OPEC

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

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Feature Article:

The oil market outlook to 2006

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Oil Market Highlights

- Higher oil prices and lower fuel subsidies have begun to affect a number of Asian economies. The 2005 growth forecasts for Taiwan, Thailand, Singapore, and the Philippines have been reduced by over 0.3% and the forecast for South Korea has been cut by 0.2%. The forecasts for 2006 suggest that growth will ease further as slower growth in the USA and China in 2006 will reduce the exports of this region. In 2006 Asia Pacific should achieve growth of 4.2%, slightly lower than the 4.4% expected for this year which represents a sharp reduction on the 6% recorded in 2004.
- Growth in the USA and China continues to be strong. Within the USA, consumer spending continues unabated and the GDP growth forecast for 2005 is unchanged at 3.4%. Next year growth is expected to fall to below 3% as higher interest rates may affect consumer and business spending. Despite fears of overheating and overinvestment, there are few signs of a slowdown in the Chinese economy. Export growth was very strong in June and accommodative financial conditions have kept investment growth rates high. The 2005 growth forecast for China is unchanged at 8.6%. Lower growth of 8.2% is forecast for next year as a result of anticipated weakness in the property market and some moderation in fixed investment.
- Second quarter data confirms that the Japanese recovery of the first quarter had a solid base in better domestic demand. Japan is forecast to grow by 1.6% in 2005, down from the previous forecast of 1.7%. There is no change to the forecast for the Euro-zone which is expected to grow by 1% in 2005. An improvement is expected in 2006 although the forecast growth rate of 1.5% remains below trend. The forecast growth rate for the world economy in 2005 is unchanged at 4.1% and, despite the improvement in Europe, world growth in 2006 may be slightly lower at 4.0%. This reduction reflects lower growth in all regions of the developing world, especially in Africa and Asia. The combination of higher oil import bills and the eventual downturn in commodity markets may depress the growth rate of Developing Countries to 4.8% in 2006 – although down from the 5.2% expected this year, this would still represent growth well above the 20- year average of about 3.5%.
- A new OPEC Reference Basket was adopted in June, consisting of 11 crudes representing the main export crudes of the Member Countries weighted according to production and exports to the main markets. Based on a combination of the old and new Basket calculations, the monthly average for June rose to $52.04/b, for a gain of $5.08/b or 11% over the previous month. Prices moved upward on concerns that product supplies might not be sufficient to meet demand in the latter part of this year, a sentiment that was only furthered by unexpected refinery outages. The Basket continued to move higher in the first weeks of July as an abrupt and active start to the hurricane season disrupted oil operations in the Gulf of Mexico and compounded fears of a shortfall in product and crude supplies.
- The choppy ride in crude prices outpaced the performance of the product markets in June and undermined refinery margins for sweet and sour benchmark crudes across the world compared to the previous month. Although lower, refinery margins still remain healthy, especially in the wake of recent storms in the US Gulf Coast, which allowed margins to recover part of their earlier losses. Meanwhile, the early start of the hurricane season has shifted market attention to products and the expectation of shortages in the coming months has lifted crude and product prices.
- OPEC spot chartering jumped 1.56 mb/d to 14.27 mb/d, reversing the downward trend of the last three months. OPEC Countries outside the Middle East contributed two thirds of the growth. Sailings from the OPEC area increased slightly by 0.1 mb/d to 27.2 mb/d, which corresponds to a growth of 3.6 mb/d over the June 2004 figures. Crude oil freight rates continued to weaken in most of the sectors, especially for VLCCs, where they plunged to late 2003 levels of WS50s due to plentiful tonnage availability. Suezmax and Aframax freight rates declined also except for the Indonesia/US West Coast route and within the Mediterranean region. Similarly, product freight rates continued to fall for the third consecutive month due to little activity, with the exception of the Mediterranean/NW Europe route.
- World oil demand growth in 2005 has been revised down by 0.15 mb/d from the last report due to a slowdown in economic activity in some regions and preliminary demand figures pointing to significantly lower consumption in the first half of the year in some major consuming countries, including China. Particularly, the absolute level of demand has been revised down for the second, third and fourth quarters by approximately 300,000 b/d in each quarter. Global demand growth for 2005 is now projected to rise by 1.62 mb/d or 2% y-o-y to total 83.66 mb/d.
- The preliminary world oil demand forecast for 2006 — based on a GDP growth rate for the world economy of 4% and normal weather conditions — shows that world oil demand is projected to average 85.2 mb/d, implying a rise of 1.54 mb/d or 1.85% over total 2005 consumption. On a regional basis, the largest contributor to demand growth is expected to be the Developing Countries followed by the OECD and China with an estimated growth of 0.6 mb/d, 0.5 mb/d and 0.4 mb/d, respectively.
- The estimate for non-OPEC supply growth in 2005 has been revised slightly down from last month's report. Non-OPEC supply is expected increase 0.77 mb/d over the previous year, a revision of 40,000 b/d from last month's report. Revisions in the outlook for Russia account for the bulk of the negative revisions. Total OPEC crude production averaged 30.01 mb/d in June, which represents an increase of 90,000 b/d from last month, according to secondary sources. Year-to-date OPEC production has increased 1 mb/d.

- Non-OPEC oil production in 2006 is expected to average 51.7 mb/d, an increase of 1.08 mb/d over the previous year. In 2006, non-OPEC oil supply (including processing gains, OPEC NGLs and non-conventional oils) is expected to average 56.2 mb/d, an increase of 1.4 mb/d versus 2005. On a regional basis, the largest contributor is expected to be the African region, followed by the FSU, Latin America and North America (mainly Canada), whilst OECD Europe and Pacific, and the Middle East are expected to show a net decline. The net contribution from Russia is expected to be just 80,000 to 100,000 b/d, and is considered the main risk factor for non-OPEC growth next year. In terms of overall crude quality, the net increase is expected to be overwhelmingly medium sweet, in contrast to recent years when increases have been mainly medium sour.
- US commercial oil stocks in June 2005 exceeded the 1 bn mark for the first time since August 2002, standing at 1,015.5 mb or 2% higher than last month and about 5% above last year's level. Two thirds of this build came from distillate inventories, while other major product stocks contributed marginally, except for gasoline inventories which showed a slight draw. Total oil stocks in Eur-16 (EU plus Norway) in June remained almost unchanged at 1,114.0 mb compared with the previous month. The build in crude oil stocks was nearly cancelled out by marginal draws on product inventories, although the y-o-y surplus still rose a slight 4% from the 2% registered last month. Total commercial oil stocks in Japan during May witnessed a significant build of 0.47 mb/d to stand at 174.1 mb. Crude oil and product inventories contributed nearly equally to this rise. The last month y-o-y deficit turned to a surplus of about 3%.
- The supply/demand balance for 2005 has been revised significantly following downward revisions to the base and growth for world oil demand. As a result, the estimated demand for OPEC crude in 2005 (a-b) is now forecast at 28.9 mb/d, which represents a reduction of 260,000 b/d versus last month's report. OPEC crude production averaged 29.5 mb/d in the first and 30 mb/d in the second quarter of this year, which is approximately 400,000 b/d and 2.7 mb/d respectively more than the estimated OPEC crude requirements for these two periods. Taking into account the new balance, the resulting required OPEC crude production levels and the projected production capacity, OPEC's spare capacity is estimated to average around 7.9% in the second half of 2005, compared to 4.9% in the same period of 2004.
- With demand in 2006 expected to average 85.2 mb/d and total non-OPEC supply (including OPEC NGLs) expected to average 56.2 mb/d, the estimated demand for OPEC crude (a-b) is forecast at 29 mb/d, an increase of just 100,000 b/d versus 2005. In terms of OPEC capacity, it is expected to average around 33.4 mb/d, representing an average increase of 710,000 b/d from 2005. Therefore, 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 12%.

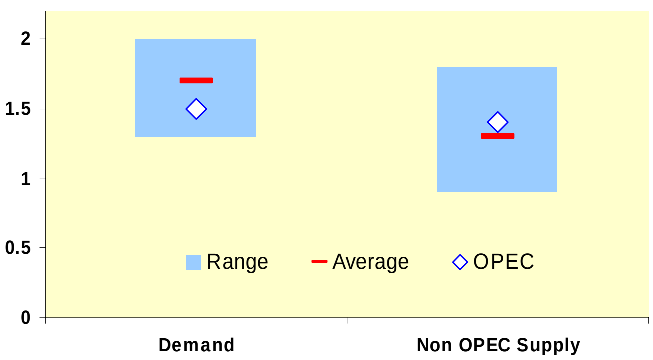
The oil market outlook for 2006

- The world economic and oil demand forecasts for 2005 are running closely in line with the initial outlook presented in last July's *Monthly Oil Market Report*. This is particularly the case in China, USA, and some Developing countries. World oil demand growth in 2005 is currently estimated to average 1.6 mb/d and there is little evidence that this forecast will be revised up. On the supply side, the expected non-OPEC supply growth has been revised down, mainly due to a significant reduction in Russian oil production growth. However, some of this has been partially compensated by the strong performance in other regions such as Africa and Latin America. In response to additional market needs, OPEC output has averaged 30 mb/d so far in 2005, an increase of 1 mb/d, and this has translated into a counter seasonal stock build in 1Q05 and a higher than normal stock build in the first two months of 2Q05. Despite the ample supply and rising stock levels, crude oil prices continued to climb to record levels, with the OPEC Reference Basket gaining more than $10/b since the start of this year to stand at $50.92/b in June.

- The global economy in 2006 is expected to achieve solid growth of 4.0%, slightly down on the 4.1% expected for 2005. The key risk factors for Developing Countries are oil prices and the health of the Chinese economy. Certain Asian economies have reduced fuel subsidies and many developing African countries will face balance of payments constraints if oil prices remain at current levels through 2006. Chinese growth is forecast to slow to 8.2% in 2006 as a result of cooling property markets and moderation in investment spending. Slower growth in China might impact commodity producers — this, together with high oil prices, is expected to trim the growth in Developing Countries to 4.8% in 2006, down from the excellent 5.2% expected for 2005. Growth in Developing Countries could well exceed this forecast if OECD GDP and world trade grow at a faster rate next year and commodity prices remain firm.

- Although overall OECD growth is expected to be steady in 2006, there is the possibility that continued low interest rates and a stronger revival in business investment will lead to acceleration in North American growth in 2006 — adding to the long-awaited recovery in Europe. Inflationary pressures seem likely to rise in 2006, however, growth in the USA is expected to fall to 2.9% in 2006 as higher interest rates and a weakening housing market may hold back consumption. In contrast, the growth rate of the Euro-Zone is expected to show an improvement on the very poor performance of 2005, reaching 1.5% in 2006. The Japanese economy should continue the progress made this year as a result of higher domestic demand and the economy is expected to grow by 1.8% in 2006. Although there is unlikely to be any significant improvement in global financial imbalances next year, disorderly adjustments to foreign exchanges rates are not expected to affect growth prospects. The dollar may weaken in 2006 but it would be in the interests of foreign central banks, particularly in Asia, to smooth any currency instability. Similarly, the ongoing threat of terrorist activity is not expected to have a long-term impact on consumer confidence. As in previous years, security alerts will have the potential to disrupt economic activity, but the record suggests that individuals and economies are resilient and that forecasts need not be amended on this account.

Graph 1: Growth in global oil demand and non-OPEC supply in 2006 (mb/d)

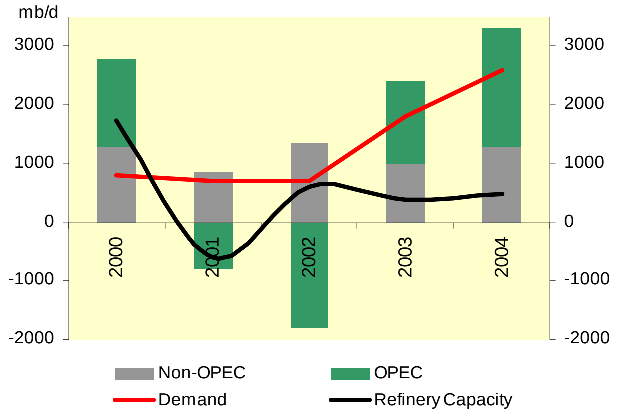


- Given the economic outlook—and assuming normal weather conditions and the sustained strength in oil prices at close to the average seen so far in 2005 — global oil demand in 2006 is projected to grow by 1.5 mb/d to average 85.2 mb/d. The forecast captures to some extend the impact of high international oil prices on oil demand. However the full force of the recent trend of fuel substitution, higher domestic retail products prices, the phase-out of subsidies, the adoption of new road taxes and the increasing use of new transport technologies such as hybrid vehicles, particularly in Asian countries, could further dampen oil demand growth in the coming year pointing to downward risks in 2006. Moreover, some countries have recently accelerated the adoption of response measures aimed at reducing consumption. With several sources having recently released their forecasts for 2006, estimated demand growth falls within a wide range between 1.3 mb/d to 2.0 mb/d (see Graph 1). OPEC's projections fall within the range of uncertainty, although slightly skew to the lower end of the range

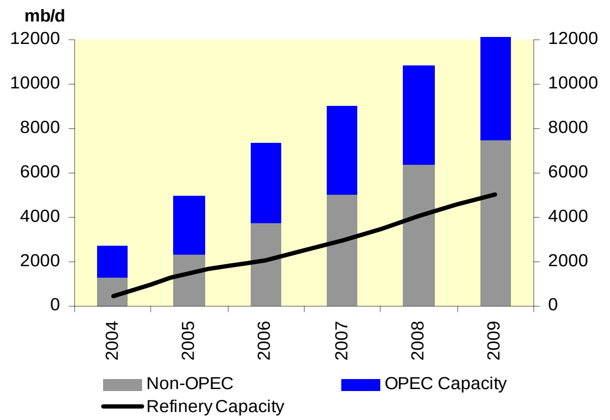
- Non-OPEC supply growth in 2006 (including processing gains, OPEC NGLs and non-conventional oils) is forecast to average around 1.4 mb/d or 400,000 b/d higher than in 2005. The regions of Africa, FSU, Latin America and even North America (mainly Canada) are expected to perform strongly while improvements are also likely in the decline rates of several major producers such as Norway, UK, and Mexico. In 2006, the crude quality of growth regions is seen to be overwhelmingly medium sweet and light, which is a sharp improvement from 2004 when most of growth was medium sour and heavy. The range of forecasts for non-OPEC supply growth in 2006 varies from 0.9 to 1.8 mb/d, primarily due to different views about Russian growth, which range from 150,000 to 400,000 b/d. However, as Russia's contribution to non-OPEC growth is expected to be 80,000 to 100,000 b/d or just 8% of the total in 2006 due to well documented issues affecting operators, even if Russian output were to fall to the lower end of the range, this would not considerably impact the overall outlook of our forecast. In fact, Russian growth could conceivably turn out to be flat or even negative in 2006, if the investment climate and production growth among key Russian oil companies fail to gain positive momentum. On the other hand, the chances of a significant improvement in Russian growth in 2006 versus 2005 are low.

- Taking into account the expected supply/demand balance, the balance for OPEC crude production (a-b) in 2006 is estimated to average 29.0 mb/d, just above 2005 requirements of 28.9. In 2006, OPEC capacity is expected to increase by 710,000 b/d to average 33.2 mb/d assuming Iraq remains at 2 mb/d. As a result, spare capacity should stand at around 10%, compared to 8% in 2005 and 6.6% in 2004.

Graph 2: Growth in world oil supply versus demand and refinery capacity



Graph 3: Expected cumulative growth in OPEC capacity, non-OPEC supply and refinery capacity



- The increase in OPEC capacity over the last two years stands in sharp contrast to developments in world refinery capacity where increases have lagged well behind demand growth and the increase in OPEC and non-OPEC supply (*see **Graph 2***). In this context, the recent agreement by the Group of Eight industrialized nations to consider measures to encourage the expansion of refinery capacity is to be welcomed. However, this positive statement needs to be translated into immediate concrete actions if the growth in product supply is to keep pace with the expected rise in demand. For its part, OPEC has accelerated plans to increased crude production capacity to meet expected growth in demand, not just for next year but for many years to come with production capacity growing by 3.5 to 4 mb/d between 2006-2010, in addition to gains of 1.5 mb/d in OPEC NGLs and other liquids (*see **Graph 3***). While producing countries are to continue to make timely investments in the upstream, corresponding efforts need to materialize in the downstream, where in some regions refiners are currently running at 98% or close to full capacity. OPEC Member Countries have taken the initiative — on their own and in partnership with others — to pursue and invest in downstream projects. However, without meaningful and timely measures in the main consuming countries, the high and volatile oil prices noted in the G8 Communiqué are likely to remain a feature of the market.

Highlights of the World Economy

	Economic growth rates 2004-2005, %				
	World	**G-7**	**USA**	**Japan**	**Euro-zone**
2005	**4.1**	**2.3**	**3.4**	**1.6**	**1.0**
2006	**4.0**	**2.3**	**2.9**	**1.8**	**1.5**

Industrialised countries

United States of America

Higher inflation and interest rates seen as the main risk for 2006

Despite the continuing rise in energy costs it appears that the weakness in the US economy in the second quarter was temporary. Growth in consumer spending has been maintained at rates of about 3.5% as a result of solid gains in employment and labour compensation. Retail chain store sales for June were strong as were motor vehicle sales – although these were boosted by exceptional manufacturer discounts. The payroll data for June showed a reasonable increase of 146,000 with most of the gains recorded in the non-manufacturing sector. Manufacturing employment remains weak and factory orders for May showed a mixed picture. Durables orders were generally weak whilst non-durables orders were stable. **The May Institute of Supply Managers' Index for nonmanufacturing confirmed that the services and construction sectors are leading the US economy with particular strength in entertainment and transportation.** Overall the steady trend of employment gains indicate that consumer spending growth should be maintained in the second half of 2005. The negative consequence of the income gains may be higher inflation in the remainder of the year. **Productivity growth is slowing sharply and unit labour costs may be rising by over 4% in the second half.** Moreover it appears that US companies will find it easier to raise prices as the margin of spare capacity in the economy has shrunk. Domestic inflation pressures together with the effects of the previous depreciation in the US dollar may encourage the Federal Reserve to maintain the pace of interest rate increases – especially if the economy continues to grow at about 3.5% and the rate of core inflation looks set to exceed 2%.

Looking ahead, higher interest rates are likely to affect consumer spending in 2006 through their effects on the mortgage and housing markets. US consumer spending may have been boosted by as much as 1% in 2004 and 2005 by the gains in housing values and accommodative financial conditions. **These gains will not be available at the same scale in 2006 and it appears that consumer spending may grow by less than 3% next year.** Business investment in 2006 should continue to perform well, although the double digit gains of the past year will be hard to maintain. Fixed investment is still running at slightly below long run averages of GDP following the collapse of investment in 2002 and 2003. The improvement in the US external accounts will be a slow process. Much depends on the trend of the US dollar versus Asian currencies. A revaluation of the yuan is expected although Chinese authorities may allow only a small adjustment this year – especially if the downturn in the world economy eventually affects Chinese exports. The scale of the difference between US exports and imports means that a very large currency adjustment may be required to have much effect on net trade. The US current account will also be under pressure from the negative trend in net investment receipts incurred by the worsening US external debt position. **Overall the US economy is expected to grow by 2.9% in 2006 – a rate in line with average growth rates achieved over the previous twenty-five years.** The major risk to the forecast relates to the consequences for financial and real markets of an unexpected inflation shock. In 2006 the Federal Reserve will have a new Chairman and he will be anxious to establish his credibility with the markets – any signs of accelerating inflation may thus meet with an energetic response. The impact on indebted households and geared financial structures of higher interest rates would depress the growth of the US economy – especially considering the very low expectations of future interest rates embodied in current long term bond yields.

Japan

Recovery in domestic demand and investment plans should keep Japanese growth above 1.5%

First quarter growth was revised down slightly to 4.9% but most economic data suggests that activity remained firm in the second quarter. Industrial production fell by 2.3% in May but plans for June and July indicate a sustained recovery. Domestic demand is the main support for the economy and it has been capital goods and consumer durables which have preserved the momentum of production. The Bank of Japan *Tankan* report released at the beginning of July was encouraging. Manufacturing business conditions showed an improvement for the first time in three quarters and non-manufacturing sentiment also gained.

