INTERNATIONAL ENERGY AGENCY/AGENCE INTERNATIONALE DE L'ENERGIE

OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

www.oilmarketreport.org

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

18 January 2005

HIGHLIGHTS

- **Crude oil prices** were extremely volatile at the turn of the year. Benchmark NYMEX light crude fell by $10 in early December to $40.25 but an early January rally has since pushed prices back up over $48/bbl. Non-OPEC supply problems, proposed OPEC production cuts and forecasts of colder weather have underpinned prices.

- **OECD industry total oil stocks** rose by 1.4 mb/d in November 2004, or about 42 mb, closing 81 mb above year-ago levels. Crude stocks increased 22 mb while gains in products, led by distillate fuels, came to 18 mb. Forward demand cover was flat in November at 52 days, one day above that of 2003.

- **World oil supply** averaged 84.4 mb/d in December, down by 45 kb/d from November. Non-OPEC output fell 165 kb/d due to disruptions in Norway and Canada and lower Russian output. Non-OPEC supply is revised down by 160 kb/d for 2005, growth averaging 1.1 mb/d versus 1.0 mb/d in 2004. OPEC other liquids growth remains at 450 kb/d.

- **OPEC crude supply** was level at 29.5 mb/d, higher Iraq and UAE volumes offsetting lower supply from Nigeria and others. OPEC-10 agreed to cut production by 1.0 mb/d from January, bringing output closer to the 27.0 mb/d target. Winter revisions raise the call on OPEC crude and stock change to 28 mb/d for 2005, near the 2004 average.

- **Global oil demand** growth is roughly unchanged for 2004, at 2.65 mb/d, but has been slightly raised for 2005, to 1.44 mb/d. Fourth-quarter demand was stronger than expected in North America, Europe and China but weaker in OECD Asia, India and the FSU. Growth is set to slow in 2005, but will still be led by China and non-OECD Asia.

Next Issue: 10 February 2005

Letter from the Editor

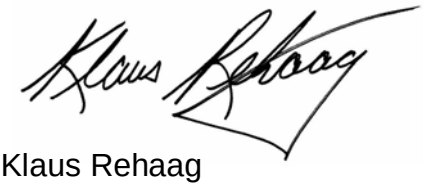
Staff Changes:

After four years working at the IEA's Oil Industry and Markets Division, Antoine Halff will be returning to industry. Antoine's work on the Oil Market Report began with Price analysis, but his main contribution has been on the Demand side. His insights and extensive knowledge of oil demand patterns will be sorely missed by the Agency and by his colleagues. As Antoine leaves for new horizons, all of us at the IEA wish him well in his new endeavours.

At the same time, I am pleased to welcome Dr. Jeffery Brown to the IEA. Jeff comes to us after a successful career in research and consulting focused on Asia and global energy markets. He will assume responsibility for demand analysis and can be reached at +33 (0)1 40 57 65 93.

After five years, I too am leaving the IEA with effect from this Report. I would like to thank the IEA and my colleagues, past and present for their friendship, confidence and support over the years. I would also like to extend my gratitude to you, our readers, and to the broader analytical community, for your critical insights and encouragement and I hope you will, in due course, extend similar courtesies to my successor.

With warm regards,



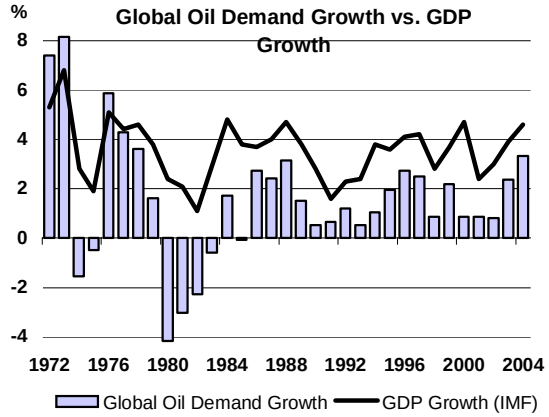
Klaus Rehaag
Editor – Oil Market Report

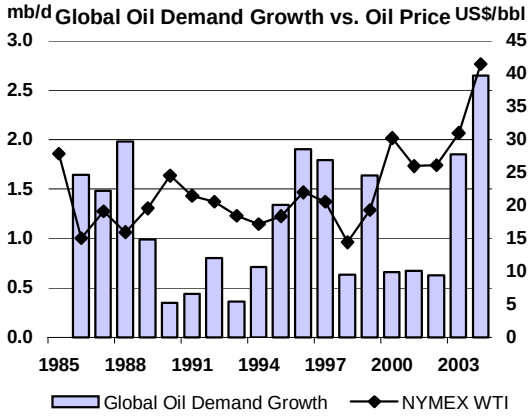
CONTENTS

A CAUTIONARY NOTE

WTI NYMEX averaged $41.47 in 2004, 33% over the 2003 average and almost 60% higher than 2002, as global product demand raced ahead of supply. Demand growth was largely unexpected in its magnitude and surged ahead by 2.6 mb/d, or 3.3%, in 2004, more than twice the rate anticipated at this time last year. This represents the highest rate of demand growth since 1976, when demand soared by a staggering 3.3 mb/d. Meanwhile, supply growth disappointed, with a string of late-year disruptions cutting the annual gain in non-OPEC crude and liquids output to 1.4 mb/d, compared to a year-earlier forecast of 1.9 mb/d.

Most forecasters, the IEA included, expect oil demand growth to slow in 2005 from the torrid pace of 2004. But what happens if it doesn't? Given that last year's demand growth came as a complete surprise to market participants, how can one dismiss concerns that demand growth might once again be underestimated? At the same time, further supply disruptions cannot be ruled out in an environment marked by geopolitical uncertainty. If oil consumption were to surge in 2005 as fast as in 2004, would producers be able to rise to the challenge?





Although the unanticipated surge in 2004 oil demand caught the market by surprise, OPEC producers did eventually respond by maximizing production. Key producers have indicated that they will increase exploration and development activity to maintain a sizeable level of spare capacity. But bringing this new capacity on line will take time and requires huge capital investments, money which could otherwise be earmarked for social and economic programs. Major expenditure programs are already required to offset depletion. International oil companies have also increased their exploration and development budgets. But years of cost-cutting have taken their toll on the service industry and constrain its ability to mobilize the rigs and manpower to meet demand. Even if producers can meet the quantity challenge, can they deliver on quality in line with seasonal peak demand?

But the problem of addressing capacity constraints is not limited to the upstream. Given huge reserves in key producing regions, ramping up output to meet surging demand may be a lesser challenge than overcoming midstream and downstream bottlenecks. It takes ever longer to expand refinery, pipeline and related shipping infrastructure. More stringent regulations and environmental standards impose new constraints on potential investors and increase their risk. These days, years are needed to plan, engineer and construct a new grassroots refinery – if it is possible at all. And ship construction yards are booked out years in advance.

In response to soaring demand, upstream, midstream and downstream operating levels in 2004 were stretched to the limit. Running with limited surplus capacity contributed to excess volatility and pressured prices as the threat of even a minor supply disruption could test the market in geopolitically uncertain times. Hence, unanticipated production outages due to weather (hurricanes in the US Gulf of Mexico) or unforeseen maintenance (North Sea platforms) caused prices to spiral upwards.

Oil demand and prices tend to be inversely correlated with a variable lag, but in 2004, demand failed to respond to price signals. This was due to a dramatic surge in economic activity, combined with low interest rates, which overwhelmed the negative impact of prices and pushed oil demand higher. With reduced global economic activity, lagged price effects should assert themselves in 2005 to slow demand. If not, oil demand will continue to run ahead of supply, pressuring prices and heightening volatility. With continued geopolitical uncertainty surrounding Russia, Iraq, Iran, Nigeria etc. it is all the more important that investment in supply and infrastructure anticipate and meet growing demand.

DEMAND

Summary

- The assessment of global oil product demand growth for 2004 is roughly unchanged at 2.65 mb/d. Although upward adjustments to fourth-quarter demand have marginally increased the 2004 average, revisions to German demand for 2003 have raised the reference period estimate by a comparable amount.

Global Oil Demand from 2003 to 2005

	Demand (mb/d)	Annual Change* (%)	Annual Change* (mb/d)	Changes from last month's Report (mb/d)
1Q03	80.4	3.2	2.5	0.1
2Q03	77.3	1.5	1.1	0.1
3Q03	79.4	2.2	1.7	-
4Q03	82.1	2.5	2.0	-
1Q04	82.4	2.6	2.1	-
2Q04	81.2	5.0	3.9	-
3Q04	81.9	3.3	2.6	-
4Q04	84.2	2.5	2.0	0.2
1Q05	84.2	2.1	1.7	0.2
2Q05	82.4	1.5	1.2	0.2
3Q05	83.3	1.7	1.4	0.1
4Q05	85.6	1.7	1.4	0.1
2003	79.8	2.4	1.9	-
2004	82.4	3.3	2.7	0.1
2005	83.9	1.7	1.4	0.1

* year-on-year change

- The assessment of fourth-quarter demand has been increased by close to 200 kb/d. Upward adjustments in North American demand, led by substantial revisions to preliminary US data for October, account for the bulk of the change. Smaller cuts to the OECD Asia-Pacific estimate were partly offset by increases in Europe.

- In contrast, the estimate of non-OECD demand for the fourth quarter is steady from last month's Report. Lower-than-expected demand in India and Brazil and lower apparent demand in the FSU offset a November spike in Chinese implied demand. Whether the latter will prove temporary or signal a return to the double-digit demand growth rates of the first half of 2004 is unclear, but anecdotal reports suggest Chinese oil imports eased in December and January from very high November levels.

Estimated Annual World Oil Demand Growth 2000-2005

(million barrels per day)

	00-99	01-00	02-01	03-02	04-03	05-04
North America	0.26	-0.06	0.10	0.47	0.57	0.23
Latin America	0.00	0.00	-0.04	-0.09	0.16	0.10
FSU	0.08	0.00	-0.20	0.12	0.11	0.14
Europe	-0.12	0.21	0.00	0.20	0.26	0.10
OECD Pacific	-0.04	-0.07	-0.04	0.14	-0.13	-0.07
China	0.26	0.12	0.30	0.55	0.85	0.36
Other Asia	0.09	0.18	0.27	0.22	0.44	0.21
Subtotal, Asia	0.31	0.23	0.53	0.91	1.16	0.51
Middle East	0.12	0.17	0.17	0.20	0.32	0.26
Africa	0.00	0.13	0.08	0.04	0.07	0.09
World	0.66	0.67	0.63	1.85	2.65	1.44

- The 2005 demand forecast has been raised by 60 kb/d, to 1.44 mb/d. North America and the FSU account for the bulk of this marginal increase. Adjustments for North America reflect the expected demand impact of continued growth in both industrial output and trade activity. In the FSU, on the

other hand, cuts in apparent demand for December were deemed a one-off dip and the 2005 forecast has been kept flat, resulting in a slightly higher year-on-year growth projection.

Global Oil Demand by Region
(million barrels per day)

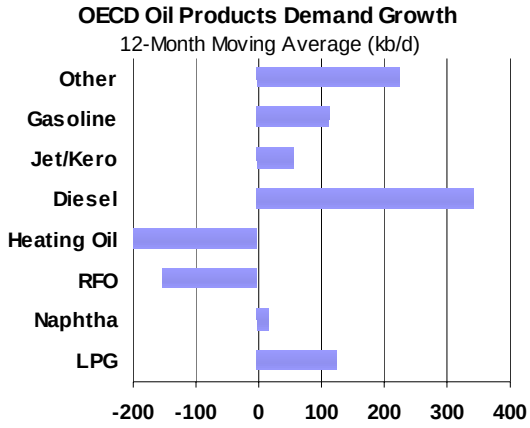
	Demand	Annual Change			Annual Change (%)		
	2004	2003	2004	2005	2003	2004	2005
North America	25.14	0.47	0.57	0.23	1.9	2.3	0.9
Europe	16.47	0.20	0.26	0.10	1.2	1.6	0.6
OECD Pacific	8.65	0.14	-0.13	-0.07	1.7	-1.4	-0.8
China	6.37	0.55	0.85	0.36	11.0	15.4	5.7
Other Asia	8.54	0.22	0.44	0.21	2.8	5.4	2.5
Subtotal Asia	23.56	0.91	1.16	0.51	4.2	5.2	2.2
FSU	3.69	0.12	0.11	0.14	3.5	3.1	3.9
Middle East	5.88	0.20	0.32	0.26	3.7	5.7	4.5
Africa	2.81	0.04	0.07	0.09	1.7	2.4	3.3
Latin America	4.89	-0.09	0.16	0.10	-1.9	3.5	2.1
World	82.45	1.85	2.66	1.44	2.4	3.3	1.7

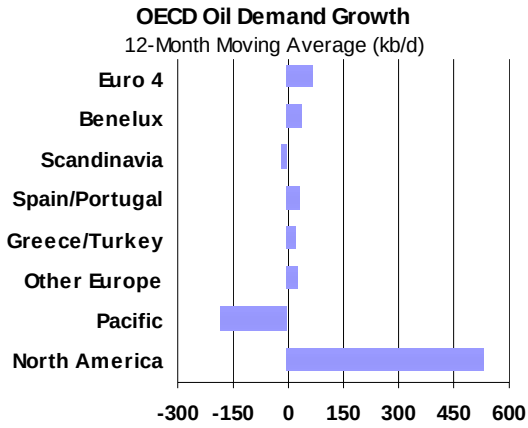
- While it is still too early to tell with certainty, the tsunami that struck parts of Southeast Asia on 26 December appears to have had little significant impact on regional oil demand. Despite the massive loss of life and destruction of coastal infrastructure, regional air and road transport demand appears largely unaffected. While Thai tourism may be adversely impacted in the short term, there have been no reports of significant flight cancellations. Requirements for repair and reconstruction work, including a temporary surge in transport needs for relief missions in the Indian Ocean and the Pacific, may offset any such loss as may be experienced from reduced tourist demand.

OECD

Early Indications of Current Demand

Preliminary oil delivery data for the nine largest OECD consumer economies confirm expectations of a pick-up in the pace of oil demand growth in November, following relatively flat growth in October. For those economies, including all three North American economies, Japan, Korea, France, Germany, Italy and the UK, aggregate year-on-year demand growth for November looks to have slightly exceeded 1.4 mb/d. For the OECD as a whole, November growth is assessed at a provisional 1.6 mb/d. Admittedly, this figure is somewhat inflated by a short-lived contraction in the 2003 reference period. Even so, November demand growth was robust, and exceeded expectations. At the same time, steep upward revisions to preliminary US estimates have substantially boosted the October demand assessment. On aggregate, the latter now points to subdued growth, rather than contraction as in last month's Report. All in all, the estimate of OECD demand for the fourth quarter has been raised by close to 200 kb/d.





As the table below illustrates, aggregate strength in November deliveries conceals sharp regional contrasts, with extremely buoyant demand growth in Europe and North America set against contraction in Northeast Asia. Mild winter weather was clearly the leading factor behind the demand

drop in Japan and Korea: while deliveries there contracted across the board, the fall was especially steep for kerosene and heating oil. Residual fuel oil demand also contracted sharply, signalling not only a recovery in Japanese nuclear power generation output amid relatively low heating demand, but also fuel switching out of oil in Korea for power generation.

Preliminary Inland Deliveries – November 2004[1]

	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other[2]		Total Products	
	Mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
United States[3]	9.15	2.3	1.64	-2.8	3.02	10.3	1.11	3.0	0.75	6.2	4.93	4.6	20.60	3.7
Canada	0.70	3.2	0.11	7.9	0.46	11.4	0.09	-1.1	0.19	9.1	0.27	10.5	1.83	6.9
Mexico	0.66	11.0	0.06	7.7	0.32	8.4	0.00	na	0.41	46.8	0.40	1.3	1.84	14.2
Japan	1.01	-1.8	0.50	-17.6	0.66	-0.3	0.47	-3.7	0.44	-15.9	1.58	-1.3	4.66	-5.1
Korea	0.16	-6.5	0.03	-56.1	0.41	-6.0	0.12	-32.4	0.29	-10.4	1.12	3.6	2.13	-5.5
France	0.25	3.9	0.12	1.4	0.62	8.5	0.31	17.1	0.05	-26.9	0.49	6.9	1.85	6.8
Germany	0.57	-0.8	0.15	-7.0	0.64	6.3	0.60	29.7	0.12	0.8	0.52	0.6	2.60	6.8
Italy	0.32	-2.6	0.07	6.2	0.52	11.9	0.13	-1.7	0.17	-15.9	0.43	18.6	1.64	5.4
UK	0.43	-0.8	0.32	1.0	0.43	18.3	0.14	8.6	0.05	1.2	0.36	11.5	1.74	7.1
Total	**13.25**	**1.9**	**2.98**	**-5.6**	**7.09**	**8.2**	**2.99**	**5.2**	**2.47**	**1.0**	**10.10**	**4.2**	**38.88**	**3.1**

Sources: US EIA, Statistics Canada, Mexico PEMEX, Japan METI, Korea KNOC, France CPDP, Germany MWV, Italy Ministry of Industry, UK PIA
1 excludes refinery fuel and bunkers (except US)
2 includes direct use of crude oil
3 fifty states only. Diesel's share of total distillate is estimated. Percentage change is calculated versus the previous year.

In contrast, North American and European demand expanded briskly, led primarily by diesel and, in the US, gasoline and residual fuel oil. Unlike in Korea, where LNG prices lag oil prices and look attractive in an oil rally, in North America high natural gas prices have clearly favoured fuel switching into oil for power generation and industrial use at the margin. US gasoline demand was remarkably- and unseasonably-robust throughout the fourth quarter and, according to preliminary weekly reports, was roughly on par in December with the highs reached at the peak of the summer driving season. In addition to unseasonably mild weather, a dip in product prices may have played a role in this, as consumers may have seized on the opportunity to refill their tanks after holding back earlier.

Moving Annual Average Change in Oil Demand* – November 2004

	LPG	Naphtha	Gasoline	Jet/ Kerosene	Diesel	Other Gasoil	RFO	Other	Total	kb/d
US	4.0%	5.2%	1.4%	2.5%	6.4%	-3.8%	1.6%	3.6%	2.5%	498
Canada**	5.4%	11.2%	1.3%	7.3%	-3.6%	8.5%	0.3%	7.5%	4.1%	88
Mexico	1.9%	-24.4%	6.0%	7.4%	2.7%	2.7%	-5.3%	4.6%	1.7%	34
Japan	-4.1%	0.9%	1.9%	-3.2%	0.3%	-4.2%	-10.7%	-6.1%	-2.7%	-150
Korea	-1.2%	4.3%	-6.1%	-11.6%	2.9%	-12.8%	-2.6%	-17.0%	-1.2%	-27
France	2.5%	-2.6%	-5.1%	2.9%	2.0%	-0.3%	-0.8%	2.8%	0.2%	3
Germany	0.5%	4.7%	-2.9%	0.3%	2.2%	-11.7%	-0.4%	30.3%	-1.0%	-26
Italy	2.7%	3.2%	-1.9%	2.6%	5.6%	6.1%	-7.1%	13.9%	1.6%	31
UK	19.1%	-7.8%	-1.2%	7.3%	9.3%	5.4%	19.3%	23.7%	7.7%	133
Total	**2.9%**	**2.5%**	**1.0%**	**0.9%**	**4.4%**	**-3.0%**	**-3.3%**	**4.5%**	**1.5%**	**584**
kb/d	149	67	136	30	271	-106	-108	174	584	

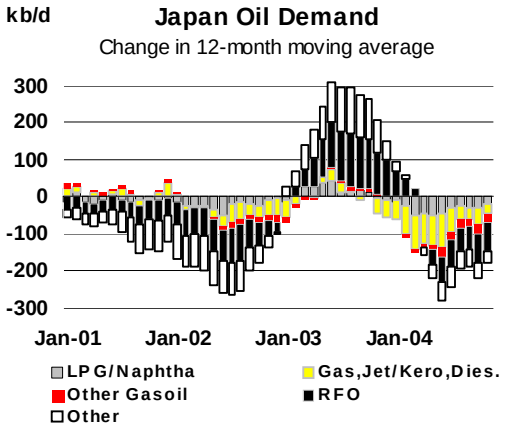
* defined as the percentage change between the demand average for the 12 months up to November and that of the same period a year earlier
** near-month data are estimated

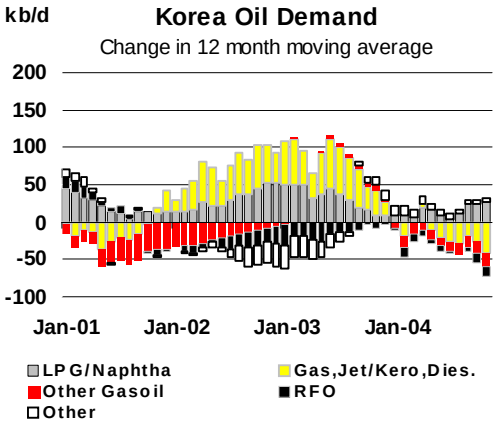
Pacific

Oil product demand in the Asia-Pacific region contracted sharply in October and November, by roughly 200 kb/d and nearly 300 kb/d, respectively. Two main factors led the decline, namely a sustained recovery in Japanese nuclear power generation and unseasonably mild fourth-quarter temperatures in Northeast Asia. Of those two factors, the latter is inherently transient, while the other will likely exert a longer effect on oil demand.

The impact of the weather in October and November is clearly visible in the breakdown of the demand contraction by country and product: total demand contracted as fast in percentage terms, and even slightly faster, in Korea than in Japan, and for jet fuel/kerosene, a major heating fuel, than for residual fuel oil, used as boiler fuel in oil-fired power plants. In both countries, jet fuel/kerosene

demand contracted by about 40 kb/d in October and 90 kb/d in November, or an aggregate of 80 kb/d and 180 kb/d. However deep that contraction may appear, it is more circumstantial than structural, and the onset of colder temperatures in late December and January will likely set the stage for a return to stronger demand (although kerosene is slowly being replaced by natural gas and LNG as a regional heating fuel).





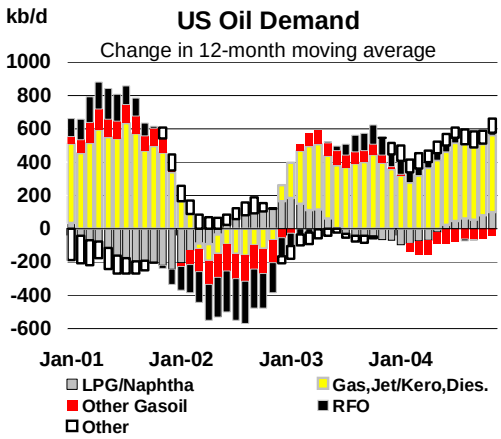
In contrast, OECD Asia-Pacific demand for residual fuel oil contracted by an aggregate 110 kb/d in October and 90 kb/d in November, led by Japan. Lower Japanese demand reflected a recovery in nuclear power generation, reducing the need for oil-fired power generation capacity. This is likely to be a lasting factor, as safety concerns brought by a controversy over inspection records at Tokyo Electric Power Co. (Tepco) in late 2002 and an accident at a Kansai Electric Power Co. (Kepco) facility last year have receded. However, the decline may not be completely steady. Japanese nuclear power output fell back in December as more plants were once again taken off-line, presumably for routine maintenance and inspections. In late December/early January, as many as nine Tepco plants were out of operation, up from six a month earlier, while three Kepco plants were also idled, compared to two in mid-December.

Nuclear power plant problems in Korea have not boosted oil demand for power generation, however, as competitive LNG pricing has favoured LNG over oil as boiler fuel. LNG consumption was up by about 20% in Korea in recent months. Although Korean LNG prices are linked to oil prices, they lag oil prices and the formula typically has only an 85% crude oil price linkage. All indications are that the substitution of gas for petroleum products will continue, price permitting.

North America

Major revisions to US preliminary demand estimates for October, the effect of which was compounded by upward adjustments in Canada and Mexico for November, have helped raise the assessment of fourth-quarter North American demand by 220 kb/d.

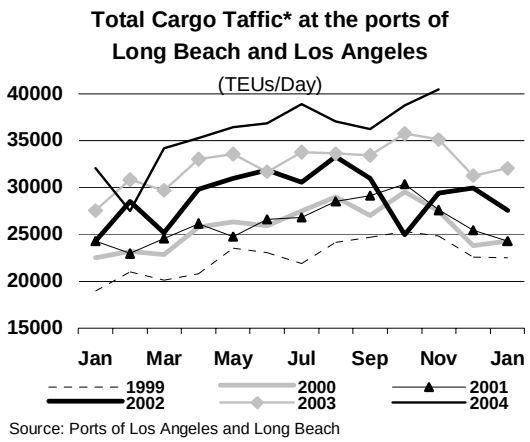
Provisional US demand estimates for October were raised by nearly 400 kb/d, with the broad 'other product' category used in preliminary oil statistics (including LPG, naphtha and the narrower 'other product' category as defined in OECD Monthly Oil Statistics surveys) accounting for more than two thirds of the increase. Gasoline demand was revised upwards by 90 kb/d, and residual fuel oil demand by 50 kb/d. Aggregate distillate demand was little changed, with a 140 kb/d cut in the assessment for heating oil offset by a 120 kb/d increase in diesel.



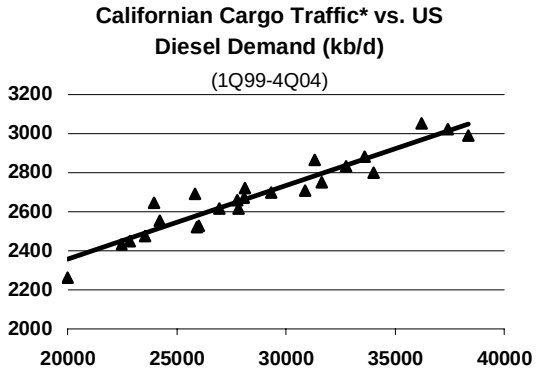
In addition, preliminary data for November point to higher demand than expected in Mexico and Canada. Mexican demand for November has been adjusted upwards by 160 kb/d, nearly all in residual fuel oil (a 30 kb/d increase in gasoline was offset by smaller cuts in naphtha and other product demand). A 100 kb/d increase in Canada spans most of the demand barrel, but remains subject to revisions. US demand for November was roughly unchanged.

In aggregate, November OECD demand expanded at the fastest pace for 2004, rising by 4.5%, or nearly 1.1 mb/d, from a year earlier. November demand surged at double digit rates in Mexico and a robust 3.6% in the US and 5.8% in Canada.

Transportation fuel demand led the growth in the US in November and throughout the fourth quarter. Gasoline demand was unseasonably robust, reaching a provisional 9.24 kb/d in December, just shy of the summer's highs. For the fourth quarter as a whole, US gasoline demand is now estimated at 9.16 mb/d, a hair's width from the 9.17 mb/d high of the third-quarter peak driving demand season, and within reach of the record high of 9.18 mb/d touched in the third quarter of 2003. The rise in gasoline demand seemingly belies reports of falling sales of relatively fuel-inefficient Sports Utility Vehicle. While driving demand may have been spurred by mild fourth-quarter temperatures and easing gasoline prices, it is also likely that a marked tilting of vehicle sales towards more fuel-efficient cars will take time to translate into moderating gasoline consumption.



Source: Ports of Los Angeles and Long Beach



* Measured in 20 foot eqivalent units per day at the Ports of Los Angeles and Long Beach. December estimated for Los Angeles

US diesel sales remained also exceptionally robust throughout the fourth quarter. Diesel demand growth rebounded to a provisional 190 kb/d for the quarter, from 140 kb/d in the third quarter, a trend seemingly consistent with a corresponding pick-up in US container trade. Container traffic at the ports of Long Beach and Los Angeles in California, a proxy for total US trade, expanded briskly in the fourth quarter, with surging traffic at Long Beach more than offsetting a slowdown at Los Angeles. There is a close empirical correlation between US demand for diesel and US trade and container traffic. In addition, weakness in the US currency has spurred growth in exports and a late-year pick-up in industrial output, following a more sluggish third quarter. That has brought further support to both diesel demand for trucking and residual fuel oil for power generation and industrial use.

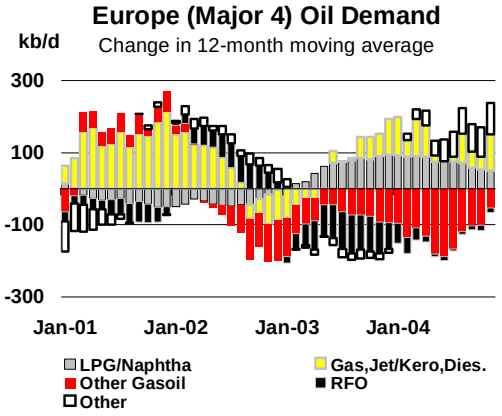
Europe

The estimate of European demand is roughly unchanged for October but has been adjusted upwards by 190 kb/d for November, a gain more than offset by a larger cut in the Asia-Pacific region. Italy and the UK account for the bulk of the November revision.

On a year-on-year basis, November marks an anticipated rebound (albeit above forecast) from demand contraction of nearly 200 kb/d in October. November growth, totalling about 830 kb/d, was led by a 580 kb/d increase in gasoil deliveries, including a 140 kb/d gain in German heating oil, as residential users refilled as expected their largely depleted tanks. German heating oil deliveries were actually mildly below forecast in November, though that was partly offset by slightly stronger German diesel and other product deliveries.

The adjustment for November makes what already looked like relatively robust European demand growth for 2004 appear even stronger. On average, regional 2004 demand looks to have expanded by about 240 kb/d, or 1.6%. That is the steepest annual gain in European demand since 1998. Remarkably, more than half of that growth is accounted for by the UK alone, followed by a combination of the Netherlands, Turkey, the Czech Republic and Poland. In contrast, demand in mature economies such as France and Germany edged downwards. Italian demand growth advanced at a brisk pace in the fourth quarter, but was comparatively sluggish the rest of the year.

Is such a growth rate sustainable? Central and Eastern Europe, where the economy has benefited from a manufacturing boom partly spurred by EU accession, seems likely to see further gains, albeit from a relatively low base. In Western Europe, the contrast between demand in the UK and the other leading economies seems to correlate loosely with their diverse economic performances. But while growth prospects in the eurozone seem at threat from the effect of a high euro on transatlantic exports, in the UK a recent slide in the property market raises concerns about the sustainability of strong consumer demand. The odds seem to favour a slowing of regional demand growth in 2005.

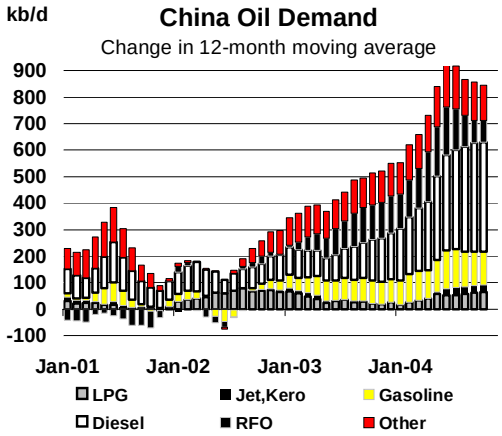


Separately, the European demand estimate for 2003 has been raised by an average 40 kb/d, reflecting revisions to historical German demand. Naphtha accounted for the bulk of the revisions, due to both an increase in observed values and a decrease in backflow data. Motor gasoline, residual fuel oil and gasoil data were also slightly revised. Adjustment factors for 2004 have yet to be adjusted and will be reviewed once annual statistical information is finalised.

Non-OECD

China

Chinese apparent demand, defined as the sum of domestic refinery output and net product imports (plus adjustment factors for direct crude burn, smuggling and unreported refinery output) rebounded sharply in November, to a new record high of 6.72 mb/d, up from 6.35 mb/d in October. This represents a year-on-year gain of nearly 16%. Given the general uncertainty surrounding the outlook for Chinese oil consumption and the recent impact of Chinese demand growth on the global market, the November performance, following four months of robust but comparatively milder gains, raises questions: has Chinese demand growth returned to the double-digit rates of the first half of 2004, or was the surge in implied demand temporary? We suggest that it probably is a little bit of both.



Broken down into its main components, the surge in November demand represents both a spike in net product imports and a jump in reported refinery throughputs. The jump in imports is deemed to be something of a one-off. Net imports for the month hit close to 820 kb/d, up from 600 kb/d in October. This marks the fourth highest net import figure on record, following spikes to 990 kb/d and 830 kb/d in April and June of 2004. The next highest imports on record were in December 1993, when they reached about 910 kb/d.

As earlier in 2004, residual fuel oil led the import growth. Official fuel imports were the second highest on record at nearly 660 kb/d in November, up from 650 kb/d in June but down from 780 kb/d in April. Crude imports were also extremely high in November (see table below). But anecdotal reports suggest Chinese crude and product imports have since eased. The jump in November imports might have reflected some stock rebuilding following a dip in international prices, which improved both product imports and refining margins for imported crude. Higher imports might also have been needed to fill new storage capacity along the coast.

In contrast, the rise in refinery runs may have more of a lasting impact. After hovering around a 5.05 mb/d plateau from May to October, throughputs at Sinopec and Petrochina refineries suddenly jumped to nearly 5.29 mb/d in November, a 250 kb/d increase. Estimates by the National Bureau of Statistics, which are understood to be more comprehensive, peg November throughputs at 5.74 mb/d, up from about 5.47 mb/d-5.48 mb/d in the previous six to seven months. That would mark a 260 kb/d-270 kb/d boost. While some of the gain might reflect a temporary surge in refinery margins which would have led to higher refinery utilisation rates, it is also likely the sign of an increase in refining capacity. Although no major refinery expansion project is known to have been implemented

in the last few months, refinery creep could have been achieved through routine maintenance and de-bottlenecking projects. Such a gain would then presumably set a new plateau for Chinese refining activity.

China Crude & Product Trade
(thousand barrels per day)

	2002	2003	4Q03	1Q04	2Q04	3Q04	Sep 04	Oct 04	Nov 04	Latest month vs. Oct 04	Latest month vs. Nov 03
Net Imports/(Exports) of:											
Crude Oil	**1247**	**1664**	**1716**	**2290**	**2371**	**2232**	**2413**	**2117**	**2699**	**583**	**1045**
Products & Feedstocks	**361**	**442**	**445**	**600**	**849**	**545**	**586**	**598**	**819**	**220**	**405**
Gasoil/Diesel	-16	-28	-9	22	50	21	32	39	80	41	94
Gasoline	-142	-175	-151	-95	-141	-146	-138	-102	-113	-11	16
Heavy Fuel Oil	281	407	361	448	653	412	364	425	658	233	293
LPG	197	202	203	172	227	222	255	201	205	3	37
Naphtha	-16	-22	-24	-21	-11	-48	-48	-20	-73	-53	-49
Jet & Kerosene	9	1	-6	21	15	19	53	13	14	1	15
Other	48	58	70	54	56	64	68	43	48	5	-1
Total	**1609**	**2106**	**2161**	**2890**	**3220**	**2777**	**2998**	**2715**	**3518**	**803**	**1450**

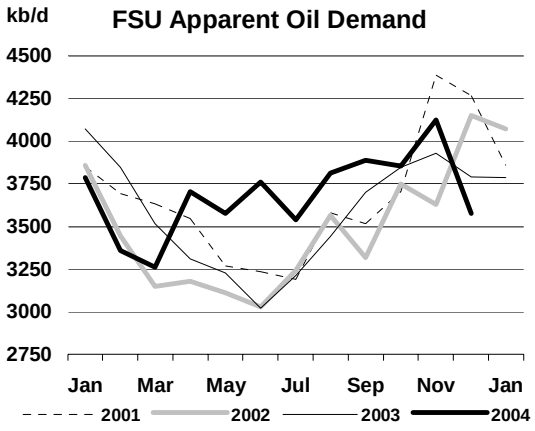
Sources: China Oil, Gas and Petrochemicals plus IEA estimates

FSU

FSU apparent demand contracted in December for the first time since the first-quarter months of 2004, as production growth tapered off somewhat while export growth recovered from a November slowdown. Exports surged by 835 kb/d on the year, outpacing supply gains of 620 kb/d by roughly 215 kb/d.

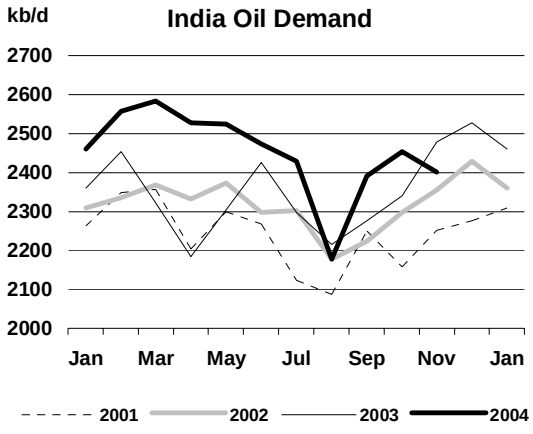
At 3.58 mb/d, December implied demand was significantly below the level of the last five years. But the dip was offset by robust second- and third-quarter apparent demand. Unseasonably mild winter weather, which allowed higher waterborne shipments than is typically the case at that time of year, is the most likely explanation for the growth in exports. That weather pattern may not be repeated this year, leading to correspondingly higher apparent demand growth for 2005 that had been previously expected.

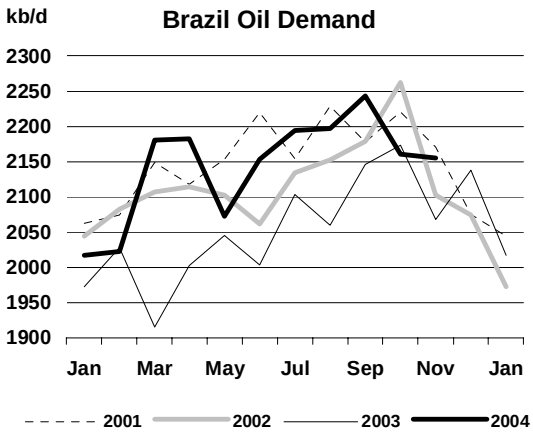
Yet it is worth noting that the slowdown in fourth-quarter implied demand, following a similar trend in the first quarter, repeats pattern of the previous year. It is therefore possible that the combination of contra-seasonably high FSU exports in the winter months, combined with relatively weak exports in the second and third quarters, reflect structural changes in the FSU demand barrel as much as one-off weather conditions. Such changes could include both a decline in winter heating demand for heavy products, associated with fuel switching into natural gas for heating and power generation, and an offsetting by an increase in transportation and agricultural demand in the peak sowing, driving and harvesting demand seasons.



Other Non-OECD

Indian demand shifted into contraction in November, bringing fourth-quarter projected demand growth to 1.3% , versus 3% in the third quarter and 8.8% in the second quarter. The dip was led by a sharp drop in diesel, compounded by declines in naphtha and gasoline.





India Crude & Product Trade

(thousand barrels per day)

	2002	2003	4Q03	1Q04	2Q04	3Q04	Aug 04	Sep 04	Oct 04[1]	Latest month vs. Sep 04	Latest month vs. Oct 03
Net Imports/(Exports) of:											
Crude Oil	**na**	**1863**	**1943**	**1938**	**2090**	**2013**	**1953**	**2075**	**1903**	**-173**	**-126**
(by Public Oil Cos)	**1088**	**1243**	**1379**	**1105**	**1312**	**1214**	**1214**	**1154**	**1206**	**53**	**-93**
Products & Feedstocks	**-83**	**-152**	**-91**	**-132**	**-173**	**-178**	**-164**	**-201**	**-192**	**9**	**-107**
Gasoil/Diesel	-53	-119	-99	-137	-135	-122	-110	-188	-156	32	-46
Gasoline	-48	-72	-62	-77	-67	-75	-77	-63	-86	-22	-15
Heavy Fuel Oil	6	5	-8	-12	13	-5	-9	3	-7	-10	-20
LPG	22	55	79	90	39	86	80	118	119	1	63
Naphtha	4	-1	30	19	10	-29	-26	-21	-13	8	-64
Jet & Kerosene	10	-22	-42	-29	-44	-43	-35	-66	-62	4	-32
Other	-23	1	11	14	12	9	13	15	12	-3	7
Total	**1005**	**1712**	**1852**	**1807**	**1917**	**1834**	**1789**	**1875**	**1711**	**-164**	**-233**

1 Preliminary
Sources: Indian Ministry of Commerce, Indian Port Authorities and IEA estimates
Yearly data for net imports of crude oil for 2002 are unavailable.
For 2002, 'Total' indicates the sum of net crude oil imports by public oil companies and net products & feedstock by public, private and joint-venture companies.

SUPPLY

Summary

- **World oil supply** fell by 45 kb/d in December, to just under 84.4 mb/d, thereby ending three months of rising supply. Lower OECD October output, but higher than expected November non-OECD supply, point to November production rising by 170 kb/d, versus the modest fall estimated for November last month. OPEC crude supply remained unchanged in December at 29.5 mb/d, while OPEC other supplies were up by 120 kb/d. Non-OPEC supply fell by 165 kb/d. Total OPEC liquids stood 2.0 mb/d above December 2003 levels, although disrupted OECD output put non-OPEC production barely 175 kb/d above those of a year ago.

- **Non–OPEC supply** fell by 165 kb/d in December as disruptions hit Norwegian fields, and Canadian syncrude and offshore operations. Lower Russian output also countered an increase from Latin America, while rebound in US Gulf of Mexico supply slowed. Overall, 4Q 2004 output is revised down by 200 kb/d and 1Q 2005 by 300 kb/d. Much of this output will recover in coming months, but expectations for the North Sea, Canada, Latin America and Asia, have been revised down by 160 kb/d for 2005. Non-OPEC growth in 2005 is now 1.1 mb/d, after 1.0 mb/d in 2004 and 850 kb/d in 2003. OPEC other liquids show healthy growth in 2005, at some 450 kb/d.

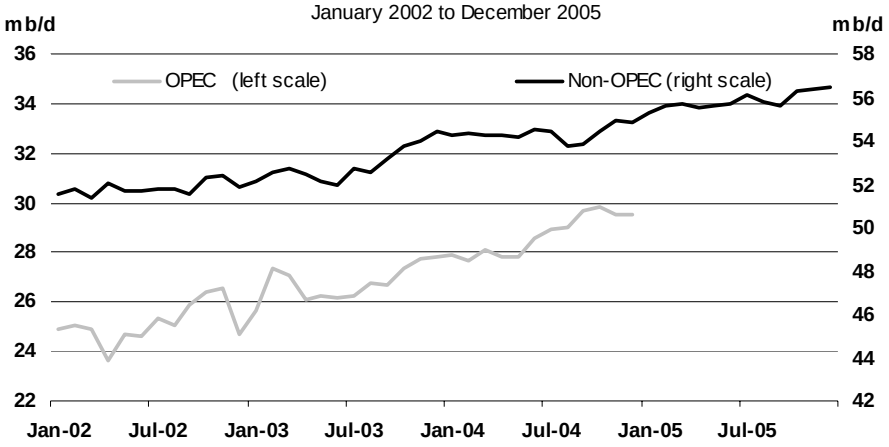
- **OPEC crude supply** for December is estimated unchanged from November's 29.5 mb/d. Disruptions continued to plague the oil sector in Iraq, although higher southern exports resulted in a 160 kb/d rise in total December supply. The UAE also increased production by 100 kb/d. However, supply fell by 50-100 kb/d each for Saudi Arabia, Nigeria and Iran. Effective spare capacity (excluding Iraq, Nigeria, Venezuela and Indonesia) remained around 1.0 mb/d.

- **OPEC-10** supply (excluding Iraq) was down by 160 kb/d from November, and averaged 27.6 mb/d compared to 1 November's target of 27.0 mb/d. An Extraordinary Meeting of the OPEC Conference on 10 December in Cairo agreed to maintain the current production ceiling and individual quotas. However, the Organisation decided to curb over-production by a collective 1.0 mb/d, effective 1 January 2005 and will meet again on 30 January in Vienna.

- **The 'call on OPEC crude and stock change'** is revised up by 100 kb/d for 2004 and by 300 kb/d for 2005, averaging 28.1 mb/d and 28.0 mb/d respectively. Adjustments are concentrated in the current two winter quarters, with the call revised up 400-500 kb/d from last month's Report, as OECD supply disruptions combine with stronger winter demand. As a result, the first quarter call, at 28.6 mb/d, averages within 900 kb/d of apparent December OPEC production.

OPEC Crude and Non-OPEC Oil Supply [1]

January 2002 to December 2005



1 Non-OPEC Oil Supply includes OPEC NGLs, condensate and non-conventional oil

All world oil supply figures for December discussed in this Report are IEA estimates. Estimates for OPEC countries, Alaska, Egypt, Oman, Peru and Russia are supported by preliminary December crude supply data.

Note: Random events present downside risk to the non-OPEC production forecast contained in this Report. These events can include accidents, unplanned or unannounced maintenance, technical problems, labour strikes, political unrest, guerrilla activity, wars and weather-related supply losses. No contingency allowance for random events is subtracted from the supply forecast. Although upside variations can occur, experience in recent years indicates that, roughly speaking, the random events listed above may cause supply losses of between 300 kb/d and 400 kb/d for non-OPEC supply each year.

OPEC

December crude supply from OPEC was unchanged from an upwardly-revised November figure of 29.5 mb/d. This took total production to 28.7 mb/d for the year, a rise of 2 mb/d from 2003 and the highest OPEC annual average since 1979. Iraq boosted net production by 160 kb/d in December to 1.95 mb/d as southern exports increased by nearly 300 kb/d, offsetting lower domestic crude use and heavily disrupted exports via the Turkish port of Ceyhan. Production from the UAE also rebounded by 100 kb/d, close to the Emirates' 2.55 mb/d capacity levels. Elsewhere, lower production was concentrated amongst Saudi Arabia, Nigeria and Iran, each seeing supply down by 50-100 kb/d. Nigeria's cut resulted from localised protests over development and employment which impinged on Shell and ChevronTexaco production. Output from Qatar, and conventional crude supply from Venezuela, fell by 20 kb/d each.

The only change to assessed OPEC production capacity this month is a 50 kb/d increase for **Algeria.** Capacity here is set at 1.35 mb/d as the recently-started ROD complex builds up supplies. Capacity for **Iran** is maintained at 4.0 mb/d, despite an export-driven surge in supply to 4.05 mb/d in November. New production due onstream at end-2004 from the Soroush and Nowruz fields has been delayed, although Iran appears to have held output close to 4.0 mb/d for December and January, unconstrained by production cuts pledged by other producers.

Effective OPEC spare capacity (excluding Iraq, Nigeria, Venezuela and Indonesia, which have suffered from long-standing supply disruptions or field decline in recent months) remained low. Taking account of a range between 0.5 and 1.0 mb/d for Saudi Arabia, effective spare capacity based on December output was in the range 0.75-1.25 mb/d. New investments coming onstream in 2005 could, on their own, push the spare capacity cushion closer to 2.0 mb/d later in the year. Evidence of supply cuts from OPEC members would further add to spare capacity, but could at the same time undermine overall supply flexibility by cutting into, recently more comfortable, consumer country inventory levels.

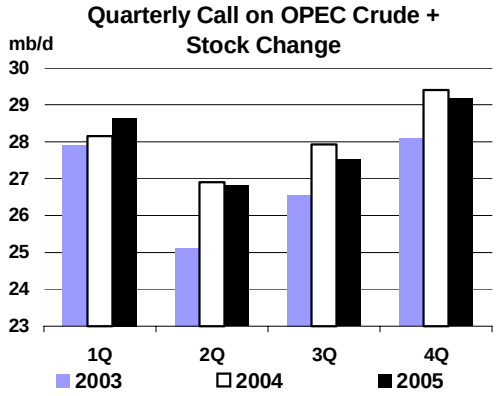
OPEC Crude Production
(million barrels per day)

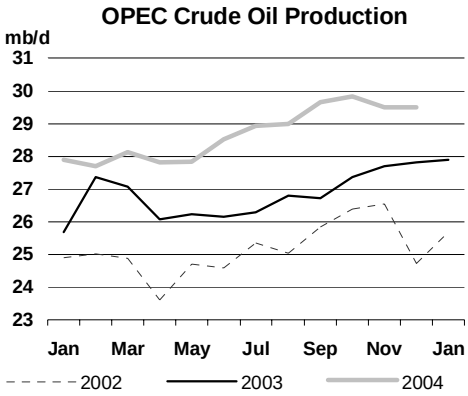
	1 Nov 2004 Target	Dec 2004 Production	Sustainable Production Capacity[1]	Spare Capacity vs. Dec 2004 Production	Production vs. Target
Algeria	0.86	1.29	1.35	0.06	0.43
Indonesia	1.40	0.98	1.00	0.03	-0.42
Iran	3.96	4.00	4.00	0.00	0.04
Kuwait[2]	2.17	2.44	2.50	0.06	0.27
Libya	1.45	1.61	1.62	0.01	0.17
Nigeria	2.22	2.27	2.40	0.13	0.05
Qatar	0.70	0.78	0.80	0.02	0.08
Saudi Arabia[2, 3]	8.78	9.45	10.0-10.5	0.55-1.05	0.67
UAE	2.36	2.52	2.55	0.04	0.16
Venezuela[4]	3.11	2.23	2.25	0.02	-0.88
Subtotal	**27.00**	**27.56**	**28.47-28.97**	**0.91-1.41**	**0.56**
Iraq		1.95	2.50	0.56	
Total		**29.51**	**30.97-31.47**	**1.47-1.97**	
(excluding Iraq, Nigeria, Venezuela, Indonesia)				*0.73-1.23)*	

1. Capacity levels can be reached within 30 days and sustained for 90 days
2. Includes half of Neutral Zone Production
3. Saudi Arabian capacity shown as a range since a delay may be incurred before higher level can be achieved
4. Excludes upgraded Orinoco extra-heavy oil which averaged 493 kb/d in November

Although high crude prices are leading to modest increases in upstream expenditures generally (see text box below), a series of political, technical, institutional and economic factors will likely limit OPEC upstream capacity expansion at least in the short term. Concerns persist over decline rates amongst several OPEC producers and barriers to entry remain for foreign company equity participation and expertise. Uncertainty over future demand prospects is also a factor, and one that was raised in talks during January between OPEC producers and Asian consumer interests. Several speakers from the producer side indicated that new upstream capacity investment was likely to be dependent upon clear signs of strong and sustainable demand growth. Such thinking could result in capacity expansion continuing to lag rather than lead demand growth.

Crude supply from the OPEC-10 (excluding Iraq) averaged 27.6 mb/d in December, a drop of 160 kb/d from November and around 600 kb/d above the 27.0 mb/d target in place since November. December therefore saw only limited advance moves towards the production cuts agreed at OPEC's 10 December Cairo meeting. OPEC's communiqué cited lower prices, more normal stocks and what they saw as a generally well supplied market, signalling an intention to maintain the existing 27.0 mb/d production ceiling and the individual quotas associated with it. From 1 January actual production was to be curbed by 1.0 mb/d, spread between Saudi Arabia, Kuwait, UAE, Nigeria, Libya, Algeria and Qatar. Recognising at-quota or below-quota production from Iran, Indonesia and Venezuela, those producers were to be spared cuts for now.





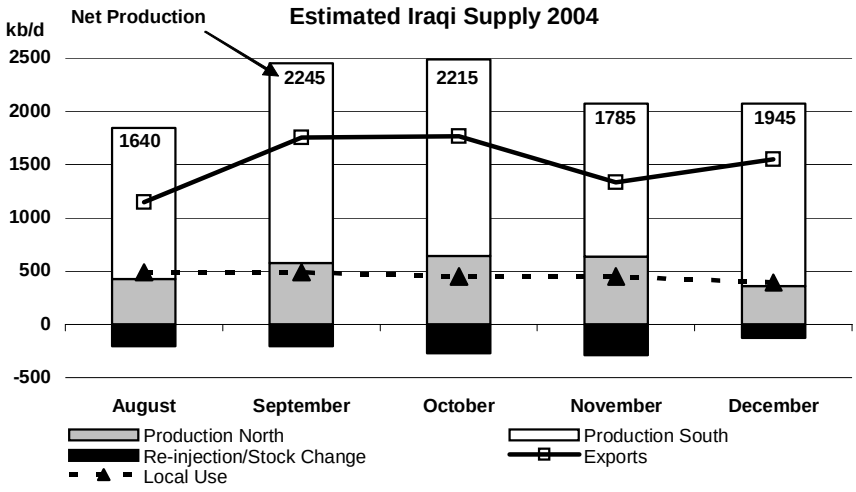
The curbs in production were widely seen as being aimed at preventing a build-up of crude in consuming markets from March onwards. They were also seen as signalling OPEC's preparedness to defend higher prices and to re-establish some control over the market after several months in which quotas had to all intents and purposes been suspended. Saudi Arabia, Kuwait and UAE account for 75% of the proposed cuts and, as producers of deeply discounted heavy crude, would seem to have most to gain from the narrowing price differentials which production cuts would imply. Having apparently cut production only modestly in December, signalled term lifting schedules suggest the Saudis are spreading their cuts over January and February, although Saudi sources have been saying through January that production has already been reduced to 9.0 mb/d. Kuwait appears to be cutting refinery runs and product exports in Q1 but has said it will not export incremental crude freed up by lower refinery runs. Abu Dhabi meanwhile has maintenance work involving the Murban field which will likely also focus their production curbs in February. Initial indications are that production cuts so far in December and January may amount to 50-60% of the pledged 1.0 mb/d.

While further reductions may materialise from the Gulf producers in February, there may be less incentive for OPEC's three producers of high-value African grades to actively curb production. Questions of both revenue and, for now deferred, target re-allocation would suggest less willingness from these producers to comply in full with proposed cuts. Also, Nigeria will be keen to make up for recent losses incurred due to disrupted production from Shell and ChevronTexaco facilities.

Production from **Iraq** (net of field injection and deliveries into storage) increased by 160 kb/d in December to average 1.95 mb/d. Total exports were up by 210 kb/d to 1.55 mb/d, but local consumption lost around 55 kb/d as pipelines feeding the northern Baiji and Daura refineries were repeatedly disrupted. Pipeline outages in December resulted in crude having to be trucked to Daura, while a 23 December attack on pipelines feeding Kirkuk crude to Baiji kept the line out of operation until the second week of January. Crude production, exports and refinery operations are seen as susceptible to increasing levels of insurgent activity in the run-up to 30 January elections.

December's supply increase derived from higher exports from Basrah Oil Terminal. In total, southern exports are assessed at 1.46 mb/d, up from November's 1.17 mb/d. Weather-related tanker loading delays were less pronounced than in November. There was a surge in liftings in excess of 2 mb/d in the second week of December, partly reflecting cargoes deferred from the November programme. However, southern exports tailed off as December progressed amidst attacks on the electric power grid and renewed loading problems due to weather. Any upside from December southern export levels during the first half of 2005 now seems unlikely. Iraq's State Oil Marketing Organisation (SOMO) has cut Basrah Light term contract volumes by 10%, or 160 kb/d, for February through June.

Exports of Kirkuk crude from Ceyhan in December were limited to two tanker liftings and a partial batch of term crude sent by pipeline to Turkish refiner Tupras. These totalled a combined 75 kb/d, half the November level. There have been no pipeline shipments from northern Iraq to Ceyhan since an attack on the line cut flows on 18 December. At the time of writing the pipeline was not expected to resume shipments before late-January. With practically no oil in storage at Ceyhan, outstanding term lifting volumes from December have been cancelled. Any shipments achieved from Ceyhan during the rest of January will reportedly be diverted via pipeline to Tupras refineries. Without a significant improvement of security around oil installations, sustaining 2-2.5 mb/d production for Iraq, let alone achieving the Ministry's 3.0 mb/d 2005 target, could prove difficult.



The decision taken by OPEC on 10 December to curb over-production versus target came too late to significantly affect **Saudi Arabian** production and exports for the month as a whole. Announced term volumes were held steady at November levels. Although not necessarily indicative of an increase in export volumes, a surge in spot tanker chartering for December was evident compared to the lull seen in November. Notwithstanding, modest cuts in supply are believed to have begun to materialise late in the month, a prelude to the near-500 kb/d cuts agreed for January. Overall Saudi December output is estimated at 9.45 mb/d, 100 kb/d below November. December saw formal inauguration of new facilities serving the Qatif and Abu Safah fields, representing 650 kb/d of new production for the Kingdom. The next major increment in productive capacity from Saudi Arabia occurs in mid-2007 when work to de-mothball 500 kb/d of production at the Abu Hadriyah, Fadhili and Khursaniyah fields is completed.

Civil unrest in Rivers State in the southeast of **Nigeria** contributed to an overall 80 kb/d reduction in the country's December production. Flow stations operated by Shell and ChevronTexaco began to be shut-in from 5 December and peak disruption amounted to 120 kb/d. The outages forced Shell to declare force majeure on liftings of Bonny Light from 22 December. Early January saw the resumption of ChevronTexaco's 20 kb/d of affected production. Shell was also gradually resuming output, but at the time of writing some 30-40 kb/d of production had still not been re-activated. Nigeria was scheduled to voluntarily cut 120 kb/d of production from 1 January under the terms of the Cairo agreement. However, NNPC announced in early January that no voluntary cuts were yet underway due to the outages suffered in December/January by the two majors.

Venezuelan conventional crude oil production (net of output from the synthetic crude plants serving the Orinoco tar sands) nudged lower by 20 kb/d in December. Earlier, limited volumes of un-upgraded, extra-heavy oil came onto the market in October/November while the Sincor upgrader was

offline for maintenance, but these volumes were effectively removed from the conventional oil pool in December as upgrader operations resumed. But December's decline in conventional crude was limited since two new wells, brought into operation by PDVSA at the Tomoporo field in the Lake Maracaibo region, added some 16 kb/d. Recent months have seen a stabilising of conventional production after declines seen through 2003 and early-2004.

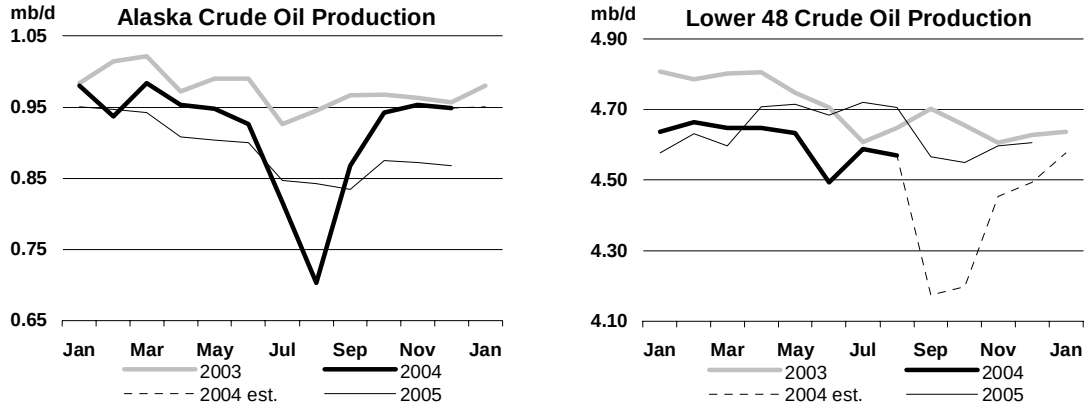
Venezuelan synthetic crude production (counted in this Report under the OPEC NGL, condensate, other oils category) is in the process of building from a prevailing 400 kb/d, to nearly 600 kb/d as early as February. Production from the Hamaca upgrader began in October, and is due to reach 180 kb/d this month. The Sincor plant was down for maintenance in October/November but should resume full operations at increased 180 kb/d capacity by February.

OECD

North America

US – December Alaska actual, others estimated: US production estimates are again revised down in light of the most recent data (state-wise production for August, provisional monthly totals for October and weekly indications for November/December). The net result is downward adjustments to US crude supply of 15 kb/d for 3Q 2004, 60 kb/d for 4Q 2004 and 40 kb/d in 1Q 2005. However, downward adjustments are concentrated in the early part of 2005, and total US crude supply is seen rising by 100 kb/d in 2005 to 5.53 mb/d.

The bulk of the downward adjustment, but also the basis for 2005's output recovery, is again in the **Gulf of Mexico** (GOM). The October to January period has seen start-up of incremental production from the Ursa, Mad Dog, Holstein, Front Runner and Magnolia fields but we have shaved down the contribution expected in the first few months of operation. Aggregate data suggest a delayed and slower build-up from these new fields entering service in GOM towards end-2004. Also, not un-related, is the fact that the after-effects of Hurricane Ivan have been more profound than had been anticipated. In December, 165 kb/d of production remained offline, compared to our early-month estimate of 100 kb/d. We have assumed 100 kb/d remaining out of action in January, tapering off to 75 kb/d in February/March and 50 kb/d in 2Q. The pace and extent of GOM recovery remains a key uncertainty for the 2005 US forecast.



December saw **Alaskan** crude production largely stable at 950 kb/d. Colder temperatures, which aid re-injection processes, might have been expected to boost production levels modestly, but this was offset by outages at Endicott and Northstar. This Report now envisages a 20 kb/d decline from Alaska for 2005 after the 60 kb/d decline seen for 2004. Last year's drop was exaggerated by extended maintenance work in preparation for upcoming modernisation of the Trans Alaska Pipeline.

Canada – October actual: October saw a sharp rebound in Canadian conventional crude supply after four months of decline. However, the recovery proved short lived, with output likely slipping below 1.8 mb/d once more during the November-January period as prolonged outages due to leaks have affected the 150 kb/d Terra Nova field offshore Newfoundland. At the same time, production of non-conventional oil from Canada's three main synthetic crude units, normally the source of some 650 kb/d of output, has suffered a catalogue of scheduled and unscheduled outages, culminating this month in an estimated loss of some 200 kb/d.

High Prices Not Driving A Surge in Investment - Yet

A number of recent industry surveys suggest that major oil companies' are not yet banking on the sustainability of recent high prices and that, consequently, a cautious approach is being taken towards boosting capital expenditure in 2005, notably on exploration and production (E&P).

Biannual surveys from Lehman Brothers and Citigroup suggest worldwide expenditure in the upstream will grow by less than 6% in 2005. This represents a slow-down from double digit growth recorded in 2004. Spending growth will exceed the average however in North America, on offshore projects and amongst the independent upstream operators. Also, despite the apparent investment slow-down, it is worth noting that 2004 spending expectations showed a marked increase as the year progressed against a back-drop of high prices. Lehman for example began the year forecasting 4% E&P growth for 2004, revised this up to 8.8% at mid-year, while companies now estimate last year's investment to have grown by over 12%. A similar trend may emerge over the course of this year. Interestingly though, only one third of companies surveyed by Lehman this time around said they would boost spending over and above current plans if prices remain around $40/bbl in 2005.

The surveys suggest that, generally, companies are now working on an assumption of $35/bbl crude for 2005. But the major international oil companies (IOCs) still seem to be budgeting for $20-$25/bbl. Operating under what amounts to capital rationing, it is no coincidence that IOC E&P spending growth comes in at less than 5% for 2005. ChevronTexaco and ConocoPhillips are the exceptions, with 10-15% growth expected for 2005. Separate data covering oil price assumptions used in the budgets of the National Oil Companies (NOCs) and producer governments also show only a gradual rise. A figure of $25/bbl for 2005 appears to be the norm, compared to $20/bbl for 2004.

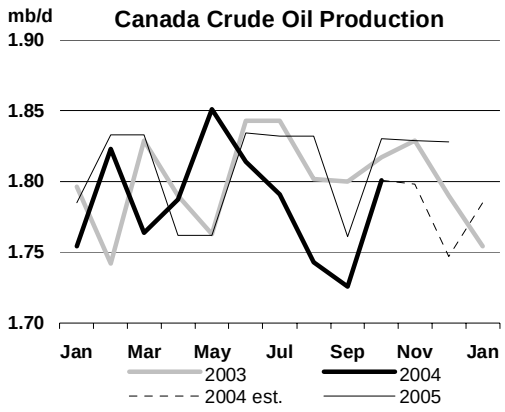
There remain competing claims for recently-inflated cash flow, both amongst the IOCs and NOCs. For the majors, short term returns to shareholders remain a priority, as do mandatory environmental spending, refinery upgrading and gas projects. The IOCs are particularly concerned about the rise in costs in mature producing areas and the trend towards offloading non-core assets in mature areas to independent operators will likely continue. Rather, the majors would prefer to concentrate longer term on accessing a limited portfolio of world-scale projects. Here too however, shortages of qualified project staff, raw materials and drilling equipment are also driving up costs and setting a ceiling on overall investment plans.

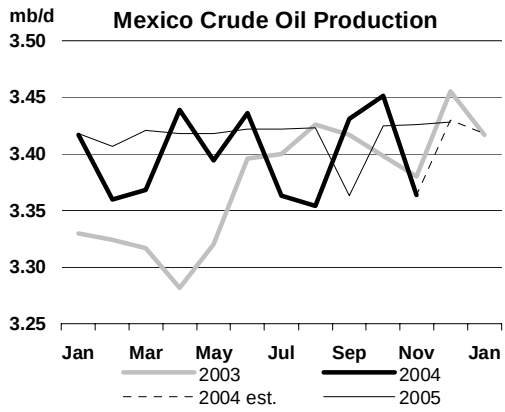
For the NOCs and producer governments, much of the recent surge in income is being diverted to social programmes. At the same time, producer governments in areas with substantial untapped reserves, such as Russia, Kazakhstan and Venezuela, have used higher prices as a signal to tighten fiscal and contract terms for foreign companies active in their upstream sectors. At the margin this too may come to stem new investment.

A trend away from exploration spending in the past decade has seen reduced company reserve replacement levels. Corporate re-structuring after a spate of merger and acquisition activity in the late-1990s in part explains the trend. But increasingly the majors now cite lack of access to new exploration opportunities under conducive terms, particularly in the Middle East. If sustained, the trend towards higher crude prices and a growing role for independent upstream operators should boost industry investment levels, shore up reserve levels and boost productive capacity. But for now the industry seems to be taking a wait-and-see attitude.

Extended maintenance and start-up problems at the Shell Scotford plant are estimated to have cut output to around 100 kb/d for the October through January period. The Syncrude plant suffered reduced production from mid-December through early-January as the result of a power outage. Finally, a fire at the 230 kb/d Suncor facility on 4 January has halved production and with proposed September maintenance brought forward, reduced output is assumed to persist for January and February. These early-year outages and indications that expansion work is unlikely to be completed before 2006/2007 result in a reduced profile for syncrude in 2005, now unchanged from 2004 at just over 600 kb/d. Total Canadian oil output also remains largely unchanged in 2005 at 3.1 mb/d.

Mexico – November actual: Crude production dropped by 85 kb/d in November to 3.36 mb/d after outages affecting offshore heavy crude supply. Exports were less sharply affected, falling by 30 kb/d to 1.95 mb/d from October levels. Shipments destined for Europe rose by 35 kb/d but were countered by a 65 kb/d drop in those targeting Asia and other non-Atlantic Basin markets. Crude production



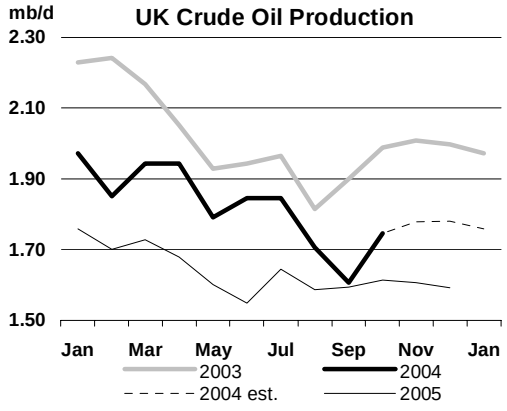


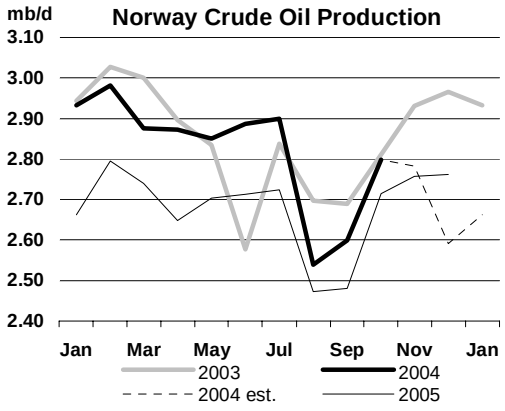
from Mexico is forecast to remain fairly stable in 2005 at 3.4 mb/d, with decline expected at the baseload Cantarell field from 2006 onwards. In 2005 state Pemex expects to replace 50% of production via new discoveries, a figure low by international standards and a ratio which is unlikely to improve so long as private capital is precluded from the exploration and production sector.

North Sea

UK – October actual: UK offshore crude production rebounded after September maintenance, reaching 1.75 mb/d in October, although this remained some 150 kb/d below levels seen early in 2004. Government data on a field-by-field basis through August suggests that this Report's earlier expectations for late-2004 production from a number of fields, including Heather, Caledonia, Skene and Ardmore were too high. Downward adjustments have been made accordingly. In all, 4Q 2004 output is revised down by 50 kb/d and this reduction is extended through 2005. In total, UK offshore crude is seen declining by 180 kb/d to 1.64 mb/d in 2005 after a drop of 200 kb/d in 2004. This is despite around 10 new field start-ups or expansion projects coming to fruition during second half 2004 and in 2005. Onshore crude and NGLs take the 2005 total oil figure to 1.9 mb/d, the first time UK production has dipped below 2.0 mb/d on an annual basis since 1992.

Partly offsetting this somewhat disappointing prognosis for 2005, BP in December won development approval for the 20 kb/d Farragon field which is due for start-up in late-2005. Also, December saw reports that ChevronTexaco's Rosebank/Lochnagar discovery west of Shetland could contain up to 500 mb of oil. If confirmed, this would place the field in an equivalent class to the Buzzard discovery, which is due to be producing up to 200 kb/d by late-decade.





Norway – October actual, November provisional: Latest data for Norway covering October and November confirm expected crude production levels of just under 2.8 mb/d. Furthermore, latest field-by-field data suggest upward revisions to 2005 production from the Ekofisk and Haltenbanken areas. However, production is thought to have fallen to less than 2.6 mb/d for December as the re-start at the Snorre and Vigdis fields, shut-in since late-November due to a gas leak, was deferred until mid-January. Normal production from Snorre and Vigdis is around 300 kb/d but is estimated at only 80 kb/d for December and 180 kb/d in January. Overall crude supply recovery in January was limited to around 2.65 mb/d as poor weather delayed repair work on damaged loading equipment at the

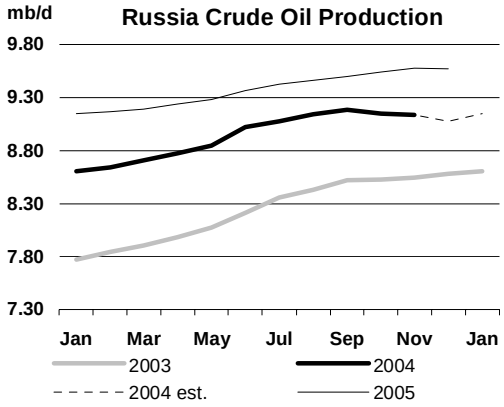
Draugen field. Output began to be affected in early-January and was shut-in completely on 7 January when platform storage tanks became full.

Total Norwegian oil production, including NGL and condensates is now expected to fall by 40 kb/d in 2005 to 3.13 mb/d, after losing 85 kb/d in 2004. For 2005 the decline is driven by crude, as condensate supplies from fields such as Tune, Mikkel, Kvitebjorn and Kristin are expected to add over 50 kb/d. Despite a sharp increase in drilling scheduled for the Norwegian shelf, from a low of 16 wells in 2004 to 40 in 2005, the Norwegian Petroleum Directorate in January revised down its expectations for crude production in 2005, now envisaging a modest fall from 2004 levels.

Former Soviet Union (FSU)

Russia – November final, December provisional: Both November and December saw modest month-on-month decline in Russian oil output, a drop of 10 kb/d in November being followed by a 60 kb/d decline to 9.4 mb/d in December. 2004 production averaged 9.2 mb/d compared to 8.5 mb/d in 2003, although year-on-year growth was heavily skewed, averaging 10.5% at the start of the year but nearer 7% by the end of the year. This Report sees Russian growth continuing to slow on an annual basis, reaching 430 kb/d in 2005 for total output of 9.65 mb/d. Export capacity constraints remain one reason for the slow-down, and company production growth plans themselves for 2005 are tending to come in lower than for 2004. TNK-BP sees 8% growth for 2005 after 16% for 2004 while Tatneft has trimmed growth prospects to 1% this year after 1.6% in 2004.

Notably, the December output reduction exactly matches that of the country's hitherto number one producer Yukos. The company's 1.0 mb/d production subsidiary Yuganskneftegaz was auctioned off on 19 December. US legal action dissuaded prospective buyer, state-controlled Gazprom, from taking part in the auction. Yuganskneftegaz assets ended up in the hands of Rosneft which had in turn bought the original winner of the auction, Baikal Finance Group. Whether Rosneft, itself the target of a buy-out by Gazprom, retains control over Yuganskneftegaz, or rumoured Chinese and Indian buyers take a stake remains uncertain. Nor is it yet clear what impact there will be on short-term supply levels, although for now this Report assumes output from erstwhile Yukos assets remaining largely flat at just over 1.7 mb/d in 2005. Nonetheless, the affair has added an extra element of uncertainty to the longer-term investment environment in Russia.



Political and legislative uncertainty for potential investors in production capacity may come to take over from export capacity constraints as the main impediment to longer-term Russian supply growth. Although export bottlenecks on some routes persist, recent weeks have seen progress towards expanding export capacity on a number of fronts, with:

- approval of the plan for a 1.6 mb/d export pipeline from east Siberia to Nakhodka on the Pacific;
- the start of long-delayed shipments of some 100 kb/d of Russian crude via the CPC pipeline;
- approval of expansion plans for Transneft's Baltic Pipeline System which could raise throughput from 1.0 mb/d to 1.2 mb/d within 12 months;
- progress towards go-ahead for an export route from the Black Sea to the Mediterranean, by-passing the congested Turkish Straits and;
- plans for increased export shipments by-passing the Transneft system, including by rail to China and via Russia's Arctic ports.

Other FSU: November data for production from Kazakhstan, Azerbaijan and Turkmenistan result in only modest changes to expected supply for 2004 and 2005. These three producers are on course for 2004 oil production of 1.17 mb/d, 315 kb/d and 200 kb/d respectively. Production from **Kazakhstan** is seen rising by 80 kb/d in 2005 after an increase of 145 kb/d in 2004. After three years of fairly static production, **Azerbaijan** should increase supply by around 90 kb/d in 2005. Output from the offshore ACG group of fields is seen rising from a current 150 kb/d to some 350 kb/d by end-2005. This derives from the imminent start-up of the 1.0 mb/d Baku-Tbilisi-Ceyhan (BTC) pipeline, with first export cargoes likely to be lifted from Ceyhan in Turkey in the second half of 2005.

FSU Net Exports of Crude & Petroleum Products
(million barrels per day)

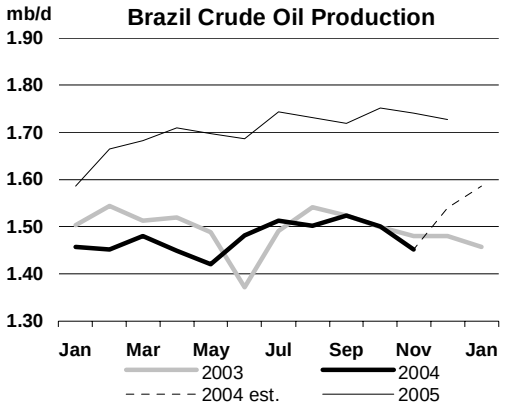
	2003	2004	1Q04	2Q04	3Q04	4Q04	Oct 04	Revised Nov 04	Prelim. Dec 04	Latest month vs. Nov 04	Latest month vs. Dec 03
Black Sea Exports	2.79	2.84	2.81	2.75	2.87	2.91	2.99	2.67	3.07	0.40	0.30
Baltic/Arctic Exports	2.41	3.05	3.00	3.11	3.11	2.98	2.99	2.95	3.00	0.05	0.37
Total Seaborne	**5.20**	**5.89**	**5.80**	**5.87**	**5.98**	**5.90**	**5.98**	**5.62**	**6.07**	**0.45**	**0.67**
Druzhba Pipeline	1.06	1.07	1.08	1.04	1.08	1.10	1.08	1.11	1.11	0.00	0.03
Other	0.49	0.54	0.47	0.53	0.55	0.61	0.55	0.64	0.64	0.00	0.14
Total Exports	**6.75**	**7.51**	**7.36**	**7.43**	**7.62**	**7.60**	**7.61**	**7.37**	**7.83**	**0.45**	**0.84**
Imports	0.02	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.01	0.00	0.00
Total Net Exports	**6.73**	**7.49**	**7.35**	**7.42**	**7.61**	**7.60**	**7.60**	**7.37**	**7.82**	**0.45**	**0.84**
Crude	4.70	5.24	5.08	5.18	5.26	5.42	5.49	5.22	5.54	0.32	0.59
of which: Russian Crude	*3.48*	*3.76*	*3.61*	*3.82*	*3.71*	*3.91*	*3.89*	*3.85*	*3.99*	*0.14*	*0.49*
Products	2.05	2.27	2.28	2.25	2.36	2.19	2.12	2.15	2.28	0.13	0.25

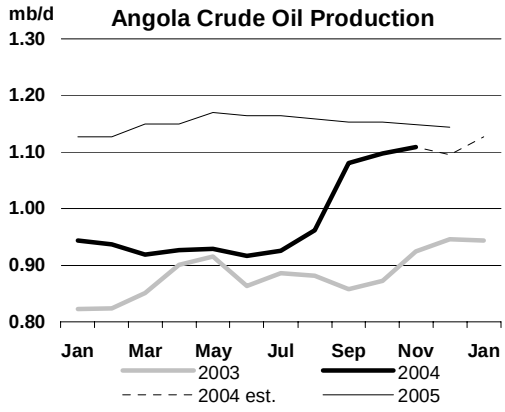
Sources: Petro-Logistics, IEA estimates

Preliminary data for FSU seaborne oil exports via the Transneft system in December show a sharp 450 kb/d rebound after a 360 kb/d decline in November. Having borne the brunt of reduced deliveries in November, Black Sea shipments surged in excess of 3.0 mb/d in December as weather conditions improved, allowing loadings from Novorossiysk and shipments transiting the Turkish Straits to proceed unhindered. Few indications were available at the time of writing concerning exports via other routes, although CPC pipeline exports of Russian crude are believed to have risen from 60 kb/d in November to 94 kb/d in December. Taken alongside declining production levels, export data suggest a sharp fall in implied FSU demand in December, perhaps reflecting in part the markedly milder-than-normal weather seen so far this winter.

Other Non-OPEC

Brazil – October & November actual: Brazilian crude production declined by 20 kb/d in October and by 50 kb/d in November as Campos Basin maintenance curbed supplies. However, crude output is thought to have recovered by 90 kb/d in December, nudging above 1.5 mb/d as maintenance ended and with start-up of the 150 kb/d FPSO at the Barracuda field. This is likely to be followed by first production from the Caratinga field in January and the Albacore Leste project in February. In all, deepwater Campos Basin production offshore Rio de Janeiro is expected to increase by 225 kb/d in 2005, reaching 1.44 mb/d. Last year was the first since 1991 to witness a decline in Brazilian oil output, as extended outages from the Campos Basin, together with delays to new field start-ups there, underpinned the province's key role in driving national supply.





Angola – November actual: Angolan supply increased by 10 kb/d in November. With preliminary reports of a relatively unchanged 1.1 mb/d in December, production was on course to average 985 kb/d for 2004, a 105 kb/d increase from 2003. First oil production from the Bomboco field, part of the offshore Sanha project, was announced by ChevronTexaco in early-January. The complex is seen likely to be producing around 30 kb/d of liquids by end-2004 and peak at 100 kb/d in 2007. This

represents a slower build-up than assumed in earlier issues of this Report and Angolan 2005 production is revised down by 15 kb/d as a result. Nonetheless, total production is seen rising by 165 kb/d in 2005, averaging 1.15 mb/d. Sanha, and an increased contribution at the Kizomba A field, account for the increase.

Revisions to other non-OPEC estimates: Revised data for June-November 2004 suggest lower prevailing output from **Argentina.** A 20 kb/d downward adjustment is made for 4Q 2004 and for 2005. National production drops by 40 kb/d in 2005 to 735 kb/d, after falling 50 kb/d in 2004. Total **Egyptian** output for 2005 is now projected at 715 kb/d, largely unchanged from 2004, but 15 kb/d below earlier estimates. Ongoing crude decline counters higher NGL supply in 2005. The delayed start of the Angostura project in **Trinidad** occurred in early January. Peak production this year is now expected to be 60 kb/d, less than our prior estimate and a 20 kb/d downward adjustment to 4Q 2005 Trinidad output has been made. But aggregate 2004 and 2005 production levels are only revised down 5 kb/d. Assessed production from **Congo** is revised up by 20 kb/d for 2003 and 2004 and by 45 kb/d for 2005. Production at the N'Kossa field in particular now appears to be running higher than estimated previously. A number of field expansion schemes now look likely to stem the decline in national production evident over 2001-2004.

Revisions to Non-OPEC Oil Supply

(million barrels per day)

	Last month's OMR			This month's OMR			This month vs. last month		
	2004	2005	05 vs. 04	2004	2005	05 vs. 04	2004	2005	05 vs. 04
North America	14.63	14.85	0.22	14.60	14.78	0.18	-0.03	-0.08	-0.04
Europe	6.09	5.89	-0.20	6.07	5.87	-0.21	-0.02	-0.02	-0.01
Pacific	0.58	0.54	-0.04	0.57	0.53	-0.04	0.00	-0.01	0.00
Total OECD	**21.30**	**21.28**	**-0.01**	**21.24**	**21.18**	**-0.07**	**-0.05**	**-0.11**	**-0.05**
Former USSR	11.17	11.77	0.60	11.18	11.78	0.60	0.01	0.01	0.00
Europe	0.17	0.16	-0.01	0.17	0.16	-0.01	0.00	0.00	0.00
China	3.49	3.53	0.03	3.49	3.53	0.03	0.00	0.00	0.00
Other Asia	2.74	2.73	-0.01	2.74	2.71	-0.04	0.00	-0.02	-0.02
Latin America	4.04	4.35	0.30	4.03	4.30	0.27	-0.01	-0.05	-0.03
Middle East	1.89	1.84	-0.05	1.89	1.84	-0.05	0.00	0.00	0.00
Africa	3.41	3.71	0.30	3.43	3.72	0.29	0.02	0.01	-0.01
Total Non-OECD	**26.92**	**28.08**	**1.16**	**26.94**	**28.03**	**1.10**	**0.01**	**-0.05**	**-0.06**
Processing Gains	1.83	1.86	0.03	1.83	1.86	0.03	0.00	0.00	0.00
Total Non-OPEC	**50.05**	**51.23**	**1.17**	**50.01**	**51.07**	**1.05**	**-0.04**	**-0.16**	**-0.12**

OMR = Oil Market Report

OECD STOCKS

Summary

- **OECD industry total oil stocks** rose 1.4 mb/d in November or about 42 mb. The rise in commercial inventories followed from large gains in both crude and product stocks, mainly in the Pacific region. Gains in the main product categories were dominated by builds in distillates fuels. At 2663 mb, OECD industry oil stocks closed 81 mb above year-ago levels. The rise in crude oil helped to keep forward demand cover by total oil stocks at 52 days, a day above that in 2003.

Preliminary Industry Stock Change in November 2004 and Third Quarter 2004

(million barrels per day)

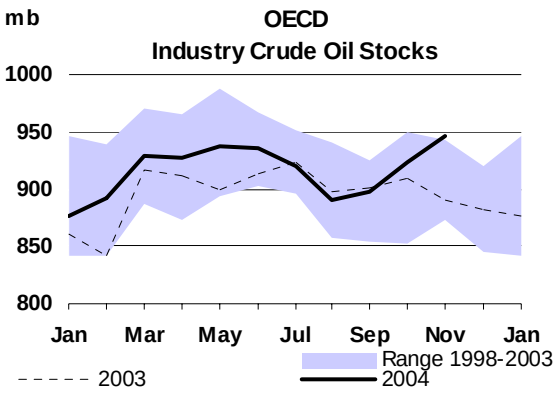
	November (preliminary)				*Third Quarter 2004*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**0.19**	**0.11**	**0.44**	**0.74**	**-0.27**	**-0.07**	**-0.09**	**-0.42**
Gasoline	0.17	0.02	0.04	0.23	-0.01	0.02	-0.01	0.01
Distillates	0.13	-0.05	0.31	0.39	0.19	0.15	0.16	0.50
Residual Fuel Oil	0.19	-0.03	0.09	0.25	-0.04	0.00	-0.01	-0.05
Other Products	-0.27	-0.02	0.02	-0.27	0.22	0.04	0.02	0.28
Total Products	**0.22**	**-0.08**	**0.46**	**0.60**	**0.36**	**0.22**	**0.15**	**0.73**
Other Oils[1]	0.00	-0.02	0.10	0.08	0.23	0.00	0.04	0.27
Total Oil	**0.42**	**0.01**	**1.00**	**1.42**	**0.32**	**0.14**	**0.11**	**0.57**

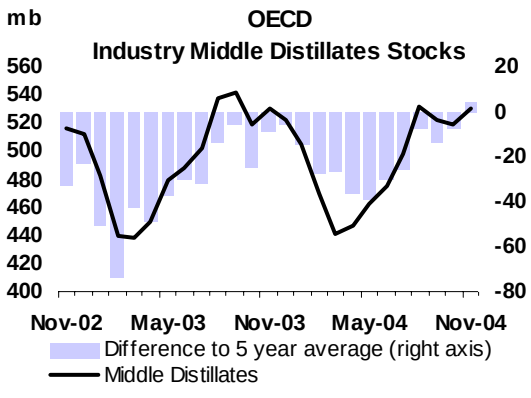
1 Other oils includes NGLs, feedstocks and other hydrocarbons

- **OECD industry crude stocks** rose 740 kb/d in November or 22 mb. Most of the build came in the Pacific region, where imports from key term suppliers in the Middle East were particularly high. Korean inventories rose 11 mb and onshore stocks in Japan by 2 mb, albeit Japanese stocks are expected to be revised higher. Industry stocks in the US-50 posted a build of about 5 mb in November, rising on relatively high imports and a slow resumption in refinery activity. European inventories closed at the top of their five-year range.

- **OECD industry distillate stocks** increased 390 kb/d in November or about 12 mb. Pacific stocks led the build with kerosene rising on weak demand in Japan and diesel increasing in Korea on refinery output gains. Distillates stocks went both ways across the Atlantic Basin from an upward revised October base. Europe saw a marginal decline, although a deeper draw was expected due to peak refinery maintenance cutting into product output and strong diesel demand. In the US, stocks of distillates (diesel and heating oil) ended marginally higher. Although domestic production rose, additions to storage were limited by strong demand and product exports from the US Gulf Coast.

- **OECD industry gasoline stocks** built 230 kb/d in November or 7 mb. Most of the build came in the US in spite of buoyant demand as finished gasoline production was firm and imports of conventional material rose. Europe's industry gasoline stocks edged higher in November, while those in independent storage in the Amsterdam-Rotterdam-Antwerp (ARA) area closed at seasonal highs. With closed spot arbitrage to the US, weak demand and steady refinery output due to rising naphtha reforming, it is likely that the marginal build in European industry stocks may be revised higher.





OECD Industry Stock Changes in November 2004

OECD industry oil stocks rose by 42 mb in November, reaching an estimated 2663 mb and closing 81 mb above year-ago levels. The build was essentially driven by a rise in crude and product inventories in the Pacific and to a lesser extent in North America and Europe. Middle distillate fuels led the gains in the major product categories. The rise in OECD industry oil stocks during October-November nears 1 mb/d, in contrast with a five-year average draw of 940 kb/d observed in the fourth quarter. Days of forward demand cover by oil stocks came to 52 days, flat from October and a day above that in 2003.

OECD industry crude stocks rose 22 mb, reflecting higher global supplies. The Pacific led the build with Korea adding 11 mb to storage in spite of crude runs reaching seasonal peaks. Crude imports from key Middle Eastern term suppliers rebounded strongly on the month. Onshore Japanese crude stocks gained 2 mb, but the overall build is expected to be higher once volumes held in tankers at ports are taken into account in next month's Report. The US-50 added about 5 mb to crude stocks in November as imports were high and post maintenance refinery runs were slow to recover. Most the inventory gain came on the US Gulf Coast. US crude stocks fell back in December and into early January. Refinery runs remained high to maximise distillate output but imports fell below 10 mb/d. The drop in arrivals partly reflected intended postponement of crude deliveries until January for tax reasons and partly weather-related delays in the Houston shipping canal. But crude price differentials in the US cash market versus WTI for December-January delivery were not indicative of a lack of supply. Stocks at Cushing, the delivery point for NYMEX WTI futures were high, supporting a contango in the near delivery months, albeit at an unusually high absolute price level. European crude stocks rose in November, against expectations of a draw and closed at comfortable levels. Preliminary indications for Europe point to a sharp draw in December. And although forward Brent prices shifted temporarily into backwardation in December, heavy volumes of Urals out of the Baltics but also the Black Sea at end-month caution against a dramatic fall.

Atlantic Basin gasoline stocks rose nearly 6 mb in November on gains in US inventories. US gasoline output kept relatively high as product yield only belatedly switched to distillate. While US gasoline deliveries grew through December, domestic supplies and relatively high imports through the period allowed stocks to rise. European stocks rose from an upward revised October base but the build came below expectations in November. While refinery runs were lower due to maintenance, gasoline output was less affected than that of distillate. The need for hydrogen for desulphurisation led to greater reforming of naphtha and consequently gasoline production. Combined with structurally weak demand and closed spot arbitrage to the US, stocks were expected to mirror the marked upward trend in ARA independent storage.

OECD industry distillate stocks rose 12 mb in November, ending on a par with 2003. The build came mainly in the Pacific region where refiners maximised distillate output and mild temperatures curbed heating demand. This allowed Japanese kerosene inventories to rise rapidly, but gains were also supported by higher diesel stocks in both Japan and Korea. US-50 distillate stocks (heating oil and diesel) managed to close marginally higher in November in spite of strong diesel demand growth and slowly rising output. In December, US stocks rose on diesel gains, closing within their average range as distillate yields reached record levels. The main consuming Northeast area saw a small seasonal draw in heating oil stocks as distillate production began to match muted demand due to mild temperatures. US distillate stock builds were also partly limited by reported gasoil shipments of Gulf Coast supplies to Europe. Mild temperatures into mid-January suggest that heating oil stocks are better positioned when winter demand sets in. While US refinery maintenance in the first quarter may curtail output, imports are expected to fill the gap. In this respect, Europe is well supplied to provide product, given upward revisions to October figures. The return of refiners from maintenance, inflows of Russian gasoil, and weak heating demand lifted European stocks.

Revisions to Preliminary OECD Stocks and Inventory Position at End-November

Revisions Versus 10 December 2004 Oil Market Report

(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Sep 04	Oct 04	Sep 04	Oct 04	Sep 04	Oct 04	Sep 04	Oct 04
Crude Oil	**2.0**	**0.1**	**2.5**	**-3.1**	**0.0**	**-0.8**	**4.5**	**-3.8**
Gasoline	-1.1	-5.9	0.0	4.6	0.0	-0.6	-1.1	-1.9
Distillates	-1.1	4.6	0.2	6.6	0.0	0.0	-0.9	11.2
Residual Fuel Oil	-1.0	-0.5	0.1	-2.2	0.0	0.3	-0.9	-2.4
Other Products	-3.6	-2.2	0.0	0.2	0.0	1.1	-3.7	-1.0
Total Products	**-6.8**	**-4.0**	**0.2**	**9.1**	**0.0**	**0.9**	**-6.6**	**5.9**
Other Oils[1]	0.0	0.1	1.1	2.3	0.0	0.2	1.1	2.5
Total Oil	**-4.8**	**-3.8**	**3.8**	**8.2**	**-0.1**	**0.2**	**-1.0**	**4.6**

1 other oils includes NGLs, feedstocks and other hydrocarbons

OECD total oil stocks closed November at 2663 mb, or 81 mb above 2003. All OECD regions saw comfortable crude inventory positions, with stocks at the top or above their five-year range. Days of forward demand cover by OECD oil stocks held flat overall in November at 52 days. Cover in North America came to 49 days, 60 days in Europe and 49 days in the Pacific.

Year-on-Year Industry Stock Comparisons for November 2004

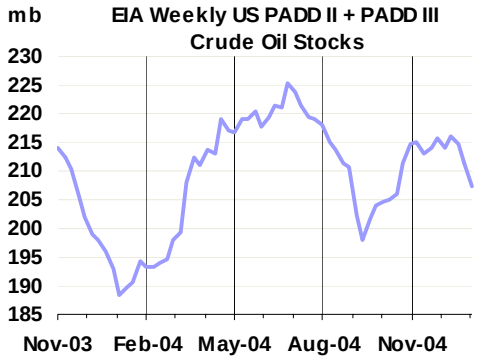
	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**16.7**	**8.9**	**29.6**	**55.2**	**Total Oil**	**0.9**	**-0.1**	**3.7**	**1.1**
Total Products	12.3	2.5	5.5	20.3	*Versus 2002*	-0.4	1.1	6.7	1.5
Other Oils[1]	8.0	-2.8	0.9	6.0	*Versus 2001*	-4.8	1.4	-1.4	-2.2
Total Oil	**36.9**	**8.6**	**36.0**	**81.5**	**Total Products**	**0.2**	**-0.2**	**0.6**	**0.1**
Versus 2002	33.9	32.1	45.2	111.2	*Versus 2002*	-0.5	-0.4	2.3	0.2
Versus 2001	-21.2	41.5	-9.5	10.7	*Versus 2001*	-2.7	0.1	-1.6	-1.6

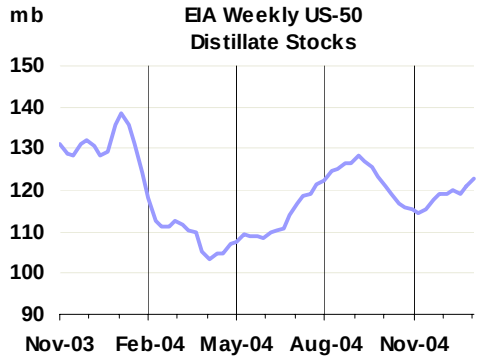
1 other oils includes NGLs, feedstocks and other hydrocarbons

OECD Regional Stock Developments

North America

US-50 crude stocks rose by about 5 mb in November to nearly 294 mb or 12 mb above 2003. Gains were centred on the Gulf Coast (PADD III), but stocks at Cushing in the Mid-continent (PADD II), the delivery point for NYMEX's crude futures, also posted a build. Crude imports were relatively high while refinery runs got off to a slow start at the end of seasonal maintenance, utilisation rates reaching 94% only by end-month. December saw crude stocks decline 2 mb as imports fell under 10 mb/d in the second half of the month and refinery runs edged higher to maximise distillate production. The draw was centred on the Gulf Coast, but stocks elsewhere posted increases. Inventories in Cushing continued to rise in December, helping to maintain NYMEX WTI futures in a contango in the near-traded months, albeit one at a surprisingly high outright level. The weakness of cash differentials for domestic grades against WTI in December (for crude delivered in January) suggests relatively ample crude supply in January, aided by deliveries delayed from year-end arrival due to tax-related considerations.



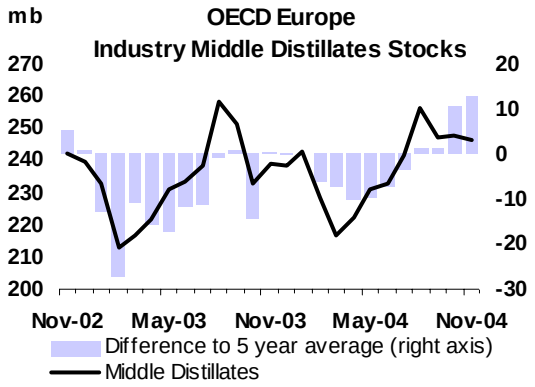


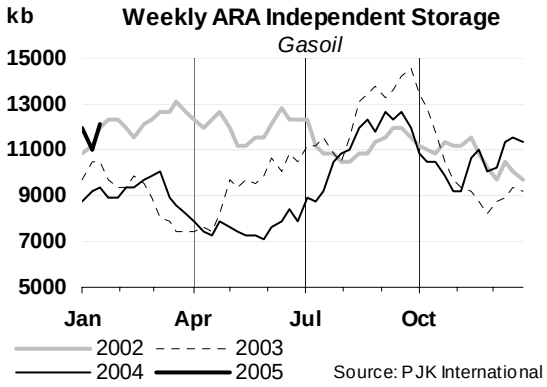
In product stocks, increases were seen in gasoline despite buoyant demand. In contrast to 2003, average gasoline deliveries rose from November to December, but higher demand met with strong domestic production and average imports that were more typical of levels seen during the summer driving season. A late jump in distillate yields, prompted by a protracted period of maintenance, allowed to maintain firm levels of gasoline production. This was seen in high output levels of conventional and reformulated gasoline, particularly in December. And with NYMEX gasoline futures holding in contango, surplus product moved into storage. Gasoline stocks ended December at 214 mb, or about 7 mb above 2003.

Distillate stocks (diesel and heating oil) posted a modest 3 mb gain for November-December. Demand growth implied by weekly numbers was robust, and in absence of higher imports, kept pace with a rebound in domestic output. Although demand strength was concentrated in diesel, heating oil stocks failed to post a significant rise in December despite mild temperatures and a financial incentive for storage offered by a contango in futures markets. Stocks in the main consuming Central Atlantic states have stagnated at close to 18 mb. Though supplies were building on the Gulf Coast, pipeline constraints and high domestic freight rates limited product movement north. Instead, with limited storage capacity on the Gulf Coast, distillates, in a reversal of usual arbitrage patterns, were reportedly shipped to Europe. Mild temperatures into early January, output matching demand and potentially higher imports on recent strengthening of New York Harbour prices differentials to Europe favour a build in distillate stocks through mid-January before refinery maintenance begins to reduce runs.

Europe

European industry crude inventories rose in November by about 3 mb, closing at 339 mb, 9 mb over 2003 and above their five-year range. The gain was mostly due to a build of 4 mb in Italy and 3 mb in the Netherlands which was partially offset by a decline in Norway. Yet, the increase appears counter-intuitive in a period of heavy maintenance where crude demand slackens and inventories tend to fall. As such, the build in Italy can be thought to be subject to revision. The gain in the Netherlands, where several storage hubs receive crude for re-export, is also unlikely in light of reduced refinery activity and arbitrage opportunities re-opening for Brent-related crudes. Preliminary indications for December point to a sharp drawdown in European crude stocks. The temporary shift in the forward Brent market from contango to backwardation in December reflects tightening supplies, in part due to production losses in the North Sea. And while a rebound in crude runs in December puts downward pressure on stocks, the reported sharp decline in December needs to be weighed against ample sour volumes in the region, particularly Russian supplies through the Baltics and the Black Sea.



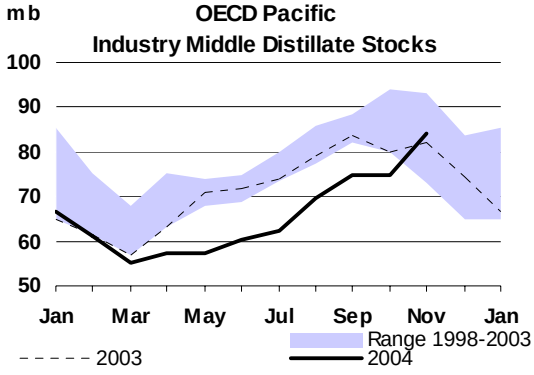


Industry gasoline stocks in November came in marginally higher, and according to preliminary indications have fallen in December. While European runs were low due to ongoing maintenance, gasoline output remained fairly steady from October. Demand continued to reflect structural weakness, and the modest rise in stocks may be understated. Recent upward revisions to industry stocks of gasoline and rising independent storage through December in the ARA area due to closed spot arbitrage to the US, would suggest greater availability than implied by preliminary numbers.

Industry middle distillate stocks fell a modest 1.4 mb in November from an upward revised October base. Inventories closed at 246 mb or 7 mb above a year-ago. In contrast to gasoline, the reduction in November refinery runs was expected to prompt a deeper draw in stocks, given strong diesel demand and an uptick in heating oil deliveries to traditional barge markets in Northwest Europe. Germany and the Netherlands changed surprisingly little in this context. Conversely, steady cargo deliveries to France and Spain, where re-stocking was taking place ahead of lower mandated sulphur specification in the EU, likely helped to keep inventories flat. December preliminary figures point to a further reduction in distillate stocks by another 3 mb. However, higher crude runs, the inflow of Russian gasoil both from the Baltics and the Black Sea, weakness in heating oil demand due to mild temperatures and a well supplied jet fuel market would tend to mitigate such a development. Gasoil stocks in independent storage in ARA built through December on increased Baltic inflows meeting closed arbitrage to the US for most of the month, weak heating oil demand and low Rhine water levels hampering trade.

Pacific

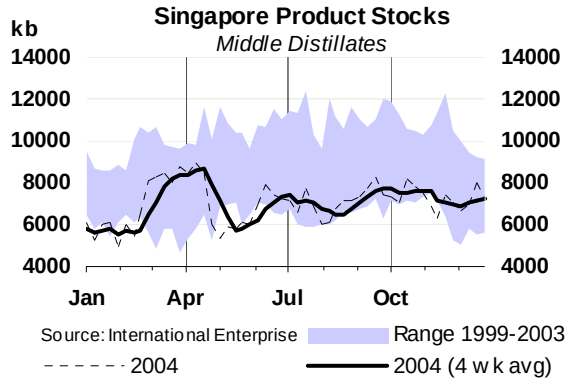
Pacific crude stocks rose 13 mb in November on an 11 mb build in Korea where imports reached record levels. Onshore Japanese stocks built by 2 mb. Yet given a low level of oil on tankers at Japanese ports at the end of October and full allocations from Mideast term suppliers, it is likely that the Japanese tanker volumes at end-November rose from October and that the crude stock build will be revised upwards. In products stocks, distillates returned within their normal range. The build was driven by gains in kerosene in Japan where very mild temperatures kept in check a rise in heating demand. In Korea, diesel stocks built with weaker than expected industry demand, lower exports and refinery output maximised over kerosene.

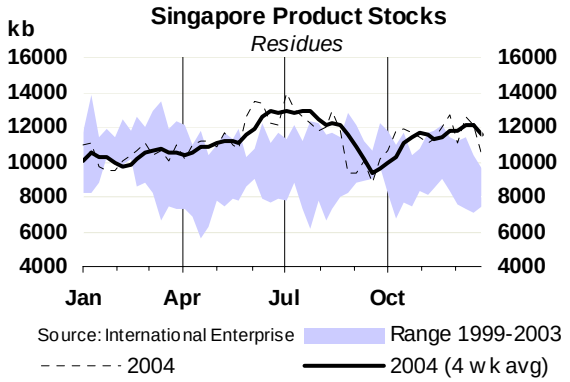


Singapore Stock Developments in December

Total product stocks in Singapore, surveyed by International Enterprise, declined in December, as inventories of light products (naphtha and gasoline) and fuel oil fell. In contrast, middle distillates gained some ground as regional supply, notably of kerosene, outpaced demand.

A contango in Singapore forward month prices of gasoil in November allowed growing prompt supplies of distillates to move into storage. While regional refiners maximised distillate output and kept runs high, demand in the region weakened. Interest in kerosene, used as a heating fuel in Northeast Asia, was weaker as mild temperatures and high domestic supplies in key markets moderated the seasonal uptick in import demand. Jet fuel availability rose with closed arbitrage to the US West Coast while trade of the product was may have been affected by financial troubles at China Aviation Oil, which supplies most of China's jet imports. Gains in gasoil were likely more limited than those in jet/kerosene. Gasoil demand was comparatively stronger, and with reduced exports from Korea, gasoil traded temporarily at an unusual premium to jet fuel in December. Distillates are likely to trend upwards in January with rising gasoil supplies as Chinese buying ahead of the Lunar New Year holiday fell below expectations.





Residual fuel oil stocks fell back slightly in December but remained at high levels. The market was oversupplied as reflected in the deep contango for benchmark Singapore swap prices for 180cst material. Arbitraged supplies of high viscosity product into the region from Europe and the Caribbean added to flows from India and the Middle East. However, Chinese buyers showed muted interest, turning instead to straight-run Russian material to use as refinery feedstock. The mismatch of product quality on offer and demand was seen in the heavy cash discounts of 380cst fuel oil prices versus 180cst product. Inventories should stay at these high levels in the absence of renewed Chinese demand. In addition, European supplies into Singapore will be facing greater competition from Korean cargoes as the country is expected to substantially step-up export volumes above its usual monthly volumes during January.

Light product stocks fell back, with the likelihood of comparatively higher draws in naphtha than gasoline. Petrochemical demand was strong with deliveries to Japan and Taiwan while spot supplies from India fell back. Gasoline remained well supplied, despite lower exports from China, keeping gasoline's usual premium to naphtha modest. Deliveries from Singapore were made to Malaysia and Vietnam, but seasonal demand from Australia proved disappointing. Light product stocks are likely to remain high. While January gasoline demand from Indonesia, Australia and New Zealand is seen rising, availability of naphtha is reportedly high, supported by the arrival of arbitraged material from Europe.

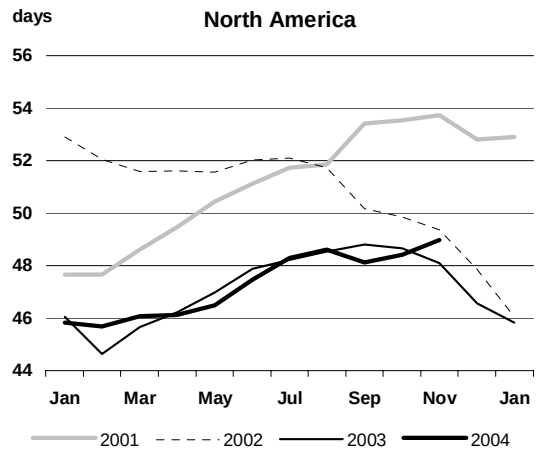
Singapore Crude & Product Trade
(thousand barrels per day)

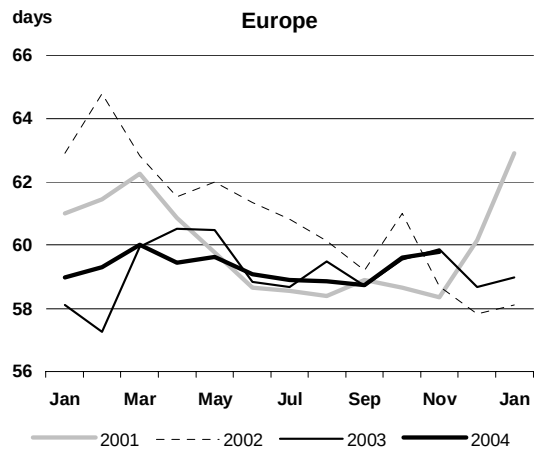
Net Imports/(Exports) of:	2002	2003	4Q03	1Q04	2Q04	3Q04	Sep 04	Oct 04	Nov 04	Latest month vs. Oct 04	Latest month vs. Nov 03
Crude Oil	**819**	**755**	**654**	**777**	**696**	**727**	**874**	**1303**	**1139**	**-164**	**593**
Products & Feedstocks	**-35**	**-96**	**-18**	**-64**	**-150**	**-118**	**-12**	**-107**	**-216**	**-109**	**-201**
Gasoil/Diesel	-154	-170	-161	-133	-206	-181	-146	-181	-180	1	-70
Gasoline	-81	-83	-96	-88	-119	-79	-66	-128	-104	24	-19
Heavy Fuel Oil	334	320	341	304	289	238	228	371	195	-176	-78
LPG	-19	-22	-19	-24	-21	-20	-17	-24	-24	1	-4
Naphtha	6	13	49	38	24	42	26	33	26	-8	-27
Jet & Kerosene	-65	-99	-77	-99	-50	-92	-106	-110	-67	43	7
Other	-57	-55	-54	-62	-67	-26	68	-68	-61	7	-8
Total	**784**	**659**	**636**	**713**	**546**	**609**	**862**	**1196**	**923**	**-273**	**392**

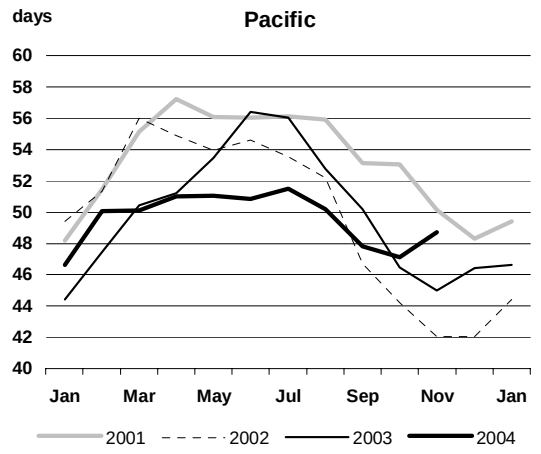
Source: International Enterprise, IEA estimates

Regional OECD End-of-Month Industry Stocks
(in days of forward demand and millions barrels of total oil)

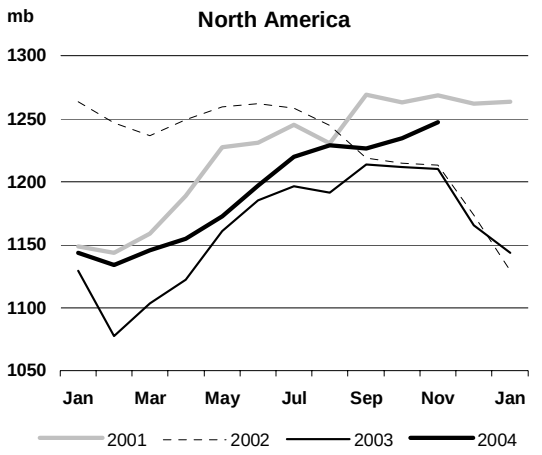
Days[1]

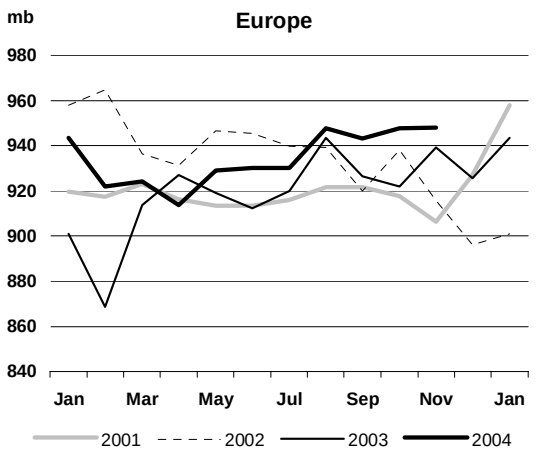


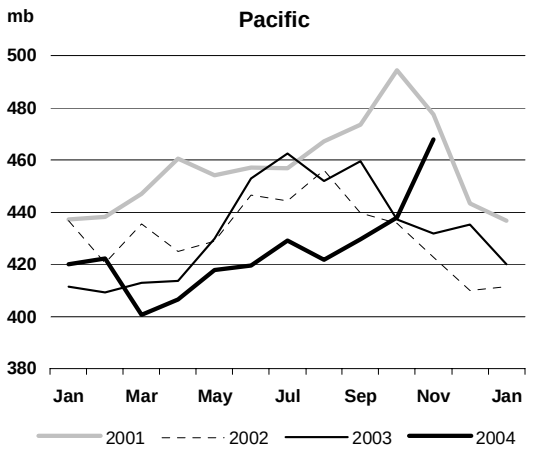




Million Barrels







1. Days of forward demand are based on average demand over the next three months.

PRICES AND REFINERY ACTIVITY

Summary

- **Benchmark NYMEX light crude** fell by $10 in early December to $40.25/bbl but an early January rally has since pushed prices close to $48/bbl. Production problems in the North Sea, Nigeria and Iraq together with the slow recovery of output in the Gulf of Mexico, OPEC target cuts and of course cold weather have underpinned prices. A collapse of the record freight rates in early December has helped reduce costs to importing countries, but has also contributed to volatility.

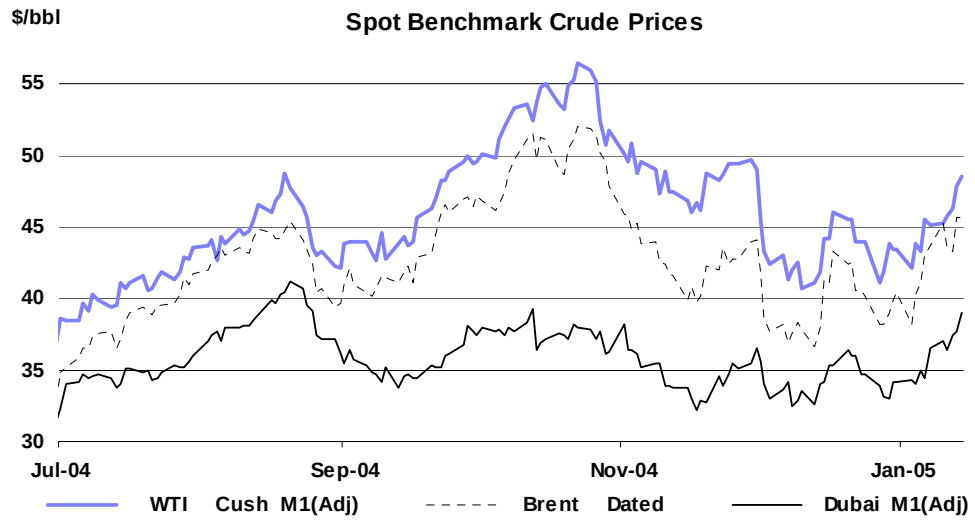
- **Product differentials** to crude narrowed sharply in December as US distillate stocks returned to the lower-end of their normal range, Japanese kerosene stocks moved above year-ago levels and Europe saw the smooth early transition to lower sulphur fuels. However, cold weather has returned to the US Northeast in January and parts of Asia. Should lower temperatures prove protracted, full pipelines, transportation economics and planned maintenance could make it difficult to swiftly increase supplies to areas in need.

- **Light/sweet-heavy/sour spreads** continued to narrow in early December, following higher sour crude demand in Europe and pledged OPEC production cuts. But, tightness in light sweet crudes re-emerged towards the end of the month as Asian and US traders took advantage of lower freight rates to buy spot crudes. Upward price pressures were compounded as production problems emerged in the North Sea and Nigeria. Sweet crude demand is expected to remain firm during first quarter refinery maintenance.

- **Freight rates** plunged in early December as crude buying tempered ahead of the New Year. Chinese interest appeared to slow following heavy imports in November, while US refiners were reducing activity ahead of the year-end and maintenance-reduced first quarter requirements.

- **Refinery margins** broadly fell in December as previously wide light product differentials to crude narrowed. European and Asian margins slumped at the end of December, early January, pressured by the strength of Brent crude and a well-supplied product market in Asia. US margins bucked the downward trend as sporadic cold weather returned in late December and product differentials rose ahead of maintenance.

- **OECD refinery throughput** rose by 1.2 mb/d in November to 39.53 mb/d from 38.34 mb/d in October. The end of heavy fourth quarter maintenance was reflected in provisional data indicating higher runs in December. Early indications suggest that first quarter maintenance in the US should be up to 300 b/d lower than 2004, with a lighter burden seen in Europe in the March to May period.



Overview

The sharp fall in crude prices since their record October peak has injected additional uncertainty into many areas of the oil market. Traders held back from buying crude and products in early December, fearing further falls. This, together with announced cuts in term deliveries by some OPEC countries had a knock-on effect on freight, with rates crashing from record highs at the start of last month.

A mild start to winter and high levels of refinery throughput contributed to significant stock builds in the fourth quarter. This left consuming countries better positioned ahead of up-coming refinery maintenance in the US and Europe. However, stocks-to-consumption data are less comfortable and reports of refinery run cuts in the US Gulf Coast after a small weather-related delay highlights that improved inventories are not yet industry-wide.

Cold weather arrived in China, Japan, South Korea, and the US North East in mid-January. OPEC has announced output cuts and will review its position at the end of January. Production problems since the beginning of December have dogged the North Sea, Iraq, West Africa and Canada while post-Ivan restarts in the Gulf of Mexico are slower than expected.

Crude prices have rebounded as a result of the higher potential for improved winter demand and recent supply disruptions. And the near-term price outlook remains unclear. Temperatures remain an important factor. The past two years have shown that US heating oil stocks can be drawn down very sharply should cold weather prove protracted. Also, it should be noted that upward revisions to demand and downward revisions to supply have lifted the 2005 "call" on OPEC in line with last year's levels.

Refinery maintenance in both Europe and the US is expected to be relatively light in the first half of the year, and the transition to 50 ppm sulphur transportation fuels in Europe from 1 January appears to have proceeded without disruption. However, while additions of desulphurisation equipment should increase the flexibility of the crude input stream, there remains a lack of upgrading capacity and an abundant supply of fuel oil. This complicates refining economics and should continue to support demand for light/sweet crudes over heavy/sours.

Crude Oil Prices

Spot Crude Prices and Differentials

Atlantic Basin supply disruptions, ongoing problems in Iraq, reductions in over-target production by OPEC, falling freight rates and pre-maintenance and tax related year-end stock reductions influenced regional crude prices over the past six weeks.

Spot Crude Oil Prices and Differentials*

(monthly and weekly averages, $/bbl)

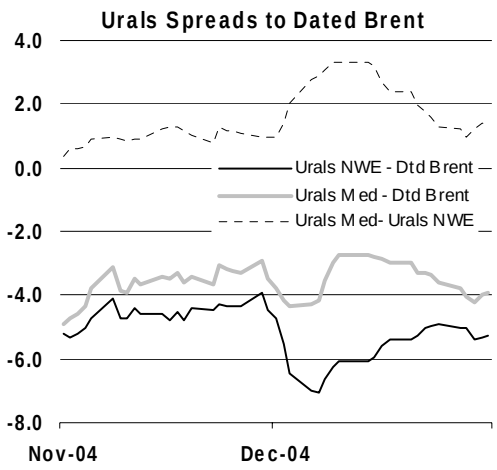
	Oct 04	Nov 04	Dec 04	Dec-Nov		Week Commencing:				
				Change	*%*	13 Dec	20 Dec	27 Dec	03 Jan	10 Jan
Crudes										
Brent Dated	49.64	42.84	39.53	-3.31	-7.7	40.08	41.21	39.15	41.28	44.39
WTI Cushing 1 month (adjusted)	53.24	48.44	43.20	-5.24	-10.8	43.48	44.75	42.52	44.01	45.49
Urals (Mediterranean)	42.34	38.24	36.17	-2.07	-5.4	36.33	37.67	36.32	37.96	40.47
Dubai 1 month (adjusted)	37.54	34.87	34.20	-0.67	-1.9	34.30	35.79	33.58	34.86	36.74
Tapis	52.99	47.08	39.03	-8.05	-17.1	38.09	40.53	38.77	42.31	45.68
Differential to Dated Brent										
WTI Cushing 1 month (adjusted)	3.60	5.59	3.67	-1.93		3.40	3.53	3.37	2.74	1.09
Urals (Mediterranean)	-7.30	-4.60	-3.36	1.24		-3.75	-3.54	-2.83	-3.32	-3.92
Dubai	-12.10	-7.97	-5.33	2.64		-5.78	-5.43	-5.57	-6.42	-7.65
Tapis	3.35	4.24	-0.50	-4.74		-2.00	-0.69	-0.38	1.03	1.28
Prompt Month Differential										
Brent 1mth-2mth (adjusted)	0.56	-0.38	-0.23	0.15		-0.29	-0.35	0.06	0.18	0.18
WTI Cushing 1mth-2mth (adjusted)	0.58	-0.09	-0.30	-0.20		-0.18	-0.19	-0.20	-0.20	-0.20

* Weekly data for Brent and WTI 1st month and 2nd month are unadjusted

Supply disruptions, predominantly in the Norwegian sector of the North Sea kept transatlantic arbitrage opportunities marginal through December and early January. Sharply lower freight rates and a fall in the WTI-dated Brent spread (to nearly $2.00 from nearly $7.00 at the end of November)

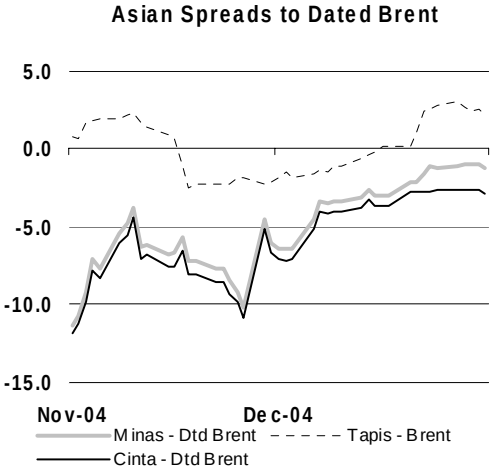
were not enough to open the transatlantic arbitrage. Weak early December refining margins also kept US crude demand relatively weak until the end of December.

Urals crude differentials to dated Brent were volatile throughout December, oscillating between $3 and $6/bbl. Disruptions to northern Iraqi flows put upward pressure on price, as did relatively attractive hydroskimming margins in Northwest Europe until early January. However the differential between Urals cargoes from the Baltic and Black Sea pushed over $3 in mid-December reflecting a sharp increase in freight rates in the Mediterranean region and strong demand and sharply rising exports from northern ports.



Asian buying of West African crude for January increased from a relatively light 1.0 mb/d in December. Signs of a price floor in mid-December once more accompanied by low freight rates helped to trigger sustained January buying. US demand for spot West African cargoes also improved, aided by firm refinery margins towards the end of the month. Arbitrage economics for spot West African crudes were also more attractive than those of Brent. Ethnic problems once more disrupted Nigerian output, helping to tighten Bonny light supplies, however differentials to dated Brent were largely unaffected due to simultaneous production problems in the North Sea.

US Light Louisiana Sweet returned to a premium over WTI in early January as Canadian syncrude production problems increased the demand for pipeline crude into the US mid-continent. Weak pre-maintenance and lower tax-related year-end demand is evident in the reduction in US crude imports by 700 kb/d since mid-December compared with the prior three weeks. Lower demand from US refiners contributed to the $10 fall in price in WTI between end-November and mid-December.



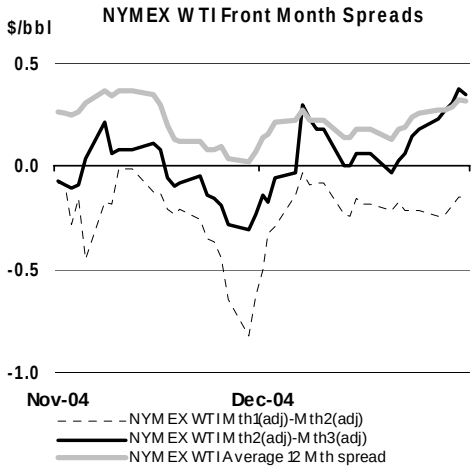
An increase in end-January US refining margins together with a relatively high level of catalytic cracker capacity maintenance in the first quarter has increased the demand for light sweet crudes. Heavier sour crudes have also held their own, with Mars and WTS returning to their early December highs against WTI as coker margins remain firm.

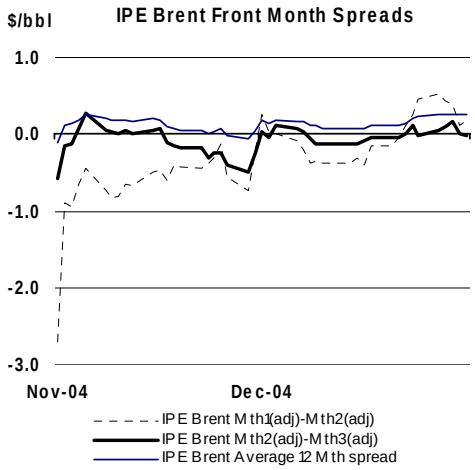
Heavy sour crude discounts to light sweet crudes however remain high by historical standards: although considerable investment in desulphurising equipment has been made, large heavy sulphur crude discounts are needed to encourage investment in refinery upgrading units. OPEC market management might cause temporary dislocations in this trend, but ultimately a tightening of heavy sour supplies will be reflected in higher light sweet crude prices.

Indications of reduced OPEC term supplies helped to narrow differentials of regional Asian crudes to dated Brent from early December. Colder weather also entered parts of China, Japan and Korea. Minas and Cinta differentials narrowed to their lowest level since the end of October as Middle Eastern term supplies to the region were reduced.

Crude Futures

North Sea and West African supply disruptions contributed to the early January shift of IPE Brent into backwardation for the 1M-2M and 2M-3M futures spreads for the first time since early November. A deterioration in sour crude refining margins improved refiner demand for sweet crude in Europe, but with margins for sweet and sour crudes both falling sharply recently this was a relatively minor supply-side consideration. Despite the volatility at the front-end, the average 12-month forward curve remains flat.

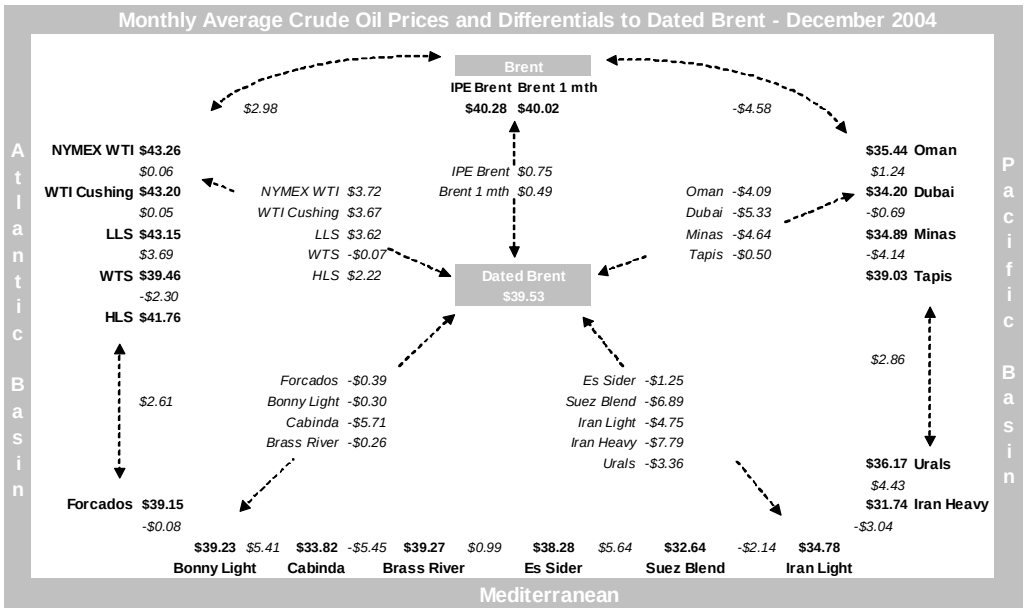




In contrast to IPE Brent, NYMEX WTI average 12 month forward curves have remained in a modest backwardation, despite the post-October slump in crude prices. Although the 1M-2M spread remains in contango, the further forward spreads are in a steeper backwardation than IPE Brent. This is more a function of forward pricing relationships relative to product prices than an indication of relative market tightness

Delivered Crude Prices in October

Sharp rises in delivered crude prices were seen in IEA Europe and North America in October 2004 lifting total IEA prices by $3.55 to $44.32/bbl. North American prices rose by $4.72 to $44.76, while in Europe they rose to 46.04, a rise of $4.88. Pacific prices however actually fell by 46 cents to $40.76/bbl. Although Pacific prices generally lag spot crude price moves, and the dip in October import prices is redolent of the slight spot price fall in September. European and US refiners are also likely to have used a greater proportion of higher-priced light sweet crudes during the maintenance period.



Product Prices

Spot Product Prices

Steep falls in gasoline prices and differentials against crude were seen in all key regions in December, with percentage losses in NWE more than double those of dated Brent. The falls in middle distillate differentials were not quite so steep, but outpaced declines in benchmark crudes in all but the US. Fuel oil differentials narrowed on average over December, in what was more a reflection of the low

nominal price of residuals than an improvement in the market balance. By early January, high sulphur fuel oil differentials had returned to their average November levels of close to $20 in the Atlantic Basin.

Ample gasoline supplies in Europe contributed to the build up of material in the region, ultimately leading to the sporadic opening of the transatlantic arbitrage window as US gasoline prices strengthened. Gasoline output was partly related to strong demand for ultra low sulphur diesel. Traders noted that refiners were desulphurising Russian gasoil, and were running naphtha through reformers to generate the hydrogen needed for the process.

Spot Product Prices

(monthly and weekly averages, $/bbl)

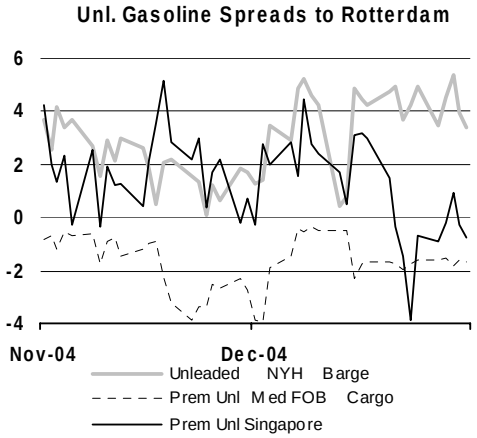
	Oct	Nov	Dec	Dec-Nov		Week Commencing:					Oct	Nov	Dec
				Change	*%*	13 Dec	20 Dec	27 Dec	03 Jan	10 Jan			
Rotterdam, Barges FOB											***Differential to Brent***		
Premium Unleaded (Cargo)	56.72	51.53	43.30	-8.23	-16.0	44.01	42.31	41.48	45.43	46.74	7.08	8.69	3.77
Regular Unleaded	56.06	50.87	42.61	-8.25	-16.2	43.31	41.63	40.81	44.71	46.00	6.42	8.03	3.08
Naphtha	51.50	47.54	42.24	-5.29	-11.1	42.59	42.72	40.08	42.12	42.97	1.86	4.70	2.71
Jet/Kerosene	66.09	60.47	54.20	-6.27	-10.4	55.47	54.46	50.99	51.81	54.67	16.45	17.63	14.67
Gasoil	64.06	57.79	52.07	-5.72	-9.9	53.50	53.70	49.20	49.79	52.24	14.41	14.95	12.54
Fuel Oil 1.0%S	29.22	26.22	25.95	-0.28	-1.1	26.02	27.07	26.34	26.14	27.36	-20.42	-16.62	-13.59
Fuel Oil 3.5%	26.98	22.41	21.82	-0.58	-2.6	21.95	22.34	21.99	22.71	23.43	-22.66	-20.44	-17.71
Mediterranean – Basis Italy, Cargoes FOB											***Differential to Urals***		
Premium Leaded (0.15 g/l)	56.13	50.29	41.15	-9.14	-18.2	41.08	41.71	39.64	43.66	45.15	13.79	12.05	4.98
Premium Unleaded	55.41	49.57	40.43	-9.14	-18.4	40.37	40.99	38.92	42.94	44.43	13.07	11.33	4.26
Naphtha	50.41	45.37	39.71	-5.66	-12.5	40.05	40.37	37.78	40.28	41.53	8.07	7.13	3.54
Jet/Kerosene	63.15	57.48	51.04	-6.44	-11.2	52.58	52.34	48.61	49.87	53.09	20.81	19.25	14.87
Gasoil	61.74	57.36	51.56	-5.80	-10.1	53.61	52.83	47.16	48.24	50.69	19.40	19.12	15.39
Fuel Oil 1.0%S	30.18	27.78	26.67	-1.11	-4.0	26.85	27.84	26.98	27.92	28.62	-12.16	-10.46	-9.50
Fuel Oil 3.5%S	25.23	19.45	19.42	-0.04	-0.2	19.74	20.56	19.82	20.60	21.26	-17.11	-18.79	-16.76
NY Harbour, Barges											***Differential to WTI***		
Super Unleaded *	60.10	54.70	46.60	-8.11	-14.8	46.90	47.87	45.65	51.03	52.06	6.86	6.27	3.40
Regular Unleaded *	57.88	53.33	44.87	-8.46	-15.9	45.24	46.08	43.60	48.54	49.97	4.64	4.89	1.67
Jet/Kerosene	66.13	59.23	54.46	-4.77	-8.0	56.65	57.59	52.16	53.51	57.57	12.89	10.79	11.27
No.2 Heating Oil	62.40	58.18	53.45	-4.72	-8.1	55.69	56.63	51.23	51.60	53.67	9.16	9.74	10.26
Fuel Oil 1.0%S (Cargo)	33.17	28.78	25.22	-3.56	-12.4	25.13	27.81	27.38	27.28	28.13	-20.07	-19.65	-17.98
Fuel Oil 3.0%S (Cargo)	30.92	24.31	22.46	-1.85	-7.6	22.78	25.84	24.28	24.34	26.13	-22.32	-24.13	-20.74
Singapore, Cargoes											***Differential to Dubai***		
Premium Unleaded 95	54.73	52.45	44.81	-7.63	-14.6	44.31	44.61	43.08	43.07	45.46	17.18	17.58	10.61
Naphtha	48.81	47.46	42.78	-4.68	-9.9	42.38	43.08	39.92	39.21	40.69	11.27	12.59	8.58
Jet/Kerosene	61.25	57.64	50.07	-7.57	-13.1	49.30	52.26	48.25	47.39	49.91	23.71	22.77	15.86
Gasoil	56.94	55.22	49.25	-5.97	-10.8	50.04	51.33	46.48	46.93	48.66	19.39	20.35	15.05
LSWR (0.3%S)	42.90	34.59	25.65	-8.93	-25.8	25.30	27.16	24.79	27.39	30.75	5.36	-0.28	-8.55
HSFO (3.5%S 180cst)	32.05	30.53	27.59	-2.94	-9.6	27.95	28.39	26.64	26.54	27.81	-5.50	-4.34	-6.62
HSFO 4%S	31.39	29.34	25.16	-4.18	-14.2	25.40	25.74	24.16	24.66	27.18	-6.15	-5.53	-9.05

* From 1 November, assessments for NYH are for Max 0.3% MTBE

In the US, gasoline differentials to WTI improved towards the end of December due to refinery disruptions on the Gulf Coast and concern that a projected high level of maintenance on catalytic crackers in the first quarter would result in reduced supplies. Price effects swiftly encouraged arbitrage movement, an increase in blending activity and a rise in price of blendstocks such as MTBE.

In Asia, signs that China was stepping up January gasoline exports to the highest level since August resulted in a sharp fall in regional prices relative to the Atlantic Basin. High levels of Chinese refinery throughput and reduced ex-refinery selling prices have made Chinese exports more attractive. High run rates have also led to an improvement in the regional supply position, although good demand is reported from Vietnam and Indonesia. Indian refiners are also reported to be looking to replace lower grade material with material that meets local fuel specifications.

The European naphtha market remains mixed. Although there is more throughput of reformer grade naphtha for gasoline and hydrogen production, the low relative price of LPG is prompting petrochemical manufacturers to substitute where possible. However, the strong reformer demand has helped push Northwest European naphtha prices to a premium to Singapore, where prices have been under pressure from a weaker gasoline market and incoming cargoes from India and the Middle East.



The focus on diesel and naphtha production has cut into jet/kerosene output in Europe, but seasonally weak demand has acted as a partial offset. However, in the US, the focus on diesel and heating oil supplies has restricted jet output, which together with improved gasoline economics and strong airline demand has tightened jet supplies. New York Harbour prices have moved to a strong premium to both European and Singapore prices as a result. Concerns about Asian kerosene supplies for heating have however abated as Japanese kerosene stocks moved above year ago levels at the end of December. While refiner focus will soon switch to pre-maintenance and spring supply needs, healthy middle distillate cracks will continue to favour distillate production over gasoline. Recent cold weather in northern China, Japan and Korea is likely to improve demand, but the vast price spread between US and Asian prices is likely to lead to some shipments out of the region.

The smooth transition to 50 ppm sulphur content in diesel at the start of the year adds weight to the anecdotal trade reports that material was being stockpiled ahead of the switch. Refinery problems in Northwest Europe had however led to strong premiums for 10 ppm ultra low sulphur diesel in December. Although the refinery issues were largely resolved, the premiums persisted. Higher-than-expected Russian gasoil shipments, due to an exceptionally mild winter, and strong economics encouraged desulphurisation. Russian distillates were also shipped to the US in December, but overall the transatlantic arbitrage was only sporadically open.

US distillate demand remained strong, predominately led by the strong diesel transportation market. Early winter heating oil demand was lacklustre due to mild temperatures. Colder temperatures emerged sporadically at the end of December in the US Northeast, early January was very mild, but temperatures have recently dipped and there are forecasts that suggest it will remain cool for the rest of this month.

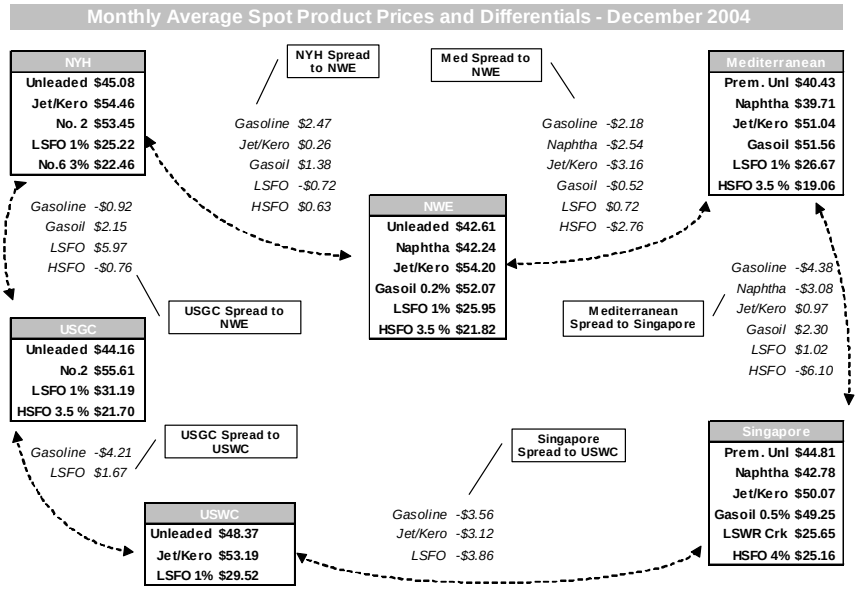
Although speculative activity is biased towards lower prices in heating oil, refiners continue to lift distillate yields. US refinery data also show that refineries moved to record distillate yields in late December and early January. US distillate stocks, now at the lower end of the normal range, also remain low on a days/demand basis. Experience over the last few years also shows a sustained bout of cold weather can draw down stocks very quickly, and with pipelines full, transportation logistics could prove a market issue.

Singapore gasoil prices remain below those in the Atlantic Basin as high refinery throughput and a mild first half of the winter enabled stocks in Singapore and Japan to build. High refinery runs in China, together with lower refinery sales prices have resulted in lacklustre import demand. WEPEC, China's leading export refinery, indicated that it was temporarily resuming diesel exports in January and February following a one-year cessation of exports. China oil and Unipec have (so far) shown no interest in importing diesel cargoes in January. This follows from trade estimates of a sharp decline in diesel imports in December to around 160,000 tonnes from around 355,000 tonnes in November.

Recent reports suggest that up to 100,000 tonnes of Asian gasoil would move to Europe in January to take advantage of strong IPE prices, which coupled with recent cold weather, should help to tighten the market. The recent deterioration in Asian refining margins could also, if protracted, lead to a reduction in refinery activity.

Fuel oil cracks showed a modest recovery in December following a limited response to the sharp fall in crude and product prices. With fuel oil prices so low, an equal percentage price drop between crude and product prices naturally results in a lower nominal price fall. Intuitively, with fuel oil prices near $20/bbl, it is clear that a $20 slide in the price of crude would not lead to the maintenance

of a $20 discount of fuel oil to crude. However, the lack of refinery upgrading capacity that has led to the over-supplied fuel oil market is not going to go away swiftly, and steep fuel oil discounts relative to other products are likely to persist in 2005.



The biggest shift in the fuel oil market was a sharp increase in US fuel oil differentials to WTI in early December. Colder weather stimulated utility offtake, but the rise in price combined with lower freight rates also attracted imports and together with higher refinery activity, led to an increase in stocks. This could however be mitigated by the current drop in temperatures. Falling fuel oil prices in Singapore also resulted in a build up of material in Europe. Europe's surplus has been largely managed through exports to the premium Asian market, but increased competition from Indian and Middle Eastern refineries, coupled with higher Asian throughput has made trade harder.

Product Futures

IPE and NYMEX gasoil futures saw sharp front-month falls since early December, but there was very little movement eight to 12 months out, leading to a sharp flattening of the spread. While some of this flattening is due merely to contract roll-over, forward curves for both contracts have less seasonality than would normally be the case.

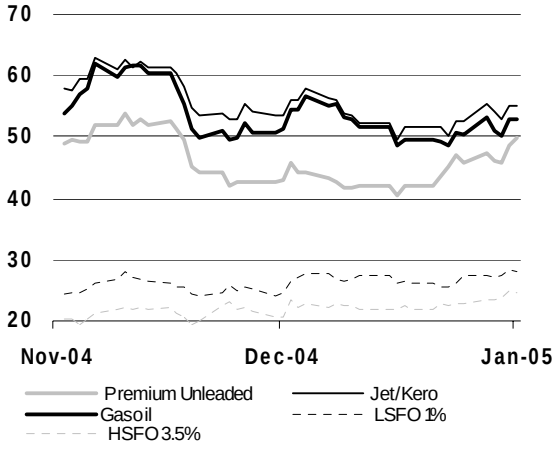
The lack of movement at the tail of the contract has to be interpreted cautiously. Liquidity is often limited in the back months, and pricing is generally related to the seasonality of the forward crack spread (simplistic futures proxy for refining margins). Therefore there is often a lagged response along the curve to a fall in prices at the front end.

While speculators held minimal net long positions in NYMEX light crude and gasoline, fears of a winter price spike in heating oil would, at first glance, appear to have dissipated. Non-commercial longs started to liquidate their positions from mid-October as crude prices peaked, reducing them from 36,015 lots to the current 10,816 lots. Non-commercial short positions however moved from 23,833 lots to 24,395 lots respectively. While this move appears to anticipate the end to refinery maintenance in the US and the subsequent increase in distillate stocks, it has to be noted that there could be a broader explanation only partly related to peak winter issues.

Petroleum prices broadly move in unison, but that each component can move by a certain differential to the price of crude. It is rational therefore that speculators should turn to the market with the greatest potential for price swings. Understandably, when heating oil stocks were low, heating oil was a preferred vehicle for those expecting prices to rise, while last spring there was concern over gasoline supplies, which led to a large net-long bias in the NYMEX gasoline contract. As heating oil stocks have risen, these positions have been reversed to net short reflecting expectations of an end-season dip in prices.

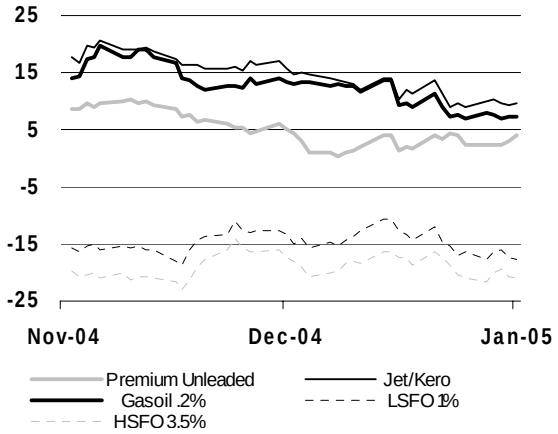
$/bbl

Rotterdam Spot Product Prices



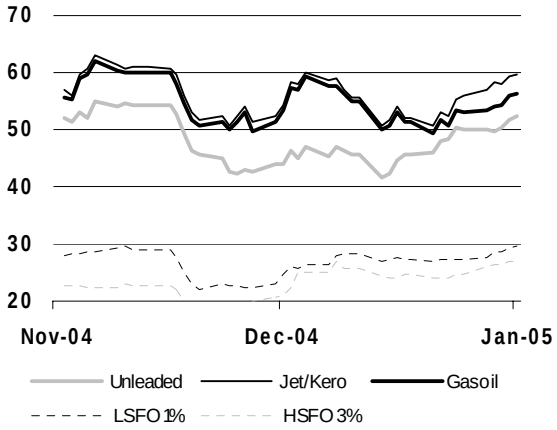
$/bbl

Rotterdam Spreads to Dated Brent



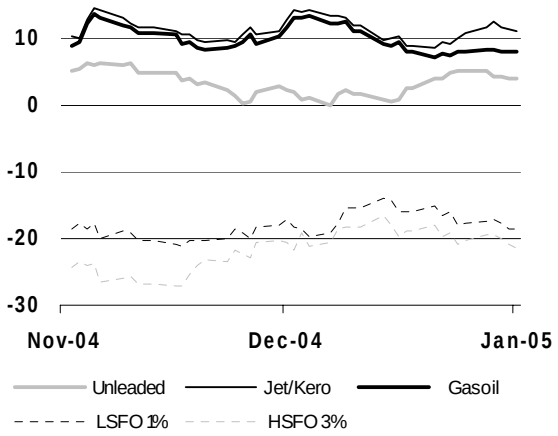
$/bbl

New York Harbour Spot Product Prices



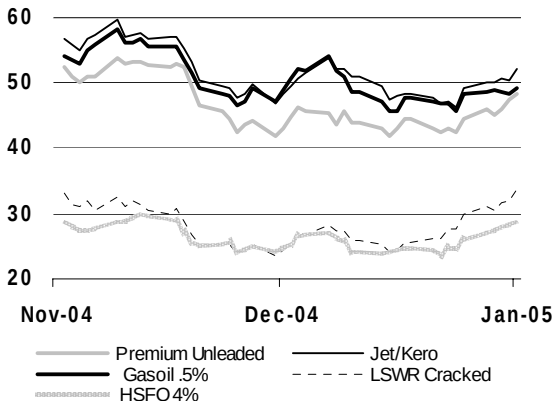
$/bbl

New York Harbour Spreads to WTI



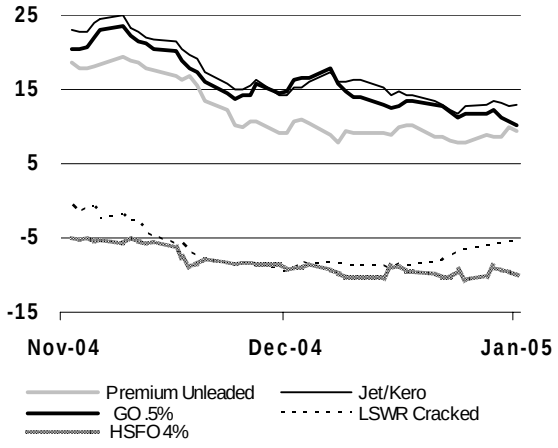
$/bbl

Singapore Spot Product Prices

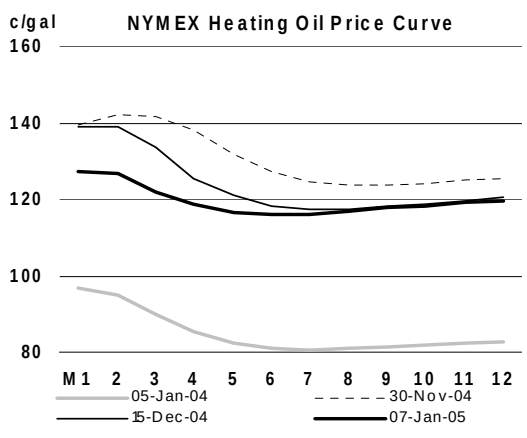


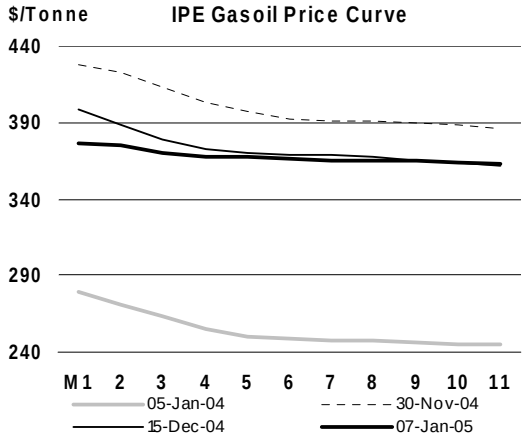
$/bbl

Singapore Spreads to Dubai



Perhaps more indicative of the level of speculative interest in oil whole is that the combined non-commercial short and long position for crude, gasoline and heating oil is at its lowest level for 14 months, and has been broadly net short since early December.





End-User Product Prices in December

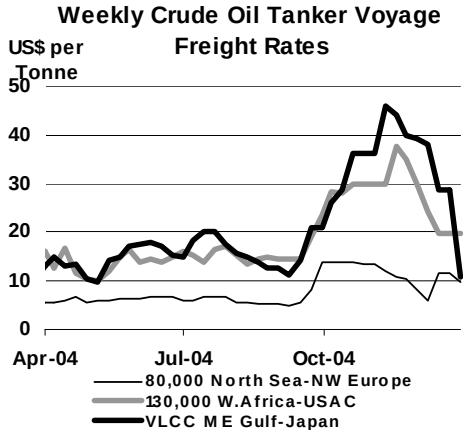
Retail prices for all petroleum products fell in national currencies with the exception of diesel prices in Italy. The peak of petroleum prices came in October, but large falls in product differentials to crude came in December, which means that this downward trend should continue in January. Gasoline prices saw steep falls in ex-tax dollar terms in Germany, Canada and the US, as supply improved following maintenance. A similar pattern was seen in these countries in diesel, but was less marked in heating oil. In the UK, a strong pound helped to lower dollar denominated prices, but the speed of the currency move means that the full benefit might not have been felt in product trade.

A mild winter, coupled with the end to seasonal maintenance contributed to a more comfortable stock position in heating oil, and was reflected in European retail prices.

A glance at the change of end user prices for gasoline, diesel and heating oil in terms shows gains of 19% to 59% over a year ago. However, while lighter fuels have been at a premium, the lack of refinery upgrading capacity has led to a glut of fuel oil. Fuel oil prices for European industry have risen by 7% to 20.2% in ex-tax dollar terms year-on-year, but delivered prices fell by 1.7% in Germany in euro-terms, with rises of less than 3% for all but Italy.

Freight

Freight rates plunged in early December in unison with crude prices. While some of the weakness was related to concerns (borne out) that OPEC would cut overproduction and therefore term loadings, there were other factors at play.



Freight rates fell sharply for large tonnage, with VLCC routes to Asia particularly badly hit. Freight rates from the Middle East Gulf to Japan fell from their mid-November peak of WS 315 to WS75 in early January. The falls in midsized tankers were more restrained as traders stood back from the market waiting for a price floor, preferring smaller cargoes where necessary.

Freight rates have been volatile all year, as strong demand and an unusual confluence of supply side factors pull against each other. The shift towards double-hulled tankers has led to a large number of tankers being earmarked for scrap. Steel prices have also been at record levels, giving fleet owners an incentive to scrap. But, demand has also been strong, and shipyard order books are full.

The sharp rise and fall in freight rates in the fourth quarter 2004 would appear to be indicative of both a tight underlying market, and a certain degree of panic as oil prices rose in early October. However, as fundamentals shifted in favour of charterers and owners competed for a reduced tonnage the market fell back almost as swiftly as it rose.

Congestion in the Turkish straits appears to have been less of a problem this winter, although recently there have been some weather-related delays in Black Sea loadings. Russia has avoided congestion problems by moving volumes northward, and the imminent start-up of the BTC pipeline is also likely to help reduce congestion in the future

Refining Margins

Refining margins pushed lower in all regions covered in December and the exceptional returns that were seen earlier in 2004 have diminished. Recent activity shows a diverging pattern, with US Gulf Coast and West Coast margins outperforming those in Europe and Asia. These moves can broadly be attributed to diverging gasoline and fuel oil prices and the strength of dated Brent.

Key Refining Margins in Major Refining Centres

($/bbl)

	Monthly Average			Change	Week Ending:				
	Oct 04	Nov 04	Dec 04	Dec-Nov 04	10 Dec	17 Dec	24 Dec	31 Dec	07 Jan
NW Europe									
Brent (Cracking)	3.16	5.03	2.91	-2.12	4.22	1.31	1.66	0.23	-1.13
Brent (Hydroskimming)	-1.81	0.78	-0.26	-1.04	0.73	-1.60	-1.28	-2.72	-4.44
Mediterranean									
Urals (Cracking)	8.75	7.99	4.66	-3.33	5.50	4.95	3.11	1.87	1.21
Urals (Hydroskimming)	0.99	0.54	-0.98	-1.51	-0.04	-0.70	-2.61	-3.28	-4.54
US Gulf Coast									
Brent (Cracking)	-2.64	-1.80	-3.17	-1.37	-4.34	-4.26	-1.48	-2.64	-1.82
LLS (Cracking)	-0.36	-0.46	-1.46	-1.00	-1.74	-2.21	0.00	-0.53	1.12
Maya (Coking)	7.84	10.93	9.65	-1.29	10.19	7.65	10.13	9.65	11.91
US West Coast									
ANS (Cracking)	6.82	5.50	3.22	-2.28	3.59	2.03	4.15	4.02	2.51
Oman (Cracking)	9.58	3.19	-1.62	-4.82	-3.96	-0.97	0.72	1.76	0.56
Kern (Coking)	16.55	13.42	10.62	-2.80	8.54	12.51	12.29	12.37	11.28
Singapore									
Tapis (Hydroskimming)	-3.69	-1.23	0.13	1.35	0.45	0.83	-0.29	-1.49	-5.67
Dubai (Hydrocracking)	8.22	7.99	3.54	-4.45	3.44	3.89	3.48	3.65	2.15
Tapis (Hydrocracking)	-1.69	1.77	3.35	1.57	3.72	4.04	2.82	1.55	-3.27
China*									
Cabinda (Hydroskimming)	-3.28	-0.79	-2.95	-2.15	-2.75	-4.08	-2.94	-4.48	-2.19
Daqing (Hydrocracking)	0.15	7.18	1.14	-6.04	5.61	2.05	-0.81	-0.96	-2.53

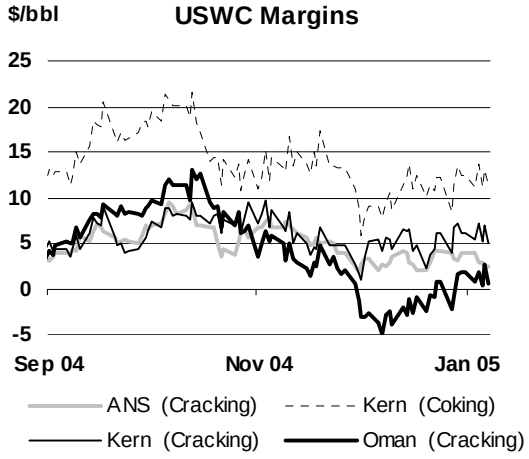
For the purposes of this Report, refining margins are calculated for various complexity configurations, each optimised for processing the specific crude in a specific refining centre on a 'full cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability for a given refining centre. No attempt is made to model or otherwise comment upon the relative economics of specific refineries running individual crude slates and producing custom product sales, nor are these calculations intended to infer the marginal values of crudes for pricing purposes.

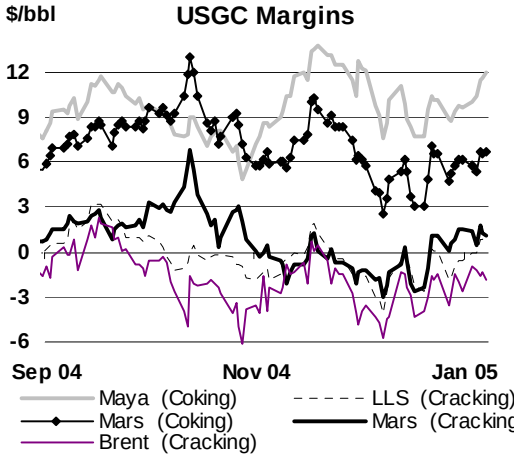
* The China refinery margin calculation represents a model based on spot product import/export parity, and does not reflect internal pricing regulations. A full list of refining margins and gross product worth can be found in table 15 on www.oilmarketreport.org.

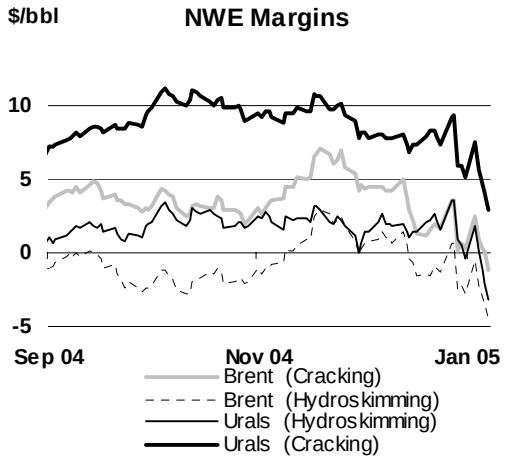
Sources: IEA, Purvin & Gertz Inc.

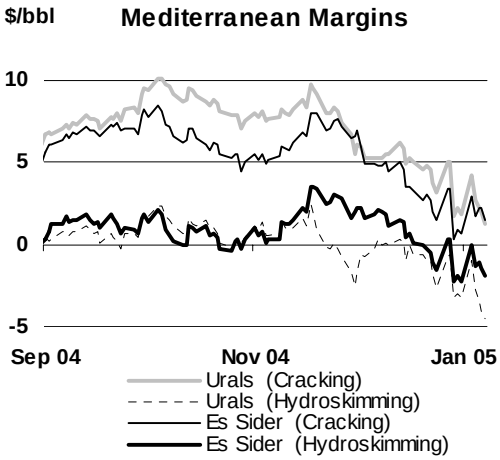
In the US Gulf Coast, North Sea production problems and the ensuing price strength kept Brent (full cost) cracking margins in negative territory. Brent margins have been broadly negative since the summer, with LLS and Mars offering more attractive regional options. Coking margins continue to offer attractive returns due to the persistent weakness of fuel oil and strong light/sweet-heavy/sour differentials. The recent strength in gasoline prices has helped to improve cracking economics in this key refining region.

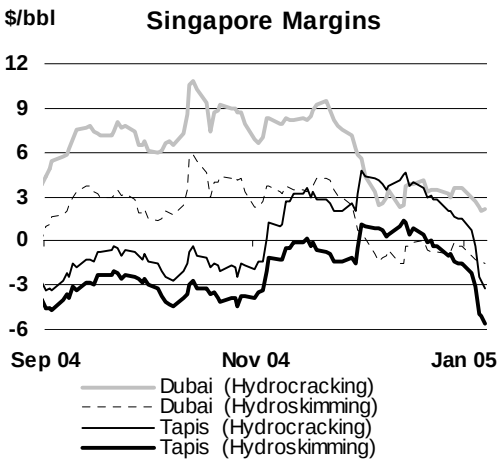
Refining margins have deteriorated sharply in Europe following the end of heavy fourth quarter 2004 maintenance and the smooth transition to 50 ppm sulphur fuels at the start of 2005. Strong regional crudes have had a significant impact, with Brent strength supplemented by strong Urals crude, particularly in the Med, due to Black Sea loading difficulties and a reduced flow of Iraqi material.

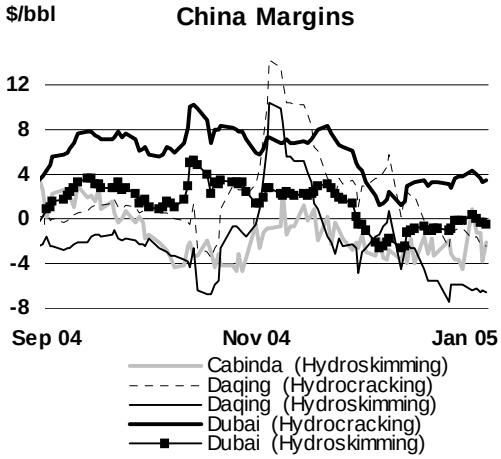

$/bbl
USWC Margins
25
20
15
10
5
0
-5
Sep 04
Nov 04
Jan 05
ANS (Cracking)
Kern (Coking)
Kern (Cracking)
Oman (Cracking)


$/bbl
USGC Margins
12
9
6
3
0
-3
-6
Sep 04
Nov 04
Jan 05
Maya (Coking)
LLS (Cracking)
Mars (Coking)
Mars (Cracking
Brent (Cracking)


$/bbl
NWE Margins
10
5
0
-5
Sep 04
Nov 04
Jan 05
Brent (Cracking)
Brent (Hydroskimming)
Urals (Hydroskimming)
Urals (Cracking)


$/bbl
Mediterranean Margins
10
5
0
-5
Sep 04
Nov 04
Jan 05
Urals (Cracking)
Urals (Hydroskimming)
Es Sider (Cracking)
Es Sider (Hydroskimming)


$/bbl
Singapore Margins
12
9
6
3
0
-3
-6
Sep 04
Nov 04
Jan 05
Dubai (Hydrocracking)
Dubai (Hydroskimming)
Tapis (Hydrocracking)
Tapis (Hydroskimming)


$/bbl
China Margins
12
8
4
0
-4
-8
Sep 04
Nov 04
Jan 05
Cabinda (Hydroskimming)
Daqing (Hydrocracking)
Daqing (Hydroskimming)
Dubai (Hydrocracking)
Dubai (Hydroskimming)

Singaporean and Chinese margins deteriorated sharply towards the end of December and early January, in line with the weakening gasoline market and a resurgence in crude prices. A mild first half of winter resulted in a falling low sulphur waxy residue prices and an improved kerosene inventory position. Ample gasoline availability also contributed to improved regional product supplies. Tapis margins posted moderate gains on average in December, the only calculation in the six regions covered to have shown a monthly increase. However, Nigerian and North Sea production problems have prompted Asian buyers of light sweet crude to look at regional supplies.

Refinery Throughput

OECD refinery throughput rose by 1.2 mb/d in November to 39.53 mb/d from a slightly upwardly revised 38.34 mb/d in October. OECD October output was originally reported as 38.29 mb/d, but this small increase masks some large regional divergences. US throughput was revised 112 kb/d higher and Canada was 81.2 kb/d higher, more than offsetting 76.8 kb/d and 71.8 kb/d downward revisions to OECD Europe and Pacific regions respectively.

A Look at 2005 Refining Issues

The 2.65 mb/d increase in global demand in 2004 vastly offset the modest 700 kb/d increase in global refining capacity last year, leading to a sharp rise in capacity utilisation and refining margins throughout the year. Further product tightness was caused by a heavy maintenance schedule throughout the year as refiners undertook investment to meet lower sulphur fuel specifications, resulting in tight distillate and light sweet crude markets.

Provisional numbers identify projects accounting for over 1 mb/d of new capacity additions in 2005. Adjustments for unidentified projects and debottlenecking are likely to be offset by the failure of some projects to materialise, leading to a further modest tightening in global refinery capacity this year.

There are also regional issues. Expansions in China and other Asian countries of nearly 750 kb/d have the potential to outpace regional demand growth by nearly 200 kb/d, while projected North American and European demand growth of 310 kb/d will marginally exceed capacity expansions of 245,000 b/d

Refinery maintenance schedules were heavy in 2004, particularly in the US and Europe, and early indications suggest that US and European programmes will be lighter than normal this year. However, estimates for many countries are uncertain at this time of year, and more detailed information will be available as the quarter progresses.

In the US, the typical maintenance schedule has been shifted slightly. Average workload on primary distillate capacity over the first quarter is expected to be around 300 kb/d per month lower than last year at around 750 kb/d. However, the work will spill into April, a month which saw minimal levels of maintenance in 2004. Overall the January-April maintenance burden is likely to be around 90 kb/d lower than last year's 810 mb/d. However there is a lot of cracker maintenance being undertaken over the period, which is likely to lead to an increase in demand for sweet crude in coming weeks.

In Europe, the maintenance situation remains relatively opaque, but as a guide, identified projects in OECD Europe are around half of the volume detailed at this time last year. On average around 500kb/d of capacity per month is taken down over this period with the work concentrated between March, April and May. Relatively light work loads are seen in January and February.

The anticipated lower first quarter maintenance burden and recent start-up of a considerable quantity of desulphurisation units mean a replication of 2004's high refinery margins are unlikely. However, capacity utilisation will still be high, and delays to expansion plans shutdowns or unplanned maintenance could still tighten product markets.

However, while US and European data suggest a lighter-than-normal maintenance crude distillation programme in the first half of this year, the trend towards lower sulphur products is increasing.

Around 950,000 b/d of desulphurisation and hydrotreating capacity was installed last year, and identified projects suggest a similar treatment capacity installation in 2005 of 850,000 b/d globally. This would in turn suggest that globally in 2005 maintenance activity will not be dramatically lower than last year, probably concentrated in the second/third quarter in Asia and in the autumn for the US and Europe.

US refinery throughput moved sharply higher in November as refineries moved out of maintenance. Provisional data show this trend continuing through December with weekly numbers showing average throughput of 15.7 mb/d. Refiners have also been moving to maximise distillate output, ahead of refinery shutdowns for first quarter maintenance.

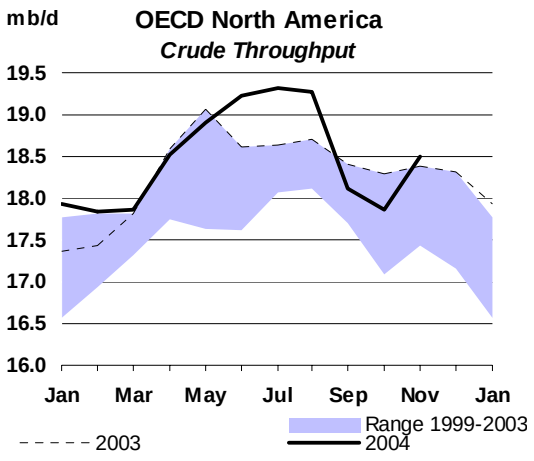
Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from Nov 03*		Utilisation rate[2]	
	Jun 04	Jul 04	Aug 04	Sep 04	Oct 04	Nov 04	mb/d	%	Nov 04	Nov 03
OECD North America										
US[3]	16.24	16.14	16.14	14.98	14.95	15.58	0.13	0.8	92.3	92.2
Canada	1.71	1.88	1.88	1.90	1.80	1.75	-0.01	-0.8	88.3	89.2
Mexico	1.29	1.30	1.27	1.23	1.11	1.16	0.00	0.1	69.0	72.0
Total	19.24	19.31	19.28	18.11	17.86	18.50	0.11	0.6	90.0	90.0
OECD Europe										
France	1.64	1.81	1.78	1.77	1.76	1.71	-0.15	-8.0	87.7	97.7
Germany	2.25	2.39	2.36	2.29	2.40	2.23	-0.11	-4.7	88.2	92.6
Italy	1.86	1.84	1.95	1.93	1.81	1.69	-0.25	-12.8	73.2	84.4
Netherlands	1.13	1.11	1.08	0.93	0.82	0.93	0.01	0.6	76.3	76.7
Spain	1.22	1.21	1.23	1.17	1.12	1.15	0.00	-0.3	90.7	87.6
UK	1.60	1.76	1.73	1.66	1.75	1.76	0.17	10.4	96.9	89.2
Other OECD Europe	4.16	4.14	4.13	4.09	4.00	4.10	-0.07	-1.6	87.8	89.4
Total	13.87	14.26	14.25	13.84	13.65	13.59	-0.41	-2.9	86.1	89.0
OECD Pacific										
Japan	3.36	3.88	4.24	3.73	3.72	4.24	0.14	3.5	90.2	85.9
Korea	2.10	1.92	2.18	2.20	2.35	2.46	0.15	6.7	96.9	90.2
Other OECD Pacific	0.70	0.79	0.74	0.74	0.75	0.74	0.06	9.0	85.7	70.8
Total	6.16	6.60	7.17	6.68	6.82	7.44	0.36	5.1	91.8	85.5
OECD Total	**39.26**	**40.17**	**40.70**	**38.63**	**38.34**	**39.53**	**0.07**	**0.2**	**88.9**	**88.8**

1 Estimate
2 Based on crude throughput and current operable refining capacity
3 US50

In Europe, refinery throughput remained at a reduced level in November, reflecting the end of heavy fourth quarter 2004 maintenance. Provisional December numbers showed a recovery in runs close to September levels, but with problems at a key northern European refinery persisting until end December and a downturn in margins, a return to 14 mb/d was not expected.

Japanese and South Korean refiners bolstered runs in November to take advantage of strong local markets and to bolster kerosene stocks ahead of the winter. Korean throughput of 2.46 mb/d was the highest run level for over four years.



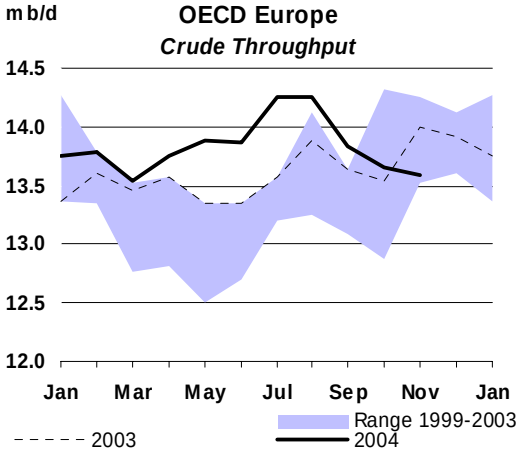


Table 1
WORLD OIL SUPPLY AND DEMAND
(million barrels per day)

	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
OECD DEMAND																	
North America	24.0	24.1	24.5	24.2	24.8	24.9	24.6	25.0	24.9	25.2	25.5	25.1	25.2	25.0	25.5	25.7	25.4
Europe	15.3	15.3	15.5	15.2	15.5	15.8	15.5	15.8	15.4	15.7	16.1	15.7	15.8	15.5	15.9	16.1	15.8
Pacific	8.7	8.6	9.8	8.2	8.0	9.2	8.8	9.4	8.0	8.3	9.0	8.7	9.3	7.9	8.1	9.0	8.6
Total OECD	48.0	48.1	49.8	47.6	48.3	49.8	48.9	50.2	48.3	49.2	50.5	49.5	50.4	48.5	49.4	50.8	49.8
NON-OECD DEMAND																	
FSU	3.7	3.5	3.8	3.2	3.4	3.9	3.6	3.5	3.7	3.7	3.8	3.7	3.8	3.7	3.8	4.0	3.8
Europe	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7
China	4.7	5.0	5.2	5.2	5.8	5.9	5.5	6.2	6.5	6.2	6.5	6.4	6.6	6.7	6.7	6.8	6.7
Other Asia	7.6	7.9	8.0	7.9	8.0	8.5	8.1	8.5	8.6	8.4	8.8	8.5	8.7	8.8	8.6	9.0	8.8
Latin America	4.9	4.8	4.5	4.7	4.8	4.9	4.7	4.7	4.9	5.0	5.0	4.9	4.8	5.0	5.1	5.1	5.0
Middle East	5.2	5.4	5.5	5.3	5.7	5.7	5.6	5.8	5.8	6.0	5.9	5.9	6.1	6.1	6.2	6.2	6.1
Africa	2.6	2.7	2.8	2.8	2.7	2.8	2.7	2.8	2.8	2.7	2.9	2.8	2.9	2.9	2.8	2.9	2.9
Total Non-OECD	29.3	29.9	30.6	29.7	31.1	32.3	30.9	32.3	32.9	32.7	33.6	32.9	33.7	33.9	33.9	34.8	34.1
Total Demand[1]	77.3	77.9	80.4	77.3	79.4	82.1	79.8	82.4	81.2	81.9	84.2	82.4	84.2	82.4	83.3	85.6	83.9
OECD SUPPLY																	
North America	14.4	14.5	14.6	14.4	14.6	14.7	14.6	14.8	14.7	14.4	14.5	14.6	14.7	14.8	14.8	14.8	14.8
Europe	6.7	6.6	6.7	6.2	6.0	6.4	6.3	6.4	6.2	5.7	6.0	6.1	6.0	5.8	5.7	5.9	5.9
Pacific	0.8	0.8	0.7	0.7	0.7	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Total OECD	21.8	21.8	22.1	21.3	21.3	21.8	21.6	21.8	21.5	20.7	21.1	21.2	21.3	21.1	21.0	21.3	21.2
NON-OECD SUPPLY																	
FSU	8.6	9.4	9.9	10.1	10.5	10.7	10.3	10.8	11.1	11.4	11.4	11.2	11.5	11.6	11.9	12.1	11.8
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
China	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.6	3.5	3.5	3.5	3.5
Other Asia	2.4	2.5	2.6	2.6	2.6	2.7	2.6	2.7	2.7	2.7	2.8	2.7	2.8	2.7	2.7	2.7	2.7
Latin America	3.8	4.0	4.0	3.9	4.0	4.1	4.0	4.0	4.0	4.1	4.1	4.0	4.2	4.3	4.3	4.3	4.3
Middle East	2.1	2.1	2.0	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.8
Africa	2.8	3.0	2.9	3.0	3.1	3.3	3.1	3.3	3.4	3.5	3.6	3.4	3.6	3.7	3.8	3.8	3.7
Total Non-OECD	23.2	24.5	25.1	25.3	25.7	26.3	25.6	26.4	26.7	27.2	27.5	26.9	27.7	27.9	28.2	28.4	28.0
Processing Gains[2]	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.9	1.8	1.8	1.9	1.8	1.9	1.9	1.8	1.9	1.9
Total Non-OPEC	46.8	48.1	48.9	48.3	48.8	49.9	49.0	50.0	50.0	49.7	50.4	50.0	50.9	50.9	51.0	51.5	51.1
OPEC																	
Crude[3]	27.0	25.1	26.7	26.1	26.6	27.6	26.8	27.9	28.1	29.2	29.6	28.7					
NGLs	3.4	3.7	3.5	3.9	4.0	4.2	3.9	4.3	4.3	4.3	4.4	4.3	4.7	4.7	4.8	4.9	4.8
Total OPEC	30.4	28.8	30.2	30.0	30.6	31.8	30.7	32.2	32.3	33.5	34.0	33.0					
Total Supply[4]	77.2	76.9	79.1	78.3	79.4	81.7	79.6	82.2	82.4	83.2	84.4	83.0					
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	0.3	-0.4	-0.6	1.3	0.5	-0.8	0.1	-0.6	0.8	0.6							
Government	0.0	0.2	0.2	0.0	0.2	0.3	0.2	0.1	0.1	0.1							
Total	0.3	-0.3	-0.5	1.4	0.7	-0.5	0.3	-0.5	0.9	0.6							
Floating Storage/Oil in Transit	-0.1	0.0	0.3	0.1	0.0	0.3	0.2	-0.2	-0.1	0.2							
Miscellaneous to balance[5]	-0.4	-0.7	-1.1	-0.4	-0.7	-0.3	-0.6	0.5	0.4	0.4							
Total Stock Ch. & Misc	-0.1	-1.0	-1.2	1.0	0.0	-0.5	-0.1	-0.2	1.2	1.3	0.2	0.6					
Memo items:																	
Call on OPEC crude + Stock ch.[6]	27.2	26.1	27.9	25.1	26.6	28.1	26.9	28.2	26.9	27.9	29.4	28.1	28.6	26.8	27.5	29.2	28.0
Total Demand ex. FSU	73.6	74.5	76.5	74.1	75.9	78.3	76.2	79.0	77.5	78.2	80.3	78.7	80.3	78.7	79.6	81.5	80.0
Total demand exc. FSU (% ch)[7]	0.0	1.1	0.0	0.0	0.0	0.0	2.3	3.2	4.6	3.0	2.6	3.3	1.7	1.6	1.8	1.5	1.6

1 Measured as deliveries from refineries and primary stocks, comprises inland deliveries, international marine bunkers, refinery fuel, crude for direct burning, oil from non-conventional sources and other sources of supply
2 Net volumetric gains and losses in the refining process (excludes net gain/loss in former USSR, China and non-OECD Europe) and marine transportation losses
3 Upgraded Venezuelan Orinoco extra-heavy production is classified as non-conventional crude.
4 Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply
5 Includes changes in non-reported stocks in OECD and non-OECD areas
6 Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs
7 Year on year % growth in global oil demand excluding FSU

Table 1A
WORLD OIL SUPPLY AND DEMAND: CHANGES FROM LAST MONTH'S TABLE 1
(million barrels per day)

	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
OECD DEMAND																	
North America	-	-	-	-	-	-	-	-	-	-	0.2	0.1	-	-	0.1	0.2	0.1
Europe	-	-	0.1	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-
Total OECD	-	-	0.1	-	-	-	-	-	-	-	0.2	0.1	-	0.1	0.1	0.2	0.1
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	0.1	-	0.1	0.1	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1	-	-0.1	-
Total Demand	-	-	0.1	0.1	-	-	-	-	-	-	0.2	0.1	0.2	0.2	0.1	0.1	0.1
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.2	-0.1	-	-	-0.1
Europe	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-0.2	-0.1	-0.3	-0.1	-	-	-0.1
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	-	-	-	-0.2	-	-0.3	-0.1	-0.1	-0.1	-0.2
OPEC																	
Crude	-	-	-	-	-	-	-	-	-	-							
NGLs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OPEC	-	-	-	-	-	-	-	-	-	-							
Total Supply	-	-	-	-	-	-	-	-	-	-							
STOCK CHANGES AND MISCELLANEOUS																	
REPORTED OECD																	
Industry	-	-	-	-	-	-	-	-	-0.1	0.1							
Government	-	-	-	-	-	-	-	-	-	-							
Total	-	-	-	-	-	-	-	-	-0.1	0.1							
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-	-	-							
Miscellaneous to balance	-	-	-0.1	-	-	-	-	-	0.1	-0.1							
Total Stock Ch. & Misc	-	-	-0.1	-	-	-	-	-	-	-0.1							
Memo items:																	
Call on OPEC crude + Stock ch.	-	-	0.1	-	-	-	-	-	-	0.1	0.4	0.1	0.5	0.3	0.1	0.2	0.3
Total Demand ex. FSU	-	-	0.1	0.1	-	-	0.1	-	-	-	0.3	0.1	0.2	0.1	0.1	0.1	0.1

When submitting their monthly oil statistics, OECD Member countries periodically update data for prior periods. Similar updates to non-OECD data can occur.

Table 2

Summary of Global Oil Demand

	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
Demand (mb/d)																
North America	24.11	24.52	24.15	24.76	24.86	24.58	25.03	24.85	25.21	25.48	25.14	25.25	25.01	25.50	25.73	25.38
Europe	15.32	15.49	15.24	15.50	15.78	15.50	15.78	15.41	15.74	16.06	15.75	15.83	15.53	15.86	16.07	15.82
Pacific	8.63	9.76	8.19	8.03	9.15	8.78	9.38	8.00	8.25	8.98	8.65	9.34	7.94	8.08	8.97	8.58
Total OECD	48.06	49.77	47.58	48.29	49.79	48.86	50.18	48.25	49.21	50.53	49.54	50.42	48.48	49.44	50.77	49.78
FSU	3.45	3.81	3.19	3.45	3.85	3.57	3.47	3.68	3.75	3.85	3.69	3.84	3.69	3.77	4.02	3.83
Europe	0.69	0.76	0.70	0.65	0.71	0.70	0.77	0.71	0.67	0.73	0.72	0.79	0.73	0.69	0.75	0.74
China	4.97	5.23	5.20	5.75	5.87	5.52	6.24	6.49	6.25	6.49	6.37	6.61	6.75	6.71	6.85	6.73
Other Asia	7.88	7.98	7.87	8.04	8.53	8.10	8.46	8.57	8.36	8.77	8.54	8.67	8.77	8.58	9.00	8.76
Latin America	4.82	4.50	4.68	4.84	4.89	4.73	4.70	4.89	5.00	4.99	4.89	4.82	4.99	5.11	5.07	5.00
Middle East	5.36	5.54	5.32	5.68	5.69	5.56	5.81	5.78	5.98	5.94	5.88	6.10	6.07	6.23	6.17	6.14
Africa	2.70	2.77	2.76	2.66	2.78	2.74	2.81	2.84	2.73	2.86	2.81	2.91	2.94	2.82	2.94	2.90
Total Non-OECD	29.87	30.58	29.72	31.06	32.32	30.93	32.26	32.94	32.73	33.63	32.89	33.75	33.93	33.90	34.79	34.09
World	77.93	80.35	77.31	79.35	82.12	79.79	82.44	81.20	81.94	84.16	82.44	84.17	82.41	83.34	85.56	83.87
of which:																
US	*19.76*	*20.02*	*19.65*	*20.21*	*20.25*	*20.03*	*20.36*	*20.25*	*20.58*	*20.78*	*20.50*	*20.51*	*20.39*	*20.79*	*20.98*	*20.67*
Euro4	*8.34*	*8.33*	*8.27*	*8.32*	*8.42*	*8.33*	*8.51*	*8.23*	*8.45*	*8.65*	*8.46*	*8.55*	*8.31*	*8.47*	*8.57*	*8.48*
Japan	*5.46*	*6.37*	*5.17*	*5.04*	*5.76*	*5.58*	*6.06*	*4.95*	*5.20*	*5.62*	*5.46*	*5.98*	*4.87*	*5.01*	*5.54*	*5.35*
Korea	*2.15*	*2.38*	*2.00*	*1.95*	*2.34*	*2.17*	*2.29*	*2.01*	*1.99*	*2.28*	*2.14*	*2.29*	*2.02*	*1.99*	*2.30*	*2.15*
Mexico	*1.94*	*1.98*	*2.03*	*2.02*	*2.03*	*2.02*	*2.02*	*2.02*	*2.02*	*2.07*	*2.04*	*2.11*	*2.03*	*2.06*	*2.08*	*2.07*
Canada	*2.08*	*2.17*	*2.16*	*2.20*	*2.24*	*2.19*	*2.27*	*2.25*	*2.28*	*2.28*	*2.27*	*2.26*	*2.27*	*2.31*	*2.32*	*2.29*
Brazil	*2.12*	*1.97*	*2.02*	*2.10*	*2.13*	*2.05*	*2.07*	*2.13*	*2.20*	*2.16*	*2.14*	*2.12*	*2.15*	*2.23*	*2.19*	*2.17*
India	*2.32*	*2.38*	*2.30*	*2.26*	*2.45*	*2.35*	*2.53*	*2.51*	*2.33*	*2.48*	*2.46*	*2.60*	*2.57*	*2.40*	*2.56*	*2.53*
Annual Change (% per annum)																
North America	0.4	2.6	0.7	2.1	2.4	1.9	2.0	2.9	1.8	2.5	2.3	0.9	0.7	1.1	1.0	0.9
Europe	-0.1	0.5	2.2	0.6	1.5	1.2	1.8	1.1	1.6	1.8	1.6	0.4	0.8	0.7	0.1	0.5
Pacific	-0.4	6.4	5.3	-1.9	-2.7	1.7	-3.8	-2.4	2.8	-1.8	-1.4	-0.5	-0.7	-2.0	-0.2	-0.8
Total OECD	0.1	2.7	2.0	0.9	1.1	1.7	0.8	1.4	1.9	1.5	1.4	0.5	0.5	0.5	0.5	0.5
FSU	-5.5	9.3	2.6	2.2	0.2	3.5	-8.9	15.4	8.6	-0.1	3.1	10.6	0.2	0.7	4.4	3.9
Europe	1.4	1.8	1.6	1.6	1.7	1.7	1.8	1.9	2.4	2.8	2.2	2.5	2.6	2.9	3.1	2.8
China	6.3	12.2	3.3	16.0	12.5	11.0	19.3	24.6	8.6	10.6	15.4	6.0	4.0	7.3	5.4	5.7
Other Asia	3.5	3.0	-0.5	2.9	5.6	2.8	6.1	8.9	4.0	2.9	5.4	2.5	2.3	2.6	2.6	2.5
Latin America	-0.9	-4.4	-3.0	-1.1	0.8	-1.9	4.3	4.4	3.4	2.0	3.5	2.7	2.2	2.0	1.7	2.1
Middle East	3.3	4.4	1.6	4.1	4.7	3.7	4.9	8.5	5.2	4.5	5.7	4.9	5.1	4.3	3.7	4.5
Africa	2.9	2.1	1.6	0.9	2.0	1.7	1.4	2.7	2.8	2.6	2.4	3.7	3.6	3.1	2.8	3.3
Total Non-OECD	2.0	4.2	0.7	4.4	4.8	3.5	5.5	10.8	5.4	4.0	6.4	4.6	3.0	3.6	3.4	3.7
World	0.8	3.2	1.5	2.2	2.5	2.4	2.6	5.0	3.3	2.5	3.3	2.1	1.5	1.7	1.7	1.7
Annual Change (mb/d)																
North America	0.10	0.63	0.18	0.50	0.57	0.47	0.50	0.70	0.45	0.62	0.57	0.22	0.16	0.28	0.25	0.23
Europe	-0.01	0.08	0.33	0.09	0.24	0.19	0.28	0.17	0.24	0.28	0.24	0.06	0.12	0.12	0.01	0.08
Pacific	-0.04	0.58	0.41	-0.15	-0.26	0.14	-0.38	-0.20	0.22	-0.17	-0.13	-0.04	-0.05	-0.17	-0.01	-0.07
Total OECD	0.06	1.29	0.92	0.44	0.55	0.80	0.41	0.67	0.92	0.73	0.69	0.24	0.23	0.23	0.24	0.24
FSU	-0.20	0.33	0.08	0.07	0.01	0.12	-0.34	0.49	0.30	-0.01	0.11	0.37	0.01	0.02	0.17	0.14
Europe	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
China	0.30	0.57	0.17	0.79	0.65	0.55	1.01	1.28	0.50	0.62	0.85	0.38	0.26	0.46	0.35	0.36
Other Asia	0.27	0.23	-0.04	0.23	0.46	0.22	0.49	0.70	0.32	0.25	0.44	0.21	0.20	0.22	0.23	0.21
Latin America	-0.04	-0.21	-0.14	-0.05	0.04	-0.09	0.19	0.20	0.16	0.10	0.16	0.13	0.11	0.10	0.08	0.10
Middle East	0.17	0.23	0.08	0.23	0.26	0.20	0.27	0.45	0.30	0.25	0.32	0.29	0.29	0.26	0.22	0.26
Africa	0.08	0.06	0.04	0.02	0.06	0.04	0.04	0.07	0.08	0.07	0.07	0.10	0.10	0.09	0.08	0.09
Total Non-OECD	0.57	1.22	0.20	1.30	1.48	1.05	1.67	3.22	1.67	1.31	1.96	1.49	0.99	1.17	1.16	1.20
World	0.63	2.52	1.12	1.74	2.03	1.85	2.08	3.89	2.59	2.04	2.65	1.73	1.22	1.40	1.40	1.44
Changes from Last Month's Report																
North America	-	-	-	-	-	-	-	-	0.03	0.22	0.06	0.04	0.03	0.07	0.20	0.09
Europe	-	0.06	0.05	0.03	0.02	0.04	-	0.01	0.01	0.06	0.02	-	0.01	0.01	0.04	0.01
Pacific	-	-	-	-	-	-	-	-	-	-0.09	-0.02	-	0.02	-	-0.06	-0.01
Total OECD	-	0.06	0.05	0.03	0.02	0.04	-	0.01	0.03	0.19	0.06	0.04	0.05	0.08	0.18	0.09
FSU	-	-	-	-0.01	-	-	-	-	-	-0.08	-0.02	0.01	0.01	-	-	0.01
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	0.15	0.04	0.12	0.08	-0.02	-0.03	0.04
Other Asia	-	-	-	-	0.01	-	-	-	-0.01	-0.04	-0.01	0.01	0.02	-0.01	-0.04	-0.01
Latin America	-	0.01	0.01	0.01	-	0.01	0.01	-0.01	0.02	-0.02	-	0.01	-0.01	0.01	-0.01	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	0.01	0.01	-	0.01	0.01	0.01	-0.01	0.02	0.01	0.01	0.14	0.10	-0.02	-0.08	0.04
World	-	0.07	0.06	0.03	0.03	0.05	0.01	-	0.05	0.20	0.06	0.18	0.15	0.06	0.10	0.13

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2003	2004	2005	3Q04	4Q04	1Q05	2Q05	3Q05	Oct 04	Nov 04	Dec 04
OPEC											
Crude Oil											
Saudi Arabia	8.48	8.75		9.12	9.23				9.30	9.25	9.15
Iran	3.78	3.93		3.89	3.97				3.87	4.05	4.00
Iraq	1.33	1.99		1.92	1.98				2.22	1.79	1.95
UAE	2.29	2.35		2.44	2.45				2.43	2.42	2.52
Kuwait	1.87	2.05		2.07	2.14				2.15	2.14	2.14
Neutral Zone	0.60	0.60		0.61	0.60				0.60	0.61	0.60
Qatar	0.72	0.78		0.80	0.79				0.80	0.80	0.78
Nigeria	2.15	2.33		2.35	2.33				2.37	2.35	2.27
Libya	1.42	1.55		1.59	1.61				1.61	1.61	1.61
Algeria	1.11	1.21		1.24	1.28				1.27	1.29	1.29
Venezuela	2.01	2.21		2.21	2.24				2.25	2.25	2.23
Indonesia	1.01	0.97		0.96	0.97				0.97	0.97	0.98
Total Crude Oil	26.77	28.70		29.19	29.62				29.83	29.51	29.51
Total NGLs[1]	3.90	4.32	4.77	4.32	4.38	4.67	4.70	4.84	4.31	4.35	4.47
Total OPEC	30.67	33.02		33.51	33.99				34.14	33.85	33.98
NON-OPEC[2]											
OECD											
North America	14.61	14.60	14.78	14.39	14.51	14.75	14.78	14.77	14.33	14.59	14.62
United States	7.82	7.67	7.81	7.50	7.62	7.83	7.83	7.81	7.40	7.71	7.75
Mexico	3.79	3.84	3.87	3.82	3.85	3.87	3.87	3.85	3.89	3.80	3.87
Canada	3.00	3.08	3.10	3.07	3.04	3.05	3.09	3.12	3.04	3.07	3.01
Europe	6.34	6.07	5.86	5.71	5.99	6.00	5.83	5.68	5.99	6.08	5.90
UK	2.28	2.05	1.88	1.89	1.99	1.99	1.86	1.82	1.91	2.03	2.04
Norway	3.26	3.17	3.13	2.97	3.14	3.16	3.13	3.01	3.21	3.19	3.01
Others	0.80	0.85	0.85	0.85	0.86	0.85	0.85	0.85	0.86	0.85	0.86
Pacific	0.65	0.57	0.53	0.59	0.55	0.56	0.53	0.52	0.52	0.57	0.57
Australia	0.61	0.53	0.49	0.54	0.51	0.52	0.48	0.47	0.47	0.53	0.53
Others	0.05	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Total OECD	21.59	21.25	21.17	20.68	21.05	21.30	21.14	20.97	20.83	21.24	21.09
NON-OECD											
Former USSR	10.31	11.18	11.78	11.35	11.45	11.48	11.64	11.89	11.45	11.49	11.39
Russia	8.49	9.23	9.66	9.40	9.41	9.45	9.58	9.74	9.43	9.43	9.37
Others	1.82	1.95	2.12	1.95	2.04	2.03	2.06	2.14	2.02	2.07	2.03
Asia	6.03	6.24	6.24	6.25	6.36	6.33	6.26	6.20	6.28	6.40	6.39
China	3.41	3.49	3.53	3.54	3.54	3.57	3.54	3.52	3.47	3.57	3.57
Malaysia	0.83	0.86	0.82	0.86	0.87	0.86	0.83	0.81	0.89	0.88	0.86
India	0.79	0.80	0.78	0.77	0.81	0.80	0.79	0.78	0.81	0.82	0.81
Others	1.01	1.09	1.10	1.09	1.14	1.11	1.10	1.09	1.12	1.14	1.15
Europe	0.17	0.17	0.16	0.17	0.17	0.16	0.16	0.16	0.17	0.17	0.17
Latin America	4.00	4.03	4.30	4.06	4.07	4.22	4.30	4.33	4.09	3.99	4.11
Brazil	1.77	1.77	2.00	1.80	1.79	1.94	1.99	2.03	1.79	1.74	1.83
Argentina	0.83	0.77	0.73	0.78	0.76	0.75	0.74	0.73	0.78	0.73	0.77
Colombia	0.55	0.54	0.52	0.55	0.54	0.53	0.53	0.52	0.54	0.54	0.54
Ecuador	0.43	0.53	0.57	0.54	0.54	0.55	0.57	0.58	0.54	0.54	0.55
Others	0.42	0.42	0.47	0.41	0.44	0.45	0.48	0.48	0.44	0.44	0.43
Middle East[3]	1.99	1.89	1.84	1.88	1.86	1.85	1.84	1.84	1.87	1.86	1.86
Oman	0.82	0.76	0.74	0.76	0.75	0.75	0.74	0.74	0.75	0.75	0.75
Syria	0.53	0.51	0.48	0.50	0.50	0.49	0.48	0.47	0.50	0.50	0.49
Yemen	0.44	0.42	0.43	0.42	0.42	0.42	0.42	0.43	0.42	0.42	0.42
Africa	3.07	3.43	3.72	3.48	3.56	3.63	3.70	3.77	3.57	3.58	3.54
Egypt	0.75	0.71	0.71	0.71	0.70	0.71	0.72	0.72	0.71	0.70	0.68
Angola	0.88	0.99	1.15	0.99	1.10	1.14	1.16	1.16	1.10	1.11	1.10
Gabon	0.24	0.24	0.24	0.23	0.23	0.23	0.23	0.24	0.23	0.23	0.23
Others	1.20	1.50	1.62	1.56	1.54	1.55	1.58	1.66	1.54	1.54	1.54
Total Non-OECD	25.58	26.94	28.03	27.20	27.46	27.67	27.89	28.18	27.43	27.49	27.46
Processing Gains[4]	1.80	1.83	1.86	1.81	1.85	1.88	1.85	1.84	1.85	1.85	1.85
TOTAL NON-OPEC	48.97	50.02	51.06	49.69	50.37	50.85	50.89	51.00	50.12	50.58	50.41
TOTAL SUPPLY	79.64	83.03		83.20	84.36				84.25	84.43	84.39

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Orimulsion Orinoco extra-heavy oil, and non-oil inputs to Saudi Arabian MTBE
2 Comprises crude oil, condensates, NGLs and oil from non-conventional sources
3 Includes small amounts of production from Israel, Jordan and Bahrain
4 Net volumetric gains and losses in refining (excludes net gain/loss in FSU, China and non-OECD Europe) and marine transportation losses

Table 4

OECD INDUSTRY STOCKS[1] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Jul2004	Aug2004	Sep2004	Oct2004	Nov2004*	Nov2001	Nov2002	Nov2003	4Q2003	1Q2004	2Q2004	3Q2004
North America												
Crude	409.4	393.8	393.4	411.3	417.0	422.6	399.8	400.3	-0.16	0.32	0.08	-0.27
Motor Gasoline	242.7	240.3	237.5	235.5	240.6	243.7	236.3	232.7	0.06	-0.02	0.07	-0.01
Middle Distillate	192.7	205.3	199.7	196.4	200.3	213.7	200.1	209.4	0.04	-0.44	0.14	0.19
Residual Fuel Oil	42.5	44.6	41.4	45.0	50.7	48.1	44.9	44.0	0.05	0.02	-0.03	-0.04
Total Products[3]	657.1	673.6	667.7	661.8	668.6	684.7	657.3	656.3	-0.11	-0.52	0.41	0.36
Total[4]	1219.9	1228.7	1226.4	1234.5	1247.1	1268.3	1213.2	1210.1	-0.52	-0.22	0.57	0.32
Europe												
Crude	328.3	328.6	334.9	335.3	338.6	313.7	314.3	329.7	0.01	0.26	-0.03	-0.07
Motor Gasoline	110.1	114.8	112.2	115.0	115.5	116.9	113.7	114.7	0.07	0.00	-0.06	0.02
Middle Distillate	241.8	256.2	246.8	247.7	246.3	218.6	242.3	239.3	-0.14	-0.24	0.18	0.15
Residual Fuel Oil	77.8	77.4	76.6	75.3	74.4	75.0	81.1	76.9	0.08	-0.04	0.01	0.00
Total Products[3]	532.7	552.7	538.0	541.6	539.2	525.9	536.9	536.7	0.01	-0.33	0.14	0.22
Total[4]	930.3	947.7	943.3	947.7	947.9	906.4	915.7	939.3	-0.01	-0.01	0.06	0.14
Pacific												
Crude	182.7	167.5	168.7	177.1	190.2	176.9	159.7	160.6	-0.04	-0.06	0.02	-0.09
Motor Gasoline	23.6	23.3	23.9	23.3	24.6	24.6	24.4	23.1	-0.02	0.03	-0.01	-0.01
Middle Distillate	62.6	69.6	74.8	75.0	84.2	90.4	73.1	82.0	-0.10	-0.21	0.06	0.16
Residual Fuel Oil	22.3	23.3	21.3	21.1	23.7	24.6	22.2	22.9	0.00	-0.03	0.03	-0.01
Total Products[3]	174.4	182.2	186.2	188.8	202.5	216.0	189.3	197.0	-0.22	-0.28	0.15	0.15
Total[4]	429.1	421.6	429.6	438.0	467.9	477.4	422.7	431.9	-0.26	-0.38	0.21	0.11
Total OECD												
Crude	920.5	890.0	897.0	923.6	945.9	913.2	873.9	890.7	-0.20	0.52	0.07	-0.42
Motor Gasoline	376.4	378.4	373.6	373.7	380.8	385.1	374.5	370.5	0.11	0.02	0.00	0.01
Middle Distillate	497.1	531.1	521.2	519.1	530.8	522.7	515.5	530.7	-0.21	-0.89	0.37	0.50
Residual Fuel Oil	142.6	145.3	139.3	141.3	148.8	147.8	148.2	143.8	0.13	-0.05	0.02	-0.05
Total Products[3]	1364.2	1408.5	1391.9	1392.2	1410.2	1426.6	1383.5	1389.9	-0.33	-1.14	0.70	0.73
Total[4]	2579.3	2598.0	2599.3	2620.2	2662.8	2652.1	2551.6	2581.3	-0.79	-0.62	0.84	0.57

OECD GOVERNMENT-CONTROLLED STOCKS[5,6] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Jul2004	Aug2004	Sep2004	Oct2004	Nov2004*	Nov2001	Nov2002	Nov2003	4Q2003	1Q2004	2Q2004	3Q2004
North America												
Crude	665.7	669.0	670.3	670.3	672.5	547.3	595.9	633.6	0.15	0.15	0.11	0.09
Products[7]	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.00	0.00	0.00	0.00
Europe												
Crude	157.9	158.0	157.8	158.8	158.8	142.4	155.7	154.0	0.07	0.01	0.00	0.00
Products	205.6	205.9	205.4	202.9	202.9	206.5	192.6	208.9	0.04	-0.03	-0.05	0.00
Pacific												
Crude	386.7	386.7	384.9	382.5	382.5	372.6	379.6	382.8	0.02	0.02	0.00	-0.02
Products	11.0	11.2	11.2	11.2	11.2	7.3	8.9	10.7	0.01	0.00	0.00	0.00
Total OECD												
Crude	1210.3	1213.6	1213.0	1211.6	1213.8	1062.3	1131.2	1170.3	0.24	0.18	0.11	0.06
Products	218.6	219.1	218.6	216.0	216.0	215.8	203.5	221.6	0.05	-0.03	-0.05	0.01
Total[4]	1429.9	1433.7	1432.6	1428.6	1430.8	1279.1	1335.7	1392.9	0.29	0.15	0.06	0.07

* estimated

1 Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) and include stocks held by industry to meet IEA, EU and national emergency reserve commitments and are subject to government control in emergencies.

2 Closing stock levels.

3 Total products includes gasoline, middle distillates, fuel oil and other products.

4 Total includes NGLs, refinery feedstocks, additives/oxygenates and other hydrocarbons.

5 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.

Table 5

TOTAL STOCKS ON LAND IN OECD COUNTRIES[1]

('millions of barrels' and 'days')

	End September 2003		End December 2003		End March 2004		End June 2004		End September 2004 [3]	
	Stock Level	Days Fwd[2] Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand
North America										
Canada	176.6	79	174.6	77	170.4	76	168.8	74	189.9	-
Mexico	41.4	20	39.0	19	38.9	19	39.5	20	41.4	-
United States[4]	1600.0	79	1570.3	77	1568.2	77	1630.9	79	1645.3	-
Total[5]	1840.1	74	1806.1	72	1799.6	72	1861.3	74	1898.7	75
Pacific										
Australia	36.0	40	32.4	37	33.8	39	34.9	39	34.3	-
Japan	653.6	114	636.3	105	614.4	124	622.0	120	632.0	-
Korea	154.5	66	154.5	67	142.9	71	152.9	77	152.1	-
New Zealand	8.5	58	7.9	49	7.5	48	7.7	50	7.3	-
Total	852.6	93	831.1	89	798.5	100	817.4	99	825.7	92
Europe[6]										
Austria	20.3	69	20.9	80	23.2	80	23.0	78	21.0	-
Belgium	29.1	45	27.7	42	24.6	42	24.7	42	24.8	-
Czech Republic	13.4	69	16.4	95	15.6	74	15.9	70	16.9	-
Denmark	16.3	86	16.8	87	15.9	88	15.8	90	19.4	-
Finland	23.2	101	26.5	120	27.8	133	23.4	108	24.0	-
France	179.2	85	185.3	87	176.4	90	183.5	92	188.5	-
Germany	266.4	100	272.6	103	269.8	106	266.9	98	264.3	-
Greece	30.9	66	27.5	57	29.4	77	30.8	78	34.1	-
Hungary	18.3	122	16.8	143	19.5	153	20.1	153	18.7	-
Ireland	11.9	66	12.0	63	11.5	69	10.7	63	11.1	-
Italy	140.7	74	135.2	72	135.6	73	134.6	71	138.7	-
Luxembourg	0.8	16	1.0	17	0.8	13	1.0	16	0.9	-
Netherlands	111.1	116	100.1	105	108.2	111	102.3	108	110.2	-
Norway	23.1	93	27.2	99	28.5	116	30.0	118	23.3	-
Poland	26.9	53	28.7	64	29.7	62	30.1	59	31.1	-
Portugal	25.6	79	25.3	81	24.4	74	26.2	76	25.0	-
Slovak Republic	4.8	62	5.4	79	5.8	82	6.5	87	5.6	-
Spain	121.4	77	122.4	78	123.5	79	127.3	82	126.8	-
Sweden	34.1	99	35.9	101	31.8	89	31.1	91	31.5	-
Switzerland	37.4	141	36.1	138	35.4	149	37.5	144	37.8	-
Turkey	54.3	83	54.9	84	54.9	79	54.8	77	55.2	-
United Kingdom	98.0	56	101.9	55	100.7	54	97.6	53	98.7	-
Total	1287.4	82	1296.5	82	1292.9	84	1293.9	82	1307.5	81
Total OECD	3980.0	80	3933.7	78	3890.9	81	3972.6	81	4031.9	80
DAYS OF IEA Net Imports[7]	-	116	-	112	-	111	-	113	-	114

1 Total Stocks are industry and government-controlled stocks (see breakdown in table below). Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) they include stocks held by industry to meet IEA, EU and national emergency reserves commitments and are subject to government control in emergencies.
2 Note that days of forward demand represent the stock level divided by the forward quarter average daily demand and is very different from the days of net imports used for the calculation of IEA Emergency Reserves.
3 End September 2004 forward demand figures are IEA Secretariat forecasts.
4 US figures exclude US territories.
5 Total includes US territories.
6 Data not available for Iceland.
7 Reflects stock levels and prior calendar year's net imports adjusted according to IEA emergency reserve definitions. Net exporting IEA countries are excluded.

TOTAL OECD STOCKS

CLOSING STOCKS	Total	Government[1] controlled	Industry	Total	Government[1] controlled	Industry
	Millions of Barrels			*Days of Fwd. Demand*[2]		
3Q2001	3930	1266	2664	81	26	55
4Q2001	3918	1285	2632	81	27	54
1Q2002	3912	1304	2609	84	28	56
2Q2002	3969	1316	2654	83	27	55
3Q2002	3899	1321	2579	79	27	52
4Q2002	3824	1344	2480	77	27	50
1Q2003	3789	1359	2430	80	29	51
2Q2003	3913	1362	2551	81	28	53
3Q2003	3980	1380	2600	80	28	52
4Q2003	3934	1407	2527	78	28	50
1Q2004	3891	1421	2470	81	29	51
2Q2004	3973	1426	2547	81	29	52
3Q2004	4032	1433	2599	80	28	51

1 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.
2 Days of forward demand calculated using actual demand except in 2Q2004 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2001	2002	2003	4Q03	1Q04	2Q04	3Q04	Aug 04	Sep 04	Oct 04	Year Earlier Oct 03	Year Earlier change
Saudi Light & Extra Light												
North America	0.69	0.70	0.64	0.66	0.55	0.56	0.56	0.64	0.53	0.58	0.82	-0.24
Europe	0.92	0.92	1.00	0.95	0.96	1.05	1.04	0.93	1.07	1.05	1.04	0.01
Pacific	1.22	1.22	1.18	1.12	1.14	1.13	1.23	1.16	1.28	1.34	0.99	0.35
Saudi Medium												
North America	0.73	0.86	0.83	0.71	0.72	0.73	0.86	0.93	0.80	0.78	0.75	0.04
Europe	0.15	0.11	0.11	0.07	0.08	0.07	0.11	0.11	0.16	0.12	0.09	0.03
Pacific	0.17	0.16	0.24	0.30	0.31	0.20	0.18	0.20	0.19	0.23	0.28	-0.05
Saudi Heavy												
North America	0.21	0.20	0.30	0.19	0.19	0.14	0.30	0.33	0.29	0.31	0.17	0.14
Europe	0.14	0.09	0.19	0.16	0.16	0.26	0.31	0.32	0.28	0.23	0.19	0.05
Pacific	0.15	0.12	0.16	0.15	0.13	0.13	0.16	0.13	0.18	0.15	0.12	0.03
Iraqi Basrah Light[2]												
North America	0.65	0.35	0.44	0.82	0.75	0.74	0.68	0.86	0.72	0.65	1.01	-0.36
Europe	0.15	0.08	0.09	0.15	0.22	0.27	0.21	0.20	0.19	0.10	0.09	0.01
Pacific	0.01	0.02	0.03	0.11	0.14	0.08	0.12	0.14	0.10	0.21	..	..
Iraqi Kirkuk												
North America	0.09	0.14	0.06	..	..	0.04	0.01	..	0.03	0.03	..	..
Europe	0.31	0.32	0.12	..	0.04	0.07	0.03	0.03	0.07	0.09	..	..
Pacific	0.01	0.00	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.16	0.17	0.19	0.18	0.20	0.23	0.23	0.24	0.25	0.36	0.19	0.17
Pacific	0.13	0.12	0.17	0.17	0.18	0.13	0.16	0.13	0.17	0.14	0.16	-0.02
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.53	0.44	0.59	0.55	0.50	0.61	0.65	0.69	0.67	0.56	0.58	-0.02
Pacific	0.63	0.54	0.69	0.74	0.73	0.65	0.58	0.60	0.57	0.65	0.75	-0.10
Venezuelan Light & Medium												
North America	0.61	0.68	0.69	0.84	0.63	0.78	0.64	0.62	0.66	0.53	0.91	-0.38
Europe	0.07	0.08	0.02	0.01	..	0.02	0.02	0.01	0.01	0.02	0.02	0.00
Pacific	0.00	0.00	0.00	0.00	..	..	..	..	..	..	0.00	..
Venezuelan 22 API and heavier												
North America	0.65	0.55	0.60	0.73	0.81	0.91	0.86	0.90	0.75	0.88	0.67	0.21
Europe	0.07	0.05	0.06	0.09	0.05	0.07	0.06	0.06	0.04	0.05	0.07	-0.02
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	0.77	0.92	1.32	1.37	1.31	1.43	1.34	1.38	1.33	1.45	1.29	0.16
Europe	0.14	0.17	0.16	0.13	0.14	0.19	0.20	0.18	0.21	0.15	0.14	0.01
Pacific	0.01	0.00	0.00	..	0.01	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.04	0.01	0.00	..	..	..	..	..	..	..	..	..
Europe	0.03	0.01	0.00	0.00	..	..	..	..	..	0.03	0.00	0.03
Pacific	0.01	0.01	0.00	..	0.01	..	..	..	..	..	..	..
Russian Urals												
North America	..	0.03	0.14	..	0.01	0.14	0.12	0.06	0.02	0.20	..	..
Europe	1.10	1.32	1.62	1.75	2.14	1.98	1.78	1.93	1.55	1.49	1.46	0.04
Pacific	0.01	0.01	0.00	0.01	0.00	0.01	0.01	..	..	..	..	..
Nigerian Light[4]												
North America	0.50	0.39	0.63	0.67	0.80	0.90	0.78	0.78	0.79	0.68	0.73	-0.05
Europe	0.38	0.32	0.41	0.38	0.32	0.22	0.30	0.26	0.29	0.32	0.38	-0.07
Pacific	0.02	0.06	0.08	0.09	0.12	0.10	0.09	0.10	0.08	0.06	..	..
Nigerian Medium												
North America	0.31	0.16	0.17	0.21	0.26	0.21	0.22	0.24	0.16	0.24	0.22	0.02
Europe	0.10	0.06	0.06	0.09	0.03	0.04	0.05	0.03	0.09	0.01	0.10	-0.10
Pacific	0.00	0.01	0.01	..	0.02	..	..	..	..	..	..	..

1 Data based on monthly submissions from IEA countries to the crude oil import register (in '000 bbl), subject to availability. May differ from Table 8 of the Report.
IEA North America includes United States and Canada.
IEA Europe includes all countries in OECD Europe except Hungary, Poland and the Slovak Republic.
IEA Pacific data includes Australia, New Zealand, Korea and Japan.

2 Iraqi Total minus Kirkuk.

3 Iranian Total minus Iranian Light.

4 33 API and lighter (e.g., Bonny Light, Escravos, Qua Iboe and Oso Condensate).

Table 7
Regional OECD Imports[1,2]

(thousand barrels per day)

	2001	2002	2003	4Q2003	1Q2004	2Q2004	3Q2004	Aug-04	Sep-04	Oct-04	Year Earlier Oct-03	Year Earlier % change
Crude Oil												
North America	8020	7584	8031	8013	8027	8557	8548	8968	7968	8354	8434	-1%
Europe	8691	8725	9087	9155	9394	9566	9627	9589	9690	9653	9456	2%
Pacific	6895	6422	6711	6683	7011	6170	6457	6391	6415	6745	5994	11%
Total OECD	23605	22731	23828	23851	24431	24293	24632	24948	24073	24752	23884	4%
LPG												
North America	28	39	27	33	29	10	25	39	31	32	34	-6%
Europe	252	226	197	226	253	195	215	149	262	274	195	29%
Pacific	546	553	541	523	550	585	469	475	439	570	446	22%
Total OECD	825	818	764	782	832	790	709	664	732	876	675	23%
Naphtha												
North America	59	42	68	64	53	49	96	116	122	151	73	52%
Europe	298	298	311	322	310	321	238	216	205	243	392	-61%
Pacific	647	705	770	761	782	761	787	798	791	715	815	-14%
Total OECD	1004	1045	1149	1148	1145	1131	1121	1130	1118	1110	1280	-15%
Gasoline[3]												
North America	673	680	697	569	673	896	852	798	776	833	608	27%
Europe	131	150	145	153	218	157	148	190	135	289	175	39%
Pacific	36	58	70	75	105	118	90	80	103	86	62	28%
Total OECD	840	889	911	797	996	1171	1090	1068	1013	1208	845	30%
Jet & Kerosene												
North America	139	97	98	67	45	102	90	140	59	114	97	15%
Europe	247	217	210	226	173	236	307	262	315	228	241	-6%
Pacific	73	97	102	132	92	60	52	33	62	95	105	-11%
Total OECD	459	411	410	425	310	397	449	435	435	438	444	-1%
Gasoil/Diesel												
North America	186	102	128	87	199	92	108	138	66	85	110	-30%
Europe	575	655	652	629	679	654	779	755	777	921	509	45%
Pacific	31	53	73	73	56	92	79	74	85	62	73	-18%
Total OECD	791	810	853	789	934	838	967	967	927	1068	693	35%
Heavy Fuel Oil												
North America	314	237	325	323	364	317	347	357	351	585	334	43%
Europe	397	471	394	446	366	431	447	398	499	448	435	3%
Pacific	81	89	88	80	76	77	87	82	90	65	76	-17%
Total OECD	793	797	807	850	806	824	882	837	940	1098	845	23%
Other Products												
North America	703	689	701	618	869	701	950	987	931	725	552	24%
Europe	736	735	684	702	666	701	708	717	684	780	683	12%
Pacific	218	256	236	218	249	266	261	262	287	224	238	-6%
Total OECD	1657	1680	1620	1537	1783	1668	1919	1966	1902	1729	1473	15%
Total Products												
North America	2103	1887	2043	1762	2233	2165	2468	2576	2335	2525	1809	28%
Europe	2636	2751	2592	2705	2664	2695	2844	2687	2878	3183	2629	17%
Pacific	1631	1811	1879	1862	1910	1960	1825	1804	1856	1817	1815	0%
Total OECD	6369	6449	6514	6328	6807	6819	7136	7067	7068	7526	6254	17%
Total Oil												
North America	10122	9471	10074	9775	10260	10722	11016	11544	10303	10879	10243	6%
Europe	11326	11476	11679	11859	12057	12260	12470	12275	12567	12836	12085	6%
Pacific	8526	8233	8590	8545	8921	8130	8282	8195	8270	8562	7810	9%
Total OECD	29974	29179	30342	30179	31238	31112	31768	32015	31141	32278	30137	7%

1 Based on Monthly Oil Questionnaire data submitted by OECD countries in tonnes and converted to barrels.

2 Excludes intra-regional trade

3 Includes additives

OIL MARKET REPORT CONTACTS

Editor	Klaus Rehaag (+33) 0*1 40 57 65 90 e-mail: klaus.rehaag@iea.org
Demand	Antoine Halff (+33) 0*1 40 57 65 93 e-mail: antoine.halff@iea.org
Supply	David Fyfe (+33) 0*1 40 57 65 94 e-mail: david.fyfe@iea.org
OECD Stocks	Harry Tchilinguirian (+33) 0*1 40 57 65 22 e-mail: harry.tchilinguirian@iea.org
Prices and Refinery Activity	Lawrence Eagles (+33) 0*1 40 57 66 58 e-mail: lawrence.eagles@iea.org
Statistical Support	Toril Ekeland (+33) 0*1 40 57 66 36 e-mail: toril.ekeland@iea.org
Administrative Support	Anne Mayne (+33) 0*1 40 57 65 96 e-mail: anne.mayne@iea.org
	Brid Deely (+33) 0*1 40 57 67 31 e-mail: bridget.deely@iea.org
Fax:	*(+33) 0*1 40 57 65 99/40 57 65 09*

* 0 only within France

For all **Subscription and Delivery Enquiries** please contact:

International Energy Agency
Attn: Ms. Sandra Coleman
Oil Market Report Subscriptions
BP 586-75726 Paris Cedex 15, France

Tel. +33 (0) 1 40 57 65 57
Fax. +33 (0) 1 40 57 65 59

E-mail: omr@iea.org

Users' Guide to the IEA Oil Market Report

Readers are referred to the Users' Guide, published in conjunction with the Annual Statistical Supplement (current issue dated 11 August 2004), for information on the data sources, definitions, technical terms and general approach used in preparing the Report. It should be noted that the spot crude and product price assessments are based on daily Platt's prices, converted when appropriate to US$ per barrel according to the Platt's specification of products (©2005 Platt's - a division of McGraw-Hill Inc.).

INTERNATIONAL ENERGY AGENCY/AGENCE INTERNATIONALE DE L'ENERGIE

OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

www.oilmarketreport.org

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

10 February 2005

HIGHLIGHTS

- OECD total industry oil stocks fell by 85 mb in December, closing at 2577 mb or 52 mb above year-ago levels. With the December downturn, days of forward demand cover fell back to 51 days. In the fourth quarter of 2004, OECD industry oil stocks fell by 190 kb/d, less than the five-year average draw of 950 kb/d.

- The estimate for global oil demand growth is revised slightly higher for 2004 to 2.68 mb/d and to 1.52 mb/d for 2005. Fourth quarter demand in 2004 was stronger than expected in North America, the FSU, China, and non-OECD Asia, but weaker in OECD Asia. China and non-OECD Asia 2005 growth estimates are revised slightly upwards.

- World oil supply fell by 645 kb/d in January to 83.6 mb/d mainly on declines in OPEC supply. Non-OPEC supply from Canada, Norway and the US Gulf of Mexico remained curtailed and Russian output fell for a fourth month. Lower Russian expectations and prolonged OECD disruptions cut the 2005 non-OPEC supply forecast by 175 kb/d.

- OPEC crude supply fell by 770 kb/d to 28.8 mb/d as Arab Gulf members cut production following December pledges. Iraqi supply fell 160 kb/d amid continuing export disruption. The 2005 first quarter call on OPEC crude and stock change is now above OPEC supply. The call is revised up to 28.3 mb/d for 2005. OPEC capacity in 2005 could rise by 1 mb/d versus average 2004 levels.

- Crude oil futures prices strengthened for most of January with a weather related rally pushing NYMEX WTI close to $50/bbl. Cold weather in the US, Europe and Asia spurred demand for middle distillates but market attention shifted from heating oil to gasoline with non-commercial players raising their net-long positions.

Next Issue: 11 March 2005

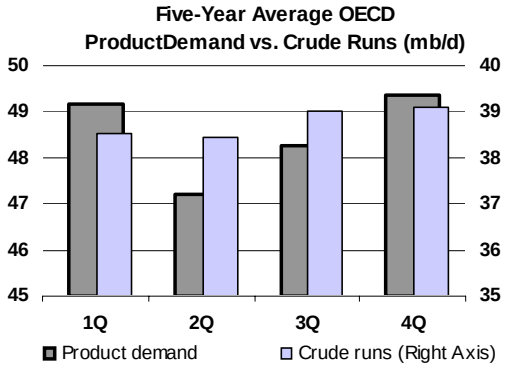
CONTENTS

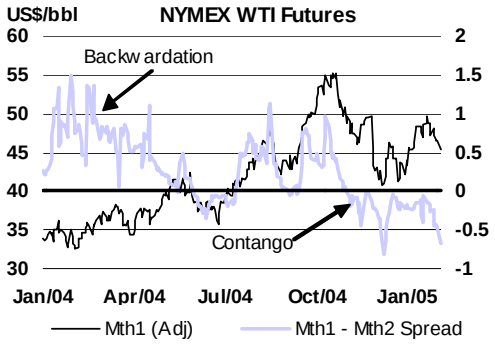
KNOWN UNKNOWNS

While 2004 was characterised by surprises in demand, 2005 has begun with changes to the expected supply outlook. This Report has made downward revisions to Canadian and Russian output following on from downward revisions to North Sea production and continuing problems in the US in recent months. Non-OPEC production growth is expected to slow to 0.9 mb/d in 2005, leading to a tightening of the market from initial forecasts. While this will be supplemented by growth in non-conventional supplies and OPEC NGLs, in terms of the call on OPEC, the outlook is similar to 2004.

Other things change however. OECD crude and product stocks have regained a more comfortable position. Total OPEC capacity should average 1 mb/d higher in 2005 than in 2004. US gasoline stocks are at the high end of their seasonal range and lighter Atlantic Basin refinery maintenance this year could help to prevent the now almost traditional spring spike in gasoline markets. Heating oil stocks remain in the lower half of their normal range in the US but have been building in Europe. Forecasts suggest milder weather through to mid-February in the US North East and the end of winter is in sight.

Developments in the Middle East bring some hope that the geopolitical environment could improve. But the road is more likely to be long, with considerable short-term risks. Supply-side uncertainties remain, as recent non-OPEC revisions and disruptions in Iraq and Nigeria highlight. The 2005 call on OPEC has now moved to 28.3 mb/d, fractionally higher than 2004's average call of 28.2 mb/d: a year when producers pumped nearly 29 mb/d for six months to meet world demand growth, seeing spare capacity dwindle in the process.





While some OPEC members remain concerned about the normal seasonal dip in second quarter demand, this has to be seen in context. The projected dip in *product* demand may seem significant at 2.1 mb/d, but this has to be offset against an anticipated first quarter stock draw and the high annual call on OPEC over the year. Furthermore, seasonal dips in product demand do not equate to corresponding reductions in *crude* demand. OECD crude throughput has, on average, only fallen by 0.11 mb/d between the first and second quarters over the past five years. Weaker OECD Asian demand is offset by post maintenance ramp-up by Atlantic Basin refineries. Last year, OECD crude throughput actually rose by 150 kb/d in the second quarter.

OPEC's January decision to leave targets unchanged was recognition that prevailing high prices reflect market tightness. Comments from some ministers suggest tacit acceptance that there has to be a bigger stock buffer to accommodate rising demand and continued uncertainties.

To some, the co-existence of strong growth and high oil prices in 2004, lead to the conclusion that high prices have little economic impact. Oil prices are but one component of the economic equation and do not exclusively dictate growth. But the impact of the rise in price over the past year has been felt (especially by importing developing nations), and will continue to be felt in 2005. And there remains the risk of feeding core price and wage inflation if high prices are sustained.

The existence of a contango market in WTI and Brent for the past three months reflects both modest inventory gains and the onset of refinery maintenance. Furthermore, the contango provides a financial incentive to build inventories. Higher inventories in turn give the market greater ability to respond to unanticipated events and remain the best means to ensure greater market stability. But the high market clearing price of over $40/barrel continues to reflect underlying tightness in the supply and demand balance and broader geopolitical uncertainties.

DEMAND

Summary

- The projection of global oil demand growth in 2004 is increased to 2.68 mb/d, up 30 kb/d versus last month's Report. Upward revisions to fourth quarter demand were roughly balanced by downward revisions to second and third quarter data from Austria and Belgium so that overall 2004 demand growth is largely unchanged.

Global Oil Demand from 2003 to 2005

	Demand (mb/d)	Annual Change* (%)	Annual Change* (mb/d)	Changes from last month's Report (mb/d)
1Q03	80.4	3.2	2.5	-
2Q03	77.3	1.5	1.1	-
3Q03	79.4	2.2	1.7	-
4Q03	82.1	2.5	2.0	-
1Q04	82.4	2.6	2.1	-
2Q04	81.1	5.0	3.8	-0.1
3Q04	81.9	3.2	2.5	-
4Q04	84.4	2.7	2.2	0.2
1Q05	84.3	2.3	1.9	0.1
2Q05	82.4	1.5	1.2	-0.1
3Q05	83.4	1.9	1.5	0.1
4Q05	85.9	1.8	1.5	0.3
2003	79.8	2.4	1.9	-
2004	82.5	3.4	2.7	-
2005	84.0	1.8	1.5	0.1

* year-on-year change

- The assessment of fourth quarter demand is increased by 200 kb/d. Overall, the OECD accounts for only 20 kb/d as upward revisions to North American and European demand are balanced by downward revisions to estimates for OECD Asia-Pacific. Extraordinarily warm December weather was responsible for most of the downward revision to Asian demand.

Estimated Annual World Oil Demand Growth 2000-2005

(million barrels per day)

	00-99	01-00	02-01	03-02	04-03	05-04
North America	0.26	-0.06	0.10	0.47	0.60	0.24
Latin America	0.00	0.00	-0.04	-0.09	0.16	0.10
FSU	0.08	0.00	-0.20	0.12	0.14	0.11
Europe	-0.12	0.21	0.00	0.20	0.25	0.10
OECD Pacific	-0.04	-0.07	-0.04	0.14	-0.16	-0.04
China	0.26	0.12	0.30	0.55	0.86	0.40
Other Asia	0.09	0.18	0.27	0.22	0.45	0.23
Subtotal, Asia	0.31	0.23	0.53	0.91	1.15	0.60
Middle East	0.12	0.17	0.17	0.20	0.32	0.28
Africa	0.00	0.13	0.08	0.04	0.07	0.09
World	0.66	0.67	0.63	1.85	2.68	1.52

- Fourth quarter 2004 estimates of apparent demand for the FSU and China were revised upwards. The FSU revision is in large part related to a downward reassessment of December crude exports, which led to an increase in apparent demand. Chinese net product imports were down by some 250 kb/d in December when compared to November, but this was balanced by an increase in crude runs putting year-on-year demand growth at an estimated 10.5% in December. Demand estimates for non-OECD Asia were also revised upwards with evidence of stronger demand growth in Southeast Asia. Taken together, fourth quarter non-OECD demand is revised upwards by approximately 180 kb/d.

- The 2005 demand growth forecast has been raised by 80 kb/d, to 1.52 mb/d. Asian demand growth has been revised upwards by some 90 kb/d versus last month's Report due in large part to a somewhat more robust outlook for Chinese naphtha demand and Southeast Asian demand growth in general. In addition, assuming normal weather patterns in 2005, fourth quarter 2005 OECD Asia demand growth should be higher than expected because fourth quarter 2004 demand was unexpectedly weak due to mild temperatures.

- Preliminary market reports suggest that Chinese January 2005 crude imports were down substantially versus January 2004. This is in line with indications of weakening apparent demand in late December and early January.

Global Oil Demand by Region
(million barrels per day)

	Demand	Annual Change			Annual Change (%)		
	2004	2003	2004	2005	2003	2004	2005
North America	25.17	0.47	0.60	0.24	2.0	2.4	0.9
Europe	16.45	0.20	0.25	0.10	1.2	1.5	0.6
OECD Pacific	8.62	0.14	-0.16	-0.04	1.7	-1.8	-0.5
China	6.38	0.55	0.86	0.40	11.0	15.6	6.3
Other Asia	8.55	0.22	0.45	0.23	2.8	5.5	2.7
Subtotal Asia	23.55	0.91	1.15	0.60	4.2	5.1	2.5
FSU	3.71	0.12	0.14	0.11	3.5	3.8	3.0
Middle East	5.88	0.20	0.32	0.28	3.7	5.7	4.7
Africa	2.81	0.04	0.07	0.09	1.7	2.4	3.3
Latin America	4.90	-0.09	0.16	0.10	-1.9	3.5	2.1
World	82.46	1.85	2.68	1.52	2.4	3.4	1.8

- FSU 2005 demand growth has been revised downwards by 30 kb/d. This is in part due to an upward revision in the 2004 base level apparent demand. It is also due to lower projected 2005 production, which has an impact upon apparent demand.

- Relatively high oil prices have contributed to an upward revision of GDP growth estimates for the Middle East. Because wealth and income effects associated with higher GDP growth will encourage a rise in consumption in areas such as transport fuels, 2005 demand growth has been revised upwards by 10 kb/d.

OECD

Early Indications of Current Demand

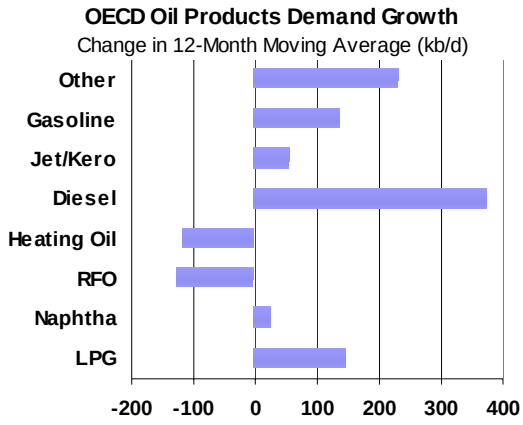
Viewing the OECD as a whole, demand is projected to grow by only 0.7%, or 340 kb/d, in December 2004 versus December 2003. This is far below the 4.0% year-on-year growth seen in November 2004. However, it should be noted that the strength observed in November 2004 may be attributed to a short-lived demand contraction of 1.5% in November 2003. This contrasts with more robust 2.3% demand growth in December 2003, so a comparison between months is somewhat distorted. Overall, this month's revisions to OECD demand are relatively minor. Fourth quarter 2004 demand is revised downwards by approximately 20 kb/d and the 2005 demand projection is revised upwards by 30 kb/d.

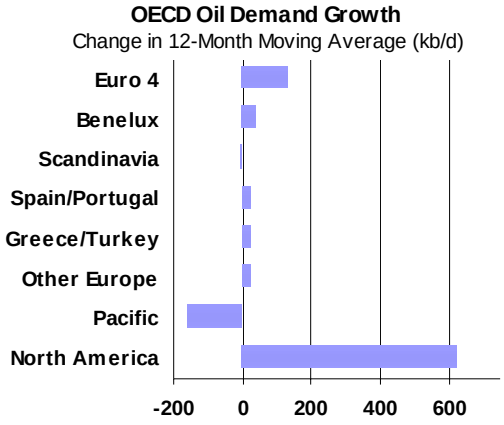
Preliminary Inland Deliveries – December 2004[1]

	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other[2]		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
United States[3]	9.21	2.2	1.68	-5.5	3.01	10.9	1.28	-3.4	0.81	1.6	4.97	-1.9	20.95	1.3
Canada	0.74	6.4	0.10	0.0	0.43	9.2	0.14	-0.7	0.18	-4.3	0.28	19.5	1.85	6.7
Mexico	0.71	5.9	0.06	3.4	0.32	2.6	0.00	na	0.27	-13.1	0.44	-0.5	1.80	0.4
Japan	1.12	0.0	0.88	-12.2	0.70	0.6	0.57	-6.3	0.43	-17.3	1.70	-6.2	5.40	-6.2
Korea	0.17	4.9	0.07	6.3	0.45	5.3	0.22	-14.3	0.30	-16.9	1.13	-1.1	2.34	-3.1
France	0.26	-3.9	0.12	0.8	0.64	3.5	0.43	9.4	0.07	5.8	0.49	1.7	2.02	3.1
Germany	0.57	-1.3	0.14	11.3	0.58	8.8	0.65	15.2	0.11	-3.7	0.51	11.7	2.57	8.0
Italy	0.34	-6.0	0.07	-2.2	0.49	6.8	0.17	-0.4	0.19	-21.2	0.41	-2.3	1.66	-3.1
Total	**13.12**	**2.0**	**3.13**	**-6.0**	**6.60**	**7.6**	**3.45**	**0.1**	**2.36**	**-9.2**	**9.92**	**-1.2**	**38.58**	**0.4**

Sources: US EIA, Statistics Canada, Mexico PEMEX, Japan METI, Korea KNOC, France CPDP, Germany MWV, Italy Ministry of Industry
1 excludes refinery fuel and bunkers (except US)
2 includes direct use of crude oil
3 fifty states only. Diesel's share of total distillate is estimated. Percentage change is calculated versus the previous year.

Preliminary inland oil delivery data for selected major OECD economies, including the three North American economies, France, Germany, Italy, Japan and Korea present a mixed picture. For these countries deliveries increased on average by a relatively subdued 0.4%, or 160 kb/d, in December 2004 when compared to December 2003.





The table on the previous page highlights variations across countries and products. Among the more striking developments is that gasoline demand increased by approximately 290 kb/d in North America versus a decline of about 40 kb/d in the European countries. Diesel demand expanded briskly in the European countries and North America. This reflects continuing dieselisation of the vehicle fleet in Europe, and robust cargo trade buoying truck deliveries in the US. Japan's consumption of jet fuel/kerosene is closely tied to winter weather patterns and extraordinarily mild December weather contributed to an approximate 120 kb/d decline in demand.

The year-on-year slide in residual fuel oil stands out in December. Taken together, consumption of residual fuel oil was down by some 240 kb/d versus the same month a year ago. The decline may be partly attributed to mild weather but other factors are at work as well. Japan's nuclear power problems continued to subside in December, thereby reducing the need for oil in power generation. In addition, where possible, countries like Korea and Italy maintained their trend of substituting other fuels such as natural gas for residual fuel oil.

Moving Annual Average Change in Oil Demand* – December 2004

	LPG	Naphtha	Gasoline	Jet/ Kerosene	Diesel	Other Gasoil	RFO	Other	Total	kb/d
United States**	3.1%	7.1%	1.4%	3.2%	6.7%	-4.3%	3.4%	1.9%	2.4%	479
Canada	5.2%	13.7%	1.5%	8.5%	-3.8%	8.1%	-3.3%	7.7%	3.9%	86
Mexico	1.6%	-33.5%	5.9%	6.5%	2.1%	2.1%	-4.6%	0.9%	1.2%	24
Japan	-5.0%	0.1%	1.7%	-3.4%	0.4%	-4.2%	-11.1%	-3.2%	-2.7%	-150
Korea	-1.9%	4.1%	-4.7%	-10.5%	3.1%	-10.2%	-3.8%	-12.5%	-1.2%	-27
France	0.9%	-6.6%	-5.6%	2.8%	1.6%	-1.1%	2.4%	2.4%	-0.6%	-12
Germany	1.4%	4.7%	-2.7%	1.5%	2.2%	-8.7%	-1.5%	26.7%	-0.3%	-8
Italy	0.8%	5.8%	-3.0%	1.4%	4.0%	8.9%	-9.2%	8.2%	0.3%	6
Total	**1.5%**	**2.4%**	**1.1%**	**0.8%**	**4.1%**	**-3.0%**	**-4.0%**	**2.6%**	**1.0%**	**397**
kb/d	58	64	139	24	240	-99	-128	98	397	

* defined as the percentage change between the demand average for the 12 months up to December and that of the same period a year earlier
** 50 states only

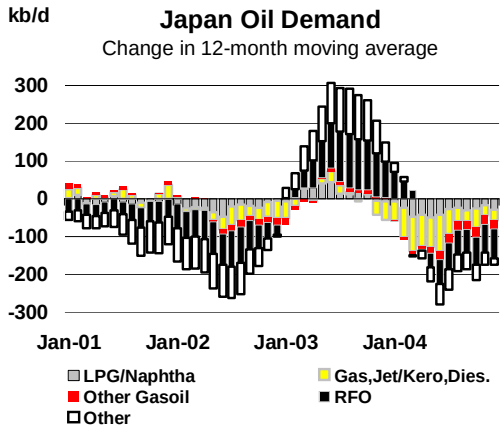
Pacific

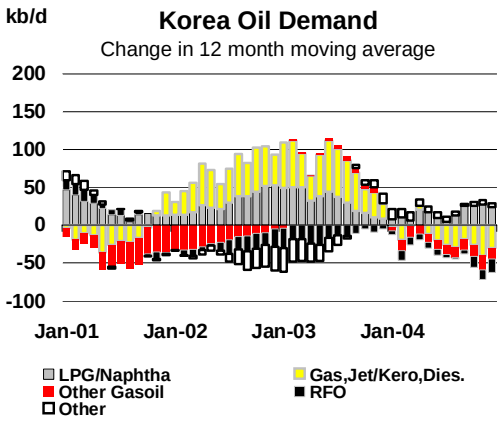
Preliminary data indicate that Japanese oil consumption was down by approximately 400 kb/d in December 2004 versus the same month a year ago. This decline can be traced largely to unseasonably warm weather, which cut the consumption of jet fuel/kerosene that is used for heating by some 120 kb/d. Demand for residual fuel oil was also down by just under 120 kb/d, as continued recovery in nuclear power generation reduced the need for oil-fired power generation.

However, two recent incidents illustrate that safety concerns surrounding nuclear facilities persist and could still have an impact on future demand. Earlier concerns arose due to a controversy over inspection records at nuclear plants at Tokyo Electric Power Co. (TEPCO) and an accident at a Kansai

Electric Power Co. (KEPCO). On 4 February TEPCO reported that it was shutting down a nuclear power generator (Unit No. 1) at its Kashiwazaki-Kariwa plant in Nigata due to a steam leak and KEPCO reported that it was closing a unit due to a water leak at the Mihama plant (Unit No. 1) where the accident occurred last August. No radiation was leaked in either incident.

In addition to the recent outages, TEPCO's Fukushima-Daiichi Units No. 2 and No. 4. and KEPCO's Mihama Unit No 3 are shutdown for unplanned inspections and maintenance related to safety concerns. Because the recent unplanned shutdowns are outside the summer peak power demand season, at this point they are projected to have limited impact on incremental oil consumption in the power sector.

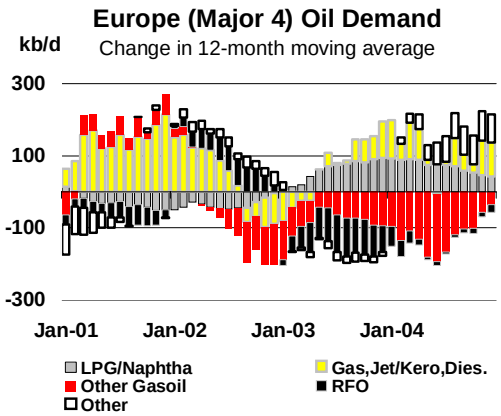


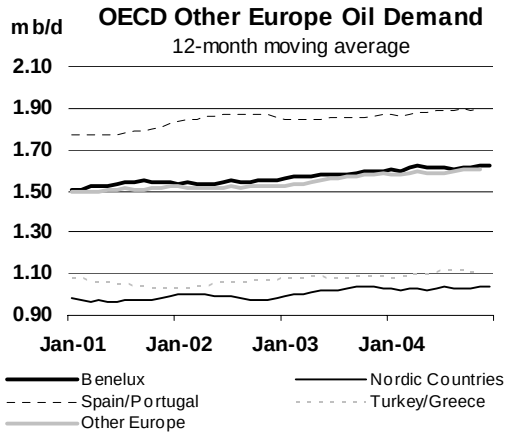


Korea's preliminary December 2004 demand for products is down by about 60 kb/d versus December 2003. This is indicative of the broader downward trend in 2004, where demand declined by 1.2% against 2003. Korea's first contraction in demand since the Asian financial crisis of 1997-1998 may be attributed to the impact of relatively high oil prices, which has contributed to the substitution of LNG for oil, and also comparatively lacklustre economic growth. The outlook for 2005 is relatively similar as the economy continues to mature. Demand is projected to grow by approximately 0.9% in 2005.

Europe

European demand projections remain broadly unchanged from last month. Changes to historical data for Belgium and Austria led to revisions to historical demand in the fourth quarter of 2003 and second and third quarter of 2004. In addition, provisional December demand is somewhat higher than anticipated for countries such as Germany, where demand was about 100 kb/d above last month's estimate. In sum, European demand was adjusted upwards by approximately 40 kb/d in the fourth quarter of 2004 and downwards by 20 kb/d for 2004 as a whole.



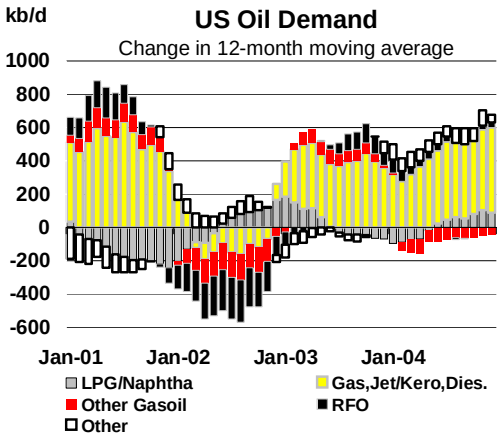


Although demand in 2004 for OECD Europe was adjusted slightly downwards due to historical revisions, overall 2004 demand growth was healthy in the face of relatively high prices. Incorporating the provisional December data, demand grew by 230 kb/d in 2004. In 2005 regional demand growth is projected to slow to 80 kb/d as high prices and a possible easing of regional economic growth mitigate demand prospects.

Focusing attention on some of the major consumers in the region, temperatures were slightly colder than normal in December. This had a marginal impact on demand in France and Germany, where an uptick in heating oil deliveries was observed. Italy continued its pattern of stagnant to declining demand as fuel oil consumption dropped by some 70 kb/d in December. Recent relatively high output of hydroelectricity and a general pattern of substitution of natural gas for oil in power generation are behind this decline. In addition, the long-term decline in gasoline consumption continued in France, Germany and Italy.

North America

Revisions in Mexican and US preliminary demand estimates for November contribute to an approximate 110 kb/d upward revision in North American fourth quarter 2004 demand. Mexico's November gasoline demand has been revised upwards by 30 kb/d and the demand estimate for residual fuel oil was revised upwards by a substantial 140 kb/d. In sum, November Mexican demand has been revised upwards by approximately 160 kb/d.



The US November demand estimate has been revised upwards by approximately 180 kb/d, with gasoline accounting for about 80 kb/d of the revision. Preliminary data for December indicate that year-on-year US demand growth was fairly flat, at about 1.6% for all products, led by diesel. The overall picture is similar in January, with year-on-year demand growth of 1.6%. However, January 2004 was exceptionally cold so year-on-year growth for January 2005 needs to be viewed against a higher baseline. US heating oil demand is projected down by 140 kb/d.

After robust December growth estimated at some 100 kb/d overall, Canadian demand is expected to stagnate in January. Like the US, Canada also experienced unusually cold temperatures in January 2004, and thus January 2005 must be viewed against a higher baseline. January 2005 year-on-year petroleum demand is projected to grow by 0.9%.

Overall, 2005 North American demand is revised upwards by 30 kb/d, in part due to the revisions to the fourth quarter reference period discussed above. In addition, the second half of January was colder than anticipated at the time of last month's Report, and as a consequence first quarter demand is revised upwards by 50 kb/d.

Non-OECD

China

Preliminary data suggest that Chinese apparent demand, which is defined as the sum of domestic refinery output and net product imports (plus adjustments for direct crude burning, smuggling and unreported refinery output), posted year-on-year growth of approximately 10.5% in December. In spite of this relatively strong demand picture, growth appeared to slow somewhat in the latter part of December and the first part of January. This is consistent with preliminary market reports suggesting that January 2004 crude oil imports dropped substantially versus January 2003. Chinese net imports of products were also down by some 250 kb/d in December versus the previous month and Sinopec and Petrochina reportedly scheduled no gasoil imports for January or February. The largest portion of the December import decline may be attributed to a sharp drop-off in fuel oil imports, which were down by approximately 190 kb/d versus November. There are indications that fuel oil imports rebounded in January, but the share of straight-run fuel oil has fallen as the private refineries that often refine straight-run fuel oil into off-specification gasoil face lower margins.

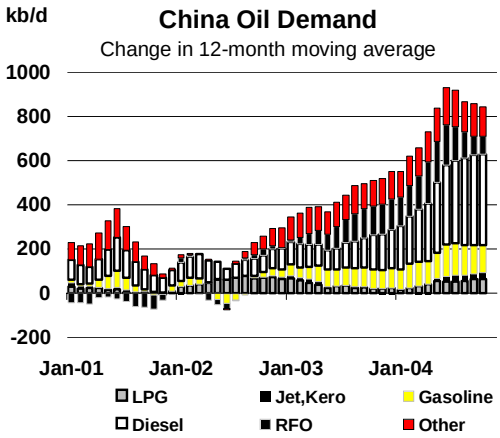
There is anecdotal evidence that the softness in the market was short-lived as buying picked up just prior to the February 9th Lunar New Year holiday. Typically individuals, businesses, and specific sectors such as air transport build storage for use during the holiday, but this year's buying appears to have come later than expected. Apparent demand normally ebbs during the Lunar New Year as factories close, but it is expected to rebound in March.

China Crude & Product Trade
(thousand barrels per day)

	2003	2004	1Q04	2Q04	3Q04	4Q04	Oct 04	Nov 04	Dec 04	Latest month vs. Nov 04	Latest month vs. Dec 03
Net Imports/(Exports) of:											
Crude Oil	**1664**	**2346**	**2290**	**2371**	**2232**	**2491**	**2117**	**2699**	**2665**	**-34**	**708**
Products & Feedstocks	**442**	**663**	**600**	**849**	**545**	**661**	**598**	**819**	**572**	**-246**	**158**
Gasoil/Diesel	-28	43	22	50	21	79	39	80	118	38	132
Gasoline	-175	-125	-95	-141	-146	-117	-102	-113	-136	-23	42
Heavy Fuel Oil	407	506	448	653	412	515	425	658	466	-192	87
LPG	202	201	172	227	222	184	201	205	147	-58	-93
Naphtha	-22	-33	-21	-11	-48	-51	-20	-73	-60	13	-34
Jet & Kerosene	1	16	21	15	19	8	13	14	-2	-15	40
Other	58	54	54	56	64	43	43	48	39	-9	-17
Total	**2106**	**3010**	**2890**	**3220**	**2777**	**3153**	**2715**	**3518**	**3237**	**-281**	**866**

Sources: China Oil, Gas and Petrochemicals plus IEA estimates

Because preliminary data indicate that December demand was somewhat stronger than previously anticipated, fourth quarter demand is revised upwards by approximately 50 kb/d. This change also contributes to a slight reassessment of 2005 demand. Overall, projected 2005 demand is increased by 50 kb/d.



The majority of the upward revision to Chinese demand in 2005 is centred around a more robust view of naphtha consumption as several new ethylene plants are poised to begin production in 2005. Chinese ethylene demand grew by approximately 9.8% to 17.8 million tonnes in 2004, and it is projected to grow by a similar amount in 2005. Meanwhile, 2004 domestic production capacity was only about 5.6 million tonnes, so increased ethylene production will find a readily available market. By early 2005, China ethylene production capacity is expected to reach 7.5 million tonnes and by the end of 2005, 8.5 million tonnes of capacity is scheduled to be in place. Although some gasoil will be used, naphtha will be the primary feedstock for the incremental capacity. Naphtha throughput is expected to increase by at least 100 kb/d over the course of 2005. This development has the potential to turn China into a net importer of naphtha.

FSU

FSU apparent demand is defined as the difference between crude production and net exports. Year-on-year growth in December exports has been revised downwards from approximately 835 kb/d to 595 kb/d, which in turn has contributed to an upward revision of apparent demand to 3.85 mb/d. Fourth quarter 2004 demand has been revised upwards by 90 kb/d.

Preliminary estimates for January 2005 production indicate a decline of approximately 115 kb/d versus December 2004, but this is outweighed by an apparent dip in exports based on provisional estimates of seaborne trade. The net result is a year-on-year increase in January apparent demand of 12.7%, or about 480 kb/d. However, subsequent revisions to export data may well point to lower implied January demand consistent with mild January weather. February exports are projected to return to a more normal 7.65 mb/d. It should be noted that FSU 2005 production estimates have been revised downwards in this month's Report, contributing to 10 kb/d reduction in 2005 apparent demand.

Other Non-OECD

Indian demand went through some twists and turns at the end of 2004. November demand fell by an estimated 3.1% when the government raised gasoline prices by 6.0% and diesel prices by 19.0%. In contrast, the demand reported by state-run firms in December increased by some 9.3% versus November. This is unusual because December demand is typically lower than November levels. Overall, however, state-run firms' December 2004 demand was reported to be up by only 0.2% versus a year ago.

India Crude & Product Trade
(thousand barrels per day)

	2002	2003	4Q03	1Q04	2Q04	3Q04	Sep 04	Oct 04	Nov 04[1]	Latest month vs. Oct 04	Latest month vs. Nov 03
Net Imports/(Exports) of:											
Crude Oil	**na**	**1863**	**1943**	**1938**	**2090**	**2013**	**2075**	**1903**	**1671**	**-232**	**-253**
(by Public Oil Cos)	**1088**	**1243**	**1379**	**1105**	**1312**	**1214**	**1154**	**1206**	**888**	**-318**	**-502**
Products & Feedstocks	**-83**	**-152**	**-91**	**-132**	**-173**	**-178**	**-201**	**-192**	**-316**	**-125**	**-138**
Gasoil/Diesel	-53	-119	-99	-137	-135	-122	-188	-156	-183	-27	-56
Gasoline	-48	-72	-62	-77	-67	-75	-63	-86	-81	5	-35
Heavy Fuel Oil	6	5	-8	-12	13	-5	3	-7	-55	-49	-31
LPG	22	55	79	90	39	86	118	119	137	18	74
Naphtha	4	-1	30	19	10	-29	-21	-13	-42	-29	-34
Jet & Kerosene	10	-22	-42	-29	-44	-43	-66	-62	-102	-40	-53
Other	-23	1	11	14	12	9	15	12	9	-3	-4
Total	**1005**	**1712**	**1852**	**1807**	**1917**	**1834**	**1875**	**1711**	**1355**	**-356**	**-392**

1 Preliminary
Sources: Indian Ministry of Commerce, Indian Port Authorities and IEA estimates
Yearly data for net imports of crude oil for 2002 are unavailable.
For 2002, 'Total' indicates the sum of net crude oil imports by public oil companies and net products & feedstock by public, private and joint-venture companies.

Preliminary estimates indicate that fourth quarter Indian demand grew by only 0.9%, sharply down from first quarter growth of 6.6% and second quarter growth of 8.8%. The fourth quarter slowdown is most likely a temporary phenomenon related to higher domestic product prices, the continued substitution of compressed natural gas (CNG) for diesel, and the rise of liquefied natural gas (LNG) imports.

In some cases LNG is being used in place of relatively high-priced naphtha. Historically, Indian domestic gas prices have been set at relatively low levels, which created a shortage and pushed some users to alternative fuels, such as naphtha. Now that LNG is available in larger quantities, there is substitution away from naphtha where it is economically viable. Although interfuel substitution will continue to be a drag on growth in 2005, this should be short-lived. For the third and fourth quarters of 2005, growth of 3.0-4.0% is projected.

The outlook for non-OECD Asia petroleum product demand in 2005 has been revised upwards by 30 kb/d due to a more robust demand outlook for key Southeast Asian countries, including Indonesia and Vietnam. Likewise, the Middle East incremental demand assessment has been revised upwards in the second half of 2005 as relatively high oil prices are projected to have a longer lasting impact on GDP growth. This in turn leads to increased petroleum consumption.

SUPPLY

Summary

- **World oil supply** fell by 645 kb/d in January, to 83.6 mb/d. OPEC crude supply was cut by 770 kb/d, with non-OPEC output down by 30 kb/d. OPEC other liquids supply was up by 155 kb/d. Latest available data point to only minimal changes to last month's estimates for October and November world supply. However, the estimate for December is revised down by 180 kb/d to 84.2 mb/d. January supply levels stand 1.4 mb/d above year-ago. OPEC crude is 860 kb/d above January 2004, OPEC other liquids are 345 kb/d higher, with non-OPEC production up by 160 kb/d.

- **Non–OPEC supply** continues to lag earlier expectations. December production is revised down by 200 kb/d after disappointing performance from Mexico and more modest downward adjustments for Norway and Yemen. January saw ongoing disruption to supply from Canada, Norway and the US Gulf of Mexico. Provisional Russian data showed a fourth month of decline. Sustained OECD supply disruptions plus lower expectations for Russia cut the forecast for 2005 non-OPEC supply by 175 kb/d. The impact is most keenly felt in the first two quarters, when supply is adjusted down by 300 kb/d and 245 kb/d respectively. Non-OPEC supply now averages 50.9 mb/d in 2005, 910 kb/d up on 2004, while OPEC other liquids supply gains 455 kb/d to 4.8 mb/d.

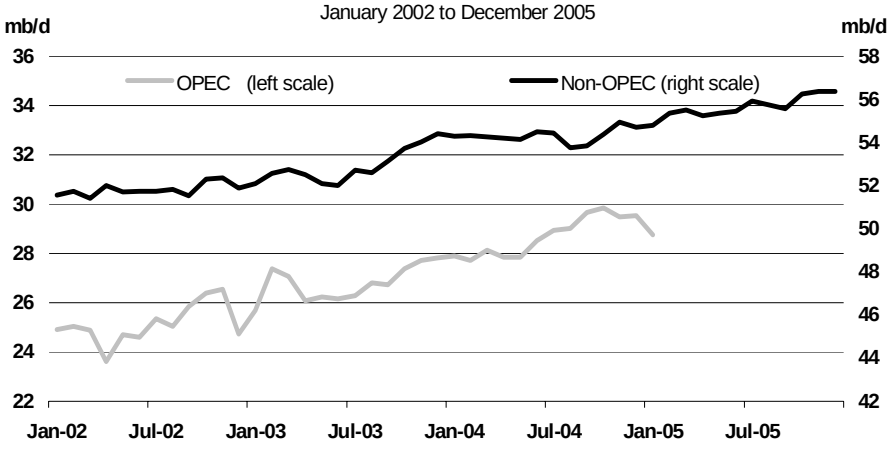
- **OPEC crude supply** fell by 770 kb/d in January to 28.8 mb/d. Iraqi production was off by 160 kb/d at 1.79 mb/d, and net output was curbed due to repeated disruptions to internal refinery operations, combined with northern pipeline problems and loading delays at southern ports. Saudi Arabia, Kuwait and UAE enacted cuts of 350 kb/d, 100 kb/d and 90 kb/d respectively, in line with December pledges. More modest reductions came from Iran, Qatar, Libya, Indonesia and Venezuela, although Venezuelan synthetic crude output increased. Nigerian output partially recovered from December disruptions.

- **OPEC-10** supply (excluding Iraq) was cut by 610 kb/d and averaged 27.0 mb/d in January. This brought output into line with the target in force since November. OPEC's Extraordinary Meeting in Vienna on 30 January left this target unchanged, but hinted at potential ministerial consultations ahead of the next scheduled meeting in Iran on 16 March if market conditions warrant. The meeting announced the temporary suspension of the $22-$28/bbl price band for the OPEC basket.

- **The 'call on OPEC crude and stock change'** is revised up by 100 kb/d for 2004 and by 300 kb/d for 2005, averaging 28.2 mb/d and 28.3 mb/d respectively. Further revisions to winter quarter supply and demand drive these adjustments. The seasonal uptick in fourth quarter demand for both years is now more pronounced than in last month's Report. For the current quarter, lower expectations for non-OPEC supply are the key reason behind the higher call. Furthermore, the first quarter call is now running some 300 kb/d above January's observed OPEC output.

OPEC Crude and Non-OPEC Oil Supply [1]

January 2002 to December 2005



1 Non-OPEC Oil Supply includes OPEC NGLs, condensate and non-conventional oil

All world oil supply figures for January discussed in this Report are IEA estimates. Estimates for OPEC countries, Alaska, and Russia are supported by preliminary January crude supply data.

Note: Random events present downside risk to the non-OPEC production forecast contained in this Report. These events can include accidents, unplanned or unannounced maintenance, technical problems, labour strikes, political unrest, guerrilla activity, wars and weather-related supply losses. No contingency allowance for random events is subtracted from the supply forecast. Although upside variations can occur, experience in recent years indicates that, roughly speaking, the random events listed above may cause supply losses of between 300 kb/d and 400 kb/d for non-OPEC supply each year.

OPEC

There were signs of key OPEC producers following through with pledged cuts in production in January. Total supply fell by 770 kb/d, with Saudi Arabia cutting output by some 350 kb/d to 9.1 mb/d, Kuwait cutting by 100 kb/d to 2.3 mb/d and the UAE trimming supply by 90 kb/d to 2.4 mb/d. Iraqi net production fell by 160 kb/d to 1.79 mb/d as exports and domestic refinery runs remained hampered by weather-related loading delays and by sabotage in the run-up to 31 January elections. Reductions of 10-50 kb/d each were also recorded by Iran, Qatar, Venezuela, Indonesia and Libya (although Venezuela did see a 65 kb/d increase in synthetic crude output, counted here outside conventional crude supply). Only Algeria and Nigeria boosted conventional crude supply, the latter seeing partial recovery from facilities earlier shut-in by civil unrest during December.

Production by the OPEC-10 (excluding Iraq) averaged 27.0 mb/d during January, in line with the collective production target set from 1 November. However, with Indonesia, Venezuela and Iran producing below their own targets, a number of other producers continue to exceed theirs. In most cases the degree of over-shoot is within 5-10%, although Algerian production of 1.3 mb/d is 50% above target. In the current market environment, individual over-production is not really an issue and greater focus lies on collective output versus the perceived call on the Organisation's crude. However, quota readjustment may again become an issue if OPEC feels the need to reduce production targets again in future.

OPEC Crude Production
(million barrels per day)

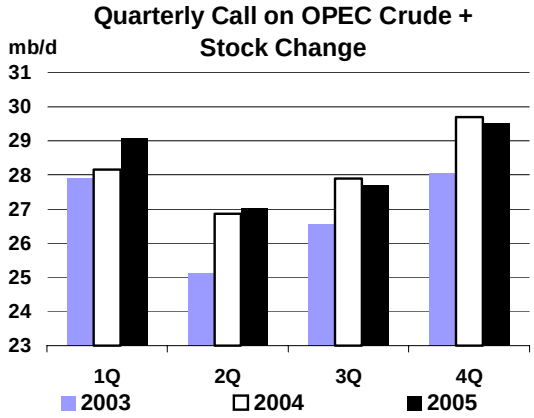
	1 Nov 2004 Target	Jan 2005 Production	Sustainable Production Capacity[1]	Spare Capacity vs. Jan 2005 Production	Production vs. Target
Algeria	0.86	1.31	1.35	0.04	0.45
Indonesia	1.40	0.96	1.00	0.05	-0.44
Iran	3.96	3.95	4.00	0.05	-0.01
Kuwait[2]	2.17	2.34	2.50	0.16	0.17
Libya	1.45	1.60	1.62	0.02	0.16
Nigeria	2.22	2.32	2.40	0.08	0.10
Qatar	0.70	0.77	0.80	0.03	0.07
Saudi Arabia[2, 3]	8.78	9.10	10.0-10.5	0.90-1.40	0.32
UAE	2.36	2.43	2.55	0.13	0.07
Venezuela[4]	3.11	2.20	2.25	0.05	-0.91
Subtotal	**27.00**	**26.97**	**28.47-28.97**	**1.50-2.00**	**-0.03**
Iraq		1.79	2.50	0.72	
Total		**28.75**	**30.97-31.47**	**2.22-2.72**	
(excluding Iraq, Nigeria, Venezuela, Indonesia				*1.32-1.82)*	

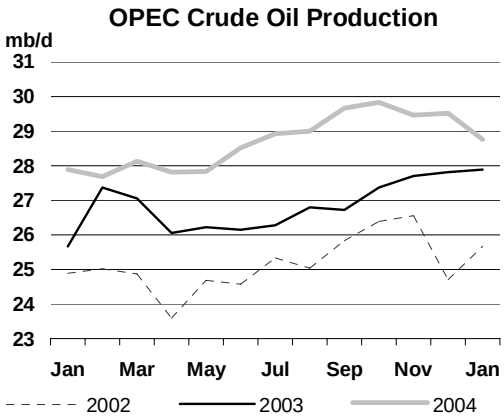
1. Capacity levels can be reached within 30 days and sustained for 90 days
2. Includes half of Neutral Zone Production
3. Saudi Arabian capacity shown as a range since a delay may be incurred before higher level can be achieved
4. Excludes upgraded Orinoco extra-heavy oil which averaged 558 kb/d in January

OPEC's Extraordinary Meeting in Vienna on 31 January resulted in no change to the official production target of 27.0 mb/d. However, the conference noted a likely downturn in second quarter demand and suggested the OPEC President would engage in consultations if necessary ahead of the next ordinary meeting in Iran on 16 March. This was widely perceived as signalling the potential for further output cuts either from early-March or early-April if inventories build, or prices fall, too far in the interim in OPEC's view. The significance of pre-meeting consultations is that since OPEC export nominations are generally made in early-month for one month ahead, a decision to curb production agreed on 16 March would not come into effect until 1 May. Of course, talk of further cuts may prove academic if supply from Iraq falls further or the tail-end of the winter proves colder than normal. It is also worth noting that this February's Report is the first since December 2002 in which

the assessed current quarter call on OPEC crude and stock change has moved ahead of observed OPEC output. With the potential first quarter stock-draw this implies, talk of further production curbs in the short term may be premature.

The conference also noted the disparity over the past year between actual prices and OPEC's reference price band of $22-$28/bbl. As a result, the price band mechanism was 'temporarily suspended'. There is no indication of when or at what level a future band will be put in place. However, there does appear to be a groundswell of opinion amongst OPEC members in favour of a higher 'floor' for prices, with some indications that this may be around $35/bbl for the OPEC Basket. Crucially, the Vienna meeting seems to have marked the first open acknowledgement by Saudi Arabia that it might be prepared to see a higher 'target' price level. Nevertheless, statements from several OPEC representatives suggesting that the global economy has become immune to any negative impact from higher crude prices look disingenuous.





Net production from **Iraq** is assessed to have fallen by 160 kb/d in January to 1.79 mb/d. This is net of re-injection and deliveries into storage of between 150 kb/d and 200 kb/d. In gross terms, northern production, centred on the Kirkuk field, was reported to be averaging 300 kb/d. Disrupted operations at the Daura and Baiji refineries and the continued outage on the Ceyhan export pipeline curtailed wellhead production in the area. In the south, production was assessed to have averaged just under 1.7 mb/d in January, with reports of corrosion problems and falling reservoir pressure at the Rumaila complex due to longstanding problems with water injection.

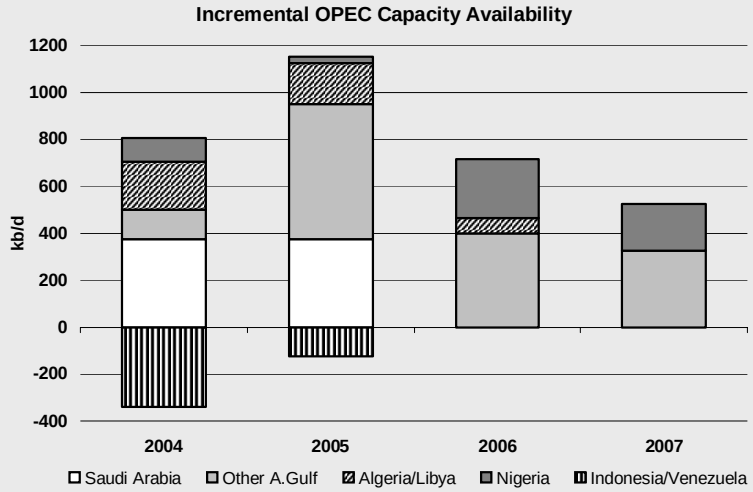
Total crude exports averaged 1.39 mb/d in January compared to 1.55 mb/d in December. Pipeline flows from northern oilfields to Ceyhan in Turkey were stopped in the third week of December and recent indications are that no resumption is likely until around mid-February. With minimal crude in storage at Ceyhan, no tanker liftings were made from Ceyhan in January and pipeline deliveries to Turkish refiner Tupras will likely have first call on any crude sent to Ceyhan in the near future. Renewed tanker liftings from Ceyhan could therefore be deferred. Southern exports fell by nearly 100 kb/d to 1.38 mb/d, although this was due more to weather-related loading delays at Basrah than to sabotage on facilities.

Industry operations in Iraq remain highly variable, with production, refining and export activity constantly prone to disruption from attacks by insurgents, notably on power generation infrastructure. However, it appears that operating rates in January exceeded the more pessimistic prognoses put forward by those anticipating a sharp rise in insurgent activity in the run-up to the country's elections on 31 January. Whether January represents a bottoming-out in production and exports remains to be seen. However, there were some signs of progress towards renewed oilfield appraisal and development activity in the course of January:

- Completion of a technical reservoir study on the southern **Subha-Luhais** field is expected in the first quarter;
- BP was awarded the contract in January for a reservoir evaluation study on the **South Rumaila** field, which will be conducted outside the country and take roughly one year to complete;
- Exploration Consultants Ltd, in conjunction with Royal Dutch/Shell, will evaluate the northern **Kirkuk** field in a similar manner and;
- An Iraqi-Turkish-British consortium has been awarded a development contract for the **Khurmala Dome** project, part of the Kirkuk field.

OPEC Capacity on a Rising Trend

Oil markets have been on edge for the past two years, not least because of a slim margin of spare capacity amongst OPEC producers. However, investments in new capacity which has recently come onstream and those planned for the next couple of years suggest that this tightness could ease. Average capacity at mid-year 2004 for the OPEC-11 stood at 30.5 mb/d, barely 500 kb/d above mid-2003. Mid-year 2005 capacity should average 31.5 mb/d, a rise of 1.0 mb/d, brought about by a number of new field development projects entering service in second half 2004 and in 2005. A further 1.2 mb/d of new capacity on a net basis will be brought onstream by mid-2007.



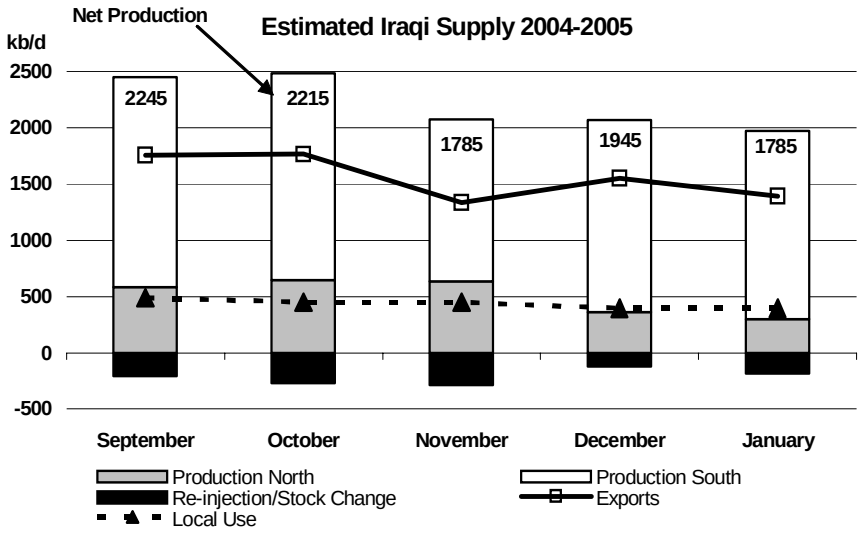
Saudi Arabia's recent boost in capacity from the Qatif and Abu Safah fields, plus incremental drilling and recovery elsewhere, is well documented. These led to the raising of this Report's assessment of sustainable capacity to 10.0-10.5 mb/d. Upcoming increments to capacity will focus on Arab Light and Arab Medium. First up is likely to be the Haradh expansion project, adding 300 kb/d to capacity from 2006. This will be followed by 500 kb/d from the Abu Hadriyah, al-Fadhili and Khursaniyah (AFK) fields from 2007. Longer-term expansions at the Shaybah (Arab Extra Light) and Khurais fields could add an extra 1.5 mb/d before 2010. But natural decline may cap the increase in total capacity at 1.0-1.5 mb/d unless major investment is forthcoming to help sustain production from mature reservoirs.

A steady stream of capacity expansions, if realised on time, could boost sustainable capacity elsewhere in the Gulf by 300-500 kb/d each year through 2007. In **Kuwait,** the recently re-instated gathering centre 15 at the Raudhatain field will boost capacity from 100 kb/d to 300 kb/d, while work has begun on refurbishing facilities at the western Minagish field and expanding capacity at Burgan in the south. Kuwaiti capacity could rise to 2.8-3.0 mb/d by 2007. Capacity in the **UAE** could reach 2.75 mb/d by end-2007 based on developments in Abu Dhabi, including expansion at Adco's Bab, Rumaitha, Shanayel and al-Dabbiya fields. **Iran** will also add capacity with the delayed Soroush/Nowruz expansion and at the Darkhovin field. Total capacity should reach at least 4.3 mb/d by 2007. **Iraqi** capacity is assumed flat at 2.5 mb/d through 2007. The completion of recently-awarded reservoir evaluation projects in a year, and the evolving security situation, will test the feasibility of this assumption.

Several projects are building to maximum capacity in **Algeria** & **Libya**. These include the ROD and MLN fields in Algeria, and rising crude supplies from the Elephant and El Shaharah fields and West Libya Gas Project in Libya. End-2007 capacity is estimated at 1.45 mb/d and 1.65 mb/d respectively. A target of 4.0 mb/d capacity for end-2007 for **Nigeria** looks ambitious, with signs that damage to facilities from civil unrest over the past two years may be more extensive than first thought. However, start-up in 2005 of the deepwater Bonga field, plus Okwori in 2005 and Erha in 2006, should push capacity close to 3.0 mb/d by end-2007. Developments such as Tomoporo and Corocoro in **Venezuela**, and Belanak and Cepu in **Indonesia** will counteract mature field decline, at best, leaving conventional crude capacity unchanged. The long term outlook for both is less optimistic unless new investment can be encouraged.

Clearly, uncertainty surrounds the precise timing of new field additions as well as prevailing decline rates amongst the OPEC producers (which these estimates attempt to account for). Spare capacity is also a function of another uncertain factor, actual OPEC output, which this Report does not attempt to forecast. But world liquids supply excluding OPEC crude could rise by an average 1.3 mb/d per annum over 2005-2007. In such a supply scenario, assuming world demand growth at or below 2% per annum, OPEC spare capacity should regain levels of 2-3 mb/d over the medium term.

However, major upstream remedial work, let alone capacity expansion, will likely take some time to come to fruition. Any near-term injection of finance to the oil sector is likely to be concentrated in the first instance in the refining sector to help alleviate chronic products shortages. Furthermore, the extent of foreign company involvement in the upstream has yet to be decided, with an ongoing debate within Iraq on likely future oil industry structure and participation. Indeed, it could be late-2005 or 2006 before these issues are decided.



Continued civil unrest remains a check on **Nigerian** crude supply, although average January production increased by 50 kb/d to 2.32 mb/d. Last month saw Shell progressively re-instate 100 kb/d of output in Rivers state which had been shut-in during December. However, separately the company halted 35 kb/d of production on 25 January in Abia state after a blockade of flow stations following disputes over political representation. In the latest instance of unrest, demonstrators attempted unsuccessfully to shut down the 400 kb/d Escravos oil export terminal in early February. There were also further threats of localised strike action in January involving a drilling company based near Port Harcourt.

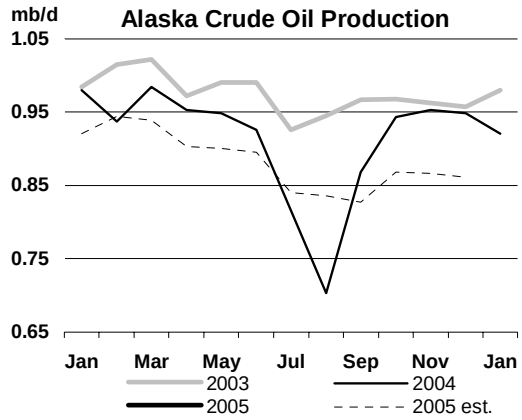
Production from **Indonesia** resumed a downward trend, slipping in January by 20 kb/d to 955 kb/d. The Mines and Energy Minister said in early February that a review of the country's membership of OPEC was being undertaken. However, he suggested that the country remained a net exporter of crude despite the recent decline in production. From 1.36 mb/d in 1997, crude production fell to an estimated 970 kb/d in 2004, although production appeared to level out during the course of last year. Rising supply from the West Seno, Belanak and Oyong fields in 2005 may at best offset ongoing decline at older fields.

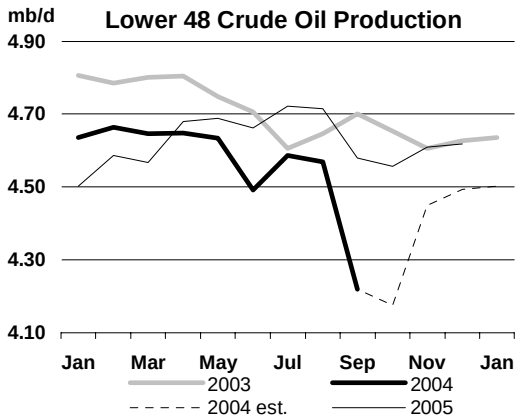
OECD

North America

US – January Alaska actual, others estimated: Weekly data for January suggest oil production running around 100 kb/d below levels expected in last month's Report. Crude output has struggled to regain 5.4 mb/d in the past three months as against the 5.6 mb/d seen in spring 2004. Slower than expected recovery from the Gulf of Mexico (GOM) and further disruptions to Alaskan supply continued to be the key constraints on total supply.

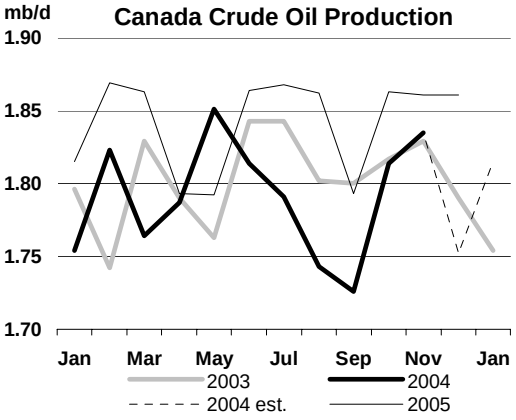
In **Alaska** crude production slipped to 920 kb/d in January from 950 kb/d in December. Alaskan North Slope production was curbed due to high winds during 8-11 January. Compressor problems hit output from the 75 kb/d Northstar field, as did a 13 January power failure. A power outage also hampered supply from the Alpine field on 26 January. State proposals to increase tax levels on certain satellite fields to Prudhoe Bay were announced with producer companies suggesting this might lead to a review of future development projects.

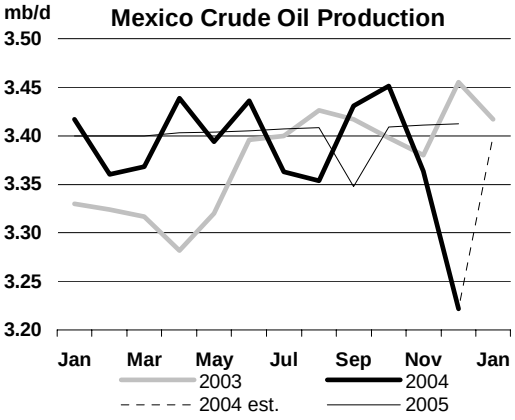




Production from the **Gulf of Mexico** continued to suffer, with an average of 125 kb/d remaining shut-in during January after Hurricane Ivan. With similar volumes reportedly still offline in early-February the assumed recovery pattern through June 2005 has again been slowed. This Report now assumes 100 kb/d remaining offline in February and March and 75 kb/d for April-June, before normal operations resume in July. This is a slightly more conservative forecast than the latest report from the US Minerals Management Service, which envisages normal oil and gas production resuming by June. However, GOM production should rise to 1.7 mb/d by third quarter from a low of 1.3 mb/d in fourth quarter 2004. Coinciding with post-hurricane recovery are several new field start-ups, including BP's Mad Dog in January. GOM supply is seen rising by 220 kb/d in 2005, offsetting declines in other areas and leading to the first annual increase in US oil production since 1997.

Canada – November actual: Data through November (December for offshore Newfoundland) point to a 20 kb/d upward revision to 4Q 2004 Canadian oil supply. Both Alberta bitumen output and production from Saskatchewan are running slightly higher than estimated in last month's Report. However, sharp downward adjustments to expected syncrude production of some 100 kb/d for the first half of 2005 cut the forecast of Canadian oil supply by 35 kb/d overall. While conventional crude production is now expected to increase by 55 kb/d in 2005 and average 1.84 mb/d, declines are likely for both syncrude and NGL supply, amounting to a combined 75 kb/d.





Last month's Report highlighted the sequence of unscheduled outages affecting Canada's three main synthetic crude plants in January. These are now thought to have cut syncrude production in January to as low as 375 kb/d compared to full production levels nearer 650 kb/d. There are now signs that disruption will be more extensive and protracted than earlier estimated:

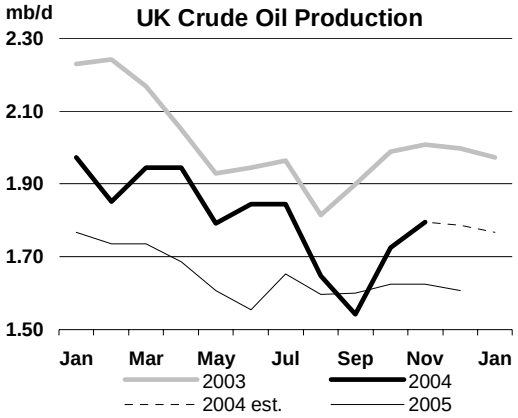
- Fire damage at the Suncor plant will restrict operating rates to around 110 kb/d until the third quarter, when normal 230 kb/d production should resume;
- Syncrude has cut first quarter output expectations by 5 mb, equivalent to a reduction of 85 kb/d in January and February, from 250 kb/d capacity and;
- Shell reported its 160 kb/d Scotford plant was back at full capacity in early February after four months of reduced operations.

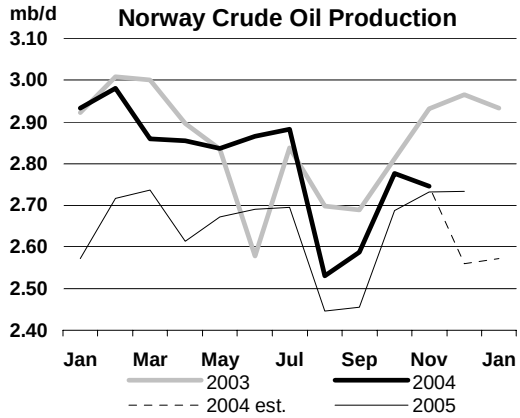
Owing to these unplanned outages, syncrude production, the source of 90 kb/d of output growth in 2004, is now seen dropping by 65 kb/d in 2005 to average 540 kb/d.

Mexico – December actual: Crude production fell by 140 kb/d in December to average 3.22 mb/d, the lowest level since late-2002. This unscheduled drop is assumed to have been due to a temporary outage affecting the Cantarell field, source of the bulk of Mexico's heavy Maya crude which took the bulk of December's fall. However, exports remained unaffected by the fall in production, rising 25 kb/d to 1.98 mb/d, as sales out of storage rose to compensate. Some 20 kb/d is shaved off average 2004 and 2005 production, with crude now expected to average 3.4 mb/d this year, up from 3.38 mb/d in 2004. Pemex in January announced that $3 billion of investment is needed in the next six years to upgrade the country's pipeline network. It is unclear whether Pemex will be able to obtain extra government funds for this work or whether it will come at the expense of upstream investment.

North Sea

UK – November actual: November UK oil production was up by 100 kb/d from October, with offshore crude production accounting for 70 kb/d of the increase. A combination of loading schedules for the main production systems in January and February, plus the late-year addition of the offshore loaded Pict field boosts expected UK 2005 production by 15 kb/d compared to last month's Report. However, the impact is negligible on the overall trend in UK production. Oil production is expected to decline by 155 kb/d this year to 1.9 mb/d. Only the modest increments expected from the Farragon, Clair, Glenelg and Pict fields moderate the 200 kb/d-plus declines seen in the past two years.

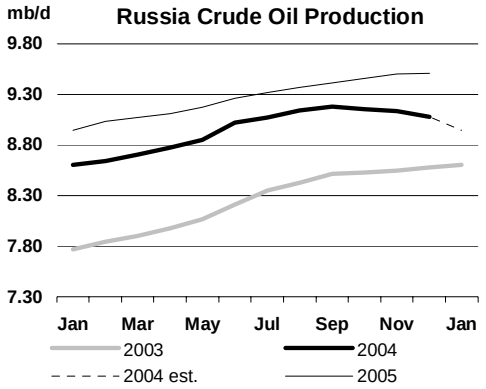


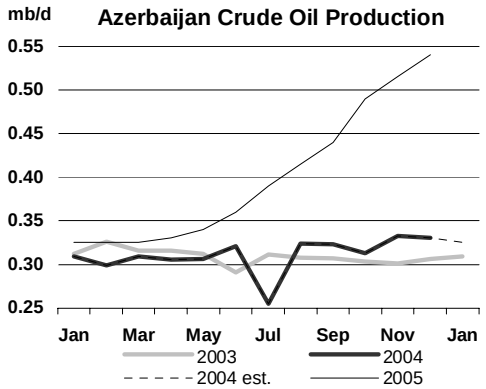


Norway – November actual, December provisional: Production of crude from Norway fell to 2.75 mb/d in November and 2.55 mb/d in December. The forecast for total oil production in 2005 is trimmed by a further 25 kb/d, after a 15 kb/d downward reduction for 2004. Disruptions to production from the Snorre and Vigdis fields after an earlier gas leak continued through January as adverse weather hampered restoration, although production is seen recovering in February. Bad weather also delayed the restart of the Draugen field, although normal operations had resumed in the third week of January after a one week outage. These unscheduled stoppages kept January oil production largely flat from December levels. The Norwegian Petroleum Directorate also cut its forecast for 2005 crude oil production, now expecting a modest 40 kb/d drop to 2.76 mb/d having earlier forecast rising supply. This Report takes a slightly more conservative view, crude output slipping by 140 kb/d to 2.65 mb/d for 2005, with less in the way of scheduled new field start-ups to compensate for decline at older fields than was the case in 2004. However, increased condensate and NGL supply partly counteracts lower crude output, total oil production falling by 55 kb/d to 3.1 mb/d in 2005, after a decline of 95 kb/d in 2004.

Former Soviet Union (FSU)

Azerbaijan – December provisional: Production from Azerbaijan in December came in 10 kb/d higher than expected, total output averaging 335 kb/d. Overall, 2004 production was unchanged from 2003, at around 315 kb/d, despite mid-year maintenance at the 150 kb/d offshore Chirag field which cut output by half in July. As noted before, Azerbaijan's production should increase by around 90 kb/d in 2005 with the imminent start-up of the Baku-Tbilisi-Ceyhan (BTC) pipeline. This will carry rising volumes of output from the Azeri-Chirag-Guneshli (ACG) complex of fields to the Mediterranean. Incremental production from these fields should begin to build up from April, although first liftings of crude from Ceyhan in Turkey are not expected until the second half of 2005.





Russia – December final, January provisional: Total Russian oil production fell 55 kb/d in December to 9.37 mb/d and by a provisional 110 kb/d in January to 9.26 mb/d. Production has now declined for four straight months from September's peak of 9.46 mb/d. Declines from Yukos, and a seasonal dip from the Sakhalin project underpin the fall. However, weaker production levels have also been recorded in recent months from Sibneft, Bashneft and Tyumen Oil Company (TNK). The outlook for production this year is discussed in more detail below, but after rising by 600-800 kb/d each year since 2001, output growth may now slow to closer to 350 kb/d in 2005.

FSU Net Exports of Crude & Petroleum Products
(million barrels per day)

	2003	2004	1Q04	2Q04	3Q04	4Q04	Oct 04	Nov 04	Revised Dec 04	Latest month vs. Nov 04	Latest month vs. Dec 03
Black Sea Exports	2.80	2.84	2.81	2.75	2.87	2.91	2.99	2.67	3.07	0.40	0.30
Baltic/Arctic Exports	2.41	3.05	3.00	3.11	3.11	2.98	2.99	2.95	3.00	0.05	0.37
Total Seaborne	**5.21**	**5.89**	**5.80**	**5.87**	**5.98**	**5.90**	**5.98**	**5.62**	**6.07**	**0.45**	**0.67**
Druzhba Pipeline	1.06	1.07	1.08	1.04	1.08	1.09	1.08	1.11	1.09	-0.02	0.01
Other Routes	0.48	0.52	0.47	0.53	0.55	0.54	0.55	0.64	0.42	-0.23	-0.09
Total Exports	**6.75**	**7.48**	**7.36**	**7.43**	**7.62**	**7.52**	**7.61**	**7.37**	**7.58**	**0.21**	**0.59**
Imports	0.02	0.01	0.01	0.01	0.02	0.01	0.01	0.00	0.01	0.00	0.00
Total Net Exports	**6.73**	**7.47**	**7.35**	**7.42**	**7.61**	**7.52**	**7.60**	**7.37**	**7.58**	**0.21**	**0.59**
Crude	4.70	5.21	5.08	5.18	5.26	5.31	5.49	5.22	5.22	0.00	0.27
of which: Russian Crude	*3.48*	*3.74*	*3.61*	*3.82*	*3.71*	*3.83*	*3.89*	*3.85*	*3.74*	*-0.11*	*0.24*
Products	2.05	2.28	2.28	2.25	2.36	2.21	2.12	2.15	2.36	0.21	0.32

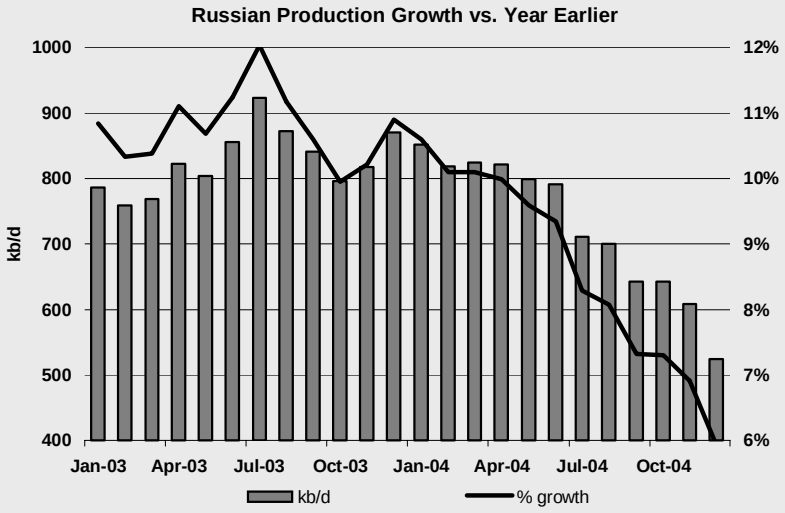
Sources: Petro-Logistics, IEA estimates

Revised data for December net FSU exports show a much shallower rebound from low November levels than indicated in last month's Report. While seaborne shipments did increase by 450 kb/d, there was a 250 kb/d fall in exports using other routes. Druzhba pipeline shipments into Europe eased by 20 kb/d while, more significantly, volumes moving by rail, barge and via non-Transneft routes declined by 230 kb/d. Early-January seaborne exports of crude and products, notably from Black Sea ports, showed a marked reduction, and suggest sharply lower January exports overall. However, this data is subject to consolidation and with January temperatures in the region having remained milder than normal, provisional indications of lower exports and higher internal demand may ultimately be revised. Loading schedules for crude exports in February contain no mention of Yukos volumes. The company's two remaining production subsidiaries will divert supplies to the company's refineries. Former Yuganskneftegaz volumes appear to have been wholly transferred to its new owner, Rosneft.

Russian Supply Revised Down for 2005

Russia has been the motor for non-OPEC supply growth in recent years, accounting for 65% of growth in 2001, 50% in 2002, 95% in 2003 and 75% last year. Recent months however have seen a sharp tailing off in growth which, if continued, points to a less pre-eminent role for Russian supply growth for 2005. Year-on-year growth peaked in summer 2003 at 12%, or nearly 1 mb/d. It remained at around 10% through spring 2004 but has been on a sharply declining trend since then. By December 2004 the pace of growth had slowed to some 6% or 525 kb/d.

Simple extrapolation of the recent slow-down points to growth in supply during 2005 averaging less than 350 kb/d versus the expectation of 430 kb/d contained in last month's Report. Of course this on its own is not a sufficient basis for adjusting the forecast, but the trend in recent months has at least highlighted the potential for weaker performance in 2005. This is now backed up by tentative 2005 production plans for the main producers. Considering recent indications from Lukoil, TNK-BP, Sibneft, Slavneft, Surgutneftegaz, Tatneft and Bashneft, the trend towards slower growth in 2005 seems clear. Production from Yukos' remaining assets has been held flat at January levels as a working assumption, though clearly there is some downside risk here too. Output from Rosneft, Gazprom and others has been assumed to grow at or below the rates seen in 2004. In all, Russian production is now seen averaging 9.58 mb/d for the year, an increase of 350 kb/d, or 3.8% (compared to 8.7% in 2004).



Some analysts point to export capacity constraints as the key element underpinning slower production growth in 2005. However, with higher BPS capacity availability, increasing rail shipments to China, Russian access to the CPC pipeline and greater use of smaller proprietary routes, there is the potential for crude exports to increase by as much as 400-500 kb/d on average in 2005. Nor should resource depletion in the mature producing areas of western Siberia and the Volga-Urals, undoubtedly of concern mid-term, be a driving factor just yet in stemming supply.

Rather, 2005 could mark a year of consolidation for the Russian upstream, borne of a still-uncertain regulatory and fiscal environment. Increased 2005 production taxes, a still-to-be decided subsoil law and the potential for greater enforcement of compliance with existing production licenses are all major concerns. Until these measures are clarified, potentially in the second half of 2005, producers may indeed curb investment, with a corresponding slow-down in production. In a broader context, there are concerns that the state's tightening grip on production and exports, after the laissez faire privatisation of the 1990s, may still have further to run. A draft government economic programme for 2005-2008 appears to recognise the likelihood of slower production growth (citing a 2.1%-5.0% range) and that exploration in new areas such as Timan Pechora and Eastern Siberia needs to be encouraged. Stronger production growth could return when the shape of Russia's upstream investment/operating environment becomes clearer. But for 2005, Russia may see growth rates lagging those of producers like Azerbaijan, Kazakhstan, Brazil and Angola.

Revisions to other non-OPEC estimates: Chinese production is revised up 10 kb/d for 2005, with higher Tarim Basin output now expected. Sinopec began output in January from a 30 kb/d expansion phase at the Tahe oilfield. Output from **Kazakhstan** is also revised up by around 10 kb/d to 1.27 mb/d, with increased supplies of Karachaganak condensate countering a flatter profile in 2005 from the Tengiz field. Production for **Oman** is revised down by 15 kb/d for 2005, to 725 kb/d, after indications that build up from PDO's Harweel cluster of fields will be slower than anticipated in earlier issues of this Report. A plateau from enhanced oil recovery at the fields is not now expected until 2008. Data from **Yemen's** Petroleum Exploration and Production Authority suggest lower output from the Marib and Masila fields. This cuts 2004's production estimate by 10 kb/d to 410 kb/d. The country's budget for 2005 also forecasts a 25 kb/d decline in national output, which is now reflected in this Report's projection.

Revisions to Non-OPEC Oil Supply

(million barrels per day)

	Last Month's OMR			This Month's OMR			This Month vs. Last Month		
	2004	2005	05 vs. 04	2004	2005	05 vs. 04	2004	2005	05 vs. 04
North America	14.60	14.78	0.18	14.59	14.70	0.12	-0.01	-0.07	-0.06
Europe	6.07	5.87	-0.21	6.06	5.86	-0.20	-0.01	-0.01	0.01
Pacific	0.57	0.53	-0.04	0.57	0.54	-0.03	0.00	0.01	0.01
Total OECD	**21.24**	**21.18**	**-0.07**	**21.22**	**21.10**	**-0.12**	**-0.03**	**-0.07**	**-0.05**
Former USSR	11.18	11.78	0.60	11.18	11.71	0.53	0.00	-0.07	-0.07
Europe	0.17	0.16	-0.01	0.17	0.16	-0.01	0.00	0.00	0.00
China	3.49	3.53	0.03	3.49	3.54	0.04	0.00	0.01	0.01
Other Asia	2.74	2.71	-0.04	2.74	2.71	-0.03	0.00	0.00	0.00
Latin America	4.03	4.30	0.27	4.04	4.30	0.27	0.01	0.01	0.00
Middle East	1.89	1.84	-0.05	1.88	1.79	-0.09	-0.01	-0.05	-0.04
Africa	3.43	3.72	0.29	3.43	3.72	0.29	0.00	0.00	0.00
Total Non-OECD	**26.94**	**28.03**	**1.10**	**26.94**	**27.93**	**1.00**	**0.00**	**-0.10**	**-0.10**
Processing Gains	1.83	1.86	0.03	1.83	1.86	0.03	0.00	0.00	0.00
Total Non-OPEC	**50.01**	**51.07**	**1.05**	**49.99**	**50.90**	**0.91**	**-0.03**	**-0.17**	**-0.15**

OMR = Oil Market Report

OECD STOCKS

Summary

- **OECD total industry oil stocks** in December fell 2.7 mb/d or by 85 mb. End-December oil stocks closed at 2577 mb or 52 mb above year-ago levels. Both crude and product inventories declined with draws in crude oil centred in Europe and the Pacific. Product stocks drew with seasonally declining middle distillates, but a large component of the draw was accounted for by the less reliable 'other products' category in North America. With the sharp December downturn, days of forward demand cover by oil stocks fell back to 51 days. OECD oil stocks in the fourth quarter of 2004 however fell by 190 kb/d, below the five-year average draw of 950 kb/d.

Preliminary Industry Stock Change in December 2004 and Fourth Quarter 2004

(million barrels per day)

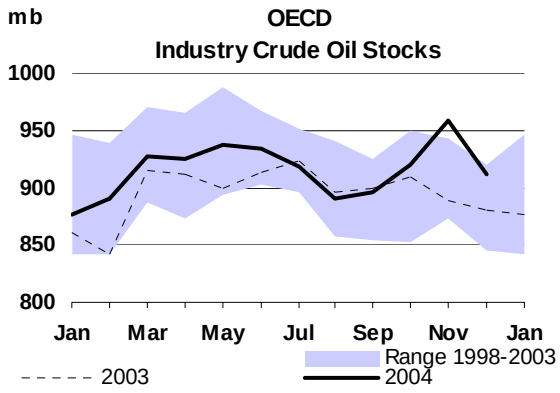
	December (preliminary)				*Fourth Quarter 2004*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**-0.07**	**-0.85**	**-0.59**	**-1.52**	**0.19**	**-0.07**	**0.06**	**0.18**
Gasoline	0.24	-0.08	-0.06	0.10	0.14	-0.02	-0.01	0.11
Distillates	0.09	-0.18	-0.32	-0.41	0.09	-0.20	-0.02	-0.12
Residual Fuel Oil	-0.05	-0.05	-0.04	-0.14	0.09	-0.08	0.01	0.02
Other Products	-0.47	-0.02	-0.08	-0.58	-0.25	0.01	0.01	-0.23
Total Products	**-0.20**	**-0.33**	**-0.50**	**-1.02**	**0.07**	**-0.28**	**-0.01**	**-0.22**
Other Oils[1]	-0.09	-0.03	-0.08	-0.20	-0.12	0.01	-0.03	-0.14
Total Oil	**-0.36**	**-1.20**	**-1.17**	**-2.74**	**0.14**	**-0.34**	**0.02**	**-0.19**

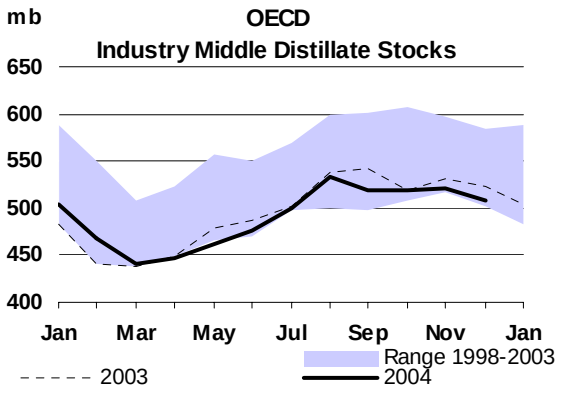
1 Other oils includes NGLs, feedstocks and other hydrocarbons

- **OECD industry crude stocks** fell by 47 mb in December with Europe leading the draw followed by the Pacific. In contrast, North American inventories posted a modest decline. European stocks fell mainly in Northwest Europe, albeit from an upwardly revised November base. In the Pacific, stocks declined as refinery runs reached their seasonal peak and imports fell after earlier heavy arrivals in late September and November. US-50 crude stocks dipped in December as runs continued to firm and imports fell, but closed higher in January as these trends reversed.

- **OECD industry distillate stocks** fell by 13 mb in December, putting the fourth quarter draw at 120 kb/d, below the five-year average draw of 200 kb/d. Mild temperatures delayed into January the seasonal uptick in winter fuel demand. The main draw came in Japan and Korea on declining kerosene stocks. In the US-50, distillate inventories built in December and early January on higher diesel stocks. Independent storage of gasoil in Amsterdam-Rotterdam-Antwerp (ARA) rose in December and remained relatively high through January on heavy arrivals of Baltic supplies.

- **OECD industry gasoline stocks** rose by 3 mb in December. The increase came with a build in US inventories outpacing modest declines in Europe and the Pacific. US gasoline stocks rose in December as demand growth eased under 1% for the fourth quarter from rates above 2% in the first half of the year. At the same time, average domestic production of finished product hit yearly highs and imports were firm in December. US gasoline stocks rose with falling demand in January, typically a seasonally weaker month for deliveries.





OECD Industry Stock Changes in December 2004

OECD industry oil stocks fell 2.7 mb/d in December or by 85 mb to close at 2577 mb. Both products and crude fell heavily, wiping out gains made in November. Declines in inventory were centred in Europe and the Pacific, leaving OECD industry oil stocks 52 mb above their year-ago position. Both regions saw oil stocks fall about 1.2 mb/d. Changes in North America were, in comparison, less pronounced, with crude stocks only marginally lower and product inventories mainly falling due to a decline in the less reliable 'other products' category (which includes among others naphtha and LPG). Despite the downturn in December, the preliminary fourth quarter stock change posted a draw of only 190 kb/d , below the five-year average of 950 kb/d. However, with winter demand peaking in the first quarter, the December stock draw resulted in a fall in days of forward demand cover to 51 days.

OECD industry crude stocks fell by 47 mb in December but ended higher over the fourth quarter. Most of the December draw came in Europe and the Pacific. The European decline of some 26 mb was centred in Northwest Europe with the UK and Netherlands leading the draw, followed by France. While higher runs and falling freight rates out of the North Sea put downward pressure on supplies, sour crude availability was high. Urals supplies were ample both from the Baltics and into the Mediterranean with Urals in Northwest Europe materially weakening against dated Brent. The Brent forward cash market in turn did not appear to reflect the magnitude of the preliminary December draw. Near-month spreads were in contango in November and balanced in December. In Japan and Korea, crude stocks declined in near equal amounts as refinery utilisation rates peaked while crude imports fell back. Crude stocks were marginally lower in the US in December but rebounded into the upper half of their normal range in January as crude runs weakened with the beginning of scheduled refinery maintenance. Stocks at Cushing, the delivery point for NYMEX's WTI futures contract, reached 17.5 mb at end-January, the highest level since data began to be published. This supported a contango in near-month futures prices, albeit at uncommonly high outright levels.

OECD industry distillate stocks fell in December, the Pacific and Europe leading the draw. Stocks in Japan and Korea came in lower as draws in kerosene outpaced a rise in gasoil. The European draw was at odds with rising regional output. The decline came in Germany where demand growth, delays in refinery restarts and reduced barge deliveries on the Rhine reduced supplies. Jet fuel in Europe was well supplied, trading significantly below diesel. In January, weaker distillate cash premiums against IPE gasoil futures suggested more ample distillate supply and a smooth transition to a lower sulphur EU mandate for 2005. Independent storage of gasoil in ARA rose in December, and held about even in January, supported by inflows of Russian material from the Baltics. Gasoline stocks in the Atlantic Basin edged higher on gains in US inventories. In Europe stocks ended marginally lower, at odds with rising levels of independent storage in the ARA area from December to January. US gasoline stocks built in January and heavy arrivals of European material should support inventory levels in February. US gasoline stocks were better positioned at the start of scheduled maintenance than last year, posting a surplus at end-January of 10 mb against 2003 levels. Domestic output is unlikely to fall strongly in light of strong crack spreads and a widening contango on NYMEX futures. Product yield is also likely to benefit from lower maintenance on catalytic cracker units during February.

Revisions to Preliminary OECD Stocks and Inventory Position at End-December

Revisions to OECD product and crude stocks for November broadly offset each other. Crude stocks were revised up by 12.5 mb, mainly in Europe (the UK, France and Italy). Downward revisions in products were also centred in Europe and mainly in distillate fuels (Germany). Main product categories in North America and the Pacific were little changed in comparison.

Revisions Versus 18 January 2005 Oil Market Report

(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Oct 04	Nov 04	Oct 04	Nov 04	Oct 04	Nov 04	Oct 04	Nov 04
Crude Oil	**-0.6**	**-3.3**	**-3.7**	**13.8**	**0.0**	**2.0**	**-4.3**	**12.5**
Gasoline	-1.2	1.0	-0.1	-2.6	0.0	0.2	-1.3	-1.4
Distillates	-4.8	0.3	3.5	-9.2	0.0	-1.4	-1.3	-10.2
Residual Fuel Oil	-0.2	0.2	-0.1	-3.2	0.0	0.0	-0.3	-3.0
Other Products	-1.8	2.8	0.2	1.4	0.0	-0.4	-1.5	3.8
Total Products	**-8.0**	**4.3**	**3.6**	**-13.6**	**0.0**	**-1.6**	**-4.4**	**-10.8**
Other Oils[1]	0.0	-3.9	-0.5	1.7	0.0	-0.7	-0.5	-2.9
Total Oil	**-8.6**	**-2.9**	**-0.6**	**2.0**	**0.0**	**-0.3**	**-9.2**	**-1.2**

1 other oils includes NGLs, feedstocks and other hydrocarbons

Year-on-Year Industry Stock Comparisons for December 2004

	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**29.6**	**7.7**	**-6.0**	**31.3**	**Total Oil**	**2.2**	**-1.0**	**-0.3**	**0.7**
Total Products	21.7	-19.8	1.5	3.4	*Versus 2002*	0.9	-0.2	4.1	1.2
Other Oils[1]	15.9	0.8	0.6	17.3	*Versus 2001*	-4.1	-2.6	-2.2	-3.3
Total Oil	**67.2**	**-11.3**	**-3.9**	**52.0**	**Total Products**	**0.6**	**-1.4**	**0.2**	**-0.1**
Versus 2002	59.2	16.6	21.3	97.1	*Versus 2002*	-0.2	-2.0	1.6	-0.3
Versus 2001	-28.9	-14.6	-11.9	-55.5	*Versus 2001*	-2.5	-2.8	-0.7	-2.2

1 other oils includes NGLs, feedstocks and other hydrocarbons

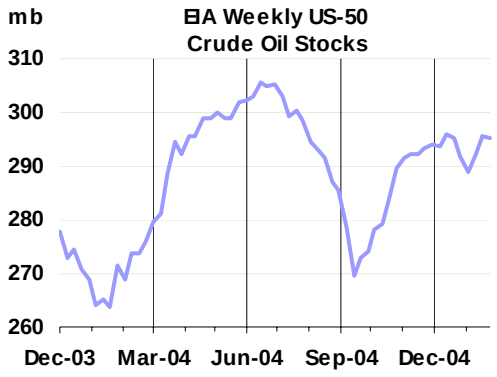
Crude inventories ended above a year-ago in the Atlantic Basin with most of this surplus located in North America. The Pacific bucked this trend as high refinery demand drove inventories lower. Products were well supplied in the OECD with the exception of Europe. The 85 mb draw in OECD industry oil stocks in December more than offset a 50 mb build in November, reducing demand cover before peak winter demand. Days of forward demand cover by OECD oil stocks fell to 51 days. Cover in North America came to 49 days, 58 days in Europe and 46 days in the Pacific.

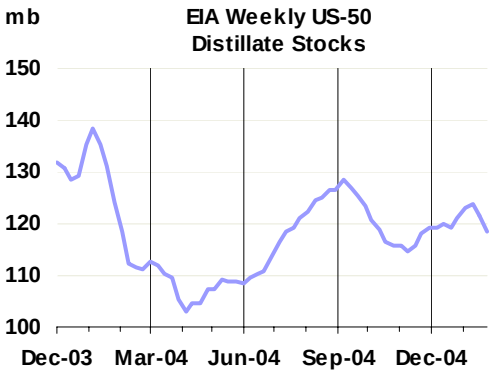
OECD Regional Stock Developments

North America

US-50 crude stocks dipped 2 mb in December as crude runs continued to edge higher to maximise distillate ouput while imports fell back. Inventories fell mainly on the Gulf Coast. However in January, imports bounced back as tankers delayed for end-year inventory management purposes arrived and refinery utilisation rates fell with the beginning of scheduled maintenance. Crude stocks built about 3.5 mb in January, closing at 295 mb or over 25 mb above year-ago levels.

Crude runs were reduced with the start of refinery maintenance combined possibly with discretionary cuts on the Gulf Coast due to emerging local product surpluses. The Gulf Coast area saw pipeline constraints limiting northbound delivery of product with the Colonial pipeline allocating several shipment cycles. With product accumulating in December and early January and weaker cash prices against futures, refiners may have been encouraged to deepen planned run cuts. Crude inventories are expected to fall in February on lower imports, these driven lower by reduced crude requirements and an outstanding 125 kb/d post Hurricane Ivan shortfall in Gulf of Mexico production. The extent of the draw will depend on how much maintenance work refiners can postpone. Strong futures crack spreads on gasoline in the first half February are supportive of maintaining runs where possible.

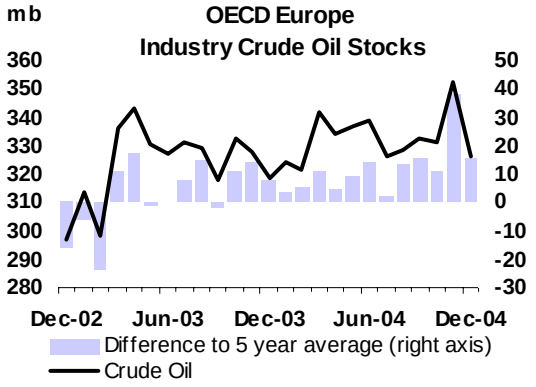


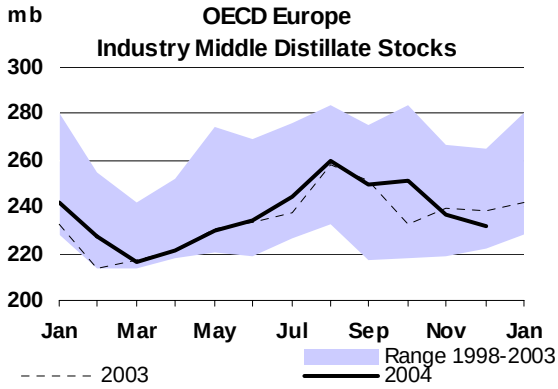


Distillate stocks rose in December and at the beginning of January on gains in diesel inventories. The second half of January saw colder temperatures lifting heating demand and reducing heating oil stocks. Heating oil stocks held relatively stable during December before declining seasonally in January by some 5 mb to 45 mb, or 10 mb below year-ago levels. The draw was mitigated by a recovery in distillate yield at end-month. While winter has not yet ended, increases in distillate fuel oil production this year have played a role in supporting stock levels. These have come close to matching growth in deliveries for the product, mitigating earlier expectations for the need of higher imports.

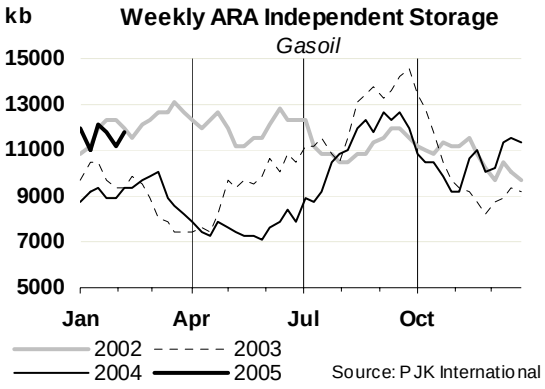
Europe

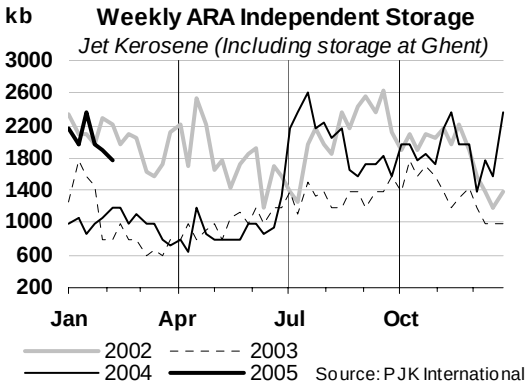
European industry crude stocks fell 26 mb in December from a 14 mb upwardly revised November base. Crude stocks closed at an estimated 326 mb, or about 8 mb above their year-earlier position. Most of the draw came in Northwest Europe with the Netherlands falling back 7 mb, France by 5 mb and Germany by nearly 4 mb. North Sea countries saw divergent trends with Norwegian inventories that were little changed and stocks in the UK falling a striking 8 mb. While a post-maintenance rise in refinery runs puts downward pressure on inventories, forward Brent prices did not appear to reflect the heavy preliminary downturn in crude stocks. Arbitrage of North Sea cargoes may have picked up by end-December with falling VLCC freight rates but Urals availability remained high. Despite the draw, crude inventories closed 16 mb above their five-year average for the month.





European industry distillate stocks fell 5 mb in December to 232 mb while November stock levels were revised downwards. Inland heating oil deliveries saw an uptick as gasoil prices dipped early in the month. The draw was centred in Germany. The decline there was prompted by strong demand growth coupled with delays in refinery restarts and reduced barge deliveries due to low Rhine water levels. French stocks were tentatively unchanged. However, given an apparently smooth transition to lower sulphur product requirements, relatively mild weather and rising regional output, the European distillate position may yet prove to be more comfortable. Jet fuel storage was supported by prompt prices trading below forward swap prices and the arrival of Middle Eastern material. Jet stocks likely rose in December only to fall back slightly in January as refiners focused yields on diesel instead. Physical premiums against IPE gasoil futures in January for low sulphur diesel and 0.2% gasoil suggested comfortable supply. Gasoil in independent storage in the ARA area rose on the arrival of Russian material in December and held about level in January. Heating oil demand remained weak and arbitrage for larger vessels from the Baltics to US was limited for most of the month.

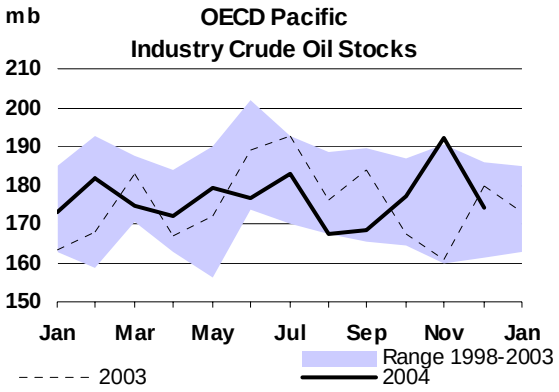


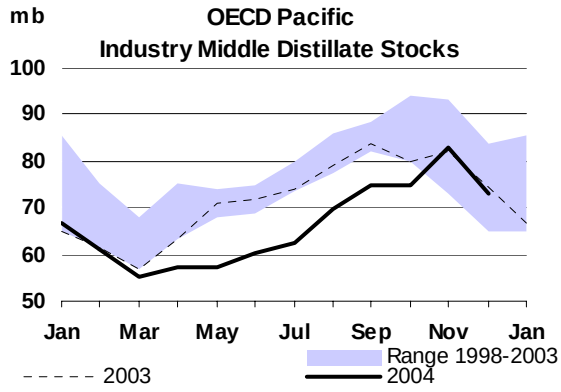


Industry gasoline stocks in Europe fell just over 2 mb in December, mainly in France, Germany and Norway. Yet, rising output, greater naphtha reforming and demand contraction would have suggested otherwise. Exports of surplus in December were limited by closed spot arbitrage to the US due to high freight rates although some product from ARA, the UK and Scandinavian countries was shipped in December to free storage space. However, the bulk of cargoes headed to the US left in January with an estimated 2.5 million tonnes moving west. Independent storage of gasoline in the ARA area rose in December and January. Despite January transatlantic shipments and deliveries to Nigeria, supplies in independent storage remained high, supported by a wide contango in gasoline swap prices.

Pacific

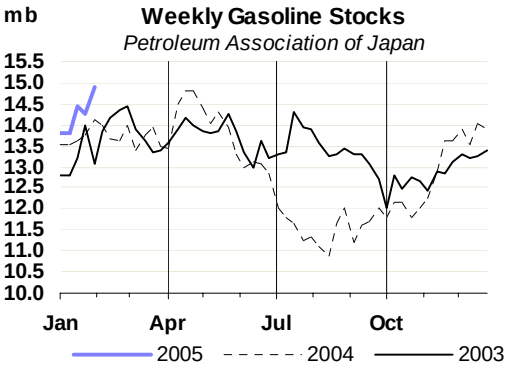
Pacific crude stocks fell heavily in December from high November levels, closing at 174 mb, near the middle of their five-year range. Stocks in Japan and Korea each pulled back about 9 mb as refinery activity peaked seasonally at the high end of the range, with Korea close to maximum capacity. The preliminary estimate for Japan excludes changes in volumes onboard tankers in ports that have yet to be cleared by customs. These typically rise towards the end of the year, suggesting a slightly weaker draw in Japan. The crude decline stemmed however from lower imports in both countries after heavy arrivals in November. Preliminary weekly figures for Japan show a slight progression of onshore crude inventories despite relatively firm runs, suggesting a rebound in imports.

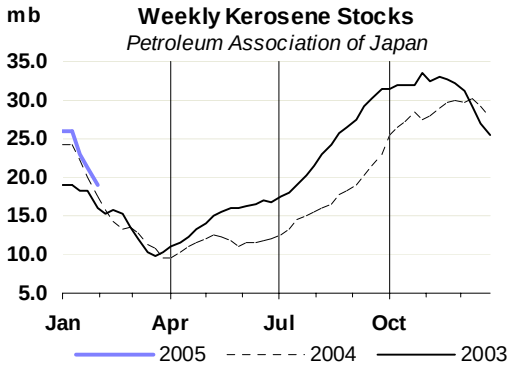




Distillate inventories in the Pacific entered their seasonal downward trend, with a fall in kerosene inventories in both Korea and Japan outpacing gains in diesel. Inland deliveries of kerosene, used as heating fuel, jumped on a monthly basis, putting downward pressure on stocks. Mild temperatures in December did buffer against strong draws in storage as inland deliveries from refineries were weaker on a yearly basis. Absolute levels of stocks ended within seasonal norms before colder temperatures set in during January. At the same time, the absence of more typical temperatures in December also tempered Japanese overall distillate production, with output of jet fuel stable on the month.

Weekly January figures for Japan suggest kerosene stocks drew at average rates as temperatures kept within normal winter levels. The decline in Korean kerosene in December also resulted in part from refinery yields skewed towards diesel production. Korean diesel output rose above year-ago levels to supply rising exports. This trend apparently held through January, but in February, domestic refiners reverted to maximising kerosene supplies for the domestic market, prompting a reduction in Korean gasoil exports in February.



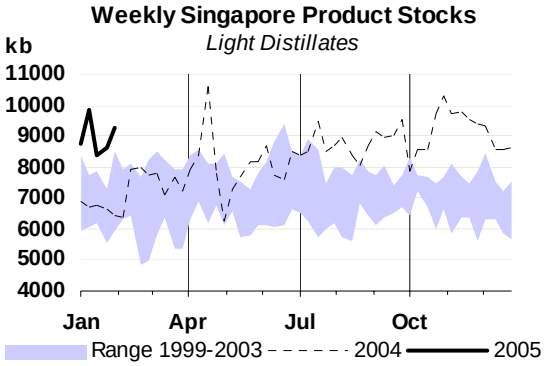


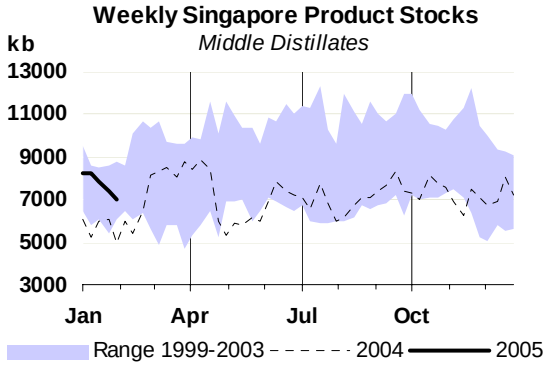
With high runs, lighter products stocks such as naphtha and gasoline ended December at about year-ago levels. Japan saw naphtha output rise on a monthly basis by over 25% and by nearly 6% against 2003, while that in Korea held even against November but around 15% over that in 2003. The growth in naphtha supplies in the case of Japan likely prompted a strong rebound in finished gasoline stocks in January. Greater naphtha reforming increased gasoline supplies while at the same, surplus naphtha supplies may have also induced lower imports from the petrochemical sector.

Singapore Stock Developments in January

Total product inventories in Singapore, surveyed by International Enterprise, were up in January on gains in light product stocks. Residual fuel oil stocks edged higher and middle distillates stocks were slightly lower, but not materially changed from end-December levels.

Light product stocks (comprised of gasoline and naphtha) rose about half a million barrels in January. It is likely that naphtha drove most of the gains on ample regional supply. Demand in turn proved weaker as stocks of traditional importers like Japan and Taiwan were reportedly high due to strong domestic refinery activity. The ample availability of regional naphtha supply translated into a widening of the contango in Singapore paper quotes. In contrast, the region saw firm gasoline demand from Indonesia. State oil company Pertamina was seeking lower octane material above its normal intake and at premiums to Singapore prices. Competing demand came also from Vietnam and India, offsetting lower than expected interest from Australia and New Zealand. Gasoline supply in the region was also tighter on lower Chinese exports in recent months.





Middle distillate stocks, after building in the first half of January, fell back on tightening jet/kerosene and gasoil supplies. Diesel stocks were likely up in the first half of the month as import interest from China ahead of the February Lunar New Year holiday period was weaker than expected. However, just as with gasoline, Indonesia and Vietnam supported demand taking in spot barrels at discounted prices early in the month. India also raised its demand for gasoil ahead of 1 April implementation of cleaner fuels in major cities. Jet/kerosene stocks tightened on colder temperatures in Northeast Asia (where kerosene is used as a heating fuel) in January. Jet fuel supplies were also reduced as Middle Eastern suppliers targeted product exports towards Europe. February looks to see a further reduction in distillate supplies as cold temperatures support kerosene demand. While gasoil demand from Indonesia and India is expected to remain firm, February supplies from Korea, a main exporter, are expected to be down as refiners there focus on kerosene production to meet domestic requirements.

Residual fuel oil stocks were marginally higher as arbitraged product, mainly from Europe and the Caribbean, filled Singapore tanks. Trader reports indicated that about 2.7 million tonnes were due to arrive in January. Chinese demand for Singapore barrels continued to remain weak. Market reports suggested a shift in procurement towards straight-run Russian and Korean material, leaving a smaller amount of spot requirements to be met from Singapore cracked fuel oil.

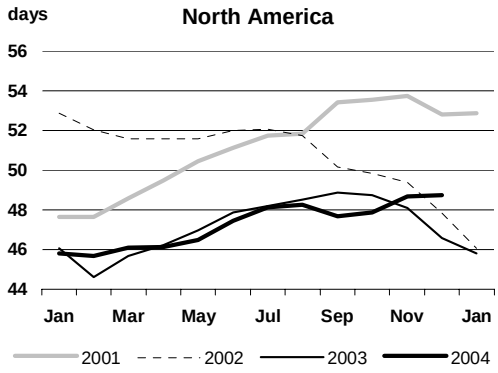
Singapore Crude & Product Trade
(thousand barrels per day)

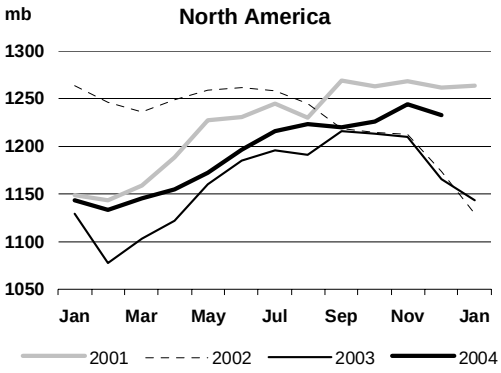
Net Imports/(Exports) of:	2003	2004	1Q04	2Q04	3Q04	4Q04	Oct 04	Nov 04	Dec 04	Latest month vs. Nov 04	Latest month vs. Dec 03
Crude Oil	755	815	777	696	727	1059	1303	1139	736	-402	-63
Products & Feedstocks	-96	-136	-64	-150	-118	-211	-107	-216	-309	-93	-267
Gasoil/Diesel	-170	-182	-133	-206	-181	-206	-181	-180	-256	-75	-8
Gasoline	-83	-96	-88	-119	-79	-98	-128	-104	-62	42	52
Heavy Fuel Oil	320	276	304	289	238	272	371	195	247	53	-185
LPG	-22	-22	-24	-21	-20	-24	-24	-24	-24	0	-3
Naphtha	13	31	38	24	42	21	33	26	4	-22	-62
Jet & Kerosene	-99	-86	-99	-50	-92	-102	-110	-67	-127	-60	-44
Other	-55	-57	-62	-67	-26	-74	-68	-61	-92	-30	-18
Total	659	679	713	546	609	848	1196	923	427	-496	-330

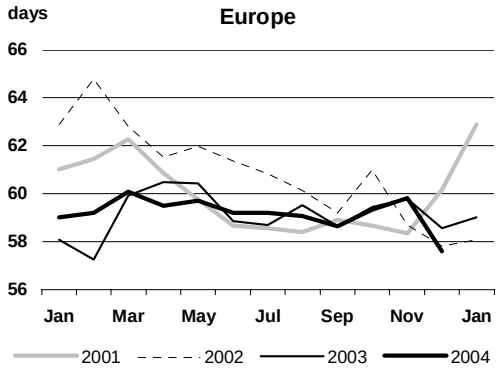
Source: International Enterprise, IEA estimates

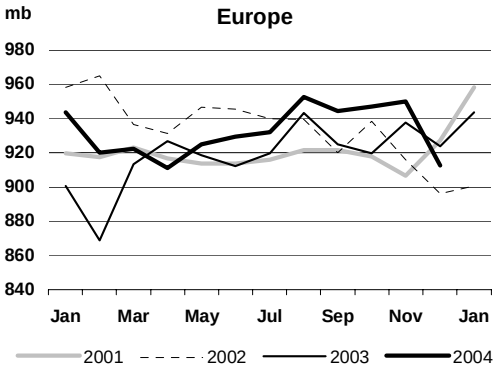
Regional OECD End-of-Month Industry Stocks
(in days of forward demand and millions barrels of total oil)

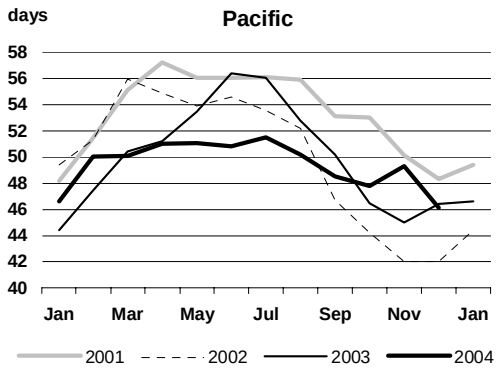
Days[1] | **Million Barrels**

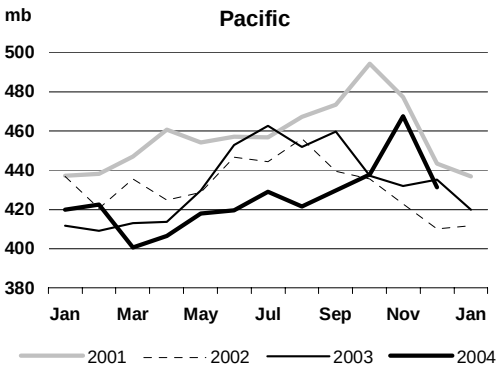


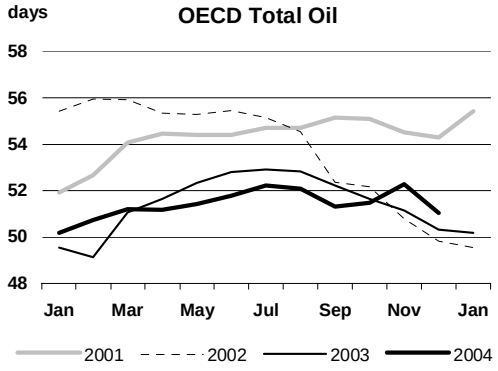


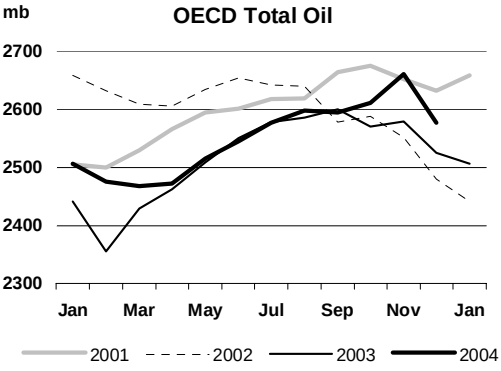












1. Days of forward demand are based on average demand over the next three months.

PRICES AND REFINERY ACTIVITY

Summary

- **Benchmark NYMEX light crude** rallied close to $50.00/bbl in mid-January, driven by cold weather in the US Northeast, Europe and Asia and improved refinery margins. However, milder conditions, the passing of the Iraqi elections and OPEC's decision to keep production targets unchanged contributed to a decline to $45.00/bbl in the early part of February. Despite strong gasoline differentials and US refinery maintenance, which often increase light/sweet crude demand, reduced OPEC output continued to narrow the premium of light/sweet over heavy/sour crudes.

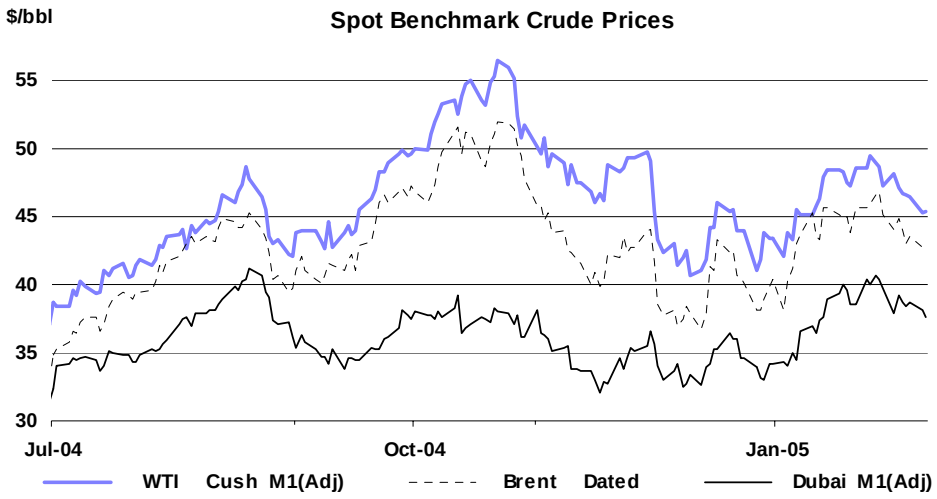
- **Heating oil and fuel oil differentials** to benchmark crudes rose on improved weather-related demand. They were however outperformed by **gasoline**, which saw a US-led rally as first quarter maintenance and unplanned refinery outages were expected to tighten supplies. Strong US prices encouraged large arbitrage shipments of gasoline to the US in January and February. Asian gasoline prices rose on strong demand from Vietnam and Indonesia and lower exports from China.

- **The rise in US gasoline prices** was accompanied by a sharp increase in non-commercial activity on NYMEX unleaded gasoline futures. Speculators have increased net-long positions in NYMEX gasoline and light crude futures to a combined level near 50,000 lots from a net-short position in early December. The speculative interest partly stems from the seasonal tendency of gasoline prices to rise in the spring. However, US gasoline stocks at the high-end of the range and lighter-than-normal refinery maintenance could dampen the pattern this year.

- **VLCC freight rates** nearly doubled on some routes at the end of January (albeit from low levels) as Asian buying improved and OPEC kept output targets unchanged. The gains in mid-sized tankers were not as significant. Reduced refiner interest in North Sea crudes and improved supply in the Mediterranean partly offset improved West African demand. Clean freight rates perked-up in the Atlantic Basin in January as product arbitrages for gasoline and gasoil to the US opened.

- **Refinery margins** recovered from early January lows as cold weather lifted utility demand for fuel oil (particularly in Asia) and bolstered consumer heating oil demand. The US-led rally in gasoline cracks helped sophisticated coking and catalytic cracking margins outperform simple hydroskimming margins, while the persistently wide light/sweet-heavy/sour differential continue to support sour crude refining margins.

- **OECD refinery throughput** rose sharply in December, led by post-maintenance gains in Europe and increased throughput in OECD Asia. Significant upward revisions were also seen to November data in Europe and North America, despite fourth quarter maintenance. European refinery maintenance is expected to be between 60 and 70% of year ago levels.



Overview

Cold weather in the US Northeast, Europe and Asia and lower OPEC output helped to push NYMEX light crude futures (WTI) close to $50 per barrel in mid-January. Heating oil and fuel oil differentials to crude benchmarks rallied as a result of increased utility and consumer demand. However, these product differentials were outperformed by gasoline, highlighting the switch in market concerns away from winter and towards the summer driving season.

Strong gasoline cracks were largely a function of an anticipated tightening of supplies during first quarter maintenance. Speculators also increased net-long positions in NYMEX unleaded gasoline, anticipating a repeat of one of the now frequent spring price spikes.

Stronger product prices contributed to a sharp improvement in refinery margins in most of the regions covered from low January levels. Indeed several European refiners announced moderate economic cutbacks as a result of the low margins in the region. This also impacted demand for North Sea crude at the same time that some weather-related and technical disruptions lessened.

Crude Oil Prices

Spot Crude Prices and Differentials

The return of North Sea crude supplies from Vigdis and Snorre and the lessening of weather-related supply disruptions contributed to a weakening of regional crudes. A reluctance of European refiners to buy heavily, coupled with rising freight rates and US maintenance, contributed to easing prices, particularly for nearby availabilities. Several European refiners also indicated cuts in refinery throughput in January due to poor margins.

Spot Crude Oil Prices and Differentials*

(monthly and weekly averages, $/bbl)

	Nov 04	Dec 04	Jan 05	Jan-Dec		Week Commencing:				
				Change	*%*	03 Jan	10 Jan	17 Jan	24 Jan	31 Jan
Crudes										
Brent Dated	42.84	39.53	44.23	4.70	11.9	41.28	44.68	44.94	46.05	43.94
WTI Cushing 1 month (adjusted)	48.44	43.20	46.83	3.63	8.4	44.01	46.74	47.91	48.60	47.01
Urals (Mediterranean)	38.24	36.17	40.22	4.05	11.2	37.96	40.69	40.93	41.41	39.38
Dubai 1 month (adjusted)	34.87	34.20	37.92	3.72	10.9	34.86	37.50	39.41	40.22	38.58
Tapis	47.08	39.03	46.35	7.32	18.8	42.31	46.07	47.78	49.27	48.04
Differential to Dated Brent										
WTI Cushing 1 month (adjusted)	5.59	3.67	2.60	-1.07		2.74	2.06	2.97	2.55	3.07
Urals (Mediterranean)	-4.60	-3.36	-4.01	-0.65		-3.32	-3.99	-4.01	-4.64	-4.56
Dubai	-7.97	-5.33	-6.31	-0.98		-6.42	-7.18	-5.53	-5.83	-5.36
Tapis	4.24	-0.50	2.12	2.62		1.03	1.39	2.85	3.22	4.10
Prompt Month Differential										
Brent 1mth-2mth (adjusted)	-0.38	-0.23	-0.01	0.22		0.14	-0.11	-0.12	-0.12	-0.30
WTI Cushing 1mth-2mth (adjusted)	-0.09	-0.30	-0.19	-0.40		-0.15	-0.19	-0.21	-0.36	-0.58

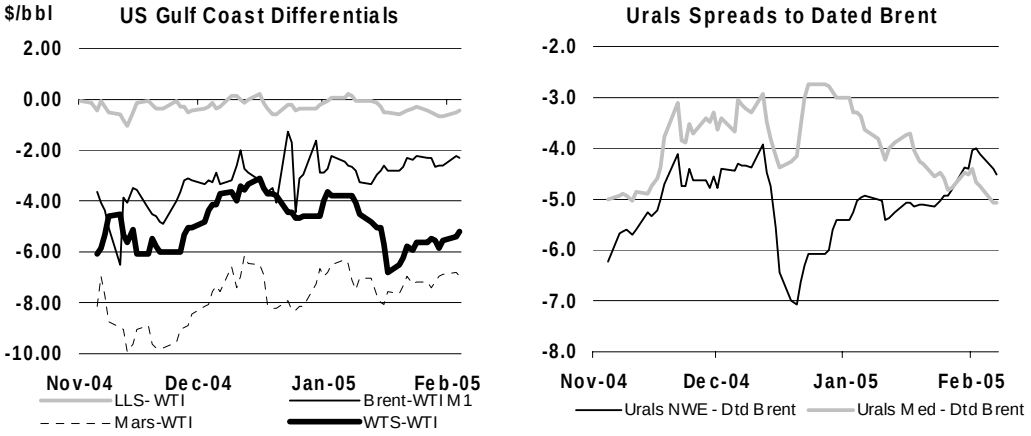
* Weekly data for Brent and WTI 1st month and 2nd month are unadjusted

Urals crude differentials to dated Brent followed divergent trends. Urals values in Northwest Europe moved to a premium over Mediterranean values in early February, for the first time since October 2004. This reversed the normal discount for northern supplies due to the need for more expensive ice-class tankers. The end-January easing of weather-related Black Sea loading restrictions, coupled with competition from Middle East and CPC grades (despite the continued absence of Iraqi crude from Ceyhan and reduced OPEC output) put pressure on Mediterranean crude. A sharp improvement in Urals refining margins in early February, prompted by a further bout of cold weather in central Europe, increased buying interest in both regions.

West African crudes outperformed dated Brent from mid-January. Brent weakness and regional protests in Nigeria were underlying features that bolstered differentials. However, it should also be noted that Nigerian domestic refineries were reported to have increased throughput to 250 kb/d in January, which if confirmed, would represent a substantial improvement on the 50 kb/d processed early in the fourth quarter last year. While such an increase would still only represent a 55% operating rate of the 455 kb/d capacity, an improvement in problematic Nigerian refinery operations would reduce the country's reliance on large product imports. Asian interest has been temperate in both January and February with reports suggesting Chinese refiners are drawing down stocks over the

Lunar New Year. But Chinese activity picked up in the first week of February, with at least 11 March loading cargoes of West African crude booked, just one short of the February total.

Supply problems pushed Canadian Syncrude to a record premium to WTI, but in turn also pulled WTI prices higher. Ample availability of West African crudes in the Gulf of Mexico contributed to LLS returning to a discount to WTI. WTS also came under pressure as fluid catalytic cracker maintenance and strong demand for gasoline increased the demand for sweet crudes over sour. Strong gasoline cracks and higher-than-expected refinery throughput have contributed to the strength of WTI relative to dated Brent. US refinery throughput in the past four weeks was 3.3% higher than in the same period last year. A leak on the 195 kb/d Mid-Valley pipeline caused a disruption in supplies to at least one Midwestern refinery, forcing a temporary dip in throughput.



