OPEC

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

September 2008

Feature Article:
Facing weakening oil market fundamentals

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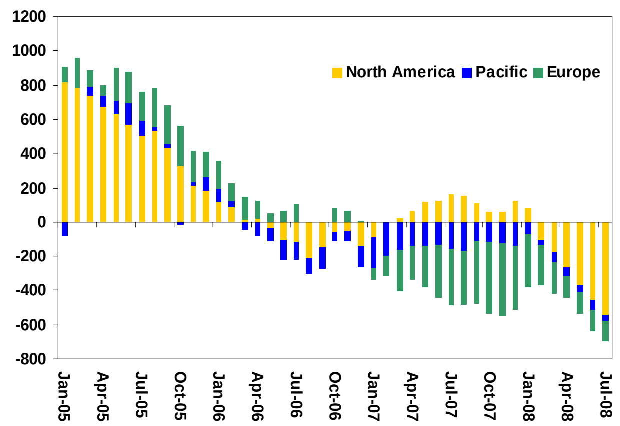
Oil Market Highlights

- The OPEC Reference Basket eased in August as the weaker economy outlook was seen denting demand. Higher OPEC exports calmed market sentiment while China's lower imports triggered concern over demand growth. However, geopolitical conflicts in the Caucasus contributed some bullish sentiment to the market. The Basket fell $18.81/b or more than 14% in August, declining sharply from the record levels reached in July. In the first week of September, the Basket continued to retreat amid the recovery of the US dollar to a one-year high, the worsening economic prospects and minimal damages by Hurricane Gustav. The approach of Tropical Storm Ike delayed recovery from the previous storm. The Basket continued to fall, pressured further by the fallout from the Lehman Brothers bankruptcy, reaching $91.35/b by mid-month.
- The world economy is estimated to grow at 3.9% this year, unchanged from last month, while the forecast for 2009 is 0.1% lower at 3.7%, due to revisions for both OECD and Developing Countries as spillovers from the US slowdown spread to other regions. The forecast may be subject to downside revision due to the mounting financial risks to growth as witnessed by the bankruptcy filing by Lehman Brothers, the fourth largest investment bank and its possible consequences for the US and global fiancial system. The US government had earlier also taken over control of the troubled mortgage giants Fannie Mae and Freddie Mac, whose downfall may have posed a systemic risk. Subprime related financial losses and writedowns have risen to over $510 bn. Within the OECD, Euro-zone growth was revised down 0.1pp in both 2008 and 2009 to 1.3% and 1.0%, and Japanese growth was trimmed to 0.8% (down 0.2%) and 1.0% (down 0.1%). The possibility of a technical recession in both regions cannot be dismissed. US growth at 1.8% (up 0.2%) in 2008 and 1.4% (up 0.1%) in 2009 is now expected to exceed Japanese and Euro-zone growth. This prospect has lent further support to the US dollar which rose to a one-year high versus the euro, but the US currency gave away some of these gains following the latest plight at Lehman Brothers. Developing Countries' growth is unchanged this year at 5.8%, and is 0.1% down to 5.5% in 2009, due to downward revisions for Latin America, Africa, and to a lesser extent Asia.
- OECD oil demand showed a further decline in August due to a steep fall in the US oil demand. This declined by 0.8 mb/d y-o-y in August resulting from slow economy and high retail prices. In contrast, summer oil demand growth of 4% in non-OECD countries, mainly China, Middle East and Asia, offset the decline in OECD oil demand. However, with the most recent data showing an unexpectedly strong decline in oil demand in North America, the total world demand growth forecast has been revised down by 0.1 mb/d. Thus, world oil demand is forecast to grow by 0.9 mb/d in 2008 to average 86.8 mb/d. For 2009, world oil demand is forecast to grow by 0.9 mb/d to average 87.7 mb/d, unchanged from the last report. Non-OECD countries' oil demand growth of 1.2 mb/d will account for all of the world oil demand growth next year. The transport sector will see the largest oil demand growth in 2009. One of the factors that might take a toll on next year's oil demand growth is the removal of price subsidies in Developing Countries.
- Non-OPEC oil supply in 2008 is expected to average 49.9 mb/d, representing an increase of 510 tb/d over the previous year, indicating a downward revision of 70 tb/d from the last assessment. The estimate for the USA may be subject to further revisions as the full impact of the recent hurricanes is still being assessed. Preliminary data for the month of August put global supply at around 86.3 mb/d, representing growth of around 3% y-o-y. In 2009, non-OPEC oil supply is expected to average 50.81 mb/d, representing an increase of 880 tb/d over the previous year. OPEC NGLs and non-conventionals are expected to reach 4.9 mb/d in 2008 and 5.5 mb/d in 2009. In August, OPEC production stood at 32.5 mb/d, broadly unchanged from the previous month.
- Precautionary refinery shutdowns in the US Gulf Coast combined with the continuation of gasoline stock-draws boosted product prices and refining margins in the Atlantic Basin over the last few weeks. The recent sharp fall of crude prices also contributed to positive developments in refining economics. The current bullish sentiment in product markets may continue in the next few weeks and provide support for both product and crude oil prices. However, it is still too soon to say that product markets would be able to overcome the overall bearish trends and assume market leadership in the coming months.
- OPEC spot fixtures increased by 6% in August from the previous month to average close to 13 mb/d, supported by increases outside the Middle East. OPEC sailings were steady averaging 23.3 mb/d. Arrivals in the US declined last month in line with lower US crude imports. Spot freight rates for crude oil tankers declined sharply by 34% in August mainly due to the very weak VLCC and Suezmax markets. Product tanker freight rates were steady in August with a marginal 1% increase due to the strong East of Suez market.
- US commercial oil stocks dropped 5 mb in August to stand at around 983 mb, keeping the deficit with the five-year average at 28 mb or 3%. The draw was the result of an increase of 4.5 mb in crude oil and a drop of 9.6 mb in product stocks. However, due to weaker demand, stocks remained comfortable in terms of forward cover. Gasoline stocks lost a substantial 15 mb on the back of lower imports, triggered by anticipated disruptions due to hurricanes. In EU-15 plus Norway, total oil inventories fell 11 mb and moved below the five-year average for the first time so far this year. Japan's commercial oil stocks recovered sharply in July to move above 180 mb for the first time since last November. Preliminary data show a further increase in August.
- The demand for OPEC crude in 2008 is expected to average 32.0 mb/d, a decline of 160 tb/d from the previous year. In 2009, the demand for OPEC crude is expected to average 31.3 mb/d, a decline of 670 tb/d.

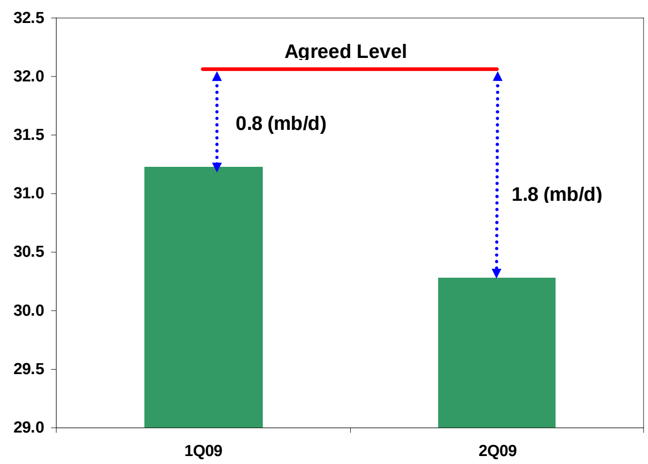
Facing weakening oil market fundamentals

- Crude oil prices have continued their downward trend with the OPEC Reference Basket declining more than $42/b or roughly 30% in the space of two months from a peak of almost $141/b reached in early July. By the second week of September, the Basket price had fallen below the $100/b mark and currently stands close to $91/b pressured further by the fallout from the financial sector. Futures market activity has declined in parallel. The strengthening of the US dollar, with a strong correlation to crude oil prices, was also an important factor in relieving some of the upward pressure on oil and other commodity markets. The misguided perception that the oil market was tight and headed toward a price spike has also given way. As a result, the associated premium has been reduced considerably.
- This shift to bearish market sentiment has been precipitated by a growing awareness of weakening fundamentals, mainly due to deteriorating economic prospects, the continued decline in oil demand growth and improved supply situation. The economic slowdown is now spreading beyond the US to Europe and Japan with contagion risks to other regions. Financial sector turbulence continued leading to a government takeover of troubled US mortgage lenders Fannie Mae and Freddie Mac, the sale of Merrill Lynch as well as to the collapse of Lehman Brothers, the fourth largest US investment bank. Recent data in the US show a sharp rise in the unemployment rate in August, while the housing sector downturn is still to reach bottom as seen from the recent fall in pending home sales in July. Consumer expenditure is widely expected to slow down in the second half of the year, as the effects of the stimulus package fade. Data in the Euro-zone and Japan also point to stagnating economic activity, as consumers and businesses retrench amidst falling confidence and exports. Both the Euro-zone and Japan risk a mild recession this year given the low prospects of improvement in the second half of this year. Meanwhile, emerging markets growth is decelerating from the very high levels seen in the past years as the lagged effects of tighter monetary policies impact growth in the coming quarters.

Graph 1: OECD oil demand growth (12-m moving average, tb/d)



Graph 2: Agreed OPEC production vs demand for OPEC crude, mb/d



- The weakening economic situation has been reflected in a slowdown in world oil demand growth. This can be most clearly seen in the US, where total demand has fallen by about 900 tb/d in the first eight months of the year. Moreover, monthly June data shows the lowest level of consumption since 1998. The negative trend in OECD demand growth, which began in 2006, is expected to continue with a drop of around 300 tb/d this year as well as in 2009 (*see* ***Graph 1***). In recent years, higher growth in non-OECD demand has helped to offset the decline in OECD. With the moderation in non-OECD growth, it would be even more difficult for world oil demand growth to move above the 20-year average of 1.1 mb/d in the coming years.
- Although world oil demand was weak in the first half of this year, it still exceeded the growth in total non-OPEC supply. However, the picture is expected to change in the second half of 2008 and in 2009 due to the expected improvement in non-OPEC supply. Combined with higher OPEC production, this trend has resulted in a build in OECD commercial inventories of 47 mb in July to now stand above the five-year average. Taking into account current demand prospects, OECD inventories are expected to reach a healthy level of more than 54 days of forward cover, which is above the five-year average. Additionally, autumn maintenance combined with the contango structure of the market could lead to further builds in crude oil inventories.
- With indications that the current oversupply in the market will further expand in the coming quarters, the OPEC Conference agreed in its recent meeting in Vienna to strictly abide by the production levels set in September 2007. Despite prevailing uncertainties, OPEC output in line with the last Conference decision will be more than adequate to meet demand ahead of the winter season, as well as contribute to an above-average build in commercial stocks (*see* ***Graph 2***).
- In light of the downside risks to the outlook, the OPEC Conference stated its readiness to respond swiftly to any developments that might place oil market stability at risk. OPEC will continue to closely monitor the market and will reassess the situation at its next meeting in Oran, Algeria, on 17 December.

Vienna **9-10 September 2008**

149th Meeting of the Conference

The 149th Meeting of the Conference of the Organization of the Petroleum Exporting Countries (OPEC) convened in Vienna, Austria, on 9th and 10th September 2008, under the Chairmanship of its President, HE Dr. Chakib Khelil, Minister of Energy & Mines of Algeria and Head of its Delegation, and its Alternate President, HE Desidério da Graça Verissímo e Costa, Minister of Petroleum of Angola and Head of its Delegation.

The Conference congratulated HE Eng. Mohammed Abdullah Al-Aleem on his appointment as Minister of Oil of the State of Kuwait and Head of its Delegation.

The Conference warmly welcomed the Minister of Petroleum of Egypt, the Deputy Prime Minister of the Russian Federation and the Minister of Energy & Mining of the Republic of Sudan, representatives of non-OPEC oil-producing countries with whom the Organization seeks concrete and constructive dialogue in the interests of maintaining order and stability in the oil market.

The Conference considered the Secretary General's report; the report of the Economic Commission Board; the report of the Ministerial Monitoring Sub-Committee (MMSC), chaired by HE Gholamhossein Nozari, Head of the Delegation of the Islamic Republic of Iran, whose Members the Conference again thanked for their continued efforts on the Organization’s behalf; and various administrative matters. The Conference exchanged views on, inter alia, recent developments in environment-related multilateral discussions and the outcome of the 5th Ministerial Meeting of the EU-OPEC Energy Dialogue. Member Countries took this occasion to reiterate their abiding commitment to working with the international community towards achieving energy market stability and security, enhancing socio-economic development, alleviating poverty and protecting the environment, recognizing that energy is central to the achievement of the Millennium Development Goals.

The Conference reviewed current oil market conditions and future prospects and observed that production action taken by OPEC Member Countries has ensured that the oil market is well supplied and has enabled inventories to be built up to comfortable levels in terms of forward demand cover. It further noted that prices have dropped significantly in recent weeks, driven by a weakening world economy, in particular in major OECD countries, with its concomitant lower oil demand growth, coupled with higher crude supply, a strengthening of the US dollar and an easing of geopolitical tensions. All the foregoing indicates a shift in market sentiment causing downside risks to the global oil market outlook.

Since the market is over-supplied, the Conference agreed to abide by September 2007 production allocations (adjusted to include new Members Angola and Ecuador and excluding Indonesia and Iraq), totalling 28.8 mb/d, levels with which Member Countries committed to strictly comply.

Further, given the role played by oil market stability in the world economy, the Conference reaffirmed its commitment to ensuring sound supply fundamentals and an adequate level of spare capacity for the benefit of the world at large. Furthermore, the Conference recorded the readiness of Member Countries to swiftly respond to any developments which might place oil market stability and their interests at risk. Accordingly, in addition to maintaining a constant and vigilant watch over supply/demand fundamentals, the Conference agreed to reassess the market situation at its 150th (Extraordinary) Meeting, to be held in Oran, Algeria, on 17th December 2008.

The Conference regretfully accepted the wish of Indonesia to suspend its full Membership in the Organization and recorded its hope that the Country would be in a position to rejoin the Organization in the not too distant future.

The Conference elected HE Desidério da Graça Verissímo e Costa, Minister of Petroleum of Angola and Head of its Delegation, as President of the Conference for one year, with effect from 1st January 2009, and HE Dr. Galo Chiriboga Zambrano, Minister of Mines and Petroleum of Ecuador and Head of its Delegation, as Alternate President, for the same period.

The Conference appointed Ms. Siham A. Razzouqi, Governor for Kuwait, as Chairman of the Board of Governors for the year 2009, and Dr. Abdullah Ammar Ballut, Governor for the Socialist Peoples Libyan Arab Jamahiriya, as Alternate Chairman for the same period, with effect from 1st January 2009.

The Conference decided that its next Ordinary Meeting will convene in Vienna, Austria, on Sunday, 15th March 2009, shortly before the OPEC International Seminar on the theme “Petroleum: Future Stability & Sustainability”, which will take place at the Vienna Hofburg Palace on 18th and 19th March 2009.

The Conference expressed its appreciation to the Government of the Republic of Austria and the authorities of the City of Vienna for their warm hospitality and the excellent arrangements made for the Meeting.

Finally, the Conference passed Resolutions that will be published on 10th October 2008, after ratification by Member Countries.

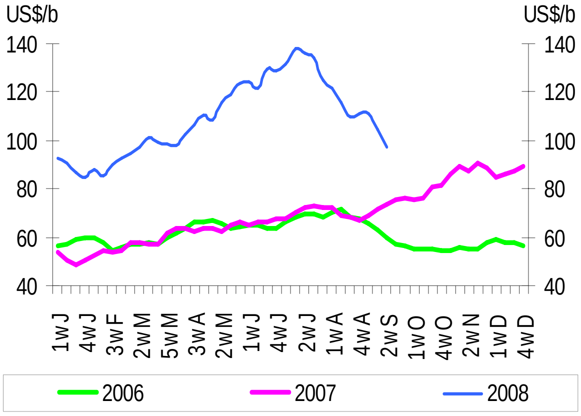
Crude Oil Price Movements

High OPEC exports and recovery of the US dollar offset the impact of the geopolitical conflict in the Caucasus

OPEC Reference Basket

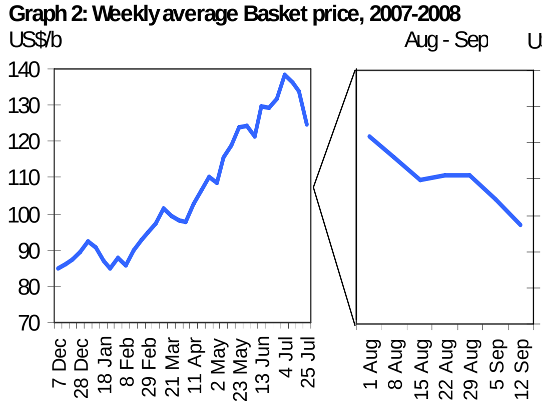
The Basket emerged in the first week of August on continued weakness due to slow economic growth which was denting oil demand, while the rebound in the US dollar inspired fund liquidation on profit-taking of the currency-dominated commodities. However, fear of a potential supply shortfall amid tensions in the Caucasus kept alertness in place. The threat of Tropical Storm Edouard in the Gulf of Mexico triggered the shut-in of about 6% of crude oil and over 12% of natural gas production signalling fear of a supply shortfall of both streams. Yet, persistent higher OPEC exports kept calmness in the marketplace. A surprise build in US weekly crude oil stocks, the easing threat of the tropical storm in the Gulf of Mexico and concern over the economic outlook sustained market bearishness. In the first week, the Basket average plunged a hefty $5.98/b or nearly 5% to settle at $115.89/b. In the second week, the continued strengthening of the US dollar, higher production from the North Sea and lower crude imports from China which offset the prolonged conflict in the Caucasus disrupted oil supply from the region. Thus, the Basket closed the week to average $6.16/b or 5.3% lower to settle at $109.73/b**.**

Graph 1: OPEC Reference Basket - weekly spot crude



In the third week, supply from the Caucasus region tightened amid the closure of a pipeline on geopolitical tensions and the weakening of the US dollar exchange rate inspired further investment in energy futures adding some bullishness. Moreover, persistent refinery outages in the US raised fear of seasonal fuel supply shortfalls. The bulls were furthered by an unexpected draw on US gasoline inventories and despite the hefty build in crude stocks. The Basket saw a one-day rally of 3.9%. The Basket's weekly average firmed for the first time in seven weeks rising $1.35/b or 1.2% to settle at $111.08/b. In the final week, the formation of Tropical Storm Gustav in the Atlantic offset higher export data from OPEC Member Countries. Hence, the Basket saw a one-day decline of 3.5%. However, the strengthening of Gustav into the Gulf of Mexico prompted the IEA and the US DoE to announce their readiness to release crude oil from the SPR, which calmed fear of a supply shortfall due to the storm. The strengthening of the US dollar on stronger-than-expected GDP growth inspired speculative fund sell-offs for profit-taking as investors exited the crude futures market. The Basket closed the final week a marginal 12¢ firmer at $111.20/b.

Graph 2: Weekly average Basket price, 2007-2008



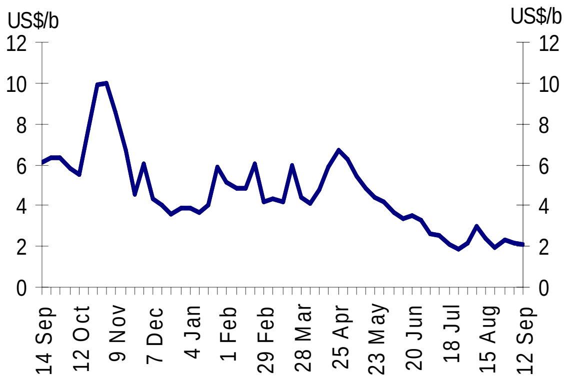
On a monthly basis, the Basket eased in August as the weaker economic outlook was seen denting demand. Higher OPEC exports calmed market sentiment while China's lower imports triggered concern over demand growth. However, geopolitics in the Middle East, the Caucasus and West Africa kept some bulls intact. Unplanned refinery outages and depleting gasoline supplies capped the bulls in August. Thus, the Basket averaged the month $18.81/b or more than 14% lower to stand at $112.41/b. In the first week of September, the Basket continued to retreat amid the recovery of the US dollar to a one-year high. The weak economic outlook was seen eating into demand while assessed damages by Hurricane Gustav were foreseen to be minimal. The approach of Tropical Storm Ike delayed repairs from previous storms. The Basket slipped to a five-month low below the $100/b level on the continued firmness of the US dollar. On 15 September the OPEC Reference Basket averaged $91.35/b.,

US market

Widened transatlantic spread offset improved refinery margins for light grades

Cash sweet crude firmed in the US domestic market in the first week while light grades came under pressure from the opening of the transatlantic spread prompting the flow of crude oil and gasoline into the US. The relative narrowing of the contango spread limited the buying spree. Concerns about light/sweet crude supply due to BP's declaration of *force majeure* on Azeri crude shipments from Ceyhan due to the explosion on the BTC pipeline lifted grades higher amid US refinery snags. The WTI/WTS spread averaged the week 86¢ wider at $3/b. In the second week, the sentiment for light grades was firmer amid the widened contango spread while gasoline inventories depleted heavily. Improved refining margins also lent support. Light grades were also supported by the threat seen from Tropical Storm Fay in the Gulf of Mexico in the second week. The WTI/WTS spread narrowed by 59¢/b to $2.41/b.

Graph 3: WTI spread to WTS, 2007-2008



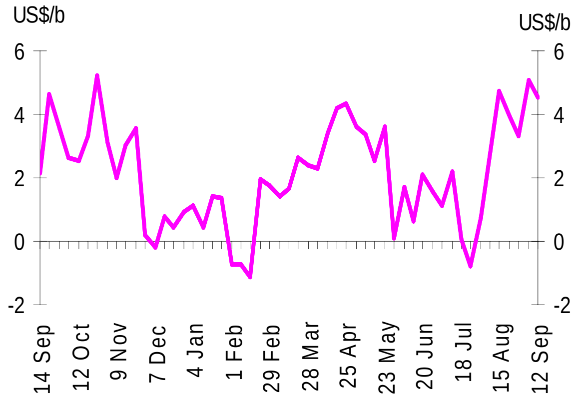
Light grades continued to strengthen in the US domestic market as the futures market slipped while refinery margins sustained improvement. However, the continued widened contango spread weakened the sentiment while sweet grades firmed. Yet, the narrowing transatlantic arbitrage spread lifted the light grades as gasoline stocks continued to decline ahead of the US Labor Day holiday. In the third week, the average spread narrowed by 45¢ to $1.96/b. In the final week, the sentiment was supported by the prospect of further gasoline stock-draws, yet the return of some refineries from shut-down while crude oil stocks at Cushing, Oklahoma, were at their lowest level since March, and the widened transatlantic spread pressured the light grades. The WTI/WTS spread was 33¢ wider at $2.29/b. WTI averaged in August $17.24/b or 13% lower at $116.58/b, with the premium to WTS averaging $2.42 or 21¢ wider from July.

North Sea market

Thin demand and ample supply dampened Brent crude in the North Sea

The market for the North Sea crude emerged on a softer note with more offers than bidders. Higher output in September added to market bearishness. The Brent discount to WTI widened in the first week by $2.04/b to average $2.75/b, the widest level since May. The sentiment firmed into the third week on higher volume in the new regional loading programme while BP's declaration of *force majeure* on Azeri crude shipments from Ceyhan due to an explosion at the BTC pipeline lent support to the market. Softening outright prices inspired the buying spree amid disposing of prompt barrels. Thus, the front end of the curve enhanced to clear the barrels. In the second week, the WTI/Bent average spread widened by another $1.99/b to $4.74/b, the widest level since October last year. The sentiment remained weak prompted by late August stems while buying interest for September barrels slackened. Thus, sellers lowered offers to encourage buyers. However, with the emergence of some buying interest, the differentials for North Sea crude firmed in the third week with the Brent discount to WTI narrowed by 81¢ to $3.93/b. The market softened in the final week amid lack of demand while supplies were on the

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



rise in the North Sea. Yet, clearing of prompt barrels on attractive differentials lent support to the market. Thus, the Brent discount to WTI narrowed by 62¢ to $3.31/b. Dated Brent averaged $104.19/b in August, representing a drop of $201.6/b or over 15%, with the discount to WTI averaging $2.92/b wider at $3.55/b, the widest level since April.

Mediterranean market

Tight supply from Russia and firm prices from the Middle East supported Urals crude

Urals crude firmed in the first week on the halt of Iraq's Kirkuk crude oil shipments from Turkey. The sentiment was boosted further by a Mideast major raising price differentials to Europe. The Mediterranean market strengthened on prompt buying amid Azeri supply shut-in due to a pipeline fire halting 1 mb/d. Thus, sentiment sustained strength as marketers digest the likely impact of the fire on the Baku-Tbilisi-Ceyhan pipeline. In the first week, the Urals discount to WTI was $1.17/b narrower at $1.26/b, marking the narrowest weekly average since August last year. Differentials remained firm into the second week amid uncertainty about Azeri supplies and were further supported by higher official prices for competing sour crude grades from the Middle East. Differentials in the Mediterranean continued to be supported by tight supplies amid the conflict in the Caucasus and the pipeline disruption in Turkey due to fire. Brent premium to Urals was 29¢ narrower at 64¢/b in the second week. The upward volatility continued amid lower exports from Russia while supplies from Central Asia continued prompting aggressive buying. Brent/Urals spread inched up a marginal 6¢ to 70¢/b. The firm sentiment continued on tight supply and prompt buying. The regional market was supported by limited supplies and cuts in Azeri Light exports following the closure of the Baku-Tbilisi-Ceyhan (BTC) pipeline. Urals discount to Brent was 9¢ narrower at 61¢/b. Urals averaged $112.20 or nearly 14% lower in August, yet narrowing the discount to Brent by $2.27/b to 86¢/b, a level lower than that seen in December 2001, amid a rise in North Sea supply boosting the sour grade while refinery margins improved.