The results for large manufacturers were particularly good as only 8% of companies now perceive business conditions to be "unfavourable". The rise in nonmanufacturing sentiment exceeded market expectations – both large and small firms benefited from the better trend of consumer spending – both the retail and services sector showed strong gains. The slowdown in exports to China remains worrisome. In May, these exports fell below year ago levels – perhaps as a result of a pause in Chinese investment activity and rising inventories of capital goods. Investment in the USA continues to grow and hopes of an improvement in the second half of this year in Europe may also generate demand for Japanese capital goods. Orders in this sector have been growing consistently since October 2004 and the *Tankan* report revealed upward revisions in domestic capital expenditure plans for the new financial year – in particular nonmanufacturing capital expenditures are expected to grow rapidly. **Personal consumption held firm in the second quarter following strong growth at the start of the year. The employment environment has improved this year – in particular the number of full-time employees has increased for the first time in eight years.** The strength of demand might push consumer price inflation into positive territory in the second half of the year although most analysts expect the first quarter of 2006 to mark the end of deflation in Japan. The outlook for remainder of 2005 and 2006 is positive although there will be some deceleration in GDP growth from the very strong first quarter. **Some recovery in exports and continued growth in personal incomes should keep growth rates in the region of 2% although high oil prices may have some effect on corporate investment.** If the economy does achieve 2% growth the margin of spare capacity will gradually be eroded and this may affect the monetary policy of the Bank of Japan. In May the Bank allowed bank reserves to fall below their target range but no significant shift away from quantitative easing looks likely this year. The recovery remains rather fragile and the Bank will not wish any sign of a change in policy to threaten growth prospects for 2006. During 2006 the Bank may move away from quantitative easing but the emphasis on very low interest rates will surely remain in place for the foreseeable future.

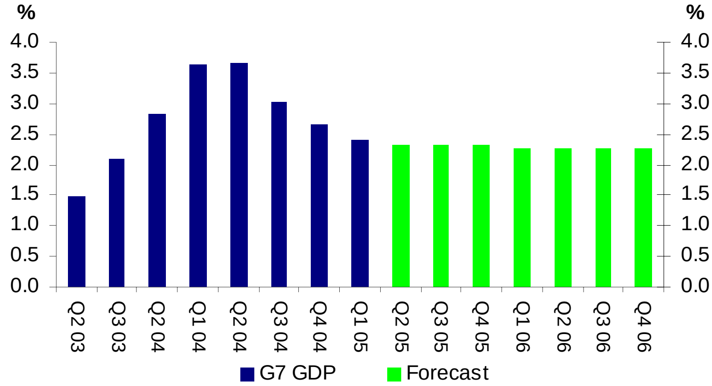
Euro-zone

Economy may be stabilizing. Growth prospects for 2006 hinge on an improved labour market

Indications for the second quarter of 2005 suggest that GDP in the Euro-zone grew by about 1% annualized. This represents a slight improvement on earlier expectations. Survey evidence in Germany, Belgium and France was consistent with positive growth and industrial production data for April was also encouraging. Although German industrial production for May showed a decline, it was less than expected as a result of a strong performance by the construction industry. Overall activity seems to have stabilized in the major economies although growth will be clearly affected by the positive impact of euro weakness and the negative effect of higher oil prices. Much will depend on the momentum of consumer spending and the pattern is hard to interpret. Retail sales in May showed an unexpected improvement on April but June is likely to have been affected by higher energy prices – for the quarter as a whole the outcome may be very low growth.

The outlook for the remainder of 2005 and 2006 depends mainly on consumption growth. European exports should benefit from the depreciation of the euro in 2005 but the weaker outlook for the world economy next year means that net trade is unlikely to contribute much to Euro-zone growth in 2006. An improvement in the confidence of households is the key to a significant recovery in GDP and this will require a turnaround in the labour market. Unemployment in the Euro-zone has remained static at 8.8% or 8.9% over the past year and the behaviour of inflation has also discouraged consumers. In June inflation in the Euro-zone rose to 2.1% from 1.9% in May as a result of higher energy costs. The combination of a weak labour market and rising inflation creates uncertainty regarding the trend of real incomes. Other causes of uncertainty in the Euro-zone include the impact of structural reforms on the labour force and the many issues surrounding the integration (and possible expansion) of the European Union. One positive factor continues to be the relatively low level of interest rates in the Euro-zone and no increase in rates is expected this year. **Not many analysts expect the ECB to cut rates, however, and the current neutral stance of the Bank will probably remain in place, at least whilst the euro continues to be weak.** Euro-zone interest rates may be cut — perhaps around the turn of the year — but only if wage inflation continues to be very low and expectations for the rate of consumer price inflation in 2006 are clearly anchored below 2%. **Overall the outlook for the Euro-zone in 2006 is not encouraging and growth is expected to remain below trend at 1.5%.** There is some scope for a positive surprise in Germany next year if world trade were to perform better than expected since the competitiveness of many German companies has certainly improved.

Graph 1: G7 Y-o-Y GDP growth, 2003-2005



Former Soviet Union

Russian economy is decelerating as oil production stagnates

The trends in the Russian economy continued to worsen in the second quarter. In particular rates of growth of fixed investment continue to lag the performance of 2004 and in May the year-on-year growth rate fell to below 7%. Overall GDP growth in the second quarter will probably be in the region of 5%. Industrial output rose by only 3.6% in the first five months of the year and the deterioration worsened in May. Many industries which produce for the domestic market saw falls in production in the month as a result of rising imports. **Total manufacturing output in May was only 1.6% above the comparable level of 2004. The results of the energy and metals industries were equally poor. Following growth of only 1.1% in April, the year-on-year growth rate of the extractive industries was 1.3% in May.** Inflation is running at rates well above those of 2004 and it seems likely that prices will rise by about 12-13% in 2005 in contrast to the current official target of 10%. Private capital continues to leave Russia as a result of political and institutional uncertainty. In the first five months of the year, there has been a cumulative private outflow of $12.9 billion, a third more than the total for 2004. Some industrial sectors are suffering from the real appreciation in the rouble but consumer demand continues to grow strongly. Retail sales growth recovered to 12% in April from 10% in March supported by high growth in real incomes. Despite the acceleration in inflationary pressures the Central Bank appears to be unwilling to allow the rouble to appreciate further. The dilemma facing the Russian Central Bank illustrates the problems of monetary authorities which try to manage both the inflation rate and the exchange rate at the same time. The only way to restrain the domestic money supply and Russian inflation would be to allow the rouble to adjust but the currency has already risen by about 8% in real effective terms in the first half of 2005. Fiscal policy remains expansionary as the authorities have announced plans to raise expenditures to 17% of GDP and these spending plans may lead to yet further inflation. About one third of the additional expenditure will be financed by the Stabilisation Fund. In effect this policy diverts oil revenues into social payments and public sector wages, reducing the scope to meet debt repayments.

Eastern Europe

Region's growth is affected by Euro-zone weakness

The very high rates of growth achieved by the Polish economy in the first quarter of 2004 have distorted the results of this year to some extent. Although first quarter GDP grew by only 2.1%, year-on-year, the level of activity remains satisfactory and net exports continue to grow. Industrial output has been volatile in the second quarter. A good result in April was followed by a 4.8% setback in May and this month also saw deterioration in consumer and manufacturing sentiment. As a result the Polish monetary authorities decided to reduce interest rates by 0.5% on June 29. **Overall GDP growth in 2005 and 2006 is likely remain below 4%.** In contrast, the Czech economy saw 4.4% growth in the first quarter as a result of strong export and investment spending. The cut in interest rates to 1.75% may encourage private consumption which has been very volatile in 2005 so far. **For the year as a whole, growth of at least 3.7% should be within reach.** After a very strong performance in 2004, Hungarian exports weakened in the first quarter of 2005 and pulled down the overall GDP growth rate to 2.9%. Investment activity is recovering, however, mainly as a result of EU funded construction spending. Household and government consumption both increased in the quarter and these expenditures supported the services sector – compensating for weak growth in industry. Hungary is very sensitive to the conditions of the Euro-zone economy which affect both exports and FDI and the poor performance of this region may make it difficult for GDP to grow much more than 3% in 2005. **Nevertheless the hoped-for recovery of the Euro-Zone next year should allow Hungarian growth to recover to 3.5% in 2006.**

OPEC Member Countries

Oil receipts enhance domestic economy and loans to non-oil enterprises

Strong oil export revenues have been feeding through the domestic economy, most directly through sharp increases in public spending in most OPEC Member Countries. In Saudi Arabia for instance, historically, high oil prices have done much to bolster confidence, and this is expected to remain the case this year, lifting private consumption and boosting investment. Interest rates, though rising, are low by medium-term norms, and with the banks remaining highly liquid, credit growth is also likely to be robust, further boosting growth. Foreign investment is also set to strengthen, while the initiation of the development of the country's upstream gas sector and downstream power and water supplies will also add to overall capital spending. These trends will persist into 2006 where the GDP growth rate is forecast to slow down to 6% against the 8.4% rate anticipated this year. In I.R. Iran, public consumption is forecast to increase strongly, as parliament imposes freezes on subsidies and raises support for conservative quasi-governmental institutions. Strong public spending normally stimulates robust private consumption. Gross fixed investment will also benefit as a share of oil receipts is lent to non-oil enterprises. Economic growth will be constrained, though, by slowing expansion in export volumes, as the oil production – by far the most eminent export commodity – remains flat and domestic consumption rises, reducing output available for sale abroad. A strong rise in import volumes will also hold back growth. Therefore, the real GDP in fiscal 2005 is projected at 7.3%, but expected to decelerate to 6.3% in fiscal 2006.

Developing Countries

While Chinese economic growth remains robust due to impressive export growth and consumer demand, Brazil is expected to slow slightly, and Sub Saharan African growth to see an increase

The pace of China's economic expansion was undiminished in the first quarter of 2005, putting the country well on its way to notching up another year of GDP growth in excess of 9% this year. Both export growth and consumer demand remained impressive. There have since long been concerns that the economy has been overheating because of an investment bubble. Following the investment surge of the past two years, there is now anecdotal evidence of overcapacity in many sectors, including steel and cement production, property development and consumer durables. This poses risks to profitability, with knock-on consequence for corporate solvency and the banking sector's bad-loan position. The rate of inflation in China fell back from 5.3% in July-August 2004 to 1.8% in April-May 2005. This deceleration was driven by sharp falls in grain prices, which reflects the success of the government's efforts to increase grain production. CPI is forecast to fall from 3.9% in 2004 to 2.2% this year and 2% in 2006. In Brazil, over the first quarter of the current year, the GDP growth rate was down q-o-q to 0.3%, bringing the y-o-y growth to 2.9% down from 5% in the fourth quarter of 2004. The slowdown reflects the effects of rising real interest rates on the growth of domestic private sector demand, and although export growth remains strong, the appreciation of the exchange rate will have dampened the net external stimulus. Both consumer spending and investment spending are expected to respond to an easing of real lending rates by the end of 2005. In Sub-Saharan Africa, growth should rise to average 4% in 2004 and 4.5% in 2005, as world demand improved and commodity price rises feed through into stronger domestic expenditure growth. But domestic political developments and weather patterns will also play a significant role in determining growth prospects as some countries are rebounding rapidly as conflicts are over, while others are bouncing back from drought-related economic slow-downs.

Oil prices, the US dollar and inflation

Strong economic performance supports the dollar

The dollar strengthened further in June, reflecting continued economic strength of the USA relative to Europe and lack of confidence in the Euro-Zone following the French and Dutch rejection of the European Constitution. The dollar rose by 4.2% against the euro, 2% against the British pound and 3.9% against the Swiss franc. The dollar also rose by 1.9% against the yen.

In June the OPEC Reference Basket rose to $.52.04/b from $46.96/b in May. In real terms (base July 1990=100), after accounting for inflation and currency fluctuations, the Basket price rose by 13.4.% to $37.08/b from $32.71/b, as the effect of the stronger dollar added to the 10.8% rise in the Reference Basket price. The dollar rose by 2.7% 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

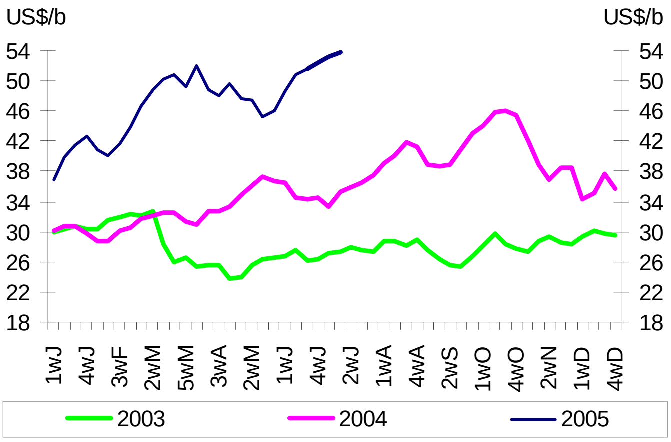
A new Reference Basket that reflects the major crude stream of each OPEC Member Country was adopted in June. In the same month, the Basket surged 12% on average due to concerns over seasonal fuel supplies amid downstream bottlenecks

Note: Price band temporarily suspended as of 31 January 2005

Following the decision taken by the 136th (Extraordinary) Meeting of the Conference, the new OPEC Reference Basket has been implemented

OPEC Reference Basket

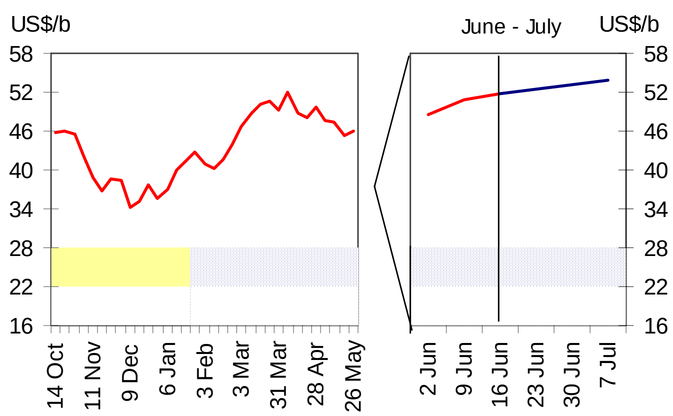
Graph 2: OPEC Reference Basket - weekly spot crude prices



The crude oil market had a strong start the month of June as tight downstream capacity and concern over distillates supply added bullish momentum to the market. In the first week, the Basket saw a gain of $2.55 or 5.5% to average $48.57/b. **A US refinery glitch also heightened concern over tight fuel supplies in the Western hemisphere.** However, the narrowing Brent/Dubai spread opened arbitrage opportunities for western crude to flow eastward, which capped any further rise in prices amid a healthy build in the US distillates stocks. In the second week, the Basket rose a healthy $2.16 or 4.5% to settle at $50.73/b as the daily price broke through the $51 level for the first time since early April. During the third week, **the market moved steadily upward following an early start of the hurricane season in the Gulf of Mexico** amid product concerns and varying opinions over the outcome of the OPEC's June Meeting of the Conference. While the market digested the OPEC decision to raise the production ceiling by 0.5 mb/d to 28 mb/d, a larger-than-expected drop in US gasoline stocks amid another hefty draw in crude oil inventories sent the Basket price soaring above the $52 mark. As a result, the Basket registered a weekly gain of 1.8% or 89¢ to stand at $51.62/b.

On 15th June, the **OPEC Meeting of the Conference adopted a new OPEC Reference Basket. The new Basket consists of 11 crudes, representing the main export crudes of the Member Countries weighted according to production and exports to the main markets.** In that same week, concern over tight summer fuels continued to pressure prices, while a **security alert in Nigeria added to market fears**. The new ORB began on a bullish note surging $1.40 or 2.8%, before gaining another $1.20 or 2.3%. Accordingly, the fourth weekly average for the ORB closed 1.6% higher for a gain of 83¢/b to settle at $52.45/b. Continued healthy demand growth into the final week amid **concern over bottlenecks in downstream capacity kept bulls intact**. However, high outright prices prevented some regional markets from moving any farther while the futures market slumped on hefty profit taking. Bearish US weekly data amid weakened demand from China pressured prices further downward as the Basket dropped 2.5% in one day, but still closed the week 74¢ higher at $53.19/b.

Graph 3: Weekly average Basket price, 2004-2005



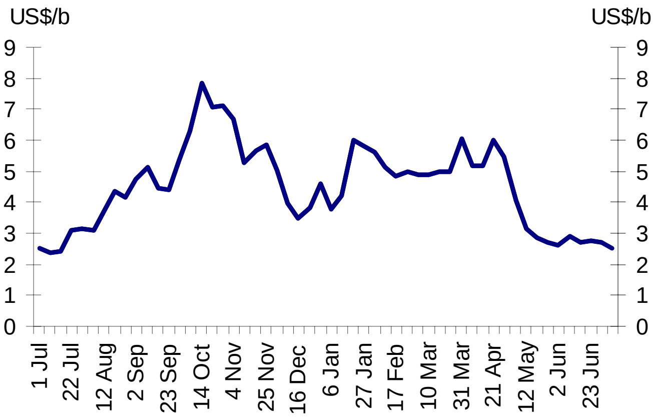
On a monthly basis, with the new calculation, the Basket averaged higher on concern over refinery bottlenecks amid several refinery glitches in the western hemisphere. **Using a combination of the old and new Basket calculations, the monthly average for June rose to $52.04/b, a gain of $5.08/b or 11% from the previous month. When solely applying the old methodology, the ORB rose average $52.72/b, a gain of $5.76 or 12% for the month higher, while the new methodology would show an average of**

$50.92/b for a gain of $5.81 or 13%. The Basket continued to move higher in the early part of July on concern over winter fuels amid an abrupt start to the hurricane season. As a consequence, the Basket peaked at an all time high of nearly $55/b on 8 July.

US market

Despite healthy US crude stock levels, growing concern over tight distillates in the second half of the year fueled market bullishness amid tight refining capacity

Graph 4: WTI spread to WTS



The US market began June on a bullish note following the inauguration of the driving season and prospect of tight distillate fuels amid strong demand for diesel oil. WTI cash crude surged by nearly 5% on the first day of the month. However, petroleum data for the first week revealed growing stocks of gasoline and other fuels, which helped to ease the market with WTI cash crude plunging nearly 2% in the second day. In contrast, strong implied demand growth inspired bullishness in the marketplace, furthered by tight refining capacity and concern that distillates stocks would not be sufficient to meet demand needs in the second half of the year. The first week average for WTI cash crude was up $3.38 or nearly 7% to settle at $52.88/b with the WTI/WTS spread down 9¢ lower at $2.64/b. In the second week, US stock data showed a draw in crude oil stocks, while distillates saw a healthy build. The higher distillate levels exerted downward pressure on US cash crude. The formation of Tropical Storm Arlene signaled an early start to the US hurricane season and raised supply fears in the Gulf of Mexico. In the second week, WTI rallied over 2% to average $54.02/b and the WTI/WTS spread widening 26¢ to $2.90/b. The market was divided over various aspects of the IEA's report which forecast slowing demand from China. **Better weather in the US Gulf and an OPEC decision to increase the output quota by 500,000 mb/d 28 mb/d also eased prices**. Prices surged again in the third week on the back of an unexpected draw in crude stocks amid continuing market concern over tight refining capacity and the perception that surging global fuel consumption would stretch the production capacity of OPEC and other producers. WTI cash crude surged another 2.2% to close at $55.21/b, while the WTI/WTS spread edged 20¢ lower to $2.70/b. Volatility continued into the fourth week following a security alert in Nigeria amid concern over increasing demand in the second half of the year, which sent WTI up 3.7% in the first day of the weekly period. The unexpected build in the US distillates stocks stalled the bulls; however, a refinery glitch at **BP's 460,000-b/d Texas City refinery revived fears of a supply shortfall.** WTI weekly average surged 6.4% to settle at $58.73/b while WTI/WTS spread inched up 4¢ to $2.74/b. In the final week, the stride continued as crude futures prices peaked over $60/b sending the message that higher prices were not yet choking the US economy. However, fund sell-offs in the futures market amid weekly petroleum data revealing a healthy build in the US petroleum complex caused the market to slump by well over 6% in the final three days of June. As a result the weekly average for WTI cash crude plunged $3.67/b to settle at 56.73/b

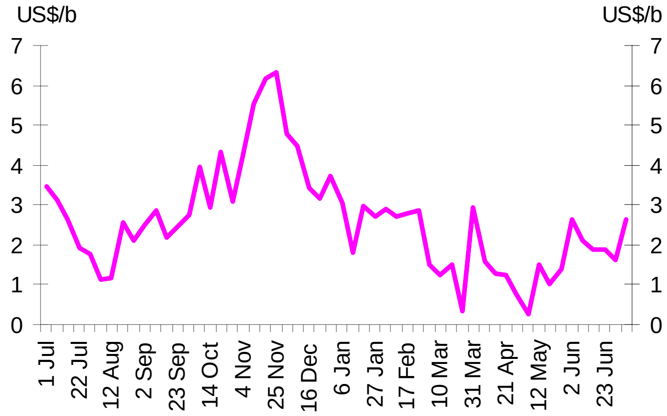
European market

High outright prices kept buyers on the sidelines pressuring Brent crude differentials. Weak sour margins kept Mediterranean crudes under pressure

The market in Europe mirrored movement in the paper market on unsold Brent barrels for second half June loading. Brent was out of favor in the north which forced sellers to raise their discounts, causing cargoes to clear quickly in the first decade. The market then saw hope for improvement in differentials as cargoes cleared ahead of the new program amid an opening of the transatlantic window, which firmed sentiment into the third week. Several cargoes moved out of the region continuing to support the bullish market sentiment for North Sea grades inspired by refinery demand amid concerns following a security alert in Nigeria**.** Nevertheless, high outright prices kept buyers on the sidelines, pressuring price differentials in the final week of June, although concern over refined product supplies strengthened distillate margins. The market was briefly supported by a move by Norway to eliminate two July stems following output problem for Oseberg amid thin refinery interest for second decade July cargoes.