Reduced Middle Eastern supplies and cold weather increased Asian demand for regional crudes, despite lower freight rates in early January. Tapis and Minas crudes saw their differentials to dated Brent improve throughout January. However, increased West African interest for March-loading cargoes prompted a dip in differentials to dated Brent in early March. The short-term demand outlook for crude is relatively moderate. Chinese refiners have indicated plans to increase throughput in February, while refiners in Japan and Korea plan reduced throughputs in preparation for the end of the winter heating season, following the normal seasonal pattern. Recent cold weather does not appear to have changed these plans as a mild first half of the winter, coupled with high fourth quarter run–rates, has left kerosene stocks above year-ago levels. Planned February throughput reductions are expected to be below those seen in the same month last year.

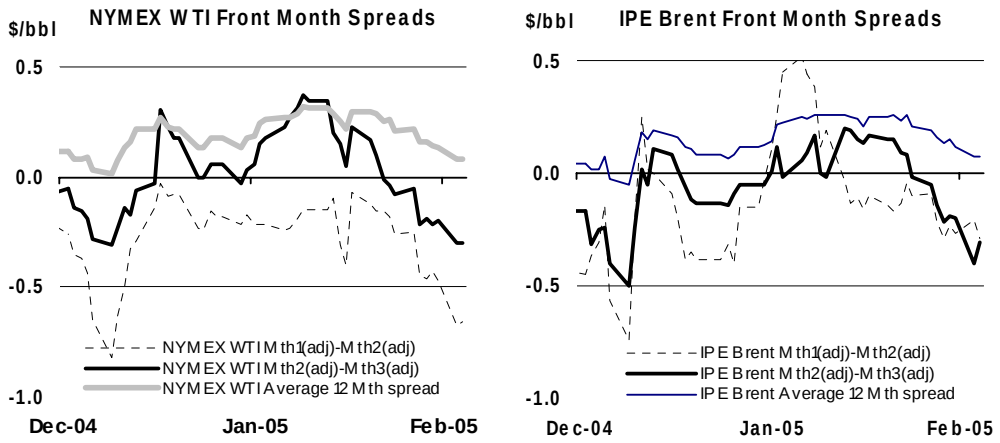
Crude Futures

Front month crude futures have rarely been out of a contango structure for the past three months, yet prices remain persistently high. To some observers this appears to be an anomaly – an understandable conclusion when historically the forward crude market has been in backwardation for 70% to 80% of the time. While backwardation is associated with markets in short supply, it is wrong to assume that a contango market suggests over-supply and falling prices.

Commodities trade in contango under 'normal' market conditions as well as in amply supplied markets. It is quite common to see base metals trade in contango during the start of a major upturn in prices. One of the functions of a contango market is to attract material into storage, or to encourage higher production. This is seen regularly in the heating oil and gasoline markets, where switches between contango and backwardation are more a reflection of seasonality and grade changes than relative market tightness.

Even a contango market can reveal a degree of tightness. A full contango represents the cost of finance, storage and insurance for a commodity, but a commodity is described as being in contango when it might only be partially contributing towards these costs.

Forward market spreads can be revealing about the relative tightness of a commodity, but these relationships are very much secondary effects. The basic economic theory that the market price represents the level where supply and demand are matched must not be overlooked. The persistence of high prices would appear to reflect the expectation of continued geopolitical uncertainty and tight market conditions while the contango is more of a reflection of short-term demand as refiners move into maintenance.



Delivered Crude Prices in November

Delivered crude prices fell by $2.97/bbl in IEA countries in November to an average $41.31/bbl. The fall is broadly in line with declines in benchmark crudes: dated Brent fell by $6.80, and second month Dubai fell by $3.14/bbl over the period. North American prices fell by $3.13 to $41.53, while in Europe they declined by $4.92 to $41.12. The larger fall in Europe relates to the persistence of high freight rates throughout November and relative weakness of Dated Brent to WTI Cushing. OECD Pacific prices, which tend to lag trends in the Atlantic Basin, rose by $0.53 to $41.29/bbl.

Product Prices

Spot Product Prices

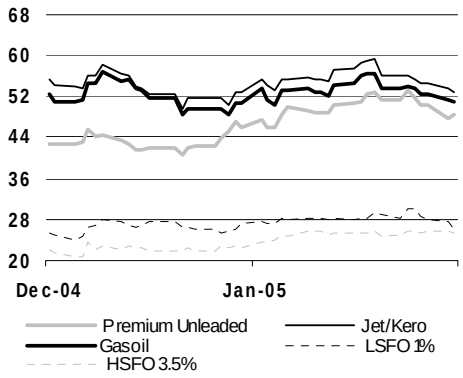
US-led gasoline strength led global prices higher in January. Although planned US refinery maintenance was expected to be lighter than a year ago, there remained concern that a high level of catalytic cracker (FCC) maintenance would tighten supplies. Unplanned FCC maintenance at the 250 kb/d Alliance refinery in Louisiana and 330 kb/d Philadelphia refinery contributed to an out-performance of gasoline crack spreads over other middle and light-end products on average during January. However, an increase in European imports, together with a surprise build in US stocks, contributed to a late weakening in gasoline premiums to WTI at the end of January.

NWE gasoline prices outperformed New York values towards the end of January as surplus stocks were shipped to Europe and European refiners looked to buy product ahead of maintenance. High US prices attracted an estimated 2.5 mt of arbitrage shipments to the US from Europe in January. Although a rise in freight rates has made transatlantic trade less attractive, traders still expect shipments in February to be as high as 1.8 mt. Strong demand was reported into the East Mediterranean and traders anticipated buying to fulfil a contract to supply 1 mt to Iran by the end of April. High oil prices have contributed to strong GDP growth in the Middle East and an associated improvement in gasoline demand.

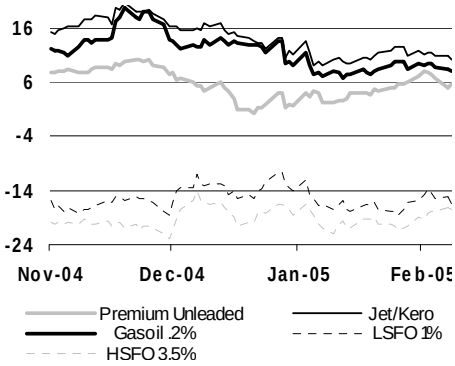
Singapore gasoline prices moved closer to European levels at the end of January as strong demand from Vietnam and Indonesia was compounded by tighter supplies. Chinese gasoline exports are expected to fall to around 370,000 tonnes in February, down from around 420,000 tonnes in January and 500,000 tonnes in December. Reduced refinery throughput from South Korean refiners could also contribute to firmer premiums to benchmark crudes. There are also expectations that Indian buying of lower sulphur material will be seen to comply with lower sulphur regulations planned in 14 cities from 1 April.

Naphtha prices broadly underperformed gasoline in both Europe and Asia. The Mediterranean market was said to be relatively well supplied. Strong gasoline demand helped to limit declines in reformer-grade material, but petrochemical demand was reportedly weak. In Asia, petrochemical crackers were said to be running down stocks, while additional supplies from the Middle East and India pressured differentials to Duabi.

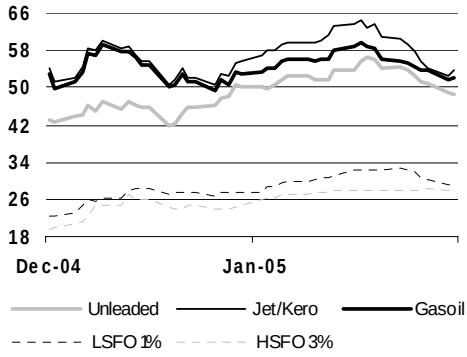
$/bbl **Rotterdam Spot Product Prices**



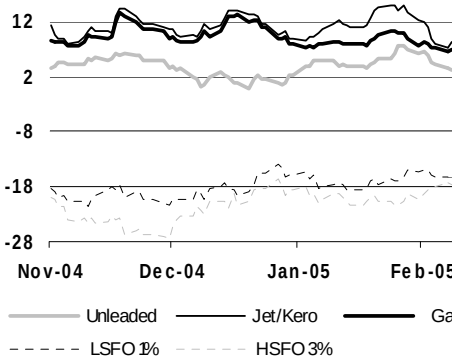
$/bbl **Rotterdam Spreads to Dated Brent**



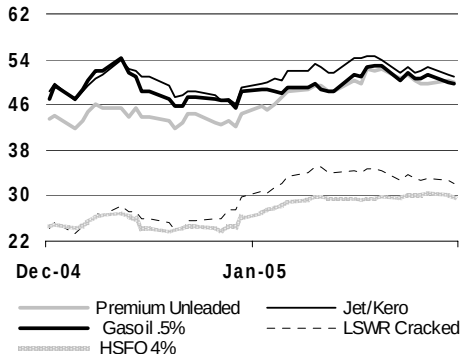
$/bbl **New York Harbour Spot Product Prices**



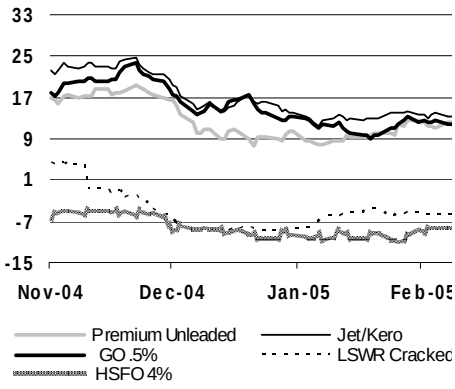
$/bbl **New York Harbour Spreads to WTI**



$/bbl **Singapore Spot Product Prices**



$/bbl **Singapore Spreads to Dubai**



Spot Product Prices

(monthly and weekly averages, $/bbl)

	Nov	Dec	Jan	Jan-Dec		Week Commencing:					Nov	Dec	Jan
				Change	*%*	03 Jan	10 Jan	17 Jan	24 Jan	31 Jan			
Rotterdam, Barges FOB											***Differential to Brent***		
Premium Unleaded (Cargo)	51.53	43.30	48.70	5.40	12.5	45.43	47.53	49.14	51.56	51.31	8.69	3.77	4.47
Regular Unleaded	50.87	42.61	47.94	5.33	12.5	44.71	46.78	48.37	50.76	50.51	8.03	3.08	3.71
Naphtha	47.54	42.24	43.18	0.94	2.2	42.12	42.53	42.74	44.84	44.74	4.70	2.71	-1.05
Jet/Kerosene	60.47	54.20	55.20	1.00	1.8	51.81	54.53	55.60	58.01	55.28	17.63	14.67	10.97
Gasoil	57.79	52.07	52.75	0.67	1.3	49.79	52.14	52.94	55.36	53.11	14.95	12.54	8.52
Fuel Oil 1.0%S	26.22	25.95	27.74	1.80	6.9	26.14	27.66	28.22	28.54	29.04	-16.62	-13.59	-16.49
Fuel Oil 3.5%	22.41	21.82	24.55	2.72	12.5	22.71	24.08	25.59	25.33	25.51	-20.44	-17.71	-19.68
Mediterranean – Basis Italy, Cargoes FOB											***Differential to Urals***		
Premium Leaded (0.15 g/l)	50.29	41.15	47.26	6.11	14.9	43.66	45.84	47.80	50.54	50.19	12.05	4.98	7.04
Premium Unleaded	49.57	40.43	46.54	6.11	15.1	42.94	45.13	47.08	49.82	49.47	11.33	4.26	6.32
Naphtha	45.37	39.71	41.41	1.70	4.3	40.28	41.15	40.96	42.82	42.59	7.13	3.54	1.19
Jet/Kerosene	57.48	51.04	53.03	1.98	3.9	49.87	52.87	53.41	55.31	53.01	19.25	14.87	12.81
Gasoil	57.36	51.56	51.84	0.29	0.6	48.24	50.91	52.91	54.56	51.67	19.12	15.39	11.62
Fuel Oil 1.0%S	27.78	26.67	29.83	3.16	11.8	27.92	29.49	30.54	30.79	31.14	-10.46	-9.50	-10.39
Fuel Oil 3.5%S	19.45	19.42	22.73	3.31	17.1	20.60	22.03	23.78	23.97	24.19	-18.79	-16.76	-17.49
NY Harbour, Barges											***Differential to WTI***		
Super Unleaded *	54.70	46.60	54.34	7.75	16.6	51.03	53.36	54.96	57.62	55.33	6.27	3.40	7.52
Regular Unleaded *	53.33	44.87	51.87	7.01	15.6	48.54	50.91	52.27	55.31	52.60	4.89	1.67	5.05
Jet/Kerosene	59.23	54.46	58.97	4.50	8.3	53.51	58.40	60.98	63.06	57.42	10.79	11.27	12.14
No.2 Heating Oil	58.18	53.45	55.34	1.88	3.5	51.60	54.75	56.62	58.52	54.69	9.74	10.26	8.51
Fuel Oil 1.0%S (Cargo)	28.78	25.22	29.86	4.64	18.4	27.28	28.80	30.66	32.28	31.60	-19.65	-17.98	-16.97
Fuel Oil 3.0%S (Cargo)	24.31	22.46	26.65	4.19	18.7	24.34	26.58	27.69	27.95	28.10	-24.13	-20.74	-20.18
Singapore, Cargoes											***Differential to Dubai***		
Premium Unleaded 95	52.45	44.81	47.57	2.75	6.1	43.07	46.54	49.00	51.34	50.37	17.58	10.61	9.65
Naphtha	47.46	42.78	41.34	-1.45	-3.4	39.21	40.61	41.07	44.15	42.54	12.59	8.58	3.42
Jet/Kerosene	57.64	50.07	51.10	1.03	2.1	47.39	50.54	52.28	54.34	52.08	22.77	15.86	13.18
Gasoil	55.22	49.25	49.23	-0.03	-0.1	46.93	48.60	48.93	52.17	50.96	20.35	15.05	11.31
LSWR (0.3%S)	34.59	25.65	31.94	6.28	24.5	27.39	31.73	34.53	34.48	33.04	-0.28	-8.55	-5.98
HSFO (3.5%S 180cst)	30.53	27.59	28.88	1.29	4.7	26.54	28.51	30.13	30.37	30.36	-4.34	-6.62	-9.04
HSFO 4%S	29.34	25.16	27.89	2.73	10.9	24.66	27.83	29.54	29.55	30.05	-5.53	-9.05	-10.03

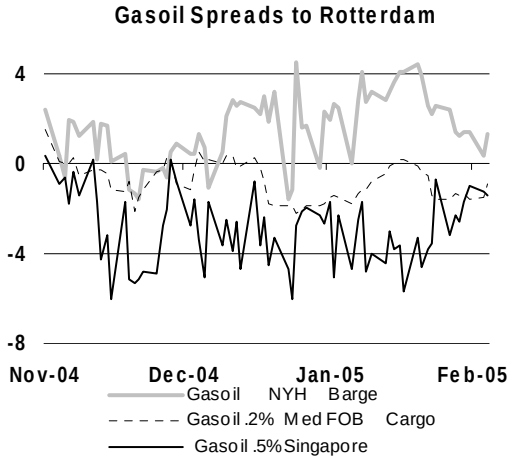
* From 1 November, assessments for NYH are for Max 0.3% MTBE

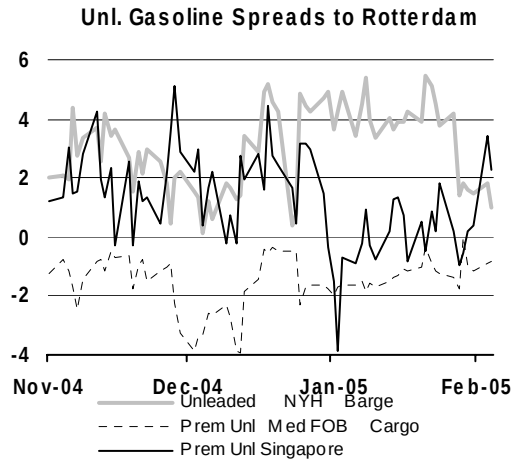
Distillate stocks were drawn down by cold weather in the US, Europe and Asia in January. US distillate demand rose to 4.5 mb/d in the second half of January, from an average of 4.2 mb/d in November and December as temperatures turned lower. Maintenance-reduced supplies and lower yields as refiners switched focus to spring gasoline requirements were supplemented by increased imports from Europe and the FSU. Stocks have moved back down to the lower half of the average range but, as of mid-February, temperatures in the key Northeast region are expected to be mild. The chances of a weather-related demand surge, while still possible, are less likely.

Europe, however, saw a colder January followed by below-normal temperatures in the first part of February. The Mediterranean region has been particularly cold, prompting strong heating oil demand from Spain in particular. Forecast lows suggest that there could be a surge in demand from Italy in mid-February. Sub-zero peak daily temperatures have also been seen recently in Eastern Europe. This could dampen the export flow out of the FSU, which was high in January following an unusually mild winter so far. Exports in January were strong out of the Baltics, with weather-related and Turkish strait shipping delays limiting flows from the Black Sea for much of the month. However, with shipping costs rising, the options for shipping surplus material have decreased. Nevertheless, traders estimate that at least 400,000 tonnes of gasoil has been booked for US shipment in February. Consumers in inland Europe seem set to maintain this season's hand-to-mouth buying pattern for heating oil. Domestic tanks remain relatively low, but such consumer behaviour is rational given both high and volatile oil prices. Bargain hunting would also be expected to emerge on any dip in prices.

Cold weather has also been a feature in the Northeast Asian kerosene-based heating market in January. Japanese stocks have fallen by 11.7 mb since mid December, while Singapore middle distillate stocks have fallen by 2.0 mb since the start of the year. Gasoil cracks started to pick up in Asia towards the end of January, rising to over $13/bbl against Dubai. However, stocks remain on a par with year ago levels contributing to the seasonal narrowing of the regrade (the premium of jet/kerosene over gasoil). This would suggest that, despite the cold weather, there is a general feeling that supplies will be ample to see out the winter months.

Heating demand has also increased in China, compounding the impact of reduced imports during January and February. This has allowed the depletion of domestic stocks resulting from high imports in the fourth quarter. Traders are expecting Chinese distillate imports to increase after the Lunar New





Year holidays. Volumes will be tempered though by the expectation of warmer spring weather, higher refinery throughput and a slowdown of the pace of year-on-year growth. Regional diesel demand is expected to be boosted by milder weather and the start of the regional fishing season.

Plans to lower the sulphur content of transport fuels in India's 14 largest cities from 1 April have the potential to temporarily alter trade patterns. India's status as a net diesel exporter would be expected to persist, but it would be likely to increase its exports of higher sulphur material in exchange for new specification imports until refinery upgrades are complete. Indonesian import demand has also improved, with Pertamina tendering to buy 6.6 mb in February, up from 6 mb in January.

The fuel oil arbitrage from Europe to Asia reopened at the end of January, helping to clear brimming tanks in Northwest Europe. At least two VLCCs were fixed, but the window of opportunity proved brief as dirty freight rates rose. Weather-related demand for low sulphur material perked up in the Mediterranean. Spanish power use was up 15% in January, and colder weather is expected to persist in the Mediterranean. Long-range forecasters are calling for a mild end to the northern European winter, but continued cool temperatures in the Mediterranean.

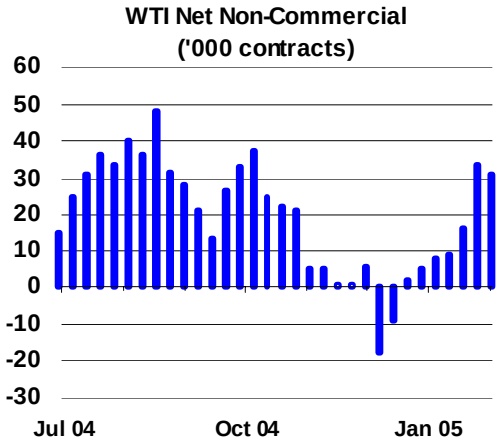
US residual fuel oil demand perked up briefly towards the end of January, averaging over 1 mb/d in the last three weeks of the month, in contrast to 800 kb/d in December. US demand in January was broadly flat with year ago levels. In Asia the viscous 380 centistoke (cst) market, has been tight due to a lack of European arbitrage material, good bunker demand and the removal of 300,000 tonnes of high sodium content material. The less viscous 180cst material, that had been in tight supply late last year, has been relatively amply supplied. Asian LSWR differentials to crude and high sulphur fuel oil improved as cold weather caused a pick up in utility demand.

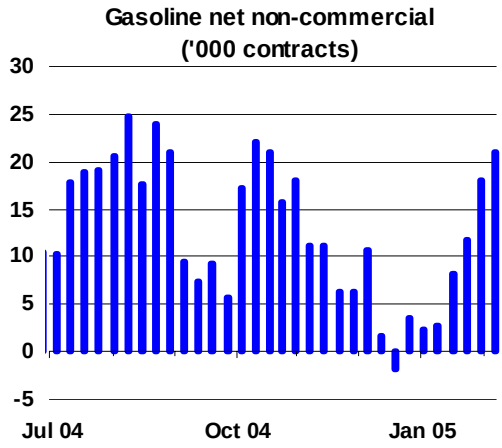
Product Futures

Speculators have moved 18,022 lots net long of the NYMEX gasoline contract, looking to take advantage of the now 'traditional' spring rise in prices. Gasoline prices have rallied (to varying degrees) ahead of the driving season every year since 1997. Last year that move was dramatic, with prices rising from a low of 92.93 cents per gallon on 5 January to a peak of 147.00 cents by 20 May. Gasoline crack spreads widened from $6.20 per barrel to over $20 in the process. When crack spreads widen to that degree, crude prices, particularly gasoline-rich light sweet crudes, rise as well. It is little surprise that the rise in speculative interest in gasoline contracts has been mirrored in the more liquid NYMEX light crude contract (WTI). Net non-commercial positions in WTI have moved from 17,440 lots net-short in early December to 30,952 lots long.

This year, such speculation might be premature. Although the seasonal maintenance-induced draw in gasoline does not typically start until February there is reason to believe that gasoline inventories will be in a healthy state by the start of the driving season. Lower first quarter maintenance levels, coupled with stocks at the upper-end of seasonal norms suggest that the seasonal stock draw could be lower-than-normal. Refiners and traders can also draw on last year's experience of producing MTBE-free fuel for some states, reducing the 'unknowns' in the market. West Coast refiners have started to increase output of RBOB (reformulated blendstock required for blending with ethanol) ahead of the switch to summer specification gasoline prices in early February.

Some concerns have been expressed that the move of US refiners to 90 ppm sulphur limits reduce the number of exporters capable of meeting US specification fuels. Similar concerns were expressed last year and proved to be largely unfounded. The move of Europe to 50 ppm material and the upgrading of many FSU refineries to meet EU standards reduce this risk.





End-User Product Prices in January

Retail prices for all petroleum products continued December's broad fall, in both national currency and dollar denominated terms. However, the recovery in the dollar from 1.31 to the euro from 1.34 the previous month has been an offsetting influence on the decline in European prices.

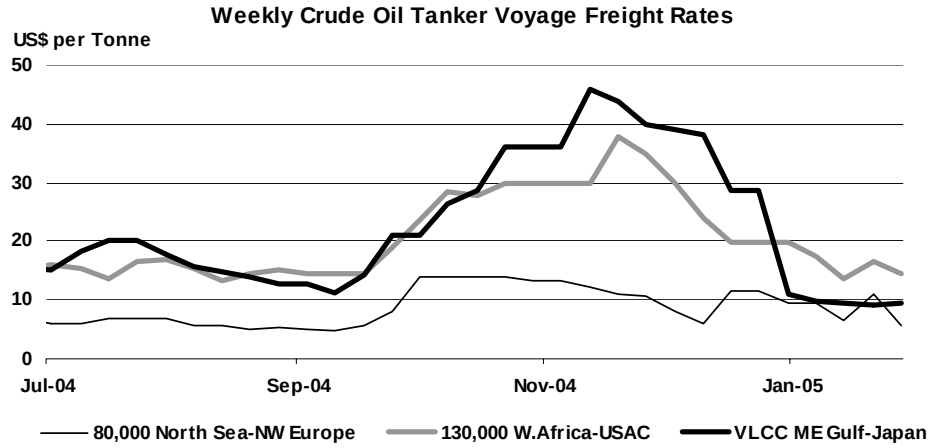
There were large inter-regional price differences in gasoline price movements in Europe. Pump prices fell by 2.9% in dollar terms in Germany but by 6.1% in the UK. In national currency terms the falls were 0.6% and 3.5% respectively, and on an ex-tax dollar denominated basis were 4.3% and 13.1% down on the month. US gasoline prices declined by 2.6%, and fell 1.7% in Japan, while values actually rose by 2.9% in Canada. It was a similar picture in diesel and heating oil, with retail prices broadly reflecting trends in the international market and currency fluctuations. Changes in ex-tax dollar denominated low sulphur fuel oil prices in Europe were high, rising by 2.2% in France, but falling by 10.1% in the UK.

Freight

Volatility in dirty freight rates continues. Having reached 30-year highs in October, dirty freight rates fell to the lowest December level since 2001 before surging at the end of January. While there was little crude price reaction to the 30 January OPEC meeting, concern of a further output cut had clearly weighed on tanker freight rates. OPEC's decision to leave target production levels unchanged coincided with a near-doubling of rates on some VLCC routes.

Tanker availability tightened for end-February VLCC loadings as post-Lunar New Year buying interest perked up. There was also an increase in Chinese interest in West African crudes which helped to support mid-sized tankers. Improved weather conditions in the Black Sea and Bosphorus helped loading conditions at the end of January and contributed to an easing of rates in the Mediterranean. Lower refiner interest from both Europe and the US tempered rates for mid-sized tankers in the North Sea.

Clean rates were supported by transatlantic movement of gasoline and gasoil cargoes from Europe to the US in mid-January. However, while significant volumes of gasoline are expected to be shipped to the US in early February, the gasoil arbitrage has become less attractive. Asian Pacific product trade has been tempered by the Lunar New Year holidays, but traders expect increased activity to emerge towards the end of February.



Refining Margins

Strong gasoline prices helped refining margins to recover in all of the six centres covered from early January lows. However, average monthly returns were below those of December for all but the US Gulf Coast and Oman and Kern margins on the US West Coast.

Changes and Revisions to Margin Calculations

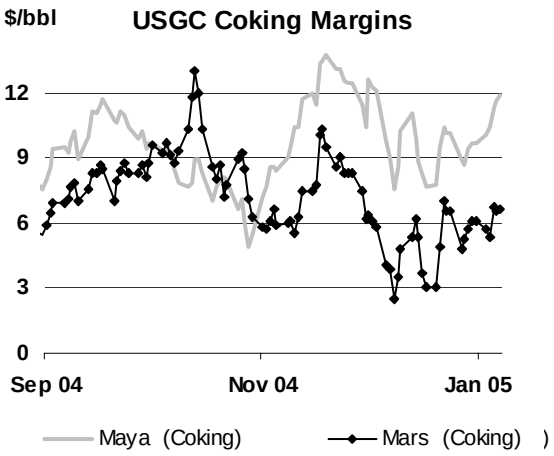
This month sees the annual historical revisions for our refinery margin calculations, in conjunction with industry consultants Purvin & Gertz Inc. The process involves, among other issues described below, a harmonisation of price data (which can vary slightly according to the assessor used) and the inclusion of ongoing periodic updates for various fixed and variable cost inputs, based on industry statistics which are in arrears of current calculations.

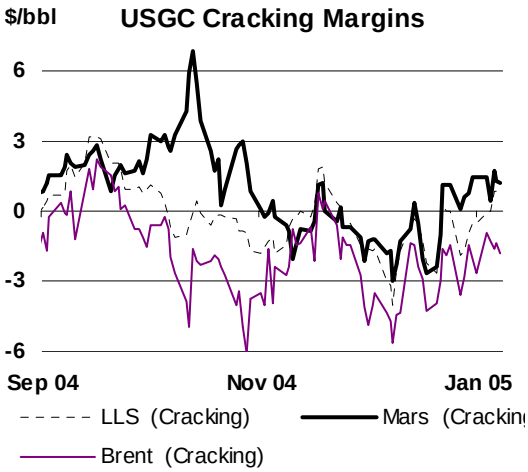
Most importantly, our US, Northwest Europe and Mediterranean yield vectors and operating costs have been adjusted for 2005 to take account of the regulatory changes in gasoline and diesel fuel sulphur contents for these regions. US gasoline quality now reflects 30 ppm limits and the European products reflect a shift to 50 ppm maximum sulphur limits for transport fuels in these regions.

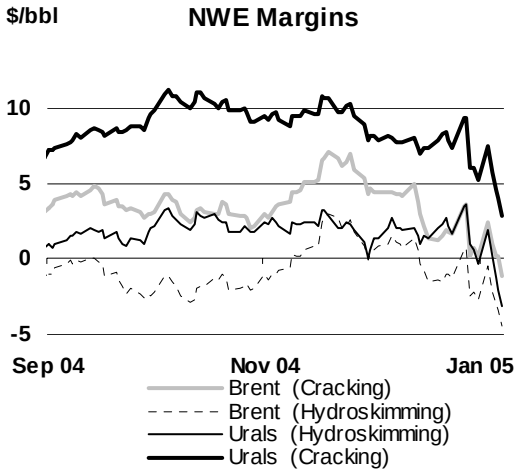
We have also incorporated a one-time update and historical re-indexation to our West Coast yardstick models to better reflect current regional refining operations and product blending requirements. These changes mainly relate to some unit utilisation assumptions in the previous models, which generated a less than optimal representation of most recent trends. Historical adjustments were also needed to maintain a consistent benchmark. The models are being updated historically, and all historical data will be available in a spreadsheet that can shortly be downloaded from our web site www.oilmarketreport.org.

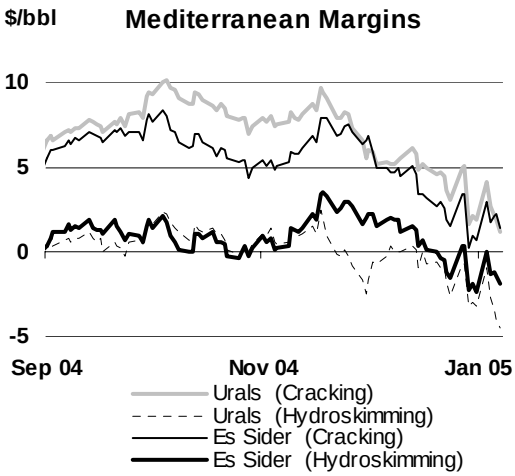
Brent and Urals hydroskimming margins were strongly negative in Northwest Europe in early January, prompting some refiners to indicate economic run cuts. It was a similar picture for Brent cracking margins and hydroskimming margins in the Med, but Urals crackers continued to make healthy returns due to the crude's discount to light sweet crudes.

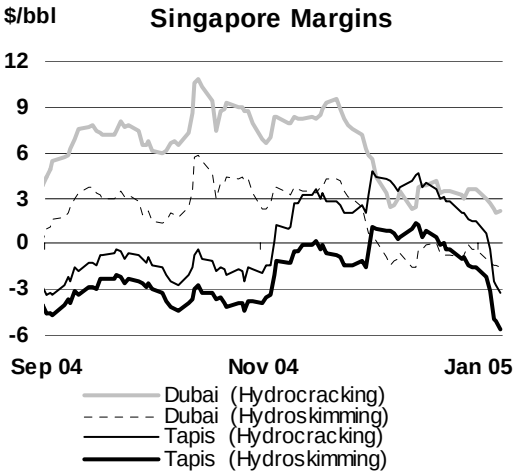
Rising fuel oil cracks played a significant part in the recovery of margins throughout last month, despite a build-up in regional stocks. European margins extended their gains in early February, lifting cracking margins to attractive levels and paring losses on hydroskimming margins to more manageable levels.

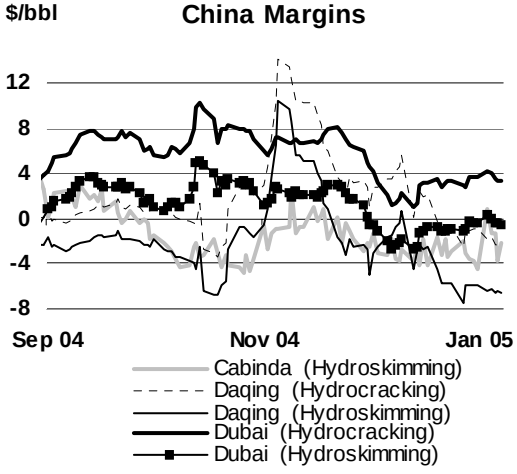

$/bbl
USGC Coking Margins
12
9
6
3
0
Sep 04
Nov 04
Jan 05
Maya (Coking)
Mars (Coking)


$/bbl
USGC Cracking Margins
6
3
0
-3
-6
Sep 04
Nov 04
Jan 05
LLS (Cracking)
Mars (Crackin
Brent (Cracking)


$/bbl
NWE Margins
10
5
0
-5
Sep 04
Nov 04
Jan 05
Brent (Cracking)
Brent (Hydroskimming)
Urals (Hydroskimming)
Urals (Cracking)


$/bbl
Mediterranean Margins
10
5
0
-5
Sep 04
Nov 04
Jan 05
Urals (Cracking)
Urals (Hydroskimming)
Es Sider (Cracking)
Es Sider (Hydroskimming)


$/bbl
Singapore Margins
12
9
6
3
0
-3
-6
Sep 04
Nov 04
Jan 05
Dubai (Hydrocracking)
Dubai (Hydroskimming)
Tapis (Hydrocracking)
Tapis (Hydroskimming)


$/bbl
China Margins
12
8
4
0
-4
-8
Sep 04
Nov 04
Jan 05
Cabinda (Hydroskimming)
Daqing (Hydrocracking)
Daqing (Hydroskimming)
Dubai (Hydrocracking)
Dubai (Hydroskimming)

In the US, the trend in product cracks and refining margins diverged from the strong performance of Europe in early February. High imports of European gasoline and gasoil and stronger crude prices have weighed on US premiums in recent weeks, but it was the end of the cold weather and weaker heating oil and fuel oil that had the greatest impact. However, seasonal refinery maintenance is expected to lend support to product cracks over the coming months.

Key Refining Margins in Major Refining Centres

($/bbl)

	Monthly Average			Change	Week Ending:				
	Nov 04	Dec 04	Jan 04	Jan 05-Dec 04	07 Jan	14 Jan	21 Jan	28 Jan	04 Feb
NW Europe									
Brent (Cracking)	5.12	2.96	1.22	-1.75	0.20	0.31	1.01	1.68	3.02
Brent (Hydroskimming)	0.83	-0.20	-2.68	-2.47	-3.45	-3.62	-3.07	-2.45	-1.32
Mediterranean									
Urals (Cracking)	8.11	4.78	3.88	-0.90	2.49	2.55	3.93	5.01	5.87
Urals (Hydroskimming)	0.60	-0.92	-2.60	-1.67	-3.69	-3.93	-2.79	-1.95	-0.53
US Gulf Coast									
Brent (Cracking)	-1.64	-3.39	-1.41	1.98	-2.34	-1.45	-1.26	-1.05	-2.62
LLS (Cracking)	-0.33	-1.46	0.55	2.01	0.81	0.15	0.79	1.30	-0.06
Maya (Coking)	11.37	9.66	12.79	3.13	11.83	12.94	14.07	14.27	12.25
Singapore									
Tapis (Hydroskimming)	-1.16	0.23	-5.14	-5.36	-5.74	-5.58	-5.30	-4.86	-5.28
Dubai (Hydrocracking)	8.10	3.70	2.10	-1.60	2.02	1.45	1.71	3.36	2.38
Tapis (Hydrocracking)	1.93	3.60	-2.90	-6.50	-3.38	-3.55	-3.38	-2.45	-2.96
China*									
Cabinda (Hydroskimming)	-0.91	-3.07	-4.04	-0.97	-4.54	-4.73	-4.76	-2.84	-3.60
Daqing (Hydrocracking)	6.88	0.82	-2.48	-3.30	-3.30	-2.72	-1.69	-1.77	-1.26

For the purposes of this Report, refining margins are calculated for various complexity configurations, each optimised for processing the specific crude in a specific refining centre on a 'full cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability for a given refining centre. No attempt is made to model or otherwise comment upon the relative economics of specific refineries running individual crude slates and producing custom product sales, nor are these calculations intended to infer the marginal values of crudes for pricing purposes.

* The China refinery margin calculation represents a model based on spot product import/export parity, and does not reflect internal pricing regulations. A full list of refining margins and gross product worth can be found in table 15 on www.oilmarketreport.org.

Sources: IEA, Purvin & Gertz Inc.

The recovery in Singapore margins was less pronounced than in Europe or the US despite the cold weather in Northeast Asia in January. Product trading activity diminished as regional importers consumed stocks built up ahead of the Chinese New Year. Regional crude prices such as Tapis also dried up as refiners increased their preference for short-haul crudes to compensate for reduced OPEC volumes. The discount for Dubai over regional crudes widened in January as a result, bolstering Dubai hydrocracking margins in both Singapore and China.

Refinery Throughput

OECD refinery throughput rose sharply in December to 40.48 mb/d as European refiners came out of maintenance and OECD Asian refiners build up winter kerosene inventories. Big upward revisions were also made to November data, with Canada and US up 195 kb/d and Europe up 120 kb/d. Japan was revised down by 82 kb/d.

The post-maintenance surge in European output in December was lower than expected, largely due to upward revisions for Italy, Spain and the Czech Republic, offset slightly by downward revisions for Greece. Historical revisions were received to data back to January 2004 for Austria and back to June for Belgium, averaging a drop of around 9.5 kb/d over the respective periods. However, there were also some unresolved refinery issues in northern Europe, which reduced throughput. The return of these refineries should help to keep January throughput from dipping too low, despite weaker refining margins that prompted planned run cuts at two smaller refineries.

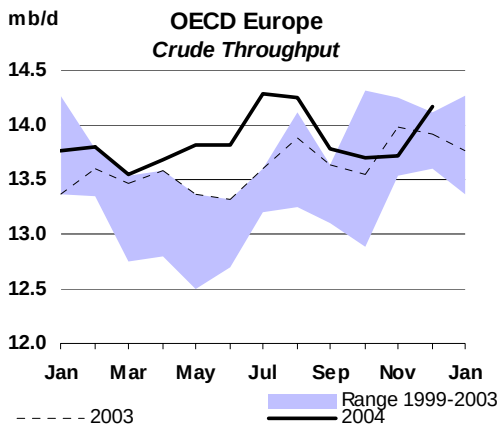
The European first half refinery 2005 maintenance picture is becoming clearer. Work will be concentrated in the usual seasonal March and April period. Beyond April, there is still insufficient data to assess the workload in the tail-end of the maintenance season, but details for the first four months of the year suggest that maintenance will run at around 60-70% of year ago levels.

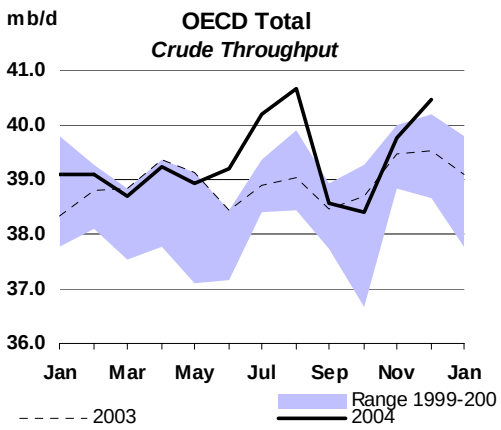
Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from Dec 03*		Utilisation rate[2]	
	Jul 04	Aug 04	Sep 04	Oct 04	Nov 04	Dec 04	mb/d	%	Dec 04	Dec 03
OECD North America										
US[3]	16.14	16.14	14.98	14.95	15.67	15.69	0.35	2.3	92.9	91.6
Canada	1.88	1.82	1.88	1.80	1.86	1.78	0.00	0.3	89.5	89.5
Mexico	1.30	1.27	1.23	1.11	1.16	1.24	0.03	2.1	73.4	72.0
Total	19.31	19.23	18.09	17.87	18.69	18.71	0.38	2.1	91.0	89.7
OECD Europe										
France	1.81	1.78	1.77	1.76	1.71	1.84	-0.04	-2.1	94.4	98.8
Germany	2.39	2.36	2.29	2.40	2.24	2.33	0.05	2.2	92.1	90.1
Italy	1.84	1.95	1.93	1.81	1.74	1.88	0.03	1.5	81.1	80.3
Netherlands	1.11	1.08	0.93	0.81	0.93	1.06	0.01	0.9	86.8	87.0
Spain	1.21	1.23	1.17	1.12	1.22	1.15	0.03	2.4	90.6	85.1
UK	1.76	1.73	1.66	1.75	1.76	1.77	0.13	7.6	97.5	92.0
Other OECD Europe	4.15	4.13	4.03	4.04	4.11	4.14	0.05	1.2	88.5	87.7
Total	14.28	14.26	13.78	13.70	13.71	14.17	0.25	1.8	89.8	88.6
OECD Pacific										
Japan	3.88	4.24	3.73	3.72	4.16	4.39	0.13	3.1	93.3	89.2
Korea	1.92	2.18	2.20	2.35	2.46	2.48	0.16	7.1	97.4	90.4
Other OECD Pacific	0.79	0.74	0.74	0.75	0.75	0.74	0.01	1.2	86.2	76.7
Total	6.60	7.17	6.68	6.82	7.38	7.60	0.31	4.2	93.8	88.1
OECD Total	**40.18**	**40.66**	**38.55**	**38.39**	**39.78**	**40.48**	**0.93**	**2.4**	**91.1**	**89.0**

1 Estimate
2 Based on crude throughput and current operable refining capacity
3 US50

OECD North American throughput was broadly flat in December from November at 18.7 mb/d, with US throughputs following a broadly similar pattern. The start of refinery maintenance in January has reduced throughput by nearly 400 kb/d, on average during the month – around half the level of planned maintenance. However, refiners were operating around 1.5 mb/d below capacity in December, leaving plenty of room to compensate for maintenance work.





OECD Pacific throughput rose by 300 kb/d in December to 7.6 mb/d as refiners cranked up runs to meet seasonal heating needs. However, mild weather meant that Japanese kerosene stocks rose above year-ago levels by the end of the month. Provisional data shows end-January Japanese refinery throughput slowing to 87.3% capacity, down from 92% in the middle of the month. Indications from refiners suggest that this decline will continue in February as part of the normal seasonal trend.

Table 1
WORLD OIL SUPPLY AND DEMAND
(million barrels per day)

	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
OECD DEMAND																	
North America	24.0	24.1	24.5	24.2	24.8	24.9	24.6	25.0	24.9	25.2	25.6	25.2	25.3	25.0	25.5	25.8	25.4
Europe	15.3	15.3	15.5	15.2	15.5	15.8	15.5	15.8	15.4	15.7	16.1	15.7	15.8	15.5	15.8	16.1	15.8
Pacific	8.7	8.6	9.8	8.2	8.0	9.2	8.8	9.4	8.0	8.3	8.9	8.6	9.4	7.9	8.1	9.0	8.6
Total OECD	48.0	48.1	49.8	47.6	48.3	49.8	48.9	50.2	48.2	49.2	50.6	49.5	50.5	48.4	49.4	50.9	49.8
NON-OECD DEMAND																	
FSU	3.7	3.5	3.8	3.2	3.4	3.9	3.6	3.5	3.7	3.7	3.9	3.7	3.9	3.6	3.8	4.0	3.8
Europe	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7
China	4.7	5.0	5.2	5.2	5.8	5.9	5.5	6.2	6.5	6.2	6.5	6.4	6.6	6.8	6.8	7.0	6.8
Other Asia	7.6	7.9	8.0	7.9	8.0	8.5	8.1	8.5	8.6	8.4	8.8	8.6	8.7	8.8	8.6	9.1	8.8
Latin America	4.9	4.8	4.5	4.7	4.8	4.9	4.7	4.7	4.9	5.0	5.0	4.9	4.8	5.0	5.1	5.1	5.0
Middle East	5.2	5.4	5.5	5.3	5.7	5.7	5.6	5.8	5.8	6.0	5.9	5.9	6.1	6.1	6.3	6.2	6.2
Africa	2.6	2.7	2.8	2.8	2.7	2.8	2.7	2.8	2.8	2.7	2.9	2.8	2.9	2.9	2.8	2.9	2.9
Total Non-OECD	29.3	29.9	30.6	29.7	31.1	32.3	30.9	32.3	32.9	32.7	33.8	32.9	33.8	33.9	34.0	35.0	34.2
Total Demand[1]	77.3	77.9	80.4	77.3	79.4	82.1	79.8	82.4	81.1	81.9	84.4	82.5	84.3	82.4	83.4	85.9	84.0
OECD SUPPLY																	
North America	14.4	14.5	14.6	14.4	14.6	14.7	14.6	14.8	14.7	14.4	14.4	14.6	14.6	14.6	14.7	14.8	14.7
Europe	6.7	6.6	6.7	6.2	6.0	6.4	6.3	6.4	6.2	5.7	6.0	6.1	6.0	5.8	5.7	5.9	5.9
Pacific	0.8	0.8	0.7	0.7	0.7	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Total OECD	21.8	21.8	22.0	21.3	21.3	21.8	21.6	21.8	21.5	20.7	21.0	21.2	21.1	21.0	21.0	21.3	21.1
NON-OECD SUPPLY																	
FSU	8.6	9.4	9.9	10.1	10.5	10.7	10.3	10.8	11.1	11.4	11.5	11.2	11.4	11.6	11.8	12.1	11.7
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
China	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.6	3.5	3.5	3.5	3.5
Other Asia	2.4	2.5	2.6	2.6	2.6	2.7	2.6	2.7	2.7	2.7	2.8	2.7	2.8	2.7	2.7	2.7	2.7
Latin America	3.8	4.0	4.0	3.9	4.0	4.1	4.0	4.0	4.0	4.1	4.1	4.0	4.2	4.3	4.3	4.3	4.3
Middle East	2.1	2.1	2.0	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.8	1.9	1.8	1.8	1.8	1.8	1.8
Africa	2.8	3.0	2.9	3.0	3.1	3.3	3.1	3.3	3.4	3.5	3.6	3.4	3.6	3.7	3.8	3.8	3.7
Total Non-OECD	23.2	24.5	25.1	25.3	25.7	26.3	25.6	26.4	26.7	27.2	27.5	26.9	27.6	27.8	28.1	28.3	27.9
Processing Gains[2]	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.9	1.8	1.8	1.9	1.8	1.9	1.9	1.8	1.9	1.9
Total Non-OPEC	46.8	48.1	48.9	48.3	48.8	49.9	49.0	50.0	50.0	49.7	50.3	50.0	50.5	50.6	50.9	51.5	50.9
OPEC																	
Crude[3]	27.0	25.1	26.7	26.1	26.6	27.6	26.8	27.9	28.1	29.2	29.6	28.7					
NGLs	3.4	3.7	3.5	3.9	4.0	4.2	3.9	4.3	4.3	4.3	4.4	4.3	4.7	4.7	4.8	4.9	4.8
Total OPEC	30.4	28.8	30.2	30.0	30.6	31.8	30.7	32.2	32.3	33.5	34.0	33.0					
Total Supply[4]	77.2	76.9	79.1	78.3	79.4	81.7	79.6	82.2	82.3	83.2	84.3	83.0					
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	0.3	-0.4	-0.6	1.3	0.5	-0.8	0.1	-0.6	0.9	0.5	-0.2	0.1					
Government	0.0	0.2	0.2	0.0	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.1					
Total	0.3	-0.3	-0.5	1.4	0.7	-0.5	0.3	-0.5	0.9	0.6	-0.1	0.2					
Floating Storage/Oil in Transit	-0.1	0.0	0.3	0.1	0.0	0.3	0.2	-0.2	-0.1	0.2	0.1	0.0					
Miscellaneous to balance[5]	-0.4	-0.7	-1.1	-0.4	-0.7	-0.2	-0.6	0.5	0.4	0.5	-0.1	0.3					
Total Stock Ch. & Misc	-0.1	-1.0	-1.2	1.0	0.0	-0.4	-0.1	-0.2	1.2	1.3	-0.1	0.5					
Memo items:																	
Call on OPEC crude + Stock ch.[6]	27.2	26.1	27.9	25.1	26.6	28.1	26.9	28.1	26.9	27.9	29.7	28.2	29.1	27.0	27.7	29.5	28.3
Total Demand ex. FSU	73.6	74.5	76.5	74.1	75.9	78.3	76.2	79.0	77.5	78.2	80.4	78.8	80.4	78.7	79.6	81.9	80.2
Total demand exc. FSU (% ch)[7]	0.0	1.1	0.0	0.0	0.0	0.0	2.3	3.2	4.5	3.0	2.8	3.3	1.8	1.6	1.9	1.8	1.8

1 Measured as deliveries from refineries and primary stocks, comprises inland deliveries, international marine bunkers, refinery fuel, crude for direct burning, oil from non-conventional sources and other sources of supply
2 Net volumetric gains and losses in the refining process (excludes net gain/loss in former USSR, China and non-OECD Europe) and marine transportation losses
3 Upgraded Venezuelan Orinoco extra-heavy production is classified as non-conventional crude.
4 Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply
5 Includes changes in non-reported stocks in OECD and non-OECD areas
6 Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs
7 Year on year % growth in global oil demand excluding FSU

Table 1A
WORLD OIL SUPPLY AND DEMAND: CHANGES FROM LAST MONTH'S TABLE 1
(million barrels per day)

	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
OECD DEMAND																	
North America	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	0.1	-
Europe	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-0.1	-	-	-	0.1	-	-	0.1	-
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-0.1	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1	0.1
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	0.2	-	0.1	-	0.1	0.2	0.1
Total Demand	-	-	-	-	-	-	-	-	-0.1	-	0.2	-	0.1	-0.1	0.1	0.3	0.1
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-0.1	-	-	-0.1
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.2	-0.1	-	-	-0.1
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.1	-	-0.1
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.1	-0.1
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.1	-0.1	-0.1
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.3	-0.2	-0.1	-0.1	-0.2
OPEC																	
Crude	-	-	-	-	-	-	-	-	-	-	-	-					
NGLs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OPEC	-	-	-	-	-	-	-	-	-	-	-	-					
Total Supply	-	-	-	-	-	-	-	-	-	-	-0.1	-					
STOCK CHANGES AND MISCELLANEOUS																	
REPORTED OECD																	
Industry	-	-	-	-	-	-	-	-	-	-							
Government	-	-	-	-	-	-	-	-	-	-							
Total	-	-	-	-	-	-	-	-	-	-							
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-	-	-							
Miscellaneous to balance	-	-	-	-	-	-	-	-	-	0.1							
Total Stock Ch. & Misc	-	-	-	-	-	-	-	-	-	-	-0.3	-0.1					
Memo items:																	
Call on OPEC crude + Stock ch.	-	-	-	-	-	-	-	-	-	-	0.3	0.1	0.4	0.2	0.2	0.3	0.3
Total Demand ex. FSU	-	-	-	-	-	-	-	-	-0.1	-	0.1	-	0.1	-	0.1	0.3	0.1

When submitting their monthly oil statistics, OECD Member countries periodically update data for prior periods. Similar updates to non-OECD data can occur.

Table 2

Summary of Global Oil Demand

	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
Demand (mb/d)																
North America	24.11	24.52	24.15	24.76	24.87	24.58	25.03	24.85	25.22	25.59	25.17	25.30	25.01	25.50	25.82	25.41
Europe	15.32	15.50	15.24	15.50	15.77	15.50	15.77	15.35	15.70	16.10	15.73	15.85	15.49	15.81	16.11	15.81
Pacific	8.63	9.76	8.19	8.03	9.15	8.78	9.38	8.00	8.25	8.86	8.62	9.35	7.94	8.08	8.96	8.58
Total OECD	48.06	49.78	47.58	48.29	49.79	48.86	50.18	48.20	49.17	50.55	49.53	50.49	48.44	49.40	50.89	49.80
FSU	3.45	3.81	3.19	3.45	3.85	3.57	3.47	3.68	3.74	3.94	3.71	3.89	3.62	3.79	3.99	3.82
Europe	0.69	0.76	0.70	0.65	0.71	0.70	0.77	0.71	0.67	0.73	0.72	0.79	0.73	0.69	0.75	0.74
China	4.97	5.23	5.20	5.75	5.87	5.52	6.24	6.49	6.25	6.54	6.38	6.62	6.78	6.77	6.95	6.78
Other Asia	7.88	7.98	7.87	8.04	8.53	8.10	8.47	8.57	8.36	8.80	8.55	8.69	8.79	8.60	9.06	8.78
Latin America	4.82	4.50	4.68	4.84	4.89	4.73	4.70	4.89	5.00	4.99	4.90	4.82	4.99	5.11	5.08	5.00
Middle East	5.36	5.54	5.32	5.68	5.69	5.56	5.81	5.78	5.98	5.94	5.88	6.10	6.07	6.25	6.20	6.15
Africa	2.70	2.77	2.76	2.66	2.78	2.74	2.81	2.84	2.73	2.86	2.81	2.91	2.94	2.82	2.94	2.90
Total Non-OECD	29.87	30.58	29.72	31.06	32.32	30.93	32.26	32.95	32.73	33.81	32.94	33.81	33.92	34.02	34.96	34.18
World	77.93	80.36	77.31	79.35	82.11	79.79	82.44	81.15	81.90	84.36	82.46	84.31	82.36	83.42	85.85	83.99
of which:																
US	*19.76*	*20.02*	*19.65*	*20.21*	*20.25*	*20.03*	*20.36*	*20.25*	*20.58*	*20.85*	*20.51*	*20.55*	*20.39*	*20.79*	*21.03*	*20.69*
Euro4	*8.34*	*8.33*	*8.27*	*8.32*	*8.42*	*8.33*	*8.51*	*8.23*	*8.45*	*8.63*	*8.46*	*8.56*	*8.31*	*8.47*	*8.54*	*8.47*
Japan	*5.46*	*6.37*	*5.17*	*5.04*	*5.76*	*5.58*	*6.06*	*4.95*	*5.20*	*5.50*	*5.43*	*5.98*	*4.87*	*5.01*	*5.51*	*5.34*
Korea	*2.15*	*2.38*	*2.00*	*1.95*	*2.34*	*2.17*	*2.29*	*2.01*	*1.99*	*2.27*	*2.14*	*2.31*	*2.02*	*1.99*	*2.33*	*2.16*
Mexico	*1.94*	*1.98*	*2.03*	*2.02*	*2.03*	*2.02*	*2.02*	*2.02*	*2.02*	*2.09*	*2.04*	*2.11*	*2.03*	*2.06*	*2.09*	*2.07*
Canada	*2.08*	*2.17*	*2.16*	*2.20*	*2.25*	*2.19*	*2.27*	*2.25*	*2.28*	*2.30*	*2.28*	*2.27*	*2.27*	*2.31*	*2.34*	*2.30*
Brazil	*2.12*	*1.97*	*2.02*	*2.10*	*2.13*	*2.05*	*2.07*	*2.13*	*2.20*	*2.16*	*2.14*	*2.12*	*2.15*	*2.23*	*2.19*	*2.17*
India	*2.32*	*2.38*	*2.30*	*2.26*	*2.45*	*2.35*	*2.53*	*2.51*	*2.33*	*2.47*	*2.46*	*2.58*	*2.57*	*2.40*	*2.56*	*2.53*
Annual Change (% per annum)																
North America	0.4	2.6	0.7	2.1	2.4	2.0	2.0	2.9	1.8	2.9	2.4	1.1	0.7	1.1	0.9	0.9
Europe	-0.1	0.6	2.2	0.6	1.5	1.2	1.8	0.7	1.3	2.1	1.5	0.5	0.9	0.7	0.1	0.5
Pacific	-0.4	6.4	5.3	-1.9	-2.7	1.7	-3.8	-2.4	2.8	-3.2	-1.8	-0.3	-0.7	-2.0	1.1	-0.5
Total OECD	0.1	2.7	2.0	0.9	1.1	1.7	0.8	1.3	1.8	1.5	1.4	0.6	0.5	0.5	0.7	0.6
FSU	-5.5	9.3	2.6	2.2	0.2	3.5	-8.9	15.4	8.6	2.2	3.8	11.9	-1.6	1.3	1.2	3.0
Europe	1.4	1.8	1.6	1.6	1.7	1.7	1.8	1.9	2.4	2.8	2.2	2.5	2.6	2.9	3.1	2.8
China	6.3	12.2	3.3	16.0	12.5	11.0	19.3	24.6	8.6	11.5	15.6	6.2	4.6	8.3	6.3	6.3
Other Asia	3.5	3.0	-0.5	2.9	5.6	2.8	6.2	9.0	4.1	3.2	5.5	2.6	2.6	2.8	3.0	2.7
Latin America	-0.9	-4.4	-3.0	-1.1	0.8	-1.9	4.3	4.4	3.4	2.1	3.5	2.7	2.1	2.0	1.7	2.1
Middle East	3.3	4.4	1.6	4.1	4.7	3.7	4.9	8.5	5.2	4.5	5.7	4.9	5.1	4.6	4.3	4.7
Africa	2.9	2.1	1.6	0.9	2.0	1.7	1.4	2.7	2.8	2.6	2.4	3.7	3.6	3.1	2.8	3.3
Total Non-OECD	2.0	4.2	0.7	4.4	4.8	3.5	5.5	10.8	5.4	4.6	6.5	4.8	3.0	3.9	3.4	3.8
World	0.8	3.2	1.5	2.2	2.5	2.4	2.6	5.0	3.2	2.7	3.4	2.3	1.5	1.9	1.8	1.8
Annual Change (mb/d)																
North America	0.10	0.63	0.18	0.50	0.58	0.47	0.50	0.70	0.46	0.72	0.60	0.27	0.16	0.28	0.23	0.24
Europe	-0.01	0.09	0.33	0.09	0.23	0.18	0.28	0.11	0.20	0.33	0.23	0.07	0.13	0.12	0.01	0.08
Pacific	-0.04	0.58	0.41	-0.15	-0.26	0.14	-0.38	-0.20	0.22	-0.30	-0.16	-0.03	-0.06	-0.17	0.10	-0.04
Total OECD	0.06	1.30	0.92	0.44	0.55	0.80	0.40	0.61	0.88	0.76	0.67	0.31	0.24	0.23	0.34	0.28
FSU	-0.20	0.33	0.08	0.07	0.01	0.12	-0.34	0.49	0.30	0.09	0.14	0.41	-0.06	0.05	0.05	0.11
Europe	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
China	0.30	0.57	0.17	0.79	0.65	0.55	1.01	1.28	0.50	0.67	0.86	0.38	0.30	0.52	0.41	0.40
Other Asia	0.27	0.23	-0.04	0.23	0.46	0.22	0.49	0.70	0.33	0.28	0.45	0.22	0.22	0.23	0.26	0.23
Latin America	-0.04	-0.21	-0.14	-0.05	0.04	-0.09	0.19	0.20	0.16	0.10	0.16	0.13	0.10	0.10	0.08	0.10
Middle East	0.17	0.23	0.08	0.23	0.26	0.20	0.27	0.45	0.30	0.25	0.32	0.29	0.29	0.28	0.25	0.28
Africa	0.08	0.06	0.04	0.02	0.06	0.04	0.04	0.07	0.08	0.07	0.07	0.10	0.10	0.09	0.08	0.09
Total Non-OECD	0.57	1.22	0.20	1.30	1.48	1.05	1.68	3.22	1.67	1.48	2.01	1.56	0.98	1.29	1.16	1.24
World	0.63	2.52	1.13	1.74	2.03	1.85	2.08	3.84	2.55	2.25	2.68	1.87	1.22	1.52	1.50	1.52
Changes from Last Month's Report																
North America	-	-	-	-	-	-	-	-	-	0.11	0.03	0.05	-	-	0.09	0.03
Europe	-	-	-	-	-0.01	-	-	-0.05	-0.05	0.04	-0.02	0.01	-0.04	-0.05	0.04	-0.01
Pacific	-	-	-	-	-	-	-	-	-	-0.13	-0.03	0.01	-	-	-0.01	-
Total OECD	-	-	-	-	-0.01	-	-	-0.05	-0.04	0.02	-0.02	0.07	-0.05	-0.04	0.12	0.03
FSU	-	-	-	-	-	-	-	-	-	0.09	0.02	0.05	-0.07	0.02	-0.03	-0.01
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	0.05	0.01	0.01	0.03	0.06	0.11	0.05
Other Asia	-	-	-	-	-	-	-	-	-	0.03	0.01	0.02	0.03	0.01	0.06	0.03
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	0.02	0.03	0.01
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	0.18	0.05	0.07	-0.01	0.12	0.17	0.09
World	-	-	-	-	-0.01	-	-	-0.05	-0.04	0.20	0.03	0.14	-0.05	0.07	0.29	0.11

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2003	2004	2005	3Q04	4Q04	1Q05	2Q05	3Q05	Nov 04	Dec 04	Jan 05
OPEC											
Crude Oil											
Saudi Arabia	8.48	8.75		9.12	9.23				9.25	9.15	8.80
Iran	3.78	3.93		3.89	3.96				4.02	4.00	3.95
Iraq	1.33	1.99		1.92	1.98				1.79	1.95	1.79
UAE	2.29	2.35		2.44	2.45				2.42	2.52	2.43
Kuwait	1.87	2.05		2.07	2.14				2.14	2.14	2.04
Neutral Zone	0.60	0.60		0.61	0.60				0.61	0.60	0.60
Qatar	0.72	0.78		0.80	0.80				0.80	0.80	0.77
Nigeria	2.15	2.33		2.35	2.33				2.35	2.27	2.32
Libya	1.42	1.55		1.59	1.61				1.61	1.61	1.60
Algeria	1.11	1.21		1.24	1.28				1.29	1.29	1.31
Venezuela	2.01	2.21		2.21	2.24				2.25	2.23	2.20
Indonesia	1.01	0.97		0.96	0.97				0.97	0.98	0.96
Total Crude Oil	26.77	28.70		29.19	29.61				29.47	29.53	28.75
Total NGLs[1]	3.90	4.32	4.77	4.32	4.38	4.67	4.71	4.84	4.35	4.47	4.63
Total OPEC	30.67	33.01		33.51	33.99				33.82	34.00	33.38
NON-OPEC[2]											
OECD											
North America	14.61	14.59	14.70	14.40	14.45	14.60	14.65	14.73	14.62	14.42	14.45
United States	7.82	7.68	7.79	7.51	7.61	7.77	7.80	7.81	7.70	7.75	7.70
Mexico	3.79	3.83	3.85	3.82	3.78	3.85	3.85	3.84	3.80	3.66	3.85
Canada	3.00	3.09	3.07	3.07	3.06	2.99	3.00	3.09	3.12	3.02	2.89
Europe	6.33	6.06	5.85	5.69	5.97	5.96	5.82	5.69	6.07	5.87	5.86
UK	2.28	2.05	1.90	1.89	1.99	2.01	1.87	1.83	2.02	2.03	2.03
Norway	3.26	3.16	3.10	2.95	3.12	3.10	3.10	3.00	3.20	2.97	2.99
Others	0.80	0.85	0.85	0.85	0.86	0.85	0.85	0.85	0.86	0.87	0.85
Pacific	0.65	0.57	0.54	0.59	0.55	0.55	0.53	0.54	0.56	0.57	0.56
Australia	0.61	0.53	0.50	0.54	0.51	0.51	0.49	0.50	0.52	0.53	0.51
Others	0.05	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.05	0.04	0.04
Total OECD	21.59	21.22	21.09	20.68	20.97	21.12	20.99	20.97	21.25	20.86	20.86
NON-OECD											
Former USSR	10.31	11.18	11.71	11.35	11.46	11.38	11.57	11.83	11.49	11.43	11.31
Russia	8.49	9.23	9.58	9.40	9.41	9.33	9.49	9.68	9.43	9.37	9.26
Others	1.82	1.96	2.13	1.95	2.05	2.05	2.07	2.15	2.07	2.06	2.05
Asia	6.03	6.24	6.25	6.25	6.36	6.34	6.27	6.22	6.40	6.40	6.37
China	3.41	3.49	3.54	3.54	3.54	3.57	3.55	3.53	3.57	3.57	3.58
Malaysia	0.83	0.86	0.82	0.86	0.87	0.86	0.83	0.81	0.88	0.86	0.87
India	0.79	0.80	0.79	0.77	0.81	0.80	0.79	0.78	0.82	0.81	0.81
Others	1.01	1.09	1.10	1.09	1.14	1.11	1.10	1.10	1.14	1.15	1.11
Europe	0.17	0.17	0.16	0.17	0.17	0.16	0.16	0.16	0.17	0.17	0.16
Latin America	4.00	4.04	4.30	4.07	4.08	4.23	4.30	4.34	4.02	4.12	4.17
Brazil	1.77	1.77	2.00	1.80	1.79	1.94	1.99	2.03	1.74	1.83	1.88
Argentina	0.83	0.78	0.74	0.78	0.77	0.76	0.75	0.74	0.76	0.78	0.76
Colombia	0.55	0.54	0.52	0.55	0.54	0.53	0.52	0.51	0.54	0.54	0.53
Ecuador	0.43	0.53	0.57	0.54	0.54	0.55	0.57	0.58	0.54	0.55	0.55
Others	0.42	0.42	0.47	0.41	0.44	0.45	0.48	0.48	0.44	0.43	0.44
Middle East[3]	2.00	1.88	1.79	1.87	1.84	1.82	1.79	1.78	1.84	1.84	1.83
Oman	0.82	0.76	0.72	0.76	0.75	0.74	0.73	0.72	0.75	0.75	0.75
Syria	0.53	0.51	0.48	0.50	0.50	0.49	0.48	0.47	0.50	0.49	0.49
Yemen	0.45	0.41	0.39	0.40	0.40	0.39	0.39	0.39	0.40	0.40	0.39
Africa	3.07	3.43	3.72	3.48	3.57	3.62	3.70	3.77	3.58	3.56	3.59
Egypt	0.75	0.71	0.71	0.71	0.70	0.71	0.72	0.72	0.70	0.68	0.70
Angola	0.88	0.99	1.15	0.99	1.11	1.13	1.16	1.16	1.11	1.11	1.11
Gabon	0.24	0.24	0.24	0.23	0.23	0.23	0.23	0.24	0.23	0.23	0.23
Others	1.20	1.50	1.62	1.56	1.54	1.55	1.58	1.66	1.54	1.54	1.55
Total Non-OECD	25.58	26.94	27.93	27.18	27.47	27.55	27.79	28.09	27.49	27.50	27.43
Processing Gains[4]	1.80	1.83	1.86	1.81	1.85	1.88	1.85	1.84	1.85	1.85	1.88
TOTAL NON-OPEC	48.98	49.99	50.89	49.68	50.29	50.55	50.64	50.89	50.60	50.21	50.17
TOTAL SUPPLY	79.64	83.00		83.19	84.27				84.42	84.21	83.55

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Orimulsion Orinoco extra-heavy oil, and non-oil inputs to Saudi Arabian MTBE
2 Comprises crude oil, condensates, NGLs and oil from non-conventional sources
3 Includes small amounts of production from Israel, Jordan and Bahrain
4 Net volumetric gains and losses in refining (excludes net gain/loss in FSU, China and non-OECD Europe) and marine transportation losses

Table 4

OECD INDUSTRY STOCKS[1] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Aug2004	Sep2004	Oct2004	Nov2004	Dec2004*	Dec2001	Dec2002	Dec2003	1Q2004	2Q2004	3Q2004	4Q2004
North America												
Crude	394.9	393.8	410.7	413.7	411.4	422.0	386.7	381.8	0.32	0.08	-0.26	0.19
Motor Gasoline	240.3	236.3	234.3	241.6	249.0	241.2	240.4	234.0	-0.02	0.07	-0.02	0.14
Middle Distillate	203.8	194.9	191.6	200.6	203.3	222.5	207.5	209.7	-0.44	0.14	0.14	0.09
Residual Fuel Oil	44.6	41.0	44.7	50.9	49.3	49.3	40.2	45.7	0.02	-0.03	-0.05	0.09
Total Products[3]	672.6	660.6	653.8	672.9	666.8	688.7	652.2	645.1	-0.52	0.41	0.28	0.07
Total[4]	1223.5	1220.4	1226.0	1244.2	1232.9	1261.8	1173.7	1165.7	-0.22	0.57	0.26	0.14
Europe												
Crude	328.5	332.7	331.5	352.4	326.1	319.5	297.0	318.4	0.26	-0.03	-0.07	-0.07
Motor Gasoline	114.8	112.3	114.9	112.9	110.6	126.1	117.0	115.4	0.00	-0.06	0.02	-0.02
Middle Distillate	259.8	249.7	251.2	237.1	231.6	230.5	239.6	238.4	-0.25	0.20	0.17	-0.20
Residual Fuel Oil	78.4	76.9	75.3	71.3	69.7	74.6	78.6	78.8	-0.04	0.03	0.00	-0.08
Total Products[3]	557.6	541.5	545.2	525.6	515.5	544.0	535.5	535.3	-0.34	0.18	0.23	-0.28
Total[4]	952.4	944.2	947.1	949.8	912.5	927.1	895.9	923.8	-0.02	0.08	0.16	-0.34
Pacific												
Crude	167.5	168.7	177.1	192.3	173.9	176.0	161.1	179.9	-0.06	0.02	-0.09	0.06
Motor Gasoline	23.3	23.9	23.3	24.8	22.9	22.3	23.6	22.4	0.03	-0.01	-0.01	-0.01
Middle Distillate	69.6	74.8	75.0	82.9	73.0	76.2	65.1	74.2	-0.21	0.06	0.16	-0.02
Residual Fuel Oil	23.3	21.3	21.1	23.7	22.5	23.2	22.0	22.8	-0.03	0.03	-0.01	0.01
Total Products[3]	182.2	186.2	188.8	200.9	185.4	188.0	177.9	183.9	-0.28	0.15	0.15	-0.01
Total[4]	421.6	429.6	438.0	467.6	431.4	443.3	410.1	435.3	-0.38	0.21	0.11	0.02
Total OECD												
Crude	891.0	895.1	919.3	958.4	911.4	917.5	844.8	880.1	0.52	0.07	-0.42	0.18
Motor Gasoline	378.4	372.4	372.5	379.4	382.5	389.5	380.9	371.7	0.01	0.00	-0.01	0.11
Middle Distillate	533.2	519.4	517.9	520.6	508.0	529.2	512.2	522.3	-0.90	0.40	0.46	-0.12
Residual Fuel Oil	146.3	139.2	141.1	145.8	141.5	147.1	140.9	147.3	-0.05	0.03	-0.06	0.02
Total Products[3]	1412.3	1388.3	1387.8	1399.4	1367.7	1420.7	1365.6	1364.3	-1.15	0.74	0.67	-0.22
Total[4]	2597.6	2594.2	2611.0	2661.6	2576.8	2632.3	2479.7	2524.8	-0.62	0.85	0.53	-0.19

OECD GOVERNMENT-CONTROLLED STOCKS[5,6] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Aug2004	Sep2004	Oct2004	Nov2004	Dec2004*	Dec2001	Dec2002	Dec2003	1Q2004	2Q2004	3Q2004	4Q2004
North America												
Crude	669.0	670.3	670.3	672.8	674.9	550.2	599.1	638.4	0.15	0.11	0.09	0.05
Products[7]	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.00	0.00	0.00	0.00
Europe												
Crude	158.0	157.8	158.8	160.6	160.6	141.4	157.1	157.4	0.01	0.00	0.00	0.03
Products	205.9	205.4	202.9	203.6	203.6	210.9	196.3	212.5	-0.03	-0.05	0.00	-0.02
Pacific												
Crude	386.7	384.9	382.5	382.5	384.5	372.4	379.6	384.7	0.02	0.00	-0.02	0.00
Products	11.2	11.2	11.2	11.2	11.2	7.3	9.5	11.0	0.00	0.00	0.00	0.00
Total OECD												
Crude	1213.6	1213.0	1211.6	1215.8	1219.9	1064.1	1135.8	1180.5	0.18	0.11	0.06	0.08
Products	219.1	218.6	216.0	216.7	216.7	220.2	207.8	225.6	-0.03	-0.05	0.01	-0.02
Total[4]	1433.7	1432.6	1428.6	1433.6	1437.7	1285.3	1344.6	1407.1	0.15	0.06	0.07	0.06

* estimated

1 Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) and include stocks held by industry to meet IEA, EU and national emergency reserve commitments and are subject to government control in emergencies.

2 Closing stock levels.

3 Total products includes gasoline, middle distillates, fuel oil and other products.

4 Total includes NGLs, refinery feedstocks, additives/oxygenates and other hydrocarbons.

5 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.

Table 5

TOTAL STOCKS ON LAND IN OECD COUNTRIES[1]

('millions of barrels' and 'days')

	End December 2003		End March 2004		End June 2004		End September 2004		End December 2004 [3]	
	Stock Level	Days Fwd[2] Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand
North America										
Canada	174.6	77	170.4	76	168.8	74	183.8	-	-	-
Mexico	39.0	19	38.9	19	39.5	20	41.4	-	-	-
United States[4]	1570.3	77	1568.2	77	1630.9	79	1645.3	-	-	-
Total[5]	1806.1	72	1799.6	72	1861.3	74	1892.7	74	1909.8	75
Pacific										
Australia	32.4	37	33.8	39	34.9	39	34.3	-	-	-
Japan	636.3	105	614.4	124	622.0	120	632.0	-	-	-
Korea	154.5	67	142.9	71	152.9	77	152.1	-	-	-
New Zealand	7.9	49	7.5	48	7.7	50	7.3	-	-	-
Total	831.1	89	798.5	100	817.4	99	825.7	93	827.1	88
Europe[6]										
Austria	19.5	76	21.0	77	20.3	68	19.9	-	-	-
Belgium	27.7	42	24.6	45	26.5	49	27.7	-	-	-
Czech Republic	16.4	95	15.6	74	15.9	70	16.9	-	-	-
Denmark	16.8	87	15.9	88	15.8	90	19.4	-	-	-
Finland	26.5	120	27.8	133	23.4	108	24.0	-	-	-
France	185.3	87	176.4	90	183.5	92	188.5	-	-	-
Germany	272.6	103	269.8	106	266.9	98	264.3	-	-	-
Greece	27.5	57	29.4	77	30.8	78	34.1	-	-	-
Hungary	16.8	143	19.5	153	20.1	153	18.7	-	-	-
Ireland	12.0	63	11.5	69	10.7	63	11.1	-	-	-
Italy	135.2	72	135.6	73	134.6	71	138.7	-	-	-
Luxembourg	1.0	17	0.8	13	1.0	16	0.9	-	-	-
Netherlands	100.1	105	108.2	111	102.3	108	110.2	-	-	-
Norway	27.2	99	28.5	116	30.0	118	23.3	-	-	-
Poland	28.7	64	29.7	62	30.1	59	31.1	-	-	-
Portugal	25.3	81	24.4	74	26.2	76	25.0	-	-	-
Slovak Republic	5.0	74	5.8	82	6.5	87	5.6	-	-	-
Spain	122.4	78	123.5	79	127.3	82	126.8	-	-	-
Sweden	35.9	101	31.8	89	31.1	91	31.5	-	-	-
Switzerland	36.1	138	35.4	149	37.5	144	37.8	-	-	-
Turkey	54.9	84	54.9	79	54.8	77	55.2	-	-	-
United Kingdom	101.9	55	100.7	54	97.6	53	97.7	-	-	-
Total	1294.7	82	1290.7	84	1293.0	82	1308.4	81	1277.6	81
Total OECD	3931.8	78	3888.7	81	3971.7	81	4026.7	80	4014.4	80
DAYS OF IEA Net Imports[7]	-	112	-	111	-	113	-	114	-	-

1 Total Stocks are industry and government-controlled stocks (see breakdown in table below). Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) they include stocks held by industry to meet IEA, EU and national emergency reserves commitments and are subject to government control in emergencies.
2 Note that days of forward demand represent the stock level divided by the forward quarter average daily demand and is very different from the days of net imports used for the calculation of IEA Emergency Reserves.
3 End December 2004 forward demand figures are IEA Secretariat forecasts.
4 US figures exclude US territories.
5 Total includes US territories.
6 Data not available for Iceland.
7 Reflects stock levels and prior calendar year's net imports adjusted according to IEA emergency reserve definitions. Net exporting IEA countries are excluded.

TOTAL OECD STOCKS

CLOSING STOCKS	Total	Government[1] controlled	Industry	Total	Government[1] controlled	Industry
	Millions of Barrels			*Days of Fwd. Demand[2]*		
4Q2001	3918	1285	2632	81	27	54
1Q2002	3912	1304	2609	84	28	56
2Q2002	3969	1316	2654	83	27	55
3Q2002	3899	1321	2579	79	27	52
4Q2002	3824	1345	2480	77	27	50
1Q2003	3788	1359	2429	80	29	51
2Q2003	3913	1362	2550	81	28	53
3Q2003	3981	1380	2600	80	28	52
4Q2003	3932	1407	2525	78	28	50
1Q2004	3889	1421	2468	81	29	51
2Q2004	3972	1426	2546	81	29	52
3Q2004	4027	1433	2594	80	28	51
4Q2004	4014	1438	2577	80	28	51

1 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.
2 Days of forward demand calculated using actual demand except in 4Q2004 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2001	2002	2003	4Q03	1Q04	2Q04	3Q04	Sep 04	Oct 04	Nov 04	Year Earlier Nov 03	Year Earlier change
Saudi Light & Extra Light												
North America	0.69	0.64	0.64	0.66	0.55	0.56	0.56	0.53	0.58	0.52	0.62	-0.10
Europe	0.92	0.92	1.00	0.95	0.96	1.05	1.04	1.07	1.05	1.03	0.98	0.05
Pacific	1.22	1.22	1.18	1.12	1.14	1.13	1.23	1.28	1.34	1.47	1.10	0.36
Saudi Medium												
North America	0.73	0.70	0.83	0.71	0.72	0.73	0.86	0.80	0.78	0.93	0.80	0.13
Europe	0.15	0.11	0.11	0.07	0.08	0.07	0.11	0.16	0.12	0.18	0.08	0.10
Pacific	0.17	0.16	0.24	0.30	0.31	0.20	0.18	0.19	0.23	0.25	0.34	-0.09
Saudi Heavy												
North America	0.21	0.20	0.30	0.19	0.19	0.14	0.30	0.29	0.31	0.24	0.21	0.03
Europe	0.14	0.09	0.19	0.16	0.16	0.26	0.31	0.28	0.23	0.22	0.17	0.05
Pacific	0.15	0.12	0.16	0.15	0.13	0.13	0.16	0.18	0.15	0.23	0.16	0.07
Iraqi Basrah Light[2]												
North America	0.65	0.35	0.44	0.82	0.75	0.74	0.68	0.72	0.65	0.61	0.65	-0.04
Europe	0.15	0.08	0.09	0.15	0.22	0.27	0.21	0.19	0.10	0.13	0.17	-0.04
Pacific	0.01	0.02	0.03	0.11	0.14	0.08	0.12	0.10	0.21	0.17	0.13	0.04
Iraqi Kirkuk												
North America	0.09	0.14	0.06	..	..	0.04	0.01	0.03	0.03	..	..	..
Europe	0.31	0.32	0.12	..	0.04	0.07	0.03	0.07	0.09	0.20	..	..
Pacific	0.01	0.00	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.16	0.17	0.19	0.18	0.20	0.23	0.23	0.25	0.36	0.17	0.13	0.04
Pacific	0.13	0.12	0.17	0.17	0.18	0.13	0.16	0.17	0.14	0.16	0.15	0.01
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.53	0.44	0.59	0.55	0.50	0.61	0.65	0.67	0.56	0.47	0.58	-0.12
Pacific	0.63	0.54	0.69	0.74	0.73	0.65	0.58	0.57	0.65	0.58	0.69	-0.12
Venezuelan Light & Medium												
North America	0.61	0.68	0.69	0.84	0.63	0.78	0.64	0.66	0.57	0.51	0.73	-0.22
Europe	0.07	0.08	0.02	0.01	..	0.02	0.02	0.01	0.02	..	..	..
Pacific	0.00	0.00	0.00	0.00	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.65	0.55	0.60	0.73	0.81	0.91	0.86	0.75	0.93	0.91	0.75	0.16
Europe	0.07	0.05	0.06	0.09	0.05	0.07	0.06	0.04	0.05	0.06	0.08	-0.02
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	0.77	0.92	1.32	1.37	1.31	1.43	1.34	1.33	1.44	1.40	1.40	0.00
Europe	0.14	0.17	0.16	0.13	0.14	0.19	0.20	0.21	0.15	0.13	0.14	-0.01
Pacific	0.01	0.00	0.00	..	0.01	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.04	0.01	0.00	..	..	..	..	..	..	..	..	..
Europe	0.03	0.01	0.00	0.00	..	..	..	..	0.03	0.03	..	..
Pacific	0.01	0.01	0.00	..	0.01	..	..	..	..	..	..	..
Russian Urals												
North America	..	0.03	0.14	..	0.01	0.14	0.12	0.02	0.20	0.25	..	..
Europe	1.10	1.32	1.62	1.75	2.14	1.98	1.78	1.55	1.49	1.72	1.82	-0.09
Pacific	0.01	0.01	0.00	0.01	0.00	0.01	0.01	..	..	..	0.01	..
Nigerian Light[4]												
North America	0.50	0.38	0.63	0.67	0.80	0.90	0.78	0.79	0.68	0.82	0.57	0.25
Europe	0.38	0.32	0.41	0.38	0.32	0.22	0.30	0.29	0.32	0.26	0.45	-0.19
Pacific	0.02	0.06	0.08	0.09	0.12	0.10	0.09	0.08	0.06	0.17	0.12	0.05
Nigerian Medium												
North America	0.31	0.16	0.17	0.21	0.26	0.21	0.22	0.16	0.24	0.17	0.16	0.01
Europe	0.10	0.06	0.06	0.09	0.03	0.04	0.05	0.09	0.01	0.02	0.06	-0.04
Pacific	0.00	0.01	0.01	..	0.02	..	..	..	..	..	..	..

1 Data based on monthly submissions from IEA countries to the crude oil import register (in '000 bbl), subject to availability. May differ from Table 8 of the Report.
IEA North America includes United States and Canada.
IEA Europe includes all countries in OECD Europe except Hungary, Poland and the Slovak Republic.
IEA Pacific data includes Australia, New Zealand, Korea and Japan.

2 Iraqi Total minus Kirkuk.

3 Iranian Total minus Iranian Light.

4 33 API and lighter (e.g., Bonny Light, Escravos, Qua Iboe and Oso Condensate).

Table 7
Regional OECD Imports[1,2]

(thousand barrels per day)

	2001	2002	2003	4Q2003	1Q2004	2Q2004	3Q2004	Sep-04	Oct-04	Nov-04	Year Earlier Nov-03	Year Earlier % change
Crude Oil												
North America	8020	7584	8069	7971	8027	8557	8547	7966	8351	8473	7662	10%
Europe	8691	8725	9087	9155	9395	9499	9654	9729	9842	10528	9098	14%
Pacific	6895	6422	6711	6683	7011	6170	6457	6415	6745	7609	6473	15%
Total OECD	23605	22731	23867	23808	24433	24226	24658	24110	24937	26610	23233	13%
LPG												
North America	28	39	27	33	29	10	25	31	32	54	34	36%
Europe	252	226	198	227	252	195	215	263	295	263	221	16%
Pacific	546	553	541	523	550	585	469	439	570	583	571	2%
Total OECD	825	818	765	783	832	790	709	732	897	900	826	8%
Naphtha												
North America	59	42	67	56	53	49	96	122	151	123	42	66%
Europe	298	298	311	323	310	318	233	205	237	237	309	-30%
Pacific	647	705	770	761	782	761	787	791	715	714	670	6%
Total OECD	1004	1045	1148	1140	1145	1128	1116	1118	1103	1074	1021	5%
Gasoline[3]												
North America	673	680	703	569	673	896	854	782	833	809	590	27%
Europe	131	150	147	156	218	157	140	110	212	235	124	47%
Pacific	36	58	70	75	105	118	90	103	89	109	79	28%
Total OECD	840	889	919	800	996	1171	1084	994	1133	1152	793	31%
Jet & Kerosene												
North America	139	97	97	63	45	102	88	55	114	132	34	74%
Europe	247	217	211	228	173	234	309	332	224	296	300	-1%
Pacific	73	97	102	132	92	60	52	62	95	114	119	-4%
Total OECD	459	411	410	422	310	395	449	449	434	542	453	17%
Gasoil/Diesel												
North America	186	102	126	76	199	92	108	66	87	124	55	56%
Europe	575	655	653	629	679	654	772	757	888	785	661	16%
Pacific	31	53	73	73	56	92	79	85	61	67	55	18%
Total OECD	791	810	851	779	934	838	959	907	1036	976	771	21%
Heavy Fuel Oil												
North America	314	237	326	324	364	317	346	346	585	564	333	41%
Europe	397	471	394	446	365	435	449	500	437	418	456	-9%
Pacific	81	89	88	80	76	77	87	90	64	93	58	38%
Total OECD	793	797	808	850	806	829	882	935	1086	1075	847	21%
Other Products												
North America	703	689	680	603	869	701	951	933	725	798	685	14%
Europe	736	735	685	704	665	702	711	699	694	789	735	7%
Pacific	218	256	236	218	249	266	261	287	223	225	174	23%
Total OECD	1657	1680	1601	1524	1782	1669	1922	1919	1643	1811	1594	12%
Total Products												
North America	2103	1887	2026	1724	2233	2165	2467	2334	2527	2602	1773	32%
Europe	2636	2751	2598	2713	2661	2696	2829	2865	2988	3023	2806	7%
Pacific	1631	1811	1879	1862	1910	1960	1825	1856	1816	1905	1726	9%
Total OECD	6369	6449	6503	6299	6804	6821	7121	7055	7331	7530	6305	16%
Total Oil												
North America	10122	9471	10095	9694	10260	10722	11014	10300	10878	11076	9435	15%
Europe	11326	11476	11684	11868	12057	12195	12483	12594	12830	13551	11904	12%
Pacific	8526	8233	8590	8545	8921	8130	8282	8270	8561	9513	8199	14%
Total OECD	29974	29179	30369	30107	31237	31047	31779	31164	32269	34140	29538	13%

1 Based on Monthly Oil Questionnaire data submitted by OECD countries in tonnes and converted to barrels.

2 Excludes intra-regional trade

3 Includes additives

OIL MARKET REPORT CONTACTS

Acting Editor	Kenji Kobayashi (+33) 0*1 40 57 66 00 e-mail: kenji.kobayashi@iea.org
Demand	Jeff Brown (+33) 0*1 40 57 65 93 e-mail: jeff.brown@iea.org
Supply	David Fyfe (+33) 0*1 40 57 65 94 e-mail: david.fyfe@iea.org
OECD Stocks	Harry Tchilinguirian (+33) 0*1 40 57 65 22 e-mail: harry.tchilinguirian@iea.org
Prices and Refinery Activity	Lawrence Eagles (+33) 0*1 40 57 66 58 e-mail: lawrence.eagles@iea.org
Statistical Support	Toril Ekeland Bosoni (+33) 0*1 40 57 66 36 e-mail: toril.bosoni@iea.org
Administrative Support	Anne Mayne (+33) 0*1 40 57 65 96 e-mail: anne.mayne@iea.org
	Brid Deely (+33) 0*1 40 57 67 31 e-mail: bridget.deely@iea.org
Fax:	*(+33) 0*1 40 57 65 99/40 57 65 09*

* 0 only within France

For all **Subscription and Delivery Enquiries** please contact:

International Energy Agency
Attn: Ms. Sandra Coleman
Oil Market Report Subscriptions
BP 586-75726 Paris Cedex 15, France

Tel. +33 (0) 1 40 57 65 57
Fax. +33 (0) 1 40 57 65 59

E-mail: omr@iea.org

Users' Guide to the IEA Oil Market Report

Readers are referred to the Users' Guide, published in conjunction with the Annual Statistical Supplement (current issue dated 11 August 2004), for information on the data sources, definitions, technical terms and general approach used in preparing the Report. It should be noted that the spot crude and product price assessments are based on daily Platt's prices, converted when appropriate to US$ per barrel according to the Platt's specification of products (©2005 Platt's - a division of McGraw-Hill Inc.).

INTERNATIONAL ENERGY AGENCY/AGENCE INTERNATIONALE DE L'ENERGIE

OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

www.oilmarketreport.org

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

11 March 2005

HIGHLIGHTS

- Cold weather and strong global demand pushed benchmark IPE Brent and spot Dubai crude prices to record levels in early March, reaching $54.30/bbl and $45.47/bbl respectively. Distillate and jet fuel prices were also strong globally, but particularly in Asia and Europe, where temperatures were below seasonal norms.

- The global demand forecast for 2005 has been raised by 330 kb/d, to 84.3 mb/d. Annual growth now averages 1.8 mb/d. The revision is attributed primarily to very cold weather in late February and early March, a more robust view of US economic growth and the impact of this and other factors on China's oil demand growth prospects.

- World oil supply rebounded by 885 kb/d in February to 84.3 mb/d. Non-OPEC added 445 kb/d, with recovering North American and North Sea supply. Russian output rose after a four-month decline. Non-OPEC supply is revised up by 75 kb/d in 2004 and 90 kb/d in 2005. It averages 51.0 mb/d this year, 925 kb/d above 2004.

- OPEC February crude supply rose by 390 kb/d to 29.0 mb/d due to increases from Kuwait, Nigeria, Saudi Arabia and Iraq. The 2005 call on OPEC crude and stock change is revised up by 0.2 mb/d to 28.6 mb/d, versus 28.1 mb/d in 2004. The revision is most pronounced in the first half of 2005, before higher non-OPEC output takes effect.

- OECD industry oil stocks fell by 3 mb in January to 2573 mb, closing 66 mb above a year ago. Upward revisions to OECD demand for the first quarter of 2005 kept forward cover steady at 51 days. US gasoline stocks began March at 224 mb, up by 21.5 mb from a year ago.

Next Issue: 12 April 2005

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

The IEA is Seeking to Recruit a Senior Oil Market Analyst

The International Energy Agency (IEA), an intergovernmental body committed to advancing security of energy supply, economic growth and environmental sustainability through energy policy co-operation, is seeking to recruit a Senior Oil Market Analyst to examine developments and future prospects in global oil markets. The successful applicant will work under the guidance of the Head of the Oil Industry and Markets Division of the IEA.

The ideal candidate will possess:

- A university degree in economics, supplemented by an advanced university degree in business, finance, resource economics or other relevant subjects.
- A very good knowledge of, and eight to ten years' experience in, oil industry, refining and markets analysis. International experience desirable.
- Policy experience with exposure to energy questions in government and/or industry. Demonstrated experience in quantitative data analysis and in developing analytical methodologies. Proven skills in working with databases, spreadsheets and word-processing software.
- Ability to work well under extremely demanding deadlines.
- Excellent level of oral and written communication skills and excellent drafting ability in English; a working knowledge of French would be an advantage.

The IEA operates as an autonomous agency within the Organisation for Economic Co-operation and Development (OECD), a forum within which the governments of 30 market democracies work together to address the economic, social and governance challenges of the globalising world economy, as well as to exploit its opportunities.

The OECD is an equal opportunity employer and offers an attractive remuneration package. We encourage applications from female candidates.

For further information on the OECD and the IEA: **www.oecd.org** (click on *Recruitment* for the full vacancy notice and the online application form) and **www.iea.org**.

Applications (in English or French) from nationals of OECD member countries should include a CV, specify the reference VAC(05)024 and be sent online by **24 March 2005**.

Please note that only candidates selected for interview will be contacted.

OECD OCDE

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
Organisation de coopération et de développement économiques

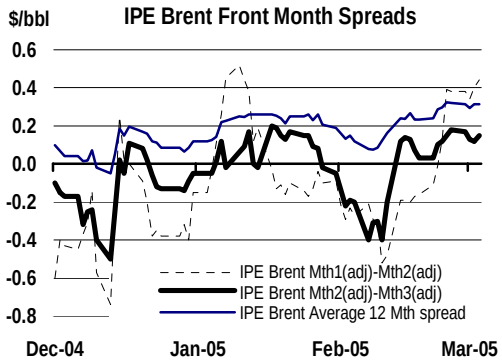
CONTENTS

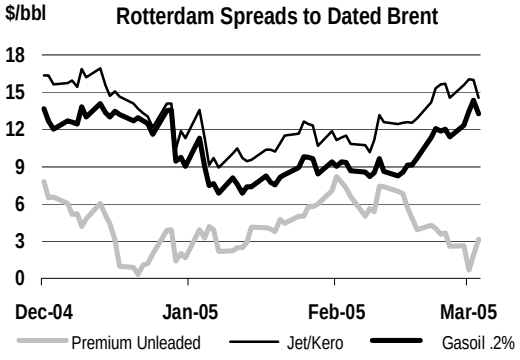
TUNNEL VISION

NYMEX light sweet crude oil topped $55 in early March, US gasoline prices reached record levels and non-commercial positions reached eight-month highs. All this, despite rising US stocks and a persistent discount for front month WTI futures. Recent cold weather can go some way to explain the relentless climb in prices but after a six month lull, fingers have once again been pointed at speculators.

Absolute price levels, like the camera, rarely lie but similarly only provide a market snapshot. For the broader picture we need statistics, but they take a while to emerge. Naturally, the oil market focuses on the most recent, comprehensive and visible data. Rightly or wrongly, oil is dominated by a US-centric focus, which does not appear to explain the recent price rise.

Look at the global picture and the recent rally makes more sense. The latest OECD data show that, while US stocks were building in January, crude inventories were drawing in Europe, and, to a lesser extent, in the Pacific/Asia region. Anecdotal reports also suggest stock draws in non-OECD Asia over the month, particularly in China.





Cold weather in the northern hemisphere has caused a surge in demand. Heating fuel prices have tightened globally, but more significantly in Europe and Asia. Frigid temperatures spread throughout Europe in mid-February, causing consumers to increase purchases. In contrast to a mild 2004, North East Asia has also been very cold, particularly Japan, contributing to rising kerosene and low sulphur fuel oil prices.

Moreover, crude demand for the second quarter continues to look robust. Asian refiners drew down crude stocks early in 2005, but returned after the lunar New Year to buy regional and West African light sweet crudes. This has flipped the Brent market into backwardation, while spreads in benchmark NYMEX light crude futures have tightened from May onwards.

But current high prices are not simply a weather phenomenon. Singapore gasoline prices have risen following a reduction in exports from South Korea and China and strong regional demand. The global jet/kerosene market has been strengthened by increased air travel and distillate tightness. US refiners are already gearing up for the driving season and are switching to the harder-to-produce summer fuel specifications.

Concomitant record or near-record highs on broad commodity indices, point to global economic growth as the primary driver behind high oil prices. US fourth quarter GDP growth was stronger-than-expected, and monthly surveys show no sign of activity slowing. Japan is expected to rebound from the recession of last year and Chinese (and other Asian), Latin American and Middle Eastern economies appear to be growing strongly.

The reality is that oil consumption has caught up with installed crude and refining capacity. Refiners are already competing to secure crude for the second quarter to rebuild depleted distillate stocks and to meet summer driving season and air conditioning demand. Capacity limitations are once more being tested by strong demand growth, keeping prices high. If supply continues to struggle to keep up, more policy attention may come to be directed at oil demand intensity in our economies and alternatives.

DEMAND

Summary

- The 2005 demand forecast has been revised upwards by 330 kb/d, which implies a 290 kb/d increase in demand growth to 1.81 mb/d. This revision may be traced primarily to three factors:
  - [i] Extremely cold temperatures in key consuming areas in the second half of February and early March are projected to raise global demand by over 100 kb/d in 2005.
  - [ii] Recent reports indicate that the US economy is more likely to carry the momentum that has built in the latter part of 2004 into the first half of 2005. On the whole, US demand growth is revised upwards by 120 kb/d.
  - [iii] China's demand growth has been revised upwards by 100 kb/d. A key trend that has enabled oil demand to grow in the face of relatively high oil prices is the push to move labour-intensive production overseas and thus trade off higher transport-related energy costs for lower labour costs in countries such as China. A more robust US economic outlook should boost China's exports and help sustain this trend. China's central government is also stepping up its push to check the construction of non-approved power projects (mostly coal-fired). Local officials have generally found ways to work around such edicts in the past, but this pressure could have a marginal impact on oil consumption in the power sector as some projects are delayed.
- Estimates of 2004 global oil product demand growth have been slightly increased to 2.73 mb/d, up 40 kb/d versus last month's Report. Fourth quarter 2004 OECD demand was revised upwards by some 110 kb/d, of which approximately 60 kb/d was due to revisions to European demand.

Global Oil Demand from 2003 to 2005

	Demand (mb/d)	Annual Change* (%)	Annual Change* (mb/d)	Changes from last month's Report (mb/d)
1Q03	80.3	3.2	2.5	-
2Q03	77.3	1.5	1.1	-
3Q03	79.3	2.2	1.7	-
4Q03	82.1	2.5	2.0	-
1Q04	82.4	2.6	2.1	-
2Q04	81.1	5.0	3.8	-
3Q04	81.9	3.3	2.6	-
4Q04	84.5	2.9	2.4	0.1
1Q05	84.7	2.7	2.3	0.4
2Q05	82.8	2.0	1.6	0.4
3Q05	83.7	2.2	1.8	0.3
4Q05	86.1	1.9	1.6	0.3
2003	79.8	2.4	1.8	-
2004	82.5	3.4	2.7	-
2005	84.3	2.2	1.8	0.3

* year-on-year change

- Preliminary data suggest that OECD demand grew by only 0.9% (430 kb/d) in January 2005 versus January 2004. This relatively weak growth performance may be attributed in part to warmer than normal temperatures for that month.
- The second half of February and the first part of March were very cold in much of the Northern Hemisphere in comparison to 2004, contributing to a 370 kb/d upward revision to the OECD demand projection for the first quarter of 2005.

Estimated Annual World Oil Demand Growth 2000-2005
(million barrels per day)

	00-99	01-00	02-01	03-02	04-03	05-04
North America	0.26	-0.06	0.10	0.47	0.61	0.36
Latin America	0.00	0.00	-0.04	-0.10	0.18	0.13
FSU	0.08	0.00	-0.20	0.12	0.14	0.12
Europe	-0.12	0.21	0.00	0.20	0.26	0.10
OECD Pacific	-0.04	-0.07	-0.04	0.14	-0.15	0.00
China	0.26	0.12	0.30	0.55	0.86	0.50
Other Asia	0.09	0.18	0.27	0.22	0.45	0.24
Subtotal, Asia	0.31	0.23	0.53	0.91	1.16	0.74
Middle East	0.12	0.17	0.17	0.20	0.32	0.29
Africa	0.00	0.13	0.08	0.04	0.07	0.09
World	0.66	0.67	0.63	1.85	2.73	1.81

- Latin American demand growth for 2005 has been revised upwards by 20 kb/d as continued high commodity prices are contributing to more robust economic prospects. Similarly, Middle East demand growth is revised upwards by 10 kb/d as the recent increase in oil prices, which tends to have an impact oil demand with a lag, will support oil demand growth in the latter half of 2005.

Global Oil Demand by Region
(million barrels per day)

	Demand	Annual Change			Annual Change (%)		
	2004	2003	2004	2005	2003	2004	2005
North America	25.18	0.47	0.61	0.36	2.0	2.5	1.4
Europe	16.47	0.20	0.26	0.10	1.2	1.6	0.6
OECD Pacific	8.62	0.14	-0.15	0.00	1.7	-1.8	0.0
China	6.38	0.55	0.86	0.50	11.0	15.6	7.9
Other Asia	8.55	0.22	0.45	0.24	2.8	5.6	2.8
Subtotal Asia	23.56	0.91	1.16	0.74	4.2	5.2	3.1
FSU	3.71	0.12	0.14	0.12	3.5	3.8	3.1
Middle East	5.88	0.20	0.32	0.29	3.7	5.7	4.9
Africa	2.81	0.04	0.07	0.09	1.7	2.4	3.3
Latin America	4.91	-0.10	0.18	0.13	-2.0	3.8	2.6
World	82.51	1.85	2.73	1.81	2.4	3.4	2.2

OECD

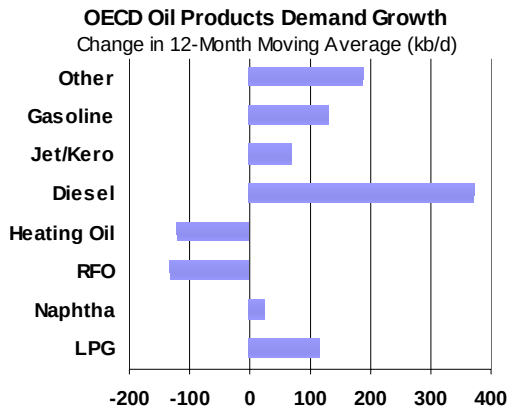
Early Indications of Current Demand

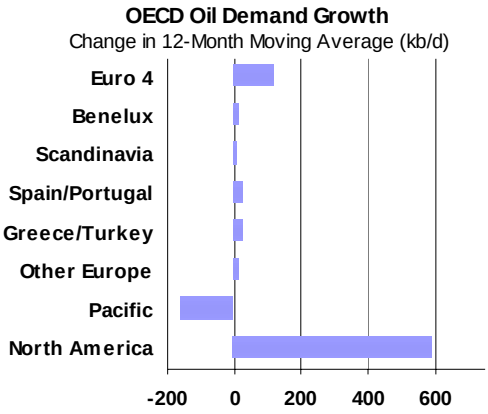
Viewing the OECD as a whole, preliminary data indicate that demand grew by only 0.9% (430 kb/d) in January 2005 versus January 2004. This reflected relatively warm temperatures in Europe. In addition, while US temperatures were below normal, they were still well above the temperatures witnessed in January 2004—which was the coldest January in over 12 years. February demand growth is projected to be much stronger as temperatures were well below normal in the second half of the month throughout most of the OECD.

Preliminary Inland Deliveries – January 2005[1]

	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other[2]		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
United States[3]	8.79	1.3	1.54	-6.1	2.90	5.4	1.42	-11.4	0.99	10.7	5.13	6.2	20.77	1.8
Canada	0.68	2.5	0.11	0.9	0.43	10.6	0.16	-14.8	0.16	26.4	0.24	0.9	1.77	3.9
Mexico	0.63	2.8	0.06	7.0	0.29	5.9	0.00	na	0.37	19.5	0.41	-2.4	1.75	5.2
Japan	0.98	1.6	1.04	0.6	0.59	-0.5	0.58	-2.3	0.43	-11.5	1.69	-1.9	5.31	-1.6
Korea	0.16	-1.3	0.34	-8.3	0.26	-4.4	0.12	-3.9	0.54	8.4	1.00	6.5	2.43	2.2
France	0.22	-6.9	0.13	-1.2	0.57	0.6	0.43	-0.7	0.06	3.7	0.44	-1.6	1.86	-1.2
Germany	0.52	0.0	0.13	0.1	0.49	2.5	0.52	-4.1	0.11	8.3	0.48	-0.6	2.25	-0.2
Italy	0.28	-11.0	0.07	0.4	0.43	-2.2	0.12	-3.3	0.19	-23.6	0.40	-5.7	1.49	-8.0
Total	**12.26**	**0.9**	**3.43**	**-3.4**	**5.95**	**3.4**	**3.35**	**-7.1**	**2.85**	**4.7**	**9.78**	**2.2**	**37.62**	**0.9**

Sources: US EIA, Statistics Canada, Mexico PEMEX, Japan METI, Korea KNOC, France CPDP, Germany MWV, Italy Ministry of Industry
1 excludes refinery fuel and bunkers (except US and Korea)
2 includes direct use of crude oil
3 fifty states only. Diesel's share of total distillate is estimated. Percentage change is calculated versus the previous year.





Preliminary inland oil delivery data for selected major OECD economies present a mixed picture. The demand for heating oil was weak in France, Germany and Italy as temperatures were above normal, especially in the first half of the month. In addition, Italy continues to substitute natural gas for residual fuel oil, contributing to a dramatic 23.6% decline in fuel oil deliveries. The situation was similar in Japan where temperatures were mild and power generators continued to substitute other fuels, such as LNG, for residual fuel oil.

Moving Annual Average Change in Oil Demand* – January 2005

	LPG	Naphtha	Gasoline	Jet/ Kerosene	Diesel	Other Gasoil	RFO	Other	Total	kb/d
United States**	3.2%	13.7%	1.3%	3.1%	7.0%	-6.4%	3.8%	2.1%	2.4%	478
Canada	4.6%	15.2%	1.7%	8.1%	-0.4%	6.1%	1.0%	8.1%	4.2%	93
Mexico	0.9%	-36.8%	5.7%	7.1%	2.7%	2.7%	-2.9%	-1.5%	1.1%	23
Japan	-5.6%	0.5%	1.6%	-3.0%	0.6%	-4.1%	-10.2%	-1.8%	-2.4%	-131
Korea	-0.9%	4.4%	-4.2%	-9.0%	1.7%	-7.0%	-2.6%	-13.3%	-0.5%	-10
France	-1.2%	-12.1%	-5.4%	3.0%	1.9%	-0.1%	4.2%	1.8%	-0.9%	-19
Germany	1.0%	3.8%	-3.1%	1.3%	1.8%	-8.5%	1.1%	22.2%	-0.6%	-15
Italy	0.4%	13.5%	-3.8%	2.2%	2.2%	14.1%	-11.5%	6.2%	-0.2%	-4
Total	**1.3%**	**3.0%**	**0.9%**	**1.0%**	**4.2%**	**-3.4%**	**-3.1%**	**2.6%**	**1.1%**	**415**
kb/d	51	82	121	31	243	-112	-100	100	415	

* defined as the percentage change between the demand average for the 12 months up to January and that of the same period a year earlier
** 50 states only

The decline in inland deliveries in Europe and Japan was balanced by strength in South Korea and North America, where regional inland deliveries grew by approximately 2.2% year-on-year in January. Residual fuel oil stands out as it posted a remarkably strong year-on-year growth of 14.2% (190 kb/d) in North America as a whole. Where possible, end-users substituted fuel oil for natural gas as Henry Hub gas prices stayed above US$6.00/MMBtu for most of January. In addition, deliveries of transport fuels generally continued to grow as the US economy maintained its momentum.

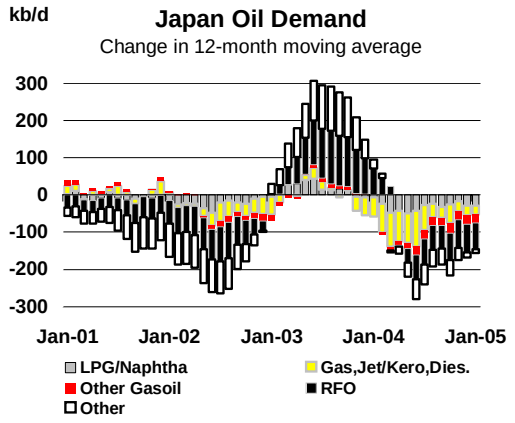
Pacific

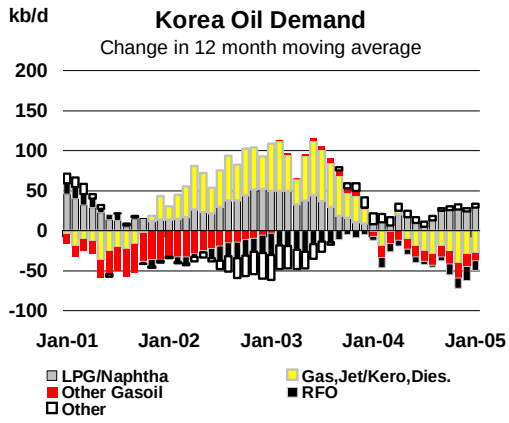
Preliminary data indicate that Japanese oil consumption declined by some 90 kb/d year-on-year in January. Approximately 60 kb/d of the decline may be traced to a decline in residual fuel oil use as mild temperatures and an increase in the consumption of LNG in power generation (LNG consumption increased by approximately 10.7% in January) limited demand. February demand growth is projected to increase substantially as temperatures were far below the previous year (February 2005 temperatures were approximately 7% below normal versus February 2004 temperatures of 13% above normal). Temperatures have remained below normal in early March.

There is evidence that Japan is moving out of the recession seen in the last three quarters of 2004. Recent data imply that household consumption is picking up in the first quarter of 2005. In spite of signs of improvement in the economy, Japanese oil demand is still expected to post a year-on-year decline of 60 kb/d in 2005. It should be noted that a large share of the projected 2005 decline is attributed to extraordinarily hot weather in the third quarter of 2004, which encouraged consumption

of gasoline for holiday travel and oil in power generation to meet increased demand for air conditioning. The third quarter of 2005, which is assumed to resume a more normal pattern of consumption, must be viewed against a high 2004 baseline and as a consequence, third quarter demand is projected to decline by 190 kb/d.

Japan's demand for oil in power generation is broadly expected to maintain its downward trend. However, recent reports indicate that oil demand in power was higher than previously anticipated in February due to the cold weather and continued outages. Currently, seven of TEPCO's 17 nuclear power plants are on-line. Of the remaining ten, eight are undergoing planned shutdowns for inspections and maintenance and two (Fukushima-Daiichi No. 4 and Kashiwazaki-Kariwa No. 1) are experiencing unplanned shutdowns. KEPCO has nine out of 11 of its plants on-line, with two (Mihama No. 3 and Ohi No. 3) experiencing unplanned shutdowns. Ohi No. 3 was shut down on 8 March due to a water leak. Among the other Japanese utilities, on 25 February Tohoku electric announced that it was shutting down the No. 1 nuclear power generator at its Onagawa plant because of an increase in nitrogen supplies to the reactor.





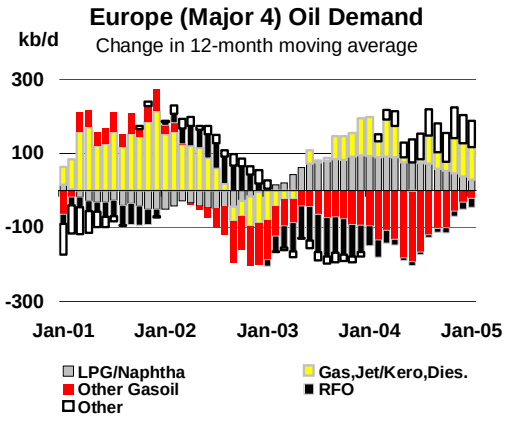
Korea's product demand grew by an estimated 50 kb/d (2.2%) in January as naphtha and residual fuel oil posted gains that were counteracted by some decline in gasoline and jet/kerosene. Like Japan, Korea experienced relatively cold temperatures in late February and early March, which have driven recent demand growth. In addition, several preliminary economic indicators signal that the economy may be on the path to faster than expected growth. Combined, these effects contribute to an approximate 10 kb/d upward revision of 2005 demand growth. Note, however, that high oil prices and substitution of LNG for oil will continue to weigh on demand growth.

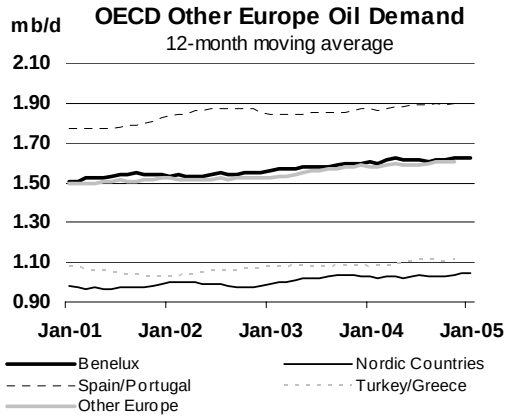
Overall, due to a combination of cold weather and somewhat brighter economic prospects, OECD Asia's 2005 demand growth has been revised upwards by approximately 40 kb/d. First quarter demand growth has been increased by some 150 kb/d, largely due to a reassessment of the impact of below-normal temperatures in February and early March.

Europe

The projection of first quarter 2005 demand growth has been raised by 50 kb/d due to cold weather in the second half of February and early March. The weather-related demand increase is mitigated by an increasingly pessimistic view of the economic prospects of the Eurozone in 2005 (particularly for Germany), which has led to a 20 kb/d downward revision of projected oil product demand growth across the second and third quarters of 2005.

Fourth quarter 2005 demand is revised upwards by 20 kb/d, but this is largely induced by a 60 kb/d upward revision to fourth quarter 2004 demand. This change stems from a number of minor revisions to preliminary December 2004 estimates as more complete data have been submitted by the respective countries. As such, demand estimates for Belgium, Italy, Spain, Turkey and the UK were revised slightly upwards. The consequence of the revisions is that demand estimates for fourth quarter 2005 must be viewed against a modified baseline. In sum, although estimates of oil product demand have been revised across several quarters, these changes largely offset each other on an annual basis and the projection of 2005 European demand growth remains unchanged for this month's Report.

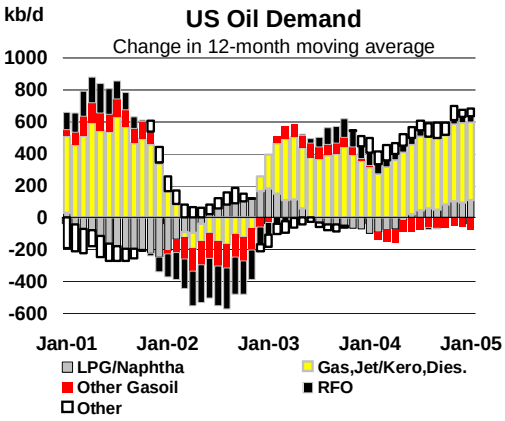




Although there are obviously variations across countries, the continuing trend towards dieselisation and interfuel substitution away from residual fuel oil are the key factors driving demand growth and European product trade patterns. In 2005 gasoline demand is projected to decline by 40 kb/d and consumption of residual fuel oil is expected to fall by 50 kb/d. In contrast, diesel demand for road transport is projected to rise by approximately 100 kb/d.

North America

The projection of North American demand growth has been revised upwards by 130 kb/d (1.4% year-on-year) for 2005. Below-normal temperatures in the second part of February and early March and a more robust outlook for the US economy are the main factors behind the revisions. Recently released economic indicators signal that the US economy is likely to carry the momentum that it built in the latter part of 2004 into the first half of 2005. This will be reflected in continued growth in industrial demand, gasoline consumption and strength in imports from key exporters such as China, which will increase demand for transport fuels.



Natural gas prices fluctuating in the vicinity of US$6.00/MMBtu have also continued to encourage the substitution of residual fuel oil for gas where possible as fuel oil has been cheaper on a Btu basis. Should gas prices fall relative to oil prices, fuel oil demand could drop suddenly, which is a key area of uncertainty in the US market.

On a quarterly basis US demand is projected to grow by 1.7% in the first quarter, 1.6% in the second quarter and 1.7% in the third quarter, before declining to 0.9% growth in the fourth quarter—this corresponds with a projected slowing of the US economy in the second half of 2005. Although economic growth is projected to ease, third quarter 2005 demand is supported by comparatively strong growth in gasoline demand of 2.2%. Third quarter 2004 gasoline demand growth was relatively weak and thus the third quarter of 2005 must be viewed against a lower baseline.

Non-OECD

China

As expected, there are signs that 2005 Chinese demand growth (projected at 7.9%, or 500 kb/d) is slowing somewhat versus the 15.6% (860 kb/d) growth seen in 2004. January crude imports were down by approximately 24% and anecdotal evidence suggests that February demand was slightly weaker than market participants had expected—even after the mid-February lunar holiday is taken into account.

It must be emphasised, however, that these developments have to be evaluated in the broader context of a rapidly developing Chinese market that is in a constant state of flux. Reports indicate that China put off buying long-haul crude in late October when oil prices were comparatively high, which would have an impact on January imports. Preliminary data also show that January 2005 refinery runs were down only slightly versus December 2004, which is in line with reports of a substantial draw of crude

stocks in January, and product imports were up versus December. In recent weeks there have been indications that Chinese demand is recovering and March should be a strong month, balancing out the weakness seen in the initial two months of the first quarter 2005. Overall, preliminary data suggest that January 2005 apparent demand, which is defined as the sum of domestic refinery output and net product imports (adjusted by estimates for direct crude burning, smuggling and unreported refinery output), grew by approximately 6.4% (400 kb/d) versus January 2004.

China Crude & Product Trade
(thousand barrels per day)

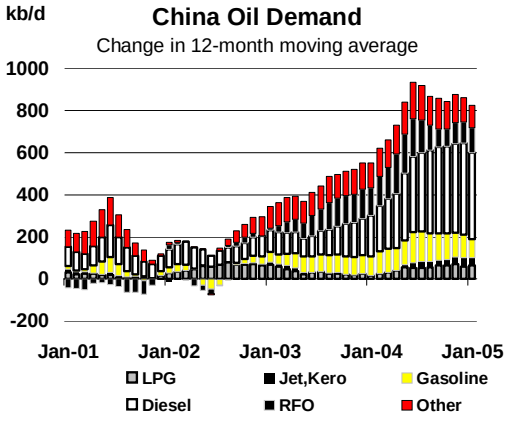
	2003	2004	1Q04	2Q04	3Q04	4Q04	Nov 04	Dec 04	Jan 05	Latest month vs. Dec 04	Latest month vs. Jan 04
Net Imports/(Exports) of:											
Crude Oil	**1664**	**2346**	**2290**	**2371**	**2232**	**2491**	**2699**	**2665**	**1722**	**-943**	**-540**
Products & Feedstocks	**442**	**661**	**600**	**849**	**545**	**653**	**819**	**547**	**624**	**77**	**7**
Gasoil/Diesel	-28	43	22	50	21	79	80	118	8	-110	-11
Gasoline	-175	-125	-95	-141	-146	-117	-113	-136	-128	8	-119
Heavy Fuel Oil	407	506	448	653	412	515	658	466	567	102	192
LPG	202	201	172	227	222	184	205	148	186	39	13
Naphtha	-22	-33	-21	-11	-48	-51	-73	-60	-49	10	-33
Jet & Kerosene	1	16	21	15	19	8	14	-1	16	18	-12
Other	58	52	54	56	64	34	48	12	23	11	-23
Total	**2106**	**3008**	**2890**	**3220**	**2777**	**3144**	**3518**	**3212**	**2345**	**-866**	**-533**

Sources: China Oil, Gas and Petrochemicals plus IEA estimates

Although China's demand growth is projected to slow in 2005 when compared to 2004, there are two specific developments contributing to a 100 kb/d upward revision to 2005 demand growth. First, it appears that the US economy will maintain the momentum that it built in 2005 for longer than most economic analysts had projected. This will help sustain China's all-important manufacturing and exports. It will also encourage continued growth in investment, which currently accounts for approximately 30-40% of China's GDP, but is relatively volatile and susceptible to decline.

One of the significant developments in recent years that has allowed oil demand to grow in the face of relatively high oil prices is the increasing willingness of more industrialised countries to move labour-intensive production overseas and trade-off higher energy-related transport costs for lower labour costs in countries such as China. This is obviously happening at a global level, but the interrelationship between US economic growth and Chinese exports is particularly important.

Second, China's central government is stepping up its push to check the construction of non-approved power projects (mostly small coal-fired plants) due to professed environmental worries and concerns that excess capacity will emerge in 2007-2008. Local officials have generally found ways to work around such edicts in the past, but this pressure will likely have a marginal impact on oil consumption in the power sector as some projects are delayed. In spite of these developments, this Report maintains the view that growth in oil for power will not match the growth seen in 2004, when gasoil demand grew by some 25.1% and residual fuel oil demand grew by approximately 12.5% (see text box below).



Product-by-product projections of 2005 demand growth are highlighted in the table below. Of course there are numerous factors and subtleties to be taken into account, but in general, gasoline and diesel demand growth is projected to roughly match China's rate of economic growth. Naphtha and jet/kerosene demand are forecast to expand at a comparatively rapid pace as numerous ethylene crackers are expected to come on-line this year and air travel is projected to continue its rapid rise. LPG, residual fuel oil and other products are forecast to lag somewhat behind economic growth. LPG is subject to interfuel substitution, especially in the coastal areas, as natural gas is emerging as an alternative fuel. While certain categories of fuel oil, such as bunkers, are projected to maintain rapid growth from a relatively small base, demand for fuel oil in power should stabilise in 2005.

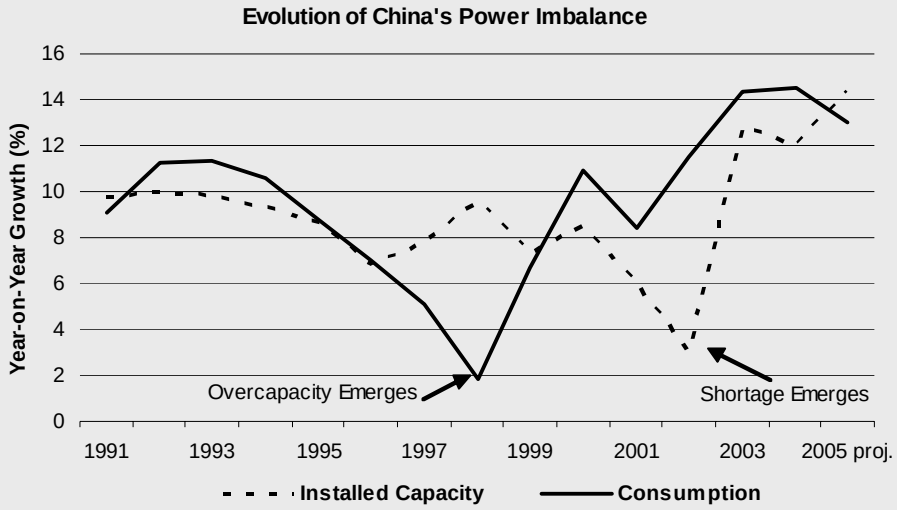
China Demand Forecast Summary

	Demand (kb/d)			Annual Change (kb/d)		Annual Change (%)	
	2003	2004	2005	2004	2005	2004	2005
LPG & Ethane	539	599	626	60	27	11.1	4.4
Naphtha	621	681	756	60	75	9.6	11.1
Motor Gasoline	963	1074	1154	111	79	11.5	7.4
Jet & Kerosene	190	231	256	41	25	21.4	10.9
Gas/Diesel Oil	1720	2152	2350	432	198	25.1	9.2
Residual Fuel Oil	810	911	972	101	60	12.5	6.6
Other Products	673	730	770	57	40	8.5	5.4
kb/d	**5517**	**6379**	**6883**	**863**	**504**	**15.6**	**7.9**

A Critical Demand Uncertainty: Chinese Oil Consumption in the Power Sector

China's oil demand has increased tremendously since its economy took-off following the SARS crisis in the first half of 2003. The key drivers of China's amazing oil demand growth have been: (1) a booming economy, which has increased the demand for all products, and (2) power shortages that induced a dramatic rise in the use of gasoil and residual fuel oil in power generation. Overall, demand for oil in power generation is estimated to have accounted for roughly 300-350 kb/d of the 860 kb/d incremental increase in oil demand in 2004. Looking to 2005, China's economic growth prospects remain robust and its need for petroleum products will continue to increase at a relatively rapid pace. However, the outlook for oil consumption in the power sector is far less clear. In fact, this could be ranked as the primary uncertainty in terms of assessing the 2005 global oil demand outlook.

The key area that could be subject to wide swings in 2005-2006 is the demand for gasoil, which grew by about 430 kb/d (25.1%) in 2004 and for 2005 is expected to grow by 200 kb/d (9.2%). A surge in purchases of small gasoil-powered generators used to protect businesses and others against blackouts/brownouts accounted for much of this increase. As long as power shortages persist these users will continue to consume gasoil, but it is important to remember that this is only a back-up measure. Drawing electricity off of the power grid is roughly one-third the cost of generation using a small diesel generator, so in the absence of worsening power shortages, gasoil consumption in power generation would be expected to stabilise.



The obvious question is, will the power shortages worsen in 2005? We cautiously suggest that the shortages will not worsen substantially, but rather that the situation will remain about the same. In 2004 power consumption officially grew by 14.5% overall, which induced blackouts/brownouts, especially in the fast growing regions of South and East China. The 2004 power capacity shortage has been estimated at 25-35 GW. As highlighted by the figure, in 2005 power consumption is projected to grow by a still robust 13.0%, but State-approved power projects are set to boost capacity by some 63 GW, or 14.3%. Peak demand needs remain an issue, so the capacity shortage is projected to remain at about 25-35 GW in 2005, but there is a clear trend towards mitigating the power shortages associated with the rapid increase in power consumption.

A Critical Demand Uncertainty: Chinese Oil Consumption in the Power Sector (continued)

In addition to the anticipated capacity additions, in 2005 the State Grid Corporation plans to spend some US$ 12.9 billion to substantially upgrade and expand the transmission capacity that links regional grids. Inter-regional transmission increased by approximately 30.1% in 2004, which played a major role in containing 2004 power shortages.

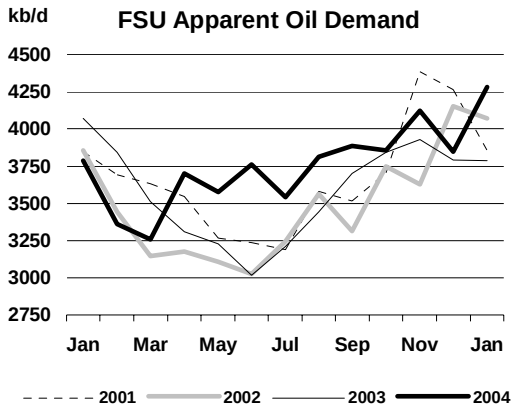
There are a few wildcards that could influence oil consumption in the power sector in 2005-2006. First, there is a large number of unauthorised power plants under construction that could add to the State-sponsored capacity. It is difficult to estimate the exact capacity of these unauthorised plants, but some reports maintain that up to 120 GW of additional capacity could be added. Typically these are small, relatively inefficient, coal-fired plants built by local developers in fast-growing areas with the backing of local governments. Aside from environmental concerns, the central government is worried that the unauthorised plants could create overcapacity, as seen in China in the late 1990s. In response, the central government has ordered the immediate halt of construction and closure of unauthorised plants. It remains to be seen whether or not the central government will follow through with this policy in the face of near-term power shortages, as so far it has not followed through on promises to close small oil refineries. We believe that the central government's response will be mixed, with most unauthorised capacity coming on-line. This has important implications for oil consumption in the power sector, especially as we look toward 2006. With excess generation capacity there is less incentive to use relatively high priced petroleum in the power sector.

A second wild card is pricing in the power sector, where the National Development and Reform Commission (NDRC) regulates electricity tariffs. Recently, increases in power prices have not matched increases in the price of residual fuel oil, gasoil, or coal as there is a hesitance to raise retail power prices. At times this has implied that power producers suffer heavy losses in areas such as Guangdong, which consumed about 220 kb/d of residual fuel oil in the power sector in 2004. Although the government maintains that it will grant subsidies to cover these losses, it has been slow to pay. As a consequence, in an effort to limit losses some small-sized plants and privately operated plants shut down in 2004. In response to this problem Guangdong's local government has plans to link electricity tariffs to fluctuations in residual fuel oil and gasoil prices. This would likely encourage the use of oil in power generation. At the same time, however, the State Development and Reform Commission (SDRC) has confirmed that it will set up a mechanism to link coal and power prices. This should give a boost to coal in the eyes of power producers.

Overall, the consumption of oil for power is expected to stabilise in 2005, especially in comparison to the very robust growth witnessed in 2004. As a consequence, the growth in oil consumption in 2005 will be tied more directly to other areas that continue to expand quite rapidly, such as the transport, industrial and petrochemical sectors.

FSU

FSU apparent demand is defined as the difference between crude production and net oil exports. Estimates of January 2005 production and exports have both been revised upwards, but the upward revision to exports exceeds the revision to production. As a result, January apparent demand growth declined by approximately 80 kb/d to 400 kb/d, or 10.4%. Preliminary indications are that February exports returned to a more normal, higher, level than was witnessed in January. Due to these changes apparent demand is revised downwards by approximately 30 kb/d for the first quarter of 2005. This is balanced by slight upward revisions to the FSU 2005 production forecast, so on the whole apparent demand growth remains unchanged in 2005 at 120 kb/d.



Other Non-OECD

There are signals that the stage is being set for robust demand growth in India—auto sales were reported to be up by over 8% in January and sales of trucks and buses were up by 18%. However, the substitution of natural gas for petroleum products will continue to be an issue in the near term with the opening of the Hazira LNG terminal and the expected arrival of the first cargo in March. The India

demand growth forecast remains unchanged at 2.9% (70 kb/d) in 2005, with growth more heavily weighted towards the second half of the year. Consumption is likely to rise over the next few months as a bumper wheat crop is expected due to ample winter rains, which will boost off-road diesel use. However, last year's harvest was exceptional so year-on-year growth may not appear very strong when viewed against this higher baseline. Note that India's demand for jet fuel is reported to be up by approximately 18.2% in January, in part due to the large number of flights associated with relief efforts for the Asian tsunami.

Although it does not have a major impact on the overall demand picture, India's move towards tighter product specifications has created some turmoil in the regional product markets. India is importing large quantities of lower sulphur diesel and gasoline in an effort to build stocks in advance of the 1 April implementation of the new regulations. At the same time, it is exporting its off-specification diesel and gasoline to other markets, such as Vietnam and Iran. India is said to have imported some 4-5 million barrels of higher specification products since the beginning of the year.

India Crude & Product Trade
(thousand barrels per day)

	2003	2004	1Q04	2Q04	3Q04	4Q04	Oct 04	Nov 04	Dec 04[1]	Latest month vs. Nov 04	Latest month vs. Dec 03
Net Imports/(Exports) of:											
Crude Oil	**1863**	**1513**	**1938**	**2090**	**2013**	**1742**	**1903**	**1671**	**1649**	**-22**	**-226**
(by Public Oil Cos)	**1243**	**909**	**1105**	**1312**	**1214**	**1000**	**1206**	**888**	**903**	**15**	**-546**
Products & Feedstocks	**-152**	**-121**	**-132**	**-173**	**-178**	**-222**	**-192**	**-316**	**-160**	**156**	**-146**
Gasoil/Diesel	-119	-98	-137	-135	-122	-162	-156	-183	-149	34	-86
Gasoline	-72	-55	-77	-67	-75	-80	-86	-81	-75	6	-6
Heavy Fuel Oil	5	-1	-12	13	-5	-20	-7	-55	2	58	15
LPG	55	54	90	39	86	128	119	137	128	-9	11
Naphtha	-1	0	19	10	-29	-25	-13	-42	-22	20	-67
Jet & Kerosene	-22	-29	-29	-44	-43	-74	-62	-102	-58	44	-10
Other	1	7	14	12	9	12	12	9	13	4	-3
Total	**1712**	**1392**	**1807**	**1917**	**1834**	**1520**	**1711**	**1355**	**1489**	**134**	**-372**

1 Preliminary
Sources: Indian Ministry of Commerce, Indian Port Authorities and IEA estimates

Latin American economic growth prospects in general remain robust as commodity prices have maintained their strength. While interfuel substitution remains a key issue that will have an impact on Brazilian oil product demand—roughly 165,000 of the 1.5 million car sales in 2004 were for CNG powered vehicles—2005 demand growth has been revised upwards by some 30 kb/d for Latin America as a whole.

Middle East 2005 demand growth has also been revised upwards by 10 kb/d due to recent increases in oil prices. Increases in oil prices tend to have an impact Middle East oil demand growth with some lag, as it takes time for increased revenues to translate into increased spending, so the recent high prices will support growth in oil demand in the latter half of 2005.

SUPPLY

Summary

- After a sharp, OPEC-derived fall in January, **world oil supply** rebounded by 885 kb/d in February to average 84.3 mb/d. Non-OPEC production increased by 445 kb/d to 50.5 mb/d, after two months of supply interruptions, notably amongst OECD producers. OPEC crude production moved higher by 390 kb/d, while other OPEC liquids were up by an estimated 50 kb/d at 4.7 mb/d. Global supply stands 2.2 mb/d above February 2004 levels, with OPEC crude up by 1.3 mb/d, non-OPEC annual growth standing at 455 kb/d and OPEC other liquids 415 kb/d higher.

- **Non–OPEC supply** is revised upwards in this month's Report. Higher baseline supplies from Norway and Brazil combine with expectations of a sharper production build from new fields in Australia, Malaysia, Trinidad and Angola. Russian supply also reversed four months of decline in February. However, recent performance remains patchy, with ongoing disruptions affecting the US Gulf, Canadian syncrude, Brazil and Vietnam likely to keep first quarter 2005 output 120 kb/d below last month's estimate. Overall, non-OPEC supply is revised up by 40 kb/d for 2003, 75 kb/d for 2004 and 90 kb/d for 2005. Production averages 51.0 mb/d in 2005, up by 925 kb/d from 2004.

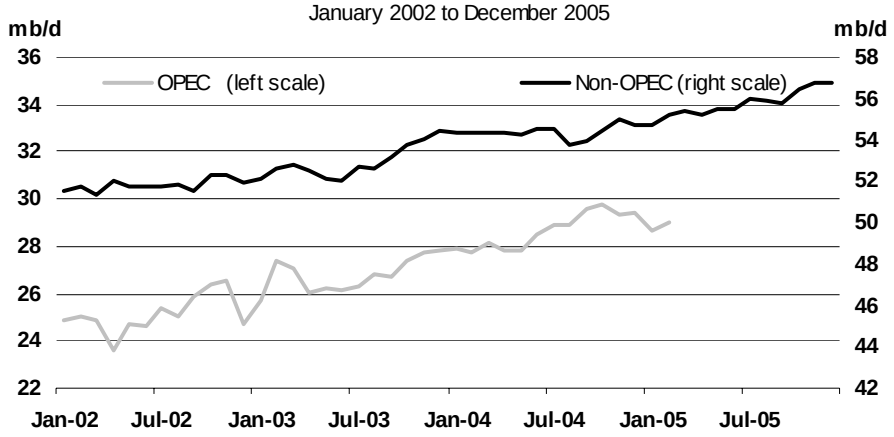
- **OPEC crude supply** rose by 390 kb/d in February to average 29.0 mb/d. Increases were widespread, but the bulk came from Nigeria, Kuwait and Saudi Arabia, all assessed to have added 100 kb/d to January supply levels. Nigeria saw continued production recovery after late-2004 disruptions. Iraqi production rose 60 kb/d to 1.85 mb/d, as higher southern exports countered a continued absence of exports from Ceyhan. UAE supply fell back by some 75 kb/d due to maintenance affecting the Murban field.

- **OPEC-10 supply** (excluding Iraq) increased by 330 kb/d in February and averaged 27.2 mb/d. Output is thought to have moved higher in late February and early March in response to colder northern hemisphere weather and higher crude prices. OPEC's 16 March meeting in Iran will likely review market prospects and consider the production target for second quarter. All options remain open, but market perception in early March suggests that, at recent price levels, production targets and the currently-suspended price band are unlikely to be changed for now.

- **The 'call on OPEC crude and stock change'** for 2004 remains at 28.1 mb/d, despite upwardly revised fourth quarter OECD Europe demand. However, the 2005 call is revised up by 200 kb/d to 28.6 mb/d, with the bulk of the increase versus last month's Report occurring in the first half of the year. Global demand is revised up by 0.3 mb/d running through 2005. In the second half of 2005 this is partly countered by higher non-OPEC supply.

OPEC Crude and Non-OPEC Oil Supply [1]

January 2002 to December 2005



1 Non-OPEC Oil Supply includes OPEC NGLs, condensate and non-conventional oil

All world oil supply figures for February discussed in this Report are IEA estimates. Estimates for OPEC countries, Alaska, Egypt, Russia and Vietnam are supported by preliminary February crude supply data.

Note: Random events present downside risk to the non-OPEC production forecast contained in this Report. These events can include accidents, unplanned or unannounced maintenance, technical problems, labour strikes, political unrest, guerrilla activity, wars and weather-related supply losses. Allowance has been made in the forecast for scheduled maintenance in all regions and for typical seasonal supply downturn in North America. These aside, no contingency allowance for random events is subtracted from the supply forecast. While upside variations can occur, experience in recent years indicates that the random events listed above may cause supply losses of between 300 kb/d and 400 kb/d for non-OPEC supply each year.

OPEC

Moves by key OPEC members to curb production appear to have been short-lived, with supply in February up by an estimated 390 kb/d versus January, at 29.0 mb/d. Output from most producers edged higher, although Kuwait, Nigeria and Saudi Arabia led the way, with production from these three up by 100 kb/d each. Iraqi supply increased by 60 kb/d on the basis of increased southern exports. Iranian production held steady at just under 4.0 mb/d capacity. The UAE was the only OPEC member to see a decline in February supply, which was off by 75 kb/d compared to January as maintenance at gas processing facilities curbed output at the Murban field. Generally, supply recovered through the month from lower levels evident in the first half of February. This was in part a response to a spell of markedly colder-than-normal northern hemisphere weather in late February and early March, and accompanying higher prices.

OPEC-10 (excluding Iraq) production averaged 27.2 mb/d during February, an increase of 330 kb/d compared to a downward-revised January total of 26.9 mb/d. While production from Algeria, Saudi Arabia and Kuwait continues to run markedly higher than November's official target levels, this is countered by significant 'undershoot' from Venezuela and Indonesia.

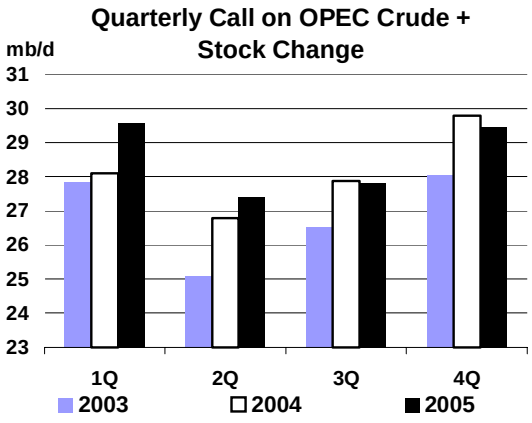
OPEC Crude Production

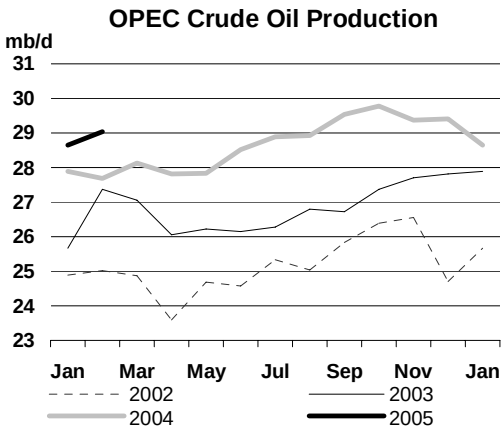
(million barrels per day)

	1 Nov 2004 Target	Feb 2005 Production	Sustainable Production Capacity[1]	Spare Capacity vs. Feb 2005 Production	Production vs. Target
Algeria	0.86	1.34	1.35	0.02	0.47
Indonesia	1.40	0.97	1.00	0.04	-0.43
Iran	3.96	3.98	4.00	0.03	0.01
Kuwait[2]	2.17	2.45	2.50	0.05	0.28
Libya	1.45	1.62	1.65	0.03	0.18
Nigeria	2.22	2.39	2.40	0.01	0.17
Qatar	0.70	0.78	0.80	0.02	0.08
Saudi Arabia[2, 3]	8.78	9.20	10.0-10.5	0.80-1.30	0.42
UAE	2.36	2.32	2.55	0.23	-0.04
Venezuela[4]	3.11	2.16	2.20	0.04	-0.95
Subtotal	**27.00**	**27.20**	**28.45-28.95**	**1.26-1.76**	**0.20**
Iraq		1.85	2.50	0.66	
Total		**29.04**	**30.95-31.45**	**1.92-2.42**	
(excluding Iraq, Nigeria, Venezuela, Indonesia				*1.18-1.68)*	

1. Capacity levels can be reached within 30 days and sustained for 90 days
2. Includes half of Neutral Zone Production
3. Saudi Arabian capacity shown as a range since a delay may be incurred before higher level can be achieved
4. Excludes upgraded Orinoco extra-heavy oil which averaged 588 kb/d in February

Market perception shifted over the course of February. Immediately after OPEC's 31 January Ministerial meeting there had been talk of possible consultations ahead of OPEC's next meeting on 16 March to consider further supply cuts if market conditions warranted. However, this possibility appeared to recede as a spell of wintry weather pushed WTI crude above $50/bbl once more, prompting some OPEC members to comment that an increase in production might be considered in Iran. Although all options remain open for the 16 March meeting in Isfahan, recent indications from within and outside OPEC seem to point towards a roll-over of the existing 27.0 mb/d target production level as the most likely outcome. And while the OPEC governing board has reportedly endorsed recommendations to change the composition of the organisation's basket of crude oils and will present this to Ministers in Iran, any formal change in the basket may be deferred for now. Nor is the announcement of the re-adoption of a new, higher target price band deemed likely under currently prevailing market conditions. Clearly however, sentiment regarding these three factors could change once again in the days leading up to the meeting.





Production from **Kuwait** increased by 110 kb/d in February, to average 2.45 mb/d, close to sustainable capacity. January's repair and expansion of gathering centre 15 in northern Kuwait, and February's reactivation of GC-28 in the west, will ultimately add further to capacity. However, it is likely to be several months before the full impact of these developments is felt. An extended closure of a crude distillation unit at the Mina al-Ahmadi refinery will keep 120 kb/d of refining capacity off-stream until mid-March. However, higher production apparently did not result in increased crude export levels in February, with term loading volumes reportedly unchanged from January levels.

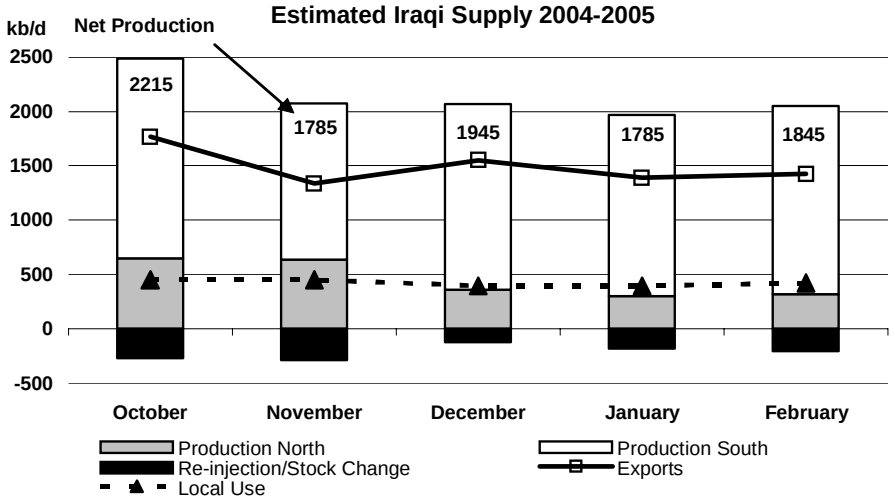
A similar 110 kb/d increase in February production was seen from **Nigeria**, as the impact on production from earlier civil unrest receded**.** Production is assessed at 2.39 mb/d**,** up from a downward-adjusted January level of 2.28 mb/d (versus 2.32 mb/d in last month's Report). Both export loadings and domestic refinery runs were up in February. Refinery runs in February were reportedly boosted in excess of 200 kb/d, representing over 50% capacity utilisation compared to levels as low as 10% at times during 2004. Nigerian refineries have long suffered from extended unscheduled outages and prolonged maintenance. Condensate and NGL supplies have also been adjusted upwards by 10-15 kb/d for 2003-2005 after a re-assessment, with supplies of these non-quota liquids now seen averaging 205 kb/d this year. However, downward adjustments to crude exports for December and January counteracted indications of higher domestic refinery runs, leaving Nigerian production 20 kb/d and 40 kb/d lower, respectively, than last month's assessments.

Plans for expanded Nigerian crude capacity suffered a set-back in February. Budget proposals for 2005 submitted to the country's senate suggested that the 225 kb/d deepwater Bonga field, previously scheduled for mid-year start-up, would not enter operation until October. Parliament is also considering plans to boost government fiscal take in production sharing contracts. This move could affect both existing and future contracts between the government and international oil companies covering deepwater projects, the key to future growth in Nigerian production.

A further 100 kb/d increment in February supply came from **Saudi Arabia,** based on an assessment of overall February tanker sailings. Early-month ministerial statements that output remained close to 9 mb/d, plus indications of reduced spot tanker liftings, suggest that the increase was concentrated more in the second half of the month. This would seem consistent with a broader OPEC policy of leakage to calm surging prices in the second half of the month, rather than signalling any renewed and sustained rise in Saudi production for now. Despite a 17% increase in planned exploration and production (E&P) spending for 2005, and aspirations to double active drilling rigs in the country by end-year, the next key Saudi field development projects are not due online before 2006. Furthermore, comments from the Oil Minister on 24 February suggested an expectation that $40-$50/bbl crude prices were likely to be the norm during 2005. Whether this merely reflected the recent upward shift in consensus price forecasts within the analytical and financial community, or a move to a more hawkish price and output policy by Saudi Arabia was not clear. A foreign affairs adviser did however comment that the most recent surge in prices took them to 'unrealistically high' levels.

Iraq saw a 60 kb/d increase in February production, with net output reaching 1.85 mb/d. As the graph above shows, gross wellhead production (including volumes subsequently re-injected at northern oil fields or pumped into storage) appears to have stagnated close to 2.0 mb/d, raising the possibility that a reduction in effective capacity from the current assessment of 2.5 mb/d may soon be in order. It is difficult to be precise about production capacity levels for a number of reasons. Firstly,

the most immediate constraints governing monthly production appear to be the integrity and security of the country's pipeline network and refinery infrastructure. Secondly, until such time as extensive reservoir studies on Iraq's main fields (Kirkuk and Rumaila) are completed, it is difficult to assess just how far production could rise if unconstrained outlets for crude could be secured. For now we retain a notional capacity level of 2.5 mb/d, albeit a production level not seen since autumn 2004.



Total exports in February amounted to 1.43 mb/d compared to 1.39 mb/d in January. Southern exports from Basrah and Khor al-Amaya averaged 1.41 mb/d versus 1.38 mb/d in January. Weather-related loading delays, notably in the third week of the month, limited the recovery in exports. Disruptions to power supply proved less of a problem than in January however. Scheduled southern export loadings for March point to volumes falling back again towards 1.32 mb/d. Southern wellhead production is thought to have risen above 1.7 mb/d again after declining in January.

Although a mid-month re-instatement of the northern Kirkuk-Ceyhan pipeline temporarily allowed crude shipments to resume, the total for the month averaged less than 20 kb/d, and the pipeline flows were again halted by sabotage on 15 February. No tanker liftings were made from Ceyhan in either January or February as storage in tank is minimal. Pipeline flows are not expected to resume before 10 March, making it unlikely that renewed export liftings from Ceyhan could begin before end-month at the earliest. Ongoing attacks on infrastructure serving the Daura and Baiji refineries, plus the renewed closure of the Ceyhan pipeline, continued to limit northen production to around 300 kb/d.

Aside from the 75 kb/d fall in February **UAE** supply (mentioned above), production from other countries within the cartel changed only modestly. Conventional crude supply from Venezuela, Libya, Algeria and Indonesia was up by a combined 75 kb/d. **Libyan** sustainable capacity has been revised up to 1.65 mb/d, with production in recent months having on several occasions pushed through the earlier assessed capacity level of 1.6 mb/d. Increases in production over the past two years from the Elephant, El Shaharah and En Naga fields have contributed to this revision.

Iranian crude production continued in February at near 4.0 mb/d capacity levels, and January supply has also been revised up by 25 kb/d in light of higher assessed export levels. A pipeline explosion affecting the Gascharan field in mid-February is believed to have had only minimal impact on overall supply. A review of LPG and condensate supply has led to downward adjustments of 20 kb/d for 2003 and 2004. Supply of these liquids is expected to grow by 125 kb/d in 2005 as output from phases 4 and 5 of the South Pars gas project builds to plateau volume.

In the case of **Venezuela,** production of syncrude (not counted towards conventional crude in this Report) is also thought to have increased by some 30 kb/d in February, attaining a peak for now of some 590 kb/d. A re-assessment of Venezuelan conventional crude supply has been undertaken for the July 2004 through January 2005 period. Based on lower export levels, supply has been revised down by an average of 75 kb/d and now comes in at below 2.2 mb/d. This has resulted in a corresponding downward adjustment for Venezuelan sustainable capacity from 2.25 mb/d to 2.2 mb/d. The after-effects of 2002's strike and subsequent restructuring of PDVSA are still being felt. On the one hand, the increase of royalty rates for the existing Orinoco heavy oil upgrader projects and a general shortfall in upstream capital investment are seen as potential impediments to oil

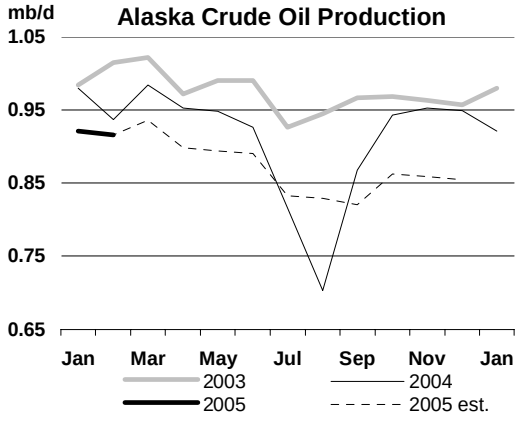
supply in the short and medium term. However, on a more positive note, February saw moves by Venezuela to entice Indian investment into the upstream and an apparent resolution of a dispute involving Conoco's planned development of the eastern Corocoro field. Also, French firm Total announced plans for a 200 kb/d expansion of the existing 180 kb/d Sincor heavy crude upgrader.

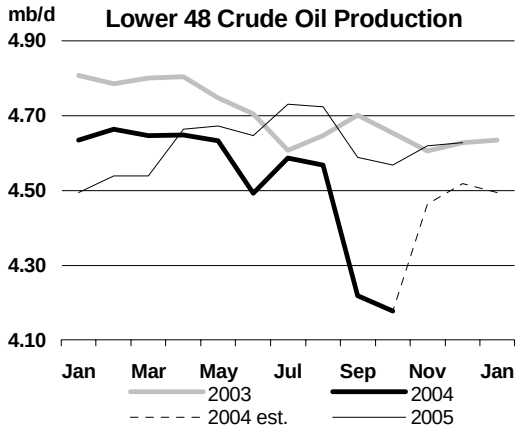
OECD

North America

US – February Alaska actual, others estimated: Provisional data for February show total US oil production up by some 100 kb/d versus January at 7.74 mb/d. This was largely on the basis of higher Gulf of Mexico (GOM) supply and increased availability of NGLs. However, February production from both Alaska and the GOM still lagged the levels expected in last month's Report by a combined 90 kb/d. Despite these most recent shortfalls versus expectation, total US production is projected to increase by 100 kb/d in 2005 to average 7.8 mb/d (of which crude oil will amount to 5.5 mb/d). Increases are expected to derive from higher NGL availability and a 200 kb/d increase in GOM production, which offset declines from more mature, primarily onshore, areas.

Alaskan crude production levelled off at just under 920 kb/d in February, compared to a recent 4Q 2004 high of 950 kb/d. Monthly average temperatures were higher than seasonal norms, reducing the efficiency of re-injection activity. Furthermore, repair and maintenance work at the Northstar and Milne Point fields kept production some 15-20 kb/d below fourth quarter levels. Limited activity on the Alaskan North Slope due to spring thaw, allied to prevailing field decline, mean that production is unlikely to regain late-2004 levels during 2005.

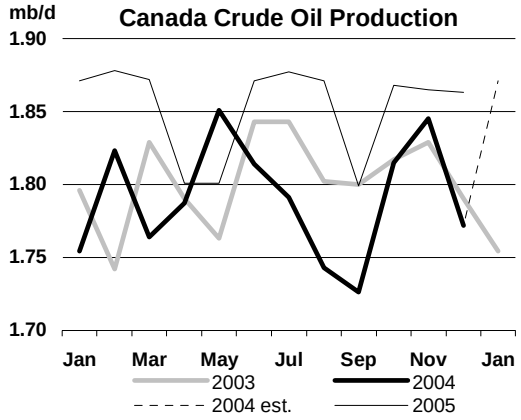


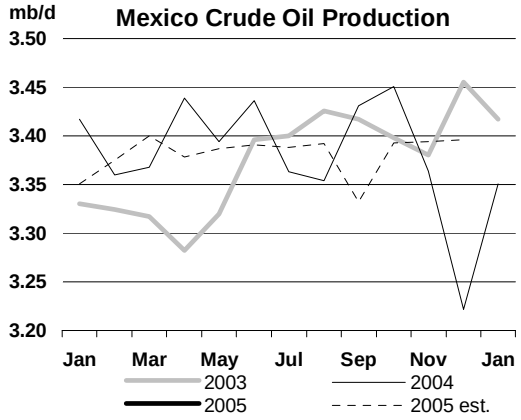


Aggregate US data for February suggest that **Gulf of Mexico** production increased by around 50 kb/d to 1.52 mb/d. However, an estimated 125 kb/d of production remained off-line in the aftermath of last autumn's Hurricane Ivan. The return of production facilities affected by the hurricane, directly or through damage to associated sub-sea pipelines, has proved a slow process and we have revised upwards the expected loss of production to 130 kb/d for 1Q 2005 and 100 kb/d for 2Q 2005. Countering this long tail in supply recovery, however, are a number of new field developments which should contribute to higher GOM production for 2005 overall. Collectively, the Mad Dog, Holstein, Front Runner, Ursa, Thunder Horse and Magnolia projects are expected to add 200 kb/d to GOM supply in 2005.

Canada – December actual: A 40 kb/d upward revision was made to Canadian oil supply for December, to 3.05 mb/d, following the latest release of government data. Both bitumen and NGL output came in higher than expected, partly offset by lower than expected syncrude supply. January supply was also revised up by 45 kb/d as a result of higher than expected production from offshore Newfoundland. This was insufficient, however, to counteract the decline in output suffered by the three main syncrude units which was documented in last month's Report. Resumed operations at the Shell Athabasca Oil Sands project in February contributed to a 65 kb/d rise in Canadian oil production. But this could prove short-lived, as national production declines in March and April due to seasonal restrictions on output from Alberta and Saskatchewan. Also, first quarter synthetic crude production was revised down by 40 kb/d after Syncrude announced that total output will amount to only 14 mb due to a further period of extended maintenance. The prolonged outages affecting the syncrude units in 2005 bring to an end three straight years of strong Canadian supply growth which

have come from both syncrude and offshore Newfoundland development. Canadian supply is expected to come in at just under 3.1 mb/d in 2005, close to the 2004 average.



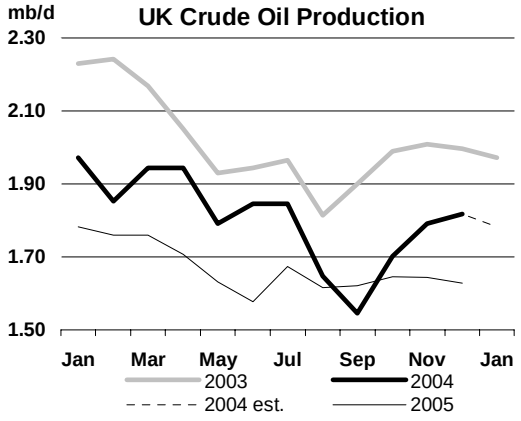


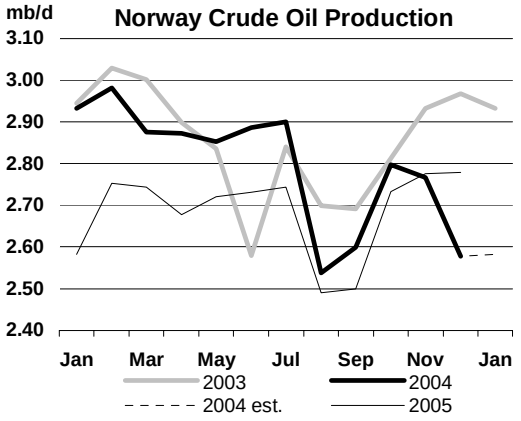
Mexico – January actual: As expected, the sharp fall in December Mexican production proved temporary, with crude output rebounding by 130 kb/d in January to 3.35 mb/d. However, this remains 100 kb/d below the peak levels attained earlier in 2004. In December exports were sustained despite falling production, while in January increased production was diverted to domestic use and/or storage rather than to increasing exports. Indeed, February exports fell back by 155 kb/d, with shipments of 33°API Isthmus crude, and those to markets in the Americas, taking the brunt of the cut. Lower baseline crude production has been carried forward through 2005, with forecast crude output now expected to remain stable at last year's 3.38 mb/d, in line with Pemex's own expectations.

Pemex announced a 3.8 mb/d production target for 2006 and will also boost spending by 11% for 2005, with exploration taking a greater share. However, major oil companies suggested during February that the multiple service contracts being proposed to entice foreign companies into deepwater exploration are insufficiently attractive. Perhaps stung by this, and by warnings over Mexico potentially losing its exporter status within a decade, the main opposition Institutional Revolutionary Party (PRI) signalled that it would consider changes to the country's constitution which currently prohibit foreign upstream investment. PRI has in the past thwarted efforts by the governing National Action Party (PAN) to introduce energy sector and fiscal reform.

North Sea

UK – December actual: Data for UK December oil production came in 55 kb/d higher than anticipated at 2.08 mb/d. Higher baseline output from the Forties system of some 15 kb/d is carried forward through 2005, as are 5 kb/d upward revisions to Brent and Ninian system output. In total, UK production is revised up by 5 kb/d for 2004 and by 25 kb/d for 2005. BP announced on 24 February that it had begun production of 24°API, acidic crude from the Clair field, which should attain peak 60 kb/d production in 2006. Clair is one of a handful of new fields which are seen helping to stem UK production decline in 2005, limiting this to 135 kb/d, compared to the 200 kb/d-plus declines seen in 2003 and 2004. Total oil output in 2005 is now expected to average 1.92 mb/d.



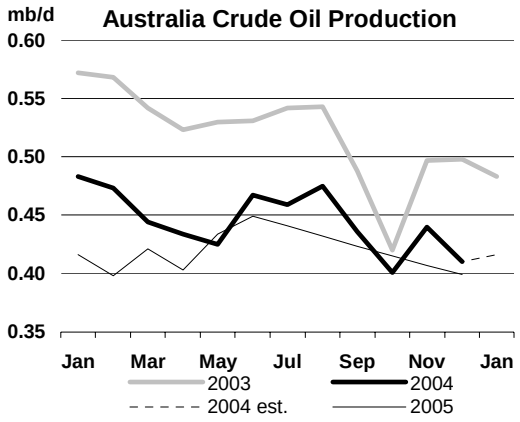


Norway – December actual, January provisional: Norwegian oil production levelled off in January at 3.0 mb/d, following a 200 kb/d drop in December. After a number of months in which the outlook for Norwegian production was revised downwards, this month sees a modest upwards adjustment. The bulk of the change derives from revisions to Norwegian Petroleum Directorate (NPD) historical data, with a downward adjustment to condensate production but a more-than-offsetting upward revision to NGL supply. These contribute a net 5-10 kb/d to annual oil production for 1999-2003 and 15-20 kb/d for 2004 and 2005. In total however, 2004 production is revised up by 30 kb/d and 2005 by 60 kb/d. In addition to higher NGL volumes, latest field-by-field production data suggest higher prevailing output from fields including Tambar and Balder, while a sharper recovery has been incorporated for the Snorre field after November-January outages.

Nonetheless, unscheduled outages continue to plague Norwegian continental shelf production. February saw a gas leak trim production at the Gullfaks A platform (included in this Report's projections). At the time of writing, the disruption-prone Draugen field had also seen 135 kb/d of production shut in for four days, with no indication of a likely restart date (this interruption came too late to be included in this month's data). The overall prognosis for Norwegian production in 2005 remains one of modest decline, total oil output slipping to 3.16 mb/d from 3.19 mb/d in 2004. Rising condensate and NGL supply only partially counter a 110 kb/d fall in crude output.

Asia Pacific

Australia – December actual: Australian oil production for the fourth quarter continued to lag the levels of around 550 kb/d seen earlier in the year. Production in November and December averaged 520 kb/d and 485 kb/d respectively. Crude and NGL output from the Carnarvon Basin offshore northwest Australia remained relatively low, after an initial dip in the autumn due to maintenance at the Cossack field. Australian production is expected to remain constrained through April, firstly due to problems affecting production from the Laminaria field in the northern Bonaparte Basin which are likely to run through the first quarter. Secondly, an April maintenance outage is expected to halt production of 115 kb/d of Bayu Undan condensate (Australia taking a 10% share of production with 90% accruing to East Timor). Some recovery is expected in 2Q and 3Q however, with the earlier than expected start-up of Santos' Mutineer-Exeter fields. Production is now due to commence in March and build rapidly to a peak of 85 kb/d. This Report had earlier assumed Mutineer-Exeter start-up from mid-year 2005 and with a slower build to peak production. Despite a 20 kb/d upward revision to Australian 2005 production, the trend in national output remains downward, albeit with the pace of decline slowing from 2003 and 2004. Total oil production for 2005 is expected to average 515 kb/d versus 530 kb/d in 2004 and 605 kb/d in 2003.



Former Soviet Union (FSU)

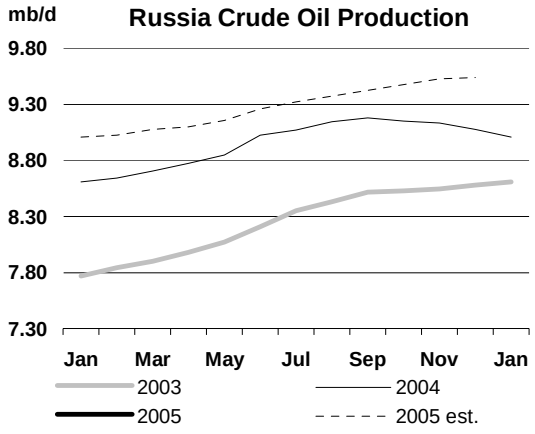
Russia – January final, February provisional: January's drop in Russian oil production compared to December now looks to have been shallower, at 70 kb/d, than the provisional 110 kb/d of last month's Report. Furthermore, February output appears to have rebounded by 40 kb/d, ending four straight months of decline. Crude and condensate production in February is estimated at 9.34 mb/d, in line with the projection from the last Report. However, Lukoil, Yukos, Surgutneftegaz and Gazprom output came in higher than expected, while other companies produced at or below expectation for February. Government, state pipeline operator Transneft and oil company sources in February released forecasts for 2005 production suggesting a likely 5% rise compared to 2004. However, for the reasons outlined last month (the slow-down in production growth evident since spring 2004, the uncertain fiscal and legislative environment and early-year plans by individual companies) this Report takes a more conservative view. Total Russian production is seen increasing by 360 kb/d (4%) in 2005, to average nearly 9.6 mb/d. Concerns over future foreign investment in the Russian upstream were heightened in February following a Natural Resource Ministry announcement that key strategic oil and gas fields should be owned and developed by majority-owned Russian companies.

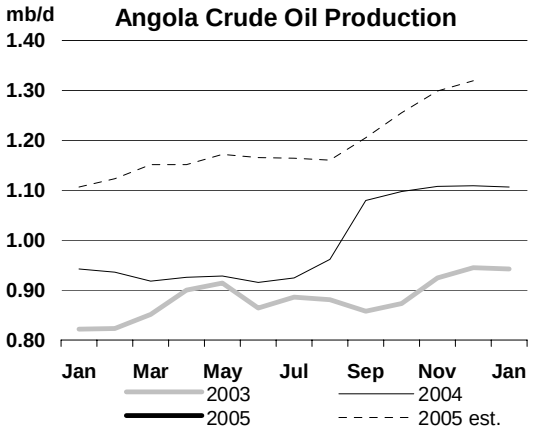
FSU Net Exports of Crude & Petroleum Products
(million barrels per day)

	2003	2004	1Q04	2Q04	3Q04	4Q04	Nov 04	Dec 04	Revised Jan 05	Latest month vs. Dec 04	Latest month vs. Jan 04
Black Sea Exports	2.80	2.84	2.81	2.75	2.87	2.91	2.67	3.07	2.57	-0.50	0.11
Baltic/Arctic Exports	2.41	3.05	3.00	3.11	3.11	2.98	2.95	3.00	2.98	-0.02	0.04
Total Seaborne	**5.21**	**5.89**	**5.80**	**5.87**	**5.98**	**5.90**	**5.62**	**6.07**	**5.55**	**-0.52**	**0.14**
Druzhba Pipeline	1.06	1.07	1.08	1.04	1.08	1.09	1.11	1.09	1.06	-0.03	0.00
Other Routes	0.48	0.52	0.47	0.53	0.55	0.54	0.64	0.42	0.56	0.14	0.05
Total Exports	**6.75**	**7.48**	**7.36**	**7.43**	**7.62**	**7.52**	**7.37**	**7.58**	**7.17**	**-0.42**	**0.19**
Imports	0.02	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.01	0.00	0.00
Total Net Exports	**6.73**	**7.47**	**7.35**	**7.42**	**7.61**	**7.51**	**7.37**	**7.57**	**7.16**	**-0.41**	**0.19**
Crude	4.70	5.21	5.08	5.18	5.26	5.31	5.22	5.22	4.96	-0.26	0.15
of which: Russian Crude	*3.48*	*3.74*	*3.61*	*3.82*	*3.71*	*3.83*	*3.85*	*3.74*	*3.74*	*0.00*	*0.38*
Products	2.05	2.28	2.28	2.25	2.36	2.21	2.15	2.36	2.21	-0.15	0.04

Sources: Petro-Logistics, IEA estimates

Data from Petro-Logistics Ltd for January exports from the FSU show a decline in excess of 400 kb/d from high December levels of 7.58 mb/d. The monthly average, however, masks disparate trends between the first two weeks, when seaborne exports from Black Sea ports fell back sharply due to weather-related loading delays and a rebound in the second two weeks. Provisional indications for February show a renewed surge in overall exports once again, but schedules for Russian seaborne crude exports in March indicate some easing this month. In reality, however, there may be ample incentive for Russian exporters to maximise shipments in March, weather permitting. Volumes may be boosted ahead of an increase in crude export duties of 23.6% as of 1 April to $102.6/mt, from a current $83/mt. This is reportedly the highest ever level of crude customs duty in Russia, triggered by the high crude prices evident in January and February. Russian crude export capacity expansion is also likely to be delayed. Transneft announced that the 200 kb/d expansion of the Baltic Pipeline System (to 1.2 mb/d) will not be completed until early 2006, rather than 2005 as earlier planned.



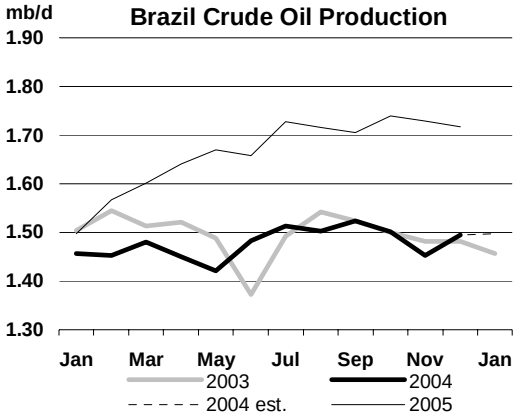


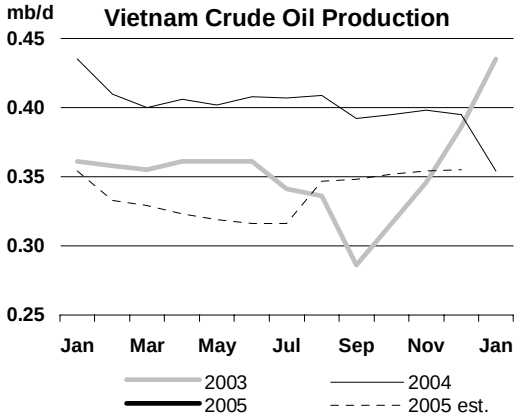
Other Non-OPEC

Angola – January actual: Angolan January production remained at 1.10 mb/d and has been largely unchanged since September 2004. However, forecast Angolan production for 2005 has been revised up by some 40 kb/d after reports that ExxonMobil's Kizomba B project is now likely to enter production during the second half of this year, instead of the previous start-up scheduled for 2006. Design capacity for Kizomba B is 250 kb/d, a level that may be attained by end-year, or (as assumed in this Report) early in 2006. Expansions in deepwater production from Angola now lead to a 200 kb/d increment in supply for 2005, production averaging 1.19 mb/d this year and reaching 1.3 mb/d by the end of the year.

Brazil – December actual: Brazilian crude production is expected to rise sharply during the first half of 2005. However, December data showed that baseline production from the deepwater Campos Basin (source of most of this year's increment) is lagging previous expectations. In addition, latest indications point to a slower build-up in production from the Barracuda field which entered

production in December. Start-up of the neighbouring Caratinga field was also deferred once again from January into February. In total, crude production is revised down by 40 kb/d for 2005, but is still expected to increase by 185 kb/d this year, to an average of 1.66 mb/d. Offsetting the downward adjustment for crude oil, recent Energy Ministry data point to higher ethanol production (used as automotive fuel) for 2003, which is revised up by 30 kb/d. With indications that ethanol production continues to expand by 3-4% pa, this higher output level is carried forward into 2004 and 2005. This boosts 2005 supply by some 35 kb/d compared to the last forecast, to an average of 265 kb/d.





Vietnam – January actual: Reported crude production for Vietnam continues to follow a somewhat erratic path. January output fell by 40 kb/d, with the country's biggest field Bach Ho likely to produce at reduced rates through July as repairs on one of the field's floating production, storage and offloading vessels (FPSOs) are undertaken. Production has also been cut from 85 kb/d to 60 kb/d at the Su Tu Den field, which entered operations in late 2003. Total Vietnamese crude production has been revised down by 15 kb/d for 2005. It is expected to average 335 kb/d versus 405 kb/d in 2004. A further 15 kb/d of oil production derives from natural gas liquids.

Revisions to Non-OPEC Oil Supply

(million barrels per day)

	Last Month's OMR			This Month's OMR			This Month vs. Last Month		
	2004	2005	05 vs. 04	2004	2005	05 vs. 04	2004	2005	05 vs. 04
North America	14.59	14.70	0.12	14.59	14.67	0.08	0.00	-0.03	-0.03
Europe	6.06	5.86	-0.20	6.09	5.94	-0.16	0.03	0.08	0.04
Pacific	0.57	0.54	-0.03	0.57	0.56	-0.01	0.00	0.02	0.02
Total OECD	**21.22**	**21.10**	**-0.12**	**21.25**	**21.17**	**-0.08**	**0.03**	**0.07**	**0.03**
Former USSR	11.18	11.71	0.53	11.18	11.73	0.54	0.00	0.01	0.01
Europe	0.17	0.16	-0.01	0.17	0.16	-0.01	0.00	0.00	0.00
China	3.49	3.54	0.04	3.49	3.54	0.04	0.00	0.00	0.00
Other Asia	2.74	2.71	-0.03	2.75	2.70	-0.05	0.01	-0.01	-0.02
Latin America	4.04	4.30	0.27	4.07	4.30	0.23	0.03	0.00	-0.04
Middle East	1.88	1.79	-0.09	1.88	1.78	-0.09	0.00	0.00	0.00
Africa	3.43	3.72	0.29	3.43	3.75	0.31	0.00	0.02	0.02
Total Non-OECD	**26.94**	**27.93**	**1.00**	**26.98**	**27.96**	**0.98**	**0.04**	**0.03**	**-0.02**
Processing Gains	1.83	1.86	0.03	1.83	1.86	0.03	0.00	0.00	0.00
Total Non-OPEC	**49.99**	**50.90**	**0.91**	**50.06**	**50.99**	**0.92**	**0.08**	**0.09**	**0.02**

OMR = Oil Market Report

Revisions to other non-OPEC estimates: Production for **Malaysia** is revised up by 15 kb/d for 2005. Although there is a lull in new field start-ups, and total output is still expected to decline this year, actual performance in 2004 appears to have exceeded expectation. The decline expected for 2005 has therefore been moderated. **East Timor** 2005 supply is revised down by 10 kb/d due to the scheduled maintenance now expected for the Bayu Undan field in April (see Australia, above). **Egyptian** liquids production for 2005 is revised down by 15 kb/d, although higher LPG output this year should still counteract declining crude oil output. Production for **Trinidad** is revised up by 10 kb/d for 2005. The impact is concentrated in first quarter (+30 kb/d) and second quarter (+15 kb/d). An earlier assumption of slow build-up to peak at the Angostura field has proved overly-pessimistic, and output was reported to be approaching full 70 kb/d levels at end-February.

OECD STOCKS

Summary

- **OECD total industry oil stocks** fell 3 mb in January to an estimated 2573 mb, 66 mb above year-ago levels. While crude inventories rose, product inventories fell, mainly in the less reliable 'other products' category in North America. Declines in the major products were seen in distillate inventories though these were offset by gains in gasoline stocks. With upward revisions to OECD demand for the first quarter, days of forward cover in January held level from December at 51 days.

Preliminary Industry Stock Change in January 2005 and Fourth Quarter 2004

(million barrels per day)

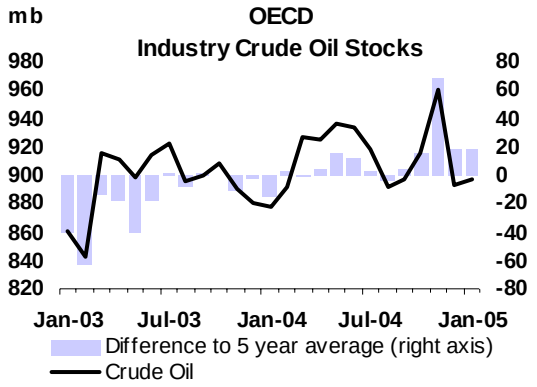
	January (preliminary)				*Fourth Quarter 2004*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**0.28**	**-0.11**	**-0.03**	**0.14**	**0.07**	**-0.13**	**0.03**	**-0.04**
Gasoline	0.10	0.14	0.08	0.32	0.09	0.03	0.00	0.12
Distillates	-0.04	0.19	-0.24	-0.09	0.10	-0.09	0.00	0.01
Residual Fuel Oil	-0.04	0.02	-0.02	-0.04	0.12	-0.04	0.01	0.08
Other Products	-0.55	-0.01	0.05	-0.51	-0.20	0.02	0.00	-0.17
Total Products	**-0.52**	**0.34**	**-0.13**	**-0.31**	**0.11**	**-0.08**	**0.02**	**0.05**
Other Oils[1]	0.15	-0.03	-0.05	0.07	-0.14	0.03	-0.04	-0.14
Total Oil	**-0.09**	**0.20**	**-0.21**	**-0.10**	**0.04**	**-0.18**	**0.01**	**-0.13**

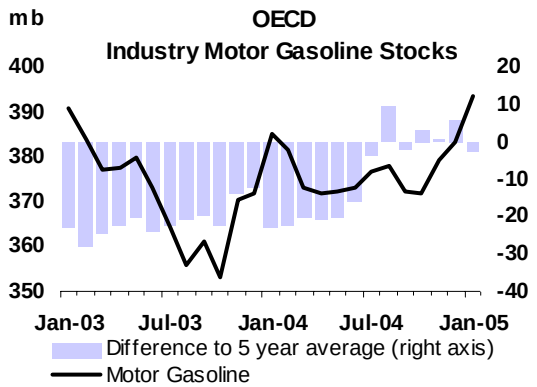
1 Other oils includes NGLs, feedstocks and other hydrocarbons

- **OECD industry crude stocks** closed in the upper half of their five-year range. Crude stocks in aggregate were up 4 mb in January. On a regional basis, the Atlantic Basin saw diverging trends with inventories declining in Europe and rising in the US and Mexico. Draws in Europe followed strong refinery activity, though down from December levels. The US saw imports remain high relative to falling refinery utilisation rates due to maintenance. US crude stocks posted further during in February with gains occurring mainly on the Atlantic and West Coasts. US crude stocks opened March at 302.6 mb or 24.3 mb above year ago levels.

- **OECD industry distillate stocks** fell 3 mb overall in January. Regional disparities emerged, reflecting differences in heating oil demand strength. Atlantic Basin temperatures were mild, in particular in Europe where stocks built off an upward-revised December level. Independent storage of gasoil in the Amsterdam, Rotterdam and Antwerp (ARA) area was level in January and rose in February. A steady flow of gasoil from the Baltics lifted supplies while barge demand out of ARA for heating oil was subdued given competitive local prices. In contrast, colder than normal temperatures in Japan led to increased use of kerosene.

- **OECD industry gasoline stocks** rose in all OECD regions in January, gaining about 10 mb. US stocks built on higher imports, particularly of blending components on the Atlantic Coast. European stocks were also up despite exports to the US; refinery output was high and regional demand weak. US gasoline stocks opened March at 224.3 mb or 21.5 mb above a year-ago. An increase in Japanese stocks partly reflected a precautionary build of tighter specification products.





OECD Industry Stock Changes in January 2005

OECD industry oil stocks fell 3 mb in January. At 2573 mb, oil stocks closed in the upper half of their five-year range. Crude stocks built only in North America and product inventories declined, mainly in the revision-prone 'other products' category. Upward revisions to OECD demand for the first quarter, reflecting higher heating demand with the onset of colder temperatures in February and strength in diesel deliveries, held forward demand cover level from December at 51 days.

OECD industry crude stocks rose in January, reaching 897 mb or 20 mb above year-ago levels. The Atlantic Basin saw divergent trends, with inventories down in Europe and up in the US and Mexico. The European decline reflected continued strong refinery activity, opportunity for arbitrage of North Sea crudes at end-month and more West African crude diverted to the US. Forward Brent prices in the near-months were in backwardation mainly in the first half of January. February presented similar downside momentum, further supported by discretionary crude inventory reductions ahead of planned refinery maintenance in March. The US saw crude imports decline in January and February, but refinery utilisation fell faster, allowing crude stocks to reach 300 mb, or 23 mb above year-ago levels. Stocks at Cushing in the Mid-continent (the delivery point for NYMEX's light sweet crude contract) continued to rise, helping to support a contango in prompt months of the contract. US builds in February showed regional disparities however, with the main refining centre on the Gulf Coast seeing inventories decline slightly on the month. Stocks in the Pacific held roughly even during a period of firm refinery activity, closing above their five-year average. Crude imports remained relatively high and a rebound in stocks on tankers at ports in Korea offset a sharp decline in onshore stocks.

OECD industry distillate stocks fell a modest 3 mb in January as temperatures in the Atlantic Basin were relatively mild, keeping heating demand subdued. Winter demand was more pronounced in Japan where colder than normal temperatures led to a strong draw in kerosene used as a heating fuel. Distillates were down in the US on lower heating oil stocks. Further declines in February were supplemented by draws in diesel stocks as domestic output declined with ongoing refinery maintenance and imports fell. In contrast, US jet fuel supplies rose in January on temporary demand weakness and again in February as refinery yields kept above a year ago and production increased. European distillate inventories built off an upward revised December base, with demand weakness in heating oil and jet fuel favouring gains in these products. Steady Baltic flows kept independent storage of gasoil in the ARA region level in January and helped to push levels higher in February, aided by product arrivals from the US. Cash price spreads versus front-month IPE futures suggested reduced pressure on heating oil supplies compared to other distillates. Demand for heating oil out of ARA was thin in February (in spite of colder weather) due to competitive pricing by local refiners. Gasoline stocks in the OECD built as output across regions was relatively high. US stocks increased further in February on an import-driven rise in blending components. In Europe, despite some gasoline deliveries to Iran, closed spot arbitrage to the US in February led to a rise in independent storage in Northwest Europe. The build was supported by a wide contango in gasoline swap prices.

Revisions to Preliminary OECD Stocks and Inventory Position at End-January

Revisions to December oil inventories saw offsetting adjustments in crude and products stocks, leaving total stocks for the month down by under a million barrels. The main revisions in crude stocks came in Mexico and Italy (each -5 mb), The Netherlands (-4 mb) and the US (-3 mb). OECD product stocks were raised overall by 24 mb. Upward revisions to distillates were centred in Europe, mainly Germany (+6 mb) and The Netherlands (+2 mb). Gasoline stock revisions in the Atlantic Basin offset each other, but changes to fuel oil increased stocks in the region by nearly 6 mb.

Revisions Versus 10 February 2005 Oil Market Report

(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Nov 04	Dec 04	Nov 04	Dec 04	Nov 04	Dec 04	Nov 04	Dec 04
Crude Oil	**1.8**	**-9.5**	**-0.5**	**-6.1**	**0.0**	**-2.7**	**1.4**	**-18.3**
Gasoline	-0.4	-4.7	0.0	4.2	0.0	1.3	-0.3	0.7
Distillates	-2.6	1.4	0.7	9.6	0.0	2.1	-1.9	13.1
Residual Fuel Oil	-0.3	2.5	0.4	3.3	0.0	-0.1	0.1	5.7
Other Products	-3.5	3.7	0.2	1.2	0.0	-0.8	-3.2	4.0
Total Products	**-6.7**	**2.9**	**1.4**	**18.3**	**0.0**	**2.4**	**-5.4**	**23.6**
Other Oils[1]	0.1	-7.3	0.6	2.2	0.0	-0.8	0.7	-5.9
Total Oil	**-4.8**	**-13.9**	**1.5**	**14.4**	**0.0**	**-1.1**	**-3.3**	**-0.6**

1 other oils includes NGLs, feedstocks and other hydrocarbons

Year-on-Year Industry Stock Comparisons for January 2005

	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**30.4**	**-7.4**	**-2.6**	**20.4**	**Total Oil**	**2.1**	**-1.0**	**-0.1**	**0.7**
Total Products	28.3	-2.2	7.3	33.3	*Versus 2003*	1.9	-0.1	2.1	1.3
Other Oils[1]	14.1	-0.7	-0.7	12.6	*Versus 2002*	-4.9	-4.9	-2.9	-4.6
Total Oil	**72.8**	**-10.4**	**3.9**	**66.3**	**Total Products**	**0.7**	**-0.4**	**0.6**	**0.3**
Versus 2003	86.8	32.5	12.5	131.8	*Versus 2003*	0.7	0.3	1.3	0.7
Versus 2002	-47.3	-24.9	-12.9	-85.1	*Versus 2002*	-2.9	-2.4	-1.5	-2.5

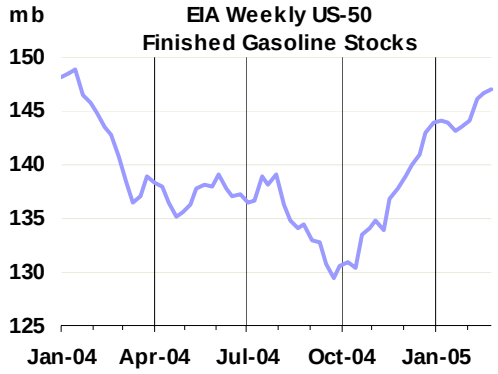
1 other oils includes NGLs, feedstocks and other hydrocarbons

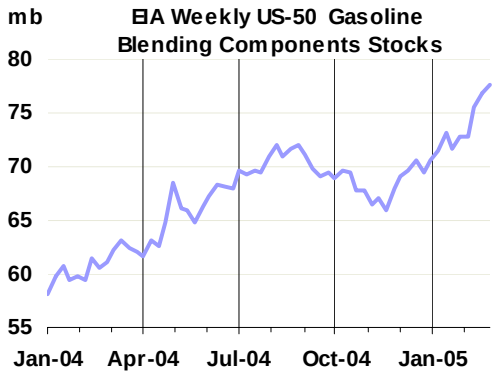
A year-on-year comparison places total commercial oil inventories in the OECD at 66 mb above a year ago. However, the distribution of this surplus on a regional basis was uneven. Most of the higher volumes versus the January 2004 position were in North America for both crude and product inventories. Days of forward demand cover by OECD oil stocks stayed at 51 days, level from December as distillate stocks drew and first quarter demand across the OECD was revised higher. Cover in North America came to 48 days, 58 days in Europe and 46 days in the Pacific.

OECD Regional Stock Developments

North America

Weekly figures show US-50 crude stocks increasing by about 5 mb in February, closing just under 300 Mb or 23 mb above year-ago levels. Imports of crude oil remained relatively firm considering reduced requirements associated with refinery maintenance. Refinery utilisation fell under 90% by end-month. Most of the stock gains came on the West Coast and on the Atlantic Coast where imports were rising on a likely increase in the arrivals of West African crude. However, inventories on the Gulf Coast, where the largest share of refining capacity is located, declined slightly. In contrast, crude stocks in the neighbouring Mid-continent, second in refinery capacity to the Gulf Coast, were up, implying an apparently limited impact of outages to Canadian oil sand supplies. Stocks in Cushing, the delivery point for NYMEX's WTI futures contract, reached a new high in February at 18 mb, helping to maintain a contango in the near months of the future curve.



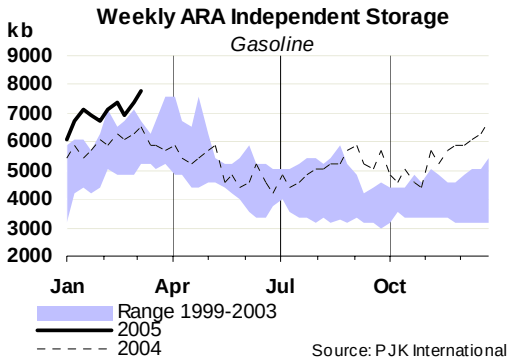


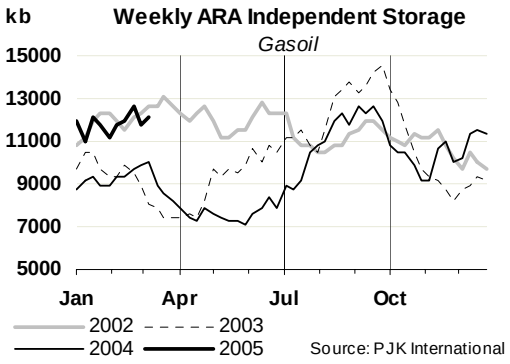
US stocks of gasoline continued to rise in February despite lower refining utilisation rates. Inventories at end-month stood at nearly 225 mb, or 20 mb above a year ago. While demand growth in February weakened from January, average domestic output held generally above last year and stocks of blending components rose on high imports from Europe. March should see some declines in inventories with the need to turnover winter quality product ahead of specification changes in April. The pace of arrivals of imports from Europe is also expected to fall. This, in combination with lower output due to expected higher catalytic cracker unit maintenance, is likely to place some downward pressure on inventories. However, financial incentives for increasing storage further improved with a widening of the contango in the near-month for NYMEX unleaded gasoline futures.

Middle distillate stocks, with the exception of jet/kerosene, were down in February. Heating oil stocks fell with declining domestic output and imports while at the same time demand rebounded on colder temperatures. Diesel stocks were generally down across the US with the exception of the Gulf Coast. Pipeline capacity limitations for carrying product north led to weaker Gulf Coast cash price differentials against futures than in New York Harbour and gasoil exports to Europe.

Europe

European industry crude stocks slipped over 3 mb in January off a downward revised December base. Most of the decline came with a combined 6 mb draw in Norway and France. The Netherlands saw stocks rebound by 4 mb after drawing by over 10 mb in December. With forthcoming turnarounds in March, end-February is likely to see crude stocks trend below January's five-year average level as lower crude requirements associated with maintenance will favour reduced inventory holdings. Additional downward pressure in February was provided by heightened arbitrage activity for regional crudes, including offers of Urals into the US Gulf Coast, and continuing firm throughputs.



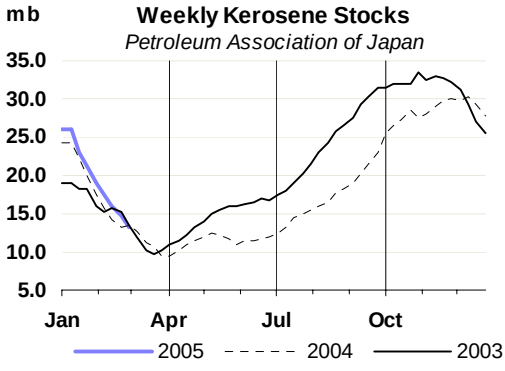


European industry distillate stocks closed up 6 mb in January following a near 10 mb upward revision to December levels. Germany accounted for 3 mb of the build and with the Netherlands for most the revision. In February, independent storage of gasoil in the Amsterdam, Rotterdam and Antwerp (ARA) area edged higher on steady Baltic supplies. The inflow stemmed from limited opportunity to load full cargos in the Baltics for arbitrage to the US due to weather-related shipping restrictions. Bouts of cold weather were accompanied by limited heating oil barge deliveries into Germany and short-lived pockets of Spanish demand for Russian gasoil for desulphurisation. Underlying the weakness in demand for gasoil out of ARA was competitive local pricing. With higher heating demand met by local refineries, we can expect industry stocks in turn to have trended downwards. Independent storage of jet fuel in ARA edged lower in February, as Middle East arrivals eased and a greater emphasis was placed on diesel production in a period of seasonally declining jet demand.

European industry stocks of gasoline rose over 4 mb in January and can be expected to rise further in February, mirroring stock builds in ARA independent storage. These stocks rose as gasoline exports to the US slowed in February. While temporary strength in the UK emerged, demand remained weak overall with end-users reported largely covered ahead of regional refinery maintenance. Eventually, gasoline was reported delivered from the UK into ARA. Despite deliveries to Iran, surplus product moved into ARA stocks, encouraged by a wide contango in swap prices for March-April delivery.

Pacific

Pacific crude stocks were marginally lower in January on inventory draws in Japan. Though the region saw continued strength in refinery activity, imports remained relatively high. In Korea, onshore inventories drew heavily, falling over by 10 mb, but the decline was more than offset by a rise in oil held in tankers at ports. Preliminary weekly data show Japanese onshore crude inventories down about 5 mb in February with refinery activity remaining high. However, volumes on tankers at ports typically rise over the first quarter in Japan, suggesting a shallower draw for the month when final data come in.



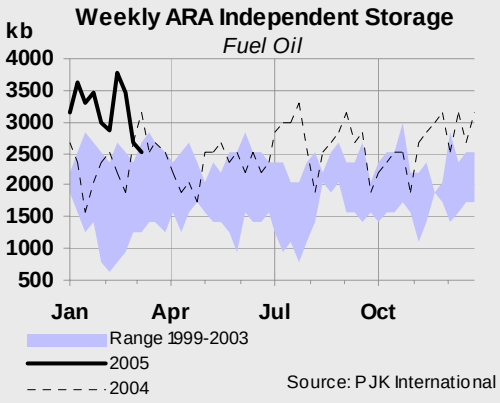
Distillate inventories fell in the Pacific in January with stocks down nearly 6 mb in Japan and 2 mb in Korea. Kerosene saw the largest changes as Japanese demand rose on cold temperatures, outpacing increases in supply. This trend continued in February according to weekly data, pushing inventories towards their seasonal low. Japanese gasoil inventories bucked the trend in January before assuming a seasonal decline in February. Korean kerosene stocks drew marginally in January in comparison; domestic output rose as refineries shifted yields away from gasoil to meet rising domestic demand.

Independent Storage of Fuel Oil in the ARA and Arbitrage Trade

In 2004, some 25 very large crude carriers (VLCCs) were loaded in Europe with Russian fuel oil for arbitrage out of the region, primarily to Singapore. What initially began as an opportunistic way of disposing of unwanted product is now a common feature of the Northwest European market. A large share of this product is high sulphur cracked material (HSFO) unsuitable for the European market where sulphur specifications have tightened in recent years. Less stringent Asian specifications, however, provide an outlet for economic bulk shipments of European surplus product. These shipments have largely been absorbed by robust Chinese fuel oil demand and strong marine bunker demand in Singapore in 2004.

A large portion of Russian fuel oil for arbitrage transits through the Amsterdam-Rotterdam-Antwerp area (ARA). The fuel oil is sourced from the Baltics ports of Tallinn (Estonia), St. Petersburg (Russia), Klaipeda (Lithuania) and Ventspils (Latvia). Loading generally takes place in Rotterdam, drawing on material in independent storage. Arbitrage depends on dirty freight rates and price spreads between ARA and forward paper prices in Singapore. The Baltic and Northwest European route to Southeast Asia, however, is not an actively traded route by ship charterers. Indicative average lump sum cost (based on weekly data) for a 260 000 tonne vessel were about US$ 7.1 million in December, US$ 4.3 million in January and US$ 5.4 million in February.

Arbitrage supplies out of Northwest Europe compete in Singapore with VLCC shipments from the Caribbean and smaller Aframax (80 000 tonnes) or Suezmax (130 000 tonnes) vessels from the Mediterranean and the Black Sea. At least two VLCCs were loaded in Rotterdam in February following a drop in dirty freight rates in January. Latest estimates report Western supplies arriving in Singapore in March at about 2 million tonnes and 1.5 million tonnes in April (although is this expected to be revised higher).



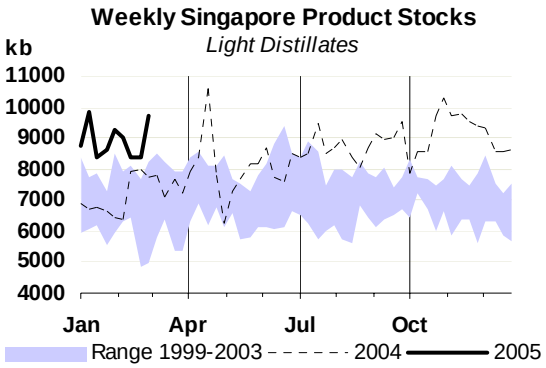
The large fuel oil import requirement in Asia and expectations for greater trade from Europe led independent storage operators in the ARA area to embark on extensive investment programs to accompany these changes. Drawing on storage in Rotterdam has cost advantages over ship to ship transfer from smaller vessels to VLCCs (that typically take place off the Danish/ Swedish coasts near the Gothenburg area). During 2003 and 2004, Vopak installed in Rotterdam additional equipment to improve existing service levels and substantially increase handling capacity. Among these are finger pier connections adding to berth availability for sea-going vessels, mass-flow meters, new berths to accommodate barges and the conversion of exiting storage tanks (conversion of 240 000 cubic meters (cm) of storage from crude to fuel oil service). Other players in this trade are also investing in capacity. Vitol is currently constructing new fuel oil tankage in Rotterdam with capacity of about 280 000 cm and Lukoil is also building storage in Rotterdam of about 100 000 cm. The additional storage capacity in Rotterdam comes to about 620 000 cm, capable of handling about 6 to 7 million tonnes a year of extra throughput.

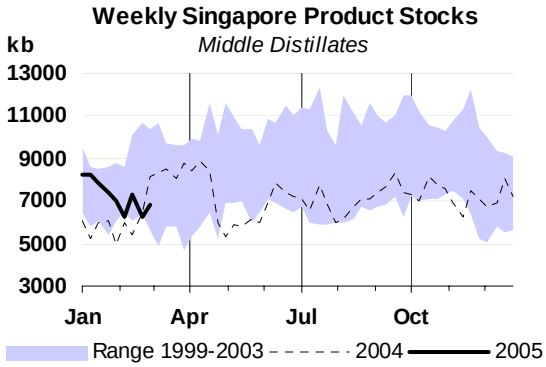
These additions to capacity have implications when comparing stock levels in ARA against previous years. While future levels can be considered against a 2004 baseline, comparisons with previous years are less meaningful. Large arbitrage shipments also have implications in terms of greater volatility in the storage levels themselves. This is particularly true on the downside as VLCCs are loaded from a more gradual accumulation of supply placed in independent storage tanks.

Singapore Stock Developments in February

Total product inventories in Singapore surveyed by International Enterprise edged higher in February, driven by gains in light product stocks and residual fuel oil. Middle distillate inventories moved sideways at the lower end of their five-year range.

Light product stocks declined during most of February before rebounding to open March at about a half a million barrels higher. Inventories continued to trend at high levels, supported by ample regional availability of naphtha from India and the Middle East. Excess naphtha was seen in a continuing widening of its price discount to gasoline. The weakness was also supported by lower demand by key importers such as Japan, Korea and Taiwan ahead of planned maintenance at petrochemical facilities in the second quarter. Gasoline demand in southeast Asia was strong amidst lower Chinese exports this year. Strong buying interest was seen from Indonesia but also India for 88 and 91 octane material for February and early March delivery. This appears to have affected less Singapore supplies, whose gasoline exports targeted predominantly Vietnam, Malaysia and New Zealand. However, a further drop in Chinese exports in March, forthcoming refinery maintenance in the region and continuing strength in demand is likely to pressure inventories downwards in Singapore.





Middle distillate stocks were little changed in February. Supplies kept tight with regional exporter Korea cutting back on gasoil exports. Korean refiners were focusing output on kerosene to meet rising domestic demand. While China remained absent from buying headlines, Indonesia and India were at the forefront of gasoil tenders. Indian demand was reportedly motivated by changes towards lower sulphur product in major cities as of 1 April. Indonesia's state oil company Pertamina in turn was reportedly building diesel supplies ahead of maintenance at its 260 kb/d Balikapan refinery in March. Singapore prices for gasoil swaps ended February in backwardation, suggesting a continued tight outlook. Indian and Indonesian imports are likely to keep spot regional supplies tight, aided by an uptick in higher sulphur diesel deliveries to Hong Kong with the beginning of the fishing season.

Residual fuel oil stocks kept at high levels. Arbitrage arrivals in February were down from January, while those in March are expected steady at about 1.9 million tonnes. However, given a lack of Chinese demand, quality issues underpinned movements in fuel oil. February arrivals were higher grade material, not readily blended into the bunker pool owing to unfavourable price differentials. While the quality of arrivals in March is expected to be more balanced, Chinese demand remains muted owing to high domestic stocks built up ahead of the February Lunar New Year holiday.

Singapore Crude & Product Trade

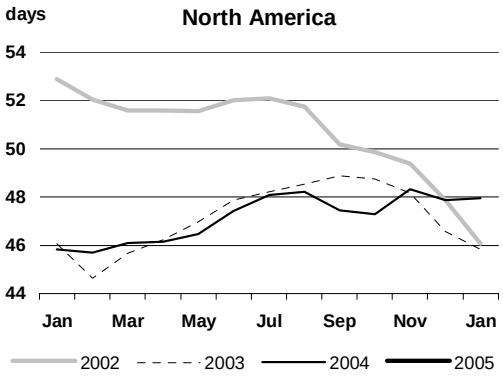
(thousand barrels per day)

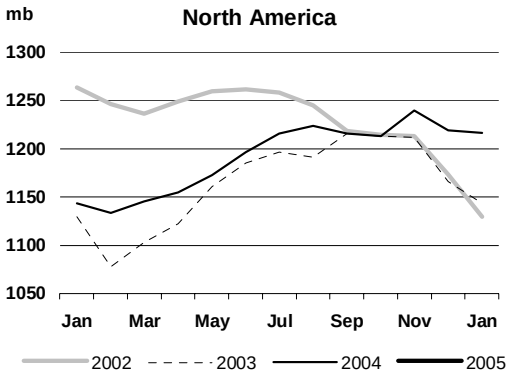
Net Imports/(Exports) of:	2003	2004	1Q04	2Q04	3Q04	4Q04	Nov 04	Dec 04	Jan 05	Latest month vs. Dec 04	Latest month vs. Jan 04
Crude Oil	755	815	777	696	727	1059	1139	736	1496	760	819
Products & Feedstocks	-96	-136	-64	-150	-118	-211	-216	-309	-73	236	13
Gasoil/Diesel	-170	-182	-133	-206	-181	-206	-180	-256	-170	85	13
Gasoline	-83	-96	-88	-119	-79	-98	-104	-62	-40	22	59
Heavy Fuel Oil	320	276	304	289	238	272	195	247	276	28	-45
LPG	-22	-22	-24	-21	-20	-24	-24	-24	-22	1	1
Naphtha	13	31	38	24	42	21	26	4	32	28	-40
Jet & Kerosene	-99	-86	-99	-50	-92	-102	-67	-127	-93	34	22
Other	-55	-57	-62	-67	-26	-74	-61	-92	-55	36	33
Total	**659**	**679**	**713**	**546**	**609**	**848**	**923**	**427**	**1423**	**996**	**832**

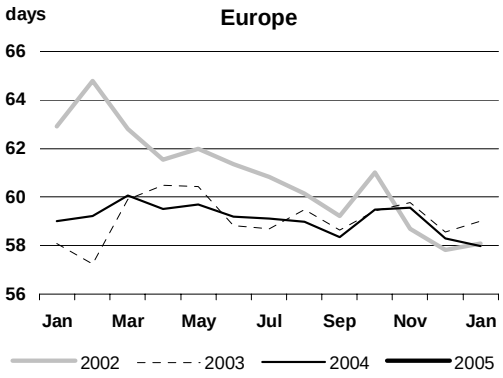
Source: International Enterprise, IEA estimates

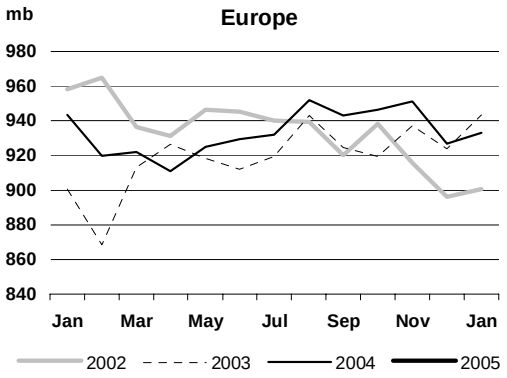
Regional OECD End-of-Month Industry Stocks
(in days of forward demand and millions barrels of total oil)

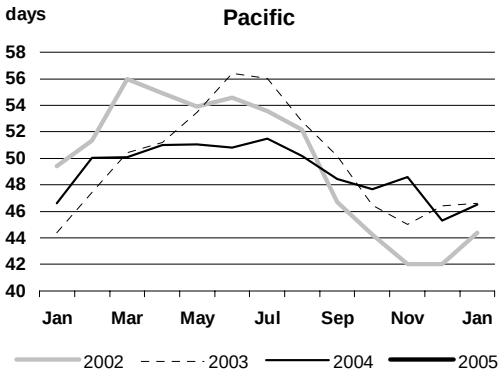
Days[1] | **Million Barrels**

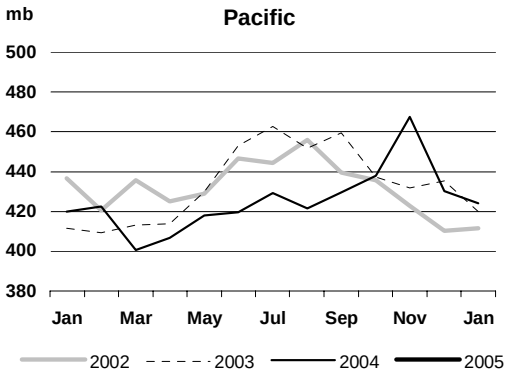


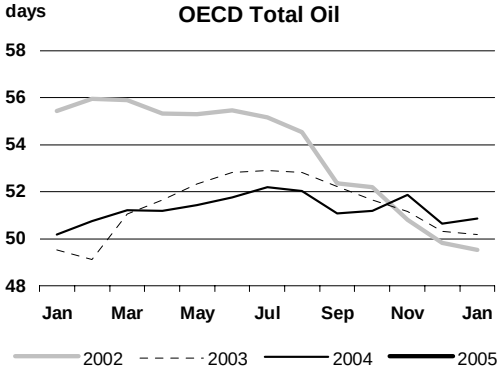


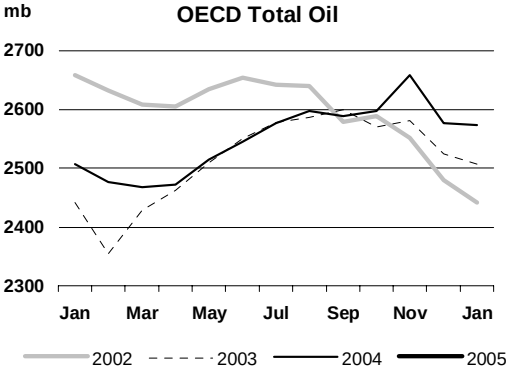












1. Days of forward demand are based on average demand over the next three months.

PRICES AND REFINERY ACTIVITY

Summary

- **Benchmark NYMEX light crude** topped $55/bbl on an intra-day basis, driven by cold weather in the Northern Hemisphere and continued strong world GDP growth. While NYMEX light crude remained below the October peak of $55.67/bbl, IPE Brent made fresh highs of $54.30/bbl and the front month flipped into backwardation as Asian interest in West African crude and improved refiner demand bolstered prompt demand. Dubai continued to set record highs, moving $5 above October 2004's peak to $45.47/bbl.

- **Average February light/sweet-heavy/sour differentials** remained on a par with January levels, but widened towards the end of the month. Strong Asian demand for regional light/sweet crudes was a major factor behind the move. But despite this the Brent/Dubai spread currently remains $6 below the record October peak of $13.15/bbl.

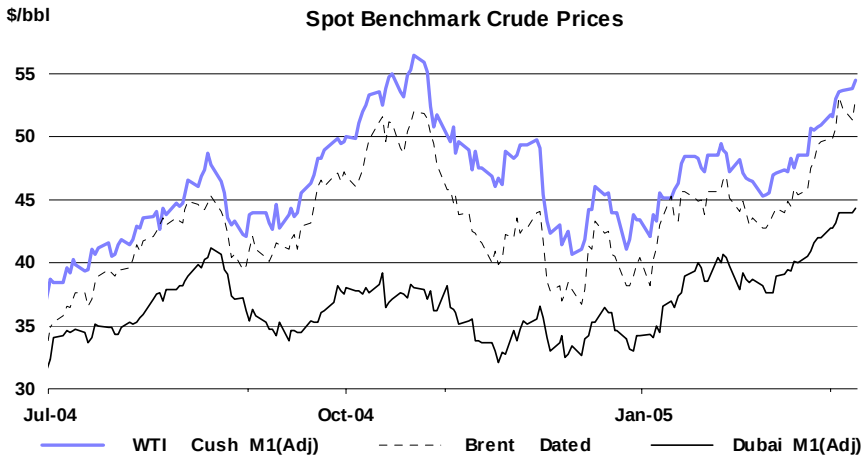
- **Distillate prices** rose sharply as frigid temperatures hit the US, Europe and North East Asia. On a seasonal and year-on-year basis, the cold weather was more severe in Europe and Japan, with the European market particularly sensitive due to low consumer stocks and a greater intensity of diesel use. Jet/kerosene demand remains strong on a global basis, reflecting both the growth in air travel and blending demand to meet diesel needs.

- **Gasoline differentials** to light sweet crude rose sharply towards the end of February, following a depressed performance for most of the month. Seasonally, gasoline prices tend to rise in the spring following the introduction of summer specification fuels, particularly in the US. But the latest global rally was led predominantly by tightening supplies and strong demand in Asia.

- **VLCC crude freight rates** remained relatively flat for most of February, before falling in early March. An increase in tanker availability, coupled with a reluctance to fix ahead of the 16 March OPEC meeting appeared to be key factors behind the drop. Smaller vessels saw some support from intermittent Black Sea weather related delays and strong demand from Asia.

- **Trends in refinery margins** diverged in February. European and US West Coast margins rose on higher product prices, but declines were seen in the US Gulf Coast following weaker gasoline differentials. Singapore margins were depressed by the strength of regional light/sweet crude.

- **OECD refinery throughput** fell by 1.0 mb/d in January to 39.85 mb/d as US refinery maintenance and economic run cuts in Europe took effect. But on a year-on-year comparison, refinery runs in the OECD regions remained 750,000 b/d above year ago levels and capacity utilisation was nearly 1.3% higher. This reflects both global demand growth and also lower maintenance levels so far this year.



Crude Oil Prices

Spot Crude Prices and Differentials

Crude oil prices rose steeply in February, bolstered by cold weather and a resurgence of Asian light/sweet demand. Regional light/sweet crudes such as Tapis strengthened in relation to dated Brent and Dubai, attracting renewed buying interest for West African crudes. WTI remained in a refinery maintenance-induced contango, but there were signs of tightening crude supplies in the second quarter.

Spot Crude Oil Prices and Differentials*

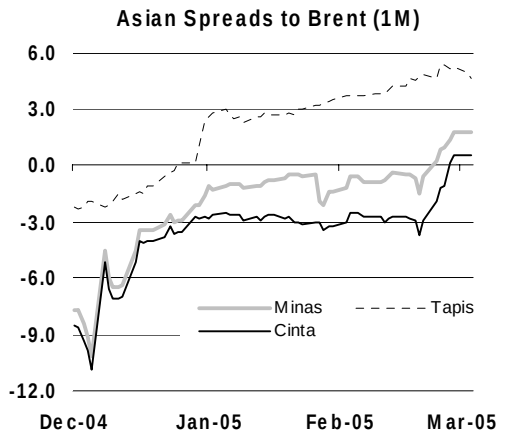
(monthly and weekly averages, $/bbl)

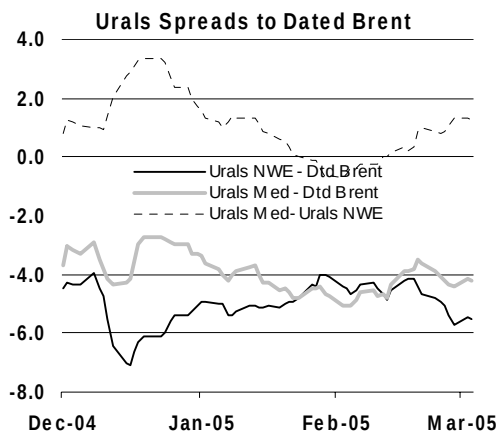
	Dec 04	Jan 05	Feb 05	Feb-Jan		Week Commencing:				
				Change	*%*	31 Jan	07 Feb	14 Feb	21 Feb	28 Feb
Crudes										
Brent Dated	39.53	44.23	45.37	1.14	2.6	43.94	43.35	44.95	48.10	50.94
WTI Cushing 1 month (adjusted)	43.20	46.83	47.94	1.11	2.4	47.01	46.06	47.80	50.75	52.47
Urals (Mediterranean)	36.17	40.22	40.93	0.71	1.8	39.38	38.40	40.32	44.35	46.80
Dubai 1 month (adjusted)	34.20	37.92	39.87	1.95	5.1	38.58	38.28	39.62	41.39	43.12
Tapis	39.03	46.35	50.17	3.82	8.3	48.04	47.84	49.66	52.74	55.40
Differential to Dated Brent										
WTI Cushing 1 month (adjusted)	3.67	2.60	2.57	-0.03		3.07	2.72	2.85	2.65	1.53
Urals (Mediterranean)	-3.36	-4.01	-4.44	-0.43		-4.56	-4.94	-4.63	-3.75	-4.14
Dubai	-5.33	-6.31	-5.51	0.80		-5.36	-5.07	-5.33	-6.71	-7.82
Tapis	-0.50	2.12	4.80	2.68		4.10	4.49	4.71	4.64	4.46
Prompt Month Differential										
Brent 1mth-2mth (adjusted)	-0.23	-0.01	-0.08	-0.07		-0.26	-0.17	0.15	0.22	0.22
WTI Cushing 1mth-2mth (adjusted)	-0.30	-0.19	-0.53	-0.57		-0.58	-0.57	-0.53	-0.56	-0.56

* Weekly data for Brent and WTI 1st month and 2nd month are unadjusted

European refining margins improved in February, from lacklustre early January levels, increasing regional crude demand. High exports of gasoline to the US, coupled with cold weather-inflated gasoil demand, bolstered refiner demand for North Sea crudes. Lower freight rates kept arbitrage to the US market open for much of February, but it was primarily the return of Asian buying of West African crudes that flipped the market from contango to backwardation.

Urals spreads to dated Brent remained relatively flat through February, with increased Russian supplies being offset by the continued cessation of Iraqi exports to Ceyhan. Pumping along the northern Iraqi pipeline to Turkey resumed briefly in mid-February, only for further sabotage to halt flows a few days later. Northern pipeline exports have been minimal for some months now, lowering expectations that a possible resumption of exports in the second half of March will be sustained. Urals supplies in the Mediterranean were also constrained by bad weather in the Black Sea and a briefly open arbitrage window to Asia. While reports suggested that the arbitrage encouraged more Libyan than Russian crude eastwards, the net result was a tightening of regional supplies.





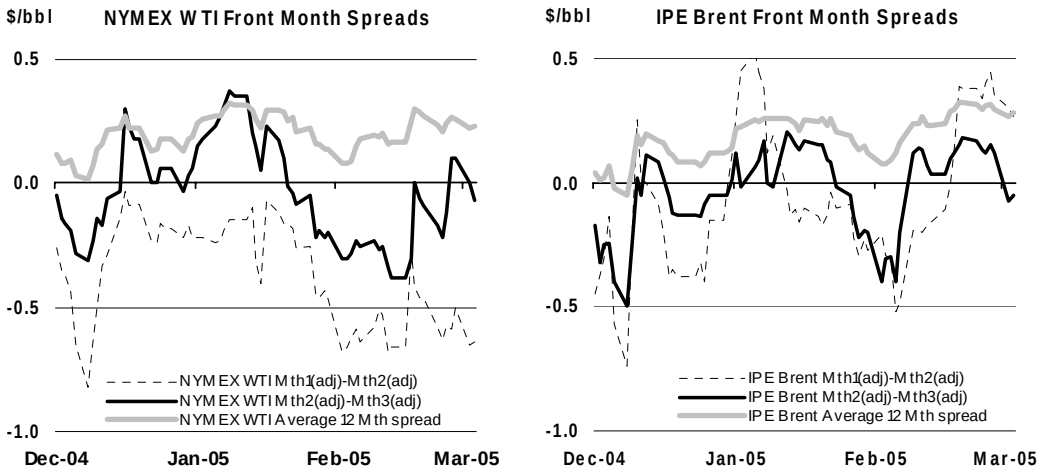
West African crude demand perked up for early April, following a March loading programme that took longer-than-usual to clear. March exports to Asia were seen broadly flat with January and February at around 1.1 mb/d, but early indications suggest April could be stronger.

Rising Mid-Continent (PADD II) stocks contributed to spot WTI weakness in the US domestic market, affording Light Louisiana Sweet to rise to a premium towards the end of February. The rise in PADD II stocks is somewhat surprising given Canadian syncrude problems in February, but the NYMEX contango has encouraged the movement of crude into storage. Mars also rallied ahead of planned maintenance to the field in mid-March, but gains were pared by the end of the month as prompt liquidity dried up. The widening light/sweet-heavy/sour spread and strong coking margins increased demand for heavy sour crudes in the Gulf and West Coast. West Coast refiners were reportedly seeking additional volumes of Oman crude to offset declining Alaskan North Slope volumes.

Asian refiners have been buying light/sweet crudes to meet strong regional demand and replenish stocks that have been drawn down over the first quarter. Refiners are expected to run at higher rates than normal to be prepared in the event of a repeat of 2004's Chinese-led surge in second quarter diesel demand. However, the preference for light/sweets over heavy/sours such as Dubai suggests there has been little pre-emptive buying to replace OPEC volumes in case of an output cut at the 16 March meeting. Regional sweet crude Tapis rose by $2.68/bbl more than dated Brent on average in February from average January levels, rising nearly $10 between the end of January and early March. Paper trading of new Australian light sweet crude Mutineer-Exeter established a premium for the crude grade to Tapis. But regional traders expect this premium to rise further once the stream becomes established.

Crude Futures

Front month IPE Brent flipped from contango to backwardation in mid-February as Asian buying of West African crudes and cold weather bolstered European refiner interest. The move was preceded by an earlier move of the second-third month spread into backwardation and a broad tightening of the spreads through to 2006.



Front month NYMEX light crude was seemingly immune to these movements, remaining firmly in contango. Traders noted that the front month discount in mid-February was close to levels which would virtually finance spot purchases and storage costs, encouraging the movement of crude into storage. This in turn, with the transatlantic arbitrage open, would have contributed to a tightening of the Brent market and continued high imports.

However, spot-month weakness was also accompanied by a tightening for second quarter delivery months. This suggests that the US crude market could get tighter with the end to the seasonal refinery maintenance programme in April.

Delivered Crude Prices in December

Delivered crude prices in IEA countries in December fell by an average of $4.01/bbl to $37.24/bbl. The move mirrored declines in spot crude prices and was accentuated by an early-month concomitant slump in freight rates from 30-year highs to below the five-year average. The decline was largest in North America, where prices fell by $5.31 to $36.05/bbl. IEA Europe was $3.55 lower at $37.57. IEA Pacific, which managed to avoid the sharp price spike seen in October, saw a lesser drop of $2.56 to $38.73/bbl.

Product Prices

Spot Product Prices

Cold weather across the Northern Hemisphere bolstered global distillate prices. Northwest European prices moved above those in other regions, with low inland consumer stocks leaving little margin to drawdown inventories to meet increased heating needs. The need for refiners to build diesel stocks ahead of spring maintenance programmes further tightened distillate availability. It was a similar picture in the Mediterranean where, in addition to the cold temperatures, there were further weather-related disruptions to exports from the Black Sea, albeit at a lesser level in total than those seen in January. The regional strength of distillates attracted North American diesel shipments to Europe to bolster supplies.

Spot Product Prices
(monthly and weekly averages, $/bbl)

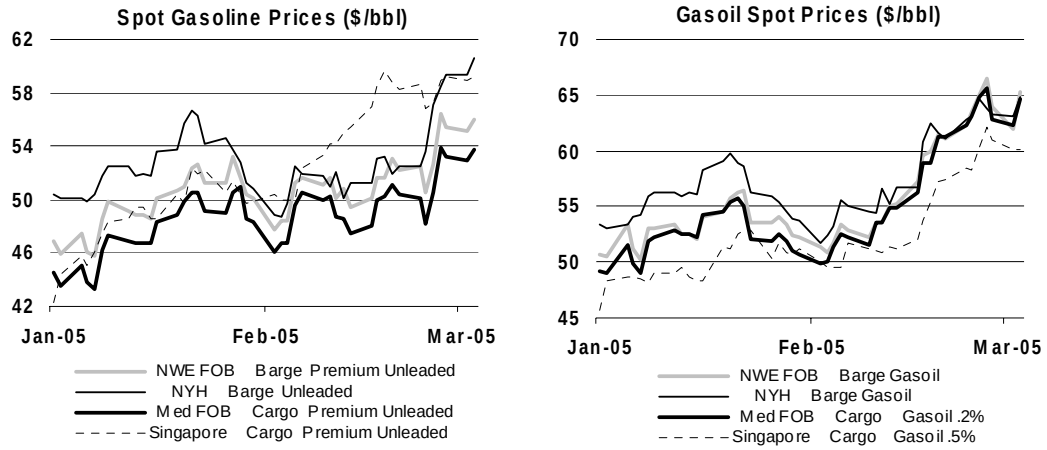
	Dec	Jan	Feb	Feb-Jan		Week Commencing:					Dec	Jan	Feb
				Change	*%*	31 Jan	07 Feb	14 Feb	21 Feb	28 Feb			
Rotterdam, Barges FOB											***Differential to Brent***		
Premium Unleaded (Cargo)	43.30	48.70	50.86	2.16	4.4	51.31	49.51	50.60	51.74	53.03	3.77	4.47	5.49
Regular Unleaded	42.61	47.94	49.92	1.98	4.1	50.51	48.65	49.58	50.70	51.98	3.08	3.71	4.54
Naphtha	42.24	43.18	45.85	2.67	6.2	44.74	44.17	45.55	48.10	49.70	2.71	-1.05	0.48
Jet/Kerosene	54.20	55.20	58.21	3.01	5.5	55.28	54.91	57.54	63.18	66.50	14.67	10.97	12.83
Gasoil	52.07	52.75	55.17	2.42	4.6	53.11	52.06	53.91	59.84	64.30	12.54	8.52	9.79
Fuel Oil 1.0%S	25.95	27.74	28.88	1.14	4.1	29.04	27.04	27.35	31.35	31.74	-13.59	-16.49	-16.49
Fuel Oil 3.5%	21.82	24.55	26.56	2.02	8.2	25.51	25.69	26.29	28.03	29.01	-17.71	-19.68	-18.81
Mediterranean – Basis Italy, Cargoes FOB											***Differential to Urals***		
Premium Leaded (0.15 g/l)	41.15	47.26	49.87	2.61	5.5	50.19	48.68	49.71	50.68	51.38	4.98	7.04	8.94
Premium Unleaded	40.43	46.54	49.15	2.61	5.6	49.47	47.96	48.99	49.96	50.67	4.26	6.32	8.22
Naphtha	39.71	41.41	43.96	2.55	6.1	42.59	42.08	43.76	46.46	48.20	3.54	1.19	3.02
Jet/Kerosene	51.04	53.03	55.95	2.92	5.5	53.01	52.64	55.36	60.89	63.99	14.87	12.81	15.01
Gasoil	51.56	51.84	54.48	2.64	5.1	51.67	51.25	53.67	59.31	63.97	15.39	11.62	13.55
Fuel Oil 1.0%S	26.67	29.83	30.77	0.94	3.2	31.14	29.60	29.51	32.28	33.66	-9.50	-10.39	-10.16
Fuel Oil 3.5%S	19.42	22.73	25.85	3.12	13.7	24.19	24.97	25.52	27.74	28.08	-16.76	-17.49	-15.09
NY Harbour, Barges											***Differential to WTI***		
Super Unleaded *	46.60	54.34	54.84	0.50	0.9	55.33	53.83	54.80	56.19	57.65	3.40	7.52	6.90
Regular Unleaded *	44.87	51.87	51.53	-0.34	-0.7	52.60	50.29	51.21	52.67	55.45	1.67	5.05	3.59
Jet/Kerosene	54.46	58.97	57.85	-1.12	-1.9	57.42	54.97	57.03	62.30	63.62	11.27	12.14	9.91
No.2 Heating Oil	53.45	55.34	56.39	1.06	1.9	54.69	53.56	55.50	61.47	63.58	10.26	8.51	8.45
Fuel Oil 1.0%S (Cargo)	25.22	29.86	30.94	1.08	3.6	31.60	29.70	30.68	32.14	32.76	-17.98	-16.97	-17.00
Fuel Oil 3.0%S (Cargo)	22.46	26.65	28.30	1.64	6.2	28.10	28.03	28.28	28.56	29.38	-20.74	-20.18	-19.64
Singapore, Cargoes											***Differential to Dubai***		
Premium Unleaded 95	44.81	47.57	54.27	6.70	14.1	50.37	50.93	54.39	58.43	57.90	10.61	9.65	14.40
Naphtha	42.78	41.34	44.61	3.27	7.9	42.54	41.98	44.62	47.08	48.46	8.58	3.42	4.74
Jet/Kerosene	50.07	51.10	54.54	3.44	6.7	52.08	51.90	53.05	58.05	62.98	15.86	13.18	14.67
Gasoil	49.25	49.23	52.53	3.31	6.7	50.96	50.42	51.14	55.14	59.81	15.05	11.31	12.66
LSWR (0.3%S)	25.65	31.94	34.72	2.79	8.7	33.04	32.77	34.36	36.75	38.80	-8.55	-5.98	-5.15
HSFO (3.5%S 180cst)	27.59	28.88	31.16	2.28	7.9	30.36	30.33	30.71	32.23	32.89	-6.62	-9.04	-8.71
HSFO 4%S	25.16	27.89	30.70	2.80	10.1	30.05	29.90	30.19	31.70	32.69	-9.05	-10.03	-9.17

* From 1 November, assessments for NYH are for Max 0.3% MTBE

Traders remain concerned over the ability of European refiners to meet summer diesel demand. Diesel imports jumped sharply in the second half of last year and the ongoing dieselisation of the transport fleet implies further demand growth this year. However, this has to be offset against likely reduced spring and autumn refinery maintenance programmes. Some FSU refiners have also been gearing up to meet lower sulphur fuel specifications.

Cold weather in the northern United States in February and early March, particularly the Northeast, contributed to further falls in US distillate stocks and strong demand. US distillate demand has averaged 4.7% above year ago levels according to weekly data. Part of distillate demand growth has also been driven by increased diesel demand in line with economic growth. The US market was further tightened by diesel exports from the US Gulf to Europe.

Asian distillate tightness is expected to remain in place, with cold weather and increased farming and fishing activity adding to transportation demand. Modest refinery maintenance is expected to tighten the market in March and April (although the bulk will come later in the second quarter) and there have been tenders for material from the Middle East. India held off from its latest tender for low sulphur fuel due to high prices. India is due to introduce lower sulphur transport fuels in a number of cities from April 1 and refiners have been reportedly increasing imports of low sulphur material but simultaneously increasing exports of higher sulphur fuel ahead of the event. Indian refiners are not expected to be fully equipped to meet the new specifications until later in the year.



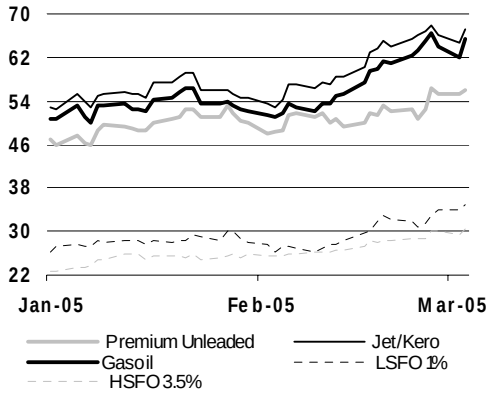
China's diesel imports in January fell to 96,592 tonnes from 550,203 tonnes in December and are seen likely to remain at low levels in February and March. Low domestic prices and high refinery throughputs have contributed to the low diesel imports, but anecdotal reports suggest that domestic stocks are being drawn down.

Jet/kerosene remains strong globally, reflecting tighter distillates supplies as a result of the cold weather, strong diesel demand (jet can be used for gasoil blending) and continued growth in air travel. Asian gasoil has received additional support from an arbitrage window to the maintenance-constrained US West Coast, and the diversion of Middle Eastern product to Europe. These deliveries are expected to depress European values in early March. US West Coast jet/kerosene prices rose to record levels on strong demand and some refinery glitches. It was a similar picture for the rest of the US, raising total US jet demand by nearly 9% over 2004 levels since the start of the year.

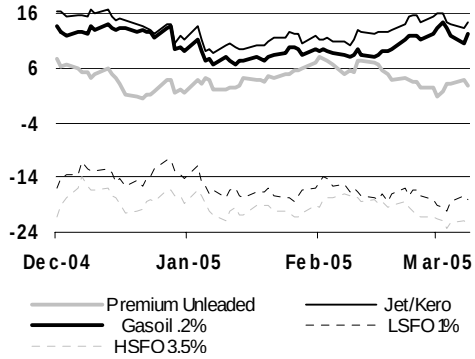
NYMEX gasoline prices spiked to record levels in early March, despite stocks moving to their highest nominal level since June 1999. Nominal figures tend to overstate the supply increase, and on a 'days demand' basis, inventories are on par with February 2002 levels. From a price perspective, the existence of higher stocks in February 2002 helped to mitigate the spring spike in outright prices that has been seen in recent years, and also encouraged a downturn in crack spreads versus crude through to September of that year.

An open arbitrage encouraged much higher-than-expected gasoline exports from Europe in January and February. However gasoline exports are expected to slow as European refineries undertake maintenance in March, April and May. With transport demand retaining a strong linkage to global economic growth, strong driving season demand is one factor which is keeping prices and crack spreads high. Spot Gulf Coast gasoline prices remained in a steep contango pending the switch to summer-grade gasoline specifications (which has already been seen on NYMEX). Prices were given a boost in early March by rumours of some double-counting of Gulf Coast blendstock inventories. This was described as an 'urban myth' by one EIA official and investigations found no need to revise the data.

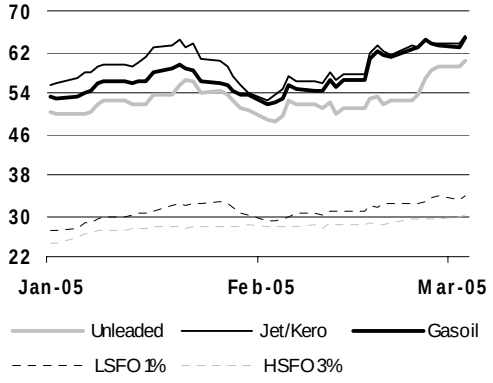
$/bbl **Rotterdam Spot Product Prices**



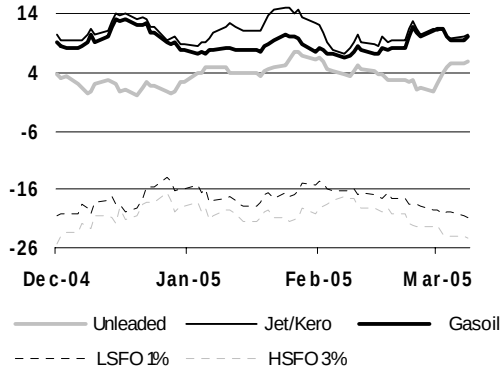
$/bbl **Rotterdam Spreads to Dated Brent**



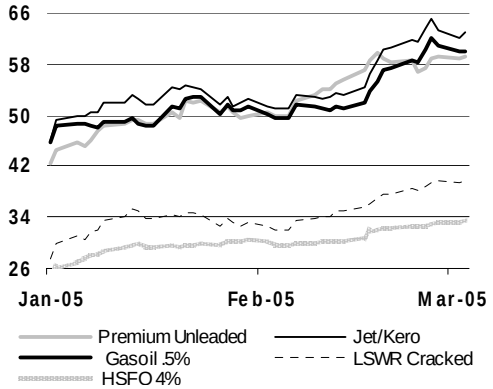
$/bbl **New York Harbour Spot Product Prices**



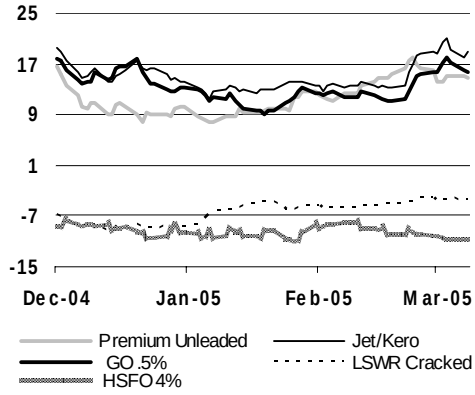
$/bbl **New York Harbour Spreads to WTI**



$/bbl **Singapore Spot Product Prices**



$/bbl **Singapore Spreads to Dubai**



The European gasoline market remains depressed by high stocks (particularly in ARA) and dwindling regional demand. However, supplies are expected to tighten as European maintenance gets underway in March.

But while the US gasoline market is typically one of the main drivers of the international market, it is the strength of Singapore gasoline prices that surprised market participants in February. Prices moved to 10-year highs and attained a sustained premium to the US market. A theoretical arbitrage opened up between Europe and Asia but no movement was heard. Strong demand from India and Indonesia contributed to the firmer Asian market and refinery maintenance was a further supportive factor. As a result, exports from China and Taiwan were noticeably lower and there were reports of increasing demand from the Middle East.

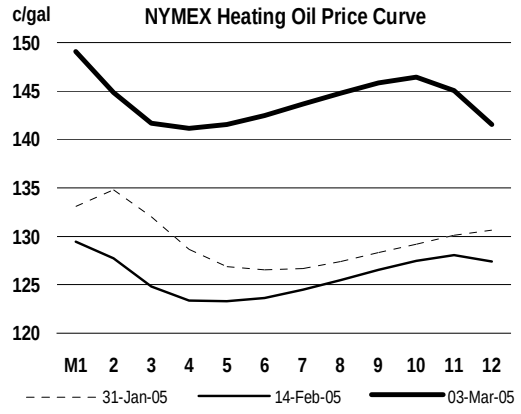
Cold weather bolstered low sulphur fuel oil demand in most regions in February. Utility demand for fuel oil was particularly strong in the Mediterranean region, but rising natural gas prices have also raised interest in Northwest Europe. Low sulphur fuel oil exports to the US provided further support but with the effect of depressing East Coast values. Despite stronger demand, Atlantic Basin LSFO continued to underperform benchmark crudes throughout February, although average differentials posted modest gains from January.

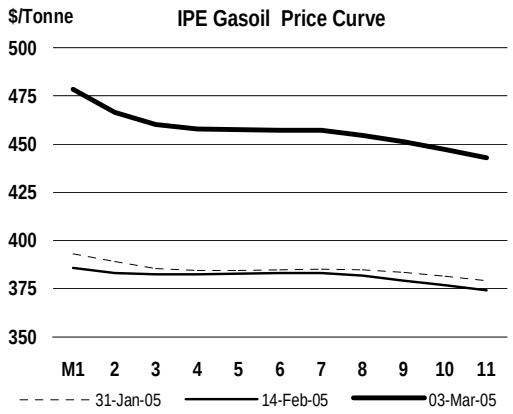
In Asia, scheduled maintenance at Indonesia's Balikpapan refinery from mid-March contributed to a rally in low sulphur waxy residue. Continued cold weather in Northeast Asia, however, also continued to play a significant part in the rally.

Product Futures

NYMEX gasoline futures rallied to record highs in late February. The switch to summer grade gasoline always causes a jump in front month prices at this time of year, and in the case where this movement is close to key technical price areas, it can prompt some trading based on chart analysis. Deepening US refinery maintenance in March, alongside tightening West Coast and Asian gasoline markets, have contributed to the rally despite US stocks moving well above the five-year seasonal average.

The upward shift in NYMEX heating oil futures occurred across-the-curve, reflecting the fact that strong diesel demand growth makes it harder to replenish distillate inventories during the summer season. Cold European weather caused a steepening of the front end of the curve for IPE gasoil futures. Premiums of 10 ppm and 50 ppm diesel to the contract also converged as strong inland heating fuel demand dominated the market. Current forecasts for both the US Northeast and Central Europe suggest that cold weather is expected to remain in place until mid-March at least.





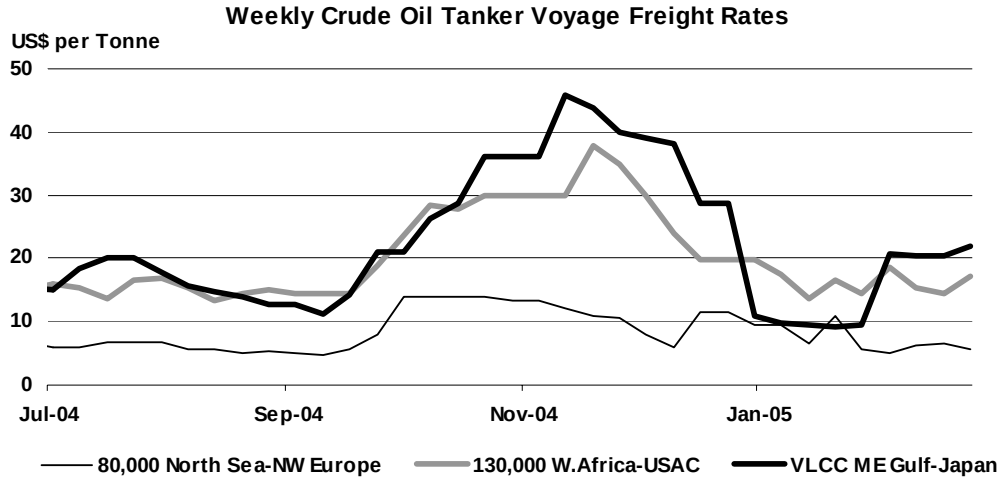
End-User Product Prices in February

The two-month fall in retail petroleum product prices came to an end in February, with broad gains for gasoline, diesel, heating oil and fuel oil. Gasoline prices rose in every country bar Japan, reflecting movements in spot product and crude prices. Japanese retail price movements tend to be less responsive to spot price fluctuations. This lagged effect is highlighted in the ex-tax year-on-year comparison, which shows Japanese prices 35% higher compared with a 20.5% gain in the US. A similar picture emerged for heating oil, diesel and fuel oil, but with gains accentuated by currency factors.

Freight

VLCC crude freight rates from the Middle East Gulf to the US Gulf and Japan fell sharply in early March after a relatively static performance in February. Tonnage availability appeared to increase, while traders were reporting a fall in cargo supply and trading interest. Buyers appear to be holding back ahead of the 16 March OPEC meeting, while sellers remain concerned that a further output cut would add to the tanker supply overhang in the market. Trade reports suggest that the tanker overhang could continue through to April.

Reduced arbitrage opportunities for North Sea crude to the US towards the end of February and pending European refinery maintenance put some downward pressure on Aframax and Suezmax rates. The intermittent closure of Novorossiysk tightened tonnage between the Black Sea and the Mediterranean. This weakened West African routes, but was offset to a degree by a pick-up in Asian buying of West African crude for early April. Inter-Asian rates were also firmed by strong demand for regional crudes.



Clean freight rates broadly picked up from the end of February in line with rising product prices. The steepest gains were seen between the Caribbean and US Gulf Coast, in line with an expected increase in gasoline shipments ahead of seasonal US refinery maintenance. Fog also caused shipping delays and restricted tanker availability in the Caribbean. Tightness in Asian gasoline and plans for increased Indian imports of low sulphur diesel (with a commensurate increase in non-domestic specification material) helped to tighten rates for intra-Asian destinations.

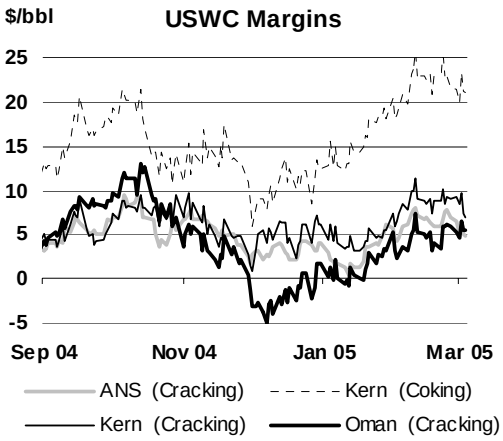
Refining Margins

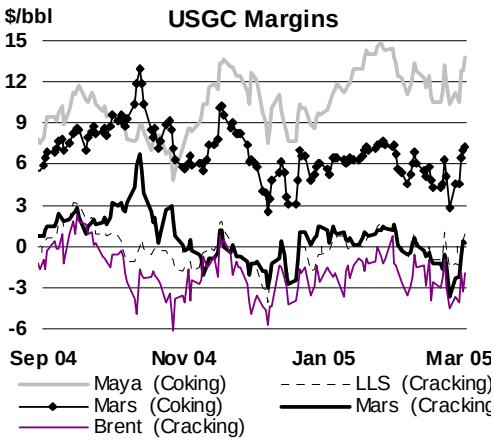
There were divergent trends in refining margins in the six regions covered in February, with European and US West Coast margins increasing on tighter product prices, but the strength of light sweet crude contributed to a more mixed performance in the US Gulf Coast and Asian regions.

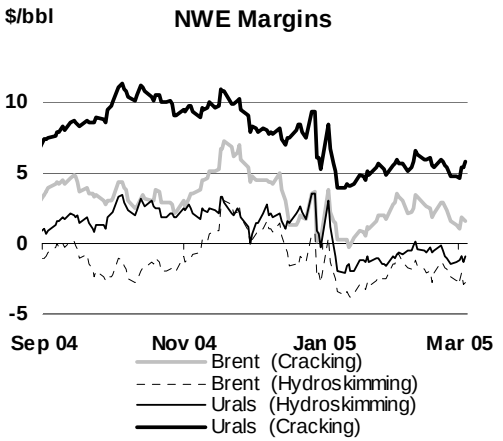
Despite the tightening of the dated Brent market, Brent cracking and hydroskimming margins outperformed Urals in both categories in Northwest Europe due to the strength of heating oil, diesel and jet/kerosene. Those gains were more pronounced in the Mediterranean, where early month strength in low sulphur fuel oil contributed to the firm performance for February as a whole. Hydroskimming margins, which tend to dictate the use of marginal capacity, moved positive for Es Sider (and briefly Urals) in mid-February.

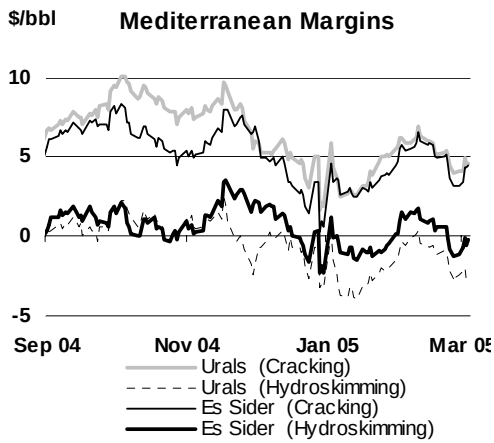
US margins proved less attractive, with the seasonal switch from winter to summer specification gasoline depressing the spot market as refiners tried to offload winter grade material. Refining margins were reduced as a result, particularly in the Gulf Coast. However, summer specification gasoline prices remained relatively static compared with WTI Cushing, lifting forward margins.

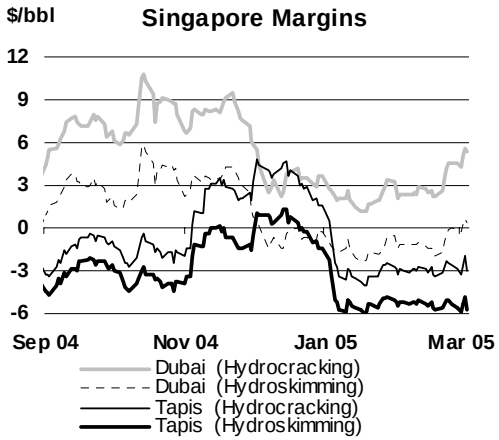
West Coast margins moved in the opposite direction as refinery maintenance and a few unplanned glitches tightened regional gasoline, diesel and jet supplies. Net product worth for the three crudes covered jumped by over 14%, helping to push coking margins over $20/barrel.

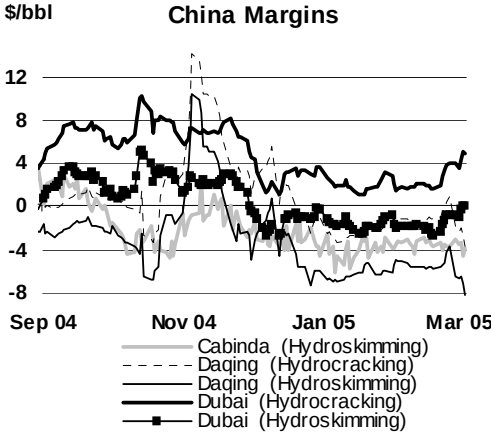

$/bbl
USWC Margins
25
20
15
10
5
0
-5
Sep 04
Nov 04
Jan 05
Mar 05
ANS (Cracking)
Kern (Coking)
Kern (Cracking)
Oman (Cracking)


$/bbl
USGC Margins
15
12
9
6
3
0
-3
-6
Sep 04
Nov 04
Jan 05
Mar 05
Maya (Coking)
LLS (Cracking)
Mars (Coking)
Mars (Cracking
Brent (Cracking)


$/bbl
NWE Margins
10
5
0
-5
Sep 04
Nov 04
Jan 05
Mar 05
Brent (Cracking)
Brent (Hydroskimming)
Urals (Hydroskimming)
Urals (Cracking)


$/bbl
Mediterranean Margins
10
5
0
-5
Sep 04
Nov 04
Jan 05
Mar 05
Urals (Cracking)
Urals (Hydroskimming)
Es Sider (Cracking)
Es Sider (Hydroskimming)


$/bbl
Singapore Margins
12
9
6
3
0
-3
-6
Sep 04
Nov 04
Jan 05
Mar 05
Dubai (Hydrocracking)
Dubai (Hydroskimming)
Tapis (Hydrocracking)
Tapis (Hydroskimming)


$/bbl
China Margins
12
8
4
0
-4
-8
Sep 04
Nov 04
Jan 05
Mar 05
Cabinda (Hydroskimming)
Daqing (Hydrocracking)
Daqing (Hydroskimming)
Dubai (Hydrocracking)
Dubai (Hydroskimming)

Singapore refining margins saw a mixed performance. Gasoline, middle distillate and low sulphur waxy residue prices were strong, lifting net product worth by nearly 8%. However, the strength of regional light sweet crudes more than offset these gains. Dubai margins however showed an improving trend, particularly for more sophisticated upgrading capacity.

Key Refining Margins in Major Refining Centres

($/bbl)

	Monthly Average			Change	Week Ending:				
	Dec 04	Jan 04	Feb 05	Feb 05-Jan 05	04 Feb	11 Feb	18 Feb	25 Feb	04 Mar
NW Europe									
Brent (Cracking)	2.87	1.22	2.55	1.34	3.03	3.24	2.06	1.53	1.57
Brent (Hydroskimming)	-0.27	-2.68	-1.73	0.95	-1.31	-1.59	-2.11	-2.43	-2.80
Mediterranean									
Urals (Cracking)	4.68	3.88	5.59	1.71	5.87	6.33	5.12	3.98	4.63
Urals (Hydroskimming)	-1.00	-2.60	-0.89	1.71	-0.52	-0.40	-1.09	-2.64	-2.54
US Gulf Coast									
Brent (Cracking)	-3.39	-1.41	-2.37	-0.96	-2.61	-1.54	-2.58	-4.54	-1.98
LLS (Cracking)	-1.46	0.55	-0.18	-0.73	-0.05	0.37	-1.01	-1.49	0.92
Maya (Coking)	9.68	12.81	11.99	-0.82	12.28	12.78	10.58	10.33	13.82
US West Coast									
ANS (Cracking)	2.36	2.82	6.47	3.65	5.92	7.13	5.94	7.02	4.88
Oman (Cracking)	-2.04	1.36	4.65	3.28	3.50	5.36	4.09	5.90	5.41
Kern (Coking)	11.85	15.63	22.08	6.45	20.85	22.82	22.90	21.67	21.06
Singapore									
Tapis (Hydroskimming)	0.26	-5.13	-5.35	-0.22	-5.26	-5.15	-5.78	-5.31	-5.78
Dubai (Hydrocracking)	3.75	2.12	2.91	0.79	2.40	2.83	2.24	4.62	5.32
Tapis (Hydrocracking)	3.65	-2.89	-2.90	-0.01	-2.94	-2.75	-3.38	-2.61	-3.01
China*									
Cabinda (Hydroskimming)	-3.06	-4.03	-3.49	0.54	-3.41	-3.23	-3.64	-3.65	-3.93
Daqing (Hydrocracking)	0.85	-2.47	-0.96	1.51	-1.15	-1.29	-1.20	1.01	-3.66

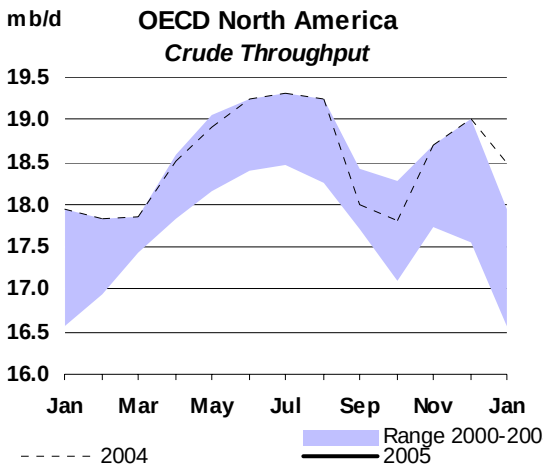
For the purposes of this Report, refining margins are calculated for various complexity configurations, each optimised for processing the specific crude in a specific refining centre on a 'full cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability for a given refining centre. No attempt is made to model or otherwise comment upon the relative economics of specific refineries running individual crude slates and producing custom product sales, nor are these calculations intended to infer the marginal values of crudes for pricing purposes.

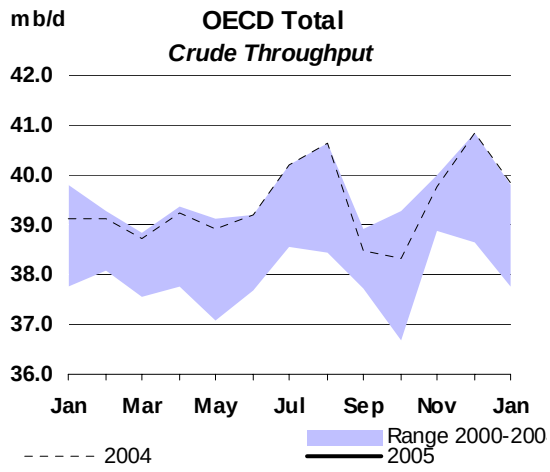
* The China refinery margin calculation represents a model based on spot product import/export parity, and does not reflect internal pricing regulations.
A full list of refining margins and gross product worth can be found in table 15 on www.oilmarketreport.org.

Sources: IEA, Purvin & Gertz Inc.

Refinery Throughput

OECD refinery throughput fell by 1.0 mb/d in January to 39.85 mb/d as US refinery maintenance and economic run cuts in Europe took effect. However, despite this drop, refinery runs in the OECD regions remained 750,000 b/d above year ago levels and capacity utilisation was nearly 1.3% higher.





European refinery throughput fell by 490 kb/d in January, as runs were reduced across-the-board. At least two refineries made public announcements of refinery run cuts in January, but relatively high product stocks and mild weather during the month clearly contributed to a tempering of activity. Refinery runs likely picked up in February to help meet cold weather demand and to build product stocks to meet customer needs during refinery maintenance in March, April and May.

OECD North American throughput fell by 530 kb/d in January to 18.48 mb/d, dominated by a maintenance-driven 490 kb/d drop in the US. Preliminary data showed US refinery throughputs falling a further 227 kb/d by the end of February, with refinery throughput dipping to 14.9 mb/d. However, this is still well above the 14.5 mb/d low seen last February, consistent with our view that maintenance will be much lower than expected. As a result, gasoline output was 291 kb/d higher year-on-year in January and 180 kb/d year-on-year higher in February. Along with high import levels this contributed to a sharp rise in gasoline stocks. Distillate production was up to an even greater degree at 3.22 kb/d and 256 kb/d respectively year-on-year, as refiners moved to meet heating oil and diesel demand.

Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from Jan 04*		Utilisation rate[2]	
	Aug 04	Sep 04	Oct 04	Nov 04	Dec 04	Jan 05	mb/d	%	Jan 05	Jan 04
OECD North America										
US[3]	16.14	14.98	14.95	15.67	15.75	15.26	0.44	3.0	90.4	88.4
Canada	1.82	1.80	1.75	1.86	1.97	1.93	0.10	5.4	95.8	92.2
Mexico	1.27	1.23	1.11	1.16	1.29	1.29	0.00	-0.4	76.5	72.0
Total	19.23	18.01	17.81	18.69	19.01	18.48	0.54	3.0	89.7	87.8
OECD Europe										
France	1.78	1.77	1.76	1.71	1.84	1.81	0.02	0.9	92.9	92.1
Germany	2.36	2.29	2.40	2.24	2.33	2.36	0.08	3.4	96.1	93.0
Italy	1.95	1.93	1.81	1.74	1.96	1.80	0.00	-0.1	77.7	78.1
Netherlands	1.08	0.93	0.81	0.93	1.06	1.08	-0.07	-5.7	88.3	94.0
Spain	1.23	1.17	1.12	1.22	1.28	1.18	0.02	1.6	92.4	91.0
UK	1.73	1.66	1.75	1.76	1.77	1.67	0.05	3.0	91.6	89.4
Other OECD Europe	4.13	4.03	4.02	4.10	4.09	3.94	-0.02	-0.6	84.8	84.7
Total	14.26	13.78	13.68	13.70	14.33	13.84	0.07	0.5	88.2	87.7
OECD Pacific										
Japan	4.24	3.73	3.72	4.16	4.25	4.35	0.07	1.8	92.5	90.9
Korea	2.18	2.20	2.35	2.46	2.48	2.44	0.06	2.5	94.9	93.7
Other OECD Pacific	0.74	0.74	0.75	0.75	0.78	0.73	0.01	0.9	85.5	84.7
Total	7.17	6.68	6.82	7.38	7.51	7.53	0.14	1.9	92.5	91.1
OECD Total	**40.66**	**38.47**	**38.31**	**39.77**	**40.85**	**39.85**	**0.75**	**1.9**	**89.7**	**88.4**

1 Estimate
2 Based on crude throughput and current operable refining capacity
3 US50

OECD Pacific throughput was relatively flat at 7.53 mb/d, with a 100 kb/d rise in Japanese throughput largely offset by declines in Korea, Australia and New Zealand. Preliminary data show Japanese throughput rose slightly in February. This is both in keeping with the seasonal trend but was also needed to help meet heating fuel demands. OECD Pacific turnarounds are expected to be relatively heavy in May this year at around 1.3 mb/d compared with 1 mb/d a year ago. However, early indications suggest that this will be offset by lower levels in June, suggesting perhaps an earlier low point in seasonal maintenance.

Table 1
WORLD OIL SUPPLY AND DEMAND
(million barrels per day)

	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
OECD DEMAND																	
North America	24.0	24.1	24.5	24.2	24.8	24.9	24.6	25.0	24.9	25.2	25.6	25.2	25.5	25.2	25.6	25.9	25.5
Europe	15.3	15.3	15.5	15.2	15.5	15.8	15.5	15.8	15.3	15.7	16.2	15.7	15.9	15.5	15.8	16.1	15.8
Pacific	8.7	8.6	9.8	8.2	8.0	9.2	8.8	9.4	8.0	8.3	8.9	8.6	9.5	8.0	8.1	9.0	8.6
Total OECD	48.0	48.1	49.8	47.6	48.3	49.8	48.9	50.2	48.2	49.2	50.7	49.6	50.9	48.6	49.5	51.0	50.0
NON-OECD DEMAND																	
FSU	3.7	3.5	3.8	3.2	3.4	3.9	3.6	3.5	3.7	3.7	3.9	3.7	3.9	3.6	3.8	4.0	3.8
Europe	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7
China	4.7	5.0	5.2	5.2	5.8	5.9	5.5	6.2	6.5	6.2	6.5	6.4	6.6	7.0	6.9	7.0	6.9
Other Asia	7.6	7.9	8.0	7.9	8.0	8.5	8.1	8.5	8.6	8.4	8.8	8.6	8.7	8.8	8.6	9.1	8.8
Latin America	4.9	4.8	4.5	4.7	4.8	4.9	4.7	4.7	4.9	5.0	5.0	4.9	4.8	5.0	5.1	5.1	5.0
Middle East	5.2	5.4	5.5	5.3	5.7	5.7	5.6	5.8	5.8	6.0	5.9	5.9	6.1	6.1	6.3	6.2	6.2
Africa	2.6	2.7	2.8	2.8	2.7	2.8	2.7	2.8	2.8	2.7	2.9	2.8	2.9	2.9	2.8	2.9	2.9
Total Non-OECD	29.3	29.9	30.6	29.7	31.1	32.3	30.9	32.3	33.0	32.8	33.8	33.0	33.8	34.2	34.2	35.1	34.3
Total Demand[1]	77.3	77.9	80.3	77.3	79.3	82.1	79.8	82.4	81.1	81.9	84.5	82.5	84.7	82.8	83.7	86.1	84.3
OECD SUPPLY																	
North America	14.4	14.5	14.6	14.4	14.6	14.7	14.6	14.8	14.7	14.4	14.4	14.6	14.5	14.6	14.7	14.8	14.7
Europe	6.7	6.6	6.7	6.2	6.0	6.4	6.3	6.4	6.2	5.7	6.0	6.1	6.0	5.9	5.8	6.0	5.9
Pacific	0.8	0.8	0.7	0.7	0.7	0.6	0.7	0.6	0.6	0.6	0.5	0.6	0.5	0.6	0.6	0.6	0.6
Total OECD	21.8	21.9	22.1	21.3	21.3	21.8	21.6	21.8	21.5	20.7	21.0	21.2	21.1	21.1	21.1	21.4	21.2
NON-OECD SUPPLY																	
FSU	8.6	9.4	9.9	10.1	10.5	10.7	10.3	10.8	11.1	11.4	11.5	11.2	11.4	11.6	11.8	12.1	11.7
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
China	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.6	3.5	3.5	3.5	3.5
Other Asia	2.4	2.5	2.6	2.6	2.6	2.7	2.6	2.7	2.7	2.7	2.8	2.8	2.7	2.7	2.7	2.7	2.7
Latin America	3.8	3.9	4.0	3.9	4.1	4.1	4.0	4.0	4.1	4.1	4.1	4.1	4.2	4.3	4.4	4.4	4.3
Middle East	2.1	2.1	2.0	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.8	1.9	1.8	1.8	1.8	1.8	1.8
Africa	2.8	3.0	2.9	3.0	3.1	3.3	3.1	3.3	3.4	3.5	3.6	3.4	3.6	3.7	3.8	3.9	3.7
Total Non-OECD	23.2	24.5	25.1	25.3	25.7	26.3	25.6	26.4	26.8	27.2	27.5	27.0	27.5	27.7	28.1	28.5	28.0
Processing Gains[2]	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.9	1.8	1.8	1.9	1.8	1.9	1.9	1.8	1.9	1.9
Total Non-OPEC	46.8	48.1	49.0	48.3	48.8	49.9	49.0	50.1	50.1	49.8	50.3	50.1	50.4	50.7	51.0	51.8	51.0
OPEC																	
Crude[3]	27.0	25.1	26.7	26.1	26.6	27.6	26.8	27.9	28.1	29.1	29.5	28.7					
NGLs	3.4	3.7	3.5	3.9	4.0	4.1	3.9	4.3	4.3	4.3	4.4	4.3	4.7	4.7	4.8	4.9	4.8
Total OPEC	30.4	28.8	30.2	30.0	30.6	31.8	30.7	32.2	32.3	33.4	33.9	33.0					
Total Supply[4]	77.2	76.9	79.2	78.4	79.4	81.7	79.7	82.3	82.4	83.2	84.2	83.0					
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	0.3	-0.4	-0.6	1.3	0.5	-0.8	0.1	-0.6	0.9	0.5	-0.1	0.1					
Government	0.0	0.2	0.2	0.0	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.1					
Total	0.3	-0.3	-0.5	1.4	0.7	-0.5	0.3	-0.5	0.9	0.5	0.0	0.2					
Floating Storage/Oil in Transit	-0.1	0.0	0.3	0.1	0.0	0.3	0.2	-0.2	-0.1	0.2	0.1	0.0					
Miscellaneous to balance[5]	-0.4	-0.7	-1.0	-0.4	-0.7	-0.2	-0.6	0.5	0.5	0.5	-0.4	0.3					
Total Stock Ch. & Misc	-0.1	-1.0	-1.2	1.1	0.1	-0.4	-0.1	-0.2	1.3	1.3	-0.3	0.5					
Memo items:																	
Call on OPEC crude + Stock ch.[6]	27.2	26.1	27.9	25.1	26.5	28.0	26.9	28.1	26.8	27.9	29.8	28.1	29.6	27.4	27.8	29.5	28.6
Total Demand ex. FSU	73.6	74.5	76.5	74.1	75.9	78.2	76.2	79.0	77.5	78.2	80.6	78.8	80.8	79.2	79.9	82.1	80.5
Total demand exc. FSU (% ch)[7]	0.0	1.1	0.0	0.0	0.0	0.0	2.3	3.2	4.5	3.0	2.9	3.4	2.4	2.2	2.2	1.9	2.2

1 Measured as deliveries from refineries and primary stocks, comprises inland deliveries, international marine bunkers, refinery fuel, crude for direct burning, oil from non-conventional sources and other sources of supply
2 Net volumetric gains and losses in the refining process (excludes net gain/loss in former USSR, China and non-OECD Europe) and marine transportation losses
3 Upgraded Venezuelan Orinoco extra-heavy production is classified as non-conventional crude.
4 Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply
5 Includes changes in non-reported stocks in OECD and non-OECD areas
6 Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs
7 Year on year % growth in global oil demand excluding FSU

Table 1A
WORLD OIL SUPPLY AND DEMAND: CHANGES FROM LAST MONTH'S TABLE 1

(million barrels per day)

	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
OECD DEMAND																	
North America	-	-	-	-	-	-	-	-	-	-	-	-	0.2	0.2	0.1	-	0.1
Europe	-	-	-	-	-	-	-	-	-	-	0.1	-	0.1	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	0.1	-	0.4	0.2	0.1	0.1	0.2
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	0.2	0.1	0.1	0.1
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-	-	-	0.3	0.2	0.2	0.1
Total Demand	-	-	-	-	-	-	-	-	-	-	0.1	-	0.4	0.4	0.3	0.3	0.3
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	0.1	-	0.1	0.1	0.1	0.1	0.1
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	0.1	0.1	0.1	0.1
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-
Total Non-OECD	-	-	-	-	-	-	-	-	0.1	0.1	-	-	-0.1	-0.1	-	0.2	-
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	0.1	0.1	0.1	-	0.1	-0.1	-	0.2	0.3	0.1
OPEC																	
Crude	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-					
NGLs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OPEC	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-					
Total Supply	-	-	-	-	-	-	-	0.1	0.1	-	-	-					
STOCK CHANGES AND MISCELLANEOUS																	
REPORTED OECD																	
Industry	-	-	-	-	-	-	-	-	-	-0.1	0.1	-					
Government	-	-	-	-	-	-	-	-	-	-	0.1	-					
Total	-	-	-	-	-	-	-	-	-	-0.1	0.1	-					
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-	-	-	-	-					
Miscellaneous to balance	-	-	0.1	-	-	-	-	0.1	0.1	-	-0.3	-					
Total Stock Ch. & Misc	-	-	-	-	-	-	-	0.1	0.1	-	-0.2	-					
Memo items:																	
Call on OPEC crude + Stock ch.	-	-	-	-	-	-	-	-0.1	-0.1	-	0.1	-	0.5	0.4	0.1	-0.1	0.2
Total Demand ex. FSU	-	-	-	-	-	-	-	-	-	-	0.1	-	0.4	0.4	0.3	0.2	0.3

When submitting their monthly oil statistics, OECD Member countries periodically update data for prior periods. Similar updates to non-OECD data can occur.

Table 2

Summary of Global Oil Demand

	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
Demand (mb/d)																
North America	24.11	24.52	24.15	24.76	24.87	24.58	25.03	24.85	25.23	25.62	25.18	25.47	25.20	25.65	25.86	25.55
Europe	15.32	15.50	15.24	15.50	15.77	15.50	15.77	15.35	15.70	16.16	15.75	15.90	15.46	15.79	16.13	15.82
Pacific	8.63	9.76	8.19	8.03	9.15	8.78	9.38	8.00	8.25	8.87	8.62	9.50	7.95	8.08	8.96	8.62
Total OECD	48.06	49.78	47.59	48.29	49.79	48.86	50.18	48.20	49.18	50.66	49.56	50.86	48.61	49.52	50.96	49.99
FSU	3.45	3.81	3.19	3.45	3.85	3.57	3.47	3.68	3.74	3.94	3.71	3.85	3.63	3.80	4.01	3.83
Europe	0.69	0.76	0.70	0.65	0.71	0.70	0.77	0.71	0.67	0.73	0.72	0.79	0.73	0.69	0.75	0.74
China	4.97	5.23	5.20	5.75	5.87	5.52	6.24	6.49	6.25	6.55	6.38	6.63	6.99	6.87	7.03	6.88
Other Asia	7.88	7.98	7.87	8.04	8.53	8.10	8.47	8.57	8.36	8.81	8.55	8.70	8.79	8.60	9.07	8.79
Latin America	4.82	4.50	4.68	4.83	4.89	4.72	4.69	4.89	5.02	5.02	4.91	4.84	5.02	5.14	5.13	5.03
Middle East	5.36	5.54	5.32	5.68	5.69	5.56	5.81	5.78	5.98	5.95	5.88	6.10	6.07	6.26	6.22	6.16
Africa	2.70	2.77	2.76	2.66	2.78	2.74	2.81	2.84	2.73	2.86	2.81	2.91	2.94	2.82	2.94	2.90
Total Non-OECD	29.87	30.57	29.72	31.06	32.31	30.92	32.26	32.95	32.75	33.84	32.95	33.82	34.17	34.17	35.15	34.33
World	77.93	80.35	77.30	79.34	82.10	79.78	82.44	81.15	81.93	84.50	82.51	84.69	82.79	83.70	86.11	84.32
of which:																
US	*19.76*	*20.02*	*19.65*	*20.21*	*20.25*	*20.03*	*20.36*	*20.25*	*20.58*	*20.87*	*20.52*	*20.72*	*20.57*	*20.92*	*21.05*	*20.82*
Euro4	*8.34*	*8.33*	*8.27*	*8.32*	*8.42*	*8.33*	*8.51*	*8.23*	*8.45*	*8.60*	*8.45*	*8.54*	*8.29*	*8.45*	*8.48*	*8.44*
Japan	*5.46*	*6.37*	*5.17*	*5.04*	*5.76*	*5.58*	*6.06*	*4.95*	*5.20*	*5.53*	*5.44*	*6.09*	*4.88*	*5.01*	*5.53*	*5.38*
Korea	*2.15*	*2.38*	*2.00*	*1.95*	*2.34*	*2.17*	*2.29*	*2.01*	*1.99*	*2.27*	*2.14*	*2.34*	*2.02*	*1.99*	*2.33*	*2.17*
Mexico	*1.94*	*1.98*	*2.03*	*2.02*	*2.03*	*2.02*	*2.02*	*2.02*	*2.02*	*2.07*	*2.04*	*2.11*	*2.03*	*2.06*	*2.08*	*2.07*
Canada	*2.08*	*2.17*	*2.16*	*2.20*	*2.24*	*2.19*	*2.27*	*2.25*	*2.30*	*2.33*	*2.29*	*2.27*	*2.27*	*2.33*	*2.37*	*2.31*
Brazil	*2.12*	*1.96*	*2.01*	*2.10*	*2.12*	*2.05*	*2.06*	*2.12*	*2.21*	*2.17*	*2.14*	*2.12*	*2.16*	*2.24*	*2.22*	*2.19*
India	*2.32*	*2.38*	*2.30*	*2.26*	*2.45*	*2.35*	*2.53*	*2.51*	*2.33*	*2.48*	*2.46*	*2.59*	*2.57*	*2.40*	*2.57*	*2.53*
Annual Change (% per annum)																
North America	0.4	2.6	0.7	2.1	2.4	2.0	2.0	2.9	1.9	3.0	2.5	1.8	1.4	1.7	0.9	1.4
Europe	-0.1	0.6	2.2	0.6	1.5	1.2	1.8	0.7	1.3	2.5	1.6	0.8	0.7	0.6	-0.2	0.5
Pacific	-0.4	6.4	5.3	-1.9	-2.7	1.7	-3.8	-2.4	2.8	-3.1	-1.8	1.3	-0.6	-2.0	1.0	0.0
Total OECD	0.1	2.7	2.0	0.9	1.1	1.7	0.8	1.3	1.8	1.7	1.4	1.4	0.9	0.7	0.6	0.9
FSU	-5.5	9.3	2.6	2.2	0.2	3.5	-8.9	15.4	8.6	2.3	3.8	11.0	-1.2	1.5	1.8	3.1
Europe	1.4	1.8	1.6	1.6	1.7	1.7	1.8	1.9	2.4	2.8	2.2	2.5	2.6	2.9	3.1	2.8
China	6.3	12.2	3.3	16.0	12.5	11.0	19.3	24.6	8.6	11.5	15.6	6.4	7.8	10.0	7.4	7.9
Other Asia	3.5	3.0	-0.5	2.9	5.6	2.8	6.2	9.0	4.1	3.4	5.6	2.7	2.6	2.8	2.9	2.8
Latin America	-0.9	-4.5	-3.1	-1.2	0.6	-2.0	4.4	4.6	3.8	2.7	3.8	3.1	2.6	2.3	2.2	2.6
Middle East	3.3	4.4	1.6	4.1	4.7	3.7	4.9	8.5	5.2	4.5	5.7	4.9	5.1	4.8	4.6	4.9
Africa	2.9	2.1	1.6	0.9	2.0	1.7	1.4	2.7	2.8	2.6	2.4	3.7	3.6	3.1	2.8	3.3
Total Non-OECD	2.0	4.1	0.7	4.4	4.8	3.5	5.5	10.9	5.5	4.7	6.6	4.9	3.7	4.3	3.9	4.2
World	0.8	3.2	1.5	2.2	2.5	2.4	2.6	5.0	3.3	2.9	3.4	2.7	2.0	2.2	1.9	2.2
Annual Change (mb/d)																
North America	0.10	0.63	0.18	0.50	0.58	0.47	0.50	0.70	0.47	0.76	0.61	0.44	0.35	0.42	0.24	0.36
Europe	-0.01	0.09	0.33	0.09	0.23	0.19	0.28	0.11	0.20	0.39	0.24	0.13	0.11	0.09	-0.03	0.08
Pacific	-0.04	0.58	0.41	-0.15	-0.26	0.14	-0.38	-0.20	0.22	-0.28	-0.15	0.12	-0.04	-0.17	0.09	0.00
Total OECD	0.05	1.30	0.93	0.44	0.55	0.80	0.40	0.61	0.89	0.87	0.70	0.69	0.42	0.34	0.30	0.43
FSU	-0.20	0.33	0.08	0.07	0.01	0.12	-0.34	0.49	0.30	0.09	0.14	0.38	-0.05	0.05	0.07	0.12
Europe	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
China	0.30	0.57	0.17	0.79	0.65	0.55	1.01	1.28	0.50	0.67	0.86	0.40	0.51	0.62	0.49	0.50
Other Asia	0.27	0.23	-0.04	0.23	0.46	0.22	0.49	0.70	0.33	0.29	0.45	0.23	0.22	0.24	0.26	0.24
Latin America	-0.04	-0.21	-0.15	-0.06	0.03	-0.10	0.20	0.21	0.18	0.13	0.18	0.14	0.13	0.12	0.11	0.13
Middle East	0.17	0.23	0.08	0.23	0.26	0.20	0.27	0.45	0.30	0.26	0.32	0.29	0.30	0.28	0.27	0.29
Africa	0.08	0.06	0.04	0.02	0.06	0.04	0.04	0.07	0.08	0.07	0.07	0.10	0.10	0.09	0.08	0.09
Total Non-OECD	0.57	1.22	0.19	1.30	1.47	1.05	1.68	3.23	1.69	1.53	2.03	1.57	1.22	1.42	1.30	1.38
World	0.63	2.51	1.12	1.73	2.02	1.85	2.09	3.84	2.59	2.39	2.73	2.25	1.64	1.77	1.61	1.81
Changes from Last Month's Report																
North America	-	-	-	-	-	-	-	-	0.02	0.03	0.01	0.17	0.19	0.15	0.04	0.14
Europe	-	-	-	-	-	-	-	-	-	0.06	0.01	0.05	-0.02	-0.02	0.02	0.01
Pacific	-	-	-	-	-	-	-	-	-	0.01	-	0.15	0.01	-	0.01	0.04
Total OECD	-	-	-	-	-	-	-	-	0.02	0.11	0.03	0.37	0.18	0.13	0.07	0.18
FSU	-	-	-	-	-	-	-	-	-	-	-	-0.03	0.01	0.01	0.03	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	0.01	0.21	0.10	0.08	0.10
Other Asia	-	-	-	-	-	-	-	-	-	0.01	-	0.01	-	-	0.01	0.01
Latin America	-	-0.01	-0.01	-0.01	-0.01	-0.01	-	-	0.02	0.02	0.01	0.02	0.02	0.03	0.05	0.03
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	0.01	0.02	0.01
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-0.01	-0.01	-0.01	-0.01	-0.01	-	-	0.02	0.04	0.01	0.01	0.25	0.15	0.18	0.15
World	-	-0.01	-0.01	-0.01	-0.01	-0.01	-	-	0.03	0.14	0.04	0.38	0.43	0.28	0.25	0.33

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2003	2004	2005	3Q04	4Q04	1Q05	2Q05	3Q05	Dec 04	Jan 05	Feb 05
OPEC											
Crude Oil											
Saudi Arabia	8.48	8.75		9.12	9.23				9.15	8.80	8.90
Iran	3.78	3.93		3.89	3.96				4.00	3.98	3.98
Iraq	1.32	1.99		1.92	1.98				1.95	1.79	1.85
UAE	2.29	2.35		2.44	2.45				2.52	2.40	2.32
Kuwait	1.87	2.05		2.07	2.14				2.14	2.04	2.15
Neutral Zone	0.60	0.60		0.61	0.60				0.60	0.60	0.60
Qatar	0.72	0.78		0.79	0.80				0.80	0.77	0.78
Nigeria	2.15	2.32		2.35	2.32				2.25	2.28	2.39
Libya	1.42	1.55		1.59	1.61				1.61	1.60	1.62
Algeria	1.11	1.21		1.24	1.28				1.29	1.31	1.34
Venezuela	2.01	2.17		2.14	2.16				2.14	2.14	2.16
Indonesia	1.01	0.97		0.96	0.97				0.98	0.96	0.97
Total Crude Oil	26.77	28.66		29.12	29.52				29.42	28.65	29.04
Total NGLs[1]	3.89	4.31	4.78	4.30	4.38	4.68	4.70	4.83	4.49	4.65	4.70
Total OPEC	30.66	32.96		33.42	33.91				33.91	33.30	33.74
NON-OPEC[2]											
OECD											
North America	14.61	14.59	14.67	14.40	14.45	14.50	14.62	14.73	14.40	14.37	14.57
United States	7.82	7.67	7.77	7.51	7.59	7.71	7.78	7.81	7.68	7.64	7.73
Mexico	3.79	3.83	3.83	3.82	3.78	3.82	3.84	3.82	3.66	3.79	3.83
Canada	3.00	3.09	3.07	3.07	3.07	2.98	3.00	3.09	3.05	2.94	3.01
Europe	6.34	6.09	5.93	5.72	6.02	6.02	5.92	5.78	5.97	5.90	6.08
UK	2.28	2.05	1.92	1.89	2.00	2.03	1.89	1.86	2.08	2.05	2.02
Norway	3.26	3.19	3.16	2.98	3.16	3.14	3.17	3.07	3.02	3.01	3.20
Others	0.79	0.85	0.85	0.85	0.86	0.85	0.85	0.86	0.87	0.84	0.86
Pacific	0.65	0.57	0.56	0.59	0.54	0.54	0.57	0.58	0.53	0.54	0.53
Australia	0.60	0.53	0.52	0.55	0.49	0.50	0.53	0.53	0.49	0.50	0.48
Others	0.05	0.04	0.05	0.04	0.05	0.05	0.05	0.05	0.05	0.04	0.05
Total OECD	21.60	21.25	21.17	20.71	21.00	21.06	21.10	21.08	20.90	20.81	21.18
NON-OECD											
Former USSR	10.31	11.18	11.73	11.35	11.46	11.40	11.57	11.84	11.43	11.34	11.40
Russia	8.49	9.23	9.59	9.40	9.41	9.34	9.48	9.68	9.37	9.30	9.34
Others	1.82	1.96	2.14	1.95	2.05	2.06	2.09	2.15	2.06	2.04	2.06
Asia	6.03	6.25	6.24	6.28	6.36	6.31	6.22	6.23	6.38	6.37	6.30
China	3.41	3.49	3.54	3.54	3.54	3.57	3.55	3.53	3.57	3.58	3.57
Malaysia	0.83	0.86	0.84	0.86	0.87	0.86	0.84	0.83	0.84	0.87	0.86
India	0.79	0.80	0.79	0.77	0.81	0.81	0.80	0.79	0.81	0.82	0.81
Others	1.01	1.10	1.07	1.11	1.14	1.07	1.03	1.09	1.15	1.10	1.07
Europe	0.17	0.17	0.16	0.17	0.17	0.16	0.16	0.16	0.17	0.16	0.16
Latin America	4.03	4.07	4.30	4.10	4.09	4.19	4.30	4.35	4.10	4.12	4.20
Brazil	1.80	1.80	2.00	1.83	1.81	1.89	1.99	2.05	1.82	1.83	1.90
Argentina	0.83	0.78	0.74	0.78	0.77	0.75	0.74	0.73	0.77	0.76	0.75
Colombia	0.55	0.54	0.52	0.54	0.54	0.52	0.52	0.52	0.53	0.53	0.51
Ecuador	0.43	0.54	0.56	0.54	0.54	0.55	0.56	0.57	0.55	0.54	0.55
Others	0.42	0.42	0.48	0.41	0.43	0.48	0.49	0.49	0.43	0.47	0.48
Middle East[3]	2.00	1.88	1.78	1.86	1.84	1.81	1.79	1.78	1.84	1.82	1.81
Oman	0.82	0.76	0.72	0.76	0.75	0.74	0.72	0.71	0.75	0.74	0.74
Syria	0.53	0.50	0.48	0.50	0.49	0.49	0.48	0.47	0.49	0.49	0.49
Yemen	0.45	0.41	0.39	0.40	0.40	0.39	0.39	0.39	0.40	0.39	0.39
Africa	3.07	3.43	3.75	3.48	3.57	3.61	3.69	3.77	3.55	3.58	3.61
Egypt	0.75	0.71	0.70	0.71	0.70	0.70	0.71	0.70	0.68	0.70	0.70
Angola	0.88	0.99	1.19	0.99	1.10	1.13	1.16	1.18	1.11	1.11	1.12
Gabon	0.24	0.24	0.23	0.23	0.23	0.23	0.23	0.24	0.23	0.23	0.23
Others	1.20	1.50	1.62	1.56	1.54	1.55	1.58	1.66	1.54	1.55	1.55
Total Non-OECD	25.61	26.98	27.95	27.24	27.48	27.49	27.73	28.12	27.46	27.41	27.48
Processing Gains[4]	1.80	1.83	1.86	1.81	1.85	1.88	1.85	1.84	1.85	1.88	1.88
TOTAL NON-OPEC	49.01	50.06	50.98	49.77	50.33	50.43	50.68	51.04	50.22	50.09	50.54
TOTAL SUPPLY	79.67	83.03		83.19	84.24				84.12	83.39	84.28

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Orimulsion Orinoco extra-heavy oil, and non-oil inputs to Saudi Arabian MTBE
2 Comprises crude oil, condensates, NGLs and oil from non-conventional sources
3 Includes small amounts of production from Israel, Jordan and Bahrain
4 Net volumetric gains and losses in refining (excludes net gain/loss in FSU, China and non-OECD Europe) and marine transportation losses

Table 4

OECD INDUSTRY STOCKS[1] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Sep2004	Oct2004	Nov2004	Dec2004	Jan2005*	Jan2002	Jan2003	Jan2004	1Q2004	2Q2004	3Q2004	4Q2004
North America												
Crude	395.9	407.9	415.5	401.9	410.5	429.7	383.3	380.1	0.32	0.08	-0.24	0.07
Motor Gasoline	236.4	233.9	241.2	244.3	247.6	256.3	244.3	236.3	-0.02	0.07	-0.02	0.09
Middle Distillate	195.3	189.0	198.0	204.7	203.6	216.4	184.8	195.4	-0.44	0.14	0.14	0.10
Residual Fuel Oil	41.2	44.5	50.6	51.8	50.6	49.5	39.9	46.5	0.02	-0.03	-0.04	0.12
Total Products[3]	659.7	647.1	666.1	669.7	653.6	685.2	615.2	625.3	-0.52	0.41	0.27	0.11
Total[4]	1215.6	1212.7	1239.4	1219.0	1216.1	1263.5	1129.4	1143.4	-0.22	0.57	0.20	0.04
Europe												
Crude	332.2	331.1	352.0	320.0	316.6	341.6	314.1	324.0	0.26	-0.03	-0.08	-0.13
Motor Gasoline	111.9	114.4	113.0	114.7	119.1	134.9	121.7	123.6	0.00	-0.06	0.02	0.03
Middle Distillate	249.7	250.7	237.9	241.3	247.1	233.9	232.7	242.2	-0.25	0.20	0.17	-0.09
Residual Fuel Oil	76.9	75.5	71.6	73.0	73.6	72.2	68.8	78.2	-0.04	0.03	0.00	-0.04
Total Products[3]	541.0	544.7	527.0	533.8	544.2	552.0	520.0	546.4	-0.34	0.18	0.23	-0.08
Total[4]	943.2	946.5	951.3	926.9	933.1	958.0	900.6	943.5	-0.02	0.08	0.15	-0.18
Pacific												
Crude	168.7	177.1	192.3	171.2	170.3	166.0	163.1	172.9	-0.06	0.02	-0.09	0.03
Motor Gasoline	23.9	23.3	24.8	24.2	26.7	25.7	24.9	24.9	0.03	-0.01	-0.01	0.00
Middle Distillate	74.8	75.0	82.9	75.1	67.7	78.0	64.8	66.6	-0.21	0.06	0.16	0.00
Residual Fuel Oil	21.3	21.1	23.7	22.4	21.8	22.8	22.8	23.1	-0.03	0.03	-0.01	0.01
Total Products[3]	186.2	188.8	200.9	187.8	183.8	191.2	175.1	176.6	-0.28	0.15	0.15	0.02
Total[4]	429.6	438.0	467.6	430.3	423.9	436.8	411.5	420.0	-0.38	0.21	0.11	0.01
Total OECD												
Crude	896.7	916.1	959.7	893.1	897.4	937.3	860.4	877.0	0.52	0.07	-0.40	-0.04
Motor Gasoline	372.1	371.6	379.0	383.3	393.3	416.8	390.9	384.8	0.01	0.00	-0.01	0.12
Middle Distillate	519.7	514.7	518.8	521.1	518.4	528.3	482.3	504.2	-0.90	0.40	0.47	0.01
Residual Fuel Oil	139.4	141.1	145.9	147.2	146.0	144.4	131.6	147.8	-0.05	0.03	-0.06	0.09
Total Products[3]	1386.9	1380.5	1394.0	1391.3	1381.6	1428.3	1310.2	1348.3	-1.15	0.74	0.65	0.05
Total[4]	2588.4	2597.2	2658.3	2576.2	2573.1	2658.2	2441.4	2506.8	-0.62	0.85	0.46	-0.13

OECD GOVERNMENT-CONTROLLED STOCKS[5,6] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Sep2004	Oct2004	Nov2004	Dec2004	Jan2005*	Jan2002	Jan2003	Jan2004	1Q2004	2Q2004	3Q2004	4Q2004
North America												
Crude	670.3	670.3	672.8	675.6	680.6	554.6	599.3	641.2	0.15	0.11	0.09	0.06
Products[7]	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.00	0.00	0.00	0.00
Europe												
Crude	157.8	158.8	160.6	164.2	164.2	141.3	155.1	157.3	0.01	0.00	0.00	0.07
Products	205.1	201.8	202.5	204.6	204.6	209.5	199.2	212.8	-0.03	-0.05	0.00	-0.01
Pacific												
Crude	384.9	382.5	382.5	384.5	384.5	375.2	380.3	384.8	0.02	0.00	-0.02	0.00
Products	11.0	11.0	11.0	11.0	11.0	7.3	9.5	11.0	0.00	0.00	0.00	0.00
Total OECD												
Crude	1213.0	1211.6	1215.8	1224.3	1229.3	1071.1	1134.6	1183.2	0.18	0.11	0.06	0.12
Products	218.1	214.8	215.5	217.6	217.6	218.8	210.7	225.8	-0.03	-0.05	0.00	-0.01
Total[4]	1432.1	1427.4	1432.4	1442.9	1447.9	1290.9	1346.4	1410.0	0.15	0.06	0.07	0.12

* estimated

1 Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) and include stocks held by industry to meet IEA, EU and national emergency reserve commitments and are subject to government control in emergencies.

2 Closing stock levels.

3 Total products includes gasoline, middle distillates, fuel oil and other products.

4 Total includes NGLs, refinery feedstocks, additives/oxygenates and other hydrocarbons.

5 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.

Table 5

TOTAL STOCKS ON LAND IN OECD COUNTRIES[1]

('millions of barrels' and 'days')

	End December 2003		End March 2004		End June 2004		End September 2004		End December 2004 [3]	
	Stock Level	Days Fwd[2] Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand
North America										
Canada	174.6	77	170.4	76	168.8	74	179.0	77	186.5	-
Mexico	39.0	19	38.9	19	39.5	20	41.4	20	41.3	-
United States[4]	1570.3	77	1568.2	77	1630.9	79	1645.3	79	1646.7	-
Total[5]	1806.1	72	1799.6	72	1861.3	74	1887.8	74	1896.6	74
Pacific										
Australia	32.4	37	33.8	39	34.9	39	34.3	37	33.2	-
Japan	636.3	105	614.4	124	622.0	120	632.0	114	635.3	-
Korea	154.5	67	142.9	71	152.9	77	152.1	67	149.4	-
New Zealand	7.9	49	7.5	48	7.7	50	7.1	46	8.0	-
Total	831.1	89	798.5	100	817.4	99	825.5	93	825.9	87
Europe[6]										
Austria	19.5	76	21.0	77	20.3	68	19.9	70	21.8	-
Belgium	27.7	42	24.6	45	26.5	49	27.7	41	27.6	-
Czech Republic	16.4	95	15.6	74	15.9	70	16.9	81	16.3	-
Denmark	16.8	87	15.9	88	15.8	89	18.1	94	16.2	-
Finland	26.5	120	27.8	133	23.4	108	24.0	106	24.4	-
France	185.3	87	176.4	90	183.5	92	188.5	92	186.1	-
Germany	272.6	103	269.8	106	266.9	98	264.3	96	267.1	-
Greece	27.5	57	29.4	77	30.8	78	34.1	75	31.9	-
Hungary	16.8	143	19.5	153	20.1	153	18.7	128	17.8	-
Ireland	11.9	63	11.5	69	10.7	63	11.1	60	12.0	-
Italy	135.2	72	135.6	73	134.6	71	138.7	72	135.8	-
Luxembourg	1.0	17	0.8	13	1.0	16	0.9	14	0.9	-
Netherlands	100.1	105	108.2	112	102.3	108	110.2	113	108.3	-
Norway	27.2	99	28.5	116	30.0	118	23.3	77	24.0	-
Poland	28.7	64	29.7	62	30.1	59	31.1	61	31.5	-
Portugal	25.3	81	24.4	74	26.2	76	25.0	72	24.3	-
Slovak Republic	5.0	74	5.8	82	6.5	87	5.6	77	5.7	-
Spain	122.4	78	123.5	79	127.3	82	126.8	79	119.8	-
Sweden	35.9	101	31.8	89	31.1	91	31.5	91	34.4	-
Switzerland	36.1	138	35.4	149	37.5	144	37.8	140	36.3	-
Turkey	54.9	84	54.9	79	54.8	77	55.2	81	55.8	-
United Kingdom	101.9	55	100.7	54	97.6	53	97.7	52	98.8	-
Total	1294.6	82	1290.7	84	1293.0	82	1307.1	81	1296.6	82
Total OECD	3931.7	78	3888.7	81	3971.7	81	4020.4	79	4019.1	79
DAYS OF IEA Net Imports[7]	-	112	-	111	-	113	-	114	-	114

1 Total Stocks are industry and government-controlled stocks (see breakdown in table below). Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) they include stocks held by industry to meet IEA, EU and national emergency reserves commitments and are subject to government control in emergencies.
2 Note that days of forward demand represent the stock level divided by the forward quarter average daily demand and is very different from the days of net imports used for the calculation of IEA Emergency Reserves.
3 End December 2004 forward demand figures are IEA Secretariat forecasts.
4 US figures exclude US territories.
5 Total includes US territories.
6 Data not available for Iceland.
7 Reflects stock levels and prior calendar year's net imports adjusted according to IEA emergency reserve definitions. Net exporting IEA countries are excluded.

TOTAL OECD STOCKS

CLOSING STOCKS	Total	Government[1] controlled	Industry	Total	Government[1] controlled	Industry
	Millions of Barrels			*Days of Fwd. Demand*[2]		
4Q2001	3918	1285	2632	81	27	54
1Q2002	3912	1304	2609	84	28	56
2Q2002	3969	1316	2654	83	27	55
3Q2002	3899	1321	2579	79	27	52
4Q2002	3825	1345	2480	77	27	50
1Q2003	3788	1359	2429	80	29	51
2Q2003	3912	1362	2550	81	28	53
3Q2003	3980	1380	2600	80	28	52
4Q2003	3932	1407	2525	78	28	50
1Q2004	3889	1421	2468	81	29	51
2Q2004	3972	1426	2546	81	29	52
3Q2004	4020	1432	2588	79	28	51
4Q2004	4019	1443	2576	79	28	51

1 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.
2 Days of forward demand calculated using actual demand except in 4Q2004 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2002	2003	2004	1Q04	2Q04	3Q04	4Q04	Oct 04	Nov 04	Dec 04	Year Earlier Dec 03	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.64	0.55	0.55	0.56	0.56	0.52	0.58	0.52	0.47	0.55	-0.09
Europe	0.92	1.00	1.02	0.96	1.05	1.04	1.02	1.05	1.03	0.99	0.84	0.16
Pacific	1.22	1.18	1.24	1.14	1.13	1.23	1.47	1.34	1.47	1.60	1.27	0.33
Saudi Medium												
North America	0.70	0.83	0.80	0.72	0.73	0.86	0.90	0.78	0.93	0.97	0.60	0.38
Europe	0.11	0.11	0.10	0.08	0.07	0.11	0.15	0.12	0.18	0.16	0.06	0.10
Pacific	0.16	0.24	0.23	0.31	0.20	0.18	0.22	0.23	0.25	0.20	0.28	-0.08
Saudi Heavy												
North America	0.20	0.30	0.22	0.19	0.14	0.30	0.26	0.31	0.24	0.21	0.19	0.02
Europe	0.09	0.19	0.23	0.16	0.26	0.31	0.20	0.23	0.22	0.16	0.12	0.03
Pacific	0.12	0.16	0.15	0.13	0.13	0.16	0.18	0.15	0.23	0.17	0.16	0.01
Iraqi Basrah Light[2]												
North America	0.35	0.44	0.71	0.75	0.74	0.68	0.66	0.65	0.66	0.68	0.78	-0.10
Europe	0.08	0.09	0.21	0.22	0.27	0.21	0.13	0.10	0.13	0.15	0.19	-0.04
Pacific	0.02	0.03	0.12	0.14	0.08	0.12	0.15	0.21	0.17	0.06	0.19	-0.13
Iraqi Kirkuk												
North America	0.14	0.06	0.02	..	0.04	0.01	0.01	0.03	..	..	..	..
Europe	0.32	0.12	0.07	0.04	0.07	0.03	0.14	0.09	0.20	0.14	..	..
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.17	0.19	0.23	0.20	0.23	0.23	0.26	0.36	0.17	0.26	0.22	0.04
Pacific	0.12	0.17	0.16	0.18	0.13	0.16	0.16	0.14	0.16	0.17	0.21	-0.04
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.44	0.59	0.57	0.50	0.61	0.65	0.51	0.56	0.47	0.52	0.48	0.04
Pacific	0.54	0.69	0.65	0.73	0.65	0.58	0.63	0.65	0.58	0.66	0.79	-0.12
Venezuelan Light & Medium												
North America	0.68	0.69	0.67	0.63	0.78	0.64	0.62	0.57	0.57	0.71	0.87	-0.15
Europe	0.08	0.02	0.01	..	0.02	0.02	0.01	0.02	..	..	..	..
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	0.00	..
Venezuelan 22 API and heavier												
North America	0.55	0.60	0.88	0.81	0.91	0.86	0.94	0.93	0.95	0.93	0.77	0.17
Europe	0.05	0.06	0.05	0.05	0.07	0.06	0.04	0.05	0.06	0.02	0.13	-0.11
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	0.92	1.32	1.36	1.31	1.43	1.34	1.37	1.44	1.40	1.26	1.43	-0.17
Europe	0.17	0.16	0.16	0.14	0.19	0.20	0.13	0.15	0.13	0.12	0.12	0.00
Pacific	0.00	0.00	0.00	0.01	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.01	0.00	..	..	..	..	..	..	..	..	..	..
Europe	0.01	0.00	0.01	..	..	..	0.02	0.03	0.03	..	..	..
Pacific	0.01	0.00	0.00	0.01	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.03	0.14	0.12	0.01	0.14	0.12	0.21	0.20	0.25	0.18	..	..
Europe	1.32	1.62	1.85	2.14	1.98	1.78	1.52	1.49	1.72	1.36	1.98	-0.62
Pacific	0.01	0.00	0.01	0.00	0.01	0.01	..	..	..	..	0.02	..
Nigerian Light[4]												
North America	0.38	0.63	0.80	0.80	0.90	0.78	0.73	0.68	0.82	0.69	0.71	-0.02
Europe	0.32	0.41	0.28	0.32	0.22	0.30	0.28	0.32	0.26	0.25	0.30	-0.05
Pacific	0.06	0.08	0.11	0.12	0.10	0.09	0.13	0.06	0.17	0.16	0.16	0.00
Nigerian Medium												
North America	0.16	0.17	0.23	0.26	0.21	0.22	0.20	0.24	0.17	0.20	0.24	-0.04
Europe	0.06	0.06	0.04	0.03	0.04	0.05	0.02	0.01	0.02	0.02	0.10	-0.08
Pacific	0.01	0.01	0.01	0.02	..	..	..	..	..	..	..	..

1 Data based on monthly submissions from IEA countries to the crude oil import register (in '000 bbl), subject to availability. May differ from Table 8 of the Report.
IEA North America includes United States and Canada.
IEA Europe includes all countries in OECD Europe except Hungary, Poland and the Slovak Republic.
IEA Pacific data includes Australia, New Zealand, Korea and Japan.

2 Iraqi Total minus Kirkuk.

3 Iranian Total minus Iranian Light.

4 33 API and lighter (e.g., Bonny Light, Escravos, Qua Iboe and Oso Condensate).

Table 7
Regional OECD Imports[1,2]

(thousand barrels per day)

	2002	2003	2004	1Q2004	2Q2004	3Q2004	4Q2004	Oct-04	Nov-04	Dec-04	Year Earlier Dec-03	Year Earlier % change
Crude Oil												
North America	7584	8069	8388	8027	8557	8547	8420	8353	8433	8474	7846	7%
Europe	8725	9087	9698	9395	9499	9654	10239	9850	10747	10136	8908	12%
Pacific	6422	6711	6660	7011	6170	6457	6999	6745	7607	6664	7574	-14%
Total OECD	22731	23867	24746	24433	24226	24658	25658	24948	26788	25274	24328	4%
LPG												
North America	39	27	26	29	10	25	39	32	54	33	30	7%
Europe	226	198	236	252	195	215	282	295	268	283	265	6%
Pacific	553	541	541	550	585	469	561	570	583	532	553	-4%
Total OECD	818	765	803	832	790	709	883	897	905	848	848	0%
Naphtha												
North America	42	67	86	53	49	96	144	151	123	158	55	65%
Europe	298	311	276	310	318	233	246	237	208	292	266	9%
Pacific	705	770	769	782	761	787	748	715	714	813	795	2%
Total OECD	1045	1148	1132	1145	1128	1116	1138	1103	1045	1263	1117	12%
Gasoline[3]												
North America	680	703	798	673	896	847	777	840	809	682	509	25%
Europe	150	147	183	218	157	140	216	211	255	182	165	9%
Pacific	58	70	105	105	118	90	107	89	108	123	84	32%
Total OECD	889	919	1086	996	1171	1077	1099	1140	1171	988	758	23%
Jet & Kerosene												
North America	97	97	87	45	102	88	112	118	132	87	68	22%
Europe	219	211	249	173	234	309	278	251	296	287	144	50%
Pacific	97	102	77	92	60	52	103	95	114	100	170	-71%
Total OECD	413	410	412	310	395	449	492	464	542	473	382	19%
Gasoil/Diesel												
North America	102	126	122	199	92	108	91	83	124	66	80	-21%
Europe	655	653	751	679	654	772	896	890	736	1056	719	32%
Pacific	53	73	74	56	92	79	66	61	67	72	91	-27%
Total OECD	810	851	946	934	838	959	1053	1034	927	1194	890	25%
Heavy Fuel Oil												
North America	237	326	387	364	317	346	521	591	564	409	304	26%
Europe	469	394	416	365	435	449	413	442	415	381	448	-17%
Pacific	89	88	76	76	77	87	64	64	93	37	107	-187%
Total OECD	795	808	879	806	829	883	998	1097	1072	828	858	-4%
Other Products												
North America	689	680	824	869	701	951	775	715	798	814	643	21%
Europe	735	685	704	665	702	711	739	707	783	729	692	5%
Pacific	256	236	257	249	266	261	253	223	219	315	239	24%
Total OECD	1680	1601	1785	1782	1669	1922	1767	1644	1799	1858	1574	15%
Total Products												
North America	1887	2026	2330	2233	2165	2462	2459	2531	2602	2249	1689	25%
Europe	2752	2598	2814	2661	2696	2829	3069	3033	2960	3210	2699	16%
Pacific	1811	1879	1899	1910	1960	1825	1902	1816	1898	1992	2040	-2%
Total OECD	6450	6503	7044	6804	6821	7116	7430	7380	7460	7451	6428	14%
Total Oil												
North America	9471	10095	10719	10260	10722	11009	10879	10884	11036	10723	9535	11%
Europe	11476	11684	12513	12057	12195	12483	13308	12883	13708	13346	11607	13%
Pacific	8233	8590	8559	8921	8130	8282	8901	8561	9505	8656	9614	-11%
Total OECD	29180	30369	31790	31237	31047	31774	33088	32327	34248	32725	30756	6%

1 Based on Monthly Oil Questionnaire data submitted by OECD countries in tonnes and converted to barrels.

2 Excludes intra-regional trade

3 Includes additives

OIL MARKET REPORT CONTACTS

Editor/Prices and Refinery Activity	Lawrence Eagles (+33) 0*1 40 57 66 58 e-mail: lawrence.eagles@iea.org
Demand	Jeff Brown (+33) 0*1 40 57 65 93 e-mail: jeff.brown@iea.org
Supply	David Fyfe (+33) 0*1 40 57 65 94 e-mail: david.fyfe@iea.org
OECD Stocks	Harry Tchilinguirian (+33) 0*1 40 57 65 22 e-mail: harry.tchilinguirian@iea.org
Statistical Support	Toril Ekeland Bosoni (+33) 0*1 40 57 66 36 e-mail: toril.bosoni@iea.org
Administrative Support	Anne Mayne (+33) 0*1 40 57 65 96 e-mail: anne.mayne@iea.org
	Brid Deely (+33) 0*1 40 57 67 31 e-mail: bridget.deely@iea.org
Fax:	*(+33) 0*1 40 57 65 99/40 57 65 09*

* 0 only within France

For all **Subscription and Delivery Enquiries** please contact:

International Energy Agency
Attn: Ms. Sandra Coleman
Oil Market Report Subscriptions
BP 586-75726 Paris Cedex 15, France

Tel. +33 (0) 1 40 57 65 57
Fax. +33 (0) 1 40 57 65 59

E-mail: omr@iea.org

Users' Guide to the IEA Oil Market Report

Readers are referred to the Users' Guide, published in conjunction with the Annual Statistical Supplement (current issue dated 11 August 2004), for information on the data sources, definitions, technical terms and general approach used in preparing the Report. It should be noted that the spot crude and product price assessments are based on daily Platt's prices, converted when appropriate to US$ per barrel according to the Platt's specification of products (©2005 Platt's - a division of McGraw-Hill Inc.).

INTERNATIONAL ENERGY AGENCY/AGENCE INTERNATIONALE DE L'ENERGIE

OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

www.oilmarketreport.org

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

12 April 2005

HIGHLIGHTS

- NYMEX light crude hit a new record high of $58.28 in early April, led higher by US gasoline and natural gas prices, strong Asian demand and pre-emptive stock building. Subsequently, rising US crude and natural gas stocks helped trigger a $5 correction. Forward price structures implied a tighter Asian crude market than that in the Atlantic Basin.

- Cold weather from mid-February lifted year-on-year OECD demand by 1.28 mb/d in February 2005, partly offset by lower FSU apparent demand. Chinese demand growth slowed to 5.4% in the first two months of 2005, well below the 20.8% growth seen a year ago. World 2005 demand is revised slightly downwards by 50 kb/d.

- March world oil supply rose by 365 kb/d to 84.2 mb/d, from a lower February base. Non-OPEC oil output rose by 60 kb/d to 50.4 mb/d. Non-OPEC plus OPEC other liquids growth remains at 1.4 mb/d for 2005. Early-year disruptions affecting OECD output now skew non-OPEC growth into the second half of the year.

- Increases from Saudi Arabia and the UAE contributed to a 290 kb/d increase in March OPEC output to 29.1 mb/d. Iraqi supply was flat at 1.8 mb/d, leaving OPEC-10 crude up 275 kb/d to 27.3 mb/d. The call on OPEC crude and stock change averages 28.5 mb/d in 2005, rising to 29.3 mb/d in Q4 versus expected OPEC capacity of 32 mb/d.

- OECD industry oil stocks fell 39 mb in February, from a 37 mb upwardly revised January base. Stocks closed 96 mb above a year ago. Distillate draws, driven by heating and transport demand, were more modest than in the past two years. Days of forward demand cover rose in February to 52 days from 51 days in January.

Next Issue: 11 May 2005

CONTENTS

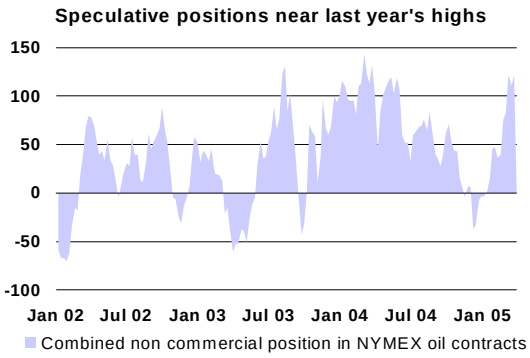
CONCERNED BUT NOT ALARMED

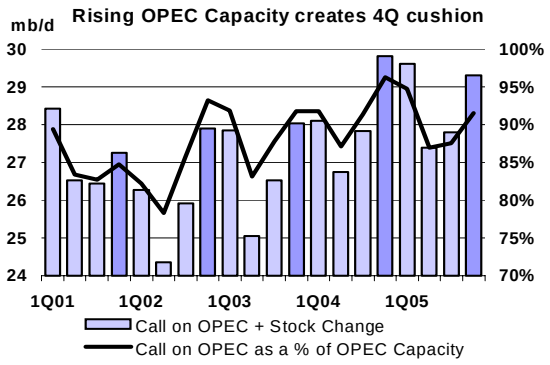
Cold weather, strong global growth and resultant tighter distillate stocks have driven crude oil prices to record nominal highs. But with spring on the way, the former factor is dissipating. At the same time, fears of a surge in second quarter Chinese demand are receding, OPEC is raising production and oil stocks are at a higher base than previously reported. There seems less reason for concern.

From the demand side, it would appear that the risks are, for the first time in two years, edging towards the downside. Interest rates are moving in an upward path in strong growth countries (particularly the US), acting along with high oil prices as an economic drag. There are increasing reports of moderating Chinese growth and the highest Chinese diesel exports for 14 months are expected to be confirmed for March and April. This Report has long argued that a repetition of the extraordinary year-on-year growth rates seen in China in the first half of 2004 is unlikely; a view supported by early anecdotal evidence.

A spring spike in US gasoline prices has become so commonplace that traders regard it as a seasonal inevitability. Outages at refineries supplying the US coupled with annual refinery maintenance, have heightened awareness of seasonal supply risks, despite high domestic stocks. In a repeat of last year, there are also concerns about low finished gasoline stocks, but when combined with blendstocks, US supplies look healthy. Similarly in Europe, high levels of gasoline in independent storage are comforting, if somewhat bloated by winter specification material.

OPEC-10 are now expanding output in response to higher prices. As in 2004, this raises questions about spare capacity, but installed capacity is moving higher in 2005 along with substantial growth in NGL, condensate and syncrude. We still have geopolitical issues in the Middle East, Nigeria and Venezuela and these are unlikely to go away in a hurry. Non-OPEC capacity is also growing by 900 kb/d, despite recent reductions in growth for the North Sea and Russia.





Speculators have also bolstered up their participation in the buy-side of the market. Combined net non-commercial long positions on NYMEX crude, gasoline and heating oil have reached the highest level for a year. Hedge funds tend to trade commodities on the basis of broad macroeconomic trends. As such, strong Q4 2004 US GDP and other economic indicators have prompted a return by funds to the oil market. However, with non-commercial positions near historical highs, it would appear there is a greater chance that they will reduce their positions than add substantially to them.

Combined OPEC and non-OPEC capacities are expected to grow by a yearly average of 1.75 mb/d through to 2010, only slightly higher than that implied by a return to the historic long-term demand trend of 1.7% growth (1.5 mb/d per annum). But this does not allow for the volatility in demand growth that is always seen. Spare capacity should recover, but at a slow pace, so in the meantime, there is the need to hold higher stock levels to accommodate fluctuations in demand.

Perhaps some of the upside risks have been overstated, but it is also dangerous to ignore price signals. High prices might represent the sum of all fears, but the expanding contangos in conjunction with a sharp rise in long-term prices are also sending a strong signal that a higher level of inventories and upstream and downstream capacity are needed to meet the challenges caused by the demand shock of 2004.

Limited upstream and downstream spare capacity are price props that will take time to dislodge, and in the meantime a higher stock cushion is needed to cope with normal fluctuations. Yes, supply shocks can cause severe price spikes in capacity constrained commodities, but oil is unique - there are emergency reserves that can be brought into play should a significant supply disruption arise.

DEMAND

Summary

- The **2005 demand forecast** is revised slightly downwards by 50 kb/d, which with a 10 kb/d downward revision to 2004 implies a 40 kb/d decrease in global demand growth to 1.77 mb/d (2.1%). Most of the adjustment is attributed to a substantial increase in February FSU crude exports, which reduced FSU apparent demand.

Global Oil Demand from 2003 to 2005

	Demand (mb/d)	Annual Change* (%)	Annual Change* (mb/d)	Changes from last month's Report (mb/d)
1Q03	80.3	3.2	2.5	-
2Q03	77.3	1.4	1.1	-
3Q03	79.3	2.2	1.7	-
4Q03	82.1	2.5	2.0	-
1Q04	82.5	2.6	2.1	-
2Q04	81.1	5.0	3.8	-
3Q04	81.9	3.2	2.6	-
4Q04	84.5	2.9	2.4	-
1Q05	84.6	2.6	2.1	-0.1
2Q05	82.7	2.0	1.6	-0.1
3Q05	83.7	2.2	1.8	-
4Q05	86.1	1.9	1.6	-
2003	79.8	2.4	1.8	-
2004	82.5	3.4	2.7	-
2005	84.3	2.1	1.8	-0.1

* year-on-year change

- Preliminary data suggest that **OECD demand** grew by 1.28 mb/d (2.5%) in February 2005 versus February 2004. Demand was boosted by relatively cold temperatures in most of the OECD in the second half of February which extended into the first half of March. First quarter OECD demand is revised upwards by 90 kb/d.

Estimated Annual World Oil Demand Growth 2000-2005

(million barrels per day)

	00-99	01-00	02-01	03-02	04-03	05-04
North America	0.26	-0.06	0.10	0.47	0.61	0.36
Latin America	0.00	0.00	-0.04	-0.10	0.17	0.12
FSU	0.08	0.00	-0.20	0.12	0.13	0.05
Europe	-0.12	0.21	0.00	0.20	0.24	0.11
OECD Pacific	-0.04	-0.07	-0.04	0.14	-0.15	0.00
China	0.26	0.12	0.30	0.55	0.86	0.50
Other Asia	0.09	0.18	0.27	0.22	0.47	0.24
Subtotal, Asia	0.31	0.23	0.53	0.91	1.18	0.75
Middle East	0.12	0.17	0.17	0.20	0.32	0.29
Africa	0.00	0.13	0.08	0.04	0.07	0.09
World	0.66	0.67	0.63	1.84	2.72	1.77

- **Chinese** apparent demand grew by a preliminary 340 kb/d (5.4%), on average in January-February 2005—far below the 1.09 mb/d (20.8%) growth seen in the same period in 2004. Demand was expected to slow in February due to the mid-month Lunar New Year holiday but reports indicate that while March crude imports did rebound after dropping in January and February, March oil product demand did not rebound as strongly as some market observers had expected. Although caution is in order, it appears that a repeat of last year's 860 kb/d (15.6%) growth is increasingly unlikely. This Report maintains its 500 kb/d (7.9%) growth projection.

Global Oil Demand by Region
(million barrels per day)

	Demand	Annual Change			Annual Change (%)		
	2004	2003	2004	2005	2003	2004	2005
North America	25.19	0.47	0.61	0.36	2.0	2.5	1.4
Europe	16.44	0.20	0.24	0.11	1.2	1.5	0.7
OECD Pacific	8.63	0.14	-0.15	0.00	1.6	-1.7	0.0
China	6.38	0.55	0.86	0.50	11.0	15.6	7.9
Other Asia	8.57	0.22	0.47	0.24	2.8	5.7	2.8
Subtotal Asia	23.57	0.91	1.18	0.75	4.2	5.3	3.2
FSU	3.71	0.12	0.13	0.05	3.5	3.7	1.4
Middle East	5.88	0.20	0.32	0.29	3.7	5.7	4.9
Africa	2.81	0.04	0.07	0.09	1.7	2.4	3.3
Latin America	4.90	-0.10	0.17	0.12	-2.0	3.7	2.4
World	82.50	1.84	2.72	1.77	2.4	3.4	2.1

- As anticipated, many developing countries in **Asia**, such as China, Indonesia, Malaysia, Thailand and Vietnam, have recently moved to raise government controlled prices. The increase in domestic prices should serve to dampen demand growth. Government efforts to insulate consumers from high international prices have proven unsustainable as the cost of subsidies has soared.

OECD

Overview of Early Indications of Current Demand

Viewing the OECD countries as a whole, preliminary data suggest that demand grew by 1.28 mb/d (2.5%) in February 2005 versus February 2004. Aggregate growth for those countries submitting preliminary inland delivery data also came to 2.5%.

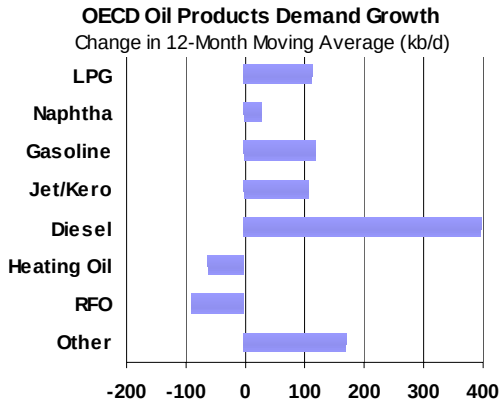
Preliminary Inland Deliveries – February 2005[1]

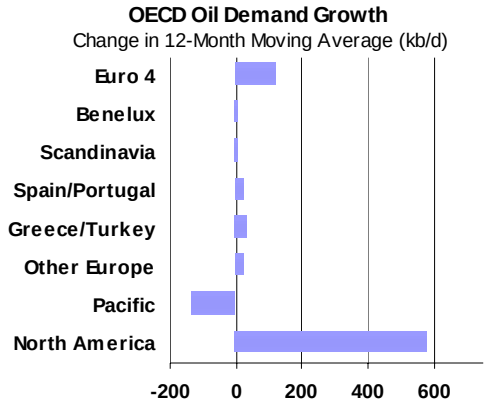
	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other[2]		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
United States[3]	8.89	2.4	1.67	1.7	2.78	1.0	1.53	-4.5	0.92	2.9	5.02	3.9	20.74	1.7
Canada	0.71	4.9	0.10	-8.9	0.46	8.0	0.14	-7.2	0.13	18.6	0.27	1.5	1.82	4.1
Mexico	0.65	8.1	0.06	10.5	0.31	8.9	0.00	na	0.31	-10.3	0.41	-0.2	1.74	2.6
Japan	1.04	5.1	1.08	14.3	0.68	4.2	0.65	4.2	0.52	-6.1	1.80	0.9	5.77	4.0
Korea	0.16	17.5	0.07	42.3	0.35	-2.8	0.21	9.3	0.35	2.7	1.10	1.4	2.24	3.6
France	0.24	-4.2	0.13	4.3	0.63	4.9	0.51	14.1	0.08	18.7	0.50	8.8	2.09	7.2
Germany	0.54	-4.9	0.14	0.4	0.54	0.7	0.64	0.9	0.12	1.5	0.51	8.3	2.49	0.9
Italy	0.30	-5.6	0.07	-1.1	0.50	4.2	0.14	10.3	0.21	-2.9	0.45	5.4	1.67	1.9
Total	**12.52**	**2.5**	**3.34**	**5.9**	**6.24**	**2.6**	**3.82**	**1.1**	**2.63**	**-0.2**	**10.06**	**3.4**	**38.55**	**2.5**

Sources: US EIA, Statistics Canada, Mexico PEMEX, Japan METI, Korea KNOC, France CPDP, Germany MWV, Italy Ministry of Industry
Percentage change is calculated versus the previous year.
1 excludes refinery fuel and bunkers (except US)
2 includes direct use of crude oil
3 fifty states only. Diesel's share of total distillate is estimated.

The first half of February was relatively mild in **North America**, but this was balanced by temperatures that were much colder than normal in key consuming areas in the second half of the month, including the US Northeast. For the month as a whole, deliveries of heating oil were down by an estimated 4.5% in February. Cold temperatures carried over into March, when temperatures were far below normal, contributing to an approximate 270-300 kb/d weather-related increase in US oil demand versus March 2004. Overall, early indications are that US demand grew by over 2.5% in March buoyed by continued gains in transport fuel demand.

In the OECD **Pacific** February temperatures were below normal in Japan and Korea. When viewed in comparison to an abnormally mild February 2004, the impact on oil product demand was particularly pronounced. Kerosene demand grew by some 15.7% on average and heating oil demand was up by approximately 5.4%. Oil consumption in Japan's main electric utilities was higher than planned as nuclear power capacity utilisation remained below anticipated levels.





The weather was also very cold in **Western Europe** in the second half of February and the first half of March, which contributed to a large increase in heating oil deliveries in France and Italy in February. This was balanced by relatively slow growth in German deliveries, but there are indications that German heating oil demand may be revised upwards. Preliminary indications are that weather-related demand was likely only slightly higher in Europe for March 2005 versus March 2004 because the second half of the month was very warm. European diesel demand posted relatively strong growth in February and gasoline demand maintained its pattern of prolonged decline as the trend toward dieselisation in Europe continues.

Moving Annual Average Change in Oil Demand* – February 2005

	LPG	Naphtha	Gasoline	Jet/ Kerosene	Diesel	Other Gasoil	RFO	Other	Total	kb/d
United States**	2.8%	12.7%	1.2%	2.6%	6.6%	-5.8%	4.3%	2.6%	2.3%	466
Canada	4.7%	15.0%	2.1%	6.8%	-0.3%	6.3%	5.0%	7.2%	4.6%	100
Mexico	0.8%	-42.7%	6.1%	7.9%	3.5%	3.5%	-3.3%	-0.8%	1.3%	26
Japan	-3.8%	1.0%	2.0%	-0.3%	1.3%	-3.2%	-9.5%	-2.1%	-1.4%	-79
Korea	-0.3%	3.9%	-1.7%	-5.8%	0.8%	-2.9%	-1.7%	-13.2%	0.3%	7
France	-0.3%	-16.3%	-5.1%	4.1%	3.1%	1.8%	4.4%	1.6%	-0.5%	-11
Germany	1.7%	5.0%	-3.5%	2.1%	2.2%	-7.3%	0.2%	17.5%	-0.3%	-7
Italy	2.6%	21.0%	-3.8%	2.7%	2.0%	20.1%	-9.4%	4.0%	1.0%	19
Total	**1.5%**	**3.0%**	**1.0%**	**1.7%**	**4.2%**	**-2.2%**	**-2.4%**	**2.7%**	**1.4%**	**522**
kb/d	60	80	128	52	245	-71	-75	102	522	

* defined as the percentage change between the demand average for the 12 months up to January and that of the same period a year earlier
** 50 states only

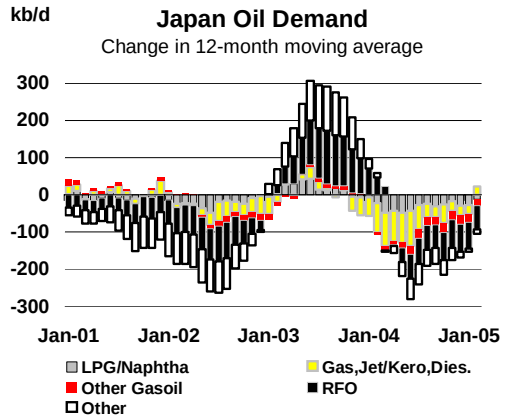
Pacific

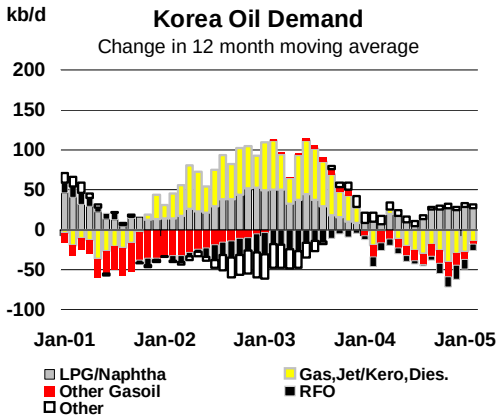
After declining by 70 kb/d (-1.2%) in January, preliminary indications are that Japanese demand increased by 250 kb/d (4.0%) in February, largely due to relatively cold weather. Kerosene/jet fuel demand rose by some 160 kb/d. March 2005 was also comparatively cold, especially in the first half of the month, and total oil product demand is projected to grow by 70 kb/d (1.1%). It should be emphasised that these weather-related demand increases are transitory and not indicative of a long-term trend. Overall, Japan's demand is projected to contract by 50 kb/d (-0.9%) in 2005.

Japan's direct crude burning and demand for fuel oil is well below the levels witnessed during the height of the nuclear power problems experienced in the summer of 2003. However, consumption of oil in power remains above planned levels as nuclear power capacity utilisation has been below expectations (approximately 65% in February). Coupled with low temperatures which increased power demand, Japan's largest utility, Tokyo Electric Power Co. (TEPCO), had to dip into oil inventories in February and March. As a consequence, TEPCO is said to have purchased about 100 kb/d of low sulphur fuel oil and heavy sweet crude (which is used for direct burning) for April, roughly double its earlier purchase plan.

Currently, 10 of TEPCO's 17 nuclear power plants are on-line. Kansai Electric Power Co. (KEPCO) has 9 out of 11 of its plants on-line, with Mihama No. 3 still experiencing an unplanned shutdown.

Among the other Japanese utilities, Tohoku Electic's No. 1 nuclear power generator at its Onagawa plant is undergoing an unplanned shutdown.



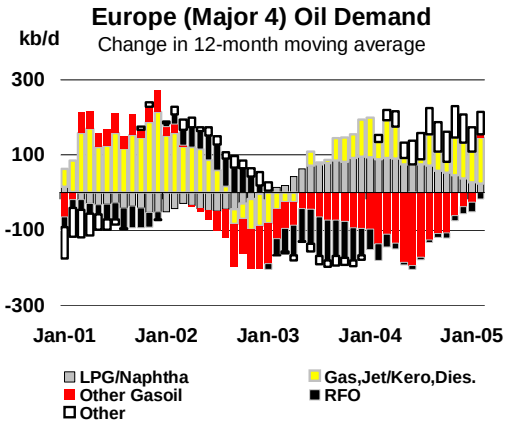


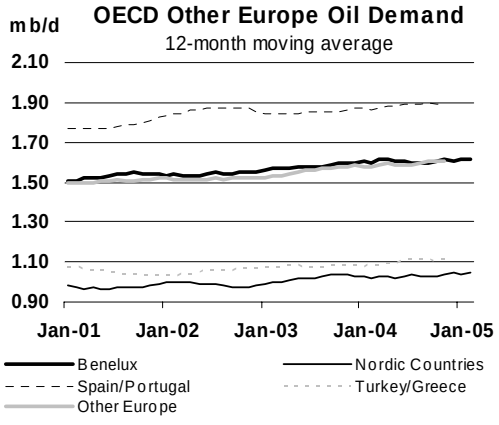
Korean oil product demand increased by some 65 kb/d (2.9%) in February, led by large gains in gasoline and kerosene/jet fuel. It has been reported that the Lunar New Year holiday helped limit the February growth in power demand to only 1.5%, the lowest monthly increase in over a year as industrial sector demand (which consumes about half of total power generation) fell with factory closures. This may have helped limit the growth in demand for fuel oil to only 2.8% in spite of relatively cold temperatures.

Moves toward the deregulation of the power sector have made it increasingly difficult to predict fuel use in power generation in Korea. Five separate generating companies (Gencos) remain under the umbrella of the Korea Electric Power Company, but they individually choose the cheapest fuels available within the context of technical limitations. This can contribute to wider swings in the demand for fuel oil than had typically been seen under tighter central coordination.

Europe

Extraordinarily cold weather in the second half of February and the first half of March drove European consumption higher for a number of weeks before temperatures rebounded to well above normal in the second half of March. On the whole, February demand is estimated to have risen by approximately 600 kb/d versus last year, which was already largely factored into last month's Report. Of this total, heating oil demand is projected to have risen by approximately 330 kb/d. March demand is projected to have grown by 120 kb/d.





While cold weather touched the entire region, its impact was particularly pronounced in Mediterranean Europe. In Spain electricity demand was up by just under 10.0% in the fist three weeks of March and power generation capacity has been stretched as hydroelectricity supplies are down versus last year. As a consequence, additional fuel oil was used in power generation during the cold snap. Similarly, although substitution of natural gas for fuel oil in power generation continues in

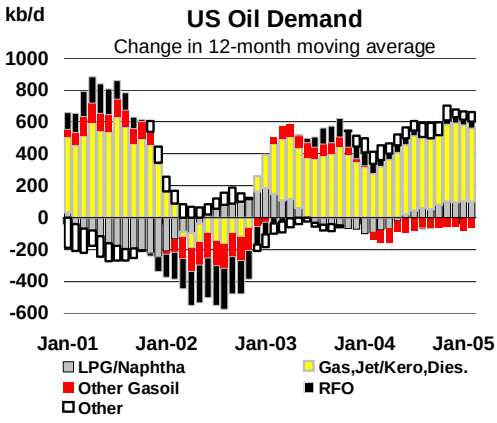
Italy, fuel oil demand was down by only some 1.0% in February. This was a respite from the 12.4% decline seen in January. Reports also indicate that very cold temperatures contributed to some cutoffs of interruptible natural gas supplies (some large gas consumers voluntarily sign contracts that allow their gas supplies to be cut at times of high demand in return for a lower unit price), which in turn led to increased fuel oil consumption in Italy.

Note that pump prices have risen sharply in much of Europe in recent weeks with higher crude prices and a weakening Euro. Although the impact of crude oil price increases on European demand has been limited in the past in part due to high taxes and a strong Euro, higher pump prices could begin to have some impact. Meanwhile, the well-established trend towards dieselisation continues unabated. Gasoline demand is projected to fall by 80 kb/d in the first quarter of 2005 and diesel demand is expected to increase by 90 kb/d over the same period.

On the whole, a relatively stagnant economic outlook and the continued substitution of natural gas for oil in many areas leaves little room for a substantial upswing in European consumption over the remainder of the year. OECD Europe demand is projected to grow by 90 kb/d (0.6%) in 2005.

North America

Preliminary indications show that North American demand grew by some 340 kb/d, or 1.3% (US 242 kb/d, Canada 42 kb/d and Mexico 52 kb/d) in February, 130 kb/d less than anticipated for the region in last month's Report. Early US data indicates that demand for transport fuels posted solid gains in March despite high prices as the US economy continues to move forward. Notably, demand for jet fuel was up by over 10.0% and gasoline demand grew by just under 2.0%. Demand for residual fuel oil also remained strong due to cold weather and high gas prices.



US retail prices for gasoline continue to set new records, with the national average climbing to US$2.22/gallon in recent surveys, although the inflation-adjusted price is still below the $3.08/gallon seen in March 1981. Gasoline consumption continues to grow, but higher prices could have a larger impact during the summer months when there is more discretionary driving. There are indications that fuel costs are affecting consumers' automobile purchasing decisions. Sales data for January-February 2005 shows a decline in sales of the larger, less fuel efficient SUVs and movement toward smaller SUVs and crossover vehicles. The market share of medium and large SUVs peaked at 14% in 2002 and is projected to fall to about 11% this year. This will have minimal influence on gasoline consumption in the near term because it has only a marginal impact on the composition of the total vehicle fleet. However, it is illustrative of the potential long-term trend towards conservation that could take place with sustained high gasoline prices.

Overall, North American demand is expected to grow by 360 kb/d (1.4%) in 2005. US gasoline demand is projected to grow by 160 kb/d (1.7%) and residual fuel oil demand is expected to continue to grow by 30 kb/d (3.7%) with sustained high natural gas prices.

Non-OECD

China

Caution is in order, but as anticipated, there are indications that Chinese demand growth is slowing and last year's 860 kb/d (15.6%) growth is unlikely to be repeated. January apparent demand (defined as the sum of domestic refinery output and net product imports with adjustments for direct crude burning, smuggling and unreported refinery output), grew by 5.4% and preliminary estimates for February based on data from the National Bureau of Statistics indicate that apparent demand grew by approximately 5.4% as well. Demand growth was expected to slow somewhat in February due to the mid-month Lunar New Year holiday and reports indicate that March apparent demand has not rebounded as strongly as some market observers had anticipated. In fact, Unipec, which is the trading arm of Sinopec, has increased diesel exports. Overall, these developments are in-line with expectations and thus projected demand growth remains unchanged at a still robust 500 kb/d (7.9%).

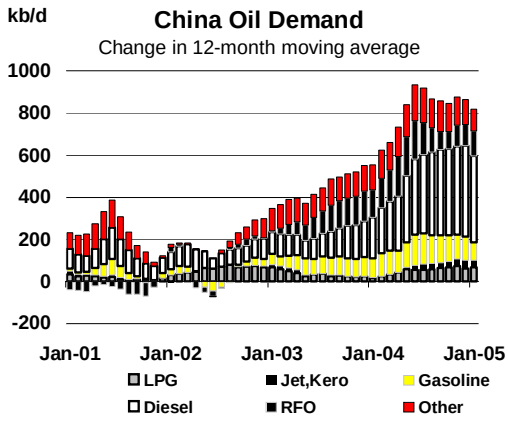
China Crude & Product Trade
(thousand barrels per day)

	2003	2004	1Q04	2Q04	3Q04	4Q04	Dec 04	Jan 05	Feb 05	Latest month vs. Jan 05	Latest month vs. Feb 04
Net Imports/(Exports) of:											
Crude Oil	**1664**	**2346**	**2290**	**2371**	**2232**	**2491**	**2665**	**1722**	**2691**	**969**	**144**
Products & Feedstocks	**442**	**661**	**600**	**849**	**545**	**653**	**546**	**623**	**577**	**-46**	**-39**
Gasoil/Diesel	-28	43	22	50	21	79	118	8	1	-7	-22
Gasoline	-175	-125	-95	-141	-146	-117	-136	-128	-112	17	27
Heavy Fuel Oil	407	506	448	653	412	515	466	567	431	-137	-78
LPG	202	201	172	227	222	184	148	187	236	49	42
Naphtha	-22	-33	-21	-11	-48	-51	-60	-49	-26	24	9
Jet & Kerosene	1	16	21	15	19	8	-1	15	5	-10	-7
Other	58	52	54	56	64	34	12	24	41	17	-10
Total	**2106**	**3008**	**2890**	**3220**	**2777**	**3144**	**3211**	**2345**	**3268**	**923**	**105**

Sources: China Oil, Gas and Petrochemicals plus IEA estimates

Although the signs of a slowdown are evident, several factors suggest that it is too early to draw definitive conclusions about China. First, Chinese demand grew by an astonishingly high 16.1% in January 2004 and 25.8% in February 2004. Given such a high baseline, it is not surprising that 2005 growth is more subdued. Second, while crude imports were down slightly in the first quarter of 2005 overall, there are preliminary reports that March crude imports were up by some 23% versus last year. Finally, there are signs that China's rapid economic growth may be continuing unabated: fixed-asset investment was reported to be up by 24.5% in the first two months of the year. This trend appears to be counter-intuitive with lower oil demand growth. It remains to be seen whether the drop-off in oil demand growth is a sign of somewhat slower economic growth, or if this apparent inconsistency can be maintained.

Among the key factors that will influence future demand growth is the central government's pricing policy. On 23 March the National Development and Reform Commission raised the retail price of gasoline by 7%. This follows an 12% increase in the price of jet fuel earlier in March. These are the first official price increases since August 2004 but they remain far below the increase in product prices in Singapore, Rotterdam and New York which official prices are supposed to follow (see text box below—Developing Asia Adjusts to the Reality of High Oil Prices). Moreover, prices for diesel (a large portion of Chinese demand) remain unchanged and are out of alignment with the international market. Recent anecdotal evidence indicates that gasoline consumption has been affected by the price increase, as Petrochina maintains that gasoline sales have been curbed for this reason. Jet fuel demand may be supported in the near term in the face of higher prices as domestic airlines maintain that they cannot raise ticket prices or add fuel surcharges due to fierce competition—and thus passenger volumes and the number of flights should not be affected.



It should be noted that the government's pricing policies are creating market distortions that make the demand picture more opaque. The policies themselves can lead to large swings in oil product demand/supply with changes in government policy and/or international prices. For example, as policies depress retail prices, margins on gasoil are so low, or even negative, that some independent retailers may be reluctant to sell gasoil—which can artificially depress "demand." At the same time, many of the independent teapot refineries that have a high yield of gasoil may be inclined to reduce runs of crude or straight-run fuel oil in the face of relatively low gasoil prices. Reports indicate that the independent refiners clustered in Shandong province are operating at a high capacity utilisation because they are relatively sophisticated and can produce a fairly high yield of high-priced gasoline which supports overall margins. In contrast, the small, less-sophisticated, refiners around Guangdong may be inclined to utilise less capacity and reduce production.

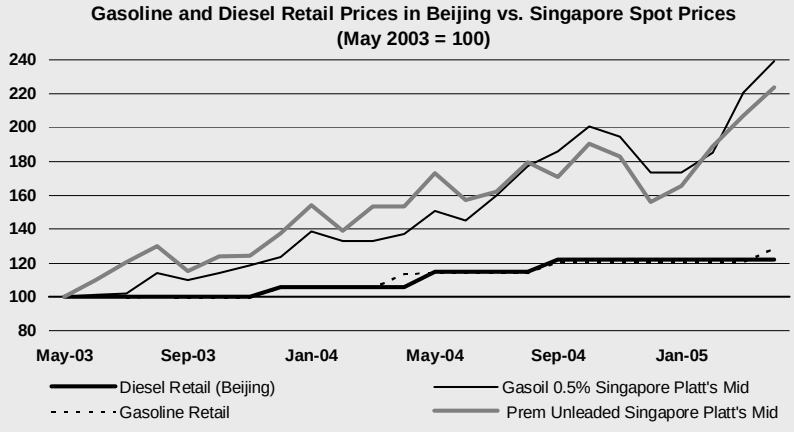
China Demand Forecast Summary

	Demand (kb/d)			Annual Change (kb/d)		Annual Change (%)	
	2003	2004	2005	2004	2005	2004	2005
LPG & Ethane	539	599	631	60	31	11.1	5.2
Naphtha	621	681	762	60	81	9.6	12.0
Motor Gasoline	963	1074	1151	111	77	11.5	7.1
Jet & Kerosene	190	231	252	41	21	21.4	9.0
Gas/Diesel Oil	1720	2152	2347	432	195	25.1	9.1
Residual Fuel Oil	810	911	972	101	61	12.5	6.7
Other Products	673	730	769	57	38	8.5	5.3
kb/d	**5517**	**6379**	**6884**	**863**	**504**	**15.6**	**7.9**

The power sector faces similar pricing problems in that increases in fuel costs are not passed on to power consumers. As a result, fuel oil prices have been well above the break-even point for oil-fired power plants. This is a particular problem in Guangdong, which faces some of the worst power shortages and is heavily dependent on fuel oil for power generation. In the past, some power generators have reduced production in the face of power shortages rather than incur large losses (which may be only partially recouped through government subsidies). There are plans in place to institute a new pricing system that links fuel costs with power prices, but at this point it appears there is not a solid timetable for implementing the new rules.

Developing Asia Adjusts to the Reality of High Oil Prices

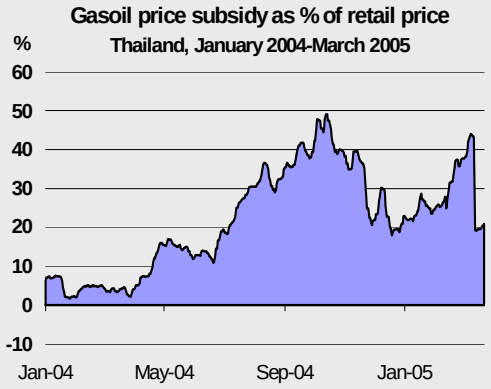
In 2004 developing countries in Asia were the engine of global demand growth, accounting for approximately 1.33 mb/d, or 49%, of global growth. Developing Asia's rapidly expanding economies were the key force driving its robust demand growth. A contributing factor was that many of the governments in the region acted to suppress market related increases in retail petroleum product prices through government pricing mandates or subsidies, thereby encouraging demand growth in the face of increasing international prices. The cost of these policies has been staggering—Indonesia spent US$7 billion on product subsidies in 2004; Malaysia's outlays reached approximately US$ 1.6 billion in 2004; and Thailand spent almost US$2 billion since January 2004. Other countries, such as China, maintained official retail prices that have not increased with international prices (see figure), thereby shifting the burden of international price increases onto the petroleum sector (which is dominated by national oil companies).



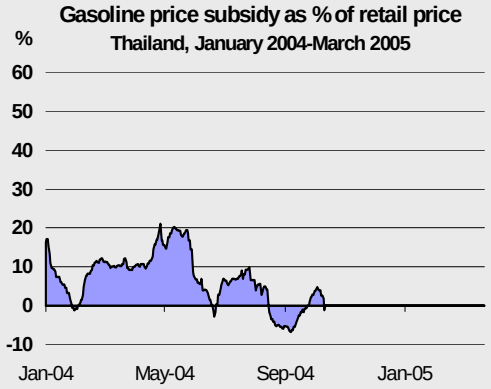
In the end, government efforts to insulate consumers from oil price increases have proven unsustainable. Artificially low retail prices encouraged demand growth which in turn contributed to the rise in international prices—and both developments led to the need for larger government outlays. The price subsidies also contributed to increasing problems with fuel adulteration, smuggling, and other market distortions. The Malaysian government estimates the costs associated with fuel smuggling at some US$55-65 million in 2004. This is due to diesel deliveries into neighbouring Thailand, where it retails for roughly double Malaysia's subsidized price, making smuggling lucrative.

Developing Asia Adjusts to the Reality of High Oil Prices (continued)

Governments across the region have begun to acknowledge the reality of high international oil prices and moved to adjust domestic prices so they are more in line with market conditions. For example, in early March Indonesia raised product prices by roughly 30% which sparked protests. In the past the government has backed down from such measures and lowered prices but this time it appears compelled to stand firm. Among others, following the elimination of gasoline price subsidies in October 2004, Thailand recently raised diesel prices by 20% (see figures). Vietnam also raised gasoline prices by some 7% and diesel prices by 13% in late March. In addition, Malaysia has moved to raise diesel prices by approximately 6% as the first step in scaling back subsidies. As discussed in the China section of this Report, China increased the price of gasoline (7%) and jet fuel (12%), but has left diesel prices unchanged since August 2004.