Middle Eastern market

Brent's flip into discount to Dubai prompted flow of rival arbitrage barrels

The Middle East crude emerged in August under pressure by sinking refinery margins on the weak gasoil crack spread. Nonetheless, sentiment firmed as the spread between Brent and Dubai reversed while freight rates softened attracting the eastward flow of rival western crude. Although a fire at a Turkish pipeline was seen to support the Mideast crude, yet, the opening arbitrage spread allowed the pressure to sustain strength. Dubai was at a premium to Brent that was seen emerging momentarily since July; however, it sustained strength in August with the first weekly average at $1.18/b. The Middle East crude market started the second week on a slightly bullish note amid steady allocations for September barrels, which were not seen dampening demand for spot October crude. However, weakening margins for middle distillates were expected to weigh on the market. Continued opening of the arbitrage window inspired the flow of rival grades. Abu Dhabi Murban was assessed at a 40¢/b discount to ADNOC's OSP. In the second week the average Brent discount to Dubai narrowed by 29¢ to 89¢/b. The market sentiment weakened amid Asian refineries announcing cuts while October barrels remained largely unsold —an indication of slower demand growth — prompting buyers to move to the sidelines. In the third week, Brent flipped into a premium to Dubai to average a marginal 21¢/b. In the final week, Middle East crude edged down in slow trade as Abu Dhabi supplied its lifters with full term supplies despite planned maintenance, calming market sentiment. The regional crude market fell further with sellers moving to the sidelines as demand remained weak. A slumping gasoil crack spread reduced demand for light grades. October Murban crude was assessed down to a discount of $1/b to ADNOC's OSP. Dubai averaged $112.90/b in August for a drop of 14%, with the discount to Brent $1.75/b narrower at 17¢/b.

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

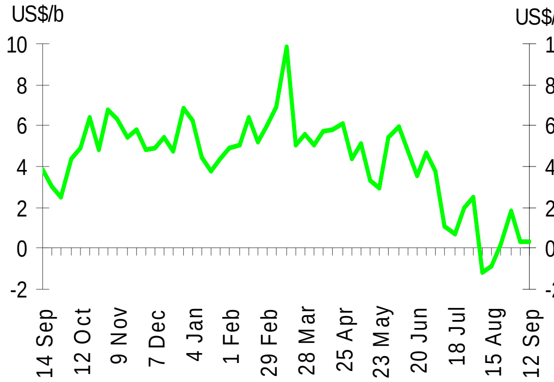


Table 1: OPEC Reference Basket and selected crudes, US$/b

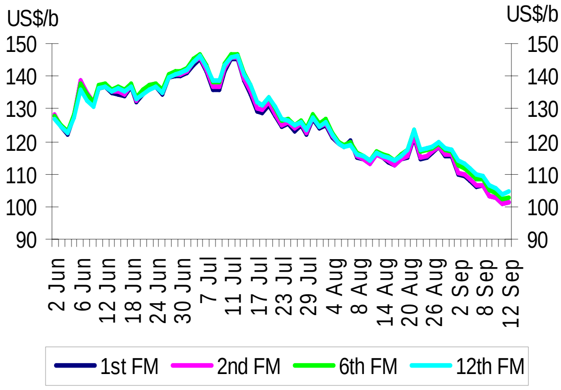
			Change	Year-to-Date	
	Jul 08	Aug 08	Aug/Jul	2007	2008
OPEC Reference Basket	**131.22**	**112.41**	**-18.81**	**62.53**	**109.54**
Arab Light	132.75	113.69	-19.06	62.10	110.45
Basrah Light	127.00	109.16	-17.84	59.85	106.64
BCF-17	124.51	110.48	-14.03	55.26	100.42
Bonny Light	137.64	116.93	-20.71	68.51	116.30
Es Sider	132.14	111.98	-20.16	64.65	112.14
Girassol	131.35	110.26	-21.09	64.15	110.70
Iran Heavy	126.75	108.10	-18.65	60.27	106.43
Kuwait Export	127.57	108.84	-18.73	59.76	106.08
Marine	132.73	113.53	-19.20	63.06	109.65
Minas	139.76	119.07	-20.69	66.67	116.04
Murban	137.94	119.50	-18.44	66.80	114.59
Oriente	119.43	102.13	-17.30	55.54	100.39
Saharan Blend	134.49	114.33	-20.16	68.24	114.64
Other Crudes					
Dubai	131.27	112.86	-18.41	62.27	108.70
Isthmus	130.98	112.63	-18.35	60.52	110.06
T.J. Light	127.71	110.04	-17.67	58.70	106.89
Brent	133.19	113.03	-20.16	66.01	112.87
W Texas Intermediate	133.82	116.58	-17.24	64.51	114.73
Differentials					
WTI/Brent	0.63	3.55	2.92	-1.51	1.87
Brent/Dubai	1.92	0.17	-1.75	3.74	4.16

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

The Oil Futures Market

The stronger US dollar drew investors away from the futures market with the net longs at the lowest level since February 2007

Graph 6: Nymex WTI futures prices, 2008



FM = future month

The futures market continued the downward trend with investors exiting the market on fund sell-offs for profit-taking. However, volatility continued on supply disruptions from West Africa and geopolitics in the Middle East while OPEC assured supply flow. The weaker economic outlook and the strengthening US dollar also lent support to the bearishness in the marketplace. Although Nymex WTI's first weekly average dropped 71¢ to $123.31/b, the weekly period closed down by $3.02 or 2.5% at $119.17/b. In the first weekly period, non-commercial net positions widened into net short by 4,900 to 5,550 contracts amid a drop in the long positions while shorts rose moderately. In contrast, open interest volume increased by 28,800 to 1,249,300 contracts. With options included, non-commercial net positions dropped 8,200 but remained net long at 72,100 lots, while open interest volume rose by almost 79,000 to 2,863,500 lots.

In the second weekly period, the CFTC revealed that non-commercials continued to deplete positions as speculators exited the futures market. Net positions plunged another 3,580 to 9,130 contracts amid depleting long positions at a faster pace than shorts. Open interest volume was nearly 7,900 lower at 1,241,400 lots. With options included, open interest volume was inflated by nearly 58,000 to 2,921,500 lots, yet net long positions were down by 13,300 to 58,800 contracts. In the second weekly period, the down trend prevailed amid lower Chinese oil imports implying slower demand growth, the strengthening US dollar and weak economy which outweighed a fire on a 1 mb/d pipeline in Turkey and a hefty gasoline inventory draw the week before. The weekly average for the Nymex WTI front month contract plunged a hefty $7.06 or 5.7% to $116.25/b to close the week $6.16 lower at $113.01/b.

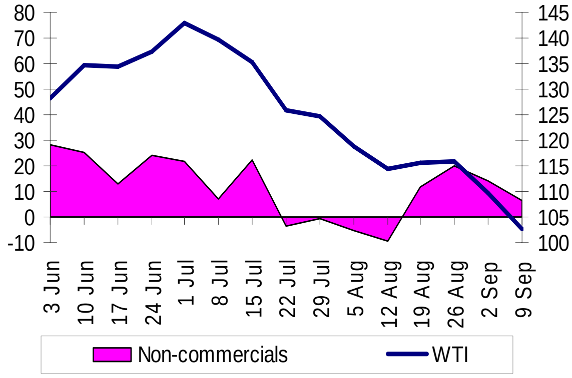
The downtrend continued into the third week on the perception of a weak economy and profit taking. High OPEC exports also lent support to calmness in the marketplace. However, the deterioration of the US dollar exchange rate supported the market sentiment later in the period. Nymex WTI closed the period up $1.52 at $114.53/b, yet the weekly average was down by $1.81 or 1.5% at $114.44/b. The CFTC reported that non-commercials flipped into net long after four consecutive weeks of net short. Due to a hefty increase in long positions while the short depleted, the result was 20,800 higher to net long of 11,700 lots. In contrast, open interest volume was 37,700 narrower at 1,203,800 contracts. With options included, open interest volume deflated by a hefty 206,600 to 2,714,900 lots, yet net long positions were 15,800 wider at 74,600 contracts.

In the fourth weekly period, the sentiment changed with the CFTC reporting that net non-commercial positions were 8,500 wider at 20,166 contracts, yet open interest volume fell by 16,100 to 1,187,600 lots, the lowest level since December 2006. In contrast, with options included, open interest volume rose by 25,800 to 2,740,700 lots while non-commercials net positions widened by 5,600 into net long of 80,222 contracts. The fourth weekly period saw an upward trend on concern over gasoline supplies in the US ahead of the final peak of the US driving season, Russia's dispute with Georgia in the Caucasus, the approach of Hurricane Gustav in the Gulf of Mexico and fluctuations in the US dollar keeping volatility in place. The Nymex WTI front month contract closed the weekly period $1.74 or 1.5% higher to settle at $116.27/b to average the period $1.99 or 1.4% firmer at $116.43/b. However, in the final days of the month, the bearish sentiment resumed despite Hurricane Gustav halting petroleum operations in the Gulf of Mexico with minimal repairs seen, amid the announced readiness of the IEA and the DoE to release crude oil from the emergency stockpile. Sustained US dollar strength against major currencies prompted speculative investors away from the crude futures market. Thus, crude oil futures contracts plunged below the threshold level of $110/b into the first week of September with non-commercial net long positions on the CFTC dropping 5,800 to 14,300 contracts.

However, open interest volume inflated by 39,200 to 1,226,900 lots. With options included, open interest was 105,500 wider at 2,846,200 contracts while non-commercial net long deflated by 5,900 to 74,300 lots.

On a monthly basis, the weekly average of non-commercial net positions in August fell 7,500 to 4,300 contracts net long, the lowest level since February 2007, and some 59,000 lots lower than in same period last year. Open interest volume slipped 58,000 to average 1,220,500 contracts, which made it nearly 249,000 lots lower than last year. With options included, open interest volume was almost 47,000 narrower at 2,810,100 lots, yet 333,000 contracts higher on the year. Non-commercial net longs averaged 14,200 lower at 71,400 lots in August, nearly 44,200 contracts lower than last year. A series of downward indicators pushed the futures market lower after a peak in July. Ample OPEC exports, and the strengthening of the US dollar inspired fund sell-offs for profit-taking, though geopolitics from West Africa, the Middle East and the Caucasus kept some bulls intact. However, the momentum was short-lived amid lower oil imports by China implying weak demand growth on the back of slower economies. Nymex WTI averaged $16.79 or 12.5% lower in August at $116.69/b, some 61% higher than last year's level.

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



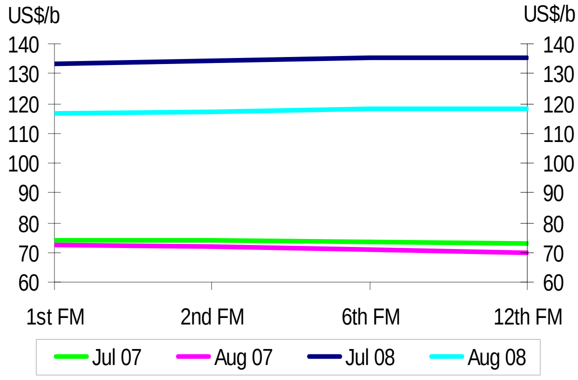
NC = Non-commercials: funds, investments and banks.
Ct = *Each contract is 1,000 barrels.

The Forward Structure

A decline in the refinery utilization rate implied slower procurement keeping the structure in contango

Although the weekly crude oil average in August increased by 6.4 mb over the previous month to 301.8 mb, yet it was 33.4 mb lower than last year's level. The contango structure narrowed in recent weeks with the 1st/2nd month spread at 23¢/b, down by 37¢ from July, compared to a 31¢/b backwardation last year. The 1st/6th, 1st/12th and 1st/18th month contango spreads were $1.41, $1.25 and 53¢/b, down by 48¢, 38¢ and 11¢/b respectively from the month before, compared to $1.68, $2.43 and $2.77/b last year. The refinery run rate averaged 15 mb/d in August, down 300,000 b/d on the month and over 0.7 mb/d on the year, with the year-to-date average down 350,000 b/d from the same period last year.

Graph 8: Nymex WTI forward curve



FM = future month

Commodity Markets

Commodity prices plummeted by 10.7% in August due to the gloomy macroeconomic outlook, the stronger dollar and better supply perspectives

Trends in selected commodity markets

The declining trend across most commodity prices witnessed in July month-on-month (m-o-m) continued in August irrespective of the specific conditions of each market. The IMF commodity index grew plunged 10.7% in August, down from 1.5% in the previous month. Both non-energy prices and energy prices showed negative growth of 5.8% and 12.6% m-o-m in August, respectively (*see **Table 2***). Exceptions were fertilizers and sugar.

The energy commodity index (crude oil, natural gas and coal) sank 12.6% in August compared to last July on massive drops in all components. **Crude oil price** (Averaged Petroleum Spot Price) fell 13.6% m-o-m in August, **dropping below $115/b and further below $100/b in early September.**

US natural gas price was the worst performer in the energy complex sinking near 26% in August m-o-m owing to declining oil prices and greater domestic supply from the shale gas in Northeast Texas with expectations of even higher supply.

Coal prices dropped 12.5% m-o-m in August as a result of the sharp drop in crude oil prices, lower summer demand in Asia and Europe and the disappearing of port congestion at New Castle in Australia. Volatility for this commodity was very high.

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

	% Change			% Change
	Jun/May	Jul/Jun	Aug/Jul	Aug 08/Aug 08
Commodity	5.7	1.5	-10.7	46.9
Non-Energy	1.6	0.2	-5.8	14.9
Energy	7.4	2.0	-12.6	66.9
Crude	7.1	0.8	-13.6	63.4
Natural Gas	12.6	-12.6	-25.6	32.7
Coal	19.9	12.7	-12.5	127.1
Agriculture*	4.0	-1.8	-8.5	-
Food	3.8	-0.6	-7.2	28.8
Corn	17.9	-7.0	-11.9	55.7
Soybean Oil	6.3	-3.0	-15.2	46.0
Soybeans	18.3	0.3	-15.0	52.4
Wheat	6.0	-5.8	0.4	26.8
Sugar	-0.1	25.0	18.1	44.3
Industrial Metals	-2.2	0.9	-6.9	-2.8
Aluminium	2.0	3.4	-9.9	9.9
Copper	-0.8	1.4	-9.2	1.8
Nickel	-12.1	-10.9	-4.9	-30.9
Zinc	-12.5	-2.6	-6.6	-46.5
Tin	-7.2	3.7	-13.2	32.5
Gold*	0.1	5.7	-10.7	-
Fertilizers	0.7	9.5	6.2	-

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

Industrial metals dropped 6.9% in August in a continuation of the downward trend since 18 July 2008

Non-energy commodity showed negative growth of 5.8% m-o-m in July with a drop across all commodity prices, especially food, industrial metals and gold.

After a recovery in July, industrial metals fell 6.9% m-o-m in August, with all metals except nickel being affected on a monthly basis. This is explained by the worsening of the unfavourable global macroeconomic context characterized by weaker demand in the US and Europe's fears of inflation in Developing Countries, the 5.2% dollar appreciation against the Euro and the seasonally slow period for demand. These factors have been encouraging long liquidation which exerted further downward pressures on prices (*see **Graphs 10** and **11** below*).

Following gains in July, **tin prices** recorded the sharpest fall across the industrial metals in August (13.2% m-o-m) due to major long liquidation in July and August, together with weaker seasonal demand and bearish news from the exports with higher Indonesian exports in July-August. Nevertheless, the Indonesian government announced a plan to impose production limits to avoid falling prices next year.

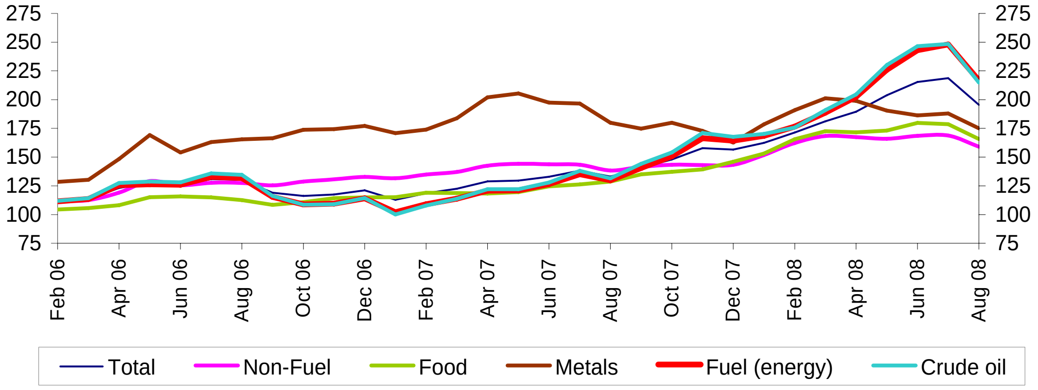
Aluminum prices dropped 9.9 % m-o-m in August caused by bearish fundamentals, rising stocks due to positive world production growth of 7.1% and weak demand on the slowdown in OECD economic growth and in the industrial production in China during the Olympics.

Copper declined 9.2% m-o-m in August owing to weak demand from China and the OECD related to the crisis in the construction sector. Copper inventories at the London Metal Exchange increased sharply in August, climbing by 28,476 tonnes to 157,461 tonnes m-o-m. In addition, a bearish sentiment in the futures markets led to long liquidation (*see **Graph 9** below*). The decline in copper prices took place despite some supply disruptions which indicates that price losses could have been worse.

Zinc dropped further by 6.6% in August due to rising inventories and output and weak demand from the galvanized steel sector.

Nickel prices declined 4.9% in August m-o-m which meant an improvement related to the 10.9% drop in last July. Despite weaker demand — lower Chinese imports — in the stainless steel sector and the sharp decline in world stainless steel prices in July. Some recovery took place in mid-August due to bullish supply-side news as the suspension of various investment projects.

Graph 9: Major commodity price indexes, 2006-2008



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.

Source: IMF

The World Bank's agricultural price index decreased 8.5% in August and the IMF food price index further declined by 7% down from -0.6% in the previous month. The major losses were the soybean complex and corn due to positive perspectives on production. The exception was sugar which increased by 18% fostered by unfavourable output expectations from Brazil and weather concern in India.

Gold price plunged 10.7% m-o-m in August owing to lower oil prices, the stronger dollar and shrinking demand for the metal as an inflationary hedge.

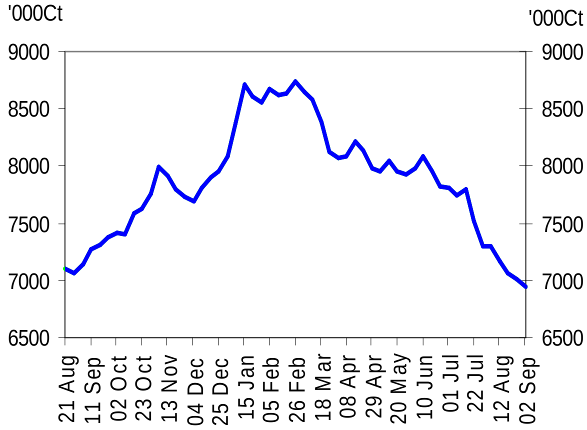
Fertilizers remained an exception in the bearish scenery for commodity products. The World Bank Index rose 6.2% m-o-m in August down from 9.5% in July as on still healthy demand and supply constraints.

Investment flow into commodities

Open interest in major US commodity markets declined further by 473,000 contracts to 7,192,000 in August

The open interest volume (OIV) continued to decline in August, according to the CFTC, in accordance with the sharper fall in commodity prices over the month and uncertainties in the global economy (*see **Graph 10***).

Graph 10: Total open interest volume



Source: CFTC

According to the CFTC data, speculative net length fell further in August m-o-m by 316,000 to 594,000 contracts and net length as percentage of the open interest fell from 11.9% in July to 8% in August and to 7% in the week ending 2 September 2008.

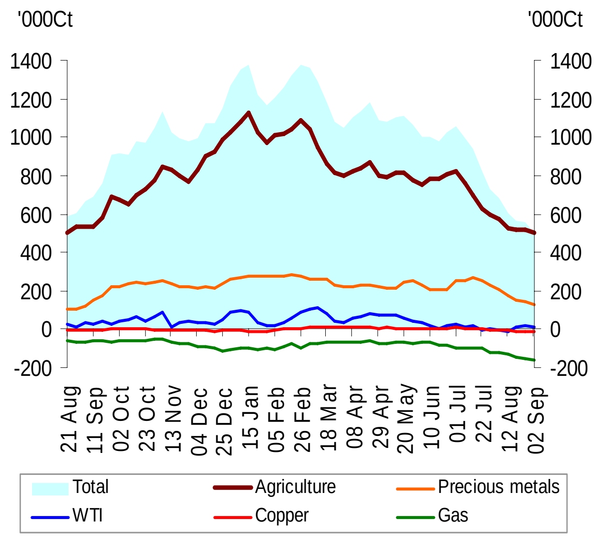
Net length of non-commercials as percentage of OIV decreased in agriculture by 165,000 to 535,000 contracts m-o-m in August with the net length as percentage of OIV declining from 17% in July to 13.9% in August. Among the agricultural commodities more affected by long liquidation were corn and soybeans.

Massive longs liquidation in copper sent futures net positions as percentage of the OIV further negative from minus 2.2 on 29 July to minus 12.1% on 2 September.

Precious metals net long declined sharply especially after 22 August, remarkably in silver and gold (*see **Graph 11***).

Deteriorating macroeconomic panorama and falling and volatile commodity prices have led to a bearish investment sentiment, which also reinforced the decline in commodity price. Tactical investors kept reducing their long positions in most markets, but it seems that these investors are waiting for the developments after the Olympics in China and the quiet summer season in the Northern Hemisphere.

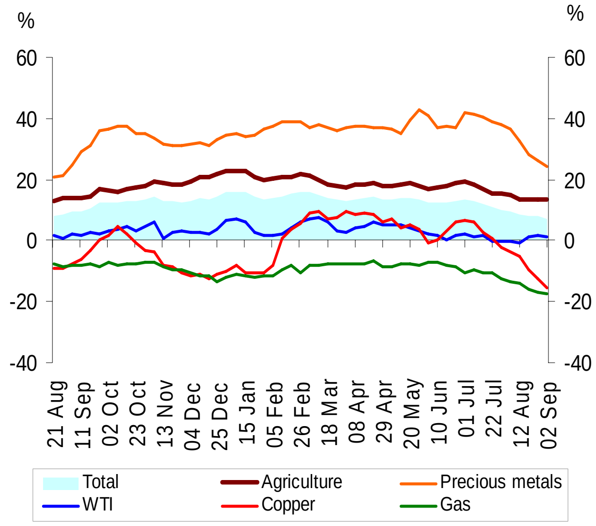
Graph 11: CFTC net length by commodity group, 2007-2008



Source: CFTC

An interesting point is that the data on commodity index traders indicate that the long positions of index traders have been rather stable over the last month, remaining between 26-28% as a percentage of OIV. This is mainly due to the fact that the category is mainly made up of institutional investors who are active in commodities for returns and diversification purpose.

Graph 12: CFTC net length as % of open interest, 2007-2008



Source: CFTC

Highlights of the World Economy

Economic growth rates 2008-2009, %

	World*	OECD	USA	Japan	Euro-zone	China	India
2008	3.9	1.7	1.8	0.8	1.3	9.9	7.6
2009	3.7	1.5	1.4	1.0	1.0	9.2	7.7

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

Industrialised countries

United States of America

US GDP growth in 2Q08 revised up to 3.3% but financial turmoil, falling retail sales and rising unemployment bode ill for the rest of the year

While the performance of the US economy was stronger than expected in the second quarter, gathering financial clouds, rising unemployment and falling retail sales indicate the economy is on course for a slowdown in the second half of the year.

The financial risks to growth appear to be on the rise as the credit crisis deepens. The US Administration took control of the two mortgage giants Fannie Mae and Freddie Mac to avert the potential systemic risk their downfall would have posed. The companies together own or guarantee about $5 trillion in home loans, around half the country’s total and have so far incurred losses exceeding $14 billion, with more expected down the line. Both companies were placed into a government conservatorship under the Federal Housing Finance Agency, until solutions can be reached as to their future structure and role. Markets regained some calm after the takeover but were again strongly shaken after attempts to sell Lehhman Brothers, the fourth largest US investment bank, failed and it consequently filed for Chapter 11 bankruptcy on 15 September, with possibly serious consequences for the US financial sector and beyond. Soon afterwards, the Bank of Amercia announced it had reached an agreement to acquire Merrill Lynch. The landscape of US investment banks has in the course of just a few months radically changed. Equity markets have registered steep falls and the dollar shed some of its recent gains. The Fed responded by increasing banks’ access to funding and widening the range of securities it accepts as collateral and the pressure is on to reduce interest rates further.

The US economy recorded a 3.3% annualised rate of growth in the second quarter, higher than the initially estimated 1.9%, primarily due to upward revisions in exports and private inventory investments and a downward revision in imports. Net exports are now estimated to have contributed 3.1 percentage points to growth compared to 0.77 pp in 1Q08, while the private residential investment deducted 0.62 pp to growth compared to 1.12 pp in the previous three months. Private consumption expenditure, boosted by the tax rebates, added an upwardly revised 1.24 pp to growth compared to 0.61 pp in Q108.

However, retail sales dropped in August by 0.3% following a 0.5% drop in July, confirming the view that the temporary stimulative effects of the tax rebates have faded. Excluding automobiles, purchases were down 0.7%, the largest drop this year. Increased incentives provided by car manufacturers in August to encourage demand were successful in raising sales of cars and parts by 1.9%, representing the first gain since January 2008.

In its regional economic survey of the 12 Fed districts, the so-called “Beige Book”, the Fed reported that business and consumer spending across most of the U.S. were slow in August, while inflationary pressures were on the rise due to higher commodity costs. It was also reported that the general weakening of hiring was keeping a lid on wage increases. Meanwhile, August payrolls fell a higher-than-expected 84,000 and revisions piled 58,000 to job losses for June and July. The rate of unemployment in August climbed to 6.1%, a five-year high, from 5.7% in July. The steep increase in the jobless rate is due not only to a fall in employment of around 0.5 million jobs but more significantly to an increase in the size of the labour force of around 1.5 million. It is expected that the rate of unemployment will rise further in the coming months acting as a dampening factor on consumer spending.

Separately, the Institute for Supply Management's index of non- manufacturing businesses, which represents almost 90% of economic activity, increased to 50.6 from 49.5 in July. However, the index for manufacturing fell in August for the first time in three months to 49.9 from 50 in July, as companies slowed production and cut payrolls in the face of weakening consumer spending. Both surveys indicate a stagnating economy.

On the housing front, negative news dominated. Foreclosures accelerated in the second quarter to 2.75% from 2.47% in 1Q08. The mortgage delinquency rate of 6.41% was the highest since records began to be collected in 1979 by the Mortgage Bankers Association. Moreover, pending home sales, considered a leading indicator since it tracks contract signings, which are usually one to two months ahead of closings, fell 3.2% in July after rising 5.8% in June, as reported by the National Association of Realtors.

However, on the positive side, one notes that factory orders climbed a higher-than-expected 1.3% in July following a 2.1% increase in June, a sign that exports were still supporting the economy at the start of the third quarter. However, the stimulus from trade, which was the biggest in 28 years in the 2Q08, may wane as Europe's and Japan's economies decelerate and the dollar appreciation. In fact, the trade balance deteriorated markedly in July.