In the Mediterranean, strong Urals differentials on healthy refining margins supported the market for other grades amid availability and stronger demand in the Black Sea. However, a slip in refiner margins in the second week kept buyers on the sidelines in hopes that prices would fall. Widening fuel oil cracks and late month availability continued to pressure the market early in the third week. Nevertheless, the market regained balance as some barrels began to flow out of the region amid strengthening refinery interest due to improved margins. **The sentiment softened into the fourth week amid a long-awaited sell tender for Iraq's Kirkuk crude, which left the market looking well supplied.** This put Urals under pressure and weakened refining margins amid the expectation that price differentials would narrow. Volatility in the futures market contributed to refiners' reluctance to buy late in the month.

Graph 5: WTI premium to Dated Brent

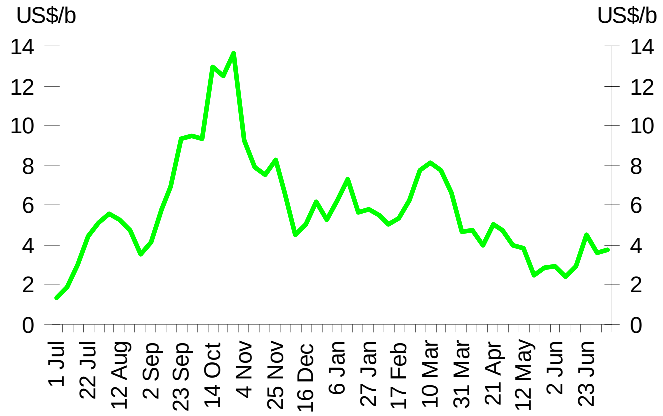


Far East market

High outright prices amid a weak crack spread for fuel oil and rival western barrels headed eastward strengthened bearishness in the Far East market

The market began June on hold, awaiting the release of retroactive Mideast prices. However, the last barrels of July Oman were assessed at a 1-8¢/b premium to MOG while Abu Dhabi Murban was heard to trade at as much as a $1/b discount to ADNOC's OSP amid high outright prices in the first weekly period. **The narrowing Dubai/ Brent swap furthered pressure on Middle East grades as rival western grades began to head eastward.** August Oman was on offer at a 2¢ premium and bid at a 10¢/b discount to the MOG as the Brent/Dubai spread fell to its lowest level in 11 months in the second week. **The bearish sentiment furthered into the third week on falling fuel crack spread**, which left August Oman valued at 15¢/b discount. Moreover, despite a decline in May retroactive OSP for Abu Dhabi crudes, sentiment was bearish on the expectation for ample supplies for August loading amid the expectation of an increase in the OPEC output ceiling. At the end of the third weekly period, sentiment switched as the arbitrage opportunity for western barrels closed. August Oman was still assessed at an 8-15¢/b discount due to the overhang in the August program. The bearishness sustained strengthened throughout the month on the narrowing Brent/Dubai spread amid an excess supply of fuel oil. Abu Dhabi crudes remained under pressure on the perception of larger allocation in July, while August Murban fetched a 15¢/b discount to OSP. The final week saw further weakening sentient as Taiwan failed to take up their normal procurement of Oman barrels. This left **August Oman under pressure on overhanging supplies to sell at 20¢/b discount to MOG before being at a 55-60¢/b discount later in the week as refiners remained on the sidelines due to high outright prices**. Moreover, Abu Dhabi slipped to –30¢/b to the OSP on indisposed prompt cargoes at the end of the trade window.

Graph 6: Dated Brent spread to Dubai



Ongoing production problems at Australia's Cossack oil field prompted premiums while Asia's appetite for light sweet West African crude pressured the regional market

Asian market

The Asian-Pacific market got off to a slow start, despite the fact that the Tapis OSP for May was lower than April. **Soaring outright prices hit Asian demand with India canceling its import-tender for sweet crude and China shying away from Vietnamese grades.** Hence, Malaysia's Petronas sold a July Tapis cargo at a lower premium of 5¢/b compared to 10¢ for the first cargo while they were on offer at 30¢/b premium to Tapis APPI. Overhanging July barrels forced Petronas to sell a Bintulu cargo at parity while the final cargo dipped into the negative territory to be sold at a 30¢ discount to the APPI quote. Moreover, in mid-month the market focused on a Pertamina buy-tender which doubled the volume for August loading barrels amid an overhang in supply and high outright prices for benchmark Minas. **Ongoing production problems at Australia's Cossack field where output was reduced by a third until October revived hopes of a stronger market and boosted regional crude differentials**. Sellers of sweet regional crudes stayed on the sidelines awaiting higher premiums as August Tapis stood at 80¢/b over the APPI quote. Towards the end of the month, the market became concerned that the drought in eastern Thailand might affect the petrochemical sector. Healthier refining margins for distillate rich grades gave a kick to the market. Hence, August Australian grades saw a $1.80/b premium to Tapis APPI, while Malaysia Miri stood at $1.50/b above Indonesia's medium-sweet Widuri and Cinta fetched 60¢/b more than ICP. Nevertheless, high outright prices caused refiners to hold back in the hopes of opportunities for western crude and cheaper Mideast barrels.

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

			Year-to-date average	
	May 05	**Jun 05**	**2004**	**2005**
OPEC Reference	**46.96**	**52.04[a]**	**32.59**	**46.71[a]**
Arab Light[1]	47.09	52.47[a]	32.31	45.68[a]
Basrah Light	44.57	50.59[a]	31.72	44.37[a]
BCF-17	32.39	37.48	na	33.73[b]
Bonny Light[1]	50.23	55.93	33.72	50.43
Es Sider	47.90	53.16	32.76	47.47
Iran Heavy	43.25	49.60[a]	30.09	43.67[a]
Kuwait Export	46.36	51.15[a]	31.58	45.18[a]
Marine	46.66	52.27	31.36	45.47
Minas[1]	50.34	55.02	33.11	50.60
Murban	51.03	55.16	33.63	49.12
Saharan Blend[1]	48.69	54.41	33.73	49.66
Other Crudes				
Dubai[1]	45.68	51.37	31.41	44.59
Isthmus[1]	45.05	51.48	33.39	45.12
T.J. Light[1]	41.67	48.19	30.45	41.61
Brent	48.90	54.73	33.70	49.59
W Texas	50.25	56.60	36.82	51.45
Differentials				
WTI/Brent	1.35	1.87	3.12	1.86
Brent/Dubai	3.22	3.36	2.29	5.00

Based on the current Basket methodology, the average for May would be: US$45.11/b.
Based on the current Basket methodology, the average for June would be: US$50.92/l.
Based on the old Basket methodology, the average for June would be: US$52.72/b

[1] Old Basket components: Arab Light, Bonny Light, Dubai, Isthmus, Minas, Saharan Blend

[a] June average and year-to-date average 2005: As of the third week of June, the price is calculated according to the current basket methodology that came into effect as of June 16, 2005.

[b] As of March 1, 2005.

na not available

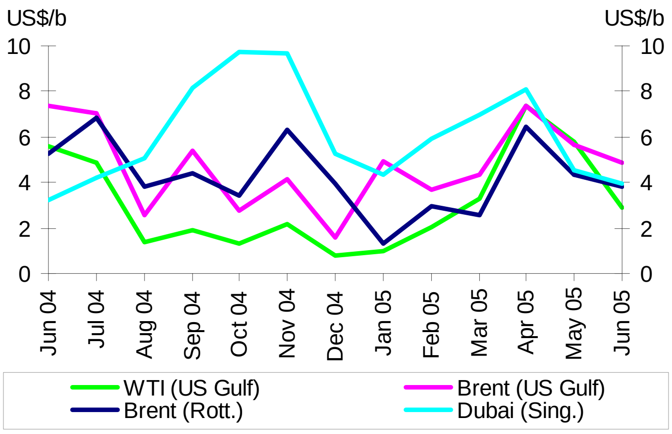
Source: Platt's, direct communication and Secretariat's assessments.

Product Markets and Refinery Operations

Refinery margins dropped around the world in June

The choppy ride in crude prices has outpaced the performance of the product markets in June and undermined refinery margins for sweet and sour benchmark crudes across the globe compared to the previous month. As Graph 7 shows, refinery margins for WTI in the US Gulf Coast dropped to $2.88/b in June from $5.81/b in May. Similarly, refinery margins for Brent and Dubai benchmark crudes in Rotterdam and Singapore declined from $4.33/b to $3.82/b and $4.96/b to $3.96/b. **Despite the drop in June, refinery margins still looked healthy, especially in the wake of recent storms in the US Gulf Coast, which allowed margins to recover part of their earlier losses. Meanwhile, the abrupt start of the hurricane season has shifted market attention to the products and the potential for shortages in the months to come has lifted crude and product prices.** These developments suggest that, despite the recent improvements in middle distillate product stocks across the globe, the market is highly sensitive to even small refinery outages, which signals a potentially new bullish factor for the product markets.

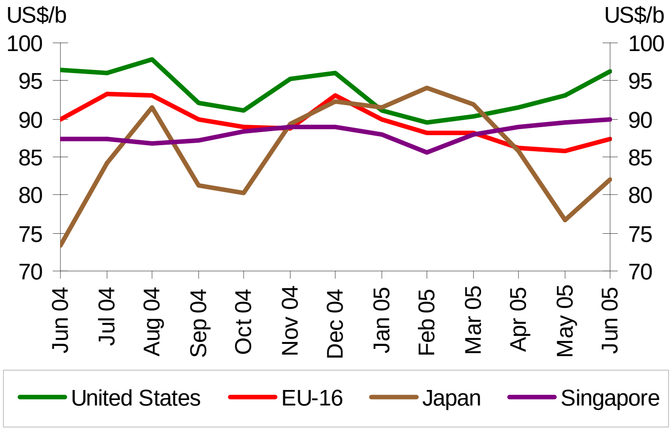
Graph 7: Refiners' margins



Atlantic Basin refineries running at close to their maximum capacity

Furthermore, following the completion of spring maintenance and due to attractive refinery margins for the light and middle cut of the barrel, the refinery utilization rate rose globally, particularly in the USA where it reached 96.2% in June from 93.2% in the previous month, as shown in Graph 8. In Europe and Japan, margins surged by 1.6% and 5.3% to record 87.4% and 82% respectively.

Graph 8: Refinery utilization

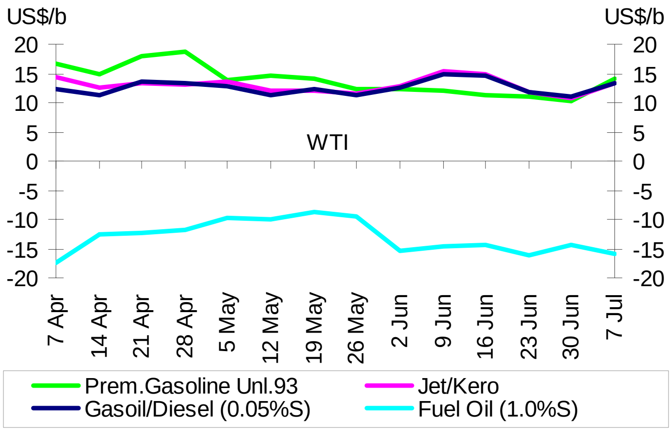


US market

US gasoline prices outpaced distillate prices again

Tropical storms, which resulted in the temporary outage of a few refineries in the Gulf Coast, further strengthened the sentiment of the product market and lifted product prices, particularly gasoline. The gasoline market has also been reinforced by rising demand. According to the EIA report of 7th July, US gasoline demand increased to 2.5% over the last four weeks compared to last year.

Graph 9: US Gulf crack spread vs. WTI



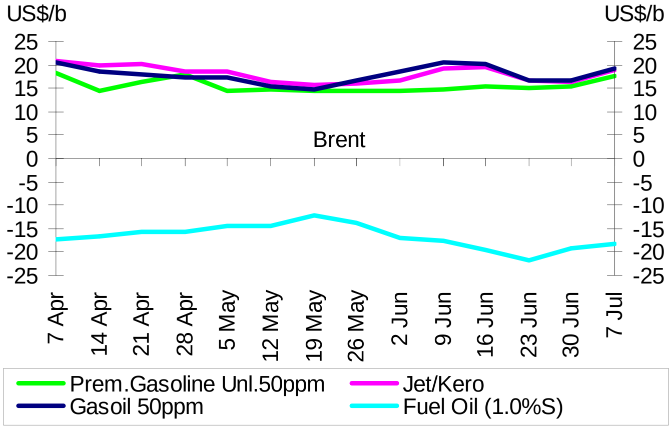
Similarly, over the same period distillate demand has surged 4%. However, at the same time, the 8.5% rise in output has resulted in higher stock builds, easing earlier acute concern about a potential shortage of distillates in the latter part of the year. As a result, distillate prices could not match the recent gains of crude and gasoline prices, but, as Graph 9 shows, the crack spread for the middle of the barrel remains strong. Despite the healthy situation for the top and the middle cut of the barrel, US market demand, particularly for high sulphur fuel oil, has deteriorated further compared to the previous month, although utility demand has lent some support to low sulphur fuel oil.

Product prices in Europe have rebounded recently along with gains in the IPE gasoil price

European market

The lack of favourable economic arbitrage opportunities for gasoline exports to the USA, ample diesel supply from the Baltic area and the return of regional refineries from maintenance had put pressure on clean and middle distillate products in Europe. As Graph 10 represents, the crack spreads for those products lost their earlier strength but have recovered recently, supported by fear of supply shortfalls due to the tropical storms in the Gulf of Mexico.

Graph 10: Rotterdam crack spreads vs. Brent

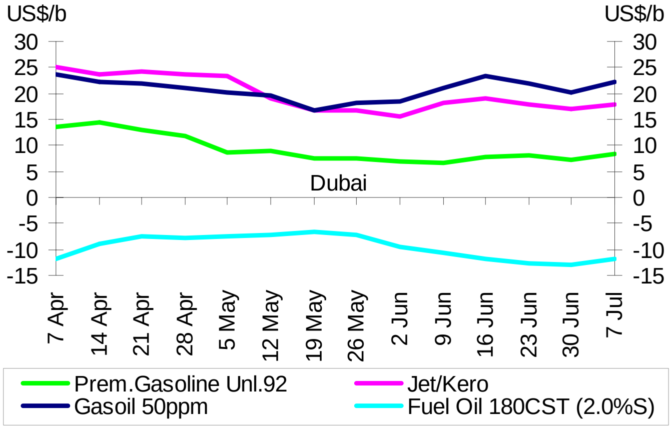


Among clean products, market sentiment for naphtha is still weak, as depressed conditions in Asia spurred traders to send surplus cargoes to Europe and competition from other alternative sources like propane and LPG as feedstock for petrochemicals in replacement of naphtha remains strong. Furthermore, heavy products like high sulphur fuel oil lost more ground to the Brent benchmark amid plentiful supply from the Baltic area and a lack of arbitrage opportunities to Asia. As Graph 10 shows, the crack spread for high sulphur fuel oil against Brent declined from –$15/b in mid-May to about –$24b on 23rd June, but this decline has been partially offset recently with the opening of export opportunities to the USA for use as feedstock.

Fresh demand from Indonesia lent support to the medium and light portion of the barrel in Asia

Asian market

Graph 11: Singapore crack spreads vs. Dubai



The gasoline market, which has suffered from slowing regional demand since the beginning of April, recently recovered amid strong demand from South-East Asian buyers. As Graph 11 shows, the gasoline crack spread in the Singapore market versus its corresponding Dubai benchmark rebounded, rising to nearly $9/b from about $6/b in early June. However, despite the recent improvement in the reforming margin and petrochemical product prices, the market for naphtha remained as poor as it has been over the last two months. Heavy regional supply continued to dog the market and concerns about slowing regional demand pressured prices further, particularly in Thailand where a severe water shortage has affected petrochemical plant operations and feedstock requirements.

With regard to distillates, the tight situation globally along with healthy Indian gasoil imports and recent robust demand from Indonesia, have overwhelmed the impact of sluggish diesel demand from China, which switched to become a net exporter of gasoil. As of 25 June, China increased the retail price of transportation fuel with diesel rising 3.8% and gasoline increasing 4.5%. However, the market believed that this is not likely to encourage Chinese companies to import diesel as these gains are not significant enough to wipe out import losses. The jet kerosene market was relatively quiet in June, and its crack spread against Dubai crude remained almost flat compared to the previous month. Concerning high sulphur fuel oil, the Asian market looked more bearish, as Chinese buyers were absent from the market and over 2.5 million tonnes of arbitrage cargoes were expected to arrive in July. However, rising demand for thermal fuel oil from Japan and South Korea lent support to the low sulphur fuel oil. The crack spread for high sulphur fuel oil dropped from about –$7/b in late May to –$12/b recently.

