OPEC

Organization of the Petroleum Exporting Countries

# Monthly Oil Market Report

## *October 2005*

*Feature Article:*

***Winter oil market outlook***




Obere Donaustrasse 93, A-1020 Vienna, Austria
Tel +43 1 21112 Fax +43 1 2164320 E-mail: prid@opec.org Web site: www.opec.org

# Oil Market Highlights

- Third-quarter data suggests that the US and the world economy were growing strongly before the impact of hurricanes Katrina and Rita. The direct effect on the growth rate of the US economy in 2005 is now expected to be a reduction of only 0.1% and next year will see substantial spending on rebuilding. The US GDP growth forecast for 2005 has been raised to 3.5% and the forecast for 2006 to 3.1%. The major concern of financial markets has shifted from growth to inflation, as we have highlighted in previous reports. The prospect of higher headline and core inflation suggests that 2006 will see moves to tighten monetary policies in the USA, Europe and Asia.
- Following excellent second-quarter data, the Japanese growth forecast for 2005 has been revised up to 2.1%. Further steady growth of 1.8% is expected in 2006. There has been no change in the forecast for the Euro-zone which is expected to grow by 1.1% in 2005 and by 1.5% next year. Growth forecasts for the Developing Countries have been revised up to 5.4% in 2005 and 5.0% in 2006. Africa in particular looks set to benefit from the strong growth of oil exporting economies.
- The forecast growth rate for the world economy in 2005 has been increased to 4.2%, followed by growth of 4.0% next year. The cautious outlook for 2006 reflects a balance between the positive influence of improving business confidence, trade and manufacturing indicators and the ongoing impact of high energy prices on real incomes, especially in Asian countries where fuel subsidies have been reduced. Much will also depend on the resilience of the US economy in the face of rising interest rates since lower US demand might also slow exports and investment in China and other Asian economies.
- The OPEC Reference Basket in September experienced a volatile month due to mixed signals. Hurricane Katrina revived fears of a replay of last year's impact of Hurricane Ivan on oil operations in the Gulf of Mexico. However, the IEA's emergency response of strategic crude and product stocks together with OPEC's prompt provision of oil supplies helped to ease the market. The Basket average rose only 6¢ for the month to $57.82/b. The Basket continued to slip in October with the average for the first half of the month at $55.55/b, representing a loss of $2.33 or 4% from the previous monthly average, and stood at $54.49/b on 14 October.
- Sharp refinery outages in the USA as a result of the hurricanes Katrina and Rita, along with the drop in natural gas output from the US Gulf Coast and fears of product shortfalls in the winter season, have lifted product prices and caused refinery margins of different benchmark crudes to surge sharply in September. Due to the recent slowdown in demand, particularly in the USA, and technical sell-offs, the product markets along with the crude oil market have lost part of their strength, but product markets are still fundamentally short and prices could rebound in the next few weeks. As about 1.8 mb/d of US refinery utilization is still off-line, and because of the recent ongoing strike in France, the current short-fall in the product markets deepens, providing further support for product and crude oil prices.
- Total OPEC spot chartering surged by almost 2.3 mb/d or 18% to average 14.8 mb/d. Middle Eastern countries were the main contributors to the growth with 1.9 mb/d or 84%, coming essentially from the westbound fixtures, which increased by 1 mb/d or 90% compared to the previous month. Sailings from the OPEC area fell by 0.72 mb/d to 24.7 mb/d, but remained 1.7 mb/d higher than a year earlier. The tanker market recovered from its summer lull with spot freight rates for crude oil showing some improvements ahead of winter, while freight rates for products increased significantly, especially in the Caribbean and the Atlantic Basin, where they hit their highest levels since late 2000 as a result of a spike in bookings following hurricanes Katrina and Rita.
- While persistently high oil prices have begun to erode demand, on the positive side, the economic outlook for the present year remains healthy at 4.2%. Some of the market views vindicated by the substantial 2.6% drop in US gasoline consumption in the latest EIA figures, based on the last four-week average, should also take a look at the yearly trend for gasoline demand for the first eight months of this year, which was 9.15 mb/d compared to 9.11 mb/d in the same period last year. Moreover, any prediction based solely on the last four-week average might be misleading, especially if the period encompasses the post-Katrina episode. World oil demand growth for the present year has been revised down by 0.2 mb/d and is now estimated at 1.2 mb/d, representing 1.4 % y-o-y growth, for a yearly average of 83.3 mb/d. As for 2006, global oil demand growth is projected to stand close to 1.5 mb/d or 1.8 % for a yearly average of 84.7 mb/d.
- Non-OPEC supply in 2005 is expected to increase 0.49 mb/d over the previous year, following a downward revision of 113,000 b/d to last month's figures. Including OPEC NGLs and non-conventional oils, non-OPEC output this year should increase 0.7 mb/d over 2004. On a quarterly basis, non-OPEC supply has been revised down in the third and fourth quarter by 127,000 b/d and 331,000 b/d respectively. Negative revisions to US Gulf of Mexico and UK production account for the bulk of the adjustments partly offset by upward revisions in Australia and in several Developing Countries. In 2006, non-OPEC oil supply is expected to increase 1.27 mb/d over the current year, following an upward revision of 90,000 b/d from last month's report. Including OPEC NGLs and non-conventional oils, non-OPEC supply is likely to increase 1.6 mb/d from 2005. September OPEC output is estimated at 30.34 mb/d.
- US commercial oil inventories (total crude and petroleum products excluding SPR) during 2-30 September showed a draw of 4.7 mb or 0.17 mb/d to 1,004.90 mb. This level was 3.4% higher than last year's figure and 2% above the five-year average. Total oil inventories in Eur-16 (EU plus Norway) in September continued to show builds for the third consecutive

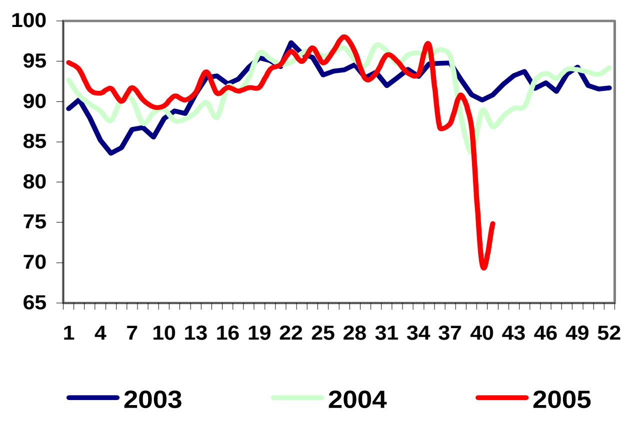
month, increasing by 2.9 mb or 0.10 mb/d to stand at 1,136.0 mb. This level is 37.1 mb or 3.4% higher than that registered a year ago. Total oil inventories in Japan showed a further moderate build in August, rising by 4.2 mb or 0.14 mb/d to stand at 190.9 mb, a level not seen since November 2004.

- The supply/demand balance for 2005 has been revised down to reflect lower demand and lower supply expectations. Demand for OPEC crude in 2005 (a-b) is now forecast at 28.7 mb/d, an increase of 0.5 mb/d from 2004 but 200,000 b/d lower than projected earlier. The crude required for the fourth quarter of 2005 is now estimated to be 30 mb/d, which is 300,000 b/d lower than before as well as the current OPEC crude production (30.3 mb/d). In terms of OPEC capacity, taking into account the supply/demand balance, the resulting required OPEC crude production levels and projected production capacity, OPEC's spare capacity is now estimated to average around 8.5% in the fourth quarter of 2005, compared to 4.9% in the same period of 2004. For 2006, the demand for OPEC crude is expected to average 28.5 mb/d, a downward revision of around 400,000 b/d versus last month's report. The quarterly distribution shows that demand for OPEC crude is now expected to be 29.7 mb/d in the first quarter, 27.7 mb/d in the second, 28 mb/d in the third and 28.8 mb/d in the fourth.

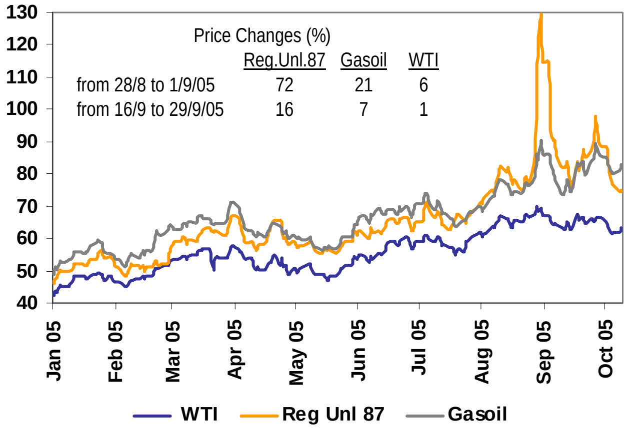
# Winter oil market outlook

- The post-Katrina rise in energy prices is expected to affect US consumer spending nationwide in the fourth quarter. Consumers may absorb part of the higher costs by further reductions in savings but GDP growth is likely to fall to 2.5%, well below the 3.5% recorded in the first half. Nevertheless the strong performance of the earlier part of the year means that US growth for 2005 as a whole will be about 3.5%. The impact of the higher energy prices on other G7 economies will be much less marked as household savings are higher than in the USA. G7 growth is expected to be below 2% in the final quarter. This would be the lowest growth rate since the recovery started in early 2003. However, the US economy should accelerate in the first quarter of next year as a result of reconstruction efforts, and forecasts for Europe and Japan indicate moderate growth for the first quarter — indeed for the G7 as a whole this period is expected to see growth very close to the long-term average of 2.5%. GDP growth in the Developing Countries should remain stable at about 5%, which should keep world growth close to 4% for the first quarter of 2006 compared to 4.1% in the same quarter this year.
- Recent US data indicates that gasoline demand declined by 2.6% in the last four-week period ending 30 September, compared to the same period last year. This has raised the perception in the market that higher product prices may lead to ‘demand destruction’ and will significantly cut into consumption over the next few months. However, so far, there is insufficient evidence to support the perception that this rate of decline will continue. Indeed, a number of factors appear to indicate that the recent downturn is not likely to persist at such a strong pace. First, as has been shown, the outlook for the world economy has not changed noticeably. In fact, if there has been any adjustment, it has been upward, as Japan is expected to show an improved performance at the end of 2005. Second, demand is inelastic to price hikes in the short term. Finally, oil consumption for industrial uses and heating purposes is not usually strongly affected by high prices, particularly if the market faces a colder than normal winter.

***Graph 1: Weekly US refinery utilization rates (%)***




***Graph 2: Impact of Katrina on US crude and product prices (US$/b)***




- Despite the recent slowdown in demand, the product markets continue to provide the greatest challenge for the industry. The US energy complex is facing an unprecedented situation as a result of the Hurricanes Katrina and Rita. The combined effects of these two destructive hurricanes caused over 1.6 mb/d of the US refining capacity to remain offline, a major part of which may remain out of operation for an extended period as reflected in the very low refinery utilization rates, currently standing at 75% (*see **Graph 1***). This situation is likely to result in a shortfall of domestic product output of about 150 mb in the USA by the end of the year.
- Following Hurricane Katrina, the bullish sentiment of the market calmed somewhat. This was a result of the immediate reaction of the oil industry to boost output at non-affected refineries, raise imports as well as the release of emergency crude and product reserves by the IEA and the offer of an additional 2 mb/d of crude production by OPEC. These moves, along with the decline in demand, helped to effectively cap the upward price trend, allowing crude and product prices to lose part of their post-Katrina gain over the last weeks (*see **Graph 2***). The results of these measures have also been reflected in gasoline stocks, which still stand slightly higher than early September levels, currently at 192.8 mb. These developments have led some to predict a sharp and persistent drop in demand.
- As the combined effects of Hurricanes Katrina and Rita begin to show over the next few weeks, the current surplus in distillate stocks may disappear while gasoline inventories are likely to tighten even further. In the week ending 7 October, US refinery runs dropped to 75% while gasoline and distillate output plunged by 890,000 b/d and 700,000 b/d, respectively compared to the middle of September. At the same time, imports rose 493,000 b/d for gasoline and 84,000 b/d for distillates. It is very difficult to say whether the shortfall in petroleum products of about 150 mb could be compensated by additional imports, as there is lack of effective refining.

- Apart from the refinery shut-downs and a shortfall in petroleum products, the US market is also suffering from lower natural gas production, as around 55% of gas production remains shut in the Gulf of Mexico. Natural gas stocks are set to fall further in the coming weeks, as there is little possibility of arbitrage cargoes from other markets. This may trigger fuel switching, which would further increase demand for heating oil. The current situation of the oil and gas industry in the US Gulf Coast could potentially face further risks in the next few weeks, given that the hurricane season typically lasts until early November.
- In contrast, the crude market appears relatively bearish as there is ample supply of crude, inventories are at comfortable levels and the outage of 14% of US refining capacity should reduce demand requirements. However, with the tight supply and demand balance on the product side, the market is likely to continue to be led by products. As the market remains sensitive to refinery outages, any further unplanned shutdown or unexpected improvement in demand throughout the winter could allow speculative activity to push prices above the level justified by crude market fundamentals. In light of the current circumstances, OPEC has offered as much as 2 mb/d of spare capacity to the market, if needed, to moderate prices. This, along with continuing evidence of adequate supply, the expected 0.9 mb/d growth in OPEC capacity (end 2005 to end 2006) as well as a 1.6 mb/d rise in non-OPEC supply (including OPEC NGLs), should help to ease the current volatility and bring prices closer to levels supportive of healthy growth in the world economy.

**Vienna, Austria** **20 September 2005**

# OPEC adopts comprehensive long-term strategy

OPEC has adopted a comprehensive long-term strategy at its Ministerial Conference which ended in Vienna today (20 September).

This strategy, which was prepared over a period of two and a half years, provides a coherent and consistent vision and framework for the Organization's future.
It recognises the important role of oil in the world economy at large and for the socio-economic development of OPEC Member Countries.

The strategy defines specific objectives, identifies the key challenges that the Organization faces now and in the future, and explores scenarios for the energy scene. It is designed to be robust and adaptive throughout the various possible futures.

When the process of drawing up a long-term strategy began in March 2003, the oil market was experiencing a high level of stability. Recently, however, the market has been more volatile, making a long-term strategy for the Organization all the more relevant.

Meetings of the Member Countries' Deputy Ministers of Petroleum/Energy were held under the Chairmanship of HRH Prince Abdulaziz Bin Salman Bin Abdulaziz Al-Saud, Assistant Minister of Petroleum Affairs, Kingdom of Saudi Arabia, with HE Dr. Bernard Mommer, Vice-Minister of Hydrocarbons, Bolivarian Republic of Venezuela, as Vice-Chairman, and these were supported by the OPEC Secretariat's Research Division.

The final proposed strategy was presented to the 137th Meeting of the OPEC Conference, which convened in Vienna on 19–20 September and which gave it its endorsement.

The strategy sets objectives in relation to the long-term petroleum revenues of Member Countries, fair and stable prices, the role of oil in meeting future energy demand, the stability of the world oil market, and the security of regular supplies to consumers, as well as the security of world oil demand. They also relate to the legitimate interests of OPEC Member Countries in multilateral agreements.

The strategy identifies the key challenges that may constitute constraints for OPEC in the attainment of the objectives. These include uncertainties surrounding future oil demand, stemming from, *inter alia*, the prospects for the world economy, consuming countries' energy and environmental policies, and technological developments. They also concern the supply side, taking into account the resources, potential non-OPEC production, and the extent and timing of required investment, together with the associated uncertainties.

While considering the wide range of possible futures and the need to be effective across these plausible circumstances, the strategy covers various elements, such as the oil price, upstream and downstream investment, technology, the role of OPEC National Oil Companies, multilateral negotiations, in particular those related to trade and the environment, the important relationships with both producers and consumers, as well as with international organisations and institutions, OPEC's public information and the strengthening of the OPEC Secretariat. In addition, it also includes elements that are pertinent to specific situations, given the need to be flexible and adaptive.

Regarding oil prices, the strategy builds upon the fundamental recognition that extreme price levels, either too high or too low, are damaging for both producers and consumers, and points to the need to be proactive under all market conditions.

The strategy also re-emphasises OPEC's commitment to support market stability and, in achieving this, stresses the role of other producers, as well as, especially with regard to the downstream sector, consuming countries.

The strategy recommends that OPEC Member Countries strive to strengthen co-operation in upstream and downstream scientific research and technological development among themselves and with international institutions. It also recommends supporting research in the production and use of cleaner petroleum-based fuels, and taking an active role in the development of technologies that address climate change concerns, while improving and expanding the role of oil in meeting future world energy demand, such as $CO_2$ sequestration.

The strategy also addresses the role of OPEC National Oil Companies and encourages enhancing their competitive performance, as well as developing close co-operation among them in various areas such as technology, industrial networking, knowledge- and experience-sharing, etc.

The strategy maintains that it is important for OPEC Member Countries to continue to have an active role in climate change-related multilateral negotiations, recalling the principle of common but differentiated responsibilities, as well as the obligations of industrialised countries with regard to developing country parties.

The strategy also calls for an active and more co-ordinated role of OPEC in trade-related negotiations, as well as increased co-operation with other developing countries, reinforcing the principle of permanent national sovereignty over natural resources, and recognising the exhaustible and non-renewable character of oil. It also stresses that it is important for OPEC Member Countries to continue enhancing their economic and social development by using the comparative advantage offered by their natural resources.

Dialogue among producers and between producers and consumers constitutes a crucial element of the strategy. It is recommended that such dialogue should be widened and deepened to cover more issues of mutual concern, such as security of demand and supply, market stability, investment, technology and the downstream.

Communication is also recognised as a key element of the strategy and this calls for, *inter alia*, a strengthening of the Organization's public information capabilities.

Finally, the long-term strategy recognises the importance of an enabling environment, and recommends the strengthening of the OPEC Secretariat to broaden its research activities and cope with the growing challenges.

**Vienna, Austria** **20 September 2005**

# 137th Meeting of the OPEC Conference

# Vienna, Austria, 19-20 September 2005

The 137th Meeting of the Conference of the Organization of the Petroleum Exporting Countries (OPEC) convened in Vienna, Austria, on 19 and 20 September 2005, under the Chairmanship of its President, HE Sheikh Ahmad Fahad Al-Ahmad Al-Sabah, Minister of Energy of the State of Kuwait and Head of its Delegation, and its Alternate President, HE Dr. Edmund Maduabebe Daukoru, Minister of State for Petroleum Resources of Nigeria and Head of its Delegation.

The Conference welcomed HE Seyed Kazem Vaziri Hamaneh, Acting Minister of Petroleum of the Islamic Republic of Iran, and paid tribute to the outstanding contribution made to the Organization by the former Iranian Minister of Petroleum, HE Bijan Namdar Zangeneh.

The Conference extended its condolences to the Government and people of the Kingdom of Saudi Arabia on the sad death of the Custodian of the Two Holy Mosques, King Fahd Bin Abdulaziz Al-Saud.

The Conference also extended its sincere condolences and sympathy to the Government and the people of Iraq on the recent, tragic incidents that have led to such loss of life and expressed its hope that Iraq will be spared further violence in the future.

The Conference also repeated its condolences to the people and government of the United States of America following the devastation wreaked by Hurricane Katrina in late August and noted, with satisfaction, that humanitarian aid and pledges of fuel supplies by Member Countries had contributed to relieving the situation in affected regions.

The Conference warmly welcomed the Minister of Petroleum of Angola, the Minister of Energy & Mining of Sudan, the Minister of Petroleum & Mineral Resources of Syria, the Vice Minister of Industry & Energy of the Russian Federation, the First Under-Secretary of the Ministry of Petroleum of Egypt, the Under-Secretary for Hydrocarbons of Mexico and the Ambassador of the Sultanate of Oman, and recorded the importance it accords to continued dialogue and consultations with fellow oil-producing nations in achieving 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 Vaziri Hamaneh, 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.

Having reviewed the current oil market, the Conference noted that action taken by OPEC Member Countries to increase production over the preceding quarters - OPEC production being currently estimated at 30.2 mb/d (excluding Iraq 28.3 mb/d) – has led to a build-up in inventory levels, especially of crude, which now stand well above their five-year average, sufficient to ease concerns in the market about potential supply disruptions, such as those witnessed following Hurricane Katrina. The Conference further noted that Member Countries are implementing costly investment plans to accelerate the expansion of crude production capacity from about 32.5 mb/d to at least 38 mb/d by 2010, to meet future demand growth.

Acknowledging that, although growth in crude oil supply in recent years has continued to be ahead of growth in demand, and that commercial oil stocks, in particular of crude, are at comfortable levels, oil prices have nevertheless continued to rise, mainly on account of tightness in downstream capacity and concerns over availability of adequate future supplies leading to increasing activity in futures markets, the Conference reiterated that the Organization will continue its proactive policy of supporting market stability by ensuring availability of adequate supply, at prices reasonable to both producers and consumers.

Towards this end, and recognizing the importance of maintaining oil market stability, for the benefit of the world economy, including, in particular, the economies of the developing world, the Conference agreed to make available to the market the spare capacity of around 2mb/d in Member Countries, should it be called for, for a period of three months, starting 1 October 2005. The Conference further decided to review market developments at its 138th (Extraordinary) Meeting, to be held in Kuwait on 12 December 2005, and take decisions as deemed appropriate and necessary.

The Conference again acknowledged the important role of non-OPEC producers in the global oil industry, and repeated its call on non-OPEC oil producers to continue actively co-operating with OPEC in maintaining price and market stability. Similarly, the Conference again called on all parties concerned to join these efforts to maintain market stability, with reasonable prices consistent with robust economic growth, as well as steady revenue streams, for producing countries and the industry, conducive to the expansion of upstream and downstream capacity to meet rising international demand for oil and products.

Further, the Conference noted that, whilst assurances from OPEC of its commitment to meet supply shortfalls and its readiness to offer additional supplies to the market, should these be called for, as well as emergency response action taken by International Energy Agency (IEA) Member Countries to release petroleum stocks to overcome temporary refinery shutdowns in the aftermath of Hurricane Katrina, had provided welcome relief, the continuing shortage of appropriate refining capacity remains one of the main reasons behind recent oil price increases and price volatility. Applauding the growing recognition by consumer country governments of the serious refining capacity constraints, which could pose a threat to future market stability in the next few years, the Conference repeated its call on industry and consumer governments to urgently address the pressing issue of refining shortages and to take prompt action to facilitate and speed up refinery capacity expansion. OPEC Member Countries have taken the initiative – on their own and in partnership with others – to pursue and invest in downstream projects, but this remains the primary responsibility of the main consuming countries, and, without appropriate and timely measures on their part, volatility is likely to remain a feature of the market for some time.

The Conference welcomed recent actions taken by consuming countries to ease the burden of higher fuel prices on the final consumer. In this connection, the Conference also welcomed the continuation of consultations between OPEC and the IEA and noted the increasing effectiveness of the International Energy Forum (IEF) as a platform for global dialogue, as well as its leading role as overall coordinator of the important international joint oil data initiative (JODI), supported by six international organizations, including OPEC. In this context, the Conference reiterated its satisfaction with the on-going OPEC/EU Dialogue, and recorded its readiness to enter into similar dialogues with other regional and international bodies – dialogue which must address all the issues of interest to all parties – the Organization remaining committed to so enhancing and strengthening co-operative relations between producers and consumers.

The Conference elected HE Dr Edmund Maduabebe Daukoru, Minister of State for Petroleum Resources of Nigeria and Head of its Delegation, as President of the Conference for one year, with effect from 1 January 2006, and HE Mohamed Bin Dhaen Al Hamli, Minister of Energy of the United Arab Emirates and Head of its Delegation, as Alternate President, for the same period.

The Conference appointed Dr. Maizar Rahman, Governor for Indonesia, as Chairman of the Board of Governors for the year 2006, and Mr. Hossein Kazempour Ardebili, Governor for the Islamic Republic of Iran, as Alternate Chairman for the same period, with effect from 1 January 2006.

The Conference reviewed the report from the Deputy Ministers on Long-Term Strategy and decided to adopt the proposed long-term strategy. The Conference recorded the Organization's particular thanks to HRH Prince Abdulaziz bin Salman Bin Abdulaziz Al-Saud, Chairman of the Meetings of the Deputy Ministers of Petroleum/Energy on Long-Term Strategy; HE Dr. Bernard Mommer, Vice-Chairman; all Heads and Members of Delegations to these Meetings; as well as the Staff of the Secretariat involved, for the outstanding work they had performed in drawing up a comprehensive long-term strategy for the Organization.

The Conference decided that its next Ordinary Meeting will convene in Vienna, Austria, on 8 March 2006.

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. In addition, the Conference recorded its particular thanks to the Mayor and authorities of the City of Vienna for the organization of events to celebrate the fortieth anniversary of the OPEC Secretariat's move to Vienna.

Finally, the Conference passed Resolutions that will be published on 20 October 2005, after ratification by Member Countries.

# Highlights of the World Economy

| Economic growth rates 2005-2006, % | World | G-7 | USA | Japan | Euro-zone |
|---|---|---|---|---|---|
| 2005 | 4.2 | 2.4 | 3.5 | 2.1 | 1.1 |
| 2006 | 4.0 | 2.3 | 3.1 | 1.8 | 1.5 |

### *Industrialised countries*

*United States of America*

**Higher inflation now the main concern of the US Federal Reserve**

The first releases of post-Katrina economic data suggest that the growth rate of the US economy was not seriously affected by the hurricanes. Nonfarm payrolls declined by 35,000 in September and the unemployment rate rose to 5.1% but this labour report was less negative than expected - indeed the trend of employment was improving prior to September. The Institute for Supply Management manufacturing index for September was also encouraging and it appears that economic growth in the third quarter was similar to the second quarter result of 3.3%. The growth outlook for the winter quarters is, nonetheless, less optimistic as households will have to cope with much higher bills for home heating and transportation. The size of the adjustment in spending patterns will depend on the severity of the winter and preliminary weather forecasts suggest lower than normal temperatures for this season. **Growth in the final quarter of 2005 is expected to fall to about 2.5% whilst the growth of Federal spending and other reconstruction expenditures should gradually restore momentum in the first quarter of next year.** By the second quarter it seems likely that US domestic demand will be showing strong signs of growth and this prospect – together with the upward trend in inflation – is a cause for concern. The minutes of the September 20 meeting of the Federal Open Markets Committee noted that the declining margin of spare capacity in the economy and the higher energy prices might lead to higher rates of core inflation in 2006 than had previously been expected. **The clear message from this meeting and various speeches from regional Federal Presidents was that there is still a substantial amount of monetary tightening ahead.** Market participants are beginning to take seriously the chance that short term interest rates may need to rise to 5% by mid-2006 – setting the stage for a rather sharp reversal in consumer confidence in the second half of the year.

