

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

October 2011

Feature Article:
Growing economic uncertainties impact oil price volatility

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Oil Market Highlights

- The **OPEC Reference Basket** moved within a wide range of \$102-\$112/b in September as market sentiment was dominated by economic uncertainties around the globe, particularly in the Euro-zone. However, increasing concerns about the pace of global economic growth pushed the OPEC Reference Basket below \$100/b in early October. Futures prices declined further amid a deteriorating economic outlook and stronger US dollar. The Nymex WTI front-month fell to a ten-month low in September and dropped below \$76/b in the first week of October. Similarly, in early October, the ICE Brent front-month weakened further to settle below \$100/b, for the first time since the end of January. On 10 October, the OPEC Reference Basket stood at \$104.67/b.
- **World economic growth** remains unchanged at 3.6% in 2011 and has been revised down to 3.7% in 2012. At least for now, the deceleration of global output seems to have stabilized, although many risks remain, particularly in the Euro-zone. The US is forecast to grow at 1.6% in 2011 and at 1.8% in 2012. The Euro-zone is now expected to expand by 1.6% in 2011, but by only 0.8% in 2012. Japan's economy is expected to recover by 2.4% in 2012, after a contraction of 0.8% in 2011. However, the magnitude of the recovery remains uncertain. Growth levels in the developing countries remain relatively high, although a slow-down effect from the policy measures has started to have an impact. While China remains unchanged at 9.0% for 2011 and 8.5% for 2012, India's forecast has been revised lower to 7.6% for both 2011 and 2012.
- **World oil demand** growth has been revised down by 0.18 mb/d to show growth of 0.9 mb/d in 2011. Uncertainty in the world economy has dimmed the picture for 2011, particularly in the OECD region. Chinese oil demand is bound to uncertainty because of new government policies aimed at reducing transport fuel use. India's increase in retail prices is expected to play a major role in dampening oil consumption in the coming year. Due to the weakening economic outlook, the forecast for world oil demand growth in 2012 has been revised down to stand at 1.2 mb/d.
- **Non-OPEC oil supply** is forecast to increase by 0.4 mb/d in 2011, following a downward revision of 0.16 mb/d from the previous month, mainly due to lower-than-expected supply from Canada, the UK, Brazil, and Azerbaijan. In 2012, non-OPEC oil supply is expected to grow by 0.8 mb/d, higher than in the previous report, supported by anticipated growth in Brazil, Canada, Colombia, and the US. OPEC NGLs and nonconventional oils are expected to increase by 0.4 mb/d in 2012, in line with the current year's growth. In September, total OPEC crude oil production averaged 29.90 mb/d according to secondary sources, representing a decrease of 77 tb/d over the previous month.
- Sentiment in the **product markets** turned bearish, erasing the recovery of the previous months as product margins plummeted. Weaker demand throughout the driving season in the Atlantic basin and renewed concerns about economic developments in the Euro-zone helped to dampen market sentiment. In September, refinery margins showed a sharp drop of \$3/b in the Atlantic basin.
- The **crude oil tanker market** remained weak with spot freight rates for VLCCs, Suezmax and Aframax declining 5%, 3% and 8% respectively, as a result of higher tonnage supply and lower-than-expected demand. Both East and West of Suez clean spot freight rates decline by 3% and 2% in September due to tonnage oversupply, lower tonnage requirements and limited arbitrage. OPEC spot fixtures increased 0.4 mb/d in September to average 11.5 mb/d mainly from the Middle East. OPEC sailings remained nearly steady with only a minor increase.
- **US commercial oil inventories** fell by 13.4 mb in September. This drop was attributed solely to crude, which declined by 16.8 mb, while product inventories rose 3.4 mb. Despite the draw, total US commercial oil inventories stood broadly in line with the five-year average. In Japan, the most recent monthly data for August shows that commercial oil inventories fell by 1.4 mb. The draw was attributed to a 6.9 mb decline in crude, as product stocks rose 5.5 mb.
- **The demand for OPEC crude** in 2011 is estimated at 29.9 mb/d, unchanged from the previous assessment and around 0.1 mb/d higher than last year. In 2012, the demand for OPEC crude is projected to average 29.9 mb/d, representing a downward revision of 0.1 mb/d compared to the previous report and no growth over the current year.

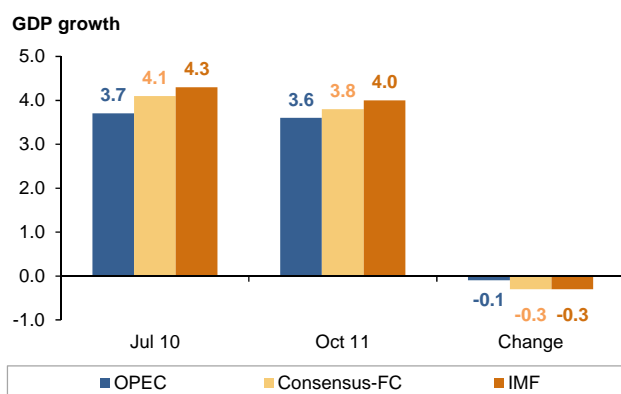
Growing economic uncertainties impact oil price volatility

When the global growth forecast for 2011 was first published in July 2010, growth expectations stood at 3.7%. While this is only negligibly higher than the current forecast of 3.6%, it masks the fact that the slowdown in advanced economies has been sharper than expected.

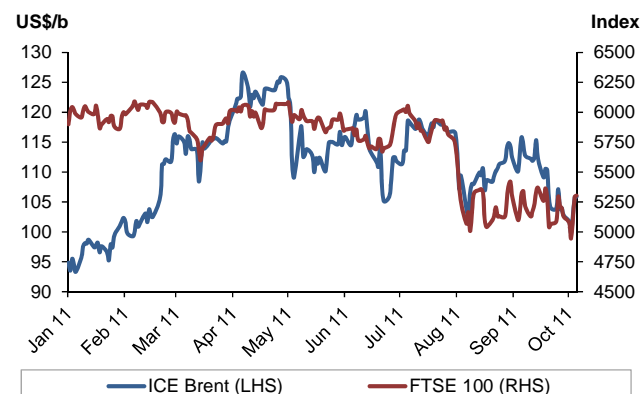
OECD growth expectations for 2011 currently stand at 1.6%, significantly lower than the initial forecast of 2.0%. The US, in particular, has faced a much more challenging first half than originally anticipated. The tragic events in Japan have also impacted growth expectations. While the Euro-zone performed relatively well initially, sovereign debt challenges in some countries in the region have emerged as a key threat going forward. This indicates that the related issues are deeper than originally thought and that solving them might be far costlier than previously forecast. Even if the fallout is contained, the sovereign debt crisis is likely to result in much slower economic growth in the Euro-zone over the months to come as austerity measures weigh on the expansion. The risks for the Euro-zone are considerable, given major refinancing volumes of the financially weaker Euro-zone countries in the coming quarters combined with rising yields. Consequently, the global growth forecast for 2012 has been adjusted sharply lower since the first estimate in July 2011 of 4.1% to currently stand at 3.7%.

While policy makers in developed countries have been trying to sustain momentum in economic growth, major emerging economies have been actively seeking to avoid overheating in their economies. Over the past six months, major developing economies have tried to curb their rising inflation rate through tight monetary policies. However, more recently, they have been faced with the growing downside risk of decelerating growth in their major trading partners in the developed economies, as reflected in lower exports and declining foreign investments.

Graph 1: Forecast for GDP growth, 2011



Graph 2: Crude oil price vs. equities



Many concerns regarding the slow-down of the global expansion have been similarly highlighted in other forecasts (see **Graph 1**). This includes the most recent *World Economic Outlook* by the IMF which has reduced its global growth expectations for 2011 from 4.3% in July 2010 to 4.0%, as well as the consensus forecast which now stands at 3.8% compared to 4.1% in July 2010. As a result, forecasts are moving toward the more cautious view that the OPEC Secretariat has held since the initial forecast.

In oil markets, crude oil prices have been increasingly volatile since May with a general pattern of steady rises followed by sharp drops. ICE Brent has been trading in a widening range of around \$100-120/b. This volatility has been more pronounced amid rising concerns about the economic uncertainties and associated risks in OECD countries. Since late April 2011, crude price direction has broadly tracked fluctuations in equity markets, which has kept oil prices sensitive to ongoing macroeconomic developments. In response to the increasingly fragile outlook for the world economy, the FTSE 100 index experienced a loss of almost 9% and the euro has declined 10% against the dollar on the back of growing uncertainties in the Euro-zone. The shifting economic mood has also resulted in an even larger drop in Brent futures prices of nearly 13% over this same period (see **Graph 2**).

Reflecting the growing uncertainties in the global economy, world oil demand in 2011 has also been adjusted lower from the initial forecast growth of 1.2% to now stand at 1.0%. However, the revisions since the initial forecast have been much lower than other forecasts which began the year with a more optimistic economic outlook. The adjustments have been carried out not only in OECD countries, but also in some emerging countries, including China, which has been a key driving force behind global oil demand growth in recent years. So far, clear signs of weakening demand have had only a limited impact on overall oil market fundamentals. However, in the current economic environment, it is necessary to remain alert to the risks of a growing market imbalance.

Crude Oil Price Movements

OPEC Reference Basket recovered in a very volatile market in September, but fell below \$100/b in early October, the lowest level since February

OPEC Reference Basket

The OPEC Reference Basket was volatile in September, moving within a wider range of around \$102-\$112/b as market sentiment was dominated by economic uncertainties around the globe, particularly in Europe, due to Greece's debt problems and the fears of contagion to other countries.

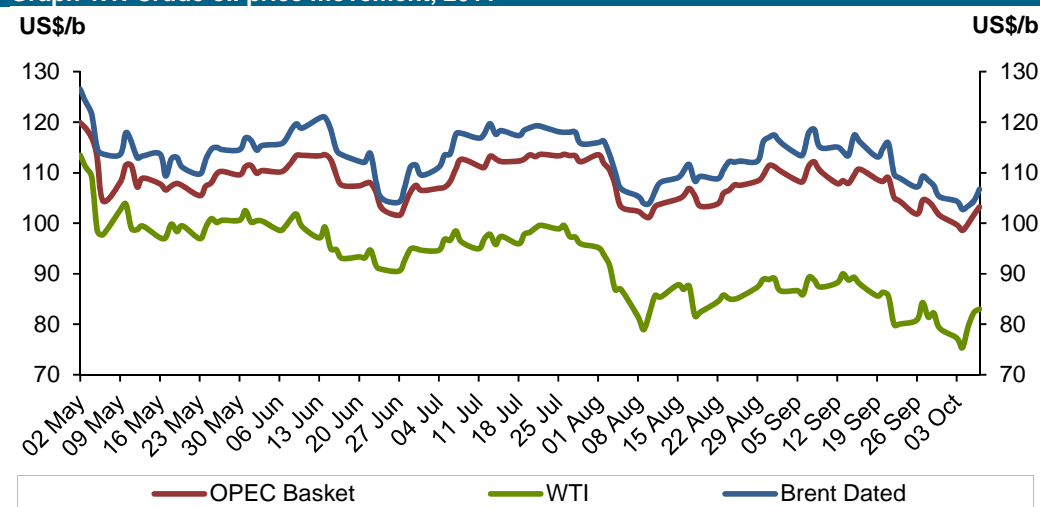
On a monthly basis, the OPEC Reference Basket rose \$1.29 or 1.2% in September to average \$107.61/b.

All Basket components recovered in September, except Venezuelan crude Merey, which dropped a further 69¢ to average \$92.78/b, the lowest since the \$87.51/b of last February.

The recovery in the OPEC Reference Basket was driven essentially by Ecuador's Oriente, which jumped \$5.91 or 6.0%, as well as by light African crudes. Algeria's Saharan Blend and Nigeria's Bonny Light continued to benefit from the combination of stronger demand from Asian buyers and the lack of light grades as Libyan crude remained absent from the market. African light crudes were also supported by strong refining margins in Europe. Nigeria's Qua Iboe benchmark was assessed up to Dated Brent plus \$3.90-4.10/b in late August.

However, the recovery in the OPEC Reference Basket slowed down in the second half of September where respective gains of the third and the fourth weeks of the month fell to 96¢ and 10¢.

Graph 1.1: Crude oil price movement, 2011



Middle Eastern crudes increased, but at a slower pace. Market sentiment firmed in the first two weeks of the month, lifted by higher exports to Europe following some disruptions in North Sea production, which made imports from the Middle East attractive to the region. Some spot Oman cargoes for loading in November were valued at a premium of \$1/b to Dubai quotes, the highest since early June. Middle Eastern grades were also supported by higher Saudi and Abu Dhabi official selling price formulae for October loadings amid expectations of rising Asian demand following refinery maintenance. In the second week, Oman jumped to its highest level in six months, reaching a notional premium of \$1.50/b to Dubai quotes, up \$1.00/b from the previous week. Al-Shaheen was also sold at strong premiums on strong demand from Asia. At least two cargoes were sold at premiums between \$1.80-2.00/b to Dubai quotes at the end of the second week. However, market sentiment eased over the following days amid weaker refining margins in Europe, narrower gasoil cracks and expectation of slowing demand following a fire at a Shell refinery in Singapore.

On a quarterly basis, the OPEC Reference Basket fell \$3.74/b or 3.3% to average \$108.44/b. That was the first decline since the \$2.77/b of the third quarter 2010. It is worth mentioning that the Basket increased over the previous three quarters. It recovered in the fourth quarter 2010 by \$10.12/b and \$17.39/b in the first quarter 2011, followed by another again of almost \$11/b in the second quarter of this year.

Increasing concerns about global economic growth added more bearishness to the oil market in early October, when the OPEC Reference Basket fell \$99.65/b on the first trading day of the month. That was the lowest level since the third week of February.

On 10 October, the OPEC Reference Basket stood at \$104.67/b.

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

	<u>Aug 11</u>	<u>Sep 11</u>	<u>Change Sep/Aug</u>	<u>Year-to-Date</u>	
	<u>2010</u>	<u>2011</u>			
OPEC Reference Basket	106.32	107.61	1.29	75.25	107.31
Arab Light	106.43	107.72	1.29	75.60	107.64
Basrah Light	105.07	106.68	1.61	74.55	106.04
Bonny Light	112.41	115.63	3.22	78.62	114.63
Es Sider	111.26	113.93	2.67	76.67	112.48
Girassol	110.60	111.59	0.99	77.08	111.97
Iran Heavy	104.90	105.54	0.64	74.55	105.82
Kuwait Export	104.51	105.16	0.65	74.22	105.21
Marine	105.14	106.46	1.32	76.06	106.35
Merey	99.81	99.12	-0.69	68.25	96.61
Murban	108.92	109.57	0.65	77.75	109.80
Oriente	97.91	103.82	5.91	70.69	100.21
Saharan Blend	111.16	115.03	3.87	77.85	113.46
Other Crudes					
Minas	117.03	113.32	-3.71	80.23	115.01
Dubai	104.96	106.31	1.35	75.91	106.10
Isthmus	101.06	104.05	2.99	75.97	104.52
T.J. Light	99.24	102.17	2.93	74.43	102.51
Brent	110.46	113.13	2.67	77.18	112.03
West Texas Intermediate	86.30	85.60	-0.70	77.47	95.28
Urals	109.25	110.39	1.14	75.97	109.36
Differentials					
WTI/Brent	-24.16	-27.53	-3.37	0.28	-16.75
Brent/Dubai	5.50	6.82	1.32	1.27	5.93

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

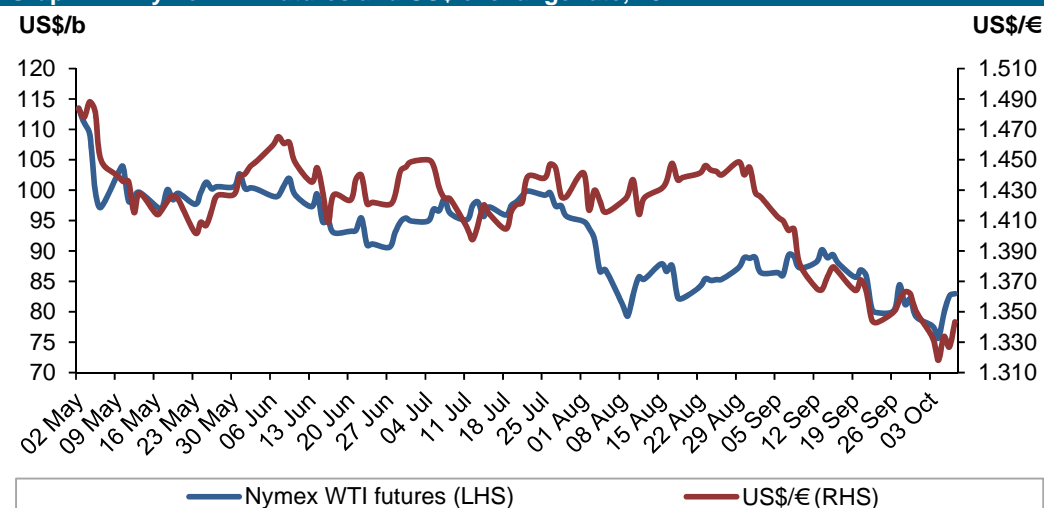
Source: Platt's, Direct Communication and Secretariat's assessments

The oil futures market

Crude oil futures witnessed two distinct trends in September. Prices in the first half of the month showed some recovery before they weakened significantly within the second half of the month amid bearish sentiment in September on the back of gloomy economic outlook and slowing demand. A similar trend was observed in equity markets and other commodities, highlighting the impact of the macroeconomic outlook on investors. As market sentiment turned gloomy with eventual slowing oil demand, many investors halted investing in crude oil futures while others engaged in strong sell-offs.

Crude oil futures declined further amid a deteriorating economic outlook

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

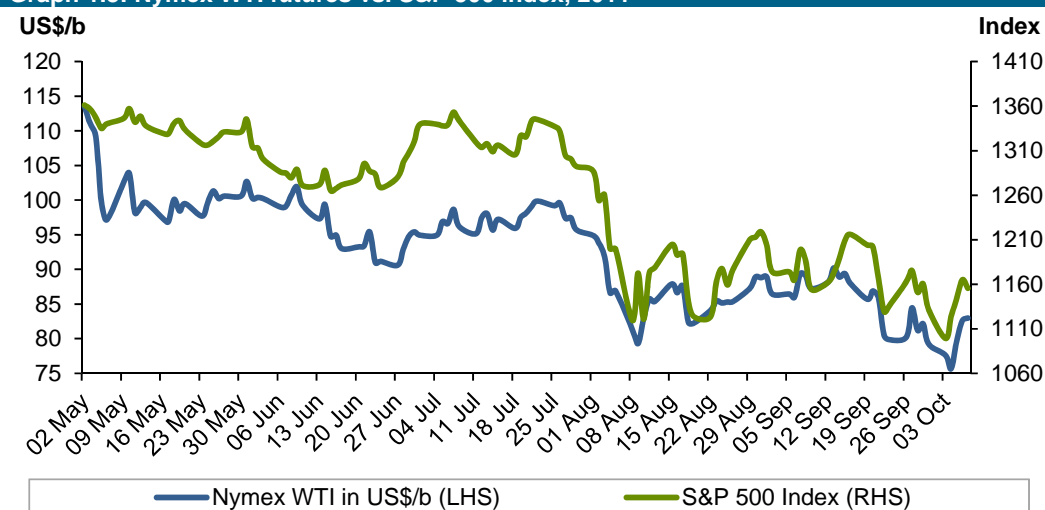


Nymex WTI fell to a ten-month low in September

The weakness in crude oil futures was also attributed to the strength of the US dollar against the euro as the latter continued to suffer from the European debt crisis. The expectations of the return of Libyan crude oil added more bearishness to the market.

US crude oil futures experienced a general upward trend in the first half of September. The Nymex WTI front-month started the month at \$88.93/b to weaken in the following days amid a series of poor macroeconomic indicators, including disappointing US jobs data as well as worries that the Euro-zone debt crisis might dampen global economic growth. Within a few days, crude oil futures showed some recovery to stand around \$90/b in mid-September but this was short lived as prices started to decline again. On 22 September, Nymex WTI dropped \$5.41 or 6.3% to close at \$80.51/b. That was the biggest one-day percentage decline since 8 August, when the loss was 6.4%. The strong decline in crude oil futures on that day was in line with equity markets as uncertainties about global economic growth increased, following weaker manufacturing indicators from the Euro-zone and China, which would imply lower oil demand in future. Prices were also dampened by Federal measures which were seen as insufficient to boost the faltering US economy. The Nymex WTI fell further in the following days to close below \$80/b for the first time in almost a year and represented the largest weekly loss since the first week of May. The weakness during that week was not limited to crude oil but touched other commodities and stock markets with the Dow Jones Industrial average falling 6.4%, the S&P 500 losing up to 6.6% and the Nasdaq down 5.3%. The Dow posted the largest weekly percentage loss since October 2008. After a fragile recovery, the Nymex WTI weakened again to settle at \$79.2/b on the last trading day of September, the lowest in a year and represented a monthly average of \$85.61/b, the lowest since the \$84.31/b of November 2010 and a loss of 73¢ from the previous month.

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



Growing worries that Greece will default on its debt and a global economic slowdown will reduce demand for oil significantly weakened crude oil market sentiment in early October when Nymex WTI fell to \$75.67/b on 4 September. That was the lowest close since the \$75.18/b of 23 September 2010.

In London, ICE Brent followed the same trend. The front-month contract closed at \$115.80/b on 7 September, the highest level of the month, before it weakened slightly to settle at \$115.34/b a week later. As with US crude, ICE Brent weakened significantly in the third week of September to close at \$105.49/b on 22 September, implying a loss of almost \$10 in one week. ICE Brent dropped further over the following days to stand at \$102.76/b on the last day of the month, resulting in a monthly average of \$109.91/b, down 2¢ from August.

Similar to US crude oil, ICE Brent continued its downward trend in the first week of October, falling below \$100/b for the first time since the end of January 2011.

Brent's premium to WTI hit a record high of \$26.87/b

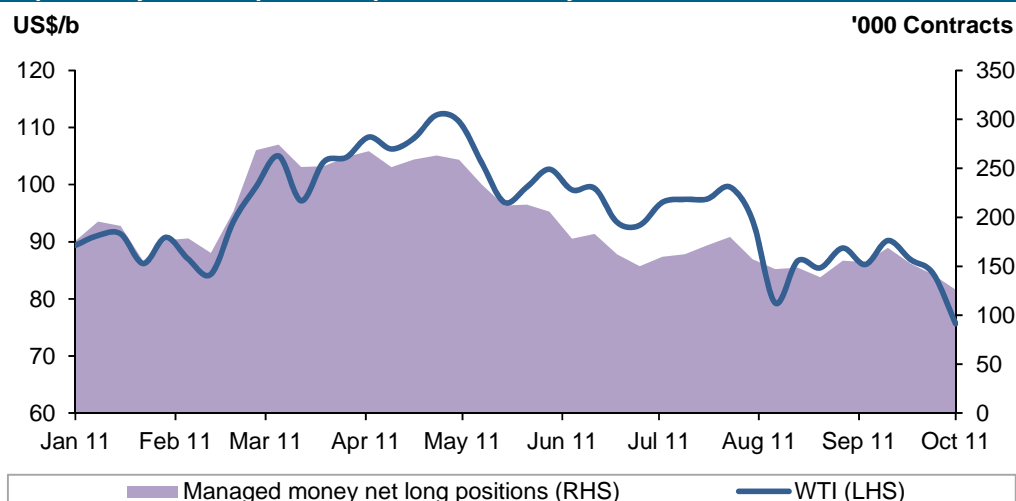
The Brent-WTI spread widened for the sixth month in a row to average \$24.30/b, up from \$23.59/b in August. On a daily basis, the Brent-WTI spread hit a record high of \$26.87/b on 6 September. The wide spread is attributed to the strength of Brent crude, which continued to benefit from strong demand for light crude and the absence of Libyan grades.

Trading activity on the exchanges also weakened in September. Around 316,000 contracts per day of the WTI front-month were traded on the Nymex, compared with nearly 373,500 contracts per day in the previous month. That represents a decline of more than 15%. This level was even lower than a year earlier by more than 7%. Following the same trend, trading activity of the Brent front-month fell to around 204,000 contracts per day on ICE, down 11.4% from August.

Open interest for US crude oil on the Nymex also declined to stand at 1.39 million contracts on 30 September compared with 1.50 million contracts on 31 August.

As the market turned bearish, speculators sharply cut their net long crude oil positions from nearly 169,000 contracts in the week through 16 September to just 141,500 contracts through the week to 27 September. Speculator activity was in line with Nymex WTI price movements, which fell from \$90.21/b to \$84.45/b within the same two weeks.

Graph 1.4: Nymex WTI price vs. speculative activity

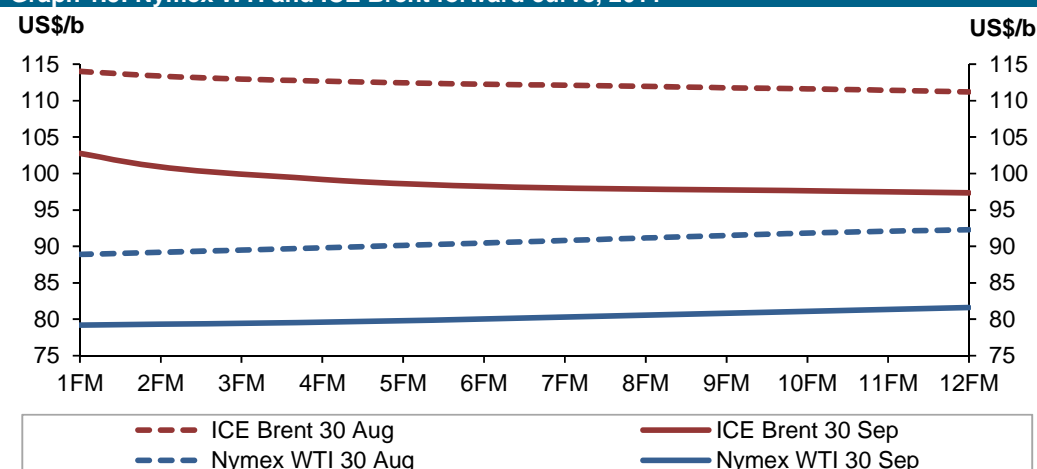


Nymex WTI curve remained in contango but ICE Brent backwardation eased significantly

The futures market structure

The Nymex WTI curve remained in contango, but the curve flattened slightly in September. The intra-month spread over the first sixteen consecutive months fell to around 20¢. The spread between the seventeenth and the sixteenth month stood at just 10¢.

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



FM = future month

In contrast, ICE Brent's curve remained in backwardation but the intra-month spreads weakened significantly. The spread between the second and the first month shrunk from around minus \$6.80/b in August to just minus 2¢. The same trend was observed through forward months but at a slower pace with the spread between the third and the first month falling from minus \$6.75/b in August to minus \$1.23/b.

The almost vanished backwardation at the front of the curve of ICE Brent was essentially attributed to the weakness of the front month amid expectations for a less tight market for light crude in the future, following the return of Libyan crude.

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

Nymex WTI						
	1st FM	2nd FM	3rd FM	6th FM	12th FM	
30 Aug 11	88.90	89.19	89.50	90.47	92.28	
30 Sep 11	79.20	79.33	79.46	80.02	81.62	
ICE Brent						
	1st FM	2nd FM	3rd FM	6th FM	12th FM	
30 Aug 11	114.02	113.37	112.96	112.25	111.20	
30 Sep 11	102.76	100.88	99.93	98.24	97.35	

FM = future month

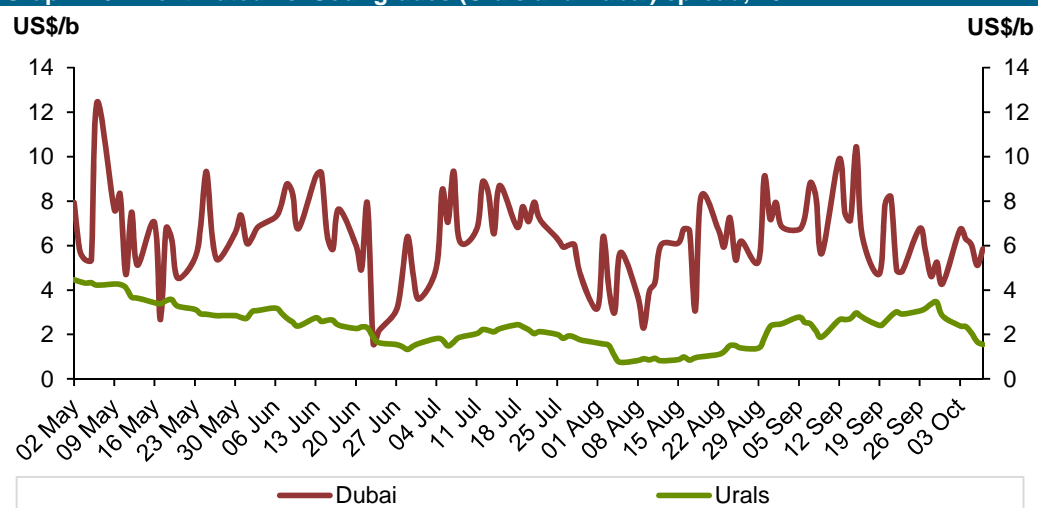
Physical light crude premiums remained strong

The sweet/sour crude spread

The Dated Brent-Dubai spread increased \$1.32 to average \$6.82/b in September, offsetting the drop of the previous month.

The increase was attributed to tight North Sea supplies, particularly lower production from the Buzzard field. This came with an easing of market sentiment in the Middle East in the second half of the month. The spread moved beyond \$10/b on 15 September, the highest since the first week of May.

The decline in the Dated Brent-Urals spread, which has been taking place since last May, came to an end in September. However, the Dated Brent-Urals spread more than doubled to average \$2.74/b compared with \$1.21/b in the previous month. Again, the jump in the Brent premium came as a result of a strong North Sea market and weaker Urals because of growing supplies from the Baltic.

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

Commodity Markets

Commodity prices dropped further in September on a worsening outlook for the global economy

Trends in selected commodity markets

The **World Bank (WB) index** for non-energy commodities dropped further by 2.5% m-o-m in September (-1.6% in August) due to a strong fall in base metal and agricultural prices. The **energy commodity index** showed a 0.4% gain (-6.3% in August), driven by increased interest in Australian coal supported by Chinese demand.

A dramatic sell-off took place across commodity markets in September, as prices were affected by fears of a double-dip recession, given macroeconomic headwinds, strong concerns over the European debt crisis, weak US economic data and slowing Chinese growth. The appreciation of the dollar against other currencies also added to the bearish sentiment in these markets.

The **WB energy commodity price index** (crude oil, natural gas and coal) experienced a modest rebound of 0.4% m-o-m in September, essentially due to gains in Australian coal and limited declines in Henry Hub natural gas and crude oil prices compared to August.