Table 2: Refined product prices, US$/b

		Apr-05	May-05	Jun-05	Change Jun/May
US Gulf (Cargoes):					
Naphtha		61.54	58.02	58.74	–3.52
Premium gasoline	*(unleaded 93)*	69.83	63.33	67.61	–6.50
Regular gasoline	*(unleaded 87)*	65.03	59.41	64.21	–5.62
Jet/Kerosene		66.24	61.94	69.69	–8.01
Gasoil	*(0.05% S)*	65.62	61.64	69.49	–3.98
Fuel oil	*(1.0% S)*	39.65	39.81	41.40	0.16
Fuel oil	*(3.0% S)*	34.74	36.96	37.41	2.22
Rotterdam (Barges FoB):					
Naphtha		61.62	54.65	57.23	–6.97
Premium gasoline	*(unleaded 50 ppm)*	68.55	62.85	69.54	–5.70
Premium gasoline	*(unleaded 95)*	61.36	56.26	62.17	–5.10
Jet/Kerosene		71.67	64.90	72.32	–6.77
Gasoil/Diesel	*(50 ppm)*	70.38	64.51	73.02	–5.87
Fuel oil	*(1.0% S)*	35.59	34.56	35.01	–1.03
Fuel oil	*(3.5% S)*	34.53	33.79	34.86	–0.74
Mediterranean (Cargoes):					
Naphtha		51.05	44.97	46.94	–6.08
Premium gasoline	*(unleaded 95)*	59.51	53.58	59.95	–5.93
Jet/Kerosene		69.93	62.57	69.74	na
Gasoil/Diesel	*(50 ppm)*	71.44	64.90	73.65	–6.54
Fuel oil	*(1.0% S)*	38.31	35.99	38.33	–2.32
Fuel oil	*(3.5% S)*	33.67	32.20	33.59	–1.47
Singapore (Cargoes):					
Naphtha		49.85	44.76	45.71	–5.09
Premium gasoline	*(unleaded 95)*	61.50	54.46	59.65	–7.04
Regular gasoline	*(unleaded 92)*	60.23	53.37	58.38	–6.86
Jet/Kerosene		71.40	63.39	68.93	–8.01
Gasoil/Diesel	*(50 ppm)*	69.39	63.83	72.42	–5.56
Fuel oil	*(180 cst 2.0% S)*	38.30	38.00	39.34	–0.30
Fuel oil	*(380 cst 3.5% S)*	37.75	37.18	38.11	–0.57

na: not available

Table 3: Refinery operations in selected OECD countries

	Refinery throughput, *mb/d*				**Refinery utilization,** *%*			
	Apr-05	**May-05**	**Jun-05**	**Jun/May**	**Apr-05**	**May-05**	**Jun-05**	**Jun/May**
USA	15.35	15.63	16.14	0.52	91.5	93.2	96.2	3.1
France	1.58	1.65	1.70	0.06	81.1	84.5	87.3	2.8
Germany	2.17	2.28	2.24	-0.04	93.2	98.3	96.4	-1.9
Italy	1.90	1.85	1.92	0.07	81.8	79.7	82.8	3.1
UK	1.53	1.53 R	1.56	0.03	84.0	83.9 R	85.3	1.4
Eur-16	11.97	11.90 R	12.13	0.22	86.2	85.8 R	87.4	1.6
Japan	4.04	3.61 R	3.86	0.25	85.8	76.7 R	82.0	5.3

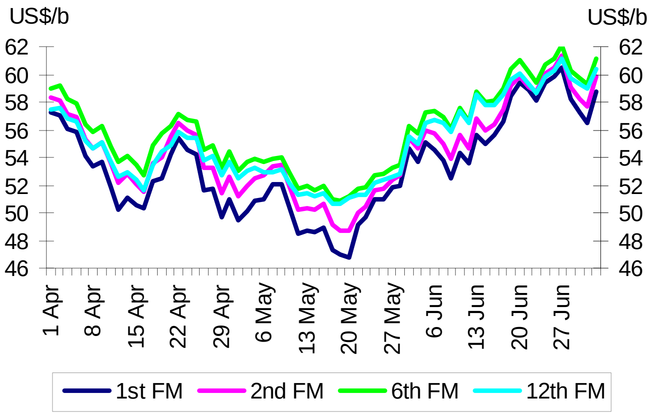
R *Revised since last issue.*
Sources *OPEC statistics; Argus; Euroilstock Inventory Report/IEA.*

The Oil Futures Market

The Nymex WTI front month contract rose above the $60/b level on reviving concern over product and crude supplies

June began on a bullish note on concerns over tight downstream capacity. The Nymex WTI front month closed the first weekly period at an average of $54.30/b for a gain of $2.85 or 5.5% on hefty fund buying. The **CFTC report for the week ending 7 June showed that non-commercials net positions turned longs after three weeks on the short side**. Non-commercial net long positions increased by a hefty 19,000 lots to stand at well over 1,000 contracts. Open interest remained unchanged from the previous level of around 780,000 contracts as most of the speculative movement appeared to come from the commercial side of the equation.

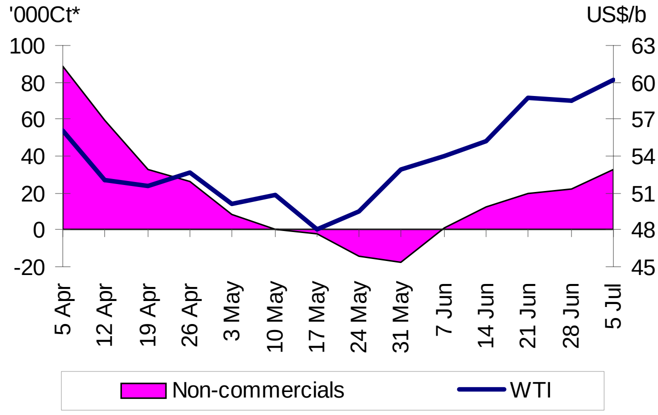
Graph 12: Nymex WTI futures contracts, 2005



FM = future month

Healthy distillate stocks in the USA eased the market's bullish sentiment despite Hurricane Arlene making its way towards the US Gulf Coast. **OPEC's decision to raise the output ceiling by 500,000 b/d to 28 mb/d amid the possibility of a further increase helped to calm the market.** In the week ending 14 June, the Nymex WTI prompt month averaged 10¢ lower at $54.20/b. However, the contract was pushed to ten-week high above $55/b on concern that distillates fuels which have the thinnest y-o-y surplus in the petroleum complex could tighten further due to strong demand for diesel and jet fuels as refineries focus on gasoline to meet high summer demand. Accordingly, **the fourth through the ninth month contracts closed over $60/b on 17 June**. The buying spree continued in the energy futures market inspired by the security alert in Nigeria. The speculative positions for the week closed 21 June was up by some 7,000 lots to bring net longs to nearly 20,000 contracts while commercials heavily reduced their positions to bring overall open interest down by some 35,000 lots to 772,000 contracts. Nymex WTI third weekly average closed $3.58 or 6.6% higher at $57.78/b.

Graph 13: Futures Commitment of traders report: Nymex crude oil, 2005

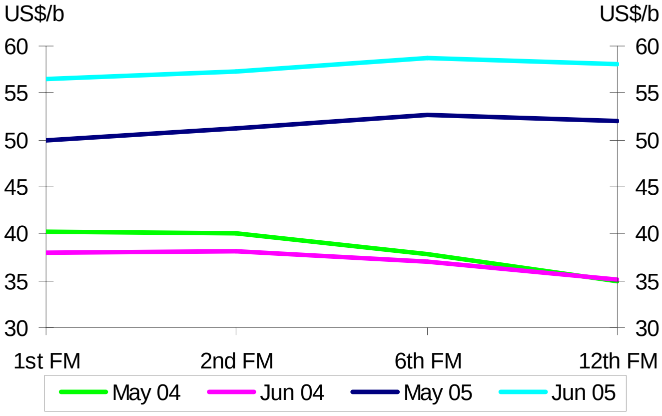


The final weekly period of the month saw another boost in the futures market. Strong speculative buying was triggered by a glitch at BP's 460,000 b/d Texas City refinery reviving concerns that gasoline and distillates stocks might not be able to meet demand in the second half of the year. Nevertheless, fund liquidation for profit taking capped the rally. Hence, the CFTC's non-commercial for the fourth weekly period revealed a slower pace rise in the net long positions of 2,000 lots to 22,000 contracts. Although commercials dropped both long and short positions, open interest rose by some 11,000 lots to 783,000 contracts, which was attributed mainly to the activity of non-commercials. The Nymex WTI front month closed the weekly period averaging $59.22/b for a rise of $1.42 after the front month peaked at an all time high of well over $60/b. Nevertheless, in the final two days of the month, a healthy build in the US petroleum stocks triggered another sell offs on profit taking, and the Nymex WTI slipped $1.70 or 3%. **On monthly basis, the prompt month average was $6.07 or 12% higher at $56.42/b with open interest at some 81,000 lots over same period last year to average 786,000 contracts**.

The contango eased in June amid sustained comfortable US crude oil stocks as prices were pressured by tight products supply

The forward structure remained in contango in its eight consecutive month, yet at a narrower pace. The 1st/2nd month spread widened from late May to peak in the first decade of June, rising to \$1.29/b. **The healthy build in the US crude oil stocks to a six-year high at 330 mb helped the contango to remain wide**. Nevertheless, the start of the seasonal drawdown in US crude oil stocks helped the spread to narrow. Hence, the 1st/2nd month's spread widened to -14¢/b towards the end of the second decade. The sentiment changed as crude oil stocks remained at healthy levels. The monthly average for the 1st/2nd month spread was a contango of \$1.42/b, which was 52¢/b narrower than in May. The 1st/6th month contango was at \$2.30/b while the 1st/12th spread reached -\$1.74/b. The 1st/ 18th month stood at -74¢/b.

Graph 14: Nymex WTI forward curve



FM = future month

The Tanker Market

OPEC spot fixtures increased in June, reversing the downward trend of the last three months

OPEC spot fixtures reversed the downward trend of the last three consecutive months by showing a growth of 1.56 mb/d or 12% to reach 14.27 mb/d, which was 1.5 mb/d higher than the same month last year. With this jump, OPEC's share of total spot chartering moved up from 62% to 64%. OPEC Countries outside the Middle East accounted for most of the increase in OPEC's spot fixtures, contributing 1 mb/d or two thirds of the growth. Middle East/eastbound long-haul fixtures increased by 0.46 mb/d to 5.23 mb/d, while Middle East/westbound fixtures remained relatively stable at 2 mb/d. However, the Middle East/east- and westbound share in OPEC spot fixtures fell to 51% from 53% in the previous month due to the sharp increase in spot fixtures from OPEC Countries outside the Middle East. Non-OPEC spot fixtures increased by 0.35 mb/d to 8.04 mb/d, which was 0.34 mb/d higher than the same month last year. Despite the growth in volume, non-OPEC share in global spot chartering moved down from 38% to 36%. The 1.9 mb/d growth in OPEC and non-OPEC spot fixtures pushed up global fixtures to 22.3 mb/d, which was nearly 1.9 mb/d higher than the June 2004 level.

Preliminary data showed that sailings from the OPEC area moved up slightly by 0.1 mb/d to settle at 27.2 mb/d. Middle Eastern sailings, which represented 70% of OPEC's sailings, remained stable at around 19 mb/d. Compared to the same month last year, sailings from OPEC were up 3.6 mb/d with the Middle East contributing 80% to the growth. **According to preliminary estimates, arrivals in the USA and the Caribbean went down by 0.24 mb/d to stand at almost 11 mb/d**. However, despite this decline, arrivals were 0.9 mb/d higher than the June 2004 level. Arrivals at North-West Europe and Euromed regions dropped by 0.5 mb/d and 0.4 mb/d to stand at 7.1 mb/d and 4.3 mb/d respectively, while arrivals in Japan remained almost stable at around 4 mb/d, but 0.5 mb/d higher than the June 2004 figure.

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

	Apr 05	May 05	Jun 05	Change Jun/May
Spot Chartering				
All areas				
OPEC	22.85	20.40	22.31	1.90
Middle East/east	13.98	12.71	14.27	1.56
Middle East/west	5.52	4.77	5.23	0.46
Sailings	2.19	1.95	2.03	0.08
OPEC				
Middle East	27.05	27.10	27.20	0.10
Arrivals	18.93	19.00	19.05	0.05
US Gulf Coast, US East Coast, Caribbean				
North West Europe	10.30	11.23	10.99	–0.24
Euromed	7.95	7.58	7.08	–0.50
Japan	4.18	4.73	4.32	–0.41

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

Freight rates for VLCCs continued to weaken due to plentiful tonnage

Crude oil spot freight rates displayed mixed patterns with **VLCC rates plunging to late 2003 levels in the WS50s. VLCC freight rates continued their downward trend for the fourth consecutive month** with Middle East/east- and westbound rates declining by 14 and 16 points to monthly averages of WS56 and WS53 respectively due to a **glut in tanker supply following the entry into the market of 15 new vessels since the beginning of this year.** In addition, the widening spread between the fuel oil crack and the Dubai price and lower refining margins in Asia encouraged regional refiners to reduce their fixtures from the Middle East. **Compared to the same month last year, VLCC freight rates were more than 50% lower.** VLCC freight rates strengthened at the end of the month following the chartering of four VLCCs to the US market by Vela International Marine. For the Suezmax, freight rates on both the West Africa/US Gulf Coast and the North-West Europe/US East and Gulf Coasts routes declined by 2 and 19 points respectively, reversing the growth to almost the same levels as displayed in May. However, rates for cargoes moving from West Africa to the US Gulf Coast, which fell by just 2 points, remained quite stable at WS126 thanks to strong US demand for light sweet African grades. The North-West Europe/US East and US Gulf Coast routes showed a higher drop of 19 points or 13%, resulting in a monthly average of WS127 due to limited transatlantic arbitrage opportunities for North Sea crudes. According to secondary sources, in June just 33,000 b/d were lifted from Sullom Voe for delivery to the US East Coast while no barrels were sent to the US Gulf Coast, sharply down from the 49,000 b/d and 173,000 b/d seen in May. Freight rates in the Aframax sector showed mixed patterns with the **Mediterranean/NW Europe route plummeting by 61 points** or 27% to average WS161, while the Caribbean/US East Cost route lost 35 points to settle at WS236 as a result of low levels of activity and growing tonnage availability. In contrast, **freight rates within the Mediterranean continued to increase for the second consecutive month**, gaining 17 points to stand at a monthly average of WS231 due to increased activity following the return of some refineries to the market with the end of the maintenance season. After displaying huge declines of 53 points and 62 points over April and May, freight rates on the Indonesia/US West Coast route recovered slightly by 3 points to WS127, to move up from the 20-month lows level seen in May. Compared to the same month of the previous year, freight rates were lower on all routes, except for the Caribbean/US East Coast route, where they were 31 points or 15% higher.

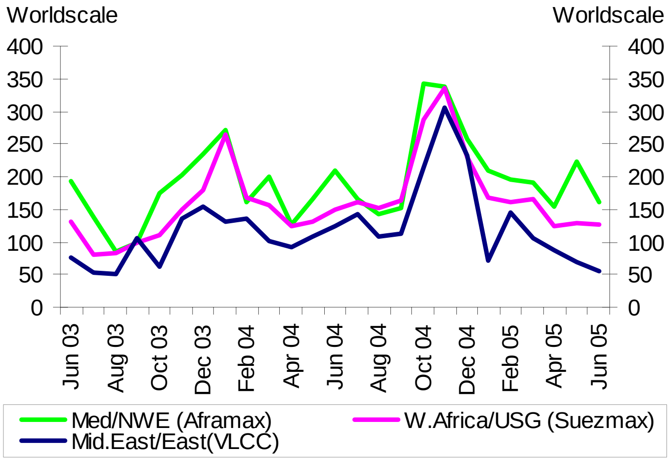
Table 5: Spot tanker freight rates, Worldscale

	Size *1,000 DWT*	**Apr-05**	**May-05**	**Jun-05**	**Change Jun/May**
Crude					
Middle East/east	200–300	88	70	56	–18
Middle East/west	200–300	79	69	53	–10
West Africa/US Gulf Coast	100–160	123	128	126	5
NW Europe/USEC - USGC	100–160	128	146	127	18
Indonesia/US West Coast	70–100	186	124	127	–62
Caribbean/US East Coast	40–70	198	271	236	73
Mediterranean/Mediterranean	40–70	197	214	231	17
Mediterranean/North-West Europe	70–100	153	222	161	69
Products					
Middle East/east	30–50	280	236	215	–44
Singapore/east	25–30	320	286	253	–34
Caribbean/US Gulf Coast	25–30	294	250	240	–44
NW Europe/USEC - USGC	25–30	310	283	258	–27
Mediterranean/Mediterranean	25–30	278	277	276	–1
Mediterranean/North-West Europe	25–30	324	290	320	–34

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

Product freight rates declined further amid limited activity, except in the Mediterranean

Graph 15: Monthly averages of crude oil spot freight rates



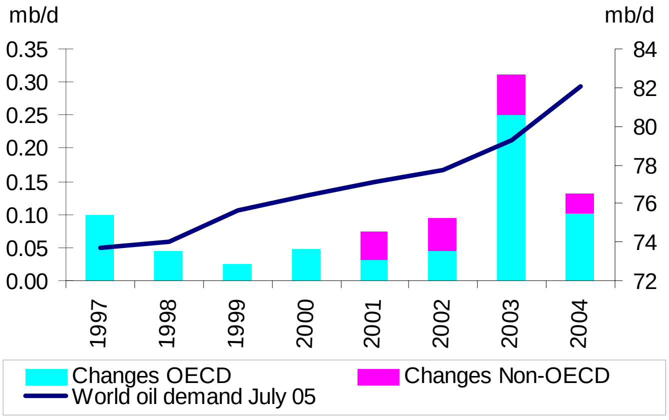
Similarly to crude oil, product freight rates continued to weaken on all routes except for the Mediterranean/North-West Europe route amid limited activity **Freight rates for tankers moving from the Middle East to the East and from Singapore to the East continued to fall for the third consecutive month, hitting their lowest levels in ten months.** Rates for tankers carrying 30,000–50,000 dwt moving along the Middle East/East route slipped from WS236 to WS215 losing 21 points, whilst rates for those carrying 25,000-30,000 dwt on the Singapore/East route declined by 33 points or 12% to settle at an average of WS253, **due essentially to a slow-down in Chinese imports**. In addition, maintenance on some petrochemical plants has exerted downward pressure on freight rates. Similarly, **the Caribbean/US Gulf Coast route lost 10 points to average WS240, an 18-month low**, and the North-West Europe/US East and Gulf Coasts route dropped 25 points to WS258. In contrast, the Mediterranean region saw healthy activity resulting in a jump of 30 points in freight rates on the Mediterranean/North-West Europe route to reach an average of WS320, while within the Mediterranean region rates remained stable at WS276. Product freight rates were lower than the June 2004 figures, except within the Mediterranean region and from there to North-West Europe. However, it is worth noting that freight rates began to improve towards the end of the month.

World Oil Demand

Revisions to previous years (1997-2002)

World oil consumption figures from 1997 to 2002 saw minor downward revisions, averaging 0.07 mb/d per year and originating mainly in OECD countries. The latest data indicates a significant downward adjustment of 0.31 mb/d for 2003. The largest part of the revisions (0.25 mb/d) took place in OECD, in particular Western Europe (0.12 mb/d) and Pacific (0.06 mb/d). Marginal downward changes of 0.04 mb/d and 0.02 mb/d have also been observed in Other Asia and Latin America, respectively. Likewise, oil demand for 2004 has been revised by 0.13 mb/d. Downward revisions of 0.17 mb/d in Western Europe and 0.10 mb/d in OECD Pacific have counteracted upward adjustments of 0.16 mb/d in North America. Developing Countries consumption fell a slight 0.05 mb/d and increased by 0.02 mb/d each in the Middle East and Africa.

Graph 16: Historical oil demand downward revisions by region (July 2005 over June 2005)



Forecast for 2005

World oil demand in 2005 is estimated to average 83.66 mb/d, with growth of 1.62 mb/d or 1.98% y-o-y

World oil demand in 2005 is estimated to average 83.66 mb/d, with growth of 1.62 mb/d or 1.98%. With world economic activity indicating a slowdown — the latest estimate shows only a 4.09% growth rate versus 4.14% last month — and latest preliminary demand figures from some major consuming countries pointing to significantly lower consumption for the first half of the year, global demand growth has been revised down. Thus, **world oil demand growth is projected to rise by 1.62 mb/d – 0.15 mb/d lower than the June estimate – to 83.66 mb/d which translates into 2% y-o-y growth.**

On a regional basis the OECD countries saw a negligible 0.56% y-o-y growth or 0.28 mb/d to average 49.73 mb/d. The rise in consumption is concentrated in the North American region with the USA accounting for most of the growth, while Western Europe and OECD Pacific continue to show negative growth rates. In contrast, Developing Countries estimated growth of 0.82 mb/d for the whole year constitutes more than half of the total projected global demand growth. Most of the revisions to global demand growth for the present year originated in the group “Other regions”. Demand is estimated to increase by 0.53 mb/d or 4.7% to 11.75 mb/d contributing with one-third of total growth. Apparent demand from China, the major consuming country in this group, was extensively revised down as trade and production data for the first half of the year revealed a slow-down in product imports and at the same time a rise in exports. All quarters suffered downward revisions, in part due to revisions made to the previous year’s data but also on projected lower growth for the present year (see Table **6**). World oil demand is projected to rise by 1.85 mb/d or 2.26% to 83.51 mb/d during the first quarter while rising by 0.91 mb/d or 1.12 mb/d to 81.92 mb/d in the second quarter. Slightly higher y-o-y growth rates of 2.14% and 2.36% respectively are estimated for the third and fourth quarter.

