OPEC

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Monthly Oil Market Report

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Feature Article:
Persistent inventory overhang challenges market

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Oil Market Highlights

- The OPEC decision in Oran appears to have halted the downward slide in prices to excessively low levels, despite a steady stream of negative economic and demand data. The **OPEC Reference Basket** rose $2.92/b or 7.6% in January to average $41.52/b, with prices remaining around the low $40/b range since the start of the year. Cold weather in Europe and the US revived demand for winter fuels improving refining margins. Geopolitical tensions and the disruption in Russian natural gas supplies also provided support earlier in the month. Basket prices remained relatively steady over the first half of February to stand at $41.79/b on 12 February.

- The forecast for the **world economy** was revised down 0.8 percentage points to 0.4%. This reflects the continuing deterioration in OECD economies where internal demand is failing to compensate for the significant shortfall in exports. The US labor-market continues to worsen with unemployment figures reaching a high of 7.6%. Although the US stimulus package is close to passage, it is still unclear the impact this might have. Key Asian countries are suffering from a large decline in exports, with Japan experiencing a 35% decline in December and China experiencing a 17.5% y-o-y decline in January.

- **World oil demand** in 2008 is estimated to have declined at a faster rate of 0.2 mb/d, representing a downward revision of 0.1 mb/d. Similarly, world oil demand in 2009 was revised down 0.4 mb/d to show a decline of 0.6 mb/d from the previous year. The revisions reflect the worsening economic situation in OECD countries which has spread to the emerging economies. The ongoing decline in industrial fuel consumption has been partially offset by colder-than-normal winter weather at the start of the year.

- **Non-OPEC supply** is now expected to have declined by 0.2 mb/d in 2008 following a downward revision of 230 tb/d on lower than expected performance in the US, Canada, China and Sudan. This marks the first decline in production since 1999. In 2009, non-OPEC oil supply is projected to increase by 0.5 mb/d following a minor downward revision. In January, total **OPEC** crude oil production averaged 28.71 mb/d, according to secondary sources, representing a decline of 959 tb/d from the previous month.

- **Product market** fundamentals are expected to remain weak over the medium-term, but cold winter weather temporarily provided support for product prices and refining margins. The current situation is likely to turn increasingly bearish with the approaching end of the winter season. The startup of new refining capacity in Asia and the continued slowdown in demand due to the economic crisis should only accelerate this trend. Seasonal refinery turnarounds are likely to exert further pressure on product prices over the coming months.

- **OPEC spot fixtures** increased in January over the previous month, while sailings from OPEC and arrivals in the US saw declines. Except for the VLCC sector which had vessels tied up as storage to take advantage of the deep contango structure in the forward market, spot freight rates for crude oil tankers declined in January impacted by the lower activity and reduced OPEC output. Product freight rates were also lower with East of Suez routes showing the largest drop.

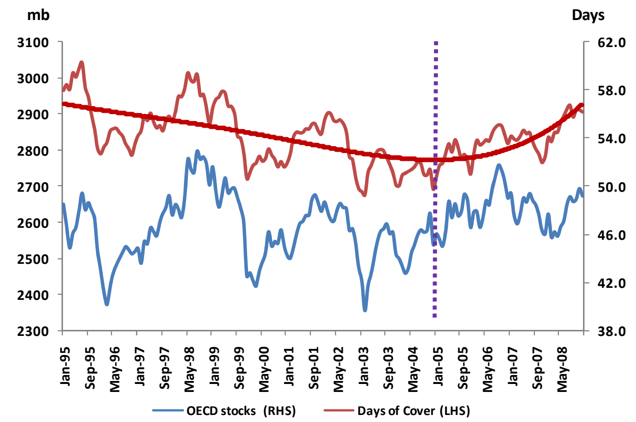
- US **commercial oil stocks** surged a significant 27 mb in January to stand at 1,043 mb. Crude oil was the main contributor adding 23 mb or 0.74 mb/d. Following this build, the highest since April 2001, crude oil stocks now show an overhang of 45 mb with the five-year average. European (EU-15 plus Norway) total oil stocks fell 2.2 mb to 1,113 mb at end January while Japan's commercial oil stocks continued to fall, declining 5.2 mb in December and further in January. Due to weakening demand, oil inventories remain at comfortable levels in Europe and Japan.

- The **demand for OPEC crude** in 2008 is estimated to have averaged 30.9 mb/d, a decline of 0.4 mb/d from the previous year. In 2009, the demand for OPEC crude is expected to average 29.2 mb/d, a drop of 1.7 mb/d from the year earlier.

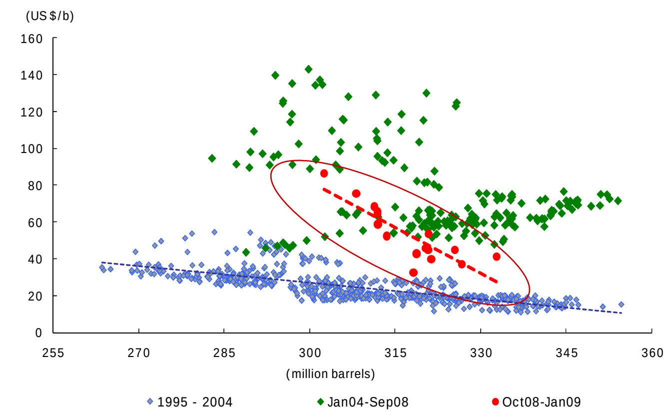
Persistent inventory overhang challenges market

- The deterioration in the world economy has led to a significant reduction in global oil consumption. The sudden and massive erosion in demand has helped push crude oil inventories up sharply — in some key areas close to maximum capacity. The rise in inventories can be seen across all components that make up global oil stocks. These are OECD stocks which are reported by individual countries; oil afloat reported by specialized agencies; oil at sea which is estimated based on trade data; and non-OECD stocks estimated based on available information. Of these, OECD stocks are still the most comprehensive indicator for assessing inventory and market conditions.
- Looking at inventory developments in recent years highlights a few important changes that should be taken into account. These include an increase in days of forward cover, a reduction in inventory requirements in absolute terms and a shift in the longstanding relationship between crude oil inventories and prices.
- **Graph 1** shows a steady decline in OECD days of forward cover to 51 days while absolute stock levels have continued to fluctuate around the same level. This was largely due to the widespread adoption of "just-in-time" inventory management which sought efficiencies by reducing stocks and hence the costs of holding inventories. However, since 2005, forward demand cover has begun to increase, to now approach 57 days, despite just-in-time management. In addition, inventory requirements have declined due to the reduced impact of seasonality. This can be seen in seasonal changes in demand which has fallen from an average of 3.9 mb/d over the period 1995-2005 to just 2.5 mb/d in the last three years. As a result, the seasonal impact on stocks has also declined from around 180 mb to 110 mb. This implies lower inventory requirements during periods of peak consumption.

Graph 1: OECD commercial oil inventories



Graph 2: WTI price vs. USA crude oil stocks



- Another change that has taken place over this period is the break in the long-standing inverse relationship between prices and inventory levels. As **Graph 2** shows, the relation between the WTI price and inventories showed a strong correlation between 1995 and 2004 — higher inventories corresponded with lower prices and falling inventories with rising prices. This relation was broken starting in 2004 when the tight product market balance along with non-fundamental factors began to have a greater influence on prices. During this period, inventory changes did not appear to have a consistent impact on crude oil prices. However, more recent data indicates that this inventory/price relationship might be returning, although it is still too early to judge.
- These changes are reflected in the current overhang in inventories, which has been further accelerated by the deep contango structure in the market. The market's switch to contango has encouraged traders and others to store excess crude in floating storage to profit from higher forward prices. By the end of January, an estimated 70 to 80 mb oil was being stored offshore in 35 to 40 VLCCs vessels, representing roughly 7 to 8% of the world VLCC fleet. This created an unexpected spike in VLCC freight rates at a time when the market was expecting tanker demand to be lower due to much lower requirements for OPEC oil.
- The deep contango and the slowdown in demand in the US have encouraged the accumulation of oil inventories at the key WTI delivery point of Cushing, Oklahoma. As a result, storage has risen sharply and now stands at 34.9 mb, approaching maximum operational capacity. This has led to a distortion in the price of benchmark WTI, which has diverted from broader market fundamentals.
- Moreover, governments in the US and China are taking advantage of low prices to fill additional strategic reserves. The US Department of Energy has resumed the filling of SPR with the goal of reaching full capacity of 727 mb. Meanwhile in China, officials have acknowledged that they have been taking advantage of lower crude prices to fill its petroleum reserves.
- The high and growing stock levels — particularly for crude oil — are likely to continue to disrupt the overall stability of the market. Their impact will become even more pronounced with the onset of low seasonal demand as well as the upcoming refinery maintenance period. The current state of the market under prevailing supply and demand uncertainties, combined with the deepening economic crisis worldwide, highlights the necessity and importance of OPEC's actions to stabilize the market, including most recently the decision taken at Oran. It also demonstrates the need for broad cooperation across the oil industry to meet these challenges.

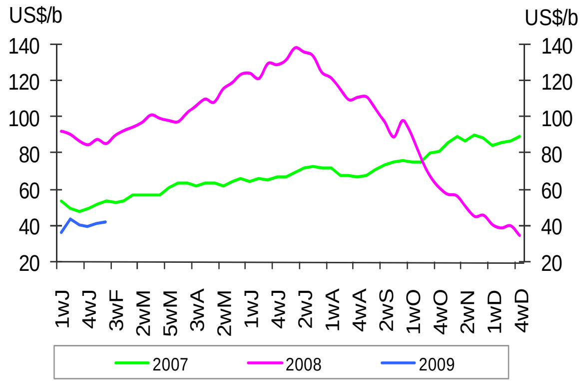
Crude Oil Price Movements

Supply adjustment and winter fuel demand balanced weak economic outlook

OPEC Reference Basket

The crude oil market began the year on a bullish note amid a conflict in the Middle East and a mounting dispute regarding Russian natural gas supplies. With the new calculation excluding Indonesia's Minas, the OPEC Reference Basket rose as high as $46.26/b in daily terms. However, bleak economic data continued to point to weaker demand growth, pushing prices to below $42/b later in the week. The Basket averaged $43.98/b in the **first week**, representing a jump of 21%. In the second week, market sentiment softened amid an announced resolution to the Russian natural gas dispute. US dollar volatility added to market bearish momentum, although OPEC supply adjustments and improved refining margins capped the downward trend. The ORB averaged $3.07 or 7% lower in the **second week** to settle at $40.91/b.

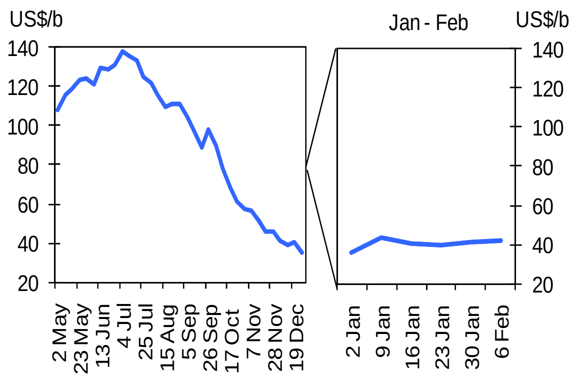
Graph 1: OPEC Reference Basket - weekly spot crude



The market continued the downward move in the third week amid a UK bank posting the nation's largest loss reviving fears of an economic downturn. However, a cold snap and ongoing healthy refining margins prevented further losses. The strengthening of the US dollar and the gloomy economic outlook capped the upward trend later in the week. The Basket averaged the **third week** down 2% or 83¢ to settle at $40.08/b.

The upward volatility sustained into the fourth week amid tighter OPEC supply, cold weather in North America and a slip in the US dollar against major currencies. In contrast, the weak economic outlook weighed on market sentiment. Heightened demand for winter fuels improved refining margins in the final week of the month. Efforts to craft a US stimulus plan provided some support. The Basket rose 3.4% or $1.35 in the **fourth week** to settle at $41.43/b. US dollar fluctuations and fears of an economic downturn outweighed data showing lower supply.

Graph 2: Weekly average Basket price, 2008-2009

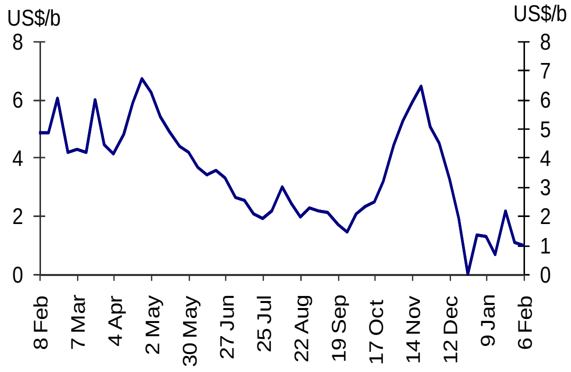


On a monthly basis, the crude oil market emerged in the New Year on a bullish note amid tighter OPEC output, Middle East geopolitical tensions and the disruption in Russian natural gas supplies. As the latter abated, market strength eased. A cold winter in the US and Europe along with the resulting improvement in refining margins kept some market bullishness intact. Nonetheless, the dismal economic outlook was seen to continue denting crude oil demand. US dollar fluctuations and the efforts to put together a US stimulus plan revived market volatility. With the new calculation excluding Indonesia's Minas, the OPEC Reference Basket rose $2.92 or 7.6% to stand at $41.52/b in January. In February, the Basket remained in the lower $40/b range. The stimulus plan along with refinery work in the US and the UK maintained some bullishness which offset poor economic data and declining demand. The Basket stood at $41.79/b on 12 February.

The Osage pipeline leak and looming winter supported demand for light-end crude

US market

Graph 3: WTI spread to WTS, 2008-2009

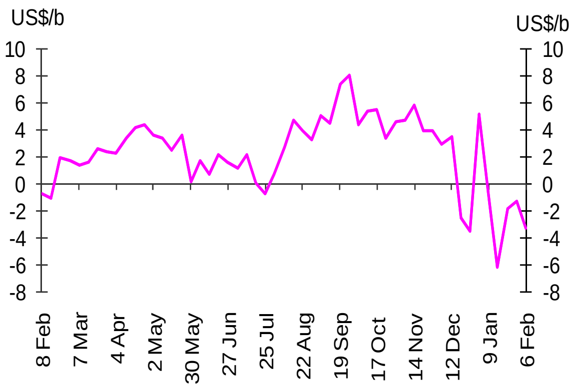


Light crude differentials in the US domestic market were nearly unchanged from the previous week amid slow activities. Widened futures spread pressured the sweet grade while refineries bought cargoes for storage to take advantage of the steep contango structure. Adding to market bullishness was the closed transatlantic spread. The WTI/WTS spread averaged $1.31/b in the **first week**. The sweet grade saw further pressure in the second week with crude oil stocks at Cushing, Oklahoma, rising and the transatlantic spread remaining uneconomical. Improved refining margins amid outages supported the light grade. The WTI/WTS spread narrowed 69¢/b or 62¢ in the **second week**. The sentiment weakened as future time spreads narrowed with the expiry of the prompt-month contract. The shrinking Brent premium to WTI also pressured the light grade. In the **third week**, the WTI/WTS spread averaged $2.15/b or $1.46 wider. In the final week, draws on heating fuel stocks revived light grade differentials. Moreover, the widening Brent premium to WTI limited transatlantic arbitrage supporting light sour grades. Adding to the bullishness was a leak on the Osage pipeline which supported refineries in the Midwest while winter weather prompted demand for seasonal fuels. A potential refinery strike momentarily flared bullishness; however, it was short lived. The WTI/WTS spread was nearly halved in the **fourth week** at $1.09/b. In January, WTI averaged $40.10 or $1.40 narrower, yet the premium to WTS narrowed 34¢ to 95¢.

Tight February output, a cold snap, and improved refining margins kept Brent at a premium to WTI

North Sea market

Graph 4: WTI premium to Dated Brent, 2008-2009



The North Sea market began the New Year in thin trade amid emerging February loading programmes. In the **first week**, Brent saw a 62¢/b premium to WTI compared to the previous week's discount. Nonetheless, the gas dispute between Russia and Ukraine flared fears over a potential shortfall in winter fuel supplies, which improved demand for alternative fuels and firmed refining margins. Lower North Sea supply in February also added to market bullishness while winter loomed. Adding to the stronger momentum was buying of regional grades for floating storage. The Brent premium to WTI widened to average $6.24/b in **second week**, after peaking to over $9/b by the end of the week. Moreover, continued healthier refining margins while supply was tight for February delivery sustained the bullish sentiment in the marketplace. A cold spell across the region added to the firm momentum. The Brent premium to WTI narrowed averaging $1.83/b in the **third week**. In the final week of the month a release of cargoes from floating storage dampened market sentiment. Nonetheless, demand for distillate-rich crude amid healthy refining margins kept the bulls intact while regional output remained tight. In the **fourth week,** the Brent premium to WTI narrowed to $1.34/b. In January, Brent averaged $3.24 or 8% higher at $43.59/b, flipping into premium to WTI at $2.09/b.

Mediterranean market

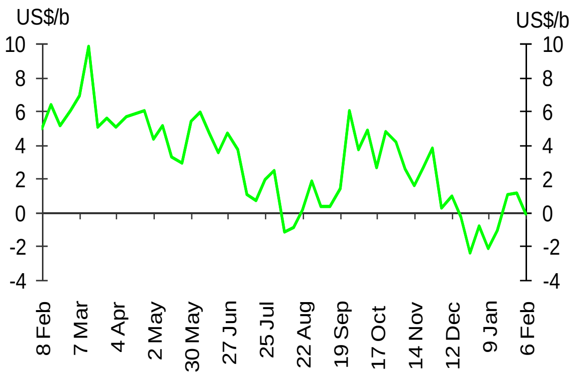
Despite healthier refining margins, floating storage depressed Urals differentials

The Urals market began the year on a softer tune, flipping into discount to Brent despite healthy refining margins, the disruption of Russian natural gas supplies and cold winter weather. The Brent/Urals spread averaged $38¢/b for the **first week**. Market sentiment continued on tight January supply at Primorsk due to maintenance and healthier refining margins for distillates as the cold snap prevailed. Procurement for floating storage also lent support. In the **second week,** Urals flipped into a premium to Brent with the average at 13¢/b. Tight supply and healthy refining margins for winter fuels supported the grade. However, firmness of Brent on distillate-rich crude pressured Urals, flipping once again into a discount of 88¢/b in the **third week**. Weakening refining margins dampened Urals differentials into the fourth week despite potential flow of arbitrage barrels. High crude oil stocks on floating storage continued to exert pressure on Urals crude. The Brent/Urals spread was unchanged in the **fourth week** at 88¢/b. In January, Urals averaged $43.09/b for a gain of $3.06, yet the discount to Brent widened by 18¢ to 50¢/b.

Middle Eastern market

Lower OPEC supply and the attractive naphtha crack spread lent support to the regional crude

Graph 5: Dated Brent spread to Dubai, 2008-2009



Quietness prevailed as the market awaited retroactive OSPs and price differentials from the Middle East. However, the market firmed as OPEC reined in excess supply effective 1 January. However, Brent's discount to Dubai kept balance in the Asian market by attracting rival grades. Market sentiment improved on the back of lucrative price differentials and retroactive OSP, leaving room for higher spot premiums. Quietness resumed later in the week as refiners waited for February allocations. The Dubai premium to Brent widened to $2.08/b in the **first week**. Improved naphtha crack spread and lower OPEC production supported Mideast crude price differentials. Nonetheless, additional naphtha arbitrage barrels from Europe pressured the Asian market. In the **second week**, the Brent discount to Dubai narrowed to $1.04/b. In the third week, lower OPEC supply continued to support the Eastern market, yet fulfillment of March spot barrels weighed on the sentiment. Warming winter weather and high distillate stocks in Singapore dampened market bearishness. Brent flipped back into a premium to Dubai at $1.09/b in the **third week**. In the last week of the month, the Asian market was mostly closed in observance of the Chinese Lunar New Year. However, the shut-in of some 200,000 b/d of Australian production due to cyclone Dominic lent support to the regional market. In the **fourth week**, Brent premium to Dubai strengthened to $1.16/b, the widest in eight weeks. In January, Dubai averaged $44.78/b for a gain of $3.48 or 8.5%, but averaged a 35¢ premium to Brent.

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

	Dec 08	Jan 09	Change Jan/Dec	Year-to-Date 2008	Year-to-Date 2009
OPEC Reference Basket	**38.60**	**41.52**	**2.92**	**88.35**	**41.52**
Arab Light	38.82	41.23	2.41	88.75	41.23
Basrah Light	37.27	39.47	2.20	85.21	39.47
BCF-17	31.65	37.14	5.49	80.59	37.14
Bonny Light	43.10	45.44	2.34	94.85	45.44
Es Sider	39.60	42.74	3.14	91.40	42.74
Girassol	40.30	43.43	3.13	88.68	43.43
Iran Heavy	36.88	39.93	3.05	86.36	39.93
Kuwait Export	36.47	40.00	3.53	85.63	40.00
Marine	41.24	44.62	3.38	88.35	44.62
Murban	43.15	46.27	3.12	92.04	46.27
Oriente	29.56	35.12	5.56	79.25	35.12
Saharan Blend	41.35	43.89	2.54	93.60	43.89
Other Crudes					
Minas	41.80	44.98	3.18	95.33	44.98
Dubai	40.46	43.94	3.48	87.35	43.94
Isthmus	37.27	40.15	2.88	88.07	40.15
T.J. Light	35.26	38.86	3.60	85.52	38.86
Brent	40.35	43.59	3.24	92.00	43.59
W Texas Intermediate	41.45	41.50	0.05	92.87	41.50
Differentials					
WTI/Brent	1.10	-2.09	-3.19	0.87	-2.09
Brent/Dubai	-0.11	-0.35	-0.24	4.64	-0.34

Note: As of 2009, Minas (Indonesia) is excluded.

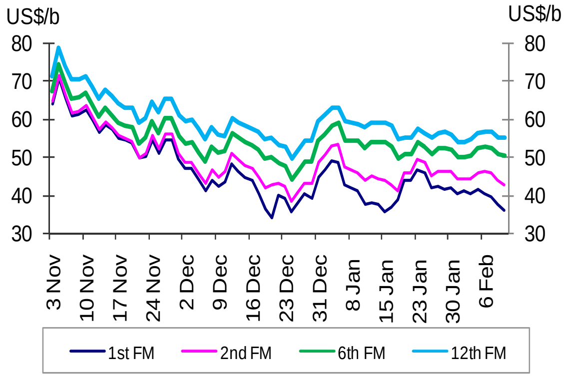
Source: Platt's, Direct Communication and Secretariat's assessments.

The Oil Futures Market

Reduction in supply, a cold spell and a planned stimulus package somehow balanced economic woes to revive the crude oil futures market

The futures market started the year with an upward push from geopolitical tensions in the Middle East and from the Russia-Ukraine natural gas dispute. Crude oil futures surged to nearly \$49/b, a level last seen in early December, although the sentiment reversed quickly on the back of the gloomy economy. Nonetheless, Nymex WTI averaged the **first weekly** period \$9.04 higher at \$47.08/b, to close at \$48.58/b. Non-commercials increased net long positions by 12,100 contracts to nearly 76,700 amid an increase in longs while short positions declined. Moreover, open interest volume increased by a healthy 46,000 lots to 1,215,200 contracts. With options included, open interest volume was 29,500 lots higher at 3,045,300 contracts. Non-commercial net long positions were 11,300 wider at 137,400 lots. In the second week, market sentiment deteriorated on the back of healthy petroleum stocks build in the US signaling slower demand amid a bleak economic outlook. The bearishness was furthered by weak economic indicators such as US jobs data. Nymex WTI averaged the **second week** down by \$6.97 or nearly 15% to \$40.11 closing the week \$10.80 lower at \$37.78/b. Non-commercials reduced net long positions by a hefty 23,400 lots to 53,300 contracts amid a drop in longs while shorts inflated heavily. Nonetheless, open interest volume was 31,600 lots higher at 1,246,800 contacts. With options included, open interest volume rose 58,500 lots to over 3.1 million contracts. Yet, non-commercials net long positions deflated to 117,444 lots.

Graph 6: Nymex WTI futures prices, 2008-2009



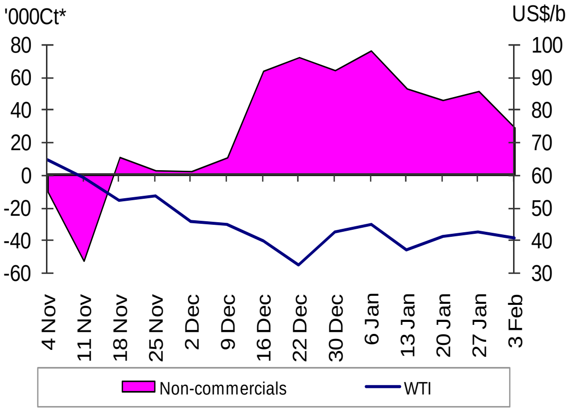
FM = future month

In the **third weekly** period, volatility continued with non-commercial long positions dropping 7,160 lots to 46,130 while open interest volume was up a marginal 3,500 to 1,250,300 contracts. With options included, open interest volume fell 85,100 lots to 3 million contracts, yet non-commercial net longs inflated by 5,400 contracts to 122,800 lots. Market sentiment weakened over the third weekly period on a healthy build in distillate stocks while the US dollar gained momentum. Crude oil futures plunged to \$35.40/b, the lowest level in four weeks. The volatility continued on the back of a cold spell prompting demand for winter fuels which improved refinery margins. A recovery in the equity market while the dollar lost momentum kept the bulls intact. Nonetheless, Nymex WTI averaged \$3.13 lower at \$36.98/b, but closed at \$38.74/b.

The volatility continued into the **fourth weekly** period on a drop in the US dollar exchange rate, lower OPEC output and cold spells over North America. A revival of US stimulus plans helped improve the market outlook. However, equity markets plunged and crude stocks saw healthy builds in the US. Nymex WTI closed the week \$2.84 higher at \$41.58 to average the week at \$44.20 for a gain of \$7.22. Non-commercial net long positions were 5,500 lots wider at 51,650 contracts amid a hefty drop in the short positions. However, open interest volume fell 4,300 lots. With options included, open interest volume rose nearly 18,300 lots to 3,036,900 contracts with the net longs inflated by another 9,256 to 132,066 contracts.

On monthly basis, the crude oil futures market was more volatile in **January** with the gloomy economic outlook pointing to slower oil demand growth. The continued build of petroleum stocks signalled slower consumption for seasonal fuels. Nymex WTI averaged \$41.92/b in January, down a slight 12¢, but closed the month at \$41.68, down by \$2.92/b. Non-commercial net long positions stood at 57,000 lots for a gain of 14,100 over the previous month, as longs rose at a faster rate than shorts. Open interest rose 82,100 lots to 1,157,400 contracts. With options included, open interest volume averaged 3,051,200 lots or nearly 35,000 lots higher than in the previous month.

Graph 7: Non-commercial net long positions vs WTI, 2008-2009



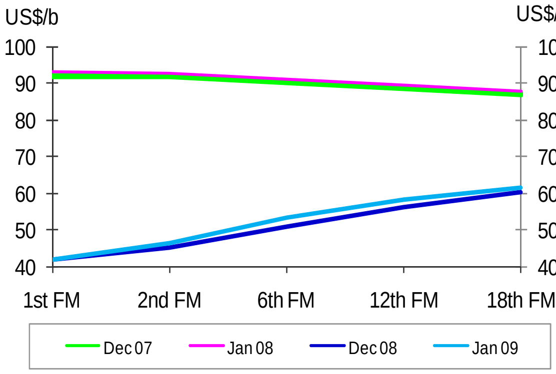
NC = Non-commercials: funds, investments and banks.
Ct = *Each contract is 1,000 barrels.

The Forward Structure

Higher imports and persistently low utilization rates boosted crude oil stocks

The forward structure steepened in contango in January with the 1st/2nd month spread at \$4.47/b or \$1.35 wider. The 1st/6th, 1st/12th and 1st/18th month contango spread was at \$11.43/b, \$16.17/b and \$19.57/b, respectively, or \$2.27/b, \$1.90/b and 1.19/b wider than in the previous month. This compared to the backwardated structure over same period last year. The increase in weekly average imports by 0.5 mb/d to nearly 10 mb/d pushed US crude oil stocks to average almost 334 mb in January for a gain of 14.2 mb over the month before and 45.8 mb over the previous year. In the final week in January, US crude oil stocks rose to 346 mb, the highest since July 2007, more than 18 mb higher than the five-year average. Adding to the stocks rise, US refinery runs reached 14.3 mb/d, a loss of 200,000 b/d from the previous month, 734,000 b/d lower than the previous year, and 776,000 lower than the five-year average.

Graph 8: Nymex WTI forward curve



FM = future month

Commodity Markets

Trends in selected commodity markets

Commodity prices rebounded in January on temporary factors

The IMF commodity price index increased 4.1% m-o-m in January following a decline of 14% in the previous month, but remained 37% below a year ago. Commodity markets were characterized by volatility and differentiated short-term trends. Price gains in these markets over January can mainly be explained by short-lived factors, namely market positioning ahead of index rebalancing and an artificial increase in global industrial metals demand linked to Chinese buying, together with announced and anticipated production cuts in energy, metals and others. Weather conditions also influenced some agricultural markets and the energy sector.