Such higher interest rates might have a disproportionate effect on personal consumption and economic activity if there is sharp adjustment in house prices next year. Estimates of housing affordability in some US regions have already reached the levels of the previous housing boom in 1989. Indicators of new home sales and lower trends in real estate lending suggest that the market may not be able to resist further rises in interest rates. The impact of lower house prices on household spending is hard to estimate. Recent estimates suggest that a large proportion of the rise in spending in 2004 and 2005 has been financed by “mortgage equity withdrawal” as households have taken advantage of the rise in house prices to justify higher levels of debt. **The impact on spending in 2006-2007 of a sharp reduction in this source of financing could be as much as $200 billion which would lower GDP growth by about 1%.** The level of the stockmarket is also vulnerable to a tighter monetary policy and any adjustment here would put further pressure on consumer spending despite the improving trends in income and employment.

The main external risk to economic stability remains the outlook for the US dollar. The currency has been supported by strong economic growth in 2005 and the continued rise in US interest rates. Nevertheless the trade balance has continued to deteriorate and the $59 billion deficit for August confirms this trend. A further problem for the dollar is that the rise in the oil price has tended to reduce the foreign currency reserves of Asian countries to the benefit of oil exporters. Asian governments have been prepared to support the dollar in order to preserve export market shares but the authorities in oil exporting countries may prefer a more diversified mix of foreign currency assets – especially if the European economy improves next year as expected.

*Japan*

**Slight setback to growth in third quarter but trend remains healthy**

Following the very good performance of the Japanese economy in the first half of this year the economic indicators for the third quarter were disappointing. In the first half of 2005 the economy grew at an annualized rate of 4.5% as a result of strong growth in domestic demand but consumer confidence has softened in the third quarter amid rising energy prices. **Despite the continued rise in workers’ income in the quarter it seems that GDP growth will fall to 1-2% as a result of lower personal spending.** Indicators of corporate sentiment were also below expectations and the September Tankan report from the Bank of Japan noted slightly disappointing results for large companies in both manufacturing and non-manufacturing. Corporate profits have been affected by the rise in energy costs which has reduced price margins but companies will continue to invest. Businesses expect to increase capital spending by 6.8% in this financial year with a particular improvement coming from small companies**. This third quarter pause in growth is expected to be a temporary setback as Japanese fundamentals remain on track.** In particular overseas demand is expected to make a positive contribution to fourth quarter growth. August exports showed year-on-year growth of 9% boosted by a surge in exports to China and a global improvement in demand for IT products.

Whilst second half growth may not match the excellent first half performance, the continued expansion together with the rise in the oil price should increase the rate of inflation in Japan before the end of the year. **The October monthly assessment of the Bank of Japan was in line with the consensus expectation of growth in domestic and external demand and a stabilization of prices before the end of the year.** In the first quarter of 2006 the Bank may respond to these developments with a change to monetary policy – indeed a recent statement by the Governor commented that the path towards a change in policy has already been set. At present monetary policy attempts to control the size of the monetary aggregates in Japan but a movement towards interest rate targeting is likely next year. Later in 2006 this may imply some tightening in policy but at least in the first half of next year interest rates will be close to zero in nominal terms and negative in real terms – this will add some further stimulus to economic growth.

**Despite the revival of domestic demand the economy would suffer from any downward adjustment in the US or Chinese economies in 2006 and this remains a major risk factor for the Japanese economy**. Higher oil prices have increased material costs and thus reduced profit margins but the ongoing impact on this energy-efficient economy will be limited unless there is a further surge. According to the consensus forecast, the Japanese yen may strengthen towards ¥100 during 2006 which would further mitigate the impact of higher oil prices on the economy.

### *Euro-zone*

**ECB concerned by risk of higher inflation in 2006**

**Most surveys and forward-looking indicators suggest that the Euro-zone economy achieved higher growth in the third quarter.** Business sentiment in the zone has not been badly affected by the higher energy prices – in fact the EU Commission survey released at the end of September is consistent with an improving trend, after the deterioration seen in the second quarter. The EU composite indicator improved to 98.6 in September from 97.8 in August, its fourth consecutive increase. All business sectors showed progress with the greatest upward momentum in the manufacturing sector. Consumers, however, remain depressed which seems surprising considering the upward move of Euro-zone retail sales in August. The volume of retail trade rose by 2% in comparison to 2004 and by 0.9% in comparison to July. The explanation may be that the improvement was concentrated in France with little progress in other larger economies. Even in Spain retail sales fell below year ago levels. Altogether recent production, retail sales and labour market data indicate progress in the third quarter although similar expectations have been followed by disappointing performance on many previous occasions. **Most of the momentum for better industrial performance is coming from higher overseas demand.** The euro has been weak in 2005 and the strong performance of the US, Japanese and Middle Eastern economies should ensure continued growth in exports for the remainder of this year.

Companies may be optimistic for the final quarter of this year but household budgets will struggle to cope with rising prices. **Headline inflation has risen visibly since the summer and the combination of high oil prices and the weaker euro suggests further pressure on real incomes.** The first estimate of inflation for September showed an increase to **2.5% year-on-year**, following 2.2% in August. This was the highest inflation rate for 16 months and may explain the concern expressed by the ECB after the October Council meeting. Most notably the Bank now exercises “strong vigilance” with regard to the upside risks for price stability**. Some market commentators have brought forward their forecast of a rise in Euro-zone interest rates to the end of this year.**

The Euro-zone is unlikely to achieve a rapid recovery next year. Expectations of further structural reform in Europe’s largest economy were dented by the result of the German general election. After weeks of discussion a coalition of the two largest parties is the final outcome. The new Chancellor of Germany will be Mrs. Angela Merkel of the conservative CDU party but the major ministries will be divided between the two parties – **complicating the process of labour market and employment cost reform**. In so far as higher export growth does boost economic activity over the next quarters, the ECB may well decide **to raise interest rates** in the first quarter of 2006. Such an increase might restrain domestic demand later in 2006 by which time European exports may be affected by a slowdown in North American and Asian economies.

### *Former Soviet Union*

**Non-oil manufacturing sector restrained by high level of the rouble**

In the second quarter of the year Russian GDP rose by 6.1%, following a 5.1% rise in the first quarter. The trade sector grew most rapidly, followed by the transport and communication sector. Mining and manufacturing continued to lag. Mining output rose by only 2.1% whilst manufacturing activity was only 1.3% above the level of 2004. **Overall industrial production rose by 4% in the first half of the year. This rate of growth was maintained in July and August although in these two months mining activity was scarcely above the level of 2004**. Despite the less impressive performance of Russian output in 2005, high oil and commodity prices have boosted the main financial aggregates. Higher oil prices have had a dramatic effect in boosting the value of the Stabilization Fund which benefits from oil export revenues at prices above $20/bl. In the first eight months of this year the fund rose to $29 billion but a further sharp rise to $53 billion is expected by the end of the year. The surplus on merchandise trade reached $140 billion in the first three quarters – pushing the overall current account to a surplus of $98 billion. The fiscal position also continues to improve and the surplus reached an all-time high of 10.2% of GDP in the year to August. **Although higher pension and wage payments may increase spending somewhat in the fourth quarter, the continued high oil price should produce an overall surplus of at least 8% of GDP for 2005**.

This strong surplus is likely to create pressure for fiscal relaxation next year and real government spending may increase by at least 12%. Inflationary pressures will remain for the foreseeable future and, for the first time since 1999, the rate of inflation is expected to show no significant reduction. The Bank of Russia is committed to pursuing inflation targeting in 2006 – however the target will need to be reconciled with a limit to real exchange rate appreciation. The rather poor performance of the Russian manufacturing sector this year highlights the need to consider the loss of competitiveness if the rouble were allowed to appreciate further. In September the rouble appreciated by 1% against the Bank's basket and for 2005 as a whole the rouble will appreciate in real terms by about 10%. **The progress of the economy was recognized by the Moody's rating service which has placed Russia's credit ratings under review for a possible upgrade.** Despite the positive contribution of oil and resource revenues to the economy, the agency will consider the effect on government finances of a possible downturn in commodity prices in 2006 and the inflationary consequences of the higher state spending planned for 2006-2007 as the Duma and Presidential elections approach.

### *Eastern Europe*

**Euro adoption may be delayed into next decade**

The Polish economy continued to underperform its regional competitors in the third quarter. Industrial production in August was weaker than expected – growing by only 4.6% year-on-year. The manufacturing sector remained the main engine of growth, rising by 5.2%, but overall **it seems that Polish GDP grew by perhaps only 3-3.5% in the quarter**. The positive aspect of the subdued growth performance is the very low rate of core inflation which is below 2%. The Polish general election looks likely to result in a centre-right coalition. The new government is expected to continue gradual progress towards a lower budget deficit and lower tax rates. The Hungarian economy is achieving much higher growth but at the cost of higher inflation and a poor fiscal situation. Industrial production rose by 8.4% in July year-on-year and inflation was 3.6% in August. **The main problem facing the government is the very high budget deficit which is expected to reach 7-8% of GDP this year**. The outlook for 2006 is even worse as planned tax cuts and increased spending may push the deficit to over 8% of GDP. It is now clear that adoption of the euro by 2010 is out of reach. The performance of the Czech economy continues to impress. GDP growth remains robust – driven mainly by external demand. Industrial production rose strongly in July and the core rate of inflation remains below 2%. Interest rates are also low and the CNB noted that the strong currency has helped to mitigate the effects of the third quarter oil price increase. No change in Czech interest rates is expected until well into next year.

### *Developing Countries*

**High energy cost prevents severe deflation in China. Brazil's expansion rate is receding due to investment slowdown**

China officially announced in September that the economy had expanded by 9.5% y-o-y in the first half of the year, indicating that growth continued over that period at the same rapid rate as was seen in 2004. Investment is still the primary driver of the economy, although the rise in investment has slowed since the government has started to restrain certain sectors. Deflation in China is a growing concern, although the high energy cost due to high oil price has helped to minimize the threat of deflation in China. In addition to China, most indicators point to a healthy expansion India as well. Recent data confirmed that the economic growth for India in the second quarter continued at the 8.1% pace seen in the first quarter, despite natural calamities. However, domestic demand is the worrying factor in most Asian countries as their economic growth is driven by export. The Brazilian economic growth has been softer during January-June of the current year. Most expectations suggest that this growth will remain less robust than in 2004 and during the remainder of 2005 and 2006. While in 2004 the recovery was driven by external demand, domestic private-sector demand is expected to be more active in the coming months and consumer spending will be bolstered by an expansion of credits and higher real incomes. Investment is expected to be encouraged by the easing of real lending rates. The real GDP growth rate is anticipated to slow from 5.1% in 2004 to 4.3% this year and inflation is receding, paving the way for interest rate cuts. Regarding Sub-Saharan Africa's business environment, a World Bank report, *Doing Business 2006* released in September 2005, is a useful tool in ranking Africa's business, even though it does not take political risk into account However, this report ranks a total of 155 countries, 40 of them African, in terms of the ease of operating, with high scores indicating more a business-friendly environment. Accordingly, African governments and policy-makers have much to learn from the report, not least that many crucial reforms that would extensively improve the business climate are simple and cheap to implement. The report underscores the fact that, although the return on investment in Africa is higher than in many other regions of the world, the risks are also greater. In general, the growth in the developing countries has been overshadowed by the impact of high oil prices and natural disasters.

### *OPEC Member Countries*

**OPEC-Member Countries expanding rapidly despite inflation concerns**

OPEC Member Countries are expanding rapidly, creating jobs and making up for chronic underinvestment in infrastructure over the past two decades. For instance, the Algerian government is aiming at creating 2 million jobs by 2009. The stock markets in the Middle East have seen extraordinary activities. Since 2001, the market capitalisation of the six stock exchanges in the Middle East — Saudi Arabia, the United Arab Emirates, Qatar, Kuwait, Oman and Bahrain — has more than tripled, passing the £1,000 bn mark earlier this year. During the same period trading volumes have risen from about $200 m a day to more than $4 bn. This rise is indicative of the bottleneck in the region's booming stock market. Currently there is strong liquidity in Saudi Arabia, the UAE and Qatar — the region's three hottest markets. With a wealth of money chasing limited opportunities, stock prices have been driven up to 30-40 times earnings, peaking in some cases at price-to-earning ratios of 50-80%. Amidst windfall revenues from high oil prices, economic reforms are continuing in OPEC Member Countries. In Indonesia, the government has raised fuel prices by an average of 126.6% to reduce the financial burden of fuel subsidies on the state budget. The Saudi authorities are up to establish a secondary market for government bonds and have demanded greater financial transparency from governmental departments. Inflation is a growing concern in all OPEC Member Countries. In addition to the fact that demand is by far exceeding the supply of goods and services, resulting in a price hikes, there are a number of cost- related factors including the fuel price hike and the rising costs of imported items due to the weaker dollar against other leading currencies. In September for instance, the UAE's Central Bank governor expected inflation to be around 6.5% this year. A recent IMF study also estimated that economic growth to be in excess of 10% with inflation close to 6%.

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

**A quiet month for the dollar**

Following the dollar weakness of August the currency stabilized in September. The solid performance of the US economy and expectations of further rises in interest rates supported the dollar – despite the continued high level of the US trade deficit. The dollar rose by 0.3% against the euro, 0.4% against the yen and was unchanged versus the Swiss franc. The dollar fell by 0.8% against the British pound.

In September the OPEC Reference Basket was also stable, rising to $57.88/b from $57.82/b in August. In real terms (base July 1990=100), after accounting for inflation and currency fluctuations, the Basket price rose by 0.1% to $41.29/b from $41.26/b. The dollar rose by 0.1% as measured by the import-weighted modified Geneva I +US dollar basket*.

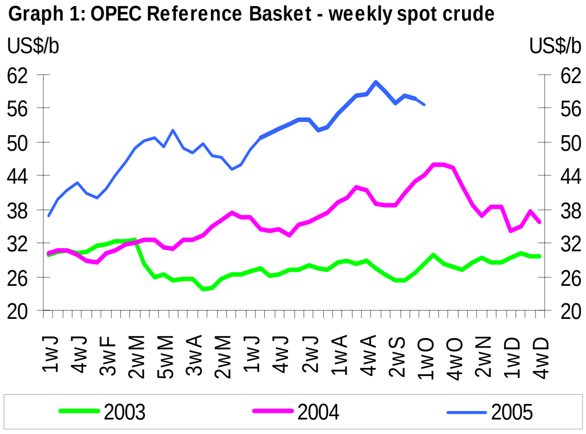
** The 'modified Geneva I+ US$ basket' includes the euro, the Japanese yen, the US dollar, the pound sterling and the Swiss franc, weighted according to the merchandise imports of OPEC Member Countries from the countries in the basket.*

# Crude Oil Price Movements

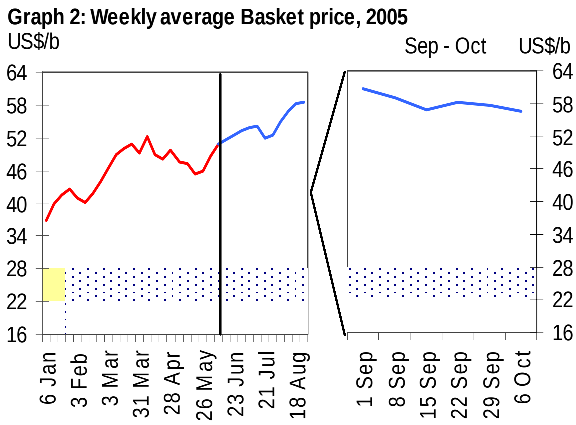
**The OPEC Reference Basket inched up a marginal 6¢ to settle at $57.88/b as the price impact of two major US hurricanes was balanced by the IEA emergency stock release**

### *OPEC Reference Basket*

The OPEC Reference Basket emerged in September on a strong bullish note as Hurricane Katrina whirled through the Gulf of Mexico significantly damaging oil operations. However, the bullish momentum was short-lived due to fears that sustained high prices in the wake of Katrina would result in lower economic growth. The Basket averaged $58.98/b in the first week, a drop of $1.60 or 2.6%. **Bears continued to dominate in the second week following the announcement of the IEA plan to release 2 million barrels per day of crude and fuel products for 30 days as well as a statement by US officials that the SPR could be tapped this winter in the event of a supply crunch**. Hence, market pressure eased and the OPEC Reference Basket saw a hefty drop of 4% or $2.19 in the second week to $56.79/b. The recovery of oil operations to a somewhat normal level also helped bears to revive, with prices drifting lower on an **IEA forecast for lower-than-anticipated global demand in 2005 amid fund sell-offs in the futures market**. However, another hefty draw on the US crude oil stocks pushed the Basket higher towards the end of the second week.




During the third week, the expectation of higher OPEC output ahead of the 137th Meeting of the Conference kept the market calm. However, bullishness soon revived with the **appearance of Hurricane Rita in the Gulf of Mexico**. The Basket jumped $1.35 or 2.4% in the third week to average $58.13/b on concern over another wave of hurricane damages. However, several refinery outages in the US Gulf Coast were seen to imply less demand, which pushed prices lower. This perception was amplified by a **strike at French Total's refinery, which freed up even more barrels to an amply supplied market,** and feed into the general impression that higher petroleum prices were eroding demand. In the final week, the Basket slipped a marginal 51¢ to close at $57.63/b. The US administration's announced willingness to tap emergency reserves further supported the calmness of the market. Hence, sell-offs for profit-taking in the futures market added to the downward pressure on the petroleum complex. As a result, the Basket closed the second week at $55.23/b.



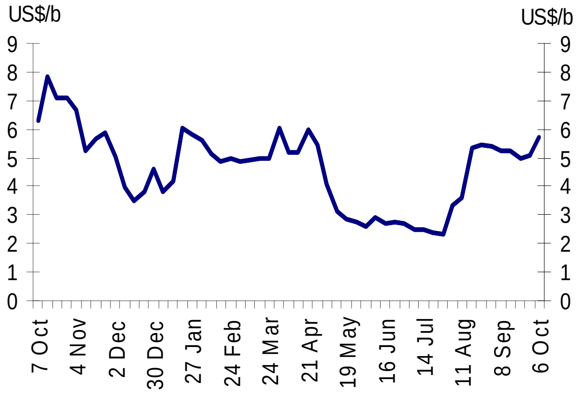

On a monthly basis, the bears dominated most of the month, although sizeable damage by Hurricane Katrina followed by Hurricane Rita kept the market alert. **The bullish trends were balanced by the emergency response of the IEA to release some 2 mb/d of crude oil and products as well as the OPEC decision to make available to the market 2 mb/d of spare capacity if needed**. Thus, the OPEC Reference Basket in September rose slightly higher by 6¢ to average $57.88/b for the month, after drifting lower from a second-decade rebound. The Basket continued to slip with the month to date average standing at $55.55/b on 13 October on the continuing perception that higher prices were eating into demand.

**The bulls were inspired by the supply shortfall following Hurricane Katrina, yet were poised by Hurricane Rita and weakened demand amid higher petroleum product prices**

### *US market*

The US cash market emerged on a **bullish note amid healthy refining margins after Hurricane Katrina roared through the US Gulf Coast.** Differential rose for the deepwater crude as Shell's Mars platform remained out of service. The movement of sweet/sour crude was even furthered by the slowdown in output recovery. The WTI/WTS spread remained at a wide $5.41/b while the light sweet crude soared to over $68/b in the first week. The upward trend continued into the early part of the second week as more than half of the Gulf of Mexico production was out of service due to damages from Hurricane Katrina. However, **differentials fell as the US government released strategic stocks to the US market**. The WTI/WTS spread narrowed to $4.97/b as the light sweet grades fell to $65.74/b, for a drop of nearly 4%. Concern over prolonged oil production outages continued and alertness dominated the marketplace. However, when interest for SPR crude was less than anticipated, the bears took over as the government offered 30 mb while the interest was only for 11mb even though at a time when production capacity rose to above 50%. Hence, the WTI/WTS spread widened to $45.26/b in the third week while WTI's weekly average slipped $1.63 to close at $64.11/b, the lowest level since 11 August. The bearish trend persisted on the perception of higher OPEC output ahead of the Meeting of the Conference. Nevertheless, **Hurricane Rita threatened oil operations in the Gulf of Mexico, triggering concerns over tight supply.** The WTI/WTS spread narrowed to $4.97 as WTI surged to $65.84/b. However, as Rita hit oil infrastructure in the US Gulf Coast, the sweet/sour spread remained wide on fears over petroleum product supply shortfalls amid prolonged refinery outages. The WTI/WTS spread widened to $5.09/b as WTI inched lower to $65.72/b.

**Graph 3: WTI spread to WTS**

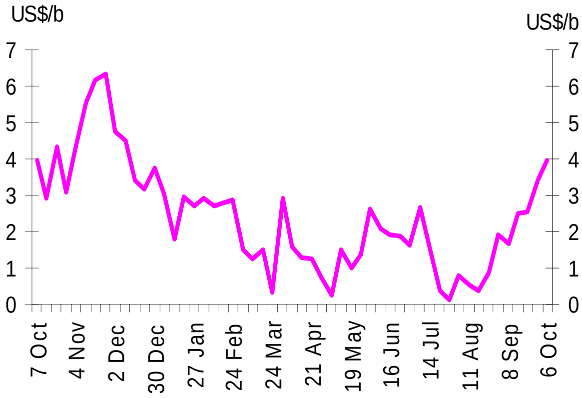



**In the wake of hurricanes, the EIA's release of petroleum stocks calmed the market while the sentiment was poised by the healthy refining margins**

### *European market*

The market in Europe weakened at the start of the month on a volatile futures market and **turmoil in the wake of Hurricane Katrina, which fostered uncertainty over crude demand**. The bears gained strength following the release of petroleum products by the IEA. Moreover, refinery maintenance in September weakened demand at a time when traders were looking at potential transatlantic arbitrage opportunities. North Sea crude differentials continued to fall as sellers struggled to move lingering September cargoes even as the October loading programme emerged. Brent closed the first week down $2.57 or nearly 4% on average at $63.82/b. **The bearish sentiment remained into the second week amid the release of the October loading programme which revealed higher volumes than in September.** The downward pressure was furthered as buyers stayed on the sideline in an attempt to dampen the price differential. Brent's second weekly average fell a further 3.5% or $2.21 to settle at $61.61/b. The poor showing continued in the third week as a surplus of prompt cargoes weighed on prices. However, the sentiment was little changed as overhung September cargoes cleared out while October loading picked up. The market's inspiration was triggered by the appearance of Hurricane Rita, which sent fear of supply shortfalls in both streams and roiled the futures market. Hence, Brent's weekly average price surged $1.66 or 2.7% to close at $63.27/b in the third week. Nevertheless, the sentiment was short-lived as the market continued to re-assess the impact of Hurricane Katrina at a time when Hurricane Rita added to the burden of already shut-in downstream facilities. Moreover, the **strike at France's Total refinery heightened**

**Graph 4: WTI premium to Dated Brent**



**uncertainty about crude demand.** Therefore, Brent's final weekly average dipped almost $1 or 1.6% lower to close at $62.29/b.

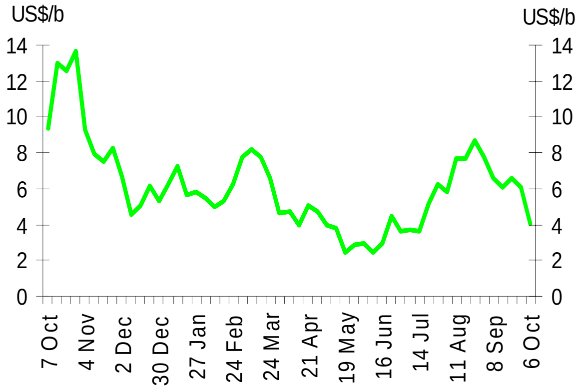
In the Mediterranean, sentiment on Urals was uncertain as refiners cited an overhang of prompt cargoes, although the market could easily have tightened. Hence, differential for Urals firmed in the first few days of September, but sentiment was uncertain as dealers struggled to assess whether extra crude might head west in response to Hurricane Katrina. However, **strong refining margins supported buying interest for Urals**. Hence, the Brent/Urals spread narrowed in the first week by 60¢ to $5.28/b. Urals crude differentials continued to rise, as strong refinery margins at levels similar to those for sweet crude encouraged refiners to stick with — or switch to — sour crudes, adding to demand that had spurred buying interest for the grade. However, the **bullish sentiment eased as dealers considered the impact of Mexican crude oil being offered for sale into the Mediterranean market**. While refiners adopted the wait-and-see stance in the hope of a further fall in price differentials, sufficient availability and some buying interest appearing in the north and the south left the market balanced in the second week. Hence, the Brent/Urals spread narrowed further by 50¢ to $4.78/b. The clearing of September stems and the movement of the October programme amid strong refining margins continued to spur demand in the third week. This caused the Brent/Urals spread to narrow a further 55¢ to $4.23/b. This bullishness was sustained on healthy refining spreads and the clearance of early October loading programmes. Thus, the Brent/Urals spread narrowed a further 44¢ to $3.79/b.

