OPEC

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

September 2011

Feature Article:
Rising challenges in the coming quarter

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Oil Market Highlights

- The **OPEC Reference Basket** fell $5.30 or 4.7% in August, the sharpest decline in percentage terms since May 2010. The Basket remained volatile, fluctuating between $101.20/b and $113.17/b. Prices experienced a sharp fall at the start of August on persistent economic and credit concerns. However, the market stabilized by mid-month and then moved higher, supported by disruptions in North Sea supply and US Gulf storms. Crude futures markets were similarly volatile with Nymex WTI plunging almost $11 over the first seven trading days in August to a 10-month low of $79.30/b. Over the same period, ICE Brent shed $14 to stand at 102.57/b. By the end of the month, both contracts had recovered to just below $89/b and $115/b, respectively. On 9 September, the OPEC Reference Basket stood at $110.40/b.
- **World economy** is now expected to grow at a revised 3.6% in 2011 and 3.9% in 2012, down from previous expectations of 3.7% and 4.0% respectively. Revisions were triggered by a global slow-down in industrial activity in most of the major economies. The US is now forecast to grow at 1.6% in 2011 and 1.9% in 2012. The Euro-zone is now expected to expand by 1.7% in 2011 and 1.1% in 2012, following poorer-than-expected performance in the second quarter. Japan's economy is still suffering from the tragic events in March and is expected to contract by 0.8% in 2011 before expanding by 2.5% in 2012. Growth levels in the developing countries continue to be in a league of their own, with the forecast for China unchanged at 9.0% in 2011 and 8.5% in 2012. However, Indian's expansion has slowed, resulting in a slight downward revision in the 2011 forecast to 7.7%.
- **World oil demand** growth in 2011 has been revised down by 0.15 mb/d to now stand at 1.1 mb/d. The downward adjustment has been due to a weaker-than-expected driving season in the US and the ongoing sluggish economic performance in the OECD. Oil demand in China has also been weaker than expected in the typically peak-demand third quarter. Ongoing economic uncertainties have also impacted the forecast for oil demand growth in 2012, which has been revised marginally lower to now stand at 1.3 mb/d.
- **Non-OPEC oil supply** is expected to grow by 0.5 mb/d in 2011, following a downward revision of 80 tb/d since the last assessment, mainly due to revisions in the FSU, developing countries and China. In 2012, non-OPEC oil supply is forecast to grow by 0.8 mb/d. OPEC NGLs and non-conventional oils are expected to average 5.3 mb/d in 2011 and 5.7 mb/d in 2012, representing growth of 0.4 mb/d for both years. In August, OPEC crude oil production stood at 29.92 mb/d, representing an increase of 75 tb/d from the previous month.
- With the end of the driving season, **product markets** continue to be impacted by disappointing demand in the Atlantic Basin. However, the bearish sentiment was partially offset by the shortage generated by Hurricane Irene and increased export opportunities to Latin America. This has provided some support for margins, which have also benefitted from the fall in the crude prices in August.
- Bearish sentiments continued to dominate the **crude oil tanker market**, due to high tonnage availability, limited demand and refinery maintenance. Clean tanker rates increased slightly in August on support from healthy eastbound product demand. In August, OPEC spot fixtures declined 800 tb/d to average 12.45 mb/d, the lowest since May. Sailings from OPEC countries were down 1% to average 22.58 mb/d.
- **US commercial inventories** rose a slight 0.3 mb in August. The build was attributed to products, which increased by 2.2 mb, while crude offset the increase with a decline of 1.9 mb. As a result, US commercial oil inventories were 19.2 mb above the historical average in August. In Japan, the most recent data shows that commercial oil inventories rose by 1.7 mb in July, with crude and products experiencing an increase of 1.1 mb and 0.7 mb respectively. Japanese oil inventories showed a deficit of 8.5 mb with the historical trend**.**
- **The demand for OPEC crude in 2011** is estimated at 29.9 mb/d, around 0.1 mb/d lower than in the previous report. With this adjustment, the demand for OPEC crude stood at about 0.2 mb/d higher than in the previous year. In 2012, the demand from OPEC crude is expected to average 30 mb/d, up 0.1 mb/d from 2011 and 0.1 mb/d lower than in the previous assessment.

Return of Libyan Production to the World Market

News from Libya of a speedy return to normal supply levels has been received positively by the market. Oil field production in the far east and west of the country is expected to resume in the coming days, reaching 1 mb/d within the next six months. Of course, this will also include output from fields in the centre of the country.

Security, which will be handled by a newly-assembled local force, will be the key issue in safeguarding production. First-hand reports show that most oil production and export facilities – including pipelines and terminals – have suffered little or no damage and will be able to return to normal operations soon. Other facilities that have suffered greater damage will be rebuilt before long. Thus, the restoration of Libyan oil production to full capacity in less than a year-and-a-half appears to be realistic.

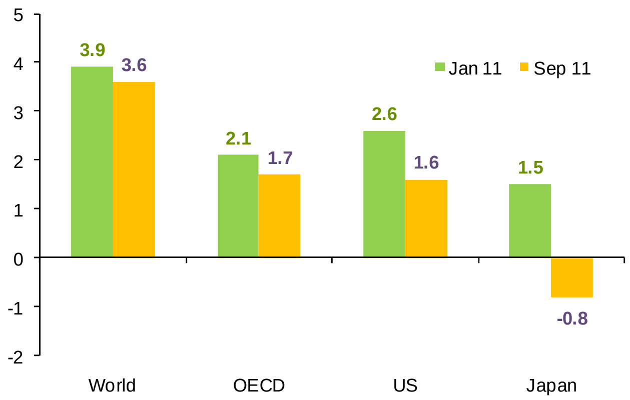
Libya has some of the best experts in the oil industry and if the National Oil Company (NOC) is able to bring them together to start production as soon as possible, that period may be even shorter.

Rising challenges in the coming quarter

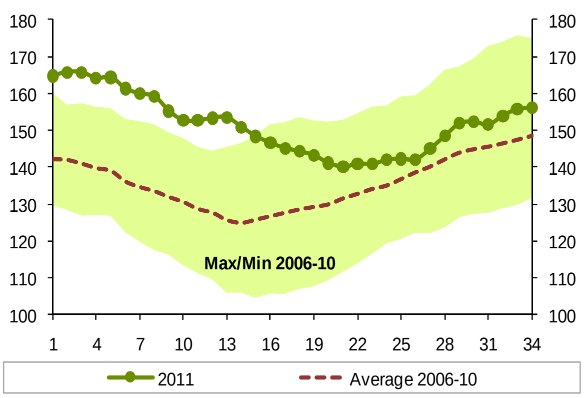
Crude oil futures prices plunged in August, with Nymex WTI weakening more than ICE Brent as reflected in the widening spread between the benchmarks to more than $26/b. Crude oil futures experienced heightened volatility with the intraday range surpassing $7 on 9 August. During the first ten days of the month, crude oil prices declined significantly before rising again moderately in the latter weeks of August. The high volatility could be explained by the large uncertainty surrounding market sentiment. The fluctuation in crude oil prices was in tandem with the movement in financial markets, in particular equities, suggesting that investors focused on broader macroeconomic risks and concerns of stagnating global economic growth. Under these circumstances, the stream of negative economic news significantly affected stock markets, causing volatility in oil prices as well. Oil price movements have been closely correlated with speculative activity, thus highlighting the continuing impact of the wider financial markets on crude oil prices. Indeed, during the week ending 23 August, money managers held 138,770 contracts – the lowest level in almost nine months – as investors reacted to the bearish signals from macroeconomic data. After settling below $80/b, WTI prices recovered as traders continued to adjust their positions.

Uncertainties in the oil market are increasing at a time, when the recovery of the global economy is losing momentum and is becoming less evident. Over recent months, a deceleration of economic growth was observed in almost every major economy. Among the developed countries, the US has experienced unexpectedly low GDP growth in the first half of this year at a time when the Euro-zone continues to be weighed down by its sovereign debt crisis, which is increasingly having a negative impact on the economy via the growing magnitude of austerity measures in the region. With Japan still suffering from the disasters that hit the country in the March, the strength of the recovery in the remainder of the year continues to be uncertain, while the strong yen remains less supportive for the economy. Developing Countries continue to try to strike the right balance between their needs for a growing economy and lower inflation levels at the risk of undesired economic slow-down. All these have led to a revision of world economic growth for 2011 since January from 3.9% to now 3.6%, with the major downward adjustment coming from OECD economies (***see Graph 1***).

Graph 1: Economic Growth Revision (%)



Graph 2: US Middle Distillates Inventories (mb)



The weaker economic recovery is negatively impacting oil demand. The global demand growth forecast for 2011 has been revised down by 0.3 mb/d since the start of this year to stand at 1.1 mb/d. The US summer driving season missed its peak, sliding by 2% year-to-date compared to the same period last year. The OECD economic slowdown has negatively affected oil demand in China, while India oil consumption has been dampened due to measures aimed at limiting the overheated economy in the country. In the third quarter, Chinese oil demand growth is estimated to shrink by 0.2 mb/d versus the last assessment.

Looking ahead, the perception of market tightness and worries of supply shortages in the fourth quarter appear to be easing. The increasing risk of the global economic slowdown is negatively impacting industrial sectors. The middle distillates market looks well supplied as US refineries run at high levels. This has contributed to a build in inventories, which have been trending above five-year average, providing a comfortable cushion ahead of the expected increase in heating oil consumption in the winter season ***(see Graph 2)***.

In the wake of reduced global economic growth, which has led to a downward revision in oil demand, the required crude supply has been revised down in the third and fourth quarters at a time when OPEC crude oil production continues to increase and the partial return of Libya production is expected soon. While current OPEC production profile provides sufficient flexibility to take into account the existing uncertainties and downside risks, it is of critical importance to continue carefully monitoring oil market developments.

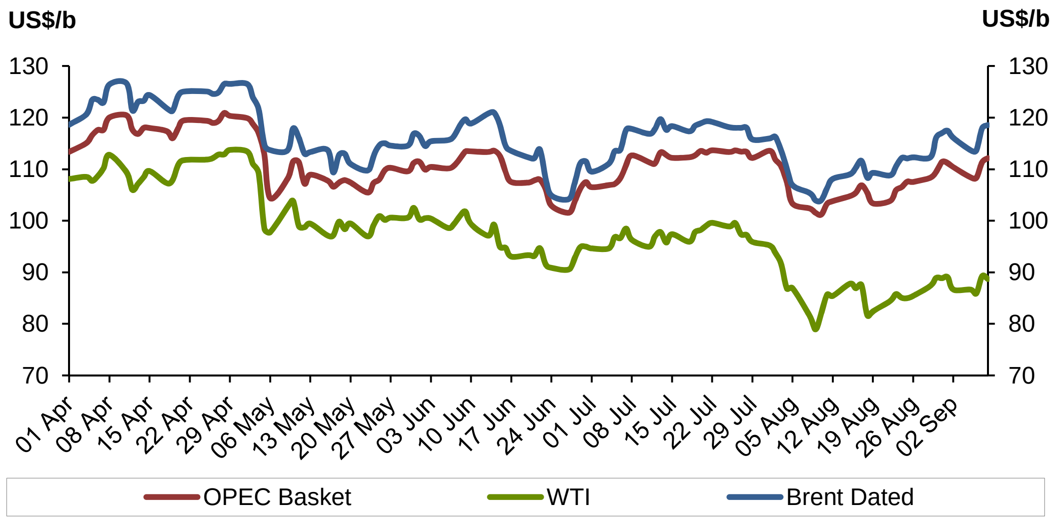
Crude Oil Price Movements

OPEC Reference Basket dropped in August to average $106.32/b

OPEC Reference Basket

After experiencing a gain in July, the OPEC Reference Basket dropped in August by $5.30 or 4.7%, the second largest percentage drop since the 9.5% decline in May 2010. Nevertheless, at $106.32/b, the OPEC Reference Basket showed a y-o-y increase of $32.17 or 43.4%. The OPEC Reference Basket was volatile during the month of August, moving within a large range of $12.37, fluctuating between $101.20/b and $113.17/b. During the first ten days of August, the OPEC Reference Basket plunged by more than $12 to end the day of 10 August at $101.20, the lowest level for almost six months. This fall was driven by ongoing economic and credit concerns. Fears that the weakness in the US economy and the Euro-zone's debt problems will escalate into a global crisis has not only pushed crude oil prices down, but equity markets have also suffered, exhibiting their biggest fall since the peak of the financial crisis, with the S&P 500 tumbling 6.6% in one day. During the middle of the month, markets had begun to find some stability, but in the last week of the month, the OPEC Reference Basket moved higher, reaching $111.40/b at the end of August, driven by a shutdown of a North Sea oil well at the Royal Dutch Shell field, due to a leak affecting Brent-related crudes. The potential disruption of supply on the US Gulf Coast due to Hurricane Irene and Tropical Storm Katia also put upward pressure on prices.

Graph 1.1: Crude oil price movement, 2011



Within the OPEC Reference Basket, all components decreased, with African crudes leading the losses. Nigerian Bonny Light crude lost more than $7, while Es-Sider, Saharan Blend and Girassol fell by more than $6. A number of unsold September sweet cargoes from Nigeria, as well as expectations that Libya would soon resume output, helped to limit the rebound in prices. During the second half of the month, African crudes rose, supported by healthy refinery margins in Europe and the Bonny Light force majeure declaration which limited Nigerian crude supply.

The Middle East crude oil market also weakened in August after Taiwan Formosa Petrochemical, the largest refiner in Asia, shut down for safety checks. This was combined with a refinery turnaround in China. Heavy-to-medium sour grades were the most affected, with Murban and Qatar Marine losing more than $5/b. During the last days of August, the Middle East crude market improved on strong refinery appetite for October cargoes, as the 540,000 b/d Formosa Petrochemical refinery resumed processing crude at full capacity to benefit from attractive margins.

The OPEC Reference Basket averaged $107.27/b in the first eight months of 2011, an increase of $31.94 or 42.4% from the same period a year ago. For the same period, African crude gained the most, with Es-Sider increasing by almost 47%. Qatar Marine showed the lowest gain, up less than 40%.

During the first days of September, the OPEC Reference Basket remained volatile, driven by fears that the Euro-zone debt crisis could suppress industrialized countries' economic growth and slow oil demand. Opposing these factors was a Gulf of Mexico weather disturbance impacting supply, as well as tight North Sea production that lifted crude oil prices. The fluctuation in US dollar versus the Euro and the up/down movement of equity markets also impacted the prices in both directions. On 9 September, the OPEC Reference Basket closed the day at $110.40/b.

Table 1.1: OPEC Reference Basket and selected crudes, US$/b

	Jul 11	Aug 11	Change Aug/Jul	Year-to-Date 2010	Year-to-Date 2011
OPEC Reference Basket	**111.62**	**106.32**	**-5.30**	**75.32**	**107.27**
Arab Light	111.61	106.43	-5.18	75.73	107.64
Basrah Light	109.87	105.07	-4.80	74.66	105.96
Bonny Light	119.69	112.41	-7.28	78.49	114.51
Es Sider	117.69	111.26	-6.43	76.60	112.30
Girassol	116.63	110.60	-6.03	77.05	112.02
Iran Heavy	110.34	104.90	-5.44	74.67	105.86
Kuwait Export	109.33	104.51	-4.82	74.39	105.22
Marine	110.34	105.14	-5.20	76.17	106.34
Merey	103.26	99.81	-3.45	68.42	96.29
Murban	114.33	108.92	-5.41	77.86	109.82
Oriente	103.46	97.91	-5.55	70.69	99.75
Saharan Blend	117.29	111.16	-6.13	77.71	113.27
Other Crudes					
Minas	121.71	117.03	-4.68	80.32	115.23
Dubai	109.99	104.96	-5.03	76.01	106.08
Isthmus	108.62	101.06	-7.56	76.20	104.58
T.J. Light	106.66	99.24	-7.42	74.66	102.56
Brent	116.89	110.46	-6.43	77.11	111.89
West Texas Intermediate	97.14	86.30	-10.84	77.76	96.52
Urals	114.90	109.25	-5.65	75.78	109.22
Differentials					
WTI/Brent	-19.75	-24.16	-4.41	0.66	-15.37
Brent/Dubai	6.90	5.50	-1.40	1.09	5.81

Note: Arab Light and other Saudi Arabian crudes as well as Basrah Light preliminarily based on American Crude Market (ACM) and subject to revision

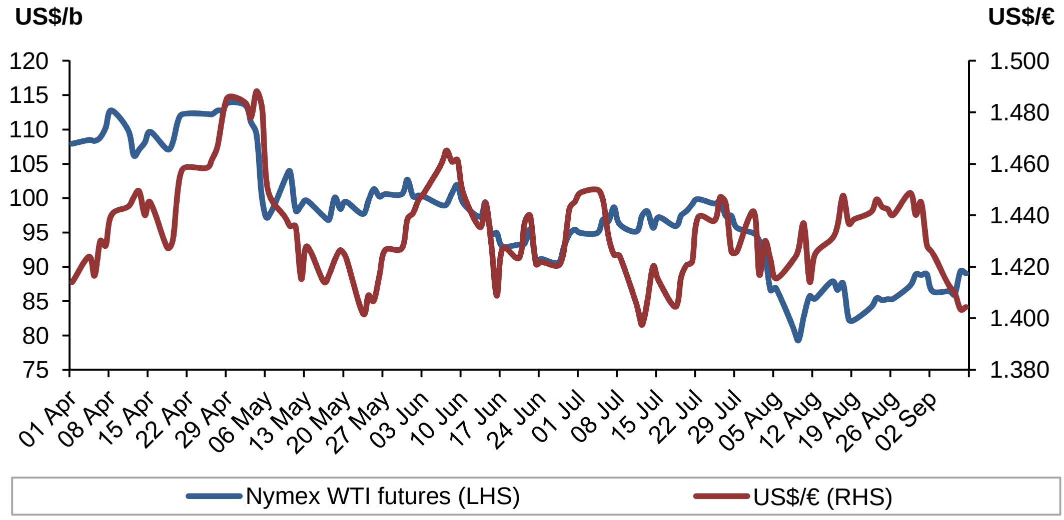
Source: Platt's, Direct Communication and Secretariat's assessments

The oil futures market

Crude oil futures fell in August, with WTI weakening more than ICE Brent

Crude oil futures prices plunged in August, with WTI weakening more than ICE Brent. There was high volatility, as indicated by a huge intraday range of more than $7 during the day of 9 August. During the first ten days of the month, crude oil prices declined significantly, before moderately rising again in the last two weeks of August.

Graph 1.2: Nymex WTI futures and US$ exchange rate, 2011

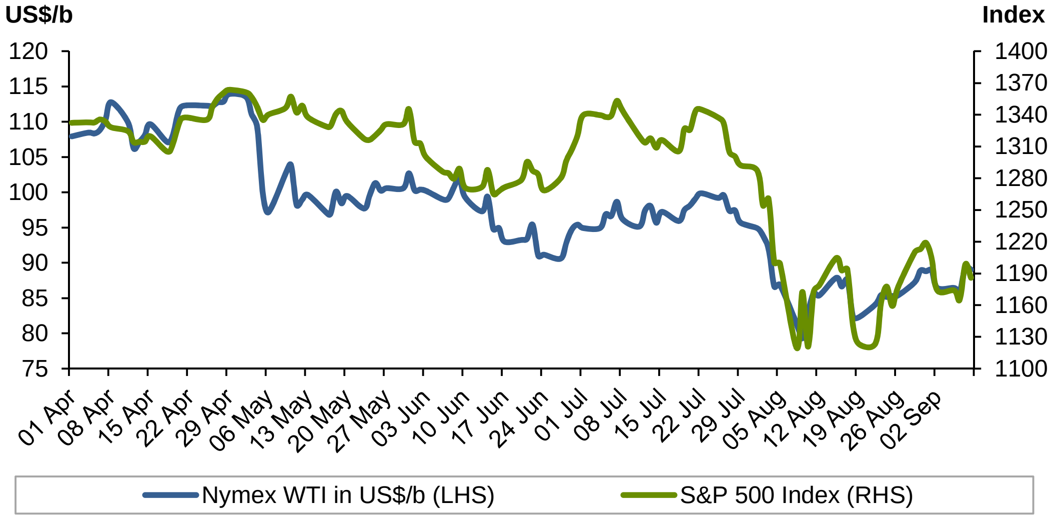


On the Nymex, the US benchmark WTI front-month plunged by almost $11 in August over the previous month to stand at $86.34/b. Between 1 and 9 August, US crude oil futures plunged by more than $16 to stand at $79.30/b, marking a ten-month low. The negative economic indicators in OECD countries – disappointing US GDP numbers and the decrease in manufacturing activity – have negatively impacted prices. Uncertainty is even clouding China, the main pillar of global economic and oil demand growth. Market participants have begun to consider the possibility of reduced oil demand in the fourth quarter, as the economic impact of the European debt crisis and the US credit rating downgrade may reduce refiners' appetite.

In light of the increasing uncertainty in the world economy, many institutions have begun to revise down oil demand forecasts for the current year. The fall in crude oil prices in the first days of August was in line with the plunge of 9% in equity markets. This could be explained by the uncertainty surrounding market sentiment and fears of weak economic growth. The co-movement between crude price and financial markets suggests that investors are focused on larger macroeconomic risks. Under these circumstances, the downgrading of the US economy, together with the deepening sovereign debt crisis in Europe, have led to the recent plunge in stock exchanges throughout the world causing severe volatility in oil prices.

In the middle of the month, US crude oil prices began to find some relative stability after an initial sharp fall, but this proved short-lived on fears of a potential downgrade of France's sovereign debt rating and data indicating factory activity in the US Mid-Atlantic region slumped to a near 2.5-year low in August. US home sales also unexpectedly dropped last month by 3.5%, dampening hopes for a quick revival in economic growth. This hit the confidence of investors, who were already worried about the global economic recovery. Indeed, US crude futures settled sharply lower, down nearly 6% on Thursday, 18 August. Since this period, WTI prices have been climbing, gaining more than $6 and ending the month at $88.81/b. The rise in US crude oil futures was supported by optimism that the Federal Reserve would soon signal more help for the economy. Disruptions in Nigeria's oil exports and North Sea output also provided some support. The dollar fell on better-than-expected German and Chinese factory data, easing some worries about global growth and contributing to the rise in prices. The unexpected drawdown of 2.2 mb in US domestic crude inventories as reported by the EIA in the week ending 19 August also gave some support to crude oil prices. During the last days of August, the expected supply disruption in the eastern Gulf of Mexico resulting from Hurricane Irene, as well as Tropical Storm Katia moving northwestward, put more upward pressure on prices.

Graph 1.3: Nymex WTI futures vs. S&P 500 index, 2011



The transatlantic spread in August has widened, reaching a record high of $23.59/b on a monthly basis

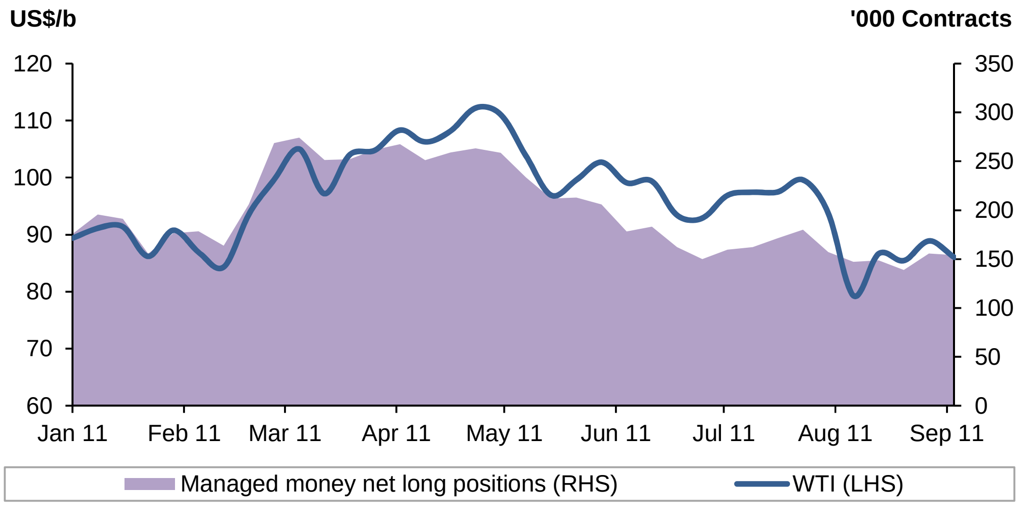
In London, ICE Brent lost $6.83/b or 6% in August over July to stand slightly below $110/b. ICE Brent also saw significant volatility, hovering between $102.57/b and $116.51/b. During the first ten days of August, ICE Brent dropped by around $14 to end the day of 9 August at $102.57/b. However, during the last days of August, ICE Brent rebounded to end the month at $114.85. As the fall of ICE Brent's price was lower than that of WTI futures in August, this has resulted in widening the transatlantic spread by $4.06 to reach $23.59/b. On a daily basis, WTI reached its lowest record level relative to ICE Brent on 19 August, when the front month-month Nymex contract fell to a discount of $26.36/b. The spread has been widening significantly since the start of this year, supported by the loss of Libyan light/sweet crude exports, and the recent fall in North Sea and Nigeria sweet crude supply.

Open interest in WTI contracts on the Nymex was little changed in August over July, averaging 1.52 million contracts, while for Brent on the ICE exchange it fell by about 9,800 lots to average 789,000 contracts. On a weekly basis, the first three weeks of August saw a contraction in trading activity reflecting uncertainty over the impact of the US debt downgrade combined with soft economic data, especially industrial production. A number of traders rushed into the market to adjust positions lower after a decline in both crude oil and other financial markets. During the last week, open interest rose as markets adjusted to oversold conditions in recent weeks.

Speculators reducedlactivities in August in line with the fall in crude prices

Speculators on the Nymex reduced their activities sharply in August, cutting 18,500 contracts to stand at 147,552 lots. It is worth noting that during the week ending 23 August, money managers held 138,770 contracts, the lowest level in almost nine months as investors followed the bearish signals from macroeconomic data. At the same time, WTI settled below $80/b, but prices have since rebounded, climbing to $85/b as traders continued to adjust their positions. Indeed, during the week ending 26 August, speculative activity rebounded to almost 156,000 lots, reflecting expectation of the potential damage caused by Hurricane Irene and a slight shift in market sentiment.

Graph 1.4: Nymex WTI price vs. speculative activity

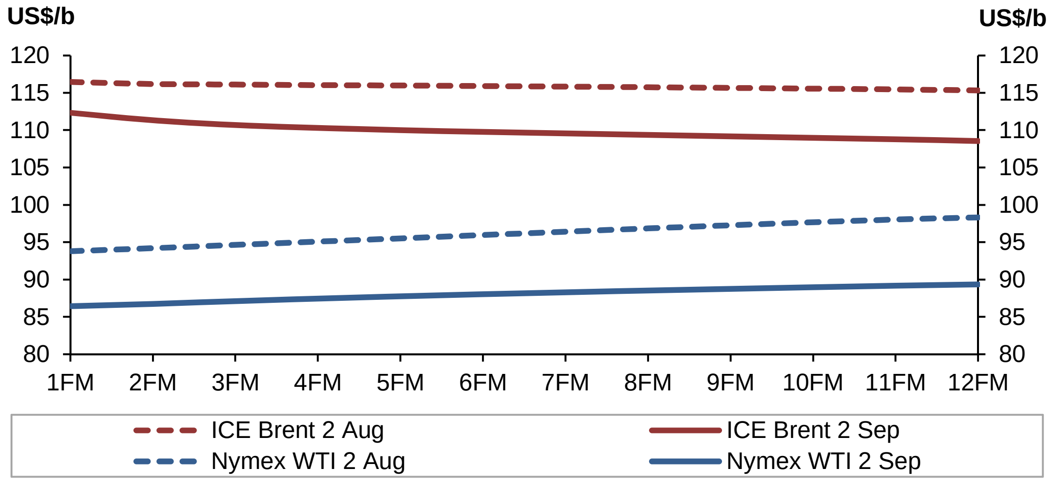


The futures market structure

Nymex WTI and ICE Brent futures curves moved down in August, but with same shape from July

In August, the Nymex WTI and ICE Brent futures curves moved down but kept their previous shape from July. However, the spread between the second and front month WTI contract narrowed to 32¢/b from 42¢/b in July. The WTI front-to-twelfth month contango also narrow to $2.68/b by the end of August, compared with $4.55/b at the beginning of the month. Pressure came from a substantial decline in Cushing stocks, which fell to just 33.1 mb during the week ending 26 August; the lowest level since last December.

Graph 1.5: Nymex WTI and ICE Brent forward curve, 2011



FM = future month

In Europe, the ICE Brent curve remained in backwardation in August, but at a lower level when compared with the first and second month. However, the spread has widened between the first month and the twelfth month compared to the July spread. The spread between the second and front month narrowed to 31¢ from 39¢, reflecting additional supply in the market, which added pressure on the front month. ICE Brent switched to contango temporarily on 8 August of around minus 4¢.

Table 1.2: Nymex WTI and ICE Brent forward price, US$/b

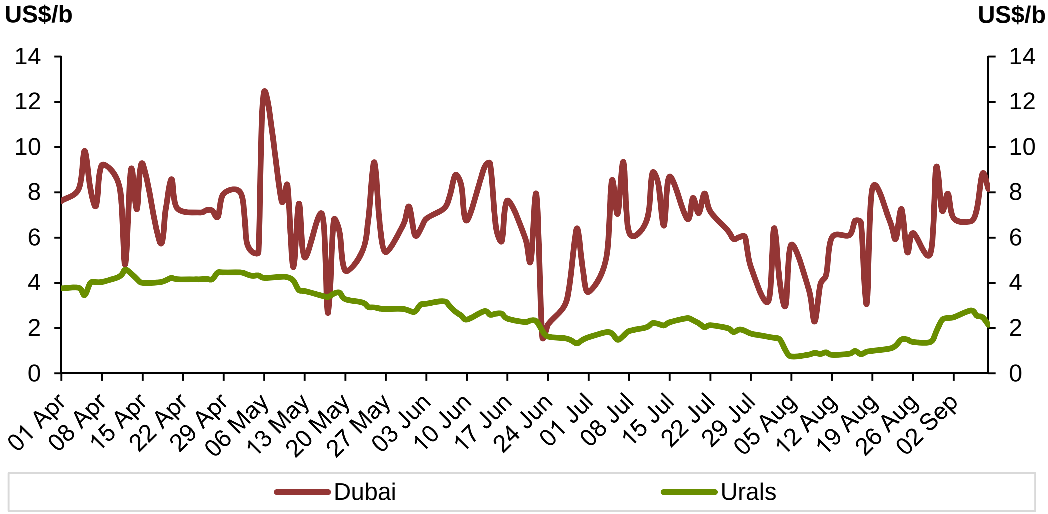
	1st FM	2nd FM	3rd FM	6th FM	12th FM
Nymex WTI					
02 Aug 11	93.79	94.20	94.64	95.96	98.32
02 Sep 11	86.45	86.74	87.13	88.03	89.34
ICE Brent					
02 Aug 11	116.46	116.18	116.11	115.91	115.32
02 Sep 11	112.33	111.33	110.68	109.75	108.54

FM = future month

The sweet/sour crude spread

The weakness in WTI caused by storage infrastructure constraints at Cushing and the widening transatlantic spread meant US spot crude lost ground with respect to other grades. Mars sour crude has been trading at a premium since December 2010 and this widened in August to $21.01/b from $14.64/b the previous month. The differential between Light Louisiana Sweet and WTI rose by $4.27 to nearly $23/b in August and reached $29/b on 6 September.

Graph 1.6: Brent Dated vs. Sour grades (Urals and Dubai) spread, 2011



The sweet-sour spread remained strong in August, although narrower than in the previous month

Contrary to WTI, tight local supply continued to support Dated Brent, and the spread remained strong, although narrower than in the previous month. The Brent-Dubai spread narrowed from $6.89/b in July to $5.50/b in August amid strong demand from Asia. Market concern over supply and growing demand from refiners gave more support to Urals crude compared to Brent. As a result, the Brent premium fell to $1.21/b in August down 77¢ from July. The Urals crude market weakened as the Brent premium rose to $2.55/b on 6 September.

Commodity Markets

Energy commodity prices dropped in August, driven by uncertainties about the global economy

Trends in selected commodity markets

The World Bank (WB) index for non-energy commodities dropped by 1.6% m-o-m in August, led by a decrease in base metals, while record-high prices of gold, which breached $1900/oz, and some gains in agricultural markets limited the decline.

Commodity markets felt the negative influence of concern about the health of the global economy, Chinese demand and the European debt crisis.

The **WB energy commodity price index** (crude oil, natural gas and coal) decreased by 6.3% m-o-m in August. The fall was witnessed across the complex.