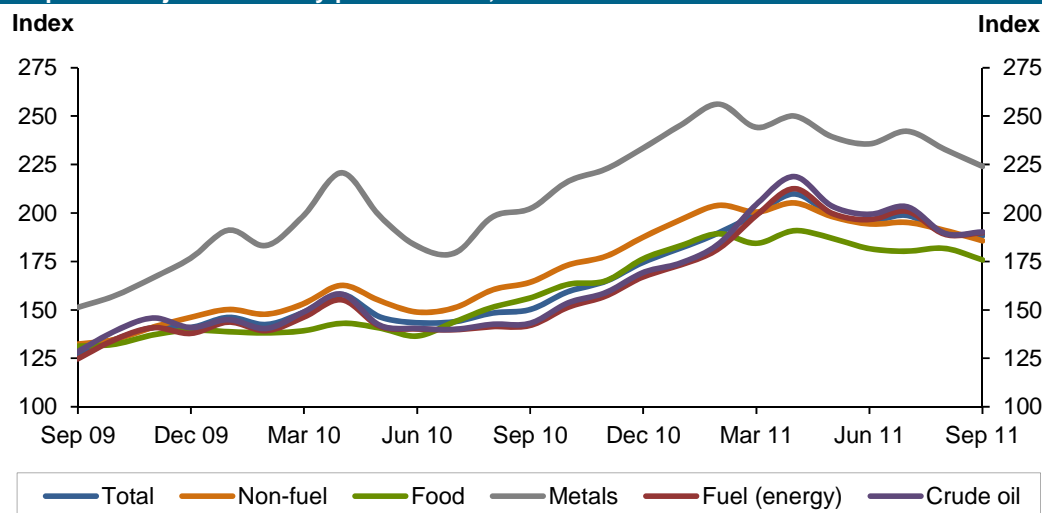
Table 2.1: Commodity price data, 2011

Commodity	Unit	Monthly averages			% Change		
		Jul 11	Aug 11	Sep 11	Jul/Jun	Aug/Jul	Sep/Aug
World Bank commodity price indices for low and middle income countries (2000 = 100)							
Energy		365.1	342.1	343.5	2.0	-6.3	0.4
Coal, Australia	\$/mt	120.0	119.3	122.6	0.6	-0.6	2.8
Crude oil, average	\$/bbl	107.9	100.5	100.8	2.0	-6.9	0.3
Natural gas, US	\$/mmbtu	4.4	4.1	3.9	-3.0	-8.1	-3.8
Non Energy		330.8	325.5	317.3	1.3	-1.6	-2.5
Agriculture		284.8	285.4	281.5	-0.6	0.2	-1.4
Food		278.3	280.5	277.8	0.3	0.8	-1.0
Soybean meal	\$/mt	400.0	401.0	401.0	1.5	0.3	0.0
Soybean oil	\$/mt	1337.0	1330.0	1309.0	1.0	-0.5	-1.6
Soybeans	\$/mt	559.0	558.0	530.0	0.2	-0.2	-5.0
Grains		296.7	309.8	305.5	-1.9	4.4	-1.4
Maize	\$/mt	300.8	310.2	295.3	-3.2	3.1	-4.8
Sorghum	\$/mt	271.2	302.5	288.8	4.1	11.6	-4.5
Wheat, US, HRW	\$/mt	303.9	327.1	315.9	-6.9	7.6	-3.4
Sugar World	¢/kg	62.2	61.2	58.8	11.9	-1.7	-3.9
Base Metals		369.9	343.6	320.3	5.3	-7.1	-6.8
Aluminum	\$/mt	2525.4	2379.4	2293.5	-1.3	-5.8	-3.6
Copper	\$/mt	9650.5	9000.8	8300.1	6.4	-6.7	-7.8
Iron ore, spot, cfr China	¢/dmtu	173.0	177.5	177.2	1.2	2.6	-0.2
Lead	¢/kg	268.1	239.7	231.0	6.2	-10.6	-3.6
Nickel	\$/mt	23848.0	21845.1	20377.6	6.4	-8.4	-6.7
Steel products index	2000=100	271.4	271.4	271.4	-0.4	0.0	0.0
Tin	¢/kg	2739.8	2404.2	2273.0	7.4	-12.2	-5.5
Zinc	¢/kg	239.8	220.0	210.0	7.3	-8.2	-4.6
Precious Metals							
Gold	\$/toz	1572.2	1757.2	1771.0	2.8	11.8	0.8
Silver	¢/toz	3811.9	4030.2	3813.1	6.4	5.7	-5.4

Source: World Bank, Commodity price data

After plummeting by 8% m-o-m in last August, **Henry Hub (HH) natural gas** prices declined by 3.8% m-o-m in September on continued weak fundamentals and fading support from the hurricane season as well as the growing economic pessimism.

Agricultural prices decreased by 1.4% m-o-m in September (+0.2% August) on a negative macroeconomic outlook. The sell-off was worse in wheat, corn, soybean and sorghum. Corn prices plummeted by 4.8% m-o-m in September compared to a 3% gain in the previous month due to slowing economic growth despite an anticipated supply/demand shortfall and low inventories. Wheat prices also undertook a hefty decline of 3.4% m-o-m in September compared to a 7.6% gain in the previous month. The major drop in prices that took place at the end of September appears to reflect the gloomy economic and financial outlook.

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

A strong fall in base metal prices on lower global growth expectations and financial turmoil

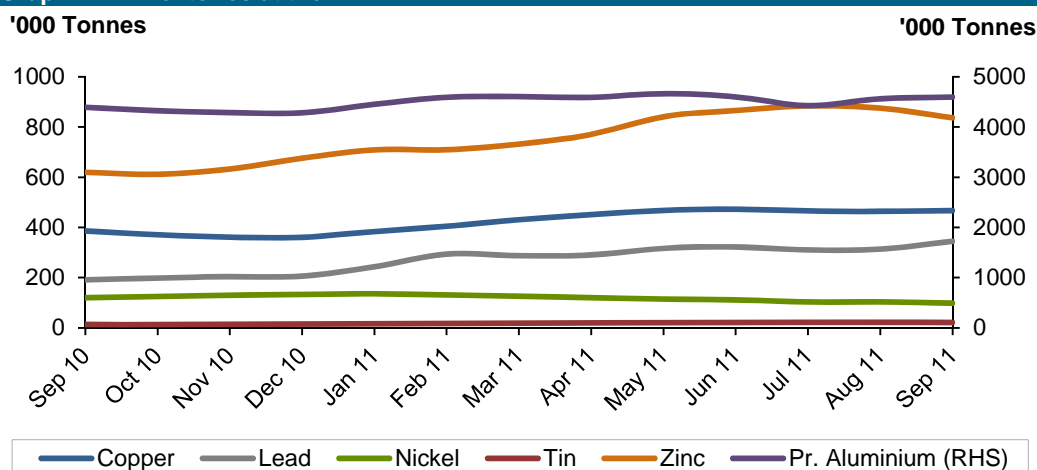
Base metal prices on the London Metal Exchange (LME) reported the strongest losses in September, plummeting by 6.8% m-o-m compared to a 7% decrease in August despite solid fundamentals. This reflected the lower outlook for global GDP growth, including China, as base metals are closely linked to industry and economic cycles. Inventories at the LME rose at a slower rate of 0.4% m-o-m in September compared to 2% in August. Nevertheless, as in the case of other commodities, the economic uncertainties and risk aversion continue to be the major drivers of the base metal markets.

Copper prices were down 7.8% m-o-m in September compared to a 6.7% drop in the previous month. Copper prices were affected by the disappointing economic outlook, as well as US dollar appreciation, resulting in a hefty reduction in long positions. Supply concerns related to a strike at BHP Billiton's Escondida facility in Chile, and several weather-related stoppages at copper mines remain price-supportive factors and a deficit is expected for next year. Inventories at the LME and Shanghai Futures Exchange (SHFE) declined.

As in the case of many other metals, **aluminium** prices decreased by 3.6% m-o-m in September compared to a 5.8% fall in August, driven by the pessimistic macroeconomic outlook. The fall in prices took place despite a 11% decline in SHFE stock levels and a lower increase in stocks at the LME. Aluminium prices may be supported by expected firm demand from the automotive sector, despite economic worries in the global economy. Prices are likely to continue to be driven by high energy costs.

On the supply side, China's primary aluminium output declined in September on a monthly basis. As in August, pressure on output in China took place as aluminium smelters in Henan province faced electricity shortages.

Gold prices increased at a considerably slower pace of 1% m-o-m in September following fast growth of 11.8% m-o-m in the previous month. Gold prices tested all-time highs above \$1,900/oz in August, but dipped below \$1,500/oz pressured by uncertainties, risk aversion and the need for liquidity which weighed on prices amid the worsening of financial and economic conditions. This was exacerbated by a stronger dollar. Silver prices fell by 5.4% m-o-m in September compared to a rise of 5.7% in the previous month, similar to the trend in gold prices.

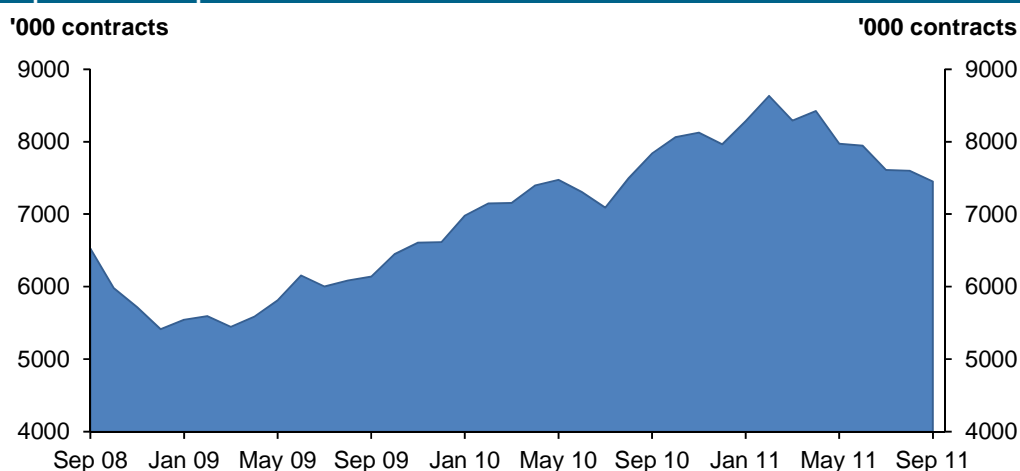
Graph 2.2: Inventories at the LME

Source: LME

Investment flows into commodities

In the light of strong market turbulence and the growing risk of a global recession, there was a major slowdown in investment into commodities. After falling by 0.1% in August, open interest volume (OIV) for major commodity markets in the US fell by a further 2% m-o-m in September to 7,560,814 contracts. The net length of money manager positions shrank by 5% m-o-m in September compared to a 0.13% drop in August, due to worsening of current economic conditions and especially the financial turmoil, which even led to a decrease in gold net length positions.

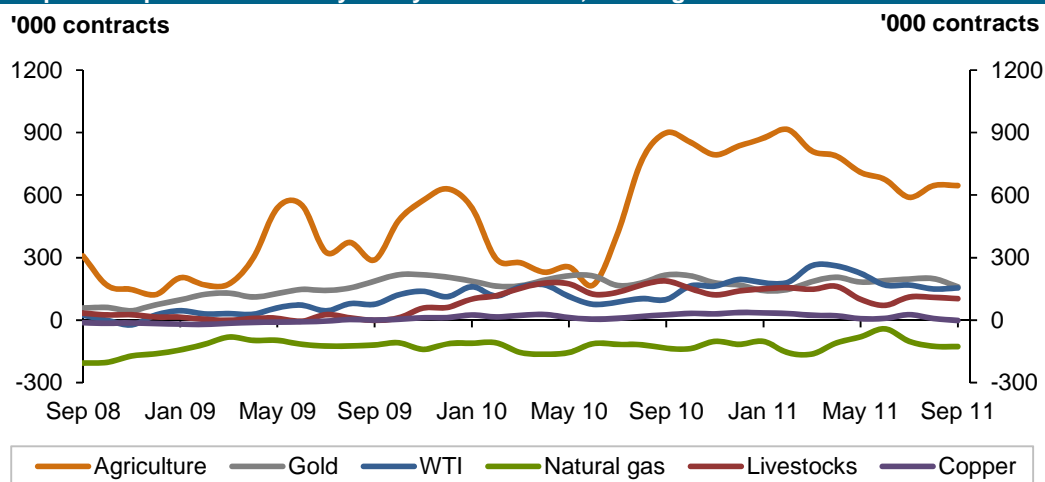
Increased risk aversion leads to a slowdown in commodity market investments

Graph 2.3: Total open interest volume

Source: CFTC

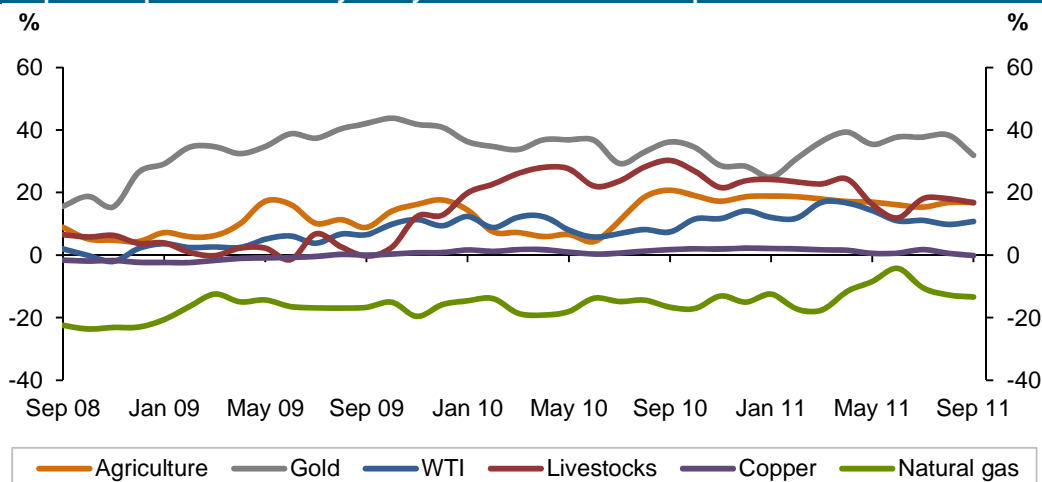
Agricultural OIV dropped by 0.13% m-o-m to 3,833,731 contracts compared to a 0.1% decline in August. After rising by 9.5% m-o-m in August, managed money net length remained flat in September. Long positions declined by 0.03% m-o-m which combined with a 0.19% m-o-m in shorts left net length as a percentage of OIV at 16.8%, the same as in the previous month.

HH natural gas OIV fell by 3.58% m-o-m to 949,412 contracts in September, compared to a 1% gain in the previous month. Speculative long positions declined by 5.8% m-o-m while shorts dropped by 2%, leading to a milder decline of 1% m-o-m in speculative net long positions in September compared to a 23% fall in the previous month.

Graph 2.4: Speculative activity in key commodities, net length

Source: CFTC

Copper OIV lost 8% m-o-m to 119,919 contracts in September. Copper is the metal that suffered the most from the general sell-off that took place in September as the metal is closely linked to the industrial cycle. The net length of money managers plummeted further by 122% m-o-m in September compared to a 70% drop in August. Speculative longs declined by 14.8% m-o-m while shorts increased by 29%. Thus, speculative net length turned negative for the first time since July 2009. As with other commodities, the risk aversion sentiment responded to falling prices and worsening of the macroeconomic outlook.

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

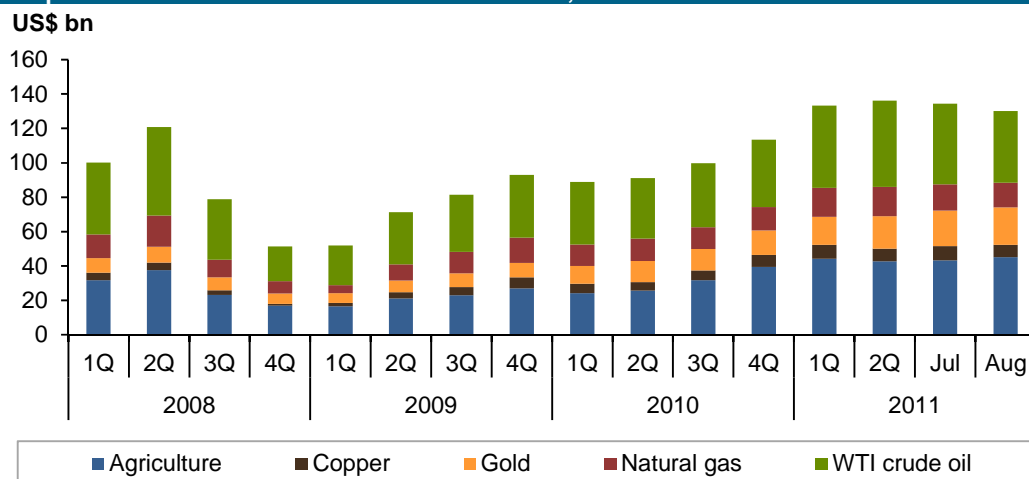
Source: CFTC

Precious metals OIV decreased slightly by 4% m-o-m to 610,106 contracts in September compared to a 0.2% drop in August. Net speculative positions plummeted by 18.5% m-o-m in September. Gold OIV decreased by 3.5% m-o-m to 500,033 contracts in September, while speculative net length sank by about 39% m-o-m in the same month. Speculative long positions declined by 30% m-o-m in September while shorts gained 15%. Speculative net length as percentage of OIV declined from 20% in August to 12.8% in September.

Concerning the dollar inflow into investment, data from the CFTC (see **Graph 2.6**) indicates a 4% m-o-m fall in August compared to a 1.9% drop in July. The most affected sectors were crude oil, natural gas and copper.

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

	<i>Open interest</i>		<i>Net length</i>			
	<u>Aug 11</u>	<u>Sep 11</u>	<u>Aug 11</u>	<u>% OIV</u>	<u>Sep 11</u>	<u>% OIV</u>
Crude Oil	1521	1433	149	10	154	11
Natural Gas	985	949	-125	-13	-127	-13
Agriculture	3839	3834	645	17	646	17
Precious Metals	636	610	222	35	181	30
Copper	130	120	8	6	-2	-1
Livestock	607	615	109	18	103	17
Total	7,718	7,561	1,009	13	955	13

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

Source: CFTC

World Economy

Table 3.1: Economic growth rates 2011-2012, %

	World	OECD	US	Japan	Euro-zone	China	India
2011	3.6	1.6	1.6	-0.8	1.6	9.0	7.6
2012	3.7	1.8	1.8	2.4	0.8	8.5	7.6

Industrialised countries

US

The US economy continues recovering much slower than expected. The unemployment rate remains at 9.1%. This, along with leading indicators, points to a stabilization of the economy. However growth is expected to remain below potential in 2011 and 2012.

The US economy continues recovering much slower than expected, but along with other major OECD economies it seems that this deceleration has stabilized. The most recent 2Q11 GDP number was revised up from 1.0% quarterly growth to 1.3%. It should be noted that the first release was at the same level and while now this third estimate is better than the second estimate, it is still a very low number, standing at the same level as population growth.

There is still a lot of pressure on the administration to cut costs in order to reduce the deficit, but these measures need to be carefully planned in order not to reduce the growth dynamic too much and push the economy into a decline. In seven weeks, a joint committee of Congress will have to come up with another \$1.5 trillion of savings in addition to the savings of \$917 billion that have been agreed upon already, when the debt ceiling was lifted in July. The Congressional Budget Office (CBO) estimates that these measures will reduce the deficit from today of 9.0% to 1.0% in 2015. Some observers have already highlighted that these predictions are rather optimistic as they are based on a pre-recession growth level and furthermore, they include the assumption that the so-called "Bush tax cuts" will expire in 2013 and not be extended.

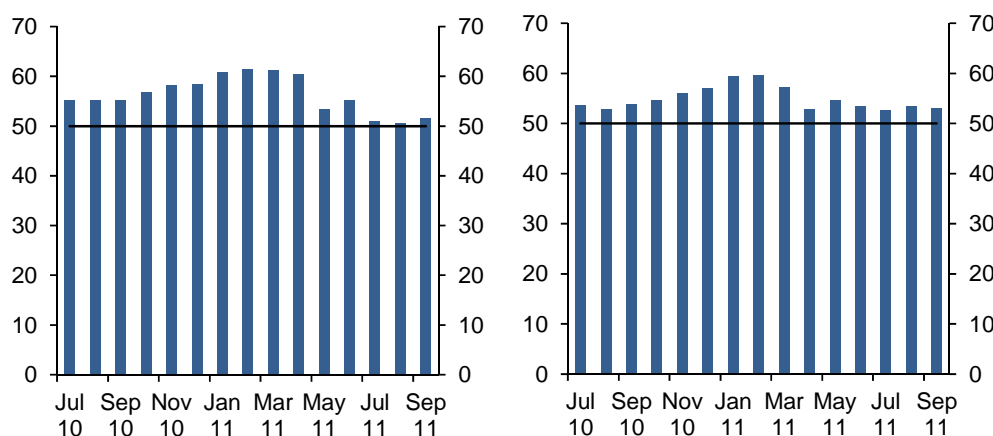
Consumer confidence remains at low levels and while the unemployment situation has not improved much, the slightly positive news on job additions in September was enough to create a somewhat positive sentiment in asset markets and the media. This might be taken as a sign that a lot of bad news has already been digested and that any improvement, even a small one, is considered a step in the right direction. Still, the US economy suffers from the severe consequences of the great recession and growth seems only to be possible with the backing of the government or the Federal Reserve Board (FED), providing supportive monetary measures. After the European Central Bank and the Bank of England have already announced to increase the support for the monetary system, it may be likely that the FED will act further over the coming months, if the unemployment situation does not improve significantly.

In his most recent testimony, the president of the FED provided a rather cautious outlook for the economy and explained the most recent monetary action, called "Operation Twist". Under this operation, the FED will switch \$400 billion of short-term assets into long-term assets and thereby reduce long-term yields as a support for the ailing mortgage market and other markets depending on long-term interest rates for financing. With respect to the economy, he explained that there is a likelihood of more sluggish job growth in the period ahead. This might have been a major reason, why the FED now has launched this latest undertaking in the second half of September. Furthermore, he highlighted the financial stress that the Euro-zone debt crisis might cause for the US economy and the need for Congress not to implement fiscal actions that impede future growth. Further actions from the FED should be expected, given the almost negligible improvements in the job market.

The unemployment rate in September remained at the high level of 9.1%. The market sensed a positive development in the fact that 103.000 non-farm payrolls were created in the previous month, but this compares to around 8.7 million jobs that were lost in the time from January 2008 – right after the sub-prime crisis had started – to February 2010. While since then – and including these latest additions from September – only 2 million jobs were added back to the job-base, this results in a shortfall of around 7 million jobs in the US, compared to pre-recession levels. Thus, it would need around 70 months or around 6 years to reach the labour market balance of the pre-recession area.

However, it seems that the economy – as has the labour market – has somewhat stabilized for the time being. The ISM for manufacturing increased from 50.6 in August to 51.6 in September, indicating a continued expansion of the sector. The services index has declined only slightly to 53.0 from 53.3.

Graph 3.1: ISM manufacturing index **Graph 3.2: ISM non-manufacturing index**



Source: Institute for Supply Management

Therefore, putting the evidence of the FED, the labour market and the ISM together, it seems that while the economy is feeling the stress of the global slow-down and the sluggish development in the domestic market, it is expected to continue growing and the likelihood of a double-dip – at least for now – seems to be off the table. The risk on the other side is currently slightly geared to the downside, but this is again from much lowered expectations. We therefore retain the forecast for 2011 at 1.6% and have slightly accommodated the slower recovery, reducing the 2012 forecast to 1.8%, from 1.9% in the previous month. The numbers for both years are significantly below the 20-year average US growth rate of 2.5%.

Japan

The tragic events that hit Japan in the first half of 2011 have had a serious and lasting effect on the economy, pushing it back into a decline. As the timing of the recovery now seems embedded in a global slow-down, the recovery into 2012 should be expected to take longer than previously anticipated by many observers. The country already faced serious issues at the end of last year, after some major fiscal stimulus measures came to an end and the economy declined in the 4Q10. So it should not come as a surprise that an already ailing economy – being hit by the triple effect of earthquake, tsunami and a nuclear accident – is being faced with considerable challenges. It has now been in decline since last year and leading indicators do not necessarily point at a significant expansion in the coming quarters, which normally should be expected after such a major downturn triggered by an external environmental shock – much like in 1995 after the Kobe earthquake. That again may be due to a combination of an already weakened Japanese economy and the exceptional circumstances the global economy is currently living through, i.e. being faced with complex and interdependent issues in almost all economies that are causing negative cross-border effects for Japan as well.

Two main widely accepted and well known supportive factors are needed for the Japanese economy to recover and to regain its previous strength. First, the trend in exports needs to improve further, particularly after the disruptions in the first half of the year. Second, a recovery in domestic demand is badly needed to build the foundation for the economy to expand, based on its own internal strength and to limit its exposure to external growth.

The Bank of Japan's (BOJ) Tankan survey, one of the most widely watched leading indicators, has highlighted that manufacturers expect business to improve, but on a small scale over the next three months. The Tankan headline index rose from minus 9 in July – the number for the 2Q11 – to now stand at 2 for 3Q11, i.e. pointing at a mildly positive future development. This compares with the number 6 in 1Q11, i.e. the Tankan

Japan's economy is recovering, but with domestic demand decelerating and exports challenged by the global slow-down, the recovery is likely to take longer than anticipated.

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that took place before the triple-disaster. While this can be taken as a mildly positive indication, the Purchasing Manufacturer Index (PMI), which is provided by Markit, highlights a negative trend for the near future. It fell for the third consecutive month in September and was recorded below the 50 level, which indicates a decline, when it was recorded at 49.3, the lowest level in 5 months, after the recovery in manufacturing has started in May this year. As a third lead indicator, the industrial order numbers have been declining by 11.3% m-o-m in July, which is the lowest number since March, when the triple disaster had a major negative effect on orders at a rate of minus 20.4% m-o-m. On a broader-based yearly comparison, this July number is significantly negative at minus 6.1% and compares with the June number of 10.9% y-o-y. Most of this recent decline in orders came from foreign demand, a development that had already started in June at minus 3.2% y-o-y and is now followed by minus 14.1% y-o-y in July. Putting all future-related indicators together, a swift recovery seems not in sight.

This deceleration is also observed in the actual industrial output numbers. On a monthly comparison, industrial production has been positive for five consecutive months since April and picked up in August, compared to July, but the recovery seems slowing. The latest number from August shows a 0.8% m-o-m improvement, after a 0.4% increase in July. This compares with a number of 6.2% m-o-m in May, which would be more in line with an expectation of a swift recovery. On a yearly basis, the August number is still negative at minus 0.9%, but better than the July number of minus 1.7%.

The expected implication of external demand was reflected by the latest statement of the BOJ, when it said that while it expects the underlying trend in the overseas economies to remain firm, the pace of the overseas recovery is expected to slow for the time being. The BOJ left its policy rates and asset purchase programmes unchanged in this recent meeting at the beginning of October.

Comparing domestic demand to external demand, it seems that unexpectedly domestic demand is lacking momentum, despite that it will hopefully pick up and compensate for the expected slow-down in exports. Retail trade declined by 7.2% m-o-m in August, sharply lower than the 5.9% m-o-m increase that has been experienced in July and on a yearly basis it turned negative at minus 2.6%. Exports, on the other hand, have been positive on a yearly basis for the first time since March at a rate of 2.8% y-o-y and it was primarily the car sector and durable consumer goods that supported this trend at growth rates of 5.3% y-o-y and 3.8% y-o-y respectively. Exports are currently being strongly challenged by the firm yen, which still stands significantly below the important ¥80/\$ level and with the weakening US economy, there is no indication that the yen might decline dramatically to support the international trade of the economy.

Putting the above trend in perspective to our previous and already cautious forecast, the slower-than-expected recovery does not come as a surprise. However, further unexpected challenges might remain and the developments have to be closely followed. This month the 2011 forecast has remained unchanged at minus 0.8%, while some of the slow-down has been accommodated in the 2012 forecast, which now stands at 2.4% and compares to 2.5% in the previous month.

Euro-zone

The Euro-zone's economic development is currently – even more than in the months before – tied to its ability to solve the sovereign debt issues. While the expansion of the support facility – the European Financial Stability Fund (EFSF) - has now been ratified by all EU-17 countries with the exception of Slovakia, which will vote on it only mid-October in a challenging vote, the “ifs and hows” of many details to activate the new funding facilities and further measures are still unknown. In the meantime, it seems that it has become clear that a thorough solution on a bigger scale than previously planned is needed and that the time of band-aids is over. France and Germany have agreed to come up with a solution by the end of October, while no details have been given yet.

The problem zone seems clearly defined. Almost all governments have debt levels that are in breach of the Maastricht criteria and they need to pay back these liabilities. This causes – particularly in time of declining income for governments due to lower taxes collected – the need for austerity measures, which consequently reduces the expansion

The Euro-zone's economic development will be strongly tied to its ability to solve the sovereign debt issues.

of the economies further. Unemployment tends to rise and the ability for these economies to grow, is further challenged. In the best outcome, this means to have low growth, below the economy's potential. In the worst case, this would cause a decline and a recession, which, in a vicious cycle, could cause an economy to default, which in the short-term is the most likely scenario for Greece and cannot be ruled out anymore. On the other side, there are plenty of – European – banks holding sovereign debt of the Euro-zone economies. These bonds were once classified as very safe, but are so no longer and in the case of the likelihood of default, the banks would have to write off a huge amount of money. This applies to major banks in Europe in almost every country and the cross-border holdings of sovereign debt is significant, with mainly German and French banks holding a significant amount of Greek debt. In the case of Irish debt, UK banks are the main lenders. Therefore, the event of a default of one of these economies could lead to a significant impact on the European banking system and most probably have the ability to also worry stakeholders in non-European banks. It is therefore understandable, that politicians in Europe are trying to shore-up the banking sector.

Furthermore, the giant needs of some of the European governments to refinance their debt in the remainder of 2011, but particularly in 2012, highlights the need for a quick solution as otherwise refinancing cost spiral to unbearable levels for the economies. Particularly for the bigger countries this would have considerable consequences and a yield-rise, i.e. an increased lack of confidence from investors in these instruments once regarded as safe, needs to be avoided. With the cut-off date of August, Spain has to refinance around €60 billion in the remainder of 2011 and more than around €110 billion in 2012. For Italy the numbers are a stunning €137 billion and €260 billion respectively. Only these four numbers from these two large Euro-zone economies add up at almost €570 billion.

Yields have already risen further or at least remained at elevated levels in the last weeks, levels that could severely damage the Euro-zone economies, if they are not reduced via counteracting measures. Greece's 10 year-yields hit a new record at 22.9% in September and moved to 24.8% in October. Portugal also recorded a rise in its risk-premium to stand at a peak-level of 11.3% in September, moving to 11.6% in October. The 10-year yield for Italy stood at 5.5% in September, climbing to 5.6% in October, only 0.2 percentage points (pp) lower than the peak-level of 5.8% in July. Spanish yields declined to 5.0% from 6.1% in July.

While it now seems almost certain that the banking system will be supported – further - by Euro-zone governments, this will cost an estimated €100 billion or even more, depending on the rules of refinancing set by the European Banking Authority (EBA) and the European Central Bank.

It seems clear that the Euro-zone will need a politically supported and motivated long-term solution from here, but it remains to be seen if this will be implemented with the sometimes contradicting interests of the non-euro countries that also have to be considered, mainly the UK and elections that are coming up in 2012 in France.

In addition to providing more money than the currently available €750 billion that are made available through the EFSF, a solution will include further austerity measures. These measures that have been put in place in all Euro-zone countries have already and will continue to put a break on the recovery. This, in combination with a slowing global economy has already impacted the Euro-zone's output and is expected to continue to do so. The yearly growth in industrial production has already decelerated. The high growth rates from 2010 at a monthly average of 7.5% now stand at 4.1% y-o-y in August, which indeed is actually an increase from the 3.0% y-o-y recorded in July flat from a month earlier. Another sign that the deceleration has potentially stabilized somewhat along with its OECD peers, but again the future development will very much depend on the solution of the sovereign debt crisis. Yearly growth in manufacturing orders has slowed to 8.9% y-o-y in August, lower than the 10.6% in July, but still indicating an expansion in the manufacturing sector in the near future, while at a lower scale. The composite purchase manufacturing index remains at above 50, at 50.6, while indicating a decline in the manufacturing sector at 48.5.

Emerging Markets reassess their strategies as the risk of a slowdown and even a recession in OECD countries appears possible

Given the uncertainties in the Euro-zone economy, in combination with a growth trend that is already below the potential of the economy, GDP growth expectations have been reduced by 0.1 pp to 1.6% in 2011, but more significantly by 0.3 pp to 0.8% in 2012.

Emerging markets

Growing uncertainties regarding the sovereign debt issue in the Euro-zone and the sharp slowdown in US growth have substantially raised the risk of a contraction or at least deceleration of growth in global output. A global recession still seems unlikely as overall global growth in 2011 is estimated at 3.5%, much higher than a recessionary global growth rate of 1.5% or less (at market exchange rates). While there remain some sources of optimism for economic growth; such as the end of Japan's post-earthquake disruptions, falling oil prices, record-low borrowing costs and receding consumer debt levels, the shocks to consumer and business confidence from the equity market convulsions and the impacts of debt crises in the US and the Euro-zone will not disappear quickly. For these reasons, many analysts consider the onset of another economic recession in the next couple of years a high possibility. The outlook for the global economy depends, in large measure, on developments in the Euro-zone. Although conditions have worsened in the last two months, it is believed that Euro-zone policymakers have enough tools at their disposal to prevent the crisis spiraling out of control. These include enhanced bailout funds, bond purchases and lending facilities by the European Central Bank (ECB) etc.