OECD

Demand of crude and products is forecast to grow by 0.6% or 0.28 mb/d to 49.73 mb/d. According to the latest preliminary data, oil consumption in North America has been sluggish in the first half of 2005 — growth rates were slightly lower than 1% y-o-y for the first and second quarter. Demand growth rates for the last two quarters have been estimated at 1.3% and 1.6% based on the higher US GDP figure and good demand in Mexico. The EIA’s Weekly Petroleum Status Report showed that total US product supply for the period January-June 2005 stood at 20.55 mb/d, 1.2% higher compared to the same period of 2004. The major product categories for the first six-month period show the following y-o-y growth: gasoline 1.3%, distillates 1.9%, fuel oil 8.3% and kerosene 2.8%. Canada’s demand fell by 1.6% in April following a 2.7% rise in the first quarter of 2005 and there are indications of a further decline in May. In contrast, Mexico’s appetite for oil has been growing rapidly with consumption rising by 6.1% in April after a 3% rise in the first quarter of 2005. **Oil demand in Western Europe appears to have picked up in April and May following a contraction in the first quarter of 2005 – first-quarter preliminary figures point to a 0.5% contraction versus the same period last year.** The increased dieselization of the transportation sector, lower gasoline consumption and ongoing fuel oil substitution continue unabated. **Unexpectedly, demand strength is also coming from OECD Pacific countries. Oil demand grew by a solid 2.2% y-o-y during the first quarter of 2005** and preliminary data for April indicates that consumption rose by 0.8%; however, initial May inland delivery figures suggest that demand contracted in the major consuming countries in this group (Japan and South Korea).

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

							Change 2005/04	
	2004	1Q05	2Q05	3Q05	4Q05	2005	Volume	%
North America	25.35	25.47	25.31	25.75	26.11	25.66	0.31	1.21
Western Europe	15.57	15.52	15.13	15.56	15.92	15.53	-0.04	-0.26
OECD Pacific	8.53	9.49	7.86	8.07	8.76	8.54	0.01	0.14
Total OECD	**49.46**	**50.47**	**48.30**	**49.37**	**50.79**	**49.73**	**0.28**	**0.56**
Other Asia	8.35	8.56	8.85	8.57	9.00	8.75	0.40	4.81
Latin America	4.89	4.77	5.01	5.11	5.08	5.00	0.10	2.10
Middle East	5.43	5.60	5.58	5.81	5.69	5.67	0.24	4.40
Africa	2.69	2.75	2.75	2.72	2.83	2.76	0.07	2.68
Total DCs	**21.36**	**21.69**	**22.20**	**22.21**	**22.60**	**22.18**	**0.82**	**3.82**
FSU	3.85	3.90	3.85	3.97	4.16	3.97	0.13	3.32
Other Europe	0.86	0.93	0.80	0.83	0.87	0.86	0.00	0.34
China	6.52	6.51	6.77	7.05	7.32	6.92	0.40	6.09
Total Other Regions	**11.22**	**11.35**	**11.42**	**11.85**	**12.35**	**11.75**	**0.53**	4.70
Total World	**82.04**	**83.51**	**81.92**	**83.44**	**85.75**	**83.66**	**1.62**	**1.98**
Previous estimate	82.17	83.79	82.34	83.72	85.91	83.94	1.77	2.16
Revision	-0.13	-0.28	-0.41	-0.28	-0.17	-0.29	-0.15	-0.18

Totals may not add due to independent rounding

Developing Countries

Oil demand growth in Developing Countries is forecast to increase by 0.82 mb/d or 3.8% to average 22.18 mb/d for the whole 2005. However, the latest forecast has been revised down to reflect lower GDP rates in three of the four sub-regions: Asia (excluding China), Latin America and Africa. Sustained robust international oil prices seem to have begun to erode demand in some countries, especially in Asia, have recently implemented a series of measures designed to mitigate the negative effects of oil prices on their national coffers, e.g. subsidies phase-out, new transport technology (flex-fuelled vehicles), fuel substitution, and higher domestic retail product prices. Oil demand growth rates in the four sub-regions Asia, Latin America, the Middle East and Africa, based on income and price elasticity and forecast GDP growth rates of 5.5%, 3.8%, 7.4% and 4.8%, are estimated at 4.8%, 2.1%, 4.4% and 2.7%, respectively. It is important to reiterate the increasing risk that Developing Countries pose to any demand assessment due to the quality, availability and timeliness of data. The forecast for this group depends greatly on past income and price elasticity of demand which is applied to forecast economic growth rates. Therefore, extreme caution must be exercised as 0.82 mb/d, or more than half of the total 1.62 mb/d global consumption growth for 2005, is assumed to originate in this group. Very preliminary data for the first quarter of 2005, which shows 4.2% y-o-y growth or 0.88 mb/d, seems to corroborate the projections for the whole year.

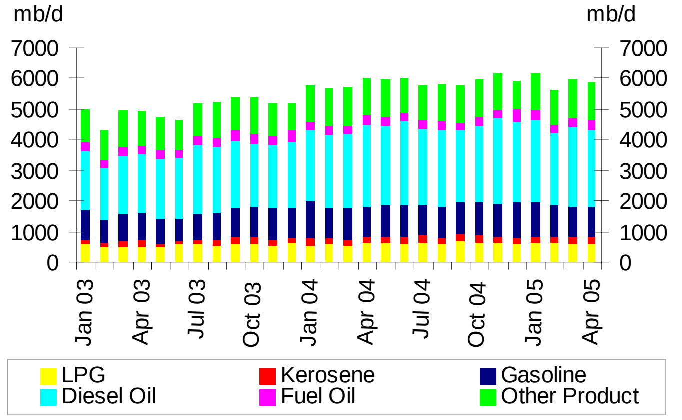
Other Regions

The bulk of revisions to demand growth originated within the Other Regions group, with apparent demand in China suffering a particularly sizeable downward adjustment. **Other Regions apparent demand growth for the year is projected at 0.53 mb/d or 4.7% to average 11.75 mb/d — significantly lower than the 0.66 mb/d or 5.5% projected in the last months' report.** Apparent demand in the FSU came up strong in the first quarter of 2005 rising by more than 8% y-o-y to 3.9 mb/d. Of course these are very preliminary figures and as such subject to extensive revisions. Available preliminary trade and production figures suggest that apparent demand grew in the second quarter of 2005 but at a slower pace of 2.5%. The pace of growth is estimated to slow further in the third quarter but then rebound towards the end of the year. Apparent demand growth in the group Other Europe — which includes many Central European countries — is projected to remain flat or show marginal growth of less than 1%.

China: so far not so good

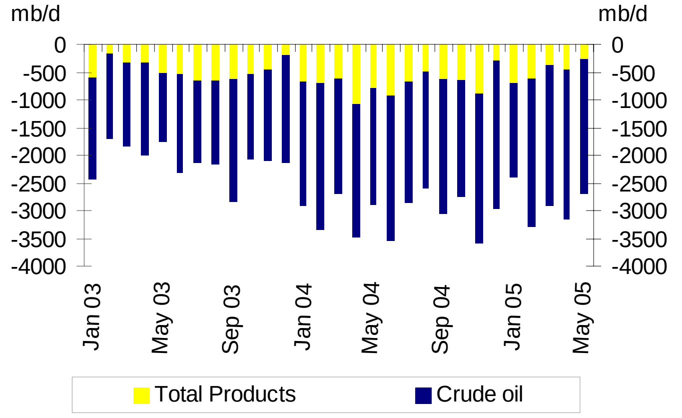
Many things are said by market gurus, analysts and commentators about China, a huge and complex country inhabited by 1.3 billion people. Some of them are probably true while some are certainly exaggerated. However, the compelling evidence from the hard data on production and trade points to a less than rosy start to 2005 — certainly far less optimistic than initially believed by just about all forecasts —and here is why. To summarize, apparent demand measured by production and net crude and product trade (imports) indicates that for the period January-May 2005 domestic consumption rose by a mere 2% compared to the same period last year. Initial estimates were pointing to growth rates of around 7-9% for the first two quarters of the year, based on and justified by GDP growth of 8.6% and above for 2005. Perhaps, these growth rates were overly optimistic if we take into account that Chinese domestic consumption rose by 15% and 24% in the first two quarters of 2004, and it would be extremely unlikely for further two-digit growth rates.

Graph 17: Apparent demand by products

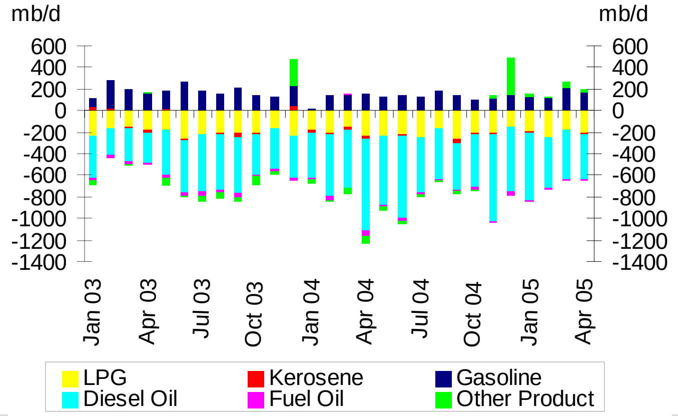


Closer scrutiny on the figures shows that the fall in apparent demand was in most part due to the substantial decline in product imports. According to the latest figures, product imports for the first five months of the year fell by 38% compared to the same period of 2004. Exports of gasoline and other products have been on the rise this year while imports of LPG and diesel have declined. But it would not be too wise to radically change the outlook for Chinese demand for the remainder of the present year — even last year's experience would tell us that it would be a mistake. After the rise in apparent demand of 24% in the second quarter of 2004 came a sharp drop to 10% in the third quarter of the year but in the last three months of 2004, demand growth rebounded by an astounding 20%. For the second half of 2005 demand is expected to grow by around 10%, in part due to the low growth rate seen in the third quarter of 2004 and the possibility that China will commence filling its Strategic Petroleum Reserve. Plans to build strategic reserves in China are well under way with the first 9.5 mb storage scheduled to be completed by August of this year. The remaining capacity at Zhenhai (a Sinopec project), which will hold 33 mb, will be ready by the second half of 2006. Filling up of this depot will depend on international crude prices, according to statements by Chinese officials, but from the purely operational stand point, reserve

Graph 18: Crude and products net imports



Graph 19: Crude oil products net trade



building could start in the fourth quarter of the current year. China will continue to be the biggest headache for anyone who attempts to assess demand for oil in the years to come; all that we can do is to continue to closely monitor developments and hope to learn from them.

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	25.22	25.47	0.24	0.97	25.09	25.31	0.22	0.90
Western Europe	15.59	15.52	-0.08	-0.49	15.16	15.13	-0.03	-0.22
OECD Pacific	9.28	9.49	0.20	2.19	7.90	7.86	-0.05	-0.57
Total OECD	**50.10**	**50.47**	**0.37**	**0.74**	**48.16**	**48.30**	**0.15**	**0.30**
Other Asia	8.17	8.56	0.39	4.72	8.48	8.85	0.37	4.38
Latin America	4.67	4.77	0.10	2.20	4.92	5.01	0.09	1.90
Middle East	5.32	5.60	0.28	5.35	5.39	5.58	0.19	3.58
Africa	2.65	2.75	0.10	3.91	2.69	2.75	0.07	2.47
Total DCs	**20.81**	**21.69**	**0.88**	**4.22**	**21.47**	**22.20**	**0.72**	**3.37**
FSU	3.61	3.90	0.29	8.07	3.76	3.85	0.10	2.54
Other Europe	0.91	0.93	0.02	2.70	0.86	0.80	-0.05	-6.35
China	6.23	6.51	0.28	4.58	6.77	6.77	0.00	0.00
Total Other Regions	**10.75**	**11.35**	**0.60**	**5.59**	**11.38**	**11.42**	**0.04**	**0.36**
Total World	**81.66**	**83.51**	**1.85**	**2.26**	**81.01**	**81.92**	**0.91**	**1.12**

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	25.75	0.34	1.33	25.69	26.11	0.42	1.63
Western Europe	15.56	15.56	0.00	0.00	15.98	15.92	-0.06	-0.34
OECD Pacific	8.16	8.07	-0.09	-1.16	8.77	8.76	-0.01	-0.13
Total OECD	**49.12**	**49.37**	**0.24**	**0.50**	**50.44**	**50.79**	**0.35**	**0.70**
Other Asia	8.18	8.57	0.40	4.86	8.55	9.00	0.45	5.26
Latin America	5.02	5.11	0.08	1.68	4.95	5.08	0.13	2.62
Middle East	5.58	5.81	0.24	4.22	5.45	5.69	0.24	4.48
Africa	2.67	2.72	0.05	1.83	2.76	2.83	0.07	2.54
Total DCs	**21.45**	**22.21**	**0.77**	**3.57**	**21.71**	**22.60**	**0.89**	**4.12**
FSU	3.94	3.97	0.03	0.72	4.07	4.16	0.10	2.41
Other Europe	0.82	0.83	0.02	1.96	0.84	0.87	0.03	3.01
China	6.36	7.05	0.69	10.85	6.71	7.32	0.61	9.02
Total Other Regions	**11.12**	**11.85**	**0.73**	**6.61**	**11.62**	**12.35**	**0.73**	**6.27**
Total World	**81.69**	**83.44**	**1.74**	**2.14**	**83.77**	**85.75**	**1.97**	**2.36**

Totals may not add due to independent rounding.

World oil demand is forecast to rise by 1.54 mb/d or 1.85% to average 85.2 mb/d in 2006

Forecast for 2006

A preliminary forecast for world oil demand has been drawn on the basis of the following set of assumptions:

- World economic expansion is assumed at 4.0% for 2006 (1995 on a PPP basis), which is marginally lower than the present 4.1% estimate for 2005. The world economy will continue to grow but at a slightly slower pace than that seen in the present year.
- Temperatures are assumed to return to normal conditions.
- The Chinese economy, which was the major engine behind the abnormally high growth in oil demand in the recent past, has shown signs of more moderate growth. The pace of economic expansion will slow from the 8.6% projected for 2005 to 8.2% next year.
- Economic expansion in Developing Countries, a major source of demand growth in 2004 and 2005 (estimate), is forecast to contract significantly to 4.8% in 2006 following 6.1% in 2004 and 5.2% in 2005 (estimate).
- Sustained robust international oil prices seem to have begun to erode demand. Several countries, especially in Asia, have recently implemented a series of measures designed to mitigate the negative effects of oil prices, e.g. subsidies phase-out, new transport technology (flex-fuelled vehicles), fuel substitution, and higher domestic retail product prices.
- Economic growth in the USA is forecast to contract further in 2006 to 2.9%, while total OECD Europe GDP will rise to 2%.

Average world oil demand is projected at 85.2 mb/d, implying a rise of 1.5 mb/d or 1.9% over total 2005 consumption. This preliminary assessment is indeed subject to further adjustments as new information becomes available on key factors such as the economic growth outlook, weather conditions, unforeseen social and geopolitical events, and variations in crude and product prices. Oil consumption is expected to grow in all major regions with the sole exception of Other Europe where demand will remain almost flat. North America, especially the USA, will contribute the bulk of demand growth within the OECD but some growth is expected in Western Europe and OECD Pacific. China will make up about one-fourth of total world oil demand growth in 2006 (see Table **9**). Demand is projected to rise in each single quarter versus 2005 reaching 87.31 mb/d by the fourth quarter of the year. The seasonality effect has somehow been flattened by the rise in Chinese demand, which has offset the seasonal decline in the spring quarter of the Northern Hemisphere.

Table 9: World oil demand forecast for 2006, mb/d

							Change 2006/05	
	2005	**1Q06**	**2Q06**	**3Q06**	**4Q06**	**2006**	Volume	%
North America	25.66	25.89	25.68	26.12	26.34	26.01	0.35	1.37
Western Europe	15.53	15.63	15.18	15.69	15.92	15.61	0.07	0.47
OECD Pacific	8.54	9.38	7.93	8.10	8.91	8.57	0.03	0.41
Total OECD	**49.73**	**50.89**	**48.79**	**49.91**	**51.17**	**50.19**	**0.46**	**0.92**
Other Asia	8.75	8.85	9.07	8.97	9.30	9.05	0.30	3.46
Latin America	5.00	4.90	5.10	5.18	5.11	5.07	0.08	1.58
Middle East	5.67	5.77	5.76	6.02	5.92	5.87	0.20	3.46
Africa	2.76	2.83	2.81	2.79	2.87	2.83	0.06	2.25
Total DCs	**22.18**	**22.36**	**22.75**	**22.96**	**23.19**	**22.82**	**0.64**	**2.88**
FSU	3.97	4.00	3.77	3.93	4.37	4.02	0.05	1.16
Other Europe	0.86	0.92	0.85	0.81	0.86	0.86	0.00	–0.05
China	6.92	7.02	7.19	7.33	7.71	7.32	0.40	5.80
Total Other Regions	**11.75**	**11.94**	**11.81**	**12.06**	**12.94**	**12.19**	**0.45**	**3.80**
Total World	**83.66**	**85.20**	**83.36**	**84.93**	**87.31**	**85.20**	**1.54**	**1.85**

Totals may not add due to independent rounding

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

			Change 2005/04				Change 2005/04	
	1Q05	1Q06	Volume	%	2Q05	2Q06	Volume	%
North America	25.47	25.89	0.42	1.65	25.31	25.68	0.37	1.46
Western Europe	15.52	15.63	0.11	0.70	15.13	15.18	0.06	0.37
OECD Pacific	9.49	9.38	-0.11	-1.15	7.86	7.93	0.07	0.85
Total OECD	**50.47**	**50.89**	**0.42**	**0.83**	**48.30**	**48.79**	**0.49**	**1.02**
Other Asia	8.56	8.85	0.30	3.46	8.85	9.07	0.22	2.48
Latin America	4.77	4.90	0.13	2.72	5.01	5.10	0.09	1.76
Middle East	5.60	5.77	0.17	3.01	5.58	5.76	0.18	3.27
Africa	2.75	2.83	0.08	2.93	2.75	2.81	0.06	2.20
Total DCs	**21.69**	**22.36**	**0.67**	**3.11**	**22.20**	**22.75**	**0.55**	**2.48**
FSU	3.90	4.00	0.10	2.50	3.85	3.77	-0.08	–2.11
Other Europe	0.93	0.92	-0.01	-1.33	0.80	0.85	0.05	5.70
China	6.51	7.02	0.51	7.82	6.77	7.19	0.43	6.31
Total Other Regions	**11.35**	**11.94**	**0.59**	**5.24**	**11.42**	**11.81**	**0.39**	**3.42**
Total World	**83.51**	**85.20**	**1.69**	**2.02**	**81.92**	**83.36**	**1.43**	**1.75**

Totals may not add due to independent rounding.

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

			Change 2006/05				Change 2006/05	
	3Q05	3Q06	Volume	%	4Q05	4Q06	Volume	%
North America	25.75	26.12	0.38	1.46	26.11	26.34	0.24	0.91
Western Europe	15.56	15.69	0.13	0.85	15.92	15.92	0.00	–0.02
OECD Pacific	8.07	8.10	0.03	0.40	8.76	8.91	0.15	1.67
Total OECD	**49.37**	**49.91**	**0.54**	**1.09**	**50.79**	**51.17**	**0.38**	**0.75**
Other Asia	8.57	8.97	0.39	4.58	9.00	9.30	0.30	3.34
Latin America	5.11	5.18	0.08	1.48	5.08	5.11	0.02	0.46
Middle East	5.81	6.02	0.21	3.61	5.69	5.92	0.22	3.91
Africa	2.72	2.79	0.06	2.38	2.83	2.87	0.04	1.51
Total DCs	**22.21**	**22.96**	**0.74**	**3.35**	**22.60**	**23.19**	**0.59**	**2.61**
FSU	3.97	3.93	-0.04	-1.01	4.16	4.37	0.21	4.99
Other Europe	0.83	0.81	-0.02	-2.85	0.87	0.86	-0.01	–1.26
China	7.05	7.33	0.27	3.87	7.32	7.71	0.40	5.43
Total Other Regions	**11.85**	**12.06**	**0.21**	**1.77**	**12.35**	**12.94**	**0.59**	**4.81**
Total world	**83.44**	**84.93**	**1.49**	**1.79**	**85.75**	**87.31**	**1.56**	**1.82**

Totals may not add due to independent rounding.