***Far East market***

**Retroactive official selling prices for Abu Dhabi's ADNOC and Oman's MOG set record highs in August OSPs**

There was a bullish start to the month for Mideast crude as traders prepared themselves for the August Oman retroactive OSP, which though it was set at a record high, was expected to show a fall in Oman's premium to Dubai. November Oman was discussed at a 10¢/b discount to parity with respect to the MOG. In the first week, **Abu Dhabi's Murban crude jumped on the impact of Hurricane Katrina**. The first Murban cargo for November loading was sold at a premium of 50-60¢/b to ADNOC's OSP while November Oman was on offer at a 10¢/b premium to MOG. Meanwhile, Oman raised the August OSP to a record high of $56.97/b, up $3.50 from July, yet it sharply cut its premium to Dubai to 37¢ from 64¢ in July. This left Oman at its lowest premium level to Dubai since August 2002 when it was set at 30¢/b. Hence, the lower than anticipated OSP anchored the grade firmly into premiums for the first time in three months. Meanwhile, Abu Dhabi's ADNOC raised the retroactive selling price of its key Murban crude for August-loading by $3.85/b to a record high of $60.95. However, November **Murban eased as buyers stayed clear of the $1/b premium discussion levels prompted by supply disruptions following Hurricane Katrina**. Moreover, although most Mideast producers cut the October price differentials with the Brent/Dubai EFS narrowing, healthy Asian buying interest amid concern over supply disruption in the Western hemisphere kept bulls intact. However, the sentiment flipped in the second week as outright prices were falling on the release of IEA petroleum stock data. As a result, November Oman traded at a 1¢ premium to the MOG with Murban assessed lower at a 50-80¢/b premium, down from the $1/b level earlier in the month. Oman even moved toward a discount when it was discussed at a 5¢ premium. Sentiment on the Middle East crude market turned increasingly bearish, as refiners remained on the sideline and fears mounted that crude oil demand was weakening in Asia. Middle Eastern crude values fell on weaker refinery demand, forcing sellers to cut offer levels amid the threat of US refinery closures diverting Atlantic Basin supplies into the region. The bearish sentiment continued as many industry participants were engaged in the annual APPEC conference in Singapore. November Murban was assessed at a 30¢ premium to the OSP with Oman at a slight discount.

**Graph 5: Dated Brent spread to Dubai**



**Tapis APPI surged over $70/b for the first time amid strong demand for light sweet grades**

### *Asian market*

In the Asia Pacific region, **an early perception that regional crudes could flow west in the wake of Hurricane Katrina kept the bulls alive**. Light sweet crude was clearing at a rapid pace early in the month with Malaysia's Petronas selling several cargoes even as Tapis APPI surged over $70/b for the first time. Bintulu traded at a 75¢/b premium to the APPI compared to the usual 30¢ discount, which would leave Tapis at a $1.05/b premium. The bullish sentiment was sustained as Asian refiners continued to snap up light sweet crude and condensate as demand for gasoline and naphtha in Asia and the USA drove up the market. With the high outright prices, Malaysia's Petronas sold an October Tapis cargo at an 88¢/b premium to Tapis APPI. Heavy sweet crudes also traded but at lower prices than earlier expected. **October Duri crude traded at a $1.30-1.40/b premium to the grade's Indonesia Contract Price (ICP), slightly weaker than the last assessments for September Duri crude as Japan required smaller volumes with the peak summer electricity demand ending.** Light sweet crude sellers were testing the market for their November-loading cargoes, as most October barrels were sold out. **Some traders hoped that gasoil would attract interest in Europe and gasoline demand strengthening further on increased US requirements, where four refineries remained shut from Hurricane Katrina, which forced refiners to replace heavy sour grade with light sweets.** Hence, Malaysia sold its first cargo for November delivery at a $1-1.10/b premium. However, high outright prices pressured regional sweet crude to trade lower as Tapis was heard sold last at a $0.95-1.00/b premium to the APPI. Moreover, **the return of Indonesia's sweet crude CDU to the Cilacap refinery supported the premium for regional crudes at month's end**.

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

| | | | Year-to-date average | |
|---|---|---|---|---|
| | Aug 05 | Sep 05 | 2004 | 2005 |
| **OPEC Reference Basket** | **57.82** | **57.88** | **34.75** | **49.94** |
| Arab Light[1] | 58.24 | 57.63 | 33.93 | 49.31 |
| Basrah Light | 57.10 | 55.68 | 33.58 | 47.97 |
| BCF-17 | 46.15 | 50.79 | n.a. | 39.27 |
| Bonny Light[1] | 65.49 | 65.60 | 36.31 | 54.73 |
| Es Sider | 60.27 | 60.39 | 34.98 | 51.28 |
| Iran Heavy | 55.69 | 55.10 | 32.13 | 47.14 |
| Kuwait Export | 55.18 | 54.60 | 33.28 | 48.05 |
| Marine | 57.49 | 58.37 | 33.17 | 49.16 |
| Minas[1] | 61.07 | 60.27 | 35.69 | 53.50 |
| Murban | 61.78 | 62.68 | 35.43 | 52.95 |
| Saharan Blend[1] | 63.67 | 63.30 | 36.38 | 53.64 |
| **Other Crudes** | | | | |
| Dubai[1] | 56.55 | 56.41 | 33.04 | 48.18 |
| Isthmus[1] | 59.66 | 59.92 | 35.59 | 49.40 |
| T.J. Light[1] | 54.22 | 53.87 | 32.31 | 45.25 |
| Brent | 64.06 | 62.75 | 36.35 | 53.60 |
| W Texas Intermediate | 64.96 | 65.28 | 39.17 | 55.34 |
| **Differentials** | | | | |
| WTI/Brent | 0.90 | 2.53 | 2.82 | 1.74 |
| Brent/Dubai | 7.51 | 6.34 | 3.31 | 5.42 |

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

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

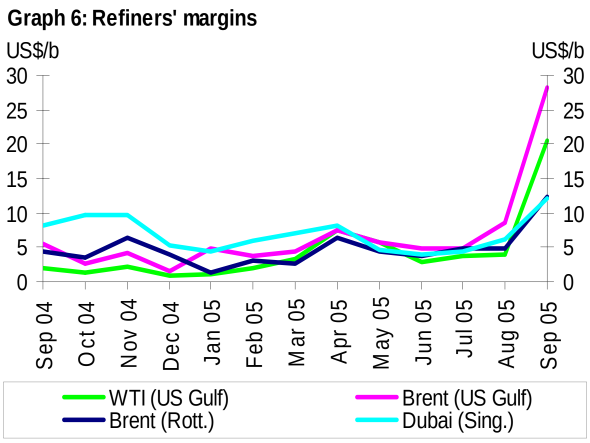
n.a. not available

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

# Product Markets and Refinery Operations

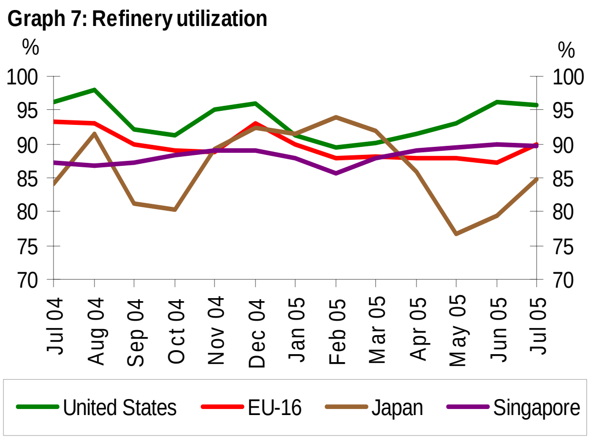
**Tight balance between supply and demand for products likely to support the market in the next months**

Sharp refinery outages in the USA as a result of hurricanes Katrina and Rita, along with the falling natural gas output in the US Gulf Coast and fear of a product shortage in the winter season, have lifted product prices in the month of September, and refinery margins of different benchmark crudes surged sharply in the same month. As Graph 6 shows, the refinery margin of WTI to crude oil in the US Gulf Coast surged to \$20.47/b in September from \$3.98/b in August. Similarly, the refinery margins of benchmark crudes Brent and Dubai in Rotterdam and Singapore surged in September to \$12.36/b and \$12.21/b from \$4.94/b and \$6.19/b in the previous month. **Due to the recent slowdown in demand, particularly in the USA, and technical sell-offs, the product market along with the crude oil market has lost part of its strength, but product markets fundamentally remain short and may rebound again in the next few weeks.** As about 2.4 mb/d of US refinery utilization remain off-line, and because of the recent strike in France, the current short-fall of the product market could deepen to further support product and crude oil prices.




**Refinery throughput in the USA in the fourth quarter will remain lower than last year**

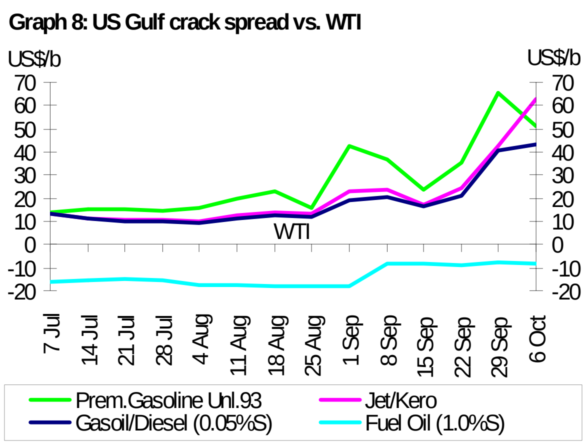
Hurricanes have also caused the US refinery utilization rate to drop by 10.4% in September, compared to the previous month (see Graph 7), and despite the restart of operations at some of the affected refineries, the US refinery utilization rate is expected to remain more or less at the same level in October. In Europe, refiners have increased throughput by 1.8% to reach 90.4%. They may further increase utilization rates to compensate for part of the capacity lost in the USA. In Asia, the Japanese refinery utilization rate declined by 1.8% to 88.5% in September from 90.3% in August.




### *US market*

**Hurricanes have significantly changed the sentiment of the US product market**

Prior to the Hurricane Katrina, the US product market was relatively short of gasoline, but well balanced for the rest of the products and natural gas. The impact of Hurricane Katrina on the refining industry and natural gas output have triggered supply fears for all petroleum products and resulted in sky-rocketing prices. Due to the immediate reaction of the oil industry — the increase in production at non-affected refineries, the rise in imports and the release of crude and product SPRs coordinated by the IEA — US product prices, particularly for gasoline, retreated to rather moderate levels in the middle of September. Due to the emerging risk of the destructive impacts of Hurricane Rita, the US product prices spiked again in the latter part of the



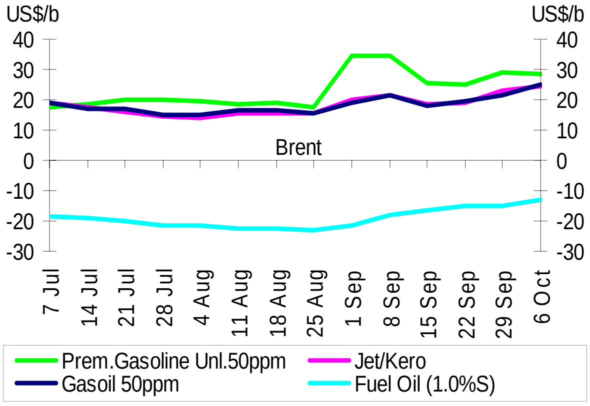
same month. However, due to lower demand for gasoline and distillates in September compared to the same period of last year, the bullish sentiment of the US market switched, and as Graph 8 shows, the weekly gasoline crack spread versus the WTI benchmark crude plummeted in the US Gulf Coast from $65.69/b on 29 September to $51.05/b on 6 October. Despite falling gasoline prices, the jet/kerosene price extended its upward trend, while the gasoil price remained fairly flat over recent weeks. With the approach of the winter season, and because of the short-fall of natural gas as well as higher demand for heating oil, it seems that distillates will soon take up their typical role and run the market over the next few months. The hurricanes, which have resulted in a forecast product output shortfall of 150-100 mb for the fourth quarter, also lifted fuel oil prices in the USA, and its crack spread jumped from -$17.94/b in early September to -$8.03/b on 6 October. High natural gas prices and growing demand for low-sulphur fuel oil will continue to support fuel oil margins.

### European market

**European product prices rebounded in September on refinery outages and export opportunities to the USA**

In the wake of the Hurricane Katrina, transatlantic arbitrage opportunities, which had been closed before, re-emerged and the excess gasoline supply in Europe was exported to the USA in September. This situation has supported the gasoline market sufficiently and its prices surged sharply in early September. **Apart from the hurricanes, strikes in France disrupting operations at refineries in the north and the south have also underpinned the light product market in Europe.** Due to the declining US product prices and shrinking arbitrage opportunities, European gasoline lost part of its earlier strength in September, but as Graph 9 shows, the crack spread of gasoline in North-West Europe against the Brent benchmark crude oil is still high compared to the middle of August. Similarly, due to lower tertiary stocks, falling diesel exports from the Baltic and the continuation of Total’s refinery workers strike, the distillate market in Europe has retained its upward trend and may remain strong over the next month, as the balance of the distillate market in the Atlantic Basin looks tight. With respect to high-sulphur fuel oil, the European market is suffering from ample supply, lack of demand and falling arbitrage opportunities to Asia due to the high shipping rates. But the low-sulphur fuel oil market remains more lucrative.

**Graph 9: Rotterdam crack spreads vs. Brent**

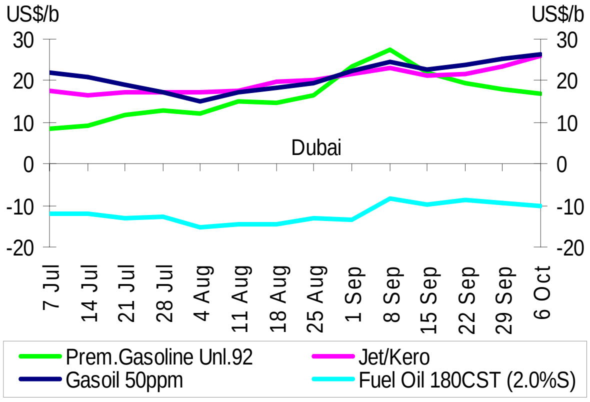



### Asian market

**Asian product prices soared along with product prices in other markets**

The Asian market, which had been suffering from slowing Chinese demand, has been pushed up by the bullish sentiment of the Western market following from the hurricanes in the US Gulf Coast. As Graph 10 indicates, the crack spreads of different products against the Dubai benchmark crude oil improved in September, but gasoline has recently lost its earlier strength. Similarly, due to ample supply, naphtha is also losing ground.

**Graph 10: Singapore crack spreads vs. Dubai**




As far as the middle distillates are concerned, the kerosene market remained very strong, as larger-than-expected Chinese demand and an export cut by South Korea have supported this market. The Chinese Aviation Oil Trading (CAOT) has bought over one million tonnes of jet/kerosene for delivery during September to December. Export opportunities to the West have also boosted the gasoil market, and its crack spread rose from $19.30/b in late August to $25.39/b in late September.

Higher exports from India and increasing freight rates may put pressure on the Asian gasoil market and ease its prices. Additionally, the reduction of petroleum product subsidies by the Indonesian government could dampen product demand in the future. Indonesia increased product prices by 126% on average effective 1 October. Apart from the top and the middle of the barrel complex in Asia, the bottom has also benefited from the new circumstances in the market, rebounding in September from to the previous month. Furthermore, healthy Chinese demand and less arbitrage cargoes to Asia have supported high-sulphur fuel oil, and its crack spread discount versus Dubai crude oil decreased from -$13.53/b in late August to -$9.43/b in the latter part of September. Due to the rise in bunker demand, low inventories in China and less arbitrage cargoes, the high-sulphur fuel oil market may remain relatively strong in October as well.

**Table 2: Refined product prices, US$/b**

| | | Jul 05 | Aug 05 | Sep 05 | Change Sep/Aug |
|---|---|---|---|---|---|
| **US Gulf (Cargoes):** | | | | | |
| Naphtha | | 63.31 | 75.76 | 85.48 | 9.72 |
| Premium gasoline | *(unleaded 93)* | 73.56 | 87.24 | 107.88 | 20.64 |
| Regular gasoline | *(unleaded 87)* | 67.54 | 81.71 | 98.68 | 16.97 |
| Jet/Kerosene | | 69.97 | 78.89 | 94.17 | 15.28 |
| Gasoil | *(0.05% S)* | 69.66 | 77.41 | 91.41 | 14.00 |
| Fuel oil | *(1.0% S)* | 43.12 | 47.06 | 57.04 | 9.98 |
| Fuel oil | *(3.0% S)* | 37.73 | 39.58 | 43.86 | 4.28 |
| **Rotterdam (Barges FoB):** | | | | | |
| Naphtha | | 61.22 | 69.12 | 74.77 | 5.65 |
| Premium gasoline | *(unleaded 50 ppm)* | 76.54 | 84.28 | 92.35 | 8.07 |
| Premium gasoline | *(unleaded 95)* | 68.33 | 75.64 | 82.82 | 7.18 |
| Jet/Kerosene | | 74.02 | 79.78 | 83.78 | 4.00 |
| Gasoil/Diesel | *(50 ppm)* | 74.60 | 80.15 | 83.28 | 3.13 |
| Fuel oil | *(1.0% S)* | 37.74 | 41.7 | 46.7 | 5.00 |
| Fuel oil | *(3.5% S)* | 36.71 | 39.25 | 41.86 | 2.61 |
| **Mediterranean (Cargoes):** | | | | | |
| Naphtha | | 50.79 | 58.32 | 62.01 | 3.69 |
| Premium gasoline | *(50 ppm)* | 72.99 | 83.45 | 88.35 | 4.90 |
| Jet/Kerosene | | 71.79 | 78.44 | 81.90 | 3.46 |
| Gasoil/Diesel | *(50 ppm)* | 74.14 | 80.97 | 84.73 | 3.76 |
| Fuel oil | *(1.0% S)* | 41.03 | 43.55 | 48.43 | 4.88 |
| Fuel oil | *(3.5% S)* | 35.08 | 37.73 | 41.43 | 3.70 |
| **Singapore (Cargoes):** | | | | | |
| Naphtha | | 49.62 | 58.17 | 61.73 | 3.56 |
| Premium gasoline | *(unleaded 95)* | 64.70 | 73.19 | 79.4 | 6.21 |
| Regular gasoline | *(unleaded 92)* | 63.43 | 72.52 | 78.39 | 5.87 |
| Jet/Kerosene | | 70.07 | 75.84 | 79.16 | 3.32 |
| Gasoil/Diesel | *(50 ppm)* | 72.48 | 74.92 | 80.77 | 5.85 |
| Fuel oil | *(180 cst 2.0% S)* | 40.27 | 42.39 | 47.35 | 4.96 |
| Fuel oil | *(380 cst 3.5% S)* | 38.76 | 41.35 | 46.68 | 5.33 |

**Table 3: Refinery operations in selected OECD countries**

| | Refinery throughput *mb/d* | | | | | | Refinery utilization *%* | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jul 05 | | Aug 05 | | Sep 05 | Sep/Aug | Jul 05 | | Aug 05 | | Sep 05 | Sep/Aug |
| **USA** | 16.07 | | 15.59 | | 13.83 | -1.76 | 95.8 | | 92.9 | | 82.5 | -10.40 |
| **France** | 1.76 | R | 1.72 | | 1.70 | -0.02 | 90.1 | R | 88.1 | | 87.3 | -0.80 |
| **Germany** | 2.30 | R | 2.36 | | 2.39 | 0.03 | 98.8 | R | 101.4 | | 102.7 | 1.30 |
| **Italy** | 1.93 | R | 1.86 | R | 2.00 | 0.14 | 83.1 | R | 80.1 | R | 86.0 | 5.90 |
| **UK** | 1.75 | R | 1.51 | R | 1.66 | 0.15 | 95.7 | R | 82.6 | R | 90.7 | 8.10 |
| **Eur-16** | 12.48 | R | 12.29 | R | 12.54 | 0.25 | 89.9 | R | 88.6 | R | 90.4 | 1.80 |
| **Japan** | 3.99 | | 4.25 | R | 4.17 | -0.08 | 84.7 | | 90.3 | R | 88.5 | -1.80 |

*R* *Revised since last issue.*

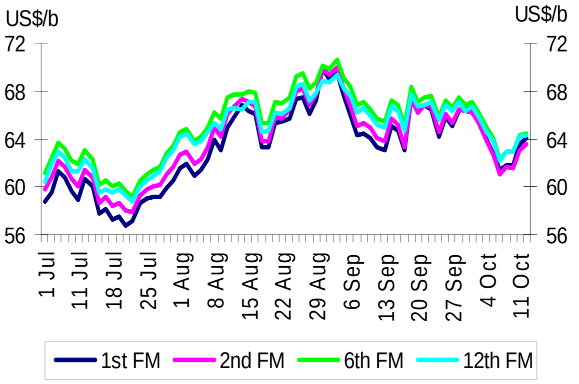
Sources *OPEC statistics; Argus; Euroilstock Inventory Report/IEA.*

# The Oil Futures Market

**The perception of slowing demand pushed Nymex WTI from the previous month's peak and non-commercial net longs into negative territory**

The crude oil futures market started off strong in September, as a result of damage to the petroleum infrastructure in the US Gulf of Mexico by Hurricane Katrina. WTI averaged $67.99/b in the first week, a gain of 40¢ on concern over supply shortfall in both streams. The CFTC weekly report revealed that non-commercials reduced short positions by 6,500 to some 117,000 lots at a faster rate than longs which fell by nearly 2,000 to 141,000 contracts. As a result, net long positions closed nearly 5,000 higher at 24,100 contracts. At the same time, commercials also increased long positions by a significant 19,000 lots to 552,000 while the shorts were up 3,200 to 540,000 contracts. Nonetheless, open interest declined a moderate 16,000 to 898,000 contracts, slipping below the 0.9 million from the week before. Bullish momentum weakened following the emergency response by the IEA to release strategic crude and products to supplement the shortfall caused by Hurricane Katrina. Moreover, recovery of oil operations in the Gulf of Mexico has further calmed market momentum at a time when the IEA revised its forecast for lower-than-expected global demand in 2005. Hence, fund sell-offs for profit-taking in a volatile trade pushed the WTI front-month contract to close the second weekly period at an average of $63.88/b, plunging $4.11 or 6%. This was evidenced by the hefty 26,000 drop in non-commercial long positions while the shorts saw a build of 6,200 contracts. As a result, net non-commercial positions fell into the negative territory for the first time since end of May, dropping 32,300 lots as the shorts outpaced longs by 8,200 lots. Moreover, open interest continued to slide at a faster rate, decreasing by some 25,000 lots to 873,000 contracts.

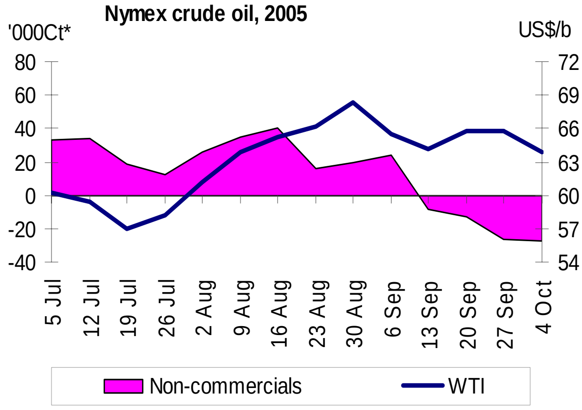
**Graph 11: Nymex WTI futures contracts, 2005**




FM = future month

In the third weekly period, the bulls were boosted by fears over low winter fuels amid hurricane-damaged refinery operations and limited natural gas supply due to shut-in production in the US Gulf of Mexico. The market was calmed on the expectation of higher OPEC output amid a slow-down in demand. Hence, the 6% fall of the gasoline futures contract on 16 September, on profit taking exerted downward pressure on the petroleum complex. However, looming Tropical Storm Rita in the Gulf of Mexico further ignited market concern over a supply shortfall as well as slowed efforts to restore oil operations after Hurricane Katrina in both streams. The futures market saw a reversal to the previous trade session on 19 September, with Nymex WTI jumping nearly 7% as gasoline futures surged well over 14% and heating oil was up almost 11%. Therefore, the weekly average closed $1.41 or 2.2% at $65.29/b. However, OPEC's pledge of excess capacity amid the prospect of lower demand capped the earlier rally. The CFTC report showed non-commercials continued to reduce their longs with net shorts at 13,000 lots. Moreover, open interest saw another hefty drop of 26,000 lots to 847,000 contracts. In the fourth week of September, volatility continued on concern over slowing refinery demand amid fear of a petroleum product shortfall on prolonged refinery outages. While the closing weekly average was up a marginal 39¢ at $65.68/b, non-commercials continued to hold net short positions, with shorts continuing to hold an edge over longs for the third consecutive week at 26,300 lots with the longs dropping to 107,000 lots, their lowest level since mid-June and the shorts peaking at their highest level within the last three years at 134,000 lots. Open interest increased a marginal 5,000 lots to 851,000 lots. It is worth noting that the commercial longs increased by some 9,000

**Graph 12: Futures Commitment of traders report Nymex crude oil, 2005**

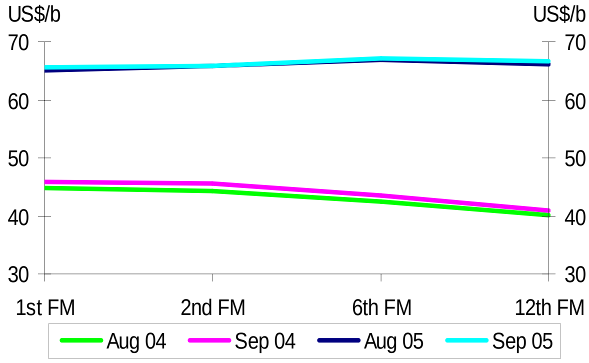


to 542,000 lots while short positions fell by 9,000 to 503,000 lots. The Nymex prompt month average closed 56¢ higher at $65.55/b over the August average on shuttered refineries and constrained natural gas output due to damaged facilities in the Gulf of Mexico. Moreover, while the Nymex front month price was 42% higher on average than last year, the open interest monthly average only saw a gain of 27% over the same period last year.

**Ample crude oil stocks in the USA have retained the forward structure in contango for the last twelve months**

The forward structure eased in September to narrow the contango with the 1st/2nd month average spread in September at –36¢ compared to –73¢ in August. Healthy crude oil stocks in the USA kept the contango in place. However, concern over tight product supply narrowed the gap as demand for winter fuels emerges at a time when the major oil production and refining facilities were damaged in the US Gulf of Mexico. Moreover, the preliminary data for monthly crude oil stocks reveals that September stocks were lower than August by some 13 mb at 308 mb. The contango narrowed away from the 18th forward month. The 1st/18th month backwardation widened to 6¢ compared to 2¢ in August, although this gap was mostly closed by month-end.