Although growth in non-OECD countries has slowed down as the impact of fiscal stimulus and the inventory cycle fades and as growth in major export markets remains weak, nevertheless, growth in the developing countries (DCs) is expected to remain at around 4.6% in 2010 – at purchasing power parity (PPP) exchange rates – and around 5.0% in 2012. Asia Pacific, including Oceania, is expected to grow faster at 5.7% and 5.6% in 2011 and 2012 respectively. Given more favourable demographics and stronger fundamentals, Emerging Markets are believed to continue to outperform the advanced economies. Asia will be the fastest-growing region, led by China and India. However, one should note that China faces some policy challenges considering its rapid growth in recent years. The labour force is set to stop expanding and there are upward pressures on wages that reduce China's competitiveness. China is now emphasizing more inclusive growth with consumption accounting for a greater share of demand. A rebalancing of China's economy away from fixed investment and exports will help to alleviate imbalances in the global economy as well.

As discussed in our August report, many of the so called "Emerging Markets" have been facing overheating because of aggressive lending, very low real interest rates and government overspending and stimulus packages. In addition to the gradual withdrawal of the fiscal stimulus, governments in many Emerging Countries such as India, South Korea, Brazil, Chile and Poland, among others, had all raised their benchmark policy rate to cool down the economy and curb inflation. Therefore, the pace of economic growth has been slowing in most Emerging Markets. In and of itself, this is not a major concern, now that inventories have been rebuilt and stimulus has generally been withdrawn. But the slowdown in the Developed Economies has caused a rather sudden re-evaluation in many Emerging Markets. Brazil, whose central bank had raised its benchmark rate five consecutive times to restrain inflation, surprisingly reduced it in early September. Central banks in other Emerging Markets, including South Korea, Indonesia, Malaysia and the Philippines, have also expressed concerns about slowing growth in the Developed Economies. Despite the increasing role of domestic demand in economic growth in many Developing Countries, expanding close to their potential growth rate would be difficult if economic activity slows precipitously in the OECD countries. Many Emerging Markets, especially in Latin America and Africa, would also be hurt if the demand for commodities falls, bringing prices down. If commodity prices slump, apart from oil-exporting countries, countries such as Brazil and South Africa are likely to see reduced capital inflows, weaker currencies and slower economic growth. Industrial production is already slowing in Brazil and we have reduced our 2011 GDP forecast this month to 3.5%.

While a significant decline in commodity prices might negatively affect the expansion of emerging markets in Latin America, a slowing down in international trade could reduce economic growth in South East Asia below the potential trend.

In Latin America, following the rebound in 2010, GDP growth is now decelerating towards potential rates, or somewhat lower in some cases, including Brazil. A combination of monetary tightening and currency appreciation — stemming from positive terms of trade and from capital inflows into the region — has helped to subdue price pressures. The recovery of capital flows was an important contributor to Latin America's rebound from the 2009 downturn, and will continue to support investment and consumption. However, this has prompted concerns about export competitiveness and asset price bubbles. Countries such as Brazil have been particularly attractive to speculative investment inflows, given their wide interest rate differentials combined with good growth prospects. Colombia, Chile, Peru and Argentina are also attracting large amounts of capital and have resorted to direct intervention in the foreign-exchange market to contain currency appreciation in recent months.

Economies in Asia and Australia (excluding Japan) are slowing in the face of global economic problems and domestic efforts to contain inflationary pressure. GDP data for the 2Q11 showed a broad slowdown across the region, with the more export-oriented economies suffering the most. Singapore and Hong Kong, for example, both suffered contractions. According to the Economist Intelligence Unit, Purchasing Managers' Indices (PMIs) suggest that the weakness has continued into the 3Q, with manufacturing activity now contracting in Singapore, South Korea and Taiwan, and barely increasing in China. Almost all countries in the region were also hit by stock-market sell-offs in August. The impacts of the slowdown in the US and the Euro-zone will continue to be felt, although most Asian nations have strong ties with Japan, which is now recovering from the disastrous events in March, and with China, that now provides the largest market for the emerging Asian exports. We expect economic growth of 5.7% in 2011 and 5.6% in 2012 for the region. Obviously no one expects a repetition of the 2009 recession in the region when a collapse in global trade caused an economic recession in many Asian countries. In **Table 3.2** below we have summarized the performance of the major emerging economies (BRICs) on a macro level.

Table 3.2: Summary of macroeconomic 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	3.5	4.0	5.9	6.2	5.4	-55.8	-66.9	2.5	2.2
China	9.0	8.5	3.3	5.3	3.9	306.5	305.5	-1.8	-2.9
India	7.6	7.7	10.2	7.9	7.0	-52.8	-56.6	-4.7	-4.5
Russia	4.1	4.5	8.8	7.3	6.9	86.0	55.0	-1.4	-2.3

**Source: Data Services Department, OPEC Secretariat for GDP growth rates; Consensus Forecast, September 2011, for prices and current account; EIU, September 2011, for government fiscal balance*

Figures for India are from the fiscal year 2010-2011 and 2011-2012

Economic growth in Brazil is slowing mainly due to its less competitive industrial sector. The manufacturing sector is losing out to its foreign competitors amid appreciation of the real.

Brazil

Brazil's recent interest rate cut, when announced on 31 August, took observers by surprise as it came amid economic growth and a tight labour market with historically low unemployment. The policy change was seen by many observers as risky, as inflation still remains above target in this economy. In their recent statements however, Brazil's authorities have emphasized that, in terms of both economic fundamentals and policy response, Brazil is better positioned now than in 2008 to absorb a crisis. In this context, the recent surprise interest cut could be seen as a preemptive move to offset the impact of deterioration in the global economy. The president of Brazil's central bank has stated recently that the deterioration in global markets and its main economic partners in advanced economies were already anticipated by the country's monetary authorities when they decided to cut the Selic rate by 50 bp in August. On the foreign trade and currencies market, too, Brazil seems to have begun to feel the need for a policy change of its capital control that was imposed in an environment of plentiful liquidity and pressure for currency appreciation. However, a policy change on this front might delay for further evidence of the real's depreciation against the major currencies, particularly

the US dollar.

A fiscal surplus has been a sign of Brazil's economic strength in recent years. Although the government has signaled that its intention is to retain its tight fiscal policy in order to leave room for lower interest rates, but a quasi-fiscal policy (through public bank loans) will likely act in a countercyclical fashion, meaning a new round of expansion could be imminent. The recent developments in financial markets and setbacks in OECD Europe increase the downward risk for GDP growth in Brazil and other Emerging Economies. The main challenge is forecasting for a rebound in GDP growth in Brazil in 4Q as mixed evidences make it difficult to come up with a straightforward prediction of the pace of Brazil's economic expansion. It is worth noting that government spending boosted growth in the second quarter, and even outpaced the 1% growth in consumer spending, but it is not clear whether the government will keep increasing public sector expenditure at the same rate.

While fiscal expansion could facilitate economic growth, slowing capital inflow amid a tight labour market and higher-than-targeted inflation rate could reduce the economy's capability for a decisive rebound to a higher growth trend in 4Q. 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 targets. The central bank's inflation projection for 2011 has been revised up to 6.4% from 5.8% but is lowered for 2012 to 4.7%, assuming that the benchmark rate (Selic) remains flat at 12% and the rate of real per US dollar reduces to 1.65, (lower than the current level). 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. Consensus forecast points to an inflation rate of 5.4% in 2012; higher than the central bank's projection. The higher projection for inflation rate in 2012 is based on the possibility that Brazil's central bank would move further in this direction and reduce the Selic rate to 11% in a couple of interest rate cuts to stimulate investment and economic growth.

China

China's economy is slowing, but the authorities will try to maintain strong growth. Slower growth in China has also cast doubt on the pace of the global expansion. Growth has slowed gradually from 10.4% in 2010 and this downward trend continued in last month. Year-on-year industrial sector growth was lower in August to 13.5%, compared with 14% in July. Electricity production growth also slowed down by 3.2 pp, from 13.2% in July to 10.0% in August. Investment growth has been slowing in line with the overall trend of deceleration in economic activities although investment in real estate grew 33.2% y-o-y in August, slightly lower than 33.6% in July. Expansion in real estate has been fueled by investment in social housing schemes. Officially, 8.7 million new housing units are now under construction, roughly on track with the government target of 10 million new units for this year. Y-o-y goods import growth has accelerated in August to 30.2% from 23.8% in July that takes total imports in the first eight months of the year to \$1.1 trillion, up from \$886 billion in the same period last year. This partly reflects rapid export growth as China's exports contain a large proportion of imported components.

China has been steadily tightening monetary policy in order to curb inflation, which reached 6.5% in July, the highest level since June 2008. The rate did, however, retreat slightly in August, to 6.2%, which is consistent with the view that inflation would ease in the second half of the year. More forward-looking indicators, such as the PMI, have also been trending lower in China. PMI stood unchanged at 49.9 in September indicating a moderate growth trend for industrial activity. It seems that China is trying to engineer a soft landing in 2011, with economic growth averaging around 9% for the year.

The Chinese economic authorities face the challenge that on one hand they try to reduce the inflation rate and at the same time they want to maintain economic growth ahead of the changeover to a new political leadership in 2012. Even amid interest rate rises, the authorities have maintained high levels of liquidity and have cut back on monetary sterilisation efforts. The y-o-y rate of growth of the broad money supply (M2) was still 13.5% in August, which is about the level of nominal GDP growth. The broad measure of money supply, M2, has started to edge down slowly as this growth rate is

Inflation seems under control in China as CPI appears to have peaked in September and the money supply extension is now in line with government targets for 2011

the slowest pace in more than six years. There have been reports that small firms are facing liquidity problems because of their lack of access to credit although this has not changed the tight credit policy of the government. It is expected, therefore, that China's economy will slow this year, but there is a possibility for China to spur growth in the face of an imported slowdown from OECD. If this were to happen, it would increase the risk of renewed inflationary pressure in 2012, during the political handover, leading to another effort to quash price rises in 2013, when inflation will be more entrenched. A survey by the People's Bank of China (PBC, the central bank) in the 3Q11 shows that inflationary expectations among urban Chinese had risen since the 2Q of the year. Elevated inflationary expectation could put upward pressures on wage increase, a trend that has already been noted for exerting some impact on rising production cost and reducing the competitive edge of the Chinese economy.

The internationalization of China's currency, the renminbi, has been on the agenda in bilateral relationships of China with advanced countries. In a recent visit by one of China's vice-premiers to the UK in early September, the Chinese delegation is reported to have expressed support for the development of offshore renminbi financial services in the British capital, London. This has followed an earlier visit by another vice-premier to Hong-Kong in August that also involved the promotion of renminbi internationalization. A major challenge for development of the offshore renminbi market is reinvesting the sums raised in Hong Kong back into mainland China. The internalization of the renminbi needs a deep financial system in China where convertibility of its currency for most part of the international transitions is limited and capital flow to and from the country still remains strictly controlled.

India

India's large public sector borrowing requirement together with its widening current account deficit amid an accelerating inflation has made it difficult for the government to maintain economic growth momentum by adopting an expansionary monetary and fiscal policy.

The Indian economy grew by 7.7% in the 2Q11, which has been the slowest growth rate of the economy for the last 18 months. Many observers had expected lower economic growth in 2011 due to a considerable upward adjustment of the policy interest rate since last year. However, this rate of GDP growth is less than last year's (8.8%) by more than 1 pp. The output breakdown of the latest GDP report shows that while services sector grew strongly (by 10%), the surge in services sector growth helped annual non-agricultural real GDP growth to accelerate to 8.4% in April-June, from an average of 7.9% in the six months to March 2011 (EIU, September 2011). Construction and manufacturing activities were less buoyant compared to the services sector. Y-o-y growth rates of manufacturing and mining sectors have been reported at 2.3% and 2.8% respectively in July. Industrial output rose by 3.3% in July, down sharply from 8.8% in June. Although electricity output rose by 13.1%, there is no doubt that industrial activity has been slowing. The data from other economic indicators also suggests a downward trend in economic growth. In August, passenger-car sales fell by 10.1% on an annual basis. The HSBC Indian Manufacturing PMI fell for a fourth straight month in August, to 52.6 points, even below the 53.2 points of April 2009. However, according to the commerce ministry, merchandise exports continued to grow strongly in August, rising as far as 44.2% on an annual basis. Merchandise imports also rose 41.8% in August to \$38.4 bn. The net result was a deficit of \$14 bn in the month. India is the largest importer of gold with 248.3 tonnes, and tops other major importers, even China with 166 tonnes. In India, gold is considered a store of value and with the inflation rate running high in recent years, demand for gold also has been on the rise significantly. Economists estimate that locking away money in gold costs the Indian economy up to 0.5 pp in real GDP growth annually.

On 16 September, the Reserve Bank of India (RBI, the central bank) raised interest rates by 25 basis points to 8.25% in a bid to curb inflation that has been accelerating in recent months. Wholesale inflation reached 9.8% y-o-y in August from 9.2% in July. The central bank noted that the global economic environment had worsened since its policy review in July referring to the global economic developments "a matter of serious concern". Nevertheless, the RBI stated that its upward interest rate adjustment was necessary to contain inflationary expectations. On fiscal policy, expansion of government expenditure seems inevitable as the announcement of a National Manufacturing Policy, approved by the government is expected soon. According to this plan, the share of the manufacturing sector in GDP is to rise from 15% to 25% by 2020. The government proposes to create several national manufacturing investment zones with world class

Expected political changes in Russia seem to have intensified capital outflow, reducing economic growth prospects for 2012, although inflation and the budget deficit have been falling in line with the predictions.

infrastructure financed by the federal and states governments. The commerce minister has stated that the \$90 billion Delhi-Mumbai Industrial Corridor would include seven investment regions across six states.

Latest developments in the Indian economy have been the dramatic drop in the Indian Rupee's exchange rate against the US dollar in September that followed the surprise government announcement of a higher-than-expected bond issuance that has exceeded the expected amount by 0.6% of GDP. As a result, the yield on the benchmark 10-year government security rose 10 bp to 8.44 %. The government has stated that the fiscal deficit will be kept on track, but the composition of financing the budget deficit will change.

Russia

The Russian economy grew by 3.4% on an annual basis in 2Q11, down from 4.1% in 1Q11. The slowdown has been attributed to the global financial turmoil. Although industrial output growth has also declined to 4.2% in the same period (compared with 5.9% in 1Q), the Russian current account has strengthened significantly in the first half of 2011, due to the favourable oil and gas prices. However, political uncertainty ahead of parliamentary and presidential elections has led to capital outflows weakening the prospects for economic growth in 2012. Although political uncertainty has diminished in recent weeks, fiscal risks remain in place, particularly considering the fact that the Russian Finance Minister was dismissed in late September because of a public conflict with president Medvedev. As the creator of the Russian Reserve Fund, he is known as an advocate for a disciplined fiscal stance and his departure reduces chances for a balanced fiscal spending amid growing demand for government finance ahead of elections.

Industrial output growth lost momentum in July, largely as a result of slowing manufacturing activity. Overall, the industrial sector expanded by 5.2% y-o-y, down from 5.7% in June. Oil and gas industries showed an increase in output, mainly to meet growing domestic demand. Domestic demand appears to remain strong, perhaps due to the falling net savings rate. Credit expansion and growing expectations for the devaluation of the ruble might have contributed to the increase in durable purchases in August. Other contributors to the ongoing strength of domestic demand are low unemployment rate (6.6 % in August) and increases in real wages (by 0.9% on monthly basis).

The Central Bank of Russian Federation (CBR) has forecast a 7% inflation rate by the end of 2011, the lowest rate seen in post-Soviet era. The central bank in its recent meeting has stated that concerns about high inflation are now overshadowed by worries about economic growth slowdown. Inflation was 0.2 pp lower in August, as a good harvest eased the cost of crops and energy prices moderated. This follows a decline in consumer price inflation in July for a second straight month. Meanwhile, many analysts predict lower-than-expected economic growth for 4Q of 2011 and 2012 for Russia. The CBR intervened frequently in foreign exchange markets in July to prevent excessive volatility of the rouble, which is left to float within the floating corridor.

The Russian budget currently looks on track with government targets. Helped by the rising tax revenue and higher oil returns, the budget in January-July turned to a surplus of 2.5% of GDP from a deficit of 2.2%. A more detailed presentation of the 2012-14 budget proposals by the Ministry of Finance shows a change in the pattern of government expenditure in 2012. With total expenditure planned to rise by 10.7% on an annual basis, spending on defense and national security, which account for 29% of total budget, will grow significantly faster, at over 27% y-o-y. The government revised privatization plans announced in August imply full privatization of a number of large companies, including some shipping firms and airports. If the plans are implemented, the proceeds could prove a significant source of budget financing but some of the companies have been proposed before with no clear results.

Having tried to avoid overheating by adopting necessary measures in their monetary and fiscal policies, developing countries might face the challenge of revising their policies to spur economic growth against a deteriorating global economic outlook.

Economic growth is expected to accelerate in 2012 in OPEC Member Countries and reach 4.7% against an economic growth rate of 2.9% in 2011.

The US dollar continued strengthening against major currencies in September, with the exception of the yen. In nominal terms, the OPEC Reference Basket increased by 1.2% or \$1.3/b from \$106.32/b in August to \$107.61/b in September

Developing countries

Contrary to the expectation that developing Asian economies will accelerate growth together with the Japanese recovery from the natural disaster because of trade ties, they in fact slowed down in the first half of the year. The effects of the slowdown in the US and the Euro-zone have offset the impacts of the Japanese rebound. The possibility of the repetition of the 2009 collapse of global trade seems to be very low, but most observers predict a benign slowdown from the recent period of above-trend growth in developing Asia. While the year has begun by the attempts of policy makers to cool down overheating economies by trying to curb domestic demand: overheating now for most exporters is no longer the serious threat facing their economies.

The Argentinian government has revised up economic growth for 2010 and 2011. New data shows real GDP grew by a seasonally adjusted 3.1% q-o-q in the 1Q and by 2.5% in the 2Q11. This brought y-o-y growth for the first half of the year to 9.7%. Private and public consumption growth ticked owing to fiscal stimulus, increases in real wages, subsidies, and an ongoing consumer credit boom. Available 3Q indicators suggest that, as in the 2Q, growth will continue to moderate.

The African Development Bank (AfDB) has cut its 2011 estimate for African growth amid concerns that a global economic slowdown will hit regional trade. According to the bank, growth may be as low as 3.2% – as against the bank's initial forecast of 3.7% – with South Africa being particularly hard hit. However, the AfDB is still projecting regional growth of 5.8% in 2012 – the highest level since 2007. Our forecast for Africa despite being more optimistic than the AfDB is of course subject to potential downside risks – particularly should the Chinese economy not have managed a soft landing.

OPEC Member Countries

Inflation in Kuwait climbed to 4.6% on an annual basis in August, as published by the Central Statistics Office. Consumer price inflation gained 0.1% m-o-m in July. It also recorded 4.6% y-o-y, its smallest increases since August 2010, and down from 5.0% in June. The inflation rate is likely to average 4.7% for 2011, 4.4% in 2012. Kuwait's budget surplus rose to 8.1 billion dinars (\$29.2 billion) in the first five months of 2011-12 fiscal year, much larger than a year ago on higher-than-expected oil revenue and lower spending, finance ministry data showed. Revenue was 11.9 billion dinars in April-August, while spending came at 3.7 billion dinars, below a projected 8.1 billion dinars, the data showed.

Headline inflation in Saudi Arabia according to official data slowed to 4.8% y-o-y in August from 4.9% and monthly price growth halved to 0.5% as a rise in housing and transport cost subsided. The International Monetary Fund said in August that the kingdom, which pegs its riyal currency to the US dollar, has to keep a close eye on inflationary pressures following a planned increase in social spending.

Oil prices, US dollar and inflation

The US dollar continued strengthening against the major currencies in September, with the exception of the yen. Particularly versus the Swiss franc the development was impressive at a gain of 12.4% based on the monthly averages, while it came after a long time of depreciation, the Swiss National Bank (SNB) had announced to strongly intervene in the currency market. Versus the euro, the US dollar appreciated by 4.1% and versus the pound sterling by 3.7%. Compared to the yen it lost 0.5%. The appreciation of the US dollar versus the euro continued until the beginning of October, when the euro reached a level, not seen since the beginning of the year, to reach \$1.3181/€, which marked the current end of an almost straight decline from \$1.4487/€ at the end of August; i.e. it fell by almost 10% within only 5 weeks.

This development was supported by the worsening situation in the Euro-zone's debt crisis, combined with some slight improvement in the US economy. Since these lows at the beginning of October the euro recovered some of the lost territory to now stand at around \$1.35/€. The future development is very much dependent on the ability of the Euro-zone to solve its debt issues, and an interest rate reduction before the end of the year seems anticipated at the current rate.

In nominal terms, the OPEC Reference Basket increased by 1.2% or \$1.29/b from \$106.32/b in August to \$107.61/b in September. In real terms, after accounting for inflation and currency fluctuations, the Basket price increased by 3.7% or \$2.36/b to \$65.18/b from \$62.82/b (base June 2001=100). Over the same period, the US dollar increased by 2.6% 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 growth revised down by 0.18 mb/d to 0.9 mb/d in 2011

World oil demand in 2011

The economic downturn is taking its toll on world oil demand, especially in the OECD. The decelerating US economy, high unemployment rate and feelings of uncertainty among consumers, has damped US oil demand. Similarly, debt problems in the Euro-zone are causing EU economies to lose some of their estimated growth this year. Furthermore, the delay in Japan's rebuilding efforts is contributing to the lower-than-expected oil demand. The above factors are likely to reduce OECD oil demand growth by some 0.1 mb/d this year. Our initial world oil demand growth estimate was 1.0 mb/d; however the above factors have pushed world oil demand further down than expected.

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

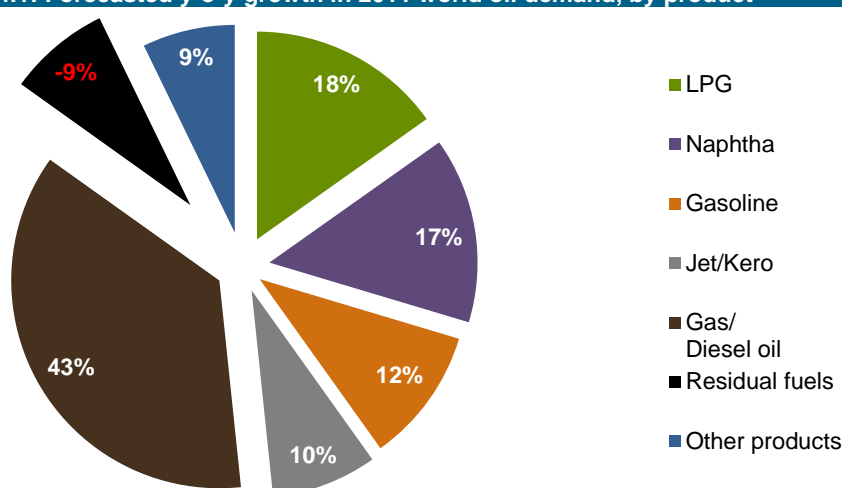


Table 4.1: World oil demand forecast for 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011	Change 2011/10	
							Growth	%
North America	23.76	23.76	23.31	23.72	23.75	23.64	-0.12	-0.52
Western Europe	14.58	14.18	14.13	14.66	14.70	14.42	-0.16	-1.12
OECD Pacific	7.81	8.35	7.12	7.66	8.07	7.80	-0.02	-0.22
Total OECD	46.15	46.29	44.56	46.04	46.52	45.85	-0.30	-0.66
Other Asia	10.18	10.33	10.45	10.33	10.53	10.41	0.23	2.25
Latin America	6.18	6.16	6.33	6.48	6.42	6.35	0.17	2.82
Middle East	7.28	7.32	7.38	7.69	7.44	7.46	0.18	2.45
Africa	3.35	3.42	3.39	3.26	3.45	3.38	0.02	0.69
Total DCs	26.99	27.23	27.54	27.76	27.85	27.60	0.61	2.24
FSU	4.14	4.13	3.96	4.39	4.46	4.24	0.09	2.24
Other Europe	0.69	0.69	0.65	0.69	0.76	0.70	0.00	0.33
China	8.95	9.13	9.54	9.49	9.57	9.43	0.48	5.38
Total "Other regions"	13.79	13.95	14.14	14.56	14.79	14.36	0.58	4.19
Total world	86.93	87.47	86.24	88.36	89.16	87.81	0.88	1.01
Previous estimate	86.93	87.47	86.19	88.80	89.49	87.99	1.06	1.22
Revision	0.00	0.00	0.05	-0.44	-0.33	-0.18	-0.18	-0.21

Totals may not add up due to independent rounding

Deteriorating OECD economies have affected other major Emerging Economies such as India and China. Both countries' GDP have been revised down, leading to less oil use by 0.07 mb/d for 2011.

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

	1Q10	1Q11	Change 2011/10		2Q10	2Q11	Change 2011/10	
			Volume	%			Volume	%
North America	23.41	23.76	0.35	1.51	23.70	23.31	-0.38	-1.62
Western Europe	14.31	14.18	-0.13	-0.92	14.25	14.13	-0.13	-0.88
OECD Pacific	8.23	8.35	0.12	1.47	7.34	7.12	-0.22	-3.06
Total OECD	45.94	46.29	0.34	0.75	45.29	44.56	-0.74	-1.63
Other Asia	10.11	10.33	0.23	2.26	10.23	10.45	0.22	2.13
Latin America	5.94	6.16	0.22	3.78	6.15	6.33	0.18	2.91
Middle East	7.18	7.32	0.14	1.93	7.17	7.38	0.20	2.82
Africa	3.38	3.42	0.03	1.01	3.37	3.39	0.02	0.66
Total DCs	26.60	27.23	0.63	2.35	26.92	27.54	0.62	2.31
FSU	4.02	4.13	0.11	2.67	3.86	3.96	0.10	2.46
Other Europe	0.69	0.69	0.00	0.46	0.64	0.65	0.00	0.76
China	8.37	9.13	0.76	9.06	9.09	9.54	0.44	4.87
Total "Other regions"	13.08	13.95	0.87	6.65	13.60	14.14	0.54	3.99
Total world	85.63	87.47	1.84	2.15	85.81	86.24	0.43	0.50

Totals may not add up due to independent rounding

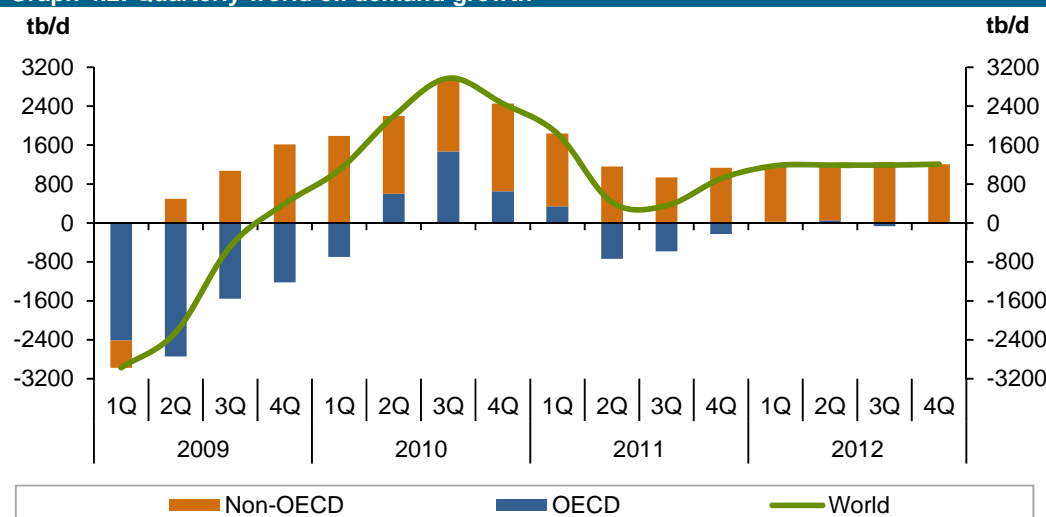
Table 4.3: Third and fourth quarter world oil demand comparison for 2011, mb/d

	3Q10	3Q11	Change 2011/10		4Q10	4Q11	Change 2011/10	
			Volume	%			Volume	%
North America	24.07	23.72	-0.35	-1.46	23.85	23.75	-0.10	-0.42
Western Europe	14.92	14.66	-0.26	-1.77	14.83	14.70	-0.13	-0.87
OECD Pacific	7.62	7.66	0.03	0.45	8.07	8.07	0.00	0.03
Total OECD	46.62	46.04	-0.58	-1.25	46.75	46.52	-0.23	-0.48
Other Asia	10.10	10.33	0.24	2.35	10.30	10.53	0.23	2.27
Latin America	6.34	6.48	0.14	2.26	6.27	6.42	0.15	2.42
Middle East	7.50	7.69	0.19	2.56	7.26	7.44	0.18	2.48
Africa	3.24	3.26	0.02	0.49	3.43	3.45	0.02	0.58
Total DCs	27.18	27.76	0.59	2.16	27.27	27.85	0.59	2.15
FSU	4.30	4.39	0.09	1.98	4.38	4.46	0.08	1.92
Other Europe	0.68	0.69	0.01	0.73	0.76	0.76	0.00	-0.53
China	9.23	9.49	0.26	2.82	9.10	9.57	0.47	5.19
Total "Other regions"	14.21	14.56	0.35	2.46	14.24	14.79	0.55	3.88
Total world	88.01	88.36	0.36	0.40	88.25	89.16	0.91	1.03

Totals may not add up due to independent rounding

The uncertainty for the short term still exists, making US oil demand the wild card this year. This might further weaken world oil demand in the fourth quarter.

The world oil demand estimate was revised down by 0.18 mb/d to show growth of 0.9 mb/d in 2011, averaging 87.8 mb/d.

Graph 4.2: Quarterly world oil demand growth

Alternative fuel

More pressure has been put on the EU regarding its bioenergy policies. The latest critique has come from a group of specialists who are challenging the EU's previous biofuel greenery calculations. EU biofuel subsidies have been based on the claim that they are environmentally friendly -- a claim that many studies has proven false. Most recently, the *Scientific Committee of the European Environment Agency* highlights a major mistake when the EU presumed balanced green effects would occur when biofuels are burned; however this is not the case. It has long been recognized that the EU biofuel policies cause not only environmental problems but also an increase in world food prices.

The US response to the tightened corn market is to ease its ethanol blending mandate. Biofuels are responsible for a considerable share of the increase in food prices world-wide and their massive subsidies are putting a huge burden on government budgets.

Due to the reduced US consumption, North American oil demand revised down to show a decline of 0.1 mb/d

OECD – North America

The troubled US economy along with higher retail prices in some months caused the country's gasoline consumption to plunge sharply by 2.2% in the first three quarters of 2011. Gasoline demand represents almost half of the country's total oil use. Gasoline consumption has been the engine behind oil demand growth in the past few years. Given the fact that the driving season is behind us, gasoline demand is not expected to show any health move for the remainder of this year and the first quarter of 2012. As a result, US oil demand growth was revised down by 0.1 mb/d for the year.

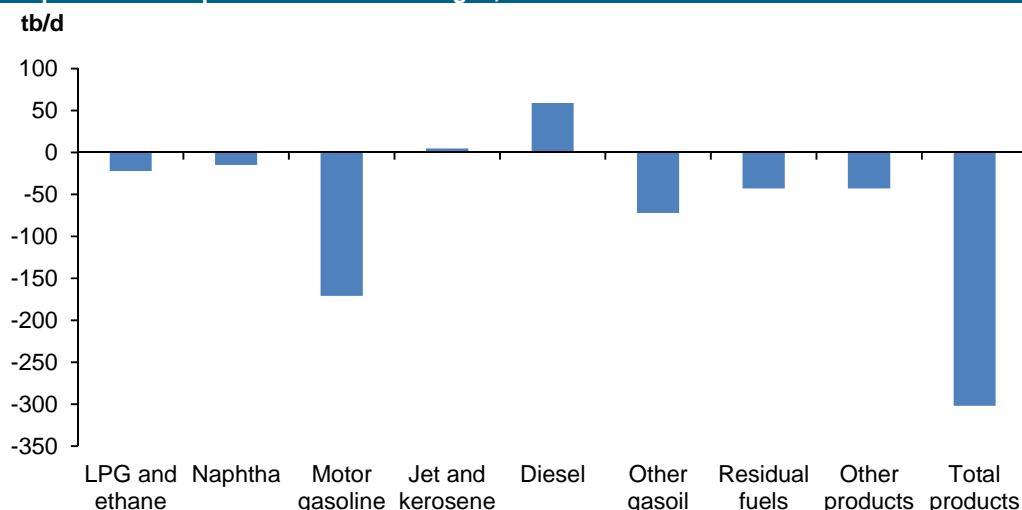
The US third quarter oil demand declined the most this year by 2.3% y-o-y. The product that sank the most was gasoline. Fuel oil performed badly, decreasing by 140 tb/d y-o-y.