Source: Ministry of Energy (Thailand), Eurasia Group



Source: Ministry of Energy (Thailand), Eurasia Group

How will these changes impact Asian demand growth? In view of Thailand's experience, this is likely to produce a depressing effect. Thailand eliminated gasoline subsidies in October 2004 and demand growth contracted by approximately 6.7% in the fourth quarter of 2004 after expanding by some 4.5% in the first half of 2004 versus the previous year.

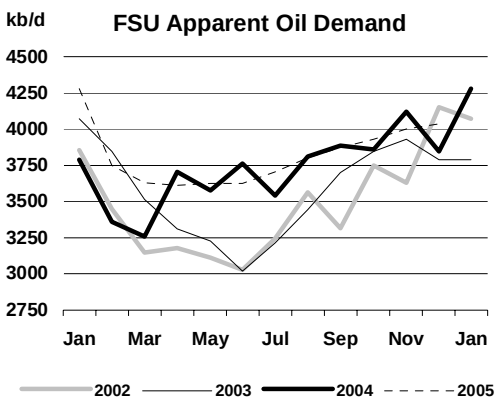
It should be noted that this Report had factored in a possible petroleum product price increase in Asia (see December 2004 discussion) and thus our demand forecast remains largely unchanged as a result of these developments. Demand growth in the developing countries in Asia is projected to slow to a still robust 750 kb/d in 2005.

FSU

FSU apparent demand (defined as the difference between crude production and net exports of crude and products) is projected to grow by 50 kb/d (1.4%) in 2005 as the impact of relatively strong economic growth is balanced by continued interfuel substitution and efficiency gains. The 70 kb/d reduction versus last month's Report may be attributed largely to a substantial recovery in preliminary February exports after a sizable drop-off in January.

Forecasting monthly FSU apparent demand is problematic because monthly exports are prone to high peaks and low nadirs underpinned by supply logistics such as shipping delays, maintenance, etc. As a consequence, demand trends are best viewed in a longer-term context.

Although refinery output is not explicitly counted in estimates of FSU apparent demand, reports suggest the Russian refiners may have increased their refinery throughput by some 350 kb/d. Cold weather contributed to increased domestic consumption of gasoil and fuel oil in February and March, but product exports could rise in the future if these runs are sustained as expected.



Other Non-OECD

Indian demand growth slowed to an estimated 30 kb/d (1.3%) in February, a sharp drop-off from the 100 kb/d growth seen in January. Naphtha demand continues to fall as lower-price natural gas is being used as a substitute petrochemical feedstock. This contributed to a surge in February exports of naphtha, which were almost four times higher than last year.

In addition, there have been discussions about further retail price hikes in response to the rising international petroleum market. The impact could be compounded if discussions of the inclusion of a new road tax in retail prices bear fruit. Both factors would tend to suppress demand growth despite projections of over 6% economic growth this year. In 2005 oil product demand is projected to grow by 70 kb/d (2.8%).

India Crude & Product Trade
(thousand barrels per day)

	2003	2004	1Q04	2Q04	3Q04	4Q04	Nov 04	Dec 04	Jan 05[1]	Latest month vs. Dec 04	Latest month vs. Jan 04
Net Imports/(Exports) of:											
Crude Oil	**1863**	**1945**	**1938**	**2090**	**2013**	**1742**	**1671**	**1649**	**2048**	**399**	**75**
(by Public Oil Cos)	**1243**	**1158**	**1105**	**1312**	**1214**	**1000**	**888**	**903**	**1149**	**245**	**-69**
Products & Feedstocks	**-152**	**-176**	**-132**	**-173**	**-178**	**-222**	**-316**	**-160**	**-135**	**25**	**-156**
Gasoil/Diesel	-119	-139	-137	-135	-122	-162	-183	-149	-134	15	-72
Gasoline	-72	-75	-77	-67	-75	-80	-81	-75	-71	4	-17
Heavy Fuel Oil	5	-6	-12	13	-5	-20	-55	2	-3	-5	-29
LPG	55	86	90	39	86	128	137	128	109	-19	20
Naphtha	-1	-7	19	10	-29	-25	-42	-22	-23	-1	-66
Jet & Kerosene	-22	-47	-29	-44	-43	-74	-102	-58	-30	28	5
Other	1	12	14	12	9	12	9	13	17	4	3
Total	**1712**	**1769**	**1807**	**1917**	**1834**	**1520**	**1355**	**1489**	**1913**	**424**	**-81**

1 Preliminary
Sources: Indian Ministry of Commerce, Indian Port Authorities and IEA estimates

Preliminary data indicate that Brazilian demand was unexpectedly weak in January, declining by 40 kb/d (-2.2%). A noteworthy development is that sales of ethanol powered and flex-fuel vehicles, which run on gasoline, ethanol, or a mixture of both, jumped by 87% (65,000 units) in January-February 2005. This represented 32% of new car sales in Brazil in the first two months of the year, and the share is projected to continue to increase as ethanol sells locally for about 30% less than gasoline. Ethanol is included in this Report's supply/demand balance but there is evidence that ethanol use may be underreported for tax reasons. On the whole, Latin American demand growth has been revised marginally downwards (10 kb/d).

SUPPLY

Summary

- **World oil supply** in March increased by 365 kb/d from a downward-adjusted February total, and averaged 84.2 mb/d. OPEC crude supply was up by 290 kb/d last month and averaged 29.1 mb/d. Non-OPEC oil production rose by 60 kb/d to 50.4 mb/d. A yearly comparison shows OPEC crude supply 1.0 mb/d higher than in March 2004, non-OPEC output running 355 kb/d higher and OPEC other liquids production up by 415 kb/d.

- **Non–OPEC supply** adjustments leave 2004 data largely unchanged but see 2005 production revised down by 30 kb/d. Downward adjustments for OECD producing countries account for the bulk of the 2005 revision. However, the pattern of revisions shifts over the course of the year. Fourth quarter 2004 non-OPEC supply is adjusted down by 55 kb/d with the first two quarters of 2005 revised down by 155 kb/d and 70 kb/d respectively. Delays and unscheduled outages affecting the US Gulf, Canada, Norway and Brazil underpin weaker early-year performance. Thereafter, a sharp rebound in non-OPEC supply is expected for the second half of 2005, with 4Q output revised up by 130 kb/d, mainly from North America, China and Latin America. Non-OPEC supply is now seen rising by 900 kb/d in 2005 to 51.0 mb/d after an increase of 1.0 mb/d in 2004.

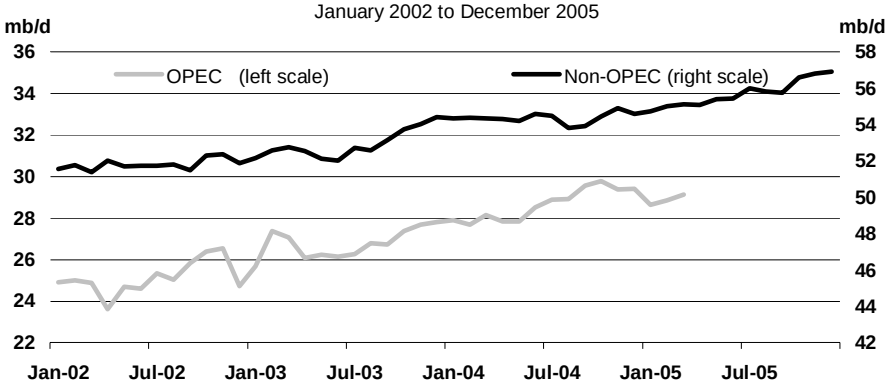
- **OPEC crude supply** gained 290 kb/d in March to average 29.1 mb/d. This came primarily on the back of increases from Saudi Arabia and the UAE. February supply from Iran and Iraq was revised down by a combined 165 kb/d as consolidated export data came in lower than expected. March saw Iraqi production largely unchanged at 1.8 mb/d as exports levelled off at 1.38 mb/d. The northern export pipeline via Turkey remained out of action throughout March and into early April. OPEC spare capacity is estimated at 2.1 mb/d based on March output, but is less than 1.5 mb/d on an effective basis if Iraq, Venezuela, Nigeria and Indonesia are excluded.

- **OPEC-10 supply** (excluding Iraq) increased by 275 kb/d in March to 27.3 mb/d. Early indications ahead of the 16 March OPEC Ministerial meeting in Isfahan suggested no likely change in target production. However, a last minute Saudi-sponsored proposal to boost output quotas by 500 kb/d to 27.5 mb/d was in the event agreed. Furthermore, with sustained marker crude prices close to $55/bbl at the time of writing, a further quota rise to 28.0 mb/d effective from May is being discussed.

- **The 'call on OPEC crude and stock change'** is expected to average 28.5 mb/d in 2005 compared to 28.1 mb/d in 2004 and 26.9 mb/d in 2003. This is unchanged from last month, although the fourth quarter call has been shaved down by 100 kb/d to 29.3 mb/d in light of higher non-OPEC supply projections for later in the year. This compares to expected OPEC installed capacity in late 2005 of some 32 mb/d.

OPEC Crude and Non-OPEC Oil Supply [1]

January 2002 to December 2005



1 Non-OPEC Oil Supply includes OPEC NGLs, condensate and non-conventional oil

All world oil supply figures for March discussed in this Report are IEA estimates. Estimates for OPEC countries, Alaska and Russia are supported by preliminary March crude supply data.

Note: Random events present downside risk to the non-OPEC production forecast contained in this Report. These events can include accidents, unplanned or unannounced maintenance, technical problems, labour strikes, political unrest, guerrilla activity, wars and weather-related supply losses. Allowance has been made in the forecast for scheduled maintenance in all regions and for typical seasonal supply downturn in North America. These aside, no contingency allowance for random events is subtracted from the supply forecast. While upside variations can occur, experience in recent years indicates that the random events listed above may cause supply losses of between 300 kb/d and 400 kb/d for non-OPEC supply each year.

OPEC

OPEC producers are assessed to have added just under 300 kb/d to supply in March, with production averaging 29.1 mb/d (net of Venezuelan syncrude output). OPEC-10, excluding Iraq contributed 27.3 mb/d, with Iraqi output nudging higher to 1.81 mb/d. Saudi Arabia is thought to have increased supply by 150 kb/d to 9.35 mb/d and the UAE by 100 kb/d to 2.42 mb/d. Iranian supply rose by 40 kb/d to 3.9 mb/d and more modest increases of 10-15 kb/d each were seen from Nigeria, Indonesia, Algeria and Iraq. Much of the rise in supply occurred in the second half of March, after the Organisation's 16 March decision to boost target production levels by 0.5 mb/d in a bid to ease rising crude prices. This is borne out by data on spot tanker liftings which rose after a mid-month dip and overall OPEC tanker liftings are reported to be rising further in April.

OPEC Crude Production

(million barrels per day)

	16 Mar 2005 Target	Mar 2005 Production	Sustainable Production Capacity[1]	Spare Capacity vs. Mar 2005 Production	Production vs. Target
Algeria	0.88	1.35	1.35	0.00	0.47
Indonesia	1.43	0.95	1.00	0.05	-0.48
Iran	4.04	3.90	4.00	0.10	-0.14
Kuwait[2]	2.21	2.40	2.50	0.10	0.19
Libya	1.47	1.62	1.65	0.03	0.15
Nigeria	2.27	2.40	2.45	0.05	0.14
Qatar	0.71	0.78	0.80	0.02	0.07
Saudi Arabia[2, 3]	8.94	9.35	10.0-10.5	0.65-1.15	0.41
UAE	2.40	2.42	2.55	0.13	0.02
Venezuela[4]	3.17	2.16	2.20	0.04	-1.01
Subtotal	**27.50**	**27.33**	**28.50-29.00**	**1.17-1.67**	**-0.17**
Iraq		1.81	2.50	0.69	
Total		**29.14**	**31.00-31.50**	**1.86-2.36**	
(excluding Iraq, Nigeria, Venezuela, Indonesia				*1.03-1.53)*	

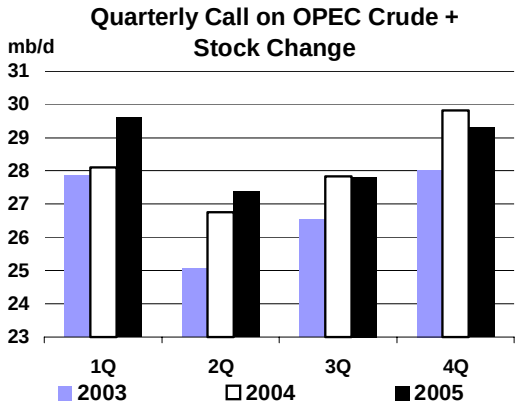
1. Capacity levels can be reached within 30 days and sustained for 90 days
2. Includes half of Neutral-Zone Production
3. Saudi Arabian capacity shown as a range since a delay may be incurred before higher level can be achieved
4. Excludes upgraded Orinoco extra-heavy oil which averaged 588 kb/d in March

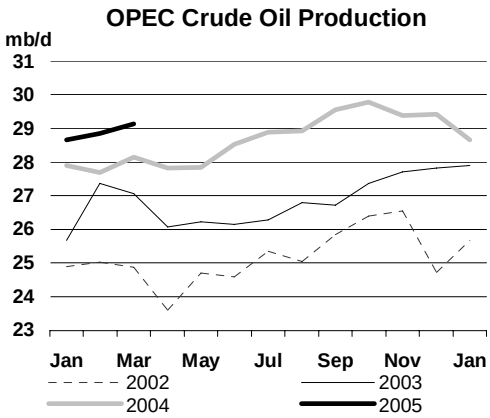
The perils of attempting to predict OPEC decisions ahead of ministerial meetings were amply demonstrated in March. A widely-held belief that the existing production ceiling of 27.0 mb/d would be rolled over in Iran on 16 March proved wide of the mark. A proposal from Saudi Arabia for the ceiling to be raised to 27.5 mb/d carried the day, despite reports of opposition from Algeria, Libya, Venezuela and Iran. OPEC's President was also authorised to consult member governments on a further 500 kb/d increase to 28.0 mb/d if oil prices remain at or above prevailing levels. The meeting also agreed to the principle of amending the OPEC reference basket to a (likely heavier) weighted average of eleven of the main export grades from a current seven. Prices will be monitored in parallel with the existing basket and a final decision is expected at the 15 June extraordinary meeting in Vienna.

The OPEC communiqué released at the conclusion of the Isfahan meeting signalled recognition that marker crude prices of around $55/bbl could indeed have an adverse impact on economic growth, in contrast to earlier statements from a number of OPEC sources playing down the economic impact of high prices. It also signalled a break with recent policy of rigid, market micro-management by

loosening the focus on the seasonal demand dip in the spring, looking further ahead to the rising demand period in the second half of the year, and acknowledging the importance of ensuring comfortable stocks for later in 2005. With prices in early April still stubbornly close to the $55/bbl level, discussions on a further 500 kb/d increase in target production were reportedly underway. After an estimated 700 kb/d global stock draw in the first quarter and still-healthy demand growth, forward inventory cover remains a concern and OPEC moves to boost supply can be seen in this context.

Recent market comments suggest that the relevance of production targets, as distinct from actual output, is questionable, bearing in mind the disparity between individual output and quota levels. Certainly, the long standing mismatch between certain countries' 'allowable' production and their physical capability remains. Venezuelan conventional crude output, plus that of Indonesia and Iran stands a combined 1.65 mb/d below collective quota. Meanwhile Algeria, Saudi Arabia, Kuwait and others fill the gap. Within OPEC, rumblings of discontent about prevailing quota levels persist but are unlikely to be formally addressed anytime soon. More important perhaps than quota is a comparison of actual production and likely sustainable capacity. In some quarters a degree of market concern is emerging that there will be insufficient OPEC capacity late in 2005 to meet the expected seasonal rise in demand. The validity of these concerns depends on the level attained by overall demand growth in 2005. However, this Report now sees a call on OPEC crude and stock change for the fourth quarter of 29.3 mb/d. This compares to possible end-of-year OPEC capacity of some 32 mb/d, suggesting a still-tight market, but no cause for undue concern.





Mixed indications emerged concerning supply from **Saudi Arabia** in March. Term export volumes for March and April, announced early in the preceding months, were indicative of generally flat supplies compared to February levels. Widely reported spot tanker chartering for March and April (which normally signals incremental volumes destined for US destinations) showed a drop compared to February. Notwithstanding, growing Saudi expressions of concern that prices might be approaching economically damaging levels, and the Kingdom's role in pushing through the Isfahan accord, both point towards higher supply. The Saudis announced soon after Isfahan that production was rising in March to 9.5 mb/d, and there were clear indications from tanker tracking sources that Saudi supply indeed rose after mid-month. This Report assesses supply to have risen by 150 kb/d to average 9.35 mb/d for March as a whole, albeit supply likely approaching 9.5 mb/d at the end of the month.

The Kingdom appears to be taking seriously widespread concerns over the paucity of spare capacity, although the next in a series of capacity expansion projects, at the Haradh field, is not due onstream until 2006. Nonetheless, March saw further reports of increased drilling activity within the Kingdom, a factor which may help to moderate prevailing field decline rates. The mismatch in crude quality on the supply and demand sides is also coming into focus, with reports of a planned 400 kb/d refinery for the Red Sea port of Yanbu. Configured to run primarily on heavier/sourer Saudi grades, the refinery would reportedly target clean products markets in the US, Europe and Asia.

Output from the **UAE** is assessed up by 100 kb/d to average 2.4 mb/d for March. This results from the resumption of near-capacity volumes from the Murban field, after February maintenance work had depressed output there. However, the rise could be short-lived as Abu Dhabi has cut term export volumes for May loading for Murban, Lower Zakum and Umm Shaif crude. Maintenance is again expected to cut into production in both May and June. Capacity at Murban is scheduled to rise by 200 kb/d to 1.4 mb/d by the end of 2005.

Iranian supply is estimated up by 40 kb/d in March to 3.9 mb/d. February supply was revised down by 115 kb/d to 3.86 mb/d as consolidated export data came in lower than expected. Inauguration of expanded output facilities at the Soroush and Nowruz heavy oilfields, repeatedly delayed over the course of 2004, now appears to have been deferred again to summer 2005 due to equipment problems. There have been reports that these and other imminent capacity 'expansion' projects may in fact only offset mature field decline, holding Iranian capacity close to 4.0 mb/d for the time being. However, the Oil Minister in early March announced the discovery of the 5-6 billion bbl onshore Ramin field, which on development is thought capable of adding some 90 kb/d of crude capacity.

Net production from **Iraq** (excluding field re-injection and deliveries into storage) is estimated at 1.81 mb/d in March, a 15 kb/d rise from downward-revised February levels. March supply comprised 1.38 mb/d of exports and 435 kb/d of local use (including 70 kb/d in direct burn for power generation). Refinery operations remained disrupted in March, with crude lines feeding the Daura refinery again subjected to sabotage. However, improved power supply and indications of higher diesel availability suggest a modest increase in total crude runs from depressed January and February levels.

Southern exports from Basrah and Khor al-Amaya in February were revised down to 1.36 mb/d as late-February volumes now appear to have been lower than previously thought. Pumping problems affecting Khor al-Amaya, plus weather delays and brief industrial action affecting Basrah, kept exports at identical levels for March. Higher exports of 1.5-1.7 mb/d were however seen in the second week of March and again at the end of the month. Continuing repair work on the northern export pipeline to Turkey was again hampered by sabotage attacks in late March. Aside from a brief resumption in February, the line has been idle since December and shipments are seen unlikely to resume before mid-April. Given constraints on refinery operations and export pipeline availability, production from Iraq seems stalled at levels at or below 2.0 mb/d for now. This compares to the authorities' current target production level of 2.5 mb/d and plans announced by the US Army Corps of Engineers in March to raise output to 3.0 mb/d within an unspecified period.

Nigerian supply for March remained largely unchanged at 2.4 mb/d, as early-month indications of a sharp rise in exports proved over-optimistic. Output remains hampered currently by ethnic unrest and for the future, potentially, by threatened industrial action and a tightening of operating terms affecting foreign operators (see text box, below). At the time of writing, a three-day strike by oil workers due to start on 11 April looks to have been averted. The strike was seen as a possible prelude to more protracted industrial action over redundancies facing state NNPC and the related issue of foreign company and contractor involvement in the oil sector. However, repeated strike action in recent years has had minimal impact on crude production and exports, in contrast to the outages deriving from ethnic unrest. On a more positive note, March saw the start-up of production at the offshore Okwori field, scheduled to build up to 25 kb/d capacity by the end of the year.

Not Only Prices, But Also Regulatory Regime, Shape Upstream Investment

The Oil Market Report dated 18 January highlighted the apparent lag between rising crude prices and increased investment by international upstream operators. Corporate issues including conservative budgetting/planning price assumptions, competition for capital and a trend towards long lead time mega-projects help explain this lag. But the actions of producer-country governments also play a role. A review of host country terms governing access to reserves, and the upstream regulatory and fiscal framework, show a far from uniform picture. It appears, at least in the short term, that high prices on their own may be insufficient to guarantee increased international company E&P spending. Rather, they may reinforce 'go-it-alone' attitudes from government, with higher tax revenues masking the long-term impact of lower exploration investment and declining reserve replacement levels.

In **Russia,** production growth, drilling and upstream investment have slowed sharply in light of the Yukos affair. Investors complain that the current tax regime gives 90% of incremental revenues to the state when prices are above $25/bbl. A new draft subsoil law has received cabinet approval and could come into effect from January 2006. It requires direct licence negotiations with the government under civil law rather than administrative edict. This is viewed broadly favourably in the investment community. Further positive measures include an easing of the procedure for licence transfer and the automatic granting of subsequent development rights to explorers. Recent comments also suggest that Production Sharing Agreements (PSAs), hitherto out of favour with the authorities, could again be offered for offshore developments. Viewed less favourably by international operators is a clause mandating a minimum 51% Russian ownership level for companies developing 'strategic' oilfields.

Not Only Prices, But Also Regulatory Regime, Shape Upstream Investment (continued)

Mexico's constitution forbids foreign ownership of oil and gas resources although extra investment is widely believed necessary to open up ultra-deepwater resources in the Gulf of Mexico and to slow shallow water and onshore decline. Recent developments have not been promising. An already limited private sector role afforded by multiple service contracts in the gas sector is now being investigated by the country's Audit Office, after claims it is non-constitutional. State operator Pemex must currently return 60% of annual revenue to the government, limiting its investment options. Calls for reform are growing, but changes in the regime may be delayed until after a presidential election in 2006. Elsewhere in Latin America, early April saw **Ecuador's** Congress reject a bill to open up the oil, electricity and pension sectors to private investment. In contrast, 2004 saw an 82% rise in oil sector foreign investment in **Colombia.** This follows the allocation to separate agencies of the industry regulation, license allocation and mandatory field participation roles, all formerly exercised by state company Ecopetrol. Independent operators can now hold stakes of up to 100% in concessions.

Venezuela requires state PDVSA to take a majority stake in all upstream crude projects. Government control of PDVSA has been extended, with the recent appointment of the Minister of Energy as PDVSA President. Late in 2004, the four existing Orinoco upgrader projects became subject to a unilateral hike in royalty rate from the prevailing 1% (originally scheduled to be effective until late decade) to almost 17%. Retroactive changes to the fiscal regime for existing projects normally deter investment, but for now plans by Total and ChevronTexaco to expand Orinoco output are proceeding.

In contrast **Indonesia** is considering allowing foreign operators higher stakes and granting increased investment credits in the face of sharply declining production. Prior to these moves, corruption and a lack of transparency in Indonesian bidding rounds were deterring major operators from participating. Territorial disputes have placed key prospective areas off limits, and concerns remain over security in certain areas. Further encouragement to foreign operators came in a new draft **Algerian** hydrocarbon law which was passed by parliament in late March. It separates state-company Sonatrach's erstwhile dual roles of regulator and operator. Sonatrach will still take a 20-30% stake in discoveries but this is a substantial reduction from the earlier mandated 51%. The law will also remove Sonatrach's monopoly on pipeline and downstream investment.

Libya awarded its first exploration permits since the ending of US sanctions in January. Bids under the fourth exploration and production sharing framework (EPSA-4) were evaluated on the basis of the minimum production share foreign operators were willing to accept. Tied bids were settled with a signing-on bonus. Company shares averaged less than 20% compared to 35% in previous Libyan licensing rounds. The government has delayed the next round while it examines possible clauses mandating the employment of Libyan nationals and linking upstream and downstream investment. **Nigeria** too is considering making upstream participation contingent on producers refining a growing portion of their equity crude within Nigeria. Foreign producers have protested about proposals to raise corporate income tax on new and existing deepwater oil fields from 50% to 85%.

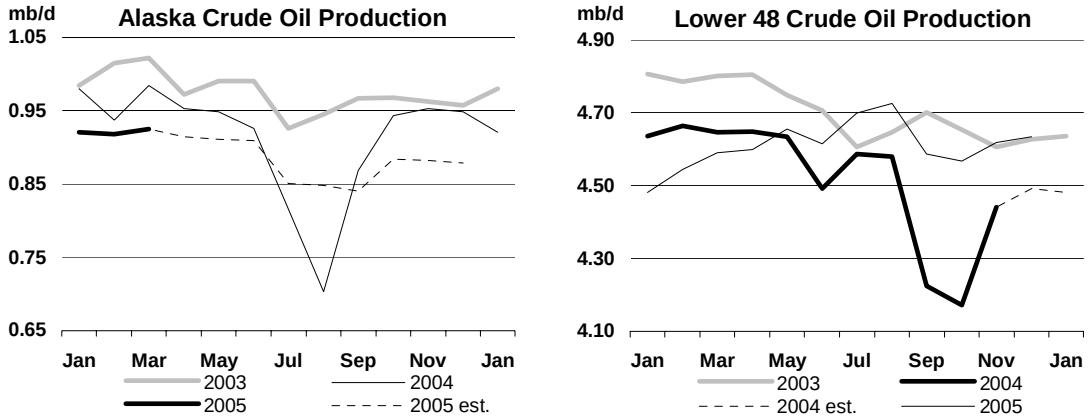
Elsewhere amongst OPEC producers, high prices deriving from an acknowledged lack of spare capacity have done little to slacken the state's grip on upstream ownership and operations. Progress towards **Kuwaiti** parliamentary approval for foreign company involvement in northern oilfields via service contracts remains slow. The service contract model is also employed by **Iran** with its so-called buyback deals. However, these are seen by international companies as providing much less financial incentive for new field development than alternative models such as joint ventures and production sharing agreements. Iran was forced in March to turn to a local firm to develop the Bangestan oilfield after attempts to lure European firms under buyback terms failed. Meanwhile, foreign access to crude reserves remains firmly off the agenda in **Saudi Arabia**.

OECD

North America

US – March Alaska actual, others estimated: US crude production rose above 5.5 mb/d in March for the first time since May 2004. Earlier, steady monthly recovery since the hurricane-induced low of last September had stalled slightly in January, with dips in Alaskan, California and Texas

production. However, aggregate production data for February and March suggest renewed recovery amounting to 100 kb/d combined, with February also seeing a 70 kb/d NGL increase. Notably, **Gulf of Mexico (GOM)** production recovered further in March. ChevronTexaco resumed production from the Petronius facilities in mid-March, aiming to regain 42 kb/d production by the end of the month. Also, Shell announced in early March that it was delaying maintenance at the Mars field earlier scheduled for March and that work on the Auger platform was deferred until the summer. GOM production for March is revised up by 50 kb/d compared to last month's Report, but 100 kb/d of output is assumed to remain shut-in until mid-year in the aftermath of Hurricane Ivan. Despite apparently better than expected March performance, GOM output is revised down by 25 kb/d for 2005, on indications of lower than anticipated output from the Magnolia and Habanero fields.



Alaskan crude production remained close to 920 kb/d in March. A review of field performance at the Northstar complex, and more optimistic State Treasury projections for Alaskan output for 2005, result in a 15 kb/d upgrading compared to our Alaskan forecast from last month. However, the outlook remains conservative, at 890 kb/d for 2005, a 25 kb/d decline from 2004 production levels. The Alaskan Treasury Department forecasts production in 2005 rather higher at 920 kb/d, a marked improvement in performance following the 60 kb/d production decline seen in 2004. March saw mixed news for Alaskan producers regarding the longer term. The Alaska Governor in January announced higher production taxes affecting the Prudhoe Bay field. This led BP to announce in March that the development of western satellites to the field was being deferred as a result of the higher tax regime. The US Senate approved oil and gas exploration in the Arctic National Wildlife Refuge (ANWR) during March. Attempts to open ANWR have been ongoing for 20 years, with the area thought to have the potential to produce up to 1.0 mb/d.

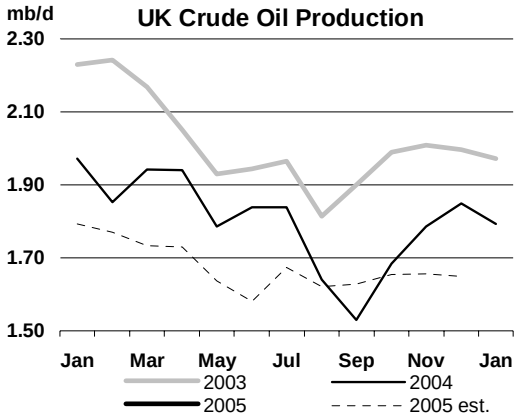
Canada – January actual: Canadian oil production continues to be hampered by unscheduled outages affecting offshore Newfoundland and the Albertan synthetic crude projects. Total production fell by 15 kb/d in January, with further declines of 80 kb/d and 130 kb/d estimated for February and March respectively. Production of 2.8 mb/d last month compares to 3.1 mb/d as recently as November. The latest reported disruptions affected Shell's Scotford upgrader, where valve failure cut March syncrude output by 25%. Meanwhile, Petro-Canada announced that output from the Terra Nova field was cut progressively to 100 kb/d and then 50 kb/d from normal 130-150 kb/d levels due to gas compressor repairs. With further maintenance at Terra Nova scheduled for August and September, this Report has lowered expected Terra Nova 2005 output to 115 kb/d from last month's forecast of 150 kb/d. Total Canadian output in 2005 is now seen falling 45 kb/d to 3.04 mb/d.

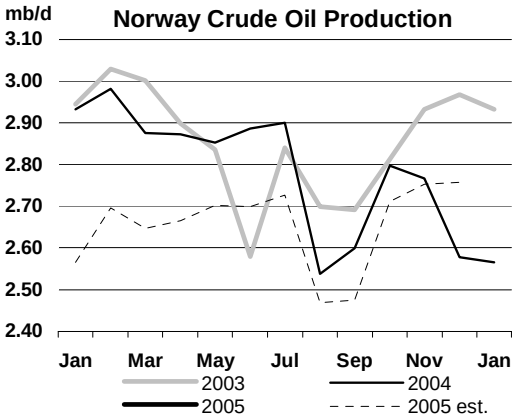
More positively, early April saw the announcement that stakeholders in the long-idled Hebron and Ben Nevis fields offshore Newfoundland will recommence evaluation of the fields. Complex geology and unfavourable economics stalled progress in developing the estimated 570 mb of heavy oil in February 2002. Reactivation follows moves by both the Nova Scotia and Newfoundland provincial governments to streamline regulatory procedures and to cut delays in approving offshore projects.

North Sea

UK – January actual: Forecast UK oil production for 2005 is largely unchanged in aggregate at 1.92 mb/d, a decline of 135 kb/d compared to 2004. However, lower production from the Brent, Forties and west of Shetlands production systems is now expected after having incorporated UK government field-by-field production data for November and December. West of Shetland supply is

revised down despite a now-faster build up in supply from the recently started Clair field. These downward revisions are countered by higher expectations for the Ninian, Flotta and offshore loaded production systems. In the context of the latter, a water-injection project at the Pierce field in late 2004 appears to have boosted supply, with a resultant upgrade to expected 2005 output.





Norway – January actual, February provisional: Production data through February and loading schedules for March and April have resulted in a 30 kb/d reduction in 2005 Norwegian production. Downward adjustments are concentrated in first quarter 2005 (60 kb/d) but a 20 kb/d revision is also carried through the remainder of the year. Slower than expected activation of the Oseberg South J extension, and apparent under-performance from the Fram and Snorre fields, account for the bulk of the adjustment. In contrast the Vigdis, Norne and Draugen fields exceeded expectation in January, although a further unscheduled outage lasting some 10 days affected Draugen in March. Total Norwegian production is now expected to average 3.13 mb/d in 2005, a drop of some 60 kb/d and continuing a trend evident in the three previous years.

Former Soviet Union (FSU)

Russia – February final, March provisional: A four month slide in Russian production came to an end in February, with output up by 65 kb/d versus January to average 9.36 mb/d. Provisional data for March suggests a further modest increase to 9.38 mb/d. On a rolling average basis, year-on-year growth has now slipped below 5% per annum. This Report incorporates a forecast showing Russian output at around 9.6 mb/d in 2005, a rise of 355 kb/d or 3.9% compared to 2004. This is slightly lower than recent projections from government sources. The Economic Development and Trade Minister in late March suggested production growth of 5.7 % for 2005, slowing towards 5.1 % in 2007. Meanwhile the Federal Energy Agency foresees 5% growth in 2005. However, the latter forecast may be called into question following the release of the Energy Ministry's target for the second quarter. The latter sees 2Q output at or below 9.5 mb/d, implying that an acceleration in growth to 9.9-10.0 mb/d would be required in the second half of the year for the full year target to be met.

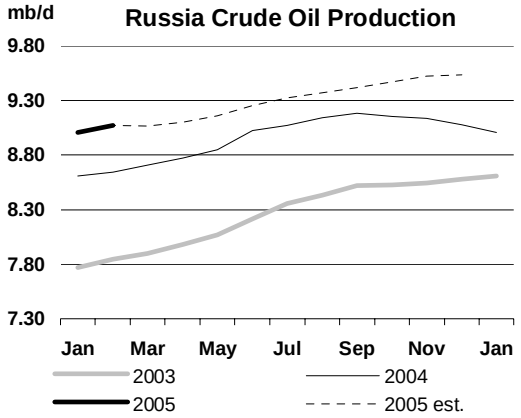
FSU Net Exports of Crude & Petroleum Products
(million barrels per day)

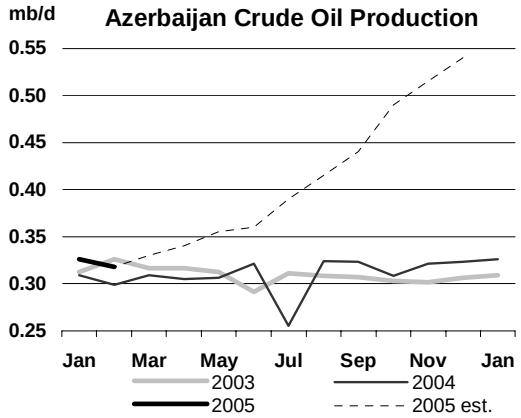
	2003	2004	1Q04	2Q04	3Q04	4Q04	Dec 04	Jan 04	Revised Feb 05	Latest month vs. Jan 04	Latest month vs. Feb 04
Black Sea Exports	2.80	2.84	2.81	2.75	2.87	2.91	3.07	2.57	2.83	0.26	-0.04
Baltic/Arctic Exports	2.41	3.05	3.00	3.11	3.11	2.98	3.00	2.98	3.49	0.51	0.50
Total Seaborne	**5.21**	**5.89**	**5.80**	**5.87**	**5.98**	**5.90**	**6.07**	**5.55**	**6.32**	**0.77**	**0.46**
Druzhba Pipeline	1.06	1.07	1.08	1.04	1.08	1.09	1.09	1.06	1.13	0.08	0.01
Other Routes	0.48	0.52	0.47	0.53	0.55	0.54	0.42	0.56	0.72	0.16	0.26
Total Exports	**6.75**	**7.48**	**7.36**	**7.43**	**7.62**	**7.52**	**7.58**	**7.17**	**8.17**	**1.01**	**0.72**
Imports	0.02	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.01	0.00	0.00
Total Net Exports	**6.73**	**7.47**	**7.35**	**7.42**	**7.61**	**7.51**	**7.57**	**7.16**	**8.16**	**1.00**	**0.72**
Crude	4.70	5.21	5.08	5.18	5.26	5.31	5.22	4.96	5.58	0.62	0.41
of which: Russian Crude	*3.48*	*3.74*	*3.61*	*3.82*	*3.71*	*3.83*	*3.74*	*3.74*	*4.10*	*0.36*	*0.38*
Products	2.05	2.28	2.28	2.25	2.36	2.21	2.36	2.21	2.59	0.39	0.31

Sources: Petro-Logistics, IEA estimates

Some of the oil industry's concerns about the regulatory environment may have been quelled with the release of the draft subsoil law (see above). However, great uncertainty about the investment environment remains and there have to date been few signs of a renewed surge in upstream activity. Ominously, Yukos output continues to decline, suggesting further downside for production through 2005, although there may be upside potential from a number of other producers to counteract this.

After January's pronounced drop in total FSU exports, driven by reduced Black Sea liftings, a sharp rebound both here and from Baltic ports occurred in February. February exports were around 1.0 mb/d up from January, to 8.16 mb/d and over 700 kb/d higher than in February 2004. Provisional indications for March suggest that exports may have dipped marginally below 8.0 mb/d but remain at exceptionally high levels. Seaborne Russian crude export schedules for April show a further rise, despite a sharp hike in export duties effective 1 April. Increased volumes are expected from the Baltic ports of Primorsk and Butinge as winter conditions ease. Meanwhile, Ukrainian authorities are reportedly concerned over the under-utilisation by Russian producers of the reversed Odessa-Brody pipeline. Less than 100 kb/d of Russian crude is reported to be moving to the Black Sea and Ukraine may seek to reinstate flows northbound towards central Europe if it can line up sufficient volumes of Caspian crude supply for the 240 kb/d pipeline.

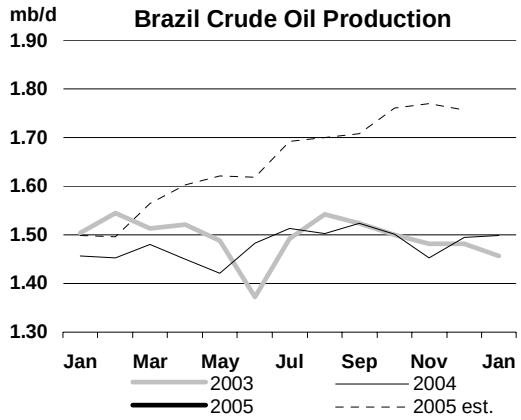


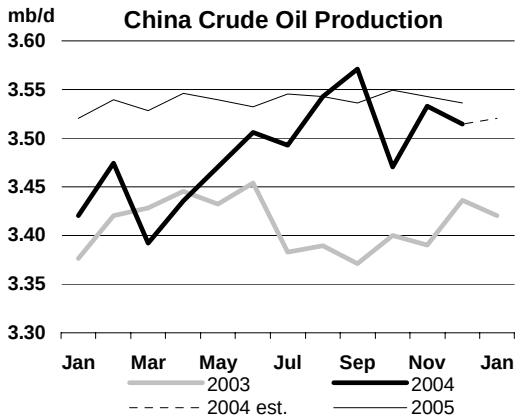


Azerbaijan – February final: Despite February production of 15 kb/d below expectation, output from Azerbaijan will grow substantially in 2005. Production should average 410 kb/d, an increase of 95 kb/d from 2004 as supplies from the Azeri field build up. Production from the central Azeri field started in mid-February. Initially, crude will move via the Baku-Novorossiysk pipeline or alternative routes. From mid-year, crude from the Azeri-Chirag-Guneshli fields will enter the new BTC pipeline (Baku to Ceyhan via Tbilisi). First liftings of Azeri Light crude from Ceyhan may not occur until fourth quarter 2005 however. BP and fellow joint venture partners in BTC have suggested a quality bank system for the 1.0 mb/d pipeline. Producers using the line will either pay for, or be compensated for, changes in the quality of their crude incurred during shipment. This would open the way for BTC to also ship rising volumes of heavy Kazakh crude.

Other Non-OPEC

Brazil – January actual: Brazilian crude production for 2005 is revised down by 15 kb/d, and is now seen averaging 1.65 mb/d compared to 1.48 mb/d in 2004. This results from the deferral of the start-up of the Albacore Leste field into the third quarter from an earlier expectation of February start-up. However, the field is now seen attaining around 100 kb/d by the end of the year compared to much more conservative expectations in last month's Report. Fourth quarter Brazilian supply is therefore forecast some 35 kb/d higher than was the case last month. Together, the Albacore Leste, Barracuda and Caratinga projects in the deepwater Campos Basin will build to production in excess of 400 kb/d during 2005. Upstream spending by state Petrobras this year is expected to increase by 15% from 2004 levels, with a further six major offshore development projects due onstream in 2006 which will add significantly to Brazilian total production.





China – December actual: Field-by-field data for November/December and provisional aggregate data covering January/February point to something of a downturn in the sharply rising production trend seen in the first nine months of 2004. Nonetheless, new offshore production and increased expectations for the western onshore region should see continued supply growth in 2005. Output should rise by 55 kb/d to 3.54 mb/d, after an increase of 75 kb/d in 2004. As in the case of Brazil (above) downward revisions to first half 2005 output are countered by higher expectations now for the second half of the year.

Despite this, domestic supply growth lags way behind Chinese oil demand growth (which has averaged 450 kb/d each year since 2000). The government is trying to entice western firms into the country's offshore to accelerate domestic production growth. However in recognition of its likely growing import dependence, Chinese state companies are also buying up increasing acreage in overseas upstream properties and are targeting 1.4 mb/d of foreign production by 2020. CNPC has been most active in this regard, and now holds stakes in 12 overseas countries, most recently examining upstream openings in Russia and Venezuela.

Revisions to Non-OPEC Oil Supply

(million barrels per day)

	Last Month's OMR			This Month's OMR			This Month vs. Last Month		
	2004	2005	05 vs. 04	2004	2005	05 vs. 04	2004	2005	05 vs. 04
North America	14.59	14.67	0.08	14.58	14.65	0.07	0.00	-0.02	-0.02
Europe	6.09	5.94	-0.16	6.09	5.91	-0.19	0.00	-0.03	-0.03
Pacific	0.57	0.56	-0.01	0.57	0.57	0.00	0.00	0.01	0.01
Total OECD	**21.25**	**21.17**	**-0.08**	**21.25**	**21.13**	**-0.12**	**0.00**	**-0.04**	**-0.04**
Former USSR	11.18	11.73	0.54	11.18	11.72	0.54	0.00	-0.01	-0.01
Europe	0.17	0.16	-0.01	0.17	0.16	-0.01	0.00	0.00	0.00
China	3.49	3.54	0.04	3.48	3.54	0.05	-0.01	0.00	0.01
Other Asia	2.75	2.70	-0.05	2.75	2.72	-0.04	0.00	0.01	0.01
Latin America	4.07	4.30	0.23	4.08	4.30	0.23	0.01	0.00	0.00
Middle East	1.88	1.78	-0.09	1.88	1.78	-0.09	0.00	0.00	0.00
Africa	3.43	3.75	0.31	3.43	3.75	0.31	0.00	0.00	0.00
Total Non-OECD	**26.98**	**27.96**	**0.98**	**26.98**	**27.97**	**0.99**	**0.00**	**0.01**	**0.01**
Processing Gains	1.83	1.86	0.03	1.83	1.86	0.03	0.00	0.00	0.00
Total Non-OPEC	**50.06**	**50.99**	**0.92**	**50.06**	**50.96**	**0.90**	**-0.01**	**-0.03**	**-0.02**

OMR = Oil Market Report

Revisions to other non-OPEC estimates: Australian production is revised up by 15 kb/d for 2005 amidst signs of higher than expected first quarter supply. January production from the Carnarvon and Bonaparte Basins in particular came in higher than anticipated. Production from the Mutineer-Exeter fields began in March and will build to 85 kb/d later in 2005. Output for **Malaysia** is revised up by 10 kb/d with increased contributions now expected in 2005 from new fields including Irong Barat C and South Angsi. Production from **Guatemala** has been revised up by 5-10 kb/d for 2003-2005 and is now seen averaging 24 kb/d in 2005.

OECD STOCKS

Summary

- **OECD total industry oil stocks** fell 39 mb in February to an estimated 2571 mb, 96 mb above year-ago levels. The decline took place from a 37 mb upward revised January level and was motivated by a seasonal draw in distillates fuels. However, the distillate decline, driven by heating and transport demand, was more modest than in the past two years. Though distillates fell, a higher January baseline combined with February builds in gasoline offsetting draws in 'other products', allowed days of forward demand cover to rise to 52 days from 51 days in January.

Preliminary Industry Stock Change in February 2005 and Fourth Quarter 2004

(million barrels per day)

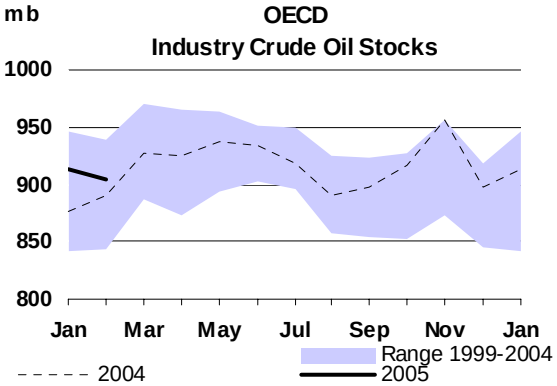
	February (preliminary)				*Fourth Quarter 2004*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**0.21**	**-0.15**	**-0.36**	**-0.30**	**0.07**	**-0.09**	**0.03**	**0.01**
Gasoline	0.31	0.16	0.03	0.50	0.07	0.04	0.00	0.11
Distillates	-0.33	-0.28	-0.30	-0.91	0.07	-0.11	0.00	-0.04
Residual Fuel Oil	-0.04	-0.06	0.01	-0.10	0.11	-0.04	0.01	0.08
Other Products	-0.34	0.00	-0.21	-0.55	-0.23	0.02	0.00	-0.21
Total Products	**-0.40**	**-0.17**	**-0.48**	**-1.04**	**0.02**	**-0.10**	**0.02**	**-0.06**
Other Oils[1]	0.07	-0.03	-0.08	-0.04	-0.14	0.01	-0.04	-0.16
Total Oil	**-0.12**	**-0.35**	**-0.92**	**-1.39**	**-0.04**	**-0.18**	**0.01**	**-0.21**

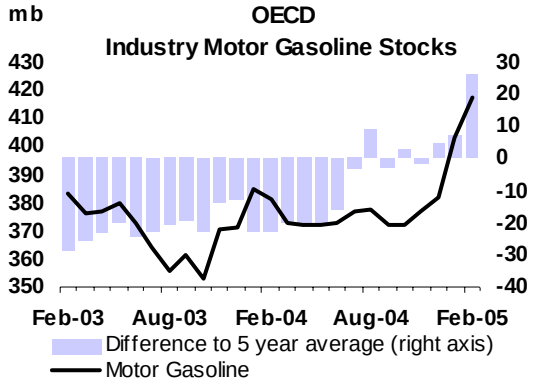
1 Other oils includes NGLs, feedstocks and other hydrocarbons

- **OECD industry crude stocks** fell 8 mb in February on draws in Europe and the Pacific but closed in the middle of their five-year range. The US saw crude inventories rise in February and again in March to reach 317 mb. This trend for most of the period was supported by relatively high imports against year-ago levels while refinery demand for crude was down due to scheduled maintenance. Crude stocks at Cushing, the delivery point for NYMEX's light-sweet crude futures contract, reached new highs at the end of March. This kept prompt futures prices at a discount to forward months and weakened WTI relative to domestic light-sweet crudes as well as Brent.

- **OECD industry distillate stocks** fell 25 mb February with declines seen across all OECD regions. Colder than normal temperatures increased heating demand, prompting stock draws in gasoil in the Atlantic Basin and kerosene in the Pacific. Gasoil in independent storage in the ARA area fell to seasonal levels in March. Baltic supplies into the region were lower while barge deliveries to traditional markets and cargo shipments to the Mediterranean rose.

- **OECD industry gasoline stocks** rose 14 mb in February, building from an upward revised January base in the Atlantic Basin. Steep contango in paper markets encouraged movement of gasoline into storage. A build in the US followed higher imports and relatively stable output through February. US stocks fell back in March with the turnover of winter specification material, lower refinery output and weaker imports. Gasoline in independent ARA storage closed March at seasonal highs despite export flows to West Africa and the Middle East.





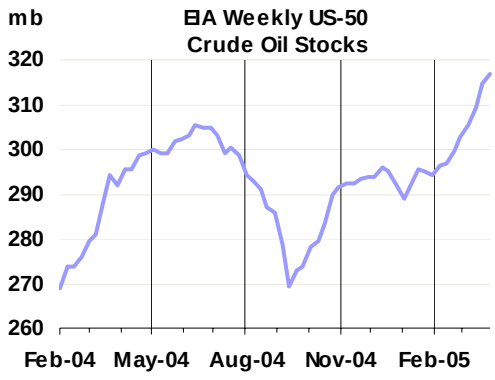
OECD Industry Stock Changes in February 2005

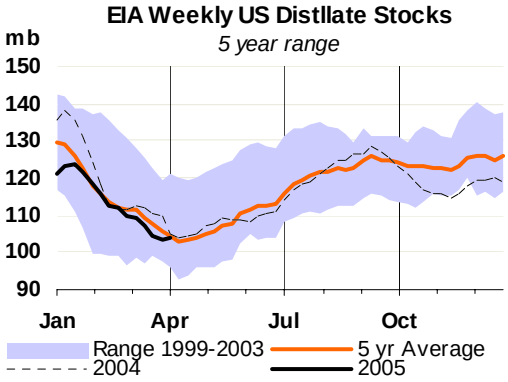
OECD

Industry oil stocks in the OECD declined 1.39 mb/d in February or 39 mb, mainly on product draws. The fall stemmed from a 910 kb/d seasonal decline in distillate inventories as heating demand rose on colder than normal temperatures across the Northern Hemisphere. 'Other products' along with crude oil stocks accounted for the remainder of the decline. However, the February draw took place from a near 37 mb upward revised January level, leaving total oil stocks at end-month at 96 mb above a year ago and about 91 mb above their five-year average. Though crude stocks drew in February, they were marginally higher on a year-to-date basis, leaving near-term supplies about mid-range and supporting discounts in prompt month prices on Brent and WTI paper markets. In products, OECD gains since January in gasoline came to 600 kb/d while the seasonal decline in distillates was running at 250 kb/d, a modest rate when compared to the five-year average draw in the first quarter of 650 kb/d. Days of forward demand cover by oil stocks rose to 52 days in February from 51 days in January.

OECD North America

The US drove crude inventory builds in February. The increase came with reduced refinery activity due to scheduled maintenance and relatively high imports. This trend continued in March with imports holding above year-ago levels while refinery utilisation rates averaged around 90%. US crude stocks opened April at 317 mb or 23 mb above last year with gains recorded in the main refining centres of the Gulf Coast and Mid-continent. Alongside weaker refiner demand, stocks in the Mid-continent were lifted by pipeline delivered crude from Canada. Stocks in Cushing, where the NYMEX WTI futures contract is delivered, reached their highest recorded level, opening April at 21 mb. This kept WTI futures in a contango structure through the first three traded months. The availability of light-sweet crude in the US saw a weakening of WTI relative to Brent and comparable domestic grades.





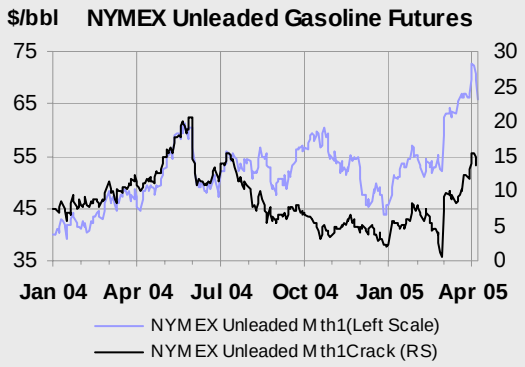
In product stocks, distillate inventories saw US heating oil stocks falling in February and March on colder than normal temperatures. Declines in diesel were less pronounced in comparison for both months, drawing from an upward revised January base. Combined diesel and heating oil stocks in the US closed March at a seasonal low point but within their five-year average position, this, despite weaker heating oil imports and strong distillate demand growth. Distillate production was robust, encouraged by higher or equivalent futures crack spreads to gasoline from February to March. This led refinery yields to be skewed further away from gasoline than usually observed in a period of deeper maintenance in upgrading units. US gasoline stocks rose rapidly in February and fell back in March (see below).

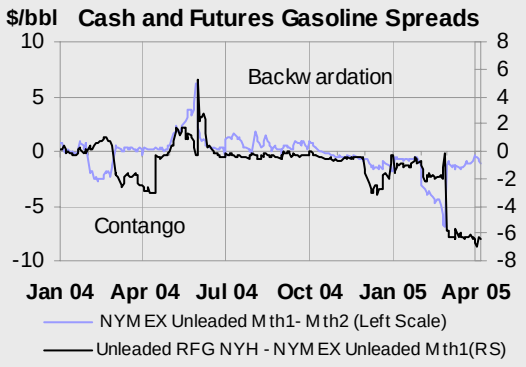
OECD Europe

With the exception of France and Italy, industry crude stocks fell across Europe ahead of planned March maintenance, declining 4 mb to 322 mb, and ending at 2004 levels. In March, weaker crude runs on refinery maintenance, coupled with limited extra-regional outlets for crude, should favour a rebound in inventories. North Sea availability was high and options for transatlantic delivery were more limited due to a narrowing of the WTI-Brent spread. Physical availability pushed dated Brent prices below those for forward delivery in mid-February and European refiners actively bid related grades into early March. At the time of writing, the forward cash Brent market was in contango from May to July, favouring stock builds through the second quarter. In products, distillate stocks fell by 8 mb in February with increased gasoil demand due to colder temperatures. This trend was likely continued in March, aided by reduced diesel and jet fuel supplies. Gasoline stocks rose 5 mb in February on stable output and weak demand. Product storage several months forward was supported by a contango in swap prices for gasoline. While gasoline prices in Northwest Europe rose, the narrowing premium from February to mid-March against naphtha (or the reforming margin) indicated that gasoline remained relatively well supplied.

US Motor Gasoline Stocks - Tight or Comfortable?

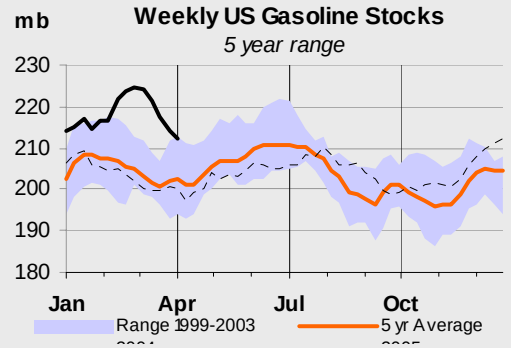
NYMEX gasoline futures prices reached record levels in April, pushing higher from first quarter levels that had already been on par with prices seen during the peak summer demand period in 2004. The premium of gasoline over crude futures, or the crack spread, widened as a result. Only part of the gains were accounted for by the switchover from winter to harder-to-produce summer specification gasoline. This evolution was driven by strong demand, concerns over future supply availability and refinery capacity constraints. The net-long non-commercial position on gasoline futures also rose in unison, reaching record levels by end March. Expectations appear to converge on a tight market ahead, but some indicators may suggest otherwise.

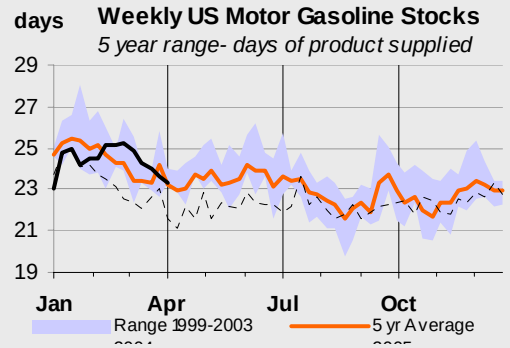




Recently, prices started to show some bearish signs, suggesting perhaps a more sanguine view. Physical gasoline prices in New York Harbour have moved into steep discounts against front month futures while the futures crack spread eased back in early April to levels seen at the end of March. The typical contango that develops in February ahead of the summer driving season has been steeper than a year ago, providing a strong financial incentive to move product into storage. As such, stocks by end-February had built rapidly during a period of refinery turnarounds, peaking at 224 mb, or 22 mb above year-ago levels. Although gasoline stocks dropped precipitously during March, their opening position in April remains high on a seasonal basis.

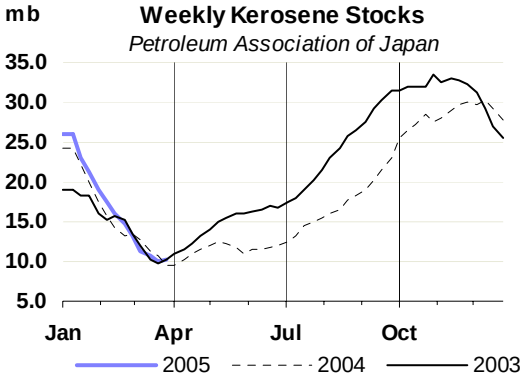
While rapid, the decline in stocks itself is not atypical and must be viewed in context. In addition to demand growth, it reflects a turnover to summer product, lower imports and reduced output due to low crude runs and cracker maintenance. The draw was compounded by strong distillate economics, with futures crack spreads for heating oil higher than gasoline in February while being comparable in March. In response, refiners lowered gasoline yields to 55% by end-March (against 58.5% in 2004). Gasoline supplies going forward will depend on how quickly refiners exit turnarounds. Compared to a year ago when they were preparing for sulphur and other specification changes, maintenance has been less intensive. Opening stock levels in April were 212 mb, or 12 mb above last year. Although summer demand growth is expected to exceed 2%, looking ahead, current stocks on a days supply basis are within their five-year range. Brimming independent storage tanks in Northwest Europe also suggest that Europe's swing supplies for US summer demand will be ample. Crude runs have started to rise and upgrading unit maintenance is ending while a large blending components cushion is available in the run-up to higher throughputs. It would be premature to write off the gasoline season, but as output rises and yields are maximized, supplies will be building from a higher base.





OECD Pacific

Crude stocks declined in the Pacific region by 10 mb on high refinery runs. Stocks fell by 3 mb in Korea and 7 mb in Japan. The decline in Japan is based on onshore stocks and does not account for crude oil volumes held in tankers at ports. These, once included in the January figures, revised Japanese crude stocks upwards by 10 mb. While tanker volumes are expected to remain stable to weaker in February, March is likely to see an uptick in these figures with the end of the fiscal year in Japan. If validated, the preliminary 3 mb increase implied by weekly data in March is likely to prove much higher.



Pacific distillate stocks followed seasonal trends, declining on demand for kerosene as well as gasoil. Colder temperatures extended through March, bringing inventories of heating fuels to seasonal lows. Refinery output in these products also declined ahead of weaker demand in the second quarter and scheduled maintenance, with runs falling in Korea ahead of those in Japan.

OECD Inventory Position at End-February and Revisions to Preliminary Data

Revisions to preliminary January stock data raised inventories by 37 mb. Most of the revision was centred on products (26 mb) and regionally located in Europe. Revisions in European gasoline and distillate stocks brought recent trends in industry stocks in the region closer to those observed in independent storage in the ARA area. North American gasoline inventories were revised upwards both in Canada and the US. Crude oil stocks were revised upwards mainly in Japan and Italy.

Revisions Versus 11 March 2005 Oil Market Report
(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Dec 04	Jan 05	Dec 04	Jan 05	Dec 04	Jan 05	Dec 04	Jan 05
Crude Oil	**0.8**	**-2.8**	**4.1**	**9.2**	**0.0**	**8.5**	**4.9**	**15.0**
Gasoline	-1.4	2.8	0.3	6.5	0.0	0.5	-1.1	9.8
Distillates	-3.0	-0.3	-1.3	9.0	0.0	0.4	-4.3	9.1
Residual Fuel Oil	-0.5	-0.3	0.0	-2.3	0.0	0.4	-0.5	-2.1
Other Products	-2.9	9.9	-0.8	-1.6	0.0	1.3	-3.7	9.5
Total Products	**-7.8**	**12.1**	**-1.8**	**11.5**	**0.0**	**2.7**	**-9.6**	**26.3**
Other Oils[1]	0.0	-4.7	-2.3	-0.1	0.0	0.3	-2.3	-4.5
Total Oil	**-7.0**	**4.6**	**0.0**	**20.6**	**0.0**	**11.5**	**-7.0**	**36.8**

1 other oils includes NGLs, feedstocks and other hydrocarbons

With OECD stocks declining from a higher January baseline, inventories closed February at 2571 mb, nearly 96 mb higher than a year-ago. An increasing surplus in Atlantic Basin product stocks helped to nudge days of forward demand cover by OECD oil stocks to 52 days from 51 days in January. Cover in February in North America came to 48 days, 60 days in Europe and 48 days in the Pacific.

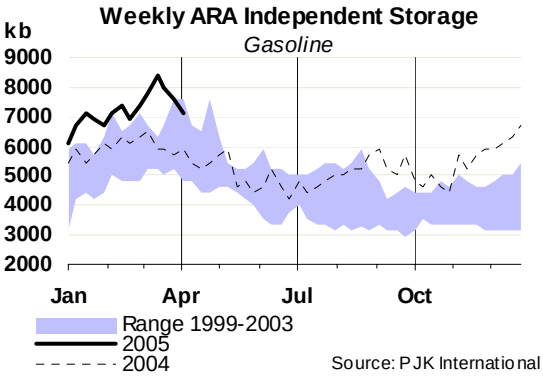
Year-on-Year Industry Stock Comparisons for February 2005

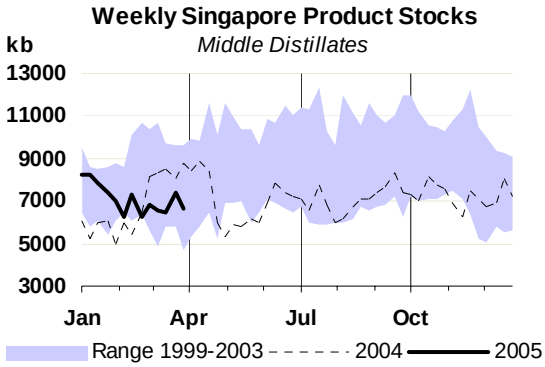
	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**26.1**	**0.1**	**-13.2**	**13.0**	**Total Oil**	**2.5**	**0.9**	**-1.7**	**1.2**
Total Products	51.0	26.9	2.1	80.0	*Versus 2003*	3.6	2.9	0.9	2.9
Other Oils[1]	6.5	-3.0	-1.0	2.6	*Versus 2002*	-3.9	-4.6	-3.1	-4.0
Total Oil	**83.6**	**24.0**	**-12.0**	**95.6**	**Total Products**	**1.6**	**1.3**	**0.1**	**1.3**
Versus 2003	139.7	75.5	1.8	217.0	*Versus 2003*	2.1	2.1	0.8	1.9
Versus 2002	-29.2	-20.8	-10.7	-60.7	*Versus 2002*	-1.9	-2.1	-2.2	-2.0

1 other oils includes NGLs, feedstocks and other hydrocarbons

Recent Developments in ARA Independent Storage

Product stocks in independent storage were generally down in March. Gasoil inventories declined with rising inland barge deliveries as cold temperatures lifted heating demand. Declines were observed in fuel oil and gasoline stocks, mainly export-driven, though domestic utility and bunker demand also contributed in the case of fuel oil to a draw in stocks. Gasoil deliveries into traditional markets like France and Germany rose as colder temperatures and relatively low end-user inventories prompted increased demand. Gasoil cargoes were also delivered into Spain. Combined with falling Baltic supplies, this outweighed arrivals of material arbitraged from the US Gulf Coast. Fuel oil stocks fell with a resumption of VLCC shipments to Asia. Demand for ARA gasoil from the Mediterranean also rose as regional turnarounds limited distillate supplies. Deliveries of low sulphur fuel oil were also made to the US on higher utility demand. Regionally, cargo demand was seen mainly from Spain, Portugal and Italy. Gasoline stocks rose above seasonal levels in February on weak demand and limited spot arbitrage opportunities to the US. Gasoline was placed into storage on the basis of a steep contango in gasoline swap prices in Northwest Europe. Some of the surplus came out in March as shipments to the US and Nigeria resumed. Gasoline was also delivered to Iran, which was sourcing product from alternative suppliers due to lower export availabilities from India.





Recent Developments in Singapore Stocks

Total product inventories in Singapore surveyed by *International Enterprise* were down in March, driven by draws in light product stocks. Fuel oil and middle distillate inventories held broadly level but at respectively the top and bottom of their 5-year range. Fuel oil inventories in Singapore did not appear to correspond to rising prices, particularly for 380 cst quality material. Despite lower arrivals of arbitraged western fuel oil over the month, a mismatch between quality of product demanded and availability in tanks likely accounted for the small fluctuations in storage levels. Opening April fuel oil stocks were down, supporting steeper backwardation in Singapore paper prices. Distillate stocks remained low and gasoil and jet fuel premiums to benchmark Dubai widened on thin regional supplies and strong demand. Korea's exports were lower and supplies from the Middle East, notably of jet fuel, were diverted to Europe. Demand was supported by Indian and Indonesian interest. Singapore gasoil prices in the near months were balanced at the time of writing, likely reflecting higher Chinese diesel exports for April. In light products, regional gasoline strength appeared to support a lower inventory position rather than naphtha. Demand for naphtha weakened ahead of scheduled turnarounds at petrochemical facilities in Japan and Taiwan. Naphtha supplies were ample on rising offers from India where substitution to natural gas as a petrochemical feedstock has increased.

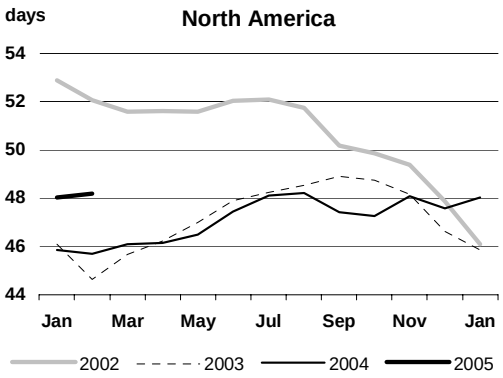
Singapore Crude & Product Trade
(thousand barrels per day)

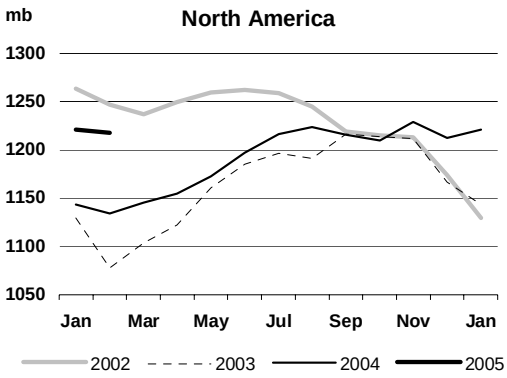
Net Imports/(Exports) of:	2003	2004	1Q04	2Q04	3Q04	4Q04	Dec 04	Jan 05	Feb 05	Latest month vs. Jan 05	Latest month vs. Feb 04
Crude Oil	755	815	777	696	727	1059	736	1496	869	-627	151
Products & Feedstocks	-96	-136	-64	-150	-118	-211	-309	-73	-294	-221	-182
Gasoil/Diesel	-170	-182	-133	-206	-181	-206	-256	-170	-177	-7	-49
Gasoline	-83	-96	-88	-119	-79	-98	-62	-40	-99	-59	-24
Heavy Fuel Oil	320	276	304	289	238	272	247	276	237	-39	-16
LPG	-22	-22	-24	-21	-20	-24	-24	-22	-22	1	4
Naphtha	13	31	38	24	42	21	4	32	12	-20	-22
Jet & Kerosene	-99	-86	-99	-50	-92	-102	-127	-93	-162	-69	-55
Other	-55	-57	-62	-67	-26	-74	-92	-55	-83	-28	-20
Total	**659**	**679**	**713**	**546**	**609**	**848**	**427**	**1423**	**575**	**-848**	**-31**

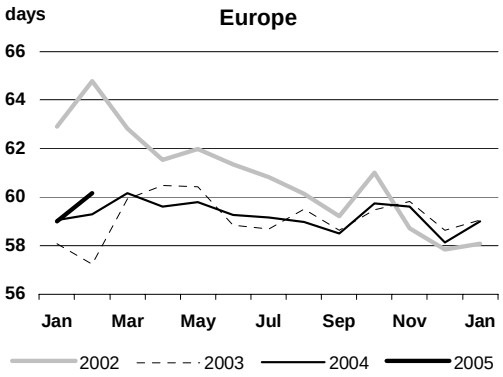
Source: International Enterprise, IEA estimates

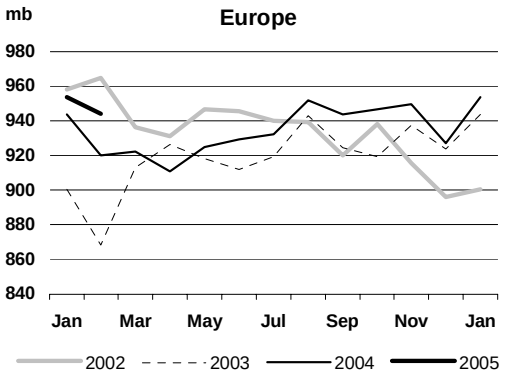
Regional OECD End-of-Month Industry Stocks
(in days of forward demand and millions barrels of total oil)

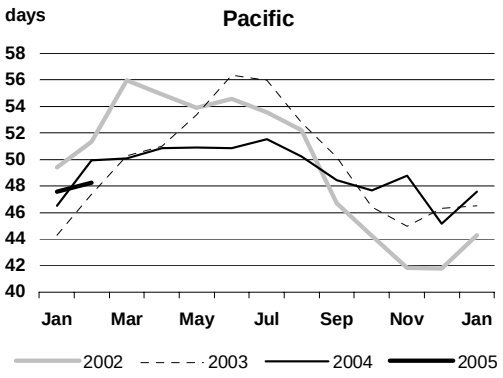
Days[1] | **Million Barrels**

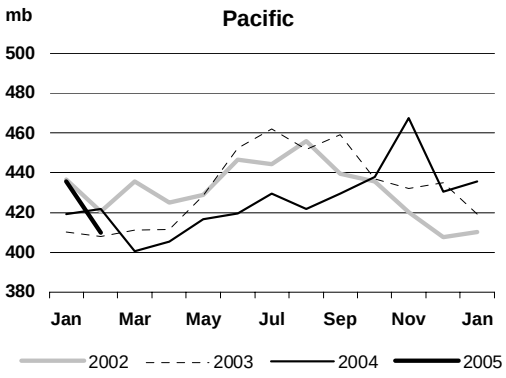


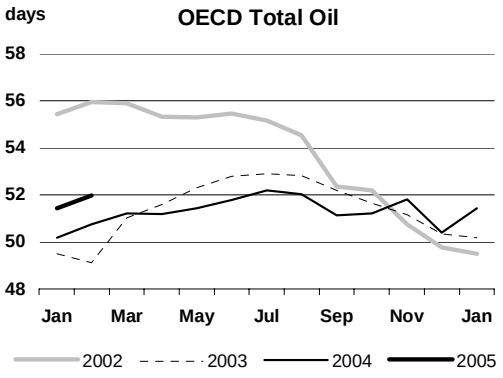


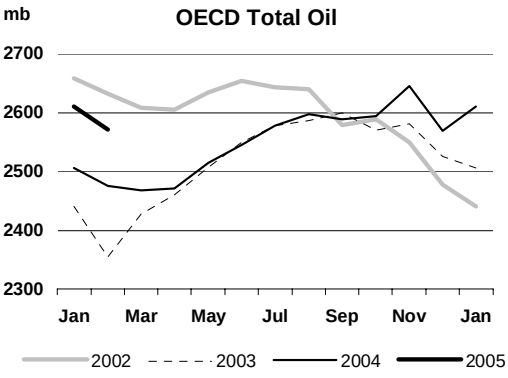












1. Days of forward demand are based on average demand over the next three months.

PRICES AND REFINERY ACTIVITY

Summary

- **NYMEX light crude** hit a new record intra-day peak of $58.28 in early April, dragged higher by a surge in US gasoline and natural gas prices, strong Asian demand and pre-emptive stock building. The differing trend of forward crude prices highlighted a regional imbalance, with Brent and WTI in contango and Dubai, Oman and Tapis in backwardation. However, the weight of further US stock builds and an unexpected rise in US natural gas stocks helped trigger a $5 correction.

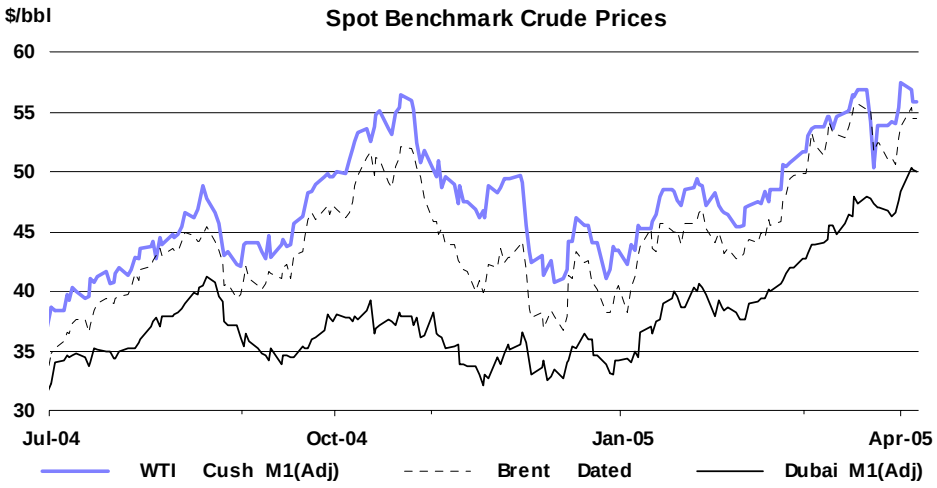
- **Non-commercials** moved back to the buy-side of NYMEX petroleum futures, with combined crude, gasoline and heating oil net longs reaching a record 137,694 lots. Concern over tight supplies in the second half of the year and expectations of a *near-traditional* spring price spike in gasoline have contributed to the shift in speculative sentiment.

- **NYMEX gasoline futures** reached the record level of 174.91 cents/gallon in early April following a series of sharp stock draws in March and disruptions to key refineries supplying the domestic market. The tragic explosion at BP's Texas City refinery, which supplies up to 3% of the country's gasoline supplies, was initially feared to have caused extensive damage. But the damage was limited to an isomerisation unit, affecting high-octane gasoline rather than total gasoline output. The week-long shutdown of Venezuela's Amuay refinery added further support to prices.

- **VLCC crude freight rates** remained volatile throughout March, but averaged slightly lower than February levels. The closing of North Sea and West African arbitrages to the US together with European refinery maintenance were the key factors behind the move lower. However good demand and higher OPEC output tempered losses for Asian-bound VLCC freight rates.

- **Atlantic Basin refinery margins** moved higher in March pushed up by the strength of fuel oil in Europe and higher gasoline prices on the US Gulf Coast. Fuel oil prices rose nearly 30% in Europe, making marginal hydroskimming capacity more attractive as refiners move into seasonal maintenance.

- **OECD February refinery throughput rose by 340 kb/d** from January levels and by 810 kb/d over a year earlier to 39.92 mb/d. January crude runs were however revised down by 237 kb/d from the last report. US refinery runs remained constrained by maintenance, although this is expected to ease in April. European refineries moved into seasonal maintenance in March, but improved margins could see the offsetting use of underutilised capacity.



Crude Oil Prices

Spot Crude Prices and Differentials

Benchmark crude oil prices, WTI Cushing, Dated Brent, Urals and Dubai continued to reach record highs in early April, driven higher by strong demand from Asia, stock building ahead of peak summer/winter demand, and high US gasoline and natural gas prices. Cold weather dragged OECD Pacific crude stocks to the lower end of their range at the end of February and March, increasing Asian refinery demand at the same time as Atlantic Basin refiners were either in or preparing for maintenance. This divergence in demand trends supported an unusual contango market for Atlantic Basin crudes, but backwardation in crudes destined for Asia.

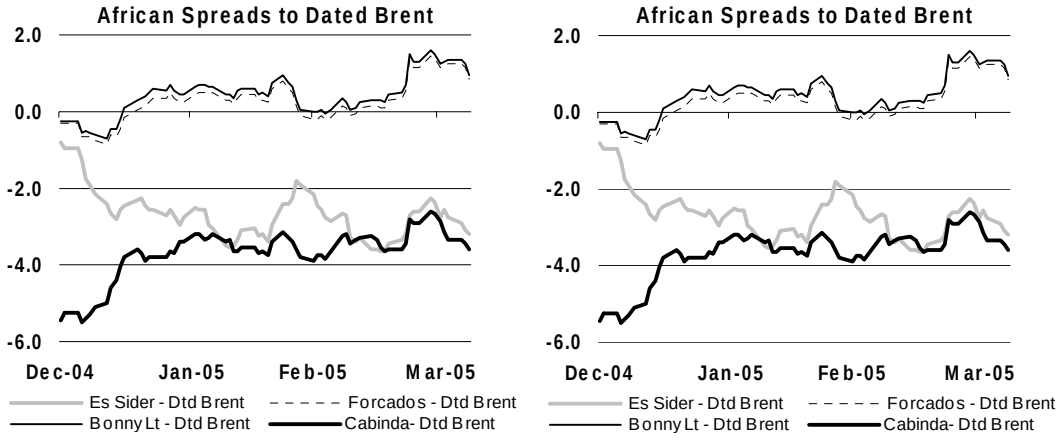
Spot Crude Oil Prices and Differentials*
(monthly and weekly averages, $/bbl)

	Jan 05	Feb 05	Mar 05	Mar-Feb		Week Commencing:				
				Change	*%*	07 Mar	14 Mar	21 Mar	28 Mar	04 Apr
Crudes										
Brent Dated	44.23	45.37	52.91	7.53	16.6	52.99	54.52	53.65	51.90	54.80
WTI Cushing 1 month (adjusted)	46.83	47.94	54.33	6.39	13.3	54.22	55.96	53.78	54.98	56.21
Urals (Mediterranean)	40.22	40.93	48.14	7.20	17.6	48.34	49.08	48.71	47.46	50.04
Dubai 1 month (adjusted)	37.92	39.87	45.84	5.97	15.0	44.83	46.72	47.50	47.07	50.13
Tapis	46.35	50.17	57.07	6.90	13.7	56.75	58.09	57.70	57.21	60.77
Differential to Dated Brent										
WTI Cushing 1 month (adjusted)	2.60	2.57	1.43	-1.14		1.23	1.43	0.13	3.09	1.40
Urals (Mediterranean)	-4.01	-4.44	-4.77	-0.33		-4.65	-5.44	-4.94	-4.44	-4.77
Dubai	-6.31	-5.51	-7.06	-1.56		-8.16	-7.81	-6.16	-4.82	-4.67
Tapis	2.12	4.80	4.17	-0.63		3.76	3.57	4.05	5.31	5.97
Prompt Month Differential										
Brent 1mth-2mth (adjusted)	-0.01	-0.08	-0.23	-0.15		-0.15	-0.58	-0.62	-0.46	-0.46
WTI Cushing 1mth-2mth (adjusted)	-0.19	-0.53	-0.85	-1.05		-0.57	-1.78	-0.86	-1.06	-1.06

* Weekly data for Brent and WTI 1st month and 2nd month are unadjusted

Building US crude stocks and preparations for European refinery maintenance have put pressure on nearby Brent, widening the contango structure. The US crude build also put pressure on the spread between WTI and dated Brent, closing the theoretical window for the movement of Brent-related crudes to the US at the end of February. However lower freight rates reopened the arbitrage window at the end of March, which coupled with strong Brent refining margins on the US Gulf Coast, added to the attractiveness of moving North Sea crudes eastbound.

WTI futures saw the near month contango spread as far forward as September as stocks built in the US. Anecdotal reports suggested significant inflows of Canadian crude into PADD 2, the key WTI pricing region. US import flows continued at 10.2 mb/d in March, 330kb/d higher than a year ago, but the temporary closure of the North Sea and West African arbitrages in early to mid-March appears to have constrained early-April imports. The trading window however appears to have reopened in time for further shipments to arrive before the end of April maintenance.



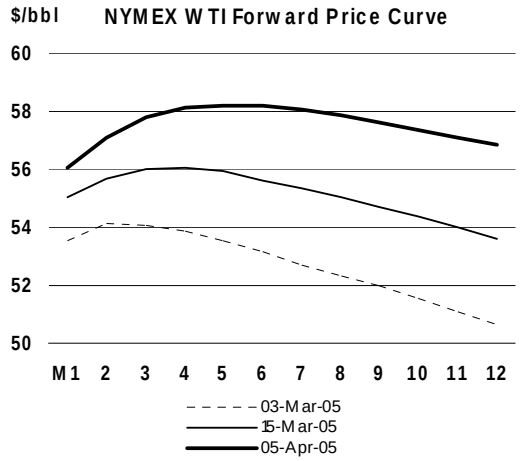
West African crude sales to Asia are reported to have risen from around 1.1 mb/d in March to 1.27 mb/d in April, however we note that shipping data suggests that these volumes can be somewhat understated, and strong flows of West African crude to Asia are often a major driving force behind high prices. West Africa is one of the few oil producing centres where spot crudes move to the three key demand centres, the US, Europe and Asia. The extent of Asian demand is further highlighted by the wide premium of Bonny Light and Forcados to dated Brent (although this is to a certain extent exaggerated by the Brent contango).

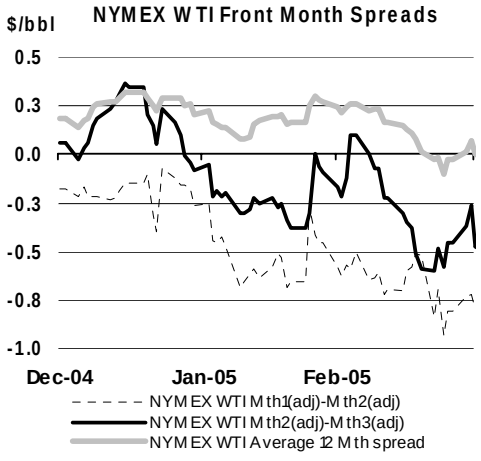
Asian demand strength has been exhibited in other pricing relationships. Regional crudes such as Tapis, Minas and Cinta have all moved to strong premiums to dated Brent, while Middle East benchmarks Dubai and Oman (together with forward Tapis) have moved into backwardation. The Dubai backwardation and the dated Brent contango has led to a narrowing of the Brent-Dubai spread. Comparing dated Brent against front month Dubai, leaves the light/sweet-heavy/sour spread at a narrower $5/bbl, but looking further forward, the spread has widened to over $7/bbl. Aside from strong regional demand, maintenance at Abu Dhabi's crude fields at the end of May has led cuts in May crude allocations to Asian buyers by 5% with possible further cuts in June. This has increased the value of nearby cargoes, thereby enhancing spot premia.

The Asian tightness is supported by fundamentals. End-February OECD Pacific crude stocks moved towards the lower end of their five-year range, while preliminary data showed Japanese stocks remained marginally higher in March. Strong regional product demand has also been reported and refiners are keen to build stocks ahead of the soon-to-start maintenance season, helping to draw crude East. There has also been a pick-up in buying of direct-burn crude by Japanese utilities to replace stocks depleted by cold weather in February and March.

Crude Futures

NYMEX light crude and IPE Brent both extended their nearby contango further forward in March as refinery maintenance led to a build up in regional crude stocks. At the time of writing, the contango has moved out to September for NYMEX light crude and to August for IPE Brent. This is a demand-led shift, highlighted by the move of Asian crudes into backwardation.





The price difference between IPE Brent and NYMEX light crude futures is another symptom of increasing US crude stocks, falling below $1 for the first time since the middle of 2002. Although the weakness is predominantly at the front end, the forward spread curve has also dropped. But this situation does not appear to be sustainable further forward. The US will need to import larger amounts of crude once refiners crank up throughput to meet peak driving season demand, so the current spreads either imply a draw in US stocks (which would tighten the market), very low freight rates or a steep drop in demand. While these conditions are theoretically feasible, none seem likely. More likely this is a temporary pricing miss-match caused by the evolving structure of the forward spreads and refinery maintenance.

The spread picture is further complicated by the backwardations in Asian and Middle Eastern crudes. The steepest backwardations are seen in Benchmark Dubai and Oman crude, which could be related to pending field maintenance rather than pure demand strength. But the backwardation in Tapis clearly indicates there is a strong demand-led pull on nearby crude prices. The co-existence of Asian

crude backwardations and contangos in the Atlantic Basin is indicative of market forces trying to reallocate resources where they are most needed. It tells us there is a regional supply imbalance, but unfortunately gives no indication of its relative magnitude.

Back to the Future

While a crude price above $55 and a contango structure may have appeared a paradox a year ago, the current limited spare production capacity, lag between investment and output and the subsequent need to hold stocks makes such a structure seem more logical. This is not simply a case of building crude or product stocks during "off season" demand, but also looking to have sufficient reserves to meet periods of above trend annual demand growth.

The recent extension of the contango in NYMEX and IPE crude futures through to September and August respectively can be explained by basic futures theory. While a backwardation (or spot premium to forward contracts) can theoretically be limitless, a contango structure is restrained by the arbitragable limits of finance, storage and insurance costs (these add up to the costs required to carry stocks forward). Therefore if pressure is placed on the spot market by higher stocks, prices can only decline by extending the contango further forward or by a fall in long-term futures prices.

Widening contangos are often associated with price weakness – as stocks build, buyers are in a position to be choosy about the price and timing of any crude purchases. In essence, they hold the buying power. But for prices to stay high, holders of crude stocks must be reluctant to sell or use them, which would appear (until recently at least) to be the current situation. This is understandable given that the contango market structure partly helps to finance holding costs - but not entirely. An element of the high prices must therefore reflect expectations of stronger demand later in the year and a pre-emptive desire to build/hold stocks.

Although stocks are a potential source of future supply for the market, while they are being tucked away they are effectively a source of demand. Stock movements are typically seen at cycle peaks - rising when prices are cheap and the market is well supplied and falling when supplies are tight and prices high. However the recent build of stocks into price strength suggests that refiners and traders are taking precautions against expectations of higher demand later in the year. Another way of looking at this is that they are effectively bringing forward peak summer and winter demand at the same time.

Current high prices are not just the sum of current supply and demand, but are also a reflection of expectations of future needs. When we reach that future, there should, under current demand projections, be additional supplies from stocks available.

Delivered Crude Prices in January

Delivered crude prices in IEA countries in January rose by an average of $1.77/bbl to $39.11/bbl. As usual the move tracked shifts in spot crude prices. Pacific and North American prices were slower to react to January's sharp price increase in benchmark crudes, gaining by 12 cents/bbl to $39.14 and $1.36/bbl to $37.49 respectively. European prices however jumped by $3.09 to $40.64/bbl - a likely reflection of the shorter shipping times to the region. However, it should also be noted that there appeared to be a lightening of the barrel in import streams, which would have added to costs.

Product Prices

Spot Product Prices

Prices of light transportation fuels in the main pricing centres continued to outperform benchmark crudes throughout March, with differentials rising particularly sharply in North West Europe and the Mediterranean towards the end of the month. Refinery glitches for US suppliers added volatility to the gasoline market, while European refiners are looking to build stock cover ahead of seasonal maintenance. Fuel oil prices also outperformed in Europe in particular.

Spot Product Prices

(monthly and weekly averages, $/bbl)

	Jan	Feb	Mar	Mar-Feb		Week Commencing:					Jan	Feb	Mar
				Change	*%*	07 Mar	14 Mar	21 Mar	28 Mar	04 Apr			
Rotterdam, Barges FOB											***Differential to Brent***		
Premium Unleaded (Cargo)	48.70	50.86	57.03	6.17	12.1	55.53	55.01	60.41	63.79	66.95	4.47	5.49	4.13
Regular Unleaded	47.94	49.92	56.19	6.27	12.6	54.90	54.17	59.49	62.88	65.94	3.71	4.54	3.28
Naphtha	43.18	45.85	52.45	6.60	14.4	51.82	53.78	53.64	53.30	56.43	-1.05	0.48	-0.46
Jet/Kerosene	55.20	58.21	68.99	10.79	18.5	67.33	69.66	70.40	72.93	75.90	10.97	12.83	16.09
Gasoil	52.75	55.17	65.62	10.46	19.0	64.46	66.30	66.43	67.33	70.36	8.52	9.79	12.72
Fuel Oil 1.0%S	27.74	28.88	35.41	6.53	22.6	35.55	35.64	37.21	36.79	38.68	-16.49	-16.49	-17.49
Fuel Oil 3.5%	24.55	26.56	31.38	4.81	18.1	30.59	31.96	32.82	33.10	37.35	-19.68	-18.81	-21.53
Mediterranean – Basis Italy, Cargoes FOB											***Differential to Urals***		
Prem Unleaded (50ppm)*	47.50	50.11	56.16	6.06	12.1	54.60	55.22	58.79	62.96	65.43	7.28	9.18	8.03
Prem Unleaded (150 ppm)	46.54	49.15	55.21	6.06	12.3	53.64	54.26	57.83	62.00	65.32	6.32	8.22	7.07
Naphtha	41.41	43.96	50.99	7.03	16.0	50.25	52.34	52.27	52.07	55.21	1.19	3.02	2.85
Jet/Kerosene	53.03	55.95	67.01	11.06	19.8	65.43	67.96	68.54	70.72	74.21	12.81	15.01	18.87
Gasoil	51.84	54.48	64.65	10.17	18.7	63.84	65.17	65.08	66.19	69.08	11.62	13.55	16.52
Fuel Oil 1.0%S	29.83	30.77	36.72	5.95	19.3	36.30	37.07	38.51	38.36	41.43	-10.39	-10.16	-11.42
Fuel Oil 3.5%S	22.73	25.85	30.31	4.46	17.3	29.33	30.43	32.24	32.40	36.52	-17.49	-15.09	-17.83
NY Harbour, Barges											***Differential to WTI***		
Super Unleaded	54.34	54.84	67.33	12.49	22.8	63.56	68.71	72.18	74.11	75.93	7.52	6.90	13.00
Regular Unleaded *	51.87	51.53	60.49	8.95	17.4	59.67	60.91	62.63	63.21	65.29	5.05	3.59	6.16
Jet/Kerosene	58.97	57.85	66.73	8.88	15.4	65.26	68.03	68.18	69.56	71.20	12.14	9.91	12.40
No.2 Heating Oil	55.34	56.39	65.39	8.99	15.9	64.47	66.46	65.31	67.85	68.79	8.51	8.45	11.05
Fuel Oil 1.0%S (Cargo)	29.86	30.94	35.57	4.64	15.0	34.28	36.55	37.38	37.05	39.67	-16.97	-17.00	-18.76
Fuel Oil 3.0%S (Cargo)	26.65	28.30	31.51	3.22	11.4	30.53	31.83	33.00	33.08	34.04	-20.18	-19.64	-22.82
Singapore, Cargoes											***Differential to Dubai***		
Premium Unleaded 95	47.57	54.27	59.47	5.20	9.6	60.12	59.16	60.42	60.17	64.77	9.65	14.40	13.63
Naphtha	41.34	44.61	50.74	6.13	13.7	50.31	51.80	52.12	50.85	53.84	3.42	4.74	4.90
Jet/Kerosene	51.10	54.54	66.33	11.79	21.6	64.27	67.39	68.79	69.26	75.38	13.18	14.67	20.49
Gasoil	49.23	52.53	62.58	10.04	19.1	61.08	63.69	64.23	64.28	68.31	11.31	12.66	16.74
LSWR (0.3%S)	31.94	34.72	41.34	6.62	19.1	40.39	42.29	42.86	42.39	45.45	-5.98	-5.15	-4.50
HSFO (3.5%S 180cst)	28.88	31.16	34.79	3.63	11.7	33.38	35.33	36.72	36.05	38.90	-9.04	-8.71	-11.05
HSFO 4%S	27.89	30.70	35.23	4.54	14.8	33.79	35.89	37.34	36.64	39.27	-10.03	-9.17	-10.61

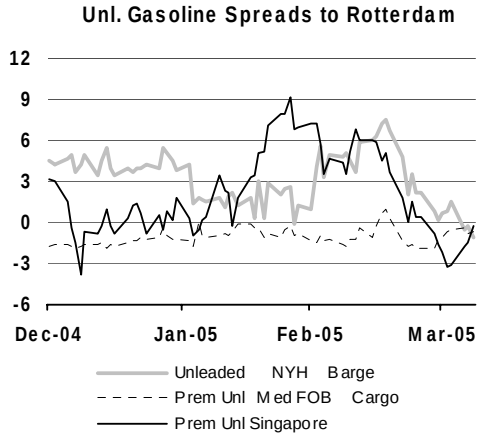
* From January 2005 Premium Unleaded 50 ppm

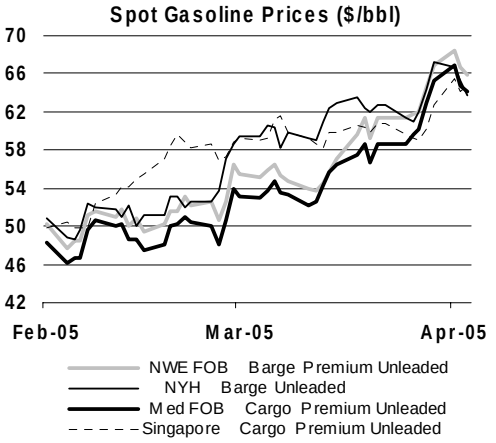
Early March was colder-than-normal in much of Europe, helping to sustain the strength of gasoil cracks early in the month. However, this gave way to a dramatic turnaround in the weather, with central European temperatures topping 20˚C in mid-month. Heating oil demand died down quickly, but strong agricultural diesel demand and domestic use kept distillate differentials relatively strong. Strong diesel demand also encouraged jet/kerosene blending with gasoil, bolstering jet/kerosene prices in both Northwest Europe and the Mediterranean. The strength of jet/kerosene also attracted swing supplies from the Middle East Gulf into the region.

Gasoline prices surged in early April as the switch to summer specification fuels, high US prices and refinery maintenance tightened the market. Naphtha prices were dragged higher by gasoline, but underperformed the transportation fuel as petrochemical feedstock demand was tempered by more attractive LPG prices. Low sulphur fuel oil differentials to dated Brent were relatively flat during the month, but there was good demand for high sulphur material for bunkers and for arbitrage to the US. This led to a near 30% rise between the end of February and early April, pushing high sulphur fuel oil to record levels.

US Gasoline prices surged on the news of the explosion at BP's Texas City refinery, in the latter half of March, but swiftly dipped when it became clear that the disruption would be isolated to an octane enhancing unit, rather than refinery-wide. However, given the size of the refinery, the loss of the isomerisation unit resulted in a widening of the spread of high octane to regular gasoline and a rise in blendstocks. Further concerns were generated by falling US gasoline stocks, emphasis on diesel

yields and further refinery issues including an outage at Venezuela's Amuay refinery. Arguably, given the extent of the spike in NYMEX gasoline futures at the end of March and the importance of the US market, this was probably the single most important influence on the latest rise in crude prices.

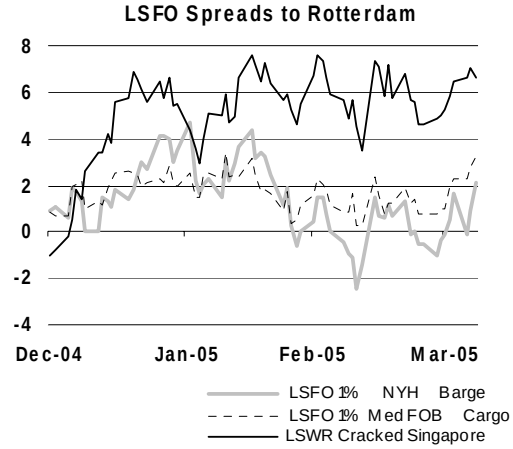


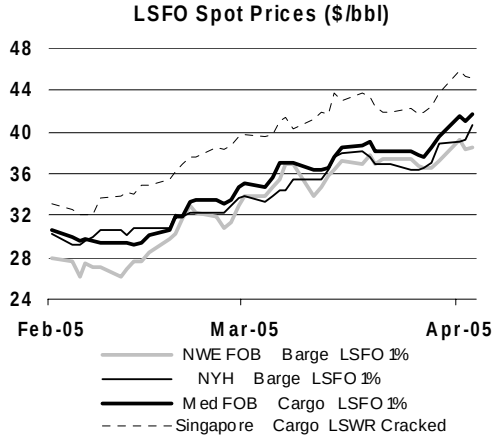


Rising natural gas prices have proved a major support to the US distillate market, with continued stock draws in March leading to the highest prices since the late November 2004 spike. Diesel demand for transportation remains strong and April marks the start of the planting season in the Midwest. The strength of the West Coast diesel and jet markets are contributing to strength on the eastern seaboard and the Gulf Coast, particularly in jet, and here, in line with Europe, jet is being used for blending in the distillate pool to make diesel.

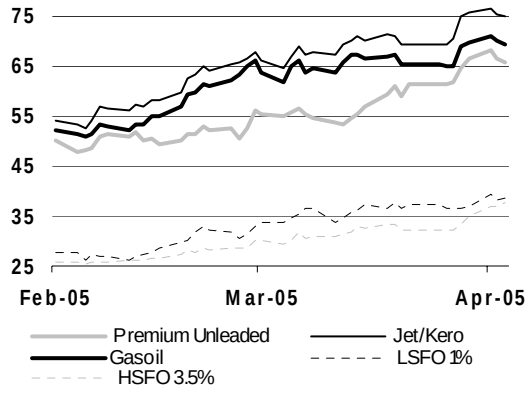
Asian distillate markets have been tightened by the cold weather in the first quarter, with kerosene stocks drawn sharply down in Japan in particular. One tempering factor has been the resumption of gasoil exports from China in March and April. Anecdotal evidence suggests that this is largely due to unattractive local pricing for refiners, but similarly it is fair to say that the state refiners are likely to ensure that domestic supplies have been met before shipping. But Chinese exports have been offset by good demand from Vietnam and Indonesia, and there has also been the purchase of low sulphur diesel from India to meet domestic requirements. Reports say that the tight low sulphur market and the fact that several domestic refiners need more time to gear up refineries to meet new fuel specifications have prompted the Indian government to postpone their implementation in certain regions.

Gasoline in Asia has been more balanced, with differentials to Tapis barely moving over the course of March. A surprise reduction in Indonesian import demand was countered by strong second quarter demand from Vietnam. Chinese demand appears to have been dampened by higher retail prices. The government raised retail gasoline prices by 7% at the end of March, the first price rise since August 2004. China has also upped its gasoline exports, believed to be shipping around 500,000 tonnes in March, rising to a planned 560,000 tonnes in April. The March export estimates were around a third higher than initial expectations. These exports were above the 450,000 tonnes shipped in March and April last year.

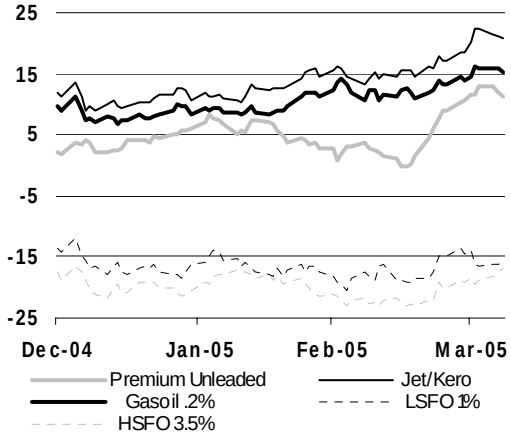




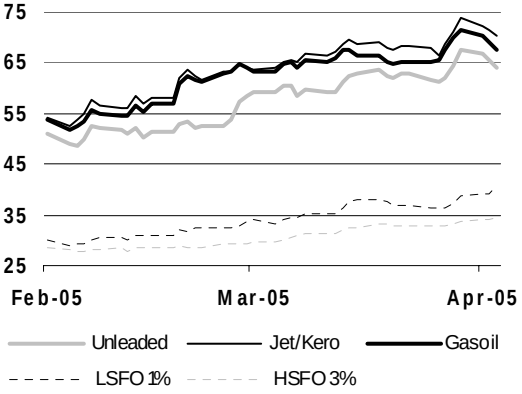
$/bbl **Rotterdam Spot Product Prices**



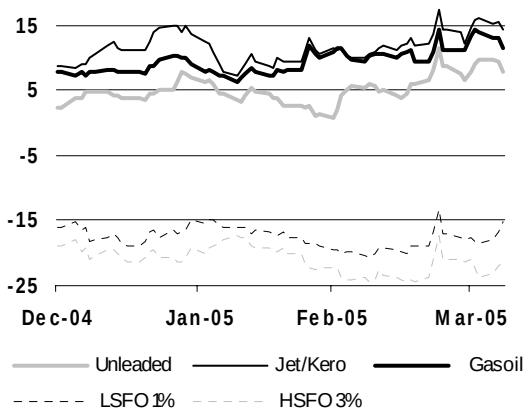
$/bbl **Rotterdam Spreads to Dated Brent**



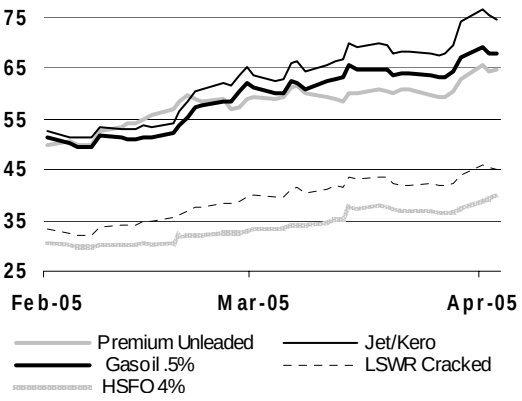
$/bbl **New York Harbour Spot Product Prices**



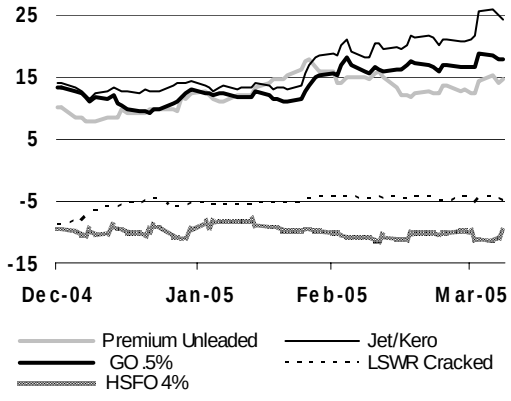
$/bbl **New York Harbour Spreads to WTI**



$/bbl **Singapore Spot Product Prices**



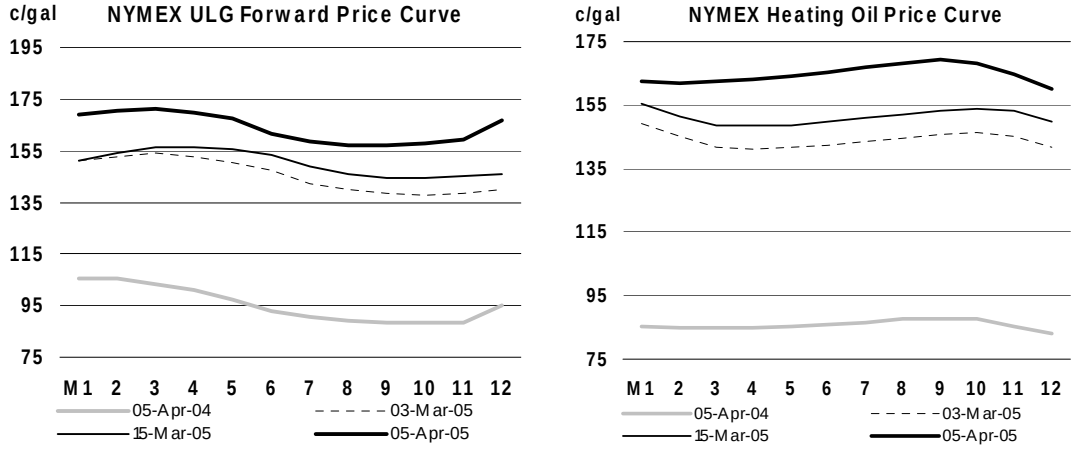
$/bbl **Singapore Spreads to Dubai**



Demand for low sulphur waxy residue from Japan is expected to be much higher than normal, with utilities stocking up following a much colder than normal start to March. Korean utilities are also leaning towards burning more fuel oil than was previously the case under the old centralised buying regime.

Product Futures

Lower US stocks and several refinery problems resulted in a slight tightening of front month NYMEX gasoline spreads, but overall, the contango remains in place encouraging stockbuilding into the summer months. Gasoline stocks are 11 million barrels higher than at this stage last year and this as much as the need to continue to build stocks, is reflected in the higher level of summer prices. The contango in NYMEX gasoline contrasts with a backwardation through to the end of the year at this stage in 2004. However, this might not last for long. The fall in US gasoline stocks since mid-February has been much steeper than normal, dragging stocks back to the upper-end of their normal range. Maintenance is expected to continue to a degree until the end of April, although to a lesser extent in upgrading units. Further, the recent surge in refinery margins will encourage the maximisation of throughput where possible, offsetting some maintenance declines.



IPE gasoil and NYMEX heating oil have now moved into a contango structure for the next six and ten months respectively. OECD middle distillate stocks at the end of February were well within their five-year range, despite cold weather, helping to push the IPE contract into a relatively modest contango. However, considering the strong diesel demand in Europe in the summer months, higher forward prices may also be a reflection of the potential for further tightening in the months ahead.

End-User Product Prices in March

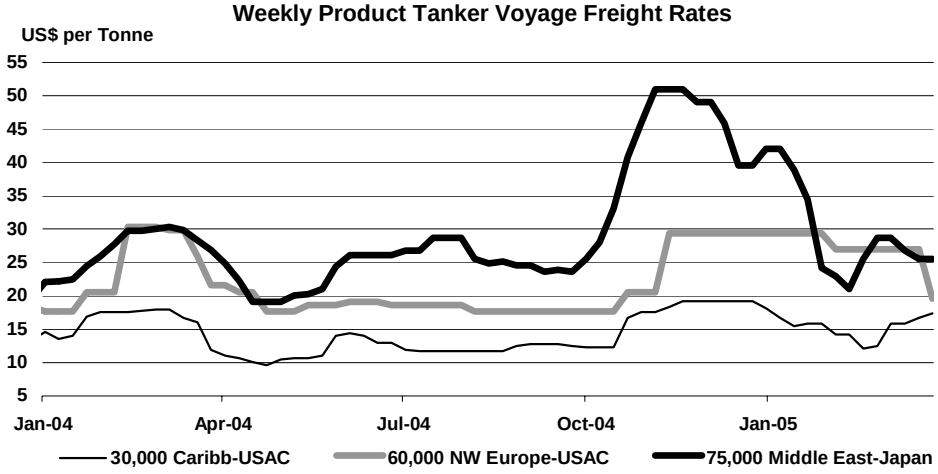
Petroleum product prices rose in all regions and for all products (bar diesel in Japan) in March, reflecting trends in wholesale markets. Ex-tax price movements were broadly in line for diesel and gasoline, with the late March fall in the Euro not fully reflected in European price movements. The colder weather conditions in the European market also accounted for sharper increases in heating oil prices compared with those in North America. Heating oil prices in March were roughly a third higher in Europe than those seen a year ago and nearly 50% higher on an ex-tax dollar denominated basis.

Freight

Dirty freight rates remained volatile in March, but average prices ended broadly weaker from February levels. VLCC rates from the Middle East to the US Gulf Coast and Asia saw a relatively shallow decline, but steeper losses were seen into the Mediterranean from the Black Sea and Middle East.

The closing of the North Sea and West African arbitrages in early/mid-March to the US were one of the primary driving forces behind lower rates. These can in turn be attributed to regional refinery maintenance and the build up of crude stocks in both regions. Asian demand for crude, particularly West African, remained firm, preventing a further slide in rates. Rising OPEC production was also supportive.

Little immediate tightening is seen as a result of the implementation of the International Maritime Organisation rules banning the use of "unprotected" single- hulled tankers. Single hulled tankers more than 23 years old were banned from 5 April, while younger tankers only have to be phased out by the end of this year. Much of the scrapping of older vessels was completed last year and those remaining are expected to be scrapped smoothly throughout this year. Single hulled vessels with double sides or double bottoms are still allowed to be used.



Source: SSY Consultancy & Research Ltd.

The single hull ban is expected to be widely implemented, and concerns that China might continue to use cheaper single-hulled vessels were scotched by a strong statement the Communications Ministry on the day the regulation came into force.

Clean freight rates for products moved higher in early March, reflecting a continuation of cold weather demand for distillates. However rates stabilised by mid-month and declined in early April in many routes as temperatures in Europe and Asia warmed reducing the need for strong distillate movement. The start of refinery maintenance in Europe further reduced the propensity for transatlantic shipments.

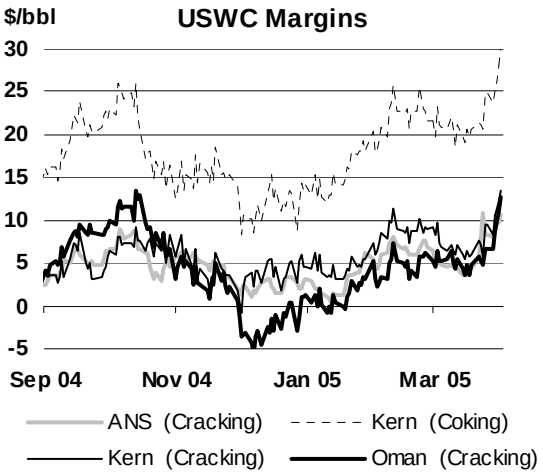
Refining Margins

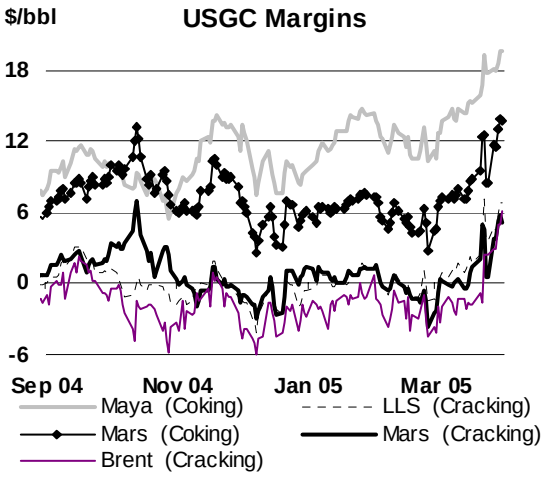
Refining margins in Europe and the US moved higher in March, but gains were muted in the Far East. March margins started relatively subdued and below the February average, but rose strongly by early April as product prices surged.

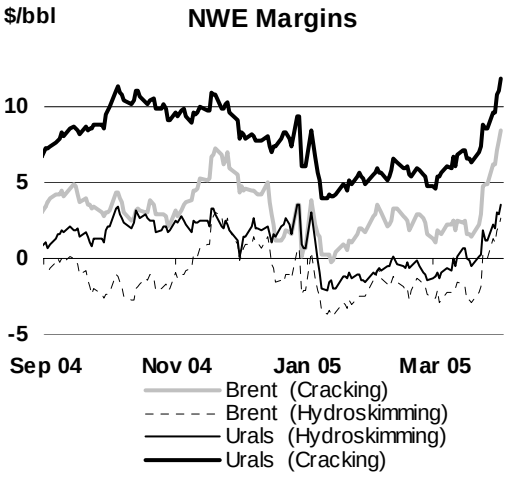
The contango in Brent crude contributed to a sharp rise in returns for both cracking and hydroskimming in early April, but it was the rise in gasoline and fuel oil which created the biggest impact towards the end of the month. On a percentage change basis, regular and premium gasoline and high sulphur fuel oil rose by over 28% from end-February to early April, compared with a rise of just over 9% for Brent and Urals crude. Higher fuel oil prices have the biggest impact on hydroskimming margins and as a result Brent margins for this refinery configuration turned positive (on a full cost basis) in early April for the first time in three months. Similar moves were seen in Urals margins in both Northwest Europe and the Mediterranean.

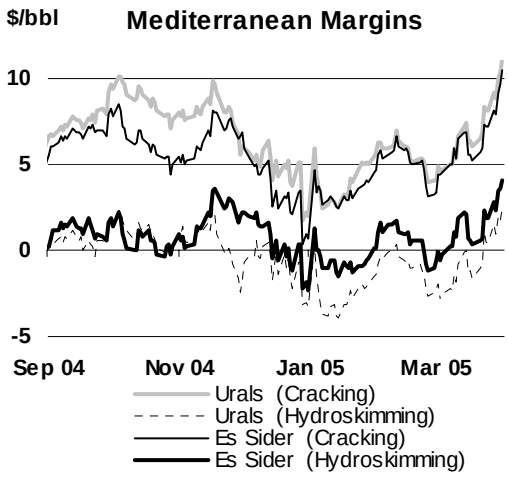
US Gulf Coast cracking margins reversed from their early-year torpor, with Brent margins turning sharply positive at the end of March. In contrast to the fuel oil-led gains in Europe, it was the rise in gasoline prices that had the biggest impact. Super unleaded prices were over 22% higher in March than the February average, but early April super unleaded prices were nearly 35% higher. While some of this gain reflected the switch to summer specification material, falling stocks and refinery outages were largely responsible for a tightening of the gasoline market.

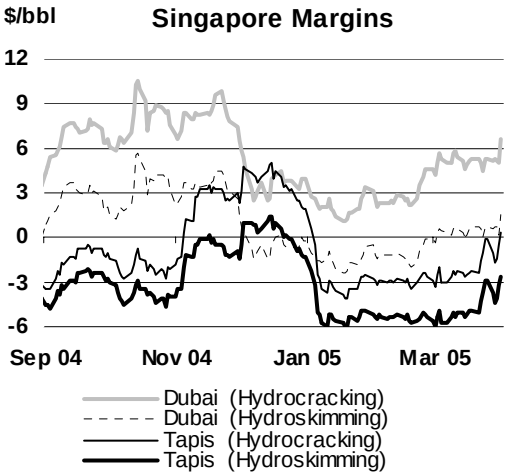
But if the gain in Brent was significant, it was the surge in coking returns on both the Gulf Coast and the US West Coast that really caught the eye. By early April, Maya coking margins in the Gulf Coast were nearly $20/bbl and over $30 for Kern coking in the West Coast.

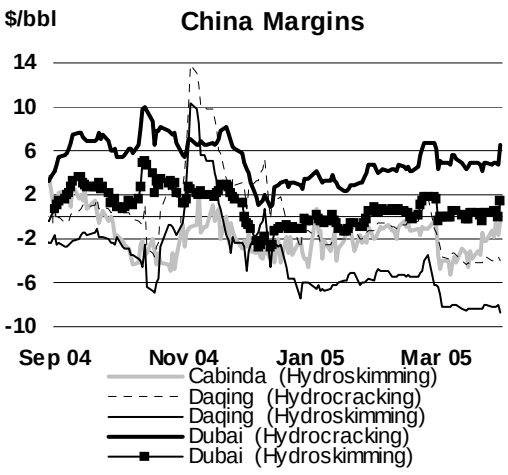

$/bbl
USWC Margins
30
25
20
15
10
5
0
-5
Sep 04
Nov 04
Jan 05
Mar 05
ANS (Cracking)
Kern (Coking)
Kern (Cracking)
Oman (Cracking)


$/bbl
USGC Margins
18
12
6
0
-6
Sep 04
Nov 04
Jan 05
Mar 05
Maya (Coking)
LLS (Cracking)
Mars (Coking)
Mars (Cracking)
Brent (Cracking)


$/bbl
NWE Margins
10
5
0
-5
Sep 04
Nov 04
Jan 05
Mar 05
Brent (Cracking)
Brent (Hydroskimming)
Urals (Hydroskimming)
Urals (Cracking)


$/bbl
Mediterranean Margins
10
5
0
-5
Sep 04
Nov 04
Jan 05
Mar 05
Urals (Cracking)
Urals (Hydroskimming)
Es Sider (Cracking)
Es Sider (Hydroskimming)


$/bbl
Singapore Margins
12
9
6
3
0
-3
-6
Sep 04
Nov 04
Jan 05
Mar 05
Dubai (Hydrocracking)
Dubai (Hydroskimming)
Tapis (Hydrocracking)
Tapis (Hydroskimming)


$/bbl
China Margins
14
10
6
2
-2
-6
-10
Sep 04
Nov 04
Jan 05
Mar 05
Cabinda (Hydroskimming)
Daqing (Hydrocracking)
Daqing (Hydroskimming)
Dubai (Hydrocracking)
Dubai (Hydroskimming)

Key Refining Margins in Major Refining Centres

($/bbl)

	Monthly Average			Change	Week Ending:				
	Jan 05	Feb 05	Mar 05	Mar 05-Feb 05	04 Mar	11 Mar	18 Mar	25 Mar	01 Apr
NW Europe									
Brent (Cracking)	1.21	2.55	3.17	0.62	1.57	2.52	1.48	4.80	8.40
Brent (Hydroskimming)	-2.68	-1.73	-1.32	0.41	-2.80	-1.60	-2.91	-0.02	2.54
Mediterranean									
Urals (Cracking)	3.88	5.59	6.75	1.16	4.63	6.62	5.96	8.11	11.08
Urals (Hydroskimming)	-2.60	-0.89	-0.70	0.19	-2.55	-0.78	-1.58	0.45	2.37
US Gulf Coast									
Brent (Cracking)	-1.42	-2.38	-0.34	2.04	-2.00	-1.21	-1.74	2.39	6.23
LLS (Cracking)	0.54	-0.19	2.50	2.69	0.91	1.74	1.81	3.61	6.84
Maya (Coking)	12.79	11.96	15.57	3.61	13.80	14.78	15.32	17.75	19.71
US West Coast									
ANS (Cracking)	2.79	6.43	6.14	-0.29	4.85	4.23	4.36	8.34	10.57
Oman (Cracking)	1.33	4.62	5.91	1.29	5.38	5.55	4.76	6.75	12.78
Kern (Coking)	15.58	22.03	21.93	-0.10	21.02	21.11	20.68	24.91	30.55
Singapore									
Tapis (Hydroskimming)	-5.14	-5.36	-4.70	0.66	-5.79	-5.09	-4.87	-2.90	-2.69
Dubai (Hydrocracking)	2.10	2.89	5.15	2.25	5.30	5.48	5.27	5.30	6.67
Tapis (Hydrocracking)	-2.90	-2.92	-1.97	0.94	-3.02	-2.26	-2.21	-0.08	0.28
China*									
Cabinda (Hydroskimming)	-1.99	-1.10	-3.03	-1.92	-3.94	-4.16	-3.88	-2.21	-0.39
Daqing (Hydrocracking)	-1.84	-0.36	-3.66	-3.29	-3.67	-3.41	-4.20	-3.61	-4.07

For the purposes of this Report, refining margins are calculated for various complexity configurations, each optimised for processing the specific crude in a specific refining centre on a 'full cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability for a given refining centre. No attempt is made to model or otherwise comment upon the relative economics of specific refineries running individual crude slates and producing custom product sales, nor are these calculations intended to infer the marginal values of crudes for pricing purposes.

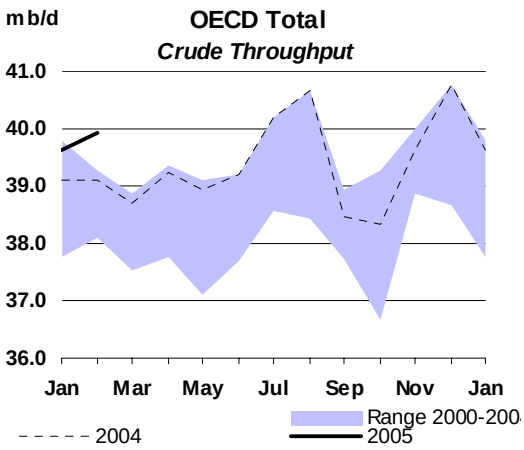
* The China refinery margin calculation represents a model based on spot product import/export parity, and does not reflect internal pricing regulations. A full list of refining margins and gross product worth can be found in table 15 on www.oilmarketreport.org.

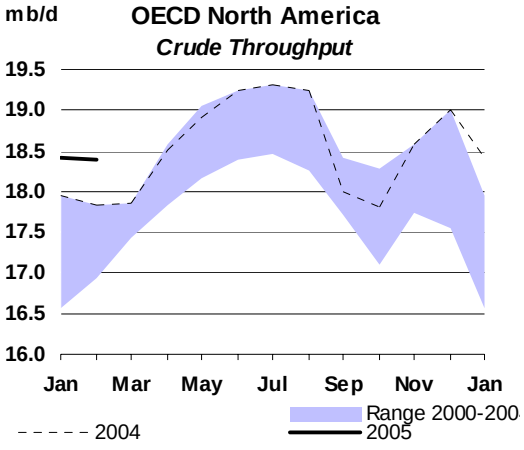
Sources: IEA, Purvin & Gertz Inc.

Asian margins saw less significant gains. Dubai hydrocracking margins in Singapore and China remained attractive, and hydroskimming margins for this crude also turned positive in March. However, the strength of regional sweets and a disappointing performance in gasoline more than offset the sharp gains in middle distillate prices.

Refinery Throughput

OECD refinery throughput rose by 340 kb/d in February from a month earlier and by 810kb/d over a year earlier to 39.92 mb/d. The gains came off a lower base as January crude runs were revised down by 237 kb/d. Half of the revisions came from a downward revision to Japanese data, reflecting local refinery problems, while the US, UK and Turkey were revised lower, accounting for the bulk of the remaining changes.





Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from Feb 04*		Utilisation rate[2]	
	Sep 04	Oct 04	Nov 04	Dec 04	Jan 05	Feb 05	mb/d	%	Feb 05	Feb 04
OECD North America										
US[3]	14.98	14.95	15.67	15.75	15.20	15.03	0.32	2.2	89.0	87.8
Canada	1.80	1.75	1.75	1.97	1.93	2.10	0.28	15.2	104.0	91.6
Mexico	1.23	1.11	1.16	1.29	1.28	1.27	-0.03	-2.5	75.6	72.0
Total	18.01	17.81	18.58	19.01	18.41	18.40	0.57	3.2	89.4	87.3
OECD Europe										
France	1.77	1.76	1.71	1.84	1.81	1.72	-0.14	-7.3	88.4	95.3
Germany	2.29	2.40	2.24	2.33	2.36	2.32	0.03	1.1	94.6	93.6
Italy	1.93	1.81	1.74	1.96	1.83	1.87	-0.01	-0.6	80.4	81.2
Netherlands	0.93	0.81	0.93	1.06	1.08	1.07	-0.08	-7.4	86.9	94.2
Spain	1.17	1.12	1.22	1.28	1.17	1.19	0.11	9.8	93.8	85.5
UK	1.66	1.75	1.76	1.77	1.65	1.61	-0.04	-2.4	88.1	90.6
Other OECD Europe	4.04	4.03	4.07	4.00	3.89	4.13	0.24	6.2	88.9	83.2
Total	13.79	13.69	13.68	14.24	13.80	13.91	0.10	0.7	88.6	87.9
OECD Pacific										
Japan	3.73	3.72	4.16	4.25	4.20	4.46	0.07	1.5	94.8	93.5
Korea	2.20	2.35	2.46	2.48	2.44	2.43	0.06	2.4	94.2	93.2
Other OECD Pacific	0.74	0.75	0.75	0.78	0.75	0.72	0.02	2.6	83.9	81.7
Total	6.68	6.82	7.38	7.51	7.40	7.61	0.14	1.9	93.5	92.1
OECD Total	**38.48**	**38.32**	**39.63**	**40.76**	**39.62**	**39.92**	**0.81**	**2.1**	**89.9**	**88.4**

1 Estimate
2 Based on crude throughput and current operable refining capacity
3 US50

Refinery throughput in OECD Europe rose by just under 100 kb/d to 13.9 mb/d in February as refining margins improved. Some maintenance was seen in Italy, UK, Germany and the south of France during the month, but amounted to less than 175 kb/d in total. Maintenance is expected to have risen to around 420 kb/d in March, and will peak around 100 kb/d above that level in April before tailing off to around 250 kb/d in May and June. This implies that product tightness, in particular for distillates, should ease towards the end of April.

US refinery throughput remains constrained by seasonal maintenance, with crude runs dropping 170 kb/d to just over 15 mb/d in February. Preliminary data shows this rising to 15.2 mb/d in March, but maintenance turnaround reports suggest that a similar level of throughput should be maintained in April. This contrasts with latest capacity figures of 16.93 mb/d, and shows the degree to which throughput (and consequently crude oil demand) will rise in the summer months when utilisation rates of over 95% are commonplace. However, more upgrading capacity is expected to come on line in April, which should increase gasoline yields as the month progresses.

OECD Pacific throughput rose slightly from a downwardly adjusted base February as refiners responded to cold weather demand. Refinery maintenance got off to an early start in Japan in March, with a partial shutdown of Japan's Chiba refinery. However, this is expected to rise sharply (and peak) in May at around 730 kb/d, and dip slightly in June before tailing off sharply. Overall Asian refinery maintenance (including non-OECD countries) is expected to be just slightly higher in the April to July period than last year, but the concentration of work is heavily biased to May and June in 2005.

Table 1
WORLD OIL SUPPLY AND DEMAND
(million barrels per day)

	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
OECD DEMAND																	
North America	24.0	24.1	24.5	24.2	24.8	24.9	24.6	25.0	24.9	25.2	25.6	25.2	25.5	25.2	25.6	25.9	25.6
Europe	15.3	15.3	15.5	15.2	15.5	15.8	15.5	15.8	15.3	15.7	16.1	15.7	15.9	15.4	15.8	16.1	15.8
Pacific	8.7	8.6	9.8	8.2	8.0	9.2	8.8	9.4	8.0	8.3	8.9	8.6	9.5	7.9	8.1	9.0	8.6
Total OECD	48.0	48.1	49.8	47.6	48.3	49.8	48.9	50.2	48.2	49.2	50.6	49.5	51.0	48.6	49.5	50.9	50.0
NON-OECD DEMAND																	
FSU	3.7	3.5	3.8	3.2	3.4	3.9	3.6	3.5	3.7	3.7	3.9	3.7	3.6	3.6	3.8	4.0	3.8
Europe	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7
China	4.7	5.0	5.2	5.2	5.8	5.9	5.5	6.2	6.5	6.2	6.5	6.4	6.7	7.0	6.9	7.0	6.9
Other Asia	7.6	7.9	8.0	7.9	8.0	8.5	8.1	8.5	8.6	8.4	8.8	8.6	8.7	8.8	8.6	9.1	8.8
Latin America	4.9	4.8	4.5	4.7	4.8	4.9	4.7	4.7	4.9	5.0	5.0	4.9	4.8	5.0	5.1	5.1	5.0
Middle East	5.2	5.4	5.5	5.3	5.7	5.7	5.6	5.8	5.8	6.0	5.9	5.9	6.1	6.1	6.3	6.2	6.2
Africa	2.6	2.7	2.8	2.8	2.7	2.8	2.7	2.8	2.8	2.7	2.9	2.8	2.9	2.9	2.8	2.9	2.9
Total Non-OECD	29.3	29.9	30.6	29.7	31.1	32.3	30.9	32.3	32.9	32.7	33.8	33.0	33.6	34.1	34.2	35.2	34.3
Total Demand[1]	77.3	77.9	80.3	77.3	79.3	82.1	79.8	82.5	81.1	81.9	84.5	82.5	84.6	82.7	83.7	86.1	84.3
OECD SUPPLY																	
North America	14.4	14.5	14.6	14.4	14.6	14.7	14.6	14.8	14.7	14.4	14.4	14.6	14.5	14.6	14.7	14.9	14.7
Europe	6.7	6.6	6.7	6.2	6.0	6.4	6.3	6.4	6.2	5.7	6.0	6.1	6.0	5.9	5.8	6.0	5.9
Pacific	0.8	0.8	0.7	0.7	0.7	0.6	0.7	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Total OECD	21.8	21.9	22.1	21.3	21.3	21.8	21.6	21.8	21.5	20.7	21.0	21.2	21.0	21.1	21.1	21.4	21.1
NON-OECD SUPPLY																	
FSU	8.6	9.4	9.9	10.1	10.5	10.7	10.3	10.8	11.1	11.4	11.4	11.2	11.4	11.6	11.8	12.1	11.7
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
China	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Other Asia	2.4	2.5	2.6	2.6	2.6	2.7	2.6	2.7	2.7	2.7	2.8	2.8	2.7	2.7	2.7	2.7	2.7
Latin America	3.8	3.9	4.0	3.9	4.1	4.1	4.0	4.0	4.1	4.1	4.1	4.1	4.2	4.3	4.4	4.4	4.3
Middle East	2.1	2.1	2.0	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.8	1.9	1.8	1.8	1.8	1.8	1.8
Africa	2.8	3.0	2.9	3.0	3.1	3.3	3.1	3.3	3.4	3.5	3.6	3.4	3.6	3.7	3.8	3.9	3.7
Total Non-OECD	23.2	24.5	25.1	25.3	25.7	26.3	25.6	26.4	26.8	27.3	27.4	27.0	27.4	27.7	28.1	28.6	28.0
Processing Gains[2]	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.9	1.8	1.8	1.9	1.8	1.9	1.9	1.8	1.9	1.9
Total Non-OPEC	46.8	48.1	49.0	48.3	48.8	49.9	49.0	50.1	50.1	49.8	50.3	50.1	50.3	50.6	51.0	51.9	51.0
OPEC																	
Crude[3]	27.0	25.1	26.7	26.1	26.6	27.6	26.8	27.9	28.1	29.1	29.5	28.7	28.9				
NGLs	3.4	3.7	3.5	3.9	4.0	4.1	3.9	4.3	4.3	4.3	4.4	4.3	4.7	4.7	4.8	4.9	4.8
Total OPEC	30.4	28.8	30.2	30.0	30.6	31.8	30.7	32.2	32.3	33.4	33.9	33.0	33.6				
Total Supply[4]	77.2	76.9	79.2	78.4	79.4	81.7	79.7	82.3	82.4	83.2	84.2	83.0	83.8				
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	0.3	-0.4	-0.6	1.3	0.5	-0.8	0.1	-0.6	0.9	0.5	-0.2	0.1					
Government	0.0	0.2	0.2	0.0	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.1					
Total	0.3	-0.3	-0.5	1.4	0.7	-0.5	0.3	-0.5	0.9	0.5	-0.1	0.2					
Floating Storage/Oil in Transit	-0.1	0.0	0.3	0.1	0.0	0.3	0.2	-0.2	-0.1	0.2	0.1	0.0					
Miscellaneous to balance[5]	-0.4	-0.7	-1.0	-0.4	-0.7	-0.2	-0.6	0.5	0.5	0.6	-0.3	0.3					
Total Stock Ch. & Misc	-0.1	-1.0	-1.2	1.1	0.1	-0.4	-0.1	-0.2	1.3	1.3	-0.3	0.5	-0.7				
Memo items:																	
Call on OPEC crude + Stock ch.[6]	27.2	26.1	27.9	25.1	26.5	28.0	26.9	28.1	26.8	27.8	29.8	28.1	29.6	27.4	27.8	29.3	28.5
Total Demand ex. FSU	73.6	74.5	76.5	74.1	75.9	78.3	76.2	79.0	77.4	78.2	80.5	78.8	81.0	79.1	79.9	82.1	80.5
Total demand exc. FSU (% ch)[7]	0.9	1.1	2.9	1.4	2.2	2.7	2.3	3.2	4.5	3.0	2.9	3.4	2.5	2.1	2.2	1.9	2.2

1 Measured as deliveries from refineries and primary stocks, comprises inland deliveries, international marine bunkers, refinery fuel, crude for direct burning, oil from non-conventional sources and other sources of supply
2 Net volumetric gains and losses in the refining process (excludes net gain/loss in former USSR, China and non-OECD Europe) and marine transportation losses
3 Upgraded Venezuelan Orinoco extra-heavy production is classified as non-conventional crude.
4 Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply
5 Includes changes in non-reported stocks in OECD and non-OECD areas
6 Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs
7 Year on year % growth in global oil demand excluding FSU

Table 1A
WORLD OIL SUPPLY AND DEMAND: CHANGES FROM LAST MONTH'S TABLE 1
(million barrels per day)

	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
OECD DEMAND																	
North America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-0.2	-	-	-	-0.1
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-	-	-0.2	-	-	-	-0.1
Total Demand	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-	-	-0.1
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	0.1	-
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.2	-0.1	-	0.1	-
OPEC																	
Crude	-	-	-	-	-	-	-	-	-	-	-	-					
NGLs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OPEC	-	-	-	-	-	-	-	-	-	-	-	-					
Total Supply	-	-	-	-	-	-	-	-	-	-	-0.1	-					
STOCK CHANGES AND MISCELLANEOUS																	
REPORTED OECD																	
Industry	-	-	-	-	-	-	-	-	-	-	-0.1	-					
Government	-	-	-	-	-	-	-	-	-	-	-	-					
Total	-	-	-	-	-	-	-	-	-	-	-0.1	-					
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-	-	-	-	-					
Miscellaneous to balance	-	-	-	-	-	-	-	-	-	-	-	-					
Total Stock Ch. & Misc	-	-	-	-	-	-	-	-	-	-	-	-					
Memo items:																	
Call on OPEC crude + Stock ch.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-
Total Demand ex. FSU	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-

When submitting their monthly oil statistics, OECD Member countries periodically update data for prior periods. Similar updates to non-OECD data can occur.

Table 2

Summary of Global Oil Demand

	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
Demand (mb/d)																
North America	24.11	24.52	24.15	24.76	24.87	24.58	25.03	24.85	25.23	25.64	25.19	25.47	25.20	25.65	25.88	25.55
Europe	15.32	15.50	15.24	15.50	15.77	15.50	15.76	15.33	15.68	16.13	15.72	15.95	15.44	15.77	16.08	15.81
Pacific	8.63	9.75	8.17	8.03	9.16	8.77	9.38	8.00	8.25	8.87	8.63	9.53	7.95	8.09	8.96	8.63
Total OECD	48.06	49.77	47.57	48.29	49.80	48.85	50.17	48.18	49.17	50.63	49.54	50.96	48.59	49.51	50.93	49.99
FSU	3.45	3.81	3.19	3.45	3.85	3.57	3.47	3.68	3.74	3.94	3.71	3.63	3.61	3.79	4.00	3.76
Europe	0.69	0.76	0.70	0.65	0.71	0.70	0.77	0.71	0.67	0.73	0.72	0.79	0.73	0.69	0.75	0.74
China	4.97	5.23	5.20	5.75	5.87	5.52	6.24	6.49	6.25	6.55	6.38	6.65	6.97	6.88	7.03	6.88
Other Asia	7.88	7.98	7.87	8.04	8.53	8.10	8.50	8.56	8.37	8.84	8.57	8.74	8.80	8.61	9.10	8.81
Latin America	4.82	4.50	4.67	4.84	4.88	4.72	4.69	4.89	5.00	5.00	4.90	4.80	5.02	5.12	5.11	5.01
Middle East	5.36	5.54	5.32	5.68	5.69	5.56	5.81	5.78	5.98	5.95	5.88	6.10	6.07	6.27	6.23	6.17
Africa	2.70	2.77	2.76	2.66	2.78	2.74	2.81	2.84	2.73	2.86	2.81	2.91	2.94	2.82	2.94	2.90
Total Non-OECD	29.87	30.57	29.72	31.06	32.32	30.92	32.29	32.94	32.74	33.85	32.96	33.62	34.13	34.17	35.17	34.28
World	77.93	80.35	77.28	79.35	82.11	79.78	82.46	81.12	81.91	84.48	82.50	84.58	82.71	83.68	86.09	84.27
of which:																
US	*19.76*	*20.02*	*19.65*	*20.21*	*20.25*	*20.03*	*20.36*	*20.25*	*20.58*	*20.87*	*20.52*	*20.67*	*20.57*	*20.92*	*21.05*	*20.81*
Euro4	*8.34*	*8.33*	*8.27*	*8.32*	*8.42*	*8.33*	*8.51*	*8.23*	*8.45*	*8.60*	*8.45*	*8.49*	*8.28*	*8.45*	*8.47*	*8.42*
Japan	*5.46*	*6.37*	*5.17*	*5.04*	*5.76*	*5.58*	*6.06*	*4.95*	*5.20*	*5.53*	*5.44*	*6.13*	*4.87*	*5.01*	*5.53*	*5.38*
Korea	*2.15*	*2.38*	*2.00*	*1.95*	*2.34*	*2.17*	*2.29*	*2.01*	*1.99*	*2.27*	*2.14*	*2.34*	*2.02*	*1.99*	*2.33*	*2.17*
Mexico	*1.94*	*1.98*	*2.03*	*2.02*	*2.03*	*2.02*	*2.02*	*2.02*	*2.02*	*2.07*	*2.04*	*2.09*	*2.03*	*2.06*	*2.08*	*2.06*
Canada	*2.08*	*2.17*	*2.16*	*2.20*	*2.25*	*2.19*	*2.27*	*2.25*	*2.30*	*2.34*	*2.29*	*2.35*	*2.27*	*2.33*	*2.38*	*2.33*
Brazil	*2.12*	*1.96*	*2.01*	*2.10*	*2.12*	*2.05*	*2.06*	*2.12*	*2.21*	*2.18*	*2.14*	*2.09*	*2.16*	*2.24*	*2.22*	*2.18*
India	*2.32*	*2.38*	*2.30*	*2.26*	*2.45*	*2.35*	*2.57*	*2.51*	*2.33*	*2.48*	*2.47*	*2.61*	*2.57*	*2.40*	*2.57*	*2.54*
Annual Change (% per annum)																
North America	0.4	2.6	0.7	2.1	2.4	2.0	2.0	2.9	1.9	3.1	2.5	1.8	1.4	1.7	0.9	1.4
Europe	-0.1	0.6	2.2	0.6	1.5	1.2	1.7	0.6	1.2	2.3	1.4	1.2	0.8	0.6	-0.3	0.6
Pacific	-0.4	6.3	5.1	-1.9	-2.7	1.6	-3.8	-2.2	2.8	-3.1	-1.7	1.6	-0.6	-2.0	1.0	0.0
Total OECD	0.1	2.7	1.9	0.9	1.1	1.7	0.8	1.3	1.8	1.7	1.4	1.6	0.9	0.7	0.6	0.9
FSU	-5.5	9.3	2.6	2.2	0.2	3.5	-8.9	15.4	8.6	2.1	3.7	4.5	-1.9	1.3	1.8	1.4
Europe	1.4	1.8	1.6	1.6	1.7	1.7	1.8	1.9	2.4	2.8	2.2	2.5	2.6	2.9	3.1	2.8
China	6.3	12.2	3.3	16.0	12.5	11.0	19.3	24.6	8.6	11.5	15.6	6.7	7.4	10.1	7.5	7.9
Other Asia	3.5	3.0	-0.5	2.9	5.7	2.8	6.6	8.9	4.2	3.6	5.7	2.8	2.7	2.8	2.9	2.8
Latin America	-0.9	-4.5	-3.2	-1.2	0.6	-2.0	4.4	4.6	3.5	2.4	3.7	2.3	2.6	2.3	2.2	2.4
Middle East	3.3	4.4	1.6	4.1	4.7	3.7	4.9	8.5	5.2	4.5	5.7	4.9	5.1	4.9	4.9	4.9
Africa	2.9	2.1	1.6	0.9	2.0	1.7	1.4	2.7	2.8	2.6	2.4	3.7	3.6	3.1	2.8	3.3
Total Non-OECD	2.0	4.2	0.7	4.4	4.8	3.5	5.6	10.9	5.4	4.7	6.6	4.1	3.6	4.4	3.9	4.0
World	0.8	3.2	1.4	2.2	2.5	2.4	2.6	5.0	3.2	2.9	3.4	2.6	2.0	2.2	1.9	2.1
Annual Change (mb/d)																
North America	0.10	0.63	0.18	0.50	0.58	0.47	0.50	0.70	0.47	0.77	0.61	0.45	0.35	0.42	0.24	0.36
Europe	-0.01	0.09	0.33	0.09	0.23	0.19	0.26	0.09	0.18	0.35	0.22	0.19	0.12	0.09	-0.04	0.09
Pacific	-0.04	0.58	0.40	-0.15	-0.25	0.14	-0.37	-0.18	0.23	-0.29	-0.15	0.15	-0.05	-0.17	0.09	0.00
Total OECD	0.05	1.29	0.91	0.44	0.56	0.80	0.39	0.61	0.88	0.84	0.68	0.79	0.41	0.34	0.29	0.46
FSU	-0.20	0.33	0.08	0.07	0.01	0.12	-0.34	0.49	0.30	0.08	0.13	0.15	-0.07	0.05	0.07	0.05
Europe	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
China	0.30	0.57	0.17	0.79	0.65	0.55	1.01	1.28	0.50	0.67	0.86	0.42	0.48	0.63	0.49	0.50
Other Asia	0.27	0.23	-0.04	0.23	0.46	0.22	0.53	0.70	0.33	0.31	0.47	0.24	0.23	0.24	0.26	0.24
Latin America	-0.04	-0.21	-0.15	-0.06	0.03	-0.10	0.20	0.22	0.17	0.12	0.17	0.11	0.13	0.12	0.11	0.12
Middle East	0.17	0.23	0.08	0.23	0.26	0.20	0.27	0.45	0.30	0.26	0.32	0.29	0.30	0.29	0.29	0.29
Africa	0.08	0.06	0.04	0.02	0.06	0.04	0.04	0.07	0.08	0.07	0.07	0.10	0.10	0.09	0.08	0.09
Total Non-OECD	0.57	1.22	0.19	1.30	1.48	1.05	1.72	3.23	1.68	1.53	2.04	1.33	1.18	1.43	1.32	1.32
World	0.63	2.51	1.10	1.73	2.03	1.84	2.11	3.83	2.56	2.37	2.72	2.12	1.59	1.77	1.61	1.77
Changes from Last Month's Report																
North America	-	-	-	-	0.01	-	-	-	-	0.01	-	0.01	-	-	0.02	0.01
Europe	-	-	-	-	-	-	-0.02	-0.02	-0.02	-0.04	-0.02	0.05	-0.02	-0.02	-0.05	-0.01
Pacific	-	-	-0.02	-	-	-	-	-	-	-	-	0.04	-	-	-	0.01
Total OECD	-	-	-0.02	-	0.01	-	-0.01	-0.02	-0.01	-0.02	-0.02	0.09	-0.03	-0.02	-0.03	-
FSU	-	-	-	-	-	-	-	-	-	-0.01	-	-0.23	-0.03	-0.01	-0.01	-0.07
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	0.02	-0.03	-	-	-
Other Asia	-	-	-	-	-	-	0.04	-0.01	0.01	0.03	0.02	0.04	0.01	0.01	0.03	0.02
Latin America	-	-	-	-	-	-	-	-	-0.01	-0.01	-0.01	-0.04	-	-0.01	-0.01	-0.02
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	0.01	0.02	0.01
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	0.03	-0.01	-0.01	0.01	0.01	-0.20	-0.05	-	0.02	-0.06
World	-	-	-0.02	-	0.01	-	0.02	-0.03	-0.02	-0.02	-0.01	-0.11	-0.07	-0.02	-0.01	-0.05

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2003	2004	2005	4Q04	1Q05	2Q05	3Q05	4Q05	Jan 05	Feb 05	Mar 05
OPEC											
Crude Oil											
Saudi Arabia	8.48	8.75		9.23	8.92				8.80	8.90	9.06
Iran	3.78	3.93		3.96	3.91				3.98	3.86	3.90
Iraq	1.32	1.99		1.98	1.80				1.79	1.80	1.81
UAE	2.29	2.35		2.45	2.38				2.40	2.32	2.42
Kuwait	1.87	2.05		2.14	2.10				2.04	2.15	2.11
Neutral Zone	0.60	0.60		0.60	0.60				0.60	0.60	0.59
Qatar	0.72	0.78		0.80	0.78				0.77	0.78	0.78
Nigeria	2.15	2.32		2.32	2.36				2.28	2.39	2.40
Libya	1.42	1.55		1.61	1.61				1.60	1.62	1.62
Algeria	1.11	1.21		1.28	1.33				1.31	1.34	1.35
Venezuela	2.01	2.17		2.16	2.15				2.14	2.16	2.16
Indonesia	1.01	0.97		0.97	0.95				0.96	0.94	0.95
Total Crude Oil	26.77	28.66		29.52	28.88				28.65	28.85	29.14
Total NGLs[1]	3.89	4.31	4.78	4.38	4.68	4.70	4.83	4.90	4.65	4.69	4.70
Total OPEC	30.66	32.96		33.91	33.56				33.30	33.54	33.84
NON-OPEC[2]											
OECD											
North America	14.61	14.58	14.65	14.43	14.46	14.58	14.70	14.87	14.44	14.48	14.45
United States	7.82	7.67	7.77	7.57	7.72	7.75	7.82	7.81	7.61	7.74	7.80
Mexico	3.79	3.83	3.83	3.78	3.80	3.83	3.83	3.87	3.79	3.78	3.83
Canada	3.00	3.09	3.04	3.07	2.94	2.99	3.05	3.19	3.04	2.96	2.83
Europe	6.34	6.09	5.91	6.02	5.95	5.91	5.77	6.01	5.87	6.03	5.96
UK	2.28	2.05	1.92	2.00	2.02	1.90	1.86	1.90	2.02	2.04	2.00
Norway	3.26	3.19	3.13	3.16	3.07	3.15	3.05	3.25	3.00	3.13	3.10
Others	0.79	0.85	0.86	0.86	0.86	0.86	0.86	0.86	0.86	0.86	0.86
Pacific	0.65	0.57	0.57	0.54	0.56	0.58	0.59	0.56	0.57	0.54	0.57
Australia	0.60	0.53	0.53	0.49	0.52	0.54	0.54	0.52	0.52	0.50	0.53
Others	0.05	0.04	0.04	0.05	0.04	0.04	0.04	0.04	0.04	0.05	0.05
Total OECD	21.60	21.25	21.13	20.98	20.97	21.07	21.06	21.43	20.88	21.06	20.98
NON-OECD											
Former USSR	10.31	11.18	11.72	11.45	11.39	11.56	11.83	12.07	11.34	11.39	11.43
Russia	8.49	9.23	9.58	9.41	9.35	9.48	9.68	9.82	9.30	9.36	9.38
Others	1.82	1.95	2.13	2.04	2.04	2.08	2.15	2.25	2.04	2.02	2.06
Asia	6.03	6.24	6.25	6.32	6.28	6.22	6.26	6.26	6.30	6.28	6.25
China	3.41	3.48	3.54	3.51	3.53	3.54	3.54	3.54	3.52	3.54	3.53
Malaysia	0.83	0.86	0.85	0.87	0.86	0.85	0.85	0.84	0.86	0.86	0.85
India	0.79	0.80	0.79	0.81	0.81	0.80	0.79	0.78	0.82	0.81	0.81
Others	1.01	1.10	1.07	1.13	1.08	1.03	1.08	1.10	1.10	1.07	1.06
Europe	0.17	0.17	0.16	0.17	0.16	0.16	0.16	0.15	0.16	0.16	0.16
Latin America	4.04	4.08	4.30	4.10	4.18	4.28	4.35	4.41	4.14	4.16	4.24
Brazil	1.80	1.80	1.99	1.81	1.86	1.95	2.04	2.10	1.83	1.83	1.90
Argentina	0.83	0.78	0.74	0.77	0.75	0.74	0.73	0.72	0.76	0.75	0.75
Colombia	0.55	0.54	0.52	0.54	0.53	0.53	0.52	0.52	0.53	0.52	0.53
Ecuador	0.43	0.54	0.56	0.54	0.55	0.56	0.57	0.58	0.54	0.55	0.55
Others	0.42	0.42	0.50	0.44	0.49	0.50	0.50	0.49	0.48	0.50	0.50
Middle East[3]	2.00	1.88	1.78	1.84	1.81	1.79	1.78	1.76	1.82	1.81	1.81
Oman	0.82	0.76	0.72	0.75	0.74	0.72	0.71	0.71	0.74	0.74	0.73
Syria	0.53	0.50	0.48	0.49	0.49	0.48	0.47	0.47	0.49	0.49	0.49
Yemen	0.45	0.41	0.39	0.40	0.39	0.39	0.39	0.39	0.39	0.39	0.39
Africa	3.07	3.43	3.75	3.57	3.61	3.69	3.77	3.92	3.58	3.61	3.64
Egypt	0.75	0.71	0.70	0.70	0.70	0.71	0.70	0.69	0.70	0.70	0.70
Angola	0.88	0.99	1.19	1.10	1.13	1.16	1.18	1.29	1.11	1.12	1.15
Gabon	0.24	0.24	0.23	0.23	0.23	0.23	0.24	0.24	0.23	0.23	0.23
Others	1.20	1.50	1.62	1.54	1.55	1.58	1.66	1.69	1.55	1.55	1.56
Total Non-OECD	25.62	26.98	27.96	27.44	27.43	27.69	28.14	28.57	27.35	27.41	27.54
Processing Gains[4]	1.80	1.83	1.86	1.85	1.88	1.85	1.84	1.88	1.88	1.88	1.88
TOTAL NON-OPEC	49.02	50.06	50.96	50.28	50.28	50.61	51.04	51.88	50.11	50.34	50.40
TOTAL SUPPLY	79.68	83.02		84.19	83.84				83.40	83.88	84.24

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Orimulsion Orinoco extra-heavy oil, and non-oil inputs to Saudi Arabian MTBE
2 Comprises crude oil, condensates, NGLs and oil from non-conventional sources
3 Includes small amounts of production from Israel, Jordan and Bahrain
4 Net volumetric gains and losses in refining (excludes net gain/loss in FSU, China and non-OECD Europe) and marine transportation losses

Table 4

OECD INDUSTRY STOCKS[1] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Oct2004	Nov2004	Dec2004	Jan2005	Feb2005*	Feb2002	Feb2003	Feb2004	1Q2004	2Q2004	3Q2004	4Q2004
North America												
Crude	407.9	412.9	402.7	407.7	413.6	438.4	375.7	387.5	0.31	0.08	-0.24	0.07
Motor Gasoline	233.9	239.8	242.9	250.4	259.2	253.8	236.4	233.2	-0.02	0.07	-0.02	0.07
Middle Distillate	189.0	195.0	201.7	203.2	193.9	206.5	165.2	179.1	-0.44	0.14	0.14	0.07
Residual Fuel Oil	44.5	50.1	51.3	50.3	49.2	48.2	39.0	49.1	0.02	-0.03	-0.04	0.11
Total Products[3]	647.1	658.4	661.9	665.7	654.5	665.3	574.1	603.6	-0.52	0.41	0.27	0.02
Total[4]	1209.8	1229.0	1212.0	1220.8	1217.4	1246.6	1077.8	1133.8	-0.23	0.57	0.20	-0.04
Europe												
Crude	331.1	351.4	324.1	325.9	321.7	342.8	298.4	321.6	0.26	-0.03	-0.07	-0.09
Motor Gasoline	114.4	112.4	115.0	125.6	130.2	133.4	122.0	121.9	0.00	-0.06	0.02	0.04
Middle Distillate	250.8	236.9	240.0	256.1	248.3	242.1	213.3	227.4	-0.25	0.20	0.17	-0.11
Residual Fuel Oil	75.6	71.8	73.0	71.2	69.5	73.3	69.8	74.0	-0.04	0.03	-0.01	-0.04
Total Products[3]	544.8	525.6	531.9	555.7	550.9	553.9	501.5	524.0	-0.34	0.18	0.23	-0.10
Total[4]	946.7	949.4	926.9	953.7	943.9	964.7	868.4	919.9	-0.02	0.08	0.16	-0.18
Pacific												
Crude	177.1	192.3	171.2	178.8	168.8	158.6	168.8	181.9	-0.06	0.02	-0.09	0.03
Motor Gasoline	23.3	24.8	24.2	27.1	27.9	25.8	24.5	26.3	0.03	-0.01	-0.01	0.00
Middle Distillate	75.0	82.9	75.1	68.2	59.9	75.3	60.5	60.9	-0.21	0.07	0.16	0.00
Residual Fuel Oil	21.1	23.7	22.4	22.3	22.5	23.4	22.5	21.9	-0.03	0.03	-0.01	0.01
Total Products[3]	188.8	200.9	187.8	186.5	173.2	184.8	168.3	171.1	-0.28	0.16	0.15	0.02
Total[4]	438.0	467.6	430.3	435.5	409.8	420.5	408.0	421.8	-0.38	0.21	0.11	0.01
Total OECD												
Crude	916.1	956.5	898.0	912.3	904.0	939.8	842.8	891.0	0.51	0.07	-0.40	0.01
Motor Gasoline	371.6	377.1	382.1	403.1	417.3	413.0	383.0	381.3	0.01	0.00	-0.01	0.11
Middle Distillate	514.7	514.8	516.8	527.4	502.0	523.9	439.0	467.3	-0.90	0.40	0.47	-0.04
Residual Fuel Oil	141.2	145.6	146.7	143.8	141.2	144.9	131.2	144.9	-0.05	0.03	-0.06	0.08
Total Products[3]	1380.7	1384.9	1381.6	1407.9	1378.6	1404.0	1243.9	1298.7	-1.15	0.75	0.65	-0.06
Total[4]	2594.4	2645.9	2569.2	2609.9	2571.1	2631.8	2354.2	2475.6	-0.63	0.85	0.47	-0.21

OECD GOVERNMENT-CONTROLLED STOCKS[5,6] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Oct2004	Nov2004	Dec2004	Jan2005	Feb2005*	Feb2002	Feb2003	Feb2004	1Q2004	2Q2004	3Q2004	4Q2004
North America												
Crude	670.3	672.8	675.6	679.7	682.1	560.0	599.3	646.9	0.15	0.11	0.09	0.06
Products[7]	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.00	0.00	0.00	0.00
Europe												
Crude	158.8	160.6	164.2	161.2	161.2	142.6	155.8	156.8	0.01	0.00	0.00	0.07
Products	201.8	202.5	205.6	207.2	207.2	208.2	201.3	211.1	-0.03	-0.05	0.00	0.01
Pacific												
Crude	382.5	382.5	384.5	384.5	384.5	378.0	383.0	384.7	0.02	0.00	-0.02	0.00
Products	11.0	11.0	11.0	11.0	11.0	7.3	9.5	11.0	0.00	0.00	0.00	0.00
Total OECD												
Crude	1211.6	1215.8	1224.3	1225.4	1227.8	1080.5	1138.0	1188.4	0.18	0.11	0.06	0.12
Products	214.8	215.5	218.7	220.2	220.2	217.5	212.8	224.2	-0.03	-0.05	0.00	0.01
Total[4]	1427.4	1432.4	1443.9	1446.6	1449.0	1299.0	1351.9	1413.5	0.15	0.06	0.07	0.13

* estimated

1 Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) and include stocks held by industry to meet IEA, EU and national emergency reserve commitments and are subject to government control in emergencies.

2 Closing stock levels.

3 Total products includes gasoline, middle distillates, fuel oil and other products.

4 Total includes NGLs, refinery feedstocks, additives/oxygenates and other hydrocarbons.

5 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.

Table 5

TOTAL STOCKS ON LAND IN OECD COUNTRIES[1]

('millions of barrels' and 'days')

	End December 2003		End March 2004		End June 2004		End September 2004		End December 2004 [3]	
	Stock Level	Days Fwd[2] Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand
North America										
Canada	175.7	77	170.4	76	168.8	74	179.0	76	179.5	-
Mexico	39.0	19	38.9	19	39.5	20	41.4	20	41.3	-
United States[4]	1570.3	77	1568.2	77	1630.9	79	1645.3	79	1646.7	-
Total[5]	1807.1	72	1799.6	72	1861.3	74	1887.8	74	1889.5	74
Pacific										
Australia	32.4	37	33.8	39	34.9	39	34.3	37	33.2	-
Japan	636.3	105	614.4	124	622.0	120	632.0	114	635.3	-
Korea	154.5	67	142.9	71	152.9	77	152.1	67	149.4	-
New Zealand	7.3	45	7.2	45	7.7	50	7.1	46	8.0	-
Total	830.5	89	798.2	100	817.4	99	825.5	93	825.9	87
Europe[6]										
Austria	19.5	76	21.0	77	20.3	66	20.2	72	21.8	-
Belgium	27.7	42	24.6	45	26.5	49	27.7	43	27.4	-
Czech Republic	16.4	95	15.6	74	15.9	73	16.9	82	16.3	-
Denmark	16.8	87	15.9	88	15.8	89	18.1	94	16.2	-
Finland	26.5	120	27.8	133	23.4	108	24.0	106	24.4	-
France	185.3	87	176.4	90	183.5	92	188.5	92	186.2	-
Germany	272.6	103	269.8	106	266.9	98	264.3	96	267.1	-
Greece	27.5	57	29.4	77	30.8	78	34.1	76	35.7	-
Hungary	16.8	143	19.5	153	20.1	153	18.7	128	17.8	-
Ireland	11.9	63	11.5	69	10.7	63	11.1	60	12.0	-
Italy	135.2	72	135.6	73	134.6	71	138.7	72	135.8	-
Luxembourg	1.0	17	0.8	13	1.0	16	0.9	14	0.9	-
Netherlands	100.1	107	108.2	114	102.3	110	110.2	113	108.3	-
Norway	27.2	99	28.5	116	30.0	118	23.3	77	24.0	-
Poland	28.7	64	29.7	62	30.1	59	31.1	61	30.6	-
Portugal	25.3	81	24.4	74	26.2	76	25.0	72	24.3	-
Slovak Republic	5.0	74	5.8	82	6.5	87	5.6	77	5.7	-
Spain	122.4	78	123.5	79	127.3	82	126.8	79	119.8	-
Sweden	35.9	101	31.8	89	31.1	91	31.5	90	34.4	-
Switzerland	36.1	138	35.4	149	37.5	144	37.8	140	36.3	-
Turkey	54.9	84	54.9	79	54.8	77	55.2	81	55.9	-
United Kingdom	101.9	55	100.7	54	97.6	53	97.7	52	96.8	-
Total	1294.6	82	1290.7	84	1293.0	82	1307.4	81	1297.7	81
Total OECD	3932.2	78	3888.5	81	3971.7	81	4020.7	79	4013.1	79
DAYS OF IEA Net Imports[7]	-	112	-	111	-	113	-	114	-	114

1 Total Stocks are industry and government-controlled stocks (see breakdown in table below). Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) they include stocks held by industry to meet IEA, EU and national emergency reserves commitments and are subject to government control in emergencies.
2 Note that days of forward demand represent the stock level divided by the forward quarter average daily demand and is very different from the days of net imports used for the calculation of IEA Emergency Reserves.
3 End December 2004 forward demand figures are IEA Secretariat forecasts.
4 US figures exclude US territories.
5 Total includes US territories.
6 Data not available for Iceland.
7 Reflects stock levels and prior calendar year's net imports adjusted according to IEA emergency reserve definitions. Net exporting IEA countries are excluded.

TOTAL OECD STOCKS

CLOSING STOCKS	Total	Government[1] controlled	Industry	Total	Government[1] controlled	Industry
	Millions of Barrels			*Days of Fwd. Demand*[2]		
4Q2001	3918	1285	2632	81	27	54
1Q2002	3912	1304	2609	84	28	56
2Q2002	3969	1316	2654	83	27	55
3Q2002	3899	1321	2579	79	27	52
4Q2002	3822	1345	2478	77	27	50
1Q2003	3786	1359	2427	80	29	51
2Q2003	3912	1362	2550	81	28	53
3Q2003	3980	1380	2600	80	28	52
4Q2003	3932	1407	2525	78	28	50
1Q2004	3888	1421	2468	81	29	51
2Q2004	3972	1426	2546	81	29	52
3Q2004	4021	1432	2589	79	28	51
4Q2004	4013	1444	2569	79	28	50

1 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.
2 Days of forward demand calculated using actual demand except in 4Q2004 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2002	2003	2004	1Q04	2Q04	3Q04	4Q04	Nov 04	Dec 04	Jan 05	Year Earlier Jan 04	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.64	0.55	0.55	0.56	0.56	0.52	0.52	0.47	0.49	0.56	-0.07
Europe	0.92	1.00	1.03	0.96	1.05	1.04	1.08	1.03	1.16	0.85	1.16	-0.31
Pacific	1.22	1.18	1.24	1.14	1.13	1.23	1.47	1.47	1.60	1.41	1.13	0.28
Saudi Medium												
North America	0.70	0.83	0.80	0.72	0.73	0.86	0.90	0.93	0.97	0.88	0.79	0.09
Europe	0.11	0.11	0.11	0.08	0.07	0.11	0.16	0.18	0.19	0.11	0.06	0.05
Pacific	0.16	0.24	0.23	0.31	0.20	0.18	0.23	0.26	0.20	0.25	0.30	-0.05
Saudi Heavy												
North America	0.20	0.30	0.22	0.19	0.14	0.30	0.26	0.24	0.21	0.21	0.21	0.00
Europe	0.09	0.19	0.23	0.16	0.26	0.31	0.20	0.22	0.16	0.21	0.13	0.08
Pacific	0.12	0.16	0.15	0.13	0.13	0.16	0.18	0.23	0.17	0.14	0.14	0.00
Iraqi Basrah Light[2]												
North America	0.35	0.44	0.71	0.75	0.74	0.68	0.67	0.66	0.69	0.62	0.63	-0.01
Europe	0.08	0.09	0.21	0.22	0.27	0.21	0.13	0.13	0.15	0.10	0.21	-0.11
Pacific	0.02	0.03	0.12	0.14	0.08	0.12	0.15	0.17	0.06	0.12	0.16	-0.04
Iraqi Kirkuk												
North America	0.14	0.06	0.02	..	0.04	0.01	0.01	..	..	..	..	..
Europe	0.32	0.12	0.08	0.04	0.07	0.03	0.16	0.20	0.18	0.03	..	..
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.17	0.19	0.24	0.20	0.23	0.23	0.27	0.17	0.30	0.18	0.25	-0.08
Pacific	0.12	0.17	0.16	0.18	0.13	0.16	0.16	0.16	0.17	0.18	0.20	-0.01
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.44	0.59	0.57	0.50	0.61	0.65	0.54	0.47	0.59	0.57	0.42	0.15
Pacific	0.54	0.69	0.65	0.73	0.65	0.58	0.63	0.58	0.66	0.77	0.65	0.11
Venezuelan Light & Medium												
North America	0.68	0.69	0.67	0.63	0.78	0.64	0.63	0.57	0.76	0.76	0.71	0.05
Europe	0.08	0.02	0.01	..	0.02	0.02	0.01	..	..	..	..	..
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.55	0.60	0.88	0.81	0.91	0.86	0.95	0.95	0.97	0.84	0.76	0.08
Europe	0.05	0.06	0.05	0.05	0.07	0.06	0.04	0.06	0.02	0.05	0.05	0.00
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	0.92	1.32	1.36	1.31	1.43	1.34	1.37	1.40	1.26	1.35	1.30	0.05
Europe	0.17	0.16	0.16	0.14	0.19	0.20	0.13	0.13	0.12	0.16	0.11	0.05
Pacific	0.00	0.00	0.00	0.01	..	..	..	..	..	..	0.02	..
Mexican Isthmus												
North America	0.01	0.00	..	..	..	..	..	..	..	0.00	..	..
Europe	0.01	0.00	0.01	..	..	..	0.02	0.03	..	0.03	..	..
Pacific	0.01	0.00	0.00	0.01	..	..	..	..	..	..	0.04	..
Russian Urals												
North America	0.03	0.14	0.12	0.01	0.14	0.12	0.21	0.25	0.18	0.04	0.00	0.04
Europe	1.32	1.62	1.86	2.14	1.98	1.78	1.56	1.72	1.46	1.56	1.87	-0.31
Pacific	0.01	0.00	0.01	0.00	0.01	0.01	..	..	..	..	0.01	..
Nigerian Light[4]												
North America	0.38	0.63	0.80	0.80	0.90	0.78	0.73	0.82	0.69	0.80	0.76	0.04
Europe	0.32	0.41	0.28	0.32	0.22	0.30	0.30	0.26	0.31	0.34	0.38	-0.04
Pacific	0.06	0.08	0.11	0.12	0.10	0.09	0.13	0.17	0.16	0.07	0.19	-0.12
Nigerian Medium												
North America	0.16	0.17	0.23	0.26	0.21	0.22	0.20	0.17	0.20	0.27	0.22	0.05
Europe	0.06	0.06	0.04	0.03	0.04	0.05	0.02	0.02	0.02	0.07	0.04	0.03
Pacific	0.01	0.01	0.01	0.02	..	..	..	..	..	..	0.03	..

1 Data based on monthly submissions from IEA countries to the crude oil import register (in '000 bbl), subject to availability. May differ from Table 8 of the Report.
IEA North America includes United States and Canada.
IEA Europe includes all countries in OECD Europe except Hungary, Poland and the Slovak Republic.
IEA Pacific data includes Australia, New Zealand, Korea and Japan.

2 Iraqi Total minus Kirkuk.

3 Iranian Total minus Iranian Light.

4 33 API and lighter (e.g., Bonny Light, Escravos, Qua Iboe and Oso Condensate).

Table 7
Regional OECD Imports[1,2]
(thousand barrels per day)

	2002	2003	2004	1Q2004	2Q2004	3Q2004	4Q2004	Nov-04	Dec-04	Jan-05	Year Earlier Jan-04	Year Earlier % change
Crude Oil												
North America	7584	8069	8394	8027	8557	8547	8443	8504	8474	8427	7644	9%
Europe	8725	9087	9519	9395	9499	9664	9517	9983	9413	9772	9551	2%
Pacific	6422	6711	6659	7011	6170	6457	6998	7607	6662	7322	6819	7%
Total OECD	22731	23867	24573	24433	24226	24669	24958	26094	24550	25521	24014	6%
LPG												
North America	39	27	26	29	10	25	39	54	33	18	48	-167%
Europe	226	198	232	251	195	215	267	251	269	289	251	13%
Pacific	553	541	541	550	585	469	561	583	532	530	530	0%
Total OECD	818	765	799	831	790	709	868	888	834	837	828	1%
Naphtha												
North America	42	67	86	53	49	96	144	123	158	108	60	44%
Europe	298	311	292	330	328	244	268	202	321	278	303	-9%
Pacific	705	770	769	782	761	787	748	714	813	829	749	10%
Total OECD	1045	1148	1147	1165	1138	1127	1160	1039	1292	1216	1112	8%
Gasoline[3]												
North America	680	703	797	673	896	847	772	794	682	727	450	38%
Europe	150	147	169	213	159	138	166	238	88	191	193	-1%
Pacific	58	70	105	105	118	90	106	108	122	94	97	-4%
Total OECD	889	919	1071	991	1173	1075	1044	1140	892	1012	741	27%
Jet & Kerosene												
North America	97	97	88	45	102	88	118	149	87	49	39	21%
Europe	219	211	244	173	234	309	261	272	276	238	194	18%
Pacific	97	102	77	92	60	52	103	114	100	100	97	3%
Total OECD	413	410	409	310	395	449	481	535	463	387	330	15%
Gasoil/Diesel												
North America	102	126	122	199	92	108	91	124	66	125	159	-27%
Europe	655	653	733	670	648	768	845	698	1002	750	599	20%
Pacific	53	73	74	56	92	79	66	67	72	68	61	10%
Total OECD	810	851	929	925	832	956	1002	888	1140	943	819	13%
Heavy Fuel Oil												
North America	237	326	388	364	317	346	524	574	409	466	337	28%
Europe	469	394	413	365	435	449	402	418	347	360	373	-4%
Pacific	89	88	76	76	77	87	64	93	37	77	65	16%
Total OECD	795	808	877	806	829	883	991	1085	794	904	775	14%
Other Products												
North America	689	680	824	869	701	951	776	799	814	666	752	-13%
Europe	735	685	691	665	702	711	685	727	679	652	679	-4%
Pacific	256	235	256	249	265	261	252	219	313	283	255	10%
Total OECD	1680	1601	1772	1782	1668	1922	1713	1745	1806	1601	1686	-5%
Total Products												
North America	1887	2026	2331	2233	2165	2462	2464	2616	2250	2160	1846	15%
Europe	2752	2598	2775	2668	2701	2835	2896	2807	2981	2758	2593	6%
Pacific	1811	1879	1898	1910	1958	1825	1901	1898	1989	1981	1853	6%
Total OECD	6450	6502	7005	6810	6824	7122	7260	7321	7219	6899	6292	9%
Total Oil												
North America	9471	10095	10726	10260	10722	11009	10907	11120	10724	10586	9490	10%
Europe	11476	11684	12295	12063	12200	12499	12413	12790	12395	12530	12143	3%
Pacific	8233	8590	8558	8921	8128	8282	8899	9505	8651	9303	8672	7%
Total OECD	29180	30369	31578	31243	31050	31790	32219	33415	31769	32420	30306	7%

1 Based on Monthly Oil Questionnaire data submitted by OECD countries in tonnes and converted to barrels.

2 Excludes intra-regional trade

3 Includes additives

OIL MARKET REPORT CONTACTS

Editor/Prices and Refinery Activity	Lawrence Eagles (+33) 0*1 40 57 65 90 e-mail: lawrence.eagles@iea.org
Demand	Jeff Brown (+33) 0*1 40 57 65 93 e-mail: jeff.brown@iea.org
Supply	David Fyfe (+33) 0*1 40 57 65 94 e-mail: david.fyfe@iea.org
OECD Stocks	Harry Tchilinguirian (+33) 0*1 40 57 65 22 e-mail: harry.tchilinguirian@iea.org
Statistical Support	Toril Ekeland Bosoni (+33) 0*1 40 57 66 36 e-mail: toril.bosoni@iea.org
Administrative Support	Anne Mayne (+33) 0*1 40 57 65 96 e-mail: anne.mayne@iea.org
	Brid Deely (+33) 0*1 40 57 67 31 e-mail: bridget.deely@iea.org
Fax:	*(+33) 0*1 40 57 65 99/40 57 65 09*

* 0 only within France

For all **Subscription and Delivery Enquiries** please contact:

International Energy Agency
Attn: Ms. Sandra Coleman
Oil Market Report Subscriptions
BP 586-75726 Paris Cedex 15, France

Tel. +33 (0) 1 40 57 65 57
Fax. +33 (0) 1 40 57 65 59

E-mail: omr@iea.org

Users' Guide to the IEA Oil Market Report

Readers are referred to the Users' Guide, published in conjunction with the Annual Statistical Supplement (current issue dated 11 August 2004), for information on the data sources, definitions, technical terms and general approach used in preparing the Report. It should be noted that the spot crude and product price assessments are based on daily Platt's prices, converted when appropriate to US$ per barrel according to the Platt's specification of products (©2005 Platt's - a division of McGraw-Hill Inc.).

INTERNATIONAL ENERGY AGENCY/AGENCE INTERNATIONALE DE L'ENERGIE

OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

www.oilmarketreport.org

INTERNATIONAL ENERGY AGENCY
AGENCE INTERNATIONALE DE L'ENERGIE

11 May 2005

HIGHLIGHTS

- NYMEX light crude futures fell back to about $50/bbl from an early April peak over $58/bbl, pressured by builds in crude stocks, signs of slowing demand growth and weaker transport fuel prices. High-sulphur fuel oil prices hit 25-year highs in Europe, lifting margins against a backdrop of refinery turnarounds.

- Demand pressure eased in China and the US, and European demand was revised lower. This was balanced by upward demand adjustments to the OECD Pacific, Other Asia, the FSU and the Middle East. Early indications for China show apparent demand grew by only 4.5% in first quarter 2005. World 2005 demand growth is estimated at 1.77 mb/d (2.2%).

- World oil output rose by 435 kb/d to 84.5 mb/d in April, primarily due to higher OPEC supply. Non-OPEC supply is revised up by 55 kb/d for the year despite weak growth in the first half of 2005, with higher expectations for China, Vietnam and Yemen. Total growth of non-OPEC supply and OPEC other liquids is 1.43 mb/d in 2005.

- OPEC crude supply rose by 480 kb/d in April to 29.4 mb/d, from a lower March base. Iran, Saudi Arabia, UAE, Kuwait and Nigeria underpinned April's rise. Iraqi supply averaged 1.8 mb/d, with exports of 1.45 mb/d. The call on OPEC crude and stock change for 2005 averages 28.5 mb/d, reaching 29.3 mb/d in the fourth quarter.

- OECD industry oil stocks were marginally down in March as gains in crude stocks partially offset a seasonal decline in products. In the first quarter of 2005, industry oil stocks posted a contra-seasonal build in the OECD, rising 240 kb/d. Forward demand cover at the end of March was 53 days, two days higher than levels of a year ago.

Next Issue: 10 June 2005

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

The IEA is Seeking to Recruit an Oil Market Analyst

The International Energy Agency (IEA), an intergovernmental body committed to advancing security of energy supply, economic growth and environmental sustainability through energy policy co-operation, is seeking to recruit an Oil Market Analyst to examine developments and future prospects in global oil markets. The successful applicant will work under the guidance of the Head of the Oil Industry and Markets Division of the IEA.

The ideal candidate will possess:

- A university degree in economics, supplemented by industry experience and/or an advanced university degree in business, finance, resource economics or other relevant subjects.
- A very good knowledge of, and appropriate experience in, oil industry and market analysis.
- Quantitative database and modelling skills would be desirable, as would a strong knowledge of Microsoft Office Suite software.
- A background in refining or related experience would be an asset.
- Ability to work well under extremely demanding deadlines.
- Excellent level of oral and written communication skills and excellent drafting ability in English; a working knowledge of French would be an advantage.

The IEA operates as an autonomous agency within the Organisation for Economic Co-operation and Development (OECD), a forum within which the governments of 30 market democracies work together to address the economic, social and governance challenges of the globalising world economy, as well as to exploit its opportunities.

The OECD is an equal opportunity employer and offers an attractive remuneration package. We encourage applications from female candidates.

For full information on application procedures, please contact Ms. Alette Wernberg, Personnel and Finance Division, before **15 June 2005** at: alette.wernberg@iea.org.

OECD OCDE

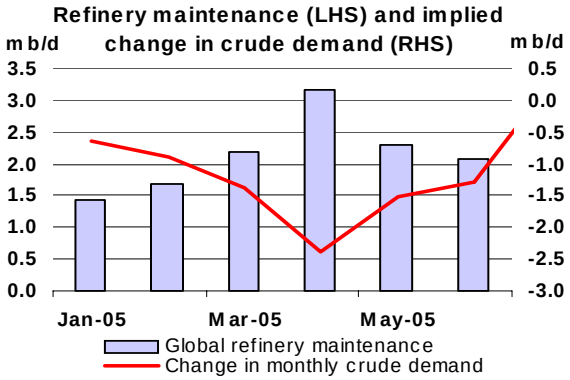
ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
Organisation de coopération et de développement économiques

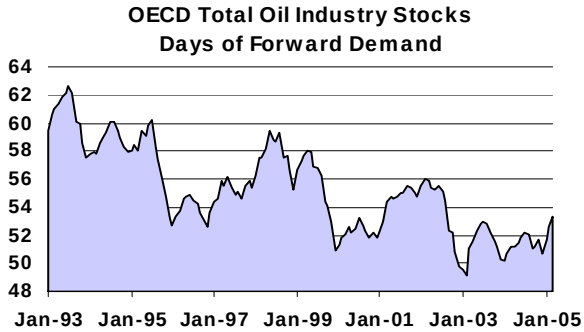
CONTENTS

SEEKING A NEW BALANCE

The oil market is still rebalancing from last year's demand surge. Higher prices are the visible symptom of the changing landscape. The trend in diminishing spare capacity was established prior to the 2004 demand shock, but last year's events hastened this process. To some this marks the end of an era, but in reality it is part of the industry's long established cyclical nature - small cycles relating to the ebb and flow of global demand and short-term supply issues, combined with longer-term issues related to investment, profitability, access and supply security. We are entering a new phase in several cycles, not necessarily a new order, but a phase which could be around for some time.

The mechanisms of adjustment after last year's 'demand shock' are readily apparent. US crude stocks at 327 million barrels are at the highest level since 1999, a year when prices dipped to $10/bbl. OECD total oil stocks posted a contra-cyclical first quarter increase of 240 kb/d against a five-year average draw of 380 kb/d, leaving total oil stocks mid-range. Prices remain volatile and around $50, but have recently been in contango through to December 2005. Large contangos in Atlantic Basin crudes have occurred alongside tightness in Asian crudes. Long-term futures prices have touched $50/bbl, well above the range in the 1990s of between $15 and $22/barrel. The spread between light product prices and fuel oil widened to record levels last year, as did light/sweet-heavy/sour crude spreads. At the same time, established relationships between stocks and prices have broken down.





It is the rise in US stocks that is currently leading to the widest divergence in opinions. Some see the co-existence of high prices and high US stocks as a speculative phenomenon, others as a harbinger of pending price weakness. Others, including ourselves, see it as both a cyclical and a regional issue.

Firstly, US stock levels need to be put into perspective. End-April US refinery crude throughputs of 15.3 mb/d remain well below capacity of 17 mb/d. If last summer's operating rates are repeated then throughput could top an average 16.1 mb/d between May and the end of August. The US crude market could tighten rapidly, particularly if currently unfavourable price differentials continue to hamper imports. In addition refinery maintenance reports suggest that global crude demand could be 1.1 mb/d higher in June than April and should continue to rise through to a seasonal peak in August.

Further, we must not ignore the financial pressures that, in part, led to a lower trend in inventory holding and investment over the past 15 years. These financial pressures are still present and will increase as interest rates rise. But taking these opposing forces into account, it is unclear what level of stocks refiners and traders will hold, and even in what form these stocks should be held.

The last time that OPEC spare capacity was not a market issue was when this capacity was on average around 4.9 mb/d (between 2000 and end-2002). But the demand shock has reduced current effective OPEC spare capacity to around 1.3 mb/d (excluding Indonesia, Iraq, Nigeria and Venezuela). While it is hoped that increased investment will raise the level of spare capacity over time, current non-OPEC investment schedules suggest this will not re-enter the comfort zone in the near future.

Stocks are never a solution to long-term market changes but can provide a short-term offset to spare capacity. OECD stocks, in terms of days of demand cover, have only just returned to levels seen in the second half of 2003. And while crude stocks are likely to have built further in April (as refinery maintenance peaked), total oil stocks seem neither high nor sufficient to offset current capacity constraints and increasing future demand.

DEMAND

Summary

- Demand pressure continued to ease in China and the US, and European demand was revised lower. This was balanced by upward adjustments to the OECD Pacific, Other Asia, the FSU and the Middle East. Cumulatively, the **2005 global demand forecast** is revised marginally downwards by 10 kb/d. With some revisions to historical data, this implies that 2005 global demand growth is unchanged from last month at 1.77 mb/d (2.2%).
- Preliminary data indicate that global demand growth was weaker than previously anticipated in the **first quarter of 2005**. As a consequence, first quarter global demand growth was revised downwards by 280 kb/d, to 1.84 mb/d.

Global Oil Demand from 2003 to 2005

	Demand (mb/d)	Annual Change* (%)	Annual Change* (mb/d)	Changes from last month's Report (mb/d)
1Q03	80.3	3.1	2.4	-
2Q03	77.2	1.3	1.0	-0.1
3Q03	79.3	2.1	1.7	-
4Q03	82.1	2.4	1.9	-
1Q04	82.4	2.7	2.1	-
2Q04	81.1	5.0	3.9	-
3Q04	81.9	3.2	2.6	-
4Q04	84.5	2.9	2.4	-
1Q05	84.3	2.2	1.8	-0.3
2Q05	82.7	2.0	1.6	-
3Q05	83.9	2.4	2.0	0.2
4Q05	86.2	2.0	1.7	0.1
2003	79.7	2.3	1.8	-
2004	82.5	3.5	2.8	-
2005	84.3	2.2	1.8	-

* year-on-year change

- Early indicators suggest that **OECD demand** grew by 510 kb/d (1.0%) in March, substantially less than had been anticipated, especially in Europe. Japanese demand was stronger than projected, in large part due to higher than anticipated demand for oil in power generation. Korea also posted unexpectedly robust growth.
- **China** and the **US**, which were the key drivers of demand growth in 2004, slowed substantially in the first quarter of 2005. Preliminary indications are that China's apparent demand grew by only 280 kb/d (4.5%) in the first quarter of 2005 versus 1.01 mb/d (19.3%) during the same period in 2004. Similarly, US product demand growth slowed from 340 kb/d (1.7%) in the first quarter of 2004 to approximately 250 kb/d (1.2%) in the first quarter of 2005.

Estimated Annual World Oil Demand Growth 2000-2005

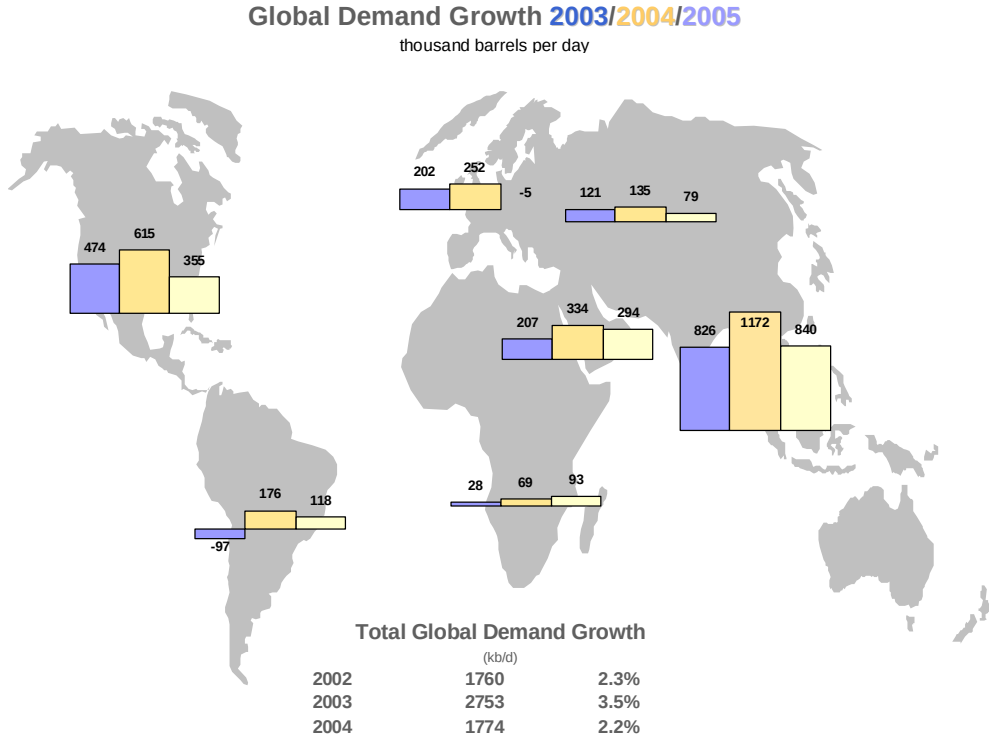
(million barrels per day)

	00-99	01-00	02-01	03-02	04-03	05-04
North America	0.26	-0.06	0.10	0.47	0.61	0.35
Latin America	0.00	0.00	-0.04	-0.10	0.18	0.12
FSU	0.08	0.00	-0.20	0.12	0.14	0.08
Europe	-0.12	0.21	-0.01	0.20	0.25	-0.01
OECD Pacific	-0.04	-0.07	-0.04	0.14	-0.15	0.07
China	0.26	0.12	0.30	0.55	0.86	0.47
Other Asia	0.09	0.18	0.26	0.14	0.46	0.30
Subtotal, Asia	0.32	0.23	0.52	0.83	1.17	0.84
Middle East	0.14	0.19	0.16	0.21	0.33	0.29
Africa	0.00	0.13	0.06	0.03	0.07	0.09
World	0.68	0.69	0.60	1.76	2.75	1.77

Global Oil Demand by Region
(million barrels per day)

	Demand	Annual Change			Annual Change (%)		
	2004	2003	2004	2005	2003	2004	2005
North America	25.20	0.47	0.61	0.35	2.0	2.5	1.4
Europe	16.46	0.20	0.25	-0.01	1.3	1.6	0.0
OECD Pacific	8.63	0.14	-0.15	0.07	1.6	-1.7	0.8
China	6.38	0.55	0.86	0.47	11.0	15.6	7.4
Other Asia	8.52	0.14	0.46	0.30	1.8	5.7	3.5
Subtotal Asia	23.52	0.83	1.17	0.84	3.8	5.2	3.6
FSU	3.71	0.12	0.14	0.08	3.5	3.8	2.1
Middle East	5.92	0.21	0.33	0.29	3.8	6.0	5.0
Africa	2.78	0.03	0.07	0.09	1.1	2.5	3.4
Latin America	4.90	-0.10	0.18	0.12	-2.0	3.7	2.4
World	82.48	1.76	2.75	1.77	2.3	3.5	2.2

- Among the main products, the strength of **jet fuel/kerosene** demand stands out. OECD demand grew by an estimated 170 kb/d (3.9%) in the first quarter of 2005. This increase is partly attributed to cold weather in Japan, where kerosene is used as a heating fuel. Over the course of 2005, OECD demand is projected to grow by 130 kb/d (3.2%).



OECD

Overview of Early Indications of Current Demand

Preliminary data suggest that OECD demand grew by 510 mb/d (1.0%) in March 2005 versus March 2004. Aggregate growth for selected countries submitting preliminary inland delivery data compiled in the table below averaged 1.1%.

In the OECD **Pacific** temperatures were below normal in March in Japan and Korea and deliveries of jet fuel/kerosene grew by approximately 8.7%. Japan's demand for other products, which includes crude oil for direct burning in power generation, increased by approximately 3.6% as nuclear power capacity utilisation remained below anticipated levels. The Korean economy has shown some tentative signs of renewed strength, which is reflected in a 7.8% increase in March deliveries. The main growth came in the industrial and transport sectors. Temperatures were well above normal in Japan in April 2005, but weather-related product demand is actually projected to increase slightly as April 2004 was exceedingly mild.

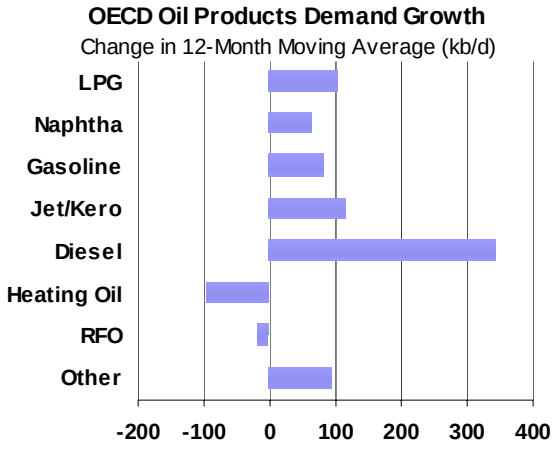
Preliminary Inland Deliveries – March 2005[1]

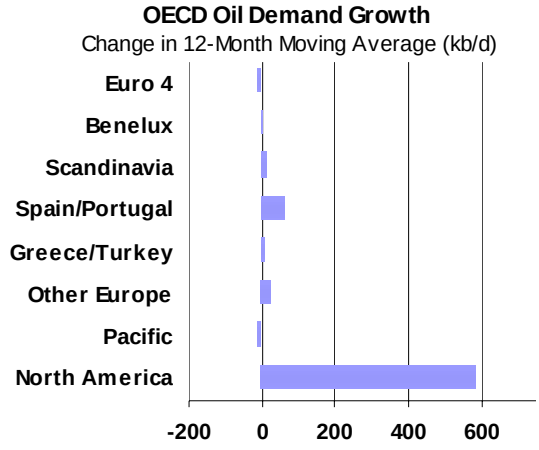
	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other[2]		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
United States[3]	9.09	1.8	1.70	4.5	3.00	1.5	1.32	12.6	0.90	14.2	4.62	-1.5	20.63	2.3
Canada	0.69	2.8	0.12	-4.7	0.45	6.9	0.12	0.0	0.17	-0.6	0.25	-0.4	1.80	2.3
Mexico	0.68	5.5	0.06	5.0	0.31	1.0	0.00	na	0.33	-12.5	0.38	-2.0	1.76	-0.8
Japan	1.09	2.1	0.85	7.5	0.72	3.5	0.60	-1.3	0.51	-1.4	1.73	3.6	5.48	2.8
Korea	0.16	8.1	0.08	23.4	0.42	0.5	0.15	-6.7	0.35	6.0	1.18	12.6	2.34	7.8
France	0.25	-4.9	0.13	2.2	0.64	-1.4	0.39	-3.4	0.10	51.0	0.46	1.5	1.97	0.4
Germany	0.56	-7.0	0.14	7.7	0.55	-12.2	0.44	-23.7	0.11	8.8	0.47	-11.9	2.28	-11.6
Italy	0.32	-5.8	0.08	9.6	0.51	0.0	0.12	1.8	0.16	-20.0	0.43	-12.1	1.62	-6.4
Total	**12.82**	**1.4**	**3.17**	**5.5**	**6.58**	**0.2**	**3.15**	**-0.6**	**2.63**	**3.1**	**9.53**	**0.0**	**37.87**	**1.1**

Sources: US EIA, Statistics Canada, Mexico PEMEX, Japan METI, Korea KNOC, France CPDP, Germany MWV, Italy Ministry of Industry

Percentage change is calculated versus the previous year.
1 excludes refinery fuel and bunkers (except US)
2 includes direct use of crude oil
3 fifty states only. Diesel's share of total distillate is estimated.

Preliminary data for OECD **Europe** indicate that March deliveries were near flat in France (0.4%), and down substantially in Germany (-11.6%) and Italy (-6.4%). The large decrease in Germany and Italy is surprising, as average March 2005 temperatures were similar to March 2004. Part of the decline may be attributed to Easter falling in late March this year, so there were one to two fewer working days in Europe as compared to March 2004. In addition, German consumers continued to draw down heating oil stocks in the face of high prices. Overall, however, there is mounting evidence that slowing economic growth is having a negative impact in European product demand.





March was much colder than normal in **North America** which contributed to a substantial increase in gasoil deliveries in the US Northeast and Canada. On the whole, US gasoil deliveries were up by an estimated 12.6% versus March 2004. US deliveries of residual fuel oil also remained strong in the face of relatively high natural gas prices, increasing by some 14.2%. Regional gasoline deliveries were up by approximately 2.1%, led by 5.5% growth in Mexico.

Moving Annual Average Change in Oil Demand* – March 2005

	LPG	Naphtha	Gasoline	Jet/ Kerosene	Diesel	Other Gasoil	RFO	Other	Total	kb/d
United States**	2.8%	14.4%	1.0%	3.2%	5.6%	-3.3%	7.3%	1.5%	2.3%	460
Canada	11.0%	14.5%	2.0%	7.8%	0.1%	6.6%	2.7%	1.8%	4.7%	105
Mexico	0.0%	-33.7%	5.7%	7.9%	3.0%	3.0%	-4.8%	1.4%	1.0%	20
Japan	-3.7%	2.3%	2.0%	0.0%	1.6%	-3.1%	-8.6%	-0.3%	-0.9%	-48
Korea	1.3%	5.2%	-1.3%	-6.4%	-0.5%	-2.1%	-1.0%	-5.6%	0.8%	16
France	-1.9%	-15.5%	-5.2%	4.5%	2.2%	-1.0%	7.4%	-1.3%	-1.4%	-29
Germany	0.8%	3.3%	-4.3%	3.2%	1.0%	-12.1%	0.8%	-3.4%	-2.7%	-72
Italy	0.6%	19.5%	-4.3%	3.6%	1.0%	20.9%	-11.4%	0.2%	-0.2%	-4
Total	**1.9%**	**3.8%**	**0.8%**	**2.1%**	**3.4%**	**-2.3%**	**-1.8%**	**1.0%**	**1.2%**	**448**
kb/d	77	101	98	67	198	-76	-56	37	448	

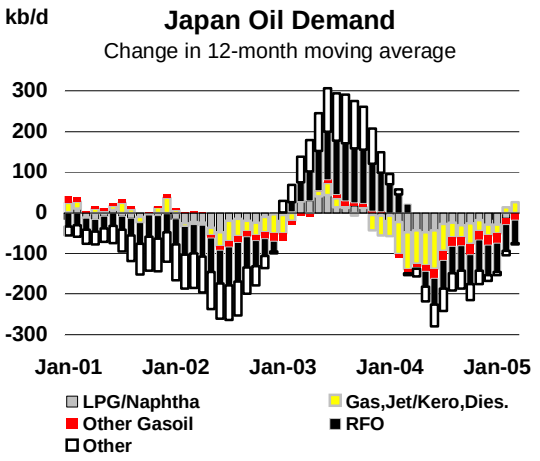
* defined as the percentage change between the demand average for the 12 months up to March and that of the same period a year earlier
** 50 states only

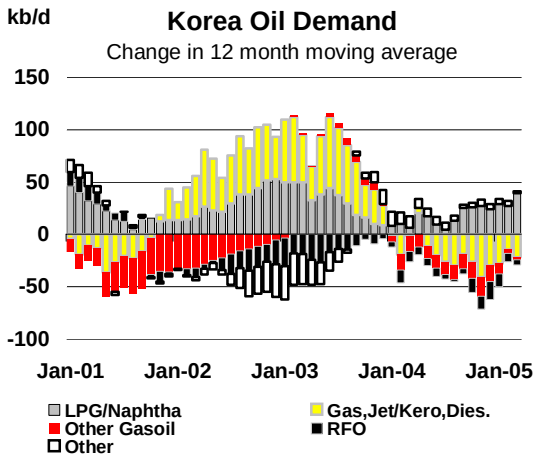
Early indications are that US demand for heating oil weakened as temperatures returned close to normal in April. Gasoline demand grew by only approximately 0.9%, compared to 2.6% last year, with deliveries slowing in the face of high retail prices. Barring a major readjustment to preliminary data, US deliveries are expected to increase by less than 1.0% in April.

Pacific

Including preliminary estimates for March, OECD Pacific demand grew by 210 kb/d (2.2%) in the first quarter of 2005, a 60 kb/d upward adjustment from last month's Report. Much of the increase in demand may be attributed to weather, as temperatures in Northeast Asia were below those experienced in the same period in 2004. Japanese demand for jet fuel/kerosene, which is used as heating fuel, grew by 60 kb/d in the first quarter of 2005. There are also some signs of renewed strength in the Korean economy as the consumption of industrial users, which accounts for roughly half of Korea's petroleum demand, rose by approximately 9.1%. Both road and air transport demand were also up in Korea.

In addition, although the Japan's demand for fuel oil and direct crude burning in power is well below peak levels witnessed in the summer of 2003, nuclear power capacity utilisation remains below expectations, boosting demand for oil in power at the margin. It appears that this situation may continue further and as a consequence, Japan's 2005 demand is adjusted upwards by approximately 60 kb/d. Japan's oil demand growth is now projected to remain unchanged in 2005 after a 140 kb/d decline in 2004. Taking all of these changes into account, the 2005 OECD Pacific demand projection is adjusted upwards by 70 kb/d. Demand is expected to grow by 70 kb/d in 2005 versus a decline of 150 kb/d in 2004.





Currently 10 of Tokyo Electric Power Company's (TEPCO) 17 nuclear power plants are on-line. Kansai Electric Power Company (KEPCO) has seven out of 11 of its plants on-line, with Mihama No.3 still experiencing an unplanned shutdown. Hokuriku Electric Company recently announced that it has started loading its Shiga No. 2 unit with nuclear fuel rods for a test run. Shiga No. 2 is expected to commence commercial operations in March 2006.

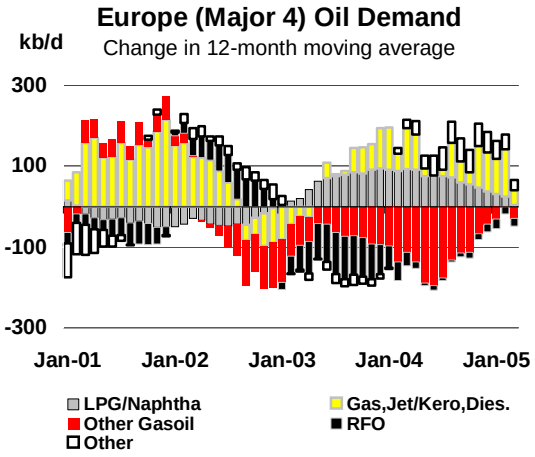
Among other developments of note, Korea has extended lower tariffs on oil imports to the end of 2005 in an effort to help mitigate the economic impact of high oil prices. On 30 April 2004, the Korean government cut the tariffs on crude oil by 2.0%, to 1.0% on crude and 5.0% on products.
The Korean government also plans to raise the domestic transport tax on diesel by 14.4% in July. This policy is part of its plan to bring the domestic retail price of diesel more in line with gasoline in an effort to reduce air pollution. The target is to increase diesel prices to 85% of gasoline prices by July 2007. Note that sales of diesel powered SUVs took off in Korea in recent years, partly in response to the price differential between diesel and gasoline. The Korean government also plans to cut the tax on LPG, which is widely used in taxis, so that the retail price eventually reaches 50% of that of gasoline.

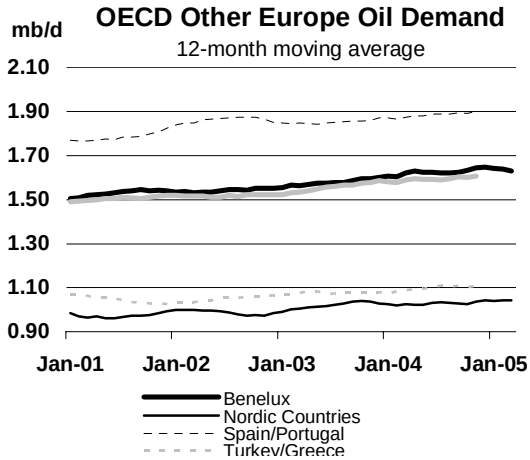
Europe

Preliminary indications are that March demand was much weaker than anticipated in Europe, especially in Germany, where diesel and heating oil consumption were sharply down. As a result, March demand was revised downwards by a substantial 540 kb/d. This was unexpected, as on the

whole March 2005 temperatures were similar to March 2004. Germany alone was responsible for 300 kb/d of the downward revision.

As discussed previously (see Overview of Early Indications of Current Demand), a large part of the German decline may be attributed to consumers' reluctance to purchase heating oil to refill tanks at relatively high prices, but a worsening economic situation is likely a contributing factor. German industrial output fell by a seasonally adjusted 0.8% in March, after falling by 2.1% in February. Early indications for the first part of April suggest that the weak demand trend continues, although temperatures were lower than the same period a year ago. With the revisions, European demand actually declined by 170 kb/d (1.1%) in the first quarter of 2005 and it is projected to decline by 30 kb/d (0.2%) for the year as a whole.



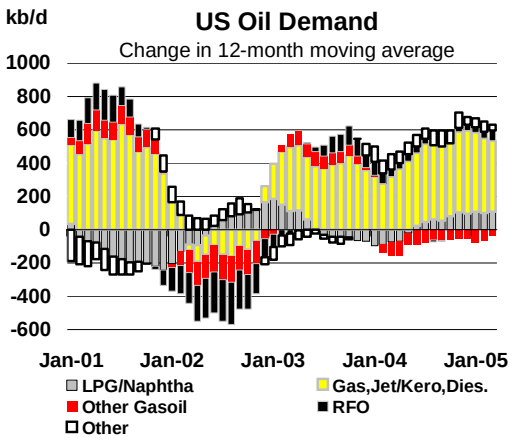


Residual fuel oil is one of the few products that appears to be poised for a substantial boost in certain areas of Europe as a drought is reducing hydropower output. The impact is particularly pronounced in Southwest Europe, with first quarter 2005 demand for residual fuel oil expected to grow by 20.7% in Spain, 46.2% in Portugal and 16.8% in France. Cold weather in February and March boosted electricity demand and exacerbated the impact of the drought. Warmer spring temperatures are likely to reduce demand for fuel oil as electricity demand falls, but demand is expected to rebound during the peak summer cooling season in the third quarter.

Among the other products, diesel demand is projected to increase by 90 kb/d in 2005 as it continues to replace gasoline at the margin. Gasoline demand is expected to decline by 60 kb/d over the same period. As in many areas, European demand for jet fuel/kerosene is projected to post solid growth of 40 kb/d (3.1%) in 2005.

North America

Preliminary indications for March 2005 are that North American demand grew by approximately 610 kb/d, or 2.5%, as cold weather drove demand in the US and Canada. Overall, both US and Mexican demand were 50 kb/d weaker than expected, while Canadian demand was 40 kb/d above expectations. Early US data for April indicate that consumption grew by about 0.8%, substantially weaker than projected last month.



US gasoline demand growth slowed to an estimated 1.2% in the first quarter versus 3.2% in the first quarter of 2004. There are also signs that diesel demand, which grew by 6.6% in 2004, may be on a weaker growth path. US truck tonnage fell 3.3% in March, following a 2.9% drop in February. Overall, projected North American demand growth is reduced by 10 kb/d, as a 30 kb/d reduction in US growth is balanced by a 20 kb/d upward revision to Canadian demand growth. Note that there were some minor revisions to Canada's historical data which led to a 10 kb/d upward revision to 2004 demand.

A limited part of the April 2005 US demand weakness may be attributed to somewhat warmer temperatures than in 2004. However, combined with data from the first quarter of 2005, there appears to be a weakening demand trend with the exception of two fuels—residual fuel oil and jet fuel/kerosene. Residual fuel oil demand grew by 10.4% in the first quarter as relatively high natural gas prices have driven many industrial and power users with fuel switching ability to move to fuel oil. It is unlikely that this growth will continue uninterrupted as there are limits to the switching capability of consumers. It must also be remembered that a substantial portion of fuel oil demand depends upon the price differential between natural gas and fuel oil. Growth in the demand for fuel oil is expected to slow in the latter part of the year.

In contrast to the rapid increase in demand for fuel oil, the first quarter 2.9% rise in US jet fuel/kerosene demand is a somewhat surprising in that it appears to be inconsistent with preliminary indications that US economic growth slowed in the first quarter of 2005. It should be noted, however, that there has been a rise in the blending of kerosene with gasoil to make diesel, which has boosted kerosene demand and jet fuel/kerosene demand has been strong at a global level.

On the whole, US demand is projected to grow by 260 kb/d in 2005 versus 490 kb/d in 2004. Residual fuel oil and jet fuel/kerosene demand account for approximately 25.7% (70 kb/d) of the projected 2005 growth, although these fuels comprise only 12.3% of total US demand.

Mexican demand grew by 50 kb/d and Canadian demand grew by 140 kb/d in the first quarter of 2005. Much of Canada's growth is linked to relatively cold weather. At the same time, Mexico's gasoline consumption stands out as it grew by 5.4% in the first quarter and it is expected to grow by 3.5-4.0% through the second and third quarters.

Fourth Quarter Demand: Will it Stretch the Market?

Typically, oil demand is relatively high in the fourth quarter as the seasonal needs of the major consuming regions in the northern hemisphere peak in the winter months. In the fourth quarter of 2004 global demand averaged 84.5 mb/d, a substantial 2.4 mb/d (2.9%) increase over the same period in 2003. Looking forward, a key question is whether a repeat of last year's robust fourth quarter demand growth will further stretch an already tight market, or if fourth quarter 2005 demand growth will be more moderate. On the whole, our projections point to lower demand growth of 1.7 mb/d in the fourth quarter as the key regions that drove 2004 demand growth are expected to slow in 2005.

North America - In the fourth quarter of 2004 North American demand grew by a robust 760 kb/d (3.1%). The strong growth may be attributed in large part to 7.7% growth in US diesel demand associated with relatively strong economic growth, as well as a 16.9% increase in US demand for residual fuel oil as high gas prices led to interfuel substitution at the margin. Moving into 2005, the US economy has shown some signs (but not yet conclusive) of weakening and diesel demand growth has slowed through the first quarter, a trend which is expected to continue through the end of the year. In addition, although natural gas prices may remain at relatively high levels through the winter of 2005-2006, the opportunity for additional interfuel substitution beyond that seen last year is limited. Overall, North American oil demand is projected to grow by 260 kb/d in the fourth quarter of 2005—500 kb/d less than the same period in 2004.

China - Chinese apparent demand grew by 670 kb/d (11.5%) in the fourth quarter of 2004. There is anecdotal evidence that 2-3% (130-200 kb/d) of the increase in apparent demand may be attributed to stock changes that were not in line with normal seasonal patterns, and thus actual demand growth may have been somewhat lower (see China section). As a consequence, assuming that the fourth quarter 2004 pattern of stock changes is not repeated, fourth quarter 2005 apparent demand growth is likely to be lower when viewed against an inflated 2004 baseline. In addition, there are some early signs (e.g., slowing auto sales) that government efforts to slow the economy, and thus energy demand growth, may be starting to take hold. This should help limit fourth quarter apparent demand growth to a projected 520 kb/d (8.0%).

Although it appears likely that global demand will grow by a more moderate 2.0% in the fourth quarter of 2005, there are numerous uncertainties. In the fourth quarter of 2004 it was somewhat warmer in key consuming areas than the same period in 2003, and obviously extended periods of cold weather in the fourth quarter of 2005 would increase demand. As an example, cold weather in February/March 2005 contributed to almost a 1.0 mb/d increase in oil product demand over a period of several weeks in the OECD alone. In addition, while preliminary data indicate that US economic growth slowed to 3.1% in the first quarter of 2005, this may have only been a brief pause before it picks up again. Finally, if China's product prices are adjusted to move more in line with international prices we could see a return to higher consumption growth as the market is more effectively supplied and rationing/regional shortages are reduced.

Non-OECD

China

Preliminary March data, combined with more detailed February refinery product output estimates, indicate that China's apparent demand growth weakened considerably in the first quarter of 2005. Apparent demand is estimated to have grown by 280 kb/d (4.5%), down substantially from the 1.01 mb/d (19.3%) growth witnessed in the first quarter of 2004.

This sharp decline may be attributed partly to the government policy of limiting increases in the retail price of gasoline and (especially) diesel in spite of substantial increases in international market prices. As a consequence, where possible domestic trading companies have avoided importing products and tried to boost exports into the more lucrative international market, which reduces apparent demand. Recent moves to increase the retail price of diesel by 4% will likely have only a marginal impact. Overall, net product imports fell to only 330 kb/d in March 2005, a 240 kb/d decline from March 2004 and the lowest level seen since April 2003.

Refinery output grew by an estimated 8% in the first quarter of 2005. Looking forward, domestic refiners are expected to continue to increase crude runs as additional refining capacity comes on line. At the same time, product imports could be much weaker than last year. In April 2004, net product imports peaked at 990 kb/d as 780 kb/d of fuel oil was imported, primarily for power generation and as a feedstock for small independent refineries seeking to produce gasoil that was widely used in small diesel powered generators. There is strong anecdotal evidence that fuel oil imports were much lower in April this year. This is largely due to some oil-fired power generators, which face fixed retail electricity prices, shutting down rather than incurring large losses associated with high import costs for fuel. In addition, many small refiners were squeezed between low fixed diesel prices and relatively high-priced imported fuel oil and chose to reduce runs or shut down.

As a consequence of these developments, China's projected apparent demand growth in 2005 is revised down by some 30 kb/d, to 470 kb/d (7.4%). Overall, it appears that year-on-year demand growth is likely to remain weak through the second quarter of 2005, as demand grew by an astonishing 24.6% in the same period last year. Granted, second quarter 2004 demand growth was boosted somewhat by the recovery from SARS, but as discussed above, net imports are expected to be much lower in the second quarter of this year. Currently apparent demand is projected to grow by 6.1% in the second quarter, but uncertainty around the forecast is skewed towards the downside.

China Crude & Product Trade
(thousand barrels per day)

	2003	2004	2Q04	3Q04	4Q04	1Q05	Jan 05	Feb 05	Mar 05	Latest month vs. Feb 05	Latest month vs. Mar 04
Net Imports/(Exports) of:											
Crude Oil	**1664**	**2346**	**2371**	**2232**	**2491**	**2305**	**1722**	**2691**	**2540**	**-151**	**461**
Products & Feedstocks	**442**	**661**	**849**	**545**	**653**	**502**	**623**	**558**	**330**	**-229**	**-238**
Gasoil/Diesel	-28	43	50	21	79	-6	8	1	-27	-28	-50
Gasoline	-175	-125	-141	-146	-117	-151	-128	-112	-210	-98	-70
Heavy Fuel Oil	407	506	653	412	515	480	567	417	449	32	-12
LPG	202	201	227	222	184	200	187	241	176	-65	26
Naphtha	-22	-33	-11	-48	-51	-49	-49	-26	-71	-45	-58
Jet & Kerosene	1	16	15	19	8	6	15	6	-2	-8	-24
Other	58	52	56	64	34	22	24	30	14	-17	-50
Total	**2106**	**3008**	**3220**	**2777**	**3144**	**2807**	**2345**	**3250**	**2870**	**-380**	**223**

Sources: China Oil, Gas and Petrochemicals plus IEA estimates

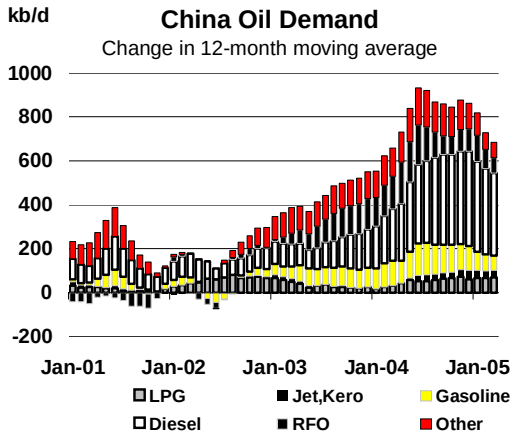
While China's apparent demand growth has weakened in recent months, there are some reasons to believe that growth will rebound in the latter part of 2005. China's gross domestic product is reported to have grown by 9.5% in the first quarter of 2005. This is not entirely consistent with weakening oil demand growth, and if the economy continues to expand at a relatively rapid clip, stronger demand growth could return. In addition, although we have not seen evidence of widespread shortages, there are some indications of rationing and limited shortages in some areas. As a consequence, if diesel prices were raised to levels that were closer to international prices, consumption could increase somewhat as suppliers would be more inclined to supply the domestic market rather than exporting

products. While higher prices leading to increased consumption appears counter-intuitive, it is consistent with situations where below market pricing has led to shortages.

China Demand Forecast Summary

	Demand (kb/d)			Annual Change (kb/d)		Annual Change (%)	
	2003	2004	2005	2004	2005	2004	2005
LPG & Ethane	539	599	650	60	51	11.1	8.5
Naphtha	621	681	761	60	81	9.6	11.9
Motor Gasoline	963	1074	1145	111	71	11.5	6.6
Jet & Kerosene	190	231	252	41	21	21.4	9.2
Gas/Diesel Oil	1720	2152	2347	432	195	25.1	9.1
Residual Fuel Oil	810	911	936	101	25	12.5	2.8
Other Products	673	730	758	57	28	8.5	3.8
kb/d	**5517**	**6379**	**6852**	**863**	**472**	**15.6**	**7.4**

Finally, in assessing developments in China in the first quarter of 2005 it is critical to note the distinction between actual demand, which accounts for stock changes, and apparent demand (defined as the sum of domestic refinery output and net product imports with adjustments for direct crude burning, smuggling and unreported refinery output), which does not adjust for stock changes. This distinction is important because there is anecdotal evidence that there was a stock build at the end of 2004, which was balanced by a stock draw in the first part of 2005. As a consequence, in the fourth quarter of 2004 actual demand growth was perhaps 2-3% less than the estimated 11.5% growth in apparent demand. In addition, actual demand may have grown by 2-3% faster than the preliminary 4.5% growth in apparent demand observed in the first quarter of 2005 would suggest. Taken together, this would imply a much smoother demand trend and certainly less of a drop-off in first quarter 2005 demand growth.

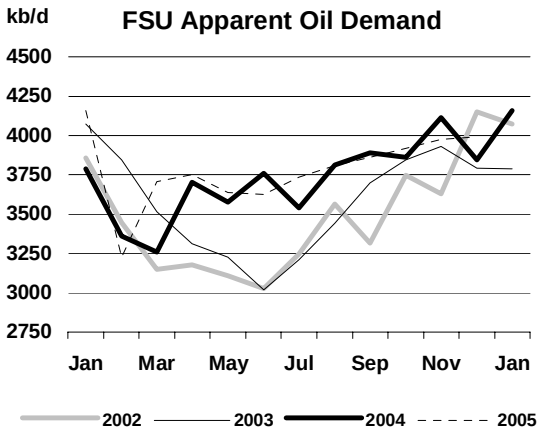


FSU

FSU apparent demand (defined as the difference between crude production and net exports of crude and products) is projected to grow by 80 kb/d (2.1%) in 2005. This 30 kb/d increase from last month's Report is primarily attributed to a large decrease in March exports, which offsets a decrease in April production. It is important to note that FSU production and exports estimates tend to vary substantially from month to month with outages, shipping disruptions, data revisions, etc., and as a result FSU apparent demand estimates can be quite volatile.

Other Non-OECD

Preliminary data show that India's demand grew by 3.3% in the first quarter of 2005. Demand growth is expected to slow to 2.6% in the second quarter of this year. Although second quarter growth appears modest, it must be remembered that demand increased by an exceptionally strong 8.8% in the second quarter of 2004, thanks in large part to a very good harvest and robust activity in the agricultural sector. This season's harvest is also expected to be good, but when viewed next to the high 2004 baseline, the margin for additional use of gasoil is limited and overall oil product demand growth is likely to be relatively flat.



In contrast, recent weather reports indicate that the coming monsoon, which typically starts at the beginning of June, will likely produce more consistent rains than last year. This will in turn lead to a better harvest at the end of the year. As a result of erratic rains during last year's summer monsoon, farm output fell by 1.1% in the fourth quarter of 2005, which acted to slow the economy and oil product demand. Agriculture accounts for about a quarter of India's GDP and nearly two-thirds of the population earns some income from agriculture. Although it is still very early to ascertain the exact impact of the coming monsoon, fourth quarter 2005 demand growth is revised upwards from 90 kb/d to 120 kb/d. Overall, 2005 demand growth is revised upwards by some 20 kb/d, to 90 kb/d (3.5%).

India Crude & Product Trade
(thousand barrels per day)

	2004	2004	1Q04	2Q04	3Q04	4Q04	Dec 04	Jan 04	Feb 05[1]	Latest month vs. Jan 05	Latest month vs. Feb 04
Net Imports/(Exports) of:											
Crude Oil	**1945**	**1945**	**1938**	**2090**	**2013**	**1742**	**1649**	**2048**	**1827**	**-221**	**27**
(by Public Oil Cos)	**1158**	**1158**	**1105**	**1312**	**1214**	**1000**	**903**	**1149**	**1100**	**-49**	**97**
Products & Feedstocks	**-176**	**-176**	**-132**	**-173**	**-178**	**-222**	**-160**	**-135**	**-75**	**60**	**111**
Gasoil/Diesel	-139	-139	-137	-135	-122	-162	-149	-134	-102	31	51
Gasoline	-75	-75	-77	-67	-75	-80	-75	-71	-23	48	75
Heavy Fuel Oil	-6	-6	-12	13	-5	-20	2	-3	-7	-4	25
LPG	86	86	90	39	86	128	128	109	95	-15	7
Naphtha	-7	-7	19	10	-29	-25	-22	-23	-41	-17	-59
Jet & Kerosene	-47	-47	-29	-44	-43	-74	-58	-30	-21	9	-5
Other	12	12	14	12	9	12	13	17	25	8	16
Total	**1769**	**1769**	**1807**	**1917**	**1834**	**1520**	**1489**	**1913**	**1752**	**-161**	**138**

1 Preliminary
Sources: Indian Ministry of Commerce, Indian Port Authorities and IEA estimates

Malaysia recently decided to raise the retail price of gasoline and diesel and thus reduce government subsidies. This followed a failed attempt to limit smuggling and unauthorised domestic use by imposing strict rationing which triggered nationwide diesel shortages. On 5 May, the price of gasoline was increased by roughly 7% and diesel by 20%. Among other developments in Southeast Asian product pricing, Thai diesel demand is reported to be holding up in the first few weeks after a 20% price increase in March. The diesel price remains almost 30% below the price of premium gasoline, so motorists are choosing to use diesel vehicles where possible. The Thai government maintains that it has no plans to raise diesel prices further.

As a final note, historical data from the Middle East, Africa and Other Asia have been revised as a number of updates have become available.

SUPPLY

Summary

- **World oil supply** increased by 435 kb/d in April to reach 84.5 mb/d. Estimates for first quarter supply were revised down by 85 kb/d, largely due to downward revised OPEC crude supply. In April however, a rise of 480 kb/d from OPEC was the key driver, with non-OPEC supply rising by only 30 kb/d and OPEC other liquids falling by 75 kb/d. The contribution of OPEC crude is yet more pronounced in a yearly comparison. First quarter OPEC crude is up by 875 kb/d on 2004, with OPEC other liquids up by 395 kb/d. In comparison, non-OPEC supply is up by only 215 kb/d.

- **Non–OPEC supply** has been revised up by 55 kb/d for 2005 and now averages 51.0 mb/d, growing by 955 kb/d versus 2004. The continued swing away from mature OECD producing areas in 2005 is apparent, as OECD production sees a third straight year of decline, slipping by 165 kb/d to 21.1 mb/d. Mexican production in particular has been revised downwards. In contrast, non-OECD supply gains amount to 1.1 mb/d this year, with upward revisions made this month to China, Vietnam and Yemen. Non-OPEC growth is heavily weighted towards the second half of the year, when growth averages 1.5 mb/d versus second half 2004.

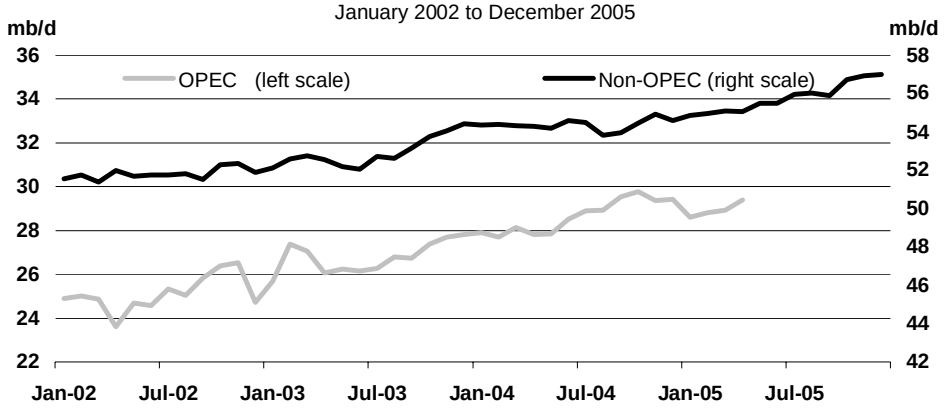
- **OPEC crude supply** increased by 480 kb/d in April to 29.4 mb/d. The March OPEC figure was revised down by 220 kb/d to 28.9 mb/d in light of sharply lower Iranian supply and more modest downward adjustments for Venezuela, UAE and Iraq. April's rise was widespread, including a rebound in Iranian supply plus continued increases from Saudi Arabia, UAE and Nigeria. Iraqi supply held flat around 1.8 mb/d, with higher exports countered by lower domestic crude runs.

- Little change was recorded in **OPEC spare capacity**, as rising production counteracted the adoption of the high end of the previous capacity range used for Saudi Arabia, specifically 10.5 mb/d. Given possible definitional differences, this is not inconsistent with recent Saudi claims on capacity. Total OPEC spare capacity averaged 2.1 mb/d based on April production. However, effective spare capacity excluding Indonesia, Iraq, Nigeria and Venezuela, which all have question marks over immediately operable capacity, is a more modest 1.3 mb/d.

- **The 'call on OPEC crude and stock change'** remains at 28.5 mb/d for 2005, some 400 kb/d higher than in 2004. Weaker demand data pull down the first quarter call by 300 kb/d to 29.3 mb/d. The next high point in the call, the fourth quarter's 29.3 mb/d, lies below OPEC's current output and capacity. The market impact of the rising winter call could also be cushioned by higher stocks and a wider margin of OPEC spare capacity expected for that period.

OPEC Crude and Non-OPEC Oil Supply [1]

January 2002 to December 2005



1 Non-OPEC Oil Supply includes OPEC NGLs, condensate and non-conventional oil

All world oil supply figures for April discussed in this Report are IEA estimates. Estimates for OPEC countries, Alaska, Egypt and Russia are supported by preliminary April crude supply data.

Note: Random events present downside risk to the non-OPEC production forecast contained in this Report. These events can include accidents, unplanned or unannounced maintenance, technical problems, labour strikes, political unrest, guerrilla activity, wars and weather-related supply losses. Allowance has been made in the forecast for scheduled maintenance in all regions and for typical seasonal supply downturn in North America. These aside, no contingency allowance for random events is subtracted from the supply forecast. While upside variations can occur, experience in recent years indicates that the random events listed above may cause supply losses of between 300 kb/d and 400 kb/d for non-OPEC supply each year.

OPEC

OPEC April crude supply increased by 480 kb/d to reach 29.4 mb/d. March supply was revised down by 220 kb/d, with Iran, Venezuela, UAE and Iraq all now assessed lower. For April, however, all producers barring Qatar, Algeria and Indonesia are assessed to have increased output. The most significant increases came from Iran and Saudi Arabia (100 kb/d each), followed by UAE, Nigeria and Kuwait (50 kb/d each). Supply from the OPEC-10 averaged 27.6 mb/d, only marginally above the new output ceiling of 27.5 mb/d in place since 16 March. Iraqi supply remained close to 1.8 mb/d (net of stock change and re-injection) as a modest rise in exports was countered by ongoing problems in sustaining pipeline access to local refineries.

OPEC Crude Production

(million barrels per day)

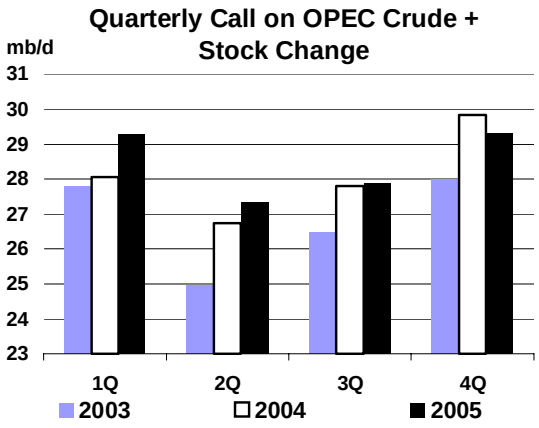
	16 Mar 2005 Target	April 2005 Production	Sustainable Production Capacity[1]	Spare Capacity vs. Apr 2005 Production	Production vs. Target
Algeria	0.88	1.35	1.35	0.00	0.47
Indonesia	1.43	0.95	1.00	0.05	-0.48
Iran	4.04	3.90	4.00	0.10	-0.14
Kuwait[2]	2.21	2.45	2.50	0.05	0.24
Libya	1.47	1.64	1.65	0.02	0.16
Nigeria	2.27	2.45	2.45	0.00	0.19
Qatar	0.71	0.78	0.80	0.02	0.07
Saudi Arabia[2]	8.94	9.45	10.50	1.05	0.51
UAE	2.40	2.45	2.55	0.10	0.05
Venezuela[3]	3.17	2.16	2.20	0.05	-1.01
Subtotal	**27.50**	**27.57**	**29.00**	**1.43**	**0.07**
Iraq		1.83	2.50	0.67	
Total		**29.40**	**31.50**	**2.10**	
(excluding Iraq, Nigeria, Venezuela, Indonesia				*1.34)*	

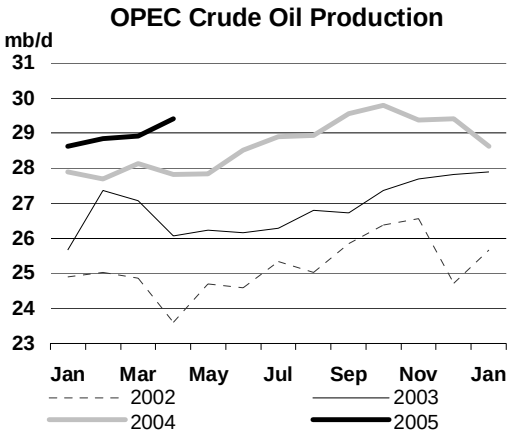
1. Capacity levels can be reached within 30 days and sustained for 90 days
2. Includes half of Neutral-Zone Production
3. Excludes upgraded Orinoco extra-heavy oil which averaged 488 kb/d in April

A further potential 500 kb/d increase in the OPEC-10 production ceiling to 28.0 mb/d was being discussed early in April as marker crude prices remained near $55/bbl. However, with a subsequent limited easing in prices, it now appears that any further quota discussion will be deferred at least until OPEC's next meeting on 15 June in Vienna. In any case, initial indications show a further substantial rise in OPEC supplies during May. Indeed, early May remarks attributed to the OPEC President put OPEC-10 production as high as 29.7 mb/d. This, however, seems unlikely and may have been a reference to OPEC-11 or an attempt to massage down stubbornly high prices. In any case, the ability of the market to absorb such inflated volumes of predominantly heavy, sour crude must also be called into question. The limited price impact of nonetheless high OPEC production levels only serves to emphasise the lack of control OPEC currently exercises over the market, in an environment of low spare capacity with both production and price targets effectively suspended for now.

With all of OPEC except Saudi Arabia producing at or around sustainable capacity levels, the thin margin of supply side flexibility continues to keep the market on edge. This Report sees current spare capacity around 2.1 mb/d (or around 1.3 mb/d if Indonesia, Iraq, Nigeria and Venezuela are excluded). Pronouncements on imminent or future capacity increases from Saudi Arabia, Kuwait, Nigeria, Iran and Iraq during April appeared designed to quell such capacity fears, although the extent and timing of the capacity additions from some of the smaller producers remain unclear.

Notwithstanding, incremental capacity is being added in 2005, potentially pushing total OPEC capacity in excess of 32.0 mb/d by the end of the year. Iran, Kuwait, Nigeria, UAE, Libya and Qatar all have significant new field or new facility developments, albeit countered in part by decline or shut-ins elsewhere.





Analysis of supply developments in **Iraq** in April was complicated by conflicting reports on tanker activity during the month at the southern ports of Basrah and Khor al-Amaya. Weekly loading indications suggested an increase of some 200 kb/d in exports compared to March levels. However, alternative tanker sailing information point towards less of an increase, in the order of 75 kb/d. Weather related loading delays early in the month and a lag between loadings and sailings point to some exports effectively having slipped from the April schedule into May. Combined with a number of conservative monthly production reports, this Report therefore sides with the lower number. Total Iraqi exports are assessed at 1.45 mb/d for April compared to 1.38 mb/d in March. However, the April export figure remains subject to revision in light of consolidated tanker data due in May.

Domestic crude consumption at refineries and for power generation is thought to have dipped to 380 kb/d, as pipeline supplies to the Baiji refinery were again disrupted. Net crude production therefore increased only modestly to 1.83 mb/d from 1.8 mb/d in March. Gross production remained close to 2.0 mb/d, including northern field re-injection and a reported 100 kb of crude shipped north to Ceyhan. Renewed test pipeline shipments via the Kirkuk-Ceyhan pipeline proved very short-lived, however, and had ceased at the time of writing due to a leak. Crude in storage at Ceyhan is believed to be below 1.0 mb and renewed export liftings are unlikely until sustained pipeline shipments facilitate a refilling of storage. These in turn await improved security for the pipeline, a priority for the new oil minister Ibrahim Bahr al-Ulum who was appointed in early May.

Iranian supply is thought to have rebounded in April after further downward adjustment affecting the assessment for March. As was the case for February, export data came in lower than anticipated, and at 2.35 mb/d these were the lowest in almost two years. Onshore Iranian Light and offshore Foroozan shipments fell back most sharply. March production is assessed at 3.76 mb/d but this is thought to have rebounded in April to 3.9 mb/d. Spot tanker sailings suggest higher April output, as do reports of higher wellhead production at the Soroush, Nowruz and Doroud fields. Equipment problems delaying expansion at the former two fields proved less pervasive than believed previously. Combined capacity from the two fields is expected to reach 190 kb/d from a prevailing 50 kb/d within two months, although Iranian capacity in this Report is held unchanged for now at 4.0 mb/d.

Production from **Saudi Arabia** is assessed to have moved higher again in April, reaching 9.45 mb/d for the month versus 9.35 mb/d in March. Late April appears to have seen a further rise in Saudi supply, potentially in excess of 9.5 mb/d. Spot tanker chartering by Saudi shipping arm Vela (primarily used to ship barrels to the Americas) increased from 8 mb to 16 mb for May. Meanwhile, Asian term nominations for May also increased. The steady increase in Saudi supplies since January indicates the Kingdom's tacit policy of tailoring production to allow stocks in consuming countries to move higher. However, the Kingdom's willingness to countenance such stock increases may prove short-lived. Formula prices recently announced for June show sharp increases for US and European customers, and actual output might be expected to recede as a result. Nonetheless, Saudi Arabian sources in April reiterated the Kingdom's intention to boost capacity substantially for the medium term (see below).

Narrowing In On Saudi Capacity

This Report began incorporating a range of 10.0-10.5 mb/d for Saudi Arabia's sustainable crude oil production capacity from early December 2004. This represented a substantial upward revision from the earlier estimate of 9.5 mb/d and was backed up by an evident increase in Saudi drilling and the activation of incremental production from the Qatif and Abu Safah fields. Subsequently, much analytical attention has been focussed on Saudi production potential, which the Kingdom itself cites currently as around 11 mb/d, with plans for this to increase to 12.5 mb/d by late decade.

Following a review of a range of recent indicators for production and exports, this Report's assessment has been further refined to 10.5 mb/d. We believe the apparent anomaly between this and Saudi claims of a level closer to 11 mb/d represent more a definitional difference than fundamental disagreement over ultimate production potential. This Report defines sustainable crude production capacity for all OPEC producers as that which can be reached within 30 days and sustained immediately thereafter for 90 days. Higher production levels may indeed be possible if more time is allowed to reach such capacity levels, or to undertake the necessary drilling and pressure maintenance to sustain them for three months. For example, higher estimates for capacity, from the Saudis and others, may wholly or partly include 200-400 kb/d of currently mothballed capacity. Shut-in production at fields such as Khurais, Khursaniyah and Manifa may take longer to activate or sustain at capacity than under the strict definition above. More field-specific information would help to clarify this area of potential confusion.

The issue is further clouded by the treatment of condensates, some 150-200 kb/d of which has traditionally been spiked into crude export streams but which logically lies outside crude quota and capacity considerations. There is also around 150 kb/d of crude produced from the recently-expanded Abu Safah field, revenues from which accrue to Bahrain. We therefore count 150 kb/d of Abu Safah capacity as belonging to Saudi Arabia and 150 kb/d to Bahrain.

Setting aside the different starting point, Saudi Oil Minister Ali al-Naimi itemised in April the Kingdom's plans for capacity expansion in the near future, which are focussed on lighter Saudi crude grades. From an early 2005 level of 11 mb/d, capacity additions running consecutively from 2006 to 2009 come from Haradh (300 kb/d), Abu Hadriyah/al–Fadhili/Khursaniyah (500 kb/d), Shaybah (300 kb/d) and Khurais (1.2 mb/d). Further incremental supply of up to 1.0 mb/d of Arab Heavy from the offshore Manifa field could be brought onstream beyond end decade. With total 2009/2010 capacity cited at 12.5 mb/d, the inferred net decline rate for existing Saudi production is therefore between 1-1.5% per annum depending on when the full aggregate capacity level is to be attained. Clearly, the realisation of this capacity plan will require a sustained drilling effort to keep in check decline levels at mature fields.

As regards **Nigerian** supply, April began with confirmation that the proposed three day oil workers strike from 11 April had been suspended. Supply in April is thought to have increased by some 50 kb/d, reaching sustainable capacity levels of 2.45 mb/d. The country has pushed exports higher on a consistent basis since January. In contrast, although refinery operations have nudged above depressed 2004 levels, these remain at or slightly below 50% of 445 kb/d capacity. The Warri refinery was scheduled to be closed in the first week of May for a power plant refit and the reactivation of a fluid catalytic cracker. This could lead to increased crude exports in the early part of May although not necessarily signalling increased crude production.

Nigeria has ambitious capacity expansion plans and in April cited targets of 3.0 mb/d by the end of 2005 and 4.5 mb/d by 2010. The country is pushing for a higher share of OPEC target production. However, there is ambiguity both over the extent of decline rates from existing fields and as to whether the stated capacity targets are solely for crude or include gas liquids. Despite this, and concerns over changes in the licensing regime, plus the ongoing threats from ethnic and industrial unrest, Nigeria will bring substantial new deepwater offshore production onstream in the next few years. Shell announced in April a likely start of the 225 kb/d Bonga field by August, while ExxonMobil expects first oil from the 150 kb/d Erha field in first quarter 2006. Total recently obtained approval to begin development of the Akpo gas and condensate field while ChevronTexaco has awarded equipment contracts for the 250 kb/d Agbami field, due onstream in 2007.

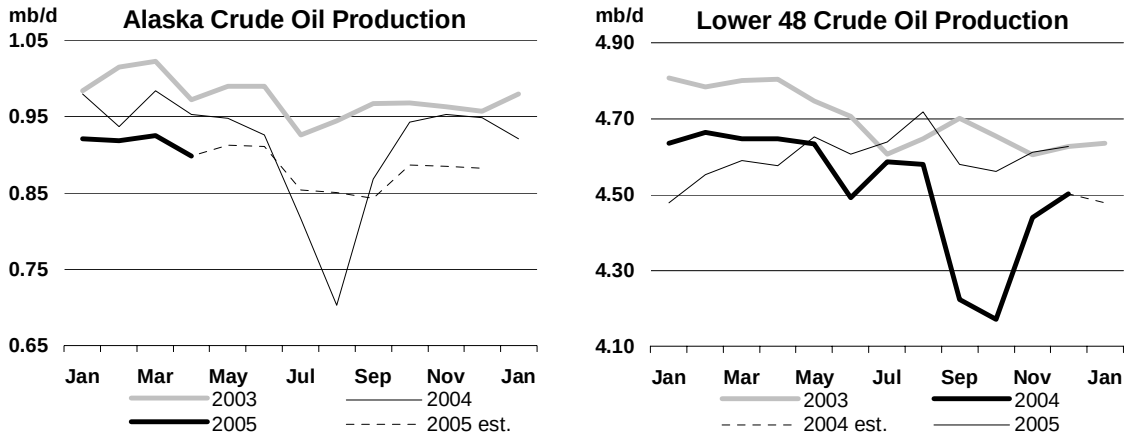
Trends in importing country receipts of **Venezuelan** crude result in a modest downward adjustment to the country's supply for January-March 2005. Conventional crude output (excluding production from the four operating synthetic crude projects) for March is now assessed at 2.12 mb/d (with the syncrude units producing a further 590 kb/d). Maintenance in April at the 120 kb/d Petrozuata syncrude unit is believed to have cut output by 85% for the month as a whole. However, this resulted in increased sales of un-upgraded crude last month, and Venezuelan conventional crude supply is therefore assessed up by 35 kb/d, at 2.16 mb/d. Despite the increase, the Venezuelan authorities appeared in early May to acknowledge the problems faced in restoring and sustaining western area production levels after the 2002/2003 strike. President Hugo Chavez blamed lack of maintenance and possible sabotage for the fact that western production was lagging by 100 kb/d versus budgeted levels.

Operating terms for foreign companies in the Venezuelan upstream remain prone to revision. After royalty rates for the syncrude joint venture schemes were increased last year, separately companies with operating service agreements in Venezuela are now to see income tax raised from 34% to 50%. The changes will reportedly not affect the synthetic crude projects.

OECD

North America

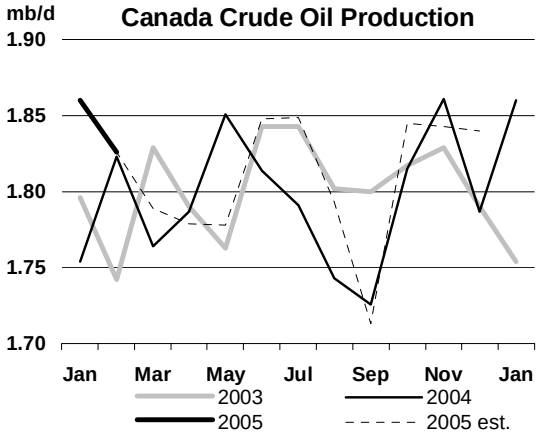
US – April Alaska partly estimated, others estimated: Indications of lower April supply from Alaska were the key reason behind a 40 kb/d fall in US crude production, which slipped to 5.47 mb/d. Weekly US supply data also suggest a March to April decline in NGL production. Alaska's decline was largely the result of seasonal factors and scheduled maintenance. Overall, revisions to the US oil supply forecast for 2005 are minimal. Lower expectations for Texas and California are countered by modest upward revisions for NGL and oxygenate supply. The outlook for US supply in 2005 remains one of rebound from the disruption-prone levels of 2004. Crude production is expected to rise by 60 kb/d to 5.5 mb/d, while total oil supply increases by 110 kb/d to 7.78 mb/d. The key contributor to higher supply is the US Gulf of Mexico, where output is expected to rise by 180 kb/d and average 1.62 mb/d in 2005. The bulk of the increase comes in the second half of the year, when outages due to last year's Hurricane Ivan are assumed to become minimal and when the impact of some six new field start-ups becomes evident. This is despite a now lower expectation for third quarter supply, when Shell will undertake maintenance on the Mars and Auger facilities.

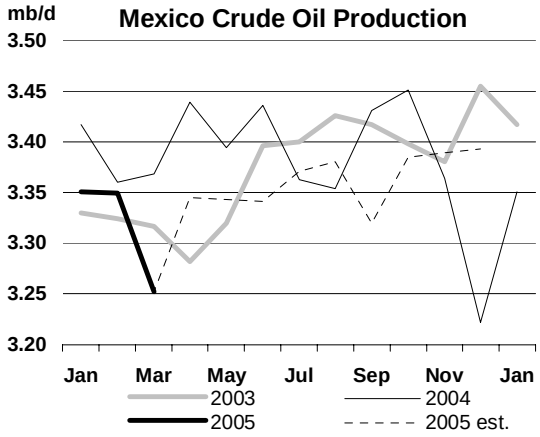


Canada – February actual: Canadian oil production in February and March seems to have matched this Report's earlier expectations, declining by 80 kb/d and 120 kb/d respectively as production from major syncrude plants, from offshore east coast and of NGL declined. Recovery in total output is thought to have begun in April, estimated up by 30 kb/d to 2.87 mb/d, with a further gain of 100 kb/d expected for May. However, earlier unplanned outages at both the Shell and Syncrude upgrader projects ran on into early April. Total syncrude supply is unlikely to regain capacity levels in excess of 600 kb/d until third quarter. As a result, lower syncrude production drives a 60 kb/d reduction this year in total Canadian oil production, which averages 3.03 mb/d. The fall in syncrude supply is only partly countered by a 40 kb/d rise in un-upgraded bitumen output.

Canada's oil sands are seen as the key area for future oil supply expansion, despite constraints on labour supply, fuel and export infrastructure. However, April saw some progress on the latter

element, with news that PetroChina had agreed to invest in a project promoted by Enbridge which envisages a 400 kb/d pipeline from Alberta to the Canadian west coast by 2009. This represents a key diversification away from Canada's traditional export markets in the US.



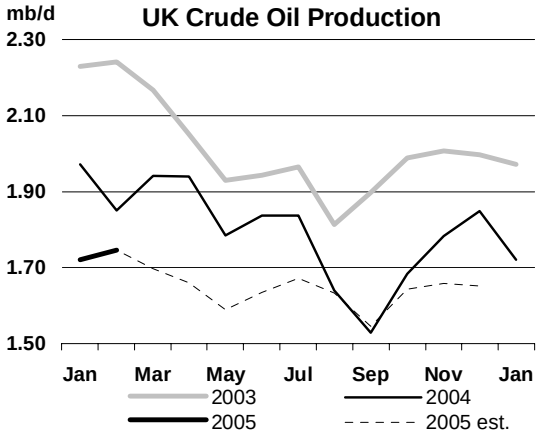


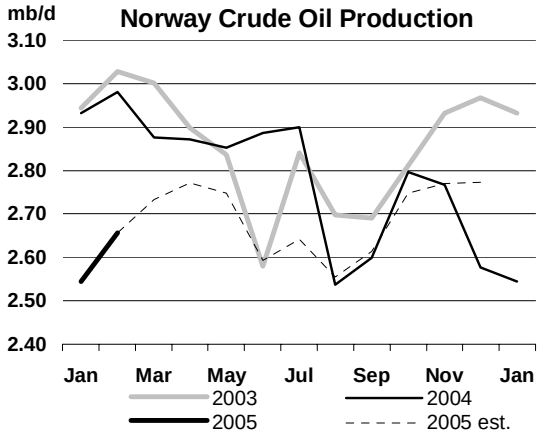
Mexico – March actual: Mexican crude production again slipped below 3.3 mb/d in March, as it did last December. March crude production was off by 100 kb/d from February at 3.25 mb/d, while NGL production fell by some 20 kb/d to 415 kb/d. Output of the country's predominant offshore-derived heavy grades underpinned the fall in crude. Meanwhile, March exports were down by 40 kb/d at 1.86 mb/d. Sales to Asian and American destinations fell but exports to Europe increased sharply.

Pemex sources have again suggested the imminent onset of decline at the Cantarell oilfield which accounts for 65% of Mexican crude output. New field development projects intended to replace this decline are believed unlikely to contribute before 2006. With decline in production evident since mid-2004, even allowing for some recovery from low March levels, Mexican supply has been revised down for 2005. Crude output is now seen declining by 30 kb/d to 3.35 mb/d this year while NGL supply is held flat at 440 kb/d.

North Sea

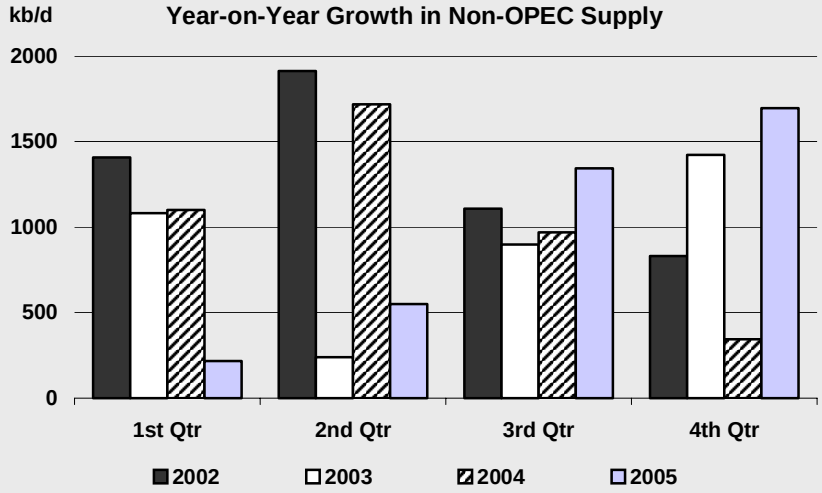
UK – February actual: UK total oil production in February slipped to around 2.0 mb/d. A combination of loading programmes for the key offshore production systems and initial indications of maintenance schedules suggest that further decline in production through May is likely, output possibly reaching 1.83 mb/d for the current month. All in all, UK production is seen averaging 1.9 mb/d in 2005 compared to 2.05 mb/d in 2004. This represents a 15 kb/d downward adjustment from last month's projection. Lower than expected first quarter performance from the west of Shetlands area and offshore loaded fields is carried through the forecast period. However, a minor addition to UK liquids production in 2005 comes from the Forvie North gas/condensate project which is due to start up towards the end of the year after recently receiving government development approval. The field will be developed as a satellite to the existing Alwyn North field.





The Perils of Extrapolation

Non-OPEC supply growth has slowed sharply in recent months. Nudging 1.7 mb/d in second quarter 2004, year-on-year growth slipped to 350 kb/d in fourth quarter and to 215 kb/d in the quarter just past. In the current bull market, some have latched on to the very latest market trends as the key driver for the months ahead. A case in point is the 2004 'demand shock', when global oil consumption rose by 3.4% versus historical norms closer to 2%. Concerns over the inadequacy of supply capacity to meet continued demand growth at these levels have been widespread. However if, as this Report expects, demand growth begins to slow, then supply and demand appear less out of step. Similarly, there has been a temptation to simply extrapolate the recent deceleration in Russian and other non-OPEC supply growth, citing a structural slowdown but ignoring temporary factors and impending new investment.



There is of course the possibility that non-OPEC supply will again be hit by unexpected events but, notwithstanding, a look further back than the last quarter is instructive. So too is a review of the sheer number of new field development projects likely to augment non-OPEC supplies in 2005. Growth is now likely to be heavily concentrated in the second half of the year, with sluggish performance continuing through mid-year for seasonal and maintenance-related reasons. But the pattern and extent of the late 2005 non-OPEC rebound are hardly unprecedented.

Supply growth in the second half of 2005 could average 1.5 mb/d. This is a marked recovery compared to growth since last autumn, but nonetheless similar growth was evident in four of the past 13 quarters. The extent of rebounding supply itself tends to be exaggerated by the relative weakness evident in the corresponding quarter of the previous year. On a trend basis, the converse is also true, with exceptional quarterly growth in one year tending to be followed by an apparent slowdown the following year. Not surprisingly, second quarter 2004 saw a rebound from the exceptional losses of North Sea crude and US gas liquids evident in 2003. Similarly, without an equally severe hurricane season, 2005 should see rebounding autumn/winter US supply.

Furthermore, around 60 new field development and expansion projects outside Russia build, by the second half of 2005, to a total 2-2.5 mb/d of production. Russian production too is forecast to recover from a sluggish start, with some companies now expecting stronger growth than was anticipated in late 2004/early 2005. Add in assumed recovery at existing fields in the Gulf of Mexico, North Sea, Canada and Australia currently hit by maintenance, unscheduled outages and seasonal reductions, and the scope for sharply higher late-2005 non-OPEC supply is clear.

Norway – February actual, March provisional: Norwegian liquids supply now appears to have rebounded fairly sharply through the first quarter from a January low of 3.0 mb/d. Provisional March estimates put overall supply at 3.18 mb/d, of which some 2.75 mb/d is crude oil. Outages affecting the Statfjord-Gullfaks system appear to have been resolved, although the Draugen field in the northern Haltenbanken area was affected by a condensate leak through to mid-March. Total output is thought to have broken through the 3.2 mb/d level again in April but could dip again into a 3.0-3.1 mb/d range during May to September. Latest available information suggests an average of 150 kb/d of Norwegian production could be offline during this five month period under scheduled maintenance plans. This represents both a slightly lower annual level of maintenance, and one that shows less pronounced spring and autumn peaks than in 2004. Forecast Norwegian oil production for 2005 is largely unchanged compared to last month, as lower NGL and condensate volumes are countered by higher estimates for crude from the Oseberg/Troll and Statfjord/Gullfaks systems. In total, Norwegian oil production falls from 3.19 mb/d in 2004 to 3.14 mb/d in 2005.

Former Soviet Union (FSU)

Russia – March final, April provisional: April oil supply averaged 9.34 mb/d compared to 9.37 mb/d in March. Largely as a result of weak April performance, this Report has shaved 15 kb/d from the 2005 estimate of production, which now averages 9.57 mb/d. Growth in 2005 therefore slows to 340 kb/d (3.7%) compared to 740 kb/d (8.7%) in 2004. The projections for Yukos, BP-TNK, Gazprom and Rosneft have been revised down in light of actual March/April performance, although it is expected that output from Rosneft's Yuganskneftegaz assets could be bottoming out. BP-TNK too has retained a target of 5% growth for 2005, apparently undeterred by recent back-tax claims.

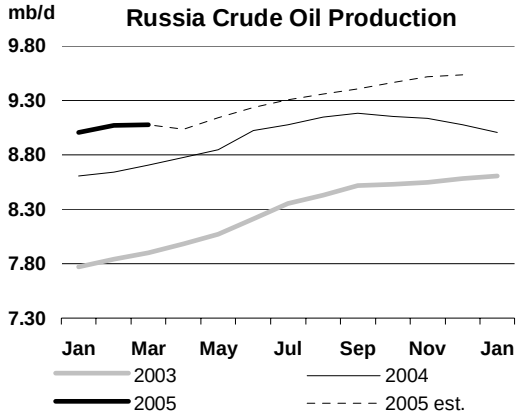
FSU Net Exports of Crude & Petroleum Products
(million barrels per day)

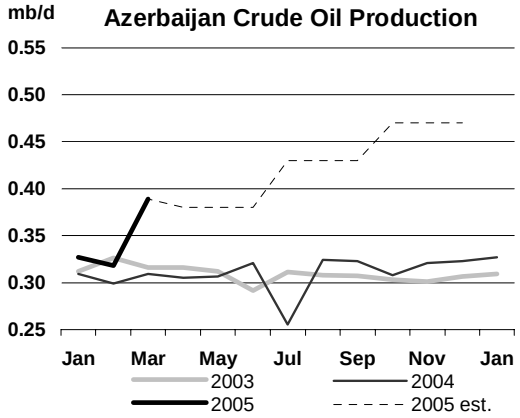
	2003	2004	2Q04	3Q04	4Q04	1Q05	Revised Jan 05	Revised Feb 05	Prelim. Mar 05	Latest month vs. Feb 05	Latest month vs. Mar 04
Black Sea Exports	2.80	2.84	2.75	2.87	2.91	2.71	2.57	2.83	2.76	-0.07	-0.34
Baltic/Arctic Exports	2.41	3.05	3.11	3.11	2.98	3.29	2.98	3.49	3.40	-0.09	0.35
Total Seaborne	**5.21**	**5.89**	**5.87**	**5.98**	**5.90**	**6.00**	**5.55**	**6.32**	**6.16**	**-0.16**	**0.02**
Druzhba Pipeline	1.06	1.07	1.04	1.08	1.09	1.08	1.06	1.13	1.05	-0.09	0.00
Other Routes	0.48	0.52	0.53	0.55	0.54	0.62	0.56	0.72	0.61	-0.11	0.15
Total Exports	**6.75**	**7.48**	**7.43**	**7.62**	**7.52**	**7.70**	**7.17**	**8.17**	**7.82**	**-0.36**	**0.16**
Imports	0.02	0.01	0.01	0.02	0.01	0.01	0.01	0.01	0.01	0.00	0.00
Total Net Exports	**6.73**	**7.47**	**7.42**	**7.61**	**7.51**	**7.69**	**7.16**	**8.16**	**7.80**	**-0.36**	**0.16**
Crude	4.70	5.21	5.18	5.26	5.31	5.31	4.96	5.58	5.42	-0.16	0.15
of which: Russian Crude	*3.48*	*3.74*	*3.82*	*3.71*	*3.83*	*3.98*	*3.74*	*4.10*	*4.11*	*0.01*	*0.35*
Products	2.05	2.28	2.25	2.36	2.21	2.39	2.21	2.59	2.40	-0.20	0.01

Sources: Petro-Logistics, IEA estimates

Offsetting the now lower expectations for these companies, Lukoil, Surgutneftegaz and Russneft all appear to be outperforming earlier expectations and retain healthy growth plans for 2005. Some seasonal increase in output should also materialise from existing facilities at the far eastern Sakhalin project over the next couple of months, with incremental oil also expected from the new Sakhalin 1 project in the summer. For now we are avoiding the temptation to cut the Russian forecast further, as some analysts have done in light of lower April supply. Given existing company expansion plans and the skewed profile of Russian growth in 2004, we would in any case expect Russian supply growth to be weaker early this year but stronger later in 2005.

FSU net exports fell back from record February levels in March to average 7.8 mb/d. Decline was weighted towards products as opposed to crude, and also focused on non-seaborne outlets. Total seaborne exports remained high, in excess of 6 mb/d. Although Russian seaborne crude export schedules for April had suggested a further increase, latest indications are that these slipped back from March levels, in part due to sharply higher crude export tariffs in force from 1 April. Higher products exports in April may have partly counteracted the fall in crude however. Russian seaborne crude exports are scheduled to increase again by 100 kb/d in May, with a sizeable proportion of the increase deriving from higher sailings from the Black Sea port of Novorossiysk.





Azerbaijan – March final: Total production from Azerbaijan increased by 70 kb/d in March, reaching 395 kb/d. The increase derived entirely from the offshore Azeri field with operating consortium AIOC's total production now averaging in excess of 200 kb/d. Total forecast production from Azerbaijan for 2005 remains around 415 kb/d, an increase of 100 kb/d from 2004. However, the profile of AIOC production has been flattened compared to the last forecast, with higher volumes now expected through the third quarter but a lower peak of around 290 kb/d reached by the end of the year. Despite the healthy growth in supply expected in the short to medium term from the ACG project, there are concerns about longer-term prospects. A lack of recent exploration successes offshore, together with environmental obligations for rapidly depleting onshore fields, has discouraged some foreign companies from extending their upstream presence in Azerbaijan.

Other Non-OPEC

Revisions to other non-OPEC estimates: Production from **China** during first quarter 2005 showed a much stronger than expected trend. However it was not the much-heralded offshore which accounted for the increase. Rather, this was due to higher production from onshore western fields such as Changqing and the Tarim Basin and from Daqing in the east. Forecast Chinese output has been increased by 50 kb/d for 2005, and is now seen rising by 100 kb/d to 3.6 mb/d this year. Further increases for western fields may be incorporated in the forecast in due course if recent indications of higher output run into the second quarter.

Output from **Vietnam** is revised up by 40 kb/d following updated information on the expected production profile for the Bach Ho field. Earlier indications had suggested a sharper downturn in output for six months during field repairs and reinstallation of a storage vessel. Field production is now reported likely to regain 240 kb/d by September, higher than the average production level seen during 2004. Nonetheless, Vietnamese production still falls by 30 kb/d in 2005 from the 420 kb/d seen in 2004.

Production from **Yemen** is revised up by 15 kb/d for 2005, concentrated in the second half of the year. Output now averages 405 kb/d this year, close to the estimated 2004 level. An addition since the last forecast is the Nabrajah field in Block 43 which is scheduled onstream around mid-year, building to 15 kb/d production initially. Production from Block 51 and from the Masila field in Block 14 also appears to be running at higher rates than expected in the last forecast.

Revisions to Non-OPEC Oil Supply

(million barrels per day)

	Last Month's OMR			This Month's OMR			This Month vs. Last Month		
	2004	2005	05 vs. 04	2004	2005	05 vs. 04	2004	2005	05 vs. 04
North America	14.58	14.65	0.07	14.58	14.60	0.01	0.00	-0.05	-0.05
Europe	6.09	5.91	-0.19	6.09	5.90	-0.19	0.00	0.00	0.00
Pacific	0.57	0.57	0.00	0.58	0.59	0.01	0.01	0.01	0.01
Total OECD	**21.25**	**21.13**	**-0.12**	**21.25**	**21.09**	**-0.17**	**0.00**	**-0.04**	**-0.05**
Former USSR	11.18	11.72	0.54	11.18	11.71	0.53	0.00	0.00	-0.01
Europe	0.17	0.16	-0.01	0.17	0.16	-0.01	0.00	0.00	0.00
China	3.48	3.54	0.05	3.48	3.59	0.10	0.00	0.05	0.05
Other Asia	2.75	2.72	-0.04	2.75	2.75	0.00	0.00	0.04	0.04
Latin America	4.08	4.30	0.23	4.07	4.30	0.23	0.00	0.00	0.00
Middle East	1.88	1.78	-0.09	1.88	1.80	-0.07	0.00	0.02	0.02
Africa	3.43	3.75	0.31	3.43	3.75	0.32	0.00	0.00	0.00
Total Non-OECD	**26.98**	**27.97**	**0.99**	**26.97**	**28.07**	**1.09**	**0.00**	**0.10**	**0.10**
Processing Gains	1.83	1.86	0.03	1.83	1.86	0.03	0.00	0.00	0.00
Total Non-OPEC	**50.06**	**50.96**	**0.90**	**50.06**	**51.01**	**0.95**	**0.00**	**0.06**	**0.05**

OMR = Oil Market Report

OECD STOCKS

Summary

- **OECD total industry oil stocks** fell 5 mb in March to an estimated 2587 mb. Though product stocks fell by 36 mb with roughly equal declines in distillates and gasoline inventories, gains in crude oil of 27 mb mitigated the draw. Combined with a 21 mb upward revision to February oil inventory levels, the shallow decline in March left oil inventories 119 mb above year-ago levels. As a result, the first quarter posted a contra-seasonal stock build of 22 mb driven by gains in crude oil. Forward demand cover by OECD industry stocks came to 53 days in March, two days above year-ago levels.

Preliminary Industry Stock Change in March 2005 and First Quarter 2005

(million barrels per day)

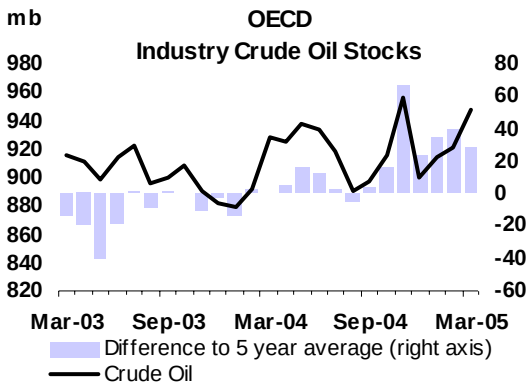
	March (preliminary)				*First Quarter 2005 (preliminary)*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**0.36**	**0.45**	**0.07**	**0.88**	**0.32**	**0.23**	**-0.01**	**0.54**
Gasoline	-0.35	-0.09	-0.06	-0.49	0.08	0.12	0.01	0.22
Distillates	-0.27	0.07	-0.30	-0.51	-0.14	0.06	-0.29	-0.37
Residual Fuel Oil	0.05	-0.14	-0.03	-0.12	0.02	-0.06	-0.02	-0.05
Other Products	0.07	0.00	-0.11	-0.04	-0.03	-0.01	-0.04	-0.08
Total Products	**-0.50**	**-0.16**	**-0.50**	**-1.16**	**-0.07**	**0.12**	**-0.34**	**-0.28**
Other Oils[1]	0.18	-0.03	-0.04	0.11	0.02	0.02	-0.06	-0.02
Total Oil	**0.04**	**0.26**	**-0.46**	**-0.17**	**0.27**	**0.37**	**-0.40**	**0.24**

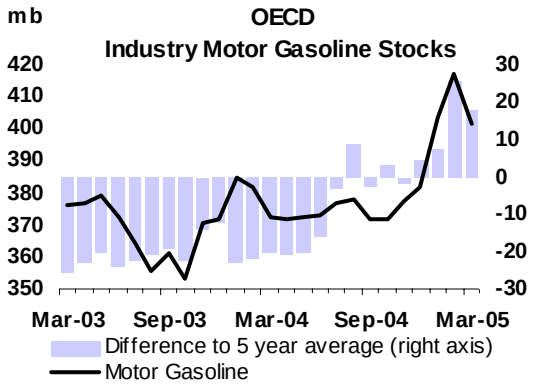
1 Other oils includes NGLs, feedstocks and other hydrocarbons

- **OECD industry crude stocks** rose 27 mb in March, closing 20 mb above year-ago levels. Most of the increase came in the Atlantic Basin, building from an upward revised February base. Growing prompt supplies and weaker refiner demand due to scheduled maintenance supported the build. The deepening of a contango structure in the near forward months in WTI and Brent paper markets provided financial incentives to hold crude oil in storage over the refinery turnaround period.

- **OECD industry distillate stocks** fell 16 mb in March, closing 39 mb above year-ago levels. The decline came in the US and the Pacific. European stocks edged higher, albeit from a lower February base. The US and Pacific draws in March reflected strong demand for heating fuels but also diesel. During April, draws in the US were further prompted by strong diesel demand. In Europe, refinery maintenance and seasonally lower jet fuel stocks partly explain the marginal gains in March. With gasoil demand weakness likely to persist, a rebound in gasoil stocks is expected to be observed in April, similar in trend to that for ARA independent storage.

- **OECD industry gasoline stocks** fell 15 mb in March, closing 29 mb above year-ago levels. The decline came mainly in the US where inventories, in spite of stable gasoline imports, fell with a turnover of product to summer quality material and lower gasoline output due to cracker unit maintenance. US gasoline stocks built by end-April as demand posted modest growth and finished gasoline output rose alongside imports. US gasoline stocks at the end of April closed at the top of their range at 213.5 mb, or 11.3 mb above year-ago levels.





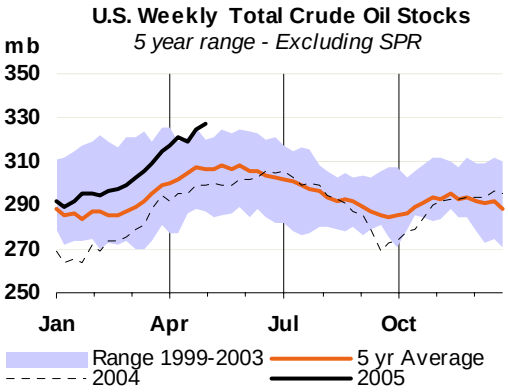
OECD Industry Stock Changes in March 2005

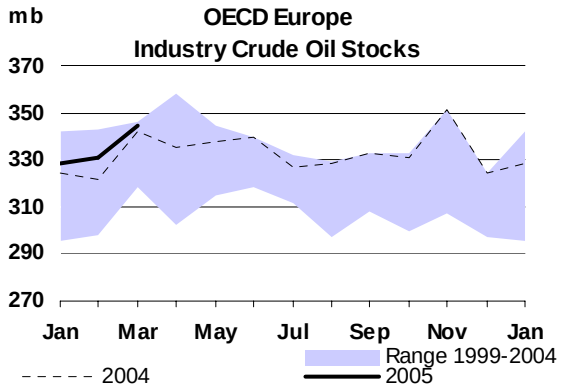
OECD

Industry oil stocks in the OECD saw a modest decline in March, falling by 170 kb/d. Product stocks fell seasonally by 1.16 mb/d with declines split about evenly between gasoline and distillates. This draw was mostly offset by a build in crude stocks of 880 kb/d. Most of the gain in crude stocks was centred in the Atlantic Basin. These built from a 17 mb upwards revised February base with higher crude stocks in Europe and North America supported by a deep contango in the Brent and WTI paper markets. Along with weaker prompt demand by refiners due to scheduled maintenance, regional crude availability was high. As a result, forward demand cover came to 53 days in March, 2 days above year-ago levels. For the first quarter of 2005, OECD oil stocks posted a 240 kb/d build compared to a five-year average draw of 380 kb/d. The rise in crude oil stocks towards the top of their range is behind this contra-seasonal increase. While in appearance comfortable, crude inventories need to be considered against the forthcoming upward swing in Atlantic Basin throughputs as refiners will ramp up runs to meet summer gasoline demand and rebuild depleted distillate stocks.

OECD North America

Crude oil inventories in the US built in March and again in April as prompt crude oil demand was weak with refiners operating on average around 91% of capacity due to scheduled maintenance. Crude oil imports were relatively high, reflecting a broader decline in world oil-in-transit with increased long-haul arrivals. US-50 crude stocks closed up 10 mb in April to 327 mb, or 28 mb above last year. Prompt crude oil supplies weakened WTI prices relative to domestic grades as well as Brent, limiting spot arbitrage of light-sweet crudes across the Atlantic. However, the latest weekly data in April saw a levelling-off of crude stocks in the main refining centres of the US Gulf Coast and Mid-continent. And with refinery utilisation rates looking at a wide margin for increase as maintenance ends during May, crude stocks are likely to fall back. In products, gasoline stocks fell in March with a turnover in product quality and lower refinery output. US gasoline stocks rose by end-April though refiners maintained high middle distillates yields. This followed from modest gasoline demand growth in April, allowing rising output of finished product to offset a decline in blending components stocks, leaving inventories at the top of their five-year range. In contrast to gasoline, deliveries of middle distillates remained strong, posting growth in jet fuel and combined diesel and heating oil fuels. Despite higher product yield, US-50 distillate stocks closed below seasonal levels by the end of April. Diesel demand was strong, imports weakened and distillates from the Gulf Coast were exported to South America and Europe.



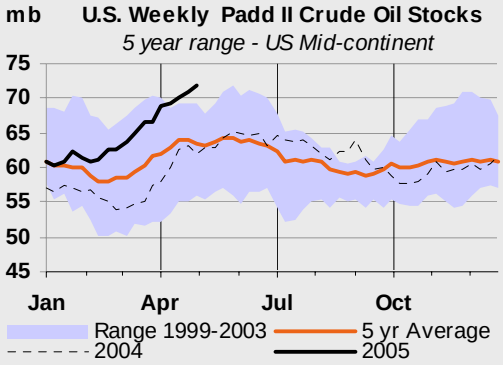


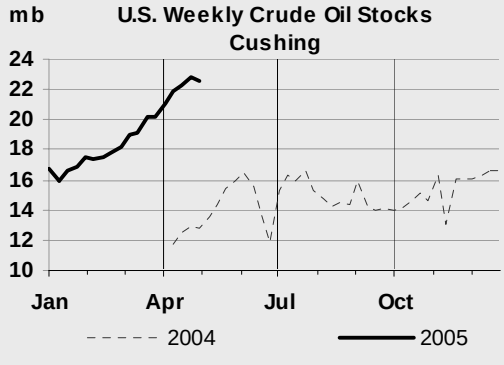
OECD Europe

European industry stocks rose 14 mb in March on weaker refinery runs and high availability of North Sea and Urals crude. Crude stocks are expected to remain at around their current levels despite some exports of surplus North Sea grades towards Asia. Crude availability appeared to remain high with closed transatlantic arbitrage and April refinery maintenance, allowing for incremental spot offers of crude. The North Sea market for April barrels cleared slowly and forward cash Brent prices were in contango into August, favouring holding crude in storage ahead of a ramp up in runs in May. In products, gasoline stocks were marginally lower despite further weakness in demand and a deep contango in swap prices favouring further builds. Distillate stocks edged marginally higher and closed at the top of their range. This shallow movement reflected in part lower refinery output and seasonally lower holdings of jet fuel supplies. However, reverse distillate arbitrage from the US to Europe and weakness in preliminary demand figures for heating oil as well as diesel suggested a stronger increase, more in line with late March and early April trends for gasoil held in ARA independent storage.

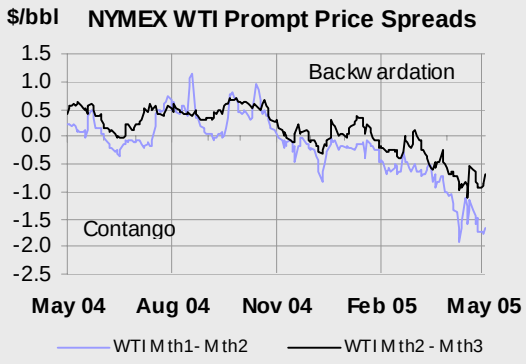
What is Driving the US Crude Stock Build?

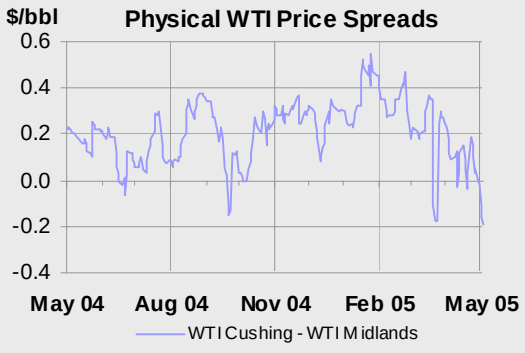
The futures curve for any storable commodity can both influence the level of stocks the market is willing to hold and the rate at which stocks are accumulated. The wider the forward premium (or contango), the greater the financial profit a market operator can receive to offset the cost of buying and storing a physical commodity. While a contango can be a symptom of weak nearby demand, or ample prompt supplies, it can also indicate higher expected future demand. Determining which is the main driving force is not necessarily easy. NYMEX's light-sweet crude oil futures contract, in contango since November 2004, saw this price structure deepen since March. The contract is physically delivered at Cushing (Oklahoma) at the seller's facility or at a storage facility with pipeline access to Cushing. Crude oil stocks at Cushing and in the broader Mid-continent built rapidly since mid-February, mirroring gains across the US. They ended April at 22 mb, close to their estimated capacity of about 27 mb.





There is a strong link between the level of Cushing stocks and the spread between the prompt months, meaning the contango partly represents the cost of storage. When stocks fill, there is less available capacity and marginal storage prices effectively rise. Prompt crude prices have to be discounted as a result. The contango offsets for the cost of storage for sale at a future date. Some estimates put the cost at Cushing currently around $1.30 a barrel per month (including financing and transport). The contango between the prompt 2 months has averaged around this level (the cost of carry) since mid-April, even exceeding it on occasions with a peak at $1.90. A demand side motive for respective summer and winter peaks in US gasoline and heating oil prices is easy to identify. But while seasonality in products calls for a contango to build inventories ahead of peak demand, seasonality for crude oil is less evident. Is the development of a wide contango in crude prices a result of excessive regional prompt supplies in light-sweet crude or is it motivated by refiners building stocks ahead of peak summer and winter demand, effectively bringing forward their crude demand?

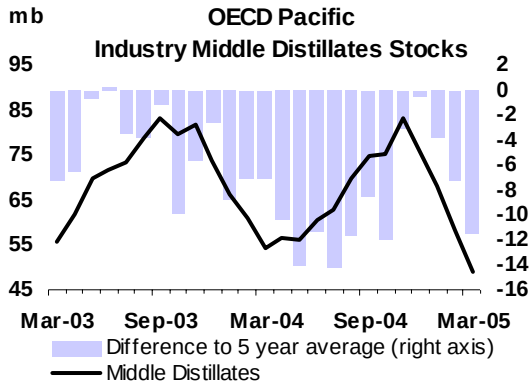




The first factor to note is that until early April, US stocks continued to build despite a rising trend in prices. For much of that period, the arbitrage between WTI and dated Brent was also sporadically open, drawing North Sea and West African crudes across the Atlantic. Another guide is the relative price between WTI at Cushing, its gathering centre, and WTI at Midland, its production centre. Prices at Cushing need to be at a premium to Midland to draw crude and cover transport costs. Once more, this premium was relatively high in February and March pulling supplies into Cushing, but weakened in April as storage filled. More broadly, stocks have levelled in the refining centres of the Gulf Coast and the Mid-continent. Together these are indications that the US stock build between November and March was likely demand-led ahead of a resumption of higher crude runs in May.

OECD Pacific

Pacific crude stocks saw mixed trends as Korean stocks fell by 1.3 mb while those in Japan (on the basis of offshore movements) rose by 3.5 mb. The final tally for Japan is still expected higher, once volumes held on tankers (which typically rise at the end of the fiscal year in March) are reflected in the data. In contrast, these volumes were down in Korea, offsetting rising onshore stocks and reflecting a slowdown of refiner demand ahead of maintenance in April.



Pacific distillate stock trends were driven by declines in gasoil and kerosene inventories in Japan. Distillate stocks fell 6 mb in Japan, mainly due to colder temperatures keeping demand for kerosene (used as a heating fuel) above year-earlier levels. Declines in Korean distillates were smaller; stocks fell by a more modest 3 mb as exports of gasoil and kerosene were reduced to meet domestic demand. In addition, with Pacific demand for these products reaching its seasonal low in the second quarter, domestic supply has been falling. Refinery output emphasised lighter products, namely gasoline and naphtha ahead of the summer driving season while focusing the distillate cut towards diesel for transport demand. Overall, middle distillate stocks in Pacific closed markedly below seasonal lows, reaching 49 mb or 11mb below their five-year average for March.

OECD Inventory Position at End-March and Revisions to Preliminary Data

Revisions to preliminary February stock data raised inventories by 21 mb. The revisions centred mainly in crude stocks in the Atlantic Basin with European inventories revised higher by 9.5 mb and those in North America by 7.5 mb. Net revisions to OECD product stocks increased inventories by 8.7 mb with most of the adjustment accounted for by upward revisions to US 'other product stocks'. In products, the main adjustment came in European distillates stocks, which were revised down by 6.5 mb.

Revisions Versus 12 April 2005 Oil Market Report

(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Jan 04	Feb 05	Jan 04	Feb 05	Jan 04	Feb 05	Jan 04	Feb 05
Crude Oil	**-0.2**	**7.5**	**2.2**	**9.5**	**0.0**	**-0.3**	**2.0**	**16.6**
Gasoline	-1.1	0.6	1.0	-0.5	0.0	-0.8	-0.1	-0.7
Distillates	-3.0	1.0	-1.2	-6.5	0.0	-1.7	-4.2	-7.1
Residual Fuel Oil	0.0	2.5	1.2	2.9	0.0	-0.9	1.2	4.5
Other Products	0.1	8.9	0.3	-0.1	0.0	3.3	0.4	12.0
Total Products	**-4.0**	**13.0**	**1.3**	**-4.1**	**0.0**	**-0.1**	**-2.7**	**8.7**
Other Oils[1]	0.0	-6.0	-1.9	2.2	0.0	-0.6	-1.9	-4.4
Total Oil	**-4.2**	**14.5**	**1.5**	**7.5**	**0.0**	**-1.0**	**-2.7**	**21.0**

1 other oils includes NGLs, feedstocks and other hydrocarbons

Upwards revisions to February data, combined with a modest draw in oil stocks in March left OECD industry stocks of oil at 2587 mb or 119 mb above their year-ago position. The upward adjustment in stock levels and minor changes to OECD demand estimates for the second quarter put forward demand cover at 53 days by the end of March, flat from February and 2 days above a year ago. Demand cover in March in North America came to 49 days, 62 days in Europe and 49 days in the Pacific.

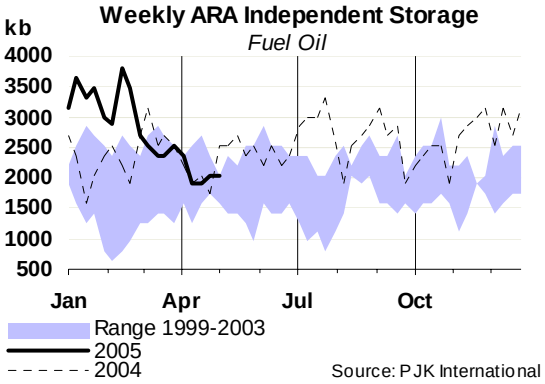
Year-on-Year Industry Stock Comparisons for March 2005

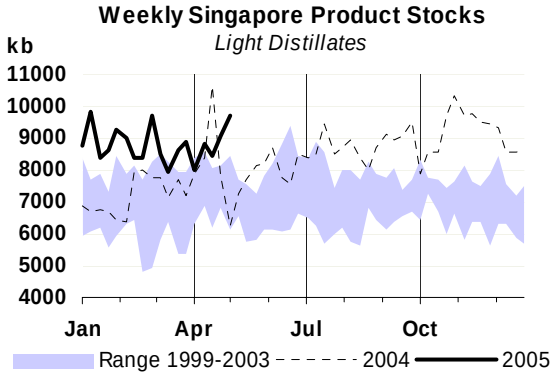
	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**21.5**	**3.2**	**-4.3**	**20.4**	**Total Oil**	**2.9**	**2.2**	**-1.0**	**2.0**
Total Products	54.6	37.7	0.3	92.5	*Versus 2003*	3.4	2.5	-1.2	2.2
Other Oils[1]	11.5	-3.8	-1.9	5.8	*Versus 2002*	-2.5	-0.4	-6.9	-2.6
Total Oil	**87.6**	**37.1**	**-6.0**	**118.7**	**Total Products**	**1.9**	**2.4**	**-0.1**	**1.7**
Versus 2003	129.8	46.5	-16.5	159.7	*Versus 2003*	2.1	2.0	-0.2	1.7
Versus 2002	-3.7	23.1	-41.0	-21.6	*Versus 2002*	-1.2	-1.8	-4.1	-1.9

1 other oils includes NGLs, feedstocks and other hydrocarbons

Recent Developments in ARA Independent Storage

Product stocks in independent storage showed mixed trends in April. Gasoline stocks held relatively flat and generally above year-ago levels despite term shipments to the US and deliveries to meet Nigeria's summer tender. While gasoline demand by refiners rose due to scheduled maintenance mainly in Germany and Scandinavian countries, this was balanced by lower spot arbitrage shipments to the US due to unfavourable economics. Fuel oil stocks fell further as incoming Baltic supplies slowed and product was shipped out of the region with straight-run fuel oil headed to the US and high-sulphur fuel oil shipped to Asia. Gasoil inventories rebounded in April as demand remained subdued due to high prices. The ARA area saw diesel arrivals from the US Gulf Coast, but in the absence of strong buying interest, surplus product moved into storage, supported by the development of a contango in swap prices towards the end of April. Heating oil demand into traditional barge markets like Germany and France was particularly low in this context, beyond the usual seasonal fall associated with milder temperatures. Consumers continued to rely on their stocks and in the case of France, refineries were reportedly exporting gasoil given the weakness of end-user demand.





Recent Developments in Singapore Stocks

Total product inventories in Singapore surveyed by *International Enterprise* opened May relatively unchanged from end-March levels. Gains in light product stocks (naphtha and gasoline) were offset by declines in middle distillates and fuel oil. Stocks of naphtha likely rose, encouraged by a contango in Singapore prices that has been in place since early March. Regional supplies were ample, buoyed by rising spot cargos from India where the petrochemical sector continues to switch to natural gas. Petrochemical demand was also seasonally weaker with turnarounds underway. In contrast, gasoline demand remained strong. Singapore supplies targeted Vietnam and Malaysia, but exports were also seen to the US West Coast. Middle distillates stocks remained tight, trending at the bottom of their five-year range. Gasoil supplies were curtailed by refinery maintenance despite cargo sales of diesel by China, prompted by strong international market prices. Jet fuel supplies were also lower with refinery maintenance and Middle Eastern material headed towards Europe. Demand for jet fuel was rising from China, while that for kerosene was increasing in India for blending into the low-sulphur diesel pool. Fuel oil stocks trended lower despite below average imports into China's main Huangpu terminal. With lower arrivals of arbitrage material expected in May, these stocks may slip further. Singapore swap prices were in backwardation, suggesting tight prompt supplies.

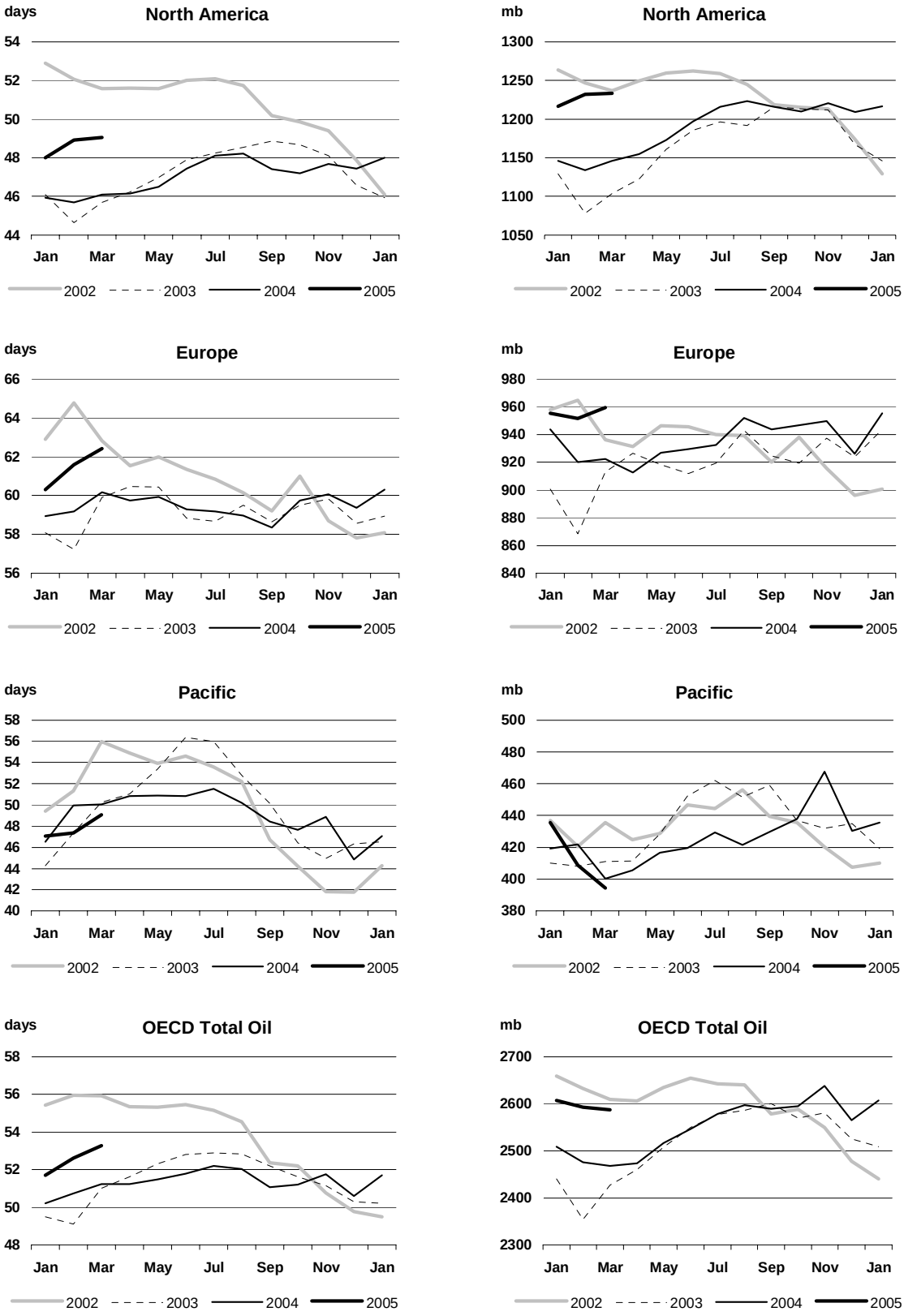
Singapore Crude & Product Trade
(thousand barrels per day)

Net Imports/(Exports) of:	2003	2004	2Q04	3Q04	4Q04	1Q05	Jan 05	Feb 05	Mar 05	Latest month vs. Feb 05	Latest month vs. Mar 04
Crude Oil	755	815	696	727	1059	1266	1496	869	1395	526	462
Products & Feedstocks	-96	-136	-150	-118	-211	-216	-73	-294	-288	6	-290
Gasoil/Diesel	-170	-182	-206	-181	-206	-187	-170	-177	-212	-35	-127
Gasoline	-83	-96	-119	-79	-98	-80	-40	-99	-102	-3	-12
Heavy Fuel Oil	320	276	289	238	272	236	276	237	197	-40	-138
LPG	-22	-22	-21	-20	-24	-20	-22	-22	-18	4	7
Naphtha	13	31	24	42	21	36	32	12	61	49	55
Jet & Kerosene	-99	-86	-50	-92	-102	-132	-93	-162	-143	19	-68
Other	-55	-57	-67	-26	-74	-69	-55	-83	-70	13	-6
Total	**659**	**679**	**546**	**609**	**848**	**1051**	**1423**	**575**	**1107**	**532**	**172**

Source: International Enterprise, IEA estimates

Regional OECD End-of-Month Industry Stocks
(in days of forward demand and millions barrels of total oil)

Days[1] **Million Barrels**



1. Days of forward demand are based on average demand over the next three months.

PRICES AND REFINERY ACTIVITY

Summary

- •**NYMEX light crude futures** fell back to $50/bbl from an early April peak over $58/bbl as US weekly data showed a build in crude stocks and a possible slowing of demand growth. Peak refinery maintenance led to a build-up of crude in the Atlantic Basin, extending contangos in Brent and WTI through to the fourth quarter. Asian light, sweet crude prices also shifted into contango, but forward spreads of Middle Eastern heavy, sour crudes remained tight on strong fuel oil demand.

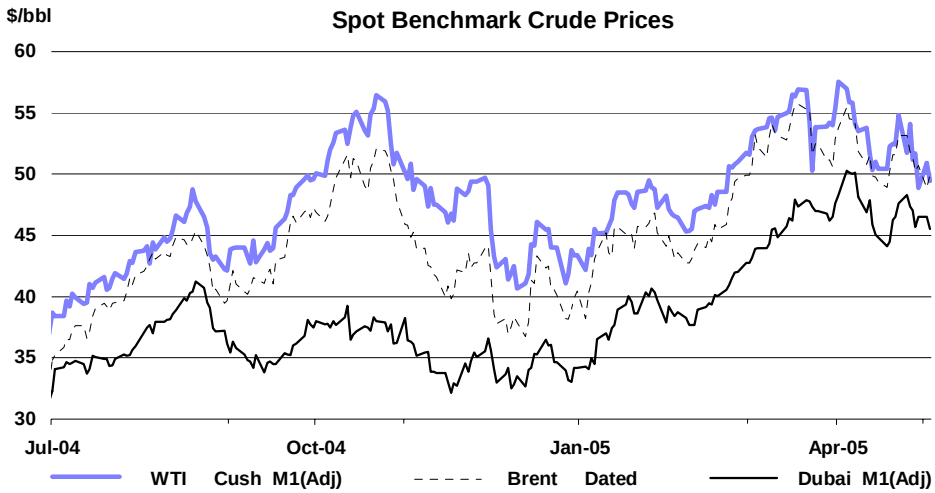
- **Non-commercials** reduced their net-long positions in NYMEX WTI futures from over 85,000 lots in early April to just over 8,000 lots in early May. Speculative interest in heating oil diminished alongside warmer spring temperatures. However, the non-commercial position in NYMEX unleaded gasoline remains fairly high at over 30,000 lots.

- **Light product differentials** to benchmark crudes generally moved seasonally lower with weaker product demand and the near end of peak Atlantic Basin refinery maintenance. Jet/kerosene was the main exception to this trend, continuing to be squeezed by strong air travel and blending demand to make diesel. High-sulphur fuel oil prices reached 25-year highs in Europe, on strong regional and Asian demand and maintenance-restricted supplies.

- **VLCC crude freight rates** remained relatively flat in early April, subdued by peak refinery maintenance which reduced trade in the Atlantic Basin. But there were signs of increased interest in the second half of the month as refiners prepared for increased refinery runs in May and June. Slow demand in Europe and unfavorable Brent-WTI price differentials prompted the first cargo in over six months to be shipped from the North Sea to Asia.

- **Refinery margins** in the Atlantic Basin and Pacific rose in April despite narrowing differentials for transportation fuels to benchmark crudes. Strong fuel oil prices, in particular, helped to bolster marginal hydroskimming margins and also contributed to rising demand for heavy-sour crudes.

- **OECD refinery throughput fell** by 164 kb/d in March to 39.3 mb/d, with lower European throughput partly offset by small gains in North America and the Pacific. Preliminary February numbers were revised down by 469 kb.



Crude Oil Prices

Spot Crude Prices and Differentials

Benchmark WTI and Brent futures fell over $8 from intraday peaks in early April to move close to $50/barrel. However, the contango in the Atlantic Basin crudes moved further forward along the curve. This had spill-over effects into Asia, where regional light, sweet crude also flipped into contango. The persistence of relatively high prices continues to imply concern over the future oil market balance. Further, the (likely temporary) move of dated Brent to a premium to WTI is indicative of the relative strength of Asian demand for West African crudes and the relative weakness of the US market.

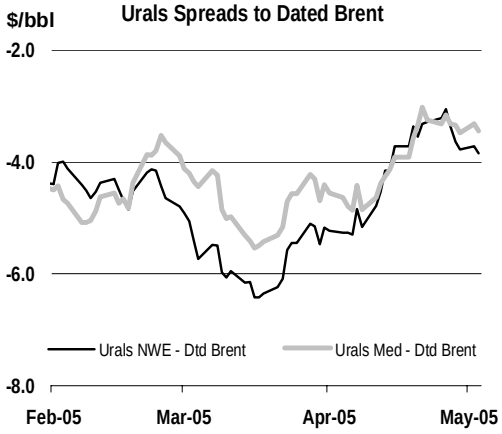
Spot Crude Oil Prices and Differentials*

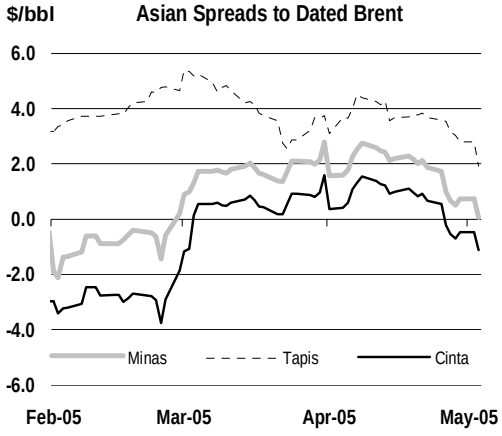
(monthly and weekly averages, $/bbl)

	Feb 05	Mar 05	Apr 05	Apr-Mar		Week Commencing:				
				Change	*%*	04 Apr	11 Apr	18 Apr	25 Apr	02 May
Crudes										
Brent Dated	45.37	52.91	51.82	-1.09	-2.1	54.09	50.26	51.08	51.45	49.59
WTI Cushing 1 month (adjusted)	47.94	54.33	52.89	-1.44	-2.7	55.24	51.42	52.47	51.50	50.35
Urals (Mediterranean)	40.93	48.14	47.85	-0.28	-0.6	49.37	45.99	47.65	48.13	46.24
Dubai 1 month (adjusted)	39.87	45.84	47.20	1.36	3.0	49.72	46.11	45.79	46.97	45.60
Tapis	50.17	57.07	57.69	0.61	1.1	60.45	56.70	56.45	56.95	53.62
Differential to Dated Brent										
WTI Cushing 1 month (adjusted)	2.57	1.43	1.07	-0.35		1.16	1.16	1.39	0.05	0.76
Urals (Mediterranean)	-4.44	-4.77	-3.96	0.81		-4.72	-4.27	-3.42	-3.32	-3.35
Dubai	-5.51	-7.06	-4.61	2.45		-4.36	-4.15	-5.28	-4.48	-3.99
Tapis	4.80	4.17	5.87	1.70		6.36	6.44	5.37	5.50	4.03
Prompt Month Differential										
Brent 1mth-2mth (adjusted)	-0.08	-0.23	-0.51	-0.28		-0.54	-0.54	-0.58	-0.52	-0.52
WTI Cushing 1mth-2mth (adjusted)	-0.53	-0.85	-1.41	-1.70		-1.59	-1.28	-1.67	-1.70	-1.70

* Weekly data for Brent and WTI 1st month and 2nd month are unadjusted

Refinery maintenance constrained demand for crude in the US and Europe. Provisional US data shows end of April throughput at 800 kb/d below likely summer average throughput levels of over 16.1 mb/d. Maintenance figures for Europe show 1.2 mb/d offline in April, but around 500 kb/d of that is expected to return in May. Combined with lower US throughput, this could elevate regional demand by around 1.2 mb/d by the end of May.





Constrained Atlantic Basin product output due to maintenance has also kept refinery margins high. However, weaker gasoline and heating oil crack spreads and tighter fuel oil supplies encouraged refiners to use heavier crudes where possible. Consequently, Urals outperformed Brent during April. With limited transatlantic arbitrage opportunities, Brent supplies backed up in Europe. This, combined with high premiums for West African crudes, led at least one North Sea cargo moving to Asia for the first time in six months. There were also reports of some Urals moving to Asia.

Strong refining demand for Urals and reduced availability helped to narrow the discount between NWE valuations and dated Brent to nearly $3/bbl - the lowest level for nine months, keeping most of the Russian crude in Europe. European traders said they had been offered additional Saudi crude for May, but there was little interest as Urals remained more competitive. Towards the end of April there was some talk that traders were considering reselling Urals into Europe and replacing it with sweeter cargoes. Market reports also suggested continued competition from Iranian crudes in the Mediterranean, although Sidi Kerir saw its discount to Brent narrow faster than Urals in April. A sharp hike in Saudi price formulas for June further increased the regional attractiveness of Urals.

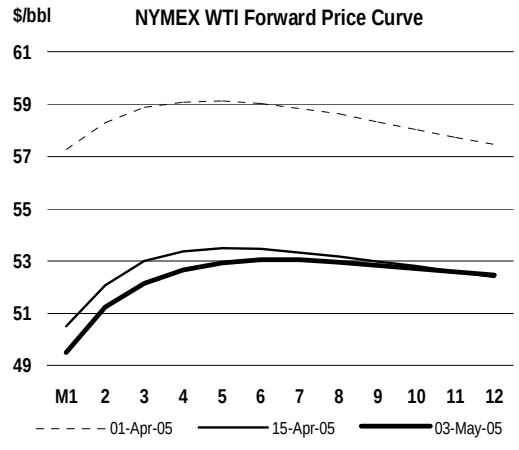
The weakness of front month WTI led to a slight premium for Light Louisiana Sweet (LLS) and other US crudes. The relative weakness of the US market is highlighted by the fact that dated Brent has been trading at virtual parity with LLS – excluding freight. Similarly, the high premium for West African crudes, Bonny Light and Forcados, to dated Brent highlights the dearth of opportunities to ship light, sweet crudes to the US, and greater Asian interest.

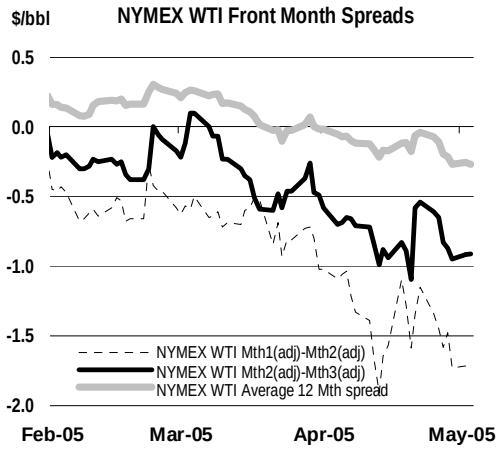
Asian refiners were estimated to have bought around 1.4 mb/d of West African crudes in April, continuing close to March's high shipment level of 1.5 mb/d. This could rise as high as 1.55 mb/d in May according to provisional loading schedules (although reports conflict). A declining premium for regional crudes, Minas, Cinta and Tapis to dated Brent from mid-April (with Minas and Cinta returning to a discount by early May) may temper West African demand. Tight fuel oil and weakening gasoline and gasoil cracks contributed to the backwardation in Dubai, but the negative trend in light, sweet crudes helped to keep the differential to dated Brent relatively constant at around $6-$8/bbl.

Crude Futures

The contango in Brent and WTI futures continues to roll forward as the downward pressure on prompt crude differentials mounts. While demand for crude remained relatively strong in Asia, refiners are preparing for summer maintenance programmes. This combined with the deepening contango in Brent has forced Asian sweets to flip into contango following the trend of their Atlantic Basin counterparts. Dubai and other heavier crudes remain backwardated, reflecting the strength of demand for fuel oil and some Middle Eastern upstream maintenance issues.

However, while rising Atlantic Basin crude stocks have been responsible for turning the front end of the futures curve into contango, the overall flattening of the forward curve has largely been caused by the rise in the long-term futures price. The seven-year forward WTI contract has moved from $36.69 at the end of 2004 to an early April peak of over $50/bbl. This $13 gain in the first quarter has outweighed the $8.50/bbl rise seen in the long dated contract throughout 2004. It is significant, but the reason behind the move is far from clear.





In futures, liquidity is generally concentrated in the first three months. Recently however, open interest further forward has expanded, with open interest in the five-year forward contract growing faster than open interest for the total market. Coupled with the sharp increase in the long-term price, this could indicate an increase in hedging activity by consumers. Certainly, brokers have reported increased consumer activity, but it is unclear whether there is a significant hedging volume as far forward as five years. Some observers have linked the gain to buying by passive commodity index funds, but while it has an intuitive explanatory feel, there is currently insufficient data to validate this theory.

What is clear however is that there seems little reason to believe that futures prices have gained predictive power. Looking at snapshots of crude futures prices over time shows they have very little predictive merit. Indeed the same is true of product futures and the only predictive realm seems to be in forward refinery margins (crack spreads). Long-term futures prices might be market determined, but they do not determine the market.

Delivered Crude Prices in February

Delivered crude prices in IEA countries in February rose by an average of $2.20/bbl to $41.30/bbl, tracking the moves in spot crude prices. Regional differences were largely due to a catch-up process from January, where European prices had risen faster than North America and Pacific. In February Europe saw import prices gains of $1.87 to $42.51/bbl compared with North America up $2.40 to $39.87/bbl and a gain of $2.35 in the Pacific to $41.49/bbl. The higher price difference in Europe represents the relatively sweeter crude slate that is consumed in the region compared with the US and Pacific. Also, lower freight rates have dampened import price gains for North America and the Pacific.

Product Prices

Spot Product Prices

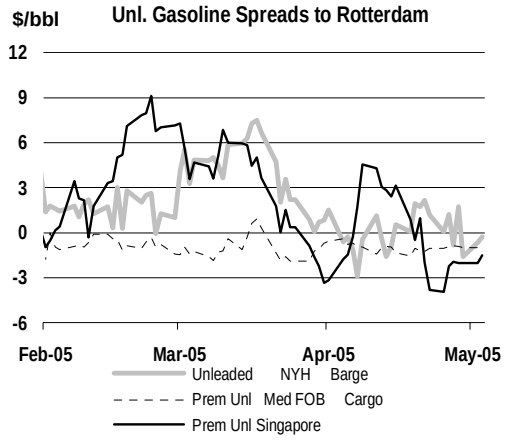
Product differentials to benchmark crudes were generally stronger on average during April, but trended lower in the Atlantic Basin through the month. The widening contango on front month crude helped to moderate some of these pressures. Refinery maintenance, either ending or pending appeared to be the main driving force, lifting fuel oil prices to 25-year highs in the process.

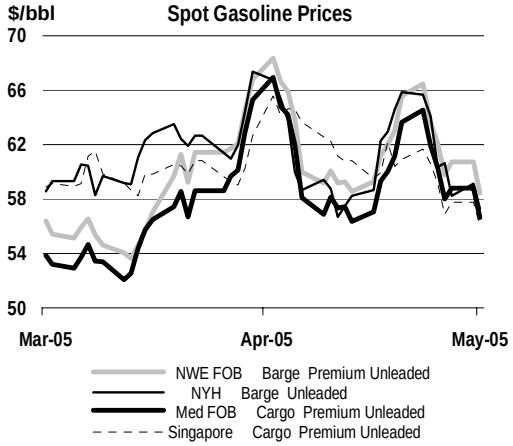
Spot Product Prices
(monthly and weekly averages, $/bbl)

	Feb	Mar	Apr	Apr-Mar		Week Commencing:					Feb	Mar	Apr
				Change	*%*	04 Apr	11 Apr	18 Apr	25 Apr	02 May			
Rotterdam, Barges FOB											***Differential to Brent***		
Premium Unleaded (Cargo)	50.86	57.03	62.46	5.43	9.5	64.93	59.26	62.22	62.55	57.82	5.49	4.13	10.64
Regular Unleaded	49.92	56.19	61.57	5.38	9.6	63.96	58.35	61.46	61.65	56.94	4.54	3.28	9.75
Naphtha	45.85	52.45	51.85	-0.60	-1.2	55.21	50.29	51.06	50.16	46.29	0.48	-0.46	0.03
Jet/Kerosene	58.21	68.99	71.87	2.87	4.2	74.28	70.84	71.35	70.15	68.42	12.83	16.09	20.05
Gasoil	55.17	65.62	65.19	-0.43	-0.7	68.84	63.45	64.06	63.49	61.85	9.79	12.72	13.37
Fuel Oil 1.0%S	28.88	35.41	37.00	1.59	4.5	38.85	34.67	36.90	37.52	36.69	-16.49	-17.49	-14.82
Fuel Oil 3.5%	26.56	31.38	36.00	4.62	14.7	37.66	33.41	35.82	37.32	36.61	-18.81	-21.53	-15.82
Mediterranean – Basis Italy, Cargoes FOB											***Differential to Urals***		
Prem Unleaded (50ppm)*	50.11	56.16	61.54	5.38	9.6	64.16	58.19	61.20	61.67	56.67	9.18	8.03	13.69
Prem Unleaded (150 ppm)	49.15	55.21	60.58	5.38	9.7	63.20	57.23	60.25	60.71	55.71	8.22	7.07	12.73
Naphtha	43.96	50.99	50.71	-0.28	-0.6	54.02	49.11	49.87	49.06	45.44	3.02	2.85	2.85
Jet/Kerosene	55.95	67.01	70.30	3.29	4.9	72.79	69.21	69.63	68.85	66.51	15.01	18.87	22.45
Gasoil	54.48	64.65	63.61	-1.04	-1.6	67.47	62.03	62.06	61.83	60.06	13.55	16.52	15.76
Fuel Oil 1.0%S	30.77	36.72	39.83	3.12	8.5	41.76	38.10	39.78	39.77	37.37	-10.16	-11.42	-8.02
Fuel Oil 3.5%S	25.85	30.31	35.10	4.80	15.8	37.11	32.99	34.91	35.64	34.38	-15.09	-17.83	-12.75
NY Harbour, Barges											***Differential to WTI***		
Super Unleaded	54.84	67.33	70.46	3.13	4.6	73.15	66.92	70.79	69.44	63.86	6.90	13.00	17.57
Regular Unleaded	51.53	60.49	61.70	1.22	2.0	62.90	58.12	62.88	61.79	57.86	3.59	6.16	8.81
Jet/Kerosene	57.85	66.73	66.52	-0.21	-0.3	69.31	64.45	65.89	64.98	63.55	9.91	12.40	13.63
No.2 Heating Oil	56.39	65.39	64.02	-1.37	-2.1	66.82	61.85	63.46	62.45	60.76	8.45	11.05	11.13
Fuel Oil 1.0%S (Cargo)	30.94	35.57	38.79	3.22	9.0	40.38	38.06	38.40	38.33	38.24	-17.00	-18.76	-14.10
Fuel Oil 3.0%S (Cargo)	28.30	31.51	35.12	3.61	11.4	34.78	33.70	35.25	37.05	36.63	-19.64	-22.82	-17.77
Singapore, Cargoes											***Differential to Dubai***		
Premium Unleaded 95	54.27	59.47	61.50	2.02	3.4	64.51	61.50	60.58	59.15	55.09	14.40	13.63	14.29
Naphtha	44.61	50.74	49.85	-0.89	-1.8	52.99	48.30	48.44	49.23	45.82	4.74	4.90	2.64
Jet/Kerosene	54.54	66.33	71.40	5.07	7.6	74.23	69.86	70.31	70.71	68.59	14.67	20.49	24.20
Gasoil	52.53	62.58	63.91	1.33	2.1	67.37	62.95	62.30	62.35	60.64	12.66	16.74	16.71
LSWR (0.3%S)	34.72	41.34	43.47	2.13	5.2	45.07	42.73	42.54	43.50	41.28	-5.15	-4.50	-3.73
HSFO (3.5%S 180cst)	31.16	34.79	39.40	4.60	13.2	40.08	38.09	39.42	40.58	39.28	-8.71	-11.05	-7.81
HSFO 4%S	30.70	35.23	39.57	4.34	12.3	40.32	37.75	39.76	40.93	39.46	-9.17	-10.61	-7.64

* From January 2005 Premium Unleaded 50 ppm

European gasoil prices turned lower in line with crude and Northwest European differentials to dated Brent narrowed from $16 at the beginning of April to under $12 in early May. The fall was even steeper in the Mediterranean where a near-$6 drop was seen from the early April differential high of just under $20/barrel. This trend was largely exaggerated by the strength of Urals relative to dated Brent. Inland demand was reportedly low, particularly in France as consumers balked at tank refilling at current price levels and temperatures warmed. With German consumer tanks at 46% at the beginning of April (lower than the 50% level seen in 2004, which was itself regarded as thin), there is clearly significant room for a pick-up in demand should prices fall. However, if the buying pattern of the last 12 months is anything to go by, consumers will buy in small lots when demand requires, rather than fill tanks in the off-season. Jet/kerosene remains the strongest of the distillates, on the back of strong regional air travel demand and as a blendstock for diesel. However arbitrage supplies from the Americas and Middle East have helped to bolster supplies.





Gasoline was depressed by generally weak demand, and a growing glut in the naphtha market. Demand for naphtha from the petrochemical sector has weakened recently, which together with export shipments from Asia and the Middle East, has led to a relative glut in the European market. With European gasoline consumption in structural decline and only an intermittently open US arbitrage, differentials to crude have weakened.

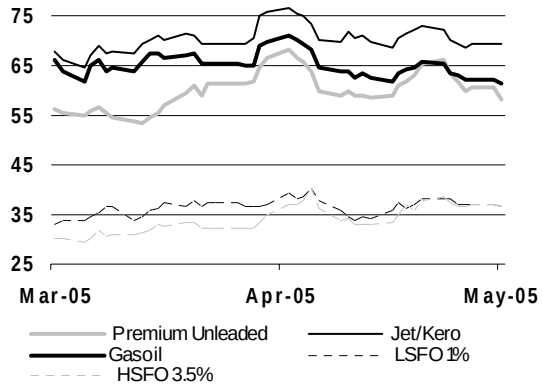
The strongest product in percentage terms was fuel oil. High-sulphur fuel oil differentials in Northwest Europe have risen from their mid-March trough of more than $23 under Brent to less than $13 under. Robust demand from Asia, coupled with higher refinery maintenance and stronger-than-normal regional demand pushed differentials sharply higher. Fuel oil prices have a significant impact on marginal refining capacity utilisation and if Asian demand remains strong during the turnaround period over the next few months, continued high margins could bolster European product supplies as a result.

US gasoline differentials against WTI spiked higher in mid-April, as refinery maintenance continued to restrict US throughput. Several unplanned glitches at refineries also raised customary concerns about supply levels over the coming driving season. Price movements were volatile across both grades and regions. MTBE-free reformulated blendstocks were particularly strong in early April on lower imports, and West Coast prices hit record highs on refinery maintenance.

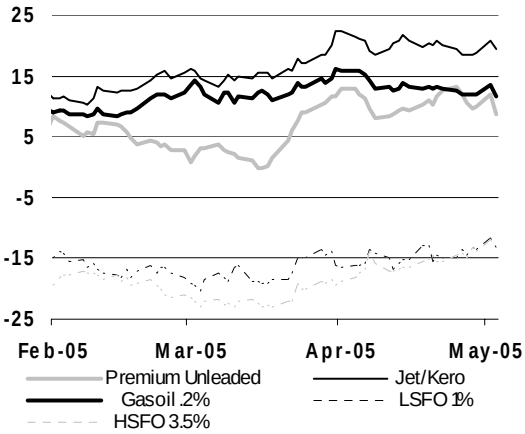
Fears of tightening supplies were quelled to some degree by four consecutive weekly import figures over 1 mb/d , which lifted the four-week average of imports to the highest level for a year. US gasoline stocks have moved within the normal range and appear to have resumed their seasonal upward trend ahead of the driving season. The pattern of demand is also unclear. While weekly data showed first quarter demand growth averaging close to 2.5% year-on-year, growth has averaged under 0.5% since the beginning of April. First quarter data can often be erratic as they can be distorted by the movement of product into and out of secondary and tertiary storage when the switch to summer specification material takes place. However, should this be a sign that high prices are actually eating into demand growth, it could have a significant impact on market sentiment.

While some mid-continent regions were hit with a late snow blast in April, the heating season is effectively over for the US, slowing heating oil demand. However the diesel component of distillate demand remains strong, indicative of a seasonal increase in agricultural demand and a still-healthy economy.

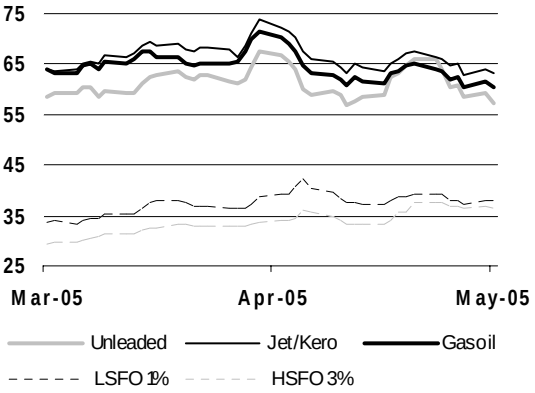
$/bbl **Rotterdam Spot Product Prices**



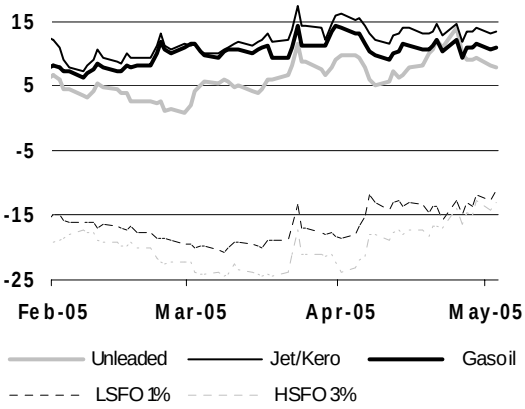
$/bbl **Rotterdam Spreads to Dated Brent**



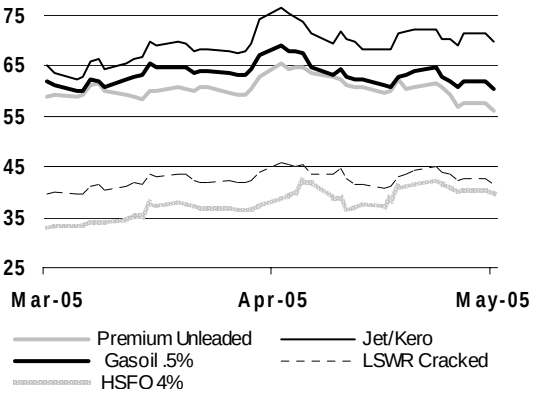
$/bbl **New York Harbour Spot Product Prices**



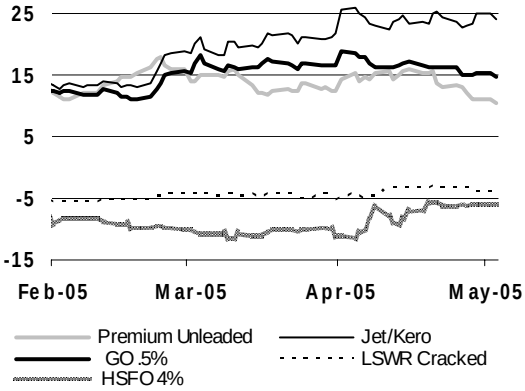
$/bbl **New York Harbour Spreads to WTI**



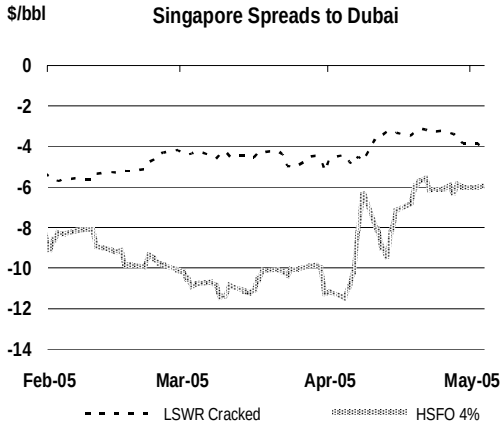
$/bbl **Singapore Spot Product Prices**

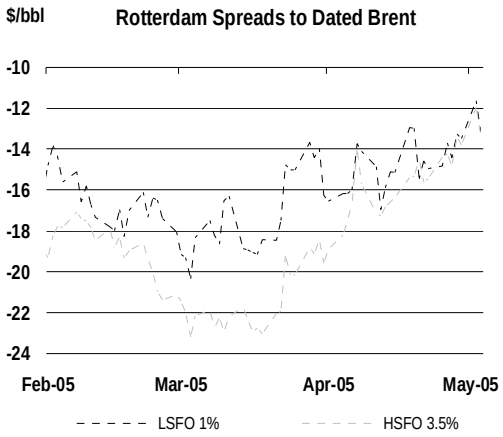


$/bbl **Singapore Spreads to Dubai**



Rising European prices, a reduction in Venezuelan exports and refinery maintenance dragged up fuel oil prices in the US in April. While utility demand should be declining in the Northeast due to the shoulder season, warmer temperatures are likely to increase cooling demand in southern areas. Further, the rise in price could also prompt some fuel switching to natural gas. Good bunker and Mexican utility demand are also bolstering demand for high-sulphur material.





Weather-depleted kerosene stocks continue to leave jet/kerosene as the tightest product market in Asia. Strong regional aviation demand remains an additional supportive factor, and was further tightened by the movement of Middle East cargoes to Europe. However, in recent weeks, Singapore prices have moved to a premium to Rotterdam as regional refiners lower exports ahead of maintenance.

The strength of jet fuel is in sharp contrast to a weak Asian gasoil market. Continued Chinese exports, when many were expecting a repeat of last year's import surge, have been a depressing influence on gasoil prices. This, combined with jet/kerosene strength has resulted in the premium of jet/kerosene to gasoil (the regrade) to rise to nearly $10/barrel in early May. The trend appears to be changing however. Planned Chinese export volumes for May have been cut and demand remains firm from Indonesia, India (for low-sulphur material) and Vietnam. Also refineries are holding back supplies ahead of seasonal maintenance. However at over $6 the regrade remains historically high, and even though seasonal heating demand should weaken, the low level of regional kerosene stocks has the potential to distort the product market in weeks to come.

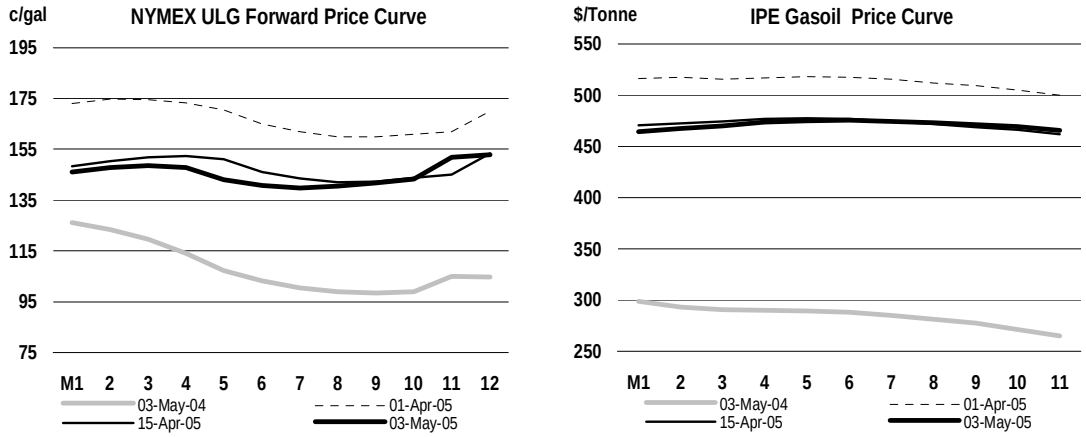
Naphtha has been in a relative glut in Asia. Indian petrochemical manufacturers are continuing their switch from naphtha to natural gas, leading to heavy regional exports. Some of this surplus is likely to be mopped up by the imminent start-up of one of two Chinese naphtha crackers this year. However, the apparent structural weakness is prompting bids for lower-term prices from the Middle East. Gasoline appears to have weakened in May in the region despite imminent refinery maintenance and the prospect of reduced exports from China. Combined with pressure from the naphtha market, differentials have dropped below $9/barrel against Dubai and below $2 against Tapis.

The persistently high Asian premium for both high and low-sulphur fuel oil to European markets is indicative of the net inflow needed to meet regional demand. Refinery maintenance in Japan, Korea, China and Indonesia tightened regional supplies in April and will be extended further in May and June. While this could bolster returns for marginal capacity, it will be partly offset by rising output in Europe. Demand from Japan for low sulphur waxy residue continues to be reasonably strong as utilities look to offset lower-than-expected nuclear output and stock up ahead of refinery maintenance.

Product Futures

Crude and product prices are inextricably linked, and this relationship extends throughout forward pricing relationships. Therefore, the steep contangos that have been seen in WTI and Brent have contributed to a changing relationship between forward product prices.

Not only have front month IPE gasoil prices fallen sharply during April and early May, but the flat forward curve through to next winter has shifted into a contango. While this is a normal market condition for the US heating oil market, normally gasoil is backwardated through the summer months to reflect strong European diesel demand over this period.



Comparisons with a year ago are revealing. Front month NYMEX gasoline prices dropped 19% between early April and early May, but remained 16% higher than year ago levels. By comparison there was an 11% fall in IPE gasoil prices during the month, but early May levels were still 55% higher than in the same period in 2004.

End-User Product Prices in April

Petroleum product prices once more rose in all regions and for all products in April, continuing to reflect price trends in wholesale markets. Currency factors were less of an issue in April, as the dollar steadied following recent large moves. Gasoline prices saw the largest moves, with prices in the Atlantic Basin dragged higher by concern over sharply falling stocks in the US and refinery maintenance in the US and Europe. Price gains in Europe were steepest in the UK as retailers were forced to pass wholesale price rises onto customers. This brought UK prices back into line with ex-tax dollar prices in France and Germany, but they remained well below those seen in Italy and Spain. It was a similar picture in diesel, but even so, UK diesel prices remain the cheapest of those covered by this survey in ex-tax dollar terms. Heating oil price gains were more moderate as retailers and distributors found demand lacking in many regions following the onset of warmer weather. Demand was noted as particularly lacklustre in France and Germany in March and April. Gasoil prices also had lower spot price pressures than in diesel, where productive capacity is tight. European fuel oil prices rose steeply in line with spot price movements. Fuel oil prices hit 25-year highs as heavy refinery maintenance in Europe and still-strong demand from Asia kept the European market tight. Dry weather in some European regions, particularly Spain, has increased fuel oil demand to offset lower hydroelectric power generation.

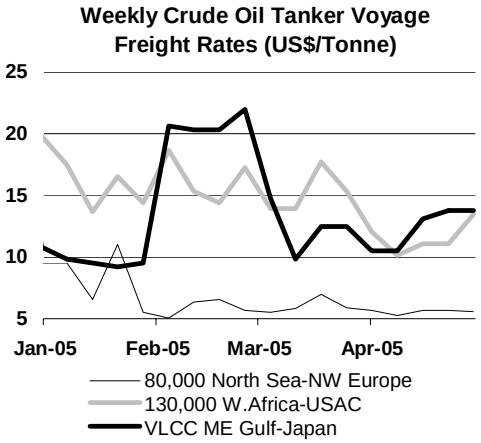
Freight

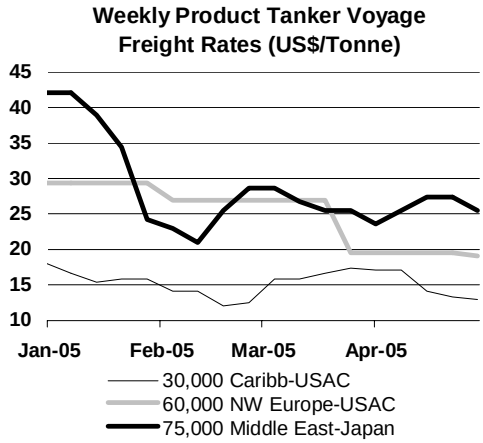
Dirty freight rates remained relatively flat in April although with a higher bias for Asian routes. VLCC crude rates from the Middle East Gulf to Japan increased slightly in the second half of the month as new cargo allocations for May loadings were released. Maintenance in the Atlantic Basin restricted trade within the region, particularly in the first half of April, but interest picked up again as refiners looked to secure adequate supplies for the end of scheduled work in May and June. According to shipping brokers, a two-tiered market developed at the end of April for benchmark routes taking crude from the Arab Gulf to Asia. Single hull vessels were trading at large discounts to double hull vessels as a result of the International Maritime Organisation ban of 'unprotected' single hull tankers implemented on 5 April.

Crude supplies backed up in Europe in April as scheduled refinery maintenance hit a seasonal peak. Brent-related crude had few options to move outside the region as price differentials closed the spot transatlantic arbitrage. The Brent-WTI spread has been narrowing since November of last year, and in April we actually saw WTI trading at a discount to Brent. North Sea April programmes cleared slowly, leading equity holders to fix a VLCC cargo to Asia to remove some of the surplus. Statoil's two million barrel Oseberg shipment to Korea in late April was the first North Sea cargo moving east in more than six months.

Freight rates from West Africa to the US Atlantic Coast hit their lowest levels in a year at the beginning of April. Rising US crude stocks and the weak WTI-Brent spread limited interest in these routes. Refiners turned away from West African and North Sea grades in favour of Gulf Coast and

Colombian. Rates improved at the end of April ahead of expected high runs in May/June. In contrast, continued strong Asian buying of West African crude lifted rates along these routes. Despite the uptick in dirty tanker rates at the end of the month, levels remain well below average March rates.





Rates from the Black Sea to the Mediterranean surged at the end of April as a sudden influx of new enquiries coincided with increased delays through the Turkish straits. Black Sea exports of crude and fuel oil also reached record levels in April. Preliminary data indicate that crude exported from the Black Sea was 17% higher than levels of a year ago while fuel oil exports saw a 39% increase year-on-year.

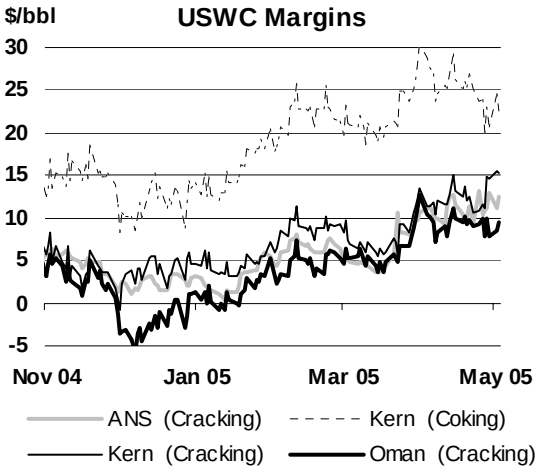
Clean product rates remained relatively stable in the Atlantic Basin in April. In the case of gasoline, spot arbitrage opportunities were limited between Europe and the US. Mid-April, rates for cargoes going from the Caribbean to the US Atlantic coast plunged. The decrease in rates was mainly driven by reduced gasoline exports from the Venezuelan Amuay-Cardon refinery, which was partially shut down in April due to a power outage and maintenance at other key refineries in the region. The seasonal uptick of interest along short haul routes ahead of the US driving season has yet to significantly emerge. In the Middle East and Asia, lower product output due to scheduled maintenance pushed rates lower. In addition, simultaneous holidays at the end of the month in China, Japan, Indonesia, Thailand and Europe further depressed demand.

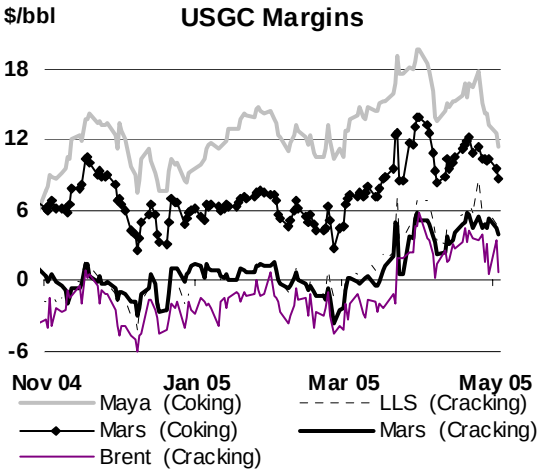
Refining Margins

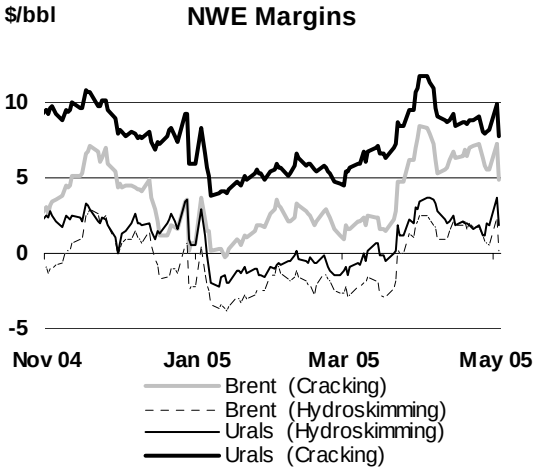
Refining margins moved higher in every crude and refining process in every region monitored in April. The strongest gains were seen in the US West Coast where several refinery outages led to a sharp rise in the price of transportation fuels. Elsewhere, a maintenance-restricted supply of fuel oil helped to elevate margins from cracking and hydroskimming facilities.

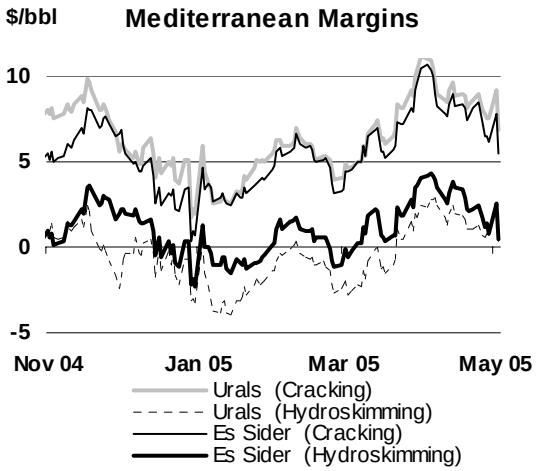
European margins rose sharply as gains of 10% to 14% in high-sulphur fuel oil prices bucked the trend of falling crude and product prices over the month. The strength of fuel oil bolstered hydroskimming margins into strongly positive territory, even on a full cost basis. High fuel oil prices also bolstered demand for medium, sour Urals crude, narrowing differentials to dated Brent and reducing its refining margin in the process. Where product prices trended lower, the declines were also generally less than those for dated Brent, particularly in Northwest Europe, supported by peak maintenance in the region.

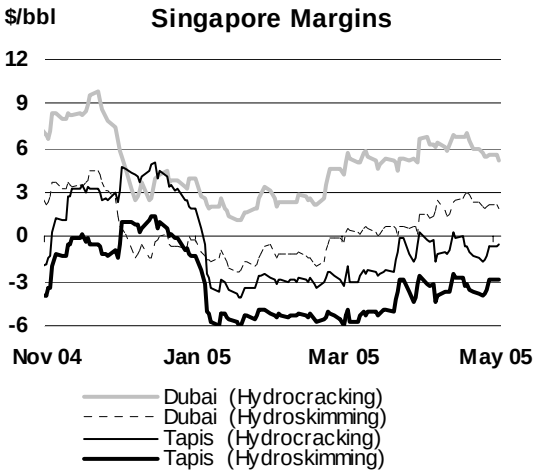
Cracking and coking margins in the US Gulf Coast remained extremely attractive in April. But with fuel oil being the main driving force, cokers underperformed cracking refinery margins. Cokers are designed to upgrade residuals into lighter products and so minimise fuel oil output. Lingering maintenance also offered some support to products, but they generally underperformed crude during the month. It was a similar picture in the West Coast, but with three refineries undergoing maintenance work, product prices outperformed those recorded in the Gulf.

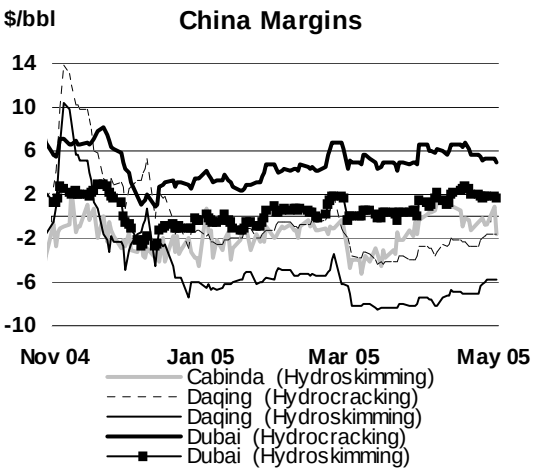

$/bbl
USWC Margins
30
25
20
15
10
5
0
-5
Nov 04
Jan 05
Mar 05
May 05
ANS (Cracking)
Kern (Coking)
Kern (Cracking)
Oman (Cracking)


$/bbl
USGC Margins
18
12
6
0
-6
Nov 04
Jan 05
Mar 05
May 05
Maya (Coking)
LLS (Cracking)
Mars (Coking)
Mars (Cracking)
Brent (Cracking)


$/bbl
NWE Margins
10
5
0
-5
Nov 04
Jan 05
Mar 05
May 05
Brent (Cracking)
Brent (Hydroskimming)
Urals (Hydroskimming)
Urals (Cracking)


$/bbl
Mediterranean Margins
10
5
0
-5
Nov 04
Jan 05
Mar 05
May 05
Urals (Cracking)
Urals (Hydroskimming)
Es Sider (Cracking)
Es Sider (Hydroskimming)


$/bbl
Singapore Margins
12
9
6
3
0
-3
-6
Nov 04
Jan 05
Mar 05
May 05
Dubai (Hydrocracking)
Dubai (Hydroskimming)
Tapis (Hydrocracking)
Tapis (Hydroskimming)


$/bbl
China Margins
14
10
6
2
-2
-6
-10
Nov 04
Jan 05
Mar 05
May 05
Cabinda (Hydroskimming)
Daqing (Hydrocracking)
Daqing (Hydroskimming)
Dubai (Hydrocracking)
Dubai (Hydroskimming)

Key Refining Margins in Major Refining Centres

($/bbl)

	Monthly Average			Change	Week Ending:				
	Feb 05	Mar 05	Apr 05	Apr05-Mar 05	08 Apr	15 Apr	22 Apr	29 Apr	06 May
NW Europe									
Brent (Cracking)	2.55	3.18	6.60	3.42	5.34	6.34	7.09	5.51	3.21
Brent (Hydroskimming)	-1.73	-1.31	1.59	2.90	0.96	1.92	1.69	0.51	-1.32
Mediterranean									
Urals (Cracking)	5.59	6.75	8.99	2.24	8.97	8.80	8.62	7.48	5.08
Urals (Hydroskimming)	-0.89	-0.69	1.67	2.37	2.36	1.90	0.99	0.68	-1.01
US Gulf Coast									
Brent (Cracking)	-2.39	-0.67	2.90	3.57	1.43	2.80	3.70	0.66	0.67
LLS (Cracking)	-0.20	2.49	5.58	3.09	3.46	5.39	5.86	5.82	3.27
Maya (Coking)	11.95	15.54	15.74	0.20	13.61	15.24	16.53	13.26	9.17
US West Coast									
ANS (Cracking)	6.42	6.13	10.95	4.82	10.00	11.66	9.33	12.94	7.44
Oman (Cracking)	4.60	5.89	9.44	3.54	8.35	9.85	9.10	7.93	5.47
Kern (Coking)	22.01	21.91	25.49	3.57	24.73	26.16	25.18	20.67	19.67
Singapore									
Tapis (Hydroskimming)	-5.36	-4.70	-3.44	1.27	-3.93	-2.81	-3.74	-2.93	-2.33
Dubai (Hydrocracking)	2.88	5.14	6.24	1.11	6.40	6.80	6.01	5.52	4.87
Tapis (Hydrocracking)	-2.92	-1.98	-0.79	1.19	-1.13	-0.07	-1.32	-0.59	0.05
China*									
Cabinda (Hydroskimming)	-1.11	-3.03	0.20	3.23	1.18	0.97	-1.21	-0.72	-1.97
Daqing (Hydrocracking)	-0.37	-3.66	-2.51	1.15	-3.26	-2.23	-2.74	-1.56	-1.01

For the purposes of this Report, refining margins are calculated for various complexity configurations, each optimised for processing the specific crude in a specific refining centre on a 'full cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability for a given refining centre. No attempt is made to model or otherwise comment upon the relative economics of specific refineries running individual crude slates and producing custom product sales, nor are these calculations intended to infer the marginal values of crudes for pricing purposes.

* The China refinery margin calculation represents a model based on spot product import/export parity, and does not reflect internal pricing regulations. A full list of refining margins and gross product worth can be found in table 15 on www.oilmarketreport.org.

Sources: IEA, Purvin & Gertz Inc.

Singapore refining margins were bolstered by robust demand for kerosene and a tight fuel oil market. On an average basis all product prices in Singapore refinery calculations were higher in April over March, but on an end-month comparison only jet and fuel oil posted strong gains. Asian margins have the potential to rise further in the coming months as seasonal maintenance intensifies. Of particular concern is the low level of kerosene stocks in the region, which coupled with restricted supply, could tighten. Similarly, while demand for fuel oil should decline seasonally, regional supplies will have to be supplemented by additional European and Middle Eastern inflows.

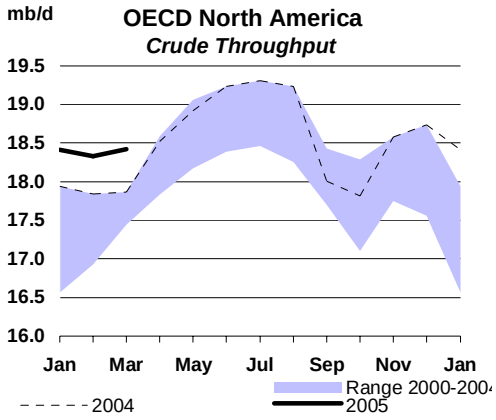
Refinery Throughput

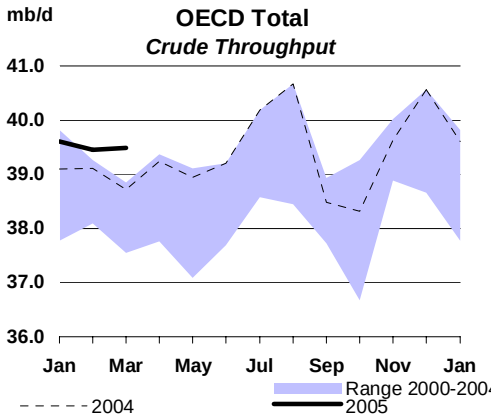
OECD refinery throughput fell by 164 kb/d in March to 39.3 mb/d. Lower European throughput only partly offset by small gains in North America and OECD Pacific. However, this flat performance came after a very large 469 kb/d downward revision to preliminary numbers for February. While revisions are common in refinery throughputs, these were both large and generally in the same direction. Downward revisions were seen from Canada, Italy, Spain, Turkey, UK, Japan and Australia, offset only marginally by very small upward revision to Belgium, Norway, and Ireland, and a more significant upward revisions to the US.

