OPEC

Organization of the Petroleum Exporting Countries

# Monthly Oil Market Report

## *July 2008*

*Feature Article:*
***Consensus points to easing fundamentals in 2009***




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# Oil Market Highlights

- Despite increased OPEC production and higher exports, the OPEC Reference Basket reached a record high of $128.34/b in June, representing an increase of $8.94/b or 7.5%. The jump in prices was mainly due to an escalation in geopolitical tensions which has been exacerbated by financial market speculation. The continued US dollar fluctuations and supply concerns due to a storm threat in the Gulf of Mexico have also boosted prices. In the first week of July, the escalation of geopolitical tensions in the Mideast added another $10.13/b. The Basket averaged $139.81/b on 14 July.

- World economy in 2009 is forecast at 3.9%, slightly lower than the revised 4.0% estimate for 2008. The OECD region is forecast to grow at 1.8% versus 1.9% this year, while developing countries growth may fall to 5.6% from 5.9%, mainly due to slower Latin American growth. China is seen to achieve 9.2% growth, a drop of 0.7 % below 2008, while India's growth is almost unchanged at 7.5%. Following slightly higher final figures for the first quarter and signs of a better-than-expected performance in the second, US growth in 2008 was revised up by 0.3 points to 1.5%. However, the outlook for the second half of this year has worsened amidst weakening labour markets, falling consumer confidence and remerging systemic risks in the financial markets. Decelerating economic activity was already becoming noticeable in the Euro-zone in the second quarter, even in Germany, but the ECB was not deterred from raising interest rates to 4.25%. In Japan, fears of recession are rising and growth in the second quarter is expected to be negative. In many emerging economies, tighter monetary policies introduced to reign in rising inflation may dampen growth for the rest of the year and into 2009.

- World oil demand in 2009 is forecast to grow by 0.9 mb/d, which represents a decline of 0.1 mb/d from estimated growth in 2008. Oil demand in the non-OECD is expected at 1.2 mb/d, accounting for all of next year's demand growth. The economic slowdown and high pump prices in OECD have been impacting oil demand and will continue to do so next year. Transport is expected to be the key growth sector in 2009. For this year, world oil demand has been revised down by 0.1 mb/d to stand at 86.81 mb/d, representing growth of 1.0 mb/d. Consumption of petroleum products experienced further declines in OECD in the second quarter due to slower economic activity and higher oil prices, which have doubled since the initial forecast. Transport fuel demand in the OECD and particularly the US has showed a strong decline.

- Non-OPEC oil supply in 2009 is expected to grow by 0.9 mb/d to reach 51.0 mb/d. Brazil, USA, Russia, Azerbaijan, Kazakhstan, Canada, and Australia are expected to be the main contributors to next year's growth. Mexico, UK, and Norway are expected to experience the largest declines. OPEC NGLs and non-conventional oils are expected to reach 5.5 mb/d in 2009, indicating a significant increase of around 0.7 mb/d over the current year. In 2008, non-OPEC supply is expected to increase by 0.6 mb/d, which represents a downward revision of around 112 tb/d from the last assessment, primarily due to lower output from Brazil, Russia, and Mexico. In June, OPEC crude output averaged 32.3 mb/d, slightly higher than in the previous month.

- Slowing demand for gasoline particularly in the US, combined with an easing in the distillate markets and costly crude have exerted pressure on refining economics across the world. The continuation of these trends may encourage refiners to cut throughputs or begin seasonal maintenance earlier than usual, which would trim crude demand. This could lead to further crude stock-builds in the coming months, putting pressure on crude prices in the latter part of the year. These perceptions may change if supply disruptions occur either in OPEC or non-OPEC producers over the next months. The main wild card for the product market in the near future would be possible refinery outages due to a potential active hurricane season in the US Gulf Coast.

- OPEC spot fixtures increased by 10% in June from the previous month to average 14.5 mb/d as refineries returned from maintenance and extra Middle East barrels came onto the market. OPEC sailings are estimated to have increased to average 23.33 mb/d. Arrivals in the US rose last month as imports increased. The VLCC market remained steady as the extra barrels halted the decline. Clean tanker freight rates were robust in June with rates increasing on all reported routes.

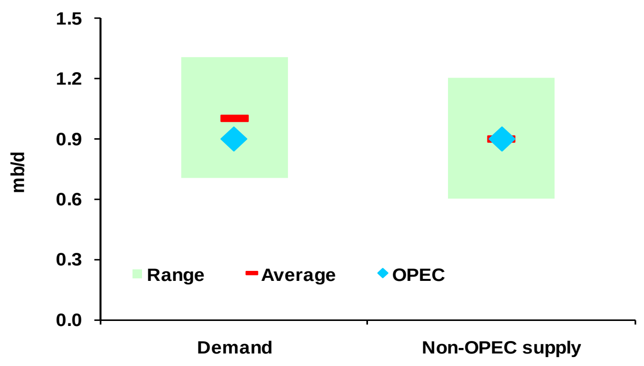
- US total commercial oil stocks rose 6.6 mb to stand at 975 mb at end-June. Product stocks remained comfortable, particularly transport fuels, while crude oil inventories fell a further 9 mb. US commercial stocks increased by only 10 mb in the first half of this year, compared to a typical build of 28 mb during this time of year. The slower build was primarily due to the decline in crude imports, resulting from lower non-OPEC sailings despite a strong increase in OPEC production over the same period. In contrast, EU-15 plus Norway total oil inventories fell 8.6 mb but stayed within the upper end of the five-year range. Japan's commercial oil stocks continued their upward trend in May, adding over 9 mb to move above 178 mb for the first time since last October. The build was attributed to crude oil which jumped 8 mb.

- The demand for OPEC crude in 2008 is estimated to average 32.0 mb/d, a decline of 90 tb/d over the previous year. In 2009, the demand for OPEC crude is expected to average 31.2 mb/d or 710 tb/d lower than in the previous year.

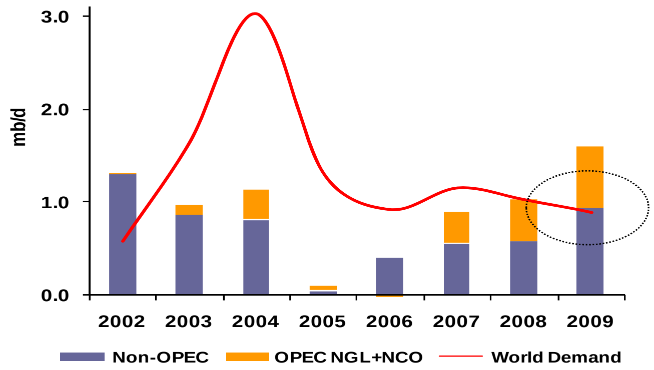
# Consensus points to easing fundamentals in 2009

- The review of next year comes at a time of record oil prices while market fundamentals have clearly been softening. This trend in fundamentals is expected to continue — and even gather pace — into the coming year.
- Next year, world economic growth is forecast at 3.9%, slightly lower than this year's estimate and roughly 1% below the peak growth in 2007. Financial market strains, still evident one year after the onset of the US subprime mortgage crisis, may take longer to resolve, and could possibly delay the US recovery into 2009. The mild boost to US growth from the current fiscal stimulus package may be short-lived as the housing sector recession drags on and labour markets weaken further, dampening consumer spending growth. Economic recovery is seen to take hold only in the second half of 2009. Overall, US growth next year at 1.6% is still well below potential. Euro-zone growth will show a more marked slowdown next year as tighter money and slowing export growth take their toll. Similarly growth in Japan is expected to remain lacklustre in 2009.
- Emerging market economies remain resilient, but the need to tackle rising inflationary pressures, fed by escalating food and commodity prices as well as strong domestic demand and credit growth, has led to tighter monetary policies. China's economic growth is not expected to decelerate significantly until the latter part of 2008, but the rate of expansion may slow to 9.2% in 2009, 1.5% below the average for 2003-2007. Above-target inflation may lead to further monetary tightening after the Olympics, at a time when economic activity is expected to moderate. There is some concern about India's economic growth in 2009 as it faces not only the highest inflation levels in a decade despite several attempts at monetary tightening but also a worsening current account deficit due to an escalating import bill. Latin America will also see a slowdown in growth in 2009 from the strong rates expected this year due to higher interest rates.

***Graph 1: Uncertainty on world oil demand and non-OPEC supply growth in 2009***




***Graph 2: Historical growth in demand, non-OPEC supply and OPEC NGLs and non-conventional oils***




- World oil demand growth has seen strong growth over the past 20 years, averaging 1.2 mb/d. However the new price structure and slower world economy have helped dampen oil demand growth in many regions. In 2009, world oil demand growth is forecast at 0.9 mb/d, which is 100,000 b/d lower than in the current year (*see* ***Graph 1***). The slower world economy along with high retail prices in OECD have affected oil demand and are expected to continue to do so in the coming year. Non-OECD countries oil demand growth of 1.2 mb/d will account for all of world oil demand growth next year. In sectoral terms, transport fuel is expected to see the strongest growth. The forecast, however, is subject to uncertainties. Demand growth could be lower if transport fuel prices stay strong in 2009, although this could be offset by a relatively quick recovery in the US economy or by colder winter weather.
- Non-OPEC supply is expected to grow by 0.9 mb/d in 2009, much higher rate than in recent years. Russia, Kazakhstan and Azerbaijan are expected to continue to count as major sources of non-OPEC growth. Total production is expected to increase by 430,000 b/d over 2008. Brazil is estimated to contribute 300,000 b/d to the growth in 2009, while the US is expected to increase 200,000 b/d. The declining trend is expected to continue in the North Sea and Mexico, falling by 160,000 b/d and 270,000 b/d respectively. Biofuels is forecast to gain 170,000 b/d and OPEC NGLs plus non-conventional oils are expected to rise 0.66mb/d in 2009. While the nature of the upstream development tends toward downside risk, some upside factors do exist in current price environment, such as tax policies and more conservative project scheduling.
- Taking together, the above forecasts for global demand and non-OPEC supply (including OPEC NGL and non-conventional oils) would result in a demand for OPEC crude at 31.2 mb/d. This represents a decline of around 700,000 b/d from the current year and the first significant decline in the demand for OPEC crude since 2002 (*see* ***Graph 2***). With current OPEC production at more than 32.3 mb/d, the year 2009 could see a significant build in inventories, more than enough to offset any downward revisions to non-OPEC supply. Moreover, by the end of 2009, OPEC production capacity is expected to increase by more than 1 mb/d over 2008, resulting in OPEC spare capacity of close to 15%, well above the 2008 estimate and the actual figure for 2007.
- The decline in demand for OPEC crude combined with increasing OPEC capacity should further ease market conditions and likely help moderate prices. Whether the market will fully benefit from these softening fundamentals will depend on other factors such as geopolitical tensions, financial markets developments and downstream constraints, which have been the main drivers behind current crude oil price levels.

**Brussels** **24 June 2008**

**EU-OPEC Energy Dialogue**
**5th meeting**

Joint Press Release

## Further steps in the constructive EU-OPEC Energy Dialogue

**The fifth ministerial-level meeting of the Energy Dialogue between the European Union (EU) and the Organization of the Petroleum Exporting Countries (OPEC) took place in Brussels, today.**

Representatives of the EU included Mr Andrej Vizjak, President of the EU Energy Council, Minister of Economy of Slovenia; Mr Jean-Louis Borloo, incoming President of the EU Energy Council, Ministre d'Etat, ministre de l'énergie, de l'écologie, du développement durable et de l'aménagement du territoire of France; and Mr Andris Piebalgs, European Commissioner for Energy. Representatives of OPEC included Dr Chakib Khelil, President of the OPEC Conference, Minister of Energy and Mines of Algeria; Mr Desidério da Graça Veríssimo e Costa, Alternate President of the OPEC Conference, Minister of Petroleum of Angola, and Mr Abdalla Salem El-Badri, Secretary General of OPEC.

The EU and OPEC representatives welcomed the progress that had been made since the fourth meeting of the Energy Dialogue in Vienna, Austria, on 21 June 2007. This included: a joint study on oil refining, with a follow-up workshop, held in Brussels, in January 2008; the launch of a joint study on the impacts of financial markets on oil price and volatility; discussions about the establishment of a joint energy technology centre; and other meetings and discussions on subjects of common interest. The representatives expressed their appreciation for the constructive exchanges of views in all these activities.

The participants underlined the importance of dialogue between producers and consumers, when prices are high or low. The recent Jeddah Energy Meeting is the latest instance of such dialogue. The participants reiterated their mutual interest in stable, transparent, and predictable oil markets, and recalled their recognition of the reciprocal nature of energy security, with security of supply and security of demand being two faces of the same coin. In this regard, they recognised the importance of secure future demand for crude and products in spurring timely investment both upstream and downstream, thus contributing to greater security of supply.

While acknowledging the continued importance of fossil fuels, and in particular oil, in responding to the future world energy needs, they also welcomed the growing diversity in the energy mix, including renewables. They further stressed the importance of sustainable development, with its three mutually supportive pillars of economic development, social progress and protection of the environment. They also recognised the needs of the poorest to access modern energy services, efforts towards avoiding waste of valuable resources, including through improved energy efficiency, as well as the need to develop and deploy cleaner fossil fuel technologies, in particular Carbon Capture and Storage (CCS).

EU representatives outlined their recent policy proposals, which are currently being discussed in the European Parliament and Council, as well as developments in relation to the Energy and Climate Change package and the Internal Energy Market. For their part, OPEC representatives presented their analysis of the recent developments in the oil market, reiterating that it remains well supplied, with supply exceeding demand and with healthy commercial crude stocks. OPEC stressed the role of financial markets as well as the declining value of the dollar in driving the current crude oil price and volatility, in particular through increased speculative activity.

Another session involved the presentation of the 2030 baseline demand scenario by the EU, and the latest World Oil Outlook prepared annually by OPEC. This exchange of views represents an essential contribution to deepen mutual understanding. The presentation provided the EU with an opportunity to confirm that its policy developments will not translate into a reduction in oil imports. OPEC, in its presentation, stressed the uncertainties related to the demand for its crude, stemming mainly from technology, alternative fuels as well as consuming countries policies.

Finally, the meeting was presented with the main conclusions of the joint study on oil refining and the follow-up workshop, attended by member countries and industry representatives. The meeting also considered a progress report of the joint study on the impact of financial markets on oil price and volatility and a progress report on the EU-OPEC energy technology centre.

The meeting agreed on the following work programme, with report to the 6th Ministerial Meeting:

- to hold a round table on CCS, which will take place in Brussels, tentatively on 31st October 2008, followed by technical site visits;
- to finalise the joint study on the impacts of financial markets on oil price and volatility, to be followed by an international workshop in Vienna, early 2009;
- to undertake a feasibility study on the establishment of an EU-OPEC Energy Technology Centre, also addressing education and training;
- to prepare terms of reference for a joint study on the impacts of biofuels on oil refining.

The 6th EU-OPEC Ministerial Meeting is scheduled for June 2009 in Vienna.

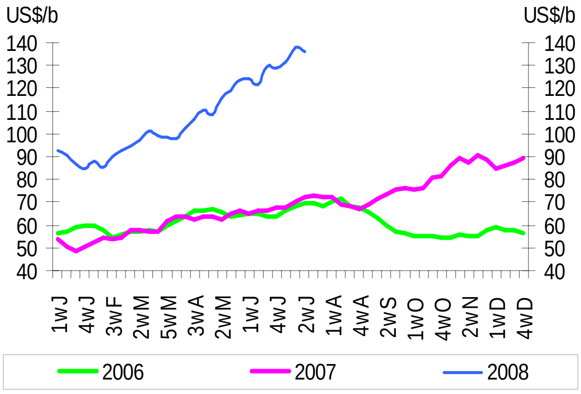
# Crude Oil Price Movements

**Developments in the Mideast geopolitics outweighed reduced Asian subsidies**

## *OPEC Reference Basket*

The crude oil market emerged in June on the prospect of weaker demand growth and higher OPEC output. Although a storm in the Gulf of Mexico supported the bullish market sentiment to some extent, the widening of the transatlantic spread kept balance in the marketplace. Volatility continued in the first week amid fluctuations in the US dollar exchange rate. Yet, lower fuel subsidies in Asia triggered concern over demand growth. The bulls revived at the end of the first week on Mideast geopolitics, pushing the OPEC Reference Basket up $7.34/b or over 10% higher, a record one-day rally. Nonetheless, the weekly average for the Basket was 2.3% or $2.85/b lower settling at $121.45/b. Continued escalations in Mideast geopolitics raising concern over a potential supply shortfall added to the fear premium. The Basket surged for the second day by another $4.76 peaking to a new record of over $130/b. Nonetheless, a call by Saudi Arabia for a meeting of producers and consumers to tackle the price spike contributed to a $2.22/b decline. Nonetheless, higher Chinese oil imports in May and bullish US oil data kept jitteriness in place despite higher OPEC output. A strike in West Africa added to the fear over a supply shortfall while tight production from the North Sea maintained some of the bullish sentiment. The Basket gained $8.29 or nearly 7% the second week to settle at $129.74/b.

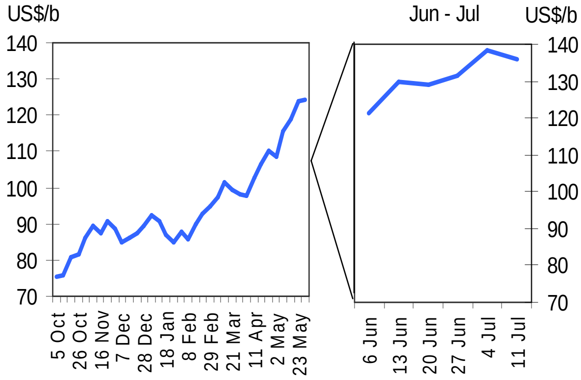
**Graph 1: OPEC Reference Basket - weekly spot crude**




The focus shifted in the third week on higher exports by Saudi Arabia while lower subsidies from China were seen to dent demand growth for oil and products. Revived fear over economic growth added to the weak sentiment and some speculators exited the energy futures markets amid moves by US law makers to tighten regulations, prompting fund sell-offs for profit-taking. A flip in the forward structure into contango supported the buying spree which took advantage of the calendar spread. However, a rebound in the US dollar exchange rate maintained the bullish market sentiment during most of the third week. The Basket averaged 70¢ lower in the third week at $129.04/b. In the fourth week, Mideast and West African geopolitical developments revived fears of a supply shortfall, yet perceived bearish US petroleum data kept the downward trend intact. Bullish remarks from some OPEC members and revived tensions in the Middle East sustained market volatility. The Basket closed the week 2.3% or $4.54/b higher, peaking to a new record-high of $135.3/b1, to average $131.60/b following a rally of $2.56 or almost 2%. In the final day, the bullish sentiment remained intact pushing the Basket over $136/b.

In monthly terms, the Basket averaged $8.94/b or 7.5% higher in June to close at $128.34/b, a record monthly high. Despite higher OPEC exports and a production boost by a Mideast major, escalations in the Mideast geopolitics dominated market volatility while the US dollar fluctuation continued. A storm threat in the Gulf of Mexico revived worries of a disruption to the petroleum infrastructures raising concerns over a supply shortfall. Thus, the speculative fear premium continued to weigh on the higher exports. In the first week of July, prices rose another $10.13/b or nearly 8% due to escalations in the Mideast; however, geopolitics volatility continued to dominate market sentiment with the Basket retreating from record-highs to average $137.57/b so far in July.

**Graph 2: Weekly average Basket price, 2007-2008**

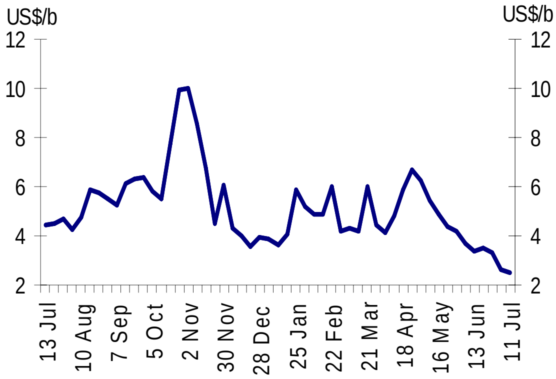


**The narrowing transatlantic spread and a flip in the forward structure supported light grade firmness amid tight light-end product supply**

### *US market*

Cash crude differentials softened in the US domestic market amid a widened contango spread in the forward structure despite a hefty drop in crude oil stocks. Momentarily closed transatlantic arbitrage spread supported light grade while a build in crude stocks at Cushing, Oklahoma, dampened the sweet crude. Thus, the WTI/WTS spread narrowed by 50¢ to average $3.66/b in the first week. The weak sentiment continued into the second week amid a widening contango spread while the transatlantic window narrowed and despite the continued depletion of US crude oil stocks. Tight light-end seasonal products continued to support market sentiment for light grades. In the second week, the WTI/WTS spread was 27¢ narrower to average $3.39/b. A somewhat firmed transatlantic spread exerted downward pressure on light crude while a drop in crude stocks at Cushing, Oklahoma, supported the sweet grade. The WTI/WTS spread widened by 14¢ to $3.53/b in the third week. In the final week of the month, crude stocks built at Cushing, Oklahoma, while draws on gasoline inventories boosted light crude. The narrowing transatlantic spread added to the firmness of light grades. The WTI/WTS spread averaged in the fourth week 24¢ narrower at $3.29/b. WTI averaged $133.93/b in June, firming $8.27/b or 6.6% with the premium to WTS $1.44 narrower at $3.43/b.

**Graph 3: WTI spread to WTS, 2007-2008**

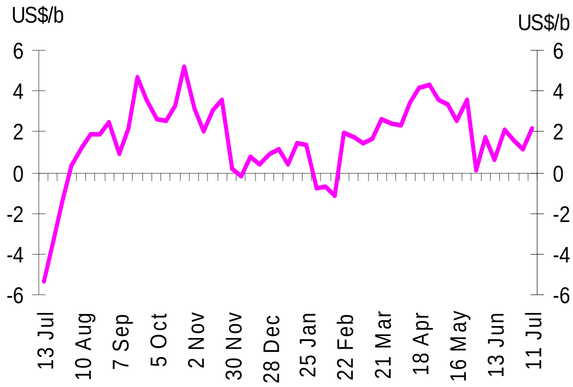



**North Sea crude firmed on tight July supply amid the maintenance season and supply disruptions in West Africa**

### *North Sea market*

The North Sea crude market emerged on a bullish note amid concern over tight July supply and robust demand. However, the sentiment was short-lived as prompt June barrels were on offer easing fears over tight supplies. In the first week, the Brent discount to WTI widened to $1.72 versus 8¢/ the week before. In the second week, revived concern over tight July output helped differentials to regain some strength. Yet, the fall of the front end of the swap curve pushed differentials to soften. High outright prices also added to market bearishness. Nonetheless, Brent discount to WTI was $1.08 narrower at 64¢/b. Market sentiment remained weak into the third week amid unsold prompt late June and early July stems, despite reduced Oseberg supply in July forecast to drop 194,000 b/d, less than earlier expected after a fire at an offshore platform. Brent spread under WTI was $1.48 wider at $2.12/b. Nonetheless, lack of offers boosted differentials in the fourth week. Seasonal maintenance and supply disruption from West Africa added to market bullishness. Strong gasoil margins maintained the bullish market sentiment. In the fourth week the WTI/Brent spread was 55¢ narrower at $1.57/b. Brent averaged $9.39 or 7.6% higher in June to reach $132.44/b, with the discount to WTI narrowing $1.12/b to $1.49/b.

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




**Ample supply of rival sour crude and tight exports of West African sweet grade pressured the Mediterranean market**

### *Mediterranean market*

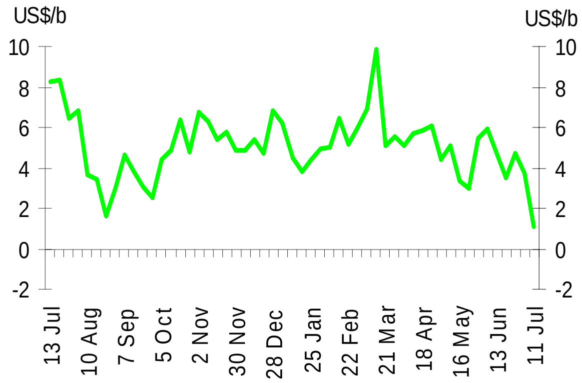
High outright prices continued to pressure the sour grade in the Mediterranean market amid sellers outnumbering buyers. Rising Iraqi Kirkuk crude exports also lent support to the bearish market sentiment. In the first week, Urals discount to Brent was 64¢ wider at $5.10/b. High volatility in the futures market and rising freight rates continued to pressure Urals crude. Brent premium to Urals averaged the second week 20¢ wider at $5.30/b. The sentiment turned bullish in the third week amid bidding by major regional buyers procuring prompt barrels. However, an overhang of Iranian sour crude kept a cap on the firming market sentiment. Urals discount to Brent narrowed by $1.17 to $4.13/b. In the final week, market bearishness prevailed to some extent amid ample supply while disruption from West Africa lent support to the sweet grade.

Thus, Urals spread under Brent was 30¢ wider at $4.43/b. Urals averaged $127.70/b in June, an increase of $8.60 or over 7%, with the discount to Brent averaging $4.71/b or 77¢ wider.

### *Middle Eastern market*

**Ample supply and lower subsidies in Asia pressured Mideast crude**

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




The Mideast market emerged on a soft note as retroactive Oman crude was calculated at a record-high, pressuring differentials. However, the strong gasoil crack spread supported the market preventing it from deteriorating further. The Brent/Dubai spread averaged $5.93/b or 48¢ wider in the first week. In the second week, refiners worked out their requirements for impending August trade; but an indication of lower subsidies was seen balanced by the strong gasoil crack spread. Nonetheless, near record-low fuel oil margins weighed on the regional markets. Thus, Murban slipped into a discount to OSP on limited demand amid high outright prices. Brent premium to Dubai was $1.18 wider at $4.75/b. The weakness continued into the third week amid ample supply from the Middle East producers and weaker refining margins while arbitrage opportunities became more economical for inbound rival grades. The continued fall of the fuel oil crack spread added to the bearish momentum. In the third week, the Brent/Dubai spread narrowed by $1.22 to $3.53/b. In the final week, buyers moved to the sidelines while sellers were reluctant to further reduce offers. Softened demand from China amid lower subsidies was seen denting demand adding to market bearishness in Asia. However, when most of August stems were cleared at attractive differentials, the market regained some momentum. Brent premium to Dubai widened by $1.16 to $4.68/b. The average Dubai price in June was $8.9 or 7.5% higher at $127.80/b, with the discount to Brent 43¢ wider at $4.62/b.

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

| | May 08 | Jun 08 | Change Jun/May | Year-to-Date 2007 | Year-to-Date 2008 |
|---|---|---|---|---|---|
| **OPEC Reference Basket** | **119.39** | **128.33** | **8.94** | **59.82** | **105.18** |
| Arab Light | 120.59 | 129.35 | 8.76 | 59.36 | 105.91 |
| Basrah Light | 116.35 | 124.46 | 8.11 | 56.76 | 102.57 |
| BCF-17 | 106.20 | 116.16 | 9.96 | 52.10 | 94.44 |
| Bonny Light | 126.55 | 136.44 | 9.89 | 65.80 | 112.36 |
| Es Sider | 122.50 | 131.69 | 9.19 | 61.80 | 108.57 |
| Girassol | 121.76 | 130.89 | 9.13 | 61.37 | 107.07 |
| Iran Heavy | 116.47 | 124.66 | 8.19 | 57.52 | 102.51 |
| Kuwait Export | 115.79 | 124.37 | 8.58 | 57.29 | 101.76 |
| Marine | 119.27 | 129.25 | 9.98 | 60.69 | 104.86 |
| Minas | 126.50 | 136.49 | 9.99 | 63.65 | 111.28 |
| Murban | 124.84 | 134.56 | 9.72 | 64.59 | 109.59 |
| Oriente | 111.25 | 119.13 | 7.88 | 53.19 | 96.66 |
| Saharan Blend | 125.15 | 133.94 | 8.79 | 65.59 | 111.13 |
| **Other Crudes** | | | | | |
| Dubai | 118.86 | 127.82 | 8.96 | 60.11 | 103.97 |
| Isthmus | 120.43 | 129.90 | 9.47 | 57.61 | 105.87 |
| T.J. Light | 116.45 | 125.62 | 9.17 | 55.82 | 102.63 |
| Brent | 123.05 | 132.44 | 9.39 | 63.28 | 109.19 |
| W Texas Intermediate | 125.66 | 133.93 | 8.27 | 61.46 | 111.00 |
| **Differentials** | | | | | |
| WTI/Brent | 2.61 | 1.49 | -1.12 | -1.81 | 1.82 |
| Brent/Dubai | 4.19 | 4.62 | 0.43 | 3.16 | 5.22 |

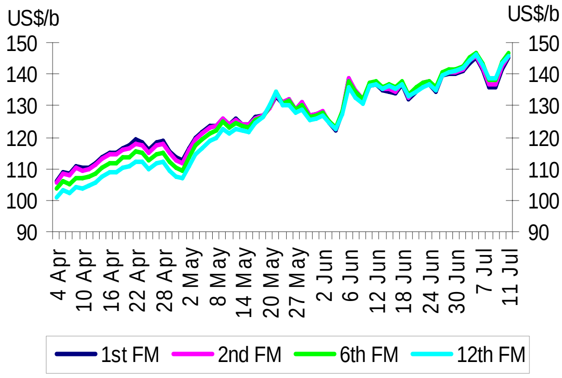
*Source: Platt's, Direct Communication and Secretariat's assessments.*

# The Oil Futures Market

**Geopolitics, the weak US dollar and concerns over natural gas supply contributed to the bullish market sentiment**

The futures crude oil market emerged on a volatile note amid a CFTC probe and higher OPEC output offsetting speculative price rises and the weak dollar. Nymex WTI front-month contracts eased $3.85/b from the previous period to average $127.41/b, after a low of $124.31/b for the weekly period. Fund sell-offs for profit-taking dominated market bearishness. The CFTC revealed that non-commercial net longs were 2,400 contracts wider amid a drop in the short positions with longs rising. Nonetheless, open interest volume was 16,800 wider at 1,355,700 lots, boosted by commercials increasing short positions. Including options, open interest was 95,600 lots wider at 2,887,900 propelled mostly by the increase in the commercial volume.