Unlike US oil demand, Canadian oil demand inched up 1.1% y-o-y in the third quarter. Economic activity hiked diesel and gasoline consumption up by 40 tb/d y-o-y. It is anticipated that Canada will consume more oil this year than last, despite the economic problems in North America.

Mexican oil demand grew sharply in August, exceeding expectations. Industrial fuel, along with transport fuel, was the cause behind this massive 5.8% increase. The use of fuel oil in power plants pushed the consumption up by 28% in August y-o-y.

Due to the weak use of oil in the US for the whole of 2011, North American oil demand was revised down by 0.09 mb/d to stand at a y-o-y decline of 0.1 mb/d, averaging 87.8 mb/d.

Graph 4.3: OECD product demand changes, 2011



Unlike July's weak car sales in the US, August sales increased at a stronger pace reaching y-o-y growth of 7.5%, refuting earlier pessimistic forecasts. This has come about despite the US slowing economy and low inventories as a result of the Japanese earthquake. The SUV segment and pickups continued to achieve strong increases of 40.7% resulting from currently relatively low fuel prices. Moreover, latest US September auto sales were even stronger than August, reaching 9.9%. It is the strongest increase since last April. The latest available Canadian data showed auto sales in Canada climbing by 3.2% in August, with light trucks marking the segment with the largest increases. Although Canadian sales were strong in August, they are still below levels achieved prior to the financial crisis. According to the Mexico's Automobile Industry Association, Mexico's auto sales and production grew robustly in August, by 13.1% and 7.7%, while exports dropped by 3.0%, reflecting weaker demand in the US.

OECD – Europe

OECD Europe's total contraction revised down a further 50 tb/d to 0.16 mb/d in 2011

Europe's economy is continuing with its dim picture because of piling up debt of some Euro-zone countries. This is strongly reflected in the continent's oil demand. Lower manufacturing production is causing industrial fuel use to slide and economic uncertainties are pushing consumers to reduce their intake of transport fuel in the third quarter.

Germany's declining oil demand is the major reason behind the OECD Europe downward revision in third and fourth quarter oil demand. Germany's oil demand plunged by 0.13 mb/d in the third quarter y-o-y. The largest decline was attributed to gasoil which is used by both transport and industrial sectors. This decline is mainly related to economic easing activities. Fourth quarter oil demand is not expected to be as bad as in the third quarter; however, it will still remain in the red.

What can be seen in Germany is similar for all of the Big Four -- declining oil demand in the third and fourth quarters. In July alone, the Big Four gasoline and diesel consumption plunged by 200 tb/d.

Hence, OECD Europe's total contraction in oil demand was revised down a further 50 tb/d in 2011 to stand at 0.16 mb/d.

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

	<u>Aug 11</u>	<u>Aug 10</u>	<u>Change from Aug 10</u>	<u>Change from Aug 10 %</u>
LPG	390	398	-8	-2.0
Gasoline	1,252	1,281	-30	-2.3
Jet/Kerosene	818	804	15	1.8
Gas/Diesel oil	3,168	3,149	19	0.6
Fuel oil	411	430	-19	-4.4
Other products	1,151	1,237	-86	-6.9
Total	7,190	7,299	-108	-1.5

* Germany, France, Italy and the UK

According to the latest figures from the European Automobile Manufacturer's Association (ACEA), European new passenger car registrations increased 7.7% in August y-o-y, following a slight decline of 2.0% in July. The highest growth was registered in Germany and the UK of 18.3% and 7.3%. Spain, France and Italy also expanded, but at a slower pace by 5.9%, 3.1% and 1.5% respectively.

OECD – Pacific

OECD Pacific oil demand forecast to decline marginally in 2011

Japanese oil demand has been hit strongly by the earthquake which reduced the country's oil demand in the second quarter by 0.15 mb/d y-o-y. Crude oil burning in power plants in lieu of damaged nuclear plants increased Japan's crude demand by 70% in the first eight months of 2011. This eased the decline in products in other sectors of the economy. As for the fourth quarter, Japan's oil demand is not expected to mount as the country's recovery plan is not gearing up yet. Following minor growth in the third quarter, Japanese oil demand is expected to be flat in the fourth quarter y-o-y.

The Japanese earthquake disaster has indirectly affected the South Korean economy. The country's oil demand behaviour has been to a certain degree similar to that of

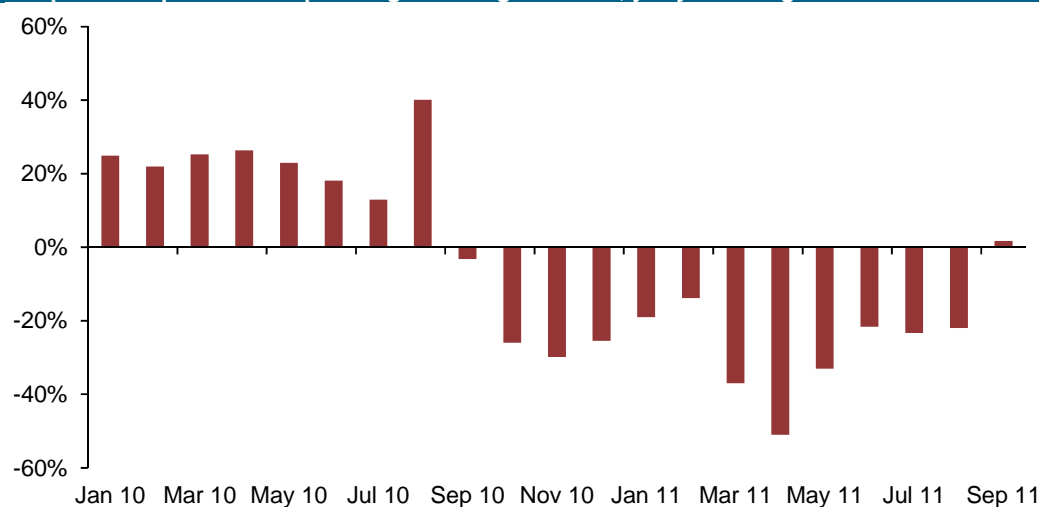
Japan. Second quarter oil consumption was sharply negative; however, the third quarter was slightly positive.

Given the extra use of crude burning by Japanese power plants, the OECD Pacific region's oil demand is forecast to slightly decline by only 0.02 mb/d in 2011.

Japan's auto sales rose for the first time in September by 1.7% y-o-y. This growth was not seen since last year. It reflected the industry's gradual rebound and thus an improved car supply from the catastrophic earthquake and tsunami. The extremely low base of September 2010 as a result of the ending government subsidies is a factor behind this strong increase.

Despite the negative influence of the high yen level against the dollar and the ongoing debt situation in Europe, Japan Automobile Manufacturers Association forecast a 17.4% y-o-y jump in Japan's auto sales in the upcoming eight-month period.

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



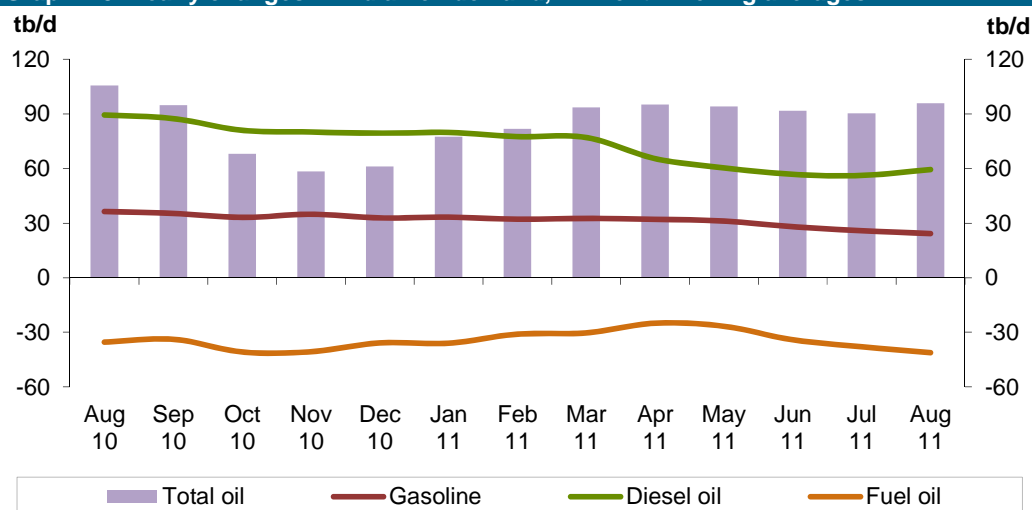
Developing countries

DC demand to grow at 0.6 mb/d in 2011

Due to a slowdown in India's economy, the country's GDP was assessed down by 0.1% for 2011. Two sectors – transport and industry – are affected by this slowdown and are reducing the country's total oil demand. India's use of fuel oil was down by 0.1 mb/d in August y-o-y as a result of fuel switching to NG. Furthermore, the country's use of gasoline has not been growing at the same pace as in the past few years. In recent months, transport fuel has also been affected by higher retail prices. Given the downward trend in India's oil demand, Other Asian oil demand was revised down by 30 tb/d in both the third and fourth quarters. Despite this revision, the region's oil demand is expected to grow by 0.23 mb/d in the fourth quarter y-o-y. India's oil demand is estimated to grow by 0.12 mb/d averaging at 3.4 mb/d in 2011.

India's oil demand to increase by 0.12 mb/d in 2011

According to the Society of Indian Automobile Manufacturers (SIAM), car sales in India fell by 10.1% in August compared to the previous year due to higher interest rates, rising vehicle costs, reduction in government incentives and high fuel prices. Nevertheless, sales of trucks and buses rose 22.6% in the same month.

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

Other Asia oil demand growth revised down slightly to stand at 0.23 mb/d

Indonesian oil demand has been in the growing mode for the past few years and this trend is expected to continue for the rest of this year and beyond. Indonesian economic growth of 6% is pushing the country's oil demand up this year by 1% y-o-y.

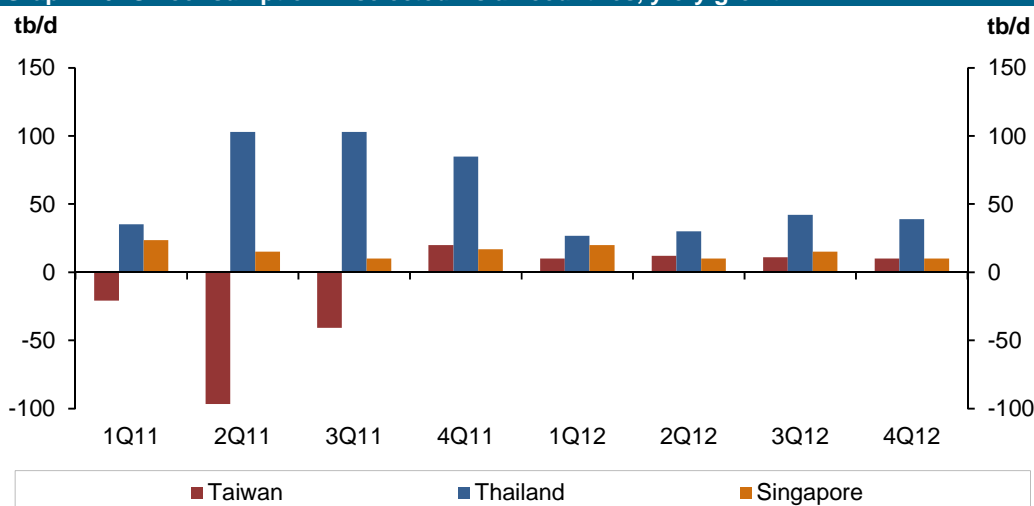
Thailand's healthy economy is pushing the use of oil up by 34 tb/d for 2011. July data shows oil demand growth of 13.5% in July y-o-y. This strong growth resulted from increased use of LPG. Thailand's LPG consumption averaged 225 tb/d in the first seven months of this year. The country's total oil demand grew by 75 tb/d over the same period.

Due to weaker-than-expected oil demand in the third quarter in India, Other Asia oil demand growth forecast was revised down slightly by 16 tb/d to stand at 0.23 mb/d in 2011, averaging 10.4 mb/d.

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

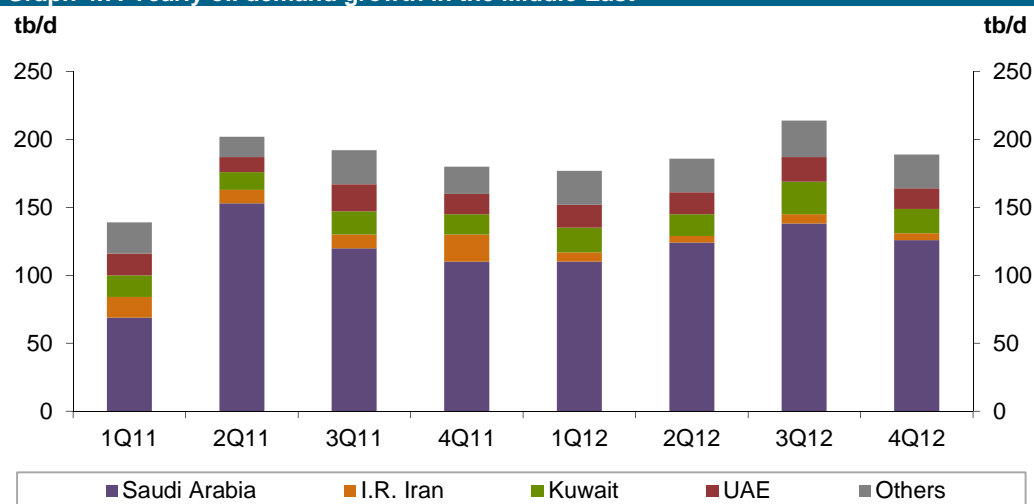
	Jul 11	Jul 10	Change	Change %
LPG	224	179	45	24.9
Gasoline	124	129	-5	-3.8
Jet Fuel/Kerosene	83	74	9	12.3
Diesel	309	308	1	0.3
Fuel oil	57	51	6	12.7
Other products	117	65	53	81.2
Total	915	806	109	13.5

Source: JODI/EPPO

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

Fuel switching to gas dampened Saudi oil demand this summer. Gasoline as well as both fuel and crude oil used by power plants are the products that are consumed the most in Saudi Arabia. Given the decline in oil use by the industrial sector, Saudi oil demand was slightly weaker this summer. However, the region's oil demand is expected to grow this year by 0.18 mb/d.

Graph 4.7: Yearly oil demand growth in the Middle East

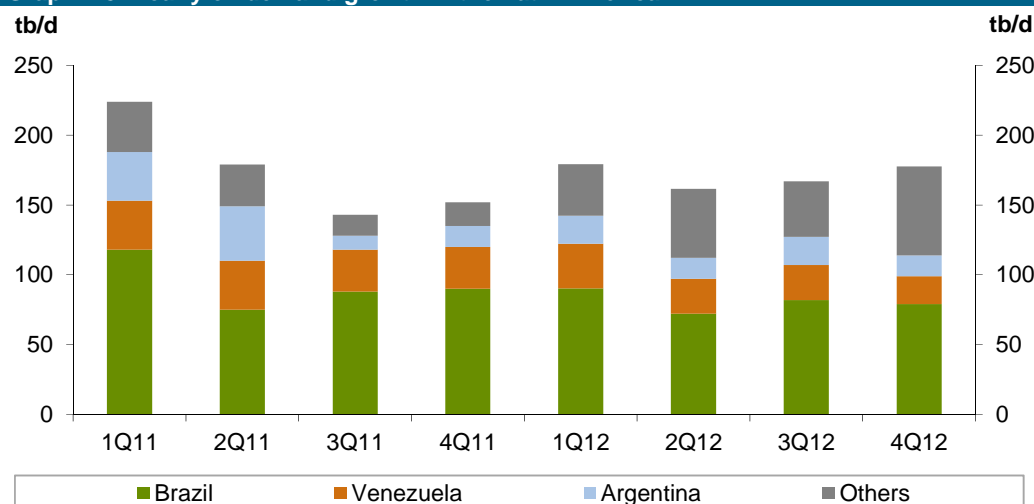


Latin America's oil demand to grow by 0.17 mb/d in 2011

Brazilian oil demand plunged into the negative in July, caused mainly by lower use of alcohol. Brazil is reducing the use of biofuel blend due to tight production that occurred this summer. Hence, Brazil's oil demand in both August and September grew by 0.06 mb/d y-o-y each.

Given the healthy growth in oil use in the region, Latin America's oil demand growth is forecast at 0.17 mb/d y-o-y averaging 6.4 mb/d in 2011.

Graph 4.8: Yearly oil demand growth in the Latin America

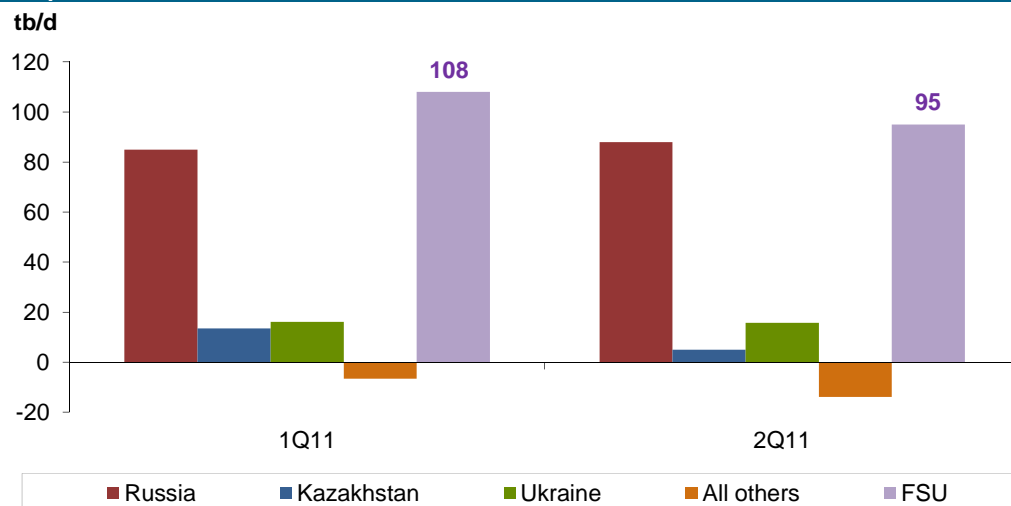


Developing Countries' oil demand growth is forecast at 0.6 mb/d y-o-y, averaging 27.6 mb/d.

Other regions

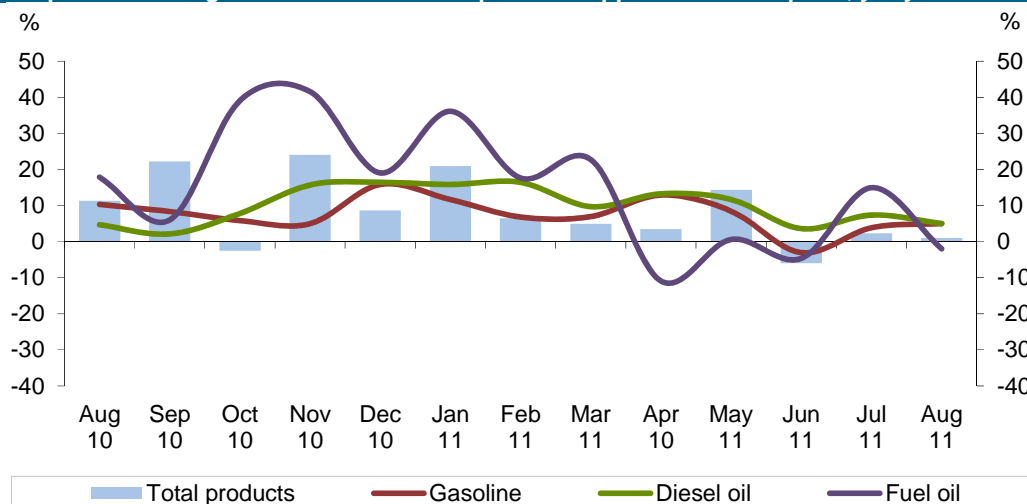
Russian oil demand has been in the growing mode since 2009. Transport fuel was the reason behind the growth. In total, FSU oil demand is forecast to grow by 0.1 mb/d y-o-y in 2011, averaging 4.2 mb/d. FSU GDP is estimated at 4.4% this year and as an Emerging Economy, a lot of energy intensive projects are underway within the region.

FSU oil demand to grow by 0.1 mb/d

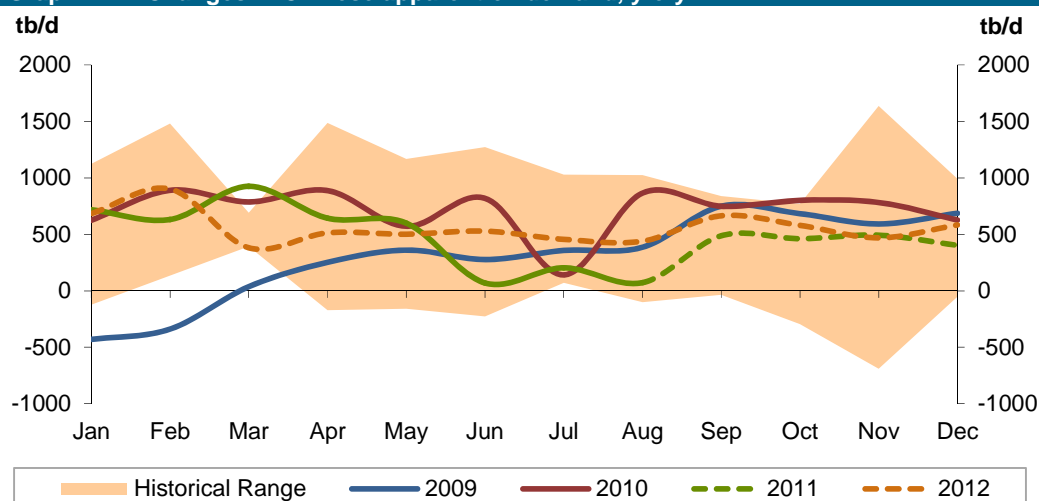
Graph 4.9: FSU oil demand, tb/d

China's oil demand growth forecast at 5.4%

Harvesting season was hit by bad weather in China leading to slower oil use in August. Under normal conditions, August is a peak season for oil consumption as a result of the heat and the agricultural season. Despite this third quarter slowdown, it is expected that the fourth quarter oil use will be semi-strong as forecast. Another factor that negatively affected China's oil demand this summer is the government policies toward new vehicle registrations. China has removed incentives that have pushed new car registrations up for the past few years. Furthermore, higher retail petroleum prices slightly suppressed oil demand, mainly transport fuel, in the past three months. The mandatory blend of biofuel has reduced gasoline consumption slightly. These factors led to weaker y-o-y oil demand growth in August, totaling 72 tb/d, the weakest oil demand growth after June. Nearly 100 tb/d of August net oil import growth of 3.47% ended up in the country's oil stocks.

Graph 4.10: Changes in Chinese main oil products apparent consumption, y-o-y

Diesel consumption was up this summer due to holiday travelling despite the marginal increase in prices. Diesel use by the industrial sector is also on the rise, as a result of booming economic activity country-wide. China's industrial output increased by 13.5% in August y-o-y, leading to higher usage of industrial fuel. However, this increase fell short of expectations. Hence, China's oil demand growth was revised down by 50 tb/d in 2011. The country's oil demand growth is forecast at 5.4% or 0.5 mb/d y-o-y, averaging 9.4 mb/d.

Graph 4.11: Changes in Chinese apparent oil demand, y-o-y

Data from the China Association of Automobile Manufacturers (CAAM) shows that China's automobile sales rebounded to a 16.6% increase in August compared to a year earlier. The strong growth is partly attributed to newly introduced government incentives for fuel savings for cars (small engine and hybrid) in July. China's auto sales growth is expected slow to about 4%-5% during 2011 as a result of the removal of government incentives on normal vehicles that increased sales during 2010 by a remarkable 32% y-o-y. It is, however, anticipated that the third quarter will probably be better than the second quarter as September and October are traditionally high seasons for auto sales. Furthermore, the Chinese State Information Center is currently conducting research on consumer acceptance of electric vehicles, as the country is reviewing a 10-year development plan for energy-saving and alternative energy vehicles. According to the Chinese Ministry of Industry and Technology there are currently 10,000 alternative energy and energy-saving vehicles in use in 25 designated trial cities, of which 1,000 are privately owned. China aims to have 1 million units of electricity-powered vehicles by 2015, according to the Ministry of Science.

World oil demand in 2012

Uncertainty in the world economy has dimmed the economic outlook for the coming year. As a result, the world GDP forecast for next year has been revised down further. Most of the uncertainty is attributed to the OECD region. US oil demand is likely to play a major role in total world oil demand next year. Retail petroleum product prices are expected to be the second major factor affecting oil demand in the coming year. Should retail prices persist in current levels, then transport fuels are likely to be affected, particularly in the US.

European oil demand is not expected to show any growth next year. This reflects not only a slowing economy, but also other factors such as high taxes on oil. The EU taxes on energy are the highest, representing more than 60% of the sales price.

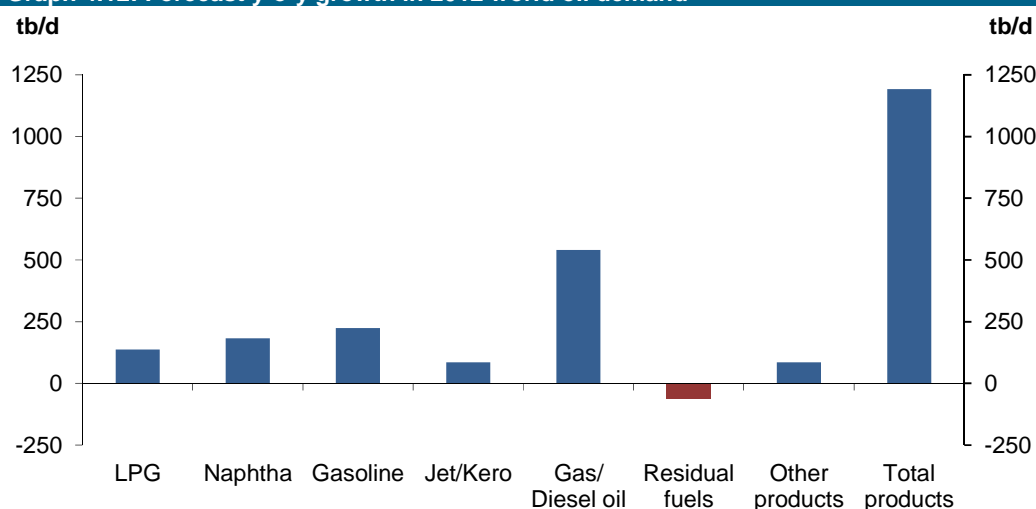
Chinese oil demand is not expected to be as solid as usual because of new government policies aimed at reducing transport fuel use. India's increase in retail prices is playing a major role in easing domestic oil consumption next year. The Middle East and Latin America are expected to maintain the same trend as this year, supported by growth in Saudi Arabia and Brazil.

World oil demand growth in 2012 revised down to 1.2 mb/d

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

	<u>2011</u>	<u>1Q12</u>	<u>2Q12</u>	<u>3Q12</u>	<u>4Q12</u>	<u>2012</u>	Change 2012/11	
							<u>Growth</u>	<u>%</u>
North America	23.64	23.83	23.43	23.82	23.90	23.75	0.11	0.47
Western Europe	14.42	14.21	14.04	14.58	14.63	14.36	-0.05	-0.37
OECD Pacific	7.80	8.27	7.14	7.57	7.99	7.74	-0.05	-0.70
Total OECD	45.85	46.31	44.61	45.97	46.52	45.85	0.00	0.01
Other Asia	10.41	10.54	10.64	10.55	10.74	10.62	0.20	1.94
Latin America	6.35	6.34	6.49	6.65	6.60	6.52	0.17	2.70
Middle East	7.46	7.50	7.56	7.91	7.63	7.65	0.19	2.57
Africa	3.38	3.45	3.42	3.30	3.49	3.42	0.04	1.23
Total DCs	27.60	27.83	28.12	28.41	28.46	28.21	0.61	2.20
FSU	4.24	4.23	4.05	4.48	4.55	4.33	0.09	2.21
Other Europe	0.70	0.69	0.65	0.70	0.76	0.70	0.00	0.66
China	9.43	9.59	10.00	10.00	10.08	9.92	0.48	5.13
Total "Other regions"	14.36	14.51	14.70	15.17	15.39	14.95	0.58	4.06
Total world	87.81	88.65	87.43	89.55	90.37	89.01	1.19	1.36
Previous estimate	87.99	88.77	87.44	90.07	90.73	89.26	1.27	1.44
Revision	-0.18	-0.12	-0.01	-0.52	-0.36	-0.25	-0.07	-0.08

Totals may not add up due to independent rounding

Graph 4.12: 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**

	<u>1Q11</u>	<u>1Q12</u>	Change 2012/11		<u>2Q11</u>	<u>2Q12</u>	Change 2012/11	
			<u>Volume</u>	<u>%</u>			<u>Volume</u>	<u>%</u>
North America	23.76	23.83	0.07	0.30	23.31	23.43	0.12	0.50
Western Europe	14.18	14.21	0.03	0.20	14.13	14.04	-0.09	-0.64
OECD Pacific	8.35	8.27	-0.07	-0.89	7.12	7.14	0.02	0.33
Total OECD	46.29	46.31	0.03	0.06	44.56	44.61	0.05	0.11
Other Asia	10.33	10.54	0.20	1.95	10.45	10.64	0.19	1.86
Latin America	6.16	6.34	0.18	2.91	6.33	6.49	0.16	2.55
Middle East	7.32	7.50	0.18	2.42	7.38	7.56	0.19	2.53
Africa	3.42	3.45	0.04	1.13	3.39	3.42	0.04	1.05
Total DCs	27.23	27.83	0.60	2.19	27.54	28.12	0.58	2.10
FSU	4.13	4.23	0.10	2.31	3.96	4.05	0.09	2.31
Other Europe	0.69	0.69	0.00	-0.19	0.65	0.65	0.01	0.78
China	9.13	9.59	0.46	5.07	9.54	10.00	0.47	4.88
Total "Other regions"	13.95	14.51	0.56	3.99	14.14	14.70	0.56	3.98
Total world	87.47	88.65	1.18	1.35	86.24	87.43	1.19	1.38

Totals may not add up due to independent rounding

Due to the recent downward revision in the world GDP, next year's oil demand growth forecast was revised down by 70 tb/d to stand at 1.2 mb/d y-o-y to average 89.0 mb/d.

As mentioned before, next year's oil demand forecast is based on assumptions such as higher global GDP, higher retail petroleum product prices and a strong Chinese economy. However, due to the uncertainty in the world economy in 2012, next year's oil demand forecast implies two scenarios with the risks leaning primarily to the downside. A worse-than-expected performance of the US economy might drag down world oil demand growth by as much as 0.2 mb/d.

