OPEC

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

September 2010

Feature Article:

Forecasting oil demand in an uncertain economic environment

Helferstorferstrasse 17, A-1010 Vienna, Austria

Tel +43 1 21112 Fax +43 1 2164320 E-mail: prid@opec.org Web site: www.opec.org

Oil Market Highlights

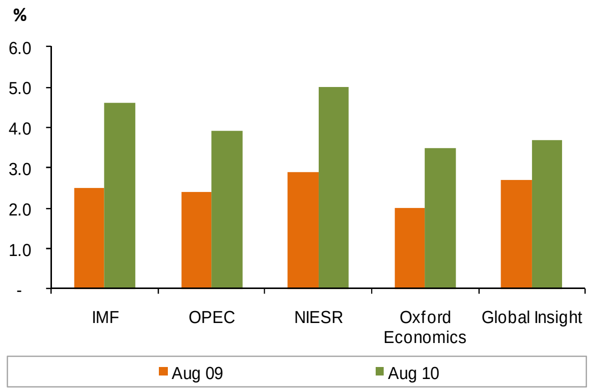
- The **OPEC Reference Basket** moved within a range of $70-79/b in August to average $74.15/b, representing an increase of $1.64 or 2.3% over the previous month. The Basket started the month just under $79/b before falling to below $70/b on 24 August as market sentiment deteriorated on disappointing macroeconomic data across the OECD. The Nymex WTI front month contract moved in line with equities to average $76.67/b in August, up 28¢ from the previous month. Over the same period, ICE Brent reached $77.12/b, representing a gain of $1.76/b or 2% and a premium of 45¢ over WTI. On 8 September, the OPEC Basket stood at $74.04/b.
- **World economic growth** in 2010 remains unchanged since the previous report at 3.9%, while 2011 has been revised down slightly to 3.6%. The imbalance in global growth has intensified with a deceleration becoming apparent in most of the OECD, while developing countries continue to expand. Growth in the US and Japan have been revised down due to the diminishing impact of stimulus packages. US growth stands at 2.6% in 2010 and 2.3% in 2011, while Japan is expected to grow by 2.5% and 1.3% respectively. The Euro-zone gained surprising momentum in 2Q10 and is forecast to grow at 1.2% in 2010 and 1.0% in 2011. Supported by domestic demand, India is expected to expand at 8.2% in 2010 and 7.7% in 2011. China seems to be successfully cooling down the economy with the forecast for 2010 unchanged at 9.5%, while 2011 has been lowered slightly to 8.6%.
- **World oil demand** growth in 2010 remains broadly unchanged at 1.0 mb/d. Global oil demand was higher than expected in the first half of the year, supported by stimulus packages in key consuming countries. With these winding down, demand in the second half is expected to move lower. In 2011, world oil demand growth is expected to continue at the current level of 1.0 mb/d, unchanged from the last assessment. Non-OECD countries will remain the key contributors to demand growth, led by China, India, the Middle East and Latin America.
- **Non-OPEC oil supply** in 2010 is expected to grow by 0.9 mb/d over the previous year, following an upward revision of 130 tb/d since the last assessment. In 2011, non-OPEC oil supply is forecast to grow by 0.4 mb/d over the previous year. OPEC NGLs and non-conventionals are expected to average 4.8 mb/d in 2010 and 5.3 mb/d in 2011, representing growth of 0.5 mb/d for both years. In August, OPEC crude oil production stood at 29.15 mb/d, representing a marginal decline from the previous month.
- With product stocks considerably above historical levels at the end of the driving season, **product markets** remained under pressure, especially in the US and Europe. Strong demand for middle distillates helped prevent a deeper drop in refining margins, although this was limited by high inventory levels. As the cut in refinery runs is not likely to offset the pressure of the stock overhang, the persisting bearish situation in the product markets is likely to continue over the coming months, despite the start of the high demand season.
- The **tanker market** experienced declining rates on all routes in August. High tonnage availability due to the drop in floating storage contributed to the decline in freight rates. VLCC spot freight rates fell 8.6%, Suezmax dropped 4.9% and Aframax declined 8.1% m-o-m. Product market spot freight experienced mixed patterns with East of Suez spot rates increasing 23% while West of Suez rates declined 26%.
- **US commercial stocks** continued to rise, increasing by 18.4 mb in August, widening the surplus with the five-year average to nearly 123 mb. The bulk of this build came from products, which increased by 14.7 mb, while crude stocks rose 3.7 mb. The latest monthly data for Japan shows commercial oil stocks increased 2.5 mb in July, but remained 8 mb below the five-year average. Preliminary indications shows Japanese total commercial oil stocks fell by around 5 mb at the end of August.
- **Demand for OPEC crude** in 2010 has been revised down by 0.1 mb/d from the previous report to stand at 28.6 mb/d, representing a decline of 0.3 mb/d compared to last year. Demand for OPEC crude in 2011 has also been revised down by 0.1 mb/d to average 28.8 mb/d, representing an increase of 0.2 mb/d over the previous year.

Forecasting oil demand in an uncertain economic environment

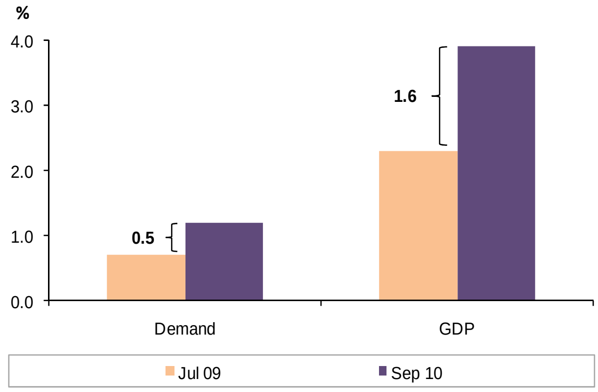
Forecasting world economic growth in 2010 has proved to be a considerable challenge. The persisting impact of the recent global recession as well as the ongoing effects of the unprecedented government-led stimulus have created a significant amount of uncertainty in forecasting GDP growth and consequently oil demand growth. This has not diminished with the release of official GDP numbers as these have frequently been subject to significant revisions.

The severity of the economic crisis and its prolonged impact on the world economy have made it necessary to maintain a more cautious approach. In August of last year, GDP growth in 2010 was projected to reach only 2.3%. Since then, this figure has been revised upwards and now stands at 3.9%. The forecasts of other institutions have experienced similarly large revisions. Over the same period, the IMF's projection has been revised up from 1.9% last year to now stand at 4.6% (***Graph 1***). The main driver behind these revisions has been the stronger-than-expected impact of fiscal and monetary stimuli enacted by governments and central banks across the globe.

Graph 1: World 2010 GDP forecasts, selected sources



Graph 2: GDP and demand growth revisions for 2010



With data now available for the first half of the year, it appears that initial forecasts for world oil demand also underestimated the impact that the massive government stimulus would have on oil consumption. Actual data indicates a stronger rebound in demand in the first half and this has necessitated upward revisions to the forecasts for the first and second quarters. The forecast for world oil demand growth in 2010 has been revised up by 0.5 percentage points (pp) to now stand at 1.2% (***Graph 2***). This represents less than a third of the 1.6 pp adjustment to the GDP forecast, a difference which highlights the weakening correlation between GDP growth and oil demand, due mainly to ongoing structural changes in the economy. Among the key factors contributing to this declining relationship are the expansion of the service sector relative to manufacturing, particularly in the OECD, and the shift of global growth contributions from the developed to the developing countries.

Now that the current round of government stimuli appears to be winding down, demand growth in the second half of this year is likely to return to the initially projected growth levels, assuming that no further government support is forthcoming. As a result, oil demand could weaken over the remainder of this year. In fact, the impact of the slowing economic recovery on oil demand is already evident as growth in oil consumption is slowing down and has even turned negative in some parts of the world. This is true not only for OECD demand, but also for some non-OECD countries.

This year, the US has continued to play a major role in global oil consumption and recent weekly data shows that US oil demand growth has so far been stronger than expected. However, this has been more than offset by the ongoing contraction in European consumption and, overall, the OECD region is not expected to achieve any oil demand growth in 2010. Similarly, oil demand growth in the emerging economies, especially China, has helped to partially compensate for the lower growth in OECD demand. However, efforts by the government in China to prevent the economy from overheating could dampen oil demand growth in the coming months.

Repeated revisions to world economic growth — a key driver of oil demand — have made forecasting oil market developments in 2010 particularly difficult. This is in addition to other highly uncertain factors, such as the sectorial distribution of growth, the price of oil relative to its substitutes and weather conditions, which also impact oil consumption. As a result, the forecasts for oil demand are subject to frequent revisions. In fact, in recent years, actual demand has turned out to be lower than projected, leading to substantial downward adjustments. Taken together, these developments underscore the need for continued caution about oil demand projections in a highly uncertain economic environment.

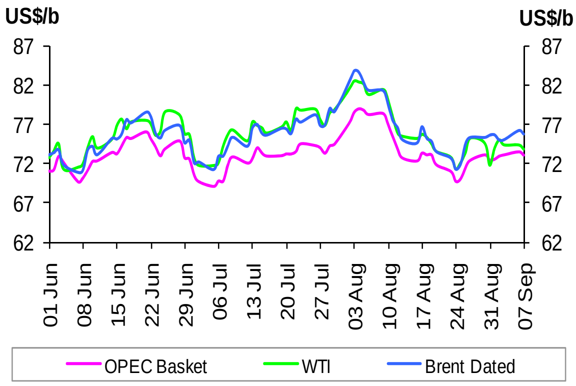
Crude Oil Price Movements

OPEC Basket strengthened in line with futures market

OPEC Reference Basket

The OPEC Reference Basket moved between $70 and almost $80/b. Driven by bullish sentiment in the oil market, the Basket started a three-month high of around $79/b before declining to stand below $70/b on 24 August after market sentiment deteriorated. However, the Basket showed some recovery in the last week of the month to move above $72/b and average $74.15/b, up $1.64 or 2.3% from July and $2.8 higher than a year ago.

Graph 1: Crude oil price movement



All Basket components strengthened in August. Iran Heavy and Qatar Marine led gains with 3.0% and 2.7% respectively, higher than the average, followed by African grades and other Middle Eastern crudes.

Despite the general increase over the previous month, Basket components displayed different trends within the month.

The Middle East crude market started the month strong before weakening on the back of ample supply and poor demand for sour crude in Asia. The weakness in Asian demand was exacerbated by the closure of China's Dalian port after a pipeline explosion and disruption in the Formosa Petrochemical refinery in Taiwan. In addition to lower demand, Middle Eastern grades continued to face competition from the Russian ESPO Blend, resulting in a sharp cut in official selling price formulae among producers. For instance, the Murban price was set at a premium of just 51¢ to the July average for Dubai crude, the lowest differential in at least six years. Abu Dhabi has also sharply cut its official selling price for exports to Asia-Pacific and Saudi Arabia cut its official selling price formula for September cargoes to Asia-Pacific to very low levels.

Middle East light sour crude came under further pressure in the third week with Murban cargoes for October-loading trading at discounts. The market improved slightly after Qatar sold some cargoes of al Shaheen crude for October-loading at similar differentials as last month and exports of Oman to the US west coast and Abu Dhabi Murban crude to Europe reduced the supply overhang. Middle East light crude market sentiment improved further in the last week of the month, supported by strength in Russian ESPO Blend after Rosneft sold eight cargoes for loading in October and November at record-high differentials of between 45¢/b and 75¢/b to Dubai quotes to the US and China. Market sentiment also strengthened after some cargoes were moved outside Asia as well as improving refining margins.

West African crudes started the month strong, supported by a surge in Indian purchases before they weakened on the back of accumulated supplies, particularly of Nigerian crude. Many cargoes for September loading were still unsold in the third week of the month when many sellers had already turned their attention to October. A drop in Chinese interest for September-loading West African crude cargoes along with subdued US demand have also depressed West African differentials. West African crudes were also pressured by reduced arbitrage to Asia amid a wide Brent-Dubai spread.

Similarly, North African grades – Algerian and Libyan – were well supported at the beginning of the month before they weakened amid reduced buying from European refiners in anticipation of autumn refining maintenance. Both West and North African crudes got some support at the end of the month.

The Latin American crude Oriente showed the smallest gain of 55¢ or less than 1%

because of low demand for heavy crude in the US.

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

	Jul 10	Aug 10	Change Aug/Jul	2009	2010
OPEC Reference Basket	**72.51**	**74.15**	**1.64**	**55.24**	**75.32**
Arab Light	72.63	74.21	1.58	55.50	75.73
Basrah Light	72.14	73.39	1.25	54.60	74.66
Bonny Light	77.04	78.82	1.78	57.70	78.49
Es Sider	74.84	76.27	1.43	55.72	76.60
Girassol	74.78	76.55	1.77	56.13	77.05
Iran Heavy	71.07	73.20	2.13	54.60	74.67
Kuwait Export	70.69	72.42	1.73	54.75	74.39
Marine	72.54	74.48	1.94	56.59	76.17
Merey	65.99	67.19	1.20	50.21	68.42
Murban	74.42	76.12	1.70	58.01	77.86
Oriente	68.72	69.27	0.55	49.76	70.69
Saharan Blend	76.49	78.22	1.73	56.78	77.71
Other Crudes					
Minas	75.59	77.93	2.34	59.04	80.32
Dubai	72.49	74.28	1.79	55.92	76.01
Isthmus	74.30	75.50	1.20	55.06	76.20
T.J. Light	72.74	74.07	1.33	53.88	74.66
Brent	75.64	77.07	1.43	56.06	77.11
W Texas Intermediate	76.11	76.62	0.51	55.56	77.76
Urals	73.80	75.45	1.65	55.51	75.78
Differentials					
WTI/Brent	0.47	-0.45	-0.92	-0.50	0.66
Brent/Dubai	3.15	2.79	-0.36	0.14	1.09

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

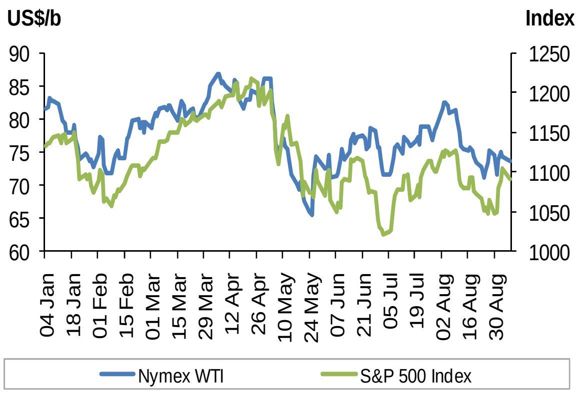
Source: Platt's, Direct Communication and Secretariat's assessments

The oil futures market

Crude oil futures firmed in August, supported by financial market sentiment

Crude oil futures prices broke out of the $70-80/b range in the first week of August for the first time in three months as macroeconomic sentiment turned bullish. The surge of futures prices above $82/b was triggered by positive economic data, a weaker US dollar and a sharp recovery in equity markets amid strong second-quarter earnings. The move beyond 80/b was short-lived as futures started a downward trend of five consecutive days on the back of a sharp sell-off which pushed prices down to around $75/b. On the Nymex, the September WTI crude contract lost $6.24 or 7.7% over five consecutive days to settle at $75.24/b on 16 August. That was the largest percentage loss for a five-day period since early July. Similarly, ICE September Brent crude fell for five days in a row to settle at $74.85/b, the lowest since 8 July. The sharp decline in futures was attributed to growing concerns about economic recovery and its implications on global oil demand, following disappointing economic data from Japan, Europe and the US. Data showed a surprise rise in US new jobless claims to the highest level in almost six months, home-builder sentiment falling to close to a one-and-half-year low in August and European industrial production unexpectedly dropping in June. Japan's economy also slowed sharply in the second quarter to grow at a below-forecast 0.1%.

Graph 2: Nymex WTI and S&P 500



Indicators of slowing economic growth were also seen in China. This flow of poor economic data also pushed equity markets down sharply, reflecting the strong positive correlation between the oil price and stock markets *(see **Graph 2**).*

Futures reversed the downward trend on 17 August, increasing in line with equities as positive data on US industrial production eased some economic concerns. Boosted by auto production, US industrial output grew 1% in July, double what economists had expected and manufacturing output rose 1.1% after a 0.5% decline in June. Prices were also supported by a weaker US dollar as holders of other currencies found dollar-denominated crude oil to be cheaper.

Futures fell again in the following week amid bearish US macroeconomic data on shrinking manufacturing activity and growing jobless claims. Prices were also affected to some extent, by rising US oil inventories, which hit a record-high in the previous week. The Nymex WTI front-month fell again over five consecutive days to below $72/b for the first time since early June. The sharp decline in prices came as a result of accelerating sell-offs amid growing fears about the global economic recovery following a record plunge in US housing data and comments by the Chicago Federal Reserve President warning about the growing risks of a double-dip recession. At the same time, equity markets weakened over four sessions in a row and the US dollar showed some recovery against other currencies.

Futures recovered on 25 August, in line with equities, which bounced off seven-week lows. The recovery took place despite bearish data on US oil inventories, confirming the strong relationship between crude oil and the stock markets. Prices rose for three consecutive days in line with strong equities to stand around $75/b on 27 August, after the Fed Chairman said that the central bank was ready to take further actions if needed, to bolster slowing economic growth. The remarks came after a downward revision to the US 2Q10 growth estimate by the Commerce Department.

Again, the recovery was short-lived and futures declined in the remaining last two days of the month to move back below $72/b on 31 August as concerns about the economic recovery remained and expectations showed another build in US crude oil inventories.

On a monthly basis, the WTI front-month averaged $76.67/b in August, up 28¢ or 0.4% from the previous month.

As it appears, the main factor driving oil prices is economic sentiment as reflected in equity markets, rather than supply/demand fundamentals. Oil price movements were led by macroeconomic and financial data as well as expectations about global economic growth. Equity markets and the value of the US dollar have been the main guide of the daily oil price movements. Futures declined when institutions including IEA and OPEC revised up their forecast for oil demand for 2010 and current supply/demand data did not change substantially to justify the pace of the changes in oil prices. Furthermore, it happened that oil prices increased after data showed US crude inventories rose but then declined after inventories dropped, thus implying a disconnection between the oil price and inventories.

ICE Brent crude oil futures followed the same trend as Nymex WTI, but showed a higher gain of $1.76 or 2.3% to average $77.12/b. However, while the WTI front-month rose for the third month in a row, ICE Brent increased for the first time after three consecutive monthly declines.

WTI front-month traded below Brent

The WTI front-month continued to trade above Brent until mid-August. Then it switched on 17 August as Brent surged on the back of the stronger economic outlook for Europe, relative to the US, particularly for Germany. This shifted the WTI-Brent spread into negative territory to stand at minus $1.16/b, the lowest since mid-June. The ICE Brent premium over WTI resulted from the strengthening of ICE Brent against Nymex WTI on the back of reduced supplies of North Sea crude because of oil field maintenance and sabotage attacks on Nigerian pipelines. Ongoing oversupply in the US, especially after commercial oil inventories reached a record high and crude inventories at Cushing, Oklahoma, remained elevated, also contributed to the weakness of WTI relative to

Brent. Moreover, low refinery runs in the US, because of lower fuel demand and falling crack spreads, also weighed on WTI.

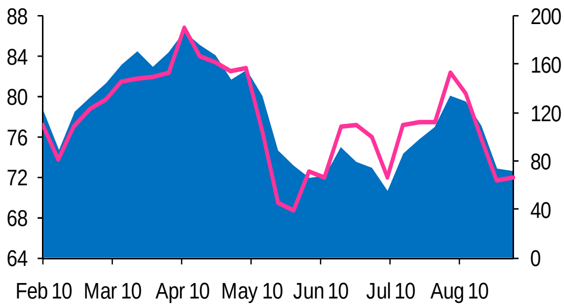
Brent's premium weakened in the following days before widening again to more than $1.60/b in the last week of the month after news that US GDP growth for the second quarter had been revised lower. That was the highest Brent premium to WTI since May, when WTI futures plunged below $65/b, pressured by bearish macroeconomic news and record high oil inventories at Cushing, Oklahoma. Brent's premium widened further in the last few days of the month to move beyond $2.70 on 31 August, the highest since the $3.83 of 20 May, resulting in a monthly premium of 45¢ compared to a discount of 83¢ in the previous month.

The large volatility in crude oil futures raised the activity within futures markets. Total Nymex WTI trading volume rose to an average of 636,000 contracts in August compared with some 550,000 contracts in July, but remained well below the 885,000 contracts traded in May. Similarly, trading volume for ICE Brent jumped 10% in August to nearly 372,000 contracts but remained below the 450,000 contracts in May.

Total open interest of Nymex WTI also recovered in August to move from 1,220,000 on the first trading day to more than 1,264,000 on the last trading day.

The relationship between speculative activity on futures markets and oil prices remained strong in August. Money managers sharply increased net long crude oil positions on the Nymex by almost 26,000 contracts to nearly 133,700 contracts for the week ending 3 August, a week when WTI surged to more than $82/b. That was the fourth weekly increase, which coincided with the fourth weekly rise in WTI.

Graph 3: Nymex WTI price vs. Speculative activity



Bearish market sentiment pushed money managers to reverse the upward trend in their net long positions in the following week, in line with a decline in WTI prices.

Money managers sharply cut net long positions in the following three weeks to around 74,000 contracts in the week ending 24 August, the lowest since the first week of July. Similarly, the WTI front-month fell during the same three consecutive weeks to move below $72/b for the first time since the first week of July *(see* ***Graph 3****).*

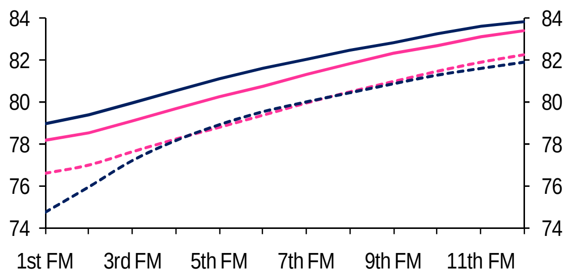
The futures market structure

The contango widened at the front month

Oil futures remained in contango, but the beginning of the curve has become more pronounced because of the weakness in the front month.

The discount between the WTI front month to the second month rose to nearly 60¢, but remained well below the $2.77/b of May. It moved beyond $1.60/b on the last day of August compared with 44¢ on the last day of July.

Graph 4: Nymex WTI and ICE Brent forward curve, 2010



FM = future month

The spread between the front-month and the 12th month increased by 20% in August, while the spread between the first and the second month rose by 37%.

The front of the curve has also become more pronounced for ICE Brent. The spread between the first and the second month widened by more than 40% while the spread between the first and 12th month increased by just 7%.

A widening contango should encourage more storage as long as the capital costs remain very low.

Table 2: Nymex WTI and ICE Brent forward price, US$/b

Nymex WTI

	1st FM	2nd FM	3rd FM	6th FM	12th FM
30 Aug 2010	74.70	75.91	77.17	79.51	81.88
30 Jul 2010	78.95	79.39	79.95	81.55	83.81

ICE Brent

	1st FM	2nd FM	3rd FM	6th FM	12th FM
30 Aug 2010	76.60	76.99	77.62	79.35	82.22
30 Jul 2010	78.18	78.48	79.05	80.75	83.39

FM = future month

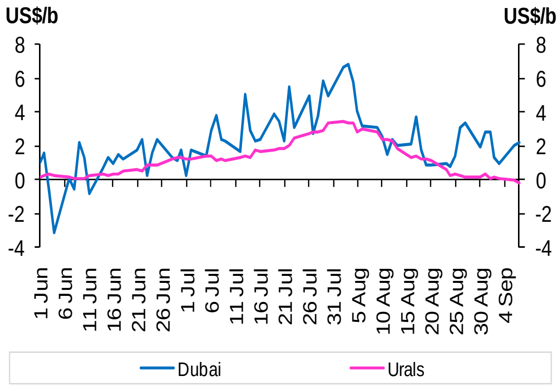
The sour/sweet crude spread

The WTI-Mars sour spread widened further in August

The premium of light sweet crudes over heavy sour grades widened further in August as demand for heavy sour crudes remained under pressure. Light sweet grades were also helped by US demand and lower supply from Northwest Europe due to oil field maintenance.

The WTI premium to Mars sour strengthened for the third month in a row to average $2.26/b, the highest since last May when WTI traded at a discount to Mars.

Graph 5: Brent Dated vs.Sour grades (Urals and Dubai) spread



Urals weakened considerably in the first half of August, amid ample supply and refinery run cuts due to poor refining margins. Urals differentials to Brent fell to a discount of more than $2 for both Mediterranean and Northwest Europe barrels in mid August, pressured by poor refinery margins. The wider discount was also attributed to the strength of Brent in the first week of August. However, Urals strengthened in the following days, supported by strong refining margins and as August cargoes were mostly placed. As a result, the discount to Dated Brent narrowed significantly to move below 20¢ in the last week of the month.

The Brent-Dubai differential surged to $6.80/b in the first week of August – the highest since November 2008 – reflecting the weak sentiment in the Middle East market. The widening of the Brent-Dubai spread came as a result of the strengthening in Brent due to the tighter prompt physical oil market in Europe on the back of oilfield maintenance and weak Asian demand, particularly after port and refinery accidents in Asia caused tanker diversions and postponed crude deliveries. Middle Eastern crudes were also pressured by refinery disruptions in Taiwan which pushed Formosa Petrochemical to defer some cargoes for later delivery.

The wide Brent-Dubai spread kept arbitrage open, with some cargoes of Murban moving to Europe and Oman crude to the US West Coast. A wider Brent premium to Dubai usually raises the relative cost for Asian refiners to buy West African, Mediterranean and Russian grades. However, the Brent premium to Dubai started to narrow to move below $1 in the third week, before widening again beyond $3 in the last few days of the month. The decline in the Brent premium was attributed to strengthening in Dubai as Middle Eastern market sentiment improved amid higher demand following a rise in refining margins.

Commodity Markets

Commodity prices in August reflected the volatile macroeconomic picture in August

Trends in selected commodity markets

The World Bank energy commodity price index showed some recovery on a monthly basis in August compared to July, despite macroeconomic uncertainties that brought volatility to the markets. Non-energy commodities went up by 4.6% m-o-m in August compared to 5.6% % in July, sustained by food and industrial metals.

Table 3: Commodity price data, 2010

Commodity	Unit	Monthly averages Jun	Jul	Aug	% Change Jun/ May	Jul/ Jun	Aug/ Jul
World Bank commodity price indices for low and middle income countries (2000 = 100)							
Energy		258.0	257.2	260.1	-0.7	-0.3	1.1
Coal, Australia	$/mt	98.2	95.2	89.6	-1.9	-3.1	-5.8
Crude oil, average	$/bbl	74.7	74.6	75.8	-1.2	-0.2	1.7
Crude oil, Brent	$/bbl	74.8	74.7	76.7	-1.9	-0.1	2.6
Crude oil, WTI	$/bbl	75.4	76.4	76.6	2.2	1.3	0.3
Natural gas index	2000=100	155.0	156.9	157.8	7.8	1.3	0.6
Natural gas, US	$/mmbtu	4.8	4.6	4.3	15.4	-3.5	-7.0
Non Energy		252.4	248.4	254.3	-4.8	-1.6	2.4
Agriculture		214.1	214.3	219.3	-1.7	0.1	2.3
Beverages		243.5	255.0	261.7	0.0	4.7	2.6
Food		200.4	199.2	209.4	-1.5	-0.6	5.1
Soybean meal	$/mt	338.0	356.0	382.8	-2.9	5.3	7.5
Soybean oil	$/mt	859.0	907.0	1002.3	-0.7	5.6	10.5
Soybeans	$/mt	408.0	429.0	456.8	0.2	5.1	6.5
Grains		178.0	192.3	210.8	-6.2	8.0	9.6
Maize	$/mt	152.7	163.8	175.6	-6.5	7.2	7.2
Sorghum	$/mt	131.0	132.4	143.4	-11.1	1.1	8.3
Wheat, Canada	$/mt	261.3	287.5	326.0	1.9	10.0	13.4
Wheat, US, HRW	$/mt	157.7	195.8	246.2	-13.2	24.2	25.8
Wheat, US, SRW	$/mt	182.6	222.3	261.6	-4.1	21.7	17.7
Sugar EU	¢/kg	40.9	42.8	43.2	-2.8	4.6	1.0
Sugar US	¢/kg	72.4	73.3	77.2	6.3	1.2	5.3
Sugar, world	¢/kg	35.0	38.5	40.7	4.5	9.9	5.8
Raw Materials		329.6	305.5	311.1	-1.5	-7.3	1.8
Fertilizers		248.9	259.4	276.4	-0.2	4.2	6.5
Metals and Minerals		318.2	350.4	368.7	-4.0	10.1	5.2
Aluminum	$/mt	1931.4	1988.3	2118.1	-5.3	2.9	6.5
Copper	$/mt	6499.3	6735.3	7284.0	-4.9	3.6	8.1
Gold	$/toz	1232.9	1193.0	1215.8	2.3	-3.2	1.9
Iron ore	¢/dmtu	167.0	205.0	205.0	0.0	22.8	0.0
Lead	¢/kg	170.4	183.7	207.5	-9.5	7.8	13.0
Nickel	$/mt	19388.6	19517.5	21413.3	-11.9	0.7	9.7
Silver	¢/toz	1853.4	1794.0	1849.3	0.6	-3.2	3.1
Steel products index	2000=100	242.1	231.8	230.4	-2.1	-4.2	-0.6
Tin	¢/kg	1732.0	1819.1	2075.5	-1.4	5.0	14.1
Zinc	¢/kg	174.3	184.4	204.5	-11.5	5.8	10.9

$ = US dollar *¢ = US cent* *bbl = barrel* *cum = cubic meter*
dmtu = dry metric ton unit *kg = kilogram* *mmbtu = million British thermal units*
mt = metric ton *toz = troy oz*
n.a. = not available *n.q. = no quotation* *SGP = Singapore*

Source: World Bank, Commodity price data

Grain prices remained at high levels, fuelled by the impact of adverse weather conditions in Eastern Europe, Canada and more recently Pakistan. Government intervention in the grain markets, such as the announcement by Russia in late August on the extension of its grain exports, also exerted pressure. Cotton prices were boosted by the supply tightness in the near term and buoyant demand from Asia. Industrial metal prices reported substantial but volatile growth in August on a monthly basis, despite the inflow of negative macroeconomic data from the US in the second week of August, which has been associated with supportive fundamentals, but conditions in these markets are still very fragile and dependent on the expectations of growth in the US and China. The World Bank energy commodity price index increased by 1.1% m-o-m in August, compared to minus 0.3% m-o-m in July, but WTI remained flat in August compared to the previous month.

Through August, the price trends in commodity markets were diverse and have been closely linked to macroeconomic data. Softer-than-expected US macroeconomic data in August resulted in a revival of concern about the possibility of a double-dip recession that exerted pressure on crude oil and very volatile industrial metal prices.