Table 2.1: Commodity price data, 2011

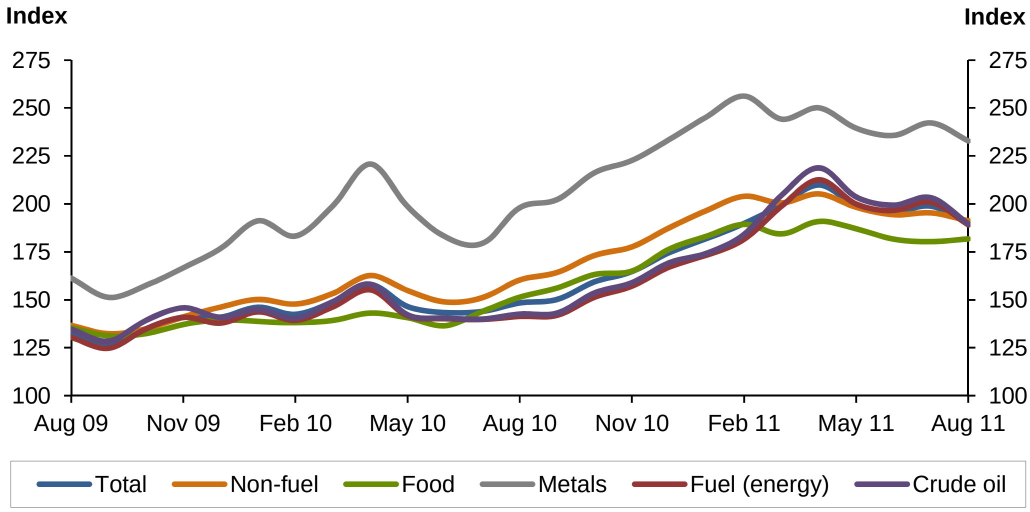
Commodity	Unit	Monthly averages			% Change		
		Jun 11	Jul 11	Aug 11	Jun/May	Jul/Jun	Aug/Jul
World Bank commodity price indices for low and middle income countries (2000 = 100)							
Energy		357.9	365.1	341.9	-1.7	2.0	-6.3
Coal, Australia	$/mt	119.3	120.0	118.8	0.8	0.6	-1.0
Crude oil, average	$/bbl	105.8	107.9	100.5	-2.1	2.0	-6.9
Natural gas, US	$/mmbtu	4.5	4.4	4.1	5.6	-3.0	-8.1
Non Energy		326.5	330.7	325.4	-0.4	1.3	-1.6
Agriculture		286.6	284.7	285.1	-0.7	-0.7	0.1
Food		277.6	278.3	280.6	0.6	0.3	0.8
Soybean meal	$/mt	394.0	400.0	401.0	-2.0	1.5	0.3
Soybean oil	$/mt	1324.0	1337.0	1330.0	2.3	1.0	-0.5
Soybeans	$/mt	558.0	559.0	558.0	0.4	0.2	-0.2
Grains		302.3	296.7	310.0	-0.1	-1.9	4.5
Maize	$/mt	310.6	300.8	310.2	0.9	-3.2	3.1
Sorghum	$/mt	260.4	271.2	302.5	-0.3	4.1	11.6
Wheat, US, HRW	$/mt	326.4	303.9	327.1	-8.1	-6.9	7.6
Sugar World	¢/kg	55.6	62.2	61.2	14.9	11.9	-1.7
Base Metals		351.3	369.9	343.6	-0.2	5.3	-7.1
Aluminum	$/mt	2557.8	2525.4	2379.4	-1.5	-1.3	-5.8
Copper	$/mt	9066.9	9650.5	9000.8	1.2	6.4	-6.7
Iron ore, spot, cfr China	¢/dmtu	170.9	173.0	177.5	-3.5	1.2	2.6
Lead	¢/kg	252.5	268.1	239.7	4.0	6.2	-10.6
Nickel	$/mt	22420.9	23848.0	21845.1	-7.5	6.4	-8.4
Steel products index	2000=100	272.6	271.4	271.4	-0.3	-0.4	0.0
Tin	¢/kg	2552.0	2739.8	2404.2	-11.0	7.4	-12.2
Zinc	¢/kg	223.4	239.8	220.0	3.1	7.3	-8.2
Precious Metals							
Gold	$/toz	1528.7	1572.2	1757.2	1.1	2.8	11.8
Silver	¢/toz	3584.1	3811.9	4030.2	-3.3	6.4	5.7

Source: World Bank, Commodity price data

Henry Hub (HH) natural gas prices plummeted by 8% m-o-m in August on continued weak fundamentals. In the last week of August, US natural gas recovered, boosted by weaker-than-expected supply news, data that showed industrial demand kept growing through the year, and threats of new tropical storms. However, the outlook for the HH natural gas prices is bearish.

Agricultural prices rose by 0.1% m-o-m in August (0.7% in July). The negative macro inflow of data was partly offset by a more supportive weather forecast for crops compared to the end of July. Grains were up 4.5%, benefiting in the first half of August from the release of the United States Department of Agriculture (USDA) reports, which were bullish for corn and soybeans.

Graph 2.1: Major commodity price indexes, 2009-2011



Commodity price index, 2005 = 100

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

Source: IMF

Base metal prices declined owing to macroeconomic concerns

Base metal prices on the London Metal Exchange (LME) fell by 7% m-o-m in August owing to the uncertain macroeconomic environment and regardless of some supply constraints. Observers forecast a rebound in industrial metals prices for the second half of the year, assuming a more benign macroeconomic outlook. Inventories at the LME rose in August m-o-m after a draw in July, but declined at the Shanghai Futures Exchange (SHFE). The outlook for these markets depends on the recovery of the global economy.

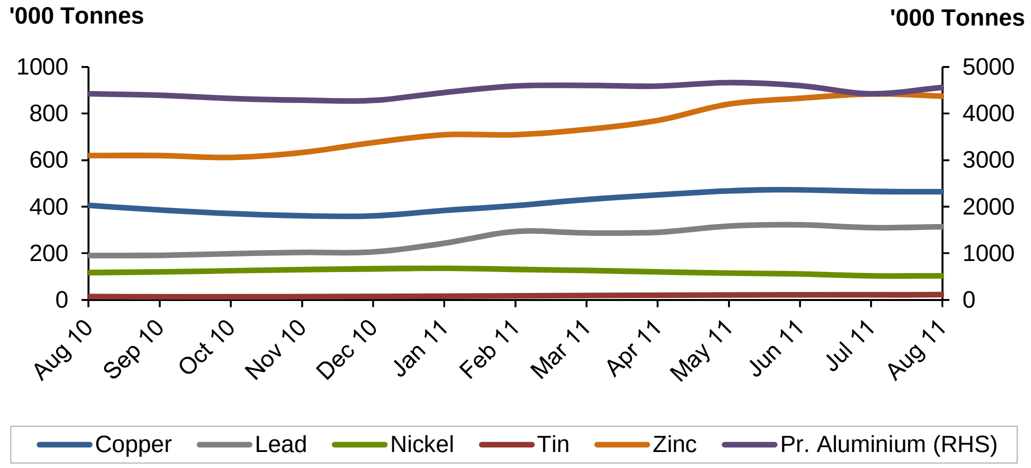
Copper prices lost 6.7% m-o-m in July, mainly on growing concern about the global economy despite strong fundamentals. The fall in prices took place at the beginning of August but prices recovered slightly to the end of the month. This was due to an expected increase in Chinese imports (following a period of destocking of inventories), supply concerns related to a strike at BHP Billiton's Econdia facility in Chile, and several weather-related stoppages at copper mines.

Aluminium prices decreased by 5.8% m-o-m in August, affected by the downgrading of the US credit rating and pessimistic sentiment about the global economy. The fall in prices took place despite a 39% decline in SHFE stock levels. By contract, stocks at the LME remain at record highs. On the supply side, there were some pressures on output in China since aluminium smelters in Henan province faced electricity cuts in August. The future of aluminium demand is mainly related to Chinese consumption.

As for most other base metals, **nickel** prices declined 8% m-o-m in August owing to economic uncertainties as well as anemic stainless demand in the summer period. The International Nickel Study Group states that the nickel market is expected to be in surplus by 60,000 tonnes in 2011 compared to the deficit of 30,000 tonnes in 2010. Total nickel production is expected to rise by 12% in 2012.

Gold prices increased by 11.8% m-o-m fuelled by growing uncertainty about the global economic outlook amid low interest rates, the return of broad investor interest, and central banks swinging to the demand side. Silver rose 5.7%, also benefiting from the upward trend in gold prices.

Graph 2.2: Inventories at the LME



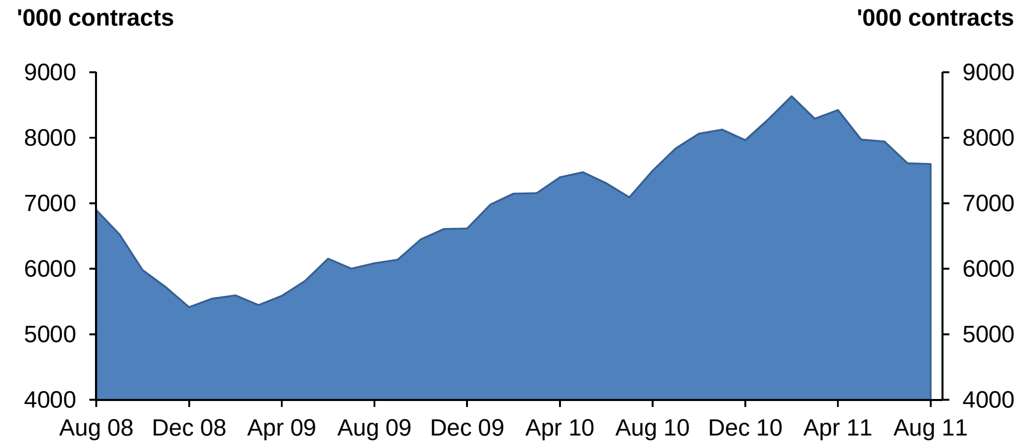
Source: LME

Investment flows into commodities

OIV fell at a slower pace in major US commodity markets, while speculative net length declined

Open interest volume (OIV) for major commodity markets in the US fell by 0.1% m-o-m to 7,717,632 contracts, compared to a 4% fall in July. In contrast, the net length of money manager positions declined by 0.13% m-o-m in August, due to the bearish sentiment prevailing in the markets related to the health of the global economy.

Graph 2.3: Total open interest volume

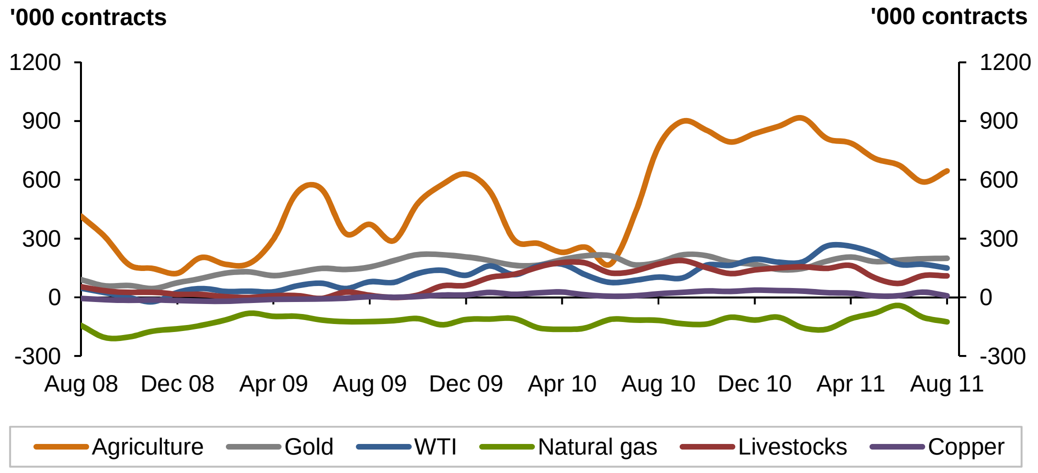


Source: CFTC

Agricultural OIV saw a 0.1% m-o-m drop to 3,838,696 contracts in August compared to an 8% decline in the previous month. After a severe dip in July, managed money net length recovered by 9.5% m-o-m to 645,345 contracts in August. Long positions rose by 4% m-o-m while shorts declined by 7.7% leading to an increase in the net length as a percentage of OIV, which stood at 16.8% compared to 15% in the earlier month.

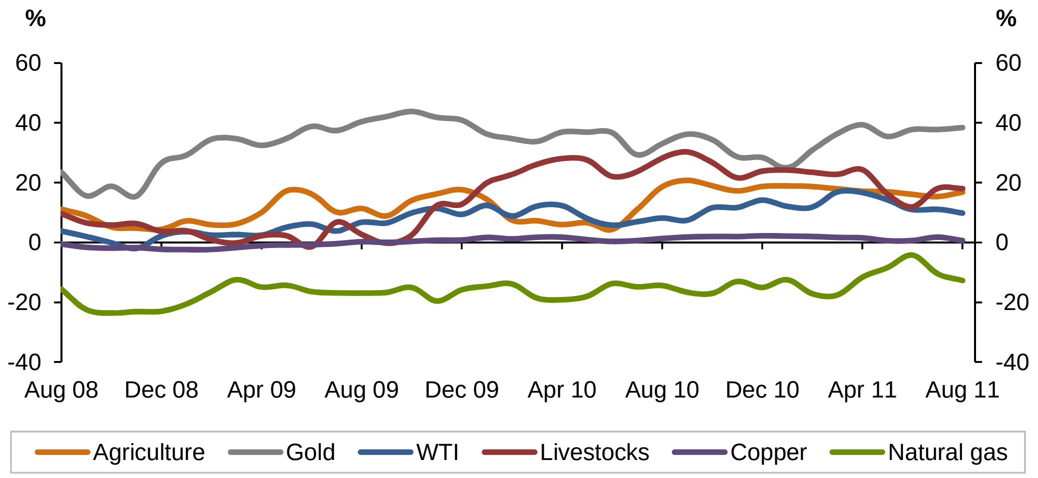
HH natural gas OIV rose by 1%% m-o-m to 984,627 contracts in August. Speculative long positions plummeted by 23% due to a stronger rise in shorts (13.6%) compared to a weaker increased in longs (5.5%) which resulted in the managed money net length dropping to minus 12.7% in August from minus 10.5% in July.

Graph 2.4: Speculative activity in key commodities, net length



Source: CFTC

Graph 2.5: Speculative activity in key commodities as % of open interest



Source: CFTC

Copper OIV fell by 12% m-o-m to 130,486 contracts in August. The net length of money managers plummeted by 70% m-o-m in August with the net length of speculative positions as percentage of OIV declining from 17.7%in July to 6% in August. The bearish sentiment responded to falling prices and macroeconomic uncertainties.

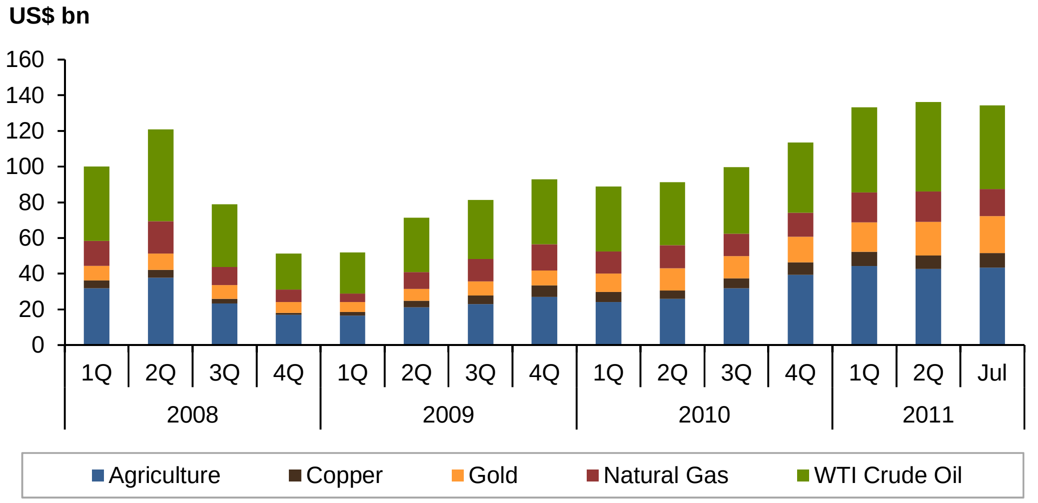
Precious metals OIV decreased slightly by 0.2% m-o-m to 635,766 contracts in August. Net speculative positions rose 2% m-o-m in August.

Concerning the dollar inflow investment, data from the CFTC *(see **Graph 2.6**)* for July suggests that this increased by 3.6% m-o-m compared to a 6% drop in the earlier month. Crude oil and natural gas saw a decrease in the speculative activity with gold, agriculture and copper reporting the major gains in August.

Table 2.2: CFTC data on non-commercial positions, '000 contracts

	Open interest		*Net length*			
	Jul 11	Aug 11	Jul 11	% OIV	Aug 11	% OIV
Crude Oil	1515	1521	168	11	149	10
Natural Gas	974	985	-102	-10	-125	-13
Agriculture	3837	3839	589	15	645	17
Precious Metals	637	636	218	34	222	35
Copper	149	130	26	18	8	6
Livestock	614	607	111	18	109	18
Total	**7,726**	**7,718**	**1,010**	**13**	**1,009**	**13**

Graph 2.6: Inflow of investment into commodities, 2008 to date



World Economy

Table 3.1: Economic growth rates 2011-2012,%

	World	OECD	US	Japan	Euro-zone	China	India
2011	3.6	1.7	1.6	-0.8	1.7	9.0	7.7
2012	3.8	1.9	1.9	2.5	1.1	8.5	7.7

Industrialised countries

US

The most recent developments in the US have highlighted the continuing challenges the economy faces. The administration has just announced a $450 bn support package, at a time when unemployment remains at 9.2%

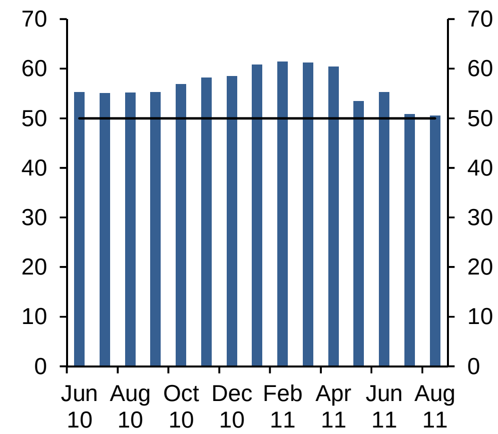
The US economy appears to be recovering much slower than expected and the latest data points highlight the ongoing challenges facing the economy. GDP numbers in the 1H11 have been an unexpected disappointment and the recent dramatic debate on the debt ceiling has left the impression that it will be very challenging for the administration to be able to fight the slow-down in an efficient way. Manufacturing output is pointing at a continued low-growth scenario at best and the labour market situation remains weak. Despite many observers believe in a better 2H11 development, it is challenging to achieve even these now generally revised lower expectations if consumption remains low and the lack of governmental support continues. Now at least the latter might change as the administration has just announced a $450 bn support package, but the details how to refinance this are still missing and could dilute efforts for lifting the economy, particularly given the current sovereign debt situation. Furthermore, referring to the latest support package, it has been explained so far that a relative big portion of this fiscal stimulus will be tax reductions for workers and medium and small businesses. As it lacks the vision of investments into the economy to create jobs, it might be eaten up by inflation and by using the tax-reliefs to either increase savings or even more likely to repay debt of private households.

The 2Q11 GDP numbers that have been released by the Bureau of Economic Analysis (BEA) have again highlighted the current weakness of the US economy. Growth has been revised from 1.3% to 1.0%, after the GDP number for 1Q11 was already been at a very low and almost stagnant 0.4%. While in the 1Q consumption was growing by 2.1% at an annualized quarterly rate, this moved down to only 0.4% in the 2Q11. This is certainly an outcome of the lackluster consumption pattern of private households that are still being challenged by relatively high debt levels that have been built up over the last years and before the crisis started in 2008, as well as the high unemployment numbers indicating an exceptionally weak labour market. The unemployment rate in July has remained at 9.1% for the second consecutive month and non-farm payroll additions were zero in August, after only 85,000 in July. This is again an extraordinary low number when considering that more than eight million jobs have been lost in the crisis. Private sector payroll additions were at 17,000 in August, a marginal number, after already having added 156,000 in July and a much higher dynamic would be needed in order to significantly improve the situation.

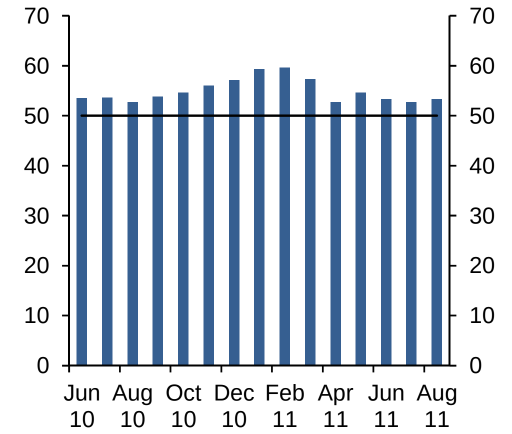
While the Federal Reserve has indicated that extraordinary measures could be undertaken if the situation is weakening, it has not announced any new initiative as more political, i.e. fiscal, actions are obviously being awaited before taking action. However, with this worsening situation the expectations are increasing that the Federal Reserve will implement new facilities probably soon. The success of such initiatives might be limited as the previous stimulus efforts such as QE2 was not able to revive the economy sustainably. However, there seems to be less options and these measures might be successful in supporting a low growth scenario such as has been seen in 1H11.

Consequently, the ISM numbers have hardly moved and manufacturing is now only slightly above the 50 range, standing now at 50.6 in August, after 50.9 in July. The ISM for services has increased to 53.3 in August from 52.7 in July pointing at an expansion of the sector that is responsible for more than two thirds of production, which certainly is a positive signal for the economy.

Graph 3.1: ISM manufacturing index



Graph 3.2: ISM non-manufacturing index



Source: Institute for Supply Management

Given the very weak 1H11 and the many uncertainties in the economy, the growth forecast for 2011 has been revised down further from 1.8% in the previous month to now 1.6%. This forecast incorporates a growth level significantly higher in the 2H11 and it remains to be seen if this will be achievable given the current sluggish demand trend. When looking at the 1H11 growth pattern and the most recent deceleration in private household consumption, this could be a challenge. For 2012 growth has been reduced from 2.3% to 1.9%. Therefore, the numbers for both years remain significantly below the 20-year average US growth rate of 2.5%.

Japan

Japan's economy is improving and continues to recover from the disaster that hit the country in the first half of the year. Still efforts are needed to regain the strength of the economy at a time, when the magnitude of the 2H recovery remains uncertain.

Japan's economy is improving and recovering from the disaster that hit the country in the first half of the year. Industrial activity has accelerated and rebuilding the shattered infrastructure has made progress with the support of the government, but also investments from the private sector have helped to revive the economy. However, it is only 5 months ago, when earthquakes in combination with a tsunami and the nuclear accident in Fukushima devastated the economy and a lot of effort is still needed to regain the strength seen in the economy prior to these events. In addition to that, it is as well important to note that the economy started to face considerable challenges already last year, when annualized quarterly growth was reported to be negative in the 2Q10 and 4Q10, at minus 0.5% and minus 2.5% respectively. With this weakening trend, the economy was hit by the 1H disaster, so it should not be a surprise that with these additional challenges, it could be exceptionally hard for the economy to regain momentum.

The latest data release now has shown that the economy contracted by 3.6% in 1Q11 and by 2.1% in the 2Q11. The positive news is that – versus previous estimates – the 2Q11 was better than the 1Q. Still, it needs to be seen at which rate the economy will now be able to expand in the 2H11. The government had announced supportive measures and the Bank of Japan is pursuing an accommodative monetary strategy as well, but the continued support of the private sector will be needed to revive the economy significantly in the 2H11. A strong recovery in the 2H11 is the scenario that most observers are expecting and our forecast for the 2H11 is at a considerable positive level. However the current expectation is that growth in the second half is not able to completely offset the negative impact from 1H11. This underpins the gravity of the situation. Compared to the Kobe earthquake situation in 1995, it is clear that the current situation is of a different magnitude as the economy was not only able to absorb the shock from the earthquake, but to even expand, backed by the supportive actions after the earthquake to rebuild the affected areas.

The most recent development has been supportive to the assumption of growth in the 2H11. Still, the question remains at which margin this will happen. While on a yearly basis, industrial production fell by 13.1% in March, it is still in decline by 1.5% in July, which as well compares with a decline of only 1.8% in June. With a PMI number for manufacturing of 52.1 in July and 51.9 in August, it could be expected that the recovery in manufacturing might continue. It stood at 45.8 in April and has since then recovered from these lower levels. On the other hand, manufacturing orders as a leading indicator – while having improved – point at a deceleration of manufacturing activity. Orders in July declined by 6.1% y-o-y, after having risen by 10.9% in June and by 11.8% in May. So it seems that some caution about the magnitude of the recovery is necessary. Interestingly, most of the decline came from foreign demand, a development that already started in June at minus 3.2% y-o-y, which has been followed by minus 14.1% y-o-y in July. Consequently, exports might come under pressure due to the global economic slowdown. Exports have been less supportive than it would be ideally, dropping 3.3% on a yearly basis in July, after declining by 1.6% in June, which marked a significant improvement from the minus 12.5% in April. Exports, as one of the main economic pillars, are currently strongly challenged by the strong yen too, which still stands significantly below the important ¥80/$ level and with the weakening US economy, there is no indication that it might weaken dramatically to support the international trade of the economy. Furthermore, the general weakening of the global economy triggered by problems in the US and Euro-zone might further prolong the recovery and the magnitude of the 2H11 rebound seems therefore slightly more uncertain.

The domestic side is improving, but also at low levels. While retail trade was significantly negative in March at minus 8.3% y-o-y, it stood at 1.2% in June, but moved back to only 0.7% in July. While this is still positive, the deceleration is obvious. At the same time, unemployment has increased in July to 4.7% from 4.6% in the last month, so this side of the economy is not entirely supportive either, despite the labour market could still be considered to be in relative good shape.

While an improvement in the economy is obvious, the current slow-down in the global economy can be felt as well in the post-disaster period now in Japan. Therefore, the magnitude of the 2H recovery still is relatively uncertain. Having taken this already into account last month, the forecast remains unchanged. The growth rates for 2011 and 2012 stand at minus 0.8% and 2.5% for 2011 and 2012, respectively.

Euro-zone

While the Euro-zone's economy continues to be focused on the sovereign debt challenge, real growth has started to slow considerably, with Germany and France having the biggest impact on this development. At 0.2% quarterly growth, 2Q11 GDP numbers for the Euro-zone were much below the 1Q11 of 0.8%.

While the Euro-zone's economy continues to be focused on the sovereign debt challenge, real growth has started to considerably slow down. At 0.2% quarterly growth 2Q11, GDP numbers were much below the 1Q11 of 0.8%. Importantly, the two big economies in the Euro-zone, Germany and France, have had the most impact on this development. While growing by 0.9% in 1Q11, the French economy was flat in the 2Q11. While the development has been slightly better for Germany, a significant deceleration is recognizable as well. The German economy has grown in the 2Q11 by only 0.1%, which compares with 1.3% in the 1Q11. This development is of some importance, as over the last quarters these two economies in particular were primarily supporting Euro-zone's growth with the peripheral economies very much engaged in battling their distressed financial situations. While the smaller economies as well have had their share in negatively impacting the Euro-zone economy via massive austerity measures, the two biggest economies – which comprise around half of the Euro-zone's economy – have managed to support the average growth level. Certainly, this development has been below the expectation of slightly higher growth numbers in the 2Q11 and it came as somewhat of a surprise followed signals from leading-indicators such as the PMI numbers.

Now due to austerity measures needed to a certain extent in their own economies, but mainly due to the global slow-down and a deceleration of exports, the worsening economic situation seems to finally have reached these two stronger economies This is particularly evident in Germany, which is badly needed as a supportive factor for the Euro-zone, not only because of its prominent role for helping the peripheral economies in their ability to maneuver through the sovereign debt challenges.

The situation needs close monitoring to see if this deceleration is gaining traction. PMI numbers are indicating an acceleration of the downturn, particularly for Germany as the most important economy. While the PMI number for manufacturing in Germany stood at more than 61 from January to April this year, indicating the strong expansion, it moved back dramatically to stay at only 50.9 in August, which is again lower than the indicator from July of 52.0. The PMI for manufacturing in France even slipped below the growth indicating level of 50 in August for the first time since July 2009. It now stands at 49.1 pointing at a decline of the manufacturing sector in France. The slow-down of these two major economies certainly had some impact on the PMI numbers for the Euro-zone, which now stands at only 49.0, its lowest level since September 2009. Having said this, the total PMI number for the Euro-zone – including the bigger services sector and construction – still indicates growth at 50.7, but it remains to be seen what the impact from the industrial sector downturn might be over the coming months.

When looking into manufacturing orders, the situation seems to also indicate a slowing down in the 2H11. While in the 4Q10, they were growing at more than 20% in Germany on a yearly base, they have moved back to levels of slightly more than 10% and a clear deceleration has become obvious. Manufacturing orders have increased by 11.0% in July, comparing to 11.9% in June. So it seems that they are holding up relatively well given the challenges of the global economy, but the indication of a lower growth dynamic in the second half seems to be clear. For France the trend has been slightly better, with manufacturing orders in June still showing a level of 20% in yearly growth, but it remains to be seen how the July number has developed. The slightly supportive trend, while decelerating, can also be observed for the total Euro-zone. Orders for the Euro-zone stood at 11.0% growth on a yearly basis in June, which compares to 13.8% in May, but almost matches the 11.7% y-o-y level of April.

The ECB has hinted at potentially lowering interest rates later in the year, which would mark a significant change in its monetary policy and could be supportive for the economy. In the most recent monthly meeting, the ECB kept rates at the same level at 1.5%. However, with inflation at 2.5% for the second consecutive month in August, the ECB might need to pursue a slightly more accommodative monetary policy.

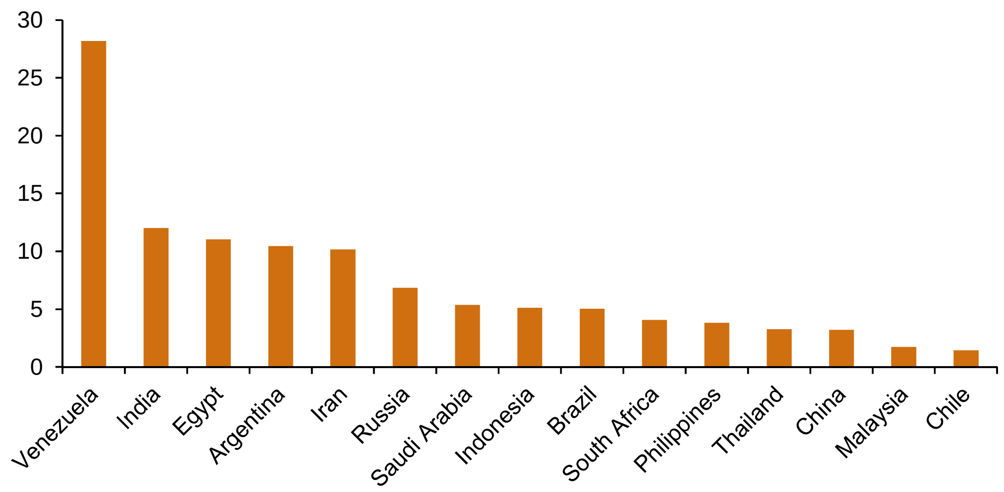
Further challenges for the Euro-zone might lay ahead and therefore it seems sensible to lower the growth expectations for both 2011 and 2012. This year's growth forecast has been revised down to 1.7% from 2.0% and 2012 has been lowered to 1.1% from 1.4% previously.

Emerging markets

GDP growth remains close to potential in emerging economies, although inflation continues to be a concern

Currently in many emerging economies, GDP growth has been close to its potential level. With expansionary policies in place since 2009, inflation has been rising since last year turning overheating into a major concern in these economies. In India, inflationary pressures continued, although with a moderating rate compared to May and June of this year, as the wholesale price index in July stood 9.2% higher compared to the last year, down from 9.6% in May and 9.4% in June. In its most recent monetary policy announcement, the Reserve Bank of India (RBI) said that it expected annual inflation to rise to 9.5% in the 2H11 before slowing to around 7% by March 2012. According to a study referred to the Country Report from the Economist Intelligence Unit (EIU, July 2011), the inflation had cost Indian households an additional US$130 bn between the fiscal year 2008/09 and 2010/11. Food prices saw the sharpest increase during the period, accelerating to 11.6% in the two-year period. In China, the rate of Consumer Price Inflation increased in July to 6.5% from 6.4% in June. Food costs rose by 14.8% in July, but there are indications that they may have peaked. Production costs in China are also growing fast, affected by energy cost increase and particularly by an increase in wages that in some provinces have risen 20% on annual basis. Data from the National Bureau of Statistics of China (NBS) show that producer prices rose by 7.5% y-o-y in July. Figures from the China Federation of Logistics and Purchasing show that logistic expenses increased by an alarming rate of 18.5% a year ago. This partly reflects the impact of rising fuel cost but also wage growth. In Russia, however, inflation moderated to some extent in June as food prices fell. Consumer price inflation slipped to 9.4% on annual basis, slightly below the 9.6% rate in May.

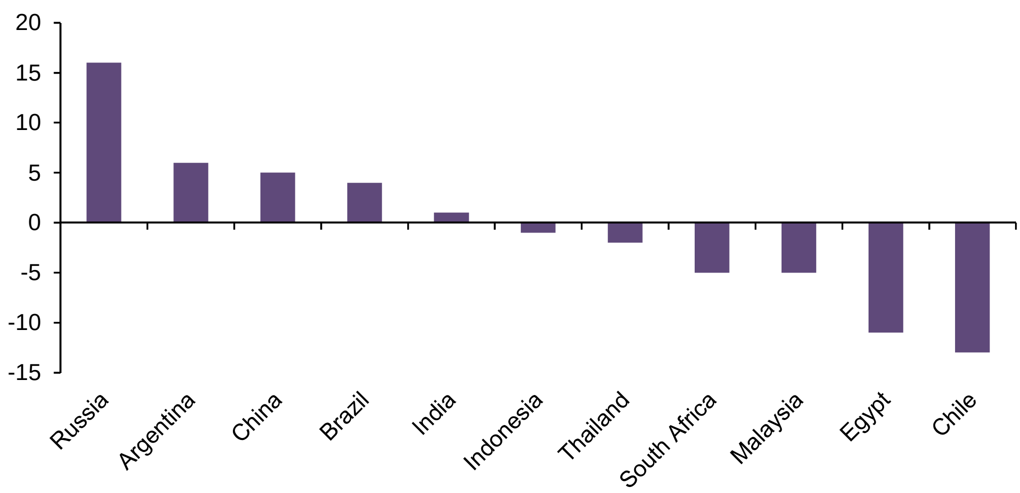
Graph 3.3: Consumer price index, latest,% increase on year ago



To curb inflation, the country's central bank surprised the market by raising its policy rate by 50 basis points (bps) on 26 July increasing its policy rate to 8%. This was the eleventh interest rate rise since January 2010, to prevent a looming threat of double digit inflation. For similar reason, China raised reserve requirement ratio in June by 50 bps and interest rate on 6 July by 25 bps. This has been the fifth increase in borrowing cost since late 2010 taking benchmark interest rate in China to 6.56%. Accelerating inflation in Russia and Brazil too has left these governments with no choice but tightening monetary expansion. However, because of slowing down in economic growth in Brazil, the monetary authority of Brazil surprised market by cutting its policy rate by 50 bps on 31 August reducing its policy interest rate to 12.0%. In Russia, consumer price inflation seems moderating and government target inflation rate of 7% no longer appear to be unachievable.