The US economy is estimated to expand at 1.8% rate this year, up 0.2 pp from last month and forecast to achieve 1.4% growth next year, up 0.1 pp.

Japan

Japanese economic contraction in 2Q08 steeper than initially estimated

Japan's economy contracted at a downwardly revised annualised rate of 3% during the second quarter of 2008 from an initial estimate of 2.4%, the steepest drop since 2001, on lower estimates for capital spending. Net exports, the main engine of growth in the past few years subtracted from growth in the second quarter for the first time in three years. Recent data into the third quarter also point to a stagnating economy raising the possibility of a technical recession. However, a recession, should it materialise is expected to be shallow and only of short duration. Japanese companies have shed excess capacity and debt in recent years and the recent decline in oil prices is seen to benefit Japan more than other economies. Japan has the added advantage of having been little affected by the credit crisis that has impacted the US and Europe. However, Japanese equity markets are also being impacted by the recent financial turmoil in the US and the yen has gained versus the dollar on further unwinding of carry trades.

Capital spending fell by 0.5% in 2Q08 from the preliminary estimate of 0.2% while consumer spending also dropped at the same rate, as salaries and wages failed to keep up with inflation. Further in July, real employee compensation decreased by 0.4% as the core consumer price index, excluding fresh food, rose to 2.4% from year ago, exceeding the two percent mark for the first time in a decade on higher food and energy prices. Japanese household spending continued to fall in July by 0.5% to an average 298,366 yen ($2,724.80) from a year earlier, the fifth straight month of decline. Meanwhile, machinery orders, a forward indicator of capital spending, dropped for the second month in July by 3.9% m-o-m after sliding 2.6% in June, in expectation of slowing global demand. The Economy Watchers index, a survey of service providers that deal with consumers, dropped to 28.3, the lowest since October 2001, from 29.3 in July.

The unemployment rate improved slightly in July to 4.0% from 4.1% in June, a two-year high, as a result of more jobs created in services sectors. However, job openings reached three-year lows, and the ratio of job openings to job seekers dropped to 0.89 in July, the lowest ratio since October 2004, and down from 0.91 in June, mainly due to fewer job offers in the construction, transportation and manufacturing sectors. The ratio had been below 1.0 since November 2007.

In response to higher prices and falling real income and profits, the Japanese government has announced a stimulus package. Although is overall value of the announced package is large, it includes only around ¥1.8 trillion ($17 bn) in additional government spending (0.3% of GDP), which is relatively modest compared to the US package of around 1% of GDP, and its macroeconomic effects are expected to be modest. The government also announced a one-off fixed-amount income tax cut within the fiscal year (ending 31 March, 2009). Details are still to be worked out and some delay is expected due to the government reshuffle. A large part of the spending is not likely to arrive until next year.

Overall, the Japanese economy is expected to grow at 0.8% this year -down 0.2 pp from last month, and by 1.0% in 2009, a downward revision of 0.1 pp.

Euro-zone

Further signs of widespread slowdown in the Euro-zone

In the euro-zone economies further signs of a widespread slowdown in the first two months of the third quarter imply that the region may be on the brink of a technical recession after the annualised drop of 0.8% in GDP in the second quarter. Retail sales across the region fell in July and manufacturing and service industries contracted for a third month in August. In Germany, the largest economy in the Euro-zone, manufacturing orders fell for the eighth straight month in July. The European Commission now forecasts that Germany and Spain as well as the UK could slip into recession. Euro-zone financial markets have also been shaken by the turmoil in the US and equity markets have registered strong falls. The European Central Bank (ECB) announced measures to provide additional liquidity to the financial sector.

Despite the slowing economy, the ECB kept its key interest rate unchanged at 4.25%, a seven-year high, in an attempt to keep faster inflation from fueling wage increases, as well as announcing a tightening of the rules for lending to banks, thus raising the cost of borrowing. Inflation dropped to 3.8% in August from 4% in July but the ECB is afraid of second-round effects as inflation expectations are moving up. This can be seen from the wage negotiations in some Euro-zone countries such as Ireland and Germany. In the latter, IG Metall, the largest trade union in Germany representing 3.5 million members is seeking a 7-8% wage increase.

The purchasing managers' index (PMI), a key leading indicator of economic activity, remained below the 50 threshold level in August. Manufacturing activity contracted for the third straight month, recording a level of 47.6, slightly up from 47.4 in July, as reported by the research group Markit Economics. German firms reported shrinking output for the first time in three years. Similarly, the region's services purchasing managers index rose slightly to 48.5 in August, from July's five-year low of 48.3 but remained below the 50 threshold level. Germany's PMI services figure was revised up to 51.4, but was clearly lower than July's 53.1 level.

Moreover, Euro-zone industrial production fell a higher than expected 0.3% in July, the third consecutive drop. From a year earlier, euro-area output fell 1.7% after declining 0.8% in June. Production in Germany fell 1.8% from the previous month, while French output rose 1.2% after declining in the previous two months. Italian production slipped 1.1 %.

Data from the European Union Statistical Office showed that payrolls also grew at the slowest pace of 0.2% in almost two years during the second quarter compared to 0.3% in 1Q08. Annual growth in payrolls slowed to 1.2% from 1.6% in the previous quarter. The statistics office estimates that the total number of people employed in the Euro-zone was 146 million in the second quarter.

Euro-zone growth has been revised down 0.1 pp this year and next from last month's forecast. The region is expected to grow 1.3% this year moderating to 1.0% in 2009.

Former Soviet Union

Russian economy grew by 8% in first half of 2008

Russia's GDP grew by 8% y-o-y in the first half of 2008 according to the Russian Federal Statistics Service (Rosstat). The country's GDP was up 7.5% in the second quarter of 2008, slower than the 8.1% expansion recorded a year ago. In the second quarter, fishing, trade, transport and communications, and construction posted high growth, while mineral exploration fell into decline. Inflation, on the other hand, continues to remain high. Producer price inflation ran at 33.7% in July, while consumer prices rose 0.4% m-o-m in August. The government predicts that Russia's GDP could grow 7.6-7.8% for the whole of 2008, lower than the 8.1% recorded last year. Russia's stock market has tumbled almost 50% since May and foreign investors have pulled out billions of dollars responding to the geopolitical tensions and the mortgage crisis in the US and Europe. As foreign capital investment is expected to fall by 45% this year to around $45 bn, the government might use its $32 bn national wealth fund to prop up the country's financial markets.

Kazakhstan's economic growth to slow down in 2008

Kazakhstan sees the economy growing at 5-7% annually in the next three years and inflation easing, according to a draft three-year budget report. Central Asia's largest economy has suffered from the global liquidity squeeze coupled with runaway inflation. The government sees gross domestic product (GDP) growth slowing down to 5.3% this year from 8.7% last year.

Developing Countries

Industrial production growth slows in China

Industrial output in China rose 12.8% in August from a year earlier, according to the National Statistics Bureau (NSB), after gaining 14.7% in July. The slowing trend of industrial production growth in China has increased the possibility that the government will have to stimulate the economy. Weaker export demand and factory shutdowns for the Olympics — before the Olympics, China's government had restricted industrial production and construction in Beijing and surrounding provinces to reduce air pollution — lie behind this slowest growth pace in six years. China's export growth slowed in August to 21.1% compared to July's growth of 26.9% from a year earlier. Concern about growth and moderating inflation will encourage the Chinese authorities to cut bank's reserve requirements and slow the pace of the yuan appreciation. China's government has already loosened loan quotas — restrictions on how much banks can lend — and raised export-tax rebates for garments and textiles. Infrastructure spending is a possible tool for stimulating economic growth.

Despite the sharp fall in inflation last month, retail sales have strongly grown by 23.2% in the year to August according to the National Bureau of Statistics (NBS), just off July's record pace of 23.3%. Rising incomes, supported by urbanisation, are fuelling consumption. Incomes in the urban areas rose by 14.4% in the first half of 2008 from a year earlier, or 6.3% in real terms; rural cash incomes jumped 19.8%, or 10.3% in real terms.

The consumer price index dropped to 4.9% y-o-y in August, the fourth consecutive month of slowing inflation according to NBS, which is far below February's near 12-year high of 8.7%. Food prices, the main driver of inflation since last year, were up 10.3% in August from a year earlier. In July, food inflation had been 14.4%. This could be a reflection of better food supply together with slowing growth of consumption. The evidence for the latter includes the sluggish car sales, falling revenues at major electronic retailers and weakening enthusiasm for buying homes.

India's economic growth decelerates in 2Q08

India's economic growth slowed to its lowest rate in three years in the second quarter of 2008 as rising inflation and higher interest rates crimped domestic consumption and investment. India's GDP grew 7.9% in the fiscal first quarter, slowing from an 8.8% expansion in the preceding quarter and 9.2% growth in the same quarter last year. In contrast, India's annual industrial output rose more than expected in July, driven by capital goods production, signaling continuing investment in manufacturing and underlying economic strength in the face of higher interest rates.

OPEC Member Countries

Qatar's economy rose by around 15% in first quarter of 2008

Inflation in Saudi Arabia will grow at a slower pace in the third quarter, reflecting a jump in prices during the same period last year and government food subsidies. Qatar's economy rose by around 15% in the first quarter of this year extending its rapid growth trend, according to the Qatari Planning Council, the country's official statistics agency. The report attributed the surge to higher oil prices and a rapid growth in the country's liquefied natural gas exports, which have allowed Qatar to amass huge wealth and record the highest growth rates in the region over the past few years.

Oil prices, the US dollar and inflation

US dollar stages strong recovery in August

The US dollar moved up strongly in August against the major currencies in the modified Geneva I + US dollar basket. The dollar rose 5.1% versus the euro, and gained 2.3% against the yen, 5.3% versus the pound sterling, and 5.7% against the Swiss franc. Vis-à-vis the modified Geneva I + US dollar basket, the dollar posted a gain of over 3.2%. The US currency averaged $1.4969/€ in August from $1.5769/ in July.

The US currency's strong recovery, which took off in mid-July, gained momentum in August and continued into September. By September 11, the dollar had risen to a one-year high versus the euro of $1.3934 or 13% over the course of eight weeks. The reversal of trend for the dollar seen to reflect evidence of a sharp slowdown in economic activity in the euro-zone and Japan as well as the general deceleration of growth in the rest of the world. However, the dollar has lost some ground in the last few days reflecting the recent financial turbulence in the US.

In August, the OPEC Reference Basket dropped by $18.8/b or 14.3% to $112.41 from $131.22/b in July. In real terms (base June 2001=100), after accounting for inflation and currency fluctuations, the Basket price fell $9.45/b or 12.0% to $69.28/b from $78.73/b. The dollar appreciated by more than 3.2%, as measured against the import-weighted modified Geneva I+US dollar basket, while inflation eroded the value of the barrel by over 0.5%.*

* *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 0.9 mb/d in 2009 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 to average 87.7 mb/d, unchanged from last *MOMR*. Non-OECD oil demand growth of 1.2 mb/d will account for all of the world oil demand growth next year. The transport fuel sector will see the most growth in 2009. As mentioned previously, a number of variables could potentially affect world oil demand growth in 2009, suggesting an upper and lower range for oil demand growth. The upper side is estimated at 1.15 mb/d and the lower side is forecast at 0.7 mb/d. One of the factors that might take a toll on next year's oil demand growth is the removal of price subsidies. For example, Indonesia has announced that the government's plan for next year is to cut its fuel subsidies by another 20%. Another factor that will affect oil consumption is the movement from subsidized household used kerosene to gas in some developing countries.

2008 world oil demand growth revised down to 0.9 mb/d on the sharp fall in North America

World oil demand in 2008

OECD oil demand showed a further decline resulting from a steep fall in US oil demand. US oil demand declined by 0.8 mb/d y-o-y in August resulting from a slow economy and high retail prices. The same factor is affecting jet fuel consumption in the OECD. Jet fuel has been declining by more than 3.5% in the US, and Europe's annual growth is expected to lose one third of its forecast in the near future.

In contrast, summer oil demand growth of 4% in non-OECD countries, mainly China, Middle East and Asia, offset the decline in OECD oil demand. However, with the most recent data showing an unexpectedly strong decline in oil demand in North America, the total world demand growth forecast has been revised down by 0.1 mb/d. Thus, **world oil demand growth has been revised down to stand at 0.9 mb/d in 2008 to average 86.8 mb/d.**

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

							Change 2008/07	
	2007	1Q08	2Q08	3Q08	4Q08	2008	Volume	%
North America	25.54	24.84	24.54	25.04	25.64	25.02	-0.52	-2.04
Western Europe	15.30	15.20	14.95	15.37	15.72	15.31	0.01	0.05
OECD Pacific	8.35	8.87	7.89	7.81	8.74	8.32	-0.02	-0.27
Total OECD	**49.19**	**48.90**	**47.38**	**48.21**	**50.10**	**48.65**	**-0.54**	**-1.09**
Other Asia	9.12	9.32	9.49	9.14	9.49	9.36	0.24	2.68
Latin America	5.51	5.54	5.75	5.84	5.78	5.73	0.22	3.94
Middle East	6.50	6.74	6.80	6.91	6.75	6.80	0.30	4.62
Africa	3.09	3.19	3.11	3.13	3.21	3.16	0.07	2.23
Total DCs	**24.22**	**24.79**	**25.15**	**25.02**	**25.22**	**25.05**	**0.83**	**3.43**
FSU	3.98	3.97	3.89	4.09	4.44	4.10	0.12	2.94
Other Europe	0.93	1.03	0.96	0.92	0.92	0.96	0.03	2.84
China	7.59	7.97	8.17	8.20	7.78	8.03	0.44	5.85
Total "Other Regions"	**12.50**	**12.98**	**13.02**	**13.21**	**13.14**	**13.09**	**0.59**	**4.70**
Total world	**85.91**	**86.67**	**85.55**	**86.44**	**88.46**	**86.79**	**0.88**	**1.02**
Previous estimate	85.90	86.65	85.66	86.82	88.47	86.90	1.00	1.17
Revision	0.00	0.02	-0.10	-0.38	-0.01	-0.12	-0.12	-0.14

Totals may not add due to independent rounding.

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

			Change 2008/07				Change 2008/07	
	1Q07	1Q08	Volume	%	2Q07	2Q08	Volume	%
North America	25.68	24.84	-0.84	-3.27	25.42	24.54	-0.88	-3.46
Western Europe	15.23	15.20	-0.03	-0.22	14.95	14.95	0.00	0.02
OECD Pacific	8.91	8.87	-0.04	-0.49	7.87	7.89	0.01	0.18
Total OECD	**49.82**	**48.90**	**-0.92**	**-1.84**	**48.24**	**47.38**	**-0.86**	**-1.79**
Other Asia	8.98	9.32	0.34	3.82	9.24	9.49	0.26	2.78
Latin America	5.30	5.54	0.24	4.48	5.48	5.75	0.27	4.89
Middle East	6.45	6.74	0.28	4.38	6.44	6.80	0.36	5.60
Africa	3.10	3.19	0.09	2.83	3.05	3.11	0.06	2.03
Total DCs	**23.84**	**24.79**	**0.95**	**3.99**	**24.21**	**25.15**	**0.95**	**3.91**
FSU	3.87	3.97	0.10	2.70	3.71	3.89	0.19	5.03
Other Europe	1.01	1.03	0.03	2.53	0.92	0.96	0.04	4.55
China	7.48	7.97	0.50	6.63	7.77	8.17	0.40	5.14
Total "Other Regions"	12.35	12.98	**0.63**	**5.06**	12.39	13.02	**0.63**	**5.06**
Total world	**86.01**	**86.67**	**0.66**	**0.77**	**84.84**	**85.55**	**0.71**	**0.84**

Totals may not add due to independent rounding.

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

			Change 2008/07				Change 2008/07	
	3Q07	3Q08	Volume	%	4Q07	4Q08	Volume	%
North America	25.57	25.04	-0.53	-2.07	25.49	25.64	0.15	0.59
Western Europe	15.41	15.37	-0.04	-0.25	15.62	15.72	0.10	0.61
OECD Pacific	7.89	7.81	-0.08	-1.01	8.72	8.74	0.02	0.23
Total OECD	**48.86**	**48.21**	**-0.65**	**-1.33**	**49.83**	**50.10**	**0.26**	**0.53**
Other Asia	8.94	9.14	0.20	2.24	9.31	9.49	0.18	1.91
Latin America	5.65	5.84	0.19	3.36	5.61	5.78	0.18	3.12
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	**24.28**	**25.02**	**0.74**	**3.05**	**24.54**	**25.22**	**0.69**	**2.80**
FSU	4.00	4.09	0.09	2.21	4.35	4.44	0.09	2.07
Other Europe	0.90	0.92	0.02	2.08	0.90	0.92	0.02	2.23
China	7.72	8.20	0.48	6.22	7.38	7.78	0.40	5.42
Total "Other Regions"	12.62	13.21	**0.59**	**4.65**	12.63	13.14	**0.51**	**4.04**
Total world	**85.76**	**86.44**	**0.68**	**0.79**	**87.00**	**88.46**	**1.46**	**1.68**

Totals may not add due to independent rounding.

Alternative Fuels

Thailand started selling ethanol blended gasoline (E85) last August as a first step toward biofuels. The new gasoline is heavily subsidized as the tag price is 48% lower than normal gasoline. There are not many vehicles that run on E85, but the number is expected to grow quickly should the government continue to subsidize the new product. Despite the estimated 11% increase in sugarcane crop this year in Brazil, most of it will go to produce biofuel which should put further pressure on international food prices. Biofuel has been seen as a major cause behind Asia's deforestation and food price increases.

OECD North America

US oil demand contracted by 0.9 mb/d year-to-date

US August data show a strong contraction in the consumption of many products. High retail prices suppressed gasoline demand by 1.37% y-o-y in August. Kerosene/jet fuel was also badly hit by the slow air travel, which led to a decline of 4.2% y-o-y in the first eight months of 2008. Industrial products such as fuel oil and propane declined by more than 3% each. Given the steep 0.8 mb/d decline in August, US oil demand growth has contracted by 0.9 mb/d year-to-date. Both Hurricanes Gustav and Ike had a minor effect on oil demand so far due to the halt of economic activities in some of the US southern cities.

With the assumption of normal weather in the fourth quarter, North America's oil demand is expected to show moderate growth of 0.2 mb/d resulting mostly from fuel and heating oil. Canadian gasoline demand was hit by higher retail prices which resulted in a contraction of 3% or 24 tb/d y-o-y in July. Continuing the summer trend, Canadian diesel fuel oil consumption showed growth of 6.3% in July to average 0.5 mb/d. Hence, total Canadian sales of petroleum products grew by 0.8% y-o-y in July.

Similarly, Mexican petroleum product sales grew strongly by 6.4% y-o-y in July. Summer travel pushed gasoline use up by 8.5% in July adding 63 tb/d to total demand. Furthermore, diesel use was also on the rise adding 52 tb/d y-o-y to the total use in July. Contrary to US oil demand, Mexico's total oil demand grew by 1.7% y-o-y in the first seven months of this year averaging 1.86 mb/d.

As a result of declining US oil demand, North America's oil demand growth was revised down by another 0.18 mb/d in 2008 to show a total decline of 0.5 mb/d y-o-y in 2008.

OECD Europe

Demand growth in OECD Europe flat in 2008

Shrinking oil demand in some of the major European consumers caused oil demand in the region to continue its declining trend. German inland delivery slightly slid to the negative in June as a result of the 7.5% shrinkage in gasoline consumption. European gasoline consumption was not only affected by the shrinking pool of gasoline engine vehicles but also resulted from the negative effect of high retail prices. Italian oil consumption followed a similar patter to German oil consumption. Italian gasoline demand declined by 7.8% y-o-y in July to average 0.27 mb/d. Furthermore, UK gasoline and jet fuel consumption declined by 4.8% and 6.7% respectively. The current decline in prices should encourage German consumers to take advantage and start filling their heating oil tanks, which could be reflected in next month's demand estimate. Given the serious decline not only in transport fuel but also industrial fuel, and the assumption of a normal cold winter in the fourth quarter, **OECD Europe's oil demand growth in 2008 is forecast to be almost flat, averaging 15.3 mb/d y-o-y.**

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

							Change 2009/08	
	2008	**1Q09**	**2Q09**	**3Q09**	**4Q09**	**2009**	**Volume**	**%**
North America	25.02	24.65	24.24	24.74	25.45	24.77	-0.25	-0.98
Western Europe	15.31	15.22	14.89	15.35	15.74	15.30	-0.01	-0.07
OECD Pacific	8.32	8.85	7.84	7.76	8.71	8.29	-0.04	-0.45
Total OECD	**48.65**	**48.71**	**46.97**	**47.84**	**49.90**	**48.36**	**-0.29**	**-0.60**
Other Asia	9.36	9.48	9.66	9.31	9.65	9.53	0.17	1.76
Latin America	5.73	5.68	5.91	6.00	5.93	5.88	0.15	2.66
Middle East	6.80	7.02	7.09	7.19	7.02	7.08	0.28	4.15
Africa	3.16	3.26	3.18	3.20	3.26	3.23	0.07	2.10
Total DCs	**25.05**	**25.44**	**25.84**	**25.70**	**25.86**	**25.71**	**0.67**	**2.66**
FSU	4.10	4.04	3.96	4.15	4.51	4.17	0.07	1.65
Other Europe	0.96	1.05	0.98	0.94	0.94	0.98	0.02	1.99
China	8.03	8.39	8.58	8.62	8.18	8.44	0.41	5.14
Total "Other Regions"	**13.09**	**13.49**	**13.52**	**13.71**	**13.63**	**13.59**	**0.50**	**3.81**
Total world	**86.79**	**87.64**	**86.32**	**87.25**	**89.40**	**87.66**	**0.87**	**1.00**
Previous estimate	**86.90**	**87.62**	**86.47**	**87.67**	**89.41**	**87.80**	**0.89**	**1.03**
Revision	**-0.12**	**0.02**	**-0.15**	**-0.42**	**-0.01**	**-0.14**	**-0.02**	**-0.02**

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	24.84	24.65	-0.19	-0.77	24.54	24.24	-0.30	-1.22
Western Europe	15.20	15.22	0.02	0.13	14.95	14.89	-0.06	-0.40
OECD Pacific	8.87	8.85	-0.03	-0.28	7.89	7.84	-0.05	-0.63
Total OECD	**48.90**	**48.71**	**-0.20**	**-0.40**	**47.38**	**46.97**	**-0.41**	**-0.87**
Other Asia	9.32	9.48	0.16	1.72	9.49	9.66	0.17	1.79
Latin America	5.54	5.68	0.15	2.62	5.75	5.91	0.16	2.78
Middle East	6.74	7.02	0.28	4.16	6.80	7.09	0.29	4.19
Africa	3.19	3.26	0.07	2.19	3.11	3.18	0.07	2.25
Total DCs	**24.79**	**25.44**	**0.66**	**2.64**	**25.15**	**25.84**	**0.69**	**2.72**
FSU	3.97	4.04	0.07	1.76	3.89	3.96	0.06	1.67
Other Europe	1.03	1.05	0.02	1.82	0.96	0.98	0.02	1.95
China	7.97	8.39	0.42	5.27	8.17	8.58	0.41	5.08
Total "Other Regions"	**12.98**	**13.49**	**0.51**	**3.92**	**13.02**	**13.52**	**0.50**	**3.83**
Total world	**86.67**	**87.64**	**0.97**	**1.12**	**85.55**	**86.32**	**0.77**	**0.90**

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	25.04	24.74	-0.30	-1.20	25.64	25.45	-0.19	-0.74
Western Europe	15.37	15.35	-0.03	-0.16	15.72	15.74	0.02	0.13
OECD Pacific	7.81	7.76	-0.05	-0.64	8.74	8.71	-0.03	-0.29
Total OECD	**48.21**	**47.84**	**-0.38**	**-0.78**	**50.10**	**49.90**	**-0.20**	**-0.39**
Other Asia	9.14	9.31	0.17	1.86	9.49	9.65	0.16	1.69
Latin America	5.84	6.00	0.16	2.74	5.78	5.93	0.15	2.51
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	**25.02**	**25.70**	**0.69**	**2.74**	**25.22**	**25.86**	**0.64**	**2.54**
FSU	4.09	4.15	0.07	1.59	4.44	4.51	0.07	1.57
Other Europe	0.92	0.94	0.02	2.04	0.92	0.94	0.02	2.18
China	8.20	8.62	0.41	5.06	7.78	8.18	0.40	5.14
Total "Other Regions"	**13.21**	**13.71**	**0.50**	**3.78**	**13.14**	**13.63**	**0.49**	**3.73**
Total world	**86.44**	**87.25**	**0.81**	**0.94**	**88.46**	**89.40**	**0.93**	**1.06**

Totals may not add due to independent rounding.

OECD Pacific

OECD Pacific demand to decline slightly in 2008

Summer demand pushed Japan's July oil imports up by 0.5% y-o-y. Japan, the largest consuming country in the Pacific, quenched its thirst for fuel oil which started after an earthquake hit its chief nuclear power plant. Some other factors affecting oil demand in Japan are fuel switching to gas and the movement to smaller efficient cars. Despite the increase in crude burning of 57%, the demand for other products declined, especially for gasoline and kerosene, and the country's total domestic petroleum product sales dipped in July by 0.7% y-o-y. Furthermore, South Korea's oil demand declined by 3% y-o-y in July as a result of weak transport fuel consumption. South Korea is taking drastic measures in order to be more energy efficient. Hence, it is anticipated that total OECD Pacific's oil demand will show a decline of around 80 tb/d in the third quarter.

Given the negative effects of not only slow economic activities in the Pacific but also high oil prices, **OECD Pacific oil demand is forecast to decline by 22 tb/d y-o-y in 2008 to average 8.3 mb/d.**

Table 9: Japanese Domestic Sales, tb/d

	Jul 08	Change from Jul 07	Change from Jul 07 %
Gasoline	989	-72	-6.8
Naphtha	782	-13	-1.6
Jet Fuel	102	17	19.6
Kerosene	139	-32	-18.8
Gas Oil	590	-12	-2.0
Other Products	679	-7	-1.0
Direct Use of Crude	257	93	57.0
Total	**3,538**	**-26**	**-0.7**

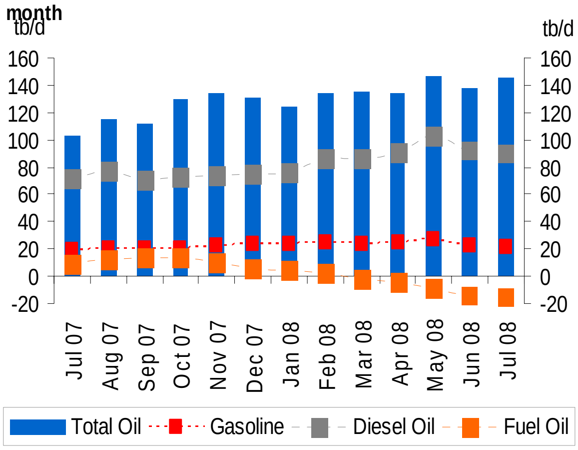
Source: Ministry of Economy and Trade in Japan (METI).