The **World Bank energy commodity index** (crude oil, natural gas and coal) went up 1.1% m-o-m in August compared to a 0.3% drop in July, mainly due to a further decline in coal prices and HH natural gas, while WTI remained flat.

Henry Hub (HH) plummeted by 7% in August m-o-m compared to a 3.6% fall in July, which reflected poor fundamentals on both the supply and demand sides.

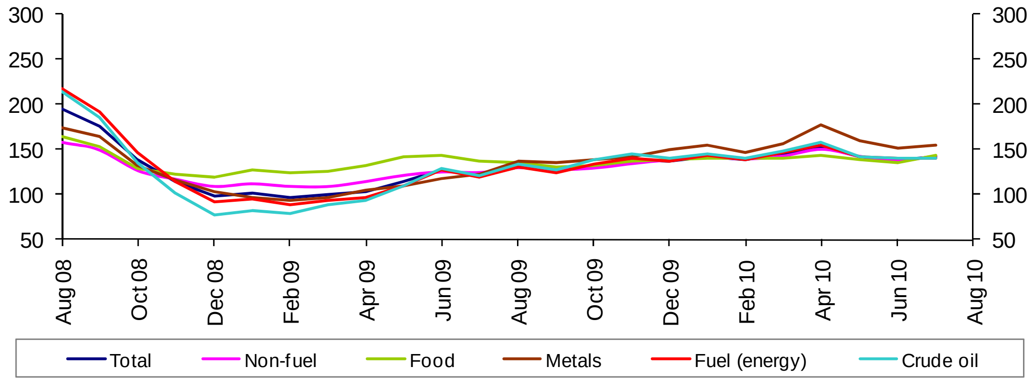
The **World Bank non-fuel commodity price index** rose 4.6% m-o-m in August compared to 5.6% in the earlier month, on the back of food prices, mainly grains and cotton, as well as industrial metals.

The World Bank industrial metal price index surged by 8.5% m-o-m in August compared to 3.5**%** in July, with most of the components having reported considerable gains. This development is mainly ascribed to higher-than-expected demand and to some extent low supply which caused a countercyclical declining trend in LME inventories in spite of the concern on the health of the global economy over recent months. The major factor behind the falling stocks at the LME seems to be strong metal demand, even throughout the summer, a seasonally slower period, as the underperformance of the supply-side of the markets in some metals during this year has not worsened in recent months. Consumers at the OECD have been particularly active this year.

It must be noted that there has been some positive data for the Chinese economy, where the HSBC China Manufacturing Purchasing Managers Index, compiled by Markit, was reported to have increased to 51.9 from 49.4 in August, after estimates in July indicated the first contraction in activity in 16 months. The PMI survey published by the government-run China Federation of Logistics and Purchasing also rose to 51.7 from 51.2 a month earlier. This may give support to the view that the Chinese economy is moderating rather than melting down. This upward monthly price trend in industrial metals appeared regardless of the worse-than-expected US macroeconomic data in the second week of August, related to new weaknesses in housing and the job market. Nevertheless, as a whole, the recovery in industrial metal prices in August has been volatile on a daily and weekly basis, following closely the macroeconomic data releases. The industrial metal complex has been affected by concerns on slowing Chinese growth, US macroeconomic data and EU debt in recent months. It must also be noted that the good performance of industrial metal prices in August took place despite the flattening trend in LME inventories since the beginning of August when this variable reported an increase from 5,763 thousand tonnes in July to 5,772 thousand tonnes in August, following a declining trend during March-July 2010.

In sum, the outlook for industrial metal markets relies upon the performance of the Chinese economy and the improvement in global growth prospects.

Graph 6: Major commodity price indexes, 2008-2010



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*

Copper prices kept rising by 8.1% m-o-m in August compared to 3.6% m-o-m in July as stocks at the LME kept declining, although at a moderate pace in August compared to the previous month. LME copper stocks fell by 4.7% m-o-m to 405.9 thousand tonnes in August.

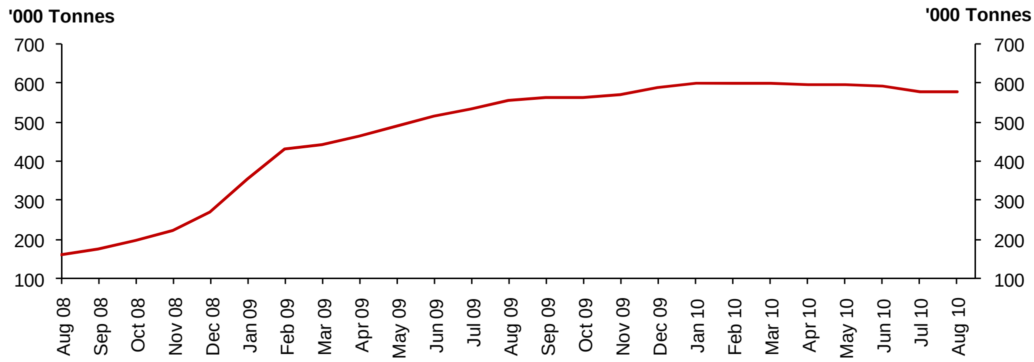
Nickel prices jumped by 9.7% m-o-m in August, supported mainly by inventory draws at the LME, which fell by 1.5% in August m-o-m to 117,334 tonnes. The drop in stocks took place in spite of a reopening of Norilsk's Dudinka port, which usually corresponds to expanding European LME stocks, and therefore points to the strength of underlying demand in the region.

Tin prices jumped by 14.1% m-o-m in August, prompted by the large draw in stocks at the LME. These declined 10.1% in August m-o-m to 14,350 tonnes, giving place to a strong drop in the stocks-to-consumption ratio to a level well below the long-term average (the only metal for which this is happening).

It should be noted that for copper, nickel and tin, the declining trend in stocks at the LME has weakened since the beginning of August and this is a sign that must be monitored.

Gold prices gained 1.9% m-o-m in August, reversing the negative trend in July, driven by concerns about the pace of the economic recovery as well as low interest rates and Exchange Traded Fund (ETF) activity.

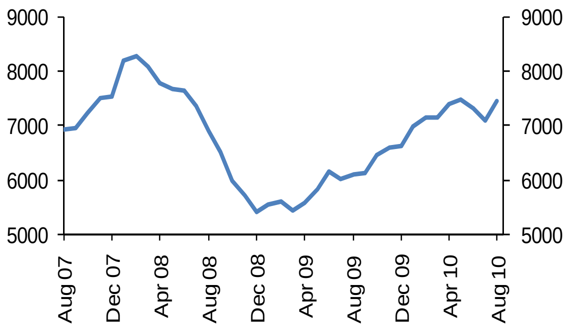
Graph 7: Inventories at the London Metal Exchange (LME)



Investment flow into commodities

Open interest volume (OIV) for major US commodity markets rose by 5.8% m-o-m in August to 7,623,599 contracts compared to a 3% fall a month earlier (*see **Graph 8***). The major gains were accrued by agriculture, livestock and natural gas.

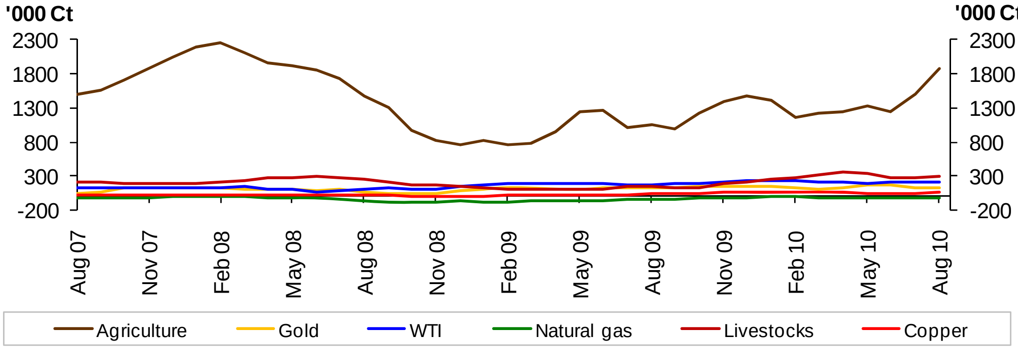
Graph 8: Total open interest volume



Source: CFTC

Speculative invesment kept increasing in August as non-commercial net length in major US commodity markets jumped by 20.5% m-o-m in August to 2,611,341 contracts compared to 10% the previous month. Non-commercial short positions lost 172,412 contracts (minus 2.3% m-o-m) to 1,599,873 in August, which combined with a longs increase of 407,047 contracts (20% m-o-m) to 4,211,214 in August, leaving net-length as percentage of OIV at 62%.

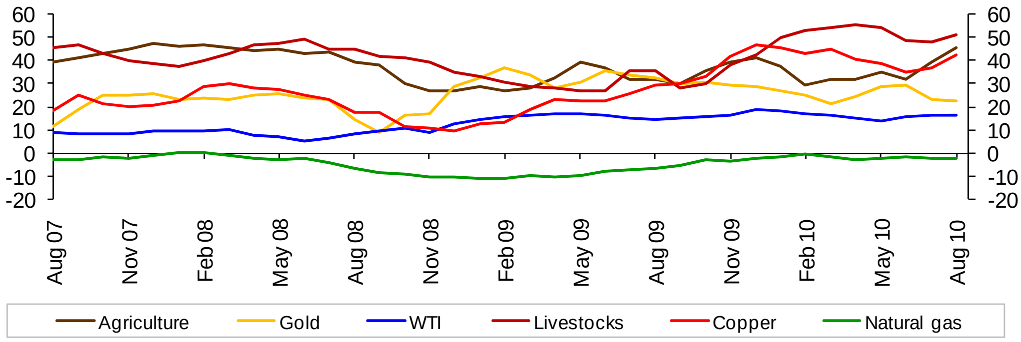
Graph 9: CFTC net length by commodity group



Source: CFTC

Agricultural OIV increased by 8.8% m-o-m to 4,129,173 contracts in August which compared to a drop of 2.8% a month earlier. Non-commercial net length increased by 26.6% in August m-o-m to 1,890,240 contracts,even faster than in July. A near 12% drop in shorts to 570,736 contracts in August and an expansion of 14.9% in longs to 2,460,976 left net length as percentage of OIV at 45.8% in August, a gain of 6.4% points over the previous month. The bullish sentiment in the aggricultural markets was essentially due to the huge price increase in the grain complex.

Graph 10: CFTC net length as % of open interest



Source: CFTC

OIV for **precious metals** declined 2.1% m-o-m to 669,978 contracts in August, compared to a loss of 3.2% in the previous month. Shorts augmented 4.5% m-o-m to 234,784 contracts in August while a modest increase of 1.7% m-o-m in longs led to the net length as a percentage of open interest volume to remain at around 24% (*see **Graphs 9** and **10***).

Nymex natural gas futures open interest volume rose by 4.5% m-o-m to 819,029 contracts in August. A gain of 4.8% in non-commercial longs and 5.1% in shorts resulted in the net length as percentage of OIV at minus 2% August compared to minus 1.4% in July.

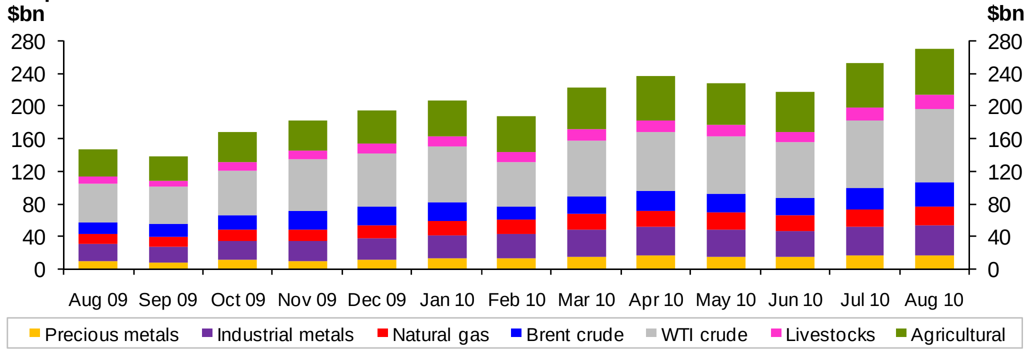
Copper OIV gained 5.8% m-o-m in August to 139,304 contracts compared to a drop in the previous month. Non-commercial longs rose by 9.1% m-o-m while short positions diminished by 5.5%. Thus, the net length as percentage of OIV increased 4.6 percentage points to 41.5% in August compared to a month earlier. This development is again associated with high copper prices and the fact that the investors in the copper markets seem to have paid more attention to fundamentals than to some negative macroeconomic data inflow.

Table 4: CFTC data on non-commercial positions, '000 contracts

	Open interest	Net length							
		Swap positions		Money positions		Other positions		Non-commercials	
	Aug 10	Aug	%OIV	Aug	%OIV	Aug	%OIV	Aug	%OIV
Crude Oil	1259	150	12	124	10	-64	-5	209	17
Natural Gas	817	139	17	-112	-14	-44	-5	-17	-2
Agriculture	4109	1,034	25	740	18	95	2	1,869	45
Precious Metals	654	-76	-12	193	29	37	6	154	23
Copper	141	45	32	19	14	-4	-3	60	42
Livestock	592	190	32	160	27	-46	-8	304	51
Total	**7,571**	**1,481**	**20**	**1,124**	**15**	**-27**	**0**	**2,578**	**34**
	Open interest	Net length							
		Swap positions		Money positions		Other positions		Non-commercials	
	Jul 10	Jul	%OIV	Jul	%OIV	Jul	%OIV	Jul	%OIV
Crude Oil	1251	170	14	87	7	-51	-4	205	16
Natural Gas	783	137	18	-116	-15	-37	-5	-16	-2
Agriculture	3794	1015	27	417	11	62	2	1493	39
Precious Metals	684	-63	-9	190	28	39	6	166	24
Copper	132	43	33	8	6	-3	-2	49	37
Livestock	565	185	33	134	24	-49	-9	270	48
Total	**7,209**	**1,487**	**21**	**719**	**10**	**-39**	**-1**	**2,167**	**30**

The dollar investment inflow into commodities increased by 7.3% m-o-m in August m-o-m, at a substantially lower pace than the 15.9% achieved in the previous month. All the sectors reported a softening in the monthly growth of investment inflow in August, as a result of the uncertainties surrounding the global economic recovery.

Graph 11: Inflow of investment into commodities



Source: CFTC

World Economy

Economic growth rates 2009-2010,%

	World	OECD	USA	Japan	Euro-zone	China	India
2010	3.9	2.2	2.6	2.5	1.2	9.5	8.2
2011	3.6	1.9	2.3	1.3	1.0	8.6	7.7

Industrialised countries

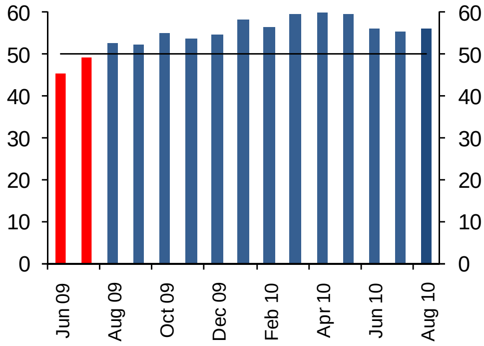
USA

The US economy enters a critical stage when effects of the government- led stimulus are likely to come to an end and consumption levels are being challenged by unemployment, now at 9.6%

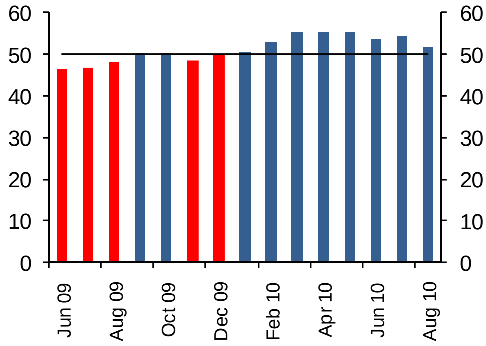
The US economy enters a critical stage at a time when growth is slowing due to potentially abating effects from the government-led stimulus that is coming to an end soon and because of a still very challenging level of unemployment, which might continue to put a break on the level of consumption. The slowing pace of the recovery can be easily noticed when analyzing the growth rates of the previous quarters. While growth has been at a level of 5.0% in 4Q09, it was 3.7% in the 1Q10. The 2Q10 was initially estimated at 2.4%, only to be revised lower to 1.6% and expectations are that it might be revised down further, which will be seen on 30 September, when the third and final reading will be released.

Consumption is holding up and still supported by the fiscal and monetary stimulus, contributing 1.4 points to the 1.6% growth in the 2Q10, a contribution level of 86% after a contribution level of only 36% in 1Q10 and only 14% in the 4Q09. On the other hand, retail sales, which constitute the major portion of consumption, were not as encouraging in July. They grew by only 0.4% m-o-m and, excluding auto sales, growth was at only 0.2% m-o-m. Poor retail sales were accompanied by a weak consumer price index, which grew by only 0.3% m-o-m, after a 0.1% decline. The August level is also expected to be only slightly positive. Core CPI even grew by only 0.1%. These are still dangerously low levels and while price levels have not yet touched permanently negative areas, the threat of deflation has not gone away entirely. This, combined with a labour market that is still fragile, might not seem to be a very substantial base for the coming quarters.

Graph 12a: ISM manufacturing index



Graph 12b: ISM non-manufacturing index



Source: Institute for Supply Management

The unemployment rate has moved up from 9.5% in June to 9.6% in July. While job additions in the private sector were better than expected, they were still on a very small scale. Private job additions were recorded at a level of 67,000 compared to expectations of around 40,000. This must be put into the perspective of 8.5 million cumulated jobs, which were lost in 2008 and 2009. Around 7 million jobs were lost in the non-farm area and almost all of these in the private sector. These job-losses compare to only more than 700,000 jobs that have been created since the beginning of 2010. Weekly jobless claims now are hardly improving and even touched the level of 504,000 in the third week of August, almost stagnat since 4Q09.

The fragile state of the economy was again highlighted by the Chairman of the Federal Reserve Board at the Jackson Hole meeting and the clear message given by the Fed was that it will act if the economic situation starts to deteriorate again, but that it does not consider this to be the case now. This message, combined with the better-than-expected labour market and an improving purchasing managers' surveys were the major drivers behind the improving sentiment at the end of August.

The activity in the manufacturing sector has picked up again, according to the ISM index for manufacturing. This can be considered a positive development and is much better than previously expected. Institute for Supply Management (ISM) manufacturing index improved to 56.3 and remains comfortably above 50. Furthermore, August shows the highest level since June this year. More worrying is the fact that the ISM for the services sector — which accounts for around 80% of US GDP — is in decline and going back to levels only slightly above 50. It now stands at 51.5 in August, a significant decline from the July level of 54.3.

The crucial housing sector is still sending mixed messages after having experienced a sharp drop in almost every area in June, after the first-time home buyer tax credits ran out at the end of April. The pending home sales improved in July again by 5.2% m-o-m, after a decline of 2.8% in June and a steep fall of 29.9% in May. Existing home sales were in decline for a third month and hit a 15-year low, dropping by 27.2% m-o-m to an adjusted annual rate of 3.83mn, according to the National Association of Realtors. It remains to be seen in future data releases, what the direction of the housing market will be in coming quarters as it is still marked by unusual abnormalities to the down- and the upside.

A report by the Congressional Budget Office (CBO) estimates that the fiscal stimulus that was enacted by the current administration at the beginning of 2009 was responsible for as much as 4.5% growth contribution in 2Q10 and identifies the stimulus as a key contributor for keeping unemployment below 10%. According to the CBO, the stimulus also reduced the unemployment rate by between 0.7 and 1.8 percentage points during the 2Q10. These numbers again raise the question of how to proceed at a time when their effects will soon come to an end.

Considering the above challenges, the fading impact of the fiscal stimulus package and the current limits to monetary support in an economy that is being characterized by deleveraging, growth for 2010 now is expected to stand at 2.6% and at 2.3% for 2011. This compares to 2.8% and 2.5% respectively in the previous report.

Japan

Weak economic growth expected to continue in Japan despite still supportive exports and sizeable stimulus efforts

Following the sharp decline of minus 16.6% quarterly annualized growth in 1Q09, the Japanese economy has managed to rebound, but still experienced negative growth in 3Q09 and ended 2009 with a minus 5.2% yearly decline. Now economic activity in 1Q10 grew by an impressive 4.4%, only to recently disappoint expectations of 2Q10 growth, which was recorded at only 0.4%. This hardly represents a consistent recovery trend.

Expectations for 2H10 growth have now been widely lowered. The economy is expected to see some growth, but only on a minor scale. A repetition of anything like the 1Q10 growth level should be considered a surprise at a time when export growth is decelerating and the domestic demand is likely to suffer from the diminishing effects of the fiscal stimulus.

Exports have been a major force for Japan's recovery and have experienced strong momentum in the recent quarter. This dynamic seems to slow as the growth level of exports declined for a fifth consecutive month. This development corresponds to the strong increase of the yen to a 15-year high. Exports advanced by 23.5% y-o-y in July compared to 27.7% y-o-y the previous month, according to the Finance Ministry. Hinting toward a somewhat weakening domestic dynamic is the fact that imports have declined to 15.7% y-o-y in July, compared to the previous month's 26.1%, but a big portion of this decline in imports was attributable to lower prices of landed crude oil, which was 4.6% m-o-m lower in July. On a seasonally-adjusted monthly base, exports and imports were down by 1.4% and 3.5% respectively. This was the third consecutive monthly decline in exports. Exports to Asia grew at a rate of 23.8% y-o-y, slowing from 31.6% in June. Exports to the US rose by 25.9% y-o-y and to Europe by13.3% y-o-y, both of which were higher than in June and pointing to a potential continuation in the momentum of the recovery that had been seen particularly in Europe.

The labour market – while having improved slightly – seems to have stagnated in line with the general economy and not really to have picked up. The unemployment rate improved slightly by 0.1% to 5.2% and the number of employed increased for the second consecutive month by 0.3% m-o-m. The effective jobs-to-applicant ratio edged up slightly to 0.53, but the leading indicator of new job offerings-to-applicant ratio fell by 1.7%. However, this comes after a 5.8% m-o-m rise in June.

Deflation continued in July. The consumer price index (CPI) was down again by 0.9% y-o-y and the widely watched core CPI, which excludes food and energy prices, was down by 1.5% y-o-y in July. On a monthly basis, the general CPI fell by 0.3% and the core of core CPI by 0.1%, hardly a convincing trend. At the same time, real household spending increased by 1.1% m-o-m, after a 0.5% m-o-m gain a month earlier. This is a 0.8% y-o-y increase in July and a 0.1% increase in June. The main explanation for this unusual pattern in spending may be the governmental stimulus, in particular energy efficient cars. Car sales rose by 32.7% y-o-y in July, which contributed 0.7 percentage points to the overall gain. Car sales in August will again boost household spending, probably for the last time this year as the stimulus ends this month. Domestic sales of new cars, trucks and buses increased 46.7% from the same month a year ago. Supportive to the positive trend in consumption is certainly the rise in earnings. July total cash earnings rose by 1.3% y-o-y, marking the fifth consecutive month of increase. More alarming is that scheduled cash earnings declined for the 24th consecutive month, while the solid situation in non-scheduled cash earnings – the performance-based part of compensation – has continued to improve, increasing for the seventh consecutive month. Additionally, special cash earnings in July, including summer bonuses, rose by 3.5% y-o-y after an increase of 4.1% y-o-y a month earlier.

Industrial production hardly increased in July, rising by 0.3% m-o-m, after it declined by 1.1% m-o-m in the previous month. According to the production index projections, manufacturing companies are forecasting to increase production by 1.6% m-o-m in August and by 0.2% m-o-m in September. Based on these projections, industrial production would increase by 0.7% q-o-q in 3Q10, decelerating slightly from a 1.5% q-o-q gain in the 2Q10 and 7.0% q-o-q in 1Q10. This should not come as a surprise when exports are expected to slow down and the domestic economy is widely supported by a government-led stimulus that will have to be extended to avoid a further slowdown over the coming quarters.

Based on the above, the next quarters are expected to post only very meager growth. Despite the expectation that the administration will announce further stimulus measures, it remains to be seen whether these will be implemented or successful. Due to the continued deceleration of the recovery momentum, the growth forecast for 2010 now stands at 2.5% compared to 2.7% previously, while for 2011 the forecast has been revised down to 1.3% from 1.4% previously.

Euro-zone

Euro-zone 2Q10 GDP growth now at 1.0%, while unemployment remains at 10.0% for the fifth consecutive month

Expectations for resilient growth in the Euro-zone in the 2Q10 were supported by recent release of official 2Q10 GDP data. This is a remarkable development, when taking into account the serious issues the economy had to deal with ranging from the almost bankruptcy of Greece to the challenge of the Euro-zone banking system. Most of the severe issues of recent months seem to be contained at least for now and the Euro-zone is once again on an expansionary path.

Driven by the export-led economy of Germany, the Euro-zone expanded by a seasonally adjusted (sa) quarterly growth of 1.0%. In a more common annualized reading, this translates to 4.1% growth, which compares to 2Q10 annualized growth in Japan of 0.4% and in the US at 1.6%. Although much improved, it has to be kept in mind that the Euro-zone was significantly more challenged in recent quarters and that this growth comes from a low base. The Bundesbank expects the German economy now to grow by 3.0% in 2010. The success of Germany as the current growth leader was also highlighted by the fact that yields on the German Bund reached new lows in August. German 10-year Bund yields were trading at around 2.30% in August compared with 3.35% at the start of the year. Germany grew by 2.2% q-o-q in 2Q10, the strongest growth since the reunification in 1990. Despite this success, the Bundesbank highlighted the fact that only half of the fall in German production had been recovered. Exports – the main driving force behind this development – were certainly supported by the weakening euro that reached levels of below $1.20/€ only at the beginning of June and stayed below $1.30/€ for most of July and August. While France posted quarterly growth of 0.6% and Italy 0.4%, Greece again sank even deeper into recession as GDP declined by minus 1.5% in 2Q10, translating to minus 3.5% on a yearly basis.

Industrial orders have also formed a base for a potentially stronger-than-expected growth in the 3Q10. Industrial new orders – a lead indicator for industrial production – in the Euro-zone grew by 2.5% m-o-m in June, after a rise of 4.1% m-o-m in the previous month. Germany's momentum is obviously continuing at a growth rate of 3.9% m-o-m in orders, while France's orders grew by 3.1% m-o-m and Greece posted even 4.3%. These levels should be supportive for a continuation of some growth dynamics into the 3Q. Orders for German machinery were up 48% y-o-y in July, led by strong foreign demand. Orders from abroad were up 54% y-o-y in July while orders from inside Germany were up 38%, according to the German engineering association VDMA. The export-led recovery of Germany was recently also supported by better-than-expected domestic demand, which might continue. German consumer confidence has risen as the latest sign that the recovery in Europe's largest economy might broaden. The GfK consumer climate index had risen in August to its highest level since October last year and GfK forecast that it would rise further in September.

While growth is expected to continue, the strong recovery in 2Q10 should be expected to mark a peak level, an assumption that is also supported by the Euro-zone's purchase manager index (PMI). The Euro-zone purchase manager composite index, based on a survey of euro-area purchasing managers in both the services and manufacturing sectors, declined to 56.2 in August from 56.7 the previous month, but remains at substantial levels, according to Markit. The index of the services sector, which accounts for about 60% of the region's GDP, rose to 55.9 from 55.8. The manufacturing index declined to 55.1 in August from 56.7 in July.

On the negative side, retail sales in July continued to be sluggish in the Euro-zone, up by 0.1% m-o-m, after an increase of only 0.2% a month earlier. This translates to an increase of 1.1%, compared to the depressed levels of the same month last year. In Germany, retail sales were down by 0.3% for a second consecutive month, highlighting the continued importance of exports to the economy. France, in contrast, increased its retail sales by 2.2% m-o-m in July, after rebounding from minus 1.2% a month earlier, but still the numbers reflect much higher domestic activity than in the biggest Euro-zone economy. While these numbers are volatile and have to be handled with some caution, the drop in Spanish retail sales by 3% certainly highlighted the weakness of the economy. Monthly retail sales in Spain already fell in April by 2.1% and grew only by 0.3% and 0.9% in May and June respectively. This weak development should be expected to continue, considering that unemployment again reached peak levels in July.

The unemployment rate in Spain was again the highest of the four largest Euro-zone economies, reaching 20.3% in July. This also marks the third consecutive month of a level above 20%. An even dimmer scenario can be detected, when looking at the levels of youth unemployment in Spain. This category, too, has increased for the third month in a row and now stands at a level of 41.5%. Again, Germany maintained a general unemployment rate of 6.9% for the second consecutive month, while France recorded a level of 10.0% for the second time. Euro-zone's youth unemployment fell back to 19.6%, compared to 19.8% in June, still a significant level.

Inflation is remaining at slightly below the desired level of the European Central Bank (ECB) at around 2%. In August, inflation fell to 1.6% from 1.7% the month before, which was the highest since November 2008. Tightening the monetary base seems not yet to be an option, due to the still fragile situation of the Euro-zone. The ECB kept its key lending rate at 1.0% in its latest meeting. The positive development of the Euro-zone is reflected in the latest growth estimate of the ECB. The ECB forecasts that the Euro-zone will expand this year and in 2011 by more than previously expected, therefore ruling out a double-dip back into recession. Growth is expected at around 1.6% for this year, compared to the estimate of 1% in June. For 2011, growth of 1.4% is expected, compared with the 1.2% expected previously.

The Euro-zone continues its recovery, currently stronger than many other OECD regions, helped by the low base. It remains to be seen how the announced steep cuts in spending by most of the Euro-zone countries that will start to be implemented by 2011 will affect future growth. However, the current positive development is slightly encouraging and leads to a revision of the 2010 growth forecast to 1.2% from 0.8% previously and to 1.0% from 0.9% for 2011.

Former Soviet Union

Russian central bank leaves interest rates unchanged to support recovery despite rising inflationary pressures

There are signs that the economic recovery in **Russia** is moderating in the third quarter following the improved performance in the 2Q10. Moreover, the excessive drought is expected to impact growth this year and inflation both this year and next. Monetary policy remains on- hold.

Industrial production growth slowed in July to 5.6% y-o-y from 9.9% in June and 13.1% in May while the unemployment rate rose to 7.5% in July from 7.1% the previous month. In August, manufacturing activity as measured by purchasing managers' surveys compiled by Markit Economics, however, continued to improve. The manufacturing PMI rose slightly to 52.9 from 52.75 in July, reaching a 28-month high, on favourable contributions from new orders. However, the survey also indicated rising inflationary pressures as increasing input prices fed through to output prices which rose at the fastest pace in two years. In contrast, the composite PMI output index for services fell sharply to 49.9 in August, the lowest level since July 2009, from 54.2 the previous month, dipping below the threshold 50-level, indicating a contraction in services, a direct result of the heatwave.