The inflow of bleak economic and financial statistics indicating a collapse in industrial output, record unemployment and high inventory levels, amid sharp declines in Asian exports, does not point to a clear recovery in commodity markets. The enormous economic and financial crisis has outpaced the possible positive impact of some improvements in key indicators — although from very low levels — such as product management indices (PMIs) in the US and China as well as commodity freight rates. In sum, commodity prices, especially for energy and metals, are expected to continue to decline in the context of the dramatic economic and financial global crisis until the supply/demand balance can be restored. Thus, it seems that the inflection point has not yet been reached.

Table 2: Monthly changes in selected commodity prices, 2008-2009

	% Change			% Change
	Nov/Oct	Dec/Nov	Jan/Dec	Jan 09/Jan 08
Commodity	-16.8	-14.1	4.1	-37.0
Non-Energy	-7.8	-6.8	4.2	-25.5
Energy	-21.3	-18.5	4.0	-43.0
Crude	-25.7	-23.2	5.7	-51.6
Natural Gas	-0.6	-12.9	-10.3	-34.4
Coal	-14.6	-14.7	1.7	-12.8
Agriculture*	-5.7	-4.0	7.7	na
Food	-5.5	-2.7	6.4	-16.8
Corn	-10.2	-3.0	9.5	-16.1
Wheat	-4.4	-3.6	8.7	-35.2
Soybean Oil	-9.9	-6.5	10.8	-34.0
Soybeans	0.7	-3.1	14.0	-21.0
Sugar World*	-9.2	-4.0	7.1	na
Industrial Metals	-11.7	-10.9	1.0	-41.4
Aluminium	-12.5	-19.0	-5.6	-42.2
Copper	-23.8	-16.7	5.0	-53.9
Nickel	-11.3	-8.6	17.4	-58.4
Zinc	-10.3	-4.8	8.7	-35.2
Gold*	-5.7	7.3	5.2	na
Silver*	-5.4	4.5	10.5	na
Fertilizers*	-16.2	-17.3	-3.0	na

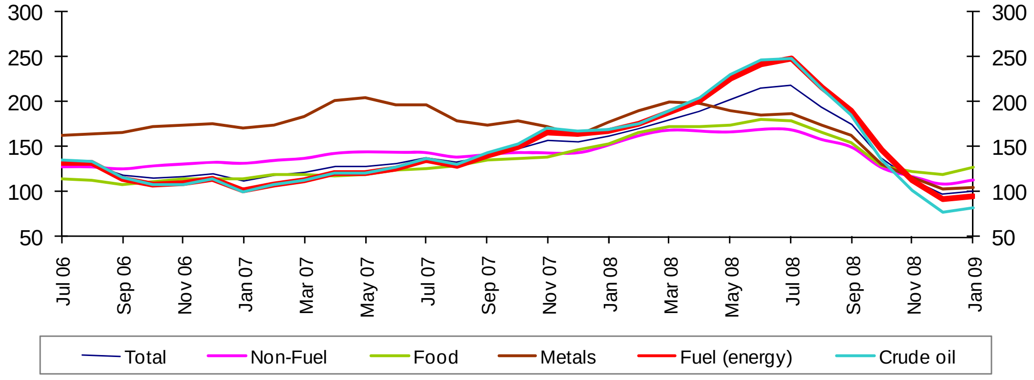
na Not available
Sources: IMF; Estimations based on data provided by the IMF.
** World Bank Index*

The IMF **energy commodity index** (crude oil, natural gas and coal) rose 4% m-o-m in January. **Crude oil prices** (the average petroleum spot price) recovered by 5.7%, while natural gas and coal prices declined.

Energy price index increased in January, mainly on a crude oil rally earlier this year

Henry Hub gas sank by 10.3% in January. The worsening economic and financial crisis in the US led to the strong deterioration in the industrial output during 4Q08 translating into reduced natural gas consumption. Although no figures were available at the time of writing of this report, it is expected that US industrial and electric power demand will offset the increase in weather-related residential demand. In addition, production levels remain high and working gas in storage volumes is above the 5-year average and the pace of the decline in January is slower than the same period last year. With the EIA forecasting a 1% drop in natural gas consumption in 2009, the outlook for natural gas in the US is not encouraging, especially considering the approaching end of winter and the challenging economic situation.

Graph 9: Major commodity price indexes, 2006-2008



Commodity Price Index, 2005 = 100

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

The **non-energy commodities** rose 4.2% m-o-m in January on a recovery, especially in agriculture, since the recovery in metals was more modest. However, non-energy commodity prices are 25.5% below the level of a year ago.

The **industrial metal price index** rose 1% m-o-m in January – up for the first time in 7 months – on some positive factors such as the re-weighting of indices and some strategic buying by governments. Nevertheless, prices are 41.1% lower than a year ago and the dramatic global recession and further inflow of worsening macroeconomic data does not point to a sustainable recovery. As in December, the metal markets showed massive surpluses and record-high inventories, so bearish fundamentals — and in particular collapsing demand — remained the determining factors of these markets.

The metal complex together with the energy market has been most affected by the major economic and financial crisis because of their close links to the economic cycle. Industrial metal markets have plummeted due to a rapid drop in industrial production and declining demand for commodity inputs used in production in manufacturing, construction, transport and other sectors. Likewise, there is evidence of further deterioration in metal-intensive industries in January with light-weight motor vehicle auto sales in the US experiencing a 40% decline on a yearly basis.

High inventories and the move of the forward curve into contango reflected weaker metal fundamentals. Despite serious efforts to set production cuts, industrial metal prices will likely drop in the short-term in the face of extraordinary demand weakness.

Copper prices rose 5% m-o-m in January, but stayed 53.9% lower compared to the same month a year earlier**.** Copper prices found support from a surge in Chinese demand prompted by favorable London metal Exchange (LME)/Shanghai arbitrage.

However, record stocks at the LME in December and January indicate weak global copper demand. Apparent demand for copper is reported to have increased 12% in 4Q08 compared to 4Q07 on a huge 70% m-o-m surge in imports. However, these statistics are not consistent with other data such as the important slowdown in electricity output, auto production and construction activity. It is likely that Chinese copper demand may have been flat or slightly down in 4Q08, but some factors may explain the artificial increase. The domestic output may be lower than reported by official data as informal sources have indicated shortages of copper scrap leading to reductions in secondary refined output. Lower prices in 4Q08 encouraged buying of copper by the State Reserve Borough (SRB) to replenish its strategic stocks as well as the opportunity for Chinese copper consumers to also rebuild stocks.

It is expected that the global copper market will be characterized by a considerable surplus in 2009 with prices expected to drop further in 1Q09. The outlook for copper depends on the implementation of infrastructure programmes in China and USA.

Aluminum prices were one of the worst performers in January, down 5.6% m-o-m, 42.2% lower on the year and 11% less than 5 years ago. Tumbling demand due to the severe recession — lower production in construction and transport sectors — continued to offset efforts to cut production. US automotive sales fell 38% in December. Weak demand resulted in record LME inventories which surged 30% in January to 2.7mt.

Given the magnitude of the surpluses and the severity of the economic crisis, a rebound in aluminum prices is unlikely, even if the new production cuts announced in January materialize. The China Nonferrous Metals Industry estimates that the aluminum market will remain in surplus in 2009, even if 10% of production is cut, due to sluggish demand from inventory build-up.

Nickel prices rallied 17.4% m-o-m in January, but are still 58% lower than a year earlier and 23.4% down from 5 years ago, driven essentially by the rebalancing of commodity indices at the start of the year**.** Likewise, nickel prices found support from higher demand from the Chinese stainless steel sector relative to the final two months of last year. Nevertheless, global demand for nickel is still very weak with stainless steel producers running at very low capacity rates. Global demand for nickel is forecast to be 1.8% lower y-o-y than in 2008.

The lack of demand brought higher inventories which increased from 74,000 tonnes in December to 82,000 tonnes in January, the highest level since 1995. Major Chinese producers cut production in October by 50% as a result of tumbling demand, but nickel inventories at the LME continued to increase in December and January. The outlook for the nickel market remains gloomy despite the cut in production in nickel mines, which is estimated to reach 16% of the expected output for 2009. According to Brook Hunt, a 18,000 tonne surplus is expected in 2009, which makes it difficult to foresee a recovery in nickel prices, despite efforts to cut production.

Zinc prices also show a gain of 8% m-o-m in January, but are still down 49% from a year ago. Price recovery was mainly ascribed to news that the Chinese government bureau will purchase 59,000 tonnes of zinc by 15 March at a higher price than the current one. Nevertheless, as in other industrial metals, weak global demand is still a key factor in the market developments, which led to further output cuts in several producer countries. Therefore, zinc LME inventories posted high gains in January and Brook Hunt estimates a surplus of 267,000 tonnes in 2009.

The World Bank's agricultural price index went up 7.7% in January m-o-m. The recovery was sustained by the following items: rubber, soybeans, rice, cocoa, corn, wheat, coffee Arabica and sugar.

Rubber prices jumped 23% m-o-m as major producers announced measures to cut supply.

The World Bank food price index surged 8,9% m-o-m in January on gains in soybeans, rice, cocoa, corn, wheat, coffee Arabica and sugar.

Soybean prices surged 14% m-o-m in January on bullish fundamental factors such as solid export demand for US production driven by stockpiling in China ahead of the Chinese New Year holidays. Severe droughts in major producer countries (Argentina and Brazil) also supported soybean prices. The US Department of Agriculture lowered its forecast for 2008-09 total world output. In this situation, an increase in global demand for US soybeans is expected, however, Chinese soybean demand will remain the major driver of this commodity market.

Rice prices climbed 11% m-o-m in January, mainly on the back of poor weather conditions in early January that led to postponing planting for two weeks although production has not yet been affected. On the fundamental side, signs are bearish due to higher-than-expected harvests in China and the adoption of government export policies in India, leading to pressure on prices in the international markets (e.g. a lower export tax on basmati).

Corn prices increased 9.5% m-o-m in January, but are still 16% down from a year ago. This increase comes as a result of a rise in crude oil prices and downward revisions on planted-area forecasts. The USDA projected a decline in planted acreage in the USA, Argentina and Brazil, due to severe draughts in the South American countries. Yet, the bullish 2008/09 forecast for Chinese output seems to counterbalance the fall in South America. On the demand side, news is bearish as US corn export sales for 2008/09 were lower compared to the 2007/08 season.

Wheat prices rose 8.7% m-o-m in January which is basically ascribed to strong export demand. On the supply side, there was news of planted acreage cut by one-third in Arkansas relative to the previous season. The decision of India to export wheat after two years of export bans may yet weigh on wheat prices during 2009. Wheat prices remain 35% below the year-ago level.

Sugar prices gained 7% m-o-m in January. This commodity benefited from the surge in crude oil prices in early January which revived interest in ethanol. Fundamentals also contributed to the rally in sugar prices with declines on the supply side due to unfavorable weather conditions in some major producers. On the demand side, the expected sugar deficit in India and the healthy demand forecast for the European Union is also likely to support prices.

According to some analysts, agricultural products— especially cereals and lower-cost proteins — can perform as "defensive commodities" because they may be less hit by lower income growth. Indeed, the agricultural sector has performed better than energy and industrial metals, because the losses in demand have been less dramatic. This situation may last because of the importance of population growth in agricultural demand. Thus, the outlook for agriculture in the near term is better than for the rest of the commodity sector.

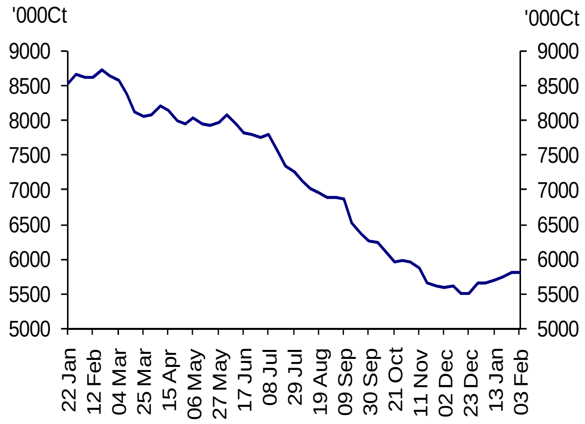
Gold prices went up 5.2% m-o-m in January backed by investor "safe-haven" buying in the face of the deepening economic and financial turmoil. Gold remains the major beneficiary of global inflows into gold exchange-traded products (ETPs) in January. As already stated in the previous report, gold prices may fall in the near future, due to deflation and the price of the dollar, depending on whether there is enough investment demand. In the coming months, the following factors may support prices: firstly, a likely weakening in the US dollar against the euro on a 12-month basis; secondly, a gradual rebound in crude oil prices towards the middle of the year; and, thirdly, an inflationary scenario towards the end the year.

Investment flow into commodities

Open interest volume in major US commodity markets increased amid a mild recovery in prices

CFTC data for January indicated a recovery in open interest volume (OIV) which rose by 128,000 contracts to 5,788,000 on a monthly basis in major US commodity markets in January. This represented a reversal in the declining trend in OIV reported since July 2008, although OIV remains 237,100 contracts below the same month last year.

Graph 10: Total open interest volume, 2008-2009



Source: CFTC

On a weekly basis, following a major decline of 105,937 contracts on 22 December, some recovery took place through most of January. Nevertheless, OIV stands at very low levels on the week closing 27 January. The sectors which experienced the largest gains were precious metals, crude oil and sugar.

The slight recovery in OIV in the commodity markets reflected the relatively improved price trend in January despite the tremendous economic recession that has spread globally (*see* ***Table 3*** *and* ***Graphs 10*** *and* ***11***).

Non-commercial net long positions saw a gain of 140,000 contracts in January over the previous month, supported by a decline in short positions and higher longs. As a percentage of total open interest, non-commercial net longs stood at 4.84% in January, up 2.5% since last December.

Open interest in **agriculture futures** rose 16,000 to 2,939,000 contracts in January over the previous month, which compared favorably with the 99,000 decline in December. Data revealed a strong rebound in non-commercial long positions and a further drop in shorts. Thus, non-commercial net length as a percentage of OIV rose from 5% to 8%. Higher prices in sugar, coffee, cotton and soybeans led to an increase in non-commercial longs and a fall in shorts.

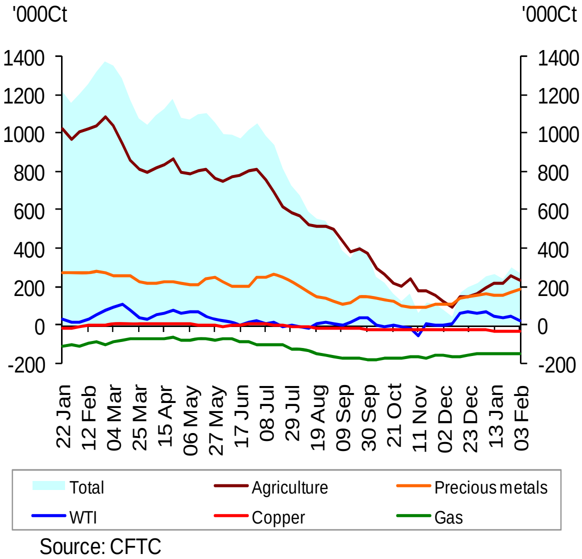
CFTC data indicated OIV for **precious metals** increased 54,000 to 460,000 contracts in January. A mild decline in non-commercial shorts combined with an increase in long positions to further increase net long positions as a percentage of open interest volume from 34% in last December to 36% in January (*see* ***Graphs 11*** *and* ***12***). Gold continues to be used as a safe haven for investments despite the moderate price increase.

Table 3: CFTC positions, '000 contracts

	Net Positions		Long Positions		Short positions		Open Interest	
		Change		Change		Change		Change
	Jan 09	Jan/Dec	Jan 09	Jan/Dec	Jan 09	Jan/Dec	Jan 09	Jan/Dec
Crude Oil	57	14	229	25	172	11	1,240	82
Natural Gas	-145	10	76	-3	221	-13	694	-7
Agriculture	225	86	617	50	392	-36	2,939	16
Corn	45	8	157	1	113	-6	809	-12
Soybean Oil	-5	10	22	6	27	-4	205	-17
Soybeans	35	13	65	8	30	-5	299	-6
Sugar	111	24	162	13	52	-10	663	20
Precious Metals	166	29	202	26	36	-3	460	54
Copper	-23	-5	7	-2	31	3	82	10
Livestocks	1	7	97	2	96	-5	374	-27
Total	**280**	**140**	**1,228**	**98**	**948**	**-42**	**5,788**	**128**

Natural gas OIV on the Nymex dropped 7,000 to 694,000 contracts in January m-o-m compared to a 43,000 fall in December. Nevertheless, the number of outstanding contracts remains lower than the 2007 levels. Tactical investors remained predominantly short at 221,00 contracts net short versus 76,000 contracts net long in January due to the negative price impact of weakening demand and milder temperatures over the coming months.

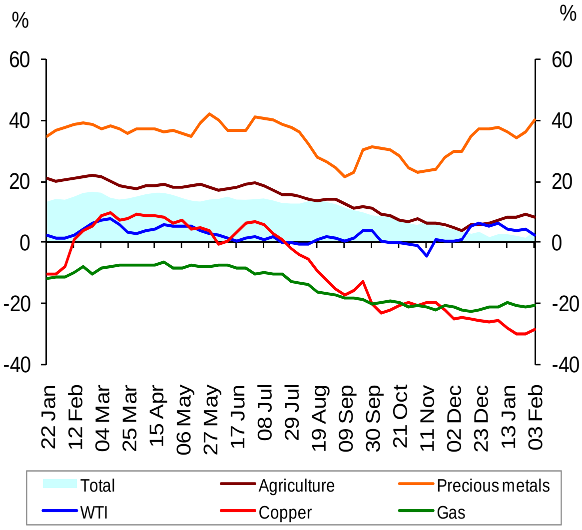
Graph 11: CFTC net length by commodity group, 2008-2009



Source: CFTC

Despite some recovery in **copper** prices supported by Chinese demand due to favorable LME/Shanghai arbitrage, CFTC data reported a 19% decline in noncommercial longs amid a 12% rise in shorts**.** Thus, the percentage of the OIV declined further from -25.5% in December to -28.7% in January.

Graph 12: CFTC net length as % of open interest, 2008-2009



Source: CFTC

The inflows into commodity-linked ETPs continued to increase in January despite dramatic economic, financial and trade conditions. Retail investment in ETPs was seen at the highest ever weekly flow in the third week of January, with precious metals and crude oil being the most favored. Despite the poor return in the energy complex, strong investor interest in the energy complex may indicate that current oil prices are perceived as an attractive buy for many investors. (see ***Tables 4a** and **4b***).

Investment inflows into commodities (*see **Graph 13***) are estimated to have seen a 21.6% drop in January compared to 4Q 2008. The hardest hit was crude oil, down 38.1%, and industrial metals, off 17.2%. Livestock (13.7%) and gold (18%) were the main gainers in January and to a lesser extent agriculture (1.6%). A review of estimates suggests that investment in the two major commodity investment indices (S&P GSCI and DJCI) increased in 2Q 2008 but declined by over 30% in the third and fourth quarters compared to the previous quarter. Important losses were seen in all sectors during these periods, but despite declining prices, crude oil performed relatively well during 4Q 2008.

It has been suggested that investor's interest in crude oil futures, despite low prices, may be due to the methodology involved in estimating the indices. This implies that fund managers buy more futures as crude prices drop, which in turn, adds to the contango in crude by encouraging inventory accumulation. In this sense, the increase in investment into the S&P GSCI or Dow Jones-AIG indices may have contributed to the massive rise in crude inventories and therefore to the collapse in prices.

Graph 13: Investments in two principal commodity instruments (S&P GSCI and DJ-AIG)

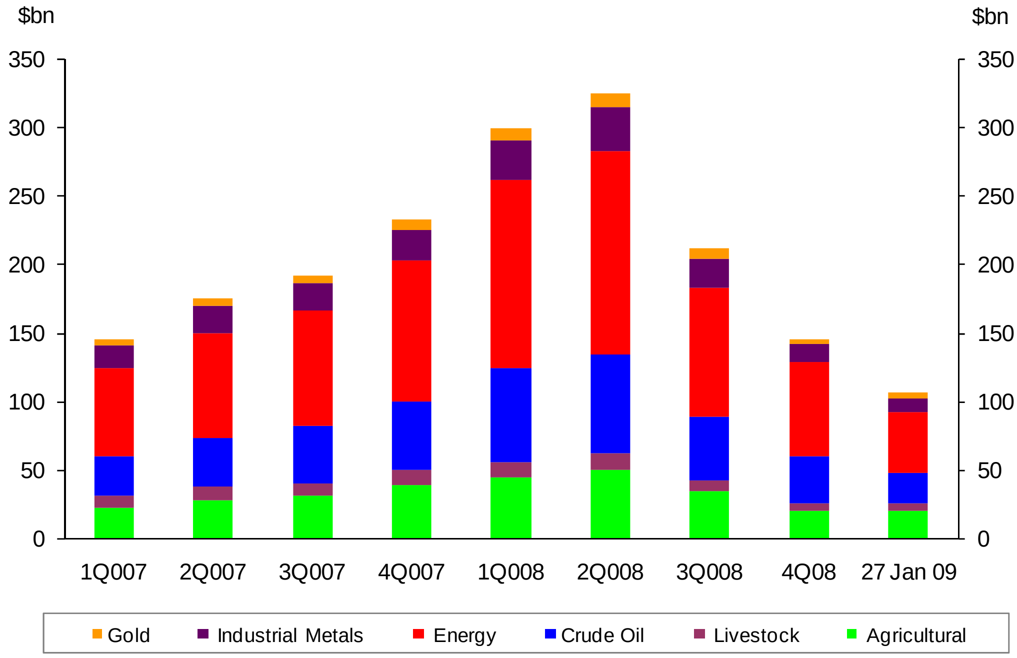


Table 4a: US commodity exchanged traded products (ETP) - monthly flows

	Long ETP Flows			Short ETP Flows		
	Jan 09	Dec 08	Nov 09	Jan 09	Dec 08	Nov 09
Base	22.0	-2.0	0.0	0.0	0.0	0.0
Precious	2121.0	723.0	290.0	8.0	10.0	2.0
Agriculture	150.0	-62.0	-29.0	0.0	0.0	0.0
Energy	2051.0	2491,0	487.0	20.0	-68.0	-35.0
Broad-based	-142.0	195.0	-3.0	-15.0	0.0	-1.0
Total	**4202.0**	**3345**	**745.0**	**13.0**	**-58.0**	**-34.0**

Table 4b: European commodity exchanged traded products (ETP) - weekly flows, 2008

	Long ETP Flows				Short ETP Flows			
	28 Jan	22 Jan	07 Jan	17 Dec	28 Jan	22 Jan	07 Jan	17 Dec
Base	-0.2	2.2	1.8	1.4	0.1	1.2	-0.6	-14.3
Precious	382.5	53.7	10.6	-4.8	1.5	-0.1	0.4	-6.2
Agriculture	57.4	1.3	5.3	2.1	1.0	3.2	0.8	-13.4
Energy	164.1	171.6	45.0	69.8	-0.3	-3.8	0.0	-14.3
Broad-based	0.3	2.4	0.5	1.5	-0.1	0.0	0.0	-0.6
Total	**604.2**	**231.1**	**63.1**	**70.0**	**0.3**	**0.6**	**0.6**	**-48.7**

Source: Barclays.

Highlights of the World Economy

Economic growth rates 2008-2009, %	World	OECD	USA	Japan	Euro-zone	China	India
2008	3.3	1.2	1.3	0.0	1.0	9.0	6.0
2009	0.4	-1.7	-1.7	-3.1	-1.9	6.5	5.0

Industrialised countries

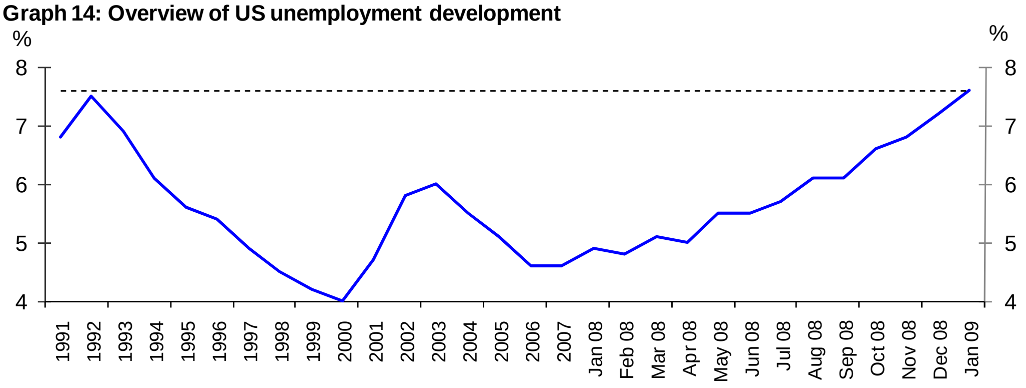
United States of America

Indicators in the US still paint a bleak picture with 3.5 m jobs lost in the last 12 months

The latest data on the US economy is still painting a relative bleak picture and as in the other regions the GDP forecast for 2009 has been revised down from -1.5% to -1.7%. As most indicators are still on the negative side, some of the business sentiment indicators are improving, although from very low levels. The ISM-manufacturing index improved from 32.9 to 35.6 and its counterpart, the ISM-service index, moved up from 40.1 to 42.9. Despite these positive developments, both indicators are still below 50, which means the economy is still expected to contract. This improvement in sentiment might come partly from confidence being placed in the new administration and its plan to recover the economy, as well as from the already relatively low expectations for the economy.

Unemployment is still rising and has now touched 7.6%, which is even higher than the previous peak level in 1992 when unemployment reached 7.5%. Expectations on unemployment now go as high as 8% and more. In the last 12 months, 3.5m jobs have been lost in the US. The last time a figure was this high was in September 1945, briefly after the end of WWII, when a loss of 3.1m jobs was recorded. This sharp increase in unemployment certainly does not bode well for an economy in which nearly 70% of GDP is being generated through consumer spending, much of which is refinanced through consumer loans. Consequently, consumer credit fell 3.1% m-o-m in December, after already having touched a 65-year low in November of -5.1% m-o-m, the biggest drop since records began in 1943. These figures were again much higher than the market and what most economists anticipated. Not only did the amount of consumer credit decline, but credit defaults also increased. Charge-offs, which occur when credit card issuers give up trying to collect payments on delinquent accounts, climbed to 7.5% last month, 40% higher than a year earlier. Fitch Ratings estimates that this rate may reach 9% in the second half of this year. To put that into perspective, the total credit card debt in the US at the end of 2008 stood at around $950bn. If this trend holds, that means that over the course of 2009 an estimated $80bn in credit card debt might have to be written off.

Graph 14: Overview of US unemployment development



Consumer spending, the driving force behind the US economy, continued to suffer in December and is likely to fall even more in the months ahead. Consumer spending fell by 1% from November to December, larger than the forecast drop of 0.9%, making 2008 the lowest year since 1961. Personal income fell by 0.2% for December, down for the third month in a row, and only increased 1.4% for the entire year, accounting for the smallest yearly gain since 2002. Wages, which represent 55% of personal income, fell 0.1%. This sharp decline in the consumption and the still relatively modest fall in incomes can partly be explained by the lower number of employees as well as by the increase in the US savings rate. Personal savings, which rose in November, saw further gains in December to reach 3.6% of disposable personal income. Savings are now at the highest level since May when they were supported by tax rebates. The improvement in the personal savings rate is positive in the long term, but obviously negative for spending in the near term.

The modest increase in wages of only 1.4% for 2008 in nominal terms looks better in real terms, which still represents a modest income increase as CPI for 2008 was only 0.1% compared to a decrease of 0.7% in December. This was the smallest calendar year increase since the 0.7% decline in 1954 and compares with a 4.1% increase for the 12 months ended December 2007. The energy index declined 8.3% in December. The index for all items excluding food and energy was virtually unchanged in December. While inflation is not a threat, there might even be some more pressure on the deflationary side, i.e. declining prices, which is preventing consumers from spending.

Considering the muted data, particularly on the consumer-front, the efforts of the new administration are even more important. The probability that the US consumer will support GDP growth over the short term is relatively unlikely, the planned economic stimulus package is now even more important to not only support US consumption, but also to enforce government spending to achieve a quick recovery in GDP growth. Assuming a successful and swift execution of the plan, a turnaround of the economy might be possible in the second half of 2009, but before that more negative developments in the US economy could occur.

The $789bn stimulus package agreed on in Congress includes $282bn in tax cuts and tax incentives. There is some question as to how much these tax benefits will support consumption and therefore the real economy. There is also the possibility that these extra funds might be used to pay back debt or to increase savings instead of using it for consumption and therefore do little to increase US GDP. In addition to the stimulus package, the Treasury Secretary unveiled a banking rescue plan to clean up the situation in the banking sector. On the same day this plan was announced equity markets fell nearly 5%, one of the biggest declines the stock market has ever seen. The plan will use the $350bn still available through the TARP fund for further capital injections into the banking system. An additional $250 bn — mainly financed by the Fed — will be used to buy up toxic assets, support consumer loans and avoid foreclosures in the housing sector.

In addition to putting a lot of efforts into tax cuts and government spending, the stimulus package and the banking rescue plan also focus on supporting the US housing market which continues to deteriorate. For 2008, purchases of new houses fell a record 38% to 482,000, to the lowest level since 1982, according to the US Commerce Department. The median price for 2008 fell 7%, the most since 1970, to $230,600. The number of vacant homes reached a record of around 19m at the end of 2008, according to the US Census Bureau. The supply of new homes at the current sales rate jumped to a record 12.9 months in December, while sales of previously-owned homes rose 6.3% in December, but from very low levels and prices are still falling.

The stabilization of the US housing market remains a key challenge as it was the root cause for the financial crisis and financial institutions are still burdened by mortgage assets and their derivatives. A stabilization of US house prices could therefore provide important support to ease the current situation.

