OPEC

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

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Feature Article:
The outlook for the world oil market in 2007

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Oil Market Highlights

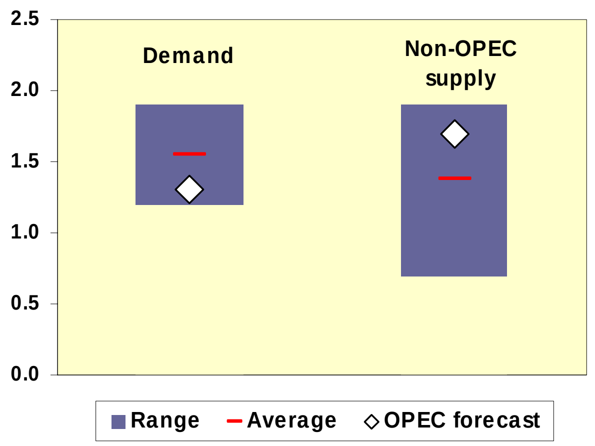
- Evidence is mounting that growth in the Euro-zone accelerated in the second quarter with Germany in the lead. During the remainder of the year spending should benefit from a steady improvement in the labour market and consumer confidence. Domestic demand is also expected to maintain the momentum of the Japanese economy as a reduction in excess capacity and solid profits should support business investment. In contrast, the US economy probably grew by little more than 2% in the second quarter. Expenditures on housing and consumer durables have been affected by higher interest rates. Although there seems little chance of a sustained acceleration of price pressures in the USA, policymakers have confirmed their intent to preserve public confidence in low inflation. It follows that monetary policy may continue to be tight until growth slows.
- Even if US interest rates do not rise any further in 2007, the previous tightening of policy is expected to depress GDP growth to 2.8% next year. Despite the improvement of the economic performance in the Euro-zone and Japan, it is unlikely that these regions will be able to grow strongly next year if US import growth softens; moreover a weaker dollar will reduce export competitiveness of the Euro-zone and Japan. The Euro-zone is expected to grow by only 1.5% in 2007 although Japan should achieve more than 2%. Growth in Developing Countries is also expected to be lower in 2007, falling to 5.2% and China may also see a modest deceleration to 8.5%. The world economy is forecast to grow by 4.2% next year. Although slightly lower than the 4.7% expected for 2006 it is nevertheless a substantial rate considering that 2007 would be the fifth year of sustained above-average growth.
- The OPEC Reference Basket averaged $64.60/b in June, a drop of 51¢ from the previous month. Despite a bullish start to the month, record high OECD crude oil inventories and continued strong OPEC supply helped to ease prices. However, prices received support from refinery glitches in consuming countries and supply disruption from West Africa, preventing a further fall. In July, prices begin to move sharply upward as the driving season kicked into high swing and demand expectations improved. On 14 July, the Basket recorded an all time high of $71.71/b due to escalating international tensions.
- A series of bullish factors such as strong US economic data, increased gasoline demand during the Independence Day holiday and the closure of the Calcasieu ship channel which affected 765,000 b/d of US refinery capacity have strengthened the product market sentiment in the Atlantic Basin and lent further support to area refinery margins. The situation was different in Asia due to heavy inflows of western fuel cargoes and increasing gasoline supplies, which resulted in lower refinery margins. Looking ahead, due to the tightness in refining capacity and the risk of adverse effects of potential hurricanes, Atlantic Basin product markets both in futures and physical could remain strong in the next few months. In contrast, increasing refinery runs in Asia are likely to keep the markets well supplied, putting further downward pressure on Asian refinery margins.
- OPEC spot fixtures continued to increase 0.4 mb/d to register 14.6 mb/d amid sustained high production and strong bookings. Following a similar trend, sailings from OPEC jumped 1.40 mb/d to 25.3 mb/d reflecting the surge in OPEC fixtures from the previous month. The tanker market for crude oil showed a mixed pattern with rates for VLCCs moving from the Middle East continuing to strengthen to a four-month high. In contrast, Suezmax and Aframax tankers displayed some weakness, except on the Indonesia/US West Coast route, but remained attractive for ship-owners. For the clean market, freight rates softened from the high levels displayed in the previous month. Despite the decline, spot freight rates for tankers trading in the Middle East and Asia were higher than a year earlier.
- World oil demand in 2006 is estimated to grow by 1.4 mb/d to average 84.6 mb/d, almost unchanged from the last *MOMR*. The downward revision in historical data and actual data for the first half of this year in Western Europe was offset by an unusually high growth in the Middle East and China. In 2007, based on a lower global GDP growth rate of 4.2%, normal weather conditions as well as the impact of the further removal of price subsidies, preliminary world oil demand in 2007 is projected to average 85.9 mb/d, implying a rise of 1.3 mb/d or 1.5% over total 2006 consumption. On a regional basis, total China and the Middle East are expected to contribute most to the rise in demand with an estimated growth of 0.4 mb/d and 0.3 mb/d respectively. North America's oil demand is also expected to grow by 0.2 mb/d, higher than the estimate for 2006.
- Non-OPEC oil supply in 2006 is expected to average 51.4 mb/d, representing an increase of 1.2 mb/d over 2005, but a downward revision of 16,000 b/d versus the last assessment. Historical revisions dating back to 2004 for data from the USA, Malaysia, Ecuador, Bahrain, Oman and Uzbekistan have also been incorporated. Preliminary data for May puts total non-OPEC supply at 50.7 mb/d, or 100,000 b/d higher than the previous month. In 2007, Non-OPEC oil supply is expected to average 53.1 mb/d, representing an increase of 1.7 mb/d versus 2006. On a regional basis, a substantial increase is expected to come from the FSU region (mainly Caspian), followed by Africa, North America and Latin America. OECD Europe and Pacific are expected to show a modest increase, while Other Asia and the Middle East are expected to remain broadly flat. It is worth noting that the strong production growth in the above regions should result in stiff competition in the Mediterranean and the Atlantic Basin. Looking at biofuels, total production is expected to increase 60,000-100,000 b/d, of which 80% may end up as transport fuel. OPEC NGLs plus non-conventional oils is expected to rise 0.2 mb/d to 4.5 mb/d in 2007, following a similar increase in 2006. In June, OPEC crude production averaged 29.6 mb/d in June, representing an increase of 0.1 mb/d from last month with Iraq oil production of 2 mb/d.

- Preliminary data shows that OECD total net crude oil imports averaged 24.5 mb/d in June, the highest level since last November, displaying y-o-y growth of 645,000 b/d. In contrast, product imports fell 50,000 b/d to 2.96 mb/d. The growth in OECD crude oil imports was driven by the USA and Japan as demand from refineries increased following the completion of the seasonal maintenance. The USA saw its net crude oil imports increase by a total of 0.9 mb/d over the last two months to hit 10.6 mb/d, the highest level since June 2005. US net product imports averaged 2.3 mb/d, 0.29 mb/d above June 2005 level. Similarly, Japan's total net oil imports averaged 5.0 mb/d in June, an increase of 0.26 mb/d compared to a year earlier. China's net crude oil imports reached 2.9 mb/d in May representing a y-o-y growth of 0.5 mb/d. For the period January-May, China's crude oil imports averaged 3.0 mb/d, corresponding to a 17.7% y-o-y growth, and product imports averaged 0.7 mb/d, 10.6% higher than a year earlier. India's crude oil imports rose 0.25 mb/d in May to 2.2 mb/d whereas net exports increased 0.12 mb/d to 0.24 mb/d.
- Commercial oil stocks in USA registered a build of 16 mb to 1,044.8 mb in June. This corresponds to 0.3% and 6% above last year and the five-year average respectively. The build came entirely on the product side which rose 22.7 mb while a declining trend in crude stocks continued during June. Despite the draw, crude oil stocks are still 3.4% and 11% above last year and the five-year average. US gasoline inventories increased at a slower pace, having risen by 2.8 mb to stand at 213 mb in June compared to the previous month. This was 3.2 mb lower than a year ago and only 0.3 mb below the five-year figure. A declining trend occurred in Eur-16 (EU-15 plus Norway) commercial oil stocks which ended the June with a draw of 0.3 mb to stand at 1,148.7 mb or 2.2% above the upper end for this time of the year and 8.4% above the five-year average. The bulk of the decline came from the 1.4 mb drop in crude oil inventories and a 2.3 mb decline in gasoline stocks, while middle distillate and fuel oil inventories increased. In Japan, commercial oil stocks continued moving upwards in May with a build of 8 mb above the five-year average.
- The demand for OPEC crude in 2006 is expected to average 29 mb/d, representing an upward revision of 0.2 mb/d compared to the previous month. On a quarterly basis, the new forecast shows that the demand for OPEC crude is expected at 28.6 mb/d in the third and 29 mb/d in the fourth quarter. In 2007, the demand for OPEC crude is expected to drop to 28.3 mb/d, a decline of 0.7 mb/d compared to 2006. On a quarterly basis, the required OPEC crude is seen to be 29.2 mb/d in the first quarter, 27.3 mb/d in the second, 28 mb/d in the third and 28.6 in the fourth.

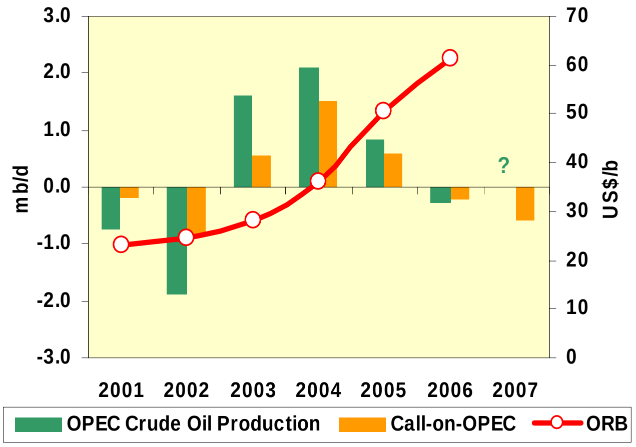
The outlook for the world oil market in 2007

- Given current market conditions, arriving at a forecast for the world oil market developments in 2007 poses a considerable challenge. This is mainly due to the uncertainties about the extent of the global economic growth, the corresponding downward risk to oil demand growth especially in an environment of high oil prices, and the expected above-average expansion in non-OPEC supply.
- Following five consecutive years of healthy expansion, world economic growth in 2007 is expected to grow at a slower but still substantial 4.2%, representing a decline of 0.5% from 2006. This should start in the second half of this year as higher interest rates in all major markets impact consumer and investment spending. The US economic growth is expected to average 3% for the second half of the year, a pace which should be maintained into 2007. In Europe, there are clear signs that growth will be higher as consumer confidence is improving in the major economies. Nevertheless, higher interest rates and taxes are likely to ease growth in 2007 and the firmer value of the euro may restrict imports. Japan is showing steady improvement as corporate and consumer spending reflects a general boost to confidence. Developing Countries should continue to grow at above-average rates but those closely linked to the US economy are most at risk. Due to expected monetary tightening and a possible appreciation of the yuan, growth in China is also expected to ease.

Graph 1: Range of forecasts for growth in global oil demand and non-OPEC supply in 2007 (mb/d)



Graph 2: Change in demand for OPEC oil, OPEC production and OPEC Reference Basket price



- Oil demand growth is also expected to be lower than in the current year due in part to lower economic growth and high oil prices. Demand may also be constrained by continued downstream bottlenecks as the increase in refinery capacity expansion fails to match the growth in world oil demand. For next year, the two main demand growth regions will be China and the Middle East due to strong economic growth. In China, the major drivers of demand will be industrial production, construction and passenger transportation. The removal of price subsidies in some countries in Asia, which began in 2006, will negatively affect oil demand. In North America, higher product prices should moderate growth in oil demand, although this will be offset by the expected return of normal temperatures following last year's warm winter. Overall, world oil demand is expected to grow at a moderate rate of 1.3 mb/d, from 1.4 mb/d in the current year. This compares with other forecasts which range from 1.2 mb/d to 1.9 mb/d (*see* ***Graph 1***).
- Turning to non-OPEC supply, 2007 is expected to see growth of 1.7 mb/d, which is twice the average growth of the 2000-06 period and one of the highest in several decades. A host of factors will contribute to the sharp increase in non-OPEC growth such as expanding E&P activity worldwide, the rebound in production from Russia and the Caspian region, project delays from this year to 2007, the exploitation of marginal opportunities world wide, and the startup of large projects in deepwater provinces. With one exception, forecasts for non-OPEC supply growth in 2007 fall within a range from 1.4 to 1.9 mb/d, primarily due to different views about the US Gulf, North Sea, and assumptions on project delays.
- Taken together, the above forecasts indicate a lower crude requirement from OPEC in the coming year. If the expected demand and supply forecasts materialize, the crude required from OPEC is projected to average 28.1 mb/d, or about 600,000 b/d lower than estimated for 2006. The last time a similar situation occurred was in 2002 (*see* ***Graph 2***) at a time of relatively low oil prices. This time, market conditions are different with prices at much higher levels despite a well-supplied crude market. Assuming OPEC production continuing at 29.6 mb/d – the average seen in the first half of this year – this would result in a considerable stock build of 1.5 mb/d, or 500,000 b/d above the level seen in the last two years. This would come at a time when global stocks are already at high levels, which also poses the challenge of securing adequate storage facilities for such large volumes of extra barrels. However, it should be highlighted that the wide range of forecasts on both demand and non-OPEC supply reflect a high level of uncertainty, which needs to be considered when determining the demand for OPEC crude.
- By the end of 2007, OPEC production capacity is expected to increase by around 1 mb/d to reach 34.3 mb/d. As a result, spare capacity should stand over 10%, compared with 6.6% in 2004 and 8% in 2005. The expected increase in OPEC capacity, combined with the projected decline in required OPEC crude, should help to moderate prices. Whether the market will benefit from the full effect of these trends will depend mainly on downstream developments and non-fundamental factors — particularly geopolitical tensions, a major factor behind the current record high oil prices.

Vienna, Austria **14 July 2006**

OPEC REASSURES MARKET OF CONTINUING COMMITMENT TO STABILITY

OPEC has noted with concern the strong upward pressure on oil prices of the past few days and wishes to reassure the market of its continuing commitment to order and stability, to the benefit of producers and consumers alike.

Geopolitical developments, over which OPEC has no influence, have been behind this sudden rise in volatility, and these have come at a time when the market was already out of line with today's supply and demand fundamentals, with speculation playing a significant role in driving up prices.

It has also occurred in spite of the fact that the market remains well-supplied with crude, and, with crude volumes continuing to enter the market well in excess of demand, OECD stocks are above their five-year average levels.

This healthy state of the upstream sector has been very much due to OPEC's abiding commitment to market stability, with prices at fair and equitable levels, in support of sound world economic growth, in particular with regard to the needs of developing countries.

OPEC's Member Countries have increased crude oil production substantially since the recent heightened state of volatility first manifest itself in spring 2004, as well as accelerating their plans to bring on-stream new production capacity to meet continued demand growth and re-establish a comfortable cushion of spare capacity.

However, to be truly effective in increasing stability and moderating prices, OPEC requires the full support of the other major players in the market, on both the producer and consumer sides. All parties gain from market stability and so all parties must contribute to it. In welcoming the major advances that have been made in dialogue and cooperation within the industry in recent years, OPEC recognises the potential for this to provide tangible benefits in the present volatile market conditions.

Highlights of the World Economy

Economic growth rates 2006-2007, %	World	OECD	USA	Japan	Euro-zone
2006	4.7	2.9	3.3	3.0	1.9
2007	4.2	2.4	2.9	2.1	1.5

Industrialised countries

United States of America

Outlook for US interest rates depends on expectations for inflation

To some extent the moderate pace of US consumer spending in the second quarter reflected a natural adjustment to the very strong result of the first quarter. Favourable weather boosted New Year activity and higher-than-normal auto sales also made a significant contribution. Some slowing in the second quarter was probably inevitable but the deceleration has steepened as a result of a substantial slowing of real income growth. Real income growth will likely recover as inflation eases but not to previous rates as employment growth is moderating. Consumer spending will also be held back by an expected gradual recovery in savings rates. **US consumer spending may have grown by about 2% in the second quarter, recovering to grow by 2.5-3% in the remainder of this year and 2007.** The softer trend in the housing market since the second half of 2005 will also affect the wealth of US consumers although there are signs that the market is stabilizing. Mortgage purchase applications have been steady since January and the level of total home sales in May was slightly above the level of January. Residential investment has yet to adjust to the lower level of demand in 2006 and housing starts will probably continue to fall until the excess stock of houses is absorbed by the market.

Business investment is also expected to slow as firms see output growth leveling off. The decline should not be abrupt as cash flow in the corporate sector is healthy, the equity market continues to perform well and capacity utilization rates continue to rise. Growth in exports should also provide moderate support for the economy as US exporters gain some benefit from the decline in the dollar and the continuing strong growth of world trade since the beginning of this year. Nevertheless the current account deficit will probably continue to rise as a proportion of GDP since net investment income payments on the sizeable US external debt grow increasingly negative. Government spending is expected to grow by about 3% this year, a slower pace than experienced in recent years. **Overall US GDP is forecast to grow by 3.3% this year and the moderate rate of second half expansion should be maintained into 2007.**

This profile of economic activity is hard to align with expectations of yet further increases in US interest rates. Nevertheless, the level of inflationary pressures in the economy is a matter for concern since rates of core inflation are likely to rise over the remainder of 2006. **Core consumer prices have been increasing by more than 2% in recent months and by the end of the year higher energy prices and more expensive rents might push this rate of inflation above 2.5%.** Rising wages and a declining pattern of productivity growth will boost unit labour costs, at least until the slowing economy takes steam out of the employment market. The major concern of the US Federal Reserve is the climate of inflationary expectations and the central bank seems likely to err on the side of caution when setting interest rates in the remainder of 2006.

In June the statement of the Federal Reserve made it clear that policy moves will be fully determined by incoming data. A rate increase to 5.5% in August is expected by most market participants but further increases towards 6% cannot be ruled out. Much depends on the state of spare capacity in the labour market. Lower domestic participation rates and immigration flows have restricted the growth of US labour supply since the 1990s. This has made it more difficult for the authorities to maintain the jobless rate at a non-inflationary level in an economy growing by 3% or more. The firmer tone to recent statements from US policymakers contains an important message to financial markets: that the Federal Reserve will not tolerate the prospect of any significant overshoot in inflation. The worrisome medium-term inflation outlook may delay the end of the current US tightening cycle until 2007 unless consumer spending and the housing market soften more sharply than expected.

Japan

Capital expenditure to remain strong as Japanese businesses remain confident; interest rates may rise in July

The Japanese economy seems to be maintaining a steady growth rate in line with the first-quarter performance of 3.1%. Consumer spending is expected to grow by about 2% although some indicators of consumer sentiment have softened in recent months. The Bank of Japan (BOJ) survey of economic conditions in June showed the first deterioration in sentiment in five quarters. This concern may reflect disappointment that income levels have not risen as expected; indeed real wages have not made much progress this year as employers seem to have hired low-cost part-time workers to meet labour shortages. Participants also noted worries relating to employment security. Private consumption related indicators have been mixed in recent months. Retail sales stayed virtually flat in May, falling by 0.6% year-on-year if fuel is excluded.

In contrast, business confidence continues to improve. **The BOJ *Tankan* survey for June showed a one-point gain for large manufacturers and a larger gain for non-manufacturers as this sector is catching up.** The improved confidence of firms in the retail and service sector suggests that the recovery is broadening throughout the economy and this positive picture was confirmed by the July indices of business conditions released by the Cabinet Office. A feature of the June *Tankan* survey was the optimistic level of capital spending plans. Firms now expect to increase their fixed investment spending by over 6% in the current financial year. Large firms are particularly confident as they expect spending to rise by over 11%. The outlook for 2007 is less optimistic as profits growth may slow and the expansion of investment since 2003 has created a substantial amount of new capacity. **A further uncertainty for 2007 is the impact of yen appreciation on Japanese exports.** One sign of some moderation in the business outlook was the decline in reports of shortages of production capacity or labour resources. In important manufacturing industries such as autos and construction, companies noted fewer shortages for the second successive quarter. The outlook for Japanese manufacturers, indeed for Asian industry generally, depends on the buoyancy of US imports and signs of slowing US consumption in the second quarter together with the prospect of weakening of global demand for high-tech products in the second half of this year will be cause for concern.

The rate of core inflation in Japan is expected to be slightly positive in 2006. Consumer prices in May rose by 0.6% y-o-y, largely as a result of petroleum prices which rose by 2.9%, but service prices continued to grow steadily. If all food and energy prices are excluded from the calculation, inflation was slightly positive in May and rose to 0.4% for the Tokyo area in June. The inflation outlook has a critical bearing on the policy dilemma facing the Bank of Japan. The Bank has a forward-looking approach and the June results of the *Tankan* survey may encourage the Bank to end the long-standing zero interest rate policy at the July meeting. Such a rate increase in July does not mean that the Bank will begin a process of frequent increases. The expected moderation in world economic activity will have its effect on Japan in the second half of this year; moreover, the appreciating yen will also serve to tighten financial conditions in the economy. There is no sign of any build-up of medium-term inflationary pressure in the Japanese economy and any rate increase in July would have mainly symbolic importance — underlining the recovery of the economy and a gradual return to a normal business environment.

Euro-zone

Euro-zone achieved higher growth in second quarter and consolidation likely in remainder of 2006

Since the start of the year business and consumer surveys have provided consistent evidence of improving expectations in the Euro-zone. This message was confirmed in June as the indices from the Purchasing Managers' Institute suggested that growth was clearly above trend in the second quarter with employment indicators pointing to a broadening of the expansion ahead. Nevertheless April-May retail sales in the Euro-zone increased by only 0.3% above the first quarter average. It may be that growth increased by about 0.5% in the first half of 2006 in comparison to the second half of 2005, reflecting a decline in long-term interest rates and the earlier 5% decline of the euro. These trends have almost fully reversed in 2006, accompanied by a 1% rise in short-term interest rates. According to the European Central Bank, this increase in interest rates will start to reduce GDP growth significantly after one year although export demand continues to support manufacturing industry in the zone.

If the second quarter improvement in consumer spending is to be maintained, employment growth must build on first half gains. Employment growth picked up in May and stable rises in basic wage settlement means that nominal wage growth has probably accelerated to an annual rate of about 4.5%. The sharpest increase has been recorded in Germany where perceptions of employment conditions have improved. Gains in confidence have encouraged German households to increase borrowing. Most of this borrowing is housing-related but overall consumer spending should also benefit. German consumption this year will be boosted by additional buying ahead of the planned introduction of a higher VAT in early 2007. For the Euro-zone as a whole, consumer spending may have risen by about 2.5-3% in the second quarter and the first half of this year might have been the strongest six-month period for consumption since before the 2001/2002 downturn.

European businesses have shown confidence in the economic upswing for nearly a year and capital spending will add to the boost in GDP growth. Data concerning the performance of German industry in the second quarter suggests that GDP growth was about 2.5% – clearly better than the 1.6% achieved in the first quarter. For the Euro-zone as a whole GDP growth might have achieved a similar 2.5-3% rate — a considerable improvement on recent results. The improvement in the growth of domestic demand may begin to put pressure on productive capacity and the European Central Bank is likely to increase rates further after the 0.25% increase on 6 July.

By the end of 2006 short-term interest rates may be at least 3.25% but by 2007 a slower pace of growth should allow the Bank to abstain from any further tightening. In 2006 the Euro-zone will benefit again from substantial growth in exports but in 2007 the stronger value of the euro should restrain growth. Tighter monetary conditions, fiscal restraint and slower world growth will impact the Euro-zone and the overall rate of growth in 2007 may struggle to exceed 1.5%.