At the end of August, Bank Rossii, Russia's Central Bank, left its benchmark interest rate, the refinancing rate, unchanged at a record low of 7.75%, despite a rise in inflationary expectations caused by the drought. The Central Bank believes that interest rates should remain at their current level to facilitate growth in bank lending and provide support for the economy in its recovery phase. This indicates that the Bank is more worried about growth prospects than inflation, which has fallen considerably from previous years. The Bank believes that these inflationary pressures cannot be fought through the usual monetary policy tools. Rates were last lowered at the end of May 2010. However, the Economy Ministry raised its 2010 consumer price inflation forecast to between 7%-8% from a previous 6%-7% as a direct result of the drought which has reduced harvests and led the government to ban grain exports till year-end in an attempt to dampen the rise in domestic grain prices. Because of the drought, the worst in 50 years, the forecast of price inflation next year has been raised to 6%-7%.

According to the latest figures announced by the Federal State Statistics Service, Russia's annual consumer price inflation increased in August to 6.1% from 5.5% in July. However, it was lower that the August 2009 figure of 11.6%. Food prices also grew 6.1% annually in August, while services prices climbed 8%.

The Economy Ministry also raised its forecast for next year's GDP growth in Russia from 3.4% to 4.2% as it sees strong domestic demand fuelling both retail sales and industrial output. The Ministry estimates GDP growth this year at 4%. The drought is estimated to subtract as much as 0.8 percentage points from growth in 2010.

Separately, Russia announced the country's largest privatization programme since the 1990s, aiming at raising $29 bn during the next three years. The programme involved selling government shares in 11 state companies.

Our forecast for the Russian economy has been revised down 0.2 percentage point to 4% this year and remains unchanged from last month at 3.8% for 2011.

Developing Countries

China becomes second largest world economy in 2Q10; soft landing expected in 2H10

China's moderating growth trend is ongoing in the third quarter as the government restrains credit growth and discourages multiple-home purchases in an attempt to dampen property price inflation. At the same time, should the policy measures prove too severe, which presently appears unlikely, the government has the means to boost growth by expanding stimulus measures. Overall, average growth this year is expected to remain robust moderating in the second half of the year into next year as the policies in place for a soft-landing appear to be on course.

Manufacturing in China recovered in August after the weak performance in July signaling the economy's slowdown may be stabilizing and fears of a steep correction are receding. The Purchasing Managers' Index rose to 51.7 from 51.2 according to a government survey. The July dip may also have been partly due to factory maintenance. However, the report shows signs of faster gains in prices, underscoring the need for vigilance. The PMI survey is released by the logistics federation and the Beijing-based National Bureau of Statistics and covers more than 820 companies in 20 industries, including energy, metallurgy, textiles, automobiles and electronics. A similar monthly survey for manufacturing compiled by HSBC also shows an improvement from 49.43 in July to 51.86 in August.

Looking ahead, the Chinese Ministry of Industry and Information Technology has forecast industrial production growth to slow to 10% in 2H10 from a year earlier, compared to July's 13.4% growth and the 17.6% average for 1H10. The reasons stated for the slowdown include the policies to restrain the real estate sector and energy-saving measures to improve efficiency, the uncertain outlook for exports as well as base effects.

On the positive side in August, retail deliveries of cars, sport-utility vehicles and multipurpose vehicles showed a strong y-o-y growth of 59% to reach 977,300, according to the government China Automotive Technology & Research Center. The three-fold rise in the sales pace from the 15.4% growth in July was in response to higher incentives provided by dealers. On the housing front official figures show property prices in 70 cities rose 10.3% in July y-o-y, the slowest pace in six months. However, initial unofficial data for August indicate the housing sector may be heating up again, which may in turn call for more effective government measures

Moreover, as a reflection of confidence in the Chinese economy, foreign direct investment in China climbed in July for the 12th consecutive month rising 29.2% to $6.92 bn, according to the Chinese Ministry of Commerce. For the first seven months of the year, investments rose 20.7% to $58.35 bn. Last year, China attracted $95 bn worth of investments in 2009, ranking second only to the US ($130 bn), according to the recent UNCTAD World Investment Report 2010. This compares with $108.3 bn in 2008 and $85.5 bn worth of inflows in 2007. In April, the Chinese government announced measures, including tax breaks and preferential land use conditions, to attract foreign investment into industries such as renewable energy, high-technology and services. China is expected to remain a top host economy in the coming years according to the UNCTAD report. At the same time, China is now among the top 20 investors in the world, ranking sixth place in 2009. FDI outflows from China slowed slightly in 2009 to $48 bn from $52 bn in 2008 but remained more than twice the 2007 level of $22 bn, as China's "go global" policy encouraged domestic enterprises to invest abroad.

Overall, our 2010 growth estimate for China is unchanged from last month at 9.5% but has been lowered by 0.2% in 2011 to 8.6%. Despite the soft landing, China remains a very important engine of world growth. According to our estimates, China will contribute around 30% of this year's global economic expansion of 3.9%. Already during the 2Q10, a combination of weak growth in Japan and solid performance in China meant that China has for the second time overtaken Japan to become the second largest economy in the world.

Only slight slowdown in India's economy in 3Q10 with both manufacturing and services expanding at brisk pace in August

In contrast to many other emerging markets, the **Indian** economy continues to exhibit strong growth into 3Q10, accompanied by inflationary pressures, with only few signs of cooling off. The Indian economy appears to be more sheltered from a slowdown in the rest of the world, given the relatively small size of its external sector, with exports accounting for less than 20% of GDP. Given the expectation that strong growth and inflationary pressures will persist, monetary tightening is expected to continue as the Reserve Bank of India seeks to rein in consumer prices. Currently, the reverse repurchase rate stands at 4.5% and the repurchase rate at 5.75%, following four rate increases.

The government reported that GDP had expanded at the fastest pace in 2 1/2 years in 2Q10, posting an 8.8% y-o-y growth following 8.6% in 1Q10. Agricultural output rose 2.8%, while services, which account for about 55% of the economy, grew 9.7%, manufacturing expanded 12.4% and mining output rose 8.9%.

The brisk expansion continued into the third quarter in both manufacturing and services, albeit at a slightly moderating pace in August. The latest HSBC Purchasing Managers' Index for the manufacturing sector posted 57.2 in August, slightly less than the 57.6 figure for July, indicating the recovery from the downturn at the end of 2008/early 2009 is uninterrupted. New orders slowed slightly but remain strong. However, due to rising shortages of raw materials and power cuts, backlogs of work accumulated and input-price inflation increased. Moreover, the HSBC report notes that, despite the strong rise in output and orders, employment in the manufacturing sector fell for the second month in a row. In the services sector, despite a second monthly drop in the headline PMI to 59.3 in August from 61.7 in July and 64.0 in June, the numbers continue to indicate sharp growth in the services sector accompanied by high input-price inflation with total new orders rising slightly.

Inflation remained high, despite some signs of easing in July. Wholesale price inflation fell slightly from 10.6% in June to 9.9% in July while the consumer price index for industrial workers was 11.3% in July, down from 13.8% in June.

With rising incomes and increasing wealth and an expectation of a good monsoon season (June-September), domestic demand is set to remain strong. One indicator is the passenger-car sales which jumped 38% y-o-y to a record 158,764 in July, as reported by the Society of Indian Automobile Manufacturers, with shortages emerging in that sector. The group forecasts annual sales to reach 3 mn by 2015 or twice the rate in 2009.

Separately, the UNCTAD World Investment Report 2010 reported that India had attracted $35 bn of foreign direct investment in 2009 compared to $40 bn in 2008, ranking third after China and Hong Kong in South, East, and South East Asian region and ninth in the world.

Our forecast for GDP growth in India this year has been revised up 0.4% to 8.2% while the forecast for next year remains unchanged at 7.7%.

Brazil's economy expanded 8.7% y-o-y in 2Q10

Brazil's economic growth slowed to 1.2% q-o-q in the second quarter of 2010 from 2.7% in the previous quarter, a pace seen by the Central Bank to be more compatible with long-term equilibrium. The drop was less than expected as investments rose at a record rate reinforcing the view that the Central Bank may have to resume monetary tightening later on in this year or early 2011. Seen on a year-on-year basis, growth in 2Q10 amounted to 8.7%, only slightly lower than the 9% registered in 1Q10, when it expanded at the fastest pace in 15 years due to record retail sales growth. The fastest component of GDP growth in 2Q10was investment which expanded 2.4% q-o-q or 26.5% from a year ago, the biggest increase since records began in 1996. Consumer expenditure rose 0.8%, and government expenditure increased 2.1% q-o-q. While imports soared 38.8% y-o-y, encouraged by a strong currency, exports rose only 7.3% y-o-y.

The Finance Minister expects growth to slow in the second half of the year, although the Central Bank sees the pace of growth in the 3Q will be somewhat higher than in the second, but still below the first quarter. The Bank expects GDP in Brazil to expand 7.3% in 2010, a forecast unchanged since June, while a survey of 100 economists by the Bank in late August predict a slightly lower pace of 7.1%. Meanwhile, industrial output rose 0.4% in July from a month earlier, according to the national statistics agency, compared with a 1% fall in June. Output rose 8.7% from a year earlier.

Consumer prices fell unexpectedly in August with the annual inflation rate through mid-August dipping to 4.44%, falling below the government's 4.5% target for the first time since January. However, a Central Bank survey shows inflation rising to 5.1% by year-end and forecasts for next year show inflation averaging 4.87%. The fall in inflation in August as well as the lower-than-expected rebound in industrial output in July were factors in the Central Bank's decision to keep interest rates on-hold on 1 September at 10.75% after three increases amounting to 200 basis points.

Our forecast for GDP growth has been raised by 0.7 percentage points to 6.6% for 2010 while the forecast for 2011 is unchanged from the previous report at 4%.

OPEC Member Countries

Saudi Arabian economy weathers global crisis

The IMF painted a positive picture of the Saudi Arabian economy which was seen to have coped well with the global crisis, given the sizeable fiscal stimulus, countercyclical macroprudential policy of the central bank and good supervisory and regulatory frameworks which enhanced the financial sector's resilience. This year consumer price inflation is seen to average 5.2%, reflecting mainly persistent price rises for food and rent. The latest seasonally adjusted monthly figures show overall consumer prices rising almost 6% in July y-o-y from 5.6% in June, with food price increasing by 7.1% from 6.2% in June. Total GDP is forecast by the IMF to grow 3.7% in 2010, with non-oil GDP expanding 4.3%. Non-oil GDP was supported in 2009 by the fiscal stimulus and grew by 3.8%, only a half a percentage point below growth in 2008.

FDI flows in West Asia drop in 2009

Both FDI inflows and outflows fell in West Asia 2009 in most of the region's countries, according to the UNTAD World Investment Report 2010, but prospects may improve in 2010. However, for inflows there were a few exceptions to the 2009 trend. In Qatar, inflows rose 112% to $8.7 bn, from $4.1 bn in 2008, mainly in liquefied natural gas with two more LNG "super-trains" expected to come onstream in 2010. Among the main recipients of FDI, the 71% drop in the UAE from $13.7 bn in 2008 to $4 bn in 2009 was mainly due to the Dubai debt crisis. Saudi Arabia continued to be the region's largest recipient of FDI, with total inflows reaching $35.5 bn in 2009, only 7% below the previous year. For FDI outflows from the region the picture was also varied. Outflows from Kuwait remained almost unchanged falling only 0.1 bn to $8.7 bn in 2009, making it the region's largest outward investor in 2009, followed by Saudi Arabia, where outward FDI increased significantly from $1.5 bn in 2008 to $6.5 bn last year. In contrast, outflows from the UAE fell to $2.7bn from $15.8 bn in 2008.

Oil prices, US dollar and inflation

The US dollar continued to weaken, declining 1.1% against the euro and 2.6% versus the yen, which reached a 15-year high against the dollar in August.

The US dollar continued to weaken in August. On an average monthly basis, the dollar lost 1.1% against the euro, fell 2.6% versus the yen, 2.5% against the pound sterling and 1.3% compared to the Swiss franc. Versus the euro, the US dollar has stabilized around the $1.28/€ level since mid August.

After the US dollar had appreciated significantly versus the euro in the 1H10, due to mainly the much weaker economic development in the Euro-zone during this period, this development came to a halt as the Euro-zone recovery gained more momentum and the US economy recently showed some signs of weakness. However, the safe haven status does seem to support the US dollar more than the euro, a situation that might continue as uncertainties in the economic development seem to prevail. In addition, the development will depend very much on the speed of the recovery and secondly the ability to manage the sovereign debt issue in both economies. Comparing the US dollar against the yen, the development has been remarkable. The yen reached a 15-year high against the US dollar that was less attributable to the strength of the Japanese economy than its status as a safe haven. This, combined with the continued weakening of the US economy, pushed investment flows into the yen. At the current levels of around $84.0/¥, near term developments might also be guided very much by the economic development in the US and in Japan, which seems to slightly favor the yen as expectations for the economic dynamics for the 2H in Japan are relatively low, a fact that should be priced into the current yen level, while on the other side, the downside risk for growth disappointment in the US-economy seems to be relatively higher.

The OPEC Reference Basket price rose by 2.3% in August

In August, the OPEC Reference Basket price increased by $1.64/b or 2.3% to $74.15/b. In real terms (base June 2001=100), after accounting for inflation and currency fluctuations, the Basket price increase by 36¢/b or 0.8% to $47.41/b. The dollar fell by 1.1%, as measured against the import-weighted modified Geneva I+US dollar basket, while inflation increased slightly by 0.3%.*

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

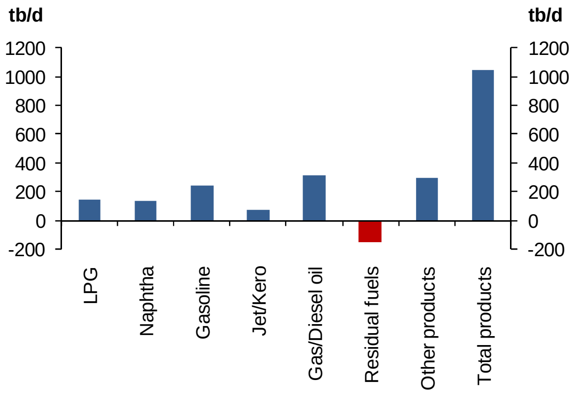
World Oil Demand

World oil demand growth forecast at 1.0 mb/d or 1.2 %, to average 85.5 mb/d, unchanged from the last MOMR

World oil demand in 2010

The present economic condition in most developed countries is discouraging. The economic recovery is not only slow, but is also facing turbulence. The fact that some OECD countries can no longer afford stimulus plans is likely to pressure their economies in the second half of this year, leading to weaker oil demand compared to the first half.

Graph 13: Forecasted y-o-y growth in 2010 world oil demand



Earlier forecasts anticipated lower oil demand performance in the first half of the year; however, stimulus plans enacted early in the year have resulted in higher than anticipated oil demand. Hence, a minor upward revision in the first half of the year was acknowledged. Depletion of government funds will leave oil demand forecasts for the second half as anticipated. Should governments manage to provide additional funding, an upward risk might be a possibility.

Signs of a slower recovery in most of the OECD countries are becoming more apparent, imposing the need for considerable caution on world oil demand projections for the rest of this year. In fact, the consequence of weaker economic recovery on oil demand is already being seen, as growth is weakening in some parts of the world, dipping into the negative. This is not only affecting OECD oil demand, but also spreading to non-OECD areas such as Asia.

Table 5: World oil demand forecast for 2010, mb/d

							Change 2010/09	
	2009	**1Q10**	**2Q10**	**3Q10**	**4Q10**	**2010**	**Volume**	**%**
North America	23.30	23.50	23.59	23.60	23.79	23.62	0.32	1.38
Western Europe	14.52	14.17	13.98	14.21	14.31	14.17	-0.35	-2.41
OECD Pacific	7.66	8.19	7.31	7.21	7.94	7.66	0.01	0.08
Total OECD	**45.47**	**45.85**	**44.88**	**45.02**	**46.04**	**45.45**	**-0.02**	**-0.05**
Other Asia	9.83	9.95	10.14	9.98	10.15	10.05	0.23	2.30
Latin America	5.88	5.78	6.03	6.17	6.15	6.04	0.16	2.67
Middle East	7.09	7.18	7.19	7.50	7.24	7.28	0.19	2.71
Africa	3.25	3.30	3.27	3.20	3.33	3.28	0.03	0.92
Total DCs	**26.04**	**26.21**	**26.64**	**26.85**	**26.87**	**26.64**	**0.61**	**2.33**
FSU	3.97	3.95	3.74	4.17	4.22	4.02	0.05	1.17
Other Europe	0.73	0.70	0.65	0.66	0.72	0.68	-0.04	-6.03
China	8.25	8.23	8.85	9.04	8.73	8.72	0.46	5.60
Total "Other Regions"	**12.95**	**12.88**	**13.24**	**13.88**	**13.66**	**13.42**	**0.46**	**3.59**
Total world	**84.46**	**84.94**	**84.76**	**85.74**	**86.58**	**85.51**	**1.05**	**1.24**
Previous estimate	84.46	85.01	84.56	85.81	86.62	85.50	1.05	1.24
Revision	0.01	-0.07	0.21	-0.07	-0.05	0.01	0.00	0.00

Totals may not add due to independent rounding

Table 6: First and second quarter world oil demand comparison for 2010, mb/d

			Change 2010/09				Change 2010/09	
	1Q09	1Q10	Volume	%	2Q09	2Q10	Volume	%
North America	23.43	23.50	0.07	0.29	22.94	23.59	0.65	2.83
Western Europe	14.89	14.17	-0.72	-4.85	14.26	13.98	-0.28	-1.98
OECD Pacific	8.12	8.19	0.07	0.86	7.27	7.31	0.04	0.56
Total OECD	**46.43**	**45.85**	**-0.58**	**-1.26**	**44.48**	**44.88**	**0.41**	**0.92**
Other Asia	9.73	9.95	0.22	2.26	9.89	10.14	0.25	2.55
Latin America	5.63	5.78	0.15	2.72	5.83	6.03	0.20	3.48
Middle East	6.95	7.18	0.23	3.27	7.07	7.19	0.12	1.71
Africa	3.27	3.30	0.03	0.95	3.25	3.27	0.03	0.89
Total DCs	**25.58**	**26.21**	**0.63**	**2.47**	**26.03**	**26.64**	**0.60**	**2.32**
FSU	3.87	3.95	0.08	2.03	3.70	3.74	0.04	1.05
Other Europe	0.74	0.70	-0.04	-5.41	0.69	0.65	-0.05	-6.50
China	7.61	8.23	0.62	8.19	8.38	8.85	0.47	5.59
Total "Other Regions"	**12.22**	**12.88**	**0.66**	**5.41**	**12.78**	**13.24**	**0.46**	**3.62**
Total world	**84.23**	**84.94**	**0.71**	**0.84**	**83.29**	**84.76**	**1.47**	**1.77**

Totals may not add due to independent rounding

Despite recent weekly US data indicating strong growth in the country's oil demand caused by the low base of last year, the OECD region is not expected to achieve any growth this year in oil demand consumption, due to a deep decline in European oil demand. It is not only US oil demand playing a major role in total oil consumption this year; China's oil demand has been acting as a backup and offsetting, to a certain degree, the loss in OECD oil demand. However, this might weaken as the Chinese government makes efforts to slow down its overheating economy.

World oil demand in the second half is forecast to grow by more than 1.0 mb/d, led by China, the US and the Middle East.

Given the slow pace of the world economic recovery, global oil demand growth is forecast at 1.05 mb/d or 1.2 %, unchanged from the previous month.

Table 7: Third and fourth quarter world oil demand comparison for 2010, mb/d

			Change 2010/09				Change 2010/09	
	3Q09	3Q10	Volume	%	4Q09	4Q10	Volume	%
North America	23.28	23.60	0.33	1.41	23.55	23.79	0.24	1.00
Western Europe	14.47	14.21	-0.26	-1.79	14.46	14.31	-0.15	-1.00
OECD Pacific	7.25	7.21	-0.04	-0.55	7.99	7.94	-0.04	-0.55
Total OECD	**44.99**	**45.02**	**0.03**	**0.07**	**46.00**	**46.04**	**0.05**	**0.10**
Other Asia	9.76	9.98	0.22	2.21	9.93	10.15	0.22	2.20
Latin America	6.03	6.17	0.14	2.32	6.02	6.15	0.13	2.19
Middle East	7.29	7.50	0.21	2.84	7.03	7.24	0.21	3.05
Africa	3.16	3.20	0.03	1.04	3.31	3.33	0.03	0.79
Total DCs	**26.25**	**26.85**	**0.60**	**2.27**	**26.28**	**26.87**	**0.59**	**2.25**
FSU	4.14	4.17	0.03	0.75	4.18	4.22	0.04	0.91
Other Europe	0.71	0.66	-0.05	-7.00	0.76	0.72	-0.04	-5.28
China	8.66	9.04	0.39	4.48	8.36	8.73	0.37	4.46
Total "Other Regions"	**13.51**	**13.88**	**0.37**	**2.73**	**13.29**	**13.66**	**0.37**	**2.79**
Total world	**84.75**	**85.74**	**0.99**	**1.17**	**85.57**	**86.58**	**1.01**	**1.18**

Totals may not add due to independent rounding

OECD - North America

North American oil demand is expected to grow slightly by 0.3 mb/d

August US weekly data illustrated a slowdown in the growth of the country's oil consumption. The recent deterioration in the US economy resulted in fewer miles driven, and a reduction in industrial production. Despite the low base from last year, there was only a minor increase in gasoline, especially during the summer driving season and a moderate improvement in distillates, which was offset by considerable decreases in industrial fuels, such as residual fuel oil and propane/propylene. Slowing economic activities have been affecting the country's total oil consumption, which forced the US energy administration to sharply revise down the implied growth for June. Based on more reliable monthly official statistics, US oil consumption is only showing a minor increase of 0.2 mb/d in the first half of 2010 compared to 2009, while gasoline consumption is on the decline.

In general, US oil demand has stabilized and moved away from the declining trend seen last year. Given the shaky economy, the country's oil demand has a strong chance of experiencing turbulence in the second half of the year. The summer driving season – apart from the effect of Labor Day in September – is not expected to do much this season, as the country is still suffering from the financial crisis. Ultimately, hope lies within the industrial sector to show better performance, leading to potential growth in industrial fuel usage.

Mexico's oil consumption showed a decrease in July for the first time since January, driven by lower consumption in transportation and industrial fuels. Nevertheless, Mexican oil consumption stands at higher levels during the first six months of the year compared to 2009, due to the improved economy. All petroleum products are showing increases, with the biggest seen in transportation and industrial fuels.

The Canadian oil demand closed the first half of 2010 with a moderate increase, driven by industrial and transportation fuels.

For the whole of 2010, North American oil demand is expected to grow by 0.3 mb/d, with most increases seen in the second quarter of the year.

US car and light vehicle sales reached a 28-year low in August, their worst level since the same month in 1982, with the rate of sales below 2008, which was the year that nearly destroyed the auto industry and drove GM and Chrysler into bankruptcy. The US car sales fell sharply in August compared to the same month in 2009, driven by the end of the government's "cash-for-clunkers" incentive programmes which sharply boosted demand for cars early in the year. Vehicle sales for General Motors, the largest US carmaker, plunged 25% to 185,176 vehicles in August, while rival Ford reported an 11% drop in sales to 157,503. Demand in August 2009 was lifted as a popular government programme offered up to $4,500 for buyers to trade in their old petrol-guzzling cars for new vehicles.

OECD - Europe

European oil demand forecast to contract by 0.35 mb/d in 2010, with the decline easing in the second half

Early July consumption data showed improvements, compared to previous months in 2010. In addition to the high debt levels affecting several European economies, the continued application of rigorous state tax policies on oil are factors which could impose additional future sharp declines in European oil consumption. The European Big Four oil demand contracted only by 90 tb/d in July 2010, as opposed to 0.73 mb/d in January 2010. Increased industrial production, especially in Germany, led to stronger distillate demand and was the main reason for that recovery. Nevertheless, transportation fuels are still on the decline. Furthermore, official preliminary UK data reported a significant reduction in oil consumption of about 0.2 mb/d with the transport sector being most affected. French oil consumption was practically flat, while Italian oil consumption slightly contracted in July. In both countries, transportation fuel accounted for the bulk of decreases, whereas industrial fuel showed small growth.

The region's total contraction in oil demand is forecast at 0.3 mb/d in 2010. However, due to the moderate 2009 baseline, the decline in oil demand is expected to ease in the second half of the year.

The risk exists mostly in the upward trend. Should Euro-zone governments inject more funds into their economies, this would positively affect the continent's oil demand for the rest of the year.

The region's total contraction in oil demand is forecast at 0.35 mb/d in 2010. However, the decline in oil demand is expected to ease in the second half of the year.

Graph 14: European new passenger car registrations & motor fuel consumption, y-o-y % changes

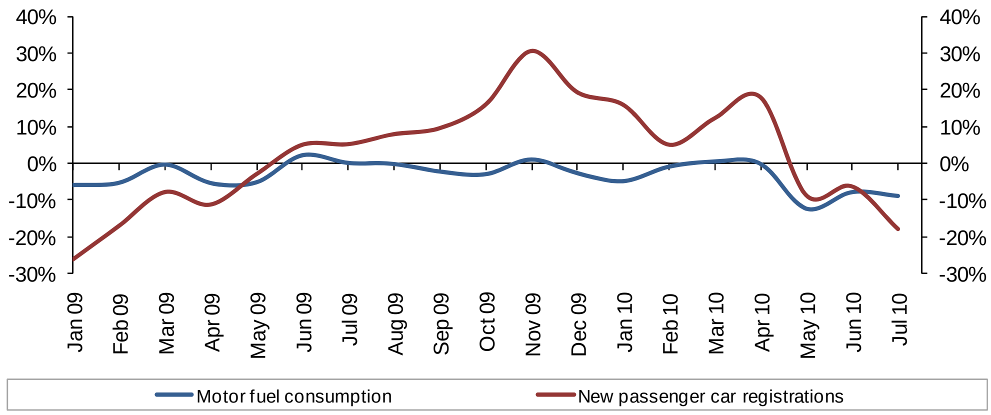


Table 8: UK oil demand, tb/d	Jan-Jul 2010	Jan-Jul 2009	Change, tb/d	Change, %
LPG	85	120	-35	-29.1
Gasoline	338	381	-43	-11.2
Jet fuel/Kero	*309*	*334*	*-25*	*-7.5*
Gas oil	*558*	*539*	*19*	*3.5*
Fuel oil	60	74	-14	-18.8
Other products	141	137	4	2.6
Total products	**1,490**	**1,584**	**-94**	**-5.9**

Source: JODI

OECD - Pacific

Stable Japanese oil demand keeping OECD Pacific oil demand flat in 2010 at 7.7 mb/d

Japanese oil demand in July grew the most since last February with transport fuels – kerosene, diesel and gasoline – again being the main drivers for growth. Japanese oil consumption seems to have stabilized since January, reaching 1.7% growth in the first seven months of the year. However, this was up from the exceptionally low levels seen in the last two years. One more factor that affected the country's oil usage is the increase in direct crude use in power plants. Despite this current positive performance, the development of Japanese oil consumption is heavily dependent upon the implementation of a further stimulus plan that is expected to take place in the remaining months of 2010. In South Korea, the second largest oil consuming country in the OECD Pacific region, an increase was observed in the consumption of gasoline last June, offsetting the decrease in the consumption of diesel and jet/kerosene leading to an almost flat y-o-y consumption for the month.

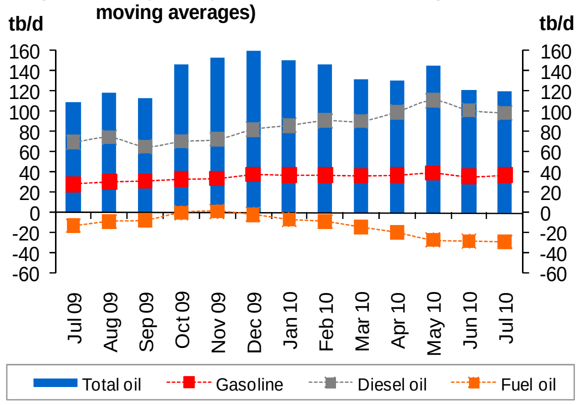
Given the stability in Japanese oil demand, OECD Pacific oil demand is forecast to be flat in 2010, averaging 7.7 mb/d.

Developing Countries

DC demand growth forecast at 0.6 mb/d in 2010 to average 26.6 mb/d

Political influences are prolonging India's move to a new pricing mechanism for its retail petroleum products. Should the country completely free its domestic retail prices, this will definitely affect local demand for gasoline, diesel, kerosene, and LPG. India's energy consumers have been benefiting from controlled retail prices as the country's developing economy is dependent upon such supports.

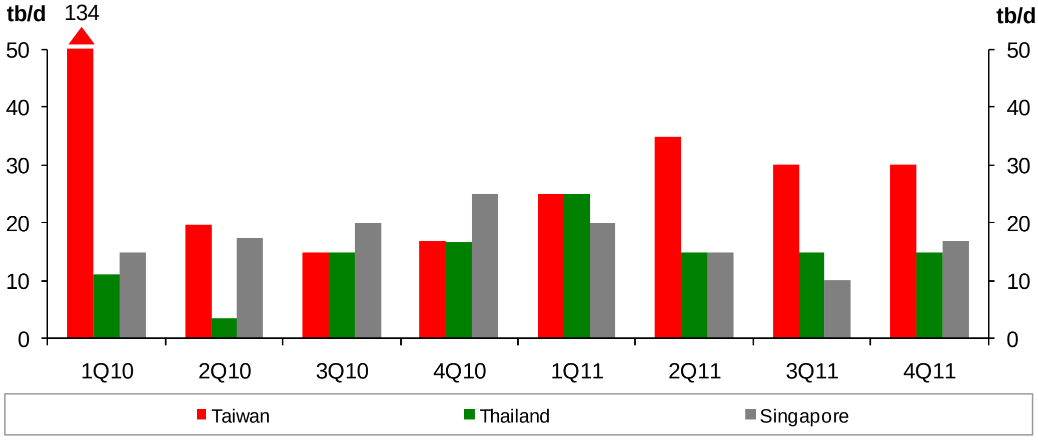
Graph 15: Yearly changes in Indian oil demand (12 month moving averages)



India's oil demand has been calm in the first quarter, resulting in a flat performance; however, it achieved 4% growth in the second quarter, resulting from enhanced activities in both industrial and transport sectors. Moving into the third quarter – the highest season for fuel consumption – the country consumed 113 tb/d more oil in July than the same month of last year. In addition to transport and industrial sectors, seasonal agricultural sectors have pushed for more diesel usage in the summer. Diesel that was used in transport, industrial and agricultural sectors contributed most to the increase in July oil demand, amounting to 75 tb/d of total growth. With the strong increase in new car sales, gasoline demand grew by almost 15% in July y-o-y. Other industries such as petrochemicals increased LPG use by 8% over the same period. A healthy Indian economy in the past few years has increased the demand for energy and oil consumption average 3.3 mb/d in 2010. Although Indian oil demand has been performing below forecast growth by 35 tb/d, it is expected, to a certain degree, to balance itself in the second half of 2010. However, given the weak demand in the first quarter, India's oil demand for the year is not expected to be as strong as last year, achieving growth of a little less than 4% y-o-y. India's auto industry has been on the move for the past two years. It is not only strong economic activities that are boosting the county's new vehicle sales, but also controlled gasoline and diesel prices along with government incentive programmes.