**Graph 13: Nymex WTI forward curve**




FM = future month

# The Tanker Market

**OPEC spot fixtures soared by almost 2.3 mb/d in September**

OPEC area spot fixtures soared sharply by 2.27 mb/d or 18% to average 14.8 mb/d in September. Compared to the same period last year, OPEC fixtures were more than 1.2 mb/d higher. However, despite this substantial growth, OPEC's share of total spot fixtures remained nearly stable at 65%, compared to the previous month. Middle Eastern countries were the main contributors to the growth in OPEC spot fixtures, with 1.9 mb/d or 84% of the growth. Middle East/eastbound long-haul fixtures increased by 0.9 mb/d or 18% to 5.85 mb/d, while **westbound fixtures surged by 1 mb/d or nearly 90% to hit 2.16 mb/d, the highest growth since April 2004.** The sharp increase of the westbound spot fixtures was essentially due to strong bookings ahead of Northern winter demand and increasing cargoes to the USA following hurricanes Katrina and Rita, which shut in more than 98% of US Gulf Coast crude production. Consequently, Middle East/eastbound and –/westbound shares in OPEC fixtures moved up from less than 50% in August to 54%, which was almost the same share as in September 2004. OPEC countries outside the Middle East also saw fixtures increase but at a lower pace of 0.36 mb/d or 6% to average 6.8 mb/d, corresponding to a 46% share in total OPEC spot fixtures. Non-OPEC spot fixtures followed the same trend and moved up by 0.8 mb/d or 11% to 7.9 mb/d, keeping their share in total spot fixtures unchanged at 35% compared to the previous month and a year earlier. Both increases in OPEC and non-OPEC fixtures pushed total spot fixtures to 22.7 mb/d in September against 19.6 mb/d in the previous month.

Estimated data for sailings from the OPEC area dropped for the second consecutive month and hit 24.7 mb/d, or a drop of 0.72 mb/d from August, but were 1.7 mb/d higher than a year earlier. Middle Eastern countries, which saw their volumes reduced by 0.45 mb/d to 18.36 mb/d, contributed 60% to the decline in OPEC sailings. Preliminary estimates of arrivals at the main consuming regions displayed mixed trends. However, **arrivals at the US Gulf and East Coasts and the Caribbean dropped by 0.83 mb/d to hit 10 mb/d, the lowest level in the last eight months amid disruptions to US Gulf Coast ports**. At the same time arrivals at North-West Europe fell by 0.44 mb/d to average 7.7 mb/d. In contrast, arrivals at Euromed inched up a slight 0.05 mb/d to reach 4.6 mb/d, while arrivals in Japan continued their upward trend to increase by 0.18 mb/d to 4.3 mb/d. Compared to the same period of last year, arrivals were higher in all main consuming regions.

**Table 4: Tanker chartering, sailings and arrival, mb/d**

| | Jul 05 | Aug 05 | Sep 05 | Change Sep/Aug |
|---|---|---|---|---|
| **Spot Chartering** | | | | |
| All areas | 21.57 | 19.64 | 22.70 | 3.05 |
| OPEC | 13.47 | 12.53 | 14.80 | 2.27 |
| Middle East/east | 5.13 | 4.95 | 5.85 | 0.90 |
| Middle East/west | 1.96 | 1.16 | 2.16 | 1.00 |
| **Sailings** | | | | |
| OPEC | 25.56 | 25.39 | 24.66 | -0.72 |
| Middle East | 18.40 | 18.81 | 18.36 | -0.45 |
| **Arrivals** | | | | |
| US Gulf Coast, US East Coast, Caribbean | 10.87 | 10.87 | 10.04 | -0.83 |
| North West Europe | 8.11 | 8.17 | 7.73 | -0.44 |
| Euromed | 4.50 | 4.59 | 4.63 | 0.05 |
| Japan | 4.06 | 4.16 | 4.35 | 0.18 |

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

**Crude oil freight rates improved ahead of the winter season**

In September, crude oil spot freight rates picked up due to a surge in bookings from refiners and traders to cope with seasonal demand and increasing imports from the USA after the resumption of activities in US Gulf Coast ports following Hurricane Katrina. In addition, the congestion in US ports increased the tightness of the market by tying up more vessels. **The VLCC sector experienced significant growth in terms of percentage, ranging between 29% and 32%.** Freight rates on the Middle East/eastbound and –/westbound long-haul routes rose by 20 points each to average monthly levels of WS89 and WS83 respectively, the highest levels since March 2005**. In the last week of the month, ship-owners of VLCCs heading from the Middle East east and west secured more than WS100.** Suezmax spot freight rates behaved in the same direction thanks to lower tonnage availability and strong demand for light sweet African crude. Freight rates for tankers moving from West Africa to the US Gulf Coast increased by 20 points to settle at a monthly average of WS126 since some of the US Gulf Coast production damaged by Hurricane Katrina was replaced by long-haul imports. Similarly, on the North-West Europe/US East and Gulf Coast routes, freight rates gained 22 points to average WS123. In the Aframax sector, **strong activity between the Caribbean and the US East Coast, due essentially to immediate need from US refiners and the short distance between the two regions, drove freight rates on this route down by 34 points to average WS218, reversing the downward trend of the previous three months. With an average of WS218, freight rates on this route were even higher than the September 2004 level**. However, on the Indonesia/US West Coast route rates continued to increase for the fourth consecutive month, gaining 18 points or 13% in September to reach a monthly average of WS159. Freight rates for ships trading between the Mediterranean and NW Europe improved further to average WS146, which corresponds to an increase of 16 points or 12%, while within the Mediterranean rates remained nearly stable at a monthly average of WS185. **Compared to the same period of last year, freight rates were lower on all routes except for the Caribbean/US East Coast route in the Aframax sector.**

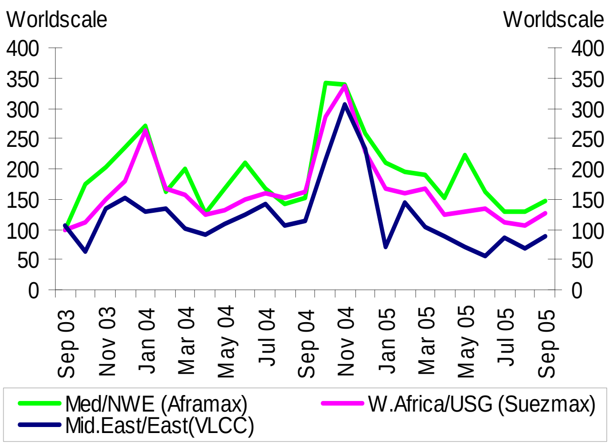
**Table 5: Spot tanker freight rates, Worldscale**

| | Size *1,000 DWT* | Jul 05 | Aug 05 | Sep 05 | Change Sep/Aug |
|---|---|---|---|---|---|
| ***Crude*** | | | | | |
| Middle East/east | 200–300 | 85 | 69 | 89 | 20 |
| Middle East/west | 200–300 | 73 | 63 | 83 | 20 |
| West Africa/US Gulf Coast | 100–160 | 111 | 106 | 126 | 20 |
| NW Europe/USEC - USGC | 100–160 | 104 | 101 | 123 | 22 |
| Indonesia/US West Coast | 70–100 | 134 | 141 | 159 | 18 |
| Caribbean/US East Coast | 40–70 | 242 | 184 | 218 | 34 |
| Mediterranean/Mediterranean | 40–70 | 213 | 184 | 185 | 1 |
| Mediterranean/North-West Europe | 70–100 | 128 | 130 | 146 | 16 |
| ***Products*** | | | | | |
| Middle East/east | 30–50 | 249 | 280 | 310 | 30 |
| Singapore/east | 25–30 | 300 | 319 | 440 | 121 |
| Caribbean/US Gulf Coast | 25–30 | 255 | 203 | 366 | 163 |
| NW Europe/USEC - USGC | 25–30 | 252 | 216 | 398 | 182 |
| Mediterranean/Mediterranean | 25–30 | 259 | 188 | 259 | 71 |
| Mediterranean/North-West Europe | 25–30 | 285 | 195 | 256 | 61 |

*Source: Galbraith's Tanker Market Report as well as other relevant industry publications.*

**Product freight rates surged sharply in the aftermath of hurricanes Katrina and Rita**

**Graph 14: Monthly averages of crude oil spot freight rates**




In the aftermath of the hurricanes Katrina and Rita, the trade of refined products to the US market surged, resulting in a shortage of tankers. This led to **a spike in product tanker freight rates especially in the Atlantic Basin, where they soared by more than 80% in one month.** The reduction in tanker availability was exacerbated by the fact that even some ships from Asia were fixed to the USA due to record high product prices in that market which had not been attractive in the past. Freight rates in the East continued to firm for the third consecutive month, with rates for shipments of 30,000-50,000 dwt on the Middle East/East route increasing by 30 points to settle at a monthly average of WS310, while on the Singapore/East route, they surged by 121 points or 38% to average WS440. **The shortage in product supply due to refinery outages and offline**

**US Gulf Coast natural gas production boosted US imports of products and pushed freight rates to exceptionally high levels in the Caribbean and the Atlantic Basin markets.** However, freight rates for cargoes between the Caribbean and the US West Coast as well as for cargoes moving from NW Europe to the US East and Gulf Coasts surged by 163 and 182 points respectively, to average WS366 and WS398. According to secondary sources, there were more than 80 additional ships moving products to the USA in September. With the very attractive rates, some dirty crude vessels have been cleaned and shifted to move clean products to the USA. Similarly, freight rates across the Mediterranean and from there to NW Europe experienced significant improvements corresponding to 71 points and 61 points respectively to average WS259 and WS256. Compared to the same month last year, freight rates were higher on all routes. **It is worth noting that freight rates on the Singapore/East and the Caribbean/US Gulf Coast routes as well as in the Atlantic Basin reached levels not seen since late 2000.**

# World Oil Demand

**Oil demand growth revised down by 0.24 mb/d to 1.2 mb/d**

## *Forecast for 2005*

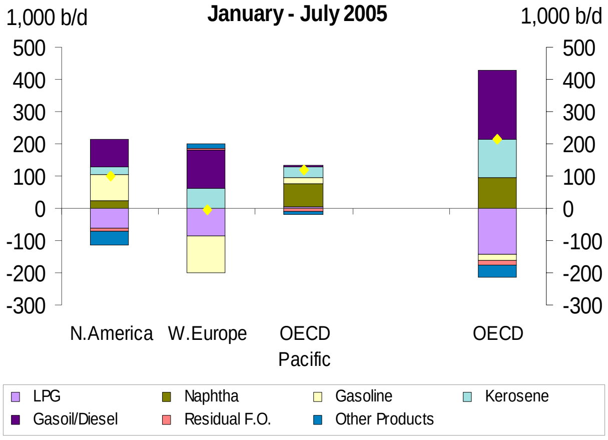
The world oil demand growth estimate for the present year has once again been revised down as preliminary lower oil consumption data for July, August and in some instances September indicates a slow-down in oil and petroleum product demand in some important consuming countries. Thus, **after the sixth consecutive revision, world oil demand growth is now estimated at 1.2 mb/d – 1.4% y-o-y growth – with a yearly average of 83.26 mb/d.** There is enough evidence to indicate that oil demand growth will probably slow down further in the months to come and it is likely that consumption growth will be further revised down as we approach the end of the year. Nonetheless, there is still no compelling evidence for a dramatic drop in consumption. High crude oil prices have already triggered daring economic reforms in some emerging economies. This is the case in Indonesia where the government raised key fuel prices by an average of 126% late last month. The price of kerosene — a politically sensitive primary cooking fuel used by the majority of Indonesia's poor — was raised by more than 185% while gasoline suffered an 87% increase. Under the new pricing system a committee of several ministers will be empowered to decide over domestic product prices and the target is to completely phase out subsidies by early 2008. High oil prices have started to erode demand. It is yet difficult to assess the external impact on consumption.

On the positive side, the economic outlook for the present year remains healthy at 4.24% with the exception of the USA where second semester GDP growth is estimated to grow by 2.5% – post-Katrina and Rita – well below the 3.5% recorded in the first half. Advocates of a dramatic drop in demand, particularly for the coming winter season, would need to also take into account forecasts for colder than normal temperatures in the Northern hemisphere, which could raise the consumption of heating oil fuels. Finally, market pundits who feel vindicated by a substantial 2.7% y-o-y drop in US consumption in the latest EIA figures for gasoline demand based on the last four-week average, should also consider the yearly trend where gasoline consumption for the period January-August 2005 was 9.15 mb/d versus 9.11 mb/d last year. In this context, the last four-week average might be misleading, especially when the period encompasses the post-Katrina episode. In contrast, distillate consumption in the same period showed a slight 0.4% rise. Thus, it is too early to draw conclusions about the impact of the hurricanes on petroleum product demand. It is possible that what is being reflected in the latest EIA figures could be a temporary phenomenon — but then again maybe it isn't.

## *OECD*

**Oil demand in OECD countries is projected to rise by less than two-thirds of one percentage point for the whole of 2005.** The y-o-y rise in demand of 0.30 mb/d estimated for 2005 makes up only one quarter of the expected total world growth of 1.2 mb/d while the proportion of OECD consumption to total world demand is approximately 60%. The main revision this month occurred in North American demand for the third quarter of 2005 which, according to preliminary figures for July and August and projections for September, indicates that there will be marginal growth at best. Most of the revision to the third quarter North American demand comes on the back of the aftermath of the hurricanes that severely affected the USA last month. As stated before the drop in product demand evidenced in September might be a temporary occurrence that could be followed by an increase in consumption when the reconstruction phase gains full steam as well as by the fact that SPR releases ought to be replenished some time in the future. Western Europe's demand is projected to marginally shrink in 2005. However, the more positive regional economic outlook for the present year might render some demand growth. OECD Pacific y-o-y growth for 2005 has been revised up based on the positive performance of the first half of the year and a more optimistic economic outlook. Demand is projected to rise by 0.09 mb/d or 1.06% to average 8.62 mb/d for the whole of 2005.

**Graph 15: OECD - Growth of total requirements by component**



Inland deliveries of petroleum products for the period January-July 2005 indicate a growth rate of just 0.47% over the same period of last year. The net volumetric gain of 0.21 mb/d for the seven-month period (see Graph 15) came on the back of higher gasoil/diesel, kerosene and naphtha consumption, partially offset by the sizeable drop in LPG and to a lesser extent gasoline and residual fuel oil. During the first seven months the net North American region demand was 0.1 mb/d. The rise in gasoline and gasoil/diesel demand was capped by the drop in LPG and “Other products” demand. In Western Europe the ongoing gasoil/diesel substitution for gasoline and the drop in LPG consumption resulted in a marginal demand contraction for the seven-month period. In the OECD Pacific region, the 0.12 mb/d rise in demand during the first seven months — mainly increases in naphtha, and kerosene consumption — made up more than 50% of the total OECD consumption growth for the period.

**Table 6: World oil demand forecast for 2005, mb/d**

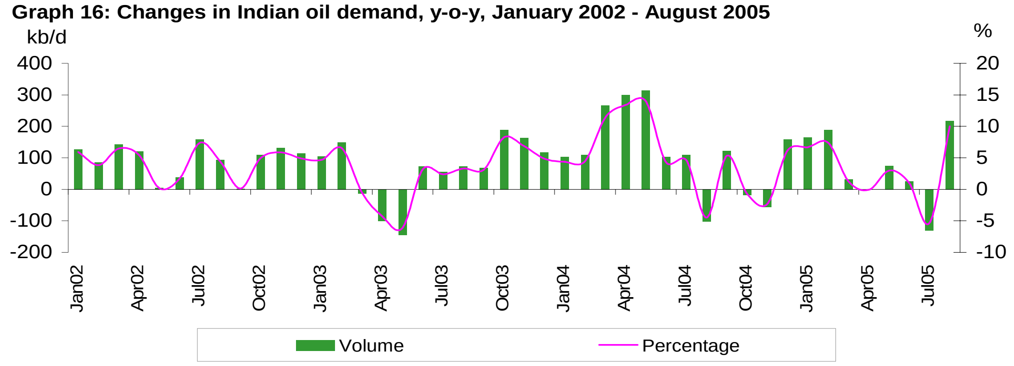
| | 2004 | 1Q05 | 2Q05 | 3Q05 | 4Q05 | 2005 | Change 2005/04 Volume | Change 2005/04 % |
|---|---|---|---|---|---|---|---|---|
| North America | 25.34 | 25.53 | 25.31 | 25.41 | 26.00 | 25.56 | 0.22 | 0.87 |
| Western Europe | 15.60 | 15.55 | 15.29 | 15.64 | 15.90 | 15.59 | -0.01 | -0.06 |
| OECD Pacific | 8.53 | 9.49 | 8.10 | 8.12 | 8.77 | 8.62 | 0.09 | 1.06 |
| **Total OECD** | **49.47** | **50.56** | **48.70** | **49.18** | **50.67** | **49.77** | **0.30** | **0.61** |
| Other Asia | 8.36 | 8.56 | 8.70 | 8.44 | 8.88 | 8.64 | 0.29 | 3.41 |
| Latin America | 4.90 | 4.80 | 4.99 | 5.17 | 5.03 | 5.00 | 0.10 | 2.06 |
| Middle East | 5.44 | 5.61 | 5.68 | 5.78 | 5.53 | 5.65 | 0.21 | 3.92 |
| Africa | 2.70 | 2.75 | 2.80 | 2.85 | 2.85 | 2.81 | 0.12 | 4.28 |
| **Total DCs** | **21.39** | **21.72** | **22.16** | **22.23** | **22.29** | **22.10** | **0.71** | **3.34** |
| FSU | 3.85 | 3.90 | 3.70 | 3.86 | 3.98 | 3.86 | 0.01 | 0.38 |
| Other Europe | 0.86 | 0.93 | 0.88 | 0.84 | 0.85 | 0.88 | 0.02 | 2.33 |
| China | 6.52 | 6.51 | 6.57 | 6.43 | 7.05 | 6.64 | 0.12 | 1.91 |
| **Total "Other Regions"** | **11.22** | **11.35** | **11.14** | **11.13** | **11.89** | **11.38** | **0.16** | **1.42** |
| **Total world** | **82.08** | **83.64** | **82.00** | **82.54** | **84.85** | **83.26** | **1.17** | **1.43** |
| Previous estimate | 82.07 | 83.63 | 81.97 | 83.00 | 85.34 | 83.49 | 1.42 | 1.73 |
| Revision | 0.01 | 0.00 | 0.03 | -0.46 | -0.49 | -0.23 | -0.24 | -0.30 |

*Totals may not add due to independent rounding.*

### *Developing Countries*

Developing Countries oil demand has been revised down slightly on the back of an expected lower growth in Asia Pacific countries. Nonetheless, the more optimistic economic outlook for the region and indications of good demand growth for the first half of the year despite high oil prices – according to the preliminary data at hand – presents a puzzling situation. **Emerging economies oil demand is projected to grow by 0.71 mb/d or 3.34% to average 22.1 mb/d for the year, or about 60% of expected total world demand growth.** As stated before, high international oil prices and the immense burden on national budgets of many of these nations have prompted governments to implement, in some instances, substantial policy reforms which are very likely to have an impact on consumption of petroleum products in the months to come. Asia Pacific — a region of healthy demand growth — represents a particular hazard to our demand forecast as some governments have partially phased out subsidies and intend to bring domestic prices in line with market levels.

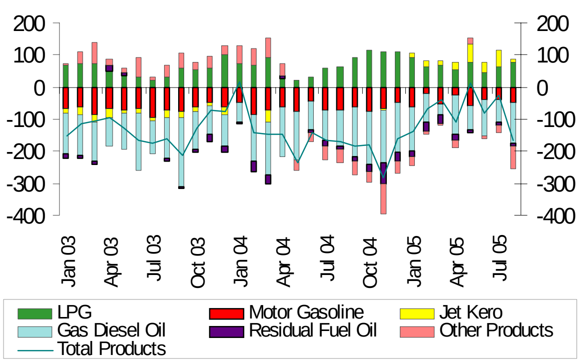
**Graph 16: Changes in Indian oil demand, y-o-y, January 2002 - August 2005**



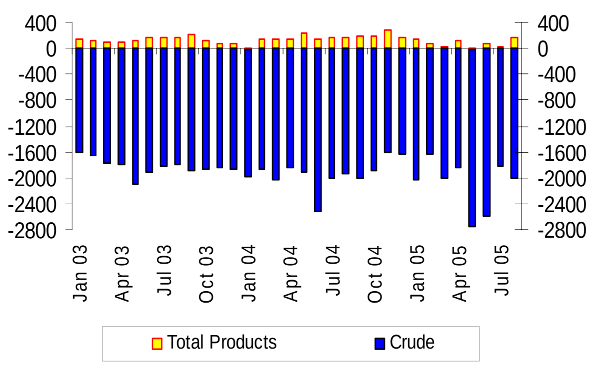
Oil demand in India — a nation that has gone up several notches in the scale of large consuming countries and which probably by 2007 will overtake Germany as the fifth largest consumer — continues to grow at a solid rate. For the period January-August 2005, demand for crude oil and petroleum products has increased by 2.8% or 0.07 mb/d over the same period of last year (see Graph 16). In the same period, net exports of petroleum products fell by 66,000 b/d to 76,000 b/d in 2005 from the previous year (see Graph 17).

India continues to be a net importer of LPG and has been importing considerable quantities of jet kerosene to cope with domestic consumption. On the other hand, exports seem to have picked up in August especially of gasoil/diesel. On the crude side, India continues to import higher quantities of crude oil. During the first eight months of 2005 crude imports totaled 2.08 mb/d which represents an increment of nearly 4% versus the same period of 2004 (see Graph 18). Crude oil imports of 2.74 mb/d in May and 2.6 mb/d in June of this year constitute an all-time record-high.

**Graph 17: Indian oil net imports by major product, January 2003 - August 2005**



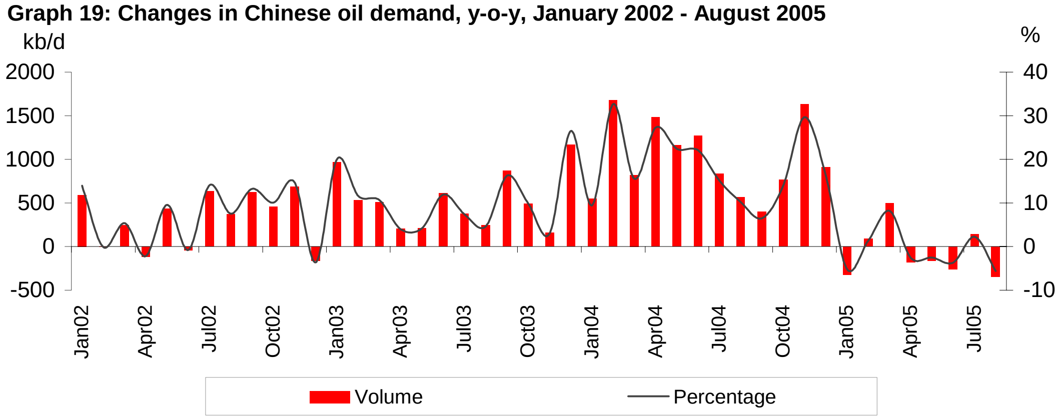

**Graph 18: Indian oil and product net trade, January 2003 - August 2005**



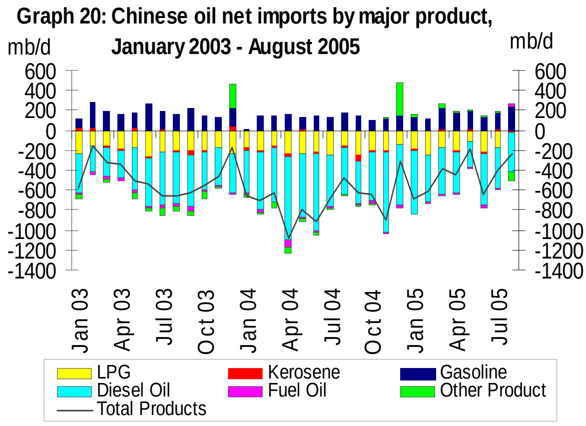

### *Other Regions*

Apparent demand growth in the group Other Regions suffered a sizeable 0.19 mb/d downward revision. Apparent demand is forecast to rise by just 0.16 mb/d or 1.4% to a yearly average of 11.4 mb/d. Third-quarter apparent demand growth was revised down by 0.47 mb/d with most of the decrease originating in China as well as the FSU resulting in a negligible growth for the quarter. Fourth-quarter growth was also revised down by 0.3 mb/d, again the major part of the revision took place in the FSU and well as China apparent demand. The significant revisions came on the back of the latest figures for the first eight months of the year which point to contractions in demand for both China as well as the FSU. The latest figures for Chinese apparent demand, derived from production and trade statistics but not accounting for stock changes, indicate that for the period January-August 2005 demand contracted by more than 1% compared to the same period last year (see Graph 19).

**Graph 19: Changes in Chinese oil demand, y-o-y, January 2002 - August 2005**



Furthermore for the last two months where data is available (July and August) apparent demand fell by 3% y-o-y. Thus to allow for any growth for the third quarter of 2005, apparent demand would have to rise by at least 6% in September. With crude oil production being fairly stable in China the source of the drop in apparent demand emanated from the sharp drop in imports principally in petroleum products. According to the latest figures petroleum products imports for the period January-August 2005 of 0.45 mb/d were near 40% below the 0.74 mb/d level of 2004 (see Graph 20).




On the crude side Chinese imports for the first eight months of 2005 experienced a 3% y-o-y rise (see Graph 21). Therefore, the combined effect on the total Chinese oil trade balance is a 0.22 mb/d or a 7% decline with respect to 2004. As new data becomes available it is clear that the early optimistic growth in Chinese consumption based on GDP growth and income elasticity of demand is unlikely to materialize. With the disappointing performance seen for the first eight months of the year apparent consumption in China must grow by around 0.35 mb/d during the last three months of the year for the forecast 120,000 b/d yearly growth to take place. On a positive note, advance buying ahead of the Chinese lunar year could lift demand. However, any increase for the last quarter of this year will be limited by the hefty 20% 4Q04 growth.