Certainly, the issues in the financial sector have to be solved before the US economy is able to recover. There is still a great deal of uncertainty in the sector and financials are still avoiding lending to one another, so low interest rates and other measures are not meeting the potential demand for cash as supply is not making its way into the economy. The OIS-Libor spread – which can be used as a measure of confidence among banks – that had an historic average of around 0.15% to 0.25% before the financial crisis evolved in mid-September and peaked in October 2008 after the collapse of Lehman at 3.32%, is still currently trading at a level of 0.97%. That means that to refinance itself in the inter-banking market – once the most important market for banks to get liquidity– a bank today has to pay nearly one per cent more than in the past to refinance its operations.

Japan

Japan is deteriorating at the fastest pace in the past half century, exports fell by 35% in December

The economy of Japan is deteriorating at the fastest pace in the past fifty years, according to the Bank of Japan. A Bloomberg estimate expects gross domestic product to fall at an annual rate of 11.7% in 4Q08, the steepest decline since 1974. Official GDP figures are scheduled for release on 16 February. Machinery orders, as an indication of spending plans, slid 1.7% m-o-m in December, representing the third straight drop. Japan's unemployment rate climbed to 4.4% in December from 3.9% in November, the steepest increase in 41 years. Nissan, Panasonic, Hitachi and NEC Corp. announced a combined 59,000 job cut only in the past two weeks and Toyota Motor Corp. is facing its first loss in 71 years.

Consequently Japan's wages fell for a second month in December as manufacturers slashed production and overtime pay amid mounting losses. The monthly wages, including overtime and bonuses, fell by 1.4% from a year earlier, after dropping 0.7% in November according to the Labor Ministry. Overtime compensation fell 11.2% y-o-y, the most since 1992.

The Japanese government had planned to increase its $60bn rescue package announced in October last year, but parliamentary gridlock still blocked the passage of the new $111 billion stimulus package intended to encourage consumer spending. The Bank of Japan, which has already cut its key rate near to zero per cent, is trying to spur lending now by purchasing shares and corporate debt from banks.

Industrial production fell 9.6% in December, the most in more than 50 years. The month-on-month decline in production was steeper than the 8.9% economists had predicted and the largest since figures were first compiled in 1953. Output tumbled 11.9% in the three months to December, the fourth straight quarterly drop. The worldwide economic downturn hit exports to almost all major trading partners, recording a 35% drop in December, the largest decline on record. Exports to Asia fell a further 36.4% y-o-y, a record decline, while exports to the EU also fell by a record 41.8% y-o-y. Exports to the US declined 36.9% y-o-y after falling 33.8% y-o-y in November, also renewing the historically largest negative margin. China's exports fell sharply at 35.5% y-o-y after already sliding 24.5% in November. That was the largest negative decline since May 1990 at 37.8% y-o-y.

Not only did exports suffer significantly, but also household spending in Japan slid 4.6% in line with the bleak economic picture, representing the 10th month of decline. Consumer prices, excluding fresh food, rose 0.2% in December from a year earlier, slowing from 1% in November, so the economy again is touching deflationary levels. These deteriorating developments were slightly mirrored in the Yen which continued its depreciation particularly against the US dollar over the last month, trading now at 91.3 Yen/$ compared to 89 Yen/$ in January.

Euro-zone

The Euro-zone is hurt by declining exports and rising unemployment

According to the European Commission, the Euro-zone economy should decrease by 1.9% in 2009. This contraction is based on an already declining growth of 0.2% in the 3Q of last year. The decline is expected to continue into 4Q of 2008 as Germany — the largest economy in the Euro-zone — has already pre-announced an expected decline of 1.5%-2% in GDP in the forth quarter. Highlighting the scale of the Euro-zone downturn late last year, Germany also reported that industrial orders slumped by 6.9% m-o-m in December — again more than the market expectation of only 2% m-o-m. This means they dropped by some 16% in 4Q alone. France appears to be faring a little better, supported by domestic demand. The Banque de France on Friday estimated GDP in the Euro-zone's second largest economy fell 1.1% in the final quarter of 2008. Exports from Euro-zone member countries dropped 4.7% m-o-m in November, extending a 2.8% fall in October, according to Eurostat. November's fall was the biggest monthly drop in more than eight years.

Spain warned that the country faced its deepest recession in 50 years, following more gloomy data. Spain's finance minister said that the country's economy would shrink 1.6 % this year, a figure that is more positive than the consensus, which forecasts a decline of up to 3%.

Bleak export figures supported the gloomy case for the Euro-zone economy. German exports to countries outside the Euro-zone fell by 4% m-o-m in November. This is in line with industrial production which fell by 4.6% m-o-m in December, more than in any month since the German reunification in 1990, according to the economics ministry, following a 3.7% m-o-m fall in November. Spain saw a 4.5% m-o-m decline while France experienced a drop of only 1.5%.

Economic conditions continued to deteriorate at the start of this year, with the European Commission on Thursday reporting its Euro-zone economic sentiment indicator dropped again in January – although less sharply than in the final quarter of 2008. At 68.9, the index hit another record low. The readings marked a setback after the glimmer of hope offered by a surprise rise of the German Ifo business confidence index to 83 in January from 82.7 the previous month. The Commission said confidence fell across the main Euro-zone economies – although Spain saw optimism recovering slightly. The German government's emergency measures to preserve jobs failed to prevent a steep rise in unemployment this month. The Federal Labour Agency said jobseekers' numbers rose 56,000 in January, on a seasonally-adjusted basis, nearly twice as high as economists had anticipated, pushing the jobless rate up from 7.6 to 7.8%. The Euro-zone unemployment rate rose to 8.0% in December from 7.9% in November according to Eurostat. Given the trend in Germany, this figure is expected to rise further in January.

With the scale of the current recession becoming clear in recent weeks, the European Central Bank (ECB) announced a further half percentage point cut in its main interest rate to 2% on 16 January and hinted to further rate cuts in the future. The ECB left its main interest rate at 2% at the meeting in February, but the ECB president said that borrowing costs had not hit a lower limit and noted that financial markets expected a half point cut to 1.5% in March. Although the ECB president also pointed out that a zero-per-cent rate policy would be inappropriate "at the moment", his remarks did not rule out the ECB eventually following the US Federal Reserve, which has moved rates close to that level. He also confirmed the ECB did not exclude further exceptional measures, which could include the buying of government bonds or commercial papers.

Euro-zone inflation has tumbled to its lowest level for almost 10 years, strengthening the case for further cuts in ECB interest rates. The severity of the economic slowdown, which has seen annual inflation in the 16-country Euro-zone fall to just 1.1% in January, is raising fears among policymakers of a possible default by one of the ailing industrialised nations. Spain, Greece and Portugal were recently downgraded by Standard & Poor's, which warned that the Euro-zone faces one of its biggest challenges since its inception in January 1999. Ireland remains on the watch list. The prospect of a Euro-country defaulting has placed the Euro under pressure. The worsening economic situation of the so-called PIGS (Portugal, Ireland, Greece and Spain) is illustrated by the spreads they have to pay for government bonds compared to the German Bund. The funding for these countries is now between 1% and 2% more expensive than for Germany. The worsening economic situation will also make it harder for those countries to find investors for additional government financing at an appropriate price, which could put the Euro under further pressure.

Former Soviet Union

Russian government announced growth declined to 5.6% in 2008 from 8.1% in 2007

Official statistics show Russia's gross domestic product (GDP) grew 5.6 % in 2008, the lowest figure since 2002. The economy kept growing in the first half of last year along with soaring energy prices, but plummeted in the later months due to the global financial crisis and the plunge in oil prices.

Russia's economic growth slowed to 2% in the fourth quarter, a big drop compared with the 9.5% growth in the same quarter of the previous year, when the annual growth was 8.1%. The Russian economy is expected to contract by 1% in 2009. It is estimated that Russia will run a significant budget deficit even though the government is aiming to factor in an average oil price of $41/b rather than the originally forecast of $95/b. Revenues are expected to fall sharply due to the revision, while spending remains high to help the country weather its worst economic situation in a decade. Russia's inflation rate rose in January for the first time in five months as a result of increased utility rates and higher costs of imports fueled by negative real interest rates and a rise in government spending. The annual inflation rate rose to 13.4 % and consumer prices rose 2.4% from December. Food prices gained 15.9% in the year through January, while the cost of services, such as electricity and heat, rose 16.9%. Inflation has barely reflected the impact of ruble devaluation, so inflation will likely accelerate in February and March.

Latest figures show that lower GDP and higher inflation dominate the Ukrainian economy

The government of the Ukraine has adjusted its forecast for GDP growth in 2008 in the range of 1.8%-2.5% compared to an initial expectation of 6.8% for the year. Moreover, GDP dropped by 14.4% in November 2008 and by 9.9% in December 2008 y-o-y. Ukraine's real GDP had fallen by the end of 1999 to 40.8% of the 1990 level. Since then, the economy has been growing at an average rate of 7.5% annually. The year 2004 was the best in this respect (12.1%) and 2005 the worst (2.7%). By the end of 2008, the Ukraine's GDP had reached 73.9% of the 1990 level. Also, inflation in the country stood at 2.9 % in January, up from 2.1 % the month before.

Developing Countries

China's exports dropped by 17.5% while imports declined 43.1%

China's exports have declined by 17.5% in January compared to the previous year, according to General Administration of Customs, while imports dropped by 43.1%. The sharp contraction in imports reflects slowing domestic investment as well as lower demand for intermediate goods, and likely signals continuing export weakness in the future. Consumer-price inflation eased to 1% from a year earlier, cooling from 1.2% in December, while wholesale inflation fell to negative 3.3%, extending a month-on-month declining trend since peaking at 10.1% in August, according to data released by the National Bureau of Statistics. The inflation slowdown puts more pressure on the central bank to further cut interest rates. The key one-year lending rate stands at 5.31% after the reduction of 2.16 percentage points in 2008 following the global financial crisis. The central bank is expected to make further reductions this year.

India's economy slowed in 2008

The Central Statistical Organisation (CSO) of India forecasts the country is expected to grow at 7.1% in the current fiscal year (2008-09) the second highest growth rate in the world in 2008, next only to China. However, the figure will be two percentage points lower than the 9.1% achieved in the previous fiscal year (2007-08). For the last three years, India had recorded growth of 9% and above. The CSO figure suggests farm and construction sector growth will moderate to 2.6% and 6.5% in 2008-09 respectively. While manufacturing growth fell to 4.1% from 8.2% last year, financing, insurance, real estate, services will moderate to 8.6% from 11.7% in 2007-08.

OPEC Member Countries

The stimulus package in Kuwait and new budget in Iran

In response to the financial crisis the government of Kuwait unveiled an economic stimulus package to help the country's troubled financial sector. The package stipulates that the Central Bank guarantee 50% of an estimated KD 4bn ($13.8bn) of new credit facilities to be granted by banks to local companies. In Iran, the government proposed to the parliament the budget for the next financial year. The Iranian government has said it will adopt a cautious approach with a proposed nominal spending reduction of 2.5%, following a 19% increase in the previous budget. Total expenditure has been calculated at IR 2,827 trillion. A large part of this total budget (IR1,937trn) is allocated to state-owned enterprises. The general budget of IR890trn is 3% higher than in the current year. The budget is based on an oil price of US$37.5/b and projects total oil revenue of US$37bn over the fiscal year, a fall of some 40% over the previous year. However, the government also expects an increase in non-oil income of 61%, mainly through higher taxes, which will represent 30% of total non-oil revenue.

Oil prices, the US dollar and inflation

The US dollar appreciated against the pound and the euro, but fell against the yen and Swiss franc

In January, the dollar appreciated against the euro and pound sterling but fell against the yen and Swiss franc. The dollar rose 1.4% versus the euro and 3.2% vis-à-vis the pound sterling, while depreciating by 1% versus the yen and 1.5% against the Swiss franc. Against the modified Geneva I + US dollar basket, the dollar rose more than 0.8% last month compared to a rise of 2.9% in December. Against the euro, the dollar averaged $1.3232/€ in January compared to $1.3419/€ in December.

The euro is facing various challenges

The strength of the dollar versus the euro can be attributed to four factors. Firstly, the S&P has downgraded three Euro-zone countries – Spain, Portugal and Greece – while putting Ireland on the watch-list. Secondly, the problems in Eastern Europe have put pressure on the euro as the Euro-zone countries are the main lenders and trading partners to the Eastern European countries. Thirdly, the sharp fall in Euro-zone exports has led to a decline in demand for euros relative to other currencies. Fourthly, there are expectations that the European Central Bank will lower interest rates at its next Governing Council meeting on 5 March, from 2% currently. Regarding the yen and the Swiss-franc, those currencies have benefited from the status of safe-haven currencies in uncertain times.

In January, the OPEC Reference Basket rose $2.92/b or 7.6% to $41.52/b from $38.60/b in December. In real terms (base June 2001=100), after accounting for inflation and currency fluctuations, the Basket price increased by more than $2.2/b or 8.8% to $27.71/b from $25.46/b. The dollar appreciated by 0.84%, as measured against the import-weighted modified Geneva I+US dollar basket, while inflation turned negative to the tune of 0.3%.*

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

World Oil Demand

World oil demand in 2008 revised down by 0.1mb/d to show a decline of 0.2 mb/d

World oil demand in 2008

US oil demand is considered the major factor behind the vanishing growth in oil demand in 2008. North America alone shaved 1.2 mb/d from world oil demand last year. For the whole OECD region, the decline reached 1.6 mb/d. This was more than enough to offset all the oil demand growth from other regions in the world. Although oil prices eased, world economic turbulence managed to reduce oil demand growth in the non-OECD by one third or 0.2 mb/d in the second half of 2008. Despite the cold weather in the OECD last December, declining industrial production pushed oil demand down a further 0.6 mb/d y-o-y world-wide in the fourth quarter. OECD accounted for 80% or 0.5 mb/d of the downward revision in the fourth quarter. Other Asia was hammered badly by decreasing exports. As a result, oil demand in Taiwan and Singapore showed a massive decline pushing regional oil demand into the red for the first time since 1998.

Thus, world oil demand was revised down by 0.1 mb/d to show a decline of 0.2 mb/d y-o-y in 2008 to average 85.7 mb/d.

Table 5: World oil demand forecast for 2008, mb/d

							Change 2008/07	
	2007	1Q08	2Q08	3Q08	4Q08	2008	Volume	%
North America	25.53	24.84	24.53	23.73	24.32	24.35	-1.18	-4.63
Western Europe	15.30	15.20	14.89	15.40	15.32	15.20	-0.09	-0.61
OECD Pacific	8.35	8.87	7.82	7.50	8.04	8.05	-0.29	-3.50
Total OECD	**49.17**	**48.90**	**47.24**	**46.62**	**47.68**	**47.61**	**-1.57**	**-3.19**
Other Asia	9.12	9.32	9.49	9.09	9.25	9.28	0.17	1.85
Latin America	5.51	5.54	5.74	5.88	5.77	5.73	0.22	4.04
Middle East	6.50	6.75	6.81	7.05	6.84	6.86	0.37	5.65
Africa	3.09	3.19	3.11	3.09	3.20	3.15	0.06	1.81
Total DCs	**24.22**	**24.80**	**25.15**	**25.11**	**25.06**	**25.03**	**0.81**	**3.36**
FSU	3.98	3.97	3.89	4.22	4.44	4.13	0.15	3.74
Other Europe	0.93	1.03	0.96	0.92	0.91	0.96	0.03	2.74
China	7.59	7.97	8.17	8.10	7.67	7.98	0.39	5.15
Total "Other Regions"	**12.50**	**12.98**	**13.02**	**13.25**	**13.02**	**13.07**	**0.57**	**4.53**
Total world	**85.89**	**86.68**	**85.41**	**84.98**	**85.77**	**85.70**	**-0.19**	**-0.22**
Previous estimate	85.89	86.68	85.39	84.95	86.32	85.84	-0.05	-0.06
Revision	0.00	0.00	0.01	0.02	-0.56	-0.13	-0.14	-0.16

Totals may not add due to independent rounding.

Table 6: First and second quarter world oil demand comparison for 2008, mb/d

			Change 2008/07				Change 2008/07	
	1Q07	1Q08	Volume	%	2Q07	2Q08	Volume	%
North America	25.68	24.84	-0.84	-3.27	25.40	24.53	-0.88	-3.45
Western Europe	15.19	15.20	0.01	0.07	14.93	14.89	-0.03	-0.21
OECD Pacific	8.92	8.87	-0.04	-0.49	7.87	7.82	-0.05	-0.66
Total OECD	**49.78**	**48.90**	**-0.87**	**-1.75**	**48.20**	**47.24**	**-0.96**	**-1.99**
Other Asia	8.98	9.32	0.34	3.75	9.23	9.49	0.25	2.75
Latin America	5.30	5.54	0.24	4.46	5.48	5.74	0.26	4.81
Middle East	6.47	6.75	0.28	4.35	6.45	6.81	0.36	5.54
Africa	3.11	3.19	0.09	2.83	3.05	3.11	0.06	1.97
Total DCs	**23.86**	**24.80**	**0.94**	**3.95**	**24.22**	**25.15**	**0.94**	**3.86**
FSU	3.87	3.97	0.10	2.70	3.71	3.89	0.18	4.92
Other Europe	1.01	1.03	0.03	2.53	0.92	0.96	0.04	4.47
China	7.48	7.97	0.50	6.63	7.77	8.17	0.40	5.14
Total "Other Regions"	12.35	12.98	**0.63**	**5.06**	12.39	13.02	**0.62**	**5.03**
Total world	**85.99**	**86.68**	**0.70**	**0.81**	**84.81**	**85.41**	**0.60**	**0.71**

Totals may not add due to independent rounding.

Table 7: Third and fourth quarter world oil demand comparison for 2008, mb/d

			Change 2008/07				Change 2008/07	
	3Q07	3Q08	Volume	%	4Q07	4Q08	Volume	%
North America	25.55	23.73	-1.82	-7.12	25.50	24.32	-1.18	-4.63
Western Europe	15.42	15.40	-0.02	-0.15	15.65	15.32	-0.33	-2.08
OECD Pacific	7.89	7.50	-0.39	-4.95	8.72	8.04	-0.67	-7.73
Total OECD	**48.85**	**46.62**	**-2.23**	**-4.57**	**49.86**	**47.68**	**-2.18**	**-4.37**
Other Asia	8.94	9.09	0.15	1.71	9.31	9.25	-0.06	-0.69
Latin America	5.65	5.88	0.23	4.11	5.61	5.77	0.16	2.82
Middle East	6.62	7.05	0.43	6.50	6.45	6.84	0.40	6.15
Africa	3.06	3.09	0.03	0.95	3.15	3.20	0.05	1.53
Total DCs	**24.26**	**25.11**	**0.84**	**3.48**	**24.52**	**25.06**	**0.54**	**2.20**
FSU	4.00	4.22	0.22	5.56	4.35	4.44	0.09	1.99
Other Europe	0.90	0.92	0.02	2.35	0.90	0.91	0.01	1.62
China	7.72	8.10	0.38	4.94	7.38	7.67	0.29	3.93
Total "Other Regions"	12.62	13.25	**0.63**	**4.95**	12.63	13.02	**0.39**	**3.10**
Total world	**85.74**	**84.98**	**-0.76**	**-0.89**	**87.02**	**85.77**	**-1.25**	**-1.44**

Totals may not add due to independent rounding.

World Oil Demand in 2009

World oil demand in 2009 was revised down a further 0.4 mb/d for a total decline of 0.6 mb/d

World oil demand continues its steep decline from last year and is expected to follow this strong negative pattern at least for the first three quarters of the year. Oil demand in OECD is experiencing a steep decline resulting from the region's economic depression. Demand in OECD North America, Europe, and the Pacific declined by 1.2 mb/d y-o-y in January. However, the positive growth in non-OECD demand reduced the world decline to only 0.7 mb/d. Although the OECD regions in general are colder than average by 10% which led to more demand in heating oil and kerosene, slowing industrial production has suppressed consumption of industrial fuel.

Table 8: World oil demand forecast for 2009, mb/d

							Change 2009/08	
	2008	1Q09	2Q09	3Q09	4Q09	2009	Volume	%
North America	24.35	24.21	23.83	23.19	23.91	23.78	-0.57	-2.34
Western Europe	15.20	14.87	14.46	15.07	15.21	14.90	-0.30	-1.99
OECD Pacific	8.05	8.48	7.49	7.29	7.94	7.80	-0.26	-3.19
Total OECD	**47.61**	**47.56**	**45.77**	**45.54**	**47.05**	**46.48**	**-1.13**	**-2.38**
Other Asia	9.28	9.33	9.53	9.17	9.34	9.34	0.06	0.63
Latin America	5.73	5.58	5.80	5.95	5.86	5.80	0.06	1.11
Middle East	6.86	6.95	7.04	7.31	7.10	7.10	0.24	3.48
Africa	3.15	3.16	3.09	3.08	3.21	3.14	-0.01	-0.35
Total DCs	**25.03**	**25.03**	**25.47**	**25.51**	**25.51**	**25.38**	**0.35**	**1.40**
FSU	4.13	4.00	3.93	4.27	4.50	4.17	0.04	1.01
Other Europe	0.96	1.01	0.94	0.90	0.92	0.94	-0.02	-1.82
China	7.98	8.08	8.30	8.34	7.91	8.16	0.18	2.25
Total "Other Regions"	**13.07**	**13.09**	**13.16**	**13.50**	**13.32**	**13.27**	**0.20**	**1.56**
Total world	**85.70**	**85.68**	**84.40**	**84.55**	**85.88**	**85.13**	**-0.58**	**-0.67**
Previous estimate	85.84	85.82	84.99	85.03	86.79	85.66	-0.18	-0.21
Revision	-0.13	-0.14	-0.59	-0.48	-0.90	-0.53	-0.40	-0.47

Totals may not add due to independent rounding.

As a result of the continuing deterioration in the global economic outlook, world oil demand has been revised down a further 0.4 mb/d to show a total decline of 0.6 mb/d in 2009 to average 85.1 mb/d.

Table 9: First and second quarter world oil demand comparison for 2009, mb/d

			Change 2009/08				Change 2009/08	
	1Q08	1Q09	Volume	%	2Q08	2Q09	Volume	%
North America	24.84	24.21	-0.63	-2.54	24.53	23.83	-0.70	-2.85
Western Europe	15.20	14.87	-0.33	-2.17	14.89	14.46	-0.44	-2.93
OECD Pacific	8.87	8.48	-0.39	-4.36	7.82	7.49	-0.33	-4.26
Total OECD	**48.90**	**47.56**	**-1.35**	**-2.76**	**47.24**	**45.77**	**-1.47**	**-3.11**
Other Asia	9.32	9.33	0.02	0.18	9.49	9.53	0.04	0.47
Latin America	5.54	5.58	0.04	0.72	5.74	5.80	0.05	0.96
Middle East	6.75	6.95	0.20	2.96	6.81	7.04	0.24	3.45
Africa	3.19	3.16	-0.03	-0.94	3.11	3.09	-0.02	-0.55
Total DCs	**24.80**	**25.03**	**0.23**	**0.92**	**25.15**	**25.47**	**0.32**	**1.26**
FSU	3.97	4.00	0.03	0.76	3.89	3.93	0.04	0.95
Other Europe	1.03	1.01	-0.02	-2.33	0.96	0.94	-0.02	-2.50
China	7.97	8.08	0.11	1.38	8.17	8.30	0.13	1.59
Total "Other Regions"	**12.98**	**13.09**	**0.12**	**0.89**	**13.02**	**13.16**	**0.14**	**1.10**
Total world	**86.68**	**85.68**	**-1.01**	**-1.16**	**85.41**	**84.40**	**-1.01**	**-1.18**

Totals may not add due to independent rounding.

The decline in OECD is expected to fall by half a million barrels per day as a result of an improved outlook in the second half of the year y-o-y. Furthermore, non-OECD oil demand will add another 0.6 mb/d to annual growth in the second half of the year.

Table 10: Third and fourth quarter world oil demand comparison for 2009, mb/d

			Change 2009/08				Change 2009/08	
	3Q08	3Q09	Volume	%	4Q08	4Q09	Volume	%
North America	23.73	23.19	-0.54	-2.28	24.32	23.91	-0.41	-1.70
Western Europe	15.40	15.07	-0.33	-2.16	15.32	15.21	-0.12	-0.75
OECD Pacific	7.50	7.29	-0.21	-2.79	8.04	7.94	-0.10	-1.28
Total OECD	**46.62**	**45.54**	**-1.08**	**-2.32**	**47.68**	**47.05**	**-0.63**	**-1.33**
Other Asia	9.09	9.17	0.08	0.90	9.25	9.34	0.09	0.96
Latin America	5.88	5.95	0.07	1.19	5.77	5.86	0.09	1.56
Middle East	7.05	7.31	0.26	3.69	6.84	7.10	0.26	3.80
Africa	3.09	3.08	-0.01	-0.19	3.20	3.21	0.01	0.28
Total DCs	**25.11**	**25.51**	**0.41**	**1.62**	**25.06**	**25.51**	**0.45**	**1.79**
FSU	4.22	4.27	0.04	1.07	4.44	4.50	0.05	1.22
Other Europe	0.92	0.90	-0.03	-2.93	0.91	0.92	0.01	0.55
China	8.10	8.34	0.23	2.90	7.67	7.91	0.24	3.13
Total "Other Regions"	**13.25**	**13.50**	**0.25**	**1.91**	**13.02**	**13.32**	**0.30**	**2.30**
Total world	**84.98**	**84.55**	**-0.42**	**-0.50**	**85.77**	**85.88**	**0.11**	**0.13**

Totals may not add due to independent rounding.

OECD – North America

North America forecast to decline by 0.6 mb/d in 2009

Slowing economic activities in the US have suppressed oil demand more than the extra demand for winter products due to colder weather. Although the decline in oil demand has shrunk in comparison to last quarter, US consumption is still experiencing a major decline which started early last year. Gasoline is a key product in total US oil demand. Given the low oil prices, gasoline retail prices are at the lowest level since 2004 and the decline in demand has leveled out from the previous steep fall. January gasoline demand is estimated to have declined 1.5% versus 2.4% last December. The recent rebound in transport fuel is not anticipated to overcome the huge decline in industrial fuel. As the prospects for the US economy have been deteriorating, further downward revisions to North America have been implemented.

The weather in North America in January is colder than normal by almost 10% leading to increased consumption of winter products, which has to some degree reduced the decline in demand. Although US oil demand is forecast to decline this year, the amount of decline will be dependent upon economic behavior and the reaction to government stimulus efforts. The petrochemical industry is showing reduced activities as a result of low industrial production leading to a huge decline in certain fuels and feed stocks. Distillate demand dipped 5% y-o-y in January leading to a total decline of 0.86 mb/d. Although the decline in US oil demand is large, it has rebounded 0.23 mb/d since December. Given the 1.2 mb/d decline in US oil demand last year and expected economic improvements in the second half of the year, the decline in oil demand this year is expected to be somewhat less than last year.

Furthermore, the new US administration is pushing fuel economy standards extensively with the aim of raising them from 25 mpg to 35 mpg. This of course would have an impact on future gasoline demand in the mid-term which poses a big question on whether this will lead to a peak in gasoline demand in North America.

US ethanol production has been affected negatively by both economic turbulence and low oil prices. Reduction in production capacity is estimated at 20% so far. The future of this industry will depend on how much the government is willing to subsidize it and with the bad economic situation, how long the government can afford to continue to bail it out.

Contrary to US oil demand behavior, Mexican oil demand showed a plus last year with the help of transport fuel, mainly gasoline. Gasoline and diesel demand grew sharply last year by 4.2% and 6.8% y-o-y despite high oil prices in early 2008. Industrial fuel declined sharply as a result of low exports; however, the growth in transport fuel was more than enough to offset this decline leading to total growth of 0.7% in 2008.

The decline in North America oil demand is expected to bottom out at around 0.7 mb/d in the second quarter of 2009 and then bounce back to a minus 0.4 mb/d in the last quarter. North American oil demand is forecast to decline by 0.6 mb/d in 2009 to average 23.8 mb/d.

Graph 11: Canadian sales of refined petroleum products, tb/d

	Jan-Dec 2008	Jan-Dec 2007	Change (tb/d)	Change (%)
Motor Gasoline	720	730	-10	-1.4
Aviation Fuels	120	118	3	2.5
Diesel Fuel Oil	471	477	-6	-1.2
Residual Fuel Oil	188	181	8	4.3
Other Products	261	277	-16	-5.7
Total Products	**1760**	**1781**	**-21**	**-1.2**

OECD Europe

OECD Europe forecast to decline by 0.3 mb/d

The year in Europe started with both colder-than-normal weather and slower economic growth. The temporary cut in Russian natural gas supplies along with 15% colder than normal weather led to an increase in consumption of winter products in Europe. Euro-zone GDP was revised down sharply leading to a dim outlook for oil demand. Economic activities are slowing down and exports are declining, leading to a massive reduction in industrial production resulting in a decline in middle distillate and fuel oil demand.

Given the dim prospects for the economy, OECD Europe oil demand is forecast to decline by 0.3 mb/d in 2009.

OECD Pacific

OECD Pacific revised down by 0.1 mb/d to show a decline of 0.3 mb/d

Oil demand in the Pacific is in no better shape than in the rest of the OECD. Japan oil demand declined by around 4.5% last year and is expected to follow the same behavior this year. The Japanese economy is forecast to decline by 2.7% in 2009 leading to a total decline of 0.2 mb/d in oil demand in 2009. Demand for all major products is expected to fall with an extensive decline coming from industrial and transport fuel. Although the forecast for Japan's weather this winter is below normal, this is not expected to put pressure on power demand or on kerosene demand this quarter. As a result of the permanent decline in Japanese oil demand, a cut in refining capacity is under consideration. Nippon is planning to cut 0.4 mb/d of refining capacity and mothball another 60 tb/d. Motivated by the slide in oil prices, Japan is relaxing its mandatory biofuel blending target.