Developing Countries

Developing Countries forecast to grow at 830 tb/d this year

Moderate summer heat helped the energy conservation movement within Taiwan. Furthermore, an increase in retail petroleum product prices has pushed consumption down. Latest official figures indicated that gasoline demand was down by 21% y-o-y in July and diesel consumption lost one quarter of its volume. Although the government-implemented conservation programme was successful, Taiwan's total oil demand is expected to show growth of around 3% this year. Energy price subsidy costs became a burden on some Asian countries which forced some to cut subsidies which resulted in a slowdown in consumption. Despite the massive increase in fuel prices of 30% last May in Indonesia, Other Asia's oil demand, supported by Indian consumption, is expected to show strong growth this year reaching 0.24 mb/d y-o-y to average 9.4 mb/d.

Graph 13: Yearly changes in Indian oil demand (12 month



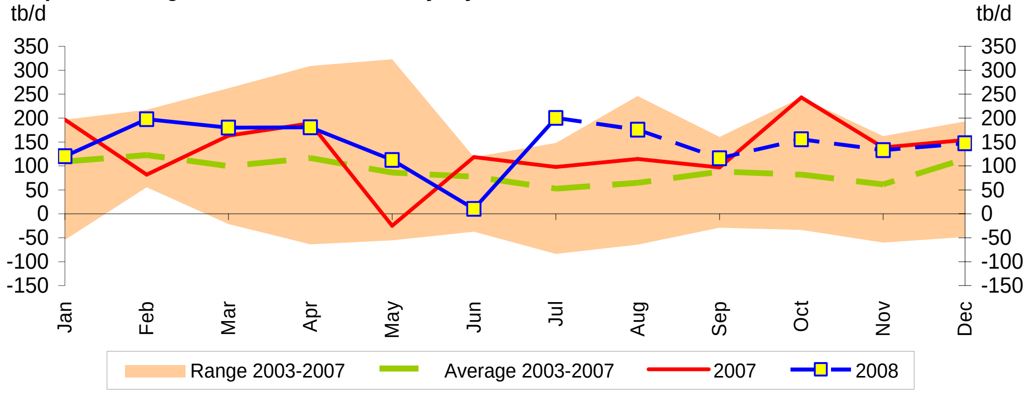
Indian oil demand bounced back after weak growth in June. July oil demand grew by a stunning 7.8% adding 200 tb/d y-o-y in July to average 2.8 mb/d. July demand was the highest since last October. Diesel consumption, which was supported not only by transport but also by industrial and agricultural use, grew the most adding 100 tb/d to India's total oil demand. On the other hand, the recent increase in retail prices has taken its toll on gasoline demand; however, it seems that the price shock has already passed. Indian gasoline demand recorded a decline in June but recovered to show growth of 14 tb/d y-o-y.

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

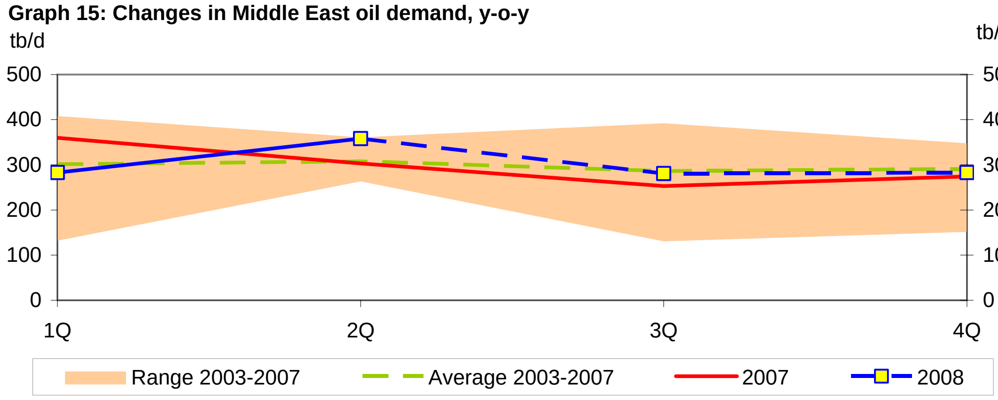
	Jul 08	Jun 08	Jan 08 - Jul 08	Difference to Jan 07 - Jul 07	%
LPG	355	342	376	23	6.5
Motor Gasoline	249	227	254	19	8.3
Jet Kero	282	284	298	10	3.5
Gas Diesel Oil	1,074	1,016	1,102	105	10.5
Residual Fuel Oil	349	349	314	-21	-6.2
Other Products	461	494	578	6	1.1
Total Oil Demand	**2,770**	**2,711**	**2,922**	**143**	**5.1**

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

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

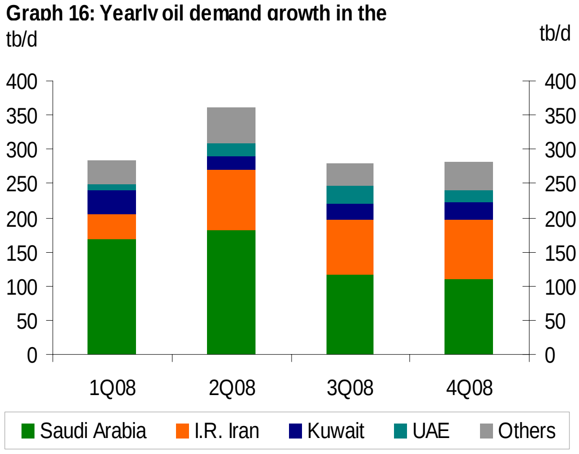


Graph 15: Changes in Middle East oil demand, y-o-y



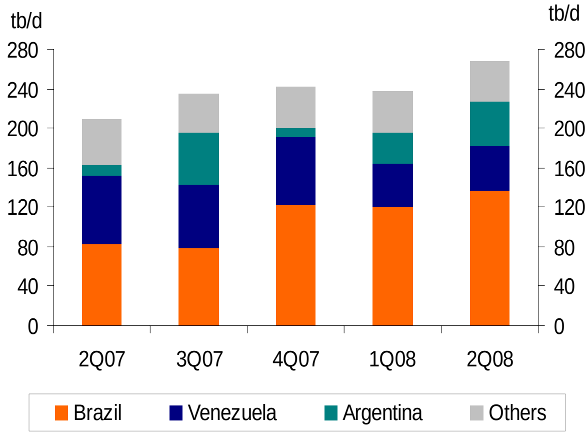
As in India, Middle East oil demand growth is forecast to reach 0.3 mb/d y-o-y in 2008. Transport and industrial fuel demand have increased and are expected to continue to do so for the remainder of the year.

Graph 16: Yearly oil demand growth in the



Oil demand in Brazil, Venezuela and Argentina grew strongly in the first half of 2008. Brazil's oil demand grew by 113 tb/d in the first half of this year. The economic boom and controlled prices led to strong oil demand growth this year; hence **Latin America's oil demand is forecast to grow by 0.2 mb/d to average 5.7 mb/d in 2008.**

Graph 17: Yearly oil demand growth in Latin America



As a result of the strong oil demand in Other Asia, Latin America, the Middle East and Africa, **oil demand growth in the Developing Countries is forecast to reach 0.8 mb/d y-o-y in 2008 to average 25 mb/d.**

Other Regions

China incremental demand forecast at 440 tb/d

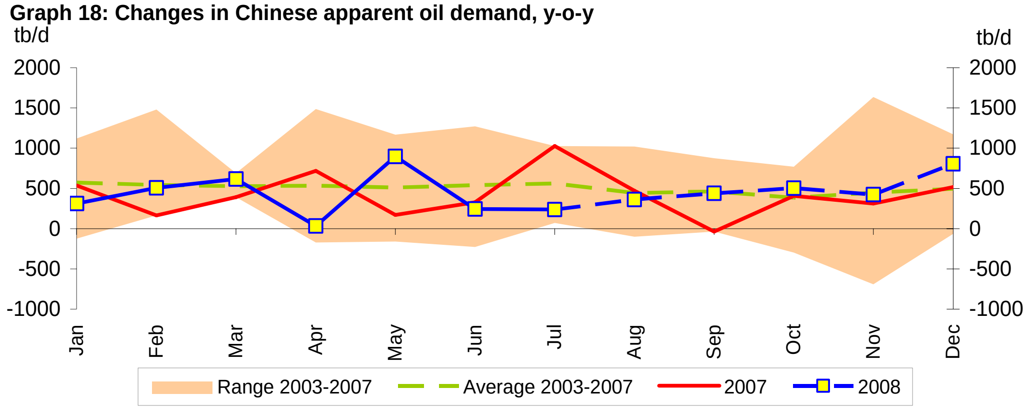
China's apparent oil demand showed a weak performance following massive growth in May. Oil imports went to the negative in July for the first time since September 2007. Hence, apparent oil demand grew moderately by only 3% y-o-y in July adding only 238 tb/d to China's total oil demand. Recent data show that Chinese crude and product imports are getting back on track reaching growth of 11.5% and 32% y-o-y in July. Several economic factors have shown strong growth in China in the first six months which affected oil demand to the upper side. One factor is the 13% growth in electricity generation in the first half of 2008.

The country's oil imports and apparent oil demand averaged 4.2 mb/d and 8.0 mb/d in the first seven months of 2008. Given the fact that September is the high demand season for agricultural fuel, China's apparent oil demand is expected to show healthy growth in the coming months.

Given the new car sales strong growth, **China's oil demand growth is forecast at 0.44 mb/d y-o-y to average 8 mb/d in 2008.**

Second-quarter apparent demand in the FSU was stronger than expected, resulting in an upward revision of 60 tb/d. As a consequence, growth for the whole year of 2008 will reach 0.11 mb/d y-o-y to average 4.1 mb/d.

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



World Oil Supply

Non-OPEC

Forecast for 2008

Non-OPEC supply growth revised down to 510 tb/d

Non-OPEC supply is expected to average 49.94 mb/d in 2008, indicating growth of 510 tb/d over the previous year and representing a downward revision of around 70 tb/d from last month's assessment. Output disruptions from the Gulf of Mexico due to the passing of hurricanes Gustav and Ike as well as the BTC pipeline explosion were the main factors behind the downward revision. As the extent of the damage caused by the hurricanes to the production infrastructure is not yet fully known, the effect on prospective projects and the possibility of further start-up delays will require more time to assess. In addition to the USA and Azerbaijan, downward revisions were applied to the forecasts for Canada and New Zealand. The third quarter witnessed significant downward revisions of around 271 tb/d, mainly from the USA and Azerbaijan. On a quarterly basis, total non-OPEC supply stands at 49.61 mb/d, 49.64 mb/d, 49.54 mb/d and 50.96 mb/d respectively.

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

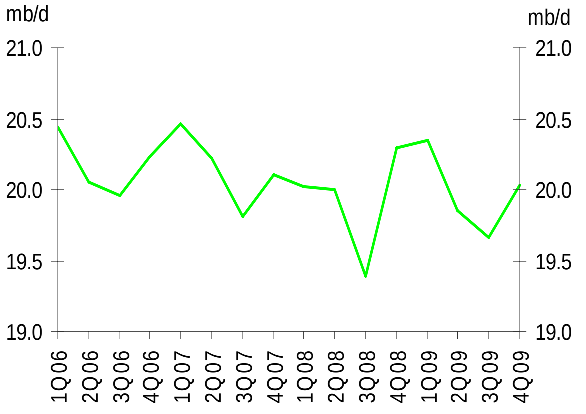
	2007	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07
North America	14.30	14.22	14.35	14.04	14.57	14.30	-0.01
Western Europe	5.24	5.22	5.01	4.59	4.90	4.93	-0.31
OECD Pacific	0.60	0.58	0.64	0.76	0.82	0.70	0.10
Total OECD	**20.15**	**20.02**	**20.01**	**19.39**	**20.30**	**19.93**	**-0.22**
Other Asia	2.71	2.76	2.67	2.85	2.94	2.81	0.10
Latin America	3.88	3.98	3.97	4.21	4.22	4.10	0.22
Middle East	1.66	1.63	1.64	1.65	1.66	1.65	-0.01
Africa	2.67	2.71	2.71	2.75	2.75	2.73	0.06
Total DCs	**10.92**	**11.08**	**10.99**	**11.46**	**11.58**	**11.28**	**0.36**
FSU	12.52	12.60	12.68	12.73	13.09	12.78	0.26
Other Europe	0.15	0.14	0.14	0.14	0.14	0.14	0.00
China	3.77	3.81	3.87	3.88	3.91	3.87	0.10
Total "Other regions"	**16.44**	**16.55**	**16.69**	**16.76**	**17.14**	**16.78**	**0.35**
Total Non-OPEC production	**47.50**	**47.66**	**47.69**	**47.60**	**49.01**	**47.99**	**0.49**
Processing gains	1.92	1.95	1.95	1.94	1.95	1.95	0.02
Total Non-OPEC supply	**49.42**	**49.61**	**49.64**	**49.54**	**50.96**	**49.94**	**0.51**
Previous estimate	49.42	49.60	49.60	49.81	50.99	50.00	0.58
Revision	0.00	0.00	0.03	-0.27	-0.03	-0.07	-0.07

OECD

OECD oil supply is expected to decline 220 tb/d in 2008

Total OECD production is anticipated to average 19.93 mb/d in 2008, representing a decline of around 220 tb/d from the previous year, indicating a downward revision of around 45 tb/d from last month's assessment. On a quarterly basis, OECD oil supply is expected to average 20.02 mb/d, 20.01 mb/d, 19.39 mb/d and 20.30 mb/d respectively. OECD Pacific is expected to be the only region among the OECD to register growth in 2008 as this month's downward revisions pushed North America into negative territory in terms of supply growth.

Graph 19: OECD's quarterly production



USA

Hurricanes Gustav and Ike along with other factors brought down US supply growth to 190 tb/d in 2008

Oil supply from the USA is expected to average 7.69 mb/d in 2008 indicating growth of 190 tb/d over the previous year. This represents a downward revision of 40 tb/d from last month's assessment, while a minor upward revision to US oil supply was implemented to adjust to actual figures in the second quarter. However, the estimated effect on production of hurricanes Gustav and Ike, in addition to maintenance work in Alaska, slashed a considerable 190 tb/d from the US third-quarter oil supply from previous month's assessment, which is expected to increase as further details emerge. While Hurricane Gustav had reportedly not caused any significant damage to the infrastructure, the impact of Hurricane Ike currently remains unclear as well as the extent of projects start-up and ramp-up delays. According to preliminary figures, US oil production stood at 7.56 mb/d in August.

Canada and Mexico

Canadian oil supply is estimated to grow by 60 tb/d in 2008 over the previous year to average 3.38 mb/d, representing a minor downward revision of 6 tb/d to last month's assessment. On a quarterly basis, production stands at 3.30 mb/d, 3.41 mb/d, 3.34 mb/d and 3.47 mb/d respectively. The minor downward revision from last month's level of around 6 tb/d was due to adjustments to actual figures for the first and second quarters of this year. Preliminary data for oil supply indicate average July and August production stands at 3.48 mb/d which is in line with our third-quarter forecast.

Total oil supply from **Mexico** is anticipated to decline by 260 tb/d in 2008 from the previous year to average 3.23 mb/d, unchanged from last month's assessment. The heavy decline in mature fields continues to influence the production level, especially at the giant Cantarell field whose production has reportedly shown a decline in July for 10 consecutive months to reach 974 tb/d.

Western Europe

OECD Europe oil supply is expected to average 4.93 mb/d in 2008, representing a drop of 310 tb/d from the 2007 figure and a minor upward revision from last month's assessment, supported by unconventional oils from the Other Western Europe group. The quarterly figures are estimated at 5.22 mb/d, 5.01 mb/d, 4.59 mb/d and 4.90 mb/d respectively. The UK is expected to be the major contributor to the decline.

Norway and UK forecast to remain steady from the previous month

Oil supply from **Norway** is expected to average 2.40 mb/d in 2008, indicating a decline of around 0.16 mb/d from the 2007 figure. The forecast for Norway stands unchanged from previous month's assessment despite a minor adjustment in the second quarter which was due to received actual figures. The summer maintenance remained within our expectation for Norway with the production for July and August averaging 2.44 mb/d, as per the preliminary data, suggesting the possibility of an upward revision for the third quarter. On a quarterly basis, Norway supply stands at 2.51 mb/d, 2.39 mb/d, 2.23 mb/d and 2.45 mb/d respectively.

UK oil production is forecast to average 1.52 mb/d, representing a decline of 170 tb/d from the previous year, unchanged from last month's estimate, despite a minor upward revision to actual data in the second quarter. On a quarterly basis, UK oil supply stands at 1.69 mb/d, 1.58 mb/d, 1.38 mb/d and 1.45 mb/d respectively. The heavy maintenance is likely to continue to impact the third quarter with production standing at 1.27 mb/d in August, according to preliminary data.

Asia Pacific

Oil supply from the OECD Asia Pacific region is anticipated to average 0.70 mb/d in 2008, representing growth of 10 tb/d compared with 2007 and a minor downward revision from last month. On a quarterly basis, total oil supply is estimated to average 0.58 mb/d, 0.64 mb/d, 0.76 mb/d and 0.82 mb/d respectively.

Australia is estimated to show growth of 60 tb/d over the 2007 figure, unchanged from last month's assessment. On quarterly basis, production stands at 0.47 mb/d, 0.53 mb/d, 0.65 mb/d and 0.70 mb/d respectively. The preliminary August figure stands at around 0.54 mb/d.

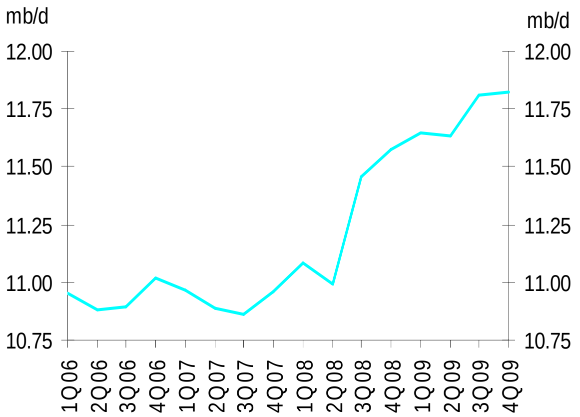
New Zealand's oil supply forecast was revised down by 16 tb/d from last month's assessment due to the delays in the Maari oil field start-up.

Developing Countries

Developing Countries supply to average 11.28 mb/d

Developing Countries (DC) oil supply is expected to average 11.28 mb/d in 2008, representing an increase of 0.36 mb/d over the 2007 level and showing a minor downward revision from the previous month's assessment. On a quarterly basis, total DC oil supply is forecast at 11.08 mb/d, 10.99 mb/d, 11.46 mb/d and 11.58 mb/d respectively. While there were few downward revisions to individual countries, among the DCs there were upward revisions that offset the trend.

Graph 20: Developing Countries' quarterly production



Other Asia, Latin America, Middle East and Africa supply relatively steady from previous month

Oil supply growth from the **Other Asia group** in 2008 is forecast at 0.10 mb/d over 2007 to average 2.81 mb/d. On a quarterly basis, Other Asia supply is expected to average 2.76 mb/d, 2.67 mb/d, 2.85 mb/d and 2.94 mb/d respectively. The forecast encountered a minor downward revision of 6 tb/d mainly from the adjustment to the first and second quarters as more actual data for Brunei, Malaysia and Vietnam became available.

The Latin American group oil production is estimated to average 4.10 mb/d in 2008 which represents an increase of around 220 tb/d over 2007. The projected supply level in 2008 indicates a minor downward revision of 6 tb/d from previous month's assessment. Brazil's second-quarter supply figure was revised down slightly to reflect actual production data. On a quarterly basis, Latin America supply stands at 3.98 mb/d, 3.97 mb/d, 4.21 mb/d and 4.22 mb/d respectively.

The Middle East group oil supply is projected to remain flat in 2008 with a minor decline of around 12 tb/d from the previous year and steady from last month's assessment. There was a minor upward adjustment to Oman estimates due to actual production data. On a quarterly basis, the Middle East group production stands at 1.63 mb/d, 1.64 mb/d, 1.65 mb/d and 1.66 mb/d respectively.

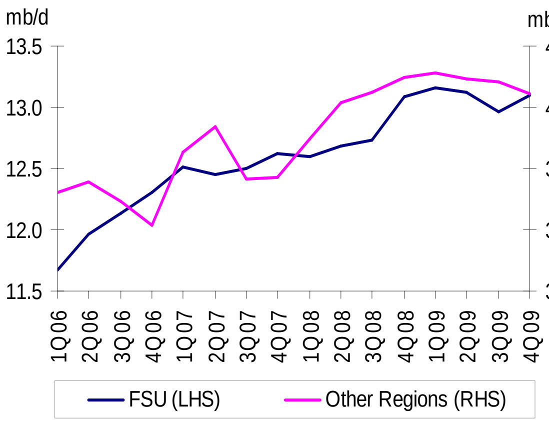
Oil Supply from the **African Group** is expected to average 2.73 mb/d in 2008, indicating a growth of around 60 tb/d over the pervious year and flat compared to month before. On a quarterly basis, production stands at 2.71 mb/d, 2.71 mb/d, 2.75 mb/d and 2.75 mb/d respectively.

FSU, Other Regions

FSU supply growth is forecast at 0.26 mb/d

The FSU oil supply is anticipated to increase by 0.26 mb/d in 2008 over 2007 to average 12.78 mb/d, representing a downward revision of 16 tb/d to last month's assessment. On a quarterly basis, total oil supply in the FSU is expected to average 12.60 mb/d, 12.68 mb/d, 12.73 mb/d and 13.09 mb/d respectively. China is estimated to average 3.87 mb/d indicating growth of around 97 tb/d in 2008. Other Europe group is expected to remain flat at 0.14 mb/d.

Graph 21: FSU and other region's quarterly production



Russia

Russia supply to remain flat in 2008

Oil production from **Russia** is projected to average 9.88 mb/d in 2008, broadly unchanged from the previous year. On a quarterly basis, Russian oil supply is expected to average 9.76 mb/d, 9.77 mb/d, 9.95 mb/d and 10.03 mb/d respectively. A minor downward revision of 10 tb/d to the fourth quarter was carried out due to the deferral of the Vankor oil field in East Siberia to mid-2009.

BTC resumed operation after curbing Azeri production

Caspian

Oil supply from **Kazakhstan** is expected to average 1.43 mb/d in 2008, indicating an increase of 80 tb/d versus 2007 but remained unchanged from last month's level. Quarterly supply figures are currently expected at 1.42 mb/d, 1.43 mb/d, 1.37 mb/d and 1.50 mb/d respectively.

Azeri oil supply is expected to grow by around 140 tb/d in 2008 over the previous year to average 1.00 mb/d, representing a downward revision of 16 tb/d from last month. The revision was experienced due to adjustment to actual figures in the second quarter as well as further downward revisions to the third quarter to reflect lost production on the back of an explosion along the BTC pipeline. The quarterly level now stands at 0.96 mb/d, 1.02 mb/d, 0.94 mb/d and 1.09 mb/d respectively.

China

China oil production is projected to increase by around 0.10 mb/d in 2008 over the 2007 level to average 3.87 mb/d, unchanged from last month's assessment. On a quarterly basis, China supply is expected to average 3.81 mb/d, 3.87 mb/d, 3.88 mb/d and 3.91 mb/d respectively.

Forecast for 2009

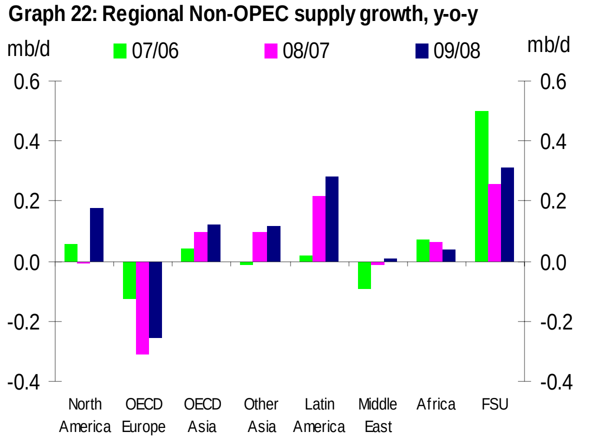
Growth expected to stand at 880 tb/d in 2009

Non-OPEC oil supply is expected to average 50.81 mb/d in 2009, an increase of 0.88 mb/d over 2008 and a downward revision of around 0.14 mb/d versus last month's assessment. On a quarterly basis, non-OPEC supply is expected to average 51.20 mb/d, 50.64 mb/d, 50.46 mb/d and 50.96 mb/d respectively. Non-OPEC total growth declined by around 70 tb/d from the previous month on the back of downward revisions, mainly to Russian supply. We expect 2009 supply growth to experience revisions as further details of the effect of the hurricanes become available as well as the supply base of 2008.

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

	2008	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08
North America	14.30	14.63	14.32	14.38	14.56	14.47	0.18
Western Europe	4.93	4.88	4.71	4.45	4.65	4.67	-0.26
OECD Pacific	0.70	0.83	0.81	0.84	0.82	0.83	0.12
Total OECD	**19.93**	**20.35**	**19.85**	**19.67**	**20.04**	**19.97**	**0.05**
Other Asia	2.81	2.93	2.88	2.95	2.95	2.92	0.12
Latin America	4.10	4.32	4.36	4.43	4.41	4.38	0.28
Middle East	1.65	1.65	1.66	1.66	1.66	1.66	0.01
Africa	2.73	2.75	2.74	2.78	2.81	2.77	0.04
Total DCs	**11.28**	**11.65**	**11.64**	**11.81**	**11.82**	**11.73**	**0.45**
FSU	12.78	13.16	13.12	12.97	13.10	13.09	0.31
Other Europe	0.14	0.14	0.14	0.14	0.14	0.14	0.00
China	3.87	3.91	3.91	3.90	3.88	3.90	0.03
Total "Other regions"	**16.78**	**17.22**	**17.17**	**17.01**	**17.12**	**17.13**	**0.34**
Total Non-OPEC production	**47.99**	**49.21**	**48.66**	**48.48**	**48.98**	**48.83**	**0.84**
Processing gains	1.95	1.98	1.98	1.98	1.98	1.98	0.04
Total Non-OPEC supply	**49.94**	**51.20**	**50.64**	**50.46**	**50.96**	**50.81**	**0.88**
Previous estimate	50.00	51.27	50.77	50.63	51.15	50.95	0.95
Revision	-0.07	-0.07	-0.13	-0.17	-0.19	-0.14	-0.07

Revisions to the 2009 forecast



The revision carried out for 2009 non-OPEC supply forecast was mainly due to announced delays in the start-up of the Russian Vankor oil field, which was deferred to the middle of 2009. Russian oil supply is projected to grow 50 tb/d in 2009 to average 9.93 mb/d. Quarterly production is expected to average 10.10 mb/d, 9.95 mb/d, 9.89 mb/d and 9.86 mb/d respectively. US supply growth in 2009 remains exposed to downward revisions as the effect of the hurricanes on both the production infrastructures and new project developments have not yet been fully taken into account. Projects, either starting up or ramping up in 2009, such as Atlantis, Blind Faith, Shenzi, Tahiti and Thunder Horse are on top of the list of projects that will determine the US supply growth characters in 2009.

