and exports, OECD net crude oil imports rose 5% in November from the previous month supported by increased imports and declining exports. OECD net crude oil imports in November experienced a 5% increase compared to the same period last year. OECD net product imports declined 42% in November on the back of increased refinery throughput. Total OECD net oil imports gained 1% in November with the decline of the product net imports offsetting the increase in net crude oil imports. On an annual basis, OECD net oil imports indicated a 4% increase in November.

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

	Sep 07	Oct 07	Nov 07	Change Nov/Oct
Crude oil	24,018	23,412	24,542	1130
Total products	1,727	2,219	1,270	-948
Total crude and products	**25,746**	**25,631**	**25,812**	**181**

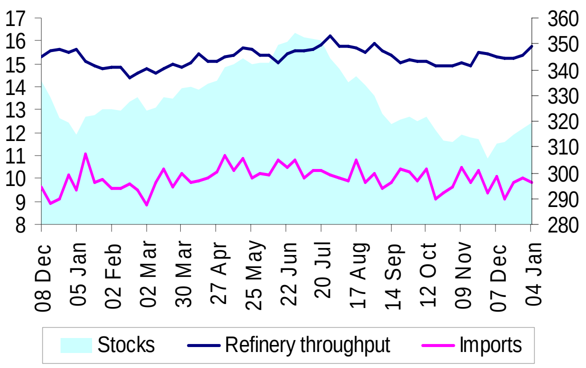
Saudi Arabia and Russia remained the largest suppliers of OECD crude oil in November with 14% and 13% respectively. Canada and Venezuela came next with 6% each, followed by Norway. For the top product suppliers, Russia and the Netherlands came first on the list with 11% each.

US net oil imports declined in December due to falling crude oil and product imports

USA

US crude oil imports decreased in December for the second consecutive month. The 2.5% decline was partially due to the decline in Mexico's production despite a rise in the refinery utilization rate. Additionally, the high freight rates also affected arbitrage opportunities to the US, coupled with backwardation in the forward market that did not favour more imports. December figures for US crude oil imports reduced the 2007 average to stand at 0.5% below 2006. US crude oil stocks declined as a result of increased refinery runs and declining imports.

Graph 26: US weekly crude oil stocks, refinery throughput and imports, 2006-2008



US December product imports stood 3% lower than in the previous month. The lack of arbitrage opportunities due to high freight rates negatively affected imports, as did higher refinery runs. US gasoline imports dropped 3% in December from the previous month supported by higher domestic production, despite the increase in demand. Kerosene imports experienced a 22% decline in December due to lower demand and 3% higher production. Distillate imports also fell by 13% which made stocks drop 4.2 mb at the end of December from the previous month. The increase of distillate production offset the increase in demand, hence the decline in imports directly affected stock positions. US fuel oil imports increased sharply by 30% in December from the previous month supporting the increase in demand. US exports remained relatively steady in December with a minor decline in product exports which decreased by 1.5% (20,000 b/d) from the previous month resulting in an annual average of 1.28 mb/d in 2007.

Accordingly, US net oil imports declined by 2.7% in December from the previous month. Both net crude oil and net product imports negatively influenced US total net oil imports with crude having more weight. However, on an annual basis, US net oil imports saw an increase of 2.5% in December with an annual average of 12.2 mb/d in 2007, 0.5% higher than the 2006 average.

Table 22: USA Crude and Product Net Imports/(Exports), tb/d

	Oct 07	Nov 07	Dec 07	Change Dec/Nov
Crude oil	9,642	9,974	9,719	-255
Total products	2,407	2,128	2,050	-78
Total crude and products	**12,049**	**12,102**	**11,769**	**-333**

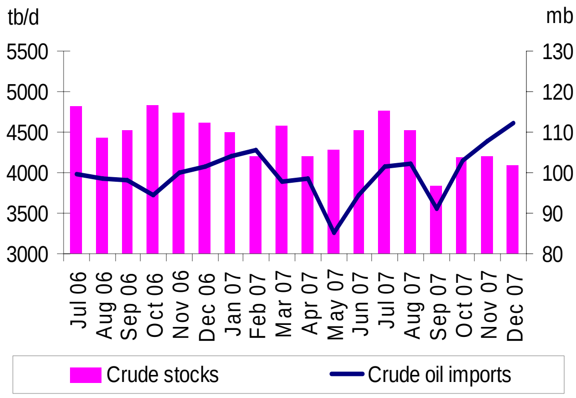
With 19%, Canada remained the US top crude oil supplier in October followed by Saudi Arabia with 14%, Mexico maintained the third position with less than 14% followed by Venezuela and Nigeria with around 12% each. OPEC Member Countries supplied 52% of US crude oil in October which was less than the 54% share in September. For products, Canada remained on top of the list with 16% in October followed by the Virgin Islands and Russia with 11% each.

Japan

Japan's crude oil imports increased in December due to higher refinery throughput

According to estimated data, Japan's crude oil imports increased by 5% in December from the previous month to reach the highest level so far in 2007. With the increase, Japan's average crude oil imports in 2007 remained steady compared to the 2006 average with a minor decline of 0.6%. The increase in crude oil imports came as refiners endeavoured to build product stocks with higher refinery utilization rates in December, as well as to meet the planned increase in throughput in the coming period. Japan's crude oil imports experienced a 13% increase compared to the same period last year, yet the low base of December 2006 can be attributed to the high annual rise. In terms of products, Japan imported 10% more products in December compared to the previous month. Winter demand as well as power generation and petrochemical requirements were among the reasons for the increase in product imports.

Graph 27: Japanese crude oil imports and crude stocks



On the export side, Japan's product exports increased sharply by 38% in December from a month earlier, according to estimated data. The increase came as a result of higher refinery runs. On average, Japan exported around 30% more products in 2007 than in 2006.

Japan's net oil imports increased in December by 3% to mark the highest level since January 2007. The rise came as a result of increased crude oil and product imports. The increase in product exports partially offset the gains, with Japan's net product imports declining by 80% in December from the previous month. On an annual basis, Japan's net oil imports rose 1% in December compared to a year earlier for an average of 4.11 mb/d, a decline of 6% below the previous year.

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

	Oct 07	Nov 07	Dec 07	Change Dec/Nov
Crude oil	4,157	4,382	4,618	236
Total products	70	145	30	-115
Total crude and products	**4,227**	**4,527**	**4,648**	**122**

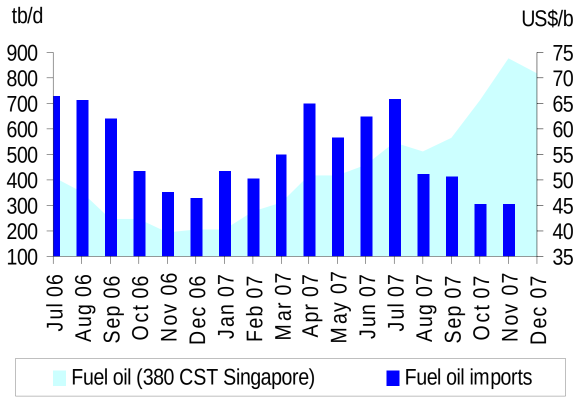
With 30%, Saudi Arabia maintained the top position of Japan's crude oil suppliers in November. The UAE came next with 18%, lower than the 25% in October, due to production maintenance. Iran, Qatar and Kuwait came next with 7-15%. OPEC Member Countries supplied 87% of Japan's crude oil in November. For products, Saudi Arabia was the top supplier with 19% followed by the UAE and Kuwait with 16% and 11% respectively.