**Graph 6: Nymex WTI futures prices,2008**




FM = future month

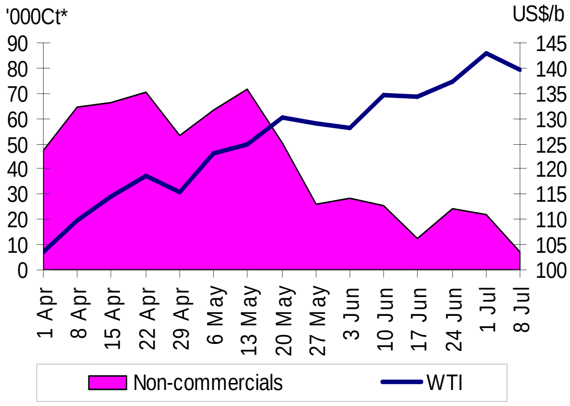
In the second weekly period, the CFTC revealed that the non-commercial net volume was down by 3,050 to 25,200 lots amid a rise in the short positions at a faster pace than the longs. Open interest volume was 63,100 lots higher at 1,418,700, dominated mostly by an increase in commercial volumes. With options included, open interest volume was 149,000 lots wider at 3,037,000, again boosted by commercial volumes in options. The Nymex WTI prompt month contracts closed the weekly period $7/b higher at $131.31/b to average the week at $130.86/b for a gain of $3.46/b. The fluctuation of the US dollar dominated market volatility, while geopolitics in the Middle East between Israel and Iran pushed the futures contract for one day by $10.75/b with the front-month contract surging to a new record high of $138.54/b. Nevertheless, this was balanced by the producer and consumer meeting in Jeddah. Concerns over natural gas supply amid looming storms in the Gulf of Mexico and speculative price forecasts by major financial institutions maintained the bullish market sentiment.

In the third weekly period, a rebound in the US dollar while Saudi Arabia was set to boost exports was outweighed by bullish US petroleum data and supply disruptions from Nigeria. Nymex WTI averaged the weekly period $4.46/b higher at $135.32/b to close the period at $134.01/b, up $2.70/b. Nonetheless, the CFTC revealed that the net volume of non-commercials dropped by a hefty 12,500 lots to 12,700, the lowest level since February. Moreover, open interest volume declined by 83,500 lots to 1,335,200 amid a hefty depletion in the commercial volumes. With options included, open interest volume was down significantly by 225,130 lots to 2,811,800 amid liquidation of commercial volumes. In the fourth weekly period, non-commercial net longs rebounded by 11,500 to 24,200 lots amid an increase in the longs while short positions depleted. In contrast, open interest volumes depleted by 29,100 to 1,306,100 contracts amid a drop in commercials and non-reportables. Including options, open interest dropped a marginal 9,100 to 2,802,800 lots. Crude oil sustained strength into the fourth week on the perception of bullish US crude oil and gasoline stocks. The revival of geopolitics in the Middle East and West Africa kept the bullish momentum intact. However, a rebound in the US dollar and the prospect of slower demand from China on a drop in fuel subsidies kept a cap on the price rise.

The Nymex WTI front-month closed the fourth weekly period up almost $3/b at $137/b to average the period 7¢/b firmer at $135.39/b. In the final days of the month, the CFTC reported that non-commercials reduced net longs as an increase in short positions outpaced a rise in longs. Open interest continued to deplete for the third consecutive week. In the last period closing 1 July, net longs were down by 2,200 contracts to nearly 22,000 with open interest falling 11,600 lots to 1,294,500. In contrast, including options, open interest was up by a hefty 71,000 contracts to 2,873,700. The Nymex WTI front-month contract closed the weekly period up at $140.97/b, amid US dollar weakness and developments in Mideast geopolitics.

On a monthly basis, the Nymex WTI front-month rose $8.56/b or 6.8% to average $134.02/b or almost 200% higher than last year. Mideast geopolitics and supply disruptions from West Africa dominated the upward market trend. Speculative price hikes by investment houses, US dollar weakness and concern over natural gas supply amid a storm threatening the petroleum infrastructure in the Gulf of Mexico took the lead in boosting oil prices higher in June. Comments from some OPEC members were perceived bullish while the Jeddah meeting had a calming effect on the price rally. A CFTC probe prompted some speculative investors to exit the market on profit-taking while concern over economic growth and weak demand as China reduced subsidies kept a cap on the price rally. The CFTC weekly average of non-commercial net longs was down by 30,100 contracts from May and 40,900 from last year, as longs dropped at a faster rate than shorts. Long and short positions were higher than last year by 21,600 and 62,400 contracts respectively. Nonetheless, the open interest weekly average in June was down by 44,800 contracts to 1,353,900, amid depleting commercial volumes. Including options, open interest volume averaged 52,900 lots lower at 2,884,900, yet some 590,800 contracts higher than last year.

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



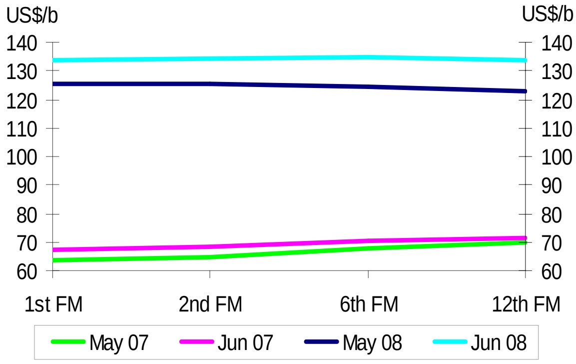

NC = Non-commercials: funds, investments and banks.
Ct = *Each contract is 1,000 barrels.

### *The Forward Structure*

**Lower refinery run rates prompted slower procurement**

Despite a drop in US crude oil stocks, the forward structure steepened into contango since the last decade of May with the 1st/2nd month spread averaging 51¢/b in June. The contango extended into the near months with the 1st/6th month spread at 87¢/b. However, the 1st/12th and 1st/18th month spreads remained in backwardation at 4¢/b and $1.14/b respectively. Crude oil stocks on average dropped nearly 17 mb to 301 mb, which made them 46.6 mb lower than June last year.

**Graph 8: Nymex WTI forward curve**




FM = future month

# Commodity Markets

### *Trends in selected commodity markets*

**Commodity prices rose by 6% in June led by a recovery in the non-fuel markets despite still high but lower growth in energy and especially crude oil prices**

**The IMF commodity index reported a deceleration month-on-month (m-o-m) in June, rising by 5.7% to represent a decline of 2% points from the previous month on milder growth in the energy commodity index which rose 7% in June compared to growth of 11% in May m-o-m. In contrast, the negative growth experienced by non-energy commodity prices in May turned into a 1.7% growth in June m-o-m** (*see **Table 1***). According to the World Bank, f**or the first half of the year, non-energy commodity prices including fertilizer rose 32%, driven by a 29% jump in agricultural prices, a 16% gain in industrial metals and a more than doubling of fertilizer.**

The performance of the **IMF energy commodity index** (crude oil, natural gas and coal) was due to lower growth in crude oil price in June m-o-m, but at 7% the trend growth of crude prices is still 92.9% higher than a year ago.

**US natural gas price** jumped 12.6% in June m-o-m compared to 10% during May/April gas and at 12.68 $/MMBtu is 72.6% higher than a year ago. NYMEX natural gas showed the best performance in the energy complex in June driven by high oil prices, weaker LNG imports and further lower inventories compared to the year-ago level and the five-year average.

**Coal prices** soared 19.9% m-o-m in June on strong Asian demand and supply constraints in most exporting countries caused by weather and infrastructure-related problems.

**Table 2: Monthly changes in selected commodity prices, 2007-2008**

| | % Change | | | % Change |
|---|---|---|---|---|
| | Apr/Mar | May/Apr | June/May | Jun 08/Jun 07 |
| Commodity | 4.6 | 7.5 | 5.7 | 62.0 |
| Non-Energy | -0.6 | -0.6 | 1.7 | 17.7 |
| Energy | 7.3 | 11.4 | 7.4 | 91.5 |
| Crude | 7.1 | 12.6 | 7.1 | 92.9 |
| Natural Gas | 8.2 | 10.7 | 12.6 | 72.6 |
| Coal | 4.0 | 8.3 | 19.9 | 159.3 |
| Agriculture* | 1.1 | 1.0 | 4.0 | - |
| Food | -0.6 | 0.9 | 3.9 | 44.4 |
| Corn | 5.5 | -1.3 | 17.9 | 74.5 |
| Soybean Oil | -2.2 | 3.0 | 6.3 | 80.7 |
| Soybeans | -1.2 | -1.6 | 18.3 | 75.4 |
| Wheat | -17.6 | -9.2 | 6.0 | 56.3 |
| Industrial metals | -1.1 | -4.3 | -2.2 | -5.6 |
| Aluminium | -1.5 | -2.0 | 2.0 | 10.7 |
| Copper | 3.3 | -4.1 | -0.8 | 10.4 |
| Nickel | -7.4 | -10.8 | -12.1 | -45.7 |
| Zinc | -9.3 | -4.4 | -12.5 | -47.5 |
| Lead | -5.9 | -21.8 | -16.0 | -23.6 |
| Gold* | -6.5 | -2.3 | 0.1 | - |

*Sources: IMF; Estimations based on data provided by the IMF.*
* *World Bank Index*

**Industrial metal prices fell by 2% in June from last month**

**Non-energy commodity prices recovered by 1.7% m-o-m in June as a result of a nearly 4% jump in agricultural and food prices, which was partly offset by persistent negative growth in industrial metal prices.**

**Industrial metal prices saw further negative growth of 2% m-o-m in June,** in response to weaker demand and improving supply prospects. As in May, the worse performance corresponded to those metals with weaker fundamentals such as lead, zinc and nickel.

**Lead prices plunged 14%** on very high inventories, expectations of greater supply and relatively weak demand. **Zinc** fell by 12.5% in June due to rising inventories and the outlook for strong supply growth. **Nickel prices** dropped 12% owing to weaker demand the stainless steel sector and from bearing supply expectations.

**Aluminum prices rose by 2% in June as concerns about the availability and cost for electric power were a bullish factor in this energy intensive commodity.** Power outages were reported by Anglesey Aluminum in Great Britain at the end of June and ALCOA in the US announced that it will idle capacity by 50% at a smelter in Texas. A further price rise took place in early July following the announcement by China of production cuts.

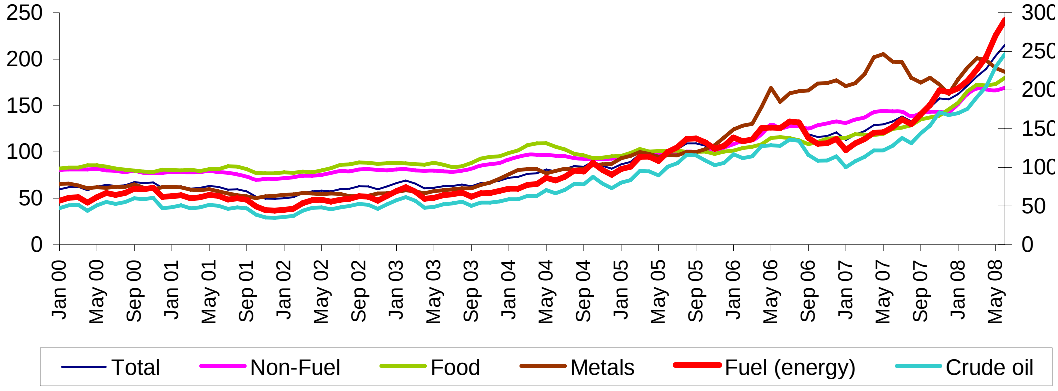
**Copper** prices declined at a slower pace in June (0.8%) than in May or April which saw a 4% decline due to news of supply constraints which outpaced bearish demand factors such as weaker demand data from China where imports of unwrought copper and semi-finished products were 19% lower in May than in April.

**The World Bank agricultural price index increased by 4% m-o-m in June while the IMF food price index surged 3.9% in June.** The jump in food prices was mainly caused by corn and soybean complex markets as well as a rally in wheat prices.

**Corn prices** jumped by 17.9% due to flooding in the US Midwest and a 10% cut in US planting announced in the 2008 Crop Progress Report published by the United States Department of Agriculture (USDA). The severity of the supply constraints together with already low inventories has already imposed some demand rationing, together with a price spike that temporarily pushed ethanol operating margins into negative territory as well as encourage limited placement of cattle into feedlots. This slower demand is not seen as a bearish factor as it has mainly been due to a lack of supply.

**Soybean prices** soared 18% m-o-m in June (75% higher than a year earlier). Soybean futures in the CBOT achieved an all-time record high of US$15.7/bushel on 26 June. The reasons behind record high soybean prices were the same as in corn, namely, because of floods in the US Midwest and along the Mississippi with near to 15-20% of Iowa's crop reported to be lost. Other bullish factors were continued political problems in Argentina which has lead to disruptions in transportation and exports. Record soybean prices took place despite a projection by the USDA for a 10% increase in world production. (*see* ***Table 2***).

**Graph 9: Major commodity price indexes, 2000-2008**




**Commodity Price Index, 2005 = 100**

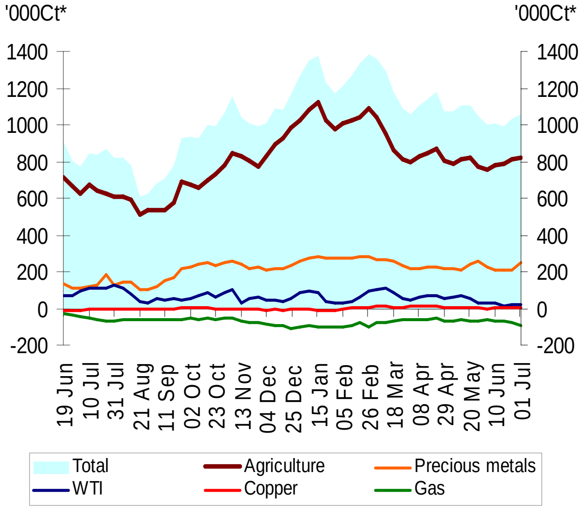
| | | |
|---|---|---|
| Total | - | Includes both fuel and non-fuel. |
| Non-fuel | - | Includes food and beverages and industrial inputs. |
| Food | - | Includes cereal, vegetable oils, meat, seafood, sugar, bananas and oranges. |
| Metals | - | Includes copper, aluminum, iron ore, tin, nickel, zinc,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

**Speculative net inflows in major US commodity markets declined by 75,000 contracts in June**

### *Investment flow into commodities*

**Graph 10 indicates that net long-positions in major non-commercial futures for the US commodity markets covered by the CFTC further declined during most of June but a rebound took place in the weeks ending 24 June and 1 July.** This was caused by the inflow of capital into the precious metals and crude oil markets due to a rally in prices as well as inflows into agricultural commodity prices such as the soybean and wheat complex whose prices also skyrocketed m-o-m during June.

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

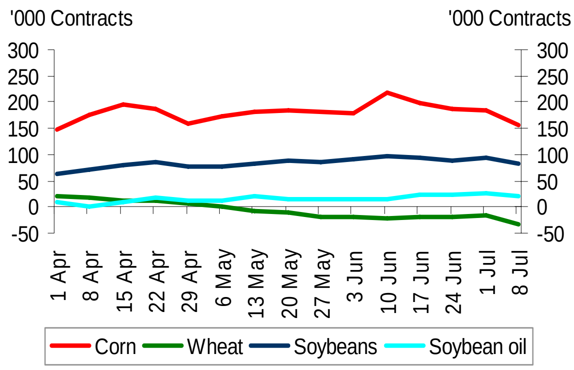



Ct = *Each contract is 1,000 barrels.

**Agricultural speculative net length positions increased throughout most of June,** (*see* ***Graph 10***) increasing 24,789 contacts to 810,449 in the week ending 24 June.

CFTC data show that speculative investment did not reflect the high corn prices during most of June except for the week ending 24 June. More in line with the price trend was the CFTC data for soybeans which reported an increase of 11,056 contracts in speculative net-longs to stand at 123,937 contracts m-o-m in June.

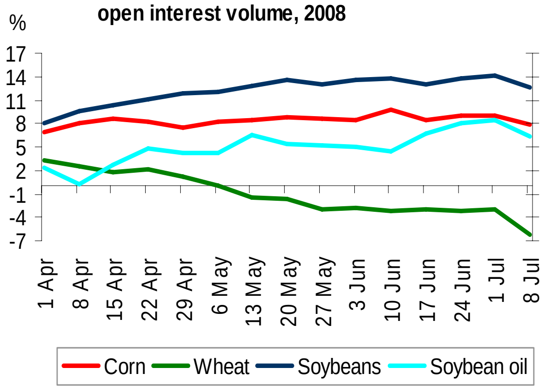
**Graph 11: CFTC CIT non-commercial net length, 2008**




Source: CFTC

**Graphs 11** and **12** show the trend in non-commercial, both in terms of net length and as a percentage of open interest volume, in selected agricultural markets according to the CFTC CIT report. The movements of speculative investment in some agricultural markets differ from the trends estimated by the previous classification system used by the CFTC, indicating a more modest role of non-commercial funds in the agricultural commodity markets.

**Graph 12: CFTC CIT net length positions as % of total open interest volume, 2008**




Source: CFTC

**Speculative net length in precious metals reported an increase m-o-m in June**, consistent with higher gold prices (*see Graph 10*).

It is worth noting that Barclays reported a doubling of the value of commodity-structured product issuance in the first half of 2008 from the same period last year, reaching $7.8 bn especially in agricultural products. An outflow from indices had taken place with investors in commodities shifting way from simple commodity index swaps to more complex investment strategies. Energy and industrial metals appear to have been favored by the rapid growth in the flow into some of the new products which allow short positions to be held. Flows into Exchange Traded Products (ETPs) have also been growing rapidly especially in gold and platinum. This trend, which appears to be a relatively new phenomenon, suggests the need to carry out further research to measure the investment flow into commodities.

# Highlights of the World Economy

**Economic growth rates 2008-2009, %**

| | World* | OECD | USA | Japan | Euro-zone | China | India |
|---|---|---|---|---|---|---|---|
| 2008 | 4.0 | 1.9 | 1.5 | 1.4 | 1.6 | 9.9 | 7.6 |
| 2009 | 3.9 | 1.8 | 1.6 | 1.3 | 1.4 | 9.2 | 7.5 |

**World aggregate growth rate now based on country weights calculated from updated 2005 purchasing power parity exchange rates.*

***Industrialised countries***

*United States of America*

**2H08 US economic prospects clouded in amidst resurfacing financial sector volatility; economic recovery expected in second half 2009**

After a better-than expected performance in the first two quarters of 2008, prospects in 2H08 are clouded by continued contraction in labour markets, falling consumer confidence and reemerging risks in financial markets. In particular, the financial fallout from the troubled housing sector is now affecting the solvency of the giant government-backed mortgage firms Fannie Mae and Freddie Mac, which own or guarantee almost half the $12 trn mortgage market loans, raising fears of systemic financial risks at a time when it was generally believed that the worst of the financial crisis was over. This perception appears to have been premature. Given the importance of the two institutions, and the severe drop in their stock values, the Fed and the Treasury reacted promptly. The Fed authorized access to credit while the Treasury proposed a three part plan that would authorize buying stakes in the two companies and increase credit lines available from current limits. Even if successful, the bearish sentiment in credit and equity markets, noticeable in past weeks may take a while to dispel and more credit tightening can be expected in coming months.

Moreover, with continued recession in the housing sector, job losses and falling confidence, it is expected that a firmer economic recovery may take longer to materialise and may be deferred to the second half of 2009. However, the housing sector was not all unmitigated gloom. Existing home sales rose by 2% in May and the supply of unsold homes fell from to 10.8 months from a record 11.2 months in April. However, sales were still 16% below the pace in May 2007. Moreover, new home sales continued to drop in May and were 40% below the same period in 2007. Home prices as measured by the Case-Shiller index in twenty metropolitan areas, continued their downward trend falling 1.4% m/m in April, albeit at a slower rate than in past months. The Conference Board’s consumer confidence index fell to 50.4, the lowest level in sixteen years in May and pessimism about the future was the deepest in the 41-year index history.

The external sector remains one of the few positive features in the US economy. The trade deficit narrowed in May by 1.2% to $59.8 bn from a revised $60.5 bn in April, with exports assisted by a weak dollar, despite a record oil import bill ($31.2 bn). Exports increased 0.9% to $157.5 bn, while imports rose 0.3% to $217.3 bn. At the same time, consumer spending is receiving a boost in the second and third quarters from the fiscal stimulus package. By early July, the government had distributed $86.1 bn of the planned total of about $110 bn in rebate checks. 2Q08 growth figures may be better than expected due to the higher spending and improved trade outturn. However, there is a noticeable shift in the overall mix of spending towards fuel, food and other consumables mainly at discount stores, and away from big-ticket items. Industry data show car and light trucks annualized sales of only 13.6 mn in June, the lowest level since 1998. Given the stretched financial situation of consumers, the positive impact of the federal tax rebates on private consumption will fade by the fourth quarter of 2008.

On the employment front, payrolls have been falling continuously for half a year and it is expected that labour markets will soften further in the coming months. June payrolls fell by 62,000, the same as in May, bringing the total first half year job cuts to 438,000. This compares with average gains of 91,000/month in 2007. Weakness was seen in many industries including retail, construction, manufacturing and finance. Moreover, the labour market weakness is expected to persist as signaled by the Conference Board's newly published Employment Trends Index which fell in June and has declined in 11 of the past 12 months.

The Institute for Supply Management's non-manufacturing index, which accounts for almost 90 % of economic activity fell to 48.2 in June, a five-month low, from 51.7 in May. A reading of 50 is the dividing line between growth and contraction. The survey's employment index was the lowest since the series began in 1997. In contrast, the ISM’s manufacturing index rose to 50.2 in June from 49.6 in May, the first reading above the 50-point threshold level since January 2008. The index had declined for four consecutive months. Industrial production disappointed in May falling by 0.2% following a 0.7% decline in April. Separately, the index of leading economic indicators unexpectedly rose in May for a second month by 0.1% each, an indication that growth may slow without coming to a halt in the coming three to six months.

As expected, the Fed kept the benchmark federal funds rate unchanged at its end-June policy setting meeting pointing to the tight credit conditions, the persistent housing contraction, and the rise in energy prices as factors weighing on economic growth over the next few quarters. Despite concern voiced on rising inflation (headline inflation was 4.2% in May y-o-y, with energy costs surging 17.4% y-o-y), it is not expected that the Fed will resort to monetary tightening soon.

Overall, the US economy is expected to expand at a rate of 1.5% this year, up 0.3% from last month on the higher-than-expected performance of the first half, rising marginally to 1.6% as the recovery takes hold only in the second half of 2009.

*Japan*

**Growth decelerates sharply in Japan in 2Q08; 2009 growth forecast at similar moderate 2008 pace**

The Japanese economic growth has stalled in the second quarter and recent economic data highlight the risks to the economic outlook for the rest of the year. The economy possibly contracted in 2Q08, at an annualised rate of 1.5%, following a strong expansion of 4% in 1Q081, the first contraction since 2Q07. In particular, rising food and commodity prices are affecting sentiment and consumption, as the rise in the prices for necessities is faster than the rise in incomes. Sentiment among Japan's households, who account for more than half of the GDP, fell at a six-year low. Equity markets have also been falling in the last weeks.

A Bank of Japan report issued in the first week of July confirmed that the economy has worsened since April in eight of the country's nine regions. The central bank lowered its assessment of consumption in all nine areas and expects the economy to keep decelerating for the time being before returning to a moderate expansionary path. In July, as expected, the policy board of the BoJ revised its economic growth forecast down to 1.2% from 1.5% in April and the inflation forecast up to 1.8% from 1.1% for the fiscal year ending March 2009.

Meanwhile, household spending declined 3.2% in May, the most since September 2006, while core consumer prices, which exclude fresh food, rose 1.5% in the Tokyo area y-o-y after climbing 0.9% in April, the fastest pace since 1998. Producer prices climbed 5.6% y-o-y in June, a 27-year high, after a revised 4.8% gain in May. Meanwhile, retail sales rose a meagre 0.2% from year earlier levels in May. In the same month, the unemployment rate remained at 4% but the ratio of jobs for each applicant deteriorated to 0.92. Although industrial production rose 2.9% in May, the government has downgraded its assessment of industrial production going forward due to higher energy costs and weakening global demand.

According to the closely watched quarterly Bank of Japan's "Tankan" report, confidence among Japan's largest manufacturers fell to a four-year low. The index slipped to 5 points in June from 11 in March, its third quarterly decline. Moreover, large companies expect profits to drop compared with an increase predicted three months ago. However, the index reading, while the lowest since September 2003, is still above the negative numbers recorded during Japan's decade of economic stagnation in the 1990s. The survey had plunged to minus 51 in 1998. Similarly, confidence at big service-sector companies also fell to a four- year low of 10 points in June from 12 in March.

Moreover, other reports show that confidence in small companies, which represent the bulk of the employment (80% of jobs are in small and medium-sized firms), as captured by the Economy Watchers Survey fell sharply in June, by 2.6 points, following declines in the previous two months. The survey's diffusion index now stands at a level comparable to those measured during the 2001 recession.

On the positive side one notes the unexpectedly strong growth in core machinery orders in May, which eased some of the concern about loss of momentum in capital expenditures. However, to some extent the strong rise was related to one-time factors- a jump in orders for transportation- which may not be repeated in coming months. Foreign orders, traditionally a main support for industrial production, are slowing down. At the same time, although falling, profit margins are still much higher than during the 2001 recession. In general, corporations are in a better position to weather present difficulties, being leaner having shed excess capacity, labour and reduced debt.

Slower growth is likely to prevent the Bank of Japan from raising its key interest rate from 0.5% this year, even as inflation runs at the fastest pace in a decade. Overall our forecast for Japan GDP growth this year now stands at 1.4% for 2008 and 1.3% in 2009.

*Euro-zone*

**Loss of momentum in Euro-zone expansion in second 2Q08 to extend beyond 2008**

Euro-zone quarterly GDP growth was revised down by 0.1% to a still very strong 0.7% rate in 1Q08 (or 2.1% over year ago) as import growth was revised up. Consumer spending is reported to have risen 0.2% in 1Q07 following a decline of 0.1% 4Q07, while investment grew by 1.6% in 1Q08. However, recent indicators point to a much weaker if not outright negative performance in the second quarter, as seen from declining measures for manufacturing, services and consumer spending. Europe's service and manufacturing industries contracted in June. The composite PMI, a reliable indicator for growth trends, has been falling in the last few months, with the June reading dropping below the threshold 50% for the first time at 49.3 from 51.1 in May. This is seen to be consistent with an economic growth rate of around 0.5%. At the same time, European equity markets have fallen strongly in the past two months. Moreover, tighter lending standards are increasingly limiting the ability of borrowing for both households and businesses.

Despite an improvement in retail sales in May, which in real terms, excluding automobiles, rose 1.2% (mom) following declines of 0.9% in March and 0.6% in April, it is widely expected that sales will weaken again in the coming months. Meanwhile, industrial production dropped 1.9% in May (mom), the biggest drop since December 1992. The yearly decline of 0.6% was the first annual drop in three years. Moreover, Euro-zone exports face challenges in the form of a strongly appreciated currency, rising costs and a US-led global deceleration in growth.

In Germany, the euro-zone’s largest economy and so far a bastion of strength in the region, is also exhibiting signs of weakness. Industrial production fell 2.4% in May, the third monthly decline, while exports dropped 3.2% in May, the strongest decline since June 2004. Exports also fell in France (2.6% mom) and Italy (1.4% mom). Moreover, the Ifo institute business climate index, based on a survey of 7,000 executives in Germany, declined to 101.3 from 103.5, the lowest reading since January 2006. Consumer confidence fell in Germany and in Italy, adding to evidence of a deceleration in economic growth across the euro region. Housing markets are already correcting in a few European countries, including Spain and Ireland. The UK economy is showing signs of a sharp downturn, including a sharp correction in housing sector. The UK slowdown may impact Euro-zone exports negatively.

Despite clear signs of a slowdown, the ECB raised the overnight refinancing rate by 25 basis points to 4.25% in early July, a seven-year high, after having abstained from doing so since the onset of the credit crisis last year. Headline inflation in the euro-zone has risen to 4.0% in June from 3.7% in May, the fastest euro-area inflation in more than 16 years, acting as a strong incentive for the ECB to tighten, a move which had already been signaled last month. However it is not expected, given the weakening economies in the Euro-zone, and the diversity in growth among the different members, that this will be followed by further moves in the coming months.

Overall, the Euro-zone economy is expected to expand by 1.6% this year followed by a slowdown in growth to 1.4% next year.

***Former Soviet Union***

**Russian consumer prices surge 15.1% in May 2008**

Russian consumer prices were up in May 15.1% in annual terms from a year ago according to data released earlier by the Federal Statistics Service. Inflation was 8.7% in the first half of 2008; this was 3 percentage points higher than the 5.7% seen in the same period of last year. The Russian government is attempting to bring inflation down towards its 10.5% target after increased income from rising global energy prices boosted domestic demand and made possible extra government spending on items like pensions and state wages. According to the IMF, Russian domestic demand is increasing at an annual rate of 15% in real terms, while GDP is growing at an 8%, a rate which is somewhat above the level that can be maintained without causing acceleration in inflation. This situation could challenge prospects for growth for the Russian economy. The Central Bank of Russia has been moving towards inflation targeting, trying to leave the exchange rate to move more freely. However, its efforts are not being helped by the rising net inflow of private capital. The Russian authorities have arrangements in place for sterilising a large part of the inflow of petro-dollars, but not for sterilising large inflows on the capital account.

***Developing Countries***

**China's trade surplus fell 20% in June 2008 y-o-y**

Recent trade numbers showed a bigger-than-expected fall in export growth in China. The weakening global economy is having an impact on China's trade surplus which fell 20 % in June over the same month last year in a sign that the export sector is weakening. The Chinese currency which appreciated by more than 6% against the US dollar so far this year has apparently helped ease some of the international pressure over China's foreign exchange policy, but at the same time, impacted growth in exports. Yuan appreciation and rising raw materials costs are eroding China's export competitiveness, and that the massive export growth of recent years has helped mask a key vulnerability in the economy. Sales and production figures to be released are expected to show some slowdown in growth. While China's exports to the US grew by just 8% in June, they have increased by 25% to the European Union. Imports to China rose by 31%, down from 40% in May. China Statistics Bureau warns on economic slowdown saying that GDP will likely grow at around 10% this year, and pointed to risks posed to the economy that are rooted in the US subprime crisis and record oil prices.

**India's industrial growth has slowdown to 3.8% in May 2008**

India's industrial growth has plunged 3.8% in May, as compared to 10.6% in May 20007, due to a poor performance of manufacturing and electricity sector. Industrial production grew at the slowest pace in more than six years as spiraling prices prompted consumers to cut back on purchases of manufactured goods. India's wholesale price index rose 11.89% in the 12 months to June, above the previous month's annual rise of 11.63%, government data showed. Accelerating inflation, fuelled by soaring oil and commodities prices, and weaker global demand are hurting industrial production not only in India but across Asia as well. A slowdown in exports of Indian clothes, steel and electronics goods may also have contributed to the drop in factory output. India's overseas sales rose 13% in May from a year ago, less than half of April's 31.5% growth.

**Brazil's inflation rate rose to 6.06% in June 2008**

Industrial production in Brazil fell unexpectedly in May from April, a sign that expansion in output may be losing steam after months of red-hot growth, government data showed. Brazil's inflation rate rose to 6.06% the highest in more than two years in June, led by food cost increases of 2.11% in June. The central bank has raised interest rates twice since April, to 12.25% from the record-low 11.25% in September 6 2007, in a bid to cool inflation that has been running above the government's 4.5% target since January.