OPEC natural gas liquids and non-conventional oils

OPEC NGLs and non-conventional oils are expected to average 4.85 mb/d in 2008, an increase of around 530 tb/d over the previous year but unchanged from previous estimates. In 2009, OPEC NGLs are expected to rise by 660 tb/d over this year to average 5.51 mb/d.

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

	<u>2006</u>	<u>2007</u>	Change 07/06	1Q08	2Q08	3Q08	4Q08	<u>2008</u>	Change 08/07	<u>2009</u>	Change 09/08
Total OPEC	**4.08**	**4.32**	0.24	4.62	4.82	4.92	5.04	**4.85**	0.53	**5.51**	0.66

OPEC crude oil production

OPEC crude output averaged 32.5 mb/d in August

Total OPEC crude oil production averaged 32.50 mb/d in August, according to secondary sources, steady from previous month's level with a minor decline of around 20 tb/d. OPEC production not including Iraq stood at 30.12 mb/d, also consistent with last month's level. The largest change from the previous month came from Iran with oil production indicating an increase of around 40 tb/d followed by Saudi Arabia with oil production decreasing around 36 tb/d in August compared to the previous month.

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

	<u>2007</u>	<u>3Q07</u>	<u>4Q07</u>	<u>1Q08</u>	<u>2Q08</u>	<u>Jun 08</u>	<u>Jul08</u>	<u>Aug 08</u>	<u>*Aug/Jul*</u>
Algeria	1,360	1,365	1,386	1,397	1,406	1,406	1,404	1,405	*0.8*
Angola	1,660	1,678	1,777	1,873	1,897	1,901	1,903	1,892	*-11.2*
Ecuador	507	508	509	505	502	499	504	502	*-2.5*
Indonesia	844	836	841	862	859	851	852	852	*-0.7*
Iran, I.R.	3,855	3,861	3,907	3,934	3,882	3,898	3,917	3,956	*39.2*
Iraq	2,089	2,107	2,330	2,301	2,387	2,377	2,396	2,378	*-17.2*
Kuwait	2,464	2,467	2,508	2,535	2,582	2,590	2,607	2,595	*-12.0*
Libya, S.P.A.J.	1,710	1,718	1,741	1,751	1,732	1,729	1,686	1,686	*0.0*
Nigeria	2,125	2,154	2,158	2,044	1,855	1,878	1,907	1,937	*29.8*
Qatar	807	814	825	839	851	861	865	864	*-0.8*
Saudi Arabia	8,654	8,584	8,921	9,057	9,176	9,365	9,522	9,486	*-36.2*
UAE	2,504	2,574	2,427	2,586	2,611	2,613	2,612	2,610	*-1.5*
Venezuela	2,392	2,377	2,395	2,385	2,364	2,368	2,343	2,334	*-9.2*
Total OPEC	**30,970**	**31,044**	**31,726**	**32,069**	**32,103**	**32,336**	**32,517**	**32,496**	***-21.3***
OPEC excl. Iraq	**28,881**	**28,937**	**29,396**	**29,768**	**29,716**	**29,959**	**30,122**	**30,117**	***-4.2***

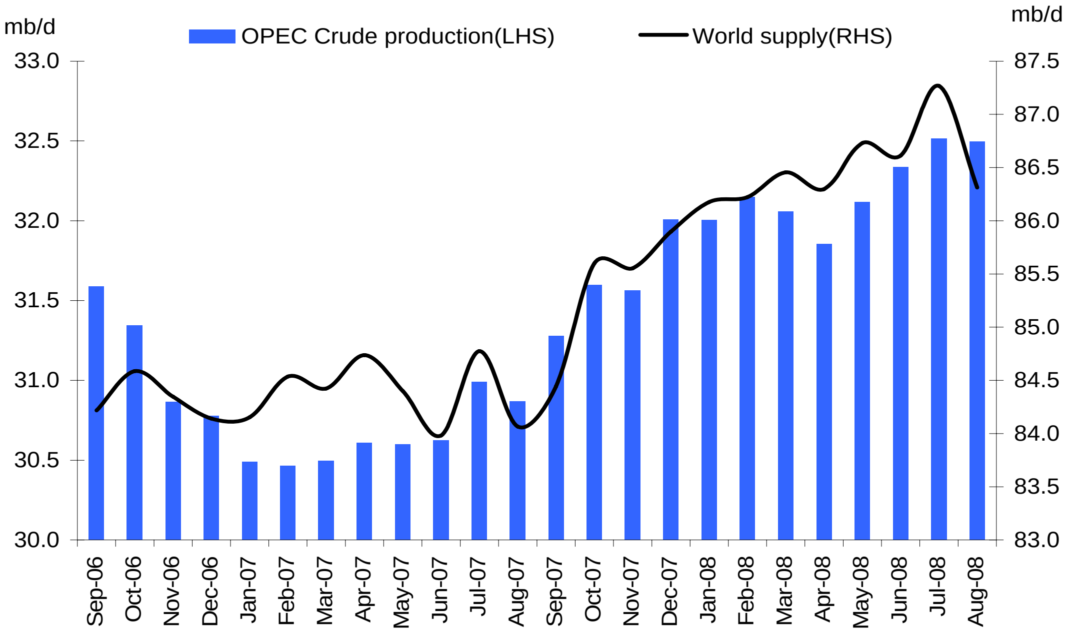
Totals may not add due to independent rounding.

Global supply in August estimated at 86.31 mb/d

World Oil Supply

Preliminary figures show that world oil supply averaged 86.31 mb/d in August, around 0.96 mb/d lower than in the previous month. OPEC crude is estimated to have a 37.6% share in global supply. The estimate is based on preliminary data for non-OPEC supply, estimates for OPEC NGLs and OPEC crude production according to secondary sources.

Graph 23: OPEC and World oil supply



FSU net exports of crude and products

Total FSU net oil exports are estimated to average at 8.68 mb/d in 2008, an increase of 140 tb/d over the previous year. In 2009, total net oil exports are expected to average 8.92 mb/d or 240 tb/d over the current year.

Current trends

Actual figures indicate that total crude exports from the FSU averaged 6.18 mb/d in June with the second quarter 2008 average at 6.43 mb/d. Preliminary figures for the FSU show oil exports in July averaging 6.11 mb/d, a decline of 70 tb/d from the previous month. Russian pipeline exports were relatively steady with a minor decline in July as the increase in exports from the Black Sea and Druzhba offset the decline in Baltic exports. The CPC pipeline transfer fell by 75 tb/d in July from the previous month.

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	**8.54**	**0.40**
2008 (estimate)	**8.63**	**8.79**	**8.64**	**8.64**	**8.68**	**0.14**
2009 (forecast)	**9.12**	**9.17**	**8.81**	**8.58**	**8.92**	**0.24**

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

	2006	2007	4Q07	1Q08	2Q08	Jun 08	Jul 08*
Crude							
Russian pipeline							
Black Sea	1,288	1,360	1,294	1,224	1,345	1,296	1,326
Baltic	1,553	1,645	1,631	1,530	1,678	1,639	1,572
Druzhba	1,288	1,122	1,128	1,130	1,053	964	992
Total* **	**4,129**	**4,127**	**4,052**	**3,884**	**4,076**	**3,913**	**3,907**
Other routes							
Russian rail	313	290	300	296	342	302	282
Russian - Far East	84	247	263	209	204	190	181
Kazak rail	31	15	17	17	18	18	17
CPC pipeline	661	701	678	624	709	697	622
Caspian	**396**	**249**	**205**	**191**	**196**	**227**	**128**
of which							
Supsa (AIOC) - Georgia	114	0	0	0	0	0	0
Batumi - Georgia	177	138	121	105	121	138	81
Total**	**1,702**	**2,234**	**2,228**	**2,110**	**2,348**	**2,271**	**2,204**
Total crude exports	**5,831**	**6,362**	**6,280**	**5,994**	**6,425**	**6,184**	**6,111**
Products							
All routes							
Fuel oil	861	841	913	1,085	1,131	1,309	1,339
Gasoil	841	677	814	855	787	837	804
Others	662	670	730	975	694	674	687
Total	**2,364**	**2,188**	**2,458**	**2,916**	**2,612**	**2,820**	**2,829**
Total oil exports	**8,195**	**8,550**	**8,738**	**8,910**	**9,037**	**9,004**	**8,940**

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

* *Preliminary.*

** *Total incl. BTC, Atasu-Alashankou and tanker shipments from Kaliningrad to Ventspils.*

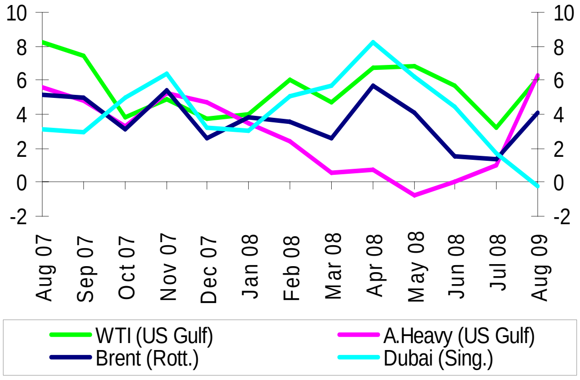
*** *Total incl. exports to China.*

Product Markets and Refinery Operations

Atlantic Basin refining margins increased in August

Precautionary refinery shutdown in the US Gulf Coast combined with the continuation of gasoline stock-draws boosted product prices and refining margins in the Atlantic Basin over the last few weeks. The recent sharp fall in crude oil prices also contributed to these positive developments in refining economics. The current bullish sentiment of the product markets may continue in the next few weeks, providing support for both product and crude prices. However, it is still too soon to say that product markets would be able to overcome other bearish factors and to lead the market in the coming months.

Graph 24: Refining margins



As Graph 24 indicates, refining margins for WTI crude at the US Gulf Coast surged by $2.93/b to reach $6.16/b from $3.23/b last month. Bullish developments in the US have also provided support for the European refining industry, lifting their economics. In line with such movements, Brent crude oil margins at Rotterdam jumped to $4.13/b from $1.39/b in July.

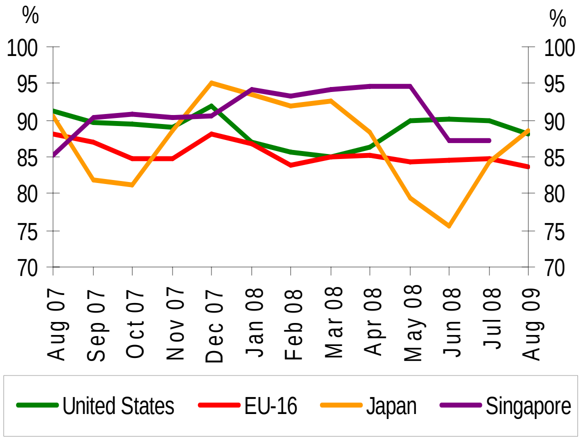
In Asia, market circumstances were different, as China's lower imports of light products combined with higher regional outputs undermined further light products prices. In light with these developments, refining margins for Dubai crude oil in Singapore slid by $1.93/b to reach minus $0.25/b in August.

Refinery operations

Refinery throughputs decreased slightly in Atlantic Basin but surged in Japan

In the last couple of years, refiners usually maximized their throughputs in the peak driving season in August, but this year slowing demand and refining economics have adversely affected refinery operation rates especially in the Atlantic Basin.

Graph 25: Refinery utilization rates



As Graph 25 shows, the refinery utilization rate in the US stood at 88% in August, representing a decline of 1.9% from the previous month. In Europe, refinery utilization rates also fell by 1.2% to stand at 83.6%. In Asia, some refiners trimmed throughput levels due to low margins, but in Japan refinery utilization rates rose by 4.1% to 88.5%.

Looking ahead, with escalating hurricane activities, the US refinery utilization rate may decline further next month. In the last week of August it reached 78.3%. However the adverse effects of the hurricanes could be mitigated by postponing the seasonal maintenance schedules in the US and Europe.

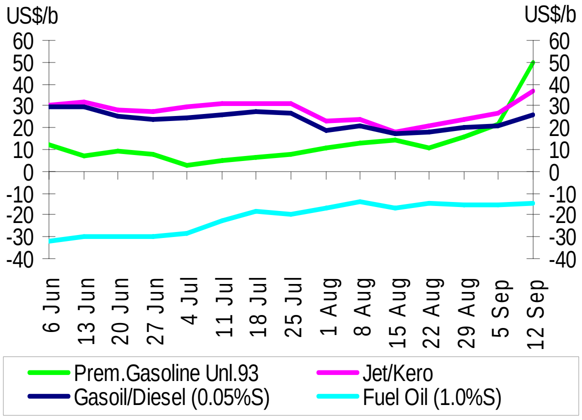
It appears that refinery operations in Asia will largely depend on new refining capacities which will come onstream in the near future, but at the same time they might be able to benefit from possible arbitrage opportunities to the US and Europe.

US market

Gasoline market sentiment was boosted in recent weeks

A combination of early discretionary cuts and weather- related refinery operation problems has intensified gasoline stock-draws in the US and lifted product market sentiment and prices over the last few weeks. Over 22% of the US refining capacity was temporarily affected by the Hurricanes Gustav and Ike. If the Texas refining system faces damage and is off-line for an extended period, the gasoline crack spread could stay at a high level in the coming months. As Graph 26 shows, the gasoline crack spread for WTI crude oil at the US Gulf Coast surged to $21.75/b in the first week of September from $10.83/b in the same period of the previous month.

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



Refinery operational problems in the US Gulf Coast have also adversely affected the seasonal stock-builds of middle distillates and gasoil prices improved. The gasoil crack spread versus WTI crude rose to $20.74/b in early September from $18.92/b over the same period of the previous month **(***see* ***Graph 26*****)**. The jet fuel market also gained on strong demand and dearth of barrels shown due to supply disruptions by Hurricane Gustav. The risk of continued refinery operation problems could heighten distillate supply concerns and encourage market players to invest in the distillate market which would provide support for both distillates and crude prices in the future.

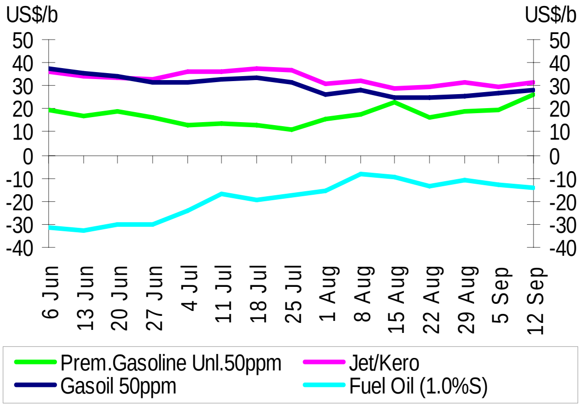
The fuel oil market in the US was lacklustre due to the relatively mild weather and lower demand from utility plants. However, due to the downward correction of crude prices, the discounted spread of fuel oil versus WTI narrowed over the last weeks. The low sulphur fuel oil discount versus WTI reached minus $15/b in the week ending 3 September from about minus $17/b in early August. Looking ahead, amid supply disruptions due to hurricane activities and seasonal maintenance, the fuel oil market is expected to remain relatively strong in the near future.

European market

Mounting fears over the impact of tropical storms improved European product market sentiment

The European product market was suffering from a lack of gasoline export opportunities in the last months. This situation has changed recently due to tropical storms and hurricanes at the US Gulf Coast which resulted in sharp gasoline and even distillate stock-draws over the last few weeks. Although gasoline stocks in Europe are still very high, bullish developments in the US market provided support for the European market and the gasoline crack surged significantly in the last two weeks. The gasoline crack spread versus Brent crude oil jumped to $19.44/bin in early September from about $11/b in the latter part of July. The recent bullish developments of the gasoline market may persist in the near future as the risk of potential damage to the US refining system is not expected to dissipate over the very short term.

Graph 27: Rotterdam crack spreads vs. Brent, 2008



The European distillate market lost part of its earlier strength, but it still appears strong compared to the same period last year. Following the decline of outright distillate prices, demand by European households has spurred and lifted heating oil and diesel premiums across the European market. Additionally, the recent refinery outages in the US have intensified distillate supply concerns in Europe and lent support to the distillate market. The gasoil crack spread against Brent crude oil at the Rotterdam market, which had dropped to around $25/b in the middle of August, rebounded again and reached about $27/b in early September (*see **Graph 27***). The recent bullish movement in the gasoil market may improve further in the next weeks due to the seasonal refinery maintenance schedule and less regional outputs. Despite the relative tightness in gas oil market, the jet/kero market looks weak amid an influx of import cargoes from the Middle East.

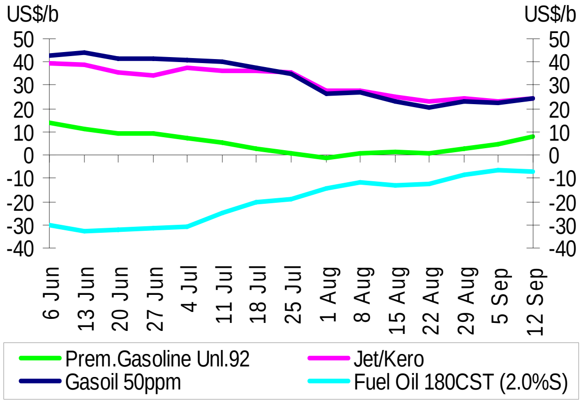
With regard to fuel oil, export opportunities to Asia and lower supply from Russia provided support for high-sulphur fuel oil and narrowed its discounted crack versus Brent crude oil. The high-sulphur fuel oil market may remain strong in the near future amid lower regional supplies and export opportunities to Asia and the Middle East. Despite the bullish developments for the high-sulphur fuel oil market, the low-sulphur market remains fundamentally weak due to sluggish regional demand.

Asian market

Lower regional demand exerted pressure on Asian distillate market in August

Asian middle distillate market sentiment has changed significantly over the last couple of weeks amid lower demand from China and Vietnam. Differentials in the spot market continued to slump into a deep discount, as traders struggled to find an outlet for surplus cargoes. In line with these movements, the gasoil crack slid to $22/b in early September from about $27/b over the same period in August (*see Graph 28*). Jet fuel oil cracks also fell over the last weeks due to ample regional supply and sluggish demand. Asian suppliers are looking for an opportunity to send jet fuel to the US West Coast.

Graph 28: Singapore crack spreads vs. Dubai, 2008



Given the high demand from Indonesia and Mexico and rising concerns about the adverse effects of hurricanes on the US refining industry, gasoline prices in Asia were lifted in the latter part of August. Gasoline crack spread against Dubai crude rose to $4.50/b in the week ending on 3 September from minus $1.34/b in the last week of July. The current bullish developments of the gasoline market may be mitigated in the future as the export from China is expected to increase in the next months.

Despite the recent bullish movements in the gasoline market, the Asian naphtha market remains lacklustre as many petrochemical units cut their throughputs, and persisting ample supply hurt market sentiment.

As far as the fuel oil market is concerned, higher demand from Japan combined with reduced inflows from Europe and the Middle East boosted fuel oil prices. These developments significantly narrowed the fuel oil spread versus Dubai crude to minus $6/b in the first week of September from minus $11.45/b over the same period of the previous month. The current situation may continue in the next months due to higher demand from the Middle East and tightening supply.

Table 17: Refined product prices, US$/b

		Jun 08	Jul 08	Aug 08	Change Aug/Jul
US Gulf (Cargoes):					
Naphtha		135.61	131.33	121.35	-9.98
Premium gasoline	*(unleaded 93)*	143.09	139.77	129.52	-10.25
Regular gasoline	*(unleaded 87)*	140.51	135.08	125.70	-9.38
Jet/Kerosene		163.29	163.58	137.58	-26.00
Gasoil	*(0.05% S)*	160.81	159.07	134.94	-24.13
Fuel oil	*(1.0% S)*	93.02	106.44	97.30	-9.14
Fuel oil	*(3.0% S)*	103.65	112.31	100.90	-11.41
Rotterdam (Barges FoB):					
Naphtha		143.54	142.28	125.53	-16.75
Premium gasoline	*(unleaded 10 ppm)*	150.09	145.48	129.93	-15.55
Premium gasoline	*(unleaded 95)*	133.46	129.38	115.51	-13.87
Jet/Kerosene		166.50	169.44	142.59	-26.85
Gasoil/Diesel	*(10 ppm)*	166.80	165.10	138.28	-26.82
Fuel oil	*(1.0% S)*	101.66	114.61	101.99	-12.62
Fuel oil	*(3.5% S)*	89.47	100.80	92.38	-8.42
Mediterranean (Cargoes):					
Naphtha		119.81	119.76	105.72	-14.04
Premium gasoline	*(50 ppm)*	151.71	146.11	130.39	-15.72
Jet/Kerosene		162.48	167.71	140.74	-26.97
Gasoil/Diesel	*(50 ppm)*	167.17	166.44	139.48	-26.96
Fuel oil	*(1.0% S)*	101.76	111.35	97.12	-14.23
Fuel oil	*(3.5% S)*	89.64	100.95	92.32	-8.63
Singapore (Cargoes):					
Naphtha		125.18	125.41	108.24	-17.17
Premium gasoline	*(unleaded 95)*	140.23	135.19	115.42	-19.77
Regular gasoline	*(unleaded 92)*	138.72	134.60	113.91	-20.69
Jet/Kerosene		164.76	167.21	137.57	-29.64
Gasoil/Diesel	*(50 ppm)*	170.00	168.64	135.87	-32.77
Fuel oil	*(180 cst 2.0% S)*	96.23	109.53	101.07	-8.46
Fuel oil	*(380 cst 3.5% S)*	94.58	108.05	99.84	-8.21

Table 18: Refinery operations in selected OECD countries

	Refinery throughput *mb/d*				Refinery utilization *%*			
	Jun 08	Jul 08	Aug 08	Aug/Jul	Jun 08	Jul 08	Aug 08	Aug/Jul
USA	15.72	15.68	15.36	-0.32	90.1	89.9	88.0	-1.90
France	1.70	1.70	1.60	-0.10	88.2	87.7	82.9	-4.80
Germany	2.06	2.20	2.17	-0.03	85.1	91.1	89.6	-1.50
Italy	1.68	1.67	1.65	-0.02	71.8	71.5	70.5	-1.00
UK	1.61	1.53	1.55	0.02	86.5	82.4	83.7	1.30
Eur-16	11.86	11.89 R	11.73	-0.16	84.5	84.8 R	83.6	-1.20
Japan	3.51 R	3.93 R	4.12	0.19	75.5 R	84.4 R	88.5	4.10

R *Revised since last issue.*

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

The Tanker Market

Global and OPEC spot fixtures were higher in August compared to July, while OPEC sailings were steady compared to both the previous month and a year earlier

According to preliminary data, OPEC spot fixtures increased by 6% in August compared to the previous month to reach 12.99 mb/d. The increase was supported mainly by higher OPEC fixtures outside the Middle East as routes from the Middle East to both the East and West only increased on average by a marginal 1.1% over the previous month. The Middle East/East spot fixtures ended the month at 5.04 mb/d, up from 4.98 mb/d in July, while the Middle East/West route ended the month at 1.96 mb/d, up from 1.77 in July. Refinery maintenance/turnarounds in the East in addition to lower crude imports by both China and Japan were the main reasons behind the sluggish growth of spot fixtures in the Middle East. On a y-o-y basis, OPEC spot fixtures in August indicated 4% growth over the same month last year, while average spot fixtures for the first eight months of 2008 were 13.33 mb/d, indicating growth of 7% compared to the same period last year. Similarly, global spot fixtures increased in August by 6.4% compared to the previous month, and 7% compared to the same month last year, to stand at 19.77 mb/d.

Sailings from OPEC were once again steady in August at 23.33 mb/d compared to 23.43 mb/d in the previous month, and were steady also compared to 23.11 mb/d a year earlier. Middle East sailings in August were at 17.53 mb/d, very close to their levels in both the previous month and a year earlier. Crude oil arrivals in the USA declined by 2.6% in August compared to the previous month, in line with the 1.7% drop in US crude oil imports over the same period. In contrast, arrivals in North-West Europe, the Mediterranean and Japan were almost steady in August compared to the previous month.

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

	Jun 08	Jul 08	Aug 08	Change Aug/Jul
Spot Chartering				
All areas	19.91	18.58	19.77	1.19
OPEC	13.17	12.25	12.99	0.74
Middle East/east	5.07	4.98	5.04	0.06
Middle East/west	1.64	1.77	1.96	0.19
Sailings				
OPEC	23.23	23.43	23.33	-0.10
Middle East	17.30	17.58	17.53	-0.05
Arrivals				
US Gulf Coast, US East Coast, Caribbean	8.32	8.43	8.21	-0.22
North West Europe	7.83	7.91	7.89	-0.02
Euromed	4.56	4.59	4.65	0.06

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

Dirty tanker spot freight rates on all reported routes closed the month with an average decline of 34%, with the VLCC sector displaying the highest drop

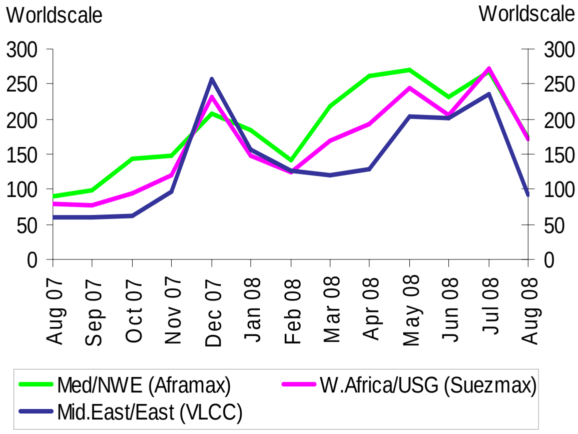
The crude oil tanker market witnessed a sharp decline in August. The decline was unexpected and came at a time when spot freight rates for almost all reported routes were showing big gains for most of the first half of 2008. Taking all vessel categories into consideration and all reported routes for each category, spot freight rates for crude oil carriers declined by an average of 34% in August compared the previous month. Despite this decline, average spot freight rates in August were 96% higher than in the same period last year which illustrates the extent of the strength of the market prior to the decline in August. The typical high volatility of the Aframax sector continued in August with one route keeping steady throughout the month and three others slipping. The VLCC sector was the sector that displayed the highest drop of 84% in its spot freight rates in August over the previous month followed by the Suezmax with 36% and then the Aframax with 25%. Dirty tanker spot freight rates were generally on the downside during the first three weeks of August, but by the end of the month they witnessed some rebound. This was mainly due to more double-hull fixing in the Middle East, higher levels of crude moving from West to East and increases of exports from Brazil and East Mediterranean. Contrary to the previous months, the clean spot tanker market outpaced the dirty tanker market, with clean spot freight rates in August staying almost steady on average compared to July with half of the reported routes displaying gains and the other half displaying losses.