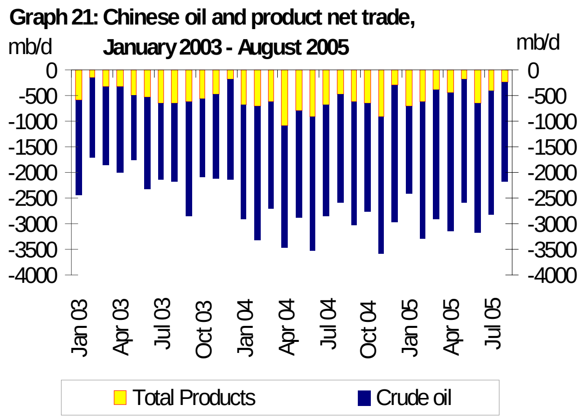



**Table 7: First and second quarter world oil demand comparison for 2005, mb/d**

| | | | Change 2005/04 | | | | Change 2005/04 | |
|---|---|---|---|---|---|---|---|---|
| | 1Q04 | 1Q05 | Volume | % | 2Q04 | 2Q05 | Volume | % |
| North America | 25.23 | 25.53 | 0.31 | 1.21 | 25.05 | 25.31 | 0.26 | 1.05 |
| Western Europe | 15.64 | 15.55 | -0.09 | -0.57 | 15.20 | 15.29 | 0.09 | 0.59 |
| OECD Pacific | 9.28 | 9.49 | 0.20 | 2.19 | 7.90 | 8.10 | 0.20 | 2.51 |
| **Total OECD** | **50.14** | **50.56** | **0.42** | **0.84** | **48.15** | **48.70** | **0.55** | **1.15** |
| Other Asia | 8.17 | 8.56 | 0.39 | 4.72 | 8.48 | 8.70 | 0.21 | 2.51 |
| Latin America | 4.69 | 4.80 | 0.12 | 2.52 | 4.92 | 4.99 | 0.07 | 1.43 |
| Middle East | 5.32 | 5.61 | 0.29 | 5.35 | 5.39 | 5.68 | 0.29 | 5.33 |
| Africa | 2.66 | 2.75 | 0.09 | 3.52 | 2.69 | 2.80 | 0.11 | 4.21 |
| **Total DCs** | **20.84** | **21.72** | **0.88** | **4.24** | **21.48** | **22.16** | **0.68** | **3.18** |
| FSU | 3.61 | 3.90 | 0.29 | 8.07 | 3.76 | 3.70 | -0.06 | -1.59 |
| Other Europe | 0.91 | 0.93 | 0.03 | 3.14 | 0.86 | 0.88 | 0.02 | 2.58 |
| China | 6.23 | 6.51 | 0.28 | 4.58 | 6.77 | 6.57 | -0.20 | -2.95 |
| **Total "Other Regions"** | **10.75** | **11.35** | **0.61** | **5.63** | **11.38** | **11.14** | **-0.24** | **-2.08** |
| **Total world** | **81.73** | **83.64** | **1.91** | **2.33** | **81.00** | **82.00** | **1.00** | **1.23** |

*Totals may not add due to independent rounding.*

| Table 8: Third and fourth quarter world oil demand comparison for 2005, mb/d | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Change 2005/04 | | | | Change 2005/04 | |
| | 3Q04 | 3Q05 | Volume | % | 4Q04 | 4Q05 | Volume | % |
| North America | 25.41 | 25.41 | 0.00 | 0.02 | 25.69 | 26.00 | 0.31 | 1.21 |
| Western Europe | 15.58 | 15.64 | 0.06 | 0.37 | 16.00 | 15.90 | -0.10 | -0.61 |
| OECD Pacific | 8.16 | 8.12 | -0.04 | -0.44 | 8.77 | 8.77 | 0.00 | 0.00 |
| **Total OECD** | **49.15** | **49.18** | **0.03** | **0.05** | **50.46** | **50.67** | **0.21** | **0.42** |
| Other Asia | 8.23 | 8.44 | 0.21 | 2.58 | 8.55 | 8.88 | 0.33 | 3.87 |
| Latin America | 5.02 | 5.17 | 0.14 | 2.84 | 4.95 | 5.03 | 0.07 | 1.46 |
| Middle East | 5.58 | 5.78 | 0.20 | 3.58 | 5.45 | 5.53 | 0.08 | 1.51 |
| Africa | 2.69 | 2.85 | 0.16 | 6.13 | 2.76 | 2.85 | 0.09 | 3.26 |
| **Total DCs** | **21.52** | **22.23** | **0.72** | **3.34** | **21.71** | **22.29** | **0.58** | **2.65** |
| FSU | 3.94 | 3.86 | -0.08 | -2.10 | 4.07 | 3.98 | -0.08 | -2.09 |
| Other Europe | 0.82 | 0.84 | 0.02 | 2.58 | 0.84 | 0.85 | 0.01 | 0.99 |
| China | 6.36 | 6.43 | 0.07 | 1.11 | 6.71 | 7.05 | 0.34 | 5.11 |
| **Total "Other Regions"** | **11.12** | **11.13** | **0.01** | **0.08** | **11.62** | **11.89** | **0.27** | **2.29** |
| **Total world** | **81.79** | **82.54** | **0.75** | **0.92** | **83.79** | **84.85** | **1.05** | **1.26** |

*Totals may not add due to independent rounding.*

**World oil demand is projected to average 84.73 mb/d in 2006, rising by 1.47 mb/d or 1.7% over 2005**

### *Forecast for 2006*

Despite the upward revisions to many regions as well as the forecast for total world GDP growth for 2006, world oil demand has been revised down slightly. Thus, global oil demand is projected to rise by 1.47 mb/d or 1.8% to a yearly average of 84.73 mb/d. The lower growth figure comes about from factoring in the price impact through historic price elasticity coefficients. With the sole exception of Other Europe, where demand is expected to remain almost flat from the 2005 level, oil demand is forecast to grow in all other regions. OECD demand is projected to rise by 0.47 mb/d or 0.94% to average 50.24 mb/d for the whole of 2006. North America as usual will account for around 80% of the total gain in demand with the remaining growth originating in Western Europe and OECD Pacific, with growth rates projected at 0.4% for both regions. Following growth of nearly 1 mb/d in 2004 and an estimated 0.7 mb/d in 2005, oil demand in Developing Countries (DC) is forecast to rise by 0.57 mb/d or 2.6% to average 22.68 mb/d. The Asia Pacific region will account for more than 50% of the total group's projected growth with the remaining two-fifths equally distributed among the other three sub-regions. Finally, China and the FSU projections call for respective demand growth of 0.35 mb/d and 0.07 mb/d for next year.

| Table 9: World oil demand forecast for 2006, mb/d | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Change 2006/05 | |
| | 2005 | 1Q06 | 2Q06 | 3Q06 | 4Q06 | 2006 | Volume | % |
| North America | 25.56 | 25.97 | 25.70 | 25.81 | 26.26 | 25.94 | 0.37 | 1.46 |
| Western Europe | 15.59 | 15.63 | 15.34 | 15.75 | 15.89 | 15.65 | 0.06 | 0.39 |
| OECD Pacific | 8.62 | 9.38 | 8.17 | 8.16 | 8.92 | 8.65 | 0.04 | 0.41 |
| **Total OECD** | **49.77** | **50.99** | **49.21** | **49.72** | **51.07** | **50.24** | **0.47** | **0.94** |
| Other Asia | 8.64 | 8.86 | 8.92 | 8.84 | 9.18 | 8.95 | 0.31 | 3.55 |
| Latin America | 5.00 | 4.94 | 5.09 | 5.25 | 5.06 | 5.09 | 0.09 | 1.80 |
| Middle East | 5.65 | 5.63 | 5.71 | 5.84 | 5.61 | 5.70 | 0.05 | 0.85 |
| Africa | 2.81 | 2.90 | 2.93 | 2.98 | 2.96 | 2.94 | 0.13 | 4.55 |
| **Total DCs** | **22.10** | **22.33** | **22.64** | **22.91** | **22.81** | **22.68** | **0.57** | **2.59** |
| FSU | 3.86 | 4.03 | 3.64 | 3.84 | 4.22 | 3.93 | 0.07 | 1.91 |
| Other Europe | 0.88 | 0.92 | 0.92 | 0.81 | 0.84 | 0.87 | 0.00 | -0.05 |
| China | 6.64 | 6.98 | 6.95 | 6.66 | 7.40 | 7.00 | 0.35 | 5.33 |
| **Total "Other Regions"** | **11.38** | **11.93** | **11.52** | **11.32** | **12.46** | **11.81** | **0.43** | **3.76** |
| **Total world** | **83.26** | **85.24** | **83.37** | **83.95** | **86.34** | **84.73** | **1.47** | **1.77** |
| Previous estimate | 83.49 | 85.28 | 83.39 | 84.45 | 86.88 | 85.00 | 1.52 | 1.82 |
| Revision | -0.23 | -0.04 | -0.02 | -0.50 | -0.54 | -0.28 | -0.05 | -0.05 |

*Totals may not add due to independent rounding.*

**Table 10: First and second quarter world oil demand comparison for 2006, mb/d**

| | | | Change 2006/05 | | | | Change 2006/05 | |
|---|---|---|---|---|---|---|---|---|
| | **1Q05** | **1Q06** | Volume | % | **2Q05** | **2Q06** | Volume | % |
| North America | 25.53 | 25.97 | 0.44 | 1.74 | 25.31 | 25.70 | 0.39 | 1.55 |
| Western Europe | 15.55 | 15.63 | 0.09 | 0.55 | 15.29 | 15.34 | 0.05 | 0.35 |
| OECD Pacific | 9.49 | 9.38 | -0.11 | -1.14 | 8.10 | 8.17 | 0.07 | 0.84 |
| **Total OECD** | **50.56** | **50.99** | **0.42** | **0.83** | **48.70** | **49.21** | **0.51** | **1.06** |
| Other Asia | 8.56 | 8.86 | 0.30 | 3.51 | 8.70 | 8.92 | 0.22 | 2.58 |
| Latin America | 4.80 | 4.94 | 0.14 | 2.93 | 4.99 | 5.09 | 0.10 | 1.98 |
| Middle East | 5.61 | 5.63 | 0.02 | 0.37 | 5.68 | 5.71 | 0.03 | 0.61 |
| Africa | 2.75 | 2.90 | 0.15 | 5.34 | 2.80 | 2.93 | 0.13 | 4.52 |
| **Total DCs** | **21.72** | **22.33** | **0.61** | **2.80** | **22.16** | **22.64** | **0.48** | **2.18** |
| FSU | 3.90 | 4.03 | 0.13 | 3.21 | 3.70 | 3.64 | -0.05 | -1.46 |
| Other Europe | 0.93 | 0.92 | -0.01 | -1.32 | 0.88 | 0.92 | 0.05 | 5.20 |
| China | 6.51 | 6.98 | 0.46 | 7.10 | 6.57 | 6.95 | 0.38 | 5.78 |
| **Total "Other Regions"** | **11.35** | **11.93** | **0.58** | **5.07** | **11.14** | **11.52** | **0.37** | **3.33** |
| **Total world** | **83.64** | **85.24** | **1.61** | **1.92** | **82.00** | **83.37** | **1.37** | **1.67** |

*Totals may not add due to independent rounding.*

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

| | | | Change 2006/05 | | | | Change 2006/05 | |
|---|---|---|---|---|---|---|---|---|
| | **3Q05** | **3Q06** | Volume | % | **4Q05** | **4Q06** | Volume | % |
| North America | 25.41 | 25.81 | 0.40 | 1.57 | 26.00 | 26.26 | 0.26 | 1.01 |
| Western Europe | 15.64 | 15.75 | 0.11 | 0.70 | 15.90 | 15.89 | -0.01 | -0.04 |
| OECD Pacific | 8.12 | 8.16 | 0.03 | 0.40 | 8.77 | 8.92 | 0.15 | 1.67 |
| **Total OECD** | **49.18** | **49.72** | **0.54** | **1.10** | **50.67** | **51.07** | **0.40** | **0.79** |
| Other Asia | 8.44 | 8.84 | 0.40 | 4.71 | 8.88 | 9.18 | 0.31 | 3.44 |
| Latin America | 5.17 | 5.25 | 0.09 | 1.68 | 5.03 | 5.06 | 0.03 | 0.68 |
| Middle East | 5.78 | 5.84 | 0.06 | 1.07 | 5.53 | 5.61 | 0.07 | 1.35 |
| Africa | 2.85 | 2.98 | 0.13 | 4.58 | 2.85 | 2.96 | 0.11 | 3.82 |
| **Total DCs** | **22.23** | **22.91** | **0.68** | **3.04** | **22.29** | **22.81** | **0.52** | **2.34** |
| FSU | 3.86 | 3.84 | -0.01 | -0.33 | 3.98 | 4.22 | 0.24 | 5.91 |
| Other Europe | 0.84 | 0.81 | -0.02 | -2.84 | 0.85 | 0.84 | -0.01 | -1.29 |
| China | 6.43 | 6.66 | 0.23 | 3.52 | 7.05 | 7.40 | 0.35 | 4.97 |
| **Total "Other Regions"** | **11.13** | **11.32** | **0.19** | **1.71** | **11.89** | **12.46** | **0.57** | **4.83** |
| **Total world** | **82.54** | **83.95** | **1.41** | **1.71** | **84.85** | **86.34** | **1.50** | **1.77** |

*Totals may not add due to independent rounding.*

# World Oil Supply

**Non-OPEC supply growth has been revised down again following significant revisions to the outlook for the USA**

## *Non-OPEC*

### *Forecast for 2005*

**Non-OPEC supply in 2005 is expected to average 50.30 mb/d, representing an increase of 0.49 mb/d over the previous year, following a downward revision of 113,000 b/d to last month's figures. Non-OPEC supply including OPEC NGLs and non-conventional oils is expected to increase 0.7 mb/d over 2004.** On a quarterly basis, non-OPEC supply has been revised down in the third and fourth quarter by 127,000 b/d and 331,000 b/d respectively; negative revisions to US Gulf of Mexico and UK production account for the bulk of the adjustments partly offset by upward revisions in Australia and in several Developing Countries. However, the outlook for the USA remains largely unknown and will likely be revised again in the coming months.

**Table 12: Non-OPEC oil supply in 2005, mb/d**

| | 2004 | 1Q05 | 2Q05 | 3Q05 | 4Q05 | 2005 | Change 05/04 |
|---|---|---|---|---|---|---|---|
| North America | 14.56 | 14.48 | 14.63 | 13.86 | 13.69 | 14.16 | -0.40 |
| Western Europe | 6.14 | 5.98 | 5.71 | 5.68 | 5.92 | 5.82 | -0.31 |
| OECD Pacific | 0.57 | 0.54 | 0.62 | 0.59 | 0.56 | 0.58 | 0.00 |
| **Total OECD** | **21.27** | **21.00** | **20.95** | **20.12** | **20.17** | **20.56** | **-0.71** |
| Other Asia | 2.59 | 2.71 | 2.69 | 2.67 | 2.78 | 2.71 | 0.12 |
| Latin America | 4.00 | 4.11 | 4.31 | 4.23 | 4.31 | 4.24 | 0.24 |
| Middle East | 1.89 | 1.82 | 1.80 | 1.77 | 1.75 | 1.79 | -0.10 |
| Africa | 3.43 | 3.61 | 3.66 | 3.86 | 4.04 | 3.79 | 0.36 |
| **Total DCs** | **11.92** | **12.26** | **12.46** | **12.54** | **12.88** | **12.53** | **0.62** |
| FSU | 11.15 | 11.39 | 11.47 | 11.68 | 11.71 | 11.56 | 0.41 |
| Other Europe | 0.16 | 0.16 | 0.16 | 0.16 | 0.16 | 0.16 | 0.00 |
| China | 3.48 | 3.63 | 3.61 | 3.62 | 3.64 | 3.63 | 0.14 |
| **Total "Other regions"** | **14.79** | **15.18** | **15.24** | **15.46** | **15.50** | **15.35** | **0.55** |
| **Total Non-OPEC production** | **47.98** | **48.43** | **48.65** | **48.12** | **48.55** | **48.44** | **0.46** |
| Processing gains | 1.83 | 1.88 | 1.85 | 1.84 | 1.88 | 1.86 | 0.03 |
| **Total Non-OPEC supply** | **49.81** | **50.31** | **50.51** | **49.96** | **50.43** | **50.30** | **0.49** |
| Previous estimate | 49.81 | 50.31 | 50.49 | 50.09 | 50.76 | 50.41 | 0.61 |
| **Revision** | **0.00** | **0.00** | **0.01** | **-0.13** | **-0.33** | **-0.11** | **-0.12** |

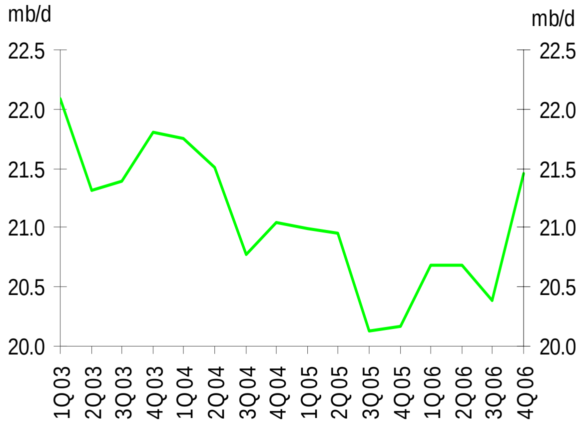
*Totals may not add due to independent rounding.*

**Total OECD production is expected to drop 0.71 mb/d in 2005**

### *OECD*

**As expected, the OECD has been revised down on the back of significant revisions to the US Gulf of Mexico.** OECD oil supply is expected to average 20.56 mb/d, which represents a decline of 0.71 mb/d versus the previous year and a downward revision of 170,000 b/d. This report takes note of the few recent positive news in the OECD, including good production performance in Denmark, a brief bounce in Norwegian production, and higher than expected production in Australia.

**Graph 22: OECD's quarterly production**




However, the impact of hurricane-related shutdowns in the US Gulf of Mexico combined with underperformance in UK crude production continue to be a major drag in the overall performance of the OECD and non-OPEC as a whole. The average expected losses in the

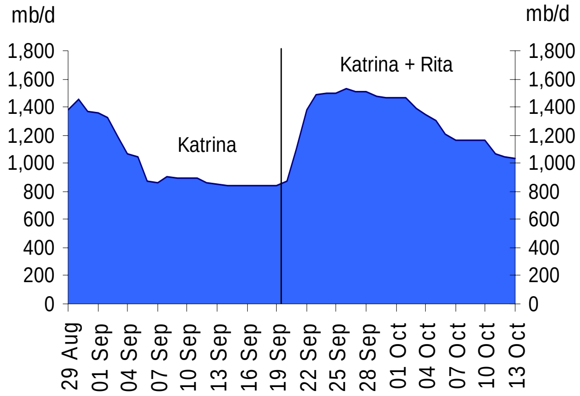
OECD are now close to 0.71 mb/d for the full year, but much of it is concentrated in the third and fourth quarter of 2005, resulting in relatively significant losses of good quality crude during the winter period.

***US Update***

**Total US production is expected to drop 310,000 b/d in 2005 versus the previous year**

The outlook for total US production depends on the expected recovery of Gulf of Mexico production, and therefore remains largely unknown. Last month we revised down the third and fourth quarter of 2005 by 250,000 b/d each to reflect certain assumptions that have now turned out to be conservative. At that time, Katrina-related losses in 2005 were assumed to average 750,000 b/d in September, 350,000 b/d in October, 200,000 b/d in November and 150,000 b/d in December. Now after considering the latest information, we have revised our assumptions further to reflect the following: September actual losses (1.1 mb/d), projected losses in October (1 mb/d), November (750,000 b/d) and December (400,000 b/d). These assumptions have resulted in a downward revision for the third quarter of 2005 of 221,000 b/d and 450,000 b/d for the fourth quarter of 2005 compared to last month's report. Total US oil supply is now expected to average 7.14 mb/d in the third quarter of 2005 and 6.8 mb/d in the fourth. For the full year, US oil supply is expected to average 7.34 mb/d which represents a drop of around 300,000 b/d versus 2004.

**Graph 23: Gulf of Mexico production profile**




At the time of writing, 1 mb/d remained shut in the Gulf of Mexico, 80% of which is in the New Orleans – Houma offshore production area which was hit the hardest by the path of Katrina (never recovered before Rita arrived) and is the one most likely to see a slow return. **Of the 800,000 b/d that are currently shut in this area, it is estimated that 35% are affected due to severe damage to onshore infrastructure (estimated up to three months to fully repair), another 25% are affected due to severe physical damages to production facilities many of which are deepwater fields (estimated up to eight months to fully repair).** In addition, approximately 50,000 b/d have been permanently lost in the Gulf of Mexico due to the collapse and disappearance of a number of platforms.

**Several reports suggest that Pemex may have to reduce production some time in the fourth quarter as damages to US refineries have cut demand**

Elsewhere in North America, the supply forecasts for Mexico and Canada remain unchanged. Mexican oil supply is expected to average 3.77 mb/d in 2005, which represents a decline of 70,000 b/d versus the previous year. However, several reports suggest that Pemex may need to reduce production by up to 10% some time in the fourth quarter following damages to US refineries which have reduced demand. Whilst no official announcements have been made on this issue at the time of writing, it is clear that a lack of customers, combined with limited storage capacity, should lead to some production being deferred. Therefore, the outlook for Mexican oil production is now on the watch-list for a potential downgrade. On the other hand, the outlook for Canada remains unchanged and solid — oil supply is expected to average 3.05 mb/d, a decline of 20,000 b/d versus 2004. Syncrude production at the damaged Suncor facility has now been restored in line with expectations. And the White Rose project (100,000 b/d) offshore Newfoundland will start on time around end of October. Already the first cargo available for 10-15 November lifting is being marketed according to some reports. These two factors provide the base for the recovery of Canadian oil production to 3.17 mb/d in the fourth quarter of 2005 compared to an average production of 3 mb/d in the first nine months of 2005.

**The outlook for the UK has been revised down; production outlook for Norway threatened**

Total oil supply in OECD Europe is now expected to average 5.82 mb/d, which represents a decline of 310,000 b/d versus last year and a negative adjustment of 20,000 b/d. Oil supply in Norway is expected to average 3.06 mb/d, a decline of 120,000 b/d versus 2004. Following significant underperformance in the first six months of 2005, preliminary data for September shows crude production up by 200,000 b/d versus August. I**n Norway, unplanned shut-downs, deeper and prolonged maintenance, and production restrictions in several facilities led to a poor performance in the first half of 2005 and this is likely to lead to a reduction in the production forecast for 2005 and possibly 2006.** In fact, based on the preliminary data, the

September rebound may still not be sufficient to arrive at our third quarter of 2005 average of 3.03 mb/d much less to the expected full year average of 3.06 mb/d. At the time of writing, Statoil made an announcement that production on the Sleipner East and West has been halted after a gas leak was found resulting in the shutdown of 95,000 b/d of condensate which will affect output as well. UK oil supply is expected to average 1.90 mb/d, which represents a decline of 190,000 b/d versus 2004 and a negative revision of 23,000 b/d versus the last report. The most recent data shows UK crude production down 10% in the first half of 2005 from year ago levels despite the fact that technical issues have been fixed in several fields. The underperformance appears to be due to field deliverability issues rather than technical faults. Therefore, we have adjusted UK production for the fourth quarter of 2005 down by 48,000 b/d and revised the base by a similar amount into 2006.

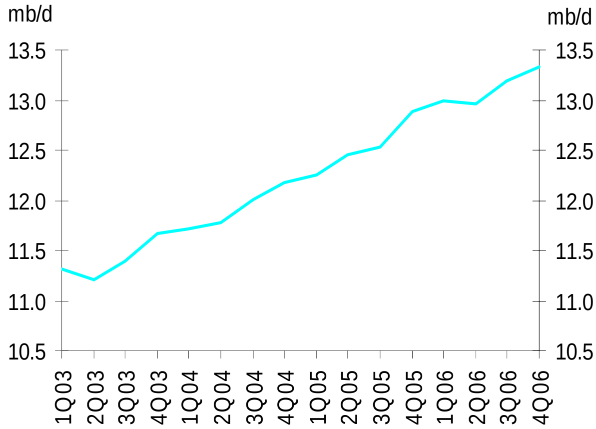
Oil supply in the Asia Pacific region is now expected to average 580,000 b/d, unchanged from 2004 but an upward adjustment of 30,000 b/d. A significant revision in Australia provides the basis for the change. Total Australian crude production in the second quarter of 2005 was 71,000 b/d higher than previously thought according to official data. The difference may have been due to the exclusion of some of the production from the new Mutineer-Exeter project which started at the end of the first quarter of 2005 and was under-reflected in the total number until recently. Our numbers now reflect a slightly higher base than before resulting in positive revisions of 23,000 b/d, 40,000 b/d for the third and fourth quarter of 2005 respectively. The base for 2006 has also been revised slightly up.

*Developing Countries*

**Developing Countries continue to perform better than expected**

**The outlook for the Developing Countries (DCs) has been revised slightly up. Total oil supply is expected to average 12.53 mb/d in 2005, which represents an increase of 0.62 mb/d versus 2004 and an upward adjustment of 24,000 b/d.**

Graph 24: Developing Countries' quarterly production




The revision reflects the inclusion of actual data for the second quarter of 2005 and minor changes to the outlook for the third and fourth quarter of the current year in several DCs. Positive adjustments have been made to Malaysia (fourth quarter of 2005), Yemen (fourth quarter of 2005), Other Africa, and Other Latin America, whilst negative adjustments were made to Vietnam (third quarter of 2005), Trinidad third quarter of 2005), and Malaysia (second quarter of 2005). In addition, the outlook for Angola has been revised up by 43,000 b/d for the fourth quarter of 2005 on the expectation of a higher contribution from Kizomba B (onstream since July) and the BBLT Phase I project (start in December 2005).

Elsewhere, we remain cautious about the outlook for Chad. As reported last month, production from the Doba project appears to have settled at a level that is less than what is currently estimated. The project began in 2003 and reached its designed capacity of 220,000 b/d, but recent trading reports indicate that only 5-6 cargoes a month of around 900,000 barrels are being marketed regularly since at least May. This level suggests that production is around 160,000 to 190,000 b/d, or 50,000 b/d below capacity. We will assess the situation further with a view of evaluating the future prospects of the country in our next report.