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	23.72	23.82	0.10	0.42	23.75	23.90	0.15	0.63
Western Europe	14.66	14.58	-0.08	-0.54	14.70	14.63	-0.07	-0.48
OECD Pacific	7.66	7.57	-0.09	-1.11	8.07	7.99	-0.08	-1.00
Total OECD	46.04	45.97	-0.06	-0.14	46.52	46.52	0.00	0.00
Other Asia	10.33	10.55	0.21	2.06	10.53	10.74	0.20	1.91
Latin America	6.48	6.65	0.17	2.58	6.42	6.60	0.18	2.76
Middle East	7.69	7.91	0.21	2.78	7.44	7.63	0.19	2.54
Africa	3.26	3.30	0.05	1.47	3.45	3.49	0.04	1.27
Total DCs	27.76	28.41	0.64	2.31	27.85	28.46	0.61	2.19
FSU	4.39	4.48	0.10	2.25	4.46	4.55	0.09	2.01
Other Europe	0.69	0.70	0.01	1.15	0.76	0.76	0.01	0.88
China	9.49	10.00	0.51	5.32	9.57	10.08	0.50	5.25
Total "Other regions"	14.56	15.17	0.61	4.20	14.79	15.39	0.60	4.05
Total world	88.36	89.55	1.19	1.35	89.16	90.37	1.21	1.36

Totals may not add up due to independent rounding

World Oil Supply

Non-OPEC supply forecast to increase by 0.36 mb/d in 2011

Non-OPEC Forecast for 2011

Non-OPEC oil supply is forecast to grow by 0.36 mb/d in 2011 to average 52.63 mb/d. This represents a downward revision of 0.16 mb/d compared to the previous month, while anticipated growth experienced a downward revision of 0.14 mb/d. Historical revisions to a few countries' supply in 2009 and 2010 affected the 2011 forecast. Additionally, many revisions were introduced to the forecast in 2011, with the majority affecting the second half. Adjustments to updated actual production data in the first half have also affected the outlook, along with various other changes in the second half. The largest revision was experienced in Latin America, mainly on updated production data. All 2011 quarters encountered downward revisions, as the various upward revisions seen in some countries' supply forecasts were insufficient to offset the downward adjustments.

North America is now expected to have the highest growth among all non-OPEC regions in 2011, followed by Latin America and the FSU, while OECD Western Europe is projected to be the region with the biggest decline. OECD supply is foreseen to grow in 2011, as growth in North America is seen to more than offset the decline in Western Europe and OECD Pacific. The US, Colombia, Russia, Canada, and Brazil are anticipated to be the main drivers of growth in 2011, while UK, Norway, Yemen, and Malaysia supply is seen to have the largest decline.

On a quarterly basis, non-OPEC supply is seen to average 52.77 mb/d, 51.95 mb/d, 52.49 mb/d and 53.31 mb/d, respectively.

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

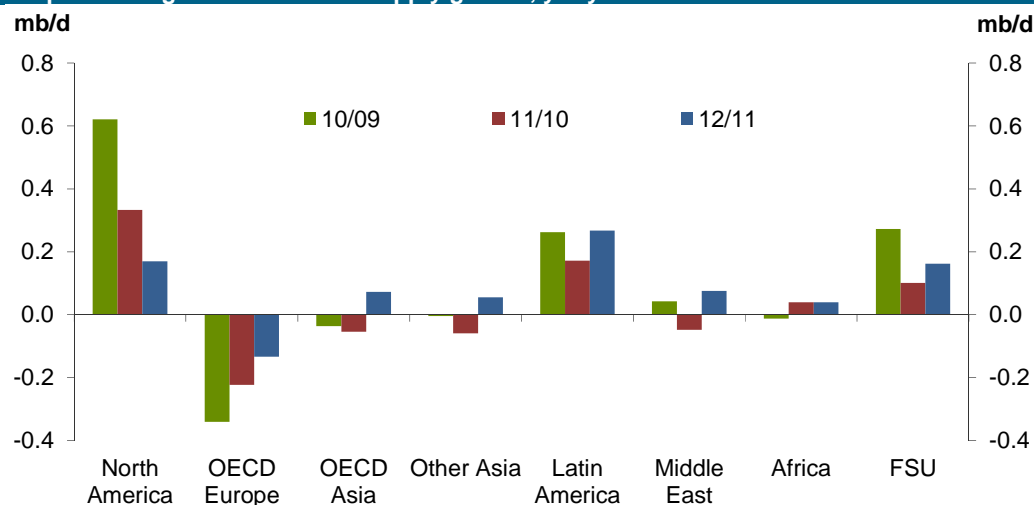


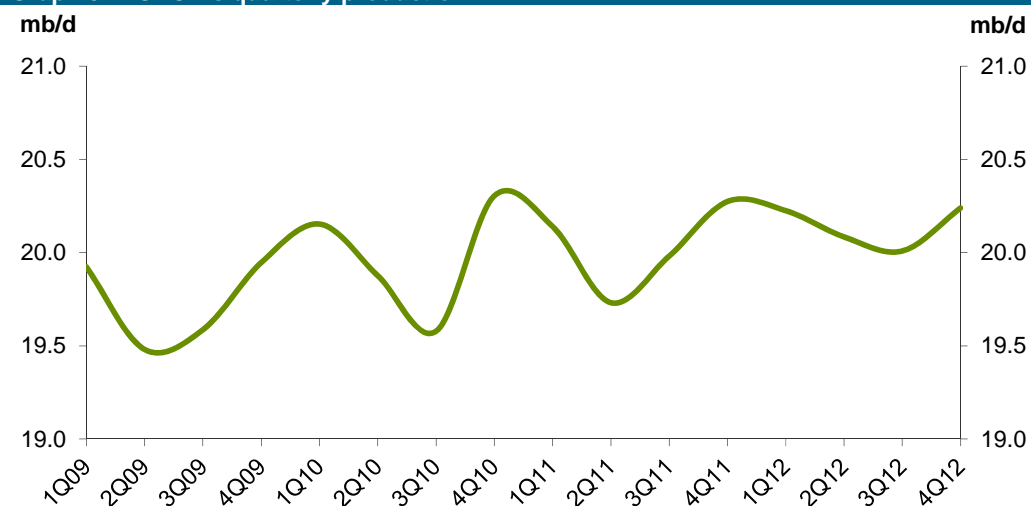
Table 5.1: Non-OPEC oil supply in 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10
North America	14.99	15.31	15.20	15.35	15.42	15.32	0.33
Western Europe	4.39	4.31	4.03	4.06	4.25	4.16	-0.22
OECD Pacific	0.60	0.52	0.50	0.57	0.60	0.55	-0.05
Total OECD	19.98	20.14	19.73	19.98	20.27	20.03	0.05
Other Asia	3.68	3.68	3.53	3.62	3.67	3.62	-0.06
Latin America	4.67	4.75	4.72	4.86	5.02	4.84	0.17
Middle East	1.78	1.78	1.65	1.72	1.76	1.73	-0.05
Africa	2.59	2.62	2.59	2.62	2.67	2.62	0.04
Total DCs	12.71	12.82	12.49	12.81	13.12	12.81	0.10
FSU	13.22	13.32	13.26	13.29	13.43	13.32	0.10
Other Europe	0.14	0.14	0.14	0.14	0.14	0.14	0.00
China	4.12	4.22	4.19	4.14	4.21	4.19	0.07
Total "Other regions"	17.48	17.68	17.59	17.56	17.78	17.65	0.17
Total Non-OPEC production	50.17	50.64	49.82	50.36	51.18	50.50	0.33
Processing gains	2.10	2.13	2.13	2.13	2.13	2.13	0.03
Total Non-OPEC supply	52.27	52.77	51.95	52.49	53.31	52.63	0.36
Previous estimate	52.29	52.85	52.00	52.89	53.41	52.79	0.50
Revision	-0.02	-0.08	-0.06	-0.40	-0.11	-0.16	-0.14

According to preliminary data, non-OPEC oil supply averaged 52.39 mb/d during the first three quarters of 2011, indicating growth of 0.31 mb/d compared to the same period of 2010. Y-o-y growth is coming from the first and third quarters, as non-OPEC supply increased compared to the same period of 2010, while the second quarter supply experienced a decline.

OECD

Total OECD oil supply is expected to increase by 0.05 mb/d to average 20.03 mb/d in 2011, unchanged from the previous Monthly Oil Market Report (MOMR). Despite the steady state, there were various upward and downward revisions to regional and countries' oil supply outlooks in 2011 that offset each other. All quarters, except the first quarter, experienced revisions, with the third quarter encountering the largest. North America experienced an upward revision that offset the downward revision introduced to OECD Western Europe and OECD Pacific supply. The US, Norway, and Other Western Europe supply forecasts encountered upward revisions that offset the downward adjustments in Canada, the UK, and Australia. In the fourth quarter, OECD supply is seen to increase compared to the third quarter as output is expected to return to normal levels in OECD Western Europe. On a quarterly basis, OECD oil supply is expected to average 20.14 mb/d, 19.73 mb/d, 19.98 mb/d, and 20.27 mb/d respectively.

Graph 5.2: OECD's quarterly production

North America

Oil Supply from North America is projected to increase by 0.33 mb/d in 2011 to average 15.32 mb/d, an upward revision of 25 tb/d compared to the previous month. The second, third and fourth quarters 2011 experienced upward revisions on updated production data as well as changes in anticipated growth for the rest of the year. The upward revision is confirming North America as the region with the highest growth in 2011 among all non-OPEC regions. Strong supply growth is now expected from the US and Canada, while Mexico supply is seen to encounter a slight decline in 2011. On a quarterly basis, North America oil supply is believed to average 15.31 mb/d, 15.20 mb/d, 15.35 mb/d, and 15.42 mb/d respectively.

US

In September, severe weather conditions are estimated to have reduced Gulf of Mexico output by around 150 tb/d as operators shutdown their facilities in a precautionary measure. However, the improved Alaskan output in September partially offset the experienced decline in the Gulf of Mexico. **US** oil supply is expected to grow by 0.25 mb/d in 2011, the highest growth among all non-OPEC countries, to average 8.89 mb/d, indicating an upward revision of 50 tb/d compared to the previous MOMR. The upward revision was supported by the higher output from Alaska in September, which increased by 70 tb/d compared to the previous month on the back of improved output from Prudhoe Bay. Furthermore, shale oil production continued to illustrate strong growth, which supported the upward revision. Some operators reported strong output from some shale oil formations, such as the Bakken. Moreover, the new Bakken rail expansion that accommodates an additional 100 tb/d in North Dakota is expected to further support logistics and supply growth in the area. Additionally, activity levels increased in the Eagle Ford formation, with reports of continued new volume.

The encountered upward revision was introduced in this MOMR despite the downward revision of biofuel production in the US, as reports suggest that this year's corn yield will be the lowest since 2006. However, the improvement of the pace of issuing permits for Gulf of Mexico drilling is seen to further support output in addition to the shale oil development. In July, North Dakota's output reached a record high of around 425 tb/d, indicating that operators are rapidly adding new volume, despite the setback experienced from the flooding that shut down several wells and the delays caused by severe weather conditions. On a quarterly basis, US oil production is estimated to average 8.76 mb/d, 8.94 mb/d, 8.93 mb/d, and 8.92 mb/d respectively. According to preliminary data, US oil supply averaged 8.88 mb/d during the first three quarters of 2011, indicating an increase of 0.30 mb/d compared to the same period of 2010.

Canada and Mexico

Oil production from **Canada** is forecast to increase by 0.10 mb/d in 2011 to average 3.49 mb/d, a downward revision of 20 tb/d compared to the previous assessment. The downward revision came mainly to adjust for updated preliminary production figures in the third quarter that were carried over to the rest of the year. Weather conditions in Western Canada negatively influenced output. Despite the downward revision, Canadian oil supply is expected to increase in the fourth quarter compared to the third as oil sands and shale oil output continue to ramp up. Furthermore, the increase of NGL demand by oil sand operators is expected to positively support NGL production in the coming period. Moreover, reports suggested that some operators are increasing their Capital Expenditure (Capex), which is expected to support the growth. The reports further allied that some operators are focusing on brown field developments rather than green fields on economical and environmental concerns. On a quarterly basis, Canada's supply is seen to average 3.57 mb/d, 3.30 mb/d, 3.50 mb/d and 3.58 mb/d respectively.

Mexico oil output is estimated to decline by 0.02 mb/d in 2011 to average 2.94 mb/d, flat from the previous MOMR. Despite the steady state, a minor downward revision was experienced in third quarter oil supply that did not affect the annual figure. Mexico third quarter oil supply encountered a downward revision on the back of output curtailment in September associated with the Tropical Storm Nate. Reports suggested that the storm halted around 180 tb/d in few days in September. Nate affected Ko-Maloob-Zaap (KMZ) operations. However, the reported increase in Mexico oil production in August after a few months of decline partially offset the downward revision in the third quarter.

Shale oil development strongly supports US supply growth in 2011

Canada output to increase by 0.1 mb/d in 2011

Tropical Storm Nate reduces Mexico output in September

Moreover, the output increase experienced at the Chicontepec field is seen to support production, in spite of the difficulties surrounding the field's development, given that the reserves are spread over numerous small reservoirs. On a quarterly basis, Mexico's oil supply is seen to stand at 2.97 mb/d, 2.96 mb/d, 2.92 mb/d, and 2.92 mb/d respectively.

Western Europe

Total OECD Western Europe oil supply is forecast to drop 0.22 mb/d in 2011, the largest decline among all non-OPEC regions, and average 4.16 mb/d, representing a downward revision of 20 tb/d compared to the previous month. The ongoing output decline in North Sea production is expected to continue in 2011. On a quarterly basis, oil output is estimated to average 4.31 mb/d, 4.03 mb/d, 4.06 mb/d and 4.25 mb/d respectively.

Upcoming maintenance to limit output at Grane field

Preliminary data indicated that **Norway** oil production declined in August compared to the previous month, yet actual data indicated that the drop was lower than previously expected. Accordingly, an upward revision was introduced. Norway oil supply is projected to decline by 0.09 mb/d in 2011 and average 2.05 mb/d, indicating an upward revision of 20 tb/d compared to the previous MOMR. The upward revision was supported by the restart of the Valhall and Hod oil fields that were shutdown for more than two months due to a fire incident. The upward revision came despite the shutdown of Visund production on maintenance after the gas leak as well as personnel search. Moreover, the fire at the Huldra field, producing small volumes of liquid, slightly offset the upward revision. Norwegian output is expected to increase in the fourth quarter as the maintenance season comes to an end. However, the reported upcoming maintenance for 6–8 weeks at the Grane facilities, due to technical problem at the injection compressor, is expected to limit production and offset the anticipated increase from the third quarter. On a quarterly basis, Norway's supply is believed to average 2.14 mb/d, 1.94 mb/d, 2.01 mb/d and 2.08 mb/d respectively.

UK crude output remained below 1 mb/d in August for the fourth consecutive month

According to actual production data, **UK** crude oil output remained below the 1 mb/d mark for the fourth consecutive month in August. Crude oil production declined 19% in August compared to the previous month to reach the lowest level since the 1970s. The decline in August came partially from the shutdown of the Forties pipeline as well as Buzzard maintenance. The continued strong decline prompted the authorities to reduce the output forecast for 2011. The negative factors required a downward revision to UK oil supply forecast for 2011. UK oil production is foreseen to decline by 0.17 mb/d in 2011 to average 1.19 mb/d, representing a downward revision of 50 tb/d compared to the previous month. Reports suggested that the Buzzard field is taking longer than expected to resume full volume after the lengthy maintenance which supported the downward revision. Additionally, the drop in second quarter oil supply marked the fact that the biggest quarterly drop since 1995 is further supporting the downward revision. On a quarterly basis, UK oil supply is seen to average 1.27 mb/d, 1.17 mb/d, 1.11 mb/d and 1.24 mb/d respectively.

Asia Pacific

Total OECD Pacific oil supply is foreseen to decline by 50 tb/d and average 0.55 mb/d in 2011, representing a minor downward revision of less than 10 tb/d compared to the previous month. The forecast of OECD Pacific supply is expected to increase in the second half of 2011 as new volume and the previously operationally restricted output from the first half are now expected to support production. On a quarterly basis, total OECD Pacific supply is seen to average 0.52 mb/d, 0.50 mb/d, 0.57 mb/d, and 0.60 mb/d, respectively.

Cossack and Growler resumed production

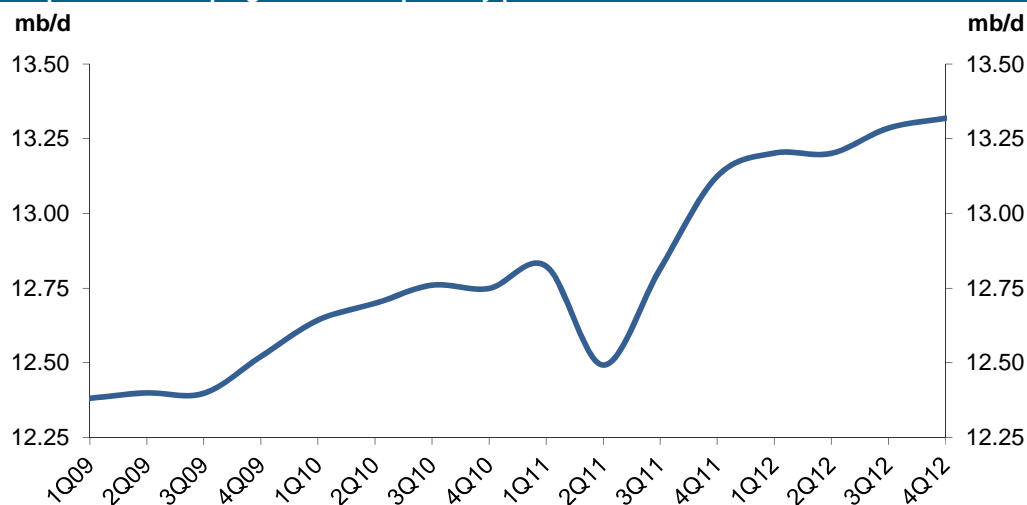
Updated production data for the beginning of the third quarter indicated that **Australia** supply remained affected by the factors that reduced output during the first half and did not rebound. However, output is expected to improve in the second half of 2011. Australia oil supply is expected to average 0.46 mb/d in 2011, a decline of 50 tb/d, indicating a minor downward revision of less than 10 tb/d compared to the previous MOMR. Australia output is expected to improve in the fourth quarter. The Cossack oil production resumed operations after the shutdown in April to replace the floating production, storage and offload (FPSO). Additionally, the Growler field resumed output after the flooding that caused the shutdown. On a quarterly basis, Australian oil supply is seen to average 0.42 mb/d, 0.42 mb/d, 0.48 mb/d and 0.50 mb/d respectively.

DCs supply to increase 0.1 mb/d in 2011 to average 12.81 mb/d

Developing Countries

Total Developing Countries (DCs) oil supply is projected to increase by 0.10 mb/d in 2011 to average 12.81 mb/d; indicating a significant downward revision of 0.12 mb/d from last month. The downward revision came across all the quarters in 2011, with the third quarter experiencing the largest adjustment. All DCs regions' supply forecasts experienced downward revisions with Latin America experiencing the largest drop compared to the previous month. Among DCs supply regions, Latin America and Africa are expected to achieve supply growth, while Other Asia and the Middle East are seen to decline in 2011. Colombia is expected to achieve the highest growth among all DC countries, followed by Ghana, Brazil, and India, while Yemen, Malaysia, and Indonesia are expected to experience the largest decline. On a quarterly basis, DC oil output is seen to stand at 12.82 mb/d, 12.49 mb/d, 12.81 mb/d, and 13.12 mb/d respectively. According to preliminary data, DCs first half oil supply remained flat compared to the same period of 2010.

Graph 5.3: Developing Countries' quarterly production



Brunei, India, and Indonesia supply outlooks encountered downward revisions

Updated actual production data indicated lower-than-expected output from India and Indonesia. Additionally, historical data required a downward revision for Brunei oil supply outlook. Accordingly, the necessary adjustments were completed and the Other Asia oil supply forecast experienced a downward revision of 35 tb/d compared to the previous assessment. Oil supply in Other Asia is expected to average 3.62 mb/d in 2011, a decline of 60 tb/d compared to the previous year. India oil production in August indicated a decline compared to the previous month that supported the downward revision. Oil production from India is foreseen to increase 50 tb/d in 2011, the only growth among all Other Asia group countries, to average 0.91 mb/d, representing a downward revision of less than 10 tb/d compared to the previous *MOMR*. Malaysia, Thailand and Vietnam oil supply projections experienced minor downward revisions in some quarters to adjust for updated production data, yet the revisions did not affect the annual figure. On a quarterly basis, Other Asia oil supply is believed to stand at 3.68 mb/d, 3.53 mb/d, 3.62 mb/d, and 3.67 mb/d respectively.

Indonesia oil supply is forecast to decline by 40 tb/d in 2011 to average 0.99 mb/d, representing a downward revision of 10 tb/d compared to the previous month. The downward revision was experienced in almost all quarters to adjust for updated production data in the first half as well as to cover the planned maintenance at North East Java fields. Additionally, the recent fire that impacted production of the Widuri, Intan, Aida, and Induri fields is supporting the downward revision. Further downward revisions are likely as output remains influenced by natural decline and limited new developments in addition to operational setbacks.

Colombia's growth second-highest among all non-OPEC

Latin American oil supply is anticipated to increase by 0.17 mb/d in 2011 to average 4.84 mb/d, indicating a significant downward revision of 55 tb/d compared to the previous MOMR. Argentina and Colombia oil supply forecast encountered upward revisions, while Brazil supply outlook experienced a major downward revision that more than offset the upward revision. Argentina oil supply is expected to average 0.73 mb/d in 2011, a decline of 20 tb/d, indicating an upward revision of 10 tb/d compared to the previous month. The upward revision came mainly to adjust for updated production data in the third quarter that was partially carried over to the rest of the year. Colombia oil supply is projected to increase 0.14 mb/d in 2011, the second largest growth among all non-OPEC countries, to average 0.94 mb/d, indicating an upward revision of 10 tb/d compared to the previous MOMR. The revision was experienced to adjust for updated production data. August oil supply indicated a new record high. However, the various protests in September that heavily impacted some operations partially offset the upward revision. Protests have shut a fourth of Colombia output on some days in September. According to preliminary data, Colombia oil supply indicated a decline of 6% in September compared to the previous month. However, production is expected to return to normal levels as reports suggested that the protests came to an end in September. On a quarterly basis, Latin America oil production is seen to stand at 4.75 mb/d, 4.72 mb/d, 4.86 mb/d, and 5.02 mb/d respectively.

Brazil biofuel supply revised down significantly

Brazil oil supply is projected to increase 60 tb/d in 2011 to average 2.86 mb/d, indicating a significant downward revision of 70 tb/d compared to the previous month. The downward revision affected all the quarters in 2011. A major revision was introduced to Brazil biofuel production. Brazil's sugarcane production is expected to be lower than in 2010, as the data for the most important harvest months indicated, mainly on poor weather conditions. Furthermore, the weather conditions impacted the ethanol content per ton of sugarcane, which came in lower than previous year. Additionally, the share of sugarcane crops used for sugar production is reported to be higher than previous year, on high sugar prices, indicating a lower share available for ethanol. Accordingly, the ethanol supply forecast was revised down. Moreover, startup delays were reported by independent operators which further supported the downward revision. Brazil's August oil supply remained weak on the back of a shutdown of offshore platforms for maintenance. Despite the negative adjustment, production from the subsalt areas was reported to have reached 130 tb/d, indicating a healthy ramp-up of pre-salt layer producing facilities. On a quarterly basis, Brazil oil supply is seen to average 2.66 mb/d, 2.67 mb/d, 2.71 mb/d, and 2.83 mb/d respectively.

Harweel and Qarn Alam EOR startup delayed

Middle East oil production is estimated to decline by 50 tb/d in 2011 to average 1.73 mb/d, indicating a downward revision 15 tb/d from the last month. Bahrain and Oman oil supply encountered minor downward revisions, while Syria and Yemen forecasts remained unchanged. Bahrain oil supply outlook experienced a downward revision of less than 10 tb/d on historical changes. Oman oil supply forecast encountered a downward revision due to delays of the startup of the EOR projects for Harweel miscible gas and Qarn Alam steam injection. The downward revision came despite higher oil output in August compared to the previous month. Yemen oil supply remained unchanged despite the explosion at a major pipeline. Syria oil supply remained flat from the previous MOMR, despite reports of reduced output at certain operations. On a quarterly basis, Middle East oil production is seen to stand at 1.78 mb/d, 1.65 mb/d, 1.72 mb/d, and 1.76 mb/d respectively.

Africa oil supply to increase by 40 tb/d in 2011 to average 2.62 mb/d

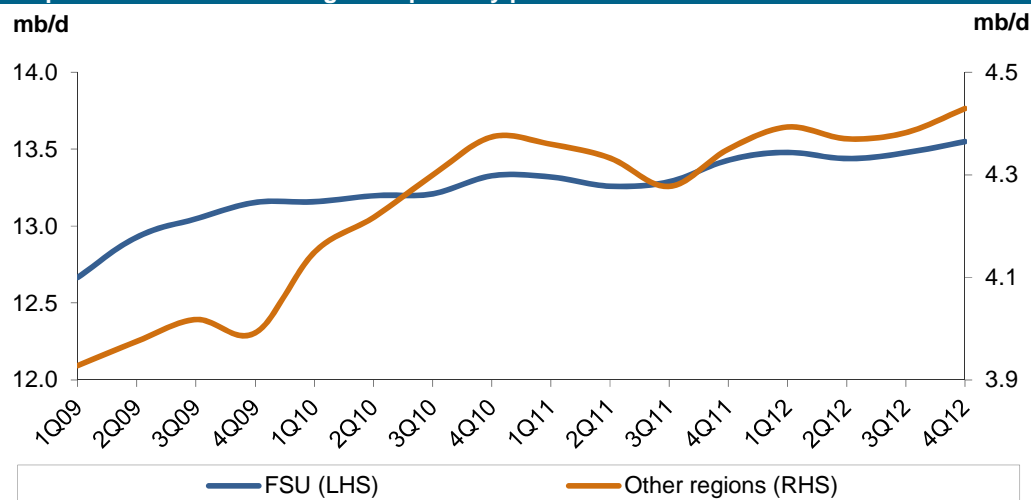
Egypt oil production, according to preliminary data, indicated higher-than-previously expected output, hence requiring a minor upward revision of less than 10 tb/d. Oil supply from Egypt is expected to remain relatively flat in 2011, compared to a year ago and average 0.71 mb/d. Africa oil supply is forecast to increase by 40 tb/d in 2011 to average 2.62 mb/d, indicating a downward revision of 10 tb/d compared to the previous MOMR. Despite the minor upward revision to the Egypt oil supply outlook, Ghana oil production forecast experienced a downward revision on the back of the slower-than-expected ramp-up of the Jubilee project. On a quarterly basis, Africa oil supply is estimated to average 2.62 mb/d, 2.59 mb/d, 2.62 mb/d, and 2.67 mb/d respectively.

Russia remains the main contributor to FSU supply growth in 2011

FSU, Other Regions

Total FSU oil production is foreseen to increase by 0.10 mb/d in 2011 and average 13.32 mb/d, indicating a downward revision of 20 tb/d from the previous month. The forecast experienced a few upward and downward revisions on a quarterly basis, where the downward revisions more than offset the upward ones. The majority of the revisions took place in the third quarter as more production data became available. FSU oil supply growth is supported mainly by Russia and, to a lesser extent, Kazakhstan while Azerbaijan oil production is expected to decline in 2011. According to preliminary data, FSU oil supply increased by 0.10 mb/d during the first three quarters in 2011, compared to the same period a year earlier. On a quarterly basis, total oil production in the FSU is estimated to average 13.32 mb/d, 13.26 mb/d, 13.29 mb/d, and 13.43 mb/d respectively. China oil output is anticipated to increase by 70 tb/d in 2011 and average 4.19 mb/d. Other Europe supply is seen to remain flat from 2010 and average 0.14 mb/d in 2011.

Graph 5.4: FSU and other region's quarterly production



Kolvinskoye starts up production

Russia

Russian oil production, according to preliminary data, registered a new record high in September with a minor increase over the previous month. The strong performance was supported by new volume coming from green fields. Russia oil supply is expected to increase by 0.10 mb/d in 2011 to average 10.24 mb/d, indicating an upward revision of 20 tb/d compared to the previous month. The upward revision came from the update introduced to the third quarter estimates as new data indicated higher output than previously expected. The third quarter upward revision was partially carried over to the rest of the year. Additionally, the startup of the Kolvinskoye field further supported the upward revision. During the first three quarters of 2011, Russia oil supply averaged 10.24 mb/d, indicating growth of 0.13 mb/d compared to the same period in 2010. Third quarter oil supply indicated an increase of 0.14 mb/d compared to the same period of 2010. On a quarterly basis, Russian oil supply is estimated to average 10.21 mb/d, 10.23 mb/d, 10.27 mb/d, and 10.24 mb/d, respectively. Russian oil production averaged 10.30 mb/d in September, up by 20 tb/d from a month earlier.

Kazakhstan supply to increase by 30 tb/d in 2011 to average 1.63 mb/d

Caspian

Kazakh oil supply is foreseen to increase by 30 tb/d in 2011 to average 1.63 mb/d, indicating a minor downward revision of less than 10 tb/d from the previous month. Slightly lower-than-expected production in the early part of the third quarter required a minor downward revision to Kazakhstan supply. The fourth quarter oil supply is expected to increase from the third quarter, as maintenance in different fields comes to an end. On a quarterly basis, Kazakhstan oil supply is seen to stand at 1.66 mb/d, 1.60 mb/d, 1.57 mb/d, and 1.68 mb/d respectively.

Maintenance planned for ACG in 4Q12

Azeri oil production is forecast to drop 50 tb/d in 2011 to average 1.02 mb/d in 2011, indicating a downward revision of around 40 tb/d compared to the previous MOMR. The downward revision was introduced to the second half oil supply estimates. Updated

production data for the early parts of the third quarter showed that output remained below expectations, which necessitated the downward revision in the third quarter. Furthermore, maintenance at the Azeri-Chirag-Guneshli (ACG) facilities during the fourth quarter added to the downward revision. West, East, and Central Azeri platforms are expected to shut down for around 2 weeks to carryout maintenance work. On a quarterly basis, Azerbaijan oil output is seen to stand at 1.02 mb/d, 1.00 mb/d, 1.01 mb/d, and 1.07 mb/d, respectively.

China

Preliminary production data indicated that China oil output decreased in August compared to the previous month, on the back of operational issues as well as the shutdown of the Peng Lai development. **China** oil production is expected to increase by 70 tb/d in 2011 to average 4.19 mb/d, indicating a downward revision of 30 tb/d compared to the previous month. The downward revision came to adjust for updated production data as well as to cover for the production short come due to recent technical problems. Fourth quarter supply is anticipated to experience an increase from the third quarter, assuming that output will resume at the Peng Lai field. Reports indicated that the operator restarted a well in order to depressurize the reservoir. On a quarterly basis, China oil supply is expected to average 4.22 mb/d, 4.19 mb/d, 4.14 mb/d, and 4.21 mb/d respectively.

Forecast for 2012

Non-OPEC oil supply is forecast to increase by 0.83 mb/d in 2012 to average 53.46 mb/d, representing a downward revision of 0.10 mb/d over the previous month. The healthy growth is seen in 2012 as non-OPEC output is projected to recover from the meager growth seen in 2011 that is being encountered due to technical and other factors. Despite the downward revision for total non-OPEC supply, growth experienced an upward revision of 60 tb/d compared to the previous MOMR. Changes to the 2011 supply forecast were carried over to 2012, hence affecting the total non-OPEC supply figure. Latin America remains the region with the highest expected growth among all non-OPEC regions, supported by the foreseen growth in Brazil and Colombia. North America is next in terms of growth in 2012, with the projected supply increases from the US and Canada seen to offset the decline expected in Mexico supply. OECD Western Europe supply is expected to have the biggest decline in 2012 compared to other non-OPEC regions.

On a quarterly basis, non-OPEC supply is expected to average 53.49 mb/d, 53.28 mb/d, 53.34 mb/d, and 53.73 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	15.32	15.44	15.45	15.49	15.59	15.49	0.17
Western Europe	4.16	4.18	4.00	3.89	4.05	4.03	-0.13
OECD Pacific	0.55	0.61	0.63	0.63	0.60	0.62	0.07
Total OECD	20.03	20.23	20.08	20.01	20.24	20.14	0.11
Other Asia	3.62	3.67	3.67	3.68	3.70	3.68	0.06
Latin America	4.84	5.06	5.07	5.13	5.16	5.11	0.27
Middle East	1.73	1.80	1.80	1.80	1.80	1.80	0.07
Africa	2.62	2.67	2.66	2.66	2.65	2.66	0.04
Total DCs	12.81	13.20	13.20	13.29	13.32	13.25	0.44
FSU	13.32	13.48	13.44	13.48	13.55	13.49	0.16
Other Europe	0.14	0.15	0.15	0.15	0.15	0.15	0.01
China	4.19	4.25	4.22	4.23	4.28	4.24	0.06
Total "Other regions"	17.65	17.87	17.81	17.86	17.98	17.88	0.23
Total Non-OPEC production	50.50	51.30	51.09	51.15	51.54	51.27	0.77
Processing gains	2.13	2.19	2.19	2.19	2.19	2.19	0.06
Total Non-OPEC supply	52.63	53.49	53.28	53.34	53.73	53.46	0.83
Previous estimate	52.79	53.60	53.39	53.45	53.83	53.57	0.77
Revision	-0.16	-0.11	-0.10	-0.10	-0.10	-0.10	0.06

China supply to increase by 70 tb/d in 2011 to average 4.19 mb/d

Non-OPEC supply to increase by 0.83 mb/d in 2012 to average 53.46 mb/d

Revisions to the 2012 forecast

The main changes in the non-OPEC supply forecast in 2012 were experienced by the UK and Russia. UK oil supply in 2012 is expected to average 1.13 mb/d, a drop of 60 tb/d from 2011, indicating a downward revision of around 30 tb/d compared to the previous *MOMR*. The change was driven mainly by updated actual and forecast data for 2011 as well as an updated decline rate. Russian oil production is projected to increase by 60 tb/d in 2012 to average 10.30 mb/d. New project developments such as the Kolvinskoye as well as an improved decline rate, on the of back brown field activities, supported the 2012 supply outlook.