One critical factor causing overheating in emerging economies is excessive credit growth, which is measured by the difference between growth rates of banking credit and nominal GDP. As the graph below illustrates all four BRIC countries (Brazil, Russia, India and China) have had excessive credit expansion in recent years. Fighting inflation cannot succeed without bringing credit expansion and money supply under control. In 2010, banking credit in China grew more than the target set by the monetary authority, but in 1H11 there has been evidence that monetary authority has been able to confined banking credit expansion to their official targets. China's monetary authority policy normalization began early last year and frequent increases in reserve requirement ratios have been the central bank's main policy tool to control excess liquidity. The pace of M2 money supply growth has already decelerated since early this year.

Graph 3.4: Excess credit growth, growth in bank lending - the growth in nominal GDP



However, in light of recent slowdown in growth of the global economy – which has caused uncertainty regarding foreign trade expansion and economic growth in DCs as well – many emerging economies now appear to be reassessing their strategy for economic growth and at the same time managing overheating of the economies. Since last year and through mid-2011, most of them have pursued a policy of gradual interest rate normalization. Now Latin America central banks are preparing to ease their monetary policy to prevent economic growth slowdown. One unexpected development was Brazil's surprise cut of 50 bps of its policy interest rate on the last day of August. Chile's central bank has also let it be known that the bank would reverse course and ease its monetary policy if Chile's growth rate falls below the 5% threshold. Also Mexico's Central Bank (Banxico) indicated, it would cut rates in response to poor economic performance or an unwanted tightening of domestic financial conditions.

Table 3.2: Adjusting policy Interest rates in emerging markets

	Current policy rate		Change in policy rate from through (bp)+
EM in Latin America:	**8.38**		**266**
Brazil	12.00	*(-50bp on 31 Aug.)*	325
Mexico	4.50		0
Chile	5.25		475
Columbia	4.50		150
EM in Asia:	**5.72**		**144**
China	6.56		125
India	8.00		325
Korea	3.25		125
Taiwan	1.88		63

Source: J. P. Morgan, 2 September 2011
+ Refers to through rate from 2009 to date

By contrast, emerging economies in Asia seem to be determined to continue with gradual normalization of their interest rates. China's central bank has announced a further monetary tightening of monetary policy through a more comprehensive bank reserve requirements. This announcement came after a surprise rise of interest rate in Thailand. There is also a possibility of an interest rate hike in India as the government has announced its priority to bring down inflation to its targeted level.

The recent divergence in monetary policy approaches does not appear motivated by sharp differences in inflation dynamics. Inflation is above the target level in both the Latin American and Asian regions. However, as the table above shows, the magnitude of adjustment to policy interest rate has been greater in Latin America than in Asia over the last two years. Also economic growth in Latin America has been generally lower than in the emerging economies of South East Asian countries, while trade deficit and currency appreciation have been causing concern in Latin America.

Brazil

Recent interest rate cut marks risky policy change in Brazil

As noted, Brazil's recent interest rate cut was surprising as it came amid economic growth and a tight labour market where the unemployment rate is historically low. This is seen as a risky policy change as inflation still remains above target in this economy. What is even more surprising is that there is the possibility that Brazil's central bank will move further in this direction and reduce Selic rate to 11% in a couple of interest rate cuts. Separately, Brazil's Finance Minister announced an increase in this year's central government primary surplus target to R$91 bn from the R$81 bn expected previously, implying an improvement of 0.3% in GDP in the fiscal objective for 2011. He also was quoted as warning the US against embarking on further quantitative easing and vowed to continue fighting the "currency war" as he blamed the weak dollar for crippling local industrial growth in the 2Q.

Gross domestic product growth of Brazil has slowed to 0.8% from 1.2% in the 1Q, mainly because of a poor performance in the industrial sector, which only expanded 0.2% according to the Brazilian Institute of Statistics and Geography (IBGE). Brazil economic officials believe that weak industrial production growth is related to the sharp appreciation of the real against the dollar, making exports less competitive and flooding the country with cheap imports.

The Brazilian real has appreciated by more than 40% against the dollar since the end of 2008, prompting a flurry of currency intervention by the central bank and measures by the government to force speculators out of the market. However, despite the industrial slowdown, Brazil's GDP still grew 3.1% on a yearly basis - thanks to strong consumer demand, investment and the robust services sector. Government spending also boosted growth in the 2Q, rising 1.2% and even outpaced the 1% growth in consumer spending. Economists have long argued that Brazil's government must cut its own consumption if it is to curb inflation, which is currently running above the central bank's target at 7.1% a year.

China

China's outbound investment continues to grow

China's National Bureau of Statistics manufacturing PMI inched up modestly in August to stand at 50.9 compared to 50.7 in July. This reverses four consecutive monthly declines and suggests that industrial activity has been stabilizing in recent months. Meanwhile, 2.1% decline in the August new export orders components highlights the growing uncertainty over external demand (J.P. Morgan, 2 September 2011). The cautious outlook for the US and global economic will continue to discourage external demand in coming quarters. Domestic demand however, appear to get strength by factors such as affordable housing program initiated by the government to ease cost of housing for lower income groups. Also newly started investment projects are turning up steadily in recent months.

Wages in China have been growing fast in recent years that support domestic demand. China's policy is double wages in five years but many expect that this will take shorter than five years.

A report by UBS shows that Chinese export share of light manufacturing to the US and EU is starting to decline from more than 50% to about 48%. The beneficiaries include Bangladesh (up 19% in exports to the US) and Vietnam (16%). For Guangdong, China's most industrialized and wealthiest province, this migration of low-paying jobs from the province is precisely what provincial leaders have been pushing for over the past couple of years. The province lowered its growth rate target to 8% annually for the current five-year plan that runs from 2011-2015.

According to the EIU, China continues to play a growing role in international investment. This country was the fifth largest source of outbound investment in 2010 after the US, Germany, France and Hong Kong. China's outbound investment has continued apace in recent months, the main fields of interest being natural resources and financial services.

India

Evident slowdown in the pace of India's economic growth

India's pace of economic growth slowed to 7.7% in the three months to the end of June as higher interest rates bit deeper into the expansion of the world's fastest-growing large economy after China. The slowest growth for 18 months, which compared with 8.8% growth in the same period a year ago, follows aggressive monetary tightening by the Indian central bank as it tries to combat near double-digit inflation and an uncertain global economy. According to OECD, Indian economy continued to slow in June, with the leading indicators falling to 96.1 from 97 in May. Many investment banks are more pessimistic. They are predicting growth for the current fiscal year at about 7.5% but few see the monetary tightening as dramatically choking off robust growth.

The chief economist for India at HSBC has characterized growth in India as "moderating but not collapsing". The health of the economy will largely depend on a continued rapid expansion of the services sectors. Construction sector weakness was a big concern at a time when great emphasis was being put on India's challenge to improve its overstretched infrastructure. The manufacturing and construction sectors recorded substantial falls in growth in the quarter, in contrast to a more buoyant services sector. Construction growth slumped to 1.2% from 7.7% a year earlier. Manufacturing growth declined to 7.2% from 10.6%.

The Reserve Bank of India is expected to raise rates again at a monetary policy meeting on 16 September, which would be the twelfth rise in about 18 months. It may also revise down its 8% growth forecast for the current fiscal year in October. Central bank officials believe that stepping back from political ambitions of reaching double-digit growth is wise, when inflation remains well above its target levels. They hold the view that economic growth above 8% leads to an unsustainable level of inflation in the Indian economy that hurts low income households.

One bright side of the Indian economic growth has been its booming export and foreign trade. Merchandise export surged by 81%.

Russia

Indicators point to a slight acceleration in Russian GDP in June

The breakdown of the 1Q GDP by expenditure suggest by the Federal State Statistics Service (Rosstat) suggest that that domestic consumption was the main driver of GDP growth of 4.1% y-o-y, with no contribution from investment spending. Private consumption grew by 5.7% y-o-y, the fastest rate since the onset of the crisis in 2008. More recent economic indicators point to a slight acceleration in GDP growth in June after growth in May estimated at 3.8% y-o-y. According to Rosstat, industrial output rose by 5.7% y-o-y on year basis the fastest growth since February. The transport sector also posted a fast growth.

The HSBC/Markit manufacturing purchasing managers index for June also indicates an improvement in industrial sentiment. The Russian manufacturing PMI stood at 49.9 in August nearly unchanged from July 49.8. Only disappointment was a fall in the employment index to 48.8 from 50.3. Recent demand indicators complement the relatively robust output data. Retail sales rose by 5.6% y-o-y in June and investment spending grew for the third month in a row by 4.7% y-o-y.

Capital outflows fell in the 2Q as central bank data indicated a moderating of outflow in the 2Q, with net outflows estimated at $9.9 bn down from $21.3 bn in the 1Q. The non-financial sector saw a sharp reduction in net outflows mainly as a result of $14.1 bn rise in foreign investment during the quarter and a small rise in loans to the sector.

Table 3.3: Summary of macro-economic performance of the BRIC countries

	GDP growth rate		Consumer price index, % y-o-y change			Current account balance, US$ bn		Government fiscal balance, % of GDP	
	2011	2012	2010	2011	2012	2011	2012	2011	2012
Brazil	4.1	4.2	5.9	6.2	5.0	-59.5	-72.7	2.7	2.4
China	9.0	8.5	3.3	5.3	4.1	290.6	286.1	-1.8	-1.9
India	7.7	7.7	10.2	7.9	7.1	-53.5	-56.9	-4.7	-4.8
Russia	4.1	4.5	8.8	8.1	7.2	83.9	59.0	-1.1	-1.0

**Source: Consensuses Forecast, August 2011*
Figures for India are from the fiscal year 2010-2011 and 2011-2012

Developing countries

Argentina aims to cap public spending growth; Malaysia’s economic growth slows

Argentina's 2012 budget bill aims to cap public spending growth at 20%, below current rates of more than 35%, as state expenditure surges ahead of the October presidential election. The Economy Ministry hopes that government departments will be able to seek extra funds to cover basic needs.

Malaysia's economic growth slowed to 4% in the 2Q from a year ago, in line with expectations, while inflation in July came in slightly under forecast, giving the central bank room to hold rates steady at its next policy review this month. Strong crude oil and palm oil prices supported the trade-reliant economy in the 2Q of 2011, but a slow recovery in manufacturing weighed on overall growth, central bank data showed.

The central bank is expected to keep rates steady through the rest of the year because of the threat to growth. GDP growth in the 1Q was a revised 4.9% y-o-y. While inflation has been ticking up in the Southeast Asian countries, the central bank has been focusing on boosting growth and relying on a strengthening currency to cool inflation.

OPEC Member Countries

Saudi Arabia's short-term economic outlook is favourable; IMF encourages careful monitoring.

Saudi Arabia's short-term economic outlook is favourable, but the government should keep an eye on inflationary pressures after its pledged increase in social spending, the International Monetary Fund (IMF) said. In view of the spending plans, the IMF advised the Kingdom to "carefully monitor possible inflationary pressures" while encouraging "the proactive use of fiscal policy, supported by available monetary policy instruments, if needed."

The Kingdom's policy priorities should focus on maintaining fiscal sustainability over the medium-term, securing broad-based growth and fostering job creation. The IMF left its gross domestic product growth and inflation forecasts for 2011 unchanged at 6.5% and 6.0%, respectively.

High rents allied with rising food and gold prices combined to push up inflation in Saudi Arabia in July, although the increase is not a source of concern for the Kingdom this year. Inflation edged up to its highest level since February in July, though it has effectively been stable over the past six months.

Venezuela inflation trends upwards; country looks to repatriate gold reserves

Inflation in Venezuela in July, as measured by the national index INPC, came in on the high side of expectations at 2.7%, up from June. Including this number, the INPC for the first seven months of the year stands at 16%, below the 18% for the same period of 2010. However, there is an uptrend; inflation has risen by 25.1% in the last year.

Venezuelan officials confirmed on Wednesday that they are looking to repatriate billions in gold reserves held abroad to "diversify" their portfolio in the light of debt problems plaguing the US and other advanced economies around the world. The Venezuelan Central Bank held nearly US$18 bn in gold as of the end of the first half of the year, making up nearly 63% of total reserves. As of the end of June, Venezuela had the largest gold holdings in all of Latin America, according to the World Gold Council.

Nigeria's headline inflation falls in July; economy expected to grow by 8% this year

Nigeria's headline inflation unexpectedly fell in July, data showed, reaching its lowest level for more than three years following an aggressive period of monetary tightening by the central bank. Gains in consumer prices eased to 9.4% y-o-y from 10.2% in June, the National Bureau of Statistics said on Tuesday. While the drop in inflation to below its notional target will please the central bank, core inflation remains at 11.5%. Core inflation excludes some volatile components such as food and energy. The drop in food inflation, which is seasonal, will have contributed heavily to the fall in the headline figure. Nigeria's economy probably expanded about 7.9% in the 2Q and is expected to grow 8% this year, according to the statistics office.

Oil prices, US dollar and inflation

The US dollar fell versus all major currencies in August, but most recently since the beginning of September gained momentum, particularly versus the Euro, its most important counterpart

The US dollar fell versus all major currencies in August on average, but most recently since the beginning of September gained momentum, particularly versus the euro, its most important counterpart. In August, the dollar remained almost flat versus the euro. Compared to the pound sterling, it declined by 1.5%, versus the Japanese yen it lost 2.7% and fell significantly versus the Swiss franc by 5.2%. While in August, the euro continued to move in its trading range between $1.40/€ and $1.50/€ to average $1.4342/€, it most recently fell below the important $1.40/€-level, probably an indication of an appreciation of the US dollar.

The US dollar's fall particularly versus the Swiss franc was an extension of the losses that it experienced for all of the year, bringing the decline to 20% year-to-date. The Swiss National Bank (SNB) most recently announced a target rate versus the Euro of

CHF1.20/€. This most probably will also lift the value of the US dollar, as less safe-haven currencies are available, with the Bank of Japan (BoJ) intervening and the SNB being now willing to intervene on an almost unlimited basis. This could be the start for an appreciation over the coming months of the US dollar being the main reserve currency and the preferred safe haven currency. A rate cut in the Euro-zone combined with a continued deceleration of the Euro-zone's economy in addition to its sovereign debt problems, could easily further support the appreciation of the US dollar.

In nominal terms, the OPEC Reference Basket declined by 4.7% or $5.3/b in July from $111.62/b to $106.32/b in August. In real terms, after accounting for inflation and currency fluctuations, the Basket price declined by 5.7% or $3.76/b to $62.82/b (base June 2001=100). Over the same period, the US dollar fell by 0.9% against the import-weighted modified Geneva I + US dollar basket while inflation increased by 0.1%. *

* *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 has been revised down by 0.1 mb/d to show growth by 1.1 mb/d in 2011

World oil demand in 2011

The US summer driving season fell short of its peak, sliding 2% year-to-date. The economic slowdown contributed to this devastating performance. The setback in the OECD economy has been affecting world oil consumption since the onset of the financial crisis. In our early oil demand forecast, we warned of a downward risk due to a further weakening in the global economy. The effect is estimated at a 0.3 mb/d reduction in the initial oil demand forecast. The projected downside risks are already materializing, dragging world oil demand growth down by 0.2 mb/d from the initial estimate. The slowdown in the OECD region is negatively affecting China and India oil demand as well. China's oil demand was revised down by 0.2 mb/d in the third quarter, which is typically the peak of the country's oil consumption, versus the last assessment.

The uncertainty for the short term still exists, with the US economy as a key wildcard for oil demand this year.

Graph 4.1: Forecasted y-o-y growth in 2011 world oil demand, by product

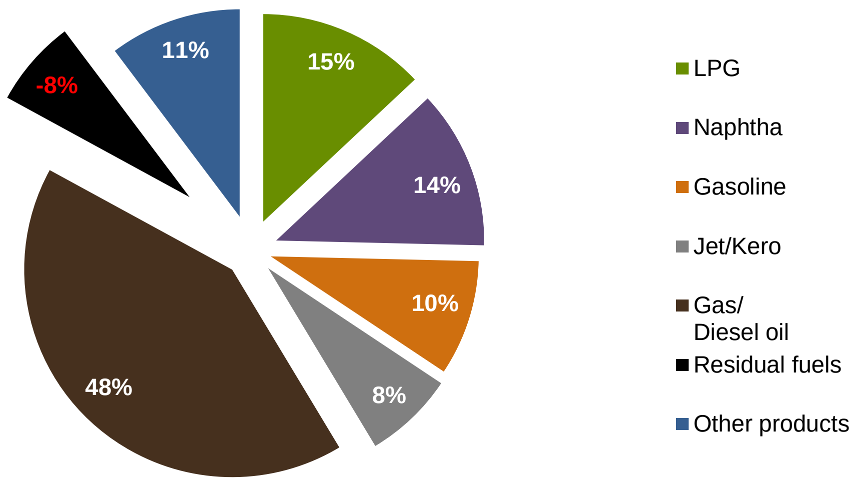


Table 4.1: World oil demand forecast for 2011, mb/d

							Change 2011/10	
	2010	1Q11	2Q11	3Q11	4Q11	2011	Growth	%
North America	23.76	23.76	23.28	23.91	23.95	23.73	-0.03	-0.14
Western Europe	14.58	14.22	14.14	14.76	14.75	14.47	-0.11	-0.78
OECD Pacific	7.81	8.35	7.13	7.60	8.05	7.78	-0.04	-0.45
Total OECD	**46.15**	**46.32**	**44.55**	**46.26**	**46.75**	**45.97**	**-0.18**	**-0.39**
Other Asia	10.18	10.33	10.45	10.36	10.56	10.43	0.25	2.41
Latin America	6.18	6.16	6.27	6.52	6.42	6.34	0.17	2.75
Middle East	7.28	7.32	7.38	7.73	7.46	7.47	0.19	2.67
Africa	3.35	3.42	3.40	3.27	3.46	3.39	0.03	0.97
Total DCs	**26.99**	**27.23**	**27.50**	**27.89**	**27.91**	**27.64**	**0.64**	**2.38**
FSU	4.14	4.11	3.95	4.38	4.46	4.23	0.08	2.04
Other Europe	0.69	0.67	0.63	0.67	0.73	0.67	-0.02	-2.63
China	8.95	9.13	9.55	9.60	9.64	9.48	0.53	5.94
Total "Other regions"	**13.79**	**13.91**	**14.13**	**14.65**	**14.83**	**14.39**	**0.60**	**4.34**
Total world	**86.93**	**87.47**	**86.19**	**88.80**	**89.49**	**87.99**	**1.06**	**1.22**
Previous estimate	86.93	87.43	86.30	89.28	89.50	88.14	1.21	1.39
Revision	0.01	0.04	-0.11	-0.49	0.00	-0.14	-0.15	-0.17

Totals may not add up due to independent rounding

The world oil demand forecast for 2011 was revised down by 0.1 mb/d to show growth of 1.1 mb/d in 2011, averaging 88.0 mb/d.

Table 4.2: First and second quarter world oil demand comparison for 2011, mb/d

			Change 2011/10				Change 2011/10	
	1Q10	1Q11	Volume	%	2Q10	2Q11	Volume	%
North America	23.41	23.76	0.35	1.50	23.70	23.28	-0.41	-1.74
Western Europe	14.31	14.22	-0.10	-0.67	14.25	14.14	-0.11	-0.80
OECD Pacific	8.23	8.35	0.12	1.47	7.34	7.13	-0.21	-2.88
Total OECD	**45.94**	**46.32**	**0.38**	**0.82**	**45.29**	**44.55**	**-0.74**	**-1.63**
Other Asia	10.11	10.33	0.23	2.26	10.23	10.45	0.22	2.15
Latin America	5.94	6.16	0.22	3.78	6.15	6.27	0.12	1.95
Middle East	7.18	7.32	0.14	1.94	7.17	7.38	0.20	2.84
Africa	3.38	3.42	0.04	1.04	3.37	3.40	0.03	1.01
Total DCs	**26.60**	**27.23**	**0.63**	**2.36**	**26.92**	**27.50**	**0.58**	**2.15**
FSU	4.02	4.11	0.09	2.18	3.86	3.95	0.09	2.33
Other Europe	0.69	0.67	-0.01	-2.01	0.64	0.63	-0.02	-2.34
China	8.37	9.13	0.76	9.06	9.09	9.55	0.46	5.07
Total "Other regions"	**13.08**	**13.91**	**0.83**	**6.36**	**13.60**	**14.13**	**0.54**	**3.94**
Total world	**85.63**	**87.47**	**1.84**	**2.15**	**85.81**	**86.19**	**0.38**	**0.44**

Totals may not add up due to independent rounding

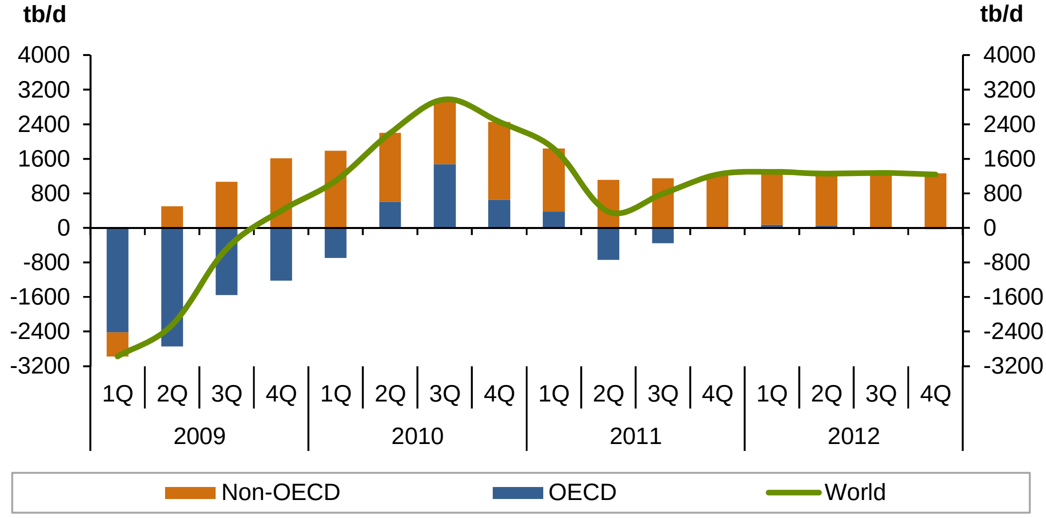
Table 4.3: Third and fourth quarter world oil demand comparison for 2011, mb/d

			Change 2011/10				Change 2011/10	
	3Q10	3Q11	Volume	%	4Q10	4Q11	Volume	%
North America	24.07	23.91	-0.17	-0.69	23.85	23.95	0.10	0.42
Western Europe	14.92	14.76	-0.16	-1.10	14.83	14.75	-0.08	-0.53
OECD Pacific	7.62	7.60	-0.03	-0.34	8.07	8.05	-0.02	-0.28
Total OECD	**46.62**	**46.26**	**-0.36**	**-0.76**	**46.75**	**46.75**	**0.00**	**0.00**
Other Asia	10.10	10.36	0.27	2.64	10.30	10.56	0.26	2.56
Latin America	6.34	6.52	0.18	2.89	6.27	6.42	0.15	2.42
Middle East	7.50	7.73	0.23	3.09	7.26	7.46	0.20	2.75
Africa	3.24	3.27	0.03	0.96	3.43	3.46	0.03	0.87
Total DCs	**27.18**	**27.89**	**0.71**	**2.62**	**27.27**	**27.91**	**0.65**	**2.37**
FSU	4.30	4.38	0.08	1.86	4.38	4.46	0.08	1.86
Other Europe	0.68	0.67	-0.02	-2.20	0.76	0.73	-0.03	-3.82
China	9.23	9.60	0.37	4.01	9.10	9.64	0.54	5.96
Total "Other regions"	**14.21**	**14.65**	**0.43**	**3.06**	**14.24**	**14.83**	**0.59**	**4.17**
Total world	**88.01**	**88.80**	**0.79**	**0.90**	**88.25**	**89.49**	**1.24**	**1.40**

Totals may not add up due to independent rounding

However, as mentioned before, should higher international oil prices persist, and or should further setbacks in the OECD economies occur, then it might impose a stronger reverse elasticity on oil demand, putting more weight on the downside. This risk might be translated into a reduction in current growth of another 200 tb/d.

Graph 4.2: Quarterly world oil demand growth



Alternative fuel

For a long time the bio fuel industry has been accused by many international organizations, including the UN, of causing food prices to escalate, leading to deforestation worldwide. A recent finding published by a non-profit research organization located in London indicates that fuel made from biomass also has the potential to increase food prices.

Due to a bad sugar cane season, Brazil decided to reduce the share of biofuels in gasoline by 5% from a 25%-blend. This move will take effect on 1 October, but is not expected to affect the country's oil demand.

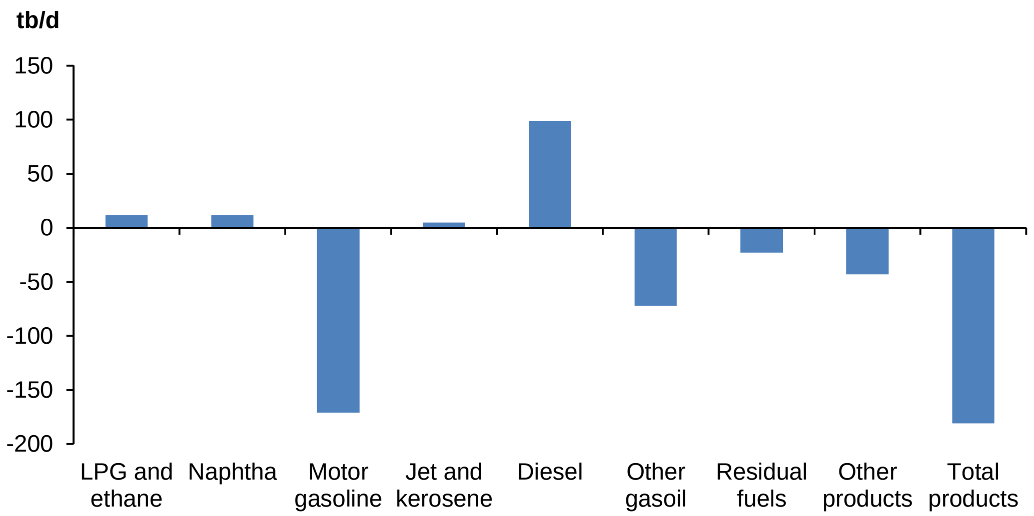
OECD – North America

North American oil demand to contract by 0.03 mb/d in 2011

The US introduced a new standard to reduce energy consumption in newer models of medium and heavy trucks. The new vehicles energy standard is aimed at reducing consumption by 20%. This initiative is part of a larger plan to increase average vehicle mileage to 54.5/gal by 2025.

The latest US monthly oil consumption data for June showed a contraction of approximately 1.3% y-o-y. It is a smaller contraction than what was seen in May. Transportation fuel demand, especially gasoline, accounted for the bulk of this decline and was attributed to higher retail fuel prices, increased vehicle fleet efficiencies, as well as, the ongoing pessimistic outlook for the economy. Similar to May, the growth in distillates consumption was still very weak, while jet/kerosene consumption was flat and residual fuel oil continued to contract for the second month in 2011. Propane/propylene consumption was also negative after showing weak growth in April and May. The decline in these products is attributed to weakening manufacturing activities.

Graph 4.3: OECD product demand changes, 2011



Preliminary weekly data for July and August displayed similar contractions in US oil consumption. Transportation fuels are the product category mostly affected and this was throughout the traditional US driving season, including the Labor Day holiday, which ended in a quite disappointing dip. Furthermore, the first eight months of 2011 show decreasing y-o-y consumption for all product categories with the only exception being distillate fuel oil, jet/kerosene and other products. Motor gasoline and propane/propylene showed the strongest contractions. As mentioned in last month's MOMR, consumption over the driving season was certainly a key factor for the development of US oil demand during the second half of the year – unfortunately, most recent indications call for a rather strong downward risk.

Mexico's oil consumption in July was up by 3.4% compared to last year. Decreasing consumption in transportation products was more than offset by increasing demand for industrial fuels, especially fuel oil. Latest available data shows Canadian June oil demand contracted by 1.5%; with the largest negative contribution to oil consumption coming from industrial fuels.

For the whole of 2011, North American oil demand is expected to shrink by 0.03 mb/d. In 2012, North America is projected to see marginal growth of only 0.14 mb/d.

US car sales rose again at a weak pace of 1.0% in July, as consumers were faced with concerns about the development of the US economy. Furthermore, tighter supplies as a result of the Japanese earthquake contributed to weaker auto sales in July. Small and midsized cars, as well as SUVs and crossovers, showed big increases as a result of continuing lower fuel prices. Moreover, the latest data shows that August sales grew by 3.4% y-o-y, exceeding expectations and again supported by a remarkable increase in SUV and crossover sales.

The latest available Canadian data showed auto sales in Canada climbing up by 3.2% in August y-o-y despite higher gasoline prices. Light trucks were the segment with the largest sales increases. Although Canadian sales were strong in August, they were still below levels achieved prior to the financial crisis with the new car market being also very volatile during 2011. According to the Mexican Automobile Industry Association, Mexican auto sales, exports and production grew robustly in June 2011, with gains of 14.1%, 6.0% and 11.4% respectively.

OECD – Europe

Oil demand in OECD Europe to contract by 0.11 mb/d in 2011

As it is the case throughout Europe, Italian oil demand declined by 6% in July y-o-y. This took place in the summer vacation season and was caused by higher retail prices and by economic turbulence. A sluggish economy negatively affected new car sales suppressing June sales down slightly by more than 10%. Gasoline sales were affected the most, sliding down by 12% in July followed by diesel contraction of 5.7% y-o-y. Across Europe, oil demand is on the declining trend as is expected to be the case until year end.

European oil consumption contracted strongly by 0.23 mb/d in July, deepening the first seven months' decline in 2011 to 0.12 mb/d. This reflects the region's weak economy. A lot of Europeans are cutting down their travel in the summer resulting in weaker-than-expected transport fuel usage. July oil consumption in Germany grew slightly, while France continued to contract and the UK was flat. Decreasing demand in industrial and transportation fuels were the main reasons behind declining oil consumption in Europe in July. Over the short- and medium-term development, European oil consumption will be most determined by the continuing sovereign debt problems. The European Big Four oil demand decreased by 0.17 mb/d in July compared to the same month the year before. The Big Four oil consumption of transportation fuels continued to contract in July, while industrial fuels also decreased after a short period of growth.

OECD Europe's total contraction in oil demand stands at 0.11 mb/d in 2011. For 2012, oil consumption is expected to shrink again, as a result of the rather pessimistic economic development at a slightly lower magnitude of 60 tb/d.

Table 4.4: Europe Big 4* oil demand, mb/d

	Jul 11	Jul 10	Change from Jul 10	Change from Jul 10 %
LPG	393	391	2	0.4
Gasoline	1,261	1,337	-77	-5.7
Jet/Kerosene	835	808	26	3.3
Gas/Diesel oil	3,164	3,297	-132	-4.0
Fuel oil	457	461	-4	-0.9
Other products	1,252	1,235	17	1.3
Total	**7,361**	**7,530**	**-169**	**-2.2**

** Germany, France, Italy and the UK*

According to the latest information by the German Association of Automotive Industry, German new car registrations grew by 9.9% in July y-o-y. The large/luxury car sales accounted for the bulk of this increase. In France, new car registrations shrank by

5.5% in July compared to a year ago, the fourth consecutive decline this year. This was due to a very high base during 2010, resulting from scrappage incentives and economic uncertainty. However, the decline in the French market seemed to slow down in July. Similarly, the UK new car market declined by 3.5% in July, reflecting artificial volumes from scrappage incentives during 2010 and a weak economy.

OECD – Pacific

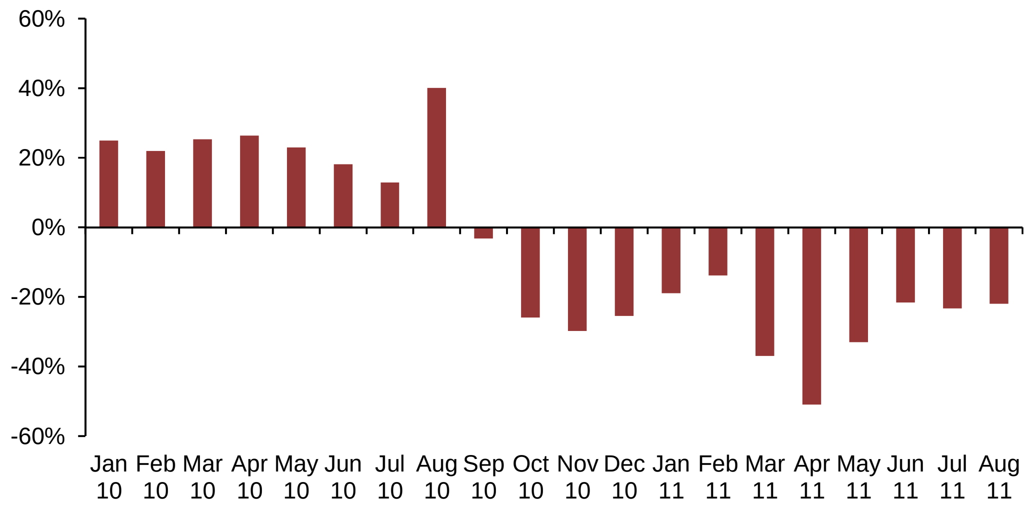
OECD Pacific to fall by 40 tb/d in 2011

In Japan, the latest July monthly data, in combination with downward revisions to June consumption, marked the first month with growing oil consumption since February 2011. However, the only reason behind increasing oil requirements was direct crude burning as one of the alternatives to the nuclear outfall for the production of electricity. All other product categories – with the exception of naphtha and fuel oil, which both contracted – continued in the negative, reflecting the slow speed of the recovery and thus no improvement for the country's oil consumption during 2011. In South Korea, June economic activities resulted in decreases in the consumption of all products, largely fuel oil, LPG – as a result of fuel switching – and distillates.

OECD Pacific oil consumption is expected to fall by 40 tb/d during 2011 and 50 tb/d in 2012, while projections are heavily dependent on the speed of recovery in Japan.

Japan's auto sales continued to decline by 21.6% in August y-o-y. It remains to be seen when the Japanese auto industry will recover from the effects of the March 2011 earthquake; clearly, substantial improvements have not been observed so far.