Globally, it would appear as if first half 2005 refinery maintenance peaked at around 3.16 mb/d in April and should trend lower over the coming months. Regional shifts will also take place, with maintenance coming to an end in the US, easing lower in Europe, but increasing in Asia. Typically OECD refinery throughput sees a seasonal peak in August, dips again in the autumn before rising to an annual peak in the fourth quarter.

OECD North American throughput posted a modest 94 kb/d rise to 18.42 mb/d in March. February data were however revised sharply lower following a 153 kb/d downward revision to Canadian throughput, only partly offset by an upward revision to US data. US refinery throughput, remained relatively constrained in April according to weekly data as seasonal maintenance continued through to

the end of the month. A number of unscheduled stoppages also occurred, contributing to the draw down in gasoline stocks. Throughput is expected to start rising throughout May and taking into account additional capacity, should rise to around 16.1 mb/d throughout the summer months.





Throughput in OECD Europe fell by 351 kb/d as maintenance programmes got underway. The fall was on top of a downward revision of 242 kb/d to February data caused by unreported maintenance rather than economic issues. Maintenance in the region is estimated to have risen to 1.06 mb/d in April from 545 kb/d in March and should fall by 560 kb/d in May. Much of the maintenance work over April and May will be concentrated in Northwest Europe, tightening availabilities relative to the Mediterranean region.

OECD Pacific throughput rose by 93 kb/d in March following a 150 kb/d downward revisions from Japan and Australia. Japanese refinery maintenance got underway in March, but data show it extending further in April and May, and should seasonally peak in June. A similar picture emerges for South Korean maintenance, and taking OECD and non-OECD countries together, maintenance is expected to peak in July at around 1.4 mb/d in Asia.

Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from Mar 04*		Utilisation rate[2]	
	Oct 04	Nov 04	Dec 04	Jan 05	Feb 05	Mar 05	mb/d	%	Mar 05	Mar 04
OECD North America										
US[3]	14.95	15.67	15.75	15.20	15.11	15.17	0.37	2.5	89.6	88.4
Canada	1.75	1.75	1.70	1.93	1.94	1.93	0.11	6.2	95.6	91.3
Mexico	1.11	1.16	1.29	1.28	1.27	1.32	0.07	6.0	78.5	72.0
Total	17.81	18.58	18.74	18.41	18.33	18.42	0.56	3.1	89.3	87.5
OECD Europe										
France	1.76	1.71	1.84	1.81	1.72	1.74	0.02	1.0	89.0	88.1
Germany	2.40	2.24	2.33	2.36	2.33	2.34	0.27	13.2	95.4	84.3
Italy	1.81	1.74	1.96	1.83	1.74	1.78	-0.07	-3.9	76.6	80.0
Netherlands	0.81	0.93	1.06	1.09	1.07	0.99	-0.10	-9.4	81.0	89.8
Spain	1.12	1.22	1.28	1.17	1.09	1.09	-0.10	-8.4	85.8	93.7
UK	1.75	1.76	1.77	1.65	1.60	1.60	-0.10	-5.9	87.5	93.4
Other OECD Europe	4.03	4.07	4.07	3.88	4.12	3.78	-0.14	-3.7	81.4	83.9
Total	13.69	13.68	14.32	13.79	13.67	13.31	-0.23	-1.7	84.9	86.3
OECD Pacific										
Japan	3.72	4.16	4.25	4.20	4.36	4.37	0.12	2.7	92.9	90.5
Korea	2.35	2.46	2.48	2.44	2.43	2.46	0.14	5.9	95.3	91.2
Other OECD Pacific	0.75	0.75	0.78	0.75	0.67	0.72	-0.01	-0.8	84.3	85.0
Total	6.82	7.38	7.51	7.40	7.46	7.55	0.25	3.4	92.8	90.1
OECD Total	**38.32**	**39.63**	**40.57**	**39.60**	**39.45**	**39.29**	**0.57**	**1.5**	**88.4**	**87.5**

1 Estimate
2 Based on crude throughput and current operable refining capacity
3 US50

Table 1
WORLD OIL SUPPLY AND DEMAND

(million barrels per day)

	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
OECD DEMAND																	
North America	24.0	24.1	24.5	24.2	24.8	24.9	24.6	25.0	24.9	25.2	25.6	25.2	25.5	25.1	25.7	25.9	25.6
Europe	15.3	15.3	15.5	15.2	15.5	15.8	15.5	15.8	15.3	15.7	16.2	15.7	15.6	15.4	15.8	16.1	15.7
Pacific	8.7	8.6	9.8	8.2	8.0	9.2	8.8	9.4	8.0	8.3	8.9	8.6	9.6	8.0	8.2	9.0	8.7
Total OECD	48.0	48.1	49.8	47.6	48.3	49.8	48.9	50.2	48.2	49.2	50.7	49.6	50.7	48.6	49.6	51.0	50.0
NON-OECD DEMAND																	
FSU	3.7	3.5	3.8	3.2	3.4	3.9	3.6	3.5	3.7	3.7	3.9	3.7	3.7	3.7	3.8	4.0	3.8
Europe	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.8	0.7
China	4.7	5.0	5.2	5.2	5.8	5.9	5.5	6.2	6.5	6.2	6.5	6.4	6.5	6.9	6.9	7.1	6.9
Other Asia	7.7	7.9	7.9	7.8	8.0	8.5	8.1	8.4	8.5	8.3	8.8	8.5	8.8	8.8	8.6	9.1	8.8
Latin America	4.9	4.8	4.5	4.7	4.8	4.9	4.7	4.7	4.9	5.0	5.0	4.9	4.8	5.0	5.1	5.1	5.0
Middle East	5.2	5.4	5.6	5.3	5.7	5.7	5.6	5.8	5.8	6.0	6.0	5.9	6.1	6.1	6.3	6.3	6.2
Africa	2.6	2.7	2.7	2.7	2.6	2.7	2.7	2.8	2.8	2.7	2.8	2.8	2.9	2.9	2.8	2.9	2.9
Total Non-OECD	29.4	29.9	30.5	29.7	31.0	32.3	30.9	32.2	32.9	32.7	33.8	32.9	33.6	34.1	34.3	35.2	34.3
Total Demand[1]	77.4	78.0	80.3	77.2	79.3	82.1	79.7	82.4	81.1	81.9	84.5	82.5	84.3	82.7	83.9	86.2	84.3
OECD SUPPLY																	
North America	14.4	14.5	14.6	14.5	14.6	14.7	14.6	14.8	14.7	14.4	14.4	14.6	14.4	14.5	14.6	14.8	14.6
Europe	6.7	6.6	6.7	6.2	6.0	6.4	6.3	6.4	6.2	5.7	6.0	6.1	5.9	5.9	5.8	6.0	5.9
Pacific	0.8	0.8	0.7	0.7	0.7	0.6	0.7	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Total OECD	21.8	21.9	22.1	21.3	21.3	21.8	21.6	21.8	21.5	20.7	21.0	21.3	20.9	21.0	21.0	21.4	21.1
NON-OECD SUPPLY																	
FSU	8.6	9.4	9.9	10.1	10.5	10.7	10.3	10.8	11.1	11.4	11.5	11.2	11.4	11.6	11.8	12.0	11.7
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
China	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.6
Other Asia	2.4	2.5	2.6	2.6	2.6	2.7	2.6	2.7	2.7	2.7	2.8	2.8	2.7	2.7	2.8	2.8	2.8
Latin America	3.8	3.9	4.0	3.9	4.1	4.1	4.0	4.0	4.1	4.1	4.1	4.1	4.2	4.3	4.4	4.4	4.3
Middle East	2.1	2.1	2.0	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.8	1.9	1.8	1.8	1.8	1.8	1.8
Africa	2.8	3.0	2.9	3.0	3.1	3.3	3.1	3.3	3.4	3.5	3.6	3.4	3.6	3.7	3.8	3.9	3.8
Total Non-OECD	23.2	24.5	25.1	25.3	25.7	26.3	25.6	26.4	26.8	27.3	27.4	27.0	27.5	27.8	28.3	28.7	28.1
Processing Gains[2]	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.9	1.8	1.8	1.9	1.8	1.9	1.9	1.8	1.9	1.9
Total Non-OPEC	46.8	48.1	49.0	48.4	48.8	49.9	49.0	50.1	50.1	49.8	50.3	50.1	50.3	50.6	51.1	52.0	51.0
OPEC																	
Crude[3]	27.0	25.1	26.7	26.1	26.6	27.6	26.8	27.9	28.1	29.1	29.5	28.7	28.8				
NGLs	3.4	3.7	3.5	3.9	4.0	4.1	3.9	4.3	4.3	4.3	4.4	4.3	4.7	4.7	4.8	4.9	4.8
Total OPEC	30.4	28.8	30.2	30.0	30.6	31.8	30.7	32.2	32.3	33.4	33.9	33.0	33.5				
Total Supply[4]	77.2	76.9	79.2	78.4	79.4	81.7	79.7	82.3	82.4	83.2	84.2	83.0	83.8				
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	0.3	-0.4	-0.6	1.3	0.5	-0.8	0.1	-0.6	0.9	0.5	-0.3	0.1	0.2				
Government	0.0	0.2	0.2	0.0	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1				
Total	0.3	-0.3	-0.5	1.4	0.7	-0.5	0.3	-0.5	0.9	0.5	-0.1	0.2	0.4				
Floating Storage/Oil in Transit	-0.1	0.0	0.3	0.1	0.0	0.3	0.2	-0.2	-0.1	0.2	0.1	0.0	-0.2				
Miscellaneous to balance[5]	-0.4	-0.7	-1.0	-0.3	-0.7	-0.2	-0.5	0.6	0.5	0.6	-0.3	0.3	-0.7				
Total Stock Ch. & Misc	-0.2	-1.0	-1.1	1.2	0.1	-0.4	0.0	-0.2	1.3	1.3	-0.3	0.5	-0.5				
Memo items:																	
Call on OPEC crude + Stock ch.[6]	27.2	26.2	27.8	25.0	26.5	28.0	26.8	28.1	26.7	27.8	29.8	28.1	29.3	27.3	27.9	29.3	28.5
Total Demand ex. FSU	73.7	74.5	76.5	74.0	75.9	78.2	76.2	79.0	77.4	78.1	80.5	78.8	80.6	79.0	80.1	82.2	80.5
Total demand exc. FSU (% ch)[7]	1.0	1.1	2.8	1.3	2.1	2.5	2.2	3.2	4.6	3.0	3.0	3.4	2.0	2.1	2.4	2.1	2.2

1 Measured as deliveries from refineries and primary stocks, comprises inland deliveries, international marine bunkers, refinery fuel, crude for direct burning, oil from non-conventional sources and other sources of supply
2 Net volumetric gains and losses in the refining process (excludes net gain/loss in former USSR, China and non-OECD Europe) and marine transportation losses
3 Upgraded Venezuelan Orinoco extra-heavy production is classified as non-conventional crude.
4 Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply
5 Includes changes in non-reported stocks in OECD and non-OECD areas
6 Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs
7 Year on year % growth in global oil demand excluding FSU

Table 1A
WORLD OIL SUPPLY AND DEMAND: CHANGES FROM LAST MONTH'S TABLE 1

(million barrels per day)

	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
OECD DEMAND																	
North America	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-0.3	-0.1	-	-	-0.1
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1	0.1	-	0.1
Total OECD	-	-	-	-	-	-	-	-	-	-	0.1	-	-0.3	-	0.1	0.1	-
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	0.1	-	-
Other Asia	-	-	-	-	-	-0.1	-	-0.1	-	-	-0.1	-0.1	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	0.1	-	-	-	-	0.1	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	0.1	-	-	-0.1	-	-0.1	-	-0.1	-	-	-	-	-	-	0.1	-	-
Total Demand	0.1	-	-	-0.1	-	-	-	-	-	-	-	-	-0.3	-	0.2	0.1	-
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-	-0.1
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-	-
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1	-	-	0.1
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1	0.2	0.1	0.1
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1	0.1
OPEC																	
Crude	-	-	-	-	-	-	-	-	-	-	-	-	-0.1				
NGLs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OPEC	-	-	-	-	-	-	-	-	-	-	-	-	-0.1				
Total Supply	-	-	-	-	-	-	-	-	-	-	-	-	-0.1				
STOCK CHANGES AND MISCELLANEOUS																	
REPORTED OECD																	
Industry	-	-	-	-	-	-	-	-	-	-	-	-					
Government	-	-	-	-	-	-	-	-	-	-	-	-					
Total	-	-	-	-	-	-	-	-	-	-	-	-					
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-	-	-	-	-					
Miscellaneous to balance	-0.1	-	-	0.1	-	-	0.1	-	-	-	-	-					
Total Stock Ch. & Misc	-0.1	-	-	0.1	-	-	0.1	-	-	-	-	-	0.2				
Memo items:																	
Call on OPEC crude + Stock ch.	0.1	-	-	-0.1	-	-	-0.1	-	-	-	-	-	-0.3	-	0.1	-	-0.1
Total Demand ex. FSU	0.1	-	-	-0.1	-	-	-	-	-	-	-	-	-0.4	-0.1	0.2	0.1	-

When submitting their monthly oil statistics, OECD Member countries periodically update data for prior periods. Similar updates to non-OECD data can occur.

Table 2

Summary of Global Oil Demand

	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
Demand (mb/d)																
North America	24.11	24.52	24.15	24.76	24.88	24.58	25.05	24.85	25.23	25.65	25.20	25.49	25.15	25.66	25.90	25.55
Europe	15.32	15.50	15.24	15.50	15.77	15.50	15.77	15.33	15.68	16.17	15.74	15.60	15.37	15.76	16.11	15.71
Pacific	8.63	9.75	8.17	8.03	9.16	8.77	9.38	8.00	8.25	8.87	8.63	9.59	8.04	8.18	8.99	8.70
Total OECD	48.06	49.77	47.57	48.29	49.81	48.86	50.20	48.18	49.16	50.69	49.56	50.68	48.56	49.60	51.00	49.96
FSU	3.45	3.81	3.19	3.45	3.85	3.57	3.47	3.68	3.75	3.94	3.71	3.71	3.67	3.80	3.96	3.79
Europe	0.69	0.76	0.70	0.65	0.71	0.71	0.77	0.72	0.67	0.73	0.72	0.79	0.73	0.69	0.75	0.74
China	4.97	5.23	5.20	5.75	5.87	5.52	6.24	6.49	6.25	6.55	6.38	6.52	6.88	6.93	7.07	6.85
Other Asia	7.92	7.93	7.82	8.00	8.47	8.06	8.43	8.51	8.34	8.78	8.52	8.76	8.79	8.61	9.09	8.81
Latin America	4.82	4.50	4.67	4.84	4.88	4.72	4.69	4.89	5.01	5.01	4.90	4.78	5.02	5.13	5.14	5.02
Middle East	5.38	5.57	5.34	5.72	5.73	5.59	5.85	5.84	6.02	5.98	5.92	6.14	6.14	6.31	6.27	6.22
Africa	2.68	2.73	2.73	2.62	2.75	2.71	2.77	2.81	2.70	2.82	2.78	2.88	2.91	2.79	2.90	2.87
Total Non-OECD	29.91	30.53	29.66	31.03	32.26	30.87	32.23	32.93	32.73	33.80	32.92	33.58	34.14	34.26	35.19	34.30
World	77.97	80.30	77.22	79.32	82.07	79.73	82.43	81.11	81.89	84.49	82.48	84.26	82.69	83.86	86.19	84.26
of which:																
US	*19.76*	*20.02*	*19.65*	*20.21*	*20.25*	*20.03*	*20.36*	*20.25*	*20.58*	*20.87*	*20.52*	*20.61*	*20.49*	*20.93*	*21.06*	*20.78*
Euro4	*8.34*	*8.33*	*8.27*	*8.32*	*8.42*	*8.33*	*8.48*	*8.20*	*8.41*	*8.59*	*8.42*	*8.26*	*8.19*	*8.40*	*8.45*	*8.33*
Japan	*5.46*	*6.37*	*5.17*	*5.04*	*5.76*	*5.58*	*6.06*	*4.95*	*5.20*	*5.53*	*5.44*	*6.14*	*4.95*	*5.10*	*5.56*	*5.44*
Korea	*2.15*	*2.38*	*2.00*	*1.95*	*2.34*	*2.17*	*2.29*	*2.01*	*1.99*	*2.27*	*2.14*	*2.38*	*2.03*	*2.00*	*2.33*	*2.18*
Mexico	*1.94*	*1.98*	*2.03*	*2.02*	*2.03*	*2.02*	*2.02*	*2.02*	*2.02*	*2.07*	*2.04*	*2.07*	*2.03*	*2.06*	*2.09*	*2.06*
Canada	*2.08*	*2.17*	*2.16*	*2.20*	*2.26*	*2.20*	*2.30*	*2.25*	*2.30*	*2.35*	*2.30*	*2.44*	*2.29*	*2.32*	*2.40*	*2.36*
Brazil	*2.12*	*1.96*	*2.01*	*2.10*	*2.12*	*2.05*	*2.06*	*2.12*	*2.21*	*2.18*	*2.14*	*2.07*	*2.16*	*2.25*	*2.23*	*2.18*
India	*2.32*	*2.38*	*2.30*	*2.26*	*2.45*	*2.35*	*2.53*	*2.51*	*2.33*	*2.48*	*2.46*	*2.62*	*2.57*	*2.41*	*2.60*	*2.55*
Annual Change (% per annum)																
North America	0.4	2.6	0.7	2.1	2.4	2.0	2.1	2.9	1.9	3.1	2.5	1.8	1.2	1.7	1.0	1.4
Europe	-0.1	0.6	2.2	0.6	1.5	1.2	1.8	0.6	1.2	2.5	1.5	-1.1	0.3	0.5	-0.4	-0.2
Pacific	-0.4	6.3	5.1	-1.9	-2.7	1.6	-3.8	-2.2	2.8	-3.1	-1.7	2.2	0.5	-0.9	1.4	0.8
Total OECD	0.1	2.7	1.9	0.9	1.2	1.7	0.9	1.3	1.8	1.8	1.4	1.0	0.8	0.9	0.6	0.8
FSU	-5.5	9.3	2.6	2.2	0.2	3.5	-8.9	15.4	8.6	2.2	3.8	7.0	-0.2	1.5	0.6	2.1
Europe	1.1	2.6	2.3	2.4	2.5	2.4	1.8	1.9	2.4	2.8	2.2	2.5	2.6	2.9	3.2	2.8
China	6.3	12.2	3.3	16.0	12.5	11.0	19.3	24.6	8.6	11.5	15.6	4.5	6.1	10.9	8.0	7.4
Other Asia	3.4	2.0	-1.6	2.1	4.5	1.8	6.3	8.9	4.2	3.6	5.7	3.8	3.2	3.3	3.6	3.5
Latin America	-0.9	-4.5	-3.2	-1.2	0.6	-2.0	4.4	4.6	3.6	2.5	3.7	2.0	2.6	2.4	2.6	2.4
Middle East	3.0	4.4	1.6	4.3	4.9	3.8	5.1	9.3	5.3	4.5	6.0	5.0	5.1	4.9	4.9	5.0
Africa	2.4	1.5	1.1	0.3	1.3	1.1	1.5	2.9	3.0	2.8	2.5	3.7	3.6	3.2	2.9	3.4
Total Non-OECD	1.8	3.9	0.3	4.1	4.5	3.2	5.6	11.0	5.5	4.8	6.6	4.2	3.7	4.7	4.1	4.2
World	0.8	3.1	1.3	2.1	2.4	2.3	2.7	5.0	3.2	2.9	3.5	2.2	2.0	2.4	2.0	2.2
Annual Change (mb/d)																
North America	0.10	0.63	0.18	0.50	0.59	0.47	0.53	0.70	0.47	0.76	0.61	0.44	0.29	0.43	0.26	0.35
Europe	-0.01	0.09	0.33	0.09	0.23	0.19	0.27	0.09	0.18	0.40	0.24	-0.17	0.04	0.09	-0.07	-0.03
Pacific	-0.04	0.58	0.40	-0.15	-0.25	0.14	-0.37	-0.18	0.23	-0.29	-0.15	0.21	0.04	-0.08	0.12	0.07
Total OECD	0.05	1.29	0.91	0.44	0.57	0.80	0.43	0.61	0.88	0.88	0.70	0.48	0.38	0.43	0.32	0.40
FSU	-0.20	0.33	0.08	0.07	0.01	0.12	-0.34	0.49	0.30	0.08	0.14	0.24	-0.01	0.06	0.02	0.08
Europe	0.01	0.02	0.02	0.02	0.02	0.02	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
China	0.30	0.57	0.17	0.79	0.65	0.55	1.01	1.28	0.50	0.67	0.86	0.28	0.39	0.68	0.52	0.47
Other Asia	0.26	0.16	-0.13	0.16	0.36	0.14	0.50	0.70	0.33	0.31	0.46	0.32	0.27	0.27	0.32	0.30
Latin America	-0.04	-0.21	-0.15	-0.06	0.03	-0.10	0.20	0.22	0.17	0.12	0.18	0.09	0.13	0.12	0.13	0.12
Middle East	0.16	0.24	0.08	0.24	0.27	0.21	0.28	0.50	0.30	0.26	0.33	0.29	0.30	0.29	0.29	0.29
Africa	0.06	0.04	0.03	0.01	0.04	0.03	0.04	0.08	0.08	0.08	0.07	0.10	0.10	0.09	0.08	0.09
Total Non-OECD	0.54	1.14	0.10	1.23	1.38	0.96	1.70	3.27	1.70	1.54	2.05	1.35	1.20	1.53	1.39	1.37
World	0.60	2.43	1.01	1.67	1.95	1.76	2.13	3.89	2.58	2.42	2.75	1.84	1.58	1.97	1.71	1.77
Changes from Last Month's Report																
North America	-	-	-	-	0.01	-	0.02	-	-	0.01	0.01	0.01	-0.05	0.01	0.02	-
Europe	-	-	-	-	-	-	0.01	-	-	0.05	0.02	-0.35	-0.07	-0.01	0.02	-0.10
Pacific	-	-	-	-	-	-	-	-	-	-	-	0.06	0.09	0.09	0.03	0.07
Total OECD	-	-	-	-	0.01	-	0.04	-	-	0.05	0.02	-0.27	-0.03	0.09	0.08	-0.03
FSU	-	-	-	-	-	-	-	-	-	-	-	0.09	0.06	0.01	-0.04	0.03
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-0.13	-0.09	0.05	0.04	-0.03
Other Asia	0.03	-0.04	-0.05	-0.03	-0.06	-0.05	-0.07	-0.05	-0.03	-0.06	-0.05	0.01	-0.01	-	-0.01	-
Latin America	-	-	-	-	-	-	-	-	0.01	-	-	-0.02	-	0.01	0.02	-
Middle East	0.02	0.03	0.02	0.04	0.04	0.03	0.04	0.06	0.04	0.04	0.04	0.04	0.07	0.04	0.04	0.05
Africa	-0.02	-0.03	-0.03	-0.04	-0.04	-0.04	-0.03	-0.03	-0.03	-0.03	-0.03	-0.03	-0.03	-0.03	-0.03	-0.03
Total Non-OECD	0.04	-0.05	-0.06	-0.03	-0.06	-0.05	-0.06	-0.01	-0.01	-0.05	-0.03	-0.04	0.01	0.09	0.02	0.02
World	0.04	-0.05	-0.06	-0.03	-0.05	-0.05	-0.03	-0.01	-0.02	-	-0.01	-0.31	-0.02	0.18	0.10	-0.01

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2003	2004	2005	4Q04	1Q05	2Q05	3Q05	4Q05	Feb 05	Mar 05	Apr 05
OPEC											
Crude Oil											
Saudi Arabia	8.48	8.75		9.23	8.92				8.90	9.06	9.16
Iran	3.78	3.93		3.96	3.87				3.91	3.76	3.90
Iraq	1.32	1.99		1.98	1.79				1.80	1.80	1.83
UAE	2.29	2.35		2.45	2.36				2.29	2.40	2.45
Kuwait	1.87	2.05		2.14	2.10				2.15	2.11	2.16
Neutral Zone	0.60	0.60		0.60	0.60				0.60	0.59	0.58
Qatar	0.72	0.78		0.80	0.78				0.78	0.78	0.78
Nigeria	2.15	2.32		2.32	2.36				2.39	2.40	2.45
Libya	1.42	1.55		1.61	1.61				1.62	1.62	1.64
Algeria	1.11	1.21		1.28	1.33				1.34	1.35	1.35
Venezuela	2.01	2.17		2.16	2.13				2.13	2.12	2.16
Indonesia	1.01	0.97		0.97	0.95				0.94	0.95	0.95
Total Crude Oil	26.77	28.66		29.52	28.79				28.83	28.92	29.40
Total NGLs[1]	3.89	4.31	4.78	4.38	4.68	4.70	4.83	4.90	4.69	4.69	4.62
Total OPEC	30.66	32.96		33.91	33.46				33.52	33.61	34.02
NON-OPEC[2]											
OECD											
North America	14.62	14.58	14.60	14.42	14.42	14.50	14.63	14.82	14.48	14.31	14.38
United States	7.83	7.67	7.78	7.57	7.73	7.76	7.80	7.82	7.74	7.80	7.72
Mexico	3.79	3.83	3.79	3.78	3.75	3.78	3.80	3.83	3.78	3.67	3.79
Canada	3.00	3.09	3.03	3.07	2.95	2.95	3.03	3.17	2.96	2.84	2.87
Europe	6.34	6.09	5.90	6.02	5.94	5.89	5.77	6.02	5.95	6.01	6.00
UK	2.28	2.05	1.90	2.00	2.00	1.88	1.84	1.90	2.00	1.96	1.92
Norway	3.26	3.19	3.14	3.16	3.08	3.15	3.06	3.26	3.09	3.18	3.22
Others	0.79	0.85	0.86	0.86	0.86	0.86	0.87	0.87	0.86	0.87	0.87
Pacific	0.66	0.58	0.59	0.55	0.56	0.59	0.60	0.58	0.53	0.58	0.56
Australia	0.61	0.53	0.54	0.50	0.52	0.55	0.56	0.54	0.49	0.54	0.52
Others	0.05	0.04	0.04	0.05	0.04	0.04	0.04	0.04	0.05	0.05	0.04
Total OECD	21.61	21.25	21.09	20.99	20.93	20.99	21.00	21.43	20.97	20.90	20.94
NON-OECD											
Former USSR	10.31	11.18	11.71	11.45	11.41	11.56	11.84	12.03	11.39	11.51	11.45
Russia	8.49	9.23	9.57	9.41	9.34	9.45	9.67	9.81	9.36	9.37	9.34
Others	1.82	1.95	2.14	2.04	2.06	2.12	2.17	2.22	2.03	2.14	2.11
Asia	6.03	6.24	6.34	6.32	6.33	6.31	6.36	6.37	6.30	6.29	6.25
China	3.41	3.48	3.59	3.51	3.59	3.60	3.59	3.58	3.61	3.58	3.61
Malaysia	0.83	0.86	0.84	0.87	0.84	0.83	0.84	0.83	0.83	0.83	0.84
India	0.79	0.80	0.80	0.81	0.81	0.81	0.80	0.79	0.79	0.82	0.81
Others	1.01	1.10	1.12	1.13	1.08	1.08	1.14	1.17	1.07	1.07	0.99
Europe	0.17	0.17	0.16	0.17	0.16	0.16	0.16	0.15	0.16	0.16	0.16
Latin America	4.04	4.07	4.30	4.09	4.17	4.28	4.35	4.40	4.15	4.23	4.28
Brazil	1.80	1.80	1.99	1.81	1.86	1.96	2.05	2.10	1.83	1.90	1.95
Argentina	0.83	0.78	0.74	0.77	0.75	0.74	0.73	0.72	0.75	0.75	0.75
Colombia	0.55	0.54	0.52	0.54	0.53	0.53	0.52	0.52	0.52	0.53	0.53
Ecuador	0.43	0.54	0.56	0.54	0.55	0.56	0.57	0.58	0.55	0.55	0.55
Others	0.42	0.42	0.49	0.43	0.48	0.49	0.49	0.49	0.49	0.49	0.49
Middle East[3]	1.99	1.88	1.80	1.84	1.82	1.80	1.80	1.79	1.82	1.82	1.81
Oman	0.82	0.76	0.72	0.75	0.74	0.73	0.72	0.71	0.74	0.74	0.73
Syria	0.53	0.50	0.48	0.49	0.49	0.48	0.47	0.47	0.49	0.49	0.48
Yemen	0.44	0.41	0.41	0.40	0.40	0.40	0.42	0.42	0.39	0.40	0.40
Africa	3.06	3.43	3.75	3.57	3.60	3.69	3.79	3.92	3.60	3.62	3.67
Egypt	0.74	0.71	0.70	0.69	0.70	0.70	0.70	0.69	0.70	0.70	0.70
Angola	0.88	0.99	1.19	1.10	1.12	1.16	1.19	1.29	1.11	1.13	1.15
Gabon	0.24	0.24	0.23	0.23	0.23	0.23	0.24	0.24	0.23	0.23	0.23
Others	1.20	1.50	1.63	1.54	1.55	1.59	1.67	1.70	1.55	1.56	1.59
Total Non-OECD	25.61	26.97	28.07	27.44	27.49	27.81	28.30	28.67	27.42	27.63	27.62
Processing Gains[4]	1.80	1.83	1.86	1.85	1.88	1.85	1.84	1.88	1.88	1.88	1.88
TOTAL NON-OPEC	49.03	50.06	51.02	50.28	50.29	50.65	51.14	51.98	50.27	50.41	50.44
TOTAL SUPPLY	79.69	83.02		84.18	83.76				83.79	84.02	84.46

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Orimulsion Orinoco extra-heavy oil, and non-oil inputs to Saudi Arabian MTBE
2 Comprises crude oil, condensates, NGLs and oil from non-conventional sources
3 Includes small amounts of production from Israel, Jordan and Bahrain
4 Net volumetric gains and losses in refining (excludes net gain/loss in FSU, China and non-OECD Europe) and marine transportation losses

Table 4

OECD INDUSTRY STOCKS[1] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Nov2004	Dec2004	Jan2005	Feb2005	Mar2005*	Mar2002	Mar2003	Mar2004	2Q2004	3Q2004	4Q2004	1Q2005
North America												
Crude	412.9	403.7	407.5	421.1	432.2	443.1	397.0	410.7	0.08	-0.24	0.09	0.32
Motor Gasoline	239.8	241.8	249.3	259.9	249.1	249.6	232.2	232.3	0.07	-0.02	0.06	0.08
Middle Distillate	195.0	198.8	200.2	194.8	186.4	198.8	165.0	169.8	0.14	0.14	0.04	-0.14
Residual Fuel Oil	50.1	51.3	50.4	51.7	53.2	42.3	41.0	47.5	-0.03	-0.04	0.11	0.02
Total Products[3]	658.4	657.9	661.7	667.5	652.0	649.8	576.5	597.4	0.41	0.27	-0.02	-0.07
Total[4]	1220.6	1208.8	1216.6	1231.9	1233.0	1236.7	1103.2	1145.5	0.57	0.20	-0.07	0.27
Europe												
Crude	351.4	324.4	328.1	331.2	345.0	318.4	335.8	341.8	-0.03	-0.07	-0.09	0.23
Motor Gasoline	112.4	115.8	126.6	129.6	126.9	130.8	118.9	115.1	-0.06	0.02	0.04	0.12
Middle Distillate	237.2	238.3	254.8	241.9	244.0	241.7	216.7	216.0	0.20	0.17	-0.13	0.06
Residual Fuel Oil	71.8	73.1	72.4	72.4	68.1	72.9	70.2	75.0	0.03	-0.01	-0.04	-0.06
Total Products[3]	526.0	531.1	557.0	546.7	541.9	551.5	506.4	504.2	0.18	0.22	-0.11	0.12
Total[4]	949.7	926.1	955.3	951.4	959.5	936.3	913.0	922.4	0.08	0.15	-0.19	0.37
Pacific												
Crude	192.3	171.2	178.8	168.4	170.7	176.5	182.8	175.1	0.02	-0.09	0.03	-0.01
Motor Gasoline	24.8	24.2	27.1	27.1	25.4	26.6	24.8	25.2	-0.01	-0.01	0.00	0.01
Middle Distillate	82.9	75.1	68.2	58.2	48.8	67.8	55.8	54.4	0.07	0.16	0.00	-0.29
Residual Fuel Oil	23.7	22.4	22.3	21.6	20.7	22.3	21.9	20.0	0.03	-0.01	0.01	-0.02
Total Products[3]	200.9	187.8	186.5	173.1	157.7	184.3	162.4	157.4	0.16	0.15	0.02	-0.34
Total[4]	467.6	430.3	435.5	408.8	394.4	435.5	411.0	400.4	0.21	0.11	0.01	-0.40
Total OECD												
Crude	956.5	899.3	914.3	920.7	947.9	938.0	915.5	927.5	0.07	-0.40	0.02	0.54
Motor Gasoline	377.1	381.7	403.0	416.6	401.3	407.0	375.9	372.6	0.00	-0.01	0.11	0.22
Middle Distillate	515.1	512.2	523.2	494.9	479.2	508.2	437.4	440.1	0.40	0.47	-0.09	-0.37
Residual Fuel Oil	145.6	146.9	145.0	145.7	142.0	137.5	133.1	142.5	0.03	-0.07	0.08	-0.05
Total Products[3]	1385.3	1376.8	1405.1	1387.4	1351.5	1385.6	1245.3	1259.0	0.75	0.65	-0.11	-0.28
Total[4]	2637.9	2565.2	2607.3	2592.1	2586.9	2608.5	2427.2	2468.2	0.85	0.47	-0.26	0.24

OECD GOVERNMENT-CONTROLLED STOCKS[5] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Nov2004	Dec2004	Jan2005	Feb2005	Mar2005*	Mar2002	Mar2003	Mar2004	2Q2004	3Q2004	4Q2004	1Q2005
North America												
Crude	672.8	675.6	679.7	682.0	687.8	561.5	599.3	652.1	0.11	0.09	0.06	0.14
Products	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.00	0.00	0.00	0.00
Europe												
Crude	160.6	164.2	161.2	160.0	160.0	143.4	159.2	158.0	0.00	0.00	0.07	-0.05
Products	202.1	205.6	207.2	209.2	209.2	209.2	204.9	209.6	-0.06	0.00	0.01	0.04
Pacific												
Crude	382.5	384.5	384.5	384.5	384.5	379.2	383.0	386.8	0.00	-0.02	0.00	0.00
Products	11.0	11.0	11.0	11.0	11.0	7.3	9.6	11.0	0.00	0.00	0.00	0.00
Total OECD												
Crude	1215.8	1224.3	1225.4	1226.5	1232.3	1084.1	1141.5	1196.9	0.11	0.06	0.12	0.09
Products	215.2	218.6	220.2	222.2	222.2	218.5	216.4	222.7	-0.06	0.00	0.01	0.04
Total[4]	1432.0	1443.9	1446.6	1449.7	1455.5	1303.5	1358.9	1420.5	0.06	0.07	0.13	0.13

* estimated

1 Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) and include stocks held by industry to meet IEA, EU and national emergency reserve commitments and are subject to government control in emergencies.

2 Closing stock levels.

3 Total products includes gasoline, middle distillates, fuel oil and other products.

4 Total includes NGLs, refinery feedstocks, additives/oxygenates and other hydrocarbons.

5 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.

Table 5

TOTAL STOCKS ON LAND IN OECD COUNTRIES[1]

('millions of barrels' and 'days')

	End March 2004		End June 2004		End September 2004		End December 2004		End March 2005 [3]	
	Stock Level	Days Fwd[2] Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand
North America										
Canada	170.4	76	168.8	74	179.0	76	176.3	-	-	-
Mexico	38.9	19	39.5	20	41.4	20	41.3	-	-	-
United States[4]	1568.2	77	1630.9	79	1645.3	79	1646.7	-	-	-
Total[5]	1799.6	72	1861.3	74	1887.8	74	1886.4	74	1922.8	76
Pacific										
Australia	33.8	39	34.9	39	34.3	37	33.2	-	-	-
Japan	614.4	124	622.0	120	632.0	114	635.3	-	-	-
Korea	142.9	71	152.9	77	152.1	67	149.4	-	-	-
New Zealand	7.2	45	7.7	50	7.1	46	8.0	-	-	-
Total	798.2	100	817.4	99	825.5	93	825.9	86	790.0	98
Europe[6]										
Austria	21.0	78	20.3	66	20.2	72	21.8	-	-	-
Belgium	24.6	42	26.5	46	27.7	39	27.2	-	-	-
Czech Republic	15.6	74	15.9	73	16.9	82	16.3	-	-	-
Denmark	15.9	88	15.8	89	18.1	94	16.2	-	-	-
Finland	27.8	133	23.4	108	24.0	106	24.4	-	-	-
France	176.4	90	183.5	92	188.5	92	186.2	-	-	-
Germany	270.0	108	267.1	99	264.1	97	267.2	-	-	-
Greece	29.4	77	30.8	78	34.1	76	35.7	-	-	-
Hungary	19.5	153	20.1	153	18.7	128	17.8	-	-	-
Ireland	11.5	69	10.7	63	11.1	60	12.0	-	-	-
Italy	135.6	73	134.6	71	138.7	72	135.8	-	-	-
Luxembourg	0.8	13	1.0	16	0.9	14	0.9	-	-	-
Netherlands	108.2	114	102.3	110	110.2	113	108.3	-	-	-
Norway	28.5	116	30.0	118	23.3	77	24.0	-	-	-
Poland	29.7	62	30.1	59	31.1	61	30.6	-	-	-
Portugal	24.4	74	26.2	76	25.0	72	24.3	-	-	-
Slovak Republic	5.8	82	6.2	82	5.6	76	5.7	-	-	-
Spain	123.5	79	127.3	82	126.8	79	119.8	-	-	-
Sweden	31.8	89	31.1	91	31.5	90	33.8	-	-	-
Switzerland	35.4	149	37.5	144	37.8	140	36.3	-	-	-
Turkey	54.9	79	54.8	77	55.2	81	55.9	-	-	-
United Kingdom	100.7	54	97.6	53	97.7	52	96.8	-	-	-
Total	1291.0	84	1292.9	82	1307.2	81	1296.9	83	1329.6	86
Total OECD	3888.7	81	3971.6	81	4020.6	79	4009.1	79	4042.4	83
DAYS OF IEA Net Imports[7]	-	111	-	113	-	114	-	114	-	-

1 Total Stocks are industry and government-controlled stocks (see breakdown in table below). Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) they include stocks held by industry to meet IEA, EU and national emergency reserves commitments and are subject to government control in emergencies.
2 Note that days of forward demand represent the stock level divided by the forward quarter average daily demand and is very different from the days of net imports used for the calculation of IEA Emergency Reserves.
3 End December 2004 and end March 2005 forward demand figures are IEA Secretariat forecasts.
4 US figures exclude US territories.
5 Total includes US territories.
6 Data not available for Iceland.
7 Reflects stock levels and prior calendar year's net imports adjusted according to IEA emergency reserve definitions. Net exporting IEA countries are excluded.

TOTAL OECD STOCKS

CLOSING STOCKS	Total	Government[1] controlled	Industry	Total	Government[1] controlled	Industry
	Millions of Barrels			*Days of Fwd. Demand[2]*		
1Q2002	3912	1304	2609	84	28	56
2Q2002	3969	1316	2654	83	27	55
3Q2002	3899	1321	2579	79	27	52
4Q2002	3822	1345	2478	77	27	50
1Q2003	3786	1359	2427	80	29	51
2Q2003	3912	1362	2550	81	28	53
3Q2003	3980	1380	2600	80	28	52
4Q2003	3932	1407	2525	78	28	50
1Q2004	3889	1421	2468	81	29	51
2Q2004	3972	1426	2546	81	29	52
3Q2004	4021	1432	2589	79	28	51
4Q2004	4009	1444	2565	79	28	51
1Q2005	4042	1455	2587	83	30	53

1 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.
2 Days of forward demand calculated using actual demand except in 4Q2004 and 1Q2005 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2002	2003	2004	1Q04	2Q04	3Q04	4Q04	Dec 04	Jan 05	Feb 05	Year Earlier Feb 04	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.64	0.55	0.55	0.56	0.56	0.52	0.47	0.49	0.44	0.59	-0.15
Europe	0.92	1.00	1.03	0.96	1.05	1.04	1.08	1.16	0.85	0.83	0.91	-0.08
Pacific	1.22	1.18	1.24	1.14	1.13	1.23	1.47	1.60	1.41	1.46	1.08	0.38
Saudi Medium												
North America	0.70	0.83	0.80	0.72	0.73	0.86	0.90	0.97	0.88	1.05	0.75	0.30
Europe	0.11	0.11	0.11	0.08	0.07	0.11	0.16	0.19	0.11	0.14	0.13	0.00
Pacific	0.16	0.24	0.23	0.31	0.20	0.18	0.23	0.20	0.25	0.16	0.35	-0.19
Saudi Heavy												
North America	0.20	0.30	0.22	0.19	0.14	0.30	0.26	0.21	0.21	0.18	0.13	0.05
Europe	0.09	0.19	0.23	0.16	0.26	0.31	0.20	0.16	0.21	0.16	0.18	-0.02
Pacific	0.12	0.16	0.15	0.13	0.13	0.16	0.18	0.17	0.14	0.28	0.14	0.14
Iraqi Basrah Light[2]												
North America	0.35	0.44	0.71	0.75	0.74	0.68	0.67	0.69	0.62	0.48	0.86	-0.38
Europe	0.08	0.09	0.21	0.22	0.27	0.21	0.13	0.15	0.10	0.25	0.17	0.08
Pacific	0.02	0.03	0.12	0.14	0.08	0.12	0.15	0.06	0.12	0.11	0.16	-0.05
Iraqi Kirkuk												
North America	0.14	0.06	0.02	..	0.04	0.01	0.01	..	..	..	..	..
Europe	0.32	0.12	0.08	0.04	0.07	0.03	0.16	0.18	0.03	0.02	..	..
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.17	0.19	0.24	0.20	0.23	0.23	0.27	0.30	0.18	0.17	0.14	0.03
Pacific	0.12	0.17	0.16	0.18	0.13	0.16	0.16	0.17	0.18	0.15	0.17	-0.02
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.44	0.59	0.57	0.50	0.61	0.65	0.54	0.59	0.57	0.68	0.63	0.05
Pacific	0.54	0.69	0.65	0.73	0.65	0.58	0.63	0.66	0.77	0.69	0.85	-0.15
Venezuelan Light & Medium												
North America	0.68	0.69	0.67	0.63	0.78	0.64	0.63	0.76	0.76	0.78	0.62	0.15
Europe	0.08	0.02	0.01	..	0.02	0.02	0.01	..	..	0.06	..	..
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.55	0.60	0.88	0.81	0.91	0.86	0.95	0.97	0.89	0.78	0.92	-0.14
Europe	0.05	0.06	0.05	0.05	0.07	0.06	0.04	0.02	0.05	0.08	0.05	0.03
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	0.92	1.32	1.36	1.31	1.43	1.34	1.37	1.26	1.36	1.25	1.36	-0.11
Europe	0.17	0.16	0.16	0.14	0.19	0.20	0.13	0.12	0.16	0.24	0.14	0.10
Pacific	0.00	0.00	0.00	0.01	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.01	0.00	..	..	..	..	..	..	0.00	0.01	..	..
Europe	0.01	0.00	0.01	..	..	..	0.02	..	0.03	..	..	..
Pacific	0.01	0.00	0.00	0.01	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.03	0.14	0.12	0.01	0.14	0.12	0.21	0.18	0.04	0.20	0.03	0.17
Europe	1.32	1.62	1.86	2.14	1.98	1.78	1.56	1.46	1.56	1.56	2.31	-0.75
Pacific	0.01	0.00	0.01	0.00	0.01	0.01	..	..	..	..	..	..
Nigerian Light[4]												
North America	0.38	0.63	0.80	0.80	0.90	0.78	0.73	0.69	0.80	1.04	0.92	0.12
Europe	0.32	0.41	0.28	0.32	0.22	0.30	0.30	0.31	0.34	0.33	0.29	0.05
Pacific	0.06	0.08	0.11	0.12	0.10	0.09	0.13	0.16	0.07	0.07	0.07	0.01
Nigerian Medium												
North America	0.16	0.17	0.23	0.26	0.21	0.22	0.20	0.20	0.27	0.28	0.17	0.11
Europe	0.06	0.06	0.04	0.03	0.04	0.05	0.02	0.02	0.07	0.07	0.01	0.06
Pacific	0.01	0.01	0.01	0.02	..	..	..	..	..	..	0.03	..

1 Data based on monthly submissions from IEA countries to the crude oil import register (in '000 bbl), subject to availability. May differ from Table 8 of the Report.
IEA North America includes United States and Canada.
IEA Europe includes all countries in OECD Europe except Hungary, Poland and the Slovak Republic.
IEA Pacific data includes Australia, New Zealand, Korea and Japan.

2 Iraqi Total minus Kirkuk.

3 Iranian Total minus Iranian Light.

4 33 API and lighter (e.g., Bonny Light, Escravos, Qua Iboe and Oso Condensate).

Table 7
Regional OECD Imports[1,2]
(thousand barrels per day)

	2002	2003	2004	1Q2004	2Q2004	3Q2004	4Q2004	Dec-04	Jan-05	Feb-05	Year Earlier Feb-04	Year Earlier % change
Crude Oil												
North America	7584	8069	8394	8027	8557	8547	8442	8472	8427	8737	7830	10%
Europe	8725	9087	9522	9395	9499	9664	9527	9443	9841	10066	9699	4%
Pacific	6422	6711	6659	7011	6170	6457	6998	6662	7310	6897	7476	-8%
Total OECD	22731	23867	24575	24433	24226	24668	24967	24578	25577	25700	25005	3%
LPG												
North America	39	27	26	29	10	25	39	33	18	32	5	85%
Europe	226	198	232	251	195	215	267	269	314	290	243	16%
Pacific	553	541	541	550	585	469	561	532	530	529	548	-4%
Total OECD	818	765	799	831	790	709	868	834	863	851	796	7%
Naphtha												
North America	42	67	86	53	49	96	144	158	108	122	79	35%
Europe	298	311	292	330	326	243	268	321	252	315	321	-2%
Pacific	705	770	769	782	761	787	748	813	829	728	891	-22%
Total OECD	1045	1148	1147	1165	1137	1126	1160	1292	1190	1165	1291	-11%
Gasoline[3]												
North America	680	703	798	673	896	847	774	690	727	1045	603	42%
Europe	150	147	166	213	157	132	163	87	171	208	222	-7%
Pacific	58	70	105	105	118	90	106	122	95	83	116	-40%
Total OECD	889	919	1069	991	1170	1069	1044	898	993	1336	942	30%
Jet & Kerosene												
North America	97	97	88	45	102	88	116	83	49	72	65	10%
Europe	219	211	243	173	233	307	259	276	255	328	115	65%
Pacific	97	102	77	92	60	52	103	100	99	78	87	-11%
Total OECD	413	410	408	310	395	447	478	459	404	478	267	44%
Gasoil/Diesel												
North America	102	126	122	199	92	108	91	67	129	136	234	-71%
Europe	655	653	730	668	645	756	848	1035	782	960	694	28%
Pacific	53	73	74	56	92	79	66	72	68	51	50	3%
Total OECD	810	851	926	923	829	943	1006	1173	980	1148	978	15%
Heavy Fuel Oil												
North America	237	326	387	364	317	346	521	399	466	566	407	28%
Europe	469	394	413	364	435	448	404	354	337	389	373	4%
Pacific	89	88	76	76	77	87	64	37	73	94	70	25%
Total OECD	795	808	876	805	828	882	989	791	875	1049	851	19%
Other Products												
North America	689	680	824	869	701	951	774	809	666	826	970	-17%
Europe	735	685	691	665	702	709	687	685	616	729	583	20%
Pacific	256	235	256	249	265	261	252	313	283	244	244	0%
Total OECD	1680	1601	1771	1782	1667	1920	1713	1807	1565	1799	1797	0%
Total Products												
North America	1887	2026	2330	2233	2165	2462	2460	2238	2164	2799	2362	16%
Europe	2752	2598	2767	2665	2693	2810	2896	3027	2728	3219	2551	21%
Pacific	1811	1879	1898	1910	1958	1825	1901	1989	1978	1808	2007	-11%
Total OECD	6450	6502	6996	6808	6816	7097	7257	7254	6869	7826	6920	12%
Total Oil												
North America	9471	10095	10724	10260	10722	11009	10902	10711	10590	11535	10192	12%
Europe	11476	11684	12288	12060	12192	12474	12423	12470	12569	13285	12250	8%
Pacific	8233	8590	8558	8921	8128	8282	8899	8651	9287	8706	9482	-9%
Total OECD	29180	30369	31571	31241	31042	31765	32225	31832	32446	33526	31925	5%

1 Based on Monthly Oil Questionnaire data submitted by OECD countries in tonnes and converted to barrels.

2 Excludes intra-regional trade

3 Includes additives

OIL MARKET REPORT CONTACTS

Editor/Prices and Refinery Activity	Lawrence Eagles (+33) 0*1 40 57 65 90 e-mail: lawrence.eagles@iea.org
Demand	Jeff Brown (+33) 0*1 40 57 65 93 e-mail: jeff.brown@iea.org
Supply	David Fyfe (+33) 0*1 40 57 65 94 e-mail: david.fyfe@iea.org
OECD Stocks	Harry Tchilinguirian (+33) 0*1 40 57 65 22 e-mail: harry.tchilinguirian@iea.org
Freight/Statistics	Toril Ekeland Bosoni (+33) 0*1 40 57 66 36 e-mail: toril.bosoni@iea.org
Administrative Support	Anne Mayne (+33) 0*1 40 57 65 96 e-mail: anne.mayne@iea.org
	Brid Deely (+33) 0*1 40 57 67 31 e-mail: bridget.deely@iea.org
Fax:	*(+33) 0*1 40 57 65 99/40 57 65 09*

* 0 only within France

For all **Subscription and Delivery Enquiries** please contact:

International Energy Agency
Attn: Ms. Sandra Coleman
Oil Market Report Subscriptions
BP 586-75726 Paris Cedex 15, France

Tel. +33 (0) 1 40 57 65 57
Fax. +33 (0) 1 40 57 65 59

E-mail: omr@iea.org

Users' Guide to the IEA Oil Market Report

Readers are referred to the Users' Guide, published in conjunction with the Annual Statistical Supplement (current issue dated 11 August 2004), for information on the data sources, definitions, technical terms and general approach used in preparing the Report. It should be noted that the spot crude and product price assessments are based on daily Platt's prices, converted when appropriate to US$ per barrel according to the Platt's specification of products (©2005 Platt's - a division of McGraw-Hill Inc.).

INTERNATIONAL ENERGY AGENCY/AGENCE INTERNATIONALE DE L'ENERGIE

OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

www.oilmarketreport.org

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

10 June 2005

HIGHLIGHTS

- NYMEX light crude futures rebounded $10 from a low of $46.20 in mid-May, but slipped back below $53 in early June. Strong diesel and crude demand was evident as US economic activity remained firm and refiners ramped up throughput. Light, sweet crudes remain in contango, but there is evidence of tightness in sour crudes.

- Demand growth continues to slow in China and Europe, but this is counterbalanced by relative strength in North America and the OECD Pacific. Projected growth in world demand in 2005 remains broadly unchanged at 1.78 mb/d (2.2%).

- World oil output rose by 260 kb/d in May to 84.6 mb/d. This resulted from higher Venezuelan syncrude output and increases from the FSU, Asia and North America. The non-OPEC supply estimate for 2005 is unchanged at 51.0 mb/d but growth now averages 865 kb/d. OPEC other liquids supply is still expected to rise by 470 kb/d in 2005.

- OPEC crude supply fell 55 kb/d in May to 29.3 mb/d, on lower UAE and Venezuelan output. Iraqi southern exports also fell. The fourth quarter call on OPEC crude and stock change is revised up by 300 kb/d to 29.6 mb/d. This remains below last year's Q4 call of 29.8 mb/d, while at the same time, OPEC capacity is projected around 32.2 mb/d by year-end.

- OECD industry oil stocks rose 13.5 mb in April, 99 mb above last year. Most of the gain was in 'other product' stocks. Crude stock builds in North America were offset by draws in the Pacific and Europe. Forward demand cover by OECD industry stocks was unchanged at 53 days.

- OECD throughputs declined to 39 mb/d in April, driven lower by a reduction in Pacific crude runs. Refining margins were generally down in May as light product differentials against crude oil weakened.

Next Issue: 13 July 2005

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

The IEA is Seeking to Recruit an Oil Market Analyst

The International Energy Agency (IEA), an intergovernmental body committed to advancing security of energy supply, economic growth and environmental sustainability through energy policy co-operation, is seeking to recruit an Oil Market Analyst to examine developments and future prospects in global oil markets. The successful applicant will work under the guidance of the Head of the Oil Industry and Markets Division of the IEA.

The ideal candidate will possess:

- A university degree in economics, supplemented by industry experience and/or an advanced university degree in business, finance, resource economics or other relevant subjects.
- A very good knowledge of, and appropriate experience in, oil industry and market analysis.
- Quantitative database and modelling skills would be desirable, as would a strong knowledge of Microsoft Office Suite software.
- A background in refining or related experience would be an asset.
- Ability to work well under extremely demanding deadlines.
- Excellent level of oral and written communication skills and excellent drafting ability in English; a working knowledge of French would be an advantage.

The IEA operates as an autonomous agency within the Organisation for Economic Co-operation and Development (OECD), a forum within which the governments of 30 market democracies work together to address the economic, social and governance challenges of the globalising world economy, as well as to exploit its opportunities.

The OECD is an equal opportunity employer and offers an attractive remuneration package.
We encourage applications from female candidates.

The complete vacancy notice and application form can be found by clicking on 'job vacancies' at www.oecd.org (vacancy reference **VAC(05)57**).

Applications (in English or French) from nationals of OECD Member countries should include a CV and be sent online by midnight Paris time on **23 June 2005**.

OECD OCDE

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Organisation de coopération et de développement économiques

CONTENTS

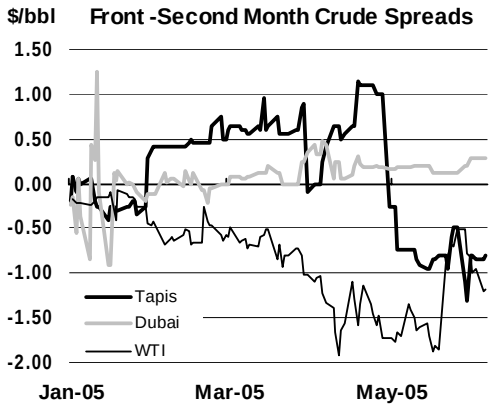
SHIFTING SANDS

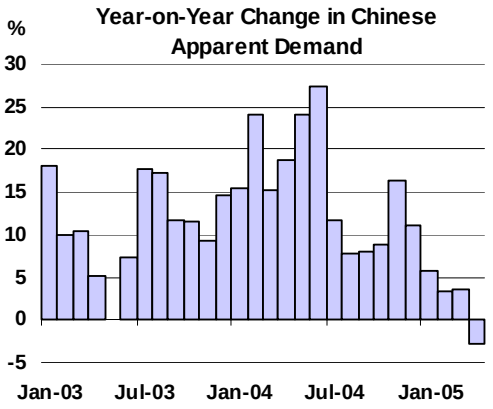
The surge in Chinese demand springs to everyone's mind as the big oil market story of 2004, squeezing upstream/refinery capacity and being blamed for pushing prices higher. It is forgotten that oil demand outside China grew by 1.9 mb/d in 2004 and that low margins and changing product specifications have been slowing investment in refinery capacity since the end of the 1990s. Also forgotten is that the world's largest economy was booming, drawing in foreign goods, that Hurricane Ivan disrupted Gulf of Mexico supplies, geopolitical problems continued and North Sea supplies were tightened by heavier than expected North Sea maintenance.

There were a multitude of factors at work throughout the year, but it is the marginal barrel that sets the price. To be more precise, it is more often the marginal, unexpected barrel that sets the price. Had Chinese demand growth last year been better anticipated by forecasting models, given advance warning of GDP growth, then the price response would have been earlier, and possibly less volatile. But we will, by definition, never foresee the unexpected. When events such as Chinese demand growth come as a surprise, we are reminded of the need for a greater predictability of these issues. One year on, the impact of Chinese power generation on oil demand has been given more clarity. Other issues remain opaque.

While this Report has flagged the slowing of Chinese oil demand growth for power generation for some time, the overall slowdown in its demand growth has surpassed expectations (actually contracting by 2.8 % in April). This is perhaps more surprising considering that economic indicators continue to show buoyant growth. Destocking in the first quarter and distortions related to artificially low domestic prices (which increase the incentive for refiners to export products) can explain some, but not all of the difference.

China's pattern of trade has also changed. Rather than importing expensive petroleum products, local refiners have increased throughput to meet domestic demand. This has resulted in a sharp year-on-year increase in Chinese crude imports. But offsetting this has been decrease in net product imports, surprising the market and contributing to a decline in Asian product differentials. The impact of this product-side development appears to have outstripped the potential upside price pressures of relatively tight OECD Pacific product stocks.





Other pricing structures bear witness to the continuing Asian shift in the oil market's focus. The persistence of high WTI crude prices, despite the build in US crude stocks, has as much to do with the pricing power of the Asian market as a desire by refiners to hold more inventory. Similarly, Asian sweet crudes such as Tapis have only recently moved into contango, despite that market structure being prevalent in WTI since November. Dubai crude remains in backwardation and West African crudes, which are sought after by Asian refiners, continue to trade at an unusually high premium to dated Brent.

Like shifting desert sands, the oil market continually changes its shape and texture. At present its uncertainties generated by the complexities of China, an exceptionally wide range of forecasts for fourth quarter demand and ever present political risks in supplier countries. Risks are accentuated by the vulnerability of supplies at the onset of the American hurricane season and increased crude processing in key consuming regions in the second half of the year. Higher stocks act as a buffer to cope with these shifts in a capacity constrained environment. The latest data show that crude stocks have risen since the start of the year, but the increase is not evenly distributed. Stocks have built by 64 million barrels in the US and Europe, but are 14 mb lower in Asia. However, higher crude stocks have been largely offset by draws in products to leave an unchanged overall stock picture. We are still some distance from the Oasis.

DEMAND

Summary

- Demand growth continues to slow in China and Europe, but this is counterbalanced by relative strength in North America and the OECD Pacific region. Cumulatively, the **2005 demand forecast** is revised marginally upwards by 30 kb/d, in part due to revisions to historical data which impact baseline demand. Overall, projected 2005 demand growth remains broadly unchanged at 1.78 mb/d (2.2%), a 10 kb/d increase from last month's Report.

- Early indications are that global demand will be weaker than anticipated in the **second quarter of 2005**. As a consequence, second quarter demand has been revised down by 220 kb/d and the projection of second quarter demand growth now stands at 1.36 mb/d. Approximately 160 kb/d of the downward revision may be attributed to China, where apparent demand declined by about 2.8% in April 2005 versus April 2004.

- Projections of **third and fourth quarter** global demand are revised upwards by an average of 200 kb/d. This is in part due to revisions to historical data which have an impact on baseline demand, but it is also attributed to relative strength in the OECD Pacific and the expectation that growth may rebound to some extent in key consuming countries, such as China.

Global Oil Demand from 2003 to 2005

	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
Demand (mb/d)	80.4	77.3	79.4	82.1	79.8	82.4	81.1	81.9	84.5	82.5	84.2	82.5	84.0	86.4	84.3
Annual Change (%)	3.2	1.4	2.1	2.3	2.3	2.5	4.9	3.2	3.0	3.4	2.1	1.7	2.6	2.3	2.2
Annual Change (mb/d)	2.5	1.1	1.6	1.9	1.8	2.0	3.8	2.5	2.5	2.7	1.8	1.4	2.1	1.9	1.8
Changes from last month's report (mb/d)	0.1	0.1	0.1	-	0.1	-	-	-	-	-	-0.1	-0.2	0.1	0.2	-

- In viewing the **Chinese demand situation**, it is important to note the divergent trends in the components of apparent demand. Crude imports are reported to have increased by 23% in April and refinery output was up by approximately 9-10%. This was counteracted by a 620 kb/d decline in net product imports, which led to an overall decline in apparent demand. The decline is due in part to a domestic pricing policy which discourages product imports and encourages exports into the higher-priced international market. It may also be attributed to a high 2004 baseline (apparent demand increased by 23.4% in the second quarter of 2004). Chinese demand growth is projected to recover in the second half of 2005, partly because the 2004 baseline is lower, but there is downside risk to our projection.

Global Oil Demand by Region
(million barrels per day)

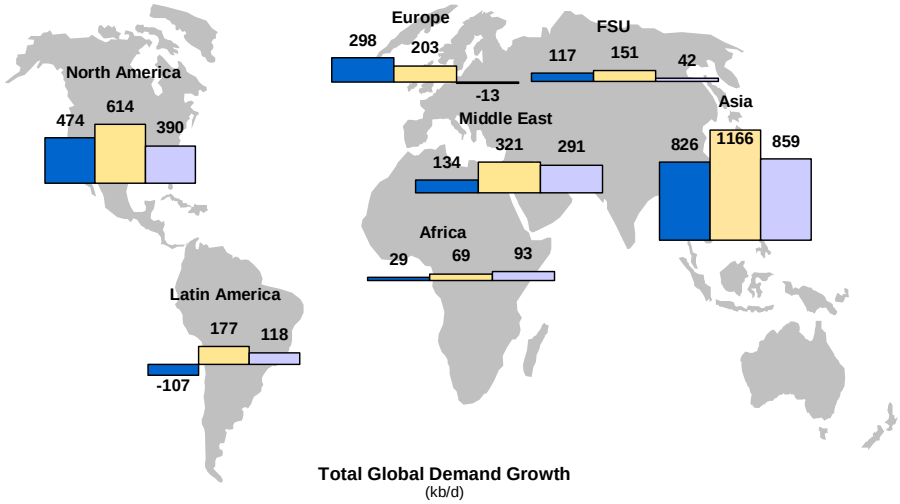
	Demand	Annual Change			Annual Change (%)		
	2004	2003	2004	2005	2003	2004	2005
North America	25.19	0.47	0.61	0.39	2.0	2.5	1.5
Europe	16.46	0.30	0.20	-0.01	1.9	1.2	-0.1
OECD Pacific	8.63	0.14	-0.15	0.13	1.6	-1.7	1.5
China	6.43	0.55	0.86	0.46	11.0	15.4	7.1
Other Asia	8.51	0.13	0.46	0.27	1.7	5.7	3.2
Subtotal Asia	23.57	0.83	1.17	0.86	3.8	5.2	3.6
FSU	3.74	0.12	0.15	0.04	3.4	4.2	1.1
Middle East	5.86	0.13	0.32	0.29	2.5	5.8	5.0
Africa	2.78	0.03	0.07	0.09	1.1	2.5	3.4
Latin America	4.90	-0.11	0.18	0.12	-2.2	3.8	2.4
World	82.50	1.77	2.70	1.78	2.3	3.4	2.2

- Early indications are that **OECD** demand grew by approximately 240 kb/d in April, following a 600 kb/d increase in March. A large part of the slowdown may be attributed to OECD Europe, where preliminary data suggest that demand declined by 480 kb/d in April, with the major economies of France, Germany and Italy declining by a combined 370 kb/d. US-50 demand increased by 250 kb/d in April following a 570 kb/d increase in March.

- We continue to incorporate modifications or updates to Non-OECD data as they become available prior to the release of the Annual Statistical Supplement in August. Chinese demand has been revised upwards by some 50 kb/d in 2002 and 60 kb/d in 2003. Among other revisions, Middle East demand was adjusted upwards by 20 kb/d for 2002 and downwards by 50 kb/d in 2003. In addition, FSU demand was revised upwards by 20 kb/d in both 2002 and 2003 and upwards by 30 kb/d in 2004, due to changes in crude production estimates. On the whole, Non-OECD demand is revised upwards by 100 kb/d in 2002 and 20 kb/d in 2003.

Global Demand Growth 2003/2004/2005

thousand barrels per day



Total Global Demand Growth
(kb/d)

2002	1771	2.3%
2003	2700	3.4%
2004	1780	2.2%

OECD

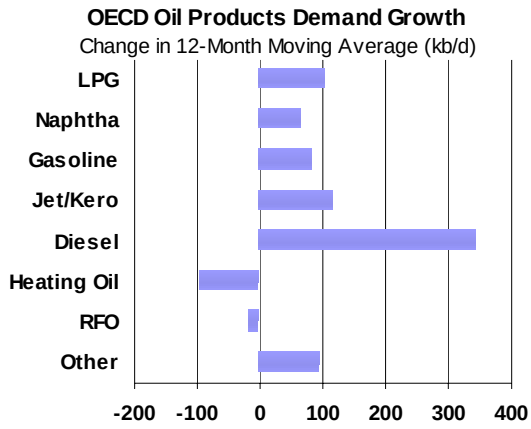
Overview of OECD Demand Trends

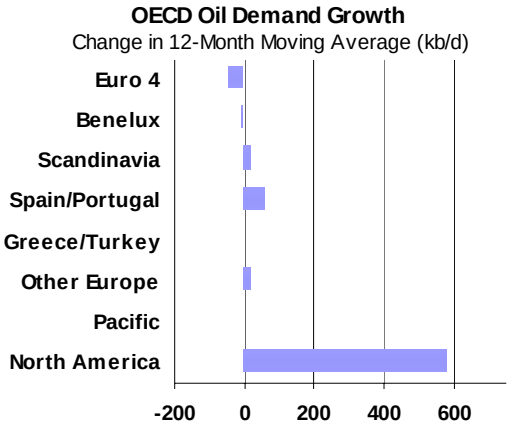
Preliminary April data provide evidence that the generally weak economic performance of the Eurozone continues to weigh on product demand. Gasoline demand fell by 9.9% on average in France, Germany and Italy and diesel demand was relatively flat in spite of the fact that there was one more working day in April than a year earlier. Weakness in European demand is balanced by stronger growth in North America and somewhat surprising strength in the OECD Pacific. Preliminary indications are that inland deliveries grew by 1.2% in North America and 4.3% in Japan and Korea.

Preliminary Inland Deliveries – April 2005[1]

	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other[2]		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
United States[3]	9.15	0.9	1.62	2.9	3.00	-2.0	1.22	12.5	0.84	6.5	4.46	-1.5	20.38	0.9
Canada	0.68	-0.6	0.10	-10.8	0.40	1.0	0.07	-19.3	0.13	17.5	0.23	-15.9	1.61	-3.2
Mexico	0.66	4.3	0.06	5.1	0.33	10.1	0.00	na	0.41	28.1	0.38	0.0	1.84	8.8
Japan	1.04	2.7	0.48	16.6	0.65	1.7	0.48	0.0	0.45	-0.7	1.58	3.6	4.68	3.5
Korea	0.16	4.6	0.07	6.3	0.39	2.3	0.06	-30.4	0.28	8.8	1.12	9.7	2.08	6.0
France	0.26	-11.1	0.13	0.6	0.65	0.3	0.23	-19.5	0.06	20.4	0.41	-11.7	1.74	-7.0
Germany	0.58	-7.9	0.16	7.8	0.60	-1.7	0.34	-16.8	0.10	-16.2	0.52	2.5	2.29	-5.2
Italy	0.31	-12.4	0.08	9.3	0.50	2.3	0.07	-10.9	0.12	-29.4	0.41	-1.4	1.49	-5.7
Total	**12.83**	**0.1**	**2.70**	**4.9**	**6.52**	**-0.1**	**2.44**	**-1.8**	**2.38**	**5.4**	**9.12**	**-0.1**	**36.12**	**0.6**

Sources: US EIA, Statistics Canada, Mexico PEMEX, Japan METI, Korea KNOC, France CPDP, Germany MWV, Italy Ministry of Industry,
Percentage change is calculated versus the previous year.
1 excludes refinery fuel and bunkers (except US)
2 includes direct use of crude oil
3 fifty states only. Diesel's share of total distillate is estimated.





Among the areas that continue to stand out on a global level is the strength of jet/kerosene demand. Air travel is booming and, as a consequence of increased demand, airlines are bringing older less fuel efficient planes back into service, helping to drive demand for jet fuel. OECD demand for jet/kerosene increased by some 4.1% in March and preliminary indications are that April deliveries grew by 4.9% in the OECD economies highlighted in the table here. On the whole, OECD demand for jet/kerosene is projected to grow by 3.3% in 2005.

Total OECD Demand by Product
(million barrels per day)

	2004	2005	2Q04	3Q04	4Q04	1Q05	Jan 05	Feb 05	Mar 05	Latest month vs. Feb 05	Latest month vs. Mar 04
LPG & Ethane	4.96	4.95	4.70	4.50	5.15	5.50	5.60	5.72	5.20	-0.52	0.04
Naphtha	3.20	3.28	3.03	3.18	3.32	3.40	3.39	3.43	3.40	-0.03	0.25
Motor Gasoline	14.86	15.00	14.98	15.20	14.93	14.42	14.08	14.37	14.80	0.43	0.08
Jet & Kerosene	4.10	4.24	3.77	3.91	4.25	4.63	4.63	4.78	4.51	-0.27	0.18
Gas/Diesel Oil	12.86	13.00	12.24	12.47	13.42	13.34	12.79	13.76	13.50	-0.26	0.00
Residual Fuel Oil	4.53	4.53	4.29	4.40	4.67	4.85	4.85	4.90	4.79	-0.11	0.09
Other Products	5.05	5.06	5.19	5.50	4.95	4.53	4.28	4.45	4.86	0.41	-0.04
Total Products	**49.56**	**50.05**	**48.18**	**49.16**	**50.69**	**50.67**	**49.62**	**51.40**	**51.07**	**-0.34**	**0.60**

Pacific

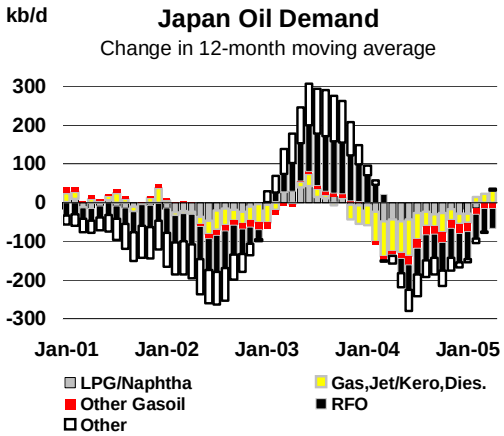
Both Japan and Korea continue to post relatively robust demand growth in April, as preliminary estimates indicate that inland demand increased by 3.5% in Japan and 6.0% in Korea. This follows March demand growth of 2.5% in Japan and 7.9% in Korea.

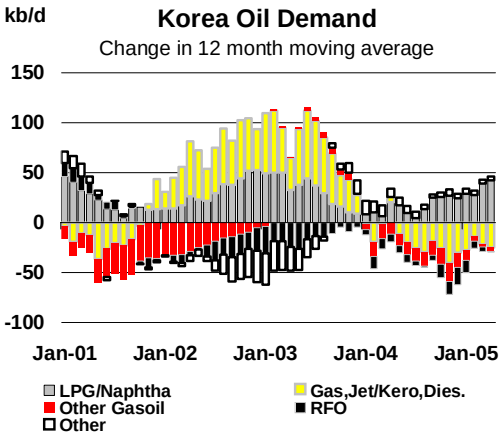
Preliminary data show that deliveries of 'other products' in Japan, which includes the direct burning of heavy sweet crude in the power sector, increased by an estimated 3.6% in April. Early indications are that direct crude burning and the use of low sulphur waxy residue (LSWR) fuel oil in power generation will remain relatively strong throughout the summer months (Tokyo Electric Power Company (TEPCO) reports that oil consumption for May rose 87.7% year-on-year). Demand depends in part on developments in Japan's nuclear power industry, but these fuels are primarily used to satisfy peak power demand, so use will vary with summer temperatures. Currently 10 of TEPCO's 17 nuclear power plants are on-line. Kansai Electric Power Company (KEPCO) has seven out of 11 of its plants on-line, with Mihama No.3 still experiencing an unplanned shutdown.

Among other products, preliminary indications are that April deliveries of jet/kerosene increased by approximately 16.6% in Japan. This may be attributed in part to year-on-year variations in the weather. April temperatures were above normal, but still far below the same period in 2004, which was abnormally warm.

Korea's oil consumption grew by some 4.4% (100 kb/d) in the first quarter of 2005 and preliminary indications are that this growth trend will continue into April, with naphtha (13.7%), gasoline (9.5%), and fuel oil (7.0%) leading demand growth. In viewing the economy as a whole, Korea's exports and

household consumption continued to expand in the first quarter, which likely contributed to strength in oil product demand. Looking forward, there is concern that the economic strength was due to one-off factors such as record end-year bonuses paid by export-oriented companies like Samsung, which earned record profits last year.





In terms of individual products, low sulphur fuel oil continues to play an important swing role in power generation in Korea. There is evidence that some utilities will reduce fuel oil imports in June and July, substituting for alternative fuels such as liquefied natural gas (LNG). Korea's natural gas consumption is highly seasonal, peaking in the winter months when Korea often has to pay a premium for spot LNG cargoes, and as a consequence LNG is more readily available in the summer.

OECD Pacific Demand by Product
(million barrels per day)

	2004	2005	2Q04	3Q04	4Q04	1Q05	Jan 05	Feb 05	Mar 05	Latest month vs. Feb 05	Latest month vs. Mar 04
LPG & Ethane	0.88	0.88	0.85	0.79	0.88	1.00	0.95	1.08	0.97	-0.10	0.01
Naphtha	1.55	1.60	1.47	1.54	1.61	1.67	1.69	1.64	1.68	0.04	0.15
Motor Gasoline	1.61	1.64	1.56	1.70	1.63	1.59	1.51	1.61	1.66	0.05	0.05
Jet & Kerosene	1.01	1.06	0.74	0.73	1.11	1.53	1.63	1.59	1.37	-0.23	0.06
Gas/Diesel Oil	1.89	1.91	1.84	1.81	1.95	1.99	1.85	2.03	2.09	0.06	0.02
Residual Fuel Oil	1.10	1.08	1.01	1.07	1.10	1.21	1.16	1.26	1.22	-0.05	0.02
Other Products	0.59	0.58	0.54	0.61	0.59	0.60	0.57	0.56	0.65	0.10	0.04
Total Products	**8.63**	**8.76**	**8.00**	**8.25**	**8.87**	**9.59**	**9.36**	**9.78**	**9.65**	**-0.13**	**0.36**

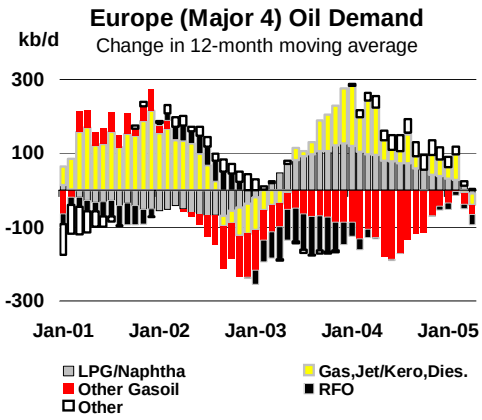
Korean demand growth has recently been somewhat stronger than anticipated. In comparison to a relatively flat 2004, demand growth is expected to slow to 1.2% in the third quarter, before picking up to 3.6% in the fourth quarter. Much of the fourth quarter 2005 strength may be attributed to recovery from a low 2004 baseline, as demand contracted by 3.2% in the fourth quarter of 2004.

Due to surprisingly strong oil consumption, projections of OECD Pacific demand have been revised upwards for the second quarter and this trend has been extended further in 2005. Japan's second quarter demand is increased by 80 kb/d and 2005 demand is revised upwards by 30 kb/d. Korea's projected second quarter demand is increased by 70 kb/d and on the whole 2005 demand is increased by 30 kb/d.

Europe

Preliminary estimates of April inland deliveries indicate that German demand fell by 5.2%. A 16.8% decline in heating oil deliveries stands out, as German consumers remain reluctant to refill their storage tanks. We project that this trend will continue and heating oil demand will remain low until September when consumers will likely begin to refill for the winter months. Of course, this projection depends on the price of gasoil this summer. It is also important to highlight that in general there is a downward trend in German heating oil demand (-3.7% in 2005). Projections of German demand were revised down by 90 kb/d in the second quarter and 10 kb/d in the third quarter, which is balanced by a 100 kb/d upward revision to the fourth quarter.

Although April fuel oil deliveries were up by some 20.4% in France, it is unlikely that this trend will continue as hydroelectricity output has recovered. In Italy the return of hydroelectricity output and the continued substitution of natural gas for fuel oil in power generation contributed to an estimated 29.4% decline in fuel oil deliveries. In contrast, in Spain and Portugal drought conditions persist so fuel oil demand should increase during the summer months. Incidentally, France recently announced plans to demothball four large oil-fired power units to meet future peak demand (it plans to shut seven coal-fired plants that are among the oldest of its power plants). Although France's consumption of fuel oil in power is relatively limited when compared to some of its neighbours, this move should bolster demand in the medium term.



Overall, the near-term economic prospects of Germany and Italy are not promising, which should limit any upside to oil demand growth. In contrast, the economies of some other major consumers, including Spain and France, appear somewhat healthier. French consumer spending is expected to remain relatively strong this year and the French housing market continues to boom. Currently, French demand is projected to remain stagnant in 2005, but there could be some upside. Spanish demand is projected to grow by 2.7%.

OECD Europe Demand by Product
(million barrels per day)

	2004	2005	2Q04	3Q04	4Q04	1Q05	Jan 05	Feb 05	Mar 05	Latest month vs. Feb 05	Latest month vs. Mar 04
LPG & Ethane	1.12	1.11	1.09	0.99	1.14	1.19	1.19	1.24	1.15	-0.09	-0.14
Naphtha	1.19	1.19	1.14	1.14	1.19	1.24	1.25	1.26	1.21	-0.05	-0.04
Motor Gasoline	2.80	2.73	2.88	2.91	2.75	2.56	2.43	2.56	2.71	0.15	-0.10
Jet & Kerosene	1.19	1.23	1.17	1.26	1.19	1.18	1.14	1.21	1.19	-0.02	0.04
Gas/Diesel Oil	5.98	6.01	5.57	5.84	6.38	6.10	5.75	6.53	6.08	-0.45	-0.26
Residual Fuel Oil	1.97	1.94	1.89	1.92	2.04	2.06	1.99	2.07	2.11	0.05	0.14
Other Products	1.49	1.50	1.58	1.61	1.49	1.27	1.20	1.24	1.35	0.12	-0.05
Total Products	**15.74**	**15.71**	**15.33**	**15.68**	**16.17**	**15.61**	**14.96**	**16.10**	**15.81**	**-0.30**	**-0.41**

Note that there are some revisions to OECD Europe historical data. UK demand has been revised down by approximately 40 kb/d for 2002 and 2003 was revised upwards by 50 kb/d. Most of the revisions may be attributed to changes in trade data for 2002 and 2003. We are currently re-evaluating the 2004 demand data and they are likely to be subject to some revision which we plan to discuss in detail in the Report dated 13 July 2005.

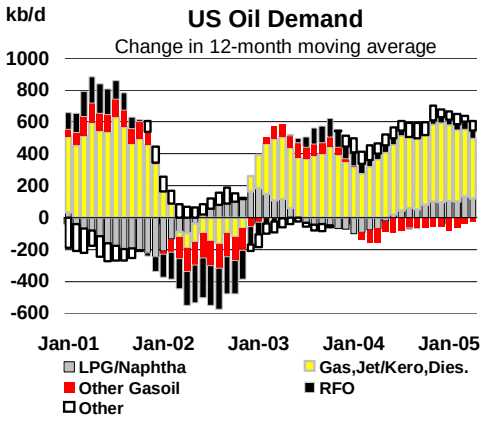
North America

Preliminary inland delivery data suggest that US demand (excluding US territories) grew by approximately 0.9% in April 2005, and early indicators for May 2005 show that demand grew by just over 1.0%. Middle distillates continue to drive demand growth, as gasoil demand grew by a projected 5.2% in May.

Interestingly, in spite of relatively warm April temperatures compared to year ago levels, there are indications that much of April's approximate 1.7% year-on-year increase in gasoil demand may be attributed to increased deliveries of heating oil, possibly compensating for declines earlier in the year. Diesel deliveries for road transport fell in April, but appear to have rebounded in May. The American Trucking Association reports that truck tonnage grew by 3.7% in January-April 2005, down from last year's 5.7% growth. Overall, diesel demand is projected to grow by 2.2% in 2005, with demand growth averaging approximately 2.5% over the first three quarters before dropping to 1.5% in the fourth quarter. The projected fourth quarter decline is predicated on some weakening in the US economy and a very high 2004 baseline, where fourth quarter 2004 US diesel demand grew by 7.7%.

US demand for jet/kerosene also remains strong, growing by approximately 5.5% in May. The Air Transport Association reported a 3.1% increase in revenue passenger miles in April and it projects that US air travel will increase by 4.1% in 2005 versus 2004 over the summer period between Memorial Day and Labor Day.

Traditionally, the Memorial Day holiday (30 May in 2005) kicks off the US summer driving season which boosts gasoline demand. In spite of the fact that US gasoline prices fell in the weeks leading up to the holiday weekend, drivers still paid the highest pump price on record, averaging $2.13 a gallon for regular unleaded gasoline, 6 cents higher than in 2004 and 63 cents higher than in 2003. This adds only about $30 to the cost of travelling 1,600 kilometres in a minivan when compared to two years ago, but there is evidence that US consumers are altering their holiday plans. Recent surveys suggest that roughly one-third of US consumers have cut back on travel plans as a result of gasoline prices. Survey results also indicate that as higher gasoline prices have weighed on disposable incomes, consumers have been cutting back on areas such as dining out, clothing and grocery purchases, which could slow the economy and reduce oil consumption.



Viewing recent months, US inland deliveries of gasoline increased by a preliminary 0.9% in April and 1.8% in May. In the third quarter of 2005 gasoline demand is projected to grow by a comparatively robust 2.2%. However, this strength is in part attributed to an anticipated rebound from the third quarter of 2004, when the weather was abnormally poor and gasoline demand declined by 0.1%.

OECD North America by Product
(million barrels per day)

	2004	2005	2Q04	3Q04	4Q04	1Q05	Jan 05	Feb 05	Mar 05	Latest month vs. Feb 05	Latest month vs. Mar 04
LPG & Ethane	2.97	2.95	2.76	2.73	3.13	3.31	3.47	3.40	3.08	-0.32	0.17
Naphtha	0.46	0.49	0.42	0.50	0.53	0.49	0.44	0.52	0.51	-0.01	0.14
Motor Gasoline	10.45	10.63	10.54	10.59	10.56	10.26	10.14	10.20	10.43	0.23	0.13
Jet & Kerosene	1.90	1.95	1.85	1.91	1.95	1.92	1.85	1.98	1.95	-0.03	0.08
Gas/Diesel Oil	4.98	5.07	4.83	4.82	5.09	5.25	5.20	5.20	5.33	0.13	0.24
Residual Fuel Oil	1.46	1.51	1.39	1.41	1.53	1.58	1.70	1.56	1.46	-0.10	-0.07
Other Products	2.97	2.98	3.06	3.28	2.87	2.67	2.50	2.66	2.85	0.20	-0.02
Total Products	**25.19**	**25.58**	**24.85**	**25.23**	**25.65**	**25.48**	**25.30**	**25.53**	**25.61**	**0.09**	**0.65**

Among the other products, preliminary indications are that US demand for residual fuel oil increased by 6.5% in April. Although the long-term trend has been away from fuel oil, some utilities have recently switched to burning fuel oil rather than relatively high-priced natural gas. This consumption is obviously dependent upon natural gas prices, and there are reports that a combination of somewhat lower natural gas prices and higher low sulphur fuel oil prices may have induced some utilities in the Northeast to switch back to natural gas. However, as warmer weather boosts air-conditioning requirements, increased power demand should help maintain the demand for fuel oil in power generation.

Turning to Mexico and Canada, preliminary indications of April 2005 demand present very different pictures. Mexico's inland demand increased by 8.8%, boosted by strength in all products except LPG. Mexico's economy is currently performing quite well, and the number of Mexicans officially employed recently reached a record high. In contrast, preliminary reports suggest that Canada's inland deliveries declined by some 3.2%, with weakness in year-on-year growth in all products except diesel, which grew by an estimated 1.0%. It must be noted that these year-on-year changes should be viewed in the context of the 2004 baseline: April 2004 Mexican demand declined by 5.7%, so part of Mexico's robust April 2005 demand performance may be attributed to a recovery from the 2004 decline. Canada's demand grew by a fairly strong 3.7% in April 2004, which may help explain some of the April 2005 demand weakness.

Viewing 2005 as a whole, US-50 demand growth has been adjusted upwards by 30 kb/d, to 290 kb/d (1.4%). A 30 kb/d upward adjustment to Mexico's demand growth is balanced by a 20 kb/d downward adjustment to Canadian demand. Overall, North American demand growth is revised upwards by 40 kb/d.

Non-OECD

China

Chinese apparent demand, which is defined as the sum of domestic refinery output and net product imports with adjustments for direct crude burning, smuggling and unreported refinery output, declined by approximately 2.8% (180 kb/d) in April. When examining this decline it is very important to note the divergent trends in the components of apparent demand. Crude imports are reported to have increased by 23% in April and refinery output was up by approximately 9-10%. This was counteracted by a 620 kb/d decline in net product imports, from 990 kb/d in April 2004 to 370 kb/d in April 2005. These trends imply a surprisingly large decline in apparent demand in April 2005.

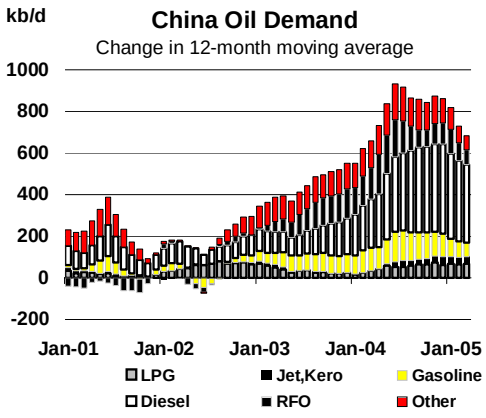
A part of the decline in product imports can be traced to the government policy of limiting increases in the price of key products, such as diesel. This has discouraged imports of internationally priced products, encouraged exports, and limited the incentive of the small 'teapot' refineries to refine relatively high-priced fuel oil imports. In addition, power prices have been set at levels which discourage the use of fuel oil, and there have been reports that some utilities have gone into what they officially call 'maintenance' rather than incurring a loss by importing fuel oil to generate power.

China Crude & Product Trade
(thousand barrels per day)

	2003	2004	2Q04	3Q04	4Q04	1Q05	Feb 05	Mar 05	Apr 05	Latest month vs. Mar 05	Latest month vs. Apr 04
Net Imports/(Exports) of:											
Crude Oil	**1664**	**2346**	**2371**	**2232**	**2491**	**2305**	**2691**	**2540**	**2703**	**163**	**304**
Products & Feedstocks	**442**	**661**	**849**	**545**	**653**	**501**	**558**	**328**	**371**	**43**	**-620**
Gasoil/Diesel	-28	43	50	21	79	-6	1	-27	-46	-19	-80
Gasoline	-175	-125	-141	-146	-117	-151	-112	-210	-171	39	-13
Heavy Fuel Oil	407	506	653	412	515	480	417	449	422	-28	-359
LPG	202	201	227	222	184	200	241	176	208	32	-20
Naphtha	-22	-33	-11	-48	-51	-49	-26	-71	-68	3	-62
Jet & Kerosene	1	16	15	19	8	6	6	-3	9	12	-24
Other	58	52	56	64	34	22	30	14	17	4	-62
Total	**2106**	**3008**	**3220**	**2777**	**3144**	**2807**	**3250**	**2868**	**3074**	**206**	**-316**

Sources: China Oil, Gas and Petrochemicals plus IEA estimates

Overall, the decline in Chinese demand may appear puzzling, as most other economic indicators would appear to point to robust growth. However, a close look at the monthly data reveal that Chinese demand grew by 18.9% in April 2004. Couple a high baseline with price incentives that are distorting the market to discourage supply and it is not entirely surprising that apparent demand has suffered. A weaker growth trend will likely continue through May and June 2005, as the government has maintained its pricing policy and the 2004 baseline is very high, with demand growing by 24.1% in May 2004 and 27.4% in June 2004. Stronger growth may re-emerge in the third quarter as 2004 baseline demand growth was a lower 9.2%. In addition, if the government moves to align diesel prices with the international market consumption could suddenly shift upwards, as there is evidence that supply is being somewhat suppressed by its pricing policy.



Note that officials recently reduced gasoline prices by 150 yuan/tonne ($18.12) as international prices declined. This partially counteracts a 300 yuan/tonne ($36.25) price increase in March, but it is not expected to have a large impact on the domestic market as it is a relatively small change. Gasoline prices are also more in line with the international market than is the case for diesel, so government pricing policy does not have the same distortionate impact.

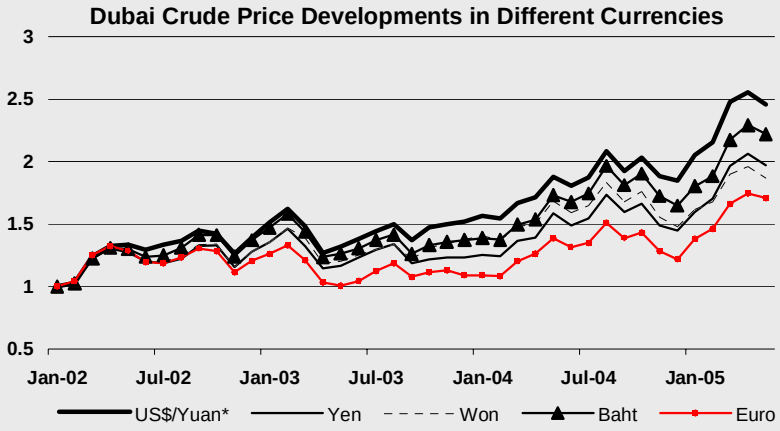
Recent government reports indicate that this summer's power shortage is likely to be 30 GW, 20% worse than previously forecast. This is roughly similar to last year's shortage, with the worst outages in the rapidly growing coastal regions. Although the outages will undoubtedly be disruptive, the impact is projected to be broadly similar to 2004, so there should be minimal impact on the incremental demand for oil in power generation.

The Potential Impact of a Revaluation of the Chinese Yuan

The potential impact of a revaluation of the Chinese yuan (which is currently pegged to the US dollar) on the Chinese oil market has been a subject of debate. Some have said that the yuan may be as much as 30-35% undervalued versus the US dollar. Although most believe that it is extremely unlikely that the Chinese government will substantially revalue, or allow the yuan to float freely, the pressure for some level of revaluation does appear to be building. Because the retail price of the major oil products is regulated by the government, it is difficult to state with certainty the impact of a revaluation on oil consumption. However, it does appear that a revaluation would boost consumption, at least in the short run.

Price impact on oil consumption - A revaluation would reduce the cost of imported oil and products. In the present environment, however, where retail prices are below international levels, the government may choose not to pass the reduced cost on to consumers at the retail level. Rather, refiners might be allowed to boost their refining margins, which are currently very low or in some cases negative. In any case, the impact on apparent demand would likely be positive as at the margin domestic suppliers would be more inclined to supply the domestic market, rather than exporting products as they have in recent months. This would boost consumption by eliminating rationing/shortages, of which there have been some reports.

Impact of the income effect on oil consumption - In the long run, a revaluation could slow merchandise exports, reduce economic growth and slow oil demand growth. In the short run a revaluation could boost China's economy as the cost of imports goes down and it would take time for consumers of China's merchandise exports to shift their purchasing patterns. The net impact is a brief increase in Chinese purchasing power, and possibly more rapid oil demand growth in the short run.



*The Yuan is currently pegged to the US$ at 1US$ = 8.276 Yuan

Of course, the overall impact of a revaluation on the Chinese oil market will depend on the magnitude of the revaluation and international oil prices at the time, but it should also be noted that a revaluation could have a broader impact on the Asia Pacific region. Although the currencies of the other major oil consumers in Asia have generally risen versus the Chinese yuan and the US dollar, countries have intervened in an attempt to limit the increase in the value of their currencies in an effort to maintain their competitive position versus China. If the Chinese revalue, other countries might also revalue, or allow their currencies to appreciate, which would reduce the price of oil in terms of domestic currency, possibly spurring demand (see figure illustrating oil price developments in domestic currencies).

Our projection of China's second quarter 2005 demand has been revised downwards by 160 kb/d, but we have revised third and fourth quarter 2005 demand upwards by 140 kb/d in anticipation of a possible recovery in demand in the latter half of the year. This also includes changes to Chinese historical data, which have been revised as we have received data updates. As a consequence the 2004 baseline has been shifted upwards by approximately 50 kb/d. Overall, the outlook for 2005 Chinese demand growth is revised down by 10 kb/d, to 460 kb/d, but in our view there is downside risk.

China Demand by Product

	Demand (kb/d)			Annual Change (kb/d)		Annual Change (%)	
	2003	2004	2005	2004	2005	2004	2005
LPG & Ethane	570	633	684	63	50	11.0	8.0
Naphtha	627	684	761	57	77	9.1	11.3
Motor Gasoline	953	1069	1133	117	64	12.2	5.9
Jet & Kerosene	197	239	262	43	23	21.7	9.4
Gas/Diesel Oil	1727	2150	2338	423	188	24.5	8.7
Residual Fuel Oil	752	829	855	78	25	10.3	3.0
Other Products	751	828	858	78	30	10.4	3.6
kb/d	**5576**	**6433**	**6890**	**857**	**457**	**15.4**	**7.1**

Other Non-OECD

India's year-on-year demand fell by some 4.3% in April 2005 versus 15.6% demand growth in April 2004. The April 2005 demand decline may be attributed to a number of one-off factors, including: (1) An abnormally strong harvest in the same period in 2004; (2) The April 2004 elections (the government typically aims to ensure that fuel supplies are plentiful and prices are kept low in the period leading up to an election); (3) In April 2005 strikes had an impact as shops and wholesale operations were closed in some states for periods of up to one week; (4) In April 2005 poor weather delayed crop harvests in some areas; (5) April 2005 had three holidays, which cut the number of working days versus the same period a year ago; (6) In April 2005 India continued to export large amounts of naphtha as more power and fertiliser units switched to natural gas.

The April 2005 demand decline is not entirely surprising when viewed against the April 2004 demand spike, but it is larger than anticipated and it appears this trend may persist through May 2005. As a consequence, second quarter growth is revised downwards by 60 kb/d. Looking to the fourth quarter, the southwest monsoon has just hit India's southern coast, a little later then expected. There are mixed reports as to how the delay might have an impact on India's important agricultural sector during the harvest in the fourth quarter. We maintain our forecast of 4.7% growth in the fourth quarter, but note that there is some downside risk.

India Crude & Product Trade

(thousand barrels per day)

	2003	2004	2Q04	3Q04	4Q04	1Q05	Jan 05	Feb 05	Mar 05[1]	Latest month vs. Feb 05	Latest month vs. Mar 04
Net Imports/(Exports) of:											
Crude Oil	**1863**	**1945**	**2090**	**2013**	**1742**	**1969**	**2048**	**1827**	**2017**	**190**	**-16**
(by Public Oil Cos)	**1243**	**1158**	**1312**	**1214**	**1000**	**1133**	**1149**	**1100**	**1147**	**47**	**59**
Products & Feedstocks	**-152**	**-176**	**-173**	**-178**	**-222**	**-82**	**-135**	**-75**	**-36**	**39**	**198**
Gasoil/Diesel	-119	-139	-135	-122	-162	-89	-134	-102	-32	70	165
Gasoline	-72	-75	-67	-75	-80	-53	-71	-23	-62	-39	19
Heavy Fuel Oil	5	-6	13	-5	-20	-4	-3	-7	-3	5	27
LPG	55	86	39	86	128	95	109	95	82	-13	-12
Naphtha	-1	-7	10	-29	-25	-15	-23	-41	17	57	20
Jet & Kerosene	-22	-47	-44	-43	-74	-34	-30	-21	-49	-27	-12
Other	1	12	12	9	12	17	17	25	11	-14	-8
Total	**1712**	**1769**	**1917**	**1834**	**1520**	**1887**	**1913**	**1752**	**1981**	**229**	**183**

1 Preliminary
Sources: Indian Ministry of Commerce, Indian Port Authorities and IEA estimates

The signs that Asia is feeling the effect of relatively high oil prices continue to mount. Bangladesh recently announced plans to switch all of its public-sector vehicles to run on compressed natural gas (CNG) by the end of 2005 in a bid to cut fuel import costs. Thailand is moving to phase out diesel subsidies by early 2006 amid concerns over a rising trade deficit and the increasing drain on the government's budget. There is also discussion of import restrictions if voluntary energy-saving measures do not help curb demand. Thailand posted relatively weak demand growth of 3.3% in the first quarter of 2005. In addition, there is evidence that Indonesia's demand has weakened after it raised product prices, as imports of gasoline and diesel have fallen off.

Among other developments, in Brazil flex-fuelled vehicles, which can use either gasoline, ethanol, or a mixture of both, accounted for 49.5% of total light vehicle sales in May. This is up from 19.8% a year ago and the share looks set to rise as the price of gasoline is currently more than double that of ethanol. Overall, Brazil's product demand is projected to increase by 1.7% in 2005.

FSU apparent demand, which is defined as the difference between crude production and net exports of crude and products, is projected to grow by 40 kb/d (1.1%) in 2005. This is a 40 kb/d downward revision from last month's Report, which is primarily attributed to modifications to crude production data for 2002-2004.

SUPPLY

Summary

- **World oil supply** reached 84.6 mb/d in May, an increase of 260 kb/d from April. April world supply was revised down by 90 kb/d, with downward adjustments for OPEC countering upward revisions for non-OPEC. May non-OPEC supply gained 190 kb/d and OPEC other liquids rose 125 kb/d while OPEC crude is assessed to have fallen 55 kb/d. Key to May's increase was a recovery in Venezuelan syncrude production plus rising output from the FSU, Asia and North America. Global supply stood 2.5 mb/d above May 2004 levels, with non-OPEC up by 665 kb/d, OPEC crude up by 1.43 mb/d and OPEC other liquids up by 445 kb/d.

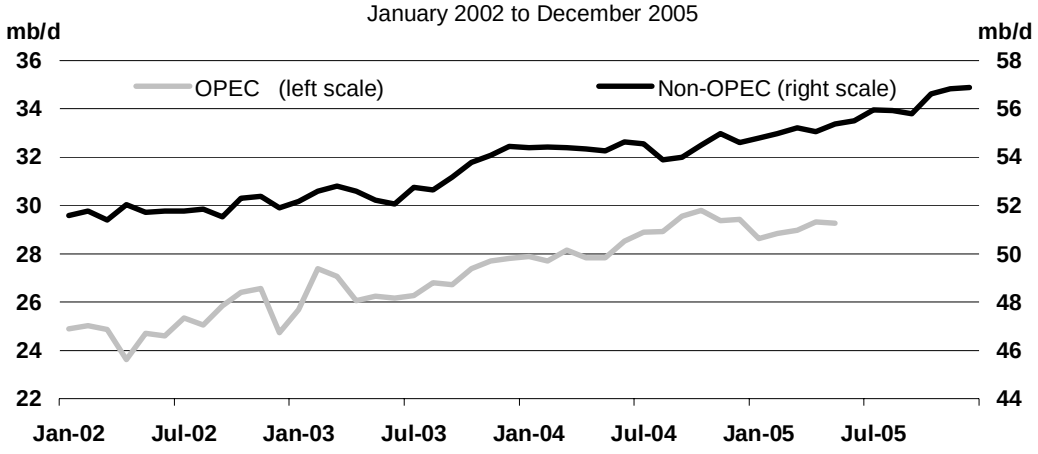
- **Non–OPEC supply** for 2005 remains close to last month's forecast of 51.0 mb/d. However, upward adjustments for 2004 supply and a 45 kb/d reduction for this year cut 2005's growth rate to 865 kb/d. Year-on-year growth should nonetheless continue to accelerate through the remainder of 2005, as it has done since March and after having effectively stalled in the December to February period. The estimate for China has been revised up for 2005 but expectations are now lower for the North Sea and Russia.

- **OPEC crude supply** eased by 55 kb/d in May to average 29.3 mb/d. Latest data for April cut supply from Nigeria, the UAE and Iran by a collective 85 kb/d. The drop in May supplies followed lower Iraqi southern exports, a maintenance-driven reduction in output from the UAE and a modest reduction in conventional crude availability from Venezuela. Saudi Arabian supply is assessed up by 100 kb/d at 9.55 mb/d for May, while Venezuelan synthetic crude output (excluded from the OPEC conventional crude estimate) also rebounded after maintenance in April.

- **The 'call on OPEC crude and stock change'** remains unchanged from last month's Report at 28.5 mb/d for 2005, compared to 28.1 mb/d for 2004. Weaker demand in the first half of 2005 reduces the call by 100-200 kb/d versus the previous assessment. The second quarter level is now 27.2 mb/d, around 2.1 mb/d below estimated May OPEC production. However, the call is now expected to rise more sharply in the second half of 2005, reaching 29.6 mb/d by the fourth quarter.

OPEC Crude and Non-OPEC Oil Supply [1]

January 2002 to December 2005



1 Non-OPEC Oil Supply includes OPEC NGLs, condensate and non-conventional oil

All world oil supply figures for May discussed in this Report are IEA estimates. Estimates for OPEC countries, Alaska, Angola and Russia are supported by preliminary May crude supply data.

Note: Random events present downside risk to the non-OPEC production forecast contained in this Report. These events can include accidents, unplanned or unannounced maintenance, technical problems, labour strikes, political unrest, guerrilla activity, wars and weather-related supply losses. Allowance has been made in the forecast for scheduled maintenance in all regions and for typical seasonal supply downturn in North America. These aside, no contingency allowance for random events is subtracted from the supply forecast. While upside variations can occur, experience in recent years indicates that the random events listed above may cause supply losses of between 300 kb/d and 400 kb/d for non-OPEC supply each year.

OPEC

A three month rise in OPEC supply came to an end in May, with output assessed down by 55 kb/d at 29.3 mb/d. The latest available export and production data also resulted in an 85 kb/d downward adjustment to April OPEC supply compared to last month's Report. Downward revisions were applied to the original April production estimates for Nigeria, the UAE and Iran. Trends in May supplies proved mixed on an individual country basis. Rising output from Saudi Arabia, Kuwait, Iran and Libya was countered by lower supplies from Iraq, UAE, Venezuela and Indonesia. OPEC-10 supply averaged close to target 27.5 mb/d levels, excluding some 590 kb/d of synthetic crude produced by Venezuela. Overall, OPEC supply may now be topping out, although there is potentially some scope for a recovery in supply in the next couple of months from Iraq and UAE.

OPEC Crude Production

(million barrels per day)

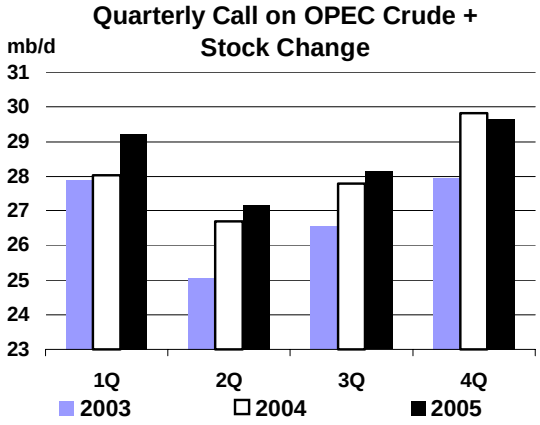
	16 Mar 2005 Target	May 2005 Production	Sustainable Production Capacity[1]	Spare Capacity vs. May 2005 Production	Production vs. Target
Algeria	0.88	1.35	1.35	0.00	0.47
Indonesia	1.43	0.95	1.00	0.06	-0.48
Iran	4.04	3.90	4.00	0.10	-0.14
Kuwait[2]	2.21	2.47	2.50	0.03	0.26
Libya	1.47	1.65	1.65	0.00	0.18
Nigeria	2.27	2.42	2.45	0.04	0.15
Qatar	0.71	0.78	0.80	0.02	0.07
Saudi Arabia[2]	8.94	9.55	10.50	0.95	0.61
UAE	2.40	2.33	2.55	0.22	-0.07
Venezuela[3]	3.17	2.12	2.20	0.08	-1.05
Subtotal	**27.50**	**27.51**	**29.00**	**1.49**	**0.01**
Iraq		1.75	2.50	0.75	
Total		**29.26**	**31.50**	**2.24**	
(excluding Iraq, Nigeria, Venezuela, Indonesia				*1.32)*	

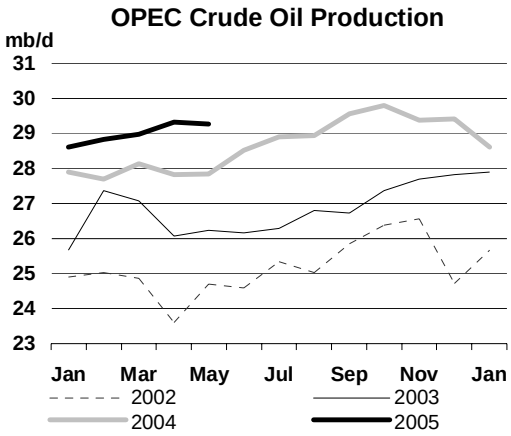
1. Capacity levels can be reached within 30 days and sustained for 90 days
2. Includes half of Neutral-Zone Production
3. Excludes upgraded Orinoco extra-heavy oil which averaged 588 kb/d in May

There is no clear indication in advance of OPEC's 15 June Vienna meeting of any likely change in the production target. The limited 5% fall in marker crude prices seen in May is unlikely to have provided much guidance, particularly as prices were rising once more after mid-month. $50/bbl-plus oil, if sustained through to mid-June, would seem likely to argue against any cut in output, as indeed would the now flatter profile for OECD inventories evident for the first quarter. Until recently, statements from a variety of Member-country delegates suggested little appetite within OPEC for raising target production levels at the June meeting. Most comments from OPEC Member country delegations in recent weeks have tended to suggest a roll-over of the current 27.5 mb/d ceiling. However, since early June the possibility of a ceiling increase has again been mentioned.

A tacit acceptance remains in place within OPEC of the need to build inventories ahead of rising second-half 2005 demand. However, Saudi Arabia by choice, and others by necessity, may now be acting to slow the pace of recent production increases. Any move to further increase target production levels would be constrained by the fact that most members are already producing at close to sustainable capacity levels. Further capacity increases from OPEC members amounting to between 700 and 800 kb/d are likely for the balance of 2005. However, with most of these increases concentrated towards the latter part of the year, OPEC supply may be levelling off for now.

The past month appears to have seen a number of OPEC members once more talking optimistically their capacity expansion plans for the next two to five years. At the same time however there are calls for higher underlying levels of prices as being both necessary and desirable to ensure that such investment takes place. Furthermore, OPEC sources have repeatedly suggested that price levels in consuming countries are also dependent on fiscal policies and refining bottlenecks. A report from OPEC's Long-Term Strategy Committee on a new price target is due to be put before Ministers but it is uncertain whether any decision on a new price target will be taken at the June meeting or alternatively left until the September OPEC meeting.





Iraq's net production (excluding deliveries into storage and field re-injection) fell by 80 kb/d to 1.75 mb/d in May. Gross production amounted to 1.97 mb/d, falling by less than net output due to resumed pipeline shipments into storage at Ceyhan. For both gross and net production, these were the lowest levels seen since August 2004. Crude oil exports also fell by 100 kb/d to 1.35 mb/d, while local crude consumption by refineries and for power generation was assessed up slightly at 400 kb/d.

After five months of fairly stable production around 1.7 mb/d, gross output from the south of the country dipped to 1.62 mb/d in May. Problems involving water injection facilities at the Rumaila field have progressively had an impact on production and will reportedly cap southern output at no more than 1.6 to 1.7 mb/d in the near term. Loading delays in the latter part of the month affecting southern terminals also curbed supply. Exports from Basrah and Khor al-Amaya declined from 1.4 mb/d in April to 1.3 mb/d for May, well below the 1.75 mb/d originally scheduled for the month. Reflecting ongoing field production difficulties and the delays experienced in dispatching tankers from Basrah and Khor al-Amaya, the State Oil Marketing Organisation (SOMO) has offered some customers a choice of foregoing June liftings or of delaying loading into July. Average contract volumes for the second half of 2005 are also likely to be trimmed below the first half's 1.53 mb/d.

Gross northern production edged higher in May, to nearly 350 kb/d. Northbound pumping via the export pipeline to Ceyhan in Turkey recommenced just before mid-month and although prone to recurrent stoppages thereafter, around 1.7 million barrels moved through the line during May. This 55 kb/d flow accounted for all of the assessed increase in northern gross production, as local refinery runs remained largely unchanged versus April. Although pumping to Ceyhan had again stopped at the time of writing, crude in storage at Ceyhan in early June was reported at over 3 million barrels. Around 2 mb (65 kb/d) of this is scheduled to be delivered by pipeline and tanker to Turkish refiner Tupras during June. This should boost Iraqi exports by a corresponding amount for June, and will represent the first northern exports since December 2004. Nonetheless, SOMO seems unlikely to renew term export contracts for northern Kirkuk crude for the second half of 2005, relying instead on spot liftings when sufficient crude becomes available until pipeline security is better assured.

Production from the **UAE** was revised, up by 55 kb/d to 2.46 mb/d in the case of March and down by 35 kb/d to 2.42 mb/d for April. May supply is thought to have slipped back further to 2.33 mb/d as maintenance affecting the Murban, Lower Zakum and Umm Shaif fields took hold. Murban supplies are expected to be restored for June, with Lower Zakum and Umm Shaif regaining higher levels in July. Abu Dhabi National Oil Company (ADNOC) has said that capacity at the Murban field will be raised from 1.3 mb./d to 1.5 mb/d by sometime between December 2005 and March 2006.

Conventional crude supply from **Venezuela** is estimated 35 kb/d lower for May at 2.12 mb/d. Although there are concerns over mature field decline rates, the production decline in May was more of a definitional issue. Reactivation in May of the Petrozuata synthetic crude facility, offline for maintenance in April, reabsorbed around 1 mb of conventional heavy crude feedstock which had been sold onto the market in blended form the previous month. Venezuela now produces around 590 kb/d of synthetic crude which is excluded from this Report's definition of conventional OPEC crude production.

A further 100 kb/d increase in monthly average production from **Saudi Arabia** during May took supply to 9.55 mb/d. This Report noted last month higher June formula prices for Atlantic Basin customers, suggesting Saudi supplies could now be peaking. Further evidence emerged during May, with an apparent slow down in spot tanker chartering for June liftings aimed at the Americas. Broader tanker tracking data for early June also point to more subdued activity. Oil Minister Ali al-Naimi reported that while output around 9.5 mb/d would be sustained in order to allow consuming country inventories to be replenished, there was no sign of demand from customers for volumes in excess of this level. There are reports that surge capacity of a further 200 kb/d at the recently-expanded Qatif and Abu Safah fields reported may be tested in fourth quarter, coinciding with a seasonal rise in demand.

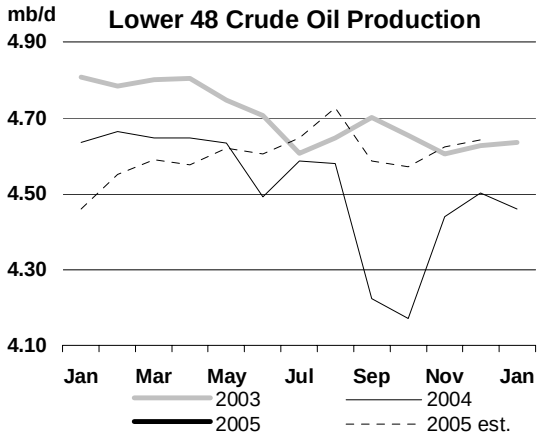
Presentations by al-Naimi and other Saudi officials to US audiences in May stressed the Kingdom's plans to expand capacity to as much as 12.5 mb/d by 2009 and its goal of maintaining 1.5-2.0 mb/d of spare capacity. There were reports of a 1.5 billion barrel increase in proven reserves achieved during the past year, taking the total to 264 billion barrels.

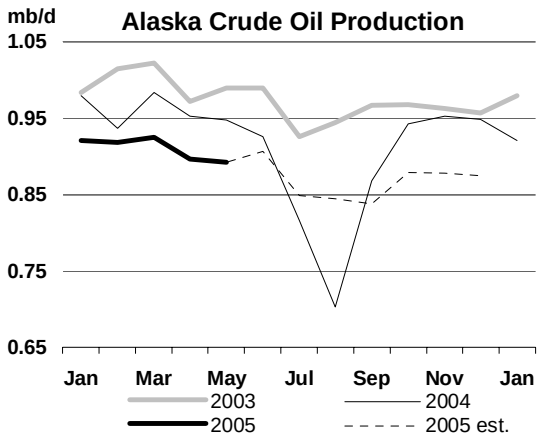
Lesser increases of 15-20 kb/d each were recorded by Iran, Kuwait and Libya in May. All three are planning incremental production capacity for 2005. In **Iran,** Shell tested expanded output from the Soroush and Nowruz fields in the latter part of the month, though it remains to be seen whether this will prove wholly incremental to capacity. **Kuwait** now expects expanded output from northern fields to be delayed until the autumn or later, and sustainable capacity has been maintained by this Report at 2.5 mb/d as a result.

OECD

North America

US – May Alaska actual, others estimated: Downward revisions to NGL supply for March, and to Alaksan and Gulf of Mexico (GOM) output for May reduced overall US oil supply by 30 kb/d and 50 kb/d respectively for those months. However, the trend in US oil supply for 2005 is held largely unchanged from last month. Output is seen rising by 105 kb/d to 7.8 mb/d as incremental GOM and NGL volumes offset declines elsewhere. In the case of Alaska, lower recent output from Point Macintyre facilities results in a downward adjustment for 2005. On the upside, BP has said that it will recommence production at the Badami field, where production ceased in August 2003. Sustained high prices are thought to have rendered the geologically complex field economic once again.



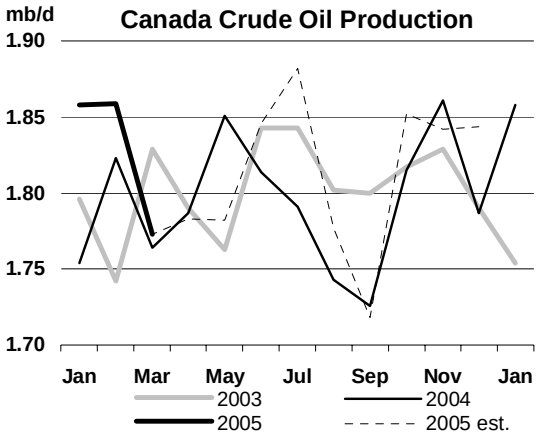


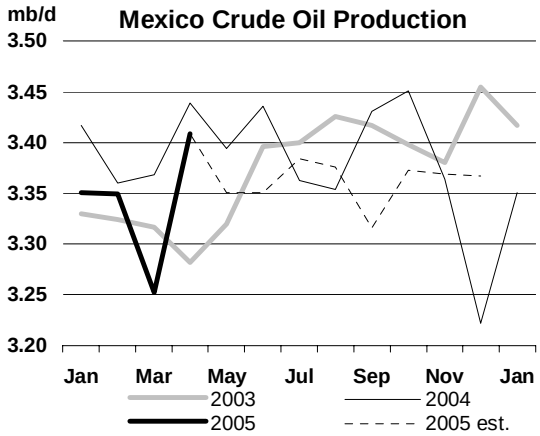
The second half of 2005 should see marked recovery from Gulf of Mexico production. ENI began production in May at the K2 field offshore Louisiana, with output tied back to the nearby Marco Polo platform. A single well producing 8 kb/d will likely be augmented by two more by the end of third

quarter. K2 brings the number of new field start-ups to seven, running from late 2004 through to 2005. Output from the GOM is also assumed to recover from the sustained outages suffered after last autumn's Hurricane Ivan. Some recent forecasts have suggested a heavier than usual hurricane season for the GOM. However, for now this Report assumes "normal" seasonal production outages of around 110 kb/d in September and October, then 35 kb/d in November, based on a rolling average for recent years.

Canada – March actual: A downward revision to Canadian NGL supply for January was countered by upward revisions affecting NGL, synthetic crude and bitumen supply for February through April. In all, Canadian oil supply has been revised up for 2005 by 10 kb/d to 3.04 mb/d. However, this still represents a 50 kb/d drop from average 2004 levels, with recent operating problems affecting the three main synthetic crude units in Alberta accounting for the bulk of 2005's decline.

Despite recent problems, the oil sands likely represent Canada's best bet for future production expansion. It was reported in May that Shell had lodged formal application to expand syncrude capacity from a current 150 kb/d in stages to 300 kb/d and then 500 kb/d. However, more modest increases could also come from offshore east coast production. April's Report cited a possible reactivation of the long-idled Hebron/Ben Nevis developments. Anecdotal information emerged in May that Husky Energy may start production by October 2005 at the 100 kb/d White Rose field, hitherto scheduled for a 2006 start. This Report retains the later start date, but Canadian late 2005 supply could be adjusted higher if recent high prices have indeed pulled forward project start-up.

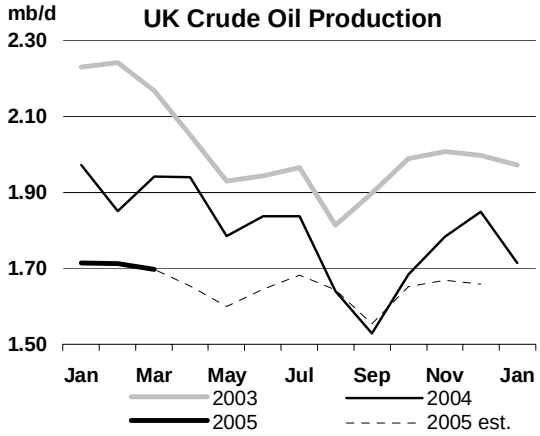


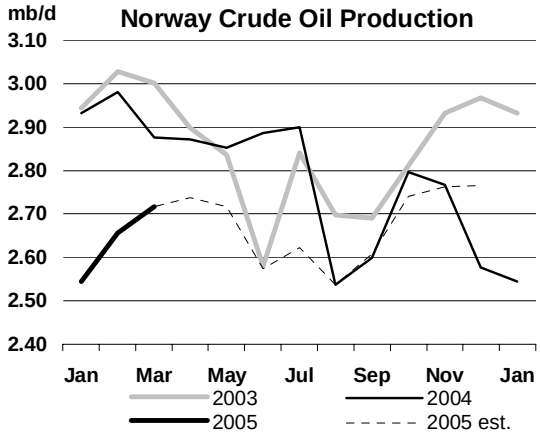


Mexico – April actual: Mexican crude production rebounded to hit a six month high of 3.4 mb/d in April. However, crude exports dipped below 1.8 mb/d for the first time in a year, with sailings to Asian and European markets sacrificed in favour of local deliveries. Despite the rally in production, forecast supply from Mexico for 2005 is held largely unchanged versus the last Report. Crude output is seen averaging 3.35 mb/d, a drop of 30 kb/d compared to 2004. NGL supply is expected to hold steady close to 2004's 440 kb/d. State oil company Pemex has conceded that baseload Cantarell production is now in decline. With new field start-ups several months away at least, and potentially insufficient in scale to fully counteract Cantarell slippage, there is scant hope of increasing supply in 2005. Upstream expenditure by Pemex of $9.5 billion in 2005 lags the $15 billion annual spending seen necessary by the Energy Secretary for Mexico to retain oil exporter status in the longer term.

North Sea

UK – March actual: UK oil production continued on a downward trend through March. Indications from loading schedules for the main production systems, and for spring maintenance, point to this trend continuing through May. May production is estimated at 1.6 mb/d of crude and 1.85 mb/d for total oil. However, a rebound in supply of at least 50 kb/d is expected for June, and potentially more if loading schedules for Brent, Flotta and Forties are any indication. Forties system output has been revised up by 10 kb/d for 2005, beginning in the second quarter. This follows reports from independent producer Apache of improved recovery at the Forties field itself, which this Report now estimates could average 65 kb/d for 2005. Declining production from Forties was evident in 2002 and 2003 but has subsequently been turned around by Apache, who have suggested that transport infrastructure is more of a constraint to boosting output than is field geology. Despite this modest upgrading of expectations, UK oil production remains on course for a sixth year of decline, averaging 1.91 mb/d in 2005 compared to 2.05 mb/d in 2004.

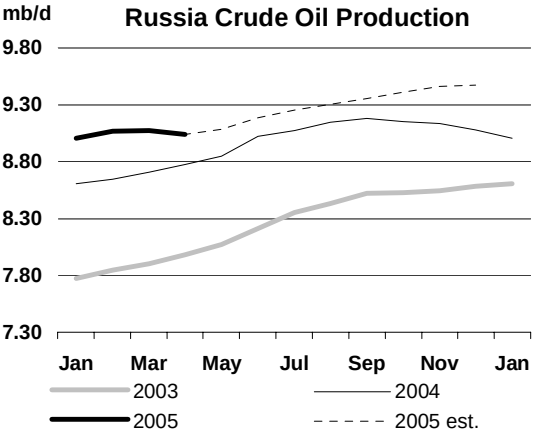


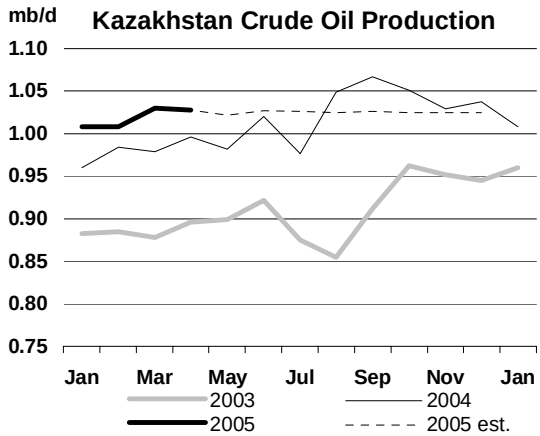


Norway – March actual, April provisional: Latest data for March and April result in modest downward revision to Norwegian liquids supply for 2005. Although recovery continued after January's low of 2.97 mb/d, and April supply averaged 3.17 mb/d, production for March and April was revised down by 15 kb/d and 50 kb/d respectively from last month's Report. The Oseberg/Troll and Haltenbanken systems see production revised down for 2005 after indications that a number of fields have underperformed in recent months. Total oil supply could now fall back from April levels, with scheduled maintenance keeping an average of 150 kb/d offline each month through September. Prevailing condensate supply also appears to be running at lower than expected levels, and some 15 kb/d has been cut from the 2005 forecast in this regard, albeit condensate and NGL supply are still expected to grow in 2005. Condensate production is now expected to amount to 185 kb/d in 2005, versus 155 kb/d in 2004, with incremental volumes forthcoming from the Tune, Kristin and Mikkel fields. In contrast, crude output is expected to fall by 130 kb/d in 2005 to 2.7 mb/d after a slower 55 kb/d fall in 2004.

Former Soviet Union (FSU)

Russia – April final, May provisional: Total Russian oil production recovered modestly in May, rising 60 kb/d after a 35 kb/d fall in April. Output for January to May 2005 has averaged 9.35 mb/d, some 355 kb/d or 4% above the corresponding period in 2004. Growth has slowed sharply from the 10%-plus levels evident in the first half of 2004 as operating companies have scaled back investment. This in turn has occurred in the face of rising export taxes, and a degree of regulatory uncertainty which has clouded the investment environment. Underpinning the drop in national output has been sliding production from Yukos. After the forced sale of its 1 mb/d Yuganskneftegaz subsidiary at the end of 2004, production from its remaining upstream affiliates has fallen by a further 120 kb/d since January. The main change to this month's Russian forecast is a downgrading of expected Yukos supply, which is now seen falling by 180 kb/d over the course of 2005.





Rising Caspian Oil Supplies: A Tale of Several Pipelines

Ceremonies to mark the start of line fill for the Baku-Tbilisi-Ceyhan (BTC) pipeline took place on 25 May. Pipeline completion marks the coming to fruition of a flagship project with important security of supply and market access implications for the Caspian states and IEA member countries alike. BTC shareholders include BP (30%) and Azeri state oil company SOCAR (25%), alongside major European, American and Japanese companies and international financial institutions. Enabling agreements involve the governments of Azerbaijan, Georgia and Turkey, with the government of Kazakhstan potentially becoming involved shortly. The initiative should strengthen regional economic cooperation through cross border investment and reduce risk by providing an export "safety valve" for the overcrowded Turkish Straits. Without BTC, incremental Caspian export volumes would be dependent on access to markets via the Black Sea and the Straits or require onward shipment via Russia.

Initial pipeline capacity of 500 kb/d will rise later this decade to 1.0 mb/d and potentially 1.8 mb/d if Kazakh and other crude feedstock is secured. In the first instance the line will be filled with Azeri Light from the Azeri-Chirag-Guneshli (ACG) offshore fields. Tanker liftings could commence from Ceyhan in the fourth quarter. Production from the ACG fields recently hit 210 kb/d and may attain 1.0 mb/d by 2008. Incremental light, sweet crude for the East Mediterranean could potentially help ease recent wide price differentials and possibly also establish a new East Mediterranean pricing benchmark.

The project is also a key element in a widespread policy of transport infrastructure diversification for the former Soviet Caspian states. Liquids production for Azerbaijan, Kazakhstan and Turkmenistan is seen capable of hitting nearly 5 mb/d within a decade from 1.7 mb/d in 2004. Critical for such output targets and associated export revenues being realised, however, will be the availability of economically viable transport infrastructure to move crude to market. Furthermore, the Russian pipeline system so far lacks a quality bank system to compensate Caspian producers, whose crude can be of higher quality than baseload Russian supplies. Hitherto, Azeri crude has tended to be exported by pipeline from Baku on the Caspian to the Black Sea, either via the Georgian port of Supsa or Russia's Novorossiysk. But these pipelines run at less than 150 kb/d of capacity each and leave a requirement for cargoes to transit the congested Turkish Straits once they reach the Black Sea.

BTC will also help neighbouring Kazakhstan to diversify exports. Recent crude production growth from the Tengiz and Karachaganak fields has relied indirectly or directly on Russian pipeline capacity. Output therefore remains prone to bottlenecks within the Turkish Straits and Russia's trunk pipeline network. Significant volumes of Tengiz and Karachaganak production flow via the region's other major private sector route, the Caspian Pipeline Consortium (CPC) line to Novorossiysk. Aside from Turkish Straits limitations, plans to expand CPC from a current 560 kb/d to 1.35 mb/d remain stalled by disagreement between Russia and other CPC shareholders over future shareholding and pipeline tariff issues. As an alternative Tengiz crude could begin to flow into BTC as early as the end of 2005, with a potential re-naming of the line to Aktau-BTC. In the longer term, Kazakhstan seeks access to BTC for the 1.2 mb/d Kashagan field, due onstream in 2008, subject to successful tariff negotiations with BTC shareholders.

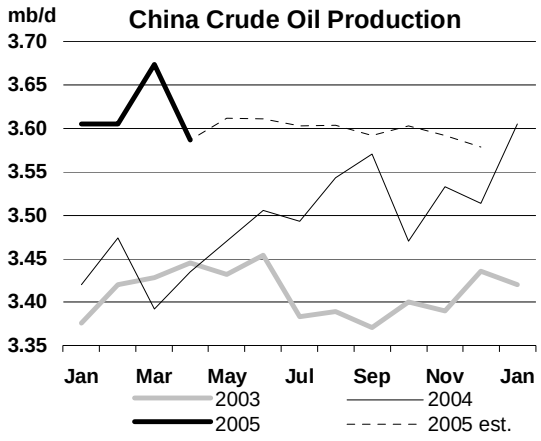
Kazakhstan is also constructing a pipeline with initial 200 kb/d capacity which will deliver crude to China from mid-2006 (although some reports suggest the line will initially ship Russian crude before that country's eastbound pipeline is completed). Add in plans to boost swap deliveries of Caspian crude to Iran from recent 50-150 kb/d levels to as much as 1.0 mb/d, and the trend towards beefing up Caspian export infrastructure is clear.

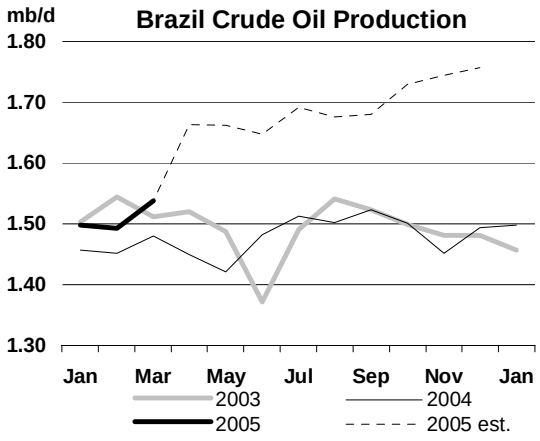
Growth for other Russian companies is held broadly unchanged from last month's forecast, resulting in national growth of 305 kb/d (3.3%). Russian production averages 9.53 mb/d for 2005. As noted in last month's Report, Lukoil, BP-TNK, Russneft and Surgutneftegaz all appear to be exceeding earlier expectations. Discussions with service companies active in western Siberia suggest an upsurge in activity during the second quarter, notwithstanding seasonal access restrictions. There are suggestions that production could be ramped up again fairly quickly with the addition of incremental pumping equipment, which has felt the brunt of reduced spending recently. Production could therefore pick up again fairly sharply later in 2005.

FSU net exports, which averaged 7.8 mb/d in March, are assessed broadly flat for April. Higher products exports were seen offsetting slightly lower crude exports for the month. Provisional indications for May suggest a rise in export volumes, notably for Russian crude using the Transneft system as exporters sought to beat a sharp rise in crude export duty to $136/tonne from 1 June. As noted below, May also saw the official start of line fill on the Baku-Tblisi-Ceyhan pipeline which carries Azeri crude to the Mediterranean.

Kazakhstan – April final: Production data for Kazakhstan for 2000 to 2004 have been revised up by between 15 kb/d and 35 kb/d. Revisions derive mainly from adjustments made to fields other than the country's two biggest producers, Tengiz and Karachaganak. National production growth has averaged 120 kb/d for the past five years but may now be slowing. Since 2002 there have been signs of a tightening upstream regulatory and fiscal environment after the relatively laissez faire approach applied to encourage oilfield developments in the 1990s. Most recently the government has ordered all operators to adjust oil production to levels that will prevent the flaring of associated gas. This is unlikely to impede supply from the BG and Agip-operated Karachaganak condensate field, where most associated gas is re-injected. Elsewhere however crude oil production may need to be trimmed as a result. Tightening terms for foreign operators, a lack of gas utilisation capacity and uncertainties surrounding oil export infrastructure are all issues that could potentially limit Kazakh supply growth in the short to medium term. Despite starting from a higher 2004 base therefore, Kazakhstan production growth slips to 75 kb/d in 2005 from 165 kb/d last year. Oil output is now seen averaging 1.28 mb/d in 2005 after 1.21 mb/d in 2004.

China – April final: Last month's estimates for Chinese production contained a smoothed trend for output from the Changqing oilfield after initial March data showed a somewhat unexpected rise in production from around 175 kb/d in January/February to 280 kb/d for March. Chinese sources have now confirmed the validity of the March number and cite capacity expansions in Shanxi and Gansu provinces as driving the increase from the cross-border Changqing field. Higher March output has now been included and although April supply from Changqing appears to have reverted to rather lower levels, field output is now seen averaging 210 kb/d in 2005 after 160 kb/d in 2004. This month's forecast for China is therefore revised up by a further 20 kb/d. National output averages 3.61 mb/d in 2005 compared to 3.49 mb/d in 2004, with offshore supply contributing an incremental 70 kb/d, followed by Changqing's extra 50 kb/d.





Brazil – March final, April provisional: Recent months have seen a sharp rise in Brazilian production deriving from the deepwater Campos Basin with start-up at the Barracuda and Caratinga fields and increasing supply from Marlim Sul. Total March oil production rose by 45 kb/d to 1.54 mb/d and in April by an estimated 125 kb/d to 1.66 mb/d. Further expansion is expected, but incremental volumes from the Albacore Leste and Jubarte fields are now seen as being deferred until the autumn. Sharper than expected gains early in 2005 are now countered by a slightly lower than expected profile for the second half of the year. Second quarter supply is revised up by 35 kb/d but output in the second half of 2005 is revised down by 20 kb/d. This leaves the annual forecast largely unchanged from last month, with Brazilian production averaging 2.0 mb/d for 2005 compared to 1.8 mb/d in 2004.

Other Non-OPEC

Revisions to other non-OPEC estimates: Production estimates for 2005 for **Denmark** and **Australia** are revised down by 20 kb/d and 10 kb/d respectively. In the case of Australia, Timor Gap supply from the Elang and Bayu Undan fields is now seen running at slightly lower levels. For Denmark, lower than expected production from Siri and surrounding fields after unscheduled outages in January and February cause downward revisions through the rest of the year. Lower supply is also backed up by the latest Danish Energy Agency forecast which downgraded expectations for 2005 to around 380 kb/d.

Lower than expected production through April result in a 10 kb/d reduction in expected 2005 supply for **Uzbekistan**. Similarly, weaker output in the first four months of 2005 in **Ecuador** was followed by civil unrest in the Amazon region during May which curbed state Petroecuador output. As a result, Ecuador 2005 production is revised down by 10 kb/d to average 550 kb/d. In contrast, early 2005 data for **Colombia** suggest that improvements in the investment environment may be beginning to bear fruit. Production decline is now seen slowing in 2005, with total output averaging 530 kb/d.

Revisions to Non-OPEC Oil Supply

(million barrels per day)

	Last Month's OMR			This Month's OMR			This Month vs. Last Month		
	2004	2005	05 vs. 04	2004	2005	05 vs. 04	2004	2005	05 vs. 04
North America	14.58	14.60	0.01	14.58	14.60	0.02	0.00	0.01	0.01
Europe	6.09	5.90	-0.19	6.09	5.87	-0.23	0.00	-0.04	-0.04
Pacific	0.58	0.59	0.01	0.58	0.58	0.00	0.00	-0.01	-0.01
Total OECD	**21.25**	**21.09**	**-0.17**	**21.25**	**21.05**	**-0.21**	**0.00**	**-0.04**	**-0.04**
Former USSR	11.18	11.71	0.53	11.22	11.68	0.46	0.03	-0.03	-0.07
Europe	0.17	0.16	-0.01	0.17	0.16	-0.01	0.00	0.00	0.00
China	3.48	3.59	0.10	3.48	3.61	0.12	0.00	0.02	0.02
Other Asia	2.75	2.75	0.00	2.75	2.76	0.00	0.00	0.00	0.00
Latin America	4.07	4.30	0.23	4.07	4.30	0.22	0.00	0.00	0.00
Middle East	1.88	1.80	-0.07	1.89	1.81	-0.08	0.01	0.00	-0.01
Africa	3.43	3.75	0.32	3.43	3.76	0.32	0.00	0.00	0.00
Total Non-OECD	**26.97**	**28.07**	**1.09**	**27.02**	**28.06**	**1.04**	**0.04**	**-0.01**	**-0.05**
Processing Gains	1.83	1.86	0.03	1.83	1.86	0.03	0.00	0.00	0.00
Total Non-OPEC	**50.06**	**51.01**	**0.95**	**50.10**	**50.97**	**0.87**	**0.04**	**-0.05**	**-0.09**

OMR = Oil Market Report

OECD STOCKS

Summary

- **OECD total industry oil stocks** rose 13.5 mb in April, closing at 99 mb above last year. A build in North American 'other product' stocks (which include naphtha and LPGs) accounted for most of the gain. Main products categories were little changed in comparison. Crude stocks saw divergent trends with builds in North America offset by draws in the Pacific and Europe. Forward demand cover by OECD industry stocks was even from March at 53 days.

Preliminary Industry Stock Change in April 2005 and First Quarter 2005
(million barrels per day)

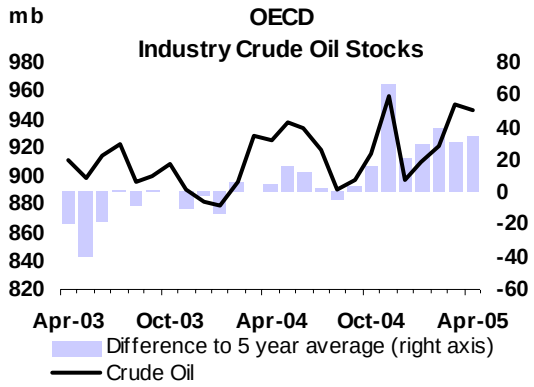
	April (preliminary)				*First Quarter 2005*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**0.47**	**-0.20**	**-0.40**	**-0.13**	**0.36**	**0.27**	**-0.02**	**0.60**
Gasoline	-0.03	-0.09	0.00	-0.12	0.05	0.05	0.01	0.11
Distillates	0.03	0.02	0.22	0.27	-0.29	0.09	-0.30	-0.49
Residual Fuel Oil	-0.10	0.03	0.02	-0.06	-0.01	-0.04	-0.01	-0.06
Other Products	0.53	-0.01	0.09	0.61	-0.01	0.01	-0.08	-0.07
Total Products	**0.43**	**-0.05**	**0.32**	**0.71**	**-0.25**	**0.11**	**-0.38**	**-0.51**
Other Oils[1]	-0.20	-0.03	0.10	-0.13	-0.09	0.03	-0.06	-0.12
Total Oil	**0.70**	**-0.28**	**0.02**	**0.45**	**0.02**	**0.41**	**-0.46**	**-0.04**

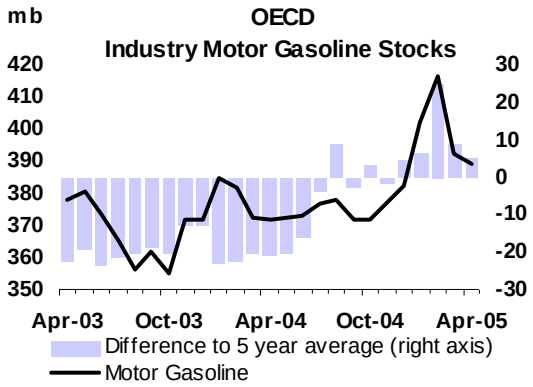
1 Other oils includes NGLs, feedstocks and other hydrocarbons

- **OECD industry crude stocks** declined nearly 4 mb to 947 mb or 21 mb above last year. The US saw a rapid build during April, driven by strong imports and low refiner demand. This contrasted with a sharp fall in onshore Japanese stocks, as refiners minimised crude holdings ahead of scheduled maintenance in May and June. Though European inventories also fell, they held towards the top of their five-year range. With the end of turnarounds in May, US refiners ramped up crude runs but steady imports mitigated the associated draw in crude inventories.

- **OECD industry distillate stocks** rose 8 mb in April to 476 mb as stocks seasonally rebuilt in the Pacific area with weaker kerosene demand. Distillates were relatively unchanged in Europe and North America. On a forward demand cover basis, stocks in Europe were more comfortable than those in the US. US diesel and heating oil stocks held even in May and began to rise in June, albeit from a lower seasonal base. Yet, higher refinery runs, switching of product yield and a contango in NYMEX heating oil futures should favour a continued increase in US distillate inventories.

- **OECD industry gasoline stocks** slipped 3 mb in April, to close at 389 mb or 17 mb above last year. The modest decline was centred in the Atlantic Basin following lower refinery output. Stocks in the US remained supported however by a steady flow of imports in April and modest demand growth. US gasoline stocks were on an upward trend in May on increased production and steady imports. The build came despite stronger implied demand growth than in April. The ratio of stocks to gasoline deliveries in May trended within seasonal averages.





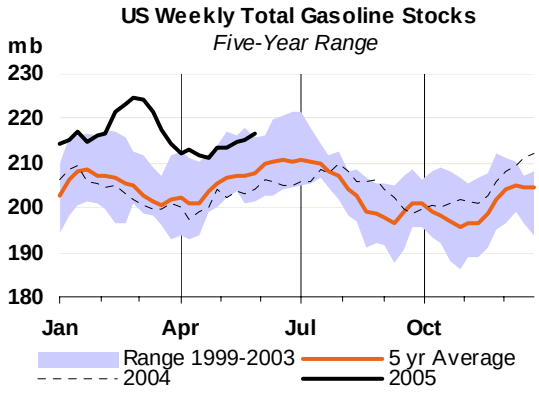
OECD Industry Stock Changes in April 2005

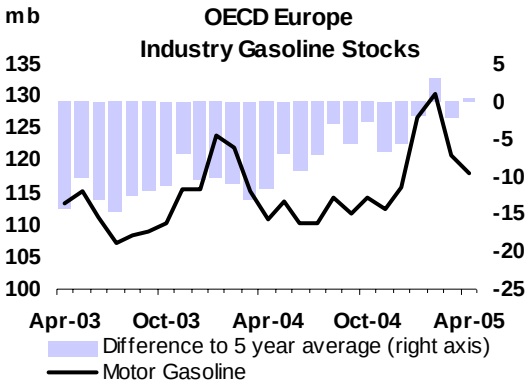
OECD

Industry oil stocks in the OECD rose 450 kb/d or 13.5 mb in April, closing 99 mb above last year. The gain was driven by products which built 710 kb/d or 21 mb. This increase came mostly in US 'other products' (which include naphtha and LPG). With the exception of a seasonal rebound in Pacific distillate stocks, main product categories saw relatively minor changes in comparison. Crude stocks ended marginally lower, declining 130 kb/d or 4 mb. Gains in North America were offset by declines in Europe and the Pacific region. Against a backdrop of refinery maintenance, lower crude demand and ample supply, Atlantic Basin crude stocks trended at the top of their five-year range while those in the Pacific fell ahead of refinery maintenance in May and June. With a downward-revised stock position at the end of the first quarter, April's stock build maintained forward demand cover flat at 53 days.

OECD North America

US crude oil stocks rose rapidly in April before easing back by end-May to 334 mb or 33 mb above year-ago levels. The April increase reflected lower crude demand associated with scheduled refinery maintenance and relatively high average imports. Refinery utilisation rates rose in May, accelerating in the second half of the month as turnarounds were completed. Though utilisation peaked at about 96%, crude imports held close to historical highs, leading to a modest 3 mb draw in inventories. Stocks in Cushing, where the NYMEX light-sweet crude oil contract is delivered, remained relatively high, consistent with the contango in front-month WTI futures. As refiners maximise throughputs to meet summer gasoline demand and replenish distillate stocks, crude inventories are expected to fall through to September. The decline will take place from a comfortable position; the ratio of crude stocks to throughputs in the main refining centres of the Gulf Coast and the Mid-continent is markedly higher than the recent five-year average. Gasoline stocks climbed by end-May, supported by growing output and strong imports. They closed at 217 mb or 13 mb above last year, and on a days cover basis, were following seasonal averages. Distillate inventories held about even in May but closed at the lower end of their five-year range despite higher domestic output. Implied distillate demand growth in May's weekly figures was stronger, imports were weak while diesel was exported to Europe. This appears to have prompted heating oil's crack spread to unseasonably overtake that of gasoline. Yet, gasoline supplies are adequate and gasoline demand in the third quarter will be growing from relatively weak levels on a yearly basis. As such, competing demand on refiners to produce gasoline at the detriment of distillate is likely to be limited and product yield should easily switch to help rebuild distillate stocks.



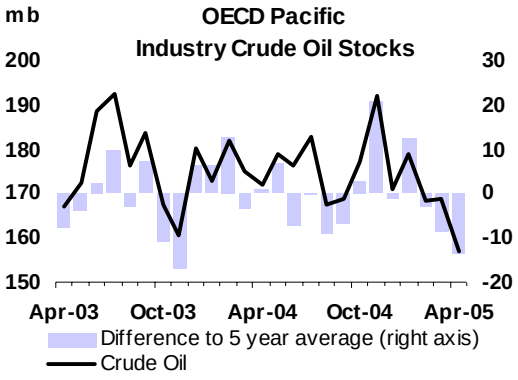


OECD Europe

European industry crude stocks fell 6 mb in April to 342 mb, closing 7 mb above a year ago. With the exception of France and the UK, inventory positions were reduced as regional refinery maintenance lowered crude requirements. Limited extra-regional arbitrage opportunities for Urals and Brent related grades however likely supported stocks in the upper end of their five-year range. With crude demand remaining weak with ongoing maintenance in May, it is unlikely to see a material tightening in stocks. In products, gasoline inventories drew with lower refinery output and exports to the US. The decline is expected to continue in May with more product delivered to the US, but days forward demand cover in Europe remains high. Distillate stocks were flat from an upward revised March level, supported by relatively weak demand and incoming gasoil from the FSU and the US Gulf Coast. Though some pick-up in end user demand was reported in May, it is unlikely to have tightened significantly industry stock levels. With distillate output expected higher as refiners return from maintenance and a contango in IPE gasoil futures, it is likely that more product has moved into storage instead.

OECD Pacific

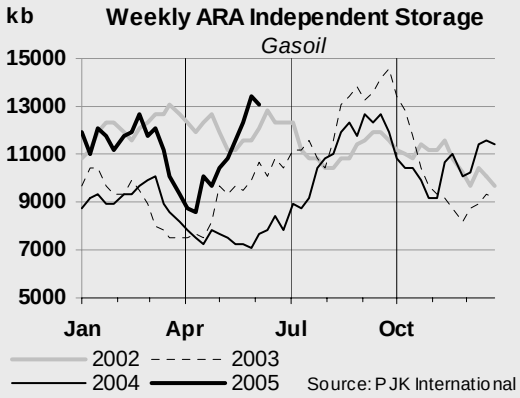
Pacific crude stocks fell 12 mb in April. Crude stocks in Korea were down 3 mb while onshore inventories in Japan ended 9 mb lower. The decline pushed stocks below their five-year range to 157 mb, or 15 mb below last year's levels. It is usual to see a decline in April ahead of seasonal refinery maintenance in May and June. On the basis of weekly data, onshore Japanese crude stocks rebounded strongly by end-May with falling crude demand.

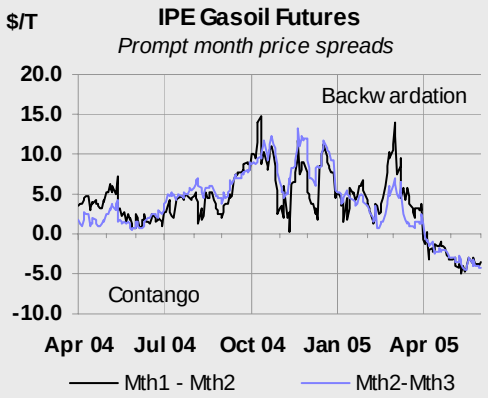


Pacific distillate stocks rose in April despite declining throughputs, driven by increases in jet fuel stocks. With seasonally weaker demand for kerosene (used as a heating fuel) at the end of winter, refiners skewed output towards jet fuel instead and production rose in both countries. Stocks of diesel were also up. In Korea, this was supported by a reduction in exports while domestic demand held about even on a monthly basis. In Japan, weaker demand on a monthly basis was the main driver behind an increase in gasoil stocks. Pacific middle distillate stocks closed April at 55 mb, down 1.5 mb from year-ago levels.

Gasoil – Shortages in ARA Unlikely

After a dip in the first half of May, the front-month IPE gasoil contract saw a more than $60 /tonne rally in prices, sending the prompt month contract above $500 /tonne in early June. The rise is attributed by some commentators to the anticipated tightness in the distillate market later in the year and to possible shortages. As such, this view points to a seasonally early contango in IPE's gasoil contract (in contrast to last year's backwardation) with a bidding up of winter delivery months driving the structure. Yet, the widening of the contango can also be attributed to looser prompt supplies.





Europe's April industry stocks ended towards the top of their five-year range despite reduced refinery output due to maintenance, while forward demand cover was within its five-year average. Opening June stocks of gasoil in ARA reached levels not commonly seen before the end of the third quarter. Gasoil has accumulated on weak demand and a marked shift in end-user buying patterns towards a more 'just-in-time' approach. Consumer stock levels in the key German market opened May at only 44% full, while those in Switzerland were reported as low as 33%. Distillate stocks have grown rapidly on FSU gasoil exports and, more unusually, on diesel arrivals from the US Gulf Coast. As a result, prompt gasoil prices were depressed relative to forward prices. Physical 0.2% gasoil was priced at a steady discount against the front-month IPE contract during May while jet/kerosene premiums also weakened. Only ultra low sulphur diesel saw its premium strengthen, reflecting short lived concerns around refinery strikes in France and switches in tax incentives between 10 and 50 ppm material in the Netherlands. The combination of weak cash prices versus front-month futures alongside a contango structure in future delivery months has allowed importers and traders to shift excess product into storage. With the end of refinery maintenance in May, distillate output will rise and the contango should support a further increase in inventories. And if the recent end-user buying pattern does not show a material reversal, distillates will likely be adequately supplied in Europe.

OECD Inventory Position at End-April and Revisions to Preliminary Data

Revisions to preliminary March stock figures were dominated by downward adjustments in product inventories, reflecting lower refinery output in the Atlantic Basin. Product stocks were revised down 21 mb, of which 17 mb was in North America. The revision was centred on distillates stocks (-14 mb), about evenly split between Canada and the US. This contrasted with revisions in Europe where gasoline inventories proved to be lower than initial estimates and distillate stocks were revised upwards. Revisions to crude stocks were minor in comparison, with a net 3 mb upward revision to OECD inventories, centred mainly in Europe.

Revisions Versus 11 May 2005 Oil Market Report

(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Feb 04	Mar 05	Feb 04	Mar 05	Feb 04	Mar 05	Feb 04	Mar 05
Crude Oil	**0.4**	**0.9**	**0.6**	**3.5**	**0.0**	**-1.7**	**1.0**	**2.7**
Gasoline	-0.9	-2.3	0.5	-6.3	0.0	-0.4	-0.4	-9.0
Distillates	-6.4	-13.8	-1.1	2.5	0.0	-0.4	-7.6	-11.6
Residual Fuel Oil	-1.2	-3.2	-1.6	1.0	0.0	0.5	-2.8	-1.6
Other Products	0.0	2.0	-0.1	2.0	-1.8	-3.4	-2.0	0.6
Total Products	**-8.6**	**-17.2**	**-2.3**	**-0.7**	**-1.8**	**-3.6**	**-12.7**	**-21.5**
Other Oils[1]	0.0	-9.9	-3.8	0.8	0.0	-0.4	-3.8	-9.5
Total Oil	**-8.2**	**-26.1**	**-5.4**	**3.5**	**-1.8**	**-5.7**	**-15.5**	**-28.3**

1 other oils includes NGLs, feedstocks and other hydrocarbons

Downward revisions to March stock figures, combined with a 450 kb/d (13.5 mb) increase in oil stocks during April pushed OECD industry inventories at 2572 mb, or 99 mb above last year. A lower end of first quarter inventory baseline along with minor revisions to the OECD's demand profile in the second quarter put forward demand cover at 53 days in April, flat from March and 1.5 days above a year ago. Demand cover in April in North America came to 48 days, 62 days in Europe and 48 days in the Pacific.

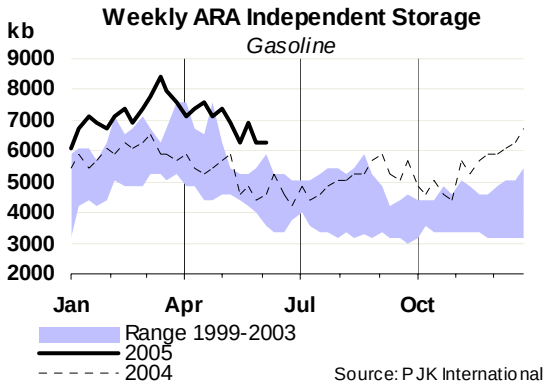
Year-on-Year Industry Stock Comparisons for April 2005

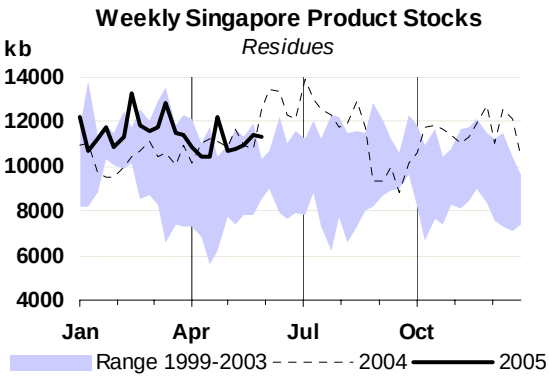
	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**28.7**	**7.3**	**-15.0**	**21.1**	**Total Oil**	**2.2**	**2.4**	**-2.5**	**1.5**
Total Products	46.4	35.9	-0.8	81.6	*Versus 2003*	2.1	1.8	-2.6	1.1
Other Oils[1]	-2.0	-1.1	-0.3	-3.4	*Versus 2002*	-3.3	0.5	-6.5	-2.7
Total Oil	**73.2**	**42.1**	**-16.0**	**99.2**	**Total Products**	**1.5**	**2.1**	**-0.3**	**1.4**
Versus 2003	105.9	27.0	-22.2	110.7	*Versus 2003*	1.2	1.9	-1.3	1.0
Versus 2002	-21.3	26.2	-35.5	-30.6	*Versus 2002*	-1.9	-0.9	-3.5	-1.9

1 other oils includes NGLs, feedstocks and other hydrocarbons

Recent Developments in ARA Independent Storage

Trends in product stocks in ARA independent storage followed seasonal patterns in May for gasoline while continuing to reflect arbitrage economics for fuel oil. Gasoline inventories trended lower as term supplies continued to flow to the US and the Caribbean, Nigeria, Angola and Iran. Gasoline stocks decline seasonally at this time of the year as product is shipped to the US ahead of the summer driving season. However, due to a high stock position in the US, possibilities for spot transatlantic arbitrage were limited, leaving gasoline inventories in ARA above year-ago levels. Also, regional product availability improved in May with some refiners returning from maintenance. Increased sales of Russian gasoline to the US also meant more European product stayed at home. Fuel oil storage reflected arbitrage sales to Asia. Stocks in early May were down sharply following the leaving of VLCCs (fixed in April) before rebounding strongly by end-month. Arbitrage of fuel oil to the Far East remained largely closed in May and a number of VLCC fixtures of fuel oil were reportedly cancelled. With ample fuel oil to meet ARA bunker demand, product accumulated in storage with mounting FSU supplies in late May. The increase in stocks, however, occurred despite a backwardated swap market between June and July delivery.





Recent Developments in Singapore Stocks

Total product inventories in Singapore surveyed by *International Enterprise* closed May about even with April. Distillate inventories were rose, driven higher by kerosene supplies. The gasoil market remained tight with strong Indonesian diesel demand and regional refinery turnarounds limiting supplies. In contrast, demand for kerosene (used as a heating fuel) entered its seasonal low period. Deliveries to India for blending into the diesel pool also appeared to decelerate ahead of the monsoon season and lower associated diesel consumption. As a result, jet/kerosene's usual premium over gasoil weakened markedly and greater prompt supplies of jet fuel were reflected in forward swap prices in Singapore. These moved into contango in May after exhibiting strong backwardation in April. Middle East supplies were reported flowing to the region while arbitrage to the US West Coast was closed. Increasing jet fuel supplies supported a weakening of Korean cargo premiums over Singapore quotes during the month, and reported discounted premiums paid by China Aviation Oil for its July and August jet fuel tender. Gasoil supplies are expected to increase and stocks to build as Chinese buyers remained sidelined and main importer Indonesia cuts back on its June purchases. The forward price structure for gasoil, at the time of writing, was in contango encouraging stock builds.

Fuel oil inventories held broadly level in May. The market appeared tight with benchmark 180cst fuel oil in Singapore deepening its backwardation structure through most of the month. Though Singapore bunker demand was strong, fuel oil stocks held above their five-year range, likely supported by greater arrivals of arbitrage material at end-month. Chinese and Vietnamese demand were thin on a combination of high prices and limited availability of product specification needs. Stocks are expected to resume an upward trend on the arrival of western cargoes. Trade estimates put June volumes at a record 2.1 million tonnes with more expected in July.

Light product inventories ended lower in May. Gasoline demand was reported strong and Singapore exports were headed mainly to Malaysia and Vietnam. An increase in gasoline stocks looks possible. Although China is to reduce exports, arbitrage to the US appeared closed and regional demand weaker with importers Indonesia and Vietnam limiting June purchases. In contrast, the naphtha market remained in contango. Demand was weak due to maintenance at petrochemical facilities in the region while prompt supply was ample. In addition to continued offers of spot cargoes by India, naphtha exports from China were above average volumes, with Japan and Korea as the main destinations.

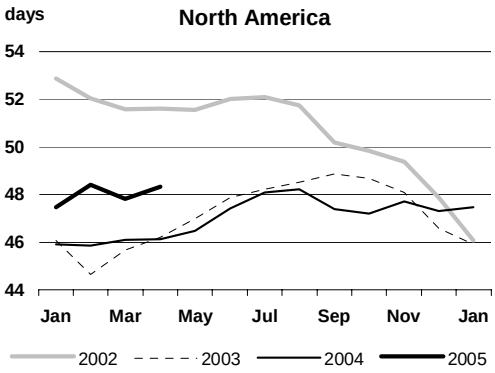
Singapore Crude & Product Trade
(thousand barrels per day)

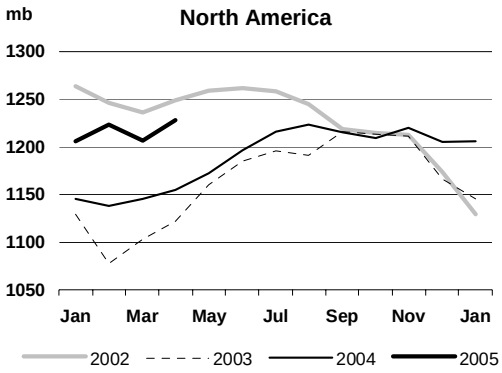
Net Imports/(Exports) of:	2003	2004	2Q04	3Q04	4Q04	1Q05	Feb 05	Mar 05	Apr 05	Latest month vs. Mar 05	Latest month vs. Apr 04
Crude Oil	755	815	696	727	1059	1266	869	1395	815	-580	230
Products & Feedstocks	-96	-136	-150	-118	-211	-216	-294	-288	-126	162	18
Gasoil/Diesel	-170	-182	-206	-181	-206	-187	-177	-212	-157	56	96
Gasoline	-83	-96	-119	-79	-98	-80	-99	-102	-64	39	24
Heavy Fuel Oil	320	276	289	238	272	236	237	197	205	8	-160
LPG	-22	-22	-21	-20	-24	-20	-22	-18	-17	0	12
Naphtha	13	31	24	42	21	36	12	61	48	-13	15
Jet & Kerosene	-99	-86	-50	-92	-102	-132	-162	-143	-69	74	34
Other	-55	-57	-67	-26	-74	-69	-83	-70	-73	-3	-4
Total	**659**	**679**	**546**	**609**	**848**	**1051**	**575**	**1107**	**689**	**-418**	**248**

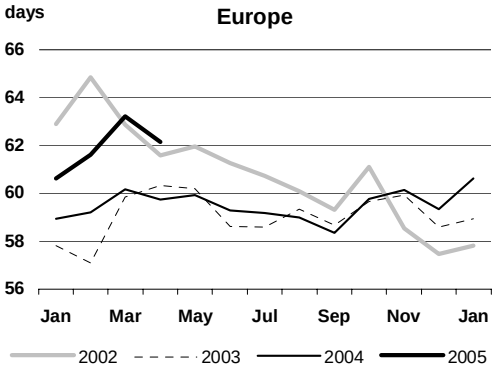
Source: International Enterprise, IEA estimates

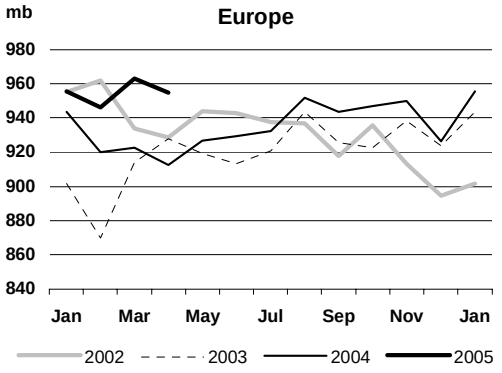
Regional OECD End-of-Month Industry Stocks
(in days of forward demand and millions barrels of total oil)

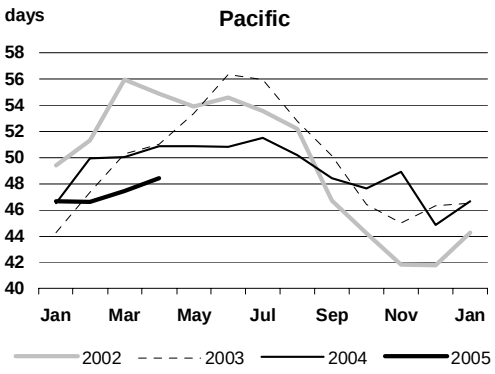
Days[1] | **Million Barrels**

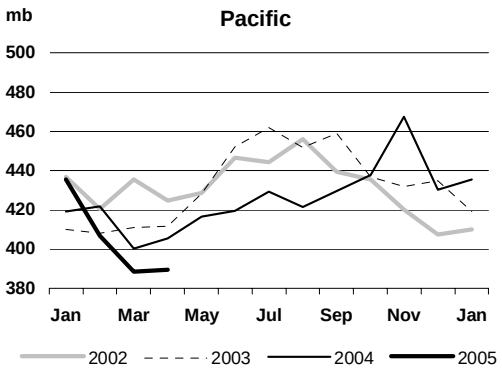


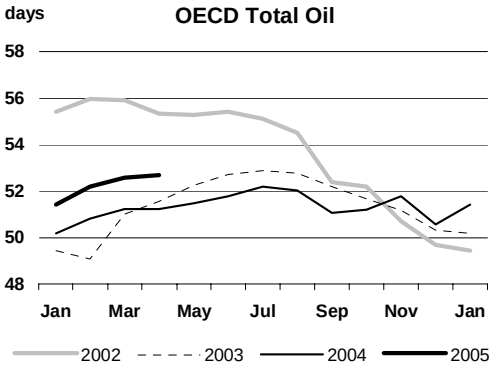


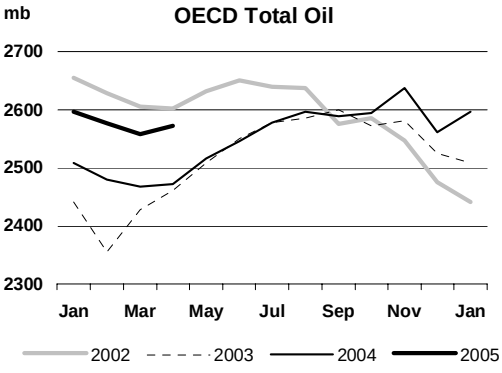












1. Days of forward demand are based on average demand over the next three months.

PRICES

Summary

- **NYMEX light crude** futures rebounded $10 from a low of $46.20 in mid-May, but slipped back below $53 in early June. US refiners started to run close to flat out ahead of the driving season and product prices recovered from an early May sell off. Crude prices received additional support from continuing production problems in Iraq and strong diesel demand.

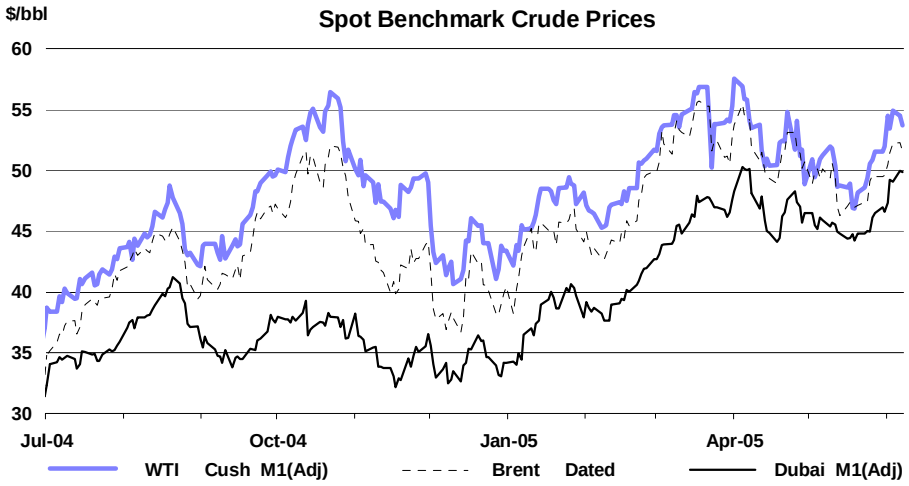
- **Contangos** in Brent and WTI crude spilled over into Asian light sweet benchmarks such as Tapis in late April and remained in place throughout May. Dubai crude however remains in backwardation, reflecting both field maintenance of related crudes and regional heavy sour crude tightness.

- **Net non-commercial** positions in NYMEX petroleum products fell sharply, moving from a near-record long position of 88,712 in WTI in mid-April to a net-short position of 14,319 lots by the end of May. Commensurate declines were also seen in the net-long position in gasoline. However, the drop off came at a slightly faster rate than is often seen after a late-spring peak in gasoline prices.

- **Heating oil prices** moved above those of gasoline in the US by early June, reflecting strong demand for diesel and concern over the level of heating oil stocks this winter. However, in Asia, the continued lack of Chinese diesel import demand and a weak naphtha market capped price gains.

- **Low-sulphur fuel oil prices** dipped in Europe as supplies increased following the end of peak refinery maintenance. There is no clear indication that US utility demand ebbed as fuel oil prices rose above natural gas prices for the first time in nine months. Low-sulphur waxy residue prices in Singapore, however, rose towards the end of May as Japanese utility demand returned.

- **VLCC crude freight rates** from the Middle East Gulf to Asia dipped in May, pressured by the start of peak refinery maintenance and an increase in fleet availability. Clean rates followed a similar trend as heavy maintenance in the petrochemical sector reduced naphtha demand, while in the Atlantic Basin interest slowed as refineries returned from maintenance.



Crude Oil Prices

Spot Crude Prices and Differentials

Both crude and product prices were weaker on average in May, but rebounded towards the end of the month. Early-month losses were generally steeper in gasoline, naphtha and jet/kerosene, but firm fuel oil prices helped to offset the impact on refinery margins. The downward shift in product prices was in part due to higher throughputs following the winding down of refinery maintenance in Europe and the US. But a sharp reduction in Chinese net product imports has capped Asian product differentials.

Geopolitical events have also returned to the fore. Southern Iraqi supplies appear to be slowing, and although the batching of exports through the northern pipeline to Ceyhan appears to be increasing, volumes to date are limited and disruptions frequent. Violence also appears to be increasing in Iraq after a post election lull.

Iranian nuclear talks remain a background talking point and presidential elections are starting soon. Protests in Ecuador shut in 100 oil wells in eight fields, while the OPEC meeting on 15th June is a further focus for the market.

Spot Crude Oil Prices and Differentials*

(monthly and weekly averages, $/bbl)

	Mar 05	Apr 05	May 05	May-Apr		Week Commencing:				
				Change	*%*	09 May	16 May	23 May	30 May	06 Jun
Crudes										
Brent Dated	52.91	51.82	48.56	-3.26	-6.3	48.56	47.17	48.59	50.94	52.30
WTI Cushing 1 month (adjusted)	54.33	52.89	49.84	-3.05	-5.8	50.33	47.90	50.18	53.72	54.49
Urals (Mediterranean)	48.14	47.85	45.80	-2.06	-4.3	46.25	44.21	45.92	49.39	50.45
Dubai 1 month (adjusted)	45.84	47.20	45.40	-1.81	-3.8	45.27	44.53	45.66	47.84	49.98
Tapis	57.07	57.69	50.79	-6.89	-12.0	51.68	49.20	49.18	51.67	54.62
Differential to Dated Brent										
WTI Cushing 1 month (adjusted)	1.43	1.07	1.28	0.21		1.78	0.73	1.59	2.78	2.20
Urals (Mediterranean)	-4.77	-3.96	-2.76	1.20		-2.31	-2.96	-2.67	-1.55	-1.85
Dubai	-7.06	-4.61	-3.16	1.45		-3.29	-2.64	-2.94	-3.09	-2.32
Tapis	4.17	5.87	2.24	-3.63		3.12	2.04	0.58	0.73	2.33
Prompt Month Differential										
Brent 1mth-2mth (adjusted)	-0.23	-0.51	-0.61	-0.10		-0.73	-0.72	-0.49	-0.64	-0.64
WTI Cushing 1mth-2mth (adjusted)	-0.85	-1.41	-1.25	-0.93		-1.48	-0.44	-0.82	-1.15	-1.15

* Weekly data for Brent and WTI 1st month and 2nd month are unadjusted

The contango structure of Brent and WTI remains firmly entrenched through to the end of the year. Weekly EIA data show no perceptible slowdown in US crude imports despite less attractive arbitrage levels. For most of May, price differentials between WTI and dated Brent were unattractive for spot market shipment of North Sea crudes to the US. US crude stocks have however started to move lower as refiners raise throughputs to meet peak summer demand.

West African crudes appeared even less attractive for US refineries, with continued strong Asian demand pushing light sweet benchmarks such as Bonny Light and Forcados to a premium over dated Brent. Chinese buying interest in West African crudes appeared to dip in May, but was compensated for by increased demand from India, Korea and Taiwan. Initial reports suggest that Chinese and Taiwanese demand for these grades remained flat in June, but that there was a marked drop in imports from other areas.

Urals crude differentials to dated Brent hit the highest level for 18 months in the Mediterranean as June loading schedules from Black Sea ports showed a 10% drop and good refiner demand continued as distillate cracks remained firm. The movement of some Urals to Asia further tightened regional supplies. This, combined with the steep contango in Brent, has led to spot Urals refining margins narrowing to their lowest levels for a year. The slowdown in Russian export growth has also had an impact. When crude export volumes increase, the incremental output has to be placed with refiners, leading to a frequent need for prompt discounts to encourage buying. As markets for this new crude become established and export growth slows, the discount tends to decline. This appears to be the case with Urals.

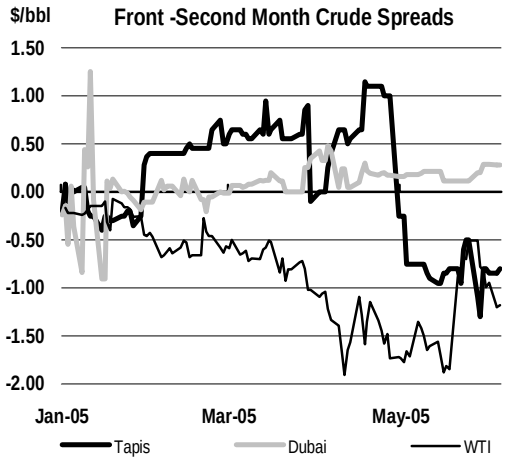
The end of US refinery maintenance tends to result in an increase in demand for heavy sour crudes. However, as the pricing for the end of the turnaround season in May was predominantly seen in April, there was little significant movement in the discount of Mars to WTI last month. Heavy sour crude demand also increases ahead of the summer in response to increased demand for bitumen. Overall though, it is the weakness of the forward structure of WTI that continues to dominate US crude spreads, accentuating the premium of Light Louisiana Sweet crude in the process.

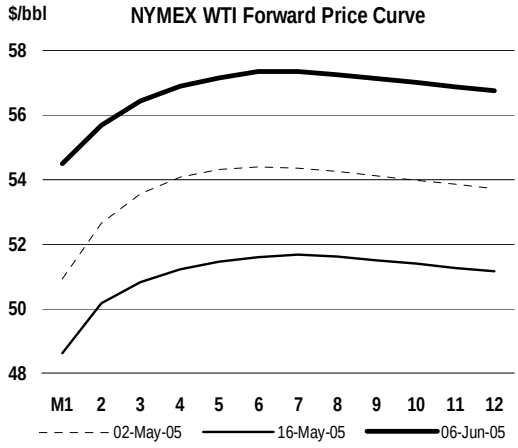
Asian spreads of light sweet regional crudes continued to weaken against dated Brent in May, with the differential for Malaysian Tapis reaching its lowest level since last December. However, a sharp rise in low-sulphur waxy residue prices towards the end of May increased interest in direct-burn crudes, and raised the value of regional sweet crudes. However, despite this small recovery in differentials, the forward Tapis crude market remains in contango. This is in marked contrast to the backwardated Dubai crude market, which suggests a continued tightness in regional sour crudes. In turn, Asian buyers are forced to turn to alternatives such as West African and FSU crudes, which more commonly remain in the Atlantic Basin.

Crude Futures

IPE Brent and NYMEX WTI futures extended their forward contango structure by one month to December 2005 and January 2006 respectively by early June. Essentially, as the front month contract expired, the contango structure was rolled forward as well. This implies that near-term price pressures remain in place, despite the end of peak seasonal refinery maintenance which caused a modest decline in crude stocks from mid-May.

The steepness of the contango and the flattening of the backwardation beyond next winter means that front month IPE Brent prices are actually lower than all forward month prices through to December 2008. A similar picture has emerged for NYMEX WTI, where you have to go to 2009 to find a lower price.





The net non-commercial position in NYMEX WTI has been pretty volatile so far this year, moving from a net-short position last December to a recent peak of 88,712 net-long in early April, before moving net-short four weeks later. Non-commercials have since increased their net-short position to 14,319 lots.

The latest stock data continue to point to a tighter Asian than Atlantic basin crude market. This is also reflected in the forward crude spreads. While WTI and Brent have been predominantly in contango for the first two months since the start of the year, Malaysian light sweet Tapis crude only moved into contango in early May (albeit with a rather dramatic transition). Dubai crude however remains in a modest backwardation, suggesting continued tightness in heavy sour crudes – an unusual phenomenon as refiners move into the peak refinery maintenance period. This would suggest that Middle Eastern supplies to this region remain relatively tight in comparison to third quarter requirements, a factor only partly ameliorated by regional maintenance. It is also reflective of broader strength in sour crudes.

Delivered Crude Prices in March

Sharp rises were seen in delivered crude prices in IEA countries in March, lifting total IEA prices by $5.19/bbl to $46.51/bbl. Europe saw the largest gains of $6.70 to $49.22/bbl compared with more

modest increases in North America of $4.85 to $44.79/bbl and $3.16 to $44.65/bbl in the Pacific. The larger moves seen in Europe were in line with trends in spot crude price movements, where the largest gains were seen for Brent and Urals. Also, longer shipping times to Asia normally lag the effect of crude spot prices increase in other regions.

Product Prices

Spot Product Prices

US refineries returned to near-peak throughput by the end of May, which, combined with the passing of peak April maintenance at European refineries, contributed to an easing of Atlantic Basin product markets over the month. Asian markets were depressed by the continued lack of Chinese diesel imports and the veritable glut of naphtha in the region. However, in early June, distillate tightness re-emerged, returning differentials to benchmark crudes to end April levels.

Spot Product Prices
(monthly and weekly averages, $/bbl)

	Mar	Apr	May	May-Apr		Week Commencing:					Mar	Apr	May
				Change	*%*	09 May	16 May	23 May	30 May	06 Jun			
Rotterdam, Barges FOB											***Differential to Brent***		
Premium Unleaded (Cargo)	57.03	62.46	57.27	-5.19	-8.3	57.71	56.46	56.98	59.66	61.14	4.13	10.64	8.72
Regular Unleaded	56.19	61.57	56.40	-5.17	-8.4	56.82	55.60	56.11	58.75	60.21	3.28	9.75	7.84
Naphtha	52.45	51.85	45.98	-5.86	-11.3	46.35	45.76	45.83	46.14	47.22	-0.46	0.03	-2.57
Jet/Kerosene	68.99	71.87	65.08	-6.78	-9.4	65.03	63.04	64.68	68.24	71.90	16.09	20.05	16.53
Gasoil	65.62	65.19	59.57	-5.62	-8.6	59.34	57.67	60.01	63.97	68.00	12.72	13.37	11.01
Fuel Oil 1.0%S	35.41	37.00	35.93	-1.07	-2.9	36.20	36.14	35.16	35.08	35.33	-17.49	-14.82	-12.62
Fuel Oil 3.5%	31.38	36.00	35.23	-0.77	-2.1	35.64	35.33	33.95	35.14	36.69	-21.53	-15.82	-13.32
Mediterranean – Basis Italy, Cargoes FOB											***Differential to Urals***		
Prem Unleaded (50ppm)*	56.16	61.54	55.38	-6.16	-10.0	55.37	54.58	54.91	57.72	59.16	8.03	13.69	9.59
Prem Unleaded (150 ppm)	55.21	60.58	54.54	-6.04	-10.0	54.41	53.62	54.34	57.25	58.68	7.07	12.73	8.75
Naphtha	50.99	50.71	44.66	-6.04	-11.9	45.05	44.39	44.31	44.49	45.57	2.85	2.85	-1.13
Jet/Kerosene	67.01	70.30	62.90	-7.40	-10.5	63.03	60.82	62.30	65.47	69.35	18.87	22.45	17.11
Gasoil	64.65	63.61	58.42	-5.20	-8.2	58.15	56.68	59.08	63.41	67.73	16.52	15.76	12.62
Fuel Oil 1.0%S	36.72	39.83	37.42	-2.41	-6.1	37.66	37.72	37.12	36.53	38.28	-11.42	-8.02	-8.38
Fuel Oil 3.5%S	30.31	35.10	33.57	-1.53	-4.4	33.81	33.66	32.72	34.02	34.41	-17.83	-12.75	-12.23
NY Harbour, Barges											***Differential to WTI***		
Super Unleaded	67.33	70.46	63.31	-7.15	-10.1	62.99	62.69	63.63	67.29	67.91	13.00	17.57	13.47
Regular Unleaded	60.49	61.70	57.59	-4.12	-6.7	58.01	56.68	57.41	61.34	61.35	6.16	8.81	7.75
Jet/Kerosene	66.73	66.52	62.26	-4.26	-6.4	62.29	60.03	62.62	68.55	71.36	12.40	13.63	12.42
No.2 Heating Oil	65.39	64.02	59.16	-4.86	-7.6	58.99	57.35	59.33	64.20	67.48	11.05	11.13	9.32
Fuel Oil 1.0%S (Cargo)	35.57	38.79	37.92	-0.88	-2.3	38.65	38.18	36.83	37.22	39.25	-18.76	-14.10	-11.92
Fuel Oil 3.0%S (Cargo)	31.51	35.12	35.69	0.57	1.6	36.43	34.45	35.33	35.72	36.50	-22.82	-17.77	-14.15
Singapore, Cargoes											***Differential to Dubai***		
Premium Unleaded 95	59.47	61.50	54.46	-7.03	-11.4	55.08	52.73	54.09	56.01	58.03	13.63	14.29	9.06
Naphtha	50.74	49.85	44.76	-5.08	-10.2	45.22	44.45	43.96	44.09	45.72	4.90	2.64	-0.64
Jet/Kerosene	66.33	71.40	63.39	-8.01	-11.2	63.37	61.37	61.82	63.94	68.48	20.49	24.20	17.99
Gasoil	62.58	63.91	58.89	-5.02	-7.9	59.06	56.59	59.07	61.64	65.62	16.74	16.71	13.49
LSWR (0.3%S)	41.34	43.47	40.06	-3.41	-7.8	40.21	38.76	39.79	42.09	44.60	-4.50	-3.73	-5.34
HSFO (3.5%S 180cst)	34.79	39.40	38.89	-0.50	-1.3	39.02	39.04	38.47	39.30	40.54	-11.05	-7.81	-6.50
HSFO 4%S	35.23	39.57	38.98	-0.59	-1.5	39.03	39.03	38.55	39.46	40.55	-10.61	-7.64	-6.42

* From January 2005 Premium Unleaded 50 ppm

US gasoline prices remain at an unusual discount to distillates at the onset of the summer driving season. High domestic stocks and an abundance of European blendstock material continue to keep a lid on prices despite two consecutive strong weekly US demand numbers of over 9.4 mb/d.

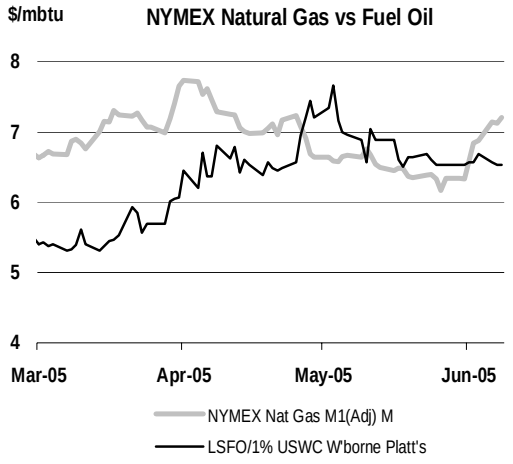
US diesel demand growth however has been consistently strong since the beginning of the year, reflecting growth in distribution of manufactured imports by truck around the US. Diesel's price premium to gasoline is being maintained by the fact that distillate stocks are close to the lower end of

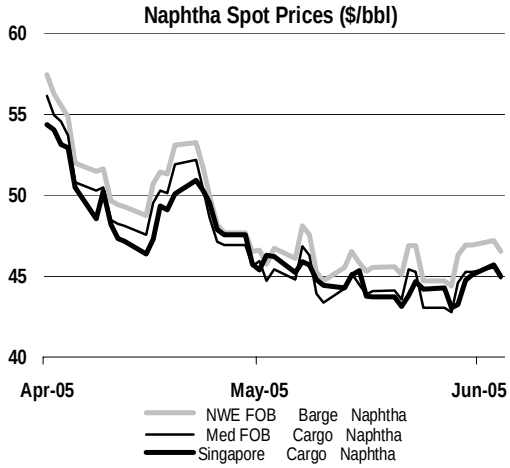
their seasonal range. Jet/kerosene prices remain at a strong premium to diesel, with strong airline and blending (for diesel) demand. Both high sulphur and low-sulphur fuel oil came under pressure in the US in May as utilities were seen to be well stocked and temperatures proved mild. Fuel oil prices also moved to a premium to natural gas on a BTU basis for the first time since September 2004. While there were anecdotal reports that this prompted a brief reversal of the recent substitution trend away from natural gas, weekly data still show strong year-on-year growth.

In Europe, the downturn in fuel oil prices was steeper as increasing volumes of Russian high sulphur material added incremental supplies at the same time as refineries moved out of maintenance. The arbitrage for high sulphur fuel oil to Asia reopened in early June to help clear a backlog of fuel oil in Europe that had accumulated during May. Mediterranean low-sulphur fuel oil prices, however, continue to derive support from lower hydro-electric power in some countries due to lower reservoir levels.

Regional gasoline supplies are also ample, requiring a discount to US prices to keep arbitrage opportunities open. US gasoline imports have averaged over 1 mb/d for the past two months, a 10% increase over 2004 levels, with European exports accounting for a large proportion of the total. European material has also been moving to West Africa and Iran.

The light end of the barrel has been further depressed by continued weakness in naphtha. A combination of feedstock substitution for natural gas, reports of weaker petrochemical demand, naphtha cracker maintenance and full consumer tanks has depressed values in Europe and other regions. Weakness in the petrochemical sector in Asia has also led to Middle Eastern exports creating competitive pressures in both markets.





Distillate tightness led differentials sharply higher at the end of May, following a relatively flat trend for most of the month. The rally in diesel prices appeared to be US-led, but there was also talk of strong regional jet/kerosene demand from airlines and for diesel blending. However, regardless of this, gasoil prices clearly outperformed jet/kerosene towards the end of May. Some upward price pressure in diesel and gasoil was also attributed to the ongoing effects of the Total refinery strike, which disrupted output between 16 and 26 May.

There were also reports of German heating tank refilling. German household heating oil tanks were only 44% full at the start of May, from 46% in April and 49% a year ago, when tanks were already regarded as being at low levels. A further fact was an apparent sharp slowdown in Russian gasoil exports from Baltic ports in May. This follows a very high level of exports in April and appeared to be related to disruptions due to high water levels in rivers leading to the ports. Delayed cargoes are expected to be carried over into June.

The winding down of refinery maintenance in Europe increased the availability of fuel oil in the region and contributed to a decline in fuel oil differentials to dated Brent from mid-month. Fuel oil exports from Russia tend to build up in independent storage in Europe, before heading to Asia. However, this month, as with gasoil, exports from the Baltic ports were reduced by barge shipment delays. Utility demand continues to support differentials for low over high sulphur material - particularly in the Mediterranean.

Asian light and middle distillates trended sharply lower in early May, and only recovered slightly at the end of the month. The continued lack of Chinese product import demand has depressed differentials to regional crudes. But there are signs that recently firm export levels are slowing. China's gasoline exports are expected to fall to 18 month lows in June of 280k tonnes in order to meet local demand. This would be a decrease from the 350k tonnes believed shipped in May and 600k tonnes in April. Further, regional prices have been pressured by the closing of the arbitrage to the US West Coast and weak Indonesian demand.

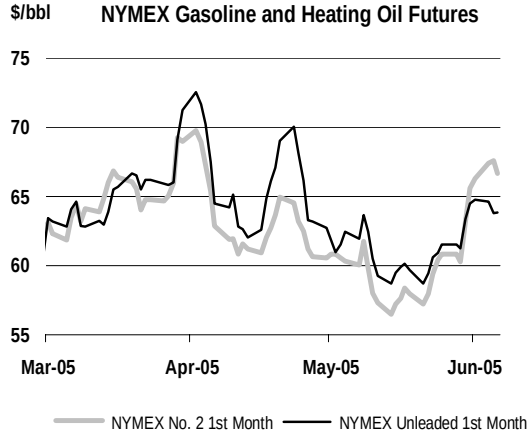
Naphtha is also weak, with Indian petrochemical manufacturers switching from naphtha to natural gas as a feedstock. Ethylene prices are reported to be weak which is a possible sign of poor petrochemical demand, but naphtha cracker maintenance is also underway.

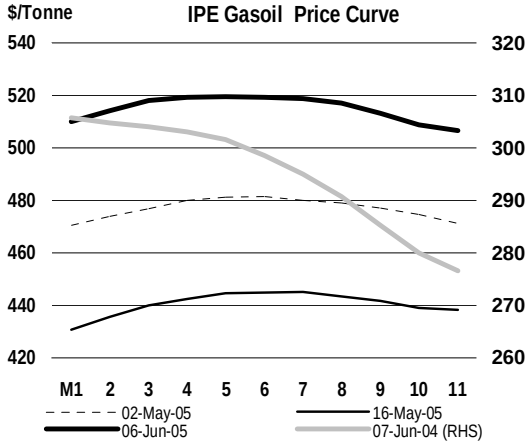
Kerosene demand for heating is seasonally weak at this time of year, and the recent rebuilding of Japanese stocks has contributed to a sharp decline in the regrade (jet-gasoil) from nearly $10 in early May to more normal levels of around $2.70 in early June. China is expected to refrain from diesel imports in June, and there were reports of one refiner reselling 90k tonnes of term gasoil imports in June. Domestic demand is also seasonally weaker due to the annual fishing ban. Indonesian demand is also weak, with Pertamina's diesel imports down 12% year-on-year in May to 4.4 mb. High-sulphur gasoil supplies are reported to be plentiful and India has indicated it will be able to stop its effective high-sulphur for low-sulphur diesel swap after June. Indian refineries are now believed to be capable of meeting internal sulphur regulations that took effect at the beginning of April.

Asian fuel oil prices remain at a strong premium to those in Europe and the US, with high regional maintenance in May and June keeping stocks of low-sulphur fuel oil at low levels. Japanese utility demand for low-sulphur waxy residue also picked up in mid-May, resulting in a sharp increase in differentials to Dubai. Around 1 million tonnes of high sulphur fuel oil is expected to arrive in Singapore from the West between the end of May and first half of June, with tanker schedules suggesting that a further 1 million tonnes will arrive later in June.

Product Futures

The shift of IPE gasoil into contango through to the winter months contrasts with the steep backwardation that was in place this time last year. To an extent, the current contango in gasoil is a function of the steep contango in crude futures: gasoil-Brent crack spreads are actually in backwardation. However, it should not be ignored that European gasoil stocks are at much higher levels than would have been expected after a seasonal maintenance period, which will also be weighing on the nearby contracts.





But it would be wrong to focus entirely on the forward spreads as a barometer of potential market tightness. IPE front month futures prices moved sharply higher in early June as physical demand picked up from several areas. It is quite common for futures prices to be bid up higher than the spot physical price. This happens when traders win a tender, which may span several months of demand. Prices are often hedged first on futures before the necessary physical product is acquired. Ultimately the hedges are unwound as the physical side of the transaction is completed, increasing spot market pressure and removing futures pressure.

The contango in WTI is also having a similar impact on the NYMEX gasoline forward curve, with a flat to small contango seen through to September, before dropping into a steeper backwardation

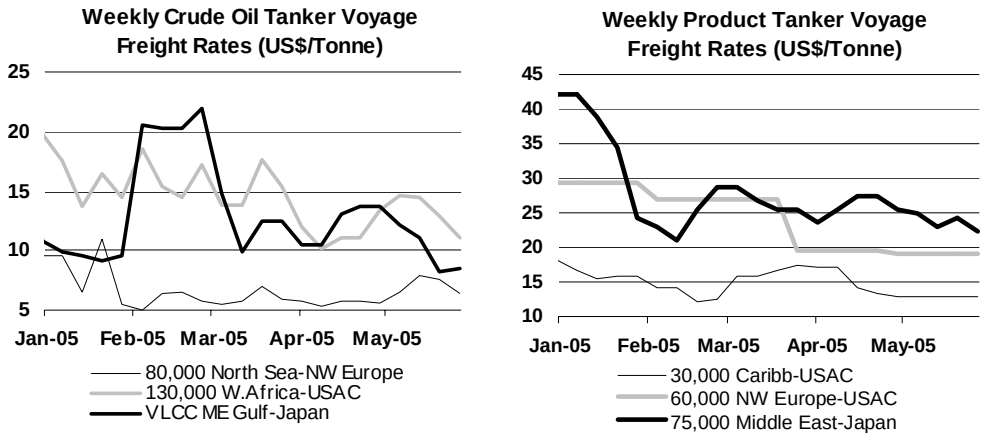
during the fourth quarter. Like IPE gasoil, the NYMEX gasoline market was also backwardated at this time last year and similarly has a much improved stock position.

End-User Product Prices in May

In US dollar terms, end-user petroleum product prices generally moved lower in May, reflecting trends in wholesale markets and reversing some of the gains seen in April. Japan was the only exception where prices continued to increase for all products covered by the survey. Japanese retail price responses are generally slower to respond to spot market developments than prices in Europe and the US. Prices for low-sulphur fuel oil for industry increased slightly in Germany, Spain and the UK on strong utility demand and low reservoir levels in the south of Europe. Gasoline prices in Germany and Spain and diesel prices in Germany saw modest increases in pump prices on a national currency basis, but this was entirely the result of currency effects following the weakening of the Euro.

Freight

Dirty freight rates from the Arabian Gulf to Asia continued to weaken in May, reaching their lowest levels since October 2003 by the end of the month. The decline was largely due to the start up of Asian refinery maintenance and an increase in the available tanker fleet. VLCC rates from the Arabian Gulf to the US eased further in the early part of May before stabilizing for the remainder of the month as the remaining outstanding June cargoes were cleared.

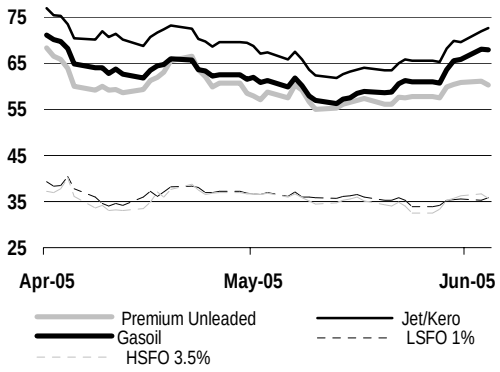


Global demand for light sweet crude continued to support dirty freight rates out of West Africa. Both VLCC and Suezmax freight rates to the US were strong in the first half of the month as buying interest seasonally picked up. With US refinery maintenance completed by end-May, demand for crude rose as utilization rates increased. With the onset of the summer driving season, US refiners were seeking greater volumes of Brent-related grades with high gasoline yields. This was reflected by the strengthening of WTI's premium to Brent and, on a monthly average, the spread widened from $1.07/bbl in April to a still narrow $1.28/bbl in May. However, spot transatlantic arbitrage became more attractive in the second half of the month as the increasing tonnage available dragged down freight rates.

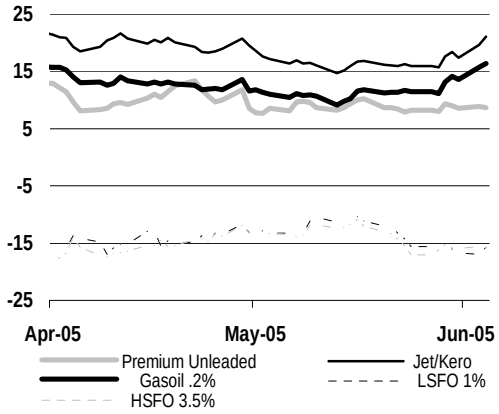
Dirty freight rates for mid-size tankers in the North Sea followed similar patterns. Refiners stepped up throughputs as they began to exit maintenance, increasing demand for light sweet crude from mid-month. Crude demand for lower sulphur North Sea grades was likely supported by the strength of low-sulphur diesel prices in Northwest Europe relative to other transport fuels and heating oil. However, by the end of the month rates slipped as interest for North Sea marker Brent, Forties and Oseberg slowed as regional refiners appeared to have covered their June requirements. In contrast, VLCC rates held relatively flat over the month.

Clean rates from the Middle East to Asia fell as heavy maintenance in the petrochemical sector reduced naphtha demand and interest slowed. This was similarly observed in short-haul routes in Asia with freight from Singapore to Japan recording even steeper declines. Clean rates remained relatively stable for cargoes going from the Caribbean and Europe to the US, despite increased activity related to gasoline shipments. Trade rose ahead of the Memorial Day weekend, the official start of the US driving season. Outgoing cargoes from Northwest Europe were reported heading to US, Mexico and the Caribbean, mainly to St. Lucia. The closure of the transatlantic gasoline arbitrage window slowed trade from the continental UK to the US Atlantic coast and rates slipped by end-month. Gasoline from Europe continued to be shipped to West Africa (Nigeria and Angola) and to Asia and the Middle East.

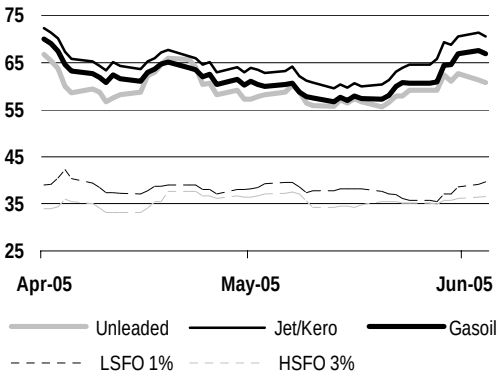
$/bbl **Rotterdam Spot Product Prices**



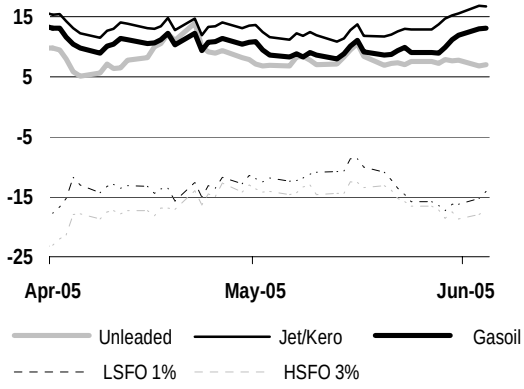
$/bbl **Rotterdam Spreads to Dated Brent**



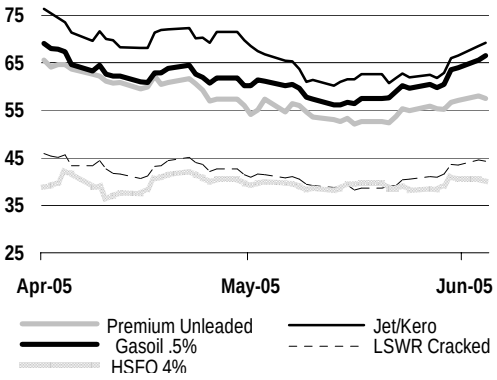
$/bbl **New York Harbour Spot Product Prices**



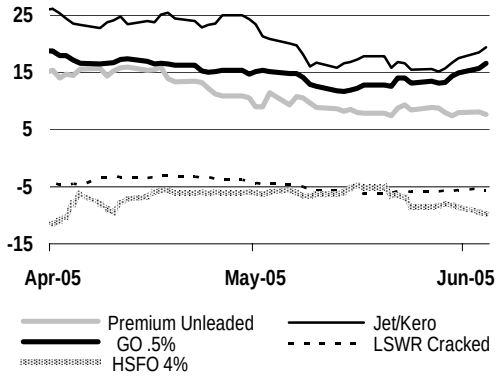
$/bbl **New York Harbour Spreads to WTI**



$/bbl **Singapore Spot Product Prices**



$/bbl **Singapore Spreads to Dubai**



REFINERY ACTIVITY

Summary

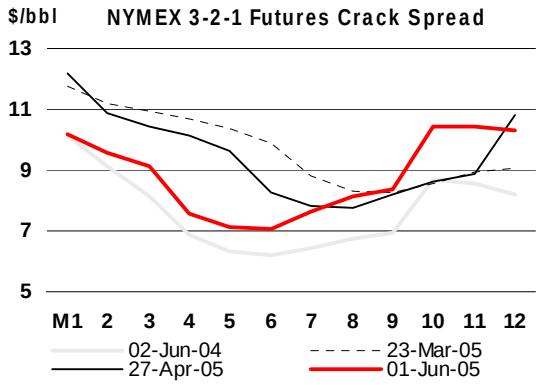
- **Refinery margins** on a full cost basis were globally weaker in May. The Atlantic Basin saw cracking and hydroskimming margins both decline while in Asia, the picture was mixed. Margins in Singapore improved for Tapis hydrocracking but remained negative. Those for Dubai, while positive in May, weakened against April both in Singapore and China. Refining margins for Daqing and Cabinda in China were in negative territory.

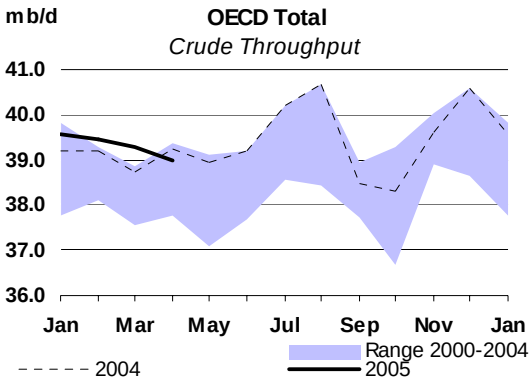
- **Cracking margins** in the Atlantic Basin deteriorated in May as light product prices lost ground relative to crude prices, mainly during the first half of the month. Brent cracking margins in Northwest Europe fell by $2.23 to 4.36 $/bbl while LLS on the US Gulf Coast came off $1.46 to 4.12 $/bbl. Lower gasoline prices were a primary factor. These were mostly weaker in May as gasoline stocks in the US improved ahead of the summer driving season. Though gasoline prices did recover at end-month, the gain was outpaced by a rebound in crude prices.

- **Coking margins** for heavy crude oil in the US saw a greater decline than those for cracking of light-sweet crudes such as LLS and Brent. However, the decline came off very high levels in April. Kern coking on the West Coast lost $6.39 in May while the margin for Maya on the Gulf Coast was off by $5.31. The coking margins were squeezed on both sides. In addition to weaker gasoline prices, cash prices for heavier crudes strengthened, reducing their discount in May against a rising WTI. However, coking margins continued to deliver significantly higher returns than cracking light-sweet crude.

- **NYMEX futures crack spreads** (the difference between product and WTI futures prices) saw the heating oil forward crack curve strengthen relative to unleaded gasoline. Concerns over distillate supplies in the fourth quarter and adequate gasoline stocks appeared to be the main factor behind heating oil's strength. This led the NYMEX prompt month crack for heating oil to unseasonably overtake that of gasoline in early June. The 3-2-1 forward crack curve retained its seasonal shape, but drifted lower, holding in the near delivery months around levels of a year ago.

- **OECD refinery throughputs** fell by 300 kb/d in May. Crude runs averaged 39 mb/d or 270 kb/d lower than last year. The main driver was a seasonal decline in Pacific as refiners reduced throughputs ahead of peak maintenance in May and June. European runs were 90 kb/d lower than in April but down about 250 kb/d against last year. This year's European maintenance schedules proved heavier than expected. Utilisation rates in the US rose slowly in April to 92% on average, but as turnarounds drew to an end in May, capacity utilisation reached 96%.





Refining Margins in May

Margins on a full cost basis weakened generally across refining centres in May with the exception of Tapis cracking in Singapore. In the Atlantic Basin, cracking margins on light-sweet crude, while remaining positive, fell due to weakness in gasoline and distillates prices relative to crude. Margins on cracking sour crudes were similarly down. European refiners cracking Russian Urals saw their margins fall in Northwest Europe and to a larger extent in the Mediterranean. Margins on Mars cracking on the US Gulf Coast were also down, but by a more modest amount. The more complex coking refining systems in the US, geared to maximise gasoline from heavy crude oil, posted the steepest declines but off peak levels in April and continued to provide the highest returns.

Cracking margins in Europe fell in May with Brent loosing $2.23 in Northwest Europe while in the Mediterranean, Urals lost as much as $3.22 and Es Sider fell by $3.60. Steeper declines in Russian Urals stemmed from tighter spreads of these crudes against Brent. Differentials against crude for gasoline came down along with those for distillates with jet/kerosene leading the fall in outright prices. Naphtha's spreads in Europe were also weak if not negative for most of May. Hydroskimming margins lost more ground in the Mediterranean than in the Northwest Europe as fuel oil differentials weakened with lower utility demand and return of refiners from maintenance. Margins actually turned negative for Brent in Northwest Europe and Urals in the Mediterranean

In Asia, Tapis margins in Singapore improved as its price weakened due to competing West African supplies. The premium of dated Tapis over Dubai fell as low as $3 /bbl in May from a high of $11 /bbl in April and Tapis paper quotes flipped into contango. Tapis margins were helped by the crude's high cut of gasoil, which saw a smaller price decline relative to gasoline and naphtha. Cracking margins for Dubai fell from $6.25 to $3.50 /bbl, in spite of fuel oil prices holding relatively steady. Aside from lower product prices, Dubai remained strong, narrowing its discount to Brent, and finding support from lower supplies of Umm Shaif and Lower Zakum from Abu Dhabi in May.

Key Refining Margins in Major Refining Centres

($/bbl)

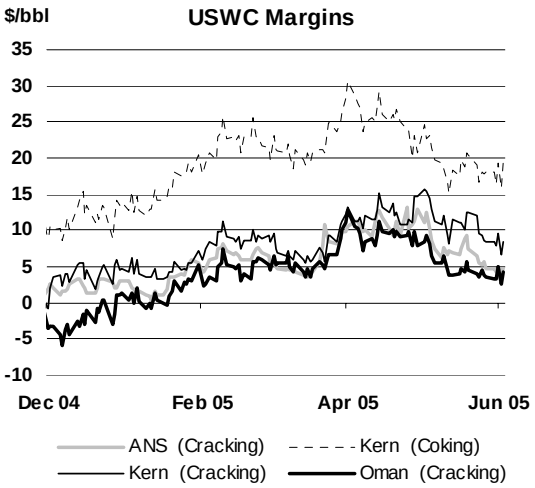
	Monthly Average			Change	Week Ending:				
	Mar 05	Apr 05	May 05	May 05-Apr 05	06 May	13 May	20 May	27 May	03 Jun
NW Europe									
Brent (Cracking)	3.17	6.59	4.36	-2.23	4.22	4.28	5.42	4.00	4.77
Brent (Hydroskimming)	-1.32	1.58	-0.11	-1.70	-0.61	0.24	1.15	-0.73	-0.34
Mediterranean									
Urals (Cracking)	6.74	8.98	5.76	-3.22	5.84	5.29	7.56	4.18	5.08
Urals (Hydroskimming)	-0.71	1.66	-0.35	-2.02	-0.50	-0.28	1.68	-2.42	-1.74
US Gulf Coast									
Brent (Cracking)	-0.67	2.90	1.68	-1.21	0.67	2.65	1.32	1.78	3.39
LLS (Cracking)	2.49	5.58	4.12	-1.46	3.28	4.19	3.63	3.59	4.77
Maya (Coking)	15.54	15.73	10.42	-5.31	9.12	10.38	9.62	10.71	12.38
US West Coast									
ANS (Cracking)	6.14	10.96	7.33	-3.62	7.45	6.84	7.53	4.82	4.88
Oman (Cracking)	5.90	9.45	5.08	-4.37	5.48	3.77	4.59	3.62	4.34
Kern (Coking)	21.93	25.49	19.10	-6.39	19.67	18.40	20.54	17.99	19.54
Singapore									
Tapis (Hydroskimming)	-4.70	-3.43	-1.66	1.78	-2.32	-1.63	-0.66	-0.31	-1.25
Dubai (Hydrocracking)	5.14	6.25	3.50	-2.75	4.88	3.00	3.23	2.18	2.64
Tapis (Hydrocracking)	-1.98	-0.79	0.54	1.33	0.07	0.59	1.50	1.81	0.88
China*									
Cabinda (Hydroskimming)	-3.03	0.19	-2.05	-2.24	-2.12	-1.60	-1.35	-2.83	-5.68
Daqing (Hydrocracking)	-3.66	-2.52	-1.87	0.65	-1.12	-2.59	-1.76	-0.90	-6.04

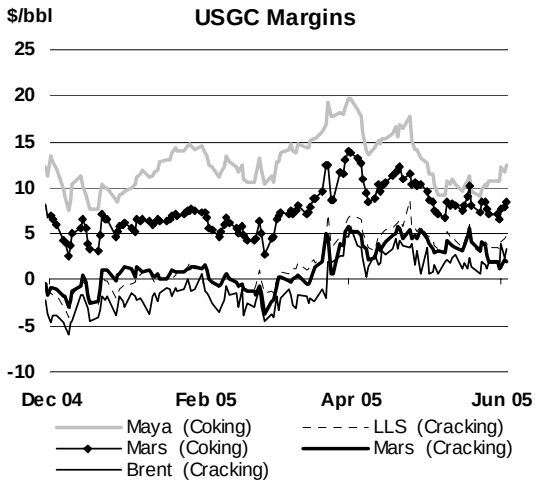
For the purposes of this Report, refining margins are calculated for various complexity configurations, each optimised for processing the specific crude in a specific refining centre on a 'full cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability for a given refining centre. No attempt is made to model or otherwise comment upon the relative economics of specific refineries running individual crude slates and producing custom product sales, nor are these calculations intended to infer the marginal values of crudes for pricing purposes.

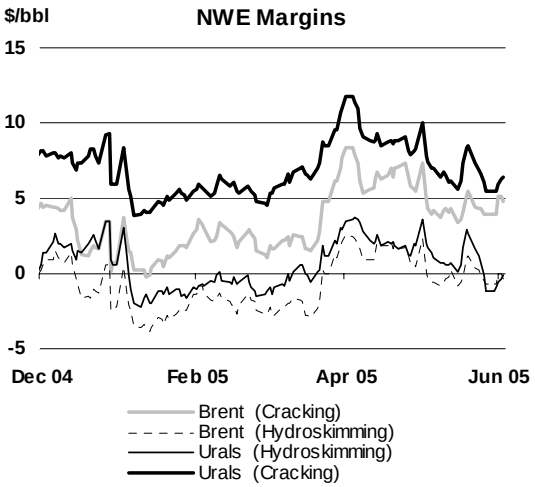
* The China refinery margin calculation represents a model based on spot product import/export parity, and does not reflect internal pricing regulations. A full list of refining margins and gross product worth can be found in table 15 on www.oilmarketreport.org.

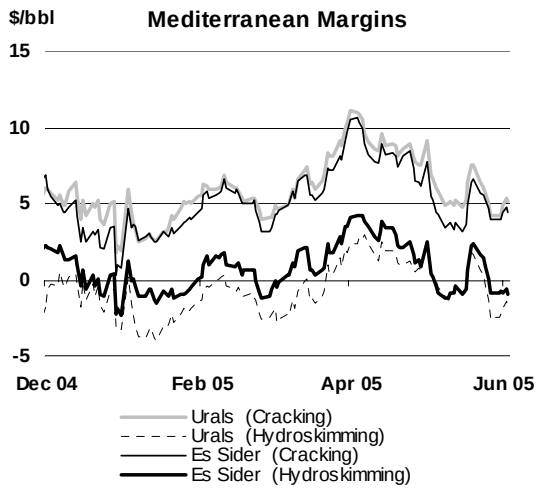
Sources: IEA, Purvin & Gertz Inc.

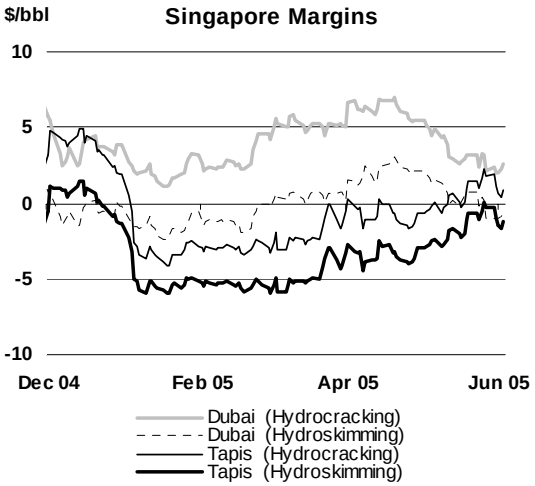
Regional Full Cost Refining Margins

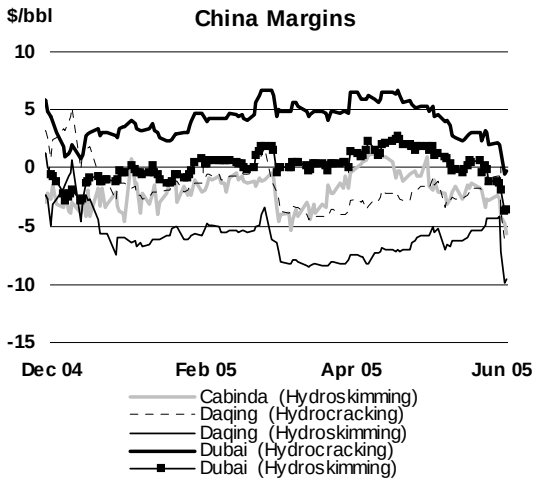




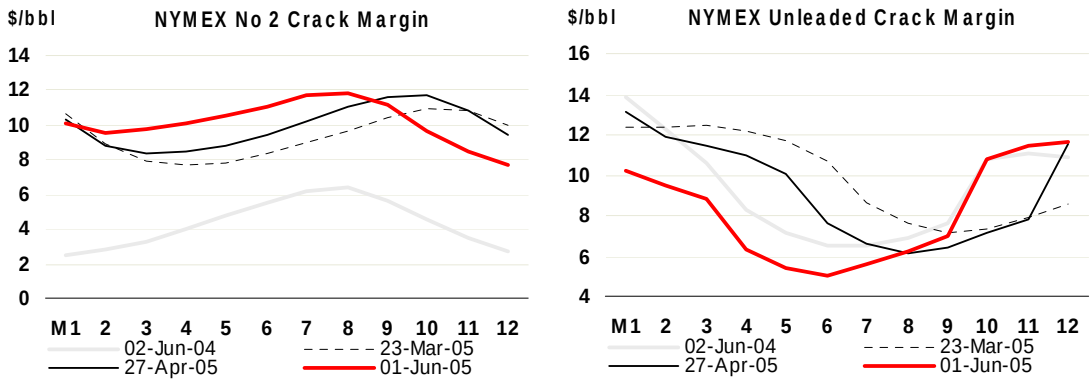








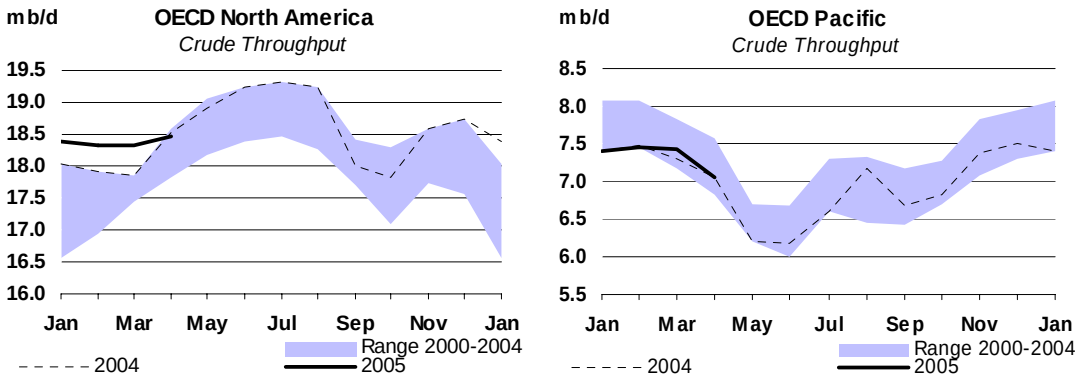
Weaker gasoline prices were behind declines across US margins in May. Gasoline differentials to crude fell as stocks rose above seasonal levels. Gasoline demand growth was contained at about 2% in May despite a usual boost in deliveries ahead of the Memorial Day start to the summer driving season. Cracking of Brent and LLS saw declines of $1.21 and $1.46 respectively. Combined with wider discounts of fuel oil from mid-month, gross product worth for cracking crude on the Gulf Coast fell by up to $4.30 and $4.63 for coking. Increases in crude costs also helped to pull down margins. Light-sweet LLS prices rose as a narrow WTI/Brent spread limited incremental arbitrage supplies of comparable North Sea and West African crudes. Heavier and sour grades also strengthened on stronger domestic demand, their discounts narrowing against an increasing WTI price. Looking at futures crack spreads, heating oil saw its premium improve along the forward curve. However, lower cracks for gasoline in the near-months of the curve along with a structurally greater share of gasoline in refinery output does not support a material strengthening in US margins.



Refinery Throughput

OECD refinery throughputs held near the top of their five-year range in April, but were down from March levels. OECD crude runs fell to 39 mb/d in April from 39.3 mb/d in March. The decline came with the seasonal shift in global refinery maintenance schedules from the Atlantic Basin in the first quarter to Asia in the second. The main reduction in crude runs came in Japan and Korea where refiners started cutting back on throughputs ahead of peak maintenance in May and June. Runs in the US-50 began to pick up in April, as some maintenance drew towards and end. Throughputs increased just under 200 kb/d, averaging 15.33 mb/d. Unplanned outages limited the rise however, leaving runs below their level in April last year. The lower level of runs against last year also came with extensive work aimed to lower sulphur in products ahead of a further tightening of specifications in 2006.

European runs fell further in March, down 90 kb/d from April at 13.43 mb/d. Scheduled refinery maintenance continued, however, offline capacity was lower than in March. Nevertheless, European crude runs on a yearly basis remained low, down almost 250 kb/d from those seen in April last year. European maintenance schedules proved heavier than expected this year, with more work, as in the US, targeted at reducing sulphur in products and increasing the ability to absorb more sour crudes. Estimates for capacity offline in May were showing levels similar to those in April. As such, throughputs in May are expected at about, if not slightly higher, than those in April. Thereafter, June runs are expected to pick up significantly.



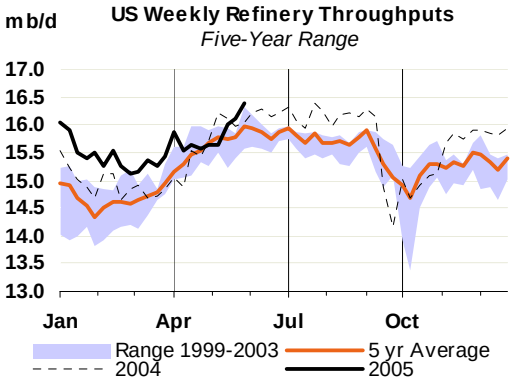
Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from Apr 04*		Utilisation rate[2]	
	Nov 04	Dec 04	Jan 05	Feb 05	Mar 05	Apr 05	mb/d	%	Apr 05	Apr 04
OECD North America										
US[3]	15.67	15.75	15.20	15.11	15.14	15.33	-0.21	-1.4	89.9	92.2
Canada	1.75	1.70	1.90	1.94	1.86	1.82	0.10	5.9	90.2	86.4
Mexico	1.16	1.29	1.28	1.27	1.32	1.33	0.07	5.6	78.7	72.0
Total	18.58	18.74	18.38	18.33	18.32	18.48	-0.04	-0.2	89.1	90.2
OECD Europe										
France	1.71	1.84	1.81	1.72	1.84	1.79	-0.08	-4.2	91.8	95.8
Germany	2.24	2.33	2.36	2.33	2.35	2.21	-0.03	-1.3	90.3	91.5
Italy	1.74	1.96	1.83	1.74	1.71	1.91	0.14	7.8	82.5	76.7
Netherlands	0.93	1.06	1.09	1.05	0.98	1.12	0.00	0.3	91.1	91.2
Spain	1.22	1.28	1.17	1.09	1.09	1.19	0.03	2.7	93.9	91.4
UK	1.76	1.77	1.65	1.60	1.64	1.51	-0.22	-12.6	82.9	95.3
Other OECD Europe	4.07	4.07	3.88	4.12	3.91	3.69	-0.09	-2.5	79.4	80.9
Total	13.68	14.32	13.79	13.65	13.52	13.43	-0.25	-1.8	85.6	87.1
OECD Pacific										
Japan	4.16	4.25	4.20	4.36	4.24	4.08	0.07	1.7	86.7	85.3
Korea	2.46	2.48	2.44	2.43	2.46	2.24	-0.05	-2.3	86.9	90.1
Other OECD Pacific	0.75	0.78	0.75	0.67	0.72	0.74	0.00	0.1	85.9	85.8
Total	7.38	7.51	7.40	7.46	7.42	7.05	0.01	0.2	86.6	86.8
OECD Total	**39.63**	**40.57**	**39.57**	**39.44**	**39.26**	**38.96**	**-0.27**	**-0.7**	**87.4**	**88.5**

1 Estimate
2 Based on crude throughput and current operable refining capacity
3 US50

Weekly US and Japanese data for May showed runs following the usual seasonal transition. US refinery throughputs rose, accelerating in the second half of May as maintenance drew to an end. Utilisation rate reached 96% in the latest weekly data with throughputs ending at 16 mb/d, or at the upper end of their five-year range. Alongside an increase in US refinery capacity in 2005 to 17 mb/d, product yields have seen a shift against those observed in 2004. Yield on transportation fuels (gasoline, diesel and jet) as implied by weekly data suggested a growing share of refinery output, while at the same time, the portion of fuel oil has been reduced.

In Japan, the decline in crude extended seasonally into May with deeper maintenance. Weekly data from Japan suggest a decline in runs of about 500 kb/d against end-April levels with inputs to refineries averaging about 3.4 mb/d. Utilisation rates against installed capacity by the end of month were down to 71% while capacity still online was estimated operating at close to 94%. Runs ended slightly above year-ago levels and are expected to move higher in June.



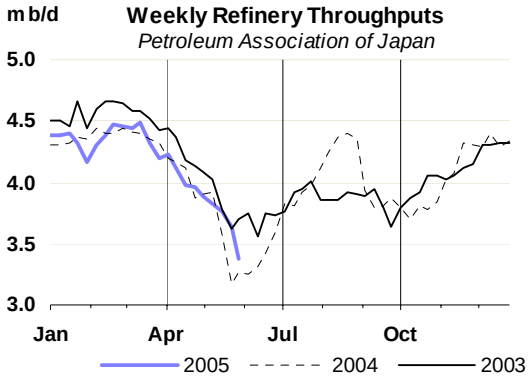


Table 1
WORLD OIL SUPPLY AND DEMAND
(million barrels per day)

	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
OECD DEMAND																	
North America	24.0	24.1	24.5	24.2	24.8	24.9	24.6	25.0	24.9	25.2	25.6	25.2	25.5	25.2	25.7	25.9	25.6
Europe	15.3	15.3	15.6	15.3	15.6	15.8	15.6	15.8	15.3	15.7	16.2	15.7	15.6	15.2	15.8	16.2	15.7
Pacific	8.7	8.6	9.8	8.2	8.0	9.2	8.8	9.4	8.0	8.3	8.9	8.6	9.6	8.2	8.2	9.0	8.8
Total OECD	48.0	48.0	49.8	47.6	48.4	49.8	48.9	50.2	48.2	49.2	50.7	49.6	50.7	48.7	49.7	51.2	50.0
NON-OECD DEMAND																	
FSU	3.7	3.5	3.8	3.2	3.5	3.9	3.6	3.5	3.7	3.8	4.0	3.7	3.7	3.7	3.8	4.0	3.8
Europe	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7
China	4.7	5.0	5.3	5.3	5.8	5.9	5.6	6.3	6.5	6.3	6.6	6.4	6.5	6.7	7.1	7.2	6.9
Other Asia	7.7	7.9	7.9	7.8	8.0	8.5	8.1	8.4	8.5	8.3	8.8	8.5	8.7	8.7	8.6	9.1	8.8
Latin America	4.9	4.8	4.5	4.7	4.8	4.9	4.7	4.7	4.9	5.0	5.0	4.9	4.8	5.0	5.1	5.1	5.0
Middle East	5.2	5.4	5.5	5.3	5.7	5.7	5.5	5.8	5.7	6.0	5.9	5.9	6.1	6.0	6.3	6.2	6.2
Africa	2.6	2.7	2.7	2.7	2.6	2.7	2.7	2.8	2.8	2.7	2.8	2.8	2.9	2.9	2.8	2.9	2.9
Total Non-OECD	29.4	30.0	30.6	29.7	31.0	32.2	30.9	32.2	32.9	32.8	33.8	32.9	33.5	33.8	34.3	35.3	34.2
Total Demand[1]	77.4	78.0	80.4	77.3	79.4	82.1	79.8	82.4	81.1	81.9	84.5	82.5	84.2	82.5	84.0	86.4	84.3
OECD SUPPLY																	
North America	14.4	14.5	14.6	14.5	14.6	14.7	14.6	14.8	14.7	14.4	14.4	14.6	14.4	14.5	14.6	14.8	14.6
Europe	6.7	6.6	6.7	6.2	6.0	6.4	6.3	6.4	6.2	5.7	6.0	6.1	5.9	5.8	5.7	6.0	5.9
Pacific	0.8	0.8	0.7	0.7	0.7	0.6	0.7	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Total OECD	21.8	21.9	22.1	21.3	21.3	21.8	21.6	21.8	21.5	20.7	21.0	21.3	20.9	21.0	21.0	21.4	21.0
NON-OECD SUPPLY																	
FSU	8.6	9.4	9.9	10.1	10.5	10.7	10.3	10.9	11.1	11.4	11.5	11.2	11.4	11.5	11.8	12.0	11.7
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
China	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.6
Other Asia	2.4	2.5	2.6	2.6	2.6	2.7	2.6	2.7	2.7	2.8	2.8	2.8	2.7	2.7	2.8	2.8	2.8
Latin America	3.8	3.9	4.0	3.9	4.1	4.1	4.0	4.0	4.1	4.1	4.1	4.1	4.2	4.3	4.3	4.4	4.3
Middle East	2.1	2.1	2.0	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.8	1.9	1.8	1.8	1.8	1.8	1.8
Africa	2.8	3.0	2.9	3.0	3.1	3.3	3.1	3.3	3.4	3.5	3.6	3.4	3.6	3.7	3.8	3.9	3.8
Total Non-OECD	23.3	24.5	25.1	25.3	25.7	26.4	25.6	26.5	26.8	27.3	27.5	27.0	27.5	27.8	28.3	28.6	28.1
Processing Gains[2]	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.9	1.8	1.8	1.9	1.8	1.9	1.9	1.8	1.9	1.9
Total Non-OPEC	46.8	48.1	49.0	48.4	48.8	50.0	49.1	50.1	50.1	49.8	50.3	50.1	50.3	50.6	51.1	51.9	51.0
OPEC																	
Crude[3]	27.0	25.1	26.7	26.1	26.6	27.6	26.8	27.9	28.1	29.1	29.5	28.7	28.8				
NGLs	3.4	3.7	3.5	3.9	4.0	4.1	3.9	4.3	4.3	4.3	4.4	4.3	4.7	4.7	4.8	4.9	4.8
Total OPEC	30.4	28.8	30.2	30.0	30.6	31.8	30.7	32.2	32.3	33.4	33.9	33.0	33.5				
Total Supply[4]	77.2	77.0	79.2	78.4	79.4	81.7	79.7	82.3	82.5	83.3	84.2	83.1	83.8				
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	0.3	-0.4	-0.6	1.3	0.5	-0.8	0.1	-0.6	0.9	0.5	-0.3	0.1	0.0				
Government	0.0	0.2	0.2	0.0	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1				
Total	0.3	-0.3	-0.5	1.4	0.7	-0.5	0.3	-0.5	0.9	0.5	-0.2	0.2	0.1				
Floating Storage/Oil in Transit	-0.1	0.0	0.3	0.1	0.0	0.3	0.2	-0.2	-0.1	0.3	0.2	0.0	-0.4				
Miscellaneous to balance[5]	-0.4	-0.8	-1.1	-0.4	-0.7	-0.1	-0.6	0.6	0.6	0.5	-0.4	0.3	-0.1				
Total Stock Ch. & Misc	-0.2	-1.1	-1.2	1.1	0.1	-0.3	-0.1	-0.1	1.4	1.3	-0.3	0.6	-0.4				
Memo items:																	
Call on OPEC crude + Stock ch.[6]	27.2	26.2	27.9	25.0	26.5	28.0	26.9	28.0	26.7	27.8	29.8	28.1	29.2	27.2	28.1	29.6	28.5
Total Demand ex. FSU	73.7	74.6	76.6	74.1	75.9	78.2	76.2	78.9	77.4	78.2	80.5	78.8	80.5	78.8	80.2	82.5	80.5
Total demand exc. FSU (% ch)[7]	1.0	1.1	2.9	1.4	2.1	2.5	2.2	3.1	4.4	2.9	3.0	3.3	2.0	1.8	2.7	2.4	2.2

1 Measured as deliveries from refineries and primary stocks, comprises inland deliveries, international marine bunkers, refinery fuel, crude for direct burning, oil from non-conventional sources and other sources of supply
2 Net volumetric gains and losses in the refining process (excludes net gain/loss in former USSR, China and non-OECD Europe) and marine transportation losses
3 Upgraded Venezuelan Orinoco extra-heavy production is classified as non-conventional crude.
4 Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply
5 Includes changes in non-reported stocks in OECD and non-OECD areas
6 Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs
7 Year on year % growth in global oil demand excluding FSU

Table 1A
WORLD OIL SUPPLY AND DEMAND: CHANGES FROM LAST MONTH'S TABLE 1

(million barrels per day)

	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
OECD DEMAND																	
North America	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-
Europe	-	-	0.1	-	0.1	-	-	-	-	-	-	-	-	-0.1	-	0.1	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1	-	0.1
Total OECD	-	-	0.1	-	0.1	-	-	-	-	-	-	-	-	0.1	0.1	0.2	0.1
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	0.1	0.1	0.1	-	-	0.1	-	-	0.1	0.1	0.1	-	-0.2	0.1	0.1	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-0.1	-0.1	-0.1	-	-	-0.1	-0.1	-0.1	-	-0.1	-0.1	-0.1	-0.1	-	-0.1
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	0.1	-	0.1	-	-	-	-	-	-	-	-	-0.1	-0.3	0.1	0.1	-0.1
Total Demand	-	0.1	0.1	0.1	0.1	-	0.1	-	-	-	-	-	-0.1	-0.2	0.2	0.2	-
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-0.1	-0.1	-
OPEC																	
Crude	-	-	-	-	-	-	-	-	-	-	-	-	-				
NGLs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OPEC	-	-	-	-	-	-	-	-	-	-	-	-	-				
Total Supply	-	-	-	-	-	-	-	-	-	0.1	-	-	-				
STOCK CHANGES AND MISCELLANEOUS																	
REPORTED OECD																	
Industry	-	-	-	-	-	-	-	-	-	-	-	-	-0.3				
Government	-	-	-	-	-	-	-	-	-	-	-	-	-				
Total	-	-	-	-	-	-	-	-	-	-	-	-	-0.3				
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-	-	0.1	0.1	-	-0.3				
Miscellaneous to balance	-	-	-0.1	-0.1	-0.1	-	-0.1	-	-	-	-0.1	-	0.6				
Total Stock Ch. & Misc	-	-	-0.1	-0.1	-0.1	-	-0.1	-	-	-	-	-	0.1				
Memo items:																	
Call on OPEC crude + Stock ch.	-	-	0.1	0.1	0.1	-	0.1	-	-	-	-	-	-0.1	-0.2	0.2	0.3	0.1
Total Demand ex. FSU	-	-	0.1	0.1	0.1	-	0.1	-	-	-	-	-	-0.1	-0.2	0.2	0.2	-

When submitting their monthly oil statistics, OECD Member countries periodically update data for prior periods. Similar updates to non-OECD data can occur.

Table 2

Summary of Global Oil Demand

	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005
Demand (mb/d)																
North America	24.11	24.52	24.15	24.76	24.88	24.58	25.05	24.85	25.23	25.65	25.19	25.48	25.24	25.68	25.94	25.58
Europe	15.27	15.57	15.27	15.58	15.78	15.55	15.77	15.33	15.68	16.17	15.74	15.61	15.24	15.77	16.21	15.71
Pacific	8.63	9.75	8.17	8.03	9.16	8.77	9.38	8.00	8.25	8.87	8.63	9.59	8.19	8.24	9.02	8.76
Total OECD	48.02	49.84	47.60	48.37	49.82	48.91	50.20	48.18	49.16	50.69	49.56	50.67	48.66	49.69	51.17	50.05
FSU	3.48	3.83	3.21	3.47	3.87	3.59	3.51	3.71	3.78	3.97	3.74	3.72	3.66	3.80	3.96	3.79
Europe	0.68	0.76	0.70	0.65	0.71	0.70	0.77	0.71	0.67	0.73	0.72	0.79	0.73	0.69	0.75	0.74
China	5.02	5.32	5.29	5.79	5.90	5.58	6.28	6.53	6.32	6.60	6.43	6.55	6.72	7.07	7.21	6.89
Other Asia	7.92	7.93	7.83	7.99	8.45	8.05	8.42	8.53	8.32	8.76	8.51	8.73	8.73	8.59	9.06	8.78
Latin America	4.83	4.49	4.68	4.84	4.88	4.73	4.69	4.90	5.02	5.01	4.90	4.78	5.03	5.14	5.14	5.02
Middle East	5.41	5.51	5.29	5.66	5.69	5.54	5.79	5.74	5.96	5.94	5.86	6.08	6.04	6.25	6.23	6.15
Africa	2.68	2.73	2.73	2.62	2.75	2.71	2.77	2.81	2.70	2.82	2.78	2.88	2.91	2.79	2.90	2.87
Total Non-OECD	30.02	30.57	29.73	31.02	32.24	30.90	32.24	32.93	32.77	33.83	32.94	33.52	33.81	34.34	35.25	34.24
World	78.03	80.41	77.33	79.40	82.06	79.80	82.44	81.11	81.93	84.52	82.50	84.19	82.47	84.03	86.42	84.28
of which:																
US	*19.76*	*20.02*	*19.65*	*20.21*	*20.25*	*20.03*	*20.36*	*20.25*	*20.58*	*20.87*	*20.52*	*20.63*	*20.53*	*20.95*	*21.09*	*20.80*
Euro4	*8.30*	*8.40*	*8.30*	*8.40*	*8.43*	*8.38*	*8.48*	*8.20*	*8.41*	*8.59*	*8.42*	*8.26*	*8.04*	*8.39*	*8.54*	*8.31*
Japan	*5.46*	*6.37*	*5.17*	*5.04*	*5.76*	*5.58*	*6.06*	*4.95*	*5.20*	*5.53*	*5.44*	*6.13*	*5.03*	*5.14*	*5.57*	*5.47*
Korea	*2.15*	*2.38*	*2.00*	*1.95*	*2.34*	*2.17*	*2.29*	*2.01*	*1.99*	*2.27*	*2.14*	*2.39*	*2.10*	*2.02*	*2.35*	*2.21*
Mexico	*1.94*	*1.98*	*2.03*	*2.02*	*2.03*	*2.02*	*2.02*	*2.02*	*2.02*	*2.07*	*2.04*	*2.08*	*2.11*	*2.07*	*2.09*	*2.09*
Canada	*2.08*	*2.17*	*2.16*	*2.20*	*2.26*	*2.20*	*2.29*	*2.25*	*2.30*	*2.35*	*2.30*	*2.39*	*2.26*	*2.32*	*2.39*	*2.34*
Brazil	*2.13*	*1.96*	*2.01*	*2.09*	*2.12*	*2.04*	*2.06*	*2.12*	*2.21*	*2.17*	*2.14*	*2.07*	*2.16*	*2.24*	*2.23*	*2.17*
India	*2.32*	*2.38*	*2.31*	*2.26*	*2.45*	*2.35*	*2.54*	*2.51*	*2.33*	*2.48*	*2.46*	*2.64*	*2.52*	*2.41*	*2.60*	*2.54*
Annual Change (% per annum)																
North America	0.4	2.6	0.7	2.1	2.4	2.0	2.1	2.9	1.9	3.1	2.5	1.7	1.5	1.8	1.1	1.5
Europe	-0.4	1.3	2.8	1.2	1.9	1.8	1.3	0.4	0.6	2.5	1.2	-1.0	-0.6	0.6	0.2	-0.2
Pacific	-0.4	6.3	5.1	-1.9	-2.7	1.6	-3.8	-2.2	2.8	-3.1	-1.7	2.2	2.4	-0.1	1.7	1.5
Total OECD	0.0	2.9	2.1	1.1	1.3	1.9	0.7	1.2	1.6	1.7	1.3	0.9	1.0	1.1	0.9	1.0
FSU	-5.1	9.2	2.4	2.0	0.1	3.4	-8.4	15.8	9.0	2.6	4.2	6.0	-1.3	0.6	-0.3	1.1
Europe	0.0	3.4	3.1	3.2	3.2	3.2	1.8	1.9	2.4	2.8	2.2	2.5	2.6	2.9	3.1	2.8
China	7.5	12.9	4.0	15.5	11.8	11.0	18.0	23.4	9.2	12.0	15.4	4.3	2.9	12.0	9.2	7.1
Other Asia	3.4	1.9	-1.5	1.9	4.3	1.7	6.3	8.9	4.2	3.6	5.7	3.6	2.4	3.2	3.5	3.2
Latin America	-0.7	-4.5	-3.0	-1.5	0.0	-2.2	4.4	4.6	3.6	2.5	3.8	1.9	2.6	2.4	2.6	2.4
Middle East	3.0	3.0	0.1	2.9	3.7	2.5	5.1	8.5	5.3	4.5	5.8	5.0	5.1	4.9	4.9	5.0
Africa	2.6	1.6	1.1	0.3	1.4	1.1	1.5	2.9	3.0	2.8	2.5	3.7	3.6	3.2	2.9	3.4
Total Non-OECD	2.1	3.7	0.3	3.7	4.0	2.9	5.5	10.8	5.6	4.9	6.6	4.0	2.7	4.8	4.2	3.9
World	0.8	3.2	1.4	2.1	2.3	2.3	2.5	4.9	3.2	3.0	3.4	2.1	1.7	2.6	2.3	2.2
Annual Change (mb/d)																
North America	0.10	0.63	0.18	0.50	0.59	0.47	0.52	0.70	0.47	0.76	0.61	0.43	0.38	0.45	0.29	0.39
Europe	-0.06	0.20	0.42	0.19	0.30	0.28	0.20	0.06	0.10	0.39	0.19	-0.16	-0.09	0.09	0.04	-0.03
Pacific	-0.04	0.58	0.40	-0.15	-0.25	0.14	-0.37	-0.18	0.23	-0.29	-0.15	0.21	0.19	-0.01	0.15	0.13
Total OECD	0.01	1.40	0.99	0.54	0.64	0.89	0.35	0.58	0.79	0.87	0.65	0.47	0.48	0.53	0.48	0.49
FSU	-0.19	0.32	0.08	0.07	0.01	0.12	-0.32	0.51	0.31	0.10	0.15	0.21	-0.05	0.02	-0.01	0.04
Europe	0.00	0.02	0.02	0.02	0.02	0.02	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
China	0.35	0.61	0.20	0.78	0.62	0.55	0.96	1.24	0.53	0.71	0.86	0.27	0.19	0.76	0.61	0.46
Other Asia	0.26	0.15	-0.12	0.15	0.35	0.13	0.50	0.70	0.33	0.30	0.46	0.31	0.20	0.27	0.31	0.27
Latin America	-0.04	-0.21	-0.15	-0.08	0.00	-0.11	0.20	0.22	0.17	0.12	0.18	0.09	0.13	0.12	0.13	0.12
Middle East	0.16	0.16	0.01	0.16	0.21	0.13	0.28	0.45	0.30	0.25	0.32	0.29	0.29	0.29	0.29	0.29
Africa	0.07	0.04	0.03	0.01	0.04	0.03	0.04	0.08	0.08	0.08	0.07	0.10	0.10	0.09	0.08	0.09
Total Non-OECD	0.62	1.09	0.08	1.11	1.24	0.88	1.67	3.20	1.75	1.59	2.05	1.28	0.88	1.57	1.42	1.29
World	0.63	2.50	1.07	1.65	1.88	1.77	2.02	3.78	2.54	2.46	2.70	1.76	1.36	2.09	1.90	1.78
Changes from Last Month's Report																
North America	-	-	-	-	-	-	-	-	-	-	-	-0.01	0.09	0.02	0.03	0.03
Europe	-0.04	0.07	0.03	0.08	0.01	0.05	-	-	-	-	-	-	-0.14	-	0.10	-0.01
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	0.15	0.07	0.03	0.06
Total OECD	-0.04	0.07	0.03	0.08	0.01	0.05	-	-	-	-	-	-0.01	0.10	0.09	0.16	0.09
FSU	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.03	0.03	-	-0.01	-	-	-
Europe	-0.01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	0.05	0.09	0.09	0.03	0.02	0.06	0.04	0.05	0.07	0.06	0.05	0.03	-0.16	0.14	0.14	0.04
Other Asia	-	-0.01	0.01	-0.01	-0.02	-0.01	-0.01	0.01	-0.01	-0.02	-0.01	-0.03	-0.06	-0.02	-0.03	-0.03
Latin America	0.01	-	0.01	0.01	-	-	-	0.01	0.01	-	-	-	0.01	0.01	-	-
Middle East	0.02	-0.05	-0.05	-0.05	-0.04	-0.05	-0.05	-0.10	-0.06	-0.04	-0.06	-0.06	-0.10	-0.06	-0.04	-0.07
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	0.10	0.04	0.07	0.00	-0.02	0.02	0.01	-	0.04	0.03	0.02	-0.06	-0.32	0.08	0.06	-0.06
World	0.06	0.11	0.11	0.08	-0.01	0.07	0.01	-	0.04	0.03	0.02	-0.07	-0.22	0.17	0.23	0.03

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2003	2004	2005	4Q04	1Q05	2Q05	3Q05	4Q05	Mar 05	Apr 05	May 05
OPEC											
Crude Oil											
Saudi Arabia	8.48	8.75		9.23	8.92				9.06	9.16	9.26
Iran	3.78	3.93		3.96	3.87				3.76	3.88	3.90
Iraq	1.32	1.99		1.98	1.79				1.80	1.83	1.75
UAE	2.29	2.35		2.45	2.38				2.46	2.42	2.33
Kuwait	1.87	2.05		2.14	2.10				2.11	2.16	2.18
Neutral Zone	0.60	0.60		0.60	0.60				0.59	0.58	0.58
Qatar	0.72	0.78		0.80	0.78				0.78	0.78	0.78
Nigeria	2.15	2.32		2.32	2.36				2.40	2.42	2.42
Libya	1.42	1.55		1.61	1.61				1.62	1.64	1.65
Algeria	1.11	1.21		1.28	1.33				1.35	1.35	1.35
Venezuela	2.01	2.17		2.16	2.13				2.12	2.16	2.12
Indonesia	1.01	0.97		0.97	0.95				0.95	0.96	0.95
Total Crude Oil	26.77	28.66		29.52	28.80				28.98	29.32	29.26
Total NGLs[1]	3.89	4.31	4.78	4.38	4.68	4.69	4.83	4.90	4.69	4.59	4.72
Total OPEC	30.66	32.96		33.91	33.48				33.67	33.91	33.98
NON-OPEC[2]											
OECD											
North America	14.62	14.58	14.60	14.42	14.41	14.53	14.65	14.81	14.31	14.48	14.53
United States	7.83	7.67	7.77	7.57	7.71	7.74	7.80	7.82	7.77	7.72	7.76
Mexico	3.79	3.83	3.79	3.78	3.75	3.81	3.80	3.81	3.67	3.86	3.79
Canada	3.00	3.09	3.04	3.07	2.94	2.98	3.04	3.18	2.87	2.91	2.98
Europe	6.34	6.09	5.87	6.02	5.94	5.84	5.72	5.97	6.02	5.93	5.85
UK	2.28	2.05	1.91	2.00	2.00	1.88	1.85	1.91	1.99	1.91	1.84
Norway	3.26	3.19	3.11	3.16	3.08	3.11	3.03	3.24	3.16	3.17	3.15
Others	0.79	0.85	0.85	0.86	0.86	0.85	0.84	0.83	0.87	0.85	0.85
Pacific	0.66	0.58	0.58	0.54	0.56	0.59	0.60	0.58	0.57	0.56	0.59
Australia	0.61	0.54	0.53	0.50	0.51	0.54	0.55	0.53	0.52	0.51	0.55
Others	0.05	0.04	0.04	0.05	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Total OECD	21.61	21.25	21.05	20.99	20.90	20.96	20.97	21.36	20.91	20.97	20.97
NON-OECD											
Former USSR	10.33	11.22	11.68	11.49	11.41	11.54	11.79	11.97	11.51	11.47	11.52
Russia	8.49	9.23	9.53	9.41	9.34	9.41	9.61	9.76	9.37	9.33	9.39
Others	1.84	1.99	2.15	2.08	2.07	2.14	2.17	2.22	2.14	2.14	2.13
Asia	6.03	6.24	6.36	6.31	6.36	6.31	6.38	6.40	6.37	6.18	6.36
China	3.41	3.48	3.61	3.51	3.63	3.60	3.60	3.59	3.67	3.59	3.61
Malaysia	0.83	0.86	0.84	0.87	0.84	0.82	0.85	0.85	0.83	0.78	0.83
India	0.79	0.80	0.80	0.81	0.80	0.80	0.80	0.79	0.80	0.80	0.80
Others	1.01	1.10	1.12	1.12	1.08	1.08	1.14	1.18	1.07	1.01	1.12
Europe	0.17	0.17	0.16	0.17	0.16	0.16	0.16	0.15	0.16	0.16	0.16
Latin America	4.04	4.07	4.30	4.09	4.16	4.32	4.33	4.38	4.21	4.33	4.32
Brazil	1.80	1.80	1.99	1.81	1.85	2.00	2.02	2.09	1.88	2.00	2.00
Argentina	0.83	0.78	0.74	0.77	0.76	0.74	0.73	0.72	0.75	0.75	0.74
Colombia	0.55	0.54	0.53	0.54	0.53	0.54	0.53	0.52	0.54	0.54	0.53
Ecuador	0.43	0.54	0.55	0.54	0.54	0.54	0.56	0.57	0.54	0.54	0.54
Others	0.42	0.42	0.49	0.43	0.48	0.50	0.49	0.49	0.50	0.50	0.50
Middle East[3]	2.00	1.89	1.81	1.85	1.82	1.81	1.80	1.79	1.82	1.81	1.81
Oman	0.82	0.76	0.73	0.75	0.74	0.73	0.72	0.71	0.74	0.73	0.73
Syria	0.53	0.50	0.48	0.49	0.49	0.48	0.47	0.47	0.49	0.48	0.48
Yemen	0.45	0.42	0.40	0.40	0.40	0.40	0.41	0.41	0.40	0.40	0.40
Africa	3.06	3.43	3.76	3.57	3.61	3.68	3.80	3.93	3.63	3.66	3.68
Egypt	0.74	0.71	0.70	0.69	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Angola	0.88	0.99	1.19	1.10	1.12	1.15	1.19	1.29	1.14	1.13	1.15
Gabon	0.24	0.24	0.23	0.23	0.23	0.23	0.24	0.24	0.23	0.23	0.23
Others	1.20	1.50	1.63	1.54	1.55	1.59	1.67	1.70	1.56	1.59	1.59
Total Non-OECD	25.63	27.02	28.06	27.47	27.52	27.81	28.26	28.63	27.71	27.61	27.84
Processing Gains[4]	1.80	1.83	1.86	1.85	1.88	1.85	1.84	1.88	1.88	1.88	1.84
TOTAL NON-OPEC	49.05	50.10	50.97	50.31	50.30	50.62	51.06	51.87	50.50	50.46	50.65
TOTAL SUPPLY	79.71	83.07		84.21	83.78				84.17	84.37	84.63

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Orimulsion Orinoco extra-heavy oil, and non-oil inputs to Saudi Arabian MTBE
2 Comprises crude oil, condensates, NGLs and oil from non-conventional sources
3 Includes small amounts of production from Israel, Jordan and Bahrain
4 Net volumetric gains and losses in refining (excludes net gain/loss in FSU, China and non-OECD Europe) and marine transportation losses

Table 4

OECD INDUSTRY STOCKS[1] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Dec2004	Jan2005	Feb2005	Mar2005	Apr2005*	Apr2002	Apr2003	Apr2004	2Q2004	3Q2004	4Q2004	1Q2005
North America												
Crude	401.0	402.4	421.5	433.1	447.3	438.3	401.1	418.6	0.08	-0.24	0.06	0.36
Motor Gasoline	242.2	248.4	258.9	246.8	246.0	251.6	238.8	234.2	0.07	-0.02	0.06	0.05
Middle Distillate	198.7	197.1	188.4	172.7	173.5	196.0	164.5	167.2	0.14	0.14	0.04	-0.29
Residual Fuel Oil	50.5	49.1	50.5	50.0	47.0	42.9	39.4	45.1	-0.03	-0.04	0.10	-0.01
Total Products[3]	657.3	656.3	658.9	634.8	647.8	662.4	589.7	601.3	0.41	0.27	-0.03	-0.25
Total[4]	1205.5	1206.2	1223.6	1206.9	1228.1	1249.3	1122.2	1154.9	0.57	0.20	-0.11	0.02
Europe												
Crude	324.4	328.1	331.8	348.4	342.5	320.7	343.1	335.1	-0.03	-0.07	-0.09	0.27
Motor Gasoline	115.8	126.6	130.2	120.6	117.9	121.8	113.3	110.8	-0.06	0.02	0.04	0.05
Middle Distillate	238.3	254.8	240.7	246.5	247.1	244.0	221.9	222.4	0.20	0.17	-0.13	0.09
Residual Fuel Oil	73.1	72.4	70.8	69.1	70.0	69.3	74.4	72.0	0.03	-0.01	-0.04	-0.04
Total Products[3]	531.1	557.0	544.5	541.1	539.6	543.8	510.8	503.8	0.18	0.22	-0.11	0.11
Total[4]	926.1	955.3	946.0	963.0	954.7	928.5	927.7	912.6	0.08	0.15	-0.19	0.41
Pacific												
Crude	171.2	178.8	168.4	169.0	156.9	162.8	166.9	171.9	0.02	-0.09	0.03	-0.02
Motor Gasoline	24.2	27.1	27.1	25.0	25.0	26.9	25.5	26.9	-0.01	-0.01	0.00	0.01
Middle Distillate	75.1	68.2	58.2	48.5	55.1	68.3	62.0	56.6	0.07	0.16	0.00	-0.30
Residual Fuel Oil	22.4	22.3	21.6	21.3	21.7	23.0	23.8	22.7	0.03	-0.01	0.01	-0.01
Total Products[3]	187.8	186.5	171.3	154.1	163.8	184.5	175.1	164.5	0.16	0.15	0.02	-0.38
Total[4]	430.3	435.5	407.0	388.7	389.4	424.9	411.6	405.4	0.21	0.11	0.01	-0.46
Total OECD												
Crude	896.6	909.2	921.7	950.6	946.7	921.9	911.1	925.5	0.07	-0.40	-0.01	0.60
Motor Gasoline	382.1	402.1	416.2	392.4	388.9	400.3	377.7	371.9	0.00	-0.01	0.11	0.11
Middle Distillate	512.1	520.0	487.3	467.6	475.7	508.3	448.3	446.1	0.40	0.47	-0.09	-0.49
Residual Fuel Oil	146.0	143.8	142.9	140.4	138.7	135.2	137.6	139.8	0.03	-0.07	0.07	-0.06
Total Products[3]	1376.2	1399.8	1374.6	1330.0	1351.2	1390.7	1275.6	1269.6	0.75	0.65	-0.12	-0.51
Total[4]	2561.9	2596.9	2576.6	2558.6	2572.1	2602.7	2461.4	2472.9	0.85	0.47	-0.29	-0.04

OECD GOVERNMENT-CONTROLLED STOCKS[5] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Dec2004	Jan2005	Feb2005	Mar2005	Apr2005*	Apr2002	Apr2003	Apr2004	2Q2004	3Q2004	4Q2004	1Q2005
North America												
Crude	675.6	679.7	682.0	688.2	692.7	566.7	599.6	658.2	0.11	0.09	0.06	0.14
Products	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.00	0.00	0.00	0.00
Europe												
Crude	164.2	161.2	160.0	159.8	159.8	144.2	151.3	157.3	0.00	0.00	0.07	-0.05
Products	205.3	206.9	208.9	209.1	209.1	206.9	203.2	206.0	-0.06	0.00	0.00	0.04
Pacific												
Crude	384.5	384.5	384.5	384.5	384.5	379.1	383.0	386.8	0.00	-0.02	0.00	0.00
Products	11.0	11.0	11.0	11.0	11.0	7.3	9.6	11.0	0.00	0.00	0.00	0.00
Total OECD												
Crude	1224.3	1225.4	1226.5	1232.4	1236.9	1090.0	1133.8	1202.3	0.11	0.06	0.12	0.09
Products	218.3	219.9	221.9	222.2	222.2	216.2	214.7	219.0	-0.06	0.00	0.00	0.04
Total[4]	1443.6	1446.3	1449.4	1455.6	1460.1	1307.1	1349.6	1422.2	0.06	0.07	0.13	0.13

* estimated

1 Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) and include stocks held by industry to meet IEA, EU and national emergency reserve commitments and are subject to government control in emergencies.

2 Closing stock levels.

3 Total products includes gasoline, middle distillates, fuel oil and other products.

4 Total includes NGLs, refinery feedstocks, additives/oxygenates and other hydrocarbons.

5 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.

Table 5

TOTAL STOCKS ON LAND IN OECD COUNTRIES[1]

('millions of barrels' and 'days')

	End March 2004		End June 2004		End September 2004		End December 2004		End March 2005 [3]	
	Stock Level	Days Fwd[2] Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand
North America										
Canada	170.4	76	168.8	74	179.0	76	173.0	72	172.0	-
Mexico	38.9	19	39.5	20	41.4	20	41.3	20	44.2	-
United States[4]	1568.2	77	1630.9	79	1645.3	79	1646.7	80	1658.8	-
Total[5]	1799.6	72	1861.3	74	1887.8	74	1883.1	74	1897.1	75
Pacific										
Australia	33.8	39	34.9	39	34.3	37	33.2	37	34.0	-
Japan	614.4	124	622.0	120	632.0	114	635.3	104	604.9	-
Korea	142.9	71	152.9	77	152.1	67	149.4	62	137.4	-
New Zealand	7.2	45	7.7	50	7.1	46	8.0	47	7.9	-
Total	798.2	100	817.4	99	825.5	93	825.9	86	784.2	96
Europe[6]										
Austria	21.0	78	20.3	66	20.2	72	21.8	82	20.9	-
Belgium	24.6	42	26.5	46	27.7	39	27.2	45	27.0	-
Czech Republic	15.6	74	15.9	73	16.9	82	16.3	86	17.0	-
Denmark	15.9	88	15.8	89	18.1	94	16.2	86	16.3	-
Finland	27.8	133	23.4	108	24.0	106	24.4	111	26.2	-
France	176.4	90	183.5	92	188.5	92	186.2	87	187.4	-
Germany	270.0	108	267.1	99	264.1	97	267.2	106	280.5	-
Greece	29.4	77	30.8	78	34.1	76	35.7	74	35.8	-
Hungary	19.5	153	20.1	153	18.7	128	17.8	141	21.1	-
Ireland	11.5	69	10.7	63	11.1	60	11.7	60	10.6	-
Italy	135.6	73	134.6	71	138.7	72	135.8	73	133.7	-
Luxembourg	0.8	13	1.0	16	0.9	14	0.9	14	0.9	-
Netherlands	108.2	114	102.3	110	110.2	113	108.3	108	109.4	-
Norway	28.5	116	30.0	118	23.3	77	24.0	89	26.6	-
Poland	29.7	62	30.1	59	31.1	61	30.6	67	33.9	-
Portugal	24.4	74	26.2	76	25.0	73	24.3	68	25.7	-
Slovak Republic	5.8	82	6.2	82	5.6	76	5.7	88	6.1	-
Spain	123.5	79	127.3	82	126.8	79	119.8	72	126.7	-
Sweden	31.8	89	31.1	91	31.5	90	33.8	97	32.0	-
Switzerland	35.4	149	37.5	144	37.8	140	36.3	137	37.1	-
Turkey	54.9	79	54.8	77	55.2	81	55.9	100	55.4	-
United Kingdom	100.7	54	97.6	53	97.7	52	96.8	56	102.7	-
Total	1291.0	84	1292.9	82	1307.2	81	1296.6	83	1332.9	87
Total OECD	3888.7	81	3971.6	81	4020.6	79	4005.5	79	4014.2	82
DAYS OF IEA Net Imports[7]	-	111	-	113	-	114	-	114	-	114

1 Total Stocks are industry and government-controlled stocks (see breakdown in table below). Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) they include stocks held by industry to meet IEA, EU and national emergency reserves commitments and are subject to government control in emergencies.
2 Note that days of forward demand represent the stock level divided by the forward quarter average daily demand and is very different from the days of net imports used for the calculation of IEA Emergency Reserves.
3 End March 2005 forward demand figures are IEA Secretariat forecasts.
4 US figures exclude US territories.
5 Total includes US territories.
6 Data not available for Iceland.
7 Reflects stock levels and prior calendar year's net imports adjusted according to IEA emergency reserve definitions. Net exporting IEA countries are excluded.

TOTAL OECD STOCKS

CLOSING STOCKS	Total	Government[1] controlled	Industry	Total	Government[1] controlled	Industry
	Millions of Barrels			*Days of Fwd. Demand[2]*		
1Q2002	3909	1304	2606	84	28	56
2Q2002	3967	1316	2651	83	28	55
3Q2002	3897	1321	2576	79	27	52
4Q2002	3821	1345	2476	77	27	50
1Q2003	3787	1359	2428	80	29	51
2Q2003	3913	1362	2551	81	28	53
3Q2003	3981	1380	2601	80	28	52
4Q2003	3932	1407	2525	78	28	50
1Q2004	3889	1421	2468	81	29	51
2Q2004	3972	1426	2546	81	29	52
3Q2004	4021	1432	2589	79	28	51
4Q2004	4006	1444	2562	79	28	51
1Q2005	4014	1456	2559	82	30	53

1 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.
2 Days of forward demand calculated using actual demand except in 1Q2005 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	Jan 05	Feb 05	Mar 05	Year Earlier Mar 04	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.64	0.55	0.56	0.56	0.52	0.43	0.49	0.44	0.38	0.51	-0.13
Europe	0.92	1.00	1.03	1.05	1.04	1.08	0.83	0.95	0.83	0.72	0.79	-0.08
Pacific	1.22	1.18	1.24	1.13	1.23	1.47	1.40	1.41	1.46	1.33	1.22	0.12
Saudi Medium												
North America	0.70	0.83	0.80	0.73	0.86	0.90	0.97	0.88	1.05	1.00	0.61	0.38
Europe	0.11	0.11	0.11	0.07	0.11	0.16	0.12	0.13	0.14	0.11	0.06	0.05
Pacific	0.16	0.24	0.23	0.20	0.18	0.23	0.21	0.25	0.16	0.21	0.28	-0.07
Saudi Heavy												
North America	0.20	0.30	0.22	0.14	0.30	0.26	0.17	0.21	0.18	0.12	0.23	-0.11
Europe	0.09	0.19	0.23	0.26	0.31	0.20	0.19	0.21	0.16	0.19	0.16	0.03
Pacific	0.12	0.16	0.15	0.13	0.16	0.18	0.25	0.14	0.28	0.33	0.12	0.21
Iraqi Basrah Light[2]												
North America	0.35	0.44	0.71	0.74	0.68	0.67	0.53	0.62	0.52	0.46	0.76	-0.29
Europe	0.08	0.09	0.21	0.27	0.21	0.13	0.19	0.10	0.25	0.24	0.28	-0.04
Pacific	0.02	0.03	0.12	0.08	0.12	0.15	0.07	0.12	0.11	..	0.12	..
Iraqi Kirkuk												
North America	0.14	0.06	0.02	0.04	0.01	0.01	..	..	..	..	..	..
Europe	0.32	0.12	0.08	0.07	0.03	0.16	0.02	0.03	0.02	0.02	0.11	-0.09
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.17	0.19	0.24	0.23	0.23	0.27	0.20	0.24	0.17	0.19	0.22	-0.03
Pacific	0.12	0.17	0.16	0.13	0.16	0.16	0.19	0.18	0.15	0.23	0.18	0.05
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.44	0.59	0.57	0.61	0.65	0.54	0.58	0.64	0.68	0.43	0.44	-0.02
Pacific	0.54	0.69	0.65	0.65	0.58	0.63	0.76	0.77	0.69	0.82	0.71	0.12
Venezuelan Light & Medium												
North America	0.68	0.69	0.67	0.78	0.64	0.63	0.75	0.76	0.78	0.72	0.57	0.15
Europe	0.08	0.02	0.01	0.02	0.02	0.01	0.02	..	0.06	..	..	..
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.55	0.60	0.88	0.91	0.86	0.95	0.81	0.89	0.79	0.76	0.75	0.01
Europe	0.05	0.06	0.05	0.07	0.06	0.04	0.06	0.05	0.08	0.05	0.05	0.00
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	0.92	1.32	1.36	1.43	1.34	1.37	1.29	1.35	1.24	1.29	1.29	0.00
Europe	0.17	0.16	0.16	0.19	0.20	0.13	0.18	0.16	0.24	0.15	0.16	-0.01
Pacific	0.00	0.00	0.00	..	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.01	0.00	..	..	..	..	0.00	0.00	0.01	..	..	..
Europe	0.01	0.00	0.01	..	..	0.02	0.02	0.03	..	0.03	..	..
Pacific	0.01	0.00	0.00	..	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.03	0.14	0.12	0.14	0.12	0.21	0.12	0.04	0.20	0.12	..	..
Europe	1.32	1.62	1.86	1.98	1.78	1.56	1.68	1.63	1.56	1.84	2.25	-0.41
Pacific	0.01	0.00	0.01	0.01	0.01	..	..	..	..	..	..	..
Nigerian Light[4]												
North America	0.38	0.63	0.80	0.90	0.78	0.73	0.87	0.80	1.04	0.79	0.71	0.08
Europe	0.32	0.41	0.28	0.22	0.30	0.30	0.30	0.34	0.33	0.22	0.28	-0.06
Pacific	0.06	0.08	0.11	0.10	0.09	0.13	0.06	0.07	0.07	0.05	0.10	-0.05
Nigerian Medium												
North America	0.16	0.17	0.23	0.21	0.22	0.20	0.18	0.27	0.28	..	0.39	..
Europe	0.06	0.06	0.04	0.04	0.05	0.02	0.07	0.07	0.07	0.07	0.06	0.02
Pacific	0.01	0.01	0.01	..	..	..	0.03	..	..	0.08	..	..

1 Data based on monthly submissions from IEA countries to the crude oil import register (in '000 bbl), subject to availability. May differ from Table 8 of the Report.
IEA North America includes United States and Canada.
IEA Europe includes all countries in OECD Europe except Hungary, Poland and the Slovak Republic.
IEA Pacific data includes Australia, New Zealand, Korea and Japan.

2 Iraqi Total minus Kirkuk.

3 Iranian Total minus Iranian Light.

4 33 API and lighter (e.g., Bonny Light, Escravos, Qua Iboe and Oso Condensate).

Table 7
Regional OECD Imports[1,2]
(thousand barrels per day)

	2002	2003	2004	2Q2004	3Q2004	4Q2004	1Q2005	Jan-05	Feb-05	Mar-05	Year Earlier Mar-04	Year Earlier % change
Crude Oil												
North America	7584	8069	8394	8557	8547	8442	8579	8424	8737	8591	8594	0%
Europe	8725	9087	9522	9499	9664	9527	9700	9841	10216	9093	8956	2%
Pacific	6422	6711	6659	6170	6457	6998	7165	7310	6897	7263	6768	7%
Total OECD	22731	23867	24575	24226	24668	24968	25444	25575	25850	24946	24317	3%
LPG												
North America	39	27	26	10	25	39	23	18	32	20	34	-69%
Europe	225	193	232	195	215	267	293	311	289	280	260	7%
Pacific	553	541	541	585	469	561	532	530	529	537	572	-7%
Total OECD	817	760	799	790	709	868	849	859	850	837	866	-3%
Naphtha												
North America	42	67	86	49	96	144	124	108	122	142	22	84%
Europe	298	305	292	326	243	268	276	252	298	280	366	-31%
Pacific	705	770	769	761	787	748	772	829	728	755	712	6%
Total OECD	1045	1142	1147	1137	1126	1160	1172	1190	1148	1177	1101	6%
Gasoline[3]												
North America	680	703	798	896	847	774	867	721	1045	851	960	-13%
Europe	152	151	166	157	132	163	183	171	226	157	226	-44%
Pacific	58	70	105	118	90	106	95	95	82	106	102	4%
Total OECD	891	924	1069	1170	1069	1044	1145	988	1353	1114	1288	-16%
Jet & Kerosene												
North America	97	97	88	102	88	116	68	48	72	85	33	61%
Europe	253	271	243	233	307	259	280	255	333	256	205	20%
Pacific	97	102	77	60	52	103	97	99	78	110	92	16%
Total OECD	448	470	408	395	447	478	444	403	483	451	330	27%
Gasoil/Diesel												
North America	102	126	122	92	108	91	108	133	139	55	206	-275%
Europe	656	652	730	645	756	848	890	782	922	970	713	26%
Pacific	53	73	74	92	79	66	61	68	50	64	57	10%
Total OECD	811	851	926	829	943	1006	1059	983	1110	1088	976	10%
Heavy Fuel Oil												
North America	237	326	387	317	346	521	484	473	566	422	352	17%
Europe	470	399	413	435	448	404	400	337	367	494	349	29%
Pacific	89	88	76	77	87	64	83	73	94	84	94	-11%
Total OECD	796	812	876	828	882	989	968	882	1027	1000	794	21%
Other Products												
North America	689	680	824	701	951	774	740	753	826	649	891	-37%
Europe	735	691	691	702	709	687	732	616	725	855	727	15%
Pacific	256	235	256	265	261	252	255	283	244	236	247	-4%
Total OECD	1681	1607	1771	1667	1920	1713	1727	1652	1794	1741	1865	-7%
Total Products												
North America	1887	2026	2331	2165	2462	2460	2414	2254	2801	2224	2498	-12%
Europe	2790	2662	2767	2693	2810	2896	3055	2725	3160	3291	2845	14%
Pacific	1811	1879	1898	1958	1825	1901	1894	1978	1805	1892	1876	1%
Total OECD	6488	6567	6996	6816	7097	7257	7364	6957	7766	7408	7219	3%
Total Oil												
North America	9471	10095	10724	10722	11009	10902	10993	10679	11538	10815	11092	-3%
Europe	11515	11749	12288	12192	12474	12423	12755	12565	13376	12385	11801	5%
Pacific	8233	8590	8558	8128	8282	8899	9059	9287	8701	9155	8644	6%
Total OECD	29219	30433	31571	31042	31765	32225	32808	32531	33615	32354	31537	3%

1 Based on Monthly Oil Questionnaire data submitted by OECD countries in tonnes and converted to barrels.

2 Excludes intra-regional trade

3 Includes additives

OIL MARKET REPORT CONTACTS

Editor/Prices	Lawrence Eagles (+33) 0*1 40 57 65 90 e-mail: lawrence.eagles@iea.org
Demand	Jeff Brown (+33) 0*1 40 57 65 93 e-mail: jeff.brown@iea.org
Supply	David Fyfe (+33) 0*1 40 57 65 94 e-mail: david.fyfe@iea.org
OECD Stocks/Refinery Activity	Harry Tchilinguirian (+33) 0*1 40 57 65 22 e-mail: harry.tchilinguirian@iea.org
Freight/Statistics/End-User Prices	Toril Ekeland Bosoni (+33) 0*1 40 57 66 36 e-mail: toril.bosoni@iea.org
Administrative Support	Anne Mayne (+33) 0*1 40 57 65 96 e-mail: anne.mayne@iea.org
Fax:	*(+33) 0*1 40 57 65 99/40 57 65 09*

* 0 only within France

For all **Subscription and Delivery Enquiries** please contact:

International Energy Agency
Attn: Ms. Sandra Coleman
Oil Market Report Subscriptions
BP 586-75726 Paris Cedex 15, France

Tel. +33 (0) 1 40 57 65 57
Fax. +33 (0) 1 40 57 65 59

E-mail: sandra.coleman@iea.org

Users' Guide to the IEA Oil Market Report

Readers are referred to the Users' Guide, published in conjunction with the Annual Statistical Supplement (current issue dated 11 August 2004), for information on the data sources, definitions, technical terms and general approach used in preparing the Report. It should be noted that the spot crude and product price assessments are based on daily Platt's prices, converted when appropriate to US$ per barrel according to the Platt's specification of products (©2005 Platt's - a division of McGraw-Hill Inc.).

INTERNATIONAL ENERGY AGENCY/AGENCE INTERNATIONALE DE L'ENERGIE

OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

www.oilmarketreport.org

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

13 July 2005

HIGHLIGHTS

- WTI and Brent breached $60 in early July as storms threatened Gulf of Mexico oil and gas production. Little damage was seen, but there has been an unusually active start to the hurricane season. Diesel strength and limited spare capacity has increased consumers'/refiners' desire to hedge forward and demand higher stock holdings, driving up prices.

- Global demand growth is revised down by 200 kb/d, to 1.58 mb/d, in 2005 due to a weaker outlook for China and the US, but is projected at 1.75 mb/d in 2006. A 1.34 mb/d increase in non-OECD countries is expected to continue to drive global demand growth in 2006. Chinese demand is expected to rebound by 490 kb/d, outpacing the projected 410 kb/d increase for the whole of the OECD in 2006.

- Non-OPEC oil supply in 2006 is expected to average 52.4 mb/d versus 51.0 mb/d in 2005. Growth of 0.9 mb/d this year accelerates to 1.4 mb/d in 2006. Less disruption to OECD supply plus continuing strong growth from the FSU, Latin America and Africa underpin the 2006 forecast. There is also emerging evidence that high prices may be leading to increased upstream activity levels.

- Growth in non-OPEC oil and OPEC gas liquids supply in 2006 should match global demand growth, holding the call unchanged at 28.1 mb/d next year. OPEC crude supply in June averaged 29.3 mb/d, down 60 kb/d from May, despite higher Iraqi exports on resumed Ceyhan liftings. The OPEC-10 production target was raised to 28.0 mb/d, effective from 1 July.

- OECD total industry oil stocks built by 2.5 mb/d, or by 78 mb, in May to an estimated 2658 mb, or 139 mb above their position last year. The build in stocks, combined with downward revisions to OECD demand, raised forward cover to 54 days in May, up from 53 days in April and 2.5 days above levels of a year ago.

Next Issue: 11 August 2005

CONTENTS

IT CUTS BOTH WAYS

WTI and Brent breached the $60 level in June and early July as the tropical storm season in the Caribbean got off to an unusually active start. But the short term risks do not stop there. Geopolitical concerns (London bombings, Iranian election, Iraq, Nigeria) and price expectations are also prompting consumers to manage risk for the fourth quarter and beyond. But while citing the upside risks, it is easy to forget that risks cut both ways.

The unfolding statistical picture increasingly reveals that fear of the unknown and the consequent desire to make forward oil purchases is behind oil's higher price path. The robust forward premium is consistent with higher stocks and a stimulus to add to them. The crude market is characterised by sharp upward surges followed by more protracted but shallower dips: a classic bull market. But as prices move higher and stocks and spare capacity increase, it must not be forgotten that the downside price risks will eventually emerge as well.

Our projections for 2006 show demand growth of 1.75 mb/d, offset by a slightly higher level of non-OPEC, OPEC NGLs and non-conventional supply growth. The picture for next year remains broadly similar to that of 2005, but with modest increases in capacity growth and stocks. OPEC spare capacity is expected to break through 3.0 mb/d in 2006 which, while well below the 5 mb/d average between 2000 and 2002, is a significant improvement from the 1.0 mb/d evident at the end of 2004.

All forecasts have uncertainties, with the assumed path of economic growth being at the fore of those. But there are other factors to consider. China's price restrictions on transport fuels and power are making it uneconomic for domestic refiners and utilities to maximise output, therefore inhibiting demand. Any liberalisation of either market has the potential to increase domestic oil demand. However, so far there is no sign of this happening and anecdotal indications suggest a weak start to apparent Chinese demand in the third quarter.

From the supply side, the future output from Yukos remains uncertain, but there is equal potential for other increases in Russia. Elsewhere, a large number of start-ups and expansions are anticipated in the second half of 2005 and throughout 2006. Start-up problems can always emerge, therefore we adopt a conservative stance regarding the start date and build-up rate for new upstream projects. Even as higher oil prices increase the incentive to bring projects forward, there is always the prospect of hurricane damage or some unforeseeable disruption.

World Oil Supply and Demand Summary 2005 and 2006

(million barrels per day)

											Annual Growth				
	1Q05	2Q05	3Q05	4Q05	**2005**	1Q06	2Q06	3Q06	4Q06	**2006**	1Q06	2Q06	3Q06	4Q06	**2006**
OECD Demand	50.5	48.4	49.6	50.9	**49.9**	50.8	48.8	50.1	51.3	**50.3**	0.7%	0.7%	1.0%	0.8%	**0.8%**
Non-OECD Demand	33.5	33.5	34.1	34.9	**34.0**	34.9	35.0	35.3	36.2	**35.4**	4.2%	4.5%	3.5%	3.6%	**4.0%**
World Demand	83.9	81.9	83.7	85.9	**83.9**	85.7	83.8	85.4	87.6	**85.6**	2.1%	2.3%	2.0%	1.9%	**2.1%**
Non-OPEC Supply	50.3	50.6	51.0	52.0	**51.0**	52.3	52.1	52.2	52.9	**52.4**	4.1%	3.0%	2.3%	1.7%	**2.8%**
Opec Crude	28.8	29.3	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
OPEC NGLs	4.7	4.7	4.8	4.9	**4.8**	5.0	5.1	5.2	5.3	**5.1**	7.8%	8.7%	7.5%	7.4%	**7.8%**
World Supply	83.7	84.6	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Call on OPEC + Stock Change	29.0	26.6	27.9	29.0	**28.1**	28.4	26.6	28.0	29.4	**28.1**	-2.2%	-0.3%	0.5%	1.5%	**-0.1%**

This report has always held a more sanguine view over the outlook for the coming months, a position firmed by recent information. Improved data for some non-OECD countries has actually reduced the fourth quarter "OPEC call" to 29.0 mb/d - below June's estimated OPEC production of 29.3 mb/d. Further, the OECD commercial stock data for April and preliminary numbers for May show that second quarter stocks are building at 1.8 mb/d - double the five-year average. Reports suggest that demand has been brought forward as US refiners have stocked up on light, sweet crudes ahead of heavy autumn maintenance, to hedge any glitches in planned additions of new desulphurisation capacity.

Even though this would appear a calming picture, it is still unlikely to immediately cool the market's fever. At what price is OPEC prepared to supply the market? Will fourth quarter distillate stocks comfortably meet demand? Will the damage wreaked by Hurricane Ivan last year be repeated? And how certain is the path of forecast economic growth? These issues will only be resolved over time and current prices suggest that the strategy of offsetting lower spare capacity with stocks has not yet run its course. A strategy that makes perfect sense in this uncertain environment.

DEMAND

Summary

- Revisions to historical data have resulted in a decline in baseline demand, contributing to a 410 kb/d downward adjustment to the forecast of 2005 demand. Global demand is expected to average 83.88 mb/d in 2005. While some of the historical changes do not have an impact on 2005 demand growth, the outlook for both Chinese and US demand growth is weaker. Overall, **2005 demand growth** is revised downwards by 200 kb/d, to 1.58 mb/d.

Global Oil Demand from 2004 to 2006

	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
Demand (mb/d)	82.3	81.2	81.8	83.9	82.3	83.9	81.9	83.7	85.9	83.9	85.7	83.8	85.4	87.6	85.6
Annual Change (%)	2.8	5.3	3.6	3.0	3.6	2.0	1.0	2.3	2.4	1.9	2.1	2.3	2.0	1.9	2.1
Annual Change (mb/d)	2.2	4.1	2.8	2.5	2.9	1.7	0.8	1.9	2.0	1.6	1.8	1.9	1.7	1.7	1.7
Changes from last month's report (mb/d)	-0.1	0.1	-0.1	-0.6	-0.2	-0.3	-0.6	-0.3	-0.5	-0.4	-	-	-	-	-

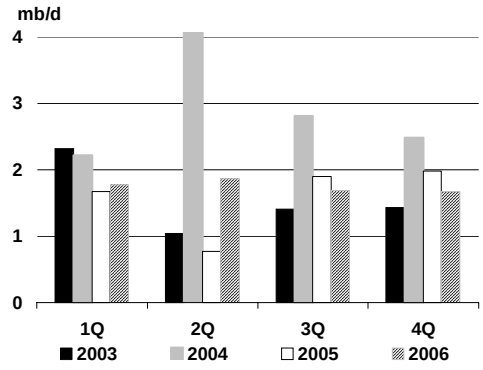
- **Chinese** apparent demand has weakened considerably as the government continues to pursue non-market pricing policies for oil products and electricity. This has discouraged oil product imports and encouraged exports. In May 2005, net product imports declined to 150 kb/d, well below 730 kb/d seen in May 2004. A recovery in Chinese demand is expected in the latter half of the year, but on the whole Chinese demand growth for 2005 is revised downwards by 100 kb/d to 360 kb/d (5.5%).

Global Oil Demand by Region
(million barrels per day)

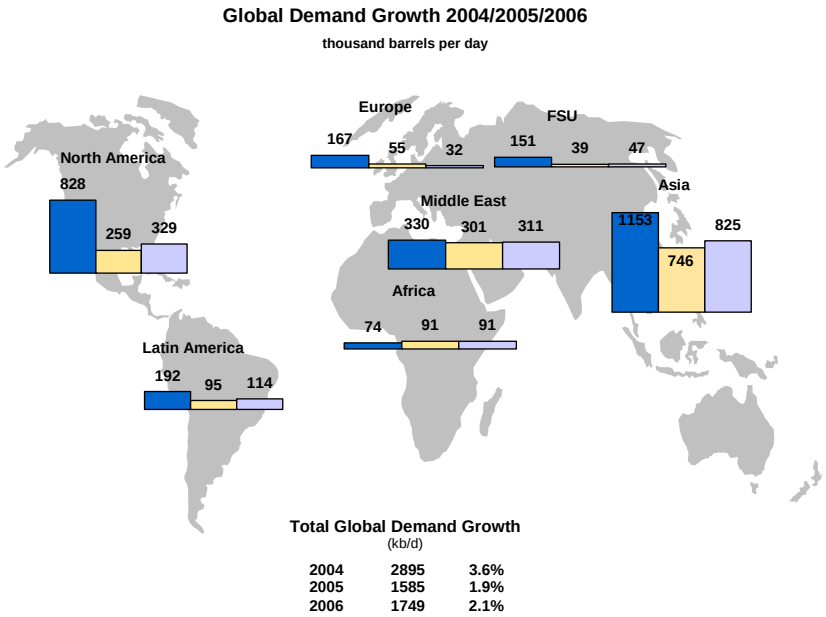
	Demand	Annual Change			Annual Change (%)		
	2005	2004	2005	2006	2004	2005	2006
North America	25.61	0.83	0.26	0.33	3.4	1.0	1.3
Europe	16.33	0.17	0.05	0.03	1.0	0.3	0.2
OECD Pacific	8.64	-0.18	0.11	0.06	-2.0	1.3	0.7
China	6.79	0.86	0.36	0.49	15.4	5.5	7.2
Other Asia	8.80	0.47	0.28	0.27	5.9	3.3	3.1
Subtotal Asia	24.23	1.15	0.75	0.83	5.2	3.2	3.4
FSU	3.78	0.15	0.04	0.05	4.2	1.0	1.2
Middle East	6.07	0.33	0.30	0.31	6.1	5.2	5.1
Africa	2.89	0.07	0.09	0.09	2.7	3.2	3.1
Latin America	4.95	0.19	0.10	0.11	4.1	2.0	2.3
World	83.88	2.89	1.58	1.75	3.6	1.9	2.1

- In **2006, global demand** is projected to grow by 1.75 mb/d (2.1%), to 85.62 mb/d. Non-OECD countries are expected to continue to lead global demand growth, increasing by 1.34 mb/d (4.0%). OECD demand is projected to grow by 410 kb/d (0.8%). As it stands, the current outlook for 2006 economic growth remains broadly similar to the 2005 outlook. In addition, the effects of the relatively high prices seen in 2005 are projected to carry over into 2006, as price impacts are partially lagged.

Year-on-Year Global Demand Growth



- In **2006,** Chinese apparent demand is projected to grow by 490 kb/d (7.2%). Growth may slow somewhat in the latter half of the year as the demand for diesel used in small power generators eases with a reduction in power shortages. OECD North American demand is expected to grow by 330 kb/d (1.3%), with US-50 (excludes territories) demand increasing by 260 kb/d (1.3%). Demand growth is projected to remain relatively flat, at 10 kb/d (0.1%), in OECD Europe and marginally higher in OECD Pacific (60 kb/d or 0.7%).



OECD

Overview of OECD Demand Trends

Preliminary May 2005 inland delivery data indicate that selected major European consumers posted robust growth of 6.9%. However, this is primarily attributed to an unusually weak baseline as demand was down by 5.9% in France and 18.1% in Germany in May 2004. Strength in parts of Europe is balanced by weakness in the Pacific, as May deliveries declined by 2.5% in Japan and Korea. North American deliveries increased by 1.5%, but a substantial revision to 2004 US demand data may have an impact on provisional 2005 data in coming months (see discussion in the North America section).

Preliminary Inland Deliveries – May 2005[1]

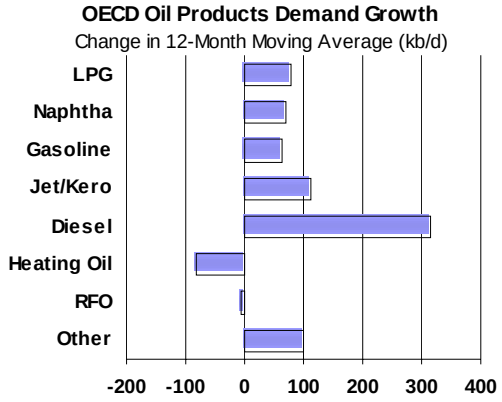
	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other[2]		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
United States[3]	9.37	2.0	1.65	4.5	3.03	2.0	1.05	19.0	0.88	11.7	4.48	-7.0	20.45	1.2
Canada	0.71	1.0	0.11	-4.5	0.45	5.6	0.06	0.0	0.15	-6.3	0.24	-4.0	1.71	0.4
Mexico	0.66	6.1	0.06	3.6	0.32	7.0	0.00	na	0.36	15.2	0.37	-1.6	1.76	6.2
Japan	0.99	-4.6	0.31	-12.4	0.55	-11.4	0.38	-12.4	0.39	9.1	1.48	5.1	4.10	-2.7
Korea	0.17	4.4	0.06	-23.6	0.40	3.9	0.04	-20.4	0.22	-13.1	0.99	-0.2	1.87	-2.1
France	0.27	4.7	0.13	1.9	0.63	10.5	0.20	5.3	0.04	-6.6	0.47	8.2	1.74	7.2
Germany	0.58	1.1	0.18	19.1	0.57	4.5	0.43	50.9	0.12	13.3	0.49	11.5	2.36	12.8
Italy	0.32	-2.2	0.08	4.0	0.51	6.9	0.07	7.3	0.13	-15.3	0.38	-2.3	1.50	0.1
Total	**13.05**	**1.6**	**2.56**	**1.6**	**6.48**	**2.6**	**2.23**	**13.5**	**2.28**	**5.3**	**8.91**	**-2.3**	**35.50**	**1.7**

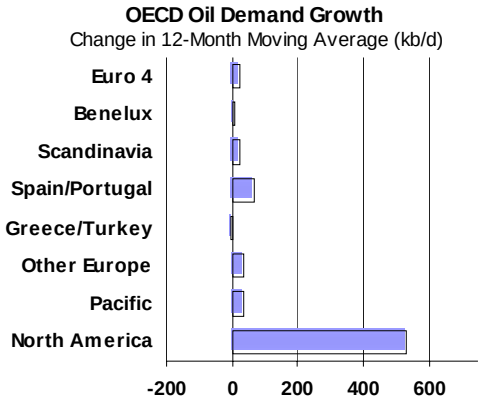
Sources: US EIA, Statistics Canada, Mexico PEMEX, Japan METI, Korea KNOC, France CPDP, Germany MWV, Italy Ministry of Industry,
Percentage change is calculated versus the previous year.
1 excludes refinery fuel and bunkers (except US)
2 includes direct use of crude oil
3 fifty states only. Diesel's share of total distillate is estimated (2004 revisions not included).

Due in part to substantial revisions to historical data which affected baseline demand, second quarter 2005 OECD demand has been revised down by 240 kb/d. Second quarter growth now stands at 260 kb/d (0.5%). On the whole, 2005 OECD demand is revised down by 180 kb/d, lowering growth by 80 kb/d from last month's Report to 410 kb/d (0.8%).

In 2006 we also expect OECD demand to grow along 2005 trends, increasing by 410 kb/d (0.8%). This projection is based on broadly similar economic growth scenarios over 2005-2006, as projected

by the IMF, OECD and Consensus Economics Inc. There may be downside risk to these forecasts, as many economic analysts believe that the global economy is nearing the end of a cyclical peak. In addition, it should be noted that the impact of the relatively high prices in 2005 is projected to carry over into 2006, as price impacts are partially lagged.





Among the key fuels, diesel is expected to continue to post relatively strong growth of 1.8% in 2006, down from 2.5% in 2005. Jet fuel/kerosene is expected to grow by a more modest 1.7% (versus 2.8% in 2005) with air travel growth met more in the future by new additions rather than the return to service of older, less-efficient aircraft. The comparatively high price of middle distillates is expected to act as a drag on demand at the margin. Gasoline demand is expected to grow by only 0.9% in 2006, in part due to continued moves towards diesel in transport. At the same time, demand for residual fuel oil is projected to continue its prolonged decline (-1.5% in 2006 versus -0.4% in 2005).

Total OECD Demand by Product
(million barrels per day)

	2004	2005	2Q04	3Q04	4Q04	1Q05	Feb 05	Mar 05	Apr 05	Latest month vs. Mar 05	Latest month vs. Apr 04
LPG & Ethane	4.86	4.82	4.59	4.42	5.03	5.39	5.57	5.11	4.50	-0.61	-0.41
Naphtha	3.21	3.30	3.04	3.20	3.33	3.40	3.43	3.40	3.34	-0.06	0.23
Motor Gasoline	14.88	15.00	15.00	15.24	14.89	14.42	14.37	14.79	14.87	0.08	-0.11
Jet & Kerosene	4.10	4.21	3.75	3.92	4.23	4.60	4.76	4.47	3.90	-0.57	0.09
Gas/Diesel Oil	12.85	13.00	12.25	12.45	13.40	13.35	13.68	13.53	12.76	-0.77	0.03
Residual Fuel Oil	4.57	4.55	4.34	4.45	4.67	4.89	4.93	4.82	4.51	-0.31	0.14
Other Products	4.99	4.98	5.19	5.44	4.89	4.42	4.35	4.78	4.88	0.10	0.00
Total Products	**49.46**	**49.86**	**48.16**	**49.12**	**50.44**	**50.47**	**51.09**	**50.90**	**48.76**	**-2.14**	**-0.03**

Note that OECD historical data has been revised with the incorporation of finalised annual data extending to 2003. The largest adjustments were made to 2003 data, where demand was revised down by 250 kb/d. This has an impact on baseline demand through 2004-2005. It also affects the forecast period.

Pacific

Preliminary May inland deliveries suggest demand declined by 2.7% in Japan and 2.1% in Korea. Deliveries of jet fuel/kerosene, which is used for heating in the region, were down by approximately 14.3% in the two countries combined. This decline follows strength in April, when overall demand increased 2.7% in Japan and 5.4% in Korea.

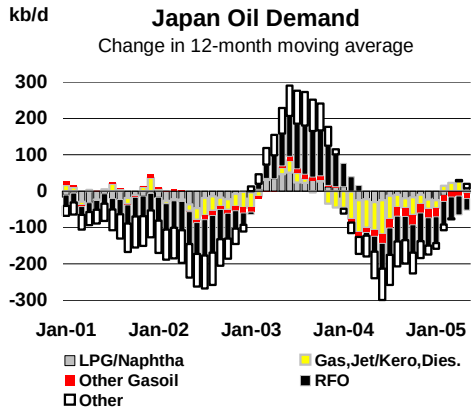
In May, Japan's gasoline deliveries were down by some 4.6%. This is generally in line with expectations, as this summer's gasoline demand is expected to be relatively weak compared to the summer of 2004. Last summer the weather was extraordinarily hot, which encouraged holiday travel and the use of automobile air conditioners. Gasoline demand growth is projected to be flat in the third quarter of 2005, after posting growth of 4.4% in the third quarter of 2004.

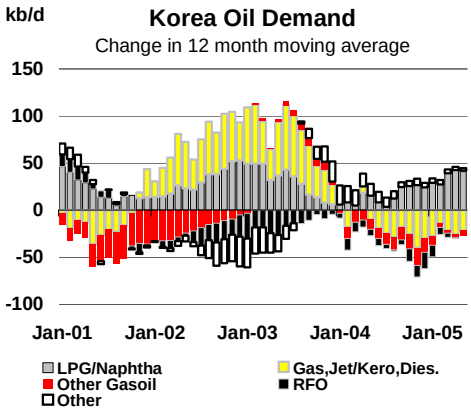
Recent indications suggest that Japan's demand for low sulphur waxy residue (LSWR) and heavy sweet crude used for direct burn in power generation may be stabilising, in part due to additional nuclear power plants coming back on-line. Currently 11 out of 17 of Tokyo Electric Power Company's nuclear power plants are on-line. Kansai Electric Power Company has seven out of 11 of its plants on-line, with Mihama No. 3 still experiencing an unplanned shutdown. Chugoku Electric Power Company's No. 1 nuclear power unit at its Shimane power station is currently shut down for an unplanned inspection due to technical problems.

Water shortages in southwest Japan have reportedly caused some utilities to reduce hydroelectric generation and turn to oil-fired power plants. At this point the extent to which this drought will affect oil demand in power is unclear, but various reports suggest that the impact will be fairly minor.

A 150 kb/d downward revision to second quarter 2005 Japanese demand can be attributed in part to weaker than expected May deliveries. Another factor is revisions to historical data which adjusted 2003 Japanese baseline demand down by 80 kb/d. These revisions carry forward, and Japan's 2005 demand is 90 kb/d lower than in last month's Report.

In 2006, Japanese demand growth is expected to remain flat (0.1%). Slow growth in transport fuels (gasoline growing by 1.1%, jet fuel/kerosense growing by 0.7% and diesel growth flat at 0.0%) will be balanced by a continued long-term decline in demand for residual fuel oil (-2.2%) and crude oil used by utilities. Of course, this depends in part on developments in the power sector and whether troubles resurface in nuclear power. The most recent reports from Japan suggest that nuclear power issues are being resolved.





Until recently, Korea's gasoline demand had been declining with the rise in popularity of diesel fuelled SUVs. The popularity of SUVs was in part driven by the fact that diesel is taxed at a lower rate than gasoline. In addition, diesel use was limited to certain categories of industrial vehicles, which included SUVs. However, the government is now moving to limit the incentives favouring SUVs by raising the tax on diesel and allowing diesel fuelled passenger vehicles. On 8 July the domestic transport tax on diesel was raised by 14.4%, which resulted in a 6% increase in the retail price of diesel. The Korean government aims to raise the domestic retail price of diesel to 85 percent that of gasoline by July 2007.

OECD Pacific Demand by Product
(million barrels per day)

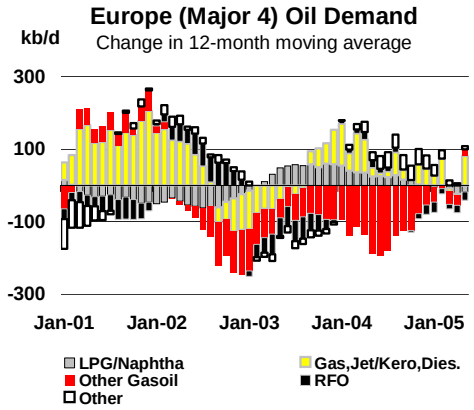
	2004	2005	2Q04	3Q04	4Q04	1Q05	Feb 05	Mar 05	Apr 05	Latest month vs. Mar 05	Latest month vs. Apr 04
LPG & Ethane	0.88	0.88	0.85	0.79	0.88	1.00	1.08	0.98	0.94	-0.03	0.00
Naphtha	1.57	1.62	1.48	1.56	1.63	1.69	1.66	1.70	1.61	-0.09	0.14
Motor Gasoline	1.60	1.63	1.56	1.70	1.63	1.59	1.60	1.65	1.59	-0.06	0.03
Jet & Kerosene	1.02	1.06	0.74	0.74	1.12	1.54	1.60	1.37	0.87	-0.50	0.04
Gas/Diesel Oil	1.89	1.90	1.84	1.81	1.95	1.99	2.03	2.09	1.87	-0.22	0.02
Residual Fuel Oil	1.05	1.04	0.96	1.03	1.05	1.17	1.21	1.17	1.04	-0.13	0.02
Other Products	0.52	0.50	0.47	0.54	0.52	0.52	0.48	0.58	0.51	-0.07	0.02
Total Products	**8.53**	**8.64**	**7.90**	**8.16**	**8.77**	**9.49**	**9.67**	**9.55**	**8.44**	**-1.11**	**0.28**

After declining by 4.7% in 2004, Korean gasoline demand increased by 6.9% in the first quarter of 2005. Gasoline demand is currently expected to grow by 1.5% in 2005. In 2006 this rebound is expected to subside, but gasoline should maintain positive growth of 0.4%. In contrast to gasoline, Korean diesel demand grew by a robust 3.1% in 2004. Diesel demand growth is expected to slow to 1.5% in 2005, which is in a large part attributed to a 3.4% decline in demand in the first quarter of 2005. Demand growth should rebound to 1.7% in 2006, as diesel still maintains a pricing advantage over gasoline. Overall, Korean oil product demand is projected to grow by 1.5% in 2006.

Elsewhere in the Pacific region, Australian demand is projected to grow by 1.7% in 2006. There is likely to be a bit of a slowdown from an abnormally high growth rate of 2.7% projected for 2005. For instance, it is unlikely that the 11.4% growth in jet fuel/kerosene demand seen in the first quarter of 2005 is sustainable. New Zealand demand is projected to grow by 1.5% in 2006 following 2.0% growth in 2005.

Europe

Preliminary data for May 2005 indicate that France and Germany posted robust demand growth. As indicated previously, this is not surprising because the May 2004 baseline was exceedingly weak, with German demand down by 18.1% and French demand off by 5.9%. German demand for other gasoil (including heating oil) was down by 57.4% in May 2004. As a consequence, a substantial recovery in demand in 2005 was anticipated, but a preliminary 50.9% increase exceeded expectations. It now appears that German heating oil demand will grow by some 5.8% in the second quarter of 2005. However, the level of heating oil demand will remain below normal as deliveries fell by 66.3% in the second quarter of 2004.



It is still too early to evaluate the full impact of the recent attacks in London. From a domestic perspective, while the death-toll from this bombing was the highest ever in the UK since World War II, there had been an air of inevitability that the city would one day be a target for an al-Qaeda terrorist attack. Further, the UK mainland has been hit by attacks from Irish guerrillas over the past 35 years, so the effect on the British population is likely to be smaller than the psychological domestic impact in a place without this unfortunate experience. Any lasting domestic economic damage is likely to be small, but whether there will be an impact on tourisim levels is unclear. Meanwhile, historical UK demand data has been revised downwards by some 60 kb/d in 2004. The revisions have an impact on all fuels, with LPG (-30 kb/d) and 'other gasoil' (-20 kb/d) being affected the most. It is possible that 2005 historical demand data may be subject to revision with future data submissions. The 2005 and 2006 demand projections could also be affected.

OECD Europe Demand by Product
(million barrels per day)

	2004	2005	2Q04	3Q04	4Q04	1Q05	Feb 05	Mar 05	Apr 05	Latest month vs. Mar 05	Latest month vs. Apr 04
LPG & Ethane	1.03	1.02	1.02	0.91	1.03	1.12	1.17	1.09	0.98	-0.10	-0.10
Naphtha	1.14	1.15	1.09	1.10	1.15	1.21	1.23	1.18	1.24	0.06	0.05
Motor Gasoline	2.78	2.70	2.85	2.89	2.72	2.53	2.51	2.66	2.75	0.09	-0.20
Jet & Kerosene	1.16	1.20	1.14	1.25	1.16	1.14	1.17	1.15	1.19	0.05	0.06
Gas/Diesel Oil	5.98	6.04	5.57	5.83	6.37	6.14	6.55	6.08	5.91	-0.17	0.03
Residual Fuel Oil	2.00	2.00	1.93	1.97	2.08	2.12	2.12	2.16	1.95	-0.21	0.00
Other Products	1.48	1.49	1.56	1.61	1.48	1.25	1.22	1.35	1.46	0.12	0.00
Total Products	**15.57**	**15.61**	**15.16**	**15.56**	**15.98**	**15.52**	**15.97**	**15.66**	**15.49**	**-0.17**	**-0.15**

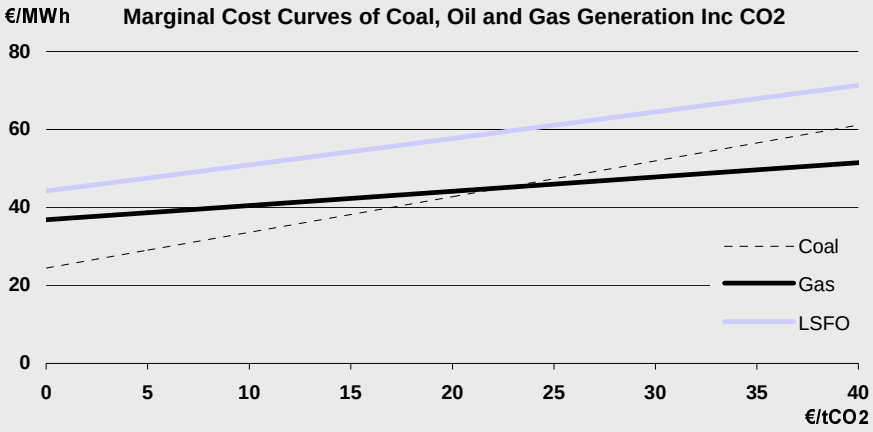
Looking to 2006, Europe's economic growth is expected to remain relatively flat. Overall, this will be reflected in oil product demand, with demand growth of only 0.1% (10 kb/d). The pattern of growth, however, will vary depending on the country. For example, UK demand is projected to grow by 0.8% and German demand is expected to decline by 0.7%. These differences stem from diverging economic outlooks and differing assumptions with regards to interfuel substitution and/or fuel efficiency. Germany's economic performance is expected to be comparatively weak vis-à-vis the rest of Europe and a downward trend in heating oil consumption is projected to continue.

Do Rising CO_2 Prices Influence Fuel Choice?

Carbon allowances have nearly quadrupled in price since the official launch of the European Emissions Trading Scheme in January 2005. Initially 2005 allowances traded between €6 and €8 per tonne of CO_2, but have subsequently risen sharply to reach €29 per tonne of CO_2 at the beginning of July. Unsurprisingly there is a tendency to look at the power sector to explain CO_2 market price movements. The power generation sector represents approximately 60% of total emissions covered by the scheme and have been allocated free allowances of between 95% and 100% of their historical emissions in the National Allocation Plans.

Natural gas prices have forged ahead over the past month, while coal prices have steadily weakened over the same time period, widening the differential to gas and improving coal's competitive advantage as a fuel. However, coal fuelled power production is often less efficient than gas and emits nearly double the quantity of CO_2 per unit of output, therefore adding to upward pressure on the price of allowances. Similarly, there has been an increase in demand for fuel oil, particularly in some Mediterranean countries to offset declines in hydropower generation due to dry weather.

The graph below shows how the operating costs of each power plant would be affected by CO_2 allowance prices, based on the plant operating costs at current fuel prices, their relative efficiencies and the proportion of carbon emitted from each fuel. With natural gas prices averaging €4.81/MMBtu, coal €2.06/MMBtu and low sulphur fuel oil at €5.49/MMBtu, coal-fired power with a 37% efficiency rate is more competitive than a gas combined cycle (CCGT) installation with a 49% efficiency rate, followed by oil-fired gas turbines operating at a 41% efficiency rate.



Of course, relative fuel price ratios can change. If natural gas prices are above €5.82/GJ while low sulphur fuel oil prices remain at current levels, then fuel oil becomes more competitive. However, once a price of CO_2 allowances is introduced, then the CCGT technology becomes significantly more competitive than heavy fuel oil. Further, if prices moved to favour fuel oil over gas, then it is likely that CO_2 prices would rise as well. However, at current fuel costs, variations of CO_2 prices could have an impact on the margin between coal and gas technologies. This suggests that the carbon constraint is doing its intended job of directing fuel towards the most efficient and low-emitting generation technology, while allowing market forces to dictate fuel price levels. It also highlights that the current increased use of fuel oil by Mediterranean generators is likely due to the lack of fuel switching options, and unrelated to the price of carbon allowances.

IEA Information Paper, Julia Reinaud
Possible Impacts of Emissions Trading on Investment Decisions on the Power Sector. julia.reinaud@iea.org

The move for further dieselisation of the car fleet in Europe is expected to continue in 2006. Diesel demand is expected to grow by 2.1%, while gasoline demand is expected to decline by 2.1%. The substitution of natural gas for fuel oil will also persist, and the consumption of fuel oil is expected to decline by 2.2% in 2006. This assumes the absence of a drought effect that limited hydropower generation and helped support Southern European fuel oil demand in 2005.

European historical demand has been revised with the incorporation of annual data extending to 2003. The most substantial changes were to France (-60 bk/d in 2003) and Poland (-40 kb/d in 2003). Overall, 2003 demand was revised downwards by 130 kb/d. The bulk of the adjustment was to naphtha and 'other products' in France and residual fuel oil in Poland.

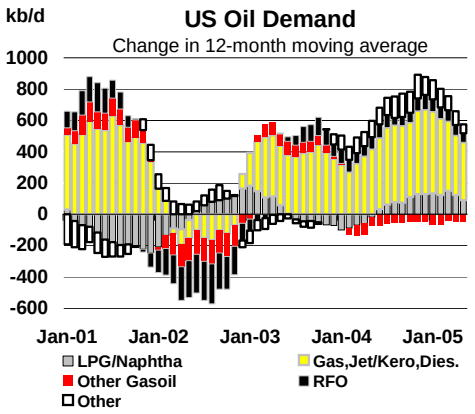
North America

Preliminary inland delivery data suggests that US-50 demand (excluding US territories) grew by a provisional 1.2% in May 2005 (these data, submitted by the EIA, do not include revisions to 2004 data – see discussion below). As has been the case for the past several months, middle distillates continue to drive US demand. Total gasoil (diesel and heating oil) deliveries grew by a provisional 5.9% in May.

US-50 gasoline deliveries were up by a provisional 2.0% in May despite high prices. Gasoline prices are currently approximately 30 cents per gallon higher than last year. Demand should remain reasonably strong this summer when compared to the same period in 2004 because last year's inclement weather limited holiday travel.

It is important to note that the US recently released substantial upward revisions to 2004 demand, which adds considerable uncertainty to the 2005 outlook. Demand has been revised upwards by some 210 kb/d, increasing demand growth to 700 kb/d (3.5%) for 2004. The largest revisions were to residual fuel oil and other products (petrochemical feedstocks), where it seems that imports were underestimated.

The 2004 revisions present problems in evaluating 2005 demand as it is unclear whether the revisions will be extended into 2005. As a consequence, US demand growth could be considerably weaker than previously anticipated for 2005. We have revised 2005 demand upwards by approximately 100 kb/d to partially adjust for the change to the 2004 baseline. US-50 demand growth now stands at 170 kb/d (0.8%) in 2005, a 110 kb/d downward revision from last month's Report. This is certainly subject to revision. In terms of other revisions to US data, April 2005 oil demand has been reduced by some 120 kb/d. This includes an approximate 200 kb/d downward revision to submitted data plus an upward adjustment in anticipation of a possible revision to the 2005 baseline, as discussed above.



Depending upon the final adjustments to 2005 data, 2005 demand growth could be unexpectedly weak when compared to an exceedingly strong 2004. This is especially true when viewed against projected economic growth of approximately 3.5% in 2005.

For 2006 we project US-50 demand will grow by approximately 260 kb/d (1.3%), which is in line with a projected GDP expansion of 3.2%. Growth is expected to be comparatively strong in the first half of the year as the 2005 baseline now appears to be relatively weak over this period. The growth in demand for residual fuel oil is projected to fall (-1.4%) as the opportunity for additional substitution for natural gas appears to be limited. There is some downside risk to this projection should the price of natural gas decline relative to fuel oil. Middle distillate demand should remain relatively strong in line with economic growth. Diesel demand is expected to grow by 1.9% and jet/kerosene should increase by approximately 1.8%.

Viewing the rest of North America, Canadian demand growth is projected to remain broadly unchanged in 2006, growing by 20 kb/d (0.9%). Gasoline demand is projected to grow by 1.5% in 2006 versus 1.7% in 2005. Canadian demand for residual fuel oil is expected to remain flat in 2006 (-0.2%) versus 3.0% growth in 2005. Mexican demand growth is expected to slow to 40 kb/d (1.7%) 2006, after posting unusually robust growth of 60 kb/d (3.2%) in 2005.

As in the other regions, North American historical data has been adjusted with the inclusion of recently submitted annual data. Among the changes that stand out, Mexican demand was revised downwards by 70 kb/d in 2003. Most of the adjustment was to other products and the revised baseline is carried forward to subsequent years.

OECD North America by Product
(million barrels per day)

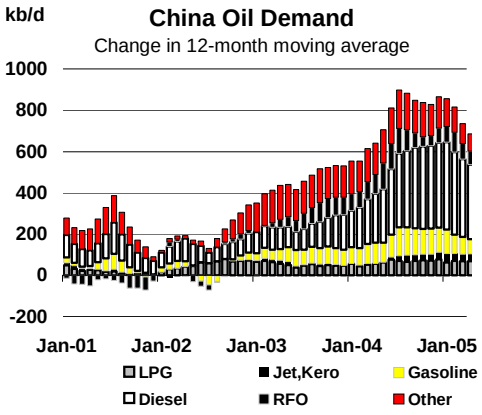
	2004	2005	2Q04	3Q04	4Q04	1Q05	Feb 05	Mar 05	Apr 05	Latest month vs. Mar 05	Latest month vs. Apr 04
LPG & Ethane	2.95	2.92	2.72	2.72	3.12	3.27	3.32	3.05	2.57	-0.48	-0.32
Naphtha	0.50	0.53	0.47	0.54	0.56	0.50	0.53	0.52	0.48	-0.03	0.04
Motor Gasoline	10.50	10.66	10.59	10.65	10.55	10.30	10.26	10.48	10.53	0.05	0.06
Jet & Kerosene	1.91	1.95	1.87	1.93	1.96	1.93	2.00	1.95	1.83	-0.11	0.00
Gas/Diesel Oil	4.98	5.06	4.84	4.81	5.08	5.22	5.10	5.36	4.98	-0.38	-0.02
Residual Fuel Oil	1.51	1.52	1.45	1.46	1.54	1.60	1.59	1.49	1.52	0.03	0.12
Other Products	3.00	2.98	3.15	3.30	2.89	2.65	2.65	2.85	2.91	0.06	-0.02
Total Products	**25.35**	**25.61**	**25.09**	**25.41**	**25.69**	**25.47**	**25.44**	**25.69**	**24.83**	**-0.87**	**-0.15**

Non-OECD

China

Chinese apparent demand, which is defined as the sum of domestic refinery output and net product imports with adjustments for direct crude burning, smuggling and unreported refinery output, has been revised down by 250 kb/d in the second quarter of 2005 and 150 kb/d in the third quarter of 2005. Preliminary indications are that apparent demand contracted by over 4% in May 2005 as net oil product imports declined to approximately 150 kb/d, well below imports of 730 kb/d in May 2004. As in April, fuel oil imports declined sharply, from 530 kb/d in May 2004 to 260 kb/d in May 2005. Reports suggest that ample rainfall has boosted hydropower and some utilities are turning to lower priced alternatives to fuel oil, such as 'coal mud'.

At the time of last month's Report there was some evidence that apparent demand would recover in June and July. Although there are indications that fuel oil imports recovered in June, anecdotal reports indicate that demand will be much weaker than anticipated over this period. Overall, Chinese demand growth is projected to slow to 360 kb/d (5.5%) in 2005, a 100 kb/d reduction from last month's Report.



China's sharp decline in net product imports may be attributed in part to the government policy of limiting increases in the retail price of key products. This discourages product imports and encourages exports. In addition, artificially low power prices discourage the use of relatively high priced fuel oil. In essence there is a tug of war between the government's desire to supply the market at low prices through its state owned and/or influenced companies and their desire to avoid running at a loss. China's 25 June move to raise the retail price of diesel by 3.8% and gasoline by 4.5% is expected to have a limited impact as more substantial price increases are needed to alter incentives for product suppliers.

China Crude & Product Trade
(thousand barrels per day)

	2003	2004	2Q04	3Q04	4Q04	1Q05	Mar 05	Apr 05	May 05	Latest month vs. Apr 05	Latest month vs. May 04
Net Imports/(Exports) of:											
Crude Oil	**1664**	**2346**	**2371**	**2232**	**2491**	**2305**	**2540**	**2703**	**2406**	**-298**	**305**
Products & Feedstocks	**442**	**661**	**849**	**545**	**653**	**501**	**328**	**401**	**146**	**-255**	**-582**
Gasoil/Diesel	-28	43	50	21	79	-6	-27	-46	-26	20	-85
Gasoline	-175	-125	-141	-146	-117	-151	-210	-171	-183	-13	-59
Heavy Fuel Oil	407	506	653	412	515	480	449	422	261	-161	-269
LPG	202	201	227	222	184	200	176	209	114	-95	-119
Naphtha	-22	-33	-11	-48	-51	-49	-71	-68	-54	14	-50
Jet & Kerosene	1	16	15	19	8	6	-3	12	-5	-17	0
Other	58	52	56	64	34	22	14	44	39	-4	0
Total	**2106**	**3008**	**3220**	**2777**	**3144**	**2807**	**2868**	**3104**	**2552**	**-552**	**-277**

Sources: China Oil, Gas and Petrochemicals plus IEA estimates

It is unclear exactly how this situation will play itself out, but we continue to project that apparent demand will recover in the second half of the year. Baseline demand growth was lower in the second half of 2004 and the pressure on the government to address the distortions caused by the pricing situation will likely continue to build. We therefore project a significant rebound in year-on-year Chinese demand growth of 9.6% in the third quarter and 9.2% in the fourth quarter, but note that there are anecdotal signs of a weak July.

While continued robust economic growth would seem to point to a recovery in demand in the second half of the year, it is certainly worth considering alternative scenarios. For example, consider a case for 2005 where domestic production of oil products increases by approximately 8% and net product imports average about 400 kb/d. This roughly approximates the situation over the first four months of 2005. Under this scenario, apparent demand would increase by approximately 220 kb/d (3.4%) in the second half of the year, which is much lower than current projections. Although we ascertain that this scenario is less likely than a return to a higher growth path, it is certainly plausible.

China Demand by Product

	Demand (kb/d)			Annual Change (kb/d)		Annual Change (%)	
	2004	2005	2006	2005	2006	2005	2006
LPG & Ethane	633	665	701	31	37	5.0	5.5
Naphtha	684	750	830	66	80	9.7	10.6
Motor Gasoline	1069	1115	1203	46	87	4.3	7.8
Jet & Kerosene	239	259	284	20	24	8.4	9.3
Gas/Diesel Oil	2150	2315	2478	165	163	7.7	7.0
Residual Fuel Oil	829	826	874	-3	48	-0.4	5.8
Other Products	828	858	908	30	50	3.6	5.8
Total Products	**6433**	**6789**	**7277**	**356**	**488**	**5.5**	**7.2**

In 2006, Chinese apparent demand is projected to grow by 490 kb/d (7.2%). This projection is based on continued strong economic growth, a resolution to the product pricing situation, and a rebound from relatively low growth in the second quarter of 2005. With substantial additions to power generation capacity and transmission, China's power shortages are expected to ease in 2006. This should lead to correspondingly lower demand growth for diesel in small back-up generators and fuel oil in oil-fired utilities. The impact may be especially pronounced in the third quarter, when power demand peaks, and it will likely carry over into the fourth quarter as additional power generation capacity comes on-line. Diesel demand growth is projected to average 6.5% in the second half of 2006, down from 7.6% in the first half of the year.

Other Non-OECD

Preliminary indications are that India's second quarter demand growth will be relatively flat (0.3%) as May demand declined by approximately 0.7%. Demand growth is projected to recover in June, but it will not be enough to counterbalance negative demand growth in April and May. India's demand growth is projected to recover in the second half of the year, and on the whole, demand is expected to grow by 70 kb/d. Although India's crucial southwest monsoon rains came somewhat later than expected this year, rainfall has been normal in July. This should in turn lead to a good harvest in the latter part of the year, which is in marked contrast to last year's relatively weak harvest. India's oil product demand is projected to grow by 120 kb/d in the fourth quarter of 2005.

In 2006, India's demand is projected to increase by 90 kb/d. The substitution of liquefied natural gas for naphtha is expected to continue, albeit at a slightly slower pace as opportunities for easy substitution diminish. Naphtha demand is projected to decline by approximately 2.8% in 2006 versus 4.2% in 2005.

Among other developments in Asia, the region continues to adjust to higher oil prices as governments are reluctantly moving to pass oil price increases on to domestic consumers. On 20 June, India raised retail gasoline prices by 6.6% and diesel prices by 7.7%. Vietnam also recently raised oil product prices by as much as 33%. Projections of 3.3% (280 kb/d) oil product demand growth in 2005 and 3.1% (270 kb/d) growth in 2006 assume that Asian consumers will benefit less from subsidies than they were in 2004.

In response to high oil prices, many Asian countries are pressing forward with policies to reduce their dependency on oil imports. They also seek to limit the impact of fuel costs and subsidies on the

government budget. For example, the Philippines introduced a four day work week for government workers in an effort to reduce the government's fuel and electricity bill by 10%. In addition, Thailand is speeding the introduction of ethanol-mixed gasoline to reduce gasoline consumption. Indonesia has discussed measures to reduce fuel demand, including an automobile tax. Although these efforts may be having some effect, high prices are certainly having an impact on the region's fiscal health. The cost of Indonesia's fuel subsidies could exceed US$9.6 billion this year.

India Crude & Product Trade
(thousand barrels per day)

	2003	2004	2Q04	3Q04	4Q04	1Q05	Feb 05	Mar 05	Apr 05[1]	Latest month vs. Mar 05	Latest month vs. Apr 04
Net Imports/(Exports) of:											
Crude Oil	**1863**	**1945**	**2090**	**2013**	**1742**	**1969**	**1827**	**2017**	**1887**	**-130**	**152**
(by Public Oil Cos)	**1243**	**1158**	**1312**	**1214**	**1000**	**1133**	**1100**	**1147**	**1099**	**-48**	**-71**
Products & Feedstocks	**-152**	**-176**	**-173**	**-178**	**-222**	**-82**	**-75**	**-36**	**-110**	**-74**	**33**
Gasoil/Diesel	-119	-139	-135	-122	-162	-89	-102	-32	-121	-89	36
Gasoline	-72	-75	-67	-75	-80	-53	-23	-62	-24	38	39
Heavy Fuel Oil	5	-6	13	-5	-20	-4	-7	-3	-7	-4	-42
LPG	55	86	39	86	128	95	95	82	70	-12	27
Naphtha	-1	-7	10	-29	-25	-15	-41	17	-32	-48	-50
Jet & Kerosene	-22	-47	-44	-43	-74	-34	-21	-49	-11	37	22
Other	1	12	12	9	12	17	25	11	14	3	1
Total	**1712**	**1769**	**1917**	**1834**	**1520**	**1887**	**1752**	**1981**	**1777**	**-204**	**185**

1 Preliminary
Sources: Indian Ministry of Commerce, Indian Port Authorities and IEA estimates

Although high prices will have an impact on Asia's oil demand growth, the fact that the region continues to exhibit strong economic growth ensures that it will continue to lead world oil demand growth. For example, in spite of moves to reduce its dependency on imported oil, the Electricity Generating Authority of Thailand plans to almost double its fuel oil imports in 2006. Quite simply, this is the easiest way to satisfy the country's rapidly increasing demand for electricity.

Following 100 kb/d (4.7%) growth in 2004, Brazilian demand is projected to grow by only 20 kb/d (1.0%) in 2005. Although prices are relatively high, such slow growth appears inconsistent with relatively strong economic performance. In the past, unapproved gasoline adulteration with ethanol has sometimes inhibited apparent growth in gasoline demand. There are signs that adulteration may be on the increase, as gasoline demand has slowed substantially and this is not matched by an equally large increase in the official consumption of other products (which includes ethanol). However, at this time it is difficult to estimate the magnitude of the impact of black market use of ethanol. For 2006, demand is projected to grow by 40 kb/d (1.9%).

FSU apparent demand (defined as the difference between crude production and net exports of crude and products) is projected to grow by 40 kb/d in 2005, which is unchanged from last month's Report. However, the pattern of quarterly demand has been revised with updates to assessments of production and exports. Second quarter apparent demand is revised down by some 70 kb/d and fourth quarter demand is revised upwards by 50 kb/d. Apparent demand is projected to increase by 50 kb/d (1.2%) in 2006.

Middle East demand is expected to post robust growth as the region's economies boom with recent high oil prices. Even if prices decline somewhat, the impact on economic growth should carry forward for several quarters. In 2006, Middle East demand is projected to grow by 310 kb/d (5.1%). In terms of individual products, gasoline demand is especially strong throughout the region. Iran's gasoline imports are expected to rise by up to 30% in 2005.

As has been the case over the past several months, we continue to incorporate historical revisions to non-OECD demand data. These revisions extend up to 2003, and in most cases the modified baseline has an impact on the level of demand from 2004 onwards. Downward revisions to the Middle East, Latin America 'other Asia' and non-OECD Europe are balanced to a limited extent by upward revisions to African demand. On the whole, non-OECD demand is revised downwards by 160 kb/d in 2003 and 110 kb/d in 2004. The annual revisions to the non-OECD data will be finalised in the Report dated 11 August 2005.

Finally, we are also in the process of reassessing seasonal consumption patterns in the non-OECD. This contributes to some modification of historical demand data and projections, which is particularly evident in Africa, Latin America, other Asia and the Middle East.

SUPPLY

Summary

- **Non-OPEC oil supply** in 2006 is expected to recover from two disruption-prone years in 2004 and 2005. Production in 2006 should average 52.4 mb/d versus 51.0 mb/d in 2005. Growth of 0.9 mb/d this year accelerates to 1.4 mb/d in 2006. Key assumptions underpinning the forecast for 2006 are a less disruption-prone performance from the mature OECD producing areas plus ongoing strong growth from the FSU, Latin America and Africa. The forecast coincides with emerging evidence that high prices may be leading to higher upstream activity levels.

- **OPEC NGL, condensate and non-conventional oil supply** should reach 5.1 mb/d in 2006, from 4.8 mb/d in 2005 and 4.3 mb/d in 2004. This year's growth centres on Venezuelan synthetic crude production, but in 2006 the balance shifts towards gas liquids. Iran, UAE, Algeria, Qatar, Saudi Arabia, Libya and Nigeria all see production of NGL and condensate rise by 25 kb/d or more.

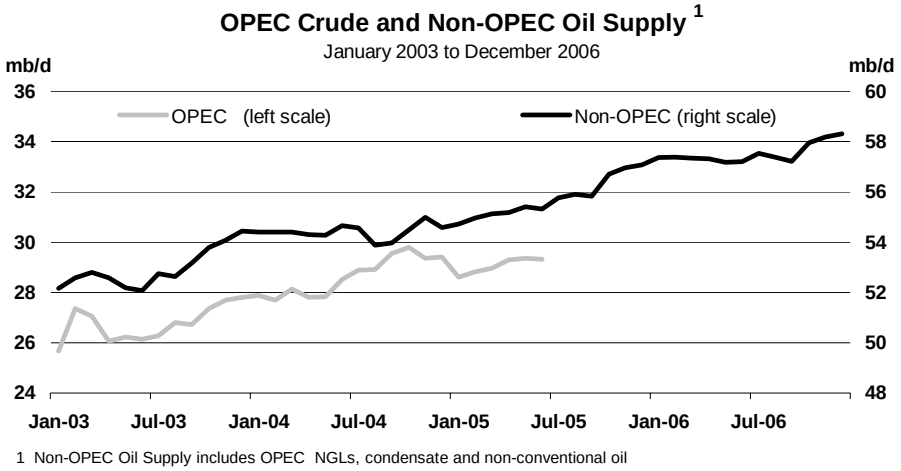
- **June world oil supply** fell by 155 kb/d to average 84.6 mb/d. OECD production was off by 240 kb/d, seasonal maintenance affecting Norway and Alaska in particular. Non-OECD production gained 125 kb/d after increases in Russia, Africa and Asia. OPEC crude supply fell by 60 kb/d from an upward revised May total to reach 29.3 mb/d. OPEC other liquids supply was up 15 kb/d. In all, world supply stands 1.45 mb/d higher than in June 2004, with OPEC crude up by 0.8 mb/d, non-OPEC production by 175 kb/d and OPEC other liquids supply 0.5 mb/d above year ago levels.

- Sluggish growth so far this year in **non-OPEC production** results from a slow-down in the FSU and the onset of seasonal maintenance in the North Sea and North America. Production in Kazakhstan has been revised down by 55 kb/d for 2005. But there are now higher expectations for 2005 output for the US, Mexico, Brazil, Malaysia and Vietnam. Second quarter growth accelerated to 470 kb/d, having slowed in the previous two quarters. Further acceleration is expected henceforward in 2005, with ongoing recovery in the Gulf of Mexico and Russia and with new supply from Azerbaijan, China, Sudan, Angola and Trinidad. Total supply in 2005 averages 51.0 mb/d versus 50.1 mb/d for 2004.

- **OPEC crude supply in June** averaged 29.3 mb/d, some 60 kb/d less than upwardly-revised May levels. Lower liftings from a number of other Arab Gulf producers counteracted higher supplies from Iraq and Nigeria. Iran, Saudi Arabia, Kuwait and the UAE each trimmed supply by 35-60 kb/d compared to May levels, with the latter two affected by oil field maintenance. In Iraq, the resumption of export liftings from Ceyhan for the first time since December resulted in a 40 kb/d rise in net production to 1.84 mb/d.

- **OPEC-10** (excluding Iraq) produced 27.4 mb/d in June, down 145 kb/d from May, and close to the prevailing 27.5 mb/d target production level. The target itself was raised to 28.0 mb/d, effective 1 July, at OPEC's 15 June Vienna meeting. The meeting also saw the adoption of a new basket of 11 crude oils for price monitoring purposes, which works out slightly heavier and sourer than the previous basket. The next OPEC meeting will take place on 19 September.

- **The 'call on OPEC crude and stock change'** now averages 28.1 mb/d for 2005, a 400 kb/d downward revision compared to last month. This follows the incorporation of revised historical demand data. From a second quarter low of 26.6 mb/d, the call rises to 29.0 mb/d by fourth quarter 2005. Healthy growth in non-OPEC oil and OPEC gas liquids supply in 2006 should cover expected 2.1% global demand growth, holding the call unchanged at 28.1 mb/d next year.



1 Non-OPEC Oil Supply includes OPEC NGLs, condensate and non-conventional oil

All world oil supply figures for June discussed in this Report are IEA estimates. Estimates for OPEC countries, Alaska, Kazakhstan and Russia are supported by preliminary June crude supply data.

Note: Random events present downside risk to the non-OPEC production forecast contained in this Report. These events can include accidents, unplanned or unannounced maintenance, technical problems, labour strikes, political unrest, guerrilla activity, wars and weather-related supply losses. No contingency allowance for random events is subtracted from the supply forecast. Although upside variations can occur, experience in recent years indicates that, roughly speaking, the random events listed above may cause supply losses of between 300 kb/d and 400 kb/d for non-OPEC supply each year.

This month's Supply section focuses on the outlook for non-OPEC supply through to the end of 2006. As a result, discussion of OPEC and non-OPEC trends in the most recent months has been curtailed.

2006 Outlook: Non-OPEC Supply

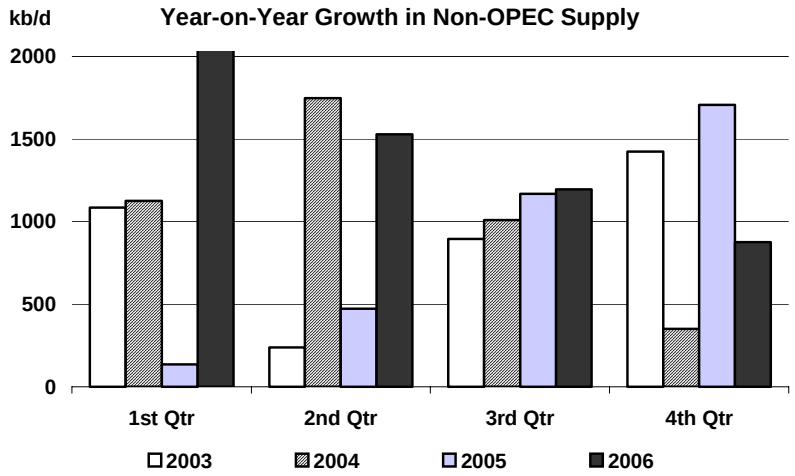
Non-OPEC supply is expected to average 52.4 mb/d in 2006, up by 1.4 mb/d from 51.0 mb/d in 2005. Growth in non-OPEC output is therefore accelerating after three years of growth at or around 1.0 mb/d. Key assumptions underpinning the forecast for 2006 are a stronger and less disruption-prone performance from the mature OECD producing areas, plus ongoing healthy growth from the FSU, Latin America and Africa. OECD production stabilises in 2006 at 21.1 mb/d, having seen declines averaging 250 kb/d since 2003. Significant increases from the US Gulf of Mexico (GOM) and Canadian oilsands counter declines elsewhere in the OECD. After four years of Russia generating 50% to 90% of non-OPEC growth, more widespread expansion elsewhere and a slow-down within Russia itself reduces its contribution to 30% for 2005 and 2006 (300-400 kb/d growth in both years). However, rising supplies from Russia, Azerbaijan and Kazakhstan maintain the FSU as the biggest regional source of growth in 2006, at nearly 600 kb/d. New deepwater production boosts African supply by 545 kb/d in 2006 and sustains Latin American growth close to 2005's 230 kb/d. Asian supply growth halves to 80 kb/d in 2006 despite healthy increases from Malaysia and Vietnam. Non-OPEC Middle East faces continued production decline.

Performance from the **OECD** producing areas will be an important determinant of the accuracy of the non-OPEC forecast. Comparing original forecasts for OECD production for 2003, 2004 and 2005 with the latest available data for these years shows a tendency to overstate likely output. For 2003 and 2004, this Report overestimated OECD supply by 3-4% (0.6-1.0 mb/d). For 2005, our OECD estimates have been revised down from 21.5 mb/d in July last year to 21.1 mb/d now (a 2% revision). It is important to separate out the causes for underperformance for a region or country. A tendency to understate decline rates in mature regions can be one cause, but not the only one. Delays in activating new field developments can be another. There may also be one-off, or non-forecastable, features at play which result in unscheduled outages at producing fields. Unforeseen political developments such as strikes or changes in fiscal and regulatory regime can also have an impact. We have cautioned in the past against a simple extrapolation of recent aggregate production trends as the basis for short-term forecasting. This is just as valid where growth lags expectations as it is where supply grows at accelerated rates. Production shortfalls are not solely attributable to the catch-all justification of faster decline or resource depletion.

World Oil Supply 2003-2006
(million barrels per day)

	2003	2004	2005	2006	*03 vs 02*	*04 vs 03*	*05 vs 04*	*06 vs 05*
North America	14.62	14.59	14.66	14.82	0.14	-0.03	0.07	0.16
Europe	6.34	6.09	5.85	5.69	-0.27	-0.25	-0.24	-0.15
Pacific	0.66	0.58	0.57	0.56	-0.11	-0.08	-0.01	-0.01
Total OECD	**21.61**	**21.26**	**21.08**	**21.08**	**-0.24**	**-0.35**	**-0.18**	**0.00**
Former USSR	10.33	11.22	11.63	12.22	0.94	0.89	0.42	0.59
East Europe	0.17	0.17	0.16	0.15	-0.01	-0.01	-0.01	-0.01
China	3.41	3.48	3.61	3.61	0.02	0.07	0.13	-0.01
Other Asia	2.62	2.75	2.79	2.88	0.09	0.13	0.03	0.09
Latin America	4.04	4.07	4.30	4.53	0.09	0.04	0.23	0.23
Middle East	2.00	1.89	1.79	1.72	-0.10	-0.11	-0.09	-0.07
Africa	3.06	3.43	3.76	4.30	0.09	0.37	0.33	0.54
Total Non-OECD	**25.63**	**27.01**	**28.04**	**29.42**	**1.11**	**1.38**	**1.03**	**1.37**
Processing Gains	1.80	1.83	1.86	1.90	0.04	0.03	0.03	0.04
Total Non-OPEC	**49.05**	**50.11**	**50.98**	**52.39**	**0.91**	**1.06**	**0.88**	**1.41**
OPEC Crude	26.77	28.66	na	na	1.64	1.89	na	na
OPEC NGL & Non-Conv.	3.89	4.31	4.77	5.14	0.20	0.42	0.46	0.37
Total OPEC	30.66	32.96	na	na	1.83	2.31	na	na
Total Supply	**79.71**	**83.07**	**na**	**na**	**2.75**	**3.36**	**na**	**na**

At least part of the reason for recent underperformance from North America, the North Sea and Australia has come from unscheduled outages either for weather-related or technical reasons. Hurricane Ivan was one such instance, which at its peak shut-in over 400 kb/d of US Gulf of Mexico production in 2004. It also acted to delay a number of new field start-ups which were scheduled for late 2004 and early 2005. Power failures, fires and other technical hitches have also impeded output from Canada's oilsands upgraders in recent months, with similar phenomena plaguing production from the UK, Norway and Australia too. It is important to note that, in the absence of such exceptional events being repeated, new field deferrals and unscheduled outages will actually tend to inflate growth in the following year. This in part explains the flatter decline expected for the OECD in 2005 and 2006. Field decline rates are adjusted where this is appropriate, but our forecast assumes a reversion to seasonal average outages and normalised operating conditions. Add in a number of significant new deepwater developments for the US GOM, incremental Canadian east coast and oilsands supply, gas liquids from Australia and Norway and activation of the Buzzard field (one of the UK's biggest discoveries in recent years) and one can see the potential for a flatter 2006 OECD production profile than recent sharp declines would suggest.



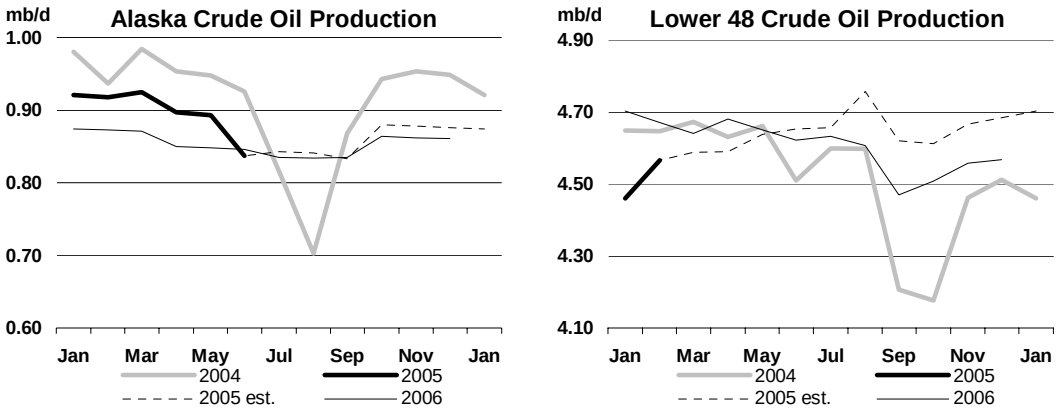
Nor is it just the OECD that is prone to forecasting uncertainty. **Non-OECD** production has tended to run ahead of our original forecasts for 2003-2005. While supply data remain provisional for some countries, 2003 and 2004 appear to have been 0.7-1.0 mb/d (3-4%) higher than anticipated in the respective July forecasts, largely due to sharply higher than expected growth from Russia. However, 2005-to-date for the non-OECD is running within 100 kb/d of the original forecast. Similarly, the trend in actual 2005 Russian production has, at least directionally, followed the slow-down envisaged by this Report last July. At that time, rising export taxes, export capacity limits and an increasing degree of regulatory uncertainty surrounding the Yukos issue had already signalled a likely slow-down in production growth for late-2004 and 2005. Unlike those for Russia, the 2005 estimates for China and the rest of Asia have been prone to upward revision. A more rapid than expected development of onshore western production in the former and overly-conservative new field production profiles for a number of countries in the latter account for the adjustments in these forecasts. What all of the above should indicate is that supply (and demand) forecasting is a dynamic exercise. Assessments inevitably change as more timely, complete or reliable information becomes available. The forecast of non-OPEC supply for 2006 is not set in stone and indeed unexpected factors could trim as much as 300-400 kb/d from aggregate supply (as noted each month in our proviso, above). Changes will inevitably occur, but for now this represents the 'most likely case' scenario for the next 18 months.

OECD

North America

Total **US** oil production fell by 40 kb/d in June to 7.75 mb/d. A 55 kb/d fall in Alaska counteracted an estimated 25 kb/d increase from the Gulf of Mexico (GOM). Work to install automated facilities on the Trans-Alaska Pipeline system in part account for the decline in Alaska in June. Actual US production in recent months has been running at or above this Report's original estimates. However, June and July have seen an earlier and heavier start to the Caribbean storm season than has historically been the case. Data in this month's Report were frozen before the arrival of what now looks to be a significant storm, Hurricane Dennis. Some 20 kb/d of GOM production was shut-in during June due to Tropical Storm Arlene and a further 20 kb/d was assumed for July for Tropical Storms Cindy and Dennis. It is possible that average July GOM production will turn out lower. US Gulf supply estimates are adjusted in advance, assuming 'typical' storm damage. For 2005, the assumption was a loss of 110 kb/d in September and October, and 35 kb/d in November. This accords with recent year norms, but is subject to adjustment in time and scale as the current season develops.

Notwithstanding potential GOM outages, the area is seen increasing production by 190 kb/d in 2005 to 1.6 mb/d. Production lost due to last year's Hurricane Ivan is assumed reinstated from mid-2005 onwards, and six new field start ups running through first half 2005 make a significant contribution. NGL supply is also seen recovering further to 1.9 mb/d in 2005, while other areas of the US are seen in steady decline. However, total US production is seen declining by 35 kb/d in 2006 to below 7.8 mb/d. Alaska sees a fourth successive year of decline in 2006, crude output forecast to slip by 25 kb/d to 855 kb/d. This is a slower decline than in 2004 or 2005 and reflects additional oil from late 2005 expansions at the West Sak field and satellite developments in 2006 at Alpine. Three new deepwater fields – Atlantis (July 2005), Constitution (July 2006) and Thunder Horse (October 2005) enter service in the US Gulf during the forecast period and will ultimately peak at 500 kb/d of oil. However, these fields will take time to reach plateau production and are seen adding less than 150 kb/d in all for 2006. This is insufficient to offset decline in other parts of the US.



The Beginnings of a Supply-Side Price Response?

Upstream oil and gas activity shows signs of a marked uptick but the impact on supplies of oil and gas liquids will not be immediate. Notwithstanding, new projects currently under development should generate incremental non-OPEC oil of between 1-1.5 mb/d each year through 2009. Many of those investments, with lead times of anywhere between three to seven years, were set in train well before the recent surge in prices. The upstream industry therefore seems to have been consistently investing to meet 1-2% annual global demand growth. The market was thrown out of balance in 2004 because world demand rose by nearer to 3.5%.

Anecdotal evidence suggests that sustained high prices may be, in some cases, pulling forward new field start-up dates and could be encouraging operators to sustain mature fields in production beyond originally planned closure dates. Kizomba B offshore Angola was brought on ahead of schedule in 2005, and there is talk of the White Rose development offshore Canada being similarly accelerated. Canada's Hebron and Ben Nevis prospects, hitherto deemed overly complex and costly to develop, are being re-examined in light of a more favourable price and regulatory regime. Meanwhile, innovative technologies are likely to extend the life of fields such as Miller in the UK North Sea.