***OPEC Member Countries***

**Nigerian consumer inflation up by 9.7% in May (y-o-y)**

Annual inflation in Saudi Arabia eased slightly to 10.4% in May, down from a more than 30-year high a month earlier, but rising rental and food costs continued to pressure the economy. The Central Bank of Libya expects inflation to fall to 6% on annual basis by the end of this year from 11% in the first quarter of 2008. The National Bureau of Statistics (NBS) of Nigeria said a sharp rise in food prices drove Nigerian consumer inflation up to 9.7% year-on-year in May, the highest level in two years. The Central Bank of Nigeria raised its benchmark interest rate by 220 basis points to 10.22% to curtail further inflationary pressure and set up a committee to work out other regulatory intervention instruments to help manage the money supply.

## *Oil prices, the US dollar and inflation*

**US dollar's recovery in June fragile; volatility remains high as confidence in US recovery wanes**

Despite continued volatility, the US dollar in June held on to the partial gains versus the euro and the pound sterling, advancing further vis-à-vis the yen and only losing ground against the Swiss franc. Versus the modified Geneva I + US dollar basket it posted a second monthly gain, following several months of losses. Over the whole of June, the US currency was almost unchanged versus the euro (+0.03%) and the Pound sterling (+0.08), posted gains versus the yen (+2.7%), but was down against the Swiss franc (-0.6%). The dollar averaged $1.5552/€ in June from $1.5556/€ in May.

Currency movements remained volatile in June and early July. After rising to $1.5336/€ by June 13, the dollar fell back towards the end of the month and in the first two weeks of July reaching $1.5835/€ by July 11. The monetary tightening by the ECB increased the interest rate differential between the dollar and euro further, while negative US data as well as reported troubles at the government sponsored big mortgage firms has sapped confidence in the dollar in recent weeks.

In June, the OPEC Reference Basket rose by $8.95/b or over 7.5% to $128.34 from 119.39/b in May. In real terms (base June 2001=100), after accounting for inflation and currency fluctuations, the Basket price rose $5.6/b or 7.6% to $78.39 from $72.82/b. The dollar appreciated by 0.5%, as measured against the import-weighted modified Geneva I+US dollar basket, while inflation eroded the value of the barrel by over 0.3%.*

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

# World Oil Demand

**World oil demand to grow by 0.9 mb/d in 2009, 0.1 mb/d lower than in 20008 to average 87.7 mb/d**

### *World oil demand in 2009*

**World oil demand is forecast to grow by 0.9 mb/d in 2009, averaging 87.71 mb/d which is 0.1 mb/d lower than in the current year**. Transport fuel will be the sector growing most in world oil demand in 2009. Non-OECD countries' oil demand growth of 1.2 mb/d will account for all of the world oil demand growth next year. The slower world economy along with high retail prices in OECD have affected oil demand and will continue to do so next year. Gasoline consumption will show a decline not only in North America but also in Europe and in the Pacific. Diesel and jet fuel will lose some of their strong consumption growth which has been seen over the past 7 years or so. World oil demand growth has been on a strong move for the past 20 years averaging 1.2 mb/d; however, new price structure and slower world economy are shifting oil demand toward weaker growth world-wide. The growing transport sector in non-OECD countries will account for most of the growth in oil demand. Declining OECD oil demand will affect total world oil demand which will make the year 2009 the lowest since 2002.

**Total OECD to decline 0.3 mb/d with North America down 0.2 mb/d**

Oil demand in OECD Europe is expected to be almost flat. Winter product growth will be offset by declining gasoline and other industrial products along the year. Furthermore, the OECD Pacific will show a slight decline due to the slower oil demand in Japan and higher utilization of nuclear power plants. Higher energy costs and taxes, energy conservation, efficiency, alternative fuel, and other factors are the main reasons for the moderate growth of next year's world oil demand, especially in the OECD. As a result of slowing US economy and relatively high retail prices, **North America's oil demand is forecast to decline by 0.2 mb/d y-o-y in 2009 to average 25.0 mb/d. Total OECD oil demand is forecast to decline by 0.3 mb/d y-o-y in 2009.**

**India and the Middle East are estimated to show oil demand growth of 0.13 mb/d and 0.3 mb/d y-o-y for 2009.** Although agriculture and transport sectors are expected to be strong in India next year, the partial removal of price subsidies and other governmental policies are forecast to result in lesser oil demand growth in 2009. Transport, construction and petrochemical sectors will be the main drivers behind the strong Middle East oil demand next year.

**China to grow 0.42 mb/d**

China, which is expected to contribute the most to world oil demand growth, is trying to achieve its pre-set goal to reduce energy intensity by 20% by 2010 through the implementation of various efficiency targets. China increased retail fuel prices, which will affect to a certain degree the consumption of transport fuel next year, although the booming Chinese economy is expected to slightly undermining this goal. China is planning to increase the use of nuclear and hydro power plants which will have more effect on the consumption of coal than oil. Also, it is planning to curb automotive fuel consumption via new fuel price increase, usage of biofuel, and the building of more electric powered inter- and intra-city railroads. These efforts might have a slightly negative impact on China's oil demand for 2009.

As in 2008, other sectors in China which serve as major energy drivers such as industrial production, in-land cargo, agriculture, construction, transportation, and fishing will show healthy growth in 2009. **China's apparent oil demand is forecast to grow by 0.42 mb/d y-o-y in 2009**, that is almost 30 tb/d lower than the estimate for the current year. New vehicle sales growth is estimated to be lower than in 2008; however, it will still be strong, achieving around 25%.

**World oil demand forecast for the year 2009 is based on the following assumptions:**

- World GDP will grow at a slow pace compared to 2008.
- Normal weather is expected worldwide.
- The Chinese economy is forecast to grow by 9.2% in 2009, down slightly from 2008, and further domestic price and tax hikes are expected.
- The Chinese government will place emphasis on energy conservation and increase the use of alternative fuel.
- China's strategic oil storage filling is not accounted for in our 2009 oil demand growth forecast.
- The Middle Eastern economy will show healthy growth, boosting oil demand growth to second place behind China.
- Various factors will slightly thin oil demand growth in Other Asia such as price subsidy removal, fuel switching, and energy conservation programs.

- Energy-price/demand elasticity will strengthen worldwide.
- Higher oil prices are reducing oil demand not only in OECD but in non-OECD as well.
- There will be a stronger utilization of nuclear power plants.
- Usage of biofuel will grow rapidly adding another 0.12 mb/d.
- The world will see a strong movement toward use of smaller and more economical vehicles.
- Most of the growth in oil usage will be in the transport fuel sector
- Industrial oil usage will show a moderate growth as a result of slow economic growth and higher oil prices in developed countries.

**Oil Demand Forecast Scenarios**
Variables that are affecting the 2009 oil demand forecast suggest two more scenarios as an upper and lower range for the oil demand growth.

The **upper range** for the world oil demand growth is forecast at 1.15 mb/d, which will reflect strong oil demand growth in the USA, OECD Europe and India. Any quick recovery in the US economy combined with a strengthening of the US dollar would lead to cheaper oil. The upcoming winter might result in higher energy consumption, which would overcome efforts to conserve energy in the OECD countries. The Indian economic boom might call for more energy than expected in 2009. One important factor that might affect the world oil demand is the price of natural gas. Should the nature gas prices in 2009 move to the high side, then fuel oil consumption would increase worldwide as a result of less fuel switching.

The **lower range** for world oil demand growth is forecast at 0.70 mb/d reflecting weaker oil demand mainly in OECD countries. Should the winter be warm, then a further decline could be seen. Should high oil prices persist throughout 2009 leading to high transport fuel prices, then the demand for these products would weaken further. Lower gasoline consumption alone will trim at least 100 tb/d from expected oil demand growth next year.

As seen in the past three years, a slight decline in the OECD Pacific oil demand can be attributed to the Japanese slow consumption. Japan is raising the utilization of alternative fuels, especially nuclear and biofuel. Also, Japan's population is aging and moving to smaller vehicles which will lead to slower growth in automotive fuel consumption. China might implement a new price increase for transportation fuel in 2009. If this materializes, then it would have an impact on gasoline and diesel demand in China next year. Finally, should the winter weather turn warm, then the fuel switching among power and petrochemical plants will increase world-wide, leading to a further decline in world oil demand growth.

### *World oil demand in 2008*

**World oil demand in 2008 revised down to 1.0 mb/d to average 86.8 mb/d**

Consumption of petroleum products is experiencing a further decline in the OECD in the second quarter as a result of slow economic activities and higher oil prices which were half of today's prices at the time of our initial forecast. In addition, in throughout the OECD but especially in the US, oil demand for transport fuel (mainly gasoline) showed a strong decline as a result of less travel. The growth of other products in other OECD regions was not enough to offset the decline in oil demand in the US in the first half of 2008. The easing in oil demand is expected to last until year-end. May's strong oil demand growth in China, Middle East, and India, which added around 1.3 mb/d y-o-y, was not enough to offset the huge decline in OECD oil demand in the second quarter. **Thus, world oil demand is forecast to grow by 1.0 mb/d for 2008 to average 86.81 mb/d, a reduction of around 0.1 mb/d from our last *MOMR* forecast.**

**Table 3: World oil demand forecast for 2008, mb/d**

| | 2007 | 1Q08 | 2Q08 | 3Q08 | 4Q08 | 2008 | Change 2008/07 Volume | Change 2008/07 % |
|---|---|---|---|---|---|---|---|---|
| North America | 25.53 | 24.76 | 25.03 | 25.41 | 25.74 | 25.24 | -0.29 | -1.16 |
| Western Europe | 15.28 | 15.14 | 15.05 | 15.35 | 15.72 | 15.31 | 0.04 | 0.25 |
| OECD Pacific | 8.27 | 8.82 | 7.85 | 7.73 | 8.67 | 8.27 | 0.00 | -0.01 |
| **Total OECD** | **49.08** | **48.72** | **47.93** | **48.49** | **50.14** | **48.82** | **-0.26** | **-0.52** |
| Other Asia | 9.12 | 9.32 | 9.43 | 9.11 | 9.46 | 9.33 | 0.21 | 2.35 |
| Latin America | 5.50 | 5.53 | 5.67 | 5.78 | 5.72 | 5.68 | 0.17 | 3.16 |
| Middle East | 6.50 | 6.74 | 6.73 | 6.91 | 6.75 | 6.78 | 0.28 | 4.36 |
| Africa | 3.09 | 3.19 | 3.11 | 3.13 | 3.21 | 3.16 | 0.07 | 2.20 |
| **Total DCs** | **24.21** | **24.78** | **24.94** | **24.93** | **25.13** | **24.95** | **0.74** | **3.05** |
| FSU | 3.97 | 3.99 | 3.79 | 4.06 | 4.37 | 4.05 | 0.08 | 1.95 |
| Other Europe | 0.93 | 1.04 | 0.96 | 0.93 | 0.93 | 0.96 | 0.03 | 2.74 |
| China | 7.59 | 7.97 | 8.18 | 8.20 | 7.78 | 8.03 | 0.45 | 5.88 |
| **Total "Other Regions"** | **12.49** | **12.99** | **12.93** | **13.18** | **13.07** | **13.04** | **0.55** | **4.39** |
| **Total world** | **85.78** | **86.48** | **85.80** | **86.61** | **88.35** | **86.81** | **1.03** | **1.20** |
| Previous estimate | 85.78 | 86.67 | 85.81 | 86.61 | 88.42 | 86.88 | 1.10 | 1.28 |
| Revision | 0.00 | -0.19 | -0.01 | 0.00 | -0.07 | -0.07 | -0.07 | -0.08 |

*Totals may not add due to independent rounding.*

**Table 4: First and second quarter world oil demand comparison for 2008, mb/d**

| | 1Q07 | 1Q08 | Change 2008/07 Volume | Change 2008/07 % | 2Q07 | 2Q08 | Change 2008/07 Volume | Change 2008/07 % |
|---|---|---|---|---|---|---|---|---|
| North America | 25.66 | 24.76 | -0.91 | -3.53 | 25.44 | 25.03 | -0.41 | -1.60 |
| Western Europe | 15.19 | 15.14 | -0.06 | -0.37 | 14.92 | 15.05 | 0.13 | 0.86 |
| OECD Pacific | 8.83 | 8.82 | 0.00 | -0.05 | 7.80 | 7.85 | 0.05 | 0.64 |
| **Total OECD** | **49.68** | **48.72** | **-0.97** | **-1.95** | **48.16** | **47.93** | **-0.23** | **-0.48** |
| Other Asia | 8.98 | 9.32 | 0.34 | 3.82 | 9.24 | 9.43 | 0.19 | 2.10 |
| Latin America | 5.29 | 5.53 | 0.24 | 4.47 | 5.47 | 5.67 | 0.20 | 3.65 |
| Middle East | 6.45 | 6.74 | 0.28 | 4.38 | 6.44 | 6.73 | 0.29 | 4.51 |
| Africa | 3.10 | 3.19 | 0.09 | 2.86 | 3.05 | 3.11 | 0.06 | 1.90 |
| **Total DCs** | **23.83** | **24.78** | **0.95** | **3.99** | **24.20** | **24.94** | **0.74** | **3.07** |
| FSU | 3.87 | 3.99 | 0.12 | 3.08 | 3.71 | 3.79 | 0.08 | 2.26 |
| Other Europe | 1.01 | 1.04 | 0.03 | 2.86 | 0.92 | 0.96 | 0.04 | 3.82 |
| China | 7.48 | 7.97 | 0.49 | 6.53 | 7.77 | 8.18 | 0.42 | 5.35 |
| **Total "Other Regions"** | 12.35 | 12.99 | **0.64** | **5.15** | 12.39 | 12.93 | **0.53** | **4.31** |
| **Total world** | **85.86** | **86.48** | **0.62** | **0.72** | **84.75** | **85.80** | **1.05** | **1.24** |

*Totals may not add due to independent rounding.*

**Table 5: Third and fourth quarter world oil demand comparison for 2008, mb/d**

| | 3Q07 | 3Q08 | Change 2008/07 Volume | % | 4Q07 | 4Q08 | Change 2008/07 Volume | % |
|---|---|---|---|---|---|---|---|---|
| North America | 25.49 | 25.41 | -0.08 | -0.31 | 25.54 | 25.74 | 0.20 | 0.78 |
| Western Europe | 15.38 | 15.35 | -0.04 | -0.25 | 15.60 | 15.72 | 0.12 | 0.77 |
| OECD Pacific | 7.81 | 7.73 | -0.08 | -1.02 | 8.64 | 8.67 | 0.03 | 0.35 |
| **Total OECD** | **48.69** | **48.49** | **-0.20** | **-0.41** | **49.79** | **50.14** | **0.35** | **0.70** |
| Other Asia | 8.94 | 9.11 | 0.17 | 1.90 | 9.31 | 9.46 | 0.15 | 1.64 |
| Latin America | 5.64 | 5.78 | 0.14 | 2.48 | 5.60 | 5.72 | 0.12 | 2.14 |
| Middle East | 6.63 | 6.91 | 0.28 | 4.22 | 6.47 | 6.75 | 0.28 | 4.31 |
| Africa | 3.06 | 3.13 | 0.07 | 2.29 | 3.15 | 3.21 | 0.06 | 1.78 |
| **Total DCs** | **24.27** | **24.93** | **0.66** | **2.72** | **24.53** | **25.13** | **0.61** | **2.48** |
| FSU | 4.00 | 4.06 | 0.06 | 1.46 | 4.32 | 4.37 | 0.05 | 1.16 |
| Other Europe | 0.91 | 0.93 | 0.02 | 2.07 | 0.91 | 0.93 | 0.02 | 2.21 |
| China | 7.72 | 8.20 | 0.48 | 6.22 | 7.38 | 7.78 | 0.40 | 5.42 |
| **Total "Other Regions"** | 12.63 | 13.18 | **0.56** | **4.41** | 12.60 | 13.07 | **0.47** | **3.73** |
| **Total world** | **85.59** | **86.61** | **1.02** | **1.19** | **86.92** | **88.35** | **1.43** | **1.64** |

*Totals may not add due to independent rounding.*

### *Alternative Fuels*

The EU felt the heat of its preset mandate for biofuel through a strong hike in food prices. The EU dropped its mandate of biofuel of a 10% mix of transport fuel by the end of the next decade which was totally unachievable. Many international organizations have accused such mandate of leading to bad consequences not only creating food shortages, but leading to massive environmental destruction in Asia. The EU has assigned a large budget to subsidize the biofuel industry. Likewise, the US biofuel industry is becoming a big burden on the government's budget. Even with the high oil prices, this industry is not completely economical and must live on subsidies.

### OECD North America

**North America revised down 0.2 mb/d on the back of weak US consumption**

US gasoline demand fell 1.4% year-to-date shaving 128 tb/d from the oil demand in the first half of the year. Gasoline demand during the country's 4 July holiday was below expectations due to slow travel within the country. The slowdown in economic activities and the increase of subsidized biofuel along with higher retail prices have curbed transportation fuel demand. **As a result of weak US oil demand, North America's oil demand growth was revised down by another 0.2 mb/d in 2008 to show a total decline of 0.3 mb/d y-o-y in 2008**. Given the current economic situation in the US, the country's oil demand might show a further deterioration in the second half of the year. Normal cold winter weather is assumed in the forecast for the fourth quarter. Like the USA, Canadian oil demand showed a 3% decline resulting from weak gasoline consumption. However, Mexican gasoline demand grew sharply in May adding another 40 tb/d to the country's total oil demand. Mexican oil demand grew by 2.2% y-o-y in May to average 1.9 mb/d.

### *OECD Europe*

**Slight growth in OECD Europe**

Europe's movement from gasoline- to diesel-powered vehicles has pushed the demand for diesel at the expense of gasoline. Although gasoline usage dropped dramatically in the UK, diesel and jet fuel more than offset the decline. Diesel consumption pushed the UK inland consumption by 1% y-o-y in first four months of 2008. However, the recent increase in retail petroleum product prices is anticipated to slow down Europe's energy consumption for the rest of this year. This behaviour can be seen in most of Europe. Like the UK, Germany's inland deliveries of petroleum products showed strong growth of 5.87% in the first four months of this year. Diesel consumption alone grew by 15.3% adding 134 tb/d to the total oil demand. Based on our forecast, European diesel demand is expected to grow by 3% and gasoline is expected to decline by 1.5% this year. More than 55% of new vehicles sold in the continent are diesel-powered engines. The same picture applies to France. France's inland oil deliveries grew by 3.2% in the first five months of this year.

Hence, OECD Europe oil demand was revised up by 0.1 mb/d in the second quarter of 2008. **Given the expected weak demand in the low seasonality third quarter, OECD Europe oil demand is forecast to show a minor growth of 0.04 mb/d y-o-y in 2008.**

## Table 6: World oil demand forecast for 2009, mb/d

| | | | | | | | Change 2009/08 | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | **1Q09** | **2Q09** | **3Q09** | **4Q09** | **2009** | **Volume** | **%** |
| North America | 25.24 | 24.57 | 24.76 | 25.14 | 25.55 | 25.01 | -0.23 | -0.91 |
| Western Europe | 15.31 | 15.16 | 14.99 | 15.32 | 15.74 | 15.30 | -0.01 | -0.07 |
| OECD Pacific | 8.27 | 8.80 | 7.80 | 7.68 | 8.65 | 8.23 | -0.04 | -0.45 |
| **Total OECD** | **48.82** | **48.52** | **47.55** | **48.15** | **49.94** | **48.54** | **-0.28** | **-0.57** |
| Other Asia | 9.33 | 9.48 | 9.60 | 9.28 | 9.62 | 9.50 | 0.17 | 1.77 |
| Latin America | 5.68 | 5.67 | 5.83 | 5.94 | 5.86 | 5.83 | 0.15 | 2.69 |
| Middle East | 6.78 | 7.02 | 7.02 | 7.19 | 7.02 | 7.06 | 0.28 | 4.16 |
| Africa | 3.16 | 3.26 | 3.18 | 3.20 | 3.26 | 3.22 | 0.07 | 2.11 |
| **Total DCs** | **24.95** | **25.44** | **25.62** | **25.61** | **25.77** | **25.61** | **0.67** | **2.67** |
| FSU | 4.05 | 4.06 | 3.85 | 4.12 | 4.44 | 4.12 | 0.07 | 1.67 |
| Other Europe | 0.96 | 1.05 | 0.97 | 0.94 | 0.95 | 0.98 | 0.02 | 1.99 |
| China | 8.03 | 8.39 | 8.61 | 8.63 | 8.18 | 8.45 | 0.42 | 5.23 |
| **Total "Other Regions"** | **13.04** | **13.50** | **13.44** | **13.70** | **13.56** | **13.55** | **0.51** | **3.88** |
| **Total world** | **86.81** | **87.45** | **86.62** | **87.46** | **89.28** | **87.71** | **0.89** | **1.03** |

*Totals may not add due to independent rounding.*

## Table 7: First and second quarter world oil demand comparison for 2009, mb/d

| | | | Change 2009/08 | | | | Change 2009/08 | |
|---|---|---|---|---|---|---|---|---|
| | **1Q08** | **1Q09** | **Volume** | **%** | **2Q08** | **2Q09** | **Volume** | **%** |
| North America | 24.76 | 24.57 | -0.19 | -0.77 | 25.03 | 24.76 | -0.27 | -1.08 |
| Western Europe | 15.14 | 15.16 | 0.02 | 0.13 | 15.05 | 14.99 | -0.06 | -0.40 |
| OECD Pacific | 8.82 | 8.80 | -0.03 | -0.28 | 7.85 | 7.80 | -0.05 | -0.64 |
| **Total OECD** | **48.72** | **48.52** | **-0.20** | **-0.40** | **47.93** | **47.55** | **-0.38** | **-0.79** |
| Other Asia | 9.32 | 9.48 | 0.16 | 1.72 | 9.43 | 9.60 | 0.17 | 1.80 |
| Latin America | 5.53 | 5.67 | 0.15 | 2.62 | 5.67 | 5.83 | 0.16 | 2.82 |
| Middle East | 6.74 | 7.02 | 0.28 | 4.16 | 6.73 | 7.02 | 0.29 | 4.23 |
| Africa | 3.19 | 3.26 | 0.07 | 2.19 | 3.11 | 3.18 | 0.07 | 2.25 |
| **Total DCs** | **24.78** | **25.44** | **0.65** | **2.64** | **24.94** | **25.62** | **0.69** | **2.75** |
| FSU | 3.99 | 4.06 | 0.07 | 1.76 | 3.79 | 3.85 | 0.06 | 1.72 |
| Other Europe | 1.04 | 1.05 | 0.02 | 1.81 | 0.96 | 0.97 | 0.02 | 1.96 |
| China | 7.97 | 8.39 | 0.42 | 5.27 | 8.18 | 8.61 | 0.43 | 5.26 |
| **Total "Other Regions"** | **12.99** | **13.50** | **0.51** | **3.92** | **12.93** | **13.44** | **0.51** | **3.97** |
| **Total world** | **86.48** | **87.45** | **0.97** | **1.12** | **85.80** | **86.62** | **0.82** | **0.95** |

*Totals may not add due to independent rounding.*

## Table 8: Third and fourth quarter world oil demand comparison for 2009, mb/d

| | | | Change 2009/08 | | | | Change 2009/08 | |
|---|---|---|---|---|---|---|---|---|
| | **3Q08** | **3Q09** | **Volume** | **%** | **4Q08** | **4Q09** | **Volume** | **%** |
| North America | 25.41 | 25.14 | -0.27 | -1.06 | 25.74 | 25.55 | -0.19 | -0.74 |
| Western Europe | 15.35 | 15.32 | -0.03 | -0.16 | 15.72 | 15.74 | 0.02 | 0.13 |
| OECD Pacific | 7.73 | 7.68 | -0.05 | -0.65 | 8.67 | 8.65 | -0.03 | -0.29 |
| **Total OECD** | **48.49** | **48.15** | **-0.35** | **-0.71** | **50.14** | **49.94** | **-0.20** | **-0.39** |
| Other Asia | 9.11 | 9.28 | 0.17 | 1.87 | 9.46 | 9.62 | 0.16 | 1.69 |
| Latin America | 5.78 | 5.94 | 0.16 | 2.77 | 5.72 | 5.86 | 0.15 | 2.54 |
| Middle East | 6.91 | 7.19 | 0.29 | 4.12 | 6.75 | 7.02 | 0.28 | 4.13 |
| Africa | 3.13 | 3.20 | 0.07 | 2.24 | 3.21 | 3.26 | 0.06 | 1.75 |
| **Total DCs** | **24.93** | **25.61** | **0.68** | **2.75** | **25.13** | **25.77** | **0.64** | **2.55** |
| FSU | 4.06 | 4.12 | 0.07 | 1.60 | 4.37 | 4.44 | 0.07 | 1.60 |
| Other Europe | 0.93 | 0.94 | 0.02 | 2.02 | 0.93 | 0.95 | 0.02 | 2.16 |
| China | 8.20 | 8.63 | 0.43 | 5.24 | 7.78 | 8.18 | 0.40 | 5.14 |
| **Total "Other Regions"** | **13.18** | **13.70** | **0.51** | **3.90** | **13.07** | **13.56** | **0.49** | **3.75** |
| **Total world** | **86.61** | **87.46** | **0.85** | **0.99** | **88.35** | **89.28** | **0.93** | **1.06** |

*Totals may not add due to independent rounding.*

*OECD Pacific*

**OECD Pacific grew 50 tb/d in the second quarter**

South Korea is taking drastic measures to reduce the use of energy starting with governmental vehicles and buildings. This move would have an effect on total oil demand in the country in the short term. Furthermore, Japan's oil demand will show a slight decline as a result of many reasons. Aging population, small car usage, efficiency, and higher petroleum products are pushing the country's oil demand to a marginal decline in the second half of 2008. Extra use of fuel oil in Japanese power plants to compensate for the damaged nuclear power plant pushed the country's oil demand to show unexpected growth in the second quarter. Hence, **OECD Pacific oil demand was revised up by 0.1 mb/d to show growth of 50 tb/d y-o-y in the second quarter to average 7.85 mb/d.** It is anticipated that the oil demand in this region will decline by 80 tb/d y-o-y in the third quarter. High oil prices are hurting the Pacific gasoline demand especially in Japan. Given the current high gasoline prices, consumption of transport fuel is expected to experience a further slowdown in the second half of the year.

**Table 9: Japanese Domestic Sales, tb/d**

| | May 08 | Change from May 07 | Change from May 07 % |
|---|---|---|---|
| Gasoline | 938 | -55 | -5.5 |
| Naphtha | 760 | -37 | -4.7 |
| Jet Fuel | 89 | -8 | -8.6 |
| Kerosene | 225 | 33 | 17.3 |
| Gas Oil | 591 | 14 | 2.5 |
| Other Products | 712 | 66 | 10.2 |
| Direct Use of Crude | 170 | 59 | 53.5 |
| **Total** | **3,485** | **72** | **2.1** |

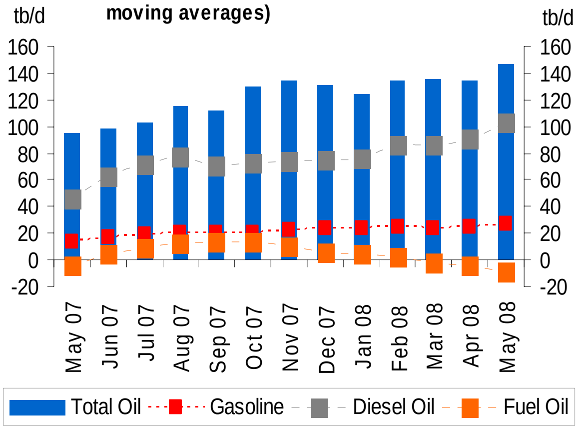
*Source: Ministry of Economy and Trade in Japan (METI).*

## *Developing Countries*

**Developing Countries to grow 0.74 mb/d this year**

Jet fuel demand in Asia was hit by recent fuel price increases. Some carriers are reducing their flight routes and adopting more efficient procedures which will lead to a marginal reduction in consumption within Asia.

**Graph 13: Yearly changes in Indian oil demand (12 month moving averages)**




A recent price hike of 10% in petroleum products caused strong objection within India. Truckers there went on strike, which paralyzed the cargo industry. For a long time, Indian consumers enjoyed cheap fuel prices via governmental subsidies. This price hike will to some degree dent oil demand growth this year. Other non-subsidized products have shown a decline in consumption in 2008. However, the growth in transport fuel consumption was more than enough to off-set such decline. **India's oil demand is forecast to grow by 140 tb/d y-o-y in 2008**. Indian May oil demand registered the weakest growth since September of last year. Most of the decline came from the industrial fuel. Total Indian oil demand grew by 112 tb/d y-o-y or 4% in May averaging 2.88 mb/d.

Indonesia's cut in fuel subsidies of 30% last May was not the end of the government's efforts to ease the pressure of subsidies costs on its budget. The country is considering another price subsidy cut in the near future. These price subsidy removals in Asia are slowing demand for oil within the region.

Due to stronger than expected oil demand, Other Asia first-quarter oil demand growth was revised up by 0.08 mb/d to show a growth of 0.34 mb/d y-o-y.