Given the low base of oil demand last year and also its growing economy, Taiwan oil demand has grown in the first six months of the year, exceeding 8%. Almost all of this growth is attributed to the industrial sector; however, transport fuel showed some minor decrease as the country diversified its transportation energy use to electricity via intra-city trains. This movement is also seen in some of Asia's economic tigers. Hong Kong oil usage experienced growth in the first quarter; nevertheless, it plunged to a contraction mode ending the first half of the year with a 16% y-o-y decline.

Graph 16: Oil consumption in selected Asian countries, y-o-y growth

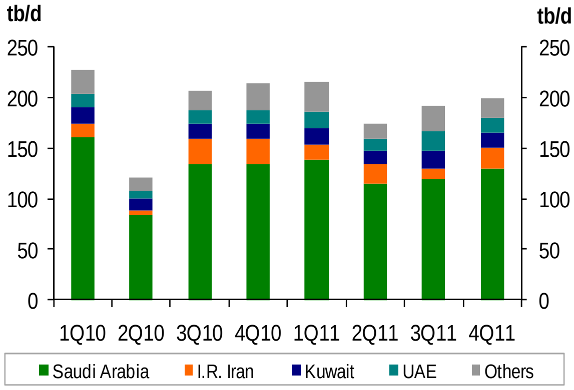


Other Asia oil demand growth forecast at 0.23 tb/d, exceeding the 10 mb/d limit for the first time in 2Q10

Given the strength of India's oil consumption, Other Asia oil demand growth for the total year is forecast at 0.23 tb/d or 2.3% y-o-y, averaging 10 mb/d. Other Asia oil demand exceeded 10 mb/d for the first time in the second quarter of 2010.

Saudi oil demand is back on track after a weak performance in the second quarter. Declining oil demand in June was the first to be seen for the past four years on a monthly basis; however, the second quarter has a low seasonality by nature in Saudi oil consumption. July data indicated a strong increase in demand for diesel by transport, industrial, and agricultural sectors. Saudi diesel demand grew by 19% in July y-o-y, followed by fuel oil exceeding 13% growth. Given the high summer seasonality, Saudi oil

Graph 17: Yearly oil demand growth in the Middle East

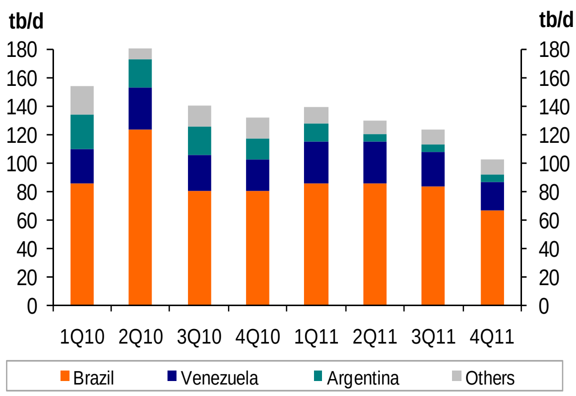


demand is expected to grow by 157 tb/d in the third quarter y-o-y ending the year with 5.8% growth. Unlike Saudi oil demand, Iran's oil consumption has been on the decline since the beginning of year. Diesel consumption showed most of the decline, totaling 25 tb/d in the first half of 2010 y-o-y.

As the region's economies show steady growth, the region's long-term projects are keeping Middle East oil demand on the rise. With the effect of weak Iranian oil demand, the initial Middle East oil demand forecast was reduced by 25 tb/d to show total growth of 0.2 mb/d y-o-y averaging 7.3 mb/d.

Brazilian oil demand has been showing growth exceeding 0.1 mb/d on a monthly basis since the beginning of the year. July data indicated strong consumption caused by strong demand in the transportation sector. Gasoline and diesel oil demand inched up by 19% and 12% y-o-y. Due to the healthy growth in both Brazilian and Venezuelan oil consumption, Latin America oil demand is expected to grow by 2.7% averaging 6.0 mb/d in 2010.

Graph 18: Yearly oil demand growth in Latin America



Developing Countries' oil demand growth is forecast at 0.6 mb/d y-o-y in 2010, averaging 26.6 mb/d.

Table 9: Hong Kong oil demand, tb/d

	Jan-Jun 2010	Jan-Jun 2009	Change, tb/d	Change, %
LPG	22	25	-2	-0.1
Gasoline	9	8	0	0.1
Gas/Diesel Oil	61	76	-14	-0.2
Jet/Kerosene	112	105	7	0.1
Fuel Oil	116	108	8	0.1
Total	**320**	**321**	**-1**	**0.0**

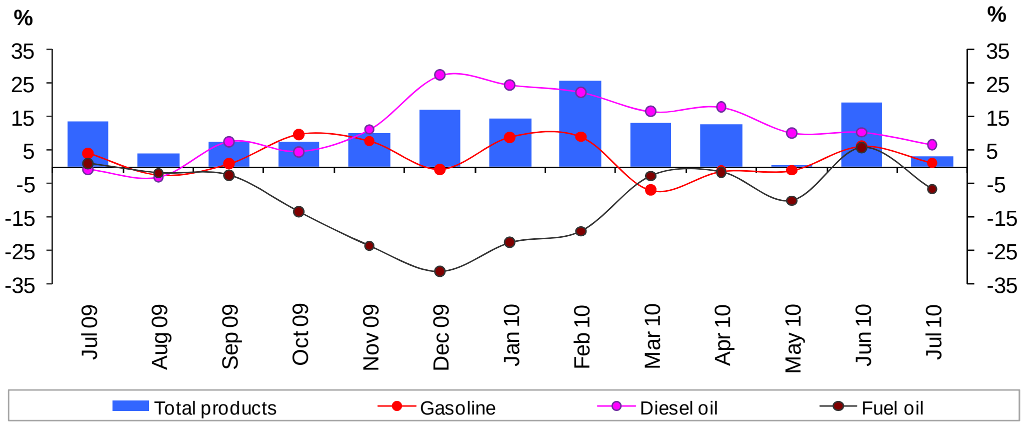
Source: JODI

Other regions

China's oil demand growth reaching 5.6% in 2010

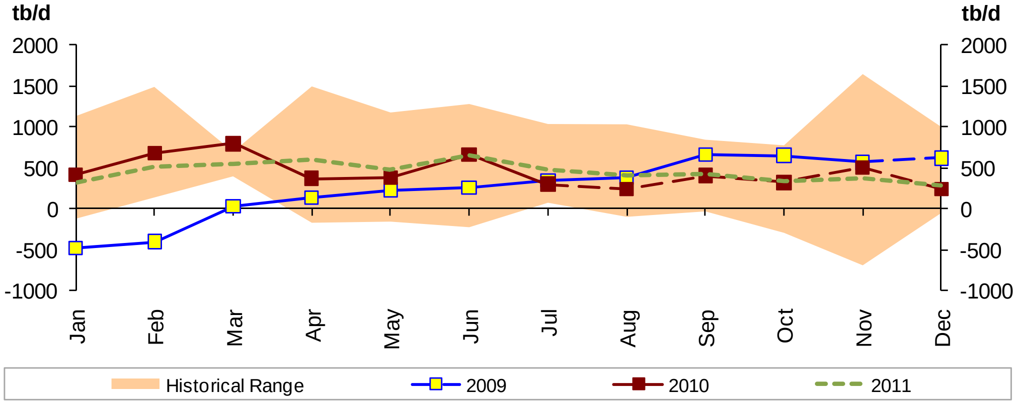
Among other economic factors that might affect China's oil demand is the appreciation of the country's yuan currency. The yuan has appreciated against the dollar since Beijing announced on 19 June that it was freeing the yuan from its two-year de facto peg to the dollar. Nevertheless, the IMF still sees the currency as needing more flexibility and being undervalued in the market.

Graph 19: Changes in Chinese main oil products apparent consumption, y-o-y



Chinese oil demand seems to have cooled down as a result of economic and political factors. Y-o-y, July oil demand growth was the lowest in the last twelve months. The country's oil consumption grew by 3.4% in July y-o-y, averaging 9 mb/d. This weak performance came despite the high seasonality of agriculture and the high demand for electricity. However, this temporary slow in oil demand is not expected to affect the total year oil consumption. China's over-heating economy has kept the country's oil demand on a sharp incline. The country has used another 514 tb/d of oil in the first seven months of the year and oil imports exceeded 1 mb/d for two months to reach 1.6 mb/d in February. However, a large portion of the oil imports during the first half of this year wound up in the country's oil storage. China is keen on a programme to build massive strategic oil storage within the country. The initial filling commenced in the 3Q of 2006, reaching 120 mb in the 3Q of 2010. China's oil imports are structured based on international oil prices.

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



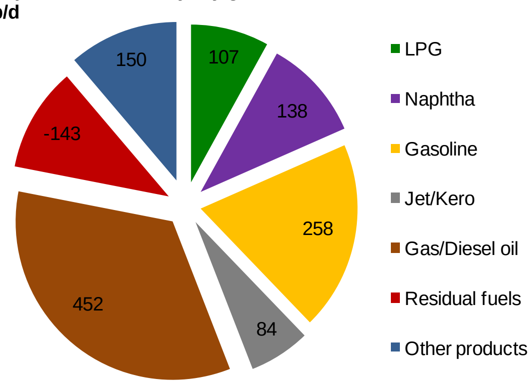
Almost all of China's economic indicators exceeded expectations, pushing not only the country's GDP to 9.5% growth but also the country's oil usage to approach growth of 5.6% in 2010 to average 8.7 mb/d.

World oil demand in 2011

World oil demand to grow by 1.0 mb/d in 2011, to average 86.6 mb

The global economic recovery that started during the second half of 2010 is projected to continue throughout 2011, however at a slow pace.

Graph 21: Forecasted y-o-y growth in 2011 world oil demand, tb/d



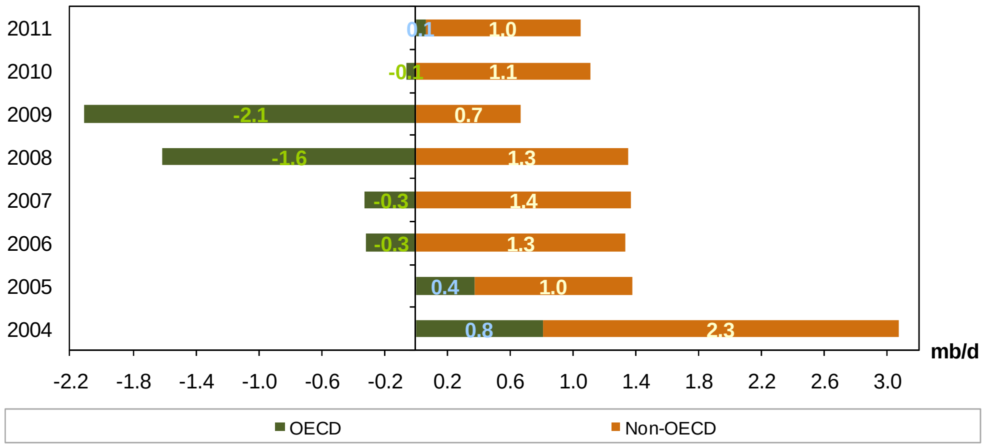
The recovery in oil demand will take place in approximately all quarters, although with more strength in the second half of the year. Of course, the expected growth in oil demand next year comes as a result of not only improved economic activity, but also from the low base in oil demand in 2009 and 2010. The bulk of next year's oil demand growth will take place in the non-OECD, mainly China, India, the Middle East and Latin America. On the product side, the demand for industrial fuel will be strong as a result of the continuing economic recovery. In the OECD, US oil demand is expected to be more than this year's as the country continues to recover from the devastating financial crisis that crippled the economy for two years. US gasoline demand is expected to be back in its normal growing mode; nonetheless, US oil demand will remain the wild card in 2011 as it could also be negatively influenced by the country's economic turbulence, state policies and retail petroleum product prices.

Table 10: World oil demand forecast for 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011	Change 2011/10 Volume	%
North America	23.62	23.80	23.76	23.78	24.01	23.84	0.21	0.91
Western Europe	14.17	14.07	13.85	14.07	14.23	14.05	-0.11	-0.79
OECD Pacific	7.66	8.10	7.27	7.19	7.92	7.62	-0.04	-0.58
Total OECD	**45.45**	**45.97**	**44.88**	**45.03**	**46.16**	**45.51**	**0.06**	**0.13**
Other Asia	10.05	10.13	10.34	10.16	10.34	10.25	0.19	1.91
Latin America	6.04	5.92	6.16	6.30	6.25	6.16	0.12	2.04
Middle East	7.28	7.40	7.36	7.69	7.44	7.47	0.20	2.68
Africa	3.28	3.34	3.31	3.23	3.37	3.31	0.04	1.11
Total DCs	**26.64**	**26.79**	**27.17**	**27.39**	**27.40**	**27.19**	**0.55**	**2.05**
FSU	4.02	4.02	3.77	4.20	4.26	4.06	0.04	1.06
Other Europe	0.68	0.68	0.61	0.64	0.68	0.65	-0.03	-4.19
China	8.72	8.65	9.25	9.49	9.17	9.14	0.43	4.89
Total "Other Regions"	**13.42**	**13.36**	**13.64**	**14.32**	**14.11**	**13.86**	**0.44**	**3.28**
Total world	**85.51**	**86.11**	**85.69**	**86.74**	**87.67**	**86.56**	**1.05**	**1.22**
Previous estimate	85.50	86.18	85.49	86.81	87.71	86.55	1.05	
Revision	0.01	-0.06	0.20	-0.07	-0.04	0.01	0.00	

Totals may not add due to independent rounding

Graph 22: World oil demand growth



Furthermore, demand for transportation fuels and petrochemicals is also expected to be strong in 2011. Other factors that might play an important role in next year's oil demand are retail oil product prices, taxes, and partial removal of retail price subsidies worldwide which would lead to a moderate oil demand recovery. World oil demand is projected to continue growth throughout the year, sustaining growth of 1.05 mb/d to average 86.4 mb/d in 2011.

Given the expected recovery in the industrial sector world-wide, industrial fuel, mainly diesel and naphtha, will be the products showing the most growth in world oil demand in 2011. Furthermore, economic recovery will lead to an increase in world gasoline and jet fuel consumption, yet the bulk would come from the growing transport sector in non-OECD countries as well as the US.

More than 90% of next year's oil demand growth is attributed to the non-OECD countries, whereas OECD, mainly North America, will show a moderate demand increase of 0.2 mb/d.

Table 11: First and second quarter world oil demand comparison for 2011, mb/d

			Change 2011/10				Change 2011/10	
	1Q10	1Q11	Volume	%	2Q10	2Q11	Volume	%
North America	23.50	23.80	0.30	1.28	23.59	23.76	0.17	0.71
Western Europe	14.17	14.07	-0.09	-0.65	13.98	13.85	-0.13	-0.95
OECD Pacific	8.19	8.10	-0.09	-1.13	7.31	7.27	-0.04	-0.57
Total OECD	**45.85**	**45.97**	**0.12**	**0.25**	**44.88**	**44.88**	**-0.01**	**-0.02**
Other Asia	9.95	10.13	0.19	1.90	10.14	10.34	0.20	1.94
Latin America	5.78	5.92	0.14	2.40	6.03	6.16	0.13	2.16
Middle East	7.18	7.40	0.22	2.99	7.19	7.36	0.17	2.42
Africa	3.30	3.34	0.04	1.22	3.27	3.31	0.03	1.04
Total DCs	**26.21**	**26.79**	**0.58**	**2.22**	**26.64**	**27.17**	**0.53**	**2.01**
FSU	3.95	4.02	0.08	1.90	3.74	3.77	0.03	0.80
Other Europe	0.70	0.68	-0.02	-2.15	0.65	0.61	-0.04	-5.41
China	8.23	8.65	0.42	5.09	8.85	9.25	0.40	4.53
Total "Other Regions"	**12.88**	**13.36**	**0.48**	**3.72**	**13.24**	**13.64**	**0.40**	**2.99**
Total world	**84.94**	**86.11**	**1.18**	**1.39**	**84.76**	**85.69**	**0.92**	**1.09**

Totals may not add due to independent rounding

Table 12: Third and fourth quarter world oil demand comparison for 2011, mb/d

			Change 2011/10				Change 2011/10	
	3Q10	3Q11	Volume	%	4Q10	4Q11	Volume	%
North America	23.60	23.78	0.17	0.74	23.79	24.01	0.22	0.92
Western Europe	14.21	14.07	-0.14	-0.98	14.31	14.23	-0.08	-0.58
OECD Pacific	7.21	7.19	-0.02	-0.29	7.94	7.92	-0.02	-0.28
Total OECD	**45.02**	**45.03**	**0.01**	**0.03**	**46.04**	**46.16**	**0.12**	**0.25**
Other Asia	9.98	10.16	0.19	1.87	10.15	10.34	0.19	1.91
Latin America	6.17	6.30	0.12	1.99	6.15	6.25	0.10	1.66
Middle East	7.50	7.69	0.19	2.56	7.24	7.44	0.20	2.76
Africa	3.20	3.23	0.04	1.13	3.33	3.37	0.04	1.05
Total DCs	**26.85**	**27.39**	**0.54**	**2.00**	**26.87**	**27.40**	**0.53**	**1.98**
FSU	4.17	4.20	0.03	0.60	4.22	4.26	0.04	0.98
Other Europe	0.66	0.64	-0.03	-3.76	0.72	0.68	-0.04	-5.44
China	9.04	9.49	0.44	4.90	8.73	9.17	0.44	5.06
Total "Other Regions"	**13.88**	**14.32**	**0.44**	**3.19**	**13.66**	**14.11**	**0.44**	**3.25**
Total world	**85.74**	**86.74**	**1.00**	**1.16**	**86.58**	**87.67**	**1.09**	**1.26**

Totals may not add due to independent rounding

World Oil Supply

Non-OPEC

Forecast for 2010

Non-OPEC supply is projected to grow by 0.92 mb/d in 2010

Non-OPEC oil production is expected to increase by 0.92 mb/d over the previous year to average 52.06 mb/d in 2010. The forecast increase indicates an upward revision of 0.13 mb/d compared to the previous month. The majority of the upward revisions were concentrated in the OECD, with the US and UK supply forecasts encountering the biggest upward revision in this month's update. There were a few minor downward revisions introduced to the supply estimates, yet these were offset by the significant upward revision in the OECD. The US, Brazil, China, Russia, Colombia, Kazakhstan and India are seen as the major contributors to growth while Norway, UK and Mexico remain the main countries with significant declines in 2010. On a quarterly basis, non-OPEC supply is expected to average 52.21 mb/d, 52.16 mb/d, 51.76 mb/d and 52.11 mb/d respectively.

Graph 23: Regional non-OPEC supply growth, y-o-y

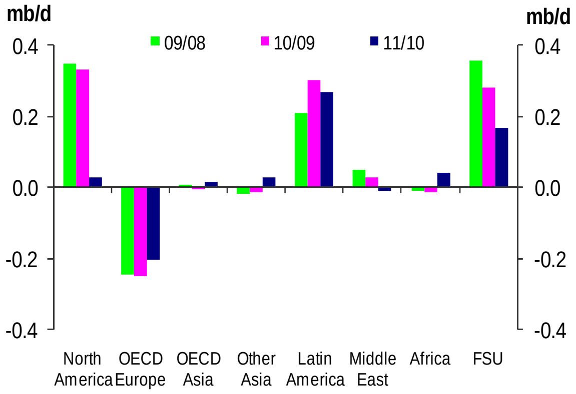


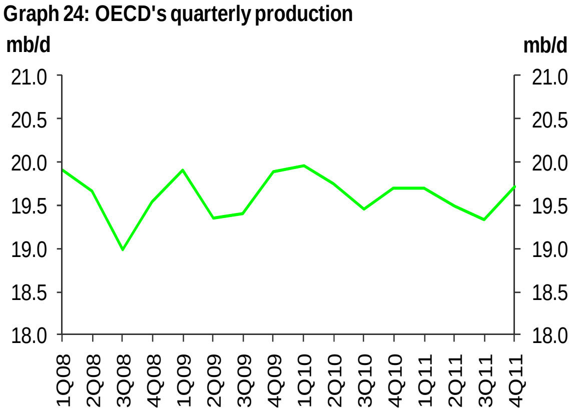
Table 13: Non-OPEC oil supply in 2010, mb/d

	2009	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09
North America	14.29	14.67	14.77	14.50	14.54	14.62	0.33
Western Europe	4.71	4.68	4.39	4.30	4.49	4.46	-0.25
OECD Pacific	0.64	0.61	0.60	0.64	0.67	0.63	0.00
Total OECD	**19.64**	**19.97**	**19.76**	**19.45**	**19.70**	**19.72**	**0.08**
Other Asia	3.70	3.73	3.70	3.67	3.66	3.69	-0.01
Latin America	4.41	4.64	4.71	4.72	4.78	4.71	0.30
Middle East	1.73	1.77	1.77	1.75	1.73	1.76	0.03
Africa	2.72	2.74	2.72	2.68	2.68	2.70	-0.01
Total DCs	**12.56**	**12.88**	**12.91**	**12.81**	**12.85**	**12.86**	**0.30**
FSU	12.96	13.12	13.18	13.28	13.37	13.24	0.28
Other Europe	0.14	0.14	0.14	0.13	0.13	0.14	0.00
China	3.85	4.02	4.09	4.01	3.98	4.03	0.18
Total "Other regions"	**16.94**	**17.28**	**17.42**	**17.42**	**17.49**	**17.40**	**0.46**
Total Non-OPEC production	**49.14**	**50.13**	**50.09**	**49.68**	**50.03**	**49.98**	**0.84**
Processing gains	2.00	2.08	2.08	2.08	2.08	2.08	0.08
Total Non-OPEC supply	**51.14**	**52.21**	**52.16**	**51.76**	**52.11**	**52.06**	**0.92**
Previous estimate	51.13	52.18	52.06	51.56	51.91	51.92	0.79
Revision	0.01	0.03	0.10	0.20	0.20	0.14	0.13

OECD

OECD supply is forecast to growth by 80 tb/d to average 19.72 mb/d in 2010

OECD total oil supply is estimated to increase by 80 tb/d to average 19.72 mb/d in 2010, indicating a significant upward revision of 0.10 mb/d over the previous month. The revisions were due to supply forecasts for North America and OECD Western Europe, while OECD Pacific remained unchanged. The US and UK supply forecasts encountered significant upward revisions which turned the OECD supply forecast positive. On a quarterly basis, OECD oil supply is seen to average 19.97 mb/d, 19.76 mb/d, 19.45 mb/d and 19.70 mb/d respectively.



North America

North America oil production is projected to average 14.62 mb/d in 2010, representing growth of 0.33 mb/d and an upward revision of 80 tb/d compared to last month. The upward revision is rendering North America the region expected to have the highest growth in 2010 among all non-OPEC regions. The forecast calls for healthy growth from the US, relatively steady supply from Canada and slowing decline in Mexico. The upward revision came mainly from the US. According to preliminary data, North America oil supply increased by 0.53 mb/d in the first half of 2010 compared to the same period in 2009. On a quarterly basis, North America oil production is expected to average 14.67 mb/d, 14.77 mb/d, 14.50 mb/d and 14.54 mb/d respectively.

US

Actual US supply data continues to show healthy growth

Despite the unenthusiastic reaction to the deepwater moratorium in the Gulf of Mexico, the strong actual US supply data continues to impress. US oil supply is expected to experience growth of 0.37 mb/d in 2010 to average 8.44 mb/d, representing an upward revision of 70 tb/d. The current output growth projection positions the US on top of the production growth list in 2010. The upward revision came to adjust for actual production data in the first half of the year, with strong potential for more upward revisions in the coming months. The support is coming mainly from the relatively-stable-to-increasing crude output, record biofuel supply and remarkable NGL production. The improved supply from the Bakken formation in North Dakota is further supporting growth. The enhanced supply expectation is seen despite reports of a slower pace in licensing for shallow water drilling in the Gulf of Mexico as well as uncertainty around the startup of the Cascade and Chinook developments in the Gulf of Mexico, as the operator completed two wells from the first phase before the moratorium and it is unclear when the rest will be drilled and connected. On a quarterly basis, US oil production is seen to average 8.44 mb/d 8.53 mb/d, 8.37 mb/d and 8.42 mb/d respectively.

Canada and Mexico

Non-conventional oil to support Canada supply

Preliminary production data for the first half of 2010 supports the forecast trend for Canadian oil supply with growth backed by non-conventional oil, while conventional production is seen declining. However, the various operational setbacks during the first half of the year hindered the materialization of the earlier anticipated growth. Canada oil supply is expected to average 3.26 mb/d in 2010, minor growth of 20 tb/d over 2009 and representing a minor upward revision of less than 10 tb/d from the previous month. The revision was experienced in the first quarter, mainly to adjust for updated production data. The other quarters' supply estimates remained relatively unchanged, as the perception of better performance demonstrated by the data offsets the anticipated lower output by the Long Lake projected due to the upgrader shutdown of more than a week in August. During the first half of 2010, the data indicates that only non-conventional oil production experienced an increase of 80 tb/d, while both crude oil and NGL production declined by 0.03 mb/d and 40 tb/d respectively. On a quarterly basis, Canada's supply is believed to average 3.24 mb/d, 3.27 mb/d, 3.24 mb/d and 3.30 mb/d respectively.

Mexico supply forecast kept flat on differing production data

According to actual production data, oil output from Mexico in the first half of 2010 strongly indicated stabilization of supply. Compared to the same period in 2009, production in 1H10 experienced a decline of less than 1% or 30 tb/d. However, reports that production declined in the first half of August compared to a month earlier cast some doubts regarding the endurance of the output steadiness in the coming period, especially as the decline is coming from Mexico's two major producing projects, i.e. Ku-Maloob-Zaap (KMZ) and Cantarell. Experts are voicing apprehensions whether KMZ was developed too quickly, in an approach that would hinder the project's lasting output level, which increases the risk associated with the forecast for 2010. **Mexico** oil production is anticipated to decline 60 tb/d in 2010 to average 2.92 mb/d, flat from the previous month. On a quarterly basis, Mexico's oil supply is seen to stand at 2.99 mb/d, 2.97 mb/d, 2.88 mb/d and 2.82 mb/d respectively. According to preliminary data, Mexico oil supply averaged 2.96 mb/d in July, slightly higher than the previous month.

Western Europe

OECD Western Europe total oil production is predicted to decline 0.25 mb/d and average 4.46 mb/d in 2010, indicating an upward revision of 20 tb/d compared to the previous month. The upward revision was supported mainly by the upward revision of the UK forecast. The supply situation remains relatively unchanged with declines expected by all of the major producers in the region. On a quarterly basis, supply is believed to average 4.68 mb/d, 4.39 mb/d, 4.30 mb/d and 4.49 mb/d respectively. Preliminary data indicates that OECD Western Europe supply stood at 4.53 mb/d in the first half of 2010, a decline of 0.32 mb/d compared to the same period in 2009.

Norway main fields return from maintenance, yet output remains low on an annual basis

Output from Ekofisk, Statfjord and Gullfaks improved in July compared to a month earlier, according to preliminary production data, as the heavy maintenance work comes to an end. Despite the return from maintenance, especially of the Ekofisk, which in July increased by 0.20 mb/d from the previous month, July total oil supply indicated a decline of 0.31 mb/d or 13% compared to the same month in 2009. Norway oil production is forecast to decline by 0.14 mb/d in 2010 to average 2.20 mb/d, indicating a minor upward revision of less than 10 tb/d compared to a month earlier. Adjustment to updated production data as well as expectation of the startup of the Gjoa and Vega developments supported the upward revision, while the reduced output from the Oseberg and Heidrun fields on technical grounds partially offset the upward revision. On a quarterly basis, Norway's production is seen to average 2.31 mb/d, 2.10 mb/d, 2.13 mb/d and 2.27 mb/d respectively.

UK supply is seen to decline 70 tb/d in 2010

Better-than-expected production data from the UK in the second quarter, supported by better performance by small fields such as the Thistle and Don, required an upward revision of 40 tb/d to the forecast compared to the previous month. Oil production from the **UK** is predicted to average 1.41 mb/d in 2010, a decline of 70 tb/d over 2009. In addition to the healthy supply data in the second quarter, the new well at the Ettrick field, as well as the successful testing of the Blackbird development that will be tied back to Ettrick to maintain peak production, is supporting the upward revision. According to preliminary data, production in the UK in 1H10 indicated a decline of 0.14 mb/d compared to the same period last year. On a quarterly basis, UK oil supply is seen to average 1.51 mb/d, 1.41 mb/d, 1.35 mb/d and 1.39 mb/d respectively.

Preliminary production data indicated lower output from the Danish Underground Consortium in July from a month earlier, mainly due to maintenance work, with fields like Valdemar indicating a relatively heavy decline. Hence, Denmark oil supply forecast was revised down by 10 tb/d compared to the previous month to average of 0.24 mb/d in 2010, a decline of 30 tb/d over 2009. Similarly, the projection for Other Western Europe supply was revised down on anticipation of lower biodiesel output as production was pressured by margins being affected by imports.

Asia Pacific

Total **OECD Pacific** oil supply is expected to remain relatively flat from the previous year to average 0.63 mb/d in 2010, unchanged from the month before. OECD Pacific supply is anticipated to increase in the second half of 2010 supported mainly by Australia. Oil production in 1Q10 indicated a decline of 20 tb/d compared to a year ago, according to preliminary data. On a quarterly basis, total OECD Pacific supply is seen to average 0.61 mb/d, 0.60 mb/d, 0.64 mb/d and 0.67 mb/d respectively.

Australian production is expected to improve in the second half

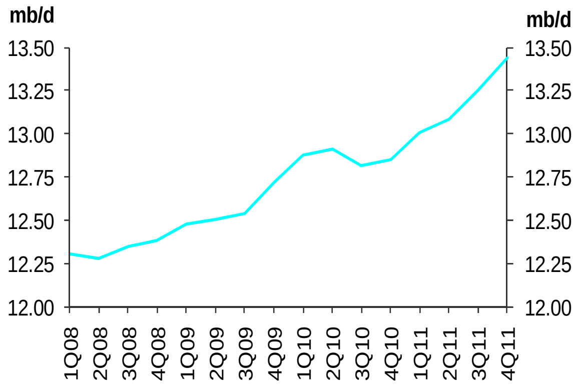
Recently established fields such as the Van Gogh and Pyrenees are expected to ramp up and improve supply in the second half of 2010. In late August, the Ravensworth developments, part of the Pyrenees projected, started up and expected to peak at 30 tb/d. **Australian** oil production is foreseen to remain relatively steady in 2010 over 2009 and average 0.53 mb/d, unchanged from the previous month. Despite the steady state, there was a minor downward revision to second quarter supply on adjustment to production data, yet the revision did not affect the annual figure. Australia oil production is expected to increase in the second half of 2010, as the production in the first half indicated a decline of 30 tb/d compared to the same period last year. The various operational setups delayed any growth in the first half; however, output is expected to improve in the second half of the year. On a quarterly basis, Australian oil production is believed to average 0.51 mb/d, 0.50 mb/d, 0.54 mb/d and 0.57 mb/d respectively.