Oil demand in South Korea tends to follow a similar pattern to Japan's. Even though the county's GDP is not expected to be in the red, oil demand will remain in a declining trend at least over the first half of the year. As industrial production slows down in South Korea, industrial fuel is forecast to dip in the red by 0.1 mb/d in the first quarter leading to a total oil demand decline of 0.07 mb/d in 2009.

The rest of the OECD Pacific countries are no better off than Japan and South Korea; however, almost all of the decline in oil consumption in the OECD Pacific will be related to both Japan and South Korea.

Given a worse than expected economic outlook, the forecast for OECD Pacific oil demand has been revised down by 0.1 mb/d to show a decline of 0.3 mb/d in 2009 to average 7.8 mb/d.

Table 12: Japanese domestic sales, tb/d

	Dec 08	Change from Dec 07	Change from Dec 07 (%)
Gasoline	1,072	42	4.1
Naphtha	713	-191	-21.1
Jet Fuel	98	-18	-15.7
Kerosene	675	20	3.1
Gas Oil	603	-15	-2.4
Other Products	746	-155	-17.2
Direct Use of Crude	132	-182	-57.9
Total	**4,039**	**-499**	**-11.0**

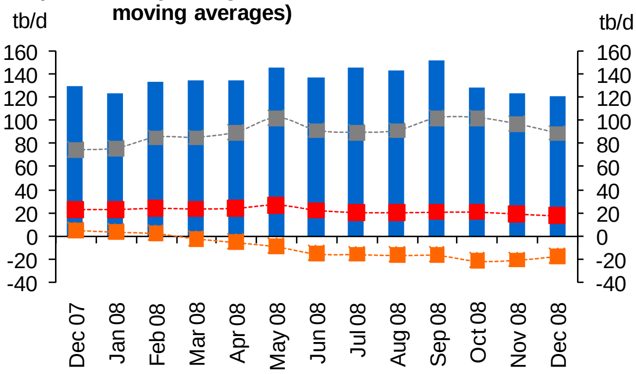
Source: Ministry of Economy and Trade in Japan (METI).

Developing Countries

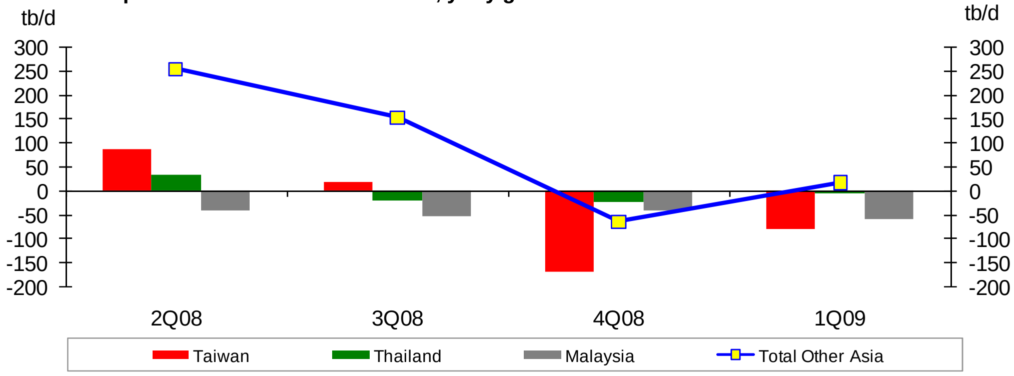
DC growth revised down by 0.1 mb/d to show a growth of 0.35 mb/

Although the Developing Countries were not highly affected by the OECD economic downturn last year, the negative effect is starting to show this year. Industrial production is slowing and is expected to do so especially in the first half of the year. This will result in less oil demand throughout the year. Developing Countries are expected to lose more than half of the growth seen last year. Asian and Latin American countries will be most affected and are likely to see oil demand switch from positive to negative. Given the expected growth in Indian oil demand, Other Asia oil demand will be saved from turning negative but will lose 65% of its growth y-o-y. Other Asia is forecast to grow by only 60 tb/d or 0.6% in 2009. Most of the reduction will be in industrial products such as naphtha and fuel oil.

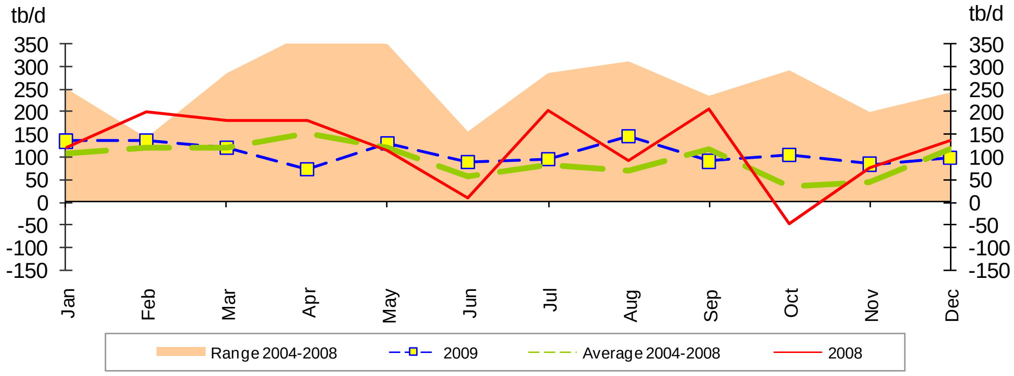
Graph 15: Yearly changes in Indian oil demand 12 month moving averages)



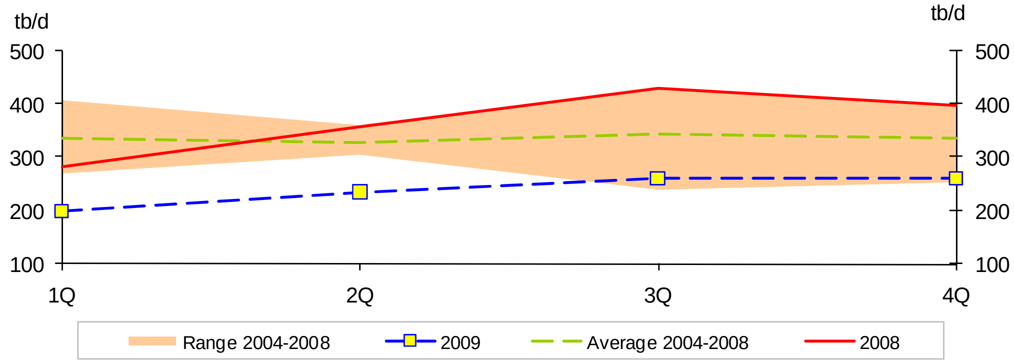
Oil consumption in certain Asian countries, y-o-y growth



Graph 16: Changes in Indian oil demand, y-o-y



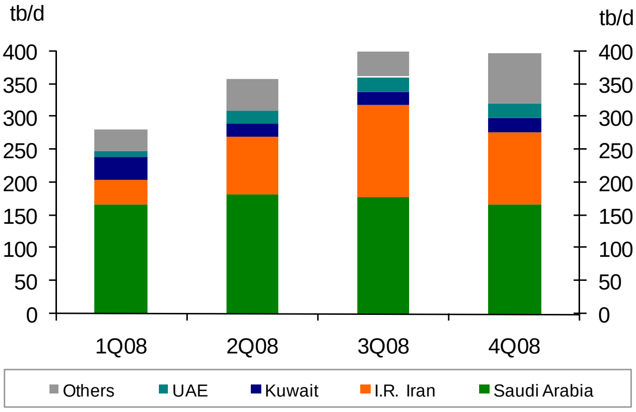
Graph 17: Changes in Middle East oil demand, y-o-y



Other Asia projected to grow by just 0.6% in 2009 d

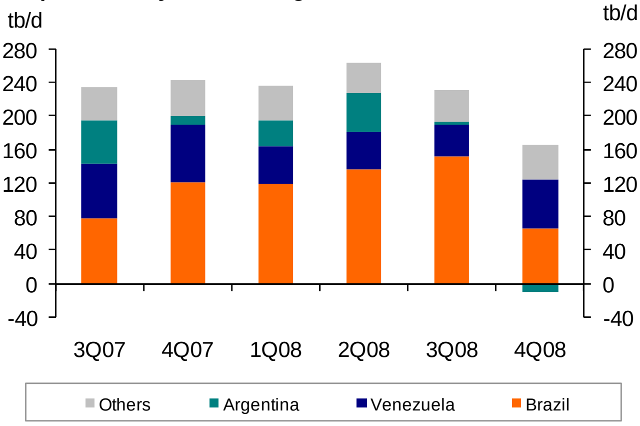
The structure of petroleum product demand in Asia is changing based on the governmental policies. Indonesia is planning to replace heavily-subsidized kerosene (used for cooking) with LPG. This move will certainly reduce the oil demand. The expected reduction in kerosene demand will reach 65% next year.

Graph 18: Yearly oil demand growth in the Middle East



The burden of fuel subsidies on Asian countries is easing as a result of lower oil prices; however, current economic turbulence is making it harder to maintain. Governments are keeping their subsidies as a tool to ease the economic burden on its citizens. In spite of Indonesian subsidized fuel, which exceeded government targets by 7% last year, gasoline and diesel consumption are expected to grow by 6% and 12% in 2009 as a result of these subsidies.

Graph 19: Yearly oil demand growth in Latin America



Middle East GDP is forecast to be 3% lower than last year as a result of economic issues. Even though most of the new projects within the region are energy intensive, oil demand growth is forecast to decline by one-third in comparison to last year's demand growth to currently stand at 0.24 mb/d. It is certain that the risk to oil demand is leading upward to a higher growth of around 0.05 mb/d y-o-y.

Given the current dim outlook for the world economy, Developing Countries' oil demand growth has been revised down by 0.1 mb/d to show a growth of 0.35 mb/d in 2009.

Other Regions

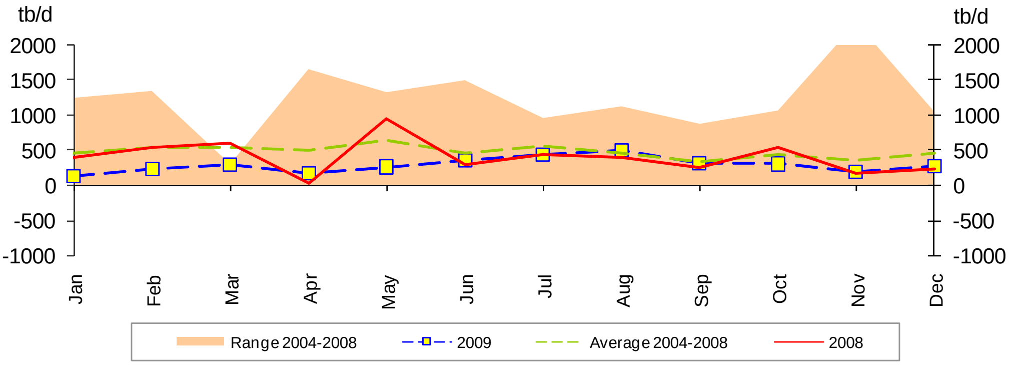
China demand to grow 0.2 mb/d in 2009

The continued slowdown in industrial production has highly affected diesel demand in China so far this year. Oil imports were affected not only by the high consumption tax and the increased imports in the previous months, but also by slowing oil demand. This caused Chinese fuel oil imports to slide dramatically in January y-o-y. In some regions of the country, imports fell to ten-year lows. Not only did fuel oil experience lower imports but crude oil imports were negatively affected as well. The Chinese economy is dependent on exports and the slowing world economy is imposing a large burden on Chinese industrial production, which is leading to less use of oil products, particularly diesel. Hence, China's oil demand is forecast to show a growth of only 2.3% this year down from 4.9% last year, a loss of 210 tb/d.

Given the weakening economic outlook, China's oil demand is now projected to grow by 0.2 mb/d. The slowing growth is expected despite China's recent price reduction of retail petroleum product prices of 13% for gasoline, 17% for diesel and 32% for kerosene.

Economic sectors in non-OECD regions such as industrial, transport, and agricultural are expected to maintain diesel demand growth this year at similar levels to 2008. Non-OECD oil demand has been revised down by 0.25 mb/d to show growth of 0.6 mb/d in 2009.

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



World Oil Supply

Non-OPEC

Estimate for 2008

Non-OPEC supply revised down to show negative growth of 0.15 mb/d in 2008

Non-OPEC supply is estimated to have averaged 50.34 mb/d in 2008, a decline of 0.15 mb/d from the previous year and a downward revision of 230 tb/d from last month's assessment. The decline in non-OPEC production marks the first since 1999. Downward revisions were carried out for supply from the USA, Canada, Sudan and China. There were minor upward revisions to supply in various countries, but these were not sufficient to offset lower growth expectations elsewhere. The downward revisions affected all quarters in 2008 with the second and fourth quarters experiencing the largest drops. On a quarterly basis, non-OPEC supply now stands at 50.71 mb/d, 50.54 mb/d, 49.70 mb/d and 50.41 mb/d respectively.

Graph 21: Regional Non-OPEC supply growth, y-o-y

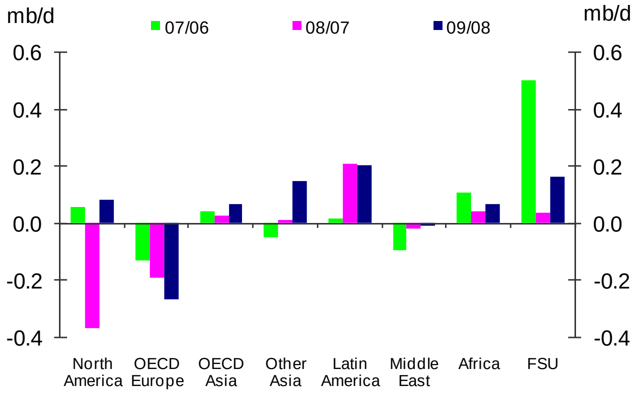


Table 13: Non-OPEC oil supply in 2008, mb/d

	2007	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07
North America	14.30	14.20	14.04	13.64	13.87	13.94	-0.37
Western Europe	5.23	5.21	5.04	4.81	5.13	5.05	-0.19
OECD Pacific	0.60	0.58	0.63	0.64	0.68	0.63	0.03
Total OECD	**20.14**	**19.99**	**19.71**	**19.08**	**19.68**	**19.62**	**-0.53**
Other Asia	3.74	3.80	3.71	3.72	3.77	3.75	0.01
Latin America	3.88	4.00	4.06	4.12	4.17	4.09	0.21
Middle East	1.66	1.64	1.65	1.64	1.63	1.64	-0.02
Africa	2.71	2.75	2.75	2.74	2.75	2.75	0.04
Total DCs	**11.99**	**12.19**	**12.18**	**12.22**	**12.32**	**12.23**	**0.24**
FSU	12.52	12.62	12.68	12.45	12.47	12.56	0.04
Other Europe	0.15	0.14	0.14	0.14	0.14	0.14	0.00
China	3.77	3.82	3.88	3.85	3.85	3.85	0.08
Total "Other regions"	**16.44**	**16.58**	**16.70**	**16.45**	**16.46**	**16.55**	**0.11**
Total Non-OPEC production	**48.56**	**48.76**	**48.59**	**47.75**	**48.46**	**48.39**	**-0.17**
Processing gains	1.92	1.95	1.95	1.95	1.95	1.95	0.03
Total Non-OPEC supply	**50.49**	**50.71**	**50.54**	**49.70**	**50.41**	**50.34**	**-0.15**
Previous estimate	50.49	50.78	50.91	49.87	50.70	50.57	0.08
Revision	0.00	-0.07	-0.37	-0.18	-0.29	-0.23	-0.23

Developing Countries continue to display the highest supply growth as a group in 2008 with current estimates indicating an increase of 240 tb/d over the previous year. China and the FSU showed supply growth in 2008, while the OECD maintained a declining trend. On a regional basis, Latin America indicated the highest growth in 2008 of 210 tb/d, supported by increases of 130 tb/d in Brazil and 60 tb/d in Colombia. In 2008, Brazil showed the biggest supply growth among all non-OPEC countries. China came next with an oil production increase of around 80 tb/d, followed by the FSU region where production is anticipated to have risen by 40 tb/d, supported by supply increases from Kazakhstan and Azerbaijan which have more than offset the decline in Russia estimated at 80 tb/d. The Africa region also displayed growth of around 40 tb/d supported by a supply increase from the Congo and Egypt. The Other Asia Group showed a minor increase of 10 tb/d mainly from Indonesia, while Vietnam was estimated to have declined. OECD countries supply is now estimated to have declined by 530 tb/d in 2008. OECD North America displayed a drop of 370 tb/d while Mexico and Canada displayed a decline of 310 tb/d and 70 tb/d respectively. US oil supply indicated minor growth of 20 tb/d in 2008. OECD Western Europe showed a decline of 190 tb/d due to lower supply from Norway, UK and Denmark. OECD Pacific indicated the only supply growth among OECD regions which is anticipated to be 30 tb/d, mainly from Australia. The Middle East region displayed a decrease of around 20 tb/d with the decline from Syria and Yemen offsetting the gains experienced in Oman.

Revisions to the 2008 estimate

Non-OPEC supply in 2008 experienced a significant downward revision of 230 tb/d to reflect the most recent data. The downward revisions were spread across all quarters with the second quarter displaying the largest revision. On quarterly basis, non-OPEC supply experienced downward revisions of 68 tb/d, 374 tb/d, 176 tb/d, and 290 tb/d respectively. Recently received data for Canadian production was the main factor behind this month's downward revisions. On an annual basis, Canadian oil supply is now estimated to have dropped by 70 tb/d in 2008. On a quarterly basis, Canadian production now stands at 3.28 mb/d, 3.11 mb/d, 3.30 mb/d, and 3.30 mb/d respectively, indicating quarterly downward revisions of 53 tb/d, 338 tb/d, 125 tb/d and 150 tb/d. Additionally, Sudan oil supply experienced a smaller revision of 40 tb/d on the back of adjustments to recently updated production data. Supply from the US and China also underwent minor downward revisions to adjust for actual figures. In contrast, supply estimates for Denmark and Other Latin America experienced minor upward revisions. In the fourth quarter, Australia experienced minor downward revisions due to cyclone disruptions.

Forecast for 2009

Non-OPEC supply growth in 2009 revised down to 0.55 mb/d

Non-OPEC supply is projected to average 50.89 mb/d in 2009, an increase of 0.55 mb/d over the estimate for last year and a downward revision of 30 tb/d from the previous assessment. The revisions were mostly due to adjustments carried over from the 2008 figure. On a quarterly basis, non-OPEC supply is expected to average 51.06 mb/d, 50.72 mb/d, 50.64 mb/d, and 51.15 mb/d respectively.

Table 14: Non-OPEC oil supply in 2009, mb/d

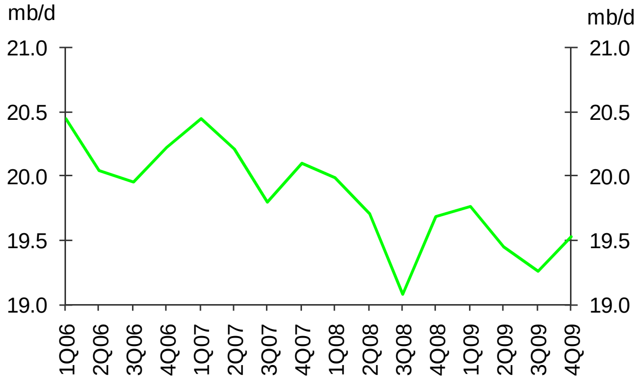
	2008	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08
North America	13.94	14.05	13.92	13.98	14.12	14.02	0.08
Western Europe	5.05	5.02	4.83	4.56	4.73	4.78	-0.26
OECD Pacific	0.63	0.69	0.71	0.72	0.68	0.70	0.07
Total OECD	**19.62**	**19.77**	**19.45**	**19.26**	**19.53**	**19.50**	**-0.11**
Other Asia	3.75	3.91	3.82	3.92	3.94	3.90	0.15
Latin America	4.09	4.18	4.24	4.36	4.37	4.29	0.20
Middle East	1.64	1.63	1.63	1.63	1.63	1.63	-0.01
Africa	2.75	2.81	2.79	2.82	2.85	2.82	0.07
Total DCs	**12.23**	**12.54**	**12.48**	**12.73**	**12.79**	**12.64**	**0.41**
FSU	12.56	12.72	12.74	12.61	12.81	12.72	0.16
Other Europe	0.14	0.14	0.14	0.14	0.14	0.14	0.00
China	3.85	3.91	3.92	3.91	3.89	3.91	0.06
Total "Other regions"	**16.55**	**16.77**	**16.80**	**16.66**	**16.84**	**16.77**	**0.22**
Total Non-OPEC production	**48.39**	**49.07**	**48.74**	**48.65**	**49.16**	**48.91**	**0.52**
Processing gains	1.95	1.98	1.98	1.98	1.98	1.98	0.03
Total Non-OPEC supply	**50.34**	**51.06**	**50.72**	**50.64**	**51.15**	**50.89**	**0.55**
Previous estimate	50.57	51.39	50.99	50.88	51.34	51.15	0.58
Revision	-0.23	-0.33	-0.27	-0.25	-0.19	-0.26	-0.03

OECD

OECD supply forecast to decrease by 110 tb/d in 2009

Total OECD countries' oil supply is anticipated to average 19.50 mb/d in 2009. This represents a drop of 110 tb/d from the previous year and a downward revision of 182 tb/d from last month. This significant downward revision took place due to adjustments to the 2008 level, while the annual decline estimate remains relatively unchanged. North America and Pacific OECD regions are expected to display supply growth in 2009, supported by increases in the US, Canada, and Australia. The OECD Western Europe region is expected to continue to decline in 2009. The current forecast will be impacted by major uncertainties, mainly due to oil price developments and the financial situation; hence, careful monitoring is necessary to better predict the development of OECD supply. On a quarterly basis, OECD oil supply is estimated to average 19.77 mb/d, 19.45 mb/d, 19.26 mb/d and 19.53 mb/d respectively. Preliminary data for January put total OECD output at around 19.89 mb/d.

Graph 22: OECD's quarterly production



USA

US supply expected to grow by 170 tb/d

Oil supply from the US is forecast to reach 7.69 mb/d in 2009, an increase of around 170 tb/d over the current 2008 assessment and a downward revision of 33 tb/d from last month. The revisions were introduced mainly in the third and fourth quarters to reflect changes in project startup and ramp-ups. Among the main developments in 2009, the Thunder Horse project is expected to ramp up to peak production of 250 tb/d during the first half of the year. The project was reported to have reached 200 tb/d by the end of 2008. The Blind Faith project, started up in the fourth quarter of 2008 is also expected to reach a plateau of 65 tb/d in the first half of this year. The Tahiti project is expected to start up production in the fourth quarter. Moreover, the remaining shut-in production in the US Gulf of Mexico due to hurricanes Gustav and Ike — estimated by the US MMS at 11% in mid January — is expected to return to normal operations and add further volume. However, a considerable portion of ethanol production capacity was reported to be idle due to unfavourable economic conditions. Such issues spell significant risk to the forecast and will require close monitoring. On a quarterly basis, US oil supply is estimated at 7.63 mb/d, 7.67 mb/d, 7.66 mb/d and 7.79 mb/d respectively. According to preliminary data, US oil supply in January stood at 7.72 mb/d.

Canada and Mexico

Canadian oil supply is expected to increase 90 tb/d in 2009 to average 3.34 mb/d, following a downward revision of 130 tb/d from previous forecast, mainly due to changes in the 2008 base volume. Supply growth is supported by different oil sand projects such as the Long Lake development. However, Canadian supply in 2009 faces major uncertainties as price developments have forced producers to cut output and slash spending. Additionally, maintenance in the offshore East Coast is expected to have an effect on supply, yet the risk of prolonged maintenance may further shave expected growth. On a quarterly basis, Canada production stands at 3.32 mb/d, 3.28 mb/d, 3.34 mb/d and 3.41 mb/d respectively. According to preliminary data, Canadian oil supply stood at 3.29 mb/d in January.

Oil supply from **Mexico** is projected to decline in 2009 by 180 tb/d to average 2.99 mb/d, broadly unchanged from the previous assessment. The declining trend is expected to continue with Mexico's main producing field, Canterell, facing an accelerated decline which new volume from other developments are unable to offset. The Ku-Maloob-Zapp (KMZ) project is anticipated to continue ramping up in 2009. On a quarterly basis, Mexico oil supply is expected to stand at 3.10 mb/d, 2.97 mb/d, 2.98mb/d and 2.91 mb/d respectively.

Western Europe

Western Europe to average 4.78 mb/d in 2009

OECD Western Europe oil supply is projected to drop by around 260 tb/d in 2009 to average 4.78 mb/d, indicating a minor downward revision of 10 tb/d from the previous month. Norway, UK and Denmark are expected to decrease in 2009 causing the region to have the largest decline among all non-OPEC regions. On a quarterly basis, OECD Western Europe production stands at 5.02 mb/d, 4.83 mb/d, 4.56 mb/d and 4.73 mb/d respectively. Preliminary January data suggest a production level of 5.06 mb/d.

Natural decline to drive Norway supply down 120 tb/d

Oil supply from **Norway** is expected to decline by around 120 tb/d in 2009 to average 2.34 mb/d, relatively unchanged from previous month. A handful of new startups are expected in 2009 such as the Rev and Yttergryta condensate fields that have already added small volumes along with developments such as Tyrihans, Oseberg and YME. However, the new barrels are not expected to be sufficient to stem declines in mature fields. On a quarterly basis, Norway supply stands at 2.47 mb/d, 2.34 mb/d, 2.19 mb/d and 2.35 mb/d respectively. January preliminary data indicate Norway's supply at 2.45 mb/d, down 110 tb/d from the previous month.

UK oil supply is projected to average 1.43 mb/d in 2009, displaying a fall of around 140 tb/d from the previous year, unchanged from last month's assessment. The natural decline is anticipated to trim UK supply as the minor supply addition is not expected to offset the majority of the decline. On a quarterly basis, UK oil supply stands at 1.51 mb/d, 1.46 mb/d, 1.38 mb/d and 1.37 mb/d respectively.

Similarly, natural decline is foreseen to affect **Denmark** oil supply which will slightly in 2009 from the previous year to average 0.27 mb/d, unchanged from last month's level.

Asia Pacific

Cyclone season to reduce Australia supply

Oil supply in this group is expected to grow by around 70 tb/d in 2009 from the previous year to reach 0.70 mb/d, indicating a minor downward revision of around 20 tb/d from previous month's estimate. On a quarterly basis, supply is expected to average 0.69 mb/d, 0.71 mb/d, 0.72 mb/d and 0.68 mb/d respectively.

Oil supply from **Australia** is expected to average 0.58 mb/d in 2009, representing an increase of around 50 tb/d and a minor downward revision of 17 tb/d from previous month. The impact of the cyclone season on Australian production, with the majority of the Western Australia output shut down for a number of days as a precaution measure, resulted in a downward revision which was carried mainly on the first quarter. On a quarterly basis, production stands at 0.58 mb/d, 0.59 mb/d, 0.60 mb/d and 0.56 mb/d respectively.

New Zealand's oil supply forecast remained unchanged while the startup of the Maari project is expected in the first quarter of 2009.

Developing Countries

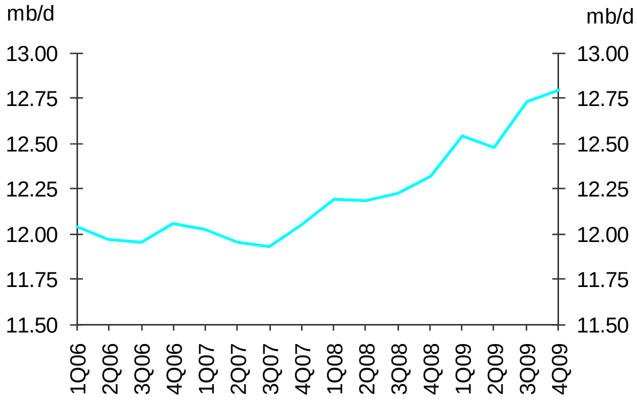
DC supply estimated to average 12.64 mb/d in 2009

Oil supply from **Developing Countries (DCs)** is estimated to grow by 0.41 mb/d in 2009 over the previous year to average 12.64 mb/d, indicating a downward revision of around 76 tb/d carried out from the 2008 base. The supply growth in DCs encountered a minor revision of 30 tb/d from previous assessment. Among the DC regions, Latin America is displaying the highest increase at 200 tb/d, not only within the DC group but also globally. Other Asia region supply is forecast to increase by around 0.15 mb/d to reach an average of 3.9 mb/d. Supply from the African region is also projected to grow by around 70 tb/d to average 2.82 mb/d in 2009. Only the Middle East region is anticipated to show supply decline in 2009 of around 10 tb/d. On a quarterly basis, total oil supply in DCs is expected to stand at 12.54 mb/d, 12.48 mb/d, 12.73 mb/d and 12.79 mb/d respectively.