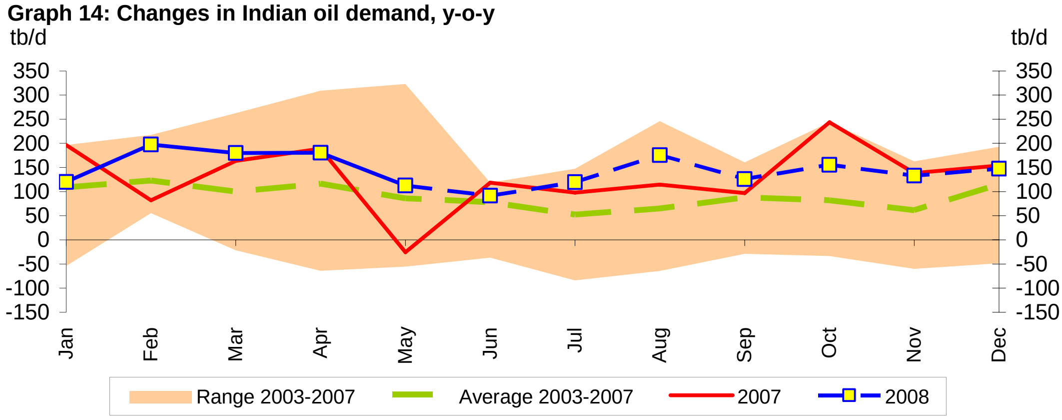
Given the healthy oil demand growth in Other Asia, Latin America, the Middle East, and Africa, **Developing Countries oil demand growth is forecast to reach 0.74 mb/d y-o-y in 2008 to average 24.95 mb/d.**

**Table 10: Indian oil demand by main products, tb/d**

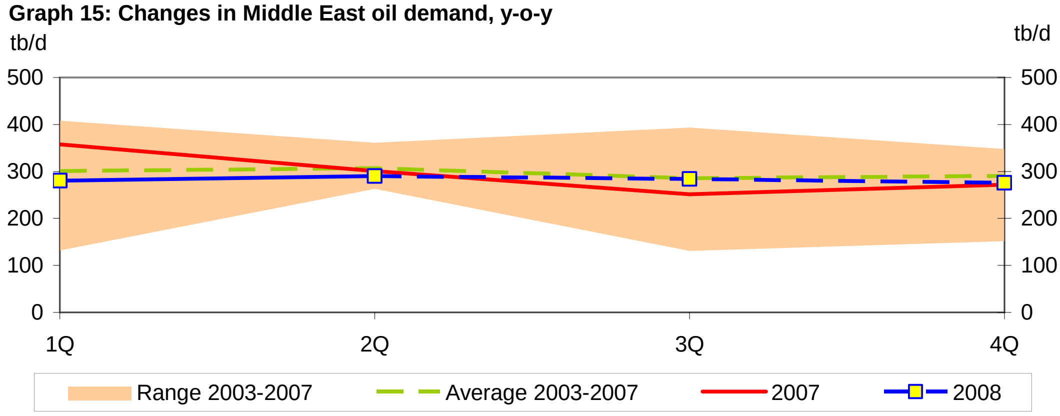
| | May 08 | Apr 08 | Jan 08 - May 08 | Difference to Jan 07 - May 07 | % |
|---|---|---|---|---|---|
| LPG | 376 | 376 | 387 | 29 | 8.1 |
| Motor Gasoline | 291 | 264 | 261 | 27 | 11.7 |
| Jet Kero | 301 | 297 | 303 | 13 | 4.3 |
| Gas Diesel Oil | 1,123 | 1,131 | 1,125 | 121 | 12.0 |
| Residual Fuel Oil | 301 | 293 | 300 | -26 | -8.0 |
| Other Products | 481 | 669 | 618 | -5 | -0.8 |
| **Total Oil Demand** | **2,874** | **3,031** | **2,994** | **158** | **5.6** |

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

**Graph 14: Changes in Indian oil demand, y-o-y**

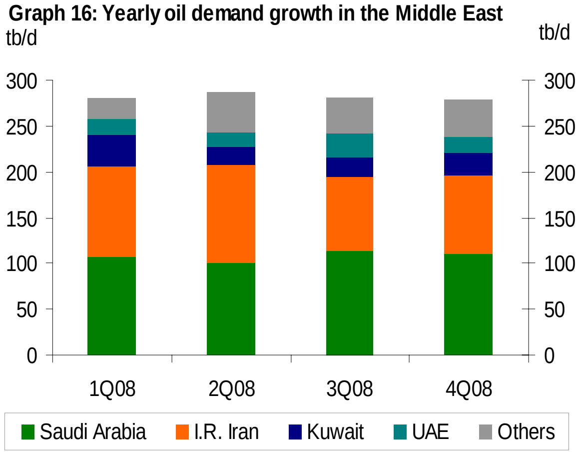



**Graph 15: Changes in Middle East oil demand, y-o-y**



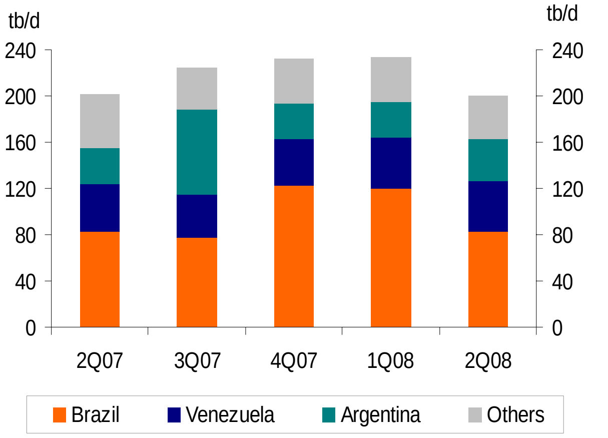

Middle East oil demand followed its behaviour of last year. Strong economic growth is pushing oil demand up. Saudi Arabia’s oil demand is forecast to grow by 0.18 mb/d y-o-y in the second quarter to average 2.3 mb/d. Not only gasoline and diesel consumption but also industrial fuel demand are on the rise and are expected to continue to show gains for the rest of the year. **Middle East oil demand growth is forecast to top 0.29 mb/d y-o-y in the third quarter of 2008.**

**Graph 16: Yearly oil demand growth in the Middle East**



Latin America's strong economic growth of 5.1% is pushing oil consumption up. Retail price control within the continent led to strong oil demand growth this year; hence **Latin American oil demand growth is forecast to grow by 0.17 mb/d to average 5.68 mb/d in 2008.**

Graph 17: Yearly oil demand growth in Latin America

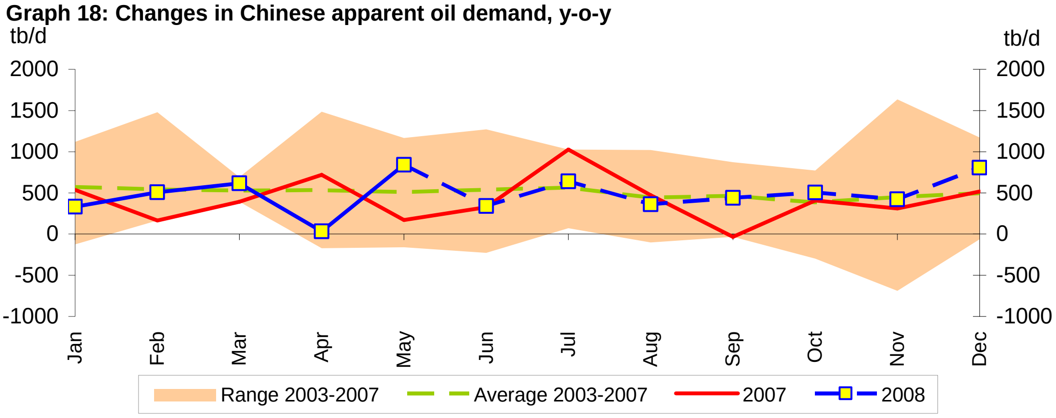



### *Other Regions*

**China grew by more than 0.8 mb/d in May**

China's May oil demand growth of 11.14%, adding more than 0.8 mb/d, was the strongest growth since July of 2007. China has experienced a fuel shortage in some parts of the country which affected May's oil demand. However, the country is taking some measures to assure an adequate fuel supply ahead of the summer Olympics. These extra refining efforts to increase transport fuel production will be at the expense of other industrial products. Furthermore, China increased petroleum product retail prices by around 18%, which will encourage suppliers to make more products available in the future. This recent increase in transport fuel prices is not expected to affect the country's consumption on a large scale in the second half of the year due to new subsidies to compensate farmers and other transportation sectors from this increase. As a result of the countries pre-announced efforts to curb air flight growth, China has applied a new surcharge on flight passengers of more than 33% which followed late last year's increase. This surcharge increase resulted from an increase in jet fuel ex-refinery prices, which was applied last June.

Graph 18: Changes in Chinese apparent oil demand, y-o-y



# World Oil Supply

**Non-OPEC supply growth in 2008 estimated at 0.58 mb/d to average 50.02 mb/d**

## *Non-OPEC*

### *Forecast for 2008*

**Non-OPEC supply in 2008 is expected to increase by 0.58 mb/d over the previous year to reach 50.02 mb/d, revised down by 0.11 mb/d from last month's assessment.** The revision was due to lower-than-expected growth in a number of non-OPEC countries. Downward revision to Russia's forecast was made to cover project start-up delays as well as production declines. An explosion at India's Panna-Mukta fields negatively affected growth as did a strike in Argentina. Actual figures showed lower supply from Kazakhstan, Brazil and Egypt as well as in Norway, UK and Mexico. Forecasts for US, Canada, and Malaysia indicated increases from the last assessment due to the start-up of new production and adjustments due to actual figures. On a quarterly basis, non-OPEC supply stands at 49.70 mb/d, 49.57 mb/d, 49.84 mb/d and 50.94 mb/d respectively in 2008.

Graph 19: Regional Non-OPEC supply growth, y-o-y

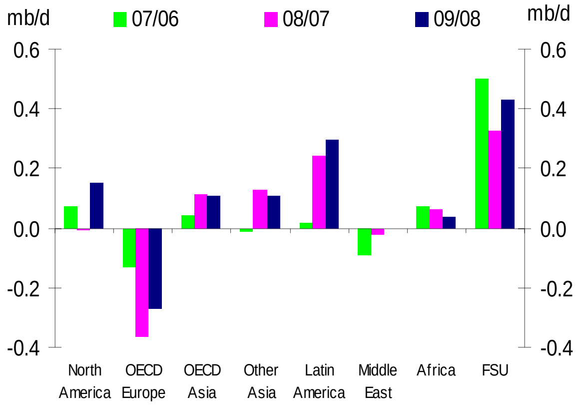



**Table 11: Non-OPEC oil supply in 2008, mb/d**

| | 2007 | 1Q08 | 2Q08 | 3Q08 | 4Q08 | 2008 | Change 08/07 |
|---|---|---|---|---|---|---|---|
| North America | 14.32 | 14.35 | 14.23 | 14.15 | 14.51 | 14.31 | -0.01 |
| Western Europe | 5.23 | 5.13 | 4.95 | 4.55 | 4.84 | 4.87 | -0.37 |
| OECD Pacific | 0.60 | 0.58 | 0.67 | 0.77 | 0.84 | 0.72 | 0.11 |
| **Total OECD** | **20.16** | **20.06** | **19.85** | **19.47** | **20.19** | **19.89** | **-0.26** |
| Other Asia | 2.71 | 2.76 | 2.78 | 2.85 | 2.96 | 2.84 | 0.13 |
| Latin America | 3.88 | 3.99 | 4.00 | 4.24 | 4.25 | 4.12 | 0.24 |
| Middle East | 1.66 | 1.63 | 1.62 | 1.64 | 1.65 | 1.64 | -0.02 |
| Africa | 2.67 | 2.71 | 2.71 | 2.75 | 2.75 | 2.73 | 0.06 |
| **Total DCs** | **10.92** | **11.09** | **11.11** | **11.48** | **11.62** | **11.33** | **0.41** |
| FSU | 12.52 | 12.64 | 12.68 | 12.93 | 13.14 | 12.85 | 0.33 |
| Other Europe | 0.15 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.00 |
| China | 3.77 | 3.81 | 3.84 | 3.88 | 3.91 | 3.86 | 0.09 |
| **Total "Other regions"** | **16.44** | **16.59** | **16.66** | **16.95** | **17.18** | **16.85** | **0.41** |
| **Total Non-OPEC production** | **47.51** | **47.75** | **47.62** | **47.90** | **48.99** | **48.07** | **0.56** |
| Processing gains | 1.92 | 1.95 | 1.95 | 1.94 | 1.95 | 1.95 | 0.02 |
| **Total Non-OPEC supply** | **49.43** | **49.70** | **49.57** | **49.84** | **50.94** | **50.02** | **0.58** |
| Previous estimate | 49.43 | 49.74 | 49.76 | 49.88 | 51.12 | 50.13 | 0.69 |
| Revision | 0.00 | -0.04 | -0.19 | -0.04 | -0.18 | -0.11 | -0.11 |

### *Revisions to the 2008 estimate*

May and June preliminary data put non-OPEC supply at 49.55 mb/d and 49.76 mb/d which are 160 tb/d higher than in April and a 210 tb/d increase over May. The increasing trend is expected to prevail in the second half of 2008 as non-OPEC production is seen to experience significant growth toward the end of 2008. The growth is expected to come from the FSU region with increases anticipated from Russia with the ramping up of Salym, Uvat, Vankorskoye, and Yuzhno-Khylchuyskoye as well as from expansions at ACG and Tengiz in Azerbaijan and Kazakhstan. Brazil is also expected to add to the growth in the second half of 2008 with additional quantities from the Marlim Sul and Roncador fields. The Xijiang and Wenchang fields in China as well as the Alveheim and Volve fields in Norway and Australia's Enfield, Montara, Stybarrow, and Vincent fields are expected to support the growth toward this year.

Overall performance so far in 2008 has been much less than initially expected, with the current forecast 0.5 mb/d lower than the initial one. Various factors such as weak performance, shifting of project start-ups and ramp-ups, technical problems, and lack and higher costs of skilled labour and material contributed to the downward revisions. The largest decline since the initial forecast came from Mexico with a decrease of 204 tb/d due to a heavier-than-expected production decline. Russia comes next with a decline since the initial forecast of 156 tb/d due to underperformance and production declines. Norway and Brazil followed with forecasts dropping 124 tb/d and 106 tb/d respectively due to start-up delays in some fields and production declines. Forecasts for Vietnam and the US have also been revised since the initial forecast due to delays and declines. However, some upward revisions to the initial 2008 forecast for some countries partially offset some of the expected decline in non-OPEC supply. China's forecast has seen an upward revision of 89 tb/d on the back of improved performance. Biofuels from other Western Europe countries positively changed their growth forecast. Additional volumes from interesting new developments in Malaysia, Sudan, Colombia, and Oman have also brought up their supply forecast.

### *Forecast for 2009*

**Forecast growth of 0.94 mb/d in non-OPEC supply in 2009 to average 50.95 mb/d**

**Non-OPEC oil supply is forecast to grow by 0.94 mb/d in 2009 from the 2008 level to average 50.95 mb/d.** This forecast is confronted with the recent trend of actual growth in non-OPEC supply failing to reasonably approach the level of the initial forecasts. Several downward revisions have occurred along the way between forecasts and actual performance. The ongoing difficulties in upstream development are being countered by incentives to keep growth healthy. The risk remains intact, as with any forecast, yet in both directions. On a quarterly basis, non-OPEC supply is expected to average 51.25 mb/d, 50.74 mb/d, 50.69 mb/d and 51.13 mb/d respectively.

**Table 12: Non-OPEC oil supply in 2009, mb/d**

| | 2008 | 1Q09 | 2Q09 | 3Q09 | 4Q09 | 2009 | Change 09/08 |
|---|---|---|---|---|---|---|---|
| North America | 14.31 | 14.61 | 14.30 | 14.37 | 14.56 | 14.46 | 0.15 |
| Western Europe | 4.87 | 4.81 | 4.63 | 4.37 | 4.57 | 4.60 | -0.27 |
| OECD Pacific | 0.72 | 0.83 | 0.81 | 0.84 | 0.82 | 0.83 | 0.11 |
| **Total OECD** | **19.89** | **20.25** | **19.75** | **19.58** | **19.95** | **19.88** | **-0.01** |
| Other Asia | 2.84 | 2.95 | 2.90 | 2.97 | 2.97 | 2.94 | 0.11 |
| Latin America | 4.12 | 4.36 | 4.40 | 4.47 | 4.45 | 4.42 | 0.30 |
| Middle East | 1.64 | 1.64 | 1.64 | 1.63 | 1.62 | 1.63 | 0.00 |
| Africa | 2.73 | 2.75 | 2.74 | 2.78 | 2.81 | 2.77 | 0.04 |
| **Total DCs** | **11.33** | **11.70** | **11.68** | **11.84** | **11.85** | **11.77** | **0.44** |
| FSU | 12.85 | 13.27 | 13.28 | 13.24 | 13.32 | 13.28 | 0.43 |
| Other Europe | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.00 |
| China | 3.86 | 3.91 | 3.91 | 3.90 | 3.88 | 3.90 | 0.04 |
| **Total "Other regions"** | **16.85** | **17.32** | **17.33** | **17.28** | **17.34** | **17.32** | **0.47** |
| **Total Non-OPEC production** | **48.07** | **49.26** | **48.76** | **48.70** | **49.14** | **48.97** | **0.90** |
| Processing gains | 1.95 | 1.98 | 1.98 | 1.98 | 1.98 | 1.98 | 0.04 |
| **Total Non-OPEC supply** | **50.02** | **51.25** | **50.74** | **50.69** | **51.13** | **50.95** | **0.94** |

### *OECD*

**OECD supply to remain steady in 2009**

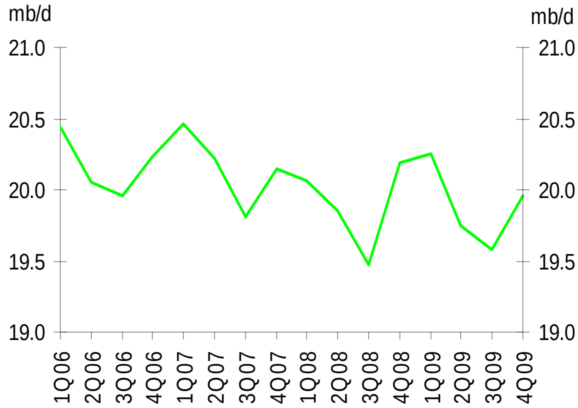
Total OECD oil supply is expected to average 19.88 mb/d in 2009, representing only a minor drop of 10 tb/d from the 2008 level. Expected supply growth from North America and OECD Pacific should fully offset the decline anticipated from Western Europe. On a quarterly basis, OECD oil supply is expected to average 20.25 mb/d, 19.75 mb/d, 19.58 mb/d, and 19.95 mb/d respectively.

### *USA*

**US growth expected at 0.20 mb/d**

US supply in 2009 is expected to average 7.88 mb/d, representing an increase of 0.20 b/d over the 2008 level. Continuing ramp-ups of fields that started or are expected to start in 2008 such as Atlantis South, Blind Faith, Neptune, and Thunder Horse, reaching a plateau in 2009 will contribute the majority of the growth. Additionally, the anticipated start-up of production from Shenzi and Tahiti developments in the second half of 2009 will add further to the growth. Atlantis South field is estimated to reach its plateau of 200 tb/d in 2009. Blind Faith and Neptune are expected to reach their plateaus of 60 tb/d and 50 tb/d in 2009. Additionally, some expansions to other fields are estimated to add some barrels to the growth expected in the USA, in addition to additional biofuel volumes. On a quarterly basis, US supply stands at 7.86 mb/d, 7.81 mb/d, 7.84 mb/d and 8.00 mb/d respectively in 2009.

**Graph 20: OECD's quarterly production**




### *Canada and Mexico*

**Non-conventional production to carry on the growth in Canada in 2009**

**Canadian** oil supply is expected to average 3.52 mb/d in 2009, displaying an increase of 0.10 mb/d over 2008. The majority of the increase is coming from non-conventional production, with Primrose East and Christina Lake C1 projects estimated to add 60 tb/d in the first half of 2009. Jackfish 2 and Northern Lights developments are expected to put in around 85 tb/d in the second half of the year. Other projects are expected to reach their capacities. The quarterly distribution stands at 3.58 mb/d, 3.46 mb/d, 3.48 mb/d and 3.57 mb/d respectively.

**Decline in Mexico expected to shave 160 tb/d in 2009**

**Mexican** oil supply is forecast to decrease 160 tb/d in 2009 from the previous year to average 3.06 mb/d. The development in the KMZ complex is not expected to offset the drop in Mexico's mature fields, especially the Cantarell, as the faster-than-expected decline remains on the horizon of the field. The quarterly distribution stands at 3.17 mb/d, 3.03 mb/d, 3.05 mb/d and 2.99 mb/d respectively.

### *Western Europe*

OECD Europe's oil supply is forecast to average 4.60 mb/d in 2009, representing a drop of 0.27 mb/d from 2008. Declines are anticipated in all major OECD Europe producers with quarterly figures expected at 4.81 mb/d, 4.63 mb/d, 4.37 mb/d and 4.57 mb/d respectively.

**Norway and UK supply expected to decline**

Oil supply from **Norway** in 2009 is expected to average 2.31 mb/d, a decline of 110 tb/d below the previous year. The start-up of the Yme project is anticipated in early 2009, which will gradually add barrels to the total volume in addition to the ramp-up of other projects which started in 2008. However, the expected increase is not enough to offset the forecast decline.

The **UK** production level for 2009 is expected to average 1.30 mb/d, a significant decline of around 0.15 mb/d compared with the anticipated 2008 average. No significant project additions are expected in 2009 in the UK, and the decline and maintenance will continue to influence the supply trend, yet the taxation policy might support production and limit the impact of the decline.

### *Asia Pacific*

Oil supply in the OECD Pacific region is forecast to average 0.83 mb/d in 2009, indicating a growth of 110 tb/d compared with the 2008 level. On a quarterly basis, total oil supply is estimated to average 0.83 mb/d, 0.81 mb/d, 0.84 mb/d and 0.82 mb/d respectively.

**Angel, Talbot, and Van Gogh to cast growth for Australia in 2009**

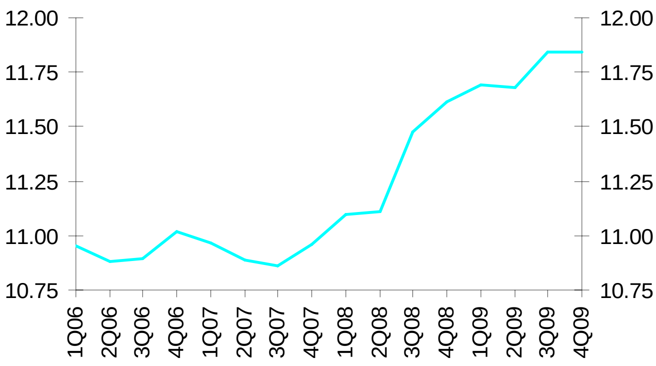
**Australia**'s supply in 2009 is expected to display a growth of around 90 tb/d over the current year. Partial growth is foreseen from continuing ramp-up of projects which started or are anticipated to start in 2008 such as the Vincent development. Additionally, further volume is expected from new developments expected to start up in 2009 such as the Angel, Talbot, and Van Gogh projects.

**Developing Countries supply forecast to grow by 0.44 mb/d in 2009 with Brazil contributing majority of the growth**

### *Developing Countries*

Developing Countries (DC) oil supply is expected to average 11.77 mb/d in 2009, representing an increase of 0.44 mb/d over the 2008 level. The majority of the growth is coming from Latin America region followed by Other Asia. On a quarterly basis, total oil supply in DCs is expected to stand at 11.70 mb/d, 11.68 mb/d, 11.84 mb/d and 11.85 mb/d respectively.

**Graph 21: Developing Countries' quarterly production**




Oil supply from **Other Asia** group is forecast to have growth of around 110 tb/d over 2008 to reach a level of around 2.94 mb/d in 2009 with average quarterly distribution at 2.95 mb/d, 2.90 mb/d, 2.97 mb/d and 2.97 mb/d respectively. Vietnam is foreseen to lead the growth among the region with the Su Tu Vang developments. A minor increase is anticipated from Malaysia in 2009 from the Block SK-305 project. India's oil supply is expected to remain stagnant despite the expected addition of the Mangala project in the second half of 2009.

**African** Group oil supply in 2009 is expected to stay almost flat compared with the 2008 figure at a level of around 2.77 mb/d. Congo is anticipated to be the major contributor to the growth of the Africa region with the Azurite and Moho Bilondo developments. On a quarterly basis, total oil supply in Africa region is estimated to average 2.75 mb/d, 2.74 mb/d, 2.78 mb/d and 2.81 mb/d respectively.

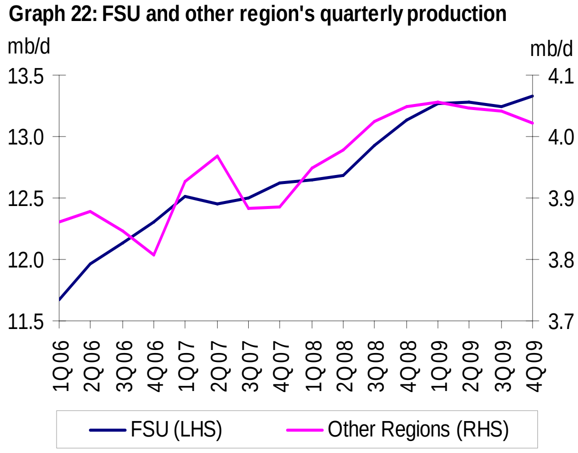
The **Latin American** group may increase significantly by around 300 tb/d over 2008 to reach a level of 4.42 mb/d with an average quarterly distribution of 4.36 mb/d, 4.40 mb/d, 4.47 mb/d and 4.45 mb/d respectively. The growth is anticipated to come mainly from Brazil with around 300 tb/d, while a minor rise expected from Colombia. In addition to the biofuel growth in Brazil, continuing ramp-up of Marlim Sul P51 and Roncador P52 and P52 are expected to further the growth in 2009, on top of Frade which is anticipated to start-up early in 2009. A test production at the new Tupi field may slightly contribute to the growth.

The **Middle East** group oil supply is expected to remain steady in 2009 with an expected increase offsetting the expected decline. The expected supply level in 2009 is 1.63 mb/d and on a quarterly basis average 1.64 mb/d, 1.64 mb/d, 1.63 mb/d and 1.62 mb/d respectively.

### *FSU, Other Regions*

The FSU oil supply is expected to average 13.28 mb/d, representing an increase of 0.43 b/d versus 2008. On a quarterly basis, total oil supply in the FSU is expected to average 13.27 mb/d, 13.28 mb/d, 13.24 mb/d and 13.32 mb/d respectively. Oil supply in China expected to increase slightly in 2009 by around 40 tb/d to average 3.90 mb/d. Other Europe group is expected to stay flat from 2008 at 0.14 mb/d.

**Graph 22: FSU and other region's quarterly production**



***Russia***

Oil supply from Russia is forecast to average 10.07 mb/d in 2009, an increase of 0.18 mb/d over the previous year. Growth is expected as ramp-up continues in 2009 for projects and expansion plans started in or anticipated to start in 2008 such as Vankorskoye, Yuzhno-Khylchuyskoye and Salym. On a quarterly basis, Russian oil supply is expected to average 10.09 mb/d, 10.07 mb/d, 10.06 mb/d and 10.05 mb/d respectively.

***Caspian***

Oil supply from **Azerbaijan** is expected to average 1.17 mb/d in 2009, representing an increase of 0.13 mb/d versus 2008. Guneshli (ACG phase III) is foreseen to continue ramping up towards plateau in 2009. The quarterly forecast level stands at 1.14 mb/d, 1.16 mb/d, 1.16 mb/d and 1.21 mb/d respectively.

**Kazak** oil production is expected to average 1.57 mb/d in 2009, indicating an increase of 0.12 mb/d over 2008. Tengiz expansion is forecast to continue ramping up in early 2009 and the anticipated start up of the Karazhanbas project during the year is also expected to contribute to growth. Quarterly supply figures are currently expected at 1.57 mb/d, 1.58 mb/d, 1.55 mb/d and 1.59 mb/d respectively.

***China***

Total oil supply in China is expected to average 3.90 mb/d in 2009, displaying an increase of 40 tb/d from the 2008 level. Current available data indicate that the only growth expected early in 2009 will come from the non-conventional Erdos CTL project. On a quarterly basis, total oil supply in China is expected to stand at 3.91 mb/d, 3.91 mb/d, 3.90 mb/d and 3.88 mb/d respectively.

## *OPEC natural gas liquids and non-conventional oils*

OPEC NGLs and non-conventional oils are forecast to average 4.85 mb/d in 2008, a gain of around 0.54 mb/d over the previous year. In 2009, OPEC NGLs and non-conventional oils are expected to average 5.51 mb/d, representing a significant increase of 0.66 mb/d over the previous year.

**Table 13: OPEC NGLs + non-conventional oils, 2006-2009**

| | | | **Change** | | | | | | **Change** | | **Change** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2006** | **2007** | 07/06 | 1Q08 | 2Q08 | 3Q08 | 4Q08 | **2008** | 08/07 | **2009** | 09/08 |
| **Total OPEC** | **4.05** | **4.31** | 0.26 | 4.62 | 4.82 | 4.92 | 5.04 | **4.85** | 0.54 | **5.51** | 0.66 |

**OPEC crude output averaged 32.29 mb/d in second quarter of 2008**

## *OPEC crude oil production*

Total crude oil production averaged 32.29 mb/d in June, an increase of 124 tb/d over the previous month, according to secondary sources. OPEC excluding Iraq production averaged 29.85 mb/d, a gain of 160 tb/d over the same period. A significant increase of around 171 tb/d from Saudi Arabia was partially offset by production declines in Iraq and Venezuela. OPEC crude production in the second quarter averaged 32.10 mb/d.

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

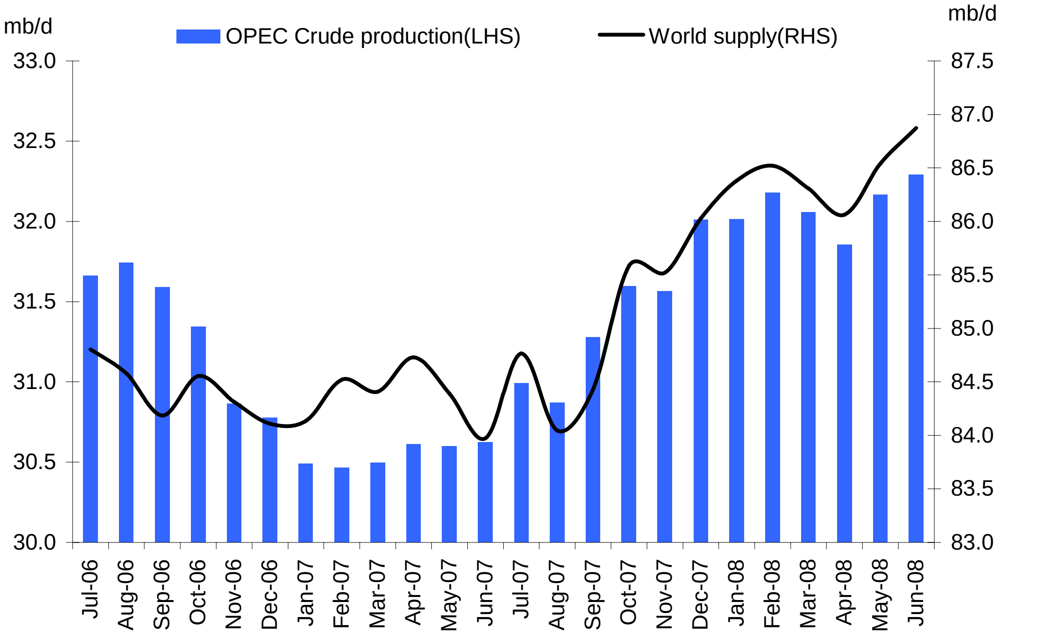
| | 2007 | 3Q07 | 4Q07 | 1Q08 | Apr-08 | May 08 | Jun 08 | 2Q08 | *Jun/May* |
|---|---|---|---|---|---|---|---|---|---|
| Algeria | 1,360 | 1,365 | 1,386 | 1,397 | 1,408 | 1,405 | 1,409 | 1,407 | *3.8* |
| Angola | 1,660 | 1,678 | 1,777 | 1,865 | 1,882 | 1,907 | 1,897 | 1,895 | *-9.9* |
| Ecuador | 507 | 508 | 509 | 505 | 505 | 504 | 501 | 503 | *-2.8* |
| Indonesia | 844 | 836 | 841 | 862 | 874 | 853 | 851 | 859 | *-1.3* |
| Iran, I.R. | 3,855 | 3,861 | 3,907 | 3,939 | 3,913 | 3,837 | 3,844 | 3,864 | *6.4* |
| Iraq | 2,089 | 2,107 | 2,330 | 2,303 | 2,341 | 2,480 | 2,444 | 2,422 | *-35.9* |
| Kuwait | 2,464 | 2,467 | 2,508 | 2,535 | 2,572 | 2,583 | 2,606 | 2,587 | *23.4* |
| Libya, S.P.A.J. | 1,710 | 1,718 | 1,741 | 1,751 | 1,745 | 1,722 | 1,717 | 1,728 | *-4.7* |
| Nigeria | 2,125 | 2,154 | 2,158 | 2,056 | 1,824 | 1,874 | 1,874 | 1,858 | *-0.4* |
| Qatar | 807 | 814 | 825 | 839 | 844 | 848 | 859 | 850 | *10.4* |
| Saudi Arabia | 8,654 | 8,584 | 8,921 | 9,057 | 8,984 | 9,179 | 9,350 | 9,171 | *171.3* |
| UAE | 2,504 | 2,574 | 2,427 | 2,586 | 2,607 | 2,613 | 2,630 | 2,616 | *17.5* |
| Venezuela | 2,392 | 2,377 | 2,395 | 2,385 | 2,357 | 2,363 | 2,309 | 2,343 | *-54.2* |
| **Total OPEC** | **30,970** | **31,044** | **31,726** | **32,080** | **31,856** | **32,166** | **32,290** | **32,104** | ***123.7*** |
| **OPEC excl. Iraq** | **28,881** | **28,937** | **29,396** | **29,778** | **29,515** | **29,686** | **29,846** | **29,682** | ***159.7*** |

*Totals may not add due to independent rounding.*

## *World Oil Supply*

Preliminary figures for the month of June indicate that world oil supply averaged 86.87 mb/d, 0.33 mb/d more than in the previous month, with OPEC's crude share estimated at 37.2%. The estimate is based on preliminary data for non-OPEC supply, estimates for OPEC NGLs and OPEC crude production from secondary sources.