The outlook for the Euro-zone in 2007 remains dependent on the domestic sector. Exporters will be held back by the rise in the euro and an expected deceleration in world trade from the second half of this year. Euro-zone GDP began 2006 at a depressed level, following the poor performance of the fourth quarter but the evidence suggests considerable signs of strength in the second quarter. **If this translates into a lasting improvement in consumer confidence for the region as a whole, the Euro-zone may achieve growth of 2% in 2006 but deceleration to about 1.5% is likely next year.**

Former Soviet Union

Russian economy accelerates, led by retail and construction sectors

The recovery from the weather-affected first quarter continued in May as growth rates for all the major indicators revealed stronger momentum. GDP rose by only 5.5% in the first quarter but industrial production growth increased to 10.6% in May and capital spending rose by 15%. Construction output responded dramatically to the return of normal weather and output increased by 11% **but growth in the output of the extractive sector remained subdued, rising by only 1.7% in the first five months of the year**. In May there was a further fall in the inflation rate, which dropped to 9.5%, thanks to stabilization in food prices and this improvement may ease pressure on the non-oil sector of the Russian economy. The Central Bank has announced that it will be stepping up intervention in currency markets in coming months to help slow rouble appreciation but this will depend on whether inflation remains under control later in the year. In the first five months of 2006 the rouble has appreciated by 5.4% in real terms as very high earnings from oil and minerals exports boosted the currency. In response to the fall in inflation in June the Central Bank of Russia cut its main policy rate to 11.5%. Lower domestic interest rates may encourage Russian enterprises to reduce their reliance on borrowings in foreign currency.

Eastern Europe

Recovery in Euro-Zone boosts first quarter growth in Eastern Europe

The Polish economy continued to perform well in the second quarter and the rate of growth of GDP was probably close to the 5.2% achieved in the first quarter. Strong wage and employment growth was behind the remarkable surge in private consumption which was also accompanied by robust 7.4% growth in fixed investment spending. Net trade also contributed to GDP. Political uncertainty has had a dramatic effect on the zloty which has fallen to well below €/PLN 4.0. International investors have reduced their interest in emerging markets in recent weeks and the replacement of both Prime Minister and Finance Minister has affected sentiment in the Polish currency and equity markets despite the very strong fundamentals. **In 2006 the Hungarian economy is expected to lag behind Poland, mainly as a result of weakening domestic expenditure, but strong exports pushed GDP growth to 4.3% in the first quarter.** The rise in global interest rates is putting pressure on Hungary which has wide budget and current account deficits. The main problem facing the new government is the very high budget deficit which reached 6.1% of GDP in 2005. The outlook for 2006 is for little improvement – indeed the cumulative budget gap in the first four months of the year reached 58% of the target for 2006 as a whole. The Czech economy grew by 7.4% in the first quarter of the year as a result of very strong growth in fixed investment and exports but industrial production growth faltered in April. Industrial production rose by only 3.6% – the fastest growing sector continues to be the motor industry which expanded production by 32% in the first four months. The rate of inflation fell to 1.9% in 2005 but has risen to 3.1% in the first five months of this year as a result of higher energy and utility prices.

The Czech trade balance continues to improve and the public finance deficit was lower than expected at only 2.6% of GDP in 2005. The planned deficit for 2006 is also 2.6% of projected GDP – well below the Maastricht limit for accession to the Euro-zone.

Developing Countries

Healthy growth seen for Developing Countries but volatility of commodity prices is a concern

According to the new United Nations report "World Economic Situation and Prospects as of Mid-2006", Developing Countries, including among them the poorest 50, are on track in 2006 to continue the impressive 6.0% growth rate of the past two years, but are threatened by volatility in commodity prices and interest rates. This compares with the Secretariat's forecast for a growth rate of 5.7%.

China continues to see rapid growth in 2006

China's trade surplus reached a new record in June. The Ministry of Commerce in China announced that the trade surplus registered a level of US$14.5 bn compared to 9.7 bn last year. Two government think-tanks (Academy of Macroeconomic Research, under the NDRC, and the State Information Centre) predicted China's economy would expand by 10.2-10.4% in 2006, slightly higher than the Secretariat forecast of 9.5%. They advised further interest rate hikes to prevent overheating. An interest rate hike in the second half of the year is therefore likely and the central bank may also ask for even higher reserve requirements for commercial banks. Excessive growth of money supply and overcapacity of some industries have become two major threats to economic stability in both the short and long term. The central bank, cautious of excessive lending growth since late last year, ordered an 0.27 percentage point rise of the benchmark lending-rate on 28 April and a half percentage point rise for the reserve requirements for commercial banks starting 5 July.

Current account deficit in India widened but is expected not to have influence on the rupee in the near term

India's current account deficit is widening as a result of continuing strong growth which has triggered growing imports of industrial inputs, oil and consumer goods. This might affect the value of the Indian currency, but any immediate risks have been ruled out by the Economic Advisory Council to the Indian Prime Minister. The council predicts that capital inflow is sufficient to finance the current gap which comprises 2.9% of GDP. The Secretariat is forecasting that India will grow at 7.6% this year.

Central Bank of Brazil says inflation is under control

Brazil registered a boost in domestic demand in May. The Central Bank of Brazil forecasts 3.8% inflation in 2006, up from a previous estimate of 3.7% in March, in its quarterly report released recently. For 2007, the bank raised its inflation estimate to 4.2% from a 3.9% forecast in March. The revisions to its 2006 and 2007 inflation forecasts leave policy-makers additional room to cut the benchmark rate as the new estimates are still below the bank's targets of 4.5% for this year and the next. The Brazilian economy is expected to grow at 3.3% in 2006, up from 2.3% last year.

OPEC Member Countries

According to government sources, the Nigerian economy expanded by 8.3% in the first quarter of 2006, compared to the same period last year, led by growth in the non-oil sectors. The telecommunication industry grew by 29%, followed by wholesale and retail trade which rose 12.5%, while solid minerals increased 9.5%.

In order to strengthen business confidence and having kept inflation within the targeted range, Bank Indonesia cut its benchmark interest rate for the second time this year by 25 basis points to 12.25% on 6 July. It is expected that the bank will make further cuts if inflationary pressure eases.

Oil prices, the US dollar and inflation

Dollar stabilized in June

The US dollar began to weaken slightly from the middle of the April and the move accelerated in May. In June, however, the markets detected a change in the policy stance of the US authorities and expectations of further increases in US interest rates supported the dollar. There has been no change in the outlook for European interest rates. In June the dollar rose by 0.8% against the euro, 1.1% against the British pound, 0.9% against the Swiss franc and by 2.3% versus the yen.

In June the OPEC Reference Basket fell to $64.60/b from $65.11/b in May. In real terms (base July 1990=100), after accounting for inflation and currency fluctuations, the Basket price fell by 0.4% to $44.25/b from $44.42/b. The dollar rose by 0.8% as measured by the import-weighted modified Geneva I + US dollar basket*.

* *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.*

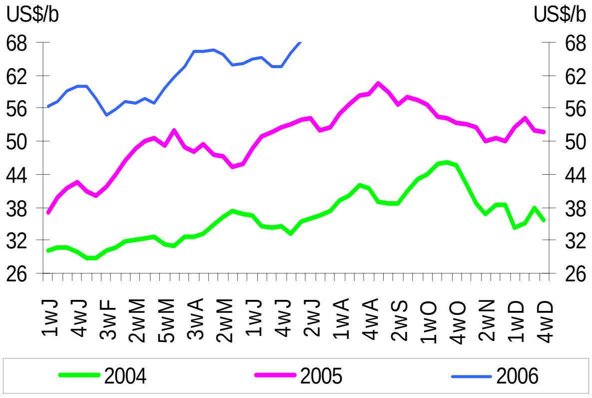
Crude Oil Price Movements

Market sentiment calmed on record-high OECD crude oil stock levels and healthy OPEC supply

OPEC Reference Basket

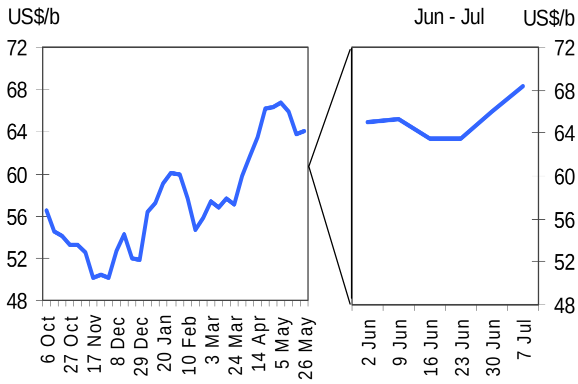
The market began June on a bearish note on eased geopolitical tensions. However, several refinery glitches and concern over light sweet crude supply from Nigeria helped the Basket to achieve a one-day rally of 1.5%. This bullish momentum was short-lived as positive international developments and rising Iraqi exports helped to deflate the fear premium. The Basket closed the first week with an average of $65.31/b for a marginal gain of 26¢. In the second week, the Basket plunged nearly 3% or $1.83 to close at $63.48/b on downward pressure from twenty-year record-high OECD crude oil inventories amid the prospect that higher interest rates and inflation were deflating demand growth. Tropical Storm Alberto's failure to impact the US Gulf petroleum infrastructure also weakened price support.

Graph 1: OPEC Reference Basket - weekly spot crude



The bearish market sentiment continued into the third week on calming geopolitics and concern that energy costs were affecting demand. Nevertheless, concern over the gasoline supply/demand balance this summer amid skepticism about easing geopolitical tensions prevented market sentiment from weakening further. Thus, the Basket saw a one-day surge of 2.4% to remain broadly unchanged for the week edging down only a slight 3¢. In the final week, the prospect of healthy Chinese demand and fears of supply disruptions in the USA due to shipping delays to the Lake Charles refinery hub pressured prices ahead of the second peak period for gasoline. The prospect of healthy economic growth amid rising gasoline consumption ahead of the Independence Day holiday in the USA helped market sentiment to remain mostly bullish in the month. Hence, the Basket closed the week with a gain of $2.58 or 4% to settle at $66.03/b.

Graph 2: Weekly average Basket price, 2005-2006



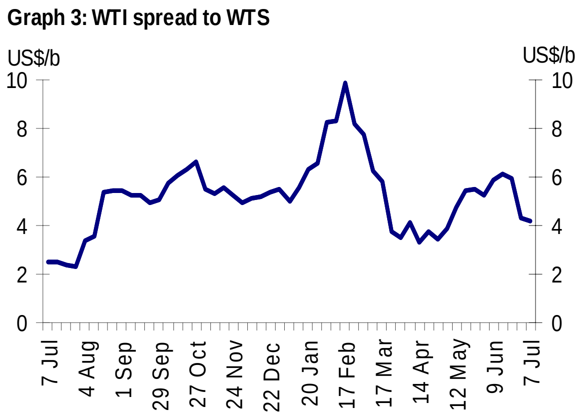
In July, prices begin to move sharply upward as the driving season kicked into high swing and demand expectations improved. On 13 July, the Basket recorded an all time high of $70.38/b due to escalating international tensions.

On a monthly basis, the Basket averaged $64.60/b in June, down 51¢. The market was relatively calm over the month on expectations that higher prices were deflating demand amid record inventory levels and steady OPEC crude supply. Nevertheless, at the end of the second week of July, escalating geopolitical tensions and healthy gasoline demand in the USA pushed prices to new record-highs with the Basket reaching $71.71/b.

US market

Emerged gasoline demand season amid the tight supply of light sweet crude kept the sweet/sour spread wide

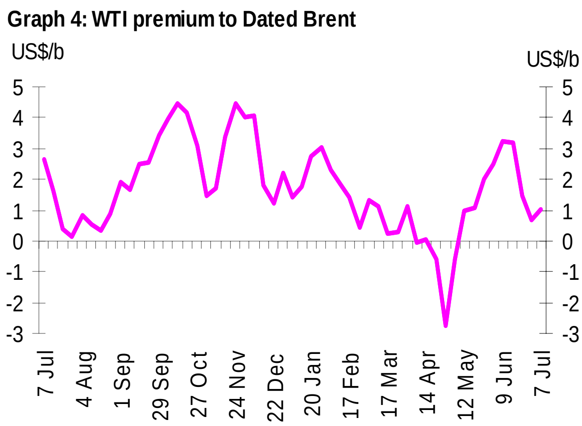
In the USA, gasoline supply concern amid scant availability of light sweet crude from Nigeria added to the bullish momentum into June. The sentiment was also supported by a leak at BP's Thunder Horse field which appeared to push the start-up of the facility into later in the year. The WTI/WTS weekly average spread was 63¢ wider at $5.86/b. In the second week, continued refinery buying of light sweet crude pushed differentials to firm further, despite the narrowing forward spread. The WTI/WTS spread widened 25¢ to $6.11/b, the highest level in some three months. Despite lower refining margins and the narrowing contango spread, the closure of the ship channel in the US Gulf Coast supported light sweet grades to remain firm into the third week at a lower pace amid slow activities. The WTI/WTS spread narrowed by 19¢ to $5.92/b. With the continued disruption of crude supplies to three Louisiana refineries, light crude firmed on demand for gasoline processing and the widened contango spread encouraged refiners buy-to-store. Thus, the WTI/WTS spread narrowed by $1.59 to $4.33/b. The monthly WTI average was nearly unchanged at $70.88/b with the spread over WTS at $5.57/b or 68¢ above last month. While demand for light-end products continued, low-sulphur crude remained strong amid emerging new requirements.



North Sea market

Ample supply of regional crude led to a decline of the Brent price, although refinery demand pushed crude up later in the month

The North Sea market emerged under pressure in June due to ample supply of regional crude on unsold June stems. However, sentiment improved later in the first week as buyers emerged on attractive differentials amid the prospect of tighter supplies in the new loading programme for July barrels. The return of some refineries from maintenance also supported market sentiment amid clearing June barrels and emerging July buying interest in the second week. Moreover, improved refining margins amid decent demand supported the bullish sentiment into the third week. In the final week, the market saw some support from a strike in Norway's oilfield service sector. For the month, Brent averaged $68.69/b, representing a decline of $1.14 of 1.6% which allowed prices to reach $73.30/b on the last day of the month.



Mediterranean Market

Improving margins supported Urals discount to Brent, yet the return of Iraqi exports from the north after an absence of nearly nine months pushed the discount wider later in the month

Stronger refining margins encouraged buying interest in the Mediterranean market at the start of the month. However, ample supply kept buyers on the sidelines. Hence, the Brent/Urals spread widened to $3.72/b from $3.54/b in the previous week. Improving refining margins in the North amid the impact of shipments out of the region supported sour crude markets. In the second week, Urals spread to Brent narrowed by 31¢ to $3.41/b. Nonetheless, the Russian crude was under pressure by North African crudes which were moving to the US Gulf implying tight supply of light sweet crude and Iraq prepared to export from its northern outlet, pushing sour crude differentials lower in the third week. The Brent/Urals spread widened $1.38 to $4.79/b. Despite good demand for Urals in the North on improved refining margins, the flow of Iraq's Kirkuk crude helped to ease price pressures. The Brent/Urals spread widened a further 34¢ to $5.13/b. For the month, Urals averaged $64.51/b, a loss of 59¢. However, it closed the month at $68.48/b. The Brent/Urals monthly average spread narrowed by 55¢ to $4.18/b.

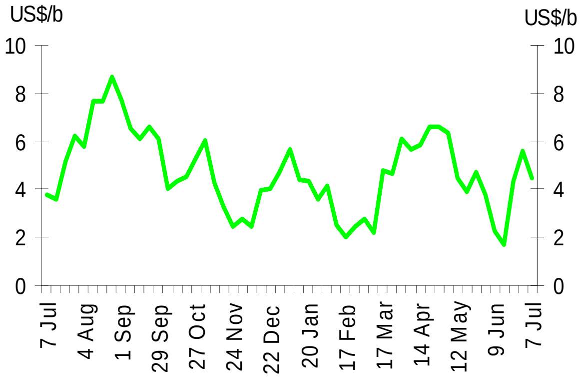
Middle Eastern Market

Weak fuel oil and gasoil crack spreads were offset by the widened Brent/Dubai spread

The month of June began on a firm note for the Mideast crude amid the prospect of healthy demand from China and the return of refineries from maintenance. While the market digested the fair retroactive OSP, the record-low fuel oil crack spread dampened market sentiment for sour crude. August Oman was discussed at a premium of around 6¢ to parity and +/- 3¢/b to MOG in the first week while the Brent/Dubai spread narrowed to $2.27 from $3.80/b. The sentiment weakened further into the second week amid China procuring its requirement from Russian and

South American heavy-sour grades amid the Brent/Dubai spread narrowing to $1.71/b. Yet, the recovery in the fuel oil crack spread prevented the grade from a further decline. August Oman was assessed between a premium of 2¢ and a discount of 5¢/b to MOG. Abu Dhabi Murban was assessed at a 20-25¢/b premium to OSP. Nevertheless, covering of short positions amid a strong fuel oil crack spread supported market sentiment. Oman for August loading was trading at a 5¢ premium to MOG amid the Brent/Dubai spread widened to $4.34/b in the third week. Abu Dhabi Murban continued to be assessed at a healthy premium on the strong gasoil crack spread. However, slow Japanese demand caused the grade to weaken to a 10¢/b premium to OSP. Continued weak margins for gasoil and fuel oil pushed the Mideast crude lower, yet the widening Brent/Dubai spread prevented a further slide. For the month, the Brent/Dubai spread narrowed by $1.29 to $3.47/b

Graph 5: Dated Brent spread to Dubai



Asian market

High outright prices exerted downward pressure on regional crudes but were offset later in the month by the narrowing Tapis/Brent spread later

The Asia/Pacific Rim market saw a sluggish start to the month as high outright prices dampened activities and Australia's Mutineer-Exeter oil field returned earlier than anticipated, with offers on the grade assessed at an 80-90¢/b premium to Tapis APPI. The strong heavy naphtha crack supported the market for the regional crude with July Cossack trading at a 90¢/b discount, up by 60¢/b from earlier sales. The Tapis/Bent spread was at a wide $6.74/b, however, low Japanese demand despite the shutting down of nuclear power plants and Indonesia's decision not to buy August barrels softened sentiment. Indonesia's Duri was sold at a lower premium of $1.50/b to ICP. Following India's buying of regional and West African crude, market sentiment improved. The bullishness was supported by a spate of buy-tenders towards month-end and lower Tapis APPI prices. The narrowing of the Tapis/Bent spread to $2.20/b also supported differentials for regional grades. The monthly average for Tapis/Brent spread was nearly unchanged at $4.43/b.

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

	May 06	Jun 06	Change Jun/May	Year-to-date average 2005	Year-to-date average 2006
OPEC Reference Basket	**65.11**	**64.60**	-0.52	**46.71**	**61.21**
Arab Light[1]	64.83	65.03	0.20	45.68	61.07
Basrah Light	62.32	62.38	0.06	44.37	58.00
BCF-17	56.62	55.01	-1.61	na	51.87
Bonny Light[1]	71.75	70.22	-1.52	50.43	67.30
Es Sider	67.25	66.62	-0.63	47.47	63.68
Iran Heavy	63.27	62.24	-1.02	43.67	59.62
Kuwait Export	62.80	62.37	-0.42	45.18	59.13
Marine	66.29	66.16	-0.14	45.47	62.74
Minas[1]	70.47	68.49	-1.99	50.60	65.88
Murban	69.84	69.66	-0.18	49.12	65.83
Saharan Blend[1]	70.31	69.15	-1.16	49.66	66.39
Other Crudes					
Dubai[1]	65.07	65.22	0.15	44.59	61.42
Isthmus[1]	64.82	63.88	-0.94	45.12	60.44
T.J. Light[1]	58.66	56.98	-1.68	41.61	55.33
Brent	69.83	68.69	-1.14	49.59	65.69
W Texas Intermediate	70.89	70.88	-0.01	51.45	66.86
Differentials					
WTI/Brent	1.06	2.19	1.12	1.86	1.17
Brent/Dubai	4.76	3.47	-1.29	5.00	6.42

Note: As of the 3W of June 2005, the price is calculated according the current Basket methodology that came into effect on June 16, 2005. BCF-17 data available only as of March 1, 2005.

As of January 2006, monthly and year-to-date average based on daily quotations.

[1] Previous Basket Components: Arab Light, Bonny Light, Dubai, Isthmus, Minas, Saharan Blend and T.J. Ligh

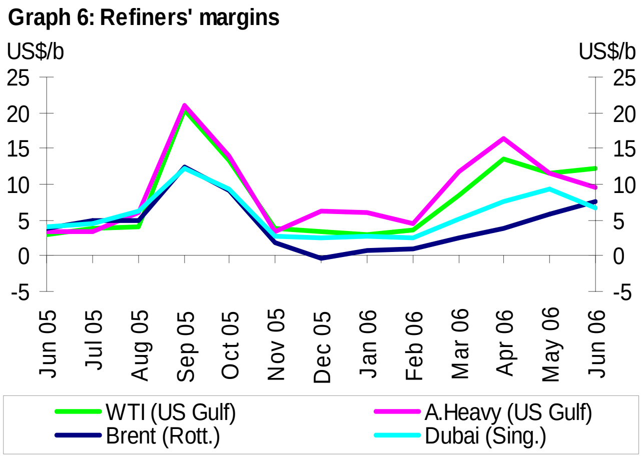
na not available.

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

Product Markets and Refinery Operations

Refinery margins for light crude oil strengthened further in the Atlantic Basin

Following the gasoline stock-build and the return of refineries from scheduled maintenance, the light product market in the Atlantic Basin was expected to lose ground, exerting pressure on product prices and refinery margins. However, **a series of bullish factors — such as strong US economic data, increased gasoline demand during the Independence Day holiday and the closure of the Caucasian ship-channel which affected 765,000 b/d of US refinery capacity — have kept the product market sentiment in the Atlantic Basin strong and lent further support to area refinery margins.**



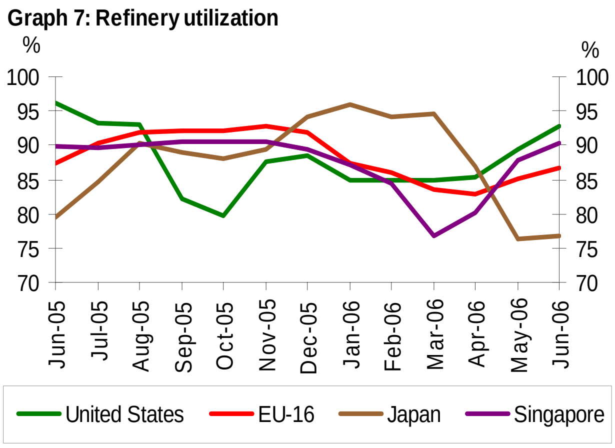
As **Graph 6** indicates, refinery margins for WTI crude oil in the US Gulf Coast rose to $12.25/b in June from $11.51/b in the previous month. Similarly, in the North-West European market, the margin for benchmark Brent crude oil consolidated its previous upward trend, surging to $7.52/b from $5.80/b in May.

The situation was different in Asia due to heavy inflows of western fuel cargoes and increasing gasoline supply, which resulted in lower refinery margins. As **Graph 6** shows, refinery margins for the Dubai crude oil dropped by $2.61/b to $6.72/b from $9.33/b in May.