VLCC spot freight rates displayed the highest drop in August compared to the previous month. Spot freight rates for VLCCs trading on the long-haul route from the Middle East to the East, which had increased 17% in the previous month compared to June, decreased by 61% in August compared to July. Most of the drop in freight rates on this route took place during the first two weeks of the month with the sentiment of the market shifting to a bearish mode. Factors supporting this shift include the release of most vessels used as floating storage during the previous months in the Middle East, arrival of a few vessels that completed their dry-docking and some seasonal slackening of demand for refinery maintenance/turnarounds in the East, in addition to decreases in Eastern inventories. Lower crude imports by both China and Japan added support to the bearish sentiment of the market. VLCC spot freight rates were almost steady at around WS80 for most of the second half of the month before rebounding slightly towards the end of the month .VLCC spot freight rates on the Middle East to East route ended the month with an average rate of WS83, close to their levels in mid-April 2008. Despite the monthly drop, VLCC freight rates for this route were 56% higher than in the same month last year.

Middle East to the West spot freight rates closed the month at a lower monthly drop of 38% in August compared to the previous month. Throughout the month, freight rates on this route were following the same trend as that of the Middle East to East route, fluctuating between WS144 and WS76, ending the month at an average of WS89, very close to their level in April 2008. On an annual basis, Middle East VLCC spot freight rates for both routes displayed an average increase of 70% in August compared to the same month last year.

On the other hand, VLCC spot freight rates for voyages from West Africa to the East went through a steady declining mode during the month on the back of a generally quiet market, ending the month at an average of WS105 indicating a decline of 41% compared to the previous month. On an annual basis, spot freight rates on the West Africa to the East route displayed an increase of 87% in August compared to the same month last year. Weak August Suezmax spot freight rates in this region were an influential factor in the general softness of spot freight rates in this route.

Graph 29: Monthly averages of crude oil spot freight rates



Suezmax spot freight rates for voyages to the US from West Africa and North-West Europe dropped in August on average by 36% compared to the previous month. Events in both Turkey and Georgia were the main reasons behind the sharp reduction of activity in the market that pushed freight rates down. An explosion of the 1.0 mb/d BTC pipeline in Turkey on 5 August halted Azari blend exports through Ceyhan for more than two weeks in August. BP declared *force majeure* on crude flows along the Baku-Supsa pipeline used to export Azari blend via the Georgian Black Sea port Supsa. This again temporarily halted the export of additional 100,000 b/d during August in the region. The announcement of a drop in September exports of CPC blend crude from Kazakhstan added to the bearish market sentiment. A similar fashion of weekly evolvements in freight rates for both Suezmax routes was evident in August, with rates dropping sharply in the first week, sliding down further for the second and third weeks before rebounding during the fourth week on the resumption of Azari blend exports in the region.

From West Africa, Suezmax spot freight rates ended the month with an average of WS171, 37% lower than in the previous month. The drop was closer at 35% for the North-West Europe to the US route. On an annual basis, average Suezmax freight rates for both routes displayed an increase of 104% in August compared to the same month last year, down from 172% in the previous month.

Aframax spot freight rates in August followed the trend of the Suezmax freight rates in the Mediterranean, but were much stronger in the Caribbean. Different rate evolvements during the month were evidence for each Aframax market. The East of Suez Aframax reported route went through gradual and continuous weekly declines, ending the month at WS221, a decline of 28%

from the previous month. In the Mediterranean, both across the Mediterranean and on the Mediterranean/North-West Europe routes were following exactly the same freight rate fluctuations over the month, dropping drastically during the first week, reaching the bottom in the second week, then rebounded for the remaining of the month backed by higher activity in the region as a result of the resumption of Azari blend exports. Freight rates on both Mediterranean routes ended the month with a 35% drop compared to the previous month. Spot freight rates for Aframax up coast voyages from the Caribbean were the only rates among the Aframax category, and indeed among the VLCC and Suezmax categories as well, that did not experience a monthly decline in August. Contrary to other routes, spot freight rates in the Caribbean started the month with a sharp increase compared to the end of July then dropped over the next two weeks before rebounding again during the fourth week, ending the month at an average of WS247, exactly the same average as during the previous month. On average, Aframax spot freight rates for the four reported routes displayed a decline of 25% in August compared to the previous month, but, on an annual base, they displayed an increase of 100% over the same period last year.

Table 20: Spot tanker crude freight rates, Worldscale

	Size *1,000 DWT*	**Jun 08**	**Jul 08**	**Aug 08**	**Change Aug/Jul**
Crude					
Middle East/east	230-280	201	235	92	-143
Middle East/west	270-285	139	144	89	-55
West Africa/east	260	206	271	171	-100
West Africa/US Gulf Coast	130-135	159	178	105	-72
NW Europe/USEC - USGC	130-135	198	257	167	-90
Indonesia/US West Coast	80-85	231	308	221	-87
Caribbean/US East Coast	50-55	305	248	247	-1
Mediterranean/Mediterranean	80-85	237	278	181	-96
Mediterranean/North-West Europe	80-85	232	268	173	-95

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

Average clean spot freight rates were steady with a marginal 1% increase in August compared to July. The Middle East to East route displayed the highest gain.

Once again, the clean tanker market followed a reverse trend in August to that of the dirty tanker market, with spot freight rates for the six reported routes increasing slightly on average compared to the previous month. Generally, to the West of Suez, the market was going through a quiet tone in the Mediterranean with a build of tonnage supply due to conditions at Georgia's Black Sea ports. A drop in US gasoline stocks signaled a reopening of arbitrage opportunities amid stronger buying interest from the US in European gasoline keeping freight rates on the upward direction for the Trans-Atlantic route, while, to the East of Suez, the sentiment was bullish and the market was active which led freight rates moving up for the two reported routes on this sector.

Spot freight rates for the Singapore to East route which were very firm in July, kept their firmness in August to end the month at an average of WS311, exceeding the WS300 mark for the first time since October 2006. Higher demand for middle distillates, especially from China and Australia. was once again the main driver behind the bullish market sentiment and the 4% increase of freight rates in August compared to the previous month for this route. Clean spot freight rates on the East of Suez Middle East/East route displayed the highest monthly gain compared to all clean spot freight rates in August. A very active market and tight tonnage availability were backing freight rates on this route which eventually ended the month with a 21% gain compared to the previous month. As a result, average East of Suez spot freight rates in August were 13% higher than in July, but on an annual basis, were 62% higher than in the same month last year.

To West of Suez, the Mediterranean clean spot freight rates were declining steadily throughout the first three weeks of August before rebounding at the end of the month. Limited activities dominated the scene and tonnage supply was building up continuously for the Mediterranean/Mediterranean and Mediterranean/North-West Europe routes which ended the month with a drop of 12% each compared to the previous month. The reopening of the arbitrage window of gasoline from North-West Europe to the US, together with the consistent movement of distillates from the US back to Europe, were the dominating factors behind the continued rise of spot freight rates for the North-Wes Europe to the US route which ended the month at an average of WS315, displaying an increase of 9% over the previous month. The Caribbean market maintained its steady tone in August with freight rates slipping a marginal 3% compared to the previous month. Altogether, average West of Suez clean spot freight rates were 4% lower in

August than in the previous month, but were 64% higher than in the same month last year. For both East and West of Suez, average clean spot freight rates were 1% higher in August compared to the previous month, but were about 63% higher than a year earlier.

Table 21: Spot tanker product freight rates, Worldscale

	Size *1,000 DWT*	**Jun 08**	**Jul 08**	**Aug 08**	**Change Aug/Jul**
Products					
Middle East/east	30-35	314	302	364	63
Singapore/east	30-35	259	298	311	13
Caribbean/US Gulf Coast	38-40	395	389	378	-11
NW Europe/USEC - USGC	33-37	353	289	315	26
Mediterranean/Mediterranean	30-35	361	282	246	-36
Mediterranean/North-West Europe	30-35	371	291	256	-35

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

Oil Trade

OECD net oil imports were 1.1% lower in July compared to June, and 2.8% lower than a year earlier

OECD

According to preliminary data, OECD crude oil imports increased in July by about 303,000 b/d or 1.0% compared to the previous month, averaging 30.57 mb/d, a marginal 0.4% higher than a year-ago level. Higher OECD crude oil imports in July are mainly attributed to the substantial 782,000 b/d increase in Japan's imports. US crude oil imports increased also in July by a lower volume of 90,000 b/d. Both increases more than offset declines in crude oil imports of other OECD countries, especially Europe. In the first seven months of 2008, OECD countries imported on average 30.44 mb/d indicating a slight 0.2% annual growth compared to the same period in 2007. Lower economic growth in most areas of the OECD and higher retail prices for most key oil products compared to a year earlier were the main reasons behind the sluggish annual growth of OECD crude oil imports over this period. On the other hand, OECD's crude oil imports from outside the OECD region in July were estimated at 24.2 mb/d, a rise of 1.4% or about 342,000 b/d compared to the previous month. The increase is mainly attributed to higher crude oil imports from areas like Brazil, Azerbaijan and Oman as crude oil imports from both OPEC Member Countries and Russia were lower in July compared to June. Crude oil imports from within the OECD region were steady in July compared to the previous month, decreasing a marginal 39,000 b/d or 0.6%. In the first seven months of 2008, OECD crude oil imports from outside the OECD area averaged 24.1 mb/d, indicating annual growth of 2.3% compared to the same period last year.

In contrast, OECD product imports in July were steady compared to the previous month, declining a marginal 31,000 b/d or 0.4% compared to the previous month to average 10.49 mb/d. July's product imports were also steady compared to a year earlier, declining a slight 0.2%. Average OECD product imports in the first seven months of 2008 were 10.61 mb/d, indicating once again a steady y-o-y change compared to the same period last year. Out of July's product imports of 10.49 mb/d, it is estimated that 4.14 mb/d were imported from outside the OECD area, almost unchanged from the previous month. Product imports from within the OECD area were 6.35 mb/d, slightly lower than in the previous month.

On the export side, OECD crude oil exports increased by 463,000 b/d or 7.6% in July compared to the previous month, and by 3.1% compared to July 2007, to average 6.55 mb/d. Average crude oil exports of the OECD countries in the first seven months of 2008 were 6.28 mb/d, about 505,000 b/d or 8.3% lower than in the same period last year. The entire increase in OECD crude oil exports in July was directed to countries within the OECD area with a slight decline of exports to countries outside the OECD.

OECD product exports in July were about 9.66 mb/d, some 76,000 b/d or 0.8% higher compared to the previous month. On a y-o-y basis, OECD product exports in July were about 6.6% higher than in July 2007. In the first seven months of 2008, OECD product exports were 9.39 mb/d, some 346,000 b/d or 3.8% higher than in the same period of 2007. OECD product exports within the OECD area increased in July by about 171,000 b/d, while exports to outside the OECD area declined by 95,000 b/d, both compared to the previous month.

Accordingly, OECD net oil imports in July averaged 24.84 mb/d, indicating a decline of 1.1% or 267,000 b/d compared to the previous month and a decrease of 2.8% compared to a year earlier. At the same time, net oil imports in the first seven months of 2008 were 25.38 mb/d, indicating 1.0% annual growth over the same period in 2007. In the first seven months of 2008, OECD net crude oil imports were 24.16 mb/d, up by 0.58 mb/d compared to the same period of 2007, while net product imports were 1.22 mb/d, down by 321,000 b/d over the same period. Net crude oil imports of the OECD area from outside the OECD were 23.85 mb/d in July, up by 386,000 b/d or 1.6% compared to the previous month, while net crude oil imports from within the OECD area were 166,000 b/d, down by 547,000 b/d or 77% over the same period.

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

	May 08	Jun 08	Jul 08	Change Jul/Jun
Crude oil	23,387	24,180	24,019	-161
Total products	1,109	931	825	-106
Total crude and products	**24,497**	**25,111**	**24,844**	**-267**

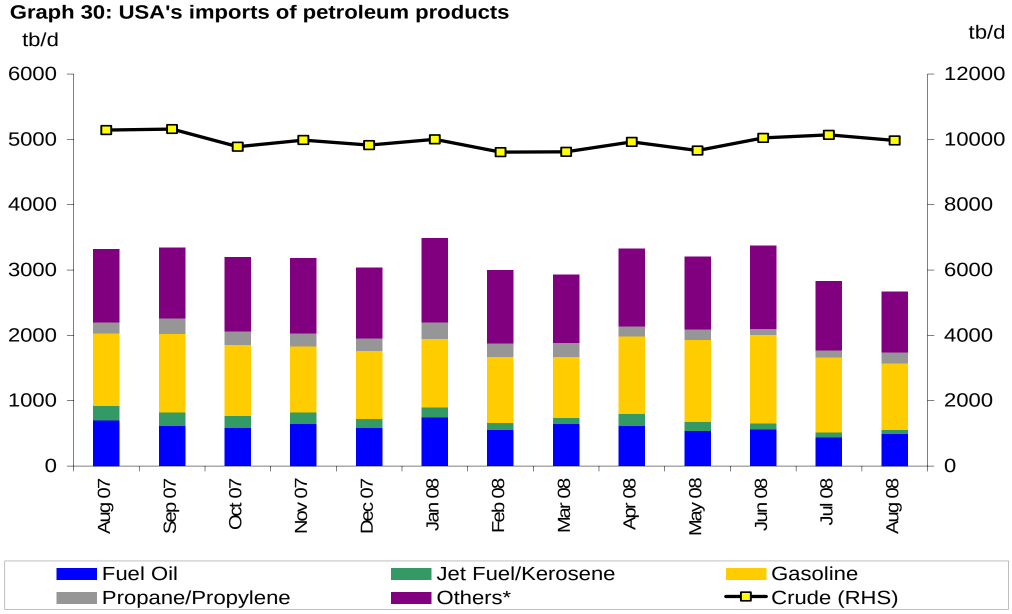
Saudi Arabia was the top OECD crude oil supplier in July with a 13.8% share, up from 13.4% in the previous month, followed by Russia with 12.2%, down from 12.8% in the previous month. Canada supplied 6.3% and Norway 5.5%. Altogether, OPEC Member Countries supplied 53.6% of total OECD crude oil imports in July, down from 55.7% in the previous month. At the same time, OPEC Member Countries supplied 68% of total OECD imports from outside the OECD area in July. For products, OPEC Member Countries' share of total OECD product imports in July was 14.8%, up from 14.2% in the previous month. OPEC's share of OECD product imports from outside the OECD area in July was 38%. Algeria supplied 3.1%, Saudi Arabia 2.8% and the UAE 2.2%. OECD's top non-OPEC product supplier in July was the US with 10.4%, up from 8.1% in the previous month, followed by the Netherlands with 9.9% and Russia with 8.3%.

USA

US net oil imports declined marginally in July on the back of higher net crude oil and lower net product imports

According to official data, US crude oil imports averaged 9.97 mb/d in August, 1.7% or 171,000 b/d lower than in the previous month and 319,000 b/d or 3.1% lower than in the same month last year. The US is still importing less volumes of crude oil in 2008 compared to 2007. Average crude oil imports for the first eight months of 2008 were 9.87 mb/d, a decline of 1.8% or 179,000 b/d below the same period last year. This drop is attributed to the overall state of the US economy which has hit sales for almost all products, apart from gasoil, with gasoline and jet fuel sales declining since December 2007.

Graph 30: USA's imports of petroleum products

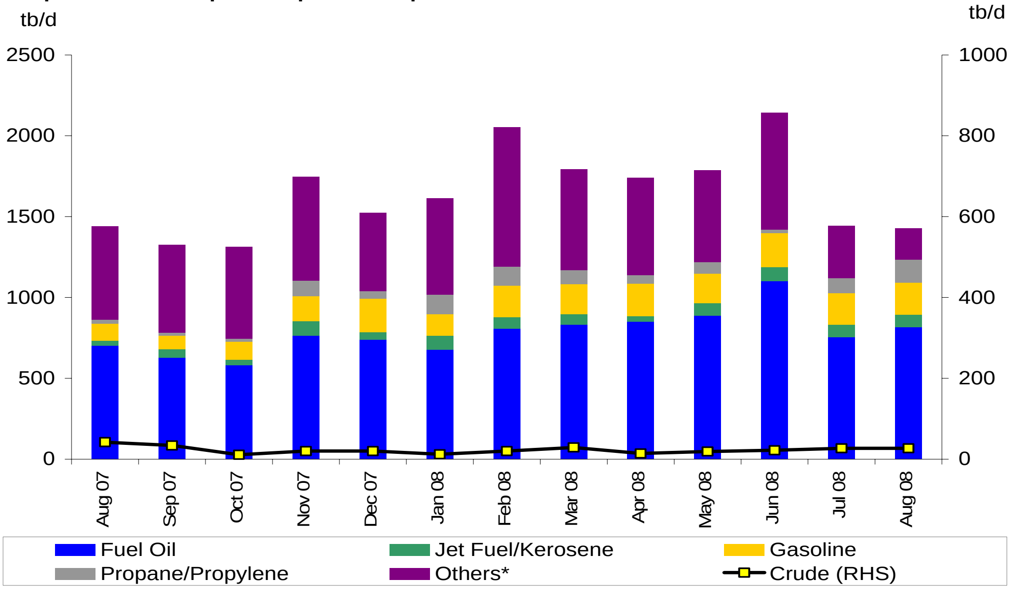


*Others: Contains Natural Gas Liquids, Liquefied Refinery Gases (LRG's), Other Liquids and all Finished Petroleum Products except Gasoline, Jet Fuel/Kerosene, Fuel Oil and Propane/Propylene.

US product imports in August were at the very low level of 2.86 mb/d, 8.6% or 271,000 b/d lower than in the previous month, but displayed a bigger drop of 13.7% compared to August 2007. Apart from residual fuel oil, almost all major product imports were lower in August than in the previous month. Finished motor gasoline imports declined in August by 109,000 b/d or 36% compared to the previous month to reach 191,000 b/d. In the first eight months of 2008, average US gasoline imports were 357,000 b/d, indicating an 18% drop compared to the first eight months of 2007. Distillate fuel oil imports declined in August by 57,000 b/d or 35% compared to the previous month to average 107,000 b/d. In the first eight months of 2008, average distillate fuel oil imports were 211,000 b/d, indicating a drop of 35% compared to the same period last year. Residual fuel oil imports increased in August by 109,000 b/d or 40% compared to the previous month, reaching about 382,000 b/d, an increase of 11% over the same month last year. In the first eight months of 2008, the US imported 6% less residual fuel oil than in the same period of 2007. On average, US product imports declined by 11% in the first eight months of 2008 compared with the same period last year.

On the export side, US product exports were steady in August compared to the previous month averaging 1.43 mb/d, a marginal decline of 17,000 b/d or 1%. At the same time, US product exports in August were very close to their levels a year earlier with a decline of 1%. In the first eight months of 2008, US average product exports were 1.66 mb/d, 21% higher than in the same period of last year.

Graph 31: USA's exports of petroleum products



*Others: Contains Natural Gas Liquids, Liquefied Refinery Gases (LRG's), Other Liquids and all Finished Petroleum Products except Gasoline, Jet Fuel/Kerosene, Fuel Oil and Propane/Propylene.

As a result, US net oil imports declined by 3.6% in August compared to the previous month to reach about 11.37 mb/d. The 425,000 b/d drop in net oil imports in August came as a result of the 171,000 b/d decline in net crude oil imports and the 254,000 b/d drop in net product imports from the previous month. On a y-o-y basis, US net oil imports were 6.1% lower in August than in the same month last year. Average net oil imports in the first eight months of 2008 were 11.34 mb/d, indicating a drop of 867,000 b/d or 7.1% compared to the same period last year.

Table 23: USA Crude and Product Net Imports/(Exports), tb/d

	Jun 08	Jul 08	Aug 08	Change Aug/Jul
Crude oil	10,019	10,109	9,938	-171
Total products	1,152	1,689	1,435	-254
Total crude and products	**11,171**	**11,798**	**11,373**	**-425**

Canada was the top US crude oil supplier in June with a share of 18.8%, almost steady from the previous month, followed by Saudi Arabia with 14.8%, down from 16.35% in the previous month. Mexico and Venezuela came next with 11.3% and 10.9% respectively. Altogether, OPEC Member Countries supplied 56.0% of total US crude oil imports in June, down from 56.8% in the previous month. For product imports, Russia was the top product supplier to the US in June whose share surged from 10% in May to 15.9% in June, Canada came next with a share of 14.1%, down from 15.8% in the previous month, followed by the Virgin Islands with 9.3% and the Netherlands with 7.8%. For OPEC Member Countries, Algeria supplied 6.6% of total US oil product imports in June, followed by Venezuela with 3.9% and Nigeria with 2.2%. Altogether OPEC Member Countries supplied 14.9% of US product imports in June, up from 13.8% in the previous month. For US product exports in June, Mexico was the top importer with a share of 20.7%, up from 19% in the previous month, followed by Canada with 10.2% and the Netherlands with 6.9%. Altogether, OPEC Member Countries imported 3.5% of total US product exports in June. Ecuador imported 1.3%, Venezuela 1.3%.

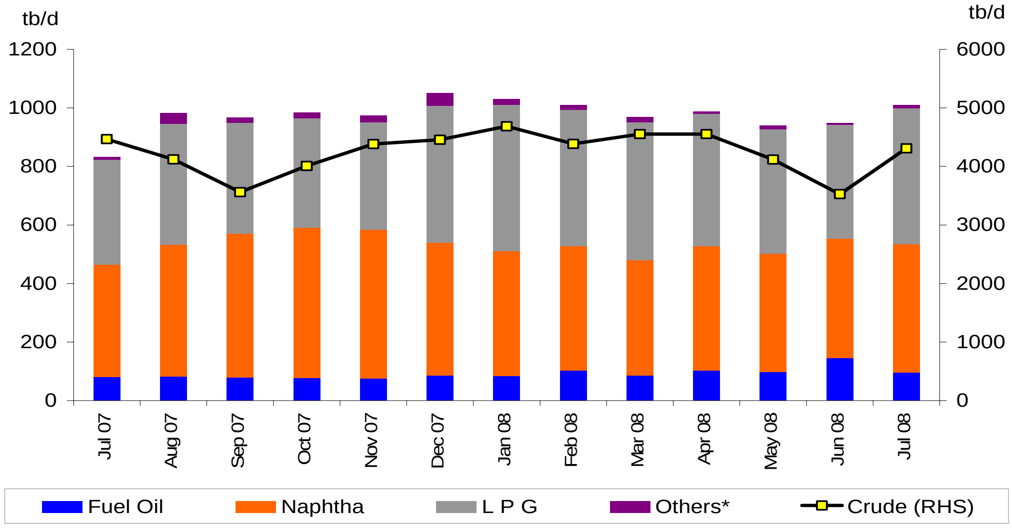
Japan's net oil imports increased by 22% in July backed by higher crude oil imports but were steady y-o-y

Japan

Japan's crude oil imports rebounded in July, increasing by a substantial 782,000 b/d or 22% compared to the previous month to reach about 4.31 mb/d, yet were about 3.5% lower than a year earlier. In the first seven months of 2008, Japan imports average 4.31 mb/d, indicating annual growth of 6.7% compared to the same period last year.

With the inclusion of LPG imports and exports data, Japan's product imports in July increased by 62,000b/d or 6.5% compared to the previous month to average about 1.01 mb/d, displaying an increase of 21.5% compared to a year earlier. Imports of LPG, naphtha and fuel oil constituted more than 98% of Japan's product imports in July. Average LPG imports in July were about 466,000 b/d, an increase of 19% from the previous month's average of 390,000 b/d, and up 29% from a year earlier. Naphtha imports averaged 437,000 b/d in July, representing an increase of 7.6% or 31,000 b/d from the previous month and a 14% increase over a year ago. In contrast, fuel oil imports in July were about 96,000 b/d, down by 49,000 b/d or 34% from the previous month, yet 20% higher than a year earlier. Product imports in the first seven months of 2008, including LPG, averaged 0.98 mb/d, almost steady compared to the same period last year with a marginal decline of 2%.

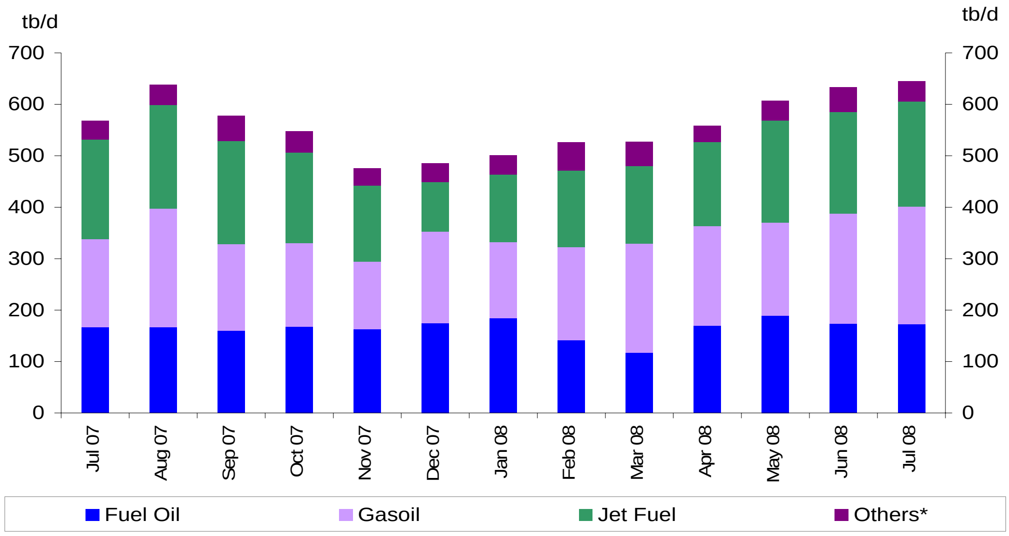
Graph 32: Japan's imports of petroleum products



*Others: Contains Gasoline, Jet Fuel, Kerosene, Gasoil, Asphalt and Paraffin

On the export side, Japan's product exports in July increased a marginal 2% compared to the previous month, but were 8% higher than a year earlier, averaging 628,000 b/d. Gasoil exports in June were about 230,000 b/d, up by 7% compared to the previous month and by 18% compared to a year earlier. Jet fuel exports were about 205,000 b/d, an increase of 3% from the previous month and steady compared to a year earlier. Fuel oil exports were about 172,000 b/d, steady compared to the previous month and to a year ago. Japan exported lower quantities of kerosene, lubricating oil, gasoline, asphalt and LPG in July, totaling 39,000 b/d altogether. Average product exports for the first seven months of 2008 were about 555,000 b/d, indicating annual growth of 26% or 114,000 b/d compared to the first half of 2007.