Other Asia to increase by 150 tb/d

Other Asia is expected to increase by 150 tb/d in 2009 over the previous year to reach 3.90 mb/d, relatively steady from last month's assessment with a negligible downward revision of 8 tb/d. Vietnam is expected to add around 50 tb/d in 2009 supported by project ramp-ups such as the Su Tu Vang development. Oil supply from Malaysia is estimated to grow by around 30 tb/d on the back of the startup of the PM-3 CAA Northern fields. India and Indonesia are also expected to add around 20 tb/d each, supported by the Mangala and Cepu developments. Certain risks are associated with Other Asia in 2009, mainly from project startup and ramp-up delays. Also, the level of natural decline will play an imported role in defining the supply level, as operators endeavour to combat such crucial elements of the supply factors. On a quarterly basis, Other Asia is estimated to average 3.91 mb/d, 3.82 mb/d, 3.92 mb/d and 3.94 mb/d respectively.

Graph 23: Developing Countries' quarterly production



Brazil to add 180 tb/d in 2009

Latin America is expected to grow by 0.20 mb/d to average 4.29 mb/d in 2009, representing a downward revision of 23 tb/d. Part of the downward revision comes from changes to Argentina's base, as well as minor downward revisions to Brazil. Brazil remains on the top of the list of countries expected to add volumes to 2009 with supply growth of around 180 tb/d supported by startup and ramp-up of projects like the Roncador, Frade, and Marlim Leste. Additionally, Colombia is also expected to add 50 tb/d in 2009, while Argentina is estimated to drop around 40 tb/d. On a quarterly basis, Latin America supply stands at 4.18 mb/d, 4.24 mb/d, 4.36 mb/d and 4.37 mb/d respectively.

The **Middle East** is expected to decline by around 10 tb/d to average 1.63 mb/d in 2009, flat from last month's level. On a quarterly basis, Middle East production stands at 1.63 mb/d in all quarters.

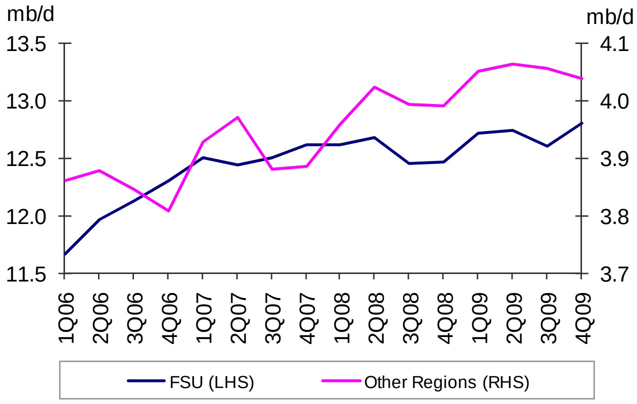
Africa is now estimated to average 2.82 mb/d in 2009, an increase of 70 tb/d over the previous year, indicating a downward revision of 45 tb/d which has been applied to the base. Growth remained unchanged from previous month's assessment. Congo, Egypt, and Gabon supplies are driving growth, while Sudan is estimated to remain flat in 2009 as expected new volumes from the Qamari development are expected to offset the anticipated decline in other fields. On a quarterly basis, production stands at 2.81 mb/d, 2.79 mb/d, 2.82 mb/d and 2.85 mb/d respectively.

FSU, Other Regions

FSU supply forecast impacted by oil price risk

FSU oil supply is projected to increase by around 160 tb/d to average 12.72 mb/d in 2009, indicating a minor upward revision of 17 tb/d from the previous report. FSU supply forecast in 2009 is associated with a high degree of risk due to oil price uncertainty. Various operators in the region have advised that their spending will change depending on oil prices. On a quarterly basis, total oil supply in the FSU is projected to stand at 12.72 mb/d, 12.74 mb/d, 12.61 mb/d and 12.81 mb/d respectively. China oil supply is expected to increase by around 60 tb/d to average 3.91 mb/d in 2009. Other Europe is expected to remain unchanged relative to last year at 0.14 mb/d.

Graph 24: FSU and other region's quarterly production



Russia

Russian output to average 9.67 mb/d

Oil supply from Russia is forecast to average 9.67 mb/d in 2009, a drop of around 110 tb/d from the 2008 level and relatively unchanged from last month's assessment. While new volumes in 2009 are seen coming from projects such as Vankor, Uvat, Yuzhno-Khlyuchu, the expected reduction in spending as well as natural declines are expected to offset new barrels. Most major Russian operators announced spending cuts in response to lower oil prices, which will affect short-term as well as near-term production. However, as the year unfolds, oil price direction will impact the production level. These uncertainties create difficulties in predicting the behavior of Russia supply and require careful monitoring. On a quarterly basis, Russian oil supply is estimated to average 9.74 mb/d, 9.67 mb/d, 9.66 mb/d and 9.63 mb/d respectively. Preliminary data indicate that January production reached 9.80 mb/d.

Caspian

Kazakhstan supply to grow by 100 tb/d

Kazakhstan supply in 2009 is expected to increase by 100 tb/d over the 2008 level to average 1.52 mb/d, indicating an upward revision of 38 tb/d compared to the previous month's estimate. The upward revision came on the back of updated information on Karachaganak which is expected to add new barrels to the supply. However, the possibility of a downward revision in the future remains as price movements are expected to have an effect on the supply. On a quarterly basis, Kazakh supply is expected to stand at 1.51 mb/d, 1.53 mb/d, 1.43 mb/d and 1.61 mb/d respectively. January preliminary data showed Kazakhstan supply at 1.48 mb/d, slightly lower than December supply.

Azerbaijan supply to average 1.05 mb/d

Oil supply from **Azerbaijan** is anticipated to average 1.05 mb/d in 2009, an increase of 180 tb/d over the previous year, following a downward revision of 23 tb/d. Indications that the gas leak on Central Azeri might take a longer time to resolve necessitated the downward revision, the dimensions of which hopefully will become clearer soon. On a quarterly basis, Azerbaijan oil supply stands to average 1.00 mb/d, 1.06 mb/d, 1.05 mb/d and 1.10 mb/d respectively.

China

China to grow by 60 tb/d

Oil supply from **China** in 2009 is projected to display growth of around 60 tb/d from the previous year to average 3.91 mb/d, broadly unchanged from last month's forecast. China supply is expected to average 3.93 mb/d, 3.94 mb/d, 3.93 mb/d and 3.91 mb/d respectively.

OPEC natural gas liquids and non-conventional oils

OPEC NGLs and non-conventional oils are estimated to have averaged 4.43 mb/d in 2008, a growth of around 0.4 mb/d over the previous year. In 2009, OPEC NGLs and non-conventional oils are expected to increase by 0.58 mb/d to average 5.01 mb/d.

Table 15: OPEC NGLs + non-conventional oils, 2006-2009

	2006	2007	Change 07/06	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07	2009	Change 09/08
Total OPEC	**3.89**	**4.03**	0.14	4.26	4.42	4.46	4.59	**4.43**	0.40	**5.01**	0.58

OPEC crude oil production

OPEC crude oil output averaged 28.7 mb/d in January

Total OPEC crude oil production averaged 28.71 mb/d in January, according to secondary sources, down 959 tb/d from the previous month. All Member Countries saw a decline in crude oil production, except Iraq, with Saudi Arabia indicating the largest drop followed by Angola and Iran. OPEC, not including Iraq production, stood at 26.33 mb/d, down 965 tb/d from December.

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

	2007	2008	2Q08	3Q08	4Q08	Nov 08	Dec08	Jan 09	*Jan/Dec*
Algeria	1,360	1,390	1,401	1,401	1,362	1,360	1,336	1,299	*-36.8*
Angola	1,660	1,874	1,897	1,845	1,882	1,865	1,927	1,809	*-117.9*
Ecuador	507	503	502	503	500	500	497	479	*-18.2*
Iran, I.R.	3,855	3,887	3,884	3,917	3,815	3,798	3,767	3,663	*-104.0*
Iraq	2,089	2,338	2,387	2,329	2,336	2,358	2,377	2,383	*5.4*
Kuwait	2,464	2,553	2,582	2,600	2,496	2,495	2,418	2,338	*-79.8*
Libya, S.P.A.J.	1,710	1,715	1,730	1,683	1,697	1,694	1,668	1,602	*-66.3*
Nigeria	2,125	1,947	1,857	1,955	1,931	1,913	1,914	1,881	*-32.5*
Qatar	807	841	851	859	815	808	792	760	*-31.7*
Saudi Arabia	8,654	9,112	9,176	9,460	8,756	8,747	8,315	7,992	*-322.5*
UAE	2,504	2,559	2,609	2,603	2,436	2,383	2,383	2,307	*-76.3*
Venezuela	2,392	2,346	2,360	2,339	2,299	2,301	2,275	2,197	*-78.6*
Total OPEC	**30,126**	**31,065**	**31,236**	**31,495**	**30,324**	**30,222**	**29,669**	**28,710**	***-959.2***
OPEC excl. Iraq	**28,037**	**28,727**	**28,849**	**29,166**	**27,989**	**27,864**	**27,292**	**26,327**	***-964.7***

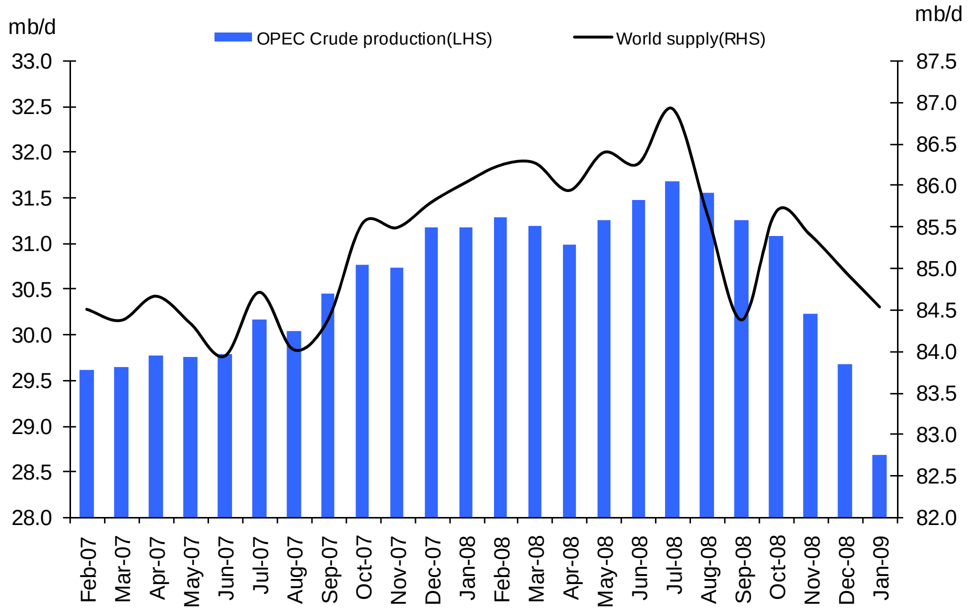
Totals may not add due to independent rounding.

World Oil Supply

Global supply in January estimated at 84.6 mb/d

Preliminary figures indicate that global oil supply fell 0.39 mb/d in January to average 84.55 mb/d. Non-OPEC supply experienced an increase of around 0.57 mb/d while OPEC crude declined. The share of OPEC crude oil in global production declined slightly to 33.9% in January. The estimate is based on preliminary data for non-OPEC supply, estimates for OPEC NGLs and OPEC crude production from secondary sources.

Graph 25: OPEC and World oil supply

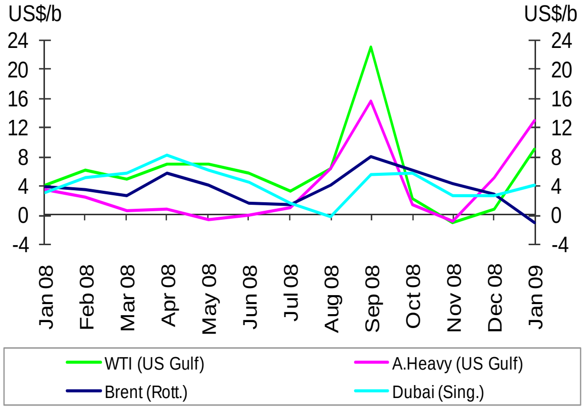


Product Markets and Refinery Operations

Refining economics improved in the US and Asia, but slowed in Europe in January

Product market fundamentals generally appear weak for the medium-term, but cold weather across the world has temporarily provided support for product prices and refining margins. The present situation in the product markets might turn increasingly bearish with the approaching end of the winter season. The startup of new refining capacity in Asia and the continuing slowdown in demand due to economic weakness should only accelerate this trend. Seasonal refinery turnarounds are likely to exert further pressure on product prices over the coming months.

Graph 26: Refining margins



Refining margins in the US surged sharply in January mainly because of weak WTI prices rather than increasing product demand, although cold weather in the Northeast has also been supportive. As ***Graph 26*** indicates, refining margins for WTI crude on the US Gulf Coast jumped to $8.83/b in January from 65¢/b in the previous month. In Europe, despite the cold weather, refining margins did not follow the same trend as the higher cost of the Brent benchmark overwhelmed product prices, undermining European refinery economics. In line with these movements, refining margins for Brent crude oil in Rotterdam slipped to minus $1.09/b from $2.79/b in December.

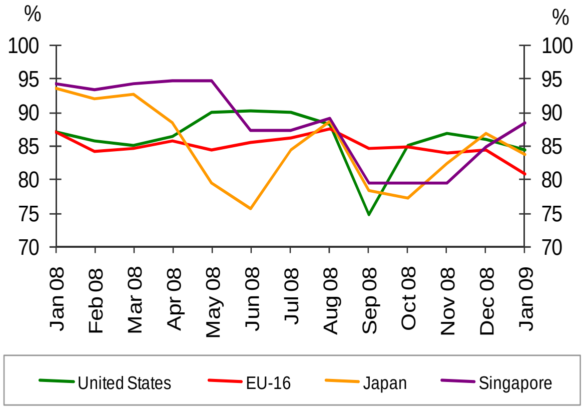
In Asia, tight supply for fuel oil and the temporary recovery of regional demand for naphtha and gasoline have offset the bearish sentiment of middle of the barrel components, lifting refining economics. Following these developments, refining margins for Dubai crude oil in Singapore increased by $1.30/b to $4.03/b from $2.73/b in December. With the increase in idle refining capacity in Asia, refining margins are expected to remain slow over the coming months.

Refinery operations

Refinery utilization rates declined across the world in January

The heating oil season used to be the highest in terms of refinery utilization rates, but poor refining economics have led to lower refinery operations across the world and capped the seasonal trend.

Graph 27: Refinery utilization rates



As *Graph 27* shows, refinery utilization rates in the US stood at 84.4%, down from 85.8% in December, a drop of 1.4% compared to the previous month and 3% lower than the same month last year. In Europe, refinery utilization rates fell sharply by 3.5% in January to 80.8% from 84.3% in the previous month. Asian refinery throughputs also followed the same trend, running much lower than the typical seasonal level. Refinery utilization rates in Japan slid by 3.2% and reached 83.6% from 86.8% in December.

Looking ahead, with the approach of the spring maintenance season, refinery utilization rates are expected to fall further across the globe over the coming months. Due to comfortable product stock levels, a continuation of slowing demand and poor refining margins, refiners may not increase their operation levels significantly even after the maintenance season. Furthermore, amid increasing spare capacity in the downstream sector, product markets may not be able to provide support for crude prices over the coming months.

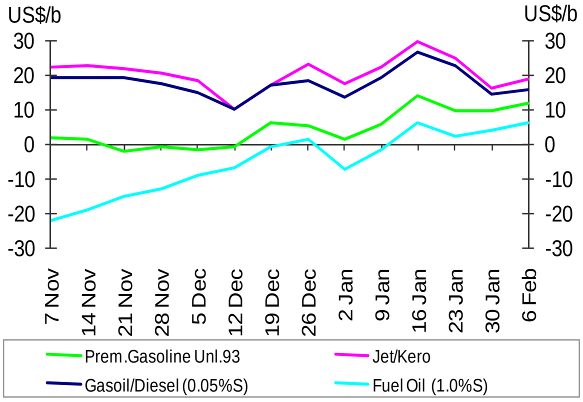
US market

A cold snap lifted product prices in the US

Lower refinery runs and outputs, a cold snap in the Northeast and the potential risk of a refinery strike lifted product prices in the US. These developments along with lower WTI prices led to higher refining margins in the US.

Gasoline crack spread against WTI crude rose sharply from about $5/b in the latter part of December to around $14/b in the middle of January. However, with increasing import cargoes and gasoline stock builds, refining margins narrowed slightly in late January.

Graph 28: US Gulf crack spread vs. WTI, 2008-2009



The market for middle of the barrel components was mixed, while cold weather in the Northeast has led to stock draw for heating oil, but the continuing economic recession has had adverse impacts on diesel demand, forcing refiners to look for an outlet in Europe. Apart from diesel, aviation industry demand for jet fuel also deteriorated, putting pressure on the jet/kero market and prices. With the approaching end of the winter season, middle distillate fundamentals may ease further over the coming months.

Lower refinery runs, along with the relatively tight situation for heavy crude and increasing substitution of fuel oil for natural gas due to lower prices, has boosted fuel oil market sentiment in the US. This has resulted in a surge in the low sulfur crack spread versus WTI crude oil to $6/b in early February from about minus $2/b in early January (*see **Graph 28***). With the start of the refinery turnaround season and further runs cuts by refiners, the fuel oil market is expected to remain relatively strong over the coming months.

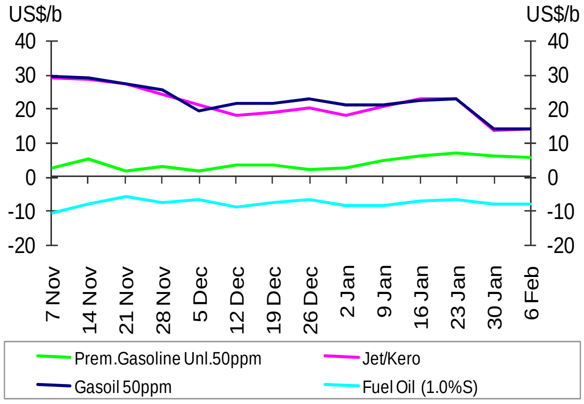
Looking ahead, the product market situation in the US will largely depend on positive economic developments especially the recovery in consumer confidence.

European market

European diesel market sentiment has softened

Despite regional refinery runs cuts, the European diesel market has lost ground over the last few weeks, mainly due to the arrival of a large number of cargoes from the US and Asia and slowing demand in tandem with the worsening economic outlook. Cold weather in Europe supported heating oil prices, but was not enough to offset the negative impacts of arbitrage cargoes on low sulfur gasoil prices. These circumstances exerted pressure on the gasoil crack spread which slid to $14/b in early February from about $21/b in early January (*see **Graph 29***).

Graph 29: Rotterdam crack spreads vs. Brent, 2008-2009



Gasoline market sentiment in Europe improved due to export opportunities to the US, Asia and Australia. Protest by contract workers at British energy facilities also supported gasoline prices, widening the gasoline crack spread against Brent crude to around $6/b from around $2/b late in December. Similarly, export opportunities to Asia supported naphtha prices. Looking ahead, despite recent bullish developments, the light distillates market is expected to remain weak in the future.

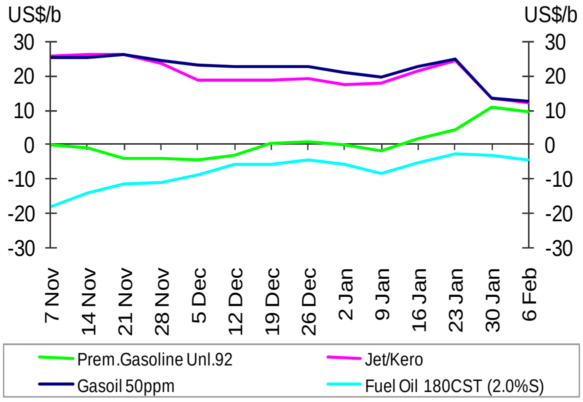
In the fuel oil market, lower supply from regional refiners due to throughput cuts and declining exports from Russia combined with arbitrage opportunities to the US and Asia to further the bullish momentum of the European fuel oil market. This sentiment should persist over the coming month with the approach of the maintenance season, resulting in further cuts to refinery outputs.

Asian market

The light distillate market remains relatively strong in Asia

As already noted, the naphtha market situation has changed significantly over the last two months because of lower supply from India and higher demand from petrochemical units in South Korea and China. Following these developments huge naphtha cargoes were shipped from the West to the East over the last few weeks. However, due to the deteriorating economic situation in Asia and its negative impacts on naphtha demand, the current situation is not likely to persist.

Graph 30: Singapore crack spreads vs. Dubai, 2008-2009



Apart from naphtha, strong regional demand, especially from Indonesia, also provided support for gasoline. The gasoline crack spread against Dubai crude on the Singapore market jumped to around $10/b in the last week of January from minus 20¢/b earlier in the same month (*see* ***Graph 30***).

Despite the bullish movement for naphtha and gasoline, the gasoil market was lackluster due to slowing demand from traditional importers such as China and Indonesia and limited arbitrage opportunities to other markets. Following these developments, the gasoil crack spread versus Dubai crude slid to $12/b in the week ended 6 February from about $20/b over the same period of the previous month. Emerging bearish sentiment for middle distillates has also forced Asian refiners to unseasonably trim runs in the last month which resulted in product stock draws, especially for kerosene. Refinery run cuts along with cold weather in Northern Asia have forced Japan to import kerosene to meet excess demand. This situation has provided support for jet/kero prices and widened the spread between jet/kero and gasoil.

The fuel oil market in Asia remained in backwardation due to tight regional supplies and lower arbitrage inflows from the West. These circumstances have narrowed the spread versus crude oil. The high sulfur fuel oil crack spread versus Dubai crude narrowed on average to minus $3/b in January from about minus $5/b in December.

Looking ahead, with the run cuts by regional refiners and lower supply from the Middle East, the current bullish momentum of the Asian fuel oil market is likely to remain over the coming months.

Table 17: Refined product prices, US$/b

		Nov 08	Dec 08	Jan 09	Change Jan/Dec
US Gulf (Cargoes):					
Naphtha		48.09	33.24	45.51	12.27
Premium gasoline	*(unleaded 93)*	57.78	43.29	53.20	9.91
Regular gasoline	*(unleaded 87)*	51.26	39.68	49.11	9.43
Jet/Kerosene		79.55	58.08	62.07	3.99
Gasoil	*(0.05% S)*	76.33	55.93	59.56	3.62
Fuel oil	*(1.0% S)*	39.93	36.70	45.29	8.59
Fuel oil	*(3.0% S)*	33.05	30.69	38.68	7.99
Rotterdam (Barges FoB):					
Naphtha		33.59	28.24	38.71	10.47
Premium gasoline	*(unleaded 10 ppm)*	54.38	43.11	48.82	5.71
Premium gasoline	*(unleaded 95)*	50.50	39.69	46.29	6.61
Jet/Kerosene		80.60	60.18	60.99	0.81
Gasoil/Diesel	*(10 ppm)*	74.99	57.08	66.57	9.49
Fuel oil	*(1.0% S)*	46.06	33.81	36.27	2.46
Fuel oil	*(3.5% S)*	33.17	28.17	34.98	6.81
Mediterranean (Cargoes):					
Naphtha		30.95	25.55	36.64	11.09
Premium gasoline	*(50 ppm)*	50.90	40.93	50.34	9.41
Jet/Kerosene		78.26	59.21	59.94	0.73
Gasoil/Diesel	*(50 ppm)*	78.69	60.73	74.68	13.95
Fuel oil	*(1.0% S)*	45.17	36.16	38.63	2.47
Fuel oil	*(3.5% S)*	31.25	24.65	34.63	9.97
Singapore (Cargoes):					
Naphtha		29.09	31.00	42.58	11.57
Premium gasoline	*(unleaded 95)*	48.41	41.05	52.23	11.17
Regular gasoline	*(unleaded 92)*	47.45	38.88	48.97	10.09
Jet/Kerosene		75.08	59.02	60.15	1.14
Gasoil/Diesel	*(50 ppm)*	75.20	63.08	61.26	-1.82
Fuel oil	*(180 cst 2.0% S)*	38.43	36.16	40.74	4.57
Fuel oil	*(380 cst 3.5% S)*	36.36	34.44	39.08	4.64

Table 18: Refinery operations in selected OECD countries

	Refinery throughput *mb/d*				Refinery utilization *%*			
	Nov 08	Dec 08	Jan 09	Jan/Dec	Nov 08	Dec 08	Jan 09	Jan/Dec
USA	15.15	14.97	14.72	-0.25	86.8	85.8	84.4	-1.4
France	1.70	1.63	1.41	-0.22	88.2	84.1	71.1	-13.0
Germany	2.23	2.16 R	2.06	-0.10	92.4	89.3 R	85.2	-4.1
Italy	1.75 R	1.72 R	1.67	-0.05	75.0	73.5 R	71.5	-2.0
UK	1.51 R	1.51 R	1.51	0.00	81.2 R	81.1 R	81.1	0.0
Euro16	11.77 R	11.83	11.37	-0.46	83.9 R	84.3 R	80.8	-3.5
Japan	3.83	4.04	3.89	-0.15	82.3	86.8	83.6	-3.2

R *Revised since last issue.*

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

The Tanker Market

Global and OPEC spot fixtures increased in January, while OPEC sailings were lower, although arrivals to the US increased due to higher crude imports

OPEC spot fixtures increased 20% in January over the previous month to reach 13.02 mb/d, according to preliminary data. The increase is mainly due to a very low spot fixtures level in the base month. OPEC fixtures from the Middle East increased by 35% in January, while those from outside the Middle East increased by 6%. Within the Middle East, spot fixtures towards the East displayed the highest monthly increase, while those towards the West were almost steady. The Middle East/East spot fixtures ended the month at 5.87 mb/d, up from 4.05 mb/d in December, while the Middle East/West route ended the month at 1.12 mb/d, slightly up from 1.1 mb/d. Despite the increase over the previous month, OPEC spot fixtures in January indicated a decline of 9% over the same month last year. Similarly, global spot fixtures increased in January by 23% compared to the previous month to stand at 19.46 mb/d, but were about 11% lower compared to the same month last year.

Sailings from OPEC were 5% lower in January, at 19.9 mb/d, down from 20.9 mb/d in the previous month, and were also 18% lower than a year ago. Middle East sailings in January were at 14.3 mb/d, about 5% lower than in the previous month and 19% lower than at a year earlier. Crude oil arrivals in the USA increased by 3% in December over the previous month. Crude oil trade figures indicate that US crude oil imports were higher in January compared to the previous month, supporting the increase in crude arrivals to this country. Crude oil arrivals to North-West Europe, the Mediterranean and Japan were all lower in January compared to the month before.

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

	Nov 08	Dec 08	Jan 09	Change Jan/Dec
Spot Chartering				
All areas	17.92	15.80	19.46	3.67
OPEC	11.33	10.82	13.02	2.20
Middle East/east	4.88	4.05	5.87	1.82
Middle East/west	1.36	1.10	1.12	0.02
Sailings				
OPEC	22.20	20.90	19.86	-1.04
Middle East	16.55	15.05	14.30	-0.75
Arrivals				
US Gulf Coast, US East Coast, Caribbean	8.24	7.92	7.26	-0.66
North West Europe	8.11	7.80	7.33	-0.47
Euromed	4.75	4.56	4.04	-0.52

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

Dirty tanker spot freight rates declined in January with the VLCC sector gaining marginally

The crude oil tanker market was under increasing pressure from boosted tonnage availability on many key routes in January as a result of OPEC production cuts and the ongoing global economic crisis. However, the continued contango structure in crude markets in January played a major role in preventing dirty freight rates from incurring deeper declines, especially because of the impact on the VLCC vessel sector which enjoyed unexpected higher demand due to the increased interest of some market participants to store crude at sea. In January, VLCCs were still being used as storage in the Middle East, the US Gulf Coast, Asia and the North Sea, a process that actually started earlier during 4Q08, but gained more momentum throughout most of the month. Although there were signs towards the end of the month that the contango is easing slightly which might strongly influence spot freight rates during the coming months, estimates still put the number of VLCCs being tied up in storage in January at about 40 vessels which makes about 8% of the VLCC global fleet. Bad weather and port closures to the west of Suez influenced spot freight rates in January, especially for both Suezmax and Aframax vessels, but the overall effect was relatively less than in the previous month.

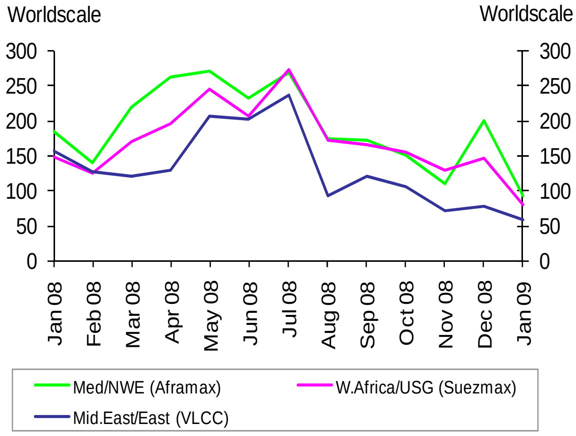
Taking the top three vessel categories into consideration and their nine main reported routes, spot freight rates for crude oil tankers were generally lower in January compared to both the previous month and the same month last year. In January, month-to-month freight rate comparisons based on nominal world scale figures do not represent the actual fluctuations in the market, as rates for this month are based on the new flat rates for 2009 which are considerably higher than those for 2008. Comparisons only give valid interpretations when referring to the same flat rate figures. In general, VLCC new flat rates are about 38% higher in 2009 compared to 2008. Suezmax and Aframax rates are 36% and 34% higher respectively, while flat rates for the three dirty tanker categories are 36% higher on average. A better representative for the fluctuations in freight rates in January 2009 compared to the month before would be to compare the dollar cost per barrel reflected by the two Worldscale figures, each related to its flat-rate base. According to this, the Aframax sector to the west of Suez witnessed the sharpest drop in freight rates in January from the month before. This comes as no surprise as it was this sector of the market that witnessed the sharpest increase in the previous month, taking advantage of weather-related conditions and many port closures in the region. Freight rates for the Suezmax sector also dropped in January, while the VLCC sector ended the month with a minor gain. To complete the picture, average dirty freight rates declined by about 21% in January from the previous month.