Looking ahead, due to the tightness in refining capacity and the risk of adverse effects of potential hurricanes, **Atlantic Basin product markets both in futures and physical could remain strong in the next few months, but increasing refinery runs in Asia should keep the markets well supplied, putting further downward pressure on Asian refinery margins.**

Refinery throughputs increased across the globe

The lucrative crack spread for light products encouraged refiners in the Atlantic Basin to increase throughputs and utilization rates in June. As **Graph 7** indicates, the refinery utilization rate in the USA soared by 3.4% to 92.8% from 89.4% in May. In Europe, refiners extended their upward utilization trend, which rose to 86.8% from 85.1% in the previous month. In Japan, the maintenance schedule is almost completed, however, the refinery utilization rate only rose a marginal 0.5% to 76.8% from 76.3% in May.



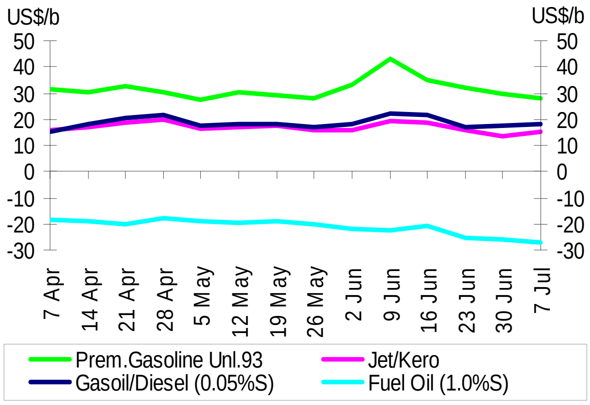
A spate of refinery glitches revived the bullish sentiment of the US product market

US market

Improving demand for gasoline, refinery glitches due to the closure of the Calcasieu ship channel, high natural gas stocks and mild weather in the key US fuel oil consuming area were the major developments of the US product markets. According to EIA data, US gasoline demand rose a marginal 25,000 b/d during the last four weeks compared to the same period last year, but the recent lower imports and refinery glitches compounded the bullish sentiment of the gasoline market.

As reflected in **Graph 8**, the crack spread of premium gasoline against benchmark WTI crude oil stood around $30/b in June, which was much higher than last year. Bullish developments in the gasoline market lent some support to the naphtha market, widening its spread versus WTI crude oil. Recently, the middle distillate market lost its earlier June strength. This was due to higher supply as a result of increased refinery throughput and stagnant demand compared to the same month last year, which helped boost middle distillate stocks. The weekly gasoil crack spread dropped from $27.12/b on 9 June to $18.04/b on 7 July (***see Graph 6***). Jet/kero followed a similar trend.

Graph 8: US Gulf crack spread vs. WTI



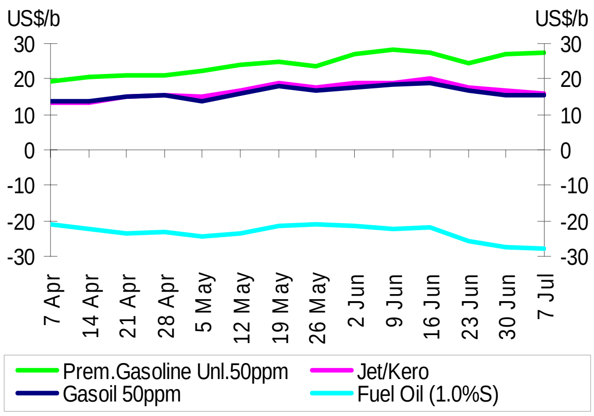
The performance of the bottom of the barrel complex was very disappointing as the mild weather forecast for the key US consuming area exerted further pressure on the low-sulphur fuel oil demand, and its spread versus the benchmark WTI crude oil in the US Gulf Coast recently plummeted to minus $27.01/b from minus $21.74/b in early June.

European market

US bullishness has lent some support to the European product market

Following the closure of arbitrage opportunity to the USA, **the European gasoline market lost its earlier strength in the second decade of June, although bullish movements in the USA and higher gasoline exports to the Middle East in the latter part of the month have lifted gasoline prices and its crack spread against the benchmark Brent crude oil rose to above $2.71/b (*see Graph 9*).** Whether these positive trends in the European gasoline market will continue depends on arbitrage export opportunities to the other side of the Atlantic. The European naphtha market also strengthened strongly, mirroring gasoline's gain.

Graph 9: Rotterdam crack spreads vs. Brent



With regard to middle distillates, the middle of the barrel cut performed well in the first half of June, extending its previous upward trend. In the latter part of the month, due to lower regional demand and higher Russian gasoil supply, the gasoil crack spread versus Brent narrowed recently to $15.24/b from $18.87/b in the middle of last month.

Ample supplies from European and Russian refiners also put downward pressure on high-sulphur fuel oil. Sluggish demand by regional utility plants caused the low-sulphur fuel oil discount against Brent crude to plummet to minus $28.05/b on 7 July from minus $21.50/b in early June. The European government stopped ships travelling in Europe's Baltic and North Sea from burning fuel oil with a sulphur content of more than 1.5%, which will increase further pressure on the bearish fuel oil market.

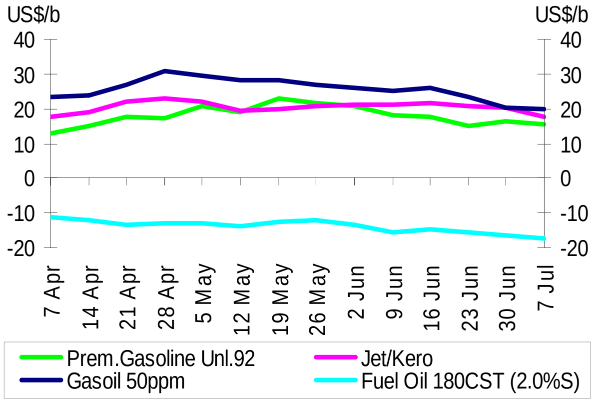
Asian market

Prices and refinery margins in Asia were adversely impacted by rising gasoline and fuel oil supplies

Increasing refinery runs, the bearish turn in market sentiment for naphtha, improving high-sulphur gasoil prices versus low-sulphur grades, the introduction of a new tax policy for gasoline by the Chinese government and heavy high-sulphur fuel oil imports were the most important developments in the Asian market during June. These developments, along with higher crude oil prices, weakened Asian refinery margins, causing them to plummet by $2.61/b compared to the previous month.

In line with these movements, the weak gasoline crack spread against the Dubai benchmark crude dropped significantly, from $21.57/b in early June to $15.46/b on 7 July ***(see Graph 10***). Despite the bearish sentiment in the gasoline market, the Asian naphtha market has been particularly strong over the last few weeks due to increasing demand as several crackers returned from maintenance and two new cracker units came on stream in South Korea.

Graph 10: Singapore crack spreads vs. Dubai



Similarly **the component of the middle of the barrel complex remained relatively strong in June, but growing low-sulphur distillate supplies may put downward pressure on sulphur differentials if increasing exports from South Korea cannot find an outlet in the west.**

As far as the fuel oil market is concerned, the Asian market experienced the worst conditions in June. With imports exceeding 3 million tonnes amid sluggish regional demand, the crack spread for high-sulphur fuel oil the Dubai crude oil slumped to minus $17.45/b from minus $12.30/b in late May 2006.

Table 2: Refined product prices, US$/b

		Apr 06	May 06	Jun 06	Change Jun/May
US Gulf (Cargoes):					
Naphtha		81.21	74.48	80.56	6.08
Premium gasoline	*(unleaded 93)*	100.57	100.04	106.21	6.17
Regular gasoline	*(unleaded 87)*	93.27	88.16	90.60	2.44
Jet/Kerosene		87.43	87.21	87.59	0.38
Gasoil	*(0.05% S)*	88.46	88.59	90.41	1.82
Fuel oil	*(1.0% S)*	50.87	51.32	48.46	-2.86
Fuel oil	*(3.0% S)*	50.74	49.93	46.41	-3.52
Rotterdam (Barges FoB):					
Naphtha		77.49	78.73	80.63	1.90
Premium gasoline	*(unleaded 50 ppm)*	90.97	93.84	95.72	1.88
Premium gasoline	*(unleaded 95)*	81.15	83.69	85.38	1.69
Jet/Kerosene		84.70	87	87.06	0.06
Gasoil/Diesel	*(50 ppm)*	84.69	86.03	86.13	0.10
Fuel oil	*(1.0% S)*	47.77	47.14	44.65	-2.49
Fuel oil	*(3.5% S)*	47.67	48.13	44.60	-3.53
Mediterranean (Cargoes):					
Naphtha		64.78	65.85	67.45	1.60
Premium gasoline	*(50 ppm)*	90.10	94.46	95.00	0.54
Jet/Kerosene		83.31	85.48	85.36	-0.12
Gasoil/Diesel	*(50 ppm)*	84.93	87.09	85.85	-1.24
Fuel oil	*(1.0% S)*	47.66	48.89	46.95	-1.94
Fuel oil	*(3.5% S)*	46.28	46.44	44.47	-1.97
Singapore (Cargoes):					
Naphtha		64.45	65.59	68.06	2.47
Premium gasoline	*(unleaded 95)*	81.13	86.80	82.76	-4.04
Regular gasoline	*(unleaded 92)*	80.15	86.17	82.21	-3.96
Jet/Kerosene		84.77	85.55	86.18	0.63
Gasoil/Diesel	*(50 ppm)*	90.68	92.78	89.13	-3.65
Fuel oil	*(180 cst 2.0% S)*	51.81	52.02	49.68	-2.34
Fuel oil	*(380 cst 3.5% S)*	51.32	51.32	48.46	-2.86

Table 3: Refinery operations in selected OECD countries

	Refinery throughput *mb/d*				Refinery utilization *%*			
	Apr 06	May 06	Jun 06	Jun/May	Apr 06	May 06	Jun 06	Jun/May
USA	14.60	15.32	15.90	0.58	85.3	89.4	92.8	3.40
France	1.47	1.60	1.57	-0.03	74.4	80.9	79.3	-1.60
Germany	2.26	2.33	2.30	-0.03	93.2	96.0	94.7	-1.30
Italy	1.80 R	1.77 R	1.92	0.15	77.5 R	76.0 R	82.7	6.70
UK	1.41	1.53	1.61	0.08	75.2	81.6	85.6	4.00
Eur-16	11.71 R	12.03 R	12.26	0.23	82.9 R	85.1 R	86.8	1.70
Japan	4.06 R	3.57 R	3.59	0.02	87.0	76.3 R	76.8	0.50

R *Revised since last issue.*

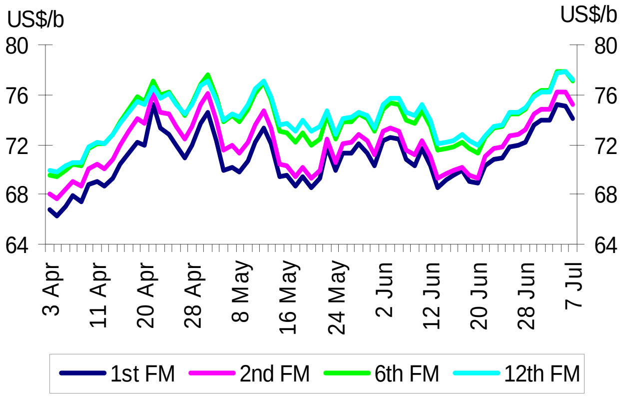
Sources: *OPEC statistics; Argus; Euroilstock Inventory Report; IEA.*

The Oil Futures Market

Healthy build in gasoline stocks and positive geopolitical developments inspired a reduction in futures contract volumes

Crude oil futures prices receded early in the month on easing geopolitical concerns amid bearish weekly petroleum data in the USA. However, the momentum was short-lived as tensions in Mideast geopolitics revived at the end of the first weekly period. The Nymex front-month rose 47¢ in the first weekly period to settle at $72.50/b. Non-commercial net long positions dropped by 4,500 lots to 43,900 amid an 8,700 rise in the short positions and a 4,200 gain in the longs according to the CFTC report for the first weekly period. Open interest saw a hefty build of nearly 26,000 lots to 1,044,000 lots.

Graph 11: Nymex WTI futures prices, 2006



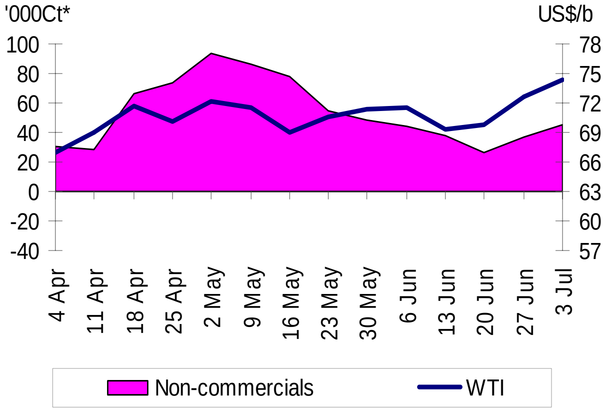
FM = future month

In the second weekly period, despite glitches at the Valero refinery in Aruba, positive developments in the Middle East amid healthy US crude oil and gasoline stocks helped to calm activity in the futures market. An IEA report showing OECD crude oil stocks at the highest level in 20 years furthered market bearishness. Thus, the Nymex front-month closed the second weekly period down $3.94 or more than 5% to settle at $68.56/b. Over the same period, non-commercials reduced net long positions by 6,300 to 37,500 contracts, partly as result of a hefty 6,700 drop in long positions. Open interest remained broadly unchanged at 1,044,000 lots.

In the third weekly period, market sentiment continued to weaken on a healthy build in the US gasoline stocks and further positive developments in the geopolitical arena. The sentiment was enhanced by concern that higher prices were eating into demand. The Nymex WTI front-month closed slightly up amid short-covering to settle at $68.94/b. Net long positions fell 10,800 to 26,700 as a result of a significant 11,300 drop in long positions. Open interest fell a significant 75,700 lots to 968,600 contracts, the lowest level in three months.

The final weekly period revived concern that gasoline supply might not meet rising demand this summer amid a few refinery glitches in the USA and the closure of the ship channel to Louisiana's Lake Charles region, which serves three refineries with a total capacity of 680,000 b/d. The prospect of healthy demand growth from China and the USA contributed to the market bullishness. The Nymex WTI prompt-month closed the final weekly period at $71.92/b, for a gain of $2.98 or over 4%. According to the CFTC, non-commercial net long positions rose 10,000 lots to 36,800 contracts as speculators boosted long positions by 9,600 lots. Moreover, open interest saw a healthy build of 22,900 to 991,500 contracts. On a monthly basis, non-commercial net positions were nearly half or 36,000 lots lower than in May and 22,000 lots higher than the same period last year. Moreover, open interest averaged 1,012,000 lots in June, representing a loss of 40,800 compared to the previous month, but were 225,700 higher than last year. The front-month average was unchanged at $70.97/b amid bullish sentiments in the final days of the month on the prospect of healthy economic growth.

Graph 12: Non-commercial net long positions vs WTI, 2006

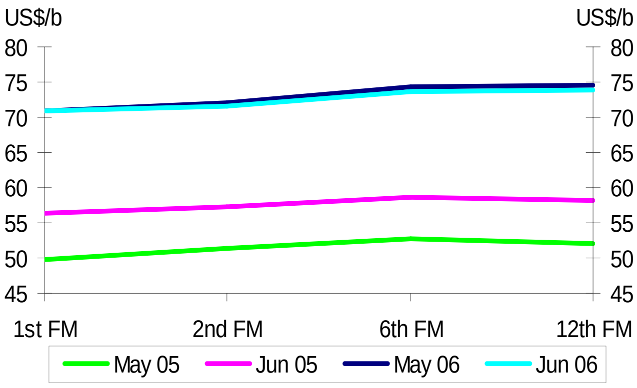


The contango narrowed as US crude stocks showed the first monthly decline this year

The Forward Structure

The contango sustained at a slower pace. The $1^{st}/2^{nd}$ month average spread was 72¢/b, a decrease of 40¢ from the previous month. The forward structure narrowed at a similar magnitude with the $1^{st}/6^{th}$, 12^{th} and 18^{th} spread at $2.68/b, $3.00/b and $2.07/b respectively. June saw the first monthly decline in crude oil stocks as inventories averaged 340.4 mb, representing a loss of 6.1 mb from the previous month but some 11.4 mb over the same period last year.

Graph 13: Nymex WTI forward curve



FM = future month

The Tanker Market

OPEC spot fixtures rose further amid high production and strong demand

OPEC spot fixtures continued their upward trend peaking at 14.6 mb/d in June, an increase of 0.4 mb/d compared to the previous month and 0.7 mb/d y-o-y. The sustained increase for the second consecutive month, which led to the second highest level so far this year, was due to continued high production and strong booking from refiners who have mostly completed their maintenance programmes. With 14.6 mb/d, OPEC's share in total spot fixtures remained stable at 65% but was slightly higher than a year earlier. Most of the increase in OPEC fixtures, which is attributed to Middle Eastern countries, will be shipped to the East. However, Middle East (including non-OPEC)/West fixtures fell 0.34 mb/d to 1.6 mb/d. Compared to the same month last year, Middle East/eastbound spot fixtures were 0.7 mb/d higher whereas Middle East/westbound fixtures were down 0.3 mb/d. Non-OPEC fixtures amounted to 7.7 mb/d, a gain of 0.12 mb/d over the previous month but 0.2 mb/d down from a year earlier. As a result, total OPEC and non-OPEC spot fixtures averaged 22.3 mb/d, up 0.5 mb/d from the previous month and the year-ago level.

Following the strong increase in OPEC fixtures from May, preliminary data shows that OPEC sailings increased 1.4 mb/d in June to stand at nearly 25.3 mb/d, the highest level since February, but almost the same level compared to a year earlier. Sailings from the Middle East including non-OPEC countries recovered from their three-month downward trend rising 0.5 mb/d or 3.4% to around 17.8 mb/d.

According to preliminary data from secondary sources, arrivals at the Euro Mediterranean Basin surged 0.7 mb/d or 17% to 4.6 mb/d as a result of the continued increase in refinery throughput, while arrivals at North-West Europe and Japan remained stable at 7.9 mb/d and 3.8 mb/d respectively. In contrast, arrivals at the US Gulf and East Coasts and the Caribbean declined 0.35 mb/d to 11.6 mb/d. Compared to last year, all arrivals were higher, especially at the US Gulf and East Coasts and the Caribbean where they displayed a y-o-y growth of 16%, reflecting the high level of US crude oil stocks. Arrivals at North-West Europe and the Euro-Mediterranean Basin were almost 8% higher than a year earlier while arrivals in Japan edged up by just 0.5%.

Table 4: Tanker chartering, sailings and arrivals, mb/d

	Apr 06	May 06	Jun 06	Change Jun/May
Spot Chartering				
All areas	19.34	21.80	22.31	0.51
OPEC	12.00	14.21	14.61	0.39
Middle East/east	4.44	5.72	5.84	0.11
Middle East/west	1.82	1.94	1.60	-0.34
Sailings				
OPEC	24.64	23.87	25.28	1.40
Middle East	17.53	17.21	17.76	0.54
Arrivals				
US Gulf Coast, US East Coast, Caribbean	9.46	11.98	11.63	-0.35
North West Europe	7.35	7.95	7.95	-0.01
Euromed	3.87	3.90	4.56	0.66
Japan	4.20	3.86	3.82	-0.05

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

Crude oil freight rates for VLCCs touched a four-month high, but softened for the other categories

The tanker market for crude oil showed a mixed pattern in June with spot freight rates for VLCCs reaching a four-month high while rates for Suezmax and Aframax tankers were divided between stability and losses, except on the Indonesia/US West Coast route which saw gains. The increase in Middle Eastern fixtures translated into a bullish market for VLCCs with rates continuing to increase in a period which usually sees declines. For the first time since February, rates for VLCCs trading on the long-haul route from the Middle East to the East exceeded WS100 to average WS108, an increase of 33 points or 44% from the previous month, while on the westbound route rates rose 17 points or 22% to stand at WS95. When compared to last year, VLCC rates in June were 80-93% higher than a year earlier. However, is should be noted that rates for VLCCs plunged to WS50s in June last year, their lowest level for the year. The bullish sentiment in the market which translated into high rates for VLCC owners came as a result of the lack of tonnage evident in lower availability of vessels following the peak in demand as refineries approached the end of maintenance programmes in Asia. As an indicator for strong activity, the number of fixtures from Middle East to the Far East reached 74 compared to 50 in April and around 60 in May. In addition, delays in unloading vessels due to heavier maintenance combined with some companies using tankers as floating storage contributed to the tightness in the tanker market. Similarly, strong imports by the USA for the summer driving season demand were among the main reasons behind the diminishing availability of tankers as reported by secondary sources. By the first week of July, the Saudi company Vela had already chartered the tenth VLCC to ship 20.5 mb of crude oil to the USA and Europe in July compared to just 4 VLCCs for June. Freight rates picked up in the third week when the availability of VLCCs for the next 30 days declined to around 40 vessels compared to nearly 60 vessels in the first week of June. However, rates showed some weakness during the fourth week following a slowdown in activity from charterers at month's end.

In contrast to VLCCs, Suezmax owners were under pressure and were forced to accept lower rates as availability of tankers improved. Rates for tankers moving between West Africa and the US Gulf Coast fell 12 points to stand at a monthly average of WS132 whilst rates for trans-Atlantic routes lost 9 points to register WS128. Despite the decline, rates for Suezmax tankers on both routes were similar to the June 2005 levels. In the Aframax sector, tankers moving on the Caribbean/US East Coast routes and on Mediterranean/North-West Europe saw rates remain almost stable at WS223 and WS147 respectively due to the active market, while rates within the Mediterranean Basin dropped 17 points or 10% to WS150, the lowest level since January 2006. In contrast, freight rates for tankers trading between Indonesia and the US West Coast reversed their six-month downward trend and jumped 30 points or 25% to average WS149. Compared to a year earlier, all routes for Aframax tankers showed losses except for the Indonesia/US West Coast route where rates were 22 points higher.

Table 5: Spot tanker freight rates, Worldscale

	Size *1,000 DWT*	Apr 06	May 06	Jun 06	Change Jun/May
Crude					
Middle East/east	230-280	63	75	108	33
Middle East/west	270-285	59	78	95	17
West Africa/US Gulf Coast	130-135	118	144	132	-12
NW Europe/USEC - USGC	130-135	112	137	128	-9
Indonesia/US West Coast	80-85	129	119	149	30
Caribbean/US East Coast	50-55	215	225	223	-2
Mediterranean/Mediterranean	80-85	148	167	150	-17
Mediterranean/North-West Europe	80-85	160	149	147	-2
Products					
Middle East/east	30-35	204	316	276	-40
Singapore/east	30-35	225	327	274	-53
Caribbean/US Gulf Coast	38-40	209	240	235	-5
NW Europe/USEC - USGC	33-37	271	263	253	-10
Mediterranean/Mediterranean	30-35	232	245	232	-13
Mediterranean/North-West Europe	30-35	210	250	237	-13

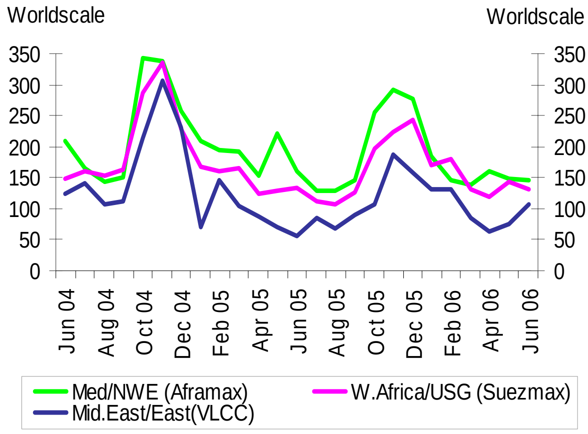
Source: Galbraith's Tanker Market Report and others.