Graph 4.4: Japanese new passenger car registrations, y-o-y % changes



Developing countries

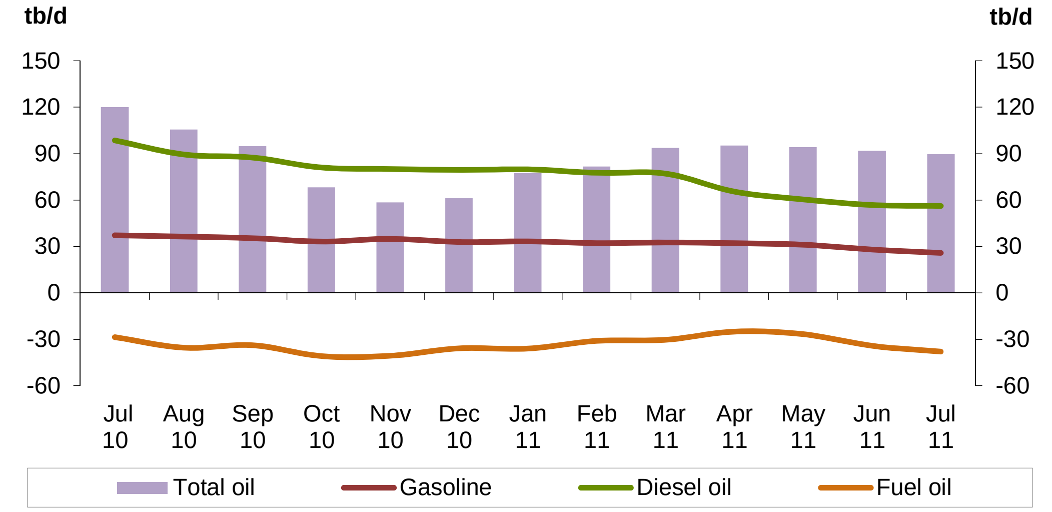
Developing Country consumption forecast at 0.64 mb/d in 2011

Following disappointing oil consumption in June, India's oil demand inched up by 0.1 mb/d y-o-y in July. As expected, diesel usage grew the most by 5.4% y-o-y. Diesel demand is related not only to transport demand but also to the agricultural and industrial sectors. Diesel makes up 40% or 1.3 mb/d of total oil use in India; hence it contributed 70% to total estimated oil demand growth. It is followed by LPG industrial use which is estimated at 0.44 mb/d. The third largest consuming product is gasoline, which was estimated at 0.34 mb/d in July. India's oil demand in 2011 is estimated to grow by 0.13 mb/d, averaging 3.4 mb/d.

India's oil demand to grow by 0.13 mb/d in 2011

According to the Society of Indian Automobile Manufacturers (SIAM), car sales in India hit a two-year low with just 15% growth in July, compared to growth of 38% in the same month last year. This was due to higher cost of ownership, higher retail fuel prices and interest rate hikes, which have affected consumer sentiment. Moreover, the 7% increase in diesel prices during June also negatively influenced diesel cars sales – approximately one third of newly bought cars in India are diesel motorized.

Graph 4.5: Yearly changes in Indian oil demand, 12 month moving averages



Other Asia oil demand growth revised down slightly to 0.25 mb/d in 2011

After India, Thailand's oil demand was expected to grow the most within the Other Asia region and the trend turned out to be stronger than the early estimate. The forecast for oil demand in Thailand was revised up by another 11 tb/d to stand at 74 tb/d for the year. As is the case in most non-OECD countries, oil demand in Thailand is expected to peak in the second and third quarters.

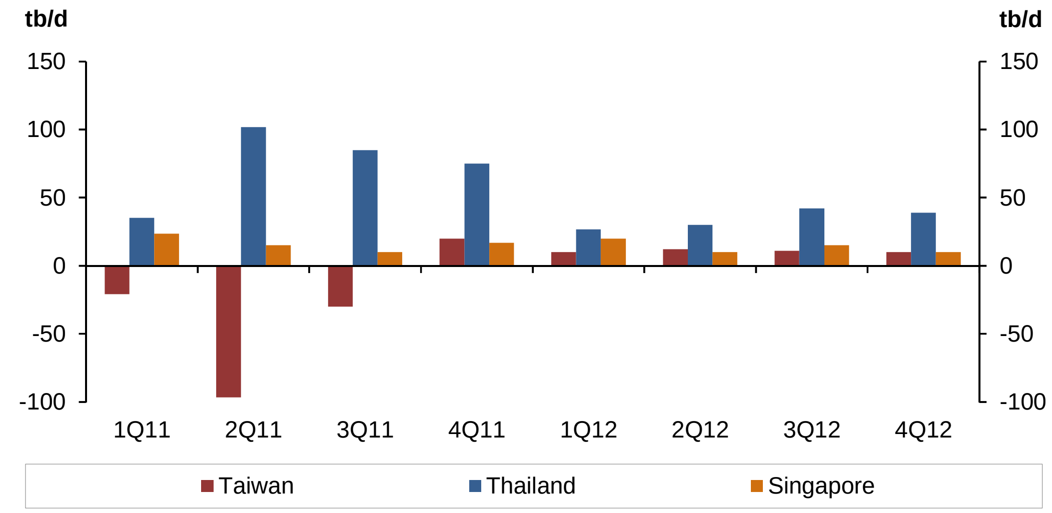
Due to weaker-than-expected Indian oil demand in the third quarter, the forecast for Other Asia oil demand growth was revised down slightly by 30 tb/d to stand at 0.25 mb/d in 2011, averaging 10.4 mb/d.

Table 4.5: Consumption of petroleum products in Thailand, tb/d

	Jun 11	Jun 10	Change	Change %
LPG	224	190	34	17.9
Gasoline	127	129	-2	-1.5
Jet Fuel/Kerosene	81	72	9	12.6
Diesel	337	316	20	6.4
Fuel oil	47	43	4	9.7
Other products	126	83	42	51.0
Total	**941**	**834**	**108**	**13.0**

Source: JODI/EPPO

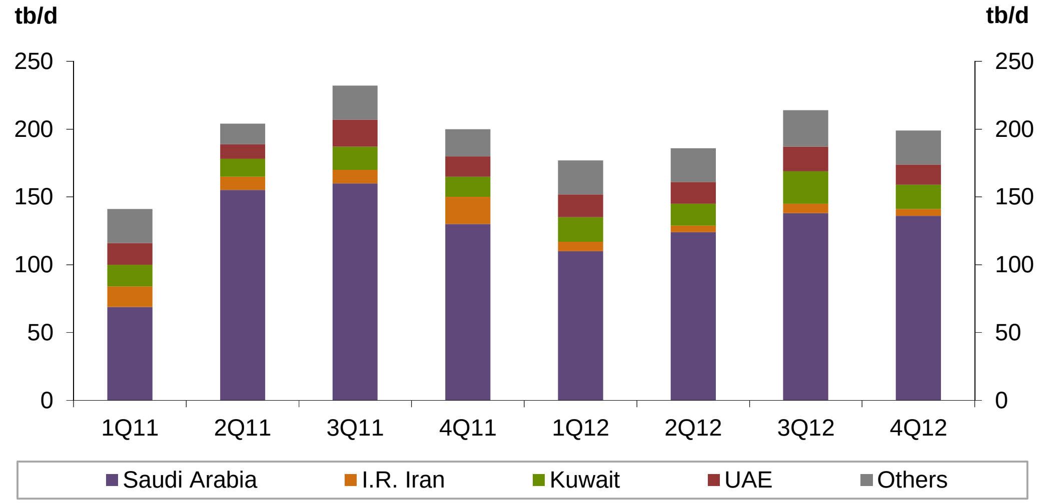
Graph 4.6: Oil consumption in selected Asian countries, y-o-y growth



Middle East oil demand growth forecast at 0.2 mb/d in 2011

Saudi Arabia's oil usage grew by a massive 0.2 mb/d in July y-o-y as the summer heat calls for extra crude burning. Crude burning power plants are the leading cause of the country's 6.3% growth in oil demand in 2011 to average 2.6 mb/d. Despite the contraction in oil demand in Iran, Middle East oil demand growth is forecast at 0.2 mb/d in 2011, averaging 7.5 mb/d.

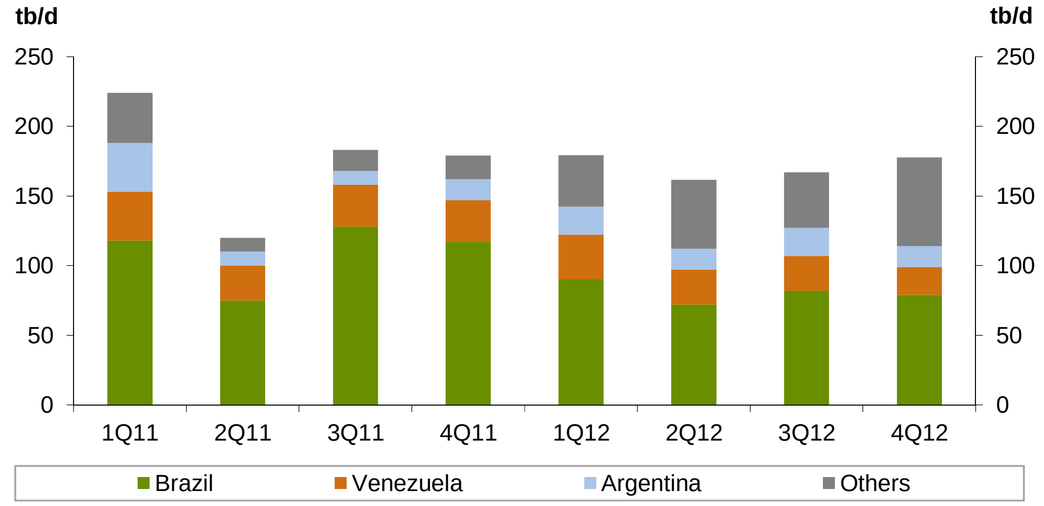
Graph 4.7: Yearly oil demand growth in the Middle East



Oil demand in Brazil supported by higher economic growth

In contrast to India, Brazil oil demand performed slightly better than expected. Strong GDP growth is pushing Brazil's oil demand up by 70 tb/d in 2011. In July, the transport fuel sector dominated the country's total oil demand growth.

Graph 4.8: Yearly oil demand growth in the Latin America



Developing Countries' oil demand growth is forecast at 0.64 mb/d y-o-y, averaging 27.6 mb/d.

Other regions

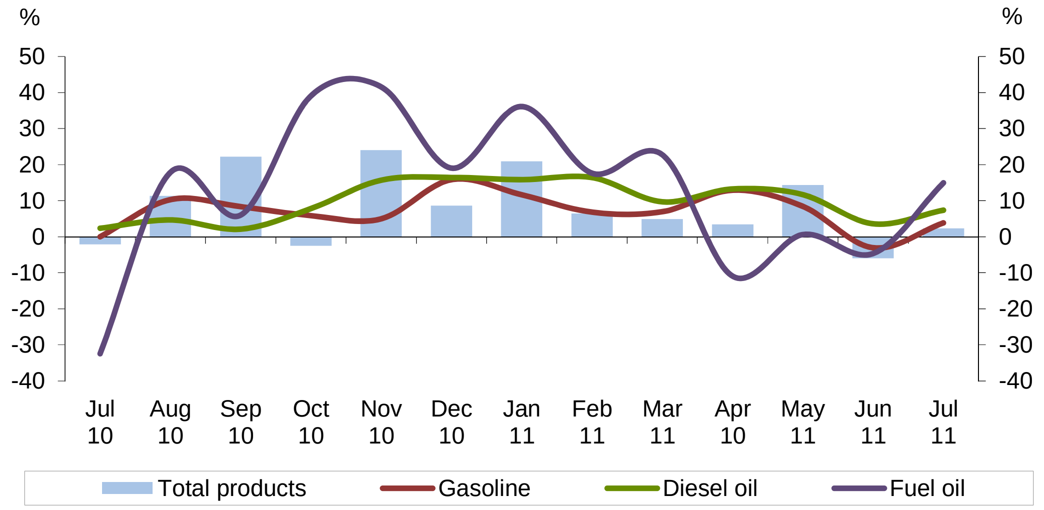
China's oil demand to grow by 0.5 mb/d or 6% in 2011

In order to avoid a market shortage, China stimulated its domestic market via slashing import duties on gasoil and jet fuel. However, this move has had little effect and some experts related this weak response to higher product prices within Asia.

Despite this move, July Chinese domestic oil use inched up by 2.3% y-o-y. The product that grew the most was diesel, adding another 230 tb/d to the oil pool. Diesel is an important product in China, representing 37% of total oil use. The Chinese pulled 170 tb/d from stocks in July. This is a common practice as the Chinese add or draw oil from both commercial and SPR storage on a monthly basis.

New car registrations flattened out once the government stopped its incentives programmes and this has been reflected in gasoline demand over the past two months. Affected by low transport fuel usage in June, third quarter oil demand growth was revised down by 0.2 mb/d to stand at 0.37 mb/d y-o-y growth.

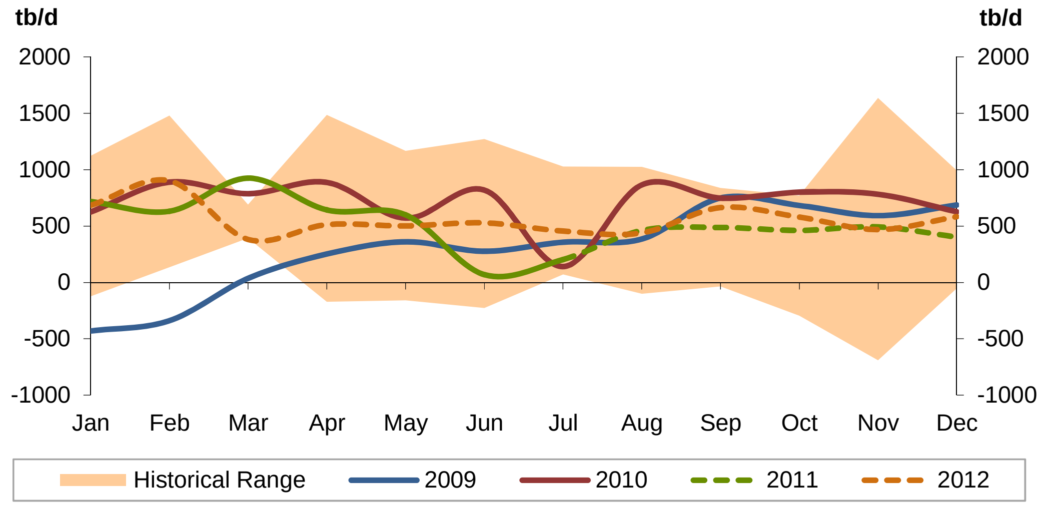
Graph 4.9: Changes in Chinese main oil products apparent consumption, y-o-y



China's oil demand growth is forecast to achieve 0.5 mb/d or 6% growth in 2011, averaging 9.5 mb/d.

Data from the China Association of Automobile Manufacturers (CAAM) shows that China's automobile sales rebounded to a 16.6% increase during August 2011 compared to a year earlier. The strong growth is partly attributed to newly introduced government incentives for fuel-saving cars in July 2011.

Graph 4.10: Changes in Chinese apparent oil demand, y-o-y



World oil demand to continue its growth in 2012, reaching 1.3 mb/d

World oil demand in 2012

Turbulence in world economic recovery has resulted in considerable uncertainty for demand growth next year. Most of the uncertainty will be derived from the OECD region, particularly the US. As a result, next year's oil demand growth forecast has been revised down by 36 tb/d to stand at 1.27 mb/d.

World oil demand is forecast to continue its growth during 2012 to reach 1.3 mb/d, averaging 89.3 mb/d.

Table 4.6: World oil demand forecast for 2012, mb/d

							Change 2012/11	
	2011	1Q12	2Q12	3Q12	4Q12	2012	Growth	%
North America	23.73	23.88	23.40	24.05	24.11	23.86	0.14	0.57
Western Europe	14.47	14.24	14.05	14.68	14.64	14.40	-0.06	-0.43
OECD Pacific	7.78	8.27	7.15	7.51	7.97	7.73	-0.05	-0.70
Total OECD	**45.97**	**46.40**	**44.60**	**46.24**	**46.72**	**45.99**	**0.02**	**0.04**
Other Asia	10.43	10.56	10.66	10.59	10.79	10.65	0.22	2.08
Latin America	6.34	6.34	6.43	6.69	6.60	6.52	0.17	2.70
Middle East	7.47	7.50	7.57	7.95	7.66	7.67	0.19	2.60
Africa	3.39	3.47	3.45	3.33	3.52	3.44	0.06	1.63
Total DCs	**27.64**	**27.86**	**28.10**	**28.56**	**28.57**	**28.27**	**0.64**	**2.31**
FSU	4.23	4.21	4.04	4.48	4.56	4.32	0.10	2.28
Other Europe	0.67	0.67	0.63	0.68	0.74	0.68	0.00	0.68
China	9.48	9.63	10.06	10.13	10.15	9.99	0.51	5.37
Total "Other regions"	**14.39**	**14.51**	**14.73**	**15.28**	**15.44**	**15.00**	**0.61**	**4.24**
Total world	**87.99**	**88.77**	**87.44**	**90.07**	**90.73**	**89.26**	**1.27**	**1.44**
Previous estimate	88.14	88.84	87.57	90.58	90.73	89.44	1.30	1.48
Revision	-0.14	-0.08	-0.13	-0.50	-0.01	-0.18	-0.04	-0.04

Totals may not add up due to independent rounding

Next year's oil demand forecast is based on assumptions such as higher GDP, higher retail petroleum product prices, a strong Chinese economy and uncertainty in total world economy in 2012. While the forecast for 2012 implies two scenarios, the lower direction is more likely. A worse-than-expected performance of the US economy might drag down world oil demand growth by 0.2 mb/d.

Graph 4.11: Forecast y-o-y growth in 2012 world oil demand

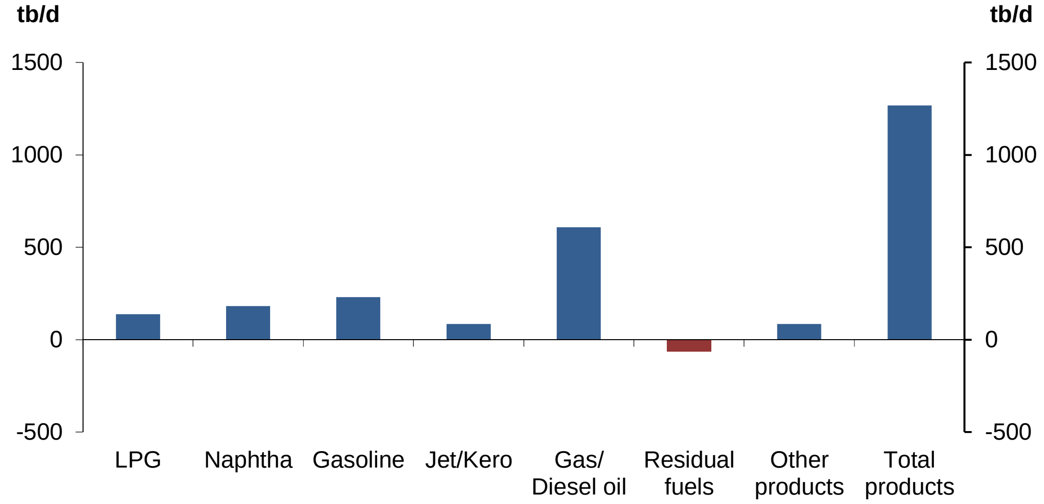


Table 4.7: First and second quarter world oil demand comparison for 2012, mb/d

			Change 2012/11				Change 2012/11	
	1Q11	1Q12	Volume	%	2Q11	2Q12	Volume	%
North America	23.76	23.88	0.12	0.51	23.28	23.40	0.12	0.51
Western Europe	14.22	14.24	0.03	0.20	14.14	14.05	-0.09	-0.64
OECD Pacific	8.35	8.27	-0.07	-0.89	7.13	7.15	0.02	0.33
Total OECD	**46.32**	**46.40**	**0.08**	**0.16**	**44.55**	**44.60**	**0.05**	**0.11**
Other Asia	10.33	10.56	0.22	2.14	10.45	10.66	0.20	1.95
Latin America	6.16	6.34	0.18	2.91	6.27	6.43	0.16	2.58
Middle East	7.32	7.50	0.18	2.42	7.38	7.57	0.19	2.53
Africa	3.42	3.47	0.05	1.42	3.40	3.45	0.05	1.48
Total DCs	**27.23**	**27.86**	**0.63**	**2.30**	**27.50**	**28.10**	**0.60**	**2.19**
FSU	4.11	4.21	0.10	2.32	3.95	4.04	0.09	2.31
Other Europe	0.67	0.67	0.00	-0.19	0.63	0.63	0.01	0.81
China	9.13	9.63	0.50	5.50	9.55	10.06	0.51	5.29
Total "Other regions"	**13.91**	**14.51**	**0.60**	**4.29**	**14.13**	**14.73**	**0.60**	**4.26**
Total world	**87.47**	**88.77**	**1.30**	**1.49**	**86.19**	**87.44**	**1.26**	**1.46**

Totals may not add up due to independent rounding

Table 4.8: Third and fourth quarter world oil demand comparison for 2012, mb/d

			Change 2012/11				Change 2012/11	
	3Q11	3Q12	Volume	%	4Q11	4Q12	Volume	%
North America	23.91	24.05	0.14	0.59	23.95	24.11	0.16	0.67
Western Europe	14.76	14.68	-0.08	-0.53	14.75	14.64	-0.11	-0.72
OECD Pacific	7.60	7.51	-0.09	-1.12	8.05	7.97	-0.08	-1.00
Total OECD	**46.26**	**46.24**	**-0.02**	**-0.05**	**46.75**	**46.72**	**-0.03**	**-0.06**
Other Asia	10.36	10.59	0.22	2.15	10.56	10.79	0.22	2.09
Latin America	6.52	6.69	0.17	2.56	6.42	6.60	0.18	2.76
Middle East	7.73	7.95	0.21	2.77	7.46	7.66	0.20	2.66
Africa	3.27	3.33	0.06	1.92	3.46	3.52	0.06	1.70
Total DCs	**27.89**	**28.56**	**0.67**	**2.39**	**27.91**	**28.57**	**0.66**	**2.35**
FSU	4.38	4.48	0.10	2.25	4.46	4.56	0.10	2.24
Other Europe	0.67	0.68	0.01	1.19	0.73	0.74	0.01	0.91
China	9.60	10.13	0.53	5.47	9.64	10.15	0.50	5.22
Total "Other regions"	**14.65**	**15.28**	**0.63**	**4.31**	**14.83**	**15.44**	**0.61**	**4.11**
Total world	**88.80**	**90.07**	**1.27**	**1.44**	**89.49**	**90.73**	**1.24**	**1.38**

Totals may not add up due to independent rounding

World Oil Supply

Non-OPEC

Forecast for 2011

Non-OPEC supply is projected to increase by 0.50 mb/d in 2011

Non-OPEC oil production is expected to increase by 0.50 mb/d over the previous year to average 52.79 mb/d in 2011. The forecast represents a downward revision of 40 tb/d compared to the previous *Monthly Oil Market Report* (MOMR). The majority of the downward revisions concerned the FSU, Developing Countries and China, while Canada, the UK, Azerbaijan and Argentina received the largest downward revision compared to the previous month. There were a few upward revisions that partially offset the downward moves. In addition, a few historical revisions were made to 2010 supply numbers to adjust for new data.

On a regional basis, North America is expected to exhibit the largest growth in 2011 followed by Latin America, while OECD Western Europe is expected to exhibit the largest decline. On a quarterly basis, non-OPEC supply is expected to stand at 52.85 mb/d, 52.00 mb/d, 52.89 mb/d and 53.41 mb/d, respectively.

Graph 5.1: Regional non-OPEC supply growth, y-o-y

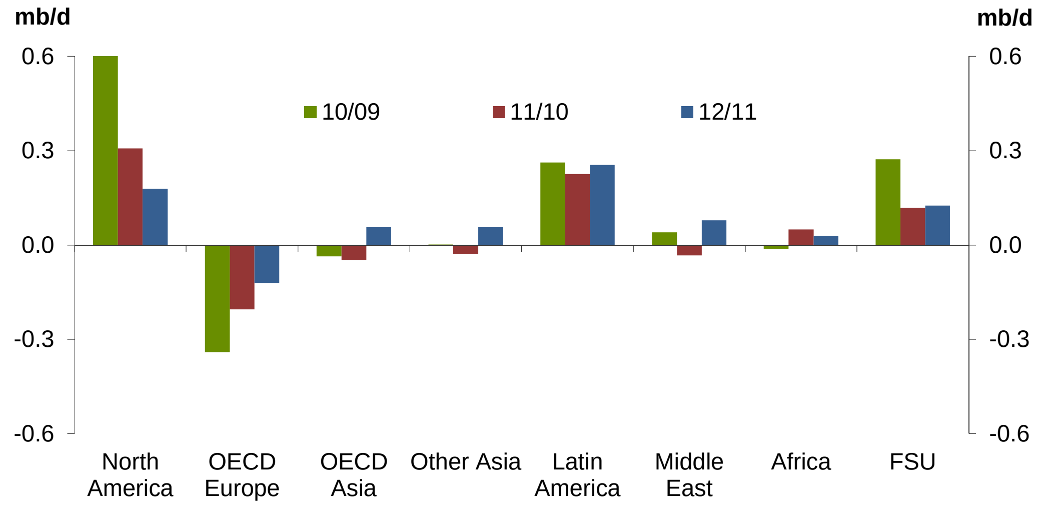


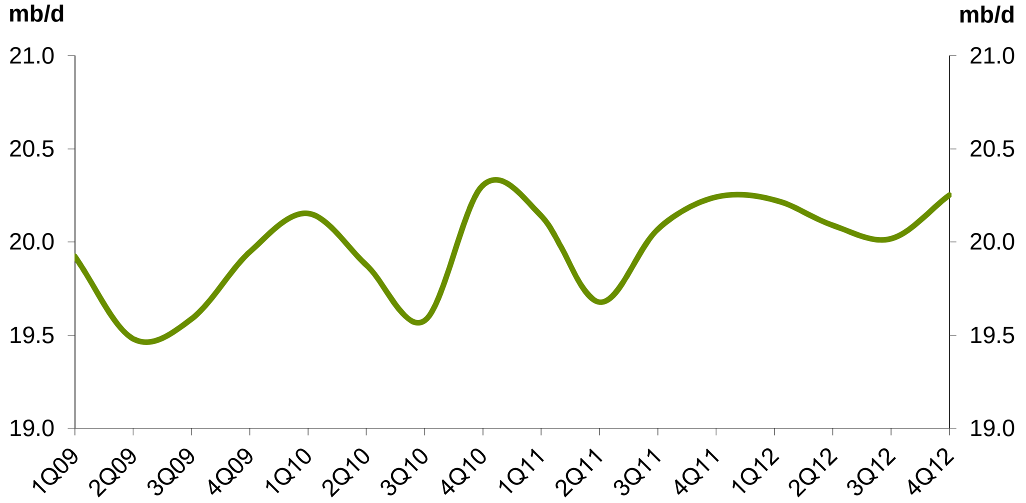
Table 5.1: Non-OPEC oil supply in 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10
North America	14.99	15.31	15.16	15.34	15.39	15.30	0.31
Western Europe	4.39	4.31	4.02	4.13	4.27	4.18	-0.20
OECD Pacific	0.60	0.52	0.50	0.60	0.59	0.55	-0.05
Total OECD	**19.98**	**20.14**	**19.68**	**20.07**	**20.24**	**20.03**	**0.05**
Other Asia	3.69	3.69	3.59	3.67	3.69	3.66	-0.03
Latin America	4.67	4.81	4.77	4.93	5.06	4.89	0.23
Middle East	1.77	1.78	1.65	1.75	1.78	1.74	-0.03
Africa	2.59	2.62	2.59	2.66	2.67	2.63	0.05
Total DCs	**12.72**	**12.90**	**12.60**	**13.01**	**13.20**	**12.93**	**0.21**
FSU	13.22	13.32	13.26	13.34	13.44	13.34	0.12
Other Europe	0.14	0.14	0.14	0.14	0.14	0.14	0.00
China	4.14	4.22	4.19	4.19	4.25	4.22	0.08
Total "Other regions"	**17.50**	**17.68**	**17.59**	**17.68**	**17.84**	**17.70**	**0.20**
Total Non-OPEC production	**50.19**	**50.72**	**49.87**	**50.76**	**51.28**	**50.66**	**0.47**
Processing gains	2.10	2.13	2.13	2.13	2.13	2.13	0.03
Total Non-OPEC supply	**52.29**	**52.85**	**52.00**	**52.89**	**53.41**	**52.79**	**0.50**
Previous estimate	52.25	52.87	52.23	52.90	53.33	52.83	0.58
Revision	0.04	-0.03	-0.22	0.00	0.08	-0.04	-0.08

OECD

Total OECD oil supply in 2011 is expected to increase by 50 tb/d to average 20.03 mb/d, unchanged from the previous report. Despite this, there were some offsetting upward and downward revisions. The supply forecast for North America was revised upwards, while that for OECD Western Europe and OECD Pacific was adjusted lower. The US oil supply forecast experienced the only upward revision among all OECD countries, which offset the downward revisions to Canada, the UK, and Australia. On a quarterly basis, OECD oil supply is seen to average 20.14 mb/d, 19.68 mb/d, 20.07 mb/d and 20.24 mb/d, respectively.

Graph 5.2: OECD's quarterly production



North America

North America oil production is anticipated to average 15.30 mb/d in 2011, representing growth of 0.31 mb/d and an upward revision of 20 tb/d compared to the last MOMR. This upward revision means North America is expected to have the highest growth in 2011 among all non-OPEC regions. The forecast calls for healthy growth from the US and Canada as well as relatively steady supply from Mexico. According to preliminary data, North America oil supply increased by 0.39 mb/d in the first half of 2011 compared to the same period in 2010. On a quarterly basis, North America oil production is expected to average 15.31 mb/d, 15.16 mb/d, 15.34 mb/d and 15.39 mb/d, respectively.

US supply output data continues to indicate healthy growth

Despite the shutdown of around 850 tb/d from the Gulf of Mexico on 5 September, as operators prepared for Tropical Storm Lee, the **US** oil forecast was revised upwards by 30 tb/d compared to the previous MOMR. Reports suggested that Tropical Storm Lee is expected to have a minimal long-term impact. In addition, maintenance at the Thunder Horse and Horn Mountain facilities reduced output at the end of August. The reduced output at the Thunder Horse project was reportedly not connected with an observed oil sheen that was spotted at the facilities.

US oil supply is expected to experience growth of 0.21 mb/d in 2011 to average 8.84 mb/d. In spite of an upward revision of 40 tb/d compared to the previous month, the anticipated growth in 2011 remains relatively flat, due mainly to historical upward revisions to 2010 supply numbers.

The upward adjustment was supported by strong actual production data during the first half of 2011, where output was supported by the healthy performance of independent US companies. Increased shale output from independent companies came mainly from the Marcellus, Eagle Ford, Bakken, Permain and Barnett areas. Furthermore, the expansion of the Bakken export capacity through planned pipeline and rail services also supported the upward revision. In addition, the return from maintenance of the Trans Alaskan Pipeline and Lisburne Production Center supported output. However, the risk of a major downward revision remains on the horizon mainly due to weather conditions that could sharply reduce Gulf of Mexico output.

On a quarterly basis, US oil production is seen to average 8.76 mb/d, 8.91 mb/d, 8.85 mb/d and 8.84 mb/d, respectively.

Canada supply projected to increase in the second half of 2011

Preliminary production data for the first half of 2011 supports the forecast trend for **Canadian** oil supply, with growth backed by both conventional and non-conventional oil. However, the various operational setbacks during the second quarter of the year hindered the materialization of expected growth. Canada oil supply is forecast to average 3.51 mb/d in 2011, representing growth of 0.11 mb/d over 2010 and a minor downward revision of less than 20 tb/d from the previous MOMR. The revision was mainly related to the second quarter to adjust for updated production data. The oil supply estimate for the second half of 2011 was revised upward on the expectation of better performance. The partial return of oil sands mining output, as well as the end of maintenance at the Hibernia offshore facilities, supported the anticipated increase. Additionally, the reported 65% increase in drilling in Western Canada as well as a new record-high Alberta land sale demonstrated the potential to increase output in the second half of 2011. On a quarterly basis, Canada's supply is expected to average 3.57 mb/d, 3.29 mb/d, 3.55 mb/d and 3.63 mb/d, respectively.

Mexico supply remained stable during the first 7 months of 2011

Mexico oil production is anticipated to decline by 10 tb/d in 2011 to average 2.95 mb/d, flat from the previous month. According to actual production data, Mexico oil supply indicated a minor decline in July compared to the previous month. The decline was partially due to technical issues at some fields. However, output during the first half of August recovered. During the first seven months, Mexico oil production averaged 2.96 mb/d, relatively steady compared to the same period in 2010. Data showed that output stabilization efforts are meeting with success so far in 2011. The increase in operating wells is supporting the stable output and the award of three contracts for private oil field operation on small and mature assets showed a commitment to bringing in foreign investment. Furthermore, a new discovery in the shallow water of Mexico's part of the Gulf of Mexico is seen to support existing production at the state of Campeche. On the other hand, Mexico's upstream regulator upheld approval of the Agua Fria-Coapechaca project in the Chicontepec field pending amendment to plans, due to low recovery factors, which could delay the development and affect the country's production. On a quarterly basis, Mexico's oil supply is seen to stand at 2.97 mb/d, 2.96 mb/d, 2.94 mb/d and 2.92 mb/d, respectively. According to preliminary data, Mexico oil supply averaged 2.93 mb/d in July, the lowest monthly level so far in 2011.

Western Europe

OECD Western Europe total oil production is predicted to decline 0.20 mb/d and average 4.18 mb/d in 2011, relatively steady compared to the previous month, with a minor downward revision of 10 tb/d. Despite this, minor upward and downward revisions since the last MOMR offset each other. The downward revision was due mainly to updated production data for the second quarter. The supply situation remains relatively unchanged, with declines expected from major producers in the region. On a quarterly basis, supply is believed to average 4.31 mb/d, 4.02 mb/d, 4.13 mb/d and 4.27 mb/d, respectively. Preliminary data indicates that OECD Western Europe supply stood at 4.17 mb/d in the first half of 2011, a decline of 0.39 mb/d compared to the same period in 2010.