World Oil Supply

Non-OPEC supply growth to average 0.77 mb/d in 2005 to stand at 50.55 mb/d

Non-OPEC

Forecast for 2005

The full year estimate for non-OPEC supply growth in 2005 has been revised slightly down from last month's report. Non-OPEC supply (including processing gains) is expected to average 50.55 mb/d, which represents an increase of 0.77 mb/d over the previous year and a revision of 40,000 b/d from last month's report. On a quarterly basis, non-OPEC supply is now expected to average 50.3 mb/d, 50.6 mb/d, 50.3 mb/d and 50.9 mb/d in the first, second, third and fourth quarters. The revisions are distributed as follows: down 22,000 b/d in the first quarter, up 11,000 b/d in the second quarter, down 83,000 b/d and 68,000 b/d in the third and fourth quarter, respectively. Revisions in the outlook for Russia account for the bulk of the negative revisions in the third and fourth quarters of 2005**.**

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

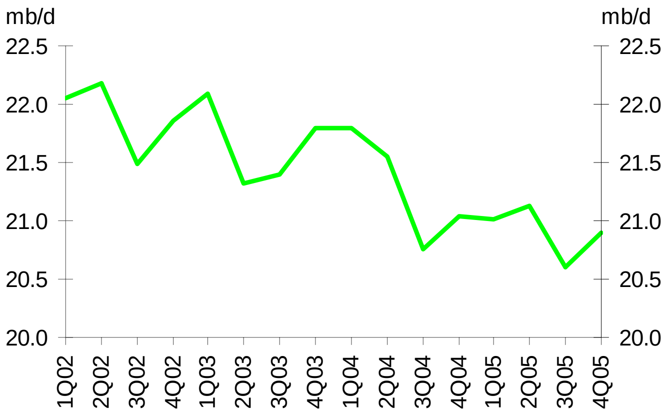
	2004	1Q05	2Q05	3Q05	4Q05	**2005**	Change 05/04
North America	14.57	14.50	14.62	14.37	14.40	14.47	-0.10
Western Europe	6.14	5.98	5.96	5.67	5.96	5.89	-0.24
OECD Pacific	0.57	0.54	0.55	0.57	0.53	0.55	-0.02
Total OECD	**21.28**	**21.01**	**21.13**	**20.61**	**20.89**	**20.91**	**-0.37**
Other Asia	2.58	2.71	2.72	2.74	2.77	2.73	0.16
Latin America	3.98	4.09	4.16	4.18	4.27	4.18	0.20
Middle East	1.89	1.82	1.79	1.77	1.74	1.78	-0.11
Africa	3.43	3.63	3.67	3.86	4.00	3.79	0.36
Total DCs	**11.88**	**12.25**	**12.35**	**12.54**	**12.79**	**12.48**	**0.61**
FSU	11.15	11.39	11.49	11.58	11.62	11.52	0.37
Other Europe	0.16	0.16	0.16	0.16	0.16	0.16	0.00
China	3.48	3.63	3.60	3.62	3.63	3.62	0.14
Total Other Regions	**14.79**	**15.17**	**15.25**	**15.36**	**15.41**	**15.30**	**0.50**
Total non-OPEC production	**47.95**	**48.44**	**48.73**	**48.50**	**49.09**	**48.69**	**0.74**
Processing gains	1.83	1.88	1.84	1.84	1.88	1.86	0.03
Total non-OPEC supply	**49.78**	**50.32**	**50.57**	**50.34**	**50.97**	**50.55**	**0.77**
Previous estimate	49.78	50.34	50.56	50.43	51.04	50.59	0.82
Revision	**0.01**	**-0.02**	**0.01**	**-0.08**	**-0.07**	**-0.04**	**-0.05**

Totals may not add due to independent rounding

OECD production growth has been revised up

OECD

Graph 20: OECD's quarterly production



OECD production has been revised up to reflect actual and preliminary data for the second quarter of 2005 for the USA and OECD Pacific combined with better expectations for Canada in the fourth quarter of 2005. OECD oil production is now estimated to average 20.9 mb/d in 2005, which represents a decline of 0.37 mb/d from 2004 and a positive revision of 48,000 b/d from last month's report**.** The full year outlook for the USA has marginally improved (up 10,000 b/d) as a result of better-than-expected production in the first quarter of 2005. However, US oil production is still expected to average 7.65 mb/d, which represents a decline of 20,000 b/d. The outlook remains subject to downward revisions that may result from weather-related shut-downs in the Gulf of Mexico. During the first weeks of July, five tropical storms, including Hurricane Dennis, have reached the USA resulting in the shutdown of production across several facilities. In particular, on 12 July, the US Minerals Management Service reported that 1.4 mb/d — 99% of total production — were shut in which lasted until 14 July resulting in the loss of over 5 mb. More importantly, the impact of weather-related events is now expected to delay installation work on new and ongoing projects, most notably at the giant 250,000-b/d Thunder Horse platform which was expected to start in late 2005 and is now more likely to start early 2006. It is worth noting that prior to Hurricane Ivan which hit the US Coast last year Gulf of Mexico production was close to 1.7 mb/d, but now it is close to 1.5 mb/d, a significant reduction of 200,000 b/d.

The outlook for Mexico and Canada remains broadly unchanged and both countries are expected to show a net decline. However, Canadian oil production is expected to benefit from a faster ramp up than previously thought in two new project start-ups in the fourth quarter of 2005 including Primrose North and White Rose. Total Canadian output is now expected to average 3.05 mb/d in 2005.

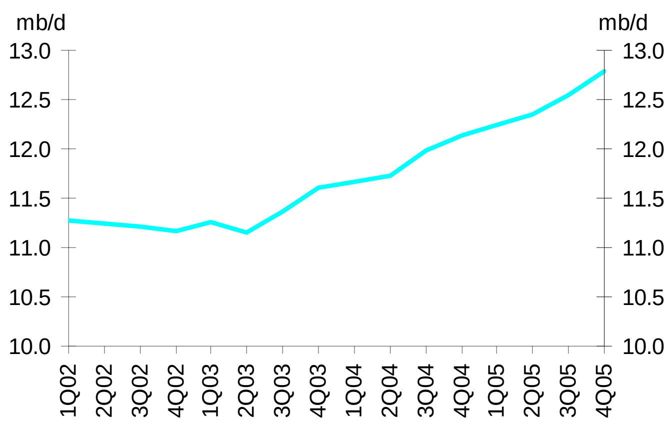
The outlook for OECD Europe remains broadly unchanged. Oil production is expected to average 5.9 mb/d, which represents a decline of 240,000 b/d versus last year. Preliminary data for Norway shows lower-than-expected production in the second quarter of 2005 and this has led to a downward revision for that quarter of around 70,000 b/d. Production in Norway is lagging due to ongoing shut-downs and production restrictions across several facilities, but the full year outlook remains unchanged as fields return to capacity in the third and fourth quarter of 2005. For the UK there are no changes in the data or outlook. OECD Pacific is expected to show a decline of 20,000 b/d versus a previous expectation of a decline of 50,000 b/d, driven by an improved outlook for Australia. The latest data for the first and second quarter prod is showing that production is performing just above expectations and this has led us to revise our outlook for the remainder of the year.

Developing Countries

The outlook for Developing Countries remains unchanged from last month; Kizomba B (Angola) is expected to start in July adding 250,000 b/d by October 2005

The full year outlook for Developing Countries (DCs) remains unchanged from last month's report. Oil production is estimated to average 12.48 mb/d in 2005, which represents an increase of 0.61 mb/d from 2004**.** Major production increases are expected in Angola, Brazil, and Sudan contributing 0.5 mb/d to the full year average, or 80% of the total for DCs. The project Kizomba B in Angola is expected to start producing in July, adding 250,000 b/d and should reach plateau by October of this year. In the second half of 2005, two more deepwater projects are also expected to start in Brazil (Albacora Leste and Jubarte Phase I), adding another 240,000 b/d in the latter part of 2005 and 2006. In Sudan, the Dar project is also expected to start in July at 140,000 b/d rising to 200,000 b/d by the end of the year/early 2006. The outlook for the countries expected to experience a decline in production, notably Oman, Colombia, Syria, Egypt, Yemen, and Argentina, remains unchanged.

Graph 21: Developing Countries' quarterly production



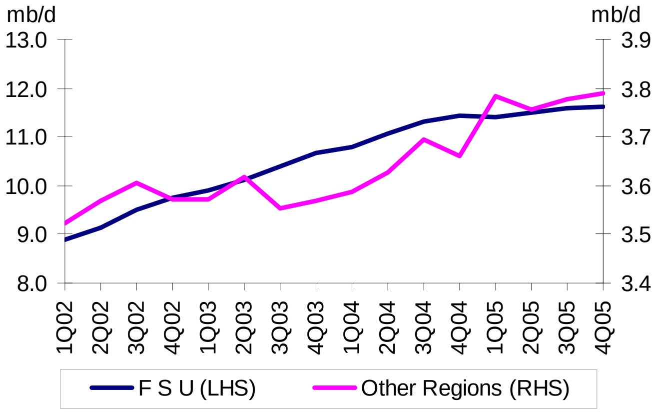
Other Regions

The outlook for Russian oil production growth has been revised down

The forecast for Other Regions (FSU, Other Europe, and China) has been revised down primarily due to lower expectations in the third and fourth quarter of 2005 for Russia. Total oil production is estimated to average 15.3 mb/d in 2005, which represents an increase of 0.50 mb/d from 2004 and a downward revision of 82,000 b/d from last month's report . The new forecast sees Russian oil production growing 170,000 b/d in 2005 versus 250,000 b/d last month for the same reasons presented in the May and June reports. Data for the first and second quarters indicate that Russian cumulative production growth was just 45,000 b/d in 2005 compared to 440,000 b/d in the same period last year. Evidence of declining production at Yukos and other producers, lagging investment in the Russian oil and gas sector, and the impact of higher export taxes (via pipeline and rail) on margins, cash flow, and near term expectations of the typical Russian producers/exporters are likely to continue to impact investment plans and operations for the remainder of the year and into 2006. Very few companies have potential to growth production significantly in the near term, mainly Sibneft and TNK-BP, whilst others such as Rofneft and Gazprom, are preoccupied with complex corporate transactions.

The outlook remains unchanged for Azerbaijan, Kazakhstan, other FSU and European producers. Full year average oil production growth is expected to reach 80,000 b/d and 100,000 b/d in Azerbaijan and Kazakhstan, respectively. Caspian producers are now expected to show a combined growth that is twice the level of Russia for the first time in several years. The outlook for China has been revised slightly down to reflect a lower than expected performance in the second quarter of 2005. The new forecast sees China growing at 140,000 b/d in 2005 versus a previous expectation of 150,000 b/d.

Graph 22: FSU and other regions' quarterly production



Forecast for 2006

Non-OPEC supply growth forecast in 2006 is estimated at 1.08 mb/d; including OPEC NGLs, total growth is estimated at 1.4 mb/d

Non-OPEC oil production is expected to average 51.7 mb/d, an increase of 1.08 mb/d over 2005. And including processing gains, OPEC NGLs and non-conventional oils, non-OPEC oil supply is expected to average 56.2 mb/d, an increase of 1.4 mb/d over 2005. On a regional basis, the largest contributor is expected to be the African region, followed by the FSU, Latin America and North America (mainly Canada), whilst OECD Europe and Pacific and the Middle East are expected to show a net decline. The net contribution from Russia is expected to be just 80,000-100,000 b/d and is considered the main risk factor for non-OPEC growth next year. Oil production growth is underpinned by the start-up of several projects in deepwater, bitumen extraction and syncrude projects, and the continuing expansion of the Caspian region. In terms of overall crude quality, the net increase is expected to be overwhelmingly medium sweet, in contrast to recent years when increases have been mainly medium sour.

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

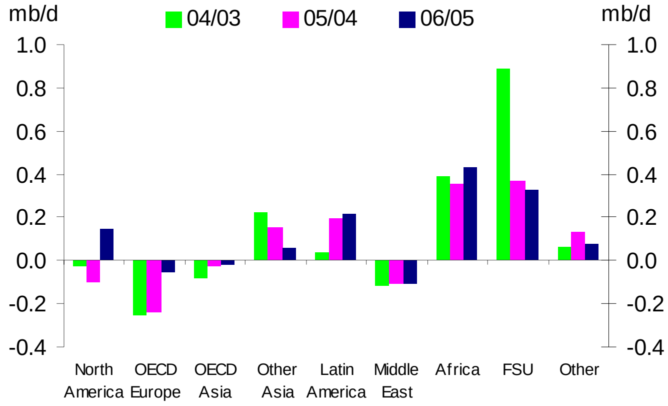
	2005	1Q06	2Q06	3Q06	4Q06	2006	Change 06/05
North America	14.47	14.68	14.57	14.49	14.75	14.62	0.15
Western Europe	5.89	6.04	5.87	5.47	5.97	5.84	-0.06
OECD Pacific	0.55	0.50	0.47	0.51	0.62	0.53	-0.02
Total OECD	**20.91**	**21.22**	**20.91**	**20.47**	**21.34**	**20.98**	**0.07**
Other Asia	2.73	2.80	2.80	2.80	2.77	2.79	0.06
Latin America	4.18	4.32	4.28	4.48	4.51	4.40	0.22
Middle East	1.78	1.71	1.69	1.66	1.63	1.67	-0.11
Africa	3.79	4.06	4.16	4.21	4.47	4.22	0.43
Total DCs	**12.48**	**12.89**	**12.93**	**13.15**	**13.37**	**13.09**	**0.60**
FSU	11.52	11.62	11.65	11.90	12.22	11.85	0.33
Other Europe	0.16	0.16	0.16	0.16	0.16	0.16	0.00
China	3.62	3.66	3.69	3.73	3.71	3.70	0.08
Total Other Regions	**15.30**	**15.44**	**15.50**	**15.78**	**16.08**	**15.70**	**0.40**
Total non-OPEC production	**48.69**	**49.55**	**49.34**	**49.40**	**50.78**	**49.77**	**1.08**
Processing gains	1.86	1.88	1.87	1.87	1.93	1.89	0.03
Total non-OPEC supply	**50.55**	**51.43**	**51.21**	**51.27**	**52.71**	**51.66**	**1.11**
Previous estimate	50.59						
Revision	**-0.04**						

Totals may not add due to independent rounding.

Angolan oil production is expected to average 1.47 mb/d and to reach a record high of 1.66 mb/d in the fourth quarter

Oil production in the African region is expected to grow by 430,000 b/d driven by additions in Angola, Sudan, Ivory Coast, and Mauritania. Only Egypt, Gabon and South Africa are expected to show moderate declines. The main projects that will contribute to Africa's growth include Baobab (Ivory Coast), BBLT Phase I (Angola), Dalia (Angola), Adar Yale/Tale (Sudan), and Chinguetti (Mauritania). Angola continues to be the main engine of growth in the region followed by Sudan. In 2006 Angolan oil production is expected to average 1.47 mb/d and to reach a record high of 1.66 mb/d in the fourth quarter. Angola's deepwater oil production is expected to increase to around 700,000 b/d by 2006. In Sudan, several onshore projects are being developed on a fast track basis, the most important of which is the Adar Yale/Tale project with a capacity of 200,000 b/d which is expected to reach peak production in 2006.

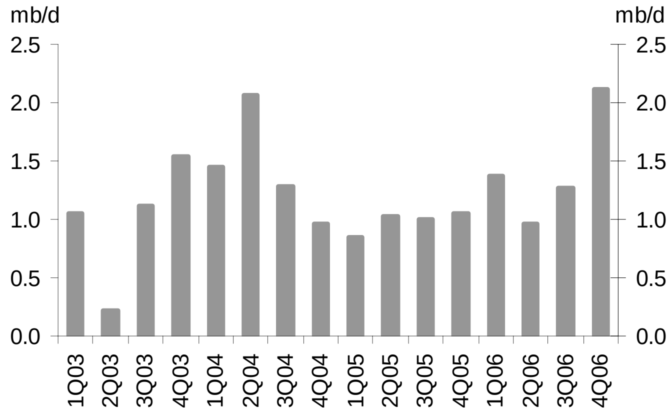
Graph 23: Year-on-year regional Non-OPEC supply growth



Russian production growth is estimated at just 80,000-100,000 b/d

The FSU region is expected to grow by 330,000 b/d, slightly less than in 2005. For the first time in years the bulk of the increase will come from the Caspian region rather than from Russia. In the period 2000-2004, Russia represented around 65% of total non-OPEC growth, but in 2005/2006, Russia is expected to represent just 15% of the total. In 2006, Russian production growth is estimated at just 80,000-100,000 b/d, compared to 730,000 b/d in 2004 and 170,000 b/d in 2005. Ongoing field ramp ups, brownfield developments, and new field start-ups offshore Sakhalin are expected to offset Russia's estimated decline of 150,000 b/d per year and further production losses at Yukos and other producers. In contrast, oil production in Azerbaijan is expected to increase by 140,000 b/d versus 2005. The bulk of the additions will come from the continuing ramp up of the ACG Phase I project that started in the first quarter of this year and Phase II which is scheduled to start in the third quarter of 2006. Kazakhstan is expected to show an increase of 100,000 b/d, most of which is expected to come with the expansion of the Tengiz oil field in the second half of next year.

Graph 24: Year-on-year Non-OPEC supply and OPEC NGL growth



Brazilian oil production is expected to increase by 250,000 b/d in 2006 on top of an increase of 160,000 b/d in 2005

Oil production in Latin America is expected to grow by 220,000 b/d, driven primarily by significant increases in Brazil and minor additions in Trinidad and Peru. Only Argentina and Colombia are expected to show a net decline. Brazilian oil production is expected to increase by 250,000 b/d in 2006 on top of an increase of 160,000 b/d in 2005. There are seven important greenfield projects in deepwater starting between 2005 and 2006 with an average oil capacity of 120,000 b/d each at peak, all of which will make significant contributions in the two-year period. Two projects have already started in 2005 (Barracuda and Caratinga), two more are expected to start before the end of this year (Albacora Leste and Jubarte Phase I), and three projects are expected in 2006 (Golfinho, ESS 132 and Espadarte). Trinidad and Peru are expected to show minor increases, mainly due to the addition of condensates related to the expansion of gas-condensate fields. Argentina and Colombia have seen their production drop on average 30,000 b/d per year for four consecutive years, and this trend is not expected to reverse in 2006.

Canadian oil production is expected to increase by 230,000 b/d in 2006 underpinned by the start-up of six new projects, mainly extraction and syncrude projects

North America is expected to show an increase of 150,000 b/d driven by significant additions in Canada. The USA is expected to show a decline of 80,000 b/d, broadly similar to 2005. Interestingly, there are only two large greenfield deepwater projects in the Gulf of Mexico that are expected to start in 2006 (Thunder Horse and Atlantis), compared to five in 2005. Deepwater is the main source of new oil in the USA but 2006 is going to be a light year for new deepwater start-ups. The production of condensates, NGL and unconventional oils, which together account for around 30% of US production, is expected to remain flat y-o-y. Canadian oil production is expected to increase by 230,000 b/d in 2006 underpinned by the start-up of six new projects, mainly extraction and syncrude projects. The projects are Syncrude Phase III, Surmont Phase I, Kirby, Fire Bag II, Deer Creek Phase I, and Foster Creek P II. Mexican oil production is expected to remain broadly flat relative to 2005. However, production is expected to show an increase in the fourth quarter of 2006 with the start-up of several projects, but in particular the Sihil Pa and Akal Q/W platforms.

OECD Europe is expected to show a net decline of 60,000 b/d. However, Norway is forecast to show an increase of 60,000 b/d underpinned by growth in condensates and ongoing field enhancements. There are no new greenfield oil projects starting in Norway next year, but there are several brownfield developments that are expected to keep the base relative flat. The UK is expected to show a decline of 80,000 b/d, which is better than in previous years. This improvement is primarily due to the start-up of the Buzzard field (190,000 b/d at peak) in the fourth quarter of 2006, which should provide a positive kick to oil production later in the year. In Denmark, oil production is expected to decline by 30,000 b/d due to field maturity and the lack of new projects.