Developing Countries

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

Developing Countries (DCs) oil supply is projected to increase by 0.30 mb/d in 2010 to average 12.86 mb/d, relatively steady from the previous month with only a minor downward revision of 10 tb/d. Overall supply conditions within DC's remain unchanged with growth in 2010 coming from Latin America and the Middle East, while Other Asia and Africa supply are expected to remain flat. Brazil, Colombia, India and Oman are the main contributors to anticipated DC supply growth. On a quarterly basis, DCs are estimated to average 12.88 mb/d, 12.91 mb/d, 12.81 mb/d and 12.85 mb/d respectively. According to preliminary data, DCs first half oil supply indicated growth of 0.41 mb/d compared to the same period last year.

Graph 25: Developing Countries' quarterly production



Malaysia East Belumut is back online

Preliminary data indicates that output from Other Asia achieved minor growth of 40 tb/d in 1H10, compared to the same period in 2009. Among the group, only India is expected to show oil supply growth in 2010, while other countries' supply forecasts are ranging between steady and declining in 2010. The East Belumut field in Malaysia resumed operation after four weeks of shutdown on a pipeline leak incident. Malaysia oil supply is forecast to decline 40 tb/d in 2010 and average 0.69 mb/d, unchanged from a month earlier. The anticipated decline is projected despite the startup of the biofuels plant at Kuantan. In Thailand, the startup of the Prachinburi biofuels project is expected in 4Q10, yet supply is anticipated to drop 30 tb/d in 2010 to average 0.34 mb/d. Indonesia output was reported lower in July compared to the previous month on technical issues at different fields, with oil production foreseen to average 1.03 mb/d in 2010, flat from the previous year. Oil supply from **Other Asia** is believed to decline by 10 tb/d in 2010 to average 3.69 mb/d, indicating a minor downward revision of less than 10 tb/d compared to a month ago. On a quarterly basis, Other Asia oil supply is seen to stand at 3.73 mb/d, 3.70 mb/d, 3.67 mb/d and 3.66 mb/d respectively.

Brazil and Colombia supply expected to increase in 2010

Despite the safety upsets, whereby the Brazilian government ordered the shutdown of P-33, Brazil oil supply is forecast to continue to experience strong growth with 0.21 mb/d in 2010 for an average of 2.71 mb/d, broadly unchanged from the previous month. The projected growth is supported by healthy production in Julyas well as the return of P-43 to operation from maintenance and the startup of production from new wells as the FPSO Cidade de Santos. According to preliminary data, Argentina oil supply increased by 20 tb/d in 1H10 compared to the same period in 2009. However, Argentina supply is forecast to decline annually by 10 tb/d, where the 2H10 supply is estimated to drop due to mature area decline. Colombia oil supply is expected to increase by 0.11 mb/d in 2010 to average 0.79 mb/d, representing a minor upward revision, mainly on strong production figures. **Latin American** oil production is foreseen to increase by 0.30 mb/d in 2010 to average 4.71 mb/d, indicating a slight upward revision over the previous month. On a quarterly basis, Latin America oil supply is predicted to stand at 4.64 mb/d, 4.71 mb/d, 4.72 mb/d and 4.78 mb/d respectively.

Oman expected supply increase is the only growth in Middle East non-OPEC supply

Middle East oil supply remained relatively unchanged compared to last month, with minor changes to the second quarter on updated production data that offset each other. Oil production from the Middle East is seen to average 1.76 mb/d in 2010, growth of 30 tb/d. The anticipated growth is supported only by Oman, while other countries' supply is seen to either remain flat or decline. Oman oil production is expected to increase by 50 tb/d in 2010 to average 0.86 mb/d, further supported by the projected startup in the second half of 2010 of the Farha development in block-3. Preliminary data indicates that oil production in 1H10 increased by 30 tb/d from the same period a year earlier. On a quarterly basis, Middle East oil production is expected to average 1.77 mb/d, 1.77 mb/d, 1.75 mb/d and 1.73 mb/d respectively.

Congo supply is seen to increase in 2010, the only growth in Africa

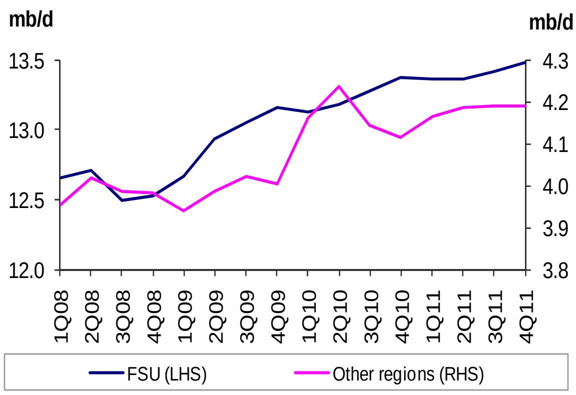
According to preliminary data, Africa oil supply in the first half of 2010 remained unchanged compared to a year ago. Compared to the previous assessment, Africa oil supply forecast experienced a minor downward revision of less than 10 tb/d, mainly on the back of adjustments to updated production data. Egypt and Sudan supply forecast saw minor downward revisions on updated production data. Sudan output is expected to drop 10 tb/d in 2010 to average 0.46 mb/d. The downward revision came despite reports of the startup of a new field at Block 6. Congo oil supply experienced the only upward revision within the region, mainly on the expectation of new wells at the Azurite development. Congo oil production is estimated to increase by 20 tb/d in 2010 to average 0.30 mb/d. Growth is anticipated despite the encountered technical problems. **Africa** oil supply is expected to average 2.70 mb/d in 2010, representing a minor decline of 10 tb/d over last year. On a quarterly basis, Africa oil supply is seen to average 2.74 mb/d, 2.72 mb/d, 2.68 mb/d and 2.68 mb/d, respectively.

FSU, Other Regions

FSU supply to grow by 0.28 mb/d in 2010 to average 13.24 mb/d

FSU total oil production is expected to grow by 0.28 mb/d in 2010 to average 13.24 mb/d, indicating an upward revision of 30 tb/d compared to the previous month. The upward revision came from all the major producers in the region with Russia contributing the largest share. There was a downward revision to the FSU Others forecast that was offset by other upward revisions in the region. In terms of regional growth, total FSU supply in 2010 comes behind only North America and Latin America. During the first half of 2010, FSU oil production increased by 0.45 mb/d over the same period in 2009. On a quarterly basis, total oil production in the FSU is estimated to average 13.12 mb/d, 13.18 mb/d, 13.28 mb/d and 13.37 mb/d respectively. Separately, Other Europe supply is anticipated to remain flat from 2009 to average 0.14 mb/d in 2010.

Graph 26: FSU and other region's quarterly production



Russia

Russia supply forecast revised up to average 10.09 mb/d in 2010, representing growth of 0.17 mb/d

Russian oil production fell in August from the record-high level in July, according to preliminary data, marking the lowest output level since January. The lower supply came on the back of maintenance at the Sakhalin-1 project as well as other areas. However, oil supply is projected to increase in September as the major maintenance work has been completed. **Russia** oil supply is expected to increase 0.17 mb/d in 2010 to average 10.09 mb/d, representing an upward revision of 20 tb/d compared to the previous month. The continuing healthy production level supported the upward revision as well as the startup of the small volume field of Lineynoye and the anticipated increase in production of the Yuzhno-Khylchuyskoye. Vankor field production, which has fueled Russia oil supply growth since it started up in August 2009, is reported to be stabilizing close to the June production level. On a quarterly basis, Russian oil supply is expected to average 10.09 mb/d, 10.12 mb/d, 10.10 mb/d and 10.06 mb/d respectively. Russia oil production stood at 10.07 mb/d in August, lower by 80 tb/d from a month earlier.

Caspian

Kazakh oil supply remains healthy even with maintenance

The Tengiz oil field output was curtailed on the back of maintenance; however, maintenance has ended and the export programme is suggesting higher output in September. However, maintenance at Karachaganak is expected to reduce Kazakhstan output in September. **Kazakh** oil supply is estimated to increase by 80 tb/d in 2010 to average 1.67 mb/d, indicating a minor upward revision of 10 tb/d compared to last month. The healthy level of production, along with reports that the government expects output to exceed initial targets, is further supporting the upward revision. Oil supply in 1H10 indicated growth of 90 tb/d compared to a year ago, according to the available data. On a quarterly basis, Kazakhstan oil supply is estimated to average 1.61 mb/d, 1.56 mb/d, 1.62 mb/d and 1.67 mb/d respectively.

ACG is expected to support growth in 2010

Oil output from Azerbaijan in 1H10 experienced only a minor increase of 10 tb/d compared to a year ago. However, both the Gunashli and East Azeri fields at the Azeri-Chirag-Gunashli (ACG) are producing less than the 2010 target; hence, the potential for supply growth remains strong. **Azeri** oil production is projected to increase by 50 tb/d to average 1.10 mb/d in 2010, representing a minor upward revision of 10 tb/d compared to the previous month. The revision encounter in the second quarter was to adjust for updated production data. Quarterly production stands at 1.01 mb/d, 1.09 mb/d, 1.13 mb/d and 1.19 mb/d respectively.

According to preliminary data, FSU Others oil output declined by 30 tb/d in 1H10 compared to the same period the previous year. The drop required a downward revision that affected the supply in the second half of the year to remain below expectation. FSU Other oil supply is foreseen to average 0.43 mb/d, a minor downward revision of 10 tb/d from the previous month.

China

China supply is expected to grow by 0.18 mb/d in 2010, the third largest growth among all non-OPEC countries

During the first half of 2010, China oil supply increased by 0.23 mb/d over a year ago. Despite the expectation of lower output in the second half of the year, the healthy level of growth as well as preliminary production figures for July necessitated the upward revision. Oil supply from **China** is projected to grow by 0.18 mb/d in 2010 to average 4.03 mb/d, an upward revision of 10 tb/d over the previous month. The startup of the shallow water Bozhong 19-4 field in Bohai Bay, with an expected peak of 0.2 mb/d within 2010, is supporting growth. Additionally, the resumption of production from 12% of the wells in the Liaohe field, which had been shut down due to flooding is further supporting the upward revision. Moreover, reports of the expected startup of the small Hainan Yuedong project has added to this growth. On a quarterly basis, China oil supply is seen to average 4.02 mb/d, 4.09 mb/d, 4.01 mb/d and 3.98 mb/d respectively.

Forecast for 2011

Non-OPEC supply to grow by 0.36 mb/d in 2011 to average 52.42 mb/d

Non-OPEC oil supply in 2011 is forecast to increase by 0.36 mb/d to average 52.42 mb/d. Although growth remained relatively unchanged, the total level was revised up by 0.15 mb/d over the previous month. The majority of this revision came due to changes to 2010 supply estimates. Brazil, Canada, Azerbaijan, Colombia and Kazakhstan are seen to be major contributors to growth in 2011, while Norway, Mexico and the UK are seen to continue to decline. Risk to the forecast remain high, partially due to the effect of the Gulf of Mexico deep water moratorium, natural decline, as well as technical, political and environmental factors. On a quarterly basis, non-OPEC supply is anticipated to average 52.31 mb/d, 52.19 mb/d, 52.27 mb/d and 52.91 mb/d respectively.

Table 14: Non-OPEC oil supply in 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10
North America	14.62	14.59	14.60	14.61	14.80	14.65	0.03
Western Europe	4.46	4.46	4.24	4.07	4.28	4.26	-0.20
OECD Pacific	0.63	0.64	0.65	0.65	0.64	0.65	0.02
Total OECD	**19.72**	**19.69**	**19.49**	**19.34**	**19.72**	**19.56**	**-0.16**
Other Asia	3.69	3.71	3.69	3.73	3.75	3.72	0.03
Latin America	4.71	4.87	4.92	5.02	5.12	4.98	0.27
Middle East	1.76	1.73	1.74	1.75	1.76	1.75	-0.01
Africa	2.70	2.69	2.73	2.75	2.81	2.75	0.04
Total DCs	**12.86**	**13.01**	**13.08**	**13.25**	**13.44**	**13.20**	**0.33**
FSU	13.24	13.37	13.36	13.42	13.48	13.41	0.17
Other Europe	0.14	0.14	0.14	0.14	0.14	0.14	0.00
China	4.03	4.03	4.05	4.05	4.05	4.04	0.02
Total "Other regions"	**17.40**	**17.53**	**17.55**	**17.61**	**17.67**	**17.59**	**0.19**
Total Non-OPEC production	**49.98**	**50.23**	**50.12**	**50.19**	**50.84**	**50.34**	**0.36**
Processing gains	2.08	2.08	2.08	2.08	2.08	2.08	0.00
Total Non-OPEC supply	**52.06**	**52.31**	**52.19**	**52.27**	**52.91**	**52.42**	**0.36**
Previous estimate	51.92	52.18	52.06	52.09	52.74	52.27	0.35
Revision	0.14	0.13	0.13	0.18	0.17	0.15	0.02

Revisions to the 2011 forecast

The non-OPEC supply forecast in 2011 experienced a relatively minor upward revision, with projected growth revised by 20 tb/d compared to the previous month. While the supply estimates for many countries in 2011 changed, growth for only a few countries has changed, as the majority of the revisions were done to the base. Mexico, Oman and Equatorial Guinea encountered minor upward revisions, while supply forecast for Norway and Sudan experienced minor downward revisions. Mexico oil supply was revised up slightly on production stabilization. Equatorial Guinea supply projections showed an upward revision, supported by the expected startup of the Aseng and Alen fields. Norway and Sudan oil supply forecasts were revised slightly down following a reevaluation of the anticipated decline rate in 2011.

OPEC natural gas liquids and non-conventional oils

OPEC NGLs and non-conventional oils are forecast to grow by 0.45 mb/d in 2010 to average 4.80 mb/d, representing a downward revision of 30 tb/d from the previous month. In 2011, OPEC NGLs and nonconventional oils are expected to increase by 0.50 mb/d over the previous year to average 5.30 mb/d.

Table 15: OPEC NGLs + non-conventional oils, 2008-2011

	2008	2009	Change 09/08	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09	2011	Change 11/10
Total OPEC	**4.14**	**4.35**	0.21	4.60	4.77	4.82	5.02	**4.80**	0.45	**5.30**	0.50

OPEC crude oil production

OPEC crude output averaged 29.15 mb/d in August

Total OPEC crude oil production averaged 29.15 mb/d in August, according to secondary sources, down by 0.04 mb/d from the previous month. OPEC production, not including Iraq, stood at 26.80 mb/d, down by 0.04 mb/d from the previous month. Crude oil production from Angola, Saudi Arabia, and Venezuela increase by more than 0.01 mb/d in August while crude output from Iran, Kuwait, Nigeria, and the UAE decreased by more than 0.01 mb/d.

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

	2009	3Q09	4Q09	1Q10	2Q10	Jun 10	Jul 10	Aug 10	Aug/Jul
Algeria	1,270	1,275	1,270	1,271	1,270	1,269	1,270	1,268	*-1.7*
Angola	1,786	1,828	1,873	1,912	1,852	1,809	1,753	1,816	*63.2*
Ecuador	477	472	474	474	468	463	463	462	*-0.7*
Iran, I.R.	3,725	3,749	3,728	3,742	3,726	3,710	3,695	3,680	*-15.4*
Iraq	2,422	2,499	2,459	2,463	2,357	2,356	2,354	2,348	*-6.1*
Kuwait	2,263	2,254	2,275	2,288	2,306	2,318	2,317	2,305	*-12.5*
Libya, S.P.A.J.	1,557	1,557	1,540	1,543	1,562	1,571	1,579	1,588	*8.5*
Nigeria	1,812	1,739	1,942	1,987	1,980	2,009	2,106	2,008	*-98.1*
Qatar	776	780	792	805	804	801	809	816	*6.7*
Saudi Arabia	8,055	8,123	8,122	8,127	8,144	8,184	8,215	8,230	*15.7*
UAE	2,256	2,253	2,258	2,280	2,307	2,302	2,334	2,313	*-21.4*
Venezuela	2,309	2,320	2,284	2,291	2,294	2,284	2,294	2,313	*18.7*
Total OPEC	**28,707**	**28,849**	**29,015**	**29,182**	**29,071**	**29,075**	**29,190**	**29,147**	***-43.2***
OPEC excl. Iraq	**26,285**	**26,350**	**26,557**	**26,720**	**26,713**	**26,719**	**26,836**	**26,799**	***-37.1***

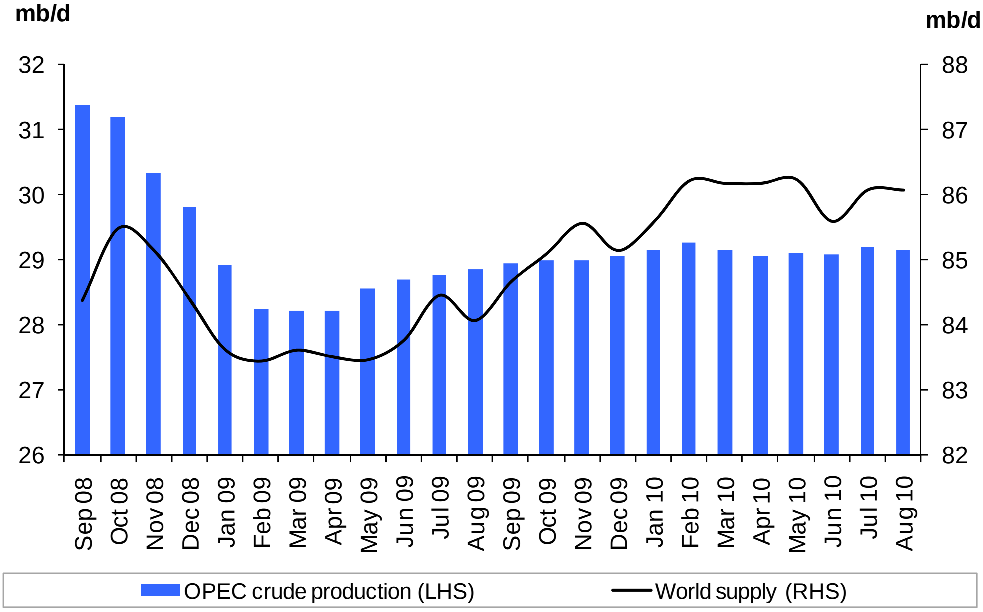
Totals may not add due to independent rounding

World Oil Supply

Global supply in August estimated at 86.08 mb/d

Preliminary figures show that world oil supply averaged 86.08 mb/d in August, relatively steady from the previous month. OPEC crude is estimated to have a 33.9% share in global supply, steady from the previous month. The estimate is based on preliminary data for non-OPEC supply, estimates for OPEC NGLs and OPEC crude production according to secondary sources.

Graph 27: OPEC and world oil supply

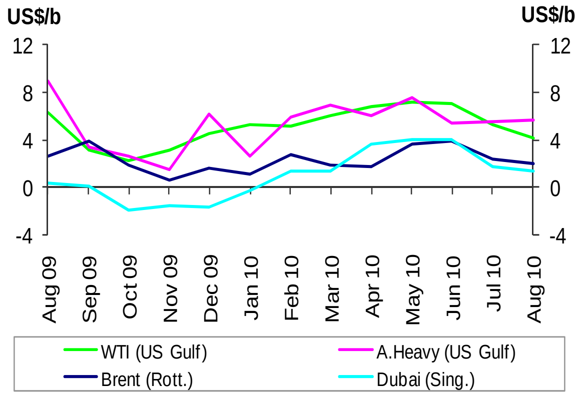


Product Markets and Refinery Operations

Refinery performance affected by bearish gasoline market during the peak of the driving season

Uncertainties about the pace of economic growth and product stocks considerably above historical levels at the end of the driving season kept pressure on product markets, mainly in the Atlantic basin. The oversupply was concentrated in the gasoline market, as distillates resisted inventory pressure due to stronger demand across the board. Fuel oil kept the previous month's gains, driven by Singapore bunker demand. The support gained from distillates and fuel oil avoided a deeper drop in refining margins.

Graph 28: Refining margins



As the cut in refinery runs is not likely to offset the pressure of the stock overhang, the persisting situation in the product markets could continue into the coming season, if economic growth indicators are insufficient to support demand sentiment.

As ***Graph 28*** shows, refining margins for WTI crude oil at the US Gulf Coast fell further in August, dropping from $5.25/b to $4.12/b. In Europe, the refining industry continued restraining crude runs in an effort to protect margins; however, the bearish gasoline market caused a slight drop, with the margin for Brent crude in Rotterdam falling slightly from $2.4/b to $2/b in August.

In Asia, the very bearish naphtha sentiment from July changed in mid-August on the back of stronger demand from the petrochemical sector and expectations of short supply in the coming months.

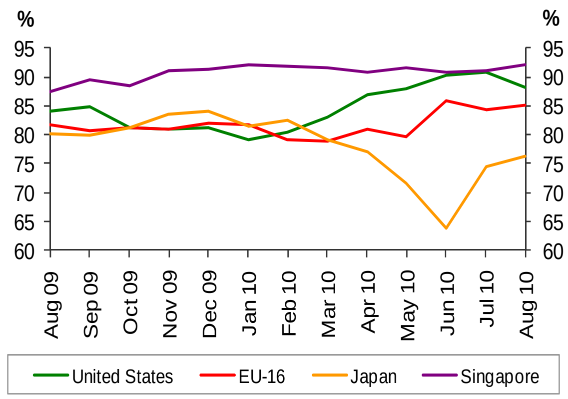
Refining margins for Dubai crude oil in Singapore fell slightly from $1.7/b in July to $1.4/b in August.

Refinery operations

Refinery margins kept falling despite run cuts

US refiners cut runs in a failed effort for recover the margins lost in July but this could not change the bearish perception amid an overhang of counter-seasonal stocks. European refiners kept throughputs moderate, considering the risk of a saturated market. Asian refiners have finished the maintenance period and utilization rates are on the rise.

Graph 29: Refinery utilization rates, 2009-2010



As *Graph 29* shows, refinery utilization rates in the US dropped to 88%, the lowest level in two months. However, the product overhang and the limited arbitrage to other regions has generated bearish sentiment, mainly in gasoline at the end of the season, impacting margins.

European refiners have kept moderate utilization rates, in an effort to protect margins. According to preliminary data, European refinery utilization rates have remained in line with the previous month at around 85%.

In Asia, after seasonal maintenance finished, refinery throughputs are on the rise.

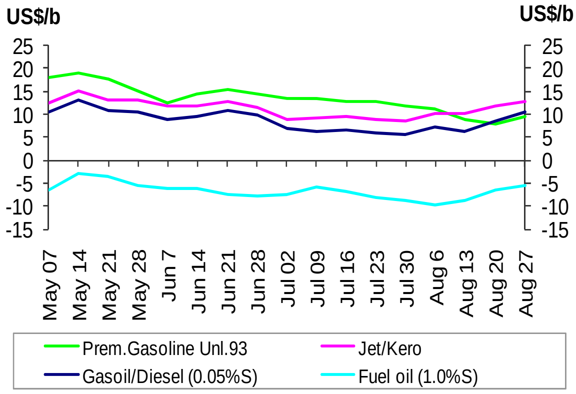
Looking ahead, the seasonal maintenance of some refineries could not offset high spare refining capacity around the world. In an oversupplied market characterized by depressed demand, refining operation levels are not expected to rise significantly in the coming months.

US market

Gasoline kept falling despite lower refinery runs at the end of the driving season

The approaching end of the peak driving season and the growing overhang in inventories made refiners reduce throughputs in a failed effort to recover margins lost in July. According to the EIA, US gasoline demand remained relatively high in August with growth of 62 tb/d y-o-y. However, the pressure exerted by oversupply across the Atlantic basin due to a surplus in Europe, as well as the very bearish sentiment in the market during the second week of August due to bad economic news, caused the gasoline crack spread on the US Gulf Coast to continue falling from a five-month low of $12.8/b in July to $9.4/b in August.

Graph 30: US Gulf crack spread vs. WTI, 2010



Middle distillate demand in the US rose slightly, mainly to store heating oil for the winter season, taking into account the market contango structure and export opportunities to Latin America, Africa and Europe. Despite the record-high stock levels, this gave sufficient support to the gasoil market to recover ground lost in July and the US gasoil crack at the Gulf Coast rose to $10/b at the end of August, representing a sharp improvement from the $6/b seen in the latter part of July (*see* ***Graph 30***).

Following these developments, heating oil managed money traders on the Nymex increased net long position to 37,057 lots in August from an average of 23.998 contracts in July.

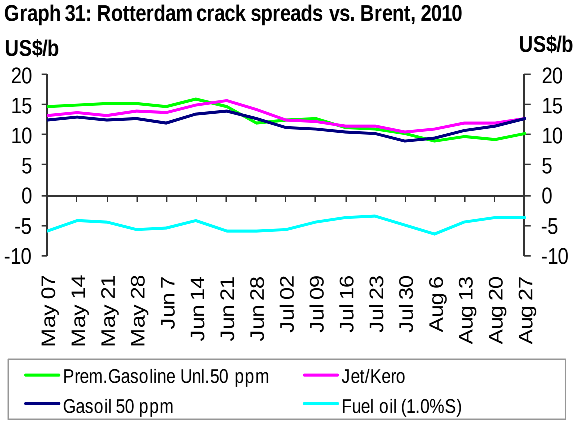
Fuel oil cracks kept the support gained in July from regional demand and trading opportunities to Singapore and Latin American. As a result, the US Gulf Coast crack remained around $7.5/b.

European market

Limited arbitrage outlets in a saturated market depressed European gasoline sentiment; however, strong diesel demand prevented a deeper drop in margins

The gasoline market continued falling in August, amid weak local demand and limited arbitrage opportunities as gasoline stocks in the US reached high levels. However, the drop was not as large as in July, because some support came from the supply side due to moderate refinery runs and less naphtha blended in the gasoline pool. The gasoline crack spread against Brent crude in Rotterdam dropped further from a $11.5/b average in July to average $9.5/b in August (*see* ***Graph 31***). With the end of the driving season and high stocks in the Atlantic basin, gasoline market sentiment could remain weak in coming months.

Graph 31: Rotterdam crack spreads vs. Brent, 2010



The European naphtha market improved on reduced pressure from oversupply due to positive market sentiment, driven by higher demand in the petrochemical sector and additional support from the supply side due to less substitution of LPG for economic reasons.

Middle distillate demand peaked in France and Germany and supplies tightened on moderated European refinery runs and lower Russian volumes. Peak holiday traffic supported the distillates market, despite rising crude prices. The gasoil crack spread against Brent crude at Rotterdam increased from $10.3/b in July to $11/b in August (see *Graph 31*).

High stock levels amid steady lower exports from Russia could provide some support, if refinery runs remain on the lower side.

Strong jet/fuel consumption in the peak holiday season and moderate refinery runs triggered bullish market sentiment. In the last week of August, differentials rose to a higher level than in the last two months.

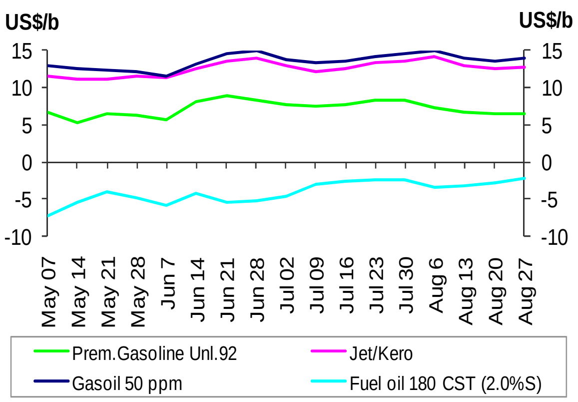
European high sulfur fuel oil market conditions kept the ground gained last month, supported by open arbitrage to Asia-Pacific, which helped clear the pressure exerted by increasing Russian exports. As ***Graph 31*** shows, the low sulfur fuel oil crack spread against Brent was flat from the previous month at around minus $4.5/b.

Asian market

Asian naphtha market recovered from bearish sentiment in July

Asian naphtha market sentiment continued to be bearish during the beginning of August, but then started to recover mid-month. This was due to the positive sentiment created by expectation of lower supplies from Middle East producers following unscheduled maintenance in UAE condensate splitters, and rising demand from Taiwan and South-Korea for petrochemical use. The bearish sentiment persisted due to concerns about demand from China's petrochemical sector

Graph 32: Singapore crack spreads vs. Dubai, 2010



Asian gasoline market sentiment was slightly bearish due to weak demand in the area despite the holiday season, amid higher refinery runs in Japan and South Korea (over 75%). Gasoline crack spread against Dubai crude oil in Singapore dropped to $6,4/b at the end of the month, a drop of $2/b compared to the last weeks of July (see *Graph 32*).

With the end of the driving season and high stock levels limiting arbitrage, the Asian gasoline market is expected to remain bearish.

The gasoil market continued strong amid higher regional demand from Indonesia and Vietnam. The gasoil crack spread in Singapore against Dubai kept the previous month's gains at around $14/b (see ***Graph 32***). The Asian gasoil market may keep part of its current strength over the coming months, as tight supplies in the region result from moderate refinery runs in Europe and Asia.

The Asian fuel oil market remained as strong as in the previous month, supported by robust bunker sales in Singapore, in an environment of limited arbitrage from the US. The demand for utility fuel was partially affected by the floods in some Asian countries. Following these developments, the high sulfur fuel oil crack spread in Singapore against Dubai crude kept the elevated level seen in the previous month of around minus $3/b. Moderated refinery runs and limited arbitrage could give some support to the Asian fuel oil market.