China

China's crude oil imports increased on the back of higher refinery runs to meet local demand

China's crude oil imports increased 12% in November offsetting the previous month's decline. The rise was partially due to an increase in refinery throughput. The Chinese government asked refiners to boost their runs to overcome product shortages, and in some situations requested that refineries on turnaround resume operation. Additionally, the 10% increase in retail prices enforced by the government on 1 November made the rise in refinery runs more attractive. Furthermore, the decline in domestic crude oil production in November due to weather-related factors supported the increase in crude oil imports. On an annual basis, China's crude oil imports remained steady in November.

Graph 28: Chinese fuel oil imports and fuel oil prices



On the product side, China's imports remained relatively consistent in November from the previous month with a minor increase of 1%. China's fuel oil imports continued to decline, falling 8% from the previous month to reach an estimated five-year low. Higher refinery runs supported the decline in fuel oil imports as output increased since the weak bitumen market supported more fuel oil production and less bitumen. High international fuel oil prices also supported the decline in fuel oil imports by producing a sharply negative import margin forcing many users to substitute their requirements with other products.

China's gasoline imports remained relatively steady in November from the previous month as domestic output increased. Gasoil imports rose in November despite the higher local production as majors were opting to supply the domestic market. South Korea was on top of China's gasoil suppliers followed by Taiwan and Australia. Kerosene imports increased in November as output declined due to higher production of gasoline and gasoil.

On the export side, China exported less crude oil in November compared to the previous month due to lower domestic crude oil output as well as healthy local refinery demand. Product exports, on the other hand, increased in November by 22% (73,000 b/d) supported by higher refinery runs and strong international prices. Gasoline exports increased in November from the previous month, partially due to the low base in October. Additionally, high international prices supported the profitability of gasoline exports in November as well as increased output. Singapore was the main receiver of China's gasoline in November. Exports of naphtha and gasoil declined in November in order to meet local demand, while fuel oil exports increased to take advantage of the high international prices, in addition to increased output.

Accordingly, China's net oil imports increased by 10% in November, partially due to the low base in the previous month. China's net crude oil imports rose 14% in November supported by higher imports and lower exports, but showed only a 1% increase on an annual basis. Compared to the same period in the previous year, despite the monthly increase, China's net oil imports in November indicated a 3% decline. China's net product imports indicated a drop of 17% on a monthly basis.

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

	Sep 07	Oct 07	Nov 07	Change Nov/Oct
Crude oil	3,286	2,866	3,253	387
Total products	446	369	305	-64
Total crude and products	**3,732**	**3,235**	**3,557**	**322**

Angola took over the position of China's top crude oil supplier in November with 21%, followed by Saudi Arabia with 17%. Iran came third with 13% followed by Russia with 8%. OPEC Member Countries supplied 63.7% of China's crude oil in November.

India

India's net oil imports increased in November supported by lower product exports and higher product imports

India's crude oil imports decreased slightly in November partially offsetting the increase of the previous month. The minor 2.4% decline in crude oil imports in November compared to the previous month came on the back of slightly lower domestic sales. Additionally, high prices coupled with refinery shutdowns in November, as well as turnarounds planned for December, affected crude oil imports. On the other hand, India's product imports jumped in November to reach the highest level so far in 2007. The 33% increase in India's product imports in November from the previous month came on the back of lower refinery runs. The main driver of the increase in product imports in November was kerosene gaining 270% over the previous month. Other product imports remained steady to declining with diesel and naphtha imports experiencing the biggest drops in November from a month earlier.

In contrast, India's exports registered the lowest level since April 2007. The 14% decrease in product exports in November from the previous month came on the back of lower refinery runs as well as the need to cover domestic demand. The decline in product exports resulted mainly from a 20% slide of naphtha exports supported by lower imports and steady local demand. Exports of diesel, jet fuel and fuel oil also declined in November while gasoline exports rose from the previous month. Despite the decline, India's product exports indicated a 20% increase on an annual basis.

Table 25: India's Crude and Product Net Imports/(Exports), tb/d

	Sep 07	Oct 07	Nov 07	Change Nov/Oct
Crude oil	2,103	2,315	2,260	-55
Total products	-377	-497	-270	227
Total crude and products	**1,726**	**1,818**	**1,990**	**172**

As a result, India's net oil imports rose by 10% in November supported by the increase in net product imports. Net crude oil imports indicated a 2% decline but showed an annual gain of 22%. The decrease in product exports and the rise in product imports supported India's net oil imports which saw an annual increase of 25%.

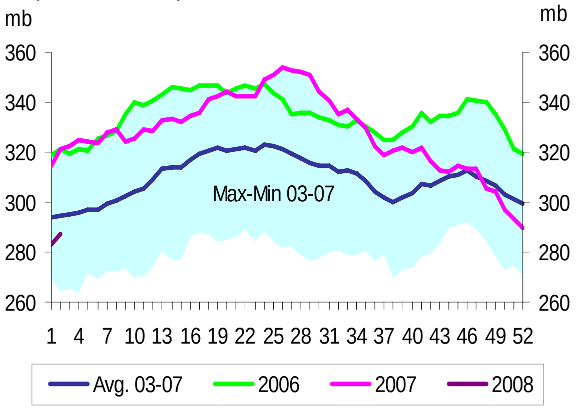
Stock Movements

US commercial stocks followed their year-end trend but fell below the five-year average

USA

US total commercial oil stocks dropped significantly in December to hit their lowest level in the last three years of nearly 970 mb. The draw of around 32 mb in December, the biggest in ten months, which is comparable to the typical draws seen at the end of the year, was largely motivated by tax considerations. Over the previous five years (2002-2006), the draw in December has always averaged around 30 mb or 4% except in 2004. In 2006, the draw was even higher at 40 mb.