OPEC natural gas liquids and non-conventional oils

OPEC NGLs and non-conventional oils are forecast to increase by 0.39 mb/d in 2011 to average 5.29 mb/d. In 2012, OPEC NGLs and nonconventional oils are anticipated to grow by 0.36 mb/d to average 5.65 mb/d.

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

	Change				Change				Change	
	2009	2010	10/09	1Q11	2Q11	3Q11	4Q11	2011	11/10	2012
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

Total OPEC crude oil production averaged 29.90 mb/d in September, according to secondary sources, down by around 77 tb/d from the previous month. OPEC crude oil production, not including Iraq, averaged 27.23 mb/d in September, a decline of 78 tb/d from the previous month. Crude output of Nigeria and Saudi Arabia experienced a decline in September, compared to the previous month, while crude production from Libya and Angola showed increases.

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

	2009	2010	1Q11	2Q11	3Q11	Jul 11	Aug 11	Sep 11	Sep/Aug
Algeria	1,268	1,258	1,259	1,250	1,260	1,259	1,260	1,259	-0.6
Angola	1,780	1,783	1,665	1,549	1,680	1,676	1,640	1,725	84.9
Ecuador	477	475	490	490	483	483	482	483	1.4
Iran, I.R.	3,725	3,706	3,656	3,656	3,608	3,620	3,606	3,597	-9.2
Iraq	2,422	2,401	2,649	2,671	2,652	2,635	2,661	2,661	0.7
Kuwait	2,263	2,297	2,374	2,483	2,564	2,529	2,567	2,597	30.5
Libya	1,557	1,559	1,096	153	50	48	7	96	88.9
Nigeria	1,812	2,060	2,087	2,148	2,158	2,172	2,231	2,069	-162.0
Qatar	781	801	807	806	809	807	809	812	2.8
Saudi Arabia	8,051	8,284	8,732	9,075	9,651	9,657	9,708	9,586	-122.0
UAE	2,256	2,304	2,441	2,505	2,564	2,551	2,578	2,562	-16.7
Venezuela	2,394	2,338	2,375	2,369	2,438	2,442	2,425	2,449	23.9
Total OPEC	28,785	29,266	29,631	29,155	29,916	29,880	29,973	29,896	-77.4
OPEC excl. Iraq	26,362	26,866	26,982	26,484	27,264	27,244	27,313	27,235	-78.1

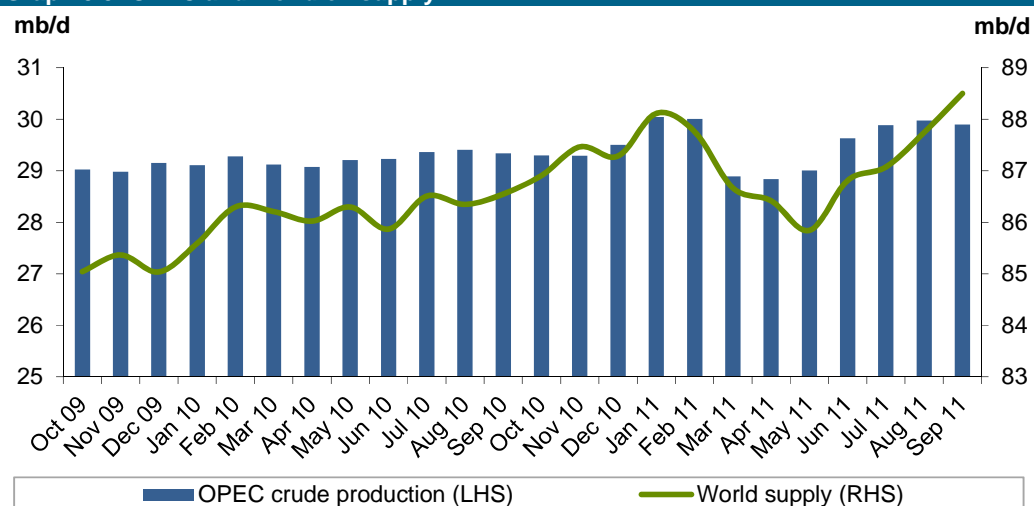
Totals may not add up due to independent rounding

World Oil Supply

Preliminary figures show that global oil supply averaged 88.50 mb/d in September, a gain of 0.76 mb/d from the previous month, supported by estimated increases in non-OPEC supply. OPEC crude is estimated to have a 33.8% share in global supply. The estimate is based on preliminary data for non-OPEC supply, estimates for OPEC NGLs and OPEC crude production according to secondary sources.

OPEC crude oil production decreased 77 tb/d in September

Global oil supply estimated at 88.5 mb/d in September, an increase of 0.76 mb/d

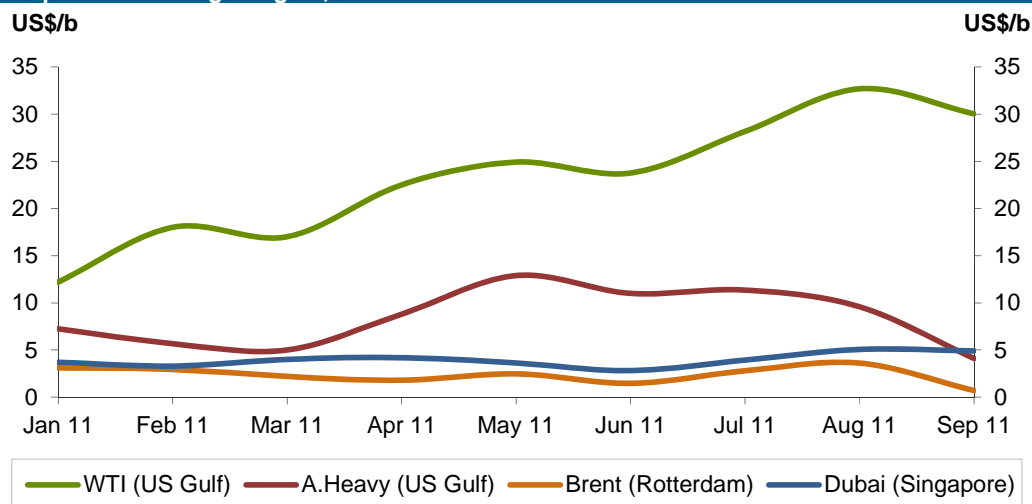
Graph 5.5: OPEC and world oil supply

Product Markets and Refinery Operations

Refinery margins declined, pushed lower by weaker demand

With the end of the driving season, gasoline and middle distillates demand continued to disappoint in the Atlantic Basin and the bearish sentiment was further fuelled by concern about economic developments and limited export opportunities.

Graph 6.1: Refining margins, 2010-2011



Weaker demand remains the overwhelming factor across all parts of the barrel in the Atlantic basin and margins have been falling since the first week of September.

The margin for WTI crude on the US Gulf Coast showed a sharp drop of \$3 to stand at \$30/b in September, although it remained healthy thanks to the relatively cheaper WTI crude. On the other hand, the margin for Arab Heavy crude on the US Gulf Coast showed a sharp drop of \$5/b.

The loss in the margin was mainly caused by the plummeting light distillate cracks because of disappointing domestic demand. Additionally, the bearish sentiment was boosted by adverse weather conditions, limiting export opportunities.

In Europe, product market sentiment turned bearish and the product cracks moved down across the barrel due to weaker domestic demand and the impact of the Euro-zone economic concerns. Additionally, bearish sentiment was fuelled by the reduction in gasoline exports to Africa, the US and the relatively lower naphtha requirements from the traditional markets in Asia.

The refinery margin for Brent crude in Rotterdam exhibited a sharp loss of almost \$3/b to drop to 70¢/b in September, the lowest level seen this year.

Asian refining margins managed to keep the ground gained last month on the back of strong light distillate demand amid a tighter market, which, along with the reduction in the Dubai price, could offset the loss in the bottom of the barrel. In Singapore, refinery margins for Dubai crude oil remained around \$5/b.

Refinery operations

Relatively cheaper crudes have allowed US refiners to continue running at higher refinery runs despite poor domestic product demand.

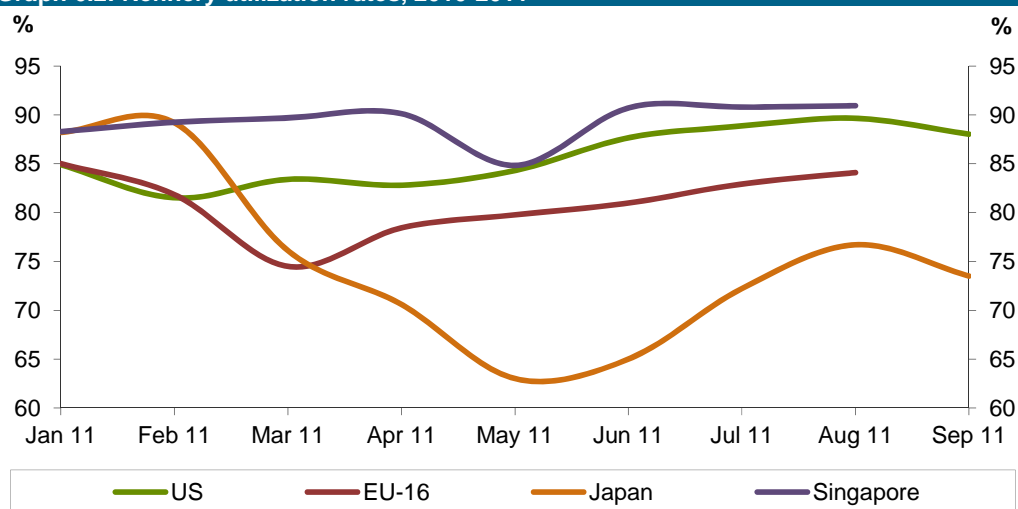
US refinery runs averaged 88% of capacity during September, 2% less than the previous month, as some refineries were affected by adverse weather conditions.

Additionally, refiners continued refiguring operations to maximize gasoil production instead of gasoline; however gasoline stocks increased during the month due to poor demand, keeping pressure on the margins, while distillate stocks showed a steady level

Despite weaker demand, US refinery runs continued at high levels

ahead of the winter season. However, both remained above the five-year average, although at lower levels than last year.

Graph 6.2: Refinery utilization rates, 2010-2011



European refiners continued to increase their throughputs after the maintenance season finished and the improvement seen in August in the refinery margins which resulted in an increase in refinery runs to around 84%, the highest level seen since January. However, the drop in the margins during September could change the trend. Asian refiners continued to moderate the high run levels seen in previous months due to maintenance. Japan has reduced throughput to around 74%, and Singapore has been affected by the Shell refinery shutdown.

US market

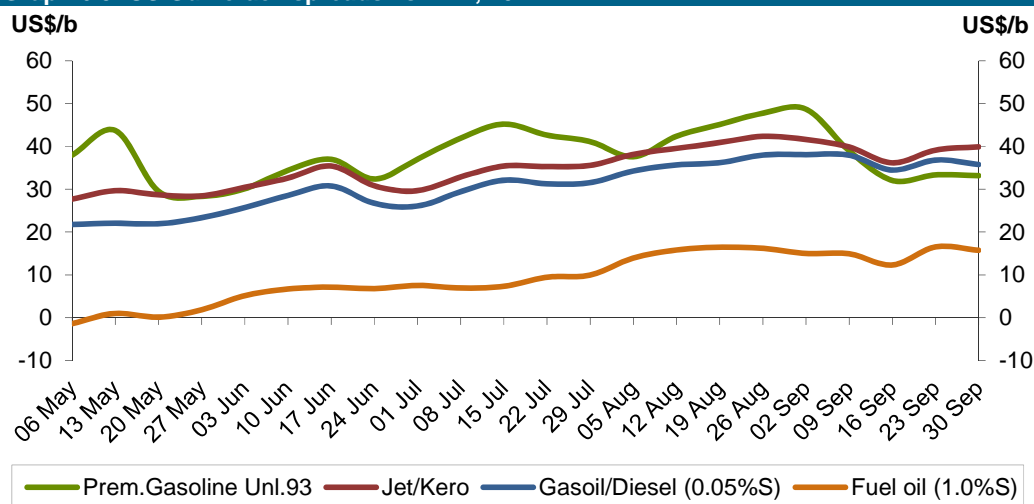
US gasoline demand decreased to 8.89 mb/d in September. This represents a drop of 237 tb/d over the previous month and a decline of 222 tb/d from the same month last year.

With the end of the summer vacation season, gasoline market sentiment worsened and the crack plummeted due to disappointing domestic demand. The bearish sentiment was furthered by adverse weather conditions limiting export opportunities, mainly to Latin America, which had been lending some support over the last months.

On the other hand, increasing stocks in September weighed on the gasoline market, pressuring gasoline margins.

The gasoline crack dropped to \$37/b, a sharp loss of \$7 from \$44/b in the previous month.

US gasoline crack plummeted in September

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

Middle distillate demand decreased to 3.78 mb/d in September, a drop of 74 tb/d from the previous month and 102 tb/d lower than the same month last year.

The middle distillate market continued steadily over the month, despite refiners maximising production to take advantage of better margins versus gasoline ahead of the winter season. The additional stock builds since mid-July came to an end in September as refinery runs were reduced, lending some support to the market and offsetting the news about the worsening economic outlook.

Additional support came from healthy demand in Latin America – specifically, Argentina, Peru and Costa Rica – and arbitrage opportunities to Europe; however export activities were partially limited by unfavourable weather conditions.

The gasoil crack on the US Gulf Coast continued to be strong and sustained last month's average of around \$36/b.

Weak domestic demand weighed on the US fuel oil market as seasonally low utility demand kept US East Coast prices under pressure. Some support came from the US Gulf Coast on demand for high sulphur fuel oil exports to Latin America, while arbitrage opportunities to Asia were limited. This situation caused the fuel oil crack to slightly decrease from a premium of \$15.5/b over WTI in August to \$14.9/b in September.

European market

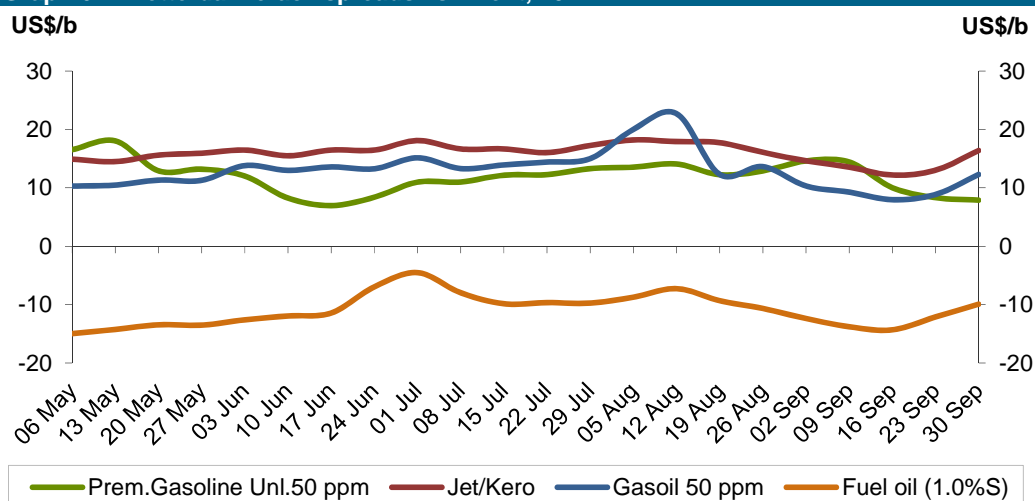
Product market sentiment in Europe turned bearish and lost the recovery seen last month as product cracks decreased across the barrel due to weaker demand on the deteriorating economic situation in the Euro-zone.

European light distillate cracks suffered a sharp drop due to poor gasoline demand and weak naphtha buying interest from petrochemical producers.

Gasoline demand has waned with the end of the summer driving season. In the case of naphtha, in addition to the impact of economic concerns, the petrochemical sector has lately preferred propane as feedstock as it has been moved to a wider counter-seasonal discount, making naphtha less attractive for ethylene cracking units.

Additionally, bearish sentiment was fuelled by the reduction in gasoline demand from Africa and the Middle East and the relatively lower naphtha requirements from the traditional markets in Asia.

European product markets hit by weaker demand

Graph 6.4: Rotterdam crack spreads vs. Brent, 2011

The gasoline crack spread against Brent crude showed a sharp loss of \$2.5 from an average of \$13.5/b in August to average \$11/b in September.

Lower Russian exports on the back of refinery maintenance contributed to a tightening of the gasoil market and continued adding to the backwardation structure of the ICE gasoil futures market. This has encouraged consumers to postpone the restocking of heating oil, despite the approaching winter season, resulting in a sharp loss in middle distillate cracks. Additionally, jet fuel demand for the aviation sector was waning as the flying season came to an end amid higher inflows to the region.

The gasoil crack spread against Brent crude at Rotterdam showed a sharp drop of \$6 in September to stand at around \$10/b.

Looking ahead, the middle distillates market will be under pressure according to the expected economic performance ahead of the winter season.

Despite the reduced flows from Russia, the European fuel oil market continued losing ground this month, due to lower domestic demand for power generation and weaker Rotterdam bunker fuels sales.

Additional pressure came from ARA fuel oil stocks standing at the highest level since 1Q10. The fuel oil crack spread against Brent showed a loss of \$3 this month to stand at minus \$12.5/b. Looking ahead, the fuel oil market will come under pressure with the end of the peak utility demand season.

Asian market

Asian light distillate cracks continued to be relatively healthy, despite increasing supply, on the back of strong regional demand amid lower stocks.

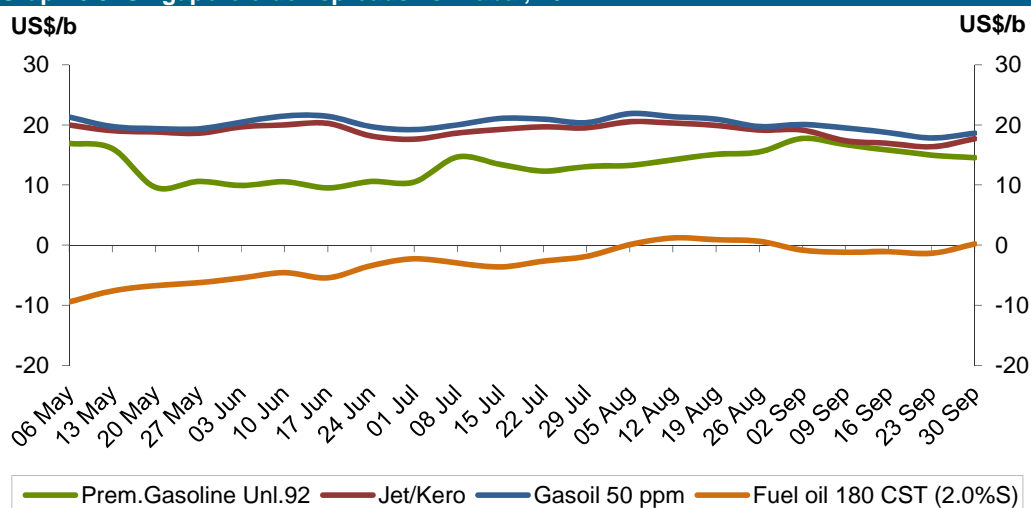
The Asian naphtha market remained steady during the month as sentiment was supported by higher demand from South Korea, limited European inflows and expectations of lower Indian exports due to maintenance peaking this month.

In the gasoline market, regional demand remained healthy, mainly from Indonesia. The strong demand was also reflected in Singapore light distillate stocks, which hit their lowest levels since 1Q09.

The gasoline crack spread against Dubai crude oil in Singapore increased by approximately \$1 to stand at around \$16/b in September, from \$15/b in the previous month.

Looking ahead, the supply situation in Asia is changing with the return of the Formosa complex, which should ease the supply balance and begin to exert pressure on the market.

Light distillates remained relatively healthy in Asia

Graph 6.5: Singapore crack spreads vs. Dubai, 2011

The gasoil crack spread in Singapore against Dubai remained relatively stable and declined on average by \$1.8 from the previous month to stand around \$19/b due to higher supplies coming from the Formosa refinery; however, the market got support from the strong regional demand, mainly from Indonesia, and expectations of increasing Chinese diesel demand as the fishing ban is coming to the end.

At the bottom of the barrel, fuel oil cracks showed a loss of \$1.7 to stand at minus 80¢/b in a bearish market, influenced by reports that Iran is expected to restart fuel oil exports after a natural gas shortage resulted in a halt in exports and the expectations of greater volumes flowing into Asia from the West.

Table 6.1: Refinery operations in selected OECD countries

	Refinery throughput, mb/d			Refinery utilization, %		
	Aug 11	Sep 11	Sep/Aug	Aug 11	Sep 11	Sep/Aug
US	15.54	15.24	-0.30	89.65	88.03	-1.62
France	1.38	-	-	74.74	-	-
Germany	1.97	-	-	81.52	-	-
Italy	1.67	-	-	71.54	-	-
UK	1.46	-	-	82.66	-	-
Euro-16	11.02	-	-	84.09	-	-
Japan	3.55	3.40	-0.15	76.70	73.50	-3.20

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

Table 6.2: Refined product prices, US\$/b

		<u>Jul 11</u>	<u>Aug 11</u>	<u>Sep 11</u>	<u>Change Sep/Aug</u>
US Gulf (Cargoes):					
Naphtha		118.79	113.25	109.64	-3.61
Premium gasoline	(unleaded 93)	139.74	130.38	120.86	-9.52
Regular gasoline	(unleaded 87)	128.52	121.55	113.99	-7.56
Jet/Kerosene		131.80	126.77	124.43	-2.34
Gasoil	(0.05% S)	126.59	122.64	121.80	-0.84
Fuel oil	(1.0% S)	105.59	101.87	100.34	-1.53
Fuel oil	(3.0% S)	100.45	97.42	97.66	0.24
Rotterdam (Barges FoB):					
Naphtha		108.42	104.01	104.10	0.09
Premium gasoline	(unleaded 10 ppm)	127.50	123.58	123.64	0.06
Premium gasoline	(unleaded 95)	124.83	120.99	121.05	0.06
Jet/Kerosene		133.61	127.58	126.83	-0.75
Gasoil/Diesel	(10 ppm)	129.86	125.79	126.27	0.48
Fuel oil	(1.0% S)	107.81	101.09	100.41	-0.68
Fuel oil	(3.5% S)	101.48	98.83	99.27	0.44
Mediterranean					
Naphtha		106.45	102.08	102.04	-0.04
Premium gasoline	(50 ppm)	123.03	119.25	119.31	0.06
Jet/Kerosene		131.54	125.83	124.89	-0.94
Gasoil/Diesel	(50 ppm)	110.80	107.32	107.73	0.41
Fuel oil	(1.0% S)	108.30	101.08	100.47	-0.61
Fuel oil	(3.5% S)	100.45	97.53	98.89	1.36
Singapore (Cargoes):					
Naphtha		105.92	103.00	103.49	0.49
Premium gasoline	(unleaded 95)	124.45	122.85	124.36	1.51
Regular gasoline	(unleaded 92)	123.38	119.75	122.06	2.31
Jet/Kerosene		129.23	124.89	123.53	-1.36
Gasoil/Diesel	(50 ppm)	129.29	125.84	125.08	-0.76
Fuel oil	(180 cst 2.0% S)	107.27	105.51	105.42	-0.09
Fuel oil	(380 cst 3.5% S)	102.96	101.08	101.23	0.15

Tanker Market

OPEC spot fixtures rose in September on increased activities

According to preliminary data, OPEC spot fixtures rose by 0.4 mb/d to stand at 11.52 mb/d in September following a decline in the previous month. The gain in fixtures registered this month is mainly supported by the increase in Asia requirements as refineries partially returned from maintenance, despite the loss of Western requirements. Compared to the previous month, Middle East to East gained 0.9 mb/d to stand at 5.71 mb/d and Middle East to West declined by 0.22 mb/d to stand at 1.67 mb/d. However, global fixtures fell 1% or 0.12 mb/d compared to a month earlier to stand at 16.21 mb/d. Compared to a year ago, global fixtures lost 0.10 mb/d and OPEC fixtures gained 0.21 mb/d.

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

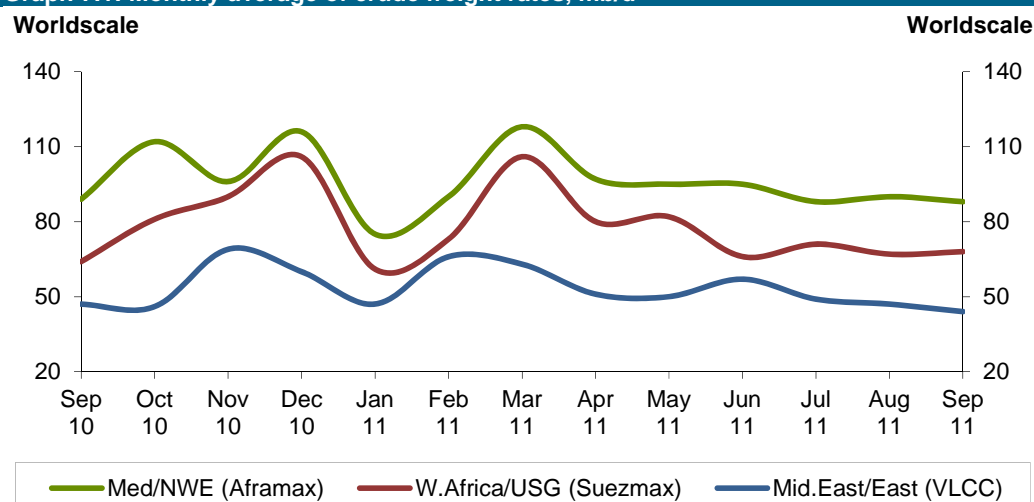
	<u>Jul 11</u>	<u>Aug 11</u>	<u>Sep 11</u>	<u>Change Sep/Aug</u>
Spot Chartering				
All areas	18.42	16.41	16.29	-0.12
OPEC	13.25	11.12	11.52	0.40
Middle East/East	6.15	4.80	5.71	0.91
Middle East/West	1.87	1.89	1.67	-0.22
Outside Middle East	5.23	4.43	4.15	-0.28
Sailings				
OPEC	22.80	22.58	22.67	0.09
Middle East	17.54	17.29	17.37	0.08
Arrivals				
North America	9.21	9.11	8.67	-0.44
Europe	11.61	11.66	12.31	0.66
Far East	8.29	8.29	8.18	-0.12
West Asia	4.66	4.49	4.68	0.19

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

According to preliminary data, OPEC sailings gained 90 tb/d to stand at 22.67 mb/d in September, mainly driven by Middle East sailings. However, compared to the same month last year, OPEC sailings lost 0.53 mb/d in September.

Initial estimates indicate that European and West Asian arrivals gained 0.66 mb/d and 0.19 mb/d respectively to stand at 12.31 mb/d and 4.68 mb/d. US and Far East arrivals decreased by 0.44 mb/d and 0.12 mb/d to stand at 8.67 mb/d and 8.18 mb/d. Lower seasonal demand was partially behind the decline in US arrivals, while lower Japanese imports were the main factor for the Far East decline, due to better weather conditions and lower requirements.

Graph 7.1: Monthly average of crude freight rates, mb/d



Crude oil tanker spot freight rates declined on all reported routes, mainly on increased tonnage supply

In September, the **spot tanker market** continued to be under pressure in all sectors. Increasing tonnage supply on the back of new tanker deliveries was behind the fundamental weakness of tanker rates. Lower seasonal demand in the West of Suez and declining floating storage added further pressure in September, despite reasonable liftings in East of Suez as refineries returned from maintenance. In the dirty market, VLCC spot freight rates declined 5%, Suezmax decreased 3% and Aframax dropped 8% in September compared to last month. Following the same pattern, East of Suez edged down 3% and West of Suez declined 2% in the clean tanker segment on tonnage availability, limited requirements as well as closing arbitrage. Compared to the same period last year, September VLCC, Suezmax and Aframax average rates were down 10%, 2% and 3% respectively in nominal terms. However, East of Suez and West of Suez clean tanker rates gained 4% and 8% respectively, during the same period.

Table 7.2: Spot tanker crude freight rates, Worldscale

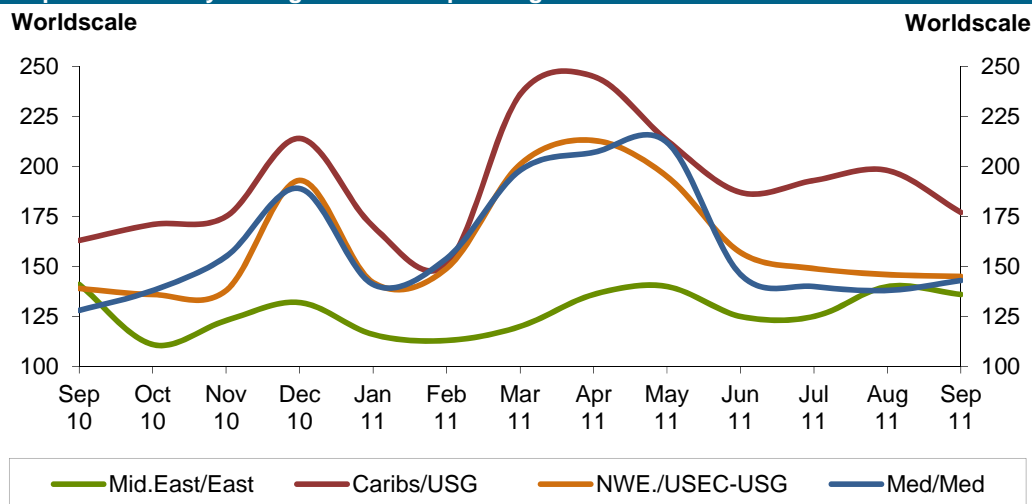
	Size 1,000 DWT	Jul 11	Aug 11	Sep 11	Change Sep/Aug
Crude					
Middle East/East	230-280	49	47	44	-3
Middle East/West	270-285	39	38	36	-2
West Africa/East	260	47	44	43	-1
West Africa/US Gulf Coast	130-135	71	67	68	1
NW Europe/USEC-USGC	130-135	61	59	54	-5
Indonesia/US West Coast	80-85	98	98	92	-6
Caribbean/US East Coast	80-85	102	114	92	-22
Mediterranean/Mediterranean	80-85	87	89	87	-2
Mediterranean/North-West Europe	80-85	88	90	88	-2

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

In the **VLCC** sector, spot freight rates declined for the seventh consecutive month to close at WS41 points, down 5% compared to the previous month. Both Middle East to East and Middle East to West spot freight rates decreased by 6% and 5% respectively on fresh tonnage supply from new vessel deliveries, despite a reasonable liftings gain towards Asia. Lower US crude imports from the Middle East due to seasonal demand added further tonnage supply and further pressured West of Suez spot freight rates. The decline in both Middle East to East and Middle East to West spot freight rates added pressure on West Africa to East spot freight rates, which closed down 2% in September compared to last month. The weaker VLCC market was driven by fleet deliveries, declining floating storage and lower seasonal demand that left many ship owners to operate below break-even cost and consider laying-up vessels.