Record rates in the upstream services sector should, in time, help alleviate tightness in upstream capacity. The oil sector has traditionally been a highly cyclical business and there is little reason to suspect that this has changed. Recent day rates for drilling equipment have broken through a hitherto unheard of $300,000 per day. This reflects a shortage of rigs, notably those capable of operating in ultra-deepwater areas over 2000 metres. More newbuild capacity should follow, albeit with a time lag of up to two to three years. The recent surge in drilling activity is encouraging. Some will be for pre-existing oil development projects, and some for natural gas. Whether a genuine resurgence in oil exploration is underway to replace reserves and sustain supply growth in the longer term, is less easy to say.

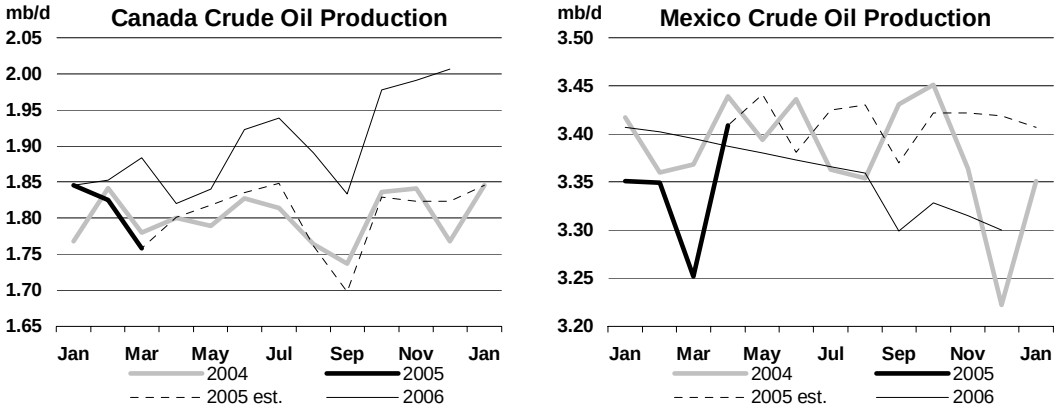
Upstream spending surveys covering 2005 from Lehman Brothers and Citigroup also show a sharp increase versus equivalent studies undertaken at the end of 2004. (The surveys cover several hundred upstream operators, but inclusion of NOCs is limited.) Capital expenditure on exploration and production is now seen rising by around 13% compared to an early-year expectation of between 4-6%. Further upside is possible, particularly if high oil and gas prices persist through 2005. The higher rate of growth is widely spread geographically, although the reports caution that higher service company and drilling rig costs will absorb some of the extra dollars and may not be directly translated into extra barrels of supply.

Smaller companies are boosting spending fastest and are now using sharply higher price assumptions of around $40/bbl (at least for 2005 if not beyond). Spending growth by larger, integrated operators seems slower to respond and many in that industry segment (IOCs and NOCs) continue to use price assumptions of $25-$30/bbl, at least for longer-term planning. Surveyed companies cited shortages in qualified senior personnel and a lack of upstream prospects as reasons why 2005 spending was not higher still. An imminent shortfall in qualified upstream staff has for some time been identified as a potential constraint for development projects in the medium term and seems to be most acute in North America and the North Sea. Any genuine shortage of upstream development prospects can best be addressed by increased access to reserves under terms satisfying the financial and strategic needs of international companies and the development goals of host country governments.

This year is expected to see the first decline in total **Canadian** oil production since 1999. However, the 55 kb/d drop expected for 2005 comes entirely from synthetic crude, with conventional crude output largely stable in 2005 at 1.8 mb/d. The three synthetic crude projects operated by Suncor, Syncrude and Shell have all experienced unscheduled outages in early 2005 that will likely result in a 60 kb/d drop in synthetic crude production for the year. However, 2006 is expected to see a rebound in both synthetic crude and un-upgraded bitumen production from western Canada. The Suncor and Syncrude upgraders are due to be expanded in 2006 and this, together with assumed full production at all three plants takes output to 690 kb/d in 2006 versus 540 kb/d in 2005. Bitumen supply rises by some 70 kb/d as projects operated by ConocoPhillips, Nexen, Encana and CNRL are brought onstream. Some forecasts see a potential two to threefold expansion of Canada's existing 1.0 mb/d of heavy oil production by 2010. However, shortages in skilled labour and fuel gas supplies, high raw

materials costs and delays in building sufficient pipeline export capacity are seen by others as potentially impeding expansion of this sizeable resource.

Offshore Newfoundland production also rises in 2006, as Husky Energy brings onstream the 90 kb/d White Rose project. Anecdotal reports have suggested that high oil prices may have pulled forward start-up to October 2005, although official statements suggest that early 2006 may be a more likely start date. This Report retains first quarter 2006 as the likely start-up until clear evidence of an earlier start is forthcoming. Total Canadian oil supply increases by 235 kb/d in 2006 to 3.3 mb/d via a 145 kb/d increase in syncrude and 65 kb/d each from bitumen and White Rose.



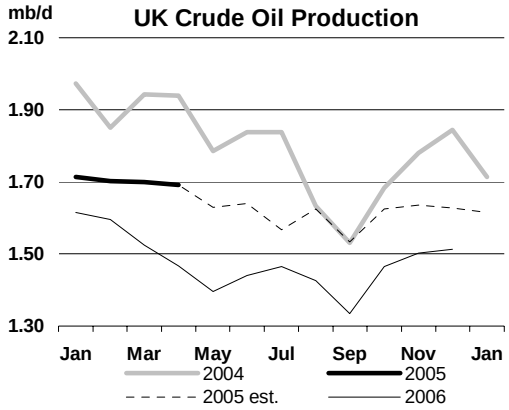
Mexican crude production has been revised up by 35 kb/d for 2005 after sharply higher output in May. Nonetheless, total production is thought unlikely to exceed the 3.39 mb/d seen in 2004. Highly indebted state producer Pemex has said that planned expenditures are likely to lag levels necessary to prevent the onset of national production decline. Fiscal and regulatory reform, both for Pemex and for hitherto excluded foreign upstream investment, are seen as vital. Progress on such measures has been slow however. For 2006, this Report assumes incremental supply of up to 200 kb/d from the Sihil, and Ku-Maloob-Zap fields and from the shallow waters of the Tabasco littoral. However, this will likely be insufficient to counter decline from the baseload Cantarell field, and national crude production is expected to fall to 3.36 mb/d, plus some 430 kb/d of NGL.

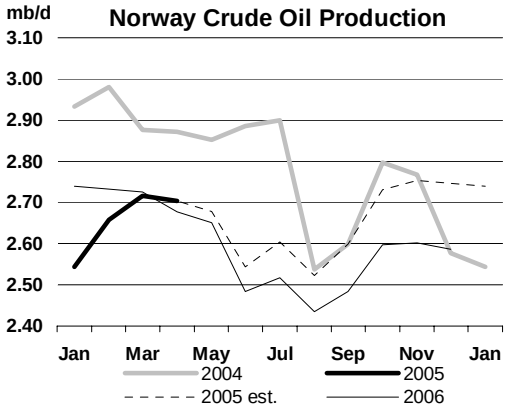
North Sea

Recent production data and loading schedules now suggest a stronger first half of 2005 for the **UK,** but a weaker second half of the year than anticipated in last month's Report. Summer maintenance now appears to have been pushed into the third quarter, earlier indications having suggested that significant volumes would also be offline during April-June. In all, UK production is revised down by some 15 kb/d for 2005 and is expected to average 1.90 mb/d, a fall of 155 kb/d compared to 2004. June saw the announcement of insolvency by operator Tuscan Energy, which promptly closed the 10 kb/d Ardmore field on a permanent basis. In contrast, BP announced plans to extend field life at the similar sized Miller field, which was due to cease production in 2006-2007. Further hopeful signs for the longer-term future of the UK sector came with the announcement that the UK's 23rd offshore licensing round had attracted the highest number of applications in thirty years.

New field start-ups from July 2005 onwards include Forvie North, Farragon, Glenelg, Dumbarton and Buzzard. Collectively these fields should be contributing 150 kb/d by the end of 2006, although Buzzard on its own could attain a peak of 190 kb/d by 2008. Notwithstanding this, the UK faces decline on an underlying basis. Oil production is expected to fall by 175 kb/d next year and will average 1.72 mb/d.

Provisional May data suggests **Norwegian** production running at lower levels than anticipated last month. In all, Norwegian output is revised down by 30 kb/d for the second quarter (countering the similar upwards revision for the UK). However, higher volumes of crude from the Haltenbanken area and of condensate and NGL actually add to last month's forecast for later in the year. Crude supply is expected to fall by 150 kb/d to 2.65 mb/d in 2005 but condensate and NGL rises by 65 kb/d to 565 kb/d.





The emphasis is similar for 2006, with crude declining by 50 kb/d but NGL and condensates increasing by 115 kb/d. The fall in crude is stemmed by new production from the Oseberg system and from the northerly Staer field. Rising volumes of condensate from the already-producing Tune field, plus condensates and NGL from the Kristin field from this October drive the rise in gas liquids supply. Total Norwegian oil production averages 3.17 mb/d next year versus 3.11 mb/d in 2005.

After three years of growth, culminating in record 2004 production of 390 kb/d, **Denmark** now faces decline in the absence of significant new discoveries. Production in 2005 is seen slipping to 380 kb/d and then 350 kb/d in 2006, broadly in line with projections from the Danish Energy Agency.

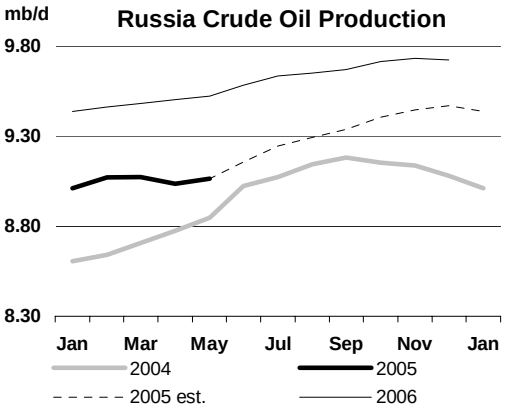
Other OECD

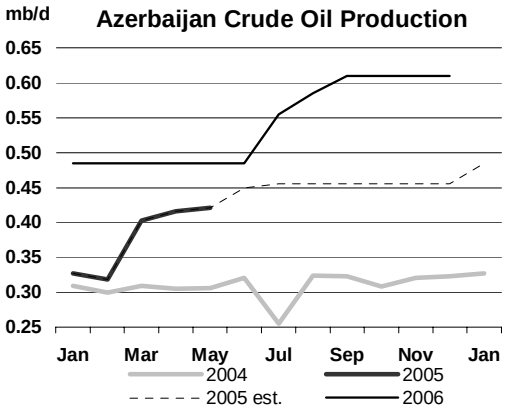
The accelerating pace of decline in **Australian** production, evident since late 2002, began to moderate in late 2004. Although national oil production is still expected to fall on an annual basis, decline should ease to around 10 kb/d in both 2005 and 2006, with annual production of 525 kb/d and 515 kb/d respectively. In contrast, output fell by between 80 kb/d and 100 kb/d in both 2003 and 2004. New production from offshore northern Australia underpins this improved performance. The recently-started 85 kb/d Mutineer field in the Carnarvon Basin will be joined in 2006 by incremental supply from the 100 kb/d Enfield project in late 2006 and by the 30 kb/d Puffin field (Bonaparte Basin) from spring 2006. The Darwin LNG project will also add 15 kb/d to NGL supply from next March.

Former Soviet Union (FSU)

Russia

The dramatic slow-down in Russian production growth evident since mid-2004 has been well documented before and has led some analysts to project negligible to zero growth for 2005 and 2006. Production for May averaged 9.36 mb/d and in June a provisional 9.45 mb/d. Although signalling a resumption in monthly supply growth once more, year-on-year growth has nonetheless dipped to around 2% or 200 kb/d. However this Report maintains a forecast of slightly higher 300 kb/d (3%) growth for 2005 as a whole and 400 kb/d, or 4.1%, growth in 2006.





On the one hand rising export taxes act as a disincentive to boost supply at the margin, and the upstream legislative and regulatory environment remains subject to uncertainty. Also, production from the remaining Yukos assets continues to decline steadily (a trend we assume will continue through 2005 and 2006). On the other hand there are signs of renewed service company activity and of actual production growth by key companies, which suggest that output can recover in the second half of the year. Output from production sharing agreements (PSAs) habitually takes a seasonal upturn as Sakhalin field production recommences (as it did in June). The next phase of Sakhalin development will boost liquids supply by some 240 kb/d on a year round basis and will be making a sizeable contribution during 2006. BP-TNK and Lukoil amongst others retain ambitious growth plans for 2005, with the latter's growth target rising further to 10% for 2006. An earlier slide in production from Yuganskneftegaz assets, now owned by Rosneft, also appears to have levelled off and there are suggestions that renewed production growth from Yuganskneftegaz should be readily attainable on a technical basis, finance permitting.

Incremental export capacity for 2006, including Baltic Pipeline System expansion and plans for renewed growth in rail shipments to China, also suggests the potential for reinvigorated supply growth. In a parallel with recent trends in Chinese demand growth, it is instructive to look at the trend in Russian supply growth over the past year. Rates of growth in early 2005 were always likely to lag the exceptional levels seen in first half 2004. Growth in second half 2005 and early 2006 may well turn out much stronger when viewed in comparison to the sharp downturn seen since mid-2004.

Other FSU

Recent months have seen a progressive downgrading of expectations for 2005 production from **Kazakhstan.** Production has been curbed at a number of fields due to stringent application of terms restricting gas flaring. Production growth in 2005 is now restricted to liquids output from the Karachaganak field, where gas re-injection makes these restrictions less pressing. Electrical problems affecting the Tengiz field in July will make it difficult for output there to exceed 2004's 270 kb/d. Aggregate production from other fields is held flat at mid-2005 levels in light of the flaring restrictions mentioned above. Total Kazakh production should average 1.3 mb/d in 2006 however, a rise of 70 kb/d. A gas re-injection project at Tengiz allows production to reach 400 kb/d by end-2006.

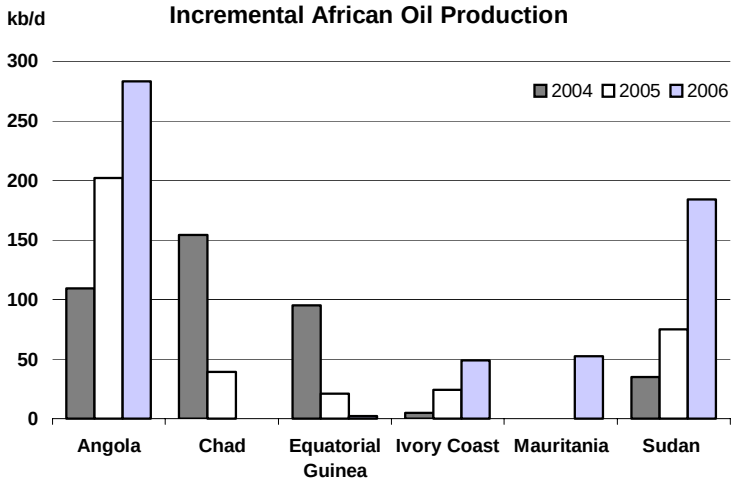
A more buoyant picture is expected for **Azerbaijan.** Production in 2005 is on course to average 430 kb/d, an increase of 115 kb/d versus 2004. The increase derives from start up of the Baku-Tbilisi-Ceyhan (BTC) pipeline in May, and the associated start of operations earlier in the year at the offshore Azeri field. While the existing Azeri and Chirag structures (operated by the international AIOC consortium) are expected to reach a combined 360 kb/d by end-2006, a further 75 kb/d will come after development of the West Azeri structure in third quarter 2006. Although state-owned SOCAR's production is likely to remain largely static, the boost from AIOC takes total Azerbaijan production to 545 kb/d in 2006, an annual rise of 115 kb/d.

Other Non-OPEC

Africa

For a third year in succession in 2006, Africa provides the main challenge to the FSU's recent pre-eminence in regional non-OPEC supply growth. An expected rise of 545 kb/d next year represents 39% of the non-OPEC total. In 2005, growth has derived primarily from Angola, with lesser contributions from Sudan, Chad, Ivory Coast and Equatorial Guinea. Next year too, **Angola** leads the way with output expected to average nearly 1.5 mb/d, double the rate of production seen in 2001. Deepwater developments including the Jasmin, Xicomba and Kizomba projects have driven recent growth. Growth in 2006 is expected to amount to 285 kb/d, with new start-ups at the Benguela/Belize and Dalia fields as well as production build-up from this month's Kizomba B start-up and higher liquids volumes from the Sanha field.

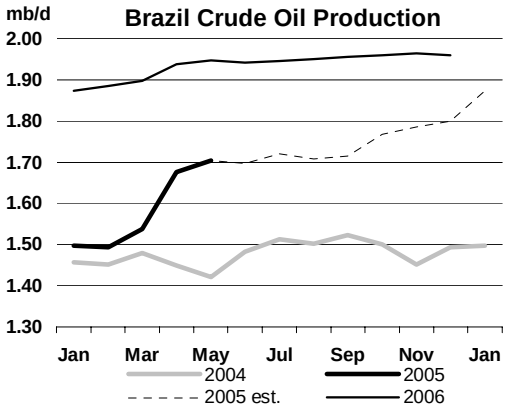
Recent political unrest makes **Sudan** perhaps a surprise contributor to recent African growth. However output, which only commenced in the mid-1990s, has risen to a current 350 kb/d, with around 500 kb/d expected by end-2005. Initial production of Dar blend crude from the 200 kb/d Adar/Yale fields is expected this month. Together with increased production from the CNPC-operated Block 6, these developments should allow Sudan's production to reach 570 kb/d in the second half 0f 2006. Sudan represents a key example of upstream investment by Asian producers keen to access equity oil abroad to help meet strong domestic demand growth. China's CNPC, Malaysia's Petronas and Indian interests are all active in Sudan.



Elsewhere in Africa, a build-up in supply from the West Espoir and Baobab fields, due onstream in 2005, allow **Ivory Coast** production to average 60 kb/d in 2005 and 110 kb/d in 2006. Finally, **Mauritania** is expected to join the ranks of west Africa's oil producers in early 2006 with start-up of the 75 kb/d Chinguetti field, being developed by Australia's Woodside Petroleum. Subsequent developments offshore Mauritania may involve water depths of up to 3,500 metres.

Latin America

Growth in supply from Latin America averages 230 kb/d in 2006, close to the expected 2005 increase. **Brazil** is expected to provide 2.3 mb/d of anticipated regional oil production of 4.5 mb/d next year and accounts for all of the growth expected in 2006 as production elsewhere generally declines. Brazilian crude output for 2006 reaches 1.9 mb/d, while NGL and ethanol supply reaches 355 kb/d. Delayed and much-documented deepwater offshore crude production from the Campos Basin accounts for the bulk of the Brazilian increase both this year and next. New start-ups Barracuda and Caratinga will be joined in autumn this year by Albacore Leste and expanded production from Jubarte. The Marlim Leste project should begin in the second half of 2006. Collectively these fields, plus the Golfinho project in the Espirito Sante Basin, will build gradually to over 700 kb/d of output.



Prospects for incremental supply elsewhere in Latin America are limited by a lack of recent exploration success, and sub-optimal investment climate. The future outlooks for **Colombia** and **Ecuador** may be diverging. Recent increases in Ecuador's production after completion of the OCP export pipeline may be short-lived. Protestors curbed May 2005 production and Congress recently rejected moves to further open the hydrocarbon sector to foreign investment. National production should level off around 560 kb/d in 2005 and 2006 after increasing by 100 kb/d in 2004. Colombia too has seen sustained production decline this decade, but 2004 saw the highest level of foreign investment since 1996. Earlier security concerns have receded and foreign companies no longer need to enter joint ventures with state Ecopetrol. Colombian output should level out at 515 kb/d in 2006 after sharp declines earlier in the decade. Extra volumes of gas liquids are expected from Camisea (**Peru**) and from the Angostura and Atlantic LNG projects in **Trinidad**, though largely in 2005.

Asia

The **Chinese** production forecast for 2005 has been subject to upward revision in recent months, after a combination of higher onshore western production, new offshore field start-ups and some success in stemming decline from older onshore fields in the east of the country. Production for 2005 is now

seen attaining 3.6 mb/d, a rise of 125 kb/d from 2004. Next year ongoing western and offshore growth is assumed to be countered by further decline in mature areas, leaving total production flat.

Revisions to Non-OPEC Oil Supply
(million barrels per day)

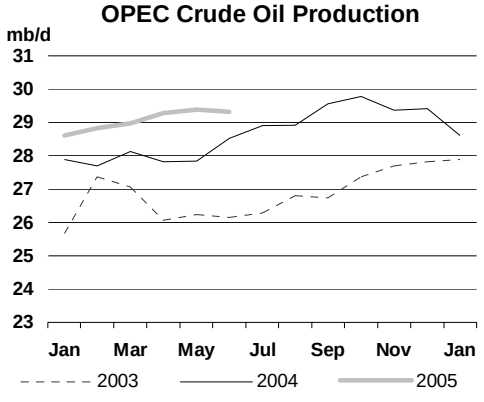
	Last Month's OMR			This Month's OMR			This Month vs. Last Month		
	2004	2005	05 vs. 04	2004	2005	05 vs. 04	2004	2005	05 vs. 04
North America	14.58	14.60	0.02	14.59	14.66	0.07	0.01	0.06	0.05
Europe	6.09	5.87	-0.23	6.09	5.85	-0.24	0.00	-0.02	-0.02
Pacific	0.58	0.58	0.00	0.58	0.57	-0.01	0.00	-0.01	-0.01
Total OECD	**21.25**	**21.05**	**-0.21**	**21.26**	**21.08**	**-0.18**	**0.01**	**0.03**	**0.03**
Former USSR	11.22	11.68	0.46	11.22	11.63	0.42	0.00	-0.05	-0.05
Europe	0.17	0.16	-0.01	0.17	0.16	-0.01	0.00	0.00	0.00
China	3.48	3.61	0.12	3.48	3.61	0.13	0.00	0.01	0.01
Other Asia	2.75	2.76	0.00	2.75	2.79	0.03	0.00	0.03	0.03
Latin America	4.07	4.30	0.22	4.07	4.30	0.23	0.00	0.00	0.00
Middle East	1.89	1.81	-0.08	1.89	1.79	-0.09	0.00	-0.01	-0.01
Africa	3.43	3.76	0.32	3.43	3.76	0.33	0.00	0.00	0.01
Total Non-OECD	**27.02**	**28.06**	**1.04**	**27.01**	**28.04**	**1.03**	**0.00**	**-0.02**	**-0.02**
Processing Gains	1.83	1.86	0.03	1.83	1.86	0.03	0.00	0.00	0.00
Total Non-OPEC	**50.10**	**50.97**	**0.87**	**50.11**	**50.98**	**0.88**	**0.00**	**0.01**	**0.01**

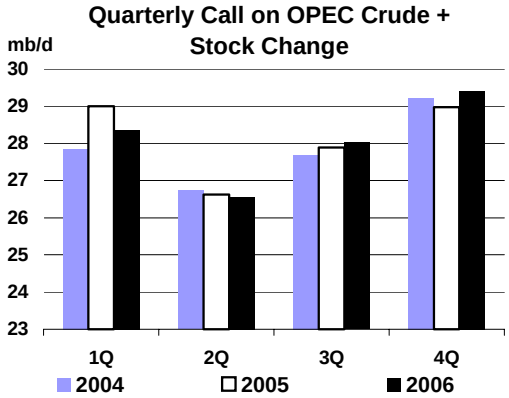
OMR = Oil Market Report

Elsewhere in the region, production growth for 2006 accelerates to 95 kb/d, close to the levels seen during 2002-2004 after a slow-down in 2005. **Vietnam** sees growth resume in 2006 after a hiatus in 2005. Total oil production reaches 465 kb/d from 410 kb/d in 2005. Extended maintenance work has trimmed 2005 Bach Ho field production but is unlikely to be repeated in 2006. This, allied to rising supplies from the Dai Hung and Ruby fields in late 2005, plus the start of Rong Doi condensate output in late 2006, drive Vietnamese production higher. An incremental 50 kb/d of production next year will come from **Malaysia, Thailand** and **East Timor,** largely based upon rising condensate and gas liquids supplies from fields entering operation in 2005.

OPEC

OPEC supply fell by 105 kb/d in June and averaged 29.3 mb/d, net of 590 kb/d of Venezuelan synthetic crude. Baseline May production is revised up by 105 kb/d, to 29.4 mb/d. Latest export data suggest that Iranian supply in May was around 100 kb/d higher than previously estimated and Iraqi supply was some 50 kb/d higher. A more rapid than expected resumption from the Murban field in Abu Dhabi after April maintenance also led to a 40 kb/d upward revision for the UAE in May. In contrast, reassessed export levels for Kuwait cut supply for April and May by 30-50 kb/d versus last month's estimate. This pushes May supply closer to 2.4 mb/d versus an earlier 2.5 mb/d.





Output from Iraq, Nigeria and Qatar nudged modestly higher in June, by a collective 85 kb/d. June was notable as being the first time in six months that export liftings of Iraqi crude from Ceyhan in Turkey were possible. Those countries aside however, there appeared to be a lull in crude exports from the Arab Gulf. Iran and Saudi Arabia both saw supply fall back by around 50 kb/d, to 3.95 mb/d and 9.5 mb/d respectively. Onshore field maintenance also cut June supplies from the UAE and Kuwait by 60 kb/d and 40 kb/d versus May levels, with July production likely to remain affected by maintenance in both countries. However, initial indications are that the overall dip in OPEC supply may prove short-lived, with tanker tracking estimates suggesting a renewed rise, albeit modest, in export levels in July.

OPEC's Ministerial meeting on 15 June in Vienna resulted in a 500 kb/d increase in the collective production target to 28.0 mb/d, with the OPEC President authorised to begin discussions on a further increase to 28.5 mb/d in the event of sustained high prices (reportedly in excess of $60/bbl for WTI). The Organisation also announced that as of 16 June it would formally adopt a revised composition for the OPEC Basket which is used for price monitoring purposes. The headline price will equate to a production/export-weighted average for the eleven crude oils, namely Saharan Blend, Minas, Iran Heavy, Kuwait Export, Es Sider, Bonny Light, Qatar Marine, Arab Light, Murban, BCF 17 and Basra Light. As the new basket is heavier and sourer than the previous one, implied differentials between the basket and lighter international crude oil prices could prove wider by as much as $2-$3/bbl. The next OPEC Ministerial meeting takes place on 19 September, again in Vienna.

Since the June meeting, market comment has tended to highlight the fact that these latest quota increases are symbolic rather than real, since most OPEC members are either producing above the new higher targets or are under capacity constraints which prevent them from doing so. While this may be so, it is not necessarily as overwhelmingly bullish a market factor as some have suggested. That depends upon one's view of oil demand and non-OPEC supply growth for the balance of 2005 and into 2006. Unlike some other analyses, this Report sees market fundamentals easing in the months ahead, albeit that the market would likely be more comfortable with higher stock cover than prevails at present. Our call on OPEC crude and stock change for the second quarter has been revised down by 500 kb/d to 26.6 mb/d, suggesting a stock build of some 2.7 mb/d in the quarter just gone. The fourth quarter call now stands at 29.0 mb/d, somewhat below recent OPEC output.

OPEC Crude Production

(million barrels per day)

	1 July 2005 Target	16 March 2005 Target	June 2005 Production	Sustainable Production Capacity [1]	Spare Capacity vs. June 2005 Production	Prod.vs. July 2005 Target	Prod. vs. March Target
Algeria	0.89	0.88	1.35	1.35	0.00	0.46	0.47
Indonesia	1.45	1.43	0.94	1.00	0.07	-0.52	-0.49
Iran	4.11	4.04	3.95	4.00	0.05	-0.16	-0.09
Kuwait[2]	2.25	2.21	2.37	2.50	0.13	0.12	0.16
Libya	1.50	1.47	1.65	1.65	0.00	0.15	0.18
Nigeria	2.31	2.27	2.45	2.45	0.00	0.14	0.19
Qatar	0.73	0.71	0.79	0.80	0.01	0.06	0.08
Saudi Arabia[2]	9.10	8.94	9.50	10.50	1.00	0.40	0.56
UAE	2.44	2.40	2.31	2.55	0.24	-0.13	-0.09
Venezuela[3]	3.22	3.17	2.12	2.20	0.08	-1.10	-1.05
Subtotal	**28.00**	**27.50**	**27.43**	**29.00**	**1.58**	**-0.57**	**-0.07**
Iraq			1.84	2.50	0.66		
Total			**29.27**	**31.50**	**2.24**		
(excluding Iraq, Nigeria, Venezuela, Indonesia					*1.43)*		

1 Capacity levels can be reached within 30 days and sustained for 90 days
2 Includes half of Neutral Zone Production
3 Excludes upgraded Orinoco extra-heavy oil, which averaged 588 kb/d in June

Incremental OPEC capacity in second half 2006 amounting to 700-800 kb/d lends a further reassuring gloss to this market scenario, although the potential for unanticipated disruptions to either non-OPEC oil supply, or non-oil energies (another demand shock), remains an ever-present threat. The impact of these perceived risks is of course magnified by the paucity of spare OPEC upstream capacity at the present time. Nor are planned OPEC capacity additions, net of prevailing mature field decline, likely to push OPEC spare capacity significantly above 3-3.5 mb/d in the foreseeable future. At the same time however, there is also merit in OPEC's argument that a shortage of refinery upgrading capacity

in consuming countries is contributing to higher prices. The perceived lag in oil industry investment is not just an upstream issue.

June saw mixed signals coming from **Iraq**, although production net of flows into storage and field re-injection rose by 40 kb/d to 1.84 mb/d. Total exports increased by 55 kb/d to reach 1.46 mb/d from an upwardly revised May level of 1.4 mb/d. The increase derived almost entirely from renewed export liftings from Ceyhan in Turkey, the first such exports to have occurred since December. Southern exports from Basrah and Khor al-Amaya were stable at just under 1.4 mb/d. From Ceyhan, a total of 1.55 million barrels was lifted by Turkish refiner Tupras, with a 1 mb cargo taken by tanker and a 550 kb batch sent by pipeline from Ceyhan to the Kirikkale refinery. So far, scheduled July liftings from Ceyhan include a further 2 mb by Tupras and a combined 2.6 mb by Total, Exxon and Repsol. This would treble July Ceyhan liftings to 150 kb/d from 50 kb/d in June. Despite these encouraging signs, pipeline flows from Kirkuk to Ceyhan remain irregular and early July crude in storage at Ceyhan is around 4mb compared to capacity of nearer 8 mb. It appears that SOMO is now prepared to seek tenders for oil with lower volumes in storage, although whether this represents tacit acceptance that pipeline flows are likely to remain disrupted is not certain.

As well as extra Ceyhan crude, plans for July also involve a potential 70 kb/d of extra crude from Basrah in the south. Crude runs at the Basrah refinery will reportedly be temporarily cut by this amount, freeing up crude for export. However, the potential for an extra 170 kb/d in crude exports in July should not obscure the continuing problems faced by the Iraqi oil sector. Attacks by insurgents on vessels, pipelines and refineries continued in June and into July. Problems with water-injection facilities at southern oil fields persist and northern output remains constrained by a lack of secure outlets, with pipelines feeding local refineries, and the main export route to Ceyhan still prone to attack. The production target for the end of 2005 is now 2.5 mb/d (current gross production is around 2.0 mb/d) versus an earlier target of 2.8 mb/d. SOMO has also cut southern export contracts for the second half of 2005 to 1.45 mb/d. This is closer to realised first-half 2005 levels, and well below an originally scheduled 1.7 mb/d.

OECD STOCKS

Summary

- **OECD total industry oil stocks** built 2.5 mb/d, or by 78 mb, in May with gains distributed about evenly between crude and product inventories. At the end of May, OECD industry oil stocks were estimated at 2658 mb, or 139 mb above their position last year. The combined April and May increase came to 1.8 mb/d, above the five-year average for the second quarter of 900 kb/d. The build in stocks, combined with downward revisions to OECD demand, raised forward cover to 54 days in May, up from 53 days in April and 2.5 days above a year ago.

Preliminary Industry Stock Change in May 2005 and First Quarter 2005
(million barrels per day)

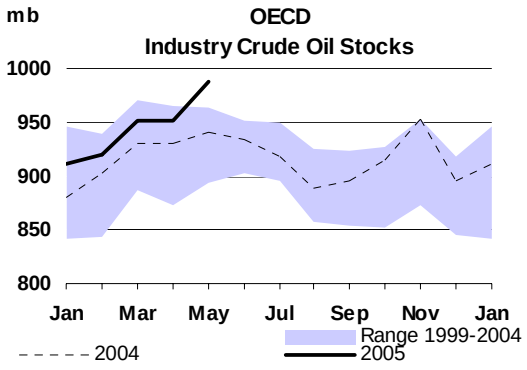
	May (preliminary)				*First Quarter 2005*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**0.06**	**0.38**	**0.72**	**1.17**	**0.36**	**0.26**	**-0.02**	**0.60**
Gasoline	0.12	-0.03	0.03	0.12	0.04	0.05	0.01	0.11
Distillates	0.13	0.17	0.25	0.55	-0.29	0.07	-0.29	-0.51
Residual Fuel Oil	0.01	0.01	0.10	0.12	-0.02	-0.04	-0.01	-0.08
Other Products	0.39	0.00	0.12	0.51	-0.01	0.01	-0.07	-0.07
Total Products	**0.65**	**0.15**	**0.50**	**1.30**	**-0.28**	**0.09**	**-0.37**	**-0.55**
Other Oils[1]	-0.03	-0.03	0.10	0.05	-0.09	0.05	-0.06	-0.11
Total Oil	**0.68**	**0.50**	**1.33**	**2.51**	**-0.01**	**0.41**	**-0.45**	**-0.06**

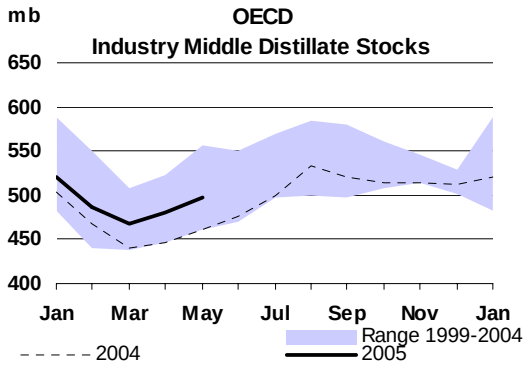
1 Other oils includes NGLs, feedstocks and other hydrocarbons

- **OECD industry crude stocks** increased in May by 1.2 mb/d, or 36 mb. The increase came mainly in the Pacific with a near 18 mb rebound in onshore Japanese stocks. Gains in Europe were more modest but, as in Japan, were driven by lower crude demand and ample supplies. Stocks in the US increased in May before seasonally declining in June as refiners maximised runs. However, weakness in WTI's price premium over Brent suggested that near-term US crude supplies remained ample, keeping prompt NYMEX crude futures spreads in contango.

- **OECD industry distillate stocks** were up 550 kb/d or 17 mb in May. The Pacific saw the largest build on the heels of weaker gasoil and kerosene demand. Stocks were also up in the Atlantic Basin, supported by a strong contango in NYMEX and IPE gasoil futures. The build in Europe and the US came across all middle distillate fuels with European inventories closing at the top of their range. In contrast, US diesel and heating oil stocks, while building at normal seasonal rates, only reached their five-year average by early July.

- **OECD industry gasoline stocks** were up in May, mainly on builds in the US. The build in US gasoline stocks was spurred by an increase in domestic production and average imports holding above 1 mb/d. US stocks gained a further 3 mb in June despite higher demand growth. Opening July gasoline stocks in the US were estimated at 215 mb, or about 6.5 mb above last year. Inventories were supported by rising imports of reformulated gasoline and blending components and stable average domestic production of finished gasoline.





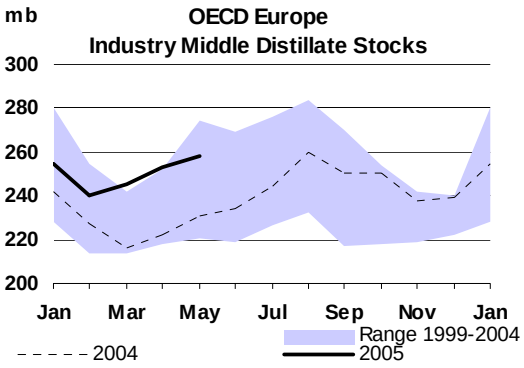
OECD Industry Stock Changes in May 2005

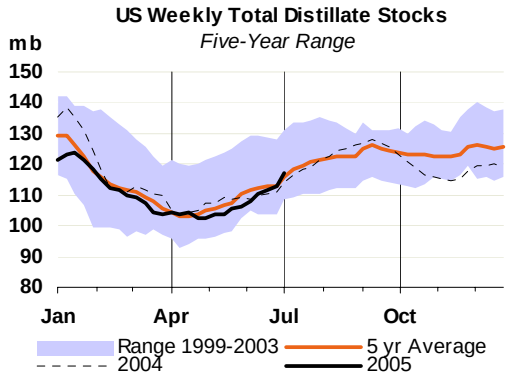
OECD

OECD industry oil inventories increased 2.5 mb/d, or 78 mb, in May, with gains more or less evenly distributed between product and crude stocks. OECD crude stocks rose 36 mb, mainly in the Pacific and Europe where refinery maintenance lowered crude demand. North American crude stocks were marginally higher with strong US imports balancing a post maintenance rise in refinery runs. The build in OECD product stocks was slightly stronger than that of crude at 40 mb, while NGLs and feedstocks rose nearly 2 mb. Gains in distillate stocks drove the product build with stocks increasing by 550 kb/d or 17 mb in May. The combined April and May increase in distillate stocks was running at 500 kb/d, above the five-year average rate of 370 kb/d for the second quarter. After distillates, builds in 'other product' stocks pushed inventories higher. These increased primarily in North America where higher US refinery utilisation lifted the supply of unfinished products. The increase in inventories combined with downward revisions to OECD demand pushed forward demand cover by industry stocks to 54 days in May from 53 in April and 2.5 days above last year.

OECD North America

US-50 crude oil stocks peaked at 334 mb by mid-May before seasonally declining in June as refiners ramped-up runs with the end of refinery maintenance. Opening July crude stocks were estimated at 325 mb or 20 mb above last year. Stocks at Cushing, the delivery point for NYMEX's WTI futures contract, fell during the period but near-term US supplies appeared ample. WTI futures held in contango and WTI's premium over Dated Brent remained weak at, or below, $2/bbl. Shaping US product trends in May was the ability of US refiners to increase distillate yields while maintaining those for gasoline at their seasonal peak. Gasoline stocks rose in May on imports and higher domestic production. They continued to trend higher in June despite firming demand growth. Gasoline demand is to rise steadily to its seasonal peak in August and with NYMEX gasoline futures flipping into backwardation, stocks are set to take their seasonal downturn. Distillate stocks recovered to their five-year average level by early July despite strong demand. The strength of demand growth in distillates (as implied by US weekly data) however, would appear clouded by upward revisions to 2004 demand levels. Rising production on higher throughputs and distillate yields, a firm contango in heating oil futures and lower exports should support a strong distillate stock build during the third quarter.



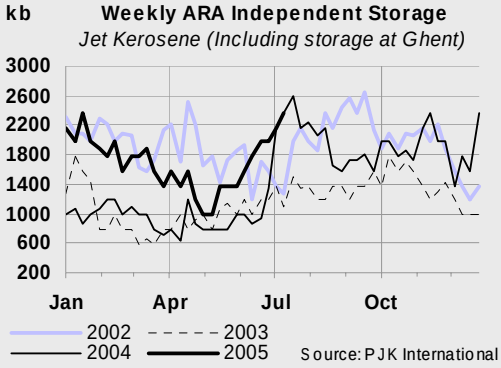


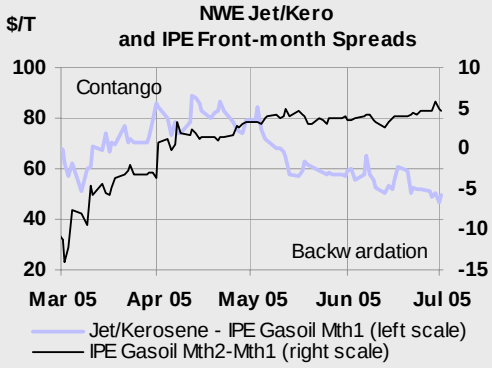
OECD Europe

European industry crude stocks were up 12 mb in May to 356 mb, closing 18 mb above a year ago. The increase came as crude demand fell while refinery maintenance and regional crude availabilities remained high. Though June maintenance was significantly lower than in May and crude runs were higher, crude stocks are unlikely to have fallen materially. After showing little interest in late May, European refiners covered June requirements, actively bidding on a prompt basis for North Sea June cargoes. In addition, Brent crude arbitrage to the US was limited. Weakening spreads for Urals against Brent in June also suggested ample supplies of medium, sour grades. In spite of lower refinery output, major product inventories (with the exception of middle distillates) held about even. European distillates increased 5 mb in May off an upward revised April base to close at 258 mb or 27 mb above last year. The rise was supported by a strong contango in IPE gasoil futures and weaker heating oil and jet fuel demand. Gasoline stocks were marginally down, closing at 117 mb or 4 mb above last year. European gasoline demand in May held flat on the year while spot arbitrage exports to the US both out of Northwest Europe and the Mediterranean were limited.

ARA Independent Storage: Jet Fuel to Overshoot Seasonal Trends?

Independent storage of jet fuel held in the Amsterdam-Rotterdam-Antwerp area (including stocks held at Ghent) has steadily increased since the beginning of May. A stock build is fairly typical ahead of the summer holidays which see air travel increase seasonally. IPE gasoil futures (used to hedge jet fuel along with other instruments such as swaps) were in contango, encouraging the movement of both heating oil and jet fuel into storage.





Stocks in independent ARA storage are currently tracking 2004 trends. Availability of jet supplies in Europe increased on the combination of higher domestic production and growing imports. Jet fuel's premium over diesel and heating oil peaked earlier in April and into early May, prompting a switch in product yields in its favour. In Europe, the strength of distillate prices has attracted supplies from both east and west. Cargoes delivered into ARA were sourced from the Middle East and the US Gulf Coast but incoming volumes from Venezuela and the Caribbean were reported as well. The contango in paper markets, along with weakening cash premiums against IPE gasoil futures, has accelerated additions to storage.

Against a backdrop of higher supplies, it appears that airline demand is slightly weaker than anticipated. This Report estimates jet/kerosene demand for OECD Europe at 1.28 mb/d for 3Q2005 against 1.25 mb/d last year. However, demand estimates have been revised down from 2Q2005 to the end of the year compared to last month's Report. Depending on the strength of demand, storage levels this year are likely to hold at higher seasonal levels with more supplies from the Middle East expected to land in July. As ARA jet fuel stocks rapidly increased, operators have been reportedly seeking storage space in locations such as Ireland and Scandinavia.

OECD Pacific

Pacific crude stocks rebounded strongly in May on gains in Japanese onshore inventories, which increased by nearly 18 mb. Korean crude inventories were also up, rising by 5 mb. Pacific crude stocks closed the month at 181 mb, or about 2 mb above a year ago. The rapid rise in Japanese onshore inventories came with weaker crude demand as refiners were in peak maintenance during May. At the same time, imports of crude oil from Arab Gulf countries were high. The strong import levels reflected additional volumes above term supplies back in March and early April. The large increase in Japanese crude stocks, though likely to be revised slightly lower, is not atypical as it took place ahead of an anticipated increase in crude runs. Weekly figures from the Petroleum Association of Japan for June show crude runs rebounding as refiners exited maintenance. At the same time, onshore crude stocks held about even, suggesting that crude import volumes remained strong.

Distillate inventories rose seasonally in Japan and Korea, building by 8 mb, putting Pacific distillate stocks at 63 mb, or 7 mb above levels of a year ago. Given lower runs in Japan, weakness in demand appeared to be the main driver with sales of both gasoil and kerosene down. Demand weakness was less of a factor in Korea where an increase in stocks came alongside a rise in exports. Crude runs in Korea bucked seasonal trends, rebounding on the month with an aim of replenishing inventories ahead of maintenance in June. Fuel oil stocks in both Korea and Japan were higher in May, reflecting a heavier and more sour crude slate. Japan saw increases in 'C' type fuel oil stocks (used for oil-fired electrical utilities) more or less sustained at May's peak level in June as growth in utility demand was moderated by the return of a previously offline nuclear facility.

OECD Inventory Position at End-May and Revisions to Preliminary Data

Revisions to industry oil stocks raised April preliminary estimates by nearly 9 mb. Crude inventories were revised upwards across the OECD with each region seeing stock levels around 1.5 mb higher than initially estimated. In major products, upward revisions were made to distillate stocks, mainly in Europe (+5.9 mb). Gasoline and residual fuel inventories were adjusted downward, mainly on the basis of lower inventories in North America.

Revisions Versus 10 June 2005 Oil Market Report
(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Mar 04	Apr 05	Mar 04	Apr 05	Mar 04	Apr 05	Mar 04	Apr 05
Crude Oil	**0.5**	**1.3**	**-0.4**	**1.5**	**0.0**	**1.6**	**0.1**	**4.4**
Gasoline	-0.9	-1.7	-0.1	0.1	0.2	0.7	-0.8	-0.9
Distillates	0.4	-0.6	-1.0	5.9	0.3	0.0	-0.2	5.3
Residual Fuel Oil	-1.6	-2.9	0.5	2.7	-0.1	-0.2	-1.2	-0.4
Other Products	-5.6	-5.2	0.0	0.7	0.3	0.1	-5.3	-4.4
Total Products	**-7.6**	**-10.5**	**-0.7**	**9.5**	**0.8**	**0.5**	**-7.5**	**-0.4**
Other Oils[1]	0.0	3.2	-0.1	0.9	0.0	0.6	-0.2	4.7
Total Oil	**-7.2**	**-5.9**	**-1.2**	**11.8**	**0.8**	**2.7**	**-7.6**	**8.6**

1 other oils includes NGLs, feedstocks and other hydrocarbons

The upward revision to OECD stocks in April and an estimated 78 mb increase in total oil stocks in May put oil inventories at 2658 mb, or about 139 mb above their position a year earlier. Product stocks closed 90 mb above May 2004 while crude stocks ended higher by 47 mb. Most of this surplus was centred in the Atlantic Basin. Along with lower near-term OECD demand growth, the stock build raised days of forward demand cover in the OECD to 54 days in May from 53 days in April. Cover in North America came to 48 days, 64 days in Europe and just below 54 days in the Pacific in May.

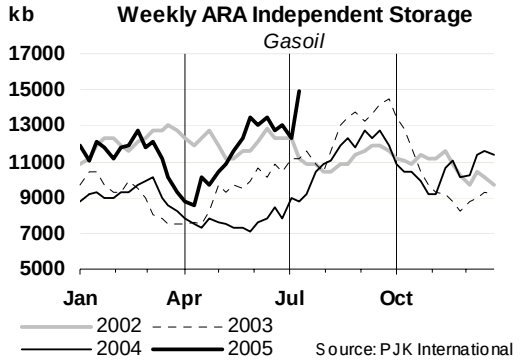
Year-on-Year Industry Stock Comparisons for May 2005

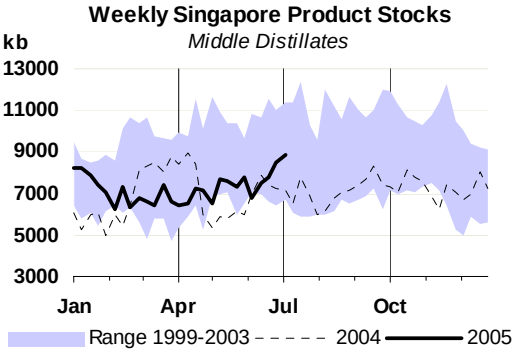
	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**27.0**	**18.1**	**1.8**	**46.9**	**Total Oil**	**1.9**	**3.4**	**2.0**	**2.4**
Total Products	42.1	34.9	13.0	90.0	*Versus 2003*	0.9	3.2	-0.4	1.3
Other Oils[1]	-2.5	2.5	1.7	1.7	*Versus 2002*	-3.5	1.9	-0.8	-1.5
Total Oil	**66.7**	**55.5**	**16.5**	**138.6**	**Total Products**	**1.3**	**2.2**	**1.6**	**1.6**
Versus 2003	82.6	63.0	4.6	150.2	*Versus 2003*	0.0	1.6	-0.9	0.3
Versus 2002	-16.0	38.2	4.2	26.4	*Versus 2002*	-2.2	-0.4	-2.1	-1.7

1 other oils includes NGLs, feedstocks and other hydrocarbons

Recent Developments in ARA Independent Storage

Trends in product stocks in ARA independent storage for gasoline and fuel oil continued to reflect varying opportunities for trade out of the region. Gasoline trended sideways for most of June in spite of ongoing deliveries to the US and Nigeria. Spot transatlantic arbitrage opportunities were intermittent due to comfortable US inventories of gasoline, firm eurograde prices on refinery buying on the barge market and competition from lower quality Russian material destined for blending. With swaps prices in backwardation, more gasoline was encouraged out of storage in early July and stocks fell. Fuel oil stocks dipped slightly in June with some movement of product to Asia, but heavy inflows of Baltic material in the region helped to keep inventories at relatively high levels. The first week of July saw fuel oil stocks fall back on further VLCC shipments to Asia. Gasoil inventories held about even during June, just below the levels reached in May. Weak end-user demand for heating oil and a contango in IPE gasoil futures through to the end of the year has encouraged traders and importers to move product into storage. The first week of July saw gasoil stocks reach 2 million tonnes (about 14.5 mb) as accumulation of product accelerated. Demand from wholesalers was thin in absence of end-user interest and regional supplies rose as, in addition to imports, domestic output increased with refiners exiting maintenance. In spite of some buying when prices dipped in May, consumer tanks in key heating oil markets stayed at relatively low levels compared to previous years.





Recent Developments in Singapore Stocks

Total product stocks in Singapore surveyed by *International Enterprise* closed higher in June, increasing on builds in middle distillate and light product (naphtha and gasoline) stocks. Storage of fuel oil in contrast ended lower by end-June but the decline proved temporary as stocks rebounded in early July. Partly underlying the evolution of light and middle product stocks was the absence of key regional importer Indonesia, which reportedly skipped product tenders for June delivery.

Middle distillate inventory gains appeared prompted by a build in kerosene, supported by seasonally weaker demand and rising supplies in the region. Regional refiners had maximised jet/kerosene production earlier in April and early May when jet fuel posted a strong premium over gasoil. A weakening in the prompt market widened the contango structure for jet paper in Singapore, supporting a move of product into storage. Despite continued low sulphur diesel buying by India and reportedly lower Middle Eastern supplies, market sentiment was dominated by the absence of Chinese diesel demand, deterred by the high level of international prices. Weaker regional demand was reflected in Korean gasoil cargoes offered at widening discounts to Singapore quotes.

Light product stocks edged higher on ample regional naphtha supplies due to ongoing exports from India. Petrochemical demand was also weak, mainly from Japan but also from Korea and Taiwan. This led Asian buyers to ask for lower prices for term supplies by Middle Eastern producers and naphtha fob prices from the Arab Gulf saw discounts to Singapore widen over June. The picture for gasoline appeared mixed. China, a key exporter, curtailed supplies in the region in June, offsetting somewhat the absence of Indonesian tenders and supporting an upward trend in Singapore gasoline prices. Regular exports to Malaysia continued to dominate Singapore's trade patterns. In fuel oil, stocks ended relatively high, though dipping by end-month. Strong bunker demand appeared to be absorbing incoming supplies from the West and Saudi Arabia and offsetting weak Chinese demand. The backwardation in Singapore HSFO prices eased over June, suggesting a more balanced market on rising supplies. Quotes for HSFO cargoes from Korea and Japan saw their premiums fall against Singapore prices on the likelihood of greater arbitraged imports in July than in June.

Singapore Crude & Product Trade
(thousand barrels per day)

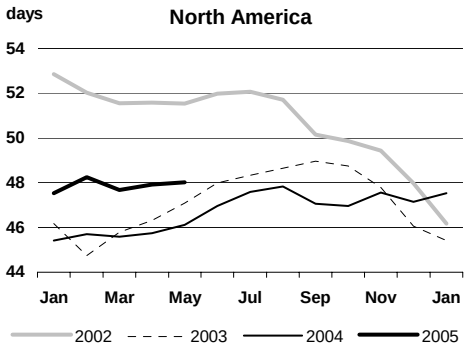
Net Imports/(Exports) of:	2003	2004	2Q04	3Q04	4Q04	1Q05	Mar 05	Apr 05	May 05	Latest month vs. Apr 05	Latest month vs. May 04
Crude Oil	755	815	696	727	1059	1266	1395	815	1014	198	211
Products & Feedstocks	-96	-136	-150	-118	-211	-216	-288	-126	-442	-316	-382
Gasoil/Diesel	-170	-182	-206	-181	-206	-187	-212	-157	-224	-67	-47
Gasoline	-83	-96	-119	-79	-98	-80	-102	-64	-162	-98	-45
Heavy Fuel Oil	320	276	289	238	272	236	197	205	80	-125	-207
LPG	-22	-22	-21	-20	-24	-20	-18	-17	-21	-3	-10
Naphtha	13	31	24	42	21	36	61	48	29	-19	8
Jet & Kerosene	-99	-86	-50	-92	-102	-132	-143	-69	-70	-1	-60
Other	-55	-57	-67	-26	-74	-69	-70	-73	-75	-2	-21
Total	**659**	**679**	**546**	**609**	**848**	**1051**	**1107**	**689**	**572**	**-117**	**-170**

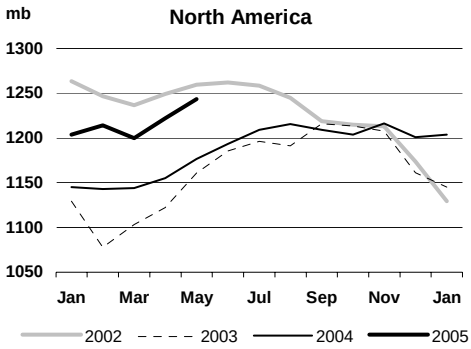
Source: International Enterprise, IEA estimates

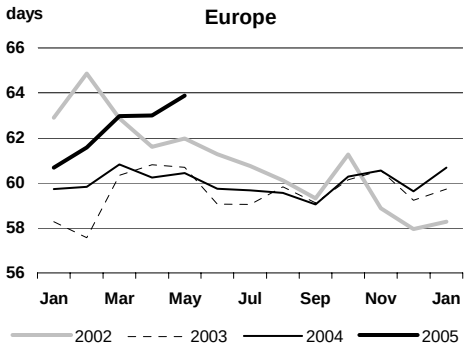
Regional OECD End-of-Month Industry Stocks

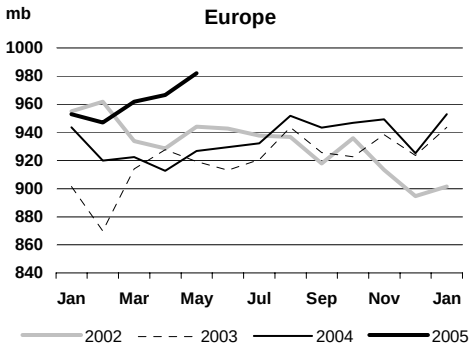
(in days of forward demand and millions barrels of total oil)

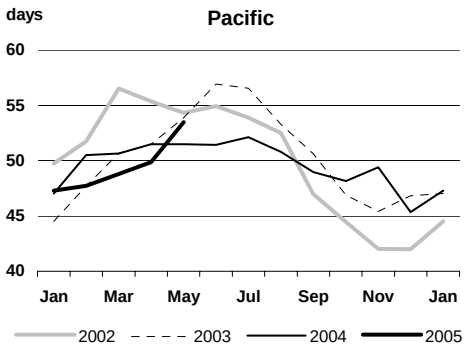
Days[1] **Million Barrels**

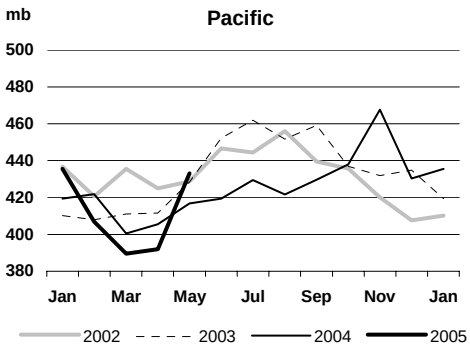


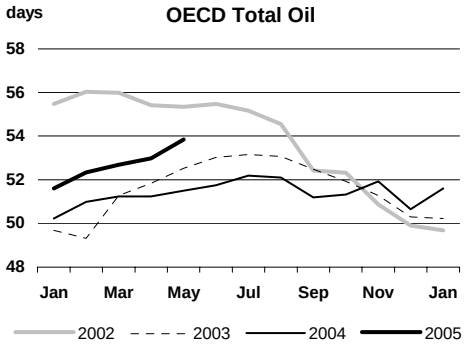


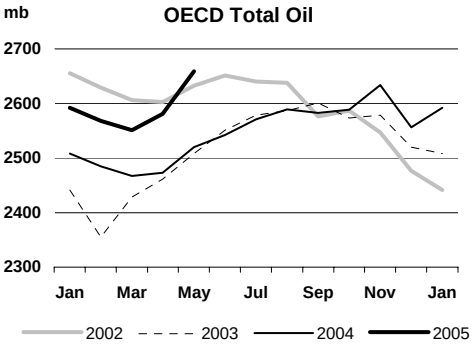












1 Days of forward demand are based on average demand over the next three months.

PRICES

Summary

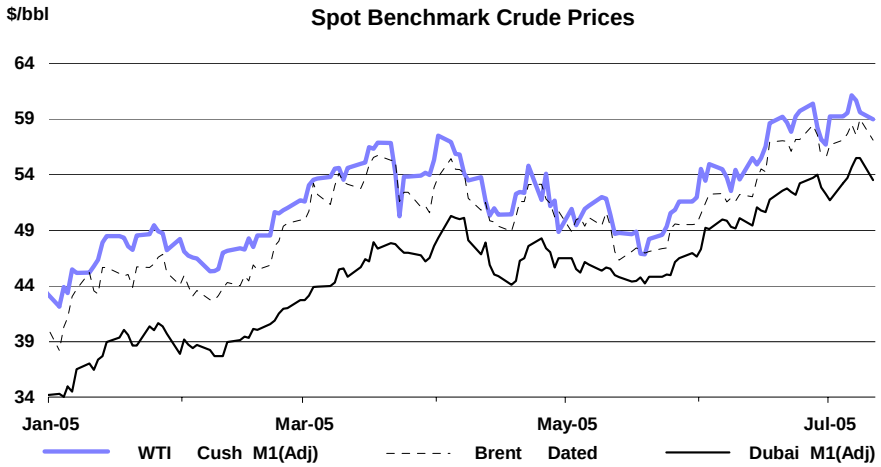
- **WTI and Brent** dipped back from their foray above $60 in early July as Tropical Storm Cindy and Hurricane Dennis passed without major damage. But the hurricane season in the Gulf of Mexico has made an unusually active start and following these near misses and fresh memories of Hurricane Ivan, concern of weather-related supply disruptions will remain high until November.

- **Diesel** strength and a continued desire by refiners and major consumers to either build stocks or buy paper forward against potential peak winter demand (and beyond) remains the main driving force behind higher crude prices. However, these concerns contrast with rising OECD crude stocks and reports of inventory increases in non OECD countries.

- **Hurricane Dennis** and strong pre-4 July demand returned US gasoline prices to a premium over diesel. Prices are also being tightened by the strength of octane enhancer MTBE in Europe, where blending activity is strong due to naphtha weakness.

- **The contango in IPE Brent and NYMEX WTI** crude futures prices continues to roll forward. This suggests that the contango structure is caused by seasonally higher-than-normal crude stocks, prompting front-end discounts, together with strong forward buying by consumers and refiners. Asian-destined heavy crudes have either moved into contango or are seeing a flattening of the nearby backwardation.

- **VLCC freight rates** from the Middle East to Asia continued to decline through most of June amid seasonally slower second quarter demand and further new-build vessels entering the market. Clean rates followed a similar trend on continued slow trading conditions in Asia, as Chinese net product imports reached their lowest level since February 2003. Rates increased slightly at the end of the month as petrochemical plants came out of maintenance and buying interest picked up.



Crude Oil Prices

Spot Crude Prices and Differentials

WTI and Brent breached $60 in early July as the hurricane season in the Gulf of Mexico got off to an unusually active start. Prices however dipped following the news that Hurricane Dennis left oil facilities largely unscathed. Diesel strength and a continued desire by refiners and major consumers to either build stocks or buy paper forward against potential peak winter demand (and beyond) remains the main driving force behind the push higher. Not only do April and May OECD stock data confirm the stock-building trend, but there are also increasing anecdotal reports of inventory increases in non-OECD countries. Reports of rising stocks in China, in South African storage, and larger-than-normal imports in countries such as Thailand in May, lend support to this view. The persistence of strong prices indicates a continued desire to increase stock holdings.

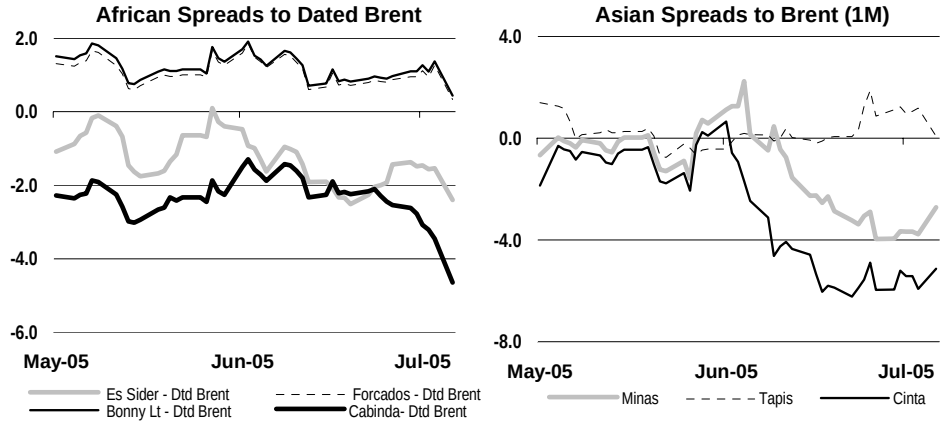
Spot Crude Oil Prices and Differentials*

(monthly and weekly averages, $/bbl)

	Apr 05	May 05	Jun 05	Jun-May		Week Commencing:				
				Change	*%*	06 Jun	13 Jun	20 Jun	27 Jun	04 Jul
Crudes										
Brent Dated	51.82	48.56	54.39	5.83	12.0	51.91	54.26	56.89	56.74	57.71
WTI Cushing 1 month (adjusted)	52.89	49.84	56.36	6.52	13.1	53.75	56.22	58.94	58.36	60.46
Urals (Mediterranean)	47.85	45.80	51.66	5.87	12.8	49.46	51.71	53.58	53.33	54.86
Dubai 1 month (adjusted)	47.20	45.40	51.08	5.68	12.5	49.68	50.74	52.64	52.92	54.28
Tapis	57.69	50.79	55.86	5.07	10.0	54.20	55.38	57.70	58.43	60.59
Differential to Dated Brent										
WTI Cushing 1 month (adjusted)	1.07	1.28	1.98	0.69		1.83	1.97	2.05	1.62	2.75
Urals (Mediterranean)	-3.96	-2.76	-2.72	0.04		-2.45	-2.54	-3.31	-3.40	-2.85
Dubai	-4.61	-3.16	-3.30	-0.15		-2.23	-3.52	-4.25	-3.82	-3.44
Tapis	5.87	2.24	1.48	-0.76		2.28	1.12	0.81	1.70	2.87
Prompt Month Differential										
Brent 1mth-2mth (adjusted)	-0.51	-0.61	-0.69	-0.08		-0.69	-0.63	-0.78	-0.77	-0.77
WTI Cushing 1mth-2mth (adjusted)	-1.41	-1.25	-0.81	-1.02		-0.86	-0.28	-0.98	-0.99	-0.99

* Weekly data for Brent and WTI 1st month and 2nd month are unadjusted

Benchmark crude prices outperformed most products in June. While the gains in crude prices in early June appeared to be diesel-led, there was a marked pick-up in crude values after the OPEC meeting. While OPEC's 500 kb/d increase in targets was more than the market had been expecting a month earlier, there was a general feeling that this merely brought targets in line with OPEC 10 production levels.



OPEC also authorised its president to start negotiations on the supply of a further 500 kb/d if prices remained high. However, comments by Saudi Arabia that they would also have to ascertain if there was demand for that additional oil provided a prior condition for its release. This action was interpreted by some observers as suggesting that OPEC countries were comfortable with oil prices over $50/bbl. Subsequent comments by OPEC officials that negotiations for the release of the 500 kb/d had started when WTI moved over $60 but were broken off when prices dipped back to $56/bbl were seen as supporting this view. However, an alternative view is that OPEC has been allowing stocks to build, albeit at a lower rate than the market is calling for.

Falling US crude stocks in June helped strengthen average prices of US domestic light, sweet crudes, driving down refining margins in the process. US weekly crude stocks fell by 9 mb/d by early July from end-May levels as US refiners raised throughputs to record levels. But while this was a change in the trend of stock movements, it remains perfectly consistent with seasonal norms. Heavy sour crudes lost ground sharply in mid-June as refiner preference for light, sweet crudes increased, but pared some of those differential losses to WTI by early July.

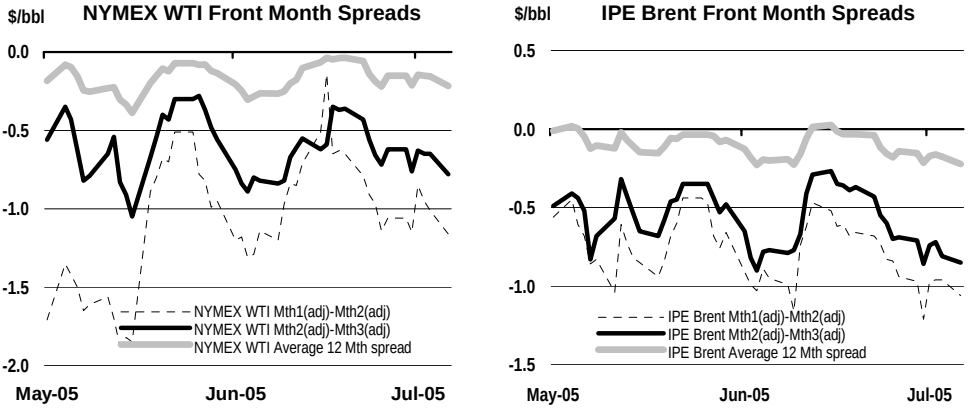
In Europe, Dated Brent outperformed WTI from mid-month, helped by a series of minor North Sea disruptions and a revival in product prices across the barrel. The strength in low sulphur fuel oil helped Urals crude to outperform Brent towards the end of July, despite the first sale of Iraqi crude from Ceyhan this year and a reduction in FSU crude exports.

West African crude differentials to dated Brent posted a mixed performance, largely linked to the proportion of distillate for these crudes. Forcados and Bonny Light maintained their premium to dated Brent, despite a slowdown in Chinese buying interest. However the high distillate content of both crudes meant that they maintained a premium to dated Brent, while Cabinda losses can be largely attributed to its high fuel oil content and relatively low proportion of mid-to-light distillates. Distillate-rich Libyan crude, Es Sider came under pressure from competing Saharan Blend, but picked up towards the end of the month. May, June and July volumes of West African crude moving to Asia are believed to have fallen to around 1.1-1.2 mb/d and there were also reports of Chinese refiners reselling up to four cargoes of July West African crude. Some traders said they saw this as an attempt to push the market lower, but it was consistent with recent very weak apparent demand figures and reports that Sinopec had cut July runs by 5% due to poor margins.

Tapis remained relatively firm in the Asian market, despite the offers to resell some July West African sweets by China. Asian refiners are moving out of seasonal refinery maintenance and will be looking to ramp up crude throughputs in the coming months to build distillates ahead of the winter. With its high distillate content, Tapis generated greater regional interest. However, the lack of fuel oil demand from Chinese tea-pot refineries and utilities is weighing on heavier crudes such as Minas and Cinta. Traders also note weakness in the condensate market, which appears to partly reflect the glut of naphtha in the region recently.

Crude Futures

The contango in Brent and WTI futures has pushed firmly forward to February, a move consistent with continued above average US and European crude stocks. Forward buying by refiners, hedging fourth quarter needs is also contributing to the contango structure. This has opened a debate on whether the contango is reflecting front-end weakness due to Atlantic Basin stocks holding above the five-year average and stubbornly high medium-term prices, or whether it reflects a more seasonal nature of the crude market (akin to heating oil or gasoline) due to the low level of spare capacity.



The seasonality shift has intuitive logic. A counter-reasoning would be that if this was the case, then the seasonal peak should have stopped in the fourth quarter, which is generally the peak for crude (as opposed to product) demand. The fact that the contango is extending beyond December suggests that at least some of the contango is due to a need to discount near-month crudes to clear the market – not just robust forward buying. The recent reduction in the spot month discounts as US and European refiners crank-up throughput adds further weight to this view. This, together with the visible build in total oil stocks and trends in open interest of far forward contracts lend support to the argument that prices are being bid up by fourth quarter (and beyond) hedging and a desire to hold more stocks.

There has also been a shift in the term structure of crudes sold in Asia. Tapis has been in contango for some months now, but Oman is now firmly in contango and the backwardation in Dubai has flattened. Further, both Middle Eastern crudes continue to trade well below their official selling price. To a degree, prices already reflect the fact that Asian refiners are currently moving out of maintenance and have picked up crude buying as they move to rebuild stocks of kerosene (used as a heating fuel) ahead of the winter.

Delivered Crude Prices in April

Average delivered crude prices for IEA countries continued to increase in April, with the exception of IEA Europe where prices slipped by $0.12 to average $49.10/bbl for the month. Average import costs for the IEA as a whole came to $48.12/bbl, up $1.54 from March levels. The largest gains were seen in the Pacific region where prices increased $5.10/bbl to reach $49.75/bbl. More modest gains of $1.13 to $46.25/bbl where seen in North America. The moves were largely in line with spot price movements, with the large increase in the Pacific merely being a lagged effect of increases seen in crude spot movements and delivered crude prices in North America and Europe in March.

Product Prices

Spot Product Prices

Distillate prices took centre stage in June. Prices rose on average by around 15% over May levels in all regions, outpacing increases in light, sweet crudes and other products. Prices of jet and diesel remain at a strong premium to gasoline, in a reversal of the normal seasonal trend. But recent concerns over possible Hurricane impacts on the US Gulf Coast together with strong distillate stock builds have helped to narrow this development in the US. In the week ended July 1, US domestic distillate production topped 4.5 mb/d, compared with four-week average demand of 4.1 mb/d. Maintaining this ratio of production to demand would prompt an increase in stocks of 2.8 mb per week, further lifting inventories that are already 3.2 mb over a year ago. Northwest European premiums for diesel have also weakened in recent weeks as healthy inflows from the Baltics and high spot prices dampened demand.

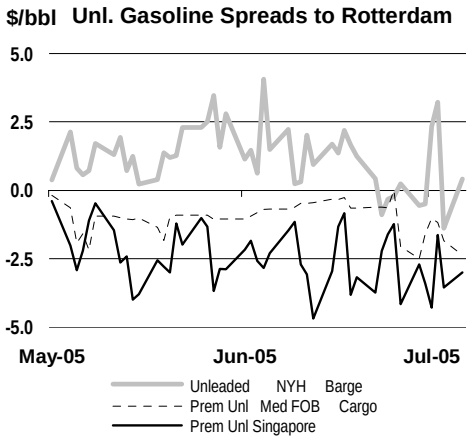
Spot Product Prices

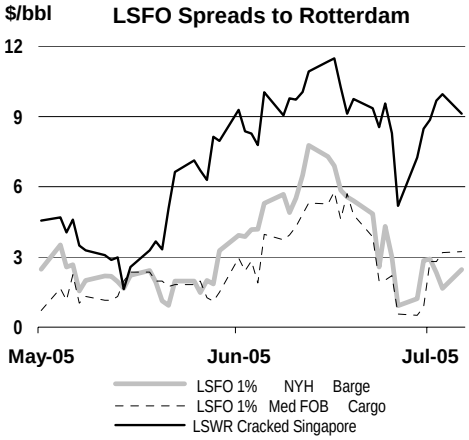
(monthly and weekly averages, $/bbl)

	Apr	May	Jun	Jun-May		Week Commencing:					Apr	May	Jun
				Change	*%*	06 Jun	13 Jun	20 Jun	27 Jun	04 Jul			
Rotterdam, Barges FOB											***Differential to Brent***		
Premium Unleaded (Cargo)	62.46	57.27	63.29	6.02	10.5	60.84	63.41	65.49	65.78	68.70	10.64	8.72	8.90
Regular Unleaded	61.57	56.40	62.16	5.76	10.2	59.80	62.22	64.26	64.55	67.37	9.75	7.84	7.77
Naphtha	51.85	45.98	48.15	2.17	4.7	46.31	48.17	49.66	49.70	51.44	0.03	-2.57	-6.23
Jet/Kerosene	71.87	65.08	72.51	7.43	11.4	71.87	73.50	73.49	73.73	77.02	20.05	16.53	18.13
Gasoil	65.19	59.57	68.67	9.11	15.3	68.07	69.58	69.56	70.35	73.48	13.37	11.01	14.29
Fuel Oil 1.0%S	37.00	35.93	36.40	0.47	1.3	35.32	35.29	37.01	39.56	40.61	-14.82	-12.62	-17.99
Fuel Oil 3.5%	36.00	35.23	36.35	1.12	3.2	35.29	35.86	37.63	37.13	39.62	-15.82	-13.32	-18.04
Mediterranean – Basis Italy, Cargoes FOB											***Differential to Urals***		
Prem Unleaded (50ppm)*	61.54	55.38	61.51	6.13	11.1	58.96	61.68	63.81	63.77	65.80	13.69	9.59	9.85
Naphtha	50.71	44.66	46.62	1.95	4.4	58.48	61.20	63.34	63.48	0.00	2.85	-1.13	-5.05
Jet/Kerosene	70.30	62.90	70.11	7.21	11.5	69.21	71.04	71.45	71.52	74.16	22.45	17.11	18.45
Gasoil	63.61	58.42	67.71	9.29	15.9	67.43	68.59	68.30	69.06	72.34	15.76	12.62	16.05
Fuel Oil 1.0%S	39.83	37.42	39.85	2.44	6.5	38.12	39.70	42.23	41.67	42.35	-8.02	-8.38	-11.81
Fuel Oil 3.5%S	35.10	33.57	35.02	1.45	4.3	33.74	34.76	36.24	35.76	38.31	-12.75	-12.23	-16.64
NY Harbour, Barges											***Differential to WTI***		
Super Unleaded	70.46	63.31	70.65	7.34	11.6	68.00	70.11	73.18	73.80	80.40	17.57	13.47	14.29
Regular Unleaded	61.70	57.59	63.49	5.91	10.3	61.55	63.36	65.89	64.40	69.57	8.81	7.75	7.13
Jet/Kerosene	66.52	62.26	70.80	8.55	13.7	70.52	72.12	71.38	70.32	74.29	13.63	12.42	14.44
No.2 Heating Oil	64.02	59.16	67.72	8.56	14.5	66.87	68.58	68.87	68.64	73.08	11.13	9.32	11.35
Fuel Oil 1.0%S (Cargo)	38.79	37.92	41.15	3.23	8.5	39.60	41.35	43.20	42.68	43.21	-14.10	-11.92	-15.22
Fuel Oil 3.0%S (Cargo)	35.12	35.69	36.63	0.94	2.6	36.60	37.40	37.08	35.70	36.33	-17.77	-14.15	-19.73
Singapore, Cargoes											***Differential to Dubai***		
Premium Unleaded 95	61.50	54.46	59.65	5.19	9.5	57.45	59.60	61.84	61.96	64.36	14.29	9.06	8.56
Naphtha	49.85	44.76	45.71	0.95	2.1	44.08	45.35	47.43	46.85	48.84	2.64	-0.64	-5.37
Jet/Kerosene	71.40	63.39	68.93	5.54	8.7	68.37	69.61	70.26	69.78	72.13	24.20	17.99	17.84
Gasoil	63.91	58.89	67.67	8.79	14.9	66.46	69.13	69.24	69.28	72.29	16.71	13.49	16.59
LSWR (0.3%S)	43.47	40.06	45.64	5.58	13.9	44.06	45.18	47.39	47.73	49.18	-3.73	-5.34	-5.45
HSFO (3.5%S 180cst)	39.40	38.89	40.41	1.52	3.9	39.71	39.97	41.28	40.96	43.33	-7.81	-6.50	-10.67
HSFO 4%S	39.57	38.98	39.95	0.97	2.5	39.41	39.51	40.57	40.26	42.89	-7.64	-6.42	-11.14

* From January 2005 Premium Unleaded 50 ppm

European jet fuel prices came under pressure in June as Middle Eastern material arrived and European refiners, facing the end of seasonal refinery maintenance, tweaked yields to favour jet over naphtha and diesel. It was a similar picture in both the US and Asia, where refiners responded to recent high jet premiums by increasing output. Demand for jet/aviation fuel is strengthening seasonally, but whether the London bombings will have any impact on demand for jet fuel has yet to be seen.

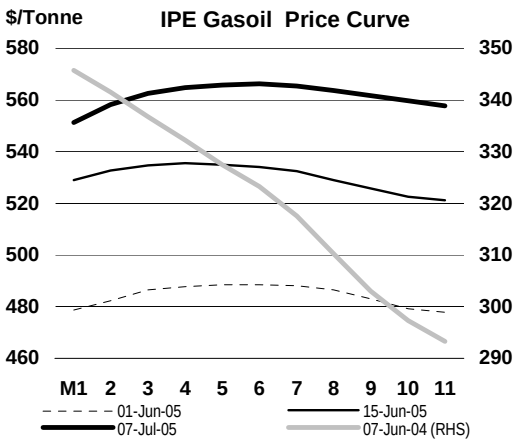


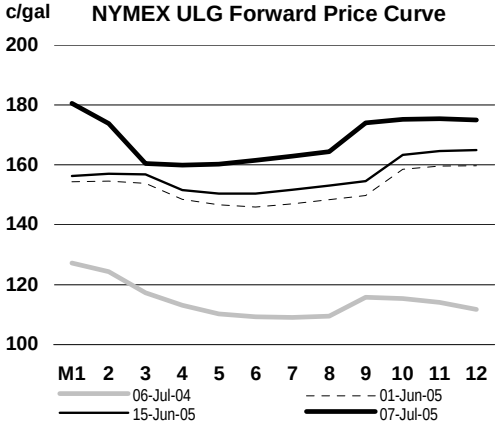


Gasoline prices recovered sharply in early July, led by the US, where a series of refinery glitches and concern of refinery damage related to Tropical Storm Cindy and Hurricane Dennis bolstered values. Indications of a pick-up in growth in the US service and manufacturing sectors reduced concerns of a sharply slowing economy, and were topped off by strong demand. Primary US gasoline demand in the week ended 1 July reached 9.7 mb/d, up sharply from the 9.4 mb/d seen in the equivalent week a year ago.

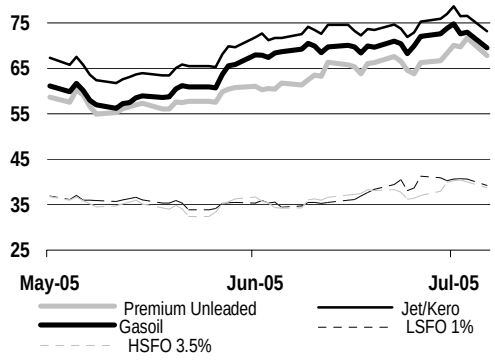
Gasoline prices in Europe were dragged up alongside this move, with seasonal shipments to the US remaining strong and additional material needed for the East Mediterranean and Nigeria. The reforming margin (difference between gasoline and naphtha) remains strong, but the high price of MTBE in Europe, is affecting blending economics. MTBE prices in Europe have rallied from $637.50 per tonne at the end of May to over $1132 by 7 July in Northwest Europe - $180/tonne higher than NY harbour prices and $525 higher than Singapore prices. Supplies of alternatives were also limited, leading to very sharp price rises as blending activity increases.

Low sulphur fuel oil prices in Europe continue to derive support from utility demand in Mediterranean countries as dry-weather limits the quantity of hydroelectric power available. In the US, low sulphur fuel oil prices have been dragged down by the losses in high sulphur material and also high refinery throughputs. This partly offset seasonal utility demand to meet summer cooling needs. Seasonal refinery maintenance in Asia and Japanese utility demand continues to provide support to low sulphur waxy residue. Singapore prices for LSWR have reached a peak premium of over $11/barrel to low sulphur fuel oil in Northwest Europe – keeping cracks to Dubai broadly constant at a $5.45/bbl discount in June.

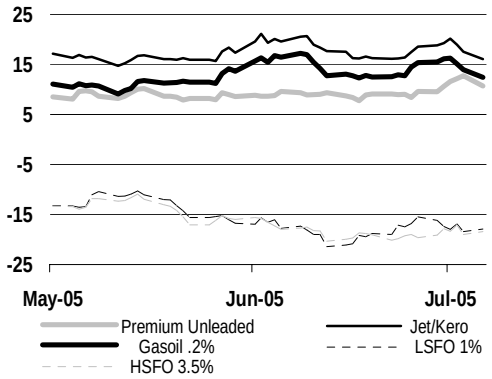




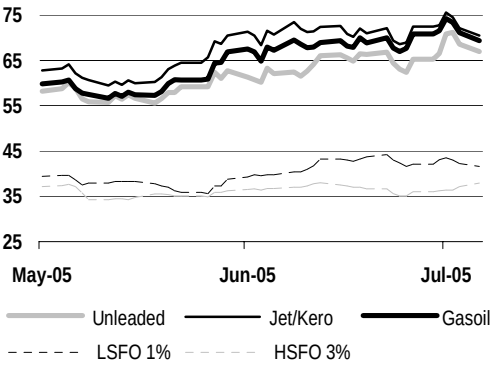
$/bbl **Rotterdam Spot Product Prices**



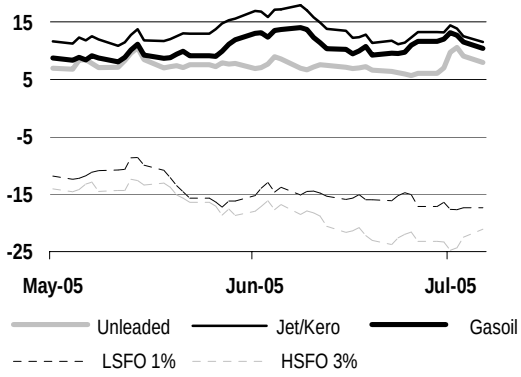
$/bbl **Rotterdam Spreads to Dated Brent**



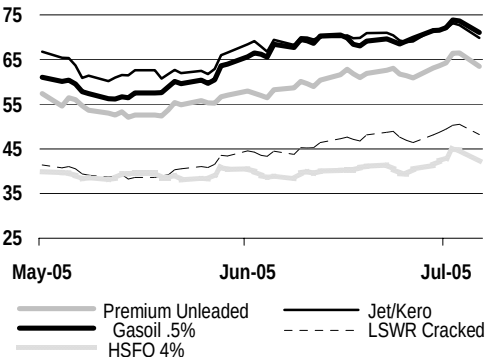
$/bbl **New York Harbour Spot Product Prices**



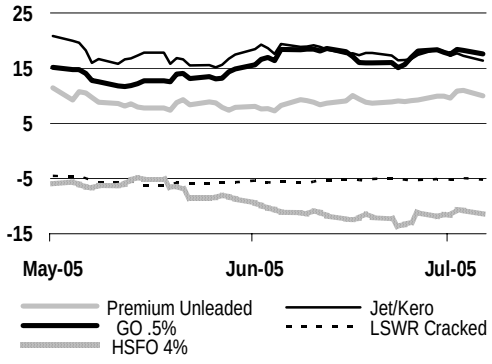
$/bbl **New York Harbour Spreads to WTI**



$/bbl **Singapore Spot Product Prices**



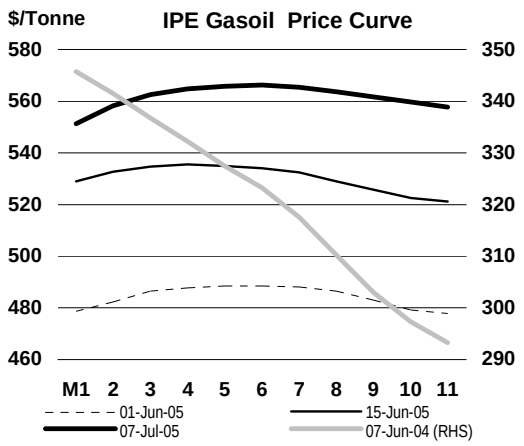
$/bbl **Singapore Spreads to Dubai**

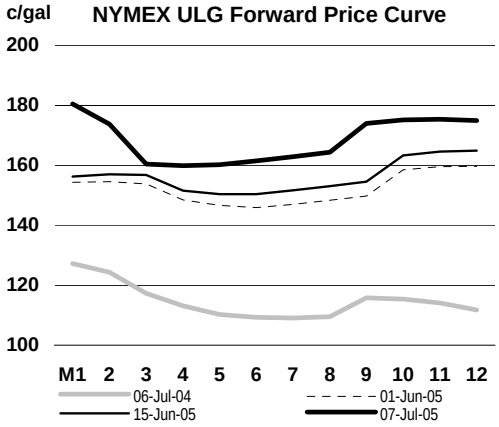


Heavy sulphur fuel oil in Europe continues to follow the arbitrage cycle – fuel oil shipments leave for Asia and tighten the local market. This has the effect of closing the Asian arbitrage window, leading to another build up of material in Europe. Ultimately this pressures the European price, until exports out of the region are viable. However, the lack of demand from Chinese utilities (due to non-market pricing issues) and poor margins for teapot refineries have complicated the clearing procedure. Further, the recently weaker US market has added competition from Caribbean refiners looking to clear material from the region. However, reports of run cuts from Chinese refiners and good utility demand from the eastern China seaboard is reducing some of the regional surplus.

Product Futures

IPE gasoil reached record highs of $517.5/tonne in early July as strong demand for pre-winter stock cover and incremental summer diesel demand continued to support prices. The firm contango in forward prices through to December reflects both forward hedge buying and offers a financial incentive to refiners to build stocks. With no jet fuel or diesel futures contract available, market makers offering swap hedges on those produces often use IPE gasoil as a proxy hedge. Therefore, while heating oil demand from inland consumers is seasonally weak, paper demand derived as a result of higher physical jet and diesel prices.





Hurricane risks and a surge in weekly primary gasoline demand have caused front end NYMEX gasoline futures to move from a relatively flat structure to a steep backwardation. While the front-end price surge is due to fears of thin spot availability, winter prices have actually dipped below mid-June levels suggesting that the market is gaining confidence that supplies will be sufficient to last the summer.

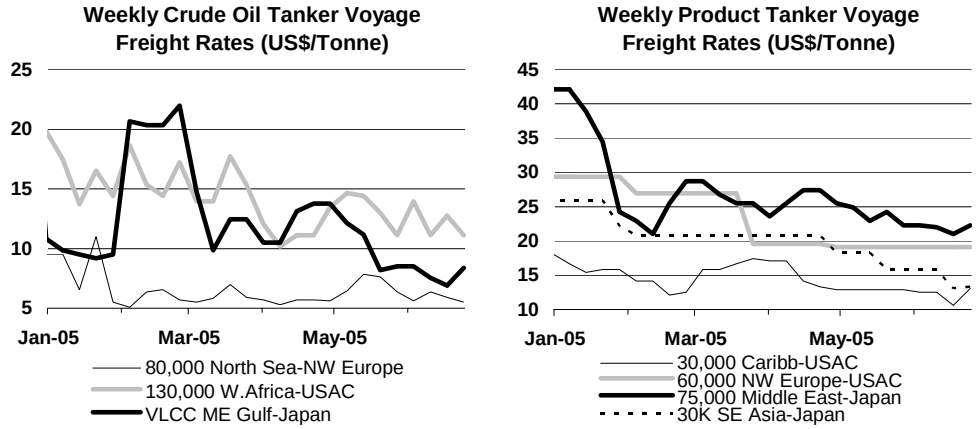
End-User Product Prices in June

Retail prices for petroleum products showed a mixed picture for June. Although prices were broadly moving higher on a national currency basis, the continued strengthening of the dollar compared to the Euro over the month was an offsetting influence on the European prices. This currency shift actually reversed the trends for most European countries. In Japan, prices moved lower for all products covered by the survey in both national currency and dollar denominated terms, reflecting moves seen in Europe and the US in May. In US dollar terms, gasoline prices were down for all countries covered by the survey, bar Canada where prices were up by 4.3% over the previous month. Diesel prices in the US and Canada continued to increase, following trends in wholesale markets, but in Europe, the appreciation of the dollar against the euro reversed the losses seen in dollar denominated terms, leading to gains in national currency prices. The largest gains were seen for domestic heating oil with prices close to 40% above last year's levels for some countries. Low sulphur fuel oil prices for industry were also up for France, Italy and Spain, supported by strong utility demand in southern Europe where reservoir levels are still low, limiting hydropower electricity output.

Freight

Dirty freight rates from the Arabian Gulf to Asia continued to decline through most of June and reached their lowest levels in over 20 months amid seasonally slower second quarter demand in the region. Rates were further depressed by a series of new-build vessels entering the market. According to London based shipping broker Simpson, Spence & Young, 15 new VLCCs have been added since

the start of the year, creating a lot of surplus tonnage. By the end of June and into July, however, the trend reversed and rates increased slightly, supported by high bunker fuel prices in the Middle East and increased enquiries as outstanding July and August cargoes were being covered. Rates from the Arabian Gulf to the United States were similarly tracking slightly higher later in the month after hitting a 20-month low on 17 June. The market was given support by Saudi Arabia's chartering arm, Vela International Marine, which booked four VLCCs to the United States at the end of the month.



VLCCs in West Africa were fairly well supported in comparison to the MEG routes, reflecting refiners' continued preference for distillate-rich crudes to meet summer fuel needs. In the early part of the month, rates slipped, pressured by lower Suezmax rates and abundant tonnage competing for cargoes. By the end of June, the ensuing discount of VLCC to Suezmax rates widened to about 50%. This encouraged charterers to shift to larger vessels pushing VLCC rates back up again. This simultaneously led to a loss of cargoes from the Suezmax market causing a fall in rates for these vessels. The imposition of higher Russian export taxes effective August led to high exports out of Primorsk in July, also pushed rates out of the Baltic higher.

Continued slow trading conditions in Asia pushed clean freight rates lower in the region for the better parts of June. Clean tanker rates from Singapore to Japan hit their lowest levels since January 2004, as naphtha cracker maintenance continued and weaker ethylene prices further depressed trade. In China, non-market pricing policies continue to discourage product imports, further reducing tanker demand. Chinese net product exports (excluding fuel oil) averaged 15 kb/d for the first five months of 2005 as compared to net imports of 173 kb/d for the same period last year. On the transatlantic route, the opening of the gasoline arbitrage to the US supported rates from the UK to the US Atlantic Coast. Gasoline was also exported from North West Europe to Iran, Nigeria and Singapore. Towards the end of June, the arbitrage from the Middle East and the US Gulf for shipping distillates to North West Europe was open, pushing rates up slightly. Rates also strengthened for Asian destinations by the beginning of July, as petrochemical plants were coming out of maintenance and interest picked up.

REFINERY ACTIVITY

Summary

- **Full cost refinery margins** were generally weaker across centres surveyed in this Report. After an initial rebound in early June, main products saw their price ratios to crude oil (a measure of relative price strength) fall in the second half of the month as gains in crude prices outpaced those in products. Refining margins were up in the first week of July over concerns of the potential damage to refinery output on the Gulf Coast by Hurricanes Cindy and Dennis. The rise in margins came as product prices were bid higher while changes in crude prices remained relatively modest.

- **Upgrading margins** (cracking minus hydroskimming margins), a proxy measure of fuel oil weakness, increased for medium sour Urals in Europe and for Dubai in Asia. This margin widened on average by over $1/bbl as fuel oil cracks weakened relative to those of light and medium products.

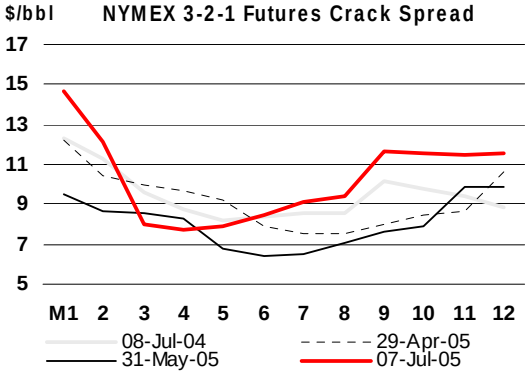
- **US refinery margins** fell on the US West and Gulf Coasts in June, but ended on average at healthy levels. Margins on coking, that maximises gasoline production, came to $17.24 for Kern River on the West Coast and just over $11 for Maya on the Gulf Coast. US cracking margins for medium crude grades generally fell more than those for light sweet crudes due to weaker fuel oil prices.

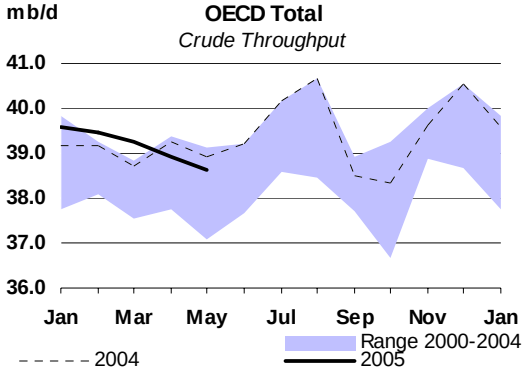
- **European refinery margins** saw hydroskimming margins, with the exception of Es Sider, turn negative in June. Cracking margins in Europe remained strong, supported at around May levels by the strength of diesel, jet fuel and gasoline prices. Cracking Brent in Northwest Europe averaged $4.65/bbl against $4.35/bbl in May.

- **Asian refinery margins** were in negative territory for hydroskimming and positive for cracking, though cracking margins fell relative to May levels. Dubai cracking fetched $2.72/bbl in Singapore compared to $2.63/bbl in China.

- **OECD refinery throughput** fell in May to 38.6 mb/d, about 320 kb/d lower than in the previous year and down by 280 kb/d against April. Though crude runs increased in the US with scheduled maintenance drawing to an end, this was offset by a decline in European and Japanese runs. Both Japan and Europe were in peak maintenance in May.

- **The 3-2-1 NYMEX crack spread** in the front-month shifted upwards during June by over $4.50 against end-May levels, reaching $14.68 on July 7. The growing margins on the two major products supported US refinery utilisation rates climbing to 98% by the week ending 1 July. The heating oil crack remained remarkably strong on concerns over winter distillate supplies, rising above that of gasoline for most of June.





Refining Margins

Refining margins saw mixed trends over June but were generally higher in the first half of the month with an increase in product prices. Strong gains in crude prices in the second half of June, however, outpaced those of product prices and led to weaker returns on average for the month.

Cracking margins in general remained buoyant with strength in distillate prices leading gross product worth higher in the first half of June. Cracking Brent in Northwest Europe made $4.65/bbl, while the return on Urals averaged $6.40/bbl. Margins for Dubai in Singapore turned out weaker at $2.72/bbl. The increase in the crack spreads for jet fuel and diesel in these centres outperformed that for gasoline. Normally, at this time of the year, US gasoline tends to be the price setter in the product complex. This year, unusually strong European diesel prices have assumed that role, somewhat surprisingly given Europe's relatively high distillate stock levels. The second half of June was weaker for cracking margins as gains in crude prices outpaced those in products. The trends in the US were not so clear-cut. Though cracking margins weakened at end-June, they did not display the same early June uptick as in Europe. Only cracking for Mars and LLS strengthened in early June whereas Oman and Kern on West Coast along with Brent on the Gulf Coast saw early declines.

The complex coking process continued to provide strong returns on the US West and Gulf Coasts. Coking margins for Mars were slightly lower in June at $7.09/bbl while those for Mexican Maya rose to $11.06/bbl. The increase for Maya came with a weaker crude price. This was reflected in Maya's discount to WTI widening beyond $15/bbl in June. In comparison, Mars's discount relative to WTI held about even at around $5/bbl. On the West Coast, the margin on Kern coking fell by just under $2/bbl, but provided a healthy return of $17.24/bbl. The coking process converts most of the fuel oil produced into gasoline. This contrasts with the cracking process for Kern which still yields a significant cut of fuel oil. Kern cracking margins fell $6 in June to $5.12/bbl with weakness in HSFO 380 bunker prices a key driver in the decline.

Key Refining Margins in Major Refining Centres

($/bbl)

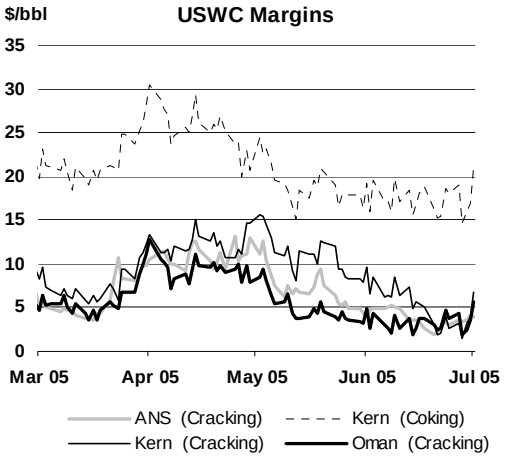
	Monthly Average			Change	Week Ending:				
	Apr 05	May 05	Jun 05	Jun -May 05	03 Jun	10 Jun	17 Jun	24 Jun	01 Jul
NW Europe									
Brent (Cracking)	6.58	4.35	4.65	0.30	4.76	5.96	3.93	3.72	4.86
Brent (Hydroskimming)	1.58	-0.12	-0.32	-0.20	-0.35	1.00	-1.48	-1.10	-0.19
Mediterranean									
Urals (Cracking)	8.97	5.75	5.69	-0.06	5.07	7.46	5.01	5.30	5.22
Urals (Hydroskimming)	1.66	-0.36	-1.64	-1.28	-1.75	0.06	-2.86	-2.12	-2.13
US Gulf Coast									
Brent (Cracking)	2.75	1.62	1.53	-0.09	3.31	3.03	0.85	0.88	0.52
LLS (Cracking)	5.46	4.07	3.68	-0.40	4.71	5.51	3.52	2.65	2.08
Maya (Coking)	15.35	10.25	11.06	0.81	12.08	12.33	11.07	10.99	10.67
US West Coast									
ANS (Cracking)	10.95	7.32	3.80	-3.52	4.86	4.95	2.55	3.08	3.97
Oman (Cracking)	9.44	5.07	3.22	-1.85	4.32	2.71	3.68	3.77	5.74
Kern (Coking)	25.48	19.08	17.24	-1.84	19.51	17.17	18.76	18.09	21.16
Singapore									
Tapis (Hydroskimming)	-3.44	-1.66	-1.30	0.36	-1.25	-0.63	-0.84	-1.94	-2.05
Dubai (Hydrocracking)	6.24	3.50	2.72	-0.78	2.64	3.53	3.34	2.12	3.10
Tapis (Hydrocracking)	-0.79	0.54	0.94	0.40	0.88	1.74	1.51	0.17	0.32
China*									
Cabinda (Hydroskimming)	0.19	-2.05	-2.46	-0.41	-2.86	-0.79	-3.26	-2.74	-3.24
Daqing (Hydrocracking)	-2.52	-1.87	-0.60	1.28	-3.44	-1.24	0.23	1.16	2.03

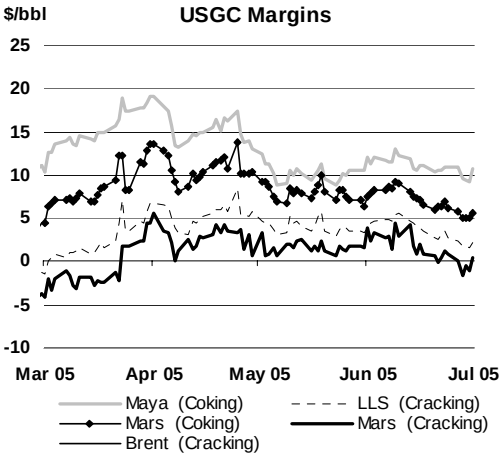
For the purposes of this Report, refining margins are calculated for various complexity configurations, each optimised for processing the specific crude in a specific refining centre on a 'full cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability for a given refining centre. No attempt is made to model or otherwise comment upon the relative economics of specific refineries running individual crude slates and producing custom product sales, nor are these calculations intended to infer the marginal values of crudes for pricing purposes.

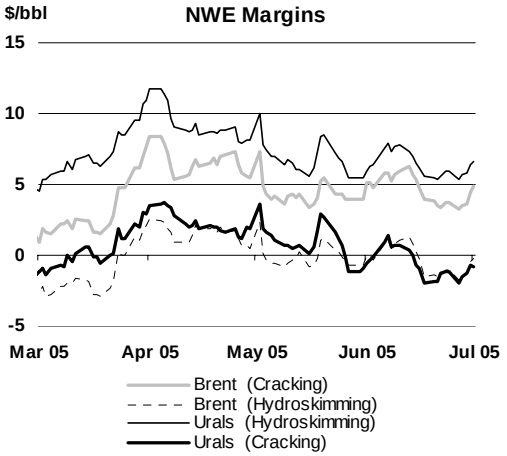
* The China refinery margin calculation represents a model based on spot product import/export parity, and does not reflect internal pricing regulations. A full list of refining margins and gross product worth can be found in table 15 on www.oilmarketreport.org.

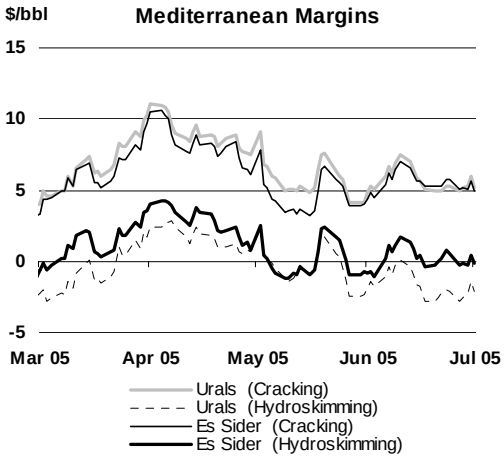
Sources: IEA, Purvin & Gertz Inc.

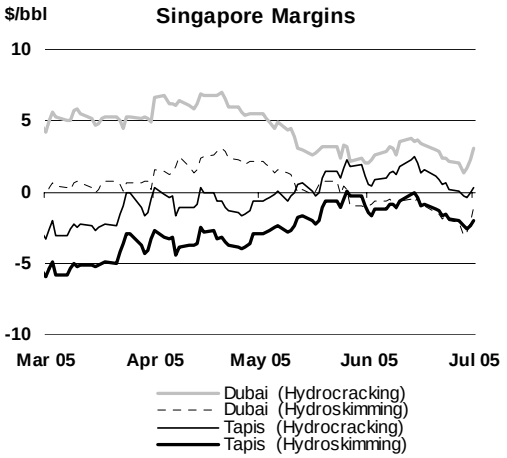
Regional Full Cost Refining Margins

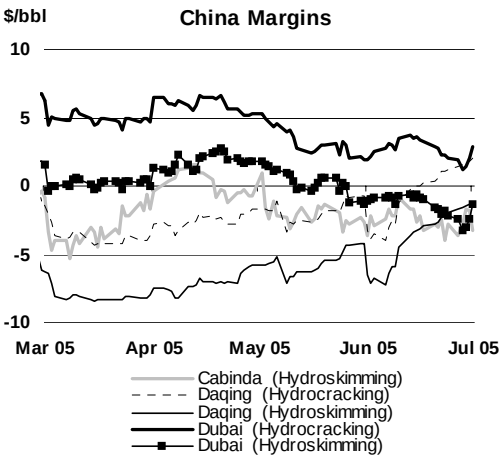


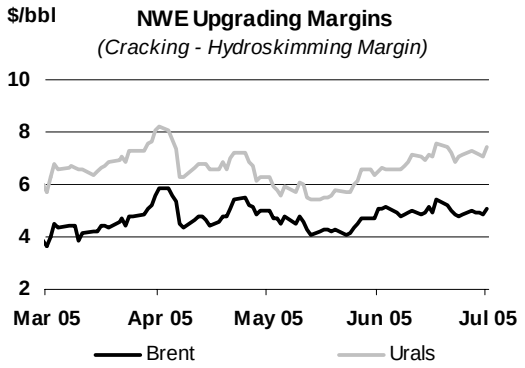


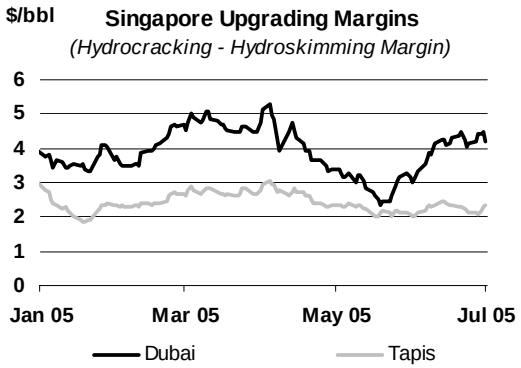










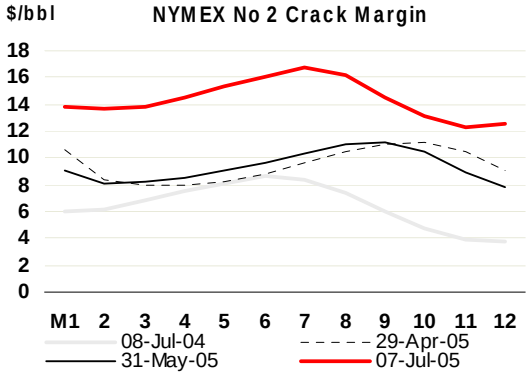


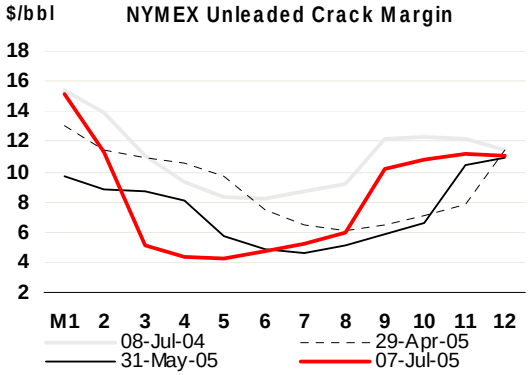
Upgrading margins, which reflect the relative weakness of fuel oil versus lighter products (when the differential widens), trended higher in June. Fuel oil supplies were growing while demand for the product typically tended to weaken with the exception of low sulphur grades that meet utility demand. Higher crude runs in June and a heavier and more sour crude slate increased excess supplies and weakened prices of high-sulphur fuel oil (HSFO) across regions. As a result, hydroskimming margins weakened against May levels. The decline in hydroskimming margins was also driven by naphtha cracks turning negative. In Europe, returns on Urals posted a loss of -$0.59/bbl in Northwest Europe and -$1.64/bbl in the Mediterranean.

As well as rising refinery output, Europe's HSFO supplies were increasing with incoming cargoes from the FSU. Russian product exports have seen strong year-on-year growth as a consequence of higher export tariffs on crude oil. This has prompted Russian refiners to increase crude runs and export product instead. Product prices have been subject to smaller increases in duties relative to crude. The drive by refiners to capture high prices on distillate products in the ARA and Mediterranean markets was accompanied by the production of excess fuel oil. This is due to limited upgrading capacity in Russia. The rise in fuel oil exports was also facilitated by the application of differentiated duties between light and heavy products as of December 2004. Levies on fuel oil are less than those on light products whereas prior to that date, rates were the same.

Most of the excess heavy fuel oil supplies are arbitraged to Asia, generally by VLCCs. Trade in unwanted fuel oil has led to mounting supplies in Singapore where inventories are regularly trending above their five-year range. In addition to western deliveries in June, supplies in Asia were augmented by Korean and Japanese cargoes, increasingly offered at declining premiums to Singapore quotes. As a result, despite strong bunker demand, Singapore HSFO prices fell strongly in June, leading hydroskimming margins to turn negative at -$1.30/bbl in June from $0.55/bbl in May.

The widening of the upgrading margin for Brent was more modest than for Urals. In addition to a lower cut of fuel oil, this reflected the strengthening low sulphur prices (LSFO 1%) by end-June with opportunities to ship product to the US to meet utility demand. Likewise, the upgrading margin for light sweet Tapis in Singapore, after an initial increase, closed about even by end-June as prices of low sulphur waxy residue (LSWR) kept relatively firm.





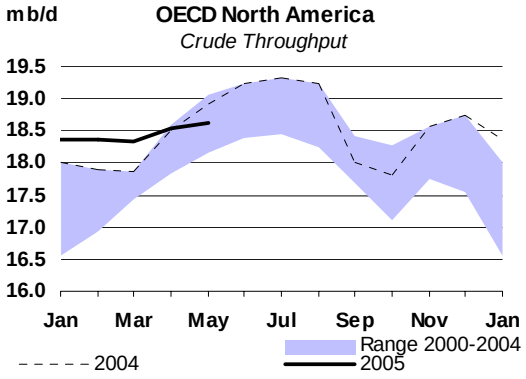
Futures crack spreads on NYMEX for unleaded gasoline and heating oil closed on 7 July $2 and $4/bbl higher respectively compared to end-May levels. As a result, the shape of the 3-2-1 crack spread (a proxy for the refining margin) in the near months steepened significantly compared to recent seasonal patterns.

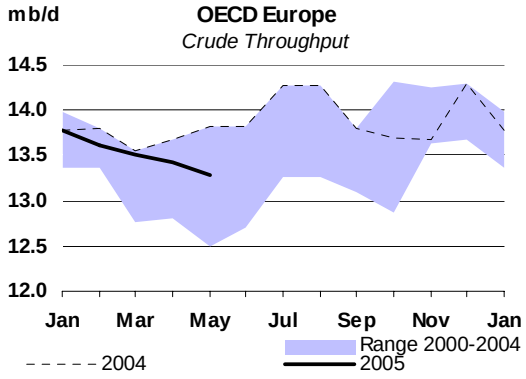
The sustainability of the near-month cracks at these levels is open to debate. Downward pressure on the crack is likely to develop as physical product supplies rise. Last year, it would appear that commercial players hedged forward their output, locking in margins early and missing out on further gains in products prices. This year, it would appear that a 'wait and see' attitude is in place. With the oil complex led by product prices (as a result of upstream capacity constraints), the absence of strong forward selling has likely been a factor in sustaining the recent crack spreads.

Yet throughputs in the US are now in full swing and production of gasoline is running at seasonal levels while at the same time the yield on distillates fuels has risen. This should lead to a loosening in the US heating oil and diesel supplies with a modest sacrifice on gasoline output. Revisions to US 2004 demand data cautions in part against the strong demand growth rates for distillates implied by preliminary 2005 weekly data. As such, with distillate production rising, sizeable stock builds can be envisaged through August. Ensuing downward pressure on physical prices could in turn lead to prompt buying for storage purposes with simultaneous forward selling on futures. While gasoline stocks will decline through the summer, gasoline prices under this dual production outcome will likely also face downward pressure. While this scenario puts a negative bias on the crack, it remains dependent on the relative movement of the price of crude oil. At the time of writing, neither gasoline, diesel nor heating oil prices appeared in a hurry to lose steam.

Refinery Throughput

OECD refinery throughputs fell in May by 280 kb/d from April to 38.6 mb/d or about 320 kb/d lower than last year. Though runs increased in North America as refinery maintenance drew to a close in the US, throughputs were down in Europe and Japan. European and Japanese refiners were in peak scheduled maintenance in May. Runs fell respectively 150 kb/d and 310 kb/d in May from previously declining April levels. Maintenance work for both Europe and Japan was skewed towards sulphur reduction in products.





According to refinery turnaround surveys, European capacity impacted by maintenance was significantly lower in June. Estimated capacity offline for June was estimated at about 400 kb/d, compared to almost 1.2 mb/d in May. Estimates for July point to a combined 150 kb/d of capacity offline in Germany and the Netherlands.

Japanese refinery runs, according to the weekly data from the Petroleum Association of Japan, rebounded significantly in June. Capacity utilisation rates climbed to 83% by end-June from an average rate of 76% in May. Maintenance in May was shallower than that of 2004 when utilisation rates fell to 71% and held at that level through June. A large portion of the work conducted in 2004 was aimed at reducing sulphur levels in products ahead of national specification changes. According to legislation, all Japanese refining companies will eventually need to produce gasoil and gasoline with less than 10 ppm sulphur content. Mandates come into effect in 2007 for gasoil and in 2008 for gasoline. In effect, Japanese refiners have been meeting these lower levels as early as January 2005 on a voluntary basis, explaining heavier seasonal maintenance in 2004.

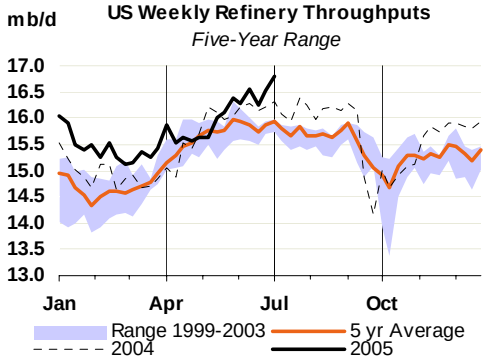
Refinery Crude Throughput and Utilisation in OECD Countries

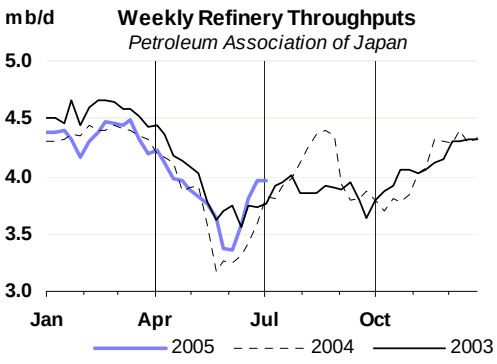
	million barrels per day						*Change from May 04*		Utilisation rate[2]	
	Dec 04	Jan 05	Feb 05	Mar 05	Apr 05	May 05	mb/d	%	May 05	May 04
OECD North America										
US[3]	15.75	15.20	15.11	15.14	15.49	15.78	-0.18	-1.1	92.6	94.5
Canada	1.70	1.90	1.98	1.86	1.73	1.57	-0.08	-4.9	77.8	83.1
Mexico	1.29	1.28	1.27	1.32	1.33	1.27	-0.03	-2.2	75.6	72.0
Total	18.74	18.38	18.36	18.32	18.54	18.63	-0.29	-1.5	89.8	92.0
OECD Europe										
France	1.84	1.81	1.72	1.84	1.79	1.56	-0.06	-4.0	80.2	83.5
Germany	2.33	2.36	2.33	2.35	2.22	2.33	0.04	1.9	94.9	93.1
Italy	1.96	1.83	1.74	1.71	1.89	1.86	0.04	2.0	80.3	79.0
Netherlands	1.06	1.09	1.05	0.98	1.12	1.13	0.00	0.0	92.4	92.8
Spain	1.28	1.17	1.09	1.09	1.19	1.18	-0.06	-4.8	92.7	97.4
UK	1.77	1.65	1.60	1.64	1.58	1.56	-0.13	-7.5	85.3	92.6
Other OECD Europe	4.05	3.87	4.10	3.91	3.63	3.65	-0.38	-9.4	78.1	86.2
Total	14.30	13.79	13.62	13.52	13.42	13.27	-0.55	-4.0	84.4	88.0
OECD Pacific										
Japan	4.25	4.20	4.36	4.24	3.96	3.65	0.29	8.5	77.4	71.4
Korea	2.48	2.44	2.43	2.46	2.24	2.33	0.15	6.7	90.4	85.8
Other OECD Pacific	0.78	0.75	0.67	0.72	0.74	0.75	0.09	13.7	87.0	76.4
Total	7.51	7.40	7.46	7.42	6.94	6.72	0.52	8.4	82.5	76.5
OECD Total	**40.55**	**39.56**	**39.44**	**39.25**	**38.90**	**38.62**	**-0.32**	**-0.8**	**86.6**	**87.7**

1 Estimate
2 Based on crude throughput and current operable refining capacity
3 US50

US refinery runs rose dramatically during June according to preliminary weekly data. Average utilisation rates on crude distillation capacity came to 95%, but were rising through the month. The strong futures crack spread prompted refiners to push runs close to capacity, with utilisation rates peaking at 98% (or close to 16.5 mb/d) for the week ending 1 July.

The recent increase in US refinery runs pushed domestic distillate production to historical records. According to weekly data, production rose from 4 mb/d at the beginning of May to over 4.5 mb/d by early July. While the increase in distillate production followed from record throughput levels, it also followed from an increase in refinery yields. The ratio of distillate fuel production (diesel and heating oil) to refinery inputs averaged above 26% in May and June, peaking at 27.5% in early July. And yet, higher levels of distillate yields did not come at the expense of gasoline. The ratio of finished gasoline production over crude inputs averaged above 57% in May, while falling back in June to about 56% (albeit a number of unplanned outages at gasoline producing units mid-month was partly responsible for lower performance). However, finished gasoline production climbed strongly in the second half of June alongside that of distillate production. It remains to be seen if these levels of throughputs can be sustained. However, at current levels, one can expect distillate stocks to build and those for gasoline to decline following a normal pattern.





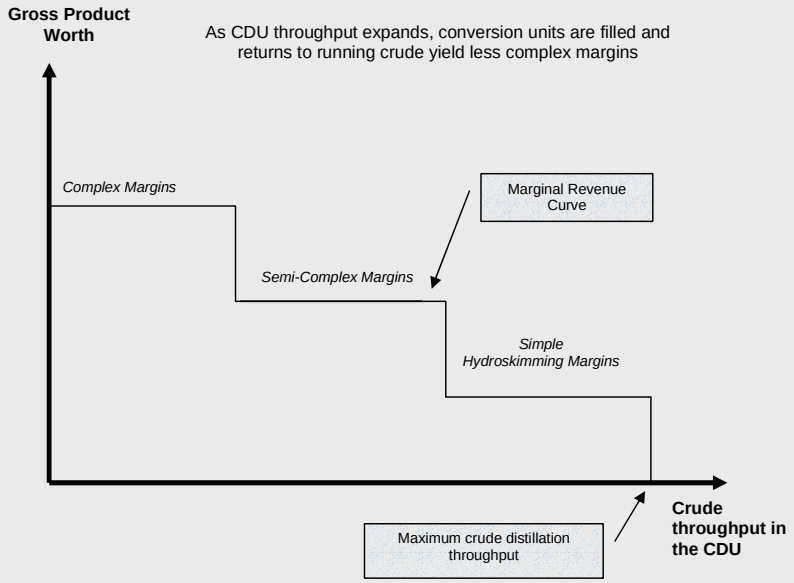
Refinery Capacity Constraints, Crude Demand and Crude Oil Prices

In a market where capacity is constrained across the supply chain and the oil prices are driven by products, questions arise as to the implications of refinery capacity constraints for crude oil prices. Some argue the inability to process increasing supplies should have a depressing effect on crude oil prices. While intuitive, this argument does not distinguish between a shortage of upgrading capacity and a shortage of crude distillation capacity.

Constraints in the refining sector are essentially centred on upgrading capacity, or the capacity to convert heavy products (fuel oil) produced in crude distillation to lighter products (like gasoline, diesel, jet fuel). Upgrading capacity comes in different types of units from the common catalytic cracking units to the more sophisticated (and expensive) coking units. Depending on the number and type of units, a refinery is said to be more or less complex. In contrast, a refinery that has little upgrading capacity is referred to as a simple or hydroskimming refinery.

Current constraints on crude distillation are more regional than global and are not as pronounced as those for upgrading capacity, meaning that room remains to increase crude runs. Typically, a refiner will run its upgrading units at 100% utilisation as they produce the higher value-added light products. The capacity of upgrading units is most often designed so that they can be fully maximised even though crude distillation itself is not running at full capacity. When upgrading capacity (complex refining) is full, the refinery then begins operating on a simpler or hydroskimming configuration.

The gross product worth, or the gross value of the products derived from refining crude oil, under a hydroskimming process is lower than that for a complex process. This is because more less-valued products like fuel oil are produced. Refiners can optimise production of these bottom ends used as feedstocks in upgrading units across other facilities or simply sell them to other refiners who are short of feedstock. But for simplicity of argument, as complex units are fully utilised, the return on an extra barrel of oil processed begins to fall. Depending on the shape of the refiner's cost curve, so long as hydroskimming margin remains positive, then the refiner will continue to increase throughputs in his crude distillation units, thus increasing crude demand.



It is worth noting that the gross product worth is a single composite price per barrel reflecting the value of products derived from a barrel of crude oil for a specific refinery configuration. It is obtained by weighting the product prices established in international markets by the output yield of products from a given crude in a given refinery. The yield structure can vary for the same crude oil, depending on the complexity (level of upgrading capacity) of the refinery in which it is processed.

Refinery Capacity Constraints, Crude Demand and Crude Oil Prices (continued)

Broadly speaking, hydroskimming is a less efficient refining configuration in terms of making light products. It requires more crude to produce a given amount of light products than would be required under a complex process. Required volumes are generally less with light sweet crude than with medium sour ones because of their typically higher yield of light products. But regardless of crude quality, an increase in light product demand, given constraints in upgrading capacity, will lead to a greater increase in crude demand to supply the extra products than if more upgrading capacity was available. So strong demand for light products like those used for transport in an upgrading capacity constrained environment will lead to an increase in crude prices. This increase will be in broad proportion to the change in gross product worth of the crude oil.

The main benchmarks are WTI (physical or NYMEX futures), Brent (dated/physical or IPE futures) and Dubai (physical or swaps). WTI and Brent are light-sweet crude oils and Dubai is a medium sour. As such, if a particular crude oil is priced at a premium to a benchmark, then the value of the products obtained from that crude will be generally higher than that of the benchmark crude for a given refinery process. In contrast, if the crude is at a discount, it means that it will tend to make less valuable products than the benchmark. For example, Nigerian Bonny light (high gasoline yield) will typically trade at a strong premium to Brent during the US summer driving season while an Angolan Cabinda (medium, more distillate yielding) will trade at a discount. The example above also implies that premiums and discounts depend also on seasonal demands patterns.

In a constrained upgrading capacity environment, the discount of medium sour crude oils is expected to widen. This is because, in order to keep selling medium sour barrels that produce excess fuel oil (which puts a downward pressure on the margin of the refiner), the sellers will need to offset this by increasing the discount relative to light sweet crude.

Note that the widening of the discount does not need to be greater than the increase in the price of the light sweet crude. A deeper discount simply needs to be wide enough to keep the hydroskimming margin positive. This means that absolute price levels of medium sours can increase alongside those of light sweet crude oils as long as the refining margin remains positive.

To complicate things, a third type of capacity also needs to be considered. This is capacity dedicated to reduce fuel sulphur levels in products. Refiners typically use hydro-treating units to reduce sulphur levels to meet environmental mandates. If a refinery does not have enough of these, then it will turn to using more sweet crude (which is low in sulphur) over sour crude (which has a higher sulphur content). When sulphur constraints coincide with strong demand for light products, this lead refiners to overbid light sweet crude under a precautionary motive until such time as desulphurisation capacity is installed and operational. This was the case to an extent for Atlantic Basin refiners in the second half of last year and the first half of this year.

All in all, in an environment of constrained upgrading capacity, higher light product demand will increase crude demand and lead average absolute crude prices higher. Only in the extreme case where no surplus crude distillation capacity is available to absorb rising crude supplies would average crude prices then weaken. In such a situation, refiners would move away from medium sour crude towards light sweet crude. Demand for medium sours would fall and discounts to light sweet crude could widen, opening the possibility of a decline in average crude prices.

Table 1
WORLD OIL SUPPLY AND DEMAND
(million barrels per day)

	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
OECD DEMAND																	
North America	24.1	24.5	25.2	25.1	25.4	25.7	25.4	25.5	25.2	25.8	26.0	25.6	25.8	25.5	26.2	26.3	25.9
Europe	15.3	15.4	15.6	15.2	15.6	16.0	15.6	15.5	15.3	15.6	16.0	15.6	15.5	15.3	15.7	16.0	15.6
Pacific	8.6	8.7	9.3	7.9	8.2	8.8	8.5	9.5	8.0	8.2	9.0	8.6	9.5	8.1	8.3	9.1	8.7
Total OECD	48.0	48.7	50.1	48.2	49.1	50.4	49.5	50.5	48.4	49.6	50.9	49.9	50.8	48.8	50.1	51.3	50.3
NON-OECD DEMAND																	
FSU	3.5	3.6	3.5	3.7	3.8	4.0	3.7	3.7	3.6	3.8	4.0	3.8	3.9	3.6	3.8	4.0	3.8
Europe	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7
China	5.0	5.6	6.3	6.5	6.3	6.6	6.4	6.5	6.5	6.9	7.2	6.8	7.0	7.1	7.4	7.7	7.3
Other Asia	8.0	8.0	8.4	8.7	8.3	8.6	8.5	8.7	8.9	8.6	8.9	8.8	9.0	9.2	8.8	9.2	9.1
Latin America	4.8	4.7	4.7	4.9	5.0	4.9	4.9	4.8	4.9	5.1	5.0	5.0	4.9	5.1	5.2	5.1	5.1
Middle East	5.3	5.4	5.7	5.6	5.9	5.8	5.8	6.0	5.9	6.2	6.1	6.1	6.3	6.2	6.5	6.4	6.4
Africa	2.7	2.7	2.8	2.8	2.7	2.8	2.8	2.9	2.9	2.8	2.9	2.9	3.0	3.0	2.9	3.0	3.0
Total Non-OECD	29.9	30.7	32.2	33.0	32.7	33.5	32.8	33.5	33.5	34.1	34.9	34.0	34.9	35.0	35.3	36.2	35.4
Total Demand[1]	77.9	79.4	82.3	81.1	81.8	83.9	82.3	83.9	81.9	83.7	85.9	83.9	85.7	83.8	85.4	87.6	85.6
OECD SUPPLY																	
North America	14.5	14.6	14.8	14.7	14.4	14.4	14.6	14.4	14.6	14.7	14.9	14.7	14.9	14.8	14.7	14.8	14.8
Europe	6.6	6.3	6.4	6.2	5.7	6.0	6.1	5.9	5.8	5.7	6.0	5.8	5.9	5.7	5.5	5.7	5.7
Pacific	0.8	0.7	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.6	0.6	0.6
Total OECD	21.9	21.6	21.8	21.5	20.7	21.0	21.3	20.9	21.0	20.9	21.4	21.1	21.4	21.0	20.8	21.1	21.1
NON-OECD SUPPLY																	
FSU	9.4	10.3	10.9	11.1	11.4	11.5	11.2	11.4	11.5	11.7	11.9	11.6	12.0	12.1	12.3	12.5	12.2
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
China	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Other Asia	2.5	2.6	2.7	2.7	2.8	2.8	2.8	2.7	2.7	2.8	2.9	2.8	2.9	2.9	2.9	2.9	2.9
Latin America	3.9	4.0	4.0	4.1	4.1	4.1	4.1	4.1	4.3	4.3	4.4	4.3	4.5	4.5	4.5	4.5	4.5
Middle East	2.1	2.0	1.9	1.9	1.9	1.8	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.7
Africa	3.0	3.1	3.3	3.4	3.5	3.6	3.4	3.6	3.7	3.8	4.0	3.8	4.1	4.3	4.3	4.5	4.3
Total Non-OECD	24.5	25.6	26.5	26.8	27.3	27.5	27.0	27.5	27.7	28.2	28.7	28.0	29.0	29.2	29.6	29.8	29.4
Processing Gains[2]	1.8	1.8	1.9	1.8	1.8	1.9	1.8	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Total Non-OPEC	48.1	49.1	50.1	50.1	49.8	50.3	50.1	50.3	50.6	51.0	52.0	51.0	52.3	52.1	52.2	52.9	52.4
OPEC																	
Crude[3]	25.1	26.8	27.9	28.1	29.1	29.5	28.7	28.8	29.3								
NGLs	3.7	3.9	4.3	4.3	4.3	4.4	4.3	4.7	4.7	4.8	4.9	4.8	5.0	5.1	5.2	5.3	5.1
Total OPEC	28.8	30.7	32.2	32.3	33.4	33.9	33.0	33.5	34.0								
Total Supply[4]	77.0	79.7	82.3	82.5	83.3	84.2	83.1	83.7	84.6								
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	-0.4	0.1	-0.6	0.8	0.4	-0.3	0.1	-0.1									
Government	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1									
Total	-0.3	0.3	-0.4	0.9	0.5	-0.2	0.2	0.1									
Floating Storage/Oil in Transit	0.0	0.2	-0.2	-0.2	0.3	0.3	0.0	-0.4									
Miscellaneous to balance[5]	-0.6	-0.2	0.7	0.6	0.7	0.2	0.6	0.1									
Total Stock Ch. & Misc	-0.9	0.3	0.0	1.3	1.4	0.3	0.8	-0.2	2.7								
Memo items:																	
Call on OPEC crude + Stock ch.[6]	26.0	26.5	27.9	26.7	27.7	29.2	27.9	29.0	26.6	27.9	29.0	28.1	28.4	26.6	28.0	29.4	28.1
Total Demand ex. FSU	74.4	75.8	78.8	77.4	78.0	79.9	78.5	80.2	78.3	79.9	81.9	80.1	81.8	80.2	81.6	83.5	81.8
Total demand exc. FSU (% ch)[7]	1.1	1.9	3.3	4.8	3.3	3.1	3.6	1.9	1.1	2.4	2.4	2.0	2.0	2.3	2.1	2.0	2.1

1 Measured as deliveries from refineries and primary stocks, comprises inland deliveries, international marine bunkers, refinery fuel, crude for direct burning, oil from non-conventional sources and other sources of supply
2 Net volumetric gains and losses in the refining process (excludes net gain/loss in former USSR, China and non-OECD Europe) and marine transportation losses
3 Upgraded Venezuelan Orinoco extra-heavy production is classified as non-conventional crude.
4 Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply
5 Includes changes in non-reported stocks in OECD and non-OECD areas
6 Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs
7 Year on year % growth in global oil demand excluding FSU

Table 1A
WORLD OIL SUPPLY AND DEMAND: CHANGES FROM LAST MONTH'S TABLE 1

(million barrels per day)

	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
OECD DEMAND																	
North America	-	-0.1	0.2	0.2	0.2	-	0.2	-	-0.1	0.2	-	-					
Europe	-	-0.1	-0.2	-0.2	-0.1	-0.2	-0.2	-0.1	-	-0.1	-0.2	-0.1					
Pacific	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1					
Total OECD	-	-0.2	-0.1	-	-	-0.2	-0.1	-0.2	-0.2	-0.1	-0.2	-0.2					
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-0.1	-	0.1	-					
Europe	-	-	-	-	-	-	-	-	-	-	-	-					
China	-	-	-	-	-	-	-	-	-0.3	-0.2	-	-0.1					
Other Asia	-	-	-	0.2	-	-0.1	-	-	0.2	-	-0.1	-					
Latin America	-0.1	-0.1	-	-	-	-0.1	-	-	-0.1	-0.1	-0.1	-0.1					
Middle East	-0.1	-0.1	-0.1	-0.1	-	-0.1	-0.1	-0.1	-0.1	-	-0.1	-0.1					
Africa	-	-	-	-	-	-	-	-	-	-	-	-					
Total Non-OECD	-0.1	-0.2	-0.1	0.1	-0.1	-0.4	-0.1	-	-0.3	-0.2	-0.3	-0.2					
Total Demand	-0.2	-0.4	-0.2	-	-0.1	-0.6	-0.2	-0.2	-0.5	-0.3	-0.5	-0.4					
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	0.1	0.1	0.1	0.1					
Europe	-	-	-	-	-	-	-	-	-	-0.1	-	-					
Pacific	-	-	-	-	-	-	-	-	-	-	-	-					
Total OECD	-	-	-	-	-	-	-	-	0.1	-	0.1	-					
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.1	-					
Europe	-	-	-	-	-	-	-	-	-	-	-	-					
China	-	-	-	-	-	-	-	-	-	-	-	-					
Other Asia	-	-	-	-	-	-	-	-	-	-	0.1	-					
Latin America	-	-	-	-	-	-	-	-	-	-	-	-					
Middle East	-	-	-	-	-	-	-	-	-	-	-	-					
Africa	-	-	-	-	-	-	-	-	-	-	0.1	-					
Total Non-OECD	-	-	-	-	-	-	-	-	-0.1	-	0.1	-					
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-					
Total Non-OPEC	-	-	-	-	-	-	-	-	-	-	0.1	-					
OPEC																	
Crude	-	-	-	-	-	-	-	-									
NGLs	-	-	-	-	-	-	-	-	-	-	-	-					
Total OPEC	-	-	-	-	-	-	-	-									
Total Supply	-	-	-	-	-	-	-	-									
STOCK CHANGES AND MISCELLANEOUS REPORTED OECD																	
Industry	-	-	-	-	-	-	-	-									
Government	-	-	-	-	-	-	-	-									
Total	-	-	-	-	-	-	-	-									
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-									
Miscellaneous to balance	0.2	0.4	0.1	-	0.1	0.6	0.2	0.2									
Total Stock Ch. & Misc	0.2	0.4	0.2	-	0.1	0.6	0.2	0.2									
Memo items:																	
Call on OPEC crude + Stock ch.	-0.2	-0.4	-0.2	-	-0.1	-0.6	-0.2	-0.2	-0.5	-0.2	-0.7	-0.4					
Total Demand ex. FSU	-0.2	-0.4	-0.2	-	-0.1	-0.6	-0.2	-0.3	-0.5	-0.3	-0.6	-0.4					

When submitting their monthly oil statistics, OECD Member countries periodically update data for prior periods. Similar updates to non-OECD data can occur.

Table 2

Summary of Global Oil Demand

	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
Demand (mb/d)																
North America	24.53	25.22	25.09	25.41	25.69	25.35	25.47	25.17	25.85	25.96	25.61	25.83	25.46	26.19	26.28	25.94
Europe	15.43	15.59	15.16	15.56	15.98	15.57	15.52	15.27	15.63	16.02	15.61	15.54	15.26	15.68	16.00	15.62
Pacific	8.71	9.28	7.90	8.16	8.77	8.53	9.49	7.98	8.15	8.96	8.64	9.46	8.06	8.26	9.06	8.70
Total OECD	48.66	50.10	48.16	49.12	50.44	49.46	50.47	48.42	49.63	50.94	49.86	50.83	48.78	50.13	51.34	50.27
FSU	3.59	3.51	3.71	3.78	3.97	3.74	3.73	3.60	3.79	4.01	3.78	3.87	3.63	3.77	4.04	3.83
Europe	0.69	0.76	0.70	0.66	0.71	0.71	0.78	0.72	0.67	0.73	0.72	0.79	0.74	0.69	0.75	0.74
China	5.58	6.28	6.53	6.32	6.60	6.43	6.55	6.47	6.92	7.21	6.79	7.00	7.07	7.37	7.66	7.28
Other Asia	8.05	8.43	8.70	8.32	8.63	8.52	8.75	8.91	8.59	8.94	8.80	9.02	9.22	8.85	9.20	9.07
Latin America	4.67	4.70	4.88	4.98	4.88	4.86	4.79	4.95	5.08	5.00	4.95	4.90	5.07	5.19	5.11	5.07
Middle East	5.44	5.69	5.63	5.94	5.83	5.77	5.98	5.93	6.24	6.14	6.07	6.30	6.24	6.54	6.45	6.38
Africa	2.73	2.82	2.84	2.71	2.83	2.80	2.91	2.94	2.79	2.92	2.89	3.00	3.03	2.88	3.02	2.98
Total Non-OECD	30.74	32.17	32.99	32.70	33.46	32.83	33.47	33.50	34.10	34.95	34.01	34.89	35.01	35.29	36.22	35.35
World	79.40	82.27	81.15	81.83	83.91	82.29	83.95	81.92	83.72	85.89	83.88	85.72	83.79	85.41	87.56	85.62
of which:																
US	*20.03*	*20.60*	*20.54*	*20.82*	*20.97*	*20.73*	*20.71*	*20.53*	*21.17*	*21.18*	*20.90*	*21.02*	*20.79*	*21.43*	*21.41*	*21.16*
Euro4	*8.30*	*8.35*	*8.07*	*8.34*	*8.44*	*8.30*	*8.18*	*8.09*	*8.31*	*8.39*	*8.25*	*8.14*	*8.05*	*8.31*	*8.37*	*8.22*
Japan	*5.50*	*5.98*	*4.87*	*5.12*	*5.45*	*5.35*	*6.05*	*4.88*	*5.07*	*5.53*	*5.38*	*6.02*	*4.87*	*5.09*	*5.57*	*5.38*
Korea	*2.18*	*2.30*	*2.02*	*2.00*	*2.27*	*2.15*	*2.40*	*2.06*	*2.02*	*2.35*	*2.21*	*2.39*	*2.12*	*2.09*	*2.38*	*2.24*
Mexico	*1.95*	*1.96*	*1.96*	*1.95*	*2.01*	*1.97*	*2.01*	*2.08*	*2.01*	*2.02*	*2.03*	*2.07*	*2.05*	*2.05*	*2.09*	*2.07*
Canada	*2.21*	*2.31*	*2.26*	*2.31*	*2.36*	*2.31*	*2.37*	*2.23*	*2.33*	*2.40*	*2.33*	*2.36*	*2.28*	*2.36*	*2.41*	*2.35*
Brazil	*2.04*	*2.06*	*2.12*	*2.21*	*2.18*	*2.14*	*2.08*	*2.11*	*2.24*	*2.22*	*2.16*	*2.11*	*2.16*	*2.28*	*2.26*	*2.20*
India	*2.47*	*2.66*	*2.63*	*2.45*	*2.60*	*2.59*	*2.76*	*2.64*	*2.53*	*2.72*	*2.66*	*2.83*	*2.75*	*2.60*	*2.79*	*2.75*
Annual Change (% per annum)																
North America	1.7	3.1	4.1	2.9	3.5	3.4	1.0	0.3	1.7	1.1	1.0	1.4	1.2	1.3	1.2	1.3
Europe	1.0	1.0	0.1	0.6	2.1	1.0	-0.5	0.7	0.5	0.2	0.2	0.2	0.0	0.3	-0.1	0.1
Pacific	1.5	-4.4	-2.5	2.7	-3.3	-2.0	2.2	1.0	-0.1	2.1	1.3	-0.3	1.0	1.3	1.1	0.7
Total OECD	1.4	1.0	1.7	2.1	1.8	1.6	0.7	0.5	1.0	1.0	0.8	0.7	0.7	1.0	0.8	0.8
FSU	3.4	-8.4	15.8	9.0	2.6	4.2	6.3	-3.1	0.3	1.0	1.0	3.9	0.9	-0.6	0.8	1.2
Europe	3.8	2.5	2.5	3.0	3.1	2.8	2.6	2.6	2.6	2.7	2.6	2.5	2.5	2.5	2.5	2.5
China	11.0	18.0	23.4	9.2	12.0	15.4	4.3	-1.0	9.6	9.2	5.5	7.0	9.3	6.5	6.2	7.2
Other Asia	1.2	6.5	9.3	4.4	3.5	5.9	3.8	2.4	3.3	3.6	3.3	3.1	3.5	3.0	2.9	3.1
Latin America	-1.8	4.9	5.0	3.9	2.8	4.1	1.9	1.4	2.1	2.3	2.0	2.3	2.6	2.2	2.2	2.3
Middle East	2.1	5.3	8.8	5.6	4.8	6.1	5.2	5.4	5.0	5.3	5.2	5.3	5.3	4.8	5.1	5.1
Africa	1.6	2.2	3.0	3.1	2.6	2.7	3.3	3.3	3.1	3.3	3.2	3.2	3.2	3.1	3.1	3.1
Total Non-OECD	2.9	5.7	11.0	5.8	5.0	6.8	4.1	1.6	4.3	4.4	3.6	4.2	4.5	3.5	3.6	4.0
World	2.0	2.8	5.3	3.6	3.0	3.6	2.0	1.0	2.3	2.4	1.9	2.1	2.3	2.0	1.9	2.1
Annual Change (mb/d)																
North America	0.40	0.76	0.99	0.70	0.86	0.83	0.24	0.08	0.44	0.27	0.26	0.37	0.29	0.34	0.32	0.33
Europe	0.16	0.15	0.01	0.10	0.33	0.15	-0.07	0.11	0.07	0.04	0.04	0.02	-0.01	0.05	-0.01	0.01
Pacific	0.13	-0.42	-0.21	0.21	-0.30	-0.18	0.20	0.08	-0.01	0.19	0.11	-0.03	0.08	0.10	0.10	0.06
Total OECD	0.69	0.48	0.80	1.01	0.89	0.80	0.37	0.26	0.50	0.50	0.41	0.36	0.36	0.50	0.40	0.41
FSU	0.12	-0.32	0.51	0.31	0.10	0.15	0.22	-0.12	0.01	0.04	0.04	0.15	0.03	-0.02	0.03	0.05
Europe	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
China	0.55	0.96	1.24	0.53	0.71	0.86	0.27	-0.06	0.61	0.61	0.36	0.46	0.60	0.45	0.45	0.49
Other Asia	0.09	0.51	0.74	0.35	0.30	0.47	0.32	0.21	0.27	0.31	0.28	0.27	0.31	0.26	0.26	0.27
Latin America	-0.08	0.22	0.23	0.19	0.13	0.19	0.09	0.07	0.11	0.11	0.10	0.11	0.13	0.11	0.11	0.11
Middle East	0.11	0.29	0.45	0.31	0.27	0.33	0.29	0.30	0.30	0.31	0.30	0.32	0.32	0.30	0.31	0.31
Africa	0.04	0.06	0.08	0.08	0.07	0.07	0.09	0.09	0.08	0.09	0.09	0.09	0.09	0.09	0.09	0.09
Total Non-OECD	0.86	1.73	3.27	1.79	1.60	2.09	1.31	0.51	1.39	1.49	1.18	1.41	1.50	1.19	1.27	1.34
World	1.54	2.21	4.07	2.81	2.48	2.89	1.68	0.77	1.90	1.98	1.58	1.77	1.86	1.69	1.67	1.75
Changes from Last Month's Report																
North America	-0.05	0.18	0.24	0.18	0.04	0.16	-0.01	-0.07	0.17	0.02	0.03					
Europe	-0.13	-0.18	-0.17	-0.12	-0.19	-0.16	-0.09	0.03	-0.14	-0.19	-0.10					
Pacific	-0.07	-0.10	-0.09	-0.10	-0.10	-0.10	-0.10	-0.21	-0.09	-0.06	-0.11					
Total OECD	-0.25	-0.10	-0.02	-0.04	-0.25	-0.10	-0.20	-0.24	-0.06	-0.23	-0.18					
FSU	-	-	-	-	-	-	0.01	-0.07	-0.01	0.05	-					
Europe	-0.02	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.02	-0.01					
China	-	-	-	-	-	-	-	-0.25	-0.15	-	-0.10					
Other Asia	-	-	0.17	-	-0.13	0.01	0.02	0.18	-	-0.13	0.02					
Latin America	-0.06	0.01	-0.02	-0.04	-0.12	-0.05	0.01	-0.08	-0.06	-0.14	-0.07					
Middle East	-0.10	-0.11	-0.11	-0.02	-0.11	-0.09	-0.10	-0.11	-0.01	-0.09	-0.08					
Africa	0.02	0.04	0.04	0.01	0.01	0.02	0.03	0.03	0.01	0.02	0.02					
Total Non-OECD	-0.16	-0.07	0.06	-0.07	-0.37	-0.11	-0.05	-0.31	-0.24	-0.30	-0.23					
World	-0.41	-0.17	0.04	-0.11	-0.61	-0.21	-0.25	-0.55	-0.30	-0.53	-0.41					

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2004	2005	2006	1Q05	2Q05	3Q05	4Q05	1Q06	Apr 05	May 05	Jun 05
OPEC											
Crude Oil											
Saudi Arabia	8.75			8.92	9.21				9.16	9.26	9.22
Iran	3.93			3.87	3.96				3.88	4.00	4.00
Iraq	1.99			1.79	1.82				1.83	1.80	1.84
UAE	2.35			2.38	2.37				2.42	2.37	2.31
Kuwait	2.05			2.10	2.11				2.13	2.13	2.09
Neutral Zone	0.60			0.60	0.57				0.58	0.57	0.57
Qatar	0.78			0.78	0.78				0.78	0.78	0.79
Nigeria	2.32			2.36	2.43				2.42	2.42	2.45
Libya	1.55			1.61	1.65				1.64	1.65	1.65
Algeria	1.21			1.33	1.35				1.35	1.35	1.35
Venezuela	2.17			2.13	2.13				2.16	2.12	2.12
Indonesia	0.97			0.95	0.94				0.96	0.94	0.94
Total Crude Oil	28.66			28.80	29.33				29.29	29.38	29.32
Total NGLs[1]	4.31	4.77	5.14	4.68	4.68	4.82	4.90	5.04	4.59	4.72	4.73
Total OPEC	32.96			33.48	34.01				33.88	34.09	34.05
NON-OPEC[2]											
OECD											
North America	14.59	14.66	14.82	14.41	14.63	14.71	14.90	14.90	14.61	14.69	14.59
United States	7.68	7.80	7.76	7.72	7.76	7.84	7.88	7.87	7.74	7.79	7.75
Mexico	3.83	3.83	3.79	3.75	3.85	3.85	3.86	3.83	3.86	3.88	3.82
Canada	3.09	3.04	3.27	2.95	3.02	3.02	3.16	3.20	3.01	3.02	3.02
Europe	6.09	5.85	5.69	5.94	5.84	5.66	5.96	5.93	5.97	5.84	5.70
UK	2.05	1.90	1.72	2.00	1.91	1.80	1.88	1.82	1.98	1.87	1.88
Norway	3.19	3.10	3.17	3.08	3.07	3.02	3.25	3.29	3.14	3.12	2.96
Others	0.85	0.85	0.80	0.86	0.85	0.84	0.83	0.82	0.85	0.85	0.85
Pacific	0.58	0.57	0.56	0.56	0.58	0.57	0.57	0.56	0.57	0.59	0.59
Australia	0.54	0.52	0.52	0.51	0.54	0.52	0.52	0.51	0.52	0.55	0.55
Others	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Total OECD	21.26	21.08	21.08	20.91	21.05	20.93	21.42	21.39	21.15	21.12	20.88
NON-OECD											
Former USSR	11.22	11.63	12.22	11.42	11.48	11.72	11.90	11.97	11.51	11.44	11.50
Russia	9.23	9.52	9.91	9.34	9.38	9.60	9.75	9.78	9.33	9.36	9.45
Others	1.99	2.11	2.30	2.07	2.10	2.12	2.15	2.19	2.17	2.08	2.05
Asia	6.24	6.40	6.49	6.36	6.31	6.44	6.48	6.51	6.18	6.36	6.40
China	3.48	3.61	3.61	3.63	3.60	3.61	3.60	3.61	3.59	3.61	3.61
Malaysia	0.86	0.85	0.88	0.84	0.83	0.86	0.88	0.89	0.78	0.85	0.86
India	0.80	0.80	0.80	0.80	0.80	0.79	0.79	0.79	0.81	0.79	0.80
Others	1.10	1.13	1.20	1.08	1.08	1.17	1.21	1.21	0.99	1.11	1.13
Europe	0.17	0.16	0.15	0.16	0.16	0.16	0.15	0.15	0.16	0.16	0.16
Latin America	4.07	4.30	4.53	4.13	4.32	4.35	4.41	4.51	4.29	4.33	4.33
Brazil	1.80	2.01	2.29	1.85	2.03	2.05	2.12	2.23	2.01	2.04	2.03
Argentina	0.78	0.74	0.69	0.76	0.74	0.73	0.72	0.70	0.75	0.74	0.74
Colombia	0.54	0.53	0.51	0.53	0.54	0.53	0.52	0.52	0.54	0.53	0.53
Ecuador	0.54	0.55	0.57	0.54	0.54	0.56	0.57	0.57	0.53	0.54	0.55
Others	0.42	0.47	0.48	0.45	0.47	0.48	0.48	0.48	0.46	0.47	0.47
Middle East[3]	1.89	1.79	1.72	1.82	1.79	1.79	1.77	1.75	1.80	1.79	1.78
Oman	0.76	0.73	0.71	0.74	0.73	0.73	0.73	0.72	0.73	0.73	0.73
Syria	0.50	0.48	0.45	0.49	0.48	0.47	0.47	0.46	0.48	0.48	0.48
Yemen	0.42	0.38	0.36	0.39	0.38	0.39	0.38	0.37	0.38	0.38	0.38
Africa	3.43	3.76	4.30	3.59	3.65	3.79	4.00	4.13	3.63	3.64	3.68
Egypt	0.71	0.70	0.68	0.70	0.70	0.70	0.70	0.69	0.70	0.69	0.71
Angola	0.99	1.19	1.47	1.12	1.15	1.19	1.29	1.36	1.13	1.15	1.17
Gabon	0.24	0.23	0.23	0.23	0.23	0.24	0.24	0.24	0.23	0.23	0.23
Others	1.50	1.63	1.91	1.54	1.57	1.66	1.77	1.84	1.57	1.57	1.57
Total Non-OECD	27.01	28.04	29.42	27.48	27.72	28.24	28.71	29.02	27.56	27.73	27.86
Processing Gains[4]	1.83	1.86	1.90	1.88	1.85	1.84	1.88	1.92	1.88	1.84	1.84
TOTAL NON-OPEC	50.11	50.98	52.39	50.26	50.62	51.02	52.02	52.32	50.59	50.69	50.58
TOTAL SUPPLY	83.07			83.74	84.62				84.47	84.78	84.62

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Orimulsion Orinoco extra-heavy oil, and non-oil inputs to Saudi Arabian MTBE
2 Comprises crude oil, condensates, NGLs and oil from non-conventional sources
3 Includes small amounts of production from Israel, Jordan and Bahrain
4 Net volumetric gains and losses in refining (excludes net gain/loss in FSU, China and non-OECD Europe) and marine transportation losses

Table 4

OECD INDUSTRY STOCKS[1] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Jan2005	Feb2005	Mar2005	Apr2005	May2005*	May2002	May2003	May2004	2Q2004	3Q2004	4Q2004	1Q2005
North America												
Crude	405.5	418.4	433.6	448.6	450.5	435.1	396.3	423.5	0.04	-0.26	0.07	0.36
Motor Gasoline	248.5	258.0	245.9	244.3	248.1	249.9	239.5	235.0	0.07	-0.04	0.11	0.04
Middle Distillate	197.3	188.9	173.1	172.8	176.9	199.4	177.4	174.6	0.14	0.14	0.04	-0.29
Residual Fuel Oil	49.0	50.0	48.4	44.1	44.3	42.7	44.9	44.5	-0.02	-0.04	0.10	-0.02
Total Products[3]	650.6	652.6	627.2	637.3	657.4	673.7	624.9	615.3	0.42	0.26	0.01	-0.28
Total[4]	1203.6	1214.2	1199.7	1222.1	1243.3	1259.3	1160.7	1176.6	0.54	0.17	-0.09	-0.01
Europe												
Crude	327.7	333.5	348.0	343.9	355.9	326.0	330.5	337.7	-0.03	-0.07	-0.09	0.26
Motor Gasoline	126.7	129.7	120.4	118.0	117.1	118.4	115.3	113.5	-0.06	0.02	0.04	0.05
Middle Distillate	254.3	240.2	245.5	253.0	258.2	253.2	230.9	230.9	0.20	0.17	-0.12	0.07
Residual Fuel Oil	72.4	71.2	69.6	72.7	72.9	73.7	69.4	74.8	0.03	-0.01	-0.03	-0.04
Total Products[3]	556.7	543.7	540.5	549.1	553.7	553.9	521.0	518.8	0.18	0.22	-0.10	0.09
Total[4]	952.9	947.0	961.8	966.5	982.2	944.0	919.2	926.6	0.08	0.15	-0.20	0.41
Pacific												
Crude	178.8	168.4	169.0	158.5	180.9	156.4	172.3	179.1	0.02	-0.09	0.03	-0.02
Motor Gasoline	27.1	27.1	25.2	25.7	26.5	27.5	25.5	24.7	-0.01	-0.01	0.00	0.01
Middle Distillate	68.2	58.2	48.8	55.1	62.9	74.1	69.8	56.1	0.07	0.16	0.00	-0.29
Residual Fuel Oil	22.3	21.6	21.2	21.5	24.8	23.9	24.9	24.1	0.03	-0.01	0.01	-0.01
Total Products[3]	186.5	171.3	154.9	164.3	179.8	192.0	183.7	166.8	0.16	0.15	0.02	-0.37
Total[4]	435.5	407.0	389.5	392.0	433.1	428.9	428.5	416.7	0.21	0.11	0.01	-0.45
Total OECD												
Crude	912.0	920.3	950.6	951.0	987.2	917.5	899.1	940.3	0.03	-0.42	0.00	0.60
Motor Gasoline	402.4	414.8	391.5	388.0	391.6	395.8	380.4	373.1	0.00	-0.03	0.16	0.11
Middle Distillate	519.8	487.3	467.4	480.9	498.1	526.8	478.1	461.6	0.40	0.47	-0.08	-0.51
Residual Fuel Oil	143.7	142.7	139.2	138.4	142.0	140.3	139.2	143.4	0.03	-0.07	0.08	-0.08
Total Products[3]	1393.9	1367.6	1322.5	1350.7	1390.9	1419.5	1329.6	1300.9	0.76	0.64	-0.07	-0.55
Total[4]	2591.9	2568.2	2551.0	2580.7	2658.6	2632.2	2508.4	2519.9	0.83	0.44	-0.28	-0.06

OECD GOVERNMENT-CONTROLLED STOCKS[5] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Jan2005	Feb2005	Mar2005	Apr2005	May2005*	May2002	May2003	May2004	2Q2004	3Q2004	4Q2004	1Q2005
North America												
Crude	679.7	682.0	688.2	691.9	693.7	571.3	603.1	661.3	0.11	0.09	0.06	0.14
Products	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.00	0.00	0.00	0.00
Europe												
Crude	161.6	160.5	160.3	160.9	160.9	144.8	153.6	157.5	0.00	0.00	0.07	-0.04
Products	207.2	209.1	209.4	206.0	206.0	204.7	201.5	205.9	-0.05	0.00	0.00	0.04
Pacific												
Crude	384.5	384.5	384.5	384.5	384.5	380.1	383.0	386.9	0.00	-0.02	0.00	0.00
Products	11.0	11.0	11.0	11.0	11.0	7.3	9.6	11.0	0.00	0.00	0.00	0.00
Total OECD												
Crude	1225.8	1227.0	1233.0	1237.3	1239.1	1096.1	1139.7	1205.7	0.11	0.06	0.12	0.10
Products	220.2	222.2	222.4	219.1	219.1	214.0	213.1	218.9	-0.05	0.00	0.00	0.04
Total[4]	1447.0	1450.2	1456.4	1457.3	1459.1	1311.1	1353.7	1425.7	0.06	0.07	0.13	0.14

* estimated

1 Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) and include stocks held by industry to meet IEA, EU and national emergency reserve commitments and are subject to government control in emergencies.

2 Closing stock levels.

3 Total products includes gasoline, middle distillates, fuel oil and other products.

4 Total includes NGLs, refinery feedstocks, additives/oxygenates and other hydrocarbons.

5 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.

Table 5

TOTAL STOCKS ON LAND IN OECD COUNTRIES[1]

('millions of barrels' and 'days')

	End March 2004		End June 2004		End September 2004		End December 2004		End March 2005 [3]	
	Stock Level	Days Fwd[2] Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand
North America										
Canada	164.4	73	163.1	71	174.3	74	168.1	71	164.8	-
Mexico	38.9	20	39.5	20	41.4	21	41.3	20	44.2	-
United States[4]	1572.8	77	1632.9	78	1643.5	78	1646.8	80	1658.8	-
Total[5]	1798.2	72	1857.6	73	1881.3	73	1878.3	74	1889.9	75
Pacific										
Australia	33.8	39	34.9	39	34.3	38	33.2	38	34.8	-
Japan	614.4	126	622.0	121	632.0	116	635.3	105	604.9	-
Korea	142.9	71	152.9	76	152.1	67	149.4	62	137.4	-
New Zealand	7.2	47	7.7	52	7.1	48	8.0	49	7.9	-
Total	798.2	101	817.4	100	825.5	94	825.9	87	785.0	98
Europe[6]										
Austria	21.0	77	20.3	66	20.2	70	21.0	77	20.8	-
Belgium	24.6	42	26.5	46	27.7	39	27.2	42	26.5	-
Czech Republic	15.6	74	15.9	73	16.9	81	16.3	86	17.0	-
Denmark	15.9	88	15.8	89	18.1	94	16.2	86	16.3	-
Finland	27.8	132	23.4	106	24.0	105	24.4	110	26.2	-
France	176.4	93	183.5	94	188.5	94	186.2	90	187.4	-
Germany	270.0	108	267.1	99	264.1	97	267.2	106	280.5	-
Greece	29.4	77	30.8	78	34.1	76	35.7	74	35.8	-
Hungary	19.5	152	20.1	152	18.7	128	17.8	140	21.1	-
Ireland	11.5	69	10.7	63	11.1	60	11.7	60	10.6	-
Italy	135.6	73	134.6	71	138.7	73	135.8	73	133.7	-
Luxembourg	0.8	13	1.0	16	0.9	14	0.9	14	0.9	-
Netherlands	108.2	115	102.3	110	110.2	113	108.3	109	109.4	-
Norway	28.5	129	30.0	131	23.3	84	24.0	98	26.6	-
Poland	29.7	68	30.1	64	31.1	66	30.6	74	33.9	-
Portugal	24.4	75	26.2	76	25.0	73	24.3	68	25.6	-
Slovak Republic	5.8	79	6.5	88	5.9	81	6.0	92	6.8	-
Spain	123.5	79	127.3	82	126.8	79	119.8	72	126.7	-
Sweden	31.8	87	31.1	88	31.5	87	33.8	93	32.0	-
Switzerland	35.4	142	37.5	138	37.8	135	36.3	131	37.1	-
Turkey	54.9	80	54.8	78	55.2	82	55.9	101	55.4	-
United Kingdom	100.7	55	97.6	54	97.7	55	96.8	56	102.2	-
Total	1291.0	85	1293.2	83	1307.6	82	1296.1	84	1332.4	87
Total OECD	3887.3	81	3968.2	81	4014.4	80	4000.2	79	4007.3	83
DAYS OF IEA Net Imports[7]	-	111	-	113	-	114	-	114	-	114

1 Total Stocks are industry and government-controlled stocks (see breakdown in table below). Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) they include stocks held by industry to meet IEA, EU and national emergency reserves commitments and are subject to government control in emergencies.
2 Note that days of forward demand represent the stock level divided by the forward quarter average daily demand and is very different from the days of net imports used for the calculation of IEA Emergency Reserves.
3 End March 2005 forward demand figures are IEA Secretariat forecasts.
4 US figures exclude US territories.
5 Total includes US territories.
6 Data not available for Iceland.
7 Reflects stock levels and prior calendar year's net imports adjusted according to IEA emergency reserve definitions. Net exporting IEA countries are excluded.

TOTAL OECD STOCKS

CLOSING STOCKS	Total	Government[1] controlled	Industry	Total	Government[1] controlled	Industry
	Millions of Barrels			*Days of Fwd. Demand[2]*		
1Q2002	3909	1304	2606	84	28	56
2Q2002	3967	1316	2651	83	28	55
3Q2002	3897	1321	2576	79	27	52
4Q2002	3821	1345	2476	77	27	50
1Q2003	3787	1359	2428	80	29	51
2Q2003	3913	1362	2551	81	28	53
3Q2003	3981	1380	2601	80	28	52
4Q2003	3928	1408	2520	78	28	50
1Q2004	3887	1421	2467	81	29	51
2Q2004	3968	1426	2542	81	29	52
3Q2004	4014	1432	2582	80	28	51
4Q2004	4000	1444	2556	79	29	51
1Q2005	4007	1456	2551	83	30	53

1 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.
2 Days of forward demand calculated using actual demand except in 1Q2005 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	Feb 05	Mar 05	Apr 05	Year Earlier Apr 04	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.64	0.55	0.56	0.56	0.52	0.45	0.44	0.42	0.42	0.54	-0.11
Europe	0.92	1.00	1.03	1.05	1.04	1.08	0.83	0.83	0.72	0.81	1.19	-0.38
Pacific	1.22	1.18	1.24	1.13	1.23	1.47	1.40	1.46	1.33	1.17	1.23	-0.06
Saudi Medium												
North America	0.70	0.83	0.80	0.73	0.86	0.90	0.97	1.05	1.00	0.92	0.59	0.33
Europe	0.11	0.11	0.11	0.07	0.11	0.16	0.12	0.14	0.11	0.13	0.09	0.04
Pacific	0.16	0.24	0.23	0.20	0.18	0.23	0.21	0.16	0.21	0.24	0.14	0.10
Saudi Heavy												
North America	0.20	0.30	0.22	0.14	0.30	0.26	0.18	0.18	0.15	0.11	0.17	-0.06
Europe	0.09	0.19	0.23	0.26	0.31	0.20	0.19	0.16	0.19	0.18	0.22	-0.05
Pacific	0.12	0.16	0.15	0.13	0.16	0.18	0.25	0.28	0.33	0.19	0.22	-0.03
Iraqi Basrah Light[2]												
North America	0.35	0.44	0.71	0.74	0.68	0.67	0.56	0.52	0.53	0.66	0.84	-0.18
Europe	0.08	0.09	0.21	0.27	0.21	0.13	0.19	0.25	0.24	0.22	0.22	0.00
Pacific	0.02	0.03	0.12	0.08	0.12	0.15	0.07	0.11	..	0.13	0.13	0.00
Iraqi Kirkuk												
North America	0.14	0.06	0.02	0.04	0.01	0.01	..	..	..	..	0.05	..
Europe	0.32	0.12	0.08	0.07	0.03	0.16	0.02	0.02	0.02	0.02	0.09	-0.07
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.17	0.19	0.24	0.23	0.23	0.27	0.20	0.17	0.19	0.19	0.28	-0.09
Pacific	0.12	0.17	0.16	0.13	0.16	0.16	0.19	0.15	0.23	0.10	0.16	-0.07
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.44	0.59	0.57	0.61	0.65	0.54	0.58	0.68	0.43	0.57	0.58	-0.01
Pacific	0.54	0.69	0.65	0.65	0.58	0.63	0.76	0.69	0.82	0.67	0.66	0.01
Venezuelan Light & Medium												
North America	0.68	0.69	0.67	0.78	0.64	0.63	0.76	0.78	0.74	0.84	0.79	0.05
Europe	0.08	0.02	0.01	0.02	0.02	0.01	0.02	0.06	..	0.02	0.02	0.00
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.55	0.60	0.88	0.91	0.86	0.95	0.81	0.79	0.76	0.91	0.88	0.03
Europe	0.05	0.06	0.05	0.07	0.06	0.04	0.06	0.08	0.05	0.06	0.05	0.01
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	0.92	1.32	1.36	1.43	1.34	1.37	1.30	1.24	1.30	1.30	1.33	-0.03
Europe	0.17	0.16	0.16	0.19	0.20	0.13	0.18	0.24	0.15	0.12	0.20	-0.08
Pacific	0.00	0.00	0.00	..	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.01	0.00	..	..	..	..	0.01	0.01	0.01	..	..	..
Europe	0.01	0.00	0.01	..	..	0.02	0.02	..	0.03	..	..	..
Pacific	0.01	0.00	0.00	..	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.03	0.14	0.12	0.14	0.12	0.21	0.14	0.20	0.18	0.34	0.10	0.24
Europe	1.32	1.62	1.86	1.98	1.78	1.56	1.68	1.56	1.84	1.89	2.17	-0.28
Pacific	0.01	0.00	0.01	0.01	0.01	..	..	..	..	0.00	..	..
Nigerian Light[4]												
North America	0.38	0.63	0.80	0.90	0.78	0.73	0.87	1.04	0.79	0.86	0.84	0.01
Europe	0.32	0.41	0.28	0.22	0.30	0.30	0.30	0.33	0.22	0.24	0.19	0.05
Pacific	0.06	0.08	0.11	0.10	0.09	0.13	0.06	0.07	0.05	0.06	0.14	-0.09
Nigerian Medium												
North America	0.16	0.17	0.23	0.21	0.22	0.20	0.18	0.28	..	0.22	0.27	-0.06
Europe	0.06	0.06	0.04	0.04	0.05	0.02	0.07	0.07	0.07	0.00	0.08	-0.07
Pacific	0.01	0.01	0.01	..	..	..	0.03	..	0.08	0.03	..	..

1 Data based on monthly submissions from IEA countries to the crude oil import register (in '000 bbl), subject to availability. May differ from Table 8 of the Report.
IEA North America includes United States and Canada.
IEA Europe includes all countries in OECD Europe except Hungary, Poland and the Slovak Republic.
IEA Pacific data includes Australia, New Zealand, Korea and Japan.

2 Iraqi Total minus Kirkuk.

3 Iranian Total minus Iranian Light.

4 33 API and lighter (e.g., Bonny Light, Escravos, Qua Iboe and Oso Condensate).

Table 7

Regional OECD Imports[1,2]

(thousand barrels per day)

	2002	2003	2004	2Q2004	3Q2004	4Q2004	1Q2005	Feb-05	Mar-05	Apr-05	Year Earlier Apr-04	Year Earlier % change
Crude Oil												
North America	7584	8069	8394	8557	8547	8442	8578	8735	8591	8595	8458	2%
Europe	8725	9087	9520	9499	9664	9519	9659	10204	8992	9377	9419	0%
Pacific	6422	6711	6659	6170	6457	6998	7166	6897	7264	6297	6552	-4%
Total OECD	22731	23867	24573	24226	24668	24960	25403	25835	24847	24269	24429	-1%
LPG												
North America	39	27	26	10	25	39	23	32	20	7	3	47%
Europe	225	193	232	195	215	267	293	288	280	205	231	-13%
Pacific	553	541	541	585	469	561	532	529	537	619	502	19%
Total OECD	817	760	799	790	709	868	848	849	837	831	736	11%
Naphtha												
North America	42	67	86	49	96	144	124	122	142	81	16	80%
Europe	298	305	292	326	243	268	277	298	281	230	337	-46%
Pacific	705	770	769	761	787	748	772	728	755	791	663	16%
Total OECD	1045	1142	1147	1137	1126	1160	1173	1148	1178	1102	1016	8%
Gasoline[3]												
North America	680	703	798	896	847	774	869	1054	851	995	915	8%
Europe	152	150	166	157	132	163	173	195	157	132	156	-18%
Pacific	58	70	105	118	90	106	95	82	107	107	139	-30%
Total OECD	891	922	1069	1170	1069	1044	1138	1330	1114	1234	1210	2%
Jet & Kerosene												
North America	97	97	88	102	88	116	66	64	85	42	72	-71%
Europe	253	271	243	233	307	259	277	333	256	351	221	37%
Pacific	97	102	77	60	52	103	97	78	110	79	59	25%
Total OECD	448	470	408	395	447	478	439	475	451	472	352	25%
Gasoil/Diesel												
North America	102	126	122	92	108	91	106	134	54	77	65	15%
Europe	656	652	730	645	756	849	902	905	972	677	698	-3%
Pacific	53	73	74	92	79	66	60	50	63	94	78	17%
Total OECD	811	850	926	829	943	1006	1068	1089	1089	847	841	1%
Heavy Fuel Oil												
North America	237	326	387	317	346	521	484	565	422	432	262	39%
Europe	470	398	413	435	448	404	402	367	494	623	392	37%
Pacific	89	88	76	77	87	64	83	94	84	85	86	-1%
Total OECD	796	812	876	828	882	989	970	1026	1000	1140	740	35%
Other Products												
North America	689	680	824	701	951	774	721	766	649	890	657	26%
Europe	735	690	691	702	709	687	733	724	855	848	609	28%
Pacific	256	235	256	265	261	252	254	244	236	309	234	24%
Total OECD	1681	1605	1771	1667	1920	1713	1708	1734	1741	2047	1499	27%
Total Products												
North America	1887	2026	2331	2165	2462	2460	2394	2737	2223	2524	1990	21%
Europe	2790	2657	2767	2693	2810	2896	3057	3110	3295	3065	2643	14%
Pacific	1811	1879	1898	1958	1825	1901	1894	1805	1892	2084	1760	16%
Total OECD	6488	6562	6996	6816	7097	7257	7344	7651	7410	7673	6394	17%
Total Oil												
North America	9471	10095	10724	10722	11009	10902	10972	11471	10814	11119	10449	6%
Europe	11515	11744	12286	12192	12474	12415	12716	13314	12287	12442	12062	3%
Pacific	8233	8590	8558	8128	8282	8899	9059	8701	9156	8381	8312	1%
Total OECD	29219	30428	31569	31042	31765	32217	32747	33487	32257	31942	30823	4%

1 Based on Monthly Oil Questionnaire data submitted by OECD countries in tonnes and converted to barrels.

2 Excludes intra-regional trade

3 Includes additives

OIL MARKET REPORT CONTACTS

Editor/Prices	Lawrence Eagles (+33) 0*1 40 57 65 90 e-mail: lawrence.eagles@iea.org
Demand	Jeff Brown (+33) 0*1 40 57 65 93 e-mail: jeff.brown@iea.org
Supply	David Fyfe (+33) 0*1 40 57 65 94 e-mail: david.fyfe@iea.org
OECD Stocks/Refinery Activity	Harry Tchilinguirian (+33) 0*1 40 57 65 22 e-mail: harry.tchilinguirian@iea.org
Freight/Statistics/End-User Prices	Toril Ekeland Bosoni (+33) 0*1 40 57 66 36 e-mail: toril.bosoni@iea.org
Administrative Support	Anne Mayne (+33) 0*1 40 57 65 96 e-mail: anne.mayne@iea.org

Fax: *(+33) 0*1 40 57 65 99/40 57 65 09*

* 0 only within France

For all **Subscription and Delivery Enquiries** please contact:

International Energy Agency
Attn: Ms. Sandra Coleman
Oil Market Report Subscriptions
BP 586-75726 Paris Cedex 15, France

Tel. +33 (0) 1 40 57 65 57
Fax. +33 (0) 1 40 57 65 59

E-mail: omr@iea.org

Users' Guide to the IEA Oil Market Report

Readers are referred to the Users' Guide, published in conjunction with the Annual Statistical Supplement (current issue dated 11 August 2004), for information on the data sources, definitions, technical terms and general approach used in preparing the Report. It should be noted that the spot crude and product price assessments are based on daily Platt's prices, converted when appropriate to US$ per barrel according to the Platt's specification of products (©2005 Platt's - a division of McGraw-Hill Inc.).

INTERNATIONAL ENERGY AGENCY/AGENCE INTERNATIONALE DE L'ENERGIE

OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

www.oilmarketreport.org

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

11 August 2005

HIGHLIGHTS

- WTI pushed above $64/bbl on a series of supply disruptions, geopolitical issues, an active hurricane season and strong refiner demand for light, sweet crude. A faster-than-normal seasonal draw in US gasoline stocks accentuated price sensitivity to a series of refinery problems at the tail-end of the gasoline season.

- Oil demand was revised down by 150 kb/d in 2005 and 120 kb/d in 2006 following the inclusion of further annual historical data revisions. However, 2005 and 2006 global demand *growth* are largely unchanged at 1.60 mb/d and 1.78 mb/d respectively, with weaker Chinese apparent demand partly offset by a modest adjustment to US data.

- Unscheduled summer outages in North America and the North Sea have contributed to a 205 kb/d downward revision to 2005 non–OPEC supply to 50.8 mb/d. Non-OPEC supply is expected to rebound by 1.25 mb/d in 2006 to average 52.0 mb/d. Higher OPEC volumes underpinned a 250 kb/d rise in July world oil supply to 84.7 mb/d.

- OPEC crude supply increased in July by 285 kb/d, to 29.6 mb/d. Main increases came from the UAE, Saudi Arabia, Iran and Iraq. The call on OPEC crude and stock change remains at 28.2 mb/d for 2005, but reaches 29.2 mb/d in the fourth quarter. The 2006 call is revised up by 240 kb/d to 28.3 mb/d.

- OECD total industry oil stocks in June were little changed from May, but the overall build in the second quarter came to 1.32 mb/d, 420 kb/d above the five-year average. Second quarter inventory gains were led by a 940 kb/d rise in product stocks. Days of forward demand cover remained flat from May at 54 days, but were two days above a year ago.

Next Issue: 9 September 2005

CONTENTS

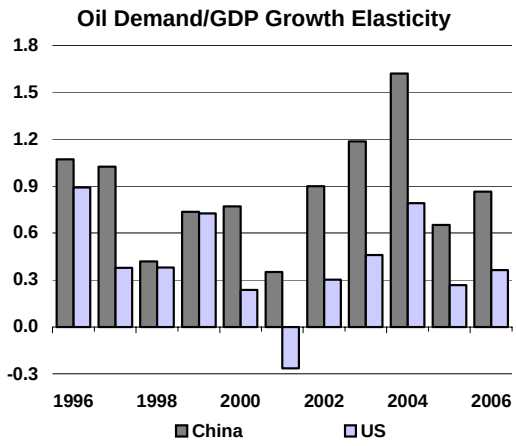
EVOLUTION NOT REVOLUTION

Relationships between oil demand and GDP growth in several countries appear to have been erratic over the past few years. The latest upward revisions to US oil demand and downward revisions to its GDP growth for 2004 have exacerbated the divergence in their traditional relationship. It has also raised questions over the level of US oil demand growth reported so far in 2005. Similarly, slow apparent oil demand growth in China in 2005 runs counter to a near double-digit expansion in GDP.

But, if the oil market could be explained by a simple set of rigid economic relationships, there would be precious little need for analysts and oil traders. Any uncertainty would simply revolve around economic forecasts and oil companies could micromanage stocks and capacity additions. But this is not the case: the oil market is continually evolving. It is what makes analysing it both fascinating and frustrating.

Looking at the historical ratio of oil demand to GDP growth would suggest that oil demand should be growing at a much higher level than in China than at present. Oil demand growth in China has averaged around 90% of GDP growth over the past five years but seems set to dip to, at best, 65% this year. But such variation is normal. The ratio of Chinese oil demand to GDP changes has swung between 35% and 162% year-on-year over the same period. Similarly, in the US, the ratio of oil to GDP growth has averaged around 37% over the past five years, but has been as low as -27% and as high as 79% during that period.

Quite simply, the vagaries of the weather, price, secondary and tertiary stock movements and other variables can have as much (if not more) of an impact on primary oil demand as GDP growth in any particular year. Over the past few years, the availability of non-oil energy has also played a critical role in determining oil demand growth, for example, Japanese nuclear power outages in 2002/3 and European nuclear and hydroelectric power shortfalls during the 2003 heatwave. A move above or below average growth trends is more likely to reflect these factors than flagging a possible data revision.



Oil data (like GDP data) can always be revised, but given the surge in Chinese crude imports and product exports, it seems unlikely that any historical adjustments will materially affect the overall trend we have been seeing. Further, reports that thermal coal production in China is up almost 40% year-on-year, contribute to the relative weakness of Chinese fuel oil imports so far this year. While refiners continue to indicate they will supply more product to the domestic market if retail prices are raised to market levels, there are also signs that consumers are starting to baulk at recent price increases. In the US, it is recognised that the upward revision to 2004 oil demand is likely to be followed by a further upward revision to 2005 monthly data, and our monthly numbers have been adjusted accordingly.

Fluctuations in oil demand growth in the two largest consumer countries are by no means isolated cases - but they generate additional uncertainty and increase market concerns about capacity constraints. A sharp rise in OECD stocks in the first half of 2005, combined with a substantial improvement in the US distillate stock position has clearly provided insufficient comfort to a US market facing a heavy autumn refinery maintenance schedule and an active hurricane season. Nor have nascent signs of increased oil-company investment spending dispelled the view that oil companies have switched from a position of just-in-time inventory to one of just-in-time capacity.

Higher oil prices have brought about a limited demand-side and substitution response. They have not completely choked off oil demand growth. Neither (so far) has the impact been sufficient to reverse economic growth and that is no bad thing. Ask central bankers and they will tell you that it is preferable to raise interest rates gradually to curb inflation, rather than quash it with a five-percentage point rise. But, the world economy is still largely responding to last year's rise in price, and has yet to feel the full force of this year's increase.

As the past few years have shown, successfully micromanaging supply is a nigh-on impossible task: the tighter the capacity, the higher the level of stocks needed to compensate. Stocks have built rapidly in the first half of 2005, despite $60 oil, but clearly, the market verdict remains that more inventories are needed until investment responses catch up and demand patterns are clearer.

DEMAND

Summary

- Projected 2005 **global demand growth** remains largely unchanged at 1.60 mb/d, a 20 kb/d increase compared with last month's Report. In 2006, world demand is forecast to grow by 1.78 mb/d, a 30 kb/d upward revision.

- Revisions to historical demand data resulted in a decline in **baseline global demand**, contributing to a 150 kb/d downward adjustment to the 2005 demand level. These revisions also impact upon the 2006 demand forecast, which is revised down by 120 kb/d. Global demand is expected to average 83.72 mb/d in 2005 and 85.51 mb/d in 2006.

Global Oil Demand from 2004 to 2006

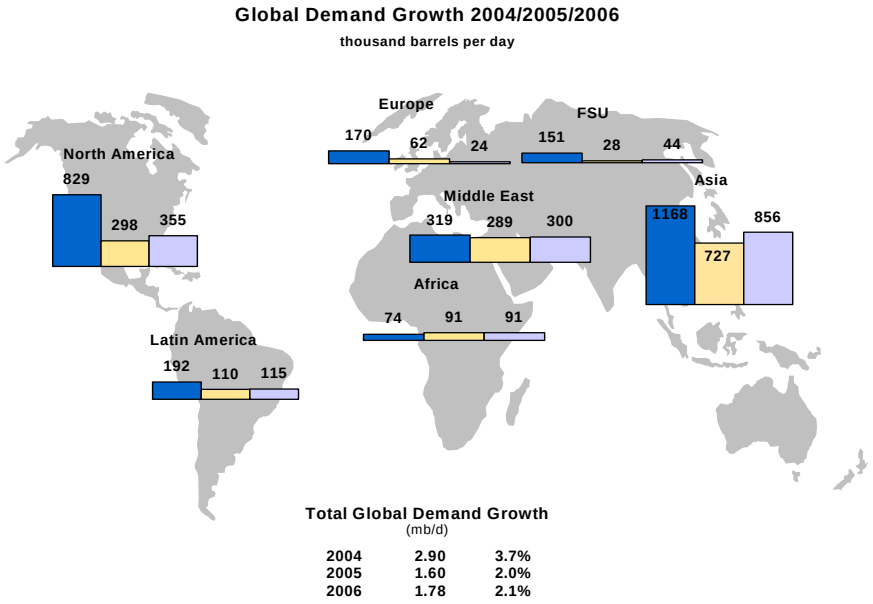
	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
Demand (mb/d)	82.1	80.9	81.7	83.8	82.1	83.9	81.8	83.3	85.9	83.7	85.6	83.7	85.2	87.6	85.5
Annual Change (%)	2.8	5.3	3.6	3.1	3.7	2.1	1.1	2.0	2.5	2.0	2.1	2.3	2.2	2.0	2.1
Annual Change (mb/d)	2.2	4.1	2.8	2.5	2.9	1.8	0.9	1.7	2.1	1.6	1.7	1.9	1.8	1.7	1.8
Changes from last month's report (mb/d)	-0.2	-0.2	-0.1	-0.1	-0.2	-0.1	-0.1	-0.4	-	-0.2	-0.1	-0.1	-0.2	0.1	-0.1

- **OECD demand** has been revised upwards by 80 kb/d in 2005 and 100 kb/d in 2006. This stems largely from unexpectedly strong Japanese demand growth in the second quarter and a reassessment of the US demand outlook in light of comments released by the US Energy Information Agency (EIA). Taken at face value, recent upward revisions to 2004 annual data from the US imply that US demand growth has been negative, on average, in 2005. This certainly contradicts the preliminary picture presented by US monthly and weekly data and is inconsistent with still robust economic growth. However, the EIA suggests that the US monthly data submitted for 2005 are likely to be revised upwards when the annual data are released next year. As a consequence, our estimates of 2005 demand incorporate a further slight upward revision to the preliminary adjustment factor included in last month's Report. This month US demand has been revised upwards by a further 30 kb/d for 2005 and 40 kb/d in 2006. US-50 demand (not including US territories) is projected to grow by 200 kb/d in 2005 and 270 kb/d in 2006. On the whole, OECD demand is forecast to grow by 490 kb/d in 2005 and 420 kb/d in 2006.

Global Oil Demand by Region
(million barrels per day)

	Demand	Annual Change			Annual Change (%)		
	2005	2004	2005	2006	2004	2005	2006
North America	25.65	0.83	0.30	0.36	3.4	1.2	1.4
Europe	16.34	0.17	0.06	0.02	1.1	0.4	0.1
OECD Pacific	8.67	-0.16	0.14	0.06	-1.9	1.7	0.7
China	6.75	0.86	0.32	0.51	15.4	4.9	7.5
Other Asia	8.79	0.47	0.27	0.29	5.9	3.1	3.3
Subtotal Asia	24.21	1.17	0.73	0.86	5.2	3.1	3.5
FSU	3.77	0.15	0.03	0.04	4.2	0.7	1.2
Middle East	5.88	0.32	0.29	0.30	6.0	5.2	5.1
Africa	2.89	0.07	0.09	0.09	2.7	3.2	3.1
Latin America	4.97	0.19	0.11	0.11	4.1	2.3	2.3
World	83.72	2.90	1.60	1.78	3.7	2.0	2.1

- **Non-OECD demand growth** has been revised down by 60 kb/d in 2005, to 1.12 mb/d, primarily as a result of a weaker outlook for Chinese apparent demand. The projection of 2006 non-OECD demand growth has been revised up by 20 kb/d, to 1.36 mb/d. Note that baseline non-OECD demand has been revised down by 230 kb/d in 2005 and 210 kb/d in 2006. This is largely due to a reassessment of historical demand data for Saudi Arabia, which carries through to the 2005 and 2006 projections.



- Preliminary data suggest that **Chinese apparent demand growth** was weaker than expected in June and market reports suggest that it is not likely to post a strong recovery in July or August. Chinese apparent demand declined by approximately 1.4% in the second quarter of 2005 and the outlook for 2005 growth has been revised down by 40 kb/d, to 320 kb/d (4.9%). This is down from 860 kb/d (15.4%) demand growth seen in 2004. The decline may be attributed to numerous factors that could be temporary, including a government pricing policy that discourages net product imports and possible stock changes (which are not reflected in apparent demand). However, there is also evidence of a deceleration in actual consumption, notably in fuel oil, where increases in coal and hydro power are helping to limit the need for relatively expensive fuel oil imports. The revaluation of the Yuan and an increase in the official price of diesel and gasoline could support product imports, but the fact remains that there is limited incentive to supply the domestic market at current official prices.

OECD

Overview of OECD Demand Trends

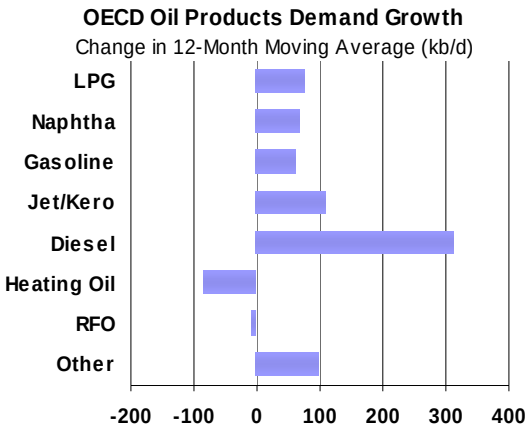
Preliminary June 2005 inland delivery data suggest that demand growth was for the most part weak among the major OECD consumers, at 0.4%. Strong growth in the OECD Pacific was balanced by relative weakness in North America and Europe. It must be noted, however, that the provisional US monthly delivery data should be viewed with caution. Although US deliveries are reported to be flat in June, final 2005 monthly data are likely to be subject to upward revision (see discussion in the North America section).

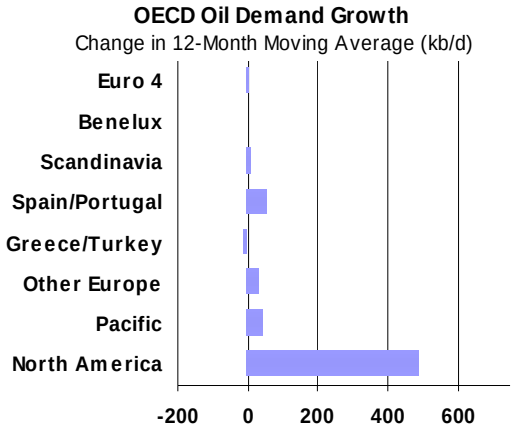
Preliminary Inland Deliveries – June 2005[1]

	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other[2]		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
United States[3]	9.48	1.7	1.73	3.4	3.18	1.9	0.91	18.8	0.75	-8.7	4.7	-7.0	20.77	0.0
Canada	0.75	1.9	0.11	-0.9	0.47	4.2	0.04	-9.3	0.14	-13.9	0.3	-9.4	1.79	-1.3
Mexico	0.68	5.3	0.06	5.5	0.33	3.4	0.00	na	0.34	-7.6	0.4	-5.5	1.77	-0.1
Japan	1.07	8.0	0.37	30.2	0.68	6.1	0.48	12.3	0.46	0.4	1.5	0.7	4.56	6.3
Korea	0.17	10.4	0.13	18.6	0.35	-3.8	0.14	8.9	0.38	-6.3	0.9	2.2	2.07	1.4
France	0.27	-8.0	0.14	1.9	0.68	1.2	0.22	10.4	0.04	-4.4	0.5	-2.6	1.84	-0.4
Germany	0.58	-2.1	0.18	17.8	0.59	-3.3	0.34	-24.1	0.11	2.3	0.5	6.5	2.31	-3.4
Italy	0.33	-7.2	0.09	13.9	0.52	2.2	0.07	3.8	0.14	-3.7	0.4	-3.6	1.56	-1.3
Total	**13.34**	**1.8**	**2.81**	**7.9**	**6.79**	**1.7**	**2.22**	**5.7**	**2.36**	**-6.0**	**9.2**	**-3.9**	**36.66**	**0.4**

Sources: US EIA, Statistics Canada, Mexico PEMEX, Japan METI, Korea KNOC, France CPDP, Germany MWV, Italy Ministry of Industry,
Percentage change is calculated versus the previous year.
1 excludes refinery fuel and bunkers (except US and Korea)
2 includes direct use of crude oil
3 fifty states only. Diesel's share of total distillate is estimated.

Viewing the overall outlook for 2005, total OECD demand has been revised up by 140 kb/d in the second quarter. The largest change (100 kb/d) came in the OECD Pacific, where Japanese demand growth was unexpectedly strong in June 2005. Third quarter demand has been revised downwards by 10 kb/d, in part due to indications that US demand was weaker than previously anticipated in July. This was balanced by a stronger outlook for the OECD Pacific, which was revised upwards by 30 kb/d. There are reports that Japanese demand for residual fuel oil and direct crude burning may be somewhat stronger than previously anticipated due to hot weather and drought conditions in some areas. Finally, fourth quarter 2005 demand has been revised upwards by 120 kb/d, principally due to a reassessment of US demand prospects.





Looking to 2006, North American demand has been revised up by 70 kb/d. This is largely due to revisions to US demand, which stem partly from adjustments made to 2005 baseline demand. OECD Pacific demand has been revised up by 30 kb/d. Some of this increase may be attributed to a revision to baseline 2005 Japanese demand, which in turn affected the 2006 projection.

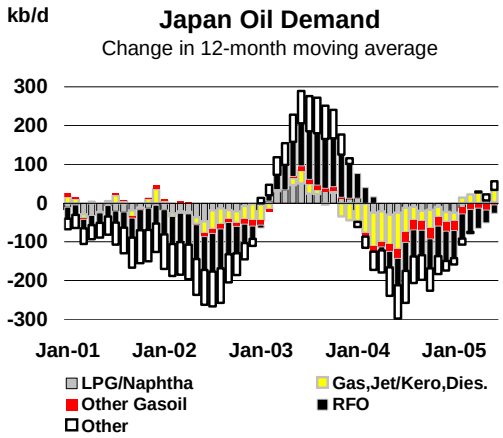
Total OECD Demand by Product
(million barrels per day)

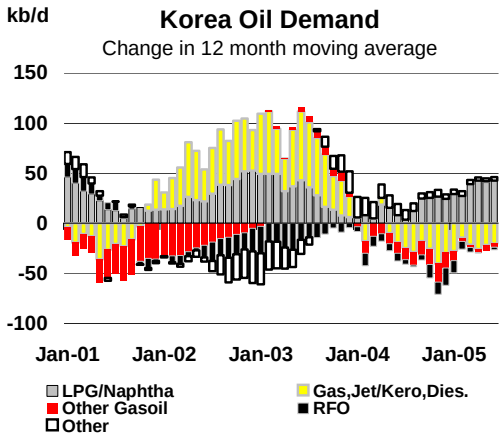
	2004	2005	2Q04	3Q04	4Q04	1Q05	Mar 05	Apr 05	May 05	Latest month vs. Apr 05	Latest month vs. May 04
LPG & Ethane	4.86	4.80	4.59	4.42	5.03	5.39	5.09	4.46	4.15	-0.32	-0.26
Naphtha	3.22	3.30	3.05	3.20	3.33	3.40	3.37	3.33	3.12	-0.20	0.11
Motor Gasoline	14.88	15.01	15.00	15.24	14.89	14.46	14.84	14.95	14.95	0.00	0.10
Jet & Kerosene	4.10	4.24	3.75	3.92	4.23	4.62	4.47	3.92	3.81	-0.11	0.10
Gas/Diesel Oil	12.85	13.06	12.25	12.45	13.40	13.38	13.53	12.82	12.36	-0.46	0.72
Residual Fuel Oil	4.57	4.56	4.34	4.45	4.67	4.89	4.80	4.55	4.21	-0.35	0.00
Other Products	4.99	4.97	5.18	5.44	4.89	4.42	4.77	4.87	4.94	0.07	-0.18
Total Products	**49.46**	**49.95**	**48.16**	**49.13**	**50.44**	**50.56**	**50.87**	**48.91**	**47.54**	**-1.37**	**0.59**

Pacific

Provisional data suggest that Japanese demand grew by 6.3% in June 2005. This was an unexpectedly robust gain, although a rebound in demand was anticipated following a 5.1% contraction in June 2004. Demand for jet/kerosene was particularly strong, with deliveries increasing by approximately 30.2%, which is likely due to consumer restocking following weak deliveries in May. June 2004 jet/kerosene demand was weak (-9.3%), but the 2005 demand recovery exceeded expectations. Deliveries of gasoline, gasoil and 'other products' (which includes direct crude burning in power generation) were also up sharply in June, but again, this is in contrast to a comparatively weak period last year.

As a consequence of revisions to June deliveries, Japanese demand was revised upwards by some 100 kb/d for the second quarter of 2005. The largest revision was to jet/kerosene demand, which was raised by approximately 40 kb/d. Second quarter 2006 demand is also revised upwards by 60 kb/d, in part due to a shift in the 2005 baseline. On the whole, Japanese demand growth is projected to reach 60 kb/d in 2005, 30 kb/d higher than estimated in last month's Report.





It has been reported that nearly 150 kb/d of crude was delivered to Japan's power utilities for direct burning in June 2005, which is close to double the crude volume burned in June 2004. This increase stems in part from hot weather and drought conditions in southwest Japan. The drought appears to have lowered the rate of hydroelectric output by about 120-130 kb/d of oil input equivalent below normal. Although the outlook for fuel oil demand has been revised marginally upwards (10 kb/d) in the third quarter of 2005, early indications are that the strong June rebound in deliveries may subside somewhat in later months. This may be driven in part by higher output from nuclear power plants.

On 13 July Tokyo Electric Power Co. (TEPCO) restarted the No. 1 unit at its Fukushima Daiichi nuclear power plant. The plant has been offline since 2002 when the Japanese government ordered TEPCO to close the unit. This year TEPCO expects its average nuclear power utilisation rate to return to 70-75% of installed capacity, only slightly below its normal operating rate of about 80%. Currently 12 out of 17 of TEPCO's nuclear power plants are on-line. In comparison, Kansai Electric Power Company has nine out of 11 of its plants on-line, with Mihama No. 3 still experiencing an unplanned shutdown.

In terms of other developments in Japan's oil product market, it should be noted that Japan's average retail gasoline price is reported to have reached $1.15/litre in late July. This was a 12 year high. Japanese gasoline demand is projected to grow by only 0.1% in the third quarter of 2005, well below growth of 4.4% in the third quarter of 2004.

OECD Pacific Demand by Product
(million barrels per day)

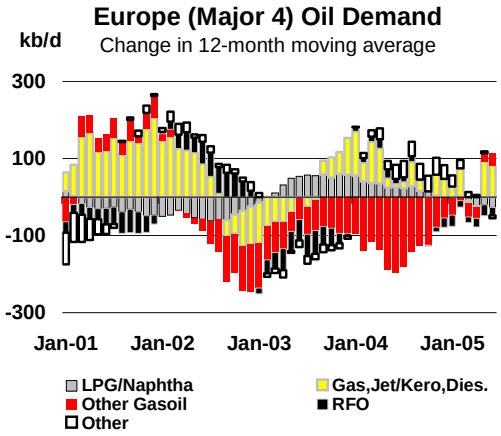
	2004	2005	2Q04	3Q04	4Q04	1Q05	Mar 05	Apr 05	May 05	Latest month vs. Apr 05	Latest month vs. May 04
LPG & Ethane	0.88	0.88	0.85	0.79	0.88	1.00	0.98	0.94	0.82	-0.12	0.03
Naphtha	1.57	1.62	1.48	1.56	1.63	1.69	1.70	1.61	1.53	-0.09	0.03
Motor Gasoline	1.60	1.64	1.56	1.70	1.63	1.59	1.65	1.59	1.54	-0.05	-0.03
Jet & Kerosene	1.02	1.07	0.74	0.74	1.12	1.54	1.37	0.87	0.68	-0.20	-0.08
Gas/Diesel Oil	1.89	1.91	1.84	1.81	1.95	1.99	2.09	1.87	1.70	-0.17	-0.09
Residual Fuel Oil	1.05	1.05	0.96	1.03	1.05	1.17	1.17	1.04	0.91	-0.13	0.03
Other Products	0.52	0.51	0.47	0.54	0.52	0.52	0.58	0.50	0.45	-0.05	0.05
Total Products	**8.53**	**8.67**	**7.90**	**8.16**	**8.77**	**9.49**	**9.55**	**8.43**	**7.63**	**-0.80**	**-0.06**

At the time of writing, the Korean government was considering raising power tariffs in line with rising oil prices. Early soundings suggest that electricity prices could be raised as soon as September, although the magnitude of the increase remains unclear. The government has hesitated to act on requests by state-controlled Korea Electric Power Company to raise power tariffs because of the possible negative impact on the economy. The last increase in power prices came in 2000, and in fact as recently as March last year electricity tariffs were cut by 1.5% in an effort to boost the economy.

Europe

Preliminary delivery data for June 2005 indicate that German heating oil demand pursued its roller coaster path. After posting a 56.2% increase in May, deliveries declined by 24.1% in June. All in all, while the swings in demand are large, the absolute level of demand remains relatively weak. These variations are expected to continue in coming months as consumers opportunistically respond to price changes and remain reluctant to fill their tanks at current prices.

Although European gasoline prices have recently shown some strength in line with US trends, June deliveries continue to reflect the long-term downward trend in demand. Deliveries declined on a yearly basis in France, Germany and Italy. Overall, among the four largest oil consumers in Europe (France, Germany, Italy and the UK) gasoline demand is projected to decline by 4.2% in 2005 and 3.0% in 2006.



OECD Europe Demand by Product
(million barrels per day)

	2004	2005	2Q04	3Q04	4Q04	1Q05	Mar 05	Apr 05	May 05	Latest month vs. Apr 05	Latest month vs. May 04
LPG & Ethane	1.03	1.00	1.02	0.91	1.03	1.12	1.08	0.94	0.88	-0.06	-0.12
Naphtha	1.14	1.15	1.09	1.10	1.15	1.20	1.16	1.24	1.14	-0.09	0.11
Motor Gasoline	2.78	2.70	2.85	2.89	2.72	2.52	2.64	2.75	2.73	-0.01	0.00
Jet & Kerosene	1.16	1.22	1.14	1.25	1.16	1.14	1.16	1.20	1.25	0.05	0.14
Gas/Diesel Oil	5.98	6.06	5.58	5.83	6.37	6.17	6.09	5.92	5.67	-0.25	0.53
Residual Fuel Oil	2.00	2.01	1.93	1.97	2.08	2.13	2.14	1.99	1.86	-0.13	-0.04
Other Products	1.48	1.49	1.56	1.61	1.48	1.26	1.36	1.48	1.49	0.00	-0.04
Total Products	**15.58**	**15.62**	**15.16**	**15.56**	**15.98**	**15.54**	**15.62**	**15.51**	**15.02**	**-0.49**	**0.59**

OECD European demand has been revised upwards by 20 kb/d in the first and second quarters of 2005 and 10 kb/d in the third quarter. The largest changes were to the Netherlands, where demand for residual fuel oil and naphtha were stronger than expected in the second quarter of 2005. Extraordinarily hot weather and droughts are leading to increased demand for fuel oil in southern Europe. However, the impact of these weather-related developments has been previously factored into the forecast of third quarter demand, so at this point the European demand outlook for fuel oil remains largely unchanged. On the whole, OECD European demand is revised up by 10 kb/d in 2005 and remains unchanged in 2006. The outlook for demand continues to point at very modest growth of 40 kb/d in 2005 and 10 kb/d in 2006.

North America

Middle distillates continued to lead demand growth in North America in June, with total gasoil (diesel and heating oil) deliveries growing by a provisional 4.9%. Jet/kerosene deliveries grew by a similarly robust 3.2%. However, this is subject to revision as discussed below.

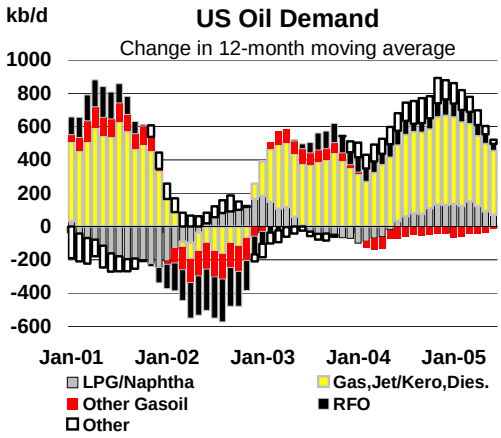
As noted in the 13 July 2005 Oil Market Report, the US Energy Information Administration (EIA) released substantial revisions to 2004 petroleum demand in its *Petroleum Supply Annual*. Overall, a 214 kb/d upward revision implies that oil demand grew by an extraordinarily strong 3.5% in 2004. Although the US economy grew by an estimated 4.2% over this period, this is much stronger than would be expected based on previous links between US oil product consumption and economic growth. Moves to substitute residual fuel oil for relatively high priced natural gas certainly played a role (albeit possibly temporary), as consumption of fuel oil grew by 12.0% in 2004. However, other products, especially middle distillates, also posted exceptionally robust growth in 2004.

Among the individual products, the most substantial upward revisions to 2004 demand were to gasoline, residual fuel oil and 'other products,' while middle distillates demand was left largely unchanged. Upon incorporating these revisions, US oil product demand is estimated to have

increased by 4.3% in the second quarter of 2004. This includes a 338 kb/d upward revision to April 2004 demand and a 447 kb/d upward adjustment to June 2004 demand, which are the months that present the largest revisions.

Although the EIA points out that there have been similarly large revisions to annual data in the past, the fact remains that these revisions add considerable uncertainty to the 2005 demand growth outlook. Because 2004 annual data were revised upwards by such a large amount, US demand growth now appears surprisingly weak in 2005. In fact, taken at face value, EIA reports indicate that through 1 August 2005 demand actually declined by 0.4% versus the same period in 2004. While relatively high oil product prices may have slowed demand growth to some extent, such a large decline in demand appears to be inconsistent with reported economic growth of 3.7% in the first quarter of 2005. This suggests that US demand will be revised up in the future. In fact, in viewing gasoline demand, the EIA points out that, "demand growth has been revised up in five out of the last seven (years), strongly suggesting that 2005 upward revisions are more likely than not".

Due to the likelihood of future upward revisions to US monthly 2005 data, the submitted monthly data for 2005 in last month's Report have been modified. This month, we have made a further modest upward adjustment. The data are modified based on a combination of our view of demand trends and previous revisions to monthly data. On average, the submitted monthly data have been modified upwards by 160 kb/d over January-May 2005. The largest modification was to gasoline, which was adjusted upwards by an average of 90 kb/d for this period.



Combining the data modifications made for this month's Report with adjustments to the forecast, US-50 demand has been revised upwards by 90 kb/d for the first quarter of 2005. In the second quarter, April demand was revised up by 130 kb/d, but May demand came in weaker than anticipated and was adjusted down by 110 kb/d. June demand is revised up by 10 kb/d. On the whole, second quarter demand is revised up by 10 kb/d. In addition, preliminary indications suggest that demand growth was weaker than previously anticipated in July 2005. Although hot weather has supported oil demand in power generation, third quarter demand is revised down by some 60 kb/d. To a large extent these revisions carry through to 2006. Overall, US-50 demand is projected to grow by 200 kb/d (1.0%) in 2005, a 30 kb/d increase from last month's Report. In 2006 demand is projected to grow by 270 kb/d (1.3%).

OECD North America by Product
(million barrels per day)

	2004	2005	2Q04	3Q04	4Q04	1Q05	Mar 05	Apr 05	May 05	Latest month vs. Apr 05	Latest month vs. May 04
LPG & Ethane	2.95	2.92	2.72	2.72	3.12	3.27	3.04	2.58	2.44	-0.13	-0.17
Naphtha	0.50	0.52	0.47	0.54	0.56	0.50	0.52	0.48	0.46	-0.02	-0.04
Motor Gasoline	10.50	10.68	10.59	10.65	10.55	10.35	10.54	10.62	10.68	0.06	0.12
Jet & Kerosene	1.91	1.96	1.87	1.93	1.96	1.94	1.94	1.85	1.88	0.03	0.04
Gas/Diesel Oil	4.98	5.09	4.84	4.81	5.08	5.22	5.36	5.03	4.99	-0.04	0.27
Residual Fuel Oil	1.51	1.51	1.45	1.46	1.54	1.60	1.49	1.52	1.43	-0.09	0.01
Other Products	2.99	2.97	3.14	3.30	2.89	2.65	2.83	2.89	3.00	0.12	-0.19
Total Products	**25.36**	**25.65**	**25.09**	**25.41**	**25.69**	**25.53**	**25.71**	**24.97**	**24.89**	**-0.08**	**0.06**

It should be emphasised that even after taking into account the upward revisions to submitted US demand data, US demand growth appears to have weakened in the first half of 2005. First quarter 2005 demand grew by a provisional 1.0%, versus 2.8% in the same period in 2004. Indications are that second quarter 2005 demand growth was flat (0.0%), well down from the 4.3% growth seen in the second quarter of 2004. This is consistent with other indicators of oil product demand growth which also point to some slowing of demand. For example, in the first half of 2005 the American Trucking Association's truck tonnage index was 2.7% higher than in 2004, which was below the forecast range of 3.0-3.5%. June 2005 truck tonnage was only 0.3% above June 2004.

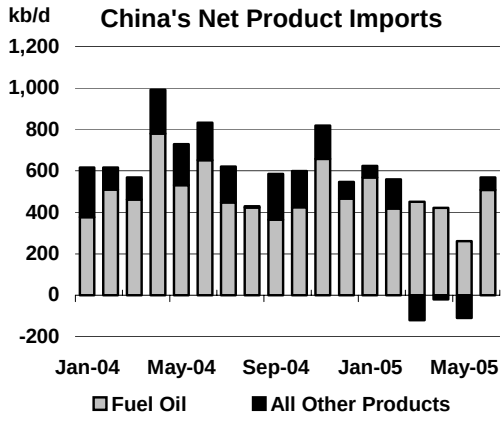
In tracking oil product demand, strong growth in a particular quarter is typically followed by slower year-on-year growth in the same quarter of the next year. Thus it is not entirely surprising that second quarter 2005 demand growth is relatively weak. US demand growth is projected to recover in the second half of 2005, growing by 1.4%.

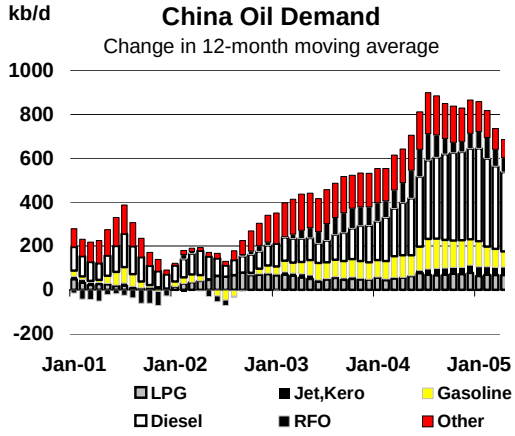
Among the other countries in North America, Mexican demand growth has been revised upwards by 10 kb/d in 2005 and 30 kb/d in 2006. This is in large part due to a reassessment of the demand for 'other products.' The Canadian demand picture remains largely unchanged.

Non-OECD

China

Chinese apparent demand, which is defined as the sum of domestic refinery output and net product imports with adjustments for direct crude burning, smuggling and unreported refinery output, has been revised down by 30 kb/d in the second quarter of 2005. This revision stems largely from a downward adjustment to June demand based on preliminary numbers. At first glance, June demand looks relatively strong, as net product imports rebounded to 570 kb/d versus May net imports of 150 kb/d. Domestic production was also reported to have increased by 5.6%. It must be emphasised, however, that May 2005 net product imports were extraordinarily weak and June 2005 imports were still 260 kb/d below June 2004 levels (see figure). As a consequence, the pattern of past months continues; relatively strong domestic production is counteracted by weak net product imports. Overall, preliminary data suggest that June 2005 apparent demand declined by approximately 1.3% year-on-year.





In terms of individual products, fuel oil demand was particularly weak in the second quarter, declining by an estimated 18.0%. This decline may be partially attributed to the reluctance of small refiners, which often use straight run fuel oil as feedstock, to run at high rates in the face of sub-market official product prices. It is also likely due to an increase in coal and hydro power generation. Thermal coal production was reported to be 39% above last year over the January-May 2005 period.

China Crude & Product Trade
(thousand barrels per day)

	2003	2004	3Q04	4Q04	1Q05	2Q05	Apr 05	May 05	Jun 05	Latest month vs. May 05	Latest month vs. Jun 04
Net Imports/(Exports) of:											
Crude Oil	**1664**	**2346**	**2232**	**2491**	**2305**	**2541**	**2703**	**2406**	**2520**	**115**	**-102**
Products & Feedstocks	**442**	**661**	**545**	**653**	**501**	**371**	**401**	**151**	**568**	**417**	**-263**
Gasoil/Diesel	-28	43	21	79	-6	-27	-46	-26	-10	16	-67
Gasoline	-175	-125	-146	-117	-151	-161	-171	-183	-129	54	12
Heavy Fuel Oil	407	506	412	515	480	395	422	261	508	247	-144
LPG	202	201	222	184	200	178	209	115	214	100	-5
Naphtha	-22	-33	-48	-51	-49	-67	-68	-54	-79	-25	-56
Jet & Kerosene	1	16	19	8	6	7	12	-7	16	23	-2
Other	58	52	64	34	22	45	44	45	47	2	-2
Total	**2106**	**3008**	**2777**	**3144**	**2807**	**2912**	**3104**	**2557**	**3088**	**531**	**-366**

Sources: China Oil, Gas and Petrochemicals plus IEA estimates

Looking to the third quarter, there are some indications that refiners may be cutting back on product exports in August and September. This should help boost apparent demand, but early reports indicate that apparent demand growth will be lower than previously anticipated. Crude runs are likely to remain largely unchanged from June in July and August. At the same time, net imports of fuel oil are expected to fall in July after recovering in June. On the whole, third quarter apparent demand is revised down by 120 kb/d and fourth quarter demand is adjusted downwards by 10 kb/d. Overall, apparent demand is revised down by 40 kb/d for 2005, with growth projected to average 320 kb/d (4.9%). The downward revisions to China's 2005 baseline demand are partially passed through to the 2006 projection, with a 20 kb/d reduction in apparent demand.

China Demand by Product

	Demand (kb/d)			Annual Change (kb/d)		Annual Change (%)	
	2004	2005	2006	2005	2006	2005	2006
LPG & Ethane	633	660	697	27	37	4.2	5.7
Naphtha	684	743	823	59	80	8.7	10.8
Motor Gasoline	1069	1110	1203	41	93	3.8	8.4
Jet & Kerosene	239	257	282	18	25	7.4	9.8
Gas/Diesel Oil	2150	2295	2470	145	174	6.8	7.6
Residual Fuel Oil	829	827	875	-2	48	-0.3	5.8
Other Products	828	857	908	28	51	3.4	6.0
Total Products	**6433**	**6750**	**7259**	**316**	**509**	**4.9**	**7.5**

On 23 July the Chinese government moved to increase the price of key petroleum products. The retail price of gasoline was raised by 300 yuan/tonne (6.0%) and the retail price of diesel was increased by 250 yuan/tonne (6.4%). The recent 2% revaluation of the Yuan relative to the US dollar also helped to increase the attractiveness of supplying the domestic market, as it increases importers' purchasing power and lowers the return on product exports. Although these moves were certainly welcomed by refiners and retailers, domestic retail prices still remain low when compared to high product prices in the international market. Thus the incentive to limit product imports and, where possible, to export products remains in place. Although the combination of the price increase and the yuan revaluation should reduce importer's losses by some $5-6/bbl, losses will remain at around $10/bbl or higher (after customs duty and VAT) for gasoil if international prices remain at similar levels. This is an improvement over early July, when losses exceeded $20/bbl.

Chinese Demand: Where Did it Go?

Dissecting the Chinese demand picture has certainly been a challenge in recent years, and the first half of 2005 raises yet another difficult question. How can apparent oil demand grow by only 1.4% while the Chinese economy is reported to be growing at 9.5%? In explaining this disparity, some analysts have maintained that Chinese economic growth may be somewhat weaker than official government figures suggest. There is also evidence that growth in key energy consuming industrial sectors has slowed to a certain extent. Although these explanations probably have some merit, China's overall economic performance would still appear inconsistent with the weakness in apparent demand. There have been numerous hypotheses put forward by analysts to explain this inconsistency. We highlight our thoughts on some of the key areas below.

Product prices – Like a number of countries in Asia, the Chinese government has limited price increases in key petroleum products, including gasoil and gasoline, in an effort to minimise their impact on the domestic economy. Depending on how the policy is implemented, this type of pricing policy may yield two very different outcomes. (1) If domestic demand is fully satisfied by suppliers, such a pricing policy will support higher levels of demand than would have been the case at market prices. As a consequence, a government decision to increase product prices would likely reduce oil consumption. (2) In contrast, if suppliers baulk at supplying the domestic market at prices below what they could receive in the international market (as appears to be the case in China), shortages may result. This could also distort behaviour in other ways, such as encouraging interfuel substitution because oil products are simply not available, which could also reduce apparent demand. Under these conditions, an increase in retail prices could have the perverse effect of increasing apparent demand if it encourages producers to supply the domestic market.

Chinese Demand: Where Did it Go? (continued)

Although there are no reports of widespread shortages in the Chinese market, there are certainly indications that a reluctance to supply the domestic market may be altering consumption patterns. Independent service stations are reportedly having difficulties securing supplies in some areas and there is a reluctance to supply the market with RON 90 gasoline, which receives a lower margin than RON 93 gasoline. There have also been reports of gasoil rationing across Guangdong province and some stations affiliated with PetroChina have occasionally run short of gasoil.

In the end, it is near-impossible to discern the exact impact that moving closer to market prices for oil products would have on oil consumption in China. Refiners would certainly be more willing to supply the domestic market, but some consumers would resist paying higher prices. On the whole, a move to align prices with international markets may increase apparent demand to a certain extent, but it is unlikely to lead to a take-off in consumption.

SARS recovery/increases in gasoil demand in power generation in 2004 – Although a recovery from the SARS crisis of 2003 did serve to inflate apparent demand growth in the first half of 2004, this was a temporary phenomenon which should not carry over to impact 2005 growth. Similarly, the power shortages of 2004 did result in a spike in the use of small diesel power generators in the first half of the year. There are some signs that the power shortages were less severe in the first half of 2005, which may have contributed to more limited use of small diesel generators.

Stockbuilding – It is critical to emphasise that by definition 'apparent demand' does not include allowance for stock builds or draws. As a consequence, substantial inventory changes may lead to a divergence between apparent demand and actual consumption. There have been some reports of a product stock draw in the first half of 2005, although the exact size of this draw is difficult to ascertain in the absence of available data. In addition, there is evidence that Chinese refiners increased inventories in 2004. Putting this anecdotal evidence together implies that actual consumption in the first half of 2005 may have been substantially higher than apparent demand. It should be noted that a drawdown in the first half of 2005 is consistent with evidence of a stock build at the end of 2004. We must caution, however, that if stocks were substantially overbuilt at the end of 2004, fourth quarter 2005 apparent demand growth could be weaker than expected.

Smuggling and unreported output – Both smuggling and the output of small independent refiners are estimated in our calculations of apparent demand. If there are large amounts of smuggling and/or output that goes uncounted, actual consumption may exceed apparent demand. There have been reports of smuggling from Vietnam, where gasoil prices are lower than in China, but the volumes are said to be relatively modest. Currently, the incentives for smuggling products into China are more limited than at times in the past as Chinese prices are relatively low when compared to international prices. The incentive for small independent refiners to increase production is also curbed by low product prices and poor refining margins. Declines in imports of straight-run fuel oil, which is often used as a feedstock by small independent refiners, would also indicate that the output of the small independents has declined. In any event, there is little to suggest that smuggling or unreported output has changed enough to dramatically skew 2005 apparent demand downwards versus 2004.

Interfuel Substitution – There are clear indications that interfuel substitution is playing a role in the reduction in demand for fuel oil in the first half of the year. Coal and hydro power generation have increased and some fuel oil users have turned to substitutes like 'coal mud' and 'coal tar'. To the extent that this helps limit power shortages it may lead to less use of small gasoil-fuelled generators. In addition, there are signs that consumers are becoming more adept at adjusting to power shortages, which in turn can help reduce the use of small generators.

The true reason for the apparent inconsistency between China's rapid economic growth and stagnant oil demand growth is likely a combination of several of the factors above. Consumption has slowed as some of the one-off effects that increased apparent demand in 2004 have diminished, but there has also been a drawdown in stocks versus 2004. In the end, what we are seeing in China reinforces the perils of extrapolating large swings in demand into the future. As we have seen repeatedly in the past, periods of high growth are typically followed by weaker growth the following year.

Other Non-OECD

Preliminary data show that Indian demand will post a modest increase of approximately 0.7% in June after declining for the previous 2 months. Second quarter demand is expected to decline by 0.6%, as naphtha demand continued its pattern of prolonged decline. Overall, the substitution of LNG for relatively high priced naphtha in power generation or the production of fertiliser has reduced demand by some 15-20 kb/d on a monthly basis in the first half of 2005. According to recent estimates, producing urea (which is a key component of fertiliser) from LNG costs about $155-175/tonne. In contrast, it costs roughly $240-260/tonne to produce urea using fuel oil and about $380-$400/tonne using naphtha. Of course, these calculations depend upon the relative price of these feedstocks, but LNG is competitive with these alternatives over a wide range of prices. It is important to note, however, that the attractiveness of using LNG as a feedstock in fertiliser production is in part dependent on the fertiliser market retaining some level of protection/subsidy. In an unprotected market, importing fertiliser directly could be cost-competitive with producing fertiliser from LNG.

Indian demand is expected to return to growth in the third and fourth quarters, but the recent floods associated with the monsoon rains will likely dampen third quarter demand growth. The western region of India experienced its heaviest rains in almost a century, which caused stores to close, disrupted manufacturing operations and limited the movement of vehicles. In this region, daily sales were reported to be down by at least 25% for a period of over one week. As a result, the third quarter 2005 demand outlook has been revised down by a preliminary 20 kb/d. It is possible that demand could be revised further downwards as the full extent of the impact becomes more apparent. Indian demand is projected to grow by 70 kb/d in 2005 and the outlook for 2006 growth is 90 kb/d. Note that the 2004 demand for 'other products' has been modified and as a result baseline demand is raised by approximately 5 kb/d in 2004.

High oil prices continue to impact Asian governments' oil product pricing policies. On 13 July Thailand ended diesel subsidies in an effort to stem demand growth and reduce the strain on the government budget. Thailand already eliminated gasoline subsidies in October. This decision followed a substantial market distortion created by maintaining a dual pricing policy. Market gasoline prices were as much as 40% higher than subsidised diesel prices. As a consequence, sales of diesel powered light trucks rose by a reported 32% in the first half of 2005, while sales of gasoline powered passenger cars contracted by over 10%.

Amongst other countries in Asia, Malaysia recently increased retail prices of both gasoline (7%) and diesel (19%), its fourth price increase in the last eight months. India is also coming under pressure from refiners to further raise oil product price caps (the last increase was in late June) as refiners face mounting losses.

India Crude & Product Trade
(thousand barrels per day)

	2003	2004	2Q04	3Q04	4Q04	1Q05	Mar 05	Apr 05	May 05[1]	Latest month vs. Apr 05	Latest month vs. May 04
Net Imports/(Exports) of:											
Crude Oil	**1863**	**1945**	**2090**	**2013**	**1742**	**1969**	**2017**	**1912**	**1905**	**-6**	**-12**
(by Public Oil Cos)	**1243**	**1158**	**1312**	**1214**	**1000**	**1133**	**1147**	**1123**	**1121**	**-2**	**33**
Products & Feedstocks	**-152**	**-176**	**-173**	**-178**	**-222**	**-82**	**-36**	**-110**	**13**	**123**	**248**
Gasoil/Diesel	-119	-139	-135	-122	-162	-89	-32	-121	-76	45	68
Gasoline	-72	-75	-67	-75	-80	-53	-62	-24	-53	-29	31
Heavy Fuel Oil	5	-6	13	-5	-20	-4	-3	-7	29	36	25
LPG	55	86	39	86	128	95	82	70	86	16	64
Naphtha	-1	-7	10	-29	-25	-15	17	-32	-9	23	-13
Jet & Kerosene	-22	-47	-44	-43	-74	-34	-49	-11	25	36	74
Other	1	12	12	9	12	17	11	14	11	-3	-2
Total	**1712**	**1769**	**1917**	**1834**	**1520**	**1887**	**1981**	**1801**	**1918**	**117**	**235**

1 Preliminary
Sources: Indian Ministry of Commerce, Indian Port Authorities and IEA estimates

FSU apparent demand (defined as the difference between crude production and net exports of crude and products) has been revised down due to a reassessment of Russian crude oil production and export prospects in the latter half of 2005 and extending through 2006. As discussed in the Supply

section of this Report, FSU crude production prospects have been revised downwards. However, this is balanced to a certain extent by revisions to crude and product exports. Apparent demand is revised down by approximately 10 k/d in both 2005 and 2006, so projected growth now stands at 0.7% in 2005 and 1.2% in 2006.

Brazilian oil demand growth rebounded by 5.0% in May 2005 after 2 months of relatively stagnant growth. Gasoline demand grew by 7.7% and gasoil demand grew by 6.3%. This growth pattern was generally anticipated, as baseline demand growth was exceptionally strong in March 2004 (13.7%) and April 2004 (8.7%), but much weaker in May 2004 (1.1%). However, the May rebound was stronger than expected and Brazilian demand was revised upwards by 50 kb/d in the second quarter, which was carried through to 2006.

With this month's Report we finalise the annual revisions to historical non-OECD demand data which extend back from 2003. The changes have been incorporated over the past several months as they became available. In most cases the modified baseline has an impact on the level of demand from 2003 onwards. Among the largest changes, Saudi Arabian demand was revised downwards by 170 kb/d in 2003. This stems largely from an upward revision to the assessment of LPG exports, and as a consequence domestic demand was revised downwards. The impact of this modification to baseline demand extends through the 2006 projection of Saudi Arabian demand. Finally, we have also completed our reassessment of seasonal consumption patterns in the non-OECD countries. This month's changes resulted in some minor modifications to seasonal consumption patterns, but did not impact annual demand estimates.

SUPPLY

Summary

- **World oil supply** increased by 250 kb/d in July to 84.7 mb/d. At the time of writing downward adjustments due to unscheduled stoppages continue to affect OECD production in particular. Gulf of Mexico hurricane activity was a key cause of the 105 kb/d fall in non-OPEC July production. OPEC crude supply was up by 285 kb/d from June's levels and averaged 29.6 mb/d. OPEC other liquids supply also rose by 70 kb/d. OPEC crude supply stood 715 kb/d above July 2004 levels, but non-OPEC output actually fell by 125 kb/d versus the equivalent 2004 level. OPEC other liquids output is running 525 kb/d above last year.

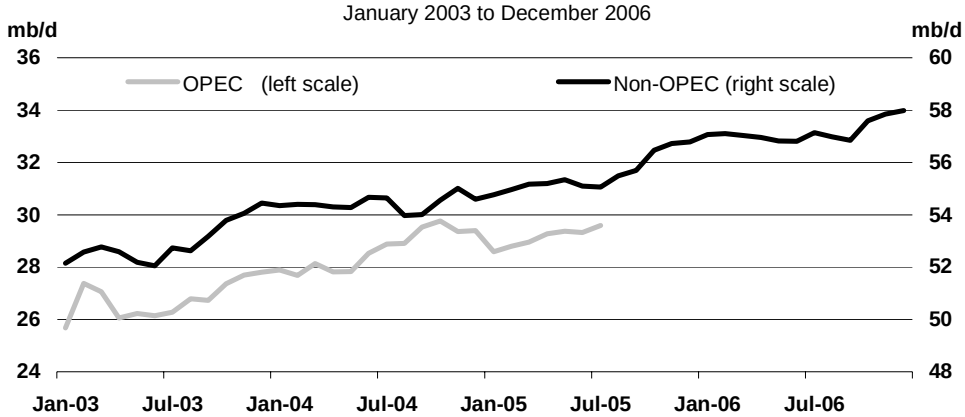
- **Non–OPEC supply** is forecast to average 50.8 mb/d in 2005, an increase of 675 kb/d versus 2004 but 205 kb/d less than envisaged in last month's Report. Unscheduled stoppages running from June to August and affecting the US Gulf, Mexico, Norway and the UK account for 150 kb/d of the downward adjustment. Lower than expected supply from Russia, the Asia-Pacific and Africa also lower the 2005 output estimates. Non-OPEC production is nonetheless expected to rebound in 2006, rising by 1.25 mb/d year on year. Increases next year are widespread, although projections for the North Sea, Russia, Latin America and Africa have been revised down from last month's initial projection. This results in a 370 kb/d downward adjustment to the non-OPEC total for 2006, which now averages 52.0 mb/d.

- The assessment for June **OPEC crude supply** is revised up by 50 kb/d to 29.32 mb/d. July supply rose by an estimated 285 kb/d to average 29.6 mb/d. The UAE accounted for 100 kb/d of the increase as supply from offshore fields recovered after maintenance. Saudi Arabia, Iran and Iraq added around 50 kb/d each. A 135 kb/d rise in Iraqi exports was partly countered by lower internal refinery crude runs. Nigeria, Indonesia and Qatar also saw modest increases. Total supply from the OPEC-10 (excluding Iraq) averaged 27.7 mb/d versus a 28.0 mb/d target effective from 1 July.

- **The 'call on OPEC crude and stock change'** averages an unchanged 28.2 mb/d for 2005, although the fourth quarter call is revised up by 300 kb/d to 29.2 mb/d. Downward adjustments to non-OPEC 2006 supply push up the call for 2006 to 28.3 mb/d, with a fourth quarter peak of 29.8 mb/d. By way of comparison, OPEC sustainable production capacity for July 2005 was revised up by 160 kb/d to 31.7 mb/d based on the latest assessments for Nigeria, Iran and Qatar.

OPEC Crude and Non-OPEC Oil Supply [1]

January 2003 to December 2006



1 Non-OPEC Oil Supply includes OPEC NGLs, condensate and non-conventional oil

All world oil supply figures for July discussed in this Report are IEA estimates. Estimates for OPEC countries, Alaska, Angola and Russia are supported by preliminary July crude supply data.

Note: Random events present downside risk to the non-OPEC production forecast contained in this Report. These events can include accidents, unplanned or unannounced maintenance, technical problems, labour strikes, political unrest, guerrilla activity, wars and weather-related supply losses. Allowance has been made in the forecast for scheduled maintenance in all regions and for typical seasonal supply downturn in North America. These aside, no contingency allowance for random events is subtracted from the supply forecast. While upside variations can occur, experience in recent years indicates that the random events listed above may cause supply losses of between 300 kb/d and 400 kb/d for non-OPEC supply each year.

OPEC

Continued high prices supported a renewed rise in July OPEC supply, with output assessed up by 285 kb/d to 29.6 mb/d, from an upward-revised June level of 29.32 mb/d. New field developments in Iran pushed supply higher by 50 kb/d, passing through the erstwhile 4.0 mb/d capacity level. Production from the UAE bounced back by 100 kb/d after two months of sub-2.4 mb/d, maintenance-affected operations. Iraqi supply gained 40 kb/d to reach 1.87 mb/d. Higher exports were in part countered by lower refinery intake. Saudi Arabia nudged production higher by 50 kb/d to 9.55 mb/d, while at the same time appearing keen to avoid flooding the market with incremental heavy/sour barrels. Initial indications are that OPEC supply may have moved modestly higher again in August, although it is too soon to be definitive. Ongoing Kuwaiti field maintenance, a potential downturn in Iraqi barrels available for loading from Ceyhan and capacity constraints amongst OPEC producers outside Saudi Arabia will likely place a ceiling over August supply as a whole. In early August the OPEC President suggested that the organisation had raised supply to some 30.4 mb/d over the preceding two weeks, although some of the rise is likely to have represented a recovery from earlier disrupted Iraqi, UAE, Kuwaiti and Nigerian supply.

A dip in crude prices just after mid-July seemed to be sufficient to curtail discussions begun earlier in the month about a potential rise in target production levels to 28.5 mb/d for the OPEC-10. The initial June announcement of a quota rise to 28.0 mb/d for 1 July was accompanied by the possibility of a further discretionary rise to 28.5 mb/d in the event of sustained high prices. But recent statements from OPEC sources have tended to stress that ample crude is being supplied to the market and attribute high prices to geopolitical tensions and refining capacity logjams.

OPEC Crude Production
(million barrels per day)

	1 July 2005 Target	July 2005 Production	Sustainable Production Capacity[1]	Spare Capacity vs. July 2005 Production	Production vs. Target
Algeria	0.89	1.35	1.35	0.00	0.46
Indonesia	1.45	0.95	0.98	0.04	-0.51
Iran	4.11	4.05	4.10	0.06	-0.07
Kuwait[2]	2.25	2.39	2.50	0.11	0.14
Libya	1.50	1.65	1.65	0.00	0.15
Nigeria	2.31	2.48	2.50	0.03	0.17
Qatar	0.73	0.80	0.83	0.03	0.07
Saudi Arabia[2]	9.10	9.55	10.50	0.95	0.45
UAE	2.44	2.41	2.55	0.14	-0.03
Venezuela[3]	3.22	2.12	2.20	0.08	-1.10
Subtotal	**28.00**	**27.74**	**29.16**	**1.42**	**-0.27**
Iraq		1.87	2.50	0.64	
Total		**29.60**	**31.66**	**2.06**	
(excluding Iraq, Nigeria, Venezuela, Indonesia				*1.28)*	

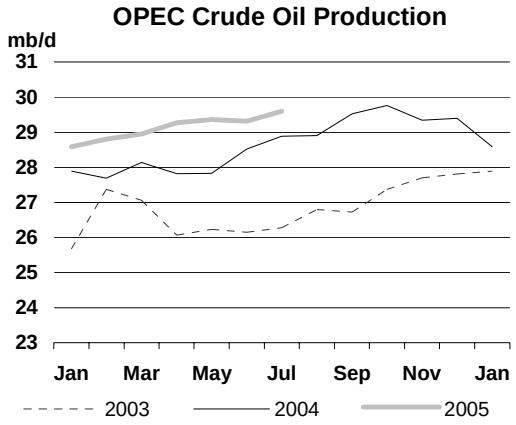
1. Capacity levels can be reached within 30 days and sustained for 90 days
2. Includes half of Neutral-Zone Production
3. Excludes upgraded Orinoco extra-heavy oil which averaged 588 kb/d in July

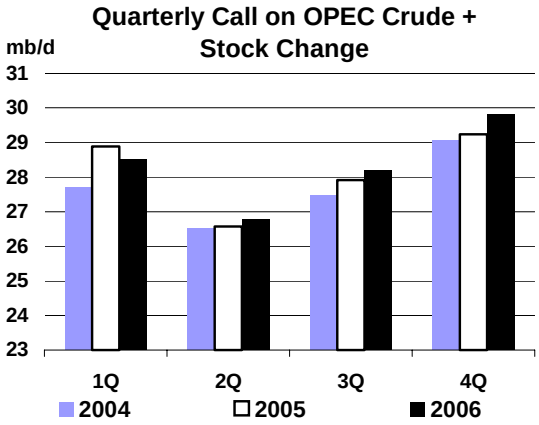
Essentially, despite some recent increases in capacity for Iran, Nigeria and Qatar, spare capacity within OPEC resides with Saudi Arabia. Depending upon one's assessment of Saudi sustainable crude oil production capacity (most estimates lie in a 10.5 mb/d to 11.0 mb/d range) this amounts to some 1-1.5 mb/d currently. For Saudi Arabia and other OPEC producers, spare capacity is the one real tool for price control that they possess. For now however, OPEC producers aside from Saudi

Arabia have little market influence as their spare capacity has been almost exhausted. Excluding the seemingly eternally uncertain quartet of Iraq, Nigeria, Venezuela and Indonesia (where the concept of spare capacity is clouded by persistent risk of supply disruption) and Saudi Arabia itself, spare capacity amounts to less than 100 kb/d. And Saudi Arabia's spare capacity at present largely consists of heavier and sourer Arab Medium and Arab Heavy grades at a time when there is scant availability of refinery upgrading capacity.

OPEC's Long-Term Strategy Committee, meeting in July to discuss issues including the adoption of a new target price band, appeared to tacitly acknowledge this loss of control. It was reported to have concluded that markets were too volatile to consider announcing a new target price at the current time, with any decision on the matter potentially being deferred until after OPEC's 19 September ministerial conference. Moves to put in place a more comfortable spare capacity cushion, by way of expanding sustainable capacity, seem to have slowed considerably in the past few years, recent Saudi expansion plans notwithstanding. While on the one hand a 2 mb/d rise in production these past 18 months is to be applauded, a slower rate of investment in new capacity to sustain supply-side flexibility is less impressive.

One problem of course is a wariness on the part of OPEC members to overinvest in spare capacity. However, with inventory levels building and global demand growth apparently slowing, but prices remaining stubbornly high, the lack of useable spare capacity is clearly having a major impact. This is particularly the case at a time (such as in July) of significant supply-side delays and interruptions. Renewed threats against US interests in Saudi Arabia, heightened uncertainty over political developments in Iran, Nigeria, Sudan and Mauritania (a new producer from next year), storms in the US Gulf of Mexico (and high profile damage to BP's Thunder Horse facilities), fire at India's flagship Bombay High field and repeated outages in the North Sea combined to shift focus once more onto supply uncertainty. Without significant spare capacity, therefore, the persistence of high prices through July is easier to explain.

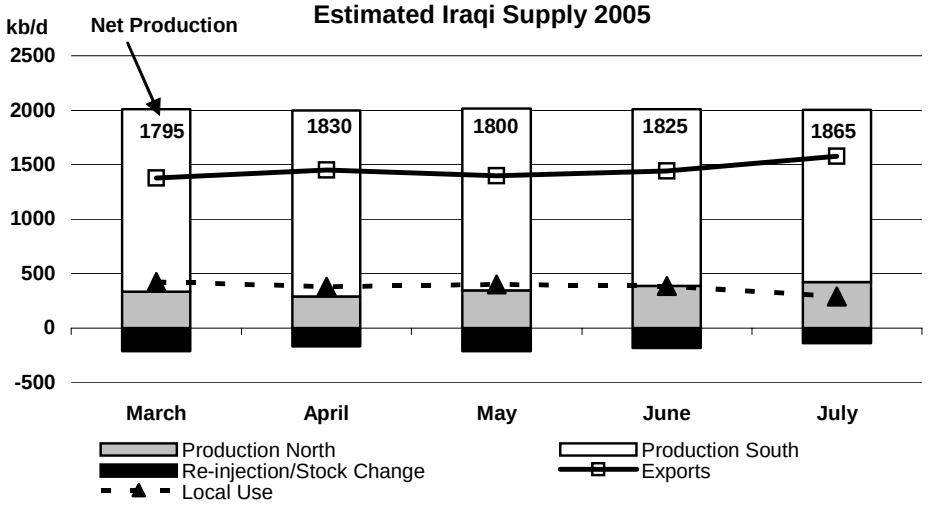




Net production for **Iraq** in June was revised down by 20 kb/d to 1.83 mb/d. This resulted from lower than expected southern exports for the last week of the month, which gave a June monthly average for total exports of 1.44 mb/d. Total July exports rose to 1.58 mb/d. Exports from the southern terminals of Basrah and Khor al-Amayah increased to 1.42 mb/d from the previous month's 1.37 mb/d. In addition, crude shipped north by pipeline from Kirkuk during June was lifted by tanker from Ceyhan in July. In total, liftings from Ceyhan rose from 55 kb/d in June to 140 kb/d in July. In addition to ongoing (pipeline and tanker) liftings by Turkish refiner Tupras (1.65 mb), Total, Repsol and Exxon lifted a total of 2.63 mb from Ceyhan early in July. To date, no August Ceyhan liftings have been scheduled, given the sporadic nature of pipeline flows in July and low levels of crude now in storage at Ceyhan.

The 135 kb/d increase in crude exports in July does not, however, translate directly into higher assessed production. It was reported in June that higher southern July exports would result in part from a cut in runs at the Basrah refinery. Throughput at the Daura refinery near Baghdad was also disrupted in July after attacks on the plant in the first half of the month led to a fire. Total internal crude consumption within Iraq is assessed at just under 300 kb/d from around 385 kb/d in June. Net production of crude is therefore assessed at 1.87 mb/d in July, up by only 40 kb/d from June.

Export schedules for southern ports in the first half of August are equivalent to an ambitious 1.85 mb/d. However, Oil Ministry sources indicate that total exports may struggle to match July levels. While overall production edged higher in July, there were continued signs that progress in restoring Iraqi supply could remain slow. There were renewed calls from southern and northern regional authorities for a greater share of oil revenues and southern oil workers staged a 24 hour strike over wages. Reports emerged stressing the damage caused to the Kirkuk oil field by re-injection of crude and products over many years. Domestic refinery utilisation appears to be capped at or below 60% of capacity, leading the Iraqi authorities to seek out oil product supply deals. These include the proposed crude for products swap agreed with Iran last month and which could come into effect in about a year. In that deal, new pipelines from Basrah will ship 150 kb/d of crude to the Abadan refinery in return for 95 kb/d of refined products.



The phased return of Abu Dhabi's offshore Lower Zakum and Umm Shaif fields from maintenance underpins a 100 kb/d increase in July supply from the **UAE.** The increase was reflected in the 'extra' barrels of crude, over and above contract volumes, offered by ADNOC to term customers for the July to September period of 2.5-3 mb per month. The UAE is one of several producers whose crude output is constrained by a lack of gas utilisation options. Gas flaring restrictions limit the volumes of crude and associated gas that can be produced and underpin the apparent discrepancy between a notional 2.7 mb/d crude capacity and the effective sustainable level of 2.55 mb/d assumed by this Report. In this context, July announcements of plans to boost gas processing capacity raise the prospect of higher crude and gas liquids supply in future.

Tanker tracking data suggest a modest rise from Saudi Arabia and other Arab Gulf producers. Supply from **Saudi Arabia** in July is estimated at 9.55 mb/d, a rise of 50 kb/d from June. However, there is no sign of Saudi production diverging significantly in either direction from levels of around 9.5 mb/d which have been maintained for the past four months. Term allocations for August also appear to have been held steady close to July levels. With the bulk of Saudi spare capacity comprising relatively heavy, sour crude, the Kingdom has no wish to flood the market with crude that would likely require extensive discounts, given global refinery complexity constraints.

Little change in the Kingdom's oil policy was expected following the death of King Fahd in July and the succession of King Abdullah. Press reports suggest that state oil firm Aramco will substantially increase spending on development drilling in the period through 2008. The company plans to bring onstream new production amounting to some 2.5 mb/d in the period through 2009, partly offset by decline at existing fields. Most of the new production will be of lighter, sweeter grades. Allied to the construction of new complex refining capacity within Saudi Arabia, the Kingdom will be in a position by the turn of the decade to maximise export revenues by reorientating sales towards lighter crude and clean products.

Exports from **Iran** for June were revised up, inferring production of 4.0 mb/d. New output from the Soroush, Nowruz and Darkhovin fields inaugurated in July added 50 kb/d to average supply and leads to a 100 kb/d increase in assessed Iranian capacity to 4.1 mb/d. The outgoing oil minister confirmed that decline rates at mature fields in the Republic were such that Iran loses 300-400 kb/d of production capacity per year. This Report has for some time assumed a similar 7% decline rate for Iran. In this

context, Iranian claims for 4.2 mb/d production capacity would appear to be higher than suggested by this Report's definition of immediately sustainable capacity. However, rising supplies from the Darkhovin and Doroush fields suggest that Iran could attain capacity closer to 4.3 mb/d by the end of 2006.

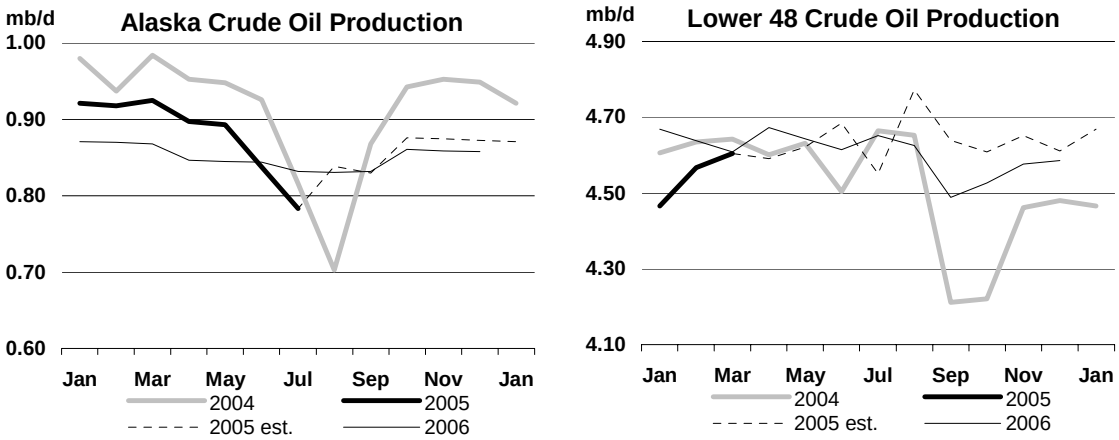
In the face of ongoing political uncertainty and concern over potential new field start-up delays, **Nigerian** production and capacity also moved higher in July. Output gained an estimated 25 kb/d to hit 2.48 mb/d, with exports rising by a similar amount. With the recent start of Addax' Okwori field and initial volumes from Shell's Bonga field expected from September, sustainable capacity is raised to 2.5 mb/d. The government reiterated in July that it will stick to its 2008 deadline for the ending of gas flaring, raising the prospect that some oil producers may at that time have to curb output. Shorter-term concerns surrounding production centred on renewed unrest in the Niger Delta area and the French firm Total reportedly shut-in 35 kb/d of early August production following ethnic clashes.

Sustainable production capacity for **Indonesia** has been revised down from 1 mb/d to 980 kb/d, although production for July edged higher to 945 kb/d. Mature field decline has seen crude production average at or below 950 kb/d in the first seven months of 2005. In addition, recent reports also suggest that production from two more recent field start-ups, West Seno and Belanak, is below anticipated levels. The government now expects crude oil and condensate production to lag 2005's budgeted levels of 1.125 mb/d by some 50 kb/d but suggests that new field developments due onstream in late 2005 could stabilise output at 1.075 mb/d in 2006. A government-appointed committee has recommended that Indonesia should remain a member of OPEC.

OECD

North America

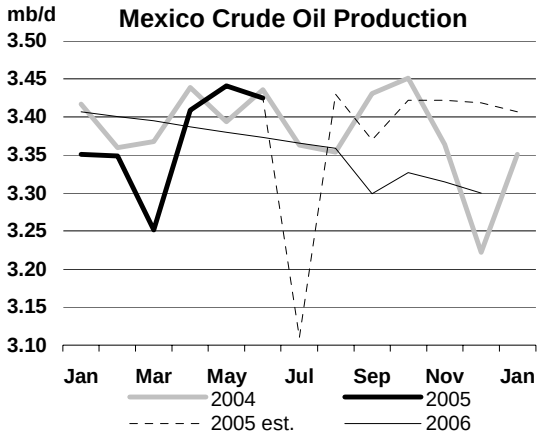
US – July Alaska actual, others estimated: Summer maintenance on the Trans-Alaska pipeline led to a 55 kb/d drop in Alaskan July crude production, while an earlier and more intense than usual start to the Caribbean hurricane season saw US Gulf of Mexico (GOM) production fall by 120 kb/d versus June. Total US crude supply averaged 5.3 mb/d in July compared to 5.5 mb/d in June. In all, Tropical Storm Cindy and Hurricanes Dennis and Emily caused the shut-in of just under 6 mb of July GOM output after storm losses of 0.6 mb in June. The deferral of summer maintenance work on the Mars platform, now scheduled for the fourth quarter, was also attributed in part to the storms. A further impact from Hurricane Dennis was the deferral of start-up at BP's Thunder Horse project which had earlier been expected to enter service in the fourth quarter. This is now assumed to be delayed by six months until second quarter 2006, although BP has said that no definitive decision on start-up will be made until this autumn. Given that Thunder Horse build-up was likely to be slow, not reaching peak 250 kb/d production until 2008, the impact on US and non-OPEC supply as a whole could prove minor, with a net loss of 30 kb/d for 4Q 2005 and 50 kb/d for 1Q 2006. Although ongoing hurricane shut-ins through the summer cannot be discounted, this Report retains the assumption that outages follow seasonal norms and are concentrated during September to November. September and October are assumed to lose 110 kb/d, with November shut-ins averaging 35 kb/d.

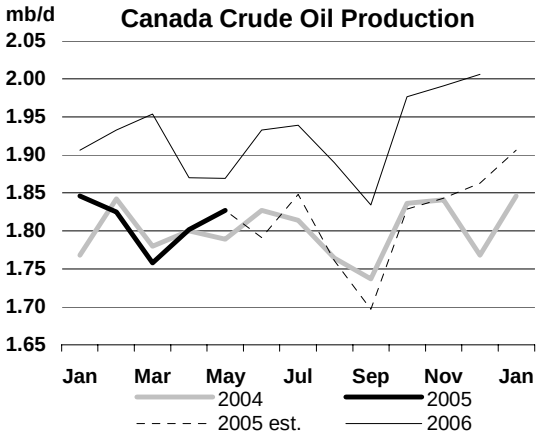


Unlike revisions made for other areas, the downward adjustments made to US oil supply are expected to taper out running through 2006, and to be concentrated in the period through first half 2006. US GOM, total US NGL and Alaksan crude are revised down by a combined 55 kb/d for 2005 and by 40 kb/d for 2006. However, production for the rest of the US is actually revised up by some 20 kb/d for both years based on higher baseline production for the period through May 2005. Increasing

GOM supply in 2005 and 2006, and NGL in 2005, help to stem declines elsewhere. Total US oil output rises to 7.8 mb/d in 2005 before dipping to 7.75 mb/d next year.

Canada – Newfoundland June actual, others May actual: The forecast of Canadian oil production is largely unchanged for 2005 at just over 3.0 mb/d, with recent synthetic crude unit outages underpinning the 55 kb/d decline from the 2004 average. However, it now appears that Husky Energy will start production from the offshore Newfoundland White Rose field before the end of 2005, as opposed to the March 2006 assumed in last month's Report. This adds 25 kb/d to Canadian 2006 production relative to the earlier projections and gives average oil production for next year of 3.3 mb/d, up by 255 kb/d from this year. Synthetic crude generates 145 kb/d of the increase while offshore Newfoundland supply rises by 90 kb/d and Alberta bitumen by 65 kb/d.

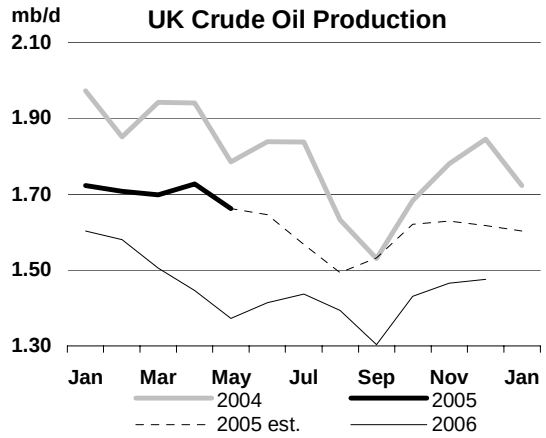


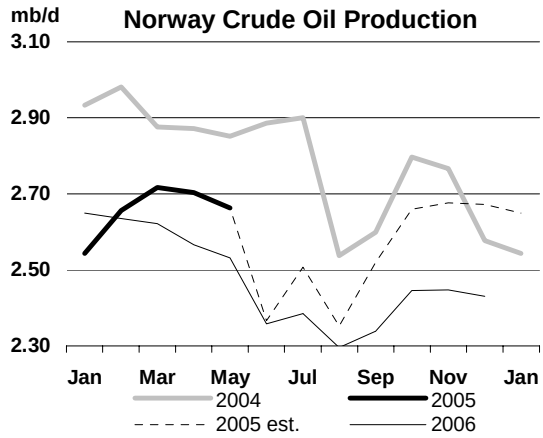


Mexico – June actual: Data from Pemex for June showed a modest 15 kb/d drop in crude production to 3.43 mb/d, while NGL production nudged higher to 450 kb/d. Crude exports fell by 45 kb/d, with deliveries of Maya to the Americas taking the brunt of the cut. However, July oil production (crude and NGL) is estimated to have fallen back much more sharply, by some 325 kb/d. Hurricane Emily was reported to have cut Mexican July export loadings by a combined 10.2 mb, although by 22 July Pemex reported that production had been fully restored with no substantial damage to offshore infrastructure. Total Mexican oil output is now seen falling by 20 kb/d in both 2005 and 2006, from a 2004 average of 3.83 mb/d.

North Sea

UK – May actual: The recent downward trend in UK production was confirmed by official data through May. Details on loading schedules for the main production systems and provisional indications on summer maintenance suggest further declines in June and July. However, the trend is now likely to extend into August too. Firstly, a fire on 29 July halted some 100 kb/d of production at the Schiehallion and Loyal facilities west of the Shetlands. The timing and level of re-start is at present uncertain, although this Report assumes an outage of two weeks' duration. Loading schedules for Forties in August also suggest heavier than anticipated maintenance and result in a 60 kb/d cut in Forties output compared to last month's estimate. In all, UK production is revised down by 10 kb/d for 2005, and a modest acceleration in assumed decline rates for 2006 cuts next year's output by 25kb/d versus the earlier forecast. Total UK oil production now averages 1.89 mb/d in 2005 and 1.69 mb/d in 2006, compared to 2.05 mb/d in 2004.



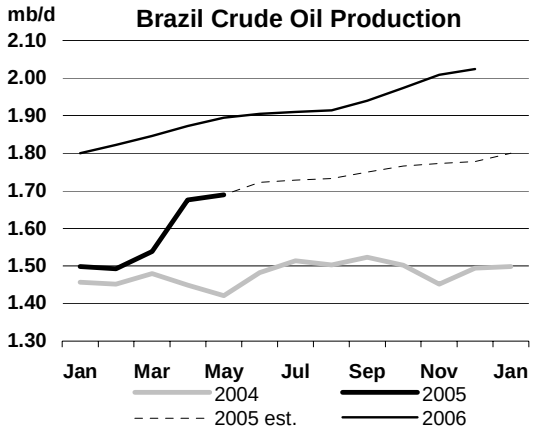


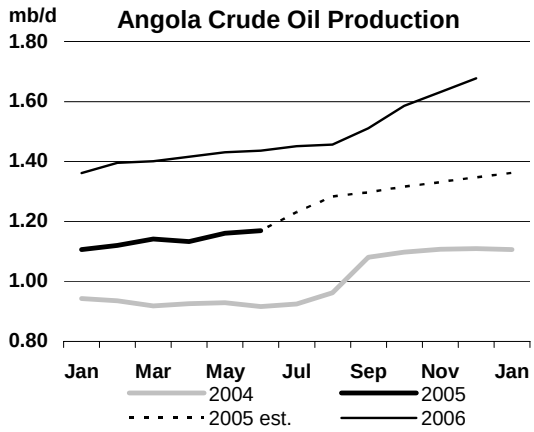
Norway – May actual, June provisional: Summer maintenance and a series of unplanned field outages had pulled Norwegian June oil output some 465 kb/d below its October 2004 peak. Total oil production averaged 3.0 mb/d in May and a provisional 2.8 mb/d in June (of which 2.7 mb/d and 2.4 mb/d respectively comprised crude oil). Furthermore, the past three quarters have seen oil production trending down on a yearly basis by over 250 kb/d. After a modest rebound in July to 2.9 mb/d, supply is expected to dip to 2.8 mb/d in August before recovering to levels around 3.1 mb/d in the fourth quarter. August is likely to see markedly lower production from the Ekofisk system due to maintenance. Statoil has also announced production problems affecting the Snorre and Vigdis fields in the Statfjord system, and the company has also seen intermittent production from the Veslefrikk field since June, having been ordered to curtail operations after defects in the lifeboat systems were discovered. The latter problem is likely to curb production at Veslefrikk until later in August. Thereafter however, the end of summer maintenance will encourage a gradual rise in production, with further contributions coming with the start-up of new liquids supplies from the Oseberg, Staer and Vigdis fields.

Aside from the scheduled and unscheduled stoppages affecting key fields in the past few months, production has also suffered due to lower than expected supply from a number of operating fields. This has led to downward adjustments for the balance of 2005 and through 2006 either through the adoption of lower plateau production levels or accelerated decline rates. Among fields for which lower forecast production has been incorporated are Tune, Kvitebjorn, Oseberg South, Snorre, Statfjord, Gullfaks, Troll and Draugen. Overall, 2005 production is revised down by 90 kb/d (concentrated in the second half of the year), while average 2006 supply is revised down by 170 kb/d. Production now falls to 3.0 mb/d in 2005 from 3.2 mb/d in 2004, and stabilises at 3.0 mb/d for 2006. Despie downward revisions to 2006 condensate supply compared to last month's projections, a 100 kb/d rise in gas liquids supply next year nonetheless counteracts a similar magnitude fall in crude.

Other Non-OPEC

Angola – June actual: Angolan crude production averaged some 1.15 mb/d in May and June and is estimated at 1.23 mb/d for July as a result of start-up at the 250 kb/d Kizomba B project. Production began on 7 July, with some reports suggesting that peak output could be attained by August. While ramp-up of Kizomba production has been accelerated compared to last month's projections, this Report nonetheless retains a relatively conservative outlook, with peak production only becoming sustainable by the end of the year. Total Angolan production is now seen averaging 1.22 mb/d in 2005 and 1.48 mb/d in 2006. A full year of capacity output at Kizomba B, and start-up at the Benguela/Belize and Dalia projects underpin the rise in 2006 supply.





Brazil – May final, June provisional: Total Brazilian production rose by 225 kb/d in the January-June period, although growth appeared to slow to 20-30 kb/d on a monthly basis in May and June. Crude oil output reached an estimated 1.72 mb/d in June, with NGL and alcohol fuels contributing a further 335 kb/d. Peak production levels of around 300 kb/d are reportedly being approached in the deepwater Barracuda and Caratinga fields, which entered service in December and February respectively. The next significant increments in Brazil are likely to come after start-up of the 175 kb/d Albacore Leste project in the autumn and a 40 kb/d expansion of output at the Jubarte field in first quarter 2006 (deferred from earlier expected October 2005 start-up). The Golfinho pilot project will add 20 kb/d after a September 2005 start and Marlim Leste, Piranema and permanent Golfinho facilities add further supply in the second half of 2006.

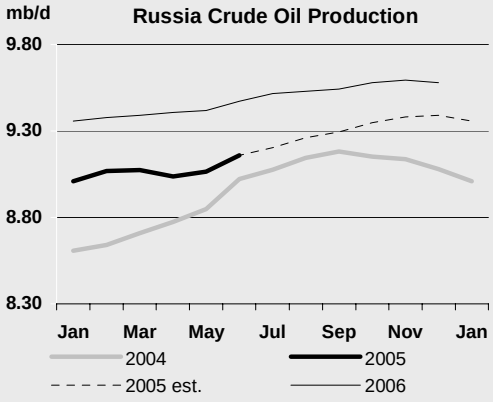
Russian Oil Production: The Riddle Remains Intact

I cannot forecast to you the action of Russia. It is a riddle wrapped in a mystery inside an enigma: but perhaps there is a key. That key is Russian national interest. (Sir Winston Churchill, 1939)

A recent IEA Secretariat visit to Moscow has highlighted the complexity of the issues facing the Russian upstream sector and reinforced the relevance to the oil sector of Winston Churchill's words from over half a century ago. The following key impressions emerged from discussions with government, oil companies and analysts, although consensus was frequently elusive:

Government Control: After the laissez faire period of the past decade and the rise of the oligarchs, the Kremlin is seen as re-establishing state control over national resources. This covers all phases from licensing terms through production to exports. Control over domestic and near-abroad energy infrastructure is seen as a key national interest. Consequently, new foreign investment in Russian oil could be limited to a small number of larger operators willing to take minority stakes in large projects.

New Subsoil Law and Licence Terms: The proposed new subsoil law will limit foreign company participation to 49% in as-yet undefined strategic fields. This may not come into force until late-2006 or 2007, and is not seen in itself as a substantial impediment to investment. Moves by the Natural Resources Ministry to enforce existing field licences could cut both ways for short-term production. Rigorous enforcement of existing production licences, framed before the application of modern reservoir management techniques, could curb production substantially. But this is balanced by the potential for the authorities to re-allocate licences for currently idle production assets.



Upstream Industry Structure: The hiatus in upstream sector investment is seen as resulting largely from manoeuvring by key domestic operators intent on buying up the assets of companies wielding less influence with government. This reduces focus on organic growth and could impede production for the next one to two years at least. While the stars of Gazprom, Rosneft, Lukoil and BP-TNK may be rising, prospects for other producers are less certain. Debt and legal issues facing the former two could further divert attention from production growth. Many of those questioned see consolidation ultimately leaving Russian production controlled by three to four main players.

Tax Reform: The current export tax regime favours products exports over crude. Crude exports by expensive rail and river routes have taken a hit, having earlier been a key outlet for rapidly rising production. With crude export duties of $140/tonne versus $60/tonne for products, one consequence may be the long-overdue upgrading of hitherto unsophisticated Russian refineries. The government recognises the need for reform of production taxes, with small, non-integrated operators lobbying hard for tax differentiation to take account of mature and small-scale fields. Up to 380,000 wells are idle in Russia, seen in part due to an insensitive tax regime. Finalising the new law will take time.

The 'Mixed Blessing' of High Prices: As in other producing countries, there is a perception that high prices are shielding the government from the imperative of fiscal and regulatory reform. Production growth may be slowing but revenues remain high. However, there are positive signs after the 'lost year' of 2004. The government estimates that oil sector investment grew by 13% in first quarter 2005 and 20% is projected for the year as a whole.

The recent slow-down in Russian supply growth has been noted before (see above). Partly in light of actual performance in the first half of 2005 and provisional indications for July, production estimates have been revised down by 35 kb/d for 2005, to average 9.5 mb/d. This lower base, allied to the potential hiatus in upstream investment now seen for key producers (including Gazprom, Sibneft and Rosneft), also adversely impacts 2006 production. Projected 2006 supply is cut by 135 kb/d, to 9.8 mb/d. Russian oil production will grow much more slowly than in 2000-2004. It should nonetheless continue to increase by 2-3% during 2005-2006, in line with the latest projections from the Federal Energy Agency and the Ministry of Economic Development and Trade.

In all, Brazilian crude output is expected to rise by 200 kb/d in 2005 and 230 kb/d in 2006, taking average production to 1.7 mb/d and 1.9 mb/d respectively. The 2005 total is largely unchanged from last month's estimates, although 2006 comes in 25 kb/d lower. This is due to the Jubarte expansion delay and lower than expected supply from Shell's Bijupira-Salema fields, where output seems to be levelling off around 50 kb/d rather than an earlier estimated 80 kb/d.

Revisions to other non-OPEC estimates: Non-OPEC supply in total has been revised down by 205 kb/d for 2005 and by 370 kb/d for 2006. The bulk of the revision is accounted for by OECD production and Russia and is discussed above. However, modest revisions to the forecast are recorded elsewhere and are worth mention here.

Higher than expected aggregate production data for **China** in June lead to a 10-15 kb/d increase in forecast output for 2005 and 2006. However, revisions are mainly downward elsewhere in Asia, with **India, Malaysia, Thailand** and **Vietnam** revised down by a collective 50 kb/d for 2005 and by 15 kb/d for 2006. The 2005 reduction hinges in large part on developments in India where one of the offshore platforms at the Bombay High field was destroyed by fire in July. This will result in a loss of over 100 kb/d of production for August, but gradual production recovery is assumed for September and October as output is re-routed using adjacent platforms.

Expectations for **Colombia** and **Ecuador** have been cut by a combined 15 kb/d in 2005 and 35 kb/d in 2006. Despite signs of an improved investment environment in the former, the government has cut its own expectations for 2005 production and we have extended the resultant drop in production through to 2006, when production averages 500 kb/d. The spin off from completion of the OCP pipeline in Ecuador appears to have run its course, and production is now envisaged to level off in 2006 close to the 2005 average of 550 kb/d.

Revisions to Non-OPEC Oil Supply

(million barrels per day)

	Last Month's OMR			This Month's OMR			This Month vs. Last Month		
	2005	2006	06 vs. 05	2005	2006	06 vs. 05	2005	2006	06 vs. 05
North America	14.66	14.82	0.16	14.61	14.83	0.22	-0.05	0.00	0.06
Europe	5.85	5.70	-0.15	5.75	5.49	-0.25	-0.10	-0.20	-0.10
Pacific	0.57	0.56	-0.01	0.57	0.57	0.00	0.00	0.01	0.01
Total OECD	**21.08**	**21.08**	**0.00**	**20.93**	**20.89**	**-0.04**	**-0.15**	**-0.18**	**-0.03**
Former USSR	11.63	12.22	0.59	11.60	12.09	0.49	-0.03	-0.13	-0.10
Europe	0.16	0.15	-0.01	0.16	0.15	-0.01	0.00	0.00	0.00
China	3.61	3.61	-0.01	3.62	3.62	0.00	0.01	0.01	0.00
Other Asia	2.79	2.88	0.10	2.74	2.86	0.13	-0.05	-0.02	0.03
Latin America	4.30	4.53	0.23	4.32	4.50	0.18	0.02	-0.04	-0.05
Middle East	1.79	1.72	-0.07	1.81	1.75	-0.07	0.02	0.03	0.00
Africa	3.76	4.30	0.54	3.74	4.27	0.52	-0.02	-0.04	-0.02
Total Non-OECD	**28.04**	**29.42**	**1.37**	**27.99**	**29.23**	**1.24**	**-0.05**	**-0.18**	**-0.13**
Processing Gains	1.86	1.90	0.04	1.86	1.90	0.04	0.00	0.00	0.00
Total Non-OPEC	**50.98**	**52.40**	**1.41**	**50.78**	**52.03**	**1.25**	**-0.20**	**-0.37**	**-0.17**

OMR = Oil Market Report

Revised Oil Ministry data for **Oman** in 2004 result in a 20 kb/d upward revision to production for 2004-2006. Nonetheless, oil production is still expected to decline by 50 kb/d from 2004's 785 kb/d by 2006. Higher estimates for Angola are countered elsewhere in Africa by downward revisions for 2005 and 2006 affecting **Egypt, Ivory Coast, Sudan** and **Tunisia** which amount to a combined 40-45 kb/d. Estimates for Egyptian condensate and LPG potential are revised down following recent monthly actuals. Ivory Coast and Tunisia have been revised in light of recently received, lower official annual data. In Sudan, the adjustment comes after apparent delays in start up of production of Dar Blend crude, which we now assume starts in September rather than an originally planned July.

OECD STOCKS

Summary

- **OECD total industry oil stocks** in June were little changed from May, increasing by 110 kb/d with gains in North American 'other product' inventories outpacing declines elsewhere. The overall build in oil inventories in the second quarter came to 1.32 mb/d, above the five year average of 900 kb/d. The second quarter saw inventory gains led by product stocks, which rose by 940 kb/d, while increases in crude came to 320 kb/d. Days of forward demand cover by industry stocks remained stable against May at 54 days, 2 days higher than a year ago.

Preliminary Industry Stock Change in June 2005 and Second Quarter 2005
(million barrels per day)

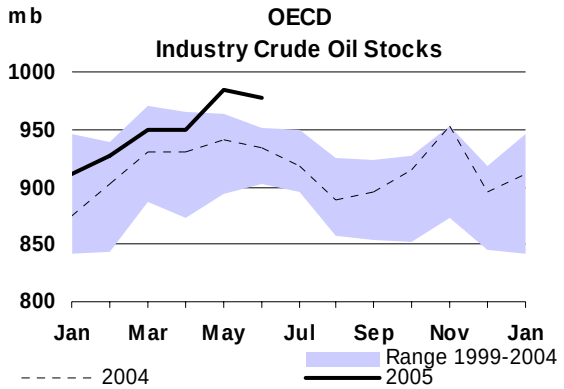
	June (preliminary)				*Second Quarter 2005 (preliminary)*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**-0.14**	**-0.08**	**-0.03**	**-0.25**	**0.15**	**0.15**	**0.01**	**0.32**
Gasoline	-0.05	-0.08	-0.08	-0.20	0.01	-0.09	-0.02	-0.10
Distillates	0.35	-0.05	-0.12	0.18	0.18	0.08	0.11	0.37
Residual Fuel Oil	0.01	-0.04	-0.04	-0.07	-0.04	0.07	0.03	0.06
Other Products	0.52	0.00	0.04	0.55	0.57	-0.03	0.07	0.61
Total Products	**0.83**	**-0.16**	**-0.20**	**0.47**	**0.73**	**0.02**	**0.19**	**0.94**
Other Oils[1]	-0.06	-0.03	-0.02	-0.11	0.02	-0.02	0.07	0.06
Total Oil	**0.63**	**-0.27**	**-0.25**	**0.11**	**0.90**	**0.14**	**0.27**	**1.32**

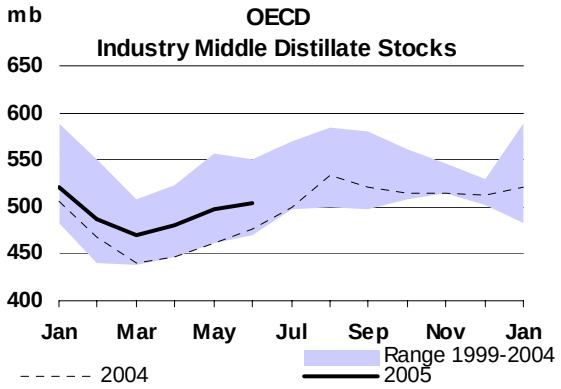
1 Other oils includes NGLs, feedstocks and other hydrocarbons

- **OECD industry crude stocks** fell a little over 7 mb in June to 978 mb, but closed 44 mb above last year. With ample supplies, the Atlantic Basin only saw a 6.5 mb decline in the face of rising refinery runs. In the Pacific, crude inventories trended sideways as stock changes in Korea and Japan roughly offset each other. The US saw crude inventories extend their decline through July. The decline proved to be modest as refinery utilisation rates fell in the middle of July from the peaks reached late June due to weather-related plant closures and unplanned outages.

- **OECD industry distillate stocks** increased in June by 5.5 mb, the build centred in North America. While relatively unchanged, European inventories continued to trend in the upper-end of their five-year range. Storing middle distillate fuels in both regions was supported by a deep contango in NYMEX heating oil and IPE gasoil futures. Trends were mixed between distillate categories in the Pacific, but stocks fell on draws in both Japan and Korea.

- **OECD industry gasoline stocks** fell 6 mb with the decline about evenly distributed across regions. European inventories declined along seasonal trends. Though arbitrage economics from Europe were intermittent in June, cargoes continued to be shipped to the US. Gasoline stocks in the US in June held about level as imports boosted blending component inventories offsetting declines in finished gasoline stocks. In July, US gasoline stocks fell seasonally, the draw accelerating by end-month. Gasoline demand rebounded while weather related closures and refinery glitches at gasoline producing units lowered domestic output.



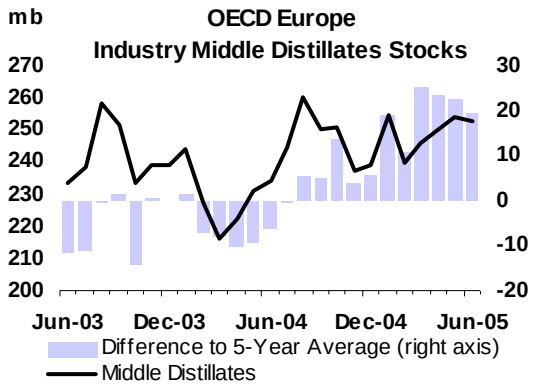


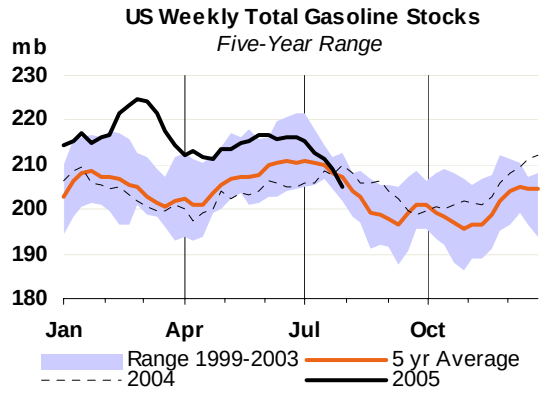
OECD Industry Stock Changes in June 2005

OECD North America

US-50 crude oil stocks fell from June to July as refineries emerged from maintenance and raised throughputs to meet summer gasoline demand and rebuild distillate inventories ahead of winter. The rate of draw proved moderate in July. Refiners scaled back runs from the near-capacity utilisation rates reached in early July following plant closures related to weather or unplanned outages. At the same time, shipping delays or supply losses associated with the start of the hurricane season had a moderate impact on average import levels. Crude stocks closed July at 318 mb, or 23 mb above 2004. Prompt availability of crude in the US continues to support a contango in NYMEX light sweet crude futures. At the same time, the widening of price spreads for WTI against Brent at the end of June and early July is likely to support further arrivals of Brent-related crude to the US.

US gasoline stocks held about level in June before falling seasonally in July. The draw quickened in July, pushing forward demand cover to the lower end of the five-year range. While lower refinery runs reduced product output, product yield favoured distillates. Crack spreads for heating oil futures rivalled those for gasoline into mid-July. The draw was also supported by seasonally firm gasoline demand. Diesel and heating oil stocks rose seasonally, ending above their five-year average by the end of July but forward demand cover continued to lag average levels for the period. The build was supported by the contango in NYMEX heating oil futures that has steadily widened since June. Higher diesel output accounted for most of the recent build, alongside declining distillate demand. Further improvements in the product balances will depend on refinery utilisation rates in the face of recent outages and projected heavy autumn maintenance.





OECD Europe

European industry crude stocks were down only 2 mb in June despite increased runs as refiners emerged from maintenance. Supplies remained ample and crude stocks closed in June at 361 mb or 22 mb above a year ago. With the end of maintenance, July is expected to see a rise in crude runs and inventories, accumulated with the support of a contango in Brent prices, should decline. The contango in the forward Brent cash market narrowed for most of July, indicating higher interest in prompt supplies. Buying interest from European refiners, mindful of competition from the US, has reportedly extended forward the trading range of cargoes. Loading dates are traded further ahead compared to a shorter window seen when prompt supplies were more ample. Gasoline stocks declined seasonally following ongoing exports to the US and Nigeria offsetting weak demand. Middle distillate stocks closed down 1.4 mb but demand cover kept within recent averages. Weak gasoil demand left distillate inventories to trend in the upper end of their five-year range, ending 19 mb above year ago levels.

OECD Pacific

Pacific crude stocks edged lower in June, mainly on draws in Korea where crude imports have come down since the peaks reached in March. Stocks in Japan managed a 0.5 mb build despite a seasonal rebound in runs, but the increase came from an expected downward revised May base. Overall crude stocks in the Pacific region closed below their five-year range at 170 mb, or 6 mb below 2004. The trend in weekly Japanese data during July indicate that onshore crude stocks continued to decline, reflecting steady throughputs from June and likely lower imports of crude oil. Both distillate and gasoline stocks were down in the Pacific in June. Japan saw the steeper decline in gasoline stocks while distillates were lower mainly on draws in Korea. Distillate stocks in Korea fell about 2.5 mb and by 1.2 mb in Japan in June. Gasoline stocks in Japan trended down from June to July as demand firmed while domestic output declined as refiners skewed yields towards distillates.

OECD Inventory Position at End-June and Revisions to Preliminary Data

Revisions to industry oil stocks raised May preliminary estimates by 7 mb. Revisions to crude and product stocks cancelled each other out leaving upwards revisions to NGLs and feedstock to lift inventories higher. In distillate stocks, the Atlantic Basin saw offsetting adjustments between Europe and North America. US inventories were revised higher both in diesel and heating oil following weaker demand in May. In contrast, Europe saw downward revisions mainly in Germany. Gasoline inventories were revised on average close to 1 mb lower across OECD regions.

Revisions Versus 13 July 2005 Oil Market Report
(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Apr 04	May 05	Apr 04	May 05	Apr 04	May 05	Apr 04	May 05
Crude Oil	**-1.1**	**0.2**	**-0.8**	**7.2**	**0.0**	**-9.5**	**-2.0**	**-2.1**
Gasoline	-1.1	-0.6	1.2	-1.7	0.0	-0.8	0.1	-3.2
Distillates	2.1	4.1	-3.1	-4.0	0.0	-0.5	-1.0	-0.3
Residual Fuel Oil	0.4	1.1	-2.6	2.7	0.0	-0.1	-2.2	3.7
Other Products	-2.6	5.8	-2.1	-3.5	0.0	-0.6	-4.7	1.8
Total Products	**-1.2**	**10.4**	**-6.6**	**-6.5**	**0.0**	**-1.9**	**-7.8**	**2.0**
Other Oils[1]	-0.6	6.9	1.5	0.1	0.0	0.3	0.9	7.4
Total Oil	**-2.9**	**17.6**	**-5.9**	**0.8**	**0.0**	**-11.1**	**-8.8**	**7.2**

1 other oils includes NGLs, feedstocks and other hydrocarbons

OECD industry stocks ended in June at 2669 mb, 127 mb above a year ago. Product inventories, with a surplus of just under 85 mb, accounted for most of this difference. Crude stocks were up by nearly 44 mb over 2004 but NGLS and feedstocks were down 1.1 mb. Although average OECD product demand has been adjusted higher over the next 3 months, the upward revision to May stocks along with the build in June kept forward demand cover even in June from May at 54 days. On a regional basis, forward demand cover came to 50 days in North America, 62 in Europe and 51 in the Pacific.

Year-on-Year Industry Stock Comparisons for June 2005

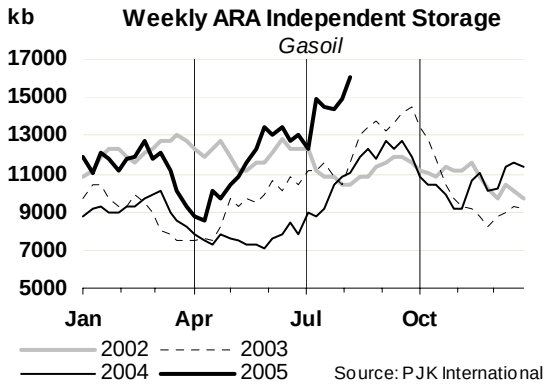
	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**28.2**	**21.6**	**-6.2**	**43.6**	**Total Oil**	**2.6**	**2.6**	**-0.8**	**2.0**
Total Products	63.0	21.8	-0.3	84.6	*Versus 2003*	1.6	3.3	-6.4	0.8
Other Oils[1]	-4.6	2.1	1.4	-1.1	*Versus 2002*	-2.4	1.1	-4.3	-1.7
Total Oil	**86.7**	**45.5**	**-5.1**	**127.1**	**Total Products**	**2.1**	**1.2**	**-0.1**	**1.4**
Versus 2003	94.3	61.8	-37.9	118.3	*Versus 2003*	1.1	1.2	-3.0	0.4
Versus 2002	17.9	32.2	-32.1	17.9	*Versus 2002*	-1.2	-1.3	-2.9	-1.6

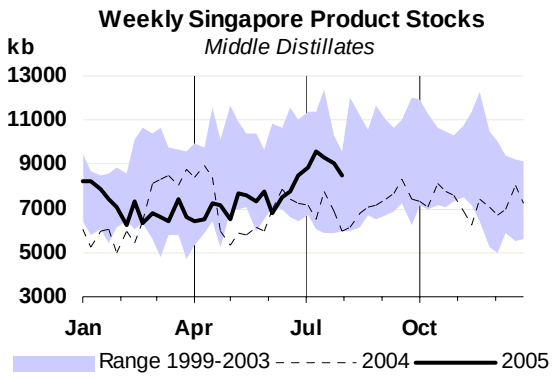
1 other oils includes NGLs, feedstocks and other hydrocarbons

Recent Developments in ARA Independent Storage

Differences in forward prices in paper markets helped to explain contrasting trends between distillate and gasoline storage in July. Gasoil and jet fuel inventories continued to climb on rising supplies and weak spot demand. Regional supplies of gasoil grew on higher output from refiners emerging from maintenance and supplies from the FSU where stocks at key terminals were reported high. Ample supplies held down cash premiums against paper quotes at June levels. But in the face of weak inland demand from key barge markets, gasoil was moved into storage, supported by a strong contango in IPE gasoil futures. Jet stocks increased along similar dynamics, and inventories are likely to be supported at the higher end of their range with incoming supplies from the Middle East. Up to 900 000 tonnes of Middle Eastern jet fuel were reported loaded in July for western destinations, the bulk of which was headed to Europe. In contrast, gasoline stocks fell markedly by end-month. The movement of product out of storage was encouraged by a deepening of the backwardation in swap prices for unleaded gasoline in Northwest Europe. Exports to Nigeria helped to bring supplies down. Shipments to the US continued despite, at times, unfavourable spot arbitrage economics in the first half of July. In light of contracting regional demand for gasoline, the barge market also provided an outlet for sales out of storage. Demand emerged from the UK at the end of the month while an outage at the Pernis refinery in Rotterdam led to refiner buying to cover prompt requirements.

Fuel oil stocks quickly rebuilt during July despite shipments of Russian straight-run fuel oil to the US for use as refinery feedstock. Incoming supplies of cracked material from the FSU accumulated in storage as arbitrage opportunities to ship product to Asia remained closed during the month. Stocks of fuel oil in Singapore have been trending at high levels under the weight of incoming supplies from the West, thin Chinese demand and weaker bunker demand. The build in ARA fuel oil stocks, as in the case of distillates, was supported by a contango in forward swap prices.





Recent Developments in Singapore Stocks

Total product stocks in Singapore surveyed by *International Enterprise* closed lower in July, driven by declines in light product stocks (gasoline and naphtha). Inventories of distillates and fuel oil initially posted gains before falling back at the end of the month. Middle distillates held on to levels reached by end-June. Prompt regional supplies of kerosene and gasoil improved as high international market prices encouraged greater exports in neighbouring countries. Despite higher Indonesian demand, greater availability of gasoil supplies pushed prices of cargoes from key exporter Korea into deep discounts against Singapore quotes while Singapore paper prices for gasoil moved firmly into contango. A similar trend appeared to emerge in jet/kerosene. Regional availabilities had risen on strong margins for distillates. Yet, despite steady demand reported from India, jet/kerosene prices temporarily fell below gasoil prices early July before regaining their usual premium later in the month. The accumulation of jet in storage, however, likely decelerated with Middle Eastern supplies being diverted towards western destinations.

Fuel oil inventories edged higher during July and continued to trend at the top of their range. Supplies were ample on arrivals from the West and muted Chinese demand. This pushed prompt paper prices in Singapore below forward ones. Stocks will likely remain high in the absence of a strong resumption of Chinese buying interest. Early indications are that imports into China's main Huangpu terminal for August will near a million tonnes, about the same volume as in July, but with less material sourced from Korea. Light product stocks tightened on lower supplies, leading naphtha paper prices to flip into backwardation after posting a strong contango in June. Gasoline exports from China and Taiwan were reduced while Indonesian demand firmed. Naphtha exports from India, that supported ample supplies in recent months, reportedly slackened while Middle Eastern supplies were diverted West.

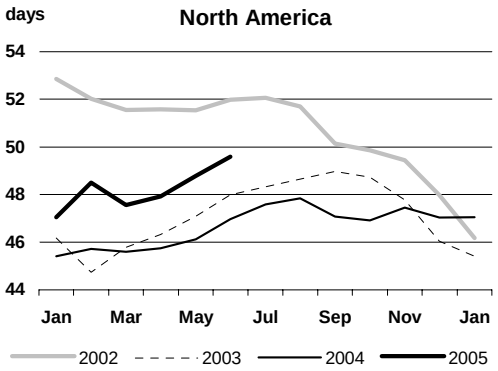
Singapore Crude & Product Trade
(thousand barrels per day)

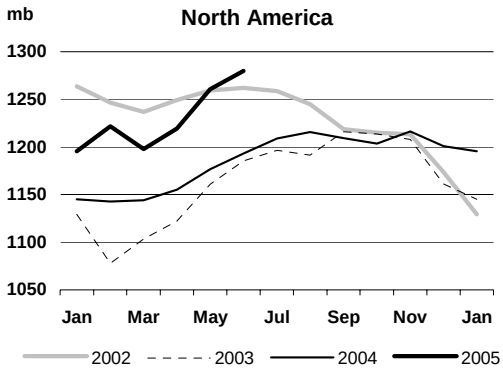
Net Imports/(Exports) of:	2003	2004	3Q04	4Q04	1Q05	2Q05	Apr 05	May 05	Jun 05	Latest month vs. May 05	Latest month vs. Jun 04
Crude Oil	755	815	727	1059	1266	980	815	1014	1110	97	413
Products & Feedstocks	-96	-136	-118	-211	-216	-328	-126	-442	-412	30	-164
Gasoil/Diesel	-170	-182	-181	-206	-187	-216	-157	-224	-269	-45	-79
Gasoline	-83	-96	-79	-98	-80	-139	-64	-162	-191	-29	-38
Heavy Fuel Oil	320	276	238	272	236	176	205	80	245	165	28
LPG	-22	-22	-20	-24	-20	-21	-17	-21	-25	-4	0
Naphtha	13	31	42	21	36	23	48	29	-8	-37	-26
Jet & Kerosene	-99	-86	-92	-102	-132	-78	-69	-70	-95	-25	-58
Other	-55	-57	-26	-74	-69	-72	-73	-75	-70	5	9
Total	**659**	**679**	**609**	**848**	**1051**	**652**	**689**	**572**	**699**	**127**	**249**

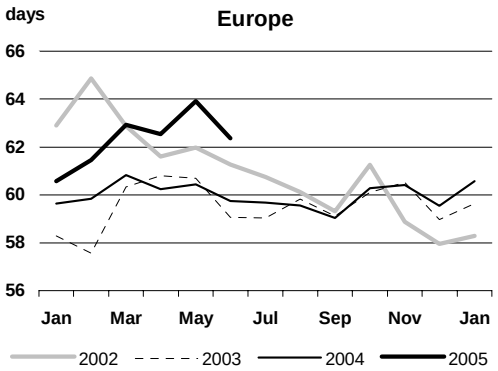
Source: International Enterprise, IEA estimates

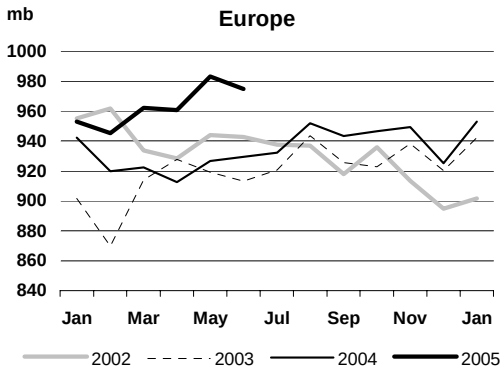
Regional OECD End-of-Month Industry Stocks
(in days of forward demand and millions barrels of total oil)

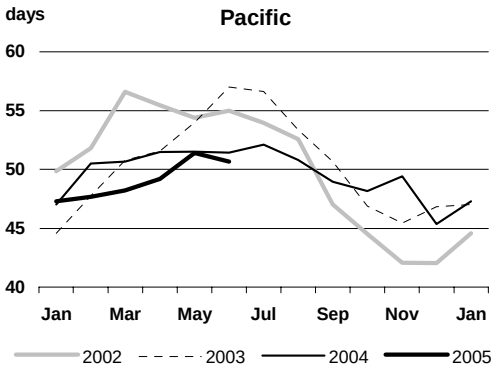
Days[1] | **Million Barrels**

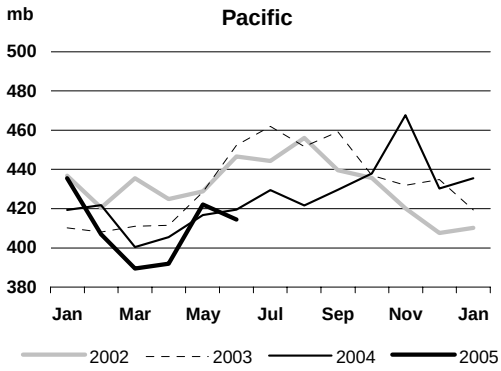


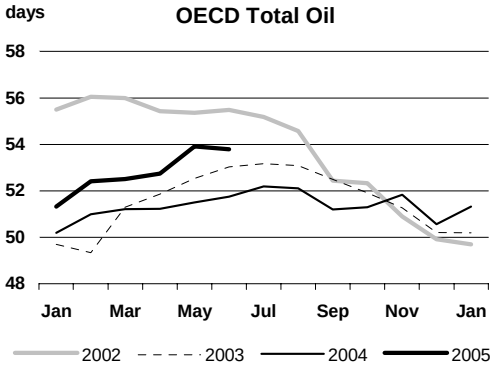


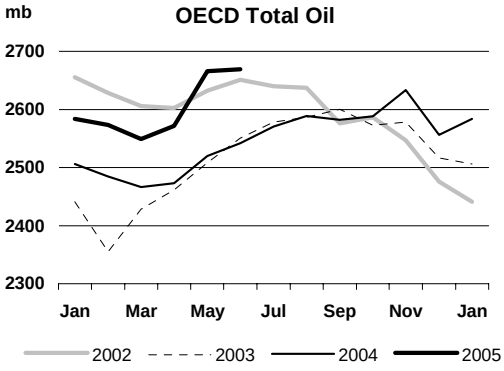












1 Days of forward demand are based on average demand over the next three months.

PRICES

Summary

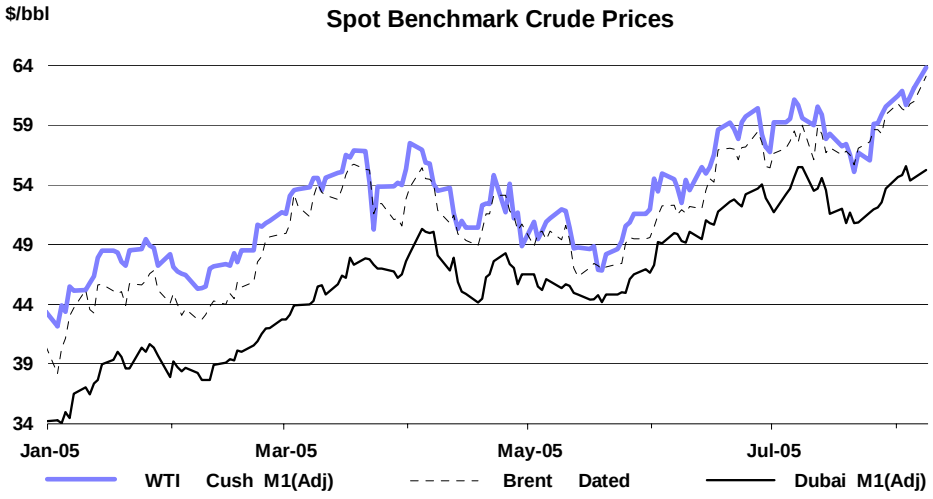
- **NYMEX WTI** pushed above $64/bbl on geopolitical issues in the Middle East, a series of upstream and downstream disruptions and the beginning of an active tropical storm season. Upward price pressure from these upsets was compounded by refiners cranking up production to meet peak summer demand for transportation fuels. Security concerns in Saudi Arabia were the most recent geopolitical factor to hit headlines, although the markets were swift to recognise that there was no real oil market impact from the death of Saudi Arabia's King Fahd. Uncertainty over the level of future supply and demand has been compounded by contradictory signals from OPEC.

- **US gasoline** prices rose sharply following a series of refinery problems and continued strong seasonal demand. Although the traditional end to the summer driving season is merely three weeks away, US gasoline stocks have been falling at a faster rate than normal, dropping below the five-year average in early August. This has raised concerns over supply levels ahead of heavy US autumn refinery maintenance.

- **Distillate** prices underperformed gasoline and crude as refiners focused on gasoil production ahead of the winter. Sharp rises were seen in diesel stocks in the US and in independent storage in ARA, while higher-than-expected exports from China and Japan weakened Asian differentials to regional crudes.

- **Light sweet crudes** were in strong demand in the Atlantic Basin, dragged up by strong gasoline demand. West African crudes were sought after in Northwest Europe and the US, but did not face excessive competition due to a weaker Asian market for much of July. However, the fire at the Bombay High platform has increased Indian activity in the West African crude market recently. Sour crudes in the Atlantic Basin had to compete with displaced crudes from Asia. Oman was offered in both Northwest Europe and the US Gulf Coast.

- **VLCC rates** from the Arabian Gulf to Asia and the US trended higher in July in line with higher refinery runs in Asia, increased OPEC westbound sailings and continued high bunker fuel prices in the Middle East. Clean rates remained largely unchanged from end-June levels.



Crude Oil Prices

Spot Crude Prices and Differentials

Benchmark crude prices rallied from the middle of July, with both Brent and WTI topping $63/bbl on the back of a plethora of bullish headlines. Production problems in the North Sea and India were exacerbated by concerns over a very active start to the hurricane season. Refinery problems in the US and Europe and seasonal demand tightened the gasoline market, but were offset partly by the swift recovery of US distillate stocks to the upper-end of the five-year range.

Spot Crude Oil Prices and Differentials*
(monthly and weekly averages, $/bbl)

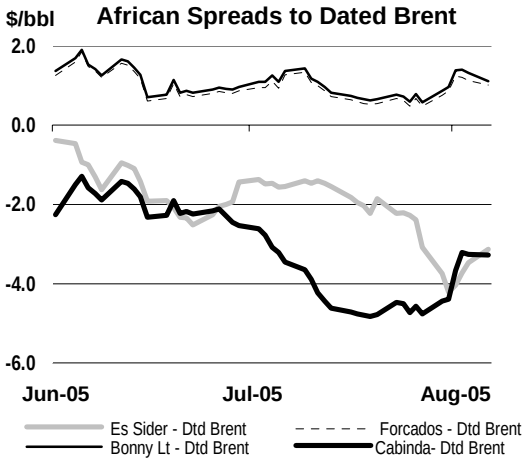
	May 05	Jun 05	Jul 05	Jul-Jun		Week Commencing:				
				Change	*%*	04 Jul	11 Jul	18 Jul	25 Jul	01 Aug
Crudes										
Brent Dated	48.56	54.39	57.58	3.19	5.9	57.97	57.41	56.52	58.60	60.63
WTI Cushing 1 month (adjusted)	49.84	56.36	58.68	2.32	4.1	60.25	59.12	56.60	58.95	61.52
Urals (Mediterranean)	45.80	51.66	55.02	3.36	6.5	55.15	55.09	54.24	55.88	56.10
Dubai 1 month (adjusted)	45.40	51.08	52.83	1.75	3.4	54.52	53.39	51.23	52.39	54.81
Tapis	50.79	55.86	59.70	3.83	6.9	60.90	59.67	58.54	60.08	63.46
Differential to Dated Brent										
WTI Cushing 1 month (adjusted)	1.28	1.98	1.10	-0.88		2.28	1.71	0.08	0.35	0.89
Urals (Mediterranean)	-2.76	-2.72	-2.56	0.16		-2.83	-2.32	-2.28	-2.73	-4.53
Dubai	-3.16	-3.30	-4.75	-1.45		-3.45	-4.02	-5.28	-6.21	-5.82
Tapis	2.24	1.48	2.12	0.64		2.93	2.26	2.03	1.48	2.83
Prompt Month Differential										
Brent 1mth-2mth (adjusted)	-0.61	-0.69	-0.72	-0.03		-0.75	-0.68	-0.69	-0.72	-0.72
WTI Cushing 1mth-2mth (adjusted)	-1.25	-0.81	-1.21	-0.91		-0.88	-1.60	-1.36	-0.91	-0.91

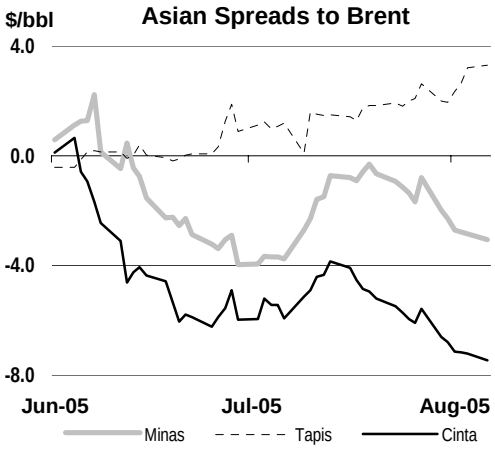
* Weekly data for Brent and WTI 1st month and 2nd month are unadjusted

Geopolitical issues were headed by security warnings in Saudi Arabia, the death of King Fahd, the Iranian nuclear programme and ethnic unrest in Nigeria. However, despite the upward price path, OPEC appears reluctant to sanction an official increase in targets. Some members linked the additional volumes to upward price moves, but despite an $11 rally, further discussion on output targets appears postponed until OPEC's September meeting.

The US has experienced strong demand for light sweet crude following a series of refinery problems, seasonal demand for transportation fuels and falling gasoline stocks. There is also some evidence of a desire to buy light sweet crudes ahead of autumn refinery maintenance when additional desulphurisation capacity will be installed. This has coincided with weaker North Sea production, which has similarly encouraged movement of North and West African crudes into Northwest Europe.

The movement of West African crudes into the three main consuming regions, Europe, US and Asia, makes it central to price formation. Arguably, the upward price pressure from US and European competition for such crudes would have been more significant if it had not been for an offsetting decline in Asian demand for much of July. To emphasise this point, the early-August rise in prices also coincided with increased buying by India to offset production losses from the fire-damaged 125 kb/d Bombay High platform.





Tanker loading data indicate shipments of West African crude to Asia of just under 1.5 mb/d from March to May. However, loadings dropped to under 1 mb/d in June, and trade reports suggest that these volumes have persisted. Preliminary August data showed shipments of under 900 kb/d, which is around 30% below year ago volumes, but are likely to have been bolstered by recent Indian buying.

While West African shipments to Asia are generally lower in the third quarter than the first half of the year, they are somewhat weaker than would have been expected.

Differentials have moved to reflect these trends, with Dated Brent stabilising at a $1 discount to WTI for the past few weeks. This differential restricts the movement of North Sea crudes to the US, keeping them in Europe where they are needed to meet local demand. Similarly, the premium of West African spreads to dated Brent highlight the strength of light sweet crudes, relative to medium and heavy, sweet crudes. US Gulf Coast refiners have been strong buyers of Bonny Light and Forcados crudes, which have maintained a strong premium to dated Brent. But the lack of Chinese demand has undermined Cabinda differentials which fell from a discount of $2.45/bbl to dated Brent to under $4.82 before the Bombay High accident increased Indian demand.

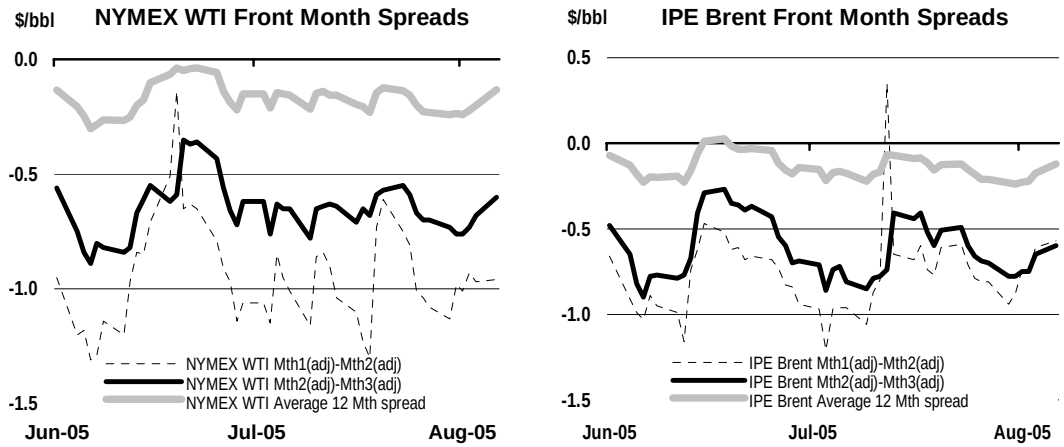
Asian crudes Minas and Cinta have followed a broadly similar pattern to Cabinda, pressured by fuel oil and gasoil weakness, while Tapis has benefited from a tighter Asian gasoline market.

Fuel oil weakness was also evident in Europe and the US, as refiners maximised throughput to meet light product demand. This weighed on heavier, sour crudes in particular, causing Urals and Dubai to move to a wider discount from the middle of July. Urals also faced increased competition from displaced Oman and other Middle East grades in the face of weaker Asian demand. Increased Iraqi exports were also seen from the Turkish port of Ceyhan, but it was unclear whether these would be sustainable in the light of erratic flows along the northern pipeline. Oman was also reported to have moved to the US Gulf Coast for the first time in a decade.

Crude Futures

North Sea and Gulf of Mexico production problems prompted a temporary narrowing of the forward contango in nearby crude prices in early July. Since the end of 2004, the impact of growing stocks has been to push the contango (or nearby discount to the next month) forward. Normally this would impact longer-term prices, but upward pressure on prices over a year ahead (due to lack of producer selling and airline, utility and refiner hedge buying) has resulted in offsetting upward pressure on spot prices.

As stocks increase and storage fills, spot discounts can only be increased by the contango extending further forward. At the time of writing, the Brent contango had been stretched to include each of the first eight forward months. There was also a noticeable narrowing of spreads through to 10 months forward in the latter part of July.



This development is consistent with increasing stock levels and robust medium-term prices. But it also raises the question of sustainability. There are few commodity markets, with the exception of gold, that have sustained high prices and contangos for any period of time. In the case of gold, the contango has been maintained by the existence of very large holdings in central bank reserves and their willingness to lend metal to the market.

There is little similarity between oil and gold, but the stock holding issue is important. When central banks are either maintaining reserves or liquidating them in a transparent and orderly fashion, there is little price pressure. However, should any major gold-holding central bank decide that it will sell its reserves then prices will fall.

Similarly in oil, high prices and contango can be sustained for as long as refiners and traders are prepared to hold stocks. They could start to use these stocks to enable them to be more choosy about price levels. Or, they might feel that the market conditions that prompted the stock holdings have changed and could lower inventory holdings or sell forward. This could result in a shift in the forward price structure and, by implication, the spot price could also change.

Delivered Crude Prices in May

Delivered crude prices for IEA countries decreased on average in May, with the exception of IEA Pacific where prices increased by $0.45/bbl to average $50.20/bbl for the month. Import costs for the IEA as a whole decreased by an average of $1.83/bbl from April levels and reached $46.28/bbl in May. The largest change was seen in Europe where prices fell by $2.84/bbl to $46.23/bbl. A more modest drop of $2.14/bbl was seen in North America. The moves were largely in line with decreases seen in spot price movements, due in part to refinery maintenance and seasonally lower second-quarter demand.

Product Prices

Spot Product Prices

Fears of distillate tightness gave way to renewed concern over gasoline tightness in July as US stocks of the two products moved in opposite directions and a series of refinery glitches in Europe and the US heightened supply concerns. Fuel oil was depressed by a lack of Asian demand and high levels of production as refiners cranked up output to meet seasonal demand for both gasoline and diesel.

Spot Product Prices
(monthly and weekly averages, $/bbl)

	May	Jun	Jul	Jul-Jun Change	Jul-Jun %	Week Commencing: 04 Jul	11 Jul	18 Jul	25 Jul	01 Aug	May	Jun	Jul
Rotterdam, Barges FOB											***Differential to Brent***		
Premium Unleaded (Cargo)	57.27	63.29	69.56	6.27	9.9	69.31	68.53	69.99	71.05	73.25	8.72	8.90	11.98
Regular Unleaded	56.40	62.16	68.09	5.93	9.5	67.91	67.11	68.43	69.51	71.76	7.84	7.77	10.51
Naphtha	45.98	48.15	51.51	3.36	7.0	51.72	51.39	51.25	51.98	54.42	-2.57	-6.23	-6.07
Jet/Kerosene	65.08	72.51	74.22	1.70	2.4	76.93	74.84	72.05	72.84	75.23	16.53	18.13	16.64
Gasoil	59.57	68.67	70.52	1.85	2.7	73.37	70.80	68.38	69.21	70.96	11.01	14.29	12.94
Fuel Oil 1.0%S	35.93	36.40	39.24	2.84	7.8	40.61	39.94	37.76	38.24	41.10	-12.62	-17.99	-18.34
Fuel Oil 3.5%	35.23	36.35	38.28	1.93	5.3	39.69	38.76	37.16	37.76	38.46	-13.32	-18.04	-19.30
Mediterranean – Basis Italy, Cargoes FOB											***Differential to Urals***		
Prem Unleaded (50ppm)*	55.38	61.51	65.21	3.70	6.0	66.28	63.91	64.84	66.25	69.09	9.59	9.85	10.19
Naphtha	44.66	46.62	50.45	3.83	8.2	50.26	50.07	50.30	51.55	54.12	-1.13	-5.05	-4.57
Jet/Kerosene	62.90	70.11	72.17	2.06	2.9	74.14	72.39	70.34	71.65	73.80	17.11	18.45	17.15
Gasoil	58.42	67.71	69.68	1.97	2.9	72.26	70.06	67.43	68.76	71.06	12.62	16.05	14.66
Fuel Oil 1.0%S	37.42	39.85	42.66	2.80	7.0	42.64	43.59	42.02	42.56	43.63	-8.38	-11.81	-12.36
Fuel Oil 3.5%S	33.57	35.02	36.58	1.56	4.4	38.38	37.02	34.65	36.39	37.74	-12.23	-16.64	-18.44
NY Harbour, Barges											***Differential to WTI***		
Super Unleaded	63.31	70.65	78.78	8.13	11.5	80.65	80.46	76.95	78.12	82.09	13.47	14.29	20.10
Regular Unleaded	57.59	63.49	66.78	3.29	5.2	69.34	66.41	65.33	66.87	71.76	7.75	7.13	8.10
Jet/Kerosene	62.26	70.80	70.53	-0.27	-0.4	73.75	71.03	67.82	69.79	72.17	12.42	14.44	11.85
No.2 Heating Oil	59.16	67.72	68.65	0.93	1.4	72.60	69.68	65.42	67.25	70.00	9.32	11.35	9.97
Fuel Oil 1.0%S (Cargo)	37.92	41.15	42.38	1.24	3.0	42.97	41.66	42.18	42.90	43.84	-11.92	-15.22	-16.30
Fuel Oil 3.0%S (Cargo)	35.69	36.63	36.59	-0.04	-0.1	36.53	37.83	35.93	36.18	35.87	-14.15	-19.73	-22.09
Singapore, Cargoes											***Differential to Dubai***		
Premium Unleaded 95	54.46	59.65	64.70	5.05	8.5	64.79	64.14	64.54	66.07	68.11	9.06	8.56	11.87
Naphtha	44.76	45.71	49.62	3.90	8.5	49.20	49.34	50.24	50.42	53.30	-0.64	-5.37	-3.21
Jet/Kerosene	63.39	68.93	70.07	1.14	1.7	72.25	70.00	68.52	69.69	72.15	17.99	17.84	17.24
Gasoil	58.89	67.67	69.35	1.67	2.5	72.57	70.71	67.11	66.90	67.09	13.49	16.59	16.52
LSWR (0.3%S)	40.06	45.64	49.64	4.01	8.8	49.45	49.10	49.05	51.62	51.18	-5.34	-5.45	-3.19
HSFO (3.5%S 180cst)	38.89	40.41	41.43	1.02	2.5	43.68	41.83	39.69	40.65	41.09	-6.50	-10.67	-11.40
HSFO 4%S	38.98	39.95	40.62	0.67	1.7	43.27	41.21	38.61	39.42	40.01	-6.42	-11.14	-12.21

* From January 2005 Premium Unleaded 50 ppm

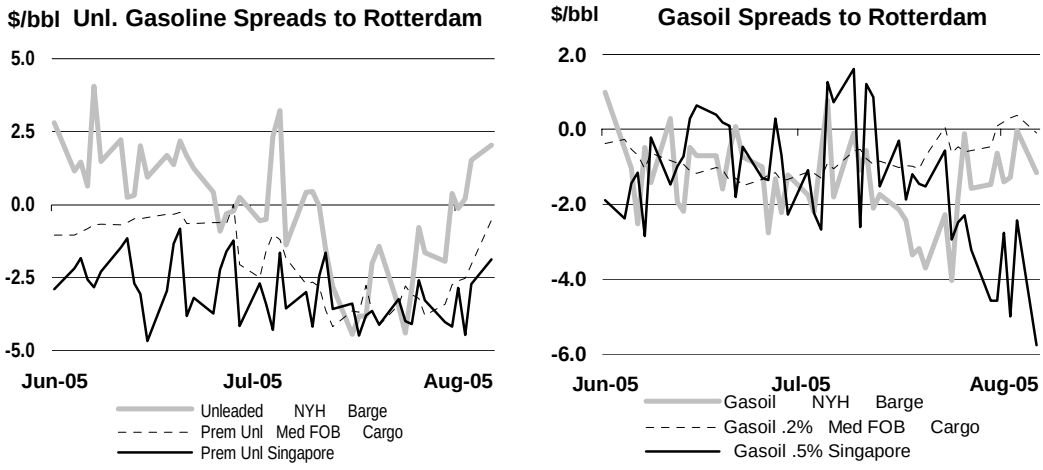
Gasoline prices rose sharply in all regions from mid-July, particularly in the US, where a series of refinery disruptions caused throughputs to briefly dip below 15.9 mb/d, 900 kb/d below weekly runs at the end of June. Disruptions were also seen in Europe, where refinery units were affected in Rotterdam and Italy. Refinery disruptions are common at this time of year as refiners try to maximise output to meet peak summer demand. However, the problems accentuated the normal seasonal stock draw, pushing US stocks from the top end of the five-year range to below the five-year average. The strengthening of US gasoline prices contributed to an opening of the arbitrage from Europe to the US, although traders said that a shortage of clean freight limited flows. European production has also centred on lower octane grades, with high MTBE prices implying a sharp cost differential between high and low octane grades.

While some fresh refinery problems have emerged, the market has to balance the lower level of US gasoline stocks with the pending end to the summer driving season in September. Refiners can also rebalance yields away from maximum diesel towards higher gasoline output. However, with reports of heavy maintenance scheduled for the autumn, the potential for further stock draws is increased.

Asian gasoline prices also strengthened as reduced Chinese exports coincided with revived interest from Indonesia. State oil company Pertamina resumed product imports following reduced purchases in June as delayed subsidy payments reportedly resulted in cash-flow issues. China's August exports are expected to drop around 30% from July levels to just below 400,000 tonnes. This fall is partly a reflection of higher internal prices and the yuan revaluation, but also partly reflects trends in domestic demand.

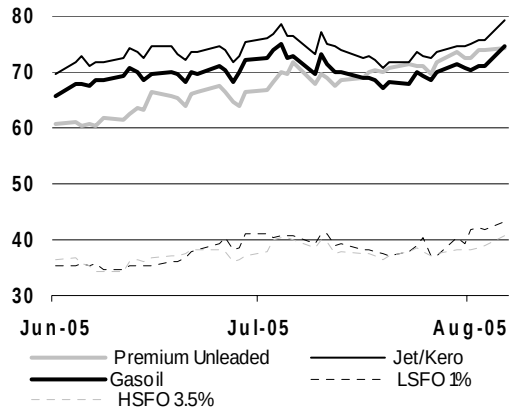
Strong gasoline prices helped to support naphtha prices, but these were capped by strong exports from India and the Middle East. The low price of LPG continues to displace naphtha feeds into European petrochemical plants, particularly for paraffinic grades, and stocks remain ample.

Gasoil prices, having competed with gasoline as the highest priced market for most of this year, significantly underperformed other light products in July. The divergence was most noticeable in the US, accentuated by gasoline strength, but similar trends were also seen in Europe and Asia. The steep contango in IPE gas oil futures has provided a strong incentive to put material into storage, contributing to a steep rise in ARA gasoil stocks since April. High levels of storage are also reported to have built up in Baltic ports, despite pipeline problems into Ventspils. Strong demand from the eastern Mediterranean however helped to bolster southern European prices.

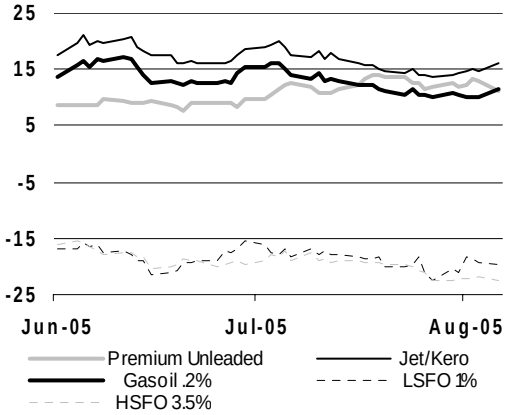


It has been a similar picture in the US, where most of the recent stock builds have been in diesel, rather than heating oil. However, this is less of an issue as it is much easier to blend-down diesel to a heating fuel standard, than to blend heating oil into diesel. But the emphasis on diesel stocks is also a reflection of the strength of diesel demand. Hot weather and high natural gas prices have also contributed to US distillate demand. With fuel oil powered generation units reportedly running flat-out, the high price of natural gas has prompted the use of distillate-fuelled peaking units to meet demand needs. Abundant diesel stocks will also be needed to meet the harvest season in the US Midwest, which runs from September through to October.

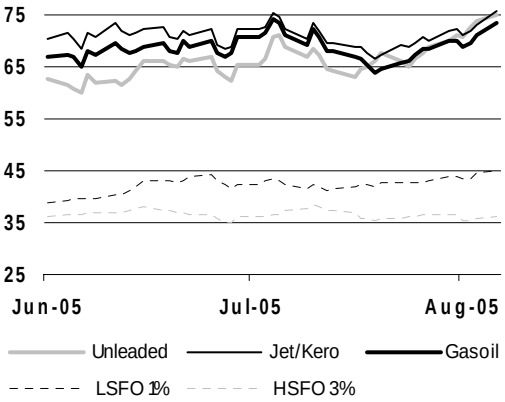
$/bbl **Rotterdam Spot Product Prices**



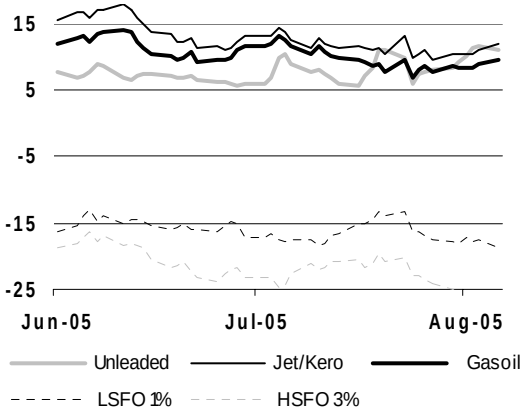
$/bbl **Rotterdam Spreads to Dated Brent**



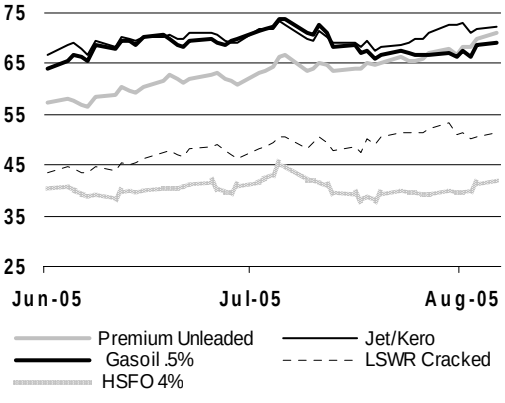
$/bbl **New York Harbour Spot Product Prices**



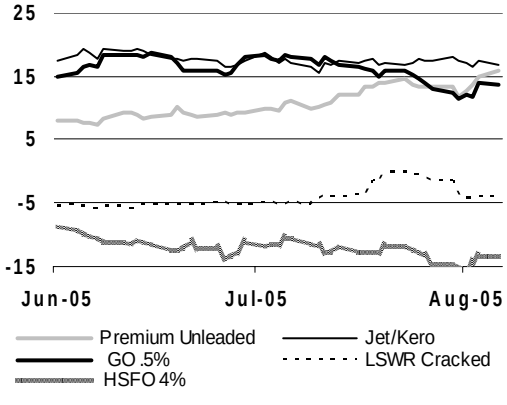
$/bbl **New York Harbour Spreads to WTI**



$/bbl **Singapore Spot Product Prices**



$/bbl **Singapore Spreads to Dubai**



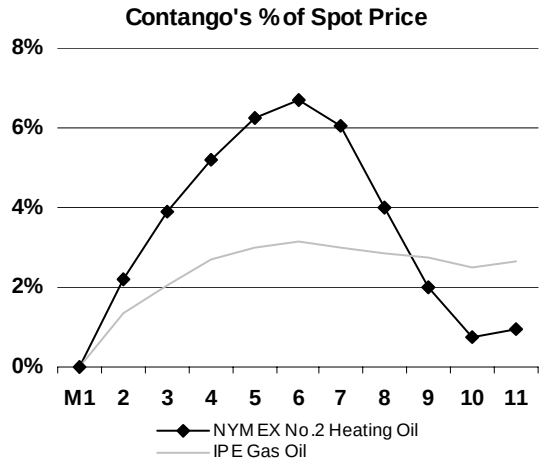
Asian gasoil demand has also been relatively weak. There are no sign of diesel imports from China, while the resolution of sulphur issues in India's domestic refining capacity has reduced the need to import lower sulphur material. Gasoil exports from Japan and China have contributed to the weakness. While Sinopec has flagged a cut in August diesel exports to 130,000 tonnes from an originally planned 220,000 tonnes, it cites a weak regional market, rather than strong domestic demand for the move. However, this runs contrary to local reports which suggest that limited domestic supply is leading to unofficial rationing in some regions. Asian jet prices have been more robust than gasoil, buttressed by the recent movement of material to the US West Coast.

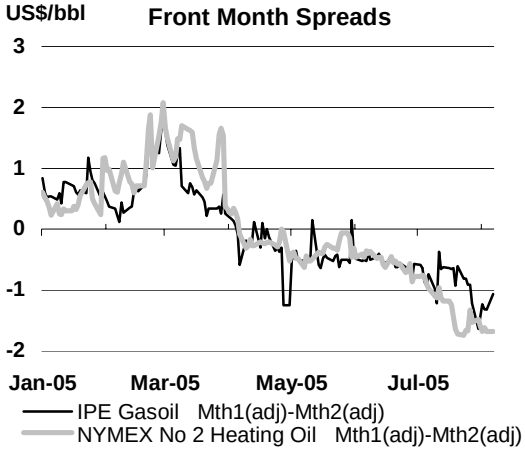
Fuel oil frequently comes under pressure in mid-summer as refiners run flat-out to meet strong transportation fuel demand. July was no exception, with increased availability from the FSU added to European supplies, but were regionally constrained as higher Asian output limited arbitrage opportunities. Talk of scarce storage availability increases the need to clear surplus supplies, therefore putting downward pressure on prompt prices. China remains on the sidelines and reports that Chinese thermal coal output is running nearly 40% ahead of a year ago partly explains why fuel oil imports have subsided. US high sulphur fuel oil prices were also capped by increased Venezuelan and Caribbean exports.

While residual desulphurisation has been broadly economic for the past 8 months, the improved availability of low sulphur fuel oil to meet hot-weather induced demand from utilities in the Mediterranean appears better in comparison with the heatwave in 2003. This is largely due to cooler temperatures prevailing in Northwest Europe this year. Continued buying by Japanese utilities to offset summer demand and non-oil power generation losses helped to bolster low-sulphur waxy residue for most of July, narrowing differentials to crude, but purchases slowed towards the end of the month, weighing on prices.

Product Futures

Despite reports of brimming gasoil stocks in Baltic ports and a sharp rise in independent ARA inventories, it is US heating oil that is now exhibiting signs of a larger comfort-zone. This is a considerable turn around from a few months ago, when US distillate stocks were reported at the lower end of the five-year range. While this Report noted that there was sufficient time and refiner flexibility for inventories to be replenished, considerable concern was expressed that supplies would be tight this winter. US distillate stocks now stand at the upper-end of their five-year range, and while they could still be drawn down by further refinery glitches and heavy autumn maintenance, refiners are nominally better positioned (although less so in terms of days of demand cover).





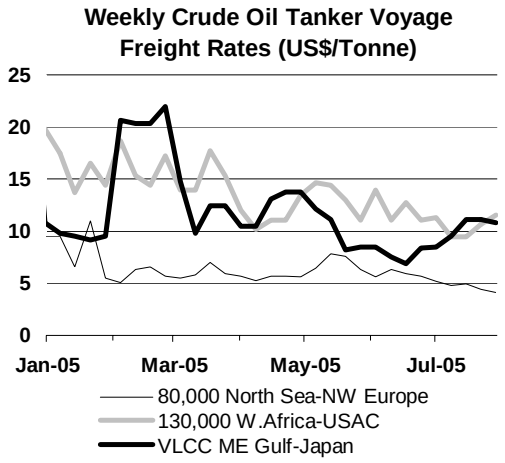
Relative price spreads on the IPE and NYMEX show a steep contango through to the middle of winter, reflecting this stock build and providing the incentive to put more material into storage. The chart below highlights how the contango in IPE gas oil futures has widened sharply in recent weeks, coinciding with further gains in ARA stocks and reports of high inventories at Baltic ports. However, on a percentage basis the contango curve on NYMEX heating oil is larger. While it could be argued that this represents a perceived greater need for oil to move into storage for winter needs, it has been clearly observable that the contango has widened as stocks have increased in recent weeks.

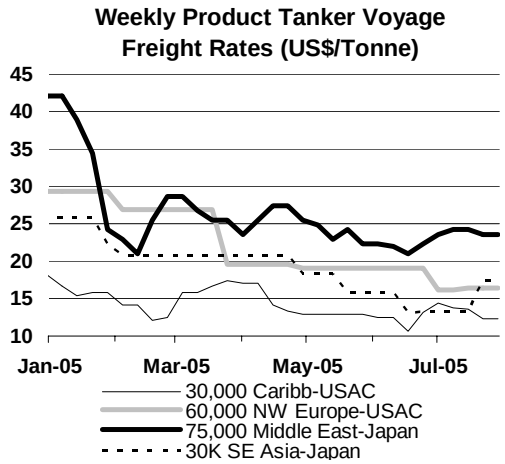
End-User Product Prices in July

End-user petroleum product prices were up for all products and all countries in national currency terms in July. The relative strengthening of the Yen and the Pound versus the US dollar caused gasoline and diesel prices for Japan and the UK to weaken in US dollar terms. For the other countries covered by the survey, the US saw the largest gains in gasoline prices, which increased by 6.9% versus June levels and 19.8% above last year. This move was largely in line with 10% and 5% month-on-month increases in wholesale prices seen for super unleaded and unleaded gasoline in the New York Harbour in July. The gains in gasoline prices were largely due to a faster than normal draw-down of gasoline stocks in the US following a series of refinery outages and seasonal demand. European gasoline prices increased on average by around 4% in euro terms from June levels. Automotive diesel prices also saw large gains in July despite large distillate stock builds in the US and in northwest European storage. Average increases were 3.8%, with Spain and the US seeing the largest gains of closer to 5%. Fuel oil prices continue their upward moves supported by strong utility demand due to warmer-than-normal weather in the US and the Mediterranean.

Freight

VLCC rates from the Arabian Gulf to Asia and the US trended higher in July in line with higher refinery runs in Asia, increased OPEC westbound sailings and continued high bunker fuel prices in the Middle East. Seasonal refinery maintenance in Asia largely came to an end in July, and according to preliminary reports, crude throughputs trended above seasonal norms for both Korea and Japan. Although the Chinese government raised their domestic fuel prices in July, the increase was not enough to encourage higher refinery runs and crude imports remained below last year's levels. Rates gained some support on another round of spot chartering by Saudi Arabia's Vela International Marine, which reportedly sent another two VLCCs to the United States early in the month. By the end of the Jult, however, rates turned around as increasing tonnage became available, especially in the Middle East Gulf. VLCC rates from West Africa to the US continued to derive support from refiners' sustained demand for distillate-rich crudes.





The Aframax market saw a mixed picture in July. Although the storms in the Gulf of Mexico failed to cause any serious damage to production facilities and delays in discharging were minimal, the market was nervous and rates were volatile. Rates decreased on reports that Mexico's state-owned oil company, PEMEX, had cancelled some cargoes following the hurricane shut-ins. The closure of the Louisiana Offshore Oil Port terminal meant delays in some tanker dischargings which tightened tonnage position and gave some support to rates. Aframax rates for tankers trading in Northern European markets remained steady for most of July, but slipped to their lowest level since September 2003 by end-month as seasonal maintenance on Norwegian oil fields reduced cargo supply.

REFINERY ACTIVITY

Summary

- **Full-cost refinery margins** were on balance weaker in July as light-product prices, notably for middle distillates, softened mid-month before staging a recovery. While crude prices followed a similar pattern in early July, this was comparatively shorter-lived before prices steadily increased. Not all refining configurations suffered the same fate. Those with proportionately higher yields of gasoline were buffered against the decline.

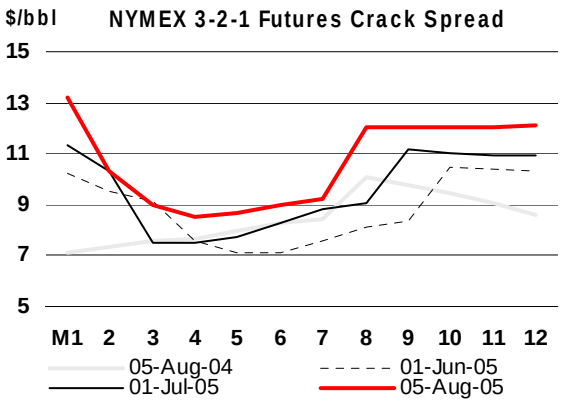
- **US Gulf Coast cracking margins** were down for light and medium crude as distillate prices weakened. US distillate inventories rebuilt above their five-year average, putting downward pressure on product cracks. Gasoline regained centre stage from distillates in July, following lower crude runs, seasonally higher demand, tightening inventories and unplanned refinery outages. As a result, high yielding gasoline configurations such as coking on Maya and Kern River saw their margins rise. The gains in coking margins were further supported by the widening of the price differential of heavy crude oils relative to the lighter benchmark WTI.

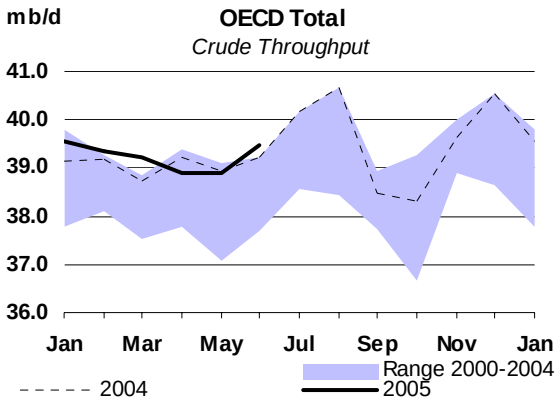
- **European margins** on all refining configurations, with the exception of Brent cracking, ended lower. Weakening fuel oil prices relative to crude weighed on hydroskimming margins, pushing them further into negative territory. Refinery fuel oil output increased with rising runs, while at the same time incoming supplies from the FSU backed up in Europe as arbitrage outlets to Asia remained closed. Profitability on Urals was also hit by the grade's strong price rally relative to Brent and weaker prices for gasoil and jet fuel.

- **Asian margins** were down following a marked decline in jet/kerosene and gasoil prices. Regional distillate supplies have improved since June. Stocks in Singapore returned within their five-year average, flipping paper prices into contango. Hydroskimming margins, as in Europe, suffered from excess fuel oil supplies. The recent volumes of arbitrage supplies from the West accumulated in Singapore storage as regional bunker demand fell back and Chinese import demand failed to show a significant increase.

- **OECD refinery throughputs** rose in June by almost 600 kb/d to 39.5 mb/d, or the top end of their five-year range. Most of the increase was driven by a post-maintenance ramp-up in US crude runs. Throughputs in Europe posted a modest uptick but remained low despite indications of less offline capacity than in May. Offsetting trends in the OECD Pacific left throughputs about even from May.

- **The 3-2-1 NYMEX crack spread** in the front-month continued to shift upwards in July and early August. This proxy measure of the refining margin essentially gained on the strength of gasoline prices. These were driven higher following lower refinery runs, seasonal strength in gasoline demand and a string of unplanned outages at refineries affecting gasoline production.





Refining Margins

Refinery margins were on balance down in July. Prices of distillate products, which have driven margins higher in recent months, softened mid-month, regaining losses only unevenly by the end of July across refining centres. The initial fall in prices for gasoil and jet/kerosene was due, in part, to rising stocks and increased production. At the same time, price strength in futures markets swung back to gasoline, the move supported by lower supplies and seasonally stronger demand. The strength in gasoline prices helped naphtha prices to recover. This allowed refinery configurations with a high gasoline weighting to mitigate downward pressures associated with weaker distillate prices, or in the case of coking configurations in the US, to see an increase in their returns.

In the Atlantic Basin, while refinery margins trended lower on an absolute basis, they remained generally positive for all refinery configurations. Oil product demand in the US continues to absorb domestic supplies while drawing on traditional swing gasoline supplies from Europe. Margins similarly weakened in Asia and with the exception of cracking for Dubai and Daqing, held for the most part in negative territory. Hydroskimming margins globally were weaker following a worsening crack spread for fuel oil. Fuel oil demand has been generally weak, albeit perhaps less for certain grades used in power generation or as alternative refinery feedstock. In addition, trade in surplus product generated from higher crude runs often met with limited arbitrage possibilities.

Selected Refining Margins in Major Refining Centres

($/bbl)

	Monthly Average			Change	Week Ending:				
	May 05	Jun 05	Jul 05	Jul -Jun 05	01 Jul	08 Jul	15 Jul	22 Jul	29 Jul
NW Europe									
Brent (Cracking)	4.35	4.65	4.74	0.09	4.86	5.26	4.87	4.71	2.82
Brent (Hydroskimming)	-0.12	-0.32	-0.89	-0.57	-0.19	-0.74	-0.61	-1.01	-2.87
Mediterranean									
Urals (Cracking)	5.75	5.69	4.35	-1.34	5.22	5.31	3.41	3.36	3.23
Urals (Hydroskimming)	-0.36	-1.64	-3.26	-1.63	-2.13	-2.57	-3.66	-4.62	-4.61
US Gulf Coast									
Brent (Cracking)	1.62	1.53	0.23	-1.30	0.51	0.95	-0.43	-0.08	-1.80
LLS (Cracking)	4.07	3.68	3.03	-0.65	2.08	4.53	2.43	3.38	1.25
Maya (Coking)	10.25	11.04	11.58	0.54	10.60	12.32	10.42	12.26	11.74
US West Coast									
ANS (Cracking)	7.34	3.81	4.22	0.40	3.98	4.44	3.04	5.59	4.26
Oman (Cracking)	5.09	3.23	4.33	1.10	5.75	2.80	4.12	5.53	5.38
Kern (Coking)	19.11	17.26	18.45	1.19	21.17	18.00	16.71	19.79	19.88
Singapore									
Tapis (Hydroskimming)	-1.66	-1.30	-2.32	-1.02	-2.04	-2.59	-2.13	-1.43	-3.71
Dubai (Hydrocracking)	3.51	2.73	2.67	-0.06	3.11	2.95	2.96	3.08	1.51
Tapis (Hydrocracking)	0.55	0.95	-0.26	-1.21	0.33	-0.31	0.12	0.30	-2.05
China*									
Cabinda (Hydroskimming)	-2.04	-2.45	-0.52	1.94	-3.24	-0.80	-0.94	0.40	-0.82
Daqing (Hydrocracking)	-1.86	-0.59	1.64	2.23	2.04	1.75	0.32	2.93	2.07

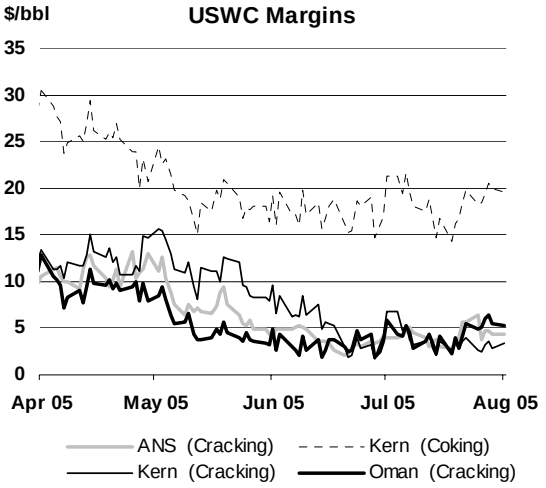
For the purposes of this Report, refining margins are calculated for various complexity configurations, each optimised for processing the specific crude in a specific refining centre on a 'full-cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability for a given refining centre. No attempt is made to model or otherwise comment upon the relative economics of specific refineries running individual crude slates and producing custom product sales, nor are these calculations intended to infer the marginal values of crudes for pricing purposes.

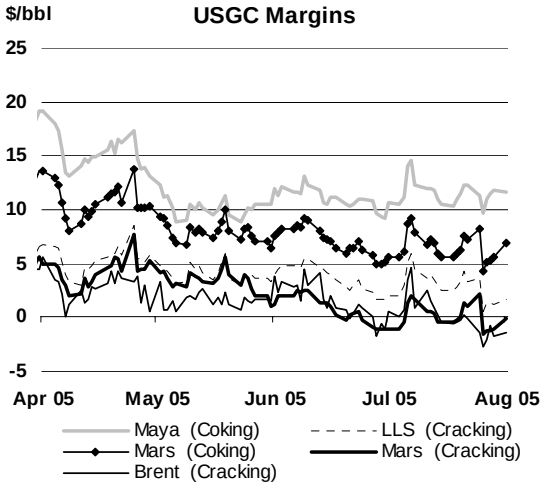
* The China refinery margin calculation represents a model based on spot product import/export parity, and does not reflect internal pricing regulations. A full list of refining margins and gross product worth can be found in table 15 on www.oilmarketreport.org.

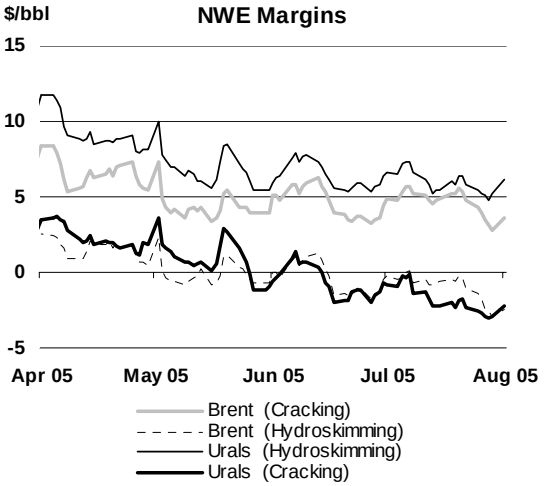
Sources: IEA, Purvin & Gertz Inc.

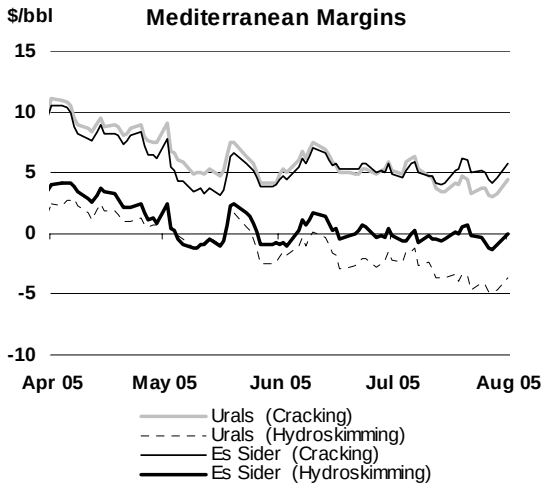
In Europe, cracking margins for light sweet Brent crude held about even at $4.74/bbl, inching up an additional 10 cents from June despite a rise in the price for the North Sea benchmark. Margins were supported by gains in gasoline and naphtha prices. Price gains for these products followed in line with those in the US. They were further buoyed on a regional level by the outage of the Pernis refinery in Rotterdam. The outage led to refinery buying on the barge market to cover for prompt requirements, further boosting prices. Alongside gasoline shipments to the US and Nigeria, a tightening of supplies was reflected in swap prices for gasoline. These flipped into backwardation in July and cash prices for gasoline rose above those of 50 ppm diesel and 0.2% gasoil in Northwest Europe.

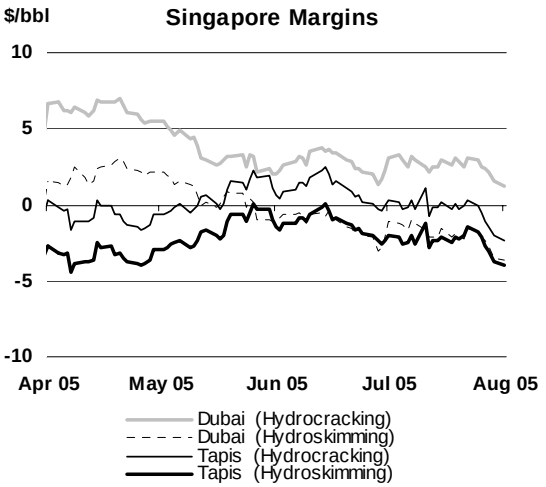
Regional Full-Cost Refining Margins

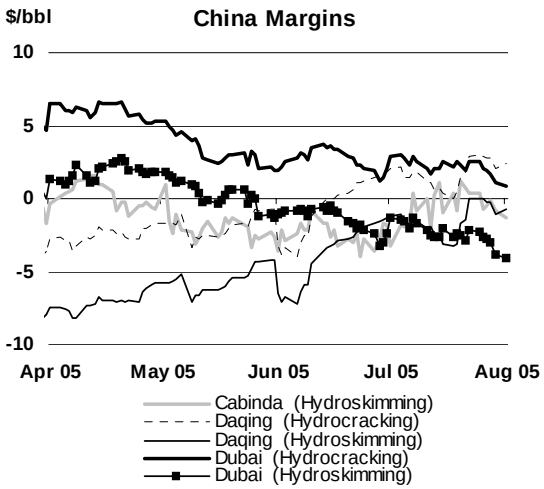












Tighter supplies of gasoline were reflected in declining European industry stocks in June and falling inventories in ARA independent storage in July. Naphtha prices strengthened on the rally in gasoline, particularly for grades suited for use in reformer units (which convert naphtha to gasoline).

Cracking margins on Urals fell both in the Northwest and the Mediterranean to respectively $5.99/bbl and $4.35/bbl. The weakening in Urals margins was supported in part by the tightening of the crude's price relative to Dated Brent in the first half of July. Urals in Northwest Europe moved from a discount of $3.76/bbl at the end of June to $2.49/bbl by 19 July. In the Mediterranean, the spread narrowed from $3.43/bbl to $2.19/bbl.

As European refiners completed maintenance, they actively bid up Urals with an aim to capture the crude's high distillate content to build inventories of heating fuels ahead of peak winter demand. At the same time, Urals supplies into Europe have been tightening. Export growth is weaker this year, in line with slower growth in crude oil production. Limited additions to export capacity (as compared to 2004) at the main Baltic loading terminal of Primorsk, have also played a part. Volumes from the port have been stable in the first six months of 2005, at about 1.1 to 1.2 mb/d. In the Mediterranean, Urals also received some support in early July from a reduced tender for Iraqi Kirkuk loading at the Turkish port of Ceyhan.