On average, the VLCC spot freight rates were slightly more than 1% higher in January over the previous month. Extra demand for VLCCs for storage purposes in January and higher crude oil lifting by China to accelerate the process of filling up its Strategic Petroleum Reserves were the factors behind the relative firmness of this sector of vessels compared to other sectors. Spot freight rates for VLCCs trading on the long haul route from the Middle East to the East, which had already increased by 10% the month before, gained a further 3% in January on a dollar-per-barrel basis. Most of the increases in freight rates on this route took place during the second and third weeks of the month, and eased towards the end of the month due to thin activity and tonnage build-up as most of the Eastern charterers left the market for the Lunar New Year. Spot freight rates on this route started the month at around WS48, climbing to WS71 by the end of the third week and then ended the month at WS52.

Middle East to West spot freight rates closed the month with a gain of 7% in January over the previous month. It was the highest increase compared to other VLCC routes. Throughout the month, freight rates on this route peaked at the end of the third week at WS49 before ending at WS35 with a monthly average of WS42. On the other hand, VLCC spot freight rates for voyages from West Africa to East were within a range of between WS50 to WS60 throughout the month, ending with an average of WS57 for a decline of roughly 5% from the previous month. Lower West African exports to Asia in January, in addition to weaker Suezmax spot freight rates in this region, were behind the relative weakness of this market.

Suezmax spot freight rates for voyages to the US from West Africa and North West Europe declined by an average of 23% in January compared to the previous month. Tonnage build-up of Suezmax for West African cargoes were exerting pressure on freight rates in this region. Reports indicated that the implementation of production cuts following OPEC's decision, which resulted in Nigeria lowering its production by about 160,000 b/d in January, was the main reason behind the general weakness in this market and that news of higher Azari exports in February were not enough to lift the sentiment of the market.

Graph 31: Monthly averages of crude oil spot freight rates



Freight rates for Suezmax west of Suez were going through consistent and gradual declines throughout the month with both routes fluctuating in similar trend. From West Africa to the US Gulf, Suezmax spot freight rates ended the month with an average of WS80 according to the new flat rates for 2009, which imply a decline of about 25% compared to the previous month. The decline was about 21% for the North West Europe to the US route.

Average Aframax spot freight rates for the four reported routes were 37% lower in January, compared to the previous month. To the east of Suez, the Indonesia to East Aframax route was declining steadily throughout the month, mainly due to high tonnage build-up due to lower activity in the market, ending the month down 28%. Declines were much higher to the west of

Suez where freight rates for the Caribbean to the US East Coast route ended the month at a 46% decline compared to the previous month. In the Mediterranean, freight rates on both cross Med and Med to North West Europe routes were following the same pattern of weekly fluctuations over the month, declining for two weeks, rebounding in the third and then declining again towards the end of the month. Freight rates on both Mediterranean routes ended the month with an average of WS103 for the cross Mediterranean route and WS93 for the Med/North West Europe route, indicating declines of 35% and 37% respectively, both compared to the previous month. In general, an oversupply of tonnage in the market and a sustained lack of interest from charterers were the main reasons behind the bearish sentiment and lower freight rates during this month.

Table 20: Spot tanker crude freight rates, Worldscale

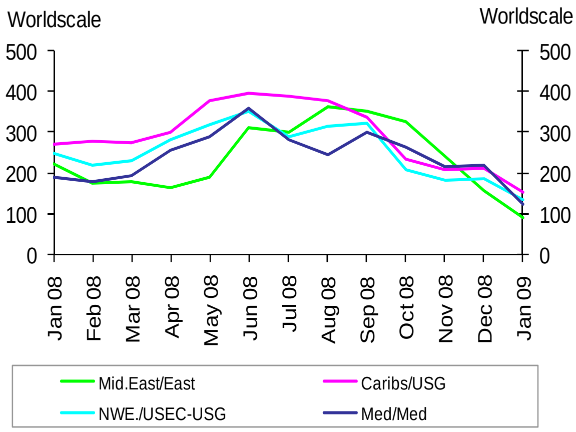
	Size *1,000 DWT*	Nov 08	Dec 08	Jan 09	Change Jan/Dec
Crude					
Middle East/east	230-280	70	77	57	-20
Middle East/west	270-285	61	54	42	-12
West Africa/east	260	75	83	57	-26
West Africa/US Gulf Coast	130-135	129	146	80	-66
NW Europe/USEC - USGC	130-135	119	136	80	-56
Indonesia/US West Coast	80-85	161	157	83	-74
Caribbean/US East Coast	50-55	130	265	106	-159
Mediterranean/Mediterranean	80-85	120	204	103	-101
Mediterranean/North-West Europe	80-85	110	199	93	-106

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

Both East and West of Suez clean spot freight rates were lower in December, impacted by lower activity

Following the same trend as that of crude oil freight rates, the clean tanker market saw a drop of 17% on average in January compared to the previous month for all the six East and West of Suez reported routes. Once again, the market was relatively weaker to the East of Suez, especially in the Singapore to East route where freight rates dropped by 21% compared to the previous month. Freight rates on this route were higher during the first half of the month compared to the second half due to the opened arbitrage of gasoil from Singapore to Europe which took some tonnage out of the market, but towards the end of the month, Singapore closed early for the holiday accelerating the decline in rates.

Graph 32: Monthly averages of clean spot freight rates



Freight rates for the Middle East to East route also dropped by 19% during the same period amid a generally quiet market. As a result, average East of Suez clean spot freight rates were 20% lower in December compared to the previous month.

West of Suez clean freight rates were mixed in January compared to the previous month with an average decline of 16% for the four reported routes in this market. Diesel movement trans-Atlantic from the Caribbean relatively tightened the tonnage position in this market and freight rates ended the month at a slight drop of 2% compared to the previous month, the lowest drop among all West of Suez clean routes. The closed gasoline arbitrage from Europe to the US during a good part of January due to high US inventories, which lowered demand for importing this product, pressured clean trans-Atlantic freight rates during this period before rebounding slightly towards the end of the month on the prospect of resuming imports in February. However, gasoline moving towards West Africa and the Middle East gave some support to trans-Atlantic freight rates which ended the month at an average of WS122, about 12% lower than in the previous month. In the Mediterranean, Aframax freight rates remained weak throughout the month for both the Med/Med and Med/North West Europe routes as demand for tonnage was not too healthy and activity was relatively low. Lower January loading schedule for Russian crude exports from the Black Sea pressured rates in the Mediterranean and both routes declined by 26% and 21% respectively compared to the previous month, ending at an average of WS126 and WS136. Altogether, average West of Suez clean spot freight rates were 16% lower in January compared to the previous month.

Table 21: Spot tanker product freight rates, Worldscale

	Size *1,000 DWT*	**Nov 08**	**Dec 08**	**Jan 09**	**Change Jan/Dec**
Products					
Middle East/east	30-35	242	159	93	-67
Singapore/east	30-35	233	188	109	-79
Caribbean/US Gulf Coast	38-40	208	211	154	-57
NW Europe/USEC - USGC	33-37	184	187	122	-65
Mediterranean/Mediterranean	30-35	216	220	126	-95
Mediterranean/North-West Europe	30-35	226	230	136	-95

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

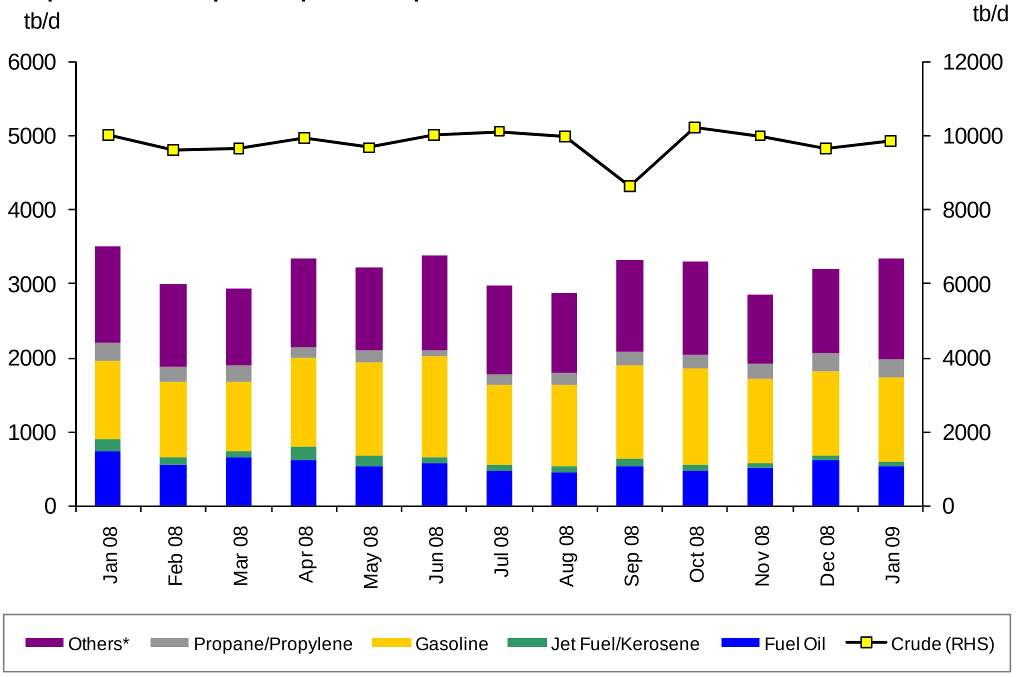
Oil Trade

US net oil imports increased in January, for the second month in a row, backed by higher crude product imports

USA

US crude oil imports rebounded in January to average 9.84 mb/d, according to official data. This represents a 2.1% or 198,000 b/d increase over the previous month, but a 156,000 b/d, or 1.6% decline from the same month last year. January's crude imports were slightly higher than the 2008 average of 9.77 mb/d.

Graph 33: USA's imports of petroleum products

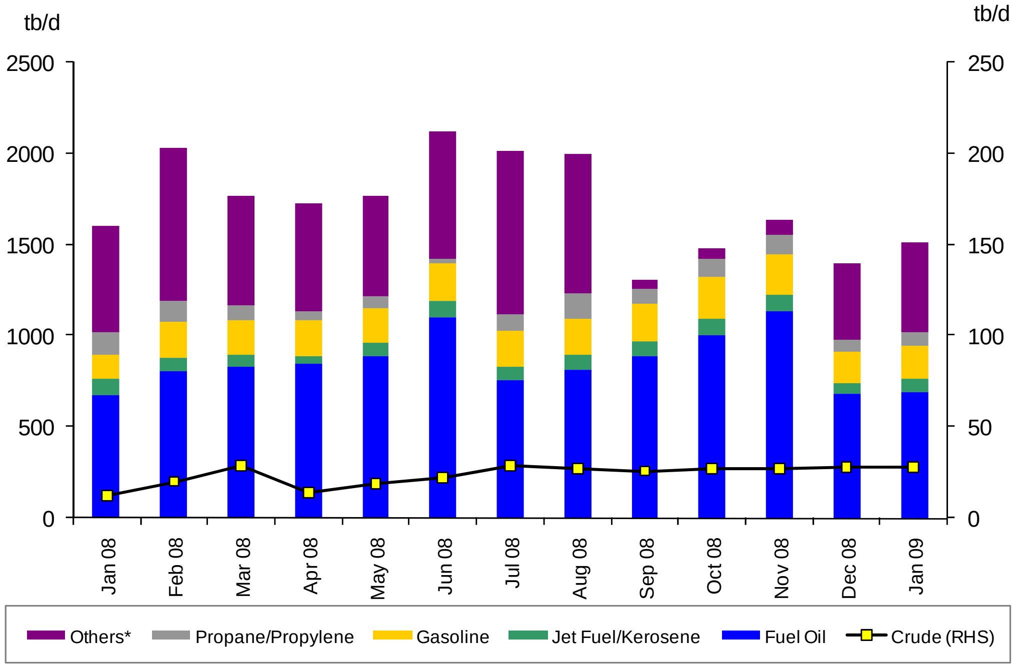


*Others: Contains Natural Gas Liquids, Liquefied Refinery Gases (LRG's), Other Liquids and all Finished Petroleum Products except Gasoline, Jet Fuel/Kerosene, Fuel Oil and Propane/Propylene.

Similarly, US product imports increased in January, by 4.7%, or 149,000 b/d compared to the previous month to average 3.33 mb/d, yet were 4.6% lower than in the same month last year. All major product imports were higher in January than at the previous month. Finished motor gasoline imports increased by 49,000 b/d or 28% to reach 223,000 b/d. Despite this increase, finished motor gasoline imports were 46% lower from a year ago and down by 28% compared to the 2008 average. Distillate fuel oil imports also increased by 49,000 b/d in January or 25% compared to the previous month to average 249,000 b/d. This level of imports indicate a 19% decline compared to the same month last year, but indicates an increase of 24% compared to the 2008 average. Residual fuel oil imports increased in January by 81,000 b/d, or 20% compared to the previous month, reaching 483,000 b/d, 11% higher than at at the same month last year. Jet fuel imports in January averaged 53,000 b/d, about 15% lower than in the previous month, but substantially lower than both the same month last year and average 2008 imports, by 67% and 48% respectively.

On the export side, US product exports increased by 115,000 b/d or 8% in January compared to the previous month to average 1.48 mb/d. This represents a decline of 130,000 b/d or 8% compared to a year earlier and a decline of 15% from the 2008 average.

Graph 34: USA's exports of petroleum products



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

As a result, US net oil imports increased in January by 2% compared to the previous month to reach about 11.67 mb/d. The 232,000 b/d increase in net oil imports in January came as a result of the 198,000 b/d increase in net crude oil imports and the 34,000 b/d increase in net product imports from the previous month. January's net oil imports were 1.7% lower than a year earlier but were 5% higher than the 2008 average.

Table 22: USA crude and product net imports/(exports), tb/d

	Nov 08	Dec 08	Jan 09	Change Jan/Dec
Crude oil	9,947	9,618	9,816	198
Total products	1,189	1,817	1,851	34
Total crude and products	**11,136**	**11,435**	**11,667**	**232**

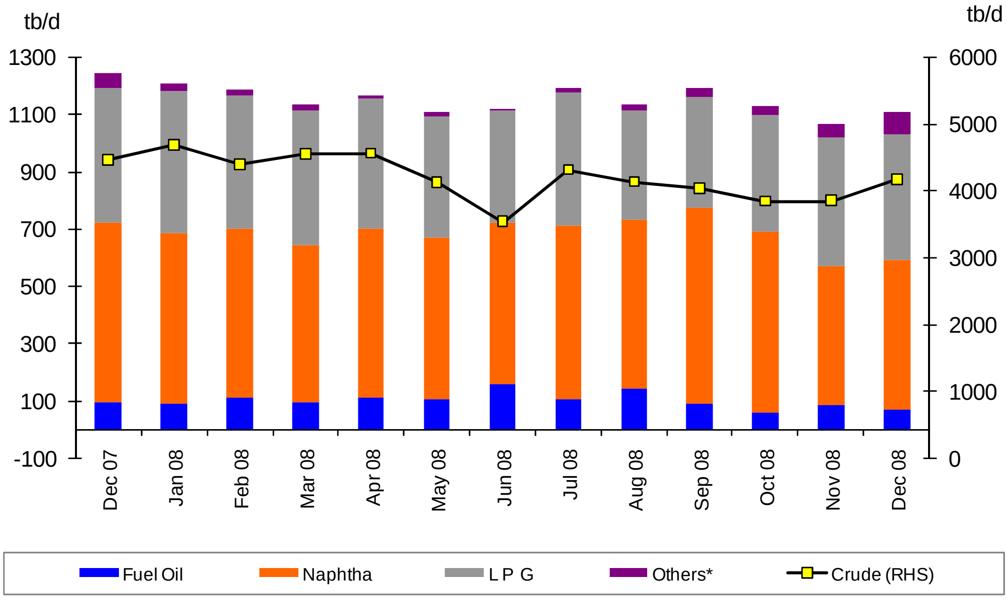
Canada was the top crude oil supplier to the US in November with a share of 20.4%, unchanged from the previous month, followed by Saudi Arabia with 15%, up from 14.2% in the previous month. Mexico and Venezuela came next with 13.1% and 10.9% respectively. Altogether, OPEC Member Countries supplied 52.8% of total US crude oil imports in November, marginally up from 52.7% in the previous month. For product imports, once again Canada was the top product supplier to the US in November with a share of 17.2%, up from 16.8% in the previous month. The Virgin Islands was next with a share of 11.5%, up from 8.6% in the previous month, followed by Russia with 10.1%. For OPEC Member Countries, Algeria supplied 10.1% of total US oil product imports in November, up from 8.1% in the previous month, followed by Venezuela with 5.3%. Algeria and Venezuela were the fourth and fifth top product suppliers to the US in November. Altogether OPEC Member Countries supplied 19% of US product imports in November, up from 18% in the previous month. For US product exports, Mexico was the top importer in November with a share of 14.4%, unchanged from the previous month. Canada was next with 14.2%, down from 19.5%, and the Netherland with 12.6%. Altogether, OPEC Member Countries imported 2.5% of total US product exports in November, down from 3.9% in the previous month. Venezuela imported 2.2% and Ecuador 0.3%.

Japan's net oil imports increased by 9.5% in December supported by higher crude oil product imports

Japan

Japan's crude oil imports rebounded in December to average 4.17 mb/d, according to official data, about 317,000 b/d or 8.2% higher than the previous month but still 6.5% or 0.29 mb/d lower than the same month of the previous year. With this volume of imports, Japan overtook China to become the world's second-biggest crude importer in December. Japan's crude oil imports for the year 2008 averaged 4.18 mb/d, indicating annual growth of 2.8% or 113,000 b/d compared to the previous year. This growth comes despite falling domestic oil product sales which hit a more than 20-year low in December as a result of the deep economic recession, ageing population and a growing shift towards cleaner energy. Higher crude imports in Japan in 2008 are mainly attributable to the increasing volume of oil product exports over most of the year and the closure of the country's largest nuclear plant at Kashiwazaki following the earthquake in July 2007.

Graph 35: Japan's imports of petroleum products

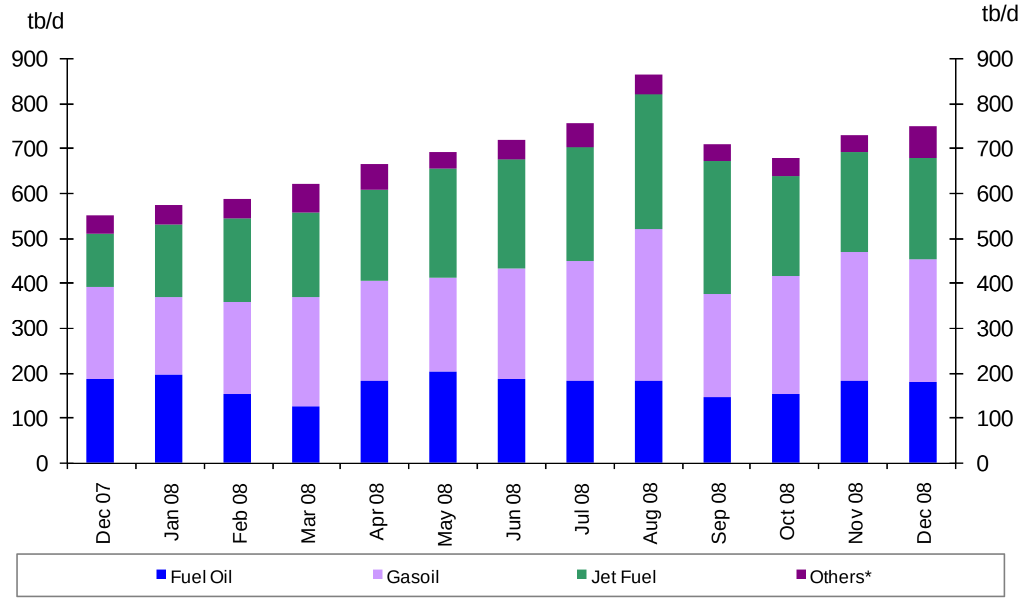


*Others: Contains Gasoline, Jet Fuel, Kerosene, Gasoil, Asphalt and Paraffin Wax.

Similarly, Japan's product imports increased in December by 45,000 b/d or 4.3% compared to the previous month, to average about 1.11 mb/d, displaying a decline of 10.6% from a year earlier. Japan mainly imports three products — naphtha, LPG and fuel oil — which constituted about 93% of its total monthly product imports in December. Average LPG imports in December were about 438,000 b/d, a decline of 10,000 b/d or 2% from the previous month and about 6% lower than a year earlier. For the year 2008, Japan imported an average of 436,000 b/d of LPG, almost steady compared to the previous year. Naphtha imports averaged 522,000 b/d in December, the second lowest average in more than two years, indicating an increase of 7% over the record-low volume in the previous month and a 17% decline compared to the same month in the last year. Naphtha imports for the year 2008 averaged 581,000 b/d, a decline of 12% from the previous year. Fuel oil imports in December were at 68,000 b/d, down by 13,000 b/d or 16% from the previous month, but about 25% lower than in December 2007. Fuel oil imports for the year 2008 averaged 100,000 b/d, an increase of 42% over 2007. Naphtha imports counted for 47% of Japan's total product imports in December, LPG for 40% and fuel oil for some 6%. Total product imports for the year 2008 averaged 1.14 mb/d, a decline of 4.5% or 54,000 b/d from the previous year.

Japan's product exports in December dropped by 3.9% compared to the previous month, and by 32% compared to December 2007, averaging 732,000 b/d. Gasoil, jet fuel and fuel oil are Japan's main product exports which together counted for about 92% of the country's total product exports in December. Gasoil exports in December were about 274,000 b/d, down by 5% or 15,000 b/d compared to the previous month, and by 34% compared to December 2007. For the year 2008, Japan exported an average of 246,000 b/d of gasoil, which represents a substantial increase of 56% over the previous year. Jet fuel exports in December were about 226,000 b/d, steady compared to the previous month, but 90% higher than in the previous year. Jet fuel exports for 2008 averaged 229,000 b/d, an increase of 18% over the previous year. Fuel oil exports in December were about 177,000 b/d, steady compared to the previous month, but 5% lower than a year earlier. For the year 2008, Japan exported an average of 172,000 b/d of fuel oil, unchanged compared to the previous year. Gasoil exports counted for 37% of Japan's total product exports in December, jet fuel for 31% and fuel oil 24%. Japan exported lower quantities of gasoline, kerosene, lubricating oil, asphalt and LPG in December, together representing a total of 55,000 b/d. Average product exports for the year 2008 were about 692,000 b/d, indicating annual growth of 23% or 127,000 b/d compared to the previous year.

Graph 36: Japan's exports of petroleum products



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

As a result, Japan's net oil imports in December were about 4.54 mb/d, indicating an increase of 393,000 b/d or 9.5% compared to the previous month and a drop of 11.7% compared to a year earlier. Average net oil imports for the year 2008 were 4.63 mb/d, a decline of 1.5% or 68,000 b/d from the previous year. Japan's net product imports for the year 2008 declined to 450,000 b/d from 631,000 b/d in 2007. This is mainly due to the 23% increase in exports over the same period.

Table 23: Japan's crude and product net imports/(exports), tb/d

	Oct 08	Nov 08	Dec 08	Change Dec/Nov
Crude oil	3,837	3,848	4,166	317
Total products	459	301	376	75
Total crude and products	**4,296**	**4,149**	**4,542**	**393**

Saudi Arabia was once again Japan's top crude oil supplier in December, supplying 28.7% of Japan's crude oil imports, down from 29.4% in the previous month. The UAE share was 23.9%, up from 22.3% the month before. Iran supplied 11.9% of Japan's crude oil imports in December, compared to 11.1% in the previous month, while Qatar's share was 10.9%, down from 12.1% a month earlier. OPEC Member Countries supplied 89.1% of Japan's crude oil imports in December, up from 88% in the previous month. Top non-OPEC crude oil suppliers in December include Russia with 3.5%, down from 3.8% in the previous month, and Oman with 2.2%. On the product side, preliminary data indicates that the US was Japan's top supplier in December with 15.1%, followed by Saudi Arabia with 13.8% and the UAE with 13.3%. Altogether, OPEC Member Countries supplied 54.3% of Japan's product imports in December, up from 52% in the previous month. In addition to the US, top non-OPEC product suppliers in December included South Korea with 9.1% and Russia with 4%.

China's net oil imports rebounded in December, increasing by 14% compared to the previous month, backed by higher net product imports

China

According to preliminary data, China's crude oil imports rebounded in December to reach 3.4 mb/d, about 4.1%, or 133,000 b/d higher than in the previous month, and 11.6% higher compared to a year earlier. The rebound came despite throughput cuts in November and December by state-run refiners as well as a large build in oil products inventory in 4Q 2008. Average crude oil imports for the year 2008 amounted to 3.58 mb/d, indicating an about 0.31 mb/d, or 9.3% growth over the previous year. The annual growth rate had, however, moderated from the double-digit increases seen in the past two years. The country reported a 12.3% annual growth in crude imports in 2007 and 14.3% in 2006 on the back of a double-digit economic growth rate. No doubt, the current global economic slowdown has hit China's export-oriented economy and slowed down growth of its crude oil imports compared to the previous two years. On the other hand, on a quarterly basis, China's crude oil imports, after increasing by 18% during the first quarter of 2008 compared to 4Q 2007, went through continuous declines during the next three quarters, by 1%, 2% and 1% respectively, each compared to the previous quarter. China's crude oil production in December was 3.71 mb/d, about 4% lower compared to the previous month. China's December crude oil production was about 310,000 b/d higher than the country's crude oil imports in the same month.

Similarly, China's product imports rebounded sharply in December after four months in a row of declining averages. China imported an average of 1.1 mb/d of oil products in December, about 524,000 b/d, or 88% higher compared to the previous month, and also 44% higher compared to a year earlier. Higher fuel oil imports by teapot refiners in Eastern China were the main reason behind the surge in product imports in December. In 2008, China imported an average of 0.95 mb/d of oil products, indicating an annual growth of 8.8% over 2007. This is compared to an annual drop in imports in 2007 by 10% compared to 2006 and a growth of 8% in 2006 compared to 2005. On a quarterly basis, China's product imports were 26% higher in 1Q 2008 compared to 4Q 2007. This was followed by another 30% increase during the second quarter as compared to the first. Both increases were mainly due to the country's preparations for the Olympics. Product imports were 14% lower during the third quarter, followed by a further drop of 21% in the fourth quarter, both compared to the previous quarter.

On the export side, China's crude oil exports in December were about 100,000 b/d, up from 51,000 b/d in the previous month. Average crude oil exports for the year 2008 were 75,000 b/d, about 3% lower than at 2007.

China's product exports in December were at 0.52 mb/d, about 34% higher compared to the previous month, and 49% higher than in the same month a year earlier. China's gasoil exports surged to about 47,000 b/d in December, a level not seen since August 2005, amid shrinking domestic demand and tight storage capacity. This volume is compared to only 7,000 b/d in the previous month. Exports of gasoline were at 69,000 b/d in December, down from 77,000 b/d in the previous month. Average product exports for the year 2008 were about 0.41 mb/d, some 7%, or 27,000 b/d higher than in 2007. On a quarterly basis, China's product exports were increasing steadily in 2008 by 2% in the first quarter, 15% in the second quarter, 3% in the third quarter and 4% in the fourth quarter, all compared to the previous quarter.

With net crude oil imports at 3.3 mb/d and net product imports at 0.6 mb/d, China's net oil imports in December were at 3.9 mb/d, 14% higher than the lowest average in 2008 recorded in the previous month. Net oil imports in December were 18% or 590,000 b/d higher than in December 2007. Higher net oil imports in December were attributed more to higher net product imports than to net crude oil imports. China's average net oil imports for the year 2008 were about 4.05 mb/d, 9.7% higher than the year before.

Once again, Saudi Arabia was China's top crude oil supplier in December with a share of 24.6%, up from 28.7% in the previous month. Angola was next with 10.3%, down from 15.4% in the previous month. Iran's share of China's total crude oil imports in December was 9.8%, up from 8.8%, in the previous month. Altogether, OPEC Member Countries supplied 61.6% of China's crude oil imports in December, down from 62.6% in November. Top non-OPEC crude oil suppliers in November include Oman with 9.8%, Sudan with 7.9% and Russia with 5.9%.