The **Suezmax** sector followed the same trend as the VLCC sector and declined 3% in September compared to the previous month. Continuing fresh tonnage supply, spillover effects from the VLCC sector, as well as the continuing problem of the Buzzard field production in North Sea all influenced the Suezmax sector and rates declined in response. These factors weighted mainly on Northwest Europe (NWE)/US Gulf Coast spot freight that dropped 9% in September compared to the previous month. However, West Africa/US Gulf Coast spot freight rates edged up 2% as some refineries returned from maintenance. Compared to the same month last year, both NWE /US Gulf Coast and West Africa/US Gulf Coast spot freight rates showed the same pattern in September with the latter increasing 6% and the former decreasing 9%.

The **Aframax** segment in the dirty market followed the same path as VLCC and Suezmax. Average Aframax spot freight rates lost 3% in September compared to the previous month and remained flat compared to the same month last year. East of Suez Aframax from Indonesia to East spot freight rates declined by 6%, driven by limited requirements and tonnage availability. In West of Suez, Caribbean/US East Coast spot freight rates lost 19% compared to last month, the lowest level in more than two years, mainly on lower trades, higher tonnage supply and bad weather conditions. Mediterranean/Mediterranean and Mediterranean/ NWE Aframax spot freight rates dropped 2% each. The decline on the Mediterranean market was mainly attributed to lower North African and Mediterranean tonnage requirements.

Graph 7.2: Monthly averages of clean spot freight rates

Clean spot freight rates fell on high tonnage and closed arbitrage

Clean tanker market sentiment was bearish in September after the small gain registered last month as spot freight rates declined 3% in September on average from the previous month.

East of Suez clean spot freight rates lost 3% in September compared to the previous month to stand at WS145 points. In East of Suez, both Middle East to East and Singapore to East declined by 3% each on higher tonnage availability and lower tonnage demand.

In West of Suez, Caribbean/US Gulf Coast and NWE/USEC – USGC clean spot freight rates declined by 10% and 1% respectively while Mediterranean/Mediterranean gained 4% and Mediterranean/ NWE gained 1.5% compared to last month. Lower imports of gasoline in Latin America is behind the drop of spot freights from Caribbean/US Gulf Coast while closed arbitrage and lower transatlantic trades pressured NWE/USEC–USGC rates to decline. The gains in clean spot freight rates in both Mediterranean/Mediterranean and Mediterranean/NWE routes were supported by higher product demand in North and West Africa as well as higher tonnage demand from the Black Sea.

Table 7.3: Spot tanker product freight rates, Worldscale

	Size 1,000 DWT	Jul 11	Aug 11	Sep 11	Change Sep/Aug
Products					
Middle East/East	30-35	125	140	136	-4
Singapore/East	30-35	147	158	153	-5
Caribbean/US Gulf Coast	38-40	193	198	177	-21
NW Europe/USEC-USGC	33-37	149	146	145	-1
Mediterranean/Mediterranean	30-35	140	138	143	5
Mediterranean/North-West Europe	30-35	150	148	150	2

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

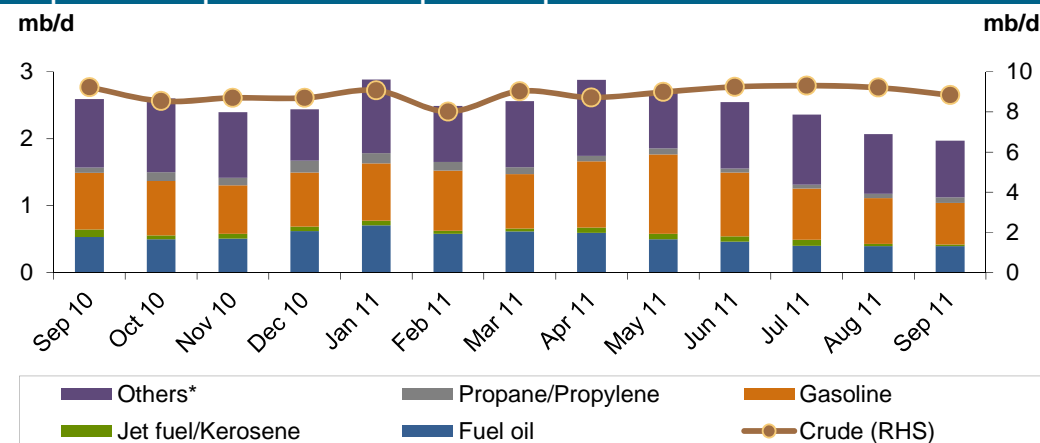
Oil Trade

US crude oil imports declined in August to 8.8 mb/d

US

Preliminary data indicates that US crude oil imports declined by 401 tb/d or 4.4% to average more than 8.8 mb/d in September. Imports in September were 423 tb/d below last year's level, stood at 9.2 mb/d. Similarly, year-to-date imports are 463 tb/d lower than those of last year. They averaged 8.9 mb/d between January and September, compared to 9.4 mb/d for the same period a year ago, implying a 4.9% decline.

Graph 8.1: US imports of crude and petroleum products

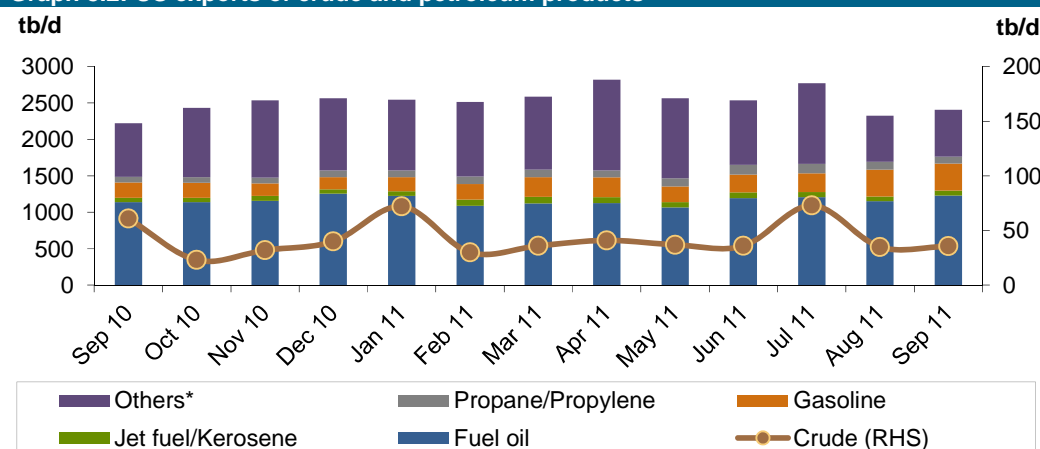


*Others: Contains natural gas liquids, liquefied refinery gases (LRG's), other liquids and all finished petroleum products except gasoline, jet fuel/kerosene, fuel oil and propane/propylene

Product imports dropped steadily since April this year and have currently arrived at a level of 2.0 mb/d. Compared to the month before, the decline is around 63 tb/d or 3.04%. For the y-o-y data, a sharp drop of around 588 tb/d or 22.7% in September 2011 is registered. Gasoline and jet fuel were the main contributors to the decline in September, which fell to 104.2 tb/d or dropped by 14.8% and 18.5 tb/d or 49.3% respectively. On the other hand, product exports rose slightly in September to 2.45 mb/d, nearly by 89 tb/d or 3.78% m-o-m and 7.3% or 165.6 tb/d y-o-y. Fuel oil and jet fuel increased by 4.2% and 11.9% respectively.

As a result, **US net oil imports declined in September to 8.3 mb/d, down 554 tb/d or nearly 6.23% from the previous month.** However, net oil imports remained almost 12.1% below the year-ago level.

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

The US imported around 4.6 mb/d crude oil from OPEC Members in July, a 15 tb/d or 0.3% increase m-o-m, representing a share of 49.3%. Canada remained the main supplier with 2.19 mb/d, followed by Saudi Arabia with 1.3 mb/d, then Mexico with 1.1 mb/d, Venezuela with 0.88 mb/d and lastly Nigeria with 0.82 mb/d.

On the product side, US imports from OPEC Members rose by 30 tb/d or 10% to average 339 tb/d in July. OPEC holds a share of 14.4% in total US product imports. Canada and Russia remained the main suppliers, accounting for 18.6% and 15.3%, respectively, followed by the Virgin Islands with 8.1% and UK with 6.2%.

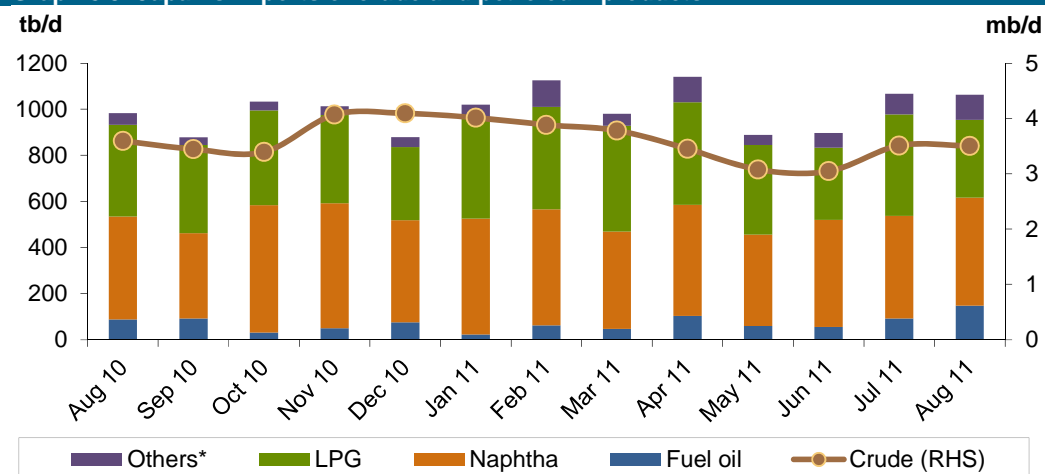
Table 8.1: US crude and product net imports, tb/d

	<u>Jul 11</u>	<u>Aug 11</u>	<u>Sep 11</u>	<u>Change Sep/Aug</u>
Crude oil	9,237	9,173	8,771	-402
Total products	-488	-292	-444	196
Total crude and products	8,749	8,881	8,327	132

Japan

Japan's crude oil imports continued to stabilize in August after a sustained decline in March-June due to the tragic events early in the year. The trend was reversed in July, rising by 15.2% m-o-m; while in August the imports stood at 3.5 mb/d representing only a slight decline of 5 tb/d or 0.2% compared to July's level. However, y-o-y July's level represents a decline of 90 tb/d or 2.5%. The reconstruction efforts after the March earthquake attribute to the stabilization of imports, where refiners are coming back to meet the increased demand for products on the one hand, and direct burning crude for power generation from Japanese utilities which compensate for nuclear power plant shutdowns, on the other hand.

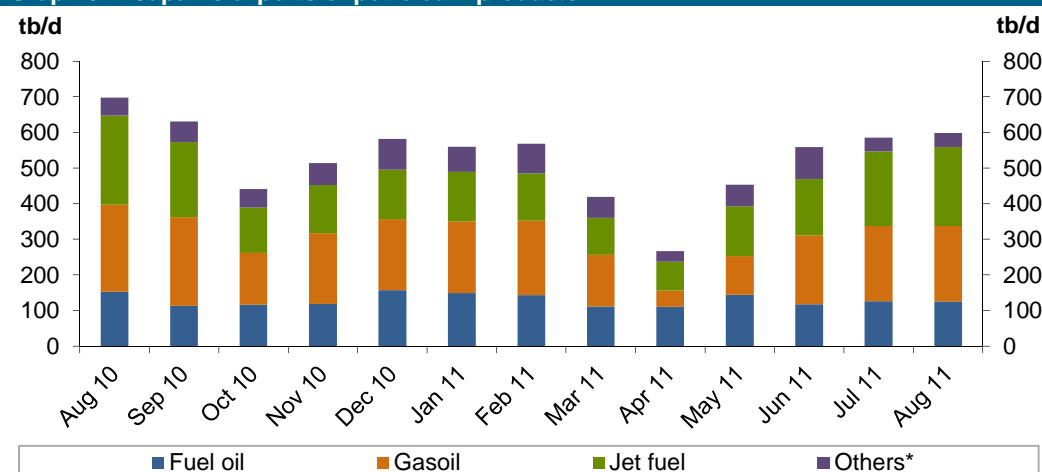
Graph 8.3: Japan's imports of crude and petroleum products



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

Product imports, including LPG, edged up to 1.07 mb/d, which represents a slight decrease of 0.4% or 4 tb/d compared to the month before and 8.2% or 81 tb/d y-o-y. Product exports, including LPG, increased slightly for the fourth consecutive month to 14 tb/d, averaging 0.60 mb/d, the highest since February 2011.

Japan crude oil imports stable in August around 3.5 mb/d

Graph 8.4: Japan's exports of petroleum products

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

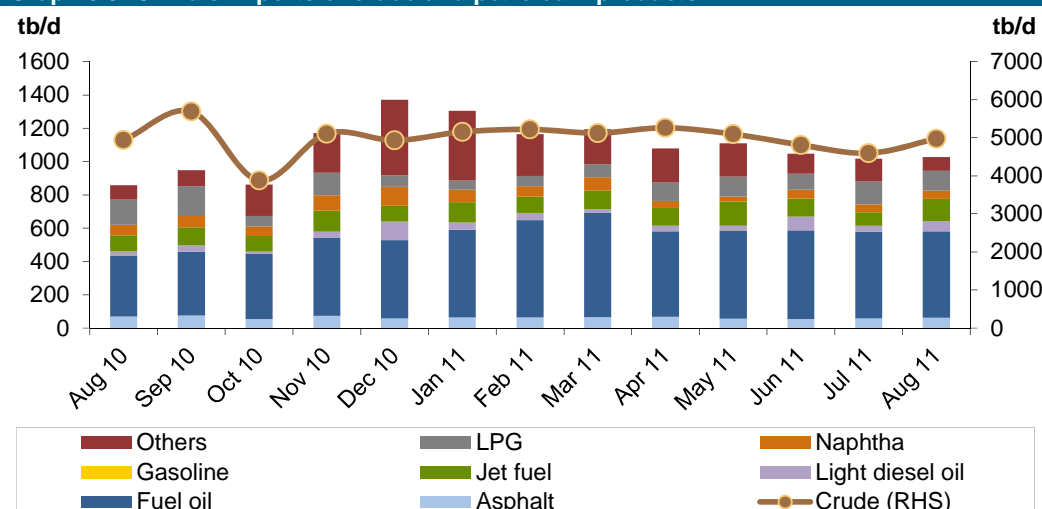
As a result, **Japan's net oil imports decreased slightly to 3.9 mb/d, declining 23 tb/d or 0.6% from July, but increased 89 tb/d or 2.3% on a y-o-y basis.**

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

	<u>Jun 11</u>	<u>Jul 11</u>	<u>Aug 11</u>	<u>Change Aug/Jul</u>
Crude oil	3,046	3,510	3,504	-5
Total products	338	482	464	-17
Total crude and products	3,384	3,992	3,969	-23

China

After three months of consecutive decline by 381 tb/d or 8.3%, China's crude oil imports rebounded in August to 4.97 mb/d by 8.3%, moving slightly below the 5 mb/d benchmark. In a y-o-y comparison, August shows a slight increase of 0.7% or 34 tb/d. The year-to-date comparison statistic shows an increase of 266 tb/d to the level of 5.03 mb/d by 5.6%. Similarly, product imports were up to 1.03 mb/d by 10 tb/d or 0.9% m-o-m, registering their first rise since the decline in March. The rebound could be attributed to stock builds and growing product demand concerning increased car usage, raising private car ownership and the ending of the fishing moratorium. China's crude and product imports showed a total increase of 391 tb/d or 7.0% and an increase of 202 tb/d or 3.5% compared with a year earlier respectively.

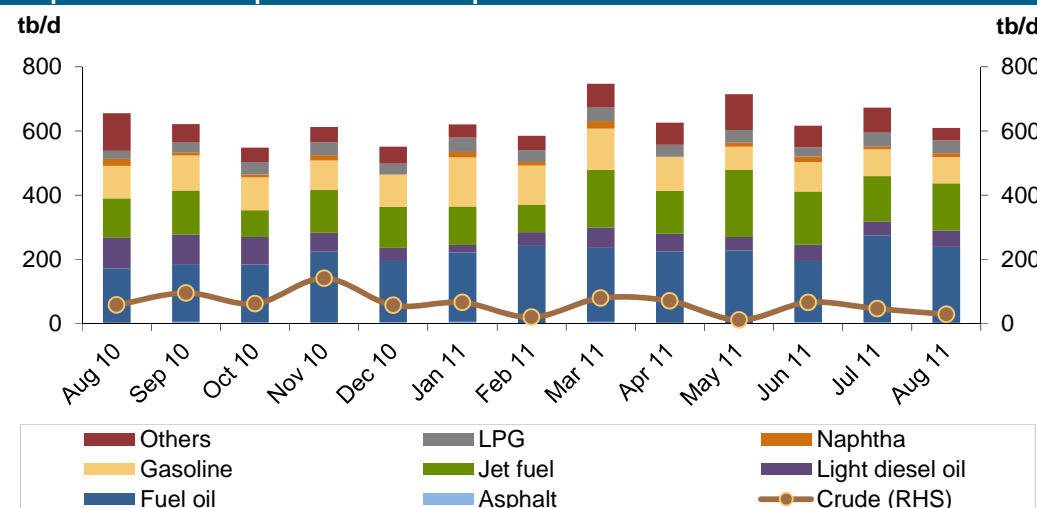
Graph 8.5: China's imports of crude and petroleum products

China's crude oil imports rebounded in August by 8.3% to 4.97 mb/d after three months of consecutive decline

Despite the recent decline, China's crude oil imports over the first eight months of 2011 registered an increase of 266 tb/d or 5.6% to stand at 5.0 mb/d. Similarly, products averaged 1.1 mb/d in the first eight months of 2011, 153 tb/d or 15.9% more than a year ago, implying that the combined growth in total oil is 420 tb/d for the first eight months of 2011, compared to last year's level.

Chinese crude oil exports declined by 17 tb/d to 29 tb/d or 37.3%. Product exports declined as well by 140 tb/d or 20.9% to 0.53 mb/d. Crude oil exports over the first eight months were 49 tb/d or 3.6% above last year's level and products stood at 640 tb/d or 4.1% slightly below the last year's level.

Graph 8.6: China's exports of crude and products



As a result, **China's total net oil imports increased further by 549 tb/d or 11.2% from the previous month to stand at 5.4 mb/d.** This was the lowest since the 4.1 mb/d last October.

Looking at the first eight months of China's net oil imports in 2011, the total net oil imports rose by 445 tb/d or 8.9% to a level of 5.4 mb/d.

Top suppliers to the Chinese market were Saudi Arabia with 0.93 mb/d, followed by Angola 0.72 mb/d, Kazakhstan 0.65 mb/d, Iran 0.46 mb/d and lastly Oman with 0.44 mb/d.

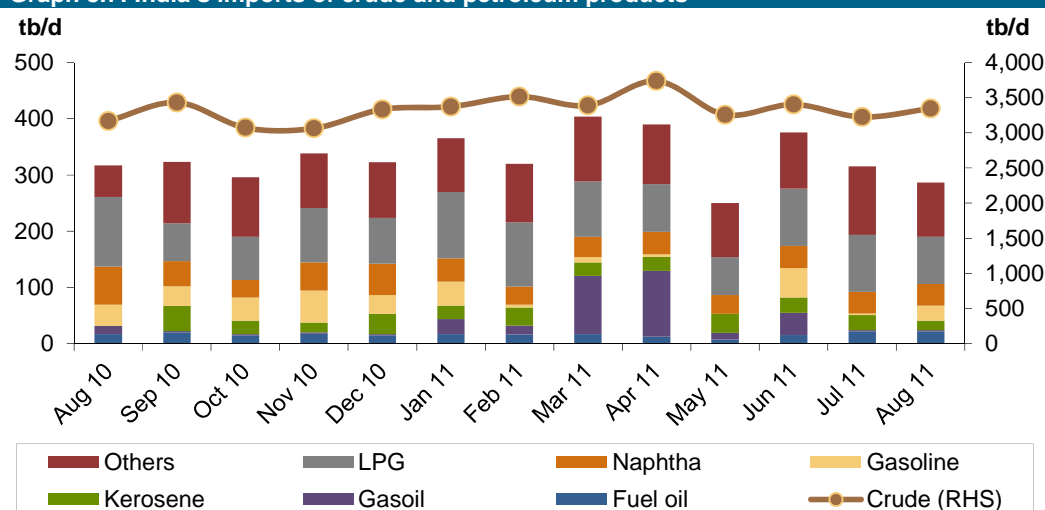
Table 8.3: China's crude and product net imports, tb/d

	<u>Jun 11</u>	<u>Jul 11</u>	<u>Aug 11</u>	<u>Change Aug/Jul</u>
Crude oil	4,747	4,548	4,947	398
Total products	431	343	494	150
Total crude and products	5,178	4,892	5,440	549

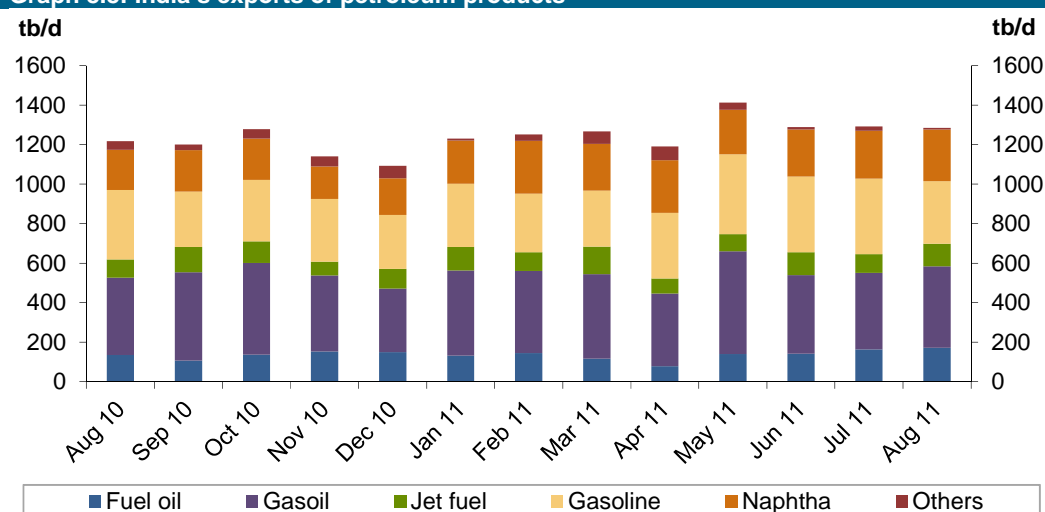
India

India's crude oil imports increased 121 tb/d or 3.7% in August, partially offsetting the decrease of the month before to stand at a level of 3.35 mb/d. The temporary retrieve was caused by crimped fuel demand due to monsoon rains. The increase in August was supported by the Indian refinery sector, which currently operates at the same rate of growth compared to the year before. However, maintenance work in some refineries has been announced for September, which will result in reduced imports of crude. India's crude oil imports in the firsts eight months of 2011 were at 3.40 mb/d, 277 tb/d or 8.8% higher than in the same period of the previous year.

India's crude oil imports increased 3.7% in August to 3.35 mb/d

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

Product imports declined for three consecutive months up to August by 9.2% or 30 tb/d to an average of around 287 tb/d. Despite the sharp increase of gasoline imports in August to 26.5 tb/d from 3.13 tb/d in July, the overall descent in product imports continued in August. However, India's product imports remained above 250 tb/d, the lowest level from May in 2011. Compared to a year ago, July's product imports were 10% lower this year. Diesel and naphtha were the main contributors to the decrease of around 84% and 43% respectively. Each fuel declined from July levels of 14.4 tb/d and 67.6 tb/d to a level of 2.4 tb/d and 38.49 tb/d in August. Imports of LPG and kerosene declined by 16.7% and 36.4% each from the month before to a level of 84.2 tb/d and 16.8 tb/d, respectively. Fuel oil stood steady at 21.7 tb/d in August.

Graph 8.8: India's exports of petroleum products

India's product imports in the first eight months were at 335 tb/d, which stood steady compared to the same period of the previous year.

On the export side, products marginally increased by 7 tb/d or 0.6% compared to the month before to stand at 1.28 mb/d. The increase is slowly offsetting the sharp drop from this year's high level of 1.43 mb/d in May. On a y-o-y basis, product exports increased 5.4% in August 2011.

As a result, **India's net oil imports decreased 99 tb/d or 4.4% to average 2.35 mb/d but remained above this year's lowest level in May of 2.10 mb/d.**

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

	<u>Jun 11</u>	<u>Jul 11</u>	<u>Aug 11</u>	Change Aug/Jul
Crude oil	3,404	3,225	3,346	121
Total products	-914	-976	-998	-22
Total crude and products	2,489	2,249	2,348	99

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

FSU exports rose in August 3.5% to 6.3 mb/d, products continued to fall for the third consecutive month by 7.1% to 2.6 mb/d

FSU

Total FSU crude exports rose in August by 210 tb/d or 3.5% m-o-m. This represents growing exports from Kazakhstan and Azerbaijan, which were reduced in July due to production and logistical problems. Russian exports were relatively steady compared to July 2011. Overall pipeline exports through the Transneft system fell by 73 tb/d. This came as a result of a drop in transit after Kazakh crude deliveries were diverted into the CPC system and rail transportation.

Over the same period, pipeline exports to China were down by 34 tb/d to the level of 279 tb/d, while the exports through Russia's Pacific Kozmino terminal rose by 24 tb/d to the level of 332 tb/d. Exports at the Baltic port Primorsk were down by 23 tb/d to 1.29 mb/d, while exports from Novorossiysk on the Black Sea dipped to 939 tb/d. Supplies to Europe through the Druzhba system fell by 31 tb/d to 1.14mb/d, reflecting the export drop to Slovakia's 115 tb/d Bratislava refinery. Exports to China along the Kenkiyak-Alashankou pipeline moderately rose by 4 tb/d to 242 tb/d. Kazakh producers increased exports through the CPC system and by rail as well, following strikes and maintenance. CPC Blend exports were up by 5.5% or 36 tb/d to a level of 694 tb/d.

Exports of Sakhalin grades in August were steady compared to the previous month at 253 tb/d. Exports from Varandey terminal on the Barent sea continued to slide, caused by the dwindling output from its Naryanmarneftegaz joint venture with ConocoPhillips to 68 tb/d compared to 81 tb/d in July.

Overall product exports from the FSU in August fell by 7.1% or 194 tb/d to a level of 2.56 mb/d due to the start of refinery maintenance programmes. Exports of fuel oil fell by nearly 7.5% or 106 tb/d to the level of 1.3 mb/d as refineries processed more of the straight-run grades to boost clean product output.

Jet fuel exports were down by 16% or 3 tb/d from July at the current level of 16.0 tb/d, reflecting the domestic shortage. Russian exports of VGO dropped more than 30% or 71 tb/d to 153 tb/d since the domestic refiners continued processing more of the product in a bid to increase gasoline output.

Naphtha exports fell by 72 tb/d or 24% to a level of 231 tb/d m-o-m, which reflects the fact that the export duty rate introduced for the product is still running at 90%.

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

	<u>2009</u>	<u>2010</u>	<u>4Q10</u>	<u>1Q11</u>	<u>2Q11</u>	<u>Jul 11</u>	<u>Aug 11*</u>
Crude							
Russian pipeline							
Black Sea	1,201	994	933	970	886	949	939
Baltic	1,577	1,564	1,569	1,445	1,534	1,311	1,288
Druzhba	1,112	1,126	1,136	1,140	1,118	1,174	1,143
Kozmino	0	309	336	294	315	308	332
Total	3,922	4,005	4,018	4,155	4,157	4,055	3,982
Other routes							
Russian rail	280	330	280	197	145	24	180
Russian-Far East	283	276	313	299	286	252	253
Kazakh rail	18	1	0	0	128	13	170
Vadandey	155	152	127	111	92	81	68
Kaliningrad	0	24	24	23	21	19	31
CPC	736	743	749	737	671	658	694
BTC	805	775	796	710	761	690	696
Kenkiyak-Alashankou	157	204	204	230	239	238	242
Caspian	281	239	197	183	141	66	147
Total crude exports	6,653	6,750	6,759	6,646	6,525	6,083	6,293
Products							
Gasoline	221	152	124	205	220	87	111
Naphtha	269	275	245	285	302	303	231
Jet	47	20	15	7	17	19	16
Gasoil	948	878	824	896	793	714	749
Fuel oil	1,116	1,235	1,225	1,178	1,448	1,404	1,298
VGO	235	242	218	179	294	224	153
Total	2,837	2,801	2,651	2,750	3,074	2,750	2,556
Total oil exports	9,490	9,551	9,410	9,396	9,600	8,833	8,849

* 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 fell in September, driven by a decline in crude

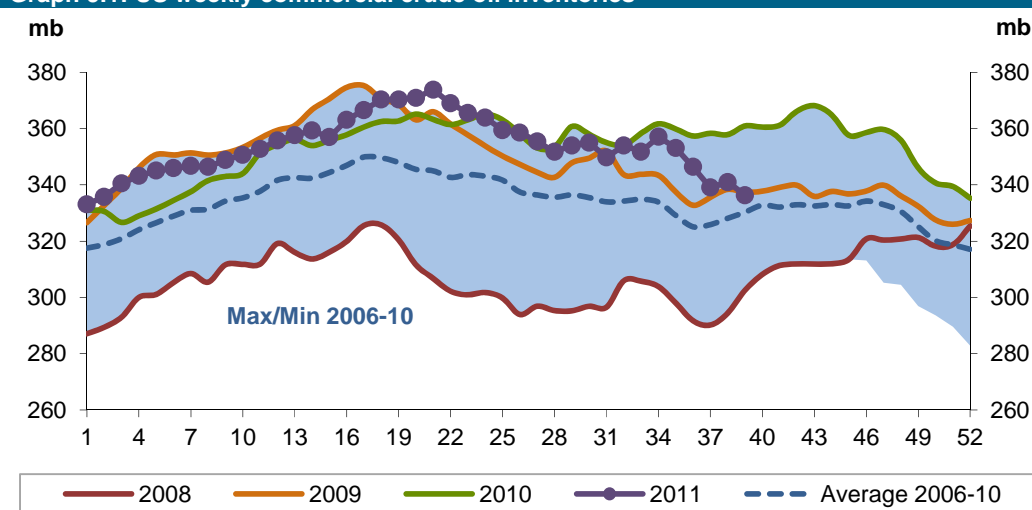
US

In September, US commercial oil inventories fell for the second consecutive month, declining by 13.4 mb. At 1,074.6 mb, US commercial oil stocks are at the lowest level since April 2011. This drop was attributed solely to crude, which fell by 16.8 mb, while product inventories rose by 3.4 mb. The decline in total US commercial oil inventories widened the deficit with a year ago to 55.7 mb or 4.9% from 3.8% a month earlier; however, they were broadly in line with the five-year average.

US commercial crude stocks fell sharply in September, reversing the build seen in the previous month to stand at 336.3 mb, the lowest level since the end of last year. Despite this draw, US commercial crude oil stocks still indicated a surplus of 7.7 mb or 2.3% with the five-year average, but stood 23.8 mb or 6.6% below a year-ago. The draw came mainly from the decline in crude imports which fell by around 0.4 mb/d in September, compared with the previous month. At around 8.8 mb/d, US crude oil imports showed a decline of around 0.4 mb/d compared to the same period last year. It should be highlighted that during the week ending 30 September, US crude oil imports plunged by one million barrels following the seasonal pattern. The fall in US crude commercial stocks came despite lower crude runs which declined by 340,000 b/d, averaging 15.1 mb/d. This corresponds to a refinery operation rate of 87.7%, some 1.7 percentage points (pp) lower than in the previous month, but 1.6 pp higher than the same month last year. Cushing stocks continued their decline in September, falling by nearly 2.6 mb to end the month at 30.1 mb, which should lend some support to the Nymex WTI crude price.