Table 17: Refined product prices, US$/b

		Jun 10	Jul 10	Aug 10	Change Aug/Jul
US Gulf (Cargoes):					
Naphtha		82.43	80.21	77.96	-2.25
Premium gasoline	*(unleaded 93)*	89.20	88.83	86.34	-2.50
Regular gasoline	*(unleaded 87)*	85.35	85.23	83.85	-1.38
Jet/Kerosene		86.70	85.12	88.25	3.13
Gasoil	*(0.05% S)*	84.55	82.29	85.07	2.78
Fuel oil	*(1.0% S)*	68.13	68.84	69.30	0.46
Fuel oil	*(3.0% S)*	66.04	65.94	66.79	0.85
Rotterdam (Barges FoB):					
Naphtha		72.81	69.33	73.26	3.93
Premium gasoline	*(unleaded 10 ppm)*	88.78	86.93	86.76	-0.17
Premium gasoline	*(unleaded 95)*	93.25	91.93	91.24	-0.68
Jet/Kerosene		89.11	87.11	89.09	1.98
Gasoil/Diesel	*(10 ppm)*	87.50	85.74	88.26	2.53
Fuel oil	*(1.0% S)*	69.20	71.28	72.62	1.34
Fuel oil	*(3.5% S)*	66.24	66.33	68.69	2.36
Mediterranean (Cargoes):					
Naphtha		71.16	66.46	71.19	4.72
Premium gasoline	*(50 ppm)*	73.12	70.42	70.63	0.20
Jet/Kerosene		87.30	84.43	87.08	2.64
Gasoil/Diesel	*(50 ppm)*	88.51	84.19	84.50	0.30
Fuel oil	*(1.0% S)*	68.04	67.62	71.90	4.28
Fuel oil	*(3.5% S)*	65.99	65.61	68.97	3.36
Singapore (Cargoes):					
Naphtha		72.42	68.57	73.43	4.87
Premium gasoline	*(unleaded 95)*	83.25	82.42	82.81	0.39
Regular gasoline	*(unleaded 92)*	81.54	80.37	81.12	0.75
Jet/Kerosene		86.64	85.32	87.50	2.18
Gasoil/Diesel	*(50 ppm)*	87.36	86.32	88.45	2.13
Fuel oil	*(180 cst 2.0% S)*	68.67	69.68	71.46	1.78
Fuel oil	*(380 cst 3.5% S)*	68.31	68.46	69.83	1.37

Table 18: Refinery operations in selected OECD countries

	Refinery throughput mb/d				Refinery utilization %			
	Jun 10	Jul 10	Aug 10	Aug/Jul	Jun 10	Jul 10	Aug 10	Aug/Jul
USA	15.87	15.45	15.00	-0.45	90.2	90.7	88.2	-2.54
France	1.31	1.44	1.38	-0.06	83.2	83.3	83.3	-0.08
German	1.97	1.93	1.95	0.02	84.3	82.0	83.1	1.17
Italy	1.73	1.67	1.70	0.03	78.5	76.9	77.7	0.77
UK	1.44	1.37	1.40	0.03	79.4	78.1	78.7	0.63
Euro16	11.26	11.05	11.10	0.05	86.0	84.4	85.2	0.79
Japan	3.03	3.46	3.77	0.32	63.8	74.4	76.3	1.91

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

Tanker Market

OPEC spot fixtures grew in August supported by low freight rates

Chartering activity grew during August in all regions; total spot fixtures increased 9.4% m-o-m from July. Most of the increase was attributed to low freight rates during the month as well as high tonnage availability which pushed charterers to cover open positions before market conditions changed.

OPEC spot fixtures increased 9.8% m-o-m in August. Middle East eastbound spot fixtures increased 4.1% while Middle East westbound spot fixtures increased 26.5% reflecting the modest position on long-haul eastern routes. Outside the Middle East also showed a healthy increase by 12.8%. The increase was partially impacted by the clean tanker market which becomes active during refinery maintenance season. During this time, domestic refineries cut down production and products need to be transported longer distances.

Sailings from OPEC and Middle East experienced a decline of 1% and 1.1% m-o-m respectively in August. The experienced decline is part of the normal seasonal cut in sailings mostly attributed to the beginning of refining maintenance. A drop in eastern crude demand also impacted sailing activity. Despite the monthly decline, sailing levels continued at healthy levels compared with last year.

On the arrivals side, North America arrivals showed a gain of 3.5% which was reflected in the increase of crude oil storage. Europe fell 3.2% reflecting the cut in refining activity. West Asia also showed a small decline of 2.6%.

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

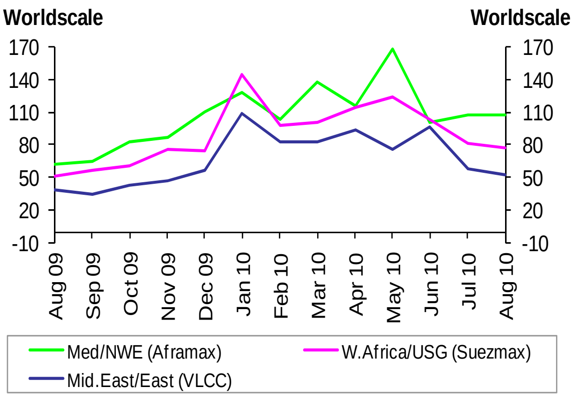
	Jun 10	Jul 10	Aug 10	Change Aug/Jul
Spot Chartering				
All areas	18.00	17.89	19.45	1.56
OPEC	12.43	12.78	14.03	1.25
Middle East/East	5.89	6.20	6.46	0.25
Middle East/West	1.19	1.13	1.43	0.30
Outside Middle East	5.35	5.45	6.15	0.70
Sailings				
OPEC	23.56	23.71	23.47	-0.24
Middle East	17.47	17.57	17.37	-0.20
Arrivals				
North America	9.52	8.97	9.29	0.32
Europe	11.43	12.52	12.12	-0.40
Far East	8.06	8.29	8.29	0.00
West Asia	4.65	4.66	4.54	-0.12

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

The tanker market saw declining rates on all routes in August

The crude oil tanker market continued with the weak trend seen in July, experiencing declining rates during August on all routes. VLCC spot freight rates fell 8.6%, Suezmax rates decreased 4.9% and Aframax freight rates fell by 8.1% in August over the previous month. The tanker market was impacted by a significant increase in tonnage due to the release of vessels that were previously tied up for floating storage.

Graph 33: Monthly averages of crude oil spot freight rates



The VLCC market continued to deteriorate during August with Middle East/East and Middle East/West routes remaining at around $1.30/b and $1.65/b respectively at the end of the month. Freight rates were below operational costs for West routes while hovering around operational expenses for the East routes. The decline was the result of high available tonnage, slow activity and the beginning of refining maintenance season. Vessel owners could not stop the monthly drop despite their efforts to stabilize the fundamentals of the market.

VLCC rates from West Africa to East also declined by 6.7% due to the increase of available tonnage in the route.

Suezmax rates in West Africa/US Gulf Coast continued to drop due to lack of activity and a buildup of available tonnage. Rates on the route averaged $1.86/b or 4.9% lower than July. The low price also impacted VLCC rates in the Atlantic. Similarly, Suezmax rates for North West Europe/US East Coast and US Gulf Coast route declined 4.9%.

Aframax market rates in the Caribbean/US East Coast route fell 18.4%. Although the volume of new business in the Caribbean was healthy, a balanced tonnage list made it difficult for either side to influence rate levels. As Hurricane Danielle had a negligible impact on the market, it is likely that the decline is the consequence of the drop of rates in other Atlantic markets, with little prospects in the months ahead.

Aframax Indonesia Eastbound route was also impacted by global market trends falling 9% from July. Mediterranean/Mediterranean and Mediterranean/Northwest Europe routes remained at similar levels as in the previous month. Aframaxes in the Mediterranean region showed their volatility once again with a false expectation of recovery during the first half of the month, perhaps occasioned by thinner list positions due to recent norms.

Table 20: Spot tanker crude freight rates, Worldscale

	Size *1,000 DWT*	Jun 10	Jul 10	Aug 10	Change Aug/Jul
Crude					
Middle East/East	230-280	96	58	52	-6
Middle East/West	270-285	63	45	41	-4
West Africa/East	260	85	60	56	-4
West Africa/US Gulf Coast	130-135	103	81	77	-4
NW Europe/USEC-USGC	130-135	102	81	77	-4
Indonesia/US West Coast	80-85	117	111	101	-10
Caribbean/US East Coast	80-85	133	141	115	-26
Mediterranean/Mediterranean	80-85	112	110	108	-2
Mediterranean/North-West Europe	80-85	101	107	107	0

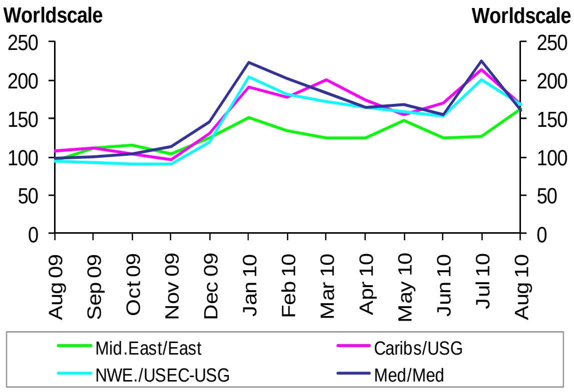
Source: Galbraith's Tanker Market Report and Platt's

Product spot freight rates experienced mixed patterns with gains in East of Suez and decreases West of Suez

The clean market spot freights decreased 15.1% m-o-m in August, but experienced mixed patterns. East of Suez spot rates increased 23.3% while West of Suez route rates declined 26%.

Middle East eastbound route rates increased 28.6% and Singapore eastbound rates grew 17.9% m-o-m during August, reflecting healthy demand in Japan and Far East as well as the beginning of refinery maintenance in some eastern refineries.

Graph 34: Monthly averages of clean spot freight rates



The Caribbean/US Gulf Coast and Northwest Europe/US East Coast and US Gulf Coast freight rates decreased throughout the month, reflecting the end of the driving season in the US as well as the beginning of the refining maintenance season in Europe. Though intermittent arbitrage opportunities have given some small spikes in the Atlantic market during the month; nevertheless, the trend has been weak following modest demand and low refining margins.

The Mediterranean/Mediterranean and Mediterranean/Northwest Europe also experienced significant decreases of 28.9% and 27.7% respectively, reflecting the end of the summer driving season.

Table 21: Spot tanker product freight rates, Worldscale

	Size *1,000 DWT*	Jun 10	Jul 10	Aug 10	Change Aug/Jul
Products					
Middle East/East	30-35	125	126	162	36
Singapore/East	30-35	140	123	145	22
Caribbean/US Gulf Coast	38-40	171	213	168	-45
NW Europe/USEC-USGC	33-37	153	200	148	-52
Mediterranean/Mediterranean	30-35	156	225	160	-65
Mediterranean/North-West Europe	30-35	166	235	170	-65

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

Oil Trade

US crude oil imports increased 9.5% in August

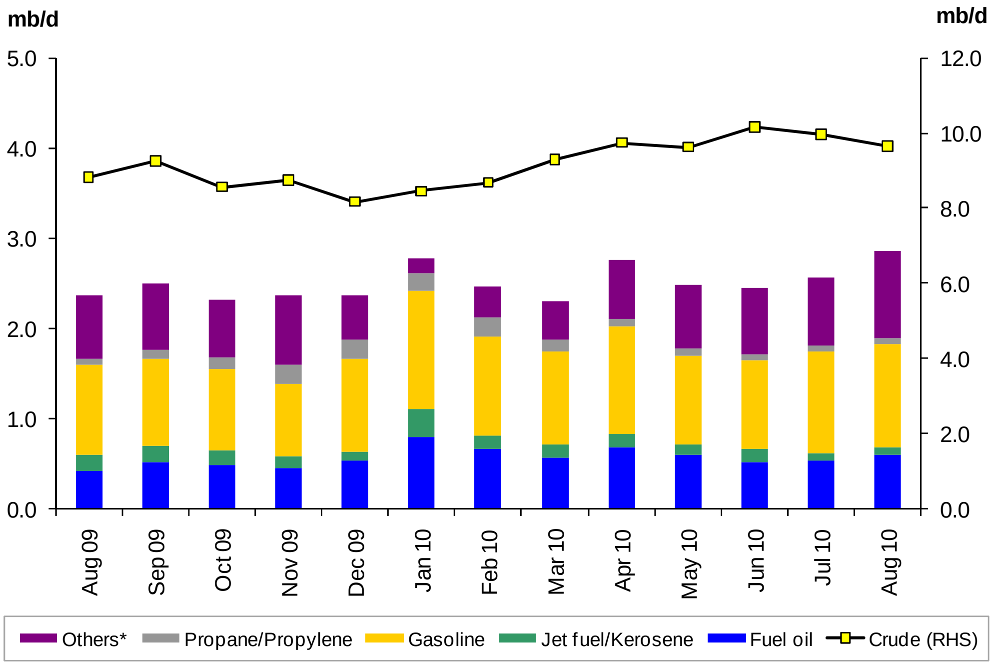
USA

According to preliminary data, US crude oil imports averaged 9.65 mb/d in August, down 3.23% from July and 9.5% higher than the same month last year. The decline in monthly imports reflects the end of the driving season which has been reflected in lower refining runs.

Year-to-date, US crude oil imports averaged 9.45 mb/d, up 2.9% from the same period last year. Crude oil imports in the US have experienced mixed patterns during 2010, with drops during January – March resulting in a moderate annual increase reflecting the modest economic recovery.

US product imports grew by 11.87% m-o-m to 2.86 mb/d in August. Almost all products saw gains in imports, except for jet fuel imports, which decline by 4.5% or 3.7 tb/d from the previous month to stand at 77.5 tb/d. Gasoline saw the highest imports in August with 1.15 mb/d, an increase of 1.9% over the previous month, followed by fuel oil with 604 tb/d. The increase in gasoline imports is also reflected in the increase on motor gasoline stocks.

Graph 35: USA's imports of crude and petroleum products



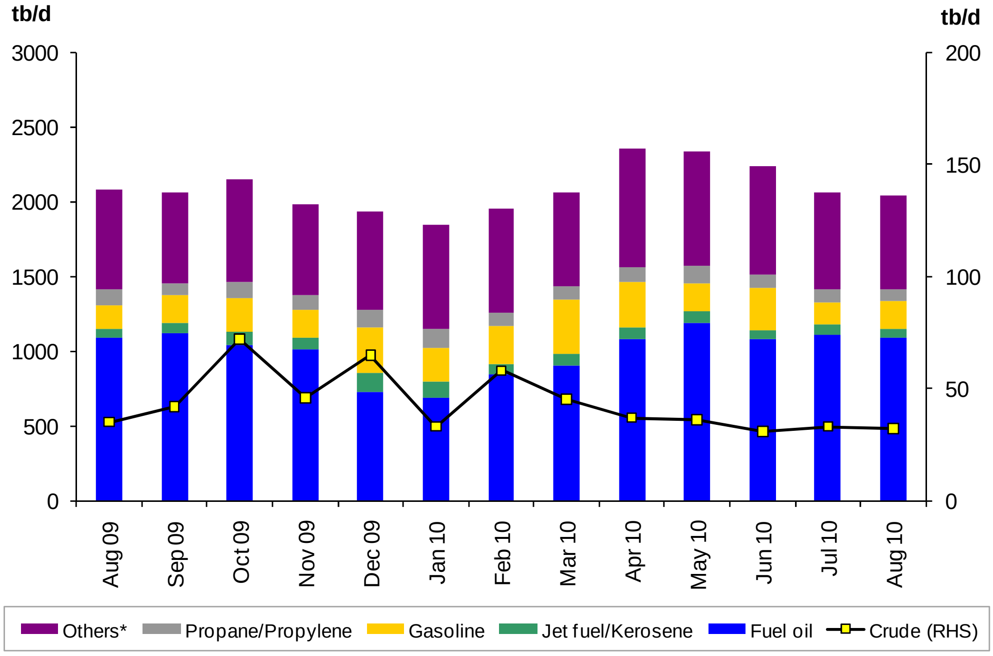
**Others: Contains natural gas liquids, liquefied refinery gases (LRG's), other liquids and all finished petroleum products except gasoline, jet fuel/kerosene, fuel oil and propane/propylene*

On the exports side, US oil product exports remained broadly unchanged since the previous month, down slightly by 16 tb/d. Product exports in August reached 2.04 mb/d. The small decline mirrors the cut in refining runs. Fuel oil exports are responsible for most of product exports cuts with 1.08 mb/d in August, down 2.3% from the previous month. Gasoline exports, on the other hand, experienced an increase of 21.6%.

Year-to-date, US product exports averaged 2.11 mb/d, up 8.1% from the same period last year, mostly due to higher refining run rates as well as global oil demand recovery.

As a result, US crude oil and total product net imports averaged 10.43 mb/d in August, almost the same as the previous month. Net crude oil imports were 322 tb/d lower than July, averaging 9.62 mb/d, while net product imports reached 817 tb/d or 64.19% more than a month earlier.

Graph 36: USA's 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*

According to the latest official data, US crude oil imports from OPEC averaged 5.19 mb/d in June, up 10.7% from May and 20.7% higher than the same month a year ago. Canada continued to be the top supplier of crude to the US during June, reaching 2.2 mb/d or 10% more than the previous month. Saudi Arabian deliveries of crude to the US rose 23.3% to 1.35 mb/d, reaching second place among top suppliers of crude to the US. US crude imports from Nigeria grew 6.2% to 1.06 mb/d reaching the same level as Mexico, which experienced a significant decline of 17.4%. Venezuela and Iraq were next in line with 850 tb/d and 630 tb/d respectively.

On the product exports side, Mexico product imports from the US reached 432 tb/d in June, becoming the best purchaser of US products. Netherland's product imports from the US grew 59.8% to 195 tb/d, thus jumping to second place. Canada came third in the product importers list with 164 tb/d, just 15 tb/d over Brazil which experienced an increase of 79.5%.

OPEC product imports from the US reached 105 tb/d. Ecuador imported 91 tb/d, followed by Nigeria with 12 tb/d. US deliveries of products to Venezuela were only 2 tb/d, reaching third place among OPEC product importers from US.

US product imports from OPEC countries dropped 10.4%. Algerian product exports to the US increased 5.4% in June to 175 tb/d, while Venezuelan deliveries of products reached 48 tb/d and Nigeria 43 tb/d. Canada also remained the top oil product supplier to the US in June, averaging 535 tb/d, up 5 tb/d on the month. Russian product exports to the US decreased 10.5% to 323 tb/d while Virgin Island product supplies grew 26.4% to 244 tb/d.

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

	Jun 10	Jul 10	Aug 10	Change Aug/Jul
Crude oil	10,115	9,937	9,616	-322
Total products	202	497	817	319
Total crude and products	**10,317**	**10,435**	**10,432**	**-2**

Japan's crude oil imports increased 12% in July

Japan

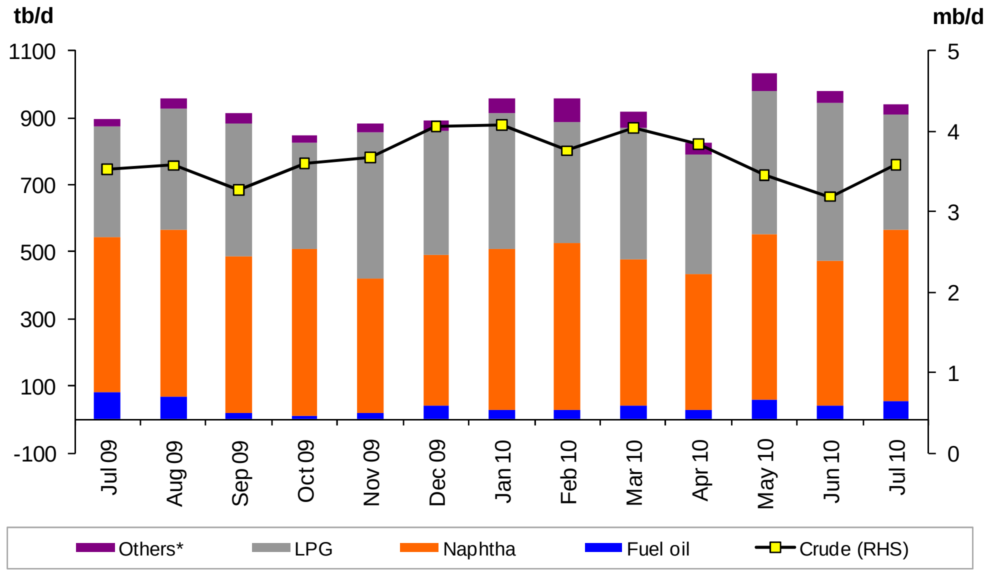
According to preliminary data, Japan's crude oil imports increased 12.3% m-o-m during July to 3.58 mb/d. Crude imports also increased 1.3% over the same month last year. The monthly increase is attributed to higher refining runs at the end of the heavy maintenance season.

During the first seven months of the year, Japanese crude oil imports averaged 3.71 mb/d, an increase of 1.3% over the same period last year. Import declines in February and June offset the increase during the rest of the year.

OPEC crude oil deliveries to Japan increased 14.3% m-o-m in July to 3.0 mb/d, compared to the same month last year. Japanese crude imports from OPEC declined 1.1%. Despite the reduction of 11.9% in Saudi Arabia's deliveries of crude oil to Japan, the Kingdom remained Japan's top crude supplier, accounting for 24.2% to 864.6 tb/d.

Imports from UAE, Japan's second largest crude supplier in July, rose 22.8% m-o-m and 2.3% y-o-y to 755.7 tb/d, while imports from Iran were up 50.1% m-o-m to 460.1 tb/d, making it the country's third-largest supplier for the month. Qatar crude oil deliveries also declined on a monthly basis by 1.9% to 429 tb/d, thus being the fourth-largest crude supplier to Japan.

Graph 37: Japan's imports of crude and petroleum products



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

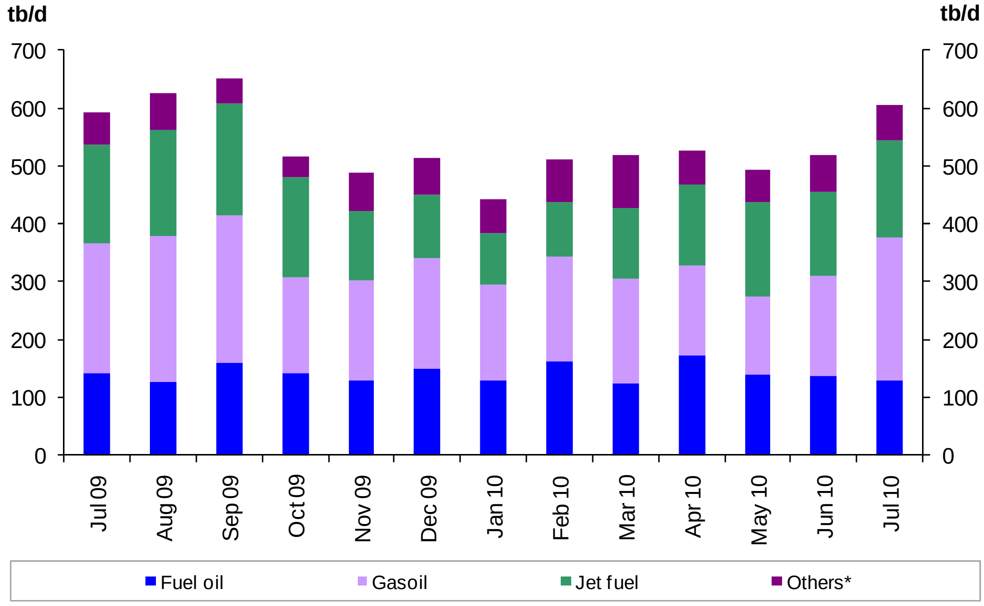
Russia is the only non-OPEC country among the five top suppliers of oil for Japan, and with 313.05 tb/d experienced an increase of 41.4% on its deliveries in July. On a yearly basis, Russian crude oil deliveries to Japan more than doubled the volume of a year ago, mainly to increased imports of ESPO crude. Japan's ESPO crude import volume in July was the highest since the country recorded its first imports of ESPO.

Japan's product imports dropped 4.1% on the month to 940 tb/d, up 5% from the same month last year. The monthly decline is partly a consequence of higher domestic refining runs which is also reflected in higher product exports. In the period January to July, Japanese product imports averaged 945.8 tb/d, up 14.5% from the same period last year.

Gasoline imports decreased on the month by 40.9% to 13 tb/d as exports increased 15.2% to 34 tb/d reflecting the increasing refining activity during the month. Diesel imports increased by 3.1 tb/d to 14 tb/d and exports also grew by 44.1% to 249 tb/d as a result of the increasing demand in Asia as well as remaining high international prices.

In July, naphtha imports increased to 509 tb/d from the previous 430 tb/d in June, mostly due higher refining runs, fuel oil imports increased by 31.5% m-o-m and exports decreased by 7.1%, due to high refining activity. Increasing nuclear activities continue impacting fuel oil imports which on a yearly basis showed a 30.8% decline. LPG imports dropped 26.9% on the month to 345 tb/d as result of high refining activity.

Graph 38: Japan's exports of petroleum products



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

Japan's oil products exports increased 16.7% in July to 605 tb/d. The increase is the consequence of higher refining activity combined with fragile domestic demand and high international prices of gasoline and diesel, which strongly contributed to the total product export increase.

As result, Japan's net oil imports in July stood at 3.91 mb/d representing an increase of 265 tb/d or 7.3% from June, and 78 tb/d or 2% higher than the same month last year. Year-to-date, Japanese net oil imports averaged 4.14 mb/d or 4.8% higher than the same period last year.

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

	May 10	Jun 10	Jul 10	Change Jul/Jun
Crude oil	3,458	3,186	3,578	392
Total products	538	462	335	-127
Total crude and products	**3,995**	**3,648**	**3,913**	**265**

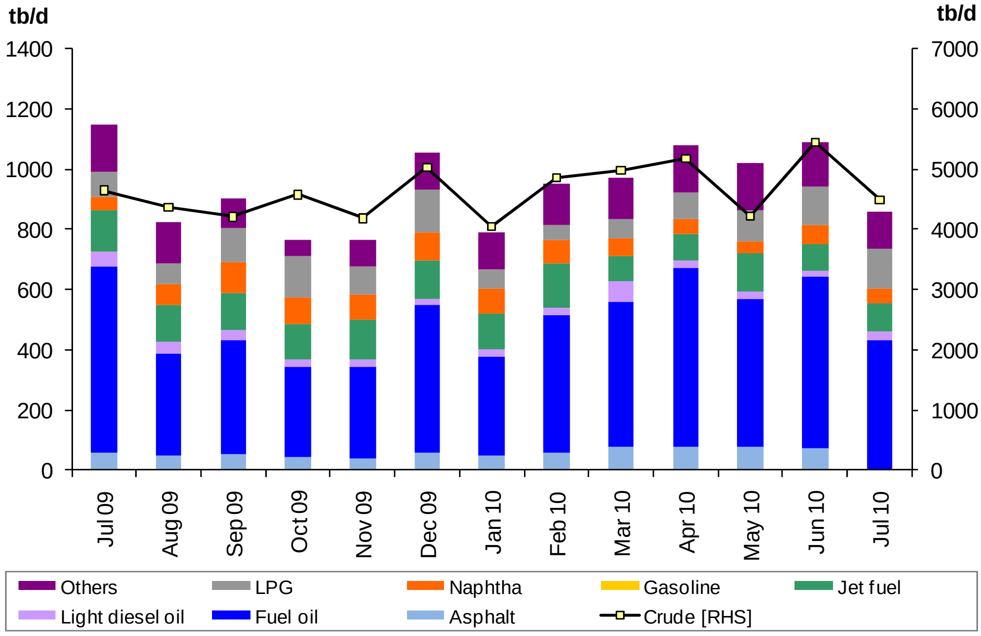
China

China crude oil imports fell in July for the first time in 16 months

China crude oil imports fell in July for the first time in 16 months. Crude imports averaged 4.49 mb/d, down 3.2% y-o-y. Imports in July were 17.4%, down from the record-high 5.44 mb/d imported by China during June. The decline was mainly due to lower crude throughput on the closure of Dalian Xingang port caused by a crude pipeline blast and intensive turnarounds of major refineries in the third quarter.

During the first seven months of the year, China imported 4.74 mb/d on average, up 24.1% compared to the same period in 2009. The country boosted crude imports as domestic refining capacity was expanding and crude reserve storages increased. Nevertheless, it is expected that crude imports are likely to fall during the second half of this year because of the Chinese government's policies on eliminating real estate speculation.

Graph 39: China's imports of crude and petroleum products



China imported 881 tb/d of oil products in July, down 23.3% from the same month last year, and down 19.1% from June. Product exports reached 742 tb/d, an increase of 24.7% over a year ago. On year-to-date basis, China's product imports decreased 11.6% to an average of 968 tb/d, as result of higher refining runs.

Fuel oil imports declined 25% in July to 425 tb/d, with most of the decline noticed in South China, where the significant drop was attributed to popularity of feedstock cutback bitumen among Guangdong minor refineries which was used as substitute for straight-run fuel oil. Exports of fuel oil increased significantly by 41% to 250 tb/d.

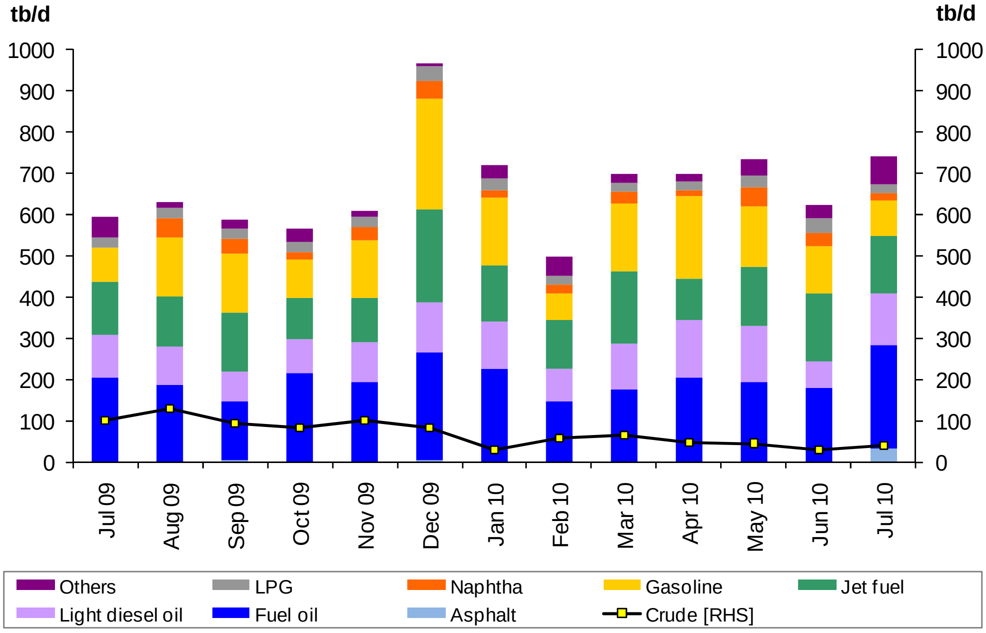
Gasoline exports averaged 87 tb/d during July, a sharp decline by 24% from June while up 6% y-o-y. Gasoline exports declined as refiners retained more gasoline for the domestic market in the summer high season.

China exported 262 tb/d of diesel in July, almost four times the amount of diesel exported a month earlier. Chinese refiners boosted gasoil exports in July to ease inventory pressure, as domestic sales were sluggish. Imports of diesel grew 44% m-o-m to almost 30 tb/d.