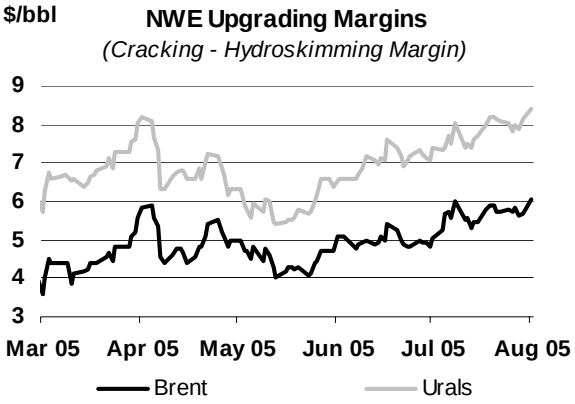
However, margins on cracking Urals are likely to improve in August. Urals prices began to fall back in the second half of July, dragged lower in the Mediterranean by a drop in the differential of comparable Iranian Light grade loaded at Sidi Kerir. A marked re-tightening of the spread against Brent looks unlikely. Strength in Urals attracted medium sour supplies from outside of the region, with cargoes of Oman reportedly being delivered into Northwest Europe. In addition, the absence of Chinese interest for August loading Urals from the Baltics has seen these barrels re-offered into the Mediterranean.

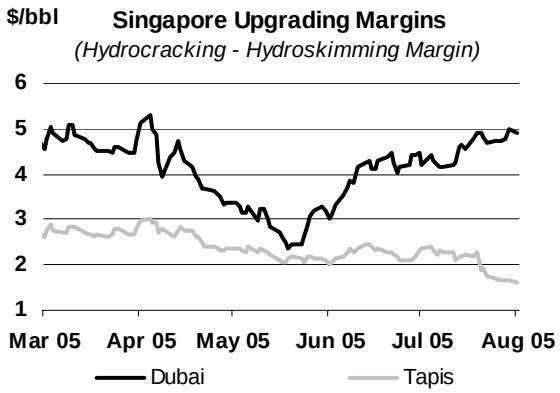
Rising duties on Russian exports of crude need to be mentioned. Higher duties (which have nearly tripled since the start of 2004) have prompted Russian operators to keep more crude oil in their refining systems and export product instead. Higher duties have had an impact on rail shipments, which in 2004 were a significant component of Russian supply growth. Shipments by rail are more costly than those via pipeline, adding a further incentive to keep crude at home. The increased demand for Russian Urals also came with lower availabilities of North Sea grades as seasonal field maintenance affecting both Norway and the UK reduces production for July and August.

Distillate prices in Europe, although high on an historical basis, weakened for most of July following declines in IPE gasoil futures (against which their cash prices are established) in early and mid-July. While outright distillate prices recovered some of their losses by end-month, demand has been weak, particularly for heating oil as end-users limited the refilling of their tanks. Consumer stocks of gasoil in Germany, Europe's largest heating oil market, were reported only 47% full at the beginning of July, markedly off their historical range. Product has instead been moving into storage as a result of prompt prices falling below forward ones. Both gasoil and jet fuel stocks in independent storage hit record highs in the ARA area in July and early August.

While European production of distillate is rising, the region has also seen large volumes of imports. Product exports from the FSU in the first half of the year are running about 14% above the volume observed for the same period last year. Gasoline, a large component of growth so far this year, has headed to the US but gasoil and notably fuel oil has landed in Europe. With regards to jet fuel, imports from the Middle East have risen, as refiners divert supplies away from the comparatively weaker Asian market.

The rise in Russian fuel oil exports has depressed prices in Europe, hitting simple or hydroskimming margins hard in July and pushing them further into negative territory. While high-sulphur straight-run material, used as an alternative feedstock, has been shipped to the US, cracked material has been stranded in Europe. Arbitrage opportunities to direct excess product to Asia closed during the month, leaving supplies accumulating in ARA independent storage. Low-sulphur fuel oil prices have also weakened. Unlike in previous months, no deliveries were reported to the US to meet power utility demand and recent milder temperatures in the Northeast and Gulf Coast do not suggest an immediate resumption of shipments to the US. In Europe, higher demand from utilities due to drought conditions this summer did not appear to lead to shortages witnessed in 2003. As a result of the surplus in fuel oil supplies, the upgrading margins (the relative profitability of running a cracking configuration over a hydroskimming) widened in Europe.





A similar dynamic was apparent for hydroskimming in Singapore and China. The upgrading margins widened as fuel oil crack spreads worsened. The absence of a significant ramp up in Chinese import demand was a driving factor that contributed to weaker fuel oil prices in Singapore. Chinese imports of fuel oil were higher in June, but from a very weak month for May, and down against volumes in 2004. Initial trader reports for July indicate that imports into the main fuel oil import terminal at Huangpu fell against June and were not expected to post a significant rise in August. Combined with slower bunker demand, this led excess supplies in the region and incoming arbitrage supplies from Europe to back-up in Singapore tanks. With Chinese buying interest expected to remain muted, simple margins will continue to be under pressure in August.

However, the upgrading margins did not widen in the same proportions as in Europe. Demand for low sulphur fuel oil used in power generation saw some support with demand from Japan for LSWR. The premium for LSWR over Singapore's 180cst benchmark rose to $12/bbl by the end of July. Consequently, hydroskimming margins for heavier sweet Cabinda bucked trends described above. Though negative, the margin on Cabinda improved strongly in China. Half of Cabinda's product yield is accounted by LSWR, which saw its discount relative to Cabinda narrow from $6 to $2/bbl. Cabinda also saw its price fall back in July after posting strong gains in June. The grade had been in strong demand when trade for July loading barrels began in late May early June, witnessing its price rise sharply relative to Dated Brent along with the similar quality Girassol crude.

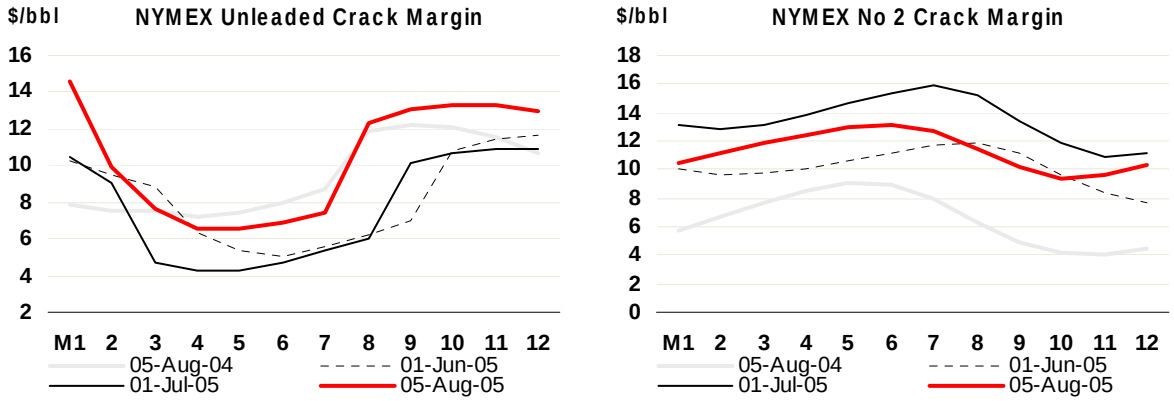
Cracking margins on sour grades remained positive in Asia with those for Dubai fetching $2.67/bbl in Singapore and $2.26/bbl in China. The margins were only slightly down from June despite weaker distillate prices. Supplies of kerosene and gasoil improved in Asia on higher exports from regional refiners which had increased yields in line with strong prices in June. Despite steady kerosene demand into India, the absence of Chinese buying weighed down on prices, leading jet/kerosene to temporarily fall below gasoil in the early part of July. Gasoil prices were similarly impacted by the lack of Chinese demand alongside weaker interest from Indonesia. Korean refiners (Asia's main exporters) were forced as a result to offer their cargoes at increasing discounts to Singapore prices. While jet/kerosene prices may recover with Middle Eastern refiners diverting cargoes to Europe, gasoil prices are likely to hold down the distillate complex in August. A potential cap to further gains in gasoil prices is likely to come from increased export competition between China and Korea. Although August demand from Indonesia may lend support to distillate prices, the weakness in apparent Chinese demand so far this year supports the view that, along with reduced imports from India, Asian cracking margins are unlikely to see a major upturn in the near term.

Mitigating the impact of falling Asian product prices in July on cracking margins, however, was a continuous widening in the differentials of medium sour to light sweet grades in the region. This was in contrast to what was observed in Europe with Urals. Dubai traded at $5.81/bbl under light sweet Tapis at end June, its discount increasing to $8.03/bbl by the end of July. Forward prices for Dubai moved into contango as prompt prices were depressed by the weakness in comparable Oman crude.

In contrast to medium sours, the return for cracking light sweet Tapis declined markedly in Singapore. The margin saw a $1.21/bbl decline, turning negative at -$0.26/bbl in July versus $0.95/bbl in June. The underlying strength of Tapis crude was the main driver in the decline. Tapis strengthened in Asia as the flow of light sweet crude from West Africa into the region fell. Light sweet Nigerian grades such as Bonny Light and Forcados saw competing demand from US and European refiners. In addition, heavy term and spot buying from India into September was also supportive of higher premiums of Nigerian grades against dated Brent.

In the US, the weakening of distillate prices had differing impacts between the West and Gulf Coasts for cracking margins. The divergence stemmed mainly from the segmented nature of the US market. The West Coast is in effect autonomous from developments elsewhere in the US due to its narrow product specifications. When unplanned refinery outages occur, the impact on prices can vary disproportionately compared to other regions in the country. As such, while cracking margins fell in the Gulf Coast with weaker distillate prices, those on the West Coast for Oman and ANS ended higher. Only Kern cracking margins fell due to the weakness in high sulphur fuel oil prices. The outage of a crude distillation unit at Chevron's 260 kb/d El Segundo refinery in California, led to a strong rally in distillate prices in the second half of July. Prices more than recouped earlier losses, with the price for Carb diesel in Los Angeles trading above that of gasoline.

On the Gulf Coast, cracking margins on light sweet crude, while firmly positive on the strength of gasoline prices (particularly for high-octane grades) and recovering naphtha prices, suffered adverse movements against WTI. Dated Brent firmed against WTI over July, sending WTI's usual premium temporarily into a discount mid-month. The weaker average between the two benchmarks prompted US refiners to seek out alternative light sweet grades in the domestic market, widening LLS's premium over WTI. Cracking margins for medium, sour Mars remained barely positive in July due to its relatively high yield of high-sulphur fuel oil.



Gasoline maximising coking configurations continued to post strong margins on the Gulf and West Coast. Crack spreads on futures belatedly overtook those for heating oil on the NYMEX as gasoline prices rallied on unplanned outages, lower stocks and seasonally firming demand. Also, US output of finished gasoline relative to distillate was down in July. With gasoline prices up, margins on Kern River gained $1.19/bbl to reach $18.45/bbl and those on Mexican Maya were up by $0.54/bbl to $11.58/bbl. The strengthening of margins was also supported by discounts of heavy crude oil to WTI. These widened in the second half of the month. Downward pressure on the differential for Mexican Maya, which takes into account in its price formula changes in 3% fuel oil prices, followed the deterioration of fuel oil's crack against WTI in the Gulf Coast.

Refinery Throughput

OECD refinery throughputs rose to 39.5 mb/d in June, increasing by nearly 600 kb/d from May and running about 300 kb/d above a year ago. Most of the increase followed a rise in US crude runs. After completion of scheduled maintenance in May, US refiners steadily increased runs to meet both summer gasoline demand and rebuild inventories of distillate products ahead of winter. US refiners achieved near-capacity utilisation rates by early July, with runs at 16.5 mb/d, or 98% of the 17.1 mb/d of installed capacity.

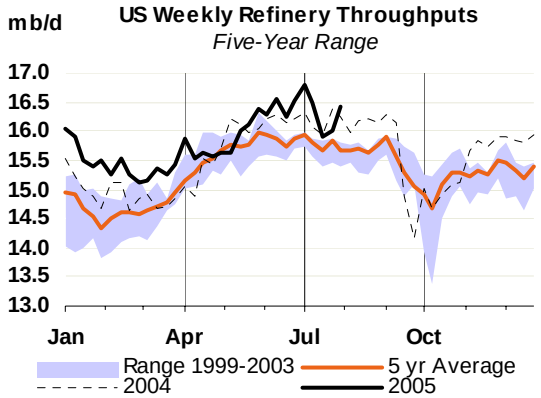
European throughputs posted an 100 kb/d increase according to preliminary data for June, with crude runs averaging 13.5 mb/d for the month. According to turnaround surveys, offline capacity in Europe in June was around 400 kb/d or about a third of the peak level in May. As such, the preliminary data may understate actual runs. Most countries saw their throughputs holding flat or slightly down. The exception was France where runs picked up 60 kb/d. Gains in other countries were modest and spread across the region. The Pacific area saw throughputs hold flat in June as Korean refiners reduced runs while Japanese refiners emerged from peak turnarounds in May. Overall runs in the OECD Pacific, at 6.6 mb/d, were above a year ago by about 500 kb/d. The higher level was commensurate with stronger product demand on a yearly basis and the desire by Korean and Japanese refiners to boost product exports to capture recent high prices in the Asian market, notably on distillates.

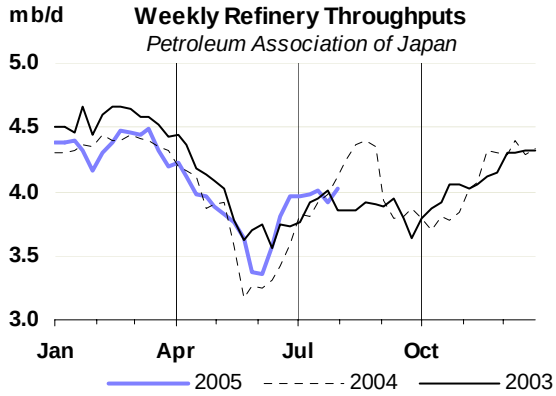
Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from Jun 04*		Utilisation rate[2]	
	Jan 04	Feb 05	Mar 05	Apr 05	May 05	Jun 05	mb/d	%	Jun 05	Jun 04
OECD North America										
US[3]	15.20	15.11	15.14	15.49	15.89	16.24	0.00	0.0	95.3	96.2
Canada	1.90	1.89	1.86	1.73	1.75	1.79	0.08	4.8	88.6	85.8
Mexico	1.28	1.27	1.32	1.33	1.27	1.27	-0.01	-1.2	75.4	72.0
Total	18.38	18.27	18.32	18.54	18.91	19.30	0.07	0.3	93.0	93.6
OECD Europe										
France	1.81	1.72	1.84	1.79	1.56	1.62	-0.02	-1.2	83.1	84.1
Germany	2.36	2.33	2.35	2.22	2.33	2.29	0.04	1.8	93.6	91.9
Italy	1.83	1.74	1.71	1.89	1.95	1.89	0.02	1.3	81.4	80.6
Netherlands	1.09	1.05	0.98	1.12	1.13	1.11	-0.02	-1.9	90.3	92.5
Spain	1.17	1.09	1.09	1.19	1.18	1.19	-0.03	-2.7	93.6	96.2
UK	1.65	1.60	1.64	1.58	1.62	1.59	0.00	-0.2	87.3	87.8
Other OECD Europe	3.87	4.07	3.89	3.48	3.65	3.85	-0.25	-6.1	82.5	87.7
Total	13.79	13.60	13.50	13.27	13.43	13.55	-0.26	-1.9	86.2	87.9
OECD Pacific										
Japan	4.20	4.36	4.24	3.96	3.58	3.78	0.41	12.3	80.3	71.5
Korea	2.44	2.43	2.46	2.24	2.33	2.12	0.02	1.1	82.3	82.4
Other OECD Pacific	0.75	0.67	0.72	0.74	0.66	0.74	0.04	5.6	86.3	81.7
Total	7.40	7.46	7.42	6.94	6.57	6.64	0.48	7.7	81.5	76.0
OECD Total	**39.56**	**39.33**	**39.24**	**38.89**	**38.91**	**39.49**	**0.28**	**0.7**	**88.5**	**88.4**

1 Estimate
2 Based on crude throughput and current operable refining capacity
3 US50

Weekly data show Japanese refiners raising throughputs in July to 4 mb/d, with runs averaging about 200 kb/d higher than in June. Trade reports suggest that Korean crude runs were nudged higher by 100 kb/d to 2.24 mb/d in July, keeping capacity utilisation rates above 82% in contrast with the previous year where runs had fallen. Reported market expectations for August suggested that Korean refiners would scale back runs, mirroring moves in July by Chinese refiners in the coastal regions. However, recent soundings suggest that runs are likely to be maintained at around 2.25 mb/d. The main driver is a desire to maintain or increase exports. Though recently Korean refiners have seen discounts for their cargoes, particularly 0.5% gasoil, widen to Singapore quotes, light product prices in Singapore continue to remain strong through July and early August.





Weekly throughputs figures for the US show refiners scaling back runs with refinery utilisation rates falling back on average under 95%. The decline in runs followed from precautionary closures as Hurricanes Cindy and Denis threatened production facilities on the Gulf, leaving utilisation rates at under 93% mid-month. However, despite unplanned refinery outages the Gulf Coast, California and the Mid-continent, US crude runs swung back by end-month, reaching close to 96%.

Table 1
WORLD OIL SUPPLY AND DEMAND
(million barrels per day)

	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
OECD DEMAND																	
North America	24.1	24.5	25.2	25.1	25.4	25.7	25.4	25.5	25.2	25.8	26.1	25.7	25.9	25.5	26.1	26.4	26.0
Europe	15.3	15.4	15.6	15.2	15.6	16.0	15.6	15.5	15.3	15.6	16.0	15.6	15.6	15.3	15.7	16.0	15.6
Pacific	8.6	8.7	9.3	7.9	8.2	8.8	8.5	9.5	8.1	8.2	9.0	8.7	9.5	8.1	8.3	9.1	8.7
Total OECD	48.0	48.6	50.1	48.2	49.1	50.4	49.5	50.6	48.6	49.6	51.1	49.9	51.0	48.9	50.1	51.5	50.4
NON-OECD DEMAND																	
FSU	3.5	3.6	3.5	3.7	3.8	4.0	3.7	3.7	3.6	3.7	4.1	3.8	3.8	3.6	3.8	4.1	3.8
Europe	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7
China	5.0	5.6	6.3	6.5	6.3	6.6	6.4	6.5	6.4	6.8	7.2	6.7	7.0	7.1	7.4	7.6	7.3
Other Asia	8.0	8.0	8.4	8.7	8.3	8.7	8.5	8.7	8.8	8.6	9.0	8.8	9.0	9.2	8.8	9.3	9.1
Latin America	4.8	4.7	4.7	4.9	5.0	4.9	4.9	4.8	5.0	5.1	5.0	5.0	4.9	5.1	5.2	5.1	5.1
Middle East	5.2	5.3	5.5	5.5	5.8	5.6	5.6	5.8	5.7	6.1	5.9	5.9	6.1	6.0	6.4	6.2	6.2
Africa	2.7	2.7	2.8	2.8	2.7	2.8	2.8	2.9	2.9	2.8	2.9	2.9	3.0	3.0	2.9	3.0	3.0
Total Non-OECD	29.7	30.6	32.0	32.8	32.6	33.3	32.7	33.3	33.2	33.7	34.8	33.8	34.6	34.7	35.1	36.1	35.1
Total Demand[1]	77.7	79.2	82.1	80.9	81.7	83.8	82.1	83.9	81.8	83.3	85.9	83.7	85.6	83.7	85.2	87.6	85.5
OECD SUPPLY																	
North America	14.5	14.6	14.8	14.7	14.5	14.4	14.6	14.4	14.6	14.5	14.9	14.6	14.9	14.8	14.7	14.8	14.8
Europe	6.6	6.3	6.4	6.2	5.7	6.0	6.1	5.9	5.8	5.5	5.8	5.7	5.8	5.5	5.3	5.5	5.5
Pacific	0.8	0.7	0.6	0.6	0.6	0.5	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Total OECD	21.9	21.6	21.8	21.5	20.8	21.0	21.3	20.9	21.0	20.6	21.3	20.9	21.3	20.8	20.6	20.9	20.9
NON-OECD SUPPLY																	
FSU	9.4	10.3	10.9	11.1	11.4	11.5	11.2	11.4	11.5	11.7	11.8	11.6	11.9	11.9	12.2	12.4	12.1
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
China	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Other Asia	2.5	2.6	2.7	2.7	2.8	2.8	2.8	2.7	2.6	2.7	2.8	2.7	2.9	2.9	2.9	2.9	2.9
Latin America	3.9	4.0	4.0	4.1	4.1	4.1	4.1	4.1	4.4	4.4	4.4	4.3	4.4	4.5	4.5	4.6	4.5
Middle East	2.1	2.0	2.0	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.7	1.7	1.7
Africa	3.0	3.0	3.3	3.3	3.5	3.5	3.4	3.6	3.6	3.8	4.0	3.7	4.1	4.2	4.3	4.4	4.3
Total Non-OECD	24.5	25.6	26.5	26.8	27.3	27.5	27.0	27.5	27.7	28.2	28.6	28.0	28.8	29.0	29.3	29.7	29.2
Processing Gains[2]	1.8	1.8	1.9	1.8	1.8	1.9	1.8	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Total Non-OPEC	48.1	49.0	50.1	50.1	49.9	50.3	50.1	50.3	50.5	50.6	51.7	50.8	52.0	51.8	51.8	52.5	52.0
OPEC																	
Crude[3]	25.1	26.8	27.9	28.1	29.1	29.5	28.6	28.8	29.3								
NGLs	3.7	3.9	4.3	4.3	4.3	4.4	4.3	4.7	4.7	4.8	4.9	4.8	5.1	5.1	5.2	5.3	5.2
Total OPEC	28.8	30.7	32.2	32.3	33.4	33.9	33.0	33.5	34.0								
Total Supply[4]	76.9	79.7	82.3	82.5	83.3	84.2	83.1	83.7	84.5								
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	-0.4	0.1	-0.5	0.8	0.4	-0.3	0.1	-0.1	1.3								
Government	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1								
Total	-0.3	0.3	-0.4	0.9	0.5	-0.2	0.2	0.1	1.4								
Floating Storage/Oil in Transit	0.0	0.2	-0.2	-0.2	0.3	0.3	0.0	-0.4	0.0								
Miscellaneous to balance[5]	-0.4	0.0	0.9	0.8	0.9	0.3	0.7	0.3	1.3								
Total Stock Ch. & Misc	-0.7	0.5	0.2	1.6	1.6	0.4	1.0	-0.1	2.7								
Memo items:																	
Call on OPEC crude + Stock ch.[6]	25.9	26.3	27.7	26.5	27.5	29.1	27.7	28.9	26.6	27.9	29.2	28.2	28.5	26.8	28.2	29.8	28.3
Total Demand ex. FSU	74.2	75.6	78.6	77.2	77.9	79.8	78.4	80.1	78.2	79.6	81.8	80.0	81.8	80.0	81.4	83.5	81.7
Total demand exc. FSU (% ch)[7]	1.1	1.9	3.4	4.9	3.3	3.1	3.6	2.0	1.3	2.2	2.6	2.0	2.1	2.4	2.3	2.0	2.2

1 Measured as deliveries from refineries and primary stocks, comprises inland deliveries, international marine bunkers, refinery fuel, crude for direct burning, oil from non-conventional sources and other sources of supply
2 Net volumetric gains and losses in the refining process (excludes net gain/loss in former USSR, China and non-OECD Europe) and marine transportation losses
3 Upgraded Venezuelan Orinoco extra-heavy production is classified as non-conventional crude.
4 Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply
5 Includes changes in non-reported stocks in OECD and non-OECD areas
6 Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs
7 Year on year % growth in global oil demand excluding FSU

Table 1A
WORLD OIL SUPPLY AND DEMAND: CHANGES FROM LAST MONTH'S TABLE 1

(million barrels per day)

	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
OECD DEMAND																	
North America	-	-	-	-	-	-	-	0.1	-	-	0.1	-	0.1	0.1	-	0.1	0.1
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	0.1	0.1	-	0.1	0.1	0.1	0.1	-	0.2	0.1
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-0.1	-	-	-0.1	-	-	0.1	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	0.1	-	-	-0.1	-	0.1	-	-	-0.1	-	0.1	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2	-0.3	-0.4	-0.1	-0.2	-0.3	-0.3	-0.2	-0.1	-0.2
Total Demand	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.2	-0.1	-0.1	-0.4	-	-0.2	-0.1	-0.1	-0.2	0.1	-0.1
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-0.2	-	-0.1	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-0.1	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-0.1	-0.4	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-	-0.1	-0.1	-0.1	-0.2	-0.1
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-0.1	-0.1	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.1	-0.2
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	-	-0.1	-0.4	-0.3	-0.2	-0.3	-0.4	-0.4	-0.4	-0.4
OPEC																	
Crude	-	-	-	-	-	-	-	-	-								
NGLs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OPEC	-	-	-	-	-	-	-	-	-								
Total Supply	-	-	-	-	-	-	-	-	-0.1								
STOCK CHANGES AND MISCELLANEOUS																	
REPORTED OECD																	
Industry	-	-	-	-	-	-	-	-									
Government	-	-	-	-	-	-	-	-									
Total	-	-	-	-	-	-	-	-									
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-									
Miscellaneous to balance	0.2	0.2	0.1	0.2	0.2	0.1	0.2	0.1									
Total Stock Ch. & Misc	0.2	0.2	0.1	0.2	0.2	0.1	0.2	0.1	-								
Memo items:																	
Call on OPEC crude + Stock ch.	-0.2	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	-	-	0.3	-	0.2	0.2	0.2	0.4	0.2
Total Demand ex. FSU	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.2	-0.1	-0.1	-0.3	-	-0.1	-0.1	-0.1	-0.2	-	-0.1

When submitting their monthly oil statistics, OECD Member countries periodically update data for prior periods. Similar updates to non-OECD data can occur.

Table 2

Summary of Global Oil Demand

	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
Demand (mb/d)																
North America	24.53	25.23	25.09	25.41	25.69	25.36	25.53	25.19	25.81	26.08	25.65	25.92	25.55	26.15	26.41	26.01
Europe	15.43	15.60	15.16	15.56	15.98	15.58	15.54	15.29	15.63	16.01	15.62	15.55	15.27	15.67	16.01	15.63
Pacific	8.69	9.28	7.90	8.16	8.77	8.53	9.49	8.08	8.18	8.96	8.67	9.50	8.10	8.26	9.08	8.73
Total OECD	48.65	50.12	48.16	49.13	50.44	49.46	50.56	48.56	49.62	51.05	49.95	50.98	48.92	50.08	51.49	50.37
FSU	3.59	3.51	3.71	3.78	3.97	3.74	3.73	3.58	3.71	4.06	3.77	3.79	3.61	3.76	4.11	3.82
Europe	0.69	0.76	0.70	0.66	0.71	0.71	0.78	0.72	0.67	0.73	0.72	0.79	0.74	0.69	0.75	0.74
China	5.58	6.28	6.53	6.32	6.60	6.43	6.55	6.44	6.81	7.20	6.75	6.99	7.05	7.35	7.64	7.26
Other Asia	8.05	8.42	8.66	8.32	8.69	8.52	8.74	8.85	8.56	9.00	8.79	9.02	9.17	8.85	9.27	9.08
Latin America	4.67	4.71	4.87	4.96	4.89	4.86	4.82	4.98	5.07	5.01	4.97	4.93	5.11	5.18	5.12	5.08
Middle East	5.27	5.51	5.45	5.79	5.62	5.59	5.79	5.74	6.08	5.91	5.88	6.10	6.05	6.37	6.21	6.18
Africa	2.73	2.80	2.83	2.73	2.84	2.80	2.89	2.92	2.81	2.94	2.89	2.99	3.01	2.90	3.03	2.98
Total Non-OECD	30.57	31.99	32.76	32.55	33.33	32.66	33.30	33.23	33.71	34.85	33.78	34.60	34.73	35.09	36.12	35.14
World	79.22	82.10	80.91	81.68	83.77	82.12	83.86	81.79	83.33	85.90	83.72	85.58	83.65	85.17	87.61	85.51
of which:																
US	*20.03*	*20.60*	*20.54*	*20.82*	*20.97*	*20.73*	*20.80*	*20.54*	*21.11*	*21.28*	*20.93*	*21.09*	*20.85*	*21.36*	*21.52*	*21.20*
Euro4	*8.30*	*8.36*	*8.07*	*8.34*	*8.44*	*8.30*	*8.18*	*8.09*	*8.32*	*8.39*	*8.24*	*8.14*	*8.05*	*8.29*	*8.37*	*8.21*
Japan	*5.50*	*5.98*	*4.87*	*5.12*	*5.45*	*5.35*	*6.05*	*4.98*	*5.09*	*5.53*	*5.41*	*6.04*	*4.93*	*5.10*	*5.59*	*5.41*
Korea	*2.18*	*2.30*	*2.02*	*2.00*	*2.27*	*2.15*	*2.40*	*2.06*	*2.03*	*2.35*	*2.21*	*2.41*	*2.10*	*2.08*	*2.38*	*2.24*
Mexico	*1.95*	*1.96*	*1.96*	*1.95*	*2.01*	*1.97*	*2.01*	*2.08*	*2.03*	*2.04*	*2.04*	*2.09*	*2.09*	*2.08*	*2.12*	*2.10*
Canada	*2.21*	*2.31*	*2.26*	*2.31*	*2.36*	*2.31*	*2.35*	*2.24*	*2.33*	*2.40*	*2.33*	*2.36*	*2.27*	*2.36*	*2.41*	*2.35*
Brazil	*2.04*	*2.06*	*2.12*	*2.21*	*2.18*	*2.14*	*2.09*	*2.16*	*2.24*	*2.22*	*2.18*	*2.13*	*2.21*	*2.28*	*2.26*	*2.22*
India	*2.47*	*2.66*	*2.64*	*2.46*	*2.61*	*2.59*	*2.77*	*2.63*	*2.51*	*2.72*	*2.66*	*2.85*	*2.75*	*2.61*	*2.80*	*2.75*
Annual Change (% per annum)																
North America	1.7	3.1	4.1	2.9	3.5	3.4	1.2	0.4	1.6	1.5	1.2	1.5	1.4	1.3	1.3	1.4
Europe	1.0	1.1	0.1	0.6	2.1	1.0	-0.4	0.8	0.5	0.2	0.3	0.1	-0.1	0.2	0.0	0.0
Pacific	1.5	-4.2	-2.4	2.8	-3.2	-1.9	2.2	2.2	0.3	2.1	1.7	0.2	0.3	1.0	1.3	0.7
Total OECD	1.4	1.0	1.7	2.1	1.8	1.7	0.9	0.8	1.0	1.2	1.0	0.8	0.8	0.9	0.9	0.8
FSU	3.4	-8.4	15.8	9.0	2.6	4.2	6.3	-3.5	-1.8	2.2	0.7	1.6	0.7	1.3	1.1	1.2
Europe	3.8	2.5	2.5	3.0	3.1	2.8	2.6	2.6	2.6	2.7	2.6	2.5	2.5	2.5	2.5	2.5
China	11.0	18.0	23.4	9.2	12.0	15.4	4.3	-1.4	7.7	9.0	4.9	6.7	9.5	8.0	6.1	7.5
Other Asia	1.2	6.5	9.4	4.4	3.6	5.9	3.8	2.1	2.9	3.6	3.1	3.2	3.6	3.4	3.0	3.3
Latin America	-1.8	4.9	5.0	3.9	2.8	4.1	2.2	2.3	2.1	2.3	2.3	2.3	2.6	2.2	2.2	2.3
Middle East	1.9	5.3	8.9	5.5	4.7	6.0	5.1	5.3	5.0	5.2	5.2	5.3	5.3	4.8	5.1	5.1
Africa	1.6	2.2	3.0	3.1	2.6	2.7	3.3	3.3	3.1	3.3	3.2	3.2	3.2	3.1	3.1	3.1
Total Non-OECD	2.9	5.7	11.1	5.8	5.0	6.8	4.1	1.5	3.6	4.5	3.4	3.9	4.5	4.1	3.6	4.0
World	2.0	2.8	5.3	3.6	3.1	3.7	2.1	1.1	2.0	2.5	2.0	2.1	2.3	2.2	2.0	2.1
Annual Change (mb/d)																
North America	0.40	0.76	0.99	0.71	0.86	0.83	0.30	0.10	0.40	0.39	0.30	0.39	0.36	0.34	0.33	0.36
Europe	0.16	0.16	0.02	0.10	0.33	0.15	-0.06	0.12	0.08	0.03	0.04	0.01	-0.02	0.03	0.00	0.01
Pacific	0.13	-0.41	-0.19	0.23	-0.29	-0.16	0.20	0.18	0.02	0.19	0.14	0.02	0.02	0.08	0.12	0.06
Total OECD	0.69	0.51	0.81	1.03	0.90	0.82	0.44	0.40	0.50	0.61	0.49	0.42	0.37	0.45	0.44	0.42
FSU	0.12	-0.32	0.51	0.31	0.10	0.15	0.22	-0.13	-0.07	0.09	0.03	0.06	0.03	0.05	0.04	0.04
Europe	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
China	0.55	0.96	1.24	0.53	0.71	0.86	0.27	-0.09	0.49	0.59	0.32	0.44	0.61	0.54	0.44	0.51
Other Asia	0.09	0.51	0.74	0.35	0.30	0.47	0.32	0.19	0.24	0.31	0.27	0.28	0.32	0.29	0.27	0.29
Latin America	-0.08	0.22	0.23	0.19	0.13	0.19	0.11	0.11	0.11	0.11	0.11	0.11	0.13	0.11	0.11	0.11
Middle East	0.10	0.27	0.44	0.30	0.25	0.32	0.28	0.29	0.29	0.29	0.29	0.30	0.30	0.29	0.30	0.30
Africa	0.04	0.06	0.08	0.08	0.07	0.07	0.09	0.09	0.08	0.09	0.09	0.09	0.09	0.09	0.09	0.09
Total Non-OECD	0.85	1.72	3.27	1.78	1.59	2.09	1.31	0.48	1.16	1.51	1.12	1.30	1.50	1.39	1.27	1.36
World	1.54	2.24	4.08	2.81	2.48	2.90	1.75	0.87	1.66	2.13	1.60	1.72	1.86	1.84	1.71	1.78
Changes from Last Month's Report																
North America	-	0.01	-	-	-	-	0.06	0.02	-0.04	0.12	0.04	0.09	0.09	-0.04	0.13	0.07
Europe	-	0.01	-	-	-	-	0.02	0.02	0.01	-	0.01	0.01	0.01	-0.01	-	-
Pacific	-0.01	-	-	-	-	-	-	0.10	0.03	-	0.03	0.04	0.04	0.01	0.02	0.03
Total OECD	-0.01	0.02	-	-	-	-	0.08	0.14	-0.01	0.12	0.08	0.14	0.14	-0.05	0.15	0.10
FSU	-	-	-	-	-	-	-	-0.01	-0.08	0.05	-0.01	-0.09	-0.02	-0.01	0.06	-0.01
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-0.03	-0.12	-0.01	-0.04	-0.02	-0.02	-0.02	-0.02	-0.02
Other Asia	-	-0.01	-0.04	-	0.06	-	-	-0.06	-0.03	0.06	-0.01	-	-0.05	-	0.07	0.01
Latin America	-	0.01	-0.01	-0.01	0.01	-	0.03	0.04	-0.02	0.01	0.02	0.03	0.04	-0.02	0.01	0.02
Middle East	-0.17	-0.18	-0.18	-0.15	-0.21	-0.18	-0.19	-0.19	-0.16	-0.22	-0.19	-0.20	-0.20	-0.17	-0.24	-0.20
Africa	-	-0.01	-0.02	0.02	0.01	-	-0.02	-0.02	0.02	0.01	-	-0.02	-0.02	0.02	0.01	-
Total Non-OECD	-0.17	-0.18	-0.24	-0.15	-0.13	-0.18	-0.18	-0.27	-0.39	-0.10	-0.23	-0.28	-0.27	-0.20	-0.10	-0.21
World	-0.18	-0.17	-0.24	-0.15	-0.13	-0.17	-0.09	-0.13	-0.39	0.01	-0.15	-0.14	-0.13	-0.24	0.05	-0.12

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2004	2005	2006	1Q05	2Q05	3Q05	4Q05	1Q06	May 05	Jun 05	Jul 05
OPEC											
Crude Oil											
Saudi Arabia	8.75			8.92	9.21				9.26	9.22	9.27
Iran	3.93			3.87	3.96				4.00	4.00	4.05
Iraq	1.99			1.79	1.82				1.80	1.83	1.87
UAE	2.35			2.38	2.37				2.37	2.31	2.41
Kuwait	2.05			2.10	2.12				2.13	2.11	2.11
Neutral Zone	0.60			0.60	0.57				0.57	0.57	0.57
Qatar	0.78			0.78	0.78				0.78	0.79	0.80
Nigeria	2.32			2.36	2.43				2.42	2.45	2.48
Libya	1.55			1.61	1.65				1.65	1.65	1.65
Algeria	1.20			1.31	1.34				1.34	1.35	1.35
Venezuela	2.17			2.13	2.13				2.12	2.12	2.12
Indonesia	0.97			0.95	0.94				0.94	0.94	0.95
Total Crude Oil	28.65			28.78	29.32				29.37	29.32	29.60
Total NGLs[1]	4.32	4.78	5.16	4.69	4.70	4.83	4.91	5.06	4.73	4.75	4.82
Total OPEC	32.97			33.48	34.01				34.10	34.06	34.42
NON-OPEC[2]											
OECD											
North America	14.59	14.61	14.83	14.42	14.65	14.53	14.85	14.92	14.71	14.63	14.21
United States	7.67	7.77	7.75	7.73	7.78	7.76	7.82	7.82	7.81	7.78	7.62
Mexico	3.83	3.81	3.79	3.75	3.87	3.74	3.86	3.83	3.88	3.87	3.55
Canada	3.09	3.04	3.29	2.95	3.00	3.02	3.18	3.27	3.02	2.98	3.04
Europe	6.09	5.75	5.49	5.94	5.77	5.47	5.81	5.76	5.83	5.50	5.57
UK	2.05	1.89	1.69	2.00	1.93	1.75	1.87	1.81	1.92	1.89	1.79
Norway	3.19	3.01	3.00	3.08	2.99	2.88	3.12	3.14	3.05	2.77	2.92
Others	0.85	0.85	0.80	0.86	0.86	0.84	0.83	0.82	0.86	0.84	0.85
Pacific	0.58	0.57	0.57	0.55	0.56	0.58	0.59	0.58	0.57	0.57	0.56
Australia	0.54	0.53	0.53	0.50	0.52	0.53	0.55	0.54	0.53	0.52	0.52
Others	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Total OECD	21.26	20.93	20.89	20.91	20.98	20.57	21.26	21.26	21.11	20.70	20.34
NON-OECD											
Former USSR	11.22	11.60	12.09	11.42	11.47	11.66	11.83	11.87	11.44	11.46	11.59
Russia	9.23	9.49	9.78	9.34	9.37	9.54	9.68	9.67	9.36	9.42	9.48
Others	1.99	2.11	2.30	2.07	2.10	2.12	2.15	2.19	2.08	2.05	2.11
Asia	6.24	6.36	6.48	6.36	6.26	6.36	6.46	6.50	6.24	6.36	6.39
China	3.48	3.62	3.62	3.63	3.61	3.63	3.62	3.63	3.61	3.65	3.63
Malaysia	0.86	0.84	0.87	0.84	0.77	0.86	0.88	0.88	0.74	0.79	0.86
India	0.80	0.78	0.80	0.80	0.80	0.74	0.77	0.80	0.79	0.81	0.78
Others	1.10	1.12	1.19	1.08	1.07	1.14	1.20	1.20	1.10	1.11	1.12
Europe	0.17	0.16	0.15	0.16	0.16	0.16	0.15	0.15	0.16	0.16	0.16
Latin America	4.08	4.32	4.50	4.14	4.36	4.38	4.39	4.43	4.37	4.39	4.38
Brazil	1.80	2.02	2.26	1.85	2.03	2.07	2.11	2.17	2.03	2.06	2.06
Argentina	0.80	0.76	0.71	0.77	0.77	0.76	0.75	0.72	0.77	0.76	0.76
Colombia	0.53	0.52	0.50	0.53	0.53	0.51	0.49	0.50	0.53	0.52	0.52
Ecuador	0.53	0.55	0.55	0.53	0.54	0.55	0.56	0.56	0.56	0.55	0.55
Others	0.43	0.48	0.48	0.46	0.48	0.49	0.48	0.49	0.48	0.49	0.49
Middle East[3]	1.91	1.81	1.75	1.84	1.81	1.81	1.80	1.77	1.82	1.81	1.81
Oman	0.79	0.75	0.73	0.76	0.75	0.75	0.75	0.75	0.76	0.75	0.75
Syria	0.50	0.48	0.45	0.49	0.48	0.47	0.47	0.46	0.48	0.48	0.48
Yemen	0.42	0.38	0.36	0.39	0.38	0.39	0.38	0.37	0.38	0.38	0.39
Africa	3.40	3.74	4.27	3.57	3.62	3.80	3.97	4.11	3.63	3.63	3.74
Egypt	0.71	0.69	0.67	0.70	0.69	0.69	0.68	0.68	0.69	0.69	0.69
Angola	0.99	1.22	1.48	1.12	1.15	1.27	1.33	1.39	1.16	1.17	1.23
Gabon	0.24	0.23	0.23	0.23	0.23	0.24	0.24	0.24	0.23	0.23	0.23
Others	1.47	1.59	1.88	1.51	1.54	1.60	1.72	1.81	1.54	1.54	1.58
Total Non-OECD	27.01	27.99	29.23	27.49	27.68	28.16	28.61	28.83	27.66	27.80	28.06
Processing Gains[4]	1.83	1.86	1.90	1.88	1.85	1.84	1.88	1.92	1.84	1.84	1.84
TOTAL NON-OPEC	50.11	50.78	52.03	50.27	50.52	50.58	51.74	52.01	50.61	50.34	50.24
TOTAL SUPPLY	83.08			83.75	84.53				84.71	84.40	84.65

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Orimulsion Orinoco extra-heavy oil, and non-oil inputs to Saudi Arabian MTBE
2 Comprises crude oil, condensates, NGLs and oil from non-conventional sources
3 Includes small amounts of production from Israel, Jordan and Bahrain
4 Net volumetric gains and losses in refining (excludes net gain/loss in FSU, China and non-OECD Europe) and marine transportation losses

Table 4

OECD INDUSTRY STOCKS[1] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Feb2005	Mar2005	Apr2005	May2005	Jun2005*	Jun2002	Jun2003	Jun2004	3Q2004	4Q2004	1Q2005	2Q2005
North America												
Crude	425.8	432.8	447.5	450.8	446.6	428.0	397.8	418.4	-0.26	0.07	0.36	0.15
Motor Gasoline	258.2	244.8	243.2	247.4	246.1	246.8	236.9	237.9	-0.04	0.11	0.00	0.01
Middle Distillate	189.7	175.3	175.0	181.1	191.7	204.2	182.4	182.6	0.14	0.04	-0.26	0.18
Residual Fuel Oil	50.0	48.8	44.5	45.4	45.6	41.7	43.5	45.2	-0.04	0.10	-0.02	-0.04
Total Products[3]	652.4	626.0	636.1	667.8	692.8	681.5	637.3	629.7	0.26	0.01	-0.32	0.73
Total[4]	1221.5	1197.8	1219.2	1260.9	1279.8	1262.0	1185.6	1193.2	0.17	-0.09	-0.03	0.90
Europe												
Crude	333.0	347.2	343.1	363.0	360.8	324.5	327.2	339.2	-0.07	-0.09	0.25	0.15
Motor Gasoline	130.1	121.3	119.2	115.4	113.1	118.9	111.1	110.1	0.02	0.04	0.06	-0.09
Middle Distillate	239.5	246.0	249.9	254.2	252.8	257.3	233.4	234.1	0.17	-0.12	0.08	0.08
Residual Fuel Oil	69.9	68.6	70.1	75.6	74.5	69.8	67.5	77.4	-0.01	-0.03	-0.06	0.07
Total Products[3]	542.1	540.9	542.5	547.2	542.3	553.8	517.0	520.5	0.22	-0.10	0.10	0.02
Total[4]	945.2	962.1	960.6	983.0	974.9	942.8	913.1	929.5	0.15	-0.20	0.41	0.14
Pacific												
Crude	168.4	169.0	158.5	171.3	170.4	173.6	188.8	176.6	-0.09	0.03	-0.02	0.02
Motor Gasoline	27.1	25.2	25.7	25.7	23.4	26.3	25.3	24.6	-0.01	0.00	0.01	-0.02
Middle Distillate	58.2	48.8	55.1	62.5	58.7	75.0	71.6	60.3	0.16	0.00	-0.29	0.11
Residual Fuel Oil	21.6	21.2	21.5	24.7	23.6	24.9	24.8	22.6	-0.01	0.01	-0.01	0.03
Total Products[3]	171.3	154.9	164.3	177.9	172.0	194.1	190.4	172.3	0.15	0.02	-0.37	0.19
Total[4]	407.0	389.5	392.0	422.0	414.4	446.6	452.3	419.5	0.11	0.01	-0.45	0.27
Total OECD												
Crude	927.3	949.0	949.1	985.1	977.7	926.1	913.7	934.1	-0.42	0.00	0.59	0.32
Motor Gasoline	415.4	391.3	388.1	388.5	382.6	392.0	373.3	372.6	-0.03	0.16	0.07	-0.10
Middle Distillate	487.3	470.0	479.9	497.7	503.2	536.5	487.5	477.0	0.47	-0.08	-0.48	0.37
Residual Fuel Oil	141.5	138.6	136.2	145.7	143.7	136.4	135.7	145.1	-0.07	0.08	-0.09	0.06
Total Products[3]	1365.8	1321.8	1342.9	1392.9	1407.1	1429.4	1344.6	1322.5	0.64	-0.07	-0.59	0.94
Total[4]	2573.7	2549.4	2571.8	2665.8	2669.2	2651.3	2550.9	2542.2	0.44	-0.28	-0.08	1.32

OECD GOVERNMENT-CONTROLLED STOCKS[5] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Feb2005	Mar2005	Apr2005	May2005	Jun2005*	Jun2002	Jun2003	Jun2004	3Q2004	4Q2004	1Q2005	2Q2005
North America												
Crude	682.0	688.2	691.9	693.9	696.5	576.5	608.5	662.4	0.09	0.06	0.14	0.09
Products	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.00	0.00	0.00	0.00
Europe												
Crude	160.5	160.3	160.9	160.9	160.9	145.7	154.3	157.9	0.00	0.07	-0.04	0.01
Products	209.1	209.4	206.0	206.7	206.7	202.3	203.7	204.9	0.00	0.00	0.04	-0.03
Pacific												
Crude	384.5	384.5	384.5	384.5	383.5	380.8	383.0	386.8	-0.02	0.00	0.00	-0.01
Products	11.0	11.0	11.0	11.0	11.1	7.3	9.6	11.0	0.00	0.00	0.00	0.00
Total OECD												
Crude	1227.0	1233.0	1237.3	1239.3	1240.9	1102.9	1145.8	1207.1	0.06	0.12	0.10	0.09
Products	222.2	222.4	219.1	219.7	219.8	211.6	215.3	218.0	0.00	0.00	0.04	-0.03
Total[4]	1450.2	1456.4	1457.3	1460.1	1461.7	1315.5	1362.1	1426.0	0.07	0.13	0.14	0.06

* estimated

1 Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) and include stocks held by industry to meet IEA, EU and national emergency reserve commitments and are subject to government control in emergencies.

2 Closing stock levels.

3 Total products includes gasoline, middle distillates, fuel oil and other products.

4 Total includes NGLs, refinery feedstocks, additives/oxygenates and other hydrocarbons.

5 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.

Table 5

TOTAL STOCKS ON LAND IN OECD COUNTRIES[1]

('millions of barrels' and 'days')

	End June 2004		End September 2004		End December 2004		End March 2005		End June 2005 [3]	
	Stock Level	Days Fwd[2] Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand
North America										
Canada	163.1	71	174.3	74	168.1	72	162.8	-	-	-
Mexico	39.5	20	41.4	21	41.3	21	44.2	-	-	-
United States[4]	1632.9	78	1643.5	78	1646.8	80	1658.8	-	-	-
Total[5]	1857.6	73	1881.3	73	1878.4	74	1887.9	75	1978.4	77
Pacific										
Australia	34.9	39	34.3	38	33.2	38	34.8	-	-	-
Japan	622.0	121	632.0	116	635.3	105	604.9	-	-	-
Korea	152.9	76	152.1	67	149.4	62	137.4	-	-	-
New Zealand	7.7	52	7.1	48	8.0	49	7.9	-	-	-
Total	817.4	100	825.5	94	825.9	87	785.0	97	809.0	99
Europe[6]										
Austria	20.3	66	20.2	70	21.0	77	20.8	-	-	-
Belgium	26.5	46	27.7	39	27.2	40	26.9	-	-	-
Czech Republic	15.9	73	16.9	81	16.3	86	17.0	-	-	-
Denmark	15.8	89	18.1	94	16.2	86	16.3	-	-	-
Finland	23.4	106	24.0	105	24.4	110	26.2	-	-	-
France	183.5	94	188.5	94	186.2	90	187.4	-	-	-
Germany	267.1	99	264.1	97	267.2	106	280.5	-	-	-
Greece	30.8	78	34.1	76	35.7	77	35.7	-	-	-
Hungary	20.1	152	18.7	128	17.8	140	21.1	-	-	-
Ireland	10.7	63	11.1	60	11.7	60	10.6	-	-	-
Italy	134.6	71	138.7	73	135.8	73	133.7	-	-	-
Luxembourg	1.0	16	0.9	14	0.9	14	0.9	-	-	-
Netherlands	102.3	110	110.2	113	108.3	109	109.4	-	-	-
Norway	30.0	131	23.3	84	24.0	98	26.6	-	-	-
Poland	30.1	64	31.1	66	30.6	74	33.9	-	-	-
Portugal	26.2	76	25.0	73	24.3	68	25.6	-	-	-
Slovak Republic	6.5	88	5.9	81	6.0	92	6.8	-	-	-
Spain	127.3	82	126.8	79	119.8	72	126.7	-	-	-
Sweden	31.1	88	31.5	87	33.8	93	32.0	-	-	-
Switzerland	37.5	138	37.8	135	36.3	131	37.1	-	-	-
Turkey	54.8	78	55.2	82	55.9	101	55.4	-	-	-
United Kingdom	97.6	54	97.7	55	96.8	56	102.2	-	-	-
Total	1293.2	83	1307.6	82	1296.1	83	1332.8	87	1343.5	86
Total OECD	3968.2	81	4014.4	80	4000.3	79	4005.7	82	4130.9	83
DAYS OF IEA Net Imports[7]	-	113	-	114	-	114	-	114	-	-

1 Total Stocks are industry and government-controlled stocks (see breakdown in table below). Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) they include stocks held by industry to meet IEA, EU and national emergency reserves commitments and are subject to government control in emergencies.
2 Note that days of forward demand represent the stock level divided by the forward quarter average daily demand and is very different from the days of net imports used for the calculation of IEA Emergency Reserves.
3 End June 2005 forward demand figures are IEA Secretariat forecasts.
4 US figures exclude US territories.
5 Total includes US territories.
6 Data not available for Iceland.
7 Reflects stock levels and prior calendar year's net imports adjusted according to IEA emergency reserve definitions. Net exporting IEA countries are excluded.

TOTAL OECD STOCKS

CLOSING STOCKS	Total	Government[1] controlled	Industry	Total	Government[1] controlled	Industry
	Millions of Barrels			*Days of Fwd. Demand[2]*		
2Q2002	3967	1316	2651	83	28	55
3Q2002	3897	1321	2576	79	27	52
4Q2002	3821	1345	2476	77	27	50
1Q2003	3787	1359	2428	80	29	51
2Q2003	3913	1362	2551	81	28	53
3Q2003	3981	1380	2601	80	28	52
4Q2003	3924	1408	2516	78	28	50
1Q2004	3887	1421	2467	81	29	51
2Q2004	3968	1426	2542	81	29	52
3Q2004	4014	1432	2582	80	28	51
4Q2004	4000	1444	2556	79	29	51
1Q2005	4006	1456	2549	82	30	53
2Q2005	4131	1462	2669	83	29	54

1 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.
2 Days of forward demand calculated using actual demand except in 2Q2005 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	Mar 05	Apr 05	May 05	Year Earlier May 04	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.64	0.55	0.56	0.56	0.52	0.45	0.42	0.42	0.54	0.47	0.07
Europe	0.92	1.00	1.03	1.05	1.04	1.08	0.88	0.76	0.83	0.92	0.98	-0.06
Pacific	1.22	1.18	1.24	1.13	1.23	1.47	1.40	1.33	1.17	1.29	1.07	0.22
Saudi Medium												
North America	0.70	0.83	0.80	0.73	0.86	0.90	0.97	1.00	0.92	0.77	0.77	0.00
Europe	0.11	0.11	0.11	0.07	0.11	0.16	0.12	0.11	0.13	0.13	0.08	0.05
Pacific	0.16	0.24	0.23	0.20	0.18	0.23	0.21	0.21	0.24	0.22	0.25	-0.03
Saudi Heavy												
North America	0.20	0.30	0.22	0.14	0.30	0.26	0.18	0.15	0.11	0.20	0.12	0.08
Europe	0.09	0.19	0.23	0.26	0.31	0.20	0.19	0.19	0.18	0.18	0.20	-0.02
Pacific	0.12	0.16	0.15	0.13	0.16	0.18	0.25	0.33	0.19	0.21	0.07	0.14
Iraqi Basrah Light[2]												
North America	0.35	0.44	0.71	0.74	0.68	0.67	0.56	0.53	0.66	0.86	0.66	0.20
Europe	0.08	0.09	0.21	0.27	0.21	0.13	0.19	0.24	0.22	0.20	0.43	-0.23
Pacific	0.02	0.03	0.12	0.08	0.12	0.15	0.07	..	0.13	..	0.07	..
Iraqi Kirkuk												
North America	0.14	0.06	0.02	0.04	0.01	0.01	..	..	..	..	..	..
Europe	0.32	0.12	0.08	0.07	0.03	0.16	0.02	0.02	0.02	0.02	0.05	-0.03
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.17	0.19	0.24	0.23	0.23	0.27	0.23	0.24	0.22	0.17	0.19	-0.02
Pacific	0.12	0.17	0.16	0.13	0.16	0.16	0.19	0.23	0.10	0.15	0.12	0.03
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.44	0.59	0.57	0.61	0.65	0.54	0.62	0.48	0.64	0.66	0.52	0.13
Pacific	0.54	0.69	0.65	0.65	0.58	0.63	0.76	0.82	0.67	0.60	0.66	-0.05
Venezuelan Light & Medium												
North America	0.68	0.69	0.67	0.78	0.64	0.63	0.78	0.80	0.88	0.93	0.74	0.19
Europe	0.08	0.02	0.01	0.02	0.02	0.01	0.02	..	0.02	0.01	0.02	0.00
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.55	0.60	0.88	0.91	0.86	0.95	0.83	0.79	0.95	0.71	0.95	-0.24
Europe	0.05	0.06	0.05	0.07	0.06	0.04	0.06	0.05	0.06	0.04	0.07	-0.04
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	0.92	1.32	1.36	1.43	1.34	1.37	1.30	1.30	1.29	1.41	1.46	-0.05
Europe	0.17	0.16	0.16	0.19	0.20	0.13	0.18	0.15	0.12	0.22	0.17	0.05
Pacific	0.00	0.00	0.00	..	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.01	0.00	..	..	..	..	0.01	0.01	..	..	..	..
Europe	0.01	0.00	0.01	..	..	0.02	0.02	0.03	..	..	..	..
Pacific	0.01	0.00	0.00	..	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.03	0.14	0.12	0.14	0.12	0.21	0.14	0.18	0.34	0.03	0.07	-0.04
Europe	1.32	1.62	1.86	1.98	1.78	1.56	1.72	1.85	1.97	2.21	1.95	0.26
Pacific	0.01	0.00	0.01	0.01	0.01	..	..	..	0.00	..	0.03	..
Nigerian Light[4]												
North America	0.38	0.63	0.80	0.90	0.78	0.73	0.87	0.79	0.86	0.99	0.88	0.11
Europe	0.32	0.41	0.28	0.22	0.30	0.30	0.30	0.22	0.24	0.30	0.16	0.14
Pacific	0.06	0.08	0.11	0.10	0.09	0.13	0.06	0.05	0.06	0.06	0.12	-0.06
Nigerian Medium												
North America	0.16	0.17	0.23	0.21	0.22	0.20	0.18	..	0.22	0.13	0.11	0.02
Europe	0.06	0.06	0.04	0.04	0.05	0.02	0.07	0.08	0.00	0.06	0.02	0.03
Pacific	0.01	0.01	0.01	..	..	..	0.03	0.08	0.03	0.03	..	..

1 Data based on monthly submissions from IEA countries to the crude oil import register (in '000 bbl), subject to availability. May differ from Table 8 of the Report.
IEA North America includes United States and Canada.
IEA Europe includes all countries in OECD Europe except Hungary, Poland and the Slovak Republic.
IEA Pacific data includes Australia, New Zealand, Korea and Japan.

2 Iraqi Total minus Kirkuk.

3 Iranian Total minus Iranian Light.

4 33 API and lighter (e.g., Bonny Light, Escravos, Qua Iboe and Oso Condensate).

Table 7
Regional OECD Imports[1,2]
(thousand barrels per day)

	2002	2003	2004	2Q2004	3Q2004	4Q2004	1Q2005	Mar-05	Apr-05	May-05	Year Earlier May-04	Year Earlier % change
Crude Oil												
North America	7584	8069	8394	8557	8547	8442	8577	8588	8618	8189	8637	-5%
Europe	8725	9087	9487	9499	9664	9519	9687	9112	9311	10185	9360	8%
Pacific	6422	6711	6659	6170	6457	6998	7166	7264	6297	6642	6150	7%
Total OECD	22731	23867	24540	24226	24668	24960	25430	24965	24227	25015	24146	3%
LPG												
North America	39	27	24	14	20	45	23	20	7	0	4	-
Europe	225	193	232	195	215	267	293	280	183	155	171	-10%
Pacific	553	541	541	585	469	561	532	537	619	604	655	-9%
Total OECD	817	760	796	794	705	874	848	837	809	759	830	-9%
Naphtha												
North America	42	67	86	51	96	144	124	142	81	96	50	48%
Europe	298	305	292	326	243	268	279	289	209	260	330	-27%
Pacific	705	770	769	761	787	748	772	755	791	741	762	-3%
Total OECD	1045	1142	1148	1139	1126	1160	1175	1185	1081	1096	1142	-4%
Gasoline[3]												
North America	643	669	765	865	806	744	849	823	972	983	836	15%
Europe	152	150	164	157	132	163	172	152	132	144	153	-6%
Pacific	58	70	105	118	90	106	95	107	109	142	113	21%
Total OECD	853	888	1034	1140	1028	1014	1115	1082	1213	1269	1101	13%
Jet & Kerosene												
North America	97	97	88	102	88	116	67	89	42	47	121	-160%
Europe	253	271	252	233	307	259	274	259	349	329	188	43%
Pacific	97	102	77	60	52	103	97	110	77	83	61	27%
Total OECD	448	470	417	395	447	478	438	458	468	459	370	19%
Gasoil/Diesel												
North America	102	126	122	92	108	91	110	54	77	105	102	3%
Europe	656	652	732	647	756	849	930	1038	735	576	502	13%
Pacific	53	73	74	92	79	66	60	63	95	101	106	-5%
Total OECD	811	850	928	831	943	1006	1101	1154	907	782	710	9%
Heavy Fuel Oil												
North America	237	326	388	317	346	524	489	438	432	401	334	17%
Europe	470	398	411	435	448	404	415	522	622	527	359	32%
Pacific	89	88	76	77	87	64	83	84	83	96	96	0%
Total OECD	796	812	876	828	882	992	988	1044	1137	1024	788	23%
Other Products												
North America	689	680	824	701	951	774	735	690	890	1039	727	30%
Europe	735	690	689	702	709	687	734	843	868	758	623	18%
Pacific	256	235	256	265	261	252	254	236	309	208	275	-32%
Total OECD	1681	1605	1770	1667	1920	1713	1724	1770	2067	2006	1625	19%
Total Products												
North America	1849	1991	2297	2140	2416	2439	2399	2257	2500	2670	2173	19%
Europe	2790	2657	2773	2694	2810	2896	3098	3382	3098	2749	2326	15%
Pacific	1811	1879	1898	1958	1825	1901	1894	1892	2084	1976	2068	-5%
Total OECD	6451	6527	6968	6793	7051	7236	7391	7531	7682	7394	6566	11%
Total Oil												
North America	9434	10061	10691	10698	10963	10881	10976	10845	11118	10858	10810	0%
Europe	11515	11744	12259	12193	12474	12415	12785	12494	12409	12934	11685	10%
Pacific	8233	8590	8558	8128	8282	8899	9059	9156	8382	8617	8217	5%
Total OECD	29181	30394	31508	31019	31720	32196	32821	32496	31909	32409	30712	5%

1 Based on Monthly Oil Questionnaire data submitted by OECD countries in tonnes and converted to barrels.

2 Excludes intra-regional trade

3 Includes additives

OIL MARKET REPORT CONTACTS

Editor/Prices	Lawrence Eagles (+33) 0*1 40 57 65 90 e-mail: lawrence.eagles@iea.org
Demand	Jeff Brown (+33) 0*1 40 57 65 93 e-mail: jeff.brown@iea.org
Supply	David Fyfe (+33) 0*1 40 57 65 94 e-mail: david.fyfe@iea.org
OECD Stocks/Refinery Activity	Harry Tchilinguirian (+33) 0*1 40 57 65 22 e-mail: harry.tchilinguirian@iea.org
Freight/Trade/End-User Prices	Toril Ekeland Bosoni (+33) 0*1 40 57 66 36 e-mail: toril.bosoni@iea.org
Statistics	James Ryder (+33) 0*1 40 57 66 18 e-mail: james.ryder@iea.org
Administrative Support	Anne Mayne (+33) 0*1 40 57 65 96 e-mail: anne.mayne@iea.org

Fax: *(+33) 0*1 40 57 65 99/40 57 65 09*

* 0 only within France

For all **Subscription and Delivery Enquiries** please contact:

International Energy Agency
Attn: Ms. Sandra Coleman
Oil Market Report Subscriptions
BP 586-75726 Paris Cedex 15, France

Tel. +33 (0) 1 40 57 65 57
Fax. +33 (0) 1 40 57 65 59

E-mail: sandra.coleman@iea.org

User's Guide to the IEA Oil Market Report

Readers are referred to the User's Guide, published in conjunction with the Annual Statistical Supplement (current issue dated 11 August 2005), for information on the data sources, definitions, technical terms and general approach used in preparing the Report. It should be noted that the spot crude and product price assessments are based on daily Platt's prices, converted when appropriate to US$ per barrel according to the Platt's specification of products (©2005 Platt's - a division of McGraw-Hill Inc.).

INTERNATIONAL ENERGY AGENCY/AGENCE INTERNATIONALE DE L'ENERGIE

OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

www.oilmarketreport.org

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

9 September 2005

HIGHLIGHTS

- Hurricane Katrina shuttered production capacity of over 1.4 mb/d of oil and 8.8 bcf/d of natural gas and disrupted refineries with a total capacity of around 3 mb/d when it hit the Eastern Gulf of Mexico on 29 August. While a definitive assessment is not yet possible, recovery profiles suggest a potential loss of 38 mb of products in September and up to 70 mb of crude and NGLs through to early 2006.

- US gasoline prices jumped to over $100/bbl in Katrina's wake. The price impact swiftly spread as an estimated 25 cargoes of gasoline were pulled from Europe. Tightness has extended to jet and gasoil prices as traders anticipate a contra-seasonal emphasis on gasoline production by US and other refiners.

- World oil supply increased by 440 kb/d in August to 84.9 mb/d. Hurricane Katrina has left 860 kb/d of US GOM oil production shut in. Despite uncertainty over the actual recovery path after Katrina, non-OPEC supply is adjusted down accordingly, growth now averaging 500 kb/d in 2005, but recovering to 1.4 mb/d in 2006.

- OPEC August crude supply averaged 29.7 mb/d, up by 80 kb/d vs. July. Iraqi exports remain prone to disruption, and fell to 1.48 mb/d. The call on OPEC crude and stock change averages 28.1 mb/d for 2005, peaking at 29.1 mb/d in the fourth quarter, below current OPEC output. Downward adjustments to demand hold the 2006 call on OPEC crude and stock change at 28.1 mb/d.

- Projected 2005 global demand growth is revised down by 250 kb/d, to 1.35 mb/d. OECD demand was below expectations in July and Chinese apparent demand remains weak. This change is only partly attributable to Katrina, as regional demand is expected to recover fairly quickly.

- OECD total industry oil stocks rose by 24.7 mb in July, closing 102 mb above last year. This followed from a rise in distillates inventories and large builds in North American 'other products'. Forward demand cover remained at 54 days, two days higher than a year ago.

Next Issue: 11 October 2005

CONTENTS

ASSESSING KATRINA

With the benefit of an immense data-gathering exercise by the US Energy Information Administration and operators in the area, the market was in a position to make a fairly rapid assessment of the supply disruption caused by Hurricane Katrina.

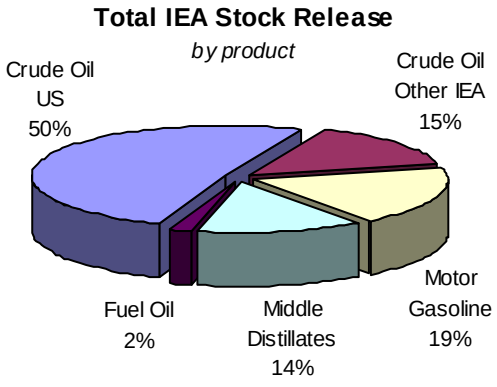
At its peak, 1.4 mb/d of Gulf of Mexico oil production was reported shut in and 14 refineries were affected. Equally important, key pipelines were closed, with problems spilling over to shipping and other forms of oil transportation. Many of the effects are expected to be temporary and readily repairable: some refineries are already returning to full or partial operation, others will take time to fix.

In the days after Katrina, it became obvious that there was a need for a prompt global response. Based on the information on hand at that time, the IEA estimated that the storm had the potential to reduce US product supply by close to 38 million barrels over September, with an estimated 33 million barrels of crude oil production shut-in.

Much in the same way that economic dislocations in one country can spread to others through financial market interlinkage, this localised oil disruption very quickly began to be felt throughout the rest of the world. As a result, gasoline prices in Europe jumped by about a third and by over 13% in Asia. The markets acted swiftly to draw spare product from Europe, the FSU, the Caribbean, South America and Middle East to the US. Around 25 cargoes of gasoline were believed to have been fixed following the storm from Europe alone and others already on water were diverted. The extent of the market response was underscored by clean tanker rates for medium range vessels between Europe and the US rising from Worldscale (WS) 250 to WS 465.

But the market mechanism does not stop there. It is also embedded in the IEA emergency response system. This itself has considerable flexibility through stock release, the removal of the IEA's obligation to hold 90 days of net import demand and in some cases other measures such as demand restraint. Thus IEA member countries may react in the most appropriate way according to regional market conditions. For instance, while the US SPR release is focussing on offsetting the crude output lost in the Gulf of Mexico and the immediate needs of refiners, other governments have, according to the IEA Secretariat's suggestion, offered products. But the market itself will largely determine the level of uptake and therefore the final crude and product mix of this emergency response. More importantly, the market will determine where it is needed most.

Similarly, the market can also be relied upon as an efficient delivery mechanism. Shipping insiders are reporting that the rise in clean freight rates is leading to OBO ships (oil, bulk, ore), whose last cargo was dry, shifting into the clean product sector. There are also reports that around 15 tankers used for crude and fuel oil movement are now being cleaned to transport products.



In a sense, the IEA has acted to add liquidity to the world oil market through the release of stocks to cover a supply interruption that cannot be covered by alternative supplies. How this liquidity will be used is a task for the market. Refiners may be in a position to expand throughput via the timely acquisition of the right type of crude oil, or perhaps to increase blending. Similarly, they may be able to maximise gasoline production if they can use strategic stocks to supplement their existing distillate commitments. Crude and products released from strategic stocks will ultimately move to where they are needed most, be that to the US or to cover for arbitrage cargoes leaving other regions.

It is critical that a response be swift, but also flexible. The initial response is to make available to the market 2.0 million barrels per day for 30 days, with the emphasis on product supply (particularly gasoline) outside of the US. But given that our assessment could be overly optimistic or pessimistic, member countries will meet on 15 September to assess the response – with a view either to adding more, trimming supplies, or prolonging the action. Ultimately much will depend on the recovery of US refining and production facilities on the US Gulf Coast.

DEMAND

Summary

- It is too early to fully assess the demand-side impact of **Hurricane Katrina**. Regional oil product demand will be seriously affected in the near term, but this will be offset by fuel needs for rescue/recovery and rebuilding efforts. The global impact of the initial price spike appears to have been mitigated by the return of some upstream and downstream facilities (although the picture is far from clear) and the stock release of IEA Member countries, as product prices have fallen. US demand is projected to be off by some 200 kb/d in September versus its pre-Katrina trend, but the impact is expected to diminish quickly in subsequent months.
- Projected 2005 **global demand growth** is revised down by some 250 kb/d, to 1.35 mb/d, due to a weakening demand picture in many areas. Note that this change is only partly attributable to Katrina. OECD demand was much weaker than expected in July, Chinese apparent demand has remained weak in comparison to 2004 and 'Other Asia' continues to struggle with the impact of high prices. In 2006 demand growth remains largely unchanged at 1.77 mb/d. A somewhat weaker outlook for Chinese and 'Other Asia' demand growth is counterbalanced by the prospects of a year-on-year rebound from the impact of Katrina, which is largely temporary.
- **Baseline global demand** is revised down by 250 kb/d in 2005 and 260 kb/d in 2006. Global demand is projected to average 83.48 mb/d in 2005 and 85.25 mb/d in 2006.

Global Oil Demand from 2004 to 2006

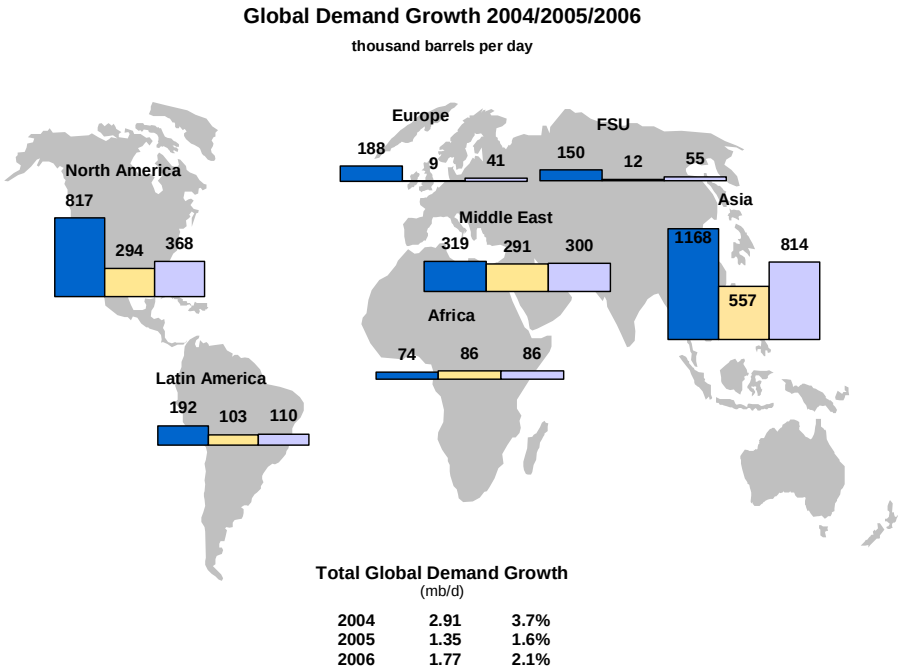
	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
Demand (mb/d)	82.1	80.9	81.7	83.8	82.1	83.8	81.9	82.6	85.6	83.5	85.4	83.4	84.9	87.3	85.3
Annual Change (%)	2.8	5.3	3.6	3.1	3.7	2.1	1.2	1.2	2.1	1.6	1.8	1.8	2.7	2.1	2.1
Annual Change (mb/d)	2.3	4.1	2.8	2.5	2.9	1.7	1.0	0.9	1.8	1.4	1.5	1.5	2.3	1.8	1.8
Changes from last month's report (mb/d)	-	-	-	-	-	-	0.1	-0.7	-0.3	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3

- Preliminary indications are that year-on-year **OECD demand growth** was weaker than expected in July. This may be attributed in part to a decline in utilities' oil demand as a result of milder temperatures and interfuel substitution. However, it is also possibly indicative of the impact of high prices. Among the seven major OECD consumers from which preliminary data were received, demand growth was off in all except Korea. Overall, OECD demand growth is revised down by 60 kb/d in 2005. Growth is revised upwards by 40 kb/d in 2006, in part due to a rebound from Katrina.

Global Oil Demand by Region
(million barrels per day)

	Demand	Annual Change			Annual Change (%)		
	2005	2004	2005	2006	2004	2005	2006
North America	25.64	0.82	0.29	0.37	3.3	1.2	1.4
Europe	16.31	0.19	0.01	0.04	1.2	0.1	0.3
OECD Pacific	8.66	-0.16	0.13	0.07	-1.9	1.5	0.8
China	6.65	0.86	0.22	0.50	15.4	3.4	7.5
Other Asia	8.74	0.47	0.21	0.25	5.9	2.5	2.9
Subtotal Asia	24.04	1.17	0.56	0.81	5.2	2.4	3.4
FSU	3.75	0.15	0.01	0.06	4.2	0.3	1.5
Middle East	5.88	0.32	0.29	0.30	6.0	5.2	5.1
Africa	2.89	0.07	0.09	0.09	2.7	3.1	3.0
Latin America	4.96	0.19	0.10	0.11	4.1	2.1	2.2
World	83.48	2.91	1.35	1.77	3.7	1.6	2.1

- **Chinese apparent demand** continues to be relatively weak, especially when compared to robust economic growth. However, it is clear that underlying potential product demand exceeds supply at government mandated retail prices. Severe supply shortages emerged in August and rationing was instituted in some areas. The shortages have subsided, but the incentive for supplying the domestic market remains weak in the face of higher international prices. In response, the government has chosen to temporarily eliminate product export tax breaks and halt crude processing agreements in an effort to keep oil products in the domestic market. There are indications that there will be some recovery starting in September, but on the whole, the outlook for 2005 demand growth is revised down by 100 kb/d, to 220 kb/d. Chinese demand is expected to grow by 500 kb/d in 2006, but the prospects for a rebound in fuel oil demand remain slim.



- **'Other Asia' demand growth** is revised down by 50 kb/d in 2005 and 40 kb/d in 2006. These countries continue to struggle with the fiscal implications of subsidising product prices when international prices are high. In India, the impact of July flooding was more severe than expected and naphtha demand continues to decline.

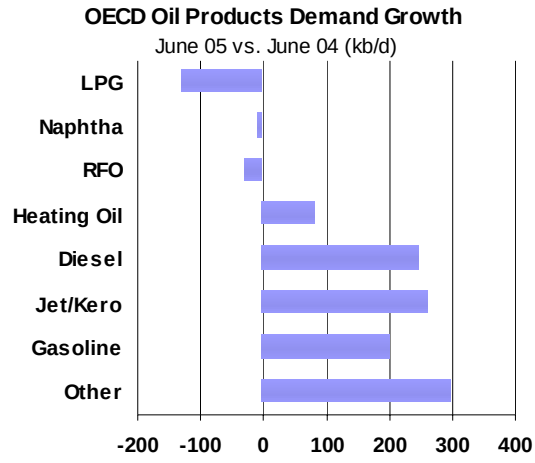
OECD

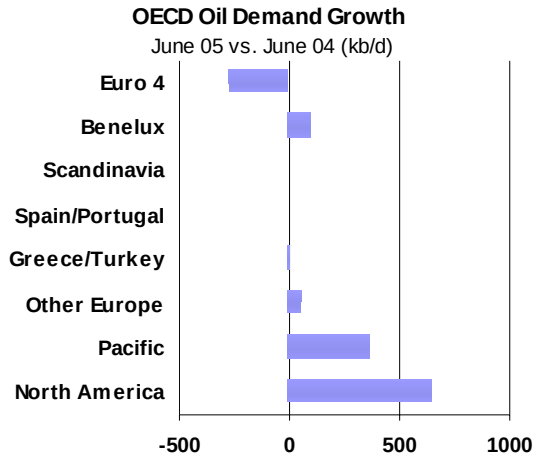
Overview of OECD Demand Trends

Preliminary Inland Deliveries – July 2005[1]

	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other[2]		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
United States[3]	9.46	1.1	1.66	0.3	3.05	2.6	0.94	9.8	0.86	-4.6	4.8	-5.9	20.80	-0.4
Mexico	0.65	0.9	0.06	1.6	0.31	1.9	0.00	na	0.34	-0.3	0.3	-8.5	1.70	-1.2
Japan	1.10	-4.5	0.31	3.3	0.64	-4.6	0.43	-4.5	0.44	-9.3	1.6	1.0	4.47	-2.7
Korea	0.16	-9.7	0.07	-17.6	0.32	-3.3	0.02	-12.0	0.22	-5.6	1.0	8.3	1.84	1.2
France	0.27	-7.9	0.14	0.0	0.64	-1.4	0.22	-9.3	0.04	-20.7	0.5	2.0	1.80	-3.0
Germany	0.56	-5.3	0.19	7.6	0.60	-1.9	0.44	-3.8	0.10	-13.1	0.5	-3.8	2.38	-3.3
Italy	0.33	-10.1	0.10	9.9	0.51	-1.0	0.07	-7.5	0.15	-23.5	0.4	-8.6	1.56	-7.3
Total	**12.52**	**-0.4**	**2.53**	**0.9**	**6.08**	**0.2**	**2.12**	**0.7**	**2.14**	**-7.4**	**9.2**	**-3.1**	**34.55**	**-1.3**

Sources: US EIA, Mexico PEMEX, Japan METI, Korea KNOC, France CPDP, Germany MWV, Italy Ministry of Industry
Percentage change is calculated versus the previous year
1 excludes refinery fuel and bunkers (except US)
2 includes direct use of crude oil
3 fifty states only. Diesel's share of total distillate is estimated. Note that monthly US demand data are subject to revision, as discussed in Reports dated 13 July 2005 and 11 August 2005





Total OECD Demand by Product
(million barrels per day)

	2004	2005	3Q04	4Q04	1Q05	2Q05	Apr 05	May 05	Jun 05	Latest month vs. May 05	Latest month vs. Jun 04
LPG & Ethane	4.86	4.79	4.42	5.03	5.39	4.30	4.44	4.12	4.33	0.21	-0.13
Naphtha	3.22	3.29	3.20	3.33	3.40	3.15	3.32	3.12	3.02	-0.11	-0.01
Motor Gasoline	14.88	14.96	15.24	14.89	14.46	15.09	14.96	14.94	15.37	0.43	0.20
Jet & Kerosene	4.10	4.22	3.92	4.23	4.62	3.90	3.91	3.81	4.00	0.19	0.26
Gas/Diesel Oil	12.85	13.04	12.45	13.40	13.38	12.63	12.80	12.36	12.73	0.37	0.33
Residual Fuel Oil	4.59	4.56	4.46	4.68	4.89	4.38	4.48	4.21	4.46	0.25	-0.03
Other Products	4.98	5.02	5.45	4.89	4.42	5.22	4.88	4.96	5.84	0.88	0.30
Total Products	**49.47**	**49.88**	**49.14**	**50.45**	**50.56**	**48.68**	**48.79**	**47.52**	**49.75**	**2.23**	**0.94**

Pacific

Preliminary data show that Japanese demand was weaker that expected in July. The average temperature in nine major cities was 1.9ºC lower than in July 2004, which contributed to reduced use of home/office and auto air conditioning. As a result, Japan's 10 major utilities are reported to have reduced power generation by some 7% in July. Utilities' consumption of oil fell as thermal power plants generated 13% less electricity in July than the same period last year. Direct burning of crude oil in power generation is reported to be about 53% below last July and consumption of fuel oil in the power sector fell by some 34%.

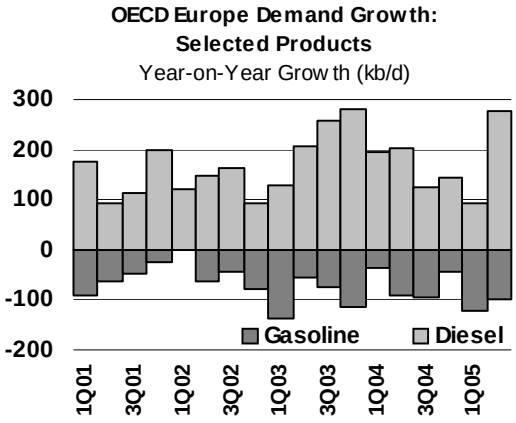
OECD Pacific Demand by Product
(million barrels per day)

	2004	2005	3Q04	4Q04	1Q05	2Q05	Apr 05	May 05	Jun 05	Latest month vs. May 05	Latest month vs. Jun 04
LPG & Ethane	0.88	0.89	0.79	0.88	1.00	0.86	0.94	0.82	0.82	-0.01	0.00
Naphtha	1.57	1.62	1.56	1.63	1.69	1.54	1.61	1.53	1.49	-0.04	0.00
Motor Gasoline	1.60	1.63	1.70	1.63	1.59	1.59	1.60	1.53	1.65	0.12	0.12
Jet & Kerosene	1.02	1.07	0.74	1.12	1.54	0.77	0.87	0.68	0.76	0.08	0.12
Gas/Diesel Oil	1.89	1.90	1.81	1.95	1.99	1.85	1.87	1.70	1.97	0.28	0.10
Residual Fuel Oil	1.05	1.04	1.03	1.05	1.17	0.98	1.04	0.91	1.00	0.09	0.00
Other Products	0.52	0.51	0.54	0.52	0.52	0.50	0.50	0.45	0.55	0.09	0.03
Total Products	**8.53**	**8.66**	**8.16**	**8.77**	**9.49**	**8.09**	**8.45**	**7.62**	**8.23**	**0.61**	**0.37**

Although the temporary price spike associated with Hurricane Katrina is expected to have a muted impact on Asian demand, there is certainly evidence that high prices are inhibiting economic growth in this oil import dependent region. Korea's finance minister recently announced that higher than expected oil prices may reduce economic growth by about one percent in 2005. On the whole, preliminary data indicate that Japanese and Korean demand fell by 1.7% in July. Gasoline, diesel and fuel oil were all substantially down.

Europe

Hurricane Katrina contributed to a spike in European oil product prices, especially for gasoline, as supplies were diverted to the US market. At this point, however, it appears that the impact should be temporary as prices have now fallen back. Overall, although high fuel taxes have mitigated the impact of the oil price rise on European fuel demand, there are signs that high prices are affecting consumption at the margin. In Italy, recent reports highlight the fact that there has been a substantial rise in rail passengers, especially on lines that serve commuters. Some have switched from cars to trains for their daily commute. As another example, Southern Europe has recently been turning to natural gas instead of relatively high priced fuel oil to make up for lost hydropower generation.



At the same time, however, in spite of retail fuel costs that are roughly double that of the US, Europe appears to be acquiring North America's enthusiasm for the SUV. In the first half of 2005, SUVs were the fastest growing segment in the western European market. Sales were up by 11%.

OECD Europe Demand by Product
(million barrels per day)

	2004	2005	3Q04	4Q04	1Q05	2Q05	Apr 05	May 05	Jun 05	Latest month vs. May 05	Latest month vs. Jun 04
LPG & Ethane	1.03	0.99	0.91	1.03	1.12	0.89	0.94	0.88	0.86	-0.02	-0.12
Naphtha	1.14	1.15	1.10	1.15	1.21	1.15	1.23	1.14	1.07	-0.07	0.02
Motor Gasoline	2.78	2.69	2.89	2.72	2.52	2.75	2.74	2.73	2.79	0.06	-0.09
Jet & Kerosene	1.16	1.22	1.25	1.16	1.14	1.24	1.18	1.25	1.29	0.05	0.13
Gas/Diesel Oil	5.98	6.05	5.83	6.37	6.17	5.78	5.90	5.67	5.78	0.11	0.05
Residual Fuel Oil	2.02	2.00	1.98	2.08	2.13	1.92	1.93	1.87	1.94	0.08	-0.01
Other Products	1.48	1.49	1.61	1.48	1.26	1.55	1.50	1.50	1.66	0.15	-0.06
Total Products	**15.59**	**15.59**	**15.57**	**15.99**	**15.54**	**15.28**	**15.43**	**15.04**	**15.39**	**0.35**	**-0.09**

With the exception of May, when demand rebounded sharply, German demand has been anaemic through 2005. The weakness may be attributed in part to consumers' reluctance to refill their heating oil tanks, but the industry also maintains that consumers are crossing the border to neighbouring countries where taxes are lower to refill their vehicle tanks. This is consistent with relatively strong demand for diesel in the Czech Republic and Poland.

North America

Hurricane Katrina is obviously of overwhelming importance in viewing recent developments in North American oil product demand, as discussed in 'Assessing the Impact of Hurricane Katrina'. However, there were several developments in the US market in the months prior to Katrina which also affect the regional demand picture. The preliminary assessment of June demand has been revised upwards by some 380 kb/d with the release of monthly data. This is in large part due to substantial upward revisions to 'other products'. Note, however, that the demand for key transport fuels such as gasoline and jet fuel was revised down.

Early indications are that July demand was relatively flat, growing by 0.6%. Gasoline demand grew by a preliminary 1.8% (monthly US demand data are adjusted for likely future revisions, as discussed in the Reports of 13 July 2005 and 11 August 2005). Prior to Katrina, preliminary August data showed fairly strong growth. This is attributed in part to high temperatures, which helped spur utilities' demand for low-sulphur fuel oil. The high price of competing fuels, including natural gas and coal, also helped encourage the use of fuel oil.

OECD North America Demand by Product
(million barrels per day)

	2004	2005	3Q04	4Q04	1Q05	2Q05	Apr 05	May 05	Jun 05	Latest month vs. May 05	Latest month vs. Jun 04
LPG & Ethane	2.95	2.91	2.72	3.12	3.27	2.54	2.56	2.42	2.66	0.24	-0.01
Naphtha	0.50	0.52	0.54	0.56	0.50	0.47	0.48	0.46	0.46	0.01	-0.03
Motor Gasoline	10.50	10.65	10.65	10.55	10.35	10.74	10.62	10.68	10.93	0.25	0.18
Jet & Kerosene	1.91	1.93	1.93	1.96	1.94	1.89	1.85	1.88	1.95	0.07	0.02
Gas/Diesel Oil	4.98	5.09	4.81	5.08	5.22	5.00	5.03	4.99	4.98	-0.01	0.19
Residual Fuel Oil	1.51	1.52	1.46	1.54	1.60	1.48	1.51	1.43	1.52	0.09	-0.02
Other Products	2.98	3.02	3.30	2.89	2.65	3.17	2.87	3.00	3.64	0.64	0.33
Total Products	**25.34**	**25.64**	**25.41**	**25.69**	**25.53**	**25.30**	**24.92**	**24.86**	**26.13**	**1.27**	**0.66**

Assessing the Impact of Hurricane Katrina

Obviously it is too early to fully assess the demand-side impact of Hurricane Katrina, but there are clearly both localised and more wide-spread impacts that may be expected. It should be pointed out that the market is still adjusting to the hurricane, the industry recovery process and the subsequent IEA Member country response. Until the full extent of the price response becomes clear, it is prudent to adopt a cautious approach in revising projected demand.

For several weeks following Katrina, US product demand is likely to be down versus the pre-hurricane consumption trend. Economic activity has been severely disrupted in affected areas and retail prices have spiked, contributing to reduced demand nationwide. There have also been reports of regionalised product shortages, albeit likely short-lived, as product supplies were cut off. Some airline flights have also been cancelled.

Among the most affected areas, Louisiana and Mississippi oil product demand totals approximately 1.0 mb/d. About 260 kb/d of the states' consumption is gasoline and 480 kb/d is in the industrial sector. Roughly 100-200 kb/d of 'normal' consumption may be lost for a number of weeks. But this loss is likely to be counterbalanced to some extent by rescue/recovery operations and increased fuel use associated with the disruption of normal transportation routes.

Note that the distinction between actual oil product demand and deliveries will be especially important in assessing the impact of Katrina in the coming weeks. Product prices have fallen since the post-Katrina price spike, but at the retail level consumers are reported to remain wary of shortages. Consumers have signalled an inclination to top-off their tanks and maintain higher fill levels. This places added pressure on the distribution system. It also disrupts normal delivery patterns and makes it difficult to interpret preliminary delivery data.

Currently, Katrina is projected to reduce US demand by 200 kb/d on average in September due to storm damage and the temporary product price spike. Recent product price trends indicate that the near-term impact should subside relatively quickly throughout September as the clean-up accelerates. In October, demand is projected to be off by some 90 kb/d.

In terms of specific products, the demand for gasoline, diesel, and jet fuel have been affected but rescue/recovery efforts should mitigate this impact. Gasoline prices remain high, but October futures have returned to pre-hurricane levels. Katrina's impact should begin to fade in coming weeks as the market returns to balance. Natural gas supplies have been disrupted, and—where possible—fuel switching into diesel and fuel oil may have taken place. Some power plants may have drawn on emergency/back-up diesel inventories. The fact that there are wide-spread power outages would normally help mitigate the demands for oil in power, but early reports indicated that several nuclear power plants were taken down, so the demands on oil for power may have increased.

Looking beyond the near term, typically a disaster of this magnitude is followed by a reconstruction period which can boost economic activity and oil demand. However, the price spike that followed Katrina had many worried that high prices could stymie the demand rebound that might otherwise be expected. Among the concerns was that in recent months mid-market retailers have seen a notable drop-off in sales, which they have in part attributed to a reduction in purchasing power brought on by high oil prices. A protracted product price increase associated with Katrina would likely accelerate this trend.

Non-OECD

China

The tension between the Chinese government's desire to maintain product prices that are below the international market price and refiners reluctance to supply the domestic market at these prices came to a head in August. Widespread product shortages were reported and rationing of gasoline was instituted in many areas as refiners choose to export products rather than sell them in the domestic market. The shortages were also attributed in part to a typhoon that disrupted supplies moving from the northern part of China to southern consumers. In addition, there were reports of gasoline 'hoarding' in anticipation of possible further price increases. The supply disruptions have since subsided, but the underlying incentive to limit domestic supplies remains in place. Moreover, this incentive has been further accentuated by an increase in international product prices.

China Crude & Product Trade
(thousand barrels per day)

	2003	2004	3Q04	4Q04	1Q05	2Q05	May 05	Jun 05	Jul 05	Latest month vs. Jun 05	Latest month vs. Jul 04
Net Imports/(Exports) of:											
Crude Oil	**1664**	**2346**	**2232**	**2491**	**2305**	**2541**	**2406**	**2520**	**2421**	**-99**	**237**
Products & Feedstocks	**442**	**661**	**545**	**653**	**501**	**375**	**151**	**579**	**406**	**-173**	**-215**
Gasoil/Diesel	-28	43	21	79	-6	-27	-26	-10	-24	-15	-53
Gasoline	-175	-125	-146	-117	-151	-161	-183	-129	-155	-26	-33
Heavy Fuel Oil	407	506	412	515	480	395	261	508	401	-107	-46
LPG	202	201	222	184	200	179	115	215	175	-40	-74
Naphtha	-22	-33	-48	-51	-49	-67	-54	-79	-25	54	14
Jet & Kerosene	1	16	19	8	6	5	-7	11	-14	-25	-16
Other	58	52	64	34	22	51	45	63	49	-14	-7
Total	**2106**	**3008**	**2777**	**3144**	**2807**	**2916**	**2557**	**3100**	**2828**	**-272**	**22**

Sources: China Oil, Gas and Petrochemicals plus IEA estimates

At current retail prices, the underlying potential demand for key products, such as gasoline and diesel, is clearly stronger than apparent demand (defined as the sum of domestic refinery output and net product imports with adjustments for direct crude burning, smuggling and unreported refinery output). Rather than raising retail prices to restrict demand and encourage domestic supply, the government has chosen to eliminate a tax break that refiners receive when they export gasoline and naphtha. The refund of 11% of the 17% refund on the value added tax on gasoline and naphtha will extend through the end of 2005. The government also plans to halt approvals of new contracts for export processing of oil, which had allowed coastal refineries to refine crude and export products in return for a processing fee. These moves will certainly help limit the incentive to export products. However, it could also induce refiners to limit crude runs as their profits are further curtailed. For the moment, early indications of planned crude runs and product exports for September indicate that the government has been able to pressure refiners to maintain product output and limit exports.

China Demand by Product

	Demand (kb/d)			Annual Change (kb/d)		Annual Change (%)	
	2004	2005	2006	2005	2006	2005	2006
LPG & Ethane	633	643	680	10	37	1.5	5.8
Naphtha	684	718	796	34	78	4.9	10.9
Motor Gasoline	1069	1100	1202	31	102	2.9	9.2
Jet & Kerosene	239	252	274	13	22	5.3	8.9
Gas/Diesel Oil	2150	2283	2468	133	184	6.2	8.1
Residual Fuel Oil	829	785	806	-44	21	-5.4	2.7
Other Products	828	869	922	41	53	4.9	6.1
Total Products	**6433**	**6650**	**7147**	**217**	**497**	**3.4**	**7.5**

Chinese apparent demand has been adjusted downwards by some 30 kb/d and 190 kb/d, respectively in the second and third quarters. June apparent demand was weaker than preliminary government data had suggested and early indications are that July and August were weak as well. August fuel oil imports into China's southern Huangpu port, which takes in roughly half of China's fuel oil imports, were the lowest they had been since May.

Although underlying pent-up demand suggests that fourth quarter consumption could rebound, the prospects for a recovery in fuel oil demand appear increasingly remote. This is of critical importance to both the regional and global fuel oil markets as fuel oil typically accounts for over 70% of China's product imports. Quite simply, high fuel oil prices have induced fuel switching where possible and hydropower generation has increased to the extent that a repeat of last year's 17.5% increase in fourth quarter fuel oil demand appears exceedingly unlikely. Based on recent trends, fuel oil demand is projected to decline by some 6.2% in the fourth quarter versus the same period in 2004. Year-on-year demand growth could weaken further if prices were to move higher.

Chinese apparent demand has been revised down by some 170 kb/d in the fourth quarter of 2005, in large part due to the reassessment of fuel oil demand. In 2006, fuel oil demand is expected to grow by only 2.6% while the demand for other fuels is projected to increase more in line with economic growth of 8-9%. As evidence that stronger apparent demand growth should return in response to continued robust economic performance, auto sales rose by 25% in July and 11% over the first seven months of the year.

Other Non-OECD

Indian demand declined by some 5.0% in July due to severe flooding associated with the monsoon rains. This was a larger decline than expected, but it should in turn contribute to a demand recovery in August. The outlook for July 2006 demand growth has been revised upwards due to the lower, flood-affected, July 2005 baseline. Note that the large year-on-year July 2005 decline may also be in part attributed to a strong July 2004 baseline as retailers are said to have increased inventories in anticipation of an increase in administered fuel prices.

In addition to the flood-related changes, the prospects for further interfuel substitution of natural gas for naphtha have also been re-evaluated as naphtha demand shrank by approximately 7.1% in the second quarter of 2005. With comparatively low-priced liquefied natural gas (LNG) contracts in place and the continued development of domestic gas fields, this trend should continue into 2006, albeit at a slower pace.

India Crude & Product Trade
(thousand barrels per day)

	2003	2004	3Q04	4Q04	1Q05	2Q05	Apr 05	May 05	Jun 05[1]	Latest month vs. May 05	Latest month vs. Jun 04
Net Imports/(Exports) of:											
Crude Oil	**1863**	**1945**	**2013**	**1742**	**1969**	**1894**	**1912**	**1905**	**1864**	**-41**	**-759**
(by Public Oil Cos)	**1243**	**1158**	**1214**	**1000**	**1133**	**1116**	**1123**	**1121**	**1103**	**-18**	**-585**
Products & Feedstocks	**-152**	**-176**	**-178**	**-222**	**-82**	**-92**	**-110**	**13**	**-184**	**-197**	**-44**
Gasoil/Diesel	-119	-139	-122	-162	-89	-108	-121	-76	-127	-51	-24
Gasoline	-72	-75	-75	-80	-53	-39	-24	-53	-40	13	13
Heavy Fuel Oil	5	-6	-5	-20	-4	10	-7	29	6	-23	7
LPG	55	86	86	128	95	74	70	86	64	-22	13
Naphtha	-1	-7	-29	-25	-15	-39	-32	-9	-77	-69	-83
Jet & Kerosene	-22	-47	-43	-74	-34	-5	-11	25	-29	-54	18
Other	1	12	9	12	17	15	14	11	19	8	12
Total	**1712**	**1769**	**1834**	**1520**	**1887**	**1801**	**1801**	**1918**	**1681**	**-238**	**-803**

1 Preliminary
Sources: Indian Ministry of Commerce, Indian Port Authorities and IEA estimates

As in many non-OECD countries (particularly in Asia), the Indian government continues to debate the extent to which it should pass rising international oil product prices on to consumers. The government recently decided to raise gasoline and diesel prices by some seven percent. This change provides some relief to refiners and retailers, but the price change still does not match the recent run-up in international prices.

According to the Asian Development Bank, Asian economic growth remains surprisingly resilient in the face of high oil prices. However, many analysts have expressed growing concern about the Indonesian economy. Indonesia's troubles have been brought on in part by costly oil subsidies which are threatening the country's fiscal health and have contributed to a sharp decline in the rupiah. At this time, few analysts expect problems to spread throughout the region as they did in 1997-98.

However, high oil prices continue to force governments to take action to head-off fiscal problems as countries like Malaysia, Indonesia and Vietnam are under pressure to raise product prices, which will in turn impact upon demand. Thailand is reported to have begun exporting diesel for the first time in a year as diesel demand fell after the government eliminated subsidies.

Although oil product pricing issues are most visible in Asia because the region has recently been the global engine of economic and oil demand growth, the rise in prices threatens fiscal and/or market stability in many countries. In Latin America, for example, Argentina has essentially frozen domestic gasoline prices in the face of rising international prices. Companies are hesitant to raise prices because they are afraid of government reprisals. Earlier this year the government called for a boycott when a major supplier raised prices and sales plummeted, forcing the supplier to limit the price increase. While this may assuage consumers in the near term, these actions likely inhibit the long-term development of the energy sector.

Early indications are that FSU exports of crude and products will rise in September as exporters push to beat an October export duty hike. This has contributed to a downward revision to the assessment of third quarter apparent demand (defined as the difference between crude production and net exports of crude and products). Fourth quarter demand has been revised up as October exports are likely to suffer.

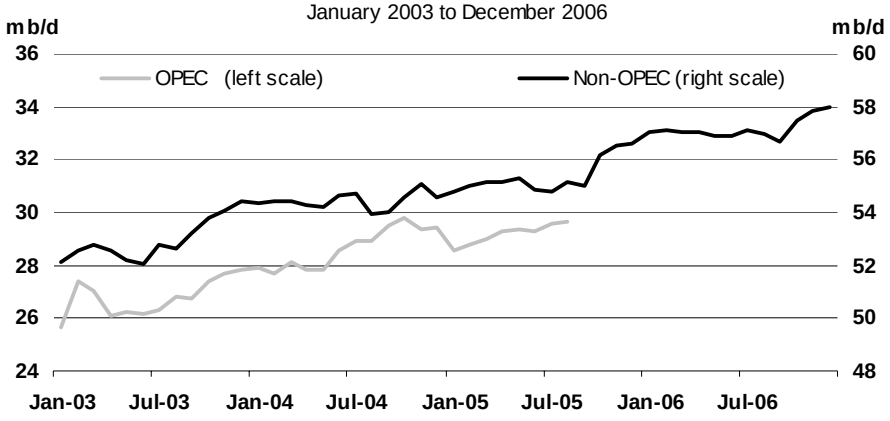
SUPPLY

Summary

- **World oil supply** gained 440 kb/d in August to reach 84.9 mb/d. A rebound from Mexico after storms reduced output in July counteracted lower production due to summer maintenance in the North Sea. The FSU and Africa also saw higher production, while OPEC crude supply gained 80 kb/d. However, Hurricane Katrina has had a severe impact on US Gulf of Mexico (GOM) supply and will likely affect production for several months to come. An annual comparison shows world oil supply 2.0 mb/d above August 2004. OPEC crude stands 0.75 mb/d higher, OPEC other liquids supply is up 0.5 mb/d and non-OPEC supply is 0.75 mb/d up.
- **Hurricane Katrina** severely curtailed regional oil operations from 26 August onwards. In energy terms, electric power supplies and US Gulf Coast refining operations have been worst hit. At the time of writing, 861 kb/d (57%) of US GOM oil production remains shut-in, along with 4.0 bcf/d of natural gas production (40% of GOM total). Crude oil import and pipeline infrastructure, including the LOOP terminal and the Capline feeding crude to Midwestern refineries, appears to be relatively unscathed. It is too early to be definitive about the likely pace and extent of supply recovery, but preliminary recovery profiles and experience from last year's Hurricane Ivan, suggest potentially similar aggregate losses from Katrina of 55 mb of crude plus 15 mb of NGL running through early-2006. This provisional estimate for Katrina, plus the adoption of a heavier hurricane adjustment henceforward, reduce forecast GOM oil supply by 140 kb/d for 2005 and 55 kb/d for 2006.
- Hurricane Katrina provides the basis for substantial revisions to 2005 **non–OPEC supply** and also impacts upon the 2006 forecast. In all, 2005 non-OPEC supply is revised down by 165 kb/d to 50.6 mb/d and the 2006 total by 15 kb/d to 52.0 mb/d. North Sea and Australian production is adjusted down by 20 kb/d in 2005 but up by a similar amount in 2006. Furthermore, non-OECD production is revised up by 10-15 kb/d in both years. Higher Angolan supply in 2005 and modest but widespread revisions elsewhere in 2006 help to partly offset the negative impact of US adjustments. Non-OPEC growth dips to 500 kb/d in 2005 but rebounds to 1.4 mb/d in 2006. These estimates remain subject to revision depending on US supply recovery after Hurricane Katrina.
- **OPEC crude supply** in August averaged 29.7 mb/d, up by 80 kb/d from July. Increases of 10-30 kb/d each came from the UAE, Iran, Iraq, Kuwait and Saudi Arabia while Nigerian supply fell by 20 kb/d. Iraqi exports fell by 100 kb/d to 1.48 mb/d due to lower tanker liftings from Ceyhan. Gross production was sustained by higher deliveries into the local market and ongoing, if sporadic, shipments by pipeline from Kirkuk to Ceyhan. OPEC spare capacity remains around 2.0 mb/d on paper but closer to 1.2 mb/d on an effective basis.
- **The 'call on OPEC crude and stock change'** averages 28.1 mb/d for 2005, as a 0.2 mb/d reduction for non-OPEC oil and OPEC other liquids supplies partly counters lower demand-side estimates. The peak fourth quarter call averages 29.1 mb/d, some 0.6 mb/d below current OPEC supply. The average call for 2006 is identical to 2005, at 28.1 mb/d. This is 0.2 mb/d less than in last month's Report following downward adjustments to Asian demand for 2006.

OPEC Crude and Non-OPEC Oil Supply [1]

January 2003 to December 2006



1 Non-OPEC Oil Supply includes OPEC NGLs, condensate and non-conventional oil

All world oil supply figures for August discussed in this Report are IEA estimates. Estimates for OPEC countries, Alaska and Russia are supported by preliminary August crude supply data.

Note: Random events present downside risk to the non-OPEC production forecast contained in this Report. These events can include accidents, unplanned or unannounced maintenance, technical problems, labour strikes, political unrest, guerrilla activity, wars and weather-related supply losses. Allowance has been made in the forecast for scheduled maintenance in all regions and for typical seasonal supply outages (including hurricane-related stoppages) in North America. These aside, no contingency allowance for random events is subtracted from the supply forecast. While upside variations can occur, experience in recent years indicates that the random events listed above may cause supply losses of between 300 kb/d and 400 kb/d for non-OPEC supply each year.

OPEC

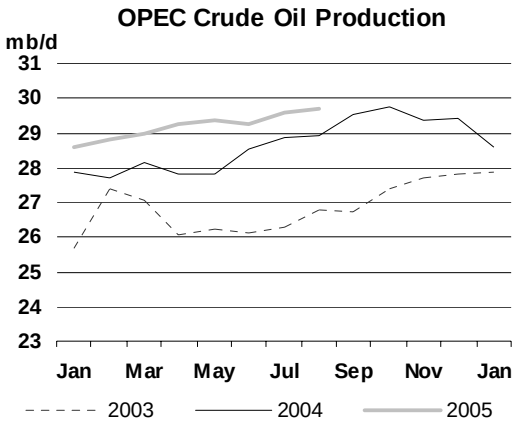
Growth in OPEC crude supply slowed to some 80 kb/d in August as maintenance and capacity constraints placed a ceiling over output for most members, and Saudi Arabia appeared to face limited demand for crude from its surplus capacity in heavier/sourer grades. July OPEC supply was revised down modestly, by 10 kb/d to 29.6 mb/d. There were indications of sharper than anticipated recovery in UAE production after maintenance (adding 65 kb/d to the original July estimate) and slightly higher internal consumption in Iraq (adding 20 kb/d). However, these upward revisions were countered by a 95 kb/d downward adjustment in Iranian exports compared to original estimates. OPEC supply in August averaged 29.7 mb/d and increases of 10-30 kb/d each came from the UAE (further post maintenance recovery), Iran, Iraq, Kuwait and Saudi Arabia. Localised unrest in Rivers State, Nigeria caused Shell and Total to shut-in production during August and Nigerian supply is assessed off by 20 kb/d for the month.

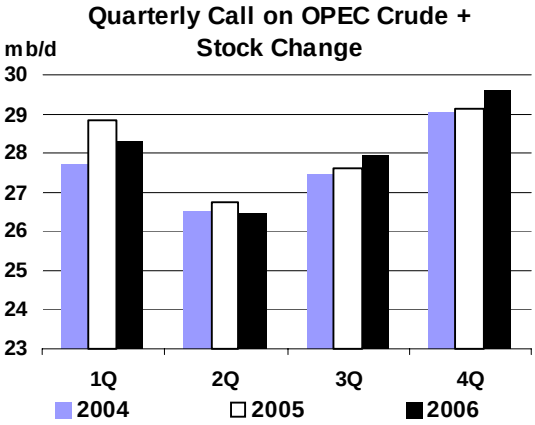
OPEC Crude Production
(million barrels per day)

	1 July 2005 Target	August 2005 Production	Sustainable Production Capacity[1]	Spare Capacity vs. August 2005 Production	Production vs.Target
Algeria	0.89	1.35	1.35	0.00	0.46
Indonesia	1.45	0.94	0.98	0.04	-0.51
Iran	4.11	3.98	4.10	0.13	-0.14
Kuwait[2]	2.25	2.41	2.50	0.09	0.16
Libya	1.50	1.65	1.65	0.00	0.15
Nigeria	2.31	2.46	2.50	0.05	0.15
Qatar	0.73	0.80	0.83	0.03	0.07
Saudi Arabia[2]	9.10	9.56	10.50	0.94	0.46
UAE	2.44	2.51	2.55	0.05	0.06
Venezuela[3]	3.22	2.12	2.20	0.08	-1.10
Subtotal	**28.00**	**27.77**	**29.16**	**1.39**	**-0.23**
Iraq		1.91	2.50	0.60	
Total		**29.67**	**31.66**	**1.99**	
(excluding Iraq, Nigeria, Venezuela, Indonesia				*1.23)*	

1. Capacity levels can be reached within 30 days and sustained for 90 days
2. Includes half of Neutral-Zone Production
3. Excludes upgraded Orinoco extra-heavy oil which averaged 588 kb/d in August

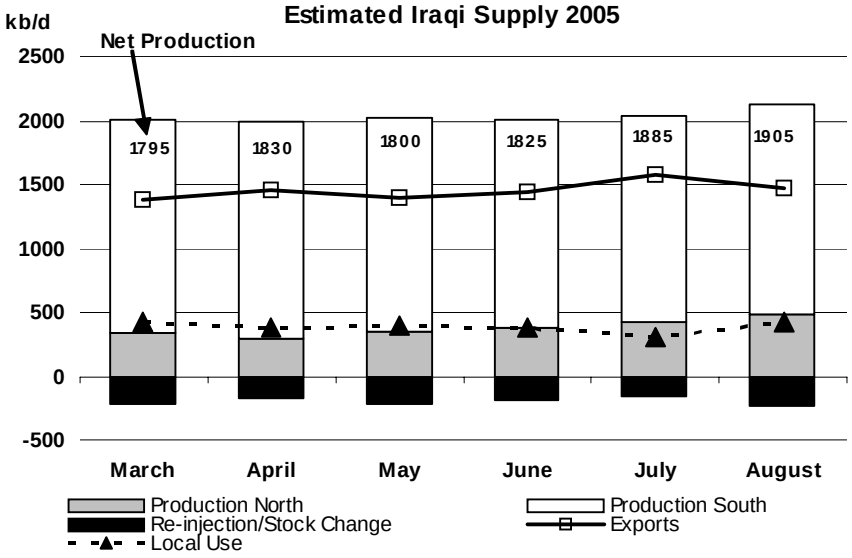
OPEC sources began to express concern in early-August over the further rise in crude prices seen during the month. The OPEC President cited total OPEC output as being around 30.4 mb/d and suggested that downstream bottlenecks remained a key impediment to market stability. However, on 29 August the President suggested that he would propose a 500 kb/d increase in the production ceiling (from the current 28.0 mb/d), and a similar rise in actual output, to the Organisation's ministerial meeting on 19 September. For its part, Saudi Arabia reiterated a willingness to boost supply to as much as 11.0 mb/d (from current levels of around 9.5 mb/d) if the extra crude was required by customers. Crucially for now however, OPEC spare capacity is concentrated in the hands of Saudi Arabia and comprises mostly Arab Heavy crude, for which there is only a limited appetite in world markets. In the aftermath of Hurricane Katrina, the market is seeking more in the way of clean products and light, sweet crude. As such, impending additions to lighter crude production capacity expected from Libya, Nigeria, UAE and the Saudis themselves will be keenly awaited. Nonetheless, the US was reported to have received offers of assistance in the form of humanitarian aid and crude and products from Indonesia, Kuwait, Nigeria, Qatar, Saudi Arabia, the UAE and Venezuela.





A decline in **Iraqi** crude exports was countered by increased domestic use, and net production is estimated to have risen by 20 kb/d to 1.91 mb/d. After depressed activity levels at the Basrah and Daura refineries in July, local crude oil use is estimated to have risen to 430 kb/d in August, including some 70 kb/d of direct use for power generation.

Total exports fell by 100 kb/d from July's 1.58 mb/d, to 1.48 mb/d. Despite power outages, which crimped southern exports from Basrah and Khor al-Amaya in the second and fourth weeks of August, southern loadings averaged an unchanged 1.42 mb/d. This was nonetheless some 300 kb/d less than initial export schedules had suggested. With unchanged border sales to Syria of 15 kb/d, the big drop in August came via exports from Ceyhan in Turkey. While crude in storage at Ceyhan reached as much as 4 mb in August, actual liftings were restricted to two pipeline shipments amounting to 1.25 mb made to Turkish refiner Tupras. On 23 August SOMO awarded a tender for Total, BP and Cepsa to lift 1 mb each from Ceyhan during the 28 August to 6 September period. Actual liftings however were believed to have been deferred into early September.



Having repeatedly been the target of sabotage by insurgents, a section of the Kirkuk to Ceyhan export pipeline was again blown up by a bomb on 3 September. Throughput on the pipeline is estimated at around 100 kb/d in August, based on reports of storage levels at Ceyhan, although such shipments are excluded from this Report's net production and export estimates to avoid double counting when cargoes leave Ceyhan. There were also reports in late-August of producing facilities in the Kirkuk region having been hit by sabotage. This is one of the few instances in which production, as distinct from export, infrastructure has been affected. Perhaps reflecting this greater uncertainty surrounding northern operations, Iraqi authorities announced on 6 September that this month's exports were likely to average no more than 1.6 mb/d. The increase is in line with the three announced cargoes now scheduled for early-September departure from Ceyhan. Total export sales of between 1.8 mb/d and 2.0 mb/d are targeted for end-2005.

Tanker tracking data and **Saudi Arabia's** own pronouncements suggest stable production at around 9.5-9.6 mb/d since April. August supply is assessed largely unchanged at 9.56 mb/d. The Kingdom again emphasised its willingness to boost supply closer to 11 mb/d should buyers request extra crude, while acknowledging that it did not expect significant extra demand to emerge for spare capacity held predominantly in the form of heavy sour barrels. One press report in early September cited buyers in the Mediterranean who had requested extra cargoes as having received no response.

However, there were signs recently of Saudi moves to sustain and potentially boost supplies to the market. Firstly, Aramco announced plans for maintaining capacity at the Marjan, Zuluf and Safaniyah fields, which produce Arab Medium and Arab Heavy crude. This was backed up by reports of jack-up drilling equipment scheduled to move in late-2005 from the Gulf of Mexico to Saudi Arabia. New installations should be in place before end-2006 (although whether recent events in the GOM have affected timing is not certain). Secondly, selling prices for October, notably those for Arab Medium and Arab Heavy into the Atlantic Basin, have been cut by upwards of $2/bbl, presumably designed to increase offtake of Saudi Arabia's heaviest and sourest barrels, facilitating a rise in output in the process.

Iranian exports continued to follow an erratic course in July, and are now estimated to have dropped by some 50 kb/d from June highs near 2.6 mb/d. Initial indications are that a modest rebound in production and exports occurred in August, despite late month problems at the recently inaugurated offshore Nowruz heavy oil field. Repeated delays in completing and sustaining expanded production at the Soroush-Nowruz development, and steep decline at mature fields, keep assessed Iranian sustainable production capacity at 4.1 mb/d for now.

Production from the **UAE** now appears to have bounced back more strongly in July than anticipated in last month's Report. July production is now seen averaging 2.48 mb/d, with a further modest rise to 2.51 mb/d in August based on provisional data. As a result, August spare capacity dipped below 50 kb/d measured against sustainable capacity of 2.55 mb/d. Capacity could reach 2.65-2.7 mb/d by end-year. The increases in output came primarily from Abu Dhabi. Earlier indications that production recovery would be concentrated in August, after peak June maintenance at the offshore Umm Shaif and Lower Zakum fields, seem to have been pre-empted by a sharper July recovery.

Output from **Kuwait** remained below 2.5 mb/d capacity amidst ongoing maintenance at western facilities but did nudge higher by some 20 kb/d to 2.41 mb/d in August. Production could rise further in September as work at the GC-27 gathering station draws to a close. This, plus a planned stoppage involving an 80 kb/d distillation unit at the Mina Abdullah refinery, could see September crude exports move higher. The refinery turnaround will reportedly run through to the end of September.

The potential for disrupted oil supplies from **Nigeria** persisted in August. Community protests caused a one week shut-in of up to 25 kb/d of output by Shell and similar action affected 35 kb/d of production by French producer Total. In all, Nigerian crude supply is assessed off by 20 kb/d in August at 2.46 mb/d. A gas pipeline fire in late-August is likely to curb September condensate production with some 12 kb/d of output affected for an indeterminate period. Incremental gas liquids supply of up to 30 kb/d associated with expanded LNG facilities due for third quarter has also now been deferred until early-2006. In early September a nationwide strike over fuel price increases appeared to have been averted, although further consultations on strike action involving oil workers are likely in early October.

OECD

North America

US – August Alaska actual, others estimated: Developments elsewhere in the US are dwarfed by those taking place in the GOM (see above). Total US supply for 2005 has been revised down by 155 kb/d in 2005 and by 50 kb/d in 2006, due to the knock-on effects of Katrina, and its impact on assumed seasonal storm outages for subsequent years. However, higher baseline oxygenate production data for June result in a 10 kb/d upward revision to this source of supply in both 2005 and 2006. Alaskan crude production gained 35 kb/d in August after summer maintenance work. Alaskan output is revised up by 5 kb/d for the remainder of 2005 and 2006 based on stronger than expected performance from the expanded Alpine facilities. Production here appears to have attained levels around 120 kb/d. Total US oil production now averages 7.6 mb/d in 2005 and 7.7 mb/d in 2006.

The Upstream Impact of Hurricane Katrina

The Current Situation

Offshore Gulf of Mexico (GOM) production began to be shut in on 26 August with the approach of Hurricane Katrina. The storm reached maximum category five status just prior to landfall on 29 August and although it subsequently weakened, by 30 August a peak of 1.4 mb/d of offshore oil production and 8.8 bcf/d of natural gas were shut-in. Recovery of production has been slow and by 7 September 871 kb/d of oil output and 4.0 bcf/d of natural gas remained out of operation. These levels represent 57% and 40% respectively of typical GOM production. A measure of the slow progress in restoration is a comparison with last year's Hurricane Ivan. One week on from Ivan's landfall in September 2004, GOM oil production had recovered from 1.4 mb/d offline to around 580 kb/d whereas 0.9 mb/d is still out of action a week after Katrina hit land.

A key problem with the Katrina aftermath is that 20% of manned platforms and 12% of rigs remain evacuated. In testimony to the US Senate Energy and Natural Resources Committee on 6 September, the Department of the Interior conceded that full recovery of production could take many months, with pipeline damage similarly taking time to rectify. Some 37 shallow water platforms were destroyed and four large deepwater platforms (including Shell's Mars facility) have suffered extensive damage. However, this infrastructure is thought to account for only 11% of GOM oil production, raising the possibility that some 90% of production could be back onstream in less than the 3-6 months which these specific facilities are likely to require for replacement/repair. Producers BP, ExxonMobil, Chevron, Apache, Anadarko and Kerr McGee have all reported recovering production levels and an absence of substantial damage to production facilities.

The state of repair of subsea production infrastructure and pipelines remains highly uncertain however. Mudslides and pipeline disruption on the floor of the Gulf accounted for much of the prolonged production outage after last year's Hurricane Ivan. More time is needed before assessments of likely pipeline status can be completed. Here too however, initial indications are favourable. Katrina's path ashore was more direct than that of Ivan in 2004, reducing the likelihood that mudflats on the Mississippi delta were disturbed to the same extent.

The 1.0 mb/d Louisiana Offshore Oil Port (LOOP), which normally handles imported crude and Mars blend from the Gulf itself, was operating at 75% of capacity at the time of writing. Imported crude forms the bulk of current shipments as Shell's Mars platform is currently inoperable. LOOP is feeding crude to the 1.1 mb/d Capline pipeline which transports feedstock to refineries in the US Midwest. Capline itself is operating in excess of 80% capacity. It is expected that sustained capacity operations from LOOP can be re-established once power supplies to the Fourchon booster station are fully restored around the start of the week commencing 12 September.

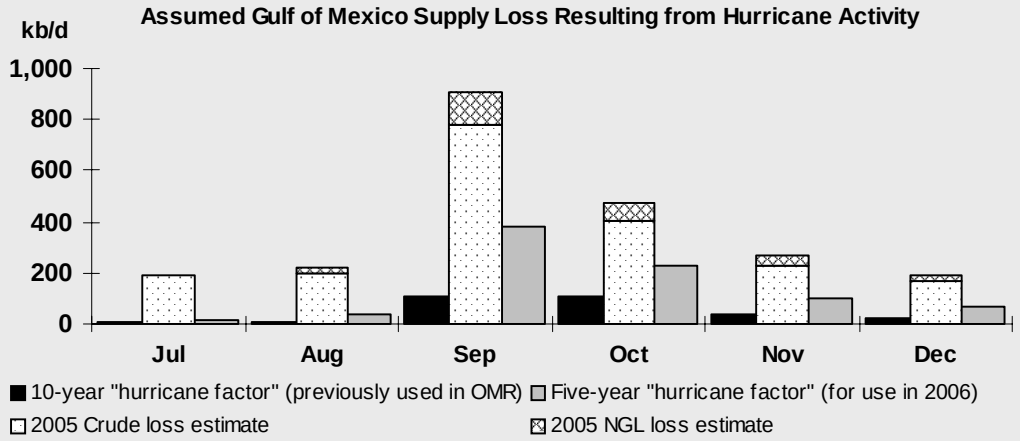
Looking Ahead

Any supply projections made in the immediate aftermath of an event of this magnitude are subject to greater than usual uncertainty. What follows represents a "working case" assumption rather than a "most likely" case forecast per se. It remains difficult to project the timing and extent of future recovery in production. The outlook for GOM and broader US production is subject to significant revision in the weeks and months ahead as more damage and re-start reports become available. The task is complicated by the widespread nature of damage and displacement caused by the storm. Flooding and power supply shortages have disrupted pipelines, pumping stations, refineries, storage and gas processing facilities and service depots onshore in the Gulf region. This has delayed damage assessment and reactivation of undamaged offshore facilities, both topside and subsea. Not least of the problems is the displacement and loss of operational personnel.

Initial assessments made by the US DoE suggested production outages lasting through December 2005 at least. We have taken the shut-in situation at 7 September (861 kb/d) as a starting point and an assumption that all production barring the 11% affected by serious damage can be reactivated by early-December. This is a more conservative assumption on recovery than used by some government agencies but is employed in part due to the lack of information on pipeline status and also due to the slow rate of recovery in recent days. After storm-related shut-ins amounting to 190 kb/d in both July and August, lost crude supply in this scenario is 780 kb/d for September, 405 kb/d in October, 225 kb/d in November, and 165 kb/d in December. Bearing in mind the long "tail" experienced before production recovered fully after Hurricane Ivan (through June 2005), this Report has extended crude outages into January 2006 (40 kb/d) and February (10 kb/d).

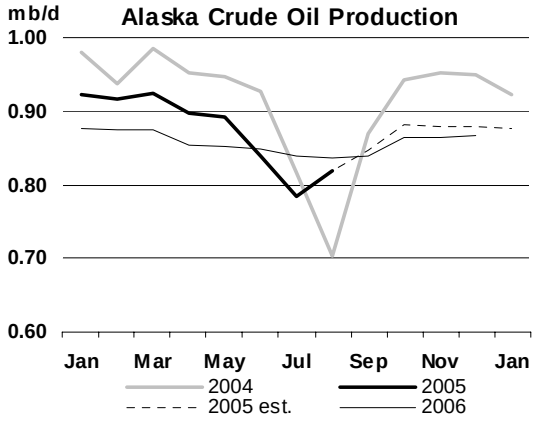
The Upstream Impact of Hurricane Katrina (continued)

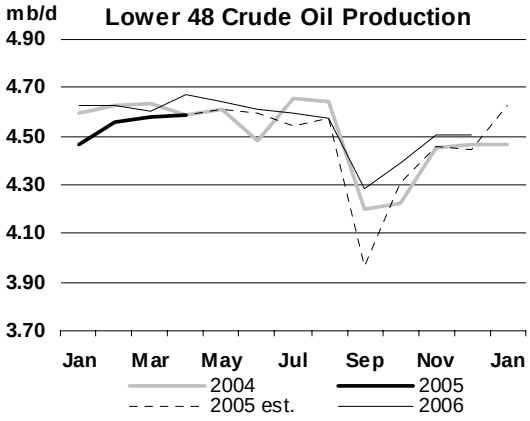
Total lost crude production due to Katrina under this scenario amounts to 55 mb. In comparison, Ivan caused the loss of 40 mb of production through end-2004 and a further 15-20 mb in the first half of 2005. This Report also now incorporates assumptions on NGL supply loss due to natural gas production, pipeline and processing facility outages. NGL supply shut-ins are assumed to average 30 kb/d in August, 125 kb/d in September, 65 kb/d in October, 20 kb/d in November and 10 kb/d in December, over and above the crude losses itemised above. Losses of sweet crude supply could be relatively more keenly felt early in the recovery period. However, if extensive damage to the Mars platform is confirmed and it stays out of action longer, heavy sour grades will also be in tight supply in the longer term.



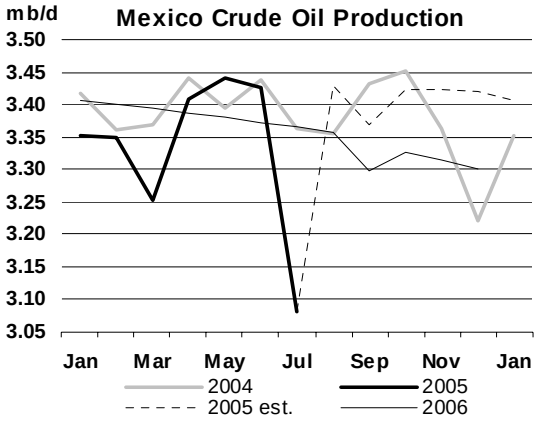
Prior issues of this Report had assumed peak hurricane-related outages in the GOM of 110 kb/d in September and October and 35 kb/d in November. This was consistent with the ten year average outage level actually experienced during 1995-2004. Not only does the provisional Katrina outage scenario dramatically increase expected 2005 outages, but it will clearly impact significantly upon assumed outage levels for forecast years. In fact, we have taken this opportunity to revisit our assumptions on storm outages and have now switched to a five-year rather than a ten-year average. Although far from conclusive, recent evidence suggests a trend towards more frequent and higher impact storms. Adopting this higher average shut-in rate for 2006 suggests combined oil outages peaking at 360 kb/d in September 2006, 285 kb/d in October, and 125 kb/d in November. Assumptions for 2005 and future years are of course subject to substantial revision, depending upon the final losses sustained due to Katrina, and any subsequent storms, this year.

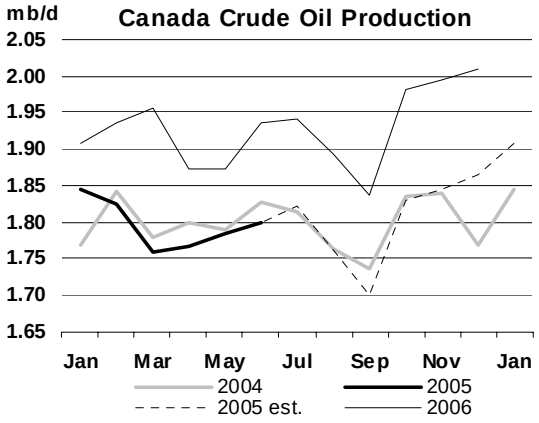
Canada – Newfoundland July actual, others June actual: June/July supply data point towards higher production of bitumen and NGL, but lesser crude volumes deriving from Saskatchewan and offshore Newfoundland. Revisions on an annualised basis are minor however, and amount to +10 kb/d versus last month's projection for 2006. Canadian oil supply is seen declining by 55 kb/d in 2005 to 3.03 mb/d, but then increases by 265 kb/d in 2006, to 3.3 mb/d. The latter is based on rising syncrude and bitumen supply plus new offshore east coast production from Husky's White Rose field.





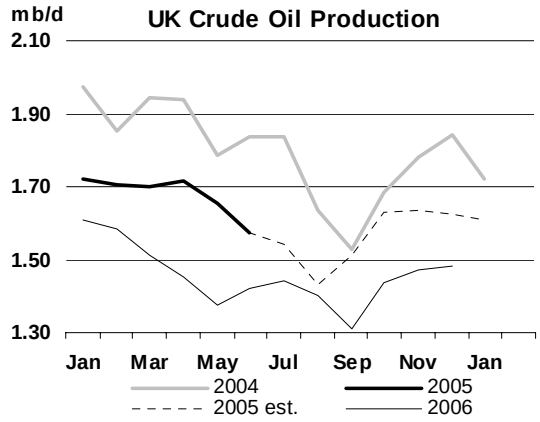
Mexico – July actual: Production data from state producer Pemex for July showed crude production around 30 kb/d lower than anticipated, at 3.08 mb/d and NGL output underperforming versus the Report's previous estimates by 40 kb/d, at 399 kb/d. However, this merely reflects a heavier than anticipated impact from Hurricane Emily and downward adjustments are not carried forward into the forecast for now. Although total liquids production fell by nearly 400 kb/d in July, exports fell by only 80 kb/d to 1.7 mb/d, suggesting sales out of storage or refinery run cuts. Pemex confirmed in August an expected 70 kb/d decline from the Cantarell field in 2006, but anticipates offsetting increases from other fields.

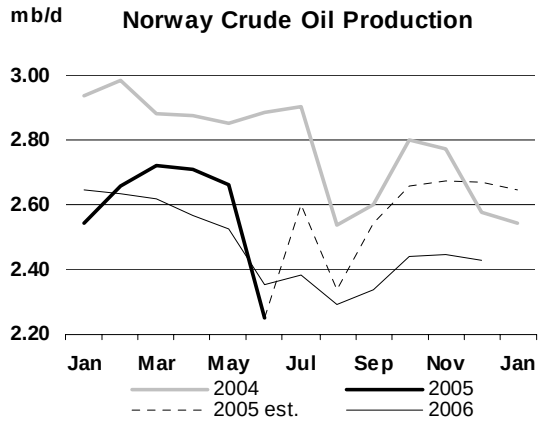




North Sea

UK – June actual: Production data through June and offshore loading schedules through September indicate lower supplies from the UK in the second and third quarters of 2005. Output for both quarters is revised down by 35 kb/d, with total UK oil output averaging 1.9 mb/d and 1.7 mb/d for the second and third quarters respectively. Production is expected to rise to some 1.9 mb/d in the fourth quarter. However, ongoing mature field decline in 2006 sees production fall by 175 kb/d to average 1.7 mb/d. While summer maintenance has curbed recent production levels, unscheduled outages also continue to plague North Sea operations. A fire at BP's Schiehallion field shut-in production for three weeks in August, one week longer than had been anticipated in last month's Report. However, higher baseline production levels through May 2005 from the west of Shetland area result in a modest upward revision to supplies looking forward. August Schiehallion problems were augmented by the loss of 10 kb/d from the Brent Bravo platform following a leak on 18 August.





Norway – June actual, July provisional: Adjustments to Norwegian output data are less uniform than those for the UK. Second quarter 2005 production is revised down by 45 kb/d to some 2.95 mb/d as a result of much lower than expected June output. Maintenance work proved heavier than expected, notably in the Oseberg-Troll and Sleipner-Frigg systems. In contrast, provisional data for July point to a 300 kb/d rebound in Norwegian output to 2.97 mb/d. August output was constrained by maintenance but also by unscheduled outages affecting the Veslefrikk, Snorre and Vigdis fields. In total, Norwegian oil supply is seen averaging 3.0 mb/d in both 2005 and 2006, down from nearly

3.2 mb/d in 2004. New condensate and NGL supply helps to offset ongoing crude decline in 2006. Norway's national statistics office boosted its expectations for oil and gas investment for 2006, with high crude prices seen spurring investment levels. Norsk Hydro announced in August the discovery of an additional 50-100 mb of oil near existing Troll C facilities.

Former Soviet Union (FSU)

Russia – July actual, August provisional: The forecast for Russian oil production is largely unchanged from last month, with production projected to average 9.5 mb/d for 2005 and 9.8 mb/d in 2006. Month-on-month growth appears to have resumed after a hiatus caused in part by uncertainty over the investment environment and what many companies see as an unfavourable tax structure. Production grew by 40-50 kb/d in both July and August (annualised growth of around 150 kb/d). Some pick-up in growth is expected for the balance of 2005. Lukoil, BP-TNK and Surgutneftegaz, together with new production from the Sakhalin project, underpin the growth and help to offset potentially disappointing performance from other producers.

FSU Net Exports of Crude & Petroleum Products
(million barrels per day)

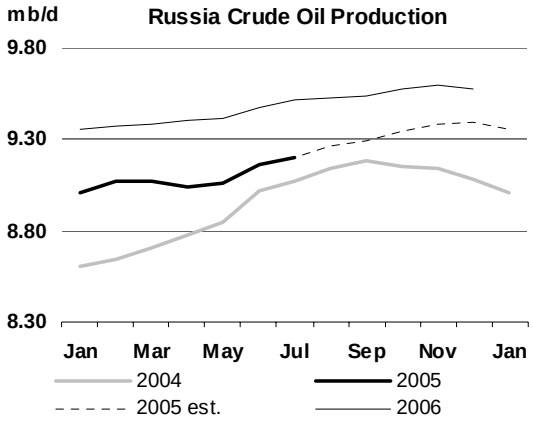
	2004	3Q04	4Q04	1Q05	2Q05	Revised May 05	Revised Jun 05	Prelim. Jul 05	Latest month vs. Jun 05	Latest month vs. Jul 04
Crude										
Black Sea	2.20	2.17	2.28	2.22	2.38	2.52	2.23	2.34	2.23	2.27
Baltic	1.77	1.52	1.48	1.64	1.61	1.66	1.55	1.48	1.55	1.55
Artic/Far East	0.25	0.30	0.30	0.19	0.19	0.17	0.24	0.22	0.24	0.30
Crude Seaborne	**4.22**	**3.99**	**4.06**	**4.04**	**4.18**	**4.35**	**4.02**	**4.04**	**4.02**	**4.13**
Druzhba Pipeline	1.12	1.13	1.14	1.13	1.10	1.10	1.10	1.13	1.10	1.11
Other Routes	0.16	0.28	0.25	0.28	0.35	0.38	0.39	0.33	0.39	0.27
Total Crude Exports	**5.50**	**5.41**	**5.46**	**5.45**	**5.64**	**5.83**	**5.51**	**5.49**	**5.51**	**5.52**
Of Which: Transneft	*3.77*	*3.74*	*3.86*	*4.01*	*4.26*	*4.44*	*4.18*	*4.15*	*4.18*	*3.88*
Products										
Fuel Oil	0.86	0.95	0.87	0.78	0.91	0.88	1.08	1.11	1.08	0.91
Gasoil	0.80	0.81	0.78	0.89	0.80	0.69	0.79	0.84	0.79	0.82
Other Products	0.44	0.46	0.42	0.58	0.56	0.54	0.57	0.61	0.57	0.54
Total Products	**2.10**	**2.22**	**2.07**	**2.25**	**2.27**	**2.11**	**2.45**	**2.56**	**2.45**	**2.26**
Total Exports	**7.60**	**7.62**	**7.52**	**7.70**	**7.90**	**7.93**	**7.96**	**8.05**	**7.96**	**7.78**
Imports	0.01	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Net Exports	**7.59**	**7.61**	**7.51**	**7.69**	**7.89**	**7.93**	**7.95**	**8.03**	**7.95**	**7.77**

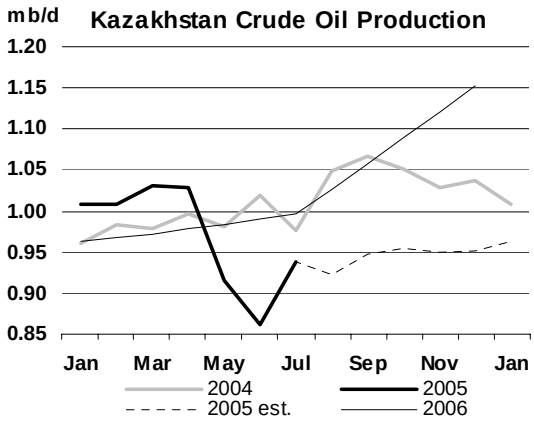
Sources: Petro-Logistics, IEA estimates

FSU net exports reached 8.03 mb/d in July, some 80-100 kb/d above May and June levels. Seaborne crude exports are thought to have risen further in August, with last month's increase focussed on liftings from the Baltic ports. However, oil products and crude shipments by rail and barge are thought to have slipped in August. A 50-100 kb/d increase is scheduled for Russian seaborne September liftings, with pipeline maintenance at Novorossiysk suggesting that Baltic sailings could again lead any increase. Recent months have seen Russian products exports rising more sharply than crude oil. This in part stems from the sharply higher crude oil export duties in force than those applied to products. Current crude export duties amount to $140/tonne but are scheduled to rise to $179/tonne from October. Products export duties will also rise in October, but remain less onerous than those on crude. The domestic refining of Russian crude has become a more attractive option, notably in comparison to more costly rail and barge crude exports. There are suggestions that the government is sustaining differentials between crude and products export taxes to encourage the upgrading of largely unsophisticated Russian refinery hardware.

Kazakhstan – July actual: Production from Kazakhstan remains below early-year highs of 1.3 mb/d and in July averaged 1.18 mb/d. Despite an electrical failure, Tengiz field production increased by 50 kb/d to 250 kb/d and is expected to regain around 275 kb/d by October. Condensate production from the Karachaganak field continues to oscillate in a 250-275 kb/d range and August supply likely remained below peak due to a 10 day maintenance stoppage. Signalling the country's growing linkage with eastern markets, producer PetroKazakhstan is to be purchased by China's CNPC. It is

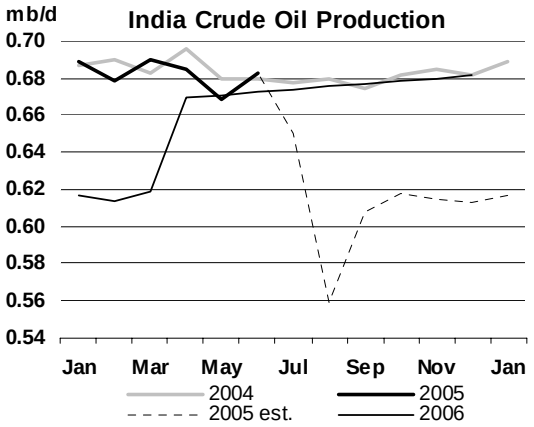
thought that this will open the way for increased export volumes to China and could also see an easing of the recent slide in Petrokazakhstan output due to gas flaring restrictions. Total Kazakh output is estimated at 1.23 mb/d for 2005 (20 kb/d up from 2004) and 1.3 mb/d in 2006.

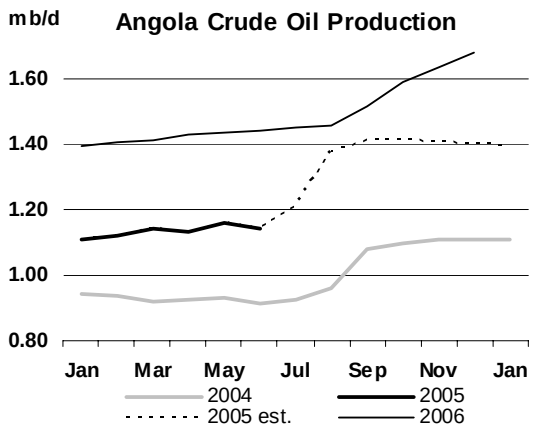




Other Non-OPEC

India – June actual, July provisional: Forecast Indian oil production is revised down by 10-15 kb/d for 2005 and 2006 as a result of latest information on the impact of July's fire at the Bombay High offshore platform. The reductions primarily affect fourth quarter 2005 and first quarter 2006 output. The accident initially cut supply from the 260 kb/d field by 120 kb/d, but state company ONGC reported in late August that 60 kb/d of production had been restored. However it is likely to be April 2006 before full production is resumed. In the interim, ONGC will hire a floating production and processing facility to help reinstate production. Including some 125 kb/d of NGL, Indian oil production is now seen averaging 770 kb/d in 2005 and 790 kb/d in 2006, versus 800 kb/d in 2004.





Angola – July provisional: June and July data for Angolan production come in around 20 kb/d lower than anticipated in last month's Report. However, sources within Angola and amongst service companies suggest that build-up from the newly started Kizomba B field is indeed likely to be rapid, reaching plateau 250 kb/d by September. This Report had earlier assumed a more conservative profile and the net result of these adjustments is a 30 kb/d upward revision for 2005 and 5 kb/d for 2006. Total production now averages 1.25 mb/d in 2005 and 1.49 mb/d in 2006. Further recent deepwater discoveries suggest that total production could rise into a 2-2.5 mb/d range by end-decade.

Revisions to other non-OPEC estimates: Total non-OPEC production is revised down by 165 kb/d for 2005 and by a lesser 15 kb/d in 2006. Provisional adjustments to US GOM output, caused by Hurricane Katrina, account for the bulk of these changes. US supply overall is revised down by 155 kb/d in 2005 and by 50 kb/d for 2006.

Elsewhere, aside from changes mentioned above, the **UK** and **Norway** see production revised down by a combined 20 kb/d for 2005. However, OECD European supply is revised up by 10 kb/d for 2006 based on developments in the UK and Germany, with baseline supply in the latter having been revised upwards. Output from the Asia-Pacific region is revised down by 10-20 kb/d in 2005 and 2006, in part due to revised **Indian** supply. **Thailand** sees stronger performance with a number of new wells starting up from June through third quarter and augmenting our earlier estimates. However, expectations for **Malaysia** are revised down following weak July performance. Higher baseline supply in **Bolivia** is countered by weaker performance from **Brazil** in 2005, but Bolivia underpins a 15 kb/d upward revision to the Latin American forecast in 2006.

Revisions to Non-OPEC Oil Supply

(million barrels per day)

	Last Month's OMR			This Month's OMR			This Month vs. Last Month		
	2005	2006	06 vs. 05	2005	2006	06 vs. 05	2005	2006	06 vs. 05
North America	14.61	14.83	0.22	14.45	14.79	0.34	-0.16	-0.04	0.12
Europe	5.75	5.49	-0.25	5.73	5.51	-0.23	-0.02	0.01	0.03
Pacific	0.57	0.57	0.00	0.57	0.58	0.01	0.00	0.01	0.01
Total OECD	**20.93**	**20.89**	**-0.04**	**20.75**	**20.87**	**0.12**	**-0.18**	**-0.02**	**0.16**
Former USSR	11.60	12.09	0.49	11.59	12.08	0.49	-0.01	0.00	0.01
Europe	0.16	0.15	-0.01	0.16	0.15	-0.01	0.00	0.00	0.00
China	3.62	3.62	0.00	3.62	3.62	-0.01	0.00	0.00	0.00
Other Asia	2.74	2.86	0.13	2.73	2.85	0.12	-0.01	-0.01	0.00
Latin America	4.32	4.50	0.18	4.32	4.51	0.20	0.00	0.02	0.02
Middle East	1.81	1.75	-0.07	1.82	1.75	-0.06	0.00	0.01	0.00
Africa	3.74	4.27	0.52	3.78	4.27	0.50	0.03	0.01	-0.03
Total Non-OECD	**27.99**	**29.23**	**1.24**	**28.00**	**29.24**	**1.24**	**0.01**	**0.01**	**-0.01**
Processing Gains	1.86	1.90	0.04	1.86	1.90	0.04	0.00	0.00	0.00
Total Non-OPEC	**50.78**	**52.03**	**1.25**	**50.61**	**52.01**	**1.40**	**-0.17**	**-0.01**	**0.15**

OMR = Oil Market Report

OECD STOCKS

Summary

- **OECD total industry oil stocks** rose across all regions in July to end 24.7 mb higher than June and 102 mb above last year. The gains came mainly from a rise in distillates inventories, but also from large builds in North American 'other products'. A downward revised 2Q build of 1.12 mb/d covered crude and all products bar gasoline. Days of forward demand cover by industry stocks remained stable at 54 days, 2 days higher than a year ago.

Preliminary Industry Stock Change in July 2005 and Second Quarter 2005
(million barrels per day)

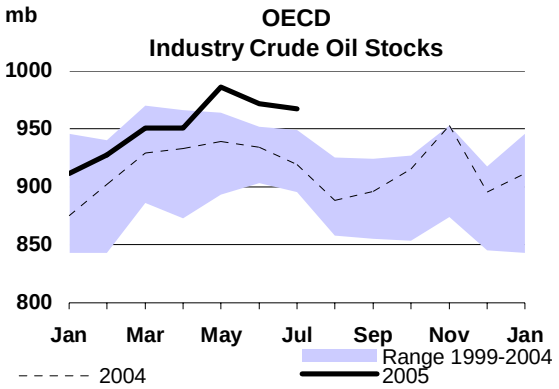
	July (preliminary)				*Second Quarter 2005*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**-0.34**	**0.13**	**0.08**	**-0.13**	**0.15**	**0.01**	**0.08**	**0.23**
Gasoline	-0.35	0.03	0.01	-0.31	0.01	-0.12	-0.01	-0.12
Distillates	0.35	0.18	0.26	0.78	0.16	0.08	0.11	0.36
Residual Fuel Oil	-0.02	-0.04	0.07	0.01	-0.03	0.05	0.02	0.04
Other Products	0.46	-0.02	0.03	0.47	0.42	-0.06	0.07	0.43
Total Products	**0.44**	**0.15**	**0.36**	**0.95**	**0.56**	**-0.05**	**0.20**	**0.71**
Other Oils[1]	0.03	-0.03	-0.02	-0.02	0.13	-0.03	0.08	0.17
Total Oil	**0.13**	**0.25**	**0.41**	**0.80**	**0.83**	**-0.07**	**0.35**	**1.12**

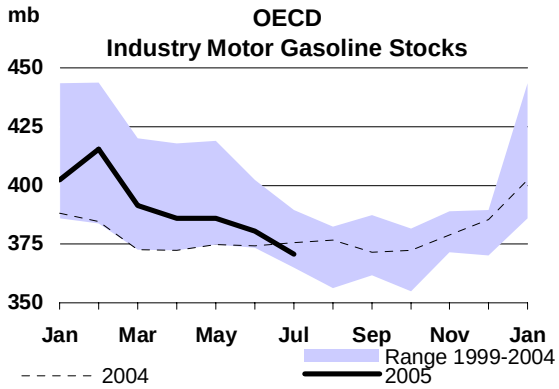
1 Other oils includes NGLs, feedstocks and other hydrocarbons

- **OECD industry crude stocks** fell by 4.2 mb in July, with a draw in North America partly offset by builds in Europe and the Pacific. OECD crude stocks remain well above last year's levels and their recent historical range. The draws in North America came both in the US and Mexico following weather related closures in the Gulf of Mexico in July. Lost crude production and lower average imports to the US outpaced a decline in refinery runs. US crude stocks closed at 322 mb pre-Hurricane Katrina, or close to 40 mb above last year. US weekly data show crude stocks falling 6.4 mb in the week following the hurricane, below market expectations.

- **OECD industry gasoline stocks** declined seasonally in July by 9.6 mb, driven by draws in the US. European and Pacific inventories held relatively flat in comparison mainly due to weak demand. US gasoline draws continued through August with lower output and a lower product yield due to competitive futures crack spreads for gasoil. Weekly US data show that gasoline stocks fell by 4.3 mb in the week following the hurricane, less than market expectations.

- **OECD industry distillate stocks** built by 24.3 mb in July as refiners began to shift output away from gasoline to seasonally replenish distillate inventories. European industry stocks held above seasonal norms in July while independent storage in the ARA area was close to capacity by the end of August. In the aftermath of Hurricane Katrina, spiking gasoline prices and potential US product shortages will likely swing refinery output away from distillates. Depending on the extent and duration of the refinery yield shift, the relatively comfortable US distillate position at the end of August could tighten.





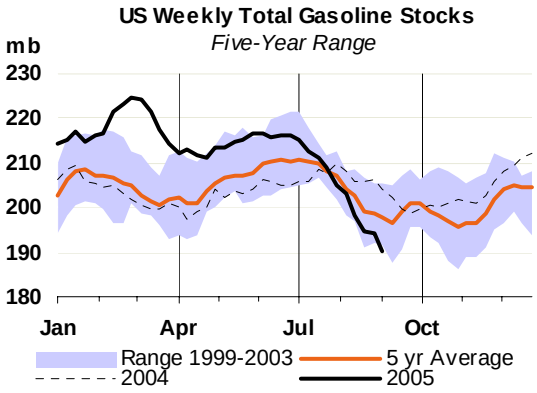
OECD Industry Stock Changes in July 2005

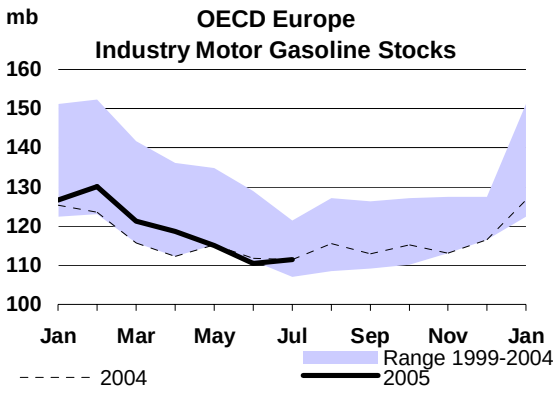
OECD North America

US-50 industry crude oil stocks ahead of Hurricane Katrina bucked seasonal trends, rising about 3 mb from July through 26 August. Crude import volumes remained strong despite apparently closed spot arbitrage opportunities for Brent-related grades, prompting greater demand for domestic light sweet crude. Weakness in mid-month runs also led to reduced average refinery utilisation rates in August. Disruption to the Louisiana Offshore Oil Port, interruptions to inland pipeline flows alongside lost crude production resulted in a crude draw. Weekly data ended 2 September show a fall of 6.4 mb in inventories against pre-hurricane levels.

US gasoline inventories were tightening rapidly ahead of Hurricane Katrina, trending towards the bottom of their five-year range. The quicker than expected decline since July followed on the heels of a series of refinery glitches, lower product yield and some discretionary reduction of summer grade gasoline stocks. Forward demand cover at the tail-end of the driving season remained low and disruptions to gasoline supplies associated with the Hurricane will further tighten the cover. Outside of the Gulf Coast, the adjacent Mid-Continent and the Northeast areas will be most affected by a relatively short-lived interruption of pipeline deliveries of crude and product. Weekly data ended 2 September show a fall of 4.3 mb in inventories against pre-hurricane levels. However, higher gasoline prices could prompt a partial offsetting reduction in demand (above and beyond Hurricane-related disruptions to road transport). At the same time, higher prices will increase imports and combined with EPA waivers for product specification which will allow direct use of foreign gasoline in the US market, some supply relief is likely to be forthcoming.

Distillates inventories increased in July and August with combined builds in diesel and heating oil despite relatively healthy demand growth. Pre-Katrina distillate stock levels trended above their five-year average in August and the immediate impact of the Hurricane is likely to produce a less pronounced draw in inventories than for gasoline. However, distillate stocks risk falling back rapidly if refiners maximise gasoline output over distillate for a protracted period.





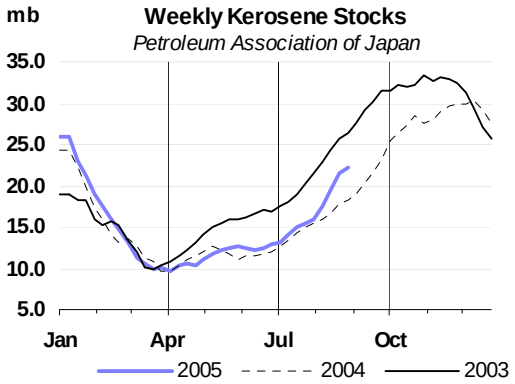
OECD Europe

European industry crude oil stocks edged higher in July (from a downward revised June base), closing at 352.1 mb, or 24.3 mb above 2004. Higher stocks followed a modest recovery in crude runs and active bidding by European refiners for regionally trapped North Sea grades. The forward Brent market remained in contango for June/July supporting crude storage. Regional supplies in August are likely to remain high with closed transatlantic arbitrage. Medium sour crude supplies improved with higher availability of Baltic Urals and comparable Middle Eastern grades. Though North Sea schedules showed a tighter August programme, European refiners had covered their requirements.

Product stocks were up 4.8 mb in July, primarily due to a 5.7 mb distillate build. The rise in distillate stocks, supported by a contango in IPE gasoil futures, came mainly in heating oil as end-user demand in key markets remained weak. German consumers kept stocks at seasonally low levels, with tanks filled at 47% of capacity. Jet fuel stocks are also thought to have built, lifted by inflows from the Middle East. Gasoline stocks held relatively flat in July as contracting demand was balanced by weak year-on-year refinery runs. Exports to the US, Nigeria and Iran continued, alongside refinery buying in ARA to cover for unplanned outages. On a forward demand cover basis, industry gasoline stocks were at seasonally comfortable levels at the end of July, trending at 40 days, two days above last year.

OECD Pacific

Pacific crude oil stocks ended slightly higher in July, closing at 178 mb, down 4.5 mb against last year. The preliminary stock build derived from Korea, where higher volumes of crude oil held on tankers at ports (yet to be cleared by customs) accounted exclusively for the increase. However, onshore crude inventories fell in both Japan and Korea, reflecting increased refinery runs in both countries. Relatively high crude imports from the Middle East and Africa into the region suggest higher tanker volumes in Japan as well (not included in the preliminary July stock change) and could imply a higher overall build. According to preliminary weekly data, Japanese onshore crude fell by 5 mb in August on firm crude runs.



In July, products stocks in the OECD Pacific were up 11 mb from June, closing 9.5 mb above last year, with builds in all product categories. The rise came amid preliminary data suggesting lower demand for main products in July. The bulk of the increase in stocks came in middle distillates which rose 8 mb with higher stocks seen mainly in Japan and to a lesser extent in Korea. Regional refiners have begun rebuilding kerosene inventories seasonally ahead of peak winter demand.

OECD Inventory Position at End-July and Revisions to Preliminary Data

June preliminary total oil inventories were revised down by 16.5 mb. Major product categories were little changed on aggregate and downward revisions were mainly accounted for by the changeable 'other products' category in North America (-16 mb). Gasoline inventories were adjusted downwards by a combined 2.2 mb for the OECD as a whole. Downward revisions to crude stocks were centred in Europe (-13 mb), the reduced assessment partly offset by higher inventory levels in Japan.

Revisions Versus 13 July 2005 Oil Market Report

(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	May 04	Jun 05	May 04	Jun 05	May 04	Jun 05	May 04	Jun 05
Crude Oil	**0.5**	**1.0**	**0.7**	**-12.6**	**0.0**	**5.5**	**1.3**	**-6.0**
Gasoline	-2.2	-0.6	-0.3	-2.7	0.0	1.1	-2.5	-2.2
Distillates	-0.4	-1.6	2.1	0.6	0.0	0.2	1.6	-0.8
Residual Fuel Oil	1.1	0.3	0.7	-1.2	0.0	-0.2	1.9	-1.1
Other Products	-2.3	-14.0	-0.7	-2.5	0.2	0.1	-2.8	-16.5
Total Products	**-3.8**	**-15.9**	**1.8**	**-5.8**	**0.2**	**1.1**	**-1.8**	**-20.6**
Other Oils[1]	3.6	10.2	0.4	-0.6	0.0	0.5	3.9	10.1
Total Oil	**0.3**	**-4.7**	**2.9**	**-18.9**	**0.2**	**7.1**	**3.4**	**-16.5**

1 other oils includes NGLs, feedstocks and other hydrocarbons

Total OECD industry stocks ended July at 2677.4 mb, 101.8 mb above a year ago (from a downward revised June). Crude oil inventories, with builds in both North America and Europe, were up 48.3 mb on last year. Combined with a lower OECD demand forecast, the higher stock levels left forward demand cover unchanged at 54 days, two days higher than last year. On a regional basis, forward demand cover came to 50 days for North America, 62 for Europe and 53 for OECD Pacific.

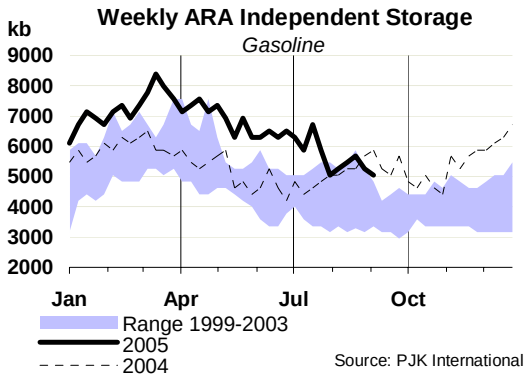
Year-on-Year Industry Stock Comparisons for July 2005

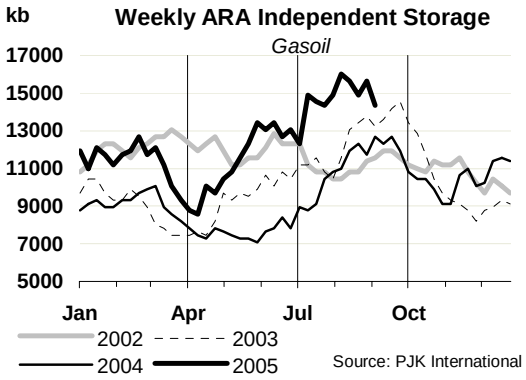
	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**28.5**	**24.3**	**-4.5**	**48.3**	**Total Oil**	**2.1**	**1.6**	**0.7**	**1.7**
Total Products	39.9	2.2	9.5	51.6	*Versus 2003*	1.4	2.5	-3.8	0.8
Other Oils[1]	1.5	0.5	-0.1	1.9	*Versus 2002*	-2.4	0.8	-1.1	-1.2
Total Oil	**70.0**	**26.9**	**4.9**	**101.8**	**Total Products**	**1.2**	**0.1**	**1.2**	**0.8**
Versus 2003	83.0	43.2	-27.5	98.6	*Versus 2003*	0.8	1.4	-1.5	0.6
Versus 2002	20.9	26.3	-10.0	37.2	*Versus 2002*	-1.7	-0.8	-1.2	-1.4

1 other oils includes NGLs, feedstocks and other hydrocarbons

Recent Developments in ARA Independent Storage

Gasoline inventories in independent storage in the Amsterdam-Rotterdam-Antwerp area continued to close above seasonal norms in August. This stemmed in part from increased competition from Russian supplies, reducing European export opportunities. Stocks held relatively flat from July as increased refinery output following the end of scheduled maintenance was likely balanced by an increase in exports to the US and firmer demand. The paper market for gasoline in Northwest Europe has been in backwardation since mid-July, encouraging sales from storage. With US gasoline prices spiking in the aftermath of Hurricane Katrina, at least 25 vessels have been fixed to deliver gasoline to the US. The increased flows are expected to result in a decline in inventories in September.





Gasoil stocks built into early August, as traders continued to move product into storage with the support of a deep contango in IPE gasoil futures. However, inventories subsequently fell at the end of the month, driven lower in part by a pick-up in German wholesale demand for heating oil. Relatively weak demand and ample supplies of heating oil contrasted with emerging pockets of tightness in diesel. Market reports suggest that storage space for heating oil is becoming scarce as dedicated tanks reach close to capacity fill. Increases in heating oil inventories since April have also been supported by large inflows of material from the FSU. Movements in jet fuel stocks tracked those of gasoil, trending above their normal range on increased imports from the Middle East. As in the case of gasoil, tight storage prompted European traders to look for export opportunities.

Fuel oil inventories are still trending well above their normal range as supplies of high sulphur cargoes from the Baltic built in the ARA area in the absence of arbitrage outlets to Asia. The Mediterranean also saw relatively high shipments from Black Sea ports. At the same time, low-sulphur material used by power utilities remained well supplied. The arbitrage to Asia and the US remained shut until the end of August although reports emerged of BP sending one VLCC from Rotterdam to Asia at the end of the month.

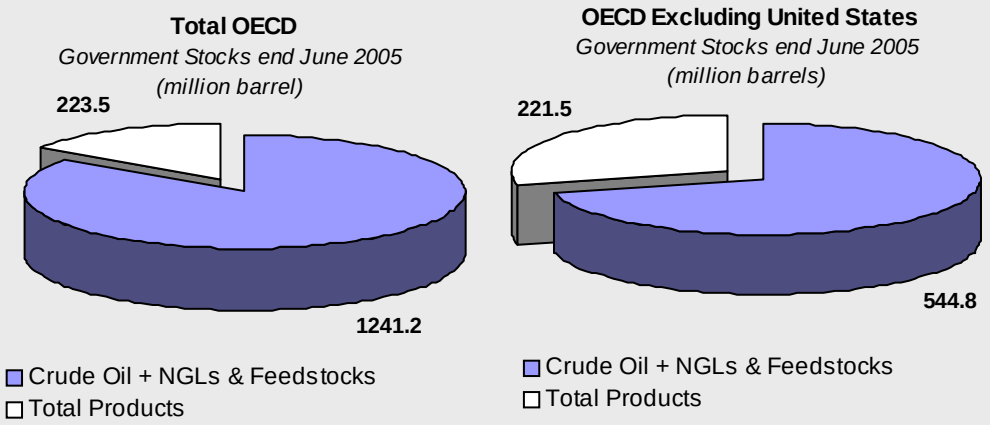
Recent Developments in Singapore Stocks

Total product stocks in Singapore surveyed by *International Enterprise* held relatively flat in August with a build in light distillates (gasoline and naphtha) offsetting small declines in middle distillates and residues. Gasoline stocks built as Chinese exports increased with refiners taking advantage of higher international prices. September is likely to see a reversal of this trend as Chinese exports are expected to fall. Paper naphtha prices in Singapore were in backwardation encouraging sales from storage. Middle distillate inventories, although still in the middle of their five-year-range, have been coming down since early July. This is partly due to reduced exports from the Middle East, where domestic use of diesel increases in the summer months. Fuel oil inventories also came down in July and through most of August as exports from Korea declined in line with decreased refinery throughputs. By the end of August, however, stocks rebounded somewhat as arbitrage cargoes arriving from the Caribbean and Europe increased. Fuel oil stocks remain at high levels as Chinese imports have been lagging for most of the year.

IEA Emergency Response: Mechanisms and Outcome

Following an assessment of the initial damage wrought on US Gulf production, refining and transportation infrastructure by Hurricane Katrina, the IEA Secretariat decided that there was a clear disruption to oil supplies which would have global implications.

On the evening of September 2nd, the IEA Secretariat, having reached a consensus of all Member countries, announced the activation of an emergency response equivalent to the release of 60 million barrels of oil to the market. The volume of the response would average 2 million barrels of oil per day over an initial period of 30 days, with a review of the collective action by the IEA Governing Board on 15 September. Countries were asked, where possible, to contribute finished products – particularly gasoline. The stock draw will be released using market mechanisms to allocate the oil where it is most needed.



Net-importing IEA Member countries are required to hold at least 90 days of net imports. Countries may meet this obligation by holding stocks of crude and finished products (owned directly by the government, held by industry or held/managed by stock holding agencies). Many European IEA countries are also members of the EU. These countries, based on EU directives, hold stocks in three product categories (gasoline, middle distillates and residual fuels) and, thus, a significant portion of their IEA stock holding obligation is met by products.

When the IEA decides to activate an emergency response, IEA Member countries may use various emergency measures to participate in the collective action. The amount of an IEA Member countries' response is proportionate to its share of the IEA group's total consumption over the previous four-quarters. The stock draw may be implemented by the release of publicly held stocks or, alternatively, by temporarily reducing stockholding obligations imposed on industry. A small percentage of the measures will be in the form of demand restraint, thereby freeing oil elsewhere in the supply chain. Other emergency measures which countries may use include raising levels of indigenous production.

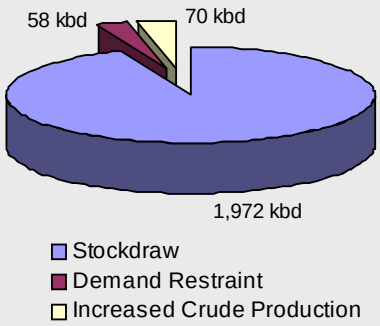
The IEA has received the details of Member countries contributions to the collective action. At present, the total response from IEA countries is 63 million barrels over the initial period of 30 days, the equivalent of 2.1 million barrels per day. The majority of Member countries have opted to draw down stocks. Of this response, 94% would be achieved through the drawdown of either industry or government stocks, 3% by demand restraint and 3% by increased indigenous production. Within the total amount of stocks to be released by IEA countries, 65% would be crude oil and 35% products.

IEA Emergency Stock Release: Region Contribution Breakdown

IEA Region	Share of consumption	Stock Release (kb/d)		
		Crude	Total Products	*Of which Gasoline*
North America	49 %	1,000	-	-
Pacific	19 %	208	140	52
Europe	32 %	79	545	303
Total IEA	**100 %**	**1,287**	**685**	**355**

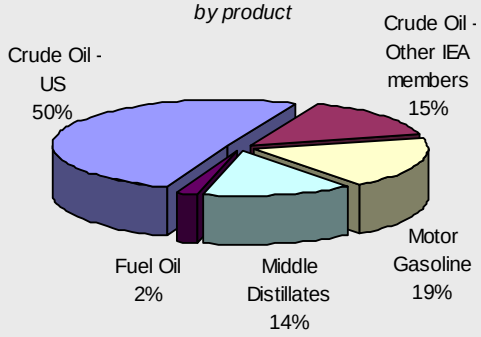
Total IEA Initial Response

by Measure



Total IEA Stock Release

by product

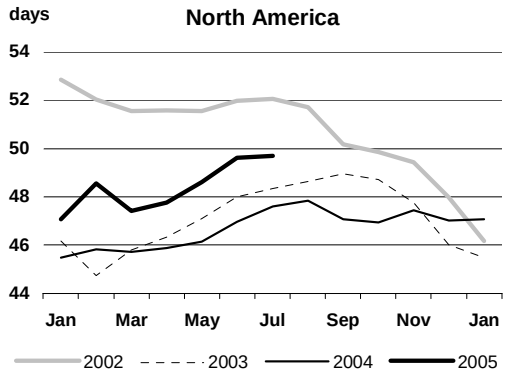


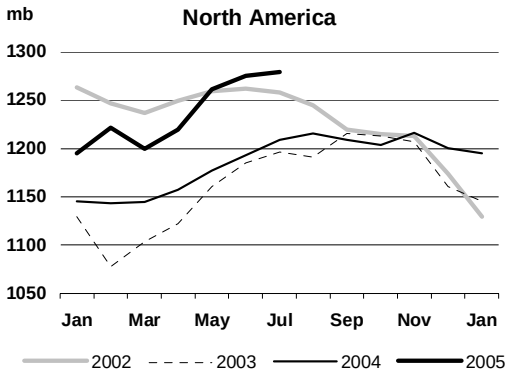
Contributed by:

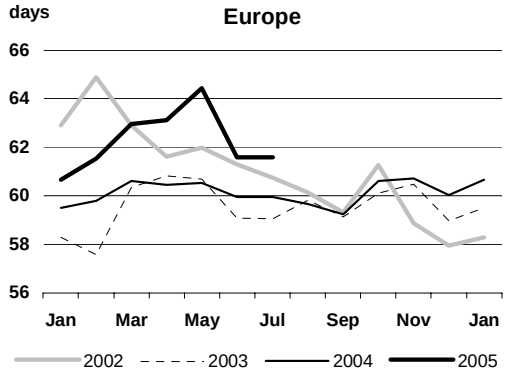
Jason Elliott – Emergency Planning & Preparations Division - eppd@iea.org
James Ryder – Oil Industry and Markets Division

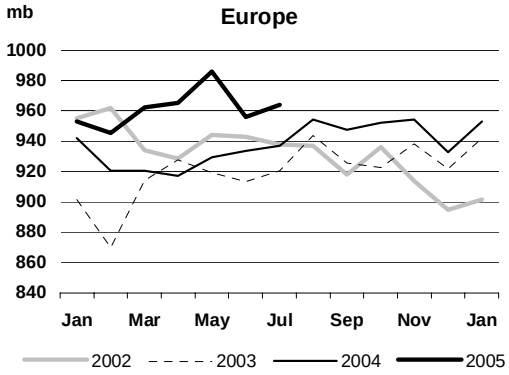
Regional OECD End-of-Month Industry Stocks
(in days of forward demand and millions barrels of total oil)

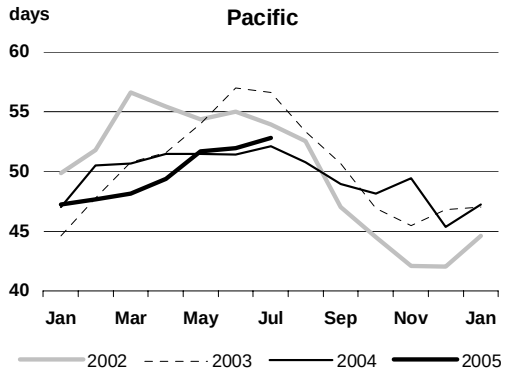
Days[1] | **Million Barrels**

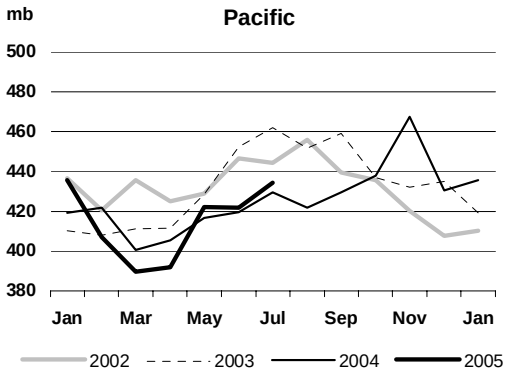


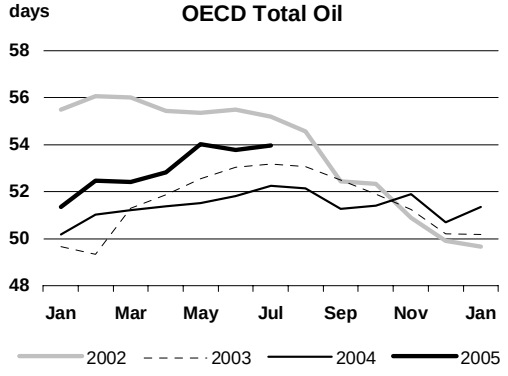


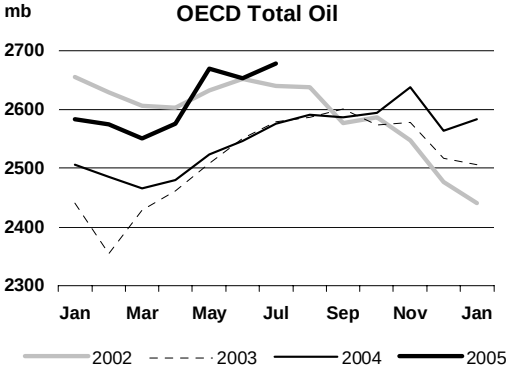










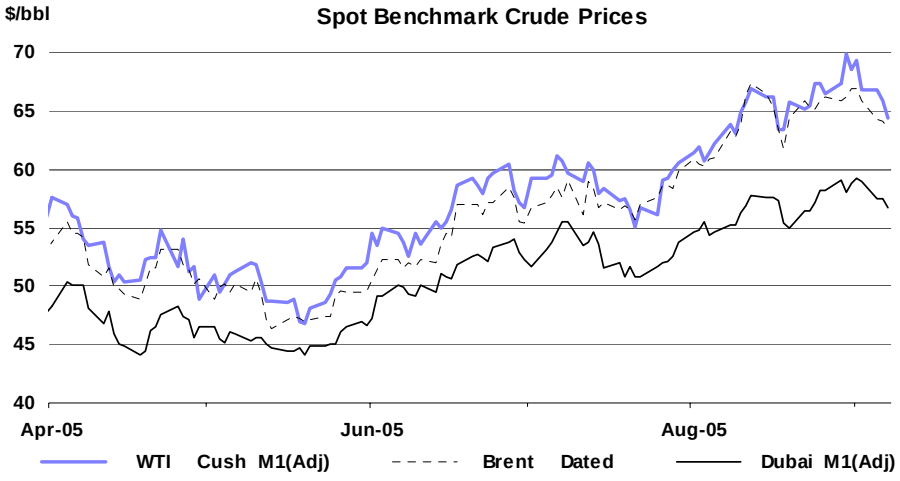


1 Days of forward demand are based on average demand over the next three months.

PRICES

Summary

- **Benchmark NYMEX WTI topped $70/bbl** as Hurricane Katrina hit the eastern coast of the US Gulf of Mexico in late August. Firm gasoline demand and refinery buying of light sweet crudes ahead of autumn seasonal maintenance had kept prices high for much of August. The reaction of the crude market to Hurricane Katrina was relatively subdued compared to product price movements as the disruption to refinery throughput in the Gulf of Mexico outpaced the offshore capacity that was closed. The closure of the LOOP discharging terminal backed up cargoes in the region and on-land supplies were swiftly bolstered by the offer of SPR loans and later co-ordinated action by IEA Member countries.
- **Light sweet crudes are likely to remain in strong demand** as the world oil market adapts to the US refinery outages. Spare hydroskimming capacity requires light sweet crudes to maximise gasoline and middle distillates production and minimise fuel oil output. Additionally, European and US refineries undertaking partial autumn maintenance are likely to run lighter crudes during the process, at the expense of heavy sours.
- **US gasoline prices jumped to over $100/bbl** as 3 mb/d of US refinery capacity was temporarily affected by Hurricane Katrina. While spot prices remained high, forward prices returned to pre-Hurricane levels. The move followed news of up to 9 mb of gasoline exports so far from Europe, faster-than-expected return of US refineries, anticipated dampened demand and the IEA stock release improved the forward supply picture.
- **Distillate prices** rose modestly after Katrina and held on to gains as the market became concerned that a rapid reaction by the US refining industry to high gasoline prices could impact on heating oil yields ahead of peak winter demand.
- **Clean freight rates** jumped from WS250 to WS465 as traders booked around 25 gasoline cargoes from Europe to the US. Increased product exports from South America, Caribbean and other exporting countries were also directed to the US in response to a wide-open gasoline arbitrage, tightening the clean freight market in the process.



Crude Oil Prices

Spot Crude Prices and Differentials

Crude prices saw only a limited initial reaction to Hurricane Katrina, but there were a number of reasons behind the relative inertia. One factor was that the volumetric disruption to refinery throughput in the Gulf initially outpaced the offshore capacity that was closed. The closure of the Louisiana Offshore Oil Port (LOOP) discharging terminal reduced the ability of VLCCs to offload, backing up cargoes in the Gulf. Further, the US has always been swift to offset displaced oil through volumes from the SPR, and made it clear immediately after Katrina that it would actively consider any requests from refiners.

The rapid agreement that 2 mb/d of IEA member country emergency reserves should be made available to the market helped to ease some uncertainty over the use of strategic stocks. Each member country has to decide how to meet that requirement, through any combination of crude, product supplies or demand restraint. The US has offered crude (to offset losses in the Gulf of Mexico) while other IEA members have been asked to provide the most appropriate help according to the needs of the international market, their reserve structure and with an emphasis on product supplies.

Spot Crude Oil Prices and Differentials*

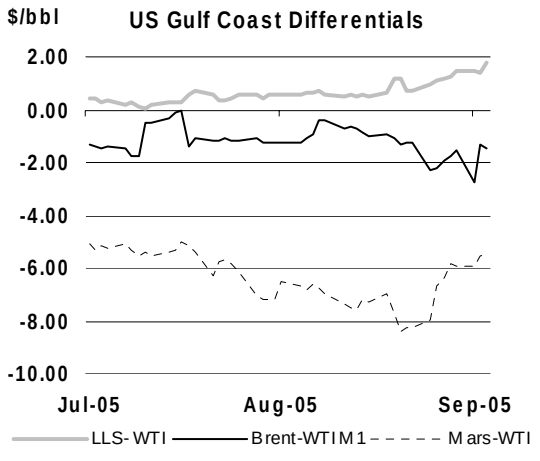
(monthly and weekly averages, $/bbl)

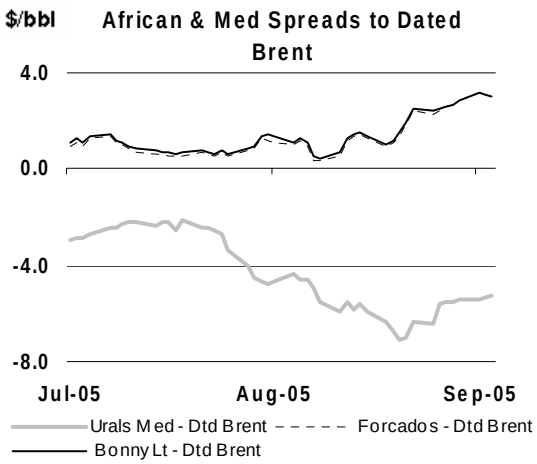
	Jun 05	Jul 05	Aug 05	Aug-Jul		Week Commencing:				
				Change	*%*	08 Aug	15 Aug	22 Aug	29 Aug	05 Sep
Crudes										
Brent Dated	54.39	57.58	64.12	6.54	11.4	64.66	64.23	65.64	66.35	64.16
WTI Cushing 1 month (adjusted)	56.36	58.68	64.96	6.28	10.7	64.89	64.96	66.29	68.38	65.80
Urals (Mediterranean)	51.66	55.02	58.61	3.59	6.5	59.85	58.49	58.92	60.65	58.79
Dubai 1 month (adjusted)	51.08	52.83	56.60	3.77	7.1	56.53	56.57	57.27	58.79	57.38
Tapis	55.86	59.70	67.26	7.56	12.7	66.97	67.92	68.77	70.60	69.10
Differential to Dated Brent										
WTI Cushing 1 month (adjusted)	1.98	1.10	0.84	-0.26		0.23	0.73	0.64	2.03	1.64
Urals (Mediterranean)	-2.72	-2.56	-5.50	-2.94		-4.80	-5.74	-6.72	-5.70	-5.37
Dubai	-3.30	-4.75	-7.52	-2.76		-8.13	-7.66	-8.37	-7.56	-6.78
Tapis	1.48	2.12	3.14	1.02		2.32	3.69	3.13	4.25	4.94
Prompt Month Differential										
Brent 1mth-2mth (adjusted)	-0.69	-0.72	-0.45	0.27		-0.36	-0.40	-0.30	-0.62	-0.62
WTI Cushing 1mth-2mth (adjusted)	-0.81	-1.21	-0.63	-0.60		-0.60	-0.37	-0.39	-0.69	-0.69

* Weekly data for Brent and WTI 1st month and 2nd month are unadjusted

The strengthening of light, sweet over heavy, sour crudes crude differentials was underway well before the Hurricane hit as US gasoline stocks moved towards the bottom of their five-year seasonal range. The resultant strength in gasoline prices and easing of emphasis of refiners away from distillate boosted US demand for light sweet crudes. Fuel oil weakness (as refiners cranked up runs to meet tail-end summer demand and build pre-maintenance stocks) further contributed to a widening of light, sweet-heavy, sour spreads.

The widening spread between Brent and WTI also facilitated (on paper at least), the movement of North Sea crudes to the US. European demand for crude was also tempered to a degree ahead of autumn refinery maintenance, offset slightly by seasonal work on upstream facilities in the North Sea.





Despite the relatively modest post-Katrina crude price movements so far, there remains the potential for larger swings in differentials over the coming weeks as the market responds to regional refiner and product requirements.

Strong demand for West African crudes pushed the premium of Bonny Light to Dated Brent to record levels. Asia's gasoline and naphtha markets also tightened, creating (for the first time in several months) competitive upward price pressures between East and West on West African crudes. An estimated 1.2 mb/d were expected to move to Asia in September, with India and China as featured buyers. This compared with volumes of around 1.0 mb/d in August and 1.1 mb/d in July. Asian light sweet crudes also outperformed dated Brent, with Tapis moving to its highest differential for five months as regional gasoline, naphtha and jet prices tightened.

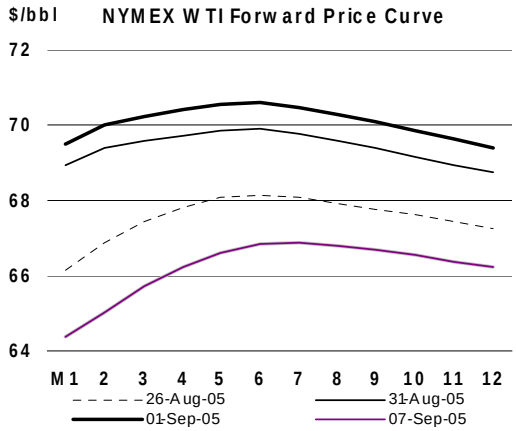
Light sweet crudes are likely to remain in strong demand as the world oil market adapts to the US refinery outages. Any spare refinery capacity is likely to be of a simple (or hydroskimming) configuration and therefore requires light sweet crudes to maximise gasoline and minimise fuel oil production. Further, European and US refineries undertaking partial autumn maintenance are likely to run lighter crudes during the process, at the expense of heavy sours.

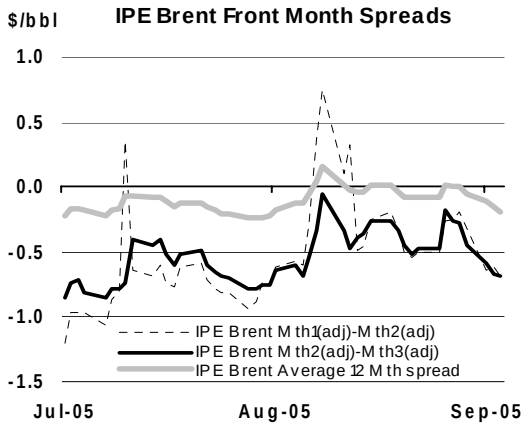
Urals lost ground relative to dated Brent as gasoline took over from gasoil as the lead product market and fuel oil prices weakened. Also, preliminary September export schedules suggest an increase in volumes from the Baltics, while Black Sea supplies were expected to remain flat. Urals is having to compete with heavier Iranian and Syrian crudes in the Mediterranean, alongside sporadic Iraqi exports from Ceyhan. However, an improvement in Oman differentials and the disruption to the Mars stream helped to narrow Ural's discount to Brent in early September. Dubai differentials continued to weaken throughout the month as weak Asian gasoil markets reduced demand.

Crude Futures

In line with the upward trend in spot prices, NYMEX light crude and IPE Brent crude futures spreads tightened throughout August. Each consecutive inter-month spread through to March next year narrowed as the contango flattened. Indeed, the average spread between consecutive months over the first year of futures contracts on IPE Brent futures spent most of the month in a modest backwardation. Dominating this tightening of the spreads was a rise in gasoline prices and increased demand for light sweet crudes ahead of autumn maintenance.

While front-month futures crude prices jumped following the hurricane, and the forward spreads tightened further, the return of crude supplies in the US Gulf, coupled with the release of strategic stocks, offers of additional crude by OPEC and reduced demand from shuttered Gulf Coast refiners quickly subdued the rally. Similarly the market has also resumed the contango structure that had been in place prior to the start of the Hurricane season in July.





Delivered Crude Prices in June

The average price of crude delivered to IEA countries in June was higher in all regions than the price in May following rising price trends in the crude spot market. For the IEA as a whole, the price of crude delivered in June averaged nearly $3.50/bbl higher. European IEA countries paid almost $5 more for the average barrel delivered in June, whilst the increase in IEA North America was around $4 per barrel. Crude delivered to the IEA Pacific region, however, stayed almost flat for the second month running, increasing by only one cent in June.

Product Prices

Spot Product Prices

US Spot gasoline prices surged higher in the wake of Hurricane Katrina to peak at $120/bbl on the US Gulf Coast and $114/bbl on the New York spot market. The price rise created a strong financial incentive to export products to the United States. This tightened the European market, lifting gasoline prices in North West Europe to $100/bbl in the process. Asian gasoline prices also rose to $90/bbl.

While the refinery problems in the US Gulf Coast were localised, the regional tightness quickly became a global issue. A surge in arbitrage activity resulted in at least 20 to 30 gasoline (6mb to 10mb) cargoes being fixed from Europe to the US market in the first few days after the Hurricane. These will take about 12 days to arrive in the US, while others already on water or coming from Caribbean or South America could arrive much sooner.

The US decision to allow early sale of winter grade fuel, the suspension of the Jones Act and lifting the ceiling on truckers' hours facilitated the optimum use of domestic stocks, eased refinery constraints and facilitated the movement of product around the country. This, combined with arbitrage activity, measures from IEA member countries and a natural retracement from a knee-jerk reaction, contributed to a decline in NYMEX gasoline futures from their peak on 31 August of $2.92 per gallon to $2.14 per gallon. However, it must be noted that some of this price decline is due to a switch in the contract expiry from September to October delivery. Spot gasoline prices on the US Gulf Coast have fallen from $2.95 per gallon to $2.51 per gallon.

Spot Product Prices

(monthly and weekly averages, $/bbl)

	Jun	Jul	Aug	Aug-Jul		Week Commencing:					Jun	Jul	Aug
				Change	*%*	08 Aug	15 Aug	22 Aug	29 Aug	05 Sep			
Rotterdam, Barges FOB											***Differential to Brent***		
Premium Unleaded (Cargo)	63.29	69.56	77.00	7.44	10.7	75.57	76.08	76.40	96.32	90.48	8.90	11.98	12.88
Regular Unleaded	62.16	68.09	75.71	7.62	11.2	74.18	75.04	75.12	95.06	88.99	7.77	10.51	11.59
Naphtha	48.15	51.51	58.16	6.65	12.9	58.50	57.41	59.93	64.64	62.75	-6.23	-6.07	-5.96
Jet/Kerosene	72.51	74.22	79.99	5.78	7.8	80.67	80.23	80.99	88.73	86.20	18.13	16.64	15.88
Gasoil	68.67	70.52	76.91	6.39	9.1	76.95	77.29	79.34	85.57	83.85	14.29	12.94	12.79
Fuel Oil 1.0%S	36.40	39.24	43.35	4.12	10.5	43.21	44.09	43.91	47.46	47.46	-17.99	-18.34	-20.77
Fuel Oil 3.5%	36.35	38.28	40.93	2.65	6.9	41.06	40.85	42.17	44.60	45.69	-18.04	-19.30	-23.19
Mediterranean – Basis Italy, Cargoes FOB											***Differential to Urals***		
Prem Unleaded (50ppm)*	61.51	65.21	74.56	9.35	14.3	73.60	74.66	74.25	92.21	84.24	9.85	10.19	15.95
Naphtha	46.62	50.45	57.92	7.48	14.8	58.40	57.17	59.67	64.27	61.80	-5.05	-4.57	-0.69
Jet/Kerosene	70.11	72.17	78.86	6.69	9.3	79.38	79.47	79.83	87.49	84.44	18.45	17.15	20.25
Gasoil	67.71	69.68	76.25	6.57	9.4	76.72	76.48	78.20	83.66	81.96	16.05	14.66	17.64
Fuel Oil 1.0%S	39.85	42.66	45.28	2.62	6.1	44.83	46.02	45.23	50.20	51.57	-11.81	-12.36	-13.33
Fuel Oil 3.5%S	35.02	36.58	39.33	2.76	7.5	39.24	39.03	40.22	43.27	44.61	-16.64	-18.44	-19.28
NY Harbour, Barges											***Differential to WTI***		
Super Unleaded	70.65	78.78	92.33	13.55	17.2	88.07	91.16	91.99	123.20	111.30	14.29	20.10	27.37
Regular Unleaded	63.49	66.78	80.18	13.40	20.1	77.83	79.30	77.18	111.59	93.87	7.13	8.10	15.22
Jet/Kerosene	70.80	70.53	79.63	9.10	12.9	78.59	79.54	80.35	95.23	93.85	14.44	11.85	14.68
No.2 Heating Oil	67.72	68.65	75.57	6.91	10.1	75.96	75.38	76.15	85.59	84.82	11.35	9.97	10.61
Fuel Oil 1.0%S (Cargo)	41.15	42.38	45.72	3.34	7.9	45.66	45.76	45.85	49.90	50.75	-15.22	-16.30	-19.24
Fuel Oil 3.0%S (Cargo)	36.63	36.59	37.81	1.22	3.3	36.58	37.20	39.13	42.53	43.38	-19.73	-22.09	-27.15
Singapore, Cargoes											***Differential to Dubai***		
Premium Unleaded 95	59.65	64.70	73.19	8.50	13.1	72.31	72.02	74.74	85.38	86.55	8.56	11.87	16.59
Naphtha	45.71	49.62	58.17	8.55	17.2	58.04	57.79	60.04	65.13	64.33	-5.37	-3.21	1.57
Jet/Kerosene	68.93	70.07	75.84	5.78	8.2	74.54	76.95	76.74	81.70	78.94	17.84	17.24	19.24
Gasoil	67.67	69.35	70.66	1.31	1.9	71.27	70.63	70.49	77.07	75.97	16.59	16.52	14.06
LSWR (0.3%S)	45.64	49.64	52.50	2.86	5.8	52.75	52.54	52.56	54.30	55.30	-5.45	-3.19	-4.10
HSFO (3.5%S 180cst)	40.41	41.43	44.60	3.17	7.7	44.00	45.11	46.36	48.96	51.35	-10.67	-11.40	-12.00
HSFO 4%S	39.95	40.62	43.35	2.72	6.7	42.76	43.50	44.92	48.42	50.83	-11.14	-12.21	-13.25

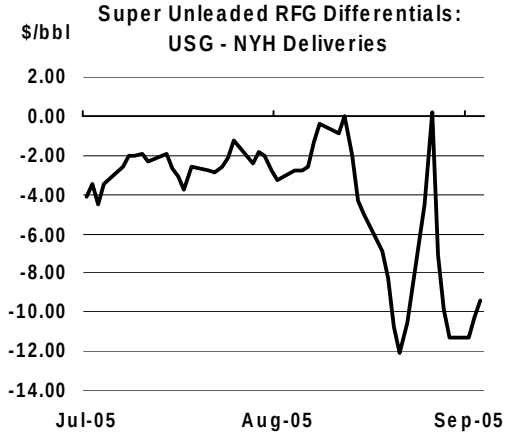
* From January 2005 Premium Unleaded 50 ppm

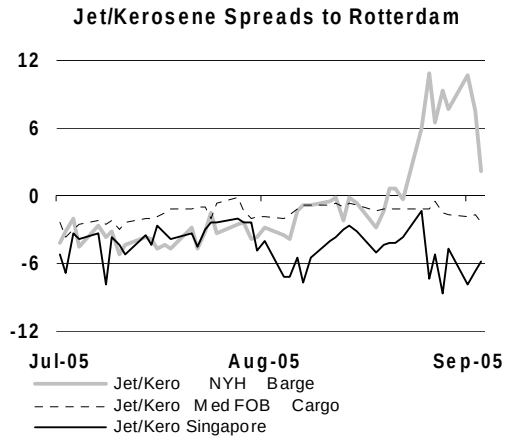
Revealingly, unleaded RFG cargoes in the US Gulf Coast, which reached a premium of $30 over those in New York Harbour were, by 2 September, trading at an $18 discount. This can be partly explained by a likely reduction in demand in the Louisiana region together with the restricted pipeline supplies to the Atlantic coast. However, with the supply situation remaining uncertain and known time lags between exports and delivery, it is likely that spot prices and differentials will remain both high and volatile for a little longer.

European gasoline prices had been rising before the hurricane, with falling US gasoline stocks opening up arbitrage opportunities before the Katrina price spike occurred. Firm demand was also reported in Europe due to good weather during the August holiday period.

Asian gasoline prices also moved steadily higher in August as reports of Chinese domestic fuel tightness emerged and policy measures designed to limit exports were imposed. China has exported around 500,000 tonnes per month so far this year. However, September gasoline exports are expected to fall to 130,000 tonnes, down 70% from August levels, and the lowest for 20 months as product is moved to meet domestic demand. This, however, has been partly offset by a reduction in Indonesia's product tender following high purchases in September and recent currency problems.

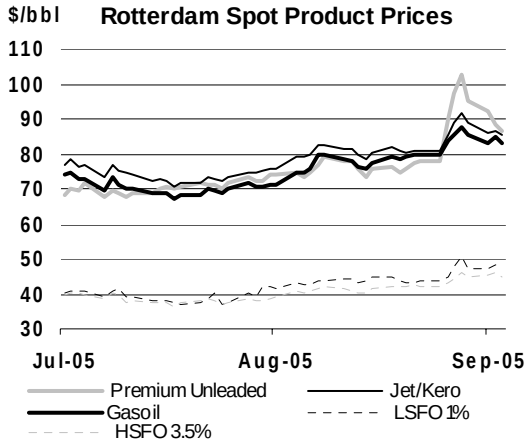
A strong naphtha market also contributed to the rise in gasoline prices in August, with China moving to net importer status, helping to tighten regional supplies. While there have been some reports that Sinopec has moved away from naphtha production towards gasoline to meet domestic demand, Chinese naphtha demand was expected to rise from April onwards as new petrochemical plants came on stream. The naphtha picture in Europe remains mixed depending on the grade. Reformer-grade naphtha is in strong demand as gasoline prices rise, but lighter paraffinic grades remain at a strong discount.

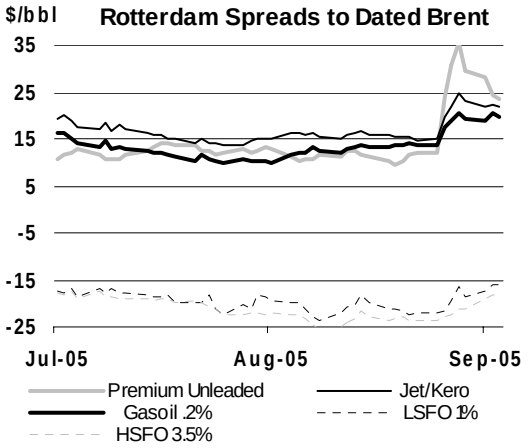


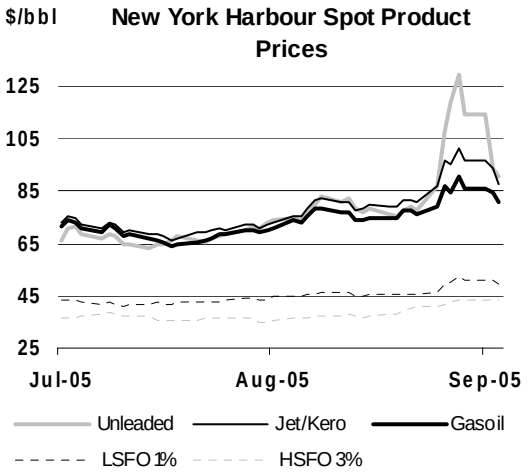


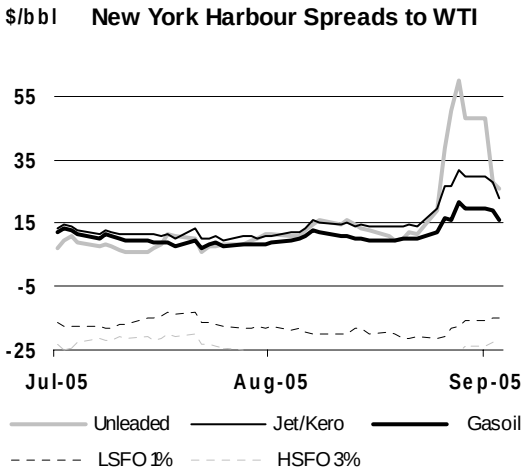
Gasoil prices tightened in the aftermath of Katrina - initially to a much smaller degree than gasoline. The sharp rise in US distillate stocks in July and August, coupled with a slack Asian market resulted in a weakening of European price differentials and a deepening contango in IPE gasoil. In an unusual arbitrage move, Asian traders were reported shipping around 400,000 tonnes to Europe in September, with additional volumes seen from the Middle East. This was partly offset by a pre-winter pick up in German heating oil demand, but offtake from inland deliveries remains extremely price sensitive. While there is likely to be a rapid refiner response towards lower gasoline output in the US, this could be at the expense of jet/kerosene and gasoil. This raises the risk of a possible decline in heating oil stocks ahead of the winter months – albeit from inventories that are at a comfortable level.

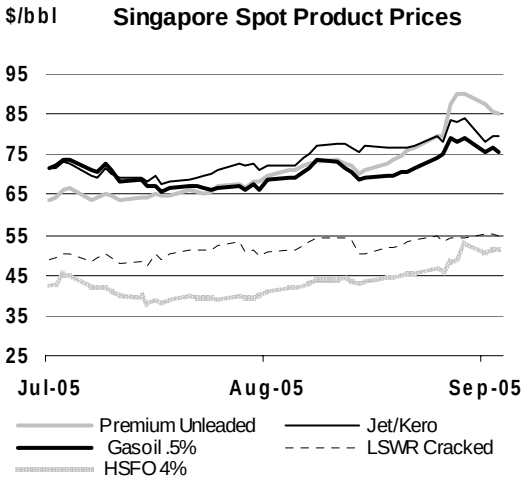
Jet/kerosene had a more pronounced reaction to Hurricane Katrina. While there were reports of some logistical problems in delivering jet to some US airports, suppliers indicated that disrupted supplies would be made up by truck. However, jet prices rose sharply as the fuel represents the marginal overlap between diesel and naphtha and therefore tends to be bid higher when gasoline or diesel prices are strong. The outperformance of jet/kerosene over heating oil in the US had been in place since the middle of August as gasoline stocks fell to the lower end of their five-year range. This was in contrast to the European market, where a strong contango on IPE gasoil together with high nominal prices attracted deliveries from India and the Middle East into the region.

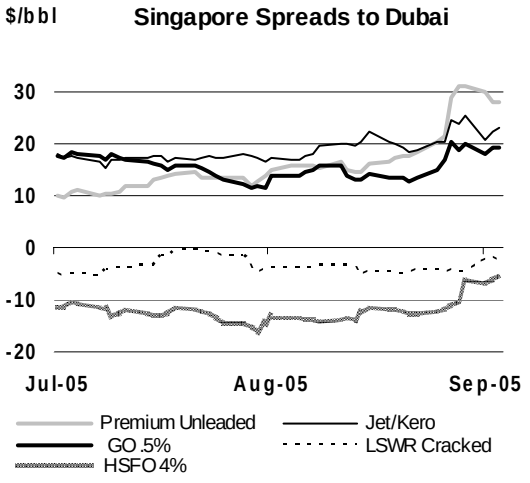

$/bbl
Rotterdam Spot Product Prices
110
100
90
80
70
60
50
40
30
Jul-05
Aug-05
Sep-05
Premium Unleaded
Jet/Kero
Gasoil
LSFO 1%
HSFO 3.5%


$/bbl
Rotterdam Spreads to Dated Brent
35
25
15
5
-5
-15
-25
Jul-05
Aug-05
Sep-05
Premium Unleaded
Jet/Kero
Gasoil .2%
LSFO 1%
HSFO 3.5%


$/bbl
New York Harbour Spot Product Prices
125
105
85
65
45
25
Jul-05
Aug-05
Sep-05
Unleaded
Jet/Kero
Gasoil
LSFO 1%
HSFO 3%


$/bbl
New York Harbour Spreads to WTI
55
35
15
-5
-25
Jul-05
Aug-05
Sep-05
Unleaded
Jet/Kero
Gasoil
LSFO 1%
HSFO 3%


$/bbl
Singapore Spot Product Prices
95
85
75
65
55
45
35
25
Jul-05
Aug-05
Sep-05
Premium Unleaded
Jet/Kero
Gasoil .5%
LSWR Cracked
HSFO 4%

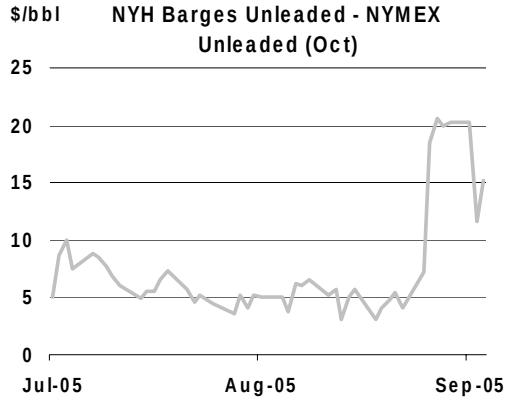

$/bbl
Singapore Spreads to Dubai
30
20
10
0
-10
-20
Jul-05
Aug-05
Sep-05
Premium Unleaded
Jet/Kero
GO .5%
LSWR Cracked
HSFO 4%

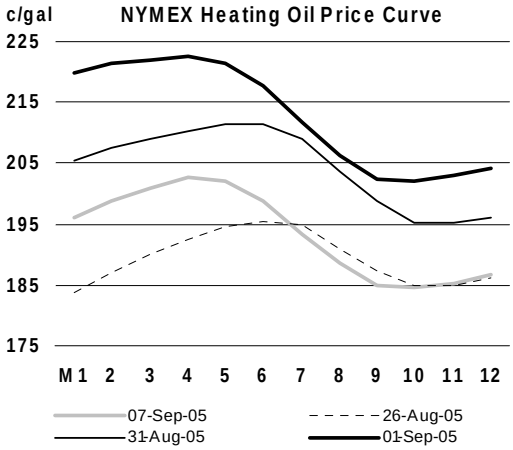
US fuel oil prices were mixed following Hurricane Katrina. While the shut-in of natural gas production is likely to have caused increased demand for low sulphur fuel oil in some regions, logistics made it difficult for suppliers west of Louisiana to move material to Florida. Europe saw strong demand in the Mediterranean, which prior to the Hurricane was close to opening an arbitrage for low sulphur fuel oil to move from the US to Europe. In Asia, incremental supplies of low sulphur waxy residue from Indonesia and lower Japanese demand capped LSWR prices for much of August; however, traders reported a pick-up in Japanese demand in early September.

High sulphur fuel oil differentials to crude remained weak until the end of August, with peak August throughput in Europe and the US and rising runs in Asia increasing the volume of fuel oil available to the market. However, differentials rose at the end of August and early September as Chinese import demand increased in the face of a tight internal diesel market. Reduced exports from Europe and the Middle East and good bunker demand helped to support prices.

Product Futures

Comparing the movements of NYMEX heating oil and gasoline futures both before and after Hurricane Katrina is revealing. While gasoline futures spiked sharply, before falling back to pre-Hurricane levels, heating oil prices have seen a more modest decline. The fall in gasoline prices is partly due to the expiry of September delivery futures on 31 August and the prevalence of a steep backwardation, but this does not explain all of the decline.





Comparing cash market gasoline prices with NYMEX October futures shows that the premium of spot gasoline cargoes to the October contract (or backwardation) actually widened until 2 September. The subsequent narrowing of the backwardation on the first trading day after the US Labour Day holiday reflected the improving refinery outage situation on the US Gulf Coast, with imminent restarts pending for a number of refineries, and some better-than-expected news on some of those refineries believed to have sustained severe damage. It was also the first trading session on which the US could digest the news of the IEA collective action on releasing strategic reserves.

Heating oil prices however declined much less rapidly. This can partly be explained by the expected shift in refiner emphasis towards higher gasoline yields at the expense of distillate, coupled with the large quantity of exports booked to the US since the Hurricane hit. While US distillate stocks are currently above normal, and stockbuilds have been seen in Europe, the switch by refiners to higher gasoline yields would largely be at the expense of distillate yields.

End-User Product Prices in August

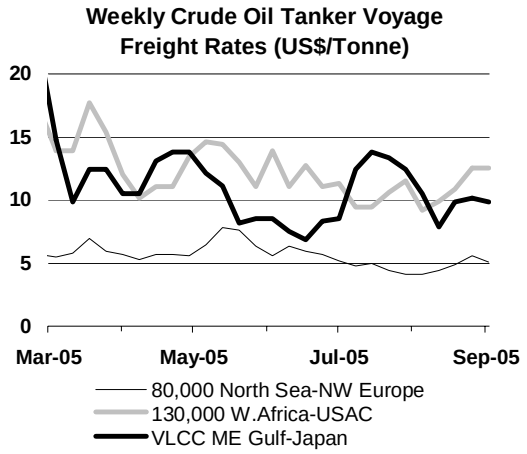
End-user gasoline prices increased in August in all countries surveyed. On a national currency basis, the largest percentage increases were seen in Canada and the US, where gasoline rose by over 7% at the pump compared to July. This represented a price rise of 30.6% in the US since last August. Survey averages reveal that European gasoline was higher in August by almost 2% in national currency terms but, following a stronger US dollar performance in August, this equated to a 4% rise when the exchange rate to the dollar was factored in. These increases will be exacerbated by the rise in spot prices following Hurricane Katrina. In dollar terms, prices for all products increased, in every country surveyed. There were notable price gains in automotive diesel in Japan, USA and to a lesser extent, UK in line with rising gasoil spot prices. August heating oil prices rose by 4% in Japan

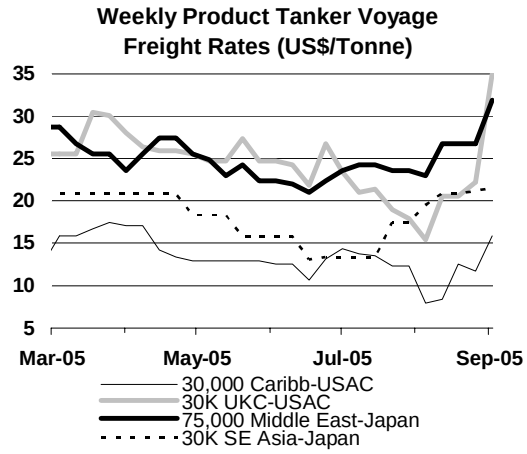
compared to July but barely changed in Italy, Spain and France, in Euro terms. Germany experienced the highest August growth in industrial fuel oil prices, adding a 2% increase on July, with the UK close behind.

Freight

Focus on the clean product tanker market sharply intensified in the wake of Hurricane Katrina as damage to US Gulf refineries sparked a surge in gasoline exports to the US. Freight rates for cross-Atlantic clean product shipments had already risen by a third in the second half of August (albeit from 2005 lows) following the tightening of the US gasoline market, before rising from WS 250 to WS 465 as cross-Atlantic gasoline trade surged. Charter rates from the Caribbean to the US Atlantic Coast (a more immediate product supply source for the US) rose from WS 245 to WS 350 in the week following the hurricane. Elsewhere, market momentum following US events carried 30K Singapore-Japan rates above W300 and MEG-Japan to WS 245.

Shipping insiders are reporting that the rise in clean freight rates is leading to OBO ships (oil, bulk, ore), whose last cargo was dry, shifting into the clean product sector. There are also reports that around 15 tankers used for crude and fuel oil movement are now being cleaned to transport products. To allow this, a ship's tanks must undergo a 5-6 day cleaning procedure and the price differential between products and freight must be sufficient to make this conversion economically viable.





The State of Louisiana found itself directly in Hurricane Katrina's path and the storm caused the closure and evacuation of the LOOP terminal with imports from VLCCs (and other tankers) suspended for 6 days. Gradual resumption of importing, storage and distribution activities at the terminal began on Friday, 2 September. A day earlier, the Bush Administration further eased the flow of oil around the US coast by granting a waiver on the Jones Act, which forbids non-US flagged vessels to carry oil between US ports.

While a LOOP closure would normally have lent support to VLCC freight rates, the significant shift in market attention towards product supply meant that, like crude prices, crude freight rates did not show large knee-jerk reactions to the hurricane. Instead, MEG-USG 260k rates drifted up around five points to WS 70, whilst MEG-Japan rates dipped below WS 70 in the couple of days following the storm. Charter rates for cross-Atlantic Suezmax crude runs from West Africa heading for the US Atlantic fell from around WS 130 to WS 112 immediately after Katrina struck but rebounded to over WS 130 by 2 September. Once the initial shock of the disaster subsided, all crude rates experienced moderate gains in light of the global need to redistribute oil after a significant supply disruption.

These mild gains were in contrast to the weaker rates seen in the first two weeks of August in the VLCC sector with spare tonnage growing. Middle East Gulf (MEG)-USG and MEG-Japan rates both fell WS 20 to 30 points to the WS 60 mark by mid-month. Following this trough, rates for both trade routes gradually gained support, kicked-off by some bookings to the US Gulf for late August/early September made by Saudi Aramco. VLCC chartering gathered momentum throughout the second half of August, particularly for vessels trading East, as September cargoes became available. Aframax tonnage (80 to 120 kdwt) became increasingly stretched throughout the first half of August and rose further when Katrina suddenly threw short-term supply to the US into the limelight.

REFINERY ACTIVITY

Summary

- **Full-cost refinery margins** saw divergent trends in August between the US and other refining centres surveyed in this Report prior to Hurricane Katrina. US margins performed strongly on the basis of strong gasoline prices while European and Asian margins either posted modest gains or declined due to weaker product prices against crude oil. In the immediate aftermath of Katrina, product prices jumped globally while crude prices were little changed in relative terms, shifting virtually all margins surveyed into positive territory.

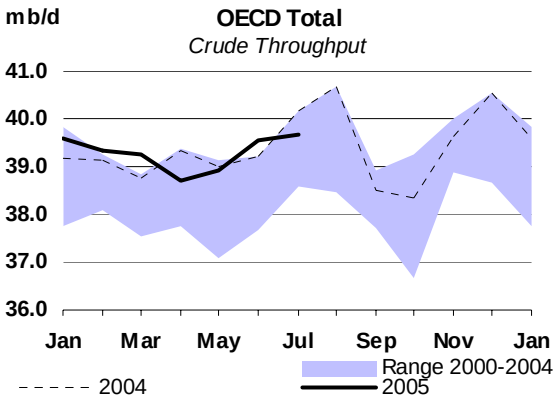
- **US Gulf Coast margins rose** across refinery configurations in August. Cracking margins generally increased by more than $3.50 /bbl while returns on coking configurations saw increases by over $6 /bbl. Underpinning the gains during August was a string of unplanned refinery outages and rapidly declining gasoline inventories. In the wake of Hurricane Katrina, uncertainty surrounding damage to the US's main refining centre led to a jump in margins by around $20 /bbl.

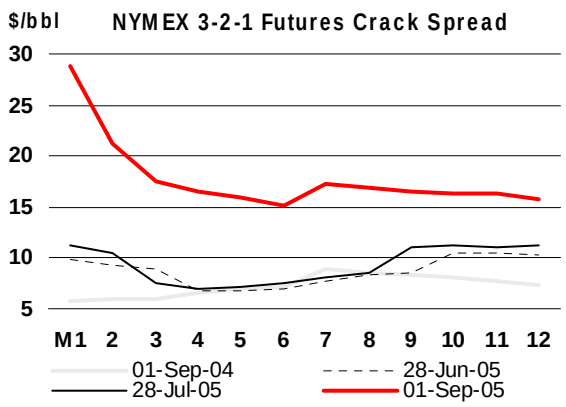
- **European margins** in August saw mixed trends between sweet and sour crudes. Brent cracking and hydroskimming margins fell as the North Sea marker saw prompt prices rise, with the forward market flipping temporally into backwardation. Margins on Urals improved, mainly due to weakness in the grade's differentials against Dated Brent. Urals prices fell with competing supplies of comparable crudes and weakening demand, notably from China, for Baltic loading material.

- **Asian margins** were mixed in August. Distillate price differentials weakened and regional crude prices rose unevenly. Gasoil and jet supplies improved, deepening the contango in Singapore forward swap prices. At the same time, Chinese demand remained thin and spot arbitrage outlets for jet fuel to the US West Coast appeared intermittent. Singapore margins, that had been weakening with slowing Asian demand, were virtually all lifted back into positive territory following a global rebound in product prices in the aftermath of Hurricane Katrina.

- **OECD refinery throughputs** were only marginally higher in July compared to June. Runs increased in the Pacific and in Europe; however, this was offset by unscheduled outages and discretionary run cuts in the US. As a result of Hurricane Katrina, around 5% of US refining capacity, or 885 kb/d, was severely impacted. The duration of outages is subject to uncertainty and estimates for full recovery range between a couple of weeks up to three months depending on the facility affected.

- **The 3-2-1 NYMEX crack spread** in the front-month jumped over $20 by 1 September as fears concerning product supply shortages lifted premiums over crude. The gasoline spread was the main driver in the cracks increase. Despite the end of the driving season, the combination of low gasoline stocks and uncertainty over the duration and magnitude of lost output saw gasoline prices closing at 261.45 cents a gallon, or nearly $110 /bbl on 31 August.





Refining Margins

Pre-Katrina refining margins saw divergent East/West trends during August. These increased in the US, driven higher by firming gasoline prices, while those in Asia fell as distillate prices eased or posted more modest gains with slowing demand and rising prompt supplies. Europe was a mixed picture and margins were mainly driven by crude quality differentials. The strength of light sweet Brent prices relative to products led to a softening in margins whereas weaker medium sour Urals, both in Northwest Europe and the Mediterranean, helped to push margins for the grade higher.

In the aftermath of Hurricane Katrina, product prices jumped globally with sharp increases in motor fuels as well as jet fuel prices. Spiking product prices outpaced gains in crude prices, generally, leading to substantial increases in refining margins across centres. The rally in the product complex was largely driven by US gasoline prices. Concerns over severe supply shortages associated with refinery shutdowns as well as interruptions in pipeline distribution into the Northeast and Mid-continent areas caused physical prices of gasoline to rocket upwards. Cargo prices of unleaded reformulated gasoline in New York Harbour reached premiums to the front month NYMEX futures contract of $21.41 /bbl on 2 September. The rise in US prices led to higher European prices, these gaining around 30% for that period, supported by trading activity to fix transatlantic cargoes.

Selected Refining Margins in Major Refining Centres

($/bbl)

	Monthly Average			Change	Week Ending:				
	Jun 05	Jul 05	Aug 05	Aug-Jul 05	05 Aug	12 Aug	19 Aug	26 Aug	02 Sept
NW Europe									
Brent (Cracking)	4.65	4.74	4.28	-0.46	3.75	3.07	3.49	3.70	13.84
Brent (Hydroskimming)	-0.32	-0.89	-2.44	-1.54	-2.56	-3.90	-2.66	-3.28	4.96
Mediterranean									
Urals (Cracking)	5.69	4.34	7.19	2.84	5.70	5.86	6.92	7.73	15.24
Urals (Hydroskimming)	-1.64	-3.26	-2.17	1.09	-2.82	-3.93	-1.94	-1.90	3.64
US Gulf Coast									
Brent (Cracking)	1.53	0.23	3.89	3.66	1.28	3.80	1.91	0.29	17.38
LLS (Cracking)	3.67	3.02	6.77	3.75	3.80	8.38	4.48	3.92	19.99
Maya (Coking)	11.03	11.57	18.40	6.83	14.12	19.65	16.07	15.78	32.33
US West Coast									
ANS (Cracking)	3.81	4.22	6.22	2.01	7.83	5.67	3.06	7.30	15.23
Oman (Cracking)	3.23	4.33	8.54	4.21	9.77	8.76	6.76	9.13	16.17
Kern (Coking)	17.26	18.45	20.52	2.07	24.21	20.47	19.03	19.87	28.27
Singapore									
Tapis (Hydroskimming)	-1.30	-2.32	-5.40	-3.08	-5.20	-5.22	-6.24	-5.72	-0.99
Dubai (Hydrocracking)	2.72	2.67	3.18	0.52	2.55	3.42	4.24	3.38	10.45
Tapis (Hydrocracking)	0.94	-0.26	-3.05	-2.79	-3.00	-2.92	-3.67	-3.35	2.79
China*									
Cabinda (Hydroskimming)	-2.45	-0.52	-4.02	-3.50	-3.21	-4.98	-5.66	-5.10	-0.36
Daqing (Hydrocracking)	-0.59	1.64	1.93	0.29	2.05	2.65	1.74	1.31	5.28

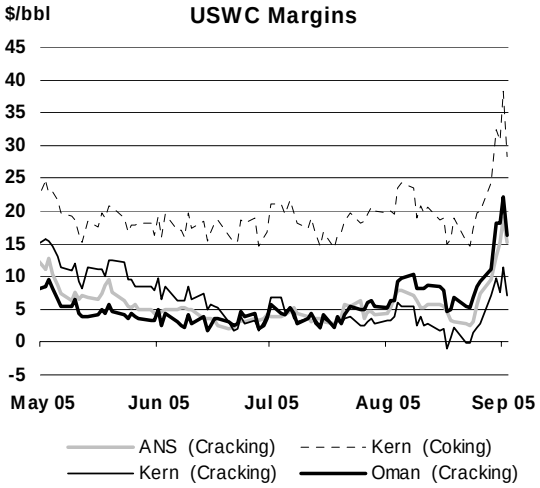
For the purposes of this Report, refining margins are calculated for various complexity configurations, each optimised for processing the specific crude in a specific refining centre on a 'full-cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability for a given refining centre. No attempt is made to model or otherwise comment upon the relative economics of specific refineries running individual crude slates and producing custom product sales, nor are these calculations intended to infer the marginal values of crudes for pricing purposes.

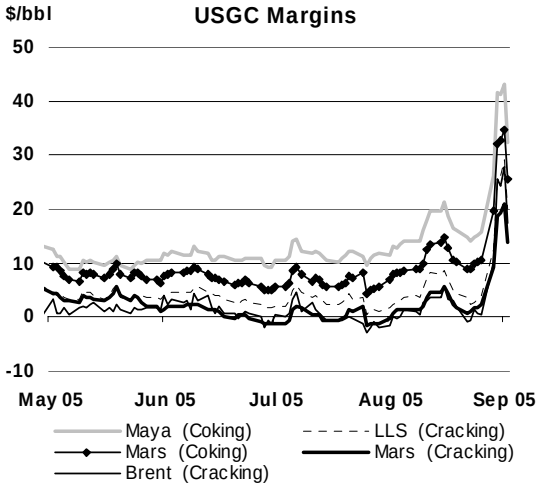
* The China refinery margin calculation represents a model based on spot product import/export parity, and does not reflect internal pricing regulations. A full list of refining margins and gross product worth can be found in table 15 on www.oilmarketreport.org.

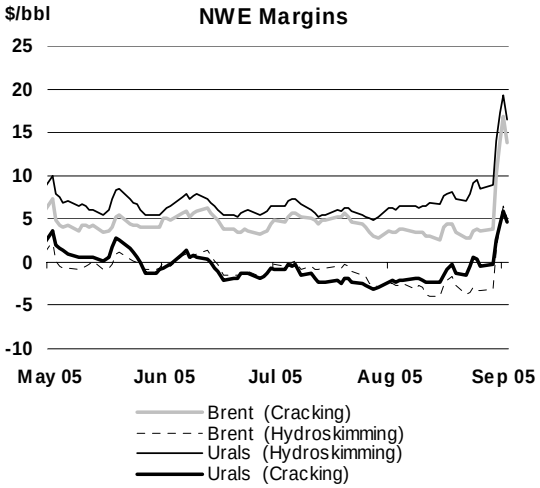
Sources: IEA, Purvin & Gertz Inc.

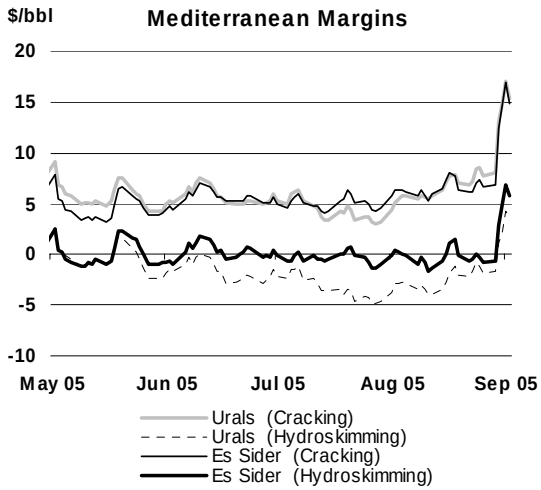
Pre-Katrina margins in the US were already gasoline-driven, though the gains varied between the Gulf and West Coast. Refinery glitches in late July early August had heightened concerns over gasoline availability despite the fact that the end of the driving season on Labour day weekend was in sight. While gasoline demand growth eased in August, seasonal declines in inventories took place at a faster pace than market expectations. The draws came in spite of rising imports as domestic production was curtailed with lower average utilisation rates. The decline in inventories also followed in part from discretionary reductions of stocks ahead of the upcoming change in product quality from summer to winter material. Product yield on diesel and heating oil was also unseasonably high, cutting into gasoline production. As such, crack spreads on futures for heating oil were competitive with those for gasoline. Cracking margins on domestic light sweet grades in the Gulf Coast held firm while those on

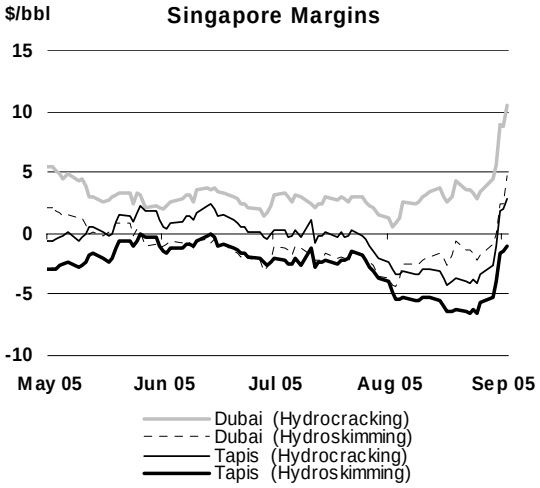
Regional Full-Cost Refining Margins

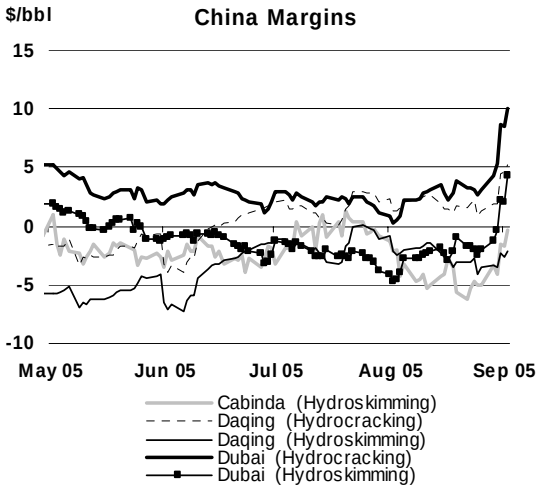




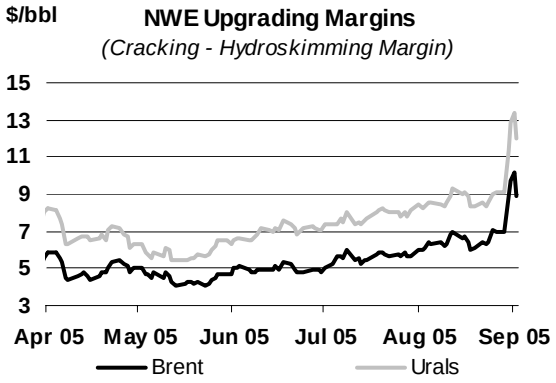


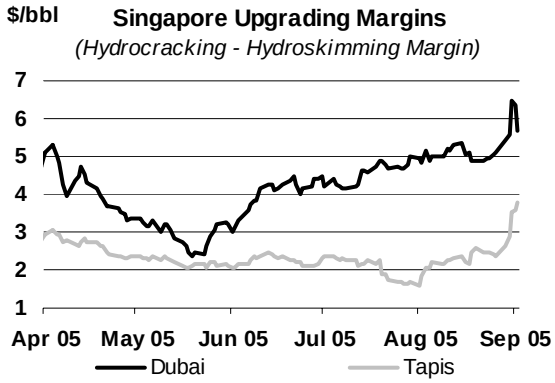






medium sours such as deepwater Mars (which yields a large share of fuel oil) continued to suffer from the weakness of that product, namely in high sulphur material. The discount of 3.5% fuel oil to Mars on the US Gulf Coast pre-Katrina widened, trending at around $18 /bbl. Coking margins, that maximise gasoline production, also benefited from a further widening of discounts of medium and heavy crudes against WTI in the second half of the month. West Coast cracking margins, with the exception of Kern improved, gaining $2.01 /bbl for ANS and $4.21 /bbl for Oman during August. Though dipping at mid-month, light product prices in the Los Angeles area during August held on to gains achieved during their July rally. Coking margins continued to provide the highest returns, with those for Kern rising by $2.07 /bbl to $20.52 /bbl on average.





Pre-Katrina changes in European cracking margins diverged according to crude quality. Product crack spreads relative to Brent, mainly in distillates, underperformed those against Urals during August. Brent prices were relatively firm on active European refinery buying, with forward prices temporarily flipping into backwardation. Urals prices in turn suffered from sagging demand, notably for barrels sourced from the Baltics. In the absence of China interest, these were re-offered into the Mediterranean. With the added competition of comparable Middle Eastern grades in the region, Urals differentials widened and discounts against Brent reached over $7.00 /bbl by 25 Aug. Cracking Urals gained more than $2 /bbl in August for a return of $7.19 /bbl in the Mediterranean and $8.02 /bbl in Northwest Europe. Cracking on Brent returned $4.28 /bbl, down 46 cents from July. Upgrading margins, or the relative profitability of a cracking process over a hydroskimming one, continued to increase in August. This was supported by a further deterioration in hydroskimming margins due to weak fuel oil prices. Heavy inflows of Russian high-sulphur material lifted stocks in Northwest Europe in the absence of arbitrage outlets. As well, supplies of low-sulphur material for power generation into countries affected by drought conditions (such as Spain and Portugal) were adequate.

Hydroskimming margins in Singapore fell across crudes surveyed in August before the landfall of Hurricane Katrina. Weakness in fuel oil price spreads against crude weighed on simple margins despite some reduction in fuel oil stockpiles on slowing arrivals of high sulphur material arbitraged from the West and reduced Korean exports. Prices in Singapore for LSWR (used by power utilities), after showing relative strength in July, trended sideways, converging with those of benchmark 180 cst material and competing low sulphur material from Korea. Milder weather lowered requirements for the product, with demand easing particularly from Japan. This cut margins for Tapis crude, which yields a high cut of LSWR. Cracking margins for Dubai and Daqing edged higher on the recovery of gasoline and naphtha prices. The gains, however, in the case of cracking light sweet Tapis proved insufficient to outweigh increases in that crude's prices. More broadly, a recovery in cracking margins was dampened by the relative weakness of jet and gasoil price differentials against crude. Cracks fell as regional supplies improved and demand from China remained thin.

Refinery Throughput

OECD refinery throughputs rose to 39.7 mb/d in July, up 120 kb/d from June. The increase came with higher crude runs in Europe and the Pacific while those in North America were down, mainly on a decline in the US. The increase in European crude runs accompanied the gradual exit of some refiners from scheduled maintenance. Underlying in part the modest pace of the resumption was further work to install sulphur reduction capacity. Last autumn, some refiners likely delayed work, by running greater volumes of light sweet crude. However, despite an increase in European runs of 220 kb/d, in July, throughputs at 13.7 mb/d, were down 500 kb/d against year-ago levels. This puts

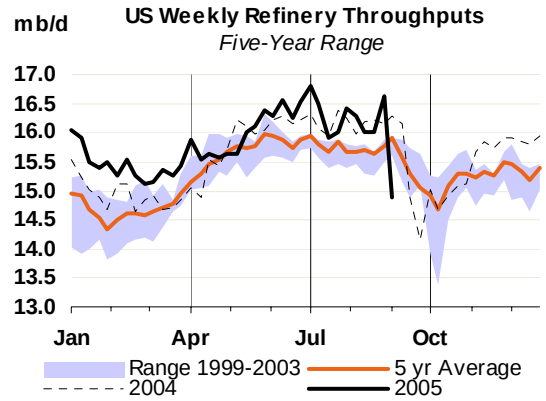
Refinery Crude Throughput and Utilisation in OECD Countries

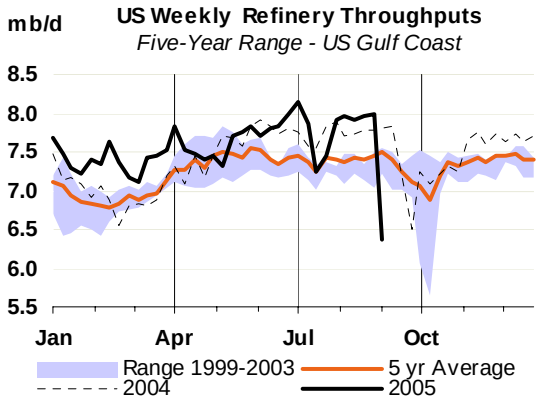
	million barrels per day						*Change from Jul 04*		Utilisation rate[2]	
	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	mb/d	%	Jul 05	Jul 04
OECD North America										
US[3]	15.11	15.14	15.49	15.89	16.40	15.87	-0.27	-1.7	93.1	95.6
Canada	1.89	1.86	1.64	1.75	1.84	1.83	-0.05	-2.4	90.7	94.3
Mexico	1.27	1.32	1.33	1.27	1.27	1.23	-0.06	-4.8	73.3	72.0
Total	18.27	18.32	18.45	18.91	19.52	18.94	-0.37	-1.9	91.3	93.9
OECD Europe										
France	1.72	1.84	1.79	1.56	1.62	1.76	-0.06	-3.1	90.0	92.9
Germany	2.33	2.35	2.22	2.33	2.30	2.29	-0.10	-4.1	93.3	97.3
Italy	1.74	1.71	1.89	1.95	1.90	1.90	0.06	3.5	81.8	79.4
Netherlands	1.05	0.98	1.12	1.13	1.10	0.95	-0.17	-15.0	77.2	91.2
Spain	1.09	1.09	1.19	1.18	1.11	1.15	-0.06	-5.1	90.6	95.5
UK	1.60	1.64	1.58	1.62	1.59	1.75	-0.01	-0.8	95.7	96.9
Other OECD Europe	4.07	3.89	3.51	3.65	3.89	3.94	-0.21	-5.2	84.3	88.8
Total	13.60	13.50	13.31	13.43	13.51	13.73	-0.55	-3.8	87.3	90.9
OECD Pacific										
Japan	4.36	4.24	3.96	3.58	3.69	4.03	0.14	3.6	85.5	82.6
Korea	2.43	2.46	2.24	2.33	2.12	2.25	0.32	16.7	87.2	75.6
Other OECD Pacific	0.67	0.72	0.74	0.66	0.72	0.74	-0.05	-6.7	85.6	91.7
Total	7.46	7.42	6.94	6.57	6.53	7.01	0.41	6.2	86.1	81.4
OECD Total	**39.33**	**39.24**	**38.69**	**38.91**	**39.55**	**39.67**	**-0.51**	**-1.3**	**88.9**	**90.6**

1 Estimate
2 Based on crude throughput and current operable refining capacity
3 US50

utilisation rates at about 87.3% of capacity, leaving a significant margin for an upswing in August. Main crude distillation capacity maintenance in September will be centred in Scandinavian countries and Belgium. In the Pacific, throughputs in July mainly rose with increases in Japan where runs were up by some 300 kb/d to 4.03 mb/d. The rebound followed seasonal patterns, extending through August according to weekly data as refiners began to replenish distillate stocks ahead of the winter. Korean runs also picked up, in likely response to tighter domestic product supplies ahead of some maintenance in August. However, preliminary surveys for Asian schedules suggest only modest offline capacity for Japan and Korea over the August to October period, allowing room to expand runs in response to higher international product prices.

US runs were down on average in July, following a string of unscheduled refinery outages mainly in the Gulf Coast area. Closures were generally linked to stress on the refining system by running plants at near-capacity utilisation rates by the end of June. The spate of incidents from mid to end-July were connected to fires, problems with heating and water cooling systems, or power failures. Rates fell to slightly over 93% utilisation before closing the month back up to 95.8% of capacity. Pre-Hurricane Katrina runs appeared to respond to a faster than expected decline in gasoline inventories. After an initial curtailment, supported in part by discretionary inventory draws with an upcoming change to winter quality material, throughputs rebounded as crack spreads on gasoline widened.





US Refineries Post-Hurricane Katrina and Alternative Product Supply

Hurricane Katrina affected about 3 mb/d, 36% of total Gulf Coast capacity on 31 August, representing some 17% of total US capacity. The impact was exacerbated and spread nationwide by disruptions to the key Louisiana Offshore Oil Port (LOOP) and pipeline systems feeding products and crude oil into the Mid-continent and Northeast region.

Some of these issues have been solved relatively swiftly. At the time of writing, refineries were reported coming back online and pipeline distribution systems for crude oil and product were resuming higher flow rates. The Colonial pipeline in particular, that delivers product through the southeast and north into New Jersey, was reported operating at close to normal rates. The LOOP terminal, which can handle large crude carriers, and the Capline pipeline that delivers crude oil into the Mid-continent were reported running at around 75-80% of capacity as electrical power was partially restored.

An estimated 1.2 mb/d of crude distillation (CDU) capacity on the Gulf Coast is expected to remain shut through 9 September, possibly notching below 1 mb/d by the following week depending on re-starts and the pace of ramp up to normal operations. However, it would appear that flooding resulted in significant damage to several refineries, while others, according to recent reports expect a swifter return to operations.

Refinery		Location	Company	CDU Capacity
Chalmette		Chalmette (LA)	ExxonMobil/PDVSA	190,000 bpd
Pascagoula		Pascagoula (MS)	Chevron Corp.	325,000 bpd
Alliance		Belle Chasse (LA)	ConocoPhillips	247,000 bpd
St Charles	**	Norco (LA)	Valero Energy Corp.	185,000 bpd
Norco	*	Norco (LA)	Motiva Enterprises	227,000 bpd
Meraux		Meraux (LA)	Murphy Oil	120,000 bpd

* Expected to restart operation in middle of week starting Monday 12 September

** Re-started partial operation in the end of week starting Monday 5 September

Given water damage, estimates regarding a return to normal operations can vary considerably. One historical precedent occurred in September 1998 when hurricane-induced flooding of the Chevron facility at Pascagoula damaged a large number of the motors at the plant. The refinery was offline for about 3 months to replace the motors and repair other damage. The first weekly figures post Katrina shows overall US runs falling 1.6 mb/d to 14.6 mb/d, with those on the Gulf Coast falling 1.5 mb/d to 6.3 mb/d. The indirectly impacted areas of the Mid-continent and the Northeast saw runs relatively unchanged. Assessment of lost US product output going forward remains highly dependent on the timing of re-starts, pace of ramp up in runs and actual damage sustained by the infrastructure. For scenario purposes, the following table is based on implied US yields and assumptions on average crude distillation capacity offline from 1 September for the periods indicated. In the weeks ahead, the US is likely to see increased runs in regions that have not suffered from infrastructure damage. In addition, there have been announcements of some postponed scheduled autumn maintenance, thus mitigating the product loss scenario below.

Cumulative US Product Supply Loss Scenario (million barrels)

Based on average offline capacity indicated in parenthesis

	Implied US Yields (%)	15 days (1.65 mb/d)	30 days (885 kb/d 2nd half)	61 days (885 kb/d)	91 days (885 kb/d)
Naphtha	1.23	0.3	0.5	0.8	1.1
Motor Gasoline	47.49	11.4	17.7	30.7	43.3
Jet Fuel	9.68	2.3	3.6	6.3	8.8
Other Kerosene	0.32	0.1	0.1	0.2	0.3
Gasoil/Diesel	25.83	6.2	9.6	16.7	23.6
Residual Fuel Oil	4.80	1.2	1.8	3.1	4.4
Petroleum Coke	5.14	1.2	1.9	3.3	4.7
Other products	7.01	1.7	2.6	4.5	6.4
Total		**24.4**	**37.8**	**65.7**	**92.6**

US Refineries Post-Hurricane Katrina and Alternative Product Supply (continued)

Also, spare CDU capacity exists in other areas of the world. Given conversion capacity constraints, refiners that choose to increase throughputs would be running on hydroskimming or simple margins. Should these margins remain positive, then there is potential for product loss offsets from other markets though increased runs. The table below shows implicit yields for selected countries or regions. The yields are indicative, and with the potential for light sweet crude release from IEA emergency stocks, they could be higher for lighter products.

Implied Yields for Selected OECD Countries and Regions

Derived from the latest observed refinery intake and product output – net of refinery use

	Canada	Mexico	Europe	Japan	Korea
Naphtha	5.72	4.16	6.56	7.83	12.10
Motor Gasoline	40.92	27.09	22.59	22.32	8.14
Jet Fuel	4.25	5.69	5.86	5.61	2.97
Other Kerosene	5.29	0.67	1.27	7.89	8.20
Gasoil/Diesel	37.21	20.58	39.53	30.49	28.63
Residual Fuel Oil	8.31	31.39	15.96	15.55	36.65
Petroleum Coke	2.82	0.13	0.51	0.31	0.00
Other products	13.80	2.80	9.22	4.84	1.27

The table below shows product supply gains for light product over different periods. The increase in runs indicated in the table represents the difference between the latest data (July 2005) for crude runs and total crude distillation capacity less an allowance for maintenance and unutilised capacity. The results are to be understood as a potential maximum volumetric offset to lost supplies. Market conditions may not necessarily support the increases. These results are for the OECD countries, but offsetting volumes are also available from non-OECD countries.

Alongside a potential of increased output, trade flows are working to alleviate shortages in product supply in the US. Europe is sending upwards of 25 MR type cargoes (38,000-49,999-dwt) of gasoline. At the same time, use of flexi-tankers and conversion of dirty freight tonnage is being considered alongside the use of larger tonnage. Larger size vessels, LR1s (50-74,999-dwt) and LR2s(75-119,999-dwt) do not yet appear to have been chartered for transatlantic delivery, but are likely the next step should MR availability become scarce. Alongside physical supplies, delivery to market has been greatly eased with the issue of product specification waivers by the US Environmental Protection Agency. Finally, release of emergency IEA stocks will be a supporting factor in facilitating alternative product supply delivery to the US.

Estimated Cumulative Maximum Incremental Product Supply (million barrels)

Based on a maximised runs and sustained for the periods indicated

		15 days	30 days	61 days	91 days
Canada & Mexico	Motor Gasoline	0.8	1.6	3.3	5.0
+ 172 kb/d assumed	Jet Fuel	0.1	0.3	0.5	0.8
	Other Kerosene	0.1	0.1	0.3	0.4
	Gasoil/Diesel	0.7	1.4	2.8	4.1
OECD Europe	Motor Gasoline	1.7	3.3	6.8	10.2
+ 469 kb/d assumed	Jet Fuel	0.4	0.9	1.8	2.6
	Other Kerosene	0.1	0.2	0.4	0.6
	Gasoil/Diesel	2.9	5.9	11.9	17.8
Japan & Korea	Motor Gasoline	1.8	3.6	7.4	11.0
+ 709 kb/d assumed	Jet Fuel	0.5	1.0	2.0	3.0
	Other Kerosene	0.9	1.8	3.6	5.4
	Gasoil/Diesel	3.3	6.6	13.4	19.9
Total of Above	Motor Gasoline	4.3	8.6	17.5	26.1
	Jet Fuel	1.1	2.1	4.3	6.4
	Other Kerosene	1.0	2.1	4.2	6.3
	Gasoil/Diesel	6.9	13.8	28.1	41.8

Table 1
WORLD OIL SUPPLY AND DEMAND
(million barrels per day)

	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
OECD DEMAND																	
North America	24.1	24.5	25.2	25.0	25.4	25.7	25.3	25.5	25.3	25.7	26.0	25.6	25.9	25.5	26.1	26.4	26.0
Europe	15.3	15.4	15.6	15.2	15.6	16.0	15.6	15.5	15.3	15.5	16.0	15.6	15.5	15.3	15.7	16.0	15.6
Pacific	8.6	8.7	9.3	7.9	8.2	8.8	8.5	9.5	8.1	8.1	8.9	8.7	9.5	8.1	8.3	9.1	8.7
Total OECD	48.0	48.6	50.1	48.1	49.1	50.5	49.5	50.6	48.7	49.3	51.0	49.9	50.9	48.9	50.1	51.5	50.3
NON-OECD DEMAND																	
FSU	3.5	3.6	3.5	3.7	3.8	4.0	3.7	3.7	3.6	3.6	4.1	3.8	3.8	3.6	3.7	4.1	3.8
Europe	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7
China	5.0	5.6	6.3	6.5	6.3	6.6	6.4	6.5	6.4	6.6	7.0	6.7	6.9	6.9	7.2	7.5	7.1
Other Asia	8.0	8.0	8.4	8.7	8.3	8.7	8.5	8.7	8.9	8.5	8.9	8.7	8.9	9.1	8.8	9.2	9.0
Latin America	4.8	4.7	4.7	4.9	5.0	4.9	4.9	4.8	5.0	5.1	5.0	5.0	4.9	5.1	5.2	5.1	5.1
Middle East	5.2	5.3	5.5	5.5	5.8	5.6	5.6	5.8	5.7	6.1	5.9	5.9	6.1	6.0	6.4	6.2	6.2
Africa	2.7	2.7	2.8	2.8	2.7	2.8	2.8	2.9	2.9	2.8	2.9	2.9	3.0	3.0	2.9	3.0	3.0
Total Non-OECD	29.7	30.6	32.0	32.8	32.5	33.3	32.7	33.3	33.2	33.3	34.6	33.6	34.4	34.5	34.8	35.9	34.9
Total Demand[1]	77.7	79.2	82.1	80.9	81.7	83.8	82.1	83.8	81.9	82.6	85.6	83.5	85.4	83.4	84.9	87.3	85.3
OECD SUPPLY																	
North America	14.5	14.6	14.8	14.7	14.4	14.4	14.6	14.4	14.6	14.2	14.6	14.4	14.9	14.9	14.6	14.7	14.8
Europe	6.6	6.3	6.4	6.2	5.7	6.0	6.1	5.9	5.7	5.5	5.8	5.7	5.8	5.5	5.3	5.5	5.5
Pacific	0.8	0.7	0.6	0.6	0.6	0.5	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Total OECD	21.9	21.6	21.8	21.5	20.8	21.0	21.3	20.9	20.9	20.2	21.0	20.7	21.3	20.9	20.5	20.8	20.9
NON-OECD SUPPLY																	
FSU	9.4	10.3	10.9	11.1	11.4	11.5	11.2	11.4	11.5	11.6	11.8	11.6	11.9	11.9	12.2	12.4	12.1
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
China	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Other Asia	2.5	2.6	2.7	2.7	2.8	2.8	2.8	2.7	2.6	2.7	2.8	2.7	2.8	2.9	2.9	2.9	2.8
Latin America	3.9	4.0	4.1	4.1	4.1	4.1	4.1	4.2	4.4	4.3	4.4	4.3	4.4	4.5	4.5	4.6	4.5
Middle East	2.1	2.0	2.0	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.7	1.7	1.8
Africa	3.0	3.0	3.3	3.3	3.5	3.5	3.4	3.6	3.6	3.9	4.0	3.8	4.1	4.2	4.3	4.4	4.3
Total Non-OECD	24.5	25.6	26.5	26.8	27.3	27.5	27.0	27.5	27.7	28.1	28.7	28.0	28.8	29.0	29.4	29.7	29.2
Processing Gains[2]	1.8	1.8	1.9	1.8	1.8	1.9	1.8	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Total Non-OPEC	48.1	49.0	50.1	50.1	49.9	50.3	50.1	50.3	50.4	50.2	51.6	50.6	52.0	51.8	51.7	52.5	52.0
OPEC																	
Crude[3]	25.1	26.8	27.9	28.1	29.1	29.5	28.6	28.8	29.3								
NGLs	3.7	3.9	4.3	4.3	4.3	4.4	4.3	4.7	4.7	4.8	4.9	4.8	5.0	5.1	5.2	5.3	5.2
Total OPEC	28.8	30.7	32.2	32.3	33.4	33.9	33.0	33.5	34.0								
Total Supply[4]	76.9	79.7	82.3	82.5	83.3	84.2	83.1	83.8	84.4								
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	-0.4	0.1	-0.6	0.9	0.4	-0.2	0.1	-0.1	1.1								
Government	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1								
Total	-0.3	0.3	-0.4	0.9	0.5	-0.1	0.2	0.0	1.2								
Floating Storage/Oil in Transit	0.0	0.2	-0.2	-0.2	0.3	0.3	0.0	-0.4	0.0								
Miscellaneous to balance[5]	-0.4	0.0	0.9	0.8	0.8	0.3	0.7	0.3	1.3								
Total Stock Ch. & Misc	-0.7	0.5	0.2	1.6	1.6	0.5	1.0	-0.1	2.5								
Memo items:																	
Call on OPEC crude + Stock ch.[6]	25.9	26.3	27.7	26.5	27.5	29.0	27.7	28.9	26.8	27.6	29.1	28.1	28.3	26.4	28.0	29.6	28.1
Total Demand ex. FSU	74.2	75.6	78.6	77.2	77.9	79.8	78.4	80.1	78.3	79.0	81.5	79.7	81.6	79.8	81.2	83.2	81.4
Total demand exc. FSU (% ch)[7]	1.1	1.9	3.4	4.8	3.3	3.1	3.6	1.9	1.4	1.4	2.1	1.7	1.9	1.9	2.7	2.2	2.2

1 Measured as deliveries from refineries and primary stocks, comprises inland deliveries, international marine bunkers, refinery fuel, crude for direct burning, oil from non-conventional sources and other sources of supply
2 Net volumetric gains and losses in the refining process (excludes net gain/loss in former USSR, China and non-OECD Europe) and marine transportation losses
3 Upgraded Venezuelan Orinoco extra-heavy production is classified as non-conventional crude.
4 Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply
5 Includes changes in non-reported stocks in OECD and non-OECD areas
6 Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs
7 Year on year % growth in global oil demand excluding FSU

Table 1A
WORLD OIL SUPPLY AND DEMAND: CHANGES FROM LAST MONTH'S TABLE 1

(million barrels per day)

	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
OECD DEMAND																	
North America	-	-	-	-	-	-	-	-	0.1	-0.1	-0.1	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	0.1	-0.3	-0.1	-0.1	-	-	-	-	-
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-0.2	-0.2	-0.1	-	-0.1	-0.1	-0.1	-0.1
Other Asia	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-0.4	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.2
Total Demand	-	-	-	-	-	-	-	-	0.1	-0.7	-0.3	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-0.4	-0.2	-0.2	-	-	-0.1	-0.1	-
Europe	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-0.1	-0.4	-0.2	-0.2	-	0.1	-0.1	-0.1	-
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	0.1	0.1	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	-	-0.1	-0.4	-0.2	-0.2	-	0.1	-0.1	-0.1	-
OPEC																	
Crude	-	-	-	-	-	-	-	-	-								
NGLs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OPEC	-	-	-	-	-	-	-	-	-								
Total Supply	-	-	-	-	-	-	-	-	-0.1								
STOCK CHANGES AND MISCELLANEOUS																	
REPORTED OECD																	
Industry	-	-	-	0.1	-	-	-	-0.1	-0.2								
Government	-	-	-	-	-	-	-	-	-								
Total	-	-	-	0.1	-	-	-	-0.1	-0.2								
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-	-								
Miscellaneous to balance	-	-	-	-0.1	-	-	-	0.1	-								
Total Stock Ch. & Misc	-	-	-	-	-	-	-	-	-0.2								
Memo items:																	
Call on OPEC crude + Stock ch.	-	-	-	-	-	-	-	-	0.2	-0.3	-0.1	-0.1	-0.2	-0.3	-0.2	-0.2	-0.2
Total Demand ex. FSU	-	-	-	-	-	-	-	-	0.1	-0.6	-0.4	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3

When submitting their monthly oil statistics, OECD Member countries periodically update data for prior periods. Similar updates to non-OECD data can occur.

Table 2

Summary of Global Oil Demand

	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
Demand (mb/d)																
North America	24.53	25.22	25.05	25.41	25.69	25.34	25.53	25.30	25.70	26.01	25.64	25.91	25.55	26.15	26.41	26.01
Europe	15.43	15.63	15.19	15.57	15.99	15.59	15.54	15.28	15.52	16.00	15.59	15.53	15.26	15.66	16.00	15.61
Pacific	8.69	9.28	7.90	8.16	8.77	8.53	9.49	8.09	8.11	8.94	8.66	9.49	8.09	8.25	9.07	8.72
Total OECD	48.65	50.14	48.14	49.14	50.45	49.47	50.56	48.68	49.34	50.95	49.88	50.93	48.90	50.06	51.47	50.34
FSU	3.59	3.50	3.71	3.78	3.97	3.74	3.73	3.58	3.59	4.11	3.75	3.79	3.61	3.74	4.10	3.81
Europe	0.69	0.76	0.70	0.66	0.71	0.71	0.78	0.72	0.67	0.73	0.72	0.79	0.74	0.68	0.74	0.74
China	5.58	6.28	6.53	6.32	6.60	6.43	6.55	6.41	6.62	7.02	6.65	6.94	6.92	7.22	7.50	7.15
Other Asia	8.05	8.42	8.67	8.32	8.68	8.52	8.71	8.85	8.47	8.91	8.74	8.92	9.09	8.75	9.17	8.99
Latin America	4.67	4.71	4.87	4.96	4.89	4.86	4.82	4.97	5.06	5.00	4.96	4.92	5.08	5.17	5.11	5.07
Middle East	5.27	5.51	5.45	5.79	5.62	5.59	5.79	5.74	6.08	5.91	5.88	6.10	6.05	6.37	6.21	6.18
Africa	2.73	2.80	2.83	2.73	2.84	2.80	2.89	2.92	2.81	2.92	2.89	2.98	3.00	2.89	3.01	2.97
Total Non-OECD	30.57	31.98	32.76	32.55	33.33	32.66	33.27	33.19	33.29	34.61	33.60	34.44	34.49	34.84	35.86	34.91
World	79.22	82.12	80.90	81.69	83.78	82.12	83.83	81.87	82.63	85.56	83.48	85.37	83.39	84.90	87.33	85.25
of which:																
US50	*20.03*	*20.60*	*20.54*	*20.82*	*20.97*	*20.73*	*20.80*	*20.66*	*21.02*	*21.22*	*20.92*	*21.09*	*20.85*	*21.36*	*21.53*	*21.21*
Euro4	*8.30*	*8.38*	*8.09*	*8.35*	*8.45*	*8.32*	*8.18*	*8.05*	*8.20*	*8.36*	*8.20*	*8.10*	*8.01*	*8.26*	*8.33*	*8.18*
Japan	*5.50*	*5.98*	*4.87*	*5.12*	*5.45*	*5.35*	*6.05*	*4.99*	*5.04*	*5.52*	*5.40*	*6.03*	*4.92*	*5.09*	*5.59*	*5.41*
Korea	*2.18*	*2.30*	*2.02*	*2.00*	*2.27*	*2.15*	*2.40*	*2.06*	*2.01*	*2.34*	*2.20*	*2.40*	*2.10*	*2.08*	*2.38*	*2.24*
Mexico	*1.95*	*1.96*	*1.96*	*1.95*	*2.01*	*1.97*	*2.01*	*2.08*	*2.01*	*2.04*	*2.04*	*2.09*	*2.09*	*2.08*	*2.11*	*2.09*
Canada	*2.21*	*2.30*	*2.22*	*2.31*	*2.36*	*2.30*	*2.35*	*2.23*	*2.33*	*2.40*	*2.32*	*2.36*	*2.27*	*2.35*	*2.40*	*2.35*
Brazil	*2.04*	*2.06*	*2.12*	*2.21*	*2.18*	*2.14*	*2.09*	*2.15*	*2.24*	*2.22*	*2.17*	*2.13*	*2.19*	*2.28*	*2.26*	*2.21*
India	*2.47*	*2.66*	*2.65*	*2.46*	*2.61*	*2.59*	*2.77*	*2.64*	*2.46*	*2.69*	*2.64*	*2.83*	*2.72*	*2.58*	*2.77*	*2.73*
Annual Change (% per annum)																
North America	1.7	3.1	3.9	2.9	3.5	3.3	1.2	1.0	1.1	1.3	1.2	1.5	1.0	1.7	1.5	1.4
Europe	1.0	1.2	0.3	0.7	2.1	1.1	-0.5	0.6	-0.3	0.0	0.0	-0.1	-0.2	0.9	0.0	0.2
Pacific	1.5	-4.2	-2.4	2.8	-3.2	-1.9	2.2	2.4	-0.6	1.9	1.5	0.0	0.0	1.7	1.4	0.8
Total OECD	1.4	1.1	1.7	2.2	1.8	1.7	0.8	1.1	0.4	1.0	0.8	0.7	0.5	1.5	1.0	0.9
FSU	3.4	-8.5	15.7	9.0	2.6	4.2	6.6	-3.5	-4.9	3.4	0.3	1.4	0.8	4.1	-0.1	1.5
Europe	3.8	2.5	2.5	3.0	3.1	2.8	2.6	2.6	2.1	2.0	2.3	2.1	2.2	2.4	2.4	2.3
China	11.0	18.0	23.4	9.2	12.0	15.4	4.3	-1.9	4.7	6.4	3.4	6.0	8.0	9.2	6.8	7.5
Other Asia	1.2	6.5	9.5	4.4	3.4	5.9	3.4	2.1	1.8	2.7	2.5	2.5	2.7	3.4	2.9	2.9
Latin America	-1.8	4.9	5.0	3.9	2.8	4.1	2.2	2.1	1.9	2.2	2.1	2.1	2.2	2.3	2.2	2.2
Middle East	1.9	5.3	8.9	5.5	4.7	6.0	5.1	5.3	5.1	5.2	5.2	5.3	5.3	4.8	5.1	5.1
Africa	1.6	2.2	3.0	3.1	2.6	2.7	3.3	3.3	2.9	2.9	3.1	2.9	2.9	3.0	3.1	3.0
Total Non-OECD	2.9	5.7	11.1	5.8	5.0	6.8	4.0	1.3	2.3	3.9	2.9	3.5	3.9	4.6	3.6	3.9
World	2.0	2.8	5.3	3.6	3.1	3.7	2.1	1.2	1.2	2.1	1.6	1.8	1.8	2.7	2.1	2.1
Annual Change (mb/d)																
North America	0.40	0.76	0.95	0.71	0.86	0.82	0.31	0.25	0.29	0.33	0.29	0.38	0.25	0.45	0.40	0.37
Europe	0.16	0.19	0.04	0.11	0.34	0.17	-0.09	0.10	-0.05	0.01	-0.01	-0.01	-0.02	0.13	0.00	0.02
Pacific	0.13	-0.41	-0.19	0.23	-0.29	-0.16	0.20	0.19	-0.04	0.17	0.13	0.00	0.00	0.14	0.13	0.07
Total OECD	0.69	0.53	0.79	1.04	0.91	0.82	0.42	0.54	0.20	0.50	0.41	0.37	0.22	0.72	0.52	0.46
FSU	0.12	-0.33	0.50	0.31	0.10	0.15	0.23	-0.13	-0.19	0.14	0.01	0.05	0.03	0.15	-0.01	0.06
Europe	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02
China	0.55	0.96	1.24	0.53	0.71	0.86	0.27	-0.12	0.30	0.42	0.22	0.39	0.51	0.61	0.48	0.50
Other Asia	0.09	0.51	0.75	0.35	0.29	0.47	0.29	0.18	0.15	0.23	0.21	0.22	0.24	0.29	0.26	0.25
Latin America	-0.08	0.22	0.23	0.19	0.13	0.19	0.10	0.10	0.09	0.11	0.10	0.10	0.11	0.12	0.11	0.11
Middle East	0.10	0.27	0.44	0.30	0.25	0.32	0.28	0.29	0.29	0.29	0.29	0.31	0.30	0.29	0.30	0.30
Africa	0.04	0.06	0.08	0.08	0.07	0.07	0.09	0.09	0.08	0.08	0.09	0.08	0.09	0.08	0.09	0.09
Total Non-OECD	0.85	1.72	3.27	1.78	1.58	2.09	1.29	0.43	0.74	1.28	0.94	1.17	1.29	1.55	1.25	1.31
World	1.54	2.25	4.07	2.83	2.49	2.91	1.71	0.97	0.94	1.79	1.35	1.54	1.51	2.27	1.77	1.77
Changes from Last Month's Report																
North America	-	-	-0.04	-	-	-0.01	-	0.11	-0.11	-0.07	-0.01	-0.01	-	-	-	-
Europe	-	0.02	0.02	0.02	0.01	0.02	-	-0.01	-0.11	-0.02	-0.03	-0.02	-0.01	-0.01	-0.01	-0.01
Pacific	-	-	-	-	-	-	-	0.01	-0.07	-0.02	-0.02	-0.01	-0.01	-0.01	-0.01	-0.01
Total OECD	-	0.02	-0.02	0.02	0.01	0.01	-	0.12	-0.28	-0.10	-0.07	-0.05	-0.02	-0.02	-0.02	-0.03
FSU	-	-	-	-	-	-	0.01	-	-0.12	0.05	-0.02	-	-	-0.02	-	-0.01
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.01	-
China	-	-	-	-	-	-	-	-0.03	-0.19	-0.17	-0.10	-0.05	-0.13	-0.13	-0.13	-0.11
Other Asia	-	-	0.01	-	-0.01	-	-0.03	0.01	-0.09	-0.09	-0.05	-0.09	-0.07	-0.09	-0.10	-0.09
Latin America	-	-	-	-	-	-	-	-0.01	-0.01	-0.01	-0.01	-0.01	-0.03	-0.01	-	-0.01
Middle East	-	-	-	-	-	-	-	-	0.01	-	-	-	-	0.01	-	-
Africa	-	-	-	-	-	-	-	-	0.00	-0.01	-	-0.01	-0.01	-0.01	-0.01	-0.01
Total Non-OECD	-	-	0.01	-	-0.01	-	-0.03	-0.04	-0.41	-0.24	-0.18	-0.16	-0.25	-0.25	-0.26	-0.23
World	-	0.02	-0.01	0.02	-	0.01	-0.03	0.08	-0.70	-0.34	-0.246	-0.21	-0.27	-0.27	-0.28	-0.26

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2004	2005	2006	1Q05	2Q05	3Q05	4Q05	1Q06	Jun 05	Jul 05	Aug 05
OPEC											
Crude Oil											
Saudi Arabia	8.75			8.92	9.21				9.22	9.27	9.28
Iran	3.93			3.87	3.96				4.00	3.95	3.98
Iraq	1.99			1.79	1.82				1.83	1.89	1.91
UAE	2.35			2.38	2.35				2.26	2.48	2.51
Kuwait	2.05			2.10	2.12				2.11	2.11	2.13
Neutral Zone	0.60			0.60	0.57				0.57	0.57	0.57
Qatar	0.78			0.78	0.78				0.79	0.80	0.80
Nigeria	2.32			2.36	2.43				2.45	2.48	2.46
Libya	1.55			1.61	1.65				1.65	1.65	1.65
Algeria	1.20			1.31	1.34				1.35	1.35	1.35
Venezuela	2.17			2.13	2.13				2.12	2.12	2.12
Indonesia	0.97			0.95	0.94				0.94	0.95	0.94
Total Crude Oil	28.65			28.78	29.30				29.27	29.59	29.67
Total NGLs[1]	4.32	4.77	5.15	4.69	4.70	4.81	4.88	5.04	4.75	4.80	4.82
Total OPEC	32.97			33.48	33.99				34.01	34.39	34.49
NON-OPEC[2]											
OECD											
North America	14.58	14.45	14.79	14.41	14.61	14.17	14.61	14.91	14.60	14.14	14.55
United States	7.66	7.62	7.70	7.72	7.74	7.44	7.57	7.81	7.69	7.65	7.66
Mexico	3.83	3.80	3.79	3.75	3.87	3.72	3.86	3.83	3.87	3.48	3.87
Canada	3.09	3.03	3.30	2.95	3.00	3.01	3.18	3.27	3.04	3.01	3.01
Europe	6.10	5.73	5.51	5.94	5.70	5.47	5.83	5.78	5.27	5.60	5.27
UK	2.06	1.87	1.70	2.00	1.90	1.72	1.87	1.81	1.78	1.77	1.66
Norway	3.19	3.01	3.00	3.08	2.94	2.90	3.12	3.14	2.64	2.97	2.76
Others	0.85	0.85	0.81	0.86	0.86	0.85	0.83	0.82	0.86	0.86	0.85
Pacific	0.58	0.57	0.58	0.55	0.55	0.58	0.58	0.59	0.54	0.56	0.58
Australia	0.54	0.52	0.54	0.50	0.51	0.53	0.54	0.54	0.50	0.52	0.54
Others	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Total OECD	21.26	20.75	20.87	20.90	20.87	20.21	21.02	21.28	20.42	20.30	20.39
NON-OECD											
Former USSR	11.22	11.59	12.08	11.42	11.47	11.63	11.83	11.86	11.50	11.54	11.63
Russia	9.23	9.49	9.78	9.34	9.38	9.55	9.68	9.67	9.46	9.49	9.55
Others	1.99	2.10	2.30	2.08	2.09	2.09	2.15	2.19	2.04	2.05	2.08
Asia	6.24	6.35	6.47	6.36	6.26	6.35	6.42	6.44	6.37	6.36	6.32
China	3.48	3.62	3.62	3.63	3.61	3.62	3.62	3.62	3.65	3.63	3.63
Malaysia	0.86	0.83	0.86	0.84	0.77	0.84	0.86	0.87	0.79	0.82	0.85
India	0.80	0.77	0.79	0.80	0.80	0.73	0.74	0.74	0.81	0.78	0.68
Others	1.10	1.13	1.20	1.08	1.08	1.16	1.21	1.21	1.13	1.14	1.15
Europe	0.17	0.16	0.15	0.16	0.16	0.16	0.15	0.15	0.16	0.16	0.16
Latin America	4.09	4.32	4.51	4.16	4.37	4.32	4.41	4.45	4.39	4.28	4.32
Brazil	1.80	2.01	2.26	1.85	2.03	2.05	2.11	2.17	2.05	2.02	2.04
Argentina	0.80	0.76	0.71	0.77	0.77	0.76	0.75	0.72	0.76	0.76	0.76
Colombia	0.53	0.52	0.50	0.53	0.53	0.51	0.49	0.50	0.52	0.52	0.51
Ecuador	0.53	0.53	0.55	0.53	0.54	0.50	0.56	0.56	0.55	0.48	0.50
Others	0.44	0.49	0.49	0.48	0.50	0.50	0.50	0.50	0.51	0.50	0.50
Middle East[3]	1.91	1.82	1.75	1.84	1.81	1.81	1.80	1.78	1.81	1.81	1.81
Oman	0.79	0.75	0.73	0.76	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Syria	0.50	0.48	0.45	0.49	0.48	0.47	0.47	0.46	0.48	0.48	0.47
Yemen	0.42	0.39	0.37	0.39	0.38	0.39	0.39	0.37	0.38	0.39	0.39
Africa	3.40	3.78	4.27	3.57	3.61	3.87	4.05	4.13	3.61	3.73	3.90
Egypt	0.71	0.69	0.67	0.70	0.69	0.69	0.68	0.68	0.69	0.70	0.69
Angola	0.99	1.25	1.49	1.12	1.15	1.33	1.40	1.40	1.14	1.21	1.37
Gabon	0.24	0.23	0.23	0.23	0.23	0.24	0.24	0.24	0.23	0.23	0.24
Others	1.47	1.60	1.88	1.51	1.54	1.61	1.72	1.81	1.54	1.58	1.60
Total Non-OECD	27.02	28.00	29.24	27.51	27.69	28.14	28.66	28.82	27.84	27.88	28.13
Processing Gains[4]	1.83	1.86	1.90	1.88	1.85	1.84	1.88	1.92	1.84	1.84	1.84
TOTAL NON-OPEC	50.11	50.61	52.01	50.28	50.41	50.20	51.56	52.01	50.09	50.03	50.37
TOTAL SUPPLY	83.08			83.76	84.41				84.10	84.42	84.85

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Orimulsion Orinoco extra-heavy oil, and non-oil inputs to Saudi Arabian MTBE
2 Comprises crude oil, condensates, NGLs and oil from non-conventional sources
3 Includes small amounts of production from Israel, Jordan and Bahrain
4 Net volumetric gains and losses in refining (excludes net gain/loss in FSU, China and non-OECD Europe) and marine transportation losses

Table 4

OECD INDUSTRY STOCKS[1] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Mar2005	Apr2005	May2005	Jun2005	Jul2005*	Jul2002	Jul2003	Jul2004	3Q2004	4Q2004	1Q2005	2Q2005
North America												
Crude	434.4	446.7	451.3	447.6	437.1	412.5	398.8	408.6	-0.26	0.06	0.38	0.15
Motor Gasoline	244.8	242.0	245.2	245.4	234.7	246.3	231.9	240.3	-0.04	0.11	0.00	0.01
Middle Distillate	175.3	174.4	180.6	190.1	200.8	205.2	190.6	193.3	0.14	0.04	-0.26	0.16
Residual Fuel Oil	48.8	45.6	46.6	45.9	45.3	43.4	39.0	42.5	-0.04	0.10	-0.02	-0.03
Total Products[3]	626.0	635.3	664.0	676.8	690.5	689.7	643.1	650.6	0.26	0.01	-0.32	0.56
Total[4]	1199.6	1219.2	1261.2	1275.1	1279.2	1258.3	1196.2	1209.2	0.18	-0.10	-0.01	0.83
Europe												
Crude	347.2	345.6	363.8	348.2	352.2	326.6	331.6	327.9	-0.07	-0.09	0.25	0.01
Motor Gasoline	121.3	118.6	115.1	110.4	111.4	117.7	107.0	111.4	0.01	0.04	0.05	-0.12
Middle Distillate	246.0	252.1	256.3	253.4	259.1	253.1	238.3	245.2	0.18	-0.10	0.05	0.08
Residual Fuel Oil	68.5	70.0	76.3	73.3	72.1	70.0	67.6	79.3	-0.01	-0.03	-0.07	0.05
Total Products[3]	540.9	544.1	549.0	536.5	541.3	546.5	517.6	539.1	0.22	-0.08	0.05	-0.05
Total[4]	962.2	965.0	985.8	956.0	963.9	937.6	920.7	937.0	0.15	-0.16	0.33	-0.07
Pacific												
Crude	169.0	158.5	171.3	175.9	178.2	169.8	192.6	182.7	-0.09	0.03	-0.02	0.08
Motor Gasoline	25.2	25.3	25.7	24.5	24.7	25.4	26.2	23.8	-0.01	0.00	0.01	-0.01
Middle Distillate	48.8	55.1	62.5	58.9	66.9	80.0	73.4	62.7	0.16	0.00	-0.29	0.11
Residual Fuel Oil	21.2	21.5	24.7	23.4	25.4	23.7	26.1	22.3	-0.01	0.01	-0.01	0.02
Total Products[3]	154.9	164.1	178.1	173.2	184.2	194.3	195.3	174.7	0.15	0.02	-0.37	0.20
Total[4]	389.5	391.8	422.2	421.6	434.3	444.3	461.9	429.4	0.11	0.01	-0.45	0.35
Total OECD												
Crude	950.6	950.8	986.3	971.7	967.5	908.8	923.0	919.2	-0.41	-0.01	0.61	0.23
Motor Gasoline	391.3	385.9	386.0	380.4	370.8	389.4	365.0	375.5	-0.03	0.15	0.06	-0.12
Middle Distillate	470.0	481.6	499.4	502.5	526.8	538.2	502.3	501.1	0.47	-0.06	-0.50	0.36
Residual Fuel Oil	138.5	137.0	147.6	142.5	142.8	137.1	132.6	144.1	-0.06	0.08	-0.10	0.04
Total Products[3]	1321.7	1343.5	1391.1	1386.5	1416.0	1430.4	1355.9	1364.4	0.63	-0.05	-0.64	0.71
Total[4]	2551.2	2576.0	2669.2	2652.7	2677.4	2640.2	2578.8	2575.6	0.44	-0.25	-0.14	1.12

OECD GOVERNMENT-CONTROLLED STOCKS[5] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Mar2005	Apr2005	May2005	Jun2005	Jul2005*	Jul2002	Jul2003	Jul2004	3Q2004	4Q2004	1Q2005	2Q2005
North America												
Crude	688.2	691.9	693.9	696.4	698.6	578.5	612.4	665.7	0.09	0.06	0.14	0.09
Products	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.00	0.00	0.00	0.00
Europe												
Crude	160.4	161.0	161.0	161.4	161.4	148.4	152.9	158.0	0.00	0.07	-0.04	0.01
Products	209.4	206.0	207.8	210.4	210.4	198.7	205.8	205.3	0.00	0.00	0.04	0.01
Pacific												
Crude	384.5	384.5	384.5	383.4	384.6	381.7	382.8	386.7	-0.02	0.00	0.00	-0.01
Products	11.0	11.0	11.0	11.1	11.3	7.3	10.0	11.0	0.00	0.00	0.00	0.00
Total OECD												
Crude	1233.1	1237.4	1239.5	1241.2	1244.6	1108.7	1148.1	1210.4	0.06	0.12	0.10	0.09
Products	222.4	219.1	220.9	223.5	223.7	208.0	217.8	218.3	0.00	0.00	0.04	0.01
Total[4]	1456.5	1457.5	1461.3	1465.7	1469.3	1317.7	1366.8	1429.7	0.07	0.13	0.14	0.10

* estimated

1 Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) and include stocks held by industry to meet IEA, EU and national emergency reserve commitments and are subject to government control in emergencies.

2 Closing stock levels.

3 Total products includes gasoline, middle distillates, fuel oil and other products.

4 Total includes NGLs, refinery feedstocks, additives/oxygenates and other hydrocarbons.

5 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.

Table 5

TOTAL STOCKS ON LAND IN OECD COUNTRIES[1]

('millions of barrels' and 'days')

	End June 2004		End September 2004		End December 2004		End March 2005		End June 2005 [3]	
	Stock Level	Days Fwd[2] Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand
North America										
Canada	163.0	71	174.5	74	167.8	72	164.7	74	165.2	-
Mexico	39.5	20	41.4	21	41.3	21	44.2	21	45.6	-
United States[4]	1632.9	78	1643.5	78	1646.8	80	1658.8	81	1740.5	-
Total[5]	1857.5	73	1881.5	73	1878.0	74	1889.8	75	1973.5	77
Pacific										
Australia	34.9	39	34.3	38	33.2	38	34.8	39	35.2	-
Japan	622.0	121	632.0	116	635.3	105	604.9	121	629.4	-
Korea	152.9	76	152.1	67	149.4	62	137.4	67	142.5	-
New Zealand	7.7	52	7.1	48	8.0	49	7.9	53	9.0	-
Total	817.4	100	825.5	94	825.9	87	785.0	97	816.1	101
Europe[6]										
Austria	20.3	66	20.2	70	21.0	77	20.8	76	18.8	-
Belgium	26.5	46	27.7	39	27.2	40	26.9	47	28.1	-
Czech Republic	15.9	73	16.9	81	16.3	86	17.0	78	15.9	-
Denmark	15.8	89	18.1	94	16.2	86	16.3	88	17.2	-
Finland	23.4	106	24.0	105	24.4	110	26.2	125	27.0	-
France	183.5	94	188.5	94	186.2	90	187.4	99	185.6	-
Germany	267.1	99	264.1	97	267.2	106	280.5	111	279.4	-
Greece	30.8	78	34.1	76	35.7	77	35.7	94	34.4	-
Hungary	20.1	152	18.7	128	17.8	140	21.1	148	18.5	-
Ireland	10.7	63	11.1	60	11.7	60	10.6	58	11.6	-
Italy	134.6	71	138.7	73	135.8	73	133.7	75	132.1	-
Luxembourg	1.0	16	0.9	14	0.9	14	0.9	13	0.8	-
Netherlands	102.3	110	110.2	113	108.3	109	109.4	103	115.7	-
Norway	30.0	131	23.3	84	24.0	98	26.6	118	18.4	-
Poland	30.1	64	31.1	66	30.6	74	33.9	79	34.5	-
Portugal	26.2	76	25.0	73	24.3	68	25.6	77	26.5	-
Slovak Republic	6.6	90	6.1	83	6.2	95	7.0	99	6.5	-
Spain	127.3	82	126.8	79	119.8	72	126.7	81	130.4	-
Sweden	31.1	88	31.5	87	33.8	93	32.0	88	35.2	-
Switzerland	37.5	138	37.8	135	36.3	131	37.1	147	38.0	-
Turkey	54.8	78	55.2	82	55.9	101	55.4	80	51.9	-
United Kingdom	101.6	56	101.4	56	104.1	60	102.2	56	102.3	-
Total	1297.3	83	1311.5	82	1303.5	84	1332.9	87	1328.8	86
Total OECD	3972.2	81	4018.5	80	4007.4	80	4007.7	83	4118.4	83
DAYS OF IEA Net Imports[7]	-	113	-	114	-	114	-	114	-	117

1 Total Stocks are industry and government-controlled stocks (see breakdown in table below). Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) they include stocks held by industry to meet IEA, EU and national emergency reserves commitments and are subject to government control in emergencies.
2 Note that days of forward demand represent the stock level divided by the forward quarter average daily demand and is very different from the days of net imports used for the calculation of IEA Emergency Reserves.
3 End June 2005 forward demand figures are IEA Secretariat forecasts.
4 US figures exclude US territories.
5 Total includes US territories.
6 Data not available for Iceland.
7 Reflects stock levels and prior calendar year's net imports adjusted according to IEA emergency reserve definitions. Net exporting IEA countries are excluded.

TOTAL OECD STOCKS

CLOSING STOCKS	Total	Government[1] controlled	Industry	Total	Government[1] controlled	Industry
	Millions of Barrels			*Days of Fwd. Demand[2]*		
2Q2002	3967	1316	2651	83	28	55
3Q2002	3898	1321	2577	79	27	52
4Q2002	3821	1345	2476	77	27	50
1Q2003	3787	1359	2428	80	29	51
2Q2003	3913	1362	2551	81	28	53
3Q2003	3981	1380	2600	80	28	52
4Q2003	3925	1408	2517	78	28	50
1Q2004	3886	1421	2466	81	30	51
2Q2004	3972	1426	2546	81	29	52
3Q2004	4018	1432	2586	80	28	51
4Q2004	4007	1444	2563	80	29	51
1Q2005	4008	1456	2551	83	30	53
2Q2005	4118	1466	2653	83	30	54

1 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.
2 Days of forward demand calculated using actual demand except in 2Q2005 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2002	2003	2004	3Q04	4Q04	1Q05	2Q05	Apr 05	May 05	Jun 05	Year Earlier Jun 04	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.64	0.55	0.56	0.52	0.45	0.45	0.42	0.54	0.39	0.69	-0.29
Europe	0.92	1.00	1.03	1.04	1.08	0.88	0.84	0.83	0.92	0.78	0.97	-0.19
Pacific	1.22	1.18	1.24	1.23	1.47	1.40	1.22	1.17	1.29	1.20	1.10	0.10
Saudi Medium												
North America	0.70	0.83	0.80	0.86	0.90	0.97	0.89	0.92	0.77	0.97	0.83	0.14
Europe	0.11	0.11	0.11	0.11	0.16	0.12	0.13	0.13	0.13	0.13	0.05	0.07
Pacific	0.16	0.24	0.23	0.18	0.23	0.21	0.24	0.26	0.23	0.21	0.21	0.01
Saudi Heavy												
North America	0.20	0.30	0.22	0.30	0.26	0.18	0.15	0.11	0.20	0.15	0.13	0.02
Europe	0.09	0.19	0.23	0.31	0.20	0.19	0.20	0.18	0.18	0.23	0.34	-0.11
Pacific	0.12	0.16	0.15	0.16	0.18	0.25	0.20	0.19	0.21	0.20	0.11	0.09
Iraqi Basrah Light[2]												
North America	0.35	0.44	0.71	0.68	0.67	0.56	0.69	0.66	0.87	0.53	0.73	-0.20
Europe	0.08	0.09	0.21	0.21	0.13	0.19	0.19	0.22	0.20	0.16	0.14	0.02
Pacific	0.02	0.03	0.12	0.12	0.15	0.07	0.06	0.13	..	0.07	0.03	0.03
Iraqi Kirkuk												
North America	0.14	0.06	0.02	0.01	0.01	..	..	..	..	..	0.07	..
Europe	0.32	0.12	0.08	0.03	0.16	0.02	0.04	0.02	0.02	0.07	0.08	-0.01
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.17	0.19	0.24	0.23	0.27	0.23	0.15	0.22	0.17	0.08	0.24	-0.16
Pacific	0.12	0.17	0.16	0.16	0.16	0.19	0.13	0.10	0.15	0.15	0.11	0.04
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.44	0.59	0.57	0.65	0.54	0.62	0.60	0.64	0.66	0.50	0.72	-0.23
Pacific	0.54	0.69	0.65	0.58	0.63	0.76	0.59	0.67	0.61	0.49	0.62	-0.13
Venezuelan Light & Medium												
North America	0.68	0.69	0.67	0.64	0.63	0.78	0.88	0.88	0.98	0.76	0.81	-0.05
Europe	0.08	0.02	0.01	0.02	0.01	0.02	0.03	0.02	0.01	0.05	0.02	0.03
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.55	0.60	0.88	0.86	0.95	0.83	0.80	0.95	0.76	0.69	0.92	-0.22
Europe	0.05	0.06	0.05	0.06	0.04	0.06	0.06	0.06	0.05	0.06	0.07	-0.01
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	0.92	1.32	1.36	1.34	1.37	1.30	1.36	1.29	1.41	1.40	1.49	-0.10
Europe	0.17	0.16	0.16	0.20	0.13	0.18	0.17	0.12	0.22	0.17	0.20	-0.03
Pacific	0.00	0.00	0.00	..	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.01	0.00	..	..	..	0.01	0.00	..	..	0.01	..	..
Europe	0.01	0.00	0.01	..	0.02	0.02	0.01	..	..	0.03	..	..
Pacific	0.01	0.00	0.00	..	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.03	0.14	0.12	0.12	0.21	0.14	0.14	0.34	0.03	0.05	0.25	-0.20
Europe	1.32	1.62	1.86	1.78	1.56	1.72	1.91	1.97	2.21	1.53	1.82	-0.29
Pacific	0.01	0.00	0.01	0.01	..	..	0.00	0.00	..	..	..	..
Nigerian Light[4]												
North America	0.38	0.63	0.80	0.78	0.73	0.87	0.87	0.86	1.01	0.76	0.97	-0.22
Europe	0.32	0.41	0.28	0.30	0.30	0.30	0.27	0.24	0.30	0.28	0.32	-0.03
Pacific	0.06	0.08	0.11	0.09	0.13	0.06	0.06	0.06	0.06	0.07	0.03	0.04
Nigerian Medium												
North America	0.16	0.17	0.23	0.22	0.20	0.18	0.22	0.22	0.13	0.31	0.26	0.05
Europe	0.06	0.06	0.04	0.05	0.02	0.07	0.04	0.00	0.06	0.06	0.03	0.03
Pacific	0.01	0.01	0.01	..	..	0.03	0.02	0.03	0.03	..	..	..

1 Data based on monthly submissions from IEA countries to the crude oil import register (in '000 bbl), subject to availability. May differ from Table 8 of the Report.
IEA North America includes United States and Canada.
IEA Europe includes all countries in OECD Europe except Hungary, Poland and the Slovak Republic.
IEA Pacific data includes Australia, New Zealand, Korea and Japan.

2 Iraqi Total minus Kirkuk.

3 Iranian Total minus Iranian Light.

4 33 API and lighter (e.g., Bonny Light, Escravos, Qua Iboe and Oso Condensate).

Table 7
Regional OECD Imports[1,2]
(thousand barrels per day)

	2002	2003	2004	3Q2004	4Q2004	1Q2005	2Q2005	Apr-05	May-05	Jun-05	Year Earlier Jun-04	Year Earlier % change
Crude Oil												
North America	7584	8069	8394	8547	8442	8577	8543	8616	8180	8845	8574	3%
Europe	8734	9096	9477	9701	9543	9695	9791	9396	10201	9763	9595	2%
Pacific	6422	6711	6659	6457	6998	7166	6434	6297	6645	6353	5809	9%
Total OECD	22740	23876	24531	24706	24984	25438	24768	24309	25026	24961	23977	4%
LPG												
North America	39	27	24	20	45	23	3	7	0	2	36	-2200%
Europe	225	193	225	207	264	293	169	183	154	169	173	-2%
Pacific	553	541	541	469	561	532	591	619	604	549	596	-9%
Total OECD	817	760	790	697	870	848	762	809	758	719	805	-12%
Naphtha												
North America	42	67	86	96	144	124	89	81	96	91	87	5%
Europe	298	305	283	237	254	279	280	209	255	376	304	19%
Pacific	705	770	769	787	748	772	759	791	741	746	859	-15%
Total OECD	1045	1142	1138	1120	1146	1175	1128	1081	1092	1214	1249	-3%
Gasoline[3]												
North America	643	669	765	806	744	849	1001	946	983	1074	869	19%
Europe	152	150	140	118	146	172	171	133	144	239	154	35%
Pacific	58	70	105	90	106	95	129	109	141	137	103	25%
Total OECD	853	888	1010	1014	997	1115	1301	1188	1267	1449	1127	22%
Jet & Kerosene												
North America	97	97	88	88	116	67	40	35	47	39	111	-188%
Europe	253	271	292	356	335	274	362	357	332	397	299	25%
Pacific	97	102	77	52	103	97	72	77	80	57	60	-5%
Total OECD	448	470	456	496	554	438	474	470	458	493	470	5%
Gasoil/Diesel												
North America	102	126	122	108	91	110	94	77	117	87	107	-23%
Europe	656	652	751	770	875	930	700	758	606	739	776	-5%
Pacific	53	73	74	79	66	60	94	95	102	83	93	-12%
Total OECD	811	850	946	957	1033	1101	887	931	824	908	976	-7%
Heavy Fuel Oil												
North America	237	326	388	346	524	489	437	432	401	479	354	26%
Europe	470	398	408	441	404	415	579	639	526	572	551	4%
Pacific	89	88	76	87	64	83	80	83	95	61	48	21%
Total OECD	796	812	872	874	993	988	1095	1154	1022	1112	953	14%
Other Products												
North America	689	680	824	951	774	735	1047	845	1039	1258	718	43%
Europe	735	690	679	716	662	734	874	859	756	1009	850	16%
Pacific	256	235	256	261	252	254	248	309	208	228	285	-25%
Total OECD	1681	1605	1759	1927	1688	1724	2169	2013	2003	2495	1853	26%
Total Products												
North America	1849	1991	2297	2416	2439	2399	2711	2423	2682	3029	2282	25%
Europe	2790	2657	2777	2845	2941	3098	3134	3139	2773	3501	3108	11%
Pacific	1811	1879	1898	1825	1901	1894	1972	2084	1970	1861	2044	-10%
Total OECD	6451	6527	6973	7085	7281	7391	7817	7647	7425	8391	7434	11%
Total Oil												
North America	9434	10061	10691	10963	10881	10976	11254	11040	10862	11874	10855	9%
Europe	11524	11753	12255	12546	12484	12793	12925	12534	12974	13264	12703	4%
Pacific	8233	8590	8558	8282	8899	9059	8406	8382	8615	8214	7853	4%
Total OECD	29190	30403	31503	31791	32264	32829	32585	31955	32451	33352	31411	6%

1 Based on Monthly Oil Questionnaire data submitted by OECD countries in tonnes and converted to barrels.

2 Excludes intra-regional trade

3 Includes additives

OIL MARKET REPORT CONTACTS

Editor/Prices	Lawrence Eagles (+33) 0*1 40 57 65 90 e-mail: lawrence.eagles@iea.org
Demand	Jeff Brown (+33) 0*1 40 57 65 93 e-mail: jeff.brown@iea.org
Supply	David Fyfe (+33) 0*1 40 57 65 94 e-mail: david.fyfe@iea.org
OECD Stocks/Refinery Activity	Harry Tchilinguirian (+33) 0*1 40 57 65 22 e-mail: harry.tchilinguirian@iea.org
OECD Stocks/Trade	Toril Ekeland Bosoni (+33) 0*1 40 57 66 36 e-mail: toril.bosoni@iea.org
Statistics/Freight/End-User Prices	James Ryder (+33) 0*1 40 57 66 18 e-mail: james.ryder@iea.org
Administrative Support	Anne Mayne (+33) 0*1 40 57 65 96 e-mail: anne.mayne@iea.org

Fax: *(+33) 0*1 40 57 65 99/40 57 65 09*

* 0 only within France

For all **Subscription and Delivery Enquiries** please contact:

International Energy Agency
Attn: Ms. Sandra Coleman
Oil Market Report Subscriptions
BP 586-75726 Paris Cedex 15, France

Tel. +33 (0) 1 40 57 65 57
Fax. +33 (0) 1 40 57 65 59

E-mail: sandra.coleman@iea.org

User's Guide to the IEA Oil Market Report

Readers are referred to the User's Guide, published in conjunction with the Annual Statistical Supplement (current issue dated 11 August 2005), for information on the data sources, definitions, technical terms and general approach used in preparing the Report. It should be noted that the spot crude and product price assessments are based on daily Platt's prices, converted when appropriate to US$ per barrel according to the Platt's specification of products (©2005 Platt's - a division of McGraw-Hill Inc.).

INTERNATIONAL ENERGY AGENCY/AGENCE INTERNATIONALE DE L'ENERGIE

OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

www.oilmarketreport.org

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

11 October 2005

HIGHLIGHTS

- Front-month NYMEX WTI fell below $62/bbl in the wake of Hurricanes Katrina and Rita causing a simultaneous drop in crude and product demand. Spot gasoline prices were pressured on record US imports and maximised gasoline refinery yields. Heating oil prices moved above gasoline and close to parity with natural gas in early October.

- World oil supply declined by 845 kb/d in September to 83.8 mb/d. Hurricanes have shuttered 1.2 mb/d of US Gulf crude production, prompting 300-400 kb/d downward revisions to non-OPEC supply for 2005 and 2006. Non-OPEC growth of 170 kb/d in 2005 and 1.3 mb/d in 2006 is in addition to OPEC NGL growth of 0.4 mb/d each year.

- OPEC crude supply rose by 100 kb/d in September to 29.8 mb/d following increases from Iraq and Kuwait. OPEC spare capacity remains below 2.0 mb/d. OPEC attempts to make this available may be frustrated by a lack of demand for heavy, sour crude. OPEC capacity should increase by 0.5 mb/d by end-year and further in 2006.

- Due to regional economic and logistical disruptions, as well as retail price spikes, Hurricanes Katrina and Rita had a substantial impact on September demand. October should be less affected as logistical disruptions subside. Global demand growth is revised down by 90 kb/d to 1.26 mb/d for 2005, but should rebound to 1.75 mb/d in 2006.

- OECD total industry oil stocks fell by 3.5 mb in August. Crude inventories were little changed with offsetting moves in Europe and North America. Product inventories saw draws in gasoline largely balanced by increases in distillates. Forward demand cover by industry stocks held steady at 54 days, two days above last year.

- Atlantic Basin refining margins reached record levels on surging product prices. Strong hydro-skimming margins in September should encourage the use of spare crude distillation capacity. Along with reduced product demand this should partially offset a potential US Gulf Coast product output loss of up to 163 mb by year end.

Next Issue: 10 November 2005

CONTENTS

FLEXIBILITY IN THE SYSTEM

"What would happen to oil prices if two hurricanes knocked-out a large proportion of crude oil, natural gas and refining capacity?" Posing this hypothetical question in August would have sparked a debate about the number of digits in the oil price, but with little disagreement on price direction. One month into reality, front month crude and gasoline futures prices have dipped below pre-hurricane levels and heating oil is not far above end-August levels. However we are not yet out of the woods.

This Report sees a possible loss of around 140 mb of crude and NGL output through to the end of December and a likely loss of 163 mb of products over the same period. These estimates remain subject to change as the information flow improves. It is also important that crude and refining losses are not double-counted.

Lost US crude production has so far been offset by reduced refinery throughput, while product output losses have been partially balanced by reduced domestic demand, higher imports and stock draws. Of these the sharp 2.3% decline in September US product demand triggered by the hurricanes has captured the market attention.

The US demand reduction in September comprises a combination of price effects, logistical constraints and policy measures. However, product distribution is gradually improving and will probably cause a recovery in primary demand as delivery restrictions ease and the replenishment of depleted secondary stockpiles begins. Further more, demand substitution from natural gas to oil could be more pronounced given heavy discounts of fuel oil to natural gas on a BTU basis, and the near parity of heating oil and Henry Hub gas prices.

Although oil markets have been characterised as tight for the past few years (both by a lack of upstream and refinery upgrading capacity), there is still some flexibility in the system. In the refining sector, there would appear, in theory, to be sufficient spare crude distillation capacity to offset much of the projected product loss through to the end of the year. That is ***if:***

- there are no unplanned outages
- maintenance can be postponed
- throughputs can be sustained at levels that have previously only been seen in short bursts and never in all countries simultaneously
- hydroskimming margins remain positive

There are clearly a lot of "***if***s", but with financially attractive hydro-skimming margins, there is certainly a commercial incentive to increase crude runs.

Further flexibility comes from stocks. The coordinated stock release from IEA member countries and US SPR loans will continue to provide liquidity through to the end of October. There may also be flexibility within commercial stocks, but that depends upon whether commercial players feel more confident about the future.

For most of this year higher prices have been seen despite rising stocks as commercial players sought an inventory buffer against future uncertainty. With high prices tempering global oil demand relative to GDP growth and with the supply side rebounding, it is possible that commercials could feel more comfortable with a lower level of stocks than was apparent for much of this year. This Report has long argued that there was unlikely to be a demand surge in the fourth quarter of 2005. But, it was only in August that this view gained general acceptance.

The supply-side also has to be considered. 2005 non-OPEC supply growth is projected to fall to a six-year low of 170 kb/d. Production growth however is expected to rebound to 1.3 mb/d in 2006, accompanied by higher OPEC capacity – some of which is light sweet crude. Whether these supply and demand factors constitute a more certain future is open to debate.

In all, the oil market appears to have adjusted rapidly to the hurricanes. So far, strong market forces, the IEA stock release and policy action have combined to mitigate a significant supply disruption. Now we are at a juncture where damage assessments are improving and there will be clearer indications of when oil production, refining and transportation facilities may return. A large number of conditions need to be met for the market to fully offset crude and product losses. If holes appear in the market, then policy makers may need to offer a further helping hand.

DEMAND

Summary

- **Hurricanes Katrina and Rita** had a substantial impact on September US oil product demand. Disruptions to regional economic activity and supply logistics, as well as product price spikes, reduced US demand by an estimated 2.3% in September versus year ago levels. Gasoline demand declined by an estimated 2.4% year-on-year, but fuel oil demand jumped by some 11.4% due to interfuel substitution away from high-priced natural gas. Although logistical disruptions are expected to persist into October, there may be a rebound in product deliveries as secondary and tertiary inventories are rebuilt following the hurricane-related supply disruptions.

- **Compared to a projected 'no hurricane' scenario**, global oil product demand was reduced by about 980 kb/d in September. US demand was the most affected, with a reduction of approximately 790 kb/d. Globally, gasoline demand was down by an estimated 440 kb/d versus the September 'no hurricane' scenario. However, this was offset to some extent by a 160 kb/d increase in fuel oil demand. In October, the negative impact of the hurricanes on global oil demand is expected to subside to approximately 290 kb/d versus the 'no hurricane' scenario.

- **Projected 2005 global demand growth** is revised down by 90 kb/d, to 1.26 mb/d. Demand is estimated to have grown by 0.9% in the third quarter of 2005 in spite of OECD demand declining by 0.2%. In 2006, global demand growth is anticipated to increase to 1.75 mb/d, in part due to a rebound from the largely temporary impact of Katrina and Rita and a recovery in Chinese demand.

- **Baseline global demand** is revised down by 80 kb/d in 2005 and 100 kb/d in 2006. Global demand is projected to average 83.40 mb/d in 2005 and 85.15 mb/d in 2006.

Global Oil Demand from 2004 to 2006

	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
Demand (mb/d)	82.1	80.9	81.7	83.8	82.1	83.8	81.9	82.4	85.5	83.4	85.4	83.4	84.7	87.2	85.2
Annual Change (%)	2.8	5.3	3.7	3.0	3.7	2.1	1.2	0.9	2.0	1.5	1.8	1.8	2.8	2.0	2.1
Annual Change (mb/d)	2.3	4.1	2.9	2.5	2.9	1.7	1.0	0.7	1.7	1.3	1.5	1.5	2.3	1.7	1.7
Changes from last month's report (mb/d)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.1	-0.1	0.0	0.0	-0.2	-0.2	-0.1

- **Indonesia** substantially increased administered retail prices as the fiscal burden of price subsidies became prohibitive. Kerosene prices are now almost triple previous levels, and both gasoline and diesel prices roughly doubled. As with the elimination of subsidies in Thailand, this move is expected to dampen demand growth.

Global Oil Demand by Region
(million barrels per day)

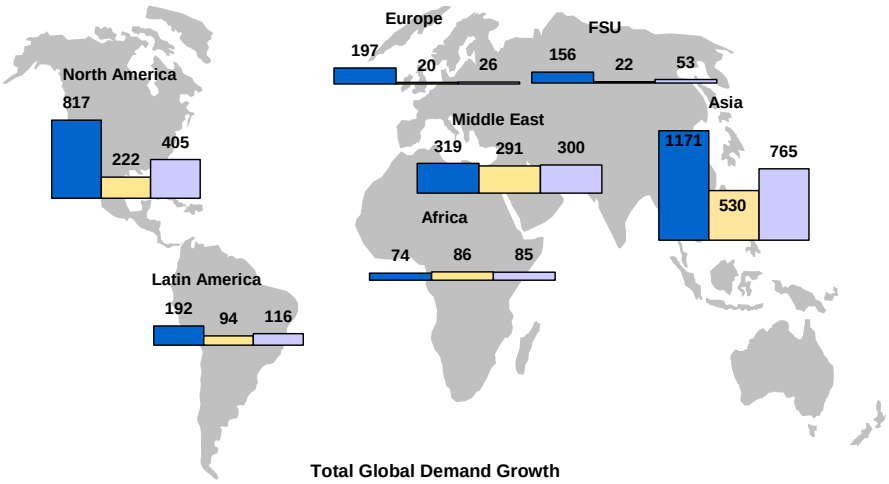
	Demand	Annual Change			Annual Change (%)		
	2005	2004	2005	2006	2004	2005	2006
North America	25.57	0.82	0.22	0.41	3.3	0.9	1.6
Europe	16.33	0.20	0.02	0.03	1.2	0.1	0.2
OECD Pacific	8.64	-0.16	0.11	0.09	-1.9	1.3	1.0
China	6.64	0.86	0.20	0.47	15.4	3.2	7.0
Other Asia	8.74	0.48	0.22	0.21	5.9	2.5	2.4
Subtotal Asia	24.02	1.17	0.53	0.76	5.2	2.3	3.2
FSU	3.76	0.16	0.02	0.05	4.4	0.6	1.4
Middle East	5.88	0.32	0.29	0.30	6.0	5.2	5.1
Africa	2.89	0.07	0.09	0.08	2.7	3.1	2.9
Latin America	4.95	0.19	0.09	0.12	4.1	1.9	2.3
World	83.40	2.93	1.26	1.75	3.7	1.5	2.1

- **Chinese** apparent demand for 2005 is broadly unchanged, but revised lower by 40 kb/d for 2006. The demand picture appears to be stabilising with government pressure to limit product exports, thereby increasing supplies to the domestic market. Gasoline exports are expected to be over 70%

below August levels in September and October. Chinese apparent demand is projected to grow by only 3.2% in 2005, but rebound to 7.0% in 2006.

Global Demand Growth 2004/2005/2006

thousand barrels per day



Total Global Demand Growth
(mb/d)

2004	**2.93**	**3.7%**
2005	**1.26**	**1.5%**
2006	**1.75**	**2.1%**

OECD

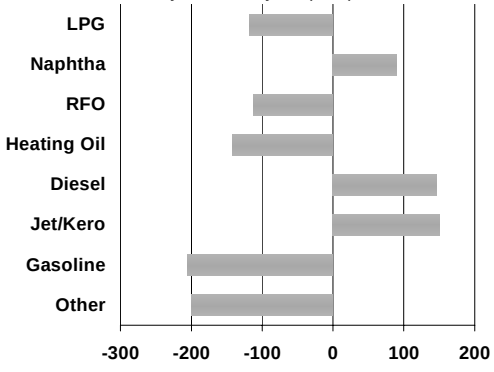
Overview of OECD Demand Trends

Preliminary Inland Deliveries - August 2005[1]

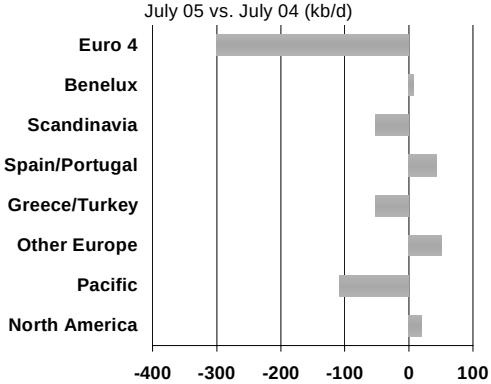
	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other[2]		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
USA[3]	9.36	0.3	1.66	-4.3	3.04	1.0	0.97	10.4	0.96	23.9	5.4	1.5	21.37	1.6
Canada	0.76	3.3	0.13	-4.4	0.47	6.6	0.04	0.0	0.13	-8.7	0.3	-9.4	1.81	0.3
Mexico	0.68	9.7	0.06	-3.1	0.33	9.3	0.00	na	0.35	11.4	0.4	0.8	1.79	7.5
Japan	1.19	0.2	0.30	-15.1	0.64	-4.1	0.42	-5.4	0.50	-1.6	1.4	-8.1	4.49	-5.1
Korea	0.19	8.1	0.07	0.0	0.37	-1.1	0.05	4.2	0.19	-13.8	1.1	2.3	1.96	0.3
France	0.28	-1.7	0.15	1.2	0.62	5.6	0.35	37.1	0.05	1.0	0.4	3.0	1.86	7.9
Germany	0.55	-6.3	0.19	5.0	0.60	0.6	0.63	34.1	0.11	-4.0	0.5	5.1	2.59	6.4
Italy	0.32	-4.4	0.10	3.8	0.45	7.0	0.08	3.2	0.11	-31.0	0.4	3.7	1.43	-1.1
Total	**12.56**	**0.4**	**2.52**	**-4.4**	**6.04**	**1.6**	**2.49**	**15.0**	**2.27**	**6.1**	**9.6**	**0.3**	**35.48**	**1.5**

Sources: US EIA, Statistics Canada, Mexico PEMEX, Japan METI, Korea KNOC, France CPDP, Germany MWV, Italy Ministry of Industry
Percentage change is calculated versus last year
1 excludes refinery fuel and bunkers (except US)
2 includes direct use of crude oil
3 fifty states only. Diesel's share of total distillate is estimated. Note that monthly US demand data are subject to revision, as discussed in the Reports dated 13 July 2005 and 11 August 2005

OECD Oil Products Demand Growth
July 05 vs. July 04 (kb/d)



OECD Oil Demand Growth
July 05 vs. July 04 (kb/d)



Total OECD Demand by Product
(million barrels per day)

	2004	2005	3Q04	4Q04	1Q05	2Q05	May 05	Jun 05	Jul 05	Latest month vs. Jun 05	Latest month vs. Jul 04
LPG & Ethane	4.86	4.77	4.42	5.03	5.39	4.32	4.14	4.38	4.35	-0.03	-0.12
Naphtha	3.22	3.29	3.20	3.33	3.40	3.15	3.12	3.00	3.24	0.24	0.09
Motor Gasoline	14.88	14.90	15.24	14.89	14.46	15.08	14.94	15.35	15.27	-0.08	-0.20
Jet & Kerosene	4.10	4.22	3.93	4.24	4.62	3.90	3.80	4.00	3.97	-0.03	0.15
Gas/Diesel Oil	12.85	13.05	12.45	13.40	13.38	12.64	12.38	12.75	12.19	-0.56	0.01
Residual Fuel Oil	4.59	4.61	4.46	4.68	4.89	4.37	4.15	4.49	4.41	-0.08	-0.11
Other Products	4.98	4.97	5.45	4.89	4.42	5.23	4.95	5.85	5.33	-0.53	-0.20
Total Products	**49.48**	**49.81**	**49.15**	**50.46**	**50.57**	**48.70**	**47.47**	**49.82**	**48.76**	**-1.07**	**-0.39**

Pacific

Japanese demand was exceptionally weak in August, declining by a preliminary 5.2% year-on-year. Part of the decline may be attributed to Typhoon Mawar, which hit eastern Japan on 26 August, disrupting product supplies and impacting demand. Although high oil prices have dampened business sentiment, Japan's business confidence index continues to improve as the economy shows signs of strength. Overall, OECD Pacific demand is projected to grow by 1.0% in 2006.

Among other developments, Tokyo Electric Power Company (TEPCO) recently reported that it has no plans to increase oil purchases due to the unplanned shutdown of a nuclear power unit at its Kashiwazaki-Kariwa plant. However, a hurricane-related increase in US natural gas prices could contribute to an increase in demand for fuel oil in power generation in both Japan and Korea this winter as liquefied natural gas (LNG) cargoes are drawn away from the Pacific market to the US Gulf Coast. Korea is likely to be most affected, as it secures a more substantial portion of its LNG in the spot market rather than through long-term contracts.

OECD Pacific Demand by Product
(million barrels per day)

	2004	2005	3Q04	4Q04	1Q05	2Q05	May 05	Jun 05	Jul 05	Latest month vs. Jun 05	Latest month vs. Jul 04
LPG & Ethane	0.88	0.89	0.79	0.88	1.00	0.87	0.82	0.86	0.84	-0.01	0.04
Naphtha	1.57	1.62	1.56	1.63	1.69	1.54	1.53	1.49	1.57	0.09	0.05
Motor Gasoline	1.60	1.63	1.70	1.63	1.59	1.59	1.53	1.64	1.62	-0.02	-0.10
Jet & Kerosene	1.02	1.06	0.74	1.12	1.54	0.77	0.68	0.76	0.70	-0.06	0.01
Gas/Diesel Oil	1.89	1.90	1.81	1.95	1.99	1.85	1.70	1.97	1.71	-0.26	-0.08
Residual Fuel Oil	1.05	1.05	1.03	1.05	1.17	0.98	0.91	1.00	0.97	-0.03	-0.06
Other Products	0.52	0.51	0.54	0.52	0.52	0.50	0.45	0.55	0.55	0.00	0.03
Total Products	**8.53**	**8.64**	**8.16**	**8.77**	**9.49**	**8.10**	**7.62**	**8.26**	**7.97**	**-0.29**	**-0.11**

Europe

High fuel prices sparked protests in the UK and calls by the French government for oil companies to cut prices. In Austria oil firms marginally lowered prices after the government threatened them with a special tax. The French government also responded by offering increased tax relief to certain categories of consumers, such as truckers and farmers, in an effort to soften the impact of increased prices. Although the volumes are small, it is interesting to note that some French motorists are reportedly turning to vegetable oil as a substitute for diesel. While technically this is illegal if the fuel tax is not paid, the financial incentive is clear as vegetable oil is priced about 35% lower than diesel.

OECD Europe Demand by Product
(million barrels per day)

	2004	2005	3Q04	4Q04	1Q05	2Q05	May 05	Jun 05	Jul 05	Latest month vs. Jun 05	Latest month vs. Jul 04
LPG & Ethane	1.03	0.98	0.91	1.03	1.12	0.89	0.88	0.86	0.87	0.01	-0.13
Naphtha	1.14	1.15	1.10	1.15	1.21	1.14	1.14	1.05	1.08	0.03	-0.04
Motor Gasoline	2.78	2.67	2.89	2.72	2.52	2.75	2.73	2.78	2.75	-0.03	-0.20
Jet & Kerosene	1.17	1.22	1.26	1.17	1.14	1.24	1.24	1.29	1.30	0.01	0.08
Gas/Diesel Oil	5.98	6.09	5.83	6.37	6.17	5.80	5.69	5.80	5.74	-0.06	0.03
Residual Fuel Oil	2.02	2.01	1.98	2.08	2.13	1.91	1.82	1.97	1.92	-0.05	-0.05
Other Products	1.48	1.49	1.61	1.48	1.26	1.56	1.50	1.67	1.66	-0.01	0.00
Total Products	**15.60**	**15.61**	**15.58**	**16.00**	**15.55**	**15.29**	**15.00**	**15.42**	**15.32**	**-0.10**	**-0.30**

Overall, European demand is adjusted upwards by 80 kb/d in the third quarter in spite of the price increases associated with Hurricane Rita. This is largely because German and French heating oil deliveries increased by a preliminary 34.1% and 37.1% respectively in August versus year ago levels. In spite of the increase, German tank levels are still low when compared to historical levels as German consumers remain reluctant to fill their tanks at high prices. European oil demand growth is projected to decline marginally (0.1%) in the fourth quarter.

North America

Preliminary indications are that Hurricanes Katrina and Rita had a substantial impact on US oil product demand as supplies were disrupted and product prices spiked to all-time highs (see 'The Impact of Hurricanes Katrina and Rita on Oil Product Demand'). US demand is estimated to have declined by 2.3% in September versus year ago levels, with a 2.4% decline in gasoline demand. In contrast, fuel oil demand is projected to have jumped by some 11.4% due to interfuel substitution away from high-priced natural gas. This rise follows an estimated 25.9% year-on-year increase in fuel oil demand in August. While at this point there is limited supporting data, there is also evidence that the use of distillate in power generation may have increased with disruptions to natural gas supplies. Normally about 40 kb/d of distillate is used in power generation, but this can increase to some 200 kb/d. On the whole, however, US gasoil demand is estimated to have declined by some 3.2% in September.

It is important to caution that the pre- and post-hurricane delivery data are subject to revision and that oil product deliveries are an imperfect proxy for actual demand. This is especially the case when supply logistics are disrupted, because product deliveries may not equal actual demand due to changes in secondary inventories. For example, it is estimated that gasoline demand roughly doubled in the Houston area in the days leading up to Hurricane Rita as residents evacuated the area. This left many retail stations empty. However, the spike in demand will show up with a lag as an increase in deliveries from primary storage when these stations rebuild their inventories. As such, oil product delivery data must be viewed cautiously and may be subject to relatively large fluctuations in coming weeks.

OECD North America Demand by Product
(million barrels per day)

	2004	2005	3Q04	4Q04	1Q05	2Q05	May 05	Jun 05	Jul 05	Latest month vs. Jun 05	Latest month vs. Jul 04
LPG & Ethane	2.95	2.91	2.72	3.12	3.27	2.55	2.44	2.67	2.64	-0.03	-0.03
Naphtha	0.50	0.52	0.54	0.56	0.50	0.47	0.46	0.46	0.59	0.12	0.08
Motor Gasoline	10.50	10.60	10.65	10.55	10.35	10.74	10.68	10.93	10.89	-0.03	0.09
Jet & Kerosene	1.91	1.94	1.93	1.96	1.94	1.89	1.88	1.95	1.97	0.02	0.06
Gas/Diesel Oil	4.98	5.07	4.81	5.08	5.22	5.00	4.99	4.98	4.74	-0.24	0.05
Residual Fuel Oil	1.51	1.55	1.46	1.54	1.60	1.48	1.42	1.52	1.52	0.00	0.00
Other Products	2.98	2.97	3.30	2.89	2.65	3.18	2.99	3.64	3.12	-0.52	-0.23
Total Products	**25.34**	**25.57**	**25.41**	**25.69**	**25.53**	**25.31**	**24.85**	**26.15**	**25.47**	**-0.68**	**0.02**

There are indications that the US economy took a hit in September as job losses mounted in hurricane-struck areas and overall US consumer confidence dropped. As a consequence, third quarter GDP growth may be revised down by as much as one percent versus pre-hurricane projections. Looking forward, however, an economic rebound is expected as rebuilding begins and the latest data suggest that US manufacturing activity continues to grow.

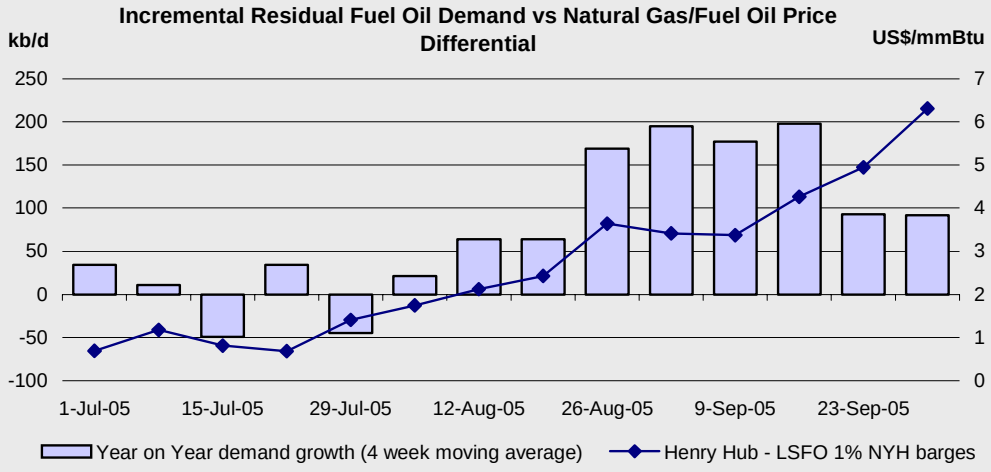
In the fourth quarter of 2005, US oil product demand is expected to recover from the September downturn to grow by 1.1%, albeit well down from 3.4% in the same period last year. Gasoline demand is projected to grow by 0.9%, in part due to rebuilding of secondary and tertiary inventories in October. Demand for fuel oil is expected to be 5.3% above the fourth quarter last year. This is based on the assumption that natural gas prices remain high, encouraging interfuel substitution at the margin.

The Impact of Hurricanes Katrina and Rita on Oil Product Demand

It is not possible to isolate the impact of Rita versus Katrina on US oil product demand. Both have affected economic activity, supply logistics and product prices, which has in turn impacted oil demand. Preliminary weekly US data indicate that deliveries of transport fuels fell sharply. This decline is attributed partly to logistical disruptions (e.g., some retail stations reportedly ran out of fuel) and partly to a demand response to higher product prices.

Although the demand response to oil price increases has been muted in recent years, prices have reached a threshold where a demand response may become more pronounced (gasoline prices have been at a level that would typically be associated with a $75-80/bbl WTI crude price). In addition, there have been calls for demand restraint which, if heard, could have an impact on demand at the margin. However, the negative impact of high oil prices on consumption is partially counteracted by extraordinarily high natural gas prices. As a consequence, total demand for oil products that typically are more responsive to high oil prices (e.g., fuel oil and heating oil) will not post substantial declines. In fact, fuel oil demand is expected to increase as a result of the hurricanes.

Deliveries of fuel oil have risen sharply as disruptions to natural gas supplies and a sharp increase in natural gas prices has led to interfuel substitution. The natural gas/fuel oil price differential rose from about $1.50-2.00/mmBtu prior to Katrina to roughly $4.50-6.00/mmBtu in subsequent weeks. This differential should continue to decline as natural gas production returns, but fuel oil demand is expected to remain strong in coming months.



Comparison With a 'No Hurricane' Scenario

To fully evaluate the impact of the hurricanes on oil product demand it is necessary to compare the outcome to a 'no hurricane' scenario. At this point it appears that US gasoline demand will be reduced by some 370 kb/d in September versus a 'no hurricane' demand scenario. At the same time, fuel oil demand growth is expected to be about 90 kb/d higher than the 'no hurricane' scenario. Overall, US demand is reduced by some 790 kb/d.

Outside of the US, the impact of the increase in product prices associated with Katrina and Rita is difficult to assess in the absence of preliminary September demand data. In the OECD, comparatively high taxes on retail sales should help dampen the impact of the increase in wholesale prices. Taken together, the hurricanes are estimated to lower OECD (non-US) gasoline demand by some 50 kb/d in September versus a 'no hurricane' scenario. Overall, September OECD (non-US) oil product demand is estimated to be about 90 kb/d lower versus the 'no hurricane' scenario. In October, the negative impact of the hurricanes is expected to reduce demand by about 80 kb/d (of which 40 kb/d is gasoline).

Impact of Hurricanes Katrina and Rita on Oil Product Demand (continued)

The non-OECD demand picture is complicated by the fact that retail product prices are often regulated. Changes in international market prices are typically not immediately passed on to the consumer. These policies are proving difficult to sustain, and over time governments are moving to increase retail prices in line with the international market (especially in Asia). However, because prices are still widely regulated, the immediate impact of the increase in international market prices associated with the hurricanes may be subdued.

Globally, it appears that gasoline demand may be some 440 kb/d lower in September versus a 'no hurricane' scenario. On the whole, September oil product demand was likely off by some 980 kb/d when compared to the 'no hurricane' scenario. The global impact is expected to decline to approximately 290 kb/d in October.

A preliminary projection of the impact of Katrina and Rita versus a 'no hurricane' baseline is depicted in the tables below:

Hurricane Impact on US Oil Product Demand
(thousand barrels per day)

	Sep 05	Oct 05	Nov 05	Dec 05
LPG & Ethane	-160	-22	-15	-16
Naphtha	-19	-3	-2	-2
Motor Gasoline	-367	-103	-57	-45
Jet & Kerosene	-34	-13	-9	-9
Gas/Diesel Oil	-443	-35	-20	-17
Residual Fuel Oil	94	69	51	46
Other Products	-77	-17	-10	-10
Total Products	**-785**	**-107**	**-52**	**-45**

Hurricane Impact on Global Oil Product Demand
(thousand barrels per day)

	Sep 05	Oct 05	Nov 05	Dec 05
LPG & Ethane	-197	-57	-42	-41
Naphtha	-43	-26	-19	-17
Motor Gasoline	-443	-167	-102	-82
Jet & Kerosene	-55	-33	-24	-23
Gas/Diesel Oil	-538	-125	-86	-72
Residual Fuel Oil	158	122	92	81
Other Products	-110	-46	-33	-30
Total Products	**-978**	**-290**	**-187**	**-162**

Non-OECD

China

While Chinese apparent demand is again revised down (by 10 kb/d for 2005 and 40 kb/d for 2006), the demand pattern appears to have stabilised somewhat, albeit at a much lower growth rate than witnessed in 2004. Net oil product imports were off by some 100 kb/d year-on-year in August. But it seems that the major state-owned oil companies bowed to government pressure and maintained crude runs in spite of continued dismal refining margins under retail price caps. August refinery production is reported to have increased by 5.6% versus year ago levels.

China Crude & Product Trade
(thousand barrels per day)

	2003	2004	3Q2004	4Q2004	1Q2005	2Q2005	Jun 05	Jul 05	Aug 05	Latest month vs. Jul 05	Latest month vs. Aug 04
Net Imports/(Exports) of:											
Crude Oil	**1664**	**2346**	**2232**	**2491**	**2305**	**2541**	**2520**	**2421**	**1950**	**-471**	**-155**
Products & Feedstocks	**442**	**661**	**545**	**653**	**501**	**375**	**579**	**406**	**333**	**-73**	**-96**
Gasoil/Diesel	-28	43	21	79	-6	-27	-10	-24	-71	-47	-73
Gasoline	-175	-125	-146	-117	-151	-161	-129	-155	-233	-78	-56
Heavy Fuel Oil	407	506	412	515	480	395	508	401	374	-26	-49
LPG	202	201	222	184	200	179	215	175	231	56	67
Naphtha	-22	-33	-48	-51	-49	-67	-79	-25	-47	-23	9
Jet & Kerosene	1	16	19	8	6	5	11	-14	28	42	23
Other	58	52	64	34	22	51	63	49	52	3	-17
Total	**2106**	**3008**	**2777**	**3144**	**2807**	**2916**	**3100**	**2828**	**2284**	**-544**	**-251**

Sources: China Oil, Gas and Petrochemicals plus IEA estimates.

Chinese apparent demand is projected to grow by 5.7% in the fourth quarter of 2005. This is well below the 12.0% increase seen in the same period of 2004, but it is an increase on the first three

quarters of 2005 when apparent demand is estimated to have grown by only 3.6%. Gasoline exports will reportedly decline from about 230 kb/d in August to 60 kb/d in September and October, partly in response to a temporary removal of tax rebates for exports of gasoline and naphtha. In addition, Petrochina plans to resume limited diesel imports in October, amounting to just over 20 kb/d, for the first time in 2005. Sinopec refuses to import diesel because it maintains that it would incur a substantial loss once the import duty (6%) and value-added tax (17%) are included in the cost.

China Demand by Product
(thousand barrelas per day)

	Demand			Annual Change		Annual Change (%)	
	2004	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**
LPG & Ethane	633	649	675	16	25	2.5	3.9
Naphtha	684	716	790	32	74	4.7	10.3
Motor Gasoline	1069	1092	1183	23	90	2.2	8.3
Jet & Kerosene	239	257	280	18	23	7.4	9.0
Gas/Diesel Oil	2150	2274	2456	124	182	5.8	8.0
Residual Fuel Oil	829	785	804	-45	19	-5.4	2.4
Other Products	828	865	917	36	52	4.4	6.0
Total Products	**6433**	**6638**	**7104**	**205**	**466**	**3.2**	**7.0**

Interestingly, wholesale prices for unleaded gasoline have typically remained below China's official retail prices for the past few months. Although this situation may appear odd at first glance, it is a rational response by state-owned refiners to a government policy of suppressing retail product prices in spite of rising international prices. In an effort to stem their downstream losses, state-owned Sinopec and CNPC/Petrochina ensure that their own retail outlets are supplied and then quote higher wholesale prices to independent retailers and businesses that are not subject to regulated retail prices. Negative retail margins on key products obviously hurt independent retailers and there are reports that many have shutdown or limited sales (independent retail stations are reported to account for nearly half of the total 88,000 retail outlets in China). Similarly, low product prices place pressure on independent refiners which pay international market prices for their crude or residual fuel oil feedstock. On the whole, while Sinopec and CNPC/Petrochina are certainly bearing a substantial burden in terms of foregone profits due to low product prices, government pricing policy is helping to solidify their position as the dominant downstream players in China's oil market.

Other Non-OECD

In Southeast Asia, moves to raise or eliminate retail price subsidies are certainly affecting oil product demand. After posting growth of approximately 10% in 2004, **Thailand's** oil product demand growth stagnated, and actually declined in July, following the removal of price subsidies.

India Crude & Product Trade
(thousand barrels per day)

	2003	2004	3Q2004	4Q2004	1Q2005	2Q2005	May 05	Jun 05	Jul 05*	Latest month vs. Jun 05	Latest month vs. Jul 04
Net Imports/(Exports) of:											
Crude Oil	**1863**	**1945**	**2013**	**1742**	**1969**	**1894**	**1905**	**1864**	**1820**	**-44**	**-191**
(by Public Oil Cos)	**1243**	**1158**	**1214**	**1000**	**1133**	**1116**	**1121**	**1103**	**978**	**-125**	**-293**
Products & Feedstocks	**-152**	**-176**	**-178**	**-222**	**-82**	**-92**	**13**	**-184**	**-31**	**152**	**140**
Gasoil/Diesel	-119	-139	-122	-162	-89	-108	-76	-127	-74	53	-5
Gasoline	-72	-75	-75	-80	-53	-39	-53	-40	-39	1	46
Heavy Fuel Oil	5	-6	-5	-20	-4	10	29	6	1	-5	11
LPG	55	86	86	128	95	74	86	64	73	9	13
Naphtha	-1	-7	-29	-25	-15	-39	-9	-77	-13	65	27
Jet & Kerosene	-22	-47	-43	-74	-34	-5	25	-29	10	39	38
Other	1	12	9	12	17	15	11	19	10	-10	10
Total	**1712**	**1769**	**1834**	**1520**	**1887**	**1801**	**1918**	**1681**	**1789**	**108**	**-51**

* Preliminary

Sources: Indian Ministry of Commerce, Indian Port Authorities and IEA estimates.

Indonesia recently mustered the political will to substantially raise product prices as the fiscal burden of subsidies became prohibitive. Previous attempts to raise prices have sparked widespread protests which caused the government to back down and rescind the price increases. In the face of such political pressure, the magnitude of the recent price increases surprised many observers. However, the government appears to be committed to holding firm and it has tried to soften the blow of the price increase by distributing cash (approximately $30) to 15.5 million poor families. In the future, the government plans to ensure that retail price movements are more closely aligned with the regional market. Indonesia's oil product demand spiked prior to the 1 October price increase, but it is expected to stagnate in coming months as consumers adjust to the reality of prices that are more in line with the international market.

Indonesian Retail Price Increase
(price per litre)

	New Price		Old Price		% increase	Sept Singapore
	(rupiah)	($US)	(rupiah)	($US)		Spot Price ($US)
Gasoline	4,500	0.45	2,400	0.24	87.50	0.49
Diesel	4,300	0.43	2,100	0.21	104.76	0.47
Kerosene	2,000	0.20	700	0.07	185.71	0.50

1 US dollar = approx. 10,065 Indonesian Rupiah

While **Indian** oil product demand was expected to post a strong rebound from a flood driven downturn in July, preliminary estimates of 11.5% growth in August 2005 versus August 2004 exceeded expectations. It should be cautioned that the large August 2005 demand increase is a one-off spike that is not indicative of a more robust future demand trend. In addition to a rebound from July flooding, August 2004 baseline demand was negatively impacted by a truckers strike. There is also evidence that August 2005 sales rose temporarily as retailers built inventories in anticipation of a 7% increase in administered gasoline and diesel prices that took place on 6 September.

SUPPLY

Summary

- **World oil supply** declined by 845 kb/d from August to September, averaging 83.8 mb/d under the impact of Hurricanes Katrina and Rita in the US Gulf of Mexico (GOM). Lower North American production eclipsed increases of a combined 440 kb/d from the North Sea, Russia, Kazakhstan and Brazil, plus a 100 kb/d rise in OPEC crude. On a yearly comparison, global supply stood a modest 315 kb/d above September 2004 levels. Total OPEC oil supply was up by over 700 kb/d, non-OECD supply rose by a robust 855 kb/d but OECD production was down by 1.28 mb/d.

- **Hurricane Rita** swiftly followed **Hurricane Katrina,** making landfall on the Texas-Louisiana border on 24 September and compounding Katrina's impact on regional energy supply. At writing, nearly 1.2 mb/d (80%) of GOM crude production remains shut-in, plus 6.4 bcf/d (64%) of natural gas supply. Severe damage affects elements of upstream infrastructure, but production recovery is being further hampered by inoperable pipelines, processing plants, terminals and refineries. Regional NGL supply and onshore crude production are also off by up to 400 kb/d for September. Shut-in production through early 2006, lower NGL supply, the impact of deferred drilling activity on new field start-ups or expansions and modest permanent production losses are assumed to cut forecast US oil production by 285 kb/d for 2005 and 260 kb/d for 2006 versus last month's Report. These are incremental to downward revisions of 155 kb/d and 50 kb/d made one month ago.

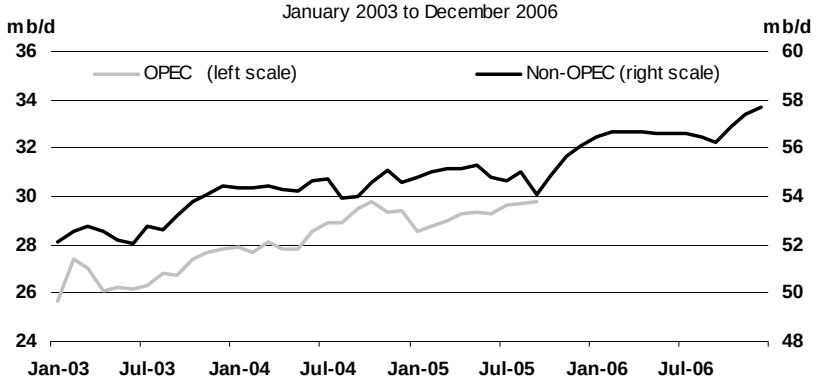
- The intensity and possible long-duration impact of GOM storms again underpin revisions to forecast **non–OPEC supply** for 2005 and 2006. This year's supply is revised down by 335 kb/d to average 50.3 mb/d while 2006 production is now forecast at 51.6 mb/d, 400 kb/d less than envisaged last month. Non-OPEC growth in 2005 therefore averages 170 kb/d (the lowest since 1999), but rebounds to 1.3 mb/d in 2006. OPEC other liquids supply generates an additional 400 kb/d of growth in both years. This year's non-OPEC estimate is also curbed due to lower expectations for the UK, India and Sudan. Reductions in forecast supply for 2006 outside of the US are centred on Canada, the UK, non-OECD Asia and Sudan.

- **OPEC crude supply** gained 100 kb/d in September to reach 29.8 mb/d. Individual changes were modest, Iraq and Kuwait increasing by 45 kb/d each. Higher liftings of Kirkuk crude from Ceyhan underpinned Iraq's rise, although limited Kirkuk to Ceyhan pipeline shipments kept storage low and ultimately held liftings below initial expectations. OPEC spare capacity at below 2 mb/d remains thin. Despite an offer following OPEC's Vienna meeting to make this capacity available to the market, marginal demand is focussed on lighter, sweeter grades. However, OPEC investments could lift sustainable capacity by nearly 500 kb/d by end year.

- **The 'call on OPEC crude and stock change'** is revised up by 300 kb/d for 2005 and 2006, averaging 28.4 mb/d in both years. Developments in the US Gulf result in a 0.8 mb/d upward revision to the call for the current quarter, and this now averages 29.9 mb/d.

OPEC Crude and Non-OPEC Oil Supply [1]

January 2003 to December 2006



1 Non-OPEC Oil Supply includes OPEC NGLs, condensate and non-conventional oil

All world oil supply figures for September discussed in this Report are IEA estimates. Estimates for OPEC countries, Alaska, Egypt and Russia are supported by preliminary September supply data.

Note: Random events present downside risk to the non-OPEC production forecast contained in this Report. These events can include accidents, unplanned or unannounced maintenance, technical problems, labour strikes, political unrest, guerrilla activity, wars and weather-related supply losses. Allowance has been made in the forecast for scheduled maintenance in all regions and for typical seasonal supply outages (including hurricane-related stoppages) in North America. These aside, no contingency allowance for random events is subtracted from the supply forecast. While upside variations can occur, experience in recent years indicates that the random events listed above may cause supply losses of between 300 kb/d and 400 kb/d for non-OPEC supply each year.

OPEC

OPEC crude supply in September gained 100 kb/d to reach 29.8 mb/d. Changes in production by individual members were modest, with only Iraq and Kuwait seeing appreciable increases, adding around 45 kb/d each. Elsewhere within the Organisation, production trended within a 10-20 kb/d range of August levels. Most members are now operating close to physical or market-related capacity constraints, although some additional supply-side flexibility should enter the market during the fourth quarter and through 2006 as net capacity additions are offered to the market (see below).

The Organisation concluded its 19-20 September meeting in Vienna with an agreement to make available its spare capacity for three months from 1 October at what it termed 'reasonable prices' and subject to market demand. OPEC will review market developments at a further extraordinary meeting in Kuwait on 12 December, but suggests that presently crude markets are amply supplied. It sees shortages of appropriate refining capacity as the key to recent price increases and volatility and cites this as being primarily a responsibility for main consuming countries.

In the current market, OPEC's decision to relax quota adherence may indeed be somewhat irrelevant as spare upstream capacity, as noted before, is largely in the form of heavy, sour crude for which there is only a limited market appetite, particularly in light of US Gulf Coast refinery outages. This region, with the greatest concentration of sophisticated refinery upgrading equipment, is the primary market for heavy and sour crude from OPEC members.

OPEC Crude Production
(million barrels per day)

	1 July 2005 Target	September 2005 Production	Sustainable Production Capacity[1]	Spare Capacity vs September 2005 Production	Production vs. Target
Algeria	0.89	1.37	1.37	0.00	0.48
Indonesia	1.45	0.93	0.98	0.05	-0.52
Iran	4.11	3.97	4.10	0.14	-0.15
Kuwait[2]	2.25	2.46	2.50	0.05	0.21
Libya	1.50	1.65	1.65	0.00	0.15
Nigeria	2.31	2.46	2.50	0.05	0.15
Qatar	0.73	0.81	0.83	0.02	0.08
Saudi Arabia[2]	9.10	9.56	10.50	0.94	0.46
UAE	2.44	2.52	2.55	0.04	0.07
Venezuela[3]	3.22	2.11	2.20	0.09	-1.11
Subtotal	**28.00**	**27.82**	**29.18**	**1.36**	**-0.18**
Iraq		1.97	2.50	0.54	
Total		**29.79**	**31.68**	**1.89**	
(excluding Iraq, Nigeria, Venezuela., Indonesia				*1.17)*	

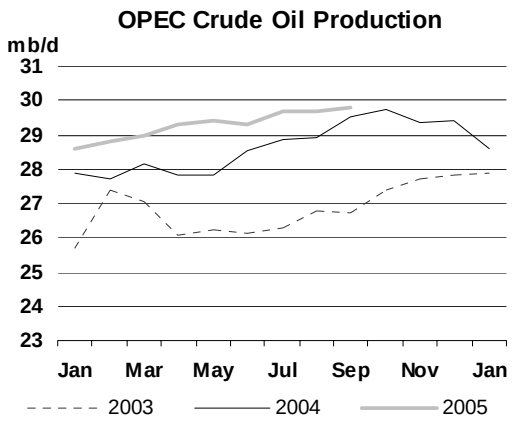
1 Capacity levels can be reached within 30 days and sustained for 90 days
2 Includes half of Neutral Zone Production
3 Excludes upgraded Orinoco extra-heavy oil which averaged 588 kb/d in September

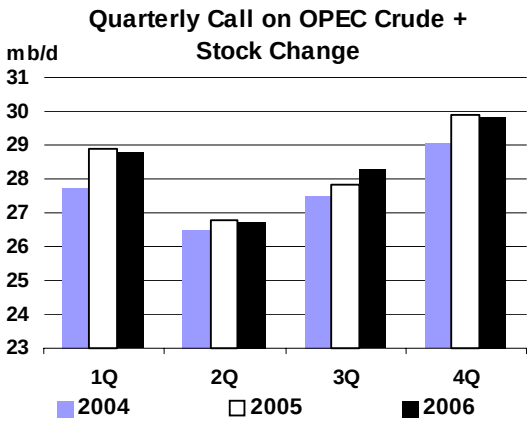
OPEC members tend to stress that their ability and willingness to expand upstream capacity depends upon the emergence of a consensus view on likely demand growth. The Organisation has raised the concept of security of demand. This refers both to finished product demand trends and to widely acknowledged global shortages of refinery upgrading capacity. Notwithstanding, the Organisation will have noted its loss of influence in price setting. The marginal barrel of supply is, for now, not relatively cheap Middle Eastern barrels but instead high cost deepwater or non-conventional production from non-OPEC producers (not least being slowly-recovering Gulf of Mexico production). Numerous analysts have pointed out that this in part explains the uncertainty over future price paths and the likely floor for prices in the short to medium term.

Further, OPEC members such as Saudi Arabia with ample reserves are concerned that sustained high prices could undermine longer term demand for crude. Comments from the Saudi Foreign Minister that he would be happy for prices to revert towards $35-$40/bbl can be seen in this context, although he added that such a weakening did not appear to be imminent. Such sentiments are not necessarily universal within OPEC as more resource-constrained members may be happier to see higher prices persist a while longer, not least to help fund burgeoning social and infrastructural investment programmes.

Nonetheless, setting aside valid claims that refining constraints are part of the problem, markets would clearly be less nervous with a greater degree of spare upstream capacity. Events in the US Gulf have reinforced the importance of supply-side flexibility, even if the main problem this time has been downstream. And while consumer country emergency stock releases added welcome liquidity to stretched markets, as has been noted before, one-off stock releases are no substitute for the more effective buffer of spare capacity both up and downstream.

The relationship between prices and spare capacity can at times be blurred. Nonetheless, historically a margin of less than 3-4 mb/d, or alternatively OPEC producing in excess of 90% of capacity, has tended to result in an upsurge in prices. Nor is it a coincidence that areas of production deemed most at risk at various times over the past two to three years (Venezuela, Nigeria, Iraq, US Gulf) have tended to be of 2-3 mb/d magnitude each. Clearly, the market seeks signs of sustained investment in new production capacity and a margin of supply flexibility more in tune with current perceived risks before allowing OPEC to again exert some influence over prices. A number of OPEC members, not least Saudi Arabia, are already doing just that. Buoyed by an expected 40% increase in revenues in 2005, net capacity is seen increasing by 0.5 mb/d by the end of 2005 (largely from UAE, Nigeria and Kuwait) and by almost 800 kb/d in 2006 (Saudi Arabia, Nigeria and others). The Report avoids forecasting either OPEC production levels or prices, but such an investment schedule suggests it could be mid- to late-2006 before more comfortable levels of spare capacity are reached.





Production from **Iraq** (net of re-injection and pipeline flows to Ceyhan) averaged 1.97 mb/d in September compared to 1.92 mb/d in August. Domestic crude use at refineries and for power generation is assessed flat in September at August's upwardly revised level of 445 kb/d. Total exports increased by 45 kb/d to 1.52 mb/d. Southern tanker liftings came in at 1.4 mb/d while tanker and pipeline deliveries from storage at Ceyhan in Turkey are assessed at 110 kb/d. This is less than had been anticipated for Ceyhan in September, with some earlier analyses having suggested up to 165 kb/d were scheduled for the month. Exports were hampered by minimal volumes in storage at Ceyhan following ongoing pipeline disruptions from Iraq's northern fields around Kirkuk. This likely impeded onward pipeline shipments to Turkish refiner Tupras. The State Oil Marketing Organisation has scheduled 1.5 mb/d of Basrah Light exports for October from Basrah, while Tupras has an entitlement to lift up to 2 mb from Ceyhan for use in its refineries.

Kuwaiti supply is assessed 45 kb/d higher at 2.46 mb/d as maintenance at western production facilities came to an end. Refinery maintenance in September may also have resulted in higher export liftings for the month. Production capacity and output could rise through to the year end as Kuwait fully reactivates northern and western gathering centres. However, longer term plans to boost capacity at northern fields to 900 kb/d with foreign company involvement still face political opposition.

Nigerian supply remained largely unchanged at 2.46 mb/d, despite repeated facility closures due to civil unrest. Chevron lost 28 kb/d of production from two flow stations in the third week of September when armed militants took over facilities, but these operations were subsequently reopened. Deeper offshore production increases are thought to have made up for these losses overall. Output in Nigeria remains prone to disruption against a backdrop of both ethnic tensions and threats of strike action over recent domestic fuel price rises. Nonetheless, since mid-2003, crude production has proved resilient in the face of threats and production is expected to rise in late-2005 and 2006 with the deepwater Bonga and Erha developments potentially adding 375 kb/d of capacity.

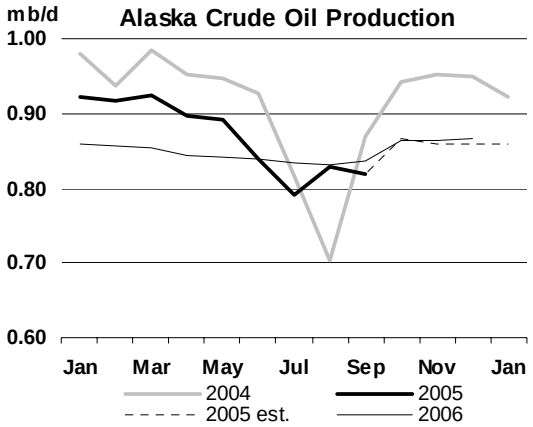
Supply from **Saudi Arabia** remained stable in September at just under 9.6 mb/d. The Kingdom continued to stress its willingness to increase supply further but suggested there were few buyers for extra oil production at present, notably of heavy, sour grades. Indeed, there have been suggestions of impending curbs in Saudi production if complex refining capacity on the US Gulf Coast remains off line for a prolonged period. The Oil Minister announced during the World Petroleum Congress that Saudi Arabia would soon be able to boost proved reserves of 264 billion bbls by a further 200 billion bbls. Separately, the Minister suggested that the Haradh project is now due onstream by April 2006. The Haradh gas-oil separator at the Ghawar field is the first of five expansion projects which total a gross addition of some 2.35 mb/d in Saudi crude capacity.