OECD Asia in expected to show a minor decline of 20,000 b/d. Oil production in Australia is expected to decline 40,000 b/d despite the start-up of the Vincent/Laverda and the Geograph fields in the fourth quarter of the year given ongoing field declines elsewhere and the extended ramp up period of these two fields. However, New Zealand may add around 20,000 b/d of new production with the start-up of the Pohokura condensate field later in 2006.

Non-OPEC Middle East is expected to show a decline of 110,000 b/d, similar to 2005. Oman, Syria and Yemen are all expected to see its production decline whilst Bahrain is expected to keep production flat. The multi year decline trend in Oman is unlikely to be reverse until 2007 at the earliest. Syria is looking to maintain its total output flat at current levels for the foreseeable future but y-o-y fluctuations are expected. In 2006, Syria is likely to lose 30,000 b/d, while output from Bahrain is expected to continue at the previous year’s level.

FSU net oil export (crude and products)

The forecast for net FSU oil exports in 2005 is 7.55 mb/d, an increase of 0.24 mb/d over 2004

FSU net oil exports are expected to average 7.55 mb/d, an increase of 0.24 mb/d over the previous year. The outlook has been revised down following the downward revision of Russian production. The latest available data — April 2005 — shows Russian net oil exports averaging 6.3 mb/d, compared to 5.7 mb/d in the same month last year. Exports from Kazakhstan are estimated at 365,000 b/d for April 2005, slightly higher than last year. Exports from Kazakhstan are expected to increase moderately in 2005 versus 2004 due to ongoing pipeline bottlenecks and modest growth in production. However, exports from Azerbaijan are expected to increase significantly, particularly in the second half of 2005, underpinned by volume growth in Phase I of the ACG project via the newly inaugurated BTC pipeline, a trend that is expected to continue in 2006. **In 2006, FSU net oil exports are expected to average 7.83 mb/d, an increase of 280,000 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	7.17	7.30	7.38	7.37	**7.31**
2005 (estimate)	**7.49**	**7.64**	**7.61**	**7.46**	**7.55**
2006 (forecast)	**7.62**	**7.88**	**7.97**	**7.84**	**7.83**

The forecast for OPEC NGL production for 2005 is 4.21 mb/d, an increase of 0.21 mb/d over 2004

OPEC natural gas liquids and non-conventional oils

The 2005 forecast for OPEC NGLs + non-conventional oils remains broadly unchanged at 4.21 mb/d, representing an increase of 0.21 mb/d over 2004. The quarterly distribution is projected at 4.13 mb/d, 4.18 mb/d, 4.23 mb/d and 4.28 mb/d, respectively. A minor upward adjustment of 18,000 b/d for 2004 has been applied to reflect the latest data, which has impacted the 2005base and growth number. **In 2006, OPEC NGLs is expected to increase by around 330,000 b/d.**

Table 15: OPEC NGL + non-conventionals — 2002-2006, mb/d

2002	**2003**	**2004**	1Q05	2Q05	3Q05	4Q05	**2005**	**Change 05/04**	**2006**	**Change 06/05**
3.62	**3.71**	**3.95**	4.13	4.18	4.23	4.28	**4.21**	0.21	**4.53**	0.33

OPEC June output averaged 30 mb/d

OPEC crude oil production

Total OPEC crude production averaged 30.01 mb/d in June, which represents an increase of 90,000 b/d from last month, according to secondary sources. Year-to-date OPEC production has increased 0.9 mb/d. Production increased primarily in Algeria, IR Iran and Nigeria and remained broadly flat in the rest of OPEC. Iraqi oil production averaged 1.8 mb/d, broadly unchanged from last month.

Table 16: OPEC crude oil production based on secondary sources

	2003	2004	4Q04	1Q05	2Q05	Apr-05	May-05	Jun-05	*Jun/May*
Algeria	1,134	1,229	1,289	1,316	1,339	1,332	1,337	1,349	*12.3*
Indonesia	1,027	968	963	948	941	945	942	937	*–5.1*
IR Iran	3,757	3,920	3,947	3,900	3,957	3,914	3,958	3,998	*39.8*
Iraq	1,322	2,015	1,960	1,834	1,833	1,857	1,821	1,822	*1.6*
Kuwait	2,172	2,344	2,448	2,438	2,513	2,519	2,513	2,508	*–5.3*
SP Libyan AJ	1,422	1,537	1,608	1,613	1,633	1,628	1,633	1,639	*6.5*
Nigeria	2,131	2,352	2,344	2,332	2,424	2,418	2,406	2,447	*40.9*
Qatar	743	781	798	789	796	796	795	796	*1.2*
Saudi Arabia	8,709	8,982	9,450	9,220	9,463	9,438	9,473	9,478	*5.2*
UAE	2,243	2,360	2,486	2,396	2,421	2,455	2,405	2,403	*–2.0*
Venezuela	2,305	2,580	2,617	2,699	2,636	2,630	2,641	2,637	*–-3.8*
OPEC-10	**25,644**	**27,052**	**27,950**	**27,653**	**28,123**	**28,074**	**28,103**	**28,192**	***89.7***
Total OPEC	**26,965**	**29,067**	**29,910**	**29,487**	**29,956**	**29,932**	**29,923**	**30,015**	***91.3***

Totals may not add due to independent rounding.

Rig Count

Non OPEC rig activity is expected to remain strong in 2005; total rig count stood at 2,282 in June

Non-OPEC

Non-OPEC rig count stood at 2282 rigs, which represents an increase of 96 rigs compared to the previous month. Of the total, 306 rigs were operating offshore and 1,976 onshore and in terms of the oil and gas split, there were 705 oil rigs and 1,554 gas rigs*. Regionally, North America gained 87 rigs versus last month. The sharp movements either way of rig count in North America is generally attributed to Canadian rig activity which tends to vary significantly from month to month, particularly in gas operations. Western Europe gained 6 rigs over the previous month, whilst OECD Pacific lost 3 rigs. The Middle East, Africa, Latin America and rest of Asia gained a total of 6 rigs.

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

	2003	2004	Change 04/03	May-05	Jun-05	Change Jun/May
North America	1,496	1,669	173	1,682	1,769	87
Western Europe	78	65	-13	67	73	6
OECD Pacific	18	22	4	27	24	-3
OECD	**1,592**	**1,755**	**163**	**1,776**	**1,866**	**90**
Other Asia	117	126	9	143	142	-1
Latin America	116	126	10	140	137	-3
Middle East	70	70	0	70	72	2
Africa	48	54	6	55	63	8
DCs	**350**	**376**	**26**	**408**	**414**	**6**
FSU	na	na	na	na	na	na
Other Europe	2	2	0	2	2	0
China	na	na	na	na	na	na
Other regions	na	na	na	na	na	na
Total non-OPEC	**1,944**	**2,132**	**188**	**2,186**	**2,282**	**96**

* *The oil and gas split now includes Canada*
Totals may not add due to independent rounding.
na: not available
Source: Baker Hughes International;

OPEC rig count stood at 279 in June

OPEC

OPEC rig count was 279 which represents a decrease of 1 rig from last month. Increases took place in Libya (3), Saudi Arabia (3), and Nigeria (1). These gains were offset by declines in other OPEC Countries. Of the total, 209 rigs were operating onshore and 70 rigs offshore and in terms of oil and gas split, there were 218 oil rigs whilst the remainder was gas and other rigs.

Table 18: OPEC rig count 2003-2005

	2003	2004	Change 04/03	May-05	Jun-05	Change Jun/May
Algeria	20	19	–1	20	19	–1
Indonesia	45	49	4	54	54	0
IR Iran	35	41	6	41	40	–1
Iraq	na	na	na	na	na	na
Kuwait	5	10	5	13	11	–2
SP Libyan AJ	10	10	0	7	10	3
Nigeria	10	8	–2	9	10	1
Qatar	8	9	1	13	13	0
Saudi Arabia	32	32	0	33	36	3
UAE	16	16	0	16	16	0
Venezuela	37	55	18	74	70	-4
Total OPEC	**218**	**249**	**31**	**280**	**279**	-1

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

Stock Movements

US commercial oil stocks continued their seasonal build, rising by 0.56 mb/d in June

USA

US commercial oil stocks (total crude and petroleum product excluding SPR) in June exceeded the 1 billion barrel mark for the first time since August 2002 to stand at 1,015.5 mb, which was about 2% higher than the level registered in the previous month and about 5% above last year/s level. Two thirds of this build came from distillate inventories, while other major product stocks contributed marginally, except for gasoline inventories which showed a slight draw. Crude oil inventories lost the previous month's gain, decreasing by 4.5 mb to 324.9 mb on the back of lower imports which declined by 0.2 mb/d to 10.48 mb/d in June compared with 10.46 mb/d in May. Further support came from higher refinery runs which observed an increase of 2% to stand at 96.4% compared with the previous month. This draw on crude oil stocks narrowed the y-o-y surplus to 7% from the 9% registered last month but still remained 7% higher than the five-year average. At 20.1, the days of forward cover at the end of June were 3% or 0.5 days higher than last year's level and were 2% or 0.4 days above the five-year average.

The most significant stock movement change in June happened with distillates which showed a very strong build despite healthy demand 6% above last year. Higher distillate production, which stood at 4.52 mb/d or 8% above last year and 18% higher than the five-year average, was the main reason behind a massive build in distillate inventories of 9.5 mb to 1,172 mb. A marginal increase of distillate imports added to this build. At 28.6, the days of forward consumption remained 1% or 0.3 days and 7% or 2 days below last year and the five-year average respectively. A well supplied crude oil market combined with high utilization rates should help distillate inventories to continue heading up in the next few months ahead of the winter season when consumption traditionally peaks, especially for heating oil. Gasoline stocks behaved contrary to distillates reaching their highest level especially ahead of the long 4 July Independence holiday weekend and lifting implied demand to 9.72 mb/d or 4% higher than the previous period and about 3% above last year's level. Gasoline imports, which stagnated at 1.01 mb/d by the end of June, which was about 0.20 mb/d below a month ago and about 7% higher than the five-year average, also contributed to the draw on gasoline inventories. At 215.3 mb or 1.3 mb below the previous period, gasoline inventories remained about 4% above last year's figure and 2% higher than the five-year average.

During June, the Strategic Petroleum Reserve (SPR) continued to approach its full capacity of 700 mb, increasing by 2.4 mb to 696.3 mb. Full capacity is expected to be reached by the end of August.

In the week ending 8 July, total commercial oil stocks continued to move upward, standing at 1,016.44 mb or 1 mb higher than the previous week. Distillate stocks remained almost the sole contributor to this build, rising by 3.19 mb to stand at 120.43 mb due to sustained high production and imports while demand stayed relatively stagnant. Crude oil and gasoline inventories experienced expected draws as refinery runs remained high and imports of crude oil dipped below 10 mb, an uncommon development in 2005. The draw on gasoline stocks was mainly due to strong demand and lower production and imports as well.

Table 19: US onland commercial petroleum stocks, mb*

	29 Apr 05	3 Jun 05	1 Jul 05	Change Jun/May	1 Jul 04
Crude oil (excl. SPR)	327.0	330.8	324.9	-5.9	304.5
Gasoline	213.5	216.6	215.3	-1.3	208.8
Distillate fuel	102.3	107.7	117.2	9.5	114.0
Residual fuel oil	37.2	36.5	37.5	1.0	37.5
Jet fuel	40.3	40.7	41.2	0.5	38.8
Total	**972.2**	**998.6**	**1,015.5**	**16.9**	**966.5**
SPR	691.2	693.9	696.3	2.4	662.4

* *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

Eur-16 stocks remained almost unchanged at 1,114.0 mb in June

Western Europe

Total oil stocks in Eur-16 (EU plus Norway) in June remained almost unchanged at 1,114.0 mb compared with the previous month. The build in crude oil stocks was nearly cancelled out by marginal draws on product inventories. Despite this situation, the y-o-y surplus rose slightly to about 4% from 2% registered last month. Increasing imports as refiners benefited from the contango market of the North Sea grades to fill their depleted tanks were the main reason for a build of 4.3 mb to 479.5 mb in crude oil stocks. Lower refinery runs, as some refineries were shut down due to seasonal maintenance, were another factor responsible for this build although most of them started to return to normal run levels by the end of June. The picture was differed for product inventories where lower refinery runs forced product stocks to head south especially seasonal fuels such as gasoline and distillates. Gasoline registered the highest draw among its peers, declining by 1.8 mb to 146.0 mb. But this draw does not affect the y-o-y average which widened to about 10% from about 8% last month. Distillate inventories lost a small part of the previous month's gain, decreasing by 0.4 mb to 359.6 mb on the back of healthy seasonal demand. This slight draw resulted in a minor change of the y-o-y surplus which narrowed marginally by 0.2% to stand at 2.2%. Fuel oils stocks showed a moderate draw of 1.2 mb to 108.2 mb due to higher exports to the US and Asia-Pacific markets where opened arbitrage encouraged traders to ship European materials to benefit from high prices.

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

	Apr 05	May 05	Jun 05	Change Jun/May	Jun 04
Crude oil	468.7	475.2	479.5	4.4	464.8
Mogas	148.8	147.7	146.0	-1.7	132.9
Naphtha	31.7	31.7	30.8	-0.9	23.6
Middle distillates	351.8	350.0	349.6	-0.4	342.0
Fuel oils	108.9	109.4	108.2	-1.2	112.6
Total products	641.2	638.7	634.5	-4.2	611.1
Overall total	**1,109.8**	**1,113.8**	**1,114.0**	**0.2**	**1,075.9**

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

Commercial oil inventories in Japan rose a considerable 0.47 mb/d in May

Japan

Total commercial oil stocks in Japan during May witnessed a significant build of 0.47 mb/d to stand at 174.1 mb. Crude oil and product inventories contributed nearly equally to this rise. Last month's y-o-y deficit turned to a surplus of about 3%. The strong build in crude oil stocks of 7.5 mb to 110.8 mb has not been seen since October 2004. The reason for such a high stock-build was the sharp decline in refinery runs which dropped by about 9% to 76.9% in May. Continued flow of crude oil imports also helped inventories to grow to the same level as last year, canceling out the y-o-y surplus of last month. Despite lower refining output, gasoline inventories managed to build modestly by 0.3 mb to 144.3 mb due to weak demand and higher imports. But this slight build changed the y-o-y deficit of the last report to a very wide surplus of about 14%. The picture was brighter for distillate inventories which rose by 4.5 mb to stand at 27.7 mb on the back of increasing imports and very weak local consumption. This rise also helped the y-o-y deficit to turn to a considerably surplus of 6%. Residual fuel oil inventories followed the general upward trend, showing an increase of 2.6 mb to 21.7 mb, a level not seen since January 2004.

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

	Mar 05	Apr 05	May 05	Change May/Apr	May 04
Crude oil	112.8	103.6	110.8	7.2	110.8
Gasoline	13.9	14.0	14.3	0.4	12.6
Middle distillates	21.7	23.2	27.7	4.5	26.2
Residual fuel oil	17.1	18.7	21.3	2.7	18.8
Total products	52.7	55.9	63.3	7.5	57.6
Overall total**	**165.5**	**159.5**	**174.1**	**14.6**	**168.4**

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

Balance of Supply and Demand

The balance for 2005 has been revised due to demand revisions; OPEC crude requirement (a-b) for 2005 is now estimated at 28.9 mb/d, down 260,000 b/d from last month's

Forecast for 2005

The summarized supply/demand balance for 2005 has been revised significantly following downward revisions to the base and growth of world oil demand. As indicated in the demand section, demand is now expected to average 83.7 mb/d, or around 300,000 b/d less than in our previous forecast. On the supply side, total non OPEC supply is expected to average 54.8 mb/d, unchanged from last month's report. **As a result, the estimated demand for OPEC crude in 2005 (a b) is now forecast at 28.9 mb/d, which represents a reduction of approximately 260,000 b/d versus last month's report.** On a quarterly basis, the estimated demand for OPEC crude has been revised down 280,000 b/d in the first quarter, 430,000 b/d in the second, 220,000 b/d in the third and 120,000 b/d in the fourth.

OPEC crude production averaged 29.5 mb/d in the first quarter of 2005 and 30 mb/d in the second, approximately 400,000 b/d and 2.7 mb/d respectively more than the estimated OPEC crude requirements for these two periods. As anticipated and reported in the stock section, such production levels have translated into crude inventory builds in the OECD, particularly in the USA where total oil stocks (commercial + SPR) are at record highs surpassing the level of 1.7 bn barrels as well as allowing for forward cover to improve to close to the last five-year average.

In terms of OPEC capacity, taking into account the supply/demand balance, the resulting required OPEC crude production levels and the projected production capacity, OPEC's spare capacity is estimated to average around 7.9% in the second half 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	82.04	83.51	81.92	83.44	85.75	83.66
(b) Non-OPEC supply(1)	53.77	54.45	54.75	54.58	55.26	54.76
Difference (a – b)	**28.27**	**29.06**	**27.17**	**28.86**	**30.49**	**28.90**
OPEC crude oil production(2)	29.07	29.49	29.96			
Balance	0.80	0.43	2.78			

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

The full year average supply/demand balance for 2006 shows only a slight increase for OPEC crude requirements

Forecast for 2006

For 2006, demand is expected to average 85.2 mb/d whilst non-OPEC supply is expected to average 56.2 mb/d. **This results in an average estimated demand for OPEC crude (a-b) of 29 mb/d, or 100,000 b/d more than in 2005**. Furthermore, the quarterly distribution shows that the demand for OPEC crude is expected to be 29.4 mb/d in the first quarter, 27.7 mb/d in the second, 29.1 mb/d in the third and 29.9 mb/d in the fourth representing a y-o-y increase of 0.3 mb/d, 0.5 mb/d, 0.2 mb/d for the first, second and third quarters, respectively. In the fourth quarter, the estimated requirements for OPEC crude (a-b) at 29.9 mb/d is expected to be significantly less than in fourth quarter of 2005.

In terms of OPEC capacity, in 2006 OPEC capacity is expected to average around 33.4 mb/d, representing an average increase of 710,000 b/d from 2005. 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 12% assuming there is no significant improvement in Iraq.