Product spot freight rates eased but remained strong

In contrast to the crude tanker market, the clean market declined on all routes, particularly in the East, which affected the rest of the regions. Despite the slow-down, the market remained attractive for ship-owners with rates at high levels. The softness in rates was due to declining activity compared to the previous month, where refineries have almost come out of maintenance in Asia and the Northern Hemisphere leading to less trade from these regions. Tankers of 30,000–50,000 dwt doing business in the East saw their rates fall on average by 14% to settle at around WS275. In absolute values, the Middle East/East route lost 40 points while the Singapore/Japan route fell up to 53 points.

Despite the drop, rates on both routes remained above June 2005 levels, particularly on the Middle East/East route where they were 28% higher. Lower activity also dampened rates for tankers moving from the Caribbean to the US Gulf Coast and those doing trans-Atlantic business, which lost 5 and 10 points to average WS235 and WS253 respectively. Freight rates on the routes within the Mediterranean and from there to North-West Europe fell 13 points or 5% each to WS232 and WS237 respectively, offsetting the gain of the previous month. Apart from the East, all freight rates in the West were lower than the year-ago levels, particularly on the Mediterranean/North-West Europe route.

Graph 14: Monthly averages of crude oil spot freight rates



World Oil Demand

Offsetting revisions to OECD and non-OECD historical data

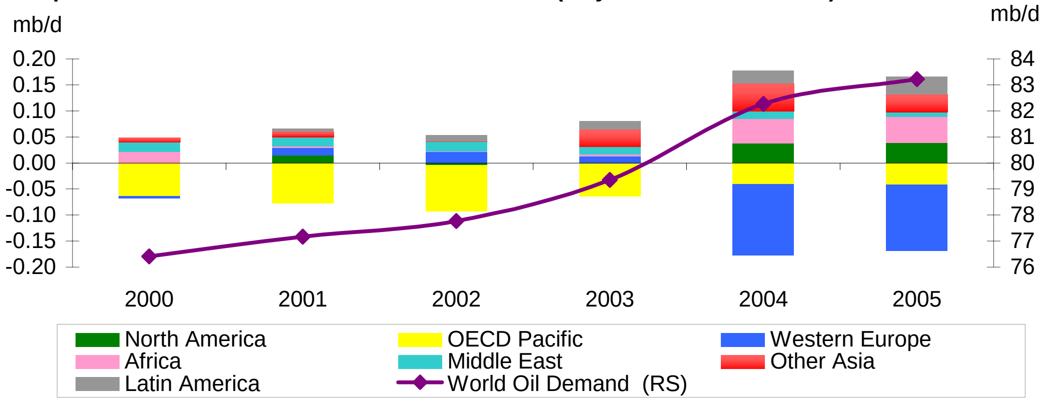
Revisions to 2000-2005 data

Following the submission of the 2005 annual questionnaire from OPEC Member Countries and direct communication with a number of Non-OPEC Developing Countries, Non-OECD annual oil consumption has been revised upward for the years 2000-2005 by an average of 0.08 mb/d per year. While upward revisions to Non-OECD oil demand did not exceed 0.05 mb/d for the years 2000 (0.05 mb/d), 2001 (0.03 mb/d) and 2002 (0.03 mb/d), larger modifications took place in 2003 (0.07 mb/d), 2004 (0.14 mb/d) and 2005 (0.13 mb/d). The regions concerned are Latin America, Other Asia, Africa and Middle East. In Latin America, small upward modifications of approximately 0.02 mb/d occurred in Argentinean oil demand, whereas upward revisions to oil demand for India and Indonesia, averaging 0.03 mb/d and 0.02 mb/d respectively, provided the bulk of changes in Other Asia. In Africa, the changes originated from Nigeria with an average of 0.02 mb/d and Libya with 0.01 mb/d. Finally, oil demand for Iran was slightly revised upward by an average of 0.02 mb/d during that period.

However, upward revisions in Non-OECD oil demand were offset by major downward changes in OECD oil demand, especially in Western Europe and Asia Pacific. Revisions to European oil demand were the greatest for the years 2004 and 2005 with downward revisions of 0.13 mb/d and 0.14 mb/d respectively. Revisions were split between the four biggest European consumers, namely Germany, France, Italy and the UK as well as other European countries. In Asia/Pacific, the only substantial change was a downward revision to oil demand for Japan of approximately 0.09 mb/d.

Consequently, world oil demand for 2005 and 2004 has been revised downward by 0.04 mb/d and 0.01 mb/d to stand at 83.23 mb/d and 82.27 mb/d respectively. For 2003, world oil demand stands at 79.35 mb/d, 0.02 mb/d higher than in the previous month.

Graph 15: Revisions in historical world oil demand (July 2006 over June 2006)



World oil demand in 2006 is estimated to average 84.6 mb/d, a growth of 1.4 mb/d

World oil demand in 2006

World oil demand in 2006 is estimated to average 84.6 mb/d, with a growth of 1.38 mb/d or 1.66%. The world economy looks healthy with a growth of 4.74% suggesting higher oil demand growth, however, unusually warm winter in the first quarter in North America diminished the positive impact of healthy economic growth. High oil prices have also dampened oil demand growth, especially in some Asian countries, which have eased or removed oil product subsidies due to rising world market prices. As stated in the last *MOMR*, China and the Middle East will dominate the world oil demand growth in 2006 representing about 60% of the total growth.

Table 6: World oil demand forecast for 2006, mb/d

	2005	1Q06	2Q06	3Q06	4Q06	2006	Change 2006/05 Volume	%
North America	25.46	25.13	25.45	25.85	25.93	25.59	0.13	0.51
Western Europe	15.48	15.73	15.04	15.57	15.75	15.52	0.04	0.28
OECD Pacific	8.59	9.29	8.09	8.12	9.03	8.63	0.04	0.48
Total OECD	**49.53**	**50.15**	**48.58**	**49.53**	**50.71**	**49.74**	**0.22**	**0.44**
Other Asia	8.68	8.77	8.90	8.66	8.84	8.79	0.11	1.32
Latin America	5.07	4.99	5.21	5.30	5.23	5.18	0.12	2.30
Middle East	5.82	6.04	6.12	6.32	6.15	6.16	0.34	5.81
Africa	2.89	2.96	2.95	2.93	3.00	2.96	0.07	2.30
Total DCs	**22.45**	**22.76**	**23.17**	**23.21**	**23.21**	**23.09**	**0.64**	**2.83**
FSU	3.82	3.72	3.68	3.84	4.05	3.82	0.00	0.08
Other Europe	0.88	0.97	0.97	0.88	0.87	0.92	0.04	4.08
China	6.54	7.09	7.10	6.84	7.10	7.03	0.49	7.53
Total "Other Regions"	**11.25**	**11.78**	**11.75**	**11.56**	**12.02**	**11.78**	**0.53**	**4.73**
Total world	**83.23**	**84.69**	**83.50**	**84.30**	**85.94**	**84.61**	**1.38**	**1.66**
Previous estimate	83.27	84.74	83.50	84.31	85.96	84.63	1.36	1.63
Revision	-0.04	-0.05	0.00	-0.01	-0.02	-0.02	0.02	0.03

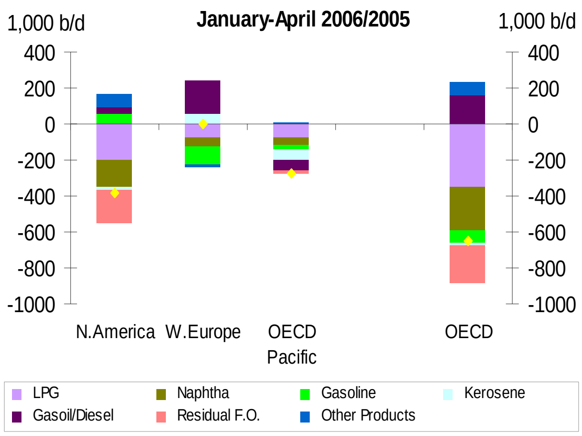
Totals may not add due to independent rounding.

Estimate for first half of 2006

North America saw oil demand growth of 0.7 mb/d in the second quarter

Latest data from the USA indicates that, in contrast to the same period of the previous year, demand for gasoline and heating oil demand has been weakening. North America's y-o-y oil demand growth in the first quarter fell by 1.7%. Warm weather and high oil prices played an important role in curbing oil demand in the largest market in the world. However, unlike in the previous quarter, second-quarter oil demand is keeping up with the high economic growth, but showing only a y-o-y oil demand growth of 0.1 mb/d.

Graph 16: OECD - Growth of total requirements by component



Additionally, preliminary data from the EIA showed that US oil consumption fell by about 0.2% in the first half of this year amid relatively slow demand growth for transportation fuels and heating oil. In fact, gasoline demand growth over the last six months has averaged only 0.6%, less than the average of 1.6% seen in the typical year. However, June data indicated strong consumption of 9.5 mb/d despite a 30% y-o-y increase in retail prices. During the same period, distillate fuel oil demand has also slowed relative to the average seen in previous years resulting in growth of 1%. This could be partially attributed to warm weather which reduced demand for heating oil in the first quarter. Residual fuel oil experienced the largest drop of more than 8% in the first half of 2006, as natural gas prices have eased compared to oil prices encouraging substitution of residual fuel by natural gas.

OECD Europe

Demand growth in OECD Europe to turn negative at 0.1 mb/d in the second quarter

Although the recent cold winter boosted demand for heating oil by 10% and jet fuel by 2.5% in the past five months, Germany's overall oil demand still fell by 0.5% in comparison with the same time last year. According to the German Trade Group, gasoline demand over the first five-months of the year dropped by more than 7% compared to the same period last year. Western Europe's shift toward diesel engine vehicles is increasing and resulting in a moderate growth in diesel demand. Oil demand growth in the first quarter was revised down to show a y-o-y increase of 0.15 mb/d, reflecting to some extent the historical revision which occurred in the first quarter in 2005, while demand in the second quarter is expected to decline by 0.1 mb/d.

OECD Pacific

The Korean government's energy data showed the first oil demand growth for 2006, although the May demand increase did not offset the 3% decline in demand growth seen in the first four months of the year. The May y-o-y demand growth was up by more than 4%, mainly due to strong naphtha demand. Shortage of LNG supplies to Japan from Indonesia over the past two months has increased oil demand in Japan in the past two months. Japan's May y-o-y crude imports fell by 6.7% on the expectation of lower demand. Unlike the previous month when gasoline demand was hit by both the unusually rainy weather during the driving season and high gasoline prices, June gasoline demand beat expectations to increase by 0.9% y-o-y. As mentioned in the last *MOMR*, both warm weather and heavy maintenance throughout the petrochemical industry have reduced oil demand in Asia in the first half of this year. The OECD Pacific second-quarter oil demand growth showed a slight increase of 0.03 mb/d to average 8.1 mb/d.

Developing Countries

Middle East oil demand growth in the second quarter revised up by 0.05 mb/d

Due to the strong economic growth in the Middle Eastern countries, oil consumption for the first quarter was revised up by 0.1 mb/d to average 6.0 mb/d indicating a growth of 0.4 mb/d. Preliminary data for the second quarter also showed an increase of 0.3 mb/d to total 6.1 mb/d.

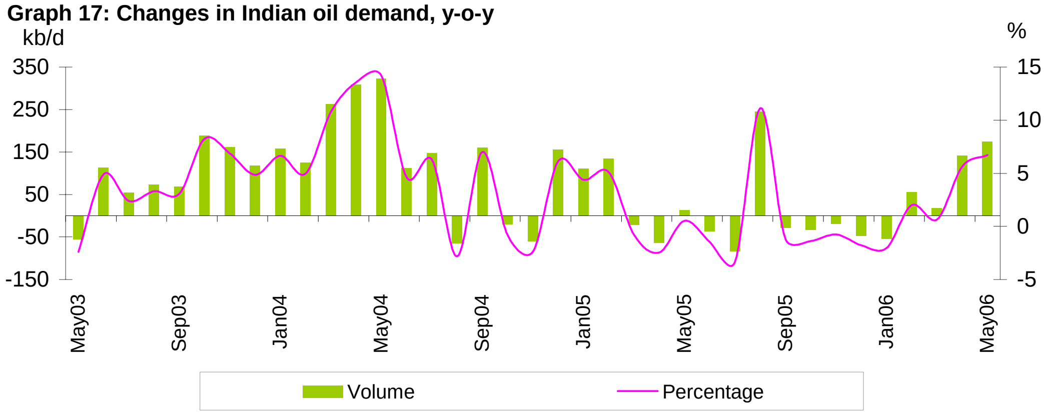
Oil demand in the Other Asia region has slowed in the first half of this year experiencing a growth of less than 0.1 mb/d in the first two quarters as the increase in domestic prices in some countries has negatively affected oil demand growth. For the second quarter, preliminary data was also revised up by 0.05 mb/d to 0.3 mb/d.

Other Regions

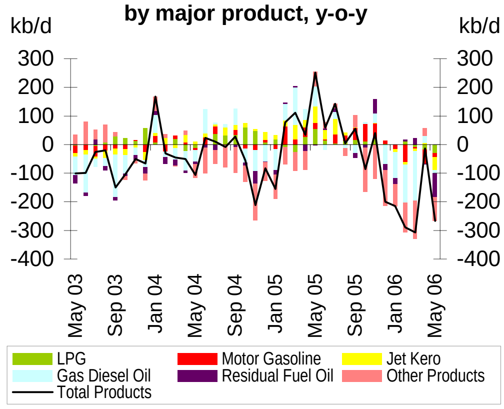
Following healthy growth of 0.58 mb/d in the first quarter, China's second-quarter apparent demand was higher than expected, rising to 7.1 mb/d, an increase of 0.52 mb/d y-o-y. The month of May is the beginning of the summer season for both gasoline and agriculture diesel consumption. China's apparent oil demand for May came unexpectedly strong, with May y-o-y demand growth up by more than 13%. This came as a result of high imports in anticipation of a summer price hike and a reduction of gasoline exports. Some analyst believe that, should China's petroleum product price increase match the international rate, then the oil import volume would be greater at least in the short term. According to Reuters, Chinese imports of fuel oil soared to an eleven-month high as traders speculate about a new tariff increase.

China's oil imports and refinery runs in the first five months of this year were up by almost 18% and 5% respectively in comparison to the same period in 2005. Refineries hiked output and reduced exports in anticipation of a price increase to meet the peak summer demand. China's apparent y-o-y gasoline and naphtha demand for the first five months of 2006 increased by 13% and 16% respectively. Given the high international oil prices, there are no production incentives for refiners as a result of regulated petroleum prices in China. Domestic car sales increased by a stunning 50% y-o-y in the first five months of 2006.

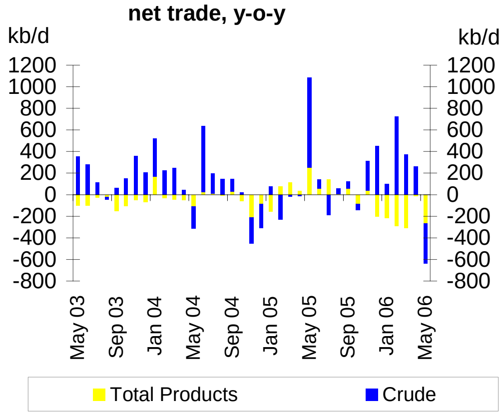
Graph 17: Changes in Indian oil demand, y-o-y



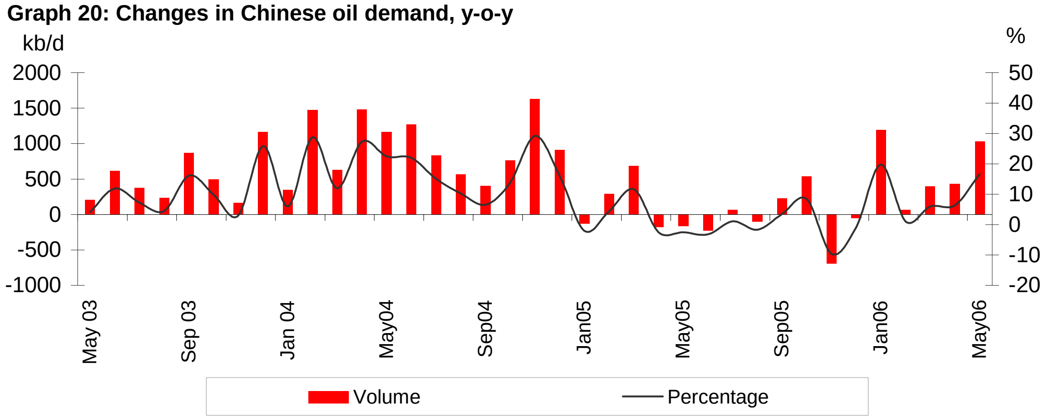
Graph 18: Changes in Indian oil net imports by major product, y-o-y



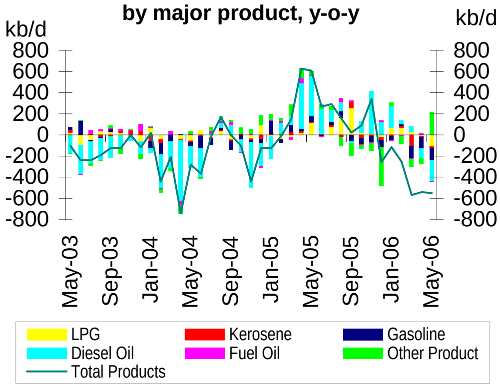
Graph 19: Changes in Indian oil and product net trade, y-o-y



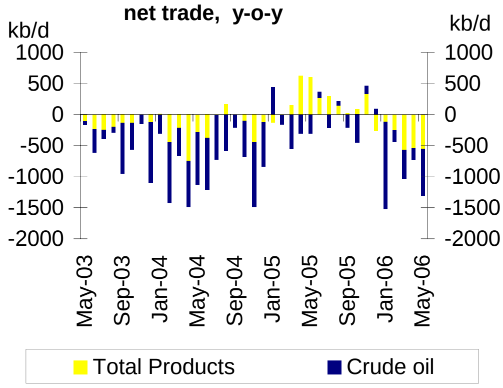
Graph 20: Changes in Chinese oil demand, y-o-y



Graph 21: Changes in Chinese oil net imports by major product, y-o-y



Graph 22: Changes in Chinese oil and product net trade, y-o-y



Forecast for 2006 demand

OECD

OECD oil demand is expected to increase by 0.22 mb/d in 2006

North American oil demand growth is estimated at 0.13 mb/d or 0.5% to average 25.6 mb/d, a downward revision when compared to the last *MOMR*, reflecting adjustments made to the second quarter of 2006. Growth in the second half of this year is expected to be stronger given the stabilization of gasoline prices and continued economic expansion. US gasoline demand is still strong despite the increase in prices as shown in the June data. The past holiday also indicated a demand hike for gasoline which demonstrated the weak effect of prices on American consumers so far. Oil demand in OECD Western Europe is projected to increase by a moderate 0.04 mb/d to 15.5 mb/d. Growth in the next quarter will remain weak and is not likely to recover from the decline observed in the second quarter. Following good growth in 2005, OECD Pacific is expected to increase a marginal 0.04 mb/d to 8.6 mb/d this year. The increase will mainly come in the second half of the year due to the pickup in economic growth in Korea and sustained economic growth in Japan.

Developing Countries oil demand is estimated to grow by 0.64 mb/d; half of this growth will come from the Middle East

Developing Countries

Developing Countries account for 43% of world oil demand growth in 2006. Strong economic activities in the Middle East pushed demand higher, leading to upward revisions of Middle Eastern oil demand of 0.05 mb/d and 0.06 mb/d for the third and fourth quarters respectively. Oil demand strength of the first half is expected to continue until the end of the year. Oil demand for the whole year is expected to increase by 0.34 mb/d to average 6.2 mb/d. In Other Asia, domestic price subsidies have been reduced or removed in several countries leading to a dampening of oil demand growth. Growth in Other Asia is expected to increase by a moderate 0.11 mb/d to a total 8.8 mb/d compared to almost 0.5 mb/d growth in 2004. In Latin America, refined product demand is expected to increase by 0.12 mb/d to 5.2 mb/d, almost at the same rate as experienced in 2005.

China's oil demand growth in 2006 was revised up to 0.49 mb/d

Other Regions

The Chinese government is not expected to fully free up the fuel industry, at least in the short and the medium term. For the second time, China raised its gasoline, gasoil and jet fuel prices. Unlike the first price hike of 3-5%, this time the increase exceeded 10%. Higher prices came as a result of rising world oil prices. This recent increase will help refiners to provide more petroleum products for the summer peak; however, the expected negative impact on oil demand would not be seen in the short term. A strong economic boom hiked oil demand growth in the first half of the year. Following an upward revision of 0.02 mb/d, Chinese oil demand growth is expected to increase by 0.49 mb/d to average 7.1 mb/d in 2006. A booming manufacturing sector along with low inflation could increase oil demand this year, as could a warmer summer and the upcoming agricultural season. Rising car sales and the expected filling of the new Chinese strategic storage will also increase oil demand during 2006. However, any further price hike or newly imposed taxes in China would likely dent demand growth.

Table 7: First and second quarter world oil demand comparison for 2006, mb/d

			Change 2006/05				Change 2006/05	
	1Q05	1Q06	Volume	%	2Q05	2Q06	Volume	%
North America	25.57	25.13	-0.44	-1.72	25.34	25.45	0.11	0.43
Western Europe	15.58	15.73	0.15	0.94	15.15	15.04	-0.10	-0.66
OECD Pacific	9.45	9.29	-0.15	-1.61	8.06	8.09	0.03	0.37
Total OECD	**50.59**	**50.15**	**-0.44**	**-0.88**	**48.54**	**48.58**	**0.04**	**0.08**
Other Asia	8.71	8.77	0.06	0.66	8.84	8.90	0.06	0.69
Latin America	4.89	4.99	0.10	1.99	5.07	5.21	0.13	2.59
Middle East	5.65	6.04	0.38	6.76	5.79	6.12	0.33	5.72
Africa	2.90	2.96	0.07	2.31	2.89	2.95	0.06	2.09
Total DCs	**22.16**	**22.76**	**0.60**	**2.73**	**22.58**	**23.17**	**0.58**	**2.59**
FSU	3.87	3.72	-0.16	-4.03	3.70	3.68	-0.02	-0.43
Other Europe	0.93	0.97	0.03	3.53	0.88	0.97	0.09	10.36
China	6.51	7.09	0.58	8.91	6.58	7.10	0.52	7.89
Total "Other Regions"	**11.32**	**11.78**	**0.46**	**4.04**	**11.15**	**11.75**	**0.59**	**5.33**
Total world	**84.07**	**84.69**	**0.62**	**0.73**	**82.28**	**83.50**	**1.22**	**1.48**

Totals may not add due to independent rounding.