In the year 2008, OPEC Member countries supplied about 2.36 mb/d of crude oil to China, accounting for about 65.9% of the country's total crude oil imports of 3.58 mb/d. This represents an increase of 541,000 b/d, or about 10.4% compared to the previous year. Saudi Arabia was the top crude supplier to China in 2008 with an average of 729,000 b/d, accounting for 20.4% of the country's total imports. Saudi Arabia's share was 16.1% in 2007 representing an average export of 529,000 b/d which implies that Saudi Arabian exports to China increased by 37.8% in 2008 compared to the year before. Angola was the second largest crude supplier to China in 2008 with an average of 599,000 b/d, representing 16.7% of the country's total imports. Angola's share of total Chinese imports in 2007 was 15.3% representing an average export of 502,000 b/d implying that Angola's exports to China increased by 19.3% in 2008 compared to 2007. Iran was the third largest crude supplier to China in 2008 with an average of 427,000 b/d, representing 11.9% of the country's total imports. In 2007, Iran supplied China with an average of 412,000 b/d, or 12.6% of its total imports, increasing Iran's exports to China by 3.6% over these two years. Percentage-wise, the sharpest increase in China's crude imports in 2008 came from Kuwait followed by Venezuela. Kuwait supplied China with an average of 118,000 b/d in 2008, up by 61.6% from the average of 73,000 b/d a year earlier, while Venezuela supplied 129,000 b/d in 2008, up by 55.4% from the average of 83,000 b/d the year before.

For non-OPEC suppliers, Russian exports to China in 2008 declined by 20.2% compared to the year before, from 292,000 b/d to 233,000 b/d. Oman's exports increased over the same period by 6.2% from 275,000 b/d in 2007 to 292,000 b/d in 2008, replacing Russia as the fourth largest crude supplier in 2008. Sudan's exports to China averaged 210,000 b/d in 2008, almost steady compared to 207,000 b/d a year earlier, making Sudan China's fifth crude supplier in 2008.

Table 24: China's crude and product net imports/(exports), tb/d

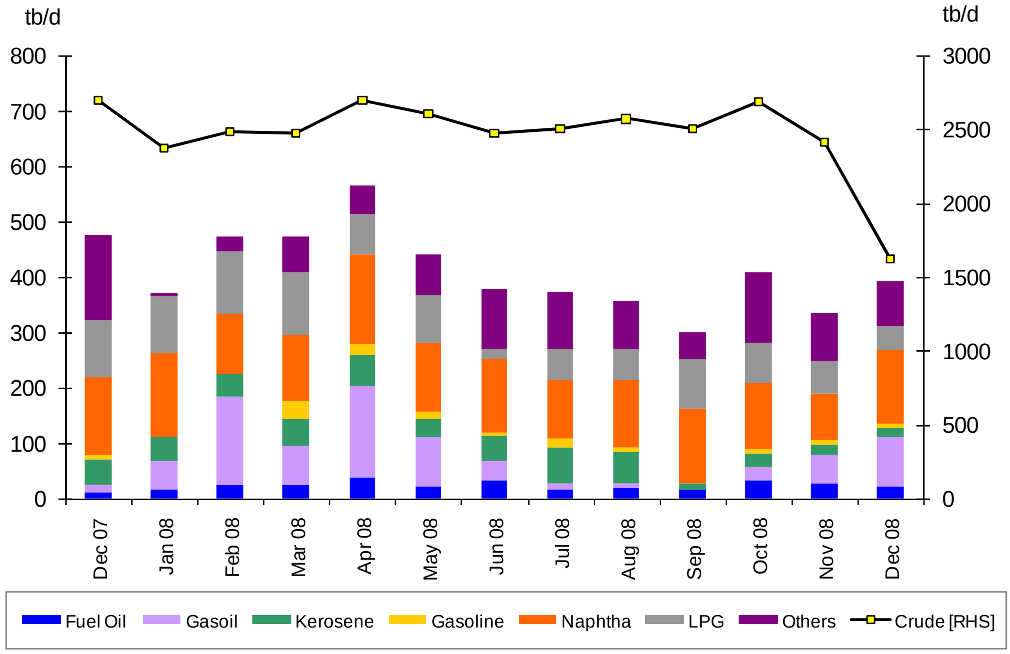
	Oct 08	Nov 08	Dec 08	Change Dec/Nov
Crude oil	3,748	3,214	3,297	84
Total products	192	211	605	394
Total crude and products	**3,940**	**3,424**	**3,902**	**478**

India

India's net oil imports declined in December to a four-year low supported by a sharp decline in crude oil imports.

India's crude oil imports declined sharply in December to reach 1.62 mb/d, according to preliminary data, the lowest monthly imports in more than four years, dramatically affected by the economic slowdown as well as lower imports by state refiners due to maintenance shutdowns. December imports were about 800,000 b/d lower than in the previous month and more than 1.0 mb/d lower than in October as well as in the same month a year ago. In percentage terms, this represents a decline of 33% and 40% respectively. The sharp decline in December brings India's average crude oil imports for the fourth quarter 2008 to about 2.4 mb/d, 8% lower than the same period last year, the first quarter-to-quarter decline in 2008. It also brings India's average crude oil imports in 2008 to 2.47 mb/d, only 2.9% or 71,000 b/d higher than the year before. For comparison, The country's crude oil imports grew 9% in 2007 and 8% in 2006.

Graph 37: India's imports of petroleum products



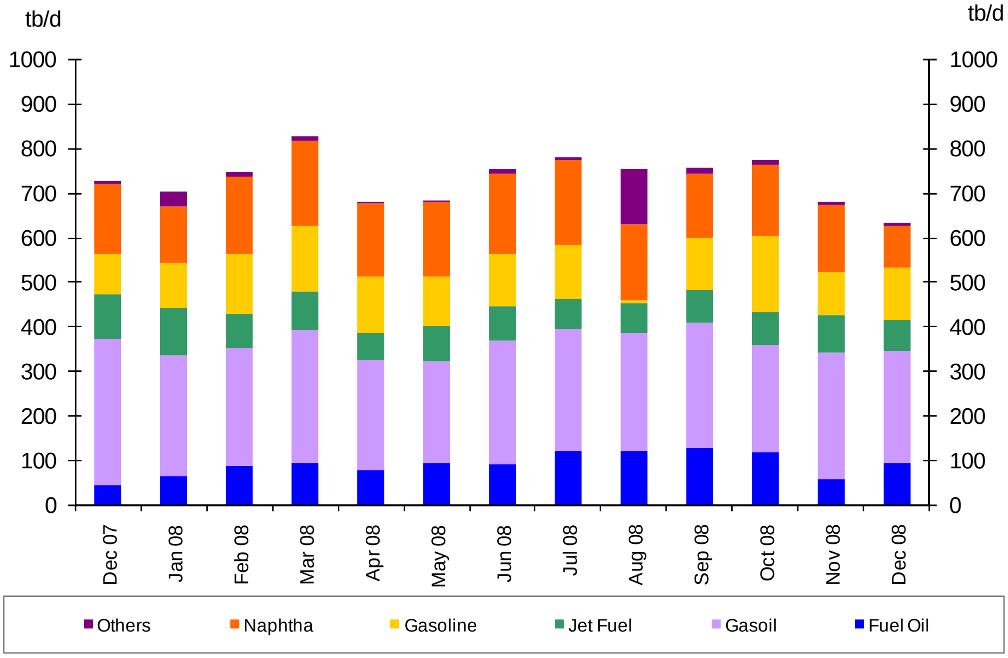
In contrast, India's product imports increased in December by 16.8% compared to the previous month to average 0.39 mb/d, but were 23% lower compared to a year ago. The decline in LPG and fuel oil imports was more than offset by higher gasoil and naphtha imports. Gasoil imports in December averaged about 89,000 b/d compared to 52,000 b/d the month before. This came at a time when industrial activity dipped and dealers maintained low inventories in anticipation of a cut in state prices. As a result, domestic gasoil sales were affected, increasing by just 1.5% on a y-o-y basis compared to 8.8% in the previous month. For the year 2008, India imported an average of 62,000 b/d of gasoil, about 51% higher than in the year before. Gasoline imports in December were, once again, almost steady compared to the previous month at about 7,000 b/d. In 2008, India imported an average of 9,900 b/d of gasoline, compared to 6,700 b/d in 2007. LPG imports in December averaged 43,000 b/d compared to 60,000 b/d in the previous month. Average LPG imports for 2008 were 73,000 b/d, compared to 84,000 b/d in 2007. India imported an average of 132,000 b/d of naphtha in December compared to 85,000 b/d in the previous month. Naphtha imports for the year 2008 averaged 125,000 b/d, about 13% lower than in 2007. Fuel oil imports in December averaged 22,000 b/d, down from 27,000 b/d in the previous month, and kerosene imports were about 17,000 b/d, steady compared to the previous month. Altogether, India imported an average of 0.41 mb/d of products in 2008 compared to 0.43 mb/d in 2007.

Table 25: India's crude and product net imports/(exports), tb/d

	Oct 08	Nov 08	Dec 08	Change Dec/Nov
Crude oil	2,688	2,414	1,620	-794
Total products	-365	-342	-242	101
Total crude and products	**2,324**	**2,072**	**1,378**	**-694**

On the export side, India's total product exports of 634,000 b/d in December were 6.5% lower compared to the previous month, and 12.5% lower compared to a year earlier. Increases in gasoline and fuel oil exports were more than offset by declines in gasoil, naphtha and jet fuel exports. Fuel oil exports in December averaged 92,000 b/d, up from 56,000 b/d in the previous month. For the year 2008, India exported an average of 95,000 b/d of fuel oil, about 44% higher than in 2007. Jet fuel exports were at 71,000 b/d in December, 18% lower compared to the previous month. Gasoil exports in December averaged 260,000 b/d, 14% lower than in the previous month. For the year 2008, India exported an average of 269,000 b/d of gasoil compared to an average of 277,000 b/d in 2007. Gasoline exports increased in December to average 120,000 b/d, up from 96,000 b/d in the previous month. Average gasoline exports in 2008 were about 114,000 b/d, 29% higher than in 2007. Naphtha exports were at 96,000 b/d in December, down from 149,000 b/d in the previous month. Average naphtha exports in 2008 were 30% lower than in 2007. Altogether, India exported an average of 730,000 b/d of oil products in 2008, about 7.7% or 61,000 b/d lower than in the year before.

Graph 38: India's exports of petroleum products



As a result, India's net oil imports in December fell to a four-year low of 1.38 mb/d, representing a decline of 33.5% or 694,000 b/d from the previous month and 44.5% from a year ago. The decline in net oil imports is attributed to a 794,000 b/d decline in net crude oil imports and a 100,000 b/d increase in net product imports. For the year 2008, India's net oil imports averaged 2.16 mb/d, an increase of 5.1% or 105,000 b/d over the previous year.

FSU net exports of crude and products

FSU crude oil exports increased 5% in December backed by higher Russian exports, while product exports rose 8%

FSU crude oil exports in December increased substantially by 805,000 b/d or 14% over the previous month to average 6.46 mb/d, according to preliminary data. The increase is mainly attributable to higher Russian exports which rose 728,000 b/d or 21% to average 4.16 mb/d. Russian pipeline crude exports increased by 640,000 b/d or 19%. About 231,000 b/d of the increase were through the Black Sea, 239,000 b/d through the Baltic and 170,000 b/d through Druzhba. Russian crude oil exports by rail also increased in December by 20% or 82,000 b/d to average about 497,000 b/d. Kazak rail crude exports to China were steady at 17,000 b/d, while CPC pipeline exports increased by 5% or 36,000 b/d to average 754,000 b/d. Caspian crude oil exports averaged 228,000 b/d in December, indicating an 8% or 21,000 b/d drop from the previous month.

For the year 2008, FSU crude oil exports averaged 6.09 mb/d, a decline of 3.9% or 246,000 b/d compared to the previous year. Exports through Russian pipelines were at 3.9 mb/d, down 5% or 208,000 b/d. Exports by rail and CPC pipeline were at 1.2 mb/d, an increase of 6% or 75,000 b/d, while Caspian exports were at 2.4 mb/d for a gain of 9% or 195,000 b/d over the previous year.

Similarly, FSU oil product exports increased in December by 207,000 b/d or 8% over the previous month to average 2.75 mb/d. Gasoil exports were at 0.98 mb/d, representing a gain of 14% or 122,000 b/d over the previous month, while fuel oil exports were almost steady at 1.08 mb/d. For 2008, average product exports were at 2.54 mb/d, about 5% higher than the previous year. Fuel oil exports accounted for 42% of total FSU product exports in 2008, while gas oil exports accounted for 32%.

In total, FSU crude oil and product exports averaged 9.21 mb/d in December, indicating growth of 12% or about 1.0 mb/d over the previous month. For 2008, average crude oil and product exports were at 8.63 mb/d, indicating annual growth of only 1.5% compared to 2007.

Table 26: Recent FSU exports of crude and products by source, kb/d

	2007	2008	2Q08	3Q08	4Q08	Nov 09	Dec 08*
Crude							
Russian pipeline							
Black Sea	1,361	1,249	1,345	1,226	1,199	1,002	1,233
Baltic	1,631	1,559	1,678	1,539	1,490	1,388	1,627
Druzhba	1,122	1,098	1,053	1,034	1,089	1,003	1,173
Total**	**4,114**	**3,906**	**4,076**	**3,817**	**3,779**	**3,417**	**4,057**
Other routes							
Russian rail	292	283	342	260	234	212	234
Russian - Far East	269	220	204	214	252	203	263
Kazak rail	17	17	18	17	17	18	17
CPC pipeline	692	675	709	632	732	718	754
Caspian	**245**	**184**	**196**	**148**	**210**	**249**	**228**
of which							
Supsa (AIOC) - Georgia	0	13	0	0	45	59	76
Batumi - Georgia	138	101	121	81	99	127	84
Total***	**2,234**	**2,183**	**2,348**	**2,052**	**2,219**	**2,236**	**2,401**
Total crude exports	**6,348**	**6,089**	**6,425**	**5,869**	**5,998**	**5,653**	**6,458**
Products							
All routes							
Fuel oil	1,052	1,069	1,131	1,232	1,041	1,069	1,078
Gasoil	777	810	787	757	849	854	976
Others	592	660	694	671	646	617	693
Total	**2,421**	**2,539**	**2,612**	**2,661**	**2,536**	**2,540**	**2,747**
Total oil exports	**8,783**	**8,628**	**9,037**	**8,530**	**8,534**	**8,193**	**9,205**

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

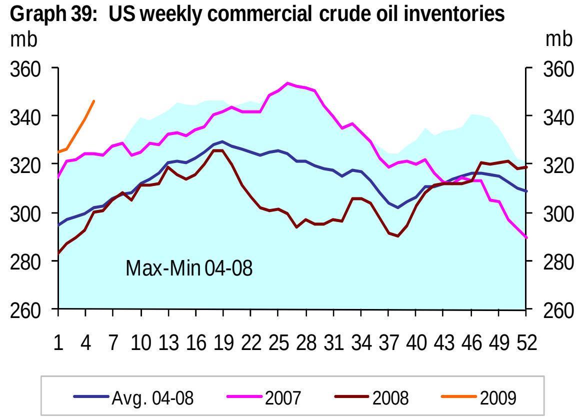
Stock Movements

US commercial oil inventories surged 26 mb in January, with crude oil experiencing the strongest build since April 2001

USA

Lower demand pushed US commercial oil inventories up 27 mb in January to move close to 1,043 mb, the highest level since July 2007 This significant build widened the overhang with the five-year average to around 60 mb. It is worth noting that in 2008 US commercial oil inventories remained below the five-year average until November, when they showed an overhang of 10 mb.

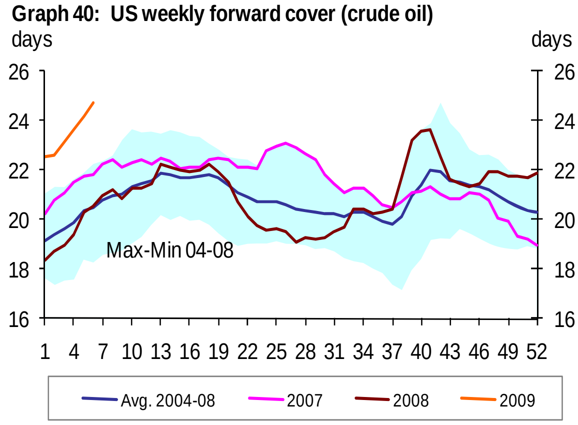
Graph 39: US weekly commercial crude oil inventories



The healthy situation in US commercial stocks is due to crude oil which jumped almost 23 mb or 0.74 mb/d in January to hit 347.4 mb and move above the top of the five-year range. This build was the highest since April 2001 and the highest for that month in many decades. The exceptional increase of 0.74 mb/d was essentially driven by lower demand from refineries which further reduced utilization rates to 84%, compared with an average of 88% over the previous five years. In addition, continuously strong imports supported by low prices and the steep contango also contributed to the build in crude oil inventories. At this level, crude oil stocks are showing an overhang of more than 45 mb or 15%, compared to a deficit of 27 mb in summer 2008.

Product stocks also increased but at a slower pace than crude. Product inventories rose 4.0 mb to stand at 696 mb, remaining above last year's level and the five-year average. This minor build compared to crude oil was due to lower refinery output. The fact that the build took place despite lower production reflects the extent of demand weakness. Within products, gasoline inventories continued to increase for the fourth consecutive month, adding 12 mb to stand at 220 mb, in line with the five-year average. Following the same trend, distillates added a further 4.7 mb, the fourth build in a row to reach around 142 mb and move above the upper end of the five-year range. While gasoline stocks are at the five-year average, distillate inventories show an overhang of 16 mb or 13%. Residual fuel oil and jet fuel inventories also recovered from the previous month's losses to gain 0.5 mb and 2.5 mb to stand at 34.7 mb and 39.9 mb respectively.

Graph 40: US weekly forward cover (crude oil)



According to the latest data, US commercial oil stocks continued their upward trend in early February. Inventories experienced a build of 2.6 mb in the week ending 6 February, representing the sixth increase in a row. As a result, US commercial oil inventories moved close to 1,045 mb, the highest level since late November 2006 (*see **Graph 39***). With this build, the surplus to the five-year average widened to 68 mb of which crude accounted for 48 mb or 70%. Crude oil stocks added 4.7 mb in the week ending 6 February — for the seventh build in a row — to stand at 351 mb, the highest since mid-July 2007. US crude oil stocks have gained more than 32 mb since the end of December, compared to 11 mb over the same period last year. This huge build has been driven essentially by low refinery runs on the back of weakening product demand. In contrast to crude oil, product stocks fell 2.1 mb. Gasoline stocks stood at 217.6 mb, down 2.6 mb from the previous week, while distillates lost 1.0 mb to stand at 141.6 mb. Nevertheless, despite these draws, gasoline and distillate stocks remained comfortable in terms of forward demand with gasoline in line with the five-year average and distillates well above the seasonal average. Crude oil stocks represented the equivalent of 24.7 days of forward cover compared to the five-year average of 20 days (*see **Graph 40***).

As expected, the US Department of Energy (DoE) has resumed the filling of its Strategic Petroleum Reserve (SPR). Taking advantage of low prices, the DoE added 1.8 mb to SPR to reach a new high of 703.6 mb, which represents almost 97% of total US SPR capacity. The DoE plans to acquire around 25 mb in total, consisting of purchases of about 12 mb of crude oil from the market, a recovery of 5.5 mb loaned out to refiners after hurricanes Gustav and Ike and 8.3 mb in the form of royalty-in-kind. With this amount, SPR will reach full capacity. The DoE has already purchased almost 11 mb of crude oil from Shell and Vitol for delivery to the SPR, using $553 million in revenues collected from the 2005 sale of oil during Hurricane Katrina. These are the first purchases of crude oil for SPR since 1994. Additionally, the DoE has signed contracts with Shell and Glencore for 6.2 mb of crude to fill in SPR in the form of royalty-in-kind, between May 2009 and January 2010.

Table 27: US onland commercial petroleum stocks, mb

	Nov 08	Dec 08	Jan 09	Change Jan 09 /Dec 08	Jan 08	06 Feb 09 *
Crude oil	320.7	324.5	347.4	22.9	296.4	350.8
Gasoline	203.5	208.1	220.2	12.1	231.3	217.6
Distillate fuel	135.8	137.6	142.3	4.7	129.6	141.6
Residual fuel oil	38.7	34.2	34.7	0.5	39.0	35.1
Jet fuel	38.1	37.4	39.9	2.5	41.6	41.0
Total	**1,031.5**	**1,016.0**	**1,042.9**	**26.9**	**978.2**	**1,044.7**
SPR	701.8	701.8	703.6	1.8	698.3	703.8

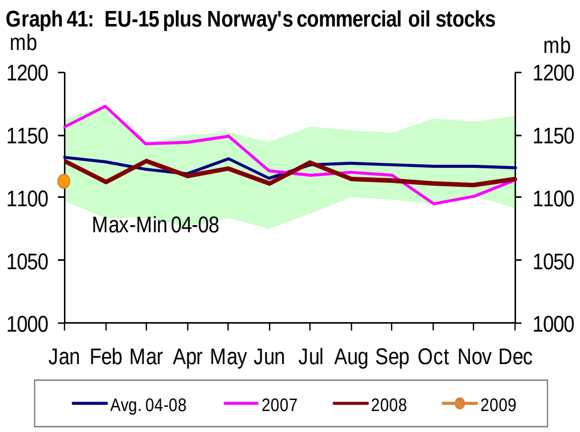
**/ Latest available data at time of report's release.*

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

Western Europe

EU-15 plus Norway total oil inventories fell 2.2 mb to 1,113 mb, despite a 4.2 mb gain in crude oil stocks

European (EU-15 plus Norway) total oil stocks dropped a minor 2.2 mb in January, as the 6.4 mb decline in products outpaced the 4.2 mb build in crude. (*see **Graph 41***)



Lower demand from refineries which further reduced activity and the absence of transatlantic arbitrage opportunities due to a huge discount of WTI to Brent lead to an increase in crude oil inventories for the second consecutive month to stand slightly below 479 mb, the highest level since July 2008. At this level, crude oil inventories are 2 mb higher than a year earlier and 11 mb above the five-year average (*see **Graph 41***). In terms of forward cover, crude oil stocks are also above year-ago levels due to the continuing weakness in demand.

Table 28: Western Europe's oil stocks, mb

	Nov 08	Dec 08	Jan 09	Change Jan 09/Dec 08	Jan 08
Crude oil	471.3	474.6	478.8	4.2	476.6
Mogas	119.8	121.0	121.9	0.8	139.3
Naphtha	29.9	30.8	28.2	-2.6	30.3
Middle distillates	375.3	372.2	370.1	-2.0	365.2
Fuel oils	113.6	116.6	114.0	-2.6	117.8
Total products	638.5	640.6	634.2	-6.4	652.6
Total	**1,109.8**	**1,115.2**	**1,113.0**	**-2.2**	**1,129.2**

Source: Argus, Euroilstock.

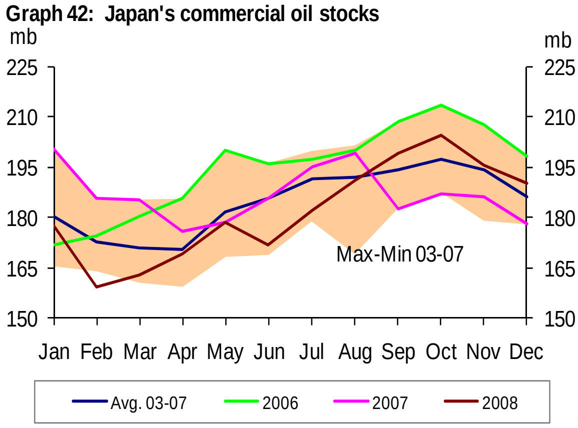
In contrast, product stocks remained below the five-year average and last year's level, mainly on lower refinery output. This situation is attributable to gasoline stocks which widened the deficit with the five-year average to 25 mb, despite an increase of 0.8 mb, which is lower than the seasonal build. At nearly 122 mb, gasoline stocks remained below the lower end of the five-year range, not only because of the small build in January but also because they had already been low since September. Despite healthy imports, distillate stocks dropped a further 2 mb on the back of cold weather to stand at 370 mb but remained only slightly below the five-year average and higher than the year-ago level. Following the same trend, both residual fuel oil and naphtha stocks dropped 2.6 mb each to stand at 114 mb and 28 mb respectively. The drop in residual fuel oil was driven by lower exports from certain Eastern European countries due to increasing demand as a feedstock for power generation following the disruption of Russian natural gas supplies.

Japan

Japan's total commercial oil inventories ended the year 2008 at comfortable levels

Japanese commercial oil inventories dropped a further 5.2 mb in December to stand at 190 mb, the lowest level since last July. Nevertheless, stocks remain above a year ago and the five-year average. (*see **Graph 42***). Almost 33 mb were added during just four months (July-October). Both crude oil and products are within the five-year average. The drop in December is attributable to distillates which fell to 36 mb while the remaining inventory components were broadly unchanged. Despite an increase in refinery runs, crude oil stocks rose 0.8 mb to remain at a omfortable level of 109 mb, due to a surge in imports. Naphtha gained 1.4 mb to move to 13.4 mb and gasoline dropped 1.5 mb to 12.3 mb. The drop in distillates, the second consecutive decline after eight builds, was due to a jump in kerosene sales and lower production from refineries. In addition, the drop in imports in the previous month also contributed to the product stock draw.

Graph 42: Japan's commercial oil stocks



According to preliminary data, Japanese total commercial oil inventories followed their seasonal trend in early 2009. Crude oil stocks lost 5 mb while gasoline remained stable. Due to colder weather, demand for kerosene surged leaving distillate stocks with a loss for the third consecutive month by a massive 7 mb.

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

	Oct 08	Nov 08	Dec 08	Change Dec 08/Nov 08	Dec 07
Crude oil	110.6	107.9	108.7	0.8	94.9
Gasoline	13.8	13.8	12.3	-1.5	12.9
Naphtha	14.8	12.0	13.4	1.4	12.1
Middle distillates	44.7	41.4	36.3	-5.1	38.8
Residual fuel oil	20.6	20.1	19.3	-0.8	19.4
Total products	93.8	87.3	81.3	-6.0	83.1
Total**	**204.4**	**195.2**	**190.0**	**-5.2**	**178.0**

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

Balance of Supply and Demand

Demand for OPEC crude is estimated to decline 0.4 mb/d in 2008

Estimate for 2008

Demand for OPEC crude is estimated to average 30.9 mb/d, indicating a decline of 440 tb/d. This represents a slight revision from last month due to a downward revision in non-OPEC supply. On a quarterly basis, demand for OPEC crude is estimated at 31.7 mb/d 30.4 mb/d 30.8 mb/d and 30.8 mb/d respectively.

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

	2007	1Q08	2Q08	3Q08	4Q08	2008
(a) World Oil Demand	**85.89**	**86.68**	**85.41**	**84.98**	**85.77**	**85.70**
Non-OPEC Supply	50.49	50.71	50.54	49.70	50.41	50.34
OPEC NGLs and non-conventionals	4.03	4.26	4.42	4.46	4.59	4.43
(b) Total Supply excluding OPEC Crude	**54.52**	**54.97**	**54.96**	**54.16**	**55.00**	**54.77**
Difference (a-b)	**31.37**	**31.71**	**30.45**	**30.82**	**30.76**	**30.93**
OPEC crude oil production	30.13	31.21	31.24	31.49	30.32	31.06
Balance	-1.24	-0.50	0.79	0.68	-0.44	0.13

Totals may not add due to independent rounding.

Demand for OPEC crude to drop significantly in 2009 by 1.7 mb/d

Forecast for 2009

Demand for OPEC crude has been revised down by 0.2 mb/d to reflect lower than expected growth in world oil demand. Required OPEC crude in now forecast at 29.2 mb/d, a decline of 1.7 mb/d from the estimated 2008 figure. In quarterly terms, demand for OPEC crude is now expected at 29.7 mb/d, 28.7mb/d, 28.8 mb/d and 29.6 mb/d respectively. Demand for OPEC crude in the first three quarters is estimated to show a strong decline of around 2.0 mb/d compared to the same period last year while the fourth quarter is expected to decline by around 1.2 mb/d.

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

	2008	1Q09	2Q09	3Q09	4Q09	2009
(a) World Oil Demand	**85.70**	**85.68**	**84.40**	**84.55**	**85.88**	**85.13**
Non-OPEC Supply	50.34	51.06	50.72	50.64	51.15	50.89
OPEC NGLs and non-conventionals	4.43	4.85	4.93	5.09	5.18	5.01
(b) Total Supply excluding OPEC Crude	**54.77**	**55.91**	**55.65**	**55.72**	**56.33**	**55.90**
Difference (a-b)	**30.93**	**29.75**	**28.75**	**28.83**	**29.55**	**29.22**

Totals may not add due to independent rounding.

