

Oil Market Report



International
Energy Agency

12 May 2011

HIGHLIGHTS

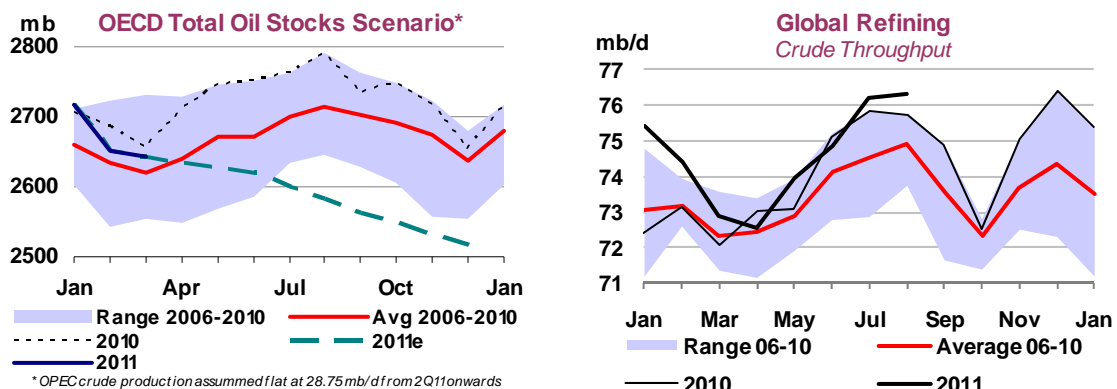
- **After gaining \$7-8/bbl in April, prices for benchmark Brent and WTI plummeted more than \$16/bbl over the course of the week ended 6 May, to \$109.13 and \$97.18/bbl, respectively, during a broad commodity rout.** Prices have since partially recovered their losses, with Brent trading at \$115/bbl and WTI at \$101/bbl at press time.
- **Forecast global oil product demand growth for 2011 is trimmed on persistent high prices and weaker IMF GDP projections for advanced economies.** Global demand, which averaged 87.9 mb/d in 2010 (+3.3% or +2.8 mb/d year-on-year), is projected to reach 89.2 mb/d in 2011 (+1.5% or 1.3 mb/d versus the previous year).
- **Global oil supply dipped by 50 kb/d to 87.5 mb/d in April, with combined OPEC crude and NGL supply lower by 0.26 mb/d, while non-OPEC production rose by 0.2 mb/d.** Baseline data changes to non-OPEC raised average 2010 supply by 0.1 mb/d to 52.9 mb/d, while 2011 estimates are adjusted down 0.1 mb/d to 53.7 mb/d, implying annual growth of +0.8 mb/d.
- **OPEC supply continued its downward trend in April, with Libyan supply shuttered** in the wake of the worsening civil war. April OPEC output was pegged at 28.75 mb/d, off by 235 kb/d from March and 1.3 mb/d below January levels. The 'call on OPEC crude and stock change' rises by 800 kb/d from an average of 29.3 mb/d in 2Q11 to 30.1 mb/d in 3Q11.
- **OECD industry stocks declined by 9.2 mb, to 2 643 mb or 58.8 days cover in March, as seasonal refinery maintenance substantially reduced product stocks.** Preliminary April data indicate a 29.9 mb increase in commercial OECD inventories, while oil held in short-term floating storage fell.
- **Global refinery crude runs estimates have been revised down by 740 kb/d for 2Q11, mainly due to significantly lower April OECD runs in North America and Europe.** Global throughputs are seen averaging 73.8 mb/d in 2Q11, down from 74.2 mb/d in 1Q11, but stand to increase by more than 3.5 mb/d by August from April's low point.

www.oilmarketreport.org

STEPPING UP TO THE PLATE

Crude prices surged again in April (undermining already weak refining margins), but saw an abrupt correction on 5 May as benchmark grades lost around 9% in a single day, and by 6 May both Brent and WTI were off by over \$16/bbl from end-April highs. A faltering economic recovery, stronger dollar and speculative commodity sell-off were variously cited as underpinning the correction. True, renewed concerns about the economic impact of high prices and shaky economic statistics from the US, China and Germany may have contributed to a degree of profit taking, but as the dust settles, prices have again begun to creep higher. Fundamentals don't look very different today than they did on 4 May. The market bull run may have legs for a while longer.

Yet our own estimates for global oil demand show a marked slow-down, with preliminary March data suggesting near zero annual growth for the first time since summer 2009. While March estimates are probably distorted by exceptional events in Japan and the timing of Easter holidays, nonetheless \$4/gallon (€0.73/litre) gasoline is likely to yield an anaemic US driving season. This is the main change to our demand forecast – a weaker 2011 profile in North America. Meanwhile, governments in Russia, Brazil and China face difficulties fully passing on recent price rises to consumers, helping to sustain robust demand growth in the non-OECD countries. Potential power supply problems in China might augment that trend.



After all is said and done, demand growth still averages 1.3 mb/d for 2011, after an estimated 2.8 mb/d in 2010. The base case rests on GDP growth easing from +4.8% in 2010 to +4.3% in 2011, with the pace of slow-down being greatest for the OECD. Our crude price assumption is near \$110/bbl, which the IMF and others see as not so high as to choke off economic recovery....just yet. \$100-plus prices have only been with us since February/March, and it takes time for economic impacts to become entrenched. For those who feel nervous about such a sanguine attitude, were GDP growth nearer 2.9% in 2011 instead of 4.3%, global oil demand might come in around 0.5 mb/d less. As we noted last month, persistently high prices at this stage of the economic cycle may ultimately sow the seeds of their own destruction. Until then, the market confronts fundamentals that still look likely to tighten in 2H11.