Valhall to resume output in September

Reports suggest that North Sea oil production will increase by 19% in September as the impact of maintenance and shutdowns are reduced. Output from the Valhall facilities is expected to return to normal levels in September, after the mid-July fire that shut down the field. In July, Norway oil supply averaged 1.97 mb/d, an increase of 70 tb/d from the previous month. This increase, as well as the low output compared to the previous year, kept the Norway oil supply forecast steady compared to the previous MOMR. Norway oil production is forecast to decline by 0.11 mb/d in 2011 to average 2.03 mb/d, flat compared to the forecast a month earlier. During the first seven months, Norway oil supply averaged 2.03 mb/d, a decline of around 0.20 mb/d compared to the same period of last year. On a quarterly basis, Norway's production is seen to average 2.14 mb/d, 1.94 mb/d, 1.98 mb/d and 2.05 mb/d, respectively.

Buzzard returns to normal output after months of lower

Oil production from the **UK** is predicted to average 1.25 mb/d in 2011, a decline of 0.12 mb/d from the previous year. This represents a downward revision of less than 15 tb/d compared to the previous MOMR. The revision came in the second and third *production*

quarters on updated production data. UK crude oil production was reported to be less than 1.0 mb/d for two consecutive months in June and July, a low not seen since August 2009. Output is expected to improve in the third quarter, supported by the return of Buzzard field's production to normal levels after a few months of low production. The increase in the third quarter is expected to be supported by September output, as preliminary reports suggest that August output remains in line with the July level. Furthermore, the leak at the Gannet Alpha platform negatively affected the production outlook. On a quarterly basis, UK oil supply is seen to average 1.27 mb/d, 1.17 mb/d, 1.25 mb/d and 1.31 mb/d, respectively.

Preliminary production data indicated that oil supply from Denmark was slightly lower than expected in the second quarter, meaning that a downward revision was required. However, Denmark production is expected to remain stable at second quarter levels during the second half of 2011. This offset the second quarter downward revision. The country's oil supply is expected to average 0.25 mb/d in 2011, steady compared to previous year. Similarly, the projection for Other Western Europe supply remained steady compared to the previous MOMR, despite minor changes, to average 0.66 mb/d in 2011, which represents an increase of 20 tb/d from the previous year. This was supported mainly by supply growth in biofuels.

Asia Pacific

Total **OECD Pacific** oil supply is expected to decline by 50 tb/d in 2011 compared to the previous year, to average 0.55 mb/d. This represents a downward revision of less than 10 tb/d compared to the previous month's assessment. The downward revision was made due to updated production figures in the first half of 2011. OECD Pacific supply is expected to increase in the second half of 2011, supported by Australia. During the first half of 2011, OECD Pacific oil supply averaged 0.51 mb/d, a decline of 0.10 mb/d from the same period last year. On a quarterly basis, total OECD Pacific supply is seen to average 0.52 mb/d, 0.50 mb/d, 0.60 mb/d and 0.59 mb/d, respectively.

Australian output to increase in the second half of 2011

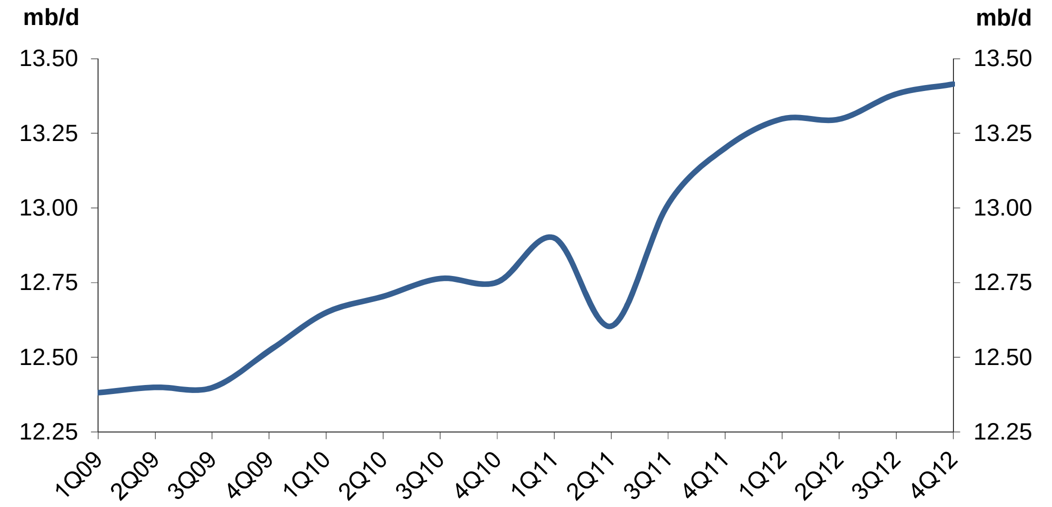
Further downward revisions were made to Australia's oil supply outlook, since updated data showed that output remained weak throughout the second quarter. Australia supply was anticipated to rebound in May-June after the cyclone season came to an end, yet the data indicated that supply remained subdued. **Australian** oil production is expected to decline by 40 tb/d in 2011 to average 0.46 mb/d, indicating a downward revision of 10 tb/d compared to previous evaluation. Production is expected to increase during the third quarter as shutdown volume is assumed to return. Repairs allowed the Van Gogh field to resume production in early August after a two month halt in production. The Cossack output, which was shut in April, is expected to resume by the end of October. On a quarterly basis, Australian oil production is believed to average 0.42 mb/d, 0.42 mb/d, 0.51 mb/d and 0.50 mb/d, respectively.

Developing Countries

Colombia, Brazil, Ghana, India and Oman expected to drive DC supply growth

Total Developing Countries (DCs) oil supply is projected to increase by 0.21 mb/d in 2011 to average 12.93 mb/d, representing a downward revision of 20 tb/d from the previous month's expectations. Overall, supply conditions within DCs remain unchanged with growth in 2011 coming from Latin America and Africa, while Other Asia and the Middle East supply are expected to decline. Colombia, Brazil, Ghana, India and Oman are the main contributors to anticipated DC supply growth. On a quarterly basis, DCs supply is estimated to average 12.90 mb/d, 12.60 mb/d, 13.01 mb/d and 13.20 mb/d, respectively. According to preliminary data, DCs first half oil supply showed growth of 70 tb/d compared to the same period last year.

Graph 5.3: Developing Countries' quarterly production



Vietnam Te Giac Trang started up in August

Preliminary data indicates that output from Other Asia averaged 3.64 mb/d during the first half of 2011, indicating a decline of 30 tb/d compared to the same period of 2010. The decline was mainly due to Indonesia and Malaysia, while India output in the first half of 2011 grew by 80 tb/d. This offset some of the supply decline experienced by other countries in the region. Oil supply from Other Asia is expected to decline by 30 tb/d in 2011 to average 3.66 mb/d, unchanged from the previous MOMR. However, there were some revisions that offset each other, compared to the previous month's assessment. The forecast for Brunei oil supply encountered a minor upward revision of less than 10 tb/d compared to the previous month, due to a revision to the 2010 numbers. India oil supply is expected to increase by 60 tb/d in 2011 to average 0.91 mb/d, flat from the previous MOMR and this is despite the minor shutdown of the MA oil field for maintenance. On a quarterly basis, Other Asia oil supply is seen to stand at 3.69 mb/d, 3.59 mb/d, 3.67 mb/d and 3.69 mb/d, respectively.

Indonesia oil supply is expected to average 1.0 mb/d in 2011, representing a decline of 30 tb/d over 2011 and flat from the previous MOMR. This was despite the brief shutdown of the small Tiaka field due to protests. Output during the second half of 2011 is expected to remain steady as the production reactivation programme for some facilities at the South Kutai Lama fields should add volume to help offset the decline in mature areas. Furthermore, a government plan to offer a tax holiday on specific projects to spur investment is seen as supportive to the outlook. Malaysia oil supply is projected to decline by 60 tb/d in 2011 to average 0.64 mb/d, unchanged from the previous MOMR. A downward revision was made to Malaysia oil supply in the second quarter, but it did not influence the annual figure. Vietnam's Te Giac Trang oil field started production in the second half of August with an initial output of 16 tb/d, and first phase output is expected to peak at 55 tb/d by the end of the year. Vietnam production is expected to average 0.35 mb/d in 2011, steady compared to the previous year, with only a minor decline of 10 tb/d. Production from the Cuu Long basin, which is expected to reach 40 tb/d by the end of the year, is also supporting Vietnam oil output in offsetting the decline from aging and mature areas.

Colombia output remained healthy in July despite the halt of production due to protests

Latin American oil production is forecast to increase by 0.23 mb/d in 2011 to average 4.89 mb/d, indicating a downward revision of 15 tb/d over the previous month. Downward revisions to the forecasts for Argentina and Brazil were partially offset by an upward adjustment to Colombia's supply forecast. Argentina oil supply is expected to average 0.71 mb/d in 2011, a decline of 30 tb/d over 2010, indicating a downward revision of 10 tb/d compared to the previous MOMR. The downward revision related to the second quarter, and was partially carried over to the rest of the quarters as updated production data indicated slightly lower output than previously expected. Additionally, new strike action that started at the end of August in Santa Cruz, just as production returned to normal levels after the previous strike, is expected to further curtail production. Colombia oil production is expected to average 0.93 mb/d in 2011, representing growth of 130 tb/d over 2010, and an upward revision of less than 10 tb/d compared to the previous report. The upward revision relates to the second half of

2011, since production levels continued to be healthy in July and August. July output remained strong despite the halt of production at the Rubiales field due to protests and August production marked a record high. On a quarterly basis, Latin America oil supply is predicted to stand at 4.81 mb/d, 4.77 mb/d, 4.93 mb/d and 5.06 mb/d, respectively.

Brazil supply to increase in second half of 2011 supported by P-56 and P-57

Brazil oil supply is forecast to increase by 0.13 mb/d in 2011 to average 2.79 mb/d, representing a minor downward revision of less than 10 tb/d compared to the last MOMR. The downward revision was made partially to adjust for updated production data for the first half and July. Despite the revision, Brazil output is expected to experience healthy growth in the second half, as the first half and July supply increase was limited by maintenance at the Marlim field P-20, P-35, and P-37, Albacora Leste P-50 and at the Parque de Baleias. The start-up of the Marlim Sul P-56 in mid-August is expected to support growth in the second half of 2011. The platform's initial output was 16 tb/d and production is expected to ramp to a peak of 100 tb/d by the first quarter of 2012. Furthermore, the Parque de Baleias P-57 is expected to start up in November 2011 with peak production of 180 tb/d. On a quarterly basis, Brazil oil supply is seen to average 2.72 mb/d, 2.72 mb/d, 2.81 mb/d and 2.90 mb/d, respectively.

Middle East supply to decline by 30 tb/d in 2011 to average 1.74 mb/d

Middle East oil supply remained relatively unchanged compared to the previous MOMR, with offsetting minor changes to the second quarter following updated production data. Oil production from the Middle East is seen to average 1.74 mb/d in 2011, a decline of 30 tb/d. The anticipated decline is attributable to Yemen and Syria, while Oman oil production is forecast to increase by 40 tb/d in 2011 to average 0.91 mb/d. This is unchanged from the previous assessment, despite a minor downward revision in the second quarter that did not impact the annual figure. Syria oil supply is expected to decline by 20 tb/d to average 0.41 mb/d in 2011. Despite the increase achieved in the first half of 2011, political risk may affect the output during the second half. Yemen oil supply is expected to drop 70 tb/d in 2011 to average 0.22 mb/d. The recent problems affecting the Marib oil pipeline did not sharply affect production, as suggested by reports. On a quarterly basis, Middle East oil production is expected to average 1.78 mb/d, 1.65 mb/d, 1.75 mb/d and 1.78 mb/d, respectively.

Ghana Jubilee field to reach peak output of 120 tb/d by year-end

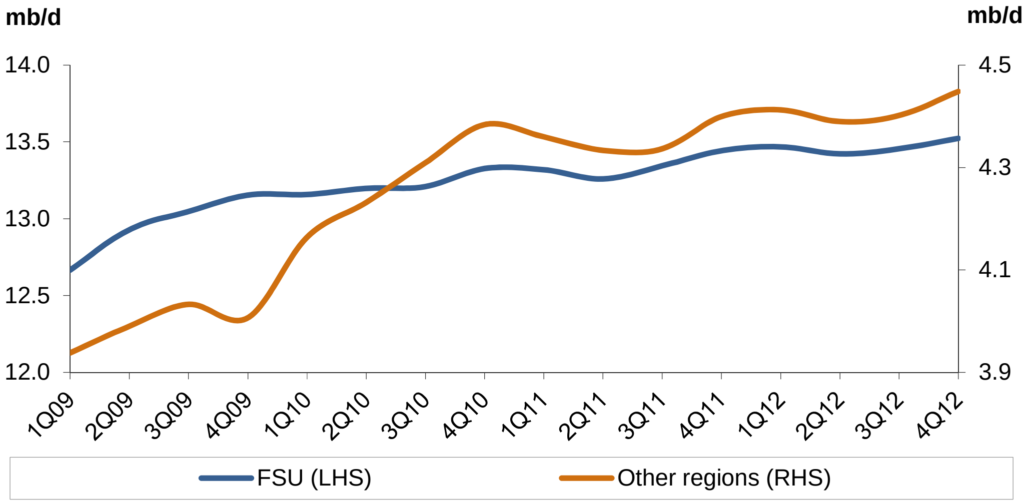
According to preliminary data, Africa oil supply in the first half of 2011 increased by 20 tb/d compared to the same period a year ago. Compared to the previous assessment, the forecast remains unchanged. Minor revisions relating to the second quarter to adjust for updated production data offset each other. Egypt, Sudan and Other Africa supply forecasts also saw revisions due to updated production data. **Africa** oil supply is expected to average 2.63 mb/d in 2011, representing an increase of 50 tb/d over last year. Chad oil supply is expected to remain flat in 2011 and average 0.14 mb/d, as new volume from the recently started-up Ronier field is expected to offset mature decline. Equatorial Guinea output is anticipated to decline by 20 tb/d in 2011 to average 0.30 mb/d, unchanged from the previous MOMR. The steadiness came despite reports that suggest the Aseng field may startup by the end of the year, instead of 2012. Ghana Jubilee oil developments encountered delays and now a phase one peak of 120 tb/d is expected by the end of the year. Jubilee production is currently estimated at 85 tb/d and expected to reach 105 tb/d by October. On a quarterly basis, Africa oil supply is seen to average 2.62 mb/d, 2.59 mb/d, 2.66 mb/d and 2.67 mb/d, respectively.

FSU, Other Regions

FSU supply to grow by 120 tb/d in 2011 to average 13.34 mb/d

Total FSU oil production is projected to grow by 0.12 mb/d in 2011 to average 13.34 mb/d, indicating a downward revision of 15 tb/d compared to the previous month. The downward revision was made to Kazakhstan, Azerbaijan, and Other FSU supply forecasts. Most of the revision was attributable to updated production figures for the first half of 2011. In terms of regional growth, total FSU supply in 2011 is behind that of North America and Latin America. During the first half of 2011, FSU oil production increased by 0.11 mb/d over the same period in 2010. Total FSU oil supply is expected to continue to experience modest growth during the second half of 2011, compared to the previous year. On a quarterly basis, total oil production in the FSU is estimated to average 13.32 mb/d, 13.26 mb/d, 13.34 mb/d and 13.44 mb/d, respectively. Separately, Other Europe supply is anticipated to remain flat to average 0.14 mb/d in 2011. China oil production is foreseen to average 4.22 mb/d in 2011, representing growth of 80 tb/d over the previous year.

Graph 5.4: FSU and other region's quarterly production



Russia

Russia supply to average 10.22 mb/d in 2011, a growth of 80 tb/d

Russia oil supply is expected to increase by 80 tb/d in 2011 to average 10.22 mb/d, relatively steady compared to the previous month, with a minor upward revision of 10 tb/d. The minor revision relates to the second half of 2011 as plans emerged that the Verkhnechonsk field is to be fast-tracked to reach peak target output before originally planned. Additionally, the high profits achieved by some producers during the first half of 2011 are expected to be channeled back by some operators into output stabilization efforts at aging and mature producing areas. Furthermore, the start of Russia's new 60-66 tax regime was pushed back to October 2011 from September. The new system is designed to stimulate upstream developments and refinery upgrades as it reduces crude export duties by 7% and increases heavy product duties considerably. Furthermore, reports suggest that the Prirazlom field will start-up in early 2012, instead of at the end of 2011. Moreover, new proposals emerged for a subsoil law change in order to simplify exploration and production, refinery license terms, and stimulate reefing investment. On a quarterly basis, Russian oil supply is expected to average 10.21 mb/d, 10.23 mb/d, 10.22 mb/d and 10.21 mb/d, respectively. Russia oil production stood at 10.27 mb/d in August, a new record representing an increase of 20 tb/d from a month earlier. This was partially supported by the new developments in East Siberia.

Caspian

Tengiz oil lost 135 tb/d in July, partly on maintenance

The Tengiz oil field's output was curtailed due to maintenance in July. Additionally, industrial strike action by oil field workers continued to impact output in July, in addition to production and logistical problems. However, reports suggested that the strike action and maintenance have ended and production has returned to normal levels. Tengiz oil production averaged 398 tb/d in July, a drop of 135 tb/d compared to the previous month. **Kazakh** oil supply is estimated to increase by 40 tb/d in 2011 to average 1.63 mb/d, indicating a minor downward revision of 15 tb/d compared to the last MOMR. During the first seven months, Kazakhstan oil production averaged 1.61 mb/d, relatively flat compared to the same period in 2010. On a quarterly basis, Kazakhstan oil supply is estimated to average 1.66 mb/d, 1.60 mb/d, 1.60 mb/d and 1.68 mb/d, respectively.

Azeri oil production to decline slightly in 2011

Azeri oil production is expected to drop by 10 tb/d to average 1.06 mb/d in 2011, representing a downward revision of 10 tb/d compared to the previous month's assessment. The downward revision in the first half was adjusted on the back of updated production data. Additionally, preliminary data suggested that Azerbaijan output dropped in July on logistical and operational problems. Moreover, the maintenance at the Chirag platform also impacted production. Oil output from Azerbaijan during the first seven months indicated a decline of around 6% compared to the same period of 2011, partially due to a gas leak at the Azeri-Chirag-Gunashli (ACG) field. Quarterly production stands at 1.02 mb/d, 1.00 mb/d, 1.10 mb/d and 1.12 mb/d, respectively.

Offshore leaks could bring down china supply growth in 2011

China

Oil supply from **China** is projected to grow by 80 tb/d in 2011 to average 4.22 mb/d, representing a downward revision of 10 tb/d from the previous month's evaluation. The downward revision relates to the disruption to offshore output due to various leaks spotted at the Bahai areas of Bozhong, Peng lai and Suizhong facilities. The Bohai Bay leaks were reported sealed at the beginning of September. However the effect of the leaks have yet to be evaluated. Authorities ordered the operator to halt production at the Peng Lai 19-3 field in Bohai Bay on the grounds of negligent operating procedures. The field produced around 120 tb/d at the beginning of 2011. Before the field can resume output, a new development plan with an environmental impact evaluation is required. According to the preliminary data, China oil supply dropped by around 100 tb/d in July compared to the previous month on limited local resources and leaks. Additionally, the Nanpu output target was reviewed with the intention that it be downgraded due to a revision of estimated reserves. On a quarterly basis, China oil supply is seen to average 4.22 mb/d, 4.19 mb/d, 4.19 mb/d and 4.25 mb/d, respectively.

Non-OPEC supply to increase by 0.77 mb/d in 2012 to average 53.57 mb/d

Forecast for 2012

Non-OPEC oil supply in 2012 is forecast to increase by 0.77 mb/d to average 53.57 mb/d, relatively flat compared to the previous MOMR. Total volume remained steady. The projected growth was revised upwards by 40 tb/d compared to the previous assessment. The majority of this revision was related to historical adjustments to 2010 data, as well as to changes to 2011 supply estimates. Brazil, Canada, Colombia, Ghana and the US are expected to be the major contributors to supply growth in 2012, while supply from Norway, Mexico and the UK is seen to continue to decline. Risks to the forecast remain high, due to natural decline, technical, political and environmental factors. On a quarterly basis, non-OPEC supply is anticipated to average 53.60 mb/d, 53.39 mb/d, 53.45 mb/d and 53.83 mb/d, respectively.

Table 5.2: Non-OPEC oil supply in 2012, mb/d

	2011	1Q12	2Q12	3Q12	4Q12	2012	Change 12/11
North America	15.30	15.42	15.43	15.48	15.58	15.48	0.18
Western Europe	4.18	4.20	4.04	3.92	4.09	4.06	-0.12
OECD Pacific	0.55	0.60	0.62	0.62	0.59	0.61	0.06
Total OECD	**20.03**	**20.23**	**20.09**	**20.02**	**20.25**	**20.15**	**0.11**
Other Asia	3.66	3.70	3.71	3.72	3.74	3.72	0.06
Latin America	4.89	5.10	5.11	5.18	5.21	5.15	0.25
Middle East	1.74	1.82	1.82	1.82	1.82	1.82	0.08
Africa	2.63	2.67	2.66	2.66	2.65	2.66	0.03
Total DCs	**12.93**	**13.30**	**13.30**	**13.38**	**13.41**	**13.35**	**0.42**
FSU	13.34	13.47	13.42	13.46	13.52	13.47	0.13
Other Europe	0.14	0.15	0.15	0.15	0.15	0.15	0.01
China	4.22	4.27	4.24	4.25	4.30	4.26	0.05
Total "Other regions"	**17.70**	**17.88**	**17.81**	**17.86**	**17.97**	**17.88**	**0.18**
Total Non-OPEC production	**50.66**	**51.41**	**51.20**	**51.26**	**51.64**	**51.38**	**0.71**
Processing gains	2.13	2.19	2.19	2.19	2.19	2.19	0.06
Total Non-OPEC supply	**52.79**	**53.60**	**53.39**	**53.45**	**53.83**	**53.57**	**0.77**
Previous estimate	52.83	53.58	53.38	53.45	53.85	53.57	0.73
Revision	-0.04	0.02	0.01	0.00	-0.02	0.00	0.04

Revisions to the 2012 forecast

Total non-OPEC supply forecast in 2012 experienced a relatively minor downward revision while projected growth was revised up by 40 tb/d compared to the previous MOMR. While the supply estimates for many countries in 2012 changed, growth for only a few countries has changed, as the majority of the revisions only affected the base.

The forecast for UK and Brazil supply growth encountered a minor upward revision, while the supply forecast for Canada experienced minor downward revisions. UK oil supply forecast was revised up slightly on lower decline. Forecasts for Brazil supply were revised up on the back of project ramp-up changes. The outlook for Canada oil supply encountered a minor downward revision following a reevaluation of conventional oil output in 2012.

OPEC natural gas liquids and non-conventional oils

OPEC NGLs and non-conventional oils are forecast to grow by 0.39 mb/d in 2011 to average 5.29 mb/d, unchanged from the previous MOMR. In 2012, OPEC NGLs and nonconventional oils are expected to increase by 0.36 mb/d over the previous year to average 5.65 mb/d.

Table 5.3: OPEC NGLs + non-conventional oils, 2008-2011

	2009	2010	Change 10/09	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10	2012	Change 12/11
Total OPEC	**4.35**	**4.90**	0.55	5.12	5.26	5.37	5.42	**5.29**	0.39	**5.65**	0.36

OPEC crude oil production

OPEC crude output averaged 29.92 mb/d in August

Total OPEC crude oil production averaged 29.92 mb/d in August, according to secondary sources, up by 75 tb/d from the previous month. OPEC production, not including Iraq, stood at 27.29 mb/d, an increase of 85 tb/d over the previous month. Crude oil production from Nigeria, Saudi Arabia, Kuwait, and the UAE supported the increase in August while crude output from Angola, and Libya fell.

Table 5.4: OPEC crude oil production based on *secondary sources*, tb/d

	2009	2010	4Q10	1Q11	2Q11	Jun 11	Jul 11	Aug 11	*Aug/Jul*
Algeria	1,268	1,258	1,257	1,259	1,250	1,249	1,249	1,247	*-1.7*
Angola	1,780	1,783	1,654	1,665	1,549	1,507	1,675	1,612	*-62.3*
Ecuador	477	475	481	490	490	488	485	483	*-2.0*
Iran, I.R.	3,725	3,706	3,673	3,656	3,656	3,655	3,608	3,590	*-18.2*
Iraq	2,422	2,401	2,423	2,649	2,671	2,702	2,641	2,631	*-9.8*
Kuwait	2,263	2,297	2,308	2,374	2,482	2,513	2,538	2,572	*34.9*
Libya	1,557	1,559	1,569	1,096	153	106	48	3	*-45.1*
Nigeria	1,812	2,060	2,175	2,087	2,148	2,144	2,172	2,265	*93.0*
Qatar	781	801	805	807	806	810	814	819	*5.0*
Saudi Arabia	8,051	8,284	8,387	8,732	9,068	9,493	9,647	9,720	*73.8*
UAE	2,256	2,304	2,322	2,441	2,505	2,533	2,551	2,575	*24.6*
Venezuela	2,394	2,337	2,305	2,372	2,353	2,377	2,417	2,400	*-16.9*
Total OPEC	**28,785**	**29,265**	**29,360**	**29,628**	**29,131**	**29,576**	**29,844**	**29,920**	***75.3***
OPEC excl. Iraq	**26,362**	**26,864**	**26,937**	**26,979**	**26,460**	**26,874**	**27,203**	**27,288**	***85.0***

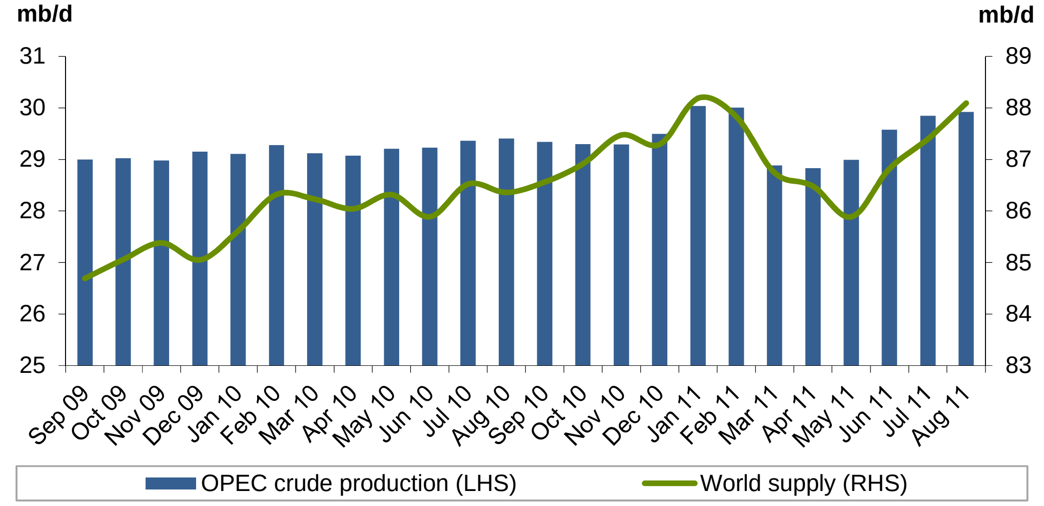
Totals may not add up due to independent rounding

World Oil Supply

Global supply in August estimated at 88.09 mb/d

Preliminary figures show that world oil supply averaged 88.09 mb/d in August, an increase of 0.69 mb/d from the previous month. OPEC crude is estimated to have a 34% share in global supply, steady from the previous month. The estimate is based on preliminary data for non-OPEC supply, estimates for OPEC NGLs and OPEC crude production, according to secondary sources.

Graph 5.5: OPEC and world oil supply



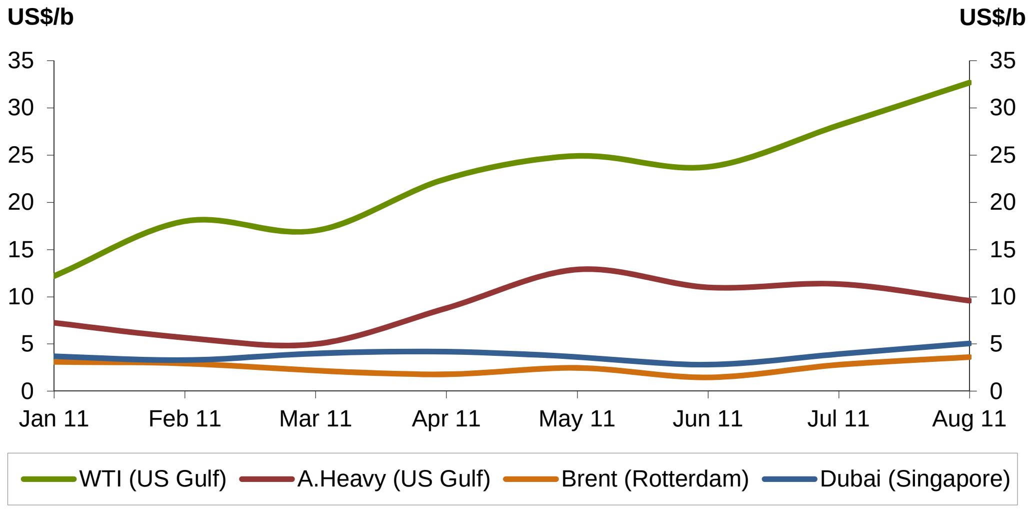
Product Markets and Refinery Operations

Refinery margins supported by the drop in crude prices

With the end of the driving season, gasoline demand has disappointed in the Atlantic Basin and gasoline market sentiment has been under pressure from poor end-user demand in the US. However, the shortage generated by Hurricane Irene and increased export opportunities to Latin America have kept light distillate cracks healthy.

Middle distillates have remained stable across the board, which, along with the sharp fall in crude prices, has allowed refinery margins to increase.

Graph 6.1: Refining margins, 2011



US refining margins remained healthy thanks to the relatively cheaper WTI crude as a result not only of the situation in Cushing, Oklahoma, but also due to the economic worries in the US. Despite inventories standing above the seasonal average – although lower than last year – and a drop in gasoline demand growth at the peak of the driving season, light distillates continued to receive support from export opportunities to Latin America.

The margin for WTI crude on the US Gulf Coast showed a sharp uptick of $4 to stand at $23/b in August. This high margin was artificially inflated by the relatively low benchmark WTI price, which dropped $10/b, while Brent dropped just $5/b. In addition, margins in lighter crudes have been more favoured by the price differential caused by the release of Strategic Petroleum Reserves (SPR). In contrast, the margin for Arab Heavy crude on the US Gulf Coast showed a loss of $1.8/b.

In Europe, distillates showed a slight gain on the back of a tighter market, while at the bottom of the barrel, fuel lost the ground gained last month due to weaker demand. However, the drop of the crude price allowed refinery margins in Europe to show an increase of 80¢ to stand at $3.6/b.

Asian refining margins continued gaining ground, as Singapore product cracks rose without exception during the month, mainly for fuel oil, as the market has become tighter due to lower western inflows, while light distillates were supported by stronger demand for gasoline blending. The refinery margins for Dubai crude oil in Singapore showed a gain of $1 to stand at $5/b.

Refinery operations

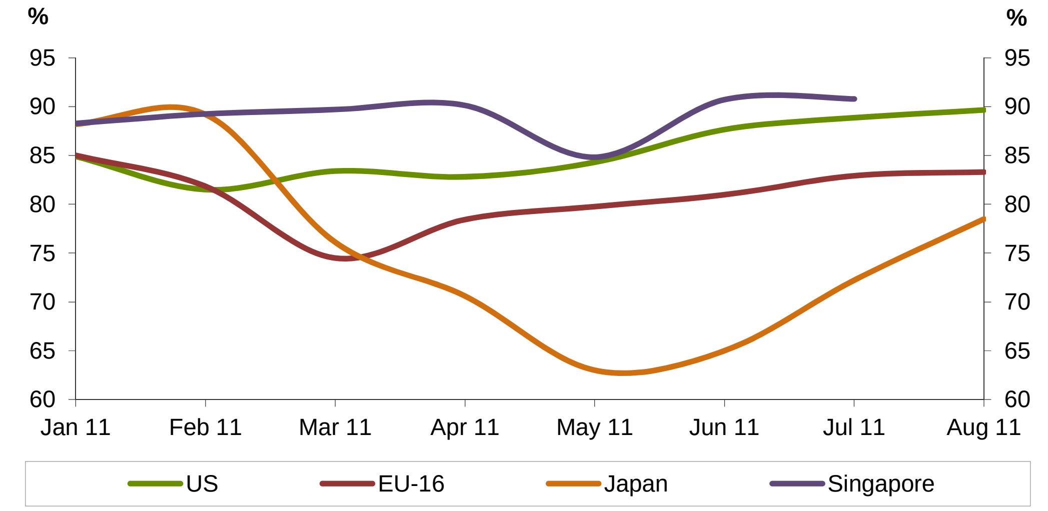
US refinery runs continued at record highs

Despite poor domestic product demand, US refinery runs stood at over 90% of capacity in mid-August. However, the average for the month ended up at 89.7%, as some refineries were affected by Hurricane Irene.

Additionally, refiners refigured operations to maximize gasoil production instead of gasoline. This reduced gasoline stocks, while distillate stocks showed an increase ahead of the winter season. However, both remained above the five-year average, although at lower levels than last year.

Relatively cheaper crudes allowed US refiners to effectively send product exports across the globe and maintain higher refinery runs.

Graph 6.2: Refinery utilization rates, 2011



European refiners continued to increase their throughputs after the maintenance season and the improvement in European refinery margins resulted in an increase in refinery runs to around 83%, the highest level seen since January. Asian refiners continued to moderate the high run levels seen in previous months due to maintenance. Japan has been able to increase refinery throughputs to around 78%.

Looking ahead, the weak demand forecast and crude differentials give a competitive advantage to US refiners. Therefore, higher runs in the US and moderated runs in Europe are expected to continue.