Graph 33: Japan's exports of petroleum products



*Others: Contains LPG, Gasoline, Naphtha, Kerosene, Lubricating Oil, Asphalt and Paraffin Wax.

As a result, Japan's net oil imports in July were about 4.69 mb/d, indicating an increase of about 829,000 b/d or 22% compared to the previous month but were almost steady compared to a year earlier. With the exclusion of LPG, Japan was a net product exporter for five successive months in July, with net product exports increasing to 82,000 b/d compared to 50,000 b/d in the previous month. Average net oil imports for the first seven months of 2008 were 4.73 mb/d, indicating a 135,000 b/d or 3% increase compared to the same period in 2007. Japan's net product imports for the first seven months of 2008 declined to 427,000 b/d from 563,000 b/d during the same period last year. This was mainly due the 26% increase in exports over the same period.

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

	May 08	Jun 08	Jul 08	Change Jul/Jun
Crude oil	4,119	3,527	4,309	782
Total products	347	333	380	47
Total crude and products	**4,465**	**3,860**	**4,689**	**829**

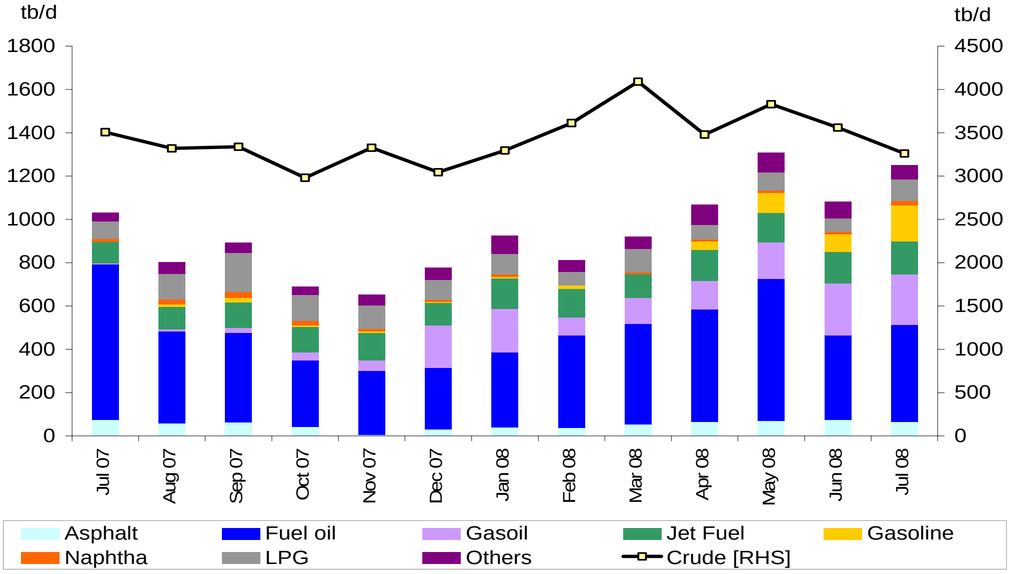
Saudi Arabia and the UAE were Japan's top crude oil suppliers in July with a share of 25.6% each. Saudi Arabia's share was 4.3% down from the previous month, while UAE's share was up by 1.3%. Qatar supplied 13.1% of Japan's crude oil imports in July, up from 12.6% in the previous month, while Iran's share was 11.8%, up from 7.8% in the previous month. OPEC Member Countries supplied 86.3% of Japan's crude oil imports in June, up from 85.7% in the previous month. Top non-OPEC suppliers in July were Oman with 4.1%, up from 2% in the previous month, and Russia with 2.5%, down from 4.7% in the previous month. On the product side, preliminary data indicate that Saudi Arabia was also Japan's top supplier in July with 15.9%, down from 17.3% in the previous month, the US with 10.4%, up from 8.3% in the previous month, and South Korea with 9.5%. Altogether, OPEC Member Countries supplied 50.2% of Japan's product imports in July, up from 48.8% in the previous month. In addition to the US and South Korea, top non-OPEC product suppliers in July were Malaysia and Russia.

China

China's net oil imports declined in July by 74 tb/d as a result of the 210 tb/d fall in net crude imports and 136 tb/d increase in net product imports

China's crude oil imports in July declined for the second consecutive month and for the third time thus far in 2008 averaging 3.26 mb/d, representing a decline of 8% or 299,000 b/d from the previous month. China's crude oil imports in July were also 7% lower than in July 2007. Average crude oil imports for the first seven months of 2008 were 3.59 mb/d, indicating some 0.26 mb/d or 7.7% annual growth over the same period last year, the lowest annual growth so far in 2008. On the other hand, China's crude oil production in July declined by 2% or 80,000 b/d compared to the previous month to average 3.82 mb/d. China's July crude oil output was 0.56 mb/d higher than crude oil imports in the same month, the highest difference in 2008.

Graph 34: China's imports of petroleum products



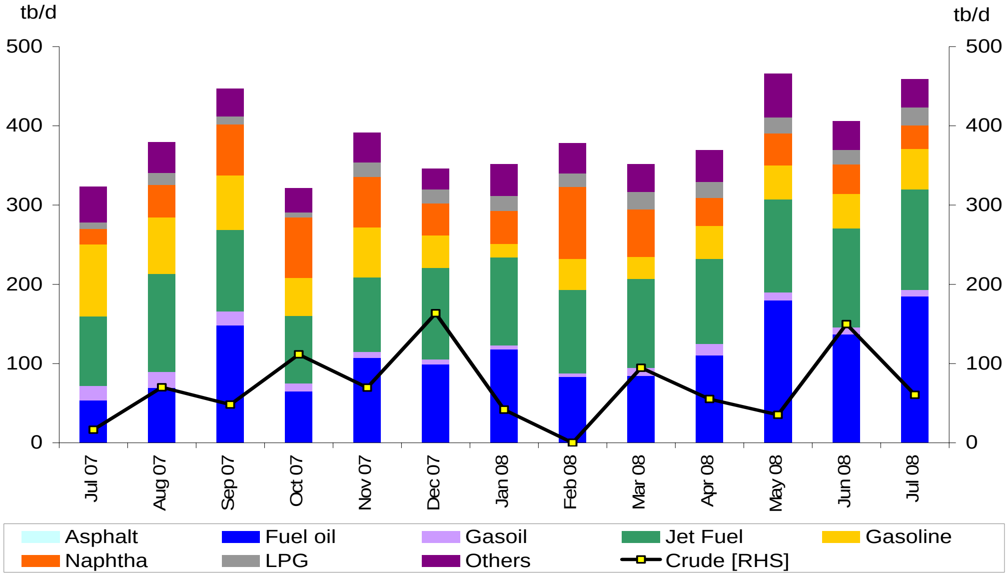
Contrary to crude imports, China's total product imports increased in July by 187,000 b/d or 18% compared to the previous month, averaging 1.24 mb/d. With this monthly increase, China's product imports were 20% or 211,000 b/d higher than in July 2007. Imports of all major products increased in July compared to the previous month. China imported about 167,000 b/d of gasoline in July, an increase of 107% from the previous month, mainly in preparation for the Olympics. Some 48% of July's gasoline imports came from Singapore and 26% from the United Kingdom. There were no gasoline imports from South Korea in July. Average gasoline imports for the first seven months of 2008 were about 58,000 b/d, compared to about 1,000 b/d during the same period last year. Jet fuel imports in July reached about 152,000 b/d, an increase of 4% over the previous month. South Korea supplied about 42% of China's jet fuel imports in July followed by Taiwan with 29% and Japan with 27%. Average jet fuel imports for the first seven months of 2008 were 136,000 b/d, a gain of 30% over the same period last year.

Naphtha imports doubled in July compared to the previous month to reach about 22,000 b/d. Sources of Japan's naphtha imports were Saudi Arabia and South Korea only with an almost equal share for each country. China's naphtha imports during the first seven months of 2008 were 63% lower than in the same period last year. Gasoil imports in July were very close to their unprecedented-high volume during the previous month, averaging about 234,000 b/d. Average January-July 2008 gasoil imports were 169,000 b/d, more than thirteen times their average during the same period last year. Japan outpaced South Korea in supplying China with gasoil in July with 32%, followed by South Korea with 24% and Russia with 17%. Taiwan's share dropped from 25% in June to 13% in July.

Fuel oil imports in July were about 447,000 b/d, an increase of 14% over the previous month. The share of China's fuel oil imports to its total product imports declined from 45% in the previous month to 36% in July. Fuel oil imports in the first seven months of 2008 declined also by 17% from the same period last year, averaging 439,000 b/d. Singapore was China's top fuel oil supplier in July with 17%, followed by South Korea and Venezuela with 15% and 13% respectively. China imported an average of 97,000 b/d of LPG in July, up by 58% from the previous month. Average LPG imports for the first seven months of 2008 were 83,000 b/d, indicating an annual decline of 37% from the same period last year. Kuwait supplied 52% of China's LPG imports in July, followed by the UAE with 17%.

China imported about 341,000 metric tonnes of asphalt in July, down by 22,000 metric tonnes from the previous month. Average asphalt imports during the first seven months of 2008 were 291,000 metric tonnes, down by 13% from the same period last year. Altogether, China imported an average of 1.05 mb/d of products in the first seven months of 2008, indicating annual growth 9.5% over the same period last year.

Graph 35: China's exports of petroleum products



On the export side, China's crude oil exports in July were 61,000 b/d, down from 150,000 b/d in the previous month. Some 41% of China's crude oil exports in June were destined to Japan, about 23% to Singapore and 15% to the USA. Average crude oil exports for the first seven months of 2008 were 63,000 b/d, a decline of 4% compared to the same period last year.

China's product exports in July were 0.47 mb/d, an increase of 12% or 51,000 b/d over the previous month and a substantial 44% higher than in July last year. Apart from naphtha, exports of all major products were higher or steady compared to the previous month. Average product exports for the first seven months of 2008 were about 0.4 mb/d, an increase of 3% over the same period last year. Fuel oil exports in July were 178,000 b/d, 30% higher than in the previous month, while average fuel oil exports for the first seven months of 2008 were 125,000 b/d, 131% higher than in the same period last year. Main destinations for China's fuel oil exports in July were Panama with 39% followed by Hong Kong with 16%. Jet fuel exports in July were about 126,000 b/d, steady compared to the previous month, while average jet fuel exports for January-July 2008 were 30% higher than in the same period last year. China sent 50% of its jet fuel exports to Hong Kong in July and 10% to the USA. Gasoline exports in July were 52,000 b/d, 18% higher than in the previous month, yet for the first seven months of 2008 average gasoline exports were 74% lower than in the same period last year. Once again, China was a net gasoline importer in July with a substantial 115,000 b/d, up from 36,000 b/d in June. Two thirds of China's gasoline exports in July headed to Indonesia and 20% to the Singapore**.** There were no gasoline exports to Vietnam in July.

China's naphtha exports in July were about 29,000 b/d, down from 37,000 b/d in the previous month, but average naphtha exports for the first seven months of 2008 were a substantial 66% higher than in the same period last year. 54% of China's naphtha exports in July headed to Japan and the rest to South Korea. Gasoil exports in July were 8,000 b/d, down from 9,000 b/d in the previous month, with average January-July 2008 exports down by 38% compared to the same period last year. China exported 22,000 b/d of LPG in July, 52% of which to Vietnam and 28% to Hong Kong.

With net crude oil imports at 3.2 mb/d, displaying the largest y-o-y decline in three-and-a-half years, and net product imports at 0.78 mb/d, China's net oil imports in July were 3.98 mb/d. Net oil imports in July were 74,000 b/d or 2%, lower than in the previous month and 5% lower than a year earlier. Lower net oil imports in July brought China's average net oil imports for the first seven months of 2008 to about 4.18 mb/d, an increase of 9% over the same period last year.

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

	May 08	Jun 08	Jul 08	Change Jul/Jun
Crude oil	3,795	3,410	3,200	-210
Total products	844	642	778	136
Total crude and products	**4,639**	**4,052**	**3,978**	**-74**

Saudi Arabia was China's top crude oil supplier in July with a share of 18.9%, down from 21% in the previous month. Iran's share of China's total crude oil imports in July surged to 17.6%, up from 8.1% in the previous month. Angola supplied 13.2%, down from 18% in the previous month, followed by Oman with 6.1%. Altogether, OPEC Member Countries supplied 64.3% of China's crude oil imports in July, down from 63.5% in the previous month. Top non-OPEC suppliers in July include Oman, Russia with 5.7% and Sudan with 5.4%. Preliminary estimates show that OPEC Member Countries supplied about 17.2% of China's total product imports in July, up from 12.2% in the previous month. Venezuela supplied 5.5%, down from 7.3% in the previous month. Iran supplied 5.0% and Kuwait supplied 3.1%. Top non-OPEC product suppliers in July were South Korea with 20.5%, Japan with 12.9% and Singapore with 13.8%.

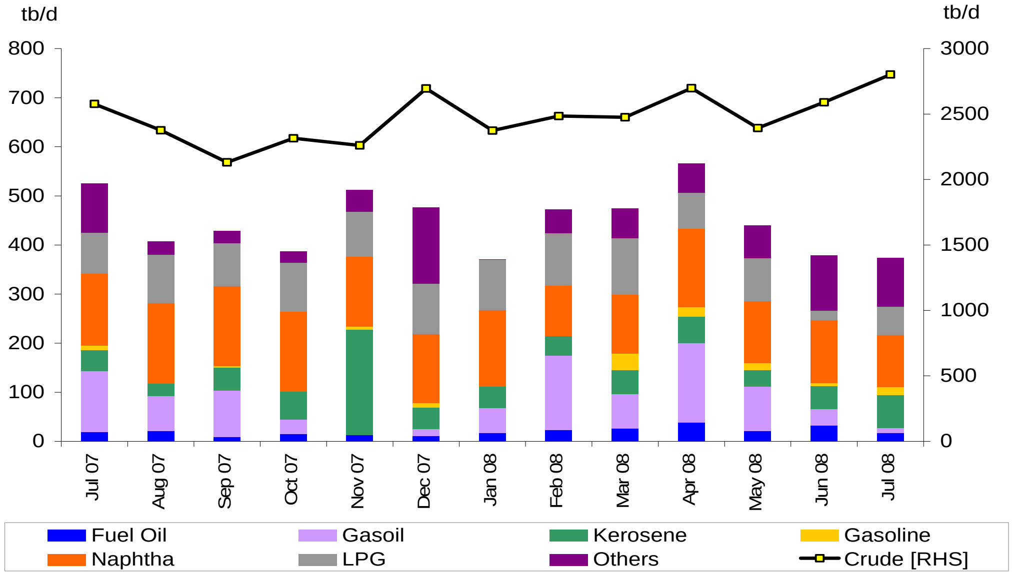
India

India's net oil imports increased in July supported by all-time record-high crude oil imports

According to preliminary data, India's crude oil imports in July reached an all-time record-high volume, increasing by 212,000 b/d or 8% compared to the previous month to reach about 2.8 mb/d, indicating a y-o-y increase of 9% compared to July 2007. India's average crude oil imports for the first seven months of 2008 were about 2.55 mb/d, 4.5% or 110,000 b/d higher than in the same period last year, supported by strong domestic demand. On the other hand, India produced about 672,000 b/d of crude oil in July, 65% of which comes from offshore fields. This represents 24% of the country's crude oil imports in the same month, which puts India's reliance on imported crude oil at about 80%.

India's product imports in July were marginally lower than in the previous month, averaging about 0.37 mb/d, the lowest level since February this year. Although India's domestic product sales increased in July by about 8% compared to a year earlier, total product imports were still 29% lower over the same period. This is mainly attributed to the fact that major private refiners in India like Reliance and Essar Oil, which are export-oriented, are selling more products at home (domestically) to meet higher demand. Therefore gasoil imports declined sharply in July compared to the previous month, averaging about 10,000 b/d although gasoil sales increased in India by 10.3% in the same month. Higher gasoil sales in July are mainly attributed to higher demand by private power generators who have switched to gasoil over naphtha and fuel oil. Gasoil prices in India are subsidized, while naphtha and fuel oil prices are not. Gasoline imports were about 17,000 b/d in July, up from 6,000 b/d in the previous month.

Graph 36: India's imports of petroleum products



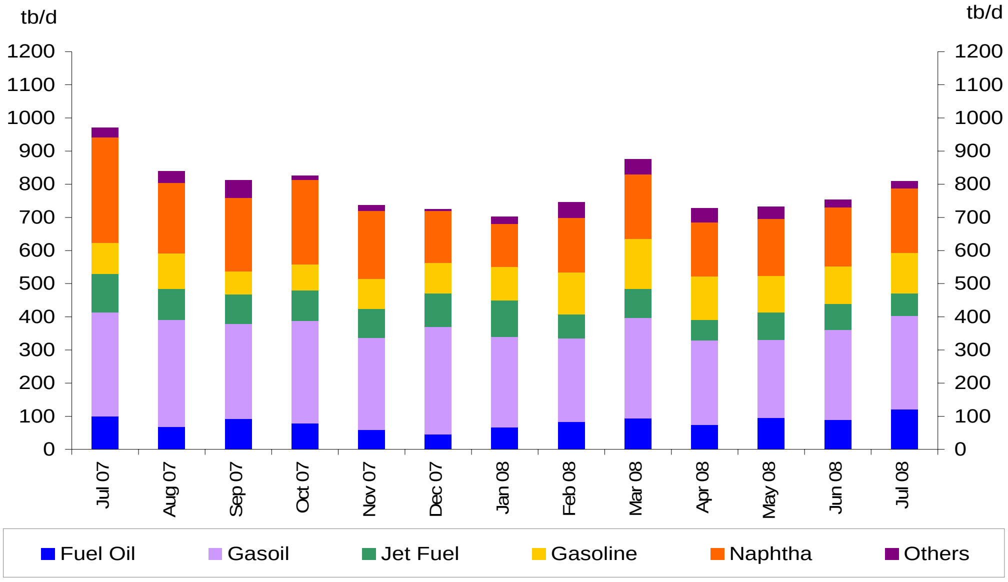
LPG imports increased in July also to 57,000 b/d from 19,000 b/d in the previous month, yet they were 31% lower than a year earlier. Domestic sales of LPG increased in July by 8% compared to the previous month and by 2% compared to July 2007. Imports of naphtha and fuel oil declined in July by 18% and 47% respectively compared to the previous month to reach 106,000 b/d and 17,000 b/d, while kerosene imports increased by 44% to reach about 67,000 b/d over the same period. India's average January-July 2008 product imports were 439,000 b/d, representing a gain of 9% over the same period last year.

Table 26: India's Crude and Product Net Imports/(Exports), tb/d

	May 08	Jun 08	Jul 08	Change Jul/Jun
Crude oil	2,393	2,590	2,802	212
Total products	-243	-376	-405	-30
Total crude and products	**2,150**	**2,214**	**2,397**	**182**

On the export side, India's total product exports of 779,000 b/d in July displayed an increase of 3% compared to the previous month, yet they were 20% lower than a year earlier. Jet fuel was the only product whose export declined in July compared to the previous month, while exports of all other major products increased. Fuel oil exports in July averaged 121,000 b/d, up from 89,000 b/d in the previous month. Jet fuel exports were 67,000 b/d in July, down from 78,000 b/d in June and from 116,000 b/d a year earlier. Exports of gasoil, gasoline and naphtha increased in July compared to the previous month, with naphtha displaying the biggest gain both in volume and percentage. Gasoil exports averaged 281,000 b/d, 4% higher than in June, yet they were 11% lower than in July 2007. Gasoline exports were 122,000 b/d in July compared to 114,000 b/d in the previous month and 94,000 b/d a year earlier. Naphtha exports were 195,000 b/d in July compared to 178,000 b/d in the previous month, but were 39% lower than in July 2007. In the first seven months of 2008, India's product exports averaged 738,000 b/d, 10% or 84,000 b/d lower than in the same period last year.

Graph 37: India's exports of petroleum products



As a result, India's net oil imports averaged 2.4 mb/d in July, displaying an increase of 8% or 182,000 b/d compared to the previous month, and 12% compared to a year earlier. For the first seven months of 2008, India's net oil imports averaged 2.25 mb/d, 11% higher than in the same period of 2007. The increase in July's net oil imports is attributed to a 212,000 b/d increase in net crude oil imports and a decline in net product imports of 30,000 b/d.

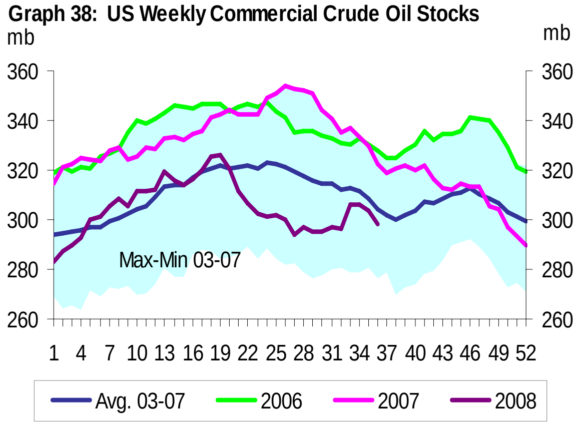
Stock Movements

USA

US commercial oil inventories remained below the five-year average but due to lower demand were comfortable in terms of forward cover

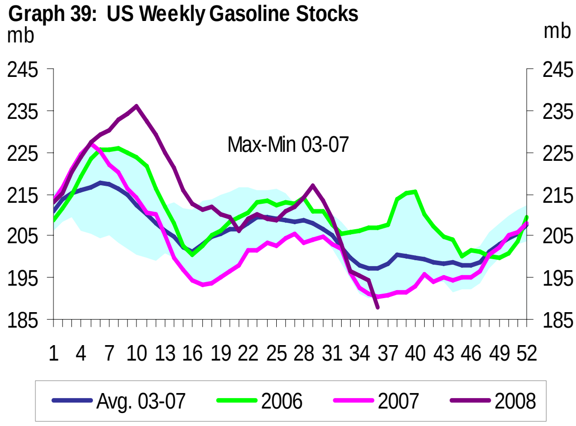
In August, US total commercial oil stocks fell by 5 mb, in line with the seasonal draw, to stand at 983 mb. The draw, the first since the end of the first quarter, kept the deficit with the five-year average at 28 mb or 3% for the fourth consecutive month.

Graph 38: US Weekly Commercial Crude Oil Stocks



Crude oil inventories added a further 4.5 mb to move above 300 mb and stay slightly below the five-year average (-2.8 mb). The increase of around 150,000 b/d in crude oil stocks, which took place despite a decline in imports, was attributed to lower refinery runs. The gap with the five-year average narrowed significantly from a considerable 27 mb at the end of the second quarter.

Graph 39: US Weekly Gasoline Stocks



In contrast to crude oil, product inventories fell 9.5 mb to more than offset the build of the previous month. This draw was driven by gasoline stocks which lost almost 15 mb, the sharpest decline in the last three years. As result, gasoline stocks fell below 200 mb for the first time this year to stand at around 194 mb, the same level as a year earlier. This strong decline in gasoline stocks can be is attributed to a significant drop of 100,000 b/d in finished motor gasoline imports The move below 200 mb sent stocks again below the five-year average for the second time this year. It is worth mentioning that gasoline stocks witnessed an overhang of nearly 19 mb in February before starting to decline due to the combination of lower imports and weaker production from refineries amid poor margins and crack spreads. Similarly, distillate stocks dropped 2 mb to 131 mb and moved below the five-year average again, putting an end to the upward trend which began in April. Residual fuel oil stocks inched up 0.6 mb to stand above 37 mb, implying 1.5 mb or 4% more than the five-year average whereas jet fuel stocks fell 0.3 mb but remained above the five-year average.

The Strategic Petroleum Reserve (SPR) added 0.4 mb to hit an all-time high of 707.2 mb, which corresponds to more than 97% of total SPR capacity. This build took place despite a decision, signed by President Bush, to stop filling the SPR effective July. It could be attributed to a delay in deliveries.

According to latest data, US commercial oil stocks fell sharply in the week ending 5 September. This could be attributed to disruptions from refineries and ports due to hurricanes. The draw of more than 15 mb, the highest since end-January 2003 on a weekly basis, resulted essentially from a decline of almost 6 mb in crude oil and gasoline stocks. However, due to lower imports crude oil inventories lost 5.9 mb to move below 300 mb, widening the deficit with the five-year average to 6 mb (*see **Graph 38***). Gasoline stocks fell 6.5 mb, the seventh decline in a row, to stand at 188 mb, the lowest level since the week ending 3 November 2002 (*see **Graph 39***). Distillate stocks fell 1.2 mb with diesel inventories losing 1.9 mb and heating (oil stocks) adding 0.6 mb. With this decline, distillate stocks are now below the five-year average for the first time since mid-May.

Nevertheless, due to weaker demand, crude oil stocks remained comfortable in terms of forward cover, corresponding to 20.3 days, one day better than the average of the previous five years. In contrast, gasoline and distillates stocks were 1 day and 2 days below the average, respectively.

Table 27: US onland commercial petroleum stocks, mb

	Jun 08	Jul 08	Aug 08	Change Aug 08 /Jul 08	Aug 07	05 Sep 08 *
Crude oil	294.7	296.9	301.4	4.5	320.5	298.0
Gasoline	209.8	209.2	194.4	-14.8	194.0	187.9
Distillate fuel	121.1	133.3	131.2	-2.1	134.6	130.5
Residual fuel oil	41.6	36.5	37.1	0.6	36.4	36.7
Jet fuel	39.7	41.4	41.1	-0.3	41.0	39.8
Total	**979.6**	**988.3**	**983.3**	**-5.0**	**1,025.2**	**974.6**
SPR	706.0	706.8	707.2	0.4	690.4	707.2

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

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

Western Europe

EU-16 total stocks dropped below the five-year average in August for the first time this year

In EU-16 (EU-15 plus Norway), total oil stocks failed to follow their seasonal trend and fell below the five-year average in August, for the first time since last November, after having dropped 11.8 mb, the same amount they have increased in the previous month. At 1,111 mb, stocks are showing a deficit of 11 mb or 1% with the seasonal average while at the end of the third quarter they were 22 mb above the average. The unseasonal draw is attributed to a strong decline of 15.8 mb in crude oil stocks. This drop of an equivalent of 510,000 b/d, the largest since last February, left crude oil stocks at 470 mb, the lowest level so far this year and lower than the five-year average and last year's level. This draw was due to lower production from the North Sea and a decline in imports from the BTC pipeline. In addition, transatlantic arbitrage opportunities added further pressure.