**Graph 23: OPEC and World oil supply**



### *FSU net exports of crude and products*

Total FSU net oil exports are expected to average 8.80 mb/d in 2008, an increase of 0.25 mb/d over the previous year. In 2009, total net FSU oil exports are expected to average 9.16 mb/d, a gain of 0.36 mb/d over 2008.

### *Current trends*

Actual figures for the month of April indicate that total crude exports from the FSU averaged 6.44 mb/d. The preliminary figures for May averaged 6.70 mb/d, a gain of around 265 tb/d over the previous month. Russian pipeline exports in May were down around 48 tb/d from the previous month. Most of the decline was witnessed in Baltic shipments which were 34 tb/d below the previous month. CPC pipeline shipments also declined by 72 tb/d in May compared with the April figure.

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

| | 1Q | 2Q | 3Q | 4Q | Year | Growth (y-o-y) |
|---|---|---|---|---|---|---|
| **2005** | 7.45 | 7.69 | 7.77 | 7.85 | **7.69** | **0.37** |
| **2006** | 7.91 | 8.34 | 8.22 | 8.06 | **8.13** | **0.45** |
| **2007** | 8.64 | 8.74 | 8.50 | 8.31 | **8.55** | **0.41** |
| **2008 (estimate)** | **8.66** | **8.89** | **8.87** | **8.77** | **8.80** | **0.25** |
| **2009 (forecast)** | **9.21** | **9.43** | **9.12** | **8.89** | **9.16** | **0.36** |

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

| | 2006 | 2007 | 3Q07 | 4Q07 | 1Q08 | Apr 08 | May 08* |
|---|---|---|---|---|---|---|---|
| **Crude** | | | | | | | |
| **Russian pipeline** | | | | | | | |
| Black Sea | 1,288 | 1,360 | 1,332 | 1,294 | 1,224 | 1,375 | 1,363 |
| Baltic | 1,553 | 1,645 | 1,647 | 1,631 | 1,530 | 1,715 | 1,681 |
| Druzhba | 1,288 | 1,122 | 1,091 | 1,128 | 1,130 | 1,100 | 1,098 |
| **Total***** | **4,129** | **4,127** | **4,071** | **4,052** | **3,884** | **4,203** | **4,155** |
| **Other routes** | | | | | | | |
| Russian rail | 313 | 290 | 266 | 300 | 296 | 340 | 385 |
| Russian - Far East | 84 | 247 | 246 | 263 | 209 | 214 | 207 |
| Kazak rail | 31 | 15 | 12 | 17 | 17 | 18 | 17 |
| CPC pipeline | 661 | 701 | 673 | 678 | 624 | 751 | 679 |
| **Caspian** | **396** | **249** | **196** | **205** | **191** | **195** | **165** |
| *of which* | | | | | | | |
| Supsa (AIOC) - Georgia | 114 | 0 | 0 | 0 | 0 | 0 | 0 |
| Batumi - Georgia | 177 | 138 | 105 | 121 | 105 | 124 | 100 |
| **Total**** | **1,702** | **2,234** | **2,143** | **2,228** | **2,110** | **2,234** | **2,547** |
| **Total crude exports** | **5,831** | **6,362** | **6,214** | **6,280** | **5,994** | **6,437** | **6,702** |
| **Products** | | | | | | | |
| **All routes** | | | | | | | |
| Fuel oil | 861 | 841 | 789 | 913 | 1,085 | 1,019 | 1,063 |
| Gasoil | 841 | 677 | 597 | 814 | 855 | 827 | 695 |
| Others | 662 | 670 | 676 | 730 | 975 | 782 | 623 |
| **Total** | **2,364** | **2,188** | **2,062** | **2,458** | **2,916** | **2,628** | **2,381** |
| **Total oil exports** | **8,195** | **8,550** | **8,275** | **8,738** | **8,910** | **9,065** | **9,083** |

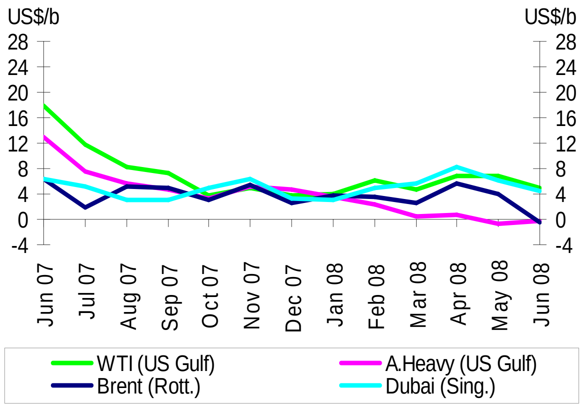
*Source: Nefte Transport, Global Markets, Argus Fundamentals, Argus FSU, OPEC.*
* *Preliminary.*
** *Total incl. BTC, Atasu-Alashankou and tanker shipments from Kaliningrad to Ventspils.*
*** *Total incl. exports to China.*

# Product Markets and Refinery Operations

**Refining economics lost further ground in June**

**Slowing demand for gasoline particularly in the US, combined with the easing circumstances of distillate markets and costly crude, exerted pressure on refining economics across the world. The continuation of the recent product market sentiment may encourage refiners to cut throughputs or start seasonal maintenance earlier than usual, which would trim crude demand. These circumstances could lead to further crude stock-builds in the coming months and put pressure on crude prices in the latter part of the year. However, such perception may change if supply disruptions occur either in OPEC or non-OPEC over the next months. The only major wild card for the product markets in the near future would be possible refinery outages due to potentially active hurricanes in the US Gulf Coast.**

**Graph 24: Refining margins**




As **Graph-24** shows, refinery margins for Brent crude oil at Rotterdam plummeted to minus 44¢/b from $4.07/b in May. In the US, the market did not follow its typical seasonal pattern and margins for gasoline remained weak exacerbating poor refining economics. Refining margins for WTI crude on the US Gulf Coast fell by $1.89/b to reach $4.98/b from $6.85/b last month.

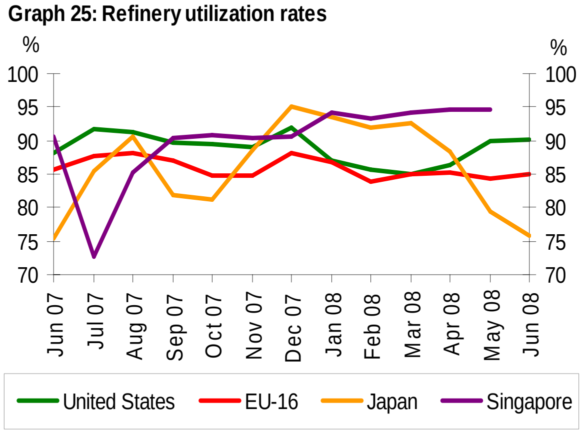
In Asia, the market followed suit and margins extended their downward movement. Higher production of a variety of products by some regional refineries after returning from seasonal turnaround has contributed to negative developments in the Asian market. Refining margins for Dubai crude oil on the Singapore market slid by $1.71/b to record $4.48 from $6.19/b in May.

***Refinery operations***

**Refinery throughputs increased slightly in the US and Europe**

Refiners typically boost their throughput in the latter part of the second quarter and up to the end of the driving season in early September. Over the last three years, due to unplanned refinery outages resulting from either natural disasters or technical factors, refiners especially in the US could not increase throughput significantly prior to the peak period of the driving season which has led to gasoline supply concerns and provided support for both product and crude markets. In the last few months there have not been any serious refinery outages, particularly in the US, and spring seasonal maintenance has been completed according to schedule, removing the risk of gasoline supply concerns from the market. This situation along with reports of bearish gasoline consumption has limited the positive seasonal movement of refinery operations across the board.

**Graph 25: Refinery utilization rates**




**As Graph 25 shows, the refinery utilization rate in the US increased only a marginal 0.1% compared to the previous month to reach 90.1%. In Europe, refinery utilization rose slightly to 85.3% from 84.5%. In Asia, most refineries continued maintenance and throughputs slowed from the previous month. In Japan, the refinery utilization rate dropped by 3.4% to 75.9% from 79.3% in May (*see Graph 25*).**

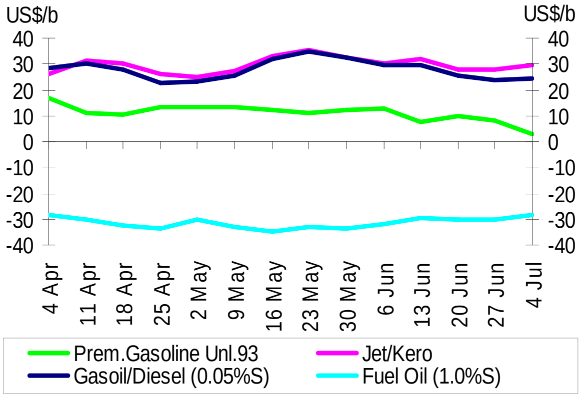
Looking ahead, amid falling refining margins, refinery utilization rates are not expected to increase in line with the typical seasonal pattern over the next months and may stay at relatively low levels over the current driving season.

### *US market*

**Gasoline market in the US remained muted**

**The continuation of slowing demand and higher domestic output has further undermined the gasoline market sentiment in both futures and physical markets. The gasoline crack spread, which had improved in early June, fell again as stock-builds over the last two weeks minimized the risk of supply concerns. As Graph 26 indicates, the gasoline crack spread for WTI crude oil at the US Gulf Coast dropped sharply in early July to $2.88/b from $15.10/b earlier in the previous month. The current circumstances of the US gasoline market may not change significantly in the near future, providing little incentive for refiners to boost throughput in the coming month.**

Graph 26: US Gulf crack spread vs. WTI, 2008




Despite the weakness of the gasoline market, conditions in the middle distillate market remain firm due to export opportunities especially to Latin America. However, increasing refinery outputs and the improving distillate stock situation over the last couple of weeks have eased previous concerns about distillate supplies. Following these developments, both gasoil and jet/kero crack spreads against WTI crude oil narrowed compared to May. The gasoil crack spread versus WTI crude fell to $23.61/b in the last week of June from about $32/b over the same period of May (*see* **Graph 26)**. Similarly, the jet/kero crack spread narrowed to $27.59/b from nearly $33/b in the latter part of the previous month.

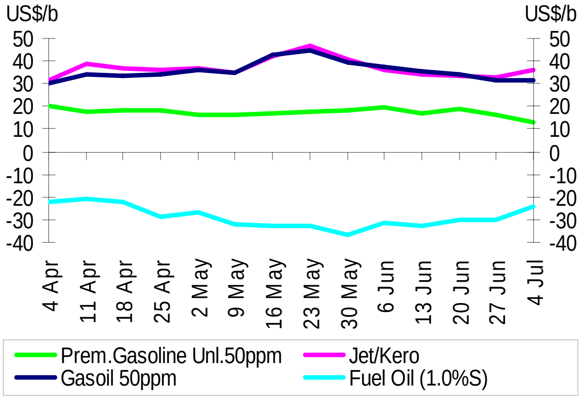
In the US, the fuel oil market was also relatively firm as utilities were trying to meet summer air-conditioning demand. This situation lifted fuel oil prices and narrowed their discounted value against WTI crude oil to minus $28/b in the week-ending 4 July from about minus $33/b in May. Looking ahead, amid higher production over the next weeks and a possible reduction in demand, fuel oil is expected to lose recent gains.

### *European market*

**Refining economics slipped sharply in Europe in June**

**Following the completion of refinery maintenance, higher regional production and fewer export opportunities for gasoline and fuel oil, European refining economics lost ground significantly. Higher distillate imports by the US and Asia also exerted pressure on distillate margins which were very high in May. These developments along with higher regional supply narrowed the gasoil crack spread against Brent crude oil to $31.18/b in the latter part of June from a record of about $44/b in May (*see* Graph 27). The jet/kero crack spread also fell compared to the previous month, and it may fall further in the future if the slow airline business persists over the next months.**

Graph 27: Rotterdam crack spreads vs. Brent, 2008




The European market for both gasoline and naphtha also looks very weak. Gasoline stocks rose in June and are now 20% above last year as spot exports to the US were halted over the last few weeks. The unleaded gasoline crack spread fell to around $12/b in early July from nearly $20/b over the same period of June. The current situation of the gasoline market would be exacerbated if stock-builds continue and less arbitrage opportunities to the US persist in the future. The naphtha market in Europe is still lacklustre; however, recent exports to Asia provided some relief to the naphtha market. The European light distillate market sentiment over the next months will largely depend on arbitrage opportunities to the US and Asia.

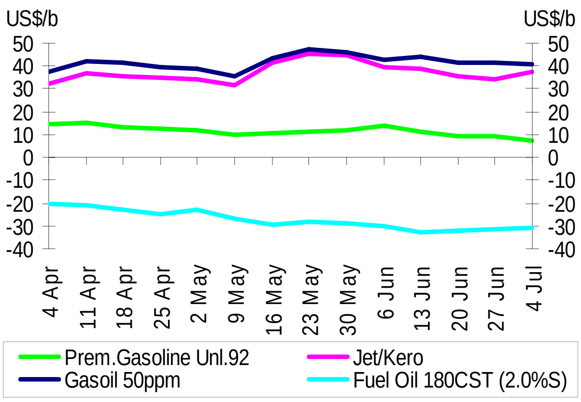
With regard to fuel oil, higher stocks and lack of export opportunities to Asia due to unfavourable arbitrage economics weighed on the market and crack spreads even for low-sulphur fuel oil remained around minus $30/b. The underlying bearish sentiment of the fuel oil market was also reflected in the swap market which was in fairly steep contango for the coming months. Fuel oil market sentiment may deteriorate further if arbitrage opportunities to Asia remain limited.

### *Asian market*

**The Asian product market lost part of its strength in June**

**The Asian product market sentiment has changed relative to the previous month as some refineries were back from maintenance and increased output. Following these developments, an unprecedented spread for middle of the barrel components narrowed compared to the latter part of the previous month. In this respect, the jet fuel crack spread against Dubai crude fell to nearly $37/b from over $44.50/ in the last week of May (*see* Graph 28). Furthermore, due to slowing demand from airlines and additional supplies from the Middle East and South Korea, the jet fuel premium versus diesel switched to a discount and the current contango level is expected to widen further in the future. However, recent arbitrage shipments to Europe will support the jet fuel market over the next months.**

**Graph 28: Singapore crack spreads vs. Dubai, 2008**




As far as the gasoil market is concerned, early in June market sentiment weakened due to lower demand from China, but later on a blast at an Australian gas plant changed market sentiment and lent support to the gasoil market. However, the narrowing arbitrage opportunity to Europe put pressure on the gasoil crack spread, which fell to $44.61/b in the first week of July from about $46/b in the last week of May.

The gasoline market in Asia appeared weaker due to ample supply from South Korea and India and slowing demand from China and other regional importers. Given the completion of the refinery maintenance and less arbitrage opportunities to the US, the Asian gasoline market is expected to lose further ground in the future. The gasoline crack spread against Dubai crude slipped to about $8/b from over $11/b in the previous month.

Despite the weakness of gasoline, the Asian naphtha market improved recently and this has encouraged traders to export European cargoes to Asia. More than 300,000 tonnes of European naphtha are expected to arrive in July and recently put some pressure on the spot markets. Additionally, Indian supply may increase over the next few weeks amid lower domestic demand, as harvesting activities and power consumption slow during the monsoon season, which starts at the end of June and lasts about three months.

As far as the fuel oil market is concerned, in the absence of Chinese demand, the high-sulphur fuel oil market remained lacklustre and the prospect for the near term appears bleak. This situation has widened the crack spread of high-sulphur fuel oil versus Dubai crude to minus $31.37/b in the last week of June from minus $29.36/b earlier in the same month. But due to sustained demand from utility plants in Japan, the low-sulphur grade market looks resilient. Looking ahead, the current circumstances of the Asian fuel oil market may weaken next month due to higher regional output and the possible arrival of more arbitrage cargoes.

**Table 17: Refined product prices, US$/b**

| | | Apr 08 | May 08 | Jun 08 | Change Jun/May |
|---|---|---|---|---|---|
| **US Gulf (Cargoes):** | | | | | |
| Naphtha | | 114.75 | 129.68 | 135.61 | 5.93 |
| Premium gasoline | *(unleaded 93)* | 125.43 | 137.84 | 143.09 | 5.25 |
| Regular gasoline | *(unleaded 87)* | 119.71 | 133.16 | 140.51 | 7.35 |
| Jet/Kerosene | | 140.57 | 156.75 | 163.29 | 6.54 |
| Gasoil | *(0.05% S)* | 139.22 | 155.70 | 160.81 | 5.11 |
| Fuel oil | *(1.0% S)* | 75.34 | 83.95 | 93.02 | 9.07 |
| Fuel oil | *(3.0% S)* | 81.39 | 92.30 | 103.65 | 11.35 |
| **Rotterdam (Barges FoB):** | | | | | |
| Naphtha | | 118.58 | 129.70 | 143.54 | 13.84 |
| Premium gasoline | *(unleaded 50 ppm*)* | 127.26 | 140.04 | 150.09 | 10.05 |
| Premium gasoline | *(unleaded 95)* | 113.16 | 124.51 | 133.46 | 8.95 |
| Jet/Kerosene | | 145.05 | 163.93 | 166.50 | 2.57 |
| Gasoil/Diesel | *(50 ppm*)* | 142.66 | 163.07 | 166.80 | 3.73 |
| Fuel oil | *(1.0% S)* | 85.16 | 90.32 | 101.66 | 11.34 |
| Fuel oil | *(3.5% S)* | 73.57 | 80.30 | 89.47 | 9.17 |
| **Mediterranean (Cargoes):** | | | | | |
| Naphtha | | 99.53 | 108.72 | 119.81 | 11.09 |
| Premium gasoline | *(50 ppm)* | 127.26 | 141.69 | 151.71 | 10.02 |
| Jet/Kerosene | | 142.60 | 159.42 | 162.48 | 3.06 |
| Gasoil/Diesel | *(50 ppm)* | 142.80 | 162.71 | 167.17 | 4.46 |
| Fuel oil | *(1.0% S)* | 83.24 | 91.49 | 101.76 | 10.27 |
| Fuel oil | *(3.5% S)* | 72.73 | 80.43 | 89.64 | 9.21 |
| **Singapore (Cargoes):** | | | | | |
| Naphtha | | 102.53 | 113.63 | 125.18 | 11.55 |
| Premium gasoline | *(unleaded 95)* | 117.98 | 131.07 | 140.23 | 9.16 |
| Regular gasoline | *(unleaded 92)* | 117.02 | 130.01 | 138.72 | 8.71 |
| Jet/Kerosene | | 138.44 | 159.47 | 164.76 | 5.29 |
| Gasoil/Diesel | *(50 ppm)* | 143.38 | 161.86 | 170.00 | 8.14 |
| Fuel oil | *(180 cst 2.0% S)* | 80.98 | 91.15 | 96.23 | 5.08 |
| Fuel oil | *(380 cst 3.5% S)* | 78.14 | 87.62 | 94.58 | 6.96 |

**Table 18: Refinery operations in selected OECD countries**

| | Refinery throughput *mb/d* | | | | Refinery utilization *%* | | | |
|---|---|---|---|---|---|---|---|---|
| | Apr 08 | May 08 | Jun 08 | Jun/May | Apr 08 | May 08 | Jun 08 | Jun/May |
| **USA** | 15.07 | 15.70 | 15.72 | 0.02 | 86.4 | 90.0 | 90.1 | 0.10 |
| **France** | 1.68 | 1.70 | 1.70 | 0.00 | 86.9 | 87.7 | 88.2 | 0.50 |
| **Germany** | 2.14 | 2.04 R | 2.06 | 0.02 | 88.6 | 84.3 R | 85.1 | 0.80 |
| **Italy** | 1.75 R | 1.67 R | 1.68 | 0.01 | 75.0 R | 71.5 R | 71.8 | 0.30 |
| **UK** | 1.56 | 1.48 R | 1.61 | 0.13 | 83.8 | 79.9 R | 86.5 | 6.60 |
| **Eur-16** | 11.96 R | 11.82 R | 11.93 | 0.11 | 85.3 R | 84.3 R | 85.0 | 0.70 |
| **Japan** | 4.11 R | 3.70 R | 3.53 | -0.17 | 88.4 R | 79.3 R | 75.9 | -3.40 |

*R* *Revised since last issue.*

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

# The Tanker Market

**Global and OPEC spot fixtures increased in June, while OPEC sailings rose by 1%**

Contrary to last month, both global and OPEC spot fixtures increased in June according to preliminary data. Global spot fixtures increased by 9% compared to the previous month to stand at 21.71 mb/d. OPEC spot fixtures increased by 10% to reach 14.5 mb/d. The majority of the OPEC increase came from the Middle East/West route where the sharp decline and the very low base in the previous month led spot fixtures to increase by 127% on average to stand at 2.19 mb/d. Middle East/East spot fixtures increased by 15% compared to the previous month to end at 6.07 mb/d. The return to operation of a large number of refineries after a heavy summer maintenance programme, together with the extra barrels in the Middle East, were among the main reasons behind the increase in spot fixtures. On a y-o-y basis, OPEC spot fixtures in June indicated growth of 17% compared to June 2007, while average spot fixtures for the first half of 2008 were 13.82 mb/d, indicating growth of 10% compared to the first half of 2007.

Sailings from OPEC were steady in June, with a slight increase of 1% compared to both the previous month and a year earlier. Middle East sailings also increased marginally in June by about 1% compared to the previous month, yet indicating a y-o-y increase of 5% over June 2007. Crude oil arrivals in the USA increased by 2% in June, in line with the 5% increase in US crude oil imports, compared to the previous month. In contrast, North-West Europe and Mediterranean arrivals declined by 2% each in June compared to the previous month.

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

| | Apr 08 | May 08 | Jun 08 | Change Jun/May |
|---|---|---|---|---|
| **Spot Chartering** | | | | |
| All areas | 20.87 | 19.95 | 21.71 | 1.76 |
| OPEC | 14.03 | 13.16 | 14.50 | 1.34 |
| Middle East/east | 6.28 | 5.26 | 6.07 | 0.81 |
| Middle East/west | 1.69 | 0.96 | 2.19 | 1.22 |
| **Sailings** | | | | |
| OPEC | 23.46 | 23.10 | 23.33 | 0.23 |
| Middle East | 17.13 | 17.05 | 17.30 | 0.25 |
| **Arrivals** | | | | |
| US Gulf Coast, US East Coast, Caribbean | 8.36 | 8.16 | 8.32 | 0.16 |
| North West Europe | 7.79 | 8.00 | 7.83 | -0.17 |
| Euromed | 4.30 | 4.64 | 4.56 | -0.08 |

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

**Most dirty spot freight rates declined in June with Suezmax losing the most, and VLCC recovering in the second half of the month on the anticipated increase in Middle East volumes**

The crude oil tanker market was relatively steady in June despite a tendency toward declining. Spot freight rates for dirty tankers evolved along different trends throughout June, even among the same size class, reflecting ongoing developments. The high volatility of the Aframax sector continued, despite a declining monthly average. Dirty tanker spot freight rates on all reported routes closed the month with an average decline of 5% from the previous month, but saw an increase of more than 100% on an annual basis. Suezmax spot freight rates displayed the biggest average decline in June from the previous month with a fall of 12%, while Aframax rates experienced the lowest decrease at 4%. Despite the decline, dirty tanker spot freight rates stood at a healthy level, owing to the strong stand of owners to protect their interest within the ongoing high bunker price environment. Contrary to previous months, when the dirty spot tanker market outpaced the clean market, the clean spot tanker market in June led on all reported routes.

The VLCC spot freight rates were mixed in June compared to the previous month. Spot freight rates for VLCCs trading on the long haul route from the Middle East to the East remained relatively steady from previous month, despite a minor decline of 2%. At the beginning of the month, VLCC spot freight rates started to declined on the back of a quiet market and plenty of tonnage. The release of various vessels utilized as floating storage added to the position list, which drove down rates from the Middle East. Additionally, the return of a few single hull vessels to the market from the planned conversion, in order to take advantage of the healthy market environment, further supported the available tonnage list. However, by the second half of the month, with the emergence of the July programme, the tonnage list cleared out. Additionally, the sentiment shifted to a bullish mode on news of extra barrels coming from the Middle East.

Typhoon Fengshen in South China Sea which caused various delays also added to the upward momentum. Charterers anticipated higher rates in the short run and rushed to cover their positions, accordingly, VLCC spot freight rates reacted to offset early losses. Middle East to the West spot freight rates closed the month with a minor increase of 1% in June from the previous month. On an annual basis, Middle East VLCC spot freight rates displayed an average increase of 138% in June.

On the other hand, VLCC spot freight rates for voyages from West Africa to the East went though a gradual decline and closed with a drop of 18% in June compared to the previous month. Ample tonnage supply in a relatively quiet market pressured spot freight rates to decrease. The ongoing unrest in the region which has curbed output added to the bearish sentiment. The decline in Suezmax spot freight rates in this region has been another influential factor in rate developments. However, the only reported VLCC spot freight rate from West Africa showed an increase of 145% in June compared to the same period of last year.

**Table 20: Spot tanker freight rates, Worldscale**

| | Size<br>*1,000 DWT* | Apr 08 | May 08 | Jun 08 | Change<br>Jun/May |
|---|---|---|---|---|---|
| ***Crude*** | | | | | |
| Middle East/east | 230-280 | 128 | 204 | 201 | -4 |
| Middle East/west | 270-285 | 91 | 138 | 139 | 2 |
| West Africa/east | 260 | 132 | 194 | 206 | 12 |
| West Africa/US Gulf Coast | 130-135 | 194 | 244 | 159 | -85 |
| NW Europe/USEC - USGC | 130-135 | 180 | 215 | 198 | -17 |
| Indonesia/US West Coast | 80-85 | 168 | 216 | 231 | 15 |
| Caribbean/US East Coast | 50-55 | 234 | 290 | 305 | 15 |
| Mediterranean/Mediterranean | 80-85 | 265 | 279 | 237 | -42 |
| Mediterranean/North-West Europe | 80-85 | 262 | 270 | 232 | -38 |
| ***Products*** | | | | | |
| Middle East/east | 30-35 | 166 | 193 | 314 | 121 |
| Singapore/east | 30-35 | 178 | 190 | 259 | 69 |
| Caribbean/US Gulf Coast | 38-40 | 301 | 376 | 395 | 19 |
| NW Europe/USEC - USGC | 33-37 | 283 | 320 | 353 | 34 |
| Mediterranean/Mediterranean | 30-35 | 258 | 292 | 361 | 68 |
| Mediterranean/North-West Europe | 30-35 | 268 | 302 | 371 | 68 |

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

Suezmax spot freight rates declined on both reported routes from West Africa and North-West Europe in June from the previous month. Spot freight rates on both routes evolved in a similar fashion in June, with rates declining throughout the month before recovering in the last week. From West Africa, Suezmax spot freight rates were affected by the reduction in volume due to the unrest. Additionally, the narrowing of the WTI/Brent differential made arbitrage to the US difficult putting a dent in tonnage demand at a time of growing position list. Accordingly, spot freight rates reacted by dropping 16% in June from the previous month. The improvement in spot freight rates at the end of the month, on the back of increased activities and declining US stocks, were not enough to offset the initial decline. From North-West Europe, the situation was slightly better on the back of increased Suezmax activities from Azeri crude trading; hence Suezmax spot freight rates dropped only 8% in June compared to the previous month. Despite the decline, Suezmax spot freight rates experienced an 86% increase in June on an annual basis.

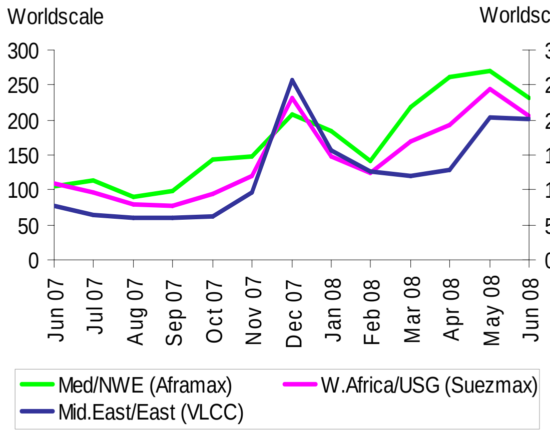
Volatility continued to characterize Aframax spot freight rates in June, which declined by an average of 4% from the previous month. The East of Suez reported route indicated an increase of 7% over the same period. The support came from the increased interregional trade as well as replacement charters due to various delays. West of Suez Aframax spot freight rate developments were mixed with rates in the Caribbean increasing and Mediterranean rates falling in June. Spot freight rates for Aframax upcoast voyages from the Caribbean experienced an increase of 5% in June from the previous month on the back of increased activities as well as delays caused by the port closure in Mexico due to rough seas. In the Mediterranean, Aframax spot freight rates declined 15% on average in June from the previous month on the back of limited activities and a healthy tonnage list, despite the delays caused by the strike in France. On average, Aframax spot freight rates displayed an increase of 100% in June compared to the same period last year.

In general, dirty spot freight rates remained healthy during the first half of 2008, increasing 48% on average compared to the same period last year. The VLCC sector was the main winner with an 84% increase in the first half, the Suezmax sector came next with 43%, and Aframax was last with a 38% increase.