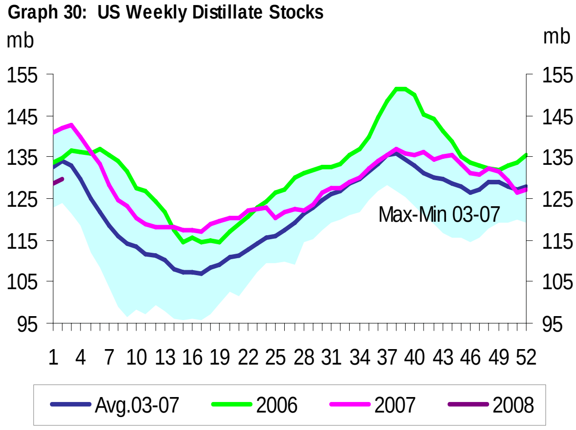
Graph 29: US Weekly Commercial Crude Oil Stocks



More than 60% of the draw, corresponding to almost 20 mb, was represented by crude oil stocks, which fell below 286 mb for the first time since the end of 2004. Crude oil inventories have followed a downward trend in the second half of 2007 after having reached their all-time high level of more than 354 mb in June (*see* **Graph 29**.). After a counter-seasonal draw of 13 mb in the third quarter of last year, the pace of the draw increased at the end of the year with the cumulative drop in the second half of 2007 reaching 70 mb compared with 25 mb in 2006 and 5 mb in 2005. At 285.7 mb, US crude oil stocks fell below the five-year average (for the first time this year), some 8 mb or 3% below compared with an overhang of 40 mb or 13% at the end of the first half of 2007. The decline of stocks below the five-year average translated also into the drop of the forward cover below the five-year average. By the end of the year, US commercial crude oil stocks represented 19 days of forward cover, half a day below the five-year average compared with a surplus of around 3 days at the end of June. The drop of some 0.62 mb/d in crude oil stocks in December was a result of a combination of the sharp decline in imports and the increase in refinery throughput.

Product stocks also declined in December but the picture was mixed across the components. Gasoline stocks rose a further 7.2 mb to 207.8 mb, the highest level since end-February but in line with the five-year average. The recovery in gasoline stocks was driven by higher output from refineries and lower seasonal demand. Despite the recovery, days of forward cover for gasoline stocks remained at less than half a day below the five-year average at the end of the year, compared to the two-day deficit seen during the high demand summer season. In contrast, due to strong demand spurred by cold weather, distillate inventories fell 4.2 mb, the biggest decline since February, to stand at nearly 128 mb, widening the deficit with the five-year average in terms of forward cover to almost two days (*see* **Graph 30).** On the other hand, residual fuel oil and jet fuel inventories continued to hover around 38 mb and 40 mb, respectively.

Graph 30: US Weekly Distillate Stocks



The Strategic Petroleum Reserve (SPR) continued its upward trend. With the build of 1.1 mb — the fifth in a row — US SPR reached almost 697 mb at the end of December, the second highest level after the record of 700.7 mb hit in August 2005. Despite criticism of efforts to boost SPR at a time when prices were approaching $100/b, the DOE has a plan to add 1.9 mb to the SPR as royalty-in-kind in January, around 1-1.4 mb between February and April, and then a further 3 mb in May and June to compensate for crude released in 2005, following hurricanes Katrina and Rita.

Table 26: US onland commercial petroleum stocks, mb

	Oct 07	Nov 07	Dec 07	Change Dec 07 /Nov 07	Dec 06	11 Jan 08 *
Crude oil	308.8	305.1	285.7	-19.4	312.3	287.1
Gasoline	196.4	200.6	207.8	7.2	211.8	215.3
Distillate fuel	133.9	132.2	128.0	-4.2	143.7	129.8
Residual fuel oil	38.8	38.2	38.3	0.1	42.4	37.9
Jet fuel	41.7	39.9	39.4	-0.5	39.1	40.1
Total	**1,012.4**	**1,001.8**	**969.9**	**-31.9**	**1,030.9**	**970.1**
SPR	694.1	695.4	696.5	1.1	688.6	698.1

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

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

The latest data for January show that US commercial oil stocks increased 3.6 mb in the week ending 11 January to stand above 970 mb but remained slightly below the five-year average. The build was attributed to both crude oil and products. Crude oil stocks jumped 4.3 mb after eight straight weekly draws. With this build, which was driven essentially by a sharp increase of 0.58 mb/d in imports, combined with a drop of 0.76 mb/d in crude runs, US commercial crude oil stocks stood above 287 mb and the deficit with the five-year average narrowed to 7 mb or 2% against 11 mb or 4% from the previous week.

Product inventories followed the same trend when gasoline stocks continued their upward trend that had started in November rising 2.2 mb to a comfortable level of 215.3 mb and moving above the five-year average. Distillate inventories increased 1.1 mb to nearly 130 mb, which corresponds to 4 mb or 3% below the five-year average. The build in heating oil stocks was driven by weaker demand due to the above-normal temperature in the US northeast. Within distillates, heating oil remained well below the five-year average while diesel inventories are at a very comfortable level.

On the other hand, the Strategic Petroleum Reserve (SPR) increased a further 1.6 mb to reach 698.1 mb, just 2 mb below its record of 700 mb of August 2005. However, the SPR is expected to hit again its all time-high very soon.

Western Europe

EU-16 oil stocks, driven by products, rose for the first time since August to move back above the five-year average while crude oil stocks, despite a marginal draw, remained at comfortable levels

In December total oil stocks in EU-16 (Eur-15 plus Norway) reversed their downward trend, increasing for the first time since last August to end the year at 1,115 mb or slightly above the five-year average. The build of 4.8 mb over November was attributed to products, which surged by 5.6 mb to stand at 636 mb but remained 10 mb below the five-year average compared with an overhang of more than 40 mb at the end of January 2007. The move from a significant overhang above the five-year average of product stocks from the beginning of the year to a deficit at the end of the year reflected the lower refinery utilization rate due either to planned maintenance or particularly unplanned shutdowns.

Table 27: Western Europe's oil stocks, mb

	Oct 07	Nov 07	Dec 07	Change Dec 07/Nov 07	Dec 06
Crude oil	479.0	480.1	479.3	-0.8	481.3
Mogas	123.4	122.5	124.4	1.9	138.8
Naphtha	26.4	28.2	29.0	0.9	30.1
Middle distillates	374.3	367.0	370.1	3.1	399.5
Fuel oils	113.0	112.7	112.4	-0.3	115.3
Total products	637.1	630.3	635.9	5.6	683.7
Total	**1,116.1**	**1,110.4**	**1,115.2**	**4.8**	**1,165.0**

Source: Argus, Euroilstock.

By product, distillate stocks led the build after a rise of 3.1 mb to 370 amid increasing refinery runs, which kept the surplus over the five-year average at around 6 mb for the third consecutive month against 56 mb at the end of the first quarter. In addition, imports from the US due to weaker diesel prices helped European distillate stocks to build. Following the same trend, gasoline stocks rose 1.9 mb to 124.4 mb, the highest level in the second half of the year, due to declining arbitrage opportunities to the US markets. However, despite the build, European gasoline stocks remained largely below the lower end of the five-year range and showed a deficit with the five-year average of 17 mb or 12% at the end of the year. It is worth mentioning that gasoline stocks hovered below the end of the five-year range throughout 2007. Residual fuel oil inventories continued their downward trend, inching down 0.3 mb to 112.4 mb, the lowest level since August, whereas naphtha stocks continued their upward trend on the back of oversupply and rose almost 1 mb to 29 mb, the highest level in the last ten months.