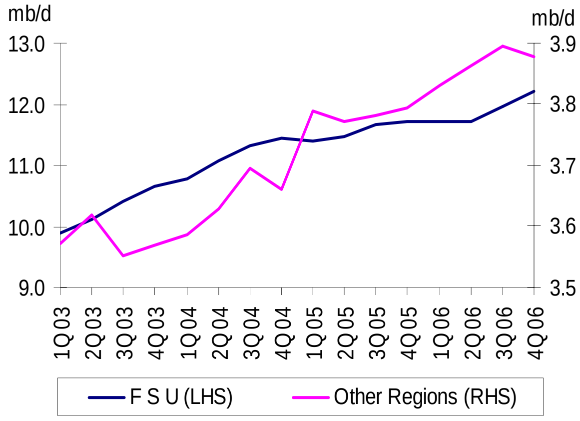
*Other Regions*

**The outlook for the FSU has been revised slightly up. FSU oil supply is now expected to average 11.56 mb/d, an increase of 0.41 mb/d versus 2004 and an upward revision of 28,000 b/d. The forecast for Other Regions (Other Europe and China) remains unchanged. Total oil supply is expected to average 3.79 mb/d in 2005, which represents an increase of 140,000 b/d from 2004**.

**The outlook for Russia remains unchanged; third-quarter 2005 production in line with the expected trend**

The outlook for Russia in 2005 remains unchanged. Russian oil supply is expected to average 9.39 mb/d, an increase of 200,000 b/d versus 2004. Official data for the months of July, August and September indicates that production was 9.45 mb/d, 9.49 mb/d and 9.48 mb/d, respectively, which is slightly higher than our expectation of 9.46 mb/d for the third quarter of 2005. Last month we adjusted the 2005 production forecast to account for this higher level of production; going forward we still expect no material incremental growth from the third to the fourth quarter of 2005 on the assumption that production increases slightly in October but then declines in the later part of the year, in line with the trend for this period. The Russian Ministry has also announced that production growth will be lower than originally expected in 2005 and 2006. Crude export tariffs have increased from 1 October to a new record of $24.6/b and this combined with expected losses at Yukos and other producers should result in no growth in the fourth quarter of 2005, despite the start up of the Sakhalin 1 project in early October (Sakhalin 1 is expected to produce 50,000 b/d by year-end and then rise to 250,000 b/d by end-2006). On the positive side, Gazprom and Sibneft have finally agreed to combine forces and this should reduce the uncertainty at this major oil company (i.e. Sibneft) which has seen its production drop (presumably due to a reduction in investment and activity) in 2005.

**Graph 25: FSU and other region's quarterly production**




**Azeri production performed slightly better than expected; revised up**

In the Caspian region, the outlook for Azerbaijan has been revised slightly up, but remains unchanged for Kazakhstan. Actual data for the first and second quarter of 2005 and the latest data shows that Azeri oil production has performed better than expected. As a result the estimate for 2005 has been revised up by 38,000 b/d. The positive performance is due to the ACG project mainly which is connected to the BTC pipeline. The BTC pipeline started to be filled in May and this process is expected to be complete by late October to allow for first exports from the Mediterranean port of Ceyhan this year. However, some reports have suggested that exports are likely to be delayed until early 2006, whilst others indicate that the project is on target. Kazak oil production is expected to average 1.26 mb/d in 2005 or 80,000 b/d barrels more than last year. This forecast, however, assumes that there is a slight improvement of 30,000 b/d in the fourth quarter of 2005 versus recent trends. Elsewhere in the FSU we have revised slightly down the outlook for Turkmenistan to reflect actual numbers for the first and second quarter of 2005 and this has translated into a negative revision of 10,000 b/d for the full year. Production in Turkmenistan was previously estimated at 217,000 b/d for 2005 but this has now been reduced to 197,000 b/d.

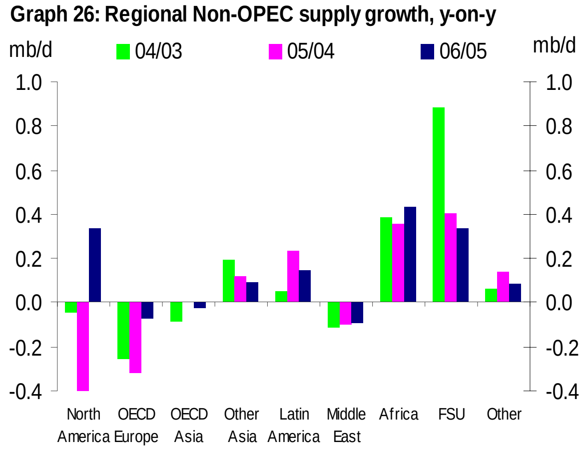
### *Forecast for 2006*

**Non-OPEC supply growth forecast for 2006 estimated at 1.27 mb/d; including OPEC NGLs, total growth is estimated at 1.6 mb/d**

**Non-OPEC oil supply in 2006 is expected to average 51.57 mb/d, an increase of 1.27 mb/d over 2005, and an upward revision of 90,000 b/d from last month's report. Non OPEC supply including OPEC NGLs and non-conventional oils is expected to average 56.19 mb/d, an increase of 1.6 mb/d over 2005.**

On a regional basis, the largest contributor is expected to be the African region with 0.44 mb/d, followed by the FSU with 0.34 mb/d, North America with 0.34 mb/d, and Latin America with 0.15 mb/d, whilst OECD Europe and Pacific and the Middle East are expected to show net drops of approximately 70,000 b/d, 20,000 b/d and 90,000 b/d, respectively.

Oil production growth is underpinned by the start-up of over 35 greenfield projects in deepwater, bitumen extraction and syncrude projects, as well as the continuing expansion of the Caspian region. Deepwater alone is expected to account for approximately 50-60% of net growth. However, the expected return of US Gulf of Mexico production is also an important feature of the profile in 2006.




### *Revisions to the 2006 forecast*

On a quarterly basis, the forecast for non-OPEC supply has been revised up by 19,000 b/d, 145,000 b/d, 113,000 b/d and 86,000 b/d in the first, second, third and fourth quarter respectively resulting in a full year adjustment of 91,000 b/d. The outlook for the USA has been revised down by 150,000 b/d for the first quarter of 2006 based on the expectation that more losses than previously thought will continue but the outlook for the second, third and fourth quarter of 2006 has been revised up by 56,000 b/d, 76,000 b/d, and 196,000 b/d respectively. Beyond the second quarter of 2006, the return of production will begin to feed through, and this combined with the start up of several projects is expected to result in the recovery of US production from the second quarter of 2006 onwards; and by the fourth quarter of 2006 total US production is expected to be 0.9 mb/d higher than in the fourth quarter of 2005.

**Table 13: Non-OPEC oil supply in 2006, mb/d**

| | 2005 | 1Q06 | 2Q06 | 3Q06 | 4Q06 | 2006 | Change 06/05 |
|---|---|---|---|---|---|---|---|
| North America | 14.16 | 14.19 | 14.39 | 14.45 | 14.95 | 14.50 | 0.34 |
| Western Europe | 5.82 | 5.95 | 5.78 | 5.39 | 5.88 | 5.75 | -0.07 |
| OECD Pacific | 0.58 | 0.54 | 0.51 | 0.54 | 0.63 | 0.55 | -0.02 |
| **Total OECD** | **20.56** | **20.68** | **20.68** | **20.38** | **21.46** | **20.80** | **0.24** |
| Other Asia | 2.71 | 2.82 | 2.77 | 2.82 | 2.81 | 2.81 | 0.09 |
| Latin America | 4.24 | 4.35 | 4.29 | 4.44 | 4.45 | 4.39 | 0.15 |
| Middle East | 1.79 | 1.74 | 1.71 | 1.69 | 1.65 | 1.70 | -0.09 |
| Africa | 3.79 | 4.08 | 4.19 | 4.23 | 4.41 | 4.23 | 0.44 |
| **Total DCs** | **12.53** | **12.99** | **12.97** | **13.19** | **13.33** | **13.12** | **0.58** |
| FSU | 11.56 | 11.71 | 11.71 | 11.96 | 12.22 | 11.90 | 0.34 |
| Other Europe | 0.16 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | 0.01 |
| China | 3.63 | 3.66 | 3.69 | 3.73 | 3.71 | 3.70 | 0.07 |
| **Total "Other regions"** | **15.35** | **15.54** | **15.57** | **15.85** | **16.09** | **15.76** | **0.42** |
| **Total Non-OPEC production** | **48.44** | **49.20** | **49.22** | **49.42** | **50.88** | **49.68** | **1.25** |
| Processing gains | 1.86 | 1.88 | 1.87 | 1.87 | 1.93 | 1.89 | 0.02 |
| **Total Non-OPEC supply** | **50.30** | **51.08** | **51.09** | **51.29** | **52.81** | **51.57** | **1.27** |
| Previous estimate | 50.41 | 51.06 | 50.94 | 51.18 | 52.73 | 51.48 | 1.07 |
| **Revision** | **-0.11** | **0.02** | **0.14** | **0.11** | **0.09** | **0.09** | **0.20** |

*Totals may not add due to rounding.*

**Total US oil production is expected to recover to pre-Katrina levels by the fourth quarter of 2006**

Our new assumption for total hurricane-related losses in the USA in 2006 are 0.3 mb/d in the first quarter of 2006, 0.2 mb/d in the second quarter and permanent losses of 50,000 b/d compared with last month's assumption of 0.15 mb/d in the first and second quarter of 2006 and no permanent losses. The new assumption is underpinned by a number of reports of damage to platforms, onshore infrastructure and production facilities. In addition, as reported by several oil companies, the impact of the hurricanes may delay ongoing work in many projects as well as the schedule of new start ups, in particular the big deepwater projects. However, the effect, if any, that these delays will have on production in the future is difficult to assess at this time. The big deepwater projects that will make a material contribution to US supply next year include Thunder Horse (start at the end of the second quarter of 2006 — 250,000 b/d at peak), and Atlantis (start at the fourth quarter of 2006 — 200,000 at peak); at this time we will refrain from making any adjustments to the project schedule.

Elsewhere, we now expect slightly higher production in Australia, Yemen, Angola and Azerbaijan partially offset by slightly lower expectations for the UK and Brazil. The outlook for Australia has been revised up to reflect primarily a higher base. Australian oil supply is now expected to average 0.49 mb/d in 2006, which represents a decline of 30,000 b/d versus 2005. In Yemen, we have incorporated the output from a new satellite project in 2006; production is expected to average 380,000 b/d versus 360,000 b/d earlier, representing a decline of 20,000 b/d versus 2005. Recent reports suggests that a high level of E&P activity is taking place in Yemen which may translate into a better than expected performance next year. In Angola, the adjustment reflects primarily the contribution from the BBLT Phase II project, which is now expected to start earlier than previously thought. The BBLT Phase II is expected to start in six months (compared to one year before) after Phase I (December 2005 – 50,000 b/d at peak) and will contribute another 70,000 b/d by 2007. Finally in Azerbaijan, the impact of higher production levels in 2005 has translated into a higher base; however the growth rate remains unchanged. Azeri production is expected to average 0.57 b/d in 2006, an increase of 140,000 b/d versus 2005.

The outlook for the UK has been revised down by 48,000 b/d based on the significant year-to-date underperformance. UK oil supply is expected to average 1.81 mb/d in 2006, which represents a decline of 90,000 b/d versus 2005. In Brazil, a delay in the start up of the Jubarte Phase I field (60 kb/d) from late 2005 to the first quarter of 2006 has resulted in a downward revision for the absolute production level, and this combined with expected higher levels of cumulative decline has led to a downward revision of 35,000 b/d for the full year. Brazilian oil supply is now expected to average 2.17 mb/d in 2006, compared to 2.2 mb/d earlier. In 2006, three oil projects are expected to start: Jubarte Phase I, Golfinho Module 1 (100,000 b/d in the second quarter of 2006) and Piranema (20,000 b/d).

### *FSU net oil export (crude and products)*

**FSU net oil exports in 2005 are expected to average 7.7 mb/d, an increase of 0.4 mb/d over 2004**

**In 2005, FSU net oil exports are expected to average 7.7 mb/d.** On a quarterly basis, net oil exports are expected to average 7.81 mb/d in the third and 7.72 mb/d in the fourth quarter. The latest available data (August) shows Russian net oil exports averaging 6.3 mb/d, which represents a y-o-y increase of 0.3 mb/d based on data available for rail and pipeline exports. We would highlight that rail exports have been reduced significantly since March 2005, from 700,000 b/d to 291,000 b/d in July, but recovered somewhat in August to 380,000 b/d. **The forecast for 2006 shows FSU net oil exports averaging 7.96 mb/d, which represents an increase of 260,000 b/d over 2005.**

**Table 14: FSU net oil exports, mb/d**

| | 1Q | 2Q | 3Q | 4Q | Year |
|---|---|---|---|---|---|
| **2001** | 4.30 | 4.71 | 4.89 | 4.47 | **4.59** |
| **2002** | 5.14 | 5.84 | 5.85 | 5.49 | **5.58** |
| **2003** | 5.87 | 6.75 | 6.72 | 6.61 | **6.49** |
| **2004** (estimate) | 7.17 | 7.30 | 7.38 | 7.37 | **7.31** |
| **2005 (forecast)** | **7.49** | **7.77** | **7.82** | **7.72** | **7.70** |
| **2006** | **7.68** | **8.06** | **8.11** | **8.00** | **7.96** |

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

**The forecast for OPEC NGL production for 2005 and 2006 remains unchanged, but the base has been revised up**

The 2004 base for OPEC NGLs has been revised up by 90,000 b/d to include a higher level of NGL production for Saudi Arabia. This new level is now reflected in the 2004, 2005, and 2006 base. However, the growth forecast for 2005 and 2006 remains unchanged at 200,000 b/d, and 330,000 b/d respectively. This increase should result in an average production in 2005 and 2006 of 4.3 mb/d and 4.62 mb/d, respectively.

**Table 15: OPEC NGL + non-conventional oils - 2001-2006**

| 2002 | 2003 | 2004 | Change 04/03 | 1Q05 | 2Q05 | 3Q05 | 4Q05 | 2005 | Change 05/04 | 2006 | Change 06/05 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **3.62** | **3.71** | **4.09** | **0.38** | 4.22 | 4.27 | 4.32 | 4.37 | **4.30** | 0.20 | **4.62** | 0.33 |

**OPEC output averaged 30.34 mb/d**

## *OPEC crude oil production*

**Total OPEC crude production averaged 30.34 mb/d in September or 136,000 b/d more than last month, according to secondary sources**. Production increased in all countries except Algeria, Indonesia, Iran, Nigeria and Venezuela. Iraqi oil production averaged 2.01 mb/d net of re-injection.

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

| | 2003 | 2004 | 4Q04 | 1Q05 | 2Q05 | Jul 05 | Aug 05 | Sep 05 | *Sep/ Aug* |
|---|---|---|---|---|---|---|---|---|---|
| Algeria | 1,134 | 1,228 | 1,285 | 1,313 | 1,343 | 1,362 | 1,367 | 1,368 | *1.3* |
| Indonesia | 1,027 | 968 | 963 | 951 | 944 | 937 | 936 | 925 | *-10.4* |
| IR Iran | 3,751 | 3,920 | 3,947 | 3,900 | 3,946 | 3,987 | 3,973 | 3,967 | *-5.5* |
| Iraq | 1,321 | 2,015 | 1,960 | 1,834 | 1,841 | 1,941 | 1,936 | 2,005 | *68.8* |
| Kuwait | 2,172 | 2,344 | 2,448 | 2,438 | 2,506 | 2,509 | 2,530 | 2,559 | *29.0* |
| SP Libyan AJ | 1,422 | 1,537 | 1,608 | 1,613 | 1,634 | 1,649 | 1,654 | 1,661 | *6.8* |
| Nigeria | 2,131 | 2,352 | 2,344 | 2,332 | 2,423 | 2,474 | 2,428 | 2,425 | *-2.3* |
| Qatar | 749 | 778 | 792 | 784 | 793 | 797 | 799 | 800 | *1.2* |
| Saudi Arabia | 8,709 | 8,982 | 9,450 | 9,220 | 9,456 | 9,487 | 9,506 | 9,532 | *26.2* |
| UAE | 2,243 | 2,360 | 2,486 | 2,396 | 2,399 | 2,448 | 2,458 | 2,485 | *26.7* |
| Venezuela | 2,305 | 2,577 | 2,605 | 2,699 | 2,636 | 2,627 | 2,615 | 2,609 | *-6.0* |
| **OPEC-10** | **25,643** | **27,045** | **27,929** | **27,647** | **28,082** | **28,275** | **28,265** | **28,332** | ***67.0*** |
| **Total OPEC** | **26,965** | **29,060** | **29,889** | **29,481** | **29,923** | **30,216** | **30,201** | **30,337** | ***135.8*** |

*Totals may not add due to independent rounding.*

## OPEC capacity expansions – *moving ahead*

The 137th Conference held in Vienna on 19-20 September 2005 agreed to make available to the market the spare capacity of around 2 mb/d in Member Countries, should it be called for, for a period of three months, starting 1 October 2005. The Conference further noted that Member Countries are implementing significant investment plans, in some cases together with international companies, to accelerate the expansion of crude production from about 32.5 mb/d to at least 38 mb/d by 2010, to meet future demand growth. In addition, further investments are being undertaken to expand the production of other liquids by 1.8 mb/d, including NGLs, condensates, ethane, GTL, and non-conventional oils.

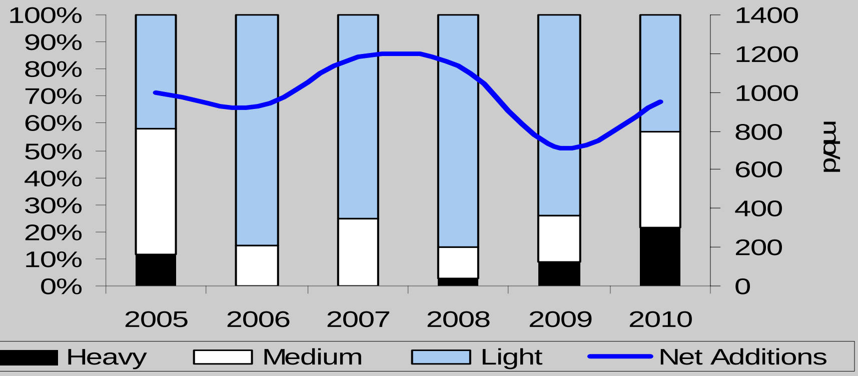
OPEC crude capacity currently stands at 32.5 mb/d and is expected to increase further to 32.9 mb/d by the end of the year, assuming Iraq's production remains at 2 mb/d. This represents a growth of 1 mb/d versus the end of 2004 and 1.6 mb/d compared to the average capacity in 2004. Capacity growth in 2005 is underpinned by projects completed at the end of 2004 as well as several projects executed during 2005; to be more precise there are at least 26 important projects representing over $20 bn of new investment. Of these, 17 projects will produce light quality crude (>32°API), six medium quality crude (26-32°API), and three heavy quality crude (<26°API). With current OPEC crude output estimated at 30.34 mb/d — with Iraq estimated at 2 mb/d net of re-injection — spare capacity stands at around 2 mb/d.

By the end of 2006, OPEC crude capacity is expected to increase further to 33.9 mb/d, assuming Iraq remains at 2 mb/d. This represents an increase of 0.9 mb/d versus the end of 2005, and a cumulative expansion of around 2 mb/d versus the end of 2004. During 2006, expansions are expected in almost every country, but the bulk will take place in Algeria, Iran, Libya, Nigeria, Saudi Arabia, and UAE. There are 18 important projects representing over $15 bn of new investments, which come on top of ongoing redevelopment and complementary infrastructure projects. Of the 18 upstream projects, 12 have light quality crude and six medium quality crude. It should be noted that the capacity expected at the end of 2006 is also much higher than the estimated required OPEC crude in the fourth quarter of 2006 of 28.9 mb/d. Iraq may additionally contribute to the increase in capacity if conditions allow.

OPEC is, and has always been, committed to expand capacity to meet the needs of the market. Focusing on the medium term, between end-2004 and end-2010, over 100 new projects including expansions are expected to add net 5.5 mb/d of crude oil at an estimated cost of $100 bn. A project list can be easily constructed based on public information and published studies and reports. In addition, as pointed out in the April and August reports, the crude quality of new projects is overwhelmingly light – in fact 67% of the estimated total gross new oil is expected to be light. The average quality of total OPEC production and capacity is, and has always been, primarily medium (26 to 32 API) and light (>32 API) and with a high sulfur content, and this combined with the crude type of the medium term expansion is likely to maintain the current mix.

**Graph 27**

**Split of gross capacity addition by crude type (%; Left hand scale) and net capacity additions (mb/d; right hand scale) to 2010**




Heavy (<26 API), Medium (26-32 API), Light (>32 API).
Net additions, estimated at end of year.

# Rig Count

**Non OPEC rig activity stood at 2,558 in September**

### *Non-OPEC*

Non-OPEC rig count stood at 2,558 rigs in September, which represents a decline of 42 rigs compared to the previous month. Of the total, 289 rigs were operating offshore and 2,274 onshore. In terms of the oil and gas split, there were 770 oil rigs and 1,771 gas rigs. The number of oil rigs declined by 11 over the previous month. Regionally, North America lost 29 rigs versus last month, while Western Europe lost nine rigs and OECD Pacific lost one rig. The Middle East, Africa, Latin America and rest of Asia lost three rigs.

**Table 17: Non-OPEC rig count in 2003-2005**

| | 2003 | 2004 | Change 04/03 | Aug 05 | Sep 05 | Change Sep 05-Aug 05 |
|---|---|---|---|---|---|---|
| North America | 1,496 | 1,669 | 173 | 2,084 | 2,055 | -29 |
| Western Europe | 78 | 65 | -13 | 70 | 61 | -9 |
| OECD Pacific | 18 | 22 | 4 | 28 | 27 | -1 |
| **OECD** | **1,592** | **1,755** | **163** | **2,182** | **2,143** | **-39** |
| Other Asia | 117 | 126 | 9 | 148 | 146 | -2 |
| Latin America | 116 | 126 | 10 | 139 | 138 | -1 |
| Middle East | 70 | 70 | 0 | 73 | 74 | 1 |
| Africa | 48 | 54 | 6 | 55 | 54 | -1 |
| **DCs** | **350** | **376** | **26** | **415** | **412** | **-3** |
| FSU | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Europe | 2 | 2 | 0 | 3 | 3 | 0 |
| China | 0 | 0 | 0 | 0 | 0 | 0 |
| **Other regions** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total non-OPEC** | **1,944** | **2,132** | **188** | **2,600** | **2,558** | **-42** |

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

**OPEC rig count stood at 277 in September**

### *OPEC*

OPEC rig count was 279 in September which represents an increase of two rigs from last month. Increases took place in Indonesia (2), Nigeria, (1), Qatar (1), Saudi Arabia (1) and UAE (1). These gains were partly offset by declines in other OPEC Countries. Of the total, 208 rigs were operating onshore and 71 rigs offshore and in terms of oil and gas split, there were 226 oil rigs whilst the remainder was gas and other rigs.

**Table 18: OPEC rig count**

| | 2003 | 2004 | Change 04/03 | Aug 05 | Sep 05 | Change Sep 05-Aug 05 |
|---|---|---|---|---|---|---|
| Algeria | 20 | 19 | -1 | 24 | 23 | -1 |
| Indonesia | 45 | 49 | 4 | 55 | 57 | 2 |
| IR Iran | 35 | 41 | 6 | 38 | 38 | 0 |
| Iraq | na | na | na | na | na | na |
| Kuwait | 5 | 10 | 5 | 12 | 12 | 0 |
| SP Libyan AJ | 10 | 10 | 0 | 8 | 8 | 0 |
| Nigeria | 10 | 8 | -2 | 9 | 10 | 1 |
| Qatar | 8 | 9 | 1 | 12 | 13 | 1 |
| Saudi Arabia | 32 | 32 | 0 | 37 | 38 | 1 |
| UAE | 16 | 16 | 0 | 16 | 17 | 1 |
| Venezuela | 37 | 55 | 18 | 66 | 63 | -3 |
| **Total OPEC** | **218** | **249** | **31** | **277** | **279** | **2** |

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

# Stock Movements

***USA***

**US commercial oil stocks fell by 0.17 mb/d in September**

**The impact of hurricanes Katrina and Rita on US commercial oil inventories (total crude and petroleum products excluding SPR) was less than expected. August's draw which had been thought to reflect part of the losses resulting from the devastating damage of the hurricanes was higher than the drawdown in September (2-30 September) of 4.7 mb or 0.17 mb/d to stand at 1,004.90 mb, which was 3.4% higher than last year's figure and 2% above the five-year average.**

In September, crude oil stocks took the lead, falling by about 10 mb followed by distillate stocks which registered a draw of about 6 mb, while gasoline compensated part of the previous month's loss, building by about 5 mb. A further drop in refinery runs which plunged to nearly 70% from about 87% in the last report did not help crude oil inventories which tripled their losses from 3 mb in August to 9.6 mb or 0.34 mb/d to stand at 305.4 mb in September. The main cause for such massive draw was the drop of 0.55 mb/d to 3.81 mb/d in crude oil production as well as the fall in crude oil imports which plunged to 8.12 mb/d from last month's level of 9.53 mb/d. Despite this significant draw, the y-o-y surplus was sustained by 1% to stand at 11%, while the five-year average moved down slightly by 1% to stand at 7%. The days of forward demand rose by two to 22.2 days compared with the last period level. Forward demand was 3.9 days higher than last year's level and 3.3 days above the five-year average.

Contrary to earlier expectations of a further draw on gasoline inventories due to the hurricanes which forced several Gulf of Mexico refineries to shut down, gasoline stocks managed to build, adding 5.4 mb or 0.19 mb/d to stand at 195.5 mb. Increasing imports which rose by 0.56 mb/d to 1.42 mb/d as well as stagnated implied demand which fell by 0.19 mb/d to 8.84 mb/d, helped gasoline stocks to stay above the 190 mb level after the previous month's massive drop. This build helped gasoline inventories to narrow the y-o-y deficit to about 5% from 7% in the last report. The five-year average's shortage also narrowed to 3% from 4% registered in the last report. The days of forward cover improved due to this build, standing at 22.3 days or two days above last month's level. Compared with last year's level, this was one day or 6% less.