OPEC Ministers will meet in four weeks' time in Vienna. Most analysts see a change in prevailing production allocations unlikely. To date, OPEC crude production remains around 1.3 mb/d below where it was before the Libyan crisis broke. Political and military stalemate there lead us to assume Libyan supply will remain absent from the market for the rest of 2011. Production from Yemen too is now significantly curtailed by political unrest. Our projections suppress the pace of recovery in potential OECD refinery throughputs to reflect recent weak margins and stubbornly low recent run rates. But new downstream capacity in the non-OECD is likely to ensure a 3Q11 pick-up. Global crude runs habitually rise by around 1.6 mb/d between 2Q and 3Q, with this year increases potentially amounting to a stronger 2.3 mb/d. Less than half of that can be met via higher non-OPEC supply. Some OPEC members might be happy with the OECD inventory profile that unchanged production on their part would bring about (see above). But it's unlikely to result in the market stability both producers and consumers profess to seek.

© OECD/IEA 2011. All Rights Reserved

The International Energy Agency (IEA) makes every attempt to ensure, but does not guarantee, the accuracy and completeness of the information or the clarity of content of the *Oil Market Report* (hereafter the *OMR*). The IEA shall not be liable to any party for any inaccuracy, error or omission contained or provided in this *OMR* or for any loss, or damage, whether or not due to reliance placed by that party on information in this *OMR*.

The Executive Director and Secretariat of the IEA are responsible for the publication of the *OMR*. Although some of the data are supplied by IEA Member-country governments, largely on the basis of information they in turn receive from oil companies, neither these governments nor these oil companies necessarily share the Secretariat's views or conclusions as expressed in the *OMR*. The *OMR* is prepared for general circulation and is distributed for general information only. Neither the information nor any opinion expressed in the *OMR* constitutes an offer, or an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities.

This *OMR* is the copyright of the OECD/IEA and is subject to terms and conditions of use. These terms and conditions are available on the IEA website at <http://www.iea.org/oilmar/licenceomr.html>. In relation to the Subscriber Edition (as defined in the *OMR*'s online terms and conditions), the spot crude and product price assessments are based on daily Platts prices, converted when appropriate to US\$ per barrel according to the Platts specification of products (© Platts – a division of McGraw-Hill Inc.). The graphs marked 'Source: Platts' are also based on Platts data. Any reproduction of information from the spot crude and product price tables, or of the graphs marked 'Source: Platts' requires the prior permission of Platts.

Editorial Enquiries

Editor

Head, Oil Industry and Markets Division

David Fyfe
☎ (+33) 0*1 40 57 65 90
✉ david.fyfe@iea.org

Demand

Eduardo Lopez
☎ (+33) 0*1 40 57 65 93
✉ eduardo.lopez@iea.org

OPEC Supply/Prices

Michael Waldron
☎ (+33) 0*1 40 57 66 18
✉ michael.waldron@iea.org

Non-OPEC Supply

Diane Munro
☎ (+33) 0*1 40 57 65 94
✉ diane.munro@iea.org

Oil Price Formation

Julius Walker
☎ (+33) 0*1 40 57 65 22
✉ julius.walker@iea.org

Refining

Bahattin Buyuksahin
☎ (+33) 0*1 40 57 67 18
✉ bahattin.buyuksahin@iea.org

OECD Stocks/Statistics

Toril Bosoni
☎ (+33) 0*1 40 57 67 18
✉ toril.bosoni@iea.org

Statistics /Trade/Freight

Martina Repikova
☎ (+33) 0*1 40 57 67 16
✉ martina.repikova@iea.org

Editorial Assistant

Andrew Wilson
☎ (+33) 0*1 40 57 66 78
✉ andrew.wilson@iea.org

Fax:

Esther Ha
☎ (+33) 0*1 40 57 65 96
✉ esther.ha@iea.org

☎ (+33) 0*1 40 57 65 99
*0 - only within France

Media Enquiries

IEA Press Office

(+33) 0*1 40 57 65 54
✉ ieapressoffice@iea.org

Subscription and Delivery Enquiries

Oil Market Report Subscriptions
International Energy Agency
BP 586-75726 PARIS Cedex 15, France
✉ OMRSubscriptions@iea.org

☎ (+33) 0*1 40 57 67 72
☎ (+33) 0*1 40 57 66 90

User's Guide and Glossary to the IEA Oil Market Report

For information on the data sources, definitions, technical terms and general approach used in preparing the *Oil Market Report (OMR)*, *Medium-Term Oil and Gas Markets (MTOGM)* and *Annual Statistical Supplement* (current issue of the Statistical Supplement dated 11 August 2010), readers are referred to the *Users' Guide* at www.oilmarketreport.org/glossary.asp. It should be noted that the spot crude and product price assessments are based on daily Platts prices, converted when appropriate to US\$ per barrel according to the Platts specification of products (© 2011 Platts - a division of McGraw-Hill Inc.).

The *Oil Market Report* is published under the responsibility of the Executive Director and Secretariat of the International Energy Agency. Although some of the data are supplied by Member-country Governments, largely on the basis of information received from oil companies, neither governments nor companies necessarily share the Secretariat's views or conclusions as expressed therein.
© OECD/IEA 2011

Next Issue: 16 June 2011

www.oilmarketreport.org