In contrast to products, crude oil inventories witnessed a minor draw of 0.8 mb in December, offsetting the build of the previous month. At 479.3 mb, EU-16 crude oil stocks remained comfortable as they were almost at the same level as a year earlier and 20 mb above the five-year average. The increase in refinery runs had a strong impact on crude oil stocks as arrivals of crude oil from Iraq increased. Additionally, closed transatlantic arbitrage contributed to the healthy situation of stocks in the region.

Japan

Japan's commercial crude oil stocks continued to recover in November but remained 5% below the five-year average

Japanese commercial oil stocks fell 1.3 mb in November to stand at 186.3 mb remaining below the five-year average for the third consecutive month, although the gap with the average is narrowing. The drop was attributed to product stocks which fell 1.7 mb while crude oil stocks rose higher.

Despite an increase in refinery runs, crude oil stocks continued to build to stand at around 104 mb, which corresponds to 0.3 mb over the previous month. At this level, crude oil inventories moved within the five-year range but remained at a deficit of 6 mb with the average compared to September when the gap with the five-year average hit 17 mb or 15%. The recovery in crude oil stocks was attributed to imports, which increased 2% from the previous month.

Despite a drop, total product stocks remained comfortable at a level slightly above the five-year average. However, by product, distillate and gasoline inventories remained below the five-year average. While gasoline stocks increased for the second consecutive month, due to lower demand, to stand at nearly 12 mb, distillate stocks fell for the third consecutive month due to higher demand to stand at 40 mb showing a deficit of 5 mb or 12% with the five-year average. The mixed trends of gasoline and distillate stocks are to some extent typical for this period of time when seasonal demand for distillates is higher due to cold weather whereas demand for gasoline is lower. Both residual fuel and naphtha stocks inched down around 0.7 mb each. Naphtha stocks moved down, despite increased production, due to a surge in demand. As a result of higher demand, residual fuel stocks declined for the third consecutive month to remain below last year's level while naphtha stocks were above the year-earlier level.

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

	Sep 07	Oct 07	Nov 07	Change Nov 07/Oct 07	Nov 06
Crude oil	96.6	103.7	104.1	0.3	114.9
Gasoline	11.2	11.7	11.9	0.2	13.6
Naphtha	11.9	13.0	12.4	-0.6	11.8
Middle distillates	42.6	40.3	39.8	-0.5	47.2
Residual fuel oil	20.3	18.8	18.1	-0.7	19.9
Total products	86.1	83.9	82.2	-1.7	92.5
Total**	**182.7**	**187.6**	**186.3**	**-1.3**	**207.4**

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

According to preliminary data from the Petroleum Association of Japan (PAJ), both crude oil and product inventories dropped in December with crude oil slipping below 100 mb again, the lowest level since the end of the third quarter, as a result of increasing refinery runs. On the product side, middle distillate and gasoline stocks continued their mixed trends with the former drawing down 2.5 mb and the latter increasing 1.1 mb.

Balance of Supply and Demand

Demand for OPEC crude in 2007 expected to increase by 224 tb/d over 2006 to average 31.82 mb/d

Estimate for 2007

The demand for OPEC crude in 2007 is estimated to average 31.82 mb/d, an increase of 224 tb/d over the 2006 figure. On a quarterly basis, demand for OPEC crude is expected to average 31.77 mb/d, 30.70 mb/d, 32.11 mb/d and 32.70 mb/d respectively.

Table 29: Summarized supply/demand balance for 2007, mb/d

	2006	1Q07	2Q07	3Q07	4Q07	2007
(a) World Oil Demand	**84.57**	**85.80**	**84.59**	**85.52**	**87.16**	**85.77**
Non-OPEC Supply	48.91	49.82	49.54	49.01	49.84	49.55
OPEC NGLs and non-conventionals	4.06	4.22	4.35	4.40	4.62	4.40
(b) Total Supply excluding OPEC Crude	**52.97**	**54.03**	**53.89**	**53.40**	**54.46**	**53.95**
Difference (a-b)	**31.60**	**31.77**	**30.70**	**32.11**	**32.70**	**31.82**
OPEC crude oil production (1)	31.42	30.47	30.60	31.04	31.70	30.95
Balance	-0.18	-1.30	-0.10	-1.07	-1.00	-0.87

(1) Selected secondary sources.
Totals may not add due to independent rounding.

Demand for OPEC crude in 2008 estimated to decline by 307 tb/d to average 31.52 mb/d

Forecast for 2008

Demand for OPEC crude in 2008 is expected to average 31.52 mb/d, a decline of around 307 tb/d compared with the 2007 figure. On a quarterly basis, demand for OPEC crude is expected to average 31.99 mb/d, 30.54 mb/d, 31.38 mb/d and 32.17 mb/d respectively. Ecuador figures are now included in OPEC supply.

Table 30: Summarized supply/demand balance for 2008, mb/d

	2007	1Q08	2Q08	3Q08	4Q08	2008
(a) World Oil Demand	**85.77**	**87.32**	**85.61**	**86.57**	**88.79**	**87.07**
Non-OPEC Supply	49.55	50.61	50.21	50.22	51.45	50.63
OPEC NGLs and non-conventionals	4.40	4.73	4.85	4.97	5.17	4.93
(b) Total Supply excluding OPEC Crude	**53.95**	**55.34**	**55.06**	**55.19**	**56.62**	**55.56**
Difference (a-b)	**31.82**	**31.99**	**30.54**	**31.38**	**32.17**	**31.52**