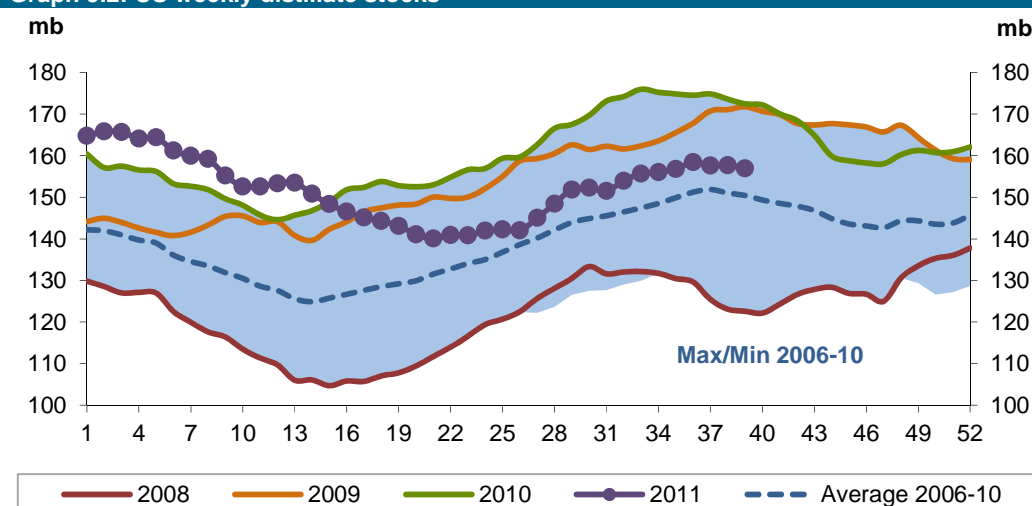
During the first week of September, nearly all the 30.6 mb of US SPR was released as part of the IEA coordinated release of strategic reserve. Currently, US SPR stands at 695.9 mb.

Graph 9.1: US weekly commercial crude oil inventories



In contrast to the decline in US commercial crude oil stocks, product stocks rose by 3.4 mb to end the month at 738.3 mb, the second highest level since the end of last year. The build in US product stocks in September came on the back of lower demand reflecting a weak US economy. Total product demand in September averaged just under 19.0 mb/d, down by almost 400,000 b/d or 2.1% from the previous month and 220,000 b/d or 1.3% less than the same period last year. Despite this build, US product inventories remained at 31.8 mb or 4.1% below a year ago at the same period and 8.4 mb or 1.1% less than the five-year average.

Graph 9.2: US weekly distillate stocks



Within **products**, the picture was mixed. Gasoline, jet fuel and middle distillates experienced a build of 4.9 mb, 2.5 mb and 0.1 mb respectively, while residual fuel and other unfinished product stocks declined by 4.0 mb and 3.9 mb respectively. At 213.7 mb, gasoline stocks reversed the stock-draw incurred last month, widening the surplus with the five-year average to 3.0% from 1.6% a month earlier. However, the deficit with a year ago remained at 5.6 mb or 2.6%. The build in gasoline stocks came on the back of lower demand, which declined by around 200,000 b/d to average 8.9 mb/d, down 1.7% from the same period last year. The decline in gasoline production has limited the build in gasoline stocks. In fact, US gasoline production fell by about 100,000 b/d to average 9.2 mb/d. Overall, the gasoline market is expected to remain quiet, as the seasonal transition continues with the focus switching to the heating oil market. Jet fuel oil stocks also increased by 2.5 mb to end the month at 46.4 mb, the highest level since September 2010. Jet fuel stocks are almost in line with a year ago, while they indicated a surplus of 3.3 mb or 7.6% with the seasonal norm. Distillate stocks saw a slight build, reversing the stock-draw of the last month to end the month of September at 156.8 mb, the highest level since the beginning of this year. Distillate stocks stood at 9.8 mb or 5.9% below a year ago, remaining at 6.8 mb or 4.5% above the five-year average. Distillate markets are slowly gaining strength, with production rising to 4.6 mb/d, an increase of 270,000 b/d over the same period last year. Domestic demand showed some improvement relative to recent levels, rising to 4.1 mb/d during the week ending 30 September. Residual fuel oil stocks decreased by 4.0 mb, after almost three months of negligible movement and ending the month at 33.6 mb. At this level, residual stocks stood at 6.2 mb or 15.6% below last year and 5.3 mb or 13.6% less than the seasonal norm.

Table 9.1: US onland commercial petroleum stocks, mb

	<u>Jul 11</u>	<u>Aug 11</u>	<u>Sep 11</u>	<u>Change</u> <u>Sep 11/Aug 11</u>	<u>Sep 10</u>
Crude oil	348.1	353.1	336.3	-16.8	362.8
Gasoline	216.8	208.8	213.7	4.9	219.3
Distillate fuel	158.1	156.8	156.9	0.1	166.7
Residual fuel oil	37.4	37.6	33.6	-4.0	40.1
Jet fuel	44.4	43.9	46.4	2.5	46.8
Total	1101.8	1088.0	1074.6	-13.4	1134.7
SPR	718.2	696.9	696.0	-0.9	726.5

* Latest available data at time of report's release

Source: US Department of Energy's Energy Information Administration

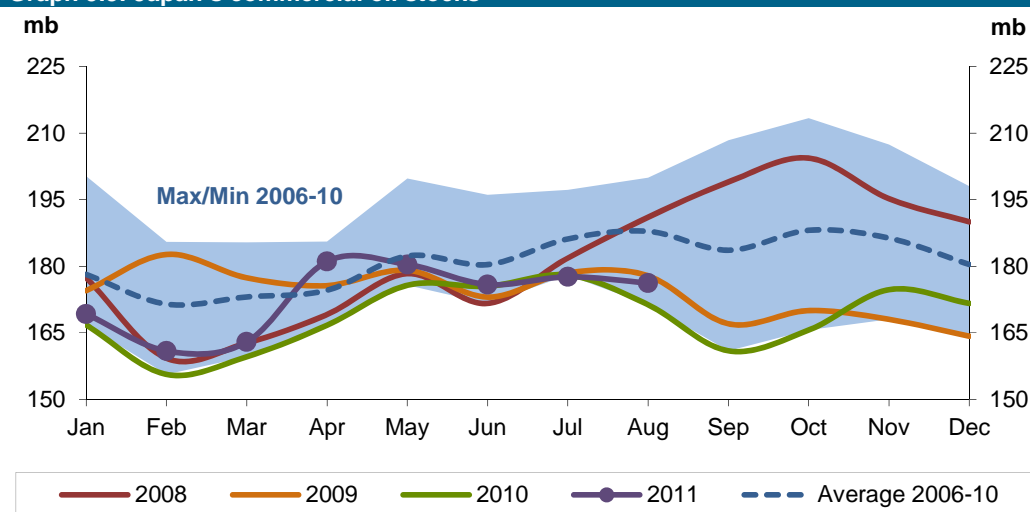
In August, Japanese stocks reversed the build of the last month and fell by 1.4 mb

Japan

In August, commercial oil stocks in Japan reversed the build experienced last month and fell by 1.4 mb to stand at 176.2 mb. At this level, Japanese commercial oil stocks stood at 4.6 mb or 2.7% above a year ago over the same period, but remained at 11.7 mb or 6.2% below the five-year average. This stock draw was attributed to the decline of 6.9 mb in crude, while product stocks abated this drop, rising by 5.5 mb.

Japanese commercial crude oil stocks also erased last month's build, falling sharply by nearly 7.0 mb to end the month at 97.5 mb, the lowest level since February 2011. Despite this stock draw, crude commercial oil stocks in Japan remained in line with the previous year during the same month, but showed a deficit of 5.4 mb or 4.3% with the five-year average. The draw in crude commercial oil stocks in August came from lower crude oil imports as they decreased by 0.2% to stand at 3.5 mb/d. Crude oil imports still remained 2.5% less than a year ago. Higher crude throughput also contributed to the decline in crude oil inventories. Indeed, crude throughput has increased by more than 200,000 b/d to reach 3.55 mb/d, but still remained 5.0% below last year. It is worth noting that direct crude burning continued the upward trend, increasing in August by more than 26%, reflecting efforts by the country to outcome the shortage in nuclear output.

Graph 9.3: Japan's commercial oil stocks



In contrast to the decline in crude oil stocks, **total product inventories** rose for the second consecutive month to stand at 78.7 mb, the highest level since September 2009. With this build, the surplus with a year ago has widened to 5.9% from 1.8% a month earlier; however, the deficit with the five-year average remained at 11.7 mb or 6.2%. The build in Japanese total products in August could mainly be attributed to the increase in refinery output which rose by almost 240,000 b/d or 7.5% to average 3.4 mb/d. However, the build in oil product stocks came despite higher domestic sales as they increased by around 160,000 b/d or 5.1%, averaging 3.31 mb/d. Japan's total oil products sales in August rose also versus a year ago by 0.9% and marks the first year-on-year climb since the March quake and tsunami disrupted refinery operations and damped economic activity. The increase in domestic oil sales was supported by growing demand for oil for power generation. This recovery in oil sales was in line with the improvement in Japanese factory activity which rose by 0.8% in August. With the exception of naphtha, which remained unchanged, all products saw a build with the bulk of the gain coming from distillate stocks, which jumped by 4.4 mb following the build of 1.1 mb last month. At 37.6 mb, distillate stocks stood at 4.7 mb or 14.4% above a year ago at the same time, while, remaining 2.8 mb or 6.9% below the five-year average.

Within the components of distillates, all the products saw a build with kerosene stocks rising by 16.6% followed by gasoil which rose by 12.2%, while jet fuel inventories showed the lowest build, increasing by 4.7%. The build in kerosene stocks came on the back of lower domestic sales which decreased by 7.5%. Higher kerosene output by more than 11% also supported the build in inventories. Higher output, which increased by almost 6%, combined with a fall of 5% in domestic sales was behind the build in

gasoil inventories. However, the build in jet fuel stocks was solely attributed to higher output, as they went up by 20% offsetting the increase in domestic sales. Residual fuel stocks also rose by 0.7 mb to end the month at 17.0 mb, indicating a surplus of 1.8 mb or 11.6% with a year ago, but they continued to show a deficit of 2.1 mb or 11.2% with their five-year average. Within the components of fuel oil, fuel oil B.C inventories saw a build of 4.6% followed by a build of 3.7% in fuel oil A. The build in fuel oil B.C came on the back of higher imports as they doubled in August from the previous month and increased by 22.2% from last year. Higher production, which increased by almost 2.0%, also contributed to this build. This build came despite the increase in sales of B.C type fuel oil, used mainly for power generation by utilities and as transport fuel for large vessels. The build in fuel oil A inventories came on the back of disappointing domestic sales as they declined by 5.6% combined with a 2.8% increase in production.

Gasoline stocks rose slightly by 0.5 mb for the second consecutive month to end August at 13.2 mb and remained 3.4% above a year ago and 1.3% higher than the seasonal norm. This build came on the back of higher imports, which increased by almost half, combined with healthy gasoline output which rose by 6.5%. This build came despite an improvement in gasoline sales. Naphtha stocks remained almost at the same level from the previous month to stand at 10.9 mb, indicating a deficit of 2.5% with a year ago over the same period.

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

	<u>Jun 11</u>	<u>Jul 11</u>	<u>Aug 11</u>	<u>Change</u> <u>Aug 11/Jul 11</u>	<u>Aug 10</u>
Crude oil	103.3	104.4	97.5	-6.9	97.2
Gasoline	12.6	12.7	13.2	0.5	12.8
Naphtha	10.9	10.9	10.9	0.0	13.4
Middle distillates	32.1	33.2	37.6	4.4	32.9
Residual fuel oil	16.9	16.3	17.0	0.7	15.2
Total products	72.5	73.2	78.7	5.5	74.3
Total**	175.9	177.6	176.2	-1.4	171.5

* At end of month

** Includes crude oil and main products only

Source: METI, Japan

Singapore and Amsterdam-Rotterdam-Antwerp (ARA)

At the end of August, **product stocks in Singapore** continued their downward trend for the second consecutive month, but the drop was smaller than in July, to end the month at 43.58 mb. With this draw, product stocks remained at 4.5 mb or 9.4% below a year ago at the same time. Within products, the picture was mixed; light and middle distillates saw a drop of around 1.2 mb and 0.6 mb respectively, while fuel oil stocks increased by 1.8 mb. Singapore light distillate stocks plunged to a 21-month low below 9 mb, and stood at 2.9 mb or 24% lower than a month earlier over the same period. The drop in light distillate stocks came on the back of strong gasoline demand in the region, especially in the Middle East, Indonesia and Malaysia. Tight supplies also contributed to the fall in light distillate stocks as Formosa's refinery has not fully recovered from a fire at a secondary unit in the end of July. Middle distillates have experienced a stock draw for two consecutive months ending the month at 13.26 mb, but stood slightly above the last year at the same time. Middle distillate stocks have declined due to stronger imports from Japan, South Korea and Thailand. However, muted demand from Vietnam and Indonesia has limited the draw in middle distillate stocks. Fuel oil stocks climbed for the second consecutive month to the highest level since April to stand at 21.5 mb. However despite this build, fuel oil inventories indicated a deficit of 1.7 mb or 7.5% with a year ago at the same period. Higher Western inflows have been behind the increase in stocks. Easing marine bunker demand in Singapore also contributed to the surge in stocks.

Product stocks in ARA in August fell by 0.14 mb, for the second consecutive month to stand at 33.0 mb and show a deficit of 5.6 mb or 14.4% below last year at the same time. Within products, the picture was mixed; fuel oil and jet fuel stocks saw a build of 0.9 mb and 0.6 mb respectively, while gasoline, naphtha and gasoil went down by 0.9 mb, 0.04 mb and 0.7 mb respectively. At 6.4 mb, fuel oil stocks jumped to their

Product stocks in Singapore declined slightly in August, magnifying last month's drop

ARA product stocks fell for the second consecutive month in August

highest level since March 2010, driven by more arrivals in the ARA from France, Russia and the US, which reached the highest level so far this year. Jet fuel oil stocks also rose to end the month at 4.3 mb, representing a deficit of 1.3 mb or 22.6% with a year ago at the same period. The build in jet fuel stocks was driven by higher imports from the Middle East as no exports were reported. At the end of August, gasoil inventories fell to 17.1 mb, and stood at 3.7 mb or 17.8% below a year ago at the same period. The drop in stocks came on the back of lower imports combined with the backwardation structure of the gasoil forward curve limiting incentive to store the gasoil product. Gasoline stocks also fell to their lowest level since December 2010 to stand at 4.9 mb. At this level, gasoline stocks stood at 2.2 mb or 30.1% below a year ago at the same period. As gasoline demand has dropped in the US due to the disappointed economic situation, there is no need to store gasoline for export to the US. Naphtha stocks went down slightly to end the month of August at 0.35 mb, remaining at almost half of the level experienced last year at the same time.

Balance of Supply and Demand

Demand for OPEC crude for 2011 up 0.1 mb/d over the previous year

Forecast for 2011

Demand for OPEC crude for this year remained unchanged from the previous assessment as the downward adjustment in world oil demand offset the downward revision in non-OPEC supply. Within quarters, the first two quarters experienced a positive revision of 0.1 mb/d, while 3Q remained almost unchanged. However, 4Q saw a downward revision of 0.2 mb/d. At 29.9 mb/d, the demand for OPEC crude stood at 0.1 mb/d above 2010. The first and the second quarters of 2011 showed growth of 0.8 mb/d and 0.1 mb/d respectively, while the third quarter is estimated to see a contraction of 0.4 mb/d. The fourth quarter is expected to remain unchanged compared to the same period last year.

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

	<u>2010</u>	<u>1Q11</u>	<u>2Q11</u>	<u>3Q11</u>	<u>4Q11</u>	<u>2011</u>
(a) World oil demand	86.93	87.47	86.24	88.36	89.16	87.81
Non-OPEC supply	52.27	52.77	51.95	52.49	53.31	52.63
OPEC NGLs and non-conventionals	4.90	5.12	5.26	5.37	5.42	5.29
(b) Total supply excluding OPEC crude	57.18	57.89	57.20	57.86	58.73	57.92
Difference (a-b)	29.76	29.58	29.03	30.50	30.44	29.89
OPEC crude oil production	29.27	29.63	29.15	29.92		
Balance	-0.49	0.05	0.12	-0.59		

Totals may not add up due to independent rounding

Forecast for 2012

The demand for OPEC crude for 2012 is projected to average 29.9 mb/d, representing a downward revision of 0.1 mb/d from the previously reported, as the downward adjustment in global demand outpaced the downward revision in non-OPEC supply. Within the quarters, the bulk of the revision came from 3Q and 4Q which were revised down by 0.4 mb/d and 0.3 mb/d respectively, while 2Q saw an upward adjustment of 0.1 mb/d. Required OPEC crude in 2012 is forecast to remain unchanged versus the current year. Estimated growth in 1Q is expected at 0.1 mb/d, followed by a contraction of 0.5 mb/d, while 3Q is forecast to remain unchanged. The final quarter of the year is expected to increase by 0.4 mb/d compared to the same period this year.

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

	<u>2011</u>	<u>1Q12</u>	<u>2Q12</u>	<u>3Q12</u>	<u>4Q12</u>	<u>2012</u>
(a) World oil demand	87.81	88.65	87.43	89.55	90.37	89.01
Non-OPEC supply	52.63	53.49	53.28	53.34	53.73	53.46
OPEC NGLs and non-conventionals	5.29	5.50	5.61	5.71	5.79	5.65
(b) Total supply excluding OPEC crude	57.92	58.99	58.89	59.05	59.51	59.11
Difference (a-b)	29.89	29.66	28.53	30.50	30.86	29.89

Totals may not add up due to independent rounding

Graph 10.1: Balance of supply and demand

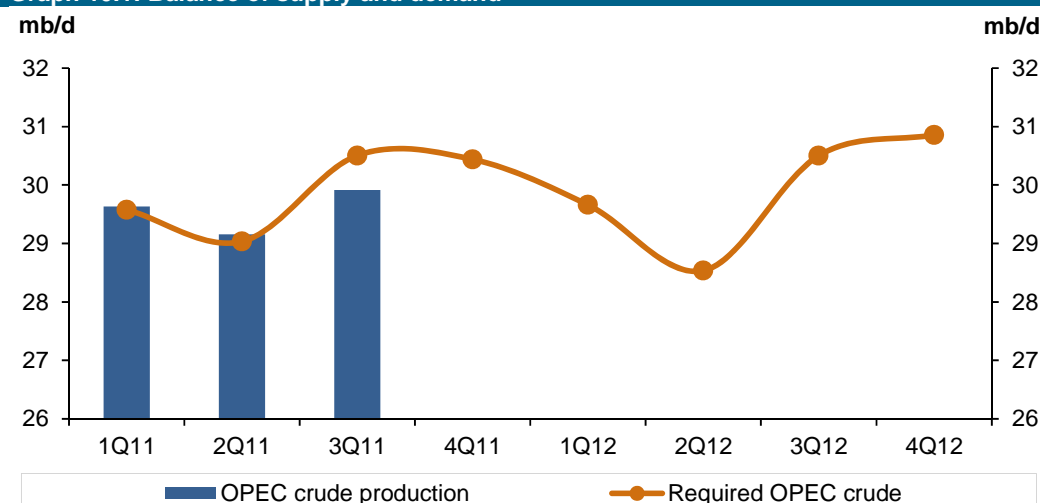


Table 10.3: World oil demand/supply balance, mb/d

	2006	2007	2008	2009	2010	2011	3Q11	4Q11	2011	1Q12	2012	3Q12	4Q12	2012
World demand														
OECD	49.5	49.3	47.6	45.6	46.2	46.3	46.0	46.5	45.9	46.3	44.6	46.0	46.5	45.9
North America	25.4	25.5	24.2	23.3	23.8	23.8	23.7	23.8	23.6	23.8	23.4	23.8	23.9	23.7
Western Europe	15.7	15.5	15.4	14.7	14.6	14.2	14.7	14.7	14.4	14.2	14.0	14.6	14.6	14.4
Pacific	8.5	8.4	8.0	7.7	7.8	8.3	7.7	8.1	7.8	8.3	7.1	7.6	8.0	7.7
DCs	23.6	24.8	25.6	26.2	27.0	27.2	27.5	27.8	27.9	27.8	28.1	28.4	28.5	28.2
FSU	4.0	4.0	4.1	4.0	4.1	4.1	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	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7
China	7.2	7.6	8.0	8.3	9.0	9.1	9.5	9.6	9.4	9.6	10.0	10.0	10.1	9.9
(a) Total world demand	85.2	86.5	86.1	84.7	86.9	87.5	88.4	89.2	87.8	88.6	87.4	89.6	90.4	89.0
Non-OPEC supply														
OECD	20.1	20.0	19.5	19.7	20.0	20.1	19.7	20.0	20.3	20.2	20.1	20.0	20.2	20.1
North America	14.2	14.3	13.9	14.4	15.0	15.3	15.2	15.4	15.4	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	4.0	3.9	4.0	4.0
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
DCs	11.9	11.9	12.2	12.4	12.7	12.8	12.5	12.8	13.1	13.2	13.2	13.3	13.3	13.3
FSU	12.0	12.5	12.6	13.0	13.2	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	0.2	0.2	0.1
China	3.7	3.8	3.8	3.8	4.1	4.2	4.2	4.1	4.2	4.2	4.2	4.2	4.3	4.2
Processing gains	2.0	2.0	2.0	2.0	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	51.9	52.5	53.3	53.5	53.3	53.3	53.7	53.5
OPEC NGLs + non-conventional oils	3.9	3.9	4.1	4.3	4.9	5.1	5.3	5.4	5.4	5.5	5.6	5.7	5.8	5.7
(b) Total non-OPEC supply and OPEC NGLs	53.8	54.4	54.4	55.4	57.2	57.9	57.2	57.9	58.7	59.0	58.9	59.1	59.5	59.1
OPEC crude oil production (secondary sources)	30.6	30.2	31.3	28.8	29.3	29.6	29.2	29.9						
Total supply	84.4	84.6	85.7	84.2	86.4	87.5	86.4	87.8						
Balance (stock change and miscellaneous)	-0.9	-2.0	-0.4	-0.5	-0.5	0.1	0.1	-0.6						
OECD closing stock levels (mb)														
Commercial	2655	2554	2679	2641	2668	2631	2677							
SPR	1499	1524	1527	1564	1561	1558	1561							
Total	4154	4079	4206	4205	4229	4189	4237							
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	8.9	9.0	9.3	9.4	9.0	9.0	9.2
(a) - (b)	31.4	32.2	31.6	29.3	29.8	29.6	29.0	30.5	30.4	29.7	28.5	30.5	30.9	29.9

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	-	-	-	-	-	-	-	-0.2	-0.2	-0.1	-0.1	-	-0.3	-0.2	-0.1
North America	-	-	-	-	-	-	-	-0.2	-0.2	-0.1	-	-	-0.2	-0.2	-0.1
Western Europe	-	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-	-
Pacific	-	-	-	-	-	-	-	0.1	-	-	-	-	0.1	-	-
DCs	-	-	-	-	-	-	-	-0.1	-0.1	-	-	-	-0.1	-0.1	-0.1
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-0.1	-0.1	-	-	-0.1	-0.1	-0.1	-0.1
(a) Total world demand	-	-	-	-	-	-	-	-0.4	-0.3	-0.2	-0.1	-	-0.5	-0.4	-0.3
World demand growth	-	-	-	-	-	-	-	-0.44	-0.33	-0.18	-0.12	-0.07	-0.09	-	-0.07
Non-OPEC supply															
OECD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-
Western Europe	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
FSU	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	-0.1	-0.1	-0.4	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Total non-OPEC supply growth	-	-	-	-	-	-	-	-0.39	-0.09	-0.14	-	-	0.30	-	0.06
OPEC NGLs + non-conventionals															
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	-0.1	-0.1	-0.4	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
OPEC crude oil production (secondary sources)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total supply	-	-	-	-	-	-	-	29.9	-	-	-	-	-	-	-
Balance (stock change and miscellaneous)	-	-	-	-	-	-0.1	-0.1	87.8	-	-	-	-	-	-	-
OECD closing stock levels (mb)															
Commercial	-	-	-	-	1	-	-1	-	-	-	-	-	-	-	-
SPR	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-
Total	-	-	-	-	1	-	-1	-	-	-	-	-	-	-	-
Oil-on-water	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Days of forward consumption in OECD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Commercial onland stocks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SPR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Memo items															
FSU net exports	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-
(a) - (b)	-	-	-	-	-	0.1	0.1	-	-0.2	-	-	0.1	-0.4	-0.3	-0.1

* This compares Table 10.3 in this issue of the MOMR with Table 10.3 in the September 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	2,675	2,757	2,748	2,668	2,631	2,677
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	1,335
Western Europe	915	935	963	937	991	944	940	929	937	961	954	952	991	991	976	971	972	975	982	946	948	955	937
OECD Pacific	430	394	429	407	407	420	428	432	407	394	409	431	407	408	401	419	383	386	405	402	390	382	405
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	1,561
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	4,241	4,319	4,298	4,229	4,189	4,237
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	68	64
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	31
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	09/08	Change	2010	3Q10	4Q10	2010	10/09	Change	2011	3Q11	4Q11	2011	11/10	Change	2012	3Q12	4Q12	2012	Change	12/11
US	7.36	7.47	7.50	8.14	0.64	8.55	8.52	8.63	8.64	8.64	0.49	8.76	8.94	8.93	8.92	8.89	0.25	8.91	8.93	8.96	9.05	8.96	0.07	
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	3.30	3.58	3.58	3.49	0.10	3.62	3.64	3.66	3.68	3.65	0.16	
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	2.92	2.92	2.94	-0.02	2.91	2.87	2.88	2.86	2.88	-0.06	
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	15.20	15.35	15.42	15.32	0.33	15.44	15.45	15.49	15.49	15.49	0.17	
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	2.01	2.08	2.05	-0.09	2.06	1.97	1.91	2.00	1.99	-0.06	
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	1.11	1.24	1.19	-0.17	1.20	1.12	1.07	1.14	1.13	-0.06	
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	0.63	0.63	0.01	0.62	0.64	0.65	0.63	0.64	0.01	0.67	0.66	0.69	0.68	0.68	0.04	0.67	0.68	0.68	0.68	0.68	0.00	
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	4.03	4.06	4.25	4.16	-0.22	4.18	4.00	3.89	4.05	4.03	-0.13	
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	0.48	0.50	0.46	-0.05	0.52	0.54	0.54	0.51	0.53	0.07	
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	0.09	0.09	0.00	0.09	0.09	0.09	0.09	0.09	0.00	
OPEC Pacific	0.56	0.60	0.63	0.64	0.01	0.62	0.60	0.58	0.60	0.60	-0.04	0.52	0.50	0.57	0.60	0.55	-0.05	0.61	0.63	0.63	0.60	0.62	0.07	
Total OPEC	20.14	20.03	19.51	19.73	0.23	20.15	19.88	19.58	20.30	19.98	0.24	20.14	19.73	19.98	20.27	20.03	-0.05	20.23	20.08	20.01	20.24	20.14	0.11	
Brunei	0.22	0.19	0.17	0.16	-0.01	0.17	0.15	0.17	0.17	0.17	0.00	0.17	0.16	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	0.03	0.90	0.89	0.90	0.93	0.91	0.05	0.93	0.93	0.94	0.94	0.93	0.03	
Indonesia	1.07	1.02	1.05	1.03	-0.02	1.03	1.05	1.03	1.01	1.03	0.00	1.00	0.99	0.99	0.98	0.99	-0.04	0.97	0.97	0.97	0.97	0.97	-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	0.64	0.64	0.64	-0.06	0.62	0.61	0.60	0.59	0.61	-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	0.33	0.34	0.34	0.34	-0.01	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	0.34	0.34	0.34	-0.01	0.37	0.38	0.39	0.40	0.38	0.04	
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	0.24	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	3.66	3.67	3.70	3.70	3.68	0.00	3.68	3.53	3.62	3.67	3.62	-0.06	3.67	3.67	3.68	3.70	3.68	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	0.74	0.73	0.73	-0.02	0.73	0.72	0.71	0.71	0.72	-0.01	
Brazil	2.11	2.22	2.38	2.51	0.12	2.61	2.67	2.66	2.70	2.66	0.16	2.66	2.67	2.71	2.83	2.72	0.06	2.86	2.86	2.92	2.94	2.89	0.18	
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	0.97	0.99	0.94	0.14	1.00	1.02	1.04	1.05	1.03	0.09	
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	0.30	0.33	0.31	0.00	0.32	0.32	0.32	0.32	0.32	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	4.75	4.72	4.86	5.02	4.84	0.17	5.06	5.07	5.13	5.16	5.11	0.27	
Bahrain	0.21	0.21	0.21	0.21	0.00	0.21	0.20	0.20	0.21	0.20	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.22	0.22	0.21	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	0.90	0.94	0.90	0.04	0.95	0.95	0.96	0.97	0.96	0.06	
Syria	0.44	0.42	0.41	0.41	0.00	0.42	0.43	0.42	0.42	0.42	0.00	0.42	0.40	0.38	0.40	0.38	-0.02	0.38	0.37	0.36	0.37	0.37	-0.03	
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	0.22	0.22	0.00	0.26	0.26	0.26	0.26	0.26	0.04	
Middle East	1.76	1.66	1.73	1.73	0.05	1.78	1.77	1.78	1.78	1.78	0.04	1.78	1.65	1.72	1.76	1.73	-0.05	1.80	1.80	1.80	1.80	1.80	0.07	
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	0.30	0.31	0.30	0.00	0.31	0.30	0.29	0.30	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	0.71	0.70	0.71	0.00	0.70	0.70	0.69	0.69	0.69	-0.01	
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	0.24	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	0.31	0.34	0.31	0.08	0.37	0.37	0.38	0.37	0.37	0.07	
Africa	2.51	2.60	2.62	2.60	-0.02	2.59	2.57	2.60	2.58	2.59	-0.02	2.62	2.59	2.62	2.67	2.62	0.04	2.67	2.66	2.65	2.65	2.66	0.04	
Total DC's	11.92	11.94	12.23	12.43	0.20	12.64	12.70	12.76	12.75	12.71	0.29	12.82	12.49	12.81	13.12	12.81	0.10	13.20	13.20	13.29	13.32	13.25	0.44	
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	13.29	13.43	13.32	0.10	13.48	13.44	13.48	13.55	13.49	0.16	
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	10.27	10.24	10.24	0.10	10.26	10.29	10.31	10.33	10.30	0.06	
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	1.57	1.68	1.62	0.03	1.69	1.65	1.67	1.70	1.68	0.05	
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	1.01	1.07	1.02	-0.05	1.10	1.06	1.06	1.08	1.07	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	0.44	0.44	0.44	0.00	0.44	0.44	0.44	0.44	0.44	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	3.84	0.00	4.01	4.08	4.16	4.24	4.12	0.28	4.22	4.19	4.14	4.21	4.19	0.07	4.25	4.22	4.23	4.24	4.24	0.06	
Non-OPEC production	47.94	48.43	48.32	49.09	0.77	50.10	49.99	49.85	50.75	50.17	1.09	50.64	49.82	50.36	51.18	50.50	0.33	51.30	51.09	51.15	51.54	51.27	0.77	
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	51.09	0.80	52.20	52.09	51.95	52.85	52.27	1.19	52.77	51.95	52.49	53.31	52.63	0.36	53.49	53.28	53.34	53.73	53.46	0.83	
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 NGL+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																					

Table 10.7: World Rig Count

	Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change			Change		
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*/ 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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OPEC Basket average price

US\$ per barrel

↑ up \$1.29 in September	September 2011	107.61
	August 2011	106.32
	Year-to-date	107.31

September OPEC production

in million barrels per day, according to secondary sources

↓ down 0.08 in September	September 2011	29.90
	August 2011	29.97

World economy

The global growth expectations for 2011 and 2012 now stand at 3.6% and 3.7% respectively. OECD growth is forecast at 1.6% and 1.8%, compared to 1.7% and 1.9% previously. Growth for China remains unchanged at 9.0% in 2011 and 8.5% in 2012, while India's forecast for 2011 has been revised down by 0.1 percentage points to now stand at 7.6% for both 2011 and 2012.

Supply and demand

in million barrels per day

2011			10/11	2012			11/12
World demand	87.8		0.9	World demand	89.0		1.2
Non-OPEC supply	52.6		0.4	Non-OPEC supply	53.5		0.8
OPEC NGLs	5.3		0.4	OPEC NGLs	5.7		0.4
Difference	29.9		0.1	Difference	29.9		0.0

Totals may not add due to independent rounding

Stocks

US commercial oil inventories fell by 13.4 mb in September. This drop was attributed solely to crude which dropped by 16.8 mb, while product inventories rose by 3.4 mb. Despite this drop, total US commercial oil inventories stood at almost the same level as the five-year average. The most recent monthly data for August shows that commercial oil inventories in Japan fell by 1.4 mb.