Graph 43: Balance of supply and demand

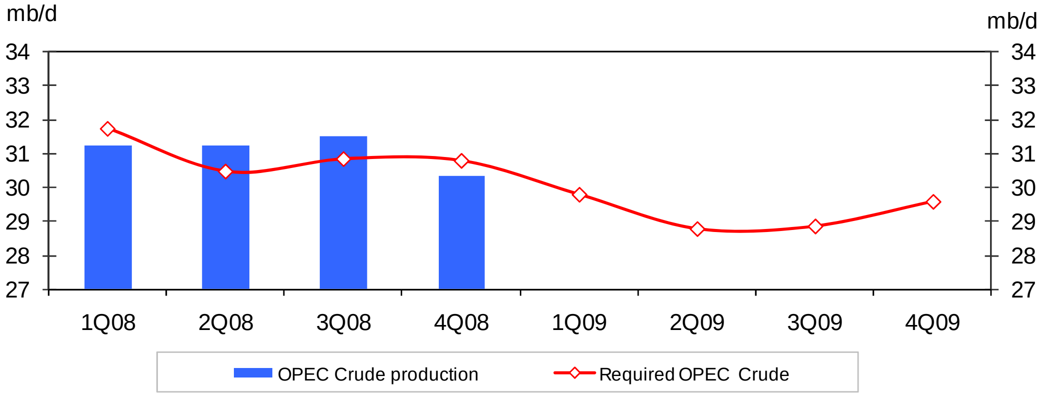


Table 32: World oil demand/supply balance, mb/d

	2004	2005	2006	2007	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09	4Q09	2009
World demand														
OECD	49.4	49.8	49.6	49.2	48.9	47.2	46.6	47.7	47.6	47.6	45.8	45.5	47.1	46.5
North America	25.4	25.6	25.4	25.5	24.8	24.5	23.7	24.3	24.3	24.2	23.8	23.2	23.9	23.8
Western Europe	15.5	15.7	15.7	15.3	15.2	14.9	15.4	15.3	15.2	14.9	14.5	15.1	15.2	14.9
Pacific	8.5	8.6	8.5	8.3	8.9	7.8	7.5	8.0	8.1	8.5	7.5	7.3	7.9	7.8
DCs	21.8	22.6	23.3	24.2	24.8	25.2	25.1	25.1	25.0	25.0	25.5	25.5	25.5	25.4
FSU	3.8	3.9	3.9	4.0	4.0	3.9	4.2	4.4	4.1	4.0	3.9	4.3	4.5	4.2
Other Europe	0.9	0.9	0.9	0.9	1.0	1.0	0.9	0.9	1.0	1.0	0.9	0.9	0.9	0.9
China	6.5	6.7	7.2	7.6	8.0	8.2	8.1	7.7	8.0	8.1	8.3	8.3	7.9	8.2
(a) Total world demand	82.5	83.9	84.9	85.9	86.7	85.4	85.0	85.8	85.7	85.7	84.4	84.6	85.9	85.1
Non-OPEC supply														
OECD	21.3	20.5	20.2	20.1	20.0	19.7	19.1	19.7	19.6	19.8	19.5	19.3	19.5	19.5
North America	14.6	14.1	14.2	14.3	14.2	14.0	13.6	13.9	13.9	14.1	13.9	14.0	14.1	14.0
Western Europe	6.2	5.7	5.4	5.2	5.2	5.0	4.8	5.1	5.0	5.0	4.8	4.6	4.7	4.8
Pacific	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.6	0.7	0.7	0.7	0.7	0.7
DCs	11.6	11.9	12.0	12.0	12.2	12.2	12.2	12.3	12.2	12.5	12.5	12.7	12.8	12.6
FSU	11.1	11.5	12.0	12.5	12.6	12.7	12.5	12.5	12.6	12.7	12.7	12.6	12.8	12.7
Other Europe	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.5	3.6	3.7	3.8	3.8	3.9	3.9	3.8	3.8	3.9	3.9	3.9	3.9	3.9
Processing gains	1.8	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total non-OPEC supply	49.6	49.6	49.9	50.5	50.7	50.5	49.7	50.4	50.3	51.1	50.7	50.6	51.1	50.9
OPEC NGLs + non-conventional oils	3.7	3.9	3.9	4.0	4.3	4.4	4.5	4.6	4.4	4.9	4.9	5.1	5.2	5.0
(b) Total non-OPEC supply and OPEC NGLs	53.3	53.5	53.8	54.5	55.0	55.0	54.2	55.0	54.8	55.9	55.6	55.7	56.3	55.9
OPEC crude oil production (secondary sources)	29.6	30.7	30.5	30.1	31.2	31.2	31.5	30.3	31.1					
Total supply	82.9	84.2	84.4	84.6	86.2	86.2	85.7	85.3	85.8					
Balance (stock change and miscellaneous)	0.4	0.3	-0.5	-1.2	-0.5	0.8	0.7	-0.4	0.1					
OECD closing stock levels (*mb*)														
Commercial	2538	2585	2666	2569	2573	2603	2657	2673						
SPR	1450	1487	1499	1524	1527	1529	1522	1524						
Total	3988	4072	4165	4093	4099	4132	4178	4197						
Oil-on-water	905	958	916	943	929	929	899	n.a.						
Days of forward consumption in OECD														
Commercial onland stocks	51	52	54	54	54	56	56	56						
SPR	29	30	30	32	32	33	32	32						
Total	80	82	85	86	87	89	88	88						
Memo items														
FSU net exports	7.3	7.7	8.1	8.5	8.7	8.8	8.2	8.0	8.4	8.7	8.8	8.3	8.3	8.5
(a) - (b)	29.2	30.4	31.1	31.4	31.7	30.4	30.8	30.8	30.9	29.7	28.7	28.8	29.6	29.2

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

n.a. Not available.

Table 33: World oil demand/supply balance: changes from last month's table † , mb/d

	2004	2005	2006	2007	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09	4Q09	2009
World demand														
OECD	-	-	-	-	-	-	-	-0.5	-0.1	0.2	-0.3	-0.2	-0.6	-0.3
North America	-	-	-	-	-	-	-	-	-	0.3	-0.1	-0.1	-0.1	-
Western Europe	-	-	-	-	-	-	-	-0.2	-	-	-0.1	-0.1	-0.1	-0.1
Pacific	-	-	-	-	-	-	-	-0.2	-0.1	-0.1	-0.1	-0.1	-0.3	-0.2
DCs	-	-	-	-	-	-	-	-0.1	-	-0.1	-0.1	-0.1	-0.2	-0.1
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.1	-0.1	-0.1
(a) Total world demand	-	-	-	-	-	-	-	-0.6	-0.1	-0.1	-0.6	-0.5	-0.9	-0.5
World demand growth	-	-	-	-	-	*0.01*	*0.02*	*-0.57*	*-0.14*	*-0.14*	*-0.60*	*-0.50*	*-0.35*	*-0.40*
Non-OPEC supply														
OECD	-	-	-	-	-	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
North America	-	-	-	-	-	-0.3	-0.2	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2	-0.2
Western Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-0.1	-0.1	-	-0.1	-0.1	-0.1	-	-0.1
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-0.1	-0.4	-0.2	-0.3	-0.2	-0.3	-0.3	-0.2	-0.2	-0.3
Total non-OPEC supply growth	-	-	-	-	*-0.07*	*-0.37*	*-0.18*	*-0.29*	*-0.23*	*-0.26*	*0.10*	*-0.07*	*0.10*	*-0.03*
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-0.1	-0.4	-0.2	-0.3	-0.2	-0.3	-0.3	-0.3	-0.2	-0.3
OPEC crude oil production (secondary sources)	-	-	-	-	-	-	-	0.1						
Total supply	-	-	-	-	-0.1	-0.4	-0.2	-0.2						
Balance (stock change and miscellaneous)	-	-	-	-	-0.1	-0.4	-0.2	0.4						
OECD closing stock levels (*mb*)														
Commercial	-	-	-	3	6	-	5	-16						
SPR	-	-	-	-	-3	-	-	4						
Total	-	-	-	3	3	-	5	-13						
Oil-on-water	-	-	-	-	-6	-	4	-						
Days of forward consumption in OECD														
Commercial onland stocks	-	-	-	-	-	-	0.6	-						
SPR	-	-	-	-	-	-	-	-						
Total	-	-	-	-	-	-	0.9	-0.6						
Memo items														
FSU net exports	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(a) - (b)	-	-	-	-	0.1	0.4	0.2	-0.3	0.1	0.0	-0.3	-0.2	-0.7	-0.3

† This compares Table 32 in this issue of the MOMR with Table 32 in the January 2009 issue.
This table shows only where changes have occurred.

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

	2003	2004	2005	2006	2007	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08
Closing stock levels *mb*																									
OECD onland commercial	2,511	2,538	2,585	2,666	2,569	2,458	2,538	2,572	2,538	2,533	2,612	2,627	2,585	2,585	2,648	2,760	2,666	2,597	2,656	2,649	2,569	2,573	2,603	2,657	2,673
North America	1,161	1,193	1,257	1,277	1,231	1,145	1,193	1,206	1,193	1,201	1,275	1,254	1,257	1,240	1,277	1,351	1,277	1,238	1,294	1,285	1,231	1,215	1,240	1,279	1,308
Western Europe	915	915	934	962	931	913	925	936	915	942	915	942	934	937	935	948	962	941	936	932	931	964	955	948	958
OECD Pacific	435	430	394	428	406	400	420	430	430	389	422	432	394	408	436	461	428	419	427	431	406	393	408	430	407
OECD SPR	1,411	1,450	1,487	1,499	1,524	1,423	1,429	1,435	1,450	1,462	1,494	1,494	1,487	1,487	1,493	1,495	1,499	1,507	1,506	1,520	1,524	1,527	1,529	1,522	1,524
North America	640	678	687	691	699	654	664	672	678	690	698	696	687	688	690	690	691	691	692	695	699	702	708	704	704
Western Europe	374	377	407	412	421	371	366	367	377	376	401	405	407	407	411	412	412	415	413	423	421	421	417	414	414
OECD Pacific	396	396	393	396	404	398	398	396	396	396	395	393	393	392	393	393	396	401	401	403	404	404	404	403	406
OECD total	3,921	3,988	4,072	4,165	4,093	3,881	3,967	4,006	3,988	3,995	4,106	4,121	4,072	4,072	4,141	4,255	4,165	4,104	4,163	4,169	4,093	4,099	4,132	4,178	4,197
Oil-on-water	882	905	958	916	943	906	891	894	905	934	931	926	958	962	971	972	916	914	905	923	943	929	929	899	n.a.
Days of forward consumption in OECD																									
OECD onland commercial	51	51	52	54	54	51	52	51	50	52	53	52	51	53	54	55	54	54	54	53	53	54	56	56	56
North America	46	47	49	50	51	46	47	47	47	47	50	49	50	49	50	53	50	49	51	50	50	50	52	53	54
Western Europe	59	58	60	63	61	60	60	59	58	61	58	60	58	61	60	60	63	63	61	60	61	65	62	62	64
OECD Pacific	51	50	46	51	50	51	51	49	45	48	52	49	42	52	55	52	48	53	54	49	46	50	54	53	48
OECD SPR	29	29	30	30	32	30	29	28	28	30	30	30	29	31	30	30	30	31	31	30	31	32	33	32	32
North America	25	27	27	27	29	26	26	26	26	27	27	27	27	27	27	27	27	27	27	27	28	29	30	29	29
Western Europe	24	24	26	27	28	25	24	23	24	25	26	26	25	27	26	26	27	28	27	27	28	28	27	27	28
OECD Pacific	46	46	46	47	50	50	49	45	42	49	49	45	42	50	49	45	44	51	51	46	46	52	54	50	48
OECD total	79	80	82	85	86	81	81	79	78	82	83	82	80	84	84	85	84	85	85	84	84	87	89	88	88

n.a. Not available.

Table 35: Non-OPEC supply and OPEC natural gas liquids, mb/d

	2004	2005	2006	Change 06/05	1Q07	2Q07	3Q07	4Q07	2007	Change 07/06	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08
USA	7.65	7.34	7.36	0.02	7.46	7.58	7.41	7.54	7.50	0.14	7.64	7.75	7.20	7.48	7.52	0.02	7.63	7.67	7.66	7.79	7.69	0.17
Canada	3.07	3.03	3.20	0.17	3.34	3.24	3.36	3.34	3.32	0.12	3.28	3.11	3.30	3.30	3.25	-0.07	3.32	3.28	3.34	3.41	3.34	0.09
Mexico	3.83	3.77	3.69	-0.08	3.58	3.59	3.45	3.33	3.49	-0.21	3.29	3.18	3.13	3.09	3.17	-0.31	3.10	2.97	2.98	2.91	2.99	-0.18
North America	14.56	14.14	14.24	0.11	14.38	14.41	14.22	14.20	14.30	0.06	14.20	14.04	13.64	13.87	13.94	-0.37	14.05	13.92	13.98	14.12	14.02	0.08
Norway	3.19	2.97	2.78	-0.19	2.72	2.46	2.48	2.57	2.56	-0.22	2.51	2.39	2.38	2.54	2.45	-0.10	2.47	2.34	2.19	2.35	2.34	-0.12
UK	2.10	1.89	1.71	-0.18	1.79	1.75	1.49	1.72	1.69	-0.02	1.69	1.64	1.41	1.54	1.57	-0.12	1.51	1.46	1.38	1.37	1.43	-0.14
Denmark	0.39	0.38	0.34	-0.04	0.31	0.31	0.30	0.31	0.31	-0.04	0.28	0.28	0.27	0.29	0.28	-0.02	0.29	0.28	0.24	0.26	0.27	-0.02
Other Western Europe	0.50	0.51	0.54	0.03	0.68	0.69	0.69	0.69	0.68	0.15	0.73	0.73	0.75	0.76	0.74	0.06	0.75	0.75	0.75	0.75	0.75	0.01
Western Europe	6.18	5.74	5.37	-0.37	5.50	5.20	4.95	5.29	5.23	-0.13	5.21	5.04	4.81	5.13	5.05	-0.19	5.02	4.83	4.56	4.73	4.78	-0.26
Australia	0.52	0.53	0.51	-0.02	0.51	0.54	0.54	0.51	0.53	0.02	0.47	0.53	0.54	0.58	0.53	0.01	0.58	0.59	0.60	0.56	0.58	0.05
Other Pacific	0.05	0.05	0.05	0.00	0.06	0.06	0.09	0.11	0.08	0.03	0.11	0.10	0.10	0.10	0.10	0.02	0.11	0.12	0.12	0.12	0.12	0.01
OECD Pacific	0.57	0.58	0.56	-0.02	0.57	0.61	0.63	0.61	0.60	0.04	0.58	0.63	0.64	0.68	0.63	0.03	0.69	0.71	0.72	0.68	0.70	0.07
Total OECD	21.31	20.45	20.17	-0.28	20.45	20.22	19.79	20.11	20.14	-0.03	19.99	19.71	19.08	19.68	19.62	-0.53	19.77	19.45	19.26	19.53	19.50	-0.11
Brunei	0.21	0.21	0.22	0.01	0.20	0.18	0.19	0.19	0.19	-0.03	0.19	0.16	0.17	0.18	0.17	-0.02	0.18	0.18	0.18	0.18	0.18	0.00
India	0.79	0.76	0.79	0.03	0.82	0.81	0.81	0.82	0.82	0.02	0.83	0.81	0.82	0.83	0.82	0.01	0.85	0.81	0.84	0.87	0.84	0.02
Indonesia	1.15	1.12	1.07	-0.05	1.03	1.02	1.01	1.03	1.02	-0.04	1.05	1.04	1.04	1.03	1.04	0.02	1.04	1.04	1.07	1.07	1.06	0.02
Malaysia	0.79	0.77	0.76	-0.01	0.75	0.75	0.76	0.80	0.76	0.01	0.78	0.76	0.78	0.77	0.77	0.01	0.81	0.79	0.81	0.80	0.80	0.03
Thailand	0.25	0.30	0.32	0.02	0.33	0.34	0.34	0.34	0.34	0.02	0.34	0.35	0.35	0.36	0.35	0.01	0.36	0.36	0.36	0.36	0.36	0.01
Vietnam	0.42	0.39	0.37	-0.02	0.36	0.35	0.34	0.35	0.35	-0.02	0.34	0.31	0.29	0.32	0.31	-0.03	0.38	0.35	0.36	0.36	0.36	0.05
Asia others	0.18	0.26	0.26	0.01	0.27	0.27	0.27	0.26	0.27	0.00	0.28	0.28	0.28	0.29	0.28	0.01	0.30	0.30	0.30	0.30	0.30	0.02
Other Asia	3.81	3.80	3.79	-0.01	3.76	3.70	3.72	3.79	3.74	-0.05	3.80	3.71	3.72	3.77	3.75	0.01	3.91	3.82	3.92	3.94	3.90	0.15
Argentina	0.80	0.78	0.77	0.00	0.77	0.77	0.76	0.75	0.76	-0.01	0.77	0.77	0.76	0.75	0.76	0.00	0.74	0.73	0.72	0.71	0.73	-0.04
Brazil	1.80	1.98	2.11	0.12	2.15	2.15	2.16	2.14	2.15	0.04	2.23	2.28	2.31	2.31	2.28	0.13	2.36	2.41	2.53	2.55	2.46	0.18
Colombia	0.54	0.53	0.54	0.01	0.53	0.53	0.54	0.55	0.54	0.00	0.57	0.59	0.61	0.63	0.60	0.06	0.64	0.65	0.66	0.66	0.65	0.05
Trinidad & Tobago	0.16	0.18	0.18	0.00	0.16	0.16	0.16	0.15	0.16	-0.02	0.16	0.15	0.16	0.16	0.16	0.00	0.16	0.17	0.17	0.17	0.17	0.01
L. America others	0.26	0.30	0.26	-0.03	0.26	0.27	0.27	0.28	0.27	0.00	0.27	0.28	0.28	0.31	0.29	0.02	0.29	0.29	0.29	0.29	0.29	0.00
Latin America	3.55	3.77	3.86	0.09	3.88	3.88	3.88	3.88	3.88	0.02	4.00	4.06	4.12	4.17	4.09	0.21	4.18	4.24	4.36	4.37	4.29	0.20
Bahrain	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00
Oman	0.79	0.78	0.75	-0.03	0.73	0.72	0.71	0.70	0.71	-0.03	0.72	0.74	0.74	0.73	0.74	0.02	0.75	0.75	0.76	0.77	0.76	0.02
Syria	0.49	0.45	0.42	-0.03	0.41	0.40	0.40	0.39	0.40	-0.02	0.39	0.39	0.39	0.39	0.39	-0.01	0.39	0.39	0.39	0.39	0.39	0.00
Yemen	0.41	0.41	0.37	-0.03	0.35	0.34	0.33	0.33	0.34	-0.04	0.31	0.31	0.30	0.29	0.30	-0.03	0.29	0.28	0.27	0.27	0.28	-0.03
Middle East	1.90	1.85	1.75	-0.10	1.69	1.67	1.65	1.63	1.66	-0.09	1.64	1.65	1.64	1.63	1.64	-0.02	1.63	1.63	1.63	1.63	1.63	-0.01
Chad	0.16	0.18	0.16	-0.02	0.16	0.15	0.15	0.15	0.15	-0.01	0.15	0.15	0.15	0.15	0.15	0.00	0.15	0.14	0.14	0.13	0.14	-0.01
Congo	0.24	0.24	0.25	0.01	0.25	0.23	0.24	0.25	0.24	0.00	0.26	0.26	0.26	0.27	0.26	0.02	0.29	0.29	0.30	0.35	0.31	0.04
Egypt	0.71	0.70	0.67	-0.02	0.67	0.67	0.67	0.67	0.67	0.00	0.68	0.68	0.69	0.70	0.69	0.02	0.71	0.70	0.70	0.68	0.70	0.01
Equatorial Guinea	0.30	0.36	0.37	0.01	0.36	0.37	0.37	0.37	0.37	0.00	0.38	0.38	0.38	0.38	0.38	0.01	0.38	0.37	0.37	0.36	0.37	-0.01
Gabon	0.25	0.25	0.25	0.00	0.25	0.25	0.25	0.25	0.25	0.00	0.24	0.24	0.24	0.26	0.24	-0.01	0.26	0.27	0.27	0.27	0.27	0.02
South Africa	0.19	0.19	0.19	0.00	0.18	0.18	0.18	0.18	0.18	-0.01	0.17	0.17	0.17	0.17	0.17	-0.01	0.16	0.16	0.16	0.16	0.16	-0.01
Sudan	0.30	0.34	0.40	0.06	0.50	0.50	0.48	0.51	0.50	0.10	0.50	0.49	0.47	0.45	0.48	-0.02	0.47	0.47	0.49	0.50	0.48	0.00
Africa other	0.21	0.25	0.32	0.07	0.34	0.34	0.34	0.37	0.35	0.03	0.38	0.38	0.38	0.38	0.38	0.03	0.40	0.40	0.41	0.40	0.40	0.02
Africa	2.36	2.52	2.60	0.09	2.71	2.69	2.68	2.75	2.71	0.11	2.75	2.75	2.74	2.75	2.75	0.04	2.81	2.79	2.82	2.85	2.82	0.07
Total DCs	11.63	11.93	12.00	0.07	12.02	11.95	11.93	12.05	11.99	-0.02	12.19	12.18	12.22	12.32	12.23	0.24	12.54	12.48	12.73	12.79	12.64	0.41
FSU	11.14	11.55	12.02	0.47	12.51	12.45	12.50	12.62	12.52	0.50	12.62	12.68	12.45	12.47	12.56	0.04	12.72	12.74	12.61	12.81	12.72	0.16
Russia	9.19	9.44	9.65	0.21	9.87	9.83	9.89	9.87	9.87	0.22	9.78	9.74	9.81	9.80	9.78	-0.08	9.74	9.67	9.66	9.63	9.67	-0.11
Kazakhstan	1.18	1.23	1.30	0.07	1.35	1.34	1.35	1.36	1.35	0.05	1.42	1.44	1.33	1.47	1.41	0.06	1.51	1.53	1.43	1.61	1.52	0.10
Azerbaijan	0.31	0.44	0.65	0.21	0.85	0.86	0.81	0.92	0.86	0.21	0.96	1.03	0.85	0.74	0.90	0.04	1.00	1.06	1.05	1.10	1.05	0.16
FSU others	0.47	0.44	0.42	-0.02	0.44	0.42	0.45	0.46	0.44	0.02	0.46	0.47	0.46	0.46	0.46	0.02	0.47	0.47	0.47	0.47	0.47	0.01
Other Europe	0.17	0.16	0.15	-0.01	0.15	0.15	0.15	0.14	0.15	-0.01	0.14	0.14	0.14	0.14	0.14	0.00	0.14	0.14	0.14	0.14	0.14	0.00
China	3.50	3.64	3.69	0.06	3.78	3.82	3.73	3.75	3.77	0.07	3.82	3.88	3.85	3.85	3.85	0.08	3.91	3.92	3.91	3.89	3.91	0.06
Non-OPEC production	47.75	47.73	48.04	0.31	48.91	48.58	48.11	48.66	48.56	0.52	48.76	48.59	47.75	48.46	48.39	-0.17	49.07	48.74	48.65	49.16	48.91	0.52
Processing gains	1.83	1.86	1.90	0.04	1.92	1.92	1.92	1.93	1.92	0.02	1.95	1.95	1.95	1.95	1.95	0.03	1.98	1.98	1.98	1.98	1.98	0.03
Non-OPEC supply	49.58	49.59	49.94	0.35	50.83	50.50	50.03	50.59	50.49	0.54	50.71	50.54	49.70	50.41	50.34	-0.15	51.06	50.72	50.64	51.15	50.89	0.55
OPEC NGL	3.54	3.74	3.76	0.02	3.77	3.95	4.04	4.03	3.95	0.19	4.16	4.32	4.36	4.48	4.33	0.38	4.75	4.82	4.98	5.08	4.91	0.58
OPEC Non-conventional	0.17	0.16	0.14	-0.02	0.08	0.08	0.08	0.09	0.08	-0.05	0.11	0.11	0.11	0.11	0.11	0.02	0.11	0.11	0.11	0.11	0.11	0.00
OPEC (NGL+NCF)	3.71	3.89	3.89	0.00	3.85	4.03	4.13	4.12	4.03	0.14	4.26	4.42	4.46	4.59	4.43	0.40	4.85	4.93	5.09	5.18	5.01	0.58
Non-OPEC & OPEC (NGL+NCF)	53.29	53.49	53.84	0.35	54.68	54.54	54.15	54.72	54.52	0.68	54.97	54.96	54.16	55.00	54.77	0.25	55.91	55.65	55.72	56.33	55.90	1.13

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

Table 36: World Rig Count

	2004	2005	Change 05/04	1Q 06	2Q 06	3Q 06	4Q 06	2006	Change 06/05	1Q 07	2Q 07	3Q 07	4Q 07	2007	Change 07/06	1Q 08	2Q 08	3Q 08	Dec08	4Q 08	2008	Change 08/07	Jan08	Change Jan/Dec
USA	1,190	1,378	188	1,519	1,632	1,719	1,719	1,648	270	1,733	1,757	1,788	1,790	1,767	119	1,770	1,864	1,978	1,782	1,898	1,878	111	1,552	-230
Canada	369	490	121	665	282	494	440	470	-20	532	139	348	356	344	-126	507	169	432	361	408	379	35	377	16
Mexico	110	107	-3	85	85	77	84	83	-24	90	88	96	93	92	9	96	106	103	111	106	103	11	125	14
North America	1,669	1,975	306	2,269	1,999	2,290	2,243	2,200	225	2,355	1,984	2,232	2,240	2,203	3	2,373	2,139	2,512	2,254	2,411	2,359	156	2,054	-200
Norway	17	17	0	19	20	16	9	16	-1	16	19	18	17	18	2	17	21	21	25	21	20	2	25	0
UK	16	21	5	29	27	26	15	24	3	25	29	27	22	26	2	19	21	24	22	24	22	-4	23	1
Western Europe	65	65	0	77	78	73	65	73	8	72	78	76	73	75	2	71	78	83	83	83	79	4	85	2
OECD Pacific	22	25	3	25	28	25	28	27	2	24	30	32	30	29	2	32	39	39	32	34	36	7	29	-3
Total OECD	1,755	2,065	310	2,371	2,105	2,389	2,336	2,300	235	2,450	2,091	2,340	2,342	2,306	6	2,476	2,256	2,634	2,369	2,529	2,474	168	2,168	-201
Other Asia	178	201	23	198	196	206	201	201	0	209	216	214	207	217	16	214	225	218	212	216	152	64	198	-14
Latin America	116	129	13	137	151	153	153	149	20	183	178	173	181	178	29	181	181	181	187	197	192	14	171	-16
Middle East	70	72	2	72	79	82	85	80	8	82	85	87	86	85	5	89	91	93	89	90	91	6	86	-3
Africa	51	54	3	59	62	68	77	67	13	75	80	88	88	83	16	84	90	97	97	94	91	8	91	-6
Total DCs	415	456	41	466	488	509	507	493	37	510	510	509	515	511	18	512	520	540	523	532	526	15	492	-31
Non-OPEC Rig Count	2,120	2,465	345	2,794	2,549	2,850	2,806	2,751	286	2,950	2,593	2,842	2,850	2,808	57	3,006	2,795	3,192	2,910	3,081	3,019	211	2,678	-232
Algeria	19	21	2	21	21	28	27	24	3	25	26	28	28	27	3	26	27	24	27	26	26	-1	24	-3
Angola	3	3	0	4	4	4	4	4	1	5	4	3	5	4	0	5	6	5	6	5	5	1	5	-1
Ecuador	10	12	2	12	11	11	12	11	-1	12	10	11	10	11	0	7	9	12	13	13	10	-1	10	-3
Iran	41	40	-1	40	45	47	45	44	4	51	51	51	50	50	6	50	50	50	50	51	50	0	51	1
Iraq	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Kuwait	10	12	11	12	13	14	15	14	15	14	13	13	11	12	13	12	11	12	11	12	12	0	12	0
Libya	10	9	-1	9	9	10	12	10	1	13	12	14	14	13	3	14	15	15	15	15	15	2	16	1
Nigeria	8	9	1	10	9	10	10	10	1	8	7	8	10	8	-2	9	8	6	7	6	7	-1	5	-2
Qatar	9	12	3	13	10	11	9	11	-1	11	12	13	14	13	2	11	12	11	10	11	11	-2	9	-1
Saudi Arabia	32	36	4	54	60	70	76	65	29	76	76	78	77	77	12	78	77	76	74	76	77	0	74	0
UAE	16	16	0	17	16	16	16	16	0	14	15	15	14	14	-2	12	12	13	14	12	12	-2	14	0
Venezuela	55	67	12	78	83	85	77	81	14	76	80	77	71	76	-5	82	81	77	78	81	80	4	74	-4
OPEC Rig Count	213	237	24	270	281	306	303	290	53	305	306	311	304	305	15	306	308	301	305	308	305	0	294	-11
Worldwid Rig Count*	2,333	2,702	369	3,064	2,830	3,156	3,109	3,041	339	3,255	2,899	3,153	3,154	3,113	72	3,312	3,103	3,493	3,215	3,389	3,324	211	2,972	-243
of which:																								
Oil	877	959	82	1,069	1,060	1,169	1,156	1,114	155	1,266	1,155	1,257	1,288	1,239	125	1,374	1,320	1,443	1405	1436	1393	154	1273	-132
Gas	1,436	1,722	280	1,981	1,757	1,969	1,932	1,911	197	1,969	1,725	1,876	1,842	1,853	-67	1,904	1,752	2,014	1776	1916	1896	35	1668	-104
Others	20	22	2	14	13	18	21	16	-6	20	19	20	24	21	5	34	31	36	34	37	35	14	31	-3

**/Excludes China and FSU.*

na - Not available.

Source: Baker Hughes International & Secretariat's Estimates.

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

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Data Summary February 2009

OPEC Basket average price

US$ per barrel

up 2.92 in January	***January 2009***	*41.52*
	December 2008	*38.60*

January OPEC production

in million barrels per day, according to secondary sources

down 0.96 in January	***January 2009***	*28.71*
	December 2008	*29.67*

World economy

World GDP growth revised down to 3.3% in 2008. The forecast for 2009 has been reduced by a further 0.8 percentage points to 0.4% to reflect the continued deterioration in OECD countries as well as the sharp fall in exports in both developed and emerging economies.

Supply and demand

in million barrels per day

2008		***2009***	
World demand	*85.7*	*World demand*	*85.1*
Non-OPEC supply	*54.8*	*Non-OPEC supply*	*55.9*
Difference	***30.9***	***Difference***	***29.2***

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

Stocks

OECD commercial oil stocks witnessed a contra-seasonal build of 16 mb in 4Q 08 to stand at 2,673 mb at the end of the year, implying more than 56 days of forward cover. Preliminary data pushed days of forward cover to 57 days in January.

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Data cover period up to the end of January 2009 unless otherwise stated.