Graph 31 Balance of supply and demand

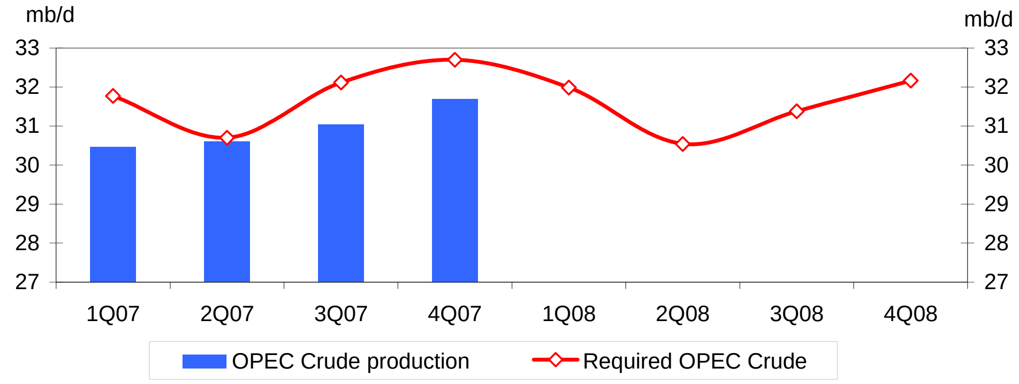


Table 31: World oil demand/supply balance, mb/d

	2003	2004	2005	2006	1Q07	2Q07	3Q07	4Q07	2007	1Q08	2Q08	3Q08	4Q08	2008
World demand														
OECD	48.6	49.4	49.7	49.3	49.7	48.2	48.8	50.3	49.2	50.3	48.2	48.6	50.8	49.5
North America	24.5	25.4	25.5	25.3	25.7	25.4	25.5	25.7	25.6	26.0	25.6	25.6	26.0	25.8
Western Europe	15.4	15.5	15.6	15.6	15.2	15.0	15.4	15.8	15.3	15.4	14.9	15.3	15.9	15.4
Pacific	8.6	8.5	8.6	8.4	8.8	7.8	7.8	8.8	8.3	8.9	7.7	7.7	8.9	8.3
DCs	20.6	21.8	22.5	23.3	23.7	24.0	24.1	24.2	24.0	24.3	24.6	24.8	24.8	24.6
FSU	3.7	3.8	3.9	3.9	3.9	3.7	4.0	4.3	4.0	3.9	3.8	4.1	4.4	4.0
Other Europe	0.8	0.9	0.9	0.9	1.0	0.9	0.9	0.9	0.9	1.0	1.0	0.9	0.9	1.0
China	5.6	6.5	6.7	7.2	7.5	7.8	7.7	7.4	7.6	7.8	8.1	8.2	7.8	8.0
(a) Total world demand	79.3	82.3	83.7	84.6	85.8	84.6	85.5	87.2	85.8	87.3	85.6	86.6	88.8	87.1
Non-OPEC supply														
OECD	21.7	21.3	20.5	20.2	20.5	20.3	19.8	20.1	20.2	20.4	19.8	19.6	20.4	20.1
North America	14.6	14.6	14.1	14.2	14.4	14.5	14.2	14.4	14.4	14.5	14.2	14.2	14.7	14.4
Western Europe	6.4	6.2	5.8	5.4	5.5	5.2	4.9	5.1	5.2	5.2	4.9	4.6	4.9	4.9
Pacific	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.8	0.9	0.8
DCs	10.3	10.5	10.8	10.9	11.0	11.0	11.0	11.1	11.0	11.4	11.5	11.7	11.8	11.6
FSU	10.3	11.1	11.5	12.0	12.5	12.4	12.5	12.8	12.5	12.9	13.0	13.0	13.3	13.0
Other Europe	0.2	0.2	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.4	3.5	3.6	3.7	3.8	3.8	3.7	3.8	3.8	3.8	3.8	3.8	3.9	3.8
Processing gains	1.8	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	2.0	1.9	1.9	2.0	1.9
Total non-OPEC supply	47.7	48.5	48.5	48.9	49.8	49.5	49.0	49.8	49.5	50.6	50.2	50.2	51.5	50.6
OPEC NGLs + non-conventional oils	3.7	4.0	4.1	4.1	4.2	4.3	4.4	4.6	4.4	4.7	4.8	5.0	5.2	4.9
(b) Total non-OPEC supply and OPEC NGLs	51.4	52.5	52.6	53.0	54.0	53.9	53.4	54.5	53.9	55.3	55.1	55.2	56.6	55.6
OPEC crude oil production (secondary sources)	28.3	30.6	31.6	31.4	30.5	30.6	31.0	31.7	31.0					
Total supply	79.7	83.1	84.2	84.4	84.5	84.5	84.4	86.2	84.9					
Balance (stock change and miscellaneous)	0.3	0.7	0.6	-0.2	-1.3	-0.1	-1.1	-1.0	-0.9					
OECD closing stock levels (*mb*)														
Commercial	2517	2547	2597	2679	2603	2675	2668							
SPR	1411	1450	1487	1499	1507	1509	1523							
Total	3928	3998	4083	4177	4110	4184	4190							
Oil-on-water	882	905	958	910	912	909	930							
Days of forward consumption in OECD														
Commercial onland stocks	51	51	53	54	54	55	53							
SPR	29	29	30	30	31	31	30							
Total	80	80	83	85	85	86	83							
Memo items														
FSU net exports	6.5	7.3	7.7	8.1	8.6	8.7	8.5	8.4	8.6	9.0	9.2	9.0	8.9	9.0
(a) - (b)	27.9	29.8	31.0	31.6	31.8	30.7	32.1	32.7	31.8	32.0	30.5	31.4	32.2	31.5

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

	2003	2004	2005	2006	1Q07	2Q07	3Q07	4Q07	2007	1Q08	2Q08	3Q08	4Q08	2008
World demand														
OECD	-	-	-	-	-0.1	-	-	-	-	-0.1	-	-	-	-
North America	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-
Western Europe	-	-	-	-	-0.1	-	-	-	-	-0.1	-	-	-	-
Pacific	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-	-
DCs	-	-	-	-	-	-	0.1	0.1	-	-	-	0.1	0.1	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	0.2	-	-	-	-	-	-	-	-	-	-	-
(a) Total world demand	-	-	0.2	-	-	-	-	0.1	-	-	-	-	0.1	-
World demand growth	*0.0*	*-*	*0.2*	*-0.1*	*0.0*	*0.0*	*0.0*	*0.1*	*-*	*0.0*	*0.0*	*0.0*	*-*	*0.0*
Non-OPEC supply														
OECD	-	-	-	-	-	-	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
North America	-	-	-	-	-	-	-	-0.1	-	-0.1	-0.1	-0.2	-0.2	-0.1
Western Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	-	-	0.1	0.1	0.1	0.1	0.1
FSU	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	-	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1
Total non-OPEC supply growth	*0.4*	*-*	*-*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.2*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*0.1*	*0.0*
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	-	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
OPEC crude oil production (secondary sources)	-	-	-	-	-	-	-	-	-					
Total supply	-	-	-	-	-	-	-0.1	-	-					
Balance (stock change and miscellaneous)	-	-	-0.2	-	-	-	-0.1	-	-					
OECD closing stock levels (*mb*)														
Commercial	-	-	-	-	2	7	20							
SPR	-	-	-	-	5	5	5							
Total	-	-	-	-	7	11	25							
Oil-on-water	-	-	-	-	1	3	35							
Days of forward consumption in OECD														
Commercial onland stocks	-	-	-	-	-	-	-							
SPR	-	-	-	-	-	-	-							
Total	-	-	-	-	-	-	-							
Memo items														
FSU net exports	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-
(a) - (b)	-	-	0.2	-	-	-	0.1	0.3	0.1	-	0.1	0.1	0.2	0.1

† This compares Table 31 in this issue of the MOMR with Table 30 in the December 2007 issue.

This table shows only where changes have occurred.