US market

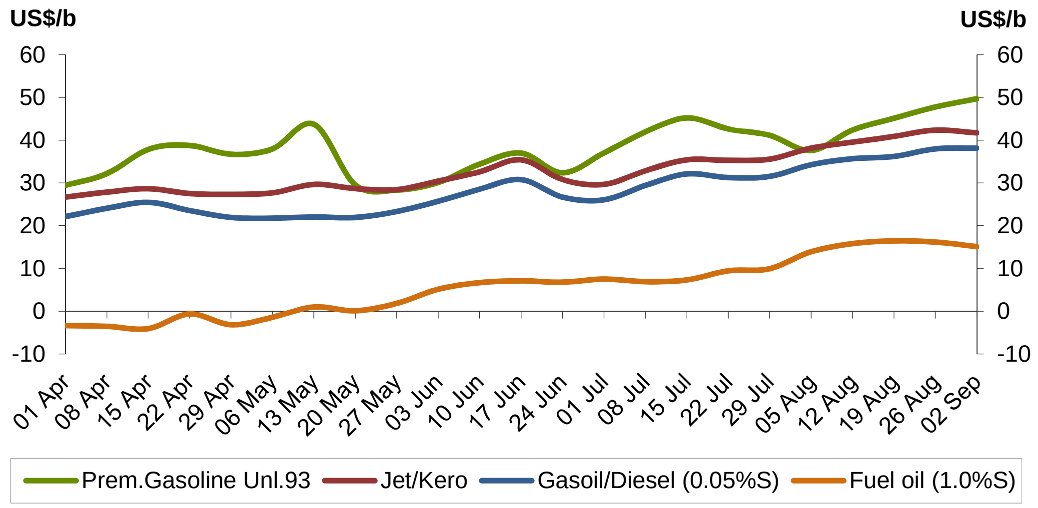
Slight increase in US gasoline demand in August

US gasoline demand increased to 9.17 mb/d in August, according to the EIA. This represents a gain of 104 tb/d over the previous month, but a drop of 86 tb/d from the same month last year.

Despite domestic demand remaining lower than last year and higher refinery runs, the gasoline crack managed to keep increasing on the back of a weaker WTI, higher export opportunities – mainly to Latin America, particularly Mexico and Colombia – and the shortfall created by Hurricane Irene on the East Coast. Additionally, the sentiment of supply tightness was boosted by operational problems in several refineries, affecting gasoline producer units. This tightened supplies of summer-grade gasoline ahead of the transition to winter specifications.

The gasoline crack increased by $3/b to reach $44/b. This two-year record-high most likely came on the back of the weaker WTI price.

Graph 6.3: US Gulf crack spreads vs. WTI, 2011



Middle distillate demand increased to 3.86 mb/d in August, a sharp uptick of 300 tb/d from the previous month and a slight 29 tb/d higher than the same month last year.

The middle distillate market continued steadily over the month, despite the additional stock builds that have been reported since mid July and continued in August, ahead of the winter season.

The diesel market was again supported by healthy Latin America demand (Colombia, Chile and Costa Rica) and some arbitrage opportunities to Europe. This compensated for lower-than-expected domestic demand.

The gasoil crack on the US Gulf Coast continued to increase and reached an average of $36/b in August from $30/b in the previous month.

Weak domestic fuel oil demand was offset by support from export opportunities of some LSFO cargoes to Europe, while arbitrage opportunities to Asia were limited. The fuel oil crack increased from a premium of $8/b over WTI in July to $15/b in August, the highest value seen in months, due to the WTI price distortion. In comparison to Arab heavy crude, this crack exhibited a marginal increase.

European market

European market supported by exports

Product market sentiment in Europe showed a moderate recovery with distillate cracks moving upwards on the back of higher export opportunities while the bottom of the barrel lost ground due to weaker demand

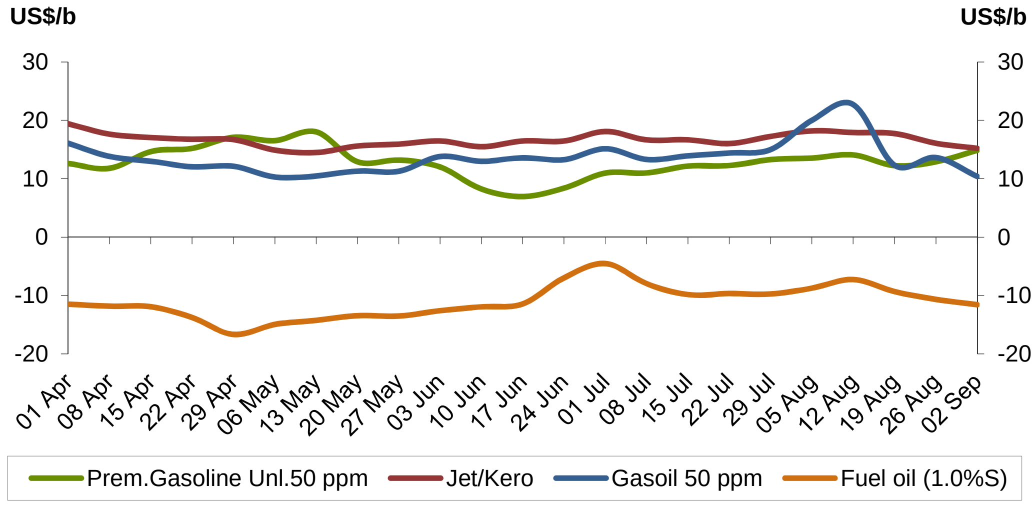
The European gasoline crack continued to recover on the back of a tight supply market and lower gasoline stocks in the ARA region, further supporting market sentiment. The recovery came despite disappointing US requirements.

The European gasoline crack market continued to be supported by export opportunities to Latin America (mainly to Brazil) because the tightness in the ethanol market has forced consumers to partially switch to gasoline consumption.

Higher Brazilian import requirements have provided healthy export opportunities for both gasoline and naphtha from Europe. This situation has allowed an offsetting of the reduction in gasoline demand from Africa and from the Middle East and the relatively lower naphtha requirements from the traditional markets in Asia.

Additional support came from increasing gasoline import requirements from the Black Sea.

Graph 6.4: Rotterdam crack spreads vs. Brent, 2011



The gasoline crack spread against Brent crude showed a gain of $1.6/b from an average of $11.9/b in July to an average of $13.5/b this month.

Middle distillates continued to be supported in a tight market by export opportunities – mainly to South America and West Africa – and regional demand for desulphurization – Greece and Turkey – as well as increasing demand from Germany in order to replenish depleted heating oil stocks.

The ICE gasoil futures contract flipped into backwardation earlier this month, causing a large amount of products to be sold from storage. Additional support came from the supply side due to lower Russian exports on the back of refinery maintenance, which contributed to tightening the gasoil market.

The gasoil crack spread against Brent crude at Rotterdam showed a sharp increase of $5/b during the beginning of the month (increasing from $15/b at the end of July to $22/b by mid-August) and has shown a loss since mid-August to stand at around $10/b at the end of the month.

Looking ahead, the middle distillate market could be under pressure as gas oil exports to South America are expected to fall due to US competitors taking a bigger share of the market. More pressure will come from increased inflows from the Baltic States to European middle distillate markets, as well as declining refinery maintenance.

The European fuel oil market lost the ground gained during last month due to weak Rotterdam bunker demand amid additional supplies as the Greek Thessaloniki refinery came online again.

The fuel oil crack spread against Brent showed a loss of $1/b this month to stand at minus $9.8/b.

Export opportunities to the US and Asia amid lower Russian inflows due to refinery maintenance could lend some support to the market.

Asian market

Fuel oil jumped to a premium over Dubai

The Asian naphtha market continued recovering ground supported by the gasoline side. However, the crack remained negative – minus $2/b at the end of August – as bearish sentiment prevails.

Weak Asian naphtha market sentiment continued improving during the month on the back of healthy regional demand, since it has been used as blending component in gasoline pools.

Additional support came from expectations of reduced exports from India due to refinery turnarounds. However, the demand side in the region remains bearish as Formosa Petrochemical shut naphtha cracker number three for 45 days of turnaround. In addition, the naphtha crack spread vs Dubai remained on the negative side, although it has recovered from minus $5/b to minus $2/b in August.

In the gasoline market, healthy regional demand amid tight supplies has continued to offer support. Vietnam showed interest in buying volumes to compensate for the Dung Quat refinery maintenance shutdown, while additional buying interest emerged from Pakistan and Sri Lanka. However, the supply situation in Asia could change with the start of the Formosa Complex, which should ease supply concerns and begin to exert pressure on the market in the coming months.

The gasoline crack spread against Dubai crude oil in Singapore increased by approximately $2/b to stand at around $15/b in August, from $13/b the previous month.

Graph 6.5: Singapore crack spreads vs. Dubai, 2011

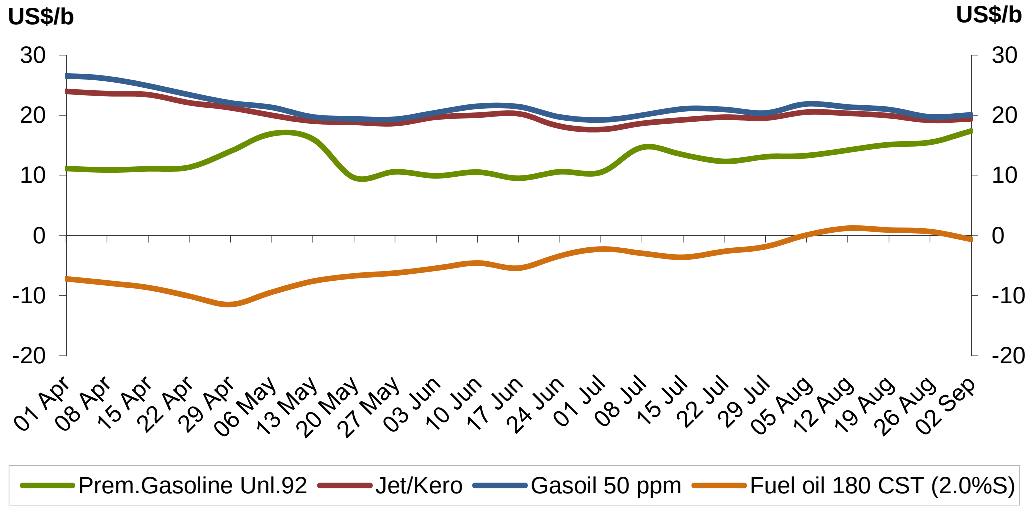


Table 6.1: Refinery operations in selected OECD countries

	Refinery throughput, mb/d			*Refinery utilization, %*		
	Jul 11	Aug 11	Aug/Jul	Jul11	Aug11	Aug/Jul
US	15.40	15.54	0.14	88.90	89.70	0.80
France	1.42	-	-	77.18	-	-
Germany	1.94	-	-	80.24	-	-
Italy	1.74	-	-	74.62	-	-
UK	1.42	-	-	80.57	-	-
Euro-16	10.83	10.92	0.09	82.67	83.32	0.65
Japan	3.34	3.63	0.09	72.20	78.50	6.30

Sources: OPEC statistics; Argus; Euroilstock Inventory Report; IEA; EIA/DoE; METI; PAJ

Table 6.2: Refined product prices, US$/b

		Jun 11	Jul 11	Aug 11	Change Aug/Jul
US Gulf (Cargoes):					
Naphtha		112.84	118.79	113.25	-5.54
Premium gasoline	*(unleaded 93)*	130.54	139.74	130.38	-9.36
Regular gasoline	*(unleaded 87)*	121.74	128.52	121.55	-6.97
Jet/Kerosene		128.25	131.80	126.77	-5.03
Gasoil	*(0.05% S)*	124.13	126.59	122.64	-3.95
Fuel oil	*(1.0% S)*	103.12	105.59	101.87	-3.72
Fuel oil	*(3.0% S)*	98.65	100.45	97.42	-3.03
Rotterdam (Barges FoB):					
Naphtha		103.26	108.42	104.01	-4.41
Premium gasoline	*(unleaded 10 ppm)*	123.33	127.50	123.58	-3.92
Premium gasoline	*(unleaded 95)*	120.74	124.83	120.99	-3.84
Jet/Kerosene		130.51	133.61	127.58	-6.03
Gasoil/Diesel	*(10 ppm)*	127.71	129.86	125.79	-4.07
Fuel oil	*(1.0% S)*	104.58	107.81	101.09	-6.72
Fuel oil	*(3.5% S)*	98.87	101.48	98.83	-2.65
Mediterranean					
Naphtha		101.18	106.45	102.08	-4.37
Premium gasoline	*(50 ppm)*	119.00	123.03	119.25	-3.78
Jet/Kerosene		128.83	131.54	125.83	-5.71
Gasoil/Diesel	*(50 ppm)*	108.96	110.80	107.32	-3.47
Fuel oil	*(1.0% S)*	105.06	108.30	101.08	-7.23
Fuel oil	*(3.5% S)*	97.87	100.45	97.53	-2.92
Singapore (Cargoes):					
Naphtha		101.90	105.92	103.00	-2.92
Premium gasoline	*(unleaded 95)*	120.47	124.45	122.85	-1.60
Regular gasoline	*(unleaded 92)*	117.76	123.38	119.75	-3.63
Jet/Kerosene		126.89	129.23	124.89	-4.34
Gasoil/Diesel	*(50 ppm)*	128.07	129.29	125.84	-3.45
Fuel oil	*(180 cst 2.0% S)*	103.62	107.27	105.51	-1.76
Fuel oil	*(380 cst 3.5% S)*	101.27	102.96	101.08	-1.88

Tanker Market

OPEC spot fixtures decreased by 6% in August

After the gains experienced in the last months, OPEC spot fixtures declined in August by 6%. The decline was mainly driven by eastbound fixtures as some refineries were still in maintenance. Compared to a year ago, spot fixtures declined by 9%. OPEC sailings were slightly down in August by 1% or 0.22 mb/d compared to the previous month. On an annual basis, OPEC sailings showed a decline of 4% in August. Middle East sailings decreased in August by 1.4% from the previous month, according to preliminary data. Initial estimates indicated that US and West Asia arrivals decreased by 0.5% and 4% respectively in August from the previous month, while Europe arrivals gained 0.6%. The small gain in Europe was supported by higher Black and North Seas activity. Far East arrivals remained flat in August compared to a month earlier. However, compared to last year, eastbound arrivals remained flat and westbound declined by 5%.

Table 7.1: Tanker chartering, sailings and arrivals, mb/d

	Jun 11	Jul 11	Aug 11	Change Aug/Jul
Spot Chartering				
All areas	17.92	18.42	16.77	-1.65
OPEC	12.69	13.25	12.45	-0.80
Middle East/East	5.60	6.15	5.01	-1.14
Middle East/West	1.79	1.87	1.89	0.02
Outside Middle East	5.31	5.23	5.56	0.32
Sailings				
OPEC	22.85	22.80	22.58	-0.22
Middle East	17.60	17.54	17.29	-0.25
Arrivals				
North America	8.91	9.26	9.21	-0.05
Europe	11.24	11.61	11.68	0.07
Far East	8.13	8.29	8.29	0.00
West Asia	4.64	4.66	4.49	-0.17

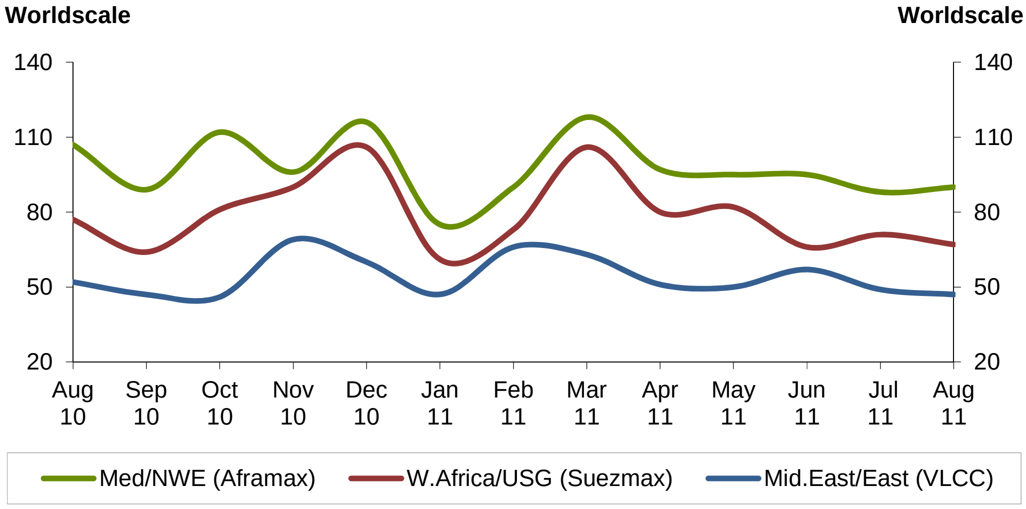
Source: "Oil Movements" and Lloyd's Marine Intelligence Unit

In August VLCC and Suezmax spot freight rates declined 4% and 5% respectively, while Aframax edged up by 4%

In August, bearish sentiment continued to dominate the crude oil tanker market, except for the Aframax sector which experienced a gain of 4% compared to the previous month. The VLCC spot freight rates lost 4% and Suezmax lost 5% during the same period. Tonnage availability, limited tonnage demand, refinery maintenance and holiday season were the key factors behind the decline in dirty spot freight rates. The gain in Aframax spot freight rates was supported by weather conditions and increased activity in the Black and North Sea after shutdown due to maintenance. Clean market rates gained 3% in August compared to a month earlier, mainly supported by healthy eastbound demand. West of Suez clean spot freight rates struggled in August as closed transatlantic arbitrage, lower gasoline demand and higher jet and gasoline stocks limited trade activities.

From Middle East to East and from Middle East to West, **VLCC** spot freight rates dropped 4% and 3% respectively in August compared to July. From West Africa to East, VLCC spot freight rates decreased 6% in August. Tonnage availability, holidays in Singapore, limited tonnage demand and some refinery maintenance in China and India were behind the decline in eastbound spot freight rates in August. Holidays in the UK exerted pressure on westbound spot freight rates. Compared to a year ago, on average VLCC spot freight rates declined 13% in August. From Middle East to East, from Middle East to West and from West Africa to East, spot freight rates declined by 10%, 7% and 21% respectively on an annual basis in August. On average, the decline is more than 13% compared to the beginning of 2010, as several factors continued to put downward pressures on VLCC rates. The depressed rates have been driving owners to consider laying up their vessels, as it is becoming difficult to cover operations costs.

Graph 7.1: Tanker chartering, sailings and arrivals, mb/d



Following the same pattern, the **Suezmax** sector declined in August on both reported routes. Suezmax spot freight rates on the West Africa to US Gulf route decreased 6% compared to the previous month. Limited activities and relatively ample tonnage supply, as well as a spill-over effect of VLCC activity, pressured rates in August. Additionally, lower US crude oil imports, as per preliminary data, added to the bearish sentiment in August. From Northwest Europe to the US, rates dropped 3% in August from the previous month. The decline came on the back of increased tonnage availability and limited transatlantic activities. On an annual basis, Suezmax freight rates from Northwest Europe to the US declined by 23% compared to the same period last year. This was the largest annual decline in August for all reported routes.

In the **Aframax** sector in August, all selected route rates registered gains, except Indonesia to East, which remained flat. Caribbean to the US spot freight rates registered the highest gain, backed by heavy crude oil demand in Latin America, as well as delays and weather conditions related to Hurricane Irene. Compared to last month, Caribbean to the US spot freight rates increased 12% in August. However, compared to a year earlier, spot freight rates from the Caribbean to the US dropped by 1% in August. In the Mediterranean market, spot freight rates from the Mediterranean to Mediterranean and from the Mediterranean to Northwest Europe increased by 2% in August compared to the previous month. The gain in Mediterranean Aframax spot freight rates was supported mainly by the risk premium related to certain ports as well as the increased activities between Northwest Europe and the Mediterranean. Furthermore, increased trading between Northwest Europe, the Black Sea, North Sea, and Mediterranean, supported by the return of refineries from maintenance, sustained Aframax spot freight rates in August.

Table 7.2: Spot tanker crude freight rates, Worldscale

	Size *1,000 DWT*	Jun 11	Jul 11	Aug 11	Change Aug/Jul
Crude					
Middle East/East	230-280	57	49	47	-2
Middle East/West	270-285	41	39	38	-1
West Africa/East	260	54	47	44	-3
West Africa/US Gulf Coast	130-135	66	71	67	-4
NW Europe/USEC-USGC	130-135	66	61	59	-2
Indonesia/US West Coast	80-85	99	98	98	0
Caribbean/US East Coast	80-85	99	102	114	12
Mediterranean/Mediterranean	80-85	93	87	89	2
Mediterranean/North-West Europe	80-85	95	88	90	2

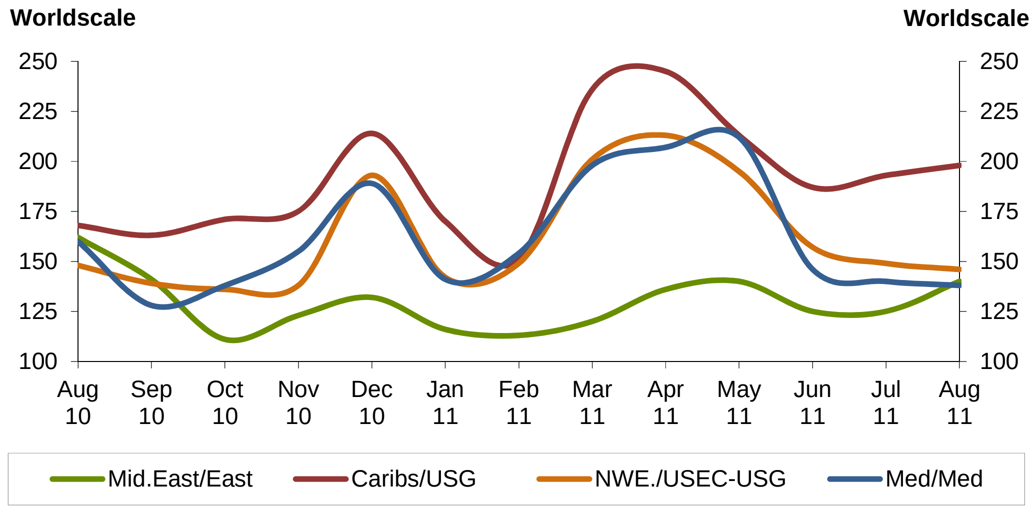
Source: Galbraith's Tanker Market Report and Platt's

Clean spot freight rates were mixed in August

Clean tanker market sentiment was mixed in August as East of Suez rates gained 10% and West of Suez edged down by 0.3% compared to last month. Closed arbitrage and lower naphtha trades weighed on westbound spot freight rates while increasing trade with Asia boosted eastbound spot freight rates.

East of Suez, clean tanker spot freight rates rebounded in August after the decline witnessed last month. Clean spot freight rates increased on all reported routes with Middle East to East and Singapore to East registering healthy gains of 12% and 8% respectively. The gain in Middle East to East clean spot freight rates was supported by healthy naphtha demand from the Middle East, rising Indian product exports and limited tonnage availability. Singapore to East was backed by increased activity due to fresh demand from Vietnam and Singapore. However, compared to a year ago, Middle East to East clean spot freight rates declined by 14% and Singapore to East gained 9% in August.

Graph 7.2: Monthly averages of clean spot freight rates



West of Suez, clean tanker spot freight rates declined on all reported routes, except Caribbean to the US Gulf, which closed up by 3% in August compared to the previous month. From Northwest Europe to the US, Mediterranean to Mediterranean and Mediterranean to Northwest Europe, clean spot freight rates closed down by 2%, 1.4% and 1.3% respectively in August, compared to the previous month. Closed arbitrage, lower US gasoline demand, and healthy stocks of gasoline and jet fuel in the US drove the decline in clean spot freight rates, while the modest gain in the Caribbean to the US rates was supported by weather conditions related to Hurricane Irene and delays. Compared to last year, spot freight rates from Northwest Europe to the US, Mediterranean to Mediterranean and Mediterranean to Northwest Europe declined by 1%, 14% and 13%, respectively, in August.

Table 7.3: Spot tanker product freight rates, Worldscale

	Size *1,000 DWT*	Jun 11	Jul 11	Aug 11	Change Aug/Jul
Products					
Middle East/East	30-35	125	125	140	15
Singapore/East	30-35	151	147	158	11
Caribbean/US Gulf Coast	38-40	187	193	198	5
NW Europe/USEC-USGC	33-37	157	149	146	-3
Mediterranean/Mediterranean	30-35	146	140	138	-2
Mediterranean/North-West Europe	30-35	156	150	148	-2

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

Oil Trade

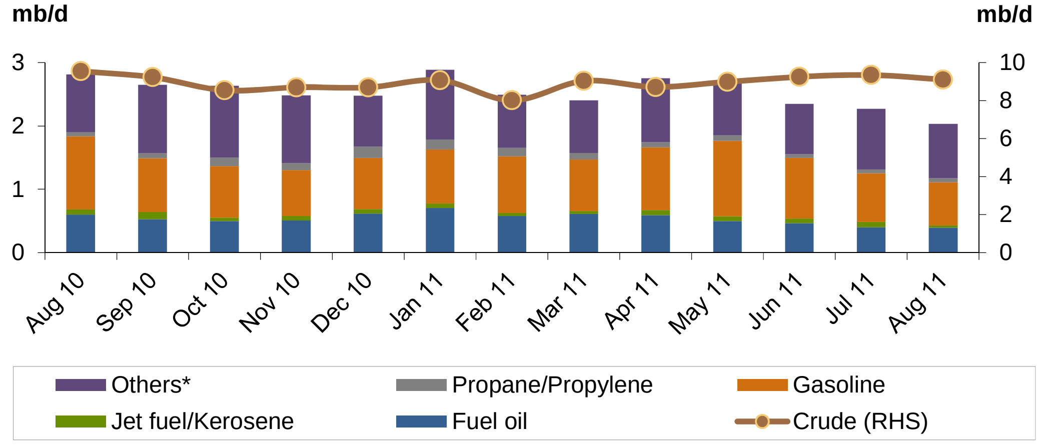
US crude oil imports decline in August to 9.0 mb/d, and remained below last year level.

US

According to preliminary data, US crude oil imports declined by 263 tb/d or 2.6% to average more than 9.0 mb/d in August. Crude oil imports touched almost 9.6 mb/d in the week ending 26 August before falling sharply by more than one million barrels per day due to weather disturbance.

US crude oil imports in August remained around 440 tb/d below last year, when imports stood at 9.5 mb/d. Imports averaged 8.9 mb/d between January and August, compared with 9.4 mb/d for the same period a year ago, implying a 5.1% decline.

Graph 8.1: US imports of crude and petroleum products

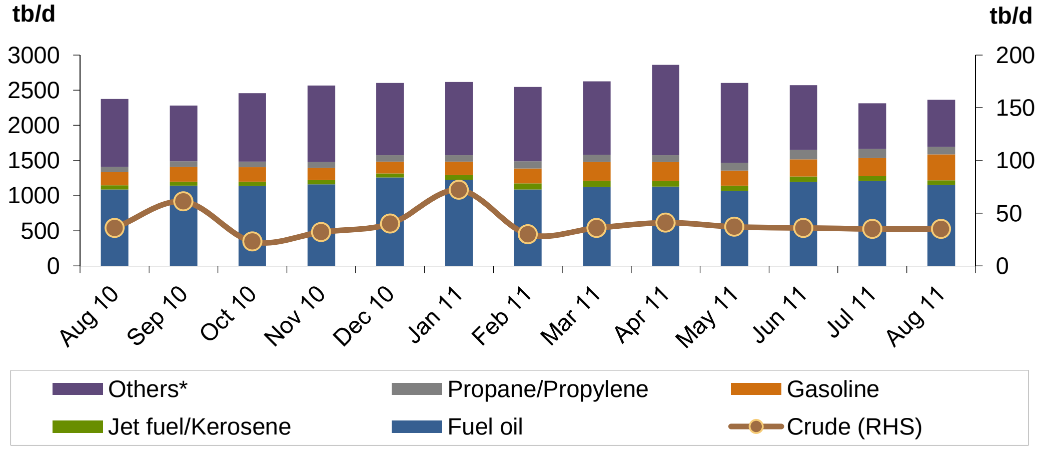


**Others: Contains natural gas liquids, liquefied refinery gases (LRG's), other liquids and all finished petroleum products except gasoline, jet fuel/kerosene, fuel oil and propane/propylene*

Product imports have dropped steadily since April this year and currently stand at a level of 2.0 mb/d. Compared to the month before, the decline is around 236 tb/d or 10.4%. According to y-o-y data, there is a sharp drop of around 782 tb/d or 27.8%. Gasoline and jet fuel were the main contributors to the decline of products in August. Gasoline imports fell by 86.2 tb/d or 11.2% and jet fuel by 52.6 tb/d or 61.4%. The decline in gasoline imports reflects a weakness of demand.

Product exports rose slightly in August to 2.4 mb/d, some 50 tb/d or 2.2% more than in the previous month and 0.4% or 10.3 tb/d lower than a year ago. Gasoline exports increased by 42.8% or 110 tb/d, whereas fuel oil and jet fuel declined by 4.6% and 4.1%, respectively.

Graph 8.2: US exports of crude and petroleum products



**Others: Contains natural gas liquids, liquefied refinery gases (LRG's), other liquids and all finished petroleum products except gasoline, jet fuel/kerosene, fuel oil and propane/propylene*

As a result, **US net oil imports declined in August to average around 8.7 mb/d, down 530 tb/d or nearly 5.7% from the previous month.** Nevertheless, net oil imports remained almost 12.2% below the year ago level.

The US imported around 4.5 mb/d from OPEC Member Countries in June, some 314 tb/d or 7.4% more than in May. This meant OPEC's share in US crude oil imports stood at 49.5%.

Canada remained the main supplier with 2.09 mb/d, followed by Saudi Arabia with 1.2 mb/d, then Mexico with 1.1 mb/d, Venezuela with 1.01 mb/d and Nigeria 0.81 mb/d.

On the product side, US imports from OPEC Member Countries fell by around 30,000 b/d or 1% to average just 309 tb/d in June. This is the lowest level since the 300 tb/d recorded in June 2010 and corresponds to a share of 12.1% in total US product imports. Again, Canada and Russia remained the main suppliers, accounting for 17.2% and 13.9%, respectively, followed by Algeria with 7.2% and the Netherlands with 6.9%.

Table 8.1: US crude and product net imports, tb/d

	Jun 11	Jul 11	Aug 11	Change Aug/Jul
Crude oil	9,211	9,312	9,069	-243
Total products	-24	-46	-332	-286
Total crude and products	**9,187**	**9,266**	**8,737**	**-530**

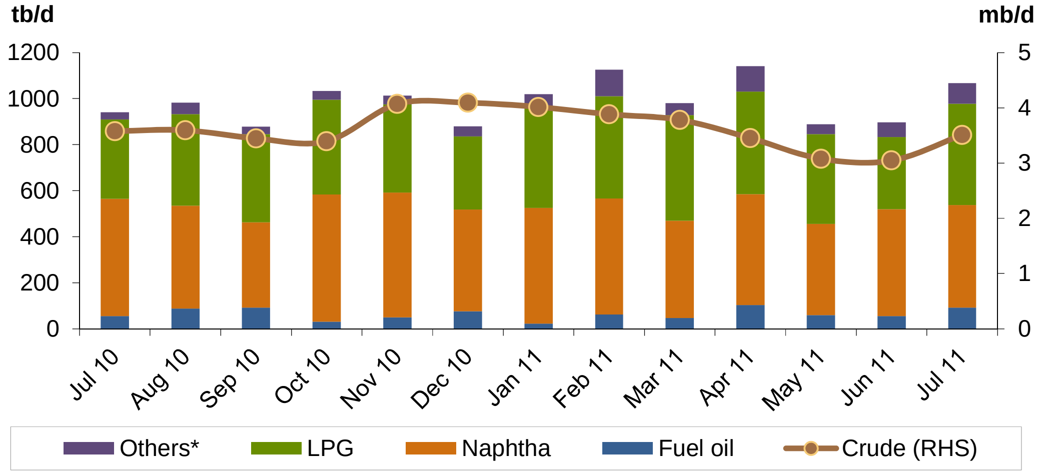
Japan

Japan reversed downward crude oil import trend in July and rose by almost half mb/d

The downward trend in Japan's crude oil imports stopped in July as an increase of 15.2% or 464 tb/d was observed. The increase pushed imports almost back to the level approaching 4 mb/d, which Japan experienced at the end of 2010. The regaining of infrastructure after the earthquake and tsunami in March helps explain the trend reversal, as does increased demand from refiners which are operational again and the demand from Japanese utilities for direct crude burning for power generation.

Japan's crude oil imports stood at an average of 3.5 mb/d in the first seven months of 2011 compared with last year's 3.7 mb/d, a decrease of 170 tb/d or 4.6%.

Graph 8.3: Japan's imports of crude and petroleum products



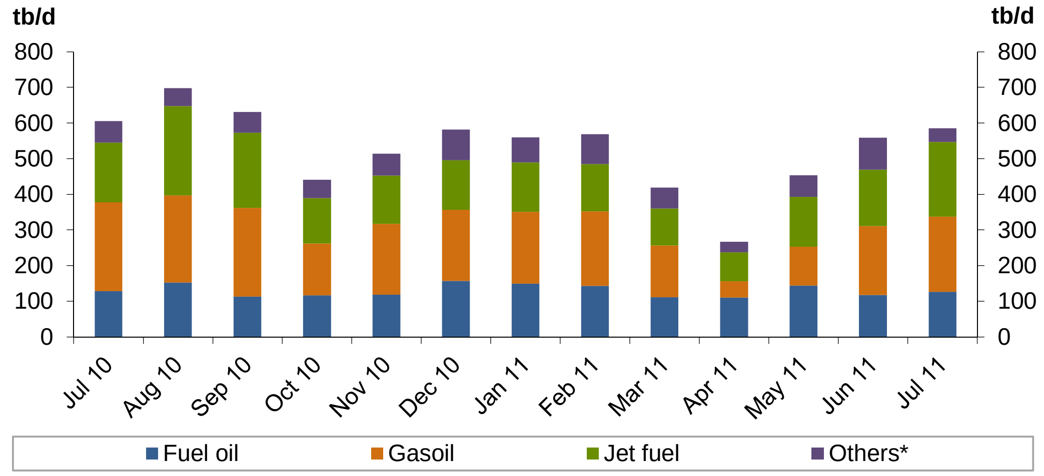
**Others: Contains gasoline, jet fuel, kerosene, gasoil, asphalt and paraffin wax*

Product imports, including LPG, edged up to 1.07 mb/d, which represents an increase of 19% or 170 tb/d compared to the month before, and up 13.5% or 127 tb/d on a y-o-y basis.

Japans's product imports stood at an average of 1.01 mb/d in the first seven months of 2011 compared with last year's 0.95 mb/d. This represents an increase of 60 tb/d or 6.3%.