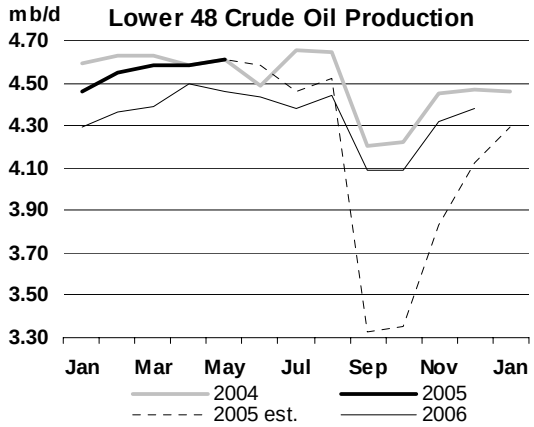
News on capacity developments elsewhere amongst OPEC members was mixed. The **UAE** reiterated that it expects to add 200 kb/d of Murban crude availability, split between fourth quarter 2005 and first quarter 2006. However, completion of pipeline facilities enabling expanded production from the Elephant and other fields in **Libya** has been put back to March 2006 from end-2005. **Iran** too is experiencing delays in realising sustained full production from the recently inaugurated Soroush and Nowruz fields. Earlier technical difficulties reportedly are now being augmented by delays as Iran attempts to ascertain the best way to market these heavy crude streams.

OECD

North America

US – September Alaska actual, others estimated: The combined impact of Hurricanes Katrina and Rita on US GOM oil supply is discussed in detail below. In all, US oil production is revised down this month by 285 kb/d for 2005 and by 260 kb/d for 2006. Production now averages 7.3 mb/d in 2005 and 7.4 mb/d in 2006. Aside from GOM/Louisiana production, the outlook for Alaskan production is also revised down by 20 kb/d in fourth quarter 2005/first quarter 2006, and by 10 kb/d in second quarter 2006. This follows reports that BP will temporarily shut in up to 70 wells accounting for production of 20 kb/d of North Slope output, with gradual reinstatement expected through mid-2006. Alaskan production recovered over the course of September after a weak start to the month from the Northstar and Milne Point fields. Nonetheless, crude production averaged 820 kb/d versus 830 kb/d in August.





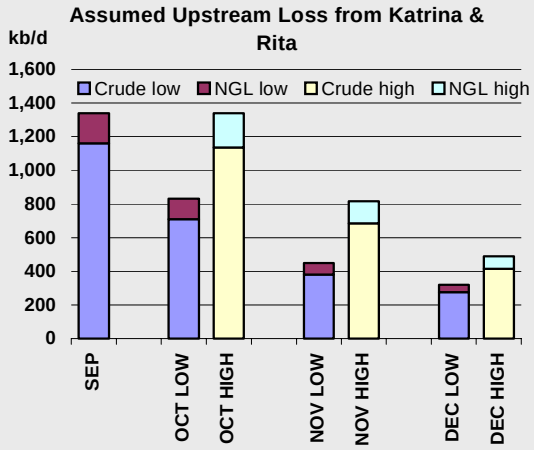
Hurricane Rita Compounds the Katrina Effect

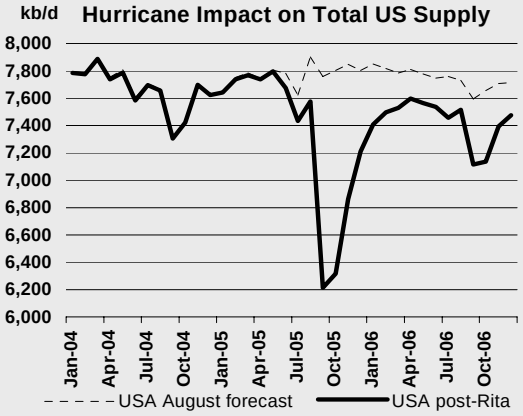
Hurricane Rita followed hard on the heels of Hurricane Katrina**,** hitting landfall close to the Texas-Louisiana border on 24 September and compounding Katrina's impact on regional energy supply. On Friday 7 October, shut-in crude production in the US GOM stood at 1.16 mb/d, nearly 80% of normal GOM output and over 20% of US crude oil production. The cumulative loss of crude supply since 26 August is 50 mb. Louisiana authorities have also reported 165 kb/d of oil production currently shut-in within the state's onshore and shallow offshore boundaries.

Not surprisingly, given devastation and workforce displacement, it will take time to make complete damage assessments of production, transportation and processing infrastructure. Recovery after last year's Hurricane Ivan was much quicker, despite extensive offshore pipeline damage. One month on from Ivan, shut in production had fallen below 0.5 mb/d. This year, damage to offshore production infrastructure, while considerable, is less of an impediment to supply recovery than is damage to pipelines and onshore processing facilities. The US Minerals Management Service (MMS) reported at the end of September that Katrina did more damage to sub-sea pipelines than originally thought. Permits to barge crude ashore have been granted to producers temporarily lacking pipeline access.

Some 6.4 bcf/d of natural gas production in the Gulf is also shut in, representing 64% of normal GOM output and around 12% of US marketed gas production. Outages on gas pipelines and gas processing facilities on the Gulf Coast are also affecting onshore natural gas production in Louisiana and Texas. The US EIA on 3 October reported that 21 gas processing plants remained closed with a combined capacity of 13.1 bcf/d (although many operate well below capacity). Some 42% of the shuttered capacity lacks electricity or gas feedstock, with the remainder out due to equipment damage.

A lack of gas processing capacity has the potential three fold effect of cutting volumes of non-associated gas, associated gas plus accompanying crude, and natural gas liquids. Short of flaring or re-injecting associated gas at oilfields, pipeline and processing constraints will keep crude oil production shut-in for longer than would otherwise be the case. US authorities are now considering granting limited permits to allow flaring. This Report estimates that in addition to crude oil losses of 1.16 mb/d in September, a further loss of 180 kb/d of NGL may have been incurred.





The level of lost output has grown considerably since the last Oil Market Report. That Report envisaged a potential loss of 48 mb of crude and 7 mb of NGL from the GOM in the September-December period. The graph (left, above) shows updated scenarios for GOM production loss through end-year 2005. The 'Low Disruption' profile assumes shut-in production drops to below 900 kb/d in the first half of October, the 'background' level of outages after Katrina but before Rita. Recovery is assumed to continue gradually thereafter through early December. A residual 275 kb/d of crude and 75 kb/d of NGL remains shut during December, the low end of the range of estimated damage to major production infrastructure (six major facilities, including Shell's Mars platform and Chevron's Typhoon, have sustained damage requiring several months to rectify). The cumulative September-December loss in this scenario is 77 mb of crude & 13 mb of NGL.

Hurricane Rita Compounds the Katrina Effect (continued)

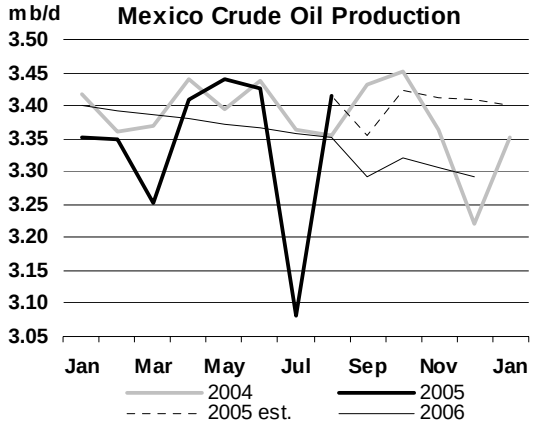
The 'High Loss' scenario assumes a slower recovery, deriving from more pessimistic assessments of the state of pipeline and processing infrastructure. Little aggregate recovery is seen in October, although crude outages fall to some 400 kb/d in December (the higher end of the range assessment for likely production loss from seriously damaged upstream facilities). This scenario results in a cumulative September-December GOM supply loss of 104 mb of crude and 18 mb of NGL. For now, the High Loss scenario looks the more likely and is incorporated in the supply/demand balances.

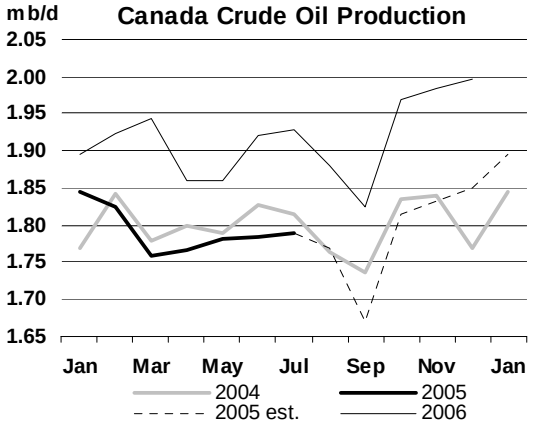
Assuming a similar recovery profile for onshore crude production, a further 15 mb of supply could be lost in the four month period, in addition to the losses indicated above for the Gulf of Mexico itself. The highly provisional nature of these scenarios must be emphasised. Damage assessments continue, but evaluating the integrity of some offshore pipelines could take months rather than weeks.

The 'tail' of supply disruption from Katrina and Rita could run well into 2006 and the ultimate tally of lost crude and NGL supply could be markedly higher than the end-2005 estimates suggested here. This Report assumes a gradually diminishing impact, with 120 kb/d of US GOM supply remaining offline until April. In reality, outages could be either more intense in the short term but with less of a tail, or show faster than expected recovery from shallow water and onshore facilities in the November-December period but with a longer tail affecting deepwater facilities. Projections remain subject to revision in the months ahead.

The longer-term impact on Gulf of Mexico production is difficult to predict. MMS suggests that destruction of older facilities nearing the end of their production life will see a permanent loss of only some 25 kb/d of crude capacity. But losses of drilling rigs and higher insurance charges will increase already-high development costs, deferring new field start-ups and satellite reservoir developments. Applying a blanket, three-month delay to all new starts or expansions scheduled for late 2005 and 2006 results in a further loss in supply by end-2006 of 40 mb. Indeed, there are indications that major projects such as BP's Thunder Horse may be subject to further delay. And given the potential for sustained disruption in gas suppy, US NGL supply is revised down by some 50 kb/d for 2006. The working scenario for the combined impact of shut-in crude production, facility losses, deferred developments and lower gas liquids supply is shown above, right. Fourth quarter 2006 US oil supply is now seen at 7.3 mb/d versus 7.7 mb/d before, with the 2005 hurricane season yet to run its course.

Canada – Newfoundland August actual, others July actual: Total Canadian oil supply fell by 15 kb/d in July and by an estimated 30 kb/d in both August and September. Synthetic crude output is thought to have regained peak levels around 600 kb/d in September after nearly a year of lower supply following maintenance and unscheduled outages. However, this was countered by lower supplies from offshore Newfoundland. Nonetheless, recent reports have confirmed the expected start-up of supplies from the White Rose field from November. In all, Canadian oil supply is seen averaging 3.03 mb/d in 2005 and 3.26 mb/d in 2006. The 2006 figure is 35 kb/d less than last month's forecast, with the incorporation of a higher assumption for maintenance at the syncrude units next year. Canada is one of several OECD producers which has seen production lag our earlier estimates but more because of unscheduled or prolonged facility outages than due to prevailing field decline.

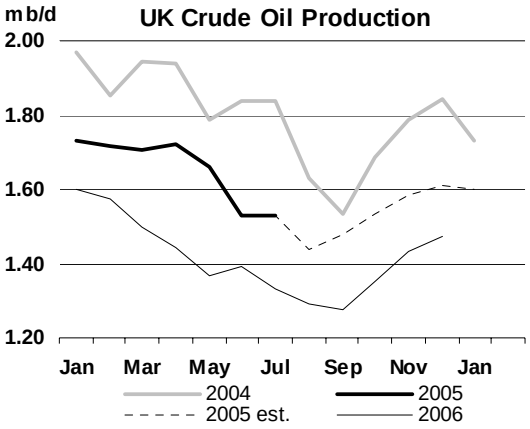


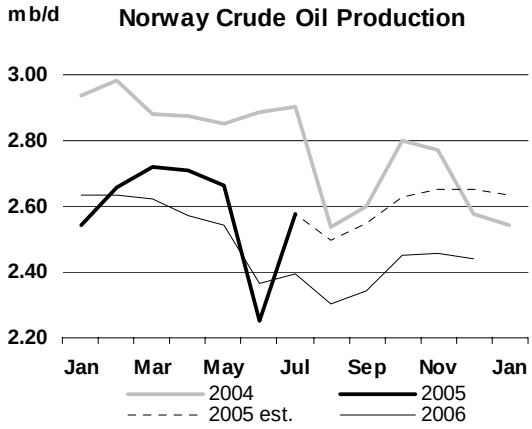


Mexico – August actual: Production in August rebounded after a storm-affected July, averaging 3.4 mb/d versus 3.1 mb/d the month before. Exports were up more modestly, with heavy-sour Maya and lighter Isthmus accounting for the bulk of August's 50 kb/d increase. Mexican production is not believed to have been directly affected by September's Hurricanes Katrina and Rita, or by October's Tropical Storm Stan. However, at writing, there have been reports that state producer Pemex may have temporarily shut-in 10% of production due to a lack of buyers following refinery outages on the US Gulf Coast. This Report's September and October production estimates are therefore subject to revision when final production data is released. The company was also reportedly chartering tankers to store surplus crude. The government's latest budget envisages 3.48 mb/d crude production for 2006. This Report has retained a more conservative 3.35 mb/d outlook until it becomes apparent whether new field developments can be activated rapidly enough to offset decline at the mature Cantarell field.

North Sea

UK – July actual: Recent data point to UK production falling sharply during the June to August period under the influence of both scheduled maintenance and unscheduled stoppages. Field-by-field data show June total oil production at 1.78 mb/d compared to 1.93 mb/d in May, with the Forties and Flotta systems bearing the brunt of the decline. Aggregate production data and loading schedules for subsequent months suggest a potential further fall to 1.66 mb/d in August but possible recovery to 1.85 mb/d by end-year. September saw further unscheduled outages affecting the Brent and Scott fields, while October loading schedules suggest slower rebound than expected after summer maintenance. Consequently, UK production is revised down by 50 kb/d for fourth quarter 2005 and by 40 kb/d for 2006. The latter adjustment reflects heavier assumed maintenance in third quarter 2006. Total UK oil production is now forecast at 1.86 mb/d in 2005 and 1.66 mb/d in 2006.





Norway – July actual, August provisional: Provisional August production data show a much shallower maintenance-inspired dip in production than anticipated previously in this Report. As for the UK, Norwegian output is seen recovering through end-year, reaching 3.13 mb/d by December from June lows of 2.64 mb/d. Despite markedly higher than expected August production, revisions to forecast Norwegian oil supply are marginal in total. Higher production from the Heidrun field is countered by a deferral into December of start-up at Oseberg West. Total Norwegian output is expected to average 3.0 mb/d in 2005 and 2006, with crude oil accounting for 2.6 mb/d and 2.5 mb/d in the two years respectively. Partners in Norway's new coalition government are seeking internal agreement on whether to allow exploration activity in environmentally sensitive areas offshore northern Norway. Upstream players see this as crucial to stemming crude oil production decline.

Former Soviet Union (FSU)

Russia – August actual, September provisional: Russian liquids production averaged 9.53 mb/d in August and a provisional 9.6 mb/d in September. So far in 2005, growth has averaged 260 kb/d or 2.8%, a level this Report assumes is sustained for 2005 as a whole. Despite a sharp slowing in annual growth in recent months, the fact that late-2004 production was actually in decline should lend some impetus to observed growth levels towards end-2005. Upstream investment by troubled producers Yukos and Sibneft has stagnated recently and with it production has declined. These producers aside however, growth has persisted, albeit at slower rates. TNK-BP announced expected 6.5% production growth for 2005. Early October saw start-up from the Chayvo field at ExxonMobil's Sakhalin-1 project. Some 50 kb/d of liquids supply is expected there by end-2005 and 250 kb/d by end-2006.

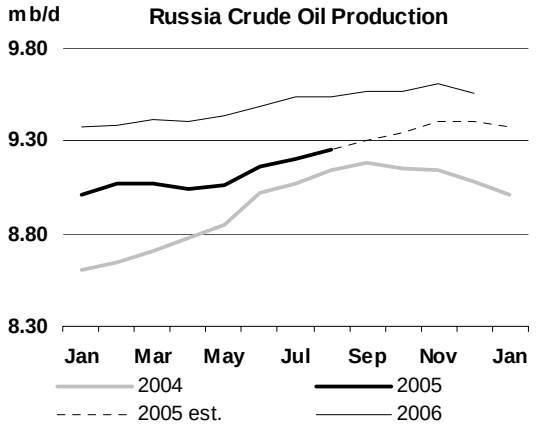
None of the above suggests that Russian production will reclaim the double digit growth seen in the first half of the decade. Increased state control over producing assets raises medium and longer term questions over production growth, but some short term clarity may be returning as regards the producing assets of Yukos and Sibneft. State Gazprom announced in September that it will purchase a 73% stake in the producing assets of Sibneft, raising the possibility that recent declines could be stemmed. With reports that Rosneft is planning to gain control over remaining Yukos assets, there is the prospect that the haemorrhage in production suffered by these two companies could temporarily abate. This Report retains its earlier projection of 250-300 kb/d growth in Russian production for 2005 and 2006, sharply below the 740 kb/d seen in 2004.

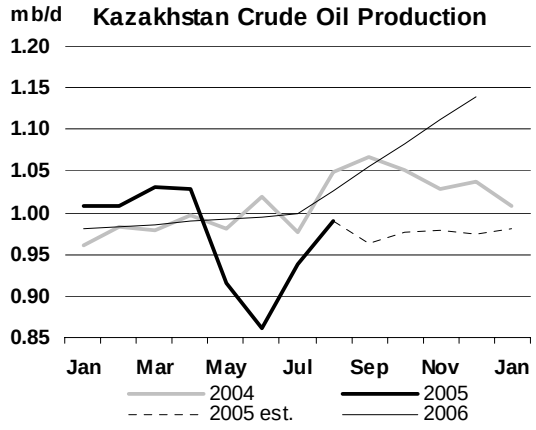
FSU Net Exports of Crude & Petroleum Products
(million barrels per day)

	2003	2004	3Q2004	4Q2004	1Q2005	2Q2005	Jun-05	Jul-05	Aug-05	Latest month vs. Jul-05	Latest month vs. Aug-04
Crude											
Black Sea	2.21	2.20	2.17	2.28	2.22	2.38	2.23	2.34	2.32	-0.01	0.11
Baltic	1.06	1.51	1.52	1.48	1.64	1.61	1.55	1.48	1.59	0.10	0.11
Artic/FarEast	0.21	0.25	0.30	0.30	0.19	0.19	0.24	0.22	0.22	0.00	-0.03
Crude Seaborne	**3.47**	**3.96**	**3.99**	**4.06**	**4.04**	**4.18**	**4.02**	**4.04**	**4.12**	**0.09**	**0.20**
Druzba Pipeline	1.07	1.10	1.13	1.14	1.13	1.10	1.10	1.13	1.12	-0.01	0.01
Other Routes	0.17	0.23	0.28	0.25	0.28	0.35	0.39	0.33	0.37	0.04	0.10
Total Crude Exports	**4.71**	**5.29**	**5.41**	**5.46**	**5.45**	**5.64**	**5.51**	**5.49**	**5.61**	**0.12**	**0.30**
Of Which: Transneft	*0.85*	*3.76*	*3.74*	*3.86*	*4.01*	*4.26*	*4.18*	*4.15*	*4.33*	*0.18*	*0.67*
Products											
Fuel oil	0.83	0.90	0.95	0.87	0.78	0.91	1.08	1.11	0.97	-0.14	-0.02
Gasoil	0.82	0.84	0.81	0.78	0.89	0.80	0.79	0.84	0.83	-0.01	0.01
Other Products	0.41	0.46	0.46	0.42	0.58	0.56	0.57	0.61	0.54	-0.07	0.09
Total Products	**2.05**	**2.19**	**2.22**	**2.07**	**2.25**	**2.27**	**2.45**	**2.56**	**2.34**	**-0.22**	**0.08**
Total Exports	**6.76**	**7.48**	**7.62**	**7.52**	**7.70**	**7.90**	**7.96**	**8.05**	**7.95**	**-0.10**	**0.38**
Imports	0.02	0.01	0.02	0.01	0.01	0.01	0.01	0.04	0.01	-0.03	0.00
Net Exports	**6.74**	**7.47**	**7.61**	**7.51**	**7.69**	**7.89**	**7.95**	**8.01**	**7.94**	**-0.06**	**0.38**

Sources: Petro-Logistics, IEA estimates

FSU net exports fell by 60 kb/d from July levels in August to average 7.94 mb/d, decline being centred on oil products. As anticipated last month, August crude exports increased with higher liftings from Baltic Ports. September Russian seaborne crude liftings increased further but may dip in October, partly in response to a $40/tonne rise in crude export duty to $180/tonne from 1 October. Scheduled liftings from the flagship port of Primorsk in particular show a decline this month. Russian exporters may increasingly turn their emphasis towards product exports and away from crude, given the imbalance in export duties between the two. Outside of Russia, uncertainty surrounds the likely first lifting date for crude from the Baku-Tbilisi-Ceyhan pipeline. Operator BP plans end-year 2005 deliveries but reports surfaced in September that these could be deferred until first quarter 2006.





Kazakhstan – August actual: Production from Kazakhstan was largely unchanged in August from July levels, at 1.18 mb/d. Condensate supply from the Karachaganak field fell, as producers reportedly shut in liquids output at the same time as gas, following gas processing outages in Russia.

However, crude production from the Tengiz field recovered after July electrical problems. Mixed reports emerged in September concerning prospects for further Kazakh supply expansion. Fellow shareholders in the Caspian Pipeline Consortium agreed to a number of financial conditions required by Russia, which could open the way for pipeline expansion to 1.34 mb/d to proceed. However cost increases on the 1.2 mb/d Kashagan field development project reportedly risk delaying start-up there by one year to 2009.

Other Non-OPEC

Revisions to other non-OPEC estimates: For the second month in succession, downward revisions to forecast US supply due to the after-effects of Hurricanes Katrina and Rita outstrip those elsewhere among non-OPEC producers. Total non-OPEC production is revised down by 335 kb/d for 2005 and by 400 kb/d for 2006. North America accounts for 300 kb/d of the revisions in both years.

Revisions to Non-OPEC Oil Supply
(million barrels per day)

	Last Month's OMR			This Month's OMR			This Month vs. Last Month		
	2005	2006	06 vs. 05	2005	2006	06 vs. 05	2005	2006	06 vs. 05
North America	14.45	14.79	0.34	14.15	14.48	0.33	-0.30	-0.31	-0.01
Europe	5.73	5.51	-0.23	5.72	5.47	-0.25	-0.02	-0.04	-0.02
Pacific	0.57	0.58	0.01	0.56	0.58	0.02	0.00	0.00	0.00
Total OECD	**20.75**	**20.87**	**0.12**	**20.43**	**20.53**	**0.09**	**-0.32**	**-0.34**	**-0.03**
Former USSR	11.59	12.08	0.49	11.59	12.09	0.50	0.00	0.01	0.01
Europe	0.16	0.15	-0.01	0.16	0.15	-0.01	0.00	0.00	0.00
China	3.62	3.62	-0.01	3.63	3.60	-0.02	0.00	-0.01	-0.02
Other Asia	2.73	2.85	0.12	2.71	2.81	0.10	-0.01	-0.04	-0.02
Latin America	4.32	4.51	0.20	4.32	4.51	0.19	0.01	0.00	0.00
Middle East	1.82	1.75	-0.06	1.82	1.75	-0.06	0.00	0.00	0.00
Africa	3.78	4.27	0.50	3.76	4.25	0.49	-0.02	-0.02	0.00
Total Non-OECD	**28.00**	**29.24**	**1.24**	**27.99**	**29.18**	**1.20**	**-0.02**	**-0.06**	**-0.04**
Processing Gains	1.86	1.90	0.04	1.86	1.90	0.04	0.00	0.00	0.00
Total Non-OPEC	**50.61**	**52.01**	**1.40**	**50.28**	**51.61**	**1.33**	**-0.33**	**-0.40**	**-0.07**

OMR = Oil Market Report

Asian supply estimates are again revised down, by 10 kb/d for 2005 but by some 50 kb/d for 2006. **India** accounts for 5-10 kb/d of the adjustment in both years after downward adjustments to NGL supply are carried through the forecast. For 2006, **Chinese** production is revised down by some 10 kb/d based on lower expectations for the offshore regions. **Vietnamese** production for 2006 is revised down by 20 kb/d based on lower expectations for satellites to the Ruby field and on sharper expected decline at the Bach Ho field. African supply is also revised down, based on delayed start-up of Dar Blend crude at CNPC's Blocks 3 and 7 in **Sudan**. This Report now assumes a later, November 2005 start for Dar Blend output and a slower build to 200 kb/d plateau production by autumn 2006. This cuts forecast Sudanese production by 20 kb/d in 2005 and 25 kb/d in 2006.

OECD STOCKS

Summary

- **OECD total industry oil stocks** fell 3.5 mb in August to 2667 mb. Draws in North America were partly offset by builds in Europe and the Pacific leaving total oil stocks 76 mb above last year. Crude inventories were little changed with offsetting moves in Europe and North America. Likewise, product inventories saw draws in gasoline largely balanced by increases in distillates. Forward demand cover by industry stocks held steady at 54 days, as downward revisions to demand compensated for lower inventories.

Preliminary Industry Stock Change in August 2005 and Second Quarter 2005

(million barrels per day)

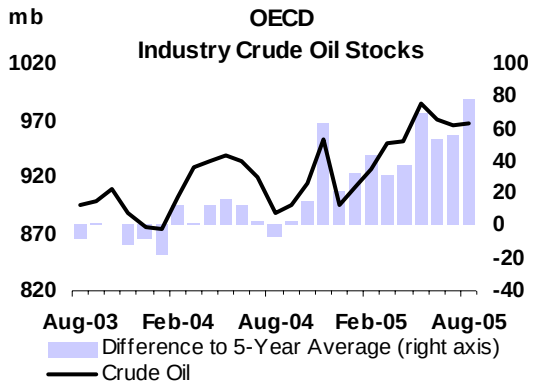
	August (preliminary)				*Second Quarter 2005*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**-0.11**	**0.17**	**-0.03**	**0.03**	**0.16**	**-0.03**	**0.08**	**0.22**
Gasoline	-0.44	-0.09	-0.04	-0.56	0.01	-0.19	-0.01	-0.19
Distillates	0.18	0.05	0.22	0.45	0.16	-0.06	0.11	0.22
Residual Fuel Oil	-0.11	0.01	-0.06	-0.16	-0.03	0.04	0.02	0.03
Other Products	0.15	-0.01	0.04	0.18	0.42	-0.06	0.07	0.43
Total Products	**-0.22**	**-0.04**	**0.16**	**-0.10**	**0.56**	**-0.27**	**0.20**	**0.49**
Other Oils[1]	-0.03	-0.03	0.01	-0.05	0.11	-0.01	0.08	0.18
Total Oil	**-0.36**	**0.10**	**0.14**	**-0.11**	**0.83**	**-0.31**	**0.36**	**0.89**

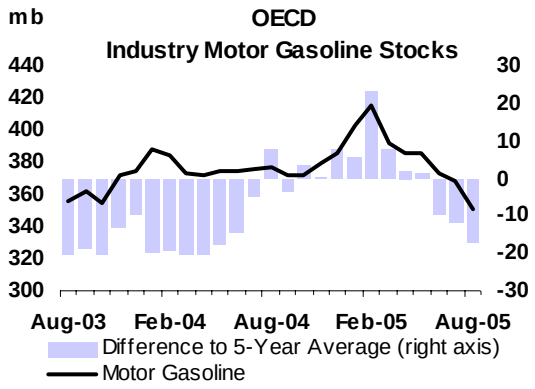
1 Other oils includes NGLs, feedstocks, and other hydrocarbons

- **OECD industry crude stocks** held flat in August, closing at 967 mb, 78 mb above last year. Draws in North America came in the US as Hurricane Katrina disrupted production and crude oil deliveries to the US Gulf Coast. This was offset by a build in Europe where refinery crude demand was weak and a contango structure for Brent futures provided an incentive to store ample regional supplies. US-50 stocks ended September higher with the closure of a significant portion of US refining capacity reducing throughputs.

- **OECD industry distillate stocks** rose by 14 mb in August to 537 mb in line with seasonal trends. The strongest gains were observed in the Pacific as Japanese refiners maximised runs to build kerosene stocks ahead of peak winter demand. In the US and Europe, forward price structures for NYMEX heating oil and IPE gasoil provided strong financial incentives to store product. US heating oil inventories ended September higher at 58 mb or 6 mb above last year, in contrast to diesel, where stocks declined by 8 mb from end-August levels.

- **OECD industry gasoline stocks** fell by 18 mb in August to close at 350 mb or 26 mb below last year. The decline was centred in the US where demand remained fairly robust and gasoline production was falling seasonally ahead of Katrina. Though gasoline stocks rebounded in September on a combination of reduced demand and record high imports, these are likely to fall below seasonal ranges. Product loss from potentially prolonged refinery outages is unlikely to be fully replaced.





OECD Industry Stock Changes in August 2005

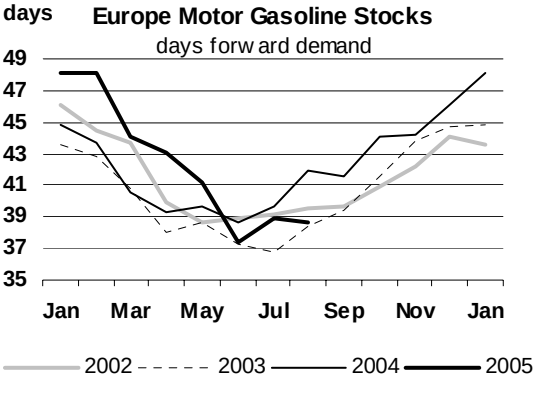
OECD North America

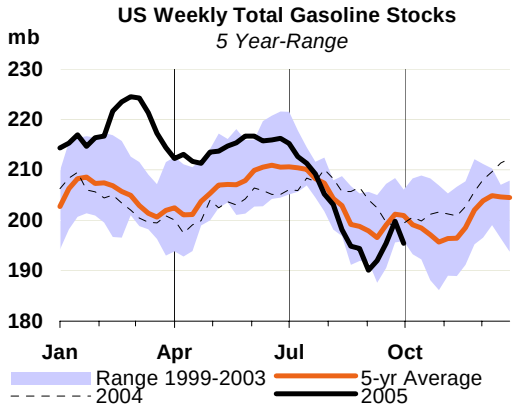
US-50 crude stocks remained at the upper end of their five-year range through the August-September period, closing at 305 mb. At 32 mb above last year, the relatively comfortable position stemmed from reduced refinery demand. August runs initially declined from the near-capacity levels observed in early July. Hurricane damage shut in a large portion of US Gulf Coast refining capacity, further reducing crude demand. These refinery losses more than offset the simultaneous disruption to imports and crude oil output from the Gulf of Mexico.

The interruption of crude deliveries into the Mid-continent saw stocks at Cushing decline rapidly over the period, supporting a shift of NYMEX WTI futures prices into backwardation. While the hurricanes tightened prompt supplies, future supplies are expected to improve as tanker deliveries and pipeline operations resume, driving forward prices lower.

US product inventories saw sharp declines in the first week following Hurricane Rita. Lost refinery output led to a fall in gasoline and distillate stocks respectively of 4.3 mb and 5.6 mb. Gasoline inventories ended September at 196 mb, 9.4 mb below last year and marginally above end-August levels. Larger stock draws in gasoline due to shuttered refinery capacity were averted as record imports, increased blending of components and slowing demand offset lost supplies. Distillate stocks fell slightly but continued to trend at the upper end of their five-year range. Most of the distillate draw in September came in diesel rather than heating oil. However, combined inventories of these products should shift lower as result of lost product output.

A contango in NYMEX heating oil futures encouraged moving product into storage in September. At the same time, a strengthening crack spread for heating oil relative to motor gasoline supported increased production ahead of winter. In other middle distillates, jet fuel stocks fell to near historic lows as product supplies suffered directly from lower refinery output and a lack of blending offsets.





OECD Europe

European commercial crude stocks rose 5 mb in August ending at 351 mb, 23 mb above last year. Weak refinery demand, alongside closed arbitrage outlets for regional crudes, supported the build. A narrow WTI-Brent differential discouraged transatlantic movement of Brent-related grades and a reduction in Norwegian crude production due to field maintenance proved weaker than originally anticipated. Also, negative simple margins on Urals and similar grades led to a number of unsold cargoes at the end of August.

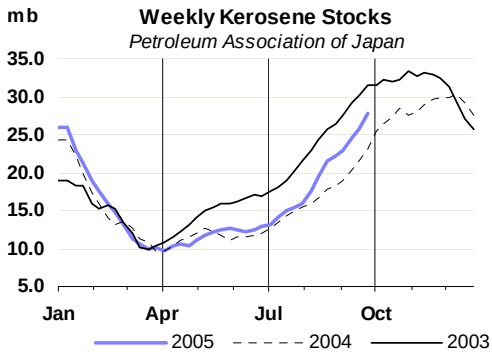
The sustained contango in Brent forward prices also encouraged increased stock holdings ahead of peak winter demand. With European refiners likely to lift runs in response to the sharp rise in refinery margins in August, the current crude stock level should provide a short-term supply cushion.

Product inventories were little changed in August with gasoline draws balanced by increases in other fuels. Gasoline stocks fell by 3 mb but held stable on a forward demand cover basis. In September, output should increase as some scheduled refinery maintenance is expected to be deferred, while at the same time, demand continues to contract. In addition, freight rates have risen as clean product tanker availability tightened following a post-Katrina and Rita surge in exports. This is likely to slow the pace of arbitrage shipments. As a result, some product will back up in Europe in September, mitigating the potential for a further draw in inventories.

Distillate inventories remained flat over August in absolute terms. Forward demand cover was also stable despite a rebound in heating oil deliveries in key consuming countries. German consumer heating oil stocks were reported rising to 52% at end-month from 47% in July as households stepped up pre-winter buying. Industry distillate stocks closed at 251 mb, or 10 mb below those of a year ago. There appeared to be some short-lived continuation of end-user buying of heating oil and firm diesel demand in September. However, refineries and importers are likely to have moved increased supplies of gasoil into storage, taking advantage of the strong contango in IPE gasoil futures.

OECD Pacific

Pacific crude stocks trended sideways in August with offsetting changes in Japan and Korea. Draws in Japan in August extended through September as refiners kept runs at seasonally high levels to build kerosene inventories ahead of winter.



Middle distillate inventories ended August at 75 mb, or 5 mb above a year ago. The build in Japan was partly offset by draws in Korea on reduced refinery runs and higher distillate exports. Japanese distillate inventories continued to build into September, with kerosene stocks moving towards their seasonal peak.

OECD Inventory Position at End-July and Revisions to Preliminary Data

July preliminary industry stock data were revised down by a total of 7 mb, mainly in product stocks. Downward revisions in Europe outpaced upward revisions elsewhere. June data were also revised down by 21 mb. The revisions stemmed largely from a change in the assessment of industry stocks in France, where 13 mb of distillates and 6 mb of gasoline were reclassified into government stockpiles.

Revisions versus 9 September 2005 Oil Market Report

(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Jun 05	Jul 05	Jun 05	Jul 05	Jun 05	Jul 05	Jun 05	Jul 05
Crude Oil	**1.4**	**-0.9**	**-3.5**	**-6.4**	**0.7**	**5.5**	**-1.4**	**-1.8**
Gasoline	0.0	2.7	-6.8	-5.2	0.0	-0.3	-6.8	-2.7
Distillates	0.0	4.2	-12.8	-9.8	0.0	1.2	-12.8	-4.3
Residual Fuel Oil	0.0	1.0	-1.1	0.9	0.0	0.3	-1.1	2.2
Other Products	0.0	-7.6	0.2	0.9	0.0	0.9	0.2	-5.9
Total Products	**0.0**	**0.3**	**-20.5**	**-13.2**	**0.0**	**2.2**	**-20.5**	**-10.7**
Other Oils[1]	-0.9	2.0	1.8	3.7	0.0	-0.1	0.9	5.6
Total Oil	**0.5**	**1.5**	**-22.1**	**-16.0**	**0.7**	**7.6**	**-20.9**	**-6.9**

1 Other oils includes NGLs, feedstocks, and other hydrocarbons

Total OECD industry stocks ended August at 2667 mb, 76 mb above a year ago. Crude inventories were up on a yearly basis across the OECD. In products, only Europe closed below its 2004 position. OECD forward demand cover was unchanged at 54 days, two days higher than in 2004. On a regional basis, forward cover came to 50 days for North America, 59 for Europe and 53 for the Pacific.

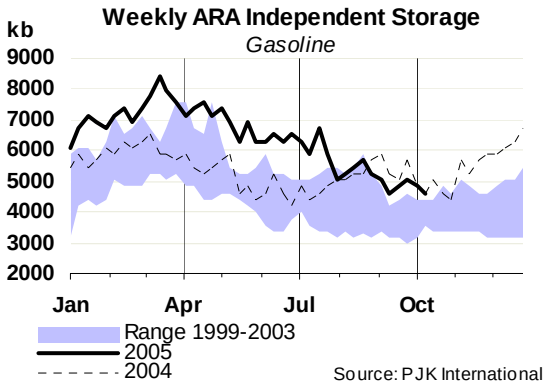
Year-on-Year OECD Industry Stock Comparisons for August 2005

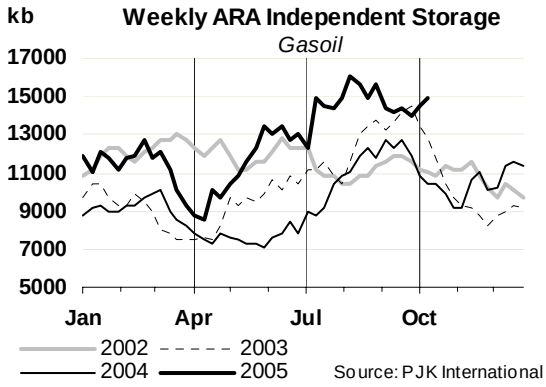
	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**39.8**	**23.0**	**15.3**	**78.2**	**Total Oil**	**2.1**	**-0.2**	**2.5**	**1.4**
Total Products	18.2	-31.9	9.2	-4.4	*Versus 2003*	1.3	-0.4	0.0	0.5
Other Oils[1]	-3.9	5.7	0.3	2.1	*Versus 2002*	-1.8	-0.7	0.8	-1.0
Total Oil	**54.1**	**-3.1**	**24.8**	**75.8**	**Total Products**	**0.7**	**-2.0**	**0.9**	**-0.1**
Versus 2003	78.2	7.4	-5.3	80.3	*Versus 2003*	0.6	-1.6	-1.0	-0.4
Versus 2002	24.8	14.1	-9.7	29.2	*Versus 2002*	-1.3	-3.0	-0.5	-1.7

1 includes feedstocks, NGLs and other hydrocarbons

Recent Developments in ARA Independent Storage

Gasoline inventories in independent storage facilities in the Amsterdam-Rotterdam-Antwerp area fell in the aftermath of Hurricane Katrina as transatlantic arbitrage volumes surged on widening price differentials against New York Harbour. Gasoline fixtures to the US from Northwest Europe during September were nearly double those seen in the same period last year. Regular flows to Nigeria continued apace and material was also sent to Iran to compensate for lower Indian exports. The pace of decline was in part offset by incoming material from the rest of Europe. A tightening of tanker availability by end-month also limited cargo deliveries. In addition to increased US demand, the current backwardation in unleaded gasoline swaps in ARA also encourages sales out of storage.





Gasoil stocks held relatively flat during September, but nudged higher in the first week of October. End-user demand from France and Germany dipped in September from August, and the release of diesel by the Dutch stock management agency COVA, as part of the IEA co-ordinated release, was balanced by incoming material from Scandinavia and the Baltics.

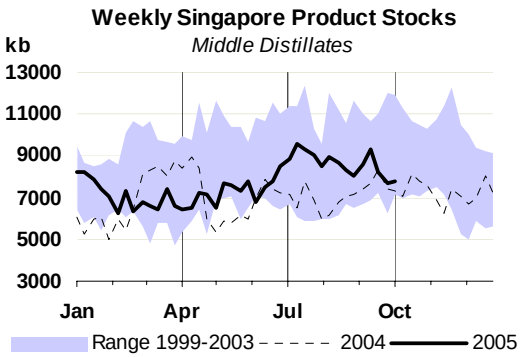
By the end of September, the lack of arbitrage opportunities for gasoil to the US (gasoline shipments were more profitable), in addition to sustained arrivals of Russian supplies, caused stocks to build. Strong absolute prices for distillates in Europe also attracted Korean material. The direction of gasoil stocks, however hinges on future arbitrage movements: gasoil from the Baltics often seasonally bypasses ARA, to head directly to the US.

In other distillates, jet fuel inventories increased to record levels in September. Imports continued to be seen from the Persian Gulf, diverted away from a weaker Asian market. A contango in swap prices and poor airline demand continue to support keeping jet fuel in storage.

Recent Developments in Singapore Stocks

Total product stocks in Singapore surveyed by *International Enterprise* built mostly through September but fell back to August levels by end-month. Light distillates (comprising naphtha and gasoline) alongside fuel oil stocks were marginally higher while middle distillate stocks ended lower.

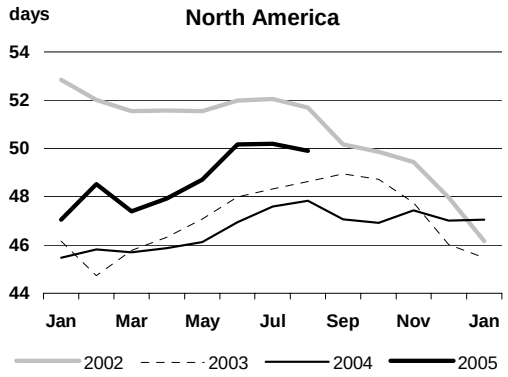
Distillate supplies tightened in September. Exports from China, Taiwan and Korea were reportedly lower in September, while Middle Eastern gasoil, along with Korean material, was shipped to the stronger European market. On the demand side, Indonesia's Pertamina was reported to be replenishing domestic stockpiles after solving its credit issues. However, Indonesian demand could dip as domestic demand falls back following a cut in retail subsides.

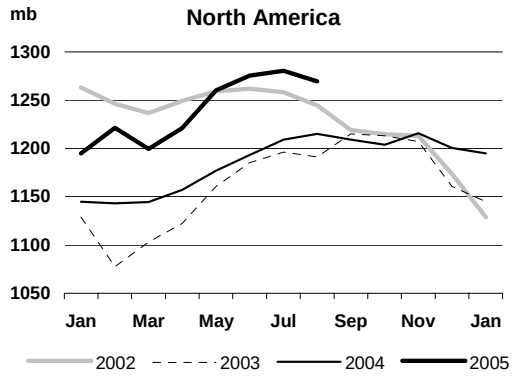


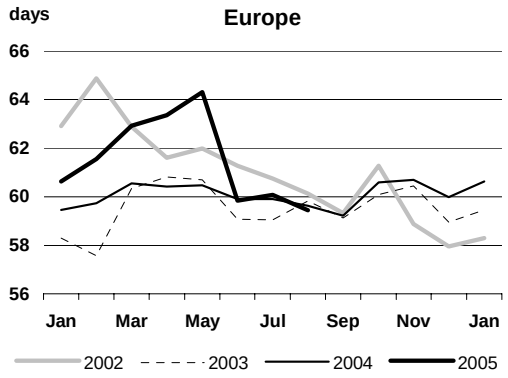
Distillate inventories are likely to build in October on higher refinery output and weaker regional demand, while a contango in Singapore forward prices encourages additions to storage.

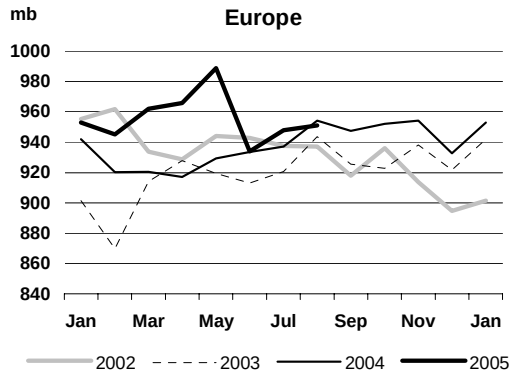
Regional OECD End-of-Month Industry Stocks
(in days of forward demand and millions barrels of total oil)

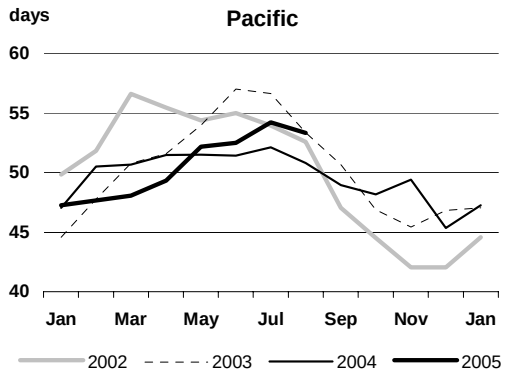
Days[1] **Million Barrels**

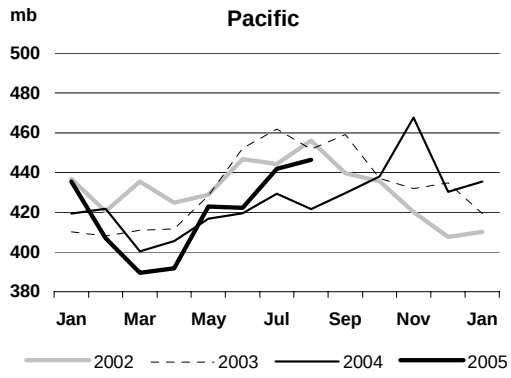


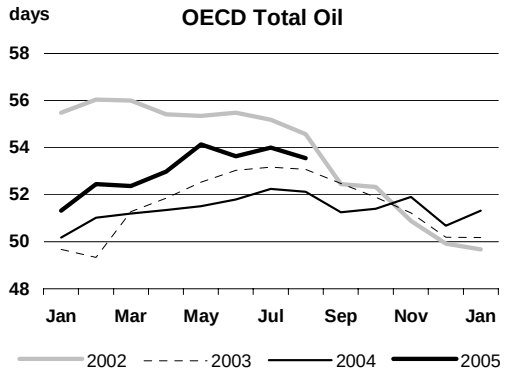


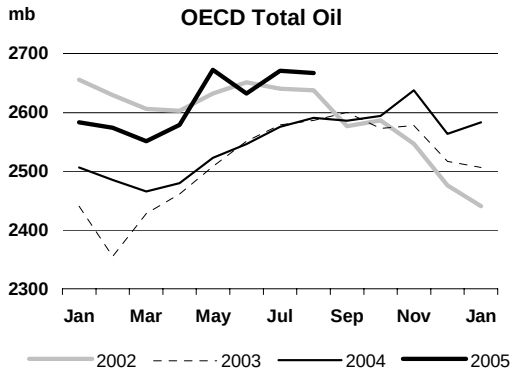












1 Days of forward demand are based on average demand over the next three months.

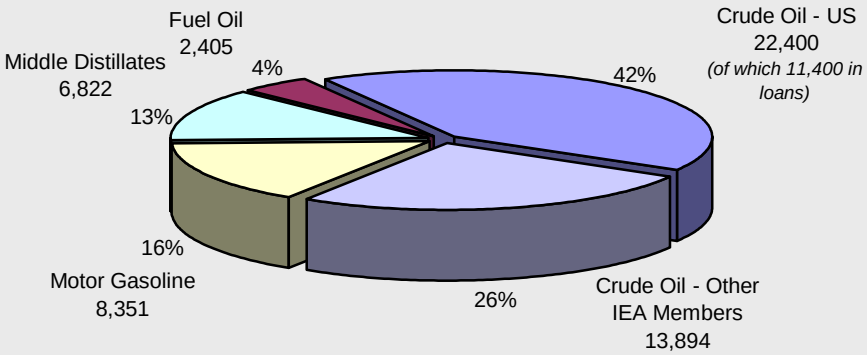
IEA Emergency Response: Update

As stated in last month's Report, IEA Member countries agreed to make a total of 63 million barrels of oil available to the market in response to Hurricane Katrina. Just over 61 million barrels of this amount was to be from emergency stocks and increased indigenous production.

Based on current preliminary information, the effective IEA response from these measures by the end of October will be approximately 42 million barrels. Additionally, the US has made loans from the SPR available upon request. Including these loaned volumes, the total additional oil made available to the market by the end of October will reach nearly 54 million barrels.

Stock Release and Increased Production – End-October
(thousand barrels)

	Total Oil	Crude Oil	Total Products	*Of which Gasoline*
North America	27,545	27,545	-	-
Pacific	10,705	6,255	4,450	1,719
Europe	15,622	2,494	13,128	6,632
Total	**53,872**	**36,294**	**17,578**	**8,351**



Some supplies offered from public stocks were not taken up by the market, largely accounting for the lower total response at the end of October than the volume of supplies initially pledged. While some 39 million barrels were initially pledged from public emergency reserves, just over 17 million of these have been taken up. However, when counted together with the loans from the US SPR, a total of almost 29 million barrels will have been released from Member countries' public stocks by the end ofOctober.

Stock Release from Public Reserves
(thousand barrels)

	Total Oil offered	Total Oil taken	Of which Gasoline
North America	30,000	11,000	-
Pacific	2,900	2,900	145
Europe	6,454	3,459	1,535
Total	**39,354**	**17,359**	**1,680**
SPR loans	13,200	11,400	-
Total Public	**52,554**	**28,759**	**1,680**

Increased indigenous production and the lowering of minimum stock holding requirements put at the disposal of industry an additional 25 million barrels. These amounts in effect allow a potential transfer of incremental oil supply, making previously unavailable volumes accessible to the market.

Contributed by Jason Elliott – Emergency Planning & Preparedness Division – eppd@iea.org

PRICES

Summary

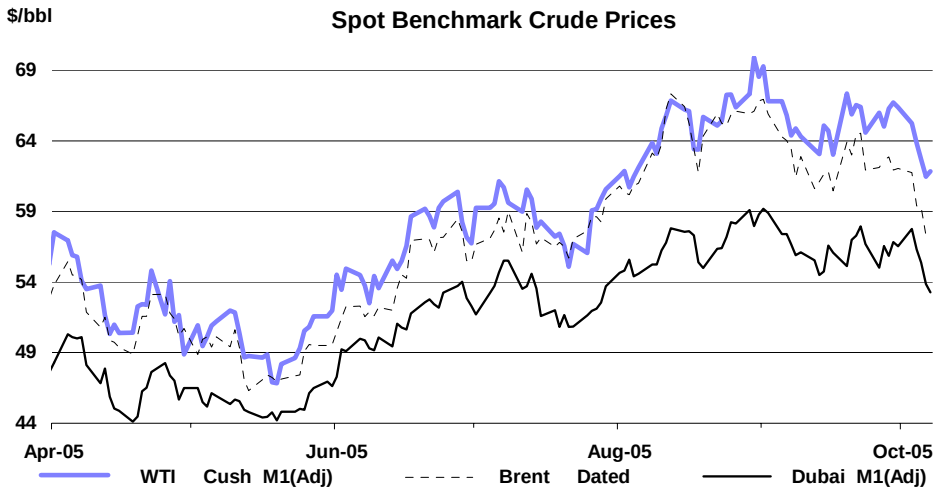
- **NYMEX Light Sweet crude** fell below $62/bbl as US refinery crude runs fell in the wake of Hurricanes Katrina and Rita and product demand fell sharply. Large refinery outages in the wake of the hurricanes reduced US throughput to the lowest level on record, more than offsetting crude and NGL output losses in the Gulf of Mexico.

- **NYMEX** gasoline prices fell sharply as US imports rose to record levels and refiners maximised gasoline yields. Heating oil futures prices moved above those of gasoline in early October with heating oil for February delivery trading at a premium to mogas of nearly 28 cents per gallon. Strong natural gas prices are also supportive for heating oil as much of the modern gas-powered generation plants with duel fuel capacity can switch to middle distillate fuels rather than fuel oil.

- **NYMEX Light Sweet crude futures** returned to a backwardation for the first time since November 2004. Supporting the switch was a sharp fall in crude stocks at the NYMEX delivery point of Cushing, Oklahoma. Further forward months remained at a premium but this was much narrower than the contango structure in place before the storm. In contrast, IPE Brent crude futures remained in contango, with spot prices depressed, among other factors, by French refinery and port strikes and other transportation issues.

- **Jet/kerosene prices** developed the strongest product premium to benchmark crudes in the US as lower refinery throughput and an emphasis on gasoline production cut into the jet fuel yield. In contrast, the European market had seen some pressure from incoming cargoes from the Middle East and Asia. The resulting wider differentials encouraged 200,000 tonnes of product to be booked from Europe to the US.

- **Strong demand for US-bound product tankers** pushed clean freight rates to their highest level this year, reflecting tight clean vessel availability in many areas. Difficulties in offloading VLCC tankers in some US crude import terminals encouraged use of smaller vessels for deliveries.



Crude Oil Prices

Spot Crude Prices and Differentials

In early October, Benchmark WTI Cushing moved to its lowest level for eight weeks as refinery throughput reductions from Hurricanes Katrina and Rita on the US Gulf Coast temporarily outpaced crude output losses and US primary oil demand slowed rapidly. A sharp retrenchment of transportation fuel prices from their post-Hurricane peak added further downward pressure to the decline. Gasoline supplies fared better-than expected as unaffected domestic refiners maximised gasoline yields and imports surged in response to large price differentials with Europe and other producing centres.

Spot Crude Oil Prices and Differentials*

(monthly and weekly averages, $/bbl)

	Jul	Aug	Sep	Sep-Aug		Week Commencing:				
				Change	%	05 Sep	12 Sep	19 Sep	26 Sep	03 Oct
Crudes										
Brent Dated	57.58	64.12	62.91	-1.21	-1.9	63.22	61.12	63.57	62.31	59.03
WTI Cushing 1mth(adjusted)	58.68	64.96	65.52	0.56	0.9	64.84	63.86	66.15	66.07	63.02
Urals (Mediterranean)	55.02	58.61	58.38	-0.23	-0.4	58.07	56.32	59.59	58.50	56.24
Dubai 1mth(adjusted)	52.83	56.60	56.54	-0.06	-0.1	56.69	55.50	56.81	56.15	55.31
Tapis	59.70	67.26	67.64	0.38	0.6	68.47	66.75	67.46	66.54	64.52
Differential to Dated Brent										
WTI Cushing 1mth(adjusted)	1.10	0.84	2.61	1.77		1.62	2.73	2.58	3.76	4.00
Urals (Mediterranean)	-2.56	-5.50	-4.53	0.97		-5.15	-4.81	-3.98	-3.81	-2.79
Dubai	-4.75	-7.52	-6.37	1.14		-6.53	-5.63	-6.76	-6.17	-3.71
Tapis	2.12	3.14	4.73	1.59		5.25	5.63	3.89	4.22	5.49
Prompt Month Differential										
Brent 1mth-2mth (adjusted)	-0.72	-0.45	-0.68	-0.23		-0.71	-0.64	-0.84	-0.65	-0.65
WTI Cushing 1mth-2mth (adjusted)	-1.21	-0.63	-0.33	0.23		-0.56	-0.06	0.01	0.23	0.23

*Weekly data for Brent and WTI 1st month and 2nd month are unadjusted

Crude oil differentials had to adjust rapidly after the hurricanes to move oil to where it is most needed. The effects were evident in a widening of the WTI premium to dated Brent and reports of heavy discounting of heavy sour Mexican and Venezuelan crudes in mid-September. Many of the heavier crudes are effectively custom refined in the US Gulf and it is difficult to find alternative buyers without very heavy discounting. Similarly the region is also a key refiner of some heavier, sourer Middle Eastern crudes.

NYMEX Light Sweet crude futures moved into a modest backwardation for the first time since November. Backwardations are typically associated with tightening markets; however, this modest front month premium occurred amid a downtrend in prices. Prompt prices were bolstered by strong refiner demand for light sweet crude, opening the transatlantic arbitrage for Brent-related grades in the process. US crude stocks also fell sharply, particularly in Cushing, Oklahoma, the key NYMEX pricing centre.

Dated Brent came under pressure from lower European demand prompted by French industrial action and lower runs during maintenance. While there was theoretically an opportunity to move North Sea crudes to the US, logistical difficulties offloading VLCCs in the Gulf of Mexico deterred buyers.

Refiner buying lifted Urals crude differentials across Europe relative to dated Brent. Strong hydro-skimming refinery margins and purchases ahead of a seasonal slowdown in Russian crude exports contributed to narrowing differentials. A similar trend was seen in light sweet Es Sider crude in the Mediterranean. However, reports suggested that these differentials were attracting competing supplies from the Middle East, particularly Iranian Light. There were also reports of some heavily discounted Mexican crude being offered.

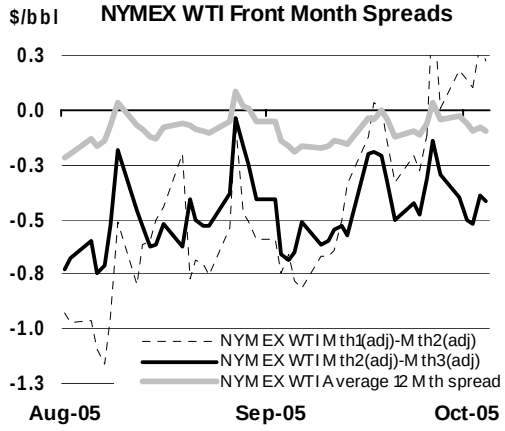
West African light sweet crudes remained at a strong premium to dated Brent as Asian buying interest improved. A weakening of fuel oil differentials, higher pre-winter kerosene output and increased refinery throughput all contributed to improved light sweet demand. Estimates put the volume of West African crude booked to move to Asia in November at 1.3 mb/d. This was roughly flat with October levels, but higher than the 1.0 mb/d seen in August.

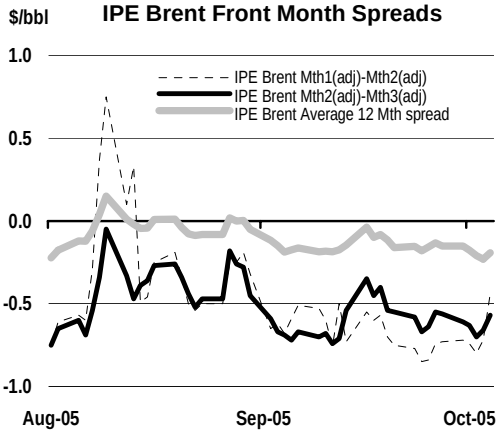
Indonesian Cinta crude saw a marked improvement in differentials relative to Tapis and Minas due to its high distillate content. In early October, traders noted regional Asian light sweet crudes had generally been fully allocated, lending further support to foreign crudes.

Dubai was largely isolated from the problems of unwanted heavy sour crudes from the Gulf of Mexico, trending higher against dated Brent in September. Prices were largely supported by Asian demand for distillates. Strong demand from Thailand for Oman crude saw its differential to dated Brent largely mirror the trend in Dubai.

Crude Futures

NYMEX light sweet crude and IPE Brent forward price curves diverged as land-locked supplies of WTI tightened and logistical difficulties limited the movement of North Sea and West African crude to the US Gulf Coast. That Cushing crude stocks have fallen to the lowest level since November and front–second month NYMEX light sweet crude has moved into backwardation for the first time since November is no coincidence – this is the delivery point for the benchmark futures contract.





The inter-month contract spread can be seen as representing the relative tightness of supply, or the availability of storage in the region. Therefore as stocks fall, tightening nearby spreads reflect lower spot market availability.

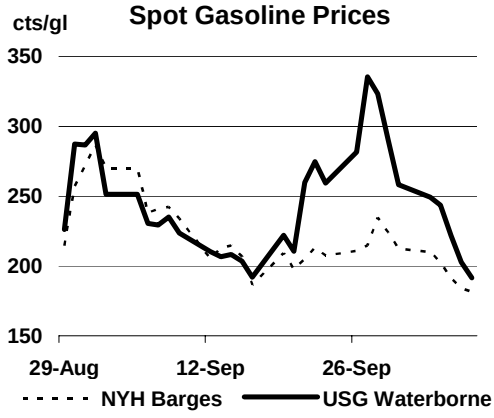
Delivered Crude Prices in July

There was a marked increase in the price of the average barrel of crude oil imported into all IEA regions in July. Crude imported into the US and Canada cost $52.56/bbl in July, on average. This represented a $4.40/bbl increase on June prices. European IEA importing countries paid $4.36 more per barrel than in June, with import prices rising to $55.26/bbl in July. IEA Countries in the Pacific faced an average cost of $54.13/bbl of crude after a monthly increase of $3.75/bbl.

Product Prices

Spot Product Prices

The post-Katrina price spike in US gasoline prices was not fully mirrored after Rita, despite the second hurricane causing a far larger closure of refining capacity in the southern US states. Spot US Gulf Coast gasoline prices spiked to $3.35/gallon, but New York Harbour prices were less responsive rising to $2.24 /gallon.



Difficulties in moving product in and out of the Gulf Coast compounded the problems caused by the loss of regional production. These supply issues extended to the US Mid-Atlantic Coast, where product is delivered by pipeline from Louisiana and Texas refineries. Tanker lightering was also affected: the Gulf Coast refining hub is designed for crude rather than product imports.

High import volumes tempered prices in New York Harbour and lower demand further dampened the post-Rita gasoline market response. The duration of this demand reduction (and in particular how much of it is demand deferral), will prove a critical factor for future price movements.

The rapid decline in US gasoline prices in the first week of October, together with high freight rates, has reduced arbitrage opportunities. Product tanker costs from Northwest Europe to the US Atlantic Coast of $4.30/barrel contributed to the closed the arbitrage in early October.

European gasoline prices broadly followed US trends, with reduced flows to the US exacerbated by industrial action at French refineries and ports. Supplies were also bolstered by a reduction in MTBE prices that facilitated local blending. Strong demand however continued to be reported from the Eastern Mediterranean, the Middle East and Nigeria.

Spot Product Prices

(monthly and weekly averages, $/bbl)

	Jul	Aug	Sep	Sep-Aug		Week Commencing:					Jul	Aug	Sep
				Change	%	05 Sep	12 Sep	19 Sep	26 Sep	03 Oct			
Rotterdam, Barges FOB											**Differential to Brent**		
Premium Unleaded	69.56	77.00	84.30	7.31	9.49	87.40	77.91	81.65	84.44	78.69	11.98	12.88	21.40
Unleaded	68.09	75.71	82.69	6.98	9.22	85.81	76.18	80.07	82.75	76.67	10.51	11.59	19.78
Naphtha	51.51	58.16	62.91	4.75	8.17	61.78	60.57	64.22	64.15	60.38	-6.07	-5.96	0.00
Jet/Kerosene	74.22	79.99	84.01	4.02	5.02	84.30	79.41	83.35	86.46	83.81	16.64	15.88	21.10
Gasoil .2%	70.52	76.91	81.43	4.52	5.88	82.14	76.85	81.37	83.35	81.22	12.94	12.79	18.53
LSFO 1%	39.24	43.35	48.55	5.20	12.00	47.51	46.97	50.64	48.98	49.04	-18.34	-20.77	-14.35
HSFO 3.5%	38.28	40.93	43.64	2.72	6.64	44.14	41.80	43.94	44.01	41.86	-19.30	-23.19	-19.27
Mediterrean, FOB Cargoes											**Differential to Urals**		
Premium 50 ppm *	65.21	74.56	78.93	4.38	5.87	80.38	71.07	76.88	81.67	77.45	10.19	15.95	20.56
Naphtha	50.45	57.92	61.59	3.67	6.33	60.53	59.02	62.82	62.71	58.61	-4.57	-0.69	3.21
Jet/Kerosene	72.17	78.86	82.33	3.47	4.40	82.58	77.37	81.51	85.30	82.51	17.15	20.25	23.95
Gasoil .2%	69.68	76.25	79.52	3.27	4.29	80.19	75.40	79.40	81.04	78.62	14.66	17.64	21.14
LSFO 1%	42.66	45.28	50.36	5.07	11.21	50.54	48.10	51.14	51.15	47.42	-12.36	-13.33	-8.02
HSFO 3.5%	36.58	39.33	43.20	3.86	9.82	43.66	41.74	43.52	43.37	41.42	-18.44	-19.28	-15.18
New York Harbour, Barges											**Differential to WTI**		
Super Unleaded	78.78	92.33	102.55	10.23	11.08	110.90	98.20	92.33	99.66	92.44	20.10	27.37	37.04
Unleaded	66.78	80.18	90.13	9.95	12.41	90.14	81.18	84.59	91.84	81.76	8.10	15.22	24.61
Jet/Kerosene	70.53	79.63	91.36	11.73	14.73	87.65	83.32	91.06	99.67	98.37	11.85	14.68	25.85
No. 2 (Heating Oil)	68.65	75.57	82.34	6.78	8.97	80.57	76.21	82.97	86.74	82.59	9.97	10.61	16.83
LSFO 1%	42.38	45.72	50.86	5.14	11.25	49.72	48.35	52.28	52.55	47.62	-16.30	-19.24	-14.65
No. 6 3%	36.59	37.81	43.52	5.72	15.12	43.47	42.13	42.90	45.63	45.28	-22.09	-27.15	-21.99
Singapore, Cargoes											**Differential to Dubai**		
Premium Unleaded	64.70	73.19	79.40	6.21	8.48	84.13	78.09	76.56	74.56	72.59	11.87	16.59	22.87
Naphtha	49.62	58.17	61.73	3.56	6.11	62.74	60.91	61.18	60.04	57.76	-3.21	1.57	5.19
Jet/Kerosene	70.07	75.84	79.16	3.32	4.37	78.96	76.38	78.58	80.93	80.79	17.24	19.24	22.62
Gasoil .5%	69.35	70.66	75.45	4.79	6.78	75.48	72.87	75.52	76.71	76.08	16.52	14.06	18.91
LSWR Cracked	49.64	52.50	54.35	1.85	3.52	54.63	53.48	54.80	54.45	52.52	-3.19	-4.10	-2.19
HSFO 180 CST	41.43	44.60	49.91	5.31	11.92	50.96	48.66	50.37	49.15	47.50	-11.40	-12.00	-6.62
HSFO 4%	40.62	43.35	48.93	5.58	12.88	50.35	47.40	48.90	48.30	46.96	-12.21	-13.25	-7.61

* From January 2005 Premium Unleaded 50 ppm

Singapore gasoline prices in early October remained relatively stable as lower Chinese exports offset lower imports from Indonesia. Chinese exports appear to have been curtailed by policy measures to improve local supplies, which have tightened recently due to poor refinery economics. Indonesian gasoline imports were scheduled to fall 1.5 mb in October and may remain weak following the recent sharp rise in retail prices.

Some gasoline shipments were seen from Japan to the US as part of its contribution to the IEA stock release. However, as in Europe, the theoretical arbitrage from Singapore to the US has been closed by high freight rates and a narrowing price differential.

Middle distillate prices took over from gasoline as the US market focus following the second storm. Domestic US supplies were reduced by capacity outages and a lack of desulphurisation facilities. While Russian and Indian gasoil supplies moved to the Atlantic and Gulf Coasts, there was competition from European heating oil demand and high freight rates.

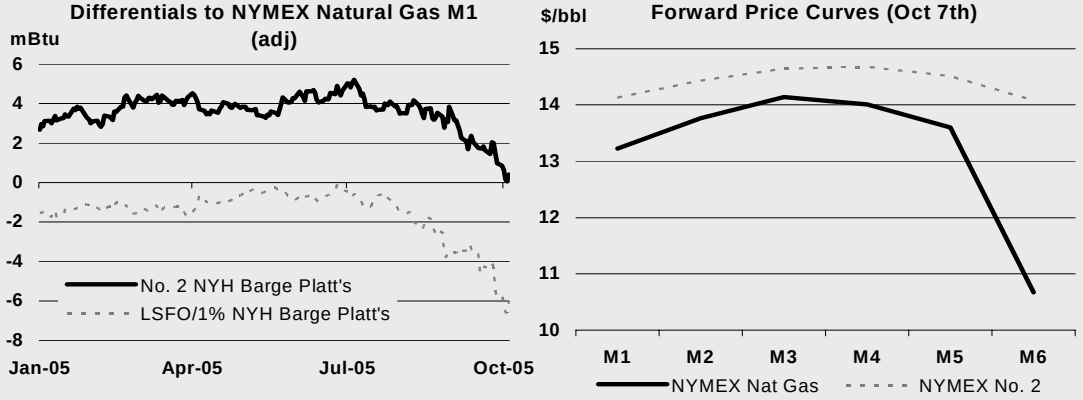
European gasoil demand improved as inland consumers started to refill heating oil tanks in August, and into early September. High US prices also diverted some Indian and Russian cargoes away from Europe and there were expectations that seasonal maintenance would lower FSU exports.

Stronger heating oil demand narrowed the diesel premium in mid-September to the lowest level this year. However, by end-September, there was a marked tightening of diesel differentials to IPE gasoil as traders eyed the Gonfreville refinery strike in France and demand picked up. Asian gasoil exports though are still flowing to Europe. These, together with additional supplies following the IEA action and postponed refinery maintenance, could help increase regional supplies.

Natural Gas Prices Add Support to Heating Oil

International natural gas prices rallied throughout September, lifted higher by a tightening of the US market. The increasing use of LNG has accelerated the convergence of spot international natural gas prices towards the US Henry Hub benchmark. A sharp jump in gas prices has lowered transportation costs as a percentage of the overall shipment value, facilitating inter-regional trade.

Perversely though, these high natural gas prices are contributing to positive refinery economics. High natural gas prices have increased demand for fuel oil from power generators, lifting fuel oil prices and contributing to the profitability of marginal refining capacity.



But there is a downside: much of the spare and flexible dual fuel power generation capacity in the US uses gasoil or diesel as an alternative input to natural gas. The recent rise in natural gas prices has reduced the usual spot premium of US heating oil prices to natural gas to virtually zero. This makes substitution possible and represents a potential source of demand that is difficult to fully-factor into our petroleum balances. A cold first half of the winter could therefore have a much more significant impact on heating oil demand than has previously been seen.

US jet/kerosene prices sustained a differential of over $12/bbl against Northwest European and Mediterranean values since the end of September. Refiner emphasis on gasoline production has eaten into the jet cut in recent weeks, compounding the reduction of jet output due to lower US throughputs. Tightening jet fuel supplies have prompted the Air Transport Association to step-up communications between airlines and the oil industry to ensure stable supplies.

Exceptionally wide price differentials between most major trading centres and the US are likely to lead to further imports from Europe over the next few weeks. Indian, Red Sea and Middle East Gulf cargoes have recently contributed to rising independent storage in the Amsterdam-Rotterdam-Antwerp region. But reports of up to 200,000 tonnes of jet/kerosene subsequently being booked to the US may also suggest recent arrivals into ARA could be exported. The wide US differential is also likely to attract cargoes previously destined for Europe.

US high and low sulphur fuel oil differentials moved in opposite directions in October. The shutdown of some Gulf Coast coking facilities means that proportionately more fuel oil is produced for each barrel of crude refined. However, the increased use of light sweet crude oil to maximise gasoline output has increased LSFO supplies, while reducing high sulphur availability. Overall supplies have also decreased. Since Hurricane Rita, US fuel oil production has declined by over 100 kb/d from early September levels. Weak differentials to natural gas also make it likely that more fuel oil will be used in power generation this winter.

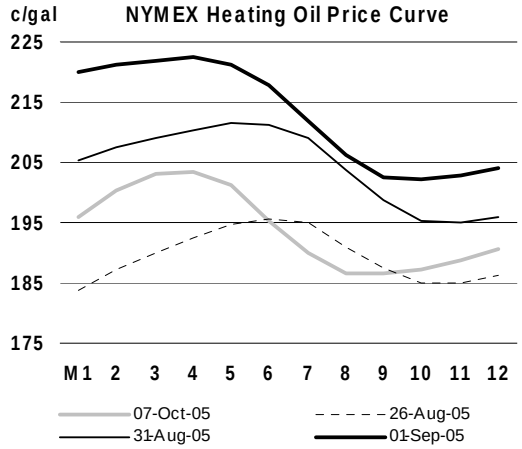
US high sulphur fuel oil prices at one point moved to near parity with the Asian market, which would have theoretically created a more attractive arbitrage for European traders. However, the US is a much smaller fuel oil consumer than Asia and the price differential largely reflected logistical difficulties that imported cargoes would have been unlikely to fix.

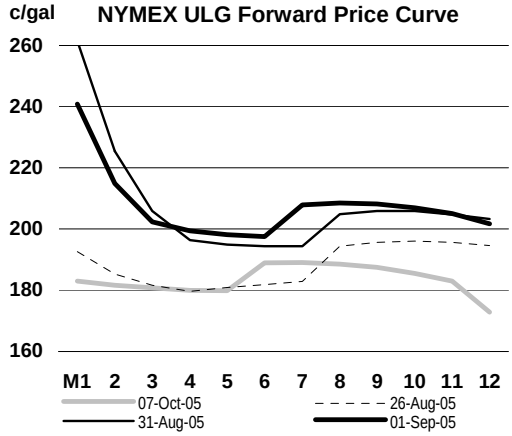
European fuel oil stocks are also in the stock-building phase of their export-led price cycle. This implies that price differentials will ultimately have to fall to move product to Asia. This would have a detrimental impact on marginal hydro-skimming margins, but might be offset to a degree by a seasonal demand increase for bunker fuel.

A sharp increase in Asian refinery throughput has increased the availability of high sulphur supplies for Chinese buyers. Lower demand has also been reported from Indonesia and Vietnam because of high prices. However, while Singapore low sulphur waxy residue differentials have weakened, there are reports that Tokyo Electric is looking to increase thermal power generation use by up to 40% if further nuclear shutdowns are seen.

Product Futures

NYMEX gasoline futures have returned to a more normal seasonal forward curve as lower demand and record import levels of over 1.4 mb/d have started to rebalance the market. The need to build heating oil stocks ahead of the winter months meant that the forward structure of IPE gasoil and NYMEX heating oil prices never saw the same degree of price volatility as gasoline. However, the emphasis of US refiners and imports towards gasoline supplies has resulted in robust heating oil prices. As a result, the 60 cent/gallon premium of front month NYMEX gasoline to heating oil futures has now reversed to a 12-cent discount. That the forward discount is being maintained until April 2006 is a further indication of current market concerns over heating oil tightness this winter.





End-User Product Prices in September

With global product supplies already stretched in the aftermath of hurricanes Katrina and Rita, it came as no surprise that substantial gains were seen in the average end-user prices of gasoline, diesel, heating oil and fuel oil in every OECD country surveyed in September.

Compared to August, US gasoline prices at the pump increased by 15.7% in September, reaching 75.1 cents per litre on average. Canadian gasoline rose by 12.3% in US dollar terms over the same period. On the same US dollar basis, retail gasoline prices for European consumers were up by 5% to 6% in France, Germany, Spain and the UK, with the British now paying the equivalent of $1.71 per litre. Percentage increases in Europe are lower because of a higher tax component in the final price. Japanese gasoline prices rose by a more modest 1.3%.

Gains in average diesel prices were more moderate in all countries surveyed, with a monthly increase of 11.9% hitting US consumers. While some end-user product price data was unavailable for the US, widespread gains were seen in average end-user prices for domestic heating oil in September, especially in France and Germany, where prices (in national currency terms) were up over 10 per cent from August. Low sulphur fuel oil prices also rose by around 10 percent in all countries surveyed.

Freight

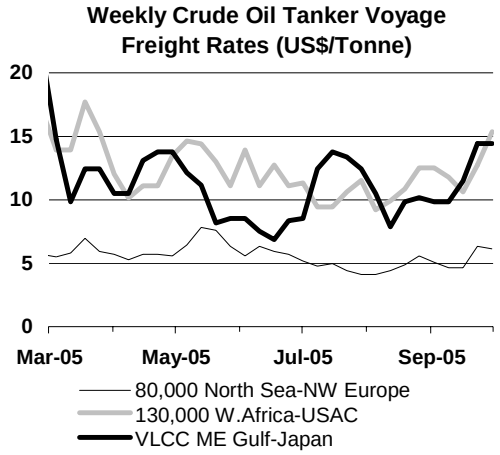
The immediate post-hurricane surge in clean product imports to the US, especially of gasoline and diesel, has drawn market attention towards potential capacities within the seaborne oil transportation sector. Underscoring tightness in clean tanker markets was a post-Katrina rise in freight rates from Europe to the US to W465 for the 37,000 tonne marker cargo from around W200 at the start of

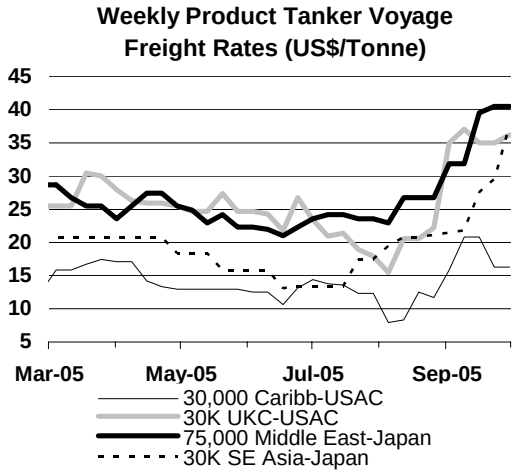
August. Rita added several Texan refineries to the list of potentially longer-term hurricane casualties and further reduced US clean product output. The prospect of a greater demand for product imports prompted clean tanker rates to rebound from W370 up to around the W450 mark in the first few days of October.

High freight rates have caused owners of vessels not normally involved with this type of trade (such as vessels normally carrying ore) to consider the additional cost of tank-cleaning. This highlights a further degree of flexibility in the freight market, but also a knock-on effect of tight clean product rates to a broader shipping market.

The tight Atlantic market also affects other regions. Brokers have reported increases in the number of vessels booked to carry gasoline or diesel to the US from other areas such as the Baltic and Asia. Furthermore, the drawing of Asian vessels towards better business in the West has left tanker capacity stretched in the East. Poor vessel availability often leads to high transportation costs and therefore generally higher costs of importing crude oil and products.

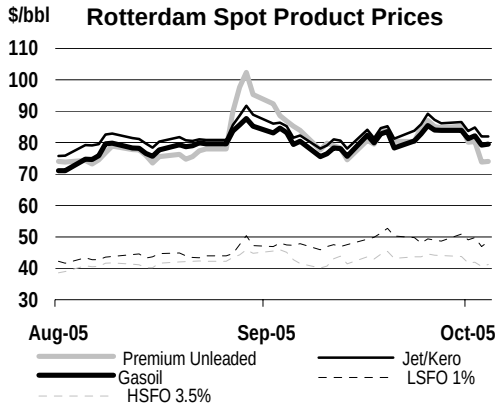
In the crude sector, seasonal increases in imports into Asia meant increased demand for VLCCs to the region. Accordingly, fixture rates for 2 million barrel cargoes from the Middle East to Japan rose from below W70 in early September to W110 in the first week of October. Strong demand for light, sweet crude, particularly in the US, has helped VLCC charter rates from West Africa to the US Gulf increase from W65 to W140 over the second half of September and into October. Larger vessels exporting some of this grade crude from Northern Europe have prompted similar increases in regional freight rates.

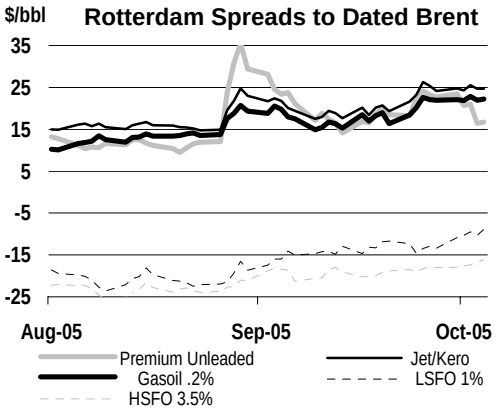


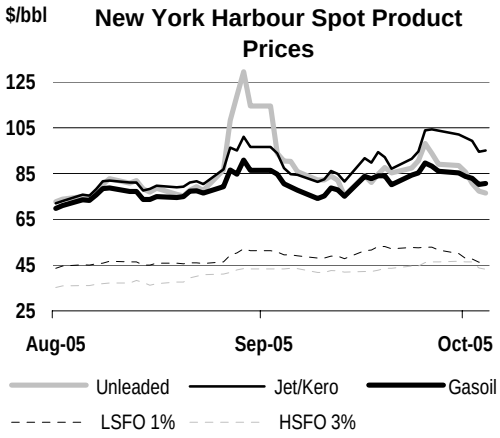


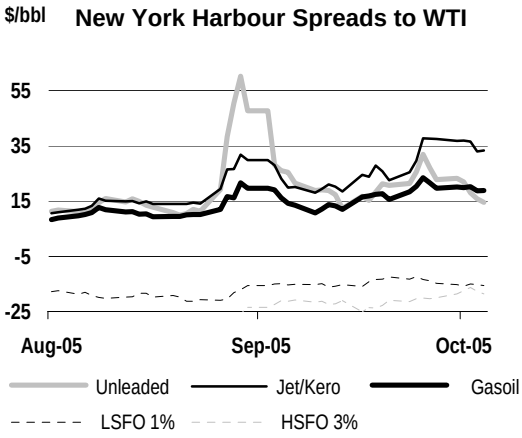
Some VLCCs travelling to the US have been left stranded offshore fully laden, due to hurricane-induced closures of certain import terminals. This has raised demand for smaller Suezmax vessels, which have been able to discharge oil in America. Consequently, Suezmaxes have been in great demand: charter rates for million-barrel cargoes from West Africa to US Gulf rose from W112.5 towards the W200 level in the three weeks running into early October. There are also reports that some larger vessels are reported to have been used for temporary off-shore storage of Mexican crude.

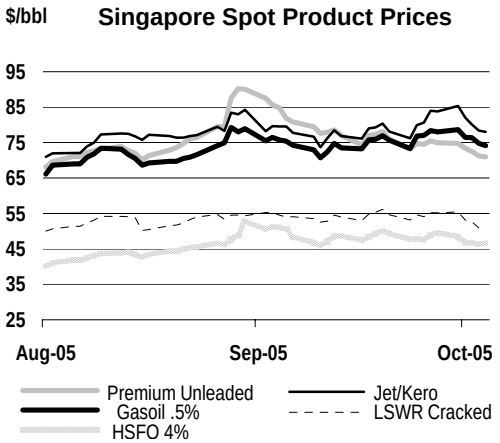
Elsewhere, French strikes and fog in the Bosporus have caused smaller transportation bottlenecks. These have generally affected ships of between 70,000 and 200,000 tonnes bringing oil into mainland Europe from, for example, North Africa or the Black Sea. In the Caribbean, the key tanker trade involves Aframax shipments of around 70,000 tonnes of crude or dirty oil products from Venezuela or Mexico to the US. These trades were initially affected by uncertainty surrounding post-hurricane US Gulf downstream logistics and scheduling but rates have now increased to over W260 for the 70,000 tonne cargo from levels of around W180 at the end of September.

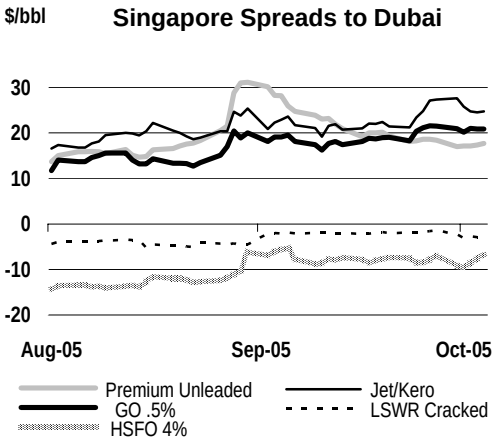

$/bbl
Rotterdam Spot Product Prices
110
100
90
80
70
60
50
40
30
Aug-05
Sep-05
Oct-05
Premium Unleaded
Jet/Kero
Gasoil
LSFO 1%
HSFO 3.5%


$/bbl
Rotterdam Spreads to Dated Brent
35
25
15
5
-5
-15
-25
Aug-05
Sep-05
Oct-05
Premium Unleaded
Jet/Kero
Gasoil .2%
LSFO 1%
HSFO 3.5%


$/bbl
New York Harbour Spot Product Prices
125
105
85
65
45
25
Aug-05
Sep-05
Oct-05
Unleaded
Jet/Kero
Gasoil
LSFO 1%
HSFO 3%


$/bbl
New York Harbour Spreads to WTI
55
35
15
-5
-25
Aug-05
Sep-05
Oct-05
Unleaded
Jet/Kero
Gasoil
LSFO 1%
HSFO 3%


$/bbl
Singapore Spot Product Prices
95
85
75
65
55
45
35
25
Aug-05
Sep-05
Oct-05
Premium Unleaded
Jet/Kero
Gasoil .5%
LSWR Cracked
HSFO 4%


$/bbl
Singapore Spreads to Dubai
30
20
10
0
-10
-20
Aug-05
Sep-05
Oct-05
Premium Unleaded
Jet/Kero
GO .5%
LSWR Cracked
HSFO 4%

REFINERY ACTIVITY

Summary

- **Full-cost refinery margins** reached record levels across much of the western hemisphere in September. Refinery outages caused by Hurricanes Katrina and Rita shut-in 5 mb/d at their peak, or 60% of Gulf Coast refining capacity. Unsurprisingly, Gulf Coast margins saw the strongest gains and in general, the closer the proximity to the Gulf Coast, the more pronounced the impact on margins has been. Hydro-skimming margins increased globally to encourage additional crude throughputs to offset product losses associated with shuttered capacity.

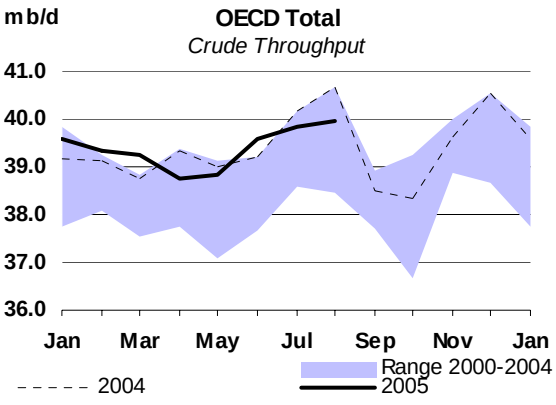
- **US Gulf Coast margins** in September were double, and in some cases triple, those achieved in August. Notionally, calculated Light Louisiana Sweet cracking margins were $19.07/bbl while Mars coking margins averaged $24.05/bbl. Gasoline prices drove margins higher initially and soaring jet fuel values further boosted margins towards month-end. Maya coking margins were the strongest ever seen, averaging $29.63/bbl and finishing September at $37.59/bbl.

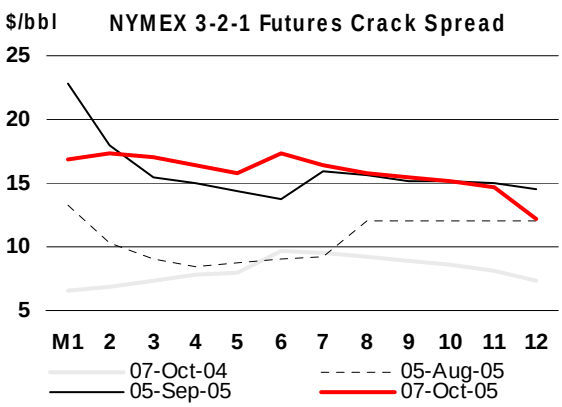
- **European margins** strengthened in line with those on the US Gulf Coast. Brent cracking margins reached record levels, more than doubling from August levels to average $10.82/bbl. Hydro-skimming margins turned positive for light sweet and medium sour crude grades in Northwest Europe and the Mediterranean, providing a financial incentive for additional crude throughput where possible.

- **Asian margins** rose, but the response was more muted than elsewhere. Dubai cracking margins in Singapore averaged $7.78/bbl, an increase of $4.60/bbl from August. Product prices failed to keep up with the increases in other refining centres, and relative prompt supply availability kept forward swap prices in contango.

- **OECD refinery throughputs** in August were broadly flat versus July. Higher throughputs in Europe and Asia Pacific were offset by weaker runs in North America. US refinery runs in September were on average reduced by about 2.2 mb/d as a result of precautionary shut-ins and damage from Hurricanes Katrina and Rita. Long-term outages at several large Gulf Coast refineries will depress US throughputs in the fourth quarter, partially offset by likely higher runs in Europe due to strong hydroskimming margins.

- **The 3-2-1 NYMEX crack spread** in the front-month fell back under $20/bbl by the end of the first week of October. Gasoline prices, that supported the crack above $25/bbl, spiked following each of the hurricanes. Market sentiment appeared driven by short-term concerns over gasoline demand reduction. Yet, the potential for a strong rebound in demand cannot be ruled out and projected capacity offline until year-end remains sizable. The heating oil crack consolidated above that of gasoline at the beginning of October, assuming its seasonal predominance over gasoline and encouraging heightened production ahead of winter.





Refining Margins

Refining margins globally have seldom been as strong as they were in September. Average margins in the US and Europe were at record levels and Asian margins improved significantly though gains proved relatively modest in comparison. The regional differences were a function of proximity to, and product arbitrage opportunities with, the US. The US Gulf Coast, unsurprisingly, saw the strongest margins as the hurricane related disruptions at their peak shut down 4.9 million barrels of capacity, roughly equivalent to 60% of Gulf Coast capacity, and 29% of total US capacity.

US Gulf Coast refining margins on domestic grades peaked at record highs in September, driven by surging gasoline prices. Margins fell back towards pre-hurricane levels mid-month, before increasing again due to refinery and logistical disruptions from Hurricane Rita. Margins finished the month very strongly on the back of increasing jet prices and narrowing fuel oil discounts to crude.

Light Louisiana Sweet cracking margins averaged $19.07/bbl, almost triple the already strong margins achieved in August, ending the month at $30.93/bbl or near record highs. Early strength in gasoline prices was supplemented by strengthening jet fuel prices, the latter outperforming gasoline and distillate by month's end. US Gulf Coast LSFO prices also rallied against crude, narrowing their discount to LLS by $8.25/bbl to $10.35/bbl.

Selected Refining Margins in Major Refining Centres

($/bbl)

		Monthly Average			Change	Week Ending:				
		Jul 05	Aug 05	Sep 05	Sep 05-Aug 05	02 Sep	09 Sep	16 Sep	23 Sep	30 Sep
NW Europe	Brent (Cracking)	4.74	4.28	10.82	6.54	13.84	9.93	6.86	8.88	12.99
	Urals (Cracking)	5.98	8.02	12.76	4.74	16.54	11.78	8.94	10.63	14.37
	Brent (Hydroskimming)	-0.89	-2.44	4.10	6.54	4.96	3.15	1.34	3.09	6.41
	Urals (Hydroskimming)	-1.80	-0.96	3.11	4.07	4.58	1.90	0.94	1.89	4.77
Mediterranean	Es Sider (Cracking)	4.97	7.10	11.75	4.64	14.71	10.60	8.28	10.31	12.65
	Urals (Cracking)	4.34	7.19	12.17	4.98	15.24	10.74	9.14	10.47	13.33
	Es Sider (Hydroskimming)	-0.36	0.12	4.87	4.75	5.72	4.00	2.67	3.91	5.82
	Urals (Hydroskimming)	-3.27	-2.17	2.68	4.85	3.64	1.30	1.57	1.31	3.96
US Gulf Coast	Brent (Cracking)	0.23	3.89	17.73	13.85	17.38	10.50	3.20	19.50	27.57
	LLS (Cracking)	3.02	6.77	19.07	12.30	19.99	11.97	4.75	20.11	30.93
	Mars (Cracking)	0.05	3.98	12.95	8.97	13.88	8.35	0.01	15.31	21.07
	Mars (Coking)	6.49	12.55	24.05	11.50	25.52	17.69	7.10	26.12	34.98
	Maya (Coking)	11.57	18.40	29.63	11.23	31.93	23.82	12.92	31.52	37.59
US West Coast	ANS (Cracking)	4.22	6.22	12.21	5.99	15.23	8.86	8.52	11.96	15.01
	Kern (Cracking)	3.70	3.30	9.13	5.83	7.15	7.46	6.18	8.03	11.60
	Oman (Cracking)	4.33	8.54	14.07	5.53	16.17	10.06	8.56	12.64	17.11
	Kern (Coking)	18.45	20.52	25.32	4.80	28.27	21.38	18.44	22.13	26.90
Singapore	Dubai (Hydroskimming)	-1.89	-1.96	2.64	4.60	4.76	2.61	1.87	2.11	3.83
	Tapis (Hydroskimming)	-2.32	-5.40	-1.95	3.45	-0.99	-2.37	-2.86	-2.07	-0.85
	Dubai (Hydrocracking)	2.67	3.18	7.78	4.60	10.45	7.86	6.58	6.82	8.77
	Tapis (Hydrocracking)	-0.26	-3.05	0.99	4.05	2.79	0.57	-0.21	0.65	2.15
China	Cabinda (Hydroskimming)	-0.52	-4.02	0.26	4.28	-0.36	0.20	1.32	0.92	1.52
	Daqing (Hydroskimming)	-1.52	-2.52	-0.68	1.84	-2.23	-0.90	-0.80	-0.67	-0.28
	Dubai (Hydroskimming)	-2.33	-2.26	2.34	4.59	4.37	2.31	1.64	1.75	3.52
	Daqing (Hydrocracking)	1.64	1.93	4.87	2.95	5.28	4.91	4.32	4.16	4.74
	Dubai (Hydrocracking)	2.25	2.91	7.52	4.61	10.09	7.61	6.40	6.49	8.47

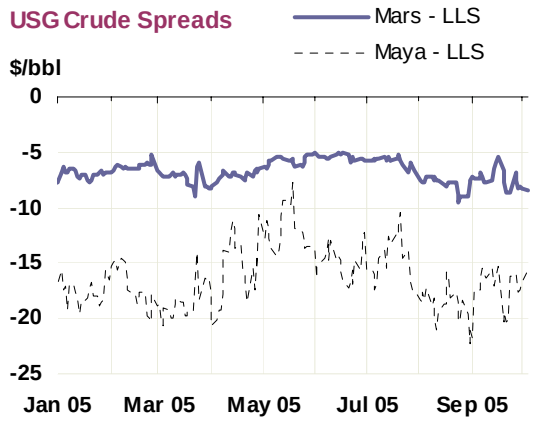
For the purposes of this Report, refining margins are calculated for various complexity configurations, each optimized for processing the specific crude in a specific refining centre on a 'full-cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability for a given refining centre. No attempt is made to model or otherwise comment upon the relative economics of specific refineries running individual crude slates and producing custom product sales, nor are these calculations intended to infer the marginal values of crudes for pricing purposes.

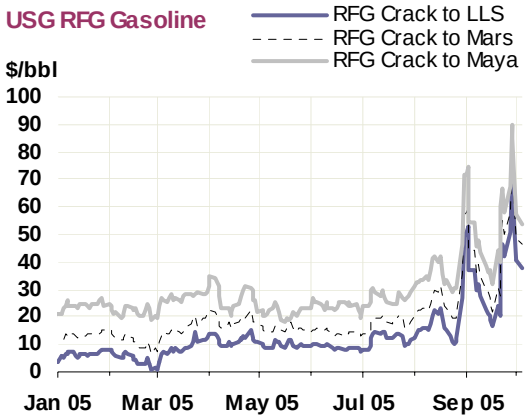
*The China refinery margin calculation represents a model based on spot product import/export parity, and does not reflect internal pricing regulations.
Sources: IEA, Purvin & Gertz Inc.

The temporary loss of coking capacity on the Gulf Coast depressed prices for foreign and domestic heavy sour crude grades, notionally boosting calculated margins. Maya cargoes being exported to Europe (or placed in floating storage) further supported reports of price discounting and those refineries still able to process Maya will have benefited from strength in gasoline prices. Maya coking margins averaged nearly $30/bbl in September and finished the month at $37.59/bbl, an all-time record level. A similar trend was seen in notional Mars coking and cracking margins, with a pick-up in HSFO prices lifting Mars cracking margins to $21/bbl by the end of September.

Gasoline cracks peaked on 27 September, some $68-90/bbl above crude values. They rapidly moderated towards $40/bbl, suggesting supply bottlenecks eased. Weekly EIA data points to higher imports of finished gasoline and components allowing refineries to increase supply through blending. Increased blending was aided by temporary specification waivers designed to alleviate production shortfalls.

The recent rise in jet fuel prices, left cracks between $55-71/bbl by end-September. The increase essentially reflects that output of this product tends to fall when cuts of gasoline or diesel are maximised. As well, additional jet supply can not be achieved through blending as production is typically a function of crude throughputs. Finally, Gulf Coast imports have essentially remained at zero.





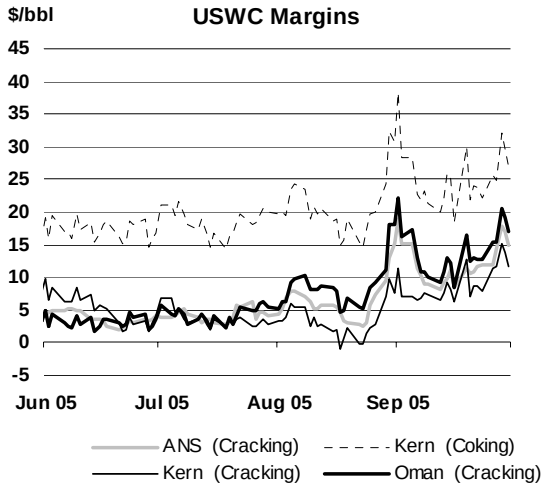
US West Coast margins, usually some of the highest in the world, continued to strengthen in September from August levels, but gains were overshadowed by the increases seen on the Gulf Coast. Margins on the West Coast were held back in part by a limited reaction of distillate cracks in comparison to those observed on the Gulf Coast. The isolated nature of the West Coast market and the design of its installed refinery base to meet its tight product specifications means that there is little room for product trade.

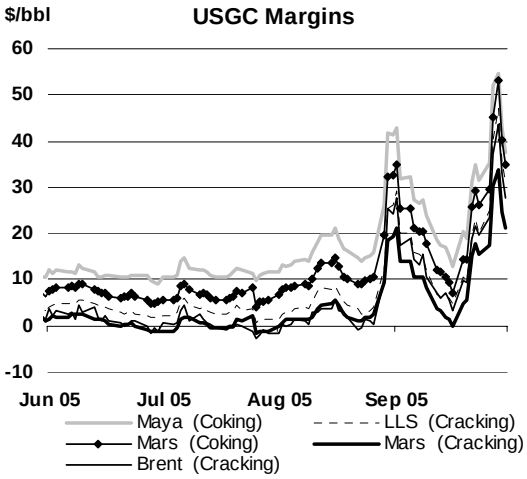
European margins improved for all refinery complexities running either sour or sweet crudes. In North West Europe and the Mediterranean cracking margins rose on the back of stronger gasoline cracks as arbitrage opportunities to the US East Coast pulled product from Europe. Brent cracking margins in Northwest Europe increased by $6.54/bbl to $10.82/bbl. Urals cracking margins also improved in Northwest Europe by $4.74/bbl to $12.76/bbl and in the Mediterranean by $4.98/bbl to $12.17/bbl. Urals margins were held back by the narrowing of Urals' discount to Brent over the month.

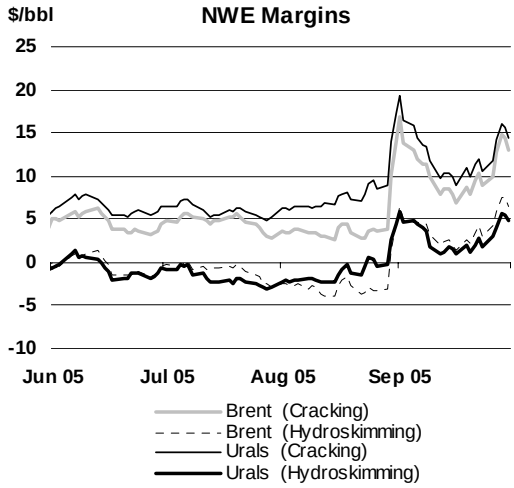
More importantly hydro-skimming margins across Europe were positive in September, for both light sweet and medium sour crudes. This provided an incentive for refiners to use spare capacity where possible. Brent hydro-skimming margins averaged $4.10/bbl, an increase of $6.54/bbl over August. Urals margins in Northwest Europe and the Mediterranean showed similar improvements, despite the crude crude's higher yield of fuel oil.

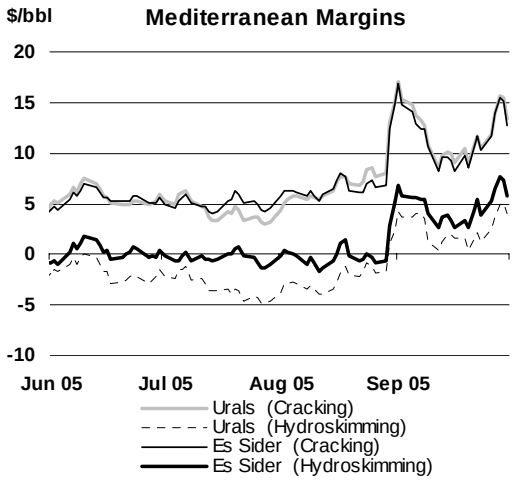
Asia Pacific margins improved sufficiently during September to support incremental refinery runs in the region, despite sluggish Japanese demand and forward swap prices remaining in contango. Individual product cracks responded in a similar fashion to those elsewhere, but thin LSWR prices limited the overall gains to refiners.

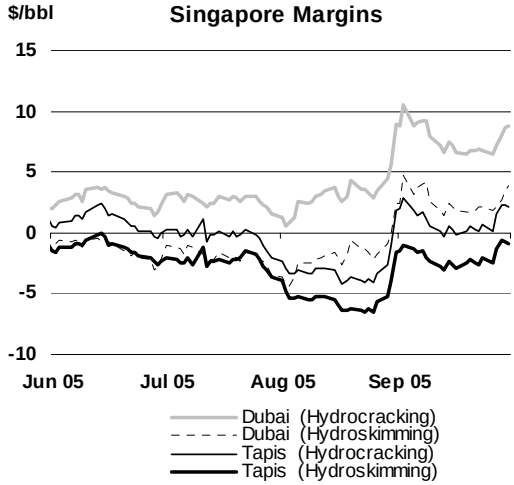
Regional Full-Cost Refining Margins

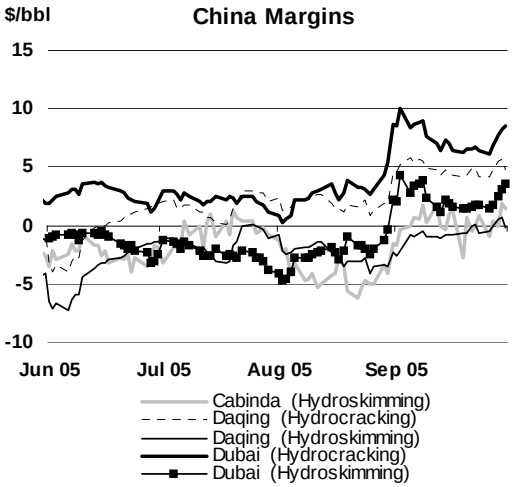












Refinery Throughput

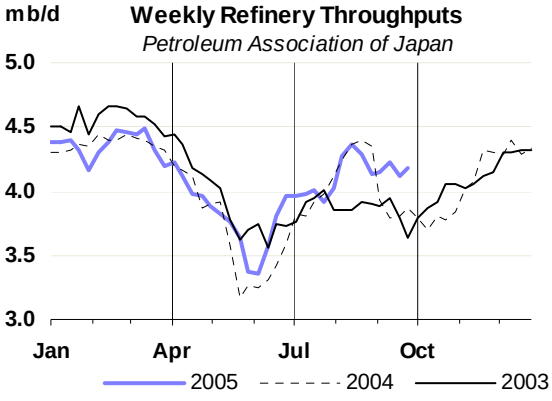
OECD refinery throughputs in August averaged about 40 mb/d, broadly in line with July. This represents an increase of 124 kb/d, or 0.3%. Higher throughputs in Europe (+264 kb/d) and Asia Pacific (+210 kb/d) were offset by weaker runs in North America (-350 kb/d). Lower North American throughputs are largely due to lower runs in the United States, down 274 kb/d, in addition to Canada's throughputs falling 81 kb/d. The fall in US throughput was due to precautionary shutdowns in addition to damage suffered by Gulf Coast refineries from Hurricane Katrina which made landfall on 29 August. This impact alone would imply an average monthly loss of 300-350 kb/d, in excess of the recorded US month-on-month decline of 274 kb/d.

Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from*	*Aug 04*	Utilisation rate[2]	
	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	mb/d	%	Aug 05	Aug 04
OECD North America										
US[3]	15.14	15.49	15.89	16.40	15.91	15.63	-0.51	-3.2	91.68	95.58
Canada	1.86	1.64	1.58	1.84	1.87	1.79	-0.03	-1.8	88.83	91.75
Mexico	1.32	1.33	1.27	1.27	1.23	1.24	-0.03	-2.0	73.64	71.96
Total	18.32	18.45	18.75	19.52	19.01	18.66	-0.57	-3.0	89.94	93.54
OECD Europe										
France	1.84	1.79	1.56	1.62	1.76	1.78	0.01	0.3	91.31	91.04
Germany	2.35	2.22	2.33	2.30	2.30	2.42	0.06	2.6	98.79	96.33
Italy	1.71	1.89	1.95	1.90	1.93	1.91	-0.04	-1.8	82.46	84.28
Netherlands	0.98	1.12	1.13	1.09	0.95	1.02	-0.06	-5.2	83.43	88.39
Spain	1.09	1.19	1.18	1.11	1.26	1.20	-0.03	-2.7	94.03	96.63
UK	1.64	1.58	1.62	1.59	1.75	1.69	-0.04	-2.2	92.59	95.12
Other OECD Europe	3.89	3.58	3.76	3.93	3.98	4.15	0.01	0.2	88.74	88.52
Total	13.50	13.37	13.54	13.54	13.91	14.17	-0.09	-0.6	90.16	90.84
OECD Pacific										
Japan	4.24	3.96	3.58	3.69	3.96	4.29	0.05	1.2	91.15	90.16
Korea	2.46	2.24	2.33	2.12	2.25	2.16	-0.02	-1.0	83.89	85.81
Other OECD Pacific	0.72	0.74	0.66	0.72	0.70	0.67	-0.07	-10.0	77.99	86.59
Total	7.42	6.94	6.57	6.53	6.91	7.12	-0.05	-0.6	87.46	88.42
OECD Total	39.24	38.76	38.85	39.59	39.83	39.96	-0.70	-1.7	89.57	91.65

1 Estimate
2 Based on crude throughput and current operable refining capacity
3 US50

Disruption to September US refinery runs peaked at around 5 mb/d and reduced runs on average by around 2.2 mb/d as a result of hurricane damage and precautionary shut-ins. Long-term outages at several large Gulf Coast refineries will continue to depress US throughputs through the fourth quarter. Offline capacity peaked in excess of 3.5 mb/d in early October but this is expected to decline to under 1.0 mb/d by December.



As highlighted above, the strong margin environment is conducive to higher utilisation of crude distillation capacity in spite of constraints in conversion and upgrading capacity. Indicative of this course of development is a number of announcements by companies that non-essential refinery maintenance is being deferred into next year, where possible. However, the mandated specification changes for US products on 1 June next year may limit refiners' flexibility in this respect.

Weekly data in Japan show refiners operating above seasonal trends into early October. Runs in Japan generally observe a dip in the late September early October period before increasing steadily through to the end of the year. Japanese refineries held throughputs firm in order to replenish stocks of kerosene (used as a heating fuel) ahead of peak winter demand.

Post Hurricane Katrina and Rita US Product Output Loss: An Evaluation

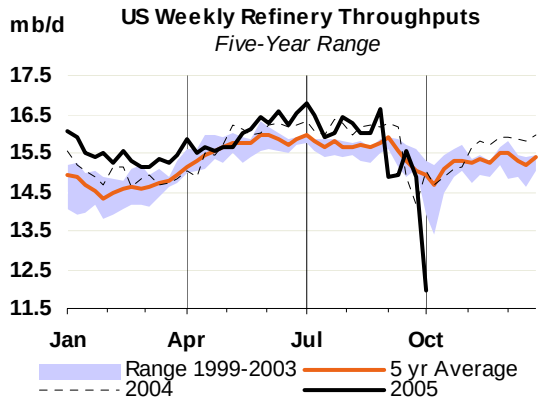
As of October 7, about 20% of US refining capacity was offline or in the process of re-starting as a result of damage caused by Hurricanes Katrina and Rita. Of this total, Rita accounted for around 15% of capacity while Katrina's impact was around 5%. Initial estimates for capacity offline due to Katrina through December were initially pegged at 889 kb/d. This amount is expected to be lower with two out of the four severely impacted refineries anticipated to re-start in mid-October and in November. Some 16 refineries suspended operations ahead of Hurricane Rita and at the time of writing, it appears that half of these refineries had experienced relatively minor damage. Most are expected to normalise operations by the end of October but a schedule for re-start for the remainder of the facilities remains, to-date, uncertain.

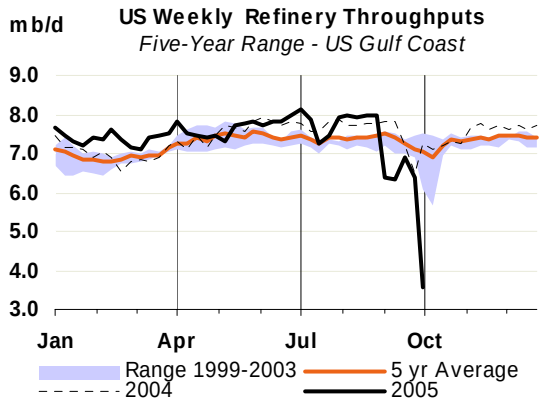
Refineries and Refinery Crude Distillation Capacity Impacted by Hurricanes

Hurricane Rita		Hurricane Katrina	
Refinery	**Capacity**	**Refinery**	**Capacity**
BP *Texas City*	437 kb/d	Exxon *Chalmette*	190 kb/d
Calcasieu *Lake Charles*	32 kb/d	ConocoPhillips *Belle Chasse*	247 kb/d
Citgo *Westlake*	316 kb/d	Murphy *Meraux*	120 kb/d
ConocoPhillips *Sweeny*	229 kb/d	Chevron *Pascagoula*	325 kb/d
ConocoPhillips *Lake Charles*	250 kb/d		
Astra *Pasadena*	100 kb/d		
Exxon *Baytown*	557 kb/d		
Exxon *Beaumont*	349 kb/d		
Lyondell-Citgo *Houston*	270 kb/d		
Marathon *Texas City*	72 kb/d		
Motiva *Port Arthur*	285 kb/d		
Shell *Deer Park*	334 kb/d		
Total *Port Arthur*	234 kb/d		
Valero *Port Arthur*	255 kb/d		
Valero *Texas City*	210 kb/d		
Valero *Houston*	83 kb/d		

A prolonged outage of a significant portion of the US refining system follows a pre-existing tight situation in terms of capacity. The outages also come ahead of peak winter demand in the fourth quarter and first quarter of 2006. Per se, despite prompt crude availability with current inventories or incremental supplies, the ensuing product shortage will be difficult to offset.

The loss of refinery capacity is likely to lead to, in addition to a decline in gasoline stocks, to a reduction of distillate inventories. The absence of a normal seasonal build in heating oil inventories, in particular, is of concern should the winter season prove colder than average. This tightening of products could spill into next year as the postponement of some autumn refinery maintenance will inevitably lead to a heavier maintenance schedule in 2006. Scheduled work cannot be postponed indefinitely, more so if mandated changes in sulphur specifications, scheduled for June 2006, are maintained.





The charts on the following page show the potential product supply loss (the red line in the charts) associated with refinery outages due to Hurricanes Katrina and Rita. They also show sources of potential offset through increased refinery runs elsewhere in the OECD (the top columns in the charts) and a reduction in US product demand (the bottom columns in the charts). In the scenario shown, the cumulative loss of US product supply by the end of December can potentially reach 163 mb. Half of the amount is in motor gasoline alone. Lost gasoline output by year-end can reach up to 80 mb, markedly higher than that for gasoil/diesel (43 mb) and kerosene (16 mb). Heavy losses of gasoline output reflect the yield structure of the US refining system, which is geared to meet gasoline demand, the greatest component of US oil product consumption.

The profile of lost US output shown here represents an average value for the US Gulf Coast. It also assumes increased runs in the neighbouring areas of the Mid-continent and Atlantic Coast. As such, it tries to capture an element of domestic offset. A stronger refining margin environment should lead to higher runs and reduced product deliveries via pipelines in those regions. This in turn would allow for more product to remain on the Gulf Coast. At the same time, a provision is made for identified scheduled imports at the end of August early September into the US over and above year-ago levels. Estimating a product profile ultimately rests on some fundamental tenets. Product loss or incremental product output is highly dependent on:

- the duration of the outages (as indicated earlier, for which a degree of uncertainty remains)
- the utilisation rate of available capacity
- the assumed refinery yields in the regions involved for each of the months considered
- transportation logistics (that can limit the actual amounts delivered and which are not covered here).

The product loss or gain profiles shown are obtained as the difference between expected refinery output in the case of a no-hurricane case (including scheduled maintenance where known), with that which is expected through December (assuming maintenance is postponed until next year).

Results shown in the charts below are based on implicit refinery yields (the ratio of refinery product output over crude inputs). The use of these yields, however, has clear limitations. They represent average values that capture a wide range of refinery configuration and as such, do not necessarily adequately cover refinery specifics. A case in point can be illustrated with 'coking units' commonly found on the Gulf Coast. Refineries with these units produce a higher volume of gasoline than implied by implicit yields alone. Secondly, implicit yields reflect the quality of the crude used as feedstock. While refineries may receive base load amounts of various crudes of differing quality, grades delivered going forward may not necessarily possess the same qualities. Finally, increased product supply does not make a provision for additional supply through blending. In the case of gasoline, refiners can make additional volumes of motor fuel by mixing their finished stocks with imported components from abroad for which some specifications restrictions have been relaxed in the wake of the hurricanes.

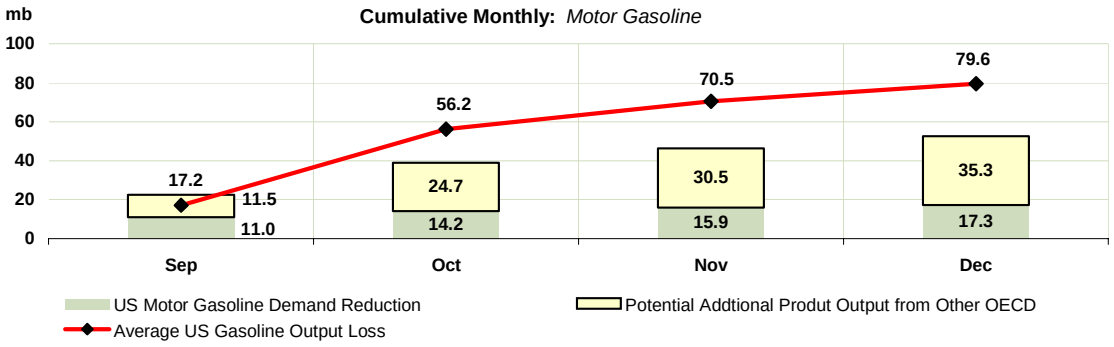
On a gross basis, the potential product volumes lost in the US are large. They can be somewhat mitigated when viewed against hurricane-related reductions in US demand as well as some flexibility in the refining system in other OECD Member countries. However, even under the very optimistic assumptions shown here, reduced demand and increased refinery output elsewhere in the OECD does not fully offset total product loss and falls short of making up for lost gasoline output.

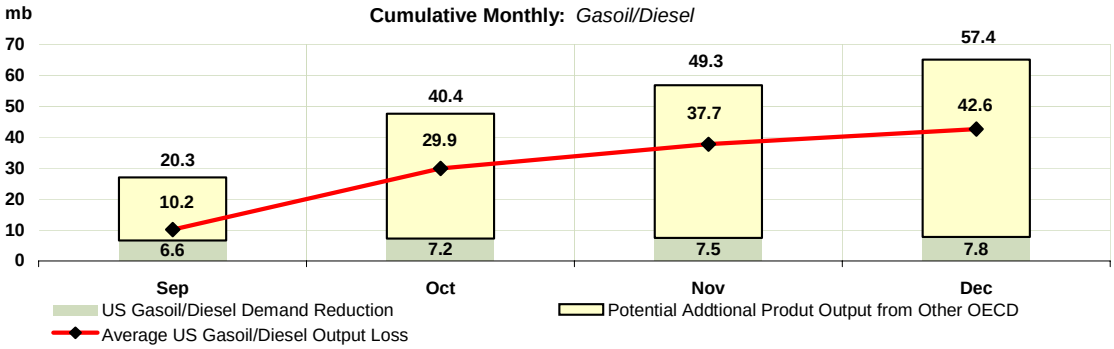
The cumulative reduction in US product demand is estimated at 30 mb by the end of December. Gasoline represents the largest component of that reduction with 17 mb. The total offset from reduced demand is potentially higher when viewed on a world basis in light of associated losses in other regions due to higher product prices. Nevertheless, the reduction in US demand may prove only temporary as deliveries rebound with a normalisation of driving conditions and continued relief and repair operations.

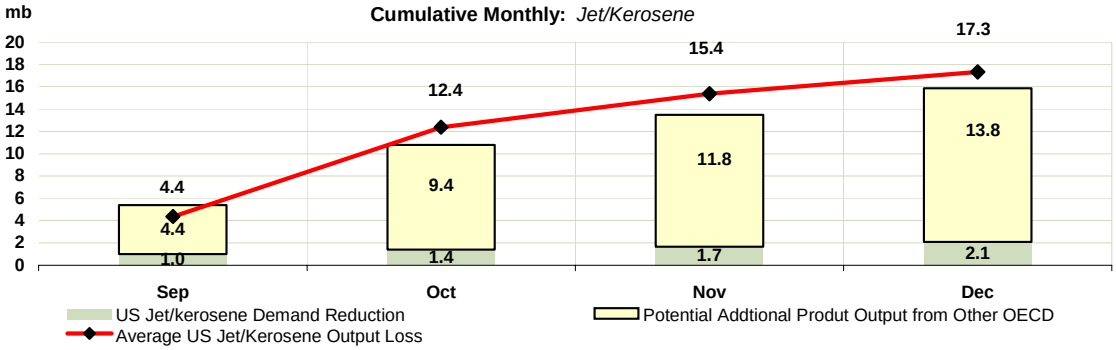
Higher refinery runs in Canada, Mexico, Europe, Japan and Korea can potentially add an extra 156 mb of product supply by December, but strong assumptions are required for this to happen. In particular, there has to be sufficient light sweet crude, sustained high margins and no unscheduled outages. Individual countries have attained levels of runs assumed in this scenario but only in short bursts. These levels have never been achieved simultaneously in all countries, nor sustained for three months. On a product basis, offsets in US distillate loss are realised at an early stage, while increases in gasoline output fall short of the loss envisaged in the US. This reflects the contrast between Europe's and the Pacific refinery configuration compared to the US, as product demand in the former regions is more heavily skewed toward diesel and gasoil rather than gasoline.

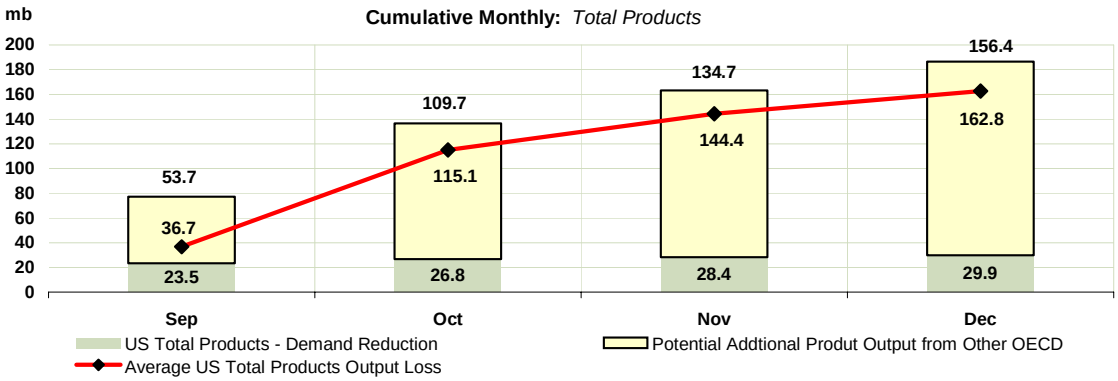
US Cumulative Monthly Product Loss Profile

Product Supply Loss Vs US Demand Reduction & Increased Other OECD Product Supply[1]





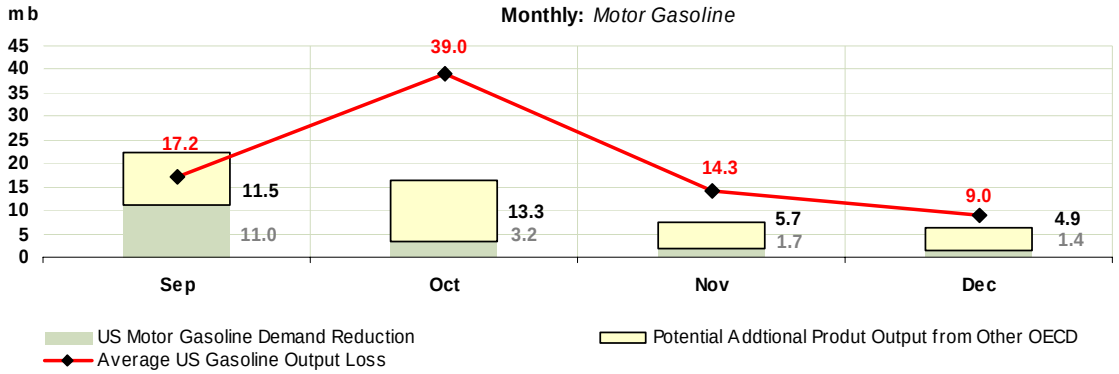


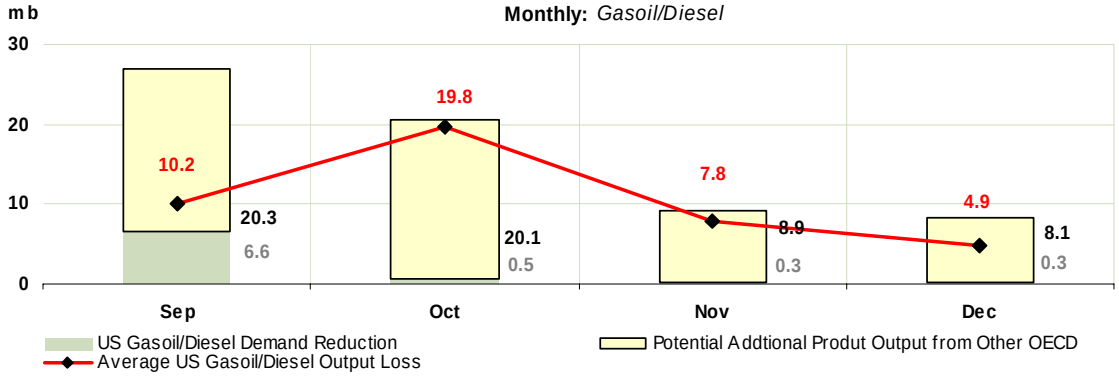


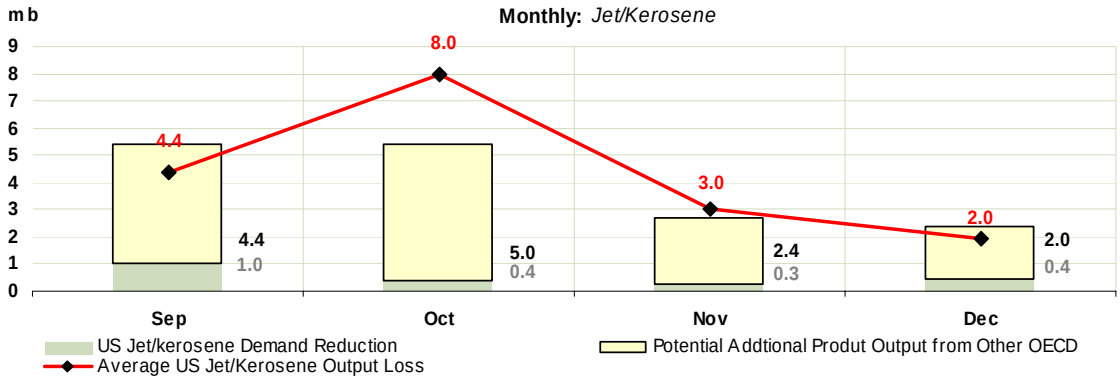
1. **Output profile contingent on yield configuration, offline cdu capacity, average utilisation of online CDU capacity**

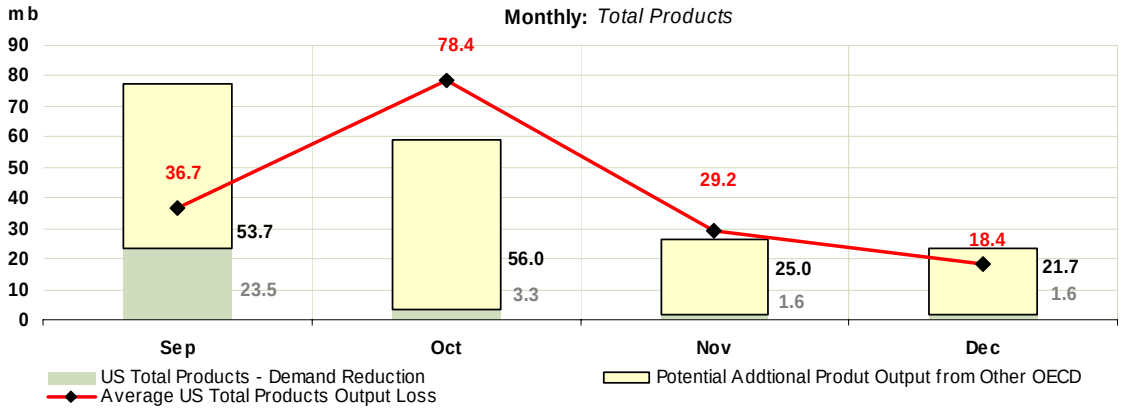
US Monthly Product Loss Profile

Product Supply Loss Vs US Demand Reduction & Increased Other OECD Product Supply[1]





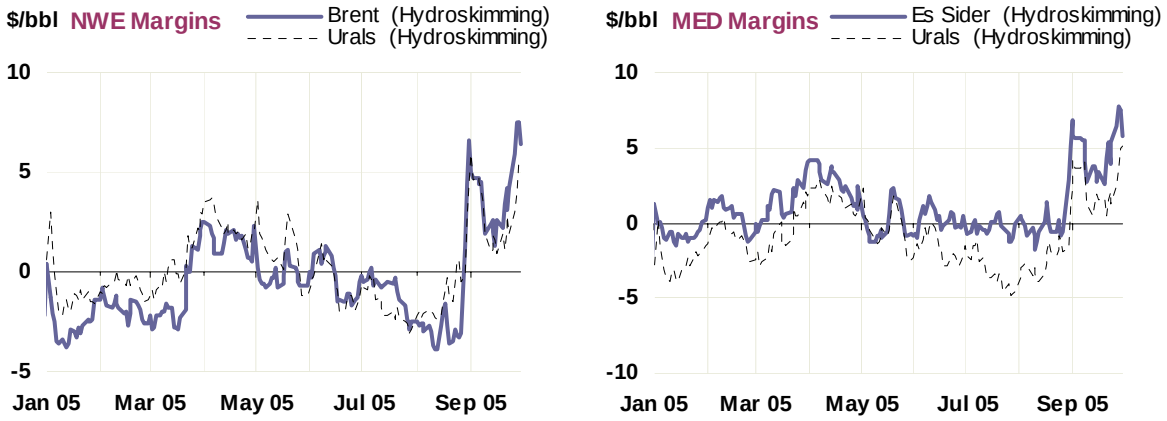




1. **Output profile contingent on yield configuration, offline cdu capacity, average utilisation of online CDU capacity**

Underlying the offsets through increased refinery activity, be it in the US or elsewhere in the OECD, is the assumption that refining margins will remain strong throughout the period considered. It is important to emphasise however, that high and sustained hydro-skimming or simple margins are required to prompt incremental use of spare crude distillation capacity. The immediate effect of the hurricanes, as discussed earlier, was to induce a sharp rise in light product prices, outpacing gains seen in crude and cause crack spreads to widen. The strength of products has been sufficient to lift hydro-skimming margins in the Atlantic Basin back into positive territory in September after several months of poor or negative returns. These margins appear to be sufficiently high to reward incremental crude runs, providing the incentive to sustain runs at higher levels where possible.

The market for now, continues to signal the need for additional product supply from marginal producers and a prolonged loss of product output in the US will be supportive of higher imports. This in turn is expected to support product prices globally. As such, hydro-skimming margins and cracking margins are likely to be sustained in the near term and extra product supplies can be expected from within the OECD.



One important caveat however, remains the level and duration of reduced demand in the US. In the near term, some downward pressure on product prices may come as US supplies improve, only to diminish or revert at a latter stage as demand rebounds. However, the depressing impact of higher prices on demand, be it in the US or in the rest of the world, from a broad macroeconomic viewpoint remains an uncertainty. As such margin dynamics also become uncertain. As product supply grows, potentially depressing prices, and crude demand increases, margins could be squeezed, particularly if product demand were to show signs of weakness. Under such a scenario, the post-hurricane utilisation rates assumed here may be overstated and additional product supplies lower.

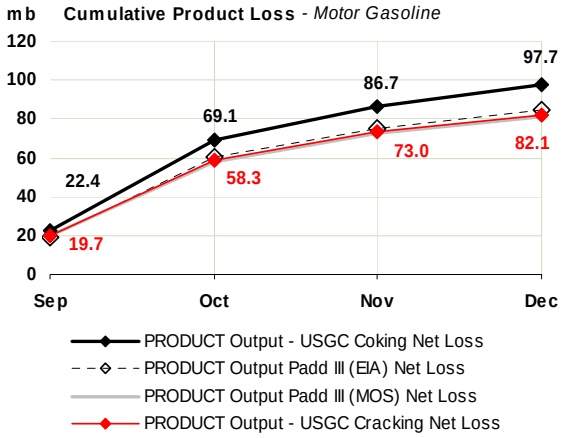
Finally, the charts below provide alternative scenarios for product loss in the US and incremental product supply in Europe in an effort to illustrate the sensitivity of results for different types of refinery yields. For the US, alternative loss scenarios are shown using implicit yields derived from weekly DOE/EIA and IEA monthly oil data (MOS) alongside average yields for a coking and cracking refinery on the Gulf Coast. Similarly, in Europe, IEA (MOS) implicit yields are compared to average yields for simple refining for light sweet and medium sour crudes.

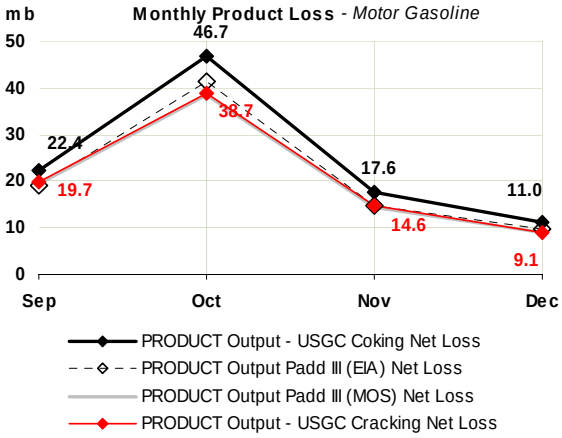
Total product loss can easily become sensitive to the dynamics of individual components. A case in point, as mentioned earlier, comes in gasoline production. Gasoline output loss under an average coking configuration can reach a cumulative 98 mb by end-December as compared to 80 mb under an implicit yields case. In Europe, extra gasoline output by end-December under implicit MOS yields can theoretically reach 23 mb, much beyond the 17 mb produced by a simple refinery using light sweet Brent in Northwest Europe or the 10 mb derived from medium sour Urals in the same region.

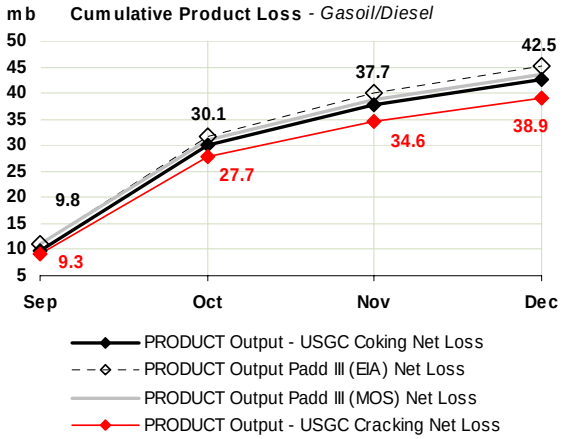
In this connection, irrespective of demand dynamics, with additional runs limited mostly to crude distillation units, the increases of product output elsewhere in the OECD may in the end fail to materialise in full. As such, attaining the gasoline and middle distillate yields assumed in the calculations could prove to be beyond the limits of current marginal capacity. *While market forces are strong, there is a significant risk to assuming that all product shown here will be made available.*

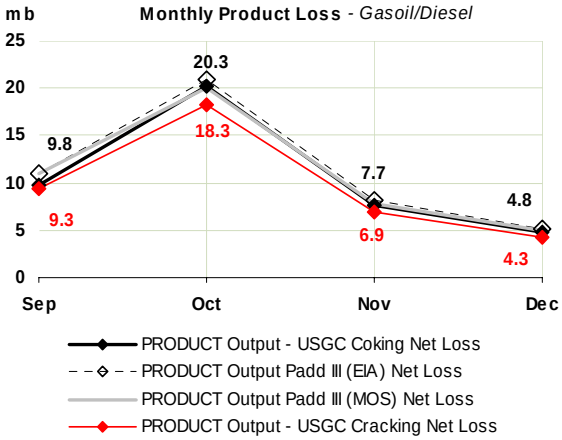
US Product Profile: Monthly Product Loss Vs Refinery Configuration[1]

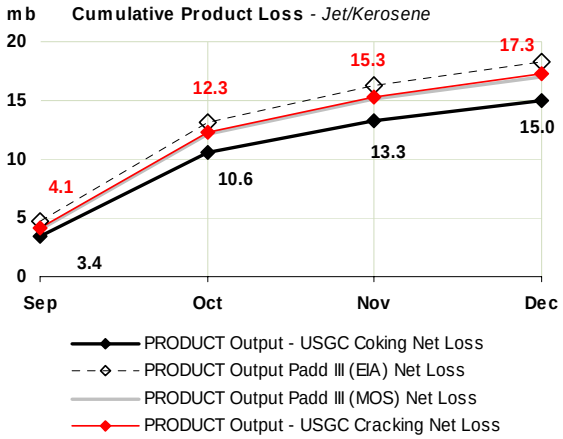
Pontential Product Loss Profiles Post Hurricanes

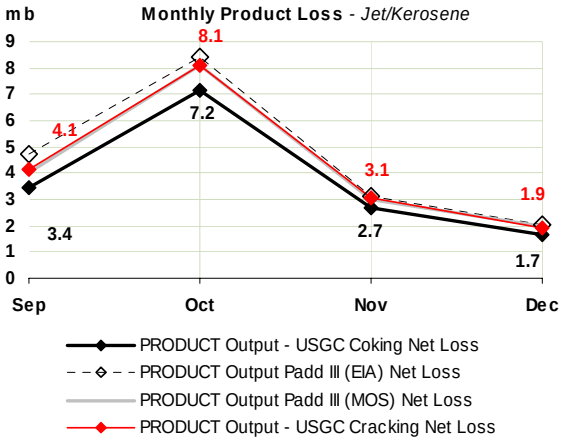








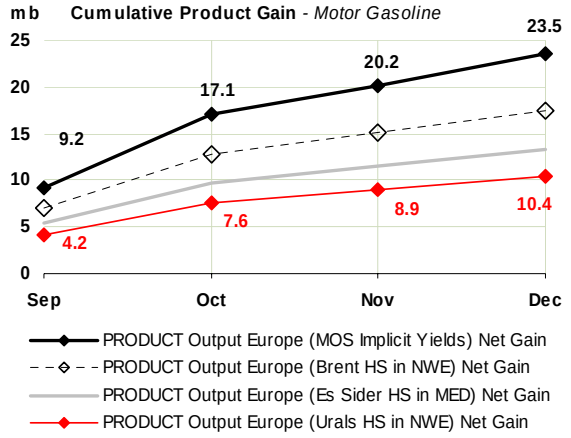


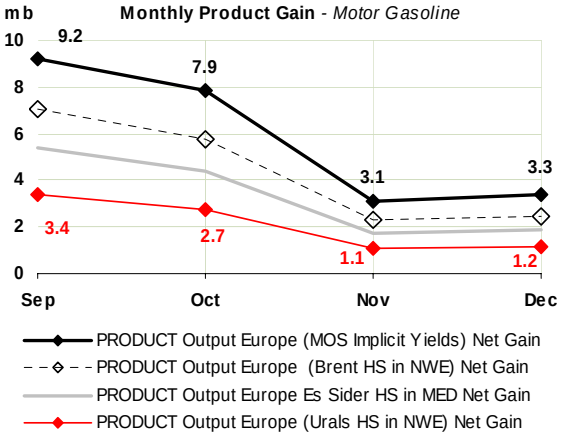


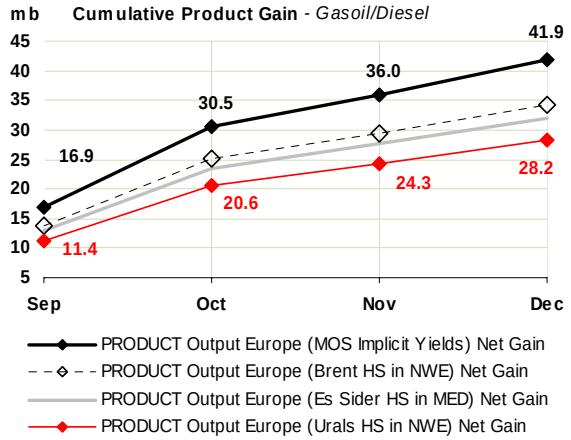
1. **Output profile contingent on yield configuration, offline cdu capacity, average utilisation of online cdu capacity**

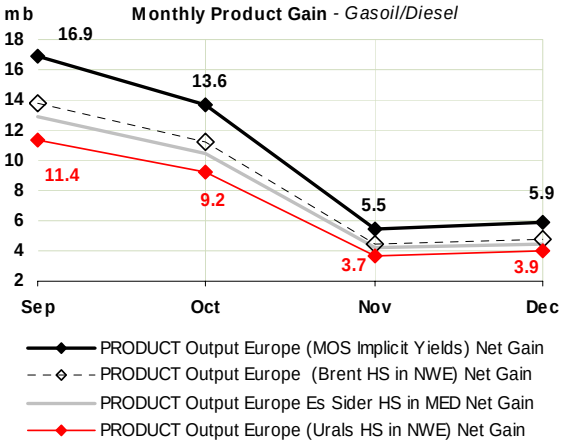
Europe Cumulative Monthly Product Profile: Incremental Output Vs Refinery Configuration[1]

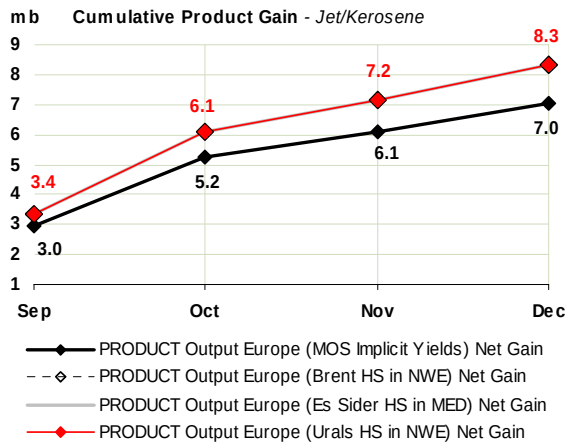
Pontential Product Ouput Gain on Increased Refinery Runs

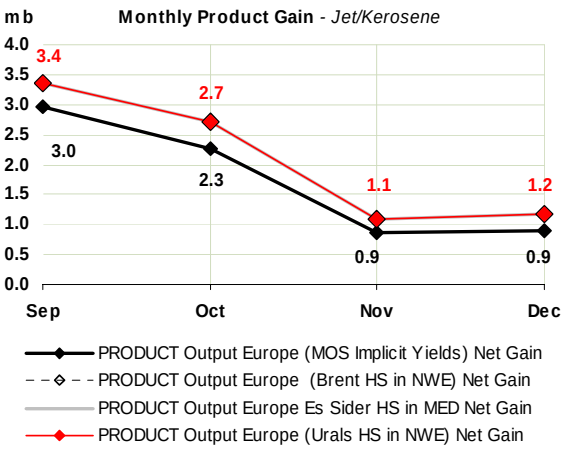












1. **Output profile contingent on yield configuration, offline cdu capacity, average utilisation of online cdu capacity**

Table 1
WORLD OIL SUPPLY AND DEMAND

(million barrels per day)

	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
OECD DEMAND																	
North America	24.1	24.5	25.2	25.0	25.4	25.7	25.3	25.5	25.3	25.4	26.0	25.6	25.9	25.5	26.1	26.4	26.0
Europe	15.3	15.4	15.6	15.2	15.6	16.0	15.6	15.5	15.3	15.6	16.0	15.6	15.5	15.3	15.7	16.0	15.6
Pacific	8.6	8.7	9.3	7.9	8.2	8.8	8.5	9.5	8.1	8.0	8.9	8.6	9.5	8.1	8.3	9.1	8.7
Total OECD	48.0	48.6	50.1	48.1	49.2	50.5	49.5	50.6	48.7	49.1	50.9	49.8	50.9	48.9	50.0	51.5	50.3
NON-OECD DEMAND																	
FSU	3.5	3.6	3.5	3.7	3.8	4.0	3.7	3.7	3.6	3.6	4.1	3.8	3.8	3.6	3.8	4.1	3.8
Europe	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7
China	5.0	5.6	6.3	6.5	6.3	6.6	6.4	6.5	6.4	6.6	7.0	6.6	6.9	6.9	7.1	7.4	7.1
Other Asia	8.0	8.0	8.4	8.7	8.3	8.7	8.5	8.7	8.9	8.5	8.9	8.7	8.9	9.1	8.7	9.1	9.0
Latin America	4.8	4.7	4.7	4.9	5.0	4.9	4.9	4.8	5.0	5.0	5.0	5.0	4.9	5.1	5.2	5.1	5.1
Middle East	5.2	5.3	5.5	5.5	5.8	5.6	5.6	5.8	5.7	6.1	5.9	5.9	6.1	6.0	6.4	6.2	6.2
Africa	2.7	2.7	2.8	2.8	2.7	2.8	2.8	2.9	2.9	2.8	2.9	2.9	3.0	3.0	2.9	3.0	3.0
Total Non-OECD	29.7	30.6	32.0	32.8	32.6	33.3	32.7	33.3	33.2	33.3	34.5	33.6	34.4	34.5	34.7	35.7	34.8
Total Demand[1]	77.7	79.2	82.1	80.9	81.7	83.8	82.1	83.8	81.9	82.4	85.5	83.4	85.4	83.4	84.7	87.2	85.2
OECD SUPPLY																	
North America	14.5	14.6	14.8	14.7	14.4	14.4	14.6	14.4	14.6	13.8	13.8	14.2	14.5	14.6	14.3	14.4	14.5
Europe	6.6	6.3	6.4	6.2	5.7	6.0	6.1	5.9	5.7	5.5	5.7	5.7	5.8	5.5	5.2	5.5	5.5
Pacific	0.8	0.7	0.6	0.6	0.6	0.5	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Total OECD	21.9	21.6	21.8	21.5	20.8	21.0	21.3	20.9	20.9	19.8	20.2	20.4	20.9	20.6	20.1	20.5	20.5
NON-OECD SUPPLY																	
FSU	9.4	10.3	10.9	11.1	11.4	11.5	11.2	11.4	11.5	11.6	11.8	11.6	11.9	12.0	12.2	12.3	12.1
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
China	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Other Asia	2.5	2.6	2.7	2.7	2.8	2.8	2.8	2.7	2.6	2.7	2.8	2.7	2.8	2.8	2.8	2.8	2.8
Latin America	3.9	4.0	4.1	4.1	4.1	4.1	4.1	4.2	4.4	4.3	4.4	4.3	4.5	4.5	4.5	4.6	4.5
Middle East	2.1	2.0	2.0	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.7	1.7	1.8
Africa	3.0	3.0	3.3	3.3	3.5	3.5	3.4	3.6	3.6	3.9	4.0	3.8	4.1	4.2	4.3	4.4	4.3
Total Non-OECD	24.5	25.6	26.5	26.8	27.3	27.5	27.0	27.5	27.7	28.1	28.6	28.0	28.8	29.0	29.3	29.6	29.2
Processing Gains[2]	1.8	1.8	1.9	1.8	1.8	1.9	1.8	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Total Non-OPEC	48.1	49.0	50.1	50.1	49.9	50.3	50.1	50.3	50.4	49.8	50.7	50.3	51.6	51.5	51.3	52.0	51.6
OPEC																	
Crude[3]	25.1	26.8	27.9	28.1	29.1	29.5	28.6	28.8	29.3	29.7							
NGLs	3.7	3.9	4.3	4.3	4.3	4.4	4.3	4.7	4.7	4.8	4.9	4.8	5.0	5.1	5.2	5.3	5.1
Total OPEC	28.8	30.7	32.2	32.3	33.4	33.9	33.0	33.5	34.0	34.5							
Total Supply[4]	76.9	79.7	82.3	82.5	83.3	84.2	83.1	83.8	84.4	84.3							
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	-0.4	0.1	-0.6	0.9	0.4	-0.2	0.1	-0.1	0.9								
Government	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.4								
Total	-0.3	0.3	-0.4	0.9	0.5	-0.1	0.2	0.0	1.3								
Floating Storage/Oil in Transit	0.0	0.2	-0.2	-0.2	0.3	0.3	0.0	-0.4	0.0								
Miscellaneous to balance[5]	-0.4	0.0	0.9	0.8	0.8	0.3	0.7	0.3	1.2								
Total Stock Ch. & Misc	-0.7	0.5	0.2	1.5	1.6	0.5	0.9	-0.1	2.5	1.9							
Memo items:																	
Call on OPEC crude + Stock ch.[6]	25.9	26.3	27.7	26.5	27.5	29.0	27.7	28.9	26.8	27.8	29.9	28.4	28.8	26.7	28.3	29.8	28.4
Total Demand ex. FSU	74.2	75.6	78.6	77.2	77.9	79.8	78.4	80.1	78.3	78.8	81.3	79.6	81.5	79.7	81.0	83.1	81.3
Total demand exc. FSU (% ch)[7]	1.1	1.9	3.4	4.9	3.4	3.1	3.7	1.9	1.4	1.1	1.9	1.6	1.8	1.8	2.7	2.1	2.1

1 Measured as deliveries from refineries and primary stocks, comprises inland deliveries, international marine bunkers, refinery fuel, crude for direct burning, oil from non-conventional sources and other sources of supply
2 Net volumetric gains and losses in the refining process (excludes net gain/loss in former USSR, China and non-OECD Europe) and marine transportation losses
3 Upgraded Venezuelan Orinoco extra-heavy production is classified as non-conventional crude.
4 Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply
5 Includes changes in non-reported stocks in OECD and non-OECD areas
6 Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs
7 Year on year % growth in global oil demand excluding FSU

Table 1A
WORLD OIL SUPPLY AND DEMAND: CHANGES FROM LAST MONTH'S TABLE 1

(million barrels per day)

	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
OECD DEMAND																	
North America	-	-	-	-	-	-	-	-	-	-0.3	-	-0.1	-	-	-0.1	-	-
Europe	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-0.3	-	-0.1	-	-	-0.1	-	-
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-
Other Asia	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-0.1	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-0.1	-0.2	-0.1
Total Demand	-	-	-	-	-	-	-	-	-	-0.2	-0.1	-0.1	-	-	-0.2	-0.2	-0.1
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-0.4	-0.8	-0.3	-0.4	-0.3	-0.3	-0.3	-0.3
Europe	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-0.1	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-0.4	-0.9	-0.3	-0.4	-0.3	-0.4	-0.3	-0.3
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.1
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	-	-	-0.4	-0.9	-0.3	-0.4	-0.3	-0.5	-0.4	-0.4
OPEC																	
Crude	-	-	-	-	-	-	-	-	-								
NGLs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OPEC	-	-	-	-	-	-	-	-	-								
Total Supply	-	-	-	-	-	-	-	-	-								
STOCK CHANGES AND MISCELLANEOUS																	
REPORTED OECD																	
Industry	-	-	-	-	-	-	-	-	-0.2								
Government	-	-	-	-	-	-	-	-	0.3								
Total	-	-	-	-	-	-	-	-	0.1								
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-	-								
Miscellaneous to balance	-	-	-	-	-	-	-	-	-0.1								
Total Stock Ch. & Misc	-	-	-	-	-	-	-	-	-								
Memo items:																	
Call on OPEC crude + Stock ch.	-	-	-	-	-	-	-	-	-	0.2	0.8	0.3	0.4	0.3	0.3	0.2	0.3
Total Demand ex. FSU	-	-	-	-	-	-	-	-	-	-0.2	-0.1	-0.1	-	-	-0.2	-0.2	-0.1

When submitting their monthly oil statistics, OECD Member countries periodically update data for prior periods. Similar updates to non-OECD data can occur.

Table 2

Summary of Global Oil Demand

	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
Demand (mb/d)																
North America	24.53	25.22	25.05	25.41	25.69	25.34	25.53	25.31	25.42	26.00	25.57	25.90	25.51	26.07	26.40	25.97
Europe	15.43	15.63	15.20	15.58	16.00	15.60	15.55	15.29	15.61	15.99	15.61	15.54	15.26	15.66	16.00	15.62
Pacific	8.69	9.28	7.90	8.16	8.77	8.53	9.49	8.10	8.04	8.93	8.64	9.51	8.09	8.25	9.06	8.73
Total OECD	48.65	50.14	48.15	49.15	50.46	49.48	50.57	48.70	49.07	50.92	49.81	50.95	48.86	49.99	51.46	50.32
FSU	3.59	3.51	3.71	3.78	3.97	3.74	3.73	3.57	3.62	4.13	3.76	3.81	3.62	3.75	4.08	3.82
Europe	0.69	0.76	0.70	0.66	0.71	0.71	0.78	0.72	0.67	0.72	0.72	0.79	0.73	0.68	0.74	0.74
China	5.58	6.28	6.53	6.32	6.60	6.43	6.55	6.41	6.61	6.98	6.64	6.91	6.94	7.13	7.43	7.10
Other Asia	8.05	8.42	8.67	8.33	8.68	8.53	8.71	8.85	8.53	8.87	8.74	8.90	9.07	8.73	9.11	8.95
Latin America	4.67	4.71	4.87	4.96	4.89	4.86	4.82	4.98	5.02	5.00	4.95	4.92	5.09	5.16	5.11	5.07
Middle East	5.27	5.51	5.45	5.79	5.62	5.59	5.79	5.74	6.08	5.91	5.88	6.10	6.05	6.37	6.21	6.18
Africa	2.73	2.80	2.83	2.73	2.84	2.80	2.89	2.92	2.81	2.92	2.89	2.98	3.00	2.89	3.01	2.97
Total Non-OECD	30.56	31.99	32.76	32.56	33.33	32.66	33.27	33.19	33.34	34.54	33.59	34.42	34.50	34.72	35.70	34.84
World	79.21	82.13	80.91	81.71	83.78	82.14	83.84	81.89	82.41	85.46	83.40	85.36	83.36	84.70	87.16	85.15
of which:																
US	*20.03*	*20.60*	*20.54*	*20.82*	*20.97*	*20.73*	*20.80*	*20.66*	*20.74*	*21.21*	*20.85*	*21.06*	*20.81*	*21.28*	*21.52*	*21.17*
Euro4	*8.30*	*8.39*	*8.10*	*8.36*	*8.45*	*8.33*	*8.18*	*8.05*	*8.33*	*8.35*	*8.23*	*8.12*	*8.03*	*8.28*	*8.35*	*8.19*
Japan	*5.50*	*5.98*	*4.87*	*5.12*	*5.45*	*5.35*	*6.05*	*4.99*	*4.99*	*5.53*	*5.39*	*6.05*	*4.93*	*5.10*	*5.59*	*5.42*
Korea	*2.18*	*2.30*	*2.02*	*2.00*	*2.27*	*2.15*	*2.40*	*2.06*	*2.01*	*2.33*	*2.20*	*2.40*	*2.09*	*2.07*	*2.37*	*2.23*
Mexico	*1.95*	*1.96*	*1.96*	*1.95*	*2.01*	*1.97*	*2.01*	*2.08*	*2.03*	*2.04*	*2.04*	*2.09*	*2.09*	*2.08*	*2.11*	*2.10*
Canada	*2.21*	*2.30*	*2.22*	*2.31*	*2.36*	*2.30*	*2.35*	*2.23*	*2.31*	*2.40*	*2.32*	*2.36*	*2.27*	*2.36*	*2.41*	*2.35*
Brazil	*2.04*	*2.06*	*2.12*	*2.21*	*2.18*	*2.14*	*2.09*	*2.15*	*2.20*	*2.21*	*2.17*	*2.13*	*2.19*	*2.27*	*2.26*	*2.21*
India	*2.47*	*2.66*	*2.65*	*2.47*	*2.61*	*2.60*	*2.77*	*2.64*	*2.52*	*2.67*	*2.65*	*2.83*	*2.71*	*2.57*	*2.74*	*2.71*
Annual Change (% per annum)																
North America	1.7	3.1	3.9	2.9	3.5	3.3	1.2	1.0	0.0	1.2	0.9	1.4	0.8	2.6	1.5	1.6
Europe	1.0	1.3	0.3	0.8	2.2	1.2	-0.6	0.6	0.2	-0.1	0.0	0.0	-0.2	0.4	0.1	0.1
Pacific	1.5	-4.2	-2.4	2.8	-3.2	-1.9	2.2	2.5	-1.4	1.8	1.3	0.2	-0.1	2.6	1.4	1.0
Total OECD	1.4	1.1	1.7	2.2	1.8	1.7	0.8	1.1	-0.2	0.9	0.7	0.8	0.3	1.9	1.1	1.0
FSU	3.2	-8.4	15.8	10.2	2.2	4.4	6.4	-3.7	-4.2	3.9	0.6	2.2	1.3	3.7	-1.1	1.4
Europe	3.8	2.5	2.5	3.0	3.1	2.8	2.6	2.6	2.1	2.0	2.3	2.1	2.1	2.2	2.2	2.1
China	11.0	18.0	23.4	9.2	12.0	15.4	4.3	-1.9	4.7	5.7	3.2	5.6	8.2	7.8	6.5	7.0
Other Asia	1.2	6.5	9.5	4.5	3.4	5.9	3.4	2.1	2.4	2.2	2.5	2.2	2.5	2.4	2.6	2.4
Latin America	-1.8	4.9	5.0	3.9	2.8	4.1	2.2	2.2	1.2	2.1	1.9	2.1	2.2	2.7	2.4	2.3
Middle East	1.9	5.3	8.9	5.5	4.7	6.0	5.1	5.3	5.1	5.2	5.2	5.3	5.3	4.8	5.1	5.1
Africa	1.6	2.2	3.0	3.1	2.6	2.7	3.3	3.3	2.9	2.8	3.1	2.8	2.9	3.0	3.0	2.9
Total Non-OECD	2.8	5.7	11.1	6.0	4.9	6.9	4.0	1.3	2.4	3.7	2.8	3.4	3.9	4.1	3.3	3.7
World	2.0	2.8	5.3	3.7	3.0	3.7	2.1	1.2	0.9	2.0	1.5	1.8	1.8	2.8	2.0	2.1
Annual Change (mb/d)																
North America	0.40	0.76	0.95	0.71	0.86	0.82	0.31	0.26	0.01	0.31	0.22	0.37	0.20	0.65	0.40	0.41
Europe	0.16	0.19	0.05	0.12	0.34	0.18	-0.09	0.09	0.02	-0.01	0.00	-0.01	-0.03	0.06	0.01	0.01
Pacific	0.13	-0.41	-0.19	0.23	-0.29	-0.16	0.20	0.20	-0.11	0.16	0.11	0.02	-0.01	0.21	0.13	0.09
Total OECD	0.69	0.54	0.81	1.05	0.91	0.83	0.42	0.55	-0.08	0.46	0.34	0.38	0.16	0.92	0.54	0.50
FSU	0.11	-0.32	0.51	0.35	0.09	0.16	0.23	-0.14	-0.16	0.15	0.02	0.08	0.05	0.13	-0.05	0.05
Europe	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.01	0.01	0.02	0.02	0.02	0.01	0.02	0.02
China	0.55	0.96	1.24	0.53	0.71	0.86	0.27	-0.12	0.29	0.38	0.20	0.37	0.53	0.52	0.45	0.47
Other Asia	0.09	0.51	0.75	0.36	0.29	0.48	0.29	0.18	0.20	0.20	0.22	0.19	0.22	0.20	0.23	0.21
Latin America	-0.08	0.22	0.23	0.19	0.13	0.19	0.11	0.11	0.06	0.10	0.09	0.10	0.11	0.14	0.12	0.12
Middle East	0.10	0.27	0.44	0.30	0.25	0.32	0.28	0.29	0.29	0.29	0.29	0.31	0.30	0.29	0.30	0.30
Africa	0.04	0.06	0.08	0.08	0.07	0.07	0.09	0.09	0.08	0.08	0.09	0.08	0.09	0.08	0.09	0.08
Total Non-OECD	0.84	1.72	3.27	1.83	1.56	2.10	1.28	0.43	0.78	1.22	0.93	1.15	1.31	1.37	1.16	1.25
World	1.53	2.26	4.08	2.89	2.48	2.93	1.71	0.98	0.70	1.68	1.26	1.53	1.47	2.29	1.70	1.75
Changes from Last Month's Report																
North America	-	-	-	-	-	-	-	0.01	-0.28	-0.01	-0.07	-0.01	-0.04	-0.08	-0.01	-0.04
Europe	-	0.01	0.01	0.01	0.01	0.01	0.01	-	0.08	-0.01	0.02	0.01	-	0.01	-	0.01
Pacific	-	-	-	-	-	-	-	0.01	-0.07	-0.01	-0.02	0.02	-	-	-0.01	-
Total OECD	-	0.01	0.01	0.01	0.01	0.01	0.01	0.02	-0.27	-0.03	-0.07	0.01	-0.04	-0.07	-0.01	-0.03
FSU	-0.01	-	-	-	-	-	-	-	0.03	0.02	0.01	0.03	0.01	0.01	-0.02	0.01
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-0.04	-0.01	-0.03	0.02	-0.09	-0.07	-0.04
Other Asia	-	-	-	0.01	-	-	-	-	0.06	-0.04	0.01	-0.02	-0.02	-0.03	-0.06	-0.03
Latin America	-	-	-	-	-	-	-	-	-0.03	-0.01	-0.01	-	-	-0.02	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-0.01	-	-	0.01	-	-	-	-	0.05	-0.07	-0.01	-0.02	0.01	-0.13	-0.16	-0.07
World	-0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.02	-0.22	-0.10	-0.08	-0.01	-0.02	-0.20	-0.17	-0.10

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2004	2005	2006	2Q05	3Q05	4Q05	1Q06	2Q06	Jul 05	Aug 05	Sep 05
OPEC											
Crude Oil											
Saudi Arabia	8.75			9.21	9.27				9.27	9.28	9.28
Iran	3.93			3.96	3.96				3.95	3.98	3.97
Iraq	1.99			1.84	1.95				1.96	1.92	1.97
UAE	2.35			2.35	2.50				2.48	2.51	2.52
Kuwait	2.05			2.12	2.13				2.11	2.13	2.17
Neutral Zone	0.60			0.57	0.57				0.57	0.57	0.57
Qatar	0.78			0.78	0.80				0.80	0.80	0.81
Nigeria	2.32			2.43	2.46				2.48	2.46	2.46
Libya	1.55			1.65	1.65				1.65	1.65	1.65
Algeria	1.20			1.34	1.36				1.35	1.35	1.37
Venezuela	2.17			2.13	2.12				2.12	2.12	2.11
Indonesia	0.97			0.94	0.94				0.95	0.94	0.93
Total Crude Oil	28.65			29.32	29.71				29.66	29.69	29.79
Total NGLs[1]	4.32	4.77	5.14	4.70	4.79	4.88	5.01	5.10	4.78	4.79	4.79
Total OPEC	32.97			34.02	34.50				34.44	34.48	34.57
NON-OPEC[2]											
OECD											
North America	14.58	14.15	14.48	14.60	13.77	13.84	14.55	14.60	13.93	14.40	12.96
United States	7.66	7.33	7.43	7.74	7.08	6.80	7.48	7.57	7.43	7.58	6.21
Mexico	3.83	3.79	3.78	3.87	3.70	3.85	3.82	3.80	3.48	3.84	3.79
Canada	3.09	3.03	3.26	3.00	2.99	3.19	3.25	3.24	3.02	2.99	2.95
Europe	6.10	5.72	5.47	5.70	5.49	5.74	5.76	5.46	5.56	5.39	5.51
UK	2.06	1.86	1.66	1.90	1.70	1.82	1.80	1.64	1.75	1.66	1.70
Norway	3.19	3.01	3.01	2.94	2.94	3.09	3.14	3.01	2.97	2.89	2.97
Others	0.85	0.85	0.80	0.86	0.84	0.83	0.82	0.81	0.84	0.85	0.84
Pacific	0.58	0.56	0.58	0.55	0.57	0.57	0.59	0.56	0.55	0.59	0.58
Australia	0.54	0.52	0.53	0.51	0.53	0.53	0.54	0.51	0.50	0.54	0.54
Others	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.05	0.04	0.04
Total OECD	21.25	20.43	20.53	20.86	19.83	20.16	20.89	20.62	20.04	20.38	19.05
NON-OECD											
Former USSR	11.22	11.59	12.09	11.46	11.62	11.85	11.89	11.95	11.54	11.60	11.74
Russia	9.23	9.49	9.79	9.38	9.54	9.68	9.69	9.74	9.49	9.53	9.60
Others	1.99	2.10	2.30	2.08	2.08	2.16	2.20	2.21	2.05	2.07	2.14
Asia	6.24	6.34	6.42	6.26	6.33	6.41	6.40	6.44	6.36	6.30	6.33
China	3.48	3.63	3.60	3.61	3.63	3.63	3.62	3.61	3.64	3.63	3.62
Malaysia	0.86	0.83	0.85	0.77	0.84	0.86	0.86	0.85	0.82	0.85	0.84
India	0.80	0.76	0.78	0.80	0.72	0.72	0.73	0.80	0.76	0.67	0.71
Others	1.10	1.13	1.19	1.08	1.15	1.20	1.19	1.19	1.14	1.15	1.16
Europe	0.17	0.16	0.15	0.16	0.16	0.15	0.15	0.15	0.16	0.16	0.16
Latin America	4.09	4.32	4.51	4.38	4.32	4.43	4.46	4.51	4.38	4.20	4.39
Brazil	1.80	2.01	2.26	2.03	2.02	2.12	2.18	2.24	2.03	1.94	2.10
Argentina	0.80	0.76	0.71	0.77	0.76	0.75	0.72	0.71	0.76	0.76	0.75
Colombia	0.53	0.52	0.51	0.53	0.52	0.50	0.50	0.50	0.52	0.52	0.51
Ecuador	0.53	0.54	0.55	0.54	0.52	0.56	0.56	0.55	0.55	0.49	0.53
Others	0.44	0.49	0.49	0.50	0.50	0.50	0.50	0.50	0.51	0.50	0.50
Middle East[3]	1.91	1.82	1.75	1.81	1.81	1.80	1.78	1.76	1.81	1.81	1.81
Oman	0.79	0.75	0.73	0.75	0.75	0.75	0.75	0.74	0.75	0.75	0.75
Syria	0.50	0.48	0.45	0.48	0.47	0.47	0.46	0.45	0.48	0.47	0.47
Yemen	0.42	0.39	0.37	0.38	0.39	0.39	0.37	0.37	0.39	0.39	0.39
Africa	3.40	3.76	4.25	3.61	3.86	3.99	4.09	4.20	3.73	3.91	3.95
Egypt	0.71	0.69	0.67	0.69	0.69	0.69	0.68	0.68	0.70	0.69	0.69
Angola	0.99	1.25	1.49	1.15	1.34	1.41	1.41	1.43	1.21	1.39	1.41
Gabon	0.24	0.23	0.23	0.23	0.24	0.24	0.24	0.24	0.23	0.24	0.24
Others	1.47	1.58	1.86	1.54	1.60	1.66	1.76	1.85	1.58	1.60	1.61
Total Non-OECD	27.02	27.99	29.18	27.69	28.11	28.63	28.78	29.01	27.97	27.99	28.38
Processing Gains[4]	1.83	1.86	1.90	1.85	1.84	1.88	1.92	1.89	1.84	1.84	1.84
TOTAL NON-OPEC	50.11	50.28	51.61	50.40	49.78	50.66	51.59	51.52	49.85	50.21	49.27
TOTAL SUPPLY	83.08			84.42	84.28				84.29	84.69	83.84

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Orimulsion Orinoco extra-heavy oil, and non-oil inputs to Saudi Arabian MTBE
2 Comprises crude oil, condensates, NGLs and oil from non-conventional sources
3 Includes small amounts of production from Israel, Jordan and Bahrain
4 Net volumetric gains and losses in refining (excludes net gain/loss in FSU, China and non-OECD Europe) and marine transportation losses

Table 4

OECD INDUSTRY STOCKS[1] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Apr2005	May2005	Jun2005	Jul2005	Aug2005*	Aug2002	Aug2003	Aug2004	3Q2004	4Q2004	1Q2005	2Q2005
North America												
Crude	448.7	449.4	449.1	436.2	432.9	407.0	390.6	393.1	-0.26	0.06	0.38	0.16
Motor Gasoline	242.0	245.2	245.4	237.4	223.8	234.3	222.4	237.9	-0.04	0.11	0.00	0.01
Middle Distillate	174.4	180.6	190.1	205.1	210.7	203.4	199.6	203.9	0.14	0.04	-0.26	0.16
Residual Fuel Oil	45.6	46.6	45.9	46.3	42.8	41.9	39.0	44.6	-0.04	0.10	-0.02	-0.03
Total Products[3]	635.3	666.1	676.8	690.8	683.9	678.8	644.1	665.7	0.26	0.01	-0.32	0.56
Total[4]	1221.2	1260.6	1275.6	1280.6	1269.4	1244.7	1191.2	1215.3	0.18	-0.10	-0.01	0.83
Europe												
Crude	345.2	364.3	344.7	345.7	350.9	311.5	329.3	327.9	-0.07	-0.09	0.25	-0.03
Motor Gasoline	118.4	114.4	103.6	106.2	103.4	115.9	108.5	115.5	0.01	0.04	0.05	-0.19
Middle Distillate	252.0	256.0	240.6	249.3	250.9	266.9	258.4	260.5	0.18	-0.10	0.05	-0.06
Residual Fuel Oil	70.3	77.6	72.2	73.0	73.3	71.4	69.6	78.3	-0.01	-0.03	-0.07	0.04
Total Products[3]	543.9	549.0	516.1	528.1	527.0	560.7	544.8	558.8	0.22	-0.08	0.05	-0.27
Total[4]	965.9	989.0	934.0	947.9	951.1	937.0	943.7	954.2	0.15	-0.16	0.33	-0.31
Pacific												
Crude	158.5	171.9	176.6	183.8	182.8	175.8	176.3	167.5	-0.09	0.03	-0.02	0.08
Motor Gasoline	25.3	25.7	24.5	24.4	23.3	25.6	25.4	23.3	-0.01	0.00	0.01	-0.01
Middle Distillate	55.1	62.5	58.9	68.1	74.9	86.1	78.7	69.6	0.16	0.00	-0.29	0.11
Residual Fuel Oil	21.5	24.7	23.4	25.7	23.8	25.0	25.3	23.3	-0.01	0.01	-0.01	0.02
Total Products[3]	164.1	178.1	173.2	186.4	191.4	203.1	202.1	182.2	0.15	0.02	-0.37	0.20
Total[4]	391.8	422.8	422.2	441.9	446.4	456.1	451.7	421.6	0.11	0.01	-0.45	0.36
Total OECD												
Crude	952.4	985.6	970.3	965.7	966.7	894.3	896.3	888.5	-0.41	-0.01	0.61	0.22
Motor Gasoline	385.8	385.3	373.6	368.0	350.5	375.8	356.2	376.6	-0.03	0.15	0.06	-0.19
Middle Distillate	481.4	499.1	489.6	522.5	536.5	556.4	536.7	534.0	0.47	-0.06	-0.50	0.22
Residual Fuel Oil	137.3	148.8	141.5	144.9	139.9	138.2	133.9	146.1	-0.06	0.08	-0.10	0.03
Total Products[3]	1343.3	1393.2	1366.1	1405.3	1402.3	1442.6	1390.9	1406.7	0.63	-0.05	-0.64	0.49
Total[4]	2578.8	2672.4	2631.8	2670.4	2666.9	2637.7	2586.6	2591.1	0.44	-0.25	-0.14	0.89

OECD GOVERNMENT-CONTROLLED STOCKS[5] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Apr2005	May2005	Jun2005	Jul2005	Aug2005*	Aug2002	Aug2003	Aug2004	3Q2004	4Q2004	1Q2005	2Q2005
North America												
Crude	691.9	693.9	696.4	698.8	700.8	582.3	618.3	669.0	0.09	0.06	0.14	0.09
Products	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.00	0.00	0.00	0.00
Europe												
Crude	161.0	161.0	164.9	165.2	165.2	148.7	152.0	158.1	0.00	0.07	-0.04	0.05
Products	206.0	207.8	232.8	235.6	235.6	196.6	208.2	205.6	0.00	0.00	0.04	0.26
Pacific												
Crude	384.5	384.5	383.4	384.2	383.9	379.1	382.8	386.7	-0.02	0.00	0.00	-0.01
Products	11.0	11.0	11.1	11.3	11.5	7.3	10.3	11.0	0.00	0.00	0.00	0.00
Total OECD												
Crude	1237.4	1239.5	1244.8	1248.2	1249.9	1110.0	1153.1	1213.7	0.06	0.12	0.10	0.13
Products	219.1	220.9	245.9	249.0	249.1	205.9	220.5	218.6	0.00	0.00	0.04	0.26
Total[4]	1457.5	1461.3	1491.6	1498.2	1500.0	1316.9	1374.5	1433.3	0.07	0.13	0.14	0.39

* estimated

1 Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) and include stocks held by industry to meet IEA, EU and national emergency reserve commitments and are subject to government control in emergencies.

2 Closing stock levels.

3 Total products includes gasoline, middle distillates, fuel oil and other products.

4 Total includes NGLs, refinery feedstocks, additives/oxygenates and other hydrocarbons.

5 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.

Table 5

TOTAL STOCKS ON LAND IN OECD COUNTRIES[1]

('millions of barrels' and 'days')

	End June 2004		End September 2004		End December 2004		End March 2005		End June 2005 [3]	
	Stock Level	Days Fwd[2] Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand
North America										
Canada	163.0	71	174.5	74	167.8	72	164.7	74	165.7	-
Mexico	39.5	20	41.4	21	41.3	21	44.2	21	45.6	-
United States[4]	1632.9	78	1643.5	78	1646.8	80	1658.8	81	1740.5	-
Total[5]	1857.5	73	1881.5	73	1878.0	74	1889.8	75	1974.0	78
Pacific										
Australia	34.9	39	34.3	38	33.2	38	34.8	38	35.9	-
Japan	622.0	121	632.0	116	635.3	105	604.9	121	629.4	-
Korea	152.9	76	152.1	67	149.4	62	137.4	67	142.5	-
New Zealand	7.7	52	7.1	48	8.0	49	7.9	53	9.0	-
Total	817.4	100	825.5	94	825.9	87	785.0	97	816.8	102
Europe[6]										
Austria	20.3	66	20.2	70	21.0	75	20.6	72	20.8	-
Belgium	26.5	46	27.7	39	27.2	40	26.9	49	29.8	-
Czech Republic	15.9	73	16.9	81	16.3	86	17.0	78	15.9	-
Denmark	15.8	89	18.1	94	16.2	86	16.3	88	17.2	-
Finland	23.4	106	24.0	105	24.4	110	26.2	125	27.0	-
France	183.5	94	188.5	94	186.2	90	187.4	99	185.6	-
Germany	267.1	99	264.1	96	267.2	106	280.5	111	279.4	-
Greece	30.8	78	34.1	76	35.7	77	35.7	94	34.4	-
Hungary	20.1	152	18.7	128	17.8	140	21.1	148	18.5	-
Ireland	10.7	63	11.1	60	11.7	60	10.6	58	11.6	-
Italy	134.6	71	138.7	73	135.8	73	133.7	75	132.1	-
Luxembourg	1.0	16	0.9	14	0.9	14	0.9	13	0.8	-
Netherlands	102.3	110	110.2	113	108.3	109	109.4	103	116.6	-
Norway	30.0	131	23.3	84	24.0	98	26.6	118	18.4	-
Poland	30.1	64	31.1	66	30.6	74	33.9	79	34.5	-
Portugal	26.2	76	25.0	73	24.3	68	25.6	77	26.5	-
Slovak Republic	6.6	90	6.1	83	6.2	95	7.0	99	6.5	-
Spain	127.3	82	126.8	79	119.8	72	126.7	80	129.4	-
Sweden	31.1	88	31.5	87	33.8	93	32.0	88	35.1	-
Switzerland	37.5	138	37.8	135	36.3	131	37.1	147	38.0	-
Turkey	54.8	78	55.2	82	55.9	101	55.4	80	52.2	-
United Kingdom	101.6	56	101.4	56	104.1	60	102.2	56	102.3	-
Total	1297.3	83	1311.5	82	1303.5	84	1332.7	87	1332.6	85
Total OECD	3972.2	81	4018.5	80	4007.4	80	4007.5	83	4123.4	84
DAYS OF IEA Net Imports[7]	-	113	-	114	-	114	-	114	-	117

1 Total Stocks are industry and government-controlled stocks (see breakdown in table below). Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) they include stocks held by industry to meet IEA, EU and national emergency reserves commitments and are subject to government control in emergencies.
2 Note that days of forward demand represent the stock level divided by the forward quarter average daily demand and is very different from the days of net imports used for the calculation of IEA Emergency Reserves.
3 End June 2005 forward demand figures are IEA Secretariat forecasts.
4 US figures exclude US territories.
5 Total includes US territories.
6 Data not available for Iceland.
7 Reflects stock levels and prior calendar year's net imports adjusted according to IEA emergency reserve definitions. Net exporting IEA countries are excluded.

TOTAL OECD STOCKS

CLOSING STOCKS	Total	Government[1] controlled	Industry	Total	Government[1] controlled	Industry
	Millions of Barrels			*Days of Fwd. Demand*[2]		
2Q2002	3967	1316	2651	83	28	55
3Q2002	3898	1321	2577	79	27	52
4Q2002	3821	1345	2476	77	27	50
1Q2003	3787	1359	2428	80	29	51
2Q2003	3913	1362	2551	81	28	53
3Q2003	3981	1380	2600	80	28	52
4Q2003	3925	1408	2517	78	28	50
1Q2004	3886	1421	2466	81	30	51
2Q2004	3972	1426	2546	81	29	52
3Q2004	4018	1432	2586	80	28	51
4Q2004	4007	1444	2563	80	29	51
1Q2005	4007	1456	2551	83	30	53
2Q2005	4123	1492	2632	84	30	54

1 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.
2 Days of forward demand calculated using actual demand except in 2Q2005 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2002	2003	2004	3Q04	4Q04	1Q05	2Q05	May 05	Jun 05	Jul 05	Year Earlier Jul 04	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.64	0.55	0.56	0.52	0.45	0.45	0.54	0.39	0.59	0.51	0.08
Europe	0.92	1.00	1.03	1.04	1.08	0.88	0.84	0.92	0.78	0.70	1.12	-0.42
Pacific	1.22	1.18	1.24	1.23	1.47	1.40	1.22	1.29	1.20	1.24	1.23	0.01
Saudi Medium												
North America	0.70	0.83	0.80	0.86	0.90	0.97	0.89	0.77	0.97	0.74	0.85	-0.11
Europe	0.11	0.11	0.11	0.11	0.16	0.12	0.13	0.13	0.13	0.21	0.07	0.14
Pacific	0.16	0.24	0.23	0.18	0.23	0.21	0.24	0.23	0.21	0.25	0.16	0.09
Saudi Heavy												
North America	0.20	0.30	0.22	0.30	0.26	0.18	0.15	0.20	0.15	0.26	0.27	-0.01
Europe	0.09	0.19	0.23	0.31	0.20	0.19	0.20	0.18	0.23	0.21	0.33	-0.12
Pacific	0.12	0.16	0.15	0.16	0.18	0.25	0.20	0.21	0.20	0.21	0.18	0.04
Iraqi Basrah Light[2]												
North America	0.35	0.44	0.71	0.68	0.67	0.56	0.69	0.87	0.53	0.85	0.48	0.37
Europe	0.08	0.09	0.21	0.21	0.13	0.19	0.19	0.20	0.16	0.31	0.24	0.08
Pacific	0.02	0.03	0.12	0.12	0.15	0.07	0.06	..	0.07	0.06	0.12	-0.05
Iraqi Kirkuk												
North America	0.14	0.06	0.02	0.01	0.01	..	..	..	..	..	..	..
Europe	0.32	0.12	0.08	0.03	0.16	0.02	0.04	0.02	0.07	0.14	..	..
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.17	0.19	0.24	0.23	0.27	0.23	0.15	0.17	0.08	0.11	0.21	-0.10
Pacific	0.12	0.17	0.16	0.16	0.16	0.19	0.13	0.15	0.15	0.14	0.18	-0.04
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.44	0.59	0.57	0.65	0.54	0.62	0.60	0.66	0.50	0.81	0.58	0.23
Pacific	0.54	0.69	0.65	0.58	0.63	0.76	0.59	0.61	0.49	0.58	0.58	0.00
Venezuelan Light & Medium												
North America	0.68	0.69	0.67	0.64	0.63	0.78	0.88	0.98	0.78	0.74	0.64	0.09
Europe	0.08	0.02	0.01	0.02	0.01	0.02	0.03	0.01	0.05	0.01	0.03	-0.02
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.55	0.60	0.88	0.86	0.95	0.83	0.82	0.76	0.75	0.68	0.94	-0.26
Europe	0.05	0.06	0.05	0.06	0.04	0.06	0.06	0.05	0.06	0.07	0.09	-0.02
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	0.92	1.32	1.36	1.34	1.37	1.30	1.36	1.41	1.40	1.09	1.30	-0.21
Europe	0.17	0.16	0.16	0.20	0.13	0.18	0.17	0.22	0.17	0.13	0.21	-0.07
Pacific	0.00	0.00	0.00	..	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.01	0.00	..	..	..	0.01	0.00	..	0.01	..	..	..
Europe	0.01	0.00	0.01	..	0.02	0.02	0.01	..	0.03	0.03	..	..
Pacific	0.01	0.00	0.00	..	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.03	0.14	0.12	0.12	0.21	0.14	0.14	0.03	0.05	0.20	0.26	-0.06
Europe	1.32	1.62	1.86	1.78	1.56	1.72	1.91	2.21	1.53	1.57	1.84	-0.28
Pacific	0.01	0.00	0.01	0.01	..	..	0.00	..	..	0.03	0.04	0.00
Nigerian Light[4]												
North America	0.38	0.63	0.80	0.78	0.73	0.87	0.87	1.01	0.76	0.99	0.76	0.23
Europe	0.32	0.41	0.28	0.30	0.30	0.30	0.27	0.30	0.28	0.38	0.36	0.02
Pacific	0.06	0.08	0.11	0.09	0.13	0.06	0.06	0.06	0.07	0.10	0.08	0.02
Nigerian Medium												
North America	0.16	0.17	0.23	0.22	0.20	0.18	0.22	0.13	0.31	0.13	0.27	-0.14
Europe	0.06	0.06	0.04	0.05	0.02	0.07	0.04	0.06	0.06	0.06	0.03	0.03
Pacific	0.01	0.01	0.01	..	..	0.03	0.02	0.03	..	..	..	..

1 Data based on monthly submissions from IEA countries to the crude oil import register (in '000 bbl), subject to availability. May differ from Table 8 of the Report.
IEA North America includes United States and Canada.
IEA Europe includes all countries in OECD Europe except Hungary, Poland and the Slovak Republic.
IEA Pacific data includes Australia, New Zealand, Korea and Japan.

2 Iraqi Total minus Kirkuk.

3 Iranian Total minus Iranian Light.

4 33 API and lighter (e.g., Bonny Light, Escravos, Qua Iboe and Oso Condensate).

Table 7
Regional OECD Imports[1,2]
(thousand barrels per day)

	2002	2003	2004	3Q2004	4Q2004	1Q2005	2Q2005	May-05	Jun-05	Jul-05	Year Earlier Jul-04	Year Earlier % change
Crude Oil												
North America	7584	8069	8394	8547	8442	8577	8615	8297	8942	8699	8689	0%
Europe	8734	9096	9477	9701	9543	9695	9647	10153	9315	10187	9712	5%
Pacific	6422	6711	6659	6457	6998	7166	6434	6645	6353	6948	6565	6%
Total OECD	22740	23876	24531	24706	24984	25438	24696	25095	24610	25835	24966	3%
LPG												
North America	39	27	24	20	45	23	3	0	2	12	4	65%
Europe	225	193	225	207	264	293	149	154	110	178	225	-26%
Pacific	553	541	541	469	561	532	591	604	549	547	493	10%
Total OECD	817	760	790	697	870	848	743	758	660	737	722	2%
Naphtha												
North America	42	67	86	96	144	124	89	96	91	188	52	72%
Europe	298	305	283	237	254	279	231	247	238	316	253	20%
Pacific	705	770	769	787	748	772	759	741	746	674	771	-14%
Total OECD	1045	1142	1138	1120	1146	1175	1080	1083	1075	1178	1076	9%
Gasoline[3]												
North America	643	669	765	806	744	849	1006	999	1074	993	934	6%
Europe	152	150	140	118	146	172	151	144	175	215	85	61%
Pacific	58	70	105	90	106	95	130	141	138	99	87	12%
Total OECD	853	888	1010	1014	997	1115	1286	1284	1387	1308	1106	15%
Jet & Kerosene												
North America	97	97	88	88	116	67	42	51	39	162	69	58%
Europe	253	271	292	356	335	274	363	332	400	434	382	12%
Pacific	97	102	77	52	103	97	72	80	57	45	62	-36%
Total OECD	448	470	456	496	554	438	476	463	496	641	512	20%
Gasoil/Diesel												
North America	102	126	122	108	91	110	93	113	87	72	118	-64%
Europe	656	652	751	770	875	931	699	639	702	737	781	-6%
Pacific	53	73	74	79	66	60	94	102	83	84	80	5%
Total OECD	811	850	946	957	1033	1101	885	854	873	893	979	-10%
Heavy Fuel Oil												
North America	237	326	388	346	524	489	435	394	479	533	335	37%
Europe	470	398	408	441	404	415	552	539	479	506	440	13%
Pacific	89	88	76	87	64	83	82	95	69	111	90	19%
Total OECD	796	812	872	874	993	988	1069	1028	1027	1150	865	25%
Other Products												
North America	689	680	824	951	774	735	1061	1079	1258	1129	932	17%
Europe	735	690	679	716	662	718	807	754	866	837	681	19%
Pacific	256	235	256	261	252	254	248	208	228	246	233	5%
Total OECD	1681	1605	1759	1927	1688	1708	2116	2041	2352	2212	1846	17%
Total Products												
North America	1849	1991	2297	2416	2439	2399	2728	2732	3029	3089	2443	21%
Europe	2790	2657	2777	2845	2941	3083	2953	2810	2972	3223	2847	12%
Pacific	1811	1879	1898	1825	1901	1894	1975	1970	1870	1806	1816	-1%
Total OECD	6451	6527	6973	7085	7281	7375	7656	7512	7871	8118	7105	12%
Total Oil												
North America	9434	10061	10691	10963	10881	10976	11343	11029	11971	11788	11132	6%
Europe	11524	11753	12255	12546	12484	12777	12600	12963	12287	13411	12559	6%
Pacific	8233	8590	8558	8282	8899	9059	8409	8615	8223	8754	8380	4%
Total OECD	29190	30403	31503	31791	32264	32813	32352	32607	32481	33953	32071	6%

1 Based on Monthly Oil Questionnaire data submitted by OECD countries in tonnes and converted to barrels.

2 Excludes intra-regional trade

3 Includes additives

OIL MARKET REPORT CONTACTS

Editor/Prices	Lawrence Eagles (+33) 0*1 40 57 65 90 e-mail: lawrence.eagles@iea.org
Demand	Jeff Brown (+33) 0*1 40 57 65 93 e-mail: jeff.brown@iea.org
Supply	David Fyfe (+33) 0*1 40 57 65 94 e-mail: david.fyfe@iea.org
OECD Stocks/Refinery Activity	Harry Tchilinguirian (+33) 0*1 40 57 65 22 e-mail: harry.tchilinguirian@iea.org
Refinery Activity	David Martin (+33) 0*1 40 57 65 95 e-mail: david.martin@iea.org
OECD Stocks/Trade	Toril Ekeland Bosoni (+33) 0*1 40 57 66 36 e-mail: toril.bosoni@iea.org
Statistics/Freight/End-User Prices	James Ryder (+33) 0*1 40 57 66 18 e-mail: james.ryder@iea.org
Administrative Support	Anne Mayne (+33) 0*1 40 57 65 96 e-mail: anne.mayne@iea.org

Fax: *(+33) 0*1 40 57 65 99/40 57 65 09*

* 0 only within France

For all **Subscription and Delivery Enquiries** please contact:

International Energy Agency
Attn: Ms. Sandra Coleman
Oil Market Report Subscriptions
BP 586-75726 Paris Cedex 15, France

Tel. +33 (0) 1 40 57 65 57
Fax. +33 (0) 1 40 57 65 59

E-mail: sandra.coleman@iea.org

User's Guide to the IEA Oil Market Report

Readers are referred to the User's Guide, published in conjunction with the Annual Statistical Supplement (current issue dated 11 August 2005), for information on the data sources, definitions, technical terms and general approach used in preparing the Report. It should be noted that the spot crude and product price assessments are based on daily Platt's prices, converted when appropriate to US$ per barrel according to the Platt's specification of products (©2005 Platt's - a division of McGraw-Hill Inc.).

www.oilmarketreport.org

INTERNATIONAL ENERGY AGENCY

www.oilmarketreport.org

CORRIGENDUM

11 October 2005

Dear Subscriber,

A double counting error has been noted on the *Gas/Diesel Oil* line of the two tables in the text box on page 9 of the of the Oil Market Report, dated 11 October 2005, entitled:

- Hurricane Impact on US Oil Product Demand
- Hurricane Impact on Global Oil Product Demand

A corrected version follows overleaf. An updated version of the full Report is available for download on www.oilmarketreport.org.

Please accept our apologies for any inconvenience caused.

Best regards,

Lawrence Eagles
Editor – Oil Market Report

Impact of Hurricanes Katrina and Rita on Oil Product Demand (continued)

The non-OECD demand picture is complicated by the fact that retail product prices are often regulated. Changes in international market prices are typically not immediately passed on to the consumer. These policies are proving difficult to sustain, and over time governments are moving to increase retail prices in line with the international market (especially in Asia). However, because prices are still widely regulated, the immediate impact of the increase in international market prices associated with the hurricanes may be subdued.

Globally, it appears that gasoline demand may be some 440 kb/d lower in September versus a 'no hurricane' scenario. On the whole, September oil product demand was likely off by some 980 kb/d when compared to the 'no hurricane' scenario. The global impact is expected to decline to approximately 290 kb/d in October.

A preliminary projection of the impact of Katrina and Rita versus a 'no hurricane' baseline is depicted in the tables below:

Hurricane Impact on US Oil Product Demand
(thousand barrels per day)

	Sep 05	Oct 05	Nov 05	Dec 05
LPG & Ethane	-160	-22	-15	-16
Naphtha	-19	-3	-2	-2
Motor Gasoline	-367	-103	-57	-45
Jet & Kerosene	-34	-13	-9	-9
Gas/Diesel Oil	-221	-18	-10	-9
Residual Fuel Oil	94	69	51	46
Other Products	-77	-17	-10	-10
Total Products	**-785**	**-107**	**-52**	**-45**

Hurricane Impact on Global Oil Product Demand
(thousand barrels per day)

	Sep 05	Oct 05	Nov 05	Dec 05
LPG & Ethane	-197	-57	-42	-41
Naphtha	-43	-26	-19	-17
Motor Gasoline	-443	-167	-102	-82
Jet & Kerosene	-55	-33	-24	-23
Gas/Diesel Oil	-289	-82	-59	-50
Residual Fuel Oil	158	122	92	81
Other Products	-110	-46	-33	-30
Total Products	**-978**	**-290**	**-187**	**-162**

INTERNATIONAL ENERGY AGENCY

www.oilmarketreport.org

ERRATUM

11 October 2005

Dear Subscriber,

A double counting error has been noted on the *Gas/Diesel Oil* line of the two tables in the text box on page 9 of the of the Oil Market Report, dated 11 October 2005, entitled:

- Hurricane Impact on US Oil Product Demand
- Hurricane Impact on Global Oil Product Demand

A corrected version follows overleaf. An updated version of the full Report is available for download on www.oilmarketreport.org.

Please accept our apologies for any inconvenience caused.

Best regards,

Lawrence Eagles
Editor – Oil Market Report

Impact of Hurricanes Katrina and Rita on Oil Product Demand (continued)

The non-OECD demand picture is complicated by the fact that retail product prices are often regulated. Changes in international market prices are typically not immediately passed on to the consumer. These policies are proving difficult to sustain, and over time governments are moving to increase retail prices in line with the international market (especially in Asia). However, because prices are still widely regulated, the immediate impact of the increase in international market prices associated with the hurricanes may be subdued.

Globally, it appears that gasoline demand may be some 440 kb/d lower in September versus a 'no hurricane' scenario. On the whole, September oil product demand was likely off by some 980 kb/d when compared to the 'no hurricane' scenario. The global impact is expected to decline to approximately 290 kb/d in October.

A preliminary projection of the impact of Katrina and Rita versus a 'no hurricane' baseline is depicted in the tables below:

Hurricane Impact on US Oil Product Demand
(thousand barrels per day)

	Sep 05	Oct 05	Nov 05	Dec 05
LPG & Ethane	-160	-22	-15	-16
Naphtha	-19	-3	-2	-2
Motor Gasoline	-367	-103	-57	-45
Jet & Kerosene	-34	-13	-9	-9
Gas/Diesel Oil	-221	-18	-10	-9
Residual Fuel Oil	94	69	51	46
Other Products	-77	-17	-10	-10
Total Products	**-785**	**-107**	**-52**	**-45**

Hurricane Impact on Global Oil Product Demand
(thousand barrels per day)

	Sep 05	Oct 05	Nov 05	Dec 05
LPG & Ethane	-197	-57	-42	-41
Naphtha	-43	-26	-19	-17
Motor Gasoline	-443	-167	-102	-82
Jet & Kerosene	-55	-33	-24	-23
Gas/Diesel Oil	-289	-82	-59	-50
Residual Fuel Oil	158	122	92	81
Other Products	-110	-46	-33	-30
Total Products	**-978**	**-290**	**-187**	**-162**

INTERNATIONAL ENERGY AGENCY/AGENCE INTERNATIONALE DE L'ENERGIE

OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

www.oilmarketreport.org

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

10 November 2005

HIGHLIGHTS

- October global oil supply rose by 865 kb/d to 84.4 mb/d on increases from North America, the North Sea, FSU and Brazil. 740 kb/d of US GOM capacity was offline in early November, with full recovery likely to take many months. Non-OPEC supply growth averages 180 kb/d for 2005 and 1.3 mb/d in 2006 (plus 0.3-0.4 mb/d of OPEC other liquids).

- OPEC crude supply remained at 29.6 mb/d in October as increases from Iran and Kuwait offset a 220 kb/d decline from Iraq. OPEC capacity reached 31.8 mb/d and could attain 33 mb/d by end-2006 with increases mainly in lighter, sweeter crude. The fourth quarter call on OPEC crude and stock change averages 29.6 mb/d, and averages 28.3 mb/d in 2006.

- Unusually warm weather and hurricane-related disruptions temporarily reduced OECD demand in September and October. This was partly offset by an 8.6% increase in Chinese apparent demand in September as monthly gasoline exports fell sharply. Global demand growth in 2005 is revised down by 70 kb/d to 1.20 mb/d and 90 kb/d to 1.66 mb/d for 2006.

- Benchmark crude prices weakened in October. Cash and futures prices for WTI and Brent closed below $60/bbl. Weaker product prices, notably gasoline, led the decline. As such, refining margins fell sharply throughout October in the US, pressured further by returning capacity. European and Asian margins were more stable but broadly weaker.

- The flexibility of the world refining system was demonstrated as OECD refinery throughputs rose 59 kb/d year-on-year in September to 38.5 mb/d. Increases of 427 kb/d in Europe and 625 kb/d in the Pacific more than offset the hurricane-induced fall of 993 kb/d in North America.

- OECD total industry oil stocks held relatively flat in September, closing at 2645 mb, or 61 mb above a year ago. Stock builds were centred on crude in Europe, distillates stocks in the Pacific and gasoline in the US. These were however offset by draws elsewhere. Forward demand cover by industry stocks fell to 52 days from 53 days in August.

Next Issue: 13 December 2005

10 November 2005

Dear Subscriber,

PUBLISHING SCHEDULE FOR 2006

Please find below the Release Dates for the Oil Market Report:

Tuesday 17 January
Friday 10 February
Tuesday 14 March
Wednesday 12 April
Friday 12 May
Tuesday 13 June
Wednesday 12 July
Friday 11 August
Tuesday 12 September
Wednesday 11 October
Friday 10 November
Wednesday 13 December

The Annual Statistical Supplement to the Oil Market Report [2006 Edition] will be published with the Report dated 11 August.

Best regards,

Lawrence Eagles
Editor – Oil Market Report

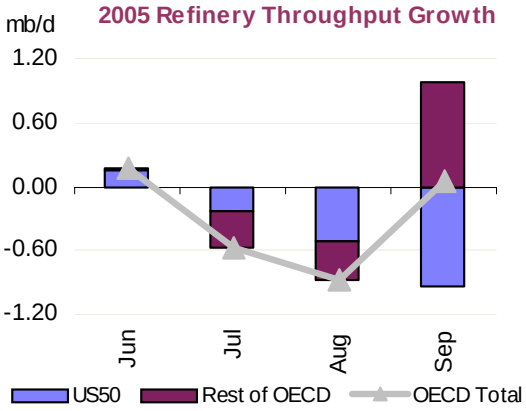
CONTENTS

WEATHERING THE STORM

The world refinery system has shown its flexibility in adjusting to the impacts of Hurricanes Katrina and Rita. But it took record gasoline and distillate prices together with higher fuel oil prices to make the economics work. As a result the combined year-on-year refinery throughput gains in OECD Europe and Pacific in September topped 1 mb/d, more than offsetting the loss in the US.

It is reasonable to expect that with hydroskimming margins still high for much of October, non-US refinery capacity utilisation remained high last month. The flexibility demonstrated by the refinery system in September coupled with reduced refinery maintenance and returning US refinery capacity should mean that there is potential spare capacity within the OECD from November onwards. Judging by the less attractive hydroskimming margins at the end of October, it seems the market currently feels this is no longer needed.

The US market is set to change: October saw more refinery capacity off line than crude production capacity, but the gap is narrowing sharply. US crude demand will increase, but compensatory throughput elsewhere will simultaneously decline. While there will be a shift in crude oil demand as simple refinery capacity is replaced with more sophisticated units, the main change will be a seasonal increase in runs to meet winter heating needs.



Looking at US crude production forecasts and OECD refinery throughput potential only tells part of the story. What really matters is whether lost oil production in the Gulf of Mexico can be offset by other changes in supply or demand.

Since August, the US has (understandably) contributed the biggest adjustments to the global oil balance, but it is the demand data which have sparked the most debate. The EIA has pointed to difficulties in recording product trade and both an undercounting of imports and an overstating of exports is possible. Analysts have been searching for anecdotal indications, including road-toll receipts, to confirm the reported slowdown in oil use. But, so far, there is little evidence that provides a conclusive or country-wide answer. This Report has already made adjustments for some likely understating of US demand in official statistics, but the potential for future revisions remains.

A comparison of current global balances with those published in August shows offsetting moves in supply and demand in the third quarter, but tighter fourth quarter supply. These shifts have lifted the projected call on OPEC by 0.4 mb/d in Q4 to 29.6 mb/d. While this is broadly in line with current OPEC output levels, uncertainty remains - and not just from the unpredictability of winter weather.

The *miscellaneous-to-balance* (the portion of the statistics that cannot be accounted for through existing numbers for supply, demand and stocks) has been on a rising trend since 2004. Some of the balancing item (as this Report often argues) probably represents under-reported demand. However, the Q2 2005 jump coincided with a large build in OECD crude stocks – perhaps indicating that a portion of the balance comes from an unrecorded non-OECD stock change. Either way, this unaccounted for difference is a source of uncertainty. Demand could be understated and could therefore add to the call on OPEC in the winter months.

Post-Hurricane Supply and Demand Changes

	Non-OPEC Supply Q3	Global Demand Q3	Non-OPEC Supply Q4	Global Demand Q4
August Forecast	50.6	83.3	51.7	85.9
October Actual/Forecast	49.8	82.5	50.7	85.1
Difference	**-0.8**	**-0.8**	**-1.1**	**-0.8**

With crude and product prices now below pre-hurricane levels and refinery and crude capacity returning, the market appears to have weathered the worst of the storm. But while spot prices are below their peaks, it must not be forgotten that just a few months ago $60/bbl crude prices reflected extreme market tightness. Moreover there is potential for further tightness to emerge – particularly if the weather turns cold and recent buoyant economic growth continues. This could be the calm after the storm, or simply the storm's eye – either way, smooth sailing is not assured.

DEMAND

Summary

- **OECD demand** contracted by a preliminary 1.4% year-on-year in September and 1.0% in October, dragged lower by a combination of unusually warm weather, relatively high product prices and US hurricane-related disruptions. While the impacts of Hurricanes Katrina and Rita linger, it appears that growth is recovering. OECD demand is projected to expand by 0.6%, year-on-year in November and 1.0% in December, subject to normal weather conditions. However, the weather is always a wild card in the winter months.

- **Heating degree days** were some 30-50% below normal in September and October across major consuming areas in Europe and Japan. US heating degree days were approximately 50% below normal in September, but only about 10% below normal in October as temperatures fell at the end of the month. Warm weather may have reduced OECD demand by some 200-250 kb/d in October.

- **Weekly estimates of US product demand** attracted a lot of attention as deliveries fell off sharply in the period following Hurricanes Katrina and Rita. However, these data must be interpreted with caution. As pointed out by the Energy Information Administration (EIA), the preliminary weekly delivery estimates likely overstate the actual demand decline.

- **Projected 2005 global demand growth** is revised down by 70 kb/d, to 1.20 mb/d. Third quarter demand grew by an estimated 1.0% year-on-year, with OECD demand flat (0.0%) and non-OECD demand growing by 2.4%. In the fourth quarter, global demand is projected to grow by 1.5%.

Global Oil Demand from 2004 to 2006

	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
Demand (mb/d)	82.2	80.9	81.7	83.8	82.2	83.9	81.9	82.5	85.1	83.3	85.2	83.4	84.5	87.0	85.0
Annual Change (%)	2.9	5.3	3.7	3.1	3.7	2.1	1.3	1.0	1.5	1.5	1.6	1.7	2.4	2.2	2.0
Annual Change (mb/d)	2.3	4.1	2.9	2.5	2.9	1.7	1.0	0.8	1.3	1.2	1.4	1.4	2.0	1.9	1.7
Changes from last month's report (mb/d)	-	-	-	-	-	-	-	0.1	-0.4	-0.1	-0.1	-	-0.2	-0.2	-0.1

- **Baseline global demand** is revised down by 60 kb/d in 2005 and 140 kb/d in 2006. Global demand is projected to average 83.35 mb/d in 2005 and 85.01 mb/d in 2006.

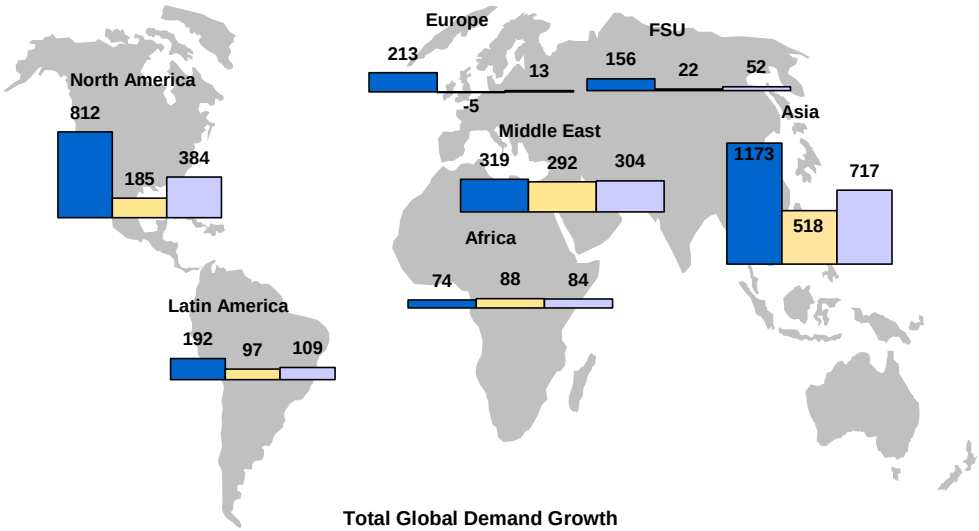
Global Oil Demand by Region
(million barrels per day)

	Demand	Annual Change			Annual Change (%)		
	2005	2004	2005	2006	2004	2005	2006
North America	25.52	0.81	0.18	0.38	3.3	0.7	1.5
Europe	16.32	0.21	-0.01	0.01	1.3	0.0	0.1
OECD Pacific	8.64	-0.16	0.11	0.09	-1.9	1.3	1.0
China	6.65	0.86	0.21	0.43	15.4	3.3	6.5
Other Asia	8.72	0.48	0.19	0.20	5.9	2.3	2.3
Subtotal Asia	24.01	1.17	0.52	0.72	5.3	2.2	3.0
FSU	3.77	0.16	0.02	0.05	4.4	0.6	1.4
Middle East	5.89	0.32	0.29	0.30	6.0	5.2	5.2
Africa	2.89	0.07	0.09	0.08	2.7	3.1	2.9
Latin America	4.96	0.19	0.10	0.11	4.1	2.0	2.2
World	83.35	2.94	1.20	1.66	3.7	1.5	2.0

- **Chinese apparent demand** grew by approximately 8.6% year-on-year in September as the government successfully pressured state-owned refiners to limit product exports. A government policy of keeping administered retail prices below the international market had encouraged refiners to export products, which contributed to occasional product shortages. Preliminary indications are that gasoline exports will remain low at least through November. Looking to 2006, demand for transport fuels is expected to grow by approximately 8-10%, but demand for oil in power may fall off more rapidly than previously anticipated. On the whole, apparent demand is expected to grow by 6.5% in 2006.

Global Demand Growth 2004/2005/2006

thousand barrels per day



Total Global Demand Growth

(mb/d)

2004	**2.94**	**3.7%**
2005	**1.20**	**1.5%**
2006	**1.66**	**2.0%**

OECD

Overview of OECD Demand Trends

Preliminary Inland Deliveries - September 2005[1]

	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other[2]		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
USA[3]	8.79	-2.5	1.60	-0.6	3.00	-4.9	0.91	0.3	0.88	12.2	4.8	-5.1	19.98	-2.7
Canada	0.69	-3.7	0.12	-2.4	0.49	3.8	0.05	-14.8	0.14	-8.7	0.2	-18.7	1.70	-4.6
Mexico	0.68	8.1	0.06	3.6	0.32	6.2	0.00	na	0.33	-6.4	0.4	-1.6	1.77	2.5
Japan	1.08	2.1	0.34	6.2	0.63	-2.5	0.44	-2.6	0.48	-4.0	1.6	8.7	4.55	2.7
Korea	0.16	-5.9	0.07	20.0	0.37	-3.6	0.06	-23.7	0.21	-6.6	1.1	5.5	1.99	0.6
France	0.26	-7.0	0.14	1.7	0.65	0.1	0.32	-6.9	0.06	27.9	0.5	-2.6	1.94	-2.1
Germany	0.52	-10.3	0.19	10.0	0.62	-3.0	0.57	-9.6	0.09	-2.2	0.5	6.4	2.51	-3.6
Italy	0.32	-6.7	0.09	-0.6	0.53	3.9	0.10	-8.0	0.14	-32.6	0.4	-3.1	1.57	-5.5
Total	**11.81**	**-2.2**	**2.49**	**1.7**	**6.14**	**-2.6**	**2.40**	**-4.8**	**2.19**	**-0.8**	**9.3**	**-0.8**	**34.31**	**-1.7**

Sources: US EIA, Statistics Canada, Mexico PEMEX, Japan METI, Korea KNOC, France CPDP, Germany MWV, Italy Ministry of Industry

Percentage change is calculated versus last year

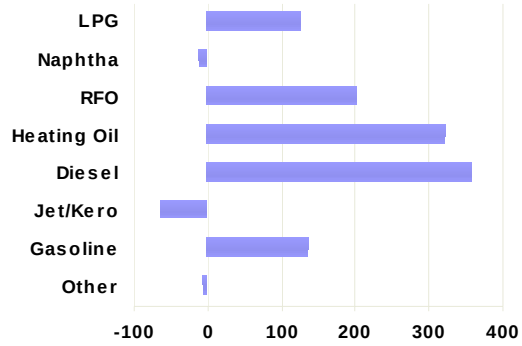
1 excludes refinery fuel and bunkers (except US)

2 includes direct use of crude oil

3 fifty states only. Diesel's share of total distillate is estimated. Note that monthly US demand data are subject to revision, as discussed in the Reports dated 13 July 2005 and 11 August 2005

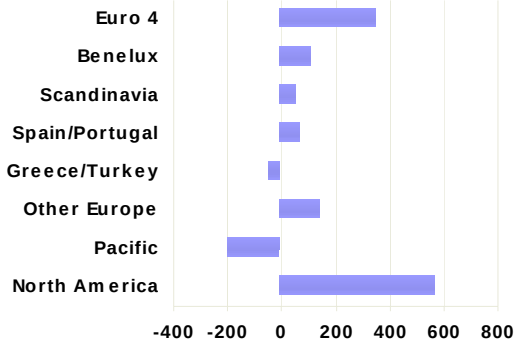
OECD Oil Products Demand Growth

August 05 vs. August 04 (kb/d)



OECD Oil Demand Growth

August 05 vs. August 04 (kb/d)



Total OECD Demand by Product
(million barrels per day)

	2004	2005	3Q04	4Q04	1Q05	2Q05	Jun 05	Jul 05	Aug 05	Latest month vs. Jul 05	Latest month vs. Aug 04
LPG & Ethane	4.86	4.81	4.43	5.05	5.40	4.36	4.46	4.39	4.52	0.13	0.13
Naphtha	3.22	3.29	3.20	3.33	3.40	3.15	3.01	3.25	3.28	0.02	-0.01
Motor Gasoline	14.88	14.87	15.24	14.89	14.46	15.08	15.37	15.27	15.51	0.24	0.14
Jet & Kerosene	4.11	4.21	3.94	4.24	4.62	3.91	4.00	3.96	4.03	0.06	-0.06
Gas/Diesel Oil	12.85	13.02	12.46	13.40	13.38	12.64	12.74	12.16	12.76	0.60	0.68
Residual Fuel Oil	4.59	4.60	4.46	4.67	4.89	4.37	4.48	4.36	4.54	0.18	0.20
Other Products	4.98	4.96	5.43	4.88	4.42	5.22	5.81	5.32	5.42	0.10	0.00
Total Products	**49.49**	**49.76**	**49.17**	**50.48**	**50.58**	**48.74**	**49.88**	**48.72**	**50.04**	**1.33**	**1.08**

Pacific

Temperatures were well above normal in Japan in September and October, with heating degree days about 50% lower than normal for the two months. Heating degree days were down by some 20% versus September and October last year. In spite of high temperatures, preliminary reports of Japanese deliveries of jet fuel/kerosene in September were 6.2% above levels of a year ago, possibly associated with a pick-up in the Japanese economy and consumer inventory building. September 2004 deliveries were also relatively low, so this year's deliveries are viewed against a low baseline.

Overall, Japanese demand increased by some 2.3% year-on-year in September. This strength is attributed to increasing consumption in petrochemicals, as year-on-year LPG and naphtha consumption grew by 12% and 16% respectively. Gasoline demand growth was also strong (2.1%) versus a relatively weak September 2004 baseline. In contrast, consumption of oil in the power sector was down, partly due to warmer temperatures.

With an eye towards longer-term trends, Japanese sales of mini-vehicles (less than 660cc) increased by 8.4% in October versus the same period last year. In contrast, sales of other vehicles fell by 3.4%. Although this is only one month, it is indicative of a broader trend towards sales of smaller vehicles. Mini-vehicles are especially popular among female drivers, a growth segment of the market. The share of female drivers grew by 9% (to 42.5%) between 1984 and 2004.

OECD Pacific Demand by Product
(million barrels per day)

	2004	2005	3Q04	4Q04	1Q05	2Q05	Jun 05	Jul 05	Aug 05	Latest month vs. Jul 05	Latest month vs. Aug 04
LPG & Ethane	0.88	0.89	0.79	0.88	1.00	0.87	0.86	0.84	0.78	-0.06	-0.01
Naphtha	1.57	1.63	1.56	1.63	1.69	1.54	1.49	1.57	1.62	0.04	-0.01
Motor Gasoline	1.60	1.62	1.70	1.63	1.59	1.59	1.64	1.62	1.75	0.13	0.01
Jet & Kerosene	1.02	1.05	0.74	1.12	1.54	0.77	0.76	0.70	0.71	0.01	-0.06
Gas/Diesel Oil	1.89	1.89	1.81	1.95	1.99	1.85	1.97	1.71	1.77	0.06	-0.03
Residual Fuel Oil	1.05	1.05	1.03	1.05	1.17	0.98	1.00	0.97	1.00	0.03	-0.03
Other Products	0.52	0.51	0.54	0.52	0.52	0.50	0.55	0.55	0.51	-0.04	-0.06
Total Products	**8.53**	**8.64**	**8.16**	**8.77**	**9.49**	**8.10**	**8.26**	**7.97**	**8.13**	**0.17**	**-0.19**

Looking to the winter, Korea maintains that it has largely covered its LNG (liquefied natural gas) needs. However, the situation could change if temperatures are low, which could in turn have an impact on the demand for fuel oil. Korea typically depends on spot LNG to augment contracted supplies, but this winter it appears that high natural gas prices in the US will draw spot LNG away from the Asian market. As a consequence, if unusually cold weather arrives, Korea may have to sharply increase its consumption of fuel oil in the power sector to make natural gas available to the residential/commercial sector for heating (where limited substitutes are available).

To complicate matters, the Korean power sector's demand for fuel oil versus LNG has swung widely in recent months. Korean LNG import prices are typically linked to oil prices via a formula whereby LNG prices vary less than oil prices. Recently, natural gas prices were reported to be about 15% lower than fuel oil, which led to fuel switching into natural gas in September and early October. At this point it is obviously very difficult for Korea to project the variable portion of its LNG needs, which increases the probability that fuel oil will play a large role as a swing fuel.

Like Korea, Japan is also a major LNG consumer—in fact it is the world's largest consumer of LNG. However, it is probably less exposed to the prospect of a tight LNG market this winter. Japan is not as dependent as Korea on spot supplies and typically its gas consumption is much less seasonal.

Europe

Temperatures were well above normal in most of Europe in September and October. Heating degree days were about 30% lower than normal over the two months and 15-20% less than the same period a year ago. German heating oil demand was down by some 9.6% in September, and this weakness is expected to carry into October. French heating oil demand was adjusted downwards by approximately 60 kb/d for the month of October. Italian fuel oil demand continues to post large year-on-year declines, in part due to warmer temperatures and relatively high hydroelectricity output. In general, fuel oil demand is in decline as natural gas supplies continue to supplant fuel oil.

OECD Europe Demand by Product
(million barrels per day)

	2004	2005	3Q04	4Q04	1Q05	2Q05	Jun 05	Jul 05	Aug 05	Latest month vs. Jul 05	Latest month vs. Aug 04
LPG & Ethane	1.03	1.00	0.91	1.05	1.13	0.91	0.88	0.87	0.92	0.05	0.07
Naphtha	1.15	1.15	1.10	1.15	1.21	1.15	1.07	1.09	1.13	0.04	0.05
Motor Gasoline	2.78	2.67	2.89	2.72	2.52	2.76	2.80	2.75	2.80	0.05	-0.08
Jet & Kerosene	1.18	1.23	1.27	1.17	1.15	1.24	1.30	1.29	1.40	0.11	0.10
Gas/Diesel Oil	5.98	6.08	5.84	6.37	6.17	5.80	5.79	5.71	6.05	0.34	0.55
Residual Fuel Oil	2.02	1.99	1.98	2.08	2.13	1.91	1.98	1.87	1.85	-0.02	-0.05
Other Products	1.48	1.49	1.60	1.48	1.26	1.54	1.64	1.64	1.55	-0.09	0.07
Total Products	**15.62**	**15.60**	**15.60**	**16.01**	**15.56**	**15.31**	**15.45**	**15.24**	**15.72**	**0.47**	**0.70**

While the overall trend in European gasoline demand is negative, increases in retail prices appear to have taken an additional bite out of demand as gasoline consumption declined by approximately 7-10% in September in major consumers, France, Germany and Italy. Oil product prices have fallen back in October and demand is expected to recover in coming months. Of course, moving into winter, the near-term outlook for European demand is heavily weather dependent.

North America

Preliminary indications are that US oil product demand declined in both September (-2.3% year-on-year) and October (-1.1%). Of course, the price increases and disruptions associated with Hurricanes Katrina and Rita had a substantial impact, but at the same time temperatures were very warm, contributing to the decline. Extended heavy rains in the US Northeast likely affected October driving patterns, but on the whole preliminary delivery data suggest that the retail price spike contributed to negative gasoline demand growth. October gasoline demand is revised down by 220 kb/d.

OECD North America Demand by Product
(million barrels per day)

	2004	2005	3Q04	4Q04	1Q05	2Q05	Jun 05	Jul 05	Aug 05	Latest month vs. Jul 05	Latest month vs. Aug 04
LPG & Ethane	2.95	2.92	2.73	3.12	3.27	2.57	2.72	2.68	2.82	0.14	0.07
Naphtha	0.50	0.52	0.54	0.56	0.50	0.47	0.46	0.59	0.53	-0.06	-0.04
Motor Gasoline	10.50	10.58	10.65	10.55	10.35	10.74	10.93	10.89	10.95	0.06	0.21
Jet & Kerosene	1.91	1.93	1.93	1.96	1.94	1.89	1.95	1.97	1.92	-0.06	-0.10
Gas/Diesel Oil	4.98	5.04	4.81	5.08	5.22	5.00	4.98	4.74	4.94	0.19	0.16
Residual Fuel Oil	1.51	1.56	1.46	1.54	1.60	1.48	1.50	1.52	1.69	0.17	0.28
Other Products	2.98	2.97	3.29	2.89	2.65	3.18	3.63	3.12	3.35	0.23	-0.01
Total Products	**25.34**	**25.52**	**25.41**	**25.69**	**25.53**	**25.33**	**26.17**	**25.51**	**26.19**	**0.68**	**0.57**

It is important to emphasise that the widely reported drop-off in demand in the weeks following the hurricanes is likely overstated. As the Energy Information Administration (EIA) has pointed out, the *Weekly Petroleum Status Report* (WPSR) often understates demand growth (see *Caveats on US Weekly Data and Oil Demand Growth*). In addition, certain areas, such as product exports, are estimated and subject to revision. Finally, when logistics are disrupted to such a large extent, the

weekly delivery data may not reflect actual product demand. Based on the WPSR four-week average to 30 September, product deliveries declined by some 2.9%. This Report's estimate for the September year-on-year demand decline is provisionally pegged at 2.3% and could be revised further.

Although the evidence is limited, anecdotal reports of traffic patterns support the contention that the actual decline in September gasoline demand could be less than indicated by the preliminary delivery data. For example, traffic in the Eisenhower tunnel, which is in the western state of Colorado, decreased by only -0.2% in September.

It appears that US product demand is rebounding to some extent as prices have fallen off sharply in October. Gasoline demand posted a year-on-year increase of 0.8% for the week ending 31 October. Economic growth remains strong, and in fact exceeded expectations in the third quarter, growing by 3.8%. The most obvious weakness is in job growth, which was slower than expected in October. Looking forward, the weather is obviously a key variable. If temperatures fall, demand could recover very quickly.

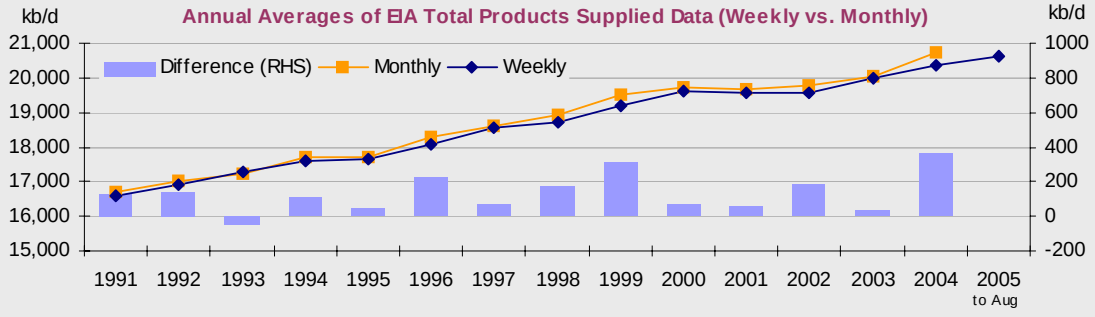
US gasoline demand growth is expected to average 0.5% in November and December, and increase to 1.6% for 2006. Note that this projection includes a rebound from the temporary disruptions that slowed demand growth in the third and fourth quarters of 2005. Underlying factors suggest that without these disruptions, gasoline demand would grow by some 1.0-1.5%. Demand for residual fuel oil should remain strong through the winter months if natural gas prices remain relatively high. At current natural gas prices, power stations are said to be using as much fuel oil as their environmental permits will allow.

Preliminary indications are that Canadian demand fell by 4.6% in September, with gasoline demand off by 3.7%. This follows from an exceptionally strong August, where demand grew by 5.3%. October demand is expected to remain weak (-0.4%). As in the US, relatively high prices and warm weather had a negative impact on demand growth.

Caveats on US Weekly Data and Oil Demand Growth

Each week the US Energy Information Administration (EIA) publishes a *Weekly Petroleum Status Report* (WPSR) which highlights developments in the US petroleum market based on preliminary weekly data. In the weeks following hurricanes Katrina and Rita, product delivery data were thrust into the headlines as evidence of 'demand destruction'. While there was a weakening in oil demand in these preliminary figures, it is important to note that these data represent a first estimation of refinery deliveries (a proxy for demand) before more complete monthly data become available. As such, they can at times either under or overstate final demand numbers.

Published alongside weekly data in the WPSR are estimates of oil demand growth. It is important to understand that these values represent a comparison of an average of the most recent four weeks of data with the prior-year data derived from monthly statistics published in the *Petroleum Supply Annual* (PSA). As the EIA cautions (*This Week in Petroleum*, 19 October 2005), first and foremost, this methodology (referred to as Method 1) is not a like-for-like comparison. It tends to yield, on average, a lower estimate of demand growth than otherwise obtained by using monthly data alone.



Caveats on US Weekly Data and Oil Demand Growth (continued)

As a result, using preliminary weekly data according to Method 1 can potentially lead to a lower estimate of oil demand growth. Between March 1992 and December 2004, in 66% of cases the four-week average growth rate for "total products supplied" appearing in the WPSR was lower than the average growth rate for the same four-week period derived from the final monthly data released in the PSA. Most of the upward revision in growth tended to occur in motor gasoline.

An alternative method to evaluate oil demand growth (Method 2) would be to compare the most recent four-week average versus the four-week average for the same period in the previous year. However, this method carries its own constraints. From a timing perspective, weeks are not perfectly aligned from year to year. Perhaps more importantly, weekly data are not revised backwards on a historical basis. Given that some of the weekly data uses estimation procedures based on seasonal trends, extreme events in the oil market may then be inadequately captured. On this basis, when examining oil demand growth using Method 2, no clear over/underestimation pattern emerges. Between 1992 and 2004, 53% of 'total products supplied' growth estimates turned out to be lower than the 'final' revised figure (50% for motor gasoline).

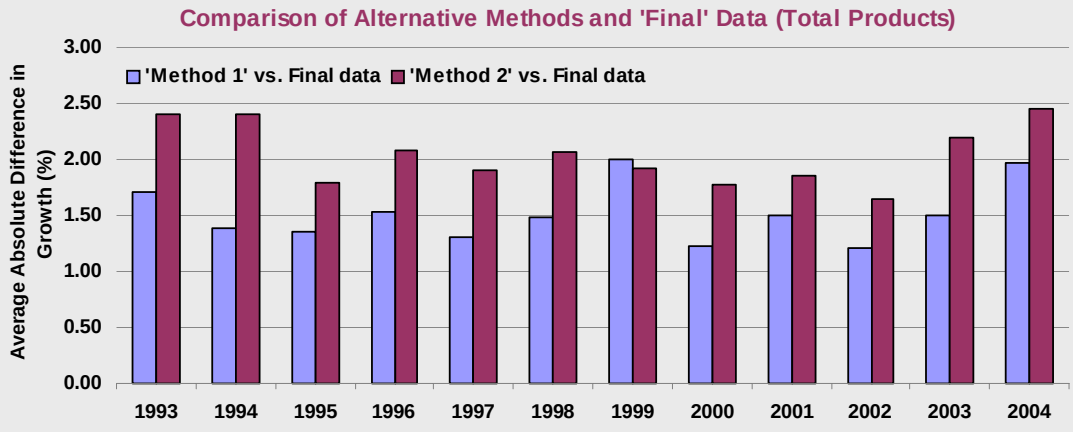
The table below illustrates the difference in the outcome of Methods 1 and 2 with respect to recent US oil demand growth. While Method 2 yields a year-on-year decline in 'total product supplied' (demand) of 0.3%, Method 1 (as published in the WPSR) yields a stronger contraction of 2.2%.

Comparing Alternative Methods of Assessing US Demand Growth

	4-wk average ending 21st Oct 2005 (kb/d)	4-wk average ending 21st Oct 2004 (kb/d)	Year-on-year Growth (%)
Total Products Supplied			
Method 1 (WPSR): Weekly 2005 data vs. Monthly 2004 data	20,311	20,766	-2.2
Method 2: Weekly 2005 data vs. Weekly 2004 data	20,311	20,382	-0.3
Motor Gasoline Supplied			
Method 1 (WPSR): Weekly 2005 data vs. Monthly 2004 data	8,891	9,074	-2.0
Method 2: Weekly 2005 data vs. Weekly 2004 data	8,891	8,976	-0.9

Year-ago monthly and weekly barrel per day data is assumed across the month or week to give a daily series from which the mean average of the relevant 28-day period is taken. According to EIA methodology, the last complete day of each period is the day before the "Week Ending" date.

To further complicate matters, even acknowledging the bias in Method 1, average revisions to growth when using this methodology tend to be smaller than with Method 2. This difference is illustrated in the chart below which compares the average *absolute* difference between final data and these respective methodologies.



In the end, there are no easy answers when it comes to evaluating preliminary US weekly data. The WPSR provides an important first look at the direction of oil demand, but also remains sensitive to data-collection issues, particularly in extreme circumstances. As such, recent weakness in preliminary gasoline demand data needs to be viewed with caution, particularly when set against recent upward revisions to August data and broader macroeconomic fundamentals.

Non-OECD

China

After months of relatively weak growth, Chinese apparent demand increased by an estimated 8.6% in September. There was strength in most oil products, in part due to continued robust economic growth, but also due to a concerted government effort to limit product exports. The low level of China's administered retail prices relative to the international market had encouraged oil product exports and discouraged imports for much of this year. This incentive contributed to product shortages in August and in response, the government eliminated tax rebates for gasoline and naphtha exports. This, plus government pressure on state-owned oil companies, appears to have helped alleviate the shortages.

Apparent demand for gasoline surged by approximately 14.4% in September as net exports dropped from some 230 kb/d in August to only 70 kb/d the following month. Growth in apparent gasoline consumption should remain strong as there are reports that planned exports will remain comparatively low through November. There are also indications of underlying demand strength, as car sales grew by 31% year-on-year in September and the economy continues to steam ahead, growing by an estimated 9.4% in the third quarter of 2005.

China Crude & Product Trade
(thousand barrels per day)

	2003	2004	4Q2004	1Q2005	2Q2005	3Q2005	Jul 05	Aug 05	Sep 05	Latest month vs. Aug 05	Latest month vs. Sep 04
Net Imports/(Exports) of:											
Crude Oil	**1664**	**2346**	**2491**	**2305**	**2541**	**2294**	**2421**	**1950**	**2517**	**566**	**104**
Products & Feedstocks	**442**	**661**	**653**	**501**	**375**	**446**	**378**	**353**	**613**	**260**	**28**
Gasoil/Diesel	-28	43	79	-6	-27	-40	-24	-71	-24	47	-57
Gasoline	-175	-125	-117	-151	-161	-155	-155	-233	-74	160	64
Heavy Fuel Oil	407	506	515	480	395	397	402	374	416	42	52
LPG	202	201	184	200	179	216	175	232	242	10	-13
Naphtha	-22	-33	-51	-49	-67	-25	-25	-47	-2	46	47
Jet & Kerosene	1	16	8	6	5	3	-16	25	1	-23	-51
Other	58	52	34	22	51	50	21	75	54	-21	-14
Total	**2106**	**3008**	**3144**	**2807**	**2916**	**2740**	**2799**	**2304**	**3130**	**826**	**132**

Sources: China Oil, Gas and Petrochemicals plus IEA estimates.

September crude throughput rose by a reported 10% year-on-year, which helped support apparent demand in the face of stagnant net product imports. Although there are plans to increase China's refining capacity by some 300-500 kb/d annually, recent reports suggest that refiners may slow expansions—in part due to negative refining margins. While China's product pricing policy has clearly had a disruptive short-term impact on the product market, this is the first evidence that the affect could be longer lasting.

China Demand by Product
(thousand barrelas per day)

	Demand			Annual Change		Annual Change (%)	
	2004	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**
LPG & Ethane	633	646	672	13	25	2.1	3.9
Naphtha	684	737	808	53	71	7.8	9.6
Motor Gasoline	1069	1098	1191	29	93	2.7	8.5
Jet & Kerosene	239	253	273	14	20	5.8	7.9
Gas/Diesel Oil	2150	2276	2445	126	169	5.9	7.4
Residual Fuel Oil	829	771	778	-59	7	-7.1	0.9
Other Products	828	864	911	35	47	4.3	5.5
Total Products	**6433**	**6645**	**7077**	**212**	**432**	**3.3**	**6.5**

Looking to 2006, it appears that demand for transport fuels will post growth of 8-10% as the economy continues to expand. However, the prospects for oil demand in power appear to have weakened further as power shortages have abated and the sector is moving away from comparatively high-priced fuel oil. Power demand is projected to grow by 10.5% in 2006, down from 13% in 2005. At the same time, considerable generation capacity is expected to come online. Because the power market is

moving more quickly back into balance, projected fuel oil demand growth is revised down to 0.9%, and could be subject to further revision. Diesel demand is expected to grow by approximately 7.4% as the economy continues to expand at a rapid pace, but this is also subject to revision if we see sharper declines in the use of small diesel power generators.

Other Non-OECD

In Asia, there is growing concern about the possible spread of avian flu as both the World Bank and the Asian Development Bank have warned that an epidemic could send the region's economies reeling. The SARS crisis had a substantial impact on the demand for transport fuels, especially jet fuel. For the moment, however, the avian flu is limited to a handful of human cases.

The impact of recent increases in administered retail prices on major Asian consumers, such as **Indonesia** and **Thailand**, is becoming more evident. Following a 1 October price increase it appears that Indonesian demand immediately fell by some 34%. Thailand increased oil product exports by some 26% as demand fell in September. Although demand growth is expected to come back in both of these countries, this certainly has an impact on the near-term regional demand picture.

Although it is a very small consumer (approximately 40 kb/d), it should be noted that **Myanmar** has joined the ranks of Southeast Asian countries that have had to raise administered retail prices. The price of gasoline and diesel was raised from 180 kyat and 160 kyat, respectively, to 1,500 kyat (about $1.22/gallon) for both gasoline and diesel.

India Crude & Product Trade
(thousand barrels per day)

	2003	2004	3Q2004	4Q2004	1Q2005	2Q2005	Jun 05	Jul 05	Aug 05*	Latest month vs. Jul 05	Latest month vs. Aug 04
Net Imports/(Exports) of:											
Crude Oil	**1863**	**1945**	**2013**	**1742**	**1969**	**1894**	**1864**	**1820**	**2009**	**189**	**56**
(by Public Oil Cos)	**1243**	**1158**	**1214**	**1000**	**1133**	**1116**	**1103**	**978**	**1091**	**113**	**-123**
Products & Feedstocks	**-152**	**-176**	**-178**	**-222**	**-82**	**-92**	**-184**	**-31**	**-184**	**-152**	**-20**
Gasoil/Diesel	-119	-139	-122	-162	-89	-108	-127	-74	-140	-66	-30
Gasoline	-72	-75	-75	-80	-53	-39	-40	-39	-47	-8	30
Heavy Fuel Oil	5	-6	-5	-20	-4	10	6	1	27	26	36
LPG	55	86	86	128	95	74	64	73	96	23	16
Naphtha	-1	-7	-29	-25	-15	-39	-77	-13	-74	-61	-48
Jet & Kerosene	-22	-47	-43	-74	-34	-5	-29	10	-56	-66	-21
Other	1	12	9	12	17	15	19	10	10	0	-2
Total	**1712**	**1769**	**1834**	**1520**	**1887**	**1801**	**1681**	**1789**	**1825**	**36**	**36**

* Preliminary

Sources: Indian Ministry of Commerce, Indian Port Authorities and IEA estimates.

Indian demand fell by an estimated 4.5% in September. A decline was expected, as September 2004 baseline demand was strong and retailers reduced purchases following August inventory building in anticipation of a September administered price increase. There were also reports that diesel demand was down because the monsoon rains were adequate and farmers had less need for diesel powered pumps. Diesel demand fell by a preliminary 10.5% in September.

As would be expected given recent oil price levels, Middle East economies continue to post strong growth. For example, it is estimated that **Saudi Arabia's** economy will grow by some 6-7% this year. Based on past patterns, Middle East oil demand should grow in line with—or possibly even exceed— economic growth. In the future, substitution of natural gas for oil may temper growth in oil demand. However, in the near term, Middle East oil demand is projected to grow by approximately 5.2%.

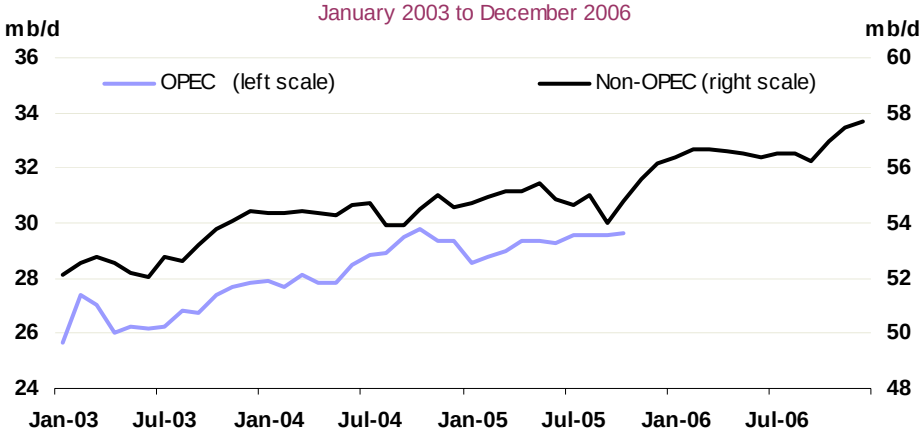
SUPPLY

Summary

- **World oil supply** increased by 865 kb/d in October and averaged 84.4 mb/d. Half of the increase came from North America, with initial slow recovery after recent hurricanes, and increases from offshore Canada and Alaska, contributing. Significant October increases are also estimated for the North Sea, Russia, Brazil, Vietnam and China.
- Total October world supply stands 145 kb/d above last year. With US Gulf of Mexico (GOM) production still off by some 1.1 mb/d from normal levels, OECD supply stands 1.4 mb/d below October 2004. Total OPEC oil supply is up 395 kb/d versus a year ago while non-OECD supply is higher by 1.1 mb/d.
- Precautionary shut-ins ahead of Hurricane Wilma in the third week of October pushed lost **Gulf of Mexico (GOM)** crude output to 81 million bbls for the 26 August to 8 November period. Early November estimates put 740 kb/d of crude and 4.1 bcf/d of natural gas capacity still offline. Assumed outages through end-year are retained from last month's Report, with average December GOM crude losses of 410 kb/d, plus Louisiana crude and regional NGL shut-ins of an additional 130 kb/d. Recent reports suggest the impact of 2005's hurricane season will extend further into 2006. GOM supply for 2006 is adjusted down by a further 75 kb/d, focussed on the second quarter.
- Aggregate **non-OPEC supply** for 2005 is largely unchanged from last month, at 50.3 mb/d, while 2006 supply is revised up by 20 kb/d to 51.6 mb/d. Growth averages 180 kb/d in 2005 and 1.3 mb/d in 2006, with OPEC other liquids contributing a further 0.3-0.4 mb/d of growth in both years. However, this month's Report sees a continued shift away from OECD production and towards the non-OECD regions. A 100 kb/d reduction in projected 2006 OECD supply (USA and Canada) is countered by a 125 kb/d upward adjustment to the non-OECD. Upward revisions of 20 kb/d-plus are made to 2006 for Azerbaijan, Thailand, China, Oman and Yemen. Higher baseline supply for second half 2005 underpins these changes.
- **OPEC crude supply** averaged 29.6 mb/d in October. Excluding a 220 kb/d decline for Iraq, OPEC-10 production was up by 265 kb/d. The absence of liftings of Iraqi crude from Ceyhan, and lower shipments from southern ports, saw net Iraqi supply drop to 1.79 mb/d. Sustainable OPEC capacity was revised up by 0.1 mb/d to 31.8 mb/d, with notional and effective spare capacity for October of 2.2 mb/d and 1.2 mb/d respectively (the latter excluding Iraq, Nigeria, Venezuela and Indonesia). OPEC sustainable capacity could reach 32.1 mb/d at end-year and 33.0 mb/d at end-2006, with the bulk of short-term additions comprising lighter, sweeter material.
- **The 'call on OPEC crude and stock change'** is revised down modestly on an annual basis, averaging 28.3 mb/d for both 2005 and 2006. Downward revisions to demand (primarily North American) for fourth quarter 2005 and second-half 2006 lead to a 200-300 kb/d reduction in the call for both periods. The fourth quarter 2005 call is now 29.6 mb/d, near current OPEC supply.

OPEC Crude and Non-OPEC Oil Supply [1]

January 2003 to December 2006



1 Non-OPEC Oil Supply includes OPEC NGLs, condensate and non-conventional oil

All world oil supply figures for October discussed in this Report are IEA estimates. Estimates for OPEC countries, Alaska, Egypt and Russia are supported by preliminary October supply data.

Note: Random events present downside risk to the non-OPEC production forecast contained in this Report. These events can include accidents, unplanned or unannounced maintenance, technical problems, labour strikes, political unrest, guerrilla activity, wars and weather-related supply losses. Allowance has been made in the forecast for scheduled maintenance in all regions and for typical seasonal supply outages (including hurricane-related stoppages) in North America. These aside, no contingency allowance for random events is subtracted from the supply forecast. While upside variations can occur, experience in recent years indicates that the random events listed above may cause supply losses of between 300 kb/d and 400 kb/d for non-OPEC supply each year.

OPEC

The supply of crude from OPEC producers in October increased by 45 kb/d from September and averaged 29.6 mb/d. Substantial downward revision to the September estimate for Iran, and to a lesser extent Kuwait, cut that month's average output level by an aggregate 195 kb/d to just under 29.6 mb/d. For October, the key development was a 220 kb/d drop in Iraqi supply due to lower export liftings. Other OPEC producers increased collective supply by 265 kb/d (OPEC-10 production of 27.85 mb/d versus target 28.0 mb/d), with Iran and Kuwait underpinning that increase.

OPEC Crude Production
(million barrels per day)

	1July 2005 Target	October 2005 Production	Sustainable Production Capacity[1]	Spare Capacity vs October 2005 Production	Production vs. Target
Algeria	0.89	1.37	1.37	0.00	0.48
Indonesia	1.45	0.95	0.98	0.03	-0.50
Iran	4.11	3.87	4.00	0.13	-0.24
Kuwait[2]	2.25	2.51	2.60	0.09	0.26
Libya	1.50	1.65	1.65	0.00	0.15
Nigeria	2.31	2.46	2.56	0.11	0.15
Qatar	0.73	0.83	0.83	0.00	0.10
Saudi Arabia[2]	9.10	9.50	10.50	1.00	0.40
UAE	2.44	2.60	2.60	0.00	0.16
Venezuela[3]	3.22	2.12	2.20	0.09	-1.11
Subtotal	**28.00**	**27.85**	**29.29**	**1.44**	**-0.16**
Iraq		1.79	2.50	0.71	
Total		**29.64**	**31.79**	**2.15**	
(excluding Iraq, Nigeria, Venezuela., Indonesia				*1.22)*	

1Capacity levels can be reached within 30 days and sustained for 90 days
2 Includes half of Neutral Zone Production
3 Excludes upgraded Orinoco extra-heavy oil which averaged 576 kb/d in October

There was little sign of OPEC's earlier offer to make its 2 mb/d of spare capacity available to the market being taken up. Output from Saudi Arabia appears to be levelling off (incremental supply being largely heavy/sour crude) while there is evidence that Iran may have curbed supplies of lower quality crude in September/October (voluntarily or otherwise) in the face of limited demand for such grades. Kuwait too may be facing a limited call on its heavier production. That situation may change as complex refinery capacity on the US Gulf Coast gradually comes back online, and indeed this Report's projected call on OPEC crude and/or stock change suggests scant need for the Organisation to curb production in the next few months. Nonetheless, there are a number of recent and impending OPEC capacity changes (see below) which should begin to ease market concerns over supply-side flexibility as 2006 progresses. Furthermore, a substantial proportion of new OPEC supplies is likely to be of a quality more palatable to the wider refining community.

The next meeting of the OPEC Conference takes place in Kuwait on 12 December. While hazardous to speculate on what may emerge from that meeting, recent statements by OPEC representatives have tended to stress continuity of recent production levels and a desire to see crude prices fall into a band somewhere between $40-$60/bbl. Domestic political considerations and spending requirements within member states are also likely to set a floor below which members may be unwilling to see prices fall for a sustained period. The Organisation's ultimately achievable price aspiration will depend in large part on the global demand and non-OPEC supply responses to the high prices of the past 12-18 months. Since these effects will themselves likely be lagged, a definitive statement by OPEC on potential price targets may also be deferred.

Changes in OPEC Capacity

This month's Report sees a net 100 kb/d upward revision in OPEC sustainable crude production capacity, to 31.8 mb/d from last month's 31.7 mb/d. Net increases of 50-100 kb/d each accrue to Kuwait, Nigeria and UAE. These are based on impending increases before end-year from northern Kuwait, Nigeria's deepwater Bonga field and onshore expansions feeding Abu Dhabi's Murban stream respectively. In contrast, Iranian capacity is revised down by 100 kb/d to 4.0 mb/d. As discussed in the main text, reports concerning the recently inaugurated Soroush/Nowruz heavy oil fields suggest supplies are running well below erstwhile 190 kb/d capacity. While some of the recent downturn in supplies may be accounted for by a market-related cut in export sales, there are also reports that six months of repair work is needed to reinstate peak 100 kb/d output at Soroush.

Selected OPEC Capacity Increments in 2005 & 2006

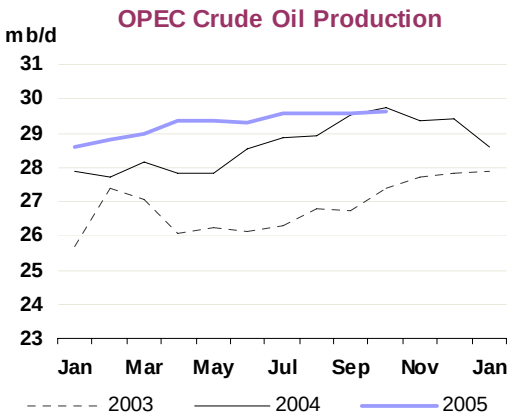
Country	Field/Stream	Gross Increment kb/d	API Gravity °	Sulphur %
Algeria	HBNE, ROD, El Gassi & MLN	255	>35	<0.5
Indonesia	Oyong, Jeruk, Tiaka, W.Seno, Belanak	85	>35	<0.5
Iran	Soroush/Nowruz	140	<30	>1
	Doroud	70	30-35	>1
	Darkhovin	160	>35	<0.5
Kuwait	Northern/western field rehabilitation	300	30-35	>1
Libya	Al Jurf, Elephant, El Shaharah, En Naga & WLGP	150	>35	<0.5
Nigeria	EA, Okono, Yoho, Abo, Bonga, Okwori, Erha	485	30-35	<0.5
Qatar	various (net increment)	100	30-35	>1
Saudi Arabia	Qatif & Abu Safah, Haradh	450	30-35	>1
UAE	Murban	200	>35	0.5-1.0
Venezuela	Synthetic crude	175	30-35	<0.5
OPEC	NGL/condensate	600	>35	<0.5

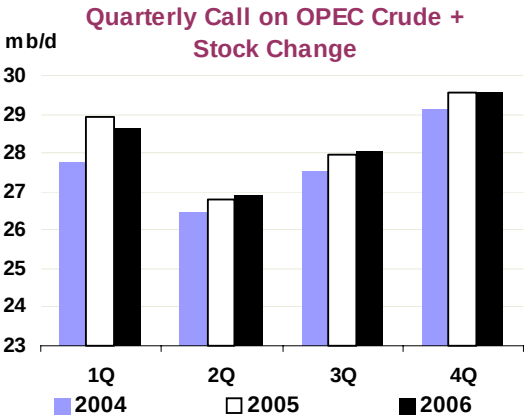
Further OPEC capacity increases are expected in coming months, with end-2005 capacity estimated at 32.1 mb/d and 33.0 mb/d anticipated for end-2006. On a net basis (after accounting for assumed field decline), capacity is expected to have increased by 2 mb/d during 2005 and 2006. Key contributions to this increased capacity are shown in the table above. Importantly, given recent shortages in refinery upgrading capacity and the trend towards lighter, lower-sulphur products demand, capacity increases for now derive primarily from lighter/sweeter crude. OPEC output has been constrained in recent months due to scant market demand for heavy/sour oil which comprises the bulk of current spare capacity. This inflexibility in supply could therefore ease in the next twelve months.

OPEC itself has announced plans to have 38 mb/d-plus of crude capacity in place by the end of the decade. Potential barriers to attaining this goal include:

- Uncertain NOC and IOC oil sector investment levels (in the face of evolving spending priorities and tightening regulatory and fiscal terms respectively);
- the availability of capacity-constrained drilling and infrastructure equipment;
- potential shortages in technical personnel;
- the task of stemming mature field decline and;
- cost containment and achieving timely project completion.

These however are challenges that face all producers who are attempting to boost capacity, OPEC and non-OPEC alike.





Iraqi production is revised up by 40 kb/d for September, to 2.0 mb/d. This follows upward revisions to exports from both Kirkuk in the north, and from Basrah and other southern ports. Total September exports are now assessed at 1.6 mb/d, with 400 kb/d of crude consumed domestically. Despite the stronger than originally estimated September outcome, October saw production (net of deliveries into stocks and field re-injection) drop to 1.79 mb/d. Exports fell by 270 kb/d to 1.34 mb/d, with local refinery runs assessed to have risen modestly. Southern exports fell by 120 kb/d to 1.3 mb/d after weather related loading delays at mid-October. Combined tanker liftings and pipeline deliveries out of Ceyhan storage to Turkish refiner Tupras came to 150 kb/d in September. However, exports from Ceyhan fell to zero in October. Repairs on the northern export pipeline from Kirkuk allowed renewed pumping between 19-23 October. Subsequently, sabotage has again halted flows, with reports that it may be late November before shipments can recommence.

Recent months have seen a number of reports suggesting delays in achieving the country's target of 3.5 mb/d production. Whilst a year ago this was seen attainable by 2006, recent reports suggest that stabilising production around 2.0 mb/d may now be the more pressing priority for the next 12 to 18 months.

Iranian supply for September has been revised down substantially following reports of sharply lower exports. September supply is now assessed at 3.7 mb/d, 270 kb/d less than in last month's Report. Lower exports of heavy, offshore Soroush and Nowruz crude are partly responsible for the fall. Whether this resulted entirely from production shut-in due to technical problems is uncertain, with some reports suggesting that deliveries were made into storage to avoid selling at depressed prices in the current market environment. Partial recovery is thought to have occurred in October, with supply assessed at 3.87 mb/d. Nonetheless, with Iranian sources suggesting that Soroush output would remain below 100 kb/d capacity for up to six months, Iranian capacity has been scaled back from 4.1 mb/d to 4.0 mb/d. There are also concerns that attempts to sustain upstream investment in the short term are being hampered by delays in appointing a new Petroleum Minister.

Kuwaiti October supply is assessed to have risen by some 100 kb/d from a downward-revised September level of 2.4 mb/d. Limited incremental demand for its relatively high-sulphur production and ongoing gathering station outages is constraining Kuwaiti supply below capacity levels. However, on the assumption that production can be restored as planned at northern and western fields before end-year, Kuwaiti capacity has been raised to 2.6 mb/d. Further expansion of northern field capacity from 600 kb/d to 900 kb/d with foreign company involvement through "Project Kuwait" remains the subject of internal political debate. Press reports in October suggested that Kuwait will now look at expanding capacity also in southern areas, centred on the 1.5 mb/d Burgan field.

Output from the **UAE** in September has been revised up by 75 kb/d, to 2.59 mb/d, with a corresponding increase in capacity to 2.6 mb/d. The increase follows evidence of higher supplies of Murban crude from Abu Dhabi's onshore fields. State company ADNOC has been supplying incremental volumes over and above contracted term Asian supplies for some months. These extra volumes rose modestly for October lifting, underpinning the assessed rise to capacity 2.6 mb/d production levels last month. ADNOC has announced a dip of 60-70 kb/d for November extra volumes, followed by a similar rise for December.

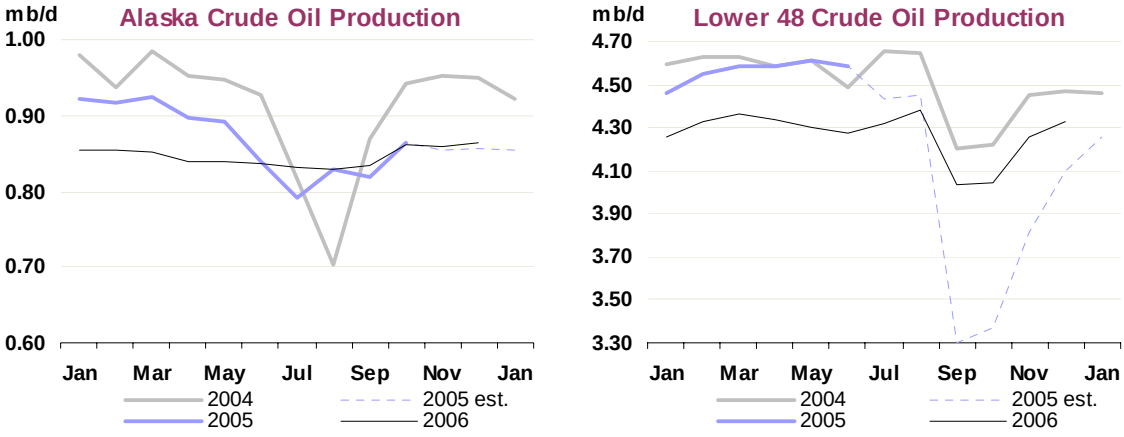
Renewed comments from **Saudi Arabian** sources that there was little sign of demand from its customers for extra crude oil came in a month when US refinery throughput continued to be hampered by hurricane-induced outages. Early-month export indications for October also suggested a modest dip in Saudi output, and as a result Saudi supply for the month is assessed down modestly at 9.5 mb/d. Statements from King 'Abd Allah at mid-month that the Kingdom was producing over 10 mb/d may have referred to total oil output rather than crude alone.

Aside from conventional crude oil, OPEC NGL and non-conventional oil output has been revised down by 15 kb/d in 2005 and by 45 kb/d in 2006. **Algerian** gas liquids output is scaled back, as the In Amenas project has been deferred to March 2006 from an original start-up scheduled for October 2005. Heavier maintenance at three of **Venezuela's** synthetic crude units cuts 2005 supply by 10 kb/d and 2006 output by 25 kb/d.

OECD

North America

US – October Alaska actual, others estimated: Provisional production data for the US covering the June to September period now suggest lower baseline production ahead of the arrival of Hurricanes Katrina and Rita. Although monthly GOM data are only available through June, the implication is that GOM production itself was running some 40 kb/d lower than expected in third quarter.



Alaskan production came in largely as expected in October, with crude rising by some 45 kb/d to 865 kb/d and Prudhoe Bay NGL rising 8 kb/d to 40 kb/d. Proposals to allow drilling in the Arctic National Wild Refuge (ANWR) of Alaska contained in a budget bill were carried by the US Senate but still have several legislative hurdles to cross before they become law. Total US oil production is now estimated at 7.31 mb/d in 2005 and 7.36 mb/d in 2006 compared to 7.66 mb/d in 2004.

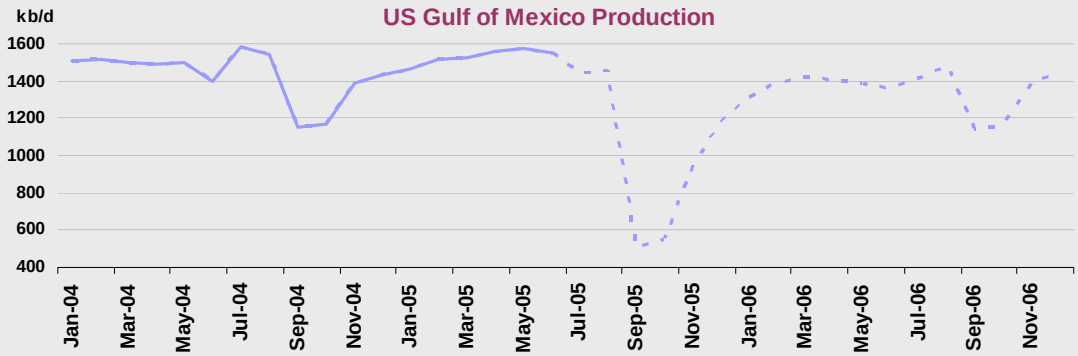
Canada – August actual: Canadian conventional crude output remained constrained in August at below 1.8 mb/d and indications are that September supply dipped further to around 1.67 mb/d. Shut-downs at the offshore Newfoundland Hibernia and Terra Nova fields underpin lower crude output. However, recovering conventional crude supply from October onwards, and from September onwards for synthetic crude, boosted total oil supply. From recent lows near 2.9 mb/d, October production is estimated at 3.1 mb/d. If confirmed by final data, this represents the highest level of Canadian production since November 2004.

Both offshore crude supply and synthetic output are expected to increase from reduced 2005 levels in 2006, in spite of a number of likely outages continuing to affect production. Recent reports suggest that 2006 maintenance affecting the Terra Nova production vessel could run for up to 90 days, longer than previously anticipated by the Report. October problems affecting a drilling rig are not expected to derail the end-2005 start of the offshore White Rose project, which should build to 90 kb/d output next year. Synthetic crude output is expected to rise by 120 kb/d in 2006 to 655 kb/d. Total Canadian production averages 3.2 mb/d in 2006 from 3.0 mb/d in 2005 and 3.1 mb/d in 2004.

Slowly Does It: No Quick Fix For US Gulf Hurricane Outages

As of 8 November, 740 kb/d of crude and 4.1 bcf/d of natural gas capacity remained offline in the US Gulf of Mexico (GOM) in the aftermath of this year's exceptional hurricane season. Additionally, shut-in NGL and Louisiana state crude production is estimated at over 200 kb/d. Further precautionary shut-ins ahead of Hurricane Wilma in the third week of October pushed the total loss of GOM crude output to 81 million bbls for the 26 August to 8 November period. Assumed outages through end-year have been retained largely unchanged from last month's Report, with average December GOM crude losses pegged at 410 kb/d, in addition to Louisiana crude and regional NGL shut-ins of a combined, additional 130 kb/d.

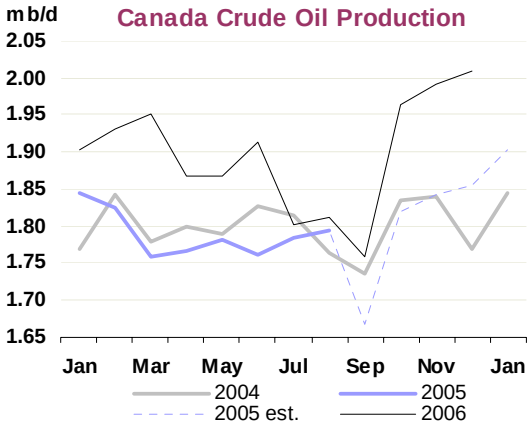
Problems with crude and gas pipelines, crude terminals and gas-processing plants still represent a greater obstacle to production recovery than does damage to offshore production facilities. The use of shuttle tankers to by-pass stricken pipelines has remained limited, with only some 35 kb/d of BP and Shell output involved so far. However, crude production received a boost with the reactivation from 3 November of Chevron's Empire crude terminal. This normally handles some 450 kb/d of Heavy Louisiana Sweet (HLS) crude. Earlier re-routing of pipelines had diverted HLS supply into the Mars pipeline and storage system, since supply of Mars blend faces long-term disruption after extensive hurricane damage sustained by producing facilities. However, HLS producers will possibly now revert to traditional shipment routes to reclaim crude value lost during sales via the Mars system.

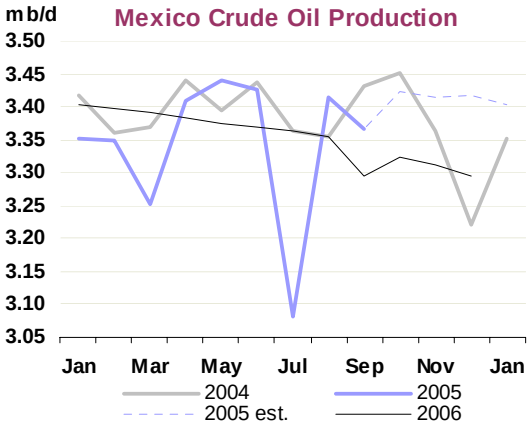


While the short-term recovery profile for GOM production is largely unchanged from last month's assessment, there are indications that the impact running through 2006 could be deeper and longer lasting than previously believed. Progress in restoring gas-processing plant operations remains slow. The Department of the Interior now suggests that a period of 'several months to a year' will be required before GOM oil and gas production returns to normal. Some 30% of outer continental shelf (OCS) pipelines are damaged while 25% are inoperational due to ongoing downstream bottlenecks. Further negative news emerging in October about longer-term production recovery included:

- BP's statement that Thunder Horse start-up has been delayed into second half 2006;
- Chevron's announcement that the storm-damaged Typhoon tension leg platform may be abandoned completely (the company is examining ways to reinstate Typhoon production using alternative facilities, but this Report has deferred restart beyond the end of 2006 until details are clear);
- Shell's expectation that Mars field production will not restart until July 2006 at best;
- The downgrading of expectations for Murphy's Front Runner field (unrelated to hurricane activity), which now sees 2006 production of 26 kb/d compared to an earlier expected 60 kb/d.

This Report had earlier deferred Thunder Horse start-up into the second half of 2006, but the cumulative impact of the other three factors adjusts down GOM 2006 output by a further 75 kb/d this month, centred on the second quarter. Regional production next year could now struggle to regain the 1.5 mb/d seen before the storm season in 2005.





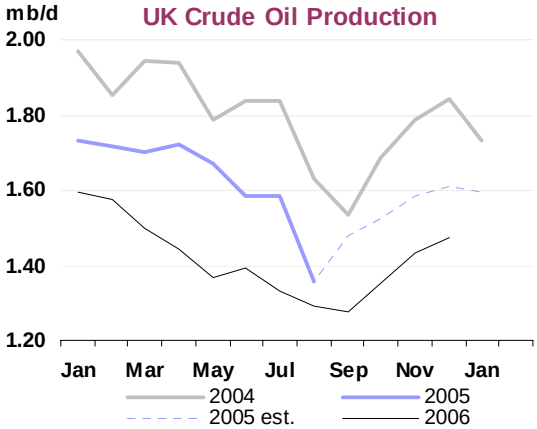
Mexico – September actual: September data reflected the impact of hurricane activity on Mexican production, with crude output dropping by 45 kb/d to 3.37 mb/d and NGL off by 12 kb/d to 416 kb/d. Nonetheless, crude output came in some 15 kb/d higher than expected in last month's Report. Further recovery is expected for October, despite reports of shut-ins due to lower demand for heavy/sour Maya crude from US Gulf refiners. Although Hurricane Wilma hit Mexico's Caribbean coast in the third week of October, neither production nor export facilities sustained damage.

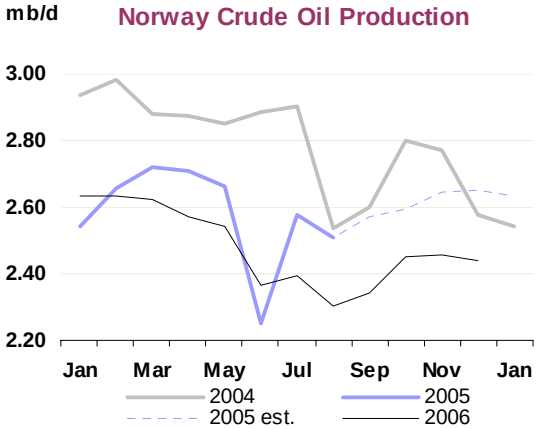
This Report retains an earlier forecast of Mexican crude output broadly flat at 3.35 mb/d in 2005 and 2006. Tax reform measures are before parliament which, if enacted, could boost state producer Pemex's investment budget as early as 2006. Sharply higher upstream spending is seen as necessary to help the company offset decline from the 2 mb/d Cantarell field.

North Sea

UK – August actual: Third quarter 2005 UK production is revised down by 40 kb/d following a sharper-than-expected, 200 kb/d drop in August offshore output. Scheduled field maintenance underpins the fall versus July levels, although unscheduled stoppages affecting the Brent, Loyal and Schiehallion fields also contributed. Despite the weaker August performance, UK annual production is held largely unchanged from last month's forecast, as field-by-field data for a number of key systems through July generally came in higher than anticipated. Loading schedules for the Brent, Forties and Flotta systems also point to further production recovery in October and November.

Notwithstanding, UK oil production is on a declining trend, averaging an expected 1.85 mb/d in 2005 and 1.66 mb/d in 2006 after 2.06 mb/d in 2004. Recent high prices are something of a double edged sword for UK producers. Producer group UKOOA has identified a 25% increase in UK sector capital investment in 2005 after several years of static spending. However, high costs and poor exploration success rates may limit the impact of this spending surge on actual production. Furthermore, speculation has been building that UK producers may face tax increases before the end of 2005.





Norway – August actual, September provisional: August oil production was 20 kb/d higher than expected at 2.91 mb/d (of which 2.5 mb/d was crude), while September output averaged a provisional 2.95 mb/d (2.6 mb/d of crude), marginally lower than earlier forecast. A downward revision of 75 kb/d applied to October, holds oil output close to September levels. A fire reduced output at the Aasgard B platform and at the adjacent Mikkel condensate facility, although operations were approaching normal levels again in early November. Condensate production from Sleipner East also suffered an 11-day outage in October. On a more positive note, Statoil's Kristin gas-condensate field began output in early November, with initial peak liquids volumes of 75 kb/d expected in 2006.

Weaker than expected September and October supplies and a modest downward revision to condensate supply result in 10 kb/d downward adjustments to forecast 2005 and 2006 oil Norwegian production. Overall, however, this Report's forecast remains largely unchanged, envisaging Norwegian production to average 3.0 mb/d in 2005 and 2006 versus some 3.2 mb/d in 2004. Norway's Petroleum Directorate recently revised down expected production to similar levels.

Former Soviet Union (FSU)

Russia – September actual, October provisional: Russian oil output rose in excess of 9.6 mb/d in October and has now shown month on month gains since May, after a hiatus caused in part by the dismantling of former number one producer, Yukos. The investment climate in Russia remains uncertain, with upcoming changes in fiscal policy, licensing and ownership structure likely to play a key role in determining production levels in the months and years to come. There are concerns that state-sponsored producers Gazprom and Rosneft (who have bought, or are about to buy, assets formerly held by Yukos and Sibneft) will lack the investment capital or operational flexibility necessary to sustain production growth. This Report, despite recognising a likely slow-down from levels seen early in the decade, nonetheless expects growth to continue at 250-300 kb/d in 2005 and 2006. As such, our outlook is slightly more optimistic than that of the Energy Ministry and a number of other analysts. Next year's growth derives in part from:

- new production at the Sakhalin-1 and Salym projects (operated by ExxonMobil and Shell respectively);
- sustained growth from Lukoil, Surgutneftegaz and BP-TNK and;
- an assumed stemming of the recent decline in production from Yukos and Sibneft.

FSU Net Exports of Crude & Petroleum Products

(million barrels per day)

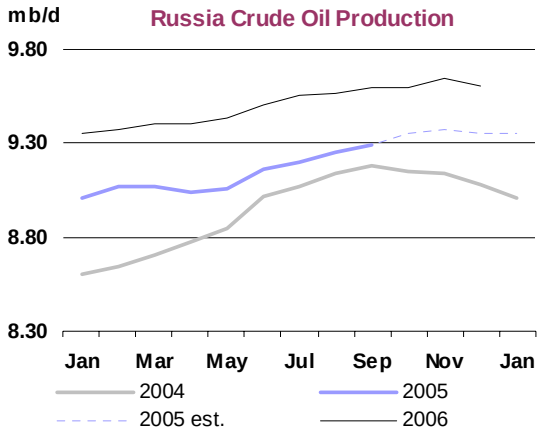
	2003	2004	4Q2004	1Q2005	2Q2005	3Q2005	Jul-05	Aug-05	Sep-05	Latest month vs. Aug-05	Latest month vs. Sep-04
Crude											
Black Sea	2.21	2.20	2.28	2.22	2.38	2.30	2.34	2.32	2.23	-0.10	0.20
Baltic	1.06	1.51	1.48	1.64	1.61	1.57	1.48	1.59	1.64	0.06	0.10
Artic/FarEast	0.21	0.25	0.30	0.19	0.19	0.22	0.22	0.22	0.21	0.00	-0.13
Crude Seaborne	3.47	3.96	4.06	4.04	4.18	4.08	4.04	4.12	4.08	-0.04	0.16
Druzba Pipeline	1.07	1.10	1.14	1.13	1.10	1.14	1.13	1.12	1.17	0.04	0.00
Other Routes	0.17	0.23	0.25	0.28	0.35	0.35	0.33	0.37	0.37	0.00	0.06
Total Crude Exports	4.71	5.29	5.46	5.45	5.64	5.58	5.49	5.61	5.62	0.01	0.23
Of Which: Transneft	na.	3.76	3.86	4.01	4.26	4.26	4.15	4.33	4.30	-0.04	0.62
Products											
Fuel oil	0.83	0.90	0.87	0.78	0.91	1.02	1.11	0.97	0.98	0.01	0.03
Gasoil	0.82	0.84	0.78	0.89	0.80	0.85	0.84	0.83	0.88	0.06	0.09
Other Products	0.41	0.46	0.42	0.58	0.56	0.58	0.61	0.54	0.59	0.05	0.20
Total Product	2.05	2.19	2.07	2.25	2.27	2.45	2.56	2.34	2.45	0.12	0.32
Total Exports	6.76	7.48	7.52	7.70	7.90	8.02	8.05	7.95	8.07	0.12	0.55
Imports	0.02	0.01	0.01	0.01	0.01	0.02	0.04	0.01	0.01	0.00	0.00
Net Exports	6.74	7.47	7.51	7.69	7.90	8.00	8.01	7.94	8.06	0.12	0.55

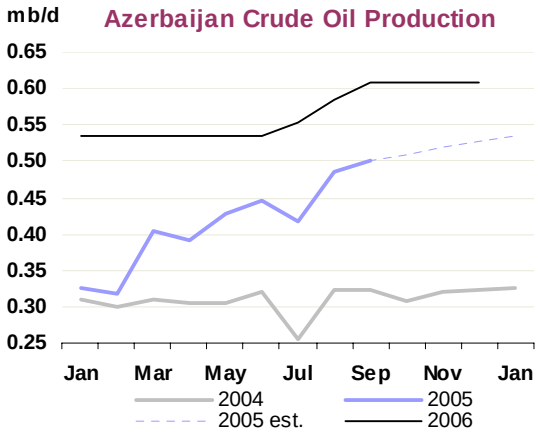
Sources: Petro-Logistics, IEA estimates

There appears to be some recognition within government circles of a need to promote new field development, partly through tax holidays. There are proposals for capping future rises in extraction taxes when oil prices rise above a certain level and, for the first time, differentiating extraction taxes on the basis of crude quality. Shorter-term relief for producers may derive from a government pledge not to raise crude export duties further. However, this was achieved in return for a commitment by

certain producers to cap domestic oil products prices. The current differentiation between crude and product export duties strongly encourages refining crude domestically and exporting products.

FSU net exports rebounded by 120 kb/d in September to reach 8.06 mb/d. Although crude exports overall were unchanged at 5.6 mb/d, shipments from Baltic Ports and by the Druzhba pipeline into central Europe rose at the expense of Black Sea liftings. A gradual shift in Russian exports northwards has been evident for some time, avoiding bottlenecks in the Turkish Straits. Indeed shipping sources, noting seasonally rising delays for vessels transiting the Straits, nonetheless highlight that these are well below the levels seen a year ago. September products exports increased by 110 kb/d to 2.45 mb/d, having dipped in August from July's 2.56 mb/d. Initial indications for crude exports via the Transneft pipeline system suggest a 100 kb/d fall in October and a more modest fall in November.



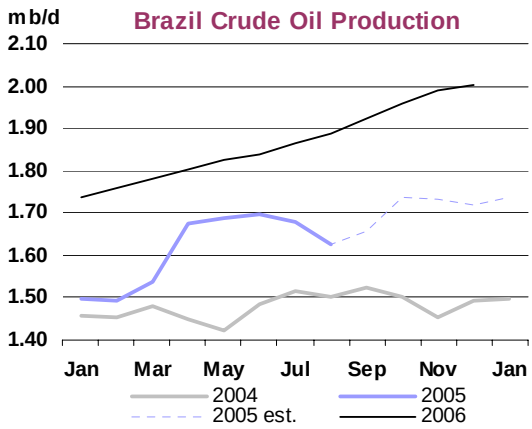


Azerbaijan – September actual: Production from Azerbaijan has shown a steady rise since early 2005 as output from the AIOC consortium's offshore Azeri field has augmented existing Chirag output and that of state producer Socar. August and September data show AIOC production running higher than expected, in excess of 300 kb/d. The sharper than anticipated build in high quality Azeri Light supplies leads to a 25 kb/d upward revision to forecast Azerbaijan production for 2005 and 2006, now projected at 445 kb/d and 570 kb/d respectively. Earlier, more conservative estimates had hinged upon uncertainty over commencement of liftings from the Baku-Tbilisi-Ceyhan export pipeline. Although first crude liftings from Ceyhan do appear to have been pushed back from late 2005 into first quarter 2006, this has not hindered production ramp-up. BTC linefill has been augmented by exports channelled via the Supsa and Novorossiysk pipelines and by rail to Batumi.

After an early 2006 plateau, national production should increase again in the second half of 2006 when the west Azeri satellite enters production. There is further upside potential for Azeri liquids output in 2006 (not currently captured in this Report's projections) if BP's Shah Deniz project comes to fruition on schedule in late 2006. Shah Deniz condensate is likely to be blended into the Azeri Light production stream.

Other Non-OPEC

Brazil – August actual: Brazilian August crude production averaged a stronger than expected 1.63 mb/d. However, expectations have been lowered by 40-55 kb/d for the forecast period through first half 2006. Provisional September data show a slower recovery after maintenance at the P-18 and P-20 facilities in the Campos Basin. Start-up at the 175 kb/d Albacore Leste project has also been pushed back to early 2006 from October 2005. There are also concerns that a proposed oil workers' strike from mid-November could curb production, although for now this is not incorporated in forecast production. Nonetheless, incremental oil from the Jubarte, Albacore Leste, Golfinho and Piranema fields is likely to see a steady increase in 2006 Brazilian production. Crude output is expected to average 1.87 mb/d next year, after 1.65 mb/d in 2005 and 1.48 mb/d in 2004.



Revisions to other non-OPEC estimates: In aggregate, adjustments to forecast non-OPEC supply are relatively minor this month, with a 20 kb/d net upward revision for 2006. However, this masks more substantial changes between regions, with downward adjustments of between 50-150 kb/d for OECD production from third quarter 2005 onwards being countered by upward adjustments to non-OECD output. Revisions to North American, North Sea, FSU and Brazilian supply estimates are discussed above.

Revisions to Non-OPEC Oil Supply

(million barrels per day)

	Last Month's OMR			This Month's OMR			This Month vs. Last Month		
	2005	2006	06 vs. 05	2005	2006	06 vs. 05	2005	2006	06 vs. 05
North America	14.15	14.48	0.33	14.13	14.38	0.25	-0.02	-0.10	-0.07
Europe	5.72	5.47	-0.25	5.70	5.46	-0.24	-0.02	-0.01	0.01
Pacific	0.56	0.58	0.02	0.59	0.58	-0.01	0.03	0.01	-0.02
Total OECD	**20.43**	**20.53**	**0.09**	**20.42**	**20.42**	**0.01**	**-0.02**	**-0.10**	**-0.09**
Former USSR	11.59	12.09	0.50	11.60	12.12	0.52	0.01	0.02	0.02
Europe	0.16	0.15	-0.01	0.16	0.15	-0.01	0.00	0.00	0.00
China	3.63	3.60	-0.02	3.63	3.63	0.00	0.01	0.03	0.02
Other Asia	2.71	2.81	0.10	2.74	2.84	0.11	0.02	0.03	0.01
Latin America	4.32	4.51	0.19	4.30	4.50	0.20	-0.02	-0.01	0.01
Middle East	1.82	1.75	-0.06	1.86	1.81	-0.05	0.04	0.06	0.02
Africa	3.76	4.25	0.49	3.72	4.25	0.53	-0.04	-0.01	0.04
Total Non-OECD	**27.99**	**29.18**	**1.20**	**28.00**	**29.30**	**1.30**	**0.02**	**0.12**	**0.11**
Processing Gains	1.86	1.90	0.04	1.86	1.90	0.04	0.00	0.00	0.00
Total Non-OPEC	**50.28**	**51.61**	**1.33**	**50.28**	**51.63**	**1.35**	**0.00**	**0.02**	**0.02**

OMR = Oil Market Report

Estimated production for **Chad** has been reduced for the period back to 2004. Output is now estimated at 175 kb/d in 2004, 180 kb/d in 2005 and 210 kb/d in 2006. Problems with water cut have kept output and exports below an originally planned 225 kb/d although remedial work is expected to allow such levels to be reached again in 2006.

In the Middle East, production for **Oman** is revised up by 30-40 kb/d for 2005 and 2006 and in **Yemen** by 10-20 kb/d. Government data for the first half 2005 oil production from Oman point to a shallower decline than suggested by provisional early-year data. For Yemen, a review of expectations for individual fields, including government projections for the Marib and Masila fields, underpins the now-higher expectations.

Latin American adjustments centre on the changes expected for Brazil. However, recent data also point towards weaker performance from **Ecuador,** but a stronger performance from **Colombia.** In the latter, improved terms for foreign operators have increased production at newer fields, offsetting decline at the established Cano Limon and Cusiana fields.

Asian production is revised up by 30 kb/d in 2005 and 60 kb/d in 2006 based on stronger performance from **Thailand, Malaysia, India** and **China**, but a weaker profile for **Vietnam**. Higher baseline supply in the former three producers combines with a now-slower decline for mature offshore China production. In contrast, expectations for Vietnam's Bach Ho field have been lowered for 2006.

OECD STOCKS

Summary

- **OECD total industry oil stocks** held relatively flat in September, closing at 2645 mb, or 61 mb above a year ago. Both crude and product inventories saw offsetting regional movements. Crude builds were centred in Europe while product gains were mainly in distillates in the Pacific and gasoline in the US. Forward demand cover by industry stocks fell to 52 days from 53 days in August.

Preliminary Industry Stock Change in September 2005 and Third Quarter 2005

(million barrels per day)

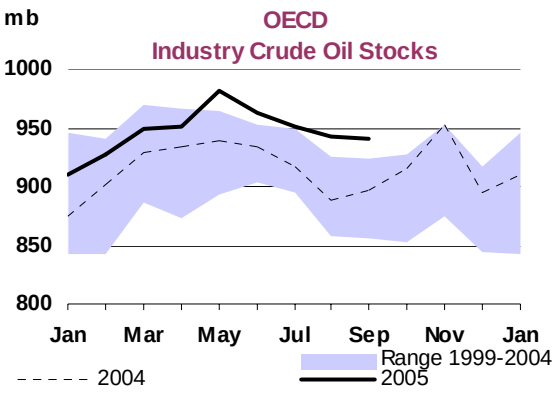
	September (preliminary)				*Third Quarter 2005*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**-0.03**	**0.33**	**-0.33**	**-0.04**	**-0.25**	**0.08**	**-0.05**	**-0.22**
Gasoline	0.19	-0.03	0.01	0.17	-0.18	0.00	-0.02	-0.20
Distillates	-0.29	-0.18	0.14	-0.32	0.15	0.09	0.21	0.45
Residual Fuel Oil	0.04	-0.02	0.00	0.02	-0.04	0.01	0.00	-0.03
Other Products	0.09	0.02	-0.05	0.06	0.05	0.06	0.00	0.11
Total Products	**0.03**	**-0.20**	**0.10**	**-0.08**	**-0.02**	**0.16**	**0.19**	**0.33**
Other Oils[1]	0.13	-0.03	0.02	0.12	0.09	0.01	0.01	0.11
Total Oil	**0.13**	**0.09**	**-0.21**	**0.01**	**-0.19**	**0.25**	**0.15**	**0.21**

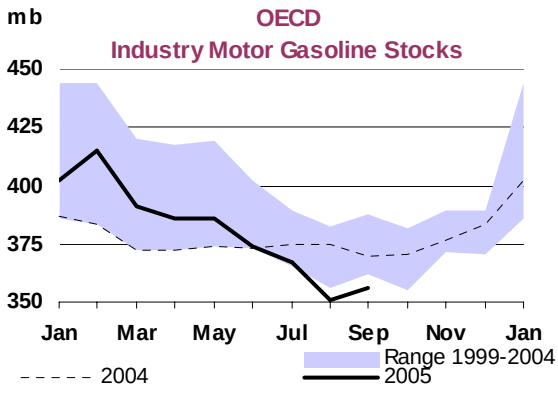
1 Other oils includes NGLs, feedstocks, and other hydrocarbons

- **OECD industry crude stocks** were unchanged in September at 941.5 mb, albeit from a downwardly revised August base. Pacific stocks fell as refiners ramped up runs and stock holding obligations were relaxed in Japan as part of the IEA's emergency stock release. Crude inventories built in Europe as ample supplies found limited external demand. North America saw offsetting changes with stocks drawing in the US and building in Mexico. US-50 stocks built in October as reduced refinery demand outweighed lost Gulf of Mexico production and imports rose.

- **OECD industry distillate stocks** fell 10 mb in September to 533 mb. Draws in the Atlantic Basin outpaced strong builds in Japanese kerosene stocks. In addition to hurricane-related product losses, the decline in the US was accentuated by a maximisation of gasoline production. Further declines during October came mainly in diesel rather than heating oil. Though European distillates fell in September, stocks held in independent storage suggest supplies remained high in October. The forward price premium on futures markets continued to favour moving heating oil into storage.

- **OECD industry gasoline stocks** built by 5 mb in September to 356 mb, or 14 mb below last year. The build came in the US following higher imports, provisional indications of weaker post-hurricane demand and recovering gasoline output. Seasonally falling demand in the fourth quarter lent additional support to an increase in US gasoline stocks in October. These closed up at 197 mb, on a par with their five-year average. NYMEX gasoline futures flipped into contango in early October, encouraging additions to storage. European and Pacific gasoline stocks in September held relatively flat.





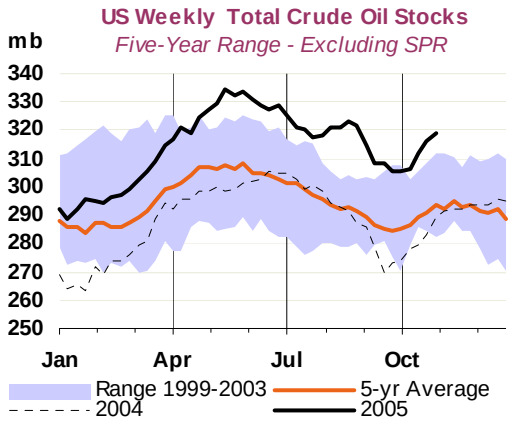
OECD Industry Stock Changes in September 2005

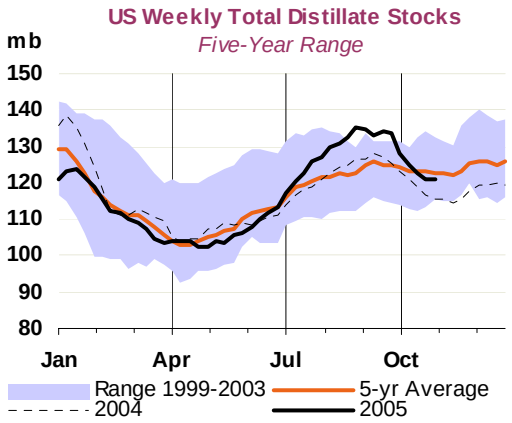
OECD North America

North American September crude stocks were flat on the month with draws in the US offset by increases in Mexico. With complex refinery capacity offline on the US Gulf Coast, (which absorbs a large portion of Mexican exports) heavy crudes such as Maya found few alternative outlets. US-50 crude stocks rebounded by 13.7 mb in October taking inventories to 319 mb, or 34 mb above last year.

Reduced crude demand, resulting from refinery outages on the Gulf Coast, outpaced lost crude production in Gulf of Mexico by about 40 mb in October. The pace of the build was mitigated by increased refinery runs in other regions. At the same time, crude imports recovered slowly, returning to pre-hurricane levels by end-October. In mid-October, NYMEX's WTI futures contract moved into contango, supporting the movement of crude oil into storage.

US product inventories were tight through October as reduced refinery output on the Gulf Coast was only partly offset by lower demand, increased imports and higher refinery runs in other US regions. Gasoline stocks built 1.5 mb in October, ending the month at 197 mb. The gain followed recovering crude runs, strong gasoline yields and record imports along with seasonally weakening demand. Average gasoline imports were about 1.3 mb/d after peaking at a record 1.5 mb/d earlier in the month. NYMEX gasoline futures flipped into contango in early October, ahead of seasonal norms. The move likely reflected perceived future tightness during anticipated heavy scheduled maintenance in the first quarter as well as product specification changes and adequate near-term supplies.





US distillate stocks fell below their five-year average in October on reduced refinery output and strong diesel demand. Import gains during the month were comparatively lower than those observed for gasoline. Heating oil inventories remained comfortable, notably in the main consuming Northeast region. Demand was weaker as temperatures were high compared to seasonal norms. Jet fuel stocks fell mainly as a result of lower domestic production. Although jet fuel imports surged in October, this was partly offset by increased demand for blending into Russian gasoil supplies to meet US heating oil specifications. Incremental blending of jet was seasonally supported by the need to improve low temperature properties of diesel and heating oil in the Northeast.

OECD Europe

European industry crude stocks rose by 10 mb in September, albeit from a downward revised August base. Despite increased refinery runs, stocks closed 12 mb above last year. The build was centred mainly in Norway. Continental demand for Brent-related grades was weak and spot arbitrage opportunities to the US were limited by high freight rates and lower US refinery demand following the hurricanes. Buying interest for North Sea grades in Europe also waned as a result of healthy refining margins for competing Urals.

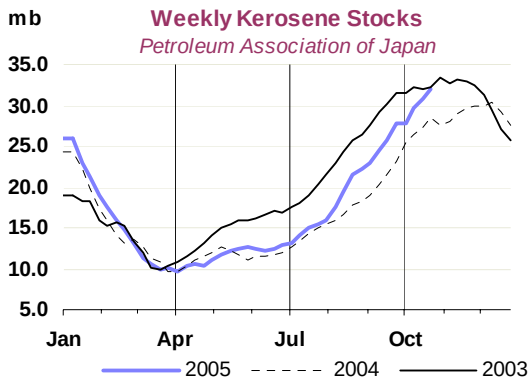
Total product inventories fell 6 mb in September, mainly in middle distillates stocks outside of Northwest Europe. Sweden and Finland saw distillate stocks fall as nearly 300 kb/d of their combined refinery capacity was in maintenance. Stocks also fell in Spain, where industry distillate stocks were made available in accordance with the IEA's emergency stock release. In main consumer countries, such as France, Italy and Germany, inventories of distillates fuels held flat or increased, driven by lower demand for heating oil resulting from unusually warm weather. Gasoil stocks rose in Germany

despite an uptick in end user buying. Consumer heating oil stocks reached 58% of capacity by end-month, from 52% at the end of August.

Gasoline inventories held relatively flat in September despite record spot exports to the US to fill the product supply gap resulting from Hurricanes Katrina and Rita. However, weaker US price differentials and rocketing transatlantic freight rates led to some cargoes being resold into West African markets. European gasoline demand remained weak, further contracting on the year while regional refinery output increased.

OECD Pacific

Pacific crude stocks fell by 10 mb in September to reach 172 mb or 3 mb above a year ago. In Japan, onshore stocks fell by 3 mb. Runs remained high relative to imports. However, domestic stock holding obligations by industry were lowered from 70 to 67 days in line with the IEA's emergency stock release, making additional crude volumes available. In Korea, though crude imports increased, these failed to balance higher runs and stocks fell 7 mb, to 4 mb below last year's levels.



Middle distillate stocks continued to build in Japan in September, ending at 53 mb and closing 6.5 mb above a year ago. Weekly data from the Petroleum Association of Japan show stocks of kerosene (used as a heating fuel) continued to build in October. Korean main product stocks ended marginally lower in September despite increased refinery runs. Product exports, notably of diesel and jet/kerosene, remained at high levels as refiners took advantage of record prices in international spot markets.

OECD Inventory Position at End-September and Revisions to Preliminary Data

OECD industry stocks ended September at 2645 mb, 61 mb above last year. Crude inventories held above 2004 levels for all regions. For products, only Europe closed below its 2004 position. OECD forward demand cover was 52 days, down one day from August but one day above last year. On a regional basis, forward cover came to 49 days for North America, 60 for Europe and 49 for the Pacific.

Year-on-Year OECD Industry Stock Comparisons for September 2005

	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**29.9**	**12.0**	**3.3**	**45.2**	**Total Oil**	**1.7**	**0.8**	**0.1**	**1.1**
Total Products	21.2	-7.2	4.6	18.6	*Versus 2003*	-0.2	0.7	-1.6	-0.2
Other Oils[1]	-2.9	1.8	-1.6	-2.7	*Versus 2002*	-1.4	0.5	2.0	-0.2
Total Oil	**48.2**	**6.6**	**6.3**	**61.1**	**Total Products**	**0.7**	**-0.2**	**0.2**	**0.3**
Versus 2003	42.0	26.0	-23.3	44.8	*Versus 2003*	-0.2	-0.6	-1.1	-0.5
Versus 2002	38.3	33.8	-3.7	68.3	*Versus 2002*	-1.7	-1.8	0.2	-1.3

1 includes feedstocks, NGLs and other hydrocarbons

August preliminary data were revised down by 22 mb, with crude stocks mostly accounting for the change. The revisions were centred in Europe and North America. Figures for July were also revised down along similar patterns. Downward baseline revisions were made to Hungarian industry crude stocks as previously included pipeline inventories were removed. In government stocks, data back to January 2000 now includes non-reported Norwegian distillate stocks of 2 mb.

Revisions versus 11 October 2005 Oil Market Report

(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Jul 05	Aug 05	Jul 05	Aug 05	Jul 05	Aug 05	Jul 05	Aug 05
Crude Oil	**-5.7**	**-7.5**	**-8.9**	**-15.6**	**0.0**	**-0.9**	**-14.6**	**-24.1**
Gasoline	-1.2	-0.9	0.5	1.6	0.0	-0.4	-0.7	0.2
Distillates	-0.7	2.0	4.3	4.8	0.0	-1.1	3.6	5.7
Residual Fuel Oil	-1.8	-1.5	0.1	0.1	0.0	-0.3	-1.8	-1.7
Other Products	0.8	-9.2	5.7	6.4	0.0	-1.6	6.5	-4.4
Total Products	**-3.0**	**-9.6**	**10.6**	**12.9**	**0.0**	**-3.5**	**7.6**	**-0.2**
Other Oils[1]	0.0	1.4	-1.9	0.5	0.0	0.3	-1.9	2.2
Total Oil	**-8.7**	**-15.8**	**-0.2**	**-2.2**	**0.0**	**-4.1**	**-8.9**	**-22.1**

1 Other oils includes NGLs, feedstocks, and other hydrocarbons

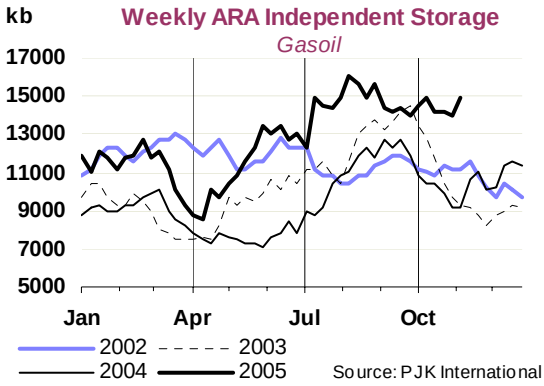
Recent Developments in ARA Independent Storage

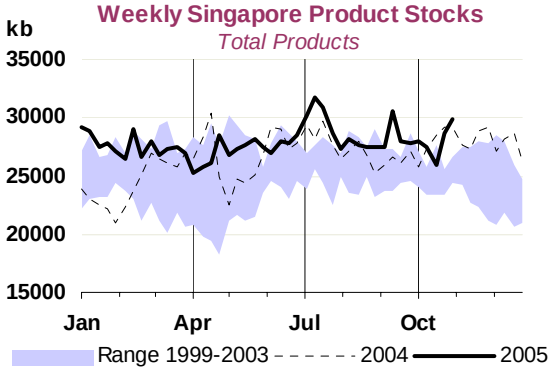
Gasoline inventories held in independent storage in the Amsterdam-Rotterdam-Antwerp area trended sideways in October, closing at the top of their five-year range. As refiners exited maintenance, higher product output balanced exports to the US and West Africa. In the second half of October, supplies backed up in ARA as high freight rates and falling US demand slowed spot transatlantic trade.

Gasoil stocks fell in early October with slowing arrivals from the FSU and the diversion of some Asian cargoes, originally destined for ARA, to the Americas. The IEA's stock release earlier in September continued to make available heating oil supplies to inland markets. Buying interest from Germany was notably weak. In the second half of October, supplies arriving from the Asia-Pacific and Venezuela pushed ARA stocks higher. Demand for heating oil was thin on warmer weather in Europe and a widening contango in gasoil futures supported product movements into storage. Gasoil stocks remained at comfortable levels, 6 mb, or 40%, above last year. The month-long strike at Total's 343 kb/d Gonfreville refinery appeared to have little impact on supplies in ARA, most likely as a result of higher throughputs elsewhere in Europe.

Jet fuel inventories fell by 1.5 mb to 2.4 mb but remained above year ago levels. A number of unsold cargoes sourced from the Middle East were diverted to the US, reducing spot availabilities. However, forward prices continued to hold above prompt prices. This left arbitrage open from the Middle East, supporting further deliveries into storage of jet fuel within ARA.

Fuel oil stocks held relatively flat in October despite record inflows from the Baltic. Russian fuel oil supplies are causing an oversupply in high-sulphur material. Higher freight rates and a shortage of tankers limited sales into the Asia-Pacific for much of the month. However, two VLCC bookings were recently made to Asia, reducing the surplus.





Recent Developments in Singapore Stocks

Total product stocks in Singapore surveyed by International Enterprise increased by 2 mb in October on slowing regional demand, increased supplies and limited arbitrage opportunities. Distillates saw the strongest gains. Korean and Japanese stockpiles for kerosene are reaching capacity and higher freight rates closed opportunities for sales into the US. Increased Chinese buying in October moderated the build. Apart from kerosene, supplies of gasoil were also increasing with greater exports from India. High distillates prices in September had encouraged regional refiners to maximise output of these fuels. But, with slowing demand and paper prices in Singapore in contango, more distillates moved into storage

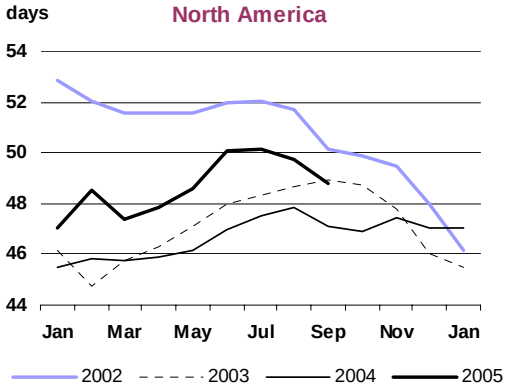
Light distillate stocks built in October on lower regional demand and rising Indian gasoline exports. India's International Oil Company resumed exports following the completion of refinery upgrades. Indonesia virtually disappeared from the spot market in October as it import requirements fell following the government's decision to reduce subsidies from 1 October. In addition, high freight rates closed arbitrage opportunities to the US, further supporting the build in light product stocks.

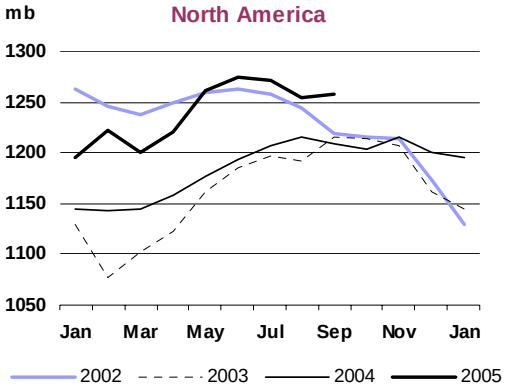
In October, weaker fuel oil demand was balanced by reduced arrivals of arbitrage material from the West, leaving residue inventories virtually unchanged. Chinese imports fell to their lowest level in over two years and Singapore supplies were competing with rising Korean exports. Regional utility demand for low-sulphur fuel oil was weak as temperatures were higher than normal.

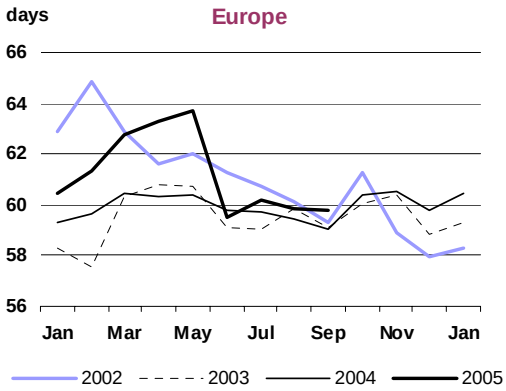
Regional OECD End-of-Month Industry Stocks

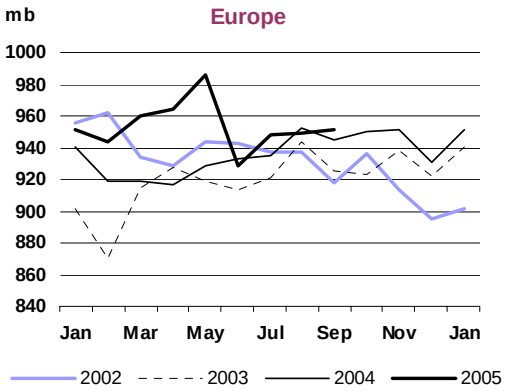
(in days of forward demand and millions barrels of total oil)

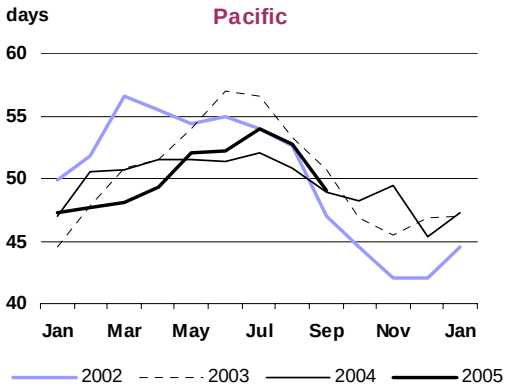
Days[1] **Million Barrels**

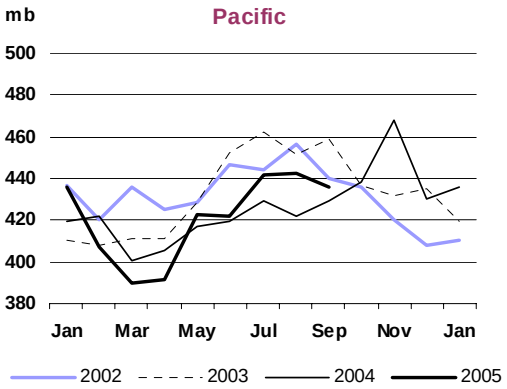


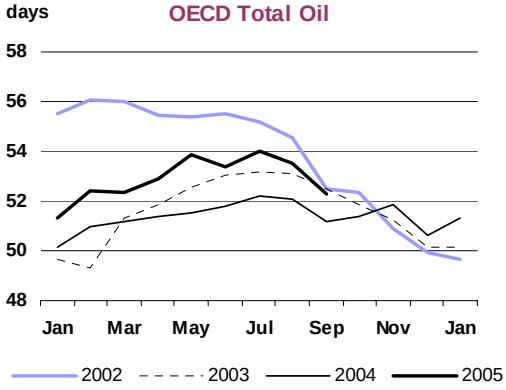


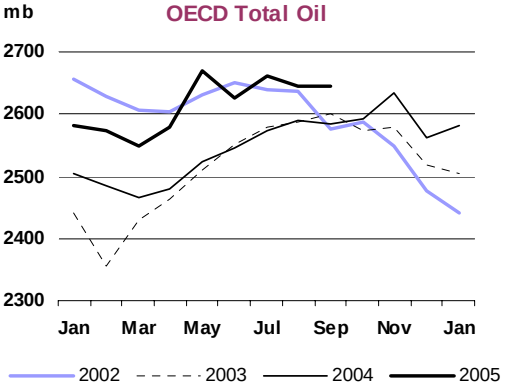












1 Days of forward demand are based on average demand over the next three months.

PRICES

Summary

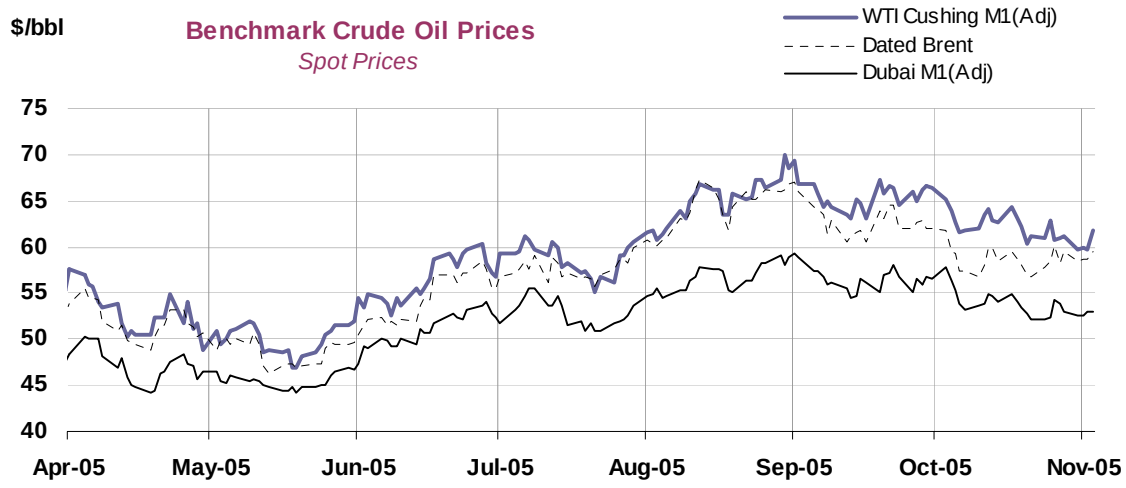
- **Benchmark crude** prices weakened in October with Atlantic Basin light sweet crudes, WTI and Brent, falling below $60/bbl by end-month. A steep fall in the price of light products, notably gasoline, played a significant part in their decline, but firm fuel oil prices moderated falls in medium sour Dubai. While the broad macroeconomic environment remains strong, market concerns appeared to focus in October on weak preliminary US gasoline demand figures and warmer temperatures in the Northern hemisphere.

- **Crude futures** fell alongside cash prices but the forward price structure in the near-traded months for NYMEX's WTI and IPE's Brent futures contract saw diverging trends. The November WTI contract remained in backwardation until its mid-October expiry, contrasting with a constant contango in front month Brent futures. Non-commercial (or speculative) participants on the NYMEX widened their net-short positions on the light sweet crude contract during October.

- **Light products markets** in October went through an air pocket, posting a steep fall with gasoline leading declines. US gasoline supply concerns eased on high imports, weak preliminary estimates for US demand and recovering refinery output. The decline in US light product prices rapidly prompted falls in Europe and Asia, and with clean freight relatively high, sealed off spot arbitrage trade. Declines in distillates were more staggered, but the strong premiums for diesel and jet fuel against heating oil futures developed in late September came down in October. Prices for heating oil were further pressured as mild weather across the Northern hemisphere depressed demand and inventories in the main consumption centres remained relatively comfortable.

- **Fuel oil prices,** while ending lower in October, saw their spreads to crude hold relatively steady for high-sulphur material and improve for low-sulphur fuel oil. In the US, low-sulphur fuel oil crack spreads firmed on higher utility demand due to fuel switching away from natural gas, declining domestic production as well as hurricane-related damage to a key blending facility in the Caribbean. Heavy fuel oil moved from Northwest Europe to Asia by VLCC while the Singapore market saw lower arrivals of material from the West during October and firming bunker demand.

- **Product futures** gave back second half September gains, with NYMEX gasoline and IPE gasoil falling below the peak levels reached at end-August/early September. Weakness in the prompt traded month flipped the NYMEX gasoline futures into contango. Speculators meanwhile retained their net-long gasoline futures position. NYMEX heating oil prices fell back to early September levels. Though light sweet crude on the NYMEX weakened, product losses were steeper and cracks spreads fell heavily. The gasoline spread moved from $23.56/bbl on 30 September to $6.55/bbl on 3 November, while that for heating oil fell from $20.59/bbl to $15.23/bbl.



Crude Oil Prices in October

Benchmark Crudes

Benchmark crudes trended down over October, dragged lower primarily by falling gasoline prices which declined in reaction to weak preliminary US gasoline demand figures. The fall in crude prices was also supported by a decline in heating oil prices amidst mild temperatures across the Northern hemisphere. The downward path was interrupted briefly by uncertainty around the path of Hurricane Wilma. Crude traders were also eyeing a short-term crude surplus in the US as offline refinery capacity and reduced inventory holdings (due to end-year fiscal concerns) reduced crude demand. This provided an incentive to widen short speculative positions for NYMEX's light sweet crude oil.

The decline in the light sweet benchmarks also took place against a background of seasonally weaker product demand. The September to October period is a shoulder period where gasoline demand tends to fall after the driving season and heating oil demand begins to increase ahead of winter. In terms of price declines, Dated Brent lost the most ground, its average monthly price closing below $60/bbl in October, down $4.30/bbl from September. The decline in the monthly average price of WTI to $62.28 was less severe, amounting to $3.24/bbl. Spot prices for both marker crudes remained below $60.00/bbl at the time of writing. Middle East marker Dubai followed a similar trend, but its decline was moderated by firm fuel oil prices during the period.

Spot Crude Oil Prices and Differentials*

(monthly and weekly averages, $/bbl)

	Aug	Sep	Oct	Oct-Sep Change	Oct-Sep %	Week Commencing: 03 Oct	10 Oct	17 Oct	24 Oct	31 Oct
Crudes										
Brent Dated	64.12	62.91	58.61	-4.30	-6.8	59.03	58.62	57.99	58.82	58.81
WTI Cushing 1mth(adjusted)	64.96	65.52	62.28	-3.24	-4.9	63.02	63.02	62.22	61.37	60.24
Urals (Mediterranean)	58.61	58.38	55.64	-2.74	-4.7	56.24	56.72	54.93	54.80	54.78
Dubai 1mth(adjusted)	56.60	56.54	53.96	-2.58	-4.6	55.31	54.20	53.46	53.14	52.81
Tapis	67.26	67.64	61.90	-5.74	-8.5	64.52	62.32	60.85	60.26	59.83
Differential to Dated Brent										
WTI Cushing 1mth(adjusted)	0.84	2.61	3.67	1.07		4.00	4.40	4.23	2.54	1.43
Urals (Mediterranean)	-5.50	-4.53	-2.97	1.56		-2.79	-1.91	-3.06	-4.03	-4.03
Dubai	-7.52	-6.37	-4.64	1.73		-3.71	-4.43	-4.54	-5.69	-6.00
Tapis	3.14	4.73	3.29	-1.44		5.49	3.70	2.85	1.43	1.02
Prompt Month Differential										
Brent 1mth-2mth (adjusted)	-0.45	-0.68	-0.49	0.18		-0.57	-0.46	-0.35	-0.42	-0.42
WTI Cushing 1mth-2mth (adjusted)	-0.63	-0.33	0.31	-0.71		0.48	0.70	0.04	-0.68	-0.68

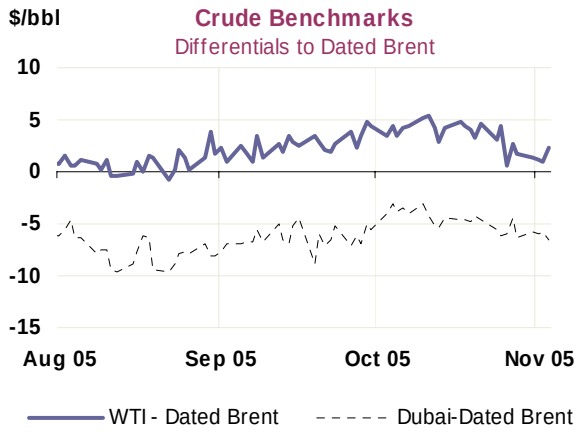
*Weekly data for Brent and WTI 1st month and 2nd month are unadjusted

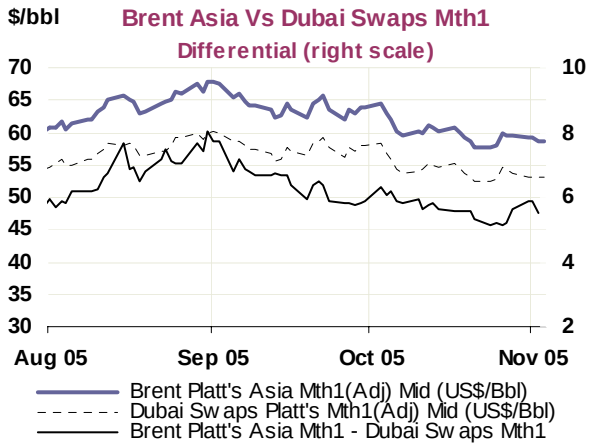
The post-hurricane US product output gap, however, suggests that the crude market is likely to firm as seasonal product tightness returns between 4Q05 and 1Q06, particularly should the winter season prove to be colder than normal. In addition, though the effects of weaker US refinery crude demand appeared to offset lost crude production in the Gulf of Mexico, the broad macro economic and oil demand context remain supportive of crude prices. Third quarter GDP growth in the US exceeded expectations and this Report calls for stronger oil demand in China in the fourth quarter. Seasonally higher crude runs in Europe (where modest maintenance is expected over November and December) and in Asia will lead to higher global net imports.

Gasoline prices came off fairly quickly across regional pricing centres, while the decline in jet and diesel prices occurred with a lag. However, reduced product demand pressures in October are likely to prove temporary. Recent US weekly demand numbers, the focus of much market attention, appeared to stabilise, which together with upwardly revised August data and upcoming peak winter demand, add weight to our view that the lull in crude demand could prove temporary.

Loss of crude demand due to hurricanes on the Gulf Coast appeared to be predominantly for heavier sour grades. By the end of the fourth quarter, and assuming normal weather patterns, demand for light grades is expected to rise, putting further upward pressure on WTI and lifting Brent prices. This could be supported by a tightening of product markets and heating oil inventories. Futures crack spreads for heating oil did fall but not nearly as much as those for gasoline.

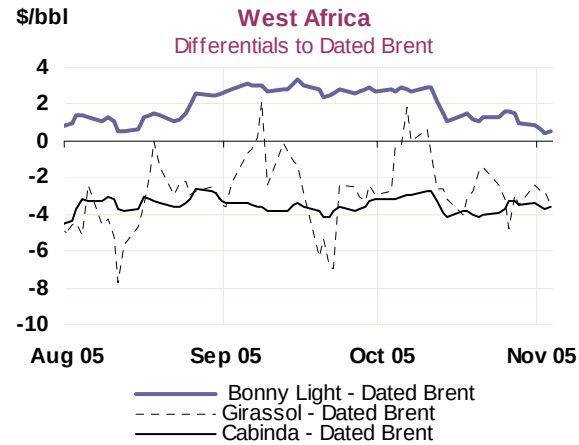
The differentials between benchmark crudes reflected the temporary weakness in product markets. WTI's premium over Brent held about $5/bbl in the first half of October but fell under $2/bbl at the end of the month. Early October strength in the spread however, was in part driven by weakness in Brent rather than strength in WTI. European refiners initially held back from North Sea grades as cheaper regional sour crude offered competitive refining margins. At the same time, the absence of any significant near-term future additions to refinery conversion capacity ahead of seasonally higher demand widened the Brent-Dubai differential spread at the end of October to over to $6.00/bbl.

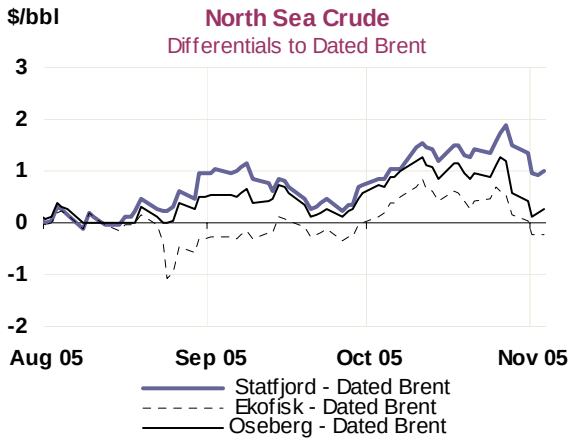




Europe and West Africa

Weaker demand for light crude in the short term by US refiners also showed up in limited interest in light sweet West African material. Crude loading in November, trading in October, saw premiums fall heavily against Brent compared to previous months. An overhang of 40 mb of Nigerian crude was reported in mid-October. In contrast, Asian interest picked up, mainly for medium sweet from Angola by China but also by Korea for both November and December barrels.

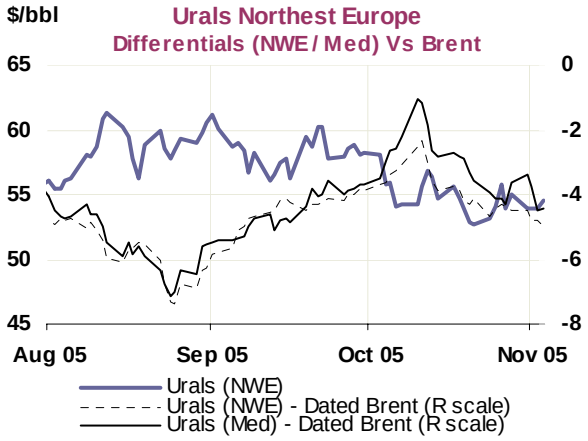


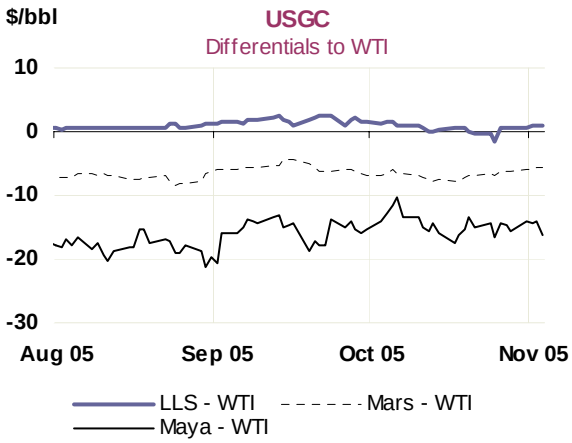


North Sea differentials to dated Brent were sustained on average at higher levels versus September, supported by relatively firm cracking and hydroskimming refining margins for light sweet grades in Europe. Refiners returned to Brent-related grades after initially favouring cheaper sour alternatives as the falling price of the benchmark made these, and related crudes, attractive. The decline in absolute prices reflected relatively weak spot demand by US refiners deterred by higher freight rates. Relative prompt availability was seen in the forward cash BFO market which remained in contango in the front two months, albeit on average a shallower one than in September. At the time of writing, contract for differences (swap prices) for Brent continued to discount Dated Brent against the first forward month.

Urals firmed relative to Dated Brent into early October. Buying interest carried over from September when Urals rapidly cleared out due to healthy refining margins. Margins on sour crude remained high into October, fetching returns comparable or superior to Brent. Urals' discount to Brent narrowed to $1.07/bbl on 10 October in the Mediterranean and to $2.36/bbl by 11 October in Northwest Europe.

However, the second half of the month saw refiner interest switch back to light sweet grades as Brent prices declined. Urals' discount widened to $4.51/bbl in Northwest Europe and $3.39/bbl in the Mediterranean by end-month. In addition to weaker demand for Urals, supply pressures were weighing down the grade's prices. Russian output in October hit a new post-Soviet high, rising to 9.6 mb/d, sustaining exports close to September highs. Urals also came under pressure from higher availability of comparable crudes from the Middle East.





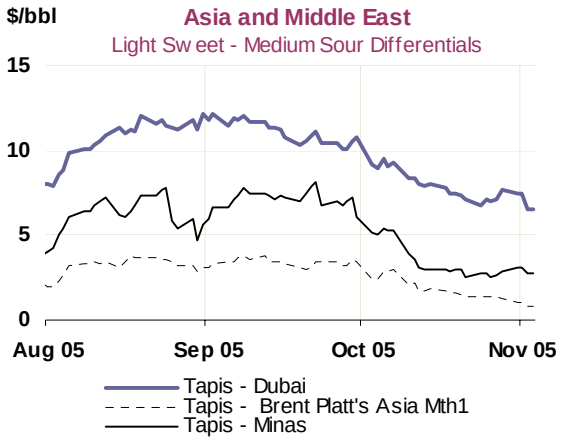
The Americas

Differentials in the US for heavy crudes against WTI reflected reduced crude demand due to refinery outages. On balance, the impact of lower post-hurricane crude demand outweighed the impact of lost crude output in the Gulf of Mexico. Assessed spot crude prices across medium and heavy grades saw discounts broadly widen relative to WTI through mid-October, including deepwater Mars and Heavy Louisiana Sour, whose production were severely disrupted. Light Louisiana Sweet, the Gulf Coast light sweet marker, whose supply was also affected, narrowed its usual premium to WTI.

Most US domestic grades on the Gulf Coast strengthened relative to WTI by the end of October. More refineries came back on line although three refineries were still shut on 31 October, accounting for about 5 percent of US refinery capacity. Weekly data in October showed crude runs up about 2% to 82.5%, below the 88% generally observed average. On the West Coast, Alaska North Slope, while following on the general decline in crude prices, likely witnessed greater pressure from higher than expected production for the month of October.

Middle East and Asia

In Asian markets, Dubai and Oman weakened in October. Competing grades from Saudi Arabia, Iran and Kuwait saw official selling prices reduced to reflect September weakness for heavier crude grades. The decline was cushioned by firm fuel oil prices in the region. These held simple margins in the region, supporting demand for these and other medium sour grades with high fuel oil yield. However, increasing supplies of low-sulphur fuel at the end of October are likely to dampen interest in these grades. A number of LSWR fuel oil cargoes remained unsold at the end of the month and supplies of low-sulphur material on offer from Korea were rising. Korean utilities increasingly turned to comparatively cheaper natural gas inputs (LNG price formulas reflect, with a lag, increases in crude prices).



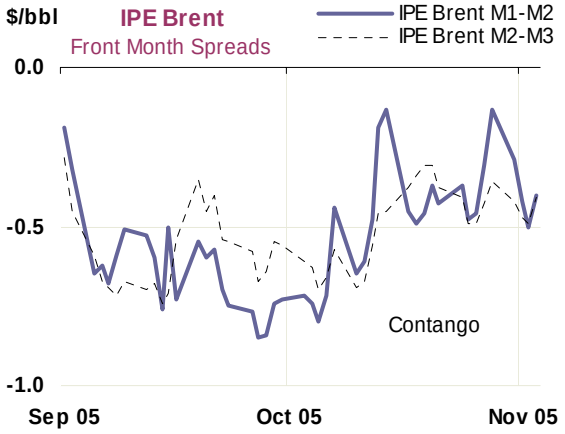
In contrast, regional light grades such as Tapis saw their premiums fall against heavier crudes. In September, Tapis was supported by refiner interest in building kerosene stocks ahead of winter. However, as regional kerosene inventories rose and Singapore distillates prices fell, the consequent deterioration of cracking margins for lighter grades led to weaker demand for Tapis.

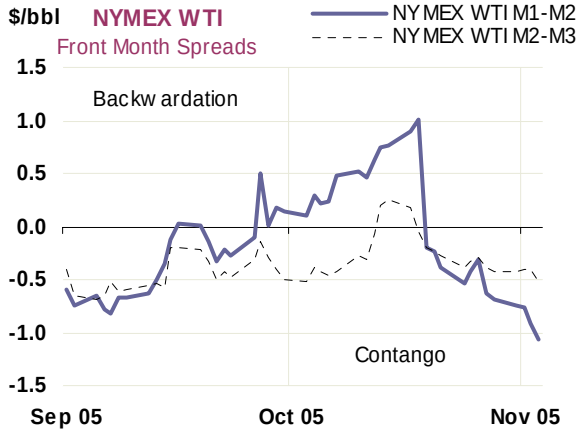
Delivered Crude Prices in August

In line with spot crude price peaks, the cost of the average barrel imported into all IEA countries increased to $58.24 in August, a $4.25 rise from the July average. European IEA countries paid, on average, $60.20/bbl for crude in August - more than $3 higher than the $57.08/bbl average combined cost incurred by the US and Canada. This, in turn, was greater than the $56.68/bbl cost for IEA countries in the Pacific in the same month. These prices resulted from monthly rises of $4.98, $4.46 and $2.55 from July averages, for the respective IEA regions.

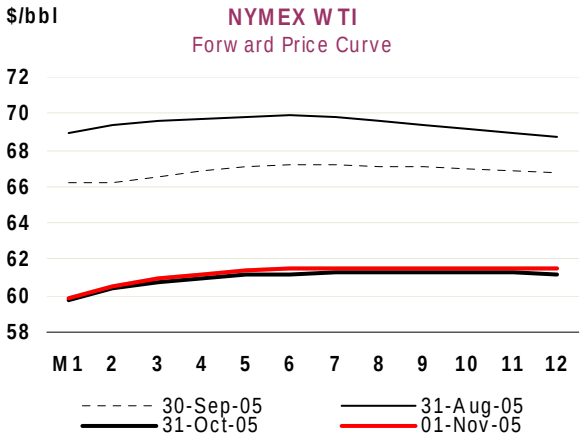
Crude Futures

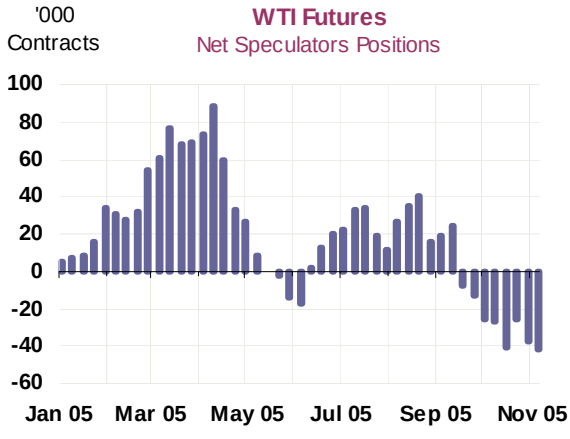
Front month crude futures on NYMEX fell during October, closing on 31 October at $59.76/bbl, or down $6.48/bbl. WTI front-month backwardation initially widened as crude stocks tightened in Cushing, the delivery point of the futures contract. The near-month spread flipped into contango as the front month November contract expired. Inter-month spreads for NYMEX's WTI futures contract on 3 November closed in contango through July 2006.





While weaker prompt crude demand was a main driver for the change, other factors were also at play. With at least three US refineries out for the remainder of the year, the margin for substantially higher runs remained limited. Overall US crude stocks closed October at comfortable levels and imports were rising as crude deliveries into the Gulf Coast began to normalise. The upcoming end of the fiscal year in December was also likely to lead to some crude deliveries being delayed into the next year.





While commercial players were net-long on crude, speculative players increased net-short positions. Unlike backwardation that allows short position holder to generate a positive return by rolling forward positions, a contango structure implies a loss. Its is interesting to note that should the contango in the near months hold, increased selling pressure in the could emerge as non commercial players opt to further extend their net short positions, putting downward pressure on price.

Prompt month Brent futures fell under $60 the end of October while maintaining a forward price structure in contango. IPE Brent fell $4.79/bbl, closing at $59.14/bbl by 31 October. The prompt month strengthened relative to the second month, reflecting increased bidding by European refiners in the cash market for discounted Brent related grades. European crude demand was up in October as refiners exited maintenance and cracking margins kept positive despite weaker light product prices.

In contrast to WTI , the value of the IPE Brent time spreads in the near three months converged (see charts above). At the same time, the shape of the futures curve flattened in the near-two months, suggesting a balanced outlook between expected higher crude runs and ample supplies. The end of a month long strike at Total's Gonfreville refinery, an averted strike at Shell's Pernis refinery in Rotterdam and a modest schedule for refinery maintenance in November and December were all supportive of crude demand.

Product Prices in October

Spot Product Prices

The products markets in October went through a bit of an air pocket. Light product prices in particular fell against September levels and their premiums to reference crude prices weakened. Gasoline led the decline posting double-digit losses on a percentage basis over the month. Declines in distillate prices were more modest and lagged the path of gasoline (see table below). Premiums for distillate products over gasoline rose in October, holding steady through the month before weakening in early November. In contrast, fuel oil prices while broadly declining, with the exception of low-sulphur material, saw their discounts relative to crude prices remain stable, or narrow.

However, oil demand rises seasonally in fourth quarter. And despite the return of several refineries following Hurricanes Katrina and Rita, a US domestic product supply gap remains in place. A sizable amount of capacity will be offline until the end of the year, leading to continued constraints on US capacity utilisation. The gap is likely to persist into 1Q06 as postponed maintenance and product specification changes by 1 June suggest a deeper US maintenance in the first quarter of next year.

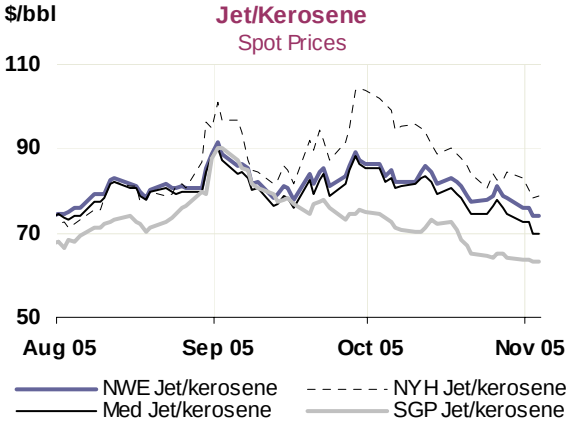
Spot Product Prices

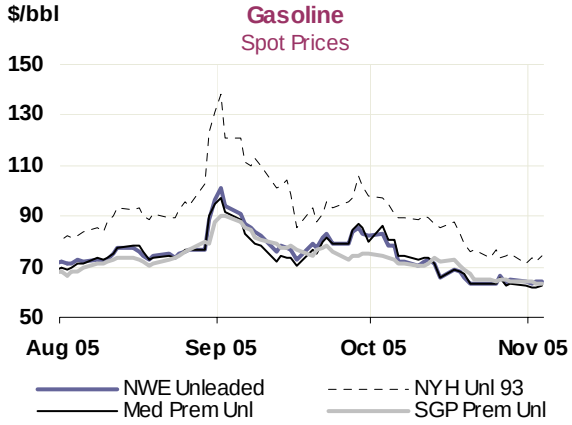
(monthly and weekly averages, $/bbl)

	Aug	Sep	Oct	Oct-Sep		Week Commencing:					Aug	Sep	Oct
				Change	%	03 Oct	10 Oct	17 Oct	24 Oct	31 Oct			
Rotterdam, Barges FOB											**Differential to Brent**		
Premium Unleaded	77.00	84.30	70.69	-13.62	-16.15	78.69	72.03	67.41	65.71	65.31	12.88	21.40	12.08
Unleaded	75.71	82.69	69.11	-13.57	-16.42	76.67	70.46	66.05	64.32	63.90	11.59	19.78	10.51
Naphtha	58.16	62.91	60.21	-2.70	-4.29	60.38	61.00	60.04	59.99	56.82	-5.96	0.00	1.61
Jet/Kerosene	79.99	84.01	81.49	-2.52	-3.00	83.81	83.84	80.44	78.98	74.96	15.88	21.10	22.89
Gasoil .2%	76.91	81.43	78.28	-3.15	-3.87	81.22	79.91	77.03	75.97	72.02	12.79	18.53	19.68
LSFO 1%	43.35	48.55	48.81	0.25	0.52	49.04	49.13	48.16	49.32	45.77	-20.77	-14.35	-9.80
HSFO 3.5%	40.93	43.64	41.68	-1.96	-4.49	41.86	42.55	40.91	41.65	40.58	-23.19	-19.27	-16.92
Mediterrean, FOB Cargoes											**Differential to Urals**		
Premium 50 ppm *	74.56	78.93	67.77	-11.16	-14.14	77.45	69.35	64.16	61.57	60.09	15.95	20.56	12.13
Naphtha	57.92	61.59	58.03	-3.56	-5.79	58.61	58.89	57.70	57.55	54.32	-0.69	3.21	2.39
Jet/Kerosene	78.86	82.33	79.23	-3.10	-3.77	82.51	82.02	77.81	75.92	71.22	20.25	23.95	23.59
Gasoil .2%	76.25	79.52	76.34	-3.18	-4.00	78.62	78.62	75.44	73.87	69.40	17.64	21.14	20.70
LSFO 1%	45.28	50.36	47.19	-3.17	-6.29	47.42	47.13	47.18	47.41	44.03	-13.33	-8.02	-8.45
HSFO 3.5%	39.33	43.20	40.82	-2.37	-5.49	41.42	41.98	40.05	40.17	38.50	-19.28	-15.18	-14.81
New York Harbour, Barges											**Differential to WTI**		
Super Unleaded	92.33	102.55	83.29	-19.26	-18.78	92.44	88.00	80.40	74.75	72.85	27.37	37.04	21.01
Unleaded	80.18	90.13	71.83	-18.30	-20.30	81.76	73.78	68.74	64.83	63.71	15.22	24.61	9.56
Jet/Kerosene	79.63	91.36	90.05	-1.31	-1.44	98.37	92.93	87.36	82.93	80.08	14.68	25.85	27.77
No. 2 (Heating Oil)	75.57	82.34	79.45	-2.89	-3.51	82.59	81.85	78.71	75.87	73.10	10.61	16.83	17.18
LSFO 1%	45.72	50.86	50.11	-0.76	-1.49	47.62	48.48	51.00	53.03	51.11	-19.24	-14.65	-12.17
No. 6 3%	37.81	43.52	43.42	-0.11	-0.25	45.28	42.98	42.82	42.98	41.09	-27.15	-21.99	-18.86
Singapore, Cargoes											**Differential to Dubai**		
Premium Unleaded	73.19	79.40	69.10	-10.30	-12.97	72.59	71.47	68.82	64.57	63.64	16.59	22.87	15.14
Naphtha	58.17	61.73	57.80	-3.93	-6.37	57.76	58.02	58.22	57.44	55.91	1.57	5.19	3.84
Jet/Kerosene	75.84	79.16	75.71	-3.45	-4.36	80.79	78.11	74.38	70.97	66.75	19.24	22.62	21.75
Gasoil .5%	70.66	75.45	72.62	-2.83	-3.75	76.08	74.69	71.75	69.10	65.58	14.06	18.91	18.66
LSWR Cracked	52.50	54.35	50.55	-3.80	-6.99	52.52	51.19	49.83	49.08	48.38	-4.10	-2.19	-3.41
HSFO 180 CST	44.60	49.91	47.96	-1.95	-3.91	47.50	48.66	47.80	47.94	47.48	-12.00	-6.62	-6.00
HSFO 4%	43.35	48.93	47.99	-0.94	-1.92	46.96	48.78	48.22	48.15	47.01	-13.25	-7.61	-5.97

* From January 2005 Premium Unleaded 50 ppm

The broader macro context, as indicated earlier, remains supportive of a reversal of October trends before the end of the fourth quarter. Economic activity continues to remain strong in the US, while other centres driving oil demand growth like China is also expected to see demand growth accelerate after a weaker first half of the year.





The Americas

The main mover in US product markets in October was gasoline. Market focus appeared dominated by apparent 'demand destruction' following Hurricanes Katrina and Rita, taking at face value weakness in US preliminary weekly data. Alternatively, the case may have been, more simply, one of shorting gasoline and taking profits on high prices given improving near-term supply conditions.

Finished gasoline production rebounded to pre-hurricane levels by end-October, with runs recovering on the Gulf Coast. Higher output was also seen in PADD I and II, namely in conventional material through blending of European and South American supplies. Crude runs increased with the gradual return of refineries, product yields were geared to maximise gasoline output and average gasoline imports remained at record levels. Alongside seasonally weaker demand heading into the winter, gasoline inventories closed at about their five-year average by the end of October.

The premium of Gulf Coast RFG and conventional material to New York Harbour fell, while gasoline prices on the West Coast also regained their usual premium of about 20 cents a gallon relative to Gulf Coast values. The monthly average price for unleaded gasoline (pipeline) on the Gulf Coast fell from $98.47/bbl in September to $75.80/bbl (-23.02%) in October. Similarly, the monthly average barge price for unleaded gasoline New York Harbour fell from $90.13/bbl to $71.83/bbl (-20.3%) and $94.80/bbl to $78.90/bbl (-16.77%) in Los Angeles. NYMEX Gasoline futures are in contango and unleaded RFG cash prices in New York Harbour against the screen moved into deeper discounts during October, encouraging product to move into storage. Spot prices appear to have bottomed out for now, holding in a relatively stable range since the second half of October. Retail prices, after peaking at over $3 a gallon, are back down to under $2.50.

US prices of diesel and heating oil held on longer to September gains in New York Harbour before declining in the second half of October, while jet/kerosene values declined from the onset of the month. Tightness was focused on diesel rather than heating oil. Heating oil inventories were positioned at the top of their five-year range in the main consuming Northeast region. As a result, we have yet to see a strong increase in wholesale heating oil prices. Since September, heating oil prices were down 12% compared to a 33% gain during the same time last year and a five-year average increase of around 6%. Strength in diesel was underpinned by agricultural and industrial demand, low output in the first half of October and rapidly declining inventories. But as was the case with gasoline, rebounding production and increased imports from Europe and Russia led to a fall in prices.

Despite declining heating oil production, warmer temperatures along with still comfortable inventories led to a weakening of the prompt NYMEX heating oil contract, driving cash prices lower. While physical heating oil prices continued to be discounted against the front month NYMEX contract, premiums for diesel and jet fuel eased from the peaks reached in September. Diesel premiums fell more rapidly than jet fuel, likely supported by increased blending demand into Russian gasoil to make heating oil.

Fuel oil, on an average basis, saw modest declines in price. Low-sulphur material saw its values on the Gulf Coast and in New York Harbour, after an initial dip, rise during the second half of October. Gulf premiums against New York Harbour remained high due to tight supplies and fuel substitution. Fuel oil output suffered from the lack of Mars and HLS cracking but US production on weekly average basis has been trending down since July, bottoming out in mid-October before recovering. Utility demand has increased as a result of fuel switching away from expensive natural gas. Natural gas prices have been trading significantly above 1% and 0.3% fuel oil.

Further support from the supply side to fuel oil prices came at the end of October. The key Borco storage and blending facility in the Bahamas sustained damage to loading facilities as a result of Hurricane Wilma. The facility, owned by PDVSA, declared force majeure on sales, reportedly leaving about 7 mb of fuel oil stranded in storage.

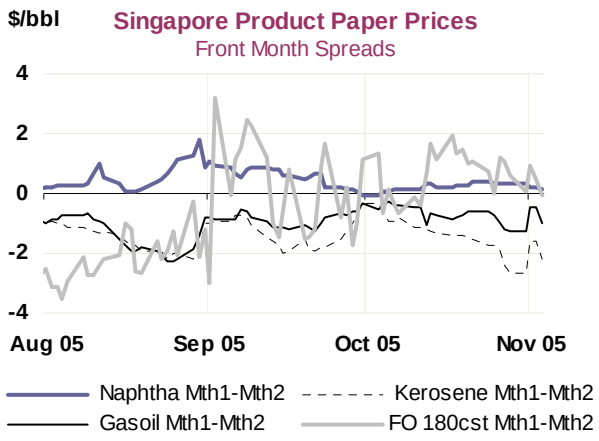
Europe

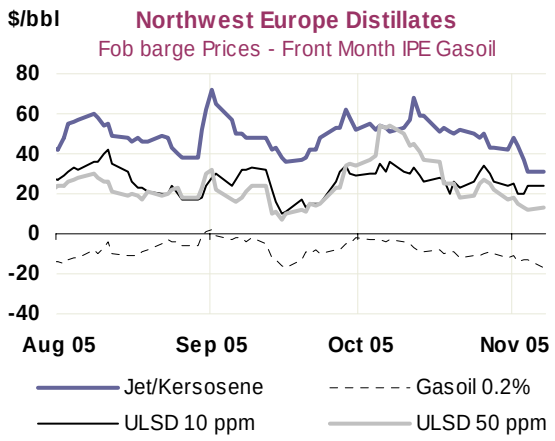
Gasoline prices retraced second half of September gains in ARA and the Mediterranean as supplies backed up in Europe. The weakening of US gasoline prices, along with expensive transatlantic freight rates, limited spot arbitrage possibilities. In the first week alone, prices in Northwest Europe for unleaded gasoline barges dropped from $83.02/bbl on 3 October to $70.85/bbl by 10 October. Cargoes were reported still moving to the US as well as to Iran, Saudi Arabia and West Africa. By the end of the month, a number of cargoes were on offer, though further shipping to Middle East was reported difficult due to product specification issues. The decline in gasoline prices also came against a backdrop of weak European demand for gasoline.

Losses in distillates were similar to those observed in the US and less severe than for gasoline. Premiums of spot prices of jet fuel against the IPE's front month gasoil contract fell, as jet values declined faster than the futures contract. Higher supplies of gasoil (0.2%) and diesel over the month led to a widening of their discounts against the contract.

Spot gasoil (0.2%) came off a by almost $11/bbl in Northwest Europe in October. Heating oil demand was relatively weak, and despite some end-user buying by German consumers, remained thin in light of high prices and warm temperatures. Demand was satisfied locally by refiners rather than by imported supplies, putting downward pressure on prices in the ARA area. Europe continued to be supplied by Russian gasoil, but earlier price strength also attracted gasoil from Asia and Venezuela. Spot arbitrage to the US seemed limited during October. Though spot discounts to New York Harbour were still in place for first half of October, expensive freight rates, as in the case of gasoline, limited movement of product.

Diesel prices did not appear supported from the month long strike at Total's Gonfreville refinery much beyond the first week of October. During the month, Europe saw the arrival of Venezuelan and Russian material and the release of strategic stocks from IEA Member countries earlier in September coupled with weak demand weighed on market sentiment. The Netherlands released 103,000 tonnes of diesel by tender in mid-September, with deliveries scheduled in two allotments (the first delivery was scheduled on 23 September and final delivery by mid-October). France lowered compulsory industry obligations with a bias on distillate rather than gasoline and some distillates were also sold from strategic storage in Germany.