**Clean spot freight rates hiked on all routes in June supported by high activities**

The clean tanker market followed a contrary trend in June compared to the dirty tanker market, with spot freight rates showing higher gains than those registered in April. Generally, the market was active in East of Suez, followed by the Mediterranean market on both routes and the trans-Atlantic market. Asian market sentiment was bullish in June as prompt demand in the region increased activities in the East of Suez. The hikes of Indian and Chinese retail product prices did not help to ease the bullishness of the market. East of Suez clean spot freight rates for the Middle East/East route spiked during the first week of June hitting the WS300 level for the first time since August 2006, supported by high activity and very tight tonnage for June loading, with a good portion of clean vessels converting into dirty during the previous month. Rates fort this route maintained their firmness during the second and third weeks of June, only to ease slightly by the end of the month upon news of a number of converted vessels luring back to the clean pool from the dirty pool in the Mediterranean and in Asia on the back of very high spot freight rates. Freight rates for the Middle East/East route ended the month with a substantial increase of 63% compared to the previous month and of 83% compared to June 2007. Healthy activities in the Middle East and North Asia were having a knock effect on rates on the Singapore/East route with ships moving from South Korea to the US West Coast adding support. Freight rates for this route went through gradual increases during June to end the month with a 36% increase compared to the previous month and 25% compared to June 2007. The average increase in East of Suez freight rates in June was 50% compared to the previous month and 54% compared to June 2007.

Graph 29: Monthly averages of crude oil spot freight rates




Similarly, West of Suez clean spot freight rates increased in June on all reported routes. Contrary to the previous month, rates for voyages from the Caribbean saw the lowest gain of 5%, compared to the previous month. Reduced buying of US gasoil by Argentina and Chile in June was the main reason for rates not accelerating further. Rates were steady since the beginning of the month as tonnage in the area remained tight with voyages to Peru as well as to Europe taking tonnage out of the area. Gains on the Mediterranean/Mediterranean and Mediterranean/North-West Europe routes were about 24% each compared to the previous month, but higher at 35% compared to June 2007. Tonnage in the Mediterranean was depleted by many vessels leaving the area on long-haul voyages with healthy availability of products looking for ships supporting a spike in freight rates in this market. At the same time, freight rates on the Black Sea/Mediterranean route in June reached the WS400 level for the first time in two and a half years, climbing from levels around WS340 earlier in the month. The strikes at the French Fos and Lavera ports in June were also partially behind the firming tone in this market. On the other hand, US arbitrage of gasoline from Europe lent continuous support for trans-Atlantic freight rates throughout the first two decades of June which eventually closed by the end of the month leading rates to soften marginally. Gains on this route were 10% compared to the previous month, but were higher at 19% compared to the same month last year. Altogether, West of Suez gains in freight rates for June were 27% compared to the previous month, and with 50% gains in East of Suez, the clean tanker market was very active in June.

Despite the month-to-month gains in June, clean spot freight rates were generally steady during the first half of 2008, declining by less than 1% on average compared to the same period last year. East of Suez two routes gained 8% on average, while West of Suez four routes lost 5% on average.

# Oil Trade

**OECD net oil imports increased by 2.7% in May on the back of high net crude and product imports**

### *OECD*

OECD crude oil imports increased by about 150,000 b/d or 0.5% in May compared to the previous month, averaging 30.55 mb/d according to preliminary data. May crude oil imports were about 1.8% higher than a year earlier. For the first five months of 2008, OECD countries imported an average of 30.58 mb/d indicating a y-o-y gain of about 160,000 b/d or 0.5% compared to the same period in 2008. The gain is partially attributed to Japan's higher average crude oil imports in the first five months of 2008 which alone increased by about 480,000 b/d compared to the same period in 2007 as Japan has been tackling its refinery overcapacity by reorienting its refineries towards the export market. Demand for crude oil for burning in power stations was at a ten-year high this year, with problems at nuclear plants forcing generators to turn to crude oil. Other OECD crude oil imports in May were generally steady or declining marginally as higher crude oil prices are curbing growth in imports, with the US crude oil imports declining so far by about 2% in 2008 compared to the first five months of 2007.

In contrast, OECD product imports fell by about 150,000 b/d in May or 1.5% compared to the previous month to average 10.15 mb/d, the lowest average since January 2006. The decline is higher at 8.6% compared to May 2007. The drop in the US product imports in May was about 280,000 b/d, while Japan's drop was marginal. Average OECD product imports for the period January-May 2008 were 10.57 mb/d, indicating a y-o-y decline of 50,000 b/d or 0.5% compared to the same period last year.

On the export side, OECD crude oil exports increased by about 118,000 b/d or 2% in May compared to the previous month, yet were about 7% lower than a year earlier to average 6.3 mb/d. Average crude oil exports for the OECD countries during the first five months of 2008 were 6.2 mb/d, about 680,000 b/d or 10% lower than in the same period last year. OECD product exports in May were about 9.5 mb/d, some 90,000 b/d or 1% lower than in the previous month. On a y-o-y basis, OECD product exports in May were about 6% higher than in May 2007. Both the USA and Japan had higher product exports in May, with gains of 115,000 b/d and 50,000 b/d over the previous month. Most other OECD countries exhibited the opposite trend. Despite the month-to-month decline, total OECD product exports for the first five months of 2008 were 9.34 mb/d, some 300,000 b/d or 3% higher than in the same period last year.

Accordingly, total OECD net oil imports averaged 25.62 mb/d, indicating an increase of 680,000 b/d or 2.7% compared to the previous month and 1% compared to a year earlier. Net crude oil imports were up by 500,000 b/d in May compared to the previous month, while net product exports were up by 180,000 b/d. At the same time, net crude oil imports were up by 4% during the first five months of 2008 compared to the previous year, while net product imports declined 19%. As a result, net oil imports for January-May 2008 were 25.73 mb/d, 2.5% higher than in the same period last year.

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

| | Mar 08 | Apr 08 | May 08 | Change May/Apr |
|---|---|---|---|---|
| Crude oil | 24,316 | 24,219 | 24,719 | 500 |
| Total products | 1,374 | 720 | 902 | 181 |
| **Total crude and products** | **25,690** | **24,939** | **25,621** | **682** |

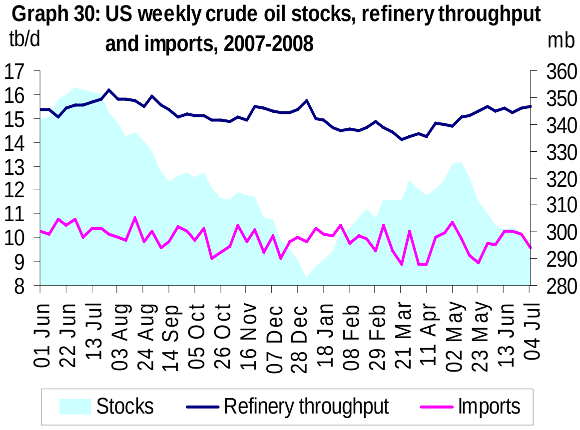
Saudi Arabia and Russia were the top OECD crude oil suppliers in May with 13.5% and 12.8% respectively, followed by Canada with 6.7% and Norway with 5.7%. Altogether, OPEC Member Countries supplied 54.4% of total OECD crude oil imports in May, almost unchanged from the previous month. For products, OPEC Member Countries' share of total OECD product imports in May was 14.6%, again almost unchanged from the previous month, with Algeria supplying 2.66% followed by Saudi Arabia with 2.42% and the UAE with 2.36%. The OECD's top non-OPEC product supplier to the OECD in May was the Netherlands with 9.54%, followed by Russia with 8.68% and the USA with 7.5%.

**US net oil imports increased in June by 4.6% supported by higher crude oil imports**

### *USA*

According to preliminary data, US crude oil imports rebounded in June, increasing 517,000 b/d or 5.4% compared to the previous month to average 10.0 mb/d. June crude oil imports were much closer to their level a year earlier with a gain of just 63,000 b/d or 0.6%. Despite these month-to-month and y-o-y gains, the USA is still importing less volumes of crude oil in 2008 compared to 2007 and even to 2006. Average crude oil imports for the first half of 2008 were 9.85 mb/d, 1.7% lower than their average for the first half of 2007, and even 2.1% lower compared to the average of the same period in 2006. This decline is attributed to the overall state of the US economy which has hit sales for almost all products, apart from gasoil, with gasoline sales and jet fuel shrinking for seven consecutive months. The effect of the US summer driving season on crude oil imports levels was weaker than usual last year and, so far, hardly any effect can be seen this year.

**Graph 30: US weekly crude oil stocks, refinery throughput and imports, 2007-2008**




Product imports in June were almost steady compared to the previous month. At 3.29 mb/d, June product imports were 6.5% lower than a year earlier. Finished motor gasoline imports increased in June by 85,000 b/d compared to the previous month to reach 492,000 b/d. Despite this month-to-month increase, average US gasoline imports for the first half of 2008 were 404,000 b/d, indicating a 7% drop compared to the first half of 2007. Distillate fuel oil imports decreased again in June by 52,000 b/d compared to the previous month to average 160,000 b/d. First half 2008 average fuel oil imports were 237,000 b/d, indicating a drop of 26% compared to the same period last year. Residual fuel oil imports in June were almost steady at 360,000 b/d, compared to the previous month, and were also steady y-o-y. On average, the US imported 3.36 mb/d of oil products in the first half of 2008 indicating a drop of 180,000 b/d or 5% compared with the same period last year.

On the export side, US product exports in June were about 1.44 mb/d, a slight 13,000 b/d or 1% lower compared to the previous month, but 176,000 b/d or 14% higher than in the same month last year. US product exports for the first half of 2008 averaged 1.41 mb/d, 82,000 b/d or 6% higher than in the same period last year.

As a result, US total net oil imports increased by 4.6% in June compared to the previous month to reach about 11.87 mb/d. The 518,000 b/d increase in net oil imports came as a result of increases in net crude oil imports in June, with net oil product imports remaining unchanged from the previous month. On a y-o-y basis, US net oil imports in June were 0.32 mb/d or 2.6% lower than in the same month last year. Average net oil imports for the first half of 2008 were 11.78 mb/d, indicating a drop of 815,000 b/d or 3.5% compared to the same period last year.

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

| | Apr 08 | May 08 | Jun 08 | Change Jun/May |
|---|---|---|---|---|
| Crude oil | 9,789 | 9,503 | 10,019 | 516 |
| Total products | 2,123 | 1,844 | 1,846 | 2 |
| **Total crude and products** | **11,912** | **11,347** | **11,865** | **518** |

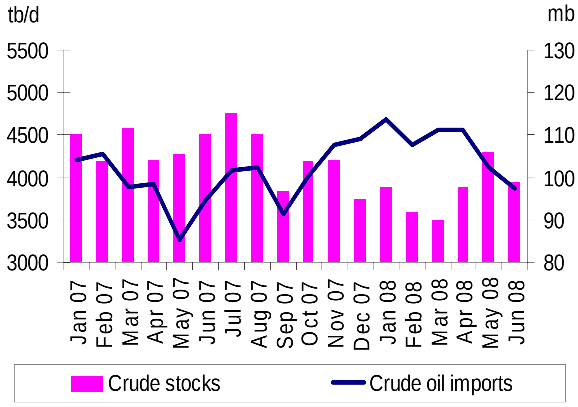
Canada was the top crude oil supplier to the US in April with a share of 19.7%, up from 18.7% in the previous month, followed by Saudi Arabia with 14.7%, down from 16% in the previous month. Mexico and Nigeria came next with 12.7% and 11.2% respectively. Altogether, OPEC Member Countries supplied 57% of total US crude oil imports in April, unchanged from the previous month. For products, Canada also was the US top supplier in April with a share of 17.5%, down from 26% in the previous month, followed by the Virgin Islands with 10.2%, up from 9.9% in the previous month, and Russia with 8.9%, down from 10.0% in the previous month. For OPEC Member Countries, Algeria supplied 7.2% of total US oil product imports in April, followed by Venezuela with 5.1% and Nigeria with 3.2%. Altogether OPEC Member Countries supplied 18.1% of US product imports in April, up from 16% in the previous month. For US product exports in April, Mexico was the top destination with a share of 21.6%, followed by Canada with 13.2% and Chile with 7.4%.

### *Japan*

**Japan's net oil imports fell by 6% in June undermined by lower crude oil imports while net product imports were steady**

According to preliminary data, Japan's crude oil imports decreased again in June by 244,000 b/d or 6% compared to the previous month to reach about 3.87 mb/d, yet about 4% higher than a year earlier. In the first half of 2008, Japan imported an average of 4.36 mb/d, indicating annual growth of 11% compared to the first half of 2007. This growth does not reflect healthy domestic demand in Japan as oil sales have been shrinking by around 4% a year since 2006 and are expected to continue this way, especially with indications that some industries are shifting to electricity or alternative power sources as a result of record-high prices. The growth in Japan's crude oil imports for the first half of 2007 came amid the prolonged shut-down of Japan's world's biggest nuclear power plant after a major earthquake last July, which increased demand for direct burning crude and fuel oil for thermal generation, in addition to a clear tendency of Japanese refiners to re-orient their plants toward the export market to take advantage of the robust demand for oil products in Asia, especially in China. Refinery runs were lower in June compared to May with many refineries still under maintenance ahead of the summer holiday season.

**Graph 31: Japanese crude oil imports and crude stocks**




Japan's product imports in June were steady compared to previous month at about 507,000 b/d indicating a drop of 12% compared to a year earlier. Japan imported about 70,000 b/d of gasoline in June. Product imports in the first half of 2008 averaged 519,000 b/d indicating a drop of about 85,000 b/d or 14% compared to the average in the first half of 2007, in line with the shrinking demand for oil products in this country.

On the export side, Japan's product exports in June were steady compared to the previous month, but 38% higher than a year earlier, averaging 577,000 b/d. Gasoil exports in June were about 200,000 b/d, with about the same quantity of jet fuel exports. Fuel oil exports were about 173,000 b/d, almost steady compared to the previous month. Average product exports for the first half of 2008 were about 531,000 b/d, indicating annual growth of about 110,000 b/d or 25% compared to the first half of 2007.

As a result, Japan's net oil imports in June were about 3.8 mb/d, indicating a decline of about 240,000 b/d or 6% compared to the previous month and 2% compared to a year earlier. For the fourth successive month, Japan was a net product exporter in June with about 70,000 b/d, and therefore its net oil imports were less than its net crude oil imports by this amount. Average net oil imports for the first half of 2008 were 4.35 mb/d indicating a 239,000 b/d or 6% increase compared to the first half of 2007. Japan has switched from a net oil product importer of about 179,000 b/d during the first half of 2007 to a net product exporter of about 13,000 b/d, and this trend is expected to continue throughout the year.

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

| | Apr 08 | May 08 | Jun 08 | Change Jun/May |
|---|---|---|---|---|
| Crude oil | 4,553 | 4,119 | 3,875 | -244 |
| Total products | -4 | -73 | -70 | 4 |
| **Total crude and products** | **4,549** | **4,046** | **3,806** | **-240** |

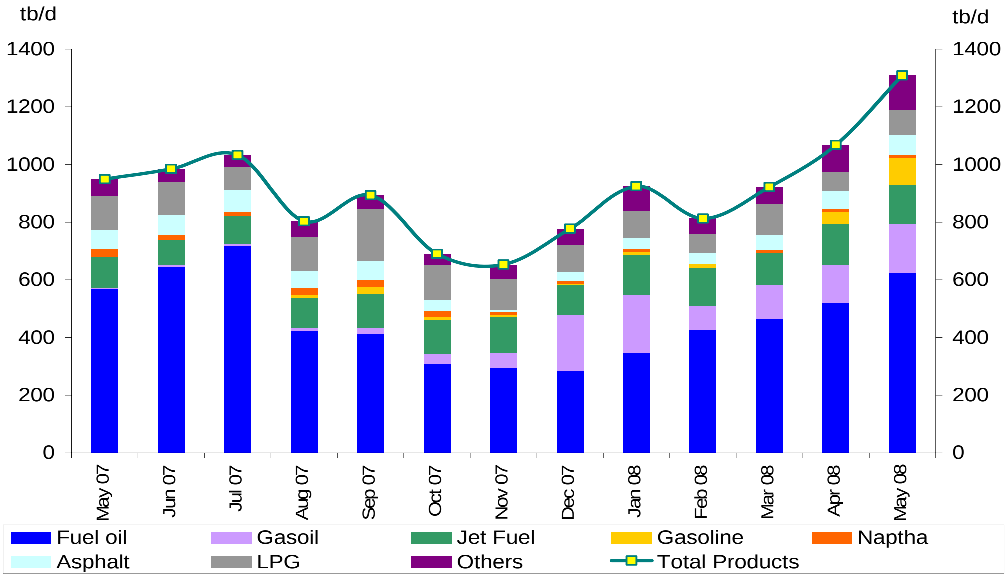
Saudi Arabia and the UAE were Japan's top crude oil suppliers in May with 31% and 23% respectively. Saudi Arabia's share was up 5% from the previous month, while UAE's share was down by 2%. Iran's share was 11.5%, up from 10.7% during the previous month. OPEC Member Countries supplied 90.1% of Japan's crude oil imports in May, up from 87.5% in the previous month. Top non-OPEC suppliers in May include Russia with 3.3%, down from 3.8% in the previous month, and Sudan with 1.9%, down from 3.5% in the previous month. On the product side, Saudi Arabia was also Japan's top supplier in May with 17.3%, down from 17.7% in the previous month, followed by Kuwait with 11.6%, up from 8.3% in the previous month, and the UAE with 8.6%. Altogether, OPEC Member Countries supplied 48.8% of Japan's product imports in May, down from 59.5% in the previous month. Top non-OPEC product suppliers in May include the USA with 8.3%, down from 9.9% in the previous month, and South Korea with 8.1% and India with 5.9%.

### *China*

**China's net oil imports recorded in May an all-time high average on the back of higher crude oil imports and a surge in product imports**

According to official data, China's crude oil imports in May resumed their upward trend after an unusual decline in April. At 10% higher than in the previous month and a 25% gain over a year-ago, China's crude oil imports in May averaged about 3.83 mb/d, second only to the all-time record-high average of 4.07 mb/d in March. January-May 2008 average imports were about 3.66 mb/d, 12.5% higher than last year's average of 3.25 mb/d for the same period. Given the surge in crude oil prices in 2008, China's annual growth of crude oil imports is one of the highest in the world. On the other hand, China's monthly crude oil production set a record-high of 3.82 mb/d in May, up by 70,000 b/d or about 2% compared to the previous month. China's May crude oil production was slightly lower than the country's crude oil imports raising China's reliance on imported crude oil to 50%, up from 48% in the previous month.

**Graph 32: Chinese import of petroleum products**

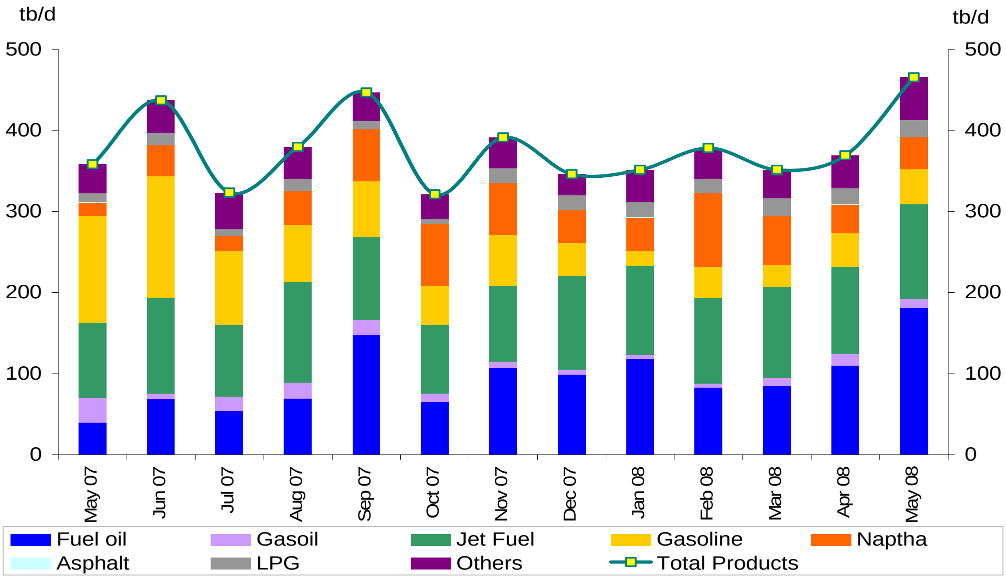



As Chinese refiners were reluctant to process more crude oil to avoid bigger financial losses, China's crude oil throughput in May totaled about 6.59 mb/d, down by 1.1% from May 2007. This led to a surge in product imports in May to meet the growth in domestic demand, especially for gasoil the demand for which has been robust due to the summer harvest season and relief activities in the aftermath of the earthquake in the Sichuan province in May.

The surge in product imports in May was also enhanced by two recent government moves. The first was the extension into the second quarter of a rebate on the 17% VAT charged for gasoil and gasoline imports, a measure which is just short of officially increasing local fuel oil prices which had been unchanged since November 2007. The second move was the rule for wholesalers to maintain inventories equivalent to at least 15 days of sale, instead of the previous 10 days, which came into force on 1 May. Total product imports in May were about 1.31 mb/d, an all-time record-high, 241,000 b/d or 23% higher than in the previous month. The volume was a whopping 38% up from May 2007. China imported about 93,000 b/d of gasoline in May, up by 133% from 40,000 b/d in the previous month, reflecting continued firm gasoline demand with car sales reaching 605,000 units in April, up by 11% from a year earlier, and tightening domestic supply triggered by heavy refinery maintenance. 73% of May gasoline imports came from Singapore, the rest from Taiwan. Average January-May 2008 gasoline imports were about 31,000 b/d, twenty times their volume during the same period last year. Jet fuel imports reached about 136,000 b/d, 5% below the average of the previous month. South Korea supplied about 60% of China's jet fuel imports in May, followed by Japan with 17% and Taiwan with 13%. At 11,000 b/d, naphtha imports from South Korea were steady in May compared to the previous month. As expected, gasoil imports peaked again in May averaging 169,000 b/d, up by 30% from the previous month. Average January-May 2008 gasoil imports reached about 141,000 b/d, more than nine times double their average during the same period last year.

South Korea supplied about one third of China's gasoil imports in May followed by Taiwan with 25% and Japan with 22%. Russia's gasoil supply to China dropped in May to 11% from 36% in the previous month. Fuel oil imports averaged about 626,000 b/d in May, the highest since August 2007 and accounted for 48% of total product imports in the month. May fuel oil imports were up by 20% compared to the previous month. Despite this increase, January-May 2008 fuel oil imports were about 477,000 b/d, indicating a drop of about 9% compared to the same period last year. China is Asia's top fuel oil consumer. The y-o-y decline in its fuel oil imports is mainly attributed to the surge in fuel oil prices worldwide which held down latent demand from China's power companies. Venezuela was China's top fuel oil supplier in May with a share of 23%, a big surge from the previous month, followed by Singapore with 18% and South Korea with 12%. China imported about 357,000 metric tonnes of asphalt in May, up by 38,000 metric tonnes in the previous month. Altogether, China imported an average of 1.0 mb/d of products in the period January-May 2008, an increase of about 16% compared to the same period last year.

**Graph 33: Chinese exports of petroleum products**




On the export side, crude oil exports were at low volumes in May averaging 35,000 b/d compared to 55,000 b/d in the previous month and 124,000 b/d in May 2007, bringing average crude oil exports for the first five month of 2008 to 46,000 b/d, 41% lower than in the same period last year. South Korea, North Korea and Singapore were the only destinations for

China's crude oil exports in May in a descending order for the share of each country. China's product exports were at a record-high average of about 0.47 mb/d, 26% higher than in the previous month and 30% higher than in the same period last year. Average product exports for the first five months of 2008 were about 0.38 mb/d, very close to the average in the same period last year. Apart from gasoil which had been exported at very low volumes for quite a time by now, exports of all major products were higher in May compared to the previous month, with highest increases in fuel oil and jet fuel which, together, accounted for 64% of China's product exports in May. Fuel oil exports were 182,000 b/d, 65% higher than in the previous month, while average fuel oil exports for January-May 2008 were about 116,000 b/d, 109% higher than in the same period last year. Main destinations for China's fuel oil exports in May were Panama with 50% and Singapore with 10%. Jet fuel exports in May were about 118,000 b/d, up by 10% compared to the previous month, while average jet fuel exports for January-May 2008 were 26% higher than in the same period last year. 47% of China's jet fuel exports in May headed to Hong Kong and 11% to the USA. Gasoline exports in May were 43,000 b/d, up from 41,000 b/d in the previous month, yet about 67% lower than a year earlier.

China, formerly Asia's top gasoline exporter, has turned into a net gasoline importer in May for the first time ever with its stockpiling continuing ahead of the Olympic games in August. Net gasoline imports in May were about 50,000 b/d, and it is expected that the country will turn back to a net gasoline exporter by the end of the year. 32% of China's gasoline exports in May headed to Indonesia, 26% to the USA and 20% to Vietnam. China's naphtha exports in May were about 40,000 b/d, indicating growth of 11% from the previous month, but average naphtha exports for the first five months of 2008 were a substantial 87% higher than in the same period last year. Two thirds of China's naphtha exports in May headed to Japan and one third to South Korea. Gasoil exports in May were 10,000 b/d, down from 15,000 b/d in the previous month, with average January-May 2008 exports down by 40% compared to the same period last year.

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

| | Mar 08 | Apr 08 | May 08 | Change May/Apr |
|---|---|---|---|---|
| Crude oil | 3,976 | 3,424 | 3,795 | 370 |
| Total products | 570 | 699 | 844 | 145 |
| **Total crude and products** | **4,546** | **4,123** | **4,638** | **515** |

With net crude oil imports at 3.8 mb/d, second only to March's all-time high of 4.0 mb/d, and record-high net product imports since July 2006 at 0.84 mb/d, China's net oil imports in May recorded an all-time high average of 4.64 mb/d, 2% above the previous record in March 2008. Net oil imports in May were 515,000 b/d or 13% higher than in the previous month and 31% higher than a year earlier. Higher net oil imports in May brought China's average net oil imports for the period January-May 2008 to about 4.24 mb/d, 16% higher than in the same period last year.

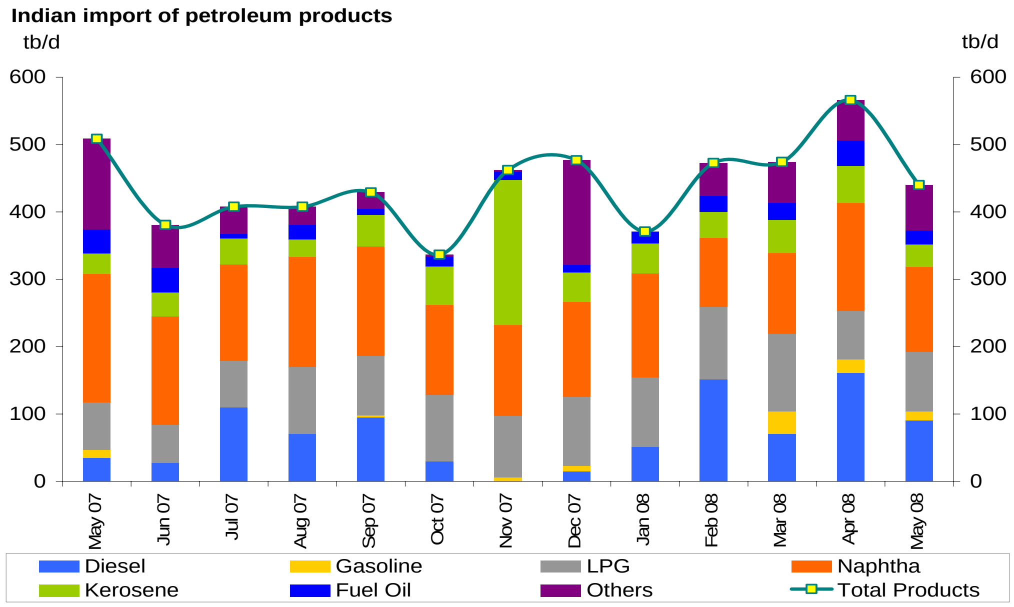
Saudi Arabia was China's top crude oil supplier in May with a share of 20.2%, up significantly from the previous month's 12.5%. Angola supplied 19.6% of China's crude oil imports in May, followed by Iran with 10.1%, down from 15% in the previous month. Altogether, OPEC Member Countries supplied 68.9% of China's crude oil imports in May, up from an unusually low share of 58.8% in the previous month. Top non-OPEC suppliers in May include Russia with 5.7%, down from 9.7% in the previous month, Oman with 4.9% and Sudan with 4.7%. Preliminary estimates show that OPEC Member Countries supplied about 29% of China's total product imports in May. Venezuela supplied 14.1%, up from 3.1% in the previous month, mainly due to a substantial increase in fuel oil shipments. Iran supplied 5.9% and the UAE 3.3%. Top non-OPEC product suppliers in May include South Korea with 19.6% followed by Singapore with 16.5% and Taiwan with 7.9%.

### *India*

**India's net oil imports dropped in May as crude oil imports fell and net product rose**

According to preliminary data, India's crude oil imports continued their volatile trend in May, decreasing by 304,000 b/d or 11% compared to the all-time high volume in the previous month to reach about 2.39 mb/d, the lowest average since February. For the first time since November 2007, India's crude oil imports in May showed a y-o-y decline, decreasing by 2% compared to May 2007, yet, average crude oil imports for the period January-May 2008 were still 3%

higher than in the same period of last year, supported by an economy that grew by 9% and above for three successive fiscal years, to be the world's fastest-growing major economy after China. India's GDP growth was 8.8% for the first quarter of this year, outstripping earlier forecasts of 8.2%. India's product imports declined at a higher pace than its crude oil imports in May, averaging about 0.44 mb/d, 126,000 b/d or 22% lower than the all-time high average in the previous month, and 14% lower than a year earlier. Apart from LPG imports, which increased by 21% compared to the previous month, imports of all major products were lower in May compared to the previous month, with mixed fluctuations compared to a year earlier. The biggest drop in was in gasoil imports, which alone decreased by 71,000 b/d or 44% compared to April's all-time high average of 161,000 b/d, yet gasoil imports in May were 160% higher than a year earlier. Naphtha imports declined in May by about 34,000 b/d or 21% compared to the previous month to reach about 126,000 b/d, 34% lower than a year earlier. Jet fuel imports declined also by 21,000 b/d in May compared to the previous month, but were 9% higher than a year earlier. Fuel oil imports declined in May by 17,000 b/d or 44% compared to the previous month, and were 39% lower than a year earlier. Gasoline imports were about 6,000 b/d or 29% lower than in the previous month, but were 15% higher than a year earlier.