Table 28: Western Europe's oil stocks, mb

	Jun 08	Jul 08	Aug 08	Change Aug 08/Jul 08	Aug 07
Crude oil	477.1	485.7	469.9	-15.8	476.4
Mogas	129.2	127.8	129.3	1.5	121.1
Naphtha	29.5	29.9	28.2	-1.8	27.2
Middle distillates	355.5	359.5	366.4	6.9	382.6
Fuel oils	119.2	118.6	116.9	-1.7	113.3
Total products	633.4	635.7	640.7	5.0	644.2
Total	**1,110.5**	**1,121.4**	**1,110.6**	**-10.8**	**1,120.6**

Source: Argus, Euroilstock.

Increasing imports and production from refineries let product inventories rise for the second consecutive month, adding 5 mb to stand at around 641 mb. The same as crude oil inventories, and despite this build, product stocks moved below the five-year average as the increase was lower than the seasonal build. However, both gasoline and distillate stocks increased but remained below the average. However, gasoline stocks which rose 1.5 mb to 129 mb were just 2 mb below the five-year average whereas distillate inventories, despite a build of 7 mb, were 14 mb below the average compared to 10 mb in the previous month. Nevertheless, when compared to a year ago, gasoline stocks were much better while distillates were lower this year. Both residual fuel oil and naphtha inventories lost around 1.8 mb but remained higher than a year ago.

Japan's commercial stocks recovered sharply in July but remained unseasonably low; preliminary data show a further increase in product stocks in August.

Japan

Japan's commercial oil stocks increased 10 mb in July, offsetting the draw of the previous month, to move above 180 mb for the first time since last November. However, despite this build, inventories remained at the bottom of the five-year range. The build was shared by both crude oil and product stocks.

However, despite the build of 5 mb, crude oil stocks, remained well below the lower end of the five-year range. At 106 mb, crude oil stocks still showed a deficit with the five-year average of 12 mb or 10% and 9 mb with last year's level. This situation resulted from the fact that crude oil stocks hit their all-time low in March when they fell to 90 mb and since then they could not move within the five-year range. The build in crude oil inventories in July, which took place despite an increase of nearly 13% in refinery throughput, was attributed to a surge of 0.8 mb or 22% in imports over the previous month.

Table 29: Japan's commercial oil stocks*, mb

	May 08	Jun 08	Jul 08	Change Jul 08/Jun 08	Jul 07
Crude oil	105.7	101.2	106.0	4.8	115.3
Gasoline	14.8	13.2	12.6	-0.7	11.4
Naphtha	10.5	10.0	10.8	0.9	12.3
Middle distillates	28.1	28.4	33.6	5.2	36.0
Residual fuel oil	19.1	18.9	18.9	0.0	20.2
Total products	72.6	70.4	75.8	5.4	79.9
Total**	**178.3**	**171.6**	**181.9**	**10.3**	**195.2**

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

In contrast to crude oil and due to weaker demand, product stocks remained comfortable within the upper half of the five-year range. However, within products, gasoline and distillates continued to follow opposite trends with gasoline stocks falling and distillate inventories increasing. Indeed, gasoline inventories lost 1 mb to stand at 13 mb, which corresponded to the five-year average while distillate stocks rose 5 mb, the largest build in ten months, to hit 34 mb, the second highest level so far this year after the 37 mb of January, and stayed within the seasonal range.

Supported by the continuous increase in refinery runs, product stocks added a further 11 mb in August according to preliminary data. Once again, distillate inventories continued to drive product stocks up and accounted for 9 mb to move above the five-year range for the first time since last April to stand at 43 mb. Gasoline stocks added more than 1 mb and remained comfortable above the five-year average and last year's level. However, in contrast to products, crude oil inventories fell around 6 mb, offsetting the build of the previous month and moved back to around 100 mb to stay at the lower end of the five-year range.

Balance of Supply and Demand

Demand for OPEC crude in 2008 to decline by 160 tb/d

Estimate for 2008

The demand for OPEC crude in 2008 is projected at 32.0 mb/d, representing a decline of 160,000 b/d below the previous year. On a quarterly basis, demand for OPEC crude is estimated to average 32.4 mb/d, 31.1 mb/d, 32.0 mb/d and 32.5 mb/d respectively.

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

	2007	1Q08	2Q08	3Q08	4Q08	2008
(a) World Oil Demand	**85.91**	**86.67**	**85.55**	**86.44**	**88.46**	**86.79**
Non-OPEC Supply	49.42	49.61	49.64	49.54	50.96	49.94
OPEC NGLs and non-conventionals	4.32	4.62	4.82	4.92	5.04	4.85
(b) Total Supply excluding OPEC Crude	**53.75**	**54.23**	**54.46**	**54.46**	**56.00**	**54.79**
Difference (a-b)	**32.16**	**32.44**	**31.09**	**31.98**	**32.47**	**32.00**
OPEC crude oil production [1]	30.97	32.07	32.10			
Balance	-1.19	-0.38	1.01			

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

In 2009, demand for OPEC crude projected to fall a further 670 tb/d

Forecast for 2009

Required OPEC crude in 2009 is expected to average 31.3 mb/d, representing a decline of 670,000 b/d from the current year. On a quarterly basis, the forecast shows that demand for OPEC crude is expected at 31.2 mb/d, 30.3 mb/d, 31.1 mb/d and 32.7 mb/d respectively.

Table 31: Summarized supply/demand balance for 2009, mb/d

	2008	1Q09	2Q09	3Q09	4Q09	2009
(a) World Oil Demand	**86.79**	**87.64**	**86.32**	**87.25**	**89.40**	**87.66**
Non-OPEC Supply	49.94	51.20	50.64	50.46	50.96	50.81
OPEC NGLs and non-conventionals	4.85	5.22	5.41	5.64	5.77	5.51
(b) Total Supply excluding OPEC Crude	**54.79**	**56.41**	**56.05**	**56.10**	**56.74**	**56.32**
Difference (a-b)	**32.00**	**31.23**	**30.28**	**31.15**	**32.66**	**31.33**

Graph 40: Balance of supply and demand

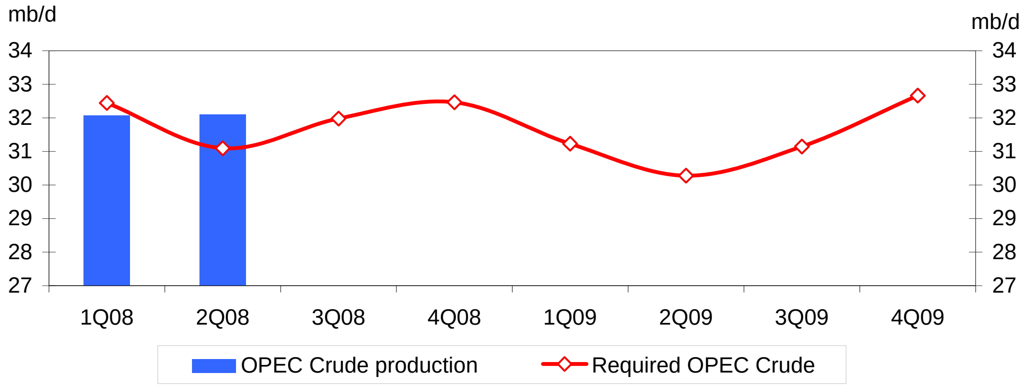


Table 32: World oil demand/supply balance, mb/d

	2004	2005	2006	2007	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09	4Q09	2009
World demand														
OECD	49.4	49.8	49.6	49.2	48.9	47.4	48.2	50.1	48.6	48.7	47.0	47.8	49.9	48.4
North America	25.4	25.6	25.4	25.5	24.8	24.5	25.0	25.6	25.0	24.6	24.2	24.7	25.5	24.8
Western Europe	15.5	15.7	15.7	15.3	15.2	15.0	15.4	15.7	15.3	15.2	14.9	15.3	15.7	15.3
Pacific	8.5	8.6	8.5	8.3	8.9	7.9	7.8	8.7	8.3	8.8	7.8	7.8	8.7	8.3
DCs	21.8	22.6	23.3	24.2	24.8	25.2	25.0	25.2	25.0	25.4	25.8	25.7	25.9	25.7
FSU	3.8	3.9	3.9	4.0	4.0	3.9	4.1	4.4	4.1	4.0	4.0	4.2	4.5	4.2
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	8.4
(a) Total world demand	82.5	83.9	84.9	85.9	86.7	85.6	86.4	88.5	86.8	87.6	86.3	87.2	89.4	87.7
Non-OPEC supply														
OECD	21.3	20.5	20.2	20.1	20.0	20.0	19.4	20.3	19.9	20.4	19.8	19.7	20.0	20.0
North America	14.6	14.1	14.2	14.3	14.2	14.4	14.0	14.6	14.3	14.6	14.3	14.4	14.6	14.5
Western Europe	6.2	5.7	5.4	5.2	5.2	5.0	4.6	4.9	4.9	4.9	4.7	4.4	4.7	4.7
Pacific	0.6	0.6	0.6	0.6	0.6	0.6	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	11.0	11.5	11.6	11.3	11.6	11.6	11.8	11.8	11.7
FSU	11.1	11.5	12.0	12.5	12.6	12.7	12.7	13.1	12.8	13.2	13.1	13.0	13.1	13.1
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	3.9	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	49.6	49.6	49.5	51.0	49.9	51.2	50.6	50.5	51.0	50.8
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	53.0	53.7	54.2	54.5	54.5	56.0	54.8	56.4	56.0	56.1	56.7	56.3
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	86.3	86.6								
Balance (stock change and miscellaneous)	0.5	0.4	-0.5	-1.2	-0.4	1.0								
OECD closing stock levels (*mb*)														
Commercial	2538	2585	2668	2574	2564	2599								
SPR	1450	1487	1499	1524	1530	1529								
Total	3988	4072	4167	4098	4095	4127								
Oil-on-water	905	958	916	945	936	936								
Days of forward consumption in OECD														
Commercial onland stocks	51	52	54	53	54	54								
SPR	29	30	30	31	32	32								
Total	80	82	85	84	86	86								
Memo items														
FSU net exports	7.3	7.7	8.1	8.5	8.6	8.8	8.6	8.6	8.7	9.1	9.2	8.8	8.6	8.9
(a) - (b)	30.0	31.3	31.9	32.2	32.4	31.1	32.0	32.5	32.0	31.2	30.3	31.1	32.7	31.3

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

Table 33: 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	-0.5	-0.1	-0.2	-	-0.3	-0.5	-0.1	-0.2
North America	-	-	-	-	-	-0.2	-0.4	-	-0.2	-	-0.3	-0.5	-	-0.2
Western Europe	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	0.1	0.1	0.1	0.1	-	0.1	0.1	0.1	0.1
FSU	-	-	-	-	-	0.1	-	-	-	-	0.1	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(a) Total world demand	-	-	-	-	-	-0.1	-0.4	-	-0.1	-	-0.1	-0.4	-	-0.1
World demand growth	*-*	*-*	*-*	*-*	*0.01*	*-0.11*	*-0.38*	*-0.01*	*-0.12*	*-*	*-0.04*	*-0.04*	*-*	*-0.02*
Non-OPEC supply														
OECD	-	-	-	-	-	-	-0.2	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-0.2	-	-	-	-	-	-	-
Western Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FSU	-	-	-	-	-	-	-0.1	-	-	-0.1	-0.1	-0.2	-0.2	-0.1
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	-	-0.3	-	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1
Total non-OPEC supply growth	*-*	*-*	*-*	*-*	*-*	*0.03*	*-0.27*	*-0.04*	*-0.07*	*-0.07*	*-0.16*	*0.10*	*-0.16*	*-0.07*
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	-	-0.3	-	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1
OPEC crude oil production (secondary sources)	-	-	-	-	-	-								
Total supply	-	-	-	-	-	-								
Balance (stock change and miscellaneous)	-	-	-	-	-	0.1								
OECD closing stock levels (*mb*)														
Commercial	-	-0.7	-	-10	-11	19								
SPR	-	-	-	-	-	-1								
Total	-	-0.7	-	-10	-11	18								
Oil-on-water	-	-	-	-	1	-								
Days of forward consumption in OECD														
Commercial onland stocks	-	-	-	-	-	0.9								
SPR	-	-	-	-	-	-								
Total	-	-	-	-	-	1.2								
Memo items														
FSU net exports	-	-	-	-	-	-	-0.1	-	-	-0.1	-0.2	-0.2	-0.2	-0.2
(a) - (b)	-	-	-	-	-	-0.1	-0.1	-	-	0.1	-	-0.3	0.2	-

† This compares Table 32 in this issue of the MOMR with Table 32 in the August 2008 issue.
This table shows only where changes have occurred.

Table 34: OECD oil stocks and oil on water at the end of period

	2003	2004	2005	2006	2007	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08
Closing stock levels *mb*																							
OECD onland commercial	2,511	2,538	2,585	2,668	2,574	2,458	2,538	2,572	2,538	2,533	2,612	2,627	2,585	2,585	2,648	2,758	2,668	2,598	2,659	2,655	2,574	2,564	2,599
North America	1,161	1,193	1,257	1,277	1,231	1,145	1,193	1,206	1,193	1,201	1,275	1,254	1,257	1,240	1,277	1,351	1,277	1,238	1,293	1,285	1,231	1,214	1,241
Western Europe	915	915	934	963	938	913	925	936	915	942	915	942	934	937	935	948	963	943	940	941	938	959	951
OECD Pacific	435	430	394	428	404	400	420	430	430	389	422	432	394	408	436	459	428	417	426	429	404	392	407
OECD SPR	1,411	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	1,529
North America	640	678	687	691	699	654	664	672	678	690	698	696	687	688	690	690	691	691	692	695	699	702	708
Western Europe	374	377	407	412	421	371	366	367	377	376	401	405	407	407	411	412	412	415	413	423	421	424	417
OECD Pacific	396	396	393	396	404	398	398	396	396	396	395	393	393	392	393	393	396	401	401	403	404	404	404
OECD total	3,921	3,988	4,072	4,167	4,098	3,881	3,967	4,006	3,988	3,995	4,106	4,121	4,072	4,072	4,141	4,253	4,167	4,105	4,165	4,176	4,098	4,095	4,127
Oil-on-water	882	905	958	916	945	906	891	894	905	934	931	926	958	962	971	972	916	914	909	934	945	936	936
Days of forward consumption in OECD																							
OECD onland commercial	51	51	52	54	53	51	52	51	50	52	53	52	51	53	54	55	54	54	54	53	53	54	54
North America	46	47	49	50	49	46	47	47	47	47	50	49	50	49	50	53	50	49	51	50	50	49	50
Western Europe	59	58	60	63	61	60	60	59	58	61	58	60	58	61	60	60	63	63	61	60	62	64	62
OECD Pacific	51	50	46	51	49	51	51	49	45	48	52	49	42	52	55	52	48	53	54	49	46	50	52
OECD SPR	29	29	30	30	31	30	29	28	28	30	30	30	29	31	30	30	30	31	31	31	31	32	32
North America	25	27	27	27	28	26	26	26	26	27	27	27	27	27	27	27	27	27	27	27	28	29	28
Western Europe	24	24	26	27	28	25	24	23	24	25	26	26	25	27	26	26	27	28	27	27	28	28	27
OECD Pacific	46	46	46	47	49	50	49	45	42	49	49	45	42	50	49	45	44	51	51	46	46	51	52
OECD total	79	80	82	85	84	81	81	79	78	82	83	82	80	84	84	85	84	85	85	84	84	86	86

Table 35: 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	7.64	7.76	7.50	7.86	7.69	0.19	7.89	7.83	7.86	8.01	7.90	0.21
Canada	3.07	3.03	3.20	0.17	3.34	3.24	3.36	3.34	3.32	0.12	3.30	3.41	3.34	3.47	3.38	0.06	3.56	3.45	3.46	3.55	3.50	0.12
Mexico	3.83	3.77	3.69	-0.08	3.58	3.59	3.45	3.33	3.49	-0.21	3.29	3.18	3.20	3.24	3.23	-0.26	3.18	3.05	3.06	3.00	3.07	-0.15
North America	14.56	14.14	14.24	0.11	14.38	14.41	14.22	14.20	14.30	0.06	14.22	14.35	14.04	14.57	14.30	-0.01	14.63	14.32	14.38	14.56	14.47	0.18
Norway	3.19	2.97	2.78	-0.19	2.72	2.46	2.48	2.57	2.56	-0.22	2.51	2.39	2.23	2.45	2.40	-0.16	2.40	2.30	2.15	2.34	2.30	-0.10
UK	2.10	1.89	1.71	-0.18	1.79	1.75	1.49	1.72	1.69	-0.02	1.69	1.58	1.38	1.45	1.52	-0.17	1.47	1.41	1.33	1.32	1.38	-0.14
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	0.69	0.68	0.15	0.73	0.75	0.71	0.71	0.72	0.04	0.73	0.73	0.73	0.73	0.73	0.00
Western Europe	6.18	5.74	5.37	-0.37	5.51	5.20	4.97	5.29	5.24	-0.12	5.22	5.01	4.59	4.90	4.93	-0.31	4.88	4.71	4.45	4.65	4.67	-0.26
Australia	0.52	0.53	0.51	-0.02	0.51	0.54	0.54	0.51	0.53	0.02	0.47	0.53	0.65	0.70	0.59	0.06	0.69	0.67	0.69	0.68	0.68	0.10
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	0.11	0.13	0.12	0.04	0.14	0.14	0.14	0.14	0.14	0.03
OECD Pacific	0.57	0.58	0.56	-0.02	0.57	0.61	0.63	0.61	0.60	0.04	0.58	0.64	0.76	0.82	0.70	0.10	0.83	0.81	0.84	0.82	0.83	0.12
Total OECD	21.31	20.45	20.17	-0.28	20.46	20.22	19.81	20.10	20.15	-0.02	20.02	20.01	19.39	20.30	19.93	-0.22	20.35	19.85	19.67	20.04	19.97	0.05
Brunei	0.21	0.21	0.22	0.01	0.20	0.18	0.17	0.17	0.18	-0.04	0.19	0.16	0.18	0.18	0.17	-0.01	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	0.81	0.82	0.82	0.82	0.00	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	0.78	0.76	0.83	0.86	0.81	0.04	0.86	0.83	0.83	0.82	0.83	0.03
Thailand	0.25	0.30	0.32	0.02	0.33	0.34	0.34	0.34	0.34	0.02	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	0.31	0.39	0.43	0.37	0.02	0.42	0.42	0.45	0.46	0.44	0.07
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	2.67	2.85	2.94	2.81	0.10	2.93	2.88	2.95	2.95	2.92	0.12
Argentina	0.80	0.78	0.77	0.00	0.77	0.77	0.76	0.75	0.76	-0.01	0.76	0.69	0.74	0.73	0.73	-0.03	0.72	0.71	0.70	0.69	0.71	-0.02
Brazil	1.80	1.98	2.11	0.12	2.15	2.15	2.16	2.14	2.15	0.04	2.23	2.28	2.45	2.47	2.36	0.21	2.56	2.61	2.69	2.68	2.64	0.28
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	0.27	0.28	0.27	0.27	0.27	0.00	0.27	0.27	0.27	0.27	0.27	0.00
Latin America	3.55	3.77	3.86	0.09	3.88	3.88	3.88	3.88	3.88	0.02	3.98	3.97	4.21	4.22	4.10	0.22	4.32	4.36	4.43	4.41	4.38	0.28
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	0.74	0.76	0.78	0.75	0.04	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	0.38	0.38	0.38	-0.02	0.37	0.37	0.37	0.37	0.37	-0.01
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	1.64	1.65	1.66	1.65	-0.01	1.65	1.66	1.66	1.66	1.66	0.01
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	11.08	10.99	11.46	11.58	11.28	0.36	11.65	11.64	11.81	11.82	11.73	0.45
FSU	11.14	11.55	12.02	0.47	12.51	12.45	12.50	12.62	12.52	0.50	12.60	12.68	12.73	13.09	12.78	0.26	13.16	13.12	12.97	13.10	13.09	0.31
Russia	9.19	9.44	9.65	0.21	9.87	9.83	9.89	9.87	9.87	0.22	9.76	9.77	9.95	10.03	9.88	0.01	10.01	9.95	9.89	9.86	9.93	0.05
Kazakhstan	1.18	1.23	1.30	0.07	1.35	1.34	1.35	1.36	1.35	0.05	1.42	1.43	1.37	1.50	1.43	0.08	1.56	1.57	1.47	1.58	1.55	0.12
Azerbaijan	0.31	0.44	0.65	0.21	0.85	0.86	0.81	0.92	0.86	0.21	0.96	1.02	0.94	1.09	1.00	0.14	1.11	1.14	1.13	1.19	1.14	0.14
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	3.87	3.88	3.91	3.87	0.10	3.91	3.91	3.90	3.88	3.90	0.03
Non-OPEC production	46.60	46.61	46.98	0.36	47.86	47.53	47.05	47.57	47.50	0.53	47.66	47.69	47.60	49.01	47.99	0.49	49.21	48.66	48.48	48.98	48.83	0.84
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	49.50	49.42	0.55	49.61	49.64	49.54	50.96	49.94	0.51	51.20	50.64	50.46	50.96	50.81	0.88
OPEC NGL	3.85	3.98	3.94	-0.03	4.02	4.23	4.32	4.36	4.23	0.29	4.51	4.71	4.81	4.93	4.74	0.51	5.11	5.30	5.46	5.59	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	4.13	4.08	-0.05	4.10	4.32	4.41	4.45	4.32	0.24	4.62	4.82	4.92	5.04	4.85	0.53	5.22	5.41	5.64	5.77	5.51	0.66
Non-OPEC & OPEC (NGL+NCF)	52.45	52.61	52.96	0.35	53.88	53.76	53.38	53.96	53.75	0.79	54.23	54.46	54.46	56.00	54.79	1.04	56.41	56.05	56.10	56.74	56.32	1.54

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

Table 36: 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	2Q 08	Jul08	Aug08	Change Aug/Jul
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	1,864	1,932	1,987	55
Canada	369	490	121	665	282	494	440	470	-20	532	139	348	356	344	-126	507	169	412	449	37
Mexico	110	107	-3	85	85	77	84	83	-24	90	88	96	93	92	9	96	106	102	104	2
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	2,139	2,446	2,540	94
Norway	17	17	0	19	20	16	9	16	-1	16	19	18	17	18	2	17	21	25	17	-8
UK	16	21	5	29	27	26	15	24	3	25	29	27	22	26	2	19	21	26	24	-2
Western Europe	65	65	0	77	78	73	65	73	8	72	78	76	73	75	2	71	78	89	79	-10
OECD Pacific	22	25	3	25	28	25	28	27	2	24	30	32	30	29	2	32	39	38	38	0
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	2,256	2,573	2,657	84
Other Asia	126	142	16	153	150	156	152	153	11	158	157	151	150	154	1	149	154	155	157	2
Latin America	116	129	13	137	151	153	153	149	20	183	178	173	181	178	29	181	181	184	196	12
Middle East	70	72	2	72	79	82	85	80	8	82	85	87	86	85	5	89	91	93	93	0
Africa	51	54	3	59	62	68	77	67	13	75	80	88	88	83	16	84	90	89	99	10
Total DCs	363	397	34	421	442	459	472	449	52	510	510	509	515	511	62	512	520	521	545	24
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	2,795	3,112	3,220	108
Algeria	19	21	2	21	21	28	27	24	3	25	26	28	28	27	3	26	27	23	23	0
Angola	3	3	0	4	4	4	4	4	1	5	4	3	5	4	0	5	6	5	5	0
Ecuador	10	12	2	12	11	11	12	11	-1	12	10	11	10	11	0	7	9	10	12	2
Indonesia	49	54	5	55	43	46	52	49	-5	49	56	60	64	57	8	64	67	71	63	-8
Iran	41	40	-1	40	45	47	45	44	4	51	51	51	50	50	6	50	50	51	50	-1
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	11	11	13	2
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	8	8	4	-4
Qatar	9	12	3	13	10	11	9	11	-1	11	12	13	14	13	2	11	12	12	10	-2
Saudi Arabia	32	36	4	54	60	70	76	65	29	76	76	78	77	77	12	78	77	76	75	-1
UAE	16	16	0	17	16	16	16	16	0	14	15	15	14	14	-2	12	12	12	13	1
Venezuela	55	67	12	78	83	85	77	81	14	76	80	77	71	76	-5	82	81	83	70	-13
OPEC Rig Count	262	291	29	325	324	352	355	339	48	354	362	371	368	362	23	372	375	377	353	-24
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	3,170	3,489	3,573	84
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	1,320	1,426	1,440	14
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	1,819	2,030	2,098	68
Others	20	22	2	14	13	18	21	16	-6	20	19	20	24	21	5	34	31	33	35	2

/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 September 2008

OPEC Basket average price

US$ per barrel

⬇ *down 18.81 in August*

August 2008	***112.41***
July 2008	*131.22*
Year-to-date	*109.54*

August OPEC production

in million barrels per day, according to secondary sources

Algeria	*1.41*	*SP Libyan AJ*	*1.69*
Angola	*1.89*	*Nigeria*	*1.94*
Ecuador	*0.50*	*Qatar*	*0.86*
Indonesia	*0.85*	*Saudi Arabia*	*9.49*
IR Iran	*3.96*	*UAE*	*2.61*
Iraq	*2.38*	*Venezuela*	*2.33*
Kuwait	*2.60*	***TOTAL***	***32.50***

Supply and demand

in million barrels per day

2008		***2009***	
World demand	*86.8*	*World demand*	*87.7*
Non-OPEC supply	*54.8*	*Non-OPEC supply*	*56.3*
Difference	***32.0***	***Difference***	***31.3***

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

Stocks

OECD commercial stocks rose sharply in July to 2,646 mb, the highest level since last September. Forward demand cover stood at 54.1 days, half a day above the seasonal average.

World economy

World GDP growth unchanged at 3.9% in 2008 and revised down to 3.7% for 2009.

Issued 16 September 2008.
Next report to be issued on 15 October 2008.

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