China naphtha exports sharply declined by 53% in July from the previous month to 16 tb/d. Naphtha exports declined as chemical plants reduced operation rates on gloomy crude and chemical markets. Naphtha exports also declined by 23% to 48 tb/d.

Jet fuel exports dropped 13% in July from the previous month to 140 tb/d. China trimmed jet fuel exports in the month as refiners in East China needed to meet robust demand around the World Expo in Shanghai, also due to the impact of the pipeline explosion in Dalian.

Graph 40: China's exports of crude and petroleum products



China's crude oil imports from OPEC decreased by 13.15% in July on a monthly basis, reflecting the cut in crude oil imports. OPEC deliveries of crude oil to China averaged 2.83 mb/d during July. Saudi Arabia became the biggest crude supplier for China again in July, hiking crude exports by 7.7% m-o-m to 965 tb/d. Angola remains in second place with 536 tb/d of crude oil deliveries to China, dropping 41% from a month earlier.

China also experienced a significant decrease in its imports from Venezuela, Kuwait, Iraq and Nigeria, while imports from Iran and Libya showed positive growth.

Non-OPEC countries contributed only 37% of total China crude oil imports in July. Russian exports to China decreased by 16% from June, while Oman experienced an increase of 18%.

China's net oil imports in June stood at 4.59 mb/d, indicating an impressive decrease of 1.28 mb/d or 22% from the previous month. On a yearly basis, China's net oil imports decreased 502 tb/d or 9.9%. From January to July, net oil imports in China averaged 4.98 mb/d for a gain of 16.6% over the same period last year.

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

	May 10	Jun 10	Jul 10	Change Jul/Jun
Crude oil	4,172	5,411	4,452	-959
Total products	288	464	139	-325
Total crude and products	**4,460**	**5,875**	**4,591**	**-1284**

India

India's crude oil imports rose 31.6%

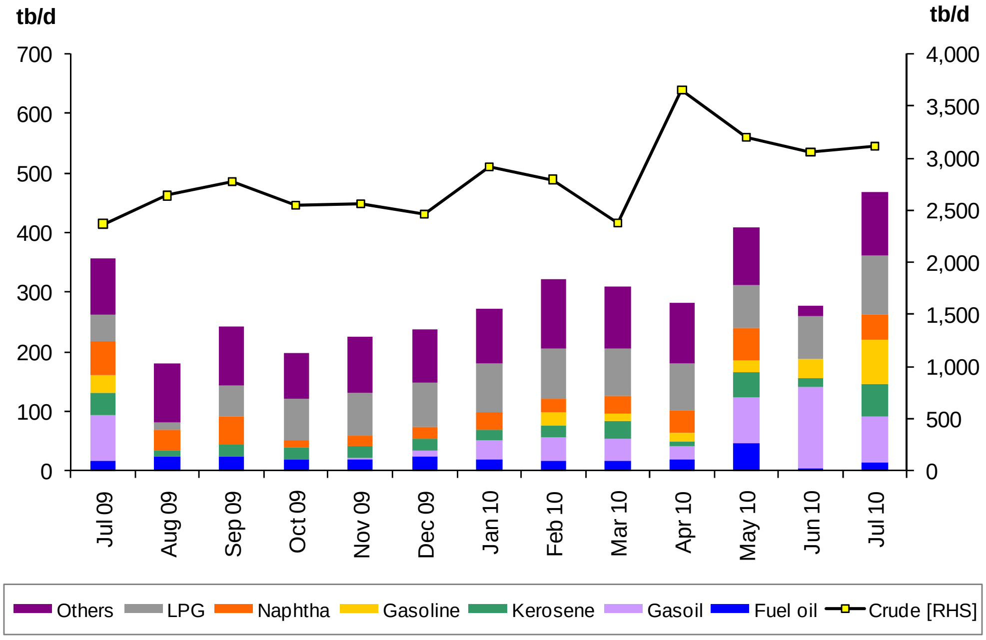
India's crude oil imports rose to 3.12 mb/d during July, up 31.6% from the same month last year and 1.9% higher than a month earlier. The increasing demand of crude oil was attributed to higher refining runs, which are also reflected in the increasing exports of oil products. Despite private refineries experiencing a drop in refining runs, state refineries increased refining activity, offsetting the private sector cuts.

Year-to-date, India's crude oil imports averaged 3.02 mb/d, up 12% from the same period last year. The rise is partly attributed to the increasing domestic refining activity as well as to stronger demand for products on a national level.
Oil product imports also grew by 68.5% m-o-m during July. Most of the increase was seen in gasoline imports, which rose by 42 tb/d over June, reflecting the increasing car

fleet in the country. Naphtha imports also increased by 41 tb/d as feedstock for refineries, while diesel imports decreased 43.7% as Indian state refineries increased the amount of local production of diesel.

During the first seven months of the year, Indian product imports averaged 336 tb/d or 4.5% less than the same period in 2009. The drop in product imports is the result of higher domestic refining activities.

Graph 41: India's imports of crude and petroleum products



India's oil product exports, including Reliance Industries' exports, averaged 1.18 mb/d during July, up 13.3% compared to June. The increase in state refinery product exports offset the reduction from private refineries.

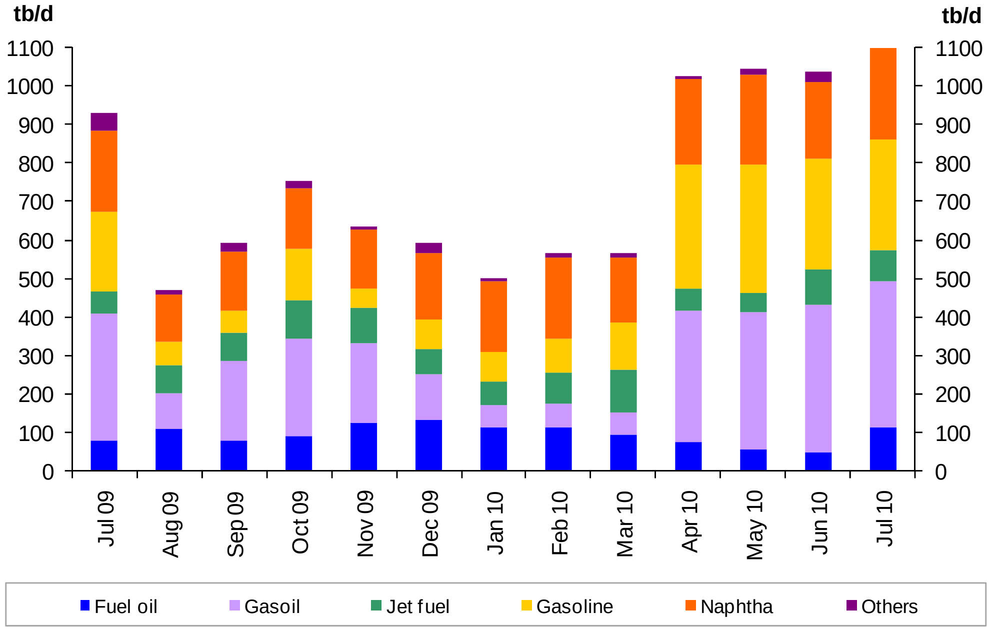
Fuel oil exports increased by 42.1% and became the biggest contributor to product export growth. Naphtha exports also increased 23.4% while gasoline exports remained almost at the same level with a slight increase. Diesel exports decreased insignificantly by 0.7% as jet fuel exports dropped by 11.8% in July.

India's net oil imports rose to 2.41 mb/d in July, up 4.8% from the previous month and 5.3 % higher than a year ago. Net product imports increased 6.9% m-o-m, reflecting the increase in product exports.

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

	May 10	Jun 10	Jul 10	Change Jul/Jun
Crude oil	3,197	3,061	3,119	57
Total products	-637	-760	-708	52
Total crude and products	**2,559**	**2,302**	**2,411**	**110**

Graph 42: India's exports of petroleum products



FSU

FSU crude oil exports increased to a near record high in July

FSU crude oil exports in July increased by 4.7% over the previous month to 6.99 mb/d, just 27 tb/d lower than May's record high of 7.01 mb/d. The growth reflects a large increase in shipments along the Transneft system to Black Sea ports and Druzhba destinations, and a hike in Kazakh exports on the Caspian Pipeline Consortium (CPC) route and by rail to Georgian and Ukrainian ports.

Russian pipeline crude oil exports rose 8.5% m-o-m to 4.26 mb/d, reflecting the cut in export duty by $30/t to $248.80/t. A large rise in Novorossiysk – Black Sea exports was offset by lower loadings at Baltic ports and Kozmino.

The increase at Novorossiysk reflected the release of stored crude, which was stocked up during the previous month by exporters. Primorsk – Baltic exports were limited by maintenance along pipelines that lead to the port, triggering higher loadings at Pivdenne, the most expensive route for Russian crude exporters.

Tengizchevroil (TCO) increased Russian rail exports of Tengiz to the Black Sea ports of Odessa, Feodosiya and Batumi, as maintenance ended at the field in western Kazakhstan. This also accounted for the rise in deliveries through the CPC pipeline.
Exports to the Iranian port of Neka stopped, as supplies of Turkmen crude were pumped through the BTC pipeline instead. A number of Turkmen crude cargoes continue to load at Georgian ports.

Exports from Russia's Sakhalin Island dropped mostly due to the fall in shipments of Sokol and Vityaz grades. YK Blend exports from Russia's Barents Sea port of Varandey also decreased by 6,000 b/d.

Year-to-date crude oil exports averaged 6.82 mb/d, an increase of 2.9% over a year ago. Most of the yearly increase is attributed to the rise in Vityaz exports from Russia's Sakhalin Island, and the launch of ESPO Blend exports from the Pacific port of Kozmino.

Russian seaborne crude exports were expected to grow by 3.5% in August to 2.83 mb/d and then decline in September because of maintenance at Primorsk, the country's biggest Baltic port, and with zero shipments out of the Ukrainian Black Sea port of Yuzhny. This would result in expectations for similar levels of FSU crude oil exports during August and lower crude oil exports during September.

Overall product exports from FSU increased in July by 6.9% over the previous month to 3.0 mb/d. Exports of all products were up except naphtha which experienced a decline. Most of the increase was due to the reduction in Russian export duties at the beginning of the month, as exporters stored up products in June in preparation for the cut in taxes.

Gasoline exports in July grew only 1.5% m-o-m, remaining at low levels, as the modest export of gasoline is attributed to strong domestic demand.

FSU fuel oil and gasoil exports rose in July after a fall in Russian export duties. Fuel oil exports rose compared to a year ago because of the new Novoshakhtinsk refinery and the expansion of the Antipinsky plant. Higher outputs at several smaller refineries also boosted exports. Gasoil exports rose in July, mostly due to the cut in clear product export duties.

Year–to-date, overall product exports from the FSU averaged 3.14 mb/d, an increase of 3.5% compared to a year ago. The increase partly reflects improved navigation conditions as a consequence of higher water levels in rivers. Fuel oil shipments rose substantially in the Baltic, particularly through Estonia's Tallinn.

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

	2008	2009	4Q09	1Q10	2Q10	Jun 10	Jul 10*
Crude							
Russian pipeline							
Black Sea	1,248	1,201	1,152	1,027	976	788	1,187
Baltic	1,559	1,577	1,613	1,526	1,629	1,650	1,548
Druzhba	1,077	1,112	1,130	1,123	1,091	1,121	1,194
Kozmino	n.a.	n.a.	n.a.	n.a.	323	370	332
Total	**3,905**	**3,922**	**3,904**	**3,932**	**4,019**	**3,929**	**4,261**
Other routes							
Russian rail	283	280	284	364	324	288	318
Russian-Far East	220	283	305	293	296	350	221
Kazak rail to China	17	18	17	18	18	18	17
Vadandey	20	155	148	163	167	175	169
Kaliningrad	0	0	0	0	22	16	30
CPC	675	736	741	736	732	689	753
BTC	648	805	874	679	809	813	816
Kankiyak-Alashankou	121	157	178	205	200	203	198
Caspian	185	281	303	296	271	251	204
Total crude exports	**6,089**	**6,653**	**6,752**	**6,711**	**6,858**	**6,731**	**6,987**
Products							
Gasoline	210	229	147	215	155	134	136
Naphtha	217	273	261	273	270	244	306
Jet	37	52	41	27	31	27	21
Gasoil	810	949	896	976	892	854	872
Fuel oil	1,069	1,114	1,135	1,060	1,312	1,266	1,351
VGO	196	233	228	238	287	286	316
Total	**2,539**	**2,850**	**2,708**	**2,790**	**2,947**	**2,810**	**3,003**
Total oil exports	**8,628**	**9,503**	**9,460**	**9,493**	**9,805**	**9,541**	**9,990**

* *Preliminary*
Totals may not add due to independent rounding
Source: Nefte Transport, Global Markets, Argus Fundamentals, Argus FSU and OPEC

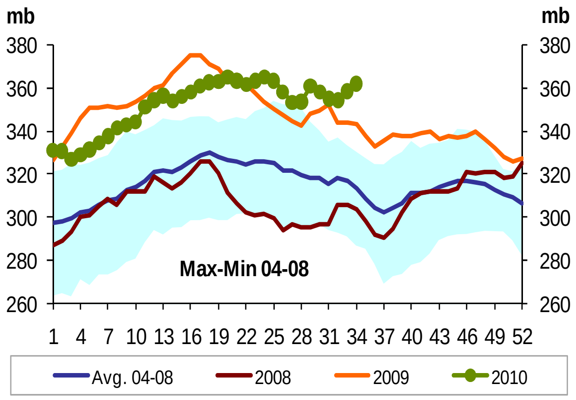
Stock Movements

US commercial stocks continue to rise in August representing an overhang of 122.5 mb

USA

At the end of August, **US commercial oil inventories** continued the upward trend for the fifth consecutive month, increasing considerably by 18.4 mb and adding almost 80 mb to stocks over this period. At 1143.3 mb, US commercial stocks are at their highest level since January 1993. With this build, the surplus has widened with the five-year average to 122.5 mb or 12%, from 10% a month earlier. This build has also reversed the deficit with a year ago, which has been holding since the beginning of this year, to now show a surplus of 33.7 mb or 3%. The bulk of the build in total commercial oil stocks came from products, which increased by 14.7 mb, followed by crude, which rose by 3.7 mb.

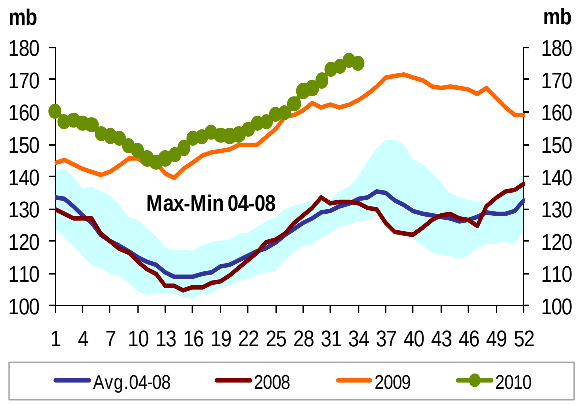
Graph 43: US weekly commercial crude oil inventories



At 361.7 mb, **US crude oil stocks** continued their contra-seasonal build to reach the highest level since April 2009 and representing an overhang of 53 mb or 17% above the five-year average and 26 mb or 7.8 % higher than a year ago. This build is driven by the fall in crude oil input to refineries by almost 700 tb/d to 14.8 mb/d, which corresponds to a refinery utilization rate of 87%. Crude refinery input ended August at the lowest level since 1996. This indicates that refiners are taking into account that the peak of the driving season is coming to an end and that the huge product oversupply is starting to impact the refinery industry. Lower runs have contributed to the relative recovery in cracking margins. The build in crude came despite the 170 tb/d drop in crude oil imports to average 9.6 mb/d. Crude stocks at Cushing, Oklahoma, fell 0.5 mb at the end of August. Although this figure is below that of early August, the level of stocks still remained within historical records.

On the product side, **US product stocks** rose significantly in August for the fifth consecutive month to stand at 781.6 mb, the highest since September 2009. With this build, the overhang with the five-year average has widened to around 70 mb or 9.8% from 8.4% a month earlier. Product stocks at the end of August are 7.6 mb or 1% above a year ago. Gasoline and distillates rose 2.4 mb and 5.5 mb respectively, while fuel oil and jet fuel stocks fell slightly 0.5 mb and 0.4 mb respectively. The build in gasoline stocks to 225.4 mb came on the back of higher imports, keeping total volumes above 1.1 mb/d. Gasoline demand remained almost unchanged at 9.4 mb/d, but the end of the summer season is likely to undermine gasoline demand in the coming weeks. Gasoline stocks stood at 8.5% above a year ago and 12.9% above the five-year average. Distillate stocks continued to rise ending the month of August at 175.2 mb, leaving them at a very comfortable level of 3.9% above the previous year and 28.4% higher than the historical average. Higher distillate production to average 4.4 mb/d was behind this build. Demand saw a surprising spike, rising more than 4.0 mb/d in August, in line with the ISM manufacturing index, which was much better than expected. Residual fuel and jet fuel oil stocks stood at 39.7 mb and 48.3 mb respectively, both well above the seasonal norm. Looking forward and with the continually increasing

Graph 44: US weekly distillate stocks



oversupply in both crude and products, the market will likely struggle to find bullish news to support crude prices.

Table 27: US onland commercial petroleum stocks, mb

	Jun 10	Jul 10	Aug 10	Change Aug 10/Jul 10	Aug 09
Crude oil	362.7	358.0	361.7	3.7	335.6
Gasoline	214.8	223.0	225.4	2.4	207.8
Distillate fuel	157.9	169.7	175.2	5.5	168.6
Residual fuel oil	42.3	40.2	39.7	-0.5	33.4
Jet fuel	44.9	48.7	48.3	-0.4	46.0
Total	**1112.1**	**1124.9**	**1143.3**	**18.4**	**1109.6**
SPR	726.6	726.6	726.6	0.0	724.1

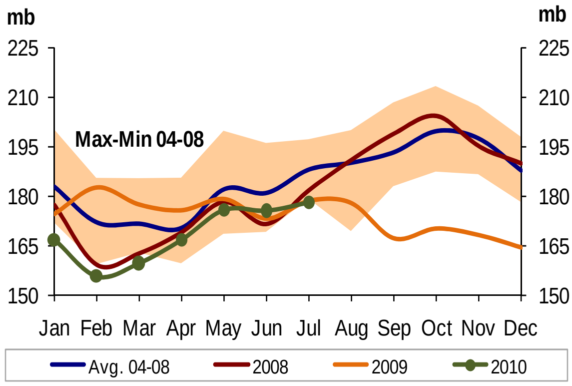
Source: US Department of Energy's Energy Information Administration

Japan

Japan commercial stocks rose in July, but preliminary data shows a decline in August

Commercial oil inventories in Japan reversed the slight stock draw observed last month and increased 2.5 mb to 178.0 mb, the highest level since July 2009. With exception of the small decline in June of 0.2 mb, Japanese oil stocks have increased since March, accumulating more than 22 mb. Despite this build, Japanese commercial stocks remained slightly lower by 0.5 mb or 0.3% than a year ago and 8 mb or 4.3% below the five-year average. The build was divided between crude and products as they increased by 1.5 mb and 1.1 mb respectively.

Graph 45: Japan's commercial oil stocks



At 106 mb, Japanese **crude oil inventories** stood at their highest level since February 2009 to show a build of five consecutive months, accumulating around 20 mb over this period. This build has pushed the surplus with a year ago to 1.6%, however, the deficit with the historical average remained at 7%. The build in commercial crude stocks came on the back of higher crude oil imports of 12.3% versus the previous month, to average 3.6 mb/d. Crude oil imports were also higher by 1.3% compared to the previous year at the same time. This build came despite an increase of crude throughput of about 400 tb/d to average 3.45 mb/d. This corresponds to a refinery utilization rate of 74.4%, an increase of 10.6% versus previous month. The rise in refinery runs came as seasonal maintenance ended. In coming months, Japanese crude oil stocks could see a further build as some refiners are expended to process less crude as a gloomy economic picture is having a negative impact on oil demand growth.

On the products side, Japanese **product inventories** in July reversed the downward trend observed last month to increase by 1.1 mb to stand at 71.9 mb. Despite this build, product stocks remained at 2.2 mb or 3.0 % below a year ago, but remained in line with the seasonal average. The build in products came despite an increase of total oil product sales which rose 5.3% versus the previous month and 4.6% above a year ago in the same month. The rise in oil sales in July was partly due to the strong rise of 11.4% in gasoline sales. Within products, the picture was mixed; distillates and naphtha stocks saw a build, while gasoline and fuels oil stocks declined. Distillate stocks rose by 2.4 mb to 29.9 mb, but remained 13.6% below a year ago and 9.4% lower than the five-year average. All the components of distillates rose. Indeed, Jet fuel oil stocks went up 7.6% on the back of higher production which increased by 13%. Gasoil stocks rose 2.8%, driven by higher output and imports as they increased by 26% and 33% respectively. Kerosene stocks rose 15.2% on the back on lower domestic sales, declining by 5.2%, combined with higher production by 14%. Naphtha stocks also increased by 2.1 mb to 14.2 mb. This build could be attributed to healthy imports and production as they increased by 22% and 12% respectively. Naphtha stocks stood at almost 30% above a year ago at the same period. Gasoline stocks fell 2.0 mb to 12.4 mb, driven by strong domestic gasoline demand, which increased 15.1% versus the previous month. The strong rise in domestic gasoline sales is attributed to the hot summer. Gasoline stocks remained in line with the historical norm, but still 5.2% below a year ago. Fuel oil stocks also declined 1.3 mb to 15.5 mb, pushing the deficit with the five-year average to 20.5%, while remaining only 0.8% below a year ago in the same period. Both fuel oil A and fuel oil B.C declined by 6.1% and 9.6% respectively. The drop in fuel oil A stocks could be attributed to the 2.5% decline in production combined with a 16.5% increase in exports, while the 33% increase in domestic sales was behind the drop in fuel oil B.C inventories.

Table 28: Japan's commercial oil stocks*, mb

	May 10	Jun 10	Jul 10	Change Jul 10/Jun 10	Jul 09
Crude oil	101.1	104.6	106.1	1.5	104.4
Gasoline	15.7	14.4	12.4	-2.0	13.1
Naphtha	12.6	12.1	14.2	2.1	11.0
Middle distillates	28.5	27.5	29.9	2.4	34.6
Residual fuel oil	17.8	16.8	15.5	-1.3	15.6
Total products	74.6	70.8	71.9	1.1	74.2
Total**	**175.7**	**175.5**	**178.0**	**2.5**	**178.5**

* *At end of month*

** *Includes crude oil and main products only*

Source: METI, Japan

Preliminary data from PAJ showed Japanese total commercial oil stocks declined by 4.7 mb to 173.3 mb at the end of August, reversing the upward trend observed last month. With this stock draw, the deficit with a year ago has widened to 4.6% from 0.5% a month earlier, while the gap with the historical norm stood at 9.8%. The drop was driven by a substantial 8.8 mb fall in crude oil stocks, while product inventories abated this draw as they increased by 4.1 mb. The drop in crude oil stocks to 97.3 mb puts them at the lowest level since April. This drop could be attributed to the rise in refinery runs as utilization rate rose by 1.2% to 82.1% and stood at 6.8% above a year earlier in the same period. The drop has widened the deficit with the historical norm to 12.4% from 6.9% a month ago. Total products rose to 76.0 mb, with the exception of a 2.0 mb fall in naphtha. The bulk of the build in product stocks came from fuel oil and distillate inventories as they increased by 3.0 mb and 2.6 mb respectively, while gasoline stocks saw a slight build of 0.5 mb. Despite this build, total product stocks remained at 4.6% below a year ago and 6.2% lower than the seasonal norm.

Singapore and Amsterdam-Rotterdam-Antwerp (ARA)

Product stocks in Singapore declined in July

At the end of July, **product stocks** held in Singapore reversed the upward trend observed in the previous month and declined by 1.31 mb to 46.92 mb, leaving them 6 mb or nearly 15% above a year ago. Light distillates and fuel oil stocks saw a decline of 1.1 mb and 0.7 mb respectively, while middle distillates rose 0.56 mb. Light distillate stocks fell to 10.3 mb, the lowest level since February 2010. This drop was mainly due to lower imports from China on the back of strong demand. It was reported that Chinese exports have fallen to around 403,000 tons from nearly 700,000 tons in April, the peak of this year. Light distillate stocks also dropped to 21.2 mb, but remained well above a year ago, indicating a surplus of 5.6 mb or 3-6%. The drop could be attributed to lower exports from the Middle East due to a tighter domestic market. In contrast, middle distillates rose to 15.5 mb, indicating a surplus of 1.3 mb or 9% with the previous year. This build is driven by a sharp increase in post-supply maintenance, which outweighed imports to India and Indonesia.

ARA product stocks declined in July

Product stocks in ARA at the end of July reversed the trend observed the previous month and declined almost 2 mb to 35.9 mb. Despite this drop, product stocks in ARA remained a slight 0.4 mb or 1.2% above a year ago. With the exception of gasoil, all other products fell. The bulk of this decline came from fuel oil which declined by 1.48 mb to 3.9 mb, mainly due to higher exports. At least two cargos of fuel oil were reportedly shipped to Singapore. Fuel oil stocks remained well above a year ago, showing a surplus of 1.6%. The fall in gasoline was relatively small to stand at 7.7 mb, but remained 26% higher than a year ago. Jet fuel and naphtha stocks declined by 0.6 mb and 0.2 mb respectively to 5.9 mb and 0.3 mb. However, they rose compared to a year ago. In fact, jet fuel stocks showed a surplus of 9.5%, while naphtha stocks indicated a deficit of almost 40%. Gasoil stocks went up slightly by 0.27 mb to 18.05 mb on the back of higher imports from Russia and the US. Gasoil oil stocks stood at 10% below a year ago.

Balance of Supply and Demand

Required OPEC crude in 2010 estimated at 28.6 mb/d, down 0.3 mb/d from 2009

Estimate for 2010

Demand for OPEC crude for 2010 has been revised down by 0.1 mb/d to currently stand at 28.6 mb/d. This revision mainly reflects the upward adjustment in non-OPEC supply as demand figures remained broadly unchanged. With the exception of the second quarter which saw an upward revision, all other quarters experienced a downward revision. The demand for OPEC crude represents a decline of 0.3 mb/d from the previous year. The first quarter of the year is still showing a drop of 1.0 mb/d followed by a decline of 0.4 mb/d in the second quarter, while the third quarter is estimated to remain flat and the fourth quarter is projected to see positive growth of around 0.2 mb/d.

Table 29: Summarized supply/demand balance for 2010, mb/d

	2009	1Q10	2Q10	3Q10	4Q10	2010
(a) World oil demand	**84.46**	**84.94**	**84.76**	**85.74**	**86.58**	**85.51**
Non-OPEC supply	51.14	52.21	52.16	51.76	52.11	52.06
OPEC NGLs and non-conventionals	4.35	4.60	4.77	4.82	5.02	4.80
(b) Total supply excluding OPEC crude	**55.49**	**56.81**	**56.93**	**56.58**	**57.13**	**56.86**
Difference (a-b)	**28.97**	**28.13**	**27.83**	**29.16**	**29.45**	**28.65**
OPEC crude oil production	28.71	29.18	29.07			
Balance	-0.26	1.05	1.24			

Totals may not add due to independent rounding

Demand for OPEC crude in 2011 forecast at 28.8 mb/d, an increase of 0.2 mb/d over the current year

Forecast for 2011

The demand for OPEC crude for next year is projected to average 28.8 mb/d, showing a downward revision of 0.1 mb/d from the previous assessment. The required OPEC crude is forecast to increase by about 0.2 mb/d, following three consecutive annual declines. The bulk of the growth is expected to be shown in the first half of the year, indicating an increase of 0.5 mb/d and 0.4 mb/d in the first and second quarter respectively, while the second half is forecast to remain almost unchanged when compared to the last year over the same period.