Table 8: Third and fourth quarter world oil demand comparison for 2006, mb/d

			Change 2006/05				Change 2006/05	
	3Q05	3Q06	Volume	%	4Q05	4Q06	Volume	%
North America	25.51	25.85	0.34	1.34	25.43	25.93	0.50	1.97
Western Europe	15.55	15.57	0.02	0.10	15.64	15.75	0.11	0.73
OECD Pacific	8.08	8.12	0.04	0.56	8.79	9.03	0.24	2.72
Total OECD	**49.13**	**49.53**	**0.40**	**0.82**	**49.86**	**50.71**	**0.85**	**1.71**
Other Asia	8.53	8.66	0.13	1.49	8.63	8.84	0.21	2.44
Latin America	5.19	5.30	0.11	2.11	5.11	5.23	0.13	2.49
Middle East	6.01	6.32	0.31	5.13	5.81	6.15	0.33	5.70
Africa	2.84	2.93	0.08	2.84	2.94	3.00	0.06	2.00
Total DCs	**22.58**	**23.21**	**0.63**	**2.77**	**22.49**	**23.21**	**0.73**	**3.23**
FSU	3.78	3.84	0.07	1.72	3.93	4.05	0.12	2.94
Other Europe	0.87	0.88	0.00	0.47	0.86	0.87	0.02	1.97
China	6.43	6.84	0.42	6.46	6.64	7.10	0.46	6.89
Total "Other Regions"	**11.08**	**11.56**	**0.48**	**4.37**	**11.43**	**12.02**	**0.59**	**5.16**
Total world	**82.79**	**84.30**	**1.51**	**1.83**	**83.77**	**85.94**	**2.17**	**2.59**

Totals may not add due to independent rounding.

Forecast for 2007 demand

World oil demand is forecast to rise by 1.3 mb/d or 1.5% to 85.9 mb/d in 2006

World oil demand forecast for the year 2007 is based on the following assumptions:

- World GDP will grow at a slow but still substantial pace compared to the current year.
- The Chinese economy will grow at 8.5% in 2007, down slightly from this year, and a further domestic price hike is expected.
- The Middle Eastern economy will show healthy growth, boosting oil demand growth to the second place behind China.
- OECD countries will experience normal weather.
- The tight downstream situation will continue in 2007.
- Price subsidy removal effects will continue in some Asian countries
- The relationship between economic growth and energy consumption is weakening
- Energy-price elasticity is strengthening, affecting mainly Asia, which is a major growth region for both this year and the next.

World economy expansion is assumed at 4.2%, which is lower than the present 4.7% estimate for 2006. Along with the slower economic growth comes an easing of incremental oil consumption... As seen in 2006, the relationship between energy consumption and economic growth is weaker mainly due to the impact of high oil prices. High oil prices are eroding oil demand growth. The downstream bottlenecks are expected to continue in the coming year, as refining expansions are not keeping up with the world demand growth for petroleum products. As a result, the high refinery utilization rate is expected to continue in 2007. As has been seen so far in 2006, the main contributors to the growth in oil demand will be China and the Middle East. In summary, world oil demand is expected to increase by 1.3 mb/d to average 85.9 mb/d, lower than the increment estimated for the current year.

Table 9: World oil demand forecast for 2007, mb/d

							Change 2007/06	
	2006	1Q07	2Q07	3Q07	4Q07	2007	Volume	%
North America	25.59	25.63	25.56	25.96	26.06	25.80	0.21	0.82
Western Europe	15.52	15.58	15.15	15.63	15.81	15.54	0.02	0.13
OECD Pacific	8.63	9.40	8.00	8.13	9.03	8.64	0.01	0.09
Total OECD	**49.74**	**50.60**	**48.71**	**49.73**	**50.89**	**49.98**	**0.24**	**0.48**
Other Asia	8.79	8.85	9.02	8.87	9.04	8.95	0.15	1.76
Latin America	5.18	5.12	5.29	5.38	5.30	5.27	0.09	1.74
Middle East	6.16	6.33	6.35	6.67	6.47	6.46	0.30	4.88
Africa	2.96	3.02	3.00	2.97	3.06	3.01	0.05	1.74
Total DCs	**23.09**	**23.31**	**23.66**	**23.90**	**23.87**	**23.69**	**0.60**	**2.59**
FSU	3.82	3.80	3.62	3.77	4.14	3.83	0.01	0.27
Other Europe	0.92	1.01	0.95	0.90	0.94	0.95	0.03	3.12
China	7.03	7.42	7.58	7.33	7.49	7.45	0.42	5.96
Total "Other Regions"	**11.78**	**12.23**	**12.14**	**12.00**	**12.57**	**12.23**	**0.46**	**3.89**
Total world	**84.61**	**86.14**	**84.51**	**85.62**	**87.33**	**85.90**	**1.29**	**1.53**

China's expected economic boom in 2007 will result in strong oil demand growth. Although the electricity shortages that took place in 2004 are not expected in the coming year, other sectors which serve as major energy drivers such as industrial production, in-land cargo, agriculture, construction and passenger transportation, will show a healthy growth. Although the long-awaited strategic reserve has been kept out of sight by the government, some industry observers are expecting some filling might take place in 2007 in one site, which will affect apparent demand. China's oil demand growth for 2007 is expected to reach 0.42 mb/d for a total of 7.45 mb/d.

It should be noted that Chinese government policies on energy are highly effective as the oil industry is closely regulated. Therefore any sudden change can have an immediate effect. Furthermore, the government is not only sensitive to any overheating in economic and oil growth, but also to environmental needs. China has become the world largest coal consumer, and consumption is growing rapidly. There is a large possibility that the government may increase energy taxes and power tariffs in order to achieve its target to curb energy demand by 20% by 2010. However, such a strong energy efficiency target is likely to be difficult to accomplish. Local authorities are still seeking high economic growth — which implies more output from energy intensive industries such as construction and chemicals — and therefore the central government will have a hard time taming energy growth.

The Middle East is experiencing major economic growth and is to some degree immune to the negative effects of a high oil price. The Middle Eastern GDP will grow at 4.9% in 2007 representing a slight decline of 0.3%. Gasoline demand is expected to be slightly lower because of governmental efforts to curb costly gasoline demand growth. Oil demand is expected to increase by 0.3 mb/d to 6.46 mb/d.

North America's oil demand is expected to grow by 0.8% in 2007, representing an incremental growth of 0.2 mb/d to 25.8 mb/d, higher increment than in 2006. This forecast is derived from the assumption that the warmer winter seen this year will not be repeated in the coming year. Higher oil prices should dampen oil demand growth, and residual fuel oil demand is also expected to decline.

Table 10: 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	25.13	25.63	0.50	1.97	25.45	25.56	0.12	0.46
Western Europe	15.73	15.58	-0.15	-0.94	15.04	15.15	0.10	0.67
OECD Pacific	9.29	9.40	0.10	1.12	8.09	8.00	-0.09	-1.13
Total OECD	**50.15**	**50.60**	**0.45**	**0.90**	**48.58**	**48.71**	**0.13**	**0.26**
Other Asia	8.77	8.85	0.08	0.86	8.90	9.02	0.12	1.36
Latin America	4.99	5.12	0.13	2.58	5.21	5.29	0.09	1.70
Middle East	6.04	6.33	0.29	4.81	6.12	6.35	0.24	3.86
Africa	2.96	3.02	0.05	1.79	2.95	3.00	0.05	1.62
Total DCs	**22.76**	**23.31**	**0.55**	**2.40**	**23.17**	**23.66**	**0.49**	**2.13**
FSU	3.72	3.80	0.09	2.30	3.68	3.62	-0.06	-1.75
Other Europe	0.97	1.01	0.04	4.52	0.97	0.95	-0.02	-2.20
China	7.09	7.42	0.32	4.53	7.10	7.58	0.48	6.73
Total "Other Regions"	**11.78**	**12.23**	**0.45**	**3.83**	**11.75**	**12.14**	**0.39**	**3.34**
Total world	**84.69**	**86.14**	**1.45**	**1.71**	**83.50**	**84.51**	**1.01**	**1.21**

Totals may not add due to independent rounding.

Table 11: Third and fourth quarter world oil demand comparison for 2006, mb/d

			Change 2007/06				Change 2007/06	
	3Q06	3Q07	Volume	%	4Q06	4Q07	Volume	%
North America	25.85	25.96	0.12	0.45	25.93	26.06	0.12	0.47
Western Europe	15.57	15.63	0.07	0.43	15.75	15.81	0.06	0.36
OECD Pacific	8.12	8.13	0.01	0.17	9.03	9.03	0.00	0.05
Total OECD	**49.53**	**49.73**	**0.20**	**0.40**	**50.71**	**50.89**	**0.18**	**0.36**
Other Asia	8.66	8.87	0.21	2.46	8.84	9.04	0.21	2.34
Latin America	5.30	5.38	0.08	1.57	5.23	5.30	0.06	1.17
Middle East	6.32	6.67	0.35	5.54	6.15	6.47	0.33	5.29
Africa	2.93	2.97	0.04	1.50	3.00	3.06	0.06	2.05
Total DCs	**23.21**	**23.90**	**0.69**	**2.97**	**23.21**	**23.87**	**0.65**	**2.82**
FSU	3.84	3.77	-0.07	-1.84	4.05	4.14	0.09	2.25
Other Europe	0.88	0.90	0.02	2.78	0.87	0.94	0.07	7.77
China	6.84	7.33	0.48	7.06	7.10	7.49	0.39	5.52
Total "Other Regions"	**11.56**	**12.00**	**0.44**	**3.78**	**12.02**	**12.57**	**0.55**	**4.58**
Total world	**84.30**	**85.62**	**1.32**	**1.57**	**85.94**	**87.33**	**1.39**	**1.62**

Totals may not add due to independent rounding.

World Oil Supply

Non-OPEC supply growth revised down slightly to 1.2 mb/d

Non-OPEC

Forecast for 2006

In 2006, non-OPEC oil supply is expected to average 51.4 mb/d, representing an increase of 1.2 mb/d over 2005, but a downward revision of 16,000 b/d versus the last assessment. The adjustment primarily reflects slightly lower than expected production from Brazil, South Africa and Uzbekistan. However, these adjustments have been partly offset by upward revisions in other countries, particularly Argentina, Russia, and Kazakhstan. Historical revisions dating as far as 2004 to the data of the USA, Malaysia, Ecuador, Bahrain, Oman and Uzbekistan, have also been incorporated. On a quarterly basis, this year non-OPEC supply is expected to average 50.6 mb/d, 50.7 mb/d, 51.4 mb/d, and 52.7 mb/d in the first, second, third and fourth quarters, representing an upward revision of 39,000 b/d in the first, downward revisions of 99,000 b/d and 40,000 in the second and third, while the fourth remained unchanged.

Table 12: Non-OPEC oil supply in 2006, mb/d

	2005	1Q06	2Q06	3Q06	4Q06	2006	Change 06/05
North America	14.07	14.16	14.29	14.42	14.80	14.42	0.35
Western Europe	5.70	5.62	5.36	5.20	5.51	5.42	-0.28
OECD Pacific	0.58	0.48	0.50	0.56	0.62	0.54	-0.04
Total OECD	**20.35**	**20.26**	**20.15**	**20.17**	**20.93**	**20.38**	**0.03**
Other Asia	2.69	2.73	2.73	2.78	2.78	2.75	0.07
Latin America	4.29	4.37	4.47	4.59	4.67	4.53	0.24
Middle East	1.87	1.83	1.82	1.81	1.81	1.82	-0.05
Africa	3.74	3.97	3.84	4.11	4.39	4.08	0.34
Total DCs	**12.58**	**12.90**	**12.85**	**13.29**	**13.65**	**13.17**	**0.59**
FSU	11.55	11.70	12.02	12.18	12.35	12.06	0.51
Other Europe	0.16	0.15	0.15	0.15	0.15	0.15	-0.01
China	3.62	3.68	3.69	3.72	3.71	3.70	0.08
Total "Other regions"	**15.32**	**15.53**	**15.86**	**16.05**	**16.20**	**15.91**	**0.59**
Total Non-OPEC production	**48.26**	**48.69**	**48.85**	**49.51**	**50.78**	**49.47**	**1.21**
Processing gains	1.86	1.92	1.89	1.89	1.93	1.91	0.04
Total Non-OPEC supply	**50.12**	**50.61**	**50.74**	**51.40**	**52.71**	**51.37**	**1.25**
Previous estimate	50.14	50.57	50.84	51.44	52.71	51.40	1.26
Revision	**-0.02**	**0.04**	**-0.10**	**-0.04**	**0.00**	**-0.02**	**-0.01**

Preliminary data for May puts total non-OPEC supply at 50.7 mb/d, 100,000 b/d higher than the previous month. Main contributors to this slight increase include Norway, Canada, India, Russia and Azerbaijan. However, the impact of unplanned shutdowns, underperforming fields and hurricane-related losses in the US Gulf of Mexico continues to affect around 0.5 mb/d of supplies. Year-on-year, non-OPEC supply is estimated to have remained broadly flat versus May 2005. However, June output is expected to rise sequentially and y-o-y to reach record levels, even after considering current production that remains shut in. Deep maintenance is expected to affect the production levels of Norway and UK, as well as the impact of strikes in Norway, Chad, and Mexico.

Forecast for 2007

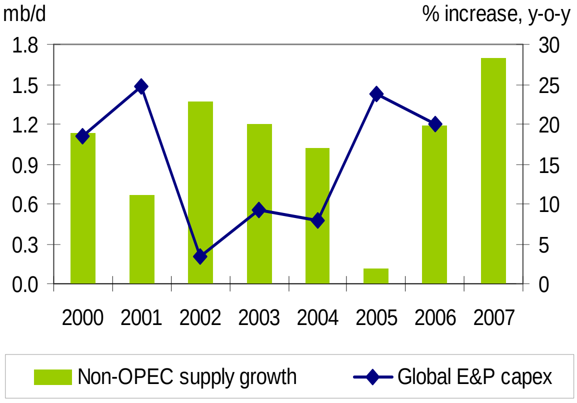
Non-OPEC supply for 2007 forecast at 1.7 mb/d

Non-OPEC oil supply including processing gains is expected to average 53.1 mb/d, representing an increase of 1.7 mb/d versus 2006. On a quarterly basis, non-OPEC supply is likely to be 52.5 mb/d, 52.8 mb/d, 53 mb/d and 54 mb/d, in the first, second, third, and fourth quarter, respectively. This expected increase is twice the average growth of the 2000-06 period and is one of the highest in the last several decades. It is worth noting that the relatively strong performance of non-OPEC supply over the last few years - bar 2005 – is no doubt the result of expanding E&P activity worldwide. This is for two reasons. First, rising oil and gas prices have resulted in a two-fold increase in real global E&P investments since 2000. Second, non-OPEC growth has benefited greatly from stability and reforms in the FSU, the start of large projects in deepwater provinces and unconventional oil projects, the exploitation of marginal opportunities world wide, strong growth in bio fuels (ethanol), and the expansion of the E&P industry both in terms of the number of players and geographically. The outlook for next year reflects the impact and continuation off all of these, as well as the contribution of project delays from this year to 2007.

Biofuels to increase 60,000-100,000 b/d next year

Looking at biofuels, global production from all biological sources is currently estimated at 0.8 mb/d, of which 60% is used as fuel ethanol in for transport fuels. Over the last five years, total biofuels production has been increasing very rapidly, and next year is expected to increase 60,000-100,000 b/d, of which 80% may end up in transport fuels. Brazil, the world largest producer of biofuels, is expected to add 20,000-40,000 b/d, the USA 20,000-40,000 b/d whilst producers such as China, India and Europe could add in total another 20,000-30,000 b/d. Canada and Mexico are also expected to contribute 20,000 b/d from new plants. At a global level biofuels, in particular fuel ethanol, are receiving help from all sides — energy prices, industry focus and more government support.

Graph 23: Year-on-year change in Non-OPEC supply and global E&P capex



The forecast does not take into account a number of risks, such as the impact of extreme hurricane activity in the USA and Asia, unplanned shutdowns, material delays, and political instability. Tightness in the oil service sector poses some risks, particularly when specialized service is suddenly required. Rising underlying costs also pose a risk in the near term for small marginal projects, EOR, and striper wells. However, it should be noted that current oil prices are several times higher than average production and development costs of most producing regions. Finally, but of equal importance, sharp downward fluctuations in energy prices could affect some investment plans and as a direct consequence mature oil production, thereby reducing the growth. Combined, these risks could affect as much as 0.5 mb/d of the growth.

Table 13: Non-OPEC oil supply in 2007, mb/d

	2006	1Q07	2Q07	3Q07	4Q07	2007	Change 07/06
North America	14.42	14.72	14.79	14.77	14.98	14.81	0.40
Western Europe	5.42	5.49	5.47	5.32	5.56	5.46	0.04
OECD Pacific	0.54	0.61	0.59	0.63	0.62	0.61	0.07
Total OECD	**20.38**	**20.82**	**20.84**	**20.72**	**21.16**	**20.88**	**0.51**
Other Asia	2.75	2.74	2.65	2.77	2.87	2.76	0.01
Latin America	4.53	4.62	4.60	4.64	4.68	4.63	0.11
Middle East	1.82	1.82	1.81	1.79	1.80	1.80	-0.01
Africa	4.08	4.45	4.51	4.62	4.73	4.58	0.50
Total DCs	**13.17**	**13.62**	**13.58**	**13.82**	**14.07**	**13.78**	**0.60**
FSU	12.06	12.27	12.51	12.69	12.86	12.58	0.52
Other Europe	0.15	0.15	0.15	0.15	0.15	0.15	0.00
China	3.70	3.75	3.73	3.76	3.84	3.77	0.07
Total "Other regions"	**15.91**	**16.16**	**16.39**	**16.59**	**16.85**	**16.50**	**0.59**
Total Non-OPEC production	**49.47**	**50.60**	**50.81**	**51.13**	**52.08**	**51.16**	**1.70**
Processing gains	1.91	1.93	1.93	1.93	1.93	1.93	0.02
Total Non-OPEC supply	**51.37**	**52.53**	**52.74**	**53.06**	**54.01**	**53.09**	**1.72**

On a regional basis, a substantial increase is expected to come from the FSU region (mainly Caspian), followed by Africa, North America, and Latin America. OECD Europe and Pacific are expected to show a modest increase, whilst Other Asia and the Middle East are expected to remain broadly flat. China's oil production is again expected to increase slightly. It is worth noting that the strong production growth in the above regions should result in stiff competition in the Mediterranean and the Atlantic Basin. In terms of quality, incremental oil is expected to be overwhelmingly medium and light API.

FSU

The FSU region is expected to grow 0.5 mb/d to 12.6 mb/d with quarterly averages of 12.3 mb/d, 12.5 mb/d, 12.7 mb/d and 12.9 mb/d in the first, second, third, and fourth quarter, respectively. Caspian countries are expected to deliver more growth than Russia.

Russia

Russian oil production to grow 0.23 mb/d but could be more

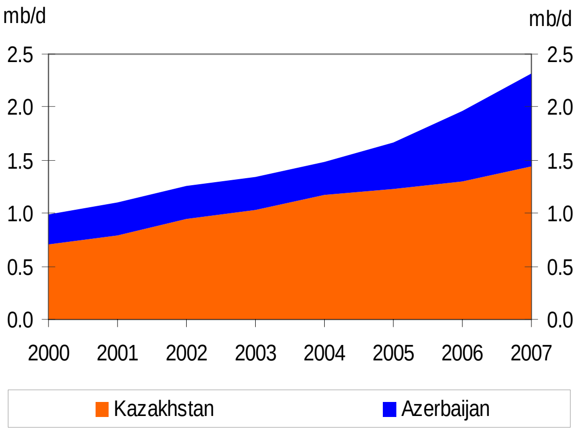
Russian oil production is expected to increase 0.23 mb/d to 9.9 mb/d. This growth is similar to the current estimate for 2006 and the actual for 2005 and is based on the assumption of a continuation of recent industry trends with contributions from new projects and a stated government policy of increasing production at a measured pace, particularly among state-controlled companies which together account for over 3.5 mb/d. However, the Russian oil industry is large, complex, the fields are numerous and some are large in scale, which makes forecasting very difficult. Finally, the Russian upstream and downstream markets are closely connected, and any significant developments in any of these tend to affect the other. In fact, another reason why crude oil production is assumed to increase moderately next year is because some large Russian operators are showing a preference to increase their investment plans and focus more attention to the downstream sector next year. For example, as the Atlantic Basin looks to be well supplied with crude, some large companies are likely to focus more on refined products instead of crude oil.

Looking ahead, over 25 new small size fields are expected to start each year in the foreseeable future. These tend to be less than 20,000 b/d and have a relatively short life, but together they are important if one considers that Russia's estimated net decline is around 150,000-200,000 b/d per year. Next year, a number of significant projects will begin or ramp up. These include the Sakhalin projects (1 and 2), which will produce over 350,000 b/d by the end of 2007; Salym, which is currently producing over 50,000 b/d is ramping up faster than expected to 120,000 b/d; and the Prirazlomnoye field which should start in 2H07 and ramp up to 200,000 b/d by 2008/09. It is also worth noting that the crude quality of these projects is much better than Russian Urals. Next year Russian oil production has the potential to increase more than currently assumed.

Caspian

Azeri oil production to rise 0.2 mb/d

Graph 24: Major Caspian oil producers



Azerbaijan's oil production is expected to increase 0.2 mb/d to 0.9 mb/d, driven by a further expansion of the giant ACG project. The start-up of the Central (2005) and West (2006) platforms has increased ACG's production to around 0.45 mb/d (representing 75% of total Azeri oil production), up from 0.1 mb/d in 2004. The West platform could deliver another 0.1 mb/d by the end of this year, and this combined with the start-up of the East platform in 2007 is expected to ramp up total Azeri oil production closer to 0.9 mb/d. The East platform could start late in 2006, but we have assumed early 2007. Most of the oil from ACG will be exported via the BTC pipeline to the Mediterranean port of Ceyhan, but some volumes will continue to be transported via rail to other destinations. The average oil quality of this mega project is light API, with low sulphur content.

Timing uncertainties in Tengiz expansion

Kazakh oil production is also expected to increase 0.12 mb/d to 1.4 mb/d, most of which is likely to come from the expansion of Tengiz (SGI and SGP projects), de-bottlenecking at Karachaganak condensate project, and minor increases from Chinese-operated fields. However, the bulk of the increase hinges on the expansion of Tengiz, which will take the field's production from around 0.29 mb/d currently to 0.5 mb/d by end-2007. This expansion is assumed to contribute from mid-2007, but it has been reported that the project may be delayed due to a lack of physical availability of export capacity. It is worth recalling that Kazakhstan has favourable access to a number of pipeline networks, including the Russian pipeline and rail systems, rail to China, a new pipeline to China and the CPC pipeline, which can pump well above its name plate capacity. Last but not least, the recent agreement signed with the government of Azerbaijan will also allow Kazakh oil to be sent via the BTC. This will require barging oil across the Caspian with tankers to Baku for further loading, with first shipments expected as early as mid-2007. Therefore, with so many options at hand, it is hard to see major bottlenecks that would prevent Kazak oil production increasing next year. All of the new oil will be light API, low sulphur crude. Ultimately, Kazak oil production may rise next year slightly more than currently assumed.

The three other largest producers in the FSU, Turkmenistan, Ukraine and Uzbekistan, are expected to remain broadly flat, but their combined production could drop slightly despite increasing Chinese-led activity in the region. Turkmenistan produces 180,000 b/d from around 2,500 wells but the country continues to offer relatively poor investment conditions and lacks prospects. Ukraine's oil production (80,000 b/d) is expected to be marginally sustainable next year. Most of the oil comes from mature fields in the eastern part of the country, were some 1,400 wells are producing. Uzbekistan, which produces around 120,000 b/d from 2,200 wells and has seen its production drop over the last three years, is also likely to show a decline next year. However, in contrast to its neighbours, Uzbekistan has been actively seeking new partners and making fiscal reforms to attract companies, which is proving successful.