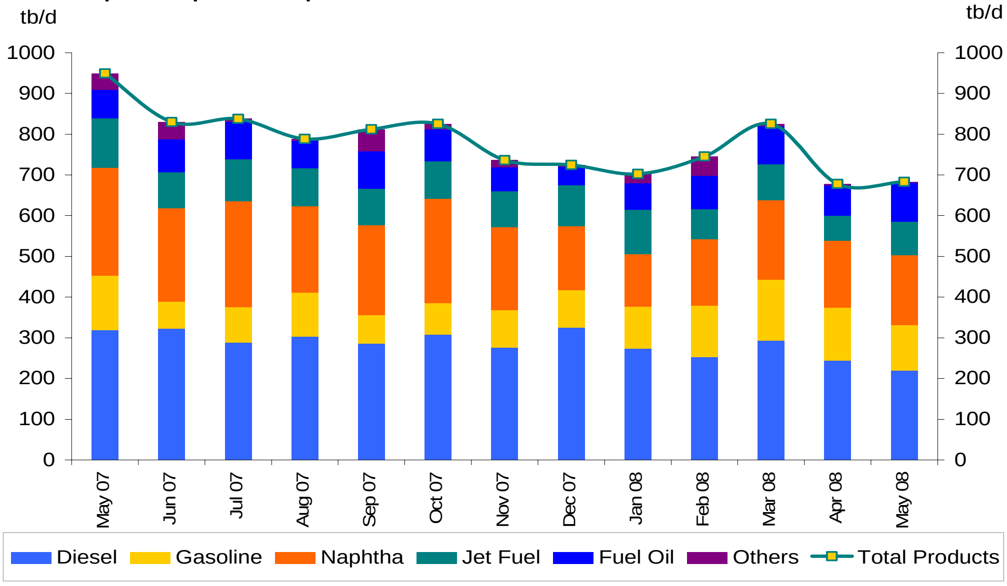

India's domestic product sales, a proxy of domestic demand, rose by 4.1% in May compared to a year earlier, the slowest pace of growth in 2008. Sales of gasoil and gasoline rose in May by 17% and 15% respectively as dealers stocked heavily before the government raised prices by 10% early in June. Gasoil sales were also boosted by being cheaper than fuel oil which encouraged substitution by power producers in India. Gasoil and gasoline prices in India are priced by the government at much lower than the international prices, in contrast to fuel oil, naphtha and jet fuel prices which are market determined in India, and hence their domestic sales were all lower in May compared to April due to higher prices. Despite the month-to-month product import decline in May, India's average January-May 2008 product imports were 0.46 mb/d, representing a gain of 21% over the same period last year.

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

| | Mar 08 | Apr 08 | May 08 | Change May/Apr |
|---|---|---|---|---|
| Crude oil | 2,476 | 2,697 | 2,393 | -305 |
| Total products | -351 | -112 | -243 | -132 |
| **Total crude and products** | **2,124** | **2,586** | **2,150** | **-436** |

On the export side, India's total product exports in May were almost steady compared to the previous month, but showed a sharp decline of 28% compared to a year earlier, mainly due to robust domestic demand. Exports of fuel oil were 21,000 b/d or 29% higher in May than in April, and 38% higher than a year earlier. Jet fuel exports were also 21,000 b/d higher in May compared to April, but 38% lower than the same month a year ago. Similarly, naphtha exports in May were 5% higher than in the previous month, but were 35% lower than in May 2007. All above month-to-month increases were offset by drops in gasoil and gasoline exports. Gasoil exports declined by about 20,000 b/d or 8% in May compared to the previous month and by 27% compared to May 2007, while gasoline exports declined by about 19,000 b/d or 15% compared to the previous month and by 17% compared to May 2007. With May's decline in product exports, average January-May product exports were 727,000 b/d, lower by 63,00 b/d or 8% compared to the average in the same period of last year.

**Indian exports of petroleum products**




As a result, India's net oil imports averaged 2.15 mb/d in May, a substantial 17% or 436,000 b/d decrease from April's 2.6 mb/d average, but still 7% higher than the May 2007 average. The drop in May's net oil imports is attributed to a 304,000 b/d decline in crude oil imports and a 132,000 b/d increase in India's net product exports. Despite this month-to-month decline, India's net oil imports for the period January-May 2008 averaged 2.22 mb/d, representing an increase of 213,000 b/d or 11% over last year's average in the same period of 2.0 mb/d.

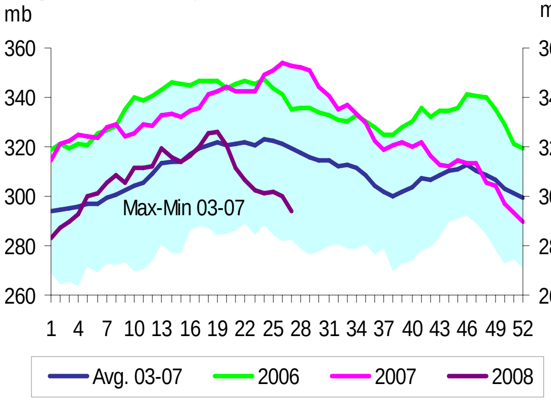
# Stock Movements

### USA

**US commercial crude oil stocks dropped 9 mb, widening the deficit with the five-year average to 25 mb in absolute numbers and to one day in terms of forward cover**

US total commercial oil stocks rose 6.6 mb in June to 975 mb to remain within the lower end of the five-year range. The gap with the five-year average increased from 4 mb in April to more than 33 mb in June.

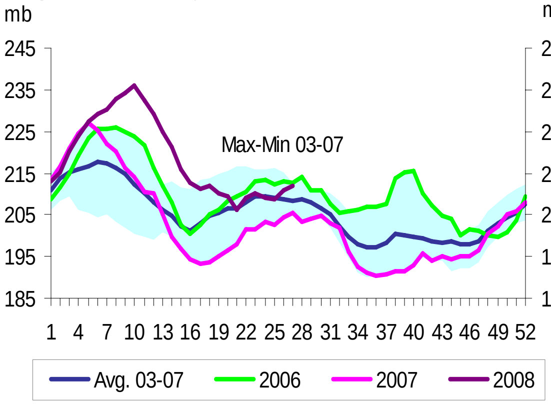
**Graph 34: US Weekly Commercial Crude Oil Stocks**




The downward deviation from the five-year average is attributed to crude oil inventories which dropped for the second month implying a cumulative stock draw of nearly 17 mb during the second quarter compared to a seasonal build of 7 mb over the previous five years. At 296.4 mb, crude oil stocks were at the same level as at end-January 2008 and at their lowest level for June since 2003. However, in contrast to the previous month when crude oil stocks fell due to lower imports following delays in the Gulf Coast and shutdowns in Mexico, the draw of 9.1 mb in June is attributed mainly to an increase in refinery throughputs as refineries are approaching their seasonal level following the return from maintenance. Despite increasing OPEC production, commercial crude oil stocks rose by just 10 mb during the first half 2008 (from end-December to end-June) compared with 42 mb a year earlier and 28 mb on average over the previous five years. The main reason behind the slow build in crude oil stocks is the strong decline of around 300,000 b/d in crude oil imports in the first half of 2008, compared to the same period of 2007. This decline is attributable to the drop in non-OPEC sailings to the US market as OPEC exports increased strongly over this period. In addition, refiners are reluctant to build stocks due to recent higher crude prices as well as poor refinery margins. Similarly, in terms of forward cover, the gap with the five-year average is widening, moving from a deficit of less than half day at the end of the previous month to around one day at end-June.

In contrast to crude oil, product inventories continued to follow their seasonal trend, adding 15.7 mb in June to reach almost 679 mb, the second highest level so far this year after January. The build in product stocks was attributed to distillate stocks, which moved above the five-year average for the first time since end-February following an increase of more than 9 mb, the highest level since July 2005. Compared with demand, distillate stocks are comfortable, with days of forward cover within the range comparable to the five-year average and last year's level. By products, the USA is sitting on a very comfortable level of diesel stocks with more than 20% above the five-year average and a 4% improvement over a year earlier. However, heating oil stocks remained tight, below their seasonal level, but their impact on the market is limited as demand is very weak in summer. Helped by production from refineries and imports, gasoline inventories reversed the downward trend and rose 2 mb to stand at almost 211 mb, well above the level of the same period last year. Expressed in terms of forward cover, gasoline stocks are comfortable at almost 23 days, which corresponds to half a day better than the five-year average while during the same period last year they were 1.5 days below the five-year average. Residual fuel oil stocks increased 1.1 mb, offsetting the draw of the previous month to remain slightly below 40 mb, keeping the overhang with the five-year average at a comfortable level whereas jet fuel stocks lost almost 1 mb and stayed close to the five-year average.

**Graph 35: US Weekly Gasoline Stocks**



The latest data show that US commercial crude oil stocks dropped almost 6 mb in the week ending 4 July, the biggest fall since the third week of May. This draw left crude oil stocks below 294 mb, the lowest level since end-January 2008 (*see* ***Graph 34***), widened the deficit with the five-year average to the highest level so far this year at 25 mb or 8% . Gasoline stocks added a further 0.9 mb to remain above the five-year average and the level of a year ago (*see* ***Graph 35)*** whereas distillates stocks increased for the ninth consecutive week. With a build of 1.8 mb, distillate stocks stood at 122.5 mb, the highest level since mid-February 2008.

The Strategic Petroleum Reserve (SPR) added a further 1.8 mb in June, the eleventh increase in a row, to hit a new all time-high of nearly 706 mb. Almost 16 mb or 50,000 b/d have been added to the SPR since the Department of Energy (DOE) has decided to fill it to its capacity of 727 mb. However, the filling of the SPR is expected to stop in July as President Bush finally signed into law a bill initiated by Democrats to halt deliveries into the SPR.

**Table 26: US onland commercial petroleum stocks, mb**

| | Apr 08 | May 08 | Jun 08 | Change Jun 08 /May 08 | Jun 07 | 04 Jul 08 * |
|---|---|---|---|---|---|---|
| **Crude oil** | 318.8 | 305.5 | 296.4 | -9.1 | 354.8 | 293.9 |
| Gasoline | 210.0 | 209.1 | 210.9 | 1.8 | 204.9 | 211.8 |
| Distillate fuel | 106.1 | 112.4 | 121.7 | 9.3 | 123.4 | 122.5 |
| Residual fuel oil | 39.6 | 38.5 | 39.6 | 1.1 | 36.1 | 39.4 |
| Jet fuel | 39.1 | 39.8 | 39.1 | -0.7 | 41.2 | 38.8 |
| **Total** | **963.7** | **968.5** | **975.1** | **6.6** | **1,038.7** | **973.7** |
| SPR | 701.5 | 704.1 | 705.9 | 1.8 | 690.3 | 706.0 |

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

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

### *Western Europe*

**EU-16 total stocks remained above the five-year average due to gasoline which witnessed a contra-seasonal build**

In EU-16 (EU-15 plus Norway), total oil stocks continued to alternate between builds and draws since the beginning of the year, fell 8.6 mb or 1% in June to 1,123 mb but remained within the upper end of the five-year range and at the same level as a year earlier. However, the surplus of 20 mb or 2% over the average of the previous five years essentially consists of products.

Crude oil stocks followed their seasonal trend, falling 12 mb or 2% to stand around 475 mb, slightly above the five-year average. This draw, the first in the last fourth months, came as a result of an increase in refinery throughputs and lower supplies in the region following disruptions in Nigerian production.

**Table 27: Western Europe's oil stocks, mb**

| | Apr 08 | May 08 | Jun 08 | Change Jun 08/May 08 | Jun 07 |
|---|---|---|---|---|---|
| **Crude oil** | 479.7 | 487.6 | 475.5 | -12.2 | 483.2 |
| Mogas | 134.5 | 133.0 | 137.5 | 4.4 | 121.5 |
| Naphtha | 29.9 | 29.0 | 29.5 | 0.4 | 25.6 |
| Middle distillates | 352.8 | 360.7 | 359.6 | -1.1 | 380.9 |
| Fuel oils | 120.2 | 121.4 | 121.2 | -0.2 | 110.5 |
| **Total products** | 637.4 | 644.1 | 647.7 | 3.6 | 638.5 |
| **Total** | **1,117.2** | **1,131.8** | **1,123.2** | **-8.6** | **1,121.7** |

*Source: Argus, Euroilstock.*

In contrast to crude oil, product stocks increased for the second consecutive month and widened the overhang with the five-year average to 18 mb from 8 mb in the previous two months. At 648 mb, product stocks rose for the first time this year above the level of the corresponding month of the previous year. This was due to gasoline inventories which displayed a counter-seasonal build of 4.4 mb to stand above 137 mb, the highest level since February 2007 and the highest June level in five years. The very comfortable level of gasoline stocks in Europe is attributed essentially to the combination of slowing demand and limited export opportunities to US markets. Contrary to gasoline, distillate inventories remained almost stable at 360 mb despite strong demand for diesel, due to very attractive crack spreads which boosted production. This has left the deficit with the five-year average at a minor 2 mb or less than 1%. However, compared with a year earlier, the deficit is larger at 20 mb or more than 5%. Limited export opportunities and lower demand left residual fuel oil stocks at a very comfortable level of 121 mb, which corresponds to 11 mb or 10% higher than a year ago and the highest level in seven years. Similarly, naphtha stocks added 0.4 mb to approach 30 mb to remain well above the five-year average.

### *Japan*

**Japan's commercial stocks rose 9 mb in May, a ten-month high, with crude accounting for 8 mb as a result of refinery maintenance**

Japan's total commercial oil stocks continued their upward trend, adding more than 9 mb in May, the highest increase in 10 months, to move above 178 mb for the first time since last October narrowing the gap with the five-year average to less than 4 mb or 2% compared with 14 mb or 8% in February 2008.

The build was driven by crude oil stocks, which accounted for 8 mb or 88% as a result of a deep decline in refinery runs due to the peak seasonal maintenance. However, at almost 106 mb, the highest level since last August, crude oil stocks were at the same level as a year earlier but remained below the five-year average, even though the gap narrowed to 8 mb or 7% compared with almost 20 mb or 18% two months earlier.

Product inventories remained comfortable, continuing to hover at the upper end of the five-year range. Gasoline stocks rose 1.4 mb to move above the upper range approaching 15 mb. Distillate stocks followed a seasonal trend, adding a further 0.5 mb to stand above 28 mb, in line with the level of a year ago and the five-year average.

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

| | Mar 08 | Apr 08 | May 08 | Change May 08/Apr 08 | May 07 |
|---|---|---|---|---|---|
| **Crude oil** | 90.1 | 97.7 | 105.7 | 8.0 | 105.5 |
| Gasoline | 15.9 | 13.4 | 14.8 | 1.4 | 13.5 |
| Naphtha | 11.3 | 11.4 | 10.5 | -0.9 | 11.7 |
| Middle distillates | 27.4 | 27.6 | 28.1 | 0.5 | 28.9 |
| Residual fuel oil | 18.1 | 19.0 | 19.1 | 0.1 | 19.0 |
| **Total products** | 72.6 | 71.4 | 72.5 | 1.1 | 73.1 |
| **Total**** | **162.7** | **169.1** | **178.3** | **9.2** | **178.6** |

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

Preliminary data show that Japanese commercial oil stocks reversed their upward movement, dropping more than 5 mb in June, contrary to their seasonal trend. Both product and crude oil stocks witnessed a draw. The decline was driven by healthy demand for fuel oil from power generators resulting from the closure of the largest nuclear power plant. In addition, naphtha stocks were also one of the main contributors to the total draw on oil stocks, which combined with fuel oil accounted for 50%. Gasoline stocks lost around 0.5 mb while distillate stocks remained almost unchanged. However, recent data show that oil stocks rose by more than 5 mb in the week-ending 5 July, with crude oil increasing by almost 3 mb on the back of higher imports to move again above 100 mb. Due to the increase in refinery runs, middle distillates and naphtha gained around 1.5 mb each, while gasoline stocks inched down slightly.

# Balance of Supply and Demand

**Demand for OPEC crude in 2008 to decline by 90 tb/d**

### *Estimate for 2008*

Demand for OPEC crude in 2008 is expected to average 31.95 mb/d, representing a decline of 90 tb/d over the previous year. On a quarterly basis, demand for OPEC crude is expected to average 32.16 mb/d, 31.41 mb/d, 31.84 mb/d and 32.37 mb/d respectively.

**Table 29: Summarized supply/demand balance for 2008, mb/d**

| | 2007 | 1Q08 | 2Q08 | 3Q08 | 4Q08 | 2008 |
|---|---|---|---|---|---|---|
| **(a) World Oil Demand** | **85.78** | **86.48** | **85.80** | **86.61** | **88.35** | **86.81** |
| Non-OPEC Supply | 49.43 | 49.70 | 49.57 | 49.84 | 50.94 | 50.02 |
| OPEC NGLs and non-conventionals | 4.31 | 4.62 | 4.82 | 4.92 | 5.04 | 4.85 |
| **(b) Total Supply excluding OPEC Crude** | **53.74** | **54.32** | **54.39** | **54.76** | **55.98** | **54.87** |
| **Difference (a-b)** | **32.04** | **32.16** | **31.41** | **31.84** | **32.37** | **31.95** |
| OPEC crude oil production (1) | 30.97 | 32.08 | 32.10 | | | |
| Balance | -1.07 | -0.08 | 0.70 | | | |

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

**In 2009 demand for OPEC crude to see minor decline of 710 tb/d**

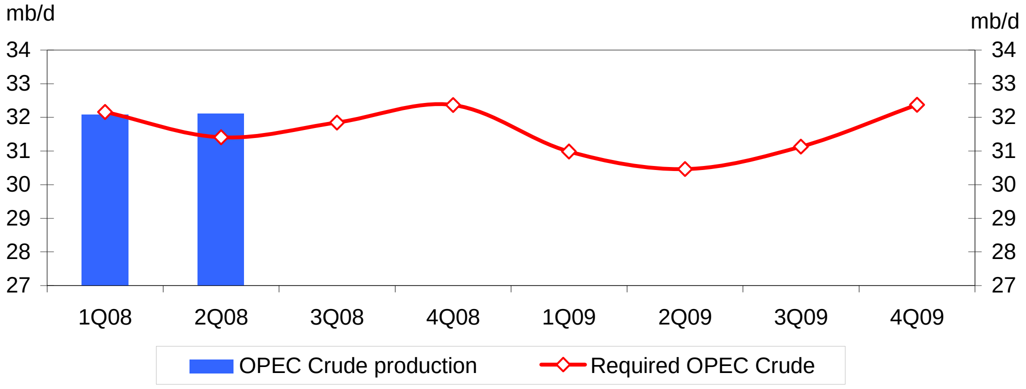
### *Forecast for 2009*

Required OPEC crude in 2009 is expected to average 31.24 mb/d, a decline of 710 tb/d from the current year. On a quarterly basis, demand for OPEC crude is expected to average 30.99 mb/d, 30.47 mb/d, 31.13 mb/d and 32.38 mb/d respectively.

**Table 30: Summarized supply/demand balance for 2009, mb/d**

| | 2008 | 1Q09 | 2Q09 | 3Q09 | 4Q09 | 2009 |
|---|---|---|---|---|---|---|
| **(a) World Oil Demand** | **86.81** | **87.45** | **86.62** | **87.46** | **89.28** | **87.71** |
| Non-OPEC Supply | 50.02 | 51.25 | 50.74 | 50.69 | 51.13 | 50.95 |
| OPEC NGLs and non-conventionals | 4.85 | 5.22 | 5.41 | 5.64 | 5.77 | 5.51 |
| **(b) Total Supply excluding OPEC Crude** | **54.87** | **56.46** | **56.15** | **56.33** | **56.90** | **56.46** |
| **Difference (a-b)** | **31.95** | **30.99** | **30.47** | **31.13** | **32.38** | **31.24** |

**Graph 36: Balance of supply and demand**



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

| | 2004 | 2005 | 2006 | 2007 | 1Q08 | 2Q08 | 3Q08 | 4Q08 | 2008 | 1Q09 | 2Q09 | 3Q09 | 4Q09 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **World demand** | | | | | | | | | | | | | | |
| **OECD** | 49.3 | 49.7 | 49.3 | 49.1 | 48.7 | 47.9 | 48.5 | 50.1 | 48.8 | 48.5 | 47.6 | 48.1 | 49.9 | 48.5 |
| North America | 25.4 | 25.5 | 25.3 | 25.5 | 24.8 | 25.0 | 25.4 | 25.7 | 25.2 | 24.6 | 24.8 | 25.1 | 25.6 | 25.0 |
| Western Europe | 15.5 | 15.6 | 15.6 | 15.3 | 15.1 | 15.0 | 15.3 | 15.7 | 15.3 | 15.2 | 15.0 | 15.3 | 15.7 | 15.3 |
| Pacific | 8.5 | 8.6 | 8.4 | 8.3 | 8.8 | 7.9 | 7.7 | 8.7 | 8.3 | 8.8 | 7.8 | 7.7 | 8.6 | 8.2 |
| **DCs** | 21.8 | 22.6 | 23.3 | 24.2 | 24.8 | 24.9 | 24.9 | 25.1 | 24.9 | 25.4 | 25.6 | 25.6 | 25.8 | 25.6 |
| **FSU** | 3.8 | 3.9 | 3.9 | 4.0 | 4.0 | 3.8 | 4.1 | 4.4 | 4.1 | 4.1 | 3.9 | 4.1 | 4.4 | 4.1 |
| **Other Europe** | 0.9 | 0.9 | 0.9 | 0.9 | 1.0 | 1.0 | 0.9 | 0.9 | 1.0 | 1.1 | 1.0 | 0.9 | 0.9 | 1.0 |
| **China** | 6.5 | 6.7 | 7.2 | 7.6 | 8.0 | 8.2 | 8.2 | 7.8 | 8.0 | 8.4 | 8.6 | 8.6 | 8.2 | 8.5 |
| **(a) Total world demand** | 82.4 | 83.7 | 84.6 | 85.8 | 86.5 | 85.8 | 86.6 | 88.3 | 86.8 | 87.5 | 86.6 | 87.5 | 89.3 | 87.7 |
| **Non-OPEC supply** | | | | | | | | | | | | | | |
| **OECD** | 21.3 | 20.5 | 20.2 | 20.2 | 20.1 | 19.9 | 19.5 | 20.2 | 19.9 | 20.2 | 19.8 | 19.6 | 20.0 | 19.9 |
| North America | 14.6 | 14.1 | 14.2 | 14.3 | 14.3 | 14.2 | 14.2 | 14.5 | 14.3 | 14.6 | 14.3 | 14.4 | 14.6 | 14.5 |
| Western Europe | 6.2 | 5.7 | 5.4 | 5.2 | 5.1 | 5.0 | 4.5 | 4.8 | 4.9 | 4.8 | 4.6 | 4.4 | 4.6 | 4.6 |
| Pacific | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 | 0.8 | 0.8 | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| **DCs** | 10.5 | 10.8 | 10.9 | 10.9 | 11.1 | 11.1 | 11.5 | 11.6 | 11.3 | 11.7 | 11.7 | 11.8 | 11.8 | 11.8 |
| **FSU** | 11.1 | 11.5 | 12.0 | 12.5 | 12.6 | 12.7 | 12.9 | 13.1 | 12.8 | 13.3 | 13.3 | 13.2 | 13.3 | 13.3 |
| **Other Europe** | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| **China** | 3.5 | 3.6 | 3.7 | 3.8 | 3.8 | 3.8 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 |
| **Processing gains** | 1.8 | 1.9 | 1.9 | 1.9 | 2.0 | 2.0 | 1.9 | 2.0 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| **Total non-OPEC supply** | 48.4 | 48.5 | 48.9 | 49.4 | 49.7 | 49.6 | 49.8 | 50.9 | 50.0 | 51.2 | 50.7 | 50.7 | 51.1 | 51.0 |
| **OPEC NGLs + non-conventional oils** | 4.0 | 4.1 | 4.1 | 4.3 | 4.6 | 4.8 | 4.9 | 5.0 | 4.9 | 5.2 | 5.4 | 5.6 | 5.8 | 5.5 |
| **(b) Total non-OPEC supply and OPEC NGLs** | 52.4 | 52.6 | 52.9 | 53.7 | 54.3 | 54.4 | 54.8 | 56.0 | 54.9 | 56.5 | 56.2 | 56.3 | 56.9 | 56.5 |
| **OPEC crude oil production (secondary sources)** | 30.6 | 31.6 | 31.4 | 31.0 | 32.1 | 32.1 | | | | | | | | |
| **Total supply** | 83.0 | 84.2 | 84.4 | 84.7 | 86.4 | 86.5 | | | | | | | | |
| **Balance (stock change and miscellaneous)** | 0.6 | 0.5 | -0.3 | -1.1 | -0.1 | 0.7 | | | | | | | | |
| **OECD closing stock levels (*mb*)** | | | | | | | | | | | | | | |
| Commercial | 2538 | 2586 | 2668 | 2580 | 2573 | | | | | | | | | |
| SPR | 1450 | 1487 | 1499 | 1524 | 1530 | | | | | | | | | |
| Total | 3988 | 4072 | 4166 | 4104 | 4103 | | | | | | | | | |
| Oil-on-water | 905 | 958 | 916 | 945 | 929 | | | | | | | | | |
| **Days of forward consumption in OECD** | | | | | | | | | | | | | | |
| Commercial onland stocks | 51 | 52 | 54 | 53 | 54 | | | | | | | | | |
| SPR | 29 | 30 | 31 | 31 | 32 | | | | | | | | | |
| Total | 80 | 83 | 85 | 84 | 86 | | | | | | | | | |
| **Memo items** | | | | | | | | | | | | | | |
| FSU net exports | 7.3 | 7.7 | 8.1 | 8.5 | 8.7 | 8.9 | 8.9 | 8.8 | 8.8 | 9.2 | 9.4 | 9.1 | 8.9 | 9.2 |
| (a) - (b) | 29.9 | 31.1 | 31.7 | 32.0 | 32.2 | 31.4 | 31.8 | 32.4 | 31.9 | 31.0 | 30.5 | 31.1 | 32.4 | 31.2 |

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

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

| | 2004 | 2005 | 2006 | 2007 | 1Q08 | 2Q08 | 3Q08 | 4Q08 | 2008 | 1Q09 | 2Q09 | 3Q09 | 4Q09 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **World demand** | | | | | | | | | | | | | | |
| **OECD** | - | - | - | - | -0.3 | -0.2 | - | -0.1 | -0.2 | - | - | - | - | - |
| North America | - | - | - | - | -0.2 | -0.4 | -0.2 | -0.1 | -0.2 | - | - | - | - | - |
| Western Europe | - | - | - | - | - | 0.1 | - | - | - | - | - | - | - | - |
| Pacific | - | - | - | - | - | 0.1 | 0.1 | - | - | - | - | - | - | - |
| **DCs** | - | - | - | - | 0.1 | 0.1 | - | - | 0.1 | - | - | - | - | - |
| **FSU** | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Other Europe** | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **China** | - | - | - | - | - | 0.1 | - | - | - | - | - | - | - | - |
| **(a) Total world demand** | - | - | - | - | -0.2 | - | - | -0.1 | -0.1 | - | - | - | - | - |
| ***World demand growth*** | - | - | - | - | *-0.2* | *0.0* | - | *-0.1* | *-0.1* | - | - | - | - | - |
| **Non-OPEC supply** | | | | | | | | | | | | | | |
| **OECD** | - | - | - | - | - | 0.2 | - | -0.1 | - | - | - | - | - | - |
| North America | - | - | - | - | - | 0.2 | - | -0.1 | - | - | - | - | - | - |
| Western Europe | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Pacific | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **DCs** | - | - | - | - | -0.1 | -0.2 | -0.1 | -0.1 | -0.1 | - | - | - | - | - |
| **FSU** | - | - | - | - | - | -0.1 | - | - | - | - | - | - | - | - |
| **Other Europe** | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **China** | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Processing gains** | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total non-OPEC supply** | - | - | - | - | - | -0.2 | - | -0.2 | -0.1 | - | - | - | - | - |
| ***Total non-OPEC supply growth*** | - | - | - | - | *0.0* | *-0.2* | *0.0* | *-0.2* | *-0.1* | - | - | - | - | - |
| **OPEC NGLs + non-conventionals** | - | - | - | -0.1 | -0.1 | - | - | -0.1 | -0.1 | - | - | - | - | - |
| **(b) Total non-OPEC supply and OPEC NGLs** | - | - | - | -0.1 | -0.2 | -0.2 | -0.1 | -0.3 | -0.2 | - | - | - | - | - |
| **OPEC crude oil production (secondary sources)** | - | - | - | - | - | - | | | | | | | | |
| **Total supply** | - | - | - | -0.1 | -0.1 | - | | | | | | | | |
| **Balance (stock change and miscellaneous)** | - | - | - | -0.1 | - | - | | | | | | | | |
| **OECD closing stock levels (*mb*)** | | | | | | | | | | | | | | |
| Commercial | - | - | - | - | 3 | | | | | | | | | |
| SPR | - | - | - | - | - | | | | | | | | | |
| Total | - | - | - | - | 3 | | | | | | | | | |
| Oil-on-water | - | - | - | - | 1 | | | | | | | | | |
| **Days of forward consumption in OECD** | | | | | | | | | | | | | | |
| Commercial onland stocks | - | - | - | - | - | | | | | | | | | |
| SPR | - | - | - | - | - | | | | | | | | | |
| Total | - | - | - | - | - | | | | | | | | | |
| **Memo items** | | | | | | | | | | | | | | |
| FSU net exports | - | - | - | - | - | -0.1 | - | - | - | - | - | - | - | - |
| (a) - (b) | - | - | - | 0.1 | - | 0.2 | 0.1 | 0.2 | 0.1 | - | - | - | - | - |

*† This compares Table 31 in this issue of the MOMR with Table 31 in the June 2008 issue.*
*This table shows only where changes have occurred.*