Jet/kerosene prices fell in line with a decline in gasoil prices. Stocks in independent storage still remained relatively high despite declining on the month. Arrivals of jet cargoes into ARA from the Middle East continued as the area is structurally short on the product. Spot availabilities on offer were reported lower than in September, the contango in jet swaps and in IPE's gasoil contract favouring storing product instead. Fewer unsold Middle Eastern cargoes were also reported delivered into ARA as these were diverted to the US.

Fuel oil prices held relatively firm in October despite the decline in crude oil prices. High-sulphur material posted only modest declines despite heavy inflows of Russian fuel oil from the Baltics as some surplus was exported to Asia via VLCCs. However supplies of high-sulphur material remained plentiful, weakening prices of the product relative to low-sulphur grades. Low-sulphur material actually firmed on average over October, though demand from utilities in the Mediterranean was reportedly low and spot arbitrage to the US closed.

Singapore

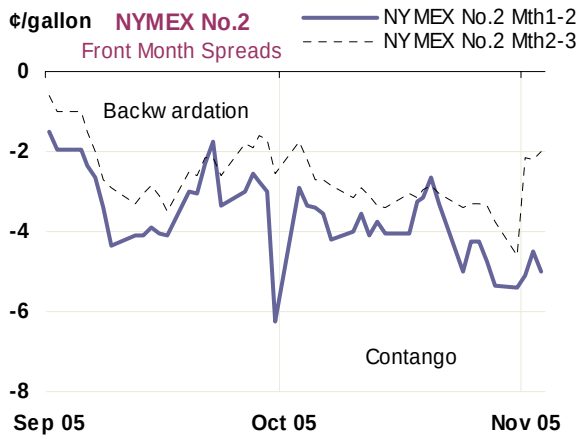
Product prices in Singapore followed similar trends to those observed in the Atlantic Basin with declines observed in light product prices. Paper prices fin Singapore or jet/kerosene and gasoil moved into contango. Similarly, heavy fuel oil prices were firm as bunker demand picked up and supplies tightened on lower arrivals during October of arbitraged material from the West. Singapore benchmark 180cst prices moved into backwardation as a result. Naphtha prices remained relatively stable during the month despite weakness in gasoline and, like fuel oil, were backwardated.

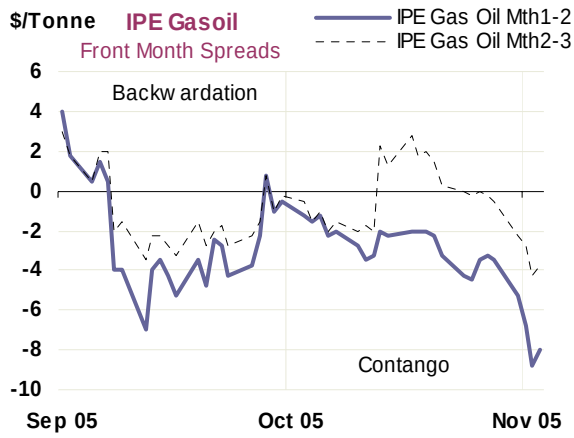
Gasoline fell on average $10.30/bbl (12.37%) in October despite reduced exports from China. Regional demand is expected weaker due to changes in Indonesian domestic prices. Indonesian imports are expected down for the rest of 2005 as a reduction in retail subsidies as of 1 October is anticipated to curtail domestic consumption. Sentiment on the gasoline turned negative due to offers of product emerging from India. Singapore and Arab Gulf (fob) naphtha prices fell only $5.00/bbl month to month, tighter supplies from the Middle East offsetting additional spot supplies from India.

Kerosene prices in Singapore fell rapidly as regional supplies grew ample. Stocks of kerosene, used as a heating fuel, appeared to build strongly ahead of winter, particularly in Japan where they trended at, or above 2004 levels. The decline came despite stronger jet fuel demand from China for its fourth quarter. The prospect of surplus of gasoil cargoes from India led prices for the product to fall alongside those of kerosene. Nominal opportunities for arbitrage to Europe were reported but freight rates did not appear to support of shipping product. Gasoil supplies were seen rising in the region as refiners increased output on healthy crack spreads.

Product Futures

Prompt month gasoline futures on NYMEX fell heavily through October as concerns of US gasoline shortages diminished and the market appeared focused on weak preliminary gasoline demand data, disregarding upward revisions to demand in August. Supplies of blending components in the New York rose as a result of heavy inflows from Europe while production of RFG gasoline (physically delivered into the contract) was increasing. Gasoline output also recovered as refiners maximised yields over those for distillates.

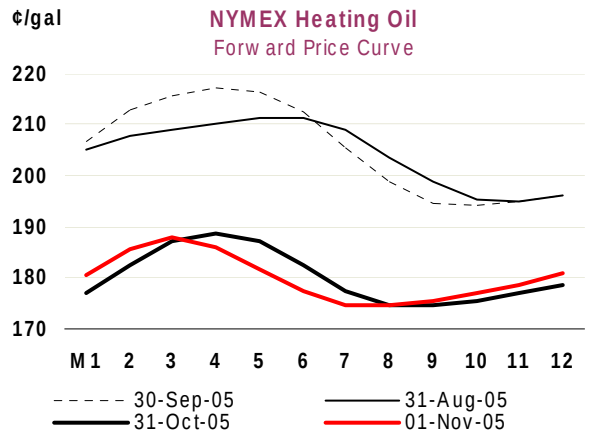


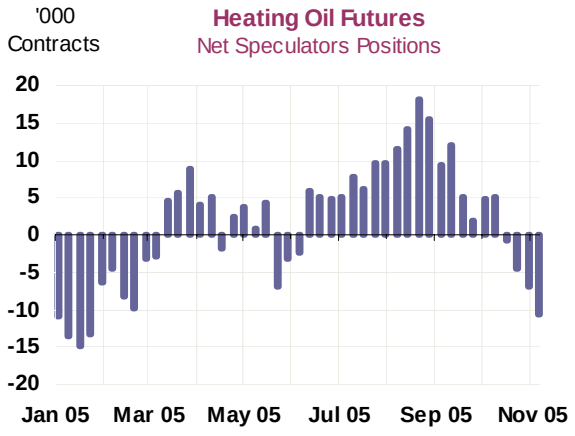


The differential in the near months of the NYMEX gasoline contract switched from backwardation to contango in October. The spread typically converges over October and November before moving into contango to encourage stock building ahead of the summer season. Mirroring the trend observed in 2004, this year's early shift could reflect anticipation of tighter supplies next year, stemming from deeper maintenance during the first quarter ahead of a product specification change in sulphur on 1 June. The speculative position on gasoline was net-long during October, with the volume of contracts progressing from about 19,000 at the beginning of the month to just under 24,000 by November.

Prompt heating oil futures on the IPE and NYMEX fell significantly in October. Comfortable inventories and warmer weather were the main drivers of this decline. The decline also came against a backdrop of improving global distillate supplies, which at least in the near term, temporarily alleviated concerns over availabilities of swing supplies to the US market.

The speculators appeared, in the near-term, to see heating oil prices as having peaked, as they shifted their positions on futures from net-long to net-short in mid-October. Interestingly, speculators on the NYMEX were also net-short on natural gas (a large component of heating demand) as well. At the time of writing, the contango on NYMEX heating oil was quite wide for the December/January delivery and the following January/February delivery spreads encouraging stock builds, seasonally narrowing in subsequent time spreads.





The recent trends in crude and product futures on NYMEX translated into falling crack spreads. The gasoline crack appeared heavily sold, the spread tightening by $6.74/bbl (23.56 cents a gallon on 30September to 7.50 on 1 November). The decline in heating oil cracks was less abrupt, falling about $2.00/bbl over the same period. The prompt month gasoline crack was at $6.55/bbl for gasoline and stood at $15.23/bbl for heating oil on 3 November.

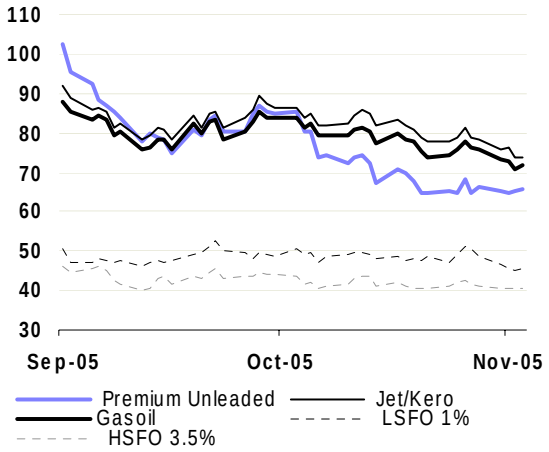
End-User Product Prices in October

US gasoline pump prices fell by 2.8% in October, while those for Canadian consumers dropped by 11.5% before tax. The comparative fall in European gasoline prices was over 5% in France, Germany and Spain (in US dollar terms, outside taxation). Conversely, October prices for automotive diesel rose dramatically from September levels in North America.

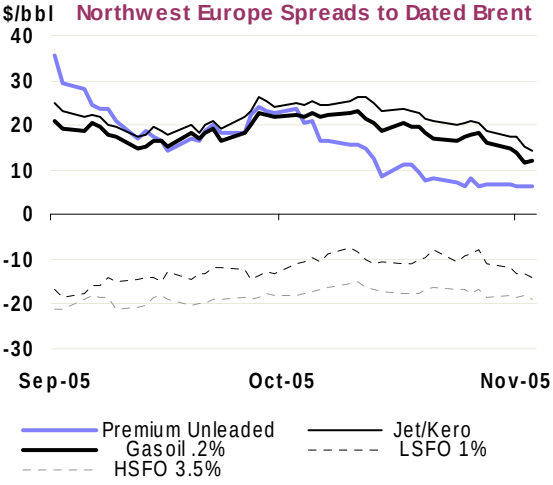
Average monthly end-user prices for automotive diesel increased by 13.5% in the US and 6.2% in Canada. By contrast, Spain, UK and Japan actually experienced drops in ex-tax consumer diesel prices in October, on a dollar basis. Average end-user October prices for heating oil were down in Japan and mixed in Europe. Dollar-based LSFO consumer prices rose by 9.8% in Germany in October, before tax, and were up by smaller amounts for other major European consumers.

Product Prices and Differentials to Benchmark Crude Oil Prices

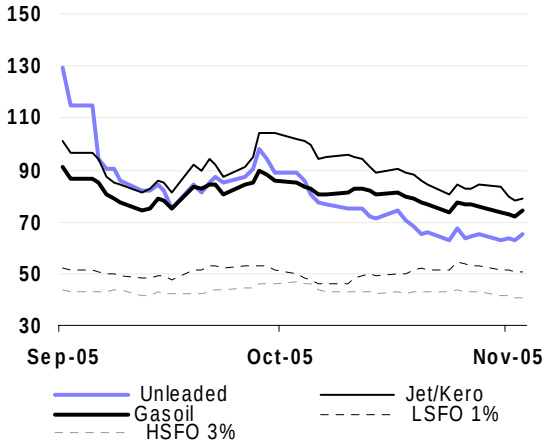
$/bbl Northwest Europe Spot Product Prices



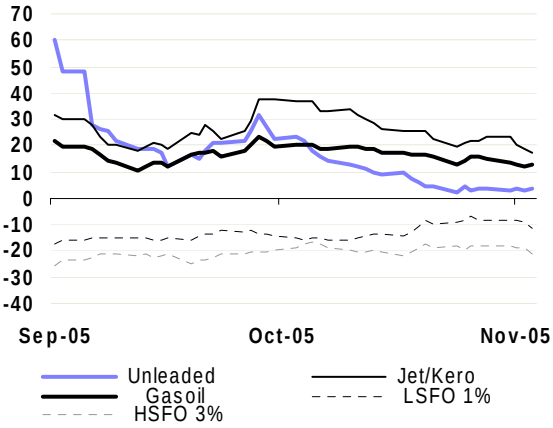
$/bbl Northwest Europe Spreads to Dated Brent



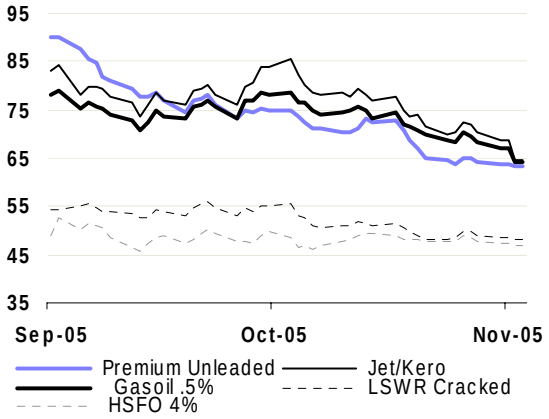
$/bbl New York Harbour Spot Product Prices



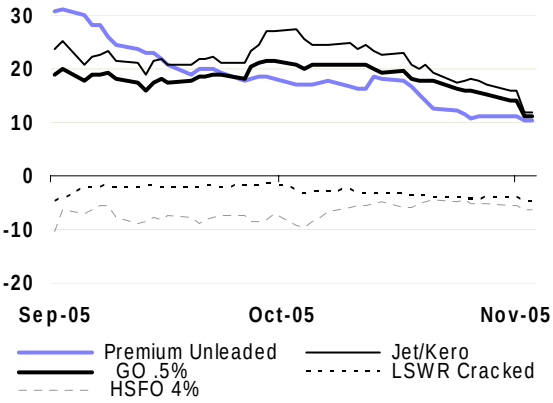
$/bbl New York Harbour Spreads to WTI



$/bbl Singapore Spot Product Prices



$/bbl Singapore Spreads to Dubai



Freight

The damage caused by the September hurricanes continued to exert upward pressure on crude freight rates in October. Logistical problems in the US Gulf have continued to create shipping delays, thereby increasing voyage times and putting upward pressure on tanker rates.

VLCC movements have been particularly affected, leading to a preference for Suezmax vessels to deliver crude into the region. In particular, there were reports of good demand for light, sweet crude as refiners maximised use of less sophisticated units to offset the damaged heavy, sour crude capacity on the US Gulf Coast. Consequently, October-loading West African crude bookings to the US rose to their highest level in recent years, causing a 70% jump in Suezmax freight rates between the end of September and early October.

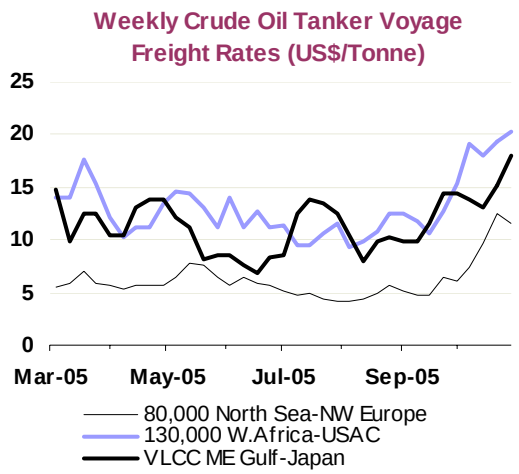
However, the impact of increased Suezmax demand was not limited to West African routes to the US. The extra interest in the Atlantic Suezmax sector pushed up transport costs for North Sea to US Gulf and ex-Black Sea/Mediterranean routes in October.

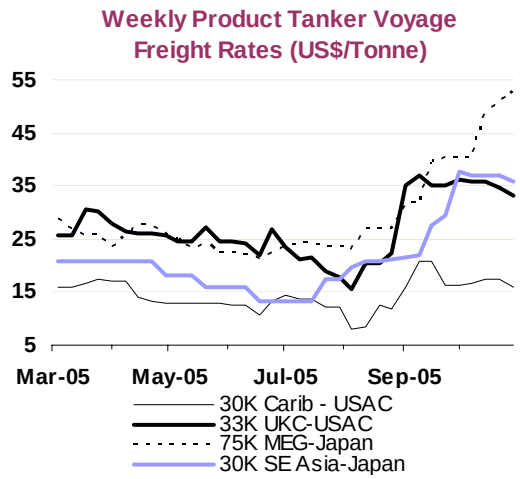
Other upside pressure came from slower transit times in the Turkish Straits (although delays are still mild compared to last year) and increased journey times as the US sourced lighter crudes from further afield. Also, vessels in the East considered ballasting to West Africa rather than the Arabian Gulf to take advantage of more attractive Atlantic Basin rates. This exacerbated the thin global availability of Suezmax vessels which had already forced up Arabian Gulf journey costs.

Suezmax rates dipped in mid-October following the end of French port blockades in the Mediterranean, but resumed a rising trend at the end of the month, dragging VLCC and Aframax markets higher. VLCCs were particularly attractive, with wide freight rate differentials making it profitable for charterers to employ larger vessels. Busy November loading schedules and winter demand levels kept Eastbound and Westbound VLCC rates moving upwards as October ended, although they remain well short of last autumn's spikes.

With the approach of winter bringing increased oil demand and greater risk of weather-induced shipping delays (particularly in the Turkish Straits), pressure on crude and product supply logistics is unlikely to ease.

Clean product freight rates were generally firm in October. Transatlantic rates for cargoes of motor gasoline or gasoil moving from North West Europe to the US Atlantic held above the healthy level of W400 for most of October. This was largely due to congestion in the Gulf of Mexico and continued US refinery outages. Increases in large clean product cargo rates from the Middle East to Japan were sustained throughout October, rising by $1.50 per barrel. Rates were also firm in the Caribbean where movement was disrupted by Hurricane Wilma.





REFINERY ACTIVITY

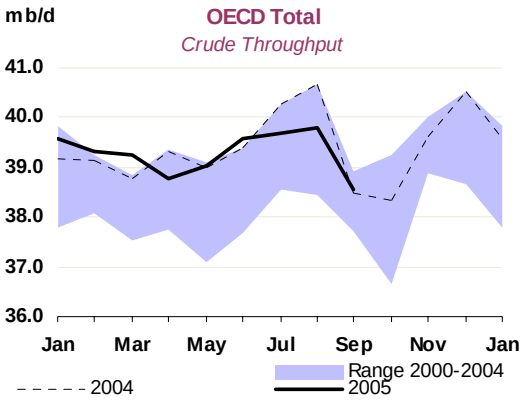
Summary

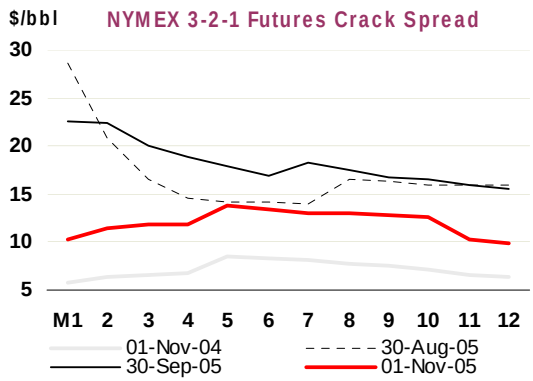
- **Full cost refinery margins** for the Atlantic Basin in October were among the strongest on record. However high average values mask a rapid deterioration over the month led by US Gulf Coast and West Coast margins. In general, light product prices (and gasoline in particular) fell more rapidly than crude prices, putting crack spreads and upgrading margins under pressure by month-end.

- **Refining margins** fell sharply in the US during October, finishing the month in line with their five-year averages. Europe saw stronger hydroskimming margins offset by slightly weaker cracking margins. Asian margins were broadly weaker but changes here were relatively small compared to the US. In early November cracking margins turned negative on the US Gulf Coast as product price weakness continued.

- **Upgrading margins** in Europe, Asia and the US came under pressure in October as fuel oil prices were more resilient than light product prices. The differential between fuel oil and gasoline narrowed by around $20/bbl over the month in Europe and the US and around $10/bbl in Asia, pulling upgrading margins to some of the lowest levels seen all year.

- **OECD refinery throughput** rose in September by 59 kb/d year-on-year to 38.5 mb/d, despite the US outage. Throughput increased in OECD Europe by 427 kb/d and in OECD Pacific by 625 kb/d, offsetting the fall of 993 kb/d in North American throughputs. Two-thirds of the increase in Europe and the Pacific runs is likely to have come from increased crude throughputs in hydroskimming refinery units and the rest from lower maintenance than last year.





Refining Margins

Average refining margins in October were strong by historical standards for a second consecutive month, but fell by as much as 50% from September in the US. Strong average levels also mask a steep downward trend in returns by the end of the month. The US Gulf Coast had the strongest margins at the beginning of October, but saw the largest declines and finished the month below West Coast and European margins. Margins were dragged lower as warm weather, higher crude throughputs in Europe and Asia and the restart of some capacity affected by the Gulf of Mexico hurricanes contributed to rising product availability.

Gasoline was the main factor behind weaker margins. Its crack spread weakened more rapidly and further than other light products. By the end of October the US Gulf Coast saw some of the lowest gasoline cracks for the last two years. Distillate and kerosene cracks were well supported until mid-month, but weakened in the second half of October as warmer-than-expected weather and rising inventories in the Pacific region eased market tightness. Fuel oil prices were the most resilient of the products, with discounts to crude prices narrowing until the end of the month. Early November saw some widening of discounts against crude but low-sulphur fuel oil appears to be in strong demand from utilities, as high US natural gas prices encouraged fuel switching where possible.

Selected Refining Margins in Major Refining Centres

($/bbl)

		Monthly Average			Change	Week Ending:				
		Aug 05	Sep 05	Oct 05	Oct 05-Sep 05	30 Sep	07 Oct	14 Oct	21 Oct	28 Oct
NW Europe	Brent (Cracking)	4.28	10.83	9.28	-1.54	12.99	13.03	7.50	6.10	4.80
	Urals (Cracking)	8.02	12.76	11.37	-1.39	14.37	13.91	9.99	8.97	7.91
	Brent (Hydroskimming)	-2.44	4.11	4.54	0.44	6.41	7.27	3.21	2.84	1.24
	Urals (Hydroskimming)	-0.96	3.11	3.78	0.67	4.77	5.31	3.14	2.76	1.36
Mediterranean	Es Sider (Cracking)	7.10	11.75	8.49	-3.26	12.65	11.31	6.73	6.04	4.05
	Urals (Cracking)	7.19	12.17	10.13	-2.04	13.33	12.66	8.44	8.21	6.11
	Es Sider (Hydroskimming)	0.12	4.87	3.26	-1.62	5.82	4.92	2.07	2.33	0.03
	Urals (Hydroskimming)	-2.17	2.68	2.46	-0.22	3.96	3.96	1.56	1.94	-0.35
US Gulf Coast	Brent (Cracking)	3.89	17.74	10.25	-7.49	27.57	15.84	10.70	3.47	-0.36
	LLS (Cracking)	6.77	19.07	13.55	-5.53	30.93	17.84	13.83	6.13	3.64
	Mars (Cracking)	3.98	12.95	7.95	-5.00	21.07	12.00	8.07	2.23	0.83
	Mars (Coking)	12.55	24.13	17.87	-6.26	35.09	22.43	18.98	9.69	7.67
	Maya (Coking)	18.40	29.78	19.49	-10.29	37.82	24.81	19.32	11.86	9.74
US West Coast	ANS (Cracking)	6.22	12.21	6.30	-5.92	15.01	9.45	6.51	3.59	3.55
	Kern (Cracking)	3.30	9.13	5.84	-3.29	11.60	8.32	6.00	5.68	5.10
	Oman (Cracking)	8.54	14.07	7.78	-6.29	17.11	11.34	8.57	5.99	4.28
	Kern (Coking)	20.52	25.13	14.01	-11.13	26.61	19.32	14.07	11.40	10.74
Singapore	Dubai (Hydroskimming)	-1.96	2.64	2.45	-0.20	3.83	3.52	3.53	2.39	0.74
	Tapis (Hydroskimming)	-5.40	-1.95	-0.59	1.36	-0.85	-0.23	0.44	-0.63	-2.87
	Dubai (Hydrocracking)	3.18	7.78	6.60	-1.18	8.77	8.29	7.79	5.89	4.03
	Tapis (Hydrocracking)	-3.05	1.00	2.30	1.31	2.15	2.94	3.49	2.09	-0.40
China	Cabinda (Hydroskimming)	-3.87	0.43	-0.02	-0.45	1.71	1.09	1.23	-0.05	-3.61
	Daqing (Hydroskimming)	-2.45	-0.61	-2.28	-1.68	-0.20	-0.88	-2.05	-3.05	-4.07
	Dubai (Hydroskimming)	-2.10	2.51	2.29	-0.22	3.71	3.42	3.37	2.24	0.48
	Daqing (Hydrocracking)	2.04	5.00	2.46	-2.54	4.87	4.34	3.26	1.28	-0.14
	Dubai (Hydrocracking)	3.09	7.72	6.44	-1.28	8.69	8.22	7.65	5.73	3.71

For the purposes of this Report, refining margins are calculated for various complexity configurations, each optimized for processing the specific crude in a specific refining centre on a 'full-cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability for a given refining centre. No attempt is made to model or otherwise comment upon the relative economics of specific refineries running individual crude slates and producing custom product sales, nor are these calculations intended to infer the marginal values of crudes for pricing purposes.

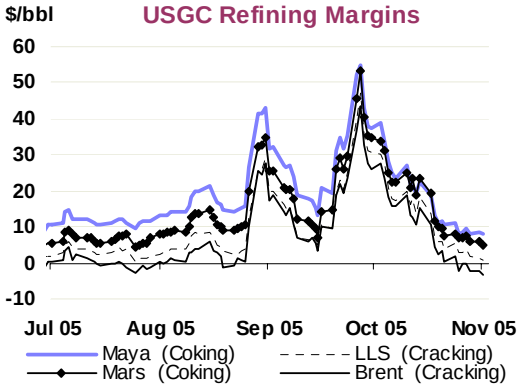
*The China refinery margin calculation represents a model based on spot product import/export parity, and does not reflect internal pricing regulations.
Sources: IEA, Purvin & Gertz Inc.

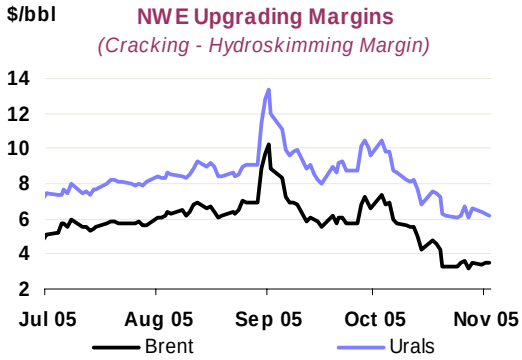
Upgrading margins came under pressure as fuel oil strengthened relative to gasoline and distillate. The differential between fuel oil and gasoline narrowed by around $20/bbl over the month in Europe and the US and by around $10/bbl in Asia. Since early October, worldwide upgrading differentials had fallen by around $8/bbl in the US, $4/bbl in Europe and $1-2/bbl in Asia, to some of the lowest levels seen since the beginning of the year.

Hydroskimming margins remained positive in Europe and Singapore for much of the month, as a worldwide strengthening of fuel oil cracks supported margins. Margins turned negative towards late October and early November, as falling light product values outpaced the contribution from fuel oil. Hence the incentive for additional crude throughputs in hydroskimming refineries appears to be waning as more complex capacity is restored on the US Gulf Coast.

Average US Gulf Coast margins in October were amongst the strongest on record, thanks to the record levels of late September and early October. The strong average hides the fact that over the month margins fell sharply. Gulf Coast LLS cracking margins averaged $13.55/bbl, down 30% on September levels, but still very strong by historical standards. By month-end they were at $2/bbl, in line with the five-year average value of $1.88/bbl. Gulf Coast coking margins displayed a similar pattern to cracking margins, falling by around 30-35% on the month. Mars coking averaged $17.87/bbl and Maya $19.49/bbl, but both had fallen back to near their respective five-year average values by month-end.

US refiners appear to have maximised gasoline production for most of the month at the expense of distillate production. This would be unusual given the seasonal focus on heating oil demand ahead of the Northern hemisphere winter were it not for the hurricane-related disruption. However as gasoline inventories approached their five year average and gasoline production neared pre-hurricane levels gasoline cracks weakened, shifting refinery production back in favour of distillate during the second half of October.



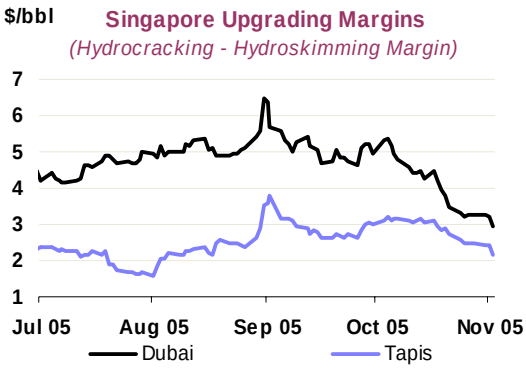


Average West Coast cracking margins fell by nearly 50% in October versus September. This left them in the unusual position of being weaker than margins on the US Gulf Coast, North West Europe and Mediterranean. Cracking margins on ANS and Kern averaged $6.30 and $5.84/bbl, down from $12.21 and $9.13/bbl respectively

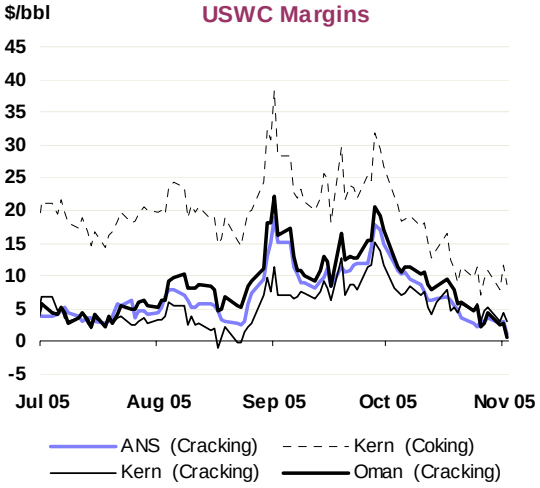
European margins remained very strong in October. Hydroskimming margins in North West Europe (NWE) reached their highest monthly average in the last five years, and cracking and Mediterranean margins posted only small declines versus September. In NWE product markets were tighter than crude markets, due to French industrial action. The disruption also supported diesel's premium to gasoil through the middle of the month. Diesel cracks weakened towards month-end following the resumption of normal refinery operations and mild weather. Fuel oil cracks turned lower in unison. Hydroskimming margins increased by $0.43 to $4.54/bbl for Brent and by $0.67 to $3.78/bbl for Urals, supported by fuel oil's strength and were relatively less affected by the weakness in gasoline.

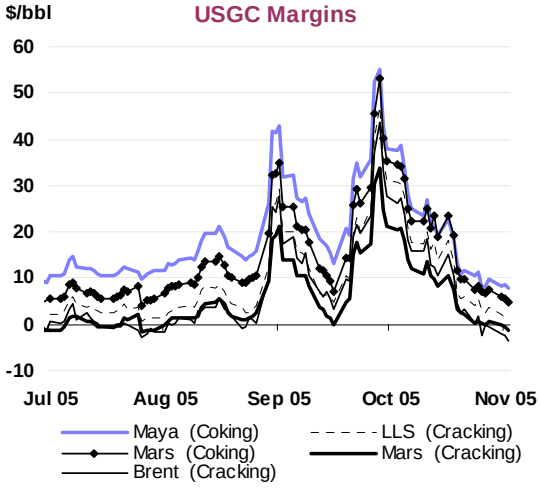
Mediterranean Urals hydroskimming margins fell during October. Average returns were only slightly weaker than September, falling $0.22 to $2.46/bbl and, unlike NWE, finished the month negative as regional values of jet, gasoline and fuel oil weakened more rapidly.

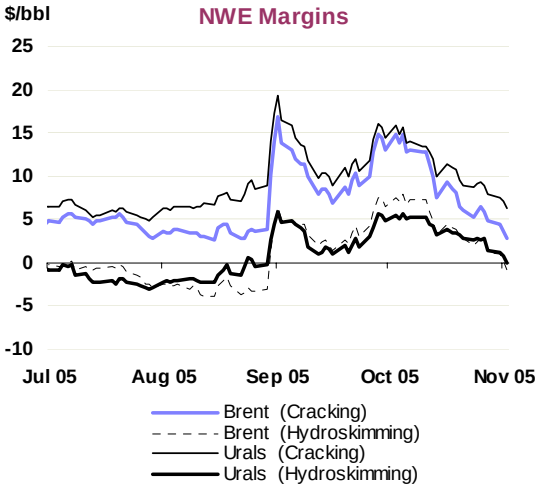
Asia Pacific margins remained healthy during October, supported by stable light product cracks. Dubai hydroskimming margins in Singapore averaged $2.45/bbl, down $0.21/bbl from September, well above the five-year average of -$0.31/bbl. Hydrocracking margins were similarly resilient, averaging $6.60/bbl, a fall of $1.18/bbl from September, but remained significantly above the five year average of $1.49/bbl. Average Tapis margins improved over September's level for both hydroskimming and hydrocracking as a result of strengthening distillate cracks. Singapore gasoline cracks have not been subject to the wild fluctuations seen on the US Gulf Coast and elsewhere: having missed the rises seen in September they did not deteriorate over the month to the same extent.

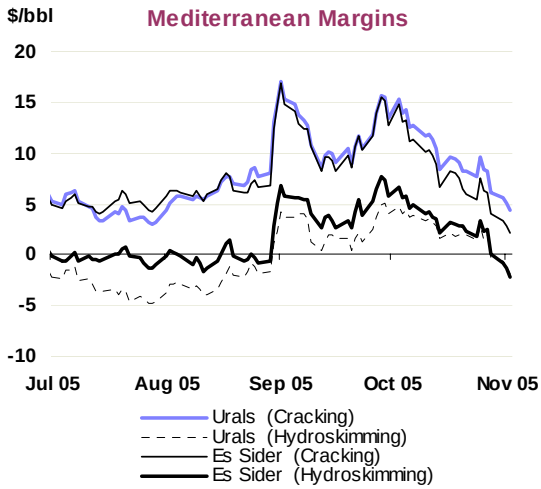


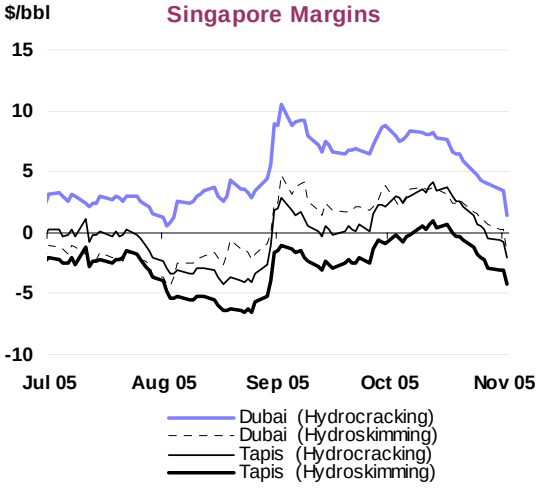
Regional Full-Cost Refining Margins

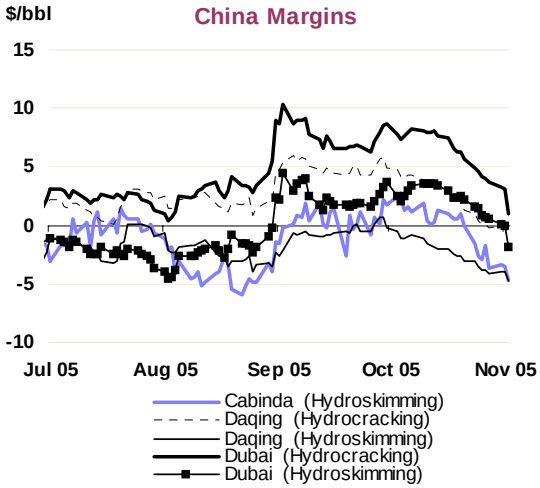












Refinery Throughput

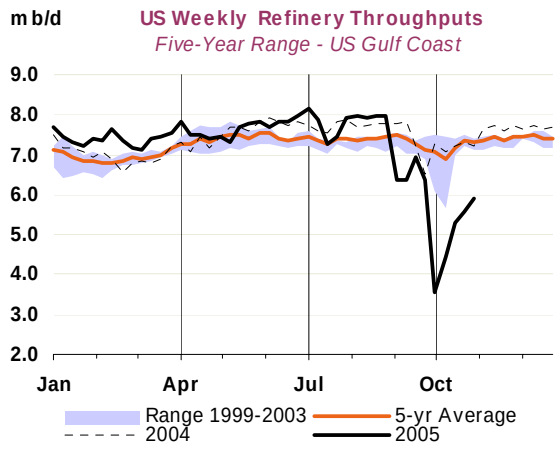
OECD refinery throughputs in September rose by 59 kb/d year-on-year. This increase was achieved despite the disruption to US Gulf Coast refinery operations which reduced North American throughputs by 993 kb/d versus last year. Runs in OECD Europe increased by 427 kb/d and in the OECD Pacific by 625 kb/d year-on-year. Approximately 0.33 mb/d of this 1.05 mb/d increase can be attributed to lower scheduled refinery maintenance in Europe and the Pacific, suggesting that positive hydroskimming margins were a key factor in the remaining 0.72 mb/d of the incremental refinery runs.

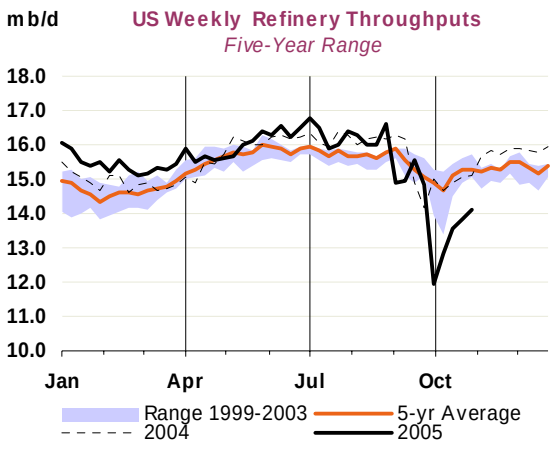
Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from*	*Sep 04*	Utilisation rate[2]	
	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05	mb/d	%	Sep 05	Sep 04
OECD North America										
US[3]	15.49	15.89	16.40	15.91	15.62	14.05	-0.93	-6.2	82.42	88.63
Canada	1.64	1.75	1.81	1.69	1.71	1.68	-0.12	-6.6	83.22	90.45
Mexico	1.33	1.27	1.27	1.23	1.27	1.28	0.05	4.5	76.26	71.96
Total	18.45	18.92	19.48	18.83	18.60	17.01	-0.99	-5.5	82.00	87.53
OECD Europe										
France	1.79	1.56	1.62	1.76	1.78	1.76	-0.01	-0.8	90.01	90.76
Germany	2.22	2.33	2.30	2.30	2.43	2.44	0.15	6.5	99.40	93.35
Italy	1.89	1.95	1.90	1.93	1.91	2.02	0.09	4.5	87.07	83.63
Netherlands	1.12	1.13	1.09	0.95	1.02	1.09	0.16	17.7	89.02	75.96
Spain	1.19	1.18	1.11	1.26	1.20	1.20	0.03	2.4	94.56	92.35
UK	1.58	1.62	1.59	1.75	1.69	1.73	0.07	4.3	94.56	91.09
Other OECD Europe	3.58	3.77	3.95	4.02	4.15	3.98	-0.06	-1.4	85.28	86.45
Total	13.37	13.55	13.57	13.95	14.19	14.22	0.43	3.1	90.46	87.85
OECD Pacific										
Japan	3.96	3.58	3.69	3.96	4.17	4.22	0.49	13.2	89.75	79.35
Korea	2.24	2.33	2.12	2.25	2.16	2.35	0.15	6.8	91.36	86.64
Other OECD Pacific	0.74	0.66	0.72	0.70	0.67	0.73	-0.02	-2.3	84.59	86.50
Total	6.94	6.57	6.53	6.91	7.00	7.30	0.63	9.4	89.72	82.40
OECD Total	38.76	39.03	39.58	39.69	39.79	38.54	0.06	0.2	86.39	86.70

1 Estimate
2 Based on crude throughput and current operable refining capacity
3 US50

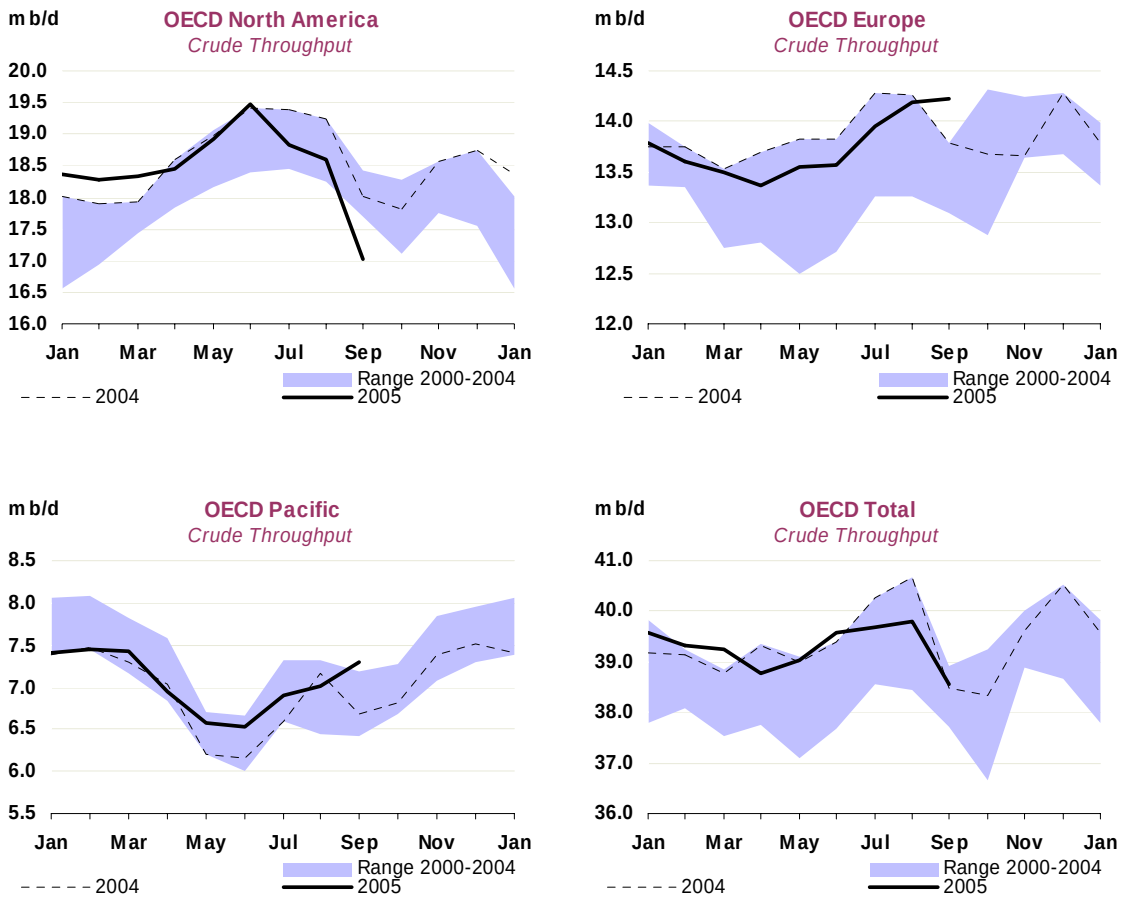
October crude throughputs should be similarly strong given the robust hydroskimming margins seen during the month. European and Asian refinery maintenance is expected to have been significantly below September's levels although strikes at refineries in France and the Netherlands will undoubtedly impact runs. The balance of 2005 is expected to see minimal OECD refinery maintenance activity. However with some maintenance deferred from September and October and with tightening US quality specification in the middle of 2006, the first quarter of next year may see a heavier than normal maintenance programme.





An analysis of the monthly data reveals more clearly the scale of disruption to the global refining system from US Gulf Coast problems. Maintenance normally depresses refinery runs in September, while August typically sees the summer peak in refinery throughput. This seasonal drop in refinery crude runs was amplified by the strong hurricane season. September OECD refinery throughputs were 1.25 mb/d lower than those seen in August. The fall in US crude throughputs of 1.57 mb/d was in addition to a fall of 15 kb/d in the rest of OECD North America. Higher crude runs in OECD Europe and Pacific, totalling 0.33 mb/d from a month earlier, offset this loss. The increase in Europe and the Pacific is all the more impressive given that scheduled maintenance increased offline refinery capacity by around 0.7 mb/d during September compared to August. One can conclude from these facts that around one million barrels of spare capacity was brought into service during September from August.

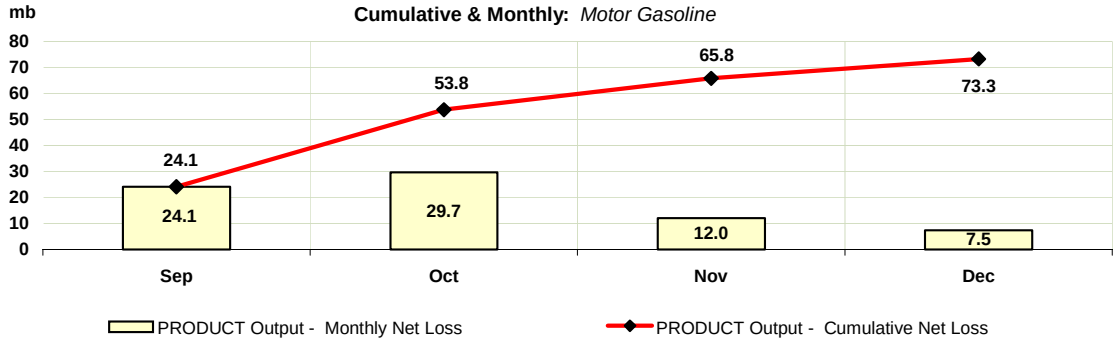
US refining throughputs continued to recover from the disruption caused by Hurricanes Katrina and Rita. End October capacity utilisation on the Gulf Coast was 73% up from the trough of 44% earlier in the month. However average capacity offline in the Gulf Coast region in October was higher at roughly 2.85mb/d, up from 2.37mb/d in September. The strong margin environment appeared to encourage extra throughputs from refiners elsewhere in the US. For the four other regions, weekly EIA reports showed October throughputs above year ago and five-year average levels. Most of the refineries affected by the hurricanes have started, or are restarting, but three plants are expected to remain out of action until the end of the year. Of these, two were affected by Hurricane Katrina (ConocoPhillips Belle Chasse and Murphy Meraux) and one sustained damaged from Hurricane Rita (BP Texas City). Collectively these three refineries represent approximately 800 kb/d, or 5%, of US capacity.

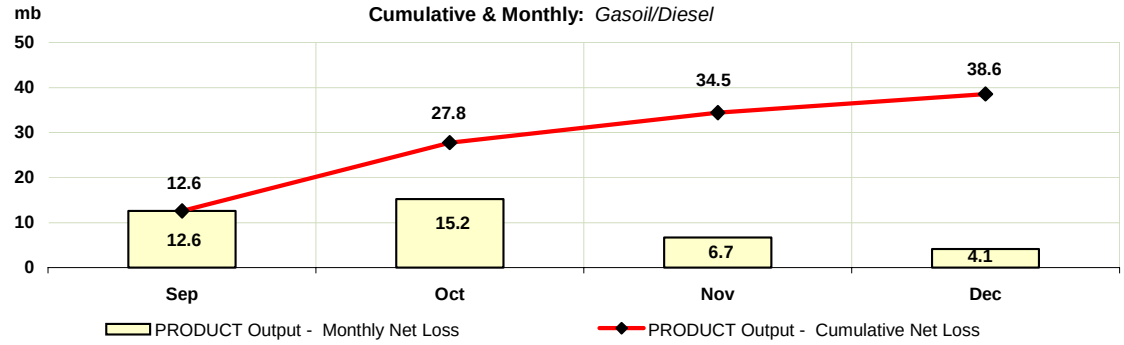


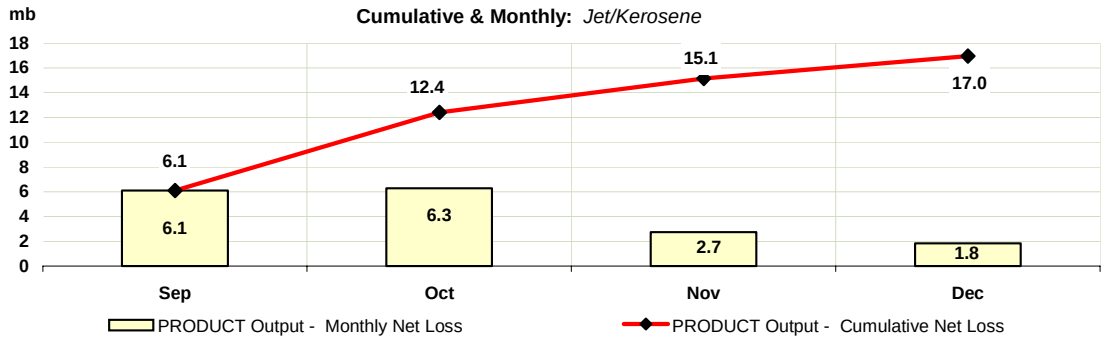
Post-Hurricane Katrina and Rita US Product Output Loss: An Evaluation

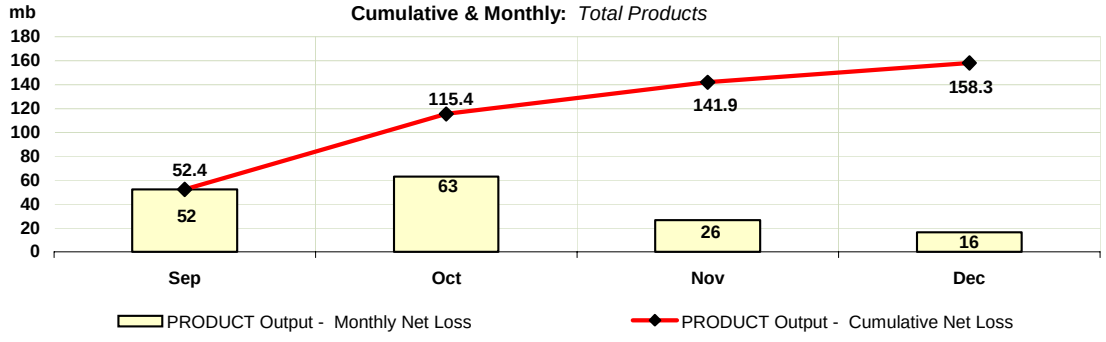
Our updated product loss profile suggests that the cumulative impact by year-end will be 158.3 mb, broadly in line with our original expectation for lost refinery production through to the end of 2005. The impact during September was slightly higher than we first assumed while October is revised down. In total these two adjustments cancel each other out.

US Monthly and Cumulative Product Loss Profile









N.B. Output profile contingent on yield configuration, offline cdu capacity, average utilisation of online CDU capacity

Table 1
WORLD OIL SUPPLY AND DEMAND

(million barrels per day)

	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
OECD DEMAND																	
North America	24.1	24.5	25.2	25.0	25.4	25.7	25.3	25.5	25.3	25.5	25.8	25.5	25.8	25.5	26.0	26.3	25.9
Europe	15.3	15.4	15.7	15.2	15.6	16.0	15.6	15.6	15.3	15.6	15.9	15.6	15.5	15.3	15.6	16.0	15.6
Pacific	8.6	8.7	9.3	7.9	8.2	8.8	8.5	9.5	8.1	8.1	8.9	8.6	9.5	8.1	8.2	9.1	8.7
Total OECD	48.0	48.6	50.2	48.1	49.2	50.5	49.5	50.6	48.7	49.2	50.6	49.8	50.9	48.9	49.8	51.3	50.2
NON-OECD DEMAND																	
FSU	3.5	3.6	3.5	3.7	3.8	4.0	3.7	3.7	3.6	3.6	4.1	3.8	3.8	3.6	3.8	4.1	3.8
Europe	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7
China	5.0	5.6	6.3	6.5	6.3	6.6	6.4	6.5	6.4	6.6	7.0	6.6	6.9	6.9	7.1	7.4	7.1
Other Asia	8.0	8.0	8.4	8.7	8.3	8.7	8.5	8.7	8.9	8.5	8.8	8.7	8.9	9.0	8.7	9.1	8.9
Latin America	4.8	4.7	4.7	4.9	5.0	4.9	4.9	4.8	5.0	5.0	5.0	5.0	4.9	5.1	5.2	5.1	5.1
Middle East	5.2	5.3	5.5	5.5	5.8	5.6	5.6	5.8	5.7	6.1	5.9	5.9	6.1	6.1	6.4	6.2	6.2
Africa	2.7	2.7	2.8	2.8	2.7	2.8	2.8	2.9	2.9	2.8	2.9	2.9	3.0	3.0	2.9	3.0	3.0
Total Non-OECD	29.7	30.6	32.0	32.8	32.6	33.3	32.7	33.3	33.2	33.4	34.5	33.6	34.4	34.5	34.6	35.6	34.8
Total Demand[1]	77.7	79.2	82.2	80.9	81.7	83.8	82.2	83.9	81.9	82.5	85.1	83.3	85.2	83.4	84.5	87.0	85.0
OECD SUPPLY																	
North America	14.5	14.6	14.8	14.7	14.4	14.4	14.6	14.4	14.6	13.7	13.8	14.1	14.5	14.4	14.2	14.4	14.4
Europe	6.6	6.3	6.4	6.2	5.7	6.0	6.1	5.9	5.7	5.4	5.7	5.7	5.7	5.4	5.2	5.4	5.5
Pacific	0.8	0.7	0.6	0.6	0.6	0.5	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Total OECD	21.9	21.6	21.8	21.5	20.8	21.0	21.3	20.9	20.9	19.8	20.1	20.4	20.9	20.4	20.0	20.4	20.4
NON-OECD SUPPLY																	
FSU	9.4	10.3	10.9	11.1	11.4	11.5	11.2	11.4	11.5	11.6	11.9	11.6	11.9	12.0	12.2	12.3	12.1
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
China	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.7	3.6	3.6	3.6	3.6	3.6	3.6
Other Asia	2.5	2.6	2.7	2.7	2.8	2.8	2.8	2.7	2.6	2.7	2.8	2.7	2.8	2.9	2.8	2.8	2.8
Latin America	3.9	4.0	4.1	4.1	4.1	4.1	4.1	4.2	4.4	4.3	4.4	4.3	4.4	4.5	4.5	4.6	4.5
Middle East	2.1	2.0	2.0	1.9	1.9	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.8
Africa	3.0	3.0	3.3	3.4	3.4	3.5	3.4	3.5	3.6	3.8	4.0	3.7	4.1	4.2	4.3	4.5	4.2
Total Non-OECD	24.5	25.6	26.5	26.8	27.3	27.4	27.0	27.5	27.7	28.2	28.7	28.0	28.9	29.1	29.4	29.8	29.3
Processing Gains[2]	1.8	1.8	1.9	1.8	1.8	1.9	1.8	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Total Non-OPEC	48.1	49.0	50.1	50.1	49.9	50.3	50.1	50.2	50.4	49.8	50.7	50.3	51.7	51.5	51.3	52.1	51.6
OPEC																	
Crude[3]	25.1	26.8	27.9	28.0	29.1	29.5	28.6	28.8	29.3	29.6							
NGLs	3.7	3.9	4.3	4.3	4.3	4.4	4.3	4.7	4.7	4.8	4.8	4.7	4.9	5.0	5.2	5.3	5.1
Total OPEC	28.8	30.7	32.2	32.3	33.4	33.9	33.0	33.5	34.0	34.4							
Total Supply[4]	76.9	79.7	82.3	82.5	83.3	84.2	83.1	83.7	84.5	84.1							
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	-0.4	0.1	-0.6	0.9	0.4	-0.2	0.1	-0.1	0.8	0.2							
Government	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.0							
Total	-0.3	0.3	-0.4	0.9	0.5	-0.1	0.2	0.0	1.2	0.2							
Floating Storage/Oil in Transit	0.0	0.2	-0.2	-0.2	0.3	0.3	0.0	-0.4	0.1	0.1							
Miscellaneous to balance[5]	-0.5	0.0	0.8	0.8	0.8	0.2	0.7	0.3	1.2	1.3							
Total Stock Ch. & Misc	-0.8	0.5	0.1	1.6	1.6	0.4	0.9	-0.1	2.6	1.6							
Memo items:																	
Call on OPEC crude + Stock ch.[6]	25.9	26.3	27.8	26.5	27.5	29.1	27.7	28.9	26.8	28.0	29.6	28.3	28.6	26.9	28.0	29.6	28.3
Total Demand ex. FSU	74.2	75.6	78.7	77.2	78.0	79.8	78.4	80.1	78.4	78.9	81.0	79.6	81.4	79.7	80.7	82.9	81.2
Total demand exc. FSU (% ch)[7]	1.1	1.9	3.4	4.8	3.4	3.1	3.7	1.9	1.5	1.2	1.4	1.5	1.6	1.8	2.3	2.4	2.0

1 Measured as deliveries from refineries and primary stocks, comprises inland deliveries, international marine bunkers, refinery fuel, crude for direct burning, oil from non-conventional sources and other sources of supply
2 Net volumetric gains and losses in the refining process (excludes net gain/loss in former USSR, China and non-OECD Europe) and marine transportation losses
3 Upgraded Venezuelan Orinoco extra-heavy production is classified as non-conventional crude.
4 Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply
5 Includes changes in non-reported stocks in OECD and non-OECD areas
6 Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs
7 Year on year % growth in global oil demand excluding FSU

Table 1A
WORLD OIL SUPPLY AND DEMAND: CHANGES FROM LAST MONTH'S TABLE 1

(million barrels per day)

	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
OECD DEMAND																	
North America	-	-	-	-	-	-	-	-	-	-	-0.2	-	-0.1	-	-0.1	-0.1	-0.1
Europe	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	0.1	-0.3	-	-0.1	-	-0.2	-0.1	-0.1
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.1
Total Demand	-	-	-	-	-	-	-	-	-	0.1	-0.4	-0.1	-0.1	-	-0.2	-0.2	-0.1
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-0.2	-0.1	-	-0.1
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	0.1	-0.1	-	-	-	-0.2	-0.2	-	-0.1
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	0.1	0.1	-	0.1	0.1	0.1	0.1	0.1
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	0.1	0.1	-	0.1	0.1	0.1	0.1	0.1
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	0.1	-
OPEC																	
Crude	-0.1	-	-	-	-	-	-	-	-	-0.1							
NGLs	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-0.1	-	-	-
Total OPEC	-0.1	-	-	-	-	-	-	-	-	-0.1							
Total Supply	-0.1	-	-	-	-	-0.1	-	-	0.1	-0.2							
STOCK CHANGES AND MISCELLANEOUS REPORTED OECD																	
Industry	-	-	-	-	-	-	-	-	-0.1								
Government	-	-	-	-	-	-	-	-	-								
Total	-	-	-	-	-	-	-	-	-0.1								
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-	0.1								
Miscellaneous to balance	-0.1	-	-0.1	-	-	-0.1	-	-0.1	-								
Total Stock Ch. & Misc	-0.1	-	-	-	-0.1	-0.1	-	-0.1	-	-0.3							
Memo items:																	
Call on OPEC crude + Stock ch.	-	-	-	-	-	0.1	-	0.1	-	0.1	-0.3	-	-0.1	0.1	-0.2	-0.3	-0.1
Total Demand ex. FSU	-	-	-	-	-	-	-	-	-	0.1	-0.4	-0.1	-0.1	-	-0.2	-0.2	-0.1

When submitting their monthly oil statistics, OECD Member countries periodically update data for prior periods. Similar updates to non-OECD data can occur.

Table 2

Summary of Global Oil Demand

	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
Demand (mb/d)																
North America	24.53	25.22	25.03	25.41	25.69	25.34	25.53	25.33	25.45	25.78	25.52	25.81	25.54	25.96	26.31	25.91
Europe	15.43	15.66	15.20	15.60	16.01	15.62	15.56	15.31	15.61	15.91	15.60	15.53	15.25	15.63	15.97	15.60
Pacific	8.69	9.28	7.90	8.16	8.77	8.53	9.49	8.10	8.09	8.89	8.64	9.52	8.11	8.25	9.06	8.73
Total OECD	48.65	50.17	48.13	49.17	50.48	49.49	50.58	48.74	49.16	50.59	49.76	50.86	48.90	49.84	51.34	50.23
FSU	3.59	3.51	3.71	3.78	3.98	3.74	3.73	3.57	3.63	4.13	3.77	3.81	3.62	3.75	4.08	3.82
Europe	0.69	0.76	0.70	0.66	0.71	0.71	0.78	0.72	0.67	0.72	0.72	0.79	0.73	0.68	0.74	0.74
China	5.58	6.28	6.53	6.32	6.60	6.43	6.55	6.41	6.64	6.98	6.65	6.90	6.92	7.08	7.40	7.08
Other Asia	8.05	8.42	8.67	8.34	8.68	8.53	8.71	8.85	8.49	8.84	8.72	8.87	9.05	8.69	9.07	8.92
Latin America	4.67	4.71	4.87	4.96	4.89	4.86	4.82	4.98	5.03	4.99	4.96	4.92	5.08	5.16	5.10	5.07
Middle East	5.27	5.51	5.45	5.79	5.62	5.59	5.79	5.74	6.08	5.92	5.89	6.10	6.05	6.38	6.22	6.19
Africa	2.73	2.80	2.83	2.73	2.84	2.80	2.90	2.92	2.81	2.92	2.89	2.98	3.01	2.89	3.01	2.97
Total Non-OECD	30.56	31.99	32.76	32.57	33.33	32.66	33.27	33.19	33.35	34.50	33.58	34.37	34.46	34.63	35.63	34.78
World	79.21	82.16	80.90	81.73	83.80	82.15	83.85	81.93	82.51	85.09	83.35	85.23	83.36	84.47	86.97	85.01
of which:																
US	*20.03*	*20.60*	*20.54*	*20.82*	*20.97*	*20.73*	*20.80*	*20.66*	*20.75*	*21.02*	*20.81*	*21.00*	*20.85*	*21.18*	*21.44*	*21.12*
Euro4	*8.30*	*8.39*	*8.10*	*8.36*	*8.48*	*8.34*	*8.19*	*8.06*	*8.30*	*8.31*	*8.22*	*8.10*	*8.02*	*8.26*	*8.34*	*8.18*
Japan	*5.50*	*5.98*	*4.87*	*5.12*	*5.45*	*5.35*	*6.05*	*4.99*	*5.06*	*5.50*	*5.40*	*6.07*	*4.94*	*5.12*	*5.59*	*5.43*
Korea	*2.18*	*2.30*	*2.02*	*2.00*	*2.27*	*2.15*	*2.40*	*2.06*	*2.00*	*2.32*	*2.19*	*2.39*	*2.09*	*2.06*	*2.36*	*2.23*
Mexico	*1.95*	*1.96*	*1.96*	*1.95*	*2.01*	*1.97*	*2.01*	*2.08*	*2.02*	*2.04*	*2.04*	*2.09*	*2.09*	*2.08*	*2.11*	*2.09*
Canada	*2.21*	*2.30*	*2.20*	*2.31*	*2.36*	*2.29*	*2.35*	*2.25*	*2.33*	*2.37*	*2.32*	*2.34*	*2.26*	*2.34*	*2.40*	*2.34*
Brazil	*2.04*	*2.06*	*2.12*	*2.21*	*2.18*	*2.14*	*2.09*	*2.15*	*2.22*	*2.21*	*2.17*	*2.13*	*2.19*	*2.27*	*2.26*	*2.21*
India	*2.47*	*2.66*	*2.65*	*2.47*	*2.61*	*2.60*	*2.77*	*2.64*	*2.50*	*2.67*	*2.64*	*2.82*	*2.71*	*2.55*	*2.73*	*2.70*
Annual Change (% per annum)																
North America	1.7	3.1	3.8	2.9	3.5	3.3	1.2	1.2	0.2	0.4	0.7	1.1	0.9	2.0	2.1	1.5
Europe	1.0	1.4	0.4	0.9	2.3	1.3	-0.6	0.7	0.1	-0.7	-0.1	-0.2	-0.4	0.1	0.4	0.0
Pacific	1.5	-4.2	-2.4	2.8	-3.2	-1.9	2.2	2.5	-0.8	1.4	1.3	0.3	0.0	1.9	1.9	1.0
Total OECD	1.4	1.1	1.7	2.2	1.9	1.7	0.8	1.3	0.0	0.2	0.6	0.5	0.3	1.4	1.5	0.9
FSU	3.2	-8.4	15.8	10.2	2.3	4.4	6.4	-3.9	-3.8	3.8	0.6	2.2	1.5	3.3	-1.1	1.4
Europe	3.8	2.5	2.5	3.0	3.1	2.8	2.6	2.6	1.9	1.9	2.2	2.0	2.1	2.1	2.1	2.1
China	11.0	18.0	23.4	9.2	12.0	15.4	4.3	-1.9	5.1	5.7	3.3	5.3	7.9	6.7	6.1	6.5
Other Asia	1.2	6.5	9.5	4.6	3.4	5.9	3.4	2.1	1.8	1.8	2.3	1.8	2.2	2.4	2.7	2.3
Latin America	-1.8	4.9	5.0	3.9	2.8	4.1	2.3	2.2	1.5	2.0	2.0	2.0	2.1	2.4	2.2	2.2
Middle East	1.9	5.3	8.9	5.5	4.7	6.0	5.1	5.3	5.1	5.3	5.2	5.3	5.4	4.9	5.1	5.2
Africa	1.6	2.2	3.0	3.1	2.6	2.7	3.4	3.4	2.9	2.8	3.1	2.8	2.9	3.0	3.0	2.9
Total Non-OECD	2.8	5.7	11.1	6.0	4.9	6.9	4.0	1.3	2.4	3.5	2.8	3.3	3.8	3.8	3.3	3.6
World	2.0	2.9	5.3	3.7	3.1	3.7	2.1	1.3	1.0	1.5	1.5	1.6	1.7	2.4	2.2	2.0
Annual Change (mb/d)																
North America	0.40	0.76	0.93	0.71	0.86	0.81	0.31	0.30	0.04	0.10	0.18	0.28	0.22	0.51	0.53	0.38
Europe	0.16	0.22	0.05	0.14	0.36	0.19	-0.10	0.10	0.02	-0.10	-0.02	-0.03	-0.06	0.02	0.06	0.00
Pacific	0.13	-0.41	-0.19	0.23	-0.29	-0.16	0.20	0.20	-0.06	0.12	0.11	0.03	0.00	0.15	0.17	0.09
Total OECD	0.69	0.57	0.79	1.07	0.93	0.84	0.41	0.60	-0.01	0.11	0.28	0.28	0.17	0.68	0.75	0.47
FSU	0.11	-0.32	0.51	0.35	0.09	0.16	0.22	-0.14	-0.14	0.15	0.02	0.08	0.05	0.12	-0.04	0.05
Europe	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.01	0.01	0.02	0.02	0.01	0.01	0.02	0.01
China	0.55	0.96	1.24	0.53	0.71	0.86	0.27	-0.12	0.32	0.38	0.21	0.35	0.51	0.44	0.42	0.43
Other Asia	0.09	0.51	0.75	0.37	0.29	0.48	0.29	0.18	0.15	0.16	0.19	0.16	0.19	0.20	0.23	0.20
Latin America	-0.08	0.22	0.23	0.19	0.13	0.19	0.11	0.11	0.07	0.10	0.10	0.10	0.10	0.12	0.11	0.11
Middle East	0.10	0.27	0.44	0.30	0.25	0.32	0.28	0.29	0.30	0.30	0.29	0.31	0.31	0.30	0.30	0.30
Africa	0.04	0.06	0.08	0.08	0.07	0.07	0.10	0.10	0.08	0.08	0.09	0.08	0.08	0.08	0.09	0.08
Total Non-OECD	0.84	1.72	3.27	1.84	1.56	2.10	1.29	0.43	0.79	1.17	0.92	1.09	1.27	1.28	1.13	1.19
World	1.53	2.29	4.06	2.91	2.50	2.94	1.70	1.03	0.78	1.28	1.20	1.37	1.43	1.96	1.88	1.66
Revisions to Oil Demand from Last Month's Report (mb/d)																
North America	-	-	-0.02	-	-	-0.01	-	0.02	0.03	-0.22	-0.04	-0.09	0.04	-0.11	-0.09	-0.06
Europe	-	0.03	-	0.02	0.02	0.02	0.02	0.02	0.01	-0.08	-0.01	-0.01	-0.01	-0.03	-0.03	-0.02
Pacific	-	-	-	-	-	-	-	-	0.05	-0.04	-	0.01	0.01	-0.01	-	-
Total OECD	-	0.03	-0.02	0.02	0.02	0.01	0.02	0.04	0.09	-0.33	-0.05	-0.09	0.04	-0.15	-0.12	-0.08
FSU	-	-	-	-	-	-	-	-0.01	0.01	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	0.03	-	0.01	-0.02	-0.02	-0.05	-0.03	-0.03
Other Asia	-	-	-	0.01	-	-	-	-	-0.04	-0.04	-0.02	-0.03	-0.03	-0.04	-0.03	-0.03
Latin America	-	-	-	-	-	-	-	-	0.01	-	-	-	0.00	-	-0.01	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	0.01	0.01	0.01
Africa	-	-	-	-	-	-	-	0.00	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	0.01	-	-	-	-	0.01	-0.04	-0.01	-0.05	-0.04	-0.08	-0.07	-0.06
World	-	0.03	-0.02	0.02	0.02	0.01	0.02	0.04	0.10	-0.38	-0.06	-0.13	-	-0.23	-0.19	-0.14
Revisions to Oil Demand Growth from Last Month's Report (mb/d)																
World	0.00	0.03	-0.02	0.02	0.02	0.01	-0.01	0.05	0.08	-0.40	-0.07	-0.15	-0.04	-0.34	0.19	-0.09

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2004	2005	2006	2Q05	3Q05	4Q05	1Q06	2Q06	Aug 05	Sep 05	Oct 05
OPEC											
Crude Oil											
Saudi Arabia	8.75			9.21	9.27				9.28	9.28	9.22
Iran	3.93			3.96	3.81				3.85	3.70	3.87
Iraq	1.99			1.84	1.96				1.92	2.01	1.79
UAE	2.35			2.35	2.53				2.54	2.59	2.60
Kuwait	2.05			2.12	2.11				2.11	2.13	2.23
Neutral Zone	0.60			0.57	0.57				0.57	0.57	0.57
Qatar	0.77			0.78	0.80				0.80	0.81	0.83
Nigeria	2.32			2.43	2.46				2.46	2.46	2.46
Libya	1.55			1.65	1.65				1.65	1.65	1.65
Algeria	1.20			1.34	1.36				1.35	1.37	1.37
Venezuela	2.17			2.15	2.12				2.12	2.11	2.12
Indonesia	0.97			0.94	0.94				0.94	0.93	0.95
Total Crude Oil	28.64			29.33	29.58				29.57	29.59	29.64
Total NGLs[1]	4.32	4.75	5.10	4.70	4.79	4.82	4.92	5.01	4.79	4.79	4.83
Total OPEC	32.96			34.03	34.37				34.36	34.38	34.47
NON-OPEC[2]											
OECD											
North America	14.58	14.13	14.38	14.58	13.71	13.84	14.52	14.44	14.33	12.92	13.35
United States	7.66	7.31	7.36	7.74	7.03	6.79	7.44	7.40	7.46	6.19	6.34
Mexico	3.83	3.79	3.79	3.87	3.70	3.86	3.83	3.81	3.84	3.78	3.86
Canada	3.09	3.02	3.24	2.98	2.98	3.19	3.25	3.23	3.02	2.95	3.15
Europe	6.10	5.70	5.46	5.70	5.44	5.71	5.75	5.45	5.29	5.47	5.58
UK	2.06	1.84	1.66	1.90	1.66	1.82	1.80	1.64	1.55	1.68	1.77
Norway	3.19	3.01	3.00	2.94	2.95	3.06	3.13	3.00	2.91	2.95	2.98
Others	0.85	0.84	0.80	0.86	0.83	0.82	0.82	0.81	0.83	0.84	0.83
Pacific	0.58	0.59	0.58	0.62	0.60	0.58	0.59	0.56	0.59	0.59	0.58
Australia	0.54	0.55	0.54	0.58	0.56	0.54	0.55	0.52	0.55	0.55	0.54
Others	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Total OECD	21.25	20.42	20.42	20.91	19.75	20.12	20.86	20.45	20.20	18.99	19.52
NON-OECD											
Former USSR	11.22	11.60	12.12	11.46	11.64	11.87	11.94	12.02	11.65	11.71	11.80
Russia	9.23	9.48	9.80	9.38	9.54	9.65	9.67	9.74	9.53	9.58	9.64
Others	1.99	2.12	2.32	2.08	2.10	2.22	2.28	2.29	2.12	2.13	2.16
Asia	6.24	6.37	6.48	6.26	6.39	6.48	6.47	6.50	6.36	6.42	6.46
China	3.48	3.63	3.63	3.61	3.64	3.65	3.65	3.64	3.66	3.64	3.66
Malaysia	0.86	0.83	0.86	0.77	0.85	0.87	0.88	0.87	0.85	0.86	0.86
India	0.80	0.77	0.79	0.80	0.73	0.74	0.74	0.80	0.68	0.74	0.74
Others	1.10	1.14	1.20	1.08	1.17	1.22	1.21	1.20	1.17	1.17	1.20
Europe	0.17	0.16	0.15	0.16	0.16	0.15	0.15	0.15	0.16	0.16	0.15
Latin America	4.09	4.30	4.50	4.37	4.30	4.38	4.41	4.46	4.27	4.31	4.37
Brazil	1.80	1.99	2.23	2.03	2.01	2.09	2.13	2.19	1.98	2.01	2.09
Argentina	0.80	0.76	0.71	0.77	0.76	0.75	0.73	0.71	0.76	0.76	0.75
Colombia	0.53	0.53	0.52	0.53	0.53	0.52	0.52	0.52	0.53	0.54	0.52
Ecuador	0.53	0.52	0.54	0.54	0.50	0.53	0.54	0.54	0.49	0.50	0.50
Others	0.44	0.49	0.50	0.49	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Middle East[3]	1.91	1.86	1.81	1.86	1.87	1.85	1.84	1.82	1.87	1.86	1.86
Oman	0.79	0.79	0.77	0.79	0.79	0.79	0.79	0.78	0.80	0.79	0.79
Syria	0.50	0.48	0.45	0.48	0.47	0.47	0.46	0.45	0.47	0.47	0.47
Yemen	0.42	0.40	0.39	0.39	0.40	0.40	0.39	0.39	0.40	0.40	0.40
Africa	3.39	3.72	4.25	3.57	3.82	3.96	4.06	4.18	3.87	3.90	3.93
Egypt	0.71	0.70	0.68	0.69	0.69	0.70	0.69	0.68	0.69	0.69	0.70
Angola	0.99	1.25	1.49	1.15	1.34	1.41	1.41	1.43	1.39	1.41	1.41
Gabon	0.24	0.23	0.23	0.23	0.24	0.24	0.24	0.24	0.24	0.24	0.24
Others	1.46	1.53	1.84	1.50	1.55	1.62	1.73	1.83	1.55	1.56	1.58
Total Non-OECD	27.01	28.00	29.30	27.68	28.17	28.68	28.88	29.14	28.18	28.36	28.57
Processing Gains[4]	1.83	1.86	1.90	1.85	1.84	1.88	1.92	1.89	1.84	1.84	1.88
TOTAL NON-OPEC	50.10	50.28	51.63	50.45	49.76	50.69	51.66	51.48	50.23	49.19	49.96
TOTAL SUPPLY	83.06			84.48	84.13				84.59	83.57	84.43

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Orimulsion Orinoco extra-heavy oil, and non-oil inputs to Saudi Arabian MTBE
2 Comprises crude oil, condensates, NGLs and oil from non-conventional sources
3 Includes small amounts of production from Israel, Jordan and Bahrain
4 Net volumetric gains and losses in refining (excludes net gain/loss in FSU, China and non-OECD Europe) and marine transportation losses

Table 4

OECD INDUSTRY STOCKS[1] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	May2005	Jun2005	Jul2005	Aug2005	Sep2005*	Sep2002	Sep2003	Sep2004	4Q2004	1Q2005	2Q2005	3Q2005
North America												
Crude	449.5	447.9	430.6	425.4	424.5	381.2	398.0	394.6	0.06	0.38	0.15	-0.25
Motor Gasoline	245.4	245.4	236.1	222.9	228.4	237.1	228.7	234.6	0.11	0.00	0.01	-0.18
Middle Distillate	181.6	190.1	204.3	212.7	204.0	201.6	206.3	195.4	0.04	-0.26	0.16	0.15
Residual Fuel Oil	46.9	45.9	44.4	41.2	42.5	42.3	40.9	41.2	0.10	-0.02	-0.03	-0.04
Total Products[3]	666.1	676.9	687.8	674.3	675.1	677.0	655.6	653.9	0.01	-0.32	0.56	-0.02
Total[4]	1260.6	1274.5	1272.0	1253.6	1257.4	1219.2	1215.4	1209.3	-0.10	-0.01	0.82	-0.19
Europe												
Crude	359.7	337.6	336.8	335.3	345.0	308.6	317.8	333.1	-0.09	0.24	-0.09	0.08
Motor Gasoline	114.5	103.9	106.7	105.0	104.2	114.2	109.1	111.2	0.04	0.07	-0.19	0.00
Middle Distillate	257.5	242.5	253.6	255.8	250.4	259.2	251.6	250.6	-0.10	0.05	-0.03	0.09
Residual Fuel Oil	78.2	72.2	73.1	73.5	72.8	71.5	71.4	77.0	-0.02	-0.07	0.04	0.01
Total Products[3]	551.5	519.4	538.6	539.9	533.8	547.8	535.3	541.0	-0.07	0.06	-0.23	0.16
Total[4]	986.0	928.9	947.7	948.9	951.7	917.9	925.7	945.1	-0.16	0.33	-0.35	0.25
Pacific												
Crude	171.9	176.6	183.8	181.9	172.0	165.4	183.9	168.7	0.03	-0.02	0.08	-0.05
Motor Gasoline	25.7	24.5	24.4	22.9	23.2	24.2	23.9	23.9	0.00	0.01	-0.01	-0.01
Middle Distillate	62.5	58.9	68.1	73.8	78.1	82.5	83.2	74.8	0.00	-0.29	0.11	0.21
Residual Fuel Oil	24.7	23.4	25.7	23.5	23.5	22.3	23.2	21.3	0.01	-0.01	0.02	0.00
Total Products[3]	178.1	173.2	186.4	187.9	190.8	198.9	204.3	186.2	0.02	-0.37	0.20	0.19
Total[4]	422.8	422.2	441.9	442.3	435.9	439.6	459.2	429.6	0.01	-0.45	0.36	0.15
Total OECD												
Crude	981.1	962.1	951.1	942.6	941.5	855.2	899.6	896.3	-0.01	0.60	0.14	-0.22
Motor Gasoline	385.6	373.8	367.3	350.7	355.8	375.4	361.7	369.7	0.15	0.08	-0.19	-0.20
Middle Distillate	501.5	491.5	526.0	542.2	532.6	543.3	541.2	520.8	-0.06	-0.51	0.24	0.45
Residual Fuel Oil	149.8	141.5	143.2	138.2	138.7	136.1	135.5	139.5	0.09	-0.10	0.03	-0.03
Total Products[3]	1395.7	1369.4	1412.9	1402.0	1399.7	1423.6	1395.1	1381.0	-0.04	-0.63	0.53	0.33
Total[4]	2669.5	2625.7	2661.5	2644.8	2645.0	2576.7	2600.3	2583.9	-0.25	-0.13	0.84	0.21

OECD GOVERNMENT-CONTROLLED STOCKS[5] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	May2005	Jun2005	Jul2005	Aug2005	Sep2005*	Sep2002	Sep2003	Sep2004	4Q2004	1Q2005	2Q2005	3Q2005
North America												
Crude	693.9	696.4	698.8	700.7	693.1	587.2	624.4	670.3	0.06	0.14	0.09	-0.04
Products	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.00	0.00	0.00	0.00
Europe												
Crude	161.0	164.9	165.2	166.3	166.3	150.2	151.3	157.9	0.07	-0.04	0.05	0.01
Products	210.4	235.4	238.2	239.0	239.0	197.4	211.3	207.8	0.01	0.04	0.26	0.04
Pacific												
Crude	384.5	383.4	384.2	383.5	383.5	378.4	382.8	384.9	0.00	0.00	-0.01	0.00
Products	11.0	11.1	11.3	11.5	11.5	7.3	10.3	11.0	0.00	0.00	0.00	0.00
Total OECD												
Crude	1239.5	1244.8	1248.2	1250.5	1242.9	1115.8	1158.5	1213.1	0.12	0.10	0.13	-0.02
Products	223.5	248.5	251.6	252.5	252.5	206.7	223.6	220.9	0.01	0.04	0.26	0.04
Total[4]	1463.9	1494.2	1500.8	1504.0	1496.4	1323.5	1383.1	1434.9	0.13	0.14	0.39	0.02

* estimated

1 Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) and include stocks held by industry to meet IEA, EU and national emergency reserve commitments and are subject to government control in emergencies.

2 Closing stock levels.

3 Total products includes gasoline, middle distillates, fuel oil and other products.

4 Total includes NGLs, refinery feedstocks, additives/oxygenates and other hydrocarbons.

5 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.

Table 5

TOTAL STOCKS ON LAND IN OECD COUNTRIES[1]

('millions of barrels' and 'days')

	End September 2004		End December 2004		End March 2005		End June 2005		End September 2005 [3]	
	Stock Level	Days Fwd[2] Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand
North America										
Canada	174.5	74	167.8	72	164.7	73	164.6	-	-	-
Mexico	41.4	21	41.3	21	44.2	21	45.6	-	-	-
United States[4]	1643.5	78	1646.8	80	1658.8	81	1740.5	-	-	-
Total[5]	1881.5	73	1878.0	74	1889.8	75	1972.9	78	1952.6	76
Pacific										
Australia	34.3	38	33.2	38	34.8	38	35.9	-	-	-
Japan	632.0	116	635.3	105	604.9	121	629.4	-	-	-
Korea	152.1	67	149.4	62	137.4	67	142.5	-	-	-
New Zealand	7.1	48	8.0	49	7.9	53	9.0	-	-	-
Total	825.5	94	825.9	87	785.0	97	816.8	101	830.9	93
Europe[6]										
Austria	20.2	70	21.0	75	20.6	72	20.8	-	-	-
Belgium	27.7	39	27.2	40	26.9	48	27.8	-	-	-
Czech Republic	16.9	81	16.3	86	17.0	78	15.9	-	-	-
Denmark	18.1	94	16.2	86	16.3	88	17.2	-	-	-
Finland	24.0	105	24.4	110	26.2	125	27.0	-	-	-
France	188.5	94	186.2	90	187.4	99	185.6	-	-	-
Germany	264.1	96	267.2	106	280.5	111	279.4	-	-	-
Greece	34.1	76	35.7	77	35.7	97	32.6	-	-	-
Hungary	17.1	117	16.2	128	19.6	137	17.0	-	-	-
Ireland	11.1	58	12.0	60	10.6	58	11.6	-	-	-
Italy	138.7	73	135.8	73	133.7	75	132.1	-	-	-
Luxembourg	0.9	14	0.9	14	0.9	13	0.8	-	-	-
Netherlands	110.2	113	108.3	109	109.4	103	116.6	-	-	-
Norway	25.9	93	26.6	109	29.2	130	21.0	-	-	-
Poland	31.1	66	30.6	74	33.9	79	34.5	-	-	-
Portugal	25.0	73	24.3	68	25.6	77	26.5	-	-	-
Slovak Republic	6.1	83	6.2	95	7.0	99	6.5	-	-	-
Spain	126.8	79	119.8	72	126.7	80	129.4	-	-	-
Sweden	31.5	87	33.8	93	32.0	88	35.4	-	-	-
Switzerland	37.8	135	36.3	131	37.1	147	38.0	-	-	-
Turkey	54.5	83	55.3	100	55.4	80	52.2	-	-	-
United Kingdom	101.4	55	104.1	60	102.2	55	102.3	-	-	-
Total	1311.8	82	1304.3	84	1333.8	87	1330.2	85	1357.9	85
Total OECD	4018.8	80	4008.2	80	4008.5	82	4119.9	84	4141.4	82
DAYS OF IEA Net Imports[7]	-	114	-	114	-	114	-	117	-	-

1 Total Stocks are industry and government-controlled stocks (see breakdown in table below). Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) they include stocks held by industry to meet IEA, EU and national emergency reserves commitments and are subject to government control in emergencies.
2 Note that days of forward demand represent the stock level divided by the forward quarter average daily demand and is very different from the days of net imports used for the calculation of IEA Emergency Reserves.
3 End June and September 2005 forward demand figures are IEA Secretariat forecasts.
4 US figures exclude US territories.
5 Total includes US territories.
6 Data not available for Iceland.
7 Reflects stock levels and prior calendar year's net imports adjusted according to IEA emergency reserve definitions. Net exporting IEA countries are excluded.

TOTAL OECD STOCKS

CLOSING STOCKS	Total	Government[1] controlled	Industry	Total	Government[1] controlled	Industry
	Millions of Barrels			*Days of Fwd. Demand[2]*		
3Q2002	3900	1323	2577	79	27	52
4Q2002	3823	1347	2476	77	27	50
1Q2003	3790	1362	2428	80	29	51
2Q2003	3916	1365	2551	81	28	53
3Q2003	3983	1383	2600	80	28	52
4Q2003	3928	1411	2517	78	28	50
1Q2004	3888	1423	2465	81	30	51
2Q2004	3974	1429	2545	81	29	52
3Q2004	4019	1435	2584	80	28	51
4Q2004	4008	1447	2561	80	29	51
1Q2005	4009	1459	2549	82	30	52
2Q2005	4120	1494	2626	84	30	53
3Q2005	4141	1496	2645	82	30	52

1 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.
2 Days of forward demand calculated using actual demand except in 2Q2005 and 3Q2005 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2002	2003	2004	3Q04	4Q04	1Q05	2Q05	Jun 05	Jul 05	Aug 05	Year Earlier Aug 04	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.64	0.55	0.56	0.52	0.45	0.45	0.39	0.59	0.31	0.64	-0.33
Europe	0.92	1.00	1.03	1.04	1.08	0.88	0.88	0.89	0.83	0.87	0.93	-0.06
Pacific	1.22	1.18	1.24	1.23	1.47	1.40	1.22	1.20	1.24	1.19	1.16	0.03
Saudi Medium												
North America	0.70	0.83	0.80	0.86	0.90	0.97	0.89	0.97	0.76	0.44	0.93	-0.49
Europe	0.11	0.11	0.11	0.11	0.16	0.12	0.13	0.14	0.24	0.16	0.11	0.05
Pacific	0.16	0.24	0.23	0.18	0.23	0.21	0.24	0.21	0.25	0.30	0.20	0.10
Saudi Heavy												
North America	0.20	0.30	0.22	0.30	0.26	0.18	0.15	0.15	0.26	0.18	0.33	-0.16
Europe	0.09	0.19	0.23	0.31	0.20	0.19	0.20	0.23	0.21	0.28	0.32	-0.04
Pacific	0.12	0.16	0.15	0.16	0.18	0.25	0.20	0.20	0.21	0.26	0.13	0.12
Iraqi Basrah Light[2]												
North America	0.35	0.44	0.71	0.68	0.67	0.56	0.69	0.53	0.85	0.32	0.86	-0.54
Europe	0.08	0.09	0.21	0.21	0.13	0.19	0.19	0.16	0.31	0.15	0.20	-0.05
Pacific	0.02	0.03	0.12	0.12	0.15	0.07	0.06	0.07	0.06	0.06	0.14	-0.08
Iraqi Kirkuk												
North America	0.14	0.06	0.02	0.01	0.01	..	..	..	..	..	..	..
Europe	0.32	0.12	0.08	0.03	0.16	0.02	0.04	0.07	0.14	0.07	0.03	0.04
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.17	0.19	0.24	0.23	0.27	0.23	0.18	0.14	0.14	0.16	0.24	-0.08
Pacific	0.12	0.17	0.16	0.16	0.16	0.19	0.13	0.15	0.14	0.16	0.13	0.03
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.44	0.59	0.57	0.65	0.54	0.62	0.63	0.59	0.84	0.55	0.69	-0.14
Pacific	0.54	0.69	0.65	0.58	0.63	0.76	0.59	0.49	0.58	0.43	0.60	-0.17
Venezuelan Light & Medium												
North America	0.68	0.69	0.67	0.64	0.63	0.78	0.88	0.78	0.83	0.76	0.62	0.14
Europe	0.08	0.02	0.01	0.02	0.01	0.02	0.03	0.05	0.01	0.13	0.01	0.13
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.55	0.60	0.88	0.86	0.95	0.83	0.82	0.75	0.72	0.64	0.90	-0.26
Europe	0.05	0.06	0.05	0.06	0.04	0.06	0.06	0.06	0.07	0.10	0.06	0.04
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	0.92	1.32	1.36	1.34	1.37	1.30	1.36	1.40	1.11	1.34	1.38	-0.04
Europe	0.17	0.16	0.16	0.20	0.13	0.18	0.17	0.17	0.13	0.15	0.18	-0.03
Pacific	0.00	0.00	0.00	..	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.01	0.00	..	..	..	0.01	0.00	0.01	..	0.01	..	..
Europe	0.01	0.00	0.01	..	0.02	0.02	0.01	0.03	0.03	0.01	..	..
Pacific	0.01	0.00	0.00	..	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.03	0.14	0.12	0.12	0.21	0.14	0.14	0.05	0.20	0.18	0.06	0.13
Europe	1.32	1.62	1.86	1.78	1.56	1.72	1.93	1.59	1.67	1.74	1.93	-0.19
Pacific	0.01	0.00	0.01	0.01	..	..	0.00	..	0.03	..	..	..
Nigerian Light[4]												
North America	0.38	0.63	0.80	0.78	0.73	0.87	0.87	0.76	0.99	0.92	0.78	0.14
Europe	0.32	0.41	0.28	0.30	0.30	0.30	0.27	0.28	0.38	0.43	0.26	0.17
Pacific	0.06	0.08	0.11	0.09	0.13	0.06	0.06	0.07	0.10	0.04	0.10	-0.07
Nigerian Medium												
North America	0.16	0.17	0.23	0.22	0.20	0.18	0.22	0.31	0.13	0.19	0.24	-0.05
Europe	0.06	0.06	0.04	0.05	0.02	0.07	0.04	0.06	0.06	0.08	0.03	0.05
Pacific	0.01	0.01	0.01	..	..	0.03	0.02	..	..	..	..	..

1 Data based on monthly submissions from IEA countries to the crude oil import register (in '000 bbl), subject to availability. May differ from Table 8 of the Report.
IEA North America includes United States and Canada.
IEA Europe includes all countries in OECD Europe except Hungary, Poland and the Slovak Republic.
IEA Pacific data includes Australia, New Zealand, Korea and Japan.

2 Iraqi Total minus Kirkuk.

3 Iranian Total minus Iranian Light.

4 33 API and lighter (e.g., Bonny Light, Escravos, Qua Iboe and Oso Condensate).

Table 7
Regional OECD Imports[1,2]
(thousand barrels per day)

	2002	2003	2004	3Q2004	4Q2004	1Q2005	2Q2005	Jun-05	Jul-05	Aug-05	Year Earlier Aug-04	Year Earlier % change
Crude Oil												
North America	7584	8069	8397	8547	8442	8577	8618	8950	8687	8412	8968	-7%
Europe	8734	9096	9477	9701	9543	9695	9503	8969	9998	9988	9597	4%
Pacific	6422	6711	6659	6457	6998	7166	6434	6353	6948	6674	6391	4%
Total OECD	22740	23876	24533	24706	24984	25438	24555	24272	25633	25073	24956	0%
LPG												
North America	39	27	24	20	45	23	3	2	12	37	26	29%
Europe	225	193	225	206	263	293	149	110	175	202	141	30%
Pacific	553	541	541	469	561	532	591	549	547	455	475	-4%
Total OECD	817	760	790	695	869	848	743	660	733	694	642	7%
Naphtha												
North America	42	67	86	96	144	124	89	91	188	152	116	24%
Europe	298	305	282	236	251	279	231	238	328	210	247	-18%
Pacific	705	770	769	787	748	772	759	746	674	715	798	-12%
Total OECD	1045	1142	1137	1119	1143	1175	1080	1075	1190	1077	1161	-8%
Gasoline[3]												
North America	643	669	766	805	744	849	1010	1080	989	944	754	20%
Europe	152	150	137	109	138	172	145	165	215	267	163	39%
Pacific	58	70	105	90	106	95	130	138	99	108	80	26%
Total OECD	853	888	1007	1004	988	1115	1285	1383	1303	1319	997	24%
Jet & Kerosene												
North America	97	97	88	89	116	67	43	42	162	88	140	-59%
Europe	253	271	293	353	331	274	363	399	426	480	267	44%
Pacific	97	102	77	52	103	97	72	57	45	42	33	22%
Total OECD	448	470	457	493	550	438	477	498	633	610	440	28%
Gasoil/Diesel												
North America	102	126	122	108	91	110	93	87	72	116	138	-20%
Europe	656	652	751	768	876	931	716	736	770	825	732	11%
Pacific	53	73	74	79	66	60	94	83	84	75	74	2%
Total OECD	811	850	946	955	1034	1101	903	906	926	1016	945	7%
Heavy Fuel Oil												
North America	237	326	388	346	524	489	433	474	533	523	357	32%
Europe	470	398	405	441	396	415	550	467	505	542	392	28%
Pacific	89	88	76	87	64	83	82	69	111	82	82	1%
Total OECD	796	812	870	874	984	988	1065	1010	1148	1147	831	28%
Other Products												
North America	689	680	824	951	774	735	1066	1274	1129	1061	987	7%
Europe	735	690	676	713	658	718	807	885	829	776	741	4%
Pacific	256	235	256	261	252	254	248	228	246	222	262	-18%
Total OECD	1681	1605	1756	1925	1684	1708	2121	2387	2204	2059	1991	3%
Total Products												
North America	1849	1991	2298	2416	2439	2399	2737	3050	3084	2921	2519	14%
Europe	2790	2657	2767	2825	2912	3083	2962	3001	3248	3302	2684	19%
Pacific	1811	1879	1898	1825	1901	1894	1975	1870	1806	1700	1804	-6%
Total OECD	6451	6527	6964	7066	7252	7375	7674	7920	8138	7923	7007	12%
Total Oil												
North America	9434	10061	10695	10963	10881	10976	11355	12000	11772	11333	11487	-1%
Europe	11524	11753	12245	12527	12456	12777	12465	11969	13245	13290	12282	8%
Pacific	8233	8590	8558	8282	8899	9059	8409	8223	8754	8373	8195	2%
Total OECD	29190	30403	31497	31772	32236	32813	32229	32192	33771	32996	31964	3%

1 Based on Monthly Oil Questionnaire data submitted by OECD countries in tonnes and converted to barrels.

2 Excludes intra-regional trade

3 Includes additives

OIL MARKET REPORT CONTACTS

Head, Oil Industry & Markets Division **Editor**	Lawrence Eagles (+33) 0*1 40 57 65 90 e-mail: lawrence.eagles@iea.org
Demand	Jeff Brown (+33) 0*1 40 57 65 93 e-mail: jeff.brown@iea.org
Supply	David Fyfe (+33) 0*1 40 57 65 94 e-mail: david.fyfe@iea.org
Prices/OECD Stocks/Refinery Activity	Harry Tchilinguirian (+33) 0*1 40 57 65 22 e-mail: harry.tchilinguirian@iea.org
Refinery Activity	David Martin (+33) 0*1 40 57 65 95 e-mail: david.martin@iea.org
OECD Stocks/Trade	Toril Ekeland Bosoni (+33) 0*1 40 57 66 36 e-mail: toril.bosoni@iea.org
Statistics/Freight/End-User Prices	James Ryder (+33) 0*1 40 57 66 18 e-mail: james.ryder@iea.org
Administrative Support	Anne Mayne (+33) 0*1 40 57 65 96 e-mail: anne.mayne@iea.org

Fax: *(+33) 0*1 40 57 65 99/40 57 65 09*

* 0 only within France

For all **Subscription and Delivery Enquiries** please contact:

International Energy Agency
Attn: Ms. Sandra Coleman
Oil Market Report Subscriptions
BP 586-75726 Paris Cedex 15, France

Tel. +33 (0) 1 40 57 65 57
Fax. +33 (0) 1 40 57 65 59

E-mail: omr@iea.org

Users' Guide to the IEA Oil Market Report

Readers are referred to the Users' Guide, published in conjunction with the Annual Statistical Supplement (current issue dated 11 August 2005), for information on the data sources, definitions, technical terms and general approach used in preparing the Report. It should be noted that the spot crude and product price assessments are based on daily Platt's prices, converted when appropriate to US$ per barrel according to the Platt's specification of products (©2005 Platt's - a division of McGraw-Hill Inc.).

INTERNATIONAL ENERGY AGENCY/AGENCE INTERNATIONALE DE L'ENERGIE

OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

www.oilmarketreport.org

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

13 December 2005

HIGHLIGHTS

- **Crude futures prices** continued their decline in November, dragged lower by mild weather and weaker refinery margins. However, crude and product prices rebounded with the onset of cold weather in early December. Improved crude supply from the Gulf of Mexico contributed to the contango in WTI futures extending out to April 2007.

- **OECD refinery throughputs** fell 631 kb/d from September to 37.8 mb/d in October. The 1.39 mb/d year-on-year hurricane-induced reduction in North American runs was largely offset by higher throughputs in OECD Europe and Pacific of 915 kb/d, illustrating global supply chain flexibility.

- **Weak global demand** in the third and fourth quarters, in part due to warm weather and hurricane-related disruptions, contributed to a 20 kb/d downward revision to 2005 growth to 1.18 mb/d. The temporary nature of these factors, however, should lead demand growth to recover to 1.79 mb/d in 2006, a 130 kb/d upward revision.

- **World oil supply** increased 1.3 mb/d in November to 85.0 mb/d, led by a recovery in North American output. Hurricane-related US losses are expected to persist through to mid-2006, but fell to 1.1 mb/d in November and are pegged at 675 kb/d in December. Non-OPEC supply growth should rebound to 1.4 mb/d plus 350 kb/d of OPEC other liquids in 2006.

- **November OPEC crude supply** rose by 120 kb/d to 29.6 mb/d, despite ongoing disruptions to Iraqi exports. Output is close to the fourth quarter call on OPEC crude and stock change and OPEC-10 production is near the re-affirmed target of 28 mb/d. OPEC spare capacity remained around 2 mb/d, but the call for 2006 has been upwardly revised to 28.5 mb/d.

- **OECD industry oil stocks** rose 26 mb in October to 2652 mb, 64 mb above last year. The build was mainly in crude but seasonal gains were seen in distillates as well. Days of forward cover were flat in October at 52 days.

Next Issue: 17 January 2006

CONTENTS

INTO THE DISTANCE

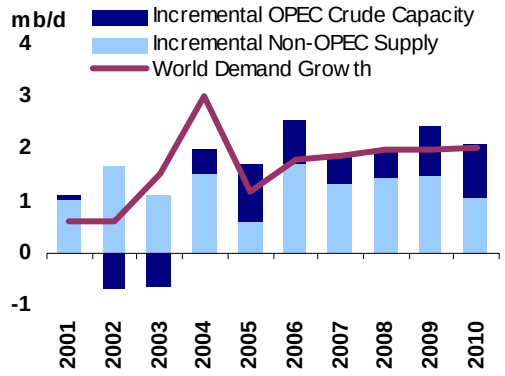
Lower volatility from options markets suggests that the current oil market may have lost some of the nervousness caused by the demand shock of 2004 and this autumn's hurricanes. But is there any reason to expect a dramatic reversal in market fundamentals over the coming years?

Extreme uncertainty has been a constant theme for the past few years. World demand (China, India and US), Russian output, North Sea decline, Middle East tensions, Nigerian unrest, slim upstream and downstream capacity have all played a part in pushing petroleum prices to record nominal highs. Uncertainty will never go away, but concern for some of these issues appears to have moderated.

Confirmation of lower Chinese and global demand growth in 2005 has tempered some of the more extreme forecasts for this winter's call on OPEC. Russian oil supply growth has picked-up, albeit at a much more modest rate. And, the reaction of the world oil industry, IEA governments and markets to the hurricanes in the US Gulf Coast demonstrated the considerable flexibility of the oil supply chain. The sharp reduction in both upstream and downstream spare capacity in 2004 and the prospect of strong future demand growth has elevated the importance of medium-term issues for the market. This and future reports will take up these medium-term issues in more depth, with the first bi-annual report by the IEA on medium-term oil market prospects to be published in the second quarter 2006.

The IEA's projections of global demand growth through 2010, together with forecast evolution in non-OPEC supply and OPEC capacity are both calming and sobering. Expectations of a higher trend in oil demand growth appear justified, as non-OECD economies take a larger share of the world oil market. But there appear to be enough supply-side projects to match that growth.

Net-additions to crude and other liquids capacity by end-year 2005 and 2006 are expected to surpass demand-growth. Two relatively lean years of capacity growth follow, with the potential for a further recovery in spare capacity in 2009 and 2010. But much depends on the demand side.



Our smooth forecast trend in oil demand growth through to 2010 contrasts with the extreme volatility experienced from 1998 to 2005. Recessions and booms are notoriously unpredictable, so, medium-term economic (and oil) analysis concentrates on identifying trends, rather than exact numbers.

Further, with institutions indicating that their mid-term GDP growth forecasts may be optimistic, our smooth projection of 1.8-2.0 mb/d of oil demand growth through to 2010 may ultimately represent an upper-range of forecast levels. Indeed, with developing economies, particularly China and India, constituting a larger share of the world economy, volatility in future world oil demand growth is, in the future, likely to increase rather than decrease. Similarly, the forecast does not include changes related to policy shifts or technological change, beyond those already in place.

The market naturally feels more comfortable with a greater safety margin. Stocks levels have been rising along with higher prices in 2005 as the sector seeks to mitigate the risk of lower spare capacity. A threshold of 3-4 mb/d in "effective" OPEC spare capacity has been identified by several analysts as the minimum buffer-level to cope with demand-side surges, or unexpected outages. But this buffer, like stock cover, has to increase along with demand growth.

In this sense, while the projected recovery of OPEC spare capacity from a historical low of 0.6 mb/d in Q4 2004 to around 3.1 mb/d in Q4 2006 is comforting, it might not be enough. History has also shown that there is nearly always some spare capacity that is not readily usable. Until 2009, effective spare capacity looks likely to fall short of the 3 mb/d comfort zone in the winter months. While this represents an improvement over the past two years, the market is likely to continue to desire a higher level of stocks than was seen earlier this decade.

The medium-term outlook sees no strong evidence of a significant change in current market conditions over the next five years. In the shorter term, while an increase in OPEC capacity through to the end of 2006 is comforting, stronger growth and continuing bottlenecks elsewhere in the value chain leave little room for unpleasant surprises.

DEMAND

Summary

- **Global oil product demand growth** has been relatively weak in the second half of 2005. This is in part due to temporary factors, including hurricane related market disruptions and a warm early winter. Thus demand growth is expected to rebound in the second half of 2006. The preliminary outlook for medium-term (2007-2010) demand growth is relatively robust (1.8-2.0 mb/d per annum) as non-OECD countries are expected to post strong growth. However, this outlook is conditional on continued strong economic growth and unchanged patterns of consumer behaviour and/or energy policies. Thus, actual growth may well be lower.

Global Oil Demand from 2004 to 2006

	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
Demand (mb/d)	82.3	80.8	81.8	83.9	82.2	84.1	81.9	82.8	84.8	83.4	85.4	83.5	84.7	87.1	85.2
Annual Change (%)	3.0	5.3	3.8	3.2	3.8	2.2	1.3	1.2	1.0	1.4	1.6	1.9	2.3	2.8	2.2
Annual Change (mb/d)	2.4	4.0	3.0	2.6	3.0	1.8	1.1	1.0	0.9	1.2	1.4	1.6	1.9	2.3	1.8
Changes from last month's report (mb/d)	0.1	-0.1	0.1	0.1	0.1	0.2	0.0	0.3	-0.3	0.0	0.2	0.1	0.2	0.2	0.2

- **OECD demand** expanded by only 0.3% year-on-year in the third quarter of 2005 and is projected to contract by 0.2% in the fourth quarter. Preliminary indications suggest OECD demand declined by some 1.1 mb/d in October 2005, due to unusually warm weather and market disruptions associated with Hurricanes Katrina and Rita. Because these impacts are expected to prove largely temporary, OECD demand growth should rebound to 2.1% in the fourth quarter of 2006.

- **Global demand growth** is revised down by 20 kb/d for 2005, to 1.18 mb/d. Third quarter demand grew by 1.00 mb/d year-on-year and fourth quarter demand is projected to grow by a weaker 880 kb/d. Looking to 2006, demand is projected to recover to 1.79 mb/d, rebounding from temporary factors that suppressed demand growth in the third and fourth quarters of 2005.

Global Oil Demand by Region
(million barrels per day)

	Demand	Annual Change			Annual Change (%)		
	2005	2004	2005	2006	2004	2005	2006
North America	25.49	0.81	0.15	0.45	3.3	0.6	1.8
Europe	16.36	0.21	0.03	0.02	1.3	0.2	0.1
OECD Pacific	8.61	-0.16	0.08	0.12	-1.9	0.9	1.4
China	6.63	0.86	0.20	0.40	15.4	3.1	6.0
Other Asia	8.75	0.50	0.21	0.22	6.2	2.4	2.6
Subtotal Asia	23.99	1.19	0.48	0.74	5.3	2.1	3.1
FSU	3.74	0.16	0.00	0.08	4.4	0.0	2.3
Middle East	5.92	0.34	0.30	0.31	6.5	5.3	5.3
Africa	2.90	0.09	0.09	0.08	3.2	3.2	2.9
Latin America	4.99	0.19	0.13	0.11	4.1	2.6	2.3
World	83.39	3.00	1.18	1.79	3.8	1.4	2.2

- **US product demand** is revised upwards by some 80 kb/d for September. Our forecasts had allowed for some overstatement of the post-hurricane demand loss shown in preliminary data, but the first monthly data submission showed an even smaller impact. For the months most directly affected by the Hurricanes, oil product demand contracted by 1.9% in September and provisional data indicate that demand declined by some 1.3% in October. Unseasonably warm weather reduced demand for heating oil in the early part of the winter, but temperatures have since declined. Falling gasoline prices have prompted a recovery in demand, and consumption is projected to increase by 1.8% year-on-year in November. Overall, US demand for oil products is expected to resume year-on-year growth in December (0.9%). In the first half of 2006, US demand growth is seen averaging 220 kb/d before accelerating to 500 kb/d in the second half of the year versus the low hurricane, and weather-impacted, 2005 baseline.

- **Preliminary data suggest that OECD Pacific** deliveries were extraordinarily weak in October**.** Japanese deliveries were down by some 8.4% and Korean deliveries were off by 8.3%. This is likely attributable to warm weather and other temporary factors, rather than evidence of a more permanent trend.

Preliminary Inland Deliveries - October 2005[1]

	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other[2]		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
USA[3]	8.99	-1.2	1.58	-3.6	3.17	0.4	0.90	-5.4	0.97	12.8	4.8	-6.1	20.45	-2.0
Canada	0.70	0.0	0.15	8.8	0.47	0.2	0.06	-11.8	0.13	10.2	0.2	-25.9	1.71	-3.2
Mexico	0.66	5.5	0.05	-1.9	0.32	3.3	0.00	na	0.30	-2.0	0.4	4.2	1.70	3.2
Japan	0.98	-5.1	0.36	-23.0	0.62	-7.8	0.40	-14.3	0.42	-3.0	1.4	-6.1	4.21	-8.4
Korea	0.15	1.3	0.06	1.8	0.38	-2.1	0.08	-23.8	0.20	-28.1	1.0	-5.7	1.87	-8.3
France	0.24	-7.8	0.14	1.5	0.62	-1.3	0.26	-26.1	0.06	31.5	0.5	1.1	1.77	-5.2
Germany	0.54	-7.9	0.19	0.6	0.60	0.7	0.53	6.7	0.10	-7.6	0.5	5.7	2.45	0.4
Italy	0.30	-6.6	0.08	0.0	0.51	2.1	0.13	-5.9	0.14	-31.2	0.4	-0.4	1.53	-5.1
Total	**12.55**	**-1.7**	**2.60**	**-5.5**	**6.68**	**-0.4**	**2.35**	**-8.4**	**2.32**	**-1.3**	**9.2**	**-5.1**	**35.67**	**-3.1**

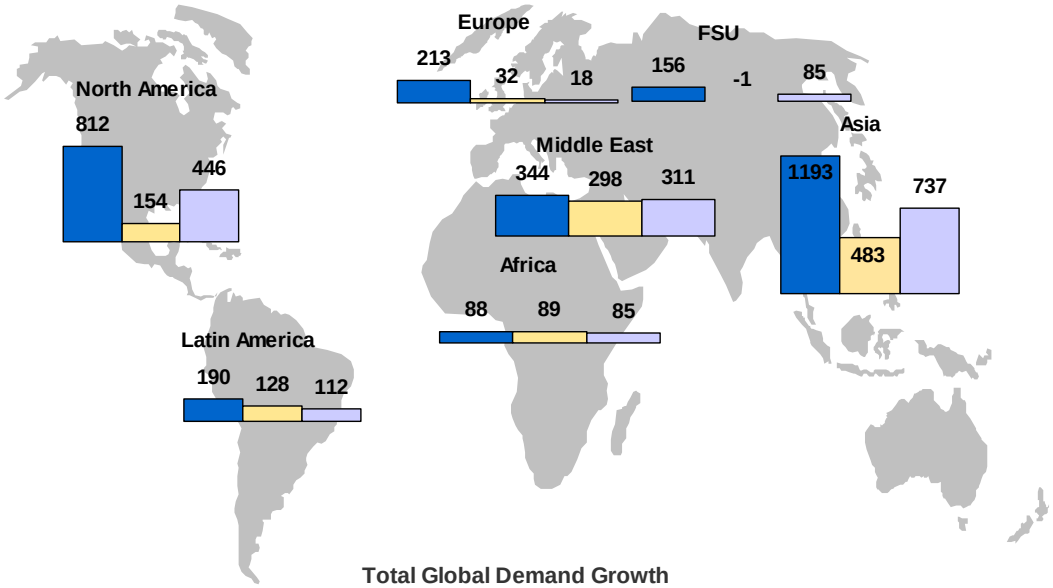
Sources: US EIA, Statistics Canada, Mexico PEMEX, Japan METI, Korea KNOC, France CPDP, Germany MWV, Italy Ministry of Industry
Percentage change is calculated versus last year
1excludes refinery fuel and bunkers (except US)
2 includes direct use of crude oil
3 fifty states only. Diesel's share of total distillate is estimated. Note that monthly US demand data are subject to revision, as discussed in the Reports dated 13 July 2005 and 11 August 2005

- **Chinese apparent demand** grew by 8.0% in September and a preliminary 5.2% in October from the same period last year—still weaker than year-on-year growth in 2004, but certainly stronger than earlier in 2005. Looking to 2006, fuel oil demand growth is expected to contract by 2.8% following a 6.6% downturn in 2005. There is evidence that power sector imbalances are being resolved faster than expected, and thus the demand for fuel oil in power should continue its decline. Similarly, diesel use in power generation will also decline, but at this point the 2006 projection for total diesel demand is largely unchanged as the Chinese economy continues to surge ahead.

- **Non-OECD historical demand** has been revised to a limited extent for some countries due to a preliminary country-by-country and product-by-product examination of the data released through the Joint Oil Data Initiative (JODI). The JODI data is sometimes incomplete and of variable quality, but in some instances evidence of changes and inflection points in trends are useful in complementing evaluations of non-OECD demand prior to the release of more detailed data in August 2006. Non-OECD demand is revised upwards by some 60 kb/d in 2004, with many of these changes extending through 2005 and 2006.

Global Demand Growth 2004/2005/2006

thousand barrels per day



Total Global Demand Growth
(mb/d)

2004	3.00	3.8%
2005	1.18	1.4%
2006	1.79	2.2%

Provisional Mid-term Demand Projections

In the second quarter of 2006, for the first time, we plan to present detailed mid-term demand projections extending through 2010. This month's Report overviews current mid-term results, which may be subject to some revision as projections for individual countries are further refined and annual data for 2004 is received. Subsequent reports will discuss pertinent issues related to the mid-term forecasts, culminating in the finalised projections.

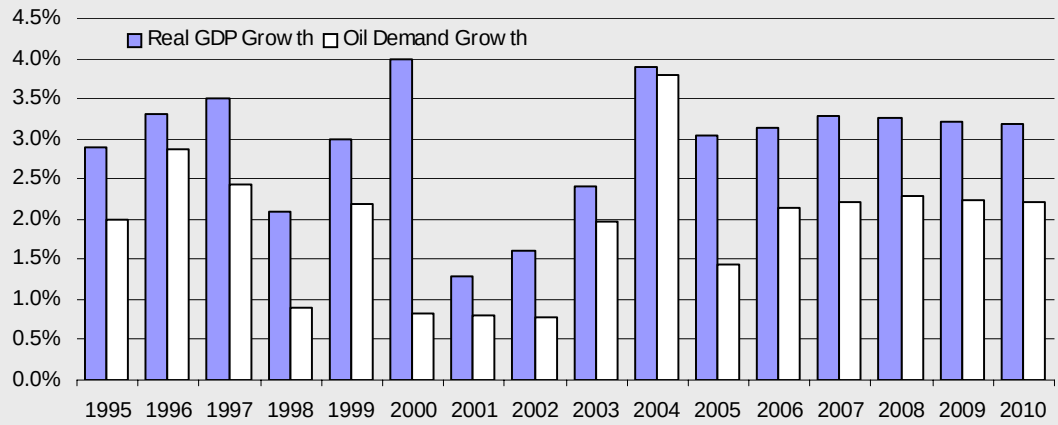
The methodology underlying the mid-term projections is broadly similar to the short-term analysis, in that a demand trend is derived from expectations of economic growth and oil prices. The main difference is that the short-term (6-18 month) demand forecast regularly published in this Report focuses on identifying and estimating the impact of movements away from the underlying demand trend. Numerous factors can lead to short-term deviations, including weather related disruptions (e.g., abnormally warm/cold weather, abnormal rainfall and natural disasters), interfuel substitution due to changes in the relative price of fuels and sharp changes to administered prices in countries where prices are government controlled. Oil is typically a relatively costly fuel for use in areas such as power generation, but it is often turned to as a stop-gap source of fuel if demand surges unexpectedly—as was the case with China in 2004. Once infrastructure adjusts and other less costly fuels are put to use, demand for oil may quickly recede.

When evaluating mid-term demand beyond 6-18 months forward, it is typically assumed that weather patterns will be normal and that the energy infrastructure largely adjusts to economic changes. The key variables are economic growth and (to a lesser extent) price changes. Interfuel substitution can also play an important role because alternative fuels, especially natural gas, will continue to replace oil products in some areas. It is assumed that the consumer behaviour and energy policies which are the basis for the underlying growth trend remain unchanged over the period.

In viewing the mid-term forecast it is important to note that most economic analysts are projecting relatively strong economic growth for the foreseeable future, especially in non-OECD areas. Several key non-OECD oil consumers, such as China, are in a phase of rapid energy-intensive industrialisation. This should contribute to relatively robust oil product demand growth averaging between 1.8-2.0 mb/d over 2007-2010, even if prices remain high relative to historical levels.

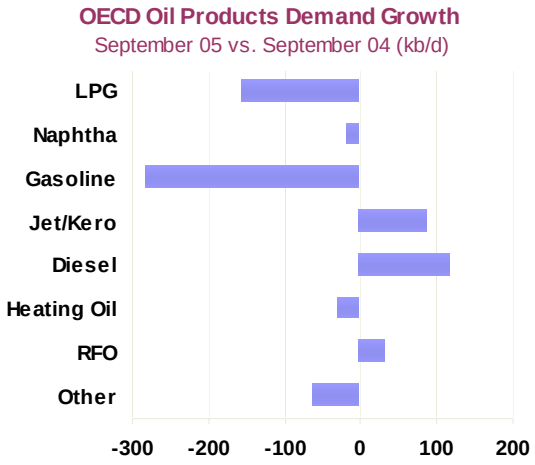
Of course, the mid-term demand projections are sensitive to alternative paths of economic growth. It is notoriously difficult to project economic cycles and, given past history, it is unlikely that global economic growth will follow a smooth path. If there is an economic slowdown over the 2007-2010 period, oil demand growth could be substantially lower. In fact, both the IMF and OECD (and others) have warned that there is an increasing risk of a substantial downside to their current economic outlooks. High oil prices, an overheated housing market and growing imbalances, including budget and trade deficits in key consuming economies, are all cause for concern. Giving due consideration to these caveats, the likely bias for the oil demand forecast shown below lies to the downside. It is clear that the potential for slower growth outweighs the probability of demand growth exceeding expectations.

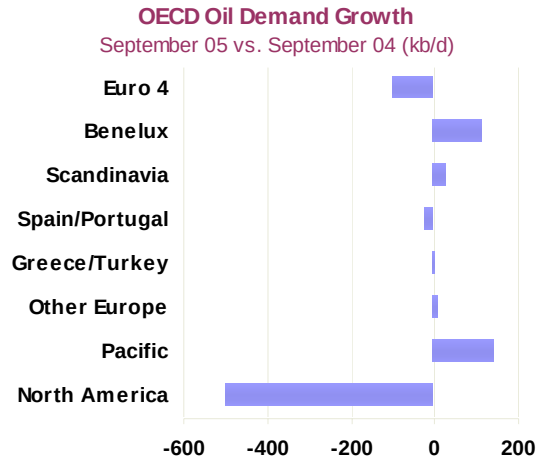
Global Real GDP Growth versus Preliminary Oil Demand Growth



OECD

Summary of OECD Demand Trends





Total OECD Demand by Product
(million barrels per day)

	2004	2005	4Q04	1Q05	2Q05	3Q05	Jul 05	Aug 05	Sep 05	Latest month vs. Aug 05	Latest month vs. Sep 04
LPG & Ethane	4.86	4.75	5.05	5.40	4.33	4.32	4.29	4.42	4.25	-0.18	-0.15
Naphtha	3.22	3.28	3.33	3.40	3.15	3.23	3.26	3.29	3.14	-0.14	-0.02
Motor Gasoline	14.88	14.90	14.89	14.46	15.09	15.17	15.34	15.57	14.59	-0.98	-0.28
Jet & Kerosene	4.11	4.20	4.24	4.62	3.91	4.00	3.97	4.02	4.00	-0.02	0.09
Gas/Diesel Oil	12.85	13.04	13.40	13.38	12.64	12.74	12.16	12.85	13.22	0.36	0.09
Residual Fuel Oil	4.59	4.60	4.67	4.88	4.36	4.48	4.36	4.53	4.56	0.03	0.03
Other Products	4.98	4.97	4.88	4.42	5.23	5.36	5.32	5.44	5.31	-0.13	-0.06
Total Products	**49.49**	**49.73**	**50.48**	**50.57**	**48.70**	**49.30**	**48.68**	**50.14**	**49.08**	**-1.06**	**-0.30**

Pacific

Preliminary October data for Japan and Korea indicate that inland deliveries were puzzlingly weak. Japanese deliveries were down by some 8.4% and Korean deliveries were off by some 8.3%. Temperatures were unusually mild, which is reflected in the figures for kerosene and heating oil, but this does not explain decreases across almost all product categories. In fact, year-on-year demand growth fell in every product category in Japan. In spite of warm temperatures, the magnitude of the decline was unexpected because October 2004 demand was down by 3.0% in both countries. It is uncommon to have such a large drop in demand against such a low baseline.

In the case of Japan, and possibly Korea, it is likely that the distinction between deliveries and actual consumption is a factor in explaining this apparent anomaly. In September, refinery runs increased substantially in response to relatively high margins. This led to an unexpectedly strong year-on-year increase in deliveries in September (3.4%). Notably, deliveries of jet fuel/kerosene were up by 1.3% in spite of the fact that temperatures were abnormally mild. Most probably secondary and tertiary inventories increased—that is, inland deliveries to distributors and marketers exceeded consumption.

Japan's refinery runs remained relatively high in October, but temperatures were still mild and it is likely that consumers limited purchases because they were unwilling or unable to build inventories further. Refiners increased oil product exports in October by a reported 80.4%, the highest level since December 1974 (this increase was also partly due to Japan's contribution to the IEA emergency release plan). Kerosene exports increased more than seven-fold and gasoil exports went up more than nine-fold. Overall, there is certainly evidence that a part of Japan's 23.0% year-on-year decline in jet fuel/kerosene deliveries in October is attributable to a consumer and/or distributor inventory build in September, rather than simply a decline in actual consumption. This is likely to be the case for other products as well. For example, Japan is reporting a 46.6% year-on-year increase in the use of fuel oil in power generation in October at the same time that deliveries declined by 3.0%. This apparent inconsistency is likely explained by a power sector inventory drawdown, with actual consumption stronger than deliveries would imply.

OECD Pacific Demand by Product
(million barrels per day)

	2004	2005	4Q04	1Q05	2Q05	3Q05	Jul 05	Aug 05	Sep 05	Latest month vs. Aug 05	Latest month vs. Sep 04
LPG & Ethane	0.88	0.90	0.88	1.00	0.87	0.83	0.84	0.78	0.87	0.09	0.10
Naphtha	1.57	1.62	1.63	1.69	1.54	1.62	1.57	1.62	1.67	0.05	0.14
Motor Gasoline	1.60	1.61	1.63	1.59	1.59	1.65	1.62	1.75	1.59	-0.16	-0.03
Jet & Kerosene	1.02	1.04	1.12	1.54	0.77	0.72	0.70	0.71	0.75	0.04	-0.01
Gas/Diesel Oil	1.89	1.88	1.95	1.99	1.85	1.76	1.71	1.77	1.79	0.01	-0.05
Residual Fuel Oil	1.05	1.04	1.05	1.17	0.98	0.98	0.97	1.00	0.98	-0.02	-0.05
Other Products	0.52	0.51	0.52	0.52	0.50	0.54	0.55	0.51	0.57	0.06	0.04
Total Products	**8.53**	**8.61**	**8.77**	**9.49**	**8.10**	**8.10**	**7.97**	**8.13**	**8.21**	**0.08**	**0.14**

Because October demand is so weak, OECD Pacific demand is projected to post a year-on-year decline of 0.3% in the fourth quarter of 2005. Note, however, that this is partly due to one-off factors, including mild weather and the large delivery versus consumption discrepancies discussed above. It is also worth noting that this decline in growth contradicts signs that Japan and Korea's economies are relatively healthy, with approximately 2% and 5% GDP growth expected respectively in 2006. As a result, we do not see this fall as a change in trend. Assuming normal temperatures and delivery patterns, year-on-year demand growth should be quite strong in the fourth quarter of 2006.

Europe

Unusually mild weather in most of Europe contributed to weak September and October demand. For example, French heating oil deliveries dropped by a preliminary 26.1% year-on-year in October. Although the first part of November was still relatively mild, temperatures fell as the month progressed and heating-related demand is expected to recover. Surprisingly, in spite of the warm weather, German heating oil deliveries increased by an estimated 6.7% in October. This led to an increase in the capacity fill of consumer storage, to approximately 59%. The fill rate is now similar to last year's October level, albeit still well below historical norms.

OECD Europe Demand by Product
(million barrels per day)

	2004	2005	4Q04	1Q05	2Q05	3Q05	Jul 05	Aug 05	Sep 05	Latest month vs. Aug 05	Latest month vs. Sep 04
LPG & Ethane	1.03	1.00	1.05	1.13	0.91	0.93	0.87	0.92	1.00	0.08	0.11
Naphtha	1.15	1.16	1.15	1.21	1.15	1.13	1.09	1.15	1.17	0.02	0.07
Motor Gasoline	2.78	2.66	2.72	2.52	2.76	2.75	2.75	2.81	2.67	-0.14	-0.18
Jet & Kerosene	1.18	1.24	1.17	1.15	1.24	1.35	1.29	1.39	1.37	-0.02	0.08
Gas/Diesel Oil	5.98	6.10	6.37	6.17	5.79	6.07	5.71	6.15	6.36	0.22	0.05
Residual Fuel Oil	2.02	1.98	2.08	2.12	1.91	1.87	1.87	1.82	1.92	0.10	-0.13
Other Products	1.48	1.49	1.48	1.26	1.54	1.64	1.64	1.56	1.71	0.15	0.04
Total Products	**15.62**	**15.64**	**16.01**	**15.56**	**15.30**	**15.74**	**15.24**	**15.79**	**16.20**	**0.41**	**0.05**

Gasoline deliveries fell by 7-8% in October in the major markets of France, Germany and Italy. It appears that the price increases related to Hurricanes Katrina and Rita had an impact, although because fuel taxes are relatively high in these countries it meant that in percentage terms the retail price increase was much lower than in other markets (e.g., the United States). In addition, as this Report has noted many times in the past, gasoline demand is in structural decline in much of Europe, so a decline of 3-5% may be considered the norm in these countries.

Preliminary indications are that fuel oil deliveries remained weak in October in Italy (-31.2%) as hydroelectricity supplies were much stronger than in October 2004, thereby reducing the demand for fuel oil. In contrast, inland deliveries of fuel oil were up by some 31.5% year-on-year in France in October, which is attributed to a drought that has necessitated greater fuel oil use. However, this increase is largely balanced by weaker demand for fuel oil in bunkers, so on the whole, French fuel oil demand remains largely unchanged in October.

Oil product demand grew by a stronger-than-expected 13.9% year-on-year in the Netherlands in September, in large part due to strength in the petrochemical sector. LPG/ethane demand grew by some 55.8% and naphtha demand increased by some 33.7%. This must be viewed in the context of a weak September 2004 baseline, when LPG/ethane demand decreased by 23.8% and naphtha demand

decreased by 15.6%. The UK also grew by a relatively strong 4.3% in September, supported by a year-on-year rebound in LPG/ethane and naphtha. In coming months UK economic growth is expected to be subdued, and oil product demand should remain flat overall in 2006.

North America

As anticipated, the US weekly delivery estimates for September were revised upwards with the release of the September 2005 monthly data. Although we had already included a preliminary adjustment to the data, the increase was larger than expected, so both gasoline and diesel have been revised upwards by over 100 kb/d. In addition, fuel oil demand growth (32.6%) exceeded even our robust projections, leading to a 160 kb/d upward revision. This is counterbalanced to some extent by sizable downward revisions to LPG/ethane (185 kb/d) and naphtha (190 kb/d). Warm weather and possibly the impact of petrochemical outages related to Hurricanes Katrina and Rita were partly responsible for the decline. The sharp increase in natural gas prices is also encouraging natural gas processors to leave as much LPG/ethane in the natural gas stream as possible, without violating dew point requirements. This trend is expected to endure in coming months, cutting into LPG/ethane deliveries. On the whole, fourth quarter LPG/ethane demand is revised down by some 120 kb/d. Overall, September demand is revised up by some 80 kb/d, but oil product demand still declined by 1.9% year-on-year.

OECD North America Demand by Product

(million barrels per day)

	2004	2005	4Q04	1Q05	2Q05	3Q05	Jul 05	Aug 05	Sep 05	Latest month vs. Aug 05	Latest month vs. Sep 04
LPG & Ethane	2.95	2.84	3.12	3.27	2.54	2.56	2.57	2.72	2.38	-0.35	-0.37
Naphtha	0.50	0.49	0.56	0.50	0.47	0.48	0.59	0.53	0.31	-0.22	-0.23
Motor Gasoline	10.50	10.62	10.55	10.35	10.74	10.77	10.96	11.01	10.33	-0.68	-0.07
Jet & Kerosene	1.91	1.92	1.96	1.94	1.89	1.93	1.98	1.93	1.88	-0.04	0.02
Gas/Diesel Oil	4.98	5.06	5.08	5.22	5.00	4.91	4.73	4.93	5.07	0.13	0.08
Residual Fuel Oil	1.51	1.58	1.54	1.60	1.47	1.63	1.51	1.72	1.67	-0.05	0.22
Other Products	2.98	2.97	2.89	2.65	3.18	3.18	3.13	3.37	3.03	-0.34	-0.14
Total Products	**25.34**	**25.49**	**25.69**	**25.53**	**25.30**	**25.46**	**25.48**	**26.21**	**24.66**	**-1.55**	**-0.49**

Preliminary indications are that US October demand growth remained negative due to high product prices and warm weather. Oil product demand is estimated to have declined by 1.3%, with gasoline demand down by some 1.0%. However, all indications point to US oil product demand recovering. Since the hurricane-related spike, gasoline prices have fallen for nine consecutive weeks, to $2.15/gallon, which is reducing the pressure on consumers. Although diesel prices remain approximately $0.30/gallon higher than gasoline prices, they have also fallen substantially from post-hurricane highs. In addition, US economic growth was revised up to 4.3% for the third quarter of 2005 and most signs (e.g., job growth and industrial production) are that robust economic growth continues. In November, gasoline demand is expected to grow by 1.8% and diesel demand is projected to expand by 1.5%. This is counterbalanced by continued weakness in LPG/ethane, heating oil, and 'other' products, so overall demand declines by 0.2%. However, the stage is set for positive demand growth in the month of December (0.9%).

Looking to 2006, the temporary impact of the hurricanes and relatively warm temperatures in the latter part of 2005 should result in a widely varying pattern of year-on-year growth. In the first half of 2006 demand is projected to grow by some 220 kb/d, before accelerating to 500 kb/d in the second half of the year with strength in all products except fuel oil. Demand for fuel oil is expected to decline by 80 kb/d in the second half of 2006 under the assumption that the incentive for interfuel substitution of fuel oil for natural gas will be reduced. Of course, these projections are based on continued strong economic growth and normal weather patterns. An economic slowdown could result in slower demand growth, just as an abnormally cold winter could have the opposite effect.

Preliminary indications are that Canadian demand followed a similar pattern to the US over September and October, with relatively weak LPG/ethane and gasoline demand. Demand fell by 6.7% in September 2005, but this must be viewed in the context of abnormally strong growth in September 2004 (7.1%). In contrast, Mexican demand growth remained strong, averaging 2.9% over September and October. Gasoline demand posted growth of some 7.6% over this period despite a sharp increase in international prices, likely in large part because administered retail prices are subsidised and not indexed to international prices.

Non-OECD

China

Although still far below the growth rates witnessed in 2004, there are certainly signs of a recovery in Chinese oil product consumption. Apparent demand grew by 8.0% in September and a preliminary 5.2% in October. It should be cautioned that there are reports that a portion of the September increase may be attributed to a build in inventories, not consumption growth. The key transport fuels, including gasoline, jet fuel and diesel, plus naphtha for use in petrochemicals have led the increase in apparent demand. This is balanced by structural weakness in demand for LPG and fuel oil as interfuel substitution continues to hold down demand growth.

China Crude & Product Trade
(thousand barrels per day)

	2003	2004	4Q2004	1Q2005	2Q2005	3Q2005	Aug 05	Sep 05	Oct 05	Latest month vs. Sep 05	Latest month vs. Oct 04
Net Imports/(Exports) of:											
Crude Oil	1664	2346	2491	2305	2541	2294	1950	2517	2575	58	458
Products & Feedstocks	442	661	653	501	375	445	353	608	603	-6	4
Gasoil/Diesel	-28	43	79	-6	-27	-40	-71	-24	-4	20	-44
Gasoline	-175	-125	-117	-151	-161	-155	-233	-74	-43	31	59
Heavy Fuel Oil	407	506	515	480	395	397	374	416	380	-36	-45
LPG	202	201	184	200	179	216	232	243	179	-64	-23
Naphtha	-22	-33	-51	-49	-67	-25	-47	-2	0	1	19
Jet & Kerosene	1	16	8	6	5	2	25	-2	44	46	31
Other	58	52	34	22	51	49	75	51	48	-3	6
Total	2106	3008	3144	2807	2916	2739	2304	3125	3177	52	462

Sources: China Oil, Gas and Petrochemicals plus IEA estimates.

Looking to 2006, fuel oil demand growth is expected to contract further (-2.8%), following a projected 6.6% decline in 2005. While demand in some uses, such as bunkers, will remain strong, the demand for fuel oil in power generation should continue its decline. A recent IEA Secretariat visit to China tentatively confirmed anecdotal reports that China's power imbalance is improving faster than previously expected. In 2004, the power capacity shortage was estimated at 35 GW, which prompted a sharp increase in demand for fuel oil in power generation (especially in the South). It also boosted the demand for diesel in small power generators which were used during outages. In 2005, the shortage is reported to have declined to 25 GW which, coupled with high prices, has effectively reduced the demand for oil in power. For example, in the Southern province of Guangdong, the use of fuel oil in power generation is down by approximately 1/3 in 2005 versus 2004 (Guangdong typically accounts for about 1/3 of China's fuel oil consumption). Due primarily to a large amount of new power generation capacity coming on-line, the situation is expected to improve further in 2006. There are reports that the power capacity shortage could fall to about 7-9 GW.

The possibility remains that fuel oil demand could be revised further downwards as more detailed information on the power situation emerges. The decline in demand for diesel in power generation could also exceed expectations. However, because industrial output and overall economic growth continue to expand at a robust pace, at this point projections of diesel demand growth remain largely unchanged.

China Demand by Product
(thousand barrels per day)

	Demand			Annual Change		Annual Change (%)	
	2004	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**
LPG & Ethane	633	638	663	5	25	0.7	3.9
Naphtha	684	736	806	52	71	7.6	9.6
Motor Gasoline	1069	1098	1191	29	93	2.7	8.5
Jet & Kerosene	239	251	271	11	20	4.7	8.1
Gas/Diesel Oil	2150	2273	2436	123	163	5.7	7.2
Residual Fuel Oil	829	775	753	-55	-22	-6.6	-2.8
Other Products	828	862	907	34	45	4.1	5.3
Total Products	**6433**	**6632**	**7028**	**199**	**395**	**3.1**	**6.0**

Although the official decision will not be announced until later this month, there is widespread speculation that the Chinese government will extend its suspension of gasoline and naphtha export tax rebates past 31 December. The government temporarily suspended the tax rebates from 1 September until 31 December in an effort to boost domestic supplies by discouraging exports. The policy is viewed as a success, as gasoline exports declined from 230 kb/d to 70 kb/d in September and 40 kb/d in October. However, there is still limited incentive to import key products as increases in administered retail prices have not matched increases in international market prices.

Among other products, apparent demand for naphtha grew by some 17.9% in the third quarter reflecting the rapid expansion of China's ethylene production capacity. An increase in naphtha consumption was expected earlier in 2005, but apparent demand only grew by some 0.5% in the first half of the year. Although Sinopec and PetroChina were said to be running their ethylene production units at or above design capacity, it is said that some joint-venture petrochemical projects have not been operating at such a high rate.

Other Non-OECD

India's oil product demand fell for the second consecutive month, declining by a preliminary 2.3% year-on-year in October. The decrease is largely attributable to a drop in diesel demand, reportedly linked in part to floods in southern India. Jet fuel demand remains strong as discount airlines are making inroads and lower airfares are attracting additional passengers. There are indications that the Indian economy is maintaining its momentum, growing by 8.0% in the third quarter, which exceeded many analysts' expectations. Looking forward, diesel demand could rise following a court order forbidding overloading of trucks, which is currently rampant. At this point the extent to which this order will be enforced is unclear, but oil industry officials have said that diesel demand could grow by more than 5% if the order were to be fully implemented by state governments.

India Crude & Product Trade
(thousand barrels per day)

	2003	2004	4Q2004	1Q2005	2Q2005	3Q2005	Jul 05	Aug 05	Sep 05*	Latest month vs. Aug 05	Latest month vs. Sep 04
Net Imports/(Exports) of:											
Crude Oil	1863	1945	1742	1969	1894	1965	1820	2009	2070	61	-5
(by Public Oil Cos)	1243	1158	1000	1133	1116	1112	978	1091	1273	181	119
Products & Feedstocks	-152	-176	-222	-82	-92	-116	-31	-184	-134	50	66
Gasoil/Diesel	-119	-139	-162	-89	-108	-135	-74	-140	-193	-53	-6
Gasoline	-72	-75	-80	-53	-39	-35	-39	-47	-19	28	44
Heavy Fuel Oil	5	-6	-20	-4	10	7	1	27	-7	-34	-10
LPG	55	86	128	95	74	98	73	96	125	29	7
Naphtha	-1	-7	-25	-15	-39	-28	-13	-74	2	76	23
Jet & Kerosene	-22	-47	-74	-34	-5	-33	10	-56	-53	3	14
Other	1	12	12	17	15	10	10	10	11	1	-4
Total	1712	1769	1520	1887	1801	1849	1789	1825	1936	111	61

* Preliminary
Sources: Indian Ministry of Commerce, Indian Port Authorities and IEA estimates.

Brazilian Ethanol Renaissance

Although Brazil has a long history of encouraging ethanol use, consumption took-off with the oil shocks of the 1970s, albeit in large part due to government assistance. The government provided subsidies for consumers and incentives for ethanol producers and the manufacture of ethanol powered vehicles. By the mid-1980s some 90% of passenger vehicles sold were designed to run exclusively on ethanol. However, consumer interest waned in the latter half of the 1980s as world oil prices fell and the government began phasing out incentives.

The more recent run up in oil prices, coupled with the launch of new flex-fuelled vehicles two and a half years ago (fuelled by gasoline and/or ethanol) has contributed to resurgence in consumer interest in ethanol. The Brazilian government has also sought to revive the market, offering tax incentives on ethanol fuelled passenger cars. In addition, by law, all gasoline sold in the domestic market must contain 20-25% ethanol. Sales of the new flex-fuel passenger cars have risen sharply. Over the first 10 months of 2005 sales (651,000) exceeded those of gasoline-only cars (580,000). In November, flex-fuel cars accounted for 71% of vehicle sales. It is estimated that there are already over one million flex-fuelled cars currently in use.

Producers have responded to the increase in domestic demand. Ethanol production increased by some 10.4% with the 2004/05 harvest (265 kb/d) and it is projected to increase by a further 11.3% with the 2005/06 harvest. About 52% of the 2005/06 cane crop will be allocated to ethanol production, up from 49-50% a year ago. It is said that investment in ethanol mills is taking priority over sugar mills and early generation sugar-ethanol mills are being reopened due to booming demand. It should also be noted that ethanol prices have risen by some 18% in 2005.

Looking to the future, the growth of Brazilian ethanol demand will depend on oil prices and continued government support. Brazil is a relatively low-cost producer of ethanol, at some $30-35/bbl, so even if oil prices decline from current levels there is reason to believe that domestic demand for ethanol will remain strong. Estimates of future domestic demand growth are in the range of 20-35 kb/d per annum. Brazil is also pushing to satisfy growing demand in other countries, such as the United States, which is the second largest producer/consumer of ethanol. Analysts have estimated that Brazilian ethanol could be delivered to the US market for a selling price of approximately US$1/gallon, well below the current gasoline price. Although Brazil has some success in increasing exports, currently approximately 45 kb/d, it faces substantial barriers to entry as most foreign ethanol markets are protected in an effort to support domestic agriculture.

Oil product demand data collected and compiled for the Joint Oil Data Initiative (JODI) was publicly released on 19 November. It is important to caution that while the JODI is certainly a valuable step forward, the initiative is still in its early stages. Data is sometimes incomplete and quality is variable. Nevertheless, the JODI contains some useful directional information that can help augment existing data. The non-OECD JODI data that is currently available from 2004 and 2005 could prove particularly useful, as for many non-OECD countries detailed oil product demand data is currently only available on an annual basis through 2003.

This Report is in the process of examining the JODI data on a country-by-country and product-by-product basis. Where deemed appropriate, the historical non-OECD data from 2004-2005 is adjusted to reflect directional information gleaned from JODI. Currently, the JODI data are used to evaluate trends in certain products where past trends appear to be consistent with existing non-OECD data. This evaluation process will continue as more data is received and quality improves.

We have incorporated relatively minor revisions to the historical data for Indonesia, Malaysia, Philippines, Argentina, Venezuela, Iran, Egypt and Taipei, China. Most of these revisions extend through 2005 and 2006. Together, the revisions amount to some 60 kb/d for 2004. We have also made revisions to other non-OECD countries, including Singapore where growth in marine bunkers has been very strong. There are reports that international shipping firms serving China (where container traffic has boomed) are using alternative bunkering ports, such as Singapore, because the Chinese market is dominated by a single company that maintains high prices. In 2004, Singapore bunkers demand grew by some 13% and through the first three quarters of 2005 demand grew by approximately 9%. Bunkers account for over half of Singapore's 790 kb/d oil demand.

SUPPLY

Summary

- **World oil supply** increased by 1.3 mb/d in November from October, to reach 85.0 mb/d. A rebound in North American supply, following earlier hurricane-related and technical disruptions, accounted for 1.1 mb/d of the change, with increases from the US, Canada and Mexico. Norway, Brazil and Angola are also believed to have boosted supply in November.

- Annual growth in world supply for November stood at 600 kb/d (0.7%) versus last year. Ongoing outages in the US Gulf of Mexico and the North Sea held OECD production 1.25 mb/d below last year's levels. However, strong yearly growth from the FSU, China, Latin America and Africa leaves non-OECD supply up by a similar amount from November 2004. Combined OPEC crude and other liquids supply stood 630 kb/d higher than a year ago.

- Total oil production still off line in November after the 2005 hurricane season in the **US Gulf of Mexico (GOM)** averaged 1.1 mb/d, down from 1.6-1.7 mb/d in September and October. This total comprised 705 kb/d of Federal GOM crude, 115 kb/d of Louisiana crude and an estimated 300 kb/d of NGL. The Federal GOM figure had fallen to 447 kb/d on 9 December, with total oil volumes shut in from all three sources assumed to average 675 kb/d in December, falling to 150 kb/d by March. This lower level of outage is extended throughout second quarter 2006.

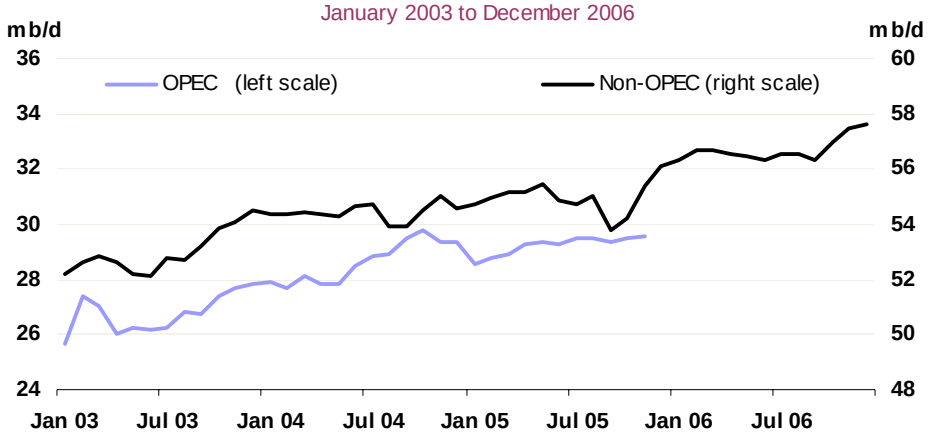
- **Non-OPEC supply** for 2005 now averages 50.2 mb/d, with downward revisions for the US, Mexico, Norway and Africa knocking 70 kb/d off last month's projection. Supply is seen reaching 51.6 mb/d in 2006, despite downward revisions for the North Sea, Russia and Asia Pacific. Growth in 2005 averages 110 kb/d followed by 1.4 mb/d in 2006, although non-OECD supply growth has remained robust and averages 1.0 mb/d-plus in both years. OPEC other liquids add a further 350-400 kb/d of growth in 2005 and 2006, over and above non-OPEC increases.

- **OPEC crude supply** came to 29.6 mb/d in November, a rise of 120 kb/d from October. The October total was revised down 150 kb/d to 29.5 mb/d on evidence of lower supply from Iraq, Saudi Arabia, Venezuela, Nigeria and Kuwait. Increased supplies in November came from Saudi Arabia, Nigeria and Venezuela (although total Venezuelan oil supply fell due to reduced synthetic crude output). Disrupted crude exports underpinned November's drop in Iraqi supply to 1.7 mb/d.

- **The 'call on OPEC crude and stock change'** for the current quarter remains at 29.6 mb/d, close to prevailing OPEC crude production. Demand side revisions for the first and third quarters 2005 raise this year's call by 0.1 mb/d to 28.4 mb/d and those for next year add 0.2 mb/d, resulting in a 2006 call of 28.5 mb/d. The call dips to 27 mb/d in second quarter 2006 but rises to 29.8 mb/d by end year.

OPEC Crude and Non-OPEC Oil Supply [1]

January 2003 to December 2006



1 Non-OPEC Oil Supply includes OPEC NGLs, condensate and non-conventional oil

All world oil supply figures for November discussed in this Report are IEA estimates. Estimates for OPEC countries, Alaska, Egypt and Russia are supported by preliminary November supply data.

Note: Random events present downside risk to the non-OPEC production forecast contained in this Report. These events can include accidents, unplanned or unannounced maintenance, technical problems, labour strikes, political unrest, guerrilla activity, wars and weather-related supply losses. Allowance has been made in the forecast for scheduled maintenance in all regions and for typical seasonal supply outages (including hurricane-related stoppages) in North America. These aside, no contingency allowance for random events, or for exceptional weather-related disruptions in excess of historical norms, is subtracted from the supply forecast. While upside variations can occur, experience in recent years indicates that the random events listed above can potentially cause losses of 300 kb/d to 400 kb/d for non-OPEC supply in a given year.

OPEC

OPEC crude supply averaged 29.6 mb/d in November, a rise of 120 kb/d from October. The October total was revised down 150 kb/d to 29.5 mb/d on evidence of lower supply from Iraq, Saudi Arabia, Venezuela, Nigeria and Kuwait. Increased supplies in November came from Saudi Arabia, Nigeria and Venezuela (for conventional crude, as Venezuelan synthetic crude output fell). Iraqi supply fell to 1.7 mb/d in November due to disrupted crude exports. OPEC spare capacity averaged 2.2 mb/d. Excluding capacity in Indonesia, Iraq, Nigeria and Venezuela, all facing constraints on immediately raising or sustaining higher production, effective spare capacity is nearer 1.3 mb/d. As noted last month, installed OPEC capacity should rise by nearly 1.0 mb/d in 2006 compared to average 2005 levels.

OPEC Crude Production

(million barrels per day)

	1July 2005 Target	November 2005 Production	Sustainable Production Capacity[1]	Spare Capacity vs November 2005 Production	Production vs. Target
Algeria	0.89	1.37	1.37	0.00	0.48
Indonesia	1.45	0.95	0.98	0.04	-0.51
Iran	4.11	3.87	4.00	0.13	-0.24
Kuwait[2]	2.25	2.48	2.60	0.12	0.23
Libya	1.50	1.65	1.65	0.00	0.15
Nigeria	2.31	2.47	2.56	0.09	0.16
Qatar	0.73	0.83	0.83	0.00	0.10
Saudi Arabia[2]	9.10	9.55	10.50	0.95	0.45
UAE	2.44	2.60	2.65	0.05	0.16
Venezuela[3]	3.22	2.14	2.20	0.06	-1.08
Subtotal	**28.00**	**27.90**	**29.34**	**1.44**	**-0.10**
Iraq		1.70	2.50	0.80	
Total		**29.60**	**31.84**	**2.24**	
(excluding Iraq, Nigeria, Venezuela., Indonesia				*1.25)*	

1Capacity levels can be reached within 30 days and sustained for 90 days

2 Includes half of Neutral Zone Production

3 Excludes upgraded Orinoco extra-heavy oil which averaged 468 kb/d in November

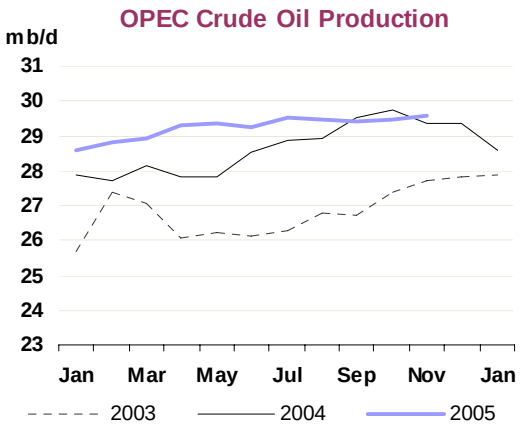
The past month has seen a number of statements from OPEC sources highlighting the evolution of output and pricing policy. Although final decisions from the group's 12 December meeting in Kuwait were not known at the time of writing, most analysts saw little change in production given near-$60/bbl marker crude prices. There has also been speculation that OPEC's offer to make 2 mb/d of spare capacity available to the market might be extended beyond end-December. Signals from OPEC sources have continued to stress that crude supplies are ample and that downstream bottlenecks are a key source of recent high and volatile prices. In response to calls for accelerated investment in upstream capacity, OPEC representatives have raised the concept of a road map for future demand growth to help justify capacity expansions and have called for reduced consumer country oil taxes.

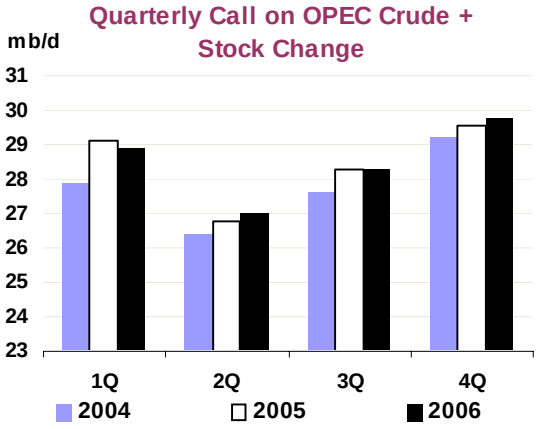
Regarding production, the OPEC President in late-November suggested that output could be maintained at recent levels until consumer stocks attain 56 days' supply, versus 52 days at end-September. Most analyses of supply/demand balances for the current winter suggest that, if a true reflection of OPEC policy, this could signal sustained near-30 million b/d supply through first quarter 2006 in the absence of a sharp drop in prices. The statement also suggests that OPEC may continue to pursue for some months a volumetric, as opposed to price-based, policy. That said, it is not entirely clear if such a specific inventory target will be adopted by the OPEC conference. Nor does a

definitive price floor appear to have been agreed which OPEC would defend in future. The more hawkish elements within OPEC may see $50/bbl as a new floor, while others appear prepared to accept levels in a $35-$40/bbl range. Just ahead of the meeting, the OPEC Basket stood at $54/bbl.

Spare capacity remains the key issue. Even with sustained 30 mb/d production, impending OPEC capacity additions suggest that some incremental upstream flexibility could materialise. Nigeria's recently-started Bonga field (225 kb/d) and the 300 kb/d Haradh development from Saudi Arabia early in 2006 could coincide with a seasonal easing in demand for OPEC crude. This raises the prospect of a further increase in spare capacity if broader OPEC production levels are trimmed in the spring. OPEC does not appear to be investing at a rate that will see the re-emergence of early-decade levels near 6 mb/d of spare capacity. However, recent statements from the OPEC Secretariat, suggest acceptance of levels up to 4 mb/d for the period through 2010.

If non-OPEC supply grows as expected early in 2006, and winter heating demand remains close to historical norms, the long-deferred issues of quota allocation and production discipline to support a yet-to-be-defined price floor could re-emerge. Furthermore, there are suggestions that Saudi Arabia will no longer be content to shoulder on its own the role of swing supplier.





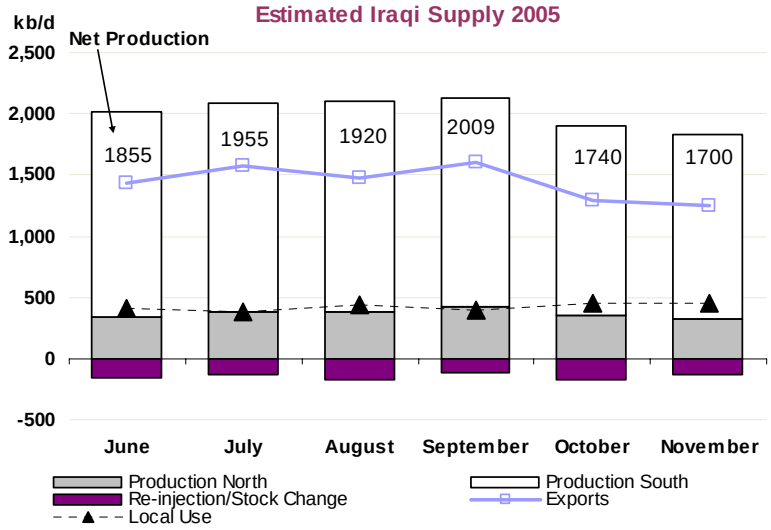
STOP PRESS: 138th Meeting of the OPEC Conference, 12 December, Kuwait

The Conference left production targets unchanged at 28.0 mb/d for the first quarter of 2006, but will convene a further, extraordinary meeting on 31 January 2006 in Vienna to decide on, potentially lower, production levels for the second and third quarters. The Conference noted that stocks, notably of crude, have been building, although no mention was made of specific levels of forward demand cover. The Conference cited market stability and the maintenance of prices at reasonable levels as key elements in production policy, noting that refinery bottlenecks are a key driver of recent high prices. The Organisation plans to publish further information regarding member countries' upstream and downstream capacity expansion plans.

Supply from **Iraq** for October has been revised down by 50 kb/d to 1.74 mb/d following downward revision to southern export data. October exports are now estimated at 1.29 mb/d, the lowest since August 2004. Further problems were encountered in November, notably in the first two weeks of the month when exports from southern ports fell to 1.1 mb/d. Several late-November cargoes were also reportedly delayed into December. November average exports came in at 1.25 mb/d. A combination of pipeline leakage, weather-related loading delays at Basrah and power outages capped southern production at 1.5 mb/d compared to a third quarter average of 1.7 mb/d and year-ago levels of 1.8-1.9 mb/d. Pipeline shipments northward to Ceyhan in Turkey also remained sporadic and for the second successive month there was insufficient oil in storage at Ceyhan to allow tanker liftings.

A measure of the problems Iraq has encountered in re-instating production to pre-war levels is the shifting target envisaged for 2006. Government expectations in late-2004 saw average 2006 production at 3.5 mb/d and US sources cited a more cautious target of 3.0 mb/d in early-2005. The

Oil Minister Ibrahim Bahr al-Uloum said in early-December that he now expects Iraq to be able to boost production in 2006 to only 2.6 mb/d. This follows an announcement by Japan's Ministry of Economy, Trade and Industry that Japan will assist Iraq in rehabilitating southern export facilities and refineries. These aim to boost exports to 2.0 mb/d. Attaining both targets will require concerted action to curb attacks by insurgents on export, production and refining facilities.



Supply from **Saudi Arabia** is assessed lower at 9.45 mb/d in October, rising to 9.55 mb/d in November. Preliminary tanker data suggesting a more substantial monthly rise in November export shipments are countered in part by maintenance at the Yanbu refinery, which likely capped total Saudi supply for the month. During inauguration of the International Energy Forum headquarters in Riyadh on 19 November, Oil Minister Ali al-Naimi suggested that consuming countries should provide a demand-side road map, allowing producers to invest in new production capacity against a more solid back-drop of likely future demand growth. However, he reiterated that plans to increase Saudi capacity to 12.5 mb/d by 2009 were not contingent on this. Indeed Saudi sources were quick to refute claims by a former Aramco executive that the Kingdom would struggle to attain its capacity goal due to shortages of drilling and service equipment and personnel.

Iranian supply is estimated at close to 3.9 mb/d in November, albeit export indications suggesting a drop of some 50 kb/d from October levels. There were renewed suggestions that capacity production from the offshore Soroush and Nowruz fields may be some months off and Iranian capacity is held unchanged at the reduced 4.0 mb/d level put in place by this Report last month. Delays in the appointment of a new Oil Minister were reported to be causing some foreign operators to delay upstream investments. Further, some analyses have suggested that sustaining capacity around 4 mb/d may be a more realistic task for NIOC than the substantial expansion beyond 5 mb/d envisaged by the previous government.

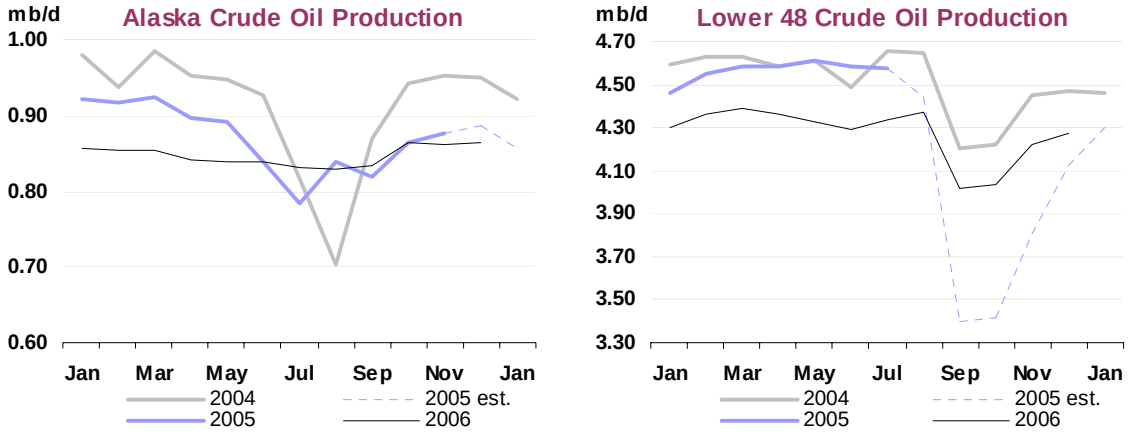
Production for **Venezuela** has been revised down 20-30 kb/d for 2005 after recent reports of lower joint venture operator production due to ongoing uncertainty over operating terms. However, production of conventional crude (net of Orinoco belt synthetic crude) is assessed up by 70 kb/d in November, at 2.14 mb/d. Syncrude output from the Petrozuata unit dropped by some 110 kb/d in November due to plant maintenance (taking total synthetic crude production down to 470 kb/d for the month), but heavy feedstock was reportedly sold in a blend with lighter Mesa crude. Conventional crude output likely will drop again in December as the Petrozuata unit returns. A pipeline explosion on 3 December near the Amuay refinery is reported as unlikely to have significantly affected crude production.

Downward revisions to official production data for the third quarter, and indications of lower export levels for October result in a 35 kb/d downward revision to October **Nigerian** supply to 2.42 mb/d. Export liftings appear to have picked up in November, and supply for the month is estimated at 2.47 mb/d. The long-delayed deepwater Bonga project entered service on 28 November with operator Shell announcing it will attain 200 kb/d output levels by end-2006. A rise in Nigerian sustainable capacity to 2.56 mb/d to reflect impending Bonga start-up was included in the last Report.

OECD

North America

US – November Alaska actual, others estimated: Alaskan crude production came in 25 kb/d higher than expected for November at 875 kb/d (plus an additional 35 kb/d of Prudhoe Bay NGL). Safety work on a number of Prudhoe Bay wells scheduled to run through 4Q 2005 and 2006 has not yet impacted upon production, although some reduction is assumed for December onwards. Despite stronger than expected November performance, Alaskan supply continues to decline, with an expected drop of 40 kb/d in 2005 and 25 kb/d in 2006. Provisions allowing drilling in the Arctic National Wildlife Refuge (ANWR) were dropped from a budget bill put before the US House of Representatives.



State-by-state data for July now suggests higher levels of lower-48 state production and an upward revision for the US as a whole of some 130 kb/d. This partly reverses a downward revision made for last month's Report. Although too early to discern a trend, it would appear that production outside of Alaska and the US Gulf may be responding in part to the stimulus of higher prices. Output for these areas has been revised up by some 40 kb/d for second half 2005 and by 20 kb/d for 2006. However, expectations for the GOM and for NGL supply have been revised down from last month's levels (as described overleaf), resulting in a net downward revision to forecast US oil supply of 25 kb/d for 2005 and 15 kb/d for 2006. Annual estimates now show US crude declining by nearly 300 kb/d in 2005 to 5.1 mb/d, remaining broadly flat in 2006 despite a partial rebound from the GOM. Absolute levels of lower 48 production for 2005 are now higher, but decline is likely to continue, albeit at a slower rate.

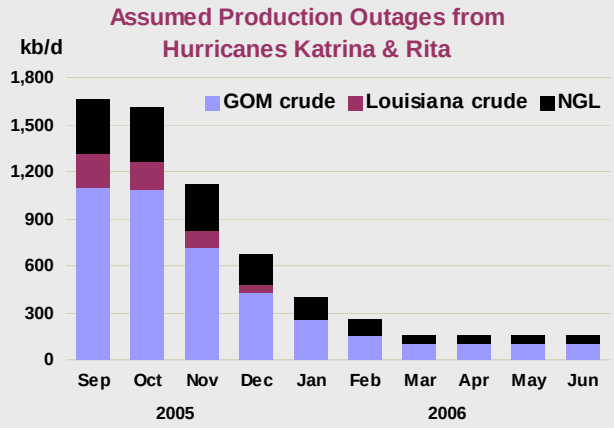
Canada –Newfoundland and syncrude October actual, others September actual: There were indications in October of a long-delayed recovery in Canadian oil production, which since autumn 2004 has been constrained by scheduled and unscheduled outages affecting heavy oil upgrader units and offshore Newfoundland production. Total oil supply is estimated at 3.1 mb/d in October, the highest since November 2004. Data for September point to a sixth straight month at 3.0 mb/d, despite higher Alberta production, as the offshore Terra Nova field saw reduced production due to maintenance. Higher Alberta and NGL production result in 10-15 kb/d upward revisions to Canadian supply for 2005 and 2006. Total production now averages 3.0 mb/d for 2005 and 3.25 mb/d in 2006.

As expected, production from Husky Energy's White Rose field offshore Newfoundland began on 12 November. Early December production was reported at 75 kb/d, slightly higher than previously anticipated by this Report. Production via the floating production, storage and offloading (FPSO) system is expected to reach 90-100 kb/d in the first half of 2006.

US Gulf Production Recovery - Crude On-Track but Higher NGL Outages

As of 9 December, shut-in Federal Gulf of Mexico oil production totalled 447 kb/d (30% of pre-hurricane production) while natural gas shut-ins totalled 2.35 bcf/d (23%). Data on 2 December from Louisiana's Department of Natural Resources showed a further 90 kb/d of oil (44%of pre-hurricane production) and 0.84 bcf/d of natural gas (38%) shut-in. Production recovery for regional crude oil, natural gas and natural gas liquids capacity remains much slower than after storms in previous years. This results from the extensive damage caused by Hurricanes Katrina and Rita to onshore processing and storage facilities, and to offshore production installations and pipelines.

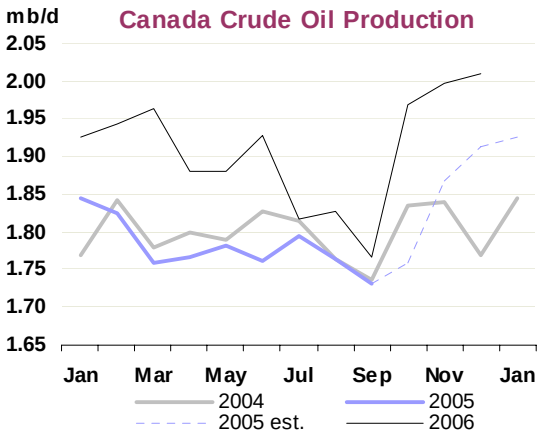
This Report's working assumptions for potential crude oil supply recovery through mid-2006 have been described in previous Reports (see Oil Market Reports dated 11 October and 10 November). Updated assumptions are illustrated below, with crude oil outages largely unchanged from last month. Some 425 kb/d of GOM crude and 50 kb/d of Louisiana production is forecast offline in December, following November outages of 705 kb/d and 115 kb/d respectively. By way of comparison, peak November GOM storm outages for previous years lie in the 100-200 kb/d range.

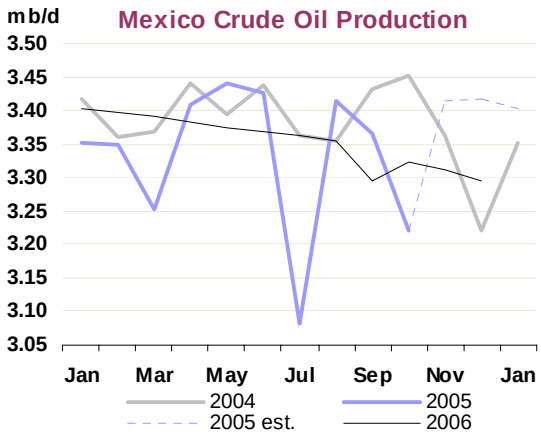


While most Louisiana production is assumed to return in January, a tail of GOM crude outages averaging 250 kb/d in January, 150 kb/d in February and 100 kb/d for March to June, extends the impact to mid-year 2006. Compared to last month's Report, greater NGL supply disruption is now envisaged. September NGL outages are now assessed at 355 kb/d, nearly double previous estimates. Assumed NGL supply losses now average 350 kb/d in October, 300 kb/d in November and 200 kb/d in December. NGL outages then fall gradually, reaching 50 kb/d for the March to June period.

The long tail for crude outages derives from damage affecting Shell's Mars system and Chevron's Typhoon. More positively, Murphy re-instated production at the 35 kb/d Medusa facility in early-December. Meanwhile Chevron announced construction start at the new Tahiti floating production system, with initial supplies from the 125 kb/d facility due at mid-2008. Earlier projections had this coming online by 2007, although it is uncertain whether the storms *per se* have deferred start-up. BHP announced that storm impact could defer first oil from the Atlantis field from an original schedule of third quarter 2006. This Report has therefore pushed back initially assumed August output at the 200 kb/d field to October.

The storms are clearly causing delays and adding to costs. Drilling costs, already at record levels for offshore rigs, could rise further subject to redesign or retrofit requirements imposed by the authorities. Recent reports also suggest a near-doubling of insurance rates for offshore oil and gas facilities. With this in mind, the Report maintains a conservative forecast for GOM production overall in 2006. Crude output recovers to 1.45 mb/d by August, before a recently inflated, five-year average storm outage assumption is applied for the autumn and winter. Clearly, all production estimates are subject to further revision in the months ahead, although greater potential downside risk for production in the near months may be replaced by upside potential for second half 2006.





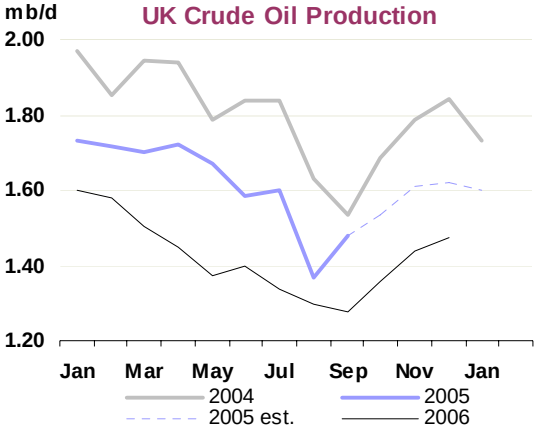
Mexico – October actual: It now appears that production shut-ins resulting from the hurricane season were markedly more pronounced in October than those in September and compared to earlier expectation. Crude production fell to 3.2 mb/d in October from prevailing levels closer to 3.4 mb/d. Initial indications were that production shut-ins resulted more from a lack of markets for heavy/sour Maya crude. However, October exports of Mexican crude rose by some 230 kb/d to 1.9 mb/d. While lighter Isthmus and Olmeca crude accounted for much of the rise, it is possible that October production data signals more serious outages at Mexican infrastructure than originally thought. For now, we continue to assume a recovery in November crude production towards 3.4 mb/d, although this may be subject to subsequent downward revision.

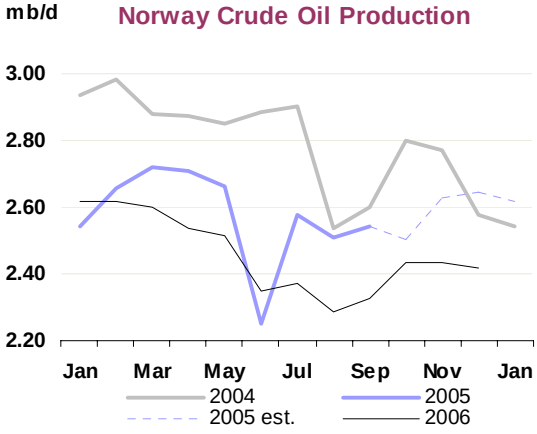
Plans to boost exports by 100 kb/d in 2006 to 2.05 mb/d look ambitious, given that baseload Cantarell field production is expected to be in decline. Much will depend on Pemex's ability to obtain extra investment capital. In mid-November the country's senate approved a tax reform bill which could raise the company's 2006 investment budget by 25% to $10 billion.

North Sea

UK – September actual: Indications of higher Forties system production and of higher tanker loadings for November push up fourth quarter UK offshore production by 15 kb/d compared to last month's forecast. BP also initiated production at the 18 kb/d Farragon field in November, although this was already included in earlier forecasts. No change is made to overall 2006 production. Total oil output averages 1.85 mb/d for 2005 and 1.67 mb/d in 2006. The only significant increment to supply in 2006 is Nexen's late-year start up at the 100 kb/d Buzzard field. Overall, UK supply is expected to continue a pattern of near-200 kb/d decline for the fourth year running in 2006.

Despite a rise in 2005 upstream spending, it is difficult to see a rapid turnaround in the declining trend in UK oil production without substantial new discoveries. UK Chancellor of the Exchequer Gordon Brown announced on 5 December that tax on oil and gas production will rise by a further 10%, taking the effective tax rate to 50%. Although the UK remains one of the more benign investment regimes by international standards, the tax increase is seen hastening a relative shift out of the North Sea by the major IOCs, and a corresponding shift towards smaller, independent producers.

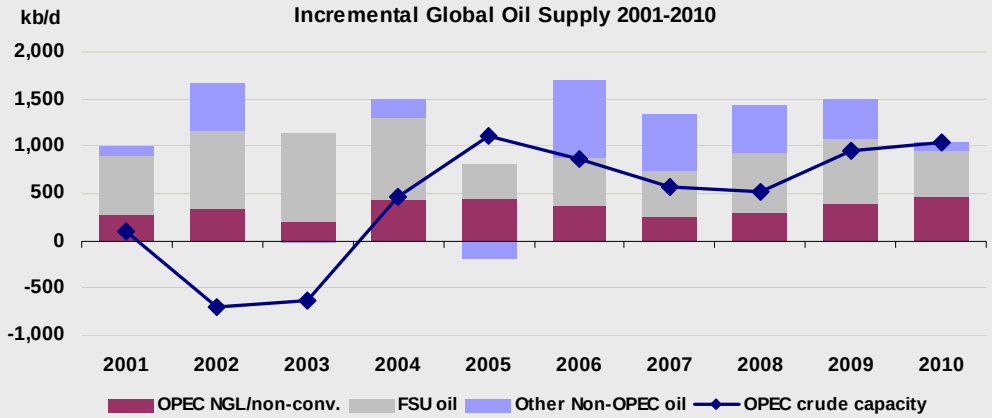




Renewed Growth for OPEC and Non-OPEC Supply Capacity for 2006-2010

The IEA's Oil Market Report team each year generates medium term oil supply projections as an input to the longer term-focussed World Energy Outlook. From 2006 these projections, plus a corresponding five year demand outlook, will be published twice yearly alongside the Oil Market Report. Provisional projections below are subject to revision during first-half 2006.

The methodology for projecting medium term supply differs from shorter term analysis, although both depend on the slate of active investment projects due on line over the outlook period, plus assumed decline rates on a field, basin, country or regional-specific basis. Upstream project lead times vary from 2-7 years, so the outer years of the forecast may be adjusted after analysing typical historical exploration success rates and reserve-production ratios. Underlying the mid-term forecast is an assumption that projects are subject to recent oil company planning/budgeting price assumptions (still below $30/bbl on an aggregate basis), and that existing technological, regulatory and fiscal regimes prevail. As such, there is a risk that the forecast does not fully capture either the potentially negative short term impact of drilling and service capacity shortages and cost increases, or the potential stimulus to longer term production of recent high prices.



That said, our provisional projections for 2005-2010 suggest:

- continued rebound in OPEC crude capacity after limited 2001-2004 additions;
- steady growth in OPEC NGL/non-conventional supply as gas projects proceed apace;
- persistent 500-700 kb/d annual FSU growth, focus shifting from Russia to the Caspian;
- resumed growth from the rest of non-OPEC (centred on Brazil, Angola and Canadian oil sands), which averages 500-800 kb/d per annum after negligible growth in 2003-2005.

After several weak years, there has been a temptation to write-off non-OPEC supply prospects. In part this stems from a temptation to extrapolate the most recent trend, using the pretext of accelerating decline rates and resource depletion. These issues are likely of genuine longer term relevance but our analysis suggests that, at least for 2005, the bulk of non-OPEC supply shortfall compared to projections of 18 months ago derives from:

1. the exceptional hurricane season and associated outages affecting the US Gulf;
2. a spate of delays to new field start-ups affecting, amongst others, Brazil, the US Gulf, Sudan, the UK and Australia;
3. the unexpected pace of investment and production slowdown from two specific Russian producers which, as noted below, could now abate.

Such factors can of course recur in any given year to derail otherwise expected capacity expansion. Nonetheless there is a large number of active upstream investment projects imminently coming to fruition for both OPEC and non-OPEC countries. Given a more normalised operating environment than has prevailed these past two years, these should add significantly to global supply potential. Most, moreover, were initiated during a phase of lower oil prices, suggesting that it is delays in, rather than an absolute lack of, upstream investment that has squeezed spare upstream capacity since 2003.

Norway – September actual, October provisional: Lower than expected provisional October output data, and tanker loading data for November/December, result in a 45 kb/d downward revision to Norwegian liquids production for the fourth quarter of 2005. The bulk of the downward revisions occur for the central Sleipner/Frigg and northerly Haltenbanken areas, with lower output carried through in the forecast for 2006. However, in aggregate the downward revision for supply in 2006 is restricted to 20 kb/d as Ekofisk system production has been revised up by 20 kb/d. This follows Total's announcement in late November that five new wells at the Ekofisk Area Growth project had come onstream and that system production could increase by up to 100 kb/d. November also saw the start-up of the Kristin condensate field and the Urd project (covering the Staer and Svale fields). Already captured in this Report's previous forecasts, a combined 150 kb/d of liquids could come from these projects in 2006.

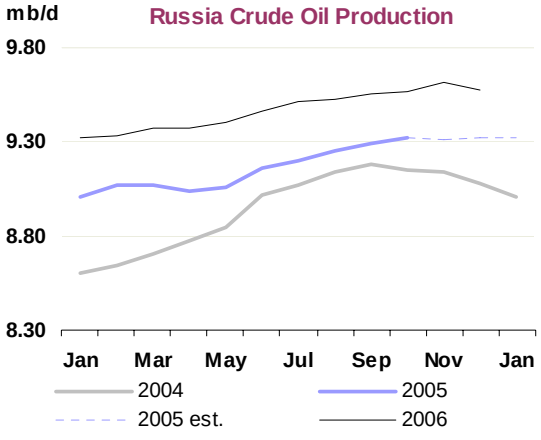
Former Soviet Union (FSU)

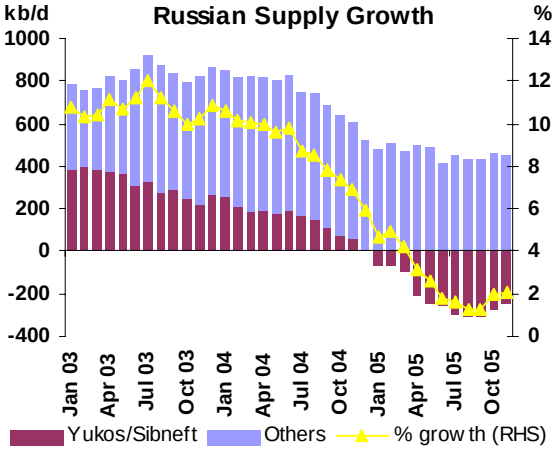
Russia – October actual, November provisional: A combination of lower than expected October and November production levels, plus consideration of latest company production growth plans for 2006, results in modest downward revisions to Russian supply for 2005 and 2006. Fourth quarter 2005 output is revised down 20 kb/d, largely the result of lower expectations for Lukoil and BP-TNK. Both companies are now forecast in this Report to see 2006 growth rates at or slightly below the 5-7% levels seen in 2005. In contrast, a 20 kb/d upward revision to Gazprom fourth quarter output is carried through 2006. Forecast Russian production of 9.47 mb/d in 2005 and 9.78 mb/d in 2006 still represents growth of 2.7% and 3.2% respectively, higher than various government growth projections.

Yukos and Rosneft 2006 production levels are also revised up by around 20 kb/d each compared to last month's Report. This may appear counter-intuitive, as Yukos has seen a decline in production since its Yuganskneftegaz subsidiary was taken over by Rosneft at end-2004, and both face constraints on capital available for upstream investment. Indeed, Yukos production could continue to decline unless its remaining production assets are bought out (also potentially by Rosneft). However, with the slide in Yukos production having halted for the time being in October and November, and amidst recent reports of a return to profitable operations, the worst of the slide in upstream investment for the company may be behind it. We have therefore restricted the 2006 decline in Yukos output to some 170 kb/d, similar to likely 2005 performance. There could be some upside to this assumption if Yukos assets are indeed bought out and upstream investment is reinvigorated.

For its part, Rosneft has overseen a turnaround in its Yuganskneftegaz subsidiary's production. Renewed maintenance and service company activity have seen growth of 70 kb/d in production since April. While a 9% growth target for Rosneft in 2006 may prove over-ambitious, an acceleration in growth to 6% from 2005's 3%,as assumed by this Report, appears feasible.

The graphs below illustrate that the slide in Russian production growth to sub-2% levels may indeed have abated. Indeed there could be upside potential compared to this Report's forecasts for a number of companies including Yukos and Rosneft. We have also taken a conservative view regarding production build-up from two recently started projects involving joint venture partners - Shell's West Salym project and ExxonMobil's Sakhalin I. Actual increases in production could be more rapid than assumed here.





FSU net exports stabilised in October close to 8.0 mb/d, with a 110 kb/d fall in crude exports being countered by an 80 kb/d increase in products. Higher crude export duty appeared to have greatest impact in curbing Baltic supplies, which fell by 110 kb/d to 1.53 mb/d. Black Sea liftings remained close to September's 2.23 mb/d. As an indicator of November FSU exports, Russian crude exports via the Transneft pipeline system increased by 180 kb/d month-on-month. However, there are early indications that growing shipping delays in the Turkish Starits and other seasonal factors may limit any further increase in December.

FSU Net Exports of Crude & Petroleum Products

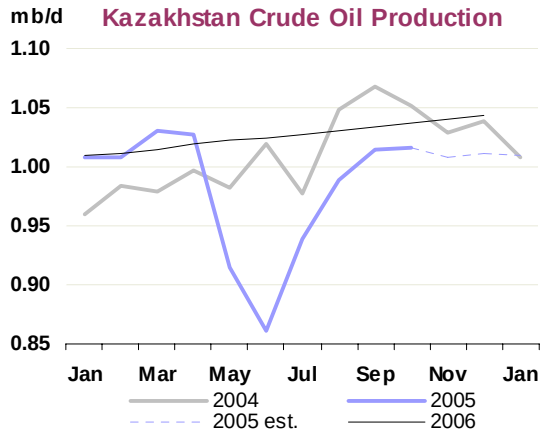
(million barrels per day)

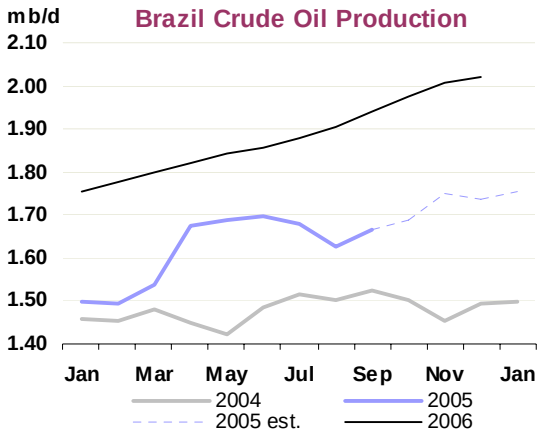
	2003	2004	4Q2004	1Q2005	2Q2005	3Q2005	Aug-05	Sep-05	Oct-05	Latest month vs. Sep-05	Latest month vs. Oct-04
Crude											
Black Sea	2.21	2.20	2.28	2.22	2.38	2.30	2.32	2.23	2.24	0.02	-0.18
Baltic	1.06	1.51	1.48	1.64	1.61	1.57	1.59	1.64	1.53	-0.12	0.02
Artic/FarEast	0.21	0.25	0.30	0.19	0.19	0.22	0.22	0.21	0.21	0.00	-0.09
Crude Seaborne	3.47	3.96	4.06	4.04	4.18	4.08	4.12	4.08	3.98	-0.10	-0.25
Druzba Pipeline	1.07	1.10	1.14	1.13	1.10	1.14	1.12	1.17	1.17	0.00	0.04
Other Routes	0.17	0.23	0.25	0.28	0.35	0.35	0.37	0.37	0.36	-0.01	0.09
Total Crude Exports	4.71	5.29	5.46	5.45	5.64	5.58	5.61	5.62	5.51	-0.11	-0.13
Of Which: Transneft	na.	3.76	3.86	4.01	4.26	4.26	4.33	4.30	4.19	-0.10	0.27
Products											
Fuel oil	0.83	0.90	0.87	0.78	0.91	1.02	0.97	0.98	0.97	-0.01	0.13
Gasoil	0.82	0.84	0.78	0.89	0.80	0.85	0.83	0.88	0.93	0.04	0.17
Other Products	0.41	0.46	0.42	0.58	0.56	0.58	0.54	0.59	0.64	0.05	0.25
Total Product	2.05	2.19	2.07	2.25	2.27	2.45	2.34	2.45	2.53	0.08	0.55
Total Exports	6.76	7.48	7.52	7.70	7.90	8.02	7.95	8.07	8.04	-0.04	0.43
Imports	0.02	0.01	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.00	0.00
Net Exports	6.74	7.47	7.51	7.69	7.90	8.00	7.94	8.06	8.03	-0.04	0.43

Sources: Petro-Logistics, IEA estimates

Kazakhstan – October actual: Total oil production from Kazakhstan reached 1.24 mb/d in October, its highest level since April. Spring and summer output was blighted by unscheduled outages affecting the Karachaganak and Tengiz fields and political manoeuvring over gas flaring restrictions affecting other producers. Provisional indications for November suggest a continued increase in supply.

Gas utilisation issues may re-emerge as a more genuine constraint on oil production growth in future, as could the availability of sufficient crude pipeline export capacity. Delays in expanding the CPC pipeline via Russia's Novorossiysk have caused partners in the Tengiz field to turn to expanded southern shipments via Aktau, Baku and Batumi. While CPC expansion should proceed eventually, a stop-gap route is required to accommodate an expected doubling in Tengiz production to 530 kb/d by 2007. Stage one of the Kazakhstan to China crude pipeline was also completed in November and initial capacity of 200 kb/d could be available by end-year.





Other Non-OPEC

Brazil – September actual: Brazilian crude production for September came in stronger than expected at 1.67 mb/d although provisional indications for October suggest generally flat output rather than the sharp increase expected by this Report last month. However, a renewed build-up in supplies from the deepwater Campos Basin is expected from November and running through 2006. September data suggests higher baseload supply which carries through the forecast. In all, Brazilian crude is seen growing by 235 kb/d in 2006, to reach 1.9 mb/d.

Marginally higher Brazilian fuel ethanol production is now expected for 2005 and 2006. Output could reach 270 kb/d in 2005 and nearly 290 kb/d in 2006, with ambitious expansion plans in place both for domestic consumption and exports. This represents growth of 7-8% per annum since 2000.

Revisions to Non-OPEC Oil Supply

(million barrels per day)

	Last Month's OMR			This Month's OMR			This Month vs. Last Month		
	2005	2006	06 vs. 05	2005	2006	06 vs. 05	2005	2006	06 vs. 05
North America	14.13	14.38	0.25	14.09	14.38	0.29	-0.04	0.00	0.04
Europe	5.70	5.46	-0.24	5.68	5.44	-0.25	-0.01	-0.02	-0.01
Pacific	0.59	0.58	-0.01	0.58	0.58	-0.01	0.00	0.00	0.00
Total OECD	**20.42**	**20.42**	**0.01**	**20.36**	**20.40**	**0.04**	**-0.05**	**-0.03**	**0.03**
Former USSR	11.60	12.12	0.52	11.60	12.10	0.51	0.00	-0.01	-0.01
Europe	0.16	0.15	-0.01	0.16	0.15	-0.01	0.00	0.00	0.00
China	3.63	3.63	0.00	3.63	3.63	0.00	0.00	0.00	0.00
Other Asia	2.74	2.84	0.11	2.73	2.83	0.10	0.00	-0.01	-0.01
Latin America	4.30	4.50	0.20	4.30	4.52	0.22	0.00	0.02	0.02
Middle East	1.86	1.81	-0.05	1.86	1.81	-0.05	0.00	0.00	-0.01
Africa	3.72	4.25	0.53	3.70	4.25	0.55	-0.01	0.01	0.02
Total Non-OECD	**28.00**	**29.30**	**1.30**	**27.99**	**29.31**	**1.32**	**-0.02**	**0.00**	**0.02**
Processing Gains	1.86	1.90	0.04	1.86	1.90	0.04	0.00	0.00	0.00
Total Non-OPEC	**50.28**	**51.63**	**1.35**	**50.21**	**51.61**	**1.39**	**-0.07**	**-0.02**	**0.04**

OMR = Oil Market Report

OECD STOCKS

Summary

- **OECD total industry oil stocks** built in all regions in October, closing at 2652 mb or 64 mb above last year. The 26 mb build versus September came mainly in crude inventories, but gains were also seen in the main product categories with distillates seasonally increasing ahead of peak winter demand. Days of forward demand cover held flat from September at 52 days, one day higher than last year.

Preliminary Industry Stock Change in October 2005 and Third Quarter 2005

(million barrels per day)

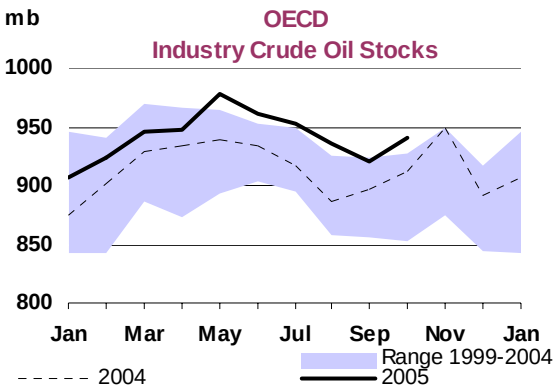
	October (preliminary)				*Third Quarter 2005*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**0.51**	**-0.07**	**0.20**	**0.65**	**-0.35**	**0.00**	**-0.09**	**-0.44**
Gasoline	0.13	0.03	0.06	0.22	-0.19	0.03	-0.02	-0.18
Distillates	-0.18	0.15	0.19	0.16	0.08	0.15	0.21	0.44
Residual Fuel Oil	0.03	-0.05	-0.01	-0.02	-0.04	0.05	0.01	0.02
Other Products	-0.27	-0.01	0.01	-0.27	0.01	0.01	0.01	0.02
Total Products	**-0.28**	**0.12**	**0.25**	**0.09**	**-0.15**	**0.24**	**0.20**	**0.29**
Other Oils[1]	0.03	-0.03	0.10	0.11	0.12	0.04	0.00	0.16
Total Oil	**0.26**	**0.02**	**0.56**	**0.84**	**-0.38**	**0.28**	**0.11**	**0.01**

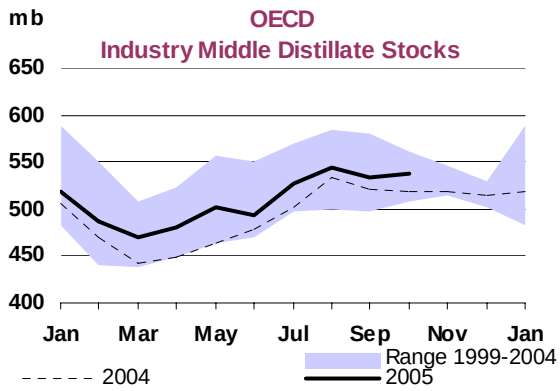
1 Other oils includes NGLs, feedstocks, and other hydrocarbons

- **OECD industry crude stocks** increased by 20 mb, in October. Strengthening contangos on the NYMEX and IPE futures markets encouraged stock building. The largest increase came in the US where stocks built as reduced refinery demand continued to outpace shut in production and lower average imports. In the Pacific, onshore inventories were relatively flat, but overall crude stocks increased on rising volumes of oil held on tankers mooring at ports. Firm refinery runs in Europe were broadly offset by ample regional availabilities, leaving crude inventories flat on the month. At 941 mb, total OECD crude stocks closed October at 29 mb above last year.

- **OECD industry distillate stocks** built by 5 mb in October. The build came mainly in Europe and the Pacific. In contrast, inventories fell in North America, mainly in diesel and to a lesser extent in heating oil and jet fuel. US refinery runs were lower and yields maximised gasoline at the expense of distillate production. However, OECD heating fuel supplies closed above or at par with their five-year average. This followed from warmer than normal weather in all OECD regions reducing end-user demand. As with crude oil, a strong contango in paper markets, be it gasoil/heating oil futures in the Atlantic Basin or swap prices in Asia, supported building inventories.

- **OECD industry gasoline stocks** built in all regions in October, on a combination of high gasoline production and seasonally lower demand. Though the US saw reduced refinery runs due to the hurricane-related outages, stocks rose on record gasoline imports and increased blending. While imports fell in November on weaker price differentials, higher domestic output allowed gasoline stocks to trend sideways close to their five-year average. With the closure of spot arbitrage opportunities to the US, gasoline stocks in independent ARA storage rose steadily in November.



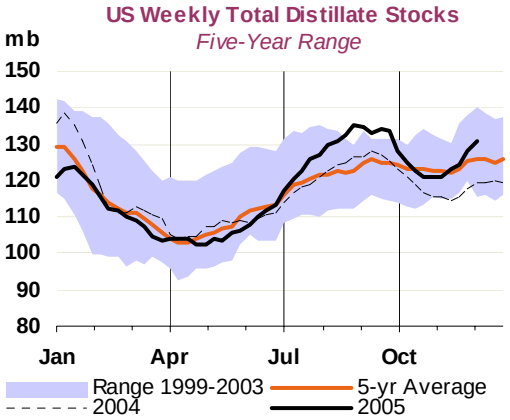


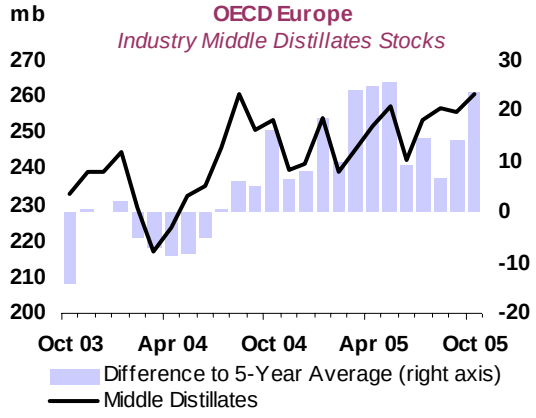
OECD Industry Stock Changes in October 2005

OECD North America

US crude inventories built by 16 mb in October as US refinery throughputs dropped to their lowest level since 1997. The build was partly mitigated by a drop in average imports and lower production from the US Gulf of Mexico. Mexican crude oil stocks held flat on the month, leaving total North American inventories at 431 mb, 24 mb above last year.

Weekly data show that US-50 crude stocks edged lower by about 1.5 mb in November as refinery runs recovered toward their five-year average by end-month. Though Gulf of Mexico production was returning, average imports fell. A narrow WTI/Brent spread and high freight rates in November limited imports of Brent related material, in particular West African grades. In addition, weaker US demand for December delivery crude oil was in part motivated by tax considerations for inventory at the end of the fiscal year. However, the strengthening of forward prices on NYMEX futures relative to prompt prices should mitigate the extent of inventory minimisation. Crude stocks are likely to decline further in December as throughputs remain firm and some companies begin to return crude oil lent from the SPR.





The slide in US middle distillate stocks since late August, mainly driven by declines in diesel, came to a halt in November. Product output increased with higher crude runs and yields switched away from gasoline. Demand for heating oil over the period was weak due to warmer than normal weather, leaving inventories in the main consuming Northeast region at the upper end of their seasonal range in early December. Total distillates added about 9 mb to storage during November, with gains seen in both diesel and heating oil. The strong contango in front-month NYMEX heating oil futures, amounting to more than 3$/bbl (and the strongest in 15 years), supported the build. After rising by 4 mb in October, US gasoline stocks held relatively flat in November. Imports dropped sharply but were balanced by higher refinery output.

OECD Europe

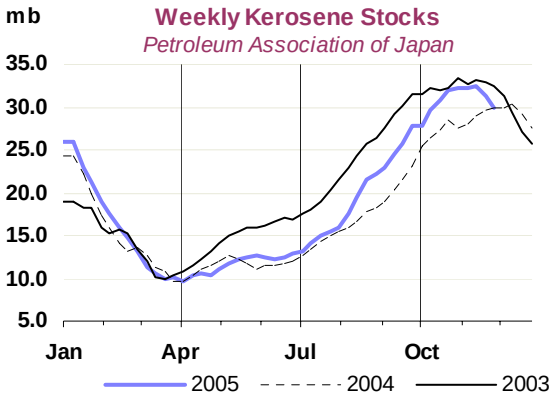
European industry crude stocks slipped 2 mb in October as high refinery runs were balanced by ample regional supplies. Throughputs averaged more than 400 kb/d above last year as refiners took advantage of high cracking and hydroskimming margins. Reduced US crude demand and high freight rates also limited arbitrage opportunities. Rising medium sour Urals supplies were absorbed regionally as its price weakened relative to Brent while providing comparable cracking margins to light sweet crude. France saw a sizable build in crude stocks of 7 mb as result of a drop off in crude demand. Total's Gonfreville refinery was offline for most of the month due to a labour strike. At 335 mb, European crude inventories stood well above last year's position and their five year range.

European products stocks, with the exception of fuel oil, increased across categories in October. Middle distillates posted the strongest gains, rising by 5 mb and closing above their five-year average. Regional supplies increased on firm refinery throughputs and increased imports. The recent strength of European distillate prices attracted inflows of product from Asia, Venezuela and Russia. At the same time, lower inland deliveries into key consuming markets and a weather related reduction in end-user demand depressed prompt prices relative to forward values. With a strong contango in place on IPE gasoil futures, surplus supplies were encouraged to move into storage.

OECD Pacific

Pacific crude stocks built by a preliminary 6 mb in October despite continued strong refinery runs. The build was centred in Korea, where inventories rebounded from the low levels seen in September. In Japan, stocks held relatively flat as high refinery runs were offset by higher imports.

Pacific distillate inventories followed seasonal trends, increasing by a total of 6 mb in October. The build was centred mainly in Japan, where high refinery runs and exceptionally low demand supported the build. Weekly data from the Petroleum Association of Japan show that stocks fell back in late November on increased exports and the onset of colder weather.



Preliminary OECD Government Stock Changes in October 2005

According to preliminary delivery schedules, OECD government stocks (public or agency stocks) fell by 10 mb in September and a further 11 mb in October. In accordance with the IEA coordinated emergency stock release of 2 September, a total of over 28 million barrels were sold or loaned from public stocks across OECD member countries. Most volumes were delivered to buyers or loan recipients during the September-October period. In some instances, as in the US, some deliveries were stretched into the months of November and December. Some of the loans started to be returned in October and November.

OECD Inventory Position at End-October and Revisions to Preliminary Data

OECD total industry stocks ended October at 2652 mb, 64 mb above last year and 26 mb up from September. Crude stocks held above last year's level in North America and Europe. Only Europe saw product inventories fall slightly below last year's position. OECD forward demand cover held steady at 52 days, one day above last year. On a regional basis, forward demand cover came to 48 days for North America, 60 days for Europe and 48 days for the Pacific.

Year-on-Year OECD Industry Stock Comparisons for October 2005

	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**24.2**	**7.3**	**-2.6**	**28.9**	**Total Oil**	**1.5**	**0.2**	**0.1**	**0.8**
Total Products	11.8	-1.8	10.8	20.8	*Versus 2003*	-0.3	0.3	1.3	0.2
Other Oils[1]	7.8	3.0	3.5	14.4	*Versus 2002*	-1.5	-0.9	3.7	-0.2
Total Oil	**43.8**	**8.6**	**11.7**	**64.1**	**Total Products**	**0.3**	**-0.3**	**0.6**	**0.2**
Versus 2003	34.5	32.2	12.7	79.4	*Versus 2003*	-0.4	0.8	0.2	0.1
Versus 2002	33.0	19.1	13.9	66.0	*Versus 2002*	-1.2	-1.0	1.2	-0.6

1 includes feedstocks, NGLs and other hydrocarbons

September preliminary data were revised down by a total of 19 mb, mostly in crude and to a lesser extent in the 'other products' category. Smaller upward revisions were seen for residual fuel oil, mainly in Europe and 'Other Oils' which includes NGLs and feedstocks. August data were also revised downwards by 6 mb, most of it accounted for by Mexican crude inventories.

Revisions versus 10 November 2005 Oil Market Report

(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Aug 05	Sep 05	Aug 05	Sep 05	Aug 05	Sep 05	Aug 05	Sep 05
Crude Oil	**-5.0**	**-9.6**	**-1.8**	**-7.4**	**0.0**	**-3.9**	**-6.8**	**-20.9**
Gasoline	0.0	-1.3	1.6	2.6	0.0	-0.4	1.6	0.9
Distillates	0.0	-5.3	1.3	5.5	0.0	-0.3	1.3	-0.1
Residual Fuel Oil	0.0	-0.4	1.0	4.3	0.0	0.4	1.0	4.3
Other Products	0.0	-4.2	-2.6	-4.7	0.0	1.1	-2.6	-7.8
Total Products	**0.0**	**-11.2**	**1.3**	**7.6**	**0.0**	**1.0**	**1.3**	**-2.6**
Other Oils[1]	0.5	3.1	-0.7	2.5	0.0	-0.6	-0.2	4.9
Total Oil	**-4.5**	**-17.7**	**-1.2**	**2.7**	**0.1**	**-3.6**	**-5.7**	**-18.6**

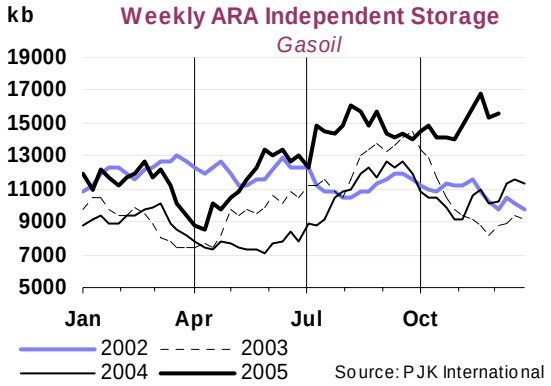
1 Other oils includes NGLs, feedstocks, and other hydrocarbons

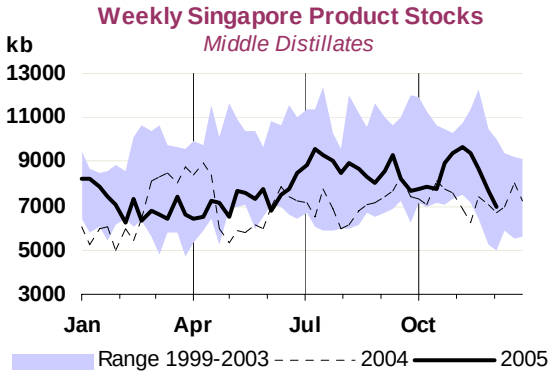
Recent Developments in ARA Independent Storage

Gasoil inventories held in independent storage in the Amsterdam-Rotterdam-Antwerp area continued to build in November reaching their highest level in 6 years. Unseasonably warm weather and high prices have reduced European demand, with purchases limited to discretionary amounts. In addition, barge trade along the Rhine was hampered by low water levels, leaving some product to back up in ARA. Lower water levels were also accompanied by high freight rates, reducing deliveries into the German, French and Swiss markets. Ample Russian supplies were also trapped in the region, as storage facilities in the Black Sea reached capacity and the arbitrage to the US appeared closed.

A steep contango in IPE gasoil futures and barge swap prices in Northwest Europe encouraged traders to move product into storage. The strength of forward prices also continued to attract diesel cargoes from Asia and Venezuela and jet fuel from the Middle East and the Caribbean.

Fuel oil tanks remained largely full on steady inflows of Russian product from the Baltic and reduced shipments to Asia. Gasoline stocks were also rising on plentiful supplies and reduced opportunities for spot exports. Closed arbitrage to the US was only partly offset by shipments to West Africa, the Middle East or into the Mediterranean.





Recent Developments in Singapore Stocks

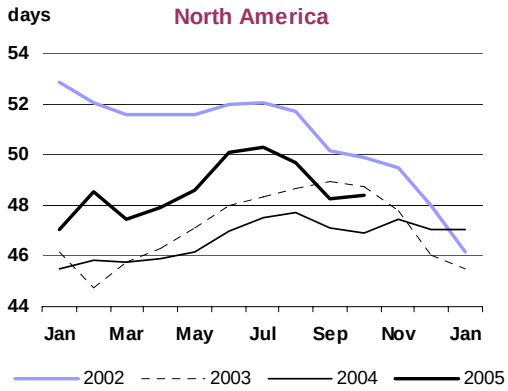
Product inventories in Singapore surveyed by International Enterprise fell to their lowest level in over 18 months in November with draws in all product categories. Light distillates, including gasoline and naphtha, declined despite weak regional demand and increased supplies from India. Indian demand for naphtha continued to decline with the petrochemical sector favouring cheaper natural gas. Indonesia, a prominent regional importer, saw domestic product demand fall back following the government's decision to roughly double domestic transport fuel prices from the start of October. India increased product exports in November, as refiners were taking advantage of higher international prices and utilising recently installed capacity.

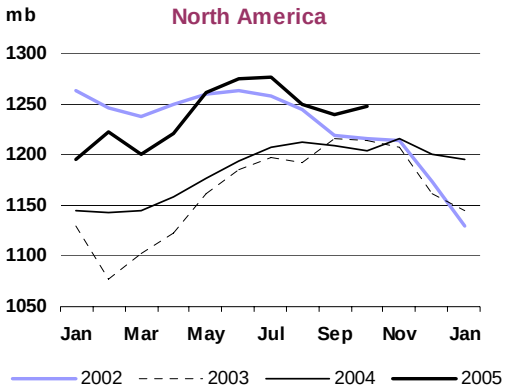
Middle distillate inventories built on the weight of regional supplies in early November before falling in the second half. Regional demand began to recover at end-month with the onset of colder weather. However, a number of Asian countries offered product for export, increasing regional supplies. This depressed Singapore gasoil and kerosene prices. Prices for Singapore swaps continued to discount prompt values against future delivery, leaving room for a rebound in stocks in December.

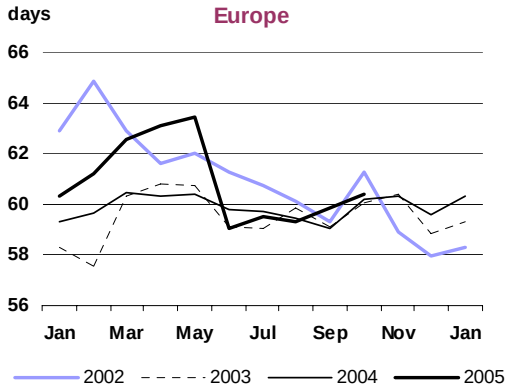
Regional OECD End-of-Month Industry Stocks

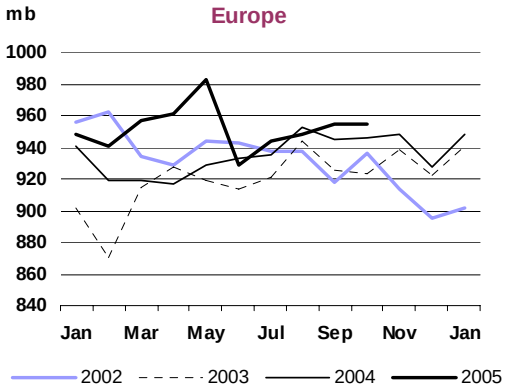
(in days of forward demand and millions barrels of total oil)

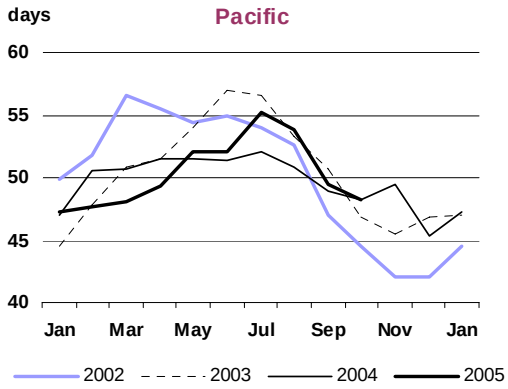
Days[1] | **Million Barrels**

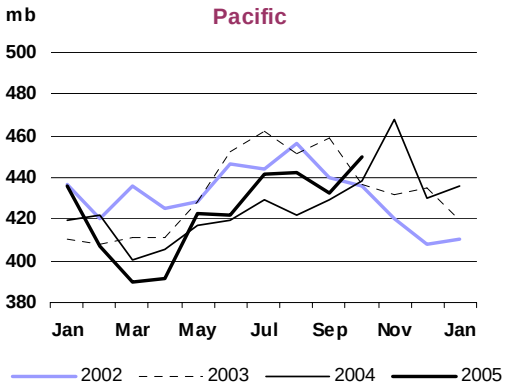


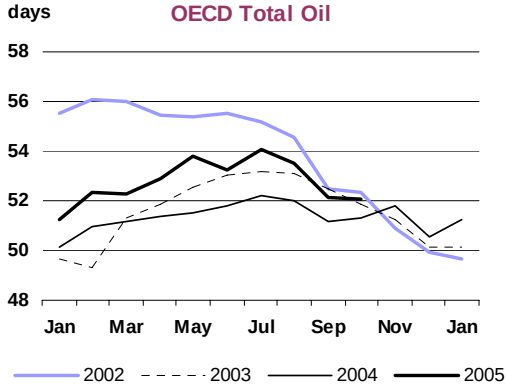


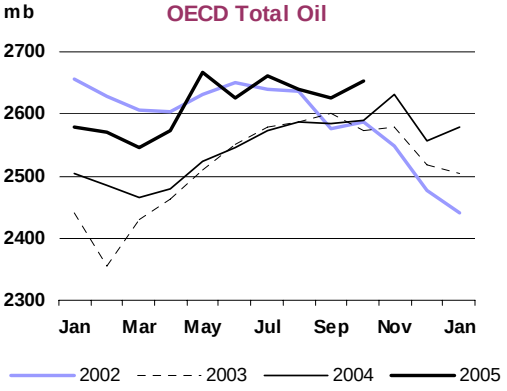












1 Days of forward demand are based on average demand over the next three months

PRICES

Summary

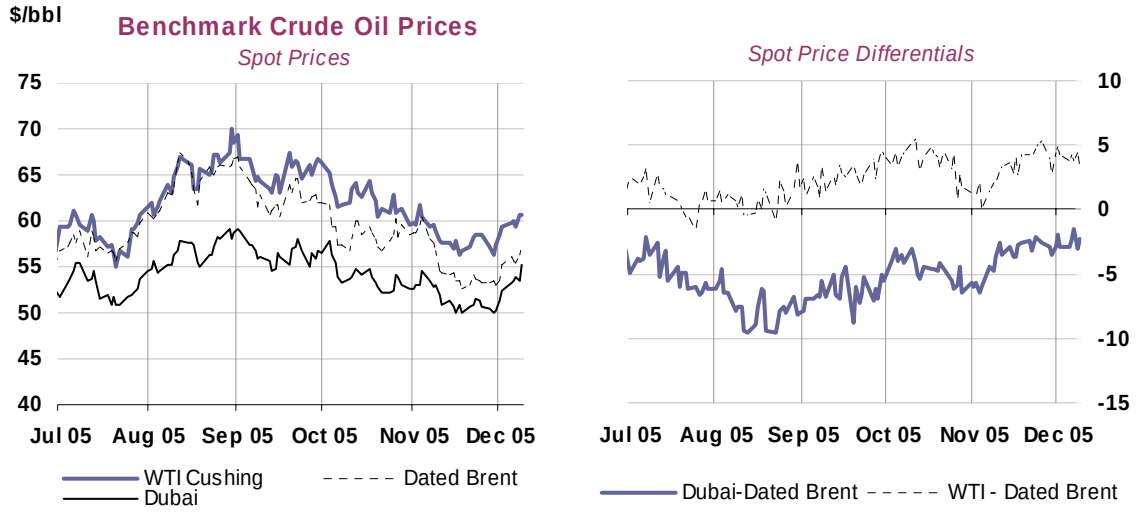
- **Benchmark crude** prices extended declines during November, pushed lower by weather-driven weakness in product markets, weaker refinery margins and crude inventories in the Atlantic Basin stable above five-year averages. Declines in the light sweet benchmarks WTI and Brent continued to outpace those seen in medium sour Dubai, reflecting prompt crude oil availability in the Atlantic Basin and stronger demand for medium sour/fuel oil-rich crudes in the Middle East. Price differentials between benchmarks saw relative weakness emerging for Brent by end-month. WTI and Dubai strengthened relative to Brent as crude demand in the US and Asia increased for barrels delivered in early part of the first quarter 2006.

- **Crude futures** prices fell during November and the contango for the first three traded months deepened on NYMEX and the IPE. The contango structure for WTI extended out to April 2007 in early December. Non-commercial traders on NYMEX retained their net-short (selling) bias, though scaling back positions in the second half of the month. WTI futures closed November at $57.32/bbl, down from $59.76/bbl at the end October while IPE Brent fell from $58.10/bbl to $55.05/bbl. Crude futures prices rebounded in early December, responding to upward price moves in products with the arrival of colder weather.

- **Light product** prices continued to fall in November with distillates, notably jet/kerosene, recording declines in excess of gasoline. Heating oil prices fell as warm temperatures dented fuel deliveries to distribution centres. At the same time, firm refinery runs led to greater product supply, leaving stocks at higher levels than anticipated in the immediate aftermath of Hurricanes Katrina and Rita.

- **Product futures** price structures were all in contango over the course of November encouraging movement of product into storage. The spread between the near month contracts for gasoil traded on the IPE contract widened from $0.71/bbl on close 31 October to $1.65/bbl by 9 December, while that for No. 2 heating oil on NYMEX narrowed slightly, moving from $2.27/bbl to $2.18/bbl. Futures cracks on NYMEX for heating oil averaged around $15.00/bbl through most of November, temporarily weakening at the end of the month. The crack spreads rebounded in December in the wake of spiking natural gas prices, these breaching $14/mmBtu on 8 December.

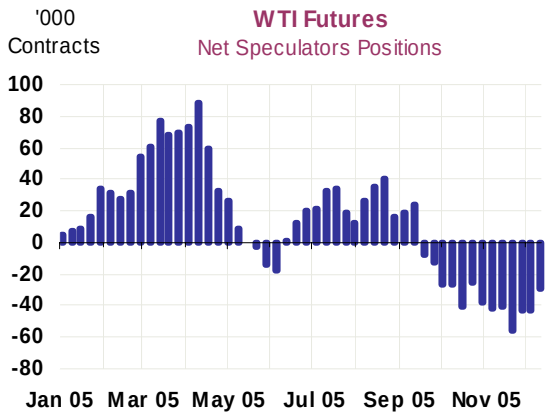
- **Fuel oil** prices, though weaker on the month, kept their differentials to reference crudes relatively steady, notably in high sulphur material in Singapore and low sulphur grade in the US. Low sulphur fuel, used for power generation, saw its value in Europe and Asia weaken as above normal temperatures curbed utility demand. In the US, where natural gas prices remained high, fuel switching by utilities for alternative feedstocks supported low sulphur fuel oil prices.

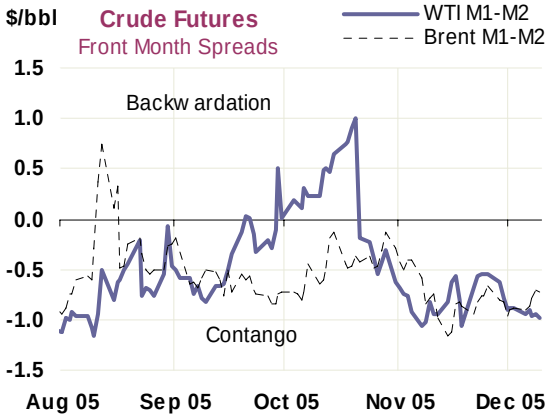


Oil Futures in November

Crude Oil Futures

Crude oil futures fell in November on the IPE and NYMEX exchanges, with NYMEX WTI closing November at $57.32/bbl and IPE Brent at $55.05/bbl. Continued weakness in product markets put downward pressure on the prompt month and widened the contango for future delivery. European crude stocks were trending at the top of their five-year range while those in the US were seen as adequate for the remainder of the year. Evidence of growing supplies of light sweet crudes in the US was apparent by the extension of the forward premium as far as April 2007. This is the first time that WTI has been in contango this far forward since February 2002. European refiners were heavy buyers of light, sweet crudes ahead of the introduction of lower sulphur regulations in 2004, and US refiners face a similar tightening of sulphur limits in the middle of 2006. US crude runs have returned to year-ago levels and the impact of inventory minimisation for year-end tax considerations may prove limited in light of higher forward prices. Colder weather in early December supported a product driven rebound in the prices of crude futures. WTI reached $59.39/bbl and Brent rose to $57.31/bbl on 9 December.





Weakness in product markets weighed on crude values. Gasoline futures crack spreads fell in early November and were joined by a decline in heating oil by end-month. Warmer temperatures delayed the seasonal rise in heating oil demand and statements by OPEC Members suggesting production targets would remain unchanged at the organisation's 12 December meeting in Kuwait reduced some nervousness. Non-commercial participants on the NYMEX light sweet crude oil contract were net short (selling) in November but scaled back short positions in the second half of the month. With January delivery becoming the prompt contract, the move towards a net buying position coincided with seasonally higher refinery demand for crude delivered in the first quarter next year.

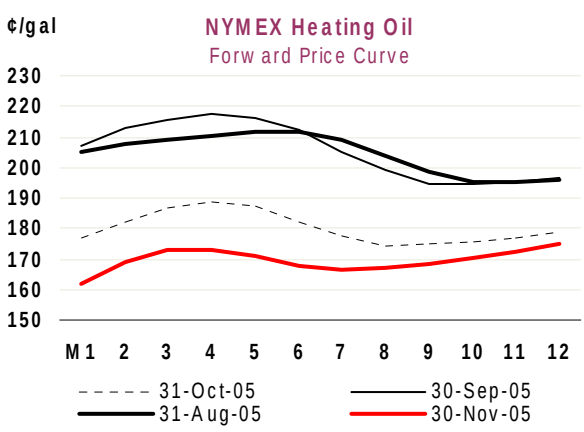
Prompt Month Oil Futures Prices

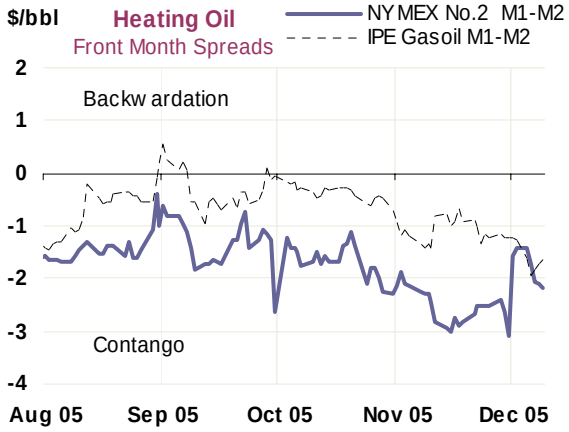
(monthly and weekly averages, $/bbl)

	Sep	Oct	Nov	Nov-Oct Avg Change	%	Week Commencing: 07 Nov	14 Nov	21 Nov	28 Nov	05 Dec
NYMEX										
Light Sweet Crude Oil	65.55	62.27	58.34	-3.93	-6.7	58.69	57.01	58.42	57.79	59.82
Unleaded Gasoline	86.75	73.33	63.14	-10.19	-16.1	64.36	61.80	61.63	62.26	66.97
No.2 Heating Oil	84.01	81.17	72.60	-8.58	-11.8	74.10	71.68	71.89	70.33	74.03
No.2 Heating Oil ($/mmbtu)	14.42	13.94	12.46	-1.47	-11.8	12.72	12.31	12.34	12.07	12.71
Henri Hub Natural Gas ($/mmbtu)	12.11	13.45	11.70	-1.76	-15.0	11.69	11.77	11.52	12.49	14.03
IPE										
Brent	63.80	59.50	56.23	-3.27	-5.8	56.68	54.90	55.65	55.49	57.66
Gasoil	82.80	79.72	71.56	-8.16	-11.4	71.89	71.95	70.80	69.15	70.96
Prompt Month Differentials										
NYMEX WTI - IPE Brent	1.75	2.77	2.12	-0.65		2.01	2.10	2.76	2.30	2.16
NYMEX No.2 Heating Oil - WTI	18.46	18.90	14.25	-4.65		15.41	14.68	13.47	12.53	14.21
NYMEX Unleaded Gasoline - WTI	21.19	11.06	4.80	-6.27		5.67	4.79	3.22	4.47	7.15
NYMEX 3-2-1 Crack	20.28	13.68	7.95	-5.73		8.92	8.09	6.63	7.16	9.50
NYMEX No.2 - Natural Gas ($/mmbtu)	2.31	0.48	0.77	0.29		1.04	0.54	0.82	-0.42	-1.32
IPE Gasoil - IPE Brent	19.00	20.22	15.33	-4.89		15.21	17.05	15.15	13.66	13.30

Product Futures

Prompt product prices on futures exchanges fell in November with supplies improving on weaker demand, higher imports and increasing refinery output. As in crude, the forward curve shifted lower with greater downward pressure on the near traded months, keeping contangos wide. Recent declines in distillate stocks in the US came at the expense of diesel rather than heating oil, which remains in line with seasonal averages, notably in the main consuming region of the Northeast. Similarly, distillate inventories in Europe were above their five-year range and stocks in independent storage in the ARA region continued to trend higher. While a warmer autumn season and rising distillate inventories eased concerns for prompt availability of heating oil through year-end, expectations for a colder winter supported forward values.





The weakness of gasoil, against seasonal expectations, was reflected in a narrowing between the futures cracks of heating oil and unleaded gasoline at the end of the month. Normally, the gasoil crack distinctly exceeds that of gasoline with the end of the driving season and ahead of peak winter demand. A large speculative short position on the heating oil contract (also used to hedge diesel and jet fuel), while in part weather driven, may have also been motivated by lower expectations for the performance of the US economy. However, recent data suggests that growth may be more robust than envisaged. Revisions to US data suggest that gasoline demand was stronger than implied by weekly figures and diesel demand is rebounding strongly on the sustained strength of the US economy. US 3Q05 GDP was revised up from a preliminary estimate of 3.8 to 4.3% annualised growth rate. Next year's refinery maintenance schedules in the US appear heavier than previously anticipated due to postponed maintenance into 2006 while changes to product specification are supportive of higher gasoline prices.

Non commercial participants on the NYMEX maintained net short positions for the heating oil contract through most of November. The end of the month saw a sharp reduction in the position as colder temperatures began to settle in and US industrial performance rebounded in October. Heating oil prices rallied in early December, rising from $67.89/bbl at the close of November to $72.72/bbl by close on 9 December. The rebound was supported by gains in the price of natural gas futures. Prompt month gas delivered at Henry Hub on close breached $14.00/mmBtu 8 December, providing support for fuel switching by utilities into diesel.

Crude Oil Prices in November

Benchmark Crudes

After an initial uptick in early November, physical crude prices weakened further in the second half of the month. Demand eased for light sweet crudes with weakness in product markets and ample crude oil inventories in the US and Europe. Hydroskimming margins, which were positive from September to October, turned negative in November. The prior strength of these margins had prompted higher throughputs in the aftermath of Hurricanes Katrina and Rita. The consequent product supply response however, met with weaker demand, notably in distillate products, due to mild weather across the Northern hemisphere. The average monthly price for WTI at Cushing came down $4.01/bbl in November to $58.27/bbl and by $3.43/bbl for Dated Brent to $55.17/bbl. The average loss for Dubai, at $2.57/bbl, lagged relative to the Atlantic Basin markers. More moderate declines in medium sour grades were also broadly supported by competitive cracking margins for these grades relative to light

sweet crude. Spot differentials between benchmarks saw a material strengthening of both WTI and Dubai relative to Dated Brent. The gradual rise in WTI's premium reflected anticipation of stronger demand for barrels delivered in the January when refiners maximise runs to meet winter demand.

Spot Crude Oil Prices and Differentials

(monthly and weekly averages, $/bbl)

	Sep	Oct	Nov	Nov-Oct		Week Commencing:				
				Avg Change	%	07 Nov	14 Nov	21 Nov	28 Nov	05 Dec
Crudes										
Dated Brent	62.91	58.61	55.17	-3.43	-5.9	56.22	53.62	53.51	53.67	56.19
Brent (Asia) Mth1 adjusted	64.24	60.06	56.46	-3.60	-6.0	57.84	55.55	55.87	55.30	58.77
WTI (Cushing) Mth1 adjusted	65.52	62.28	58.27	-4.01	-6.4	58.62	57.14	57.99	57.73	59.93
Urals (Mediterranean)	58.38	55.64	52.14	-3.50	-6.3	51.90	50.78	52.01	51.67	54.96
Urals (Northwest Europe)	58.37	54.83	51.51	-3.32	-6.1	51.46	50.43	50.95	51.11	54.31
Bonny Light	65.75	60.46	57.00	-3.46	-5.7	57.59	55.90	56.09	55.96	58.37
Dubai Mth1 adjusted	56.54	53.96	51.39	-2.57	-4.8	52.42	50.52	51.01	50.86	53.83
Dubai Swaps Mth1 adjusted	57.73	54.40	51.81	-2.59	-4.8	52.84	50.97	51.47	51.24	54.19
Tapis (Dated)	67.64	61.90	58.36	-3.53	-5.7	59.37	57.43	58.19	57.76	61.23
Differential to Dated Brent										
WTI (Cushing) Mth1 adjusted	2.61	3.67	3.10	-0.58		2.40	3.52	4.48	4.06	3.74
Urals (Mediterranean)	-4.53	-2.97	-3.04	-0.07		-4.31	-2.84	-1.50	-2.00	-1.23
Urals (Northwest Europe)	-4.53	-3.78	-3.67	0.11		-4.76	-3.18	-2.56	-2.57	-1.88
Bonny Light	2.84	1.85	1.82	-0.03		1.37	2.29	2.58	2.29	2.18
Dubai Mth1 adjusted - Dated Brent	-6.37	-4.64	-3.79	0.86		-3.79	-3.10	-2.50	-2.81	-2.36
Dubai Swaps - Brent Asia	-6.51	-5.66	-4.65	1.01		-4.99	-4.59	-4.41	-4.07	-4.58
Tapis (Dated)	4.73	3.29	3.19	-0.10		3.15	3.82	4.68	4.09	5.04
Prompt Month Differential										
Forward Cash Brent Mth1-Mth2 adj.	-0.68	-0.49	-0.74	-0.25		-0.74	-0.82	-0.83	-0.77	-0.69
Forward WTI Cushing Mth1-Mth2 adj.	-0.33	0.31	-0.71	-1.02		-0.90	-0.63	-0.38	-0.79	-0.89

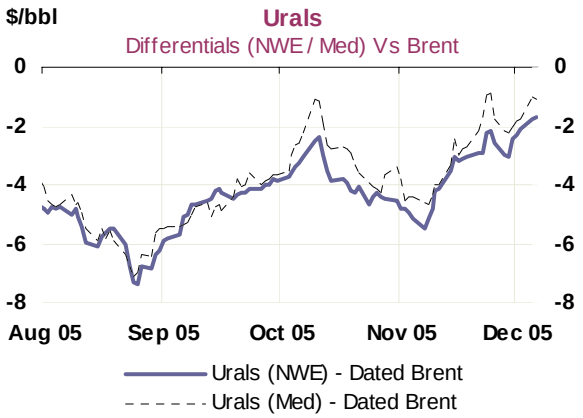
Europe and West Africa

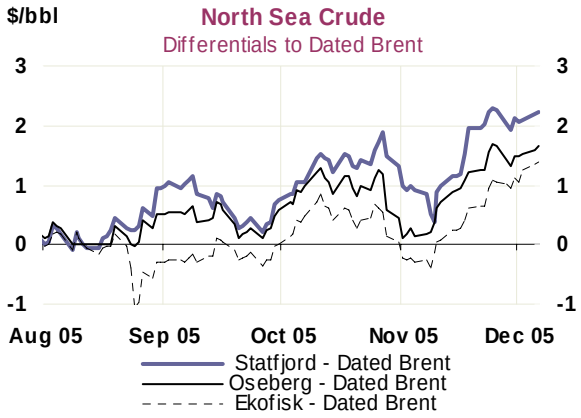
North Sea crudes held on to their premiums against Brent during November. Cracking margins in Europe were still relatively firm despite a downturn in distillate prices but absolute prices for North Sea crude fell with the decline in Dated Brent. Expensive transatlantic freight rates contributed to limited spot arbitrage trade to the US where interest in prompt oil for December delivery was thin. In Europe, it is likely that refinery runs eased or remained stable after peaking in October, also reducing interest for incremental barrels. Marginal crude distillation capacity, brought on line in the previous two months due to firm hydroskimming margins, was likely scaled back as these margins turned negative in November.

Prompt availability of crude in Europe remained high as regional grades found limited arbitrage outlets. The forward cash market for Brent has, with the exception of a short-lived interruption in August, been in a contango since late-March. Dated Brent prices fell heavily in the second half of November as a number of cargoes were reported unsold when December programmes began to emerge. Weekly contracts for differences (or Brent Swaps) against forward Brent delivered in January were in contango for December deals at the time of writing, moving into backwardation for January in line with expectations of higher crude demand.

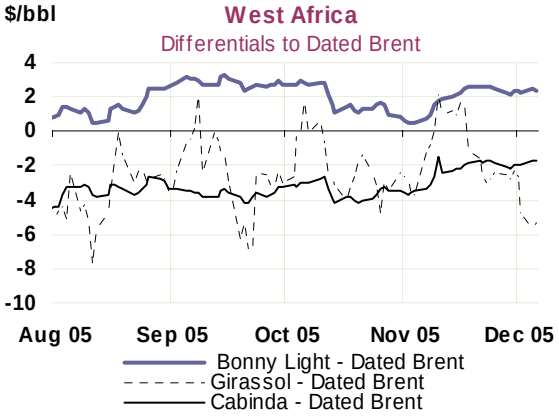
Cheaper medium sour grades found support from competitive cracking margins when compared to light sweet grades and these crudes were bid up in relation to Brent. While the monthly average discount of Urals in Northwest Europe and the Mediterranean was marginally lower in November from October, the spread saw a steady narrowing over the course of the month.

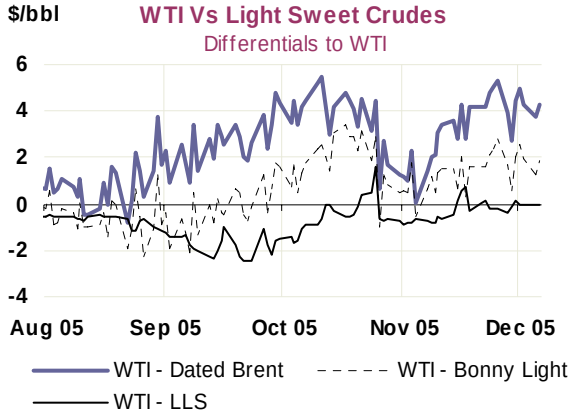
Urals, however did see divergent trends in Northwest Europe and the Mediterranean. Baltic supplies were ample in the north in contrast to the Mediterranean where supplies tightened on shipping delays at Black Sea ports. This pushed Urals in Northwest Europe to be discounted as much as $1.28/bbl in relation to the Mediterranean. Further support to Urals in the Mediterranean also came from flat production for similar grades in the region. The last liftings for Iraqi crude from the Turkish port of Ceyhan were back in September.





West African grades weakened with a decline in Brent prices. Mounting offers of Bonny Light on a delivered basis to the US Gulf Coast met with muted refiner interest and rising freight rates appeared to be a stumbling block to exports. Delivered cargo prices for December into the US Gulf Coast were discounted relative to WTI while those for delivery in 2006 were fetching premiums. However, over the month, differentials for Bonny Light as well as medium sweet Cabinda strengthened against Dated Brent.



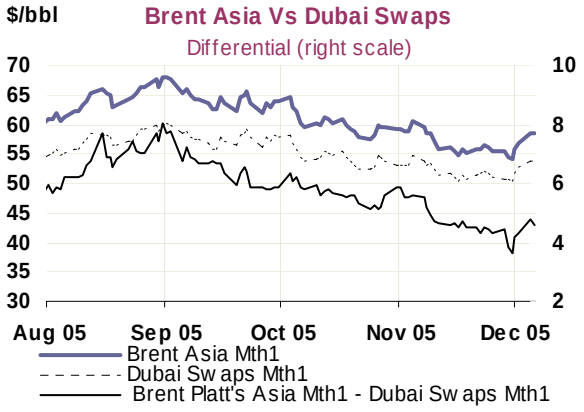


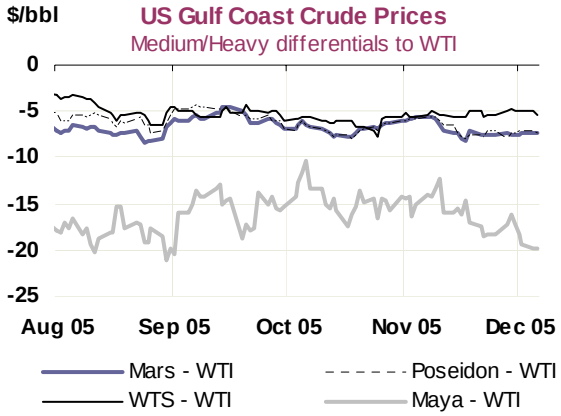
The Americas

Refiner demand for crude was waning with the end of the year in sight and ample inventories in the main refining centres of the US. While refinery runs progressively increased, some 800 kb/d of capacity on the Gulf Coast remained off line. End-year tax considerations favoured minimising inventories and scheduling deliveries for January rather than December. However, a steep contango in forward prices likely limited the incentive to de-stock. Availability of crude was supported by imports topping 10.5 mb/d and production in the Gulf of Mexico continuing to recover. WTI saw its premium against Brent and related light West African crudes increase in November. However, the gain in the differentials was for January and February barrels, while interest in crude delivered in December was weak. WTI's differential to the Gulf Coast's regional light sweet benchmark, Light Louisiana Sweet, also saw its discount narrow. This is indicative of growing inland pull for light sweet grades. WTI's price at Cushing (a gathering centre) versus Midland (a production centre) resumed its normal premium in November, supporting inland pipeline deliveries.

In the medium sour market, assessment for US Gulf benchmark Mars is part notional as production for the blend remains disrupted. Though Mars blend was likely sold out of storage, alternative grades were also delivered through the Mars distribution system. Mars forward prices were in contango, suggesting relative prompt availability. Quotes for comparable Poseidon crude showed a strong discount against WTI, holding relatively steady on average around $7.00/bbl. The weakness in sour grade spreads implied that these were well supplied or that demand for this type of crude has not yet picked up significantly. The discount could in fact prove temporary as a result of delays in the tender process of sour Ecuadorian Oriente. Delays were reported mid-November for about 144 kb/d of sour crude loading in the last 10 days November, depressing sour values regionally on the potential of

extra spot cargoes. However, when looking at the spread of West Texas Sour (WTS), availability of sour grades did appear to tighten, and the discount of WTS narrowed over the month, moving from about $5.60/bbl mid-November to $5.00 at end-month. Heavy Mexican Maya crude in contrast saw its discount widen. Mexican crude exports are thought to have increased with few alternative delivery options outside of the US while a sizable amount of Gulf Coast refinery capacity still remains offline.





Middle East and Asia

Middle East markers, Dubai and Oman, continued to see a limited price decline when compared to their Atlantic Basin counterparts. With falling hydroskimming margins, spot demand turned to medium sour grades for their fuel oil yield rather than more expensive light crude such as Tapis. High sulphur fuel oil in Asia saw its price remain relatively firm in relation to crude on lower regional availabilities and greater buying interest from China. In contrast, medium distillate-rich grades from Abu Dhabi (such as Murban) or from Qatar were traded at discounts to official selling prices for December barrels. Ample supplies of kerosene (used as a heating fuel) in the region and the likelihood of discretionary run cuts due to weak margins dampened interest for these grades. However, Asian interest rebounded for light-medium Gulf grades (loading in January) in early December, but given surplus distillate supplies, gains in the premiums of these grades relative to official selling prices may be limited.

The narrowing of the Dubai-Brent spread also opened the possibility for Asian buyers to bring more West African or Urals crude oil eastwards. The spread between Dubai and Dated Brent narrowed from $5.73/bbl on 31 October to $2.83/bbl on 30 November. At the same time, the closely watched spread (for arbitrage trade) between Dubai swaps and Brent quoted in Asia narrowed from $5.89/bbl to $3.63/bbl. This may have supported greater interest in West African grades. China, according to trade sources, was reported to be increasing its purchases alongside Korea for December loading barrels while India and Taiwan maintained volumes roughly level with November.

Delivered Crude Prices in September

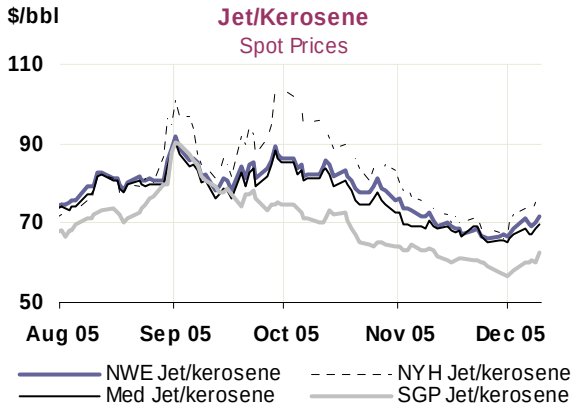
The cost of the average barrel of crude imported into all IEA countries rose for the fourth consecutive month in September, reaching $59.78. This price is 47% higher than year-ago levels. North American IEA countries paid, on average, $59.62/bbl in September and Pacific IEA countries paid $59.28/bbl, representing monthly increases of $2.68 and $2.60 respectively. Only European IEA countries saw a respite for oil importers, as the average crude barrel imported cost $60.19 in September - four cents lower than the August average.

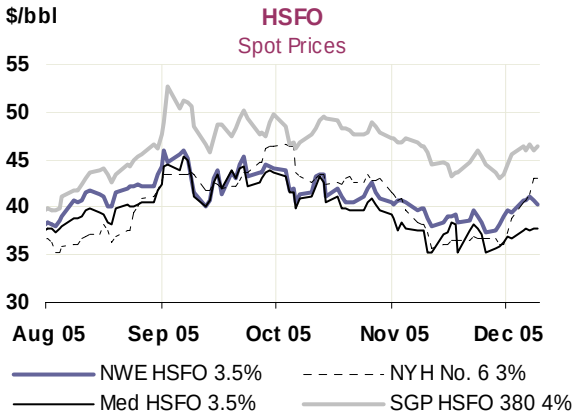
Product Prices in November

Spot Product Prices

Products prices weakened across pricing centres, but in contrast to October, sharp declines were also observed in distillates as well as gasoline. Distillate inventories rose globally with higher refinery output. Product supplies increased with incremental crude distillation capacity brought on line with firm hydroskimming margins in September and October and stock building was encouraged by a contango structure in forward prices in both futures and swap markets. At the same time, warmer temperatures across the northern hemisphere relative to seasonal averages held back the usual uptick in heating oil deliveries in the Atlantic Basin and kerosene in Asia.

On a monthly basis, gasoline prices fell between $10/bbl and $15/bbl in November. The declines seen in Europe, Asia and New York Harbour were a little less than in October. Weaker US gasoline prices and high freight rates for clean tankers limited opportunities for spot arbitrage, putting downward pressure on prices in Europe and Asia. Demand for low sulphur fuel oil retrenched in November in Europe and Asia, as warmer temperatures led power utilities to reduce purchases. In contrast, high sulphur material saw its value supported at a higher price, more visibly in Singapore. Product prices rose in early December with distillate prices rebounding with the arrival of colder weather.

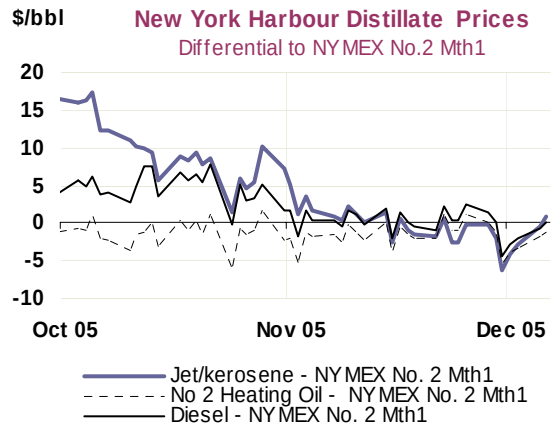


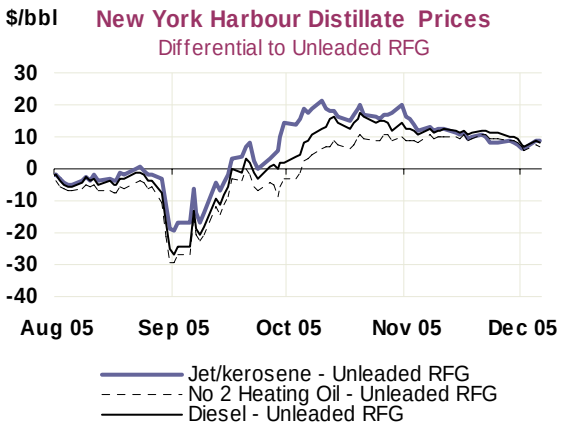


The Americas

US product prices trended lower in November with unleaded gasoline barges losing $13.40/bbl on average in New York Harbour and unleaded RFG gasoline falling by $15.01/bbl on the Gulf Coast. Supply concerns eased despite gasoline demand growth posting a stronger performance than had been suggested by preliminary weekly data. Nationwide inventories opened early December at about their five-year average. Refinery runs recovered progressively on the US Gulf Coast whereas throughputs elsewhere were at, or above, their five-year range. US imports were high though declining on an average basis. Increased blending on the East Coast and the return of refinery capacity on the Gulf Coast led to a rebound in gasoline stocks from their mid-September low. Though glitches at gasoline producing units on the Atlantic Coast were reported in November, the normalisation of gasoline supply put unleaded RFG price spreads between New York Harbour and the Gulf Coast back within their pre-hurricane range, but with Gulf Coast values retaining their premium.

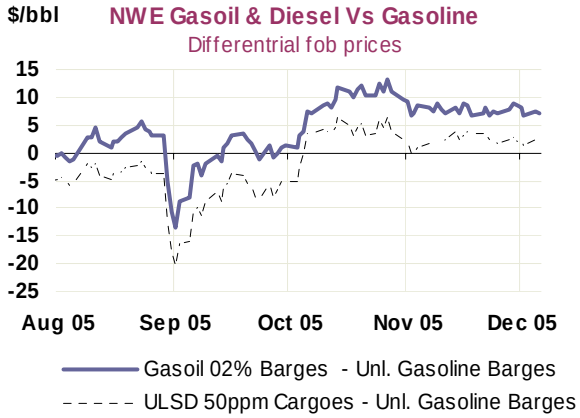
In distillates, jet/kerosene saw the sharpest decline in price. Increased supplies came with rising domestic output, which jumped in November, with refiners switching yields away from gasoline. Production of jet at the margin was supplemented by reduction of the naphtha cut given weakness in gasoline prices. At the same time, demand entered a pre-holiday lull. In November, prices for jet/kerosene in New York Harbour fell by $17.44/bbl on an monthly average basis and $25.96/bbl for grade 55 jet fuel on the Gulf Coast. Declines on the West Coast were more moderate, with the price of jet/kerosene in Los Angeles down $11.12/bbl.

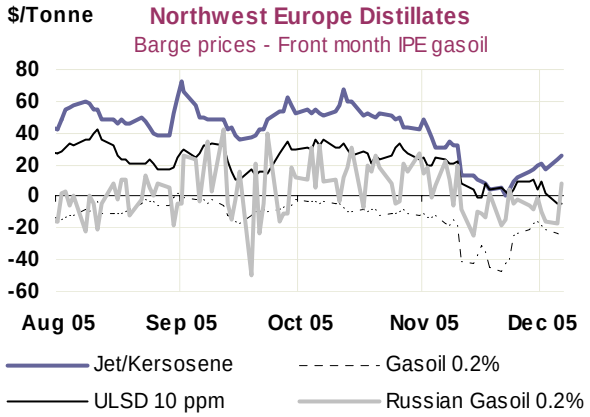




Relative distillate weakness was observed in heating oil and diesel prices alike, both of which saw their seasonal premium against gasoline narrow in November. In New York Harbour, the monthly average price of heating oil barges declined by $8.60/bbl and $12.66/bbl for diesel, while on the Gulf Coast pipeline delivered prices were down respectively $17.07/bbl and $24.05/bbl. Weakness in heating oil prices came alongside mild weather, dampening deliveries and leaving stocks in the main consuming Northeast region within seasonal averages. Adding to supply pressures were high imports of both diesel and heating oil over the course of the month.

High physical availability in distillate products ultimately led to New York Harbour cash prices trading close to the prompt NYMEX heating oil price, the futures contact against which these products are hedged. This was in contrast with October when jet and diesel were still quoted at a distinct premium. Though diesel prices fell with heating oil futures, their relative weakness is at odds with fundamentals. Recent declines in distillate stocks came at the expense of diesel rather than heating oil, tightening supplies. Though agricultural demand fell back seasonally, the strength of the US economy and the potential for fuel substitution due to high natural gas prices suggest that the decline may prove to be temporary.





Europe

European gasoline prices fell heavily in November as supplies increased with high refinery runs and weak regional and export (to the US) demand. Unleaded gasoline barges on average fell $9.27/bbl in Northwest Europe while premium 50 ppm cargoes were down $9.98/bbl in the Mediterranean. Refinery buying in the ARA region, deliveries to the Middle East and demand for low octane grades into the East Mediterranean and West Africa only partly stemmed downward price pressure due to closed arbitrage opportunities to the US. Gasoline continued to accumulate in ARA independent storage with incoming cargoes from Germany, Turkey and the UK, supported by a strong contango in swap prices.

Distillate prices fell heavily with a decline in IPE gasoil futures and mounting supply pressures. European availability rose with higher crude runs but also on imports sourced from Asia as well as Venezuela. Premiums for physical jet fuel and diesel moved close to parity with prompt IPE gasoil futures while those for barge gasoil 0.2% and Russian material delivered into ARA moved into deeper discounts. Additionally, mild weather along with expensive shipping costs on the Rhine dampened end-user interest for heating oil. As seen in the US, Europe's heating oil premium over gasoline weakened in November. With storage space reportedly becoming scarce and arbitrage opportunities to US intermittent, prompt prices fell to a deep discount below forward prices. The monthly average price for 0.2% gasoil barges in Northwest Europe fell $10.64/bbl in November and CIF Russian cargoes lost on average $10.10/bbl.

Price declines in lighter distillates were similar in magnitude to those observed for heating oil, with 50 ppm diesel cargoes losing on average $10.37/bbl and jet/kerosene falling $11.80/bbl in Northwest Europe in November. Rising supplies in Europe left the diesel market with a number of surplus prompt cargoes in both Northwest Europe and the Mediterranean. Jet fuel in turn was pressured by incoming cargoes from the Middle East alongside material from the Caribbean. Given weakening premiums for jet against the IPE gasoil contract, product was kept in storage rather than sold on the cash market.

Singapore

Trends in light product prices in Singapore mirrored those in Europe and the US in November, with jet/kerosene and gasoil leading declines. Kerosene supplies in Asia rose as refiners maximised yields and pushed crude runs higher on strong margins in October and September. However, as in other pricing centres, warmer temperatures in early November in Northeast Asia, where kerosene is used as a heating fuel, reduced demand. In addition, Singapore prices were weakened by good export availability across the region while arbitrage outlets outside of Asia appeared closed. India was notably offering spot cargoes, as international prices continued to provide higher returns than domestic sales. Jet/kerosene fell $10.93/bbl on average in November, while prices for Korean and Japanese cargoes respectively came down $11.02/bbl and $11.47/bbl. Though gasoil prices were equally weak, the typical premium of jet fuel over gasoil (or the re-grade spread) narrowed to under $2/bbl at the end of November. Surplus distillate supplies in the region pressured prompt prices, keeping Singapore swap prices in contango. Weaker utility demand and competing supplies also softened low sulphur fuel oil prices in Singapore. In contrast, differentials for high sulphur fuel oil against crude found support from some incremental buying by China as absolute price levels fell and arrivals of arbitrage material from the West eased. Bunker demand in Singapore was reported strong as well.

Spot Product Prices

(monthly and weekly averages, $/bbl)

	Sep	Oct	Nov	Nov-Oct		Week Commencing:					Sep	Oct	Nov
				Change	%	07 Nov	14 Nov	21 Nov	28 Nov	05 Dec			
Rotterdam, Barges FOB											**Differential to Brent**		
Premium Unleaded	84.30	70.69	61.10	-9.59	-13.6	61.62	59.83	59.90	59.59	62.50	21.40	12.08	5.93
Unleaded	82.69	69.11	59.85	-9.27	-13.4	60.67	58.63	58.49	58.27	61.43	19.78	10.51	4.67
Naphtha	62.91	60.21	52.71	-7.50	-12.5	53.50	51.90	51.39	50.19	54.44	0.00	1.61	-2.46
Jet/Kerosene	84.01	81.49	69.69	-11.80	-14.5	71.11	68.75	67.27	67.21	70.33	21.10	22.89	14.51
Gasoil .2%	81.43	78.28	67.64	-10.64	-13.6	68.57	66.51	65.64	66.29	67.71	18.53	19.68	12.46
LSFO 1%	48.55	48.81	43.68	-5.12	-10.5	44.16	43.19	42.65	41.95	43.99	-14.35	-9.80	-11.49
HSFO 3.5%	43.64	41.68	39.10	-2.58	-6.2	39.23	38.77	38.67	38.75	40.70	-19.27	-16.92	-16.07
Mediterranean, FOB Cargoes											**Differential to Urals**		
Premium 50 ppm *	78.93	67.77	57.79	-9.98	-14.7	58.58	57.26	57.00	56.77	61.36	20.56	12.13	5.65
Naphtha	61.59	58.03	50.85	-7.18	-12.4	51.33	50.16	49.85	48.99	53.58	3.21	2.39	-1.29
Jet Aviation fuel	82.33	79.23	68.25	-10.97	-13.9	69.28	68.11	67.32	65.92	68.35	23.95	23.59	16.12
Gasoil .2%	79.52	76.34	66.44	-9.91	-13.0	66.15	65.99	66.03	65.76	68.94	21.14	20.70	14.30
LSFO 1%	50.36	47.19	43.57	-3.61	-7.7	44.24	44.24	43.19	40.91	46.25	-8.02	-8.45	-8.56
HSFO 3.5%	43.20	40.82	37.09	-3.73	-9.1	36.69	37.27	37.20	36.25	37.75	-15.18	-14.81	-15.05
New York Harbour, Barges											**Differential to WTI**		
Super Unleaded	102.55	83.29	68.86	-14.43	-17.3	70.74	67.28	66.50	67.11	71.87	37.04	21.01	10.59
Unleaded	90.13	71.83	61.88	-9.95	-13.9	62.38	60.55	61.58	62.68	65.73	24.61	9.56	3.61
Jet/Kerosene	91.36	90.05	72.61	-17.44	-19.4	74.54	70.90	70.33	68.57	73.81	25.85	27.77	14.34
No. 2 (Heating Oil)	82.34	79.45	70.86	-8.60	-10.8	72.11	69.89	70.90	68.92	71.69	16.83	17.18	12.59
LSFO 1%	50.86	50.11	46.17	-3.93	-7.9	46.78	45.28	45.00	42.14	48.63	-14.65	-12.17	-12.10
No. 6 3%	43.52	43.42	37.54	-5.88	-13.5	37.55	36.30	36.75	36.95	41.38	-21.99	-18.86	-20.73
Singapore, Cargoes											**Differential to Dubai**		
Premium Unleaded	79.40	69.10	60.87	-8.23	-11.9	62.99	60.65	60.05	57.17	60.65	22.87	15.14	9.49
Naphtha	61.73	57.80	53.19	-4.61	-8.0	54.07	52.75	53.17	50.83	54.38	5.19	3.84	1.80
Jet/Kerosene	79.16	75.71	64.78	-10.93	-14.4	64.73	65.96	65.63	62.89	68.58	22.62	21.75	13.40
Gasoil .5%	75.45	72.62	61.80	-10.82	-14.9	61.44	62.03	62.41	59.92	61.76	18.91	18.66	10.41
LSWR Cracked	54.35	50.55	45.96	-4.60	-9.1	47.04	44.80	45.62	45.13	48.02	-2.19	-3.41	-5.43
HSFO 180 CST	49.91	47.96	45.40	-2.56	-5.3	46.57	44.65	45.24	44.15	46.44	-6.62	-6.00	-5.98
HSFO 380 CST 4%	48.93	47.99	44.98	-3.01	-6.3	45.97	43.92	45.17	44.02	46.29	-7.61	-5.97	-6.41

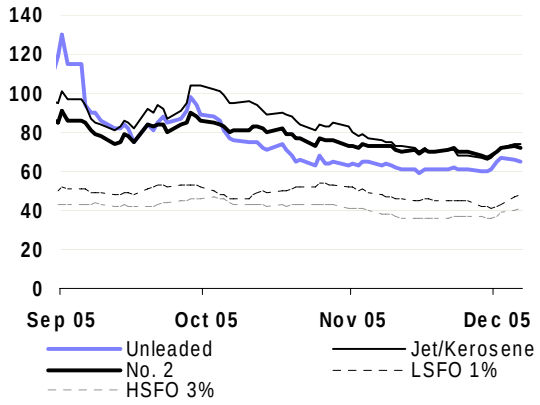
* From January 2005 Premium Unleaded 50 ppm

End-User Product Prices in November

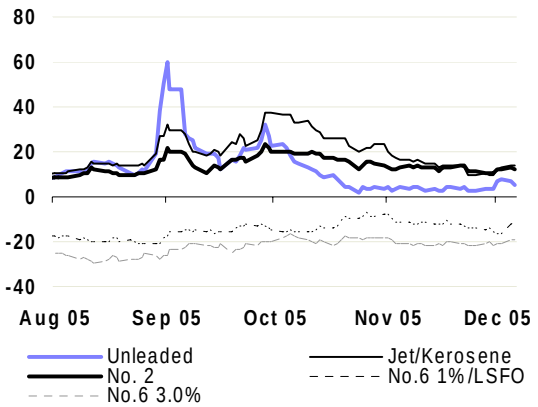
In line with falling global product prices, consumers paid significantly less in November for automotive diesel, heating oil, low sulphur fuel oil and, especially, gasoline. US ex-tax gasoline prices fell by 12.4% compared to October, to an average of 55 cents per litre, but remain 30% higher than year-ago prices. In Europe, dollar-converted monthly retail prices for gasoline fell by as much as 17.9% in Germany, 16.7% in France and 14% in Italy excluding tax. Shallower price declines were seen for automotive diesel, with US consumers paying 64 cents per litre before tax in November, a monthly price decrease of 10.1%. European diesel users experienced similar diesel price declines. Asian consumers experienced less acute price movements for these products. In dollar terms, consumer heating oil was 10% cheaper in UK and Germany in November, ignoring tax.

Product Prices and Differentials to Benchmark Crude Oil Prices

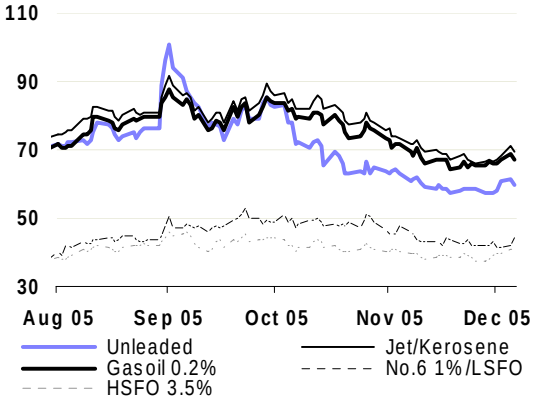
$/bbl **New York Harbour Spot Product Prices**
(Fob Barges)



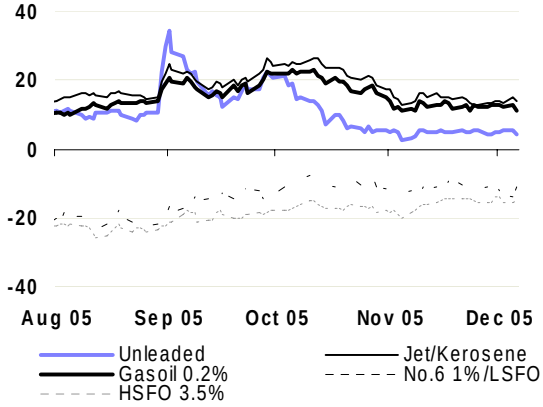
$/bbl **New York Harbour Product Spreads to**
WTI (Fob Barges)



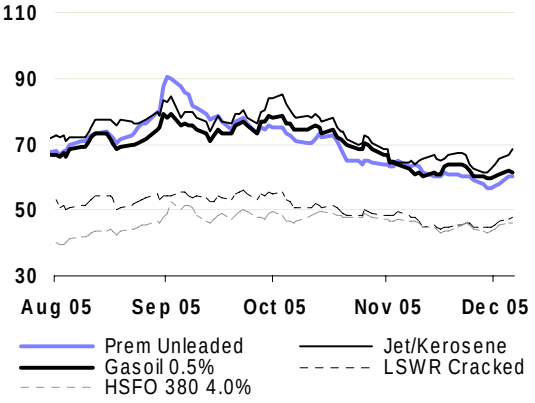
$/bbl **Northwest Europe Spot Product Prices**
(Fob Barges)



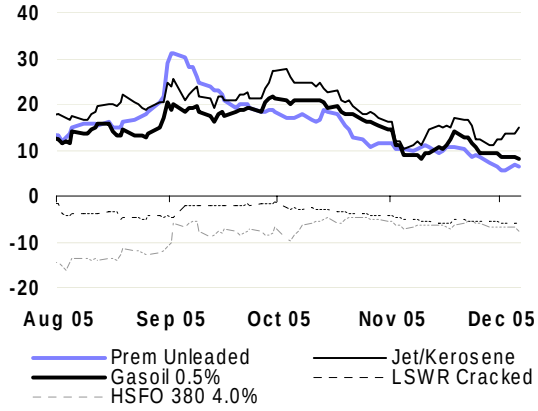
$/bbl **Northwest Europe Product Spreads to**
Brent (Fob Barges)



$/bbl **Singapore Spot Product Prices**
(Fob)



$/bbl **Singapore Product Spreads to Dubai**
(Fob)



Freight

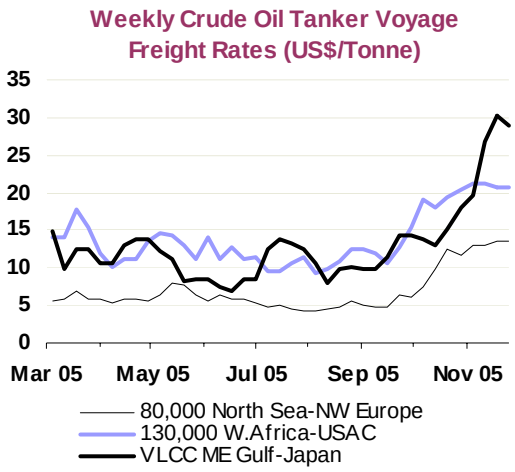
VLCC shipping costs started to rise significantly ahead of peak refinery demand in both Asia and the Atlantic Basin. Rates for Asian destinations showed strong gains, notably to Japan where, by the third week of November, gains in freight had risen by over 100% from October levels. Western routes for VLCCs (typically 260 000 tonnes) saw more moderate increases. The rise in rates for this class of tankers across all destinations had reached 11-month highs by mid-November before easing by end-month.

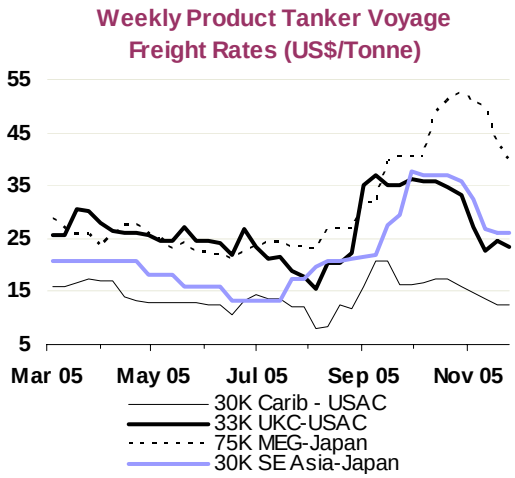
Continued high Chinese crude imports and seasonal increases in Asian oil demand boosted chartering activity for eastbound VLCCs into November. Competition to secure similar sized vessels from the Atlantic Basin lent upward support to Worldscale rates for large carriers, notably from the Middle East. The end to balmy autumn temperatures in Europe in late November paved the way for a seasonal rise in crude demand ahead of peak winter demand. However, relatively comfortable crude and distillate stocks in Europe may mitigate the pace of deliveries along this route. Similarly, increases along US routes reflected increased crude demand for early first quarter delivery in 2006 and the return of refinery capacity offline following Hurricanes Katrina and Rita.

Average Middle East Gulf (MEG) - Japan (260 000 tonnes) rates rose to $30/tonne on 20 November, their highest level since last autumn's dramatic demand-driven spikes, while MEG - USG rates hit $37/tonne. Transportation from West Africa was increasingly expensive with 260 000 cargoes heading for the US Gulf costing up to $22/tonne. Expensive freight along with muted interest for crude delivered in December limited spot arbitrage opportunities and prompted wider discounts of grades such as Bonny Light against WTI.

Rates for Middle Eastern Suezmax vessels rose in the wake of cost gains seen in the larger VLCC and ULCC sectors in November. US demand, mainly for deliveries to the East Coast, also added support to Suezmax rates for cargoes leaving West Africa. Unlike in the VLCC sector, these West Africa rates remained strong after Thanksgiving, at around $32/tonne. Deliveries to the US Gulf Coast, supported by the return of refinery capacity and recovering crude runs also lent support to Aframax rates for crude and heavy products imports from Venezuela and Mexico in mid-November.

High premiums on clean product tankers which followed a post-hurricane surge in spot arbitrage activity finally dissolved in November. Weakening product prices in the US, notably in gasoline, closed opportunities for shipping product from Europe and US gasoline imports declined from peak September/October levels. European traders turned to alternative destinations to dispose of surplus gasoline. Although gasoline continued to move to the US on a term basis, outgoing spot cargoes were reported heading to Iran, United Arab Emirates and Nigeria. In the Middle East, product freight rates fell back after peaking in part of November on a combination of weak Asian product markets, notably in jet/kerosene, and reduced tanker requirements due to the closure of Saudi's Yanbu refinery.

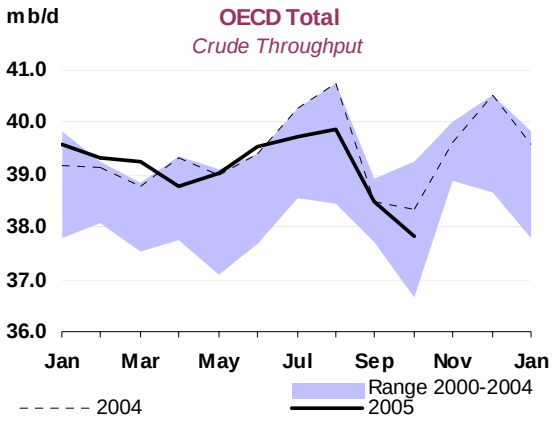


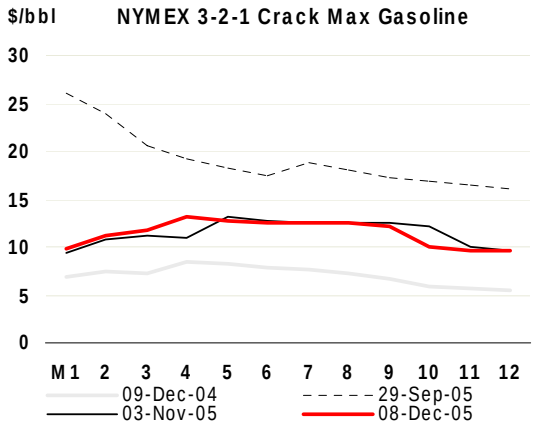


REFINERY ACTIVITY

Summary

- **Full cost refinery margins** continued to fall in November, as October's trend of declining light product cracks continued. Anaemic distillate demand coincided with refineries maximising distillate output ahead of the Northern hemisphere winter. Rising stocks and weak prompt prices pressured margins.
- **US refinery margins** saw the biggest monthly decreases. Average West Coast and Gulf Coast margins in November were amongst the lowest in the last two years in these regions, and West Coast upgrading margins were the weakest for two years.
- **European cracking margins** remained relatively healthy although much weaker than in October. However, hydroskimming margins turned negative in Europe and in Asia, suggesting less need for marginal capacity to offset refinery outages on the US Gulf Coast.
- **Upgrading margins** (cracking-hydroskimming) continued to suffer as light product values fell and signs of strength were seen for low sulphur fuel oil on the US Gulf Coast and high sulphur fuel oil in North West Europe, Singapore and on the US West Coast.
- **OECD refinery throughputs** fell 631 kb/d from September to 37.84 mb/d in October, and were 479 kb/d below the October 2004 level, due to lower North American runs. The reduction in North American runs of 1.39 mb/d year-on-year was largely offset by higher throughputs in OECD Europe and Pacific of 915 kb/d, illustrating global supply chain flexibility. Early December data suggests that US throughputs are back in line with the seasonal five-year average and Japanese refiners have maintained throughputs at October's high levels.





Refining Margins

Margins in the six major refining centres monitored in this Report fell in November, extending October's declines from the very strong levels seen in late September. Hurricane-related disruptions to US refining capacity eased in November allowing for increased product availability. Refineries maximised distillate yields globally and throughputs remained high. However, expensive freight rates restricted spot arbitrage opportunities. This put downward pressure on prompt prices, supporting inventory builds and weakening both cracking and hydroskimming margins.

Margins on medium-sour crude grades were less affected by the light product weakness. Returns were supported by the relatively high proportion of fuel oil, which saw its differentials hold up during the period. Compared to crude prices, fuel oil cracks improved on the US West Coast and in North West Europe and were relatively stable in Singapore.

Selected Refining Margins in Major Refining Centres

($/bbl)

		Monthly Average			Change	Week Ending:				
		Sep 05	Oct 05	Nov 05	Nov 05-Oct 05	04 Nov	11 Nov	18 Nov	25 Nov	02 Dec
NW Europe	Brent (Cracking)	10.83	9.28	3.18	-6.10	1.14	3.25	3.92	3.13	3.01
	Urals (Cracking)	12.76	11.37	5.75	-5.62	4.83	6.21	6.12	4.63	4.26
	Brent (Hydroskimming)	4.11	4.54	-0.32	-4.87	-2.25	-0.30	0.74	-0.74	-1.16
	Urals (Hydroskimming)	3.11	3.78	-0.04	-3.82	-1.34	0.43	0.63	-1.29	-1.72
Mediterranean	Es Sider (Cracking)	11.75	8.49	2.24	-6.26	1.15	3.66	3.04	0.89	1.83
	Urals (Cracking)	12.17	10.13	4.20	-5.93	3.09	5.17	4.73	2.77	3.34
	Es Sider (Hydroskimming)	4.87	3.26	-1.53	-4.79	-2.81	0.13	-0.05	-3.13	-3.10
	Urals (Hydroskimming)	2.68	2.46	-1.87	-4.33	-3.42	-1.21	-1.24	-3.44	-3.61
US Gulf Coast	Brent (Cracking)	17.83	10.57	-1.83	-12.40	-3.38	-0.62	-1.09	-1.49	-0.65
	LLS (Cracking)	19.07	13.55	0.50	-13.05	1.61	1.01	0.07	-1.06	1.92
	Mars (Cracking)	12.95	7.95	-0.68	-8.63	-0.91	-0.09	-0.50	-1.21	0.15
	Mars (Coking)	24.13	17.94	5.44	-12.50	5.78	6.54	5.18	4.40	6.70
	Maya (Coking)	29.91	20.05	9.94	-10.10	10.29	11.56	9.66	9.28	12.20
US West Coast	ANS (Cracking)	12.21	6.29	0.22	-6.07	1.91	0.93	-0.22	-1.57	-2.09
	Kern (Cracking)	9.13	5.84	2.47	-3.37	2.63	3.16	2.74	0.62	1.82
	Oman (Cracking)	14.07	7.78	-1.38	-9.15	0.31	-1.09	-2.08	-2.07	-3.36
	Kern (Coking)	25.12	14.00	7.18	-6.83	9.23	7.22	7.87	6.74	5.26
Singapore	Dubai (Hydroskimming)	2.65	2.45	-2.08	-4.53	-2.90	-2.05	-0.76	-2.73	-3.41
	Tapis (Hydroskimming)	-1.94	-0.59	-4.88	-4.29	-5.49	-5.08	-2.83	-5.67	-6.63
	Dubai (Hydrocracking)	7.78	6.60	0.79	-5.81	0.00	0.85	2.60	-0.12	-1.03
	Tapis (Hydrocracking)	1.00	2.31	-2.68	-4.99	-3.51	-2.83	-0.24	-3.60	-4.72
China	Cabinda (Hydroskimming)	0.43	-0.02	-4.58	-4.56	-6.29	-4.63	-2.80	-4.66	-5.44
	Daqing (Hydroskimming)	-0.61	-2.28	-3.88	-1.60	-5.14	-4.18	-2.47	-3.33	-3.96
	Dubai (Hydroskimming)	2.51	2.29	-2.70	-5.00	-3.21	-2.67	-1.59	-3.53	-4.08
	Daqing (Hydrocracking)	5.00	2.46	-0.02	-2.48	-1.45	0.03	1.73	0.37	-0.60
	Dubai (Hydrocracking)	7.72	6.45	0.12	-6.33	-0.37	0.17	1.71	-0.96	-1.75

For the purposes of this Report, refining margins are calculated for various complexity configurations, each optimized for processing the specific crude in a specific refining centre on a 'full-cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability for a given refining centre. No attempt is made to model or otherwise comment upon the relative economics of specific refineries running individual crude slates and producing custom product sales, nor are these calculations intended to infer the marginal values of crudes for pricing purposes.

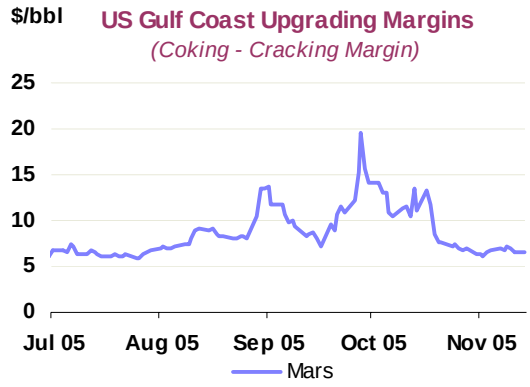
*The China refinery margin calculation represents a model based on spot product import/export parity, and does not reflect internal pricing regulations.
Sources: IEA, Purvin & Gertz Inc.

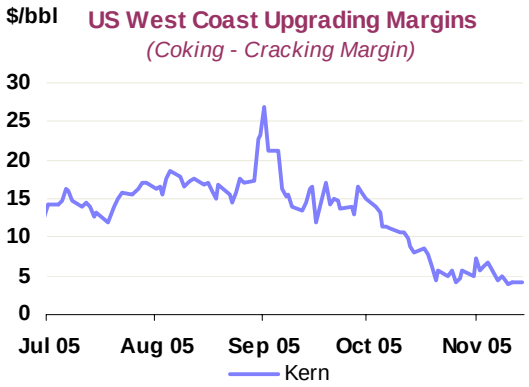
Most of the margins covered in this Report were below their five-year average in November and some US and Asian refining margins were among the lowest monthly levels for the last two years. Higher-than-anticipated stocks and weaker (weather related) demand were key contributors. On a regional basis US margins, heavily dependant on gasoline prices, came under pressure as product inventories returned to average levels much more quickly than anticipated following hurricane-related disruption. In Europe margins held up relatively well as the weakness of Brent-related crude grades more than offset declining distillate prices.

Hydroskimming margins, whose strength in the previous month encouraged incremental use of spare crude distillation capacity, turned negative in November. The return of complex refining capacity on the US Gulf Coast following Hurricanes Katrina and Rita alleviated the need for additional product output from both Europe and Asia and margins weakened accordingly. For a second month running, upgrading margins were under pressure from the weaker light product prices and the resilience of fuel oil prices. US West Coast upgrading margins on Kern fell to the lowest level in two years with the $6.82/bbl decline in coking margins outpacing the $3.37/bbl decline in Kern cracking margins.

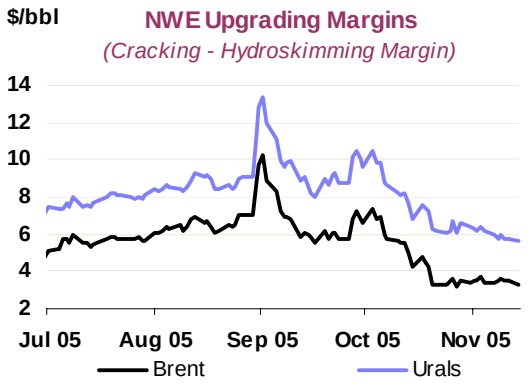
US Gulf Coast and West Coast margins weakened in November as distillate cracks fell sharply. Gasoline cracks also saw significant, but lower losses. Despite the relative weakness of distillate cracks they were on average twice as high as gasoline cracks in November. More strikingly, gasoline cracks approached zero vs. Light Louisiana Sweet values during the month – a further indication that

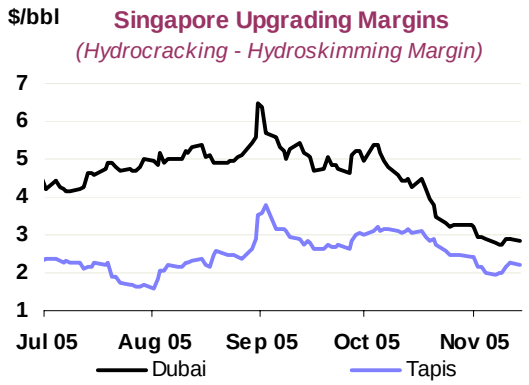
supplies have recovered in the region. Gulf Coast low sulphur fuel oil saw some strengthening compared to domestic sweet crude grades such as Light Louisiana Sweet, suggesting utility buyers maintained their buying interest due to high natural gas prices.





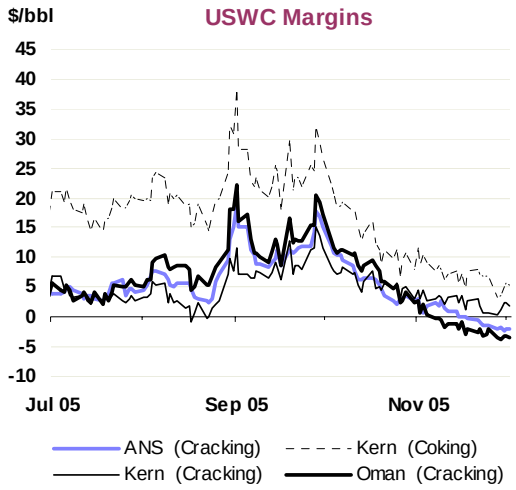
Refining margins in North West Europe and the Mediterranean fell, in line with US developments, but losses were more modest. The higher yield of light products in Brent and Urals cracking margins led to a fall of around $6/bbl, although they remain healthy by historical standards. Hydroskimming margins, with their greater linkage to fuel oil prices, fell by $4-5/bbl and are now negative and beneath their five-year average values. High sulphur fuel oil cracks increased slightly, in North West Europe as the potential for exports to Asia was seen providing a floor to prices, but they remain negative compared to crude values.

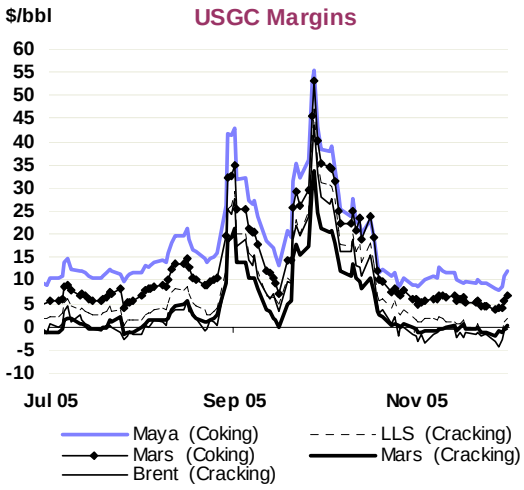


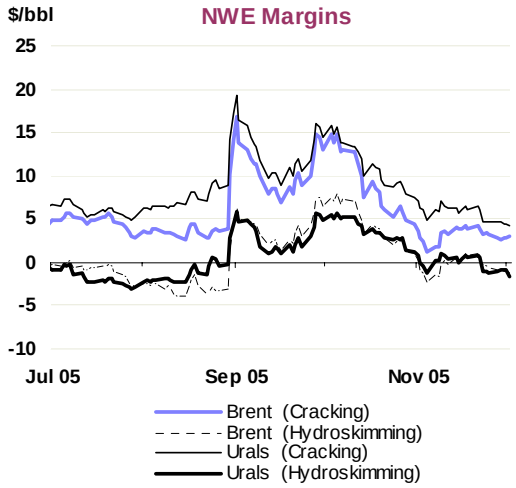


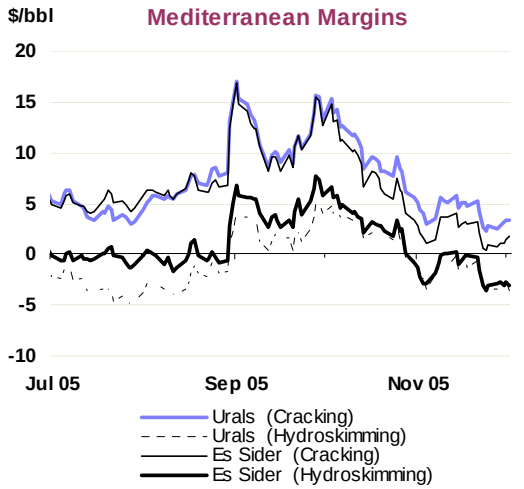
Margins fell in Asia mirroring the declines seen in Europe and the US. Cracking margins fell heavily on weaker distillate prices, notably kerosene. Supplies of kerosene as well as gasoil have risen as refiners maximised throughput of distillate rich crude grades. Falling light product prices lowered margins and weakened sweet crude differentials, with Tapis losing nearly $1/bbl compared to Dubai. Medium sour grades were better supported as changes in fuel oil prices were in line with crude.

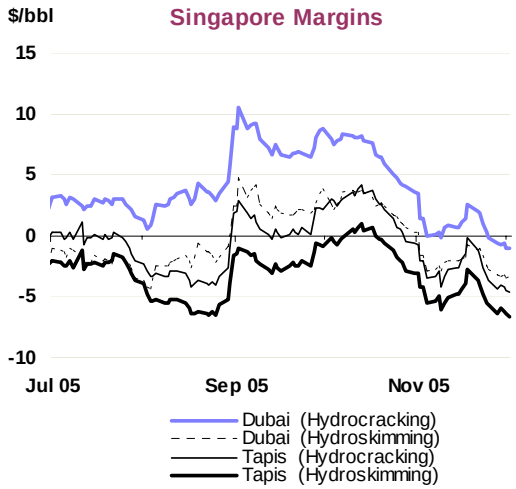
Regional Full-Cost Refining Margins

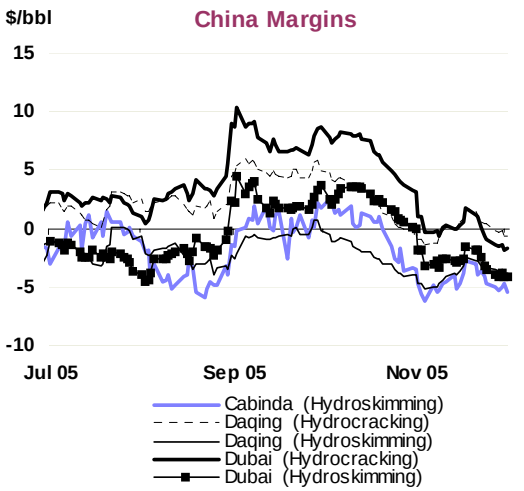












Refinery Throughput

OECD refinery throughputs fell by 635 kb/d in October to 37.84 mb/d from a slightly lower estimate of 38.48 mb/d for September. Year-on-year runs were down 479 kb/d from the October 2004 level of 38.32 mb/d. Lower US throughputs, a reflection of the post-hurricane refinery outages, were the main driver of these declines. These were offset by higher runs in OECD Europe and Pacific. OECD capacity utilisation fell to 85% from 86% in September and October last year. Europe and Pacific utilisation rates remained at 90% in October, while North America utilisation rates were dragged down to 79% because of off-line capacity on the US Gulf Coast.

Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from Oct 04*		Utilisation rate[2]	
	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	mb/d	%	Oct 05	Oct 04
OECD North America										
US[3]	15.89	16.40	15.91	15.62	13.97	13.49	-1.46	-9.8	79.14	88.44
Canada	1.75	1.79	1.73	1.71	1.75	1.75	0.00	0.2	86.69	87.80
Mexico	1.27	1.27	1.23	1.28	1.28	1.18	0.06	5.7	69.97	71.96
Total	18.92	19.46	18.87	18.62	17.01	16.42	-1.39	-7.8	79.13	86.56
OECD Europe										
France	1.56	1.62	1.76	1.78	1.75	1.57	-0.19	-10.7	80.68	90.35
Germany	2.33	2.30	2.30	2.43	2.44	2.36	-0.04	-1.6	96.19	97.77
Italy	1.95	1.90	1.93	1.91	2.02	1.96	0.15	8.1	84.39	78.35
Netherlands	1.13	1.09	0.95	1.04	1.07	1.03	0.22	26.4	83.91	66.69
Spain	1.18	1.11	1.26	1.20	1.23	1.29	0.17	15.3	101.68	88.21
UK	1.62	1.59	1.75	1.69	1.71	1.70	-0.05	-2.6	93.14	96.07
Other OECD Europe	3.77	3.95	4.02	4.19	3.98	4.20	0.17	4.3	89.96	86.23
Total	13.55	13.57	13.95	14.24	14.21	14.12	0.43	3.2	89.80	87.16
OECD Pacific										
Japan	3.58	3.69	3.96	4.17	4.17	4.19	0.47	12.5	89.06	79.20
Korea	2.33	2.12	2.25	2.16	2.35	2.39	0.04	1.8	92.74	92.29
Other OECD Pacific	0.66	0.72	0.70	0.67	0.73	0.72	-0.03	-3.4	84.25	87.14
Total	6.57	6.53	6.91	7.00	7.25	7.30	0.48	7.1	89.72	84.15
OECD Total	39.03	39.55	39.73	39.86	38.47	37.84	-0.48	-1.2	84.82	86.33

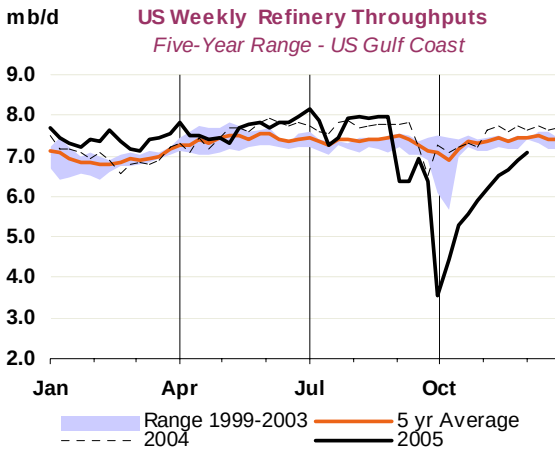
1 Estimate
2 Based on crude throughput and current operable refining capacity
3 US50

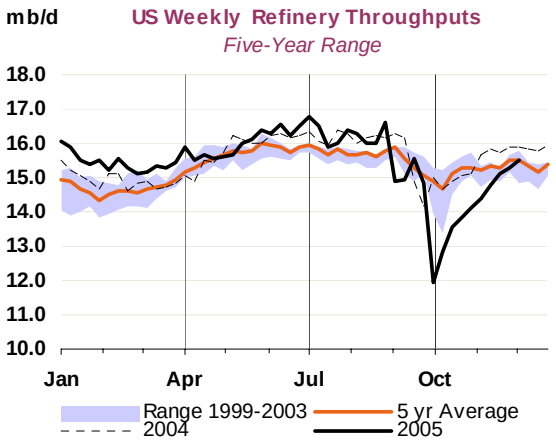
US refineries registered a year-on-year decline of 1.46 mb/d, to 13.5 mb/d, following disruption from Hurricane Rita, which struck the Gulf Coast in late September. October runs were 481 kb/d lower than the September estimate, which was itself revised down by 77 kb/d, to 14 mb/d. This dragged down throughputs in OECD North America to 16.4 mb/d, 1.4 mb/d less than in October 2004, and down 587 kb/d from September.

Preliminary November numbers appear to show a continuation of the trends established in October. US weekly data shows a recovery in refinery throughputs from the lows seen in late September, reaching 15.4 mb/d by early December. This is in line with the five-year average for this time of year, but 337 kb/d below early December 2004 levels. Throughputs on the East Coast, Mid West and West Coast are above November 2004, and five-year average levels, offsetting the outages on the Gulf Coast. Three refineries, accounting for around 800 kb/d of capacity, remain out of action and are expected to return to service in the first quarter of next year. Gulf Coast throughputs have recovered to just over 7 mb/d by early December, compared to a five-year average of 7.4 mb/d and year-ago throughputs of 7.6 mb/d.

Industry surveys point to little US refinery maintenance during recent months. High margins provided a strong financial incentive to maximise throughputs in September and October. The ensuing high level of throughputs in Europe and in areas unaffected by the hurricanes in the US suggests refiners deferred scheduled work where possible. However, as this Report highlighted last month, the work is merely deferred and the first quarter of 2006 appears to have an unusually heavy schedule of work on the East Coast, Gulf Coast and in the Mid-West regions, related to the tightening of light products' specifications in mid-2006. Recent survey data suggests that overall US refinery

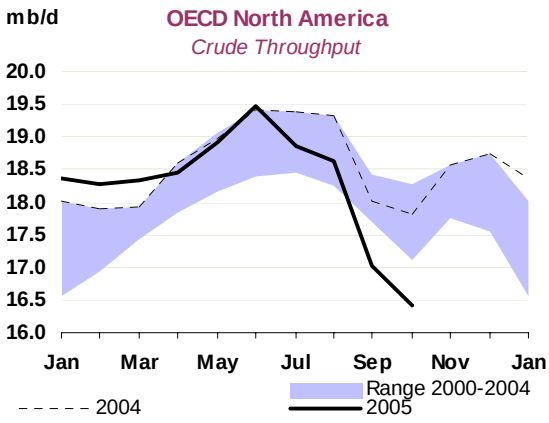
maintenance will be around 70% above the first quarter 2005 level with, for example, upwards of 800 kb/d of desulphurisation or hydrotreating capacity due to be installed in the US next year.

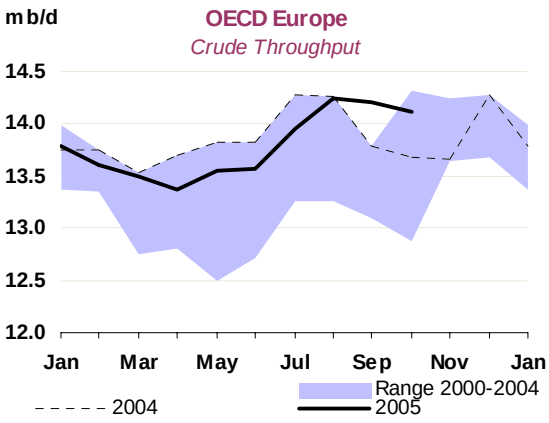


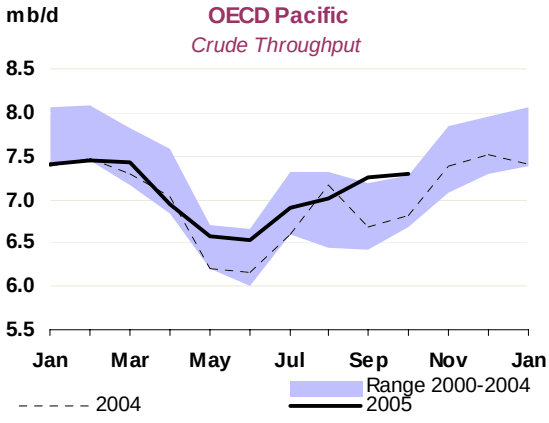


OECD European refinery throughput averaged 14.1 mb/d, up 431 kb/d versus October last year, but 98 kb/d lower than in September. Capacity offline for maintenance was around 800 kb/d lower than a year ago, helping to boost throughput levels. Capacity utilisation remained high at 90%, up 2.5% from year-ago levels and flat vs. September. Increases in Italy, Spain and the Netherlands offset lower runs in Germany and France – where a series of labour disruptions reduced runs.

OECD Pacific throughputs were 7.31 mb/d, up 484 kb/d compared to October last year and 50 kb/d above September's revised throughput of 7.26 mb/d. Japan contributed the majority of the year-on-year increase with throughputs running 467 kb/d higher than year ago levels at 4.19 mb/d equivalent to 89% capacity utilisation. Japanese weekly data shows a similar continuation of high levels of refinery throughputs, with capacity utilisation close to 90% for November. Industry reports suggest that several Asian refiners are considering run cuts in the wake of recent weaker margins, the unseasonably warm weather in early November and brimming product stocks.







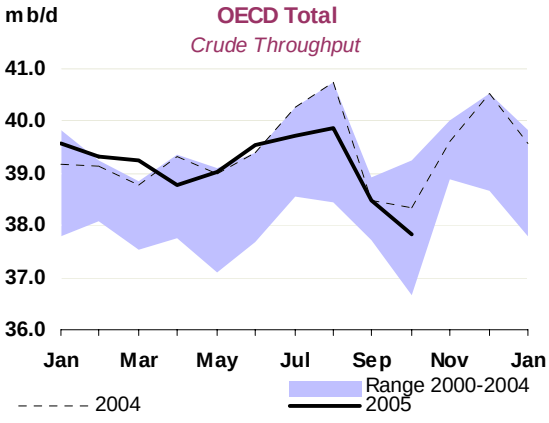


Table 1
WORLD OIL SUPPLY AND DEMAND

(million barrels per day)

	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
OECD DEMAND																	
North America	24.1	24.5	25.2	25.0	25.4	25.7	25.3	25.5	25.3	25.5	25.7	25.5	25.8	25.6	26.0	26.3	25.9
Europe	15.3	15.4	15.7	15.2	15.6	16.0	15.6	15.6	15.3	15.7	15.9	15.6	15.6	15.3	15.7	16.0	15.6
Pacific	8.6	8.7	9.3	7.9	8.2	8.8	8.5	9.5	8.1	8.1	8.7	8.6	9.5	8.1	8.2	9.1	8.7
Total OECD	48.0	48.6	50.2	48.1	49.2	50.5	49.5	50.6	48.7	49.3	50.4	49.7	50.8	49.0	50.0	51.4	50.3
NON-OECD DEMAND																	
FSU	3.5	3.6	3.5	3.7	3.8	4.0	3.7	3.7	3.6	3.6	4.0	3.7	3.8	3.6	3.8	4.1	3.8
Europe	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7
China	5.0	5.6	6.3	6.5	6.3	6.6	6.4	6.5	6.4	6.6	6.9	6.6	6.9	6.9	7.0	7.3	7.0
Other Asia	8.0	8.0	8.5	8.6	8.4	8.8	8.5	8.8	8.8	8.6	8.8	8.8	9.0	9.0	8.8	9.1	9.0
Latin America	4.8	4.7	4.7	4.9	5.0	4.9	4.9	4.9	5.0	5.1	5.0	5.0	5.0	5.1	5.2	5.1	5.1
Middle East	5.2	5.3	5.5	5.5	5.8	5.6	5.6	5.8	5.8	6.1	5.9	5.9	6.1	6.1	6.4	6.3	6.2
Africa	2.7	2.7	2.8	2.8	2.7	2.9	2.8	2.9	2.9	2.8	2.9	2.9	3.0	3.0	2.9	3.0	3.0
Total Non-OECD	29.7	30.6	32.1	32.7	32.7	33.4	32.7	33.5	33.2	33.5	34.4	33.7	34.6	34.5	34.7	35.7	34.9
Total Demand[1]	77.7	79.2	82.3	80.8	81.8	83.9	82.2	84.1	81.9	82.8	84.8	83.4	85.4	83.5	84.7	87.1	85.2
OECD SUPPLY																	
North America	14.5	14.6	14.8	14.7	14.4	14.4	14.6	14.4	14.6	13.7	13.7	14.1	14.5	14.4	14.2	14.4	14.4
Europe	6.6	6.3	6.4	6.2	5.7	6.0	6.1	5.9	5.7	5.4	5.7	5.7	5.7	5.4	5.2	5.4	5.4
Pacific	0.8	0.7	0.6	0.6	0.6	0.5	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Total OECD	21.9	21.6	21.8	21.5	20.8	21.0	21.3	20.9	20.9	19.8	19.9	20.4	20.8	20.4	20.0	20.4	20.4
NON-OECD SUPPLY																	
FSU	9.4	10.3	10.9	11.1	11.4	11.5	11.2	11.4	11.5	11.6	11.9	11.6	11.9	12.0	12.2	12.3	12.1
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
China	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Other Asia	2.5	2.6	2.7	2.7	2.8	2.8	2.8	2.7	2.6	2.7	2.8	2.7	2.8	2.9	2.8	2.8	2.8
Latin America	3.9	4.0	4.0	4.1	4.1	4.1	4.1	4.2	4.4	4.3	4.4	4.3	4.4	4.5	4.5	4.6	4.5
Middle East	2.1	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.8
Africa	3.0	3.0	3.3	3.4	3.4	3.5	3.4	3.5	3.6	3.8	3.9	3.7	4.1	4.2	4.3	4.5	4.3
Total Non-OECD	24.5	25.7	26.5	26.8	27.3	27.4	27.0	27.5	27.7	28.1	28.6	28.0	28.9	29.1	29.4	29.7	29.3
Processing Gains[2]	1.8	1.8	1.9	1.8	1.8	1.9	1.8	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Total Non-OPEC[3]	48.1	49.1	50.1	50.1	49.9	50.3	50.1	50.3	50.5	49.7	50.4	50.2	51.6	51.4	51.3	52.1	51.6
OPEC																	
Crude[4]	25.1	26.8	27.9	28.0	29.1	29.5	28.6	28.8	29.3	29.5							
NGLs	3.7	3.9	4.3	4.3	4.3	4.4	4.3	4.7	4.7	4.8	4.8	4.7	4.9	5.0	5.2	5.3	5.1
Total OPEC	28.8	30.7	32.2	32.3	33.4	33.9	33.0	33.5	34.0	34.3							
Total Supply[5]	76.9	79.7	82.3	82.5	83.3	84.2	83.1	83.7	84.5	84.0							
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	-0.4	0.1	-0.6	0.9	0.4	-0.3	0.1	-0.1	0.9	0.0							
Government	0.2	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.3	0.0							
Total	-0.3	0.3	-0.4	0.9	0.5	-0.1	0.2	0.0	1.2	0.0							
Floating Storage/Oil in Transit	0.0	0.2	-0.2	-0.2	0.3	0.3	0.0	-0.4	0.1	0.0							
Miscellaneous to balance[6]	-0.5	0.1	0.7	0.9	0.7	0.1	0.6	0.1	1.2	1.2							
Total Stock Ch. & Misc	-0.8	0.5	0.0	1.6	1.5	0.3	0.9	-0.3	2.6	1.2							
Memo items:																	
Call on OPEC crude + Stock ch.[7]	25.9	26.2	27.9	26.4	27.6	29.2	27.8	29.1	26.8	28.3	29.6	28.4	28.9	27.0	28.3	29.8	28.5
Total Demand ex. FSU	74.2	75.6	78.7	77.1	78.0	79.9	78.5	80.3	78.3	79.2	80.8	79.6	81.6	79.8	80.9	83.0	81.4
Total demand exc. FSU (% ch)[8]	1.1	1.9	3.5	4.8	3.5	3.2	3.8	2.0	1.6	1.5	1.0	1.5	1.6	1.9	2.2	2.8	2.1

1 Measured as deliveries from refineries and primary stocks, comprises inland deliveries, international marine bunkers, refinery fuel, crude for direct burning, oil from non-conventional sources and other sources of supply

2 Net volumetric gains and losses in the refining process (excludes net gain/loss in former USSR, China and non-OECD Europe) and marine transportation losses

3 Non-OPEC supplies include crude oil, condensates, NGL and non-conventional sources of supply such as synthetic crude, ethanol and MTBE. No allowance is made in the non-OPEC forecast for exceptional events which have, at certain times historically, reduced non-OPEC supply by 300-400 kbd on an annual basis

4 Upgraded Venezuelan Orinoco production (synthetic crude) is classified as non-conventional supply and is included in the OPEC NGLs category.

5 Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply

6 Includes changes in non-reported stocks in OECD and non-OECD areas

7 Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs

8 Year on year % growth in global oil demand excluding FSU

Table 1A
WORLD OIL SUPPLY AND DEMAND: CHANGES FROM LAST MONTH'S TABLE 1

(million barrels per day)

	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
OECD DEMAND																	
North America	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	0.1	0.1	-	-
Europe	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	0.1	-0.2	-	-	0.1	0.1	0.1	0.1
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-
Other Asia	-	-	-	-0.1	0.1	0.1	-	0.1	-0.1	0.1	-	-	0.1	-0.1	0.1	0.1	0.1
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	0.1	-0.1	0.1	0.1	0.1	0.2	-	0.2	-0.1	0.1	0.2	-	0.1	0.1	0.1
Total Demand	-	-	0.1	-0.1	0.1	0.1	0.1	0.2	-	0.3	-0.3	-	0.2	0.1	0.2	0.2	0.2
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-	-0.2	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-0.2	-0.1	-	-	-	-	-
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	-	-	-	-0.3	-0.1	-	-	-	-0.1	-
OPEC																	
Crude	-	-	-	-	-	-	-	-	-	-0.1							
NGLs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OPEC	-	-	-	-	-	-	-	-	-	-0.1							
Total Supply	-	-	-	-	-	-	-	-	-	-0.1							
STOCK CHANGES AND MISCELLANEOUS																	
REPORTED OECD																	
Industry	-	-	-	-	-	-	-	-	-	-0.2							
Government	-	-	-	-	-	-	-	-	-	-							
Total	-	-	-	-	-	-	-	-	-	-0.2							
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-	-	-0.1							
Miscellaneous to balance	-	-	-0.1	0.1	-0.1	-0.1	-0.1	-0.2	-	-0.1							
Total Stock Ch. & Misc	-	-	-0.1	0.1	-0.1	-0.1	-0.1	-0.2	-	-0.4							
Memo items:																	
Call on OPEC crude + Stock ch.	-	-	0.1	-0.1	0.1	0.1	0.1	0.2	-	0.3	-	0.1	0.2	0.1	0.2	0.2	0.2
Total Demand ex. FSU	-	-	0.1	-0.1	0.1	0.1	0.1	0.2	-	0.3	-0.2	0.1	0.2	0.1	0.2	0.2	0.2

When submitting their monthly oil statistics, OECD Member countries periodically update data for prior periods. Similar updates to non-OECD data can occur.

Table 2

Summary of Global Oil Demand

	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
Demand (mb/d)																
North America	24.53	25.22	25.03	25.41	25.69	25.34	25.53	25.30	25.46	25.68	25.49	25.76	25.60	26.05	26.34	25.94
Europe	15.43	15.66	15.20	15.60	16.01	15.62	15.56	15.30	15.74	15.94	15.64	15.56	15.29	15.68	16.02	15.64
Pacific	8.69	9.28	7.90	8.16	8.77	8.53	9.49	8.10	8.10	8.75	8.61	9.51	8.10	8.24	9.05	8.72
Total OECD	48.65	50.17	48.13	49.17	50.48	49.49	50.57	48.70	49.30	50.37	49.73	50.83	48.99	49.97	51.41	50.30
FSU	3.59	3.51	3.71	3.78	3.98	3.74	3.73	3.57	3.63	4.04	3.74	3.82	3.63	3.76	4.09	3.83
Europe	0.69	0.76	0.70	0.66	0.71	0.71	0.78	0.72	0.67	0.72	0.72	0.79	0.73	0.68	0.74	0.74
China	5.58	6.28	6.53	6.32	6.60	6.43	6.55	6.41	6.63	6.94	6.63	6.88	6.88	7.01	7.34	7.03
Other Asia	8.05	8.47	8.57	8.39	8.76	8.55	8.82	8.78	8.61	8.81	8.75	9.01	8.99	8.79	9.13	8.98
Latin America	4.67	4.71	4.87	4.96	4.89	4.86	4.85	5.01	5.06	5.03	4.99	4.96	5.12	5.18	5.14	5.10
Middle East	5.27	5.54	5.48	5.81	5.64	5.62	5.83	5.77	6.11	5.94	5.92	6.15	6.09	6.41	6.26	6.23
Africa	2.73	2.82	2.84	2.75	2.85	2.81	2.92	2.94	2.82	2.93	2.90	3.00	3.03	2.90	3.02	2.99
Total Non-OECD	30.56	32.08	32.71	32.65	33.43	32.72	33.48	33.20	33.52	34.42	33.66	34.60	34.46	34.74	35.72	34.88
World	79.21	82.25	80.84	81.82	83.91	82.21	84.05	81.90	82.82	84.79	83.39	85.43	83.46	84.71	87.13	85.18
of which:																
US	*20.03*	*20.60*	*20.54*	*20.82*	*20.97*	*20.73*	*20.80*	*20.66*	*20.86*	*20.93*	*20.81*	*20.97*	*20.92*	*21.29*	*21.48*	*21.17*
Euro4	*8.30*	*8.39*	*8.10*	*8.36*	*8.48*	*8.34*	*8.19*	*8.06*	*8.35*	*8.34*	*8.24*	*8.11*	*8.04*	*8.27*	*8.36*	*8.20*
Japan	*5.50*	*5.98*	*4.87*	*5.12*	*5.45*	*5.35*	*6.05*	*4.99*	*5.08*	*5.42*	*5.38*	*6.06*	*4.94*	*5.11*	*5.58*	*5.42*
Korea	*2.18*	*2.30*	*2.02*	*2.00*	*2.27*	*2.15*	*2.40*	*2.06*	*2.00*	*2.25*	*2.18*	*2.39*	*2.09*	*2.06*	*2.36*	*2.22*
Mexico	*1.95*	*1.96*	*1.96*	*1.95*	*2.01*	*1.97*	*2.01*	*2.08*	*2.02*	*2.05*	*2.04*	*2.09*	*2.09*	*2.08*	*2.11*	*2.10*
Canada	*2.21*	*2.30*	*2.20*	*2.31*	*2.36*	*2.29*	*2.35*	*2.23*	*2.24*	*2.35*	*2.29*	*2.32*	*2.25*	*2.33*	*2.38*	*2.32*
Brazil	*2.04*	*2.06*	*2.12*	*2.21*	*2.18*	*2.14*	*2.11*	*2.17*	*2.23*	*2.23*	*2.19*	*2.15*	*2.21*	*2.28*	*2.28*	*2.23*
India	*2.47*	*2.66*	*2.65*	*2.49*	*2.61*	*2.60*	*2.77*	*2.64*	*2.53*	*2.64*	*2.64*	*2.83*	*2.71*	*2.55*	*2.72*	*2.70*
Annual Change (% per annum)																
North America	1.7	3.1	3.8	2.9	3.5	3.3	1.2	1.1	0.2	0.0	0.6	0.9	1.2	2.3	2.6	1.8
Europe	1.0	1.4	0.4	0.9	2.3	1.3	-0.7	0.7	0.9	-0.5	0.1	0.1	-0.1	-0.4	0.5	0.0
Pacific	1.5	-4.2	-2.4	2.8	-3.2	-1.9	2.2	2.5	-0.7	-0.3	0.9	0.2	0.0	1.7	3.5	1.4
Total OECD	1.4	1.1	1.7	2.2	1.9	1.7	0.8	1.2	0.3	-0.2	0.5	0.5	0.6	1.4	2.1	1.1
FSU	3.2	-8.4	15.8	10.2	2.3	4.4	6.4	-3.9	-3.8	1.5	0.0	2.4	1.7	3.6	1.4	2.3
Europe	3.8	2.5	2.5	3.0	3.1	2.8	2.6	2.6	1.9	1.9	2.2	2.0	2.1	2.1	2.1	2.1
China	11.0	18.0	23.4	9.2	12.0	15.4	4.3	-1.9	4.9	5.1	3.1	5.0	7.3	5.7	5.8	6.0
Other Asia	1.2	6.8	8.9	5.3	4.0	6.2	4.2	2.4	2.6	0.6	2.4	2.1	2.4	2.1	3.6	2.6
Latin America	-1.8	4.8	5.0	3.9	2.8	4.1	3.0	2.8	2.0	2.7	2.6	2.1	2.2	2.4	2.2	2.3
Middle East	1.9	5.9	9.4	5.9	5.1	6.5	5.3	5.4	5.2	5.4	5.3	5.4	5.4	5.0	5.2	5.3
Africa	1.6	2.8	3.6	3.7	2.9	3.2	3.5	3.5	2.7	2.9	3.2	2.8	2.8	3.0	3.0	2.9
Total Non-OECD	2.8	5.9	11.1	6.3	5.2	7.0	4.4	1.5	2.6	3.0	2.9	3.3	3.8	3.7	3.8	3.6
World	2.0	3.0	5.3	3.8	3.2	3.8	2.2	1.3	1.2	1.0	1.4	1.6	1.9	2.3	2.8	2.2
Annual Change (mb/d)																
North America	0.40	0.76	0.93	0.70	0.86	0.81	0.31	0.27	0.05	-0.01	0.15	0.23	0.30	0.59	0.66	0.45
Europe	0.16	0.22	0.05	0.14	0.36	0.19	-0.11	0.10	0.14	-0.07	0.02	0.01	-0.01	-0.06	0.07	0.00
Pacific	0.13	-0.41	-0.19	0.23	-0.29	-0.16	0.20	0.20	-0.06	-0.03	0.08	0.02	0.00	0.14	0.31	0.12
Total OECD	0.69	0.57	0.79	1.07	0.93	0.84	0.40	0.57	0.14	-0.11	0.25	0.26	0.29	0.67	1.04	0.57
FSU	0.11	-0.32	0.51	0.35	0.09	0.16	0.22	-0.14	-0.14	0.06	0.00	0.09	0.06	0.13	0.05	0.08
Europe	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.01	0.01	0.02	0.02	0.01	0.01	0.02	0.01
China	0.55	0.96	1.24	0.53	0.71	0.86	0.27	-0.12	0.31	0.34	0.20	0.33	0.47	0.38	0.40	0.40
Other Asia	0.09	0.54	0.70	0.43	0.34	0.50	0.36	0.21	0.22	0.05	0.21	0.18	0.21	0.18	0.32	0.22
Latin America	-0.08	0.22	0.23	0.18	0.13	0.19	0.14	0.14	0.10	0.13	0.13	0.10	0.11	0.12	0.11	0.11
Middle East	0.10	0.31	0.47	0.33	0.27	0.34	0.29	0.30	0.30	0.30	0.30	0.31	0.31	0.31	0.31	0.31
Africa	0.04	0.08	0.10	0.10	0.08	0.09	0.10	0.10	0.07	0.08	0.09	0.08	0.08	0.09	0.09	0.08
Total Non-OECD	0.84	1.79	3.26	1.94	1.64	2.15	1.40	0.49	0.86	0.99	0.94	1.12	1.26	1.22	1.30	1.23
World	1.53	2.36	4.05	3.00	2.57	3.00	1.80	1.06	1.00	0.88	1.18	1.38	1.55	1.89	2.34	1.79
Revisions to Oil Demand from Last Month's Report (mb/d)																
North America	-	-	-	-	-	-	-	-0.03	0.01	-0.10	-0.03	-0.05	0.06	0.09	0.02	0.03
Europe	-	-	-	-	-	-	-0.01	-	0.12	0.03	0.04	0.03	0.04	0.04	0.05	0.04
Pacific	-	-	-	-	-	-	-	-	0.01	-0.15	-0.03	-0.01	-0.01	-0.01	-0.01	-0.01
Total OECD	-	-	-	-	-	-	-0.01	-0.03	0.14	-0.22	-0.03	-0.02	0.09	0.13	0.07	0.07
FSU	-	-	-	-	-	-	-	-	-	-0.09	-0.02	0.01	0.01	0.01	0.01	0.01
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-0.01	-0.04	-0.01	-0.02	-0.04	-0.08	-0.06	-0.05
Other Asia	-	0.05	-0.10	0.05	0.08	0.02	0.11	-0.07	0.12	-0.02	0.03	0.14	-0.06	0.10	0.06	0.06
Latin America	-	-	-	-	-	-	0.03	0.03	0.02	0.03	0.03	0.04	0.04	0.02	0.03	0.03
Middle East	-	0.03	0.03	0.02	0.02	0.03	0.04	0.03	0.03	0.03	0.03	0.04	0.04	0.03	0.04	0.04
Africa	-	0.02	0.02	0.02	0.01	0.01	0.02	0.02	0.01	0.01	0.02	0.02	0.02	0.01	0.01	0.02
Total Non-OECD	-	0.09	-0.06	0.09	0.11	0.06	0.21	0.01	0.16	-0.08	0.07	0.23	0.01	0.11	0.09	0.11
World	-	0.09	-0.06	0.09	0.11	0.06	0.20	-0.02	0.31	-0.30	0.04	0.20	0.10	0.24	0.16	0.17

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2004	2005	2006	2Q05	3Q05	4Q05	1Q06	2Q06	Sep 05	Oct 05	Nov 05
OPEC											
Crude Oil											
Saudi Arabia	8.75			9.21	9.26				9.23	9.17	9.26
Iran	3.93			3.96	3.81				3.70	3.92	3.87
Iraq	1.99			1.84	1.96				2.01	1.74	1.70
UAE	2.35			2.35	2.53				2.59	2.60	2.60
Kuwait	2.05			2.12	2.11				2.13	2.22	2.19
Neutral Zone	0.60			0.57	0.57				0.57	0.57	0.59
Qatar	0.77			0.78	0.80				0.81	0.83	0.83
Nigeria	2.32			2.43	2.39				2.34	2.42	2.47
Libya	1.55			1.65	1.65				1.65	1.65	1.65
Algeria	1.20			1.34	1.36				1.37	1.37	1.37
Venezuela	2.17			2.12	2.10				2.07	2.07	2.14
Indonesia	0.97			0.94	0.94				0.93	0.94	0.95
Total Crude Oil	28.64			29.31	29.47				29.39	29.48	29.60
Total NGLs[1]	4.32	4.74	5.10	4.70	4.79	4.80	4.92	5.01	4.79	4.82	4.73
Total OPEC	32.96			34.00	34.25				34.17	34.30	34.33
NON-OPEC[2]											
OECD											
North America	14.58	14.09	14.38	14.58	13.74	13.65	14.51	14.43	12.88	12.95	13.75
United States	7.66	7.29	7.34	7.74	7.04	6.67	7.41	7.39	6.09	6.21	6.68
Mexico	3.83	3.77	3.79	3.87	3.70	3.78	3.83	3.81	3.78	3.63	3.86
Canada	3.09	3.03	3.26	2.98	3.00	3.21	3.27	3.24	3.01	3.11	3.22
Europe	6.10	5.68	5.44	5.70	5.43	5.68	5.73	5.43	5.42	5.48	5.75
UK	2.06	1.85	1.66	1.90	1.66	1.83	1.81	1.65	1.67	1.78	1.86
Norway	3.19	2.99	2.97	2.94	2.93	3.02	3.11	2.98	2.92	2.87	3.07
Others	0.85	0.84	0.80	0.86	0.83	0.83	0.81	0.80	0.82	0.83	0.83
Pacific	0.58	0.58	0.58	0.62	0.59	0.57	0.59	0.56	0.55	0.58	0.57
Australia	0.54	0.54	0.54	0.58	0.55	0.53	0.54	0.51	0.51	0.54	0.53
Others	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Total OECD	21.25	20.36	20.40	20.91	19.76	19.90	20.83	20.42	18.85	19.01	20.08
NON-OECD											
Former USSR	11.22	11.60	12.10	11.46	11.64	11.87	11.93	12.01	11.71	11.85	11.86
Russia	9.23	9.47	9.78	9.38	9.54	9.63	9.65	9.72	9.58	9.63	9.63
Others	1.99	2.12	2.32	2.08	2.10	2.24	2.28	2.29	2.13	2.22	2.24
Asia	6.24	6.37	6.47	6.26	6.38	6.46	6.47	6.49	6.40	6.43	6.47
China	3.48	3.63	3.63	3.61	3.64	3.64	3.65	3.64	3.62	3.64	3.65
Malaysia	0.86	0.83	0.87	0.77	0.85	0.87	0.88	0.87	0.86	0.86	0.88
India	0.80	0.77	0.79	0.80	0.73	0.75	0.75	0.80	0.75	0.75	0.75
Others	1.10	1.13	1.18	1.08	1.17	1.20	1.20	1.18	1.18	1.18	1.20
Europe	0.17	0.16	0.15	0.16	0.16	0.15	0.15	0.15	0.16	0.15	0.15
Latin America	4.08	4.30	4.52	4.37	4.30	4.38	4.43	4.49	4.33	4.34	4.41
Brazil	1.79	2.00	2.26	2.03	2.02	2.09	2.16	2.22	2.03	2.05	2.11
Argentina	0.80	0.76	0.70	0.77	0.76	0.74	0.72	0.71	0.75	0.75	0.74
Colombia	0.53	0.53	0.52	0.53	0.53	0.52	0.52	0.52	0.54	0.52	0.52
Ecuador	0.53	0.53	0.55	0.54	0.51	0.55	0.55	0.55	0.54	0.54	0.55
Others	0.44	0.48	0.48	0.49	0.48	0.48	0.49	0.48	0.48	0.48	0.48
Middle East[3]	1.92	1.86	1.81	1.87	1.87	1.85	1.84	1.81	1.87	1.86	1.85
Oman	0.79	0.78	0.77	0.79	0.79	0.78	0.78	0.77	0.79	0.79	0.78
Syria	0.49	0.46	0.43	0.47	0.46	0.45	0.44	0.43	0.46	0.45	0.45
Yemen	0.42	0.40	0.39	0.39	0.40	0.40	0.39	0.39	0.40	0.40	0.40
Africa	3.39	3.70	4.25	3.57	3.80	3.92	4.07	4.19	3.85	3.87	3.92
Egypt	0.71	0.70	0.69	0.69	0.69	0.70	0.70	0.69	0.69	0.70	0.70
Angola	0.99	1.24	1.49	1.15	1.32	1.39	1.41	1.43	1.35	1.35	1.41
Gabon	0.24	0.23	0.23	0.23	0.24	0.24	0.24	0.24	0.24	0.24	0.24
Others	1.46	1.53	1.84	1.50	1.55	1.59	1.73	1.83	1.56	1.58	1.57
Total Non-OECD	27.02	27.99	29.31	27.69	28.14	28.63	28.89	29.14	28.30	28.50	28.67
Processing Gains[4]	1.83	1.86	1.90	1.85	1.84	1.88	1.92	1.89	1.84	1.88	1.88
TOTAL NON-OPEC	50.11	50.21	51.61	50.45	49.74	50.41	51.64	51.45	49.00	49.39	50.63
TOTAL SUPPLY	83.06			84.46	83.99				83.17	83.69	84.96

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Orimulsion and Orinoco upgraded extra-heavy oil, and non-oil inputs to Saudi Arabian MTBE
2 Comprises crude oil, condensates, NGLs and oil from non-conventional sources. No allowance is made in the non-OPEC forecast for exceptional events, which have, at certain times historically, reduced non-OPEC supply by 300-400 kbd on an annual basis
3 Includes small amounts of production from Israel, Jordan and Bahrain
4 Net volumetric gains and losses in refining (excludes net gain/loss in FSU, China and non-OECD Europe) and marine transportation losses

Table 4

OECD INDUSTRY STOCKS[1] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Jun2005	Jul2005	Aug2005	Sep2005	Oct2005*	Oct2002	Oct2003	Oct2004	4Q2004	1Q2005	2Q2005	3Q2005
North America												
Crude	447.4	432.6	420.4	414.9	430.8	403.6	408.8	406.6	0.06	0.38	0.14	-0.35
Motor Gasoline	245.1	237.4	222.9	227.2	231.3	224.2	221.3	233.8	0.11	0.00	0.00	-0.19
Middle Distillate	191.0	205.1	212.7	198.7	193.1	194.8	206.3	189.3	0.04	-0.26	0.17	0.08
Residual Fuel Oil	46.0	46.3	41.2	42.1	43.1	42.8	43.3	44.4	0.10	-0.02	-0.03	-0.04
Total Products[3]	677.5	689.1	674.3	663.9	655.2	647.6	643.7	643.3	0.01	-0.32	0.57	-0.15
Total[4]	1274.5	1275.7	1249.2	1239.7	1247.8	1214.8	1213.2	1204.0	-0.10	-0.01	0.82	-0.38
Europe												
Crude	337.6	336.8	333.5	337.6	335.4	331.4	332.7	328.1	-0.13	0.24	-0.06	0.00
Motor Gasoline	103.9	106.7	106.5	106.8	107.7	112.1	110.1	113.2	0.04	0.07	-0.19	0.03
Middle Distillate	242.5	253.6	257.0	255.9	260.6	253.9	233.3	253.4	-0.10	0.05	-0.03	0.15
Residual Fuel Oil	72.2	73.1	74.5	77.1	75.5	74.2	70.9	76.7	-0.02	-0.07	0.04	0.05
Total Products[3]	519.4	535.2	541.1	541.4	545.1	541.3	517.2	546.9	-0.07	0.06	-0.23	0.24
Total[4]	928.9	944.3	947.6	954.4	955.0	935.9	922.8	946.4	-0.19	0.33	-0.31	0.28
Pacific												
Crude	176.6	183.8	181.9	168.1	174.5	164.6	167.4	177.1	0.03	-0.02	0.08	-0.09
Motor Gasoline	24.5	24.4	22.9	22.8	24.6	24.3	23.6	23.3	0.00	0.01	-0.01	-0.02
Middle Distillate	58.9	68.1	73.8	77.9	83.7	80.3	79.6	75.0	0.00	-0.29	0.11	0.21
Residual Fuel Oil	23.4	25.7	23.5	23.9	23.7	22.7	22.5	21.1	0.01	-0.01	0.02	0.01
Total Products[3]	173.2	186.4	188.0	191.8	199.5	197.6	197.7	188.8	0.02	-0.37	0.20	0.20
Total[4]	422.2	441.9	442.4	432.3	449.6	435.7	437.0	438.0	0.01	-0.45	0.36	0.11
Total OECD												
Crude	961.5	953.1	935.8	920.6	940.6	899.5	908.8	911.7	-0.04	0.60	0.17	-0.44
Motor Gasoline	373.5	368.6	352.3	356.7	363.6	360.5	354.9	370.3	0.15	0.08	-0.19	-0.18
Middle Distillate	492.4	526.8	543.5	532.5	537.4	529.0	519.2	517.7	-0.06	-0.51	0.25	0.44
Residual Fuel Oil	141.5	145.0	139.2	143.1	142.3	139.7	136.7	142.1	0.09	-0.10	0.03	0.02
Total Products[3]	1370.0	1410.7	1403.3	1397.1	1399.8	1386.5	1358.6	1378.9	-0.04	-0.63	0.54	0.29
Total[4]	2625.7	2661.8	2639.1	2626.4	2652.4	2586.4	2573.0	2588.3	-0.28	-0.13	0.87	0.01

OECD GOVERNMENT-CONTROLLED STOCKS[5] AND QUARTERLY STOCK CHANGES

	RECENT MONTHLY STOCKS[2] in Million Barrels					PRIOR YEARS' STOCKS[2] in Million Barrels			STOCK CHANGES in mb/d			
	Jun2005	Jul2005	Aug2005	Sep2005	Oct2005*	Oct2002	Oct2003	Oct2004	4Q2004	1Q2005	2Q2005	3Q2005
North America												
Crude	696.4	698.8	700.7	693.7	685.6	589.6	630.9	670.3	0.06	0.14	0.09	-0.03
Products	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.00	0.00	0.00	0.00
Europe												
Crude	164.9	165.2	166.3	167.0	167.0	155.3	152.9	162.3	0.11	-0.04	0.01	0.02
Products	235.4	238.2	239.0	237.4	236.2	195.2	210.7	204.5	0.01	0.04	0.26	0.02
Pacific												
Crude	383.4	384.2	383.5	382.1	380.6	378.9	382.8	382.5	0.00	0.00	-0.01	-0.01
Products	11.1	11.3	11.5	11.2	11.1	8.0	10.3	11.0	0.00	0.00	0.00	0.00
Total OECD												
Crude	1244.8	1248.2	1250.5	1242.7	1233.1	1123.8	1166.5	1215.1	0.16	0.10	0.09	-0.02
Products	248.5	251.6	252.5	250.6	249.3	205.2	223.0	217.6	0.01	0.04	0.26	0.02
Total[4]	1494.2	1500.8	1504.0	1494.3	1483.4	1330.0	1390.6	1433.6	0.17	0.14	0.35	0.00

* estimated

1 Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) and include stocks held by industry to meet IEA, EU and national emergency reserve commitments and are subject to government control in emergencies.

2 Closing stock levels.

3 Total products includes gasoline, middle distillates, fuel oil and other products.

4 Total includes NGLs, refinery feedstocks, additives/oxygenates and other hydrocarbons.

5 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.

Table 5

TOTAL STOCKS ON LAND IN OECD COUNTRIES[1]

('millions of barrels' and 'days')

	End September 2004		End December 2004		End March 2005		End June 2005		End September 2005 [3]	
	Stock Level	Days Fwd[2] Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand
North America										
Canada	174.5	74	167.8	72	164.7	74	164.7	74	168.2	-
Mexico	41.4	21	41.3	21	44.2	21	45.6	22	37.6	-
United States[4]	1643.5	78	1646.8	80	1658.8	81	1740.5	84	1707.4	-
Total[4]	1881.5	73	1878.0	74	1889.8	75	1972.9	78	1935.4	75
Pacific										
Australia	34.3	38	33.2	38	34.8	38	35.9	41	34.5	-
Japan	632.0	116	635.3	105	604.9	121	629.4	124	637.9	-
Korea	152.1	67	149.4	62	137.4	67	142.5	71	145.4	-
New Zealand	7.1	48	8.0	49	7.9	53	9.0	64	7.8	-
Total	825.5	94	825.9	87	785.0	97	816.8	101	825.6	94
Europe[5]										
Austria	20.2	70	21.0	75	20.6	72	20.8	69	21.0	-
Belgium	27.7	39	27.2	40	26.9	48	27.8	49	29.2	-
Czech Republic	16.9	81	16.3	86	17.0	78	15.9	70	16.7	-
Denmark	18.1	94	16.2	86	16.3	89	17.2	96	20.5	-
Finland	24.0	105	24.4	110	26.2	125	27.0	122	27.3	-
France	188.5	94	186.2	90	187.4	99	185.6	94	191.4	-
Germany	264.1	96	267.2	106	280.5	111	279.4	102	275.8	-
Greece	34.1	76	35.7	77	35.7	97	32.6	84	32.6	-
Hungary	17.1	117	16.2	128	19.6	137	17.0	109	17.1	-
Ireland	11.1	58	12.0	60	10.6	58	11.6	63	13.2	-
Italy	138.7	73	135.8	73	133.7	75	132.1	75	137.0	-
Luxembourg	0.9	14	0.9	14	0.9	13	0.8	13	0.8	-
Netherlands	110.2	113	108.3	109	109.4	103	116.6	114	115.7	-
Norway	25.9	93	26.6	109	29.2	130	21.0	88	30.2	-
Poland	31.1	66	30.6	74	33.9	79	34.5	70	33.8	-
Portugal	25.0	73	24.3	69	25.6	77	26.5	77	26.8	-
Slovak Republic	6.1	83	6.2	95	7.0	99	6.5	85	6.4	-
Spain	126.8	79	119.8	72	126.7	80	129.4	82	131.7	-
Sweden	31.5	88	33.8	93	32.0	88	35.4	99	34.6	-
Switzerland	37.8	135	36.3	131	37.1	147	38.0	135	38.9	-
Turkey	54.5	83	55.3	100	55.4	80	52.2	76	50.8	-
United Kingdom	101.4	55	104.1	60	102.2	55	102.3	55	108.2	-
Total	1311.8	82	1304.3	84	1333.8	87	1330.2	85	1359.8	85
Total OECD	4018.8	80	4008.2	80	4008.5	83	4119.9	84	4120.7	82
DAYS OF IEA Net Imports[6]	-	114	-	114	-	114	-	117	-	117

1 Total Stocks are industry and government-controlled stocks (see breakdown in table below). Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) they include stocks held by industry to meet IEA, EU and national emergency reserves commitments and are subject to government control in emergencies.
2 Note that days of forward demand represent the stock level divided by the forward quarter average daily demand and is very different from the days of net imports used for the calculation of IEA Emergency Reserves.
3 End September 2005 forward demand figures are IEA Secretariat forecasts.
4 US figures exclude US territories. Total includes US territories.
5 Data not available for Iceland.
6 Reflects stock levels and prior calendar year's net imports adjusted according to IEA emergency reserve definitions. Net exporting IEA countries are excluded.

TOTAL OECD STOCKS

CLOSING STOCKS	Total	Government[1] controlled	Industry	Total	Government[1] controlled	Industry
	Millions of Barrels			*Days of Fwd. Demand[2]*		
3Q2002	3900	1323	2577	79	27	52
4Q2002	3823	1347	2476	77	27	50
1Q2003	3790	1362	2428	80	29	51
2Q2003	3916	1365	2551	81	28	53
3Q2003	3983	1383	2600	80	28	52
4Q2003	3928	1411	2517	78	28	50
1Q2004	3888	1423	2465	81	30	51
2Q2004	3974	1429	2545	81	29	52
3Q2004	4019	1435	2584	80	28	51
4Q2004	4008	1450	2558	80	29	51
1Q2005	4009	1462	2546	83	30	52
2Q2005	4120	1494	2626	84	30	53
3Q2005	4121	1494	2626	82	30	52

1 Includes government-owned stocks and stock holding organisation stocks held for emergency purposes.
2 Days of forward demand calculated using actual demand except in 3Q2005 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2002	2003	2004	4Q04	1Q05	2Q05	3Q05	Jul 05	Aug 05	Sep 05	Year Earlier Sep 04	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.64	0.55	0.52	0.45	0.45	0.41	0.59	0.31	0.32	0.53	-0.21
Europe	0.92	1.00	1.03	1.08	0.88	0.88	0.86	0.83	0.89	0.86	1.07	-0.21
Pacific	1.22	1.18	1.24	1.47	1.40	1.22	1.25	1.24	1.19	1.32	1.28	0.04
Saudi Medium												
North America	0.70	0.83	0.80	0.90	0.97	0.89	0.55	0.76	0.44	0.46	0.80	-0.34
Europe	0.11	0.11	0.11	0.16	0.12	0.13	0.19	0.24	0.16	0.17	0.16	0.00
Pacific	0.16	0.24	0.23	0.23	0.21	0.24	0.26	0.25	0.30	0.23	0.19	0.04
Saudi Heavy												
North America	0.20	0.30	0.22	0.26	0.18	0.15	0.20	0.26	0.18	0.16	0.29	-0.13
Europe	0.09	0.19	0.23	0.20	0.19	0.20	0.27	0.21	0.28	0.31	0.28	0.03
Pacific	0.12	0.16	0.15	0.18	0.25	0.20	0.26	0.21	0.26	0.31	0.18	0.14
Iraqi Basrah Light[2]												
North America	0.35	0.44	0.71	0.67	0.56	0.69	0.56	0.85	0.31	0.52	0.72	-0.20
Europe	0.08	0.09	0.21	0.13	0.19	0.19	0.24	0.31	0.15	0.24	0.19	0.05
Pacific	0.02	0.03	0.12	0.15	0.07	0.06	0.06	0.06	0.06	0.07	0.10	-0.03
Iraqi Kirkuk												
North America	0.14	0.06	0.02	0.01	..	..	..	..	..	..	0.03	..
Europe	0.32	0.12	0.08	0.16	0.02	0.04	0.13	0.14	0.07	0.16	0.07	0.10
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.17	0.19	0.24	0.27	0.23	0.18	0.16	0.14	0.19	0.13	0.25	-0.11
Pacific	0.12	0.17	0.16	0.16	0.19	0.13	0.14	0.14	0.16	0.12	0.17	-0.05
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.44	0.59	0.57	0.54	0.62	0.63	0.65	0.84	0.55	0.56	0.67	-0.11
Pacific	0.54	0.69	0.65	0.63	0.76	0.59	0.52	0.58	0.43	0.54	0.57	-0.03
Venezuelan Light & Medium												
North America	0.68	0.69	0.67	0.63	0.78	0.88	0.79	0.83	0.84	0.68	0.66	0.02
Europe	0.08	0.02	0.01	0.01	0.02	0.03	0.06	0.01	0.13	0.03	0.01	0.02
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.55	0.60	0.88	0.95	0.83	0.82	0.65	0.77	0.77	0.39	0.75	-0.35
Europe	0.05	0.06	0.05	0.04	0.06	0.06	0.08	0.07	0.10	0.07	0.04	0.03
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	0.92	1.32	1.36	1.37	1.30	1.36	1.18	1.11	1.36	1.06	1.33	-0.27
Europe	0.17	0.16	0.16	0.13	0.18	0.17	0.16	0.13	0.15	0.21	0.21	0.01
Pacific	0.00	0.00	0.00	..	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.01	0.00	..	..	0.01	0.00	0.02	..	0.01	0.05	..	..
Europe	0.01	0.00	0.01	0.02	0.02	0.01	0.02	0.03	0.01	0.03	..	..
Pacific	0.01	0.00	0.00	..	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.03	0.14	0.12	0.21	0.14	0.14	0.16	0.20	0.18	0.10	0.02	0.08
Europe	1.32	1.62	1.86	1.56	1.72	1.93	1.68	1.67	1.74	1.64	1.55	0.09
Pacific	0.01	0.00	0.01	..	..	0.00	0.01	0.03	..	..	..	..
Nigerian Light[4]												
North America	0.38	0.63	0.80	0.73	0.87	0.88	0.94	0.99	0.94	0.91	0.79	0.11
Europe	0.32	0.41	0.28	0.30	0.30	0.27	0.41	0.38	0.46	0.38	0.29	0.09
Pacific	0.06	0.08	0.11	0.13	0.06	0.06	0.07	0.10	0.04	0.06	0.08	-0.02
Nigerian Medium												
North America	0.16	0.17	0.23	0.20	0.18	0.22	0.13	0.13	0.19	0.09	0.16	-0.08
Europe	0.06	0.06	0.04	0.02	0.07	0.04	0.08	0.06	0.08	0.11	0.09	0.02
Pacific	0.01	0.01	0.01	..	0.03	0.02	..	..	..	..	..	..

1 Data based on monthly submissions from IEA countries to the crude oil import register (in '000 bbl), subject to availability. May differ from Table 8 of the Report.
IEA North America includes United States and Canada.
IEA Europe includes all countries in OECD Europe except Hungary, Poland and the Slovak Republic.
IEA Pacific data includes Australia, New Zealand, Korea and Japan.

2 Iraqi Total minus Kirkuk.

3 Iranian Total minus Iranian Light.

4 33 API and lighter (e.g., Bonny Light, Escravos, Qua Iboe and Oso Condensate).

Table 7
Regional OECD Imports[1,2]
(thousand barrels per day)

	2002	2003	2004	4Q2004	1Q2005	2Q2005	3Q2005	Jul-05	Aug-05	Sep-05	Year Earlier Sep-04	Year Earlier % change
Crude Oil												
North America	7584	8069	8397	8442	8577	8614	8201	8697	8412	7470	7966	-7%
Europe	8734	9096	9477	9543	9695	9503	10018	9998	9875	10187	9797	4%
Pacific	6422	6711	6659	6998	7166	6434	6642	6948	6657	6310	6415	-2%
Total OECD	22740	23876	24533	24984	25438	24552	24861	25643	24944	23967	24178	-1%
LPG												
North America	39	27	24	45	23	3	18	12	11	32	31	4%
Europe	225	193	225	263	293	149	207	175	201	246	254	-3%
Pacific	553	541	541	561	532	591	500	547	455	497	439	12%
Total OECD	817	760	790	869	848	743	724	733	667	775	724	7%
Naphtha												
North America	42	67	86	144	124	89	151	188	160	105	122	-16%
Europe	298	305	282	251	279	231	284	328	239	285	210	26%
Pacific	705	770	769	748	772	759	693	674	715	692	791	-14%
Total OECD	1045	1142	1137	1143	1175	1080	1129	1190	1113	1082	1123	-4%
Gasoline[3]												
North America	643	669	766	744	849	1020	1023	993	915	1166	728	38%
Europe	152	150	137	138	172	145	206	215	267	133	92	31%
Pacific	58	70	105	106	95	130	93	99	105	73	103	-41%
Total OECD	853	888	1007	988	1115	1294	1321	1308	1287	1371	922	33%
Jet & Kerosene												
North America	97	97	88	116	67	43	140	161	92	167	55	67%
Europe	253	271	293	331	273	361	444	426	477	427	415	3%
Pacific	97	102	77	103	97	72	49	45	41	60	62	-2%
Total OECD	448	470	457	550	437	476	632	632	610	655	531	19%
Gasoil/Diesel												
North America	102	126	122	91	110	92	99	70	105	123	66	47%
Europe	656	652	751	876	931	716	814	770	829	843	795	6%
Pacific	53	73	74	66	60	94	79	84	73	80	85	-6%
Total OECD	811	850	946	1034	1101	902	992	924	1007	1046	945	10%
Heavy Fuel Oil												
North America	237	326	388	524	489	433	566	534	540	627	348	44%
Europe	470	398	405	396	415	550	527	505	542	535	491	8%
Pacific	89	88	76	64	83	82	90	111	82	77	90	-16%
Total OECD	796	812	870	984	988	1065	1183	1150	1163	1239	929	25%
Other Products												
North America	689	680	824	774	735	1064	1157	1113	1052	1313	933	29%
Europe	735	690	676	658	718	807	800	829	762	811	720	11%
Pacific	256	235	256	252	254	248	225	246	222	207	287	-39%
Total OECD	1681	1605	1756	1684	1708	2119	2183	2187	2036	2331	1940	17%
Total Products												
North America	1849	1991	2298	2439	2399	2745	3154	3070	2873	3532	2282	35%
Europe	2790	2657	2767	2912	3082	2960	3281	3248	3315	3280	2977	9%
Pacific	1811	1879	1898	1901	1894	1975	1729	1806	1694	1686	1856	-10%
Total OECD	6451	6527	6964	7252	7374	7679	8165	8124	7883	8498	7114	16%
Total Oil												
North America	9434	10061	10695	10881	10976	11359	11355	11767	11285	11002	10248	7%
Europe	11524	11753	12245	12456	12777	12463	13299	13245	13191	13467	12774	5%
Pacific	8233	8590	8558	8899	9059	8409	8371	8754	8351	7996	8270	-3%
Total OECD	29190	30403	31497	32236	32812	32231	33026	33767	32827	32465	31293	4%

1 Based on Monthly Oil Questionnaire data submitted by OECD countries in tonnes and converted to barrels.

2 Excludes intra-regional trade

3 Includes additives

OIL MARKET REPORT CONTACTS

Editor **Head, Oil Industry & Markets Division**	Lawrence Eagles (+33) 0*1 40 57 65 90 e-mail: lawrence.eagles@iea.org
Demand	Jeff Brown (+33) 0*1 40 57 65 93 e-mail: jeff.brown@iea.org
Supply	David Fyfe (+33) 0*1 40 57 65 94 e-mail: david.fyfe@iea.org
Prices/OECD Stocks/Refinery Activity	Harry Tchilinguirian (+33) 0*1 40 57 65 22 e-mail: harry.tchilinguirian@iea.org
Refinery Activity	David Martin (+33) 0*1 40 57 65 95 e-mail: david.martin@iea.org
OECD Stocks/Trade	Toril Ekeland Bosoni (+33) 0*1 40 57 66 36 e-mail: toril.bosoni@iea.org
Statistics/Freight/End-User Prices	James Ryder (+33) 0*1 40 57 66 18 e-mail: james.ryder@iea.org
Administrative Support	Anne Mayne (+33) 0*1 40 57 65 96 e-mail: anne.mayne@iea.org

Fax: *(+33) 0*1 40 57 65 99/40 57 65 09*

* 0 only within France

For all **Subscription and Delivery Enquiries** please contact:

International Energy Agency
Attn: Ms. Sandra Coleman
Oil Market Report Subscriptions
BP 586-75726 Paris Cedex 15, France

Tel. +33 (0) 1 40 57 65 57
Fax. +33 (0) 1 40 57 65 59

E-mail: sandra.coleman@iea.org

Users' Guide to the IEA Oil Market Report

Readers are referred to the Users' Guide, published in conjunction with the Annual Statistical Supplement (current issue dated 11 August 2005), for information on the data sources, definitions, technical terms and general approach used in preparing the Report. It should be noted that the spot crude and product price assessments are based on daily Platt's prices, converted when appropriate to US$ per barrel according to the Platt's specification of products (©2005 Platt's - a division of McGraw-Hill Inc.).

www.oilmarketreport.org