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

	2001	2002	2003	2004	2005	2006	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
Closing stock levels *mb*																					
OECD onland commercial	2,630	2,478	2,517	2,547	2,597	2,679	2,465	2,546	2,581	2,547	2,543	2,623	2,638	2,597	2,597	2,658	2,767	2,679	2,603	2,675	2,668
North America	1,262	1,175	1,161	1,193	1,257	1,275	1,145	1,193	1,206	1,193	1,201	1,275	1,254	1,257	1,240	1,277	1,351	1,275	1,233	1,294	1,290
Western Europe	925	895	922	924	945	975	919	933	945	924	952	925	952	945	949	945	958	975	953	955	949
OECD Pacific	443	408	435	430	395	428	400	420	430	430	389	422	432	395	409	436	459	428	417	426	429
OECD SPR	1,288	1,347	1,411	1,450	1,487	1,499	1,423	1,429	1,435	1,450	1,462	1,494	1,494	1,487	1,487	1,493	1,495	1,499	1,507	1,509	1,523
North America	552	601	640	678	687	691	654	664	672	678	690	698	696	687	688	690	690	691	691	692	695
Western Europe	356	357	374	377	407	412	371	366	367	377	376	401	405	407	407	411	412	412	415	415	425
OECD Pacific	380	389	396	396	393	396	398	398	396	396	396	395	393	393	392	393	393	396	401	401	403
OECD total	3,918	3,825	3,928	3,998	4,083	4,177	3,888	3,974	4,016	3,998	4,005	4,117	4,132	4,083	4,084	4,151	4,262	4,177	4,110	4,184	4,190
Oil-on-water	830	815	882	905	958	910	906	891	894	905	934	931	926	958	962	968	966	910	912	909	930
Days of forward consumption in OECD																					
OECD onland commercial	55	51	51	51	53	54	51	52	51	50	52	53	53	52	54	54	56	54	54	55	53
North America	52	48	46	47	50	50	46	47	47	47	48	50	49	50	49	50	53	50	48	51	50
Western Europe	60	58	60	59	60	64	61	60	59	59	62	59	60	59	62	61	61	64	64	62	60
OECD Pacific	52	47	51	50	47	51	51	52	49	45	48	53	49	43	52	55	53	49	53	55	49
OECD SPR	27	28	29	29	30	30	30	29	28	29	30	30	30	29	31	30	30	30	31	31	30
North America	23	25	25	27	27	27	26	26	26	26	27	27	27	27	27	27	27	27	27	27	27
Western Europe	23	23	24	24	26	27	25	24	23	24	25	26	26	25	27	26	26	27	28	27	27
OECD Pacific	45	45	47	46	47	48	51	49	45	42	49	49	45	43	50	50	45	45	51	51	46
OECD total	82	79	80	80	83	85	81	81	80	79	82	84	83	81	85	85	86	84	85	86	83