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

| | 2004 | 2005 | 2006 | 2007 | 1Q04 | 2Q04 | 3Q04 | 4Q04 | 1Q05 | 2Q05 | 3Q05 | 4Q05 | 1Q06 | 2Q06 | 3Q06 | 4Q06 | 1Q07 | 2Q07 | 3Q07 | 4Q07 | 1Q08 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Closing stock levels *mb* | | | | | | | | | | | | | | | | | | | | | |
| OECD onland commercial | 2,538 | 2,586 | 2,668 | 2,580 | 2,458 | 2,538 | 2,572 | 2,538 | 2,533 | 2,612 | 2,627 | 2,586 | 2,585 | 2,648 | 2,758 | 2,668 | 2,596 | 2,660 | 2,664 | 2,580 | 2,573 |
| North America | 1,193 | 1,257 | 1,277 | 1,238 | 1,145 | 1,193 | 1,206 | 1,193 | 1,201 | 1,275 | 1,254 | 1,257 | 1,240 | 1,277 | 1,351 | 1,277 | 1,237 | 1,294 | 1,293 | 1,238 | 1,222 |
| Western Europe | 915 | 934 | 963 | 938 | 913 | 925 | 936 | 915 | 942 | 915 | 942 | 934 | 937 | 935 | 948 | 963 | 943 | 940 | 941 | 938 | 959 |
| OECD Pacific | 430 | 395 | 428 | 404 | 400 | 420 | 430 | 430 | 389 | 422 | 432 | 395 | 409 | 436 | 459 | 428 | 417 | 426 | 429 | 404 | 391 |
| OECD SPR | 1,450 | 1,487 | 1,499 | 1,524 | 1,423 | 1,429 | 1,435 | 1,450 | 1,462 | 1,494 | 1,494 | 1,487 | 1,487 | 1,493 | 1,495 | 1,499 | 1,507 | 1,506 | 1,520 | 1,524 | 1,530 |
| North America | 678 | 687 | 691 | 699 | 654 | 664 | 672 | 678 | 690 | 698 | 696 | 687 | 688 | 690 | 690 | 691 | 691 | 692 | 695 | 699 | 702 |
| Western Europe | 377 | 407 | 412 | 421 | 371 | 366 | 367 | 377 | 376 | 401 | 405 | 407 | 407 | 411 | 412 | 412 | 415 | 413 | 423 | 421 | 424 |
| OECD Pacific | 396 | 393 | 396 | 404 | 398 | 398 | 396 | 396 | 396 | 395 | 393 | 393 | 392 | 393 | 393 | 396 | 401 | 401 | 403 | 404 | 404 |
| OECD total | 3,988 | 4,072 | 4,166 | 4,104 | 3,881 | 3,967 | 4,006 | 3,988 | 3,995 | 4,106 | 4,121 | 4,072 | 4,072 | 4,141 | 4,252 | 4,166 | 4,104 | 4,166 | 4,184 | 4,104 | 4,103 |
| Oil-on-water | 905 | 958 | 916 | 945 | 906 | 891 | 894 | 905 | 934 | 931 | 926 | 958 | 961 | 971 | 971 | 916 | 914 | 909 | 929 | 945 | 929 |
| Days of forward consumption in OECD | | | | | | | | | | | | | | | | | | | | | |
| OECD onland commercial | 51 | 52 | 54 | 53 | 51 | 52 | 51 | 50 | 52 | 53 | 53 | 51 | 54 | 54 | 55 | 54 | 54 | 55 | 53 | 53 | 54 |
| North America | 47 | 50 | 50 | 49 | 46 | 47 | 47 | 47 | 48 | 50 | 49 | 50 | 49 | 50 | 53 | 50 | 49 | 51 | 51 | 50 | 49 |
| Western Europe | 59 | 60 | 63 | 61 | 61 | 60 | 59 | 58 | 62 | 58 | 60 | 59 | 61 | 60 | 60 | 63 | 63 | 61 | 60 | 62 | 64 |
| OECD Pacific | 50 | 47 | 52 | 49 | 51 | 52 | 49 | 45 | 48 | 53 | 49 | 43 | 52 | 55 | 53 | 49 | 53 | 55 | 50 | 46 | 50 |
| OECD SPR | 29 | 30 | 31 | 31 | 30 | 29 | 29 | 29 | 30 | 30 | 30 | 29 | 31 | 30 | 30 | 30 | 31 | 31 | 31 | 31 | 32 |
| North America | 27 | 27 | 27 | 28 | 26 | 26 | 26 | 26 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 28 | 28 |
| Western Europe | 24 | 26 | 27 | 28 | 25 | 24 | 23 | 24 | 25 | 26 | 26 | 26 | 27 | 26 | 26 | 27 | 28 | 27 | 27 | 28 | 28 |
| OECD Pacific | 46 | 47 | 48 | 49 | 51 | 49 | 45 | 42 | 49 | 49 | 45 | 43 | 50 | 50 | 45 | 45 | 51 | 51 | 47 | 46 | 51 |
| OECD total | 80 | 83 | 85 | 84 | 81 | 81 | 80 | 79 | 82 | 83 | 82 | 81 | 85 | 85 | 85 | 84 | 85 | 86 | 84 | 84 | 86 |

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

| | 2004 | 2005 | 2006 | Change 06/05 | 1Q07 | 2Q07 | 3Q07 | 4Q07 | 2007 | Change 07/06 | 1Q08 | 2Q08 | 3Q08 | 4Q08 | 2008 | Change 08/07 | 1Q09 | 2Q09 | 3Q09 | 4Q09 | 2009 | Change 09/08 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| USA | 7.65 | 7.34 | 7.36 | 0.02 | 7.46 | 7.58 | 7.41 | 7.54 | 7.50 | 0.14 | 7.62 | 7.64 | 7.63 | 7.81 | 7.67 | 0.18 | 7.86 | 7.81 | 7.84 | 8.00 | 7.88 | 0.20 |
| Canada | 3.07 | 3.03 | 3.20 | 0.17 | 3.34 | 3.24 | 3.36 | 3.39 | 3.33 | 0.14 | 3.44 | 3.42 | 3.34 | 3.47 | 3.42 | 0.09 | 3.58 | 3.46 | 3.48 | 3.57 | 3.52 | 0.10 |
| Mexico | 3.83 | 3.77 | 3.69 | -0.08 | 3.58 | 3.59 | 3.45 | 3.33 | 3.49 | -0.21 | 3.29 | 3.17 | 3.18 | 3.23 | 3.22 | -0.27 | 3.17 | 3.03 | 3.05 | 2.99 | 3.06 | -0.16 |
| North America | 14.56 | 14.14 | 14.24 | 0.11 | 14.38 | 14.41 | 14.22 | 14.27 | 14.32 | 0.07 | 14.35 | 14.23 | 14.15 | 14.51 | 14.31 | -0.01 | 14.61 | 14.30 | 14.37 | 14.56 | 14.46 | 0.15 |
| Norway | 3.19 | 2.97 | 2.78 | -0.19 | 2.72 | 2.46 | 2.48 | 2.57 | 2.56 | -0.22 | 2.50 | 2.48 | 2.24 | 2.45 | 2.42 | -0.14 | 2.40 | 2.31 | 2.16 | 2.35 | 2.31 | -0.11 |
| UK | 2.10 | 1.89 | 1.71 | -0.18 | 1.79 | 1.75 | 1.49 | 1.71 | 1.68 | -0.02 | 1.62 | 1.46 | 1.33 | 1.39 | 1.45 | -0.24 | 1.39 | 1.32 | 1.25 | 1.24 | 1.30 | -0.15 |
| Denmark | 0.39 | 0.38 | 0.34 | -0.04 | 0.32 | 0.31 | 0.32 | 0.31 | 0.31 | -0.03 | 0.29 | 0.30 | 0.26 | 0.29 | 0.28 | -0.03 | 0.28 | 0.27 | 0.24 | 0.26 | 0.26 | -0.02 |
| Other Western Europe | 0.50 | 0.51 | 0.54 | 0.03 | 0.68 | 0.69 | 0.69 | 0.68 | 0.68 | 0.15 | 0.72 | 0.72 | 0.71 | 0.71 | 0.72 | 0.03 | 0.73 | 0.73 | 0.73 | 0.73 | 0.73 | 0.01 |
| Western Europe | 6.18 | 5.74 | 5.37 | -0.37 | 5.51 | 5.20 | 4.96 | 5.26 | 5.23 | -0.13 | 5.13 | 4.95 | 4.55 | 4.84 | 4.87 | -0.37 | 4.81 | 4.63 | 4.37 | 4.57 | 4.60 | -0.27 |
| Australia | 0.52 | 0.53 | 0.51 | -0.02 | 0.51 | 0.54 | 0.54 | 0.51 | 0.53 | 0.02 | 0.47 | 0.56 | 0.65 | 0.70 | 0.59 | 0.07 | 0.69 | 0.67 | 0.69 | 0.68 | 0.68 | 0.09 |
| Other Pacific | 0.05 | 0.05 | 0.05 | 0.00 | 0.06 | 0.06 | 0.09 | 0.11 | 0.08 | 0.03 | 0.11 | 0.11 | 0.13 | 0.14 | 0.12 | 0.05 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.02 |
| OECD Pacific | 0.57 | 0.58 | 0.56 | -0.02 | 0.57 | 0.61 | 0.63 | 0.61 | 0.60 | 0.04 | 0.58 | 0.67 | 0.77 | 0.84 | 0.72 | 0.11 | 0.83 | 0.81 | 0.84 | 0.82 | 0.83 | 0.11 |
| Total OECD | 21.31 | 20.45 | 20.17 | -0.28 | 20.46 | 20.22 | 19.81 | 20.14 | 20.16 | -0.01 | 20.06 | 19.85 | 19.47 | 20.19 | 19.89 | -0.26 | 20.25 | 19.75 | 19.58 | 19.95 | 19.88 | -0.01 |
| Brunei | 0.21 | 0.21 | 0.22 | 0.01 | 0.20 | 0.18 | 0.17 | 0.17 | 0.18 | -0.04 | 0.18 | 0.18 | 0.18 | 0.18 | 0.18 | 0.00 | 0.18 | 0.18 | 0.18 | 0.18 | 0.18 | 0.00 |
| India | 0.79 | 0.76 | 0.79 | 0.03 | 0.82 | 0.81 | 0.81 | 0.82 | 0.82 | 0.02 | 0.83 | 0.83 | 0.82 | 0.82 | 0.82 | 0.01 | 0.82 | 0.80 | 0.83 | 0.84 | 0.82 | 0.00 |
| Malaysia | 0.79 | 0.77 | 0.76 | -0.01 | 0.75 | 0.75 | 0.76 | 0.80 | 0.76 | 0.01 | 0.79 | 0.81 | 0.83 | 0.86 | 0.82 | 0.06 | 0.86 | 0.83 | 0.83 | 0.82 | 0.83 | 0.01 |
| Thailand | 0.25 | 0.30 | 0.32 | 0.02 | 0.33 | 0.34 | 0.34 | 0.34 | 0.34 | 0.01 | 0.34 | 0.35 | 0.35 | 0.35 | 0.35 | 0.01 | 0.36 | 0.36 | 0.36 | 0.36 | 0.36 | 0.01 |
| Vietnam | 0.42 | 0.39 | 0.37 | -0.02 | 0.36 | 0.35 | 0.34 | 0.35 | 0.35 | -0.02 | 0.34 | 0.33 | 0.39 | 0.45 | 0.38 | 0.03 | 0.44 | 0.44 | 0.47 | 0.48 | 0.46 | 0.08 |
| Asia others | 0.18 | 0.26 | 0.26 | 0.01 | 0.27 | 0.27 | 0.27 | 0.26 | 0.27 | 0.00 | 0.28 | 0.28 | 0.29 | 0.29 | 0.29 | 0.02 | 0.29 | 0.29 | 0.29 | 0.29 | 0.29 | 0.01 |
| Other Asia | 2.66 | 2.68 | 2.72 | 0.04 | 2.73 | 2.68 | 2.69 | 2.74 | 2.71 | -0.01 | 2.76 | 2.78 | 2.85 | 2.96 | 2.84 | 0.13 | 2.95 | 2.90 | 2.97 | 2.97 | 2.94 | 0.11 |
| Argentina | 0.80 | 0.78 | 0.77 | 0.00 | 0.77 | 0.77 | 0.76 | 0.75 | 0.76 | -0.01 | 0.76 | 0.70 | 0.74 | 0.73 | 0.73 | -0.03 | 0.72 | 0.71 | 0.70 | 0.69 | 0.71 | -0.03 |
| Brazil | 1.80 | 1.98 | 2.11 | 0.12 | 2.15 | 2.15 | 2.16 | 2.14 | 2.15 | 0.04 | 2.23 | 2.30 | 2.48 | 2.49 | 2.38 | 0.23 | 2.60 | 2.65 | 2.73 | 2.72 | 2.67 | 0.30 |
| Colombia | 0.54 | 0.53 | 0.54 | 0.01 | 0.53 | 0.53 | 0.54 | 0.55 | 0.54 | 0.00 | 0.57 | 0.57 | 0.59 | 0.60 | 0.58 | 0.04 | 0.61 | 0.61 | 0.61 | 0.61 | 0.61 | 0.03 |
| Trinidad & Tobago | 0.16 | 0.18 | 0.18 | 0.00 | 0.16 | 0.16 | 0.16 | 0.16 | 0.16 | -0.02 | 0.16 | 0.16 | 0.16 | 0.16 | 0.16 | 0.00 | 0.16 | 0.16 | 0.16 | 0.16 | 0.16 | 0.00 |
| L. America others | 0.26 | 0.30 | 0.26 | -0.03 | 0.26 | 0.27 | 0.27 | 0.28 | 0.27 | 0.00 | 0.28 | 0.28 | 0.28 | 0.28 | 0.28 | 0.01 | 0.28 | 0.28 | 0.28 | 0.28 | 0.28 | 0.00 |
| Latin America | 3.55 | 3.77 | 3.86 | 0.09 | 3.88 | 3.88 | 3.88 | 3.88 | 3.88 | 0.02 | 3.99 | 4.00 | 4.24 | 4.25 | 4.12 | 0.24 | 4.36 | 4.40 | 4.47 | 4.45 | 4.42 | 0.30 |
| Bahrain | 0.21 | 0.21 | 0.21 | 0.00 | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 | 0.00 | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 | 0.00 | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 | 0.00 |
| Oman | 0.79 | 0.78 | 0.75 | -0.03 | 0.73 | 0.72 | 0.71 | 0.70 | 0.71 | -0.03 | 0.72 | 0.72 | 0.76 | 0.78 | 0.75 | 0.03 | 0.79 | 0.80 | 0.80 | 0.81 | 0.80 | 0.05 |
| Syria | 0.49 | 0.45 | 0.42 | -0.03 | 0.41 | 0.40 | 0.40 | 0.39 | 0.40 | -0.02 | 0.39 | 0.38 | 0.37 | 0.37 | 0.38 | -0.02 | 0.36 | 0.35 | 0.35 | 0.34 | 0.35 | -0.03 |
| Yemen | 0.41 | 0.41 | 0.37 | -0.03 | 0.35 | 0.34 | 0.33 | 0.33 | 0.34 | -0.04 | 0.31 | 0.31 | 0.30 | 0.29 | 0.30 | -0.03 | 0.29 | 0.28 | 0.27 | 0.27 | 0.28 | -0.03 |
| Middle East | 1.90 | 1.85 | 1.75 | -0.10 | 1.69 | 1.67 | 1.65 | 1.63 | 1.66 | -0.09 | 1.63 | 1.62 | 1.64 | 1.65 | 1.64 | -0.02 | 1.64 | 1.64 | 1.63 | 1.62 | 1.63 | 0.00 |
| Chad | 0.16 | 0.18 | 0.16 | -0.02 | 0.16 | 0.15 | 0.15 | 0.15 | 0.15 | -0.01 | 0.15 | 0.15 | 0.14 | 0.14 | 0.14 | -0.01 | 0.13 | 0.13 | 0.12 | 0.12 | 0.12 | -0.02 |
| Congo | 0.24 | 0.24 | 0.25 | 0.01 | 0.25 | 0.23 | 0.24 | 0.25 | 0.24 | 0.00 | 0.26 | 0.26 | 0.27 | 0.29 | 0.27 | 0.03 | 0.30 | 0.32 | 0.35 | 0.37 | 0.33 | 0.06 |
| Egypt | 0.71 | 0.70 | 0.67 | -0.02 | 0.64 | 0.63 | 0.63 | 0.63 | 0.63 | -0.04 | 0.62 | 0.61 | 0.64 | 0.63 | 0.63 | -0.01 | 0.62 | 0.61 | 0.61 | 0.60 | 0.61 | -0.02 |
| Equatorial Guinea | 0.30 | 0.36 | 0.37 | 0.01 | 0.36 | 0.37 | 0.37 | 0.37 | 0.37 | 0.00 | 0.38 | 0.38 | 0.38 | 0.38 | 0.38 | 0.01 | 0.38 | 0.37 | 0.37 | 0.36 | 0.37 | -0.01 |
| Gabon | 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 | 0.26 | 0.24 | -0.01 | 0.26 | 0.27 | 0.27 | 0.27 | 0.27 | 0.02 |
| South Africa | 0.19 | 0.19 | 0.19 | 0.00 | 0.18 | 0.18 | 0.18 | 0.18 | 0.18 | -0.01 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | -0.01 | 0.16 | 0.16 | 0.16 | 0.16 | 0.16 | -0.01 |
| Sudan | 0.30 | 0.34 | 0.40 | 0.06 | 0.50 | 0.50 | 0.48 | 0.51 | 0.50 | 0.10 | 0.52 | 0.52 | 0.51 | 0.50 | 0.51 | 0.01 | 0.50 | 0.50 | 0.51 | 0.51 | 0.50 | -0.01 |
| Africa other | 0.21 | 0.25 | 0.32 | 0.07 | 0.34 | 0.34 | 0.34 | 0.37 | 0.35 | 0.03 | 0.38 | 0.38 | 0.39 | 0.39 | 0.38 | 0.04 | 0.40 | 0.39 | 0.40 | 0.43 | 0.41 | 0.02 |
| Africa | 2.36 | 2.52 | 2.60 | 0.09 | 2.68 | 2.66 | 2.64 | 2.71 | 2.67 | 0.07 | 2.71 | 2.71 | 2.75 | 2.75 | 2.73 | 0.06 | 2.75 | 2.74 | 2.78 | 2.81 | 2.77 | 0.04 |
| Total DCs | 10.48 | 10.82 | 10.94 | 0.12 | 10.96 | 10.89 | 10.86 | 10.96 | 10.92 | -0.02 | 11.09 | 11.11 | 11.48 | 11.62 | 11.33 | 0.41 | 11.70 | 11.68 | 11.84 | 11.85 | 11.77 | 0.44 |
| FSU | 11.14 | 11.55 | 12.02 | 0.47 | 12.51 | 12.45 | 12.50 | 12.62 | 12.52 | 0.50 | 12.64 | 12.68 | 12.93 | 13.14 | 12.85 | 0.33 | 13.27 | 13.28 | 13.24 | 13.32 | 13.28 | 0.43 |
| Russia | 9.19 | 9.44 | 9.65 | 0.21 | 9.87 | 9.83 | 9.89 | 9.87 | 9.87 | 0.22 | 9.77 | 9.78 | 9.97 | 10.04 | 9.89 | 0.02 | 10.09 | 10.07 | 10.06 | 10.05 | 10.07 | 0.18 |
| Kazakhstan | 1.18 | 1.23 | 1.30 | 0.07 | 1.35 | 1.34 | 1.35 | 1.36 | 1.35 | 0.05 | 1.42 | 1.44 | 1.43 | 1.51 | 1.45 | 0.10 | 1.57 | 1.58 | 1.55 | 1.59 | 1.57 | 0.12 |
| Azerbaijan | 0.31 | 0.44 | 0.65 | 0.21 | 0.85 | 0.86 | 0.81 | 0.92 | 0.86 | 0.21 | 1.00 | 0.99 | 1.06 | 1.11 | 1.04 | 0.18 | 1.14 | 1.16 | 1.16 | 1.21 | 1.17 | 0.13 |
| FSU others | 0.47 | 0.44 | 0.42 | -0.02 | 0.44 | 0.42 | 0.45 | 0.46 | 0.44 | 0.02 | 0.46 | 0.47 | 0.47 | 0.47 | 0.47 | 0.02 | 0.47 | 0.47 | 0.47 | 0.47 | 0.47 | 0.01 |
| Other Europe | 0.17 | 0.16 | 0.15 | -0.01 | 0.15 | 0.15 | 0.15 | 0.14 | 0.15 | -0.01 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.00 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.00 |
| China | 3.50 | 3.64 | 3.69 | 0.06 | 3.78 | 3.82 | 3.73 | 3.75 | 3.77 | 0.07 | 3.81 | 3.84 | 3.88 | 3.91 | 3.86 | 0.09 | 3.91 | 3.91 | 3.90 | 3.88 | 3.90 | 0.04 |
| Non-OPEC production | 46.60 | 46.61 | 46.98 | 0.36 | 47.86 | 47.53 | 47.05 | 47.61 | 47.51 | 0.53 | 47.75 | 47.62 | 47.90 | 48.99 | 48.07 | 0.56 | 49.26 | 48.76 | 48.70 | 49.14 | 48.97 | 0.90 |
| Processing gains | 1.83 | 1.86 | 1.90 | 0.04 | 1.92 | 1.92 | 1.92 | 1.93 | 1.92 | 0.02 | 1.95 | 1.95 | 1.94 | 1.95 | 1.95 | 0.02 | 1.98 | 1.98 | 1.98 | 1.98 | 1.98 | 0.04 |
| Non-OPEC supply | 48.43 | 48.48 | 48.88 | 0.40 | 49.78 | 49.45 | 48.97 | 49.54 | 49.43 | 0.56 | 49.70 | 49.57 | 49.84 | 50.94 | 50.02 | 0.58 | 51.25 | 50.74 | 50.69 | 51.13 | 50.95 | 0.94 |
| OPEC NGL | 3.85 | 3.94 | 3.91 | -0.02 | 4.00 | 4.22 | 4.31 | 4.35 | 4.22 | 0.31 | 4.51 | 4.71 | 4.81 | 4.93 | 4.74 | 0.52 | 5.11 | 5.30 | 5.46 | 5.60 | 5.37 | 0.62 |
| OPEC Non-conventional | 0.17 | 0.16 | 0.14 | -0.02 | 0.08 | 0.08 | 0.09 | 0.10 | 0.09 | -0.05 | 0.11 | 0.11 | 0.11 | 0.11 | 0.11 | 0.02 | 0.11 | 0.11 | 0.18 | 0.18 | 0.14 | 0.04 |
| OPEC (NGL+NCF) | 4.02 | 4.09 | 4.05 | -0.04 | 4.08 | 4.31 | 4.40 | 4.45 | 4.31 | 0.26 | 4.62 | 4.82 | 4.92 | 5.04 | 4.85 | 0.54 | 5.22 | 5.41 | 5.64 | 5.77 | 5.51 | 0.66 |
| Non-OPEC & OPEC (NGL+NCF) | 52.45 | 52.57 | 52.93 | 0.36 | 53.87 | 53.75 | 53.37 | 53.99 | 53.74 | 0.81 | 54.32 | 54.39 | 54.76 | 55.98 | 54.87 | 1.12 | 56.46 | 56.15 | 56.33 | 56.90 | 56.46 | 1.60 |

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

## Table 35: World Rig Count

| | 2004 | 2005 | Change 05/04 | 1Q 06 | 2Q 06 | 3Q 06 | 4Q 06 | 2006 | Change 06/05 | 1Q 07 | 2Q 07 | 3Q 07 | 4Q 07 | 2007 | Change 07/06 | 1Q 08 | May 08 | Jun 08 | 2Q 08 | Change Jun/May |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| USA | 1,190 | 1,378 | 188 | 1,519 | 1,632 | 1,719 | 1,719 | 1,648 | 270 | 1,733 | 1,757 | 1,788 | 1,790 | 1,767 | 119 | 1,770 | 1,863 | 1,901 | 1,864 | 38 |
| Canada | 369 | 490 | 121 | 665 | 282 | 494 | 440 | 470 | -20 | 532 | 139 | 348 | 356 | 344 | -126 | 507 | 135 | 266 | 169 | 131 |
| Mexico | 110 | 107 | -3 | 85 | 85 | 77 | 84 | 83 | -24 | 90 | 88 | 96 | 93 | 92 | 9 | 96 | 104 | 112 | 106 | 8 |
| North America | 1,669 | 1,975 | 306 | 2,269 | 1,999 | 2,290 | 2,243 | 2,200 | 225 | 2,355 | 1,984 | 2,232 | 2,240 | 2,203 | 3 | 2,373 | 2,102 | 2,279 | 2,139 | 177 |
| Norway | 17 | 17 | 0 | 19 | 20 | 16 | 9 | 16 | -1 | 16 | 19 | 18 | 17 | 18 | 2 | 17 | 22 | 23 | 21 | 1 |
| UK | 16 | 21 | 5 | 29 | 27 | 26 | 15 | 24 | 3 | 25 | 29 | 27 | 22 | 26 | 2 | 19 | 23 | 23 | 21 | 0 |
| Western Europe | 65 | 65 | 0 | 77 | 78 | 73 | 65 | 73 | 8 | 72 | 78 | 76 | 73 | 75 | 2 | 71 | 83 | 79 | 78 | -4 |
| OECD Pacific | 22 | 25 | 3 | 25 | 28 | 25 | 28 | 27 | 2 | 24 | 30 | 32 | 30 | 29 | 2 | 32 | 37 | 39 | 39 | 2 |
| Total OECD | 1,755 | 2,065 | 310 | 2,371 | 2,105 | 2,389 | 2,336 | 2,300 | 235 | 2,450 | 2,091 | 2,340 | 2,342 | 2,306 | 6 | 2,476 | 2,222 | 2,397 | 2,256 | 175 |
| Other Asia | 126 | 142 | 16 | 153 | 150 | 156 | 152 | 153 | 11 | 158 | 157 | 151 | 150 | 154 | 1 | 149 | 158 | 159 | 154 | 1 |
| Latin America | 116 | 129 | 13 | 137 | 151 | 153 | 153 | 149 | 20 | 183 | 178 | 173 | 181 | 178 | 29 | 181 | 176 | 192 | 181 | 16 |
| Middle East | 70 | 72 | 2 | 72 | 79 | 82 | 85 | 80 | 8 | 82 | 85 | 87 | 86 | 85 | 5 | 89 | 91 | 93 | 91 | 2 |
| Africa | 51 | 54 | 3 | 59 | 62 | 68 | 77 | 67 | 13 | 75 | 80 | 88 | 88 | 83 | 16 | 84 | 90 | 89 | 90 | -1 |
| Total DCs | 363 | 397 | 34 | 421 | 442 | 459 | 472 | 449 | 52 | 510 | 510 | 509 | 515 | 511 | 62 | 512 | 515 | 533 | 520 | 18 |
| Non-OPEC Rig Count | 2,120 | 2,465 | 345 | 2,794 | 2,549 | 2,850 | 2,806 | 2,751 | 286 | 2,950 | 2,593 | 2,842 | 2,850 | 2,808 | 57 | 3,006 | 2,755 | 2,948 | 2,795 | 193 |
| Algeria | 19 | 21 | 2 | 21 | 21 | 28 | 27 | 24 | 3 | 25 | 26 | 28 | 28 | 27 | 3 | 26 | 26 | 24 | 27 | -2 |
| Angola | 3 | 3 | 0 | 4 | 4 | 4 | 4 | 4 | 1 | 5 | 4 | 3 | 5 | 4 | 0 | 5 | 3 | 7 | 6 | 4 |
| Ecuador | 10 | 12 | 2 | 12 | 11 | 11 | 12 | 11 | -1 | 12 | 10 | 11 | 10 | 11 | 0 | 7 | 9 | 10 | 9 | 1 |
| Indonesia | 49 | 54 | 5 | 55 | 43 | 46 | 52 | 49 | -5 | 49 | 56 | 60 | 64 | 57 | 8 | 64 | 68 | 68 | 67 | 0 |
| Iran | 41 | 40 | -1 | 40 | 45 | 47 | 45 | 44 | 4 | 51 | 51 | 51 | 50 | 50 | 6 | 50 | 50 | 50 | 50 | 0 |
| Iraq | na | na | na | na | na | na | na | na | na | na | na | na | na | na | na | na | na | na | na | na |
| Kuwait | 10 | 12 | 2 | 12 | 13 | 14 | 15 | 14 | 2 | 14 | 13 | 13 | 11 | 12 | -2 | 12 | 10 | 11 | 11 | 1 |
| Libya | 10 | 9 | -1 | 9 | 9 | 10 | 12 | 10 | 1 | 13 | 12 | 14 | 14 | 13 | 3 | 14 | 15 | 15 | 15 | 0 |
| Nigeria | 8 | 9 | 1 | 10 | 9 | 10 | 10 | 10 | 1 | 8 | 7 | 8 | 10 | 8 | -2 | 9 | 9 | 5 | 8 | -4 |
| Qatar | 9 | 12 | 3 | 13 | 10 | 11 | 9 | 11 | -1 | 11 | 12 | 13 | 14 | 13 | 2 | 11 | 12 | 11 | 12 | -1 |
| Saudi Arabia | 32 | 36 | 4 | 54 | 60 | 70 | 76 | 65 | 29 | 76 | 76 | 78 | 77 | 77 | 12 | 78 | 77 | 77 | 77 | 0 |
| UAE | 16 | 16 | 0 | 17 | 16 | 16 | 16 | 16 | 0 | 14 | 15 | 15 | 14 | 14 | -2 | 12 | 13 | 12 | 12 | -1 |
| Venezuela | 55 | 67 | 12 | 78 | 83 | 85 | 77 | 81 | 14 | 76 | 80 | 77 | 71 | 76 | -5 | 82 | 78 | 84 | 81 | 6 |
| OPEC Rig Count | 262 | 291 | 29 | 325 | 324 | 352 | 355 | 339 | 48 | 354 | 362 | 371 | 368 | 362 | 23 | 372 | 370 | 374 | 375 | 4 |
| Worldwid Rig Count* | 2,382 | 2,756 | 374 | 3,119 | 2,873 | 3,202 | 3,161 | 3,090 | 334 | 3,304 | 2,955 | 3,213 | 3,218 | 3,170 | 80 | 3,378 | 3,125 | 3,322 | 3,170 | 197 |
| of which: | | | | | | | | | | | | | | | | | | | | |
| Oil | 877 | 959 | 82 | 1,069 | 1,060 | 1,169 | 1,156 | 1,114 | 155 | 1,266 | 1,155 | 1,257 | 1,288 | 1,239 | 125 | 1,374 | 1,305 | 1,408 | 1,320 | 103 |
| Gas | 1,486 | 1,777 | 291 | 2,035 | 1,802 | 2,016 | 1,983 | 1,959 | 182 | 2,017 | 1,782 | 1,934 | 1,906 | 1,910 | -49 | 1,970 | 1,786 | 1,884 | 1,819 | 98 |
| Others | 20 | 22 | 2 | 14 | 13 | 18 | 21 | 16 | -6 | 20 | 19 | 20 | 24 | 21 | 5 | 34 | 34 | 30 | 31 | -4 |

**/Excludes China and FSU.*

*na - Not available.*

*Source: Baker Hughes International & Secretariat's Estimates.*

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

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# *Data Summary* July 2008

## *OPEC Basket average price*

*US$ per barrel*

⬆ *up 8.94 in June*

| | |
|---|---|
| ***June 2008*** | ***128.33*** |
| *May 2008* | *119.39* |
| *Year-to-date* | *105.18* |

## *June OPEC production*

*in million barrels per day, according to secondary sources*

| | | | |
|---|---|---|---|
| *Algeria* | *1.41* | *SP Libyan AJ* | *1.72* |
| *Angola* | *1.90* | *Nigeria* | *1.87* |
| *Ecuador* | *0.50* | *Qatar* | *0.86* |
| *Indonesia* | *0.85* | *Saudi Arabia* | *9.35* |
| *IR Iran* | *3.84* | *UAE* | *2.63* |
| *Iraq* | *2.44* | *Venezuela* | *2.31* |
| *Kuwait* | *2.61* | ***TOTAL*** | ***32.29*** |

## *Supply and demand*

*in million barrels per day*

| ***2008*** | | ***2009*** | |
|---|---|---|---|
| *World demand* | *86.8* | *World demand* | *87.7* |
| *Non-OPEC supply* | *54.9* | *Non-OPEC supply* | *56.5* |
| ***Difference*** | ***31.9*** | ***Difference*** | ***31.2*** |

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

## *Stocks*

***OECD commercial oil stocks stood at 2.588 mb at end-May, which corresponds to 53.6 days of forward cover. Preliminary data put stocks at an equivalent of 53.2 days at end-June, in line with the five-year average.***

## *World economy*

***World GDP growth now seen at 4% in 2008 and falling to 3.9% in 2009.***

*Issued 15 July 2008.*
***Next report to be issued on 15 August 2008.***

*Data cover period up to the end of June 2008 unless otherwise stated.*