Table 30: Summarized supply/demand balance for 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011
(a) World oil demand	**85.51**	**86.11**	**85.69**	**86.74**	**87.67**	**86.56**
Non-OPEC supply	52.06	52.31	52.19	52.27	52.91	52.42
OPEC NGLs and non-conventionals	4.80	5.16	5.27	5.36	5.41	5.30
(b) Total supply excluding OPEC crude	**56.86**	**57.46**	**57.46**	**57.63**	**58.32**	**57.72**
Difference (a-b)	**28.65**	**28.65**	**28.22**	**29.11**	**29.35**	**28.84**

Totals may not add due to independent rounding

Graph 46: Balance of supply and demand

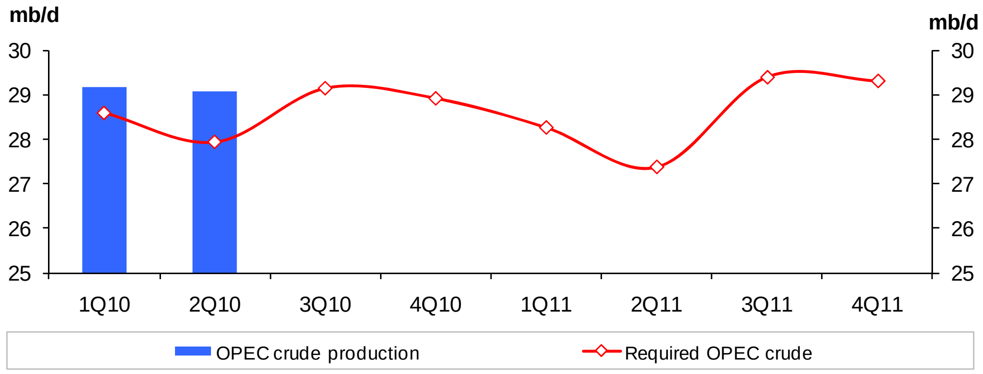


Table 31: World oil demand/supply balance,

	2005	2006	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11	4Q11	2011
World demand															
OECD	49.9	49.6	49.3	47.6	45.5	45.9	44.9	45.0	46.0	45.4	46.0	44.9	45.0	46.2	45.5
North America	25.6	25.4	25.5	24.2	23.3	23.5	23.6	23.6	23.8	23.6	23.8	23.8	23.8	24.0	23.8
Western Europe	15.7	15.7	15.5	15.4	14.5	14.2	14.0	14.2	14.3	14.2	14.1	13.8	14.1	14.2	14.1
Pacific	8.6	8.5	8.4	8.0	7.7	8.2	7.3	7.2	7.9	7.7	8.1	7.3	7.2	7.9	7.6
DCs	22.7	23.5	24.6	25.5	26.0	26.2	26.6	26.8	26.9	26.6	26.8	27.2	27.4	27.4	27.2
FSU	3.9	4.0	4.0	4.1	4.0	3.9	3.7	4.2	4.2	4.0	4.0	3.8	4.2	4.3	4.1
Other Europe	0.8	0.9	0.8	0.8	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.6	0.6	0.7	0.7
China	6.7	7.2	7.6	8.0	8.3	8.2	8.9	9.0	8.7	8.7	8.7	9.3	9.5	9.2	9.1
(a) Total world demand	84.1	85.2	86.4	85.9	84.5	84.9	84.8	85.7	86.6	85.5	86.1	85.7	86.7	87.7	86.6
Non-OPEC supply															
OECD	20.4	20.1	20.1	19.5	19.6	20.0	19.8	19.4	19.7	19.7	19.7	19.5	19.3	19.7	19.6
North America	14.1	14.2	14.3	13.9	14.3	14.7	14.8	14.5	14.5	14.6	14.6	14.6	14.6	14.8	14.6
Western Europe	5.7	5.3	5.2	5.0	4.7	4.7	4.4	4.3	4.5	4.5	4.5	4.2	4.1	4.3	4.3
Pacific	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.6	0.6	0.7	0.7	0.6	0.6
DCs	11.9	12.0	12.0	12.3	12.6	12.9	12.9	12.8	12.8	12.9	13.0	13.1	13.2	13.4	13.2
FSU	11.5	12.0	12.5	12.6	13.0	13.1	13.2	13.3	13.4	13.2	13.4	13.4	13.4	13.5	13.4
Other Europe	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.6	3.7	3.8	3.8	3.9	4.0	4.1	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Processing gains	1.9	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Total non-OPEC supply	49.6	50.0	50.5	50.4	51.1	52.2	52.2	51.8	52.1	52.1	52.3	52.2	52.3	52.9	52.4
OPEC NGLs + non-conventional oils	3.9	3.9	3.9	4.1	4.3	4.6	4.8	4.8	5.0	4.8	5.2	5.3	5.4	5.4	5.3
(b) Total non-OPEC supply and OPEC NGLs	53.5	53.9	54.5	54.5	55.5	56.8	56.9	56.6	57.1	56.9	57.5	57.5	57.6	58.3	57.7
OPEC crude oil production (secondary sources)	30.7	30.5	30.2	31.2	28.7	29.2	29.1								
Total supply	84.2	84.4	84.6	85.7	84.2	86.0	86.0								
Balance (stock change and miscellaneous)	0.1	-0.8	-1.8	-0.1	-0.3	1.1	1.2								
OECD closing stock levels (mb)															
Commercial	2587	2668	2572	2697	2665	2682	2761								
SPR	1487	1499	1524	1527	1564	1567	1563								
Total	4073	4167	4096	4223	4229	4249	4324								
Oil-on-water	954	919	948	969	906	873	945								
Days of forward consumption in OECD															
Commercial onland stocks	52	54	54	59	59	60	61								
SPR	30	30	32	34	34	35	35								
Total	82	84	86	93	93	95	96								
Memo items															
FSU net exports	7.7	8.0	8.5	8.5	9.0	9.2	9.4	9.1	9.2	9.2	9.3	9.6	9.2	9.2	9.3
(a) - (b)	30.5	31.3	31.9	31.4	29.0	28.1	27.8	29.2	29.5	28.6	28.7	28.2	29.1	29.3	28.8

Note: Totals may not add up due to independent rounding

Table 32: World oil demand/supply balance: changes from last month's table †, mb/d

	2005	2006	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11	4Q11	2011
World demand															
OECD	-	-	-	-	-	-0.1	0.2	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-0.1	0.1	-	-	-	-	-	-	-	-
Western Europe	-	-	-	-	-	0.1	0.1	-	-	0.1	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	0.1	-	-	-	-	0.1	-	-	-
(a) Total world demand	-	-	-	-	-	-0.1	0.2	-0.1	-	-	-0.1	0.2	-0.1	-	-
World demand growth	*-0.05*	*-*	*-*	*-*	*-*	*0.03*	*0.18*	*-0.09*	*-0.12*	*-*	*0.01*	*-0.01*	*-0.01*	*0.01*	*-*
Non-OPEC supply															
OECD	-	-	-	-	-	-	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
North America	-	-	-	-	-	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Western Europe	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FSU	-	-	-	-	-	-	-	0.1	0.1	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	-	0.1	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.2
Total non-OPEC supply growth	*-*	*-*	*0.01*	*-*	*-*	*0.02*	*0.09*	*0.20*	*0.20*	*0.13*	*0.10*	*0.03*	*-0.03*	*-0.03*	*0.02*
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-0.1	-0.1	-0.1	-0.1
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	-	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
OPEC crude oil production (secondary sources)	-	-	-	-	-	-									
Total supply	-	-	-	-	-	-									
Balance (stock change and miscellaneous)	-	-	-	-	-	-									
OECD closing stock levels (*mb*)															
Commercial	-	-	-	-	-	-	-								
SPR	-	-	-	-	-	-	-								
Total	-	-	-	-	-	-	-								
Oil-on-water	-	-	-	-	-	-	-								
Days of forward consumption in OECD					-	- -									
Commercial onland stocks	-	-	-	-	-	-	-								
SPR	-	-	-	-	-	-	-								
Total	-	-	-	-	-	-	-								
Memo items															
FSU net exports	-	-	-	-	-	-	-	0.1	0.1	-	-	-	-	-	-
(a) - (b)	-	-	-	-	-	-0.1	0.1	-0.2	-0.2	-0.1	-0.1	0.1	-0.2	-0.1	-0.1

† This compares Table 31 in this issue of the MOMR with Table 32 in the August 2010 issue

This table shows only where changes have occurred

Table 33: OECD oil stocks and oil on water at the end of period

	2003	2004	2005	2006	2007	2008	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10
Closing stock levels *mb*																											
OECD onland commercial	2,511	2,538	2,587	2,668	2,572	2,697	2,612	2,627	2,587	2,586	2,649	2,761	2,668	2,601	2,661	2,646	2,572	2,572	2,602	2,664	2,697	2,751	2,759	2,778	2,665	2,682	2,761
North America	1,161	1,193	1,257	1,277	1,229	1,301	1,275	1,254	1,257	1,240	1,277	1,351	1,277	1,238	1,294	1,285	1,229	1,216	1,240	1,282	1,301	1,355	1,388	1,390	1,309	1,323	1,378
Western Europe	915	915	935	963	937	989	915	942	935	938	936	949	963	943	940	929	937	961	953	951	989	988	969	969	972	973	977
OECD Pacific	435	430	394	429	407	406	422	432	394	408	436	461	429	420	428	432	407	394	409	431	406	408	401	419	383	386	407
OECD SPR	1,411	1,450	1,487	1,499	1,524	1,527	1,494	1,494	1,487	1,487	1,493	1,495	1,499	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	1,563
North America	640	678	687	691	699	704	698	696	687	688	690	690	691	691	692	695	699	702	708	704	704	715	726	727	729	729	729
Western Europe	374	377	407	412	421	416	401	405	407	407	411	412	412	415	413	423	421	423	414	414	416	424	427	429	426	429	424
OECD Pacific	396	396	393	396	404	406	395	393	393	392	393	393	396	401	401	403	404	404	404	403	406	408	408	408	409	409	411
OECD total	3,922	3,988	4,073	4,167	4,096	4,223	4,106	4,121	4,073	4,074	4,142	4,256	4,167	4,108	4,168	4,166	4,096	4,101	4,128	4,186	4,223	4,298	4,320	4,342	4,229	4,249	4,324
Oil-on-water	882	905	954	919	948	969	932	925	954	962	975	974	919	916	891	917	948	935	925	885	969	899	899	869	906	873	945
Days of forward consumption in OECD																											
OECD onland commercial	51	51	52	54	54	59	53	52	51	53	54	55	54	54	54	53	52	54	56	56	58	62	61	60	58	60	61
North America	46	47	49	50	51	56	50	49	50	49	50	53	50	49	51	50	50	50	53	54	56	59	60	59	56	56	58
Western Europe	59	58	60	62	61	68	58	60	58	61	60	60	63	62	60	59	61	64	61	62	66	69	67	67	69	70	69
OECD Pacific	51	50	47	51	51	53	52	49	42	52	55	53	48	53	54	49	46	50	54	54	50	56	55	52	47	53	56
OECD SPR	28	29	30	30	32	34	30	30	29	31	30	30	30	31	31	30	31	32	33	32	33	35	35	34	34	35	35
North America	25	26	27	27	29	30	27	27	27	27	27	27	27	27	27	27	28	29	30	29	30	31	31	31	31	31	31
Western Europe	24	24	26	27	27	29	26	26	25	27	26	26	27	27	26	27	27	28	27	27	28	30	29	30	30	31	30
OECD Pacific	46	46	46	47	50	53	49	45	42	50	50	45	44	51	51	46	45	52	54	51	50	56	56	51	50	56	57
OECD total	79	80	82	84	86	93	83	82	80	84	84	85	84	85	85	83	84	87	88	89	91	97	96	94	92	95	96

n.a. not available

Table 34: Non-OPEC supply and OPEC natural gas liquids, mb/d

	2005	2006	2007	2008	Change 08/07	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10
USA	7.34	7.36	7.50	7.50	0.00	7.85	7.97	8.13	8.32	8.07	0.57	8.44	8.53	8.37	8.42	8.44	0.37	8.43	8.44	8.46	8.52	8.46	0.02
Canada	3.03	3.20	3.31	3.27	-0.04	3.32	3.13	3.23	3.27	3.24	-0.03	3.24	3.27	3.24	3.30	3.26	0.02	3.32	3.34	3.35	3.44	3.36	0.10
Mexico	3.77	3.69	3.49	3.17	-0.31	3.04	2.97	2.94	2.96	2.98	-0.19	2.99	2.97	2.88	2.82	2.92	-0.06	2.83	2.83	2.81	2.83	2.82	-0.09
North America	14.14	14.24	14.29	13.94	-0.35	14.21	14.08	14.30	14.56	14.29	0.35	14.67	14.77	14.50	14.54	14.62	0.33	14.59	14.60	14.61	14.80	14.65	0.03
Norway	2.97	2.78	2.56	2.45	-0.10	2.52	2.20	2.28	2.37	2.34	-0.11	2.31	2.10	2.13	2.27	2.20	-0.14	2.23	2.06	1.97	2.13	2.10	-0.10
UK	1.89	1.71	1.69	1.58	-0.11	1.63	1.57	1.27	1.46	1.48	-0.10	1.51	1.41	1.35	1.39	1.41	-0.07	1.39	1.34	1.30	1.34	1.34	-0.07
Denmark	0.38	0.34	0.31	0.28	-0.03	0.28	0.27	0.27	0.24	0.26	-0.02	0.25	0.25	0.22	0.22	0.24	-0.03	0.22	0.21	0.18	0.20	0.20	-0.03
Other Western Europe	0.49	0.51	0.62	0.64	0.03	0.62	0.62	0.64	0.63	0.63	-0.02	0.60	0.63	0.61	0.61	0.61	-0.02	0.62	0.62	0.62	0.62	0.62	0.01
Western Europe	5.72	5.34	5.17	4.96	-0.21	5.05	4.65	4.45	4.70	4.71	-0.24	4.68	4.39	4.30	4.49	4.46	-0.25	4.46	4.24	4.07	4.28	4.26	-0.20
Australia	0.53	0.51	0.53	0.53	0.01	0.55	0.53	0.55	0.53	0.54	0.01	0.51	0.50	0.54	0.57	0.53	-0.01	0.55	0.56	0.57	0.57	0.56	0.03
Other Pacific	0.05	0.05	0.08	0.10	0.02	0.09	0.09	0.10	0.10	0.10	0.00	0.10	0.10	0.10	0.10	0.10	0.00	0.10	0.09	0.08	0.08	0.09	-0.01
OECD Pacific	0.58	0.56	0.60	0.63	0.03	0.64	0.62	0.65	0.63	0.64	0.01	0.61	0.60	0.64	0.67	0.63	0.00	0.64	0.65	0.65	0.64	0.65	0.02
Total OECD	20.44	20.14	20.07	19.53	-0.54	19.90	19.35	19.41	19.89	19.64	0.11	19.97	19.76	19.45	19.70	19.72	0.08	19.69	19.49	19.34	19.72	19.56	-0.16
Brunei	0.21	0.22	0.19	0.17	-0.01	0.17	0.15	0.16	0.19	0.17	0.00	0.18	0.16	0.17	0.17	0.17	0.00	0.17	0.17	0.17	0.17	0.17	0.00
India	0.76	0.78	0.80	0.80	0.00	0.77	0.78	0.79	0.80	0.79	-0.01	0.82	0.83	0.85	0.88	0.84	0.06	0.89	0.87	0.89	0.90	0.89	0.04
Indonesia	1.12	1.07	1.02	1.04	0.02	1.03	1.02	1.02	1.03	1.03	-0.01	1.03	1.04	1.02	1.01	1.03	0.00	1.02	1.01	1.00	0.99	1.01	-0.02
Malaysia	0.77	0.76	0.76	0.76	0.00	0.74	0.72	0.73	0.71	0.73	-0.03	0.73	0.70	0.66	0.65	0.69	-0.04	0.65	0.64	0.63	0.63	0.63	-0.05
Thailand	0.29	0.32	0.33	0.36	0.02	0.37	0.37	0.36	0.37	0.37	0.01	0.35	0.35	0.34	0.34	0.34	-0.03	0.34	0.34	0.34	0.34	0.34	0.00
Vietnam	0.39	0.37	0.35	0.33	-0.01	0.34	0.36	0.38	0.41	0.37	0.04	0.40	0.38	0.37	0.36	0.38	0.00	0.39	0.41	0.43	0.45	0.42	0.04
Asia others	0.26	0.26	0.26	0.26	0.00	0.25	0.26	0.25	0.25	0.25	-0.01	0.22	0.24	0.25	0.25	0.24	-0.01	0.25	0.26	0.26	0.27	0.26	0.02
Other Asia	3.79	3.78	3.70	3.72	0.02	3.68	3.68	3.69	3.76	3.70	-0.02	3.73	3.70	3.67	3.66	3.69	-0.01	3.71	3.69	3.73	3.75	3.72	0.03
Argentina	0.78	0.77	0.77	0.78	0.01	0.78	0.77	0.74	0.76	0.76	-0.02	0.77	0.76	0.74	0.73	0.75	-0.01	0.73	0.73	0.73	0.73	0.73	-0.02
Brazil	1.98	2.11	2.22	2.38	0.16	2.47	2.49	2.51	2.55	2.51	0.12	2.64	2.70	2.73	2.78	2.71	0.21	2.85	2.87	2.94	3.01	2.92	0.21
Colombia	0.53	0.54	0.54	0.60	0.06	0.65	0.67	0.68	0.73	0.68	0.09	0.77	0.79	0.80	0.81	0.79	0.11	0.84	0.86	0.88	0.91	0.87	0.08
Trinidad & Tobago	0.18	0.18	0.16	0.16	0.00	0.16	0.16	0.15	0.16	0.16	0.00	0.16	0.16	0.15	0.15	0.15	0.00	0.14	0.14	0.14	0.14	0.14	-0.01
L. America others	0.30	0.26	0.28	0.28	0.01	0.31	0.30	0.31	0.30	0.30	0.02	0.30	0.31	0.31	0.31	0.31	0.00	0.31	0.32	0.33	0.34	0.33	0.02
Latin America	3.77	3.87	3.97	4.20	0.23	4.36	4.38	4.40	4.51	4.41	0.21	4.64	4.71	4.72	4.78	4.71	0.30	4.87	4.92	5.02	5.12	4.98	0.27
Bahrain	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00
Oman	0.78	0.75	0.71	0.76	0.05	0.79	0.80	0.83	0.83	0.81	0.06	0.86	0.86	0.87	0.87	0.86	0.05	0.89	0.90	0.92	0.93	0.91	0.05
Syria	0.45	0.44	0.42	0.41	0.00	0.41	0.41	0.41	0.41	0.41	0.00	0.42	0.43	0.40	0.39	0.41	0.00	0.38	0.38	0.37	0.37	0.37	-0.03
Yemen	0.41	0.37	0.33	0.30	-0.03	0.30	0.30	0.30	0.29	0.30	-0.01	0.29	0.29	0.27	0.27	0.28	-0.02	0.26	0.26	0.25	0.26	0.26	-0.02
Middle East	1.85	1.76	1.66	1.68	0.02	1.71	1.72	1.75	1.74	1.73	0.05	1.77	1.77	1.75	1.73	1.76	0.03	1.73	1.74	1.75	1.76	1.75	-0.01
Chad	0.18	0.15	0.15	0.15	0.00	0.14	0.14	0.14	0.14	0.14	-0.01	0.14	0.14	0.13	0.12	0.13	-0.01	0.12	0.12	0.12	0.12	0.12	-0.01
Congo	0.24	0.25	0.24	0.26	0.02	0.27	0.27	0.27	0.29	0.27	0.02	0.30	0.30	0.30	0.30	0.30	0.02	0.30	0.31	0.31	0.32	0.31	0.01
Egypt	0.70	0.66	0.66	0.69	0.04	0.72	0.72	0.69	0.71	0.71	0.01	0.71	0.72	0.70	0.70	0.71	0.00	0.71	0.71	0.70	0.69	0.70	-0.01
Equatorial Guinea	0.36	0.37	0.37	0.38	0.01	0.37	0.36	0.35	0.34	0.36	-0.02	0.33	0.33	0.33	0.32	0.33	-0.03	0.32	0.32	0.32	0.33	0.32	-0.01
Gabon	0.25	0.25	0.25	0.24	-0.01	0.26	0.26	0.27	0.28	0.26	0.02	0.28	0.26	0.26	0.26	0.26	0.00	0.25	0.26	0.26	0.26	0.26	0.00
South Africa	0.19	0.19	0.18	0.18	0.00	0.18	0.18	0.17	0.16	0.17	-0.01	0.18	0.18	0.17	0.17	0.17	0.00	0.17	0.17	0.17	0.17	0.17	0.00
Sudan	0.34	0.40	0.50	0.48	-0.02	0.46	0.48	0.47	0.47	0.47	-0.01	0.47	0.47	0.46	0.45	0.46	-0.01	0.44	0.44	0.45	0.44	0.44	-0.02
Africa other	0.25	0.32	0.34	0.35	0.01	0.35	0.34	0.34	0.33	0.34	-0.01	0.34	0.34	0.34	0.37	0.35	0.01	0.39	0.40	0.43	0.49	0.43	0.08
Africa	2.52	2.58	2.68	2.73	0.05	2.73	2.73	2.71	2.71	2.72	-0.01	2.74	2.72	2.68	2.68	2.70	-0.01	2.69	2.73	2.75	2.81	2.75	0.04
Total DCs	11.93	11.99	12.02	12.33	0.31	12.48	12.51	12.54	12.72	12.56	0.23	12.88	12.91	12.81	12.85	12.86	0.30	13.01	13.08	13.25	13.44	13.20	0.33
FSU	11.55	12.02	12.53	12.60	0.06	12.67	12.93	13.05	13.16	12.96	0.36	13.12	13.18	13.28	13.37	13.24	0.28	13.37	13.36	13.42	13.48	13.41	0.17
Russia	9.44	9.65	9.87	9.78	-0.08	9.78	9.87	9.97	10.07	9.92	0.14	10.09	10.12	10.10	10.06	10.09	0.17	10.08	10.07	10.08	10.13	10.09	0.00
Kazakhstan	1.23	1.30	1.35	1.41	0.06	1.48	1.51	1.54	1.61	1.54	0.12	1.61	1.56	1.62	1.67	1.62	0.08	1.65	1.66	1.70	1.71	1.68	0.07
Azerbaijan	0.44	0.65	0.87	0.94	0.07	0.97	1.11	1.09	1.06	1.06	0.12	1.01	1.09	1.13	1.19	1.10	0.05	1.19	1.19	1.20	1.20	1.20	0.09
FSU others	0.44	0.42	0.44	0.46	0.01	0.45	0.44	0.44	0.42	0.44	-0.02	0.42	0.42	0.43	0.44	0.43	-0.01	0.44	0.44	0.44	0.44	0.44	0.01
Other Europe	0.16	0.15	0.15	0.15	-0.01	0.14	0.13	0.14	0.14	0.14	-0.01	0.14	0.14	0.13	0.13	0.14	0.00	0.14	0.14	0.14	0.14	0.14	0.00
China	3.64	3.69	3.77	3.84	0.07	3.80	3.86	3.88	3.87	3.85	0.01	4.02	4.09	4.01	3.98	4.03	0.18	4.03	4.05	4.05	4.05	4.04	0.02
Non-OPEC production	47.71	48.00	48.54	48.44	-0.10	48.99	48.78	49.02	49.77	49.14	0.71	50.13	50.09	49.68	50.03	49.98	0.84	50.23	50.12	50.19	50.84	50.34	0.36
Processing gains	1.91	1.96	1.99	1.97	-0.02	2.00	2.00	2.00	2.00	2.00	0.03	2.08	2.08	2.08	2.08	2.08	0.08	2.08	2.08	2.08	2.08	2.08	0.00
Non-OPEC supply	49.62	49.96	50.53	50.40	-0.12	50.99	50.78	51.02	51.77	51.14	0.74	52.21	52.16	51.76	52.11	52.06	0.92	52.31	52.19	52.27	52.91	52.42	0.36
OPEC NGL	3.74	3.76	3.86	4.04	0.18	3.99	4.19	4.41	4.37	4.24	0.21	4.49	4.67	4.71	4.91	4.70	0.45	4.98	5.09	5.18	5.23	5.12	0.42
OPEC Non-conventional	0.16	0.14	0.09	0.11	0.02	0.11	0.11	0.11	0.11	0.11	0.00	0.10	0.10	0.11	0.11	0.11	0.00	0.18	0.18	0.18	0.18	0.18	0.07
OPEC (NGL+NCF)	3.89	3.89	3.95	4.14	0.19	4.10	4.30	4.52	4.48	4.35	0.21	4.60	4.77	4.82	5.02	4.80	0.45	5.16	5.27	5.36	5.41	5.30	0.50
Non-OPEC & OPEC (NGL+NCF)	53.51	53.85	54.47	54.55	0.07	55.09	55.08	55.54	56.25	55.49	0.95	56.81	56.93	56.58	57.13	56.86	1.37	57.46	57.46	57.63	58.32	57.72	0.86

Note: Totals may not add up due to independent rounding. Indonesia has been included in non-OPEC supply for purpose of comparison

Table 35: World Rig Count

	2005	2006	Change 06/05	1Q07	2Q07	3Q07	4Q07	2007	Change 07/06	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08	1Q10	2Q10	Jul 10	Aug 10	Aug/Jul
USA	1,381	1,647	267	1,733	1,756	1,788	1,790	1,767	119	1,770	1,864	1,978	1,898	1,877	111	1,326	936	956	1,108	1,081	-796	1,345	1,508	1573	1638	65
Canada	458	470	12	532	139	348	356	344	-126	507	169	432	408	379	35	328	91	177	277	218	-161	470	166	349	397	48
Mexico	107	83	-24	90	88	96	93	92	9	96	106	103	106	103	11	128	128	135	123	128	26	118	106	86	88	2
North America	1,945	2,200	255	2,355	1,983	2,231	2,240	2,202	2	2,373	2,139	2,513	2,411	2,359	157	1,782	1,154	1,267	1,508	1,428	-931	1,933	1,780	2008	2123	115
Norway	17	17	0	16	19	18	17	18	1	17	21	21	21	20	2	25	18	18	20	20	0	21	18	15	9	-6
UK	21	27	5	25	29	27	22	26	-1	19	21	24	24	22	-4	22	19	16	15	18	-4	15	20	23	18	-5
Western Europe	70	77	7	75	80	79	77	78	0	91	97	101	103	98	20	90	82	76	85	83	-15	87	96	98	84	-14
OECD Pacific	25	26	2	24	30	32	30	29	2	32	39	39	34	36	7	27	25	26	23	25	-11	22	18	22	23	1
Total OECD	2,078	2,347	269	2,494	2,141	2,387	2,385	2,352	4	2,532	2,317	2,698	2,593	2,535	183	1,945	1,299	1,368	1,616	1,557	-978	2,042	1,893	2128	2230	102
Other Asia	200	202	2	206	213	212	216	212	10	213	220	218	212	216	4	212	212	213	233	217	1	235	249	250	252	2
Latin America	129	149	19	175	177	171	179	175	27	187	184	195	197	191	16	164	147	149	169	157	-34	183	203	220	219	-1
Middle East	131	132	1	144	146	154	154	149	18	158	165	175	171	167	18	162	151	139	147	150	-18	152	150	162	162	0
Africa	8	10	2	16	12	14	14	14	4	10	13	14	11	12	-2	8	11	9	12	10	-2	20	19	19	19	0
Total DCs	468	493	25	540	549	550	563	551	58	569	583	602	591	586	36	546	520	510	561	534	-52	589	621	651	652	1
Non-OPEC Rig Count	2,546	2,840	294	3,035	2,690	2,937	2,948	2,903	62	3,101	2,900	3,300	3,183	3,121	219	2,491	1,819	1,878	2,177	2,091	-1,030	2,632	2,514	2779	2882	103
Algeria	21	24	4	25	26	28	28	27	2	26	27	24	26	26	-1	24	30	27	27	27	1	23	28	23	24	1
Angola	3	4	1	5	4	3	5	4	1	5	6	5	5	5	1	5	3	3	4	4	-1	10	8	6	10	4
Ecuador	12	11	0	12	10	11	10	11	-1	7	9	12	13	10	-1	10	10	10	10	10	0	11	11	11	12	1
Iran	40	44	4	51	51	51	50	50	6	50	50	50	51	50	0	51	52	52	52	52	2	52	52	52	52	0
Iraq	0	0	0	0	0	0	0	0	0	29	29	29	29	29	29	29	29	29	29	29	0	29	29	29	29	0
Kuwait	12	14	1	14	13	13	11	12	-1	12	11	12	12	12	0	12	11	14	13	13	0	19	18	22	20	-2
Libya	9	10	1	13	12	14	14	13	3	14	15	15	15	15	2	15	13	14	15	14	-1	17	17	14	14	0
Nigeria	9	10	1	8	7	8	10	8	-1	9	8	6	6	7	-1	7	6	6	7	6	-1	11	13	17	17	0
Qatar	12	11	-1	11	12	13	14	13	2	11	12	11	11	11	-1	9	9	9	9	9	-2	8	8	11	7	-4
Saudi Arabia	37	65	28	76	76	78	77	77	11	78	77	76	76	77	0	72	67	67	66	68	-9	68	67	65	69	4
UAE	16	16	0	14	15	15	14	15	-2	12	12	13	12	12	-2	13	12	13	12	12	0	13	13	13	13	0
Venezuela	68	81	13	76	80	77	71	76	-5	82	81	77	81	80	4	69	64	54	54	60	-20	66	64	70	69	-1
OPEC Rig Count	238	290	51	303	305	311	302	305	16	336	337	330	336	335	29	315	307	295	298	304	-31	327	328	333	336	3
Worldwide Rig Count*	2,785	3,130	345	3,338	2,995	3,249	3,250	3,208	78	3,438	3,237	3,630	3,519	3,456	248	2,806	2,126	2,173	2,476	2,395	-1,061	2,958	2,842	3112	3218	106
of which:																										
Oil	980	1,124	144	1,264	1,167	1,254	1,285	1,242	119	1,408	1,351	1,479	1,490	1432	190	1,276	1062	1175	1349	1215	-217	1,583	1,527	1732	1796	64
Gas	1,746	1,947	201	2,013	1,764	1,931	1,904	1,903	-44	1,969	1,814	2,070	1,948	1950	47	1,450	993	965	1092	1125	-825	1,333	1,276	1340	1371	31
Others	21	17	-4	20	17	20	25	20	4	26	32	36	37	33	12	35	35	34	37	35	3	43	40	40	41	1

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

Contributors to the *OPEC Monthly Oil Market Report*

Editor-in-Chief
Hasan M. Qabazard, Director, Research Division
email: hqabazard@opec.org

Editor
Hojatollah Ghanimifard, Head, Petroleum Studies Department
email: hghanimifard@opec.org

Analysts

Crude Oil Price Movements	Brahim Aklil email: baklil@opec.org
Commodity Markets	Odalis López-Gonzalez e-mail:olopez@opec.org
World Economy	Claude Clemenz email: cclemenz@opec.org Joerg Spitzy email: jspitzy@opec.org
World Oil Demand	Esam Al-Khalifa email: ekhalifa@opec.org
World Oil Supply	Haidar Khadadeh email: hkhadadeh@opec.org
Product Markets and Refinery Operations	Elio Rodriguez email: erodriguez@opec.org
Tanker Market *and* Oil Trade	Julio Arboleda email: jarboleda@opec.org
Stock Movements	Aziz Yahyai email: ayahyai@opec.org
Technical and editorial team	Aziz Yahyai email: ayahyai@opec.org Douglas Linton email: dlinton@opec.org

Data services
Fuad Al-Zayer, Head Data Services Department (fzayer@opec.org)
Puguh Irawan (pirawan@opec.org), Ramadan Janan (rjanan@opec.org)
Pantelis Christodoulides (World Oil Demand, Stock Movements), Hannes Windholz (Oil Trade, Product & Refinery), Mouhamad Moudassir (Tanker Market), Klaus Stoeger (World Oil Supply), Harvir Kalirai (Economics), Sheela Kriz (Crude Oil Prices)

Production, design and circulation
Viveca Hameder, Hataichanok Leimlehner, Evelyn Oduro-Kwateng, Andrea Birnbach

Data Summary September 2010

OPEC Basket average price

US$ per barrel

⬆ *up $1.64 in August*	***August 2010***	***74.15***
	July 2010	*72.51*
	Year-to-date	*75.32*

August OPEC production

in million barrels per day, according to secondary sources

⬇ *down 0.04 in August*	***August 2010***	***29.15***
	July 2010	*29.19*

World economy

While the world economy is still expected to grow by 3.9% in 2010, the forecast for 2011 has been revised slightly down to 3.6%. US growth in 2010 has been revised down by 0.2 points to stand at 2.6%, while Japan has experienced a similar revision to now show growth of 2.5% for this year. India is expected to grow by 8.2% in 2010, up from a previous forecast of 7.8%.

Supply and demand

in million barrels per day

2010		***2011***	
World demand	*85.5*	*World demand*	*86.6*
Non-OPEC supply	*52.1*	*Non-OPEC supply*	*52.4*
OPEC NGLs	*4.8*	*OPEC NGLs*	*5.3*
Difference	***28.6***	***Difference***	***28.8***

Totals may not add due to independent rounding

Stocks

US commercial stocks experienced a continued build of 18.4 mb in August, widening the surplus with the five-year average to nearly 123 mb. The bulk of this build came from products which increased by 14.7 mb, while crude stocks rose 3.7 mb. The latest data for Japan shows commercial oil stocks increased 2.5 mb in July, but were still 8 mb below the seasonal norm. Preliminary indications show Japanese total commercials oil stocks declined by around 5 mb at the end of August.

Issued 9 September 2010
Next report to be issued on 12 October 2010
Data covered up to the end of August 2010 unless otherwise stated