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

	2005	1Q06	2Q06	3Q06	4Q06	2006
(a) World oil demand	83.66	85.20	83.36	84.93	87.31	85.20
(b) Non-OPEC supply(1)	54.76	55.82	55.70	55.85	57.37	56.19
Difference (a – b)	**28.90**	**29.38**	**27.65**	**29.08**	**29.94**	**29.01**
OPEC crude oil production(2)						
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	48.7	49.5	50.5	48.3	49.4	50.8	49.7	50.9	48.8	49.9	51.2	50.2
North America	24.0	24.1	24.5	25.4	25.5	25.3	25.7	26.1	25.7	25.9	25.7	26.1	26.3	26.0
Western Europe	15.3	15.3	15.4	15.6	15.5	15.1	15.6	15.9	15.5	15.6	15.2	15.7	15.9	15.6
Pacific	8.6	8.6	8.7	8.5	9.5	7.9	8.1	8.8	8.5	9.4	7.9	8.1	8.9	8.6
DCs	19.7	20.2	20.4	21.4	21.7	22.2	22.2	22.6	22.2	22.4	22.7	23.0	23.2	22.8
FSU	3.9	3.7	3.8	3.8	3.9	3.9	4.0	4.2	4.0	4.0	3.8	3.9	4.4	4.0
Other Europe	0.8	0.8	0.8	0.9	0.9	0.8	0.8	0.9	0.9	0.9	0.8	0.8	0.9	0.9
China	4.7	5.0	5.6	6.5	6.5	6.8	7.1	7.3	6.9	7.0	7.2	7.3	7.7	7.3
(a) Total world demand	77.1	77.7	79.2	82.0	83.5	81.9	83.4	85.7	83.7	85.2	83.4	84.9	87.3	85.2
Non-OPEC supply														
OECD	21.8	21.9	21.6	21.3	21.0	21.1	20.6	20.9	20.9	21.2	20.9	20.5	21.3	21.0
North America	14.3	14.5	14.6	14.6	14.5	14.6	14.4	14.4	14.5	14.7	14.6	14.5	14.7	14.6
Western Europe	6.7	6.6	6.4	6.1	6.0	6.0	5.7	6.0	5.9	6.0	5.9	5.5	6.0	5.8
Pacific	0.8	0.8	0.7	0.6	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.6	0.5
DCs	10.9	11.2	11.3	11.9	12.2	12.3	12.5	12.8	12.5	12.9	12.9	13.1	13.4	13.1
FSU	8.5	9.3	10.3	11.2	11.4	11.5	11.6	11.6	11.5	11.6	11.6	11.9	12.2	11.8
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	1.8	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Total non-OPEC supply	46.4	47.7	48.6	49.8	50.3	50.6	50.3	51.0	50.6	51.4	51.2	51.3	52.7	51.7
OPEC NGLs + non-conventional oils	3.6	3.6	3.7	4.0	4.1	4.2	4.2	4.3	4.2	4.4	4.5	4.6	4.7	4.5
(b) Total non-OPEC supply and OPEC NGLs	50.0	51.4	52.3	53.8	54.4	54.7	54.6	55.3	54.8	55.8	55.7	55.8	57.4	56.2
OPEC crude oil production (secondary sources)	27.2	25.4	27.0	29.1	29.5	30.0								
Total supply	77.2	76.7	79.3	82.8	83.9	84.7								
Balance (stock change and miscellaneous)	0.1	-1.0	0.1	0.8	0.4	2.8								
Closing stock level (outside FCPEs) *mb*														
OECD onland commercial	2630	2476	2520	2556	2551									
OECD SPR	1285	1345	1408	1444	1456									
OECD total	3915	3821	3928	4000	4007									
Oil-on-water	830	816	887	909	929									
Days of forward consumption in OECD														
Commercial onland stocks	55	51	51	51	53									
SPR	27	28	28	29	30									
Total	82	79	79	80	83									
Memo items														
FSU net exports	4.6	5.6	6.5	7.3	7.5	7.5	7.6	7.5	7.5	7.6	7.9	8.0	7.8	7.8
(a) - (b)	27.1	26.4	26.9	28.3	29.1	27.2	28.9	30.5	28.9	29.4	27.7	29.1	29.9	29.0

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	-	-	-0.2	-0.1	-0.2	-	-	-0.1	-0.1					
North America	-	-	-	0.2	-	0.2	0.2	0.1	0.1					
Western Europe	-	-	-0.1	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1					
Pacific	-	-	-0.1	-0.1	-0.1	-0.1	-0.1	-	-0.1					
DCs	-	-	-0.1	-	-0.1	-	-0.2	-	-0.1					
FSU	-	-	-	-	-	-	-	-	-					
Other Europe	-	-	-	-	-	-	-	-	-					
China	-	-	-	-	-	-0.4	-	-0.1	-0.1					
(a) Total world demand	-0.1	-0.1	-0.3	-0.1	-0.3	-0.4	-0.3	-0.2	-0.3					
Non-OPEC supply														
OECD	-	-	-	-	-	-	-	0.1	-					
North America	-	-	-	-	-	0.1	-	0.1	-					
Western Europe	-	-	-	-	-	-0.1	-	-	-					
Pacific	-	-	-	-	-	-	-	-	-					
DCs	-	-	-	-	-	-	-	-	-					
FSU	-	-	-	-	-	-	-0.1	-0.2	-0.1					
Other Europe	-	-	-	-	-	-	-	-	-					
China	-	-	-	-	-	-	-	-	-					
Processing gains	-	-	-	-	-	-	-	-	-					
Total non-OPEC supply	-	-	-	-	-	-	-0.1	-0.1	-					
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-					
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	-	-0.1	-	-					
OPEC crude oil production (secondary sources)	-	-	-	-	-									
Total supply	-	-	-	-	-									
Balance (stock change and miscellaneous)	0.1	0.1	0.3	0.2	0.3									
Closing stock level (outside FCPEs) *mb*														
OECD onland commercial	-	-	-5	-6	-8									
OECD SPR	-	-	1	-	1									
OECD total	-	-	-4	-5	-7									
Oil on water	-	-	-	-1	-2									
Days of forward consumption in OECD														
Commercial onland stocks	-	-	-	-	-									
SPR	-	-	-	-	-									
Total	-	-	-	-	-									
Memo items														
FSU net exports	-	-	-	-	-	-0.1	-0.1	-0.3	-0.1					
(a) - (b)	-0.1	-0.1	-0.3	-0.2	-0.3	-0.4	-0.2	-0.1	-0.3					

† *This compares Table 24 in this issue of the MOMR with Table 23 in June 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
Closing stock level *mb*																			
OECD onland commercial	2,630	2,476	2,529	2,602	2,664	2,630	2,606	2,651	2,576	2,476	2,428	2,551	2,601	2,520	2,467	2,542	2,582	2,556	2,551
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	1,216	1,161	1,144	1,193	1,209	1,201	1,200
Western Europe	924	895	923	914	922	924	934	943	918	895	914	913	926	924	922	929	944	925	962
OECD Pacific	443	408	447	457	473	443	435	447	440	408	411	452	459	435	400	420	430	430	389
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
North America	552	601	544	545	547	552	563	578	589	601	601	611	626	640	654	664	672	678	690
Western Europe	353	354	353	349	344	353	354	349	346	354	365	359	361	372	369	364	364	371	371
OECD Pacific	380	389	374	374	375	380	386	388	386	389	393	393	393	396	398	398	396	396	396
OECD total	3,915	3,821	3,800	3,870	3,930	3,915	3,909	3,967	3,897	3,821	3,787	3,913	3,981	3,928	3,887	3,968	4,014	4,000	4,007
Oil-on-water	830	816	903	828	870	830	797	806	803	816	862	888	871	887	909	898	894	909	929
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	53
North America	52	48	49	51	53	53	52	52	50	48	46	48	49	46	46	47	47	47	47
Western Europe	61	58	62	59	59	60	63	61	59	58	60	59	59	59	61	60	59	60	64
OECD Pacific	52	47	55	56	53	49	56	55	47	42	51	57	51	47	51	51	49	45	50
OECD SPR	27	28	27	27	26	27	28	28	27	27	29	28	28	28	29	29	28	29	30
North America	23	25	23	23	23	23	23	24	24	25	25	25	25	25	26	26	26	27	27
Western Europe	23	23	24	22	22	23	24	23	22	23	24	23	23	24	24	23	23	24	25
OECD Pacific	44	45	46	46	42	42	50	48	41	40	48	49	43	43	50	49	45	42	50
OECD total	82	79	81	81	81	81	84	83	79	77	80	81	80	78	81	81	80	79	83

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

	2001	2002	2003	2004	Change 04/03	1Q05	2Q05	3Q05	4Q05	2005	Change 05/04	1Q06	2Q06	3Q06	4Q06	2006	Change 06/05
USA	8.05	8.04	7.82	7.67	-0.16	7.73	7.75	7.61	7.51	7.65	-0.02	7.75	7.58	7.43	7.52	7.57	-0.08
Canada	2.73	2.84	2.98	3.07	0.09	3.02	3.02	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	3.84	3.75	3.72	3.77	-0.07	3.70	3.76	3.78	3.83	3.77	0.00
North America	14.34	14.48	14.60	14.57	-0.03	14.50	14.62	14.37	14.40	14.47	-0.10	14.68	14.57	14.49	14.75	14.62	0.15
Norway	3.42	3.33	3.26	3.19	-0.07	3.08	3.10	3.03	3.20	3.10	-0.08	3.28	3.20	3.00	3.17	3.16	0.06
UK	2.54	2.52	2.33	2.09	-0.24	2.02	2.01	1.79	1.91	1.93	-0.15	1.92	1.85	1.66	1.99	1.86	-0.08
Denmark	0.35	0.37	0.37	0.39	0.02	0.39	0.39	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	0.03	0.48	0.47	0.46	0.46	0.47	-0.01	0.46	0.45	0.46	0.48	0.46	-0.01
Western Europe	6.68	6.65	6.39	6.13	-0.26	5.98	5.96	5.67	5.96	5.89	-0.24	6.04	5.87	5.47	5.97	5.84	-0.06
Australia	0.71	0.70	0.60	0.52	-0.08	0.48	0.50	0.52	0.47	0.49	-0.03	0.44	0.42	0.42	0.53	0.45	-0.04
Other Pacific	0.07	0.06	0.06	0.05	0.00	0.05	0.05	0.05	0.06	0.05	0.00	0.06	0.05	0.09	0.09	0.07	0.02
OECD Pacific	0.78	0.77	0.65	0.57	-0.08	0.54	0.55	0.57	0.53	0.55	-0.02	0.50	0.47	0.51	0.62	0.53	-0.02
Total OECD	21.81	21.89	21.65	21.27	-0.37	21.01	21.13	20.61	20.89	20.91	-0.37	21.22	20.91	20.47	21.34	20.98	0.07
Brunei	0.20	0.20	0.21	0.21	0.00	0.21	0.20	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00
India	0.73	0.75	0.74	0.78	0.04	0.80	0.80	0.80	0.82	0.80	0.02	0.86	0.86	0.85	0.85	0.85	0.05
Malaysia	0.68	0.71	0.75	0.82	0.07	0.86	0.86	0.86	0.87	0.86	0.05	0.87	0.87	0.87	0.87	0.87	0.00
Vietnam	0.34	0.34	0.35	0.40	0.04	0.38	0.39	0.40	0.41	0.39	0.00	0.39	0.39	0.40	0.36	0.38	-0.01
Asia others	0.25	0.26	0.30	0.37	0.07	0.46	0.47	0.47	0.48	0.47	0.09	0.48	0.48	0.47	0.48	0.48	0.01
Other Asia	2.20	2.27	2.36	2.58	0.22	2.71	2.72	2.74	2.77	2.73	0.16	2.80	2.80	2.80	2.77	2.79	0.06
Argentina	0.82	0.79	0.78	0.73	-0.04	0.72	0.72	0.71	0.72	0.72	-0.01	0.72	0.71	0.70	0.69	0.70	-0.02
Brazil	1.53	1.72	1.80	1.80	0.00	1.85	1.95	1.98	2.05	1.96	0.16	2.11	2.09	2.30	2.32	2.21	0.25
Colombia	0.62	0.59	0.55	0.53	-0.02	0.52	0.50	0.49	0.48	0.49	-0.04	0.47	0.46	0.45	0.44	0.46	-0.04
Ecuador	0.41	0.40	0.43	0.53	0.10	0.54	0.53	0.53	0.53	0.53	0.01	0.53	0.53	0.52	0.53	0.53	-0.01
Trinidad & Tobago	0.13	0.15	0.16	0.16	-0.01	0.21	0.22	0.22	0.23	0.22	0.06	0.23	0.24	0.24	0.25	0.24	0.02
L. America others	0.23	0.22	0.22	0.23	0.01	0.25	0.25	0.25	0.26	0.25	0.02	0.26	0.26	0.26	0.27	0.26	0.01
Latin America	3.74	3.87	3.94	3.98	0.04	4.09	4.16	4.18	4.27	4.18	0.20	4.32	4.28	4.48	4.51	4.40	0.22
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	0.39	0.39	0.37	0.39	-0.03	0.37	0.36	0.36	0.34	0.36	-0.03
Middle East	2.14	2.06	2.00	1.89	-0.11	1.82	1.79	1.77	1.74	1.78	-0.11	1.71	1.69	1.66	1.63	1.67	-0.11
Angola	0.74	0.89	0.87	0.99	0.11	1.13	1.16	1.22	1.34	1.21	0.22	1.38	1.42	1.41	1.66	1.47	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	0.23	0.23	0.23	0.00
Egypt	0.76	0.75	0.75	0.71	-0.04	0.70	0.68	0.67	0.67	0.68	-0.03	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	0.35	0.35	0.35	0.35	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	0.21	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	0.32	0.34	0.47	0.50	0.41	0.11	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	0.24	0.26	0.27	0.25	0.04	0.31	0.36	0.37	0.38	0.35	0.11
Africa	2.80	3.03	3.05	3.43	0.39	3.63	3.67	3.86	4.00	3.79	0.36	4.06	4.16	4.21	4.47	4.22	0.43
Total DCs	10.87	11.22	11.35	11.88	0.53	12.25	12.35	12.54	12.79	12.48	0.61	12.89	12.93	13.15	13.37	13.09	0.60
FSU	8.53	9.32	10.27	11.15	0.89	11.39	11.49	11.58	11.62	11.52	0.37	11.62	11.65	11.90	12.22	11.85	0.33
Russia	6.99	7.62	8.46	9.19	0.73	9.30	9.34	9.40	9.40	9.36	0.17	9.40	9.40	9.47	9.47	9.44	0.07
Kazakhstan	0.80	0.94	1.03	1.18	0.15	1.26	1.28	1.29	1.29	1.28	0.10	1.29	1.29	1.39	1.55	1.38	0.10
Azerbaijan	0.30	0.31	0.31	0.31	0.00	0.34	0.36	0.40	0.44	0.39	0.08	0.44	0.44	0.54	0.69	0.53	0.14
FSU others	0.45	0.45	0.47	0.47	0.01	0.48	0.51	0.49	0.50	0.49	0.02	0.49	0.52	0.50	0.51	0.50	0.01
Other Europe	0.18	0.18	0.17	0.16	-0.01	0.16	0.16	0.16	0.16	0.16	0.00	0.16	0.16	0.16	0.16	0.16	0.00
China	3.30	3.39	3.41	3.48	0.08	3.63	3.60	3.62	3.63	3.62	0.14	3.66	3.69	3.73	3.71	3.70	0.08
Non-OPEC production	44.68	46.01	46.84	47.95	1.11	48.44	48.73	48.50	49.09	48.69	0.74	49.55	49.34	49.40	50.78	49.77	1.08
Processing gains	1.69	1.73	1.80	1.83	0.03	1.88	1.84	1.84	1.88	1.86	0.03	1.88	1.87	1.87	1.93	1.89	0.03
Non-OPEC supply	46.37	47.74	48.63	49.78	1.14	50.32	50.57	50.34	50.97	50.55	0.77	51.43	51.21	51.27	52.71	51.66	1.11
OPEC NGL	3.40	3.42	3.57	3.75	0.18	3.87	3.92	3.97	4.02	3.95	0.20	4.11	4.21	4.30	4.38	4.25	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	3.99	0.28	4.13	4.18	4.23	4.28	4.21	0.21	4.39	4.49	4.58	4.66	4.53	0.33
Non-OPEC & OPEC (NGL+NCF)	49.96	51.36	52.34	53.77	1.43	54.45	54.75	54.58	55.26	54.76	0.98	55.82	55.70	55.85	57.37	56.19	1.43

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

Table 28
Non-OPEC Rig Count

	2001	2002	Change 02/01	1Q03	2Q03	3Q03	4Q03	2003	Change 03/02	1Q04	2Q04	3Q04	4Q04	2004	Change 04/03	Apr05	May05	Jun05	2Q05	Change Jun05- May05
USA	1156	831	-325	901	1028	1088	1109	1032	201	1119	1164	1229	1249	1190	158	1334	1319	1355	1336	36
Canada	342	266	-76	494	203	383	408	372	106	528	202	326	420	369	-3	183	247	293	241	46
Mexico	54	65	11	82	84	96	107	92	27	107	113	111	108	110	18	112	116	121	116	5
North America	1552	1162	-390	1476	1315	1567	1624	1496	334	1754	1479	1665	1777	1669	173	1629	1682	1769	1693	87
Norway	23	19	-4	18	19	20	18	19	0	19	18	14	16	17	-2	17	19	19	18	0
UK	24	26	2	19	21	22	16	20	-6	15	19	14	15	16	-4	20	20	25	22	5
Denmark	4	4	0	3	5	3	4	4	0	4	4	3	4	4	0	2	3	3	3	0
Other Western Europe	44	36	-8	36	34	38	37	36	0	31	30	27	27	29	-7	22	25	26	24	1
Western Europe	95	85	-10	77	78	83	75	78	-7	69	70	57	62	65	-13	61	67	73	67	6
Australia	10	9	-1	10	10	11	13	11	2	12	13	18	14	14	3	15	16	14	15	-2
Other Pacific	9	8	-1	8	7	8	6	7	-1	7	8	9	6	8	1	9	11	10	10	-1
OECD Pacific	20	17	-3	18	17	18	19	18	1	19	22	26	20	22	4	24	27	24	25	-3
Total OECD	1667	1264	-403	1571	1411	1669	1719	1592	328	1842	1570	1749	1859	1755	163	1714	1776	1866	1785	90
Brunei	3	3	0	3	4	4	2	3	0	2	3	3	2	3	0	2	2	2	2	0
India	50	55	5	59	60	61	62	60	5	64	68	71	76	70	10	74	76	79	76	3
Malaysia	11	14	3	14	13	16	15	14	0	15	15	13	13	14	0	13	15	15	14	0
Papua New Guinea	1	1	0	1	2	2	1	2	1	3	2	0	1	2	0	2	2	1	2	-1
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	35	39	35	36	-4
Other Asia	95	111	16	117	115	119	118	117	6	119	128	127	130	126	9	136	143	142	140	-1
Argentina	71	49	-22	59	66	59	57	60	11	64	73	73	74	71	11	75	78	74	76	-4
Brazil	28	27	-1	27	27	27	25	26	-1	24	26	26	26	26	0	27	27	27	27	0
Colombia	15	11	-4	10	9	11	12	11	0	8	9	9	11	9	-2	12	12	13	12	1
Ecuador	10	9	-1	9	11	8	8	9	0	7	9	12	12	10	1	12	12	13	12	1
Peru	4	2	-2	2	2	3	3	3	1	2	2	3	3	2	-1	4	5	4	4	-1
Trinidad & Tobago	5	4	-1	3	3	3	3	3	-1	3	4	4	4	4	1	3	2	2	2	0
L. America others	7	5	-2	3	4	4	5	4	-1	6	6	3	4	5	1	4	4	4	4	0
Latin America	141	106	-35	113	121	114	114	116	10	114	127	129	134	126	10	137	140	137	138	-3
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	36	36	34	35	-2
Syria	19	22	3	23	23	26	23	24	2	24	24	23	23	24	0	20	19	20	20	1
Yemen	6	9	3	11	10	9	7	9	0	7	8	9	11	9	0	10	10	13	11	3
Middle East	50	62	12	70	68	72	68	70	8	69	68	69	73	70	0	70	70	72	71	2
Angola	5	5	0	3	4	3	6	4	-1	4	3	3	3	3	-1	2	2	4	3	2
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	4	2	3
Egypt	22	23	1	26	26	27	26	26	3	27	28	29	28	28	2	28	28	33	30	5
Gabon	2	2	0	3	4	1	3	3	1	2	2	2	2	2	-1	2	3	3	3	0
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	22	21	19	21	-2
Africa	36	43	7	45	50	44	51	48	5	48	53	56	57	54	6	56	55	63	58	8
Total DCs	322	322	0	346	354	350	350	350	28	350	376	381	394	376	26	399	408	414	407	6
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	2	2	2	2	0
China	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-OPEC Rig count	1992	1588	-404	1919	1767	2021	2071	1944	356	2194	1949	2132	2255	2132	188	2115	2186	2282	2194	96

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

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Data is provided by Data Services Department.

Data Summary July 2005

OPEC Basket average price

US$ per barrel

up 5.08 in June

June 2005	***52.04***
May 2005	*46.96*
Year-to-date	*46.71*

June OPEC production

in million barrels per day, according to secondary sources

Algeria	*1.35*	*Kuwait*	*2.51*	*Saudi Arabia*	*9.48*
Indonesia	*0.94*	*SP Libyan AJ*	*1.64*	*UAE*	*2.40*
IR Iran	*4.00*	*Nigeria*	*2.45*	*Venezuela*	*2.64*
Iraq	*1.82*	*Qatar*	*0.80*	***TOTAL***	***30.01***

Supply and demand

in million barrels per day

2005		***2006***	
World demand	*83.66*	*World demand*	*85.20*
Non-OPEC supply	*54.76*	*Non-OPEC supply*	*56.19*
Difference	***28.90***	***Difference***	***29.01***

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

Stocks

US commercial oil stocks saw a seasonal build of 0.56 mb/d in June

World economy

World GDP growth remains unchanged at 4.1% for 2005 and forecast at 4.0% for 2006

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Data covers period up to end of June 2005 unless otherwise stated