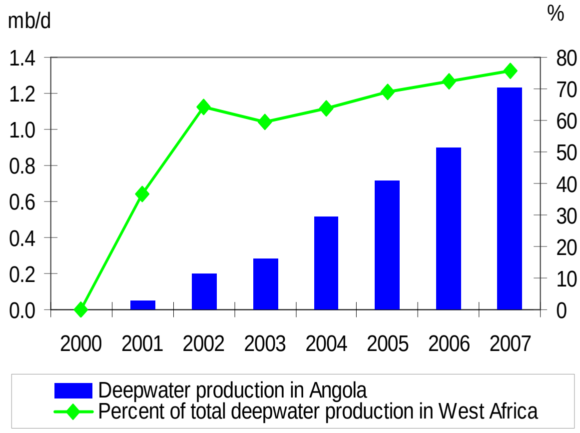
Africa

Angolan oil production to grow 0.3 mb/d

Oil supply in African region is forecast to grow 0.5 mb/d to 4.6 mb/d, with quarterly averages of 4.5 mb/d, 4.5 mb/d, 4.6 mb/d and 4.7 mb/d in the first, second, third, and fourth quarter, respectively. Most of the increase is expected to come from deepwater Angola, Equatorial Guinea and onshore Sudan.

Angolan oil production is expected to growth 0.33 mb/d to 1.8 mb/d. The main projects that will contribute to Africa's growth are located in deepwater Angola. These include Dalia (240,000 b/d; 4Q06), Rosa (150,000 b/d; 2Q07), Greater Plutonio (200,000 b/d; 4Q07), and possibly Kizomba C (100,000 b/d; 4Q07), the combination of which will take deepwater oil production to around 1.3-1.4 mb/d by year-end. However, not all of these projects are assumed to reach a peak level in 2007, and some could slip. Sudan's oil production is expected to increase 0.14 mb/d to 0.5 mb/d. Despite the technical delays that have affected the start-up of the Adar Yel project (250,000 b/d; 4Q06), 2007 should finally be the year of a significant ramp up in oil production in Sudan. Equatorial's Guinea production is projected to increase marginally to 0.4 mb/d, once the Okume/Oven satellites (60,000 b/d; 1Q07) come on stream.

Graph 25: Deepwater oil production in West Africa



Elsewhere in Africa, Mauritania's oil production is expected to recover marginally after new wells have been drilled in the Chinguetti field. On the negative side, Chad's ability to maintain its oil production depends on tie backs and field enhancements; a new satellite field is expected to start (Maikeri, 30,000 b/d) but the timing and its ultimate contribution remain highly unclear, given that Chad's production has been trending slightly down recently. It is also expected that oil production will drop slightly in Egypt and South Africa and remain broadly flat in Congo, Gabon and Ivory Coast.

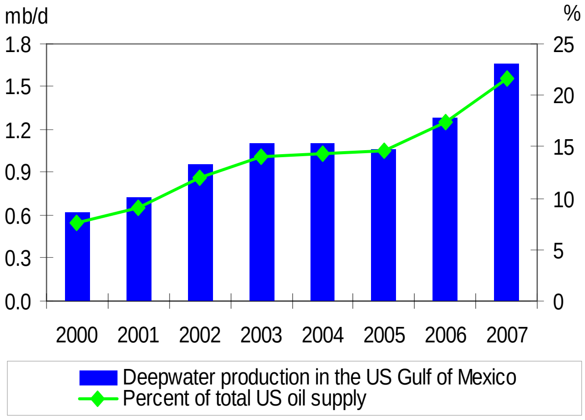
North America

Oil supply in the North American region (excluding processing gains) is expected to growth 0.4 mb/d to 14.8 mb/d with quarterly averages of 14.7 mb/d, 14.8 mb/d, 14.8 mb/d and 15 mb/d in the first, second, third, and fourth quarter, respectively. The increase is driven by the unwinding of losses and additions in the US Gulf of Mexico (GoM) deepwater and expansion of Canadian oil sands. Growth in ethanol production is also expected to make a small contribution in the USA, Canada, and Mexico.

New projects to finally start in the US Gulf of Mexico

The USA is expected to grow 0.26 mb/d to 7.7 mb/d due to the unwinding of losses in the US GoM, the contribution of two large projects in deepwater GoM that have been delayed: Thunder Horse (250,000 b/d; 4Q06) and Atlantis (200,000 b/d; 2Q7), and the start-up of the Neptune (50,000 b/d; 4Q07). US GoM deepwater production is expected to reach 1.6 mb/d. Elsewhere, onshore crude production, which accounts for around 33% of US supply, is expected to remain broadly flat. NGLs and non-conventional oil including bio fuels — which represent 31% of US supply — is expected to increase marginally. Alaskan production (11% of total supply) is expected to decline slightly. It is worth noting that EOR production, which accounts for some 0.7 mb/d of total US oil supply, has been falling due to a decline in output from mature thermal heavy oil projects, but also from a reduction in the total number of projects. Biofuel production is expected to increase again next by around 20,000-40,000 b/d.

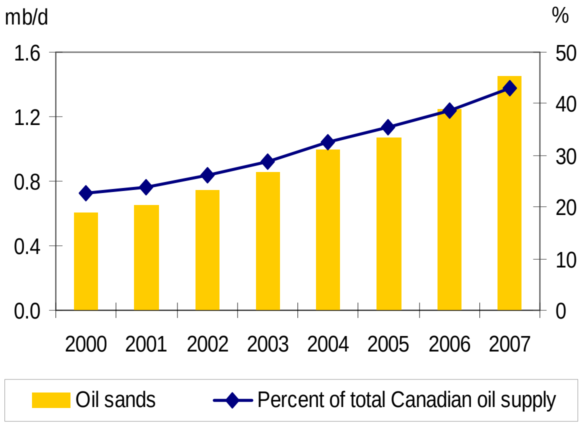
Graph 26: Deepwater oil production in the US Gulf of Mexico



Small increase in Canadian oil production next year

Canadian oil production is expected to increase 0.13 mb/d to 3.4 mb/d, underpinned by the start-up of more oil sand projects including Long Lake, Deer Creek Phase II and Fire Bag Phase III. Total production from the Canadian oil sands in Western Canada could reach 1.3-1.4 mb/d by year-end, most of which will be marketed in the form of Synthetic Light, Synthetic Heavy, DilBit (mix of bitumen and condensate), and SynBit (mix of synthetic light and bitumen). Conventional oil and condensate production is expected to remain broadly flat, whilst offshore production is expected to show a rebound due to the adjustment effect of production shutdowns and field maintenance during the first half of 2006. Biofuels are expected to double by the end of this year to 8,000 b/d with the start-up of a new plant.

Graph 27: Canadian oil sands production



Mexican oil supply is expected to remain broadly flat at around 3.8 mb/d. Mexico may be split into three oil producing regions: Marine region (includes Cantarell and KMZ fields), Southern region (includes Antonio Bermudez and Jujo-Tecominoacan fields) and the Northern region (includes Poza Rica and other fields) which produces light oil. There are ongoing projects in all of these regions undergoing expansion as well as new projects, however, next year, the Marine region is expected to remain broadly flat (the forecast assumes production at the Cantarell field at 1.8 mb/d in 2007), while in the southern and northern regions output is likely to increase slightly driven by expansion of existing projects, whilst NGLs should remain flat. Next year, a new Ethanol plant (corn based) is expected to start with output of 10,000-20,000 b/d.

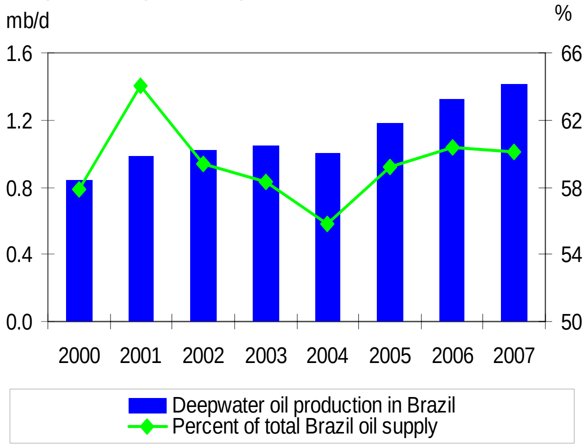
Latin America

Oil production in the Latin American region is expected to grow by just 0.1 mb/d to 4.6 mb/d with quarterly averages of 4.6 mb/d, 4.6 mb/d, 4.6 mb/d and 4.7 mb/d in the first, second, third, and fourth quarter, respectively. Regional growth is driven by a modest increase in Brazil. Argentina, Ecuador, and Trinidad are expected to show a y-o-y drop.

Roncador (Brazil) P52 and P54 to start next year

Brazilian oil supply (including ethanol) is expected to increase 0.18 mb/d to 2.4 mb/d. There are several new deepwater projects totaling 500,000 b/d of new production at peak, including the P52 and P54 FPSOs in the Roncador field (180,000 b/d each), Espadarte (30,000 b/d), Polvo (40,000 b/d) and Golfinho Mod 2 (100,000 b/d). The P52 and P54 FPSO are expected to start in the first and second half of 2007 respectively, both will be moored in 1,800 metre of water depth and will tap heavy oil of 18°API. Two more phases of the field remain to be developed. Polvo is another heavy oil field, expected to start in 3Q07, whilst the Golfinho Module 2 will make additional contribution after 2H07 to Brazil's growing light oil production. The slow ramp up of new fields and fields that started or will start in 2006 such as Jubarte P34 and P50 will result in moderated growth next year as decline rates of 8-10% per year of the previous year's production take a bite into new production. Deepwater production may rise to 1.5 mb/d. Next year, crude oil supply is expected to average around 2 mb/d, condensates 0.1 mb/d and biofuels 0.3 mb/d. In terms of exports, 2007 will see another increase in net exports, mainly of heavy crude. Biofuel production is expected to increase by 20,000-40,000 b/d.

Graph 28: Deepwater oil production in Brazil



Other Regions

OECD Europe

OECD Europe's oil production to show positive performance

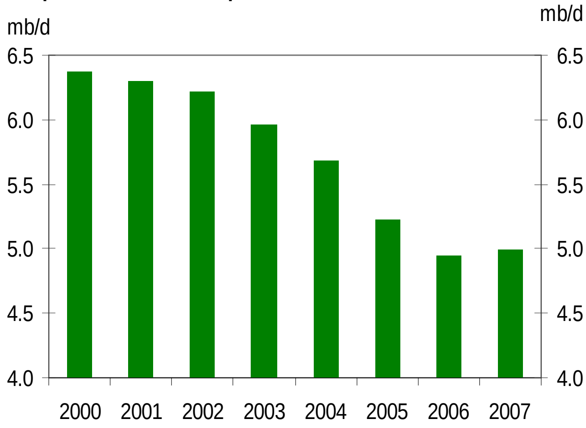
OECD Europe's oil production is expected to show an increase of 40,000 b/d to 5.5 mb/d. A normal maintenance schedule in the North Sea is assumed, but this will be revised as the programme becomes available. Normal maintenance for the North Sea typically results in a drop of 35,000 b/d in 1Q, 200,000 b/d in 2Q, 300,000 b/d in 3Q and 100,000 b/d in 4Q.

Norwegian oil supply is forecast to rebound by 40,000 b/d to 2.9 mb/d underpinned by growth in condensates, field enhancements and the return of fields that have been producing below capacity such as Snorre. Also a number of projects are expected to start next year, including Volve (50,000 b/d; 1Q07), Alveheim (90,000 b/d; 1Q07), Statfojrd LLP and several small fields.

The UK is expected to show a marginal increase of 20,000 b/d to average 1.8 mb/d. Such performance would make 2007 the first year since 2000 in which UK oil production has not dropped. This improvement is primarily due to the start-up of the 190,000 b/d Buzzard field in 4Q06. And the fact that on average the UK now has over 200 small fields producing less than 9,000 b/d, and there are no more large fields in which production could drop materially, is also helping in the gradual stabilization of oil production losses there.

In Denmark, oil production is expected to decline 20,000 b/d to 0.3 mb/d due to field maturity and lack of new projects. Elsewhere, oil production is expected to remain broadly flat in the main producers such as Italy, Germany and Holland.

Graph 29: North Sea oil production



OECD Asia

Australian oil production to rebound next year

OECD Asia in expected to show an increase of 70,000 b/d to 0.6 mb/d. Oil production in Australia is expected to rebound by 40,000 b/d to average 0.5 mb/d. This assumes the partial return of some of the production in the Carnavon basin that has been affected this year by cyclone activity, and increased drilling in new fields that have been underperforming. The start-up of the Enfield project (100,000 b/d) in 3Q06 should also help volumes next year, but there are no new material projects in 2007.

Elsewhere, New Zealand's oil production will grow with the start-up of the Tui project (50,000 b/d; 2Q07). New Zealand's production is expected to increase again in 2008 when two new fields come on stream, talking total output closer to 0.1 mb/d. In the Philippines, the Malampaya project (50,000 b/d) is expected to contribute starting 4Q07. However, this development has been delayed several times and it is possible that it could start later than 2007; Malampaya is a complex field and has an expected life of just 4 years.

Other Asia

Oil supply in Other Asia is expected to remain broadly flat to average 2.8 mb/d. Increases in Malaysia and Vietnam should offset a marginal decline in India. Key projects for next year include the deepwater field Kikeh in Malaysia (120,000 b/d; 4Q07), Bunga Orkid (35,000 b/d; 3Q07), and Rong Doi in Vietnam (40,000 b/d; 1Q07). However, several small satellites are also expected to come on-stream.

Middle East

No decline expected in Oman's oil production

Middle Eastern oil supply is expected to average 1.8 mb/d. A multi-year decline trend in Oman is expected to be finally over in 2007, when the contribution of field redevelopments, enhanced reservoir management techniques becomes visible. However, Oman' oil production is likely to remain broadly flat until 2008 before it can rise again. Syria's oil production is expected to average 0.4 mb/d. Oil output in Bahrain (0.2 mb/d) and Yemen (0.4 mb/d) is expected to remain flat. In Yemen, new wells in block 10 will help keep output flat for the year

China

China's oil production to reach 3.8 mb/d

Oil production in China is forecast to increase to 3.7-3.8 mb/d or around 60,000 b/d vs 2006. Penglai Phase 2, one of the largest projects in China in recent years, is expected to start in 3Q07 with a peak capacity of 150,000 b/d. Penglai's contribution will offset the decline in mature fields but may also provide an incentive to the Chinese government to reduce some of the production at the Daqing field. Additional growth in China may come from condensates. China's oil production has been rising rapidly as domestic and international oil companies increasingly look at marginal opportunities with a different focus, particularly in offshore areas.

2007 OPEC NGLs to grow 0.2 mb/d

OPEC natural gas liquids and non-conventional oils

The estimate for 2005 for OPEC NGLs has been revised to 3.9 mb/d, or by 90,000 b/d, to reflect the most recent data. On a country basis, OPEC NGLs averaged 0.72 mb/d in Algeria, 0.18 mb/d in Indonesia, 0.35 mb/d in Iran, 0.1 mb/d in Kuwait, 0.07 mb/d in Libya, 0.23 mb/d in Nigeria, 0.25 mb/d in Qatar, 1.1 mb/d in Saudi Arabia, 0.58 mb/d in UAE, and 0.29 mb/d in Venezuela. No revisions have been made to non-conventionals.

The outlook for 2006 has also been revised down to reflect a lower base and slower growth. The new forecast puts total OPEC NGLs and non-conventional oils at 4.3 mb/d, representing an increase of 200,000 b/d over the previous year. Similar growth is expected in 2007, at around 0.25 mb/d, driven by contributions from Saudi Arabia, Qatar and Nigeria. However, most of these increments come in the second part of the year.

Table 14: OPEC NGL + non-conventional oils - 2003-2007

			Change						**Change**		**Change**
2003	**2004**	**2005**	05/04	1Q06	2Q06	3Q06	4Q06	**2006**	06/05	**2007**	07/06
3.71	**4.02**	**4.09**	**0.07**	4.20	4.24	4.33	4.36	**4.28**	0.19	**4.54**	0.25

OPEC crude output averaged 29.6 mb/d

OPEC crude oil production

Total crude oil production averaged 29.6 mb/d in June, according to secondary sources, representing an increase of 0.1 mb/d from last month. Iraq's oil production was 2 mb/d.

Table 15: OPEC crude oil production based on secondary sources, 1,000 b/d

	2004	2005	4Q05	1Q06	2Q06	Apr 06	May 06	Jun 06	*Jun/ May*
Algeria	1,228	1,349	1,374	1,376	1,366	1,378	1,368	1,350	*-18.3*
Indonesia	968	942	935	921	914	919	917	906	*-10.8*
IR Iran	3,920	3,924	3,911	3,849	3,778	3,792	3,783	3,760	*-23.3*
Iraq	2,015	1,830	1,675	1,711	1,998	1,960	1,925	2,113	*187.2*
Kuwait	2,344	2,504	2,548	2,532	2,506	2,520	2,504	2,494	*-10.0*
SP Libyan AJ	1,537	1,642	1,665	1,680	1,696	1,695	1,697	1,695	*-1.7*
Nigeria	2,352	2,413	2,470	2,257	2,204	2,156	2,205	2,252	*46.6*
Qatar	777	795	806	814	821	821	822	819	*-2.8*
Saudi Arabia	8,957	9,390	9,426	9,416	9,156	9,135	9,146	9,188	*41.3*
UAE	2,360	2,447	2,518	2,528	2,522	2,539	2,531	2,495	*-35.8*
Venezuela	2,582	2,629	2,581	2,587	2,558	2,591	2,577	2,505	*-71.8*
OPEC-10	**27,024**	**28,035**	**28,234**	**27,962**	**27,520**	**27,547**	**27,549**	**27,463**	***-86.6***
Total OPEC	**29,040**	**29,864**	**29,909**	**29,673**	**29,518**	**29,506**	**29,475**	**29,575**	***100.6***

Totals may not add due to independent rounding.

FSU net oil exports (crude and products)

Strong FSU net oil exports next year

The 2006 forecast remains unchanged. Net oil exports from the region are expected to average 8.2 mb/d this year, which represents an increase of 0.5 mb/d over 2005. June crude exports were 5.9 mb/d and remained strong in the Baltic region, CPC pipeline and Mediterranean ports in Georgia. Rail crude exports continued to perform poorly y-o-y, although the June data shows a slight improvement. Total crude and product exports totalled 8.4 mb/d in June.

For 2007, FSU net oil exports are expected to rise strongly to 8.8 mb/d, or 0.5 mb/d versus 2006, driven by new sources of crude from the Caspian and Russian product exports. A host of new pipelines, expansions and regional links will allow for increased exports. In Russia, the most notable increases will take place in the Russian rail system, rail to China, and exports from Sakhalin. The last planned expansion of the Baltic Pipeline System (BPS) took place in 2006, and no more expansions are anticipated next year. In fact, the Russian crude export system has expanded so much that traditional pipeline exports routes such as the Druzhba pipeline have registered spare capacity recently. Elsewhere in the Caspian, new routes linking China via rail and pipeline will be utilized. The recent agreement signed between the governments of Azerbaijan and Kazakhstan will also allow Kazakh oil to be sent via the BTC to the Mediterranean, as mentioned earlier in the report. This will require barging oil across the Caspian with tankers to Baku for further loading, with first shipments expected as early as mid-2007.

Table 16: FSU estimated net oil exports (historical and forecast), mb/d

	1Q	2Q	3Q	4Q	Year	Growth (y-o-y)
2003	5.87	6.75	6.72	6.61	**6.49**	**0.91**
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 (forecast)	**7.98**	**8.34**	**8.34**	**8.30**	**8.24**	**0.55**
2007 (forecast)	**8.46**	**8.90**	**8.92**	**8.72**	**8.75**	**0.51**

Recent exports of crude and products by source, mb/d

	2004	2005	4Q05	1Q06	2Q06	May 06	Jun 06
Crude							
Russian pipeline							
Black Sea	1,283	1,335	1,284	1,326	1,309	1,385	1,377
Baltic	1,396	1,462	1,486	1,470	1,615	1,695	1,647
Druzhba	1,256	1,315	1,397	1,365	1,342	1,356	1,343
Total	**3,935**	**4,112**	**4,167**	**4,161**	**4,265**	**4,436**	**4,367**
Other routes							
Russian rail	706	416	268	310	307	340	334
Russian - Far East	32	65	71	29	44	53	54
Kazak rail	24	17	19	46	36	29	31
CPC pipeline	490	648	669	595	666	727	730
Caspian	252	295	363	353	415	448	452
of which							
Supsa (AIOC) - Georgia	130	137	143	137	143	138	141
Batumi - Georgia	99	140	203	198	211	223	225
Total	**1,504**	**1,441**	**1,390**	**1,334**	**1,469**	**1,598**	**1,602**
Total crude exports	**5,439**	**5,553**	**5,557**	**5,495**	**5,734**	**6,033**	**5,968**
Products							
All routes							
Fuel oil	753	836	931	896	958	782	902
Gasoil	702	759	765	893	828	794	764
Others	413	575	633	693	753	809	860
Total	**1,868**	**2,170**	**2,330**	**2,483**	**2,538**	**2,385**	**2,526**
Total oil exports	**7,307**	**7,723**	**7,887**	**7,978**	**8,273**	**8,418**	**8,494**

Source: Nefte Transport, Global Markets, Argust Fundamentals, Argus FSU, OPEC.

Rig Count

Non-OPEC rig count stood at 2716 rigs

Non-OPEC

Non-OPEC rig count stood at 2,716 rigs in June, which represents an increase of 178 rigs compared to the previous month. Of the total, 2,433 rigs were operating offshore and the rest onshore. In terms of the oil and gas split, 856 rigs were drilling for oil, while the remainder was drilling for gas. Regionally, there were increases in North America, Latin America and the Middle East.

Table 17: Non-OPEC rig count in 2004-2005

	2004	2005	05/04	May 06	Jun 06	Change Jun/May
North America	1,669	1,975	306	1,964	2,153	189
Western Europe	65	65	0	82	75	-7
OECD Pacific	22	25	3	27	30	3
OECD	**1,755**	**2,065**	**310**	**2,073**	**2,258**	**185**
Other Asia	126	142	16	153	147	-6
Latin America	126	141	15	162	164	2
Middle East	70	72	2	78	79	1
Africa	54	58	4	70	66	-4
DCs	**376**	**412**	**36**	**463**	**456**	**-7**
FSU	na	na	na	na	na	na
Other Europe	2	3	1	2	2	0
China	na	na	na	na	na	na
Other regions	na	na	na	na	na	na
Total non-OPEC	**2,132**	**2,479**	**347**	**2,538**	**2,716**	**178**

Totals may not add due to independent rounding.
na: not available.
Source: Baker Hughes International.

OPEC rig count stood at 312 rigs

OPEC

OPEC rig count stood at 312 rigs in June, representing an increase of 2 rigs over the previous month. Gains took place in Indonesia, Kuwait, Qatar and Venezuela. Of the total, 247 rigs were operating offshore and the rest onshore. In terms of the oil and gas split, 263 oil rigs were drilling for oil and the rest was gas rigs.

Table 18: OPEC rig count in 2004-2005

	2004	2005	05/04	May06	Jun06	Change Jun/May
Algeria	19	21	2	20	20	0
Indonesia	49	54	5	42	43	1
IR Iran	41	40	-1	48	47	-1
Iraq	na	na	na	na	0	na
Kuwait	10	12	2	12	14	2
SP Libyan AJ	10	9	-1	9	9	0
Nigeria	8	9	1	9	9	0
Qatar	9	12	3	10	11	1
Saudi Arabia	32	36	4	62	59	-3
UAE	16	16	0	16	16	0
Venezuela	55	67	12	82	84	2
Total OPEC	**249**	**276**	**27**	**310**	**312**	**2**

Totals may not add due to independent rounding.
na: not available.
Source: Baker Hughes International.