Product exports increased slightly for the third consecutive month by 26 tb/d to average 0.59 mb/d. This is the highest level since February.

Graph 8.4: Japan's exports of petroleum products



**Others: Contains LPG, gasoline, naphtha, kerosene, lubricating oil, asphalt and paraffin wax*

As a result, Japan's net oil imports in July increased to 4.0 mb/d, rising by 607 tb/d or 17.9% from June.

Table 8.2: Japan's crude and product net imports, tb/d

	May 11	Jun 11	Jul 11	Change Jul/Jun
Crude oil	3,078	3,046	3,510	464
Total products	436	338	482	144
Total crude and products	**3,514**	**3,384**	**3,992**	**607**

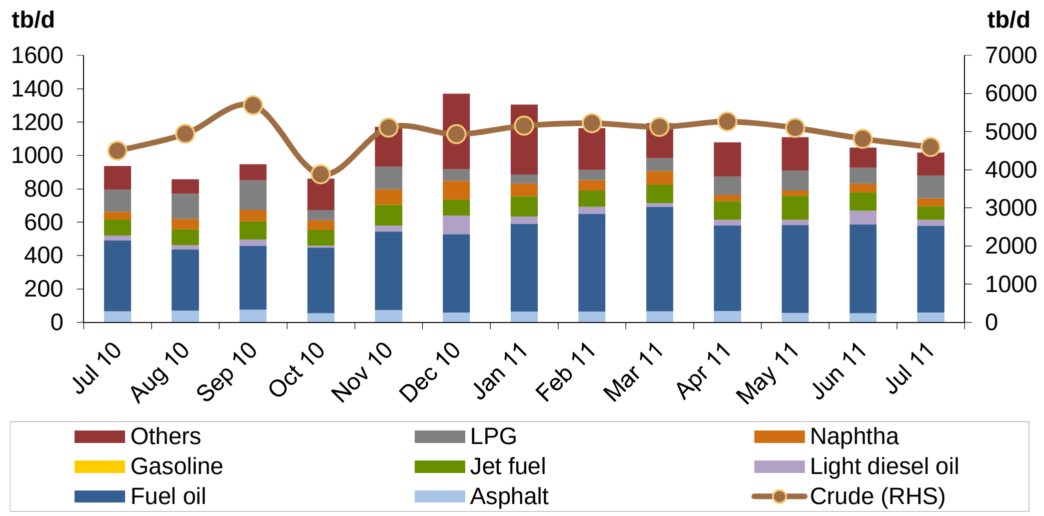
China

China's crude oil imports declined for the third consecutive month

China's crude oil imports declined in July for the third consecutive month, by 218 tb/d or 4.5%, to move further below 5 mb/d this year, the lowest level since the 3.9 mb/d recorded last October. Compared with a year ago, Chinese crude oil imports were 102 tb/d or 2.3% higher. The continuous decline can be attributed to the slowing growth in domestic crude refining, influenced by weaker demand from a cooling domestic economy.

Similarly, product imports fell 3% or 32 tb/d compared to the last month, to around 1.02 mb/d; the lowest level since last October.

Graph 8.5: China's imports of crude and petroleum products

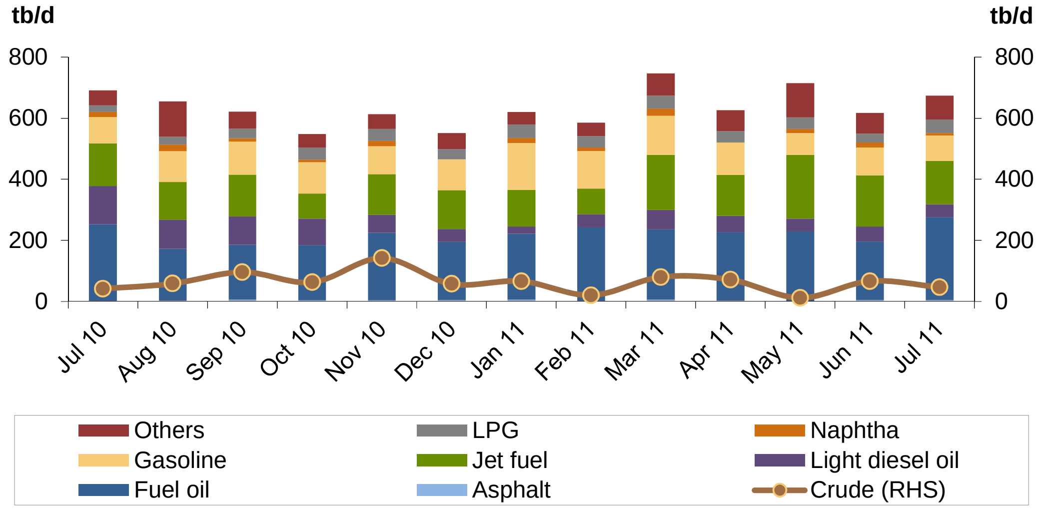


Taken together, China's crude oil and product imports in July showed a total drop of around 250 tb/d or 4.3% and an increase of 181 tb/d or 3.3% compared with a year earlier.

Despite the recent decline, China's crude oil imports over the first seven months of 2011 showed an average increase of around 300 tb/d or 6.3%, remaining slightly above 5.0 mb/d compared to last year's 4.7 mb/d. On the product side, there is a similar pattern. Product imports averaged around 1.1 mb/d in the first seven months of 2011, some 163 tb/d more than over the same period a year ago. This implies a combined growth in total oil of 500 tb/d in the first seven months of 2011 compared with last year's levels.

In July, Chinese crude oil exports declined by 20 tb/d to 47 tb/d, while product exports rose by almost 57 tb/d or 9.2% to 0.67 mb/d. Crude oil exports over the first seven months were around 52 tb/d or 13.6% above last year

Graph 8.6: China's exports of crude and products



As a result, **China's total net oil imports fell a further 286 tb/d or 5.5% from the previous month to stand at 4.9 mb/d.** This is the lowest level since 4.2 mb/d last October. The drop was attributed to crude oil net imports, which fell by 198 tb/d to 4.5 mb/d and product net imports which fell 88 tb/d or 20.4% to end July at 0.34 mb/d.

Looking at the first seven months in 2011, China's total net oil imports rose by 500 tb/d or 10% to a level of 5.6 mb/d.

Saudi Arabia remained the main supplier of China's crude oil imports in July with 0.98 mb/d, followed by Iran with 0.65 mb/d, Angola with 0.45 mb/d, Oman with 0.44 mb/d and Sudan with 0.28 mb/d.

Table 8.3: China's crude and product net imports, tb/d

	May 11	Jun 11	Jul 11	Change Jul/Jun
Crude oil	5,084	4,747	4,548	-198
Total products	363	431	343	-88
Total crude and products	**5,447**	**5,178**	**4,892**	**-286**

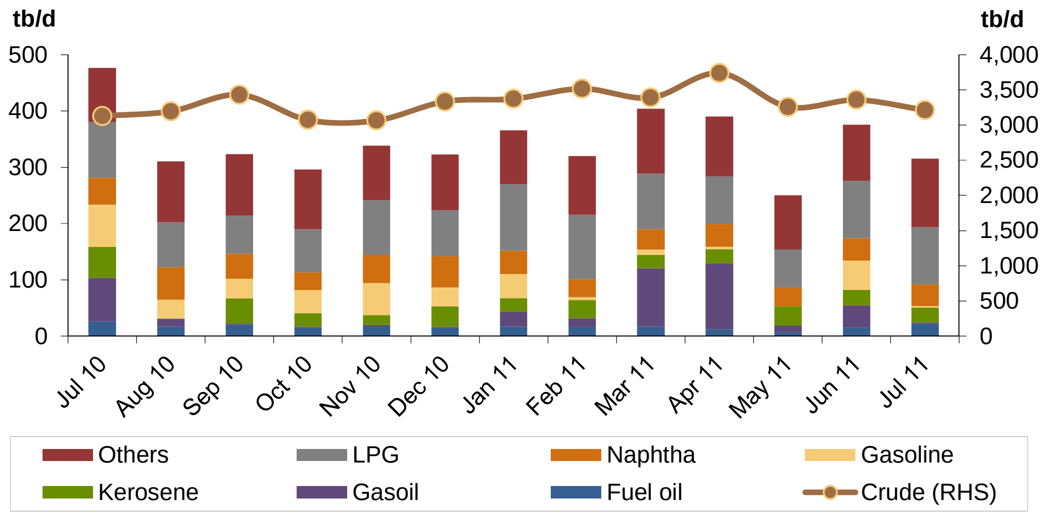
India

India's crude oil imports decline in July to 3.21 mb/d

India's crude oil imports declined 146 tb/d or 4.4% in July, offsetting the increase of the month before, to stand at 3.21 mb/d, despite Indian refiners processing 3.9% more crude in July than a year ago. On the contrary, crude oil imports showed an increase of 2.6% on a y-o-y comparison.

India's crude oil imports in the firsts seven months of 2011 stood at 3.4 mb/d, some 282 tb/d or 9.1% higher than in the same period of the previous year.

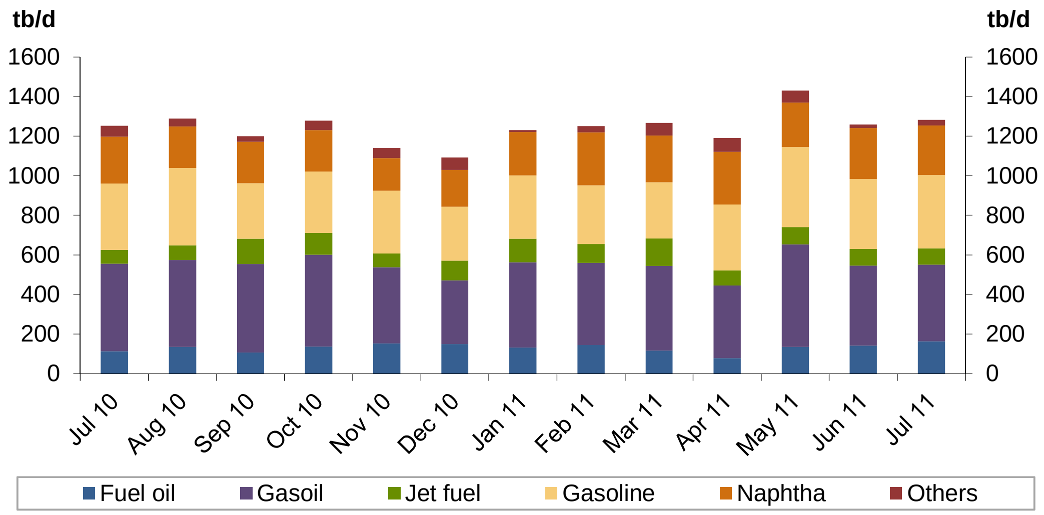
Graph 8.7: India's imports of crude and petroleum products



Product imports declined more rapidly by 16% or 60 tb/d to average 316 tb/d. Despite this, India's product imports remained above the 250 tb/d level of May. Compared with a year ago, July's product imports were 34% lower. Diesel and gasoline were the main contributors to the decrease of around 94%, declining from 39.8 tb/d and 52.2 tb/d in June to 2.4 tb/d and 3.13 tb/d in July. Imports of LPG, naphtha and kerosene declined moderately to average 101.0 tb/d, 38.5 tb/d and 26.5 tb/d, respectively. Fuel oil increased from 14.9 tb/d in June to 21.7 tb/d the following month.

India's product imports in the first seven months of the year stood at 342 tb/d, some 19 tb/d or 6.0% higher than in the same period of the previous year.

Graph 8.8: India's exports of petroleum products



On the export side, products increased slightly by 23.3 tb/d or 1.8% compared to the month before to stand at 1.28 mb/d, down from this year's high of 1.43 mb/d in May. On a y-o-y basis, product exports increased by 8.1% in July 2011.

As a result, **India's net oil imports decreased by 338 tb/d or 13.1% to average 2.244 mb/d in July to remain above this year's low of 2.241 mb/d.**

Table 8.4: India's crude and product net imports, tb/d

	May 11	Jun 11	Jul 11	Change Jul/Jun
Crude oil	3,258	3,357	3,211	-146
Total products	-1,017	-774	-967	-192
Total crude and products	**2,241**	**2,583**	**2,244**	**-338**

India data table does not include information for crude import and product export by Reliance Industries

FSU

FSU exports fell further in July to 6.08 mb/d

Total FSU crude exports continued to fall in July by 274 tb/d or 4.3% from the previous month. This can be mainly attributed to reduced supplies from Kazakhstan and Azerbaijan, caused by production and logistical problems. FSU exports by rail and sea were also down, reflecting a drop in the supplies of the CIS refineries. However, Transneft pipeline crude throughputs increased.

Exports in the Transneft system were up by 115 tb/d to 4.06 mb/d following a reduction of supplies to domestic refineries and Kazakhstan's 163 tb/d Pavlodar refinery. The latter cut imports due to scheduled maintenance. But this increase was not sufficient to offset the reduction in FSU crude exports to other destinations.

Meanwhile, Transneft continues to carry out repairs to its Baltic Pipeline System as it prepares for the launch of the second stage of the route at the end of this year. As a result, Primorsk loadings were low during July.

Shipments to Russia's Novorossiysk increased by 190 tb/d from June to 895 tb/d in July as Russian companies redirected a proportion of the crude they would normally export from Primorsk to the Black Sea, along with the volumes that they would normally have supplied to Pavlodar.

Exports of FSU eastern and central European destinations along the Druzba pipeline were up by 71 tb/d or 6.4% from June to 1.17 mb/d in July.

Deliveries of ESPO Blend crude to China and through to the Kozmino terminal on Russia's Pacific coast were largely unchanged from last month at around 621 tb/d.

Crude exports from Azerbaijan dropped during July as a result of scheduled maintenance at the Chirag production platform and maintenance along the Baku-Supsa pipeline, which was carried out during the second half of the month. Loadings from the Georgian port of Supsa decreased, while exports along the Baku-Tbilisi-Ceyhan (BTC) pipline, and then out through the Turkish port of Ceyhan, were down by 105 tb/d to 690 tb/d.

Pipeline exports of CPC Blend were down marginally by 22 tb/d from June to 658 tb/d last month.

Exports of crude produced by the Lukoil-ConocoPhillips joint venture from Lukoil's Varandey terminal were down by 5.4 tb/d to 81 tb/d, reflecting the declining production rates of Naryanmarneftegaz.

Product exports from the FSU fell by 8.5% or 257 tb/d to a level of 2.75 mb/d in July. Gasoline exports continued to fall, declining by almost half from the previous month, reflecting the fact that the export duty rate is still set by 90% of the crude duty rate as Russia tries to keep product in the country to avoid domestic shortages, observed in the last months.

Naphtha exports, which are subject to the same punitive duty rate as gasoline, increased by 12.2% or 33 tb/d compared to last month to reach 303 tb/d.

Exports of vacuum gasoil (VGO) were down by around 23% or 67 tb/d at 224 tb/d as refiners processed more of the product in a bid to produce more motor fuel.

Table 8.5: Recent FSU exports of crude and products by sources, tb/d

	2009	2010	4Q10	1Q11	2Q11	Jun 11	Jul 11*
Crude							
Russian pipeline							
Black Sea	1,201	994	933	970	886	815	949
Baltic	1,577	1,564	1,569	1,445	1,534	1,401	1,311
Druzhba	1,112	1,126	1,136	1,140	1,118	1,103	1,174
Kozmino	0	309	336	294	315	318	308
Total	**3,922**	**4,005**	**4,018**	**4,155**	**4,157**	**3,940**	**4,055**
Other routes							
Russian rail	280	330	280	197	145	148	24
Russian-Far East	283	276	313	299	286	258	252
Kazakh rail	18	1	0	0	128	132	13
Vadandey	155	152	127	111	92	86	81
Kaliningrad	0	24	24	23	21	16	19
CPC	736	743	749	737	671	680	658
BTC	805	775	796	710	761	795	690
Kenkiyak-Alashankou	157	204	204	230	239	247	238
Caspian	281	239	197	183	141	187	66
Total crude exports	**6,653**	**6,750**	**6,759**	**6,646**	**6,525**	**6,357**	**6,083**
Products							
Gasoline	221	152	124	205	220	168	87
Naphtha	269	275	245	285	302	270	303
Jet	47	20	15	7	17	19	19
Gasoil	948	878	824	896	793	742	714
Fuel oil	1,116	1,235	1,225	1,178	1,448	1,516	1,404
VGO	235	242	218	179	294	291	224
Total	**2,837**	**2,801**	**2,651**	**2,750**	**3,074**	**3,007**	**2,750**
Total oil exports	**9,490**	**9,551**	**9,410**	**9,396**	**9,600**	**9,364**	**8,833**

** Preliminary*
Totals may not add due to independent rounding

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

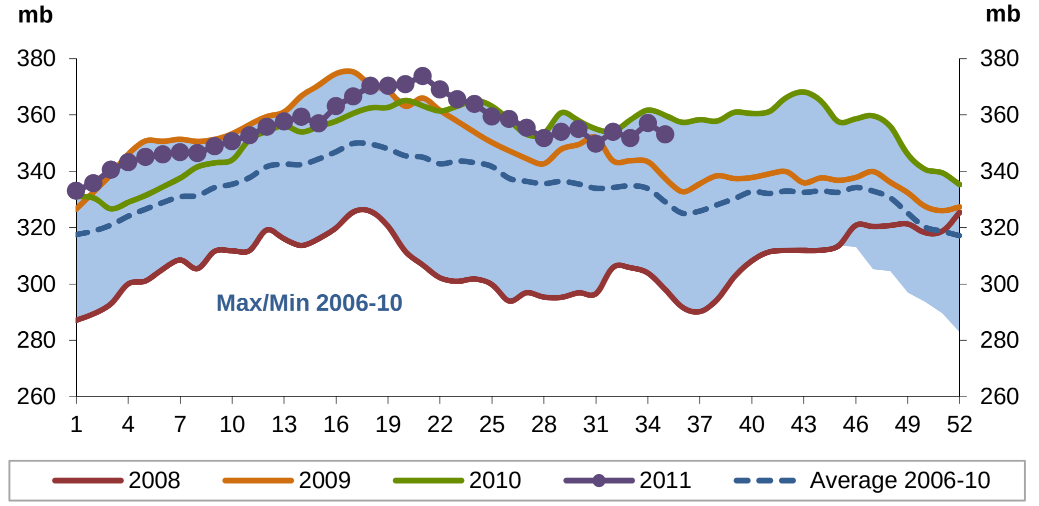
Stock Movements

US commercial stocks continued to rise in August, but the build was less than in previous months

US

In August, **US commercial oil inventories** continued to rise, however less than in previous months. US commercial oil inventories rose slightly by 0.3 mb to reach 1188.0 mb, the highest level since November 2011. The build was attributed to products which increased by 2.2 mb, while crude abated the build, declining by 1.9 mb. Despite the increase, total US commercial oil inventories remained at 42.7 mb or 3.8% below a year ago. The surplus with the five-year average remained almost flat from the previous month, at 19.2 mb or 1.8%.

Graph 9.1: US weekly commercial crude oil inventories

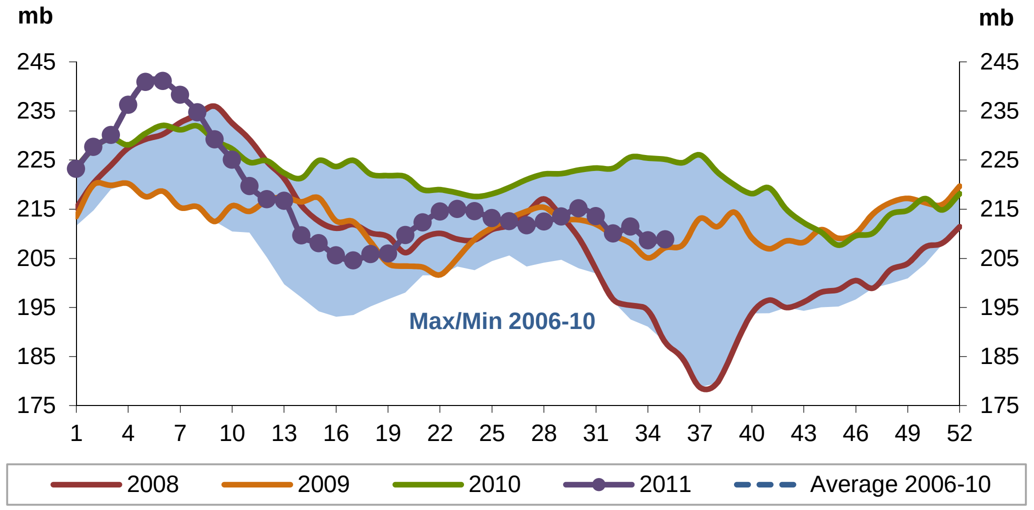


US **commercial crude stocks** fell in August for the third consecutive month to end the month at 353.1 mb, the lowest level since February 2011. Despite this draw, US commercial crude oil stocks still indicated a surplus of 23.7 mb or 7.2% with the five-year average, but remain slightly lower by 2.3 mb or 0.6% from year-ago stock levels. The draw came mainly from the decline in crude imports which fell by around 263,000 b/d in August, compared with the previous month. At around 9.0 mb/d, US crude oil imports represent a decline of 440,000 b/d compared to the same period last year. Higher crude refinery runs also contributed to the fall in crude oil stocks. Indeed, US crude oil refinery inputs averaged 15.5 mb/d in August, 70,000 b/d less than previous month. Refineries operated at 89.4% of their operable capacity, around 0.4 percentage points higher than in the previous month.

It should be noted that during the week ending 26 August, US crude oil stocks climbed by over 5 mb to reach 357.1 mb, driven by lower runs, which dipped by 225,000 b/d and stronger crude oil imports reaching 9.6 mb/d, more than 800,000 b/d over last week. The other release of 4.8 mb also helped the build in US crude commercial stocks. However, one week later, US crude stocks reversed the build and declined sharply by 4.0 mb as refining runs remained strong as refiners tried to capture the healthy margins at the end of the driving season. Additionally, weather disturbances contributed to lower crude imports which fell significantly by more than 1 mb/d to just 8.6 mb/d. Adding to the bullish pressure, Cushing stocks fell still further, to just 32.7 mb, the lowest level since last November.

Due to the IEA coordinated release of strategic reserve, US SPR declined by almost 23 mb to end the month of August at 696.9 mb.

Graph 9.2: US weekly gasoline stocks



On the product side, **product stocks** continued to climb, increasing by 2.2 mb to end the month at 734.9 mb, the highest level since the end of the last year. The continued build in US product stocks reflects lower demand as the US economic recovery fades. Despite this build, US product inventories remained at 40.5 mb or 5.2% below a year ago and 4.5 mb or 0.6% below than the five-year average.

Within products, the picture was mixed. Distilates and residual oil stocks rose by 4.5 mb and 1.4 mb respectively, while gasoline and jet fuel oil inventories fell by 6.4 mb and 1.1 mb respectively. At 208.8 mb, gasoline stocks stood at 12 mb or 3.3% below a year ago at the same period, while they represent a surplus of 3.3 mb or 1.6% with the five-year average. The effect of the slightly higher gasoline demand impacted inventories, despite increasing gasoline output. US gasoline demand averaged 9.1 mb/d in August, but almost 300,000 b/d less than a year ago at the same time, a sign that this year the US summer driving season missed its peak. Jet fuel stocks also fell by 1.1 mb to end the month at 43.9 mb, 3.2 mb lower than last year over the same period, but they are 1.0 mb or 2.3% above the historical trend. Distillate stocks saw an increase of 4.5 mb follwing a 8.6 mb build in the previous month, ending the month at 156.8 mb, the highest since last January. At this level, distillate stocks stood at 13.6 mb or 8.0% below a year ago, while they remained at 6.5 mb or 4.3% above the seasonal trend. This build in distillate stocks could be attributed to the decline of about 290,000 b/d in distillate demand reflecting disapointed industrial activity in the US. Strong distillate production in preparation of the winter season also contributed to the build in distillate inventories. In coming weeks, heating oil should be getting more attention, however in light of adequate supply, a bearish distillates market should contribute to limiting the increase in the crude oil price. Residual fuel stocks also increased by 1.4 mb to end the month at 37.6 mb, standing at 2.9% below a year ago, indicating a slight deficit of 0.5% with the seasonal norm.

Table 9.1: US onland commercial petroleum stocks, mb

	Jun 11	Jul 11	Aug 11	Change Aug 11/Jul 11	Aug 10
Crude oil	358.5	355.0	353.1	-1.9	359.3
Gasoline	215.2	215.2	208.8	-6.4	221.0
Distillate fuel	143.7	152.3	156.8	4.5	170.3
Residual fuel oil	37.4	36.2	37.6	1.4	38.8
Jet fuel	42.3	45.0	43.9	-1.1	47.1
Total	**1081.1**	**1087.7**	**1088.0**	**0.3**	**1135.3**
SPR	726.5	719.8	696.9	-22.9	726.6

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

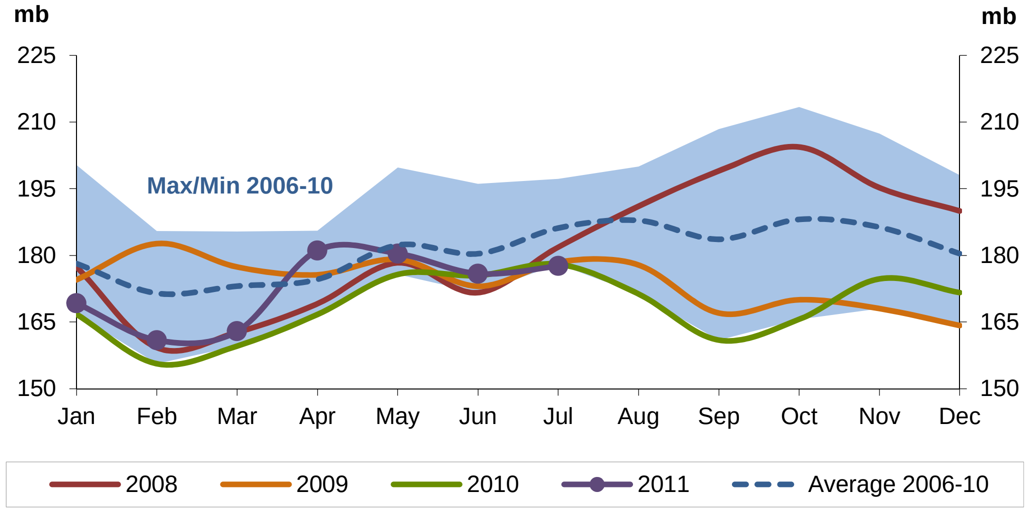
Source: US Department of Energy's Energy Information Administration

Japanese commercial oil stocks reversed the previous downward trend, increasing by 1.7 mb in July

Japan

In July, **commercial oil stocks** in Japan rose by 1.7 mb after two consecutive months of decline. At 177.6 mb, Japanese commercial oil stocks stood slightly below the year-ago level and remained 8.5 mb or 4.6% below the five-year average. The stock build was divided between crude and products, which rose by 1.1 mb and 0.7 mb respectively.

Graph 9.3: Japan's commercial oil stocks



Japanese **commercial crude oil stocks** reversed the draw observed last month and rose by 1.1 mb to end the month at 104.4 mb. Despite this build, crude commercial oil stocks in Japan remained at 1.6 mb or 5.2% below year-ago levels, and 5.2 mb and 4.7% below the five-year average. The build in crude commercial oil stocks in July came from higher crude oil imports, which increased by almost 0.5 mb/d over the previous month to reach 3.51 mb/d. However, crude oil imports were still 1.9% less than year-ago levels. Japanese refiners are facing plant outages after the earthquake has reduced import volumes. Although Japan's total crude oil imports declined in July versus a year ago, the country's imports of direct-burning crude continued to increase to make up for a short-fall in nuclear output. The build in crude oil stocks came despite higher refinery utilization rates, which reached 72.2%, 6.8 percentage points (pp) above the previous month's level, but 2.2 pp less than a year ago. This corresponds to a crude throughput of 3.34 mb/d, around 310 tb/d or 10.3% higher than in the previous month.

Total **product inventories** also saw a build in July, reversing two consecutive months of decline to stand at 73.2 mb. This stock build left total products in July at a surplus of 1.3 mb or 1.8% compared with a year ago. However, they remained 3.3 mb or 4.4% below the five-year average. The build in Japanese total products in July could be attributed to the increase in refinery output, which increased by 9.3%, averaging 3.16 mb/d. The month of July marked the start of Japan's peak summer oil demand season, which lasts until September. However, the build in oil product stocks came despite higher domestic sales. They increased by 7.5%, averaging 3.15 mb/d. Japan's total oil products sales in July were still 0.6% below year-ago levels, reflecting the economic disruption caused by the earthquake. With the exception of residual fuel, all products saw a build with the bulk of the gain from distillate stocks, which rose by 1.1 mb. At 33.2 mb, distillate stocks stood 3.4 mb, or 11.1% above year-ago levels, while remaining 0.7 mb or 2.1 % below the five-year average. Within the components of distillates, jet fuel and gasoil stocks fell 7.9% and 2.5% respectively, while kerosene rose by 13%. The build in kerosene stocks was driven by higher output as inventories increased by almost 34%. The drop in jet fuel stocks reflects higher exports, by around 36%, outpacing the increase in output. Healthy domestic sales, which increased by 3.0%, were behind the drop in gasoil inventories. Gasoline stocks rose slightly by 0.1 mb to end the month at 12.7 mb and remained 11.2% above year ago levels and 3.6% higher than the seasonal norm. This build came on the back of higher output, up by 11.3% and came despite improvements in gasoline sales. In contrast to the build in other products, residual fuel oil stocks fell by 0.6 mb for the third consecutive month. At 16.3 mb, residual fuel oil stocks stood at 5.5% above year-ago levels and 9.4% less than the five-year average. Fuel oil A inventories saw a drop of 10.3%, while fuel oil B.C experienced a build of 2.2%. The build in fuel oil B.C came on the back of higher production, up by 20.9% versus the previous month and 10% above last year's levels. This build came despite the increase in sales of B.C type fuel oil, used mainly for power generation. The drop in fuel oil A inventories came on the back of an improvement in domestic sales, which increased by almost 26%. Naphtha stocks remained virtually at the same level as in the previous month, standing at 10.9 mb, 23% below year-ago levels.

Table 9.2: Japan's commercial oil stocks*, mb

	May 11	Jun 11	Jul 11	Change Jul 11/Jun 11	Jul 10
Crude oil	106.7	103.3	104.4	1.1	106.1
Gasoline	13.4	12.6	12.7	0.1	12.4
Naphtha	10.3	10.9	10.9	0.0	14.2
Middle distillates	32.8	32.1	33.2	1.1	29.9
Residual fuel oil	17.1	16.9	16.3	-0.6	15.5
Total products	73.7	72.5	73.2	0.7	71.9
Total**	**180.4**	**175.9**	**177.6**	**1.7**	**178.0**

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

Singapore and Amsterdam-Rotterdam-Antwerp (ARA)

Product stocks in Singapore declined in July by 1.1 mb, reversing the building in the previous month

At the end of July, **products stocks in Singapore** reversed the upward trend seen last month and declined by 1.1 mb to 43.6 mb. With this draw, products stocks remained at 3.3 mb or 7.1% below year ago levels for the same period. Within products, the picture was mixed. Fuel oil and light distillates both saw a build of around 0.4 mb, while middle distillates stocks fell by 1.9 mb. At 13.9 mb, middle distillates have experienced a stock draw for two consecutive months, and stood at 1.6 mb or 10.5% below year ago levels for the same period. Middle distillates stocks have declined due to high seasonal demand, especially from Indonesia. Diesel imports from Pertamina are estimated to reach 4.4 mb in July, up from only 2.5-3.0 mb in the previous month. Jet fuel imports in Indonesia also increased to average 0.6 mb. Arbitrage shipments to Europe and South America are also contributing to draws in middle distillates stocks from the region. Light distillate stocks rose to nearly 10.0 mb, but were still 0.3 mb or 2.6% below year ago levels. This build is mainly due to higher imports from India and UAE. However, light distillate stocks may fall in the coming month due to expected higher demand from Indonesia. Fuel oil stocks climbed after two consecutive weeks of decline to end the month at 19.75 mb. Higher Western inflows have contributed to the increasing stocks.

ARA product stocks fell by 3.2 mb in July after a build last month

Product stocks in ARA in July fell by 3.2 mb, reversing last month's stock build. At 33.1 mb, ARA stocks stood at 3.9 mb or 10.7% below last year levels for the same period. Within products, the picture was mixed; both fuel oil and jet fuel stocks saw a build of 0.3 mb, while gasoline, Naphtha and gasoil dropped by 0.3 mb, 0.5 mb and 3.0 mb. At 17.8 mb, gasoil stocks stood at 1.1 mb or 5.9% below year-ago levels. The fall in gasoil stocks was driven by higher diesel demand from agriculture sector leading to higher exports. Gasoline fell slightly to 5.7 mb, mainly due to higher exports outpacing imports from France, Norway, Russia and the UK. Gasoline stocks remained at 1.3 mb less than year ago levels for the same period. Fuel oil rose to end the month at 5.6 mb, boosted by the imports from France and Russia. Jet fuel stocks rose also, to finish the month at 3.7 mb, but still remained 2.8 mb below a year ago. This build was supported by higher imports from the Middle East and South Korea.

Balance of Supply and Demand

Required OPEC crude for 2011 estimated at 29.9 mb/d, an increase of 0.2 mb/d over the previous year

Forecast for 2011

Demand for OPEC crude in 2011 has been revised down by 0.1 mb/d from the previous assessment, as the downward adjustment in global demand outpaced the downward revision in non-OPEC supply. All the quarters saw a revision with bulk of the adjustment occurring in the third quarter. At 29.9 mb/d, the demand for OPEC crude stood at 0.2 mb/d above 2010. On a quarterly basis, 1Q11 showed growth of 0.6 mb/d, while 2Q11 remained unchanged. 3Q11 is estimated to see negative growth of 0.4 mb/d while 4Q11 is seen to show growth of 0.3 mb/d compared to the same period last year.