The most obvious reason to explain the distillate stock draw of 6.4 mb or 0.29 mb/d to 128.0 mb is the drop in output. Distillate production fell by 0.79 mb/d to 3.01 mb/d due to partial and complete shut-downs of some refineries after two severe hurricanes in September. The slight rise in distillate imports which gained 0.02 mb/d to 0.31 mb/d did not help inventories as implied demand rose, increasing by 0.03 mb/d to 4.03 mb/d. This upward trend of demand is estimated to show further strength while the winter season is approaching. This draw affected the y-o-y and five-year average surpluses, narrowing them to 4% and 3% from the 6% and 10% registered in the last report. Days of forward consumption lost slightly, declining by 0.8 days to stand at 32.7 days which was 3% or about 1 day above last year's level. During the same period, the Strategic Petroleum Reserve (SPR) witnessed a lower than expected draw, declining by 7.2 mb or 0.26 mb/d to stand at 693.3 mb. The measures taken by the US administration and the IEA to alleviate the damages caused by the hurricanes are supposed to make such draw in this period more than that but most of the refineries hit by the hurricanes were not able to handle additional volumes due to the slow recovery. Therefore SPR is projected to see a further drawdown once refineries overcome their difficulties, which in some cases could take longer than expected. In the week ending 7 October, total US commercial oil stocks displayed a further draw, declining by 6.89 mb to stand at 998.01 mb, or below the mark of one billion for the first time since June. Most of the fall came from distillate and gasoline inventories which dropped by 3.41 mb to 124.63 mb and by 2.65 mb to 192.80 mb respectively. Crude oil stocks showed a slight build, rising by 1.02 mb to stand at 306.43 mb.

**Table 19: US onland commercial petroleum stocks*, mb**

| | 29 Jul 05 | 02 Sep 05 | 30 Sep 05 | Change Sep/Aug | 30 Sep 04 | 7 Oct 05** |
|---|---|---|---|---|---|---|
| **Crude oil (excl.SPR)** | 318.0 | 315.0 | 305.4 | -9.6 | 273.1 | 306.4 |
| Gasoline | 205.2 | 190.1 | 195.5 | 5.4 | 204.9 | 192.8 |
| Distillate fuel | 127.3 | 134.4 | 128 | -6.4 | 123.4 | 124.6 |
| Residual fuel oil | 36.2 | 32.3 | 33.5 | 1.2 | 34.1 | 34.0 |
| Jet fuel | 40.1 | 39.4 | 37.2 | -2.2 | 41.3 | 37.6 |
| **Total** | **1,021.5** | **1,009.6** | **1,004.9** | **-4.7** | **971.7** | **998.0** |
| SPR | 698.2 | 700.5 | 693.3 | -7.2 | 670.2 | 690.5 |

* *At end of month, unless otherwise stated*

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

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

### *Western Europe*

**Eur-16 oil stocks rose by 0.10 mb/d in September**

**Total oil inventories in Eur-16 (EU plus Norway) in September continued to show builds for the third consecutive month, increasing by 2.9 mb or 0.10 mb/d to stand at 1,136.0 mb. This level was 37.1 mb or 3.4% higher than that registered a year ago. All the build came from crude oil stocks while refined product inventories either remained nearly unchanged (gasoline and fuel oil) or witnessed a moderate draw (middle distillates).**

Stagnant US crude oil demand after Hurricanes Katrina and Rita forced regional European grades such as North Sea crude oils to remain in Europe which together with imports from West Africa helped crude oil inventories to again touch a record of 490 mb or an increase of 7.1 mb, which was 23.2 mb or 5% above last year's level. This high level of crude oil inventories is expected to see a further build as long as the US market remains uneconomic for North Sea grades. Despite of sending European gasoline exports to the US market after the hurricanes, gasoline stocks remained unchanged at the previous month's level of 139.6 mb. Higher refinery runs which rose by 0.25 mb/d to 12.54 mb/d could explain part of this lack of movement. The release of 6 mb in German strategic reserves is also thought to have remained in Europe due to tight tanker supply. The y-o-y surplus stood at 6 mb or about 5%.

Increasing demand for distillates from local European players and from the USA where fears of a shortage in distillates ahead of winter were aggravated after the hurricanes hit several US refineries, helped to push distillate inventories down by 3.4 mb or 0.11 mb/d to stand at 371.1 mb. Strikes at some French refineries could have affected distillate output as well. This level was 10.6 mb or about 3% higher than that observed a year ago.

**Table 20: Western Europe's oil stocks*, mb**

| | Jul 05 | Aug 05 | Sep 05 | Change Sep 05/Aug 05 | Sep 04 |
|---|---|---|---|---|---|
| **Crude oil** | 485.9 | 482.5 | 489.5 | 7.1 | 466.4 |
| Mogas | 137.5 | 139.6 | 139.6 | 0.0 | 133.6 |
| Naphtha | 23.8 | 23.8 | 23.3 | -0.4 | 24.8 |
| Middle distillates | 377.1 | 374.6 | 371.1 | -3.4 | 360.5 |
| Fuel oils | 110.9 | 112.8 | 112.5 | -0.3 | 113.7 |
| **Total products** | 649.2 | 650.7 | 646.4 | -4.2 | 632.5 |
| **Overall total** | **1,135.1** | **1,133.1** | **1,136.0** | **2.9** | **1,098.9** |

** At end of month, with region consisting of the Eur–16*

*Source: Argus, Euroilstock*

**Commercial oil stocks in Japan saw a further build of 0.14 mb/d in August**

### *Japan*

**Total oil inventories in Japan showed a further moderate build in August, rising by 4.2 mb or 0.14 mb/d to stand at 190.9 mb, a level not seen since November 2004. The main contributor to this build was middle distillates and to a lesser degree residual fuel oil, while the draw on gasoline and crude oil inventories capped the upward movement. The build improved the y-o-y surplus, pushing it up to about 13% or 21.7 mb from 8% in July.**

Crude oil stocks continued to suffer from high refinery runs which rose a further 0.42 mb/d to 4.41 mb/d in August. Crude oil inventories declined by 2.7 mb or 0.09 mb/d to stand at 117.5 mb. This lifted the y-o-y surplus from 1% in July to 14% or 14.8 mb in August.

Despite seasonal demand, gasoline stocks managed to land softly thanks to higher output. They decreased by 0.8 mb or 0.03 mb/d to 12.3 mb which was 7% or 0.8 mb higher than the level observed last year. Increasing distillate production as a result of higher refinery runs ahead of high seasonal winter demand helped middle distillate inventories to build significantly by 7.5 mb or 0.24 mb/d to stand at 40.3 mb, a level not seen since December 2004.

**Table 21: Japan's commercial oil stocks*, mb**

| | Jun 05 | Jul 05 | Aug 05 | Change Aug 05/Jul 05 | Aug 04 |
|---|---|---|---|---|---|
| **Crude oil** | 121.8 | 120.2 | **117.5** | -2.7 | 102.7 |
| Gasoline | 12.8 | 13.1 | 12.3 | -0.8 | 11.5 |
| Middle distillates | 27.1 | 32.8 | 40.3 | 7.5 | 35.8 |
| Residual fuel oil | 20.1 | 20.6 | 20.9 | 0.3 | 19.2 |
| **Total products** | 60.0 | 66.5 | 73.4 | 7.0 | 66.5 |
| **Overall total**** | **181.8** | **186.7** | **190.9** | **4.2** | **169.2** |

* *At end of month*

** *Includes crude oil and main products only*

*Source: MITI, Japan*

# Balance of Supply and Demand

**The required OPEC crude production for 2005 has been revised down; the fourth quarter of 2005 is estimated at 30 mb/d**

### *Forecast for 2005*

The supply/demand balance for 2005 has been revised down slightly to reflect lower demand and lower supply expectations. The demand for OPEC crude in 2005 (a-b) is now forecast at 28.7 mb/d, an increase of 0.5 mb/d from 2004 but 200,000 b/d lower than projected earlier. On a quarterly basis the demand for OPEC crude is estimated at 29.1 mb/d, 27.2 mb/d, 28.3 mb/d and 30 mb/d for the first, second, third, and fourth quarters, respectively. However, the required crude for the fourth quarter of 2005 is now estimated to be 300,000 b/d lower than before as well as current OPEC crude production (30.3 mb/d).

In terms of OPEC capacity, taking into account the supply/demand balance, the resulting required OPEC crude production levels and projected production capacity, OPEC's spare capacity is now estimated to average around 8.5% in the fourth quarter of 2005, compared to 4.9% in the same period of 2004.

**Table 22: Summarized supply/demand balance for 2005, mb/d**

| | 2004 | 1Q05 | 2Q05 | 3Q05 | 4Q05 | 2005 |
|---|---|---|---|---|---|---|
| (a) World Oil Demand | 82.08 | 83.64 | 82.00 | 82.54 | 84.85 | 83.26 |
| (b) Non-OPEC Supply | 53.90 | 54.53 | 54.77 | 54.28 | 54.80 | 54.60 |
| Difference (a-b) | 28.18 | 29.10 | 27.23 | 28.26 | 30.04 | 28.66 |
| OPEC crude oil production | 29.06 | 29.48 | 29.92 | 30.25 | | |
| Balance | 0.88 | 0.38 | 2.69 | 1.99 | | |

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

**The estimated demand for OPEC crude in 2006 is 28.5 mb/d; the first quarter of 2006**

### *Forecast for 2006*

For 2006, the demand for OPEC crude is expected to average 28.5 mb/d, a downward revision of around 400,000 b/d versus last month's report. The quarterly distribution shows that demand for OPEC crude is now expected to be 29.7 mb/d in the first quarter, 27.7 mb/d in the second, 28 mb/d in the third and 28.8 mb/d in the fourth.

In terms of OPEC capacity, in 2006 OPEC capacity is expected to average around 33.5 mb/d. Taking into account the supply/demand balance for 2006, the resulting required OPEC crude production levels and the projected production capacity, OPEC's spare capacity in 2006 is estimated to average around 14% even assuming there is no significant improvement in output from Iraq compared to 2005.

**Table 23: Summarized supply/demand balance for 2006, mb/d**

| | 2005 | 1Q06 | 2Q06 | 3Q06 | 4Q06 | 2006 |
|---|---|---|---|---|---|---|
| (a) World Oil Demand | 83.26 | 85.24 | 83.37 | 83.95 | 86.34 | 84.73 |
| (b) Non-OPEC Supply | 54.60 | 55.56 | 55.67 | 55.96 | 57.57 | 56.19 |
| Difference (a-b) | 28.66 | 29.68 | 27.70 | 27.99 | 28.78 | 28.53 |
| OPEC crude oil production | | | | | | |
| Balance | | | | | | |

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

Table 24: World oil demand/supply balance, mb/d

| | 2001 | 2002 | 2003 | 2004 | 1Q05 | 2Q05 | 3Q05 | 4Q05 | 2005 | 1Q06 | 2Q06 | 3Q06 | 4Q06 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| World demand | | | | | | | | | | | | | | |
| OECD | 48.0 | 48.0 | 48.6 | 49.5 | 50.6 | 48.7 | 49.2 | 50.7 | 49.8 | 51.0 | 49.2 | 49.7 | 51.1 | 50.2 |
| North America | 24.0 | 24.1 | 24.5 | 25.3 | 25.5 | 25.3 | 25.4 | 26.0 | 25.6 | 26.0 | 25.7 | 25.8 | 26.3 | 25.9 |
| Western Europe | 15.3 | 15.3 | 15.4 | 15.6 | 15.5 | 15.3 | 15.6 | 15.9 | 15.6 | 15.6 | 15.3 | 15.7 | 15.9 | 15.7 |
| Pacific | 8.6 | 8.6 | 8.7 | 8.5 | 9.5 | 8.1 | 8.1 | 8.8 | 8.6 | 9.4 | 8.2 | 8.2 | 8.9 | 8.7 |
| DCs | 19.7 | 20.2 | 20.4 | 21.4 | 21.7 | 22.2 | 22.2 | 22.3 | 22.1 | 22.3 | 22.6 | 22.9 | 22.8 | 22.7 |
| FSU | 3.9 | 3.7 | 3.8 | 3.8 | 3.9 | 3.7 | 3.9 | 4.0 | 3.9 | 4.0 | 3.6 | 3.8 | 4.2 | 3.9 |
| Other Europe | 0.8 | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 | 0.8 | 0.9 | 0.9 | 0.9 | 0.9 | 0.8 | 0.8 | 0.9 |
| China | 4.7 | 5.0 | 5.6 | 6.5 | 6.5 | 6.6 | 6.4 | 7.1 | 6.6 | 7.0 | 6.9 | 6.7 | 7.4 | 7.0 |
| (a) Total world demand | 77.1 | 77.7 | 79.2 | 82.1 | 83.6 | 82.0 | 82.5 | 84.8 | 83.3 | 85.2 | 83.4 | 83.9 | 86.3 | 84.7 |
| Non-OPEC supply | | | | | | | | | | | | | | |
| OECD | 21.8 | 21.9 | 21.6 | 21.3 | 21.0 | 21.0 | 20.1 | 20.2 | 20.6 | 20.7 | 20.7 | 20.4 | 21.5 | 20.8 |
| North America | 14.3 | 14.5 | 14.6 | 14.6 | 14.5 | 14.6 | 13.9 | 13.7 | 14.2 | 14.2 | 14.4 | 14.5 | 15.0 | 14.5 |
| Western Europe | 6.7 | 6.6 | 6.4 | 6.1 | 6.0 | 5.7 | 5.7 | 5.9 | 5.8 | 5.9 | 5.8 | 5.4 | 5.9 | 5.7 |
| Pacific | 0.8 | 0.8 | 0.7 | 0.6 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 |
| DCs | 10.9 | 11.3 | 11.4 | 11.9 | 12.3 | 12.5 | 12.5 | 12.9 | 12.5 | 13.0 | 13.0 | 13.2 | 13.3 | 13.1 |
| FSU | 8.5 | 9.3 | 10.3 | 11.2 | 11.4 | 11.5 | 11.7 | 11.7 | 11.6 | 11.7 | 11.7 | 12.0 | 12.2 | 11.9 |
| Other Europe | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| China | 3.3 | 3.4 | 3.4 | 3.5 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 |
| Processing gains | 1.7 | 1.7 | 1.8 | 1.8 | 1.9 | 1.9 | 1.8 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| Total non-OPEC supply | 46.4 | 47.8 | 48.7 | 49.8 | 50.3 | 50.5 | 50.0 | 50.4 | 50.3 | 51.1 | 51.1 | 51.3 | 52.8 | 51.6 |
| OPEC NGLs + non-conventional oils | 3.6 | 3.6 | 3.7 | 4.1 | 4.2 | 4.3 | 4.3 | 4.4 | 4.3 | 4.5 | 4.6 | 4.7 | 4.8 | 4.6 |
| (b) Total non-OPEC supply and OPEC NGLs | 50.0 | 51.4 | 52.4 | 53.9 | 54.5 | 54.8 | 54.3 | 54.8 | 54.6 | 55.6 | 55.7 | 56.0 | 57.6 | 56.2 |
| OPEC crude oil production (secondary sources) | 27.2 | 25.4 | 27.0 | 29.1 | 29.5 | 29.9 | 30.3 | | | | | | | |
| Total supply | 77.2 | 76.7 | 79.4 | 83.0 | 84.0 | 84.7 | 84.5 | | | | | | | |
| Balance (stock change and miscellaneous) | 0.1 | -1.0 | 0.1 | 0.9 | 0.4 | 2.7 | 2.0 | | | | | | | |
| Closing stock level (outside FCPEs) *mb* | | | | | | | | | | | | | | |
| OECD onland commercial | 2630 | 2476 | 2517 | 2563 | 2551 | 2632 | | | | | | | | |
| OECD SPR | 1285 | 1345 | 1408 | 1444 | 1456 | 1492 | | | | | | | | |
| OECD total | 3915 | 3821 | 3925 | 4007 | 4007 | 4123 | | | | | | | | |
| Oil-on-water | 830 | 816 | 883 | 906 | 927 | 935 | | | | | | | | |
| Days of forward consumption in OECD | | | | | | | | | | | | | | |
| Commercial onland stocks | 55 | 51 | 51 | 51 | 52 | 54 | | | | | | | | |
| SPR | 27 | 28 | 28 | 29 | 30 | 30 | | | | | | | | |
| Total | 82 | 79 | 79 | 81 | 82 | 84 | | | | | | | | |
| Memo items | | | | | | | | | | | | | | |
| FSU net exports | 4.6 | 5.6 | 6.5 | 7.3 | 7.5 | 7.7 | 7.8 | 7.7 | 7.7 | 7.7 | 8.1 | 8.1 | 8.0 | 8.0 |
| (a) - (b) | 27.1 | 26.3 | 26.8 | 28.2 | 29.1 | 27.2 | 28.3 | 30.0 | 28.7 | 29.7 | 27.7 | 28.0 | 28.8 | 28.5 |

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

## Table 25: World oil demand/supply balance: changes from last month's table † , mb/d

| | 2001 | 2002 | 2003 | 2004 | 1Q05 | 2Q05 | 3Q05 | 4Q05 | 2005 | 1Q06 | 2Q06 | 3Q06 | 4Q06 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **World demand** | | | | | | | | | | | | | | |
| OECD | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| North America | - | - | - | - | - | - | -0.2 | - | - | - | - | -0.2 | - | - |
| Western Europe | - | - | - | - | - | - | 0.1 | - | - | - | - | 0.1 | - | - |
| Pacific | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| DCs | - | - | - | - | - | - | 0.1 | -0.2 | - | -0.1 | -0.1 | - | -0.2 | -0.1 |
| FSU | - | - | - | - | - | - | -0.1 | -0.1 | -0.1 | - | - | -0.1 | -0.1 | - |
| Other Europe | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| China | - | - | - | - | - | - | -0.4 | -0.1 | -0.1 | - | - | -0.4 | -0.1 | -0.1 |
| (a) Total world demand | - | - | - | - | - | - | -0.5 | -0.5 | -0.2 | - | - | -0.5 | -0.5 | -0.3 |
| **Non-OPEC supply** | | | | | | | | | | | | | | |
| OECD | - | - | - | - | - | - | -0.2 | -0.5 | -0.2 | -0.2 | 0.1 | 0.1 | 0.2 | - |
| North America | - | - | - | - | - | - | -0.2 | -0.5 | -0.2 | -0.1 | - | 0.1 | 0.2 | - |
| Western Europe | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Pacific | - | - | - | - | - | 0.1 | - | - | - | - | - | - | - | - |
| DCs | - | - | - | - | - | - | - | 0.1 | - | 0.1 | - | - | -0.1 | - |
| FSU | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other Europe | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| China | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Processing gains | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total non-OPEC supply | - | - | - | - | - | - | -0.1 | -0.3 | -0.1 | - | 0.1 | 0.1 | 0.1 | 0.1 |
| OPEC NGLs + non-conventionals | - | - | - | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| (b) Total non-OPEC supply and OPEC NGLs | - | - | - | 0.1 | 0.1 | 0.1 | - | -0.2 | - | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| OPEC crude oil production (secondary sources) | - | - | - | - | - | - | - | | | | | | | |
| Total supply | - | - | - | 0.1 | 0.1 | 0.1 | - | | | | | | | |
| Balance (stock change and miscellaneous) | - | - | - | 0.1 | 0.1 | 0.1 | - | | | | | | | |
| **Closing stock level (outside FCPEs) *mb*** | | | | | | | | | | | | | | |
| OECD onland commercial | - | - | - | - | - | -21 | | | | | | | | |
| OECD SPR | - | - | - | - | - | 26 | | | | | | | | |
| OECD total | - | - | - | - | - | 5 | | | | | | | | |
| Oil on water | - | - | -4 | -8 | -9 | -33 | | | | | | | | |
| **Days of forward consumption in OECD** | | | | | | | | | | | | | | |
| Commercial onland stocks | - | - | - | - | - | - | | | | | | | | |
| SPR | - | - | - | - | - | 1 | | | | | | | | |
| Total | - | - | - | - | - | - | | | | | | | | |
| **Memo items** | | | | | | | | | | | | | | |
| FSU net exports | - | - | - | - | - | - | 0.1 | 0.2 | 0.1 | - | - | 0.1 | 0.1 | 0.1 |
| (a) - (b) | - | - | - | -0.1 | -0.1 | -0.1 | -0.4 | -0.3 | -0.2 | -0.1 | -0.3 | -0.7 | -0.7 | -0.5 |

*† This compares Table 24 in this issue of the MOMR with Table 24 in September 2005 issue.*

*This table shows only where changes have occurred.*

## Table 26: OECD oil stocks and oil on water at the end of period

| | 2001 | 2002 | 1Q01 | 2Q01 | 3Q01 | 4Q01 | 1Q02 | 2Q02 | 3Q02 | 4Q02 | 1Q03 | 2Q03 | 3Q03 | 4Q03 | 1Q04 | 2Q04 | 3Q04 | 4Q04 | 1Q05 | 2Q05 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Closing stock level *mb* | | | | | | | | | | | | | | | | | | | | |
| OECD onland commercial | 2,630 | 2,476 | 2,529 | 2,602 | 2,664 | 2,630 | 2,606 | 2,651 | 2,577 | 2,476 | 2,428 | 2,551 | 2,600 | 2,517 | 2,466 | 2,546 | 2,586 | 2,563 | 2,551 | 2,632 |
| North America | 1,262 | 1,174 | 1,159 | 1,231 | 1,269 | 1,262 | 1,237 | 1,262 | 1,219 | 1,174 | 1,103 | 1,186 | 1,215 | 1,161 | 1,145 | 1,193 | 1,209 | 1,200 | 1,200 | 1,276 |
| Western Europe | 925 | 895 | 923 | 914 | 922 | 925 | 934 | 943 | 918 | 895 | 914 | 913 | 926 | 922 | 920 | 933 | 947 | 933 | 962 | 934 |
| OECD Pacific | 443 | 408 | 447 | 457 | 473 | 443 | 435 | 447 | 440 | 408 | 411 | 452 | 459 | 435 | 400 | 420 | 430 | 430 | 389 | 422 |
| OECD SPR | 1,285 | 1,345 | 1,271 | 1,269 | 1,266 | 1,285 | 1,304 | 1,316 | 1,321 | 1,345 | 1,359 | 1,362 | 1,380 | 1,408 | 1,421 | 1,426 | 1,432 | 1,444 | 1,456 | 1,492 |
| North America | 552 | 601 | 544 | 545 | 547 | 552 | 563 | 578 | 589 | 601 | 601 | 611 | 626 | 640 | 654 | 664 | 672 | 678 | 690 | 698 |
| Western Europe | 353 | 354 | 353 | 349 | 344 | 353 | 354 | 349 | 346 | 354 | 365 | 359 | 361 | 372 | 369 | 364 | 364 | 371 | 371 | 399 |
| OECD Pacific | 380 | 389 | 374 | 374 | 375 | 380 | 386 | 388 | 386 | 389 | 393 | 393 | 393 | 396 | 398 | 398 | 396 | 396 | 396 | 395 |
| OECD total | 3,915 | 3,821 | 3,801 | 3,871 | 3,930 | 3,915 | 3,910 | 3,967 | 3,898 | 3,821 | 3,787 | 3,913 | 3,981 | 3,925 | 3,886 | 3,972 | 4,018 | 4,007 | 4,007 | 4,123 |
| Oil-on-water | 830 | 816 | 903 | 828 | 870 | 830 | 797 | 806 | 803 | 816 | 858 | 884 | 868 | 883 | 901 | 885 | 891 | 906 | 927 | 935 |
| Days of forward consumption in OECD | | | | | | | | | | | | | | | | | | | | |
| OECD onland commercial | 55 | 51 | 54 | 54 | 55 | 54 | 56 | 55 | 52 | 50 | 51 | 53 | 52 | 50 | 51 | 52 | 51 | 51 | 52 | 54 |
| North America | 52 | 48 | 49 | 51 | 53 | 53 | 52 | 52 | 50 | 48 | 46 | 48 | 49 | 46 | 46 | 47 | 47 | 47 | 47 | 50 |
| Western Europe | 61 | 58 | 62 | 59 | 59 | 60 | 63 | 61 | 59 | 58 | 60 | 59 | 59 | 59 | 61 | 60 | 59 | 60 | 63 | 60 |
| OECD Pacific | 52 | 47 | 56 | 56 | 54 | 49 | 57 | 55 | 47 | 42 | 51 | 57 | 51 | 47 | 51 | 51 | 49 | 45 | 48 | 52 |
| OECD SPR | 27 | 28 | 27 | 27 | 26 | 27 | 28 | 28 | 27 | 27 | 29 | 28 | 28 | 28 | 30 | 29 | 28 | 29 | 30 | 30 |
| North America | 23 | 25 | 23 | 23 | 23 | 23 | 23 | 24 | 24 | 25 | 25 | 25 | 25 | 25 | 26 | 26 | 26 | 27 | 27 | 27 |
| Western Europe | 23 | 23 | 24 | 22 | 22 | 23 | 24 | 23 | 22 | 23 | 24 | 23 | 23 | 24 | 24 | 23 | 23 | 24 | 24 | 25 |
| OECD Pacific | 44 | 45 | 46 | 46 | 42 | 42 | 50 | 48 | 41 | 40 | 48 | 49 | 43 | 43 | 50 | 49 | 45 | 42 | 49 | 49 |
| OECD total | 82 | 79 | 81 | 81 | 81 | 81 | 84 | 83 | 79 | 77 | 80 | 81 | 80 | 78 | 81 | 81 | 80 | 79 | 82 | 84 |