Oil Trade

OECD total net oil imports averaged 27.5 mb/d in June, representing a growth of 0.6 mb/d y-o-y

OECD

Preliminary data shows that OECD crude oil imports continued to increase for the third consecutive month to reach 31.82 mb/d in June, driven by US imports. Even though the increase was just 0.2% or 75,000 b/d, June's imports were the highest so far in 2006. Similarly, product imports edged up 0.2% or 22,000 b/d to average 11.1 mb/d. However, compared to a year earlier, crude oil imports were just 40,000 b/d or 0.1% higher whereas product imports showed a strong increase of 365,000 b/d or 3.4%. The surge in product imports was due to the heavy refinery maintenance this year, which increased reliance on imports.

On the export side, crude oil exports averaged 7.28 mb/d, an increase of 24,000 b/d over the previous month, However, when compared to the same month of last year, crude exports appeared to have fallen by more than 600,000 b/d while product exports remained stable at 8.10 mb/d, but 416,000 b/d higher than a year earlier.

Table 19: OECD Crude and Product Net Imports/(Exports), tb/d

	Apr 06	May 06	Jun 06	Change Jun/May
Crude oil	24,384	24,510	24,534	24
Total products	2,948	2,952	2,962	9
Total crude and products	27,332	27,462	27,495	34

The combination of imports and exports put OECD net crude oil imports at 24.53 mb/d, the highest level since last November displaying a 645,000 b/d y-o-y growth while net product imports stood at 2.96 mb/d, down 50,000 b/d.

With regard to the origins of crude oil imports, no substantial changes were observed. Saudi Arabia remained the main supplier with 16.4% followed by the FSU with 16% and then Norway and Mexico with around 8% each. Compared to last year, Saudi Arabia saw its share rise from 13.4% to 16.4% while the FSU's share increased 2 percentage points to 16%.

Net US crude oil imports continued to rise, totaling almost 0.9 mb/d, a cumulative growth over the last two months

USA

Preliminary estimates indicate that US oil imports remained strong and increased by more than 280,000 b/d to hit 10.63 mb/d in June, the highest level since the 10.75 mb/d seen in June 2005. In contrast, US product imports dropped nearly 460,000 b/d or 12% to stand at 3.48 mb/d, a level similar to last year. The drop in products appears to be very large due to the fact that during the previous month, imports had reached an exceptional level following an increase of more than 800,000 b/d. The surge in US crude oil imports was mainly due to strong demand from refiners, who pushed their utilization rate to 92.8% compared to 89.4% in April in order to meet demand during the driving season, implying a throughput of nearly 16.0 mb/d.

Exports of crude oil continue to hover at around 20,000 b/d, while product exports showed a marginal increase of 50,000 b/d to average 1.14 mb/d, against 1.46 mb/d for the same month last year.

However, due to the substantial decline in product imports, US total net oil imports fell 226,000 b/d to average 12.94 mb/d, the second highest month so far in 2006 after May. Compared to a year earlier, crude oil imports showed a loss of 124,000 b/d while products experienced a gain of nearly 290,000 b/d.

Table 20: USA Crude and Product Net Imports/(Exports), tb/d

	Apr 06	May 06	Jun 06	Change Jun/May
Crude oil	9,733	10,327	10,608	281
Total products	2,050	2,846	2,339	-507
Total crude and products	11,783	13,173	12,947	-226

Canada, Mexico and Saudi Arabia remained the main suppliers of US crude oil, accounting for a total of 50% with individual shares of 16-17%. Saudi Arabia's share rose from 13.4% in May to 16.4% in June, while Canada's and Mexico's shares remained stable. It is worth noting that in 2006, the USA has increased imports of high-quality crudes from Algeria and Libya. The growing interest in North African grades is driven by their low-sulphur content in response to increasing demand for low sulphur products. Canada and the Virgin Islands remained the main product suppliers with a total of 27%.

Japan

Japan's net oil imports in June averaged 5.0 mb/d, an increase of 0.26 mb/d from a year earlier

After declining 400,000 b/d and going to below 4.0 mb/d in May due to heavy maintenance, Japan's imports recovered strongly, rising 193,000 b/d or 4.8% in June to average 4.12 mb/d as refinery throughput improved following the return of refineries from maintenance. For products, imports edged up 4.6% or 46,000 b/d to reach 1.0 mb/d while imports fell 9% or 17,000 b/d to stand at 0.18 mb/d.

Consequently, Japan's total net oil imports increased 256,000 b/d or 5.5% to average 5.0 mb/d with 83% consisting of crude oil. Compared to a year earlier, total net oil imports displayed a 5% or 232,000 b/d growth with 192,000 b/d in crude oil and 40,000 b/d in products.

Table 21: Japan's Crude and Product Net Imports/(Exports), tb/d

	Apr 06	May 06	Jun 06	Change Jun/May
Crude oil	4,384	3,979	4,172	193
Total products	912	784	847	63
Total crude and products	5,296	4,763	5,019	256

Saudi Arabia remained the largest supplier of Japan's crude oil with more than 30% followed by the UAE with 23% and Iran with 11%. For products, the main suppliers remained UAE with 13% and Saudi Arabia with 12% followed by Korea with 7%. The main changes compared to a year earlier are the rise of Sudan's share from 0.3% to 3.2% for crude oil and the drop of Korea's share from 16% to 7% regarding products.

China

China's net crude oil imports averaged 2.93 mb/d in May representing y-o-y growth of 0.5 mb/d

In May China's crude oil imports remained stable at 2.93 mb/d but displayed a significant increase of 472,000 b/d or 19% when compared to a year earlier. In contrast, product imports fell 128,000 b/d or 12% to stand at 0.9 mb/d. Similarly, compared to the same month last year, China's product imports showed a strong growth of 270,000 b/d or 43%, making total oil imports in May 2006 740,000 b/d higher than a year earlier. However, China's crude oil exports fell sharply from 320,000 b/d to 27,000 b/d while product exports increased by almost 100,000 b/d or 60% to average nearly 260,000 b/d.

As a result, China's net crude oil imports increased 290,000 b/d or 11% in May to average 2.90 mb/d and net product imports declined 226,000 b/d to 646,000 b/d, leading to total net oil imports of 2.59 mb/d, up 960,000 b/d or 37% from a year earlier. The rise in China's oil imports reflects the strong demand and was in part driven by the government's increase in domestic prices of gasoline and gasoil, which provided an incentive to purchase more.

Table 22: China's Crude and Product Net Imports/(Exports), tb/d

	Mar 06	Apr 06	May 06	Change May/Apr
Crude oil	2,657	2,614	2,903	290
Total products	641	872	646	-226
Total crude and products	3,298	3,486	3,549	64

For the period January-May, China's crude oil imports averaged 3.01 mb/d, which corresponds to a 17.7% y-o-y growth, and product imports stood at 0.72 mb/d, 10.6% higher than the same period last year.

Once again, crude oil imports from Angola came out on top at more than a quarter followed by Saudi Arabia with 14% and Russia with 11%. It is worth mentioning that Angola's share jumped from 13% in the same month last year to 26% in May at the expense of Saudi Arabia's share which moved down from 19% to 14% and Iran's which dropped from 12% to 9%. These developments highlight the increase in Chinese demand for African crude to cope with product demand given the configuration of the refining system.

India

In May, India's crude oil imports increased 0.25 mb/d to 2.24 mb/d but were 0.54 mb/d lower than a year earlier

India's crude oil imports increased 255,000 b/d in May to average 2.24 mb/d, offsetting the drop of 260,000 b/d seen during April. When compared to last year, crude oil imports showed a significant decline of 540,000 b/d or 20%. Product imports continued to increase, averaging 0.26 mb/d, up 54,000 b/d from the previous month.

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

	Mar 06	Apr 06	May 06	Change May/Apr
Crude oil	2,249	1,989	2,245	255
Total products	-321	-115	-236	-120
Total crude and products	1,927	1,874	2,009	135

At 0.23 mb/d, net product exports were 7% higher

On the export side, products increased 174,000 b/d or 54% to 500,000 b/d, which corresponds to a 60% growth from a year earlier.

With crude oil imports at 2.24 mb/d and net product exports at 0.23 mb/d, India's total oil imports stood at 2.0 mb/d in May, an increase of 135,000 b/d or 7% from a year earlier.

Stock Movements

US commercial stocks rose 16 mb in June to 1,044.8 mb

USA

US commercial oil stocks witnessed a build of 16 mb or 0.53 mb/d to stand at 1,044.8 mb in June, an increase of 0.3% and 6% over last year's level and the five-year average. The build was entirely due to a 22.7 mb rise in product inventories as the declining trend in crude stocks deepened.

Despite a 6.1 mb draw on crude oil stocks, inventories looked comfortable at 340.4 mb, a cushion of 3.4% and 11% against the year-ago and five-year average. Days of forward cover slipped from 22.5 days to 21.3 days on a monthly basis, but were still 8% above the upper end of the five-year range. The decline in crude oil inventories was entirely the result of higher refinery runs leading to a 2.7% growth in the refinery utilization rate from last month to stand at 93.1%. Nevertheless, according to the EIA, refinery runs were 3.6% lower than last year. This development reflected recent problems in the Lake Charles area, where an oil spill shut the waterway connecting the refinery hub with the Gulf of Mexico. Although the Calcasieu Channel is reopened, traffic limitations persist. Imports and production of crude oil rose slightly partially offsetting the decline in stocks.

Table 24: US onland commercial petroleum stocks*, mb

	Apr 06	May 06	Jun 06	Change Jun 06/May 06	Jun 05	7 Jul 06**
Crude oil	346.8	346.5	340.4	-6.1	329.2	335.3
Gasoline	199.3	210.2	213.0	2.8	216.2	212.7
Distillate fuel	114.6	120.4	127.7	7.3	118.8	129.9
Residual fuel oil	40.4	40.4	42.3	1.9	37.4	41.7
Jet fuel	41.3	41.1	39.4	-1.7	40.9	39.8
Total	**1006.8**	**1028.8**	**1044.8**	**16.0**	**1042.1**	**1043.2**
SPR	687.8	688.6	688.5	-0.1	696.4	687.8

* *At end of month, unless otherwise stated.*

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

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

For products, gasoline inventories experienced a more moderate surplus having risen by 2.8 mb to stand at 213 mb in June compared to May. This level was still 3.2 mb lower than one year ago and only 0.3 mb below the five-year figure with the forward cover standing at 1.1 days under the five-year average. The movement in gasoline inventories throughout the month of June was volatile with a higher-than-expected build of 2.8 mb in the week ended 9 June, followed by a more moderate surplus of 0.29 mb in the week ended 16 June and a 1.09 mb deficit in the following week, which turned into a surplus of 0.73 mb in the last week of June. The slower pace of growth in gasoline inventories seems to be associated with a slight fall in imports amid high domestic demand which grew by 1.9% in June month-on-month. Distillate stocks experienced a build of 7.3 mb to reach 127.7 mb in June compared to a month earlier and were 7.5% higher than the year-ago level and close to 11% above the upper end of the five-year average range. High sulphur distillate fuel (heating oil) inventories rose 6.2 mb to 5.16 mb to stand at healthy levels compared to the five-year average.

In the week ended 7 July, commercial oil stocks in the USA inched down by 1.9 mb to stand at 1,043.2 mb. This took place mainly on the back of crude oil stocks which unexpectedly saw a considerable 6.0 mb draw from the previous week to stand at 335.3 mb due to a 920,000 b/d drop in crude imports to 9.62 mb during the referred week. However, a 10% cushion against the five-year average suggests that there are no reasons for concern yet. This draw was partly expected because of the problems related to the closing and the limited reopening of the Calcasieu Channel connecting the US Gulf with the Lake Charles refinery hub. It must be noted that the draw on crude oil stocks took place despite a 2.6% fall in refinery runs compared to the previous week. Although gasoline inventories fell a slight 0.43 mb to 212.7 mb week-on-week, this level was still 600,000 barrels higher than the five-year average compared with 200,000 barrels experienced last week. Lower imports and production combined to give place to the slight stock-draw, despite the high gasoline yield which jumped to 58.3%. In terms of forward cover, gasoline inventories are still more than 1 day below the five-year average which might trigger some bullish sentiment in the market. Nevertheless, if prices are high enough, imports might keep growing with no reasons for fears. Distillate stocks registered a build of 2.6 mb to 129.90 mb, which came entirely from diesel increasing by 3.04 mb as heating oil declined.

Western Europe

Commercial oil stocks in the EU fell a further 0.3 mb in June

Total commercial oil stocks in the Eur-16 (EU-15 plus Norway) declined by 0.3 mb/d to stand at 1,148.7 mb in June from the previous month. This corresponds to 2.2% above the upper end for this time of the year and 8.4% above the five-year average. The bulk of the decline came from crude oil and gasoline stocks, while middle distillate and fuel oil inventories increased.

Crude oil inventories saw a draw of 1.4 mb to stand at 489.3 mb due to a recovery in refinery crude runs which rose 230,000 b/d following the end of turnarounds. The utilization rate in European refineries achieved a six-month record of more than 93% in June or 2% above the year-ago figure as refiners were encouraged by wide crack spreads for gasoline and diesel. The slight decline in crude oil stocks does not represent a source of concern as June levels still remained 1.5% higher than last year and around 8% above the five-year average.

Table 25: Western Europe's oil stocks*, mb

	Apr 06	May 06	Jun 06	Change Jun 06/May 06	Jun 05
Crude oil	489.2	490.7	489.3	-1.4	482.1
Mogas	137.4	137.3	135.0	-2.3	136.7
Naphtha	26.8	27.3	26.8	-0.4	27.1
Middle distillates	382.3	381.8	383.6	1.9	368.8
Fuel oils	112.0	112.0	114.0	2.0	109.8
Total products	631.7	631.0	632.6	1.5	615.3
Overall total	**1,147.7**	**1,149.0**	**1,148.7**	**-0.3**	**1,124.5**

** At end of month, with region consisting of the Eur–16.*
Source: Argus, Euroilstock.

According to Euroilstock, a greater share of European oil inventories is currently being held in the form of crude and feedstocks. The comfortable level of crude oil stocks is largely due to the moderate recovery of production in the North Sea and Russia. Similarly, the drop in crude stocks in the UK has been offset by builds in France, Scandinavia and Italy. Nevertheless, higher refinery runs in July are expected to prompt a further decline in crude stocks. Concerning gasoline, May inventory levels saw a downward revision, while a sharper draw of 2.3 mb to 135.0 mb was reported in June. This was the result of greater exports to the USA, especially of blending components following the phasing out of MTBE, despite lagging regional demand. Gasoline stocks remain 1.7 mb and 4.5 mb below the year-ago and the five-year average. Major draws on gasoline stocks took place in the UK, Portugal, Germany, Holland and the Nordic countries, which outpaced the stock-build in Italy. The expected rise in refinery runs over the next months should increase output although surging US demand may keep gasoline tight at low levels in Europe. Middle distillate stocks were revised up for May, rising by 1.9 mb in June to stand at 383.6 mb which meant a cushion of 15 mb against one year earlier, but still narrower than the 25 mb reported at the end of April. Days of forward consumption, however, remained stable. Stronger seasonal demand along with the supply limits imposed by lower exports of Russian gasoil explains this outcome. The closing of export arbitrage to Asia-Pacific resulted in fuel oil stocks experiencing the largest build in June, rising by 2 mb to 114 mb or 3.8% higher than the year-ago level and 2.2% above the five-year average. Other factors contributing to fuel oil development in Europe are the recovery of Russian exports in June and weaker utility demand for low-sulphur fuel oil owing to high oil prices. Given these facts and the expected climb in runs during July together with limited arbitrage opportunities to Asia, a further build is expected in the coming months.

Japan

Japanese commercial oil stocks continued moving upwards in May to stand at 8 mb above the five-year average

Total oil stocks in Japan rose a strong 16.3 mb or 0.54 mb/d in May to stand at 188.0 mb over the previous month. This was the largest build since June 2005 and corresponds to nearly 5% above the five-year average. Both crude oil and product stocks contributed to this build, rising by 10.1 mb and 6.3 mb respectively, month-on-month.

The 10.1 mb increase in commercial crude oil stocks during May almost doubled the rise in the preceding month, climbing to 123.6 mb or 8.1% above the five-year average but still only 2% higher than the y-o-y average. This was the result of heavy seasonal refinery maintenance in the second quarter — with crude oil throughput at refineries in May falling 9.3% and 1.2% from the previous month and a year earlier — and the considerable 6.2% decline in crude oil imports in May from April, which also represents a 6.7% drop from a year earlier.

Table 26: Japan's commercial oil stocks*, mb

	Mar 06	Apr 06	May 06	Change May 06/Apr 06	May 05
Crude oil	108.9	113.5	123.6	10.1	121.3
Gasoline	14.4	14.1	14.4	0.4	14.5
Middle distillates	27.8	25.2	29.4	4.2	27.7
Residual fuel oil	17.6	18.9	20.6	1.7	21.3
Total products	59.7	58.1	64.4	6.3	63.5
Overall total**	**168.5**	**171.6**	**188.0**	**16.3**	**184.7**

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

Meanwhile, product stocks rose 6.3 mb, an important build considering the stock draw of 1.5 mb which occurred in April. This lifted total product inventories to 1.5% above the year-ago level. As product imports declined on a monthly and yearly basis, the only factor behind this development was the hefty decline in domestic demand for products, which fell by 11% on a monthly basis and 1.5% y-o-y. This was the result of unseasonably low gasoline demand and the lower use of heating fuel in the north. Except for naphtha and jet fuel, the rest of the products reported a drop in domestic demand. Gasoline demand fell by nearly 1% compared to the previous month, while kerosene domestic sale dropped 54.3%. As a result, gasoline stocks saw a rise of 0.4 mb from April, leaving them almost on par with year-ago levels and 1% higher than the five-year average due to weaker demand and increased imports over the previous month. Compared to April, middle distillate stocks rose by 4.2 mb to stand at 29.4 mb in May which meant a cushion of 6.3% over the same time last year. Kerosene stocks increased by 25% in May over the previous month following a drop in production, domestic sales and exports amid higher imports.

Balance of Supply and Demand

Estimated demand for OPEC crude revised up 0.2 mb/d, to 29 mb/d

Estimate for 2005

The estimated demand for OPEC crude in 2006 is expected to average 29 mb/d, representing an upward revision of 0.2 mb/d versus last month. On a quarterly basis, the new forecast shows that demand for OPEC crude is expected at 29.9 mb/d in the first quarter, 28.5 mb/d in the second, 28.6 mb/d in the third and 28.8 mb/d in the fourth. The revision primarily reflects baseline adjustments to demand and OPEC NGL supply, as well as lower expectations for growth in OPEC NGLs.

Table 27: Summarized supply/demand balance for 2006, mb/d

	2005	1Q06	2Q06	3Q06	4Q06	2006
(a) World Oil Demand	83.23	84.69	83.50	84.30	85.94	84.61
(b) Non-OPEC Supply	54.21	54.81	54.99	55.73	57.07	55.66
Difference (a-b)	29.01	29.88	28.51	28.57	28.87	28.95
OPEC crude oil production	29.86	29.67	29.52			
Balance	0.85	-0.21	1.01			

(1) Including OPEC NGLs + non-conventional oils.
(2) Selected secondary sources.
Totals may not add due to independent rounding.

Demand for OPEC crude is expected to be 28.2 mb/d

Forecast for 2006

Demand for OPEC crude in 2007 is expected to average 28.3 mb/d, representing a decline of 0.7 mb/d versus 2006. On a quarterly basis, the forecast shows that demand for OPEC crude is expected at 29.2 mb/d in the first quarter, 27.3 mb/d in the second, 28 mb/d in the third and 28.6 mb/d in the fourth.

Table 28: Summarized supply/demand balance for 2007, mb/d

	2006	1Q07	2Q07	3Q07	4Q07	2007
(a) World Oil Demand	84.61	86.14	84.51	85.62	87.33	85.90
(b) Non-OPEC Supply	55.66	56.94	57.20	57.62	58.72	57.63
Difference (a-b)	28.95	29.20	27.31	28.01	28.61	28.28
OPEC crude oil production						
Balance						

(1) Including OPEC NGLs + non-conventional oils.
(2) Selected secondary sources.
Totals may not add due to independent rounding.