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

	2003	2004	2005	Change 05/04	1Q06	2Q06	3Q06	4Q06	2006	Change 06/05	1Q07	2Q07	3Q07	4Q07	2007	Change 07/06	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07
USA	7.82	7.65	7.34	-0.32	7.24	7.40	7.37	7.40	7.36	0.02	7.46	7.58	7.41	7.52	7.49	0.14	7.62	7.58	7.59	7.81	7.65	0.16
Canada	2.98	3.07	3.03	-0.04	3.22	3.05	3.18	3.34	3.20	0.17	3.34	3.28	3.37	3.45	3.36	0.16	3.48	3.31	3.32	3.45	3.39	0.03
Mexico	3.80	3.83	3.77	-0.07	3.79	3.78	3.70	3.51	3.69	-0.08	3.58	3.59	3.45	3.39	3.50	-0.19	3.42	3.28	3.30	3.41	3.35	-0.15
North America	14.60	14.56	14.14	-0.43	14.25	14.23	14.25	14.25	14.24	0.11	14.38	14.45	14.23	14.36	14.36	0.11	14.52	14.16	14.21	14.67	14.39	0.04
Norway	3.26	3.19	2.97	-0.22	2.93	2.70	2.73	2.76	2.78	-0.19	2.72	2.46	2.48	2.58	2.56	-0.22	2.61	2.46	2.33	2.53	2.48	-0.07
UK	2.33	2.10	1.89	-0.22	1.89	1.73	1.49	1.71	1.71	-0.18	1.80	1.73	1.42	1.57	1.63	-0.08	1.57	1.45	1.29	1.35	1.42	-0.21
Denmark	0.37	0.39	0.38	-0.01	0.36	0.35	0.32	0.34	0.34	-0.04	0.32	0.31	0.32	0.31	0.31	-0.03	0.31	0.30	0.27	0.29	0.29	-0.02
Other Western Europe	0.48	0.52	0.53	0.01	0.55	0.56	0.54	0.57	0.56	0.03	0.69	0.70	0.69	0.69	0.69	0.14	0.71	0.71	0.71	0.70	0.71	0.01
Western Europe	6.44	6.20	5.76	-0.44	5.73	5.34	5.08	5.39	5.38	-0.38	5.52	5.19	4.91	5.15	5.19	-0.19	5.19	4.93	4.60	4.87	4.90	-0.29
Australia	0.60	0.52	0.53	0.01	0.43	0.44	0.59	0.56	0.51	-0.02	0.51	0.54	0.54	0.52	0.53	0.02	0.55	0.58	0.65	0.73	0.63	0.10
Other Pacific	0.06	0.05	0.05	0.00	0.06	0.05	0.05	0.05	0.05	0.00	0.06	0.06	0.09	0.11	0.08	0.03	0.12	0.15	0.15	0.16	0.15	0.07
OECD Pacific	0.66	0.57	0.58	0.01	0.49	0.50	0.65	0.61	0.56	-0.02	0.57	0.61	0.63	0.63	0.61	0.05	0.67	0.73	0.81	0.89	0.78	0.17
Total OECD	21.70	21.33	20.48	-0.86	20.46	20.07	19.98	20.25	20.19	-0.29	20.47	20.25	19.76	20.15	20.16	-0.03	20.39	19.82	19.61	20.43	20.06	-0.09
Brunei	0.21	0.21	0.21	0.00	0.23	0.21	0.22	0.22	0.22	0.01	0.20	0.20	0.20	0.20	0.20	-0.02	0.19	0.19	0.19	0.19	0.19	-0.01
India	0.79	0.79	0.76	-0.03	0.79	0.80	0.77	0.82	0.79	0.03	0.82	0.81	0.81	0.82	0.82	0.02	0.83	0.84	0.85	0.84	0.84	0.02
Malaysia	0.78	0.79	0.77	-0.03	0.78	0.71	0.76	0.78	0.76	-0.01	0.75	0.74	0.76	0.78	0.76	0.00	0.78	0.76	0.78	0.81	0.78	0.03
Thailand	0.26	0.25	0.30	0.04	0.32	0.33	0.32	0.31	0.32	0.02	0.33	0.34	0.34	0.34	0.34	0.02	0.34	0.34	0.34	0.34	0.34	0.01
Vietnam	0.38	0.42	0.39	-0.03	0.39	0.37	0.36	0.36	0.37	-0.02	0.36	0.34	0.34	0.34	0.35	-0.02	0.34	0.33	0.38	0.44	0.37	0.03
Asia others	0.15	0.18	0.26	0.07	0.27	0.26	0.26	0.26	0.26	0.01	0.27	0.27	0.27	0.27	0.27	0.01	0.28	0.30	0.30	0.30	0.30	0.03
Other Asia	2.56	2.66	2.68	0.03	2.77	2.68	2.70	2.75	2.72	0.04	2.72	2.70	2.72	2.75	2.73	0.00	2.77	2.77	2.85	2.92	2.83	0.10
Argentina	0.84	0.80	0.77	-0.02	0.76	0.78	0.79	0.77	0.77	0.00	0.77	0.77	0.76	0.76	0.77	-0.01	0.76	0.75	0.74	0.72	0.74	-0.03
Brazil	1.80	1.79	1.99	0.20	2.06	2.08	2.10	2.15	2.10	0.11	2.16	2.15	2.16	2.14	2.15	0.05	2.44	2.52	2.61	2.67	2.56	0.41
Colombia	0.55	0.54	0.53	-0.01	0.53	0.54	0.53	0.53	0.54	0.01	0.53	0.53	0.54	0.54	0.54	0.00	0.55	0.55	0.55	0.55	0.55	0.01
Trinidad & Tobago	0.17	0.16	0.18	0.02	0.19	0.18	0.19	0.17	0.18	0.00	0.16	0.16	0.16	0.17	0.16	-0.02	0.17	0.17	0.17	0.17	0.17	0.00
L. America others	0.24	0.27	0.30	0.04	0.26	0.27	0.28	0.27	0.27	-0.03	0.27	0.28	0.28	0.28	0.28	0.00	0.28	0.28	0.29	0.29	0.29	0.01
Latin America	3.59	3.55	3.78	0.23	3.81	3.86	3.88	3.89	3.86	0.08	3.89	3.89	3.90	3.89	3.89	0.03	4.19	4.26	4.35	4.39	4.30	0.41
Bahrain	0.21	0.21	0.21	0.00	0.21	0.21	0.20	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	0.82	0.79	0.78	0.00	0.77	0.75	0.74	0.74	0.75	-0.03	0.72	0.72	0.70	0.72	0.72	-0.03	0.74	0.76	0.78	0.80	0.77	0.06
Syria	0.53	0.49	0.45	-0.04	0.43	0.43	0.42	0.41	0.42	-0.03	0.41	0.40	0.39	0.38	0.39	-0.03	0.37	0.37	0.36	0.35	0.36	-0.03
Yemen	0.45	0.42	0.42	0.00	0.40	0.39	0.38	0.36	0.38	-0.03	0.36	0.36	0.38	0.38	0.37	-0.01	0.37	0.37	0.36	0.35	0.36	-0.01
Middle East	2.01	1.91	1.86	-0.05	1.81	1.77	1.74	1.72	1.76	-0.10	1.70	1.69	1.68	1.69	1.69	-0.07	1.70	1.70	1.70	1.71	1.70	0.01
Chad	0.02	0.16	0.18	0.02	0.16	0.15	0.16	0.16	0.16	-0.02	0.16	0.16	0.16	0.16	0.16	0.00	0.16	0.16	0.16	0.16	0.16	0.00
Congo	0.26	0.24	0.24	0.00	0.25	0.25	0.25	0.25	0.25	0.01	0.25	0.23	0.24	0.25	0.24	0.00	0.26	0.26	0.27	0.29	0.27	0.03
Egypt	0.75	0.71	0.70	-0.01	0.69	0.68	0.66	0.66	0.67	-0.02	0.64	0.63	0.63	0.63	0.63	-0.04	0.64	0.66	0.65	0.64	0.65	0.01
Equatorial Guinea	0.24	0.34	0.36	0.02	0.37	0.37	0.37	0.35	0.36	0.01	0.37	0.38	0.37	0.38	0.37	0.01	0.39	0.39	0.38	0.38	0.38	0.01
Gabon	0.25	0.25	0.25	0.00	0.25	0.25	0.25	0.25	0.25	0.00	0.25	0.25	0.25	0.25	0.25	0.00	0.25	0.25	0.26	0.26	0.26	0.01
South Africa	0.17	0.20	0.19	0.00	0.19	0.19	0.19	0.19	0.19	0.00	0.19	0.19	0.18	0.18	0.18	-0.01	0.17	0.17	0.17	0.17	0.17	-0.01
Sudan	0.27	0.30	0.34	0.04	0.35	0.36	0.40	0.50	0.40	0.07	0.50	0.50	0.48	0.51	0.50	0.09	0.50	0.49	0.48	0.48	0.48	-0.01
Africa other	0.20	0.21	0.25	0.04	0.31	0.34	0.32	0.32	0.32	0.07	0.34	0.34	0.34	0.39	0.35	0.03	0.40	0.40	0.41	0.41	0.41	0.05
Africa	2.16	2.40	2.51	0.11	2.57	2.58	2.59	2.68	2.61	0.09	2.69	2.68	2.66	2.75	2.69	0.09	2.77	2.78	2.77	2.78	2.78	0.08
Total DCs	10.32	10.52	10.84	0.31	10.96	10.89	10.91	11.03	10.95	0.11	10.99	10.96	10.96	11.08	11.00	0.05	11.43	11.51	11.67	11.81	11.61	0.61
FSU	10.28	11.14	11.55	0.40	11.67	11.97	12.13	12.30	12.02	0.47	12.50	12.44	12.48	12.75	12.55	0.53	12.87	12.96	13.01	13.26	13.02	0.48
Russia	8.46	9.19	9.44	0.25	9.48	9.63	9.72	9.76	9.65	0.21	9.87	9.83	9.89	9.91	9.88	0.23	9.98	10.01	10.07	10.16	10.06	0.18
Kazakhstan	1.03	1.18	1.23	0.05	1.22	1.31	1.31	1.37	1.30	0.07	1.35	1.34	1.35	1.40	1.36	0.06	1.42	1.44	1.41	1.53	1.45	0.09
Azerbaijan	0.31	0.31	0.44	0.13	0.56	0.61	0.68	0.75	0.65	0.21	0.85	0.86	0.82	1.02	0.89	0.24	1.04	1.08	1.10	1.15	1.09	0.20
FSU others	0.47	0.47	0.44	-0.03	0.41	0.42	0.41	0.42	0.42	-0.02	0.43	0.42	0.42	0.42	0.42	0.01	0.43	0.43	0.43	0.43	0.43	0.00
Other Europe	0.17	0.17	0.16	-0.01	0.16	0.15	0.15	0.15	0.15	-0.01	0.15	0.15	0.15	0.15	0.15	0.00	0.15	0.15	0.15	0.15	0.15	0.00
China	3.42	3.50	3.64	0.14	3.70	3.72	3.69	3.66	3.69	0.06	3.78	3.82	3.73	3.78	3.78	0.08	3.83	3.84	3.85	3.85	3.84	0.07
Non-OPEC production	45.89	46.67	46.66	-0.01	46.96	46.80	46.87	47.39	47.01	0.35	47.90	47.62	47.09	47.91	47.63	0.62	48.66	48.27	48.28	49.50	48.68	1.06
Processing gains	1.80	1.83	1.86	0.03	1.92	1.89	1.88	1.92	1.90	0.04	1.92	1.92	1.92	1.93	1.92	0.02	1.95	1.94	1.94	1.95	1.95	0.02
Non-OPEC supply	47.69	48.50	48.52	0.02	48.88	48.69	48.74	49.31	48.91	0.38	49.82	49.54	49.01	49.84	49.55	0.64	50.61	50.21	50.22	51.45	50.63	1.08
OPEC NGL	3.58	3.86	3.93	0.07	3.85	3.92	4.01	3.90	3.92	-0.01	4.13	4.26	4.31	4.52	4.31	0.39	4.62	4.74	4.86	5.06	4.82	0.52
OPEC Non-conventional	0.14	0.17	0.16	-0.01	0.13	0.12	0.15	0.15	0.14	-0.02	0.08	0.08	0.09	0.10	0.09	-0.05	0.10	0.10	0.10	0.10	0.10	0.02
OPEC (NGL+NCF)	3.72	4.03	4.08	0.06	3.98	4.05	4.16	4.06	4.06	-0.02	4.22	4.35	4.40	4.62	4.40	0.34	4.73	4.85	4.97	5.17	4.93	0.53
Non-OPEC & OPEC (NGL+NCF)	51.40	52.53	52.61	0.07	52.86	52.74	52.90	53.36	52.97	0.36	54.03	53.89	53.40	54.46	53.95	0.98	55.34	55.06	55.19	56.62	55.56	1.61