Table 10.1: Summarized supply/demand balance for 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011
(a) World oil demand	**86.93**	**87.47**	**86.19**	**88.80**	**89.49**	**87.99**
Non-OPEC supply	52.29	52.85	52.00	52.89	53.41	52.79
OPEC NGLs and non-conventionals	4.90	5.12	5.26	5.37	5.42	5.29
(b) Total supply excluding OPEC crude	**57.19**	**57.97**	**57.26**	**58.26**	**58.83**	**58.08**
Difference (a-b)	**29.74**	**29.50**	**28.92**	**30.54**	**30.66**	**29.91**
OPEC crude oil production	29.27	29.63	29.13			
Balance	-0.47	0.13	0.21			

Totals may not add up due to independent rounding

Demand for OPEC crude in 2012 forecast at 30.0 mb/d, up 0.1 mb/d over the current year

Forecast for 2012

The demand for OPEC for 2012 is projected to average 30.0 mb/d, following a downward adjustment of 0.1 mb/d from the last report. This downward revision was due to lower than expected world oil demand. Within the quarters, the bulk revision came from the third quarter. As a result, required OPEC crude is now forecast to increase by 0.1 mb/d in 2012. On a quarterly basis, 1Q12 is estimated to see growth of 0.2 mb/d, followed by a contraction of 0.5 mb/d in 2Q12. Both the third and the fourth quarter are forecast to see an increase of 0.4 mb/d and 0.5 mb/d respectively, compared to the same period this year.

Table 10.2: Summarized supply/demand balance for 2012, mb/d

	2011	1Q12	2Q12	3Q12	4Q12	2012
(a) World oil demand	**87.99**	**88.77**	**87.44**	**90.07**	**90.73**	**89.26**
Non-OPEC supply	52.79	53.60	53.39	53.45	53.83	53.57
OPEC NGLs and non-conventionals	5.29	5.50	5.61	5.71	5.79	5.65
(b) Total supply excluding OPEC crude	**58.08**	**59.09**	**59.00**	**59.15**	**59.62**	**59.22**
Difference (a-b)	**29.91**	**29.67**	**28.44**	**30.92**	**31.11**	**30.04**

Totals may not add up due to independent rounding

Graph 10.1: Balance of supply and demand

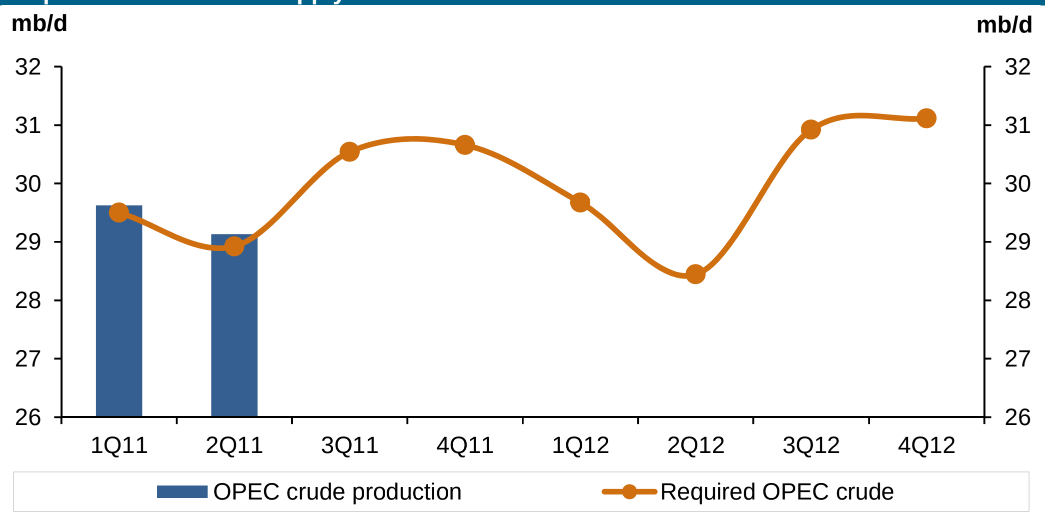


Table 10.3: World oil demand/supply balance, mb/d

	2006	2007	2008	2009	2010	1Q11	2Q11	3Q11	4Q11	2011	1Q12	2Q12	3Q12	4Q12	2012
World demand															
OECD	49.5	49.3	47.6	45.6	46.2	46.3	44.6	46.3	46.7	46.0	46.4	44.6	46.2	46.7	46.0
North America	25.4	25.5	24.2	23.3	23.8	23.8	23.3	23.9	24.0	23.7	23.9	23.4	24.0	24.1	23.9
Western Europe	15.7	15.5	15.4	14.7	14.6	14.2	14.1	14.8	14.7	14.5	14.2	14.0	14.7	14.6	14.4
Pacific	8.5	8.4	8.0	7.7	7.8	8.3	7.1	7.6	8.0	7.8	8.3	7.2	7.5	8.0	7.7
DCs	23.6	24.8	25.6	26.2	27.0	27.2	27.5	27.9	27.9	27.6	27.9	28.1	28.6	28.6	28.3
FSU	4.0	4.0	4.1	4.0	4.1	4.1	4.0	4.4	4.5	4.2	4.2	4.0	4.5	4.6	4.3
Other Europe	0.9	0.8	0.8	0.7	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.6	0.7	0.7	0.7
China	7.2	7.6	8.0	8.3	9.0	9.1	9.6	9.6	9.6	9.5	9.6	10.1	10.1	10.1	10.0
(a) Total world demand	85.2	86.5	86.1	84.7	86.9	87.5	86.2	88.8	89.5	88.0	88.8	87.4	90.1	90.7	89.3
Non-OPEC supply															
OECD	20.1	20.0	19.5	19.7	20.0	20.1	19.7	20.1	20.2	20.0	20.2	20.1	20.0	20.3	20.1
North America	14.2	14.3	13.9	14.4	15.0	15.3	15.2	15.3	15.4	15.3	15.4	15.4	15.5	15.6	15.5
Western Europe	5.3	5.2	4.9	4.7	4.4	4.3	4.0	4.1	4.3	4.2	4.2	4.0	3.9	4.1	4.1
Pacific	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
DCs	11.9	11.9	12.2	12.4	12.7	12.9	12.6	13.0	13.2	12.9	13.3	13.3	13.4	13.4	13.3
FSU	12.0	12.5	12.6	13.0	13.2	13.3	13.3	13.3	13.4	13.3	13.5	13.4	13.5	13.5	13.5
Other Europe	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1
China	3.7	3.8	3.8	3.9	4.1	4.2	4.2	4.2	4.3	4.2	4.3	4.2	4.3	4.3	4.3
Processing gains	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.2	2.2	2.2	2.2	2.2
Total non-OPEC supply	49.9	50.4	50.3	51.1	52.3	52.8	52.0	52.9	53.4	52.8	53.6	53.4	53.4	53.8	53.6
OPEC NGLs + non-conventional oils	3.9	3.9	4.1	4.3	4.9	5.1	5.3	5.4	5.4	5.3	5.5	5.6	5.7	5.8	5.7
(b) Total non-OPEC supply and OPEC NGLs	53.8	54.4	54.4	55.5	57.2	58.0	57.3	58.3	58.8	58.1	59.1	59.0	59.2	59.6	59.2
OPEC crude oil production (secondary sources)	30.6	30.2	31.3	28.8	29.3	29.6	29.1								
Total supply	84.4	84.6	85.7	84.2	86.5	87.6	86.4								
Balance (stock change and miscellaneous)	-0.9	-2.0	-0.4	-0.5	-0.5	0.1	0.2								
OECD closing stock levels (mb)															
Commercial	2655	2554	2679	2641	2666	2631	2678								
SPR	1499	1524	1527	1564	1561	1558	1560								
Total	4154	4079	4206	4205	4227	4189	4238								
Oil-on-water	919	948	969	919	871	891	853								
Days of forward consumption in OECD															
Commercial onland stocks	54	54	59	57	58	59	58								
SPR	30	32	33	34	34	35	34								
Total	84	86	92	91	92	94	92								
Memo items															
FSU net exports	8.1	8.5	8.5	9.0	9.1	9.2	9.3	9.0	9.0	9.1	9.3	9.4	9.0	9.0	9.1
(a) - (b)	31.4	32.2	31.6	29.3	29.7	29.5	28.9	30.5	30.7	29.9	29.7	28.4	30.9	31.1	30.0

Note: Totals may not add up due to independent rounding

Table 10.4: World oil demand/supply balance: changes from last month's table* , mb/d

	2006	2007	2008	2009	2010	1Q11	2Q11	3Q11	4Q11	2011	1Q12	2Q12	3Q12	4Q12	2012
World demand															
OECD	-	-	-	-	-	-0.1	-	-0.4	-0.1	-0.1	-0.1	-	-0.4	-0.1	-0.2
North America	-	-	-	-	-	-	-	-0.2	-0.1	-0.1	-0.1	-	-0.2	-0.1	-0.1
Western Europe	-	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	0.1	0.1	-0.1	0.1	0.1	-	0.1	-0.1	0.1	0.1	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-0.2	-	-	-	-	-0.2	-	-0.1
(a) Total world demand	-	-	-	-	-	-	-0.1	-0.5	-	-0.1	-0.1	-0.1	-0.5	-	-0.2
World demand growth	*-*	*-*	*-*	*-*	*0.01*	*0.04*	*-0.16*	*-0.49*	*-*	*-0.15*	*-0.12*	*-0.01*	*-0.02*	*-*	*-0.04*
Non-OPEC supply															
OECD	-	-	-	-	-	-	-0.1	0.1	0.1	-	-	-	-	-	-
North America	-	-	-	-	-	-	-0.1	0.1	0.1	-	-	-	-	-	-
Western Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	-	-0.2	-	0.1	-	-	-	-	-	-
Total non-OPEC supply growth	*-*	*-*	*-*	*-*	*0.04*	*-0.14*	*-0.23*	*-0.04*	*0.08*	*-0.08*	*0.04*	*0.23*	*-*	*-0.10*	*0.04*
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	-	-0.2	-	0.1	-	-	-	-	-	-
OPEC crude oil production (secondary sources)	-	-	-	-	-	-	-								
Total supply	-	-	-	-	-	-	-0.3								
Balance (stock change and miscellaneous)	-	-	-	-	-	-0.1	-0.1								
OECD closing stock levels (*mb*)															
Commercial	-	-	-	-	10	-	-								
SPR	-	-	-	-	-	-	-								
Total	-	-	-	-	10	-	-								
Oil-on-water	-	-	-	-	-	-	-								
Days of forward consumption in OECD															
Commercial onland stocks	-	-	-	-	-	-	-								
SPR	-	-	-	-	-	-	-								
Total	-	-	-	-	-	-	-								
Memo items															
FSU net exports	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(a) - (b)	-	-	-	-	-	0.1	0.1	-0.5	-0.1	-0.1	-0.1	-0.1	-0.5	-	-0.2

** This compares Table 10.3 in this issue of the MOMR with Table 10.3 in the August 2011 issue*
This table shows only where changes have occurred

Table 10.5: OECD oil stocks and oil on water at the end of period

	2004	2005	2006	2007	2008	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11
Closing stock levels *mb*																							
OECD onland commercial	2,531	2,576	2,655	2,554	2,679	2,582	2,643	2,629	2,554	2,553	2,584	2,641	2,679	2,731	2,745	2,763	2,641	2,673	2,756	2,748	2,666	2,631	2,678
North America	1,186	1,247	1,264	1,211	1,282	1,219	1,275	1,267	1,211	1,197	1,221	1,259	1,282	1,332	1,367	1,373	1,286	1,314	1,370	1,400	1,329	1,295	1,340
Western Europe	915	935	963	937	991	944	940	929	937	961	954	952	991	991	976	971	972	974	981	946	947	954	931
OECD Pacific	430	394	429	407	407	420	428	432	407	394	409	431	407	408	401	419	383	386	405	402	390	382	406
OECD SPR	1,450	1,487	1,499	1,524	1,527	1,507	1,506	1,520	1,524	1,529	1,526	1,522	1,527	1,547	1,561	1,564	1,564	1,567	1,562	1,549	1,561	1,558	1,560
North America	678	687	691	699	704	691	692	695	699	702	708	704	704	715	726	727	729	729	729	728	729	727	727
Western Europe	377	407	412	421	416	415	413	423	421	423	414	414	416	424	427	429	426	429	422	419	423	420	423
OECD Pacific	396	393	396	404	406	401	401	403	404	404	404	403	406	408	408	408	409	409	411	402	410	411	411
OECD total	3,982	4,063	4,154	4,079	4,206	4,089	4,149	4,149	4,079	4,082	4,110	4,164	4,206	4,278	4,306	4,327	4,205	4,240	4,318	4,297	4,227	4,189	4,238
Oil-on-water	905	954	919	948	969	916	891	917	948	935	925	885	969	899	899	869	919	919	897	926	871	891	853
Days of forward consumption in OECD																							
OECD onland commercial	51	52	54	54	59	53	54	53	52	54	55	56	57	61	61	60	57	59	59	59	58	59	58
North America	46	49	50	50	55	48	50	50	49	49	52	53	55	58	59	58	55	55	57	59	56	56	56
Western Europe	58	60	62	61	68	62	60	59	61	63	61	62	66	69	67	67	68	68	66	64	67	67	63
OECD Pacific	50	47	51	51	53	53	54	49	46	50	54	54	50	56	55	52	47	53	53	50	47	54	53
OECD SPR	29	30	30	32	33	31	31	30	31	32	33	32	33	35	35	34	34	35	34	33	34	35	34
North America	26	27	27	29	30	27	27	27	28	29	30	29	30	31	31	31	31	31	30	31	31	31	30
Western Europe	24	26	27	27	28	27	26	27	27	28	27	27	28	29	29	30	30	30	28	28	30	30	29
OECD Pacific	46	46	47	50	53	51	51	46	45	51	54	51	50	56	56	51	50	56	54	50	49	58	54
OECD total	80	82	84	86	92	84	85	83	83	86	88	88	90	96	95	94	92	94	93	92	91	94	92

n.a. not available

Table 10.6: Non-OPEC supply and OPEC natural gas liquids, mb/d

	2006	2007	2008	2009	Change 09/08	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10	1Q12	2Q12	3Q12	4Q12	2012	Change 12/11
US	7.36	7.47	7.50	8.14	0.64	8.55	8.52	8.63	8.84	8.64	0.49	8.76	8.91	8.85	8.84	8.84	0.21	8.87	8.89	8.92	9.01	8.92	0.08
Canada	3.20	3.31	3.27	3.25	-0.02	3.28	3.37	3.38	3.54	3.39	0.15	3.57	3.29	3.55	3.63	3.51	0.11	3.64	3.67	3.68	3.71	3.67	0.17
Mexico	3.69	3.49	3.17	2.98	-0.19	2.99	2.97	2.95	2.93	2.96	-0.02	2.97	2.96	2.94	2.92	2.95	-0.01	2.91	2.87	2.88	2.86	2.88	-0.07
North America	14.24	14.26	13.94	14.37	0.43	14.82	14.86	14.96	15.31	14.99	0.62	15.31	15.16	15.34	15.39	15.30	0.31	15.42	15.43	15.48	15.58	15.48	0.18
Norway	2.78	2.55	2.47	2.36	-0.11	2.32	2.12	1.93	2.17	2.14	-0.22	2.14	1.94	1.98	2.05	2.03	-0.11	2.03	1.94	1.88	1.97	1.96	-0.07
UK	1.71	1.69	1.57	1.48	-0.09	1.52	1.40	1.20	1.35	1.37	-0.11	1.27	1.17	1.25	1.31	1.25	-0.12	1.29	1.21	1.16	1.24	1.23	-0.02
Denmark	0.34	0.31	0.28	0.26	-0.02	0.25	0.25	0.23	0.26	0.25	-0.02	0.23	0.25	0.25	0.25	0.25	0.00	0.24	0.24	0.23	0.22	0.23	-0.01
Other Western Europe	0.51	0.62	0.62	0.63	0.01	0.62	0.64	0.65	0.63	0.64	0.01	0.67	0.66	0.65	0.65	0.66	0.02	0.64	0.65	0.65	0.65	0.65	-0.01
Western Europe	5.34	5.17	4.94	4.73	-0.21	4.71	4.41	4.02	4.42	4.39	-0.34	4.31	4.02	4.13	4.27	4.18	-0.20	4.20	4.04	3.92	4.09	4.06	-0.12
Australia	0.51	0.53	0.53	0.54	0.01	0.52	0.51	0.51	0.48	0.50	-0.04	0.42	0.42	0.51	0.50	0.46	-0.04	0.52	0.54	0.54	0.51	0.53	0.06
Other Pacific	0.05	0.08	0.10	0.10	0.00	0.10	0.10	0.10	0.09	0.10	0.00	0.09	0.08	0.09	0.08	0.09	-0.01	0.08	0.08	0.08	0.08	0.08	-0.01
OECD Pacific	0.56	0.60	0.63	0.64	0.01	0.62	0.60	0.60	0.58	0.60	-0.04	0.52	0.50	0.60	0.59	0.55	-0.05	0.60	0.62	0.62	0.59	0.61	0.06
Total OECD	20.14	20.03	19.51	19.73	0.23	20.15	19.88	19.58	20.30	19.98	0.24	20.14	19.68	20.07	20.24	20.03	0.05	20.23	20.09	20.02	20.25	20.15	0.11
Brunei	0.22	0.19	0.17	0.16	-0.01	0.18	0.16	0.17	0.18	0.17	0.01	0.18	0.17	0.17	0.17	0.17	0.00	0.17	0.17	0.17	0.17	0.17	0.00
India	0.78	0.80	0.80	0.78	-0.02	0.82	0.83	0.88	0.90	0.86	0.08	0.90	0.90	0.92	0.93	0.91	0.06	0.93	0.93	0.94	0.94	0.93	0.02
Indonesia	1.07	1.02	1.05	1.03	-0.02	1.03	1.05	1.03	1.01	1.03	0.00	1.01	1.02	0.99	0.98	1.00	-0.03	0.98	0.98	0.98	0.98	0.98	-0.02
Malaysia	0.76	0.76	0.76	0.73	-0.03	0.72	0.70	0.68	0.69	0.70	-0.03	0.68	0.60	0.65	0.64	0.64	-0.06	0.63	0.62	0.61	0.60	0.62	-0.03
Thailand	0.32	0.33	0.36	0.37	0.01	0.34	0.35	0.36	0.33	0.35	-0.02	0.34	0.35	0.34	0.34	0.34	0.00	0.34	0.34	0.34	0.34	0.34	0.00
Vietnam	0.37	0.35	0.33	0.37	0.04	0.35	0.35	0.36	0.37	0.35	-0.02	0.34	0.33	0.35	0.37	0.35	-0.01	0.38	0.39	0.40	0.41	0.39	0.05
Asia others	0.26	0.26	0.26	0.25	-0.01	0.22	0.24	0.24	0.23	0.23	-0.02	0.23	0.23	0.25	0.25	0.24	0.01	0.27	0.27	0.28	0.29	0.28	0.04
Other Asia	3.78	3.70	3.73	3.69	-0.04	3.67	3.67	3.71	3.71	3.69	0.00	3.69	3.59	3.67	3.69	3.66	-0.03	3.70	3.71	3.72	3.74	3.72	0.06
Argentina	0.77	0.77	0.78	0.76	-0.02	0.76	0.76	0.76	0.71	0.75	-0.01	0.76	0.68	0.71	0.71	0.71	-0.03	0.71	0.70	0.69	0.69	0.70	-0.02
Brazil	2.11	2.22	2.38	2.51	0.12	2.61	2.67	2.66	2.70	2.66	0.16	2.72	2.72	2.81	2.90	2.79	0.13	2.93	2.93	2.98	3.00	2.96	0.17
Colombia	0.54	0.54	0.60	0.68	0.09	0.77	0.79	0.80	0.83	0.80	0.11	0.88	0.93	0.94	0.97	0.93	0.13	0.99	1.00	1.02	1.03	1.01	0.08
Trinidad & Tobago	0.18	0.16	0.16	0.15	0.00	0.15	0.15	0.15	0.13	0.15	-0.01	0.14	0.14	0.14	0.14	0.14	-0.01	0.14	0.14	0.15	0.15	0.14	0.01
L. America others	0.26	0.28	0.28	0.30	0.02	0.31	0.31	0.32	0.32	0.31	0.01	0.31	0.31	0.33	0.34	0.32	0.01	0.34	0.34	0.34	0.34	0.34	0.01
Latin America	3.87	3.97	4.20	4.40	0.20	4.61	4.69	4.68	4.70	4.67	0.26	4.81	4.77	4.93	5.06	4.89	0.23	5.10	5.11	5.18	5.21	5.15	0.25
Bahrain	0.21	0.21	0.21	0.21	0.00	0.21	0.20	0.20	0.20	0.20	0.00	0.21	0.21	0.21	0.21	0.21	0.01	0.22	0.22	0.22	0.22	0.22	0.01
Oman	0.75	0.71	0.76	0.81	0.06	0.86	0.86	0.87	0.88	0.86	0.05	0.89	0.87	0.93	0.94	0.91	0.04	0.95	0.95	0.96	0.97	0.96	0.05
Syria	0.44	0.42	0.41	0.41	0.00	0.42	0.43	0.42	0.42	0.42	0.01	0.42	0.42	0.39	0.39	0.41	-0.02	0.39	0.39	0.38	0.37	0.38	-0.02
Yemen	0.37	0.33	0.30	0.30	0.00	0.30	0.29	0.28	0.27	0.29	-0.02	0.26	0.15	0.22	0.24	0.22	-0.07	0.26	0.26	0.26	0.25	0.26	0.04
Middle East	1.76	1.66	1.68	1.73	0.05	1.78	1.77	1.77	1.77	1.77	0.04	1.78	1.65	1.75	1.78	1.74	-0.03	1.82	1.82	1.82	1.82	1.82	0.08
Chad	0.15	0.15	0.15	0.14	-0.01	0.15	0.15	0.15	0.15	0.15	0.01	0.14	0.14	0.14	0.14	0.14	0.00	0.14	0.13	0.13	0.13	0.13	-0.01
Congo	0.25	0.24	0.26	0.27	0.02	0.30	0.30	0.29	0.29	0.30	0.02	0.29	0.29	0.31	0.31	0.30	0.00	0.31	0.30	0.30	0.29	0.30	0.00
Egypt	0.66	0.66	0.69	0.69	0.00	0.69	0.71	0.72	0.71	0.71	0.01	0.71	0.71	0.70	0.69	0.70	-0.01	0.68	0.68	0.68	0.67	0.68	-0.02
Equatorial Guinea	0.37	0.37	0.38	0.36	-0.02	0.33	0.33	0.32	0.31	0.32	-0.03	0.31	0.31	0.30	0.30	0.30	-0.02	0.31	0.31	0.32	0.33	0.32	0.01
Gabon	0.25	0.25	0.24	0.24	0.00	0.25	0.23	0.25	0.25	0.25	0.01	0.26	0.24	0.25	0.25	0.25	0.00	0.25	0.25	0.25	0.25	0.25	0.00
South Africa	0.19	0.18	0.18	0.17	-0.01	0.18	0.18	0.18	0.18	0.18	0.01	0.18	0.18	0.18	0.18	0.18	0.00	0.17	0.17	0.17	0.17	0.17	-0.01
Sudan	0.36	0.48	0.46	0.48	0.02	0.46	0.46	0.47	0.47	0.46	-0.01	0.46	0.44	0.45	0.44	0.45	-0.02	0.44	0.43	0.43	0.42	0.43	-0.02
Africa other	0.29	0.28	0.27	0.25	-0.01	0.24	0.23	0.23	0.22	0.23	-0.02	0.27	0.30	0.33	0.36	0.32	0.09	0.38	0.38	0.39	0.39	0.39	0.07
Africa	2.51	2.60	2.62	2.60	-0.02	2.59	2.57	2.60	2.58	2.59	-0.01	2.62	2.59	2.66	2.67	2.63	0.05	2.67	2.66	2.66	2.65	2.66	0.03
Total DCs	11.92	11.94	12.23	12.43	0.20	12.65	12.70	12.76	12.75	12.72	0.29	12.90	12.60	13.01	13.20	12.93	0.21	13.30	13.30	13.38	13.41	13.35	0.42
FSU	12.03	12.54	12.60	12.95	0.35	13.16	13.20	13.21	13.33	13.22	0.27	13.32	13.26	13.34	13.44	13.34	0.12	13.47	13.42	13.46	13.52	13.47	0.13
Russia	9.65	9.87	9.78	9.92	0.14	10.09	10.12	10.13	10.22	10.14	0.22	10.21	10.23	10.22	10.21	10.22	0.08	10.22	10.25	10.27	10.28	10.25	0.03
Kazakhstan	1.30	1.35	1.41	1.54	0.12	1.60	1.56	1.57	1.65	1.60	0.06	1.66	1.60	1.60	1.68	1.63	0.04	1.69	1.65	1.67	1.70	1.68	0.04
Azerbaijan	0.65	0.87	0.94	1.06	0.12	1.05	1.10	1.10	1.03	1.07	0.01	1.02	1.00	1.10	1.12	1.06	-0.01	1.13	1.10	1.09	1.12	1.11	0.05
FSU others	0.43	0.45	0.46	0.44	-0.02	0.42	0.42	0.41	0.42	0.42	-0.02	0.43	0.43	0.43	0.43	0.43	0.01	0.43	0.43	0.43	0.43	0.43	0.00
Other Europe	0.15	0.15	0.15	0.14	-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	0.15	0.15	0.15	0.15	0.15	0.01
China	3.69	3.77	3.84	3.85	0.01	4.02	4.09	4.17	4.25	4.14	0.28	4.22	4.19	4.19	4.25	4.22	0.08	4.27	4.24	4.25	4.30	4.26	0.05
Non-OPEC production	47.94	48.43	48.32	49.10	0.79	50.12	50.01	49.86	50.77	50.19	1.09	50.72	49.87	50.76	51.28	50.66	0.47	51.41	51.20	51.26	51.64	51.38	0.71
Processing gains	1.96	1.99	1.97	2.00	0.03	2.10	2.10	2.10	2.10	2.10	0.10	2.13	2.13	2.13	2.13	2.13	0.03	2.19	2.19	2.19	2.19	2.19	0.06
Non-OPEC supply	49.90	50.42	50.28	51.10	0.82	52.22	52.11	51.96	52.87	52.29	1.19	52.85	52.00	52.89	53.41	52.79	0.50	53.60	53.39	53.45	53.83	53.57	0.77
OPEC NGL	3.76	3.86	4.04	4.24	0.21	4.55	4.70	5.04	4.89	4.79	0.55	4.99	5.10	5.19	5.24	5.13	0.34	5.28	5.36	5.41	5.44	5.38	0.25
OPEC Non-conventional	0.14	0.08	0.11	0.11	0.00	0.11	0.11	0.11	0.11	0.11	0.00	0.13	0.16	0.18	0.18	0.16	0.05	0.21	0.24	0.29	0.34	0.27	0.11
OPEC (NGL+NCF)	3.89	3.95	4.14	4.35	0.21	4.66	4.81	5.15	5.00	4.90	0.55	5.12	5.26	5.37	5.42	5.29	0.39	5.50	5.61	5.71	5.79	5.65	0.36
Non-OPEC & OPEC (NGL+NCF)	53.79	54.36	54.42	55.45	1.03	56.88	56.92	57.11	57.86	57.19	1.74	57.97	57.26	58.26	58.83	58.08	0.89	59.09	59.00	59.15	59.62	59.22	1.13

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

Table 10.7: World Rig Count

	2006	Change 06/05	2007	Change 07/06	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09	1Q11	2Q11	Jul	Aug	Aug/Jul
US	1,647	267	1,767	119	1,770	1,864	1,978	1,898	1,877	111	1,326	936	956	1,108	1,081	-796	1,345	1508	1622	1687	1541	459	1717	1829	1900	1957	57
Canada	470	12	344	-126	507	169	432	408	379	35	328	91	177	277	218	-161	470	166	364	389	347	129	587	188	348	472	124
Mexico	83	-24	92	9	96	106	103	106	103	11	128	128	135	123	128	26	118	106	84	80	97	-31	83	87	100	104	4
North America	2,200	255	2,202	2	2,373	2,139	2,513	2,411	2,359	157	1,782	1,154	1,267	1,508	1,428	-931	1,933	1780	2070	2156	1985	557	2386	2104	2348	2533	185
Norway	17	0	18	1	17	21	21	21	20	2	25	18	18	20	20	0	21	18	13	20	18	-2	21	17	16	18	2
UK	27	5	26	-1	19	21	24	24	22	-4	22	19	16	15	18	-4	15	20	21	21	19	1	18	17	15	16	1
Western Europe	77	7	78	0	91	97	101	103	98	20	90	82	76	85	83	-15	87	96	92	100	94	11	118	112	120	128	8
OECD Pacific	26	2	29	2	32	39	39	34	36	7	27	25	26	23	25	-11	22	18	23	22	21	-4	17	17	17	17	0
Total OECD	2,347	269	2,352	4	2,532	2,317	2,698	2,593	2,535	183	1,945	1,299	1,368	1,616	1,557	-978	2,042	1893	2185	2278	2100	543	2521	2232	2485	2678	193
Other Asia	202	2	212	10	213	220	218	212	216	4	212	212	213	233	217	1	235	249	253	255	248	31	257	234	227	235	8
Latin America	149	19	175	27	187	184	195	197	191	16	164	147	149	169	157	-34	183	203	220	213	205	48	222	231	247	241	-6
Middle East	132	1	149	18	158	165	175	171	167	18	162	151	139	147	150	-18	152	150	163	159	156	6	163	160	155	159	4
Africa	10	2	14	4	10	13	14	11	12	-2	8	11	9	12	10	-2	20	19	19	18	19	9	22	25	19	21	2
Total DCs	493	25	551	58	569	583	602	591	586	36	546	520	510	561	534	-52	589	621	655	645	628	93	663	650	648	656	8
Non-OPEC Rig Count	2,840	294	2,903	62	3,101	2,900	3,300	3,183	3,121	219	2,491	1,819	1,878	2,177	2,091	-1,030	2,632	2514	2840	2924	2727	636	3184	2882	3133	3334	201
Algeria	24	4	27	2	26	27	24	26	26	-1	24	30	27	27	27	1	23	28	24	24	25	-2	29	33	26	31	5
Angola	4	1	4	1	5	6	5	5	5	1	5	3	3	4	4	-1	10	8	9	9	9	5	7	6	4	7	3
Ecuador	11	0	11	-1	7	9	12	13	10	-1	10	10	10	10	10	0	11	11	11	11	11	1	11	13	11	13	2
Iran	44	4	50	6	50	50	50	51	50	0	51	52	52	52	52	2	52	52	52	52	52	0	52	52	52	52	0
Iraq	0	0	0	0	29	29	29	29	29	29	36	36	36	36	36	7	36	36	36	36	36	0	36	36	36	36	0
Kuwait	14	1	12	-1	12	11	12	12	12	0	12	11	14	13	13	0	19	18	21	23	20	8	30	33	32	30	-2
Libya	10	1	13	3	14	15	15	15	15	2	15	13	14	15	14	-1	17	17	14	15	16	1	10	0	0	0	0
Nigeria	10	1	8	-1	9	8	6	6	7	-1	7	6	6	7	6	-1	11	13	18	17	15	8	14	13	12	16	4
Qatar	11	-1	13	2	11	12	11	11	11	-1	9	9	9	9	9	-2	8	8	9	9	9	0	10	8	8	6	-2
Saudi Arabia	65	28	77	11	78	77	76	76	77	0	72	67	67	66	68	-9	68	67	67	65	67	-1	62	67	68	67	-1
UAE	16	0	15	-2	12	12	13	12	12	-2	13	12	13	12	12	0	13	13	13	13	13	1	17	21	23	23	0
Venezuela	81	13	76	-5	82	81	77	81	80	4	69	64	54	54	60	-20	66	64	70	80	70	10	94	86	80	83	3
OPEC Rig Count	290	51	305	16	336	337	330	336	335	29	322	314	302	305	311	-24	334	335	344	355	342	31	372	368	352	364	12
Worldwide Rig Count*	3,130	345	3,208	78	3,438	3,237	3,630	3,519	3,456	248	2,813	2,133	2,180	2,483	2,402	-1,054	2,965	2849	3184	3278	3069	667	3556	3250	3485	3698	213
of which:																											
Oil	1,124	144	1,242	119	1,408	1,351	1,479	1490	1432	190	1283	1069	1182	1356	1,222	-210	1,590	1534	1783	1896	1701	479	2191	2015	2252	2369	117
Gas	1,947	201	1,903	-44	1,969	1,814	2,070	1948	1950	47	1450	993	965	1092	1,125	-825	1,333	1276	1356	1337	1325	200	1319	1187	1196	1280	84
Others	17	-4	20	4	26	32	36	37	33	12	35	35	34	37	35	3	43	40	42	46	43	8	48	49	38	51	13

*/ *Excludes China and FSU*
na: *Not available*
Note: *Totals may not add up due to independent rounding*
Source: *Baker Hughes International & Secretariat's Estimates*

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Data Summary

September 2011

OPEC Basket average price

US$ per barrel

↓ *down $5.30 in August*

August 2011	**106.32**
July 2011	111.62
Year-to-date	107.27

August OPEC production

in million barrels per day, according to secondary sources

↑ *up 0.08 in August*

August 2011	**29.92**
July 2011	29.84

World economy

Global growth expectations for 2011 and 2012 have been revised down to 3.6% and 3.9% respectively, compared to 3.7% and 4.0% in the previous report. OECD growth is now forecast at 1.7% for 2011 and 1.9% for 2012, compared to 1.8% and 2.2% previously. Growth for China remains unchanged at 9.0% in 2011 and 8.5% in 2012. India's forecast for 2011 has been revised down by 0.2 percentage points to 7.7%, while 2012 remains unchanged at 7.7%.

Supply and demand

in million barrels per day

2011		10/11
World demand	88.0	**1.1**
Non-OPEC supply	52.8	**0.5**
OPEC NGLs	5.3	**0.4**
Difference	**29.9**	**0.2**

2012		11/12
World demand	89.3	**1.3**
Non-OPEC supply	53.6	**0.8**
OPEC NGLs	5.7	**0.4**
Difference	**30.0**	**0.1**

Totals may not add due to independent rounding

Stocks

US commercial inventories rose a slight 0.3 mb in August. The build was attributed to products, which increased by 2.2 mb, while crude offset the increase with a decline of 1.9 mb. As a result, US commercial oil inventories were 19.2 mb above the historical average. In Japan, the most recent data shows that commercial oil inventories rose by 1.8 mb in July.

Issued 12 September 2011

Next report to be issued on 11 October 2011

Data covered up to the end of August 2011 unless otherwise stated.