Graph 30: Balance of supply and demand

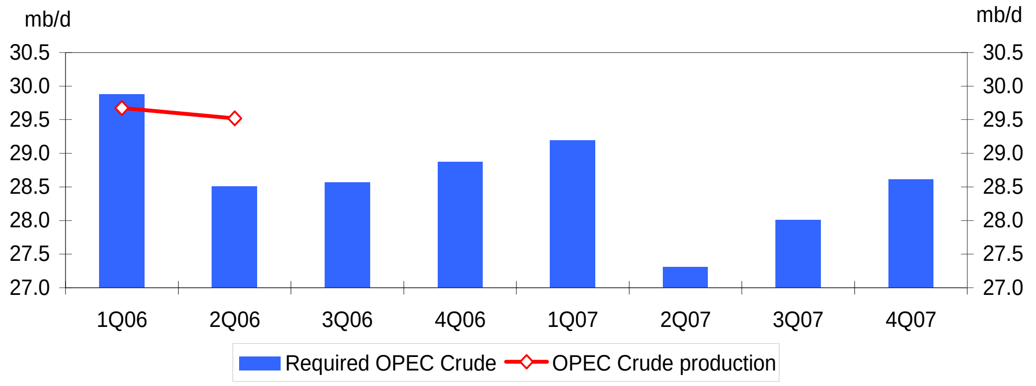


Table 29: World oil demand/supply balance, mb/d

	2002	2003	2004	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
World demand														
OECD	47.9	48.6	49.3	49.5	50.1	48.6	49.5	50.7	49.7	50.6	48.7	49.7	50.9	50.0
North America	24.1	24.5	25.4	25.5	25.1	25.4	25.8	25.9	25.6	25.6	25.6	26.0	26.1	25.8
Western Europe	15.3	15.4	15.5	15.5	15.7	15.0	15.6	15.7	15.5	15.6	15.1	15.6	15.8	15.5
Pacific	8.5	8.6	8.5	8.6	9.3	8.1	8.1	9.0	8.6	9.4	8.0	8.1	9.0	8.6
DCs	20.3	20.6	21.7	22.5	22.8	23.2	23.2	23.2	23.1	23.3	23.7	23.9	23.9	23.7
FSU	3.7	3.8	3.8	3.8	3.7	3.7	3.8	4.1	3.8	3.8	3.6	3.8	4.1	3.8
Other Europe	0.8	0.8	0.9	0.9	1.0	1.0	0.9	0.9	0.9	1.0	0.9	0.9	0.9	0.9
China	5.0	5.6	6.5	6.5	7.1	7.1	6.8	7.1	7.0	7.4	7.6	7.3	7.5	7.5
(a) Total world demand	77.8	79.3	82.3	83.2	84.7	83.5	84.3	85.9	84.6	86.1	84.5	85.6	87.3	85.9
Non-OPEC supply														
OECD	21.9	21.7	21.3	20.3	20.3	20.1	20.2	20.9	20.4	20.8	20.8	20.7	21.2	20.9
North America	14.5	14.6	14.6	14.1	14.2	14.3	14.4	14.8	14.4	14.7	14.8	14.8	15.0	14.8
Western Europe	6.6	6.4	6.2	5.7	5.6	5.4	5.2	5.5	5.4	5.5	5.5	5.3	5.6	5.5
Pacific	0.8	0.7	0.6	0.6	0.5	0.5	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6
DCs	11.5	11.7	12.1	12.6	12.9	12.9	13.3	13.6	13.2	13.6	13.6	13.8	14.1	13.8
FSU	9.3	10.3	11.1	11.5	11.7	12.0	12.2	12.3	12.1	12.3	12.5	12.7	12.9	12.6
Other Europe	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.4	3.4	3.5	3.6	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.8	3.8	3.8
Processing gains	1.7	1.8	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Total non-OPEC supply	48.1	48.9	50.0	50.1	50.6	50.7	51.4	52.7	51.4	52.5	52.7	53.1	54.0	53.1
OPEC NGLs + non-conventional oils	3.6	3.7	4.0	4.1	4.2	4.2	4.3	4.4	4.3	4.4	4.5	4.6	4.7	4.5
(b) Total non-OPEC supply and OPEC NGLs	51.7	52.7	54.0	54.2	54.8	55.0	55.7	57.1	55.7	56.9	57.2	57.6	58.7	57.6
OPEC crude oil production (secondary sources)	25.4	27.0	29.0	29.9	29.7	29.5								
Total supply	77.0	79.6	83.0	84.1	84.5	84.5								
Balance (stock change and miscellaneous)	-0.8	0.3	0.8	0.9	-0.2	1.0								
OECD closing stock levels (*mb*)														
Commercial	2478	2517	2550	2593	2605									
SPR	1347	1411	1450	1487	1487									
Total	3825	3928	4000	4079	4092									
Oil-on-water	816	883	906	959	965									
Days of forward consumption in OECD														
Commercial onland stocks	51	51	51	52	54									
SPR	28	29	29	30	31									
Total	79	80	81	82	84									
Memo items														
FSU net exports	5.6	6.5	7.3	7.7	8.0	8.3	8.3	8.3	8.2	8.5	8.9	8.9	8.7	8.8
(a) - (b)	26.1	26.7	28.3	29.0	29.9	28.5	28.6	28.9	29.0	29.2	27.3	28.0	28.6	28.3

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

Table 30: World oil demand/supply balance: changes from last month's table † , mb/d

	2002	2003	2004	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
World demand														
OECD	-0.1	-	-0.1	-0.1	-0.2	-0.3	-0.1	-0.1	-0.2					
North America	-	-	-	-	-	-	-	-	-					
Western Europe	-	-	-0.1	-0.1	-0.2	-0.2	-0.1	-0.1	-0.2					
Pacific	-0.1	-0.1	-	-	-	-	-	-	-					
DCs	-	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.2					
FSU	-	-	-	-	-0.1	-	-	-	-					
Other Europe	-	-	-	-	-	-	-	-	-					
China	-	-	-	-	-	0.1	-	-	-					
(a) Total world demand	-	-	-	-	-	-	-	-	-					
Non-OPEC supply														
OECD	-	-	-	-	-	-0.1	-	-	-					
North America	-	-	-	-	-	-0.1	-	-	-					
Western Europe	-	-	-	-	-	-	-	-	-					
Pacific	-	-	-	-	-	-	-	-	-					
DCs	0.1	0.2	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	-	-	-					
OPEC NGLs + non-conventionals	-	-	-	-0.1	-0.2	-0.2	-0.2	-0.3	-0.2					
(b) Total non-OPEC supply and OPEC NGLs	0.1	0.2	0.1	-0.1	-0.1	-0.3	-0.3	-0.3	-0.2					
OPEC crude oil production (secondary sources)	-	-	-	-	-									
Total supply	0.1	0.2	0.1	-0.1	-0.1									
Balance (stock change and miscellaneous)	0.2	0.2	0.1	-0.1	-0.1									
OECD closing stock levels (*mb*)														
Commercial	1.3	-	-	-	-9									
SPR	-	-	-	-	-									
Total	1.3	-	-	-	-9									
Oil-on-water	-	-	-	-	-									
Days of forward consumption in OECD														
Commercial onland stocks	-	-	-	-	-									
SPR	-	-	-	-	-									
Total	-	-	-	-	-									
Memo items														
FSU net exports	-	-	-	-	-	-	-	0.1	-					
(a) - (b)	-0.2	-0.2	-0.1	0.1	0.1	0.3	0.2	0.3	0.2					

† This compares Table 29 in this issue of the MOMR with Table 29 in the June 2006 issue.
This table shows only where changes have occurred.

Table 31: OECD oil stocks and oil on water at the end of period

	2001	2002	2003	2004	2005	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06
Closing stock levels *mb*														
OECD onland commercial	2,630	2,478	2,517	2,550	2,593	2,465	2,545	2,581	2,550	2,544	2,625	2,646	2,593	2,605
North America	1,262	1,175	1,161	1,193	1255	1,145	1,193	1,206	1,193	1,198	1,275	1,257	1,255	1,241
Western Europe	925	895	922	927	943	919	933	945	927	957	928	957	943	954
OECD Pacific	443	408	435	430	394	400	420	430	430	389	422	432	394	410
OECD SPR	1,288	1,347	1,411	1,450	1,487	1,423	1,429	1,435	1,450	1,462	1,494	1,494	1,487	1,487
North America	552	601	640	678	687	654	664	672	678	690	698	696	687	688
Western Europe	356	357	374	377	407	371	366	367	377	377	401	405	407	407
OECD Pacific	380	389	396	396	393	398	398	396	396	396	395	393	393	392
OECD total	3,918	3,825	3,928	4,000	4,079	3,888	3,974	4,016	4,000	4,006	4,119	4,140	4,079	4,092
Oil-on-water	830	816	883	906	959	906	892	894	906	933	931	927	959	965
Days of forward consumption in OECD														
OECD onland commercial	55	51	51	51	52	51	52	51	50	52	53	53	52	54
North America	52	48	46	47	49	46	47	47	47	47	50	49	50	49
Western Europe	60	58	60	60	61	61	60	59	60	63	60	61	60	63
OECD Pacific	52	47	51	50	46	51	52	49	46	48	52	49	42	51
OECD SPR	27	28	29	29	30	30	29	29	29	30	30	30	30	31
North America	23	25	25	27	27	26	26	26	27	27	27	27	27	27
Western Europe	23	23	24	24	26	25	24	23	24	25	26	26	26	27
OECD Pacific	45	45	47	46	46	50	49	45	42	49	49	45	42	48
OECD total	82	79	80	81	82	81	81	80	79	83	84	83	81	84

Table 32: Non-OPEC supply and OPEC natural gas liquids, mb/d

	2002	2003	2004	2005	Change 05/04	1Q06	2Q06	3Q06	4Q06	2006	Change 06/05	1Q07	2Q07	3Q07	4Q07	2007	Change 07/06
USA	8.04	7.82	7.65	7.27	-0.38	7.19	7.31	7.48	7.60	7.40	0.12	7.60	7.65	7.63	7.75	7.66	0.26
Canada	2.84	2.98	3.07	3.02	-0.04	3.18	3.18	3.22	3.39	3.24	0.22	3.31	3.39	3.34	3.45	3.37	0.13
Mexico	3.59	3.80	3.83	3.77	-0.07	3.79	3.80	3.71	3.81	3.78	0.01	3.80	3.75	3.80	3.78	3.78	0.01
North America	14.48	14.60	14.56	14.07	-0.49	14.16	14.29	14.42	14.80	14.42	0.35	14.72	14.79	14.77	14.98	14.81	0.40
Norway	3.33	3.26	3.19	2.97	-0.22	2.93	2.80	2.77	2.86	2.84	-0.13	2.84	2.84	2.86	2.99	2.88	0.04
UK	2.52	2.33	2.10	1.88	-0.22	1.85	1.73	1.60	1.81	1.75	-0.14	1.83	1.81	1.65	1.77	1.77	0.02
Denmark	0.37	0.37	0.39	0.38	-0.01	0.36	0.36	0.36	0.37	0.36	-0.01	0.36	0.35	0.34	0.34	0.35	-0.02
Other Western Europe	0.42	0.44	0.47	0.47	0.00	0.48	0.47	0.47	0.47	0.47	0.00	0.47	0.46	0.46	0.46	0.46	-0.01
Western Europe	6.65	6.40	6.15	5.70	-0.45	5.62	5.36	5.20	5.51	5.42	-0.28	5.49	5.47	5.32	5.56	5.46	0.04
Australia	0.70	0.60	0.52	0.53	0.01	0.43	0.45	0.48	0.55	0.48	-0.05	0.54	0.50	0.52	0.51	0.52	0.04
Other Pacific	0.06	0.06	0.05	0.05	0.00	0.05	0.05	0.07	0.07	0.06	0.01	0.07	0.09	0.11	0.11	0.10	0.03
OECD Pacific	0.77	0.66	0.57	0.58	0.01	0.48	0.50	0.56	0.62	0.54	-0.04	0.61	0.59	0.63	0.62	0.61	0.07
Total OECD	21.89	21.65	21.28	20.35	-0.93	20.26	20.15	20.17	20.93	20.38	0.03	20.82	20.84	20.72	21.16	20.88	0.51
Brunei	0.20	0.21	0.21	0.21	0.00	0.22	0.22	0.22	0.22	0.22	0.01	0.22	0.22	0.22	0.22	0.22	0.00
India	0.78	0.79	0.79	0.76	-0.04	0.78	0.79	0.80	0.80	0.79	0.03	0.79	0.77	0.78	0.78	0.78	-0.01
Malaysia	0.79	0.83	0.86	0.83	-0.03	0.83	0.80	0.81	0.80	0.81	-0.01	0.79	0.76	0.81	0.88	0.82	0.00
Vietnam	0.34	0.35	0.40	0.38	-0.02	0.38	0.38	0.41	0.42	0.40	0.02	0.40	0.37	0.42	0.43	0.40	0.00
Asia others	0.36	0.39	0.42	0.51	0.09	0.52	0.54	0.54	0.54	0.53	0.02	0.54	0.54	0.54	0.56	0.54	0.01
Other Asia	2.47	2.57	2.68	2.69	0.01	2.73	2.73	2.78	2.78	2.75	0.07	2.74	2.65	2.77	2.87	2.76	0.01
Argentina	0.84	0.84	0.79	0.76	-0.03	0.76	0.77	0.76	0.75	0.76	0.00	0.74	0.73	0.72	0.71	0.73	-0.03
Brazil	1.72	1.80	1.79	1.98	0.19	2.05	2.11	2.25	2.35	2.19	0.21	2.34	2.34	2.39	2.44	2.38	0.18
Colombia	0.58	0.55	0.53	0.53	0.00	0.53	0.53	0.53	0.53	0.53	0.00	0.53	0.53	0.53	0.53	0.53	0.00
Ecuador	0.38	0.41	0.51	0.51	0.00	0.52	0.54	0.54	0.53	0.53	0.02	0.52	0.51	0.51	0.50	0.51	-0.02
Trinidad & Tobago	0.15	0.16	0.16	0.21	0.05	0.22	0.22	0.22	0.22	0.22	0.01	0.21	0.21	0.21	0.21	0.21	-0.01
L. America others	0.25	0.26	0.27	0.29	0.02	0.29	0.30	0.29	0.29	0.29	0.00	0.28	0.28	0.28	0.28	0.28	-0.01
Latin America	3.93	4.02	4.06	4.29	0.23	4.37	4.47	4.59	4.67	4.53	0.24	4.62	4.60	4.64	4.68	4.63	0.11
Bahrain	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00
Oman	0.90	0.82	0.79	0.78	0.00	0.77	0.75	0.75	0.75	0.76	-0.02	0.75	0.75	0.75	0.77	0.76	0.00
Syria	0.55	0.53	0.50	0.47	-0.03	0.44	0.44	0.43	0.43	0.43	-0.04	0.42	0.41	0.41	0.40	0.41	-0.02
Yemen	0.46	0.44	0.42	0.40	-0.02	0.41	0.41	0.41	0.41	0.41	0.01	0.43	0.43	0.42	0.41	0.42	0.01
Middle East	2.12	2.01	1.92	1.87	-0.05	1.83	1.82	1.81	1.81	1.82	-0.05	1.82	1.81	1.79	1.80	1.80	-0.01
Angola	0.89	0.87	0.99	1.23	0.24	1.38	1.22	1.48	1.62	1.42	0.20	1.66	1.70	1.78	1.89	1.76	0.33
Chad	0.00	0.02	0.16	0.18	0.02	0.18	0.18	0.18	0.18	0.18	0.00	0.18	0.18	0.18	0.18	0.18	0.00
Congo	0.25	0.24	0.24	0.24	0.00	0.25	0.25	0.25	0.25	0.25	0.01	0.25	0.25	0.27	0.27	0.26	0.01
Egypt	0.75	0.75	0.71	0.70	-0.01	0.69	0.68	0.67	0.69	0.68	-0.01	0.68	0.67	0.66	0.65	0.66	-0.02
Equatorial Guinea	0.20	0.24	0.34	0.36	0.02	0.36	0.35	0.35	0.35	0.36	0.00	0.36	0.39	0.41	0.40	0.39	0.03
Gabon	0.29	0.25	0.25	0.25	0.00	0.25	0.25	0.25	0.25	0.25	0.00	0.24	0.24	0.24	0.24	0.24	-0.01
South Africa	0.19	0.20	0.22	0.20	-0.02	0.20	0.19	0.19	0.19	0.19	-0.01	0.18	0.18	0.18	0.18	0.18	-0.01
Sudan	0.24	0.27	0.30	0.34	0.04	0.35	0.37	0.39	0.50	0.40	0.07	0.54	0.55	0.54	0.54	0.54	0.14
Africa other	0.20	0.20	0.21	0.24	0.04	0.32	0.35	0.35	0.36	0.35	0.10	0.36	0.36	0.36	0.39	0.37	0.03
Africa	3.01	3.05	3.42	3.74	0.32	3.97	3.84	4.11	4.39	4.08	0.34	4.45	4.51	4.62	4.73	4.58	0.50
Total DCs	11.54	11.65	12.07	12.58	0.52	12.90	12.85	13.29	13.65	13.17	0.59	13.62	13.58	13.82	14.07	13.78	0.60
FSU	9.33	10.27	11.14	11.55	0.41	11.70	12.02	12.18	12.35	12.06	0.51	12.27	12.51	12.69	12.86	12.58	0.52
Russia	7.62	8.46	9.19	9.44	0.25	9.48	9.63	9.71	9.79	9.66	0.22	9.69	9.87	9.97	10.00	9.89	0.23
Kazakhstan	0.94	1.03	1.18	1.23	0.05	1.22	1.32	1.33	1.35	1.30	0.08	1.35	1.38	1.42	1.53	1.42	0.12
Azerbaijan	0.31	0.31	0.31	0.44	0.13	0.58	0.62	0.69	0.76	0.67	0.22	0.80	0.84	0.87	0.91	0.86	0.19
FSU others	0.45	0.47	0.46	0.44	-0.03	0.41	0.44	0.44	0.44	0.43	-0.01	0.42	0.42	0.42	0.42	0.42	-0.01
Other Europe	0.18	0.17	0.16	0.16	0.00	0.15	0.15	0.15	0.15	0.15	-0.01	0.15	0.15	0.15	0.15	0.15	0.00
China	3.39	3.41	3.49	3.62	0.13	3.68	3.69	3.72	3.71	3.70	0.08	3.75	3.73	3.76	3.84	3.77	0.07
Non-OPEC production	46.33	47.15	48.13	48.26	0.12	48.69	48.85	49.51	50.78	49.47	1.21	50.60	50.81	51.13	52.08	51.16	1.70
Processing gains	1.73	1.80	1.83	1.86	0.03	1.92	1.89	1.89	1.93	1.91	0.04	1.93	1.93	1.93	1.93	1.93	0.02
Non-OPEC supply	48.06	48.95	49.96	50.12	0.16	50.61	50.74	51.40	52.71	51.37	1.25	52.53	52.74	53.06	54.01	53.09	1.72
OPEC NGL	3.42	3.57	3.85	3.92	0.07	4.05	4.10	4.17	4.18	4.13	0.20	4.23	4.28	4.38	4.53	4.36	0.23
OPEC Non-conventional	0.18	0.14	0.17	0.17	0.00	0.15	0.14	0.15	0.18	0.16	-0.01	0.18	0.18	0.18	0.18	0.18	0.02
OPEC (NGL+NCF)	3.60	3.71	4.02	4.09	0.07	4.20	4.24	4.33	4.36	4.28	0.19	4.41	4.46	4.56	4.71	4.54	0.25
Non-OPEC & OPEC (NGL+NCF)	51.66	52.66	53.98	54.21	0.23	54.81	54.99	55.73	57.07	55.66	1.44	56.94	57.20	57.62	58.72	57.63	1.97

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

Table 33: Non-OPEC Rig Count

	2001	2002	2003	Change 03/02	1Q 04	2Q 04	3Q 04	4Q 04	2004	Change 04/03	1Q 05	2Q 05	3Q 05	4Q 05	2005	Change 05/04	1Q 06	May 06	Jun 06	2Q 06	Change Jun 06 - May 06
USA	1,156	831	1,032	201	1,119	1,164	1,229	1,249	1,190	158	1,279	1,336	1,419	1,478	1,378	188	1,519	1,635	1,665	1,632	30
Canada	342	266	372	106	528	202	326	420	369	-3	620	241	527	572	490	121	665	240	408	282	168
Mexico	54	65	92	27	107	113	111	108	110	18	114	116	104	93	107	-3	85	89	80	85	-9
North America	1,552	1,162	1,496	334	1,754	1,479	1,665	1,777	1,669	173	2,013	1,693	2,050	2,143	1,975	306	2,269	1,964	2,153	1,999	189
Norway	23	19	19	0	19	18	14	16	17	-2	15	18	19	17	17	0	19	20	19	20	-1
UK	24	26	20	-6	15	19	14	15	16	-4	16	22	23	24	21	5	29	29	27	27	-2
Denmark	4	4	4	0	4	4	3	4	4	0	2	3	2	2	2	-2	3	5	4	4	-1
Other Western Europe	44	36	36	0	31	30	27	27	29	-7	23	24	25	24	24	-5	26	28	25	26	-3
Western Europe	95	85	78	-7	69	70	57	62	65	-13	56	67	68	68	65	0	77	82	75	78	-7
Australia	10	9	11	2	12	13	18	14	14	3	17	15	17	15	16	2	16	20	25	21	5
Other Pacific	9	8	7	-1	7	8	9	6	8	1	7	10	10	9	9	1	9	7	5	7	-2
OECD Pacific	20	17	18	1	19	22	26	20	22	4	24	25	27	24	25	3	25	27	30	28	3
Total OECD	1,667	1,264	1,592	328	1,842	1,570	1,749	1,859	1,755	163	2,093	1,785	2,146	2,234	2,065	310	2,371	2,073	2,258	2,105	185
Brunei	3	3	3	0	2	3	3	2	3	0	1	2	3	2	2	-1	3	3	4	4	1
India	50	55	60	5	64	68	71	76	70	10	76	76	81	84	79	9	82	80	80	80	0
Malaysia	11	14	14	0	15	15	13	13	14	0	12	14	14	13	13	-1	15	14	10	13	-4
Papua New Guinea	1	1	2	1	3	2	0	1	2	0	1	2	2	2	2	0	3	3	2	3	-1
Vietnam	8	9	9	0	8	9	8	7	8	-1	8	10	10	10	9	1	10	11	10	10	-1
Asia others	22	30	29	-1	27	31	31	31	30	1	35	36	36	37	36	6	40	42	41	41	-1
Other Asia	95	111	117	6	119	128	127	130	126	9	133	140	146	148	142	16	153	153	147	150	-6
Argentina	71	49	60	11	64	73	73	74	71	11	74	76	78	79	77	6	75	82	81	81	-1
Brazil	28	27	26	-1	24	26	26	26	26	0	26	27	28	27	27	1	31	32	29	31	-3
Colombia	15	11	11	0	8	9	9	11	9	-2	13	12	16	19	15	6	20	22	22	23	0
Ecuador	10	9	9	0	7	9	12	12	10	1	10	12	11	13	12	2	12	11	10	11	-1
Peru	4	2	3	1	2	2	3	3	2	-1	3	4	3	3	4	2	3	7	6	6	-1
Trinidad & Tobago	5	4	3	-1	3	4	4	4	4	1	3	2	2	4	3	-1	3	4	9	6	5
L. America others	7	5	4	-1	6	6	3	4	5	1	3	4	3	5	4	-1	5	4	7	5	3
Latin America	141	106	116	10	114	127	129	134	126	10	133	138	141	151	141	15	149	162	164	162	2
Bahrain	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Oman	25	29	35	6	36	35	34	36	35	0	34	35	34	35	34	-1	34	37	39	38	2
Syria	19	22	24	2	24	24	23	23	24	0	21	20	22	23	22	-2	22	22	22	22	0
Yemen	6	9	9	0	7	8	9	11	9	0	10	11	13	14	12	3	13	16	15	16	-1
Middle East	50	62	70	8	69	68	69	73	70	0	69	71	73	75	72	2	72	78	79	79	1
Angola	5	5	4	-1	4	3	3	3	3	-1	3	3	3	2	3	0	4	3	4	4	1
Cameroon	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Congo	1	1	1	0	2	2	3	2	2	1	3	2	2	2	2	0	1	1	2	2	1
Egypt	22	23	26	3	27	28	29	28	28	2	28	30	28	30	29	1	32	35	37	34	2
Gabon	2	2	3	1	2	2	2	2	2	-1	2	3	2	2	2	0	2	3	2	2	-1
South Africa	1	1	0	-1	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	1	-1
Africa other	4	12	13	1	15	18	20	22	19	6	23	21	19	23	21	2	23	27	21	23	-6
Africa	36	43	48	5	48	53	56	57	54	6	58	58	54	60	58	4	62	70	66	66	-4
Total DCs	322	322	350	28	350	376	381	394	376	26	393	407	414	433	412	36	436	463	456	457	-7
FSU	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Europe	3	2	2	0	2	2	2	2	2	0	3	2	3	2	3	1	2	2	2	2	0
China	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-OPEC Rig count	1,992	1,588	1,944	356	2,194	1,949	2,132	2,255	2,132	188	2,489	2,194	2,562	2,670	2,479	347	2,809	2,538	2,716	2,564	178

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

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Data is provided by Data Services Department.

Data Summary July 2006

OPEC Basket average price

US$ per barrel

⬇ *down 0.51 in June*

June 2006	***64.60***
May 2006	*65.11*
Year-to-date	*61.21*

May OPEC production

in million barrels per day, according to secondary sources

Algeria	*1.35*	*Kuwait*	*2.49*	*Saudi Arabia*	*9.19*
Indonesia	*0.91*	*SP Libyan AJ*	*1.70*	*UAE*	*2.50*
IR Iran	*3.76*	*Nigeria*	*2.25*	*Venezuela*	*2.50*
Iraq	*2.11*	*Qatar*	*0.82*	***TOTAL***	***29.58***

Supply and demand

in million barrels per day

2006		***2007***	
World demand	*84.6*	*World demand*	*85.9*
Non-OPEC supply	*55.7*	*Non-OPEC supply*	*57.6*
Difference	***29.0***	***Difference***	***28.3***

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

Stocks

US commercial oil stocks saw a build of 16 mb in June.

World economy

World GDP growth unchanged at 4.7% for 2006 and forecast at 4.2% for 2007.

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Data covers period up to end of June 2006 unless otherwise stated