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

Table 35: World Rig Count

	2004	1Q 05	2Q 05	3Q 05	4Q 05	2005	Change 05/04	1Q 06	2Q 06	3Q 06	4Q 06	2006	Change 06/05	1Q 07	2Q 07	3Q 07	Nov07	Dec07	4Q 07	2007	Change Dec/Nov
USA	1,190	1,279	1,336	1,419	1,478	1,378	188	1,519	1,632	1,719	1,719	1,648	270	1,733	1,757	1,788	1,798	1,811	1,790	1,767	13
Canada	369	620	241	527	572	490	121	665	282	494	440	470	-20	532	139	348	371	360	356	344	-11
Mexico	110	114	116	104	93	107	-3	85	85	77	84	83	-24	90	88	96	83	98	93	92	15
North America	1,669	2,013	1,693	2,050	2,143	1,975	306	2,269	1,999	2,290	2,243	2,200	225	2,355	1,984	2,232	2,252	2,269	2,240	2,203	17
Norway	17	15	18	19	17	17	0	19	20	16	9	16	-1	16	19	18	14	19	17	18	5
UK	16	16	22	23	24	21	5	29	27	26	15	24	3	25	29	27	17	22	22	26	5
Western Europe	65	56	67	68	68	65	0	77	78	73	65	73	8	72	78	76	67	2	2	3	0
OECD Pacific	22	24	25	27	24	25	3	25	28	25	28	27	2	24	30	28	34	30	32	29	-4
Total OECD	1,755	2,093	1,785	2,146	2,234	2,065	310	2,371	2,105	2,389	2,336	2,300	235	2,450	2,091	2,340	2,350	73	73	75	6
Other Asia	126	133	140	146	148	142	16	153	150	156	152	153	11	158	157	151	151	144	150	154	-7
Latin America	126	133	138	141	151	141	15	149	162	164	165	160	19	195	188	184	187	201	191	189	14
Middle East	70	69	71	73	75	72	2	72	79	82	85	80	8	82	85	87	85	88	86	85	3
Africa	51	56	56	51	57	54	3	59	62	68	77	67	13	75	80	88	86	92	88	83	6
Total DCs	376	390	405	411	431	409	33	433	453	470	479	459	50	510	510	509	509	525	515	511	16
Non-OPEC Rig Count	2,131	2,483	2,192	2,560	2,667	2,477	346	2,806	2,560	2,861	2,818	2,761	284	2,963	2,603	2,852	2,862	2,898	2,860	2,820	36
Algeria	19	20	21	22	21	21	2	21	21	28	27	24	3	25	26	28	27	29	28	27	2
Angola	3	3	3	3	2	3	0	4	4	4	4	4	1	5	4	3	5	5	5	4	0
Indonesia	49	53	53	55	59	54	5	55	43	46	52	49	-5	49	56	60	64	66	64	57	2
Iran	41	42	41	39	38	40	-1	40	45	47	45	44	4	51	51	51	49	50	50	50	1
Iraq	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Kuwait	10	12	13	11	14	12	2	12	13	14	15	14	2	14	13	13	12	11	11	12	-1
Libya	10	10	9	8	8	9	-1	9	9	10	12	10	1	13	12	14	14	15	14	13	1
Nigeria	8	9	9	9	8	9	1	10	9	10	10	10	1	8	7	8	10	9	10	8	-1
Qatar	9	10	13	12	12	12	3	13	10	11	9	11	-1	11	12	13	11	16	14	13	5
Saudi Arabia	32	33	34	37	43	36	4	54	60	70	76	65	29	76	76	78	75	76	77	77	1
UAE	16	16	16	16	16	16	0	17	16	16	16	16	0	14	15	15	14	14	14	14	0
Venezuela	55	66	72	66	70	67	12	78	83	85	77	81	14	76	80	77	70	71	71	76	1
OPEC Rig Count	252	274	284	278	291	279	27	313	313	341	341	327	48	342	352	360	351	362	356	352	11
Worldwid Rig Count*	2,383	2,757	2,476	2,838	2,958	2,756	373	3,119	2,873	3,202	3,159	3,088	332	3,305	2,955	3,212	3,213	3,260	3,216	3,172	47
of which:																					
Oil	877	961	870	990	1,015	959	82	1,069	1,060	1,169	1,156	1,114	155	1,266	1,155	1,257	1,276	1,303	1,286	1,241	27
Gas	1,486	1,774	1,583	1,823	1,928	1,777	291	2,035	1,802	2,016	1,983	1,959	182	2,017	1,782	1,934	1,910	1,933	1,906	1,910	23
Others	20	22	22	25	17	22	2	14	13	18	21	16	-6	20	19	20	27	24	24	21	-3

**/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 January 2008

OPEC Basket average price

US$ per barrel

down 1.80 in December	**December 2007**	**87.19**
	November 2007	88.99
	Year-to-date	69.10

December OPEC production

in million barrels per day, according to secondary sources

Algeria	1.40	SP Libyan AJ	1.74
Angola	1.81	Nigeria	2.18
Ecuador	0.51	Qatar	0.84
Indonesia	0.85	Saudi Arabia	8.98
IR Iran	3.90	UAE	2.53
Iraq	2.33	Venezuela	2.39
Kuwait	2.55	**TOTAL**	**31.99**

Supply and demand

in million barrels per day

2007		**2008**	
World demand	85.8	World demand	87.1
Non-OPEC supply	53.9	Non-OPEC supply	55.6
Difference	**31.8**	**Difference**	**31.5**

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

Stocks

OECD commercial oil stocks fell 38 mb in November and estimates show a further decline of 31 mb in December to 2,566 mb but remained in line with the five-year average. In the US, total commercial oil stocks dropped to 970 mb, 1% below the five-year average.

World economy

World GDP for 2007 revised up to 5.3% but revised down to 4.7% for 2008.

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Data cover period up to the end of December 2007 unless otherwise stated.