## Table 27: Non-OPEC supply and OPEC natural gas liquids, mb/d

| | 2001 | 2002 | 2003 | 2004 | 04/03 | 1Q05 | 2Q05 | 3Q05 | 4Q05 | 2005 | 05/04 | 1Q06 | 2Q06 | 3Q06 | 4Q06 | 2006 | 06/05 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| USA | 8.05 | 8.04 | 7.82 | 7.65 | -0.17 | 7.71 | 7.74 | 7.14 | 6.80 | 7.34 | -0.31 | 7.26 | 7.40 | 7.40 | 7.72 | 7.45 | 0.10 |
| Canada | 2.73 | 2.84 | 2.98 | 3.07 | 0.09 | 3.01 | 3.01 | 3.00 | 3.17 | 3.05 | -0.02 | 3.23 | 3.23 | 3.27 | 3.40 | 3.28 | 0.23 |
| Mexico | 3.57 | 3.59 | 3.80 | 3.83 | 0.04 | 3.75 | 3.88 | 3.72 | 3.72 | 3.77 | -0.07 | 3.70 | 3.76 | 3.78 | 3.84 | 3.77 | 0.00 |
| North America | 14.34 | 14.48 | 14.60 | 14.56 | -0.04 | 14.48 | 14.63 | 13.86 | 13.69 | 14.16 | -0.40 | 14.19 | 14.39 | 14.45 | 14.95 | 14.50 | 0.34 |
| Norway | 3.42 | 3.33 | 3.26 | 3.19 | -0.07 | 3.08 | 2.94 | 3.03 | 3.20 | 3.06 | -0.12 | 3.23 | 3.15 | 2.95 | 3.11 | 3.11 | 0.05 |
| UK | 2.54 | 2.52 | 2.33 | 2.09 | -0.24 | 2.03 | 1.91 | 1.79 | 1.86 | 1.90 | -0.19 | 1.87 | 1.80 | 1.62 | 1.94 | 1.81 | -0.09 |
| Denmark | 0.35 | 0.37 | 0.37 | 0.39 | 0.02 | 0.39 | 0.38 | 0.39 | 0.39 | 0.39 | 0.00 | 0.38 | 0.37 | 0.35 | 0.34 | 0.36 | -0.03 |
| Other Western Europe | 0.38 | 0.42 | 0.43 | 0.47 | 0.04 | 0.48 | 0.48 | 0.47 | 0.47 | 0.47 | 0.00 | 0.47 | 0.46 | 0.47 | 0.49 | 0.47 | 0.00 |
| Western Europe | 6.68 | 6.65 | 6.39 | 6.14 | -0.26 | 5.98 | 5.71 | 5.68 | 5.92 | 5.82 | -0.31 | 5.95 | 5.78 | 5.39 | 5.88 | 5.75 | -0.07 |
| Australia | 0.71 | 0.70 | 0.60 | 0.52 | -0.08 | 0.48 | 0.56 | 0.54 | 0.51 | 0.52 | 0.00 | 0.49 | 0.46 | 0.47 | 0.55 | 0.49 | -0.03 |
| Other Pacific | 0.07 | 0.06 | 0.06 | 0.05 | 0.00 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.00 | 0.05 | 0.05 | 0.08 | 0.08 | 0.06 | 0.01 |
| OECD Pacific | 0.78 | 0.77 | 0.65 | 0.57 | -0.08 | 0.54 | 0.62 | 0.59 | 0.56 | 0.58 | 0.00 | 0.54 | 0.51 | 0.54 | 0.63 | 0.55 | -0.02 |
| Total OECD | 21.81 | 21.89 | 21.65 | 21.27 | -0.38 | 21.00 | 20.95 | 20.12 | 20.17 | 20.56 | -0.71 | 20.68 | 20.68 | 20.38 | 21.46 | 20.80 | 0.24 |
| Brunei | 0.20 | 0.20 | 0.21 | 0.21 | 0.00 | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 | 0.00 | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 | 0.00 |
| India | 0.73 | 0.78 | 0.79 | 0.80 | 0.01 | 0.80 | 0.80 | 0.75 | 0.79 | 0.78 | -0.01 | 0.83 | 0.83 | 0.82 | 0.82 | 0.83 | 0.04 |
| Malaysia | 0.68 | 0.71 | 0.75 | 0.82 | 0.07 | 0.86 | 0.84 | 0.86 | 0.90 | 0.86 | 0.05 | 0.90 | 0.88 | 0.89 | 0.88 | 0.89 | 0.03 |
| Vietnam | 0.34 | 0.34 | 0.35 | 0.40 | 0.04 | 0.38 | 0.38 | 0.37 | 0.41 | 0.38 | -0.01 | 0.39 | 0.37 | 0.38 | 0.37 | 0.38 | -0.01 |
| Asia others | 0.25 | 0.26 | 0.30 | 0.37 | 0.07 | 0.46 | 0.47 | 0.48 | 0.48 | 0.47 | 0.10 | 0.48 | 0.48 | 0.52 | 0.52 | 0.50 | 0.03 |
| Other Asia | 2.20 | 2.30 | 2.40 | 2.59 | 0.19 | 2.71 | 2.69 | 2.67 | 2.78 | 2.71 | 0.12 | 2.82 | 2.77 | 2.82 | 2.81 | 2.81 | 0.09 |
| Argentina | 0.82 | 0.79 | 0.78 | 0.73 | -0.04 | 0.73 | 0.73 | 0.71 | 0.72 | 0.72 | -0.01 | 0.71 | 0.71 | 0.70 | 0.69 | 0.70 | -0.02 |
| Brazil | 1.53 | 1.72 | 1.80 | 1.80 | 0.00 | 1.85 | 2.03 | 2.03 | 2.05 | 1.99 | 0.19 | 2.11 | 2.07 | 2.24 | 2.26 | 2.17 | 0.18 |
| Colombia | 0.62 | 0.59 | 0.55 | 0.53 | -0.02 | 0.52 | 0.53 | 0.51 | 0.50 | 0.52 | -0.02 | 0.49 | 0.48 | 0.47 | 0.46 | 0.48 | -0.04 |
| Ecuador | 0.41 | 0.40 | 0.43 | 0.53 | 0.10 | 0.54 | 0.54 | 0.49 | 0.53 | 0.52 | 0.00 | 0.53 | 0.53 | 0.52 | 0.53 | 0.53 | 0.01 |
| Trinidad & Tobago | 0.13 | 0.15 | 0.16 | 0.16 | -0.01 | 0.20 | 0.21 | 0.21 | 0.23 | 0.21 | 0.05 | 0.23 | 0.23 | 0.24 | 0.24 | 0.23 | 0.02 |
| L. America others | 0.23 | 0.22 | 0.23 | 0.25 | 0.02 | 0.27 | 0.28 | 0.28 | 0.28 | 0.28 | 0.02 | 0.28 | 0.28 | 0.28 | 0.28 | 0.28 | 0.00 |
| Latin America | 3.74 | 3.87 | 3.95 | 4.00 | 0.05 | 4.11 | 4.31 | 4.23 | 4.31 | 4.24 | 0.24 | 4.35 | 4.29 | 4.44 | 4.45 | 4.39 | 0.15 |
| Bahrain | 0.19 | 0.19 | 0.20 | 0.20 | 0.00 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.00 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.00 |
| Oman | 0.96 | 0.90 | 0.82 | 0.76 | -0.06 | 0.73 | 0.72 | 0.71 | 0.70 | 0.72 | -0.05 | 0.69 | 0.68 | 0.67 | 0.66 | 0.68 | -0.04 |
| Syria | 0.52 | 0.51 | 0.54 | 0.51 | -0.03 | 0.49 | 0.48 | 0.47 | 0.46 | 0.48 | -0.03 | 0.46 | 0.45 | 0.44 | 0.43 | 0.44 | -0.03 |
| Yemen | 0.47 | 0.46 | 0.44 | 0.42 | -0.03 | 0.40 | 0.40 | 0.39 | 0.39 | 0.39 | -0.03 | 0.39 | 0.38 | 0.38 | 0.36 | 0.38 | -0.02 |
| Middle East | 2.14 | 2.06 | 2.00 | 1.89 | -0.11 | 1.82 | 1.80 | 1.77 | 1.75 | 1.79 | -0.10 | 1.74 | 1.71 | 1.69 | 1.65 | 1.70 | -0.09 |
| Angola | 0.74 | 0.89 | 0.87 | 0.99 | 0.11 | 1.13 | 1.16 | 1.22 | 1.38 | 1.22 | 0.24 | 1.40 | 1.45 | 1.45 | 1.63 | 1.48 | 0.26 |
| Chad | 0.00 | 0.00 | 0.02 | 0.18 | 0.16 | 0.23 | 0.23 | 0.23 | 0.23 | 0.23 | 0.04 | 0.23 | 0.23 | 0.23 | 0.23 | 0.23 | 0.00 |
| Congo | 0.27 | 0.25 | 0.24 | 0.24 | 0.00 | 0.23 | 0.23 | 0.23 | 0.23 | 0.23 | -0.01 | 0.23 | 0.23 | 0.22 | 0.22 | 0.22 | -0.01 |
| Egypt | 0.76 | 0.75 | 0.75 | 0.71 | -0.04 | 0.70 | 0.69 | 0.67 | 0.67 | 0.69 | -0.02 | 0.67 | 0.65 | 0.64 | 0.59 | 0.64 | -0.05 |
| Equatorial Guinea | 0.14 | 0.20 | 0.24 | 0.34 | 0.10 | 0.35 | 0.36 | 0.35 | 0.35 | 0.36 | 0.01 | 0.35 | 0.35 | 0.35 | 0.39 | 0.36 | 0.01 |
| Gabon | 0.31 | 0.30 | 0.25 | 0.24 | -0.01 | 0.24 | 0.24 | 0.23 | 0.22 | 0.23 | -0.01 | 0.22 | 0.22 | 0.21 | 0.20 | 0.21 | -0.02 |
| South Africa | 0.18 | 0.19 | 0.20 | 0.22 | 0.02 | 0.21 | 0.20 | 0.20 | 0.19 | 0.20 | -0.02 | 0.19 | 0.19 | 0.18 | 0.17 | 0.18 | -0.02 |
| Sudan | 0.21 | 0.24 | 0.27 | 0.30 | 0.04 | 0.31 | 0.33 | 0.47 | 0.50 | 0.40 | 0.10 | 0.49 | 0.52 | 0.59 | 0.62 | 0.56 | 0.15 |
| Africa other | 0.20 | 0.20 | 0.20 | 0.21 | 0.01 | 0.22 | 0.22 | 0.26 | 0.26 | 0.24 | 0.03 | 0.31 | 0.36 | 0.36 | 0.36 | 0.35 | 0.11 |
| Africa | 2.80 | 3.03 | 3.05 | 3.43 | 0.39 | 3.61 | 3.66 | 3.86 | 4.04 | 3.79 | 0.36 | 4.08 | 4.19 | 4.23 | 4.41 | 4.23 | 0.44 |
| Total DCs | 10.87 | 11.25 | 11.40 | 11.92 | 0.52 | 12.26 | 12.46 | 12.54 | 12.88 | 12.53 | 0.62 | 12.99 | 12.97 | 13.19 | 13.33 | 13.12 | 0.58 |
| FSU | 8.53 | 9.32 | 10.27 | 11.15 | 0.89 | 11.39 | 11.47 | 11.68 | 11.71 | 11.56 | 0.41 | 11.71 | 11.71 | 11.96 | 12.22 | 11.90 | 0.34 |
| Russia | 6.99 | 7.62 | 8.46 | 9.19 | 0.73 | 9.30 | 9.34 | 9.46 | 9.46 | 9.39 | 0.20 | 9.43 | 9.43 | 9.50 | 9.50 | 9.47 | 0.07 |
| Kazakhstan | 0.80 | 0.94 | 1.03 | 1.18 | 0.15 | 1.26 | 1.22 | 1.26 | 1.29 | 1.26 | 0.08 | 1.29 | 1.29 | 1.39 | 1.55 | 1.38 | 0.12 |
| Azerbaijan | 0.30 | 0.31 | 0.31 | 0.31 | 0.00 | 0.35 | 0.42 | 0.47 | 0.47 | 0.43 | 0.12 | 0.50 | 0.50 | 0.58 | 0.68 | 0.57 | 0.14 |
| FSU others | 0.45 | 0.45 | 0.47 | 0.47 | 0.01 | 0.47 | 0.48 | 0.49 | 0.49 | 0.48 | 0.01 | 0.49 | 0.49 | 0.49 | 0.49 | 0.49 | 0.00 |
| Other Europe | 0.18 | 0.18 | 0.17 | 0.16 | -0.01 | 0.16 | 0.16 | 0.16 | 0.16 | 0.16 | 0.00 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | 0.01 |
| China | 3.30 | 3.39 | 3.41 | 3.48 | 0.08 | 3.63 | 3.61 | 3.62 | 3.64 | 3.63 | 0.14 | 3.66 | 3.69 | 3.73 | 3.71 | 3.70 | 0.07 |
| Non-OPEC production | 44.68 | 46.04 | 46.89 | 47.98 | 1.09 | 48.43 | 48.65 | 48.12 | 48.55 | 48.44 | 0.46 | 49.20 | 49.22 | 49.42 | 50.88 | 49.68 | 1.25 |
| Processing gains | 1.69 | 1.73 | 1.80 | 1.83 | 0.03 | 1.88 | 1.85 | 1.84 | 1.88 | 1.86 | 0.03 | 1.88 | 1.87 | 1.87 | 1.93 | 1.89 | 0.02 |
| Non-OPEC supply | 46.37 | 47.77 | 48.69 | 49.81 | 1.12 | 50.31 | 50.51 | 49.96 | 50.43 | 50.30 | 0.49 | 51.08 | 51.09 | 51.29 | 52.81 | 51.57 | 1.27 |
| OPEC NGL | 3.40 | 3.42 | 3.57 | 3.85 | 0.28 | 3.96 | 4.01 | 4.06 | 4.11 | 4.04 | 0.19 | 4.20 | 4.30 | 4.39 | 4.47 | 4.34 | 0.31 |
| OPEC Non-conventional | 0.18 | 0.20 | 0.14 | 0.25 | 0.11 | 0.26 | 0.26 | 0.26 | 0.26 | 0.26 | 0.01 | 0.28 | 0.28 | 0.28 | 0.28 | 0.28 | 0.02 |
| OPEC (NGL+NCF) | 3.58 | 3.62 | 3.71 | 4.09 | 0.38 | 4.22 | 4.27 | 4.32 | 4.37 | 4.30 | 0.20 | 4.48 | 4.58 | 4.67 | 4.75 | 4.62 | 0.33 |
| Non-OPEC & OPEC (NGL+NCF) | 49.96 | 51.39 | 52.39 | 53.90 | 1.51 | 54.53 | 54.77 | 54.28 | 54.80 | 54.60 | 0.70 | 55.56 | 55.67 | 55.96 | 57.57 | 56.19 | 1.60 |

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

Table 28: Non-OPEC Rig Count

| | 2001 | 2002 | Change 02/01 | 1Q 03 | 2Q 03 | 3Q 03 | 4Q 03 | 2003 | Change 03/02 | 1Q 04 | 2Q 04 | 3Q 04 | 4Q 04 | 2004 | Change 04/03 | Jul 05 | Aug 05 | Sep 05 | 3Q 05 | Change Sep 05-Aug 05 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| USA | 1156 | 831 | -325 | 901 | 1028 | 1088 | 1109 | 1032 | 201 | 1,119 | 1164 | 1229 | 1249 | 1190 | 158 | 1368 | 1436 | 1452 | 1419 | 16 |
| Canada | 342 | 266 | -76 | 494 | 203 | 383 | 408 | 372 | 106 | 528 | 202 | 326 | 420 | 369 | -3 | 540 | 545 | 497 | 527 | -48 |
| Mexico | 54 | 65 | 11 | 82 | 84 | 96 | 107 | 92 | 27 | 107 | 113 | 111 | 108 | 110 | 18 | 104 | 103 | 106 | 104 | 3 |
| North America | 1552 | 1162 | -390 | 1476 | 1315 | 1567 | 1624 | 1496 | 334 | 1,754 | 1479 | 1665 | 1777 | 1669 | 173 | 2012 | 2084 | 2055 | 2050 | -29 |
| Norway | 23 | 19 | -4 | 18 | 19 | 20 | 18 | 19 | 0 | 19 | 18 | 14 | 16 | 17 | -2 | 22 | 18 | 16 | 19 | -2 |
| UK | 24 | 26 | 2 | 19 | 21 | 22 | 16 | 20 | -6 | 15 | 19 | 14 | 15 | 16 | -4 | 26 | 22 | 20 | 23 | -2 |
| Denmark | 4 | 4 | 0 | 3 | 5 | 3 | 4 | 4 | 0 | 4 | 4 | 3 | 4 | 4 | 0 | 1 | 3 | 2 | 2 | -1 |
| Other Western Europe | 44 | 36 | -8 | 36 | 34 | 38 | 37 | 36 | 0 | 31 | 30 | 27 | 27 | 29 | -7 | 25 | 27 | 23 | 25 | -4 |
| Western Europe | 95 | 85 | -10 | 77 | 78 | 83 | 75 | 78 | -7 | 69 | 70 | 57 | 62 | 65 | -13 | 74 | 70 | 61 | 68 | -9 |
| Australia | 10 | 9 | -1 | 10 | 10 | 11 | 13 | 11 | 2 | 12 | 13 | 18 | 14 | 14 | 3 | 16 | 18 | 16 | 17 | -2 |
| Other Pacific | 9 | 8 | -1 | 8 | 7 | 8 | 6 | 7 | -1 | 7 | 8 | 9 | 6 | 8 | 1 | 10 | 10 | 11 | 10 | 1 |
| OECD Pacific | 20 | 17 | -3 | 18 | 17 | 18 | 19 | 18 | 1 | 19 | 22 | 26 | 20 | 22 | 4 | 26 | 28 | 27 | 27 | -1 |
| Total OECD | 1667 | 1264 | -403 | 1571 | 1411 | 1669 | 1719 | 1592 | 328 | 1,842 | 1570 | 1749 | 1859 | 1755 | 163 | 2112 | 2182 | 2143 | 2146 | -39 |
| Brunei | 3 | 3 | 0 | 3 | 4 | 4 | 2 | 3 | 0 | 2 | 3 | 3 | 2 | 3 | 0 | 3 | 2 | 3 | 3 | 1 |
| India | 50 | 55 | 5 | 59 | 60 | 61 | 62 | 60 | 5 | 64 | 68 | 71 | 76 | 70 | 10 | 78 | 82 | 83 | 81 | 1 |
| Malaysia | 11 | 14 | 3 | 14 | 13 | 16 | 15 | 14 | 0 | 15 | 15 | 13 | 13 | 14 | 0 | 14 | 15 | 14 | 14 | -1 |
| Papua New Guinea | 1 | 1 | 0 | 1 | 2 | 2 | 1 | 2 | 1 | 3 | 2 | 0 | 1 | 2 | 0 | 2 | 2 | 2 | 2 | 0 |
| Vietnam | 8 | 9 | 1 | 9 | 9 | 10 | 8 | 9 | 0 | 8 | 9 | 8 | 7 | 8 | -1 | 10 | 9 | 10 | 10 | 1 |
| Asia others | 22 | 30 | 8 | 31 | 28 | 26 | 30 | 29 | -1 | 27 | 31 | 31 | 31 | 30 | 1 | 36 | 38 | 34 | 36 | -4 |
| Other Asia | 95 | 111 | 16 | 117 | 115 | 119 | 118 | 117 | 6 | 119 | 128 | 127 | 130 | 126 | 9 | 143 | 148 | 146 | 146 | -2 |
| Argentina | 71 | 49 | -22 | 59 | 66 | 59 | 57 | 60 | 11 | 64 | 73 | 73 | 74 | 71 | 11 | 79 | 80 | 75 | 78 | -5 |
| Brazil | 28 | 27 | -1 | 27 | 27 | 27 | 25 | 26 | -1 | 24 | 26 | 26 | 26 | 26 | 0 | 29 | 28 | 27 | 28 | -1 |
| Colombia | 15 | 11 | -4 | 10 | 9 | 11 | 12 | 11 | 0 | 8 | 9 | 9 | 11 | 9 | -2 | 15 | 16 | 17 | 16 | 1 |
| Ecuador | 10 | 9 | -1 | 9 | 11 | 8 | 8 | 9 | 0 | 7 | 9 | 12 | 12 | 10 | 1 | 14 | 7 | 11 | 11 | 4 |
| Peru | 4 | 2 | -2 | 2 | 2 | 3 | 3 | 3 | 1 | 2 | 2 | 3 | 3 | 2 | -1 | 5 | 2 | 3 | 3 | 1 |
| Trinidad & Tobago | 5 | 4 | -1 | 3 | 3 | 3 | 3 | 3 | -1 | 3 | 4 | 4 | 4 | 4 | 1 | 2 | 3 | 2 | 2 | -1 |
| L. America others | 7 | 5 | -2 | 3 | 4 | 4 | 5 | 4 | -1 | 6 | 6 | 3 | 4 | 5 | 1 | 2 | 3 | 3 | 3 | 0 |
| Latin America | 141 | 106 | -35 | 113 | 121 | 114 | 114 | 116 | 10 | 114 | 127 | 129 | 134 | 126 | 10 | 146 | 139 | 138 | 141 | -1 |
| Bahrain | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Oman | 25 | 29 | 4 | 33 | 34 | 36 | 36 | 35 | 6 | 36 | 35 | 34 | 36 | 35 | 0 | 34 | 34 | 33 | 34 | -1 |
| Syria | 19 | 22 | 3 | 23 | 23 | 26 | 23 | 24 | 2 | 24 | 24 | 23 | 23 | 24 | 0 | 20 | 23 | 24 | 22 | 1 |
| Yemen | 6 | 9 | 3 | 11 | 10 | 9 | 7 | 9 | 0 | 7 | 8 | 9 | 11 | 9 | 0 | 12 | 12 | 14 | 13 | 2 |
| Middle East | 50 | 62 | 12 | 70 | 68 | 72 | 68 | 70 | 8 | 69 | 68 | 69 | 73 | 70 | 0 | 71 | 73 | 74 | 73 | 1 |
| Angola | 5 | 5 | 0 | 3 | 4 | 3 | 6 | 4 | -1 | 4 | 3 | 3 | 3 | 3 | -1 | 4 | 3 | 3 | 3 | 0 |
| Cameroon | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Congo | 1 | 1 | 0 | 0 | 1 | 1 | 2 | 1 | 0 | 2 | 2 | 3 | 2 | 2 | 1 | 2 | 1 | 2 | 2 | 1 |
| Egypt | 22 | 23 | 1 | 26 | 26 | 27 | 26 | 26 | 3 | 27 | 28 | 29 | 28 | 28 | 2 | 27 | 30 | 26 | 28 | -4 |
| Gabon | 2 | 2 | 0 | 3 | 4 | 1 | 3 | 3 | 1 | 2 | 2 | 2 | 2 | 2 | -1 | 2 | 2 | 3 | 2 | 1 |
| South Africa | 1 | 1 | 0 | 0 | 1 | 0 | 1 | 0 | -1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Africa other | 4 | 12 | 8 | 12 | 14 | 12 | 14 | 13 | 1 | 15 | 18 | 20 | 22 | 19 | 6 | 19 | 19 | 20 | 19 | 1 |
| Africa | 36 | 43 | 7 | 45 | 50 | 44 | 51 | 48 | 5 | 48 | 53 | 56 | 57 | 54 | 6 | 54 | 55 | 54 | 54 | -1 |
| Total DCs | 322 | 322 | 0 | 346 | 354 | 350 | 350 | 350 | 28 | 350 | 376 | 381 | 394 | 376 | 26 | 414 | 415 | 412 | 414 | -3 |
| FSU | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Europe | 3 | 2 | -1 | 2 | 2 | 2 | 2 | 2 | 0 | 2 | 2 | 2 | 2 | 2 | 0 | 3 | 3 | 3 | 3 | 0 |
| China | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-OPEC Rig count | 1992 | 1588 | -404 | 1919 | 1767 | 2021 | 2071 | 1944 | 356 | 2,194 | 1949 | 2132 | 2255 | 2132 | 188 | 2529 | 2600 | 2558 | 2562 | -42 |

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

## Main Contributors to Monthly Oil Market Report


| | |
|---|---|
| ***WORLD ECONOMY*** | Mr. M. Behzad<br>e-mail: mbehzad@opec.org<br><br>Dr. M. El-Shahati<br>e-mail: MEIShahati@opec.org:<br><br>Mr. G. Skipper<br>e-mail: gskipper@opec.org |
| ***CRUDE OIL PRICES*** | Mr. F. Al-Nassar<br>e-mail: fal-nassar@opec.org |
| ***PRODUCTS AND REFINERY OPERATIONS*** | Mr. S. Keramati<br>e-mail: skeramati@opec.org |
| ***THE TANKER MARKET*** | Mr. B. Aklil<br>e-mail: baklil@opec.org |
| ***WORLD OIL DEMAND*** | Mr. O. Salas<br>e-mail: osalas@opec.org |
| ***WORLD OIL SUPPLY*** | Mr. I. Sandrea<br>e-mail: isandrea@opec.org |
| ***STOCK MOVEMENTS*** | Mr. J. Bahelil<br>e-mail: jbahelil@opec.org |
| ***COORDINATORS*** | Mr. M. Alipour-Jeddi<br>Head, Petroleum Market Analysis Dept.<br>e-mail: majeddi@opec.org<br><br>Dr. A. Yahyai<br>e-mail: ayahyai@opec.org<br><br>Mr. D. Linton<br>e-mail : dlinton@opec.org |


Data is provided by Data Services Department.

# *Data Summary* October 2005

## *OPEC Basket average price*

*US$ per barrel*

*up 0.06 in September*

| | |
|---|---|
| ***September 2005*** | ***57.88*** |
| *August 2005* | *57.82* |
| *Year-to-date* | *49.94* |

## *September OPEC production*

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

| | | | | | |
|---|---|---|---|---|---|
| *Algeria* | *1.37* | *Kuwait* | *2.56* | *Saudi Arabia* | *9.53* |
| *Indonesia* | *0.93* | *SP Libyan AJ* | *1.66* | *UAE* | *2.49* |
| *IR Iran* | *3.97* | *Nigeria* | *2.43* | *Venezuela* | *2.60* |
| *Iraq* | *2.00* | *Qatar* | *0.80* | ***TOTAL*** | ***30.34*** |

## *Supply and demand*

*in million barrels per day*

| ***2005*** | | ***2006*** | |
|---|---|---|---|
| *World demand* | *83.3* | *World demand* | *84.7* |
| *Non-OPEC supply* | *54.6* | *Non-OPEC supply* | *56.2* |
| ***Difference*** | ***28.7*** | ***Difference*** | ***28.5*** |

*Non-OPEC supply includes OPEC NGLs and non-conventional oils*

## *Stocks*

***US commercial oil stocks saw a draw of 4.7 mb in September***

## *World economy*

***World GDP growth revised up to 4.2% for 2005 and to 4.0% for 2006***

*Issued 17 October 2005*
***Next report to be issued on 16 November 2005***
*Data covers period up to end of September 2